



Final Report



Broadcasting Authority of Ireland

Review of Funding for Public Service Broadcasters

23rd May 2013

Contents

SECTION 1: Executive Summary	4
Executive Summary	5
SECTION 2: Introduction and Background	19
1 Introduction	20
1.1 Background	20
1.2 Terms of Reference.....	20
1.3 Methodology.....	21
1.4 Process Followed	22
1.5 Interviewees	22
1.6 Submissions.....	23
2 Market Analysis	24
2.1 Introduction	24
2.2 The Main Market Drivers	24
2.3 Audience Demands	28
2.4 Competition	30
2.5 Implications for Audiences and Funding	31
2.6 Market Opportunities and Risks.....	33
2.7 Chapter 2 Key Messages	34
3 European and International Context	35
3.1 Introduction: the Purpose of International Comparators.....	35
3.2 The Overall European Context	35
3.3 Specific Comparators	39
3.4 Key Findings from the International Comparisons	42
3.5 Findings Specific to RTÉ	47
3.6 The Context for Radio	47
3.7 Findings Specific to TG4	49
3.8 Chapter 3 Key Messages	53
4 Audience Research.....	54
4.1 Introduction	54
4.2 Methodologies	55
4.3 Viewing Experiences	57
4.4 Public Service Broadcasting.....	61
4.5 Audience Research Specific to RTÉ.....	67
4.6 Audience Research Specific to TG4.....	73
4.7 Chapter 4 Key Messages	78
SECTION 3: RTÉ.....	79
5 Introduction.....	80

5.1	Process Followed	80
5.2	Engagement with RTÉ.....	81
5.3	Structure of Our Analysis.....	82
6	Market Analysis for RTÉ.....	83
6.1	Introduction	83
6.2	RTÉ’s View of the Market	83
6.3	RTÉ’s Strategic Challenges.....	84
6.4	Assessment of the Key Market-Related Assumptions	85
6.5	Market-Related Costs.....	89
6.6	Potential Downside Risks	91
6.7	Chapter 6 Key Messages	93
7	Assessment of RTÉ’s Costed 5-Year Strategic Plan	94
7.1	Introduction	94
7.2	RTÉ Television.....	95
7.3	RTÉ Radio.....	99
7.4	RTÉ Online Services	106
7.5	RTÉ New Digital Services	108
7.6	RTÉ Other Services	110
7.7	RTÉ’s Alternative Scenarios.....	112
7.8	Costs, Efficiencies and Value for Money within RTÉ	115
7.9	Use of External Production Companies	121
7.10	Chapter 7 Key Messages	122
8	Conclusions and Recommendations – RTÉ.....	123
8.1	Programme and Content Mix: Investments and Future-Proofing	123
8.2	Efficiencies	124
8.3	Revenues.....	124
8.4	Compliance	125
8.5	Overall Conclusion on RTÉ	126
	SECTION 4: TG4	129
9	Introduction.....	130
9.1	Preamble.....	130
9.2	Engagement with TG4.....	131
9.3	Structure of Our Analysis.....	131
10	Market Analysis for TG4.....	133
10.1	Introduction	133
10.2	TG4’s View of the Market	133
10.3	TG4 Strategic Challenges	134
10.4	Assessment of the Key Market-Related Assumptions	135
10.5	Commercial Income	137
10.6	Market-Related Costs.....	138
10.7	Other Observations	139
10.8	Chapter 10 Key Messages – Market Analysis for TG4.....	141

11	Assessment of TG4’s Costed 5-Year Strategic Plan.....	142
11.1	Introduction / Overall Strategic Approach	142
11.2	Strategic Priorities and Plans for TG4.....	142
11.3	Financial Metrics for TG4	143
11.4	Costs, Efficiencies and Value for Money within TG4.....	144
11.5	Chapter 11 Key Messages	145
12	Conclusions and Recommendations – TG4	147
12.1	Introduction	147
12.2	Efficiencies	148
12.3	Revenues	148
12.4	Compliance	148
12.5	Overall Conclusion on TG4	149
	SECTION 5: Overarching Issues	150
13	Legislative and Regulatory Compliance	151
13.1	Legislative and Regulatory Challenges.....	151
13.2	Proportionate Funding of Public Services.....	154
13.3	Clear Separation of Commercial from Public Service Activities	158
13.4	Conclusions.....	161
13.5	Chapter 13 Key Messages	164
14	Framework of Annual Broadcaster Returns	165
14.1	Introduction	165
14.2	The Current System	165
14.3	Opportunities for Improvement	166
14.4	Scope of the New Framework	167
14.5	Chapter 14 Key Messages	173
15	Process Review	175
15.1	Introduction	175
15.2	Establishing a Core of Agreed Audience and Financial Data.....	175
15.3	Establishing a Clear Starting Point for the Engagement of External Consultants..	176
15.4	An Agreed and Widely Understood Policy on Consultation.....	176
15.5	Chapter 15 Key Messages and Recommendations	177
16	Summary of Recommendations	178

SECTION 1: Executive Summary

Executive Summary

1. Overview

This first 5-yearly review of the adequacy of public funding, as required in the Broadcasting Act of 2009, finds the two PSBs critically poised:

- The shock of the financial crisis has had a dramatic effect on their revenues, their cost base and their constitutional structures – but they seem to have weathered it in good shape with their audiences;
- The switch-off of the analogue signal has removed the platform on which they were most dominant – and its replacement, Saorview, has achieved significant market presence, but is weak as a primary source of viewing;
- The future is characterised by digital opportunities – in production and distribution – which will require significant investment if they are to be captured and used to the benefit of the PSBs.

Against this background, both RTÉ and TG4 have prepared costed strategic plans which set out the competitive market place in which they believe they will be operating; the programme and wider content plans they believe will best allow them to fulfil their PSB remit in such an environment; the funding they believe is needed to make these plans achievable; and the efficiencies they can implement to ensure that they make that funding go as far as possible.

They have also set out the ways in which they comply with the relevant European legislation which is intended to guard against the possibility of public money being used to cross-subsidise commercial activity, and to ensure that publicly funded bodies operate in a way that does not unacceptably distort market opportunities for their competitors.

The chapters that follow set out the detail of our assessment of these plans, and our answer to the overall question about the adequacy of funding for the fulfilment of the public service remit. In this first section, we set out our overall conclusions, and the broad lines of our assessment that underpins them.

The public service remit for each broadcaster is established through the mechanism of the Public Service Objects that each broadcaster is given in the legislation (Section 114 of the Broadcasting Act for RTÉ; Section 118 for TG4) and the Public Service Statement through which the boards of both organisations set out the services and activities they will offer. The agreement of these Public Service Statements falls outside the scope of this review, which assesses the adequacy of funding for achieving the detailed five-year strategy. In the process, of course, we have assessed, at a high rather than a detailed level, the fit between the specific programme plans and service objectives with the overall Public Service Objects of the two broadcasters.

2. Overall Context

The Irish broadcasting market faces particular challenges:

- It is small – the smallest “western” European market with total revenues of €1,157 million (compared, for example, to a UK market with revenues of €18,328 million);

- It is open – with the greatest number of channels available to viewer compared to any other European market (except, of course, the UK, where most of these channels originate and where their costs are mostly covered) and with the strongest growth of pay-TV revenues;
- The indigenous market has contracted sharply - television advertising revenues are estimated to have fallen by about a quarter between 2008 and 2012.

Against this background, the PSBs may be seen to have weathered the storm in surprisingly good shape:

- Their audience share has held up reasonably well – and despite the highly competitive nature of the market, they have tended to outperform other PSBs operating in more benign conditions;
- Their audience appreciation remains high – the audience research conducted for this review contains broadly positive messages about the role, range and delivery of both PSBs;
- They have implemented significant cost savings over the last four years without compromising programme quality – at least in ways that the audience have noticed.

However, the future they face is increasingly difficult:

- Although linear broadcasting will remain the most important way that audiences will want to access the PSBs' content, non-linear consumption will grow in importance and broadcasters will be expected to keep pace with audience expectations of on-line and on-demand services. This will have implications for significant levels of investment;
- Audience expectations are already forcing broadcasters to switch to HD production, with again implications on costs;
- Both PSBs perform less well with younger audience groups than with audiences on average;
- The competitive environment is expected to become more aggressive: already, increasing numbers of international channels take advertising revenue out of the Irish market, and there are indications that more of them will seek to purchase content rights in future that would previously have been available for Irish broadcasters;
- The digital platform that most benefits the PSBs is Saorview, where competition is comparatively limited, and where consumers who were broadly satisfied with the indigenous channels are most likely to have turned following DSO. However, this platform will be vulnerable if it does not develop either a satisfactorily high quality suite of digital channels, and a positive offer of greater HD and interactivity;
- Digital radio is imposing costs on RTÉ – of additional services and duplicate transmission costs – but with very little prospect of gaining real traction without significant investment;
- Public funding accounts for only roughly half the necessary revenue to fund RTÉ, and covers approximately three quarters of the costs of TG4. Although the level of the licence fee compares favourably with both the UK and other European markets, it has been pegged in Ireland for several years, and our audience research reveals little appetite for increasing it. It is worth noting, in this context, that average household spend on audio-visual content, via the licence fee, subscription and – indirectly – through advertising, is higher in Ireland than in any European market other than Norway. This reflects primarily the very strong growth in subscriptions to pay-TV.

Against this difficult backdrop, therefore, we would expect the plans from the broadcasters to address the following themes:

- Securing the optimum programme and other content mix to both sustain and build their audience while fulfilling their public service remit;
- Identifying the necessary investments to ensure that they remain relevant and thriving in a digital future;
- Identifying the necessary efficiencies to minimise the call on public funds;
- Taking full advantage of commercial opportunities without distorting the market or abusing their public funding.

We have used this framework to assess the overall adequacy of the broadcasters' plans.

ANALYSIS OF RTÉ

3. *RTÉ Programme and Content Mix: Investments and Future-Proofing*

RTÉ's base-case scenario envisages maintaining the current range of services, with some modest – but nevertheless significant – adjustments in the mix of programmes contained within them.

In headline terms, these will see:

- A greater focus on news and current affairs, especially investigative journalism, as well as an enhanced live service on RTÉ News Now;
- A greater focus on comedy and entertainment, especially aimed at younger audiences;
- A more coherent balance of sport across their radio networks;
- A small reduction in the spend on acquired programmes which will work its way through the period, taking advantage of potentially lower costs of this programming without significantly losing volume;
- Enhancement of RTÉ.ie.

Underpinning these service changes is a grouping of services into “core” and “complementary”, each with a statement of purpose and editorial scope.

This is a broadly coherent approach and is consistent with RTÉ's public remit: the shift of spend away from acquired programmes permits some modest enhancements of the original programme offer; while prioritising spend on news and current affairs and services aimed at securing younger audiences both builds on audience strengths and addresses audience weaknesses.

The individual service definitions lack detailed programme plans or outputs against which they could be monitored over time. More information would be helpful here. But in our judgement the overall plans, taken alongside the spend projections contained in the appendices, give enough shape for RTÉ as a whole to be held to account for its delivery, although there are some areas where greater specificity is needed, and one case where RTÉ's recent decisions are inconsistent with the plan (see following comments regarding RTÉjr Television).

However, this is a stabilising plan, rather than one that addresses the broader strategic threats referred to above:

- There is very little enhancement of the digital services envisaged in the base case. While this may be prudent in the current financial circumstances, it nevertheless exposes RTÉ as audience expectations of choice and range increase;
- Plans (set out in alternative scenarios) for the use of more public funding would benefit from a clearer explanation of priorities. While proposed enhancements to original programming are likely to add most public value, other proposals seem less suited to addressing the identified strategic challenges, and proposed new spend on digital services is limited;
- In the absence of more funding to implement some of the more ambitious plans contained in the alternative scenarios set out in the final section of the strategic plan, RTÉ might be compelled to consider the spread of services it can maintain.

A further issue which we note is RTÉ's very recent proposal, announced in March 2013, to transfer its daytime (11am to 3pm, during school term-time) children's programming from RTÉ Two to the new RTÉjr Television digital channel (available on Saorview), and to replace it in the RTÉ Two schedule with content for mature audiences. This change will also enable RTÉ to show advertisements during this four-hour slot, something which it previously did not do. We found this planned change rather surprising, as it represents a significant shift from the plans for children's programming outlined in the costed five-year strategic plan which had been presented to us by RTÉ in mid-January. Of course, it would be unreasonable to expect any business to treat its strategic plan as wholly binding and unalterable for its full duration, and indeed every organisation should be encouraged to examine itself critically and to make improvements during the life of a strategic plan; but this planned transfer of children's content, which we assume has been under consideration / in preparation for some time, does not feature in RTÉ's five-year strategic plan, which contained rather vague proposals for RTÉjr Television.

4. **Efficiencies at RTÉ**

RTÉ report that they have very significantly cut their costs over the last five years, by about 28%. Most recently, this has required RTÉ to reduce its costs by a further €[redacted] by the end of 2013, in a mix of personnel and cash costs.

Over the projected course of the plan, RTÉ are expecting to make a further €[redacted] million of efficiency savings. However, there are some striking features of these plans:

- €[redacted] are projected to come from lower costs of sports rights and acquired programmes – and while RTÉ may benefit from a market where other competitors have no appetite to drive up prices through competitive bidding, nevertheless, these costs are much less within the control of RTÉ;
- a further €[redacted] of the savings are projected to come from “other efficiencies”, as yet unspecified;
- €[redacted] of the projected savings therefore come from personnel related costs, and of these, only €[redacted] million are projected to come from “work practice reform”; and
- the cost reductions are very much back-loaded: the first two years of the plan deliver €[redacted], while the final two years deliver more than twice as much.

We acknowledge the very significant programme of cuts that RTÉ has already implemented, but we nevertheless question whether these future efficiencies are sufficiently stretching. In particular, we question whether the balance of efficiencies between programme rights and controllable internal expenditure is correct.

In this regard, we suggest RTÉ should be encouraged to reconsider whether there are more opportunities to be gained through more extensive use of the independent production market. We note that this area of expenditure took a very significant hit in RTÉ's cost-cutting between 2008 and 2011; and RTÉ has shared with us the analysis it undertook to compare costs between in-house and independent. We recognise the difficulties of comparison, but we suggest that, provided more significant outsourcing could be accompanied by commensurate reductions in fixed overhead costs, the flexibility offered by the independent sector could benefit RTÉ's overall financial and creative position in the medium term. We believe that a more thorough examination of the relative costs and potential benefits should be a priority arising from this review.

We also note that RTÉ forecasts an additional €[redacted] expenditure in personnel-related operating costs over the lifetime of the plan, [redacted]. We query the appropriateness of this approach, given continued Government requirements for public service organisations to adhere to strict pay policy frameworks, which continue to entail pay cuts, pay freezes and other cost reduction measures across the broader public service.

5. Revenues at RTÉ

RTÉ's base case relies essentially on three assumptions:

- That its audience share will remain broadly level over the five years of the plan – bolstered by the programme and service changes outlined above;
- That it will benefit from a modest projected upturn in the advertising market, less in core TV and radio advertising, but particularly in its digital and international revenues which it expects to see double; and
- That it will secure an uplift in the licence fee, partly through an increased fee and supported by significantly greater efficiency in its collection.

RTÉ has not presented a detailed analysis to underpin its audience or revenue assumptions, which makes it harder to judge the reliability of its projections.

On the basis of our own analysis, we believe that the revenue target is challenging: the plan allows for comparatively little investment in new original programming that might sustain the audience, and as we have noted above, RTÉ will be increasingly vulnerable to competition in securing popular acquired programmes. Cable/satellite platforms may take more market share from Saorview.

Even so, the commercial revenue projections seem cautious: RTÉ projects that its TV advertising income will shrink by [redacted]% over the period, but our own analysis suggests that there may be potential for some modest growth of some €10 – 15 million. The radio and on-line projections are credible.

We do not comment on the likelihood of securing additional licence fee income, other than to note that the uplift required over the period – €16 million, of which €5 million is accounted for

by greater efficiency in collection – would be roughly balanced out by our more optimistic assumptions about advertising revenue; and to note that the plan backloads the majority of these additional public revenues – so leaving time to adjust if the advertising revenues fail to pick up as we believe they might.

A further issue which we note is the correspondence from RTÉ to the Minister for Communications, Energy and Natural Resources, dated 6 November 2012, in which RTÉ request permission to change the balance of advertising minutage across the TV schedules, thereby allowing an increase in commercial revenues. This proposed change is not referred to in RTÉ's costed five-year strategic plan, which we find somewhat surprising in terms of its capacity to support improvements in RTÉ's financial position. (By contrast, other revenue improvements which are also dependent upon decisions or actions outside RTÉ, such as reduced TV licence evasion, are formally included in RTÉ's financial base case.)

6. Overall Conclusion on RTÉ

The base case plan, although in some areas lacking in detail, is clear, coherent and, subject to the risk of further economic shocks, achievable, even without the requested uplift in public funding. We believe there is sufficient scope both for additional commercial revenue and further efficiency savings to implement, and possibly exceed, the reinvestment in services it anticipates, without calling on increased public funds (i.e. without any increase in the licence fee, and without any further revenues arising from reduced licence fee evasion).

However, this plan will sustain RTÉ rather than secure it against the competitive threats it will face. The lack of investment in digital services, and the lack of investment in digital distribution infrastructure and development, risks weakening RTÉ's position over the five-year period, and is unlikely to equip it to meet its public remit effectively in the longer term.

The alternative options set out by RTÉ show how they would address this problem if they were to achieve an increase in their funding. Some of their proposals, most notably extra investment in content, seem more relevant to their competitive challenges than others. But we believe a more aggressive stance on future efficiencies would also significantly help to liberate more funds for programme and service enhancements; and that RTÉ should anyway be held to a stretching efficiency target for the five years of the plan.

Nevertheless, it is unlikely that efficiencies alone will allow RTÉ to thrive; and if no further public funding is available over the course of the plan, then it may well be that the BAI and the Government will need to explore with RTÉ contingencies over the longer term which might involve a more significant rationalisation of its portfolio of services to secure future funding for those activities which would be at the heart of a successful digital future.

Overall, we believe that RTÉ's existing (base case) plans can be funded from current licence fee revenues, assuming that:

- The level of commercial revenues can be increased;
- Greater efficiency savings can be generated.

However, the funds for investment in RTÉ's new digital services do not appear to be available in the base case, and would need to come from either an increase in public funding or a more radical reappraisal of the range of services offered by RTÉ. Our view is that RTÉ needs to have very clear and coherent plans for its future digital investments and services, and that these should – at least in part – be able to be funded from existing revenues.

We therefore conclude that public funding at the present level will probably be adequate to meet RTÉ's five-year plan under the base case, and should be conditional on the recommendations presented in this report being implemented (or showing positive signs of being implemented) during the lifetime of the plan, with particular focus on RTÉ's preparation and implementation of a more coherent and demanding efficiency plan. This should be reviewed as part of the annual funding review process.

ANALYSIS OF TG4

7. TG4 Programme and Content Mix: Investments and Future-Proofing

TG4's five-year plan rests on four broad assumptions:

- An increase in their level of Irish language programming of over 300 hours over the course of the plan, resulting in a full 6-hour daily schedule for 40 weeks of the year, with a 4.5 hour schedule for the remaining 12 weeks (compared to the current position of a 5-hour schedule for 32 weeks, and a 4-hour schedule for the remaining 22 weeks). The most significant areas of new programme spend will be Sport ([redacted] hours); Entertainment and Lifestyle ([redacted] hours) and Documentaries ([redacted] hours). However, these mix changes are very much back-loaded: in the [redacted] years of the plan, only Entertainment and Lifestyle sees a significant change, with an additional [redacted] hours;
- This, it is suggested, will drive an increase in audience share from roughly 2% to 2.5 – 3% over the period, with emphasis on establishing a stronger position among the core audience of mothers with young children – currently an area of weakness for the channel. Audience reach is projected to increase over the period by just under 100,000 – from 577,000 to 673,000;
- The expansion in the schedule will be achieved through a very significant increase in funding: from €23.8 million in 2012 to €35.1 million by the end of the plan. The bulk of this funding to be achieved from public funds;
- TG4 will maintain its presence on all broadcast and non-linear platforms, with additional investment in the Learning Irish multi-platform service, and a second, on-line channel aimed at younger audiences.

TG4 points to an earlier study which first made the case for an extension of the schedule to 6 hours, and points out that other indigenous language broadcasters operate with a more complete schedule.

However, we make a number of observations:

- First, that this is a costly exercise – a €11.5 million increase in funding to secure an additional 0.5% share means that the cost per share actually rises over the period, not least because the projected share increase is comparatively modest;
- Second, that the increase in reach – probably a better measure of performance for PSB services generally, and for indigenous language services specifically – is unquantified in terms of the core audience of Irish language speakers;
- Third, that TG4's fortunes, like those of RTÉ, are closely linked to the prospects for the DTT platform, Saorview: and therefore any failure of the platform to gain more

traction with the audience may further undermine TG4's prospects of achieving this plan.

Unlike RTÉ, TG4 has not presented a plan based on existing funding: the board of TG4 clearly believe that the only way in which the remit can properly be fulfilled is by a strategy of general expansion.

8. Efficiencies at TG4

TG4 observes that, as a very small publisher / broadcaster, its scope for efficiencies is extremely limited: and indeed, the only significant efficiencies over the course of plan – the proportion spent on non-programme costs – are derived from the increase in revenues and output rather than any reductions in non-programme costs.

This seems to us realistic and fair. The bulk of the original output is commissioned from independent production companies – TG4 is currently working with more than 90 different companies. There may be scope for efficiencies in longer term output deals with some companies – but this is obviously dependent on the channel being able to secure the range and diversity of programmes it needs, and should be weighed against the benefit of spreading the economic impact of its commissioning more widely across the Gaeltacht community.

9. Revenues at TG4

As noted above, the core of TG4's plan rests on a very significant uplift in public funding, as well as continuing to secure additional public funds, indirectly, from both the BAI's Sound and Vision scheme, and the ILBF, as well as other one-off funds for specific projects from, for instance, the Department of Education and Skills.

However, TG4 also depends on some TV advertising, and where we considered RTÉ's projections unnecessarily cautious, we are concerned that TG4 may be optimistic. The rise in projected advertising revenue is dependent on achieving the increased share: and we note that the starting point for the rise is shy of the 2% captured in the plan (TG4's share in 2012 was 1.85%). An increase to 2.5% would be nearly 40%: a share of 3% would represent an increase of 60%. In the competitive environment TG4 will face, we believe these are challenging aspirations.

10. Overall Conclusion on TG4

TG4 makes an ambitious case for growth and expansion: substantial increases in funding to achieve a challenging uplift in share and reach. Audiences are overall positive about the value for money it currently represents – our research suggests that it benefits from its very obvious public service credentials in serving a specific audience with content that the market would never provide.

We note the absence of an alternative plan showing how TG4 believes it would fulfil its objectives on current levels of spending. But we also note that, recognising the current challenging economic climate, TG4 has back-loaded both its funding and content enhancements until the back-end of the plan.

On the one hand, this may give the Government an opportunity to wait and see how the first two years of the plan are working before taking the decision over whether to fund the more

extensive later years. However, we are concerned that, given the competitive environment that TG4 faces, these investments may come too late to achieve even the comparatively modest benefit that the plan outlines.

Taking all of these considerations into account, we must therefore consider whether the TG4 costed five-year strategic plan is actually affordable. As things stand, TG4 have presented a strategic plan which is based on a very substantial increase in funding, with almost all of the additional revenue coming from the State, and only a modest amount from commercial income. Furthermore, although TG4 makes reference in the plan to the service curtailments which would arise if funding were not to be secured, it is very much an “all or nothing” strategy, with no alternative approaches presented. From that perspective, we must conclude that the TG4 costed five-year strategic plan will only be affordable if the Government agrees to a very significant loosening up of public money.

We believe that further work by TG4 is required to produce a more affordable and more radical costed five year strategic plan than that which has been presented to us; for that reason, we conclude that public funding, on the basis of current licence fee revenues, will not be adequate meet TG4’s plans. Careful reconsideration of the forward plan by TG4 is therefore required.

We therefore believe that TG4 should be requested by the Minister to investigate an equally radical plan which does not depend on significant additional revenues, but which instead explores other ways to make existing funding go further. These might include:

- Accelerating the pace of investment in non-linear and on-demand services;
- Structural changes – including closer relationships with RTÉ.

11. **Legal and Regulatory Compliance – Both PSBs**

In addition to reviewing the PSBs’ costed plans, we were also asked to review aspects of their legal and regulatory compliance. The PSBs are required to comply with the European Commission’s requirements about transparency and the avoidance of over-compensation. This is achieved by a combination of measures that include:

- A public service remit which clarifies the scope of services to be included;
- The entrustment of accountability for, and oversight of, the remit and any extension to it to bodies and processes with sufficient independence of the PSB;
- Separate accounting for public service activity that demonstrates no cross-subsidy;
- Clear rules to prevent the build-up of surpluses from public funding;
- Calculations of public funding requirements based on the real cost of delivering the public service schedule.

In our judgement, both RTÉ and TG4 meet these requirements, although we recommend (see Recommendations 4 and 8 below) that further work is done within RTÉ to provide greater assurance to the regulator with regard to its financial accounting and reporting arrangements. However, we would ask the BAI to note the following comments in relation to three central issues arising from these requirements:

- With regard to **proportionality of funding for public services**, the proposed new approach from RTÉ to attributing the use of public funds, coupled with clear public remits for each of its core services, should provide further comfort in future that public

funding is being used in a transparent and accountable manner. The narrow test that public broadcasters should not generate a surplus each year of more than 10 per cent will, on the basis of their plans, be met by both PSBs.

- With regard to **clear separation of public and non-public service activities**, both broadcasters have measures in place which are consistent with EC requirements, but many of the processes and rules are documented informally. Urgent work is needed to tighten up and formally document these processes, especially at RTÉ. Clarity is also needed on which parts of the RTÉ portfolio are considered a part of their commercial activities and which are part of their public services.
- In relation to **fair trading**, we found that RTÉ in particular is less rigorous than would be expected in ensuring that its market-related activities are consistent with regulatory requirements. The onus should be on RTÉ, given its privileged position as a recipient of public funding, to put in place and to publish the internal processes and codes which can demonstrate that it is behaving fairly and with due consideration of its market impact. We suggest that RTÉ be required to draw up its own detailed competition compliance and fair trading guidelines which would be subject to annual external audit.

We welcome the new approach RTÉ is taking to give clarity to its allocation of public funding across its public services – although we note that there remains some potential confusion in the classification of its RTÉ.ie service as part of its commercial subsidiary arm. This lack of clarity may well have fed complaints from commercial competitors, not least the National Newspapers of Ireland, that RTÉ’s ability to use its newsgathering and production at no extra cost give it the ability to depress the prices it charges for on-line advertising to the detriment of the wider market.

It is not our role to judge whether this complaint is justified – although clarifying the public service role of the RTÉ.ie service would certainly help with the transfer pricing issue. But we do believe that RTÉ generally should underpin its approach in this area with a more robust and formal set of fair trading guidelines on which it should consult, and against which it should report to the BAI as part of its formal reporting process.

More generally, (see below) an improved reporting framework will in future help the BAI more effectively monitor RTÉ’s performance against its public service remit, and assess the extent to which RTÉ is operating as efficiently as could be expected.

12. **Reporting Framework for PSBs**

Finally, we were asked to advise on a new framework for annual and 5 yearly reporting. We suggest that the 5 yearly review should focus on strategic plans and implications for public funding. The subsequent annual reviews should focus on performance against those plans, and provide an opportunity for any “course corrections” to the proposed services and funding requirements. We suggest a two-part structure for the annual reviews: a high level commentary of performance against the agreed strategic plan, and a more detailed quantitative assessment of ongoing performance.

The latter would be based around specified and standard core metrics, covering the broad areas of impact and reach, high quality and distinctive content, value for money, and good governance. Together, these should describe the key dimensions of each PSB’s public service remit, both for overall output and for identified specific services. The PSBs should be

required to explain to the BAI in each annual review the rationale for, or cause of, any significant changes in each of these core metrics.

The BAI should move quickly to specify these metrics and put in place the new reporting framework. As part of the annual review process, the PSBs would also be expected to report on funding attribution, clear separation of public and non public service activities, and fair trading compliance.

13. **Recommendations Arising from this Review**

15 recommendations are presented to the BAI for consideration as a result of the analysis which we have conducted within this review. These consist of two core recommendations to the BAI, regarding future funding for RTÉ and TG4, and 10 other recommendations which are highly important and which support our main findings and core recommendations. A further three recommendations relating to the 5-year review process are then presented. Our recommendations are as follows (these are sequentially numbered according to where they appear in the main report):

No.	Main Recommendation	See Chapter
1	RTÉ should consider the proposals for additional services ¹ set out in Section 8 of their plan and test these against key market and strategic challenges before concluding whether such opportunities are worthy of investment.	6.6
2	The annual review process for both public service broadcasters should take full account of capital expenditure projections, and ensure that spend is occurring in areas which provide the optimum return on investment.	7.8
3	An independent, objective review should be commissioned by the BAI to determine the scope for greater use of outsourced production by RTÉ, and to identify definitively whether greater value for money would be obtained in the long run from transferring programme production from in-house to external resources.	7.9
4	RTÉ should develop formal policies and procedures with respect to its separation of commercial and public service activities, the methodologies used during the allocation of costs and the commercial arrangements entered into between commercial and public service activities.	8.4
5	<p>Core Recommendation:</p> <p>The BAI should accept the RTÉ costed five-year strategic plan as being an affordable plan which will likely sustain existing levels of public service output in the short to medium term, with two specific provisos:</p> <ul style="list-style-type: none"> ■ A more aggressive approach to generating efficiency savings should be agreed with the BAI during 2013, and the plan reworked as necessary as part of the annual review process; ■ More opportunities for enhancing commercial revenues should be sought, consistent with RTE's overall public service remit, and reviewed as part of the annual review process. <p>Subject to the above, RTÉ should not need to receive any additional</p>	8.5

¹ These proposed services consist of a Digital Library, Open Archive, [redacted], [redacted], [redacted], DAB plus, and a Donnybrook digital hub and campus.

	<p>revenues from licence fee income or from improved collection / reduced evasion of the licence fee to sustain existing service levels.</p> <p>However, having regard to our analysis of the broadcasting market and associated findings, greater public funding will be needed if RTÉ is to continue to develop its digital services, distribution and infrastructure, in order to sustain and enhance its public service contribution in the medium to longer term.</p> <p>The provision of any additional public investment should be conditional on RTÉ providing detailed information regarding how this money will be spent, and what return can be expected on this investment, with this information being reviewed by the BAI as part of the annual regulatory process of setting performance commitments and funding review.</p>	
6	TG4 should further develop its audience share metrics to identify its share among Irish language speakers, in order to facilitate a review of its effectiveness in reaching its core audience during future review processes	10.4
7	<p><u>Core Recommendation:</u></p> <p>The Minister should request TG4 to investigate a more radical costed five-year strategic plan which details its expected commercial position and future service delivery options, should additional revenues not be forthcoming.</p>	12.5
8	RTÉ should further develop its accounting and financial reporting methodologies to exercise more effective internal control over costs, and to provide greater assurance to the regulator and Government regarding the fitness for purpose of these methodologies. This exercise should be overseen by the regulator.	13.2
9	The annual review process should include an assessment of the methods employed by each broadcaster to ensure that they are incentivised with regard to cost control and maximising productivity.	13.4
10	The annual review process should be incorporated into the five-yearly review process, to ensure alignment of strategy statements and costed plans. There should also be a clear link between the Public Service Statements and the five-year strategic plans. For the reporting process to work well, there must be clear timetables, a good understanding by all sides of what is needed and what is feasible, and a commitment to delivering the relevant documentation on time and in sufficient detail to be of value.	14.3
11	<p>The five-yearly reviews should:</p> <ul style="list-style-type: none"> ■ Review the PSBs' strategic plans in terms of their consistency with agreed remits and the extent to which they properly address audience, market and technology challenges; ■ Assess the adequacy of funding available to deliver those plans, in the light of commercial income potential, cost expectations, and any efficiency savings; ■ Advise on public funding levels for the period of the plan; ■ Agree the service mix and medium term performance goals, including the broad remits of each main service, against which performance can be assessed over the coming years; ■ Establish the key accounting processes, and reporting measures, which PSBs must implement to demonstrate compliance with EC guidelines on transparency and over-compensation, as well as meeting domestic expectations on fair conduct in commercial 	14.4

markets.

No.	Main Recommendation	See Chapter
12	<p>The annual review process should:</p> <ul style="list-style-type: none"> ■ Focus on a manageable number of key commitments, as set out in the five-year plan, including (as a minimum), the public service characteristics of each main service, planned changes in genre hours or spend, or additional investments in existing or new services (and certainly many fewer individual commitments than has been the case to date). ■ Report performance each year on a consistent basis against a tightly defined number of key quantifiable performance indicators, including (as a minimum) reach among key audience groups, commercial income, programme hours and spend by genre, and key cost indicators. ■ Track “outcomes”, for example as measured by audience perceptions of quality, distinctiveness, and value for money. ■ Report progress against any statutory obligations, including (as a minimum) Irish language programming, external commissions, etc. ■ Report against the key transparency and fair trading requirements to address any over-compensation concerns. 	14.4
13	<p>A core set of agreed audience and financial data should be established, and the data gathered and made available in advance of the commencement of each review (annual or five-yearly).</p>	15.2
14	<p>A clear starting point for the engagement of external consultants within the review process should be established and implemented</p>	15.3
15	<p>An agreed and widely understood policy on consultation should be adopted and implemented as part of the review process</p>	15.4

SECTION 2: Introduction and Background

1 Introduction

1.1 Background

The Broadcasting Authority of Ireland (BAI), the body responsible for the regulation of broadcasting in Ireland, has a statutory responsibility under the Broadcasting Act, 2009, to carry out a review – within three years of the passing of Act – of the adequacy or otherwise of public funding to enable the public service broadcasters, RTÉ and TG4, to meet their public service objects.

BAI commissioned Crowe Horwath in July 2012 to undertake the statutory 5-year review of funding for public service broadcasters.

1.2 Terms of Reference

In its request for tender document, the BAI identified nine key deliverables for the review, intended to contribute to the success of the project whilst addressing statutory, Ministerial and Authority requirements. These deliverables comprised a mix of regulatory and audience research, market and economic analysis and the development of a framework for future annual funding reviews, and formed the specification for this project:

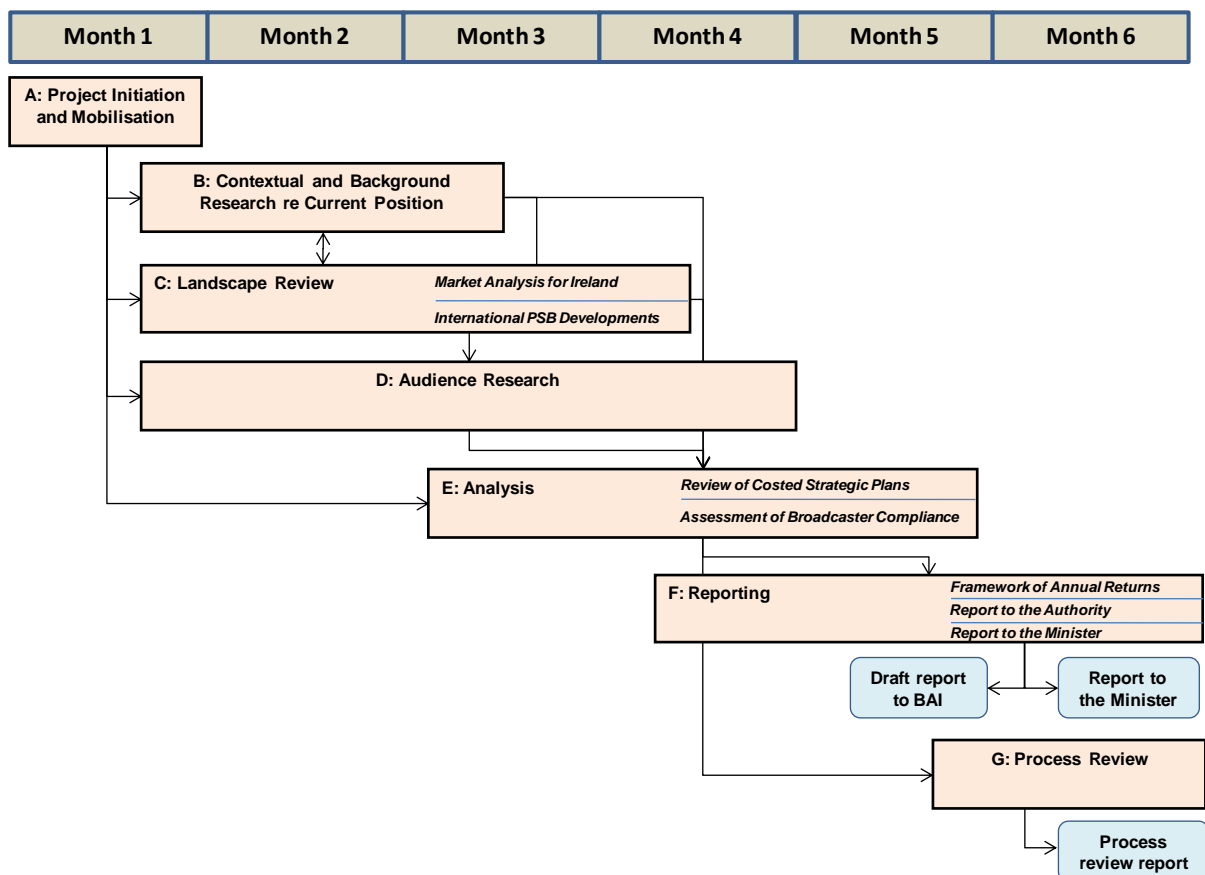
- Undertake a market analysis of future prospects for audio-visual and communications market in Ireland, with particular focus on broadcasting; advertising/subscription market; impact of technology.
- Undertake research on developments in PSB internationally, with a particular focus on content, technology, funding and regulatory/governance trends and developments. Research report and analysis on methods for evaluating whether overcompensation has occurred in dual-funded broadcasters in EU. Such research will build on any existing, available data.
- Undertake/commission audience research exploring genre importance; satisfaction with PSBs' public purposes; perceived value for money; importance of wider, non-broadcast content to delivering public service goals. Such research will take account of audience data already available through each public service broadcaster, together with any additional, relevant industry data.
- Undertake an analysis of costed strategic plans to be submitted by each PSB for the five-year period going forward. Each costed strategic plan is expected to incorporate future efficiencies and investment plans, demonstrating a clear allocation of public funding; potential developments and a quantification of any impact of changes in public funding.
- An analysis of the extent to which each public service broadcaster, is operating in compliance with the provisions of sections 108, 109(9) and 109(10) of the Broadcasting Act. Such analysis will include an assessment and recommendations, if appropriate, relating to any additional measures required to fully demonstrate compliance with the legislative provisions specified.
- Develop a framework of annual broadcaster returns for subsequent annual reviews of public funding. This framework will take account of and analyse the appropriateness and suitability of data gathered and the methodologies utilised to date as part of the annual funding reviews undertaken in 2010 and 2011.

- Compile a report to the Authority detailing the outcomes and recommendations of the Review, incorporating findings from deliverables 1-6 above.
- Having had regard to all the information gathered as part of the review process, and incorporating the deliberations and decisions of the Authority, to compile, on behalf of the BAI, a draft report to the Minister under section 124(11) of the Act, detailing the outcomes of the 5 year review and the recommendations of the Authority, in accordance with section 124(12), as to the requisite level of public funding required to permit each of the corporations to fulfil its public service objects.
- Compile a process review report detailing lessons learned and documenting impacts to the annual statement of performance commitments and annual review of public funding processes.

The proposal submitted by Crowe Horwath set out a methodology to address all the requirements of the review as set out by BAI.

1.3 Methodology

The methodology proposed, and ultimately approved by BAI, for the conduct of the review, is illustrated diagrammatically below, along with the original project timescales:



BAI PSB 5-Year Statutory Funding Review: Methodology and Timelines

The methodology comprised a series of tasks, both sequential and concurrent, intended to address the key requirements of the review:

- Project Initiation: the commencement of the assignment, comprising a meeting with the BAI to agree the way in which the project would proceed;
- Contextual and background research in relation to the current position of PSB funding;
- Landscape review of the environment nationally and internationally for public service broadcasting;
- Audience research comprising both qualitative (focus group) research and quantitative research (phone questionnaire);
- Analysis of the costed strategic plans for each of the public service broadcasters and an assessment of how each broadcaster is complying with its statutory objects;
- Reporting: development of draft and final reports to BAI and the Minister for Communications, Energy, and Natural Resources;
- Process review: a report at the end of the assignment reviewing the process(es) involved.

1.4 Process Followed

The methodology presented in Chapter 1.3 above was applied as planned for this assignment. However, the original timescales were extended by agreement with the BAI as a result of delays in the submission of costed five-year strategic plans by RTÉ and TG4; as a result, the original deadline of submission of our final report by the end of December 2012 was revised to March 2013 for submission of the draft final report to the BAI, followed by submission of our final report to the Minister in May 2013.

1.5 Interviewees

In Chapters 5 and 9, we set out the process of engagement followed with RTÉ and TG4 respectively, including a list of senior managers within each organisation whom we met during the course of the assignment. In addition, we also met with a range of external stakeholders with a professional interest in the field of public service broadcasting, including:

- TV3;
- National Newspapers of Ireland;
- Screen Producers Ireland;
- Irish Film Board;
- Independent Broadcasters of Ireland.

In addition, we consulted on several occasions with senior officials from the Department of Communications, Energy and Natural Resources, and we also held one meeting with Indecon Economic Consultants regarding the annual public funding reviews of RTÉ and TG4 conducted on behalf of the BAI.

1.6 Submissions

Formal written submissions to this review were received from the following external stakeholders:

- TV3;
- National Newspapers of Ireland;
- Screen Producers Ireland;
- Irish Film Board;
- Independent Broadcasters of Ireland.

Where relevant, issues raised by stakeholders in these submissions have been referred to and commented on within our analysis in this report. However, as agreed with the BAI, we have not sought to critique these submissions or to provide a response to stakeholders in relation to the issues raised, many of which have been in the public domain before and have been the subject of dialogue with the BAI, the Department, the Minister, and the European Commission on various occasions.

2 Market Analysis

2.1 Introduction

In this section, we examine the market trends which will influence the overall media landscape in Ireland over the next five years, and which will have significant implications for the prospects and performance of RTÉ and TG4. Further details of our analysis are contained in Appendix 1.

Our starting point is the situation in which RTÉ and TG4 find themselves in early 2013. Over the past five years, the Irish economy (measured in terms of real gross domestic product, GDP) has contracted sharply, and in 2012 real GDP was still 5.6% less than in 2008.² According to various industry estimates, overall advertising spend in Ireland fell by around one third during this period,³ and TV advertising by 25%.

At the same time, RTÉ and TG4 have faced increased competition from a range of other broadcasters and, more recently, new media companies. Ireland is one of the most open TV broadcasting markets in Europe. Most households have access to multi-channel TV and analogue transmissions were switched off in 2012.

The combined effect of economic downturn and increased competition has had an unprecedented impact on the audiences and revenues of the two public broadcasters. RTÉ is proportionately more dependent on commercial income than most comparably-sized public broadcasters in the rest of Europe. It has therefore been profoundly affected by the decline in the advertising market. TG4 is highly dependent on public funding, which has also been under pressure.

In response, the two PSBs have embarked on significant cost-cutting initiatives. Over the past five years, for example, RTÉ has reduced operating costs by €90m or 20%, with more planned. TG4 has reduced its operating costs by a similar proportion. At the same time, both public broadcasters have tried to maintain their existing scale and scope of services and indeed have expanded into new online and digital activities.

This is not a recipe for long-term financial sustainability, or for providing public value to Irish audiences. The new five-year plans provide an opportunity for a more strategic review of how RTÉ and TG4 should adjust to the changes which have already taken place, and respond to the challenges ahead.

2.2 The Main Market Drivers

2.2.1 Overview

Looking ahead, the broadcasting market is likely to undergo further change. Rather than the external economic shocks which have dominated the past five years, the next five are likely to be characterised by changes in the nature and structure of the audio-visual media market, with a “second” wave of competition from internet-delivered on-demand services. Although

2 “Ireland: Eighth Review Under the Extended Engagement”, IMF, November 2012.

3 For example, estimates by Accenture research and Group M, presented by RTÉ

broadcast radio and TV will remain important, this next period will bring accelerating changes in the way in which audio-visual content is made, distributed and consumed.

2.2.2 Economic and Demographic Outlook

Prospects for the Irish economy are an important place to start. Looking ahead, the country faces a period of further uncertainty, although most economic forecasters now see some modest growth over the next five years.⁴

The Department of Finance's recent medium term fiscal statement⁵ suggests that real GDP will grow by 1.5% in 2013, 2.5% in 2014 and 2.9% in 2015. Forecasts from bodies such as the European Union (EU), the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) all paint a similar picture of relatively slow recovery initially, with growth rising towards but less than 3% in the later years of the period. Even so, the Irish economy in 2016/17 will be little bigger than it was in 2008. It is likely that unemployment will drop only slowly (as a 'lagging' indicator of economic activity), and consumer confidence will be equally fragile for much of this period (owing to the cumulative effects of fiscal austerity, which is seeing falling disposable income in an environment of rising prices, such as health insurance, fuel and energy, and food).

Advertising is generally seen as a 'leading' indicator of economic activity (in contrast to unemployment as a lagging indicator), suggesting that advertising will see gradual recovery as the economy recovery gains momentum.

It is not expected that there will be significant structural changes in the economy or Irish demographics over the period in question. The 2011 census recorded an actual population of 4.6m, compared with 4.2m in 2006, and a significant increase over the next five years now seems unlikely. Within this total, the Central Statistics Office (CSO) expects a slight reduction in the proportion of the population of working age, and a slight increase in both young (0-14) and old (65+) groups. In our view, these changes are not sufficiently marked to alter the structure of the economy or consumer spending patterns dramatically within the five-year period under review.

Regarding the spoken Irish language, the Government's objectives, as set out in its 20-year strategy, include increasing daily speakers outside the education system to 250,000, and the number of people with knowledge of Irish to 2 million. The 2011 census identified some 1.77m Irish language speakers in Ireland (around 40% of all respondents), a relatively modest increase from 1.66m in 2006. Only 94,000 (2%) speak Irish daily outside the education system.

4 Given the difficulty of making accurate economic forecasts, any projections should be treated with caution if used as a basis for planning. Even short term forecasts are often revised, as has recently been the case with all growth forecasts for the Irish economy over the next year.

5 "Medium Term Fiscal Statement", Department of Finance, November 2012

2.2.3 Technology Developments – Overview

The next five years will bring further significant changes in production and distribution technologies, as discussed in the following paragraphs.

2.2.4 Production

Digital developments offer scope for further advances in the way that TV and radio programmes are made, and how much they cost. Digital production techniques can reduce reliance on labour and radically reduce the need for physical studio space. New digital capture and editing technologies can reduce costs substantially. Newsgathering costs can be reduced by adoption of lightweight cameras, portable satellite links to replace old outside broadcast (OB) units, smaller crews and other initiatives. It is likely that further cost savings are available to broadcasters who continue to innovate and introduce new production equipment and techniques, although such initiatives may have initial capital investment and restructuring cost implications.

However, some areas of future development may bring with them new costs:

- Move to high definition (HD) and possibly 3D broadcasts – which require upfront investment in equipment and skills, and require more transmission bandwidth.
- Expansion of online and on-demand – which will call for investment in rights, content creation, software development and server capacity.
- Digitising programme archives – which requires investment in creating new digital copies, cataloguing, and data encoding.

2.2.5 Broadcast Distribution

At the end of 2012, TV broadcasting in Ireland had entered an all-digital world, with four key broadcast platforms: Sky, UPC, Saorview, and Saorsat.⁶ The broad split of households by main platform used (for primary viewing) is:

Broadcast Platform	Uptake by% Households
Sky	49%
UPC	20%
Irish DTT	14%
UK DTT/FTA satellite	11%

Although the main switch to cable and satellite has already taken place, the pay platforms might be expected to see some further modest increase in their market shares over the next five years, as audiences continue to seek the most attractive channel propositions, and as the platforms themselves compete to secure further subscriber growth (for example by bundling broadcast, broadband and on-demand services). Saorview, unless it can strengthen its channel line-up and keep pace with the functionality offered by competing platforms, will be hard pressed to gain market share.

For broadcast radio, the lack of progress so far in securing consumer take-up of Digital Audio Broadcasting (DAB) in Ireland suggests that major distribution changes are unlikely over the

⁶ Saorview (DTT) is available to 98% of the population of Ireland. Due to the landscape, some areas have always been impossible to reach via a terrestrial network. Saorsat is the infill free-to-air satellite television service put in place by RTÉNL to deliver Irish television services to the 2% of homes that are not covered by Saorview. The full list of TV channels available on Saorsat is: RTÉ One, RTÉ Two HD, TG4, RTÉ News Now, RTÉjr, and RTÉ One+1.

next five-year period.

2.2.6 On-Demand and Non-Broadcast Distribution

While broadcast distribution may appear reasonably settled for the next five years, new ways of distributing TV and audio content are emerging which promise further significant change.

Already personal video recorders (PVRs) (which allow time-shifting) are changing the way in which audiences consume programming and eating into live viewing. According to TAM market research data, 49% of homes in Ireland now have PVRs (up from 36% at the start of 2011), although 93% of all viewing is still live.⁷ PVR take-up should continue to grow over the next five years, with a consequent impact on the mix of live and recorded TV viewing.

Alongside PVRs, TV delivered over the internet, which has for some time been a minority interest, will also become a more mainstream platform in one of four main forms:

- connected TVs, developed by companies like Samsung and Sony, but now widely available, allow viewers to use their primary set not only to watch broadcast TV, but also to connect to the internet and view on-demand content;
- hybrid broadcast and broadband platforms, which combine broadcast and internet content via the same set top box (these include managed IPTV platforms);⁸
- so-called over-the-top (OTT) services which can be delivered to a range of connected fixed and mobile devices over the open internet;
- tethered services in which the platform and devices are closely linked, such as the Apple iStore/iPhone/iPad environment.

Initially, these new services will be largely complementary to rather than a substitute for conventional broadcast television. But they will gradually erode main linear channel audience shares. Public broadcasters therefore have a choice to make regarding how far and how quickly they need to adapt their services to be available on these new platforms.

The extent to which these services make inroads into the share taken by conventional broadcast platforms partly depends on the availability of high speed broadband connections to households and on 4G or Wi-Fi capacity for mobile devices. In August 2012, the Minister for Communications, Energy and Natural Resources launched the Irish national plan for broadband, which sets ambitious targets for delivering high speed broadband to every home and business over the lifetime of the current Government.

If these targets are met, a significant number of Irish households will have access to broadband connections which are capable of supporting high quality video services by the end of the five-year period we are reviewing, increasing the potential demand for new IPTV services and on-demand access to programming.

7 "Nielsen TV Audience Measurement Establishment Survey for TAM Ltd", October 2012. 62% of digital homes have PVRs.

8 So far there has been no national IPTV proposition in Ireland, but three Irish operators have launched IPTV services in urban areas. They account for only a small share of viewing

2.2.7 Implications of These Changes

By the end of the five-year period under review, it is therefore likely that a mixed pattern of distribution will be needed to ensure universal availability of public broadcast TV services.

Broadcast linear TV channels will still be important. Public channels will need to use all four main broadcast platforms to offer universal coverage. But, as more people (who pay the licence fee or pay tax to fund broadcasting) use connected TVs and mobile devices, so it will be hard for public broadcasters not at some stage to make available their key content on those platforms, too.

There are cost implications associated with these challenges – catch-up services and apps for mobile devices require investment, and duplicate distribution platforms impose additional costs. New platforms and devices also introduce a further step-change in the availability of programming to audiences, and hence an increase in competition for audiences across the schedules.

2.3 Audience Demands

2.3.1 Overview

Against the backdrop described above, audience tastes and preferences are changing, affecting both the type of content demanded and the way in which it is consumed.

2.3.2 Television

Audiences can now decide what content to watch, when to watch it and on what device. TV will need to work harder to retain viewers given the increasing choices available.

Broadcasters around the world are finding that modestly-budgeted “schedule filler” programming no longer draws audiences as effectively as it did in a limited channel market. Audiences demand high quality “appointment to view” programming, which could mean major dramas or documentaries, or live sports and entertainment events. Such programming also increasingly has to work across media – on PCs, smartphones and tablet apps as well as on broadcast release. For some types of content – major sports events, news, reality shows and the like – live viewing will remain critically important, but for others, on-demand will take an increasing share.

These trends have a number of significant implications for public broadcasters. They must work hard to:

- prioritise programme and service budgets so that schedules can offer the sort of high profile, high quality “event” programming audiences demand (and which are more likely to be viewed live, to the benefit of advertisers);
- remain distinctive, through the commissioning of programmes which their commercial rivals cannot afford to or do not want to schedule – whether in presenting news and current affairs from a national and local perspective, or in showcasing local stories and talent;
- devise and make programmes which can take full advantage of cross-media potential – whether online or in the form of tablet and smartphone apps;

- find new ways of reaching younger audiences who are more likely to be leading-edge users of new platforms and devices, and are most exposed to competition from new providers.

2.3.3 Radio

There is likely to be a continuing appetite for live radio, especially for stations which engage with audiences through popular presenters and interesting speech content. However, RTÉ will face competition not only from commercial music radio stations, but also from many new internet-delivered music services such as Spotify. The future for music-only stations is challenging, and younger audiences are increasingly turning away from broadcast radio to find their music entertainment. To attract audiences in future, public radio will have to offer a wider range of speech and information than that typically be provided by the commercial radio sector or online digital music providers.

2.3.4 On-Demand

Increasingly, viewers will prefer to access some types of programmes on-demand, requiring new ways of marketing and distributing content.

How quickly on-demand will capture a large share of total viewing is as yet unclear. In the UK, for example, on-demand accounts for around 15% of viewing across all devices,⁹ but some experts argue that this is set to double to 30% over the next five years. Of that on-demand total, a significant proportion is and is likely to remain time-shifted linear broadcast content. Another large share is accounted for by main broadcaster catch-up services like RTÉ Player. Although the share taken by non-broadcast content may remain low, its reach (i.e. the number of people who access such content on a regular basis) is likely to be much higher, especially among younger viewers.

Although the Irish market may lag marginally behind UK developments (due to initially lower high speed broadband coverage, and smartphone/tablet penetration), the long term outlook for this new range of distribution platforms is likely to be similar.

2.3.5 Online

More conventional online services (using combinations of text, graphics and audio visual material) will also continue to be important for some key genres. News is the most obvious example – future news services will be truly cross-media, with newspapers and broadcasters competing for consumers in the online environment. Other genres may also benefit from this “converged” approach – for example by extending the value of broadcast programming through discussion forums, online information and so on.

2.3.6 Enhancing Public Service Broadcasting

The longer-term development of digital services could bring real opportunities for PSB:

- PSBs may be able to reduce costs by reducing the number of broadcast services which need to be provided. While this may not be feasible over a five-year horizon, it will be important to put the building blocks in place which allow this to be a credible

9 “TV, non-linear and disruption”, Enders Analysis, October 2012

option in the longer term. Such action might include designing brands for new on-demand services, and devising content strategies which focus on long term value.

- PSBs may be able to use new media to better deliver the purposes originally set for broadcast services – for example, interactive and on-demand services may be more effective at conveying news, information and educational purposes than broadcast services.
- In particular, new digital developments may provide new and more effective opportunities to support the development of the Irish language. TG4 to date has emphasised the importance of a well-funded broadcast channel to attract interest in and help support the Irish language. In future, more scope may exist for using on-demand video, interactive media and online to achieve the same objectives, but perhaps more effectively and at lower cost.

2.4 Competition

Already we have seen a step change in competition associated with the growth of multi-channel TV and an increase in commercial radio licensing. But competition in the Irish media sector is likely to increase further over the next five years, as new platforms and on-demand delivery increase the amount of choice available to audiences at any point in time, and compete for revenues.

Increased competition in television might stem from:

- More investment in content by the main cable/satellite channels available in Ireland (for example Sky channels, which are investing both in UK-originated content and in building up their premium US programming stock);
- Further increase in pay TV's market share, as TV services are bundled with high speed broadband contracts;
- Competition from entirely new audio-visual content suppliers from outside Ireland, who will deliver on-demand content over broadband services;
- Competition for “screen time” from non-TV payers (games, social networking etc.).

In radio, as indicated above, additional competition will come from new IP-based music services targeted at mobile devices and personal computers (PCs).¹⁰ Competition for younger audiences will be particularly intense – not only from the commercial radio sector (which has targeted this market successfully in recent years), but also from these new services. There are few signs, though, that DAB radio will account for significant growth in listenership or competition over the next five years.

It is unlikely, however, that this increase in competition will result in an increase in supply of many of the types of content which public broadcasters are established to provide. RTÉ and TG4 broadcast a greater proportion of programmes made in and about Ireland, and cover a wider range of programme genres (including news, current affairs, and minority interest material) than do their commercial competitors.

There is little sign that this will change over the next five years. TV3 faces continuing commercial challenges as the economy slowly pulls out of recession and will be hard pressed to increase significantly its investment in locally-produced programming. The other main players in the Irish market are almost exclusively focused on UK and international content.

10 A significant increase in commercial radio licensing is not anticipated by the sector.

Neither can the commercial sector sustain the costs of the sort of newsgathering operation provided by RTÉ. In radio, too, high quality speech radio will be affordable only through public intervention.

In some areas, however, commercial players could increase their contribution if RTÉ or TG4 were to pull back their involvement, namely:

- Sports coverage (although TV3's capacity to schedule an immediate large increase in sports would be limited);
- Acquired programming (e.g. US-made dramas, comedies and films);
- Music radio.

The extent to which PSBs continue to offer such programming and on what scale depends on a range of factors, including public expectations and the contribution such programming makes to maintaining the share, reach and hence impact of each public broadcaster.

2.5 Implications for Audiences and Funding

2.5.1 Audiences

TV viewing overall has held up well in recent years, despite increased competition for leisure time from new media and games. Average all-day viewing in 2011 reached 205 minutes per person, 10% higher than in 2008. This is indicative of increased multi-tasking, with many viewers watching television at the same time as playing games, using a PC or smartphone etc. It is also partly a function of tough economic times in which TV, as a comparatively cheap form of entertainment, becomes relatively more popular. The next five years may not bring a similar increase in viewing, but should see these high levels sustained.

Radio listenership in Ireland continues to be strong, with audiences tuning in to listen to an average of almost 4 hours a day between 7am and midnight. Recent JNLR reach figures indicate that 85% of all adults listen to the radio daily and radio analysts do not expect a significant decline in this number over the medium term.¹¹

2.5.2 Viewing Shares

As noted above, however, it is likely that the next five years will bring a further increase in competition. In our view, both RTÉ and TG4 face the prospect of a continuing gradual erosion of main channel audience share. These developments are also likely to affect RTÉ's main commercial broadcasting rival, TV3, which will also face increasing competitive pressures.

In an earlier report for the BAI,¹² the authors anticipated that around 5% of households might switch from terrestrial platforms to satellite/cable pay platforms following switch-off. Overall, the authors concluded, the net effect of switch-off might be a one-off fall in RTÉ's audience overall share of around one percentage point. All else remaining equal, this small further platform-related reduction in RTÉ's audience share should still be a reasonable base case assumption for the next five-year period. On top of this, a small further decline in audiences

11 Data from JNLR, presented in RTÉ's costed five-year strategic plan .

12 "An Assessment of the Sectoral Impact of RTÉ's Proposed Channels and Services", Perspective Associates, December 2010

might result from the increased range of content choices available from non-broadcast services. TG4 will, all else equal, also see a small drop in its audience share as a result.

2.5.3 Listening Shares

Competition within the radio sector is likely to be more stable over the next five years, with little extra commercial competition. Here, the main challenge is likely to come from the possibility that younger audiences will continue to transfer their listening time away from the medium of radio to new online music services.

2.5.4 Advertising trends

Against a continuing tough economic climate, the prospects for commercial income remain challenging, but could experience some uplift over the five-year plan period. Overall spend on advertising tends to follow the economic cycle closely. Many academic studies¹³ have shown that advertising expenditure goes hand in hand with economic growth, and that GDP is generally a good predictor of long run trends in advertising spend. Modest forecasts for GDP growth will typically mean modest expectations for advertising growth.

2.5.5 Advertising Market Shares

The specific impact of these developments on RTÉ and TG4 depends on a number of factors, including television's and radio's share of the total advertising cake, and their own share of television and radio advertising.

In TV, structural change could have a significant impact. Advertisers' budgets tend to be relatively fixed in total and then divided among different media. As online advertising-based services continue to gain ground, and advertisers see improving results from targeted online advertising, then TV and radio could lose some share over the next few years. On the other hand, TV is still the most effective way for advertisers to reach large audiences quickly and efficiently, and to build brand value, and will remain so for some time.

On balance, we think it would be realistic to assume that the increase in overall advertising market spend expected in Ireland over the next few years would be partly offset by a small decline in TV's overall share of that market. Within the overall TV advertising "cake", RTÉ's share should hold up reasonably well – even if its audience share slips again, it would still be the most effective route for advertisers wishing to reach large audiences. We return to this issue in the later section on RTÉ's and TG4's market assumptions.

Radio can still help advertisers reach certain target audience groups quickly and with immediacy, and its share of the total market is expected to remain reasonably stable over the period.

Other commercial income, including that generated by digital services, is currently only a small part of RTÉ's and TG4's total income. There may be some opportunity for this to grow over the next five years, but it will still represent a relatively small share of the total. In the UK, for example, Enders Analysis reports that online video advertising is now worth around €160m a year, with the potential to double over the next five years. On a pro-rata basis, this suggests

13 See, for example, "Economic Growth and Advertising Expenditures in Different Media in Different Countries", Van der Wurff, Bakker and Picard, Journal of Media Economics, 2008

a total annual market in Ireland of around €10m, which could rise to more than €20m by the end of the period.

2.5.6 Public Funding

While there may be some uplift in commercial income, the prospects for any significant early increase in public funding of broadcasting in Ireland may be limited given the economic difficulties still faced by many households, and pressure on public spending budgets. Scope may exist for increasing funding by reducing the TV licence fee evasion and collection costs,¹⁴ although this may not produce immediate results and will be difficult to achieve at a time when household budgets are under pressure (and evasion rates might be expected to rise).

2.5.7 Costs

Aside from the operational savings referred to earlier, changes in the competitive environment may also have an impact on the RTÉ and TG4 cost base.

For most Irish-made programming, the public broadcasters are the main buyers, and should therefore be able to act as “price setters”. Competitive pressures on key production inputs, such as talent costs and production personnel and resources, are likely to remain muted over the next few years, and new production technologies should bring potential for cost savings.¹⁵

For some types of programming, though – sports and acquired material in particular – RTÉ and TG4 will find themselves in competition with their commercial rivals such as TV3 and Sky, and occasionally with each other. TV3, although an active market player, faces the same economic and commercial pressures as RTÉ, and is unlikely to be able to afford to engage in aggressive across-the-board competitive bidding for programming. Sky and other satellite channels, however, may force up the prices of popular US programming as they bid for both UK and Irish rights. New on-demand players may be able selectively to acquire rights for a limited number of programmes.

The key pressure point may be the cost of popular US dramas and comedies.

2.6 Market Opportunities and Risks

In summary, RTÉ and TG4 face a continuing tough economic and commercial outlook. Competition for viewers and revenues will be as intense as ever. At the same time as responding to immediate pressures, they will need to prepare for further fundamental changes to the broadcasting landscape driven by the increasing importance of on-demand and mobile services. The future will call for more investment in high quality content, as well as new services for digital platforms and devices.

Upside market opportunities include:

- A gradual improvement in the Irish economy, with some uplift in commercial income;
- Scope to exploit Saorview and Saorsat;

14 RTÉ, for example, has presented data in its costed five-year strategic plan which shows that licence fee collection and evasion costs in Ireland are well above the European average.

15 Although some developments, such as HD programming, could increase production costs.

- Increasing opportunities provided by on-demand and catch-up services across new platforms;
- New digital technologies which can help reduce costs and increase efficiency;
- Viewers still supportive and value key aspects of PSB (see the later chapter on our audience research findings).

Downside market risks include:

- Greater competition from major UK and international players, especially in high production-value programming;
- Loss of support from younger audience groups;
- High investment costs associated with adapting to the future;
- Further gradual erosion of audiences and commercial revenues.

Later in this report, we will review the extent to which each of the two public service broadcasters has recognised these challenges, opportunities and risks.

2.7 Chapter 2 Key Messages

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- Over the past 5 years the Irish economy has contracted sharply and in 2012 real GDP was 5.6% less than in 2008.
- Forecasts from the Department of Finance, European Union, the International Monetary Fund and the Organisation for Economic Cooperation and Development all forecast modest growth until the end of 2017, which should support an upturn in advertising income, but TV's share of overall advertising is likely to decline over this period.
- The next five years will bring further advances in production with the expected move to High Definition and 3-D services, the expansion of online and on-demand services and digital programme archives, which will result in significant new costs for all broadcasters.
- Competition in the Irish media sector is likely to increase further over the next five years and new platforms and on-demand services increase.
- RTÉ and TG4 face a continuing tough economic and commercial outlook as competition for viewers and revenues is set to intensify and at a time when fundamental changes are occurring to the broadcasting landscape.

We now move on to consider the wider European and International context in Chapter 3.

3 European and International Context

3.1 Introduction: the Purpose of International Comparators

In the previous section, we assessed the economic and technological factors that would shape the market for the Irish PSBs over the next five years, and the potential impact on their role and performance. In this section, we consider the international context for both the PSBs individually, as well as for the PSB system in Ireland as a whole. Specifically:

- for RTÉ, we compare its market position and performance with a range of European PSBs that share significant characteristics in terms of competitive position, funding and performance;
- for TG4, we consider its performance as well as its institutional arrangements, against a number of public service providers of broadcasting and other services aimed primarily at a minority or indigenous language; and
- we consider the European regulatory context, particularly in the light of the decisions by the European Commission with regard to State Aids, and the impact that has had on requirements for greater transparency, accountability and control- for governments, regulators and the PSBs themselves.

The purpose of these discrete pieces of analysis is to help clarify the challenges, or the areas of performance, which, alongside the economic and technological factors discussed in the previous section, we would expect to see addressed in the PSBs' costed five-year strategic plans.

3.2 The Overall European Context

Before turning to specific comparators, it is worth looking at the overall position of the Irish market in the broader European context.

Table 3.2a compares the gross revenues for all television and radio services in the 17 major European audio-visual markets. This combines revenues from public funding, as well as from television and radio advertising, and subscription services (including, where they are available, IPTV and non-linear services).

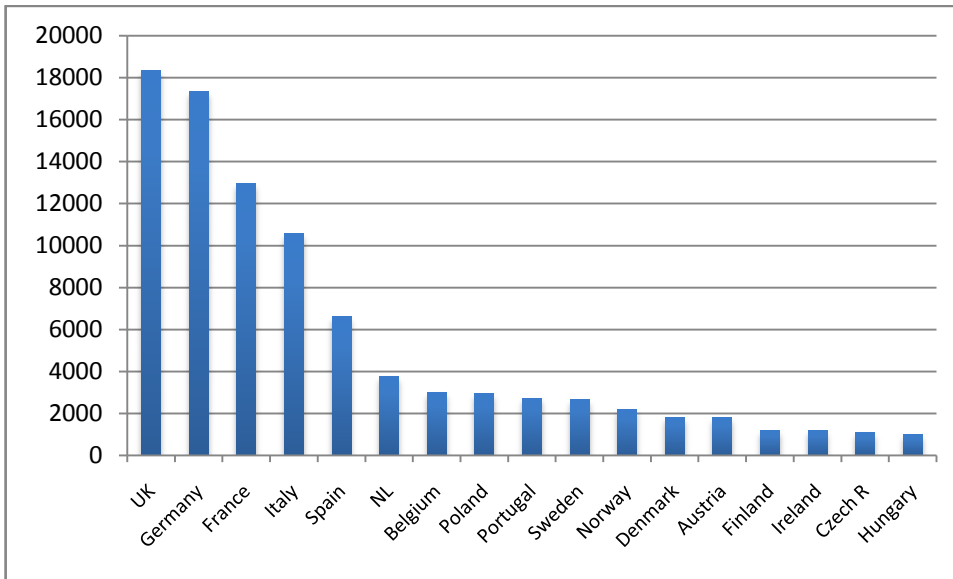


Figure 3.2a: Gross Revenues of Audio Visual Market (in €million)¹⁶

Unsurprisingly, Ireland is one of the smallest European markets. The UK is the largest market – and also, of course, the source of channels which are almost universally available in Ireland at very additional cost to the originating broadcaster. The only smaller markets – among the European countries of scale – are both former Eastern bloc countries with a comparatively underdeveloped audio-visual market.

However, when we consider the spend on audio-visual services per household in these same countries, the situation is very different: only Norwegian households spend more per household than Irish households (see Table 3.2b). This is in part driven by the economics of broadcasting content where the unit costs of production are essentially the same, regardless of the size of the potential audience – and the unit costs of original production are not affected at all.

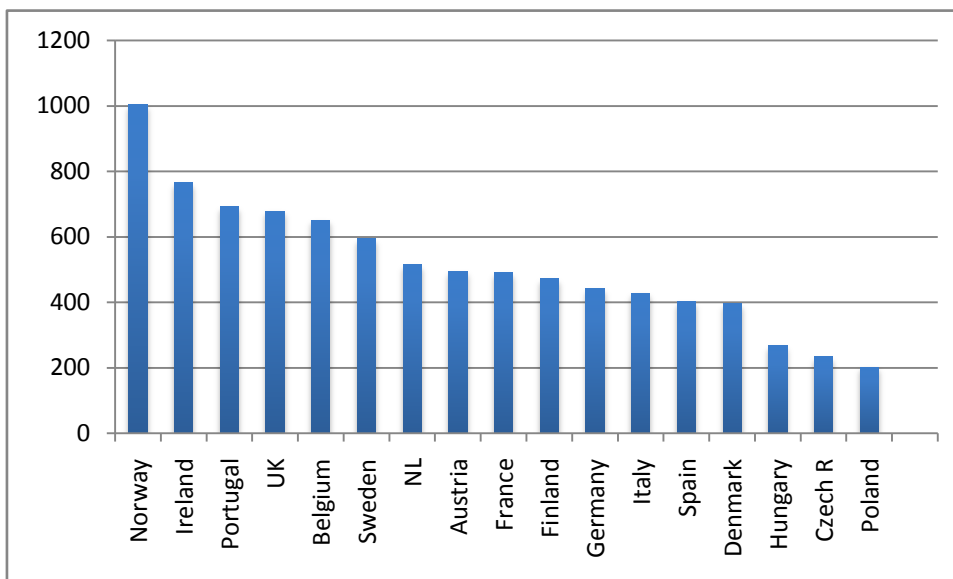


Figure 3.2b: Spend per Household in €¹⁷

¹⁶ Source: European Audiovisual Observatory 2012 Yearbook (February 2013)

¹⁷ Source: European Audiovisual Observatory 2012 Yearbook (February 2013)

Finally, it is worth noting the very different characteristics of how that household spend is distributed between types of audio-visual services, as shown in Figure 3.2c. Clearly, household spending via advertising is indirect: the spend via public funds may also be indirect (in the form of taxation or other public subsidy) or direct (in the form of licence fees). Subscription funding is the only source of household spending that is always, and only, direct from the consumer to the service provider.

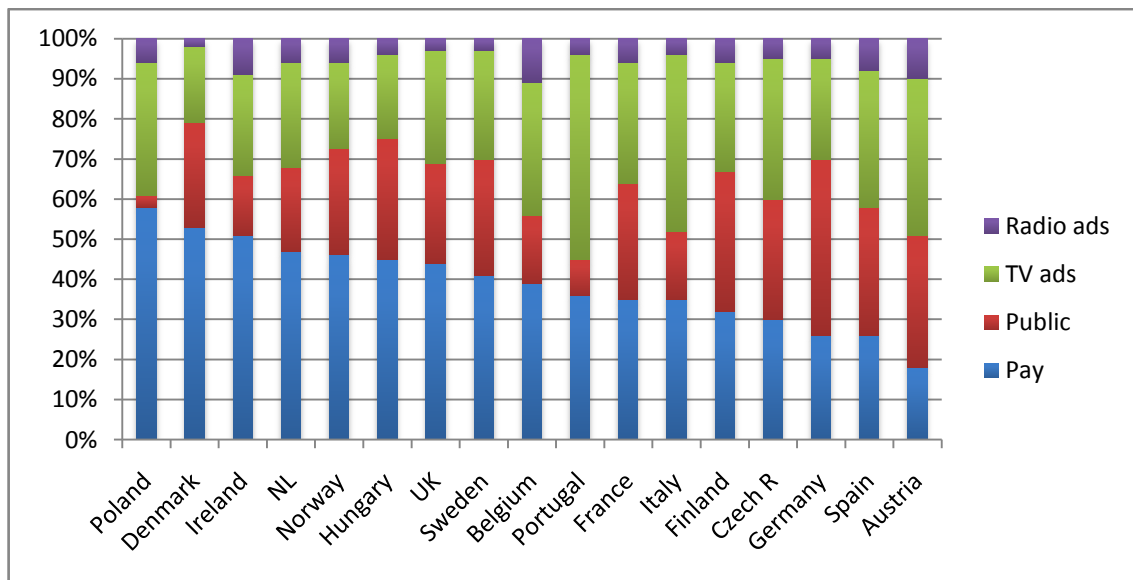


Figure 3.2c: Distribution of Household Spend by Category¹⁸

Ireland has one of the highest proportions of spend on pay-TV services across the whole of Europe; and one of the smallest contributions made via public funding (which is split between RTÉ’s television and radio services as well as TG4).

Although still small in real terms for sustaining an independent radio sector, nevertheless the proportion of household spend via radio advertising at 9% is bettered only by Belgium and Austria; and in real terms, the actual level of advertising available to the radio sector in Ireland, at €100m, is more than is available in Denmark, the Czech Republic, Hungary, Norway or Sweden.

Other significant European funding trends

The impact of convergence has caused the Irish government to question the continued validity of the Licence Fee as a mechanism for funding PSB. The programme announced by the incoming coalition in 2011, committed the government to explore “the role, and collection of, the TV licence fee in light of existing and projected convergence of broadcasting technologies, transform the TV licence into a household-based Public Broadcasting Charge applied to all households and applicable businesses, regardless of the device they use to access content, and review new ways of TV licence collection, including the possibility of paying in instalments through another utility bill (electricity or telecom), collection by local authorities, Revenue or new contract with An Post”.¹⁹ In January 2012, the Minister, Pat

¹⁸ Source: European Audiovisual Observatory 2012 Yearbook (February 2013)
¹⁹ Programme for government, 6 March 2011: Department of the Taoiseach

Rabbin, said that his officials would examine the experience of other countries who were making similar changes before bringing forward their plans.

Germany is one such country: a universal media tax was introduced in January 2013. Justified because of convergence, the new tax is levied on both individual households and commercial businesses – with the fees set by a sliding scale determined by the number of employees, or the capacity of the hotel. The fee for households has been capped at the existing licence fee level, at least for the start of the current four year term, with continuing exemptions for the unemployed, those receiving state benefits and the disabled.²⁰

Finland too has moved away from the licence fee to a universal tax. Set at 0.68% of employee wages or capital income, and capped at €140, the charge is also levied on commercial businesses or co-operatives using a formula based on annual turnover. The tax raised is placed in a general fund from which YLE, the Public Service Broadcaster, is funded, with their revenue capped at €500 million. As part of this new approach, Parliament is given greater access to information about the adequacy of funding and YLE's overall activities.²¹

Switzerland, too, is planning to move away from licence fee funding to a new household tax. Again justified by the availability of television services on many different devices, the proposed new approach would also allow the Swiss government to distribute the funds raised to a wider group of broadcasters, including private channels.

These changes have only recently been made, so the impact on both the funds generated and the public reaction cannot be fully gauged: and indeed, there is legal challenge to some of the provisions, especially from commercial businesses who are now brought within the scope of the tax; and from their employees, who fear that they are now in effect being charged twice for the same service.

Whatever the outcome of these challenges, the move to a non-device specific form of funding will potentially raise at least two fundamental questions:

- The scope of who should pay the tax – individual households, or commercial properties too – and if so, on what basis and at what level
- And the scope of the recipients – since any change to the basic justification for raising the revenue, on the grounds that it can no longer be applied to the provision of a television service, must inevitably open up to scrutiny the best way to spend it to promote public service content and media

The other key change to note is an overall shift in the balance of funding away from commercial revenue and towards funding from public sources. Recent research by the EBU shows that in 2006, 29% of the revenue of its members was derived from non-public funds; by 2011, this proportion had fallen to 23%, with the sharpest fall in advertising funding (falling from 16% in 2007 to 11% in 2011). The chief component taking up the slack, even before the shift noted above towards household taxes replacing the licence fee, was non-licence fee public funds, which rose from 9% of total revenues in 2006 to 13% in 2011.

In part this was policy driven: for instance, the decision by the French government to remove advertising from national PSB and replace it with levies on advertising and other electronic communications services. It was also affected by the nature of the economic downturn across

20 for discussion of the legal basis and provisions of the new tax, see IRIS 2012-2:1/14 (<http://merlin.obs.coe.int>)
21 IRIS 2012-7:1/20 (<http://merlin.obs.coe.int>)

Europe – although it should be noted that, over the same period (2007 – 2011) EBU members saw their revenues rise at an average of 2.6%.

In the UK, the BBC and other PSBs have questioned whether the current access arrangements take sufficient note of their public service obligations. Research commissioned from Oliver and Ohlbaum²² noted that the UK has the least rewarding funding regime of the 10 developed markets they investigated, including the Netherlands, Sweden, Spain, France, and Germany, each of whom require some form of payment from platform operators either by way of copyright fees, or payment for the right to retransmit the channels. The UK, by contrast, sees PSBs charged carriage fees by the satellite platform to cover platform costs such as the EPG, geographical masking and other technical services.

It is possible that this could be considered as a route for the Irish government to consider, especially in the context of wider changes to a household tax: but any such consideration would no doubt need to weigh up the current commercially struck balance of advantage for the PSBs in their carriage deals with both satellite and cable operators; as well as the scope for requiring any charge on a platform operator wholly based in another country.

3.3 Specific Comparators

3.3.1 Selection of Comparators

To complement this more general contextual analysis, we have concentrated on a set of comparators which have specific affinities with the Irish market:

- they should include small(er) markets, but with significant overspill from much bigger, well-funded neighbours with whom they share a common language or languages;
- the PSBs in each market should all be dual funded – though to varying degrees.

We have selected four specific markets for analysis and comparison: Austria, Belgium, Switzerland, and the Netherlands. Our analysis is presented in the following paragraphs.

3.3.2 Austria

Key Facts / Metrics:

Public Service Broadcaster: ORF: 3 channels

TV Households: 3.598 million

Platforms: From a position in 2007 where cable had twice as many subscribers as satellite (1.325 million vs. 756 million), satellite has more than doubled its subscriber base to 1.799 million by the end of 2011, while cable, having peaked in 2009 with 1.381 million subscribers, is now back at 1.325 million. Satellite overtook cable as the dominant platform in 2009. Only 5% of Austrian households are dependent on DTT.

Key points of comparison with RTÉ:

- *Small market with very significant penetration of foreign originated channels via satellite*
- *Limited national commercial competition*
- *Recent legislative and regulatory change following successful appeal to the RC by commercial competitors*

Austria has a strong PSB in ORF which enjoys a dominant position in the broadcasting market, having lost only 6% of its aggregate share over the last 6 years. Commercial competition at national level is comparatively recent and less well developed: but recent regulatory changes have limited ORF's ability to take advertising, and other regulatory interventions – such as more closely defining the role of the PSB, and minimising distortion to competition in the broadcasting of certain sporting events – have been designed to leave more room for commercial broadcasters to thrive.

The market is heavily susceptible the German satellite pay TV platform which makes available a wide range of both public and commercial German channels. ORF offers a digital satellite service offering 32 thematic and generalist channels, 15 of which are regional or local services.

3.3.3 Belgium

Key Facts / Metrics:

Public Service Broadcasters: RTBF (French speaking): 3 channels / VRT (Flemish speaking): 2 channels

TV Households: 4.568 million

Platform: Cable remains the dominant platform with 3.428 million subscribers in 2011 (down from 3.788 in 2007). Over the same period, satellite has grown from 299,000 to 361,000. DTT accounts for only 165,000 households. IPTV has grown sharply – from 299,000 in 2007 to 980,000 in 2011.

Key points of comparison with RTÉ:

- *French speaking market is small and heavily dominated by foreign originated channels*
- *Flemish-speaking market is of similar size but is not subject to the same competition from international channels – so showing how a small and “isolated” market can allow both licence-fee funded public and commercially funded private channels to flourish*

Belgium is linguistically divided between the French and Flemish speaking communities – with markedly different market outcomes in the two communities. In the French speaking market, the PSB struggles against the dominance of French channels, both public and commercial. The national commercial channels in the French speaking market fare even worse than the PSB. In the Flemish speaking market, by contrast, there is very limited competition from international channels, and the PSB – VRT – faces its competition mainly from national commercial channels, which enjoys near parity with over 40% share.

3.3.4 Switzerland

Key Facts / Metrics:

Public Service Broadcaster:: SSR-SRG idée Suisse: 8 channels

TV Households: 3.195 million

Platform: Cable is the dominant platform, with 2.809 million subscribers. Satellite has made little inroad over the last six years, peaking at 271,000 subscribers in 2009 and falling back to 253,000 in 2011. DTT has a negligible presence.

Key points of comparison with RTÉ:

- *Small markets with three-way linguistic overspill (French, German and Italian)*

- *Strong and well-funded incumbent PSB, along with widely available and high quality foreign channels, have squeezed the market for national private channels*

The Swiss market again has a powerful public service system serving the three linguistic communities – French, German and Italian – but in each of them there is widespread availability, and consumption, of foreign channels from the well-funded and much larger, French, German and Italian markets. The presence of these foreign channels, both public and private, along with the power of the PSBs, has made it relatively harder for a commercial national broadcasting sector to emerge: only the German speaking market has any meaningful presence from national private channels.

3.3.5 Netherlands

Key Facts / Metrics:

Public Service Broadcaster: NOS / NPO : 3 national channels plus regional

TV Households: 7.27 million

Platform: Cable is the dominant platform, although it has lost more than 600,000 subscribers between 2007 and 2011 (from 5.821 million to 5.182 million). Over the same period, DTT has more than doubled its share of the market, rising to 892,000 households; while satellite has slipped from 766,000 to 539,000. The most dramatic change has been in the IPTV market which has grown from 111,000 to 705,000.

Key points of comparison with RTÉ:

- *Medium-sized market with powerful showing from a highly commercial provider based outside the country but operating channels aimed directly at the Dutch audience.*

The Netherlands is the largest of the markets we have used as a comparison, and, unlike the other markets we have studied, it does not have a large neighbour sharing its language. However, it remains a useful comparator: a very significant share of viewing goes to foreign owned channels – principally from RTL – which target services specifically at the Dutch market.

In the section that follows, we concentrate on three key questions where international comparisons may be of most benefit:

- The overall audience performance of the television services in the face of competition from both domestic and international competition;
- The comparative funding available to, and the share of household spend on audio-visual services that is directed towards, the PSBs;
- The extent to which the PSBs costs are covered by the licence fee, and the consequent impact of dual funded PSBs on the advertising market.

3.4 Key Findings from the International Comparisons

3.4.1 Finding 1: Audience Performance vs. Structure of the Market

Our finding in respect of audience performance vs. structure of the market is that Irish public service broadcasting performs strongly in the most open market for channels and services. In Figure 3.4.1 below, we present the audience shares between public, private national and foreign/other sources for Ireland and comparator countries.

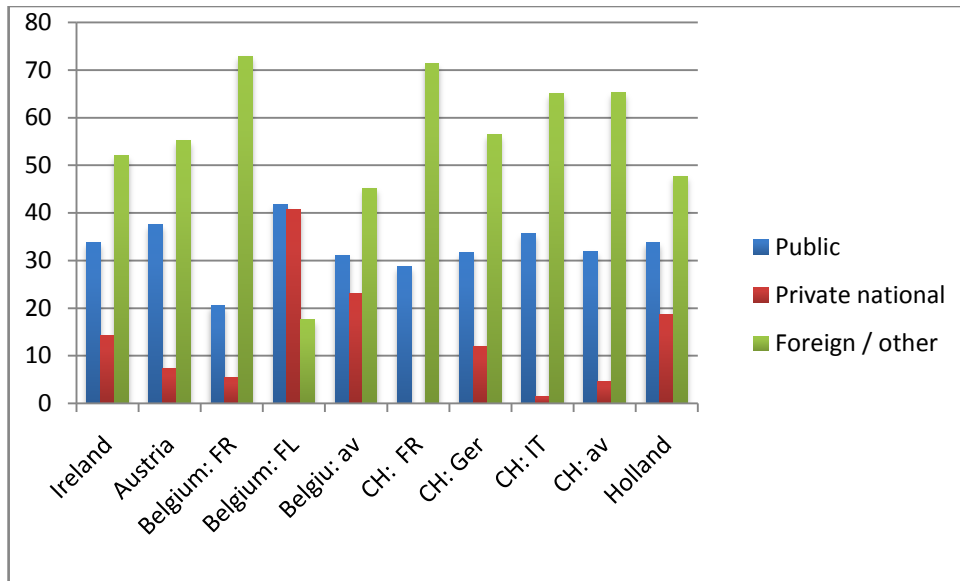


Figure 3.4.1: Percentage Audience Shares between Public, Private National, and Foreign/Other²³

3.4.2 The Irish Situation

Digital TV has grown rapidly in Ireland, driven by the extensive choice available from BSkyB, the UK based satellite offering, which made available a total of 467 channels to Irish consumers in 2011. Combined satellite penetration – of both pay and free platforms – stood at over 50%: 38% of these consumers subscribed to a pay package. In 2010, satellite acquired just under 200,000 new subscribers – a growth of well over 20% in a single year. By the end of 2011, over 1.3 million households had access to multi-channel TV delivered by either satellite or cable.

Against this background, the total 33.7% share for PSB television services in 2011 represents a very strong performance: a fall of just over 6% over the 6 years that have seen the rapid growth of satellite pay TV, and the most dramatic collapse in revenues. RTÉ’s television channels took 31.7% Taken together with the 13% share taken by TV3, the only Irish commercial broadcaster, this means that nearly half of all viewing was taken by national Irish channels.

3.4.3 Comparable Performance

Ireland compares favourably with all the other markets we used as comparators.

23 Source: European Audiovisual Observatory 2012 Yearbook (February 2013)

Only ORF in Austria has overall a larger share for its PSB: 37.5%, in a market where the largest multi-channel platform, cable, offered a maximum of 178 channels in 2011. Despite the strength of the PSB, the commercial national channels struggle to achieve market share, accounting for only 7.4% between them – which means that national channels in total account for only 42% of the total audience.

The share for Dutch PSB was identical to Ireland at 33.7%, which, coupled with a stronger performance for the national commercial channels, has resulted in more than half of all viewing being to national broadcasters. However, the number of channels available on the pay TV platforms is less than half of the number available to Irish consumers.

Foreign channels take the largest share in Switzerland: while PSBs attract a slightly smaller share than Irish PSBs, it is the weakness of the national commercial channels – 12% in the German speaking market, but only 1.5% in the Italian speaking community and an audience too small to measure in the French speaking market – that has ensured the dominance of foreign channels.

The Flemish speaking market sees the strongest overall performance for its PSBs which are, indeed, the dominant performer with 41.8% share. However, the fact that the market is relatively immune to foreign competition has undoubtedly assisted this performance: amongst the French-speaking audience, RTBF achieves only 20.5% of a market that is dominated by the French services originating across the border.

The Dutch market is the most balanced of the markets we have compared: a 33% share for the PSBs is complemented by a share of 18% for the commercial national channels, with the foreign – delivered in even numbers by both satellite (198) and cable (186) – taking a 47% share, predominantly via cable which has a penetration of 46% for its digital platform.

Conclusion: despite the strength of the pay-TV market in Ireland, and the readjustments caused by the economic position of the PSBs, RTÉ's share has held up well over the last six years, and has outperformed several bigger, and less competitive, markets.

3.4.4 Key Finding 2: Consumer Spending vs. Public Funding

Our finding is that Irish consumers spend at the higher end on audio-visual content and services, but the level of public funding itself is at the lower end of the scale, with Irish households paying less than Switzerland, Belgium and Holland.

Of the five markets we have compared, only Swiss households outspend their Irish counterparts on audio-visual services: €810 compared with €766 in Ireland. But in contrast to Ireland, the most significant element in this spend is via public funds which account for 38% of the total household spend: Irish households, by contrast, see only 15% of what they spend coming to the broadcasters via the licence fee or from other public funds.

In real terms, this resulted in each Swiss household contributing €310 via the licence fee in 2011, compared to the €121 that the Irish PSBs received via the licence fee and other public funding from each household.

Only in Belgium and the Netherlands is the level of the licence fee lower, with Belgian households paying €109 and Dutch households contributing €106 via public funds to their PSBs.

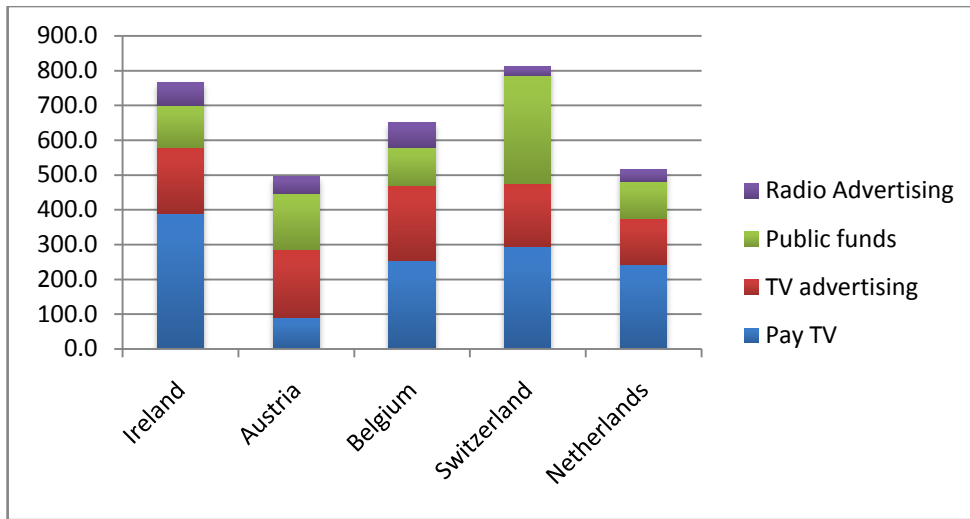


Figure 3.4.4a: Total Spend on Audio-Visual per Household in €, by Type of Spend²⁴

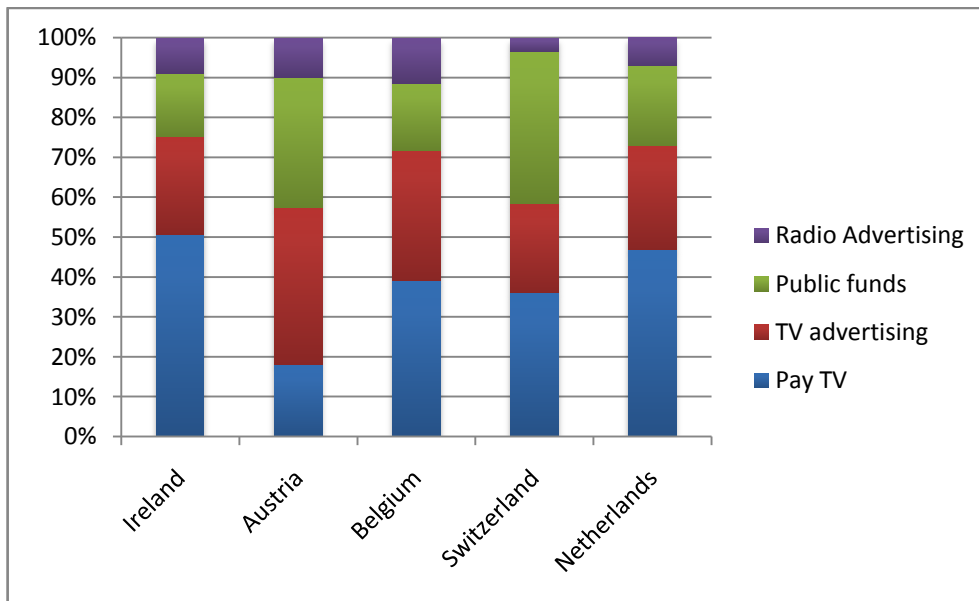


Figure 3.4.4b: Percentage Proportion of Total Spend by Type of Funding²⁵

Figures 3.4.4a and 3.4.4b shows that in both absolute and proportional terms, Irish householders pay most for pay-TV: more than 50% of household spend was on pay-TV platforms, or €388 per household. The Swiss come next, spending €292 in 2011 on Pay-TV, followed by Dutch householders (€242) and Belgians (€255). The Austrian figure of €89 may in part be reflected by the strong showing of the ORF satellite package, but is also significantly affected by the fact that Sky Deutschland reports all its revenues earned in Austria against its German operation.

24 Source: European Audiovisual Observatory 2012 Yearbook (February 2013)
25 Source: European Audiovisual Observatory 2012 Yearbook (February 2013)

Conclusion: although household spending on audio-visual services is high – surpassed only by Switzerland in the markets we have analysed – nevertheless, the bulk of spend is to pay-TV platforms. Public spend on PSB is at the lower end of the range, while the spend per household via TV advertising is roughly average.

3.4.5 Key Finding 3: Impact on the Market

Our finding is that RTÉ covers less of its costs from the licence fee than the other PSBs chosen for detailed comparison, but that its share of advertising revenue is not out of line with the other broadcasters.

Over each of the last three years, public funding has covered only 53% of the total cost of the PSB system in Ireland (Figure 3.4.5a). This is the lowest level of any of the five markets we have analysed in depth, and has resulted in the Irish PSBs – and particularly RTÉ, given TG4’s modest commercial funding – having the greatest reliance on the commercial revenue.

In 2009, Austria was closest to the Irish market, with ORF receiving only enough licence fee to cover 54% of its costs, but this has been rising, in line with recent changes in government policy. By 2011, public funding covered 60% of its costs.

In the remaining three countries we analysed, public funding covers more than 60% of their costs. Belgian PSBs were publicly funded for about 70% of their costs over the last three years, with Swiss PSBs attracting between 62% and 64% over the same period.

In the Netherlands, public funds covered 91% of the NPO’s costs in 2011 – although there was a dip in 2010 when public funding covered only 78%.

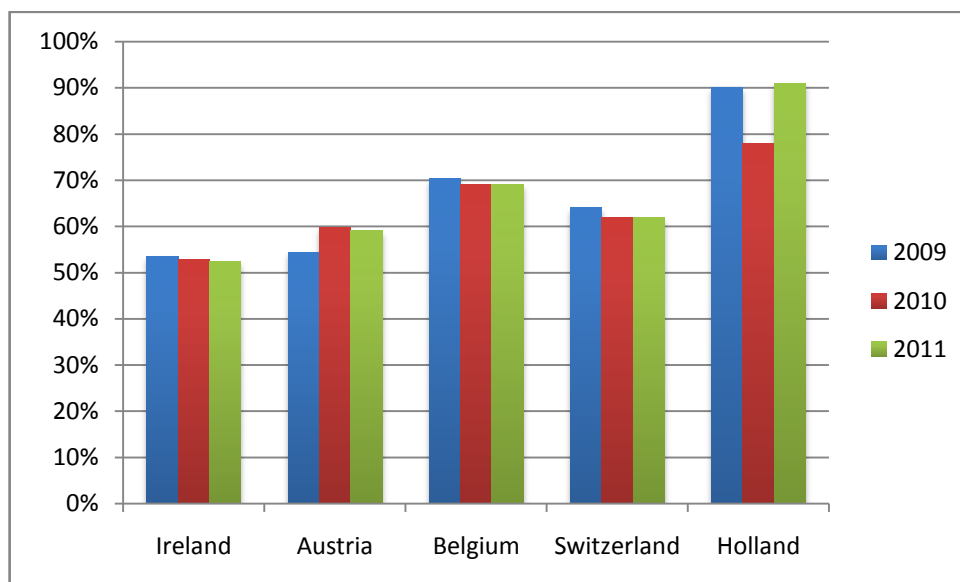


Figure 3.4.5a: % of Costs Covered by Public Funds²⁶

26 Source: European Audiovisual Observatory 2012 Yearbook (February 2013)

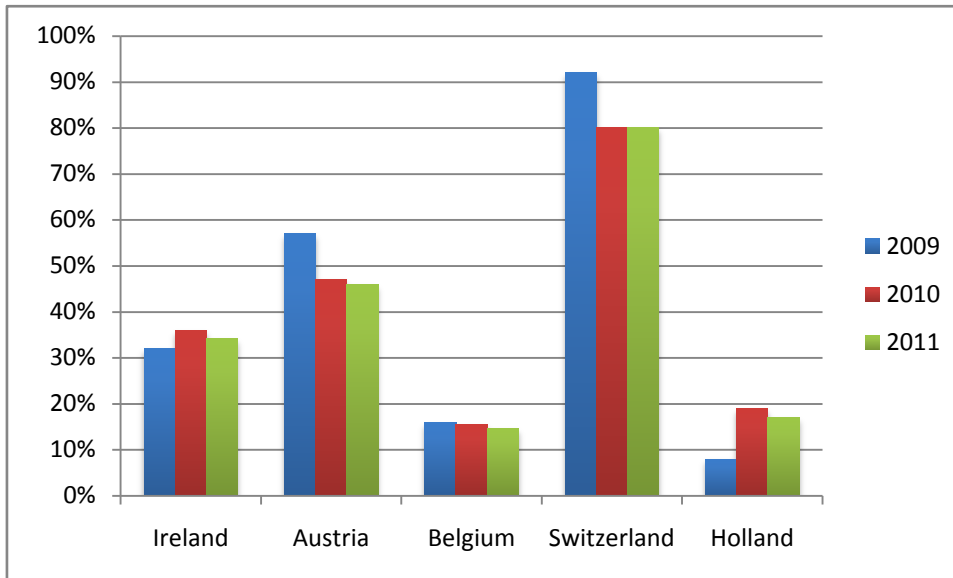


Figure 3.4.5b: PSB Share of TV Advertising²⁷

With only a proportion of their costs covered from public funds, it is therefore inevitable that dual funded broadcasters will impact on the commercial revenue available to their competitors. One of the key questions for this review is whether the impact of RTÉ is disproportionate; and one piece of evidence in answering this question will lie in the comparison with other PSBs.

The evidence, as shown in Figure 3.4.5b, suggests that whilst Irish PSBs do indeed take a significant share of the available TV advertising, the lack of any clear pattern means that this is not significantly out of line with other markets: two of the four comparators take a higher proportion of the available advertising revenue, and two take less.

Over the last three years, the Swiss public broadcasters are shown to have taken the greatest share of available advertising revenue: over 90% in 2009, falling back to 80% in 2010 and 2011. This is consistent with the relative weakness of the market share taken by national commercial channels: an average of 4.5% in 2011.

Following recent changes in policy, ORF's commercial competition has become stronger, while changes in its oversight and regulatory control have sharpened its focus on less commercial types of programming. As a result, its impact on the rest of the market has reduced; while in 2009 it took 57% of the available advertising spend, this had fallen to 46% by 2011.

This compares favourably with the Irish market where PSBs extract only 34% of the available TV and Radio advertising in 2011 – down from 36% in 2010.²⁸

The comparatively well funded public broadcasters in both Belgium and Holland make the least inroads into the available advertising: in both markets, more than 80% of the available advertising revenue is taken by the private channels and radio stations.

27 Source: European Audiovisual Observatory 2012 Yearbook (February 2013)
28 Source: European Audiovisual Observatory 2012 Yearbook (February 2013)

It is important to stress that these comparisons are made with smaller European markets. In terms of the wider European average, RTÉ takes a significantly higher proportion of the available advertising. However, the European average is misleading, since it incorporates a number of very large markets which are in no real sense comparable to the Irish experience (e.g. the UK, France and Germany).

Conclusions: Whilst RTÉ makes significant inroads into the advertising market, it is not significantly out of line with other European PSBs operating in smaller markets. Whilst RTÉ receives the least public funding of any of the PSBs we studied, its share of the advertising market is far exceeded by Swiss and Austrian PSBs.

3.5 Findings Specific to RTÉ

RTÉ is often described as an “outlier” in the European market, and it does indeed sit at the far end of some scales:

- The Irish market is highly competitive in terms of available channels; and of the other markets we compared it to, there is the greatest level of available household spend being directed towards pay TV platforms;
- Public funding accounts for comparatively smaller share of the costs of the core PSB service than any of the other markets we studied in detail – and other sources suggest that only Poland amongst major European PSBs secures less of its funding from public sources;
- The Irish market is the smallest “west European” market: less than half the size of the other markets we focused on, and larger only than a handful of Baltic countries and other smaller countries.

Against this background, despite perhaps the more striking features are those where Ireland and RTÉ are not outliers, but conforming more closely to experience in other markets:

- RTÉ’s audience share, even if it has been falling, remains robust, and compares favourably with other European PSBs;
- The level of the licence fee is not out of kilter with other European markets: Irish households are prepared to pay for high quality pay TV content.

However, this is not to suggest that the analysis does not indicate that there are issues that RTÉ needs to prepare for:

- While the growth of satellite may well be expected to grow, the prospects for DTT – where RTÉ can be expected to have the best chance of prospering – are weak: 13% of main sets, and a platform which, absent some significant investment, may struggle to grow and is more likely to lose market share over time;
- While share has held up reasonably well over the last six years, there is every evidence that the market will become tougher.

3.6 The Context for Radio

Ofcom’s recent International Communications Market Report (2012) assesses the overall health of the radio sector across a number of major international markets.

During 2010-2011, Ireland bucked the trend of markets which have both commercial and licence fee funded radio: while the UK market saw income growth in both advertising revenue (of £18 million) and licence fee funding (£21 million), Ireland saw a decline in both sources of funding: commercial revenue dropped by the equivalent of £9 million, and commercial revenues fell by £1 million. The Netherlands, Sweden and France all saw positive growth in revenues across both public and commercial sources; Ireland was the only country of those surveyed by Ofcom which saw a fall in both types of revenue. This resulted in a 7.7% overall decline in the size of the radio market – the largest fall of any of the countries surveyed by Ofcom.

The licence fee accounts for a comparatively small amount of the overall size of the radio market in Ireland. Of the nine countries surveyed by Ofcom which have a dual funded radio market, licence fees contribute the least in Italy (18.2%), followed by Ireland (25.9%) and the Netherlands (28.9%). Sixty per cent of radio revenues in the UK come from licence fees.

Per head of the population, however, Irish audiences contribute comparatively heavily to the radio sector: only Germany and Sweden have a higher contribution per head, and even then, the Irish audience contribute most via the radio advertising market (Figure 3.6). This suggests that, as is the case for television services, the comparatively low level of the licence fee leaves a substantial commercial market to play for.

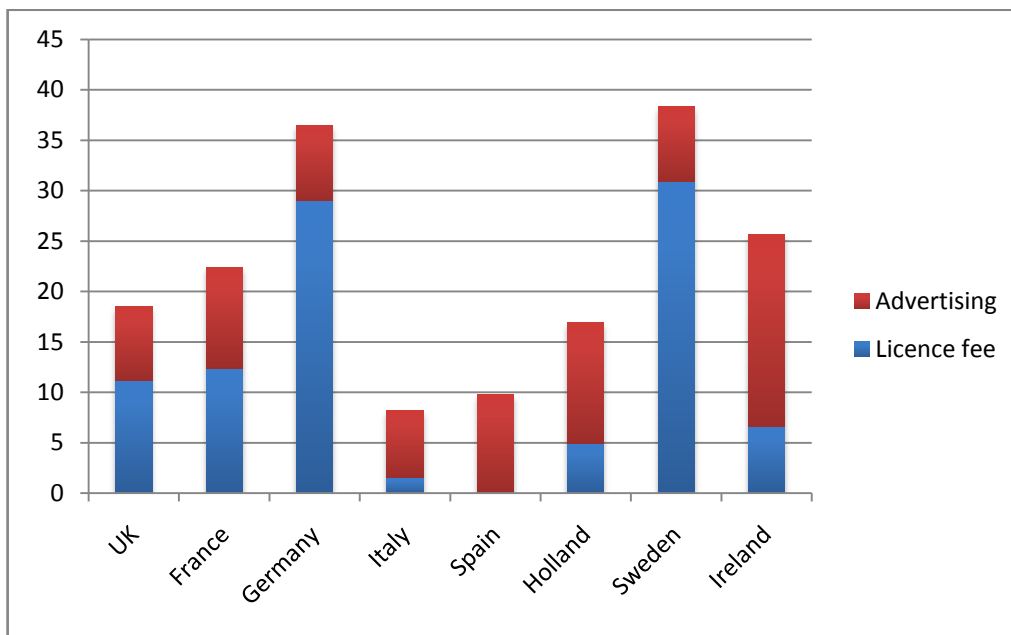


Figure 3.6: Spend per Head of the Population (£)

However, of course, RTÉ takes a significant share of the advertising market, unlike other PSB radio services: even so, the overall size of the radio advertising market is roughly €100 million and, from a 2012 budget of €24.72 million, RTÉ’s income from radio advertising is estimated to **[redacted]** by the end of the 5-year plan period.

3.7 Findings Specific to TG4

3.7.1 Overview and Comparator Selection

When it comes to considering the wider international context for TG4, the problems of comparison are far greater. There are no reliable industry wide surveys operating with comparable methodology and data; and even if there were, the broadcasters involved operate in widely different markets with different operational models and different organisational design – and of course, with widely different levels of both facility with, and use of, the indigenous language itself.

Direct comparisons of the type used in the previous section about RTÉ would therefore be of limited use, even if the common currency of both audience and cost could be arrived at to make them. And even then, any comparison of cost and efficiency would be of questionable validity if they are operating in very different market environments, or at different points in the economic cycle.

Nevertheless, there are two possibly linked areas where comparisons may be both possible and illuminating – and where, indeed, the heterogeneity of approach may help to underscore the choices available to policy makers creating such services for the future.

As with RTÉ, we chose a small number of organisations as the focus of our analysis: **S4C** in Wales; **BBC Alba** in Scotland; and **Maori TV** in New Zealand.

3.7.2 Comparative Position of TG4 – the Baseline

TG4 operates a single television channel charged with reflecting the cultural diversity of the whole island of Ireland through content that is primarily in the Irish language. Founded in 1996, its first ten years were under the aegis of RTÉ, but in 2007 it became an independent statutory body. It is still required to take a minimum of one hour a day of content – at no cost to itself – from RTÉ. In practice, this is reflected in the core news operation which is provided by RTÉ, although this does not limit TG4's ability to purchase more content from RTÉ should it choose to do so.

TG4's budget has been under pressure during the recent economic crisis, and a significant element of exchequer funding has been replaced by funding taken from the television licence-fee. It is also dependent on securing funds from other public sources aimed at supporting Irish audio-visual production.

The single television channel is supported by on-line services, including on-demand access via the TG4 player.

The channel is a commissioner/broadcaster and currently delivers an average of 4.5 hours of Irish language content each day, for a limited period of the year. It has had aspirations for over a decade to increase the schedule both in terms of hours and the weeks of the year it can be sustained.

The Irish speaking population is variously defined in terms of both proficiency and regularity of use. For the purposes of the analysis which follows, we have used two denominators: the 188,000 who, in the most recent census, claimed to use the language outside education at least weekly; and the much larger 801,000 who claim to use the language sometimes.

3.7.3 Comparative Position of S4C

S4C is by far the best funded of the comparators, although, like TG4, the economic downturn has hit its revenues hard in the last year. Established in 1982, alongside Channel 4, it has always enjoyed programme supply relationships with the other UK PSBs: the BBC, which is required to provide it with specially tailored output free of charge (in practice, like TG4, this consists primarily of the core new service); and, prior to digital switch-over, Channel 4, with which S4C shared its frequency and whose English language programmes it had access to.

Before digital switch-over, S4C developed its own digital channel consisting of its own output entirely in Welsh: post switchover, with Channel 4 now available across the whole of the UK including Wales, S4C concentrates all of its output on its own digital channel.

In addition to its core TV channel, S4C has a web-site and an on-demand service, Clic. It has recently withdrawn from broadcasting an HD service owing to unacceptable cost in the current economic climate. The core channel is significantly the biggest of the four indigenous language channels we have analysed, with 115 hours of output each week.

As with TG4, recent changes to its funding model will see the direct grant-in-aid from the exchequer replaced with funding from the BBC licence fee; and although the level of funding has been pegged until 2014, thereafter it will be for the BBC Trust, as the body charged with ensuring the appropriate use of the BBC Licence fee, to determine the appropriate level of future funding.

Latest census figures indicate that Welsh is spoken by about 562,000 people in Wales, roughly 19% of the total population.

3.7.4 Comparative Position of MG Alba

MG Alba is the government funded agency for delivering audio-visual content for the Gaelic speaking community in Scotland. Unlike either TG4 or S4C, it was not established as a television channel or broadcasting service, but was given the power to establish, or collaborate with, any services it considered appropriate or necessary to deliver its core purposes. In 2008 it entered into a partnership with the BBC to deliver a Gaelic channel, BBC Alba, jointly funded by both institutions. The service is now broadcast on all digital platforms and has met the audience threshold established by the BBC Trust as necessary to justify the continued public funding from the licence fee.

Through its BBC service licence, the channel is required to produce a minimum of five hours of new content each week, and to ensure that a minimum of 10 hours of content is available via the BBC i-Player each week for on-demand viewing.

The number of Scots Gaelic speakers is estimated to be around 60,000 – or just over 1% of the population of Scotland.

3.7.5 Comparative Position of Maori TV

Maori TV was established in 2004 as a service to promote the Maori language and culture through a high quality television service in both Te Reo and English. In 2008 a second

channel was added, with the requirement to broadcast only in the Maori language, and aimed specifically at those with greater degrees of fluency.

Roughly half the funding for the service comes directly from the exchequer: the balance of public funding comes from the government agency charged with promoting the interest and culture of the Maori community.

The two channels combined broadcast just under 100 hours a week of content, over 90% of which is produced “in the region”.

The 2006 census suggested that the Maori language is spoken by roughly one quarter of the Maori population – in 2006, this amounted to roughly 131,000. A smaller number of non-Maori were also reported as Maori speakers, bringing the total number of speakers to 157,100. The population of New Zealand today is just under 4.5 million.

3.7.6 Comparison of Audience Reach and Financial Performance

Comparative figures for funding and audience reach are displayed below for TG4 and its three comparators.²⁹

	Public funding	Non-public funding	Total funding	Reach: all population	Reach: language speakers
TG4	€32.75m	3.11m	35.86m	15% (daily reach)	17.3% (daily reach)
S4C	€107.664	3.47m	107.78m	21% (weekly reach)	49% (weekly reach)
BBC Alba	€22.8m	-	€22.8m	8% (monthly reach)	78% (monthly reach)
Maori TV	€ 20.69m	3.83	24.52	46% (monthly reach)	64% (monthly reach)

Table 3.7.6: Comparative Figures for Funding and Audience Reach for TG4 and 3 Comparators

All of the channels we have studied have a role that is wider than simply serving the core speakers of the language. Not only do they have to cater for audiences with different levels of proficiency: they are also using the channels as an opportunity for a broader audience to become acquainted with the culture and customs of the community. In both New Zealand and Ireland, they are also specifically required to play a part in a wider statutory framework for supporting indigenous language and culture.

For services serving comparatively specialised or minority interests, reach is the most important share of performance. Given the funding and other constraints that such channels operate under, it is unrealistic to imagine that they will attract a particularly strong share in the television market; but they ought properly to be judged by the success with which they reach both a core audience of those with proficiency, or appetite for acquiring proficiency in the language, as well as the wider goal of acquainting a broader audience with the culture of the linguistic community.

²⁹ Sources: TG4 Annual Report 2012; TG4 Costed five-year plan and accompanying materials submitted to the review and unpublished; S4C Annual Report 2012; BBC Annual Report 2012; MG Alba Annual Report 2012; Maori TV Annual Report 2012

All the broadcasters we studied apart from TG4 make a measure of reach in the relevant linguistic audience part of their performance-reporting matrix. The analysis above is not based on published TG4 figures, but rather on data collected by Nielsen and supplied confidentially as part of the review process.

Although the lack of comparable data makes comparisons of limited value, it is nevertheless possible to make the following three observations:

- first, TG4 does not appear to reach a significantly higher proportion of Irish speakers than it does of the general audience – which is in marked contrast to the other services we have studied;
- second, even taking into account the likely differential between daily and weekly reach, the reach in the Irish language audience looks surprisingly low when compared to other indigenous language broadcasters;
- third, it is striking that TG4 does not publish reach among Irish speakers as a measure of performance, or as the basis for its strategic resource decisions in the five-year plan. We note that TG4 has strong reservations about the way that the Nielsen panel is recruited and its coverage of the Irish-speaking population generally: and therefore it may be that this is a panel rather than a channel issue. Nevertheless, it is an apparent anomaly and one that we believe should be addressed if the performance of TG4 is to be properly assessed in future.

Comparisons of the cost effectiveness of reaching the linguistic population are rendered virtually impossible because of the different way in which the population itself can be measured. While the raw data in the Table 3.7.6 might suggest that, given its relatively modest reach in the Irish speaking population, TG4 is at the outer limit of cost effectiveness, it is nevertheless highly likely that TG4 is adopting a broader definition of those who use the Irish language as the denominator.

3.7.7 Structural Issues

The second relevant point of comparison relates to the structural arrangements for the service, and the four models are each quite different – and volatile.

Unsurprisingly, this history presented above suggests that not only is there no fixed model for indigenous language services, but also that these institutional structures are themselves subject to change far more frequently than other PSBs:

- both S4C and TG4 have recently had their funding changed from Exchequer to licence fee;
- S4C's funding will in future be decided by the BBC Trust, which will have a legal requirement to ensure that the service is well enough funded to fulfil its statutory role;
- BBC Alba is a joint venture with MG Alba, the statutory body: without a partner of the scale of the BBC, it is unlikely that the service could make sufficient impact.
- In deciding the appropriate arrangements, there is clearly a set of balances that need to be struck:
- an independent body can pursue its own strategy: but, unless it grows, it cannot take advantages of any economy of scale in the need to find more efficiencies or fund capital costs;
- an independent body can put the needs of its own audience front and foremost; but without scale, it may struggle in an increasingly competitive market place.

Certainly, the experience of other indigenous language broadcasters suggests that scale is important. S4C operates a full schedule and is comparatively generously funded: Maori TV runs two channels, making a significantly larger amount of programmes than TG4 can achieve, and it is worth noting that its five-year strategic plan looks for a very sharp increase in the “indirect production funds” it will hope to secure from a variety of contestable funding sources if it is to achieve its programme base.

TG4’s plans, which we discuss in detail in Section 5 below (Chapters 9-12), call for a near doubling of its funding if it is to achieve a sustainable future as a broadcaster of sufficient scale and presence. In the absence of such funding, international comparators suggest that it might need to consider an alternative route to sustainability.

3.8 Chapter 3 Key Messages

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- RTÉ’s audience share remains robust and compares favourably with other European PSBs.
- Whilst RTÉ share has held up reasonably well over the last six years, it is likely that the market will continue to be tougher as competition increases and new platforms emerge.
- RTÉ covers less of its costs from licence fee funding compared to other PSBs whilst its advertising revenue compares favourably.
- TG4 does not appear to reach a significantly higher proportion of Irish speakers than it does of the general audience.
- TG4’s reach in the Irish language audience appears low compared to other indigenous language broadcasters.

We now move on to consider the findings from our Audience Research in Chapter 4.

4 Audience Research

4.1 Introduction

Researching Public Service Broadcasting (PSB) presents a number of challenges. Firstly, it is not an aspect of broadcasting that most viewers and listeners are aware of in their day-to-day experience of television and radio. Secondly, PSB is a concept that must be explained to participants in market research in order to explore their opinions and preferences. Therefore the process of explanation requires that we define it in a way that is reasonably accurate but at the same time easy to comprehend (in the context of a focus group or survey).

We conducted both qualitative and quantitative research to explore the consumer understanding and perceptions of Public Service Broadcasting. In the focus groups we defined Public Service Broadcasting as a set of objectives given to RTÉ and TG4 by the Government, covering broadly the following:

- To produce programmes for all the different communities in Ireland, including children and young people, minority groups, Irish-language speakers, people living in different parts of the country, and Irish people living abroad.
- To produce a wide variety of programmes irrespective of commercial audience attraction, for example science, history, language and cultural programmes.
- To provide access via a variety of channels and technologies to Irish-produced programmes, including the internet, mobile phones, as well as digital channels.

This obviously an abbreviated version of the concept of PSB as set out in the legislation and interpreted subsequently by RTÉ and TG4. For people participating in the survey, we used the following introduction and definition, tying it to the purpose of the TV licence fee and the wider societal impact of broadcasting:

As you will know most households, businesses and institutions in Ireland with a television set are required to pay a TV licence fee of €160 per year.

The money raised through the licence fee is used to help pay for a wide range of services. These services may also receive income from the Government and from commercial sources, for example through advertising, merchandise or audience ticket sales.

We'd like to understand how you think the funds from the licence fee and other public sources should be used.

When answering the following questions please think broadly about what is important to Irish society as a whole, not just about your personal tastes.

Please bear in mind that without the public funds from the licence fee and the Government, the number and breadth of available services would be reduced.

4.2 Methodologies

4.2.1 Qualitative Research

The first phase of this research involved six focus groups among television viewers and radio listeners in November 2012. One of the focus groups was held completely in Irish among TG4 viewers and Raidió na Gaeltachta listeners, to ensure that their views were acquired. The six groups were composed as follows:

Region	Gender	Children	Age	Language
Dublin	Mixed	No	25-35	English
Dublin	Mixed	Mixed	35-45	English
Dublin	Mixed	Yes	45+	English
Dublin	Mixed	Empty Nesters	55+	English
Galway	Mixed	Mixed	24-45	Irish
Galway	Mixed	Mixed	45+	English

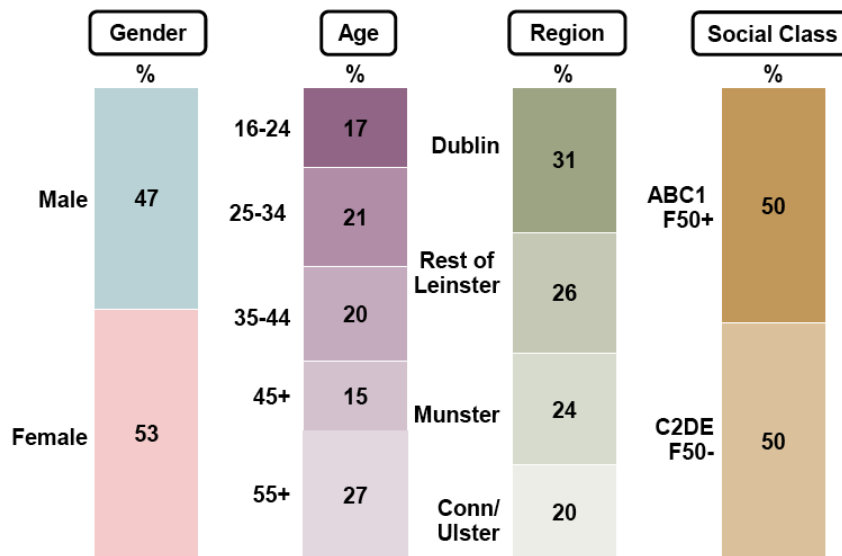
Respondents also comprised a mix of Sky/UPC customer and Saorview users in order to gauge the role of TV platform on PSB perceptions.

The groups explored a range of themes, including:

- Current and recent trends in TV and radio consumption, including impact of new technologies and services (such as RTÉ Player, Netflix, iTunes etc).
- Preferences for programme genres and importance of Irish content.
- Public service broadcasting objectives and their relative importance.
- The importance of Irish broadcasters producing Irish content for diverse Irish audiences.
- Perceptions commercial broadcasters (non-PSB) and their contribution to Irish content plus ability to ‘fill the gap’ if the PSB mandate were removed from RTÉ/TG4.
- The TV Licence fee in terms of usage, value for money and preferences for increasing or decreasing fee in context of public service broadcasting.
- Future importance of PSB and expectations for diversity and quality of Irish content.

4.2.2 Quantitative Research

In addition, a series of questions was added to Amárach’s omnibus in March 2013, comprising a representative sample of 1,000 adults – their demographic profile is displayed below:



The survey was conducted online using a quota-controlled sample, weighted to the demographic profile of the Irish adult population.

Topics covered in the survey included:

- Use of different devices to consume television and radio content – including smartphones, HDTVs, DAB digital radios, PVRs etc.
- Current household TV reception type (Sky, UPC, Saorview etc).
- Main sources of national and regional news.
- Perceptions of programming quality by genre type on RTÉ television, TG4 and RTÉ radio.
- Experiences of RTÉ and TG4 programming in the past 12 months.
- Importance to Irish society of using TV licence fee and other public money to pay for a range of services.
- Importance to Irish society of using TV licence fee to enable a selection of programme types (on TV and on radio).
- Preferences for the future activities of RTÉ and TG4.
- Views on different aspects of the TV licence from the viewpoint of Irish society.

Details of the findings in relation to RTÉ and TG4 are set out in Chapters 4.5 and 4.6. In the remainder of this chapter, we summarise the findings from the research common to both public service broadcasters in Ireland. These include shifting media consumption habits; genre quality and importance; satisfaction with PSB purposes; perceived value for money; and the importance of wider, non-broadcast content to delivering public service goals.

4.3 Viewing Experiences

4.3.1 Digital Landscape

Our research coincided with the formal launch of DTT in Ireland in October 2012. The advent of digital broadcasts on television, radio and, more recently, online has enabled the Irish population to have a greater level of access to a broad variety of programmes and genres than ever before. This has led to a paradox, whereby on one hand viewers/listeners have a variety of stations from which to choose a programme of interest to them, but on the other hand they claim to have too much choice. This is leading to higher consumption but lower engagement.

For some technologies, a majority of adults already have access (e.g. two thirds of adults have HDTV), whilst for others, a growing minority are using newer technologies, as depicted below:

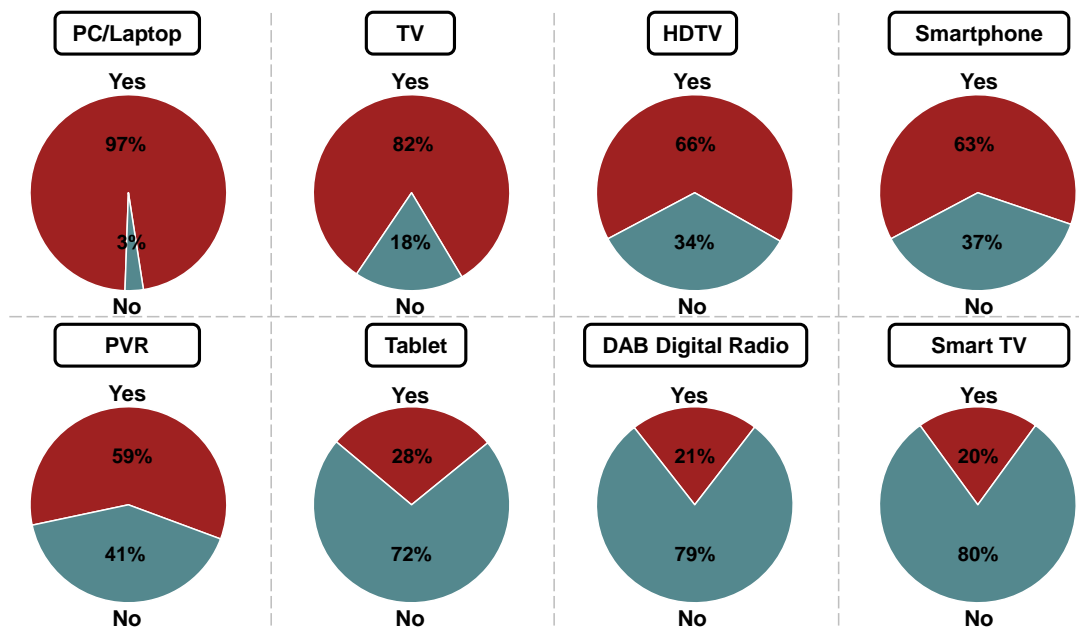


Figure 4.3.1: Devices Used at Least Once Per Week

As may be observed in Figure 4.3.1, usage across different channels varies from almost universal when it comes to PC/Laptop to fewer than 3 in 10 respondents using a Tablet at least once per week. Interestingly, 18% of respondents report that they do not use a TV at least once weekly, which is likely to represent a combination of those who do not own a TV and those accessing content via devices such as PCs/laptops and tablets.

The advent and high proliferation of digital television among Irish households has had a profound effect on media consumption. Multi-room viewing, numerous stations and more than one television set per household means that the historical communal dynamic of one television per house with two stations being viewed by all has shifted to individual consumption. Television shows can be recorded and viewed at a later time or live TV can be paused. Adverts are being skipped over and remain ‘unseen’. A younger generation is growing up with experience of a diverse range of technologies, one which is – if anything – expanding over time. It was evident from the focus groups that younger householders are

already very familiar with a diversity of information and entertainment sources, and for many, Irish broadcasters meet a small fraction of their viewing/listening requirements compared with older householders.

4.3.2 News Sources

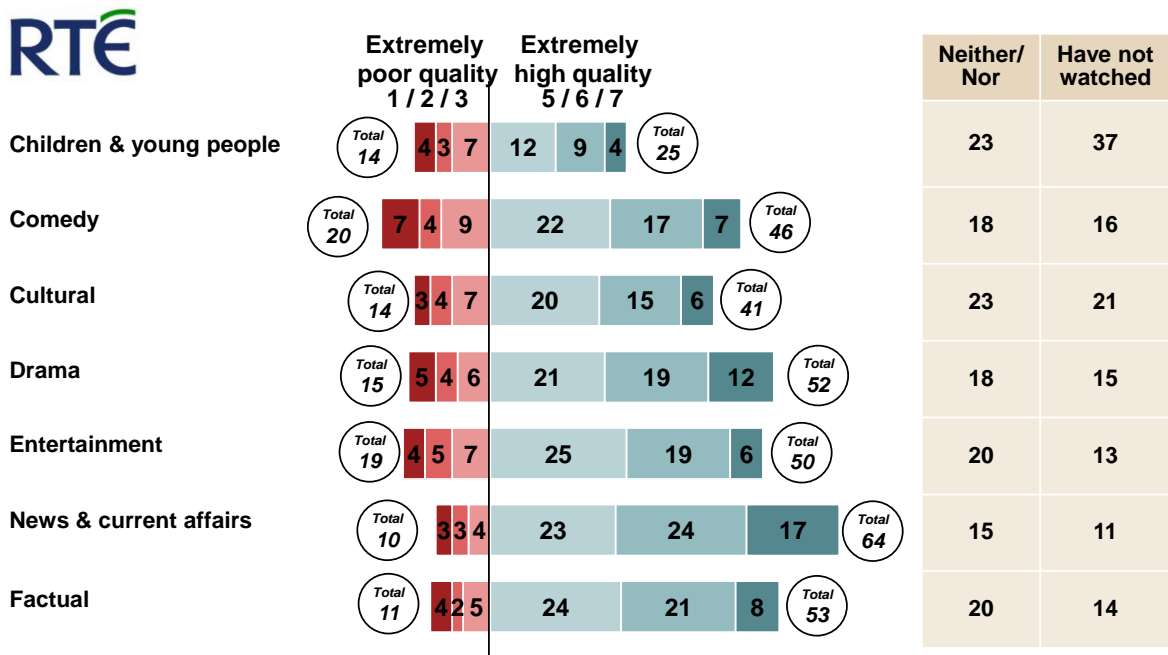
The recent proliferation of digital technologies has had a significant influence on news consumption in particular. Our survey asked respondents to select which medium they rely on most for national/international news and for regional/local news. The Internet performs strongly in both instances, though TV is still the dominant source for national news, as is radio for regional news.

News Source	National News	Regional News
TV	39%	18%
Internet	29%	17%
Radio	15%	25%
Newspaper	6%	23%
Smartphone or tablet app	6%	1%
Word of mouth	2%	9%

Of course, news is not the only content consumed via a range of technologies. In the focus groups, respondents described the importance of YouTube and online access to RTÉ Player as sources of content they either missed when it was broadcast or simply never was broadcast. Older viewers are also experiencing content differently to the past, especially with the use of PVRs (such as Sky+). Every respondent with the capacity at home to record programmes for later viewing admitted in the focus groups to doing so.

4.3.3 RTÉ: Programming and Audience Preferences

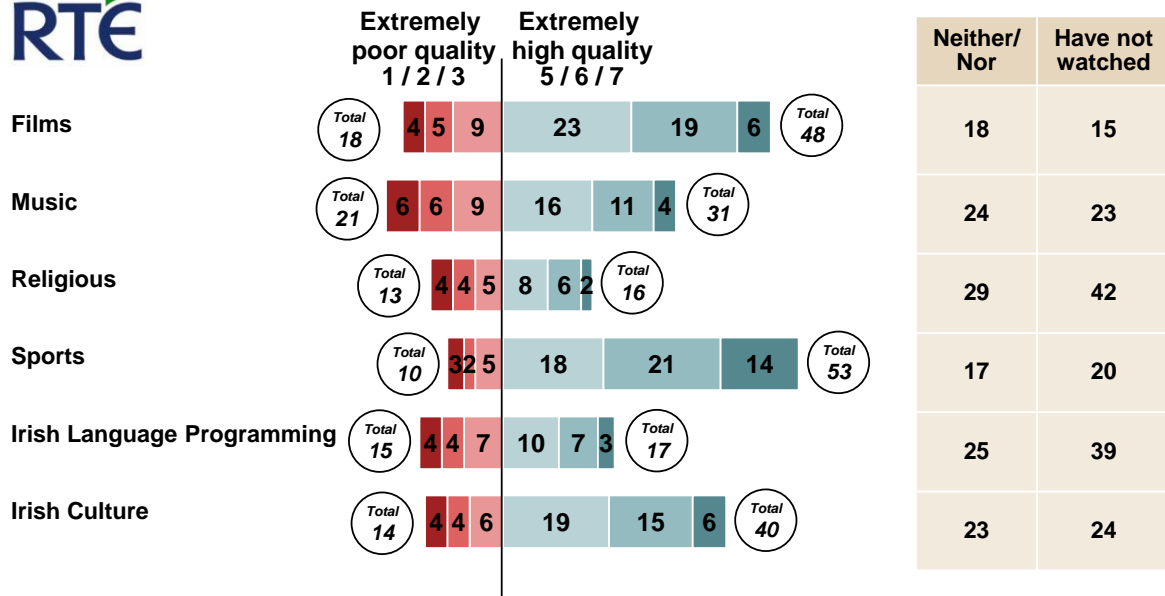
Importantly, from the viewpoint of the debate about the role of Public Service Broadcasting in Ireland, there is widespread satisfaction with the quality of Irish programming across a range of genres, on both RTÉ and TG4. News and Drama programmes score especially highly (on a scale of 1 to 7), and have the largest audiences on average (indicated by the small percentage who 'have not watched' these types of programmes on RTÉ):



There are a number of important demographic differences in perceptions, particularly by age group. Younger viewers are less likely on average to rate programme quality highly, with a lower likelihood of watching certain programme types than older viewers. This is not uniform, however, and if we take the most 'popular' category – news and current affairs – we can see from the table below that there are relatively few age differences (in terms of the high quality/poor quality balance):

Perceived Quality of RTÉ News & Current Affairs	Audience % by Age						
	TOTAL	Under 25	25-34	35-44	45-54	55-64	65-74
1 Extremely poor quality	3%	4%	4%	3%	2%	3%	1%
2 Very poor quality	3%	2%	4%	2%	4%	2%	2%
3 Moderately poor quality	4%	5%	3%	5%	4%	3%	3%
4 Neutral	16%	19%	21%	17%	12%	10%	8%
5 Moderately good quality	23%	20%	27%	26%	15%	24%	23%
6 Very good quality	24%	21%	17%	21%	28%	31%	35%
7 Extremely high quality	17%	15%	9%	13%	23%	21%	25%
Have not watched	11%	14%	14%	12%	11%	6%	4%

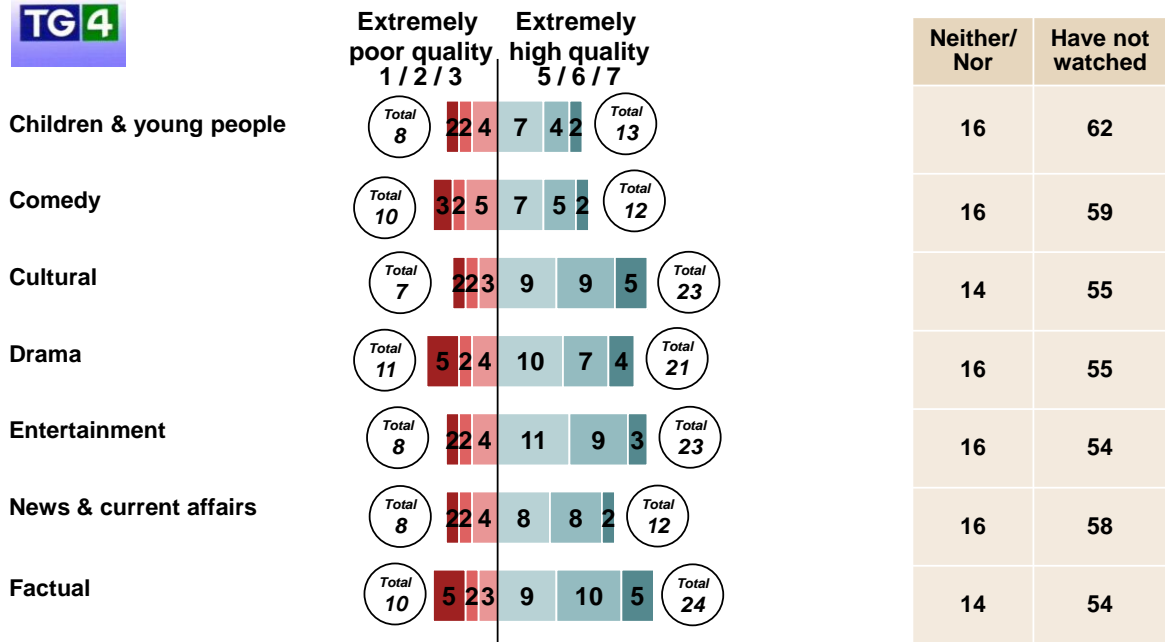
Ratings for other programme types on RTÉ television are shown below (the reader should note that larger proportions of viewers do not watch some of these genre types):



In the focus groups, there was considerable praise for RTÉ in particular regarding their digital and RTÉ Player services allowing viewers and listeners to catch up on programmes which may otherwise have been missed. There is a strong sense from the focus groups that RTÉ provides a range and quality of programmes for Irish audiences that would not otherwise be available.

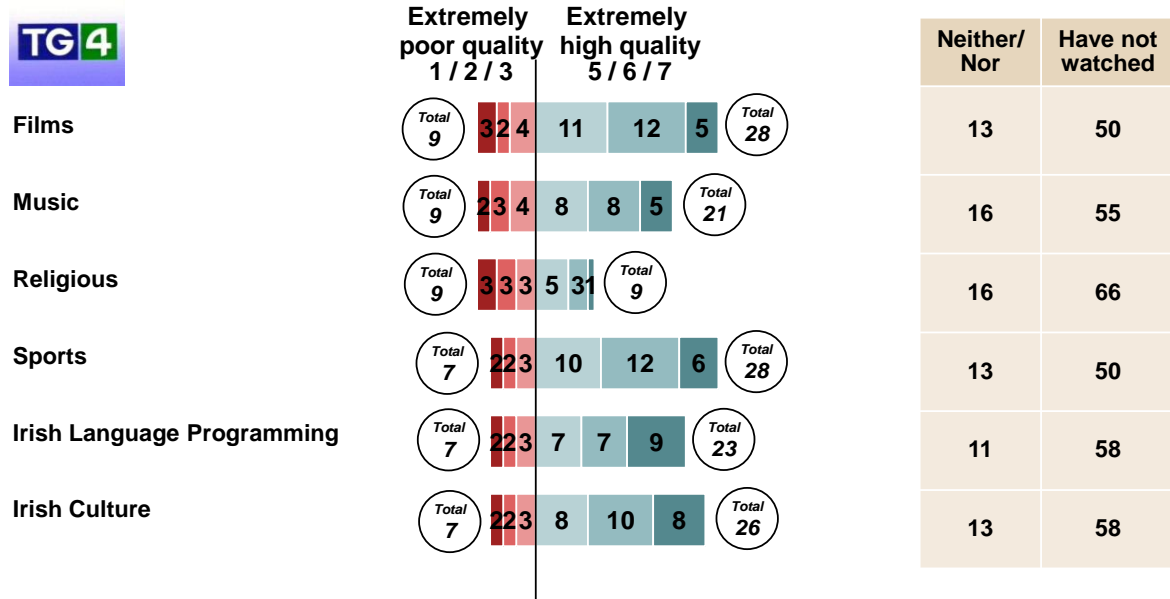
4.3.4 TG4: Programming and Audience Preferences

Turning to TG4's audience ratings for programme quality, we see a similar pattern to that for RTÉ:



An important caveat – in relation to RTÉ/TG4 comparisons – is the obviously smaller audiences for the programme types on TG4 (indicated by the percentages who 'have never

watched’). Indeed, only a minority of Irish viewers have watched any of the genres on TV4. This is true of others as well:



When it comes to Irish language programming – a key part of TG4’s remit – there are some regional differences, mainly with slightly lower viewership overall in Dublin, and a much higher percentage ‘neutral’ in the capital about the quality of programming:

Perceived Quality of TG4 Programming (all genres)	Audience % by Region				
	TOTAL	Dublin	Rest of Leinster	Munster	Connacht / Ulster
1 Extremely poor quality	2%	2%	2%	3%	1%
2 Very poor quality	2%	1%	1%	1%	4%
3 Moderately poor quality	3%	4%	2%	5%	2%
4 Neutral	11%	17%	10%	9%	8%
5 Moderately good quality	8%	7%	7%	7%	11%
6 Very good quality	7%	4%	6%	11%	8%
7 Extremely high quality	9%	8%	10%	9%	10%
Have not watched	58%	55%	61%	56%	56%

Nevertheless, quality perceptions are on balance quite high among those who do view programmes in each genre or category. There are, unsurprisingly, strong regional differences in perceptions, with generally higher ratings in Connacht/Ulster in our survey for several genres than in other parts of the country.

4.4 Public Service Broadcasting

4.4.1 Supporting Objectives

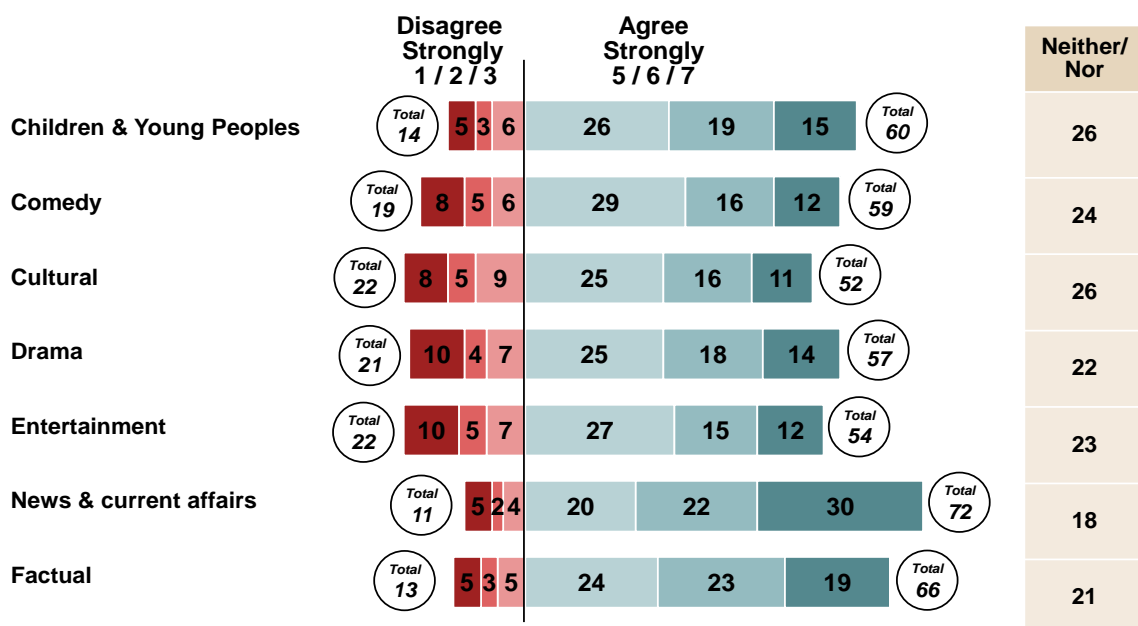
Qualitatively, there is widespread support for a public service objective of producing programmes for different communities in Ireland including children and young people, minority groups, Irish language speakers, people living in different parts of the country and Irish people living abroad.

4.4.2 Importance of Licence Fee Support for Different TV Programme Types

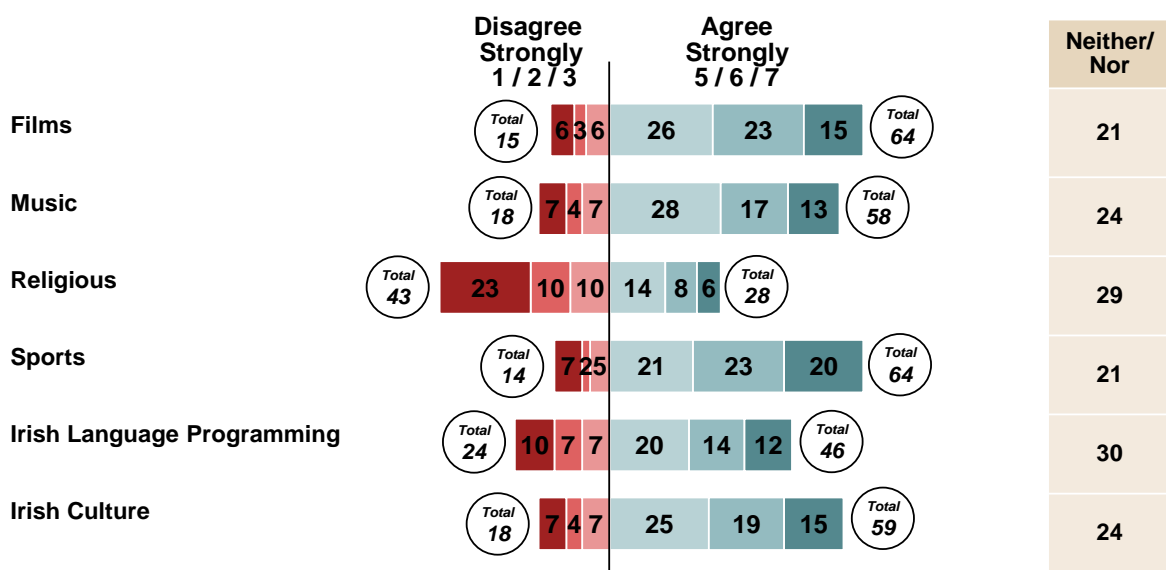
The preferences expressed in the qualitative research are reflected in our survey findings. We find that the majority, on balance, agree that it is important to Irish society as a whole for revenues from the TV licence fee to support a range of programme types. We posed the question:

At present, the licence fee is used to help pay for TV channels operated by RTÉ and TG4. Please look at the list below showing types of programmes on these channels. How important is it to Irish society as a whole for TV channels part-funded by the licence fee to show each of the following programme types?

The answers are summarised below:



The low level of 'neither/nor' responses indicates that people have fairly clear views on the matter. Likewise with other programme types:



The sole exception is religious programming. It is the only category for which more people disagree with TV licence support than agree.

Taking the category of drama, we can see that there is widespread agreement for funding of this genre across age groups:

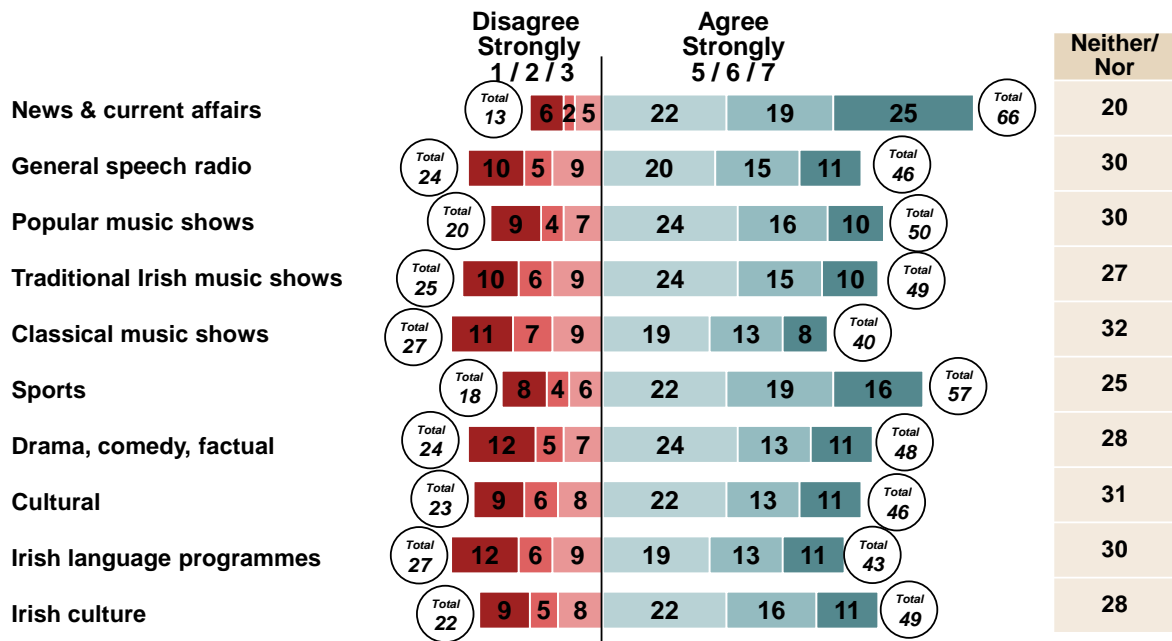
Support for TV Drama	Audience % by Age						
	TOTAL	Under 25	25-34	35-44	45-54	55-64	65-74
1 Not at all important	10%	7%	11%	13%	13%	8%	4%
2 Very unimportant	4%	3%	5%	5%	7%	2%	6%
3 Unimportant	7%	9%	9%	10%	7%	3%	1%
4 Neither important nor unimportant	22%	21%	27%	22%	16%	22%	17%
5 Fairly important	25%	28%	22%	26%	26%	25%	26%
6 Very important	18%	16%	16%	12%	22%	20%	28%
7 Extremely important	14%	16%	10%	13%	9%	19%	17%

RTÉ and TG4 are seen (in the groups) as fulfilling this obligation to the best of their ability by showing a variety of shows aimed at different genres and age cohorts, although many are imported from abroad. Some think that little more can be done to fulfil this objective as there are too many cohorts to show programmes for consistently, with many having the opinion that the main population body are catered for constantly, while minority groups are still accommodated but to a lesser, yet representative extent.

Overall, most consumers in the focus groups think it important that RTÉ and TG4 broadcast programmes irrespective of their commercial audience. There is an understanding of the need for balance, and that certain programmes may not get made without public funding. Audiences also feel that there needs to be a cultural, regional and demographic balance to meet the needs of difference audiences.

4.4.3 Importance of Licence Fee Support for Different Radio Programme Types

Although the previous commentary in Chapter 4.4.2 relates to television programmes, there is also widespread support for a similar commitment of TV licence support to a diversity of radio programmes:



It should be stressed, however, that younger viewers and listeners (in the focus groups and survey) are less supportive of TV licence support in general. A digital generation is growing up with vastly greater choice than their parents' generation and considerably less affinity overall with Irish broadcasters and even Irish programmes.

4.4.4 Support for Digital Initiatives

RTÉ's digital initiatives are bridging the generation gap somewhat. There is a high awareness, especially among the younger cohorts, that there is a growing variety of viewing options, with many experimenting with watching RTÉ Player on laptops/iPads etc. In that regard, RTÉ is seen as making positive strides into the technological arena.

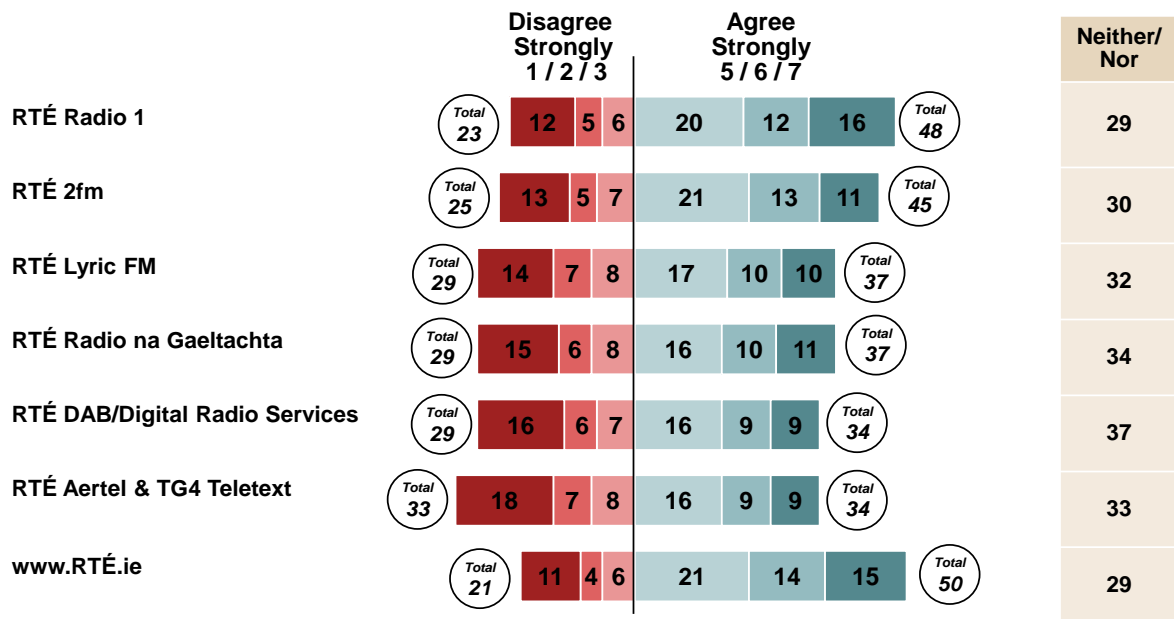
RTÉ Player is seen as being slightly hampered by a limited variety of programmes available, as not all programmes are available to view and they are removed from the system after a relatively short period of time. For Saorview users, there is clear appreciation for RTÉ Digital +1, as it allows people to view programmes an hour later, shows that might otherwise have been missed.

4.4.5 Licence Fee Support for PSB Services

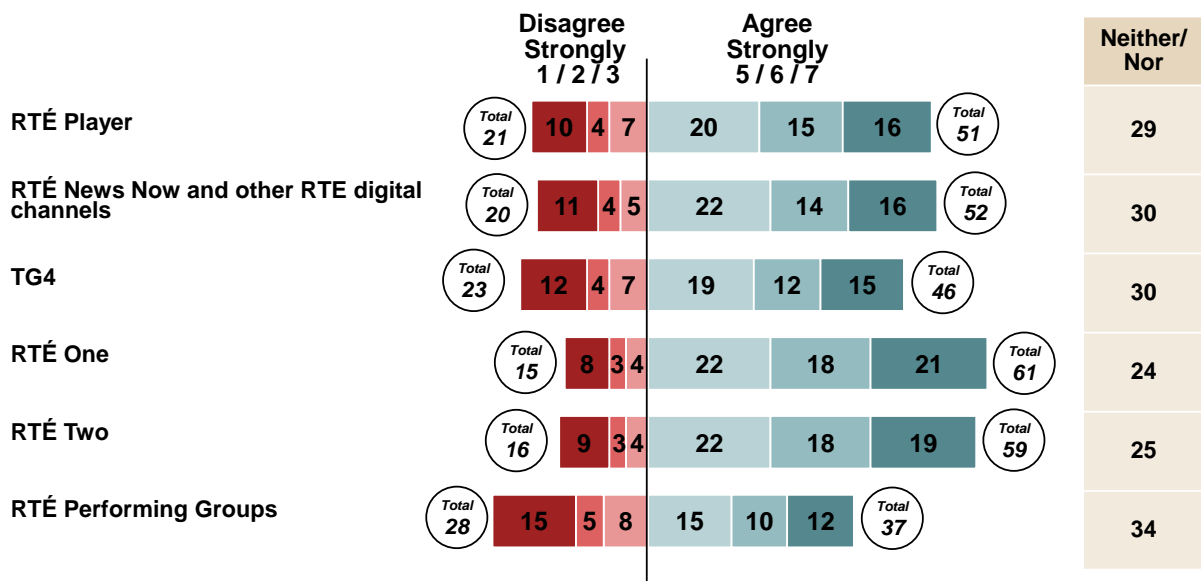
Focusing specifically on RTÉ, there tends to be – again, on balance – considerable support for TV licence fees going towards a range of RTÉ services due to their importance to Irish society as a whole. The question we asked was:

Please look at the following list of services. How important is it to Irish society as a whole that the licence fee and other public money help to pay for each of the following?

The answers are summarised below:



This is less clear cut for 'older' digital services (e.g. Aertel), but more obvious for newer services such as the RTÉ website. Turning to other RTÉ services (and TG4) we find a similar pattern:

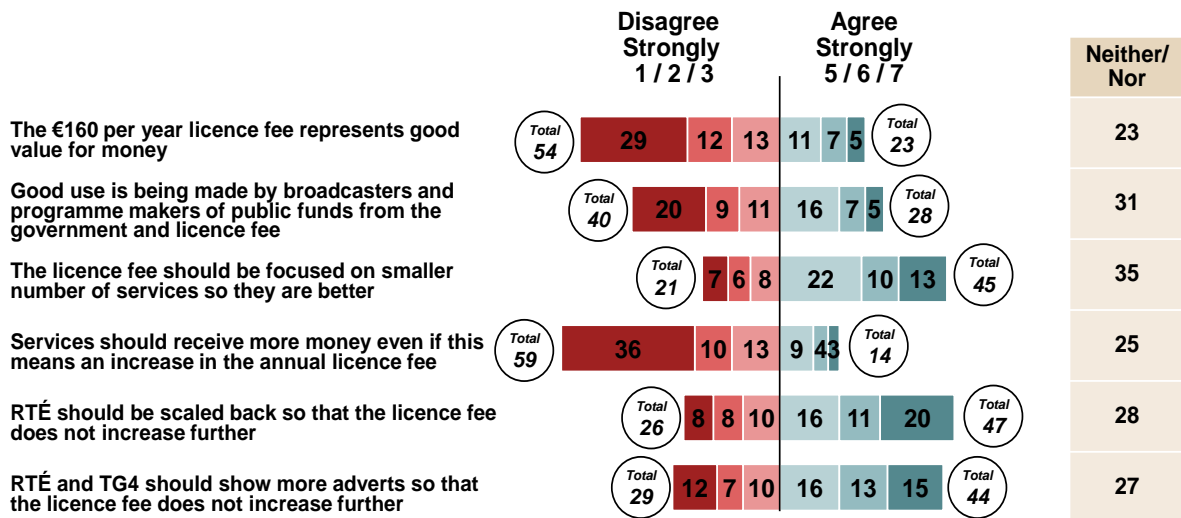


The clearest area of 'disagreement' in the latter chart is RTÉ's performing groups. It should also be noted that one in three adults opted for 'neither/nor' on this service.

4.4.6 Audience Support for Television Licence Fees

Despite considerable support for the objectives of the TV licence fee, there is rather less support for the level of the fee. Indeed, from the focus groups there is an inherent and automatic dislike for TV Licence fee, simply because it is seen as another form of tax, even though it has not increased for a number of years. Consumers feel that they have to pay 'twice': they pay the State a licence fee which supports public service broadcasting, while at the time paying a subscription to digital providers to watch the same stations (RTÉ and TG4).

From the survey, it is clear that value for money for the TV licence is not something perceived by most viewers at present:



There is a significant generational gap in relation to the TV licence. Older audiences regard it as the price to be paid for Irish content on Irish channels. Younger audiences (especially those aged 25-44) are more sceptical, partly because Irish programmes on Irish channels make up a considerably smaller share of their viewing/listening experience than for older audiences. The age breakdown for agreement that the TV licence fee represents good value for money is shown below:

Value for Money from the TV Licence	Audience % by Age						
	TOTAL	Under 25	25-34	35-44	45-54	55-64	65-74
1 Disagree strongly	29%	24%	33%	39%	28%	25%	11%
2 Disagree	12%	12%	10%	18%	16%	10%	5%
3 Disagree slightly	13%	15%	13%	14%	12%	10%	13%
4 Neutral	23%	26%	25%	15%	20%	25%	25%
5 Agree slightly	11%	14%	8%	5%	12%	16%	21%
6 Agree	7%	6%	6%	5%	6%	10%	11%
7 Agree strongly	5%	4%	5%	3%	5%	4%	13%

It is clear from both the qualitative and quantitative research that there is little desire to pay more for public service broadcasting. Most viewers feel they already have an adequate choice across all genres, including Irish programme content for the most part (though higher quality is always welcome).

Overall, the market research tells us that Irish viewers and listeners are, on balance, happy with public service broadcasting output, but more negative about the 'input' in terms of the TV licence fee. Though they see something of a 'conflict' between wanting more and better Irish programming under the auspices of PSB while paying the same or less, most rationalise the potential contradiction in terms of changes that could be made in RTÉ (and to a lesser extent TG4) in order to get more value from the TV licence.

Chapters 4.5 and 4.6 below explore wider perceptions of both RTÉ and TG4 in the context of public service broadcasting.

4.5 Audience Research Specific to RTÉ

4.5.1 Overview

We saw earlier in this chapter that there is generally high satisfaction with the quality of programming across a range of genres on both RTÉ and TG4 (the latter subject to smaller audiences overall), as well as widespread support for the objectives of public service broadcasting. The one major caveat to the latter point is the comparatively high dissatisfaction with the perceived value for money of the TV licence in terms of RTÉ generally.

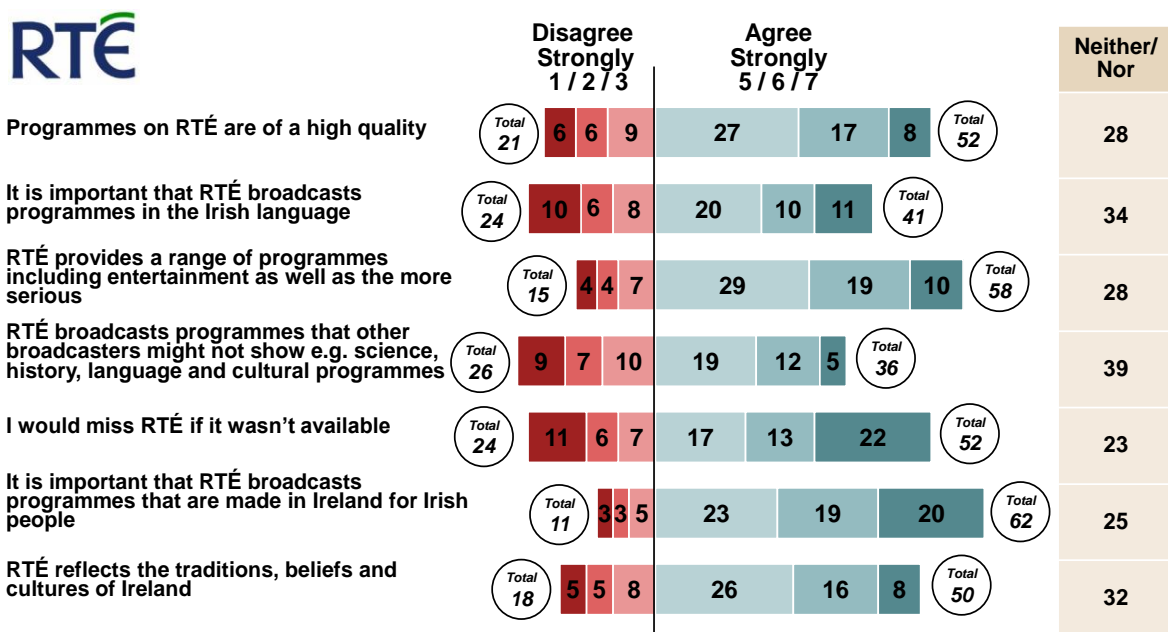
In this chapter we explore these attitudes in more detail, focusing on consumer experiences of RTÉ and its public purpose, now and in the future.

4.5.2 Experiences of RTÉ

RTÉ is Ireland’s most popular television and radio broadcaster. Most Irish people have grown up with RTÉ as a key source of news, entertainment and culture. In our survey, we focused on impressions formed more recently, though obviously some opinions will have formed over longer periods. The question was structured as follows:

Thinking about all the services offered by RTÉ (including TV, radio and online), and your experiences of RTÉ over the last 12 months, to what extent do you agree or disagree with the following statements?

The balance of agree/disagree views is summarised in the chart below:

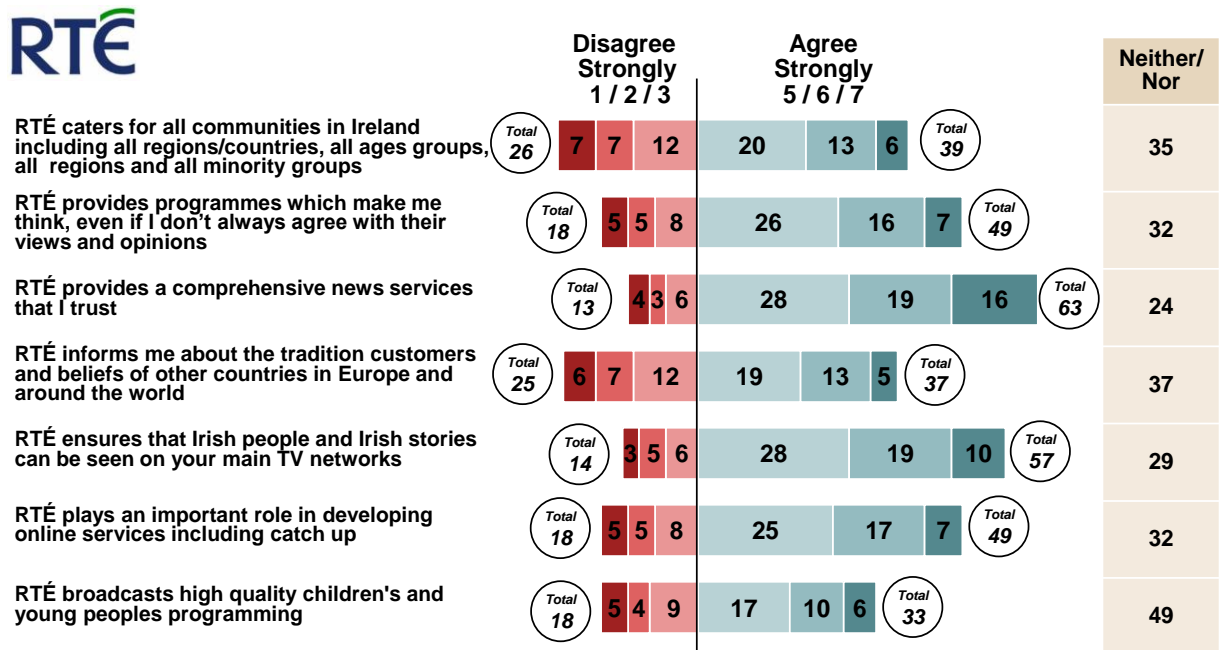


The vast majority consider it important that RTÉ broadcasts programmes made in Ireland for Irish people, and that they reflect the traditions, beliefs and cultures of Ireland. These opinions are broadly consistent by sex and age (though younger people have less definitive views on the matter). Looking in more detail at responses to the statement 'I would miss RTÉ if it wasn't available', we can see that there is significantly higher disagreement among men than women, and a higher percentage 'sitting on the fence' (i.e. neither/nor) among under-34s:

Would miss RTÉ if it wasn't available	TOTAL	Audience by gender		Audience by age					
		Male	Female	Under 25	25-34	35-44	45-54	55-64	65-74
1 Disagree strongly	11%	13%	9%	9%	11%	12%	12%	10%	7%
2 Disagree	6%	8%	5%	7%	5%	8%	8%	5%	3%
3 Disagree slightly	7%	7%	8%	10%	10%	5%	8%	7%	1%
4 Neutral	23%	23%	24%	28%	29%	23%	21%	16%	23%
5 Agree slightly	17%	17%	17%	19%	16%	20%	13%	18%	12%
6 Agree	13%	12%	14%	12%	11%	16%	14%	12%	15%
7 Agree strongly	22%	21%	24%	15%	17%	16%	24%	34%	38%

Nevertheless, more people say they would miss RTÉ than would not, which reflects the extent to which RTÉ remains a key source of television and radio content, even in an age of hundreds of channels via satellite and cable.

As we noted above, news and current affairs is one of the most popular and most 'satisfying' genres for Irish audiences. We also see this reflected in agreement with a number of statements concerning RTÉ's news programming:



RTÉ is still seen as the 'medium of record' when it comes to Irish news. It remains highly trusted – at a time when trust in many other institutions is on the wane – and again this is broadly similar across age groups. Younger people see RTÉ news as trustworthy, as do their

parents and grandparents – even if younger people access news from many different sources than older generations.

There is somewhat more dissatisfaction with RTÉ’s programming in relation to diverse communities across Ireland. There are relatively few differences across demographic groups in relation to this statement, despite the fact that some might be more affected than others (including those living outside Dublin).

The focus groups explored these topics in some detail. RTÉ News is seen as reliable, current and trustworthy for highlighting national news. That said, viewers/listeners are of the opinion that RTÉ are ‘too serious’ and are seen to constantly portray ‘doom and gloom’ stories unlike TV3 and Sky News, who are seen to carry lighter items at the end of news programmes.

Furthermore, there is a perceived need for factual programming (e.g. contemporary documentaries) and news/current affairs programmes relating to Ireland to be produced within Ireland. There are lower levels of trust among viewers/listeners in a programme regarding an Irish topic being produced or led by a foreign team, which may be seen as less believable and without as much plausibility and with possible inaccurate information.

However, our groups showed less need for historical, educational or religious programmes to be produced in Ireland as the ‘current local’ element is not required. In addition, the BBC is seen as producing historical and educational shows to a higher calibre, appropriate for an Irish audience.

Due to the high proliferation of ‘soaps’ and international drama there is little appeal for Irish produced drama. Fair City is not seen by many to be as of high quality as equivalent English programmes (e.g. Coronation Street) or even as the Irish language Ros na Rún.

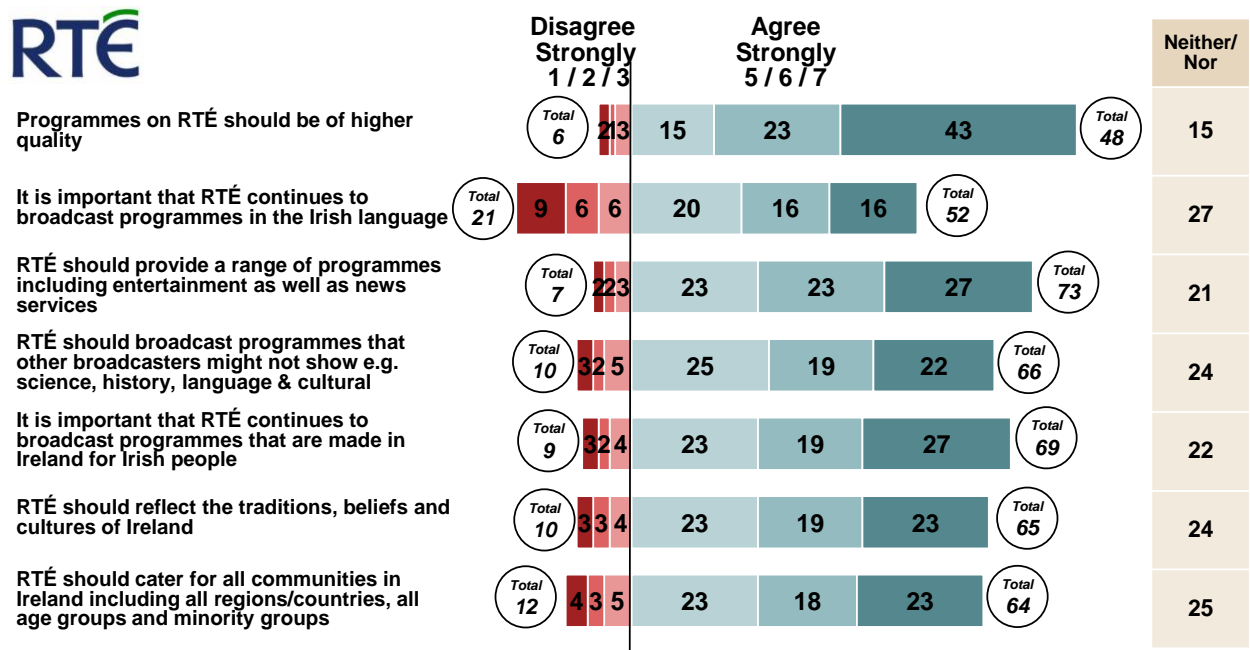
4.5.3 The Future of RTÉ

Looking to the future, expectations are very high indeed when it comes to RTÉ. We asked the following question:

We’d now like you to think about:

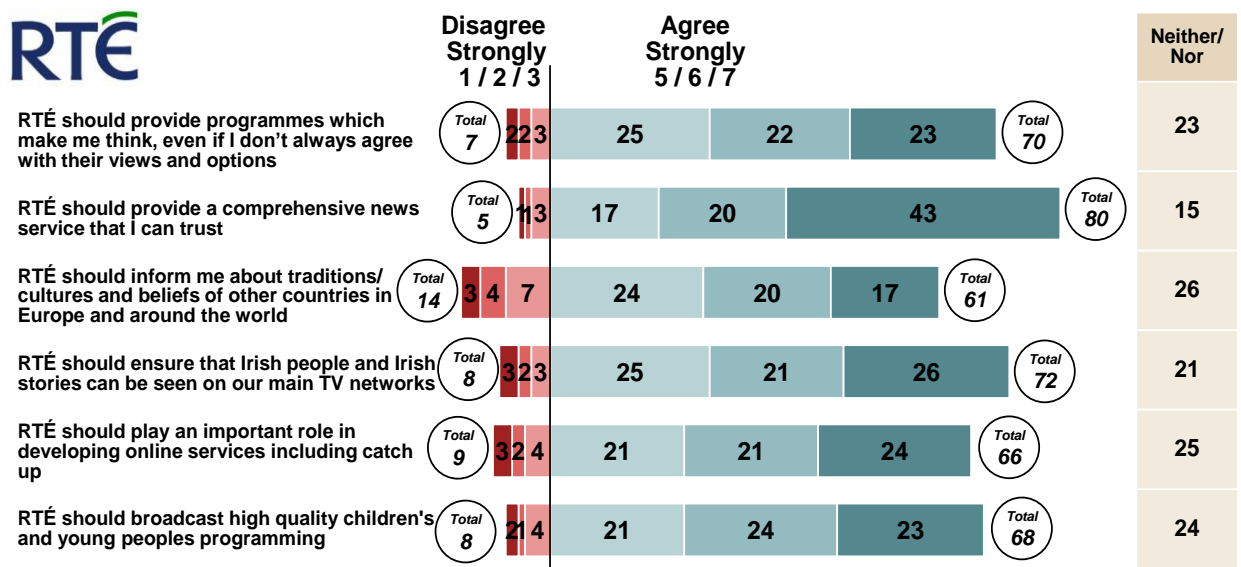
- *The future of RTÉ and the services it offers (including TV, radio and online)*
- *The next five years, between now and December 2017*
- *The fact that RTÉ is publicly funded*
- *The priorities for Irish society as a whole.*

The balance of opinion is summarised below:



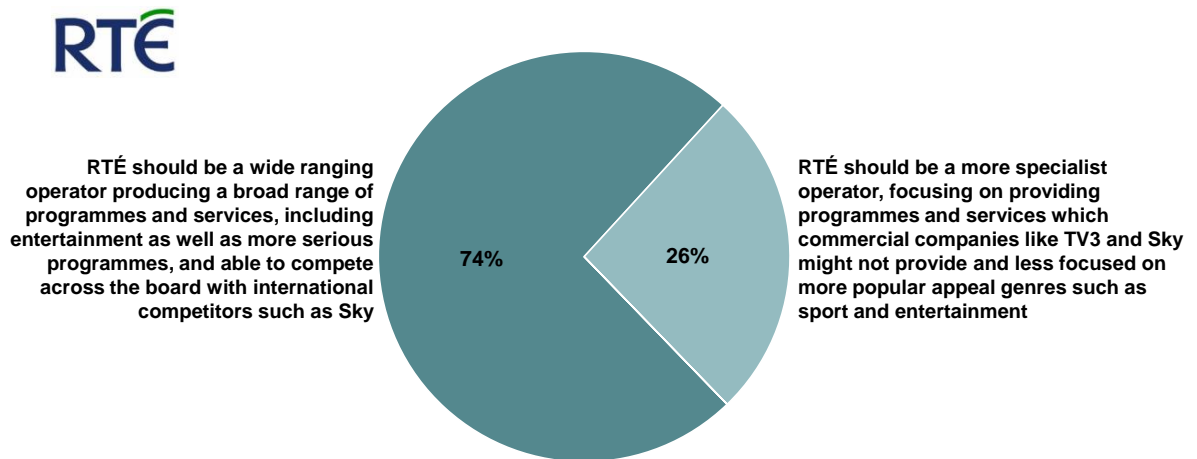
Even in relation to genres with relatively low audiences – as reported earlier in this chapter – such as Irish language programming, it is clear that there is broad support for this to continue into the future. Younger viewers are more ‘neutral’ about the Irish language genre (though not necessarily negative).

We also examined a range of other, potential priorities for the next five years:



In both the former and the latter chart, we see a clear consensus among the vast majority of people that RTÉ should continue to meet a broad range of public service objectives into the foreseeable future, in particular news programming. Indeed, it is important to stress that there is no one demographic sub-segment (age, sex, region, class) that is in any way antipathetic towards RTÉ, even if exposure to its channels varies enormously (due to available alternatives, both broadcast and online).

Moreover, when confronted with a simple choice between RTÉ continuing as a broadcaster of diverse programme types, able to compete with the likes of Sky, or RTÉ becoming a more specialist programme maker ‘filling the gaps’ that Sky or TV3 won’t fill, then it is clear from our survey that the vast majority would prefer the former:



As the table below shows, although there are significant variations in the balance of preferences by demographic sub-group, in none of them does a majority opt for RTÉ to become a more specialised operator:

Audience	RTÉ should be a wide-ranging operator	RTÉ should be a more specialist operator
TOTAL	74%	26%
Male	69%	31%
Female	79%	21%
Under 25	74%	26%
25-34	72%	28%
35-44	71%	29%
45-54	78%	22%
55-64	76%	24%
65-74	74%	26%
ABC1F50+	72%	28%
C2DEF50-	75%	25%

The one notable difference is between men and women – consistently, the former in our survey are less sympathetic towards RTÉ’s activities in general and PSB output in particular. This may reflect a wider disengagement (albeit partial) by men from mainstream media, something noted in relation to trends in other countries as well.

4.5.4 Adding Value at RTÉ

Earlier in this chapter, we noted a ‘conflict’ between people’s high expectations for future PSB outputs and their resistance to paying the same or higher TV licence fee. This has once again highlighted the apparent disconnection between expectations and preferences for RTÉ – ‘more of the same, but even better’ – and the lack of perceived value for money noted above.

4.5.5 RTÉ Talent

Our qualitative research provides some clues as the origins of this perceived conflict. From the focus groups, there is a recognition that a high calibre of staff are required at all levels of an organisation to produce high quality broadcasting, but many do not believe that this practice is adhered to in RTÉ. Rather, RTÉ is seen as picking staff from a small, well-used pool of presenters, thus creating a 'closed shop' impression.

There is a dislike of the perceived practice of retiring high paid staff, only to re-hire them as contractors, thus continuing to pay high salaries to a small number of established RTÉ employees. There is also considerable indignation at the high salaries being paid to a small number of employees for what is perceived to be very little work.

Although there is recognition that RTÉ have a number of seasoned presenters, viewers and listeners are becoming fatigued with seeing the same people on different shows with little variety. In addition, RTÉ programmes seem to engage in self-promotion with different programmes regularly having guests who are also RTÉ presenters.

More generally, there is considerable annoyance at a perceived lack of new blood in RTÉ. There is also a strong desire that opportunities should be given to younger, fresh broadcasters and recent graduates to work in RTÉ – thus modernising the station and reducing wage costs.

Although these are all 'minor' complaints, they do tend to influence public perceptions about the value for money of the TV Licence fee and the benefits accrued in terms of public service programming.

4.5.6 RTÉ Revenues

In the focus groups, we also examined awareness of RTÉ's wider financial resources. Most recognise that the TV licence fee is only one source of revenue for RTÉ. Advertising and sponsorship are recognised as the other source as viewers are repeatedly exposed to them. This, however, works to RTÉ's disadvantage to a certain extent, as it invariably makes some viewers wonder why RTÉ needs both sources.

The conundrum is that some viewers think they are paying twice for RTÉ's services (TV service subscription plus licence fee, as noted earlier in this chapter) while they see RTÉ getting a double dose of income (licence fee plus advertising). However, viewers and listeners don't appear to want to make a trade-off, i.e. fewer PSB outputs for a lower/static TV licence. Instead, they expect RTÉ to get more for less through smarter use of existing revenues, greater creativity and a new generation of talent.

Still, the research suggests that there is little appetite for radical change to how public service broadcasting is funded in Ireland. Most want to maintain the status quo (in terms of outputs, but not necessarily inputs, e.g. existing RTÉ talent), and grudgingly accept the current 'deal' for TV licence fee payers.

Younger viewers, and young men in particular, pose a longer-term source of dissatisfaction with the PSB status quo. Future research should revisit their attitudes in particular to determine whether a wider, generational gap is opening up that will create a bigger appetite for change in the future.

4.6 Audience Research Specific to TG4

4.6.1 Overview

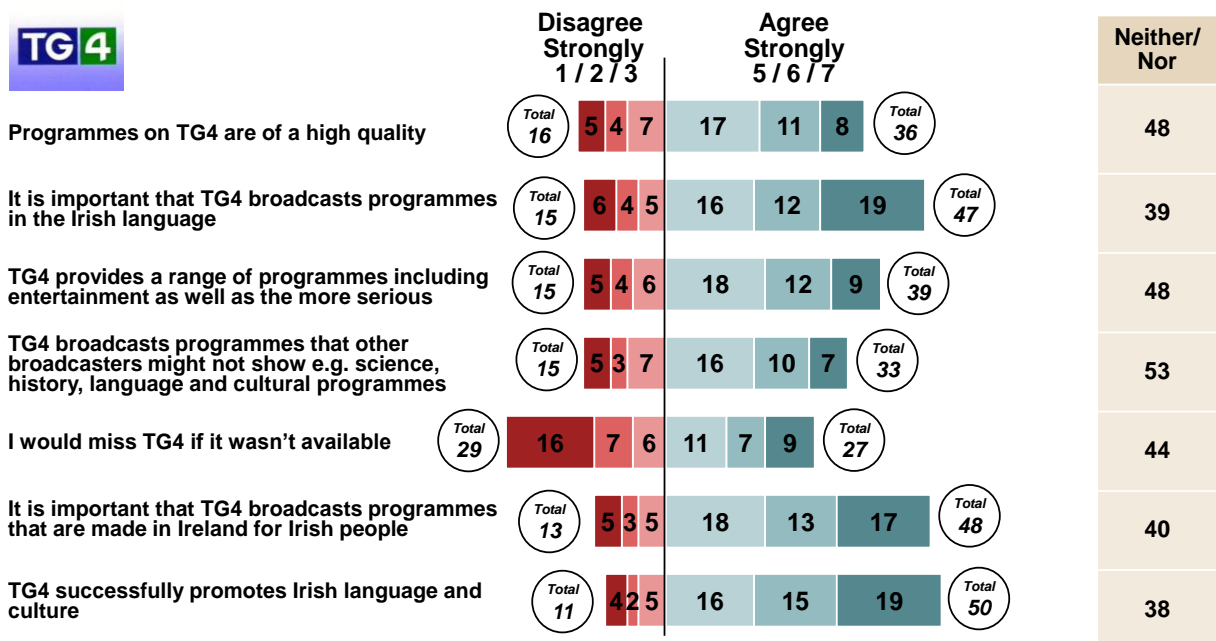
In the following paragraphs, we explore viewer attitudes to TG4 in more detail, focusing on consumer experiences of TG4 as a channel (genres were reviewed earlier in this chapter) and its public purpose, now and in the future.

4.6.2 Experiences of TG4

TG4 is a considerably younger broadcaster than RTÉ. Accordingly, we shouldn't be surprised if public opinions about TG4 are still forming, and perhaps less definitive than with RTÉ. In our survey, we focused on impressions formed about TG4 in the recent past, structuring the question as follows:

Thinking about all the services offered by TG4 (including TV and online), and your experiences of TG4 over the last 12 months, to what extent do you agree or disagree with the following statements?

The balance of agree/disagree views are summarised in the chart below:



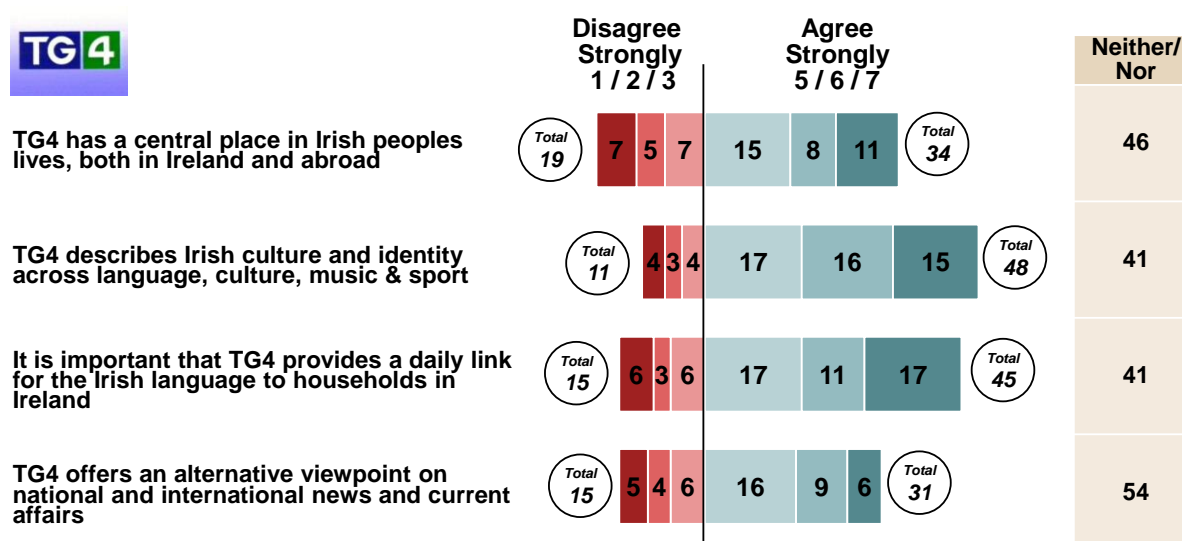
Again, an important caveat is the much higher percentage of 'neither/nors' in the responses. TG4 for many viewers is still something of an 'unknown quantity', evidenced by the fact that more people *disagree* they would miss it if it wasn't available than *agree* they would miss it (though 44% were undecided - versus 23% for RTÉ).

We can see the profile of responses to that particular statement by sub-group in the table below:

Would miss TG4 if it wasn't available	Audience % by Age						
	TOTAL	Under 25	25-34	35-44	45-54	55-64	65-74
1 Disagree strongly	16%	11%	15%	16%	20%	19%	12%
2 Disagree	7%	9%	5%	9%	6%	6%	4%
3 Disagree slightly	6%	8%	5%	8%	6%	6%	4%
4 Neutral	44%	45%	48%	43%	44%	41%	35%
5 Agree slightly	11%	10%	12%	12%	9%	11%	10%
6 Agree	7%	8%	9%	4%	6%	5%	10%
7 Agree strongly	9%	9%	6%	7%	9%	11%	25%

Curiously, although it is a much younger channel, the highest level of agreement about 'missing TG4' is among over 65s. There are no significant gender differences (which tends to be the case more with TG4 than with RTÉ). Perhaps not surprisingly, Connaught/Ulster scored highest as the province most likely to miss TG4 – and Dublin the lowest.

Nevertheless, as responses to other statements show below, TG4 is seen as playing an important role in preserving and promoting Irish culture, as summarised for the same question format below:



Our one focus group in Irish (in Galway) captured the views of a relatively loyal group of TG4 viewers. Their opinion was positive, but there was some discontent especially regarding the calibre of presenters or language being used during more educational programmes. In particular, TG4 presenters were reported to use 'béarlachs' (i.e. direct translation of a phrase from English into Irish that is meaningless in Irish) and incorrect grammar while speaking.

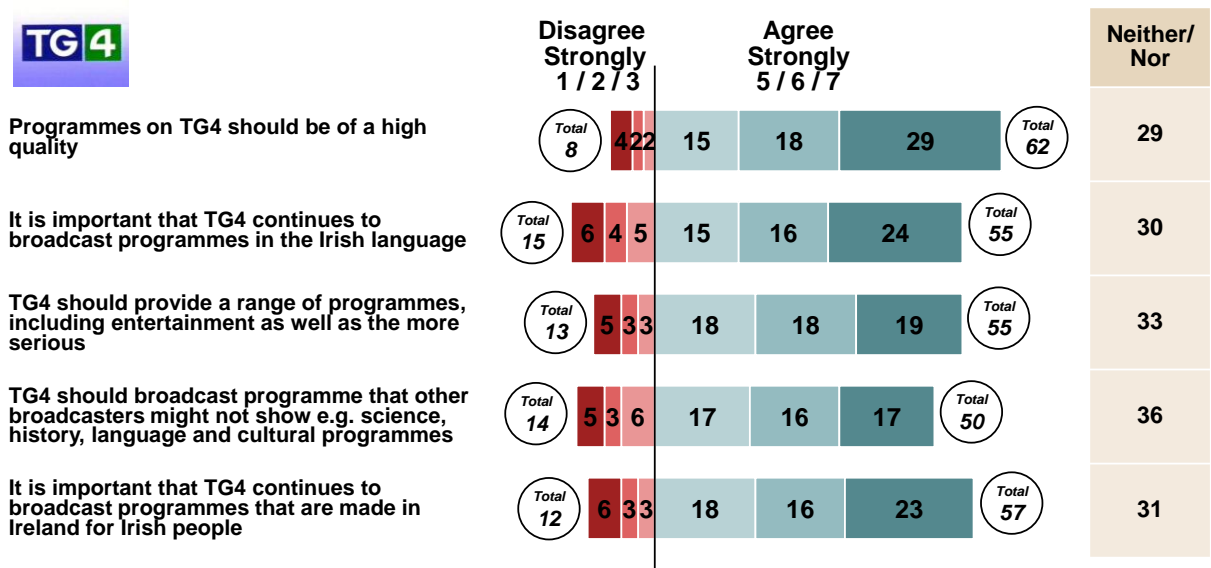
Nevertheless, reviewing the survey findings it is clear that TG4 is enjoying something of a 'honeymoon' period with Irish viewers generally – certainly relative to RTÉ. Although views are less defined about TG4 (more 'neither/nors') they are still positive on balance. Nor do responses reveal any imminent generational (or gender) gap that might pose difficulties over the longer term.

4.6.3 The Future of TG4

Following the same format as we used for RTÉ, we explored expectations for the future of TG4 by asking about agreement with views on the future framed as follows:

- We'd now like you to think about:*
- *The future of TG4 and the services it offers (including TV and online)*
 - *The next five years, between now and December 2017*
 - *The fact that TG4 is publicly funded*
 - *The priorities for Irish society as a whole.*

The balance of opinion is summarised below:

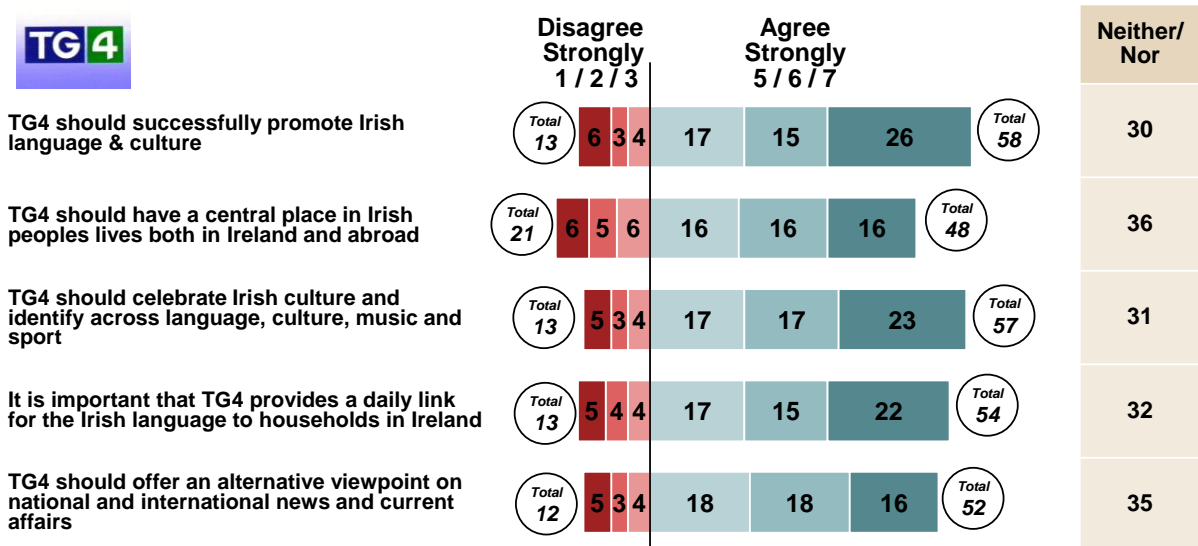


TG4's special remit in relation to the Irish language is reflected in particular in relation to programmes in the Irish language. The majority of viewers agree this should continue to be a priority (more so than for RTÉ in relation to the same statement). If we contrast the percentage who 'agree strongly' (scoring 7 out of 7) in response to this statement about the future priorities of both RTÉ and TG4, we can see several key differences by demographic sub-group:

% of audience “agreeing strongly” to the importance of Irish Language programmes, by channel	TG4	RTÉ
TOTAL	24%	16%
Male	22%	13%
Female	26%	19%
Under 25	21%	13%
25-34	20%	14%
35-44	23%	15%
45-54	21%	15%
55-64	29%	19%
65-74	39%	26%
ABC1F50+	28%	20%
C2DEF50-	21%	12%
Dublin	23%	14%
Rest of Leinster	24%	17%
Munster	23%	15%
Connaught Ulster	27%	18%

The gaps (in terms of the percentage ‘agreeing strongly’ to importance of continued Irish language broadcasting by each broadcaster) remain significant for all cohorts, including under 25s.

Nevertheless, the similarities between future expectations for TG4 in general with RTÉ in general far outweigh the differences:



One important finding from the survey is that support for TG4’s public service broadcasting role and activities is not ‘ghettoised’ in terms of regions or viewership. TG4 is therefore not perceived as ‘filling the gaps’ left by RTÉ in relation to its PSB remit – rather they are seen as both complementary broadcasters and at the same time distinctively Irish broadcasters, catering for the unique needs and tastes of Irish audiences.

4.6.4 Adding Value at TG4

From the focus groups, TG4 tends to be seen as more progressive than RTÉ, with its own originality and a greater willingness to try something new or airing a programme that others may believe to be risky. It tends to be perceived as modern and “hip” with well-chosen international shows as well as good home grown content (e.g. in relation to documentaries). One minor complaint is from some Gaelgeoirí who are dissatisfied with the usage of the Irish language with complaints regarding incorrect grammar and sentence structure. On a separate issue, parents feel that there is a need for Irish-produced children’s entertainment shows with Irish characters and/or presenters.

In some ways, TG4 benefits from its uniqueness in relation to the wider PSB agenda. It is clearly set up to do something non-commercial and/or non-Irish programme makers and broadcasters wouldn’t do, i.e. create a wide range of unique Irish content for diverse Irish audiences, especially in relation to the Irish language. To that extent, it gets something of a ‘free pass’ from audiences in relation to ‘value for money’ perceptions, which tend to focus more on the cost of the TV licence versus the actions and outputs of RTÉ.

4.6.5 TG4 Talent

Nevertheless, as with RTÉ, there is a belief among some viewers (in the groups) that the same presenters are constantly being used throughout the programming schedule with little opportunity for new blood to enter the organisation. There is a desire for local people to be used more frequently, not only to enhance the credibility of the programme but also to provide local employment.

4.6.6 TG4 Revenues

Again, there is a less established connection in the minds of most viewers about TG4 and its different revenue sources. Partly this reflects the fact that fewer people watch TG4 (and less often) so ‘watching the ads’ is not something that has formed people’s opinions over the years as it has for RTÉ.

Likewise, there was an indication in the groups that many TG4 viewers record programmes on Sky+ or other PVR systems for later viewing (including international series) so fast forwarding through the advertisements may also be more common (and therefore less of source of agitation in the wider TV licence debate as it is for some viewers of RTÉ).

As with RTÉ, there is little evidence of a groundswell of opinion wanting to radically change the current PSB funding model in relation to TG4. Indeed, in the absence of the some of the gender and generational gaps that seem to affect RTÉ’s albeit bigger audiences, TG4 will be unlikely to see significant push back from viewers in relation to PSB value for money before RTÉ does (and even then, it will likely lag the latter should it happen).

4.7 Chapter 4 Key Messages

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- RTÉ remains a key source of television and radio content even at an age of increased competition and multiple platform penetration.
- The vast majority of people believe that RTÉ should continue to meet a broad range of public service objectives into the foreseeable future.
- Research suggests that there is little appetite for radical change to how public service broadcasting is funded in Ireland.
- Public opinion in respect of TG4 may be still forming or less definitive given TG4's time in existence.
- TG4 is not seen as "filling the gaps" left by RTÉ in relation to its PSB remit.
- RTÉ is likely to receive "push-back" from viewers in relation to PSB value for money before TG4 does.

We now move on to conduct our analysis of the RTÉ costed five-year plan in Section 3.

SECTION 3: RTÉ

5 Introduction

5.1 Process Followed

The process followed during our review was set in order to gain an in-depth understanding of the current and future operational and strategic position of RTÉ. This involved a detailed review of the current operations, and future development plans, of RTÉ in order to ascertain the use of public funding, current and future investment requirements, cost allocations, accounting principles, future efficiencies, and so on.

The approach in developing our understanding in this regard was based on our review of relevant background information and documentation provided by the BAI at the outset of the project which included:

- Background correspondence between the BAI and RTÉ;
- RTÉ 2009, 2010 and 2011 (Draft) Annual Review of Public Funding reports;
- Enders Analysis Report together with the RTÉ response to same;
- RTÉ Annual Statement of Performance Commitments for 2010, 2011 and 2012;
- BAI Executive assessments of RTÉ Annual Statement of Performance Commitments for 2010, 2011 and 2012.

In addition, we held a number of meetings with RTÉ over the course of the process (as detailed below) in order to discuss the specific issues, underlying assumptions and estimates relating to the development of the costed plan for RTÉ. The main meetings held with RTÉ were as follows (this does not include various ad hoc progress review sessions, etc):

Date	Purpose
Mon 30 Jul 2012	Project Initiation meeting with RTÉ
Mon 13 Aug 2012	Meeting with RTÉ to review finances and accounts, and strategic issues pertaining to the review
Thurs 23 Aug 2012	Audience research meeting and finance working session regarding the attribution of licence fee income and the allocation of costs
Thurs 30 Aug 2012	Meeting with the Group Commercial Director to discuss the commercial arrangements of RTÉ services
Mon 3 Sept 2012	Workshop meeting relating to the finance and strategic issues pertaining to the review
Tues 4 Sept 2012	Meeting with the Director General to discuss the strategic issues pertaining to the review
Mon 17 Sept 2012	Meeting to review finance and regulatory compliance queries, and the practical application of the costing model in RTÉ
Mon 5 Nov 2012	Meeting with the Director General to discuss the progress of the review and the strategic issues pertaining to the review
Tues 11 Dec 2012	Status update meeting on the development of the RTÉ costed plan including an outline of the draft report structure
Thurs 31 Jan 2013	Meeting to review the costed plan dated January 17, 2013

As part of this series of engagement, RTÉ provided us with relevant supporting documentation, including:

- Financial documentation relating to RTÉ: Management Accounts, Budget reports, Annual reports, etc;
- RTÉ's Public Value Framework;
- RTÉ's proposed strategy for Irish Language output;
- Background correspondence between RTÉ and the BAI;
- RTÉ Strategic Plan 2006 to 2010.

However, the original deadlines for submission of the 5 year Costed Strategic Plan agreed with RTÉ had to be set back on two occasions, with the approval of the BAI. Firstly, at our commencement meeting with RTÉ on August 13, 2012, RTÉ had indicated that their costed five-year strategic plan would be available by the end of October 2012. This target was not met and, subsequently, on November 19, 2012, RTÉ indicated that the final document would be submitted for our review by December 31, 2012. However, this second deadline was also put back, and a semi-complete draft document was finally provided by RTÉ on January 7, 2013, with the final complete document supplied on January 17, 2013. (It should be noted that the final document supplied by RTÉ was very comprehensive and reflected an extensive analysis conducted by the broadcaster during the second half of 2012.)

As a result of these delays, the work plan agreed between Crowe Horwath and the BAI had to be amended, and as a result the original agreed date for the completion of the project (end of December 2012) had to be set back to an agreed date of March 19, 2013, for submission of a draft report to the BAI.

5.2 Engagement with RTÉ

The Crowe Horwath team had frequent engagement with RTÉ over the course of the assignment via a number of site visits to the Montrose complex at Donnybrook, and via a number of follow up telephone calls and email exchanges. This process involved detailed discussion with senior members of the RTÉ executive management team including;

- the Director General;
- the Managing Director for Corporate Development;
- the Strategic Advisor to the Director General;
- the Group Financial Controller;
- the Finance Director of News and Current Affairs;
- the Audience Research Manager;
- the Chief Financial Officer;
- the Managing Director of Television;
- the Managing Director of Radio;
- the Chief Technology Officer;
- the Group Commercial Director.

In addition, our engagement involved detailed discussion with representatives from Accenture, who were assisting RTÉ throughout the preparation of the costed five-year strategic plan.

We very much appreciate the time and commitment given by senior members of the RTÉ executive team to provide information and clarification to the Crowe Horwath review team, often at short notice.

5.3 Structure of Our Analysis

In line with our methodology for this assignment, our analysis of the five-year costed strategic plan presented by RTÉ is set out within the following structure:

- **Chapter 6** presents our **Market Analysis for RTÉ**, commencing with a description of RTÉ's view of its market environment over the next five years, and its assessment of the strategic challenges which it faces. We then move on to assess the key market related assumptions presented by RTÉ, including audience projections and forecast commercial revenue. We identify the market related costs which may be faced by RTÉ over the coming five years, and the potential downside risks for RTÉ, including the scale of the response which may be required to meet these future challenges and address the risks.
- **Chapter 7** provides our **Assessment of RTÉ's Costed Five-year Strategic Plan**, and commences by describing the various services which RTÉ plans to run over the next five years, and the costs associated with each area of service activity. We examine future efficiencies and investment plans proposed by RTÉ, the suggested allocation of public funding, and a quantification of any impact of changes in public funding over the period in question.
- **Chapter 8** sets out our **Conclusions and Recommendations** specifically in respect of RTÉ, including a summary of the principal findings and conclusions reached in the earlier analytical chapters (6 to 7), and our recommendations on the requisite level of public funding required to permit RTÉ to fulfil its public service objects over the period 2013 to 2017.

6 Market Analysis for RTÉ

6.1 Introduction

In this section, we examine RTÉ's own view of the market over the next five years, its broad strategic response to the key opportunities and risks, and the extent to which it has provided a realistic analysis of the implications of market developments for both its revenues and (where relevant) its costs.

6.2 RTÉ's View of the Market

In its five-year plan, RTÉ sets out the market challenges it will face, in the main consistent with our own assessment.

As a backdrop to its key assumptions, RTÉ observes that there may be some modest return to economic growth over the period, but urges caution in estimating its impact on media sector revenues, and projects a small decline in its own TV airtime sales over the period. It also points to some demographic changes and in particular an increase in the proportion of the Irish population accounted for by both young (0-14) and older (55+) age groups which could adversely affect its revenue prospects.

It sees overall broadcast TV viewing holding up well, but identifies a range of developments which will have an increasing effect on established consumption patterns over the next five years. These include increased PVR penetration, more on-demand viewing, and longer term competition from IPTV and mobile broadband. The result, RTÉ concludes, will be a growing majority of audiences which can control when, how and with what devices they consume media content. This does not mean that broadcast TV will disappear, they argue. New providers will add value to rather than displace existing consumption.

RTÉ observes that, for TV, there will be no single dominant distribution platform. By implication, RTÉ needs to be available on all platforms. Regarding competition between platforms and channels, it notes the likely impact of bundling of TV and broadband services by the main pay platforms (Sky and UPC), which should continue to attract subscribers. It says that Saorview is now ahead of UPC in terms of market share, but for main TV sets, Saorview still lags well behind satellite and cable.

RTÉ points out that radio consumption remains strong in Ireland, with 85% of adults listening to the radio daily. It anticipates little dramatic change in the competitive structure of the radio market over the next five years. FM is thought likely to remain the dominant radio platform. Although DAB can now reach 52% of the population, only 250,000 receivers are in the market, and there is little sign that commercial radio will develop DAB services.

6.3 RTÉ's Strategic Challenges

Drawing on this analysis, RTÉ identifies a number of key challenges which its plans must address. These include:³⁰

Theme	Challenge	Response
Audiences	People want to consume content when and where they want	Content must be accessible on multiple platforms and devices, develop on-demand and catch-up services
	Younger audiences drifting away	Selective investments (e.g. 2fm) needed to address challenge of attracting younger audiences
Content	Increased competition from high production value content	Must continue to invest in high quality Irish content Create "unmissable" live radio
	High audience expectations across old and new media	Need for investment in HD, audience interaction etc.
Competition	Intense competition for both audiences and advertising income	New funding models and revenue streams needed Continue to attract audiences with best acquired programming as well as original content Digital and interactive platforms offer potential for revenue growth.
Costs	Cost challenges remain	Producers need to do more with scarce resources by leveraging technology, collaborative methods, "create once, publish many" model Co-production with domestic producers is essential Rationalise and improve digital services, such as DAB radio

These challenges, in the main, represent a reasoned analysis of the market pressures RTÉ will face over the next five years.

Overall, RTÉ believes that it needs to remain a broadcaster of reasonable scale, attracting audiences across the board with a diverse range of programming and a portfolio of services. Only if it can achieve this scale and relevance to all licence payers will it retain sufficient impact in the Irish media market to deliver its public service objectives. This approach is consistent with RTÉ's remit, as set out in the 2009 Broadcasting Act, and in our view makes sense in a world in which there are no other Irish broadcasters of such scale and range, and in which audio-visual content is increasingly provided by large international companies, with little interest in supporting original Irish content, culture or perspectives. Implicitly, this is a rejection of the narrower "market failure" model of PSB, in which a much smaller public broadcaster would concentrate only on those more serious and challenging programmes not provided by the rest of the market.

RTÉ also believes it needs to act now to prepare itself for the new on-demand world, even though the main impact of convergence is unlikely to be felt immediately. We agree with this view. A "wait and see option" which would involve RTÉ postponing investment in new platforms until they reach a certain market penetration could save money now and arguably keep open future options. Although potentially attractive at a time of constrained budgets, this approach carries significant risks: lack of involvement now would mean lack of influence in

30 Based on Tables 6-8, RTÉ costed five-year strategic plan.

how the platforms develop and present their content, it would mean losing profile among younger and more affluent audiences who are already hard to reach, and could increase the price of negotiating carriage with platforms at a later stage.

On balance, we think RTÉ will need to move sooner rather than later into this new world.

6.4 Assessment of the Key Market-Related Assumptions

6.4.1 Overview

While the broad analysis presented by RTÉ provides a realistic view of the challenges ahead and what it needs to do to address them, some of the key market-related assumptions used in constructing the five-year financial plans lack a detailed analytical underpinning and can be questioned. We now turn to those assumptions, and examine the extent to which RTÉ might have under- or over-estimated their likely impact. We focus in particular on those assumptions which could have a significant impact on RTÉ's costed five-year strategic plan.

6.4.2 Audience Performance

RTÉ's main document does not contain any detailed forecasts of viewing and listening, either by platform or channel/station. Additional data presented to us shows that RTÉ prepared its plans based on the broad assumption that its TV audience shares would remain throughout the plan period at 2012 levels, given proposed service improvements. Plans include increasing audience share for certain target groups, addressing gaps, adapting content to consumption patterns, and making services available across all distribution platforms. RTÉ did not however present a more detailed explanation of this overall assumption, for example by assessing platform shares, audiences on each platform and the impact of any competitive response.

Based on our own analysis, our view is that this is a stretching target, given possible platform and competition trends over the next five years. As noted in the market appendix, there is a downside risk of at least 1 percentage point in audience share associated with analogue switch-off, and increased competition from other channels could add to this pressure.

For Radio, RTÉ assumes that RTÉ Radio 1 will maintain share, and 2fm will see some small improvement, both of which seem consistent with the external market environment and planned changes to the schedules.

6.4.3 Commercial Income

Audience shares must then be translated into revenues. As RTÉ points out, there is often not a direct correlation between the two.

The graph in Figure 6.4.3a shows the changing composition of RTÉ's total income during 2003-2011. During the years preceding the economic crisis (2003-2007), commercial income grew strongly and so its percentage share of overall income increased, peaking at almost 56% in 2007, while the percentage of licence fee income fell. However, after 2007 (the peak of the pre-crisis Irish economy), there was a reversal in the percentage shares and, since 2009, the share of total income accounted for by licence fee income has exceeded that of commercial income. The chart also plots the trend in the percentage share of total income at

RTÉ accounted for by advertising income, the dominant component of the organisation's commercial income. The trends in the commercial income and advertising income components are almost identical, reflecting the importance of advertising income to RTÉ.

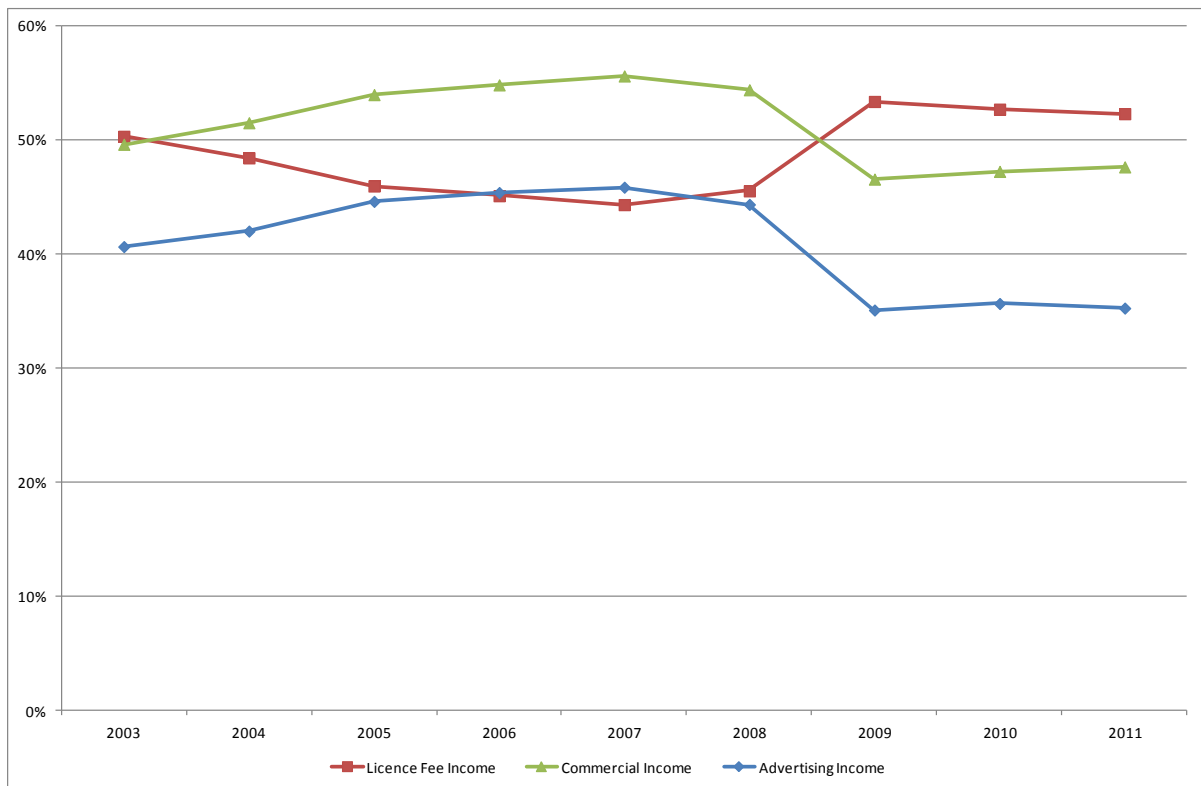


Figure 6.4.3a: Trend in the Proportion (%) of RTÉ's Total Income Accounted for by Licence Fee Income, Commercial Income and Advertising Income (2003-2011)

Looking ahead, RTÉ argues that, over the planning period, total commercial revenues will rise from €[redacted] in [redacted] to €[redacted] in [redacted] – or by [redacted]% in aggregate. [redacted]. As with its audience projections, RTÉ did not present detailed econometric or similar analysis in support of its assumptions, but instead gave us a broad-brush narrative account of its market expectations.

RTÉ's projection during 2013-2017 is based on assumptions that:

- Its TV advertising revenues will [redacted] by [redacted]% a year or [redacted]% cumulatively, [redacted];
- Its radio advertising income will [redacted] slightly by [redacted]% a year or [redacted]% cumulatively;
- Its digital revenues will approximately [redacted], to [redacted]% of revenues by the end of the period.

Table 6.4.3b overleaf presents RTÉ's commercial revenue projections for the period 2013 to 2017.

The commercial revenue assumptions for radio seem reasonably plausible, [redacted]. Overall, radio income should see some recovery after the recession. RTÉ provides three national stations that accept advertising and little dramatic change is expected in competition from the rest of the radio market. Radio 1 is assumed to maintain its market leader position, and 2fm's repositioning is expected to increase revenues.

[Table redacted]

Table 6.4.3b: RTÉ's Commercial Revenue Projections (2013-2017)³¹

Digital revenues are difficult to predict with any certainty (given the relatively new markets in question, and as yet untested business models). However, RTÉ's expectations here do not appear to be (proportionately) too far out of line with figures already achieved by similar broadcasters, such as ITV in the UK. **[redacted]** This suggests that there may be some upside for further growth in this area **[redacted]**.

6.4.4 TV Advertising Revenues

RTÉ's assumptions for TV advertising revenues seem over-cautious. RTÉ explains that it sees the market for advertising "bottoming out" in 2013, with some small recovery thereafter. Its TV advertising income, **[redacted]**. As we explain in Appendix 1 to this report, TV advertising will be affected by two main drivers: growth in overall advertising, and any structural change which might affect TV's share of the total.

Firstly, it is widely accepted that economic growth should help drive overall advertising growth. In the long run there is a good correlation between advertising spend and economic indicators such as GDP. Taking existing economic forecasts over the five-year period, this suggests there is a potential for all advertising in Ireland to have grown by around 10% between now and 2018.³² RTÉ suggests that growth in consumption may be less than growth in GDP, but would accept that some growth potential exists.

Secondly, however, TV advertising will face competition from other media. Our assessment is that TV will account for at best a stable share and possibly a gradually declining proportion of that overall market as new forms of advertising attract marketing budgets from established media (see the discussion in Appendix 1 for more background). RTÉ points to the potential increase in online advertising as an example of this structural change. In the UK, too, several forecasters have recently anticipated a relative flat outlook for TV advertising, despite overall market growth. This needs to be factored into the projections.

Finally, RTÉ's share of TV advertising must be estimated. RTÉ notes that it will face competition from TV3, Sky, and new on-demand services. It also highlights particular competition for 15-34 year olds' viewing. While RTÉ's audiences may be in gradual decline, however, RTÉ's services remain the main route in Ireland by which advertisers can reach mass audiences. Moreover, RTÉ's programme plans make provision for winning back some of the valuable 15-34 year olds who have been captured by rival channels in recent years. Already RTÉ can sell airtime at a substantial premium to the rest of the market.³³ It would be reasonable to expect, therefore, that RTÉ would be able to offset part of any audience decline by raising its airtime premium.

31 Source: RTÉ, Consultancy Team analysis. Note: These projections were provided by RTÉ to the Consultancy Team and do not appear in the Costed Plan. CAGR denotes compound annual growth rate.
 32 Based on the expected upturn in GDP. Some would argue that this is a relatively cautious estimate, as advertising spend often moves ahead of economic growth after a recession.
 33 For example, RTÉ explains that its premium varies from **[redacted]**% above competing domestic channels to **[redacted]**% above UK opt-out channels.

Taking all these factors into consideration, we would expect RTÉ to be able to at least maintain its TV airtime revenues at their 2012 levels and, most probably, achieve some modest uplift over the period. This would, we calculate, equate to additional commercial income of between €10m and €15m a year by 2017, depending on whether TV revenues are held flat or slightly increased. The complementary quantitative analysis of RTÉ's commercial income, the results of which are reported in Appendix 1, suggests that achieving this additional income is possible and that it would be feasible to expect commercial income in the region of €173m - €178m by 2017.

Clearly, trading conditions will remain difficult. But there should be scope for challenging RTÉ to improve on its relatively cautious commercial revenue projections.

In its five-year plan, RTÉ proposes³⁴ [redacted]

- Maximise commercial income, as mandated in the 2009 Broadcasting Act;
- Stem the decline in commercial revenue resulting from a weak domestic economy;
- Leverage digital innovation to drive new revenue streams;
- Implement best practice in sales operations;
- Grow sponsorship revenues across all platforms.

No further details are given of what initiatives might be adopted in each of these areas, but it would be surprising if changes of this nature were not able to drive an increase in commercial incomes in total.

Examples of the sort of initiatives which we would expect RTÉ to be exploring can be found by looking at other public broadcasters who face similar challenges, and are adopting a range of measures to drive income growth. Channel 4 in the UK, for example, has extensive plans to use its online and on-demand services to build a better understanding of its audiences and to enable advertisers to target commercial messages (for catch-up and on-demand content) to particular demographic groups. The Canadian PSB,³⁵ the Canadian Broadcasting Corporation (CBC), which relies on commercial income for 40% of its total funding, set out a range of its current initiatives to a recent London conference. They included:

- revenue-sharing partnerships with advertising agencies and key advertisers;
- selling airtime on the basis of detailed audience information;
- various imaginative forms of product placement;
- "underwriting" and sponsorship of programmes by funders;
- charging for apps on smart TVs; and
- exploring new commercial relationships with Apple, Microsoft, and Netflix.

As RTÉ explains, it would also be possible for it to generate some uplift in commercial income if airtime sales rules³⁶ were relaxed. It should be noted here, though, that the more effective RTÉ becomes in selling its airtime and the more regulatory flexibility it is given, the greater the adverse impact might be on the market shares of its competitors, especially TV3.

34 Table 43, RTÉ costed five-year strategic plan.

35 CBC Presentation to PBI Conference, London, November 2012.

36 For example, relaxation of limits on airtime minutes at peak times.

It is naturally to be expected that RTÉ's commercial revenue plans will be fully compliant with Irish and European competition law. In 2012, RTÉ agreed with the Competition Authority to remove its scheme in respect of advertising³⁷ and its commercial revenue projections for the next five years recognise the challenges associated with bedding-in the new system.³⁸

6.4.5 Other Commercial Income

"Other" commercial income reported by RTÉ, at around [redacted]% of the total, is projected to account for around €[redacted]m by the end of the period. This represents [redacted] over current levels, and includes income from publishing, programme sales and licensing.

RTÉ explains that, although it is not in a position to create content specifically for the international market, the growth in broadband means that overseas consumers should be able to gain access to RTÉ content more easily and at a lower cost than previously was possible. Whilst programme sales and licensing revenues might be expected to increase if RTÉ is able to focus more of its resources on high quality original content, the extra income this might generate is highly uncertain. Moreover, some of this "other" income may well disappear (or shift into the digital income category) as more consumers access programmes online rather than buy physical copies.

Whilst RTÉ should certainly be encouraged to develop this aspect of its revenues, outcomes are highly uncertain, and it would therefore not be prudent to plan on the assumption that any significant increase would be achievable.

6.5 Market-Related Costs

RTÉ makes three key cost assumptions in its five-year plan, to which we return in more detail later. These assumptions are:

- wage inflation affects personnel costs,
- general non-personnel costs rise in line with CPI; and
- the amount spent on sports rights and programme acquisitions is reduced over the period.

Each of these assumptions needs to be considered in the context of relevant trends in the rest of the media market over this period.

Firstly, the general outlook for the Irish media sector, as set out above, is one in which revenues will grow only slowly. Commercial companies will be under continuing pressure to control costs, and are unlikely, in the main, to inject significant inflationary pressures into the market for broadcast or media personnel. In many areas, RTÉ is the main employer of

37 The decision (E/12/001 of 17 January 2012) is available at: <http://www.tca.ie/EN/Enforcing-Competition-Law/Decisions-and-Notices/Enforcement-Decisions/Decisions/RTs-Conduct-in-the-TV-Advertising-Market.aspx>.

38 It is important to note that the CA's decision in this case was an *enforcement decision* and did not result in any criminal or civil legal action against RTÉ. The CA's investigation raised concerns that RTÉ's share deal system could amount to a breach of Section 5 of the Competition Act 2002 and/or Article 102 of the Treaty on the Functioning of the European Union (TFEU) (i.e. abuse of a dominant position, in this case in the television advertising market in the State). The CA was satisfied that the undertakings offered by RTÉ addressed its concerns under Section 5 of the Act. Therefore, the Authority decided to close its investigation.

broadcasting expertise in Ireland, and should be well placed to avoid wage inflation in many areas of its business.³⁹ It recognises this in its projections for reduced “top talent” costs.

Similarly, for non-personnel costs, including external commissions, RTÉ should be a significant “price setter”, not “price taker” in the current market. At least in the early years of the next five-year plan, RTÉ should be in a relatively good position to exert strict control over any prices paid for key inputs.

In both cases, therefore, likely market conditions suggest that there may be some modest upside available from better than predicted cost and wage outcomes than currently assumed in the RTÉ plan.

Partly offsetting this potential upside, though, are the risks associated with the assumptions made by RTÉ about costs of programme acquisitions and (to a lesser extent) sports rights costs. As we explain in the market outlook appendix, competition from Sky and others may make it harder than expected for RTÉ to control acquisitions costs, unless it can effectively manage volume and mix to avoid head-to head competition for the key US titles. RTÉ may be in a better position to reduce sports rights costs, but again faces the risk of targeted aggressive bidding for specific rights from TV3 or from other potential rivals.

On balance, we think that market conditions will help deliver a potentially useful upside from better than projected costs outcomes in the areas discussed. We assess the scale of this upside later in the report.

39 Exceptions to this general rule may include the cost of acquiring technical and digital expertise, which will be highly sought after more widely in the communications sector.

6.6 Potential Downside Risks

6.6.1 Overview

While there may be an overall financial upside on commercial revenues and (some) costs, the RTÉ plans carry some downside risks, too.

In our assessment, the main risks are:

- RTÉ's base-case plan may understate the scale of response needed to address the competitive challenges identified;
- Levels of investment proposed in the plan may be insufficient to support the hoped for success of digital terrestrial transmission – for TV and radio; and
- Continued investment in peripheral (or complementary) services may erode the quality and impact of vital core services.

6.6.2 Scale of Response Needed

RTÉ, as noted above, recognises the need to rebalance its overall spend to help fund more original Irish content, while also investing in new digital platforms and services. In its base-case, it goes some way to delivering this strategy. For example, it plans to:

- Clarify the roles of each of its main services (into core and complementary);
- Increase hours of relevant home production for RTÉ Two, especially aimed at younger audiences;
- Create more distinctive programming and brands on RTÉ 2fm; and
- Increase the amount of news, current affairs and investigative journalism.

At the same time, it is setting aside investment for its online and on-demand services.

However, in the base case, most of the proposed change is funded through re-balancing of spend, rather than from any new funding. Small savings in programme acquisitions and sports rights help to fund a modest amount of original commissions.

While this approach is arguably a pragmatic response in the face of financial constraints, the risk is that RTÉ is unable to match the quality and impact of programming shown by rival providers, and as a result loses further audience share as viewers drift away to better-funded international rivals.

Specific risks are:

- New on-demand providers take audiences away from RTÉ, rather than simply adding to consumption (especially if they can offer original or unique programming such as in recent moves by Netflix);
- UK-based Pay TV broadcast channels compete more aggressively for audiences, with more ambitious UK and US acquired programming; and
- Audiences drift away from Saorview more quickly than anticipated.

If any or all of these happen, RTÉ would see higher than expected falls in audience shares, with a consequent adverse impact on revenues.

In its plan, RTÉ presents a range of options⁴⁰ which could be delivered if more public funding were to be made available. The first of these focuses on new content (around **[redacted]** a year), including a substantial increase in original Irish drama, comedy and factual programming, which would undoubtedly add public value to its proposition and help in its competitive response to the market developments we have identified.

Other proposals set out in Section 8 of the RTÉ plan seem much less directly aimed at meeting the immediate challenges identified in the market analysis. They include:

- Digital library;
- Open archive;
- **[redacted]**;
- **[redacted]**;
- **[redacted]**;
- DAB plus;
- A Donnybrook digital hub and campus.

These would need to be further tested against the key market and strategic challenges identified by RTÉ before concluding whether they were worth funding, and perhaps should be revisited in the light of market developments and RTÉ's financial outlook over the next five years.

Recommendation 1: RTÉ should consider the proposals for additional services set out in Section 8 of their plan and test these against key market and strategic challenges before concluding whether such opportunities are worthy of investment.

6.6.3 Digital Plans

RTÉ highlights the important potential role played by Saorview in its future success. Regarding Saorview, RTÉ argues that “Saorview penetration will increase over time and more consumers will have the opportunity to use the Saorview offering”.⁴¹

Its strategy is to continue to invest in and develop Saorview so that “it keeps pace with other broadcast platforms, ensuring that everyone in Ireland has access to high quality free-to-air Irish broadcast television channels and services”. **[redacted]**

However, there must be some uncertainty about the longer term prospects of Saorview if it does not receive significant further investment and support. The existing RTÉ digital channels operate on relatively modest budgets with little new content. The base case proposals do not allow for any major new investment in those channels, **[redacted]**. Even the optional proposals in Chapter 8 of the RTÉ costed five-year strategic plan do not propose a significant increase in digital channel funding. **[redacted]**

The future for DAB is less clear. Only 9% of households have a DAB receiver, and so far there is a lack of a compelling service proposition or good geographical and population coverage. For the immediate future, therefore, RTÉ appears to be adopting a holding position

40 Set out in chapter 8 of the Costed Plan.

41 RTÉ costed five-year strategic plan , Section 4.2.1.

on DAB: maintain limited investment in its own services while liaising with other stakeholders to determine how progress could be made. How effective this will be is unclear. In the meantime, scarce public resources are being allocated to a service which, arguably, adds only limited public value.

6.6.4 Peripheral Services

RTÉ's strategy for its core services is clear, and they represent a coherent and complementary portfolio. Alongside the core, certain of the complementary services are convincingly positioned as being essential responses to the market challenges outlined in their plan. These include:

- RTÉ Player;
- RTÉ News Now;
- RTÉ lyric fm.

However the remaining complementary services are arguably less central to the key strategic objectives set out in the five-year plan. These include the DAB radio services and Irish language output. Together, they account for some €25m of annual expenditure (not including the €10m per annum support given in the form of programming to TG4). There is a clear risk that, where funding is tight, continued investment on this scale in these more peripheral services could put at risk the success of core services in delivering RTÉ's key strategic objectives.

6.7 Chapter 6 Key Messages

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- RTÉ makes the case persuasively that it needs to remain a broadcaster of reasonable scale to sufficiently impact on the Irish media market and deliver its public service remit;
- RTÉ's audience and revenue projections are not underpinned by as much detailed analysis as we would have expected. On the basis of our own analysis, there seems potential for some revenue upside, especially towards the later part of the planning period;
- While its base case proposals should be sufficient to stabilise its market position, RTÉ's plans may understate the scale of response needed to address the competitive challenges identified for the longer term;
- In particular, the levels of investment proposed may be insufficient to support the projected success of digital terrestrial transmission for TV and DAB for radio;
- Continued investment in some less well-used complementary services may ultimately erode the quality and impact of vital core services.

We now move on to assess the RTÉ costed five-year strategic plan in Chapter 7.

7 Assessment of RTÉ's Costed 5-Year Strategic Plan

7.1 Introduction

7.1.1 Preamble

In this chapter, we set out our assessment of the costed five-year strategic plan submitted by RTÉ. The document presented by RTÉ is comprehensive and provides a wide-ranging assessment of the Irish media environment over the five-year period from 2013 to 2017, a description of how RTÉ proposes to serve its audiences with quality services and content, and detailed proposals for the delivery mechanisms (including technological, organisational, and financial) required to meet these objectives. Although we do not propose to replicate the detail of RTÉ's plans within this report to the BAI, the following paragraphs provide a short summary of the principal elements within RTÉ's costed five-year plan.

In this regard, it should be noted that the budget and financial projections presented by RTÉ for 2013-17 are based on certain expectations regarding the market outlook, the Irish and European economic situations, and likely revenues from both public funding and commercial sources. Noting that the "market outlook in the short-term is uncertain",⁴² the RTÉ plan presents a set of baseline assumptions and projections, along with three alternative scenarios involving varying levels of public funding and commercial revenue; these are also described in the following paragraphs.

Finally, it should be noted that our analysis is based on a recognition that it is a matter for RTÉ to define how best its remit is to be served, in terms of the establishment and development of its services, and the broadcasting of content via its various channels. Against that backdrop, we have examined RTÉ's costed five-year strategic plan to assess whether the plan stands up as a statement of strategic intentions; whether it contains sufficient detail in respect of concrete plans for the next five years; whether costs and revenues have been coherently presented; and whether the plan is designed to bolster core public service broadcasting outputs. We have also sought to analyse the extent to which the plan takes adequate account of wider market developments, audience preferences and other influencing factors. Our conclusions are therefore centred around the adequacy of the plan as a strategic document: its implementation, and the delivery of the various strategic objectives which RTÉ has set for itself, are matters which lie beyond this review, and it is not possible for us to determine at this stage whether the actual content which RTÉ proposes to broadcast over the next five years will actually work, how competitors may react, or how other external influences will impact on RTÉ's commercial position by the end of 2017.

42 RTÉ Costed 5-Year Plan: Today, Tomorrow – a New RTÉ for the Connected Age, section 7.6

7.1.2 RTÉ's Baseline Plan for 2013-17

In its costed five-year strategic plan, RTÉ divides its activities into five “core” and ten “complementary” services, as follows:

Core Services	Complementary Services
RTÉ One	RTÉ Player
RTÉ Two	RTÉ News Now
RTÉ Radio 1	RTÉ lyric fm
RTÉ 2fm	RTÉ Raidió na Gaeltachta
RTÉ.ie	RTÉ Radio Player
	RTÉjr
	RTÉ Orchestras, Quartet and Choirs
	RTÉ Digital Radio
	RTÉ Aertel
	RTÉ Archives

In carrying out our analysis of RTÉ's costed five-year strategic plan, we have taken into account the fact that RTÉ has approached the planning process in an organisation-wide, holistic manner: although specific objectives, targets and actions have been set down for each service, the plan provides for the development of RTÉ's services on an integrated, cross-channel basis, with genres and programme types balanced between channels (for example, most sports programming on television being focused on RTÉ Two, most news and current affairs appearing on RTÉ One, etc). On that basis, we have conducted our analysis across five service areas, as follows:

Service Area	Core Services	Complementary Services
Television	RTÉ One RTÉ Two	
Radio	RTÉ Radio 1 RTÉ 2fm	RTÉ lyric fm RTÉ Raidió na Gaeltachta
Online	RTÉ.ie	RTÉ Player RTÉ Radio Player RTÉ Aertel
New Digital Services		RTÉ News Now RTÉjr Television RTÉ Digital Radio
Other Services		RTÉ Orchestras, Quartet and Choirs RTÉ Archives

The following paragraphs describe the strategic focus proposed by RTÉ for each of these service areas, along with a summary of the specific initiatives and service proposals described by RTÉ in the plan. We then examine the financial projections presented by RTÉ, followed by our analysis of these plans.

7.2 RTÉ Television

7.2.1 Overall Strategic Approach

The preparation of RTÉ's costed five-year strategic plan involved a review of its portfolio of services, which analysed each service in terms of its fit with RTÉ's public service objects, audience focus, appeal and accessibility, editorial ethos and content quality, genre balance,

societal impact and costs and efficiencies for each service. The strategic plan notes that RTÉ's linear services are anchored around pairs of channels (RTÉ One and Two with regard to television, and RTÉ Radio 1 and 2fm with regard to radio), which allows complementary scheduling by "providing an alternative to different audiences in terms of age, tone or interest".

The analysis conducted by RTÉ identified a range of factors for its television channels which the broadcaster believes need to be addressed within the five-year strategic plan, including the following:

- [redacted];
- [redacted];
- [redacted].

In order to address these issues, the costed five-year strategic plan proposes that RTÉ One will serve adults during the daytime, with a shift to a more family focused schedule in the early evening with entertainment, lifestyle, factual and documentary programming. After 9pm, it is proposed that RTÉ One will focus on adults, with its programming predominantly built around news and current affairs, factual and documentary output.

The core improvement initiatives for RTÉ One over the next five years are proposed as follows:⁴³

- Reinvigorate the RTÉ One brand to be more contemporary, modern and relevant;
- Refocus RTÉ One to build on its position as the family channel with content to appeal to all ages pre-watershed and skewing older post 9pm;
- [redacted].

The RTÉ strategic plan envisages that RTÉ Two will serve children and teenagers from morning until early evening with a mix of home produced and acquired programming, and that after 7pm it will target young adults in the 15 to 34 age group. There will then be an emphasis on home produced young factual, comedy, sports and entertainment after 9pm.

The core improvement initiatives for RTÉ Two over the next five years are proposed as follows:⁴⁴

- Audience focus: Place young Irish adults at the centre of all commissioning, editorial, content and scheduling decisions;
- Research and innovation: Research audience needs in more sophisticated ways and innovate new formats and initiatives to engage younger audiences;
- Home production: Increase the hours of relevant home production;
- [redacted];
- Costs: drive down the cost of acquired programmes and sports rights to enable more investment in home production.

7.2.2 Financial Metrics for RTÉ Television

Key financial metrics for the two RTÉ television channels are presented in summary below, for 2013 and 2017; these figures are provided in order to give the reader a general sense of

43 Source: RTÉ Today, Tomorrow2013-17, Table 12, p59

44 Source: RTÉ Today, Tomorrow2013-17, Table 12, p59

the scale of the two channels, the broad breakdown of their costs, RTÉ's forecast of the licence fee revenue attributed to each, and the percentage change in these figures over the lifetime of the costed plan. More detailed financial metrics are presented in Appendix 3.

RTÉ Television (all amounts €m)	RTÉ One			RTÉ Two		
	2013	2017	% change	2013	2017	% change
Costs / Year						
In-house productions	*	*	*	*	*	*
Commissions	*	*	*	*	*	*
Acquired Programmes	*	*	*	*	*	*
Broadcast and Distribution	*	*	*	*	*	*
Other costs	*	*	*	*	*	*
A: Gross Public Service Cost	(130.0)	(136.2)	4.8%	(72.9)	(75.4)	3.4%
Revenues	*	*	*	*	*	*
B: Surplus on Commercial Activities	*	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*	*

RTÉ Television 2013 (all amounts in €m)				
Programme Costs by Genre	RTÉ One	% of total	RTÉ Two	% of total
Factual	*	*	*	*
Drama	*	*	*	*
Entertainment	*	*	*	*
Music	*	*	*	*
News, Current Affairs and Weather	*	*	*	*
Sport	*	*	*	*
Young Peoples	*	*	*	*
Total Indigenous Programme Costs	*	*	*	*

RTÉ Television 2013	RTÉ One	RTÉ Two
Gross Public Service Cost as % of total for RTÉ	42.0%	23.6%
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

[redacted]

[redacted]

7.2.3 Analysis and Comment

As is clear from the above description, RTÉ One remains the “flagship” channel for the broadcaster, representing a minimum of 42% of the gross public service cost for RTÉ over the five-year period, and accounting for between 36% and 39.3% of the licence fee.

Between 2008 and 2011, RTÉ One saw a reduction in viewers of around 3.7%, and its audience share fall from 25.08% to 23.43%.⁴⁵ Looking at the Nielsen data with regard to specific audience groups, the fall in viewer numbers appears to be most significant amongst 15-34 year olds (down from 1.86m to 1.48m, or 20.4%) and amongst housekeepers with children (3.63m down to 2.76m, a fall of 24%). Audience shares for these groups also indicated a sharp downward trend, with 15-34 year olds falling from 17.99% to 13.83%, and the audience share for housekeepers with children reducing from 22.58% to 19.56%.

These reductions are particularly significant as the two audience groups seeing the steepest decline are amongst the top targets for advertisers; programmes on RTÉ television and on commercial broadcasters such as TV3 and Sky which attract large numbers of viewers from these audience groups tend also to generate the greatest amounts of advertising revenue. These audience groups are therefore very significant to television broadcasters: although RTÉ is required to put public service objectives ahead of commercial revenue generation, it is nevertheless clear that these are important audiences for them to serve properly.

Although RTÉ One has experienced these reductions in its viewing numbers and audience share, it must also be noted that the channel is by far the most popular amongst viewers in Ireland, achieving an average share which in 2011 was almost double that of its closest competitor, TV3 (23.43% share for RTÉ One, compared with 12.35% share for TV3). Nielsen also report that of the top 50 programmes shown on all channels in Ireland in 2011, 42 were shown on RTÉ One, with eight of the top 10 appearing on that channel (the two exceptions being the All-Ireland football and hurling finals shown on RTÉ Two). Interestingly, RTÉ One accounts for only 20 of the top 50 timeshift programmes from 2011, with a more diverse range of channels represented within the top 50 list (including RTÉ Two, TV3, BBC1, BBC2, Sky Atlantic, and Sky Living), suggesting a desire amongst the viewing public to access a broader range of content from a wide selection of channels, at a time suited to themselves (whereas RTÉ One tends to carry those programmes which people like to watch live).

The reductions in audience share being experienced by RTÉ One, as reported by Nielsen, are consistent with the audience research which we conducted as part of this assignment, particularly with regard to “viewer fatigue” with RTÉ One and a desire amongst the audience to see more new talent, whilst also recognising that RTÉ One is regarded as the most trustworthy source for Irish television news, and that value is placed on high quality programming, and on the broadcasting of programmes that are made in Ireland for Irish people.

RTÉ’s costed five-year strategic plan recognises that some work is required in order to arrest the recent decline in audience figures and audience share, **[redacted]**. The strategic plan identifies the need to “refresh the schedule” and to “refocus the brand”, and we note that one of the planned actions is to leverage audience insights in order to align content with audience needs: this, we believe, will be central to RTÉ One’s ability to provide a better and more relevant service to those audience groups which have seen a decline in recent years. In that regard, the proposal to “grow younger audiences with contemporary, quality content” appears to be well targeted and to demonstrate awareness of current attitudes amongst those audience groups which have been in decline.

45 Source: Nielsen TV Trends 2011, tables 3.1 and 3.2 – figures quoted based on data for national individuals and represent live viewing (Nielsen started including time-shifted viewing data in its TV Audience Measurement reports only from Sept 2010 onwards)

The five-year plan also proposes that the existing strengths of RTÉ One should be built upon, for example, the commissioning and production of high quality documentary and factual programming, and the position of the station as the primary outlet for all major national events. Recognising the need to restore viewer confidence after well-documented recent difficulties in RTÉ News and Current Affairs, the plan also announces a refreshing of current affairs and investigative journalism programming in peaktime, along with other improvements and changes in news output.

Overall, it is proposed that the gross costs of RTÉ One will increase from € [redacted] to € [redacted] between 2013 and 2017; [redacted], the net cost is expected to rise from [redacted] to € [redacted] (an increase of around [redacted] % over five years).

The impact on the attribution of licence fee to RTÉ 1, using the new attribution methodology developed by RTÉ in late 2012, will range from € [redacted] in 2013 to € [redacted] in 2017, [redacted]. It should also be noted that by 2017, RTÉ One will account for 39.3% of all licence fee revenues received by RTÉ.

In broad terms, we believe that the strategic plan put forward for RTÉ One represents a sensible and balanced approach which takes account of the need to rebuild audience share amongst those groups for whom the channel has become less relevant in recent years, whilst also recognising and building upon the considerable strengths of RTÉ One as the flagship channel for the national broadcaster. The gross cost increase is relatively modest given these aspirations.

RTÉ's strategic plan for RTÉ Two would appear to represent, in broad terms, a continuation of existing approaches to programming, with over 90% of expenditure being allocated to sports, young people's and entertainment. The proposed improvements in brand focus and schedule balance are very much targeted at RTÉ Two's core audience, and of particular importance is the plan to engage with younger audiences "on their terms" by harnessing social media, by delivering "second screen experiences", and by giving "linear content new expression online". From that perspective, RTÉ Two's plan appears balanced and focused on the identified audience expectations and preferences.

In the costed five-year strategic plan, RTÉ's proposal for "more investment in home production" in relation to RTÉ Two entails a continued emphasis upon in-house production, with expenditure on commissioned and acquired programming seeing no significant change by 2017. This raises a broader question relating to the value for money associated with internal production when compared with external commissioning, and further comment and analysis on this issue is provided in Chapter 7.9 below.

Overall, what we see in RTÉ's strategic plans for television is an approach whereby the changes proposed are largely incremental and modest, and are designed to grow audience share without any significant uplift in expenditure. RTÉ has also presented three alternative funding scenarios, which are discussed in Chapter 7.7 below.

7.3 RTÉ Radio

7.3.1 Overall Strategic Approach

As noted earlier, RTÉ's linear services in the case of radio are anchored around the core services RTÉ Radio 1 and 2fm, allowing complementary scheduling and addressing the needs of different audiences in terms of age, tone or interest. Complementary radio services are provided through the operation of RTÉ lyric fm and RTÉ Raidió na Gaeltachta. Digital radio services operated by RTÉ are discussed in Chapter 7.5 below, under the heading of "New Digital Services".

The analysis conducted by RTÉ as part of the preparation of this costed five-year strategic plan identified a range of factors for its radio channels which the broadcaster believes need to be addressed within the five-year strategic plan, including the following:

- [redacted];
- [redacted];
- [redacted].

- In order to address these issues, the costed five-year strategic plan proposes that [redacted]

The core improvement initiatives for RTÉ Radio 1 over the next five years are proposed as follows:⁴⁶

- Grow Radio 1 share among younger listeners (35-54) [redacted];
- Place a renewed emphasis on Science & Technology, Comedy, Entertainment, and Investigative Journalism;
- New voices and talent: develop our people so we have a younger and more diverse range of voices on air to reflect the changes in Irish society.

For RTÉ 2fm, the planned improvement initiatives over the next five years are as follows:⁴⁷

- Create more distinctive programmes and brands to attract new audiences.
- Develop new on-air talent and refresh the tone and feel of the station.
- Continue to develop our music policy and support new Irish music
- Use sport and comedy to grow audience and build affinity with the station
- Grow audience engagement using social media and technology.

For RTÉ lyric fm, the strategic priorities for 2013-17 are identified as follows:⁴⁸

- Achieve a wider, more diverse listenership, particularly by reaching out to potential listeners under the age of 50, and through publishing of CDs to promote Irish music;
- Establish and maintain collaborative and creative partnerships, through partnering with arts agencies and venues to bring festivals to a wider audience, through commissioning work from Irish composers, and through development of education and outreach programmes;
- Build on commitment to quality content, particularly through broadcasting of feature programmes examining music and music makers in "all their creative and collaborative contexts".

46 Source: *RTÉ Today, Tomorrow2013-17*, Table 13, p59

47 Source: *RTÉ Today, Tomorrow2013-17*, Table 12, p59

48 Source: *RTÉ Today, Tomorrow2013-17*, Table 21, p81

The strategic initiatives for RTÉ Raidió na Gaeltachta, RTÉ's Irish language radio service, over the period 2013 to 2017 are as follows:⁴⁹

- Increase listenership, through measures including reaching out to new audiences domestic league and overseas, strengthening the on-line offering and mobile applications to engage more effectively with the Irish Diaspora, and developing the Irish language learning offering for audiences at home and abroad;
- Re-focus the schedule, with more content created for younger listeners, development of new talent, and a strengthened on-air schedule;
- Develop strategic partnerships, through the establishment and development of partnerships allowing additional content provision, promotional opportunities and “re-purposing of content”;
- Modernise the brand, by making it more relevant in a changing Irish society, and by exploring the possibility of renaming the Raidió na Gaeltachta brand.

7.3.2 Financial Metrics for RTÉ Radio

Key financial metrics for RTÉ radio channels are presented in summary below, for 2013 and 2017; these figures are provided in order to give the reader a general sense of the scale of the channels, the broad breakdown of their costs, RTÉ's forecast of the licence fee revenue attributed to each, and the percentage change in these figures over the lifetime of the costed plan. More detailed financial metrics are presented in Appendix 3.

49 Source: *RTÉ Today, Tomorrow 2013-17*, Table 22, p82

RTÉ Radio – Core Services						
(All amounts in €m)	RTÉ Radio 1			RTÉ 2fm		
Costs / Year	2013	2017	% change	2013	2017	% change
In-house productions	*	*	*	*	*	*
Commissions	*	*	*	*	*	*
Broadcast and Distribution	*	*	*	*	*	*
Other costs	*	*	*	*	*	*
A: Gross Public Service Cost	(32.9)	(33.7)	2.4%	(11.6)	(12.4)	6.9%
Revenues						
B: Surplus on Commercial Activities	*	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*	*

As it may be observed from the above financial data, costs [redacted] change only marginally during the five-year lifetime of this costed strategic plan. With regard to 2fm, a slightly larger increase in costs (6.9% as opposed to 2.4% for Radio 1) is forecast between 2013 and 2017, [redacted]

[redacted]

[redacted]

It would appear that these projections are consistent with the strategy for 2fm to regain audience share and increase advertising revenue. However, we would question whether these projections appear realistic, given that the gross public service cost of 2fm is projected to increase by only 6.9% (to €12.4m), and at a time when its licence fee attribution is forecast to reduce by [redacted] to €[redacted].

More modest changes in costs and revenues for the two complementary radio services operated by RTÉ, lyric FM and Raidió na Gaeltachta, are forecast between 2013 and 2017, as illustrated below:

RTÉ Radio – Complementary Services						
(All amounts in €m)	RTÉ lyric fm			RTÉ Raidió na Gaeltachta		
Costs / Year	2013	2017	% change	2013	2017	% change
In-house productions	*	*	*	*	*	*
Commissions	*	*	*	*	*	*
Broadcast and Distribution	*	*	*	*	*	*
Other costs	*	*	*	*	*	*
A: Gross Public Service Cost	(6.4)	(6.7)	4.7%	(10.9)	(11.3)	3.7%
Revenues						
B: Surplus on Commercial Activities	*	*	*	0.0	0.0	0.0%
C: Distribution of Non Channel Commercial Surplus	*	*	*	0.0	0.0	0.0%
D: Net Cost of Public Service (A+B+C)	*	*	*	(10.9)	(11.3)	3.7%
E: Licence fee revenue attribution	*	*	*	10.9	11.3	3.7%
(Deficit)/Surplus before income tax (D+E)	*	*	*	0.0	0.0	0.0%

The following table presents a breakdown of programme costs by genre for each of the four RTÉ radio channels for 2013, in order to illustrate the distribution of expenditure:

RTÉ Radio 2013 (all amounts in €m)								
Programme Costs by Genre	Radio 1	% of total	2fm	% of total	Lyric fm	% of total	RnaG	% of total
Factual	*	*	*	*	*	*	*	*
Drama	*	*	*	*	*	*	*	*
Entertainment	*	*	*	*	*	*	*	*
Music	*	*	*	*	*	*	*	*
News, Current Affairs and Weather	*	*	*	*	*	*	*	*
Sport	*	*	*	*	*	*	*	*
Young Peoples	*	*	*	*	*	*	*	*
Total Indigenous Programme Costs	(29.4)	100%	(9.8)	100%	(4.9)	100%	(9.5)	100%

Overall, the four RTÉ radio channels account for 20% of all RTÉ operating costs in 2013, and 19.8% of licence fee revenue obtained by RTÉ is distributed across these channels, as presented below:

RTÉ Radio 2013	Radio 1	2fm	Lyric fm	RnaG
Gross Public Service Cost as % of total for RTÉ	10.6%	3.8%	2.1%	3.5%
Surplus on Commercial Activities as % of total for RTÉ	*	*	*	*
Net Cost of Public Service as % of total for RTÉ	*	*	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*	*	*

7.3.3 Analysis and Comment

JNLR data for 2011 show that RTÉ's two core FM radio services continue to occupy a central part in the listening preferences of the Irish population, with reach and share figures as follows.⁵⁰

50 RTÉ Radio share and reach data for 2011 provided to Crowe Horwath by RTÉ in October 2012

Daily Station Reach Weekday (000s)				
	Total	Age 15-34	Age 35-54	Age 55+
RTÉ Radio 1	876	93	322	461
%	25%	7%	26%	47%
RTÉ 2fm	394	163	184	47
%	11%	13%	15%	5%
RTÉ lyric fm	124	20	36	69
%	4%	2%	3%	7%

As a more specialist, complementary radio channel, lyric fm achieves a smaller daily reach, with over-representation amongst those aged 55 and over.

In relation to national share of radio listening at weekday / peak time in 2011, RTÉ's published figures show the following:⁵¹

National share of radio listening at weekday / peak time	
RTÉ Radio 1	23.4%
RTÉ 2fm	7.5%
RTÉ lyric fm	1.9%
RTÉ Raidió na Gaeltachta	0.6%

As noted earlier, RTÉ is forecasting a relatively marginal increase in the costs of running Radio 1 over the next five years, with most of its strategic initiatives revolving around growing market share, particularly amongst those sections of the audience which are currently under represented, and developing new talent, whilst building upon existing strengths and quality of output. Some strategic changes will also be seen, including the transfer of some weekday early evening sports programming to RTÉ 2fm.

The RTÉ strategic plan takes account of the current challenges faced by RTÉ Radio 1, and recognises that it will be important to reach new audiences which will better reflect the demographics of the country, both in terms of age groups and multiculturalism. To do this, RTÉ proposes to continue to offer a mixed genre schedule, combining in-depth news and current affairs programming and entertainment shows within its schedule between 7am and 7pm each weekday, and broadcasting output representing other specialist genres such as drama, documentary, arts and specialist music programming in the off-peak schedule. We believe that this plan is generally well-balanced and properly reflects the issues and challenges likely to be faced by Radio 1 over the next five years.

For RTÉ 2fm, the challenges are different, and steeper: whilst there is also an ambition for audience growth and to restore its position with certain audience groups (such as 20 to 44-year-olds) for whom 2fm is no longer their radio channel of choice, **[redacted]**. As with RTÉ Radio 1, the plan for 2fm involves strengthening the schedule, and identifying and developing new contributors and voices. It also entails better digital integration, by maximising multimedia tools, social media outlets and the RTÉ website in order to build better connections with the 2fm audience. The financial plan identifies a **[redacted]**% increase in production costs for 2fm, which appear to be commensurate with RTÉ's intended strategic developments proposed for the station.

For RTÉ's two core radio stations, therefore, the five-year costed strategic plan appears to represent a relatively sensible approach in which proper account is taken of the strengths and weaknesses of each station, and appropriate plans developed for arguably modest growth over the five-year period.

The position of the two complementary radio stations operated by RTÉ is rather different. Whereas less than half of the operating costs of Radio 1 and 2fm are met by the licence fee, around 90% of the costs of running lyric FM, and all of the costs of Raidió na Gaeltachta, are borne by the licence fee at present. The table below illustrates the forecast dependence on the licence fee (as a percentage of licence fee attribution over operating costs) for each of RTÉ's four radio channels over the next five years:

Dependence on Licence Fee/Year	2013	2014	2015	2016	2017
RTÉ Radio 1	*	*	*	*	*
RTÉ 2fm	*	*	*	*	*
RTÉ lyric fm	*	*	*	*	*
RTÉ Raidió na Gaeltachta	*	*	*	*	*

***Data redacted**

The figures are quite striking when compared with audience share. At one end of the spectrum, RTÉ Radio 1 has a share of just under one quarter of the audience and costs around €33m per annum, of which around 43% is paid for via the licence fee. At the other, RTÉ Raidió na Gaeltachta costs around €11m per annum, all from the licence fee, and achieves an audience share of just 0.6%. Using the 2011 data, we can calculate the cost per 1% of audience share as follows:

Station	2011 gross costs	Audience share	Gross cost per 1% of audience share
RTÉ Radio 1	€33,567,000	23.4%	€1,434,487
RTÉ 2fm	€10,977,000	7.5%	€1,463,600
RTÉ lyric fm	€6,067,000	1.9%	€3,193,157
RTÉ Raidió na Gaeltachta	€10,309,000	0.6%	€17,181,666

Of course, we recognise that analysis of the costed strategic plans in respect of RTÉ's radio stations should not depend solely upon a relatively simple analysis of gross cost per audience share; other factors need to be taken into account, including RTÉ's remit in respect of the broadcasting of the Irish language and provision of radio services to audience groups whose listening intentions and preferences are more specialist.

Nevertheless, it is noteworthy that the strategic plan for Raidió na Gaeltachta does not deal with any proposed efficiency measures, nor does it consider whether there are alternative models for the delivery of Irish language radio services which would be less expensive. Over the life of the five-year plan, operating costs for Raidió na Gaeltachta are forecast to increase marginally, and the general tenor of the strategic plan is for (arguably) modest incremental improvements and for some increase in listenership, rather than any radical changes to the way in which the station is operated. Given the level of cost associated with Raidió na Gaeltachta, and the challenging financial position in which RTÉ finds itself generally, we find it somewhat surprising that alternative options (for example, incorporating its content as an opt-out in another service) have not been presented and discussed.

RTÉ lyric fm also has a relatively small audience share, although its costs are more modest than those associated with Raidió na Gaeltachta. The cost per audience share is just over double the cost at both RTÉ Radio 1 and 2fm. Unlike Raidió na Gaeltachta, however, RTÉ

has given detailed consideration to two future alternative strategies for lyric fm, both of them radical.⁵² [redacted]. Whilst the final version of RTÉ's costed strategic plan does not involve the adoption of either of these options, it is nonetheless noteworthy that they underwent active consideration and financial analysis within RTÉ as part of the strategic planning process. Ultimately, the plan for lyric fm has been developed to reflect an ambition for achieving a wider and more diverse listenership, recognising the areas where the station is currently weaker in audience terms, and to grow its audience through more external partnership, education and outreach. In the short-term, this may be a sensible and balanced approach, with the option for RTÉ to return to more radical alternatives if these strategic developments and improvements in audience share are not realised.

7.4 RTÉ Online Services

7.4.1 Overview

The RTÉ costed five-year strategic plan sets out the strategic intent, initiatives, actions and milestones for all "free to user" RTÉ online services, which include RTÉ.ie, the RTÉ Player, the RTÉ Radio Player and RTÉ Aertel. Of these, RTÉ.ie is a core service within the plan, whilst the other three are complementary. Specific information on future plans is presented for RTÉ.ie, the RTÉ Player, and the RTÉ Radio Player, whereas the document includes only a high-level description of RTÉ Aertel in its present situation.

Financial information is not broken down in the strategic plan for the four services; instead, a single set of financial projections is presented for "Online Services", to include "all free to air online services".

7.4.2 Planned Developments Within RTÉ Online Services

The RTÉ strategic plan recognises the strategic role of RTÉ.ie "to deliver RTÉ content to both Irish and international audiences through a first-class user experience and multi-platform, multi-device availability".⁵³ The plan also takes note of rapidly changing patterns in the use of mobile and online technology and social media with regard to accessing and sharing content, and interactivity.

At a specific level, the plan for RTÉ.ie includes the following strategic initiatives:

- Establishing a new hub for arts and culture, including a new online platform and production models to allow greater access to RTÉ's cultural content;
- Development of a new application for RTÉjr, by integrating RTÉ's three RTÉjr outputs (Television, Radio and online) through applications, content sharing and "other means of enriching young audiences experience of Irish children's content";
- Creative integration of social media tools with RTÉ's content-creation;
- Deploying personalisation and customisation tools, and innovate production models and processes, to improve the audience experience;
- Develop a strategy for more in-depth and focused engagement of the Diaspora, ensuring that RTÉ.ie is a valued link to home for the millions of Irish abroad.

52 Papers provided by RTÉ to Crowe Horwath in February 2013, in support of the costed five year strategic plan
53 Source: *RTÉ Today, Tomorrow 2013-17*, Section 3.3.5, p76

For the RTÉ Player, the strategic plan entails:

- Improving the user experience, through HD video streaming, social and personalisation tools, and improved video playback features;
- Diversifying content strategy from catch-up to full on-demand service;
- Continuing to roll out RTÉ Player on relevant platforms and devices;
- Growing video-on-demand advertising revenue; and
- Launching premium content offering.

The strategic plan for the RTÉ Radio Player involves the following developments, some of which are similar to the plans for the RTÉ Player and website:

- Improving the user experience, through additional rich media elements, improved sharing capabilities, personalisation, scheduled recordings, etc;
- Progressing hybrid radio, in co-operation with European partners, through development of technologies to provide broadcast radio and internet connectivity in one device, via a single app;
- Pursuing an All-Ireland Player, by working with the sector to explore a common IP platform for Irish Radio.

For RTÉ Aertel, the costed five-year strategic plan does not present any specific initiatives or planned actions, but refers to the present situation, which entails:

- a weekly audience of 1.2 million users;
- close to 5 million monthly page impressions generated via online and mobile platforms;
- research suggesting that its strengths are convenience, ease of access and capacity for rapid navigation to information content spanning news, sport, business, entertainment, weather, stocks and shares, exchange rates, TV and cinema listings, flight times, holidays, public information and county councils, and subtitles.

7.4.3 Financial Metrics for RTÉ Online Services

Key financial metrics for RTÉ online services over the lifetime of the plan are as follows:

RTÉ Online Services (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
In-house productions	*	*	*	*	*
Commissions	*	*	*	*	*
Non-Broadcast Output Costs	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(10.5)	(10.3)	(10.5)	(10.8)	(10.8)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

***Data redacted**

Within the five-year plan, RTÉ has broken down the costs of its Online Services across genres: in 2013, [redacted]% of costs will be related to drama, [redacted] to entertainment, [redacted]% to news, current affairs and weather, [redacted]% to sport, and [redacted]% to young people's programming. Over the five years, there is almost no change forecast in the cost breakdown by genre.

The following table shows a series of key financial metrics for RTÉ online services as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ Online Services	2013	2017
Gross Public Service Cost as % of total for RTÉ	3.4%	3.4%
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

**Data redacted*

7.4.4 Analysis and Comment

In many ways, the RTÉ plan for its Online Services appears to reflect a retention of the status quo: although it mentions frequently the ambition to enhance the user experience, place a greater emphasis on personalisation, and connect new broadcasting technologies and social media tools with existing methods of reaching the audience, there is no obvious investment forecast in Online Services at any stage in the base case over the next five years. *[redacted]*

However, it must be noted *[redacted]*

No mention is made in the plan with regard to the potential realisation of any efficiencies within Online Services, although this may be understandable given that these are relatively new areas of activity

We also note that the plan for RTÉ Online Services is somewhat lacking in detail and precision, with no specific plans described for RTÉ Aertel, and mostly high level descriptions provided of the forward actions in respect of the other three online services. Whilst this lack of precision may well be associated with the absence of additional investment in RTÉ Online Services, we also recognise that the fast moving nature of technological development means that RTÉ may have to be necessarily reactive to evolving opportunities over the next five years, with less natural capability for engaging in medium- to long-term planning.

7.5 RTÉ New Digital Services

7.5.1 Overview

The RTÉ costed plan sets out the strategic intent, initiatives, actions and milestones for what we have grouped under the heading of New Digital Services, which include RTÉ News Now and RTÉjr Television, and a suite of six digital radio stations. All of these are complementary services within RTÉ's overall portfolio.

Specific information on future plans is presented for RTÉ News Now and RTÉjr Television, whereas the document includes only a high-level description and outline future intentions in respect of RTÉ Digital Radio.

Financial information is not broken down in the strategic plan for New Digital Services; instead, a single sum of €2.6m for broadcast and distribution costs only is presented in the

financial forecasts under the heading “other channels”,⁵⁴ for each year between 2013 and 2017; no commercial revenue is forecast under this heading in any year, and the cost is wholly dependent upon licence fee funding.

7.5.2 *Planned Developments Within RTÉ New Digital Services*

At a specific level, the plan for RTÉ News Now includes the following strategic proposals:

- Overhauling panels and tickers on the channel, to create “a more up to date integrated news service which will cater for breaking and latest news updates, embedded video and twitter/social media feeds”;
- Presenting more live bulletins, the goal being to have these at the top of the hour, every hour – but the plan notes that this goal is “finance dependent”;
- Enhance the News Now App, with a focus on social media and community-building.

For RTÉjr Television, the focus will be on:

- Programme delivery in content areas relevant to children;
- Launch of a new online application “in 2012” [sic];
- Development of a “new strand, building on elements of contemporary and traditional culture”.

For RTÉ Digital Radio, the costed five-year strategic plan presents limited information on future initiatives or planned actions, other than to promote these services player on-air and online, to merge RTÉ Choice with RTÉ Radio 1 Extra, and to conduct a further evaluation of RTÉ Gold and RTÉ Pulse in 2013.

7.5.3 *Analysis and Comment*

Perhaps the most striking element of the costed plan for RTÉ’s New Digital Services is that despite the opening statement that RTÉ plans to “make investments and commitments that broaden and deepen RTÉ’s support for Ireland’s creative and digital economies”,⁵⁵ and various acknowledgements through the costed five-year strategic plan of the importance of digital media within RTÉ’s future, there is very little detail within the plan regarding how RTÉ proposes to develop its digital services, and no apparent financial investment proposed within the base case. While we recognise that this is because of the need to secure the core services as a priority in the base case, nevertheless it exposes a significant strategic risk of the complementary services failing to find sufficient audience traction to justify even their marginal cost.

The plan for RTÉ News Now identifies finance as being a constraint to the proposed development of more live news bulletins, and otherwise lacks precision and specificity. Similarly, the strategic plan for RTÉjr contains somewhat less detail and is less precise than the plans for other RTÉ complementary services; the strategic initiatives, actions and milestones presented in Table A3/19 in Appendix 3 have been extracted from a broader statement of intent by RTÉ within the costed five-year strategic plan, but were not formatted in the same manner as other services (core and complementary).

54 Source: *RTÉ Today, Tomorrow 2013-17*, Appendix F, Tables F-1 to F-5 inclusive; “Other channels” is defined as “Transmission costs for RTÉ News Now, RTÉjr / RTÉ One +1, RTÉ Digital, RTÉ Pulse, RTÉ 2XM, RTÉ Choice, RTÉ Gold, and RTÉ Chill / Junior.”

55 *RTÉ Today, Tomorrow 2013-17*, Section 1: Introduction from the Director General

It is also worth noting that the plan for RTÉjr includes one action noted as being a future activity for “2012” (i.e. the year preceding the start of the five-year planning period, and the year before the date of issue of the RTÉ costed five-year strategic plan), suggesting that the plan for RTÉjr may be incomplete and still being worked on.

7.6 RTÉ Other Services

7.6.1 RTÉ Orchestras, Quartet and Choirs

In essence, the RTÉ costed five-year strategic plan envisages retention of the status quo with regard to the performing groups (which consist of two orchestras – the RTÉ National Symphony Orchestra and the RTÉ Concert Orchestra; the Vanbrugh Quartet; and two choirs – the RTÉ Philharmonic Choir and RTÉ Cór na nÓg). At present, the performing groups include over 330 performers, of whom more than a third are full-time professional musicians.

RTÉ’s 2011 Annual Report records actual expenditure of €15.47m on the performing groups for the year ended 31 December 2011; for 2013, this is forecast to fall to €14.4m, but by 2017 the figure will have risen to €15.2m.

No radical change to the RTÉ Orchestras, Quartet and Choirs is proposed in the five-year plan; the document focuses very much on strengthening the present position and on the continuing development of the performing groups, through measures such as:

- growing the audience and widening the audience base by being more responsive to its needs (e.g. timing of concerts, new formats, more cost-effective touring, workplace visits, etc);
- developing a closer relationship with audiences, through better outreach, strategic partnerships, improved website technologies, etc;
- supporting Irish artists;
- investing in new music;
- creating commercial recordings.

It is worth noting that the audience research which we conducted as part of this review found that support for the RTÉ performing groups achieved the lowest positive rating of any RTÉ service (only 37% agreed that it was important that the licence fee should contribute to this service, with 28% disagreeing; this service also had the highest percentage of respondents neither agreeing nor disagreeing, at 34%).

7.6.2 Financial Metrics for RTÉ Orchestras, Quartet and Choirs

Key financial metrics for the RTÉ performing groups are presented in summary below, for 2013 only; these figures are provided in order to give the reader a general sense of the scale of the service, the broad breakdown of its costs, and RTÉ’s forecast of the licence fee revenue attributed to the Orchestras, Quartet and Choirs in 2013. More detailed financial metrics are presented in Appendix 3.

RTÉ Orchestras, Quartet and Choirs (all in €m)	2013	2014	2015	2016	2017
Costs					
Indigenous non-broadcast output costs	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(14.4)	(14.6)	(14.7)	(14.9)	(15.2)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

RTÉ Orchestras, Quartet and Choirs	2013	2017
Gross Public Service Cost as % of total for RTÉ	4.7%	4.7%
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

As may be observed from the financial information, the RTÉ performing groups are heavily dependent on licence fee funding: only 17.4% of costs are met from commercial revenue. It is also noted that the performing groups represent a not-insignificant portion of RTÉ's overall activities, accounting for 4.7% of overall expenditure and 6.6% of licence fee income in 2013 (falling marginally to 6.4% by 2017).

7.6.3 Analysis and Comment – RTÉ Orchestras, Quartet and Choirs

Overall, RTÉ's costed five-year strategic plan seeks to continue the existing operation of the RTÉ performing groups with what we would define as incremental improvements, without making any significant changes. Operating costs for all aspects of the performing groups are forecast to rise by 5.6% over the period of the plan, and the dependence of the performing groups upon licence fee funding is forecast to continue at the present level over the five-year period of the strategic plan.

The RTÉ costed five-year strategic plan sets out the forward plan for the performing groups on the basis of continuing with the present model, rather than any more radical (and less expensive) alternatives. No proposals are put forward for efficiencies in this area, other than a reference to the adoption of a "less expensive touring model" for the RTÉ National Symphony Orchestra, about which no further detail is supplied.

Clearly, RTÉ believes that it is important to continue to operate all of its performing groups because it feels that all of them are needed to fulfil its role. We note that RTÉ's current Public Service Statement, covering the period 2010-14 and agreed with the Minister, refers to the operation of five performing groups.

However, it would appear that the question of efficiency – whether from using the existing service model more efficiently, or from more radical changes – has not been addressed in any detail by RTÉ within the five-year plan. Commercial revenues for the performing groups are largely unchanged over the lifetime of the plan, and no proposals are put forward by RTÉ in respect of generating any additional commercial income.

Given that resources are under pressure within RTÉ, and given the requirement of other operational activities for investment / recurrent funding, we would have expected to see more

analysis in the costed five-year strategic plan of options to meet the broad remit in respect of performing groups. In this context, the investment in the RTÉ Orchestras, Quartet and Choirs at the current level is inevitably at the expense of other things that might also be important – for example, investment in digital services.

7.6.4 RTÉ Archives

For RTÉ Archives, the costed five-year strategic plan does not present any specific initiatives or planned actions, but refers to the present situation, which entails:

- The RTÉ Archive's position as the largest national audio-visual archive in Ireland;
- Its unique record of Irish social, political, economic and cultural life in the 20th and 21st centuries;
- Sale and licence of its content under the terms of the Broadcasting Act 2009 for commercial and educational re-use;
- RTÉ's legal requirement to establish and maintain its archives and to have in place managed services to acquire, conserve, preserve, and document collections which are augmented daily.

No specific financial detail is provided in relation to the RTÉ Archives. We are therefore unable to comment in respect of RTÉ's future plans for its Archives, other than to note the assumption that existing services in this area will continue as at present.

7.7 RTÉ's Alternative Scenarios

7.7.1 Preamble

RTÉ has developed a number of alternative funding scenarios based on the following underlying assumptions:

- No increase in Public Funding;
- No increase in Public Funding and decline in Commercial Revenue;
- Increased Public Funding over Current Levels.

We will now move on to present our analysis of each funding scenario within the following paragraphs.

7.7.2 Scenario 1: No Increase in Public Funding

[Table redacted]

Source: RTÉ Costed 5-Year Strategic Plan: Today Tomorrow: Appendix E.2, Page 251

Under this scenario, RTÉ have prepared the projections based on no CPI increases being applied to licence fee income, and that no further income is gained from licence fee collection efficiencies or reduced evasion rates. In addition, RTÉ are projecting that content and service cuts, representing a reduction of 2.45% of total operating costs under the base case scenario, will be unavoidable under this scenario.

Cashflow projections under this scenario indicate cash outlays in the following key areas:

- Capital expenditure €[redacted];
- restructuring payments €[redacted];
- debt service costs €[redacted].

These projections represent a €[redacted] reduction in capital expenditure together with a €[redacted] reduction in debt service costs, as compared with the base case scenario.

7.7.3 Scenario 2: No Increase in Public Funding and Decline in Commercial Revenue

[Table redacted]

Source: RTÉ Costed 5-Year Strategic Plan: Today Tomorrow: Appendix E.3, Page 253

In addition to no CPI increases being applied and no further income being derived from licence fee income as noted above, this scenario assumes that commercial revenues will decline by a further 5% in 2014 and 2015, compared with the base case scenario, and will be maintained at the 2015 levels until the end of 2017.

Under this scenario, RTÉ are projecting of 4.53% reduction in total operating costs, with a 2.4% reduction in total income as compared to the base case scenario.

However, despite the decline in income, RTÉ maintain their cash outlay projections as described within Scenario 1 for capital expenditure (€[redacted]), restructuring payments (€[redacted]), and debt service costs (€[redacted]).

7.7.4 Scenario 3: Increased Public Funding over Current Levels

[Table redacted]

Source: RTÉ Costed 5-Year Strategic Plan: Today Tomorrow: Appendix E.4, Page 255

Under this scenario, RTÉ are projecting a cumulative 11.75% increase in public funding over the base case scenario. RTÉ have stated that the public funding projections displayed are shown net of any reduction in commercial income which may occur as a result of revaluation of RTÉ's commercial activities.

In addition, RTÉ are projecting an increase of *[redacted]*% in total operating costs from the base case scenario which is attributable to the €*[redacted]* increase in spend on content and services over the life of the plan.

Despite the increase in public funding, RTÉ continue to project the same level of cash outlays in restructuring payments and debt service costs, whilst projecting a €*[redacted]* increase in capital expenditure spend to €*[redacted]*.

7.7.5 Overall Conclusion

The financial position outlined within the first two scenarios will place significant challenges on RTÉ in sourcing the required cash resources to effect restructuring changes.

Furthermore, the position outlined within Scenario 2 will inevitably require RTÉ to fundamentally restructure its services and activities above a level which otherwise would be achieved from internal efficiency measures and operational cost reduction measures.

We would question whether more could be achieved as a result of the increased public funding as detailed under Scenario 3, particularly in terms of generating additional commercial income from increased operational and capital expenditure, in order to reduce the overall level of public funding attributed.

We also note that RTÉ has not produced any data regarding the expected viewing and listenership figures supporting each of the three scenarios which have been presented. Similarly, there is no real sense from any of the three scenarios regarding what use would be made of additional funding, in terms of programming, distribution, broadcasting hours, etc. It is also unclear what impact for commercial revenue would arise within each scenario as a result of increased public funding.

Overall, this absence of clarity creates considerable difficulty for us in attempting to assess the potential impact of the associated funding changes within each option, and the extent to which the Exchequer and licence fee payers may achieve additional value for money from the adoption of any of these options. Such information would be required before any more considered analysis of the three scenarios presented by RTÉ could be properly undertaken.

7.8 Costs, Efficiencies and Value for Money within RTÉ

7.8.1 Preamble

In the following paragraphs, we consider the cost forecasts presented by RTÉ in respect of recurring (operational) expenditure, capital investments, cost reductions, efficiencies and value for money, within the context of the costed five-year strategic plan.

7.8.2 Projected Recurring Costs within RTÉ

We have conducted a detailed examination of the recurring operational costs presented by RTÉ within the costed five-year strategic plan. For the most part, these would appear to reflect the levels of activity forecast for each core and complementary service, although we have commented earlier in Chapter 7 regarding the apparent lack of any significant investment in some of the complementary service areas (e.g. New Digital Services) where developments and new initiatives have been proposed.

It should be stated, however, that our analysis has been based on the assumption that RTÉ's current level of costs in each service area is an accurate reflection of the baseline position (taking into account the financial information and audited accounts presented in the 2011 RTÉ Annual Report), and that we have not sought to conduct an independent verification of the costs set out within RTÉ's financial forecasts.

7.8.3 Projected Capital Costs within RTÉ

RTÉ's forecast capital expenditure over the period 2013-17 is as follows:

RTÉ Capital Expenditure (all amounts in €m)	2013	2014	2015	2016	2017	Total
Capital Expenditure	*	*	*	*	*	*
% of Total Revenue	*	*	*	*	*	

The 2013 capital expenditure projections include €[redacted] relating to the 2013 completion of the DTT network. The remaining balance for 2013 (€[redacted]), and the financial projections detailed from 2014 to 2017, do not represent amounts for specific projects, rather they are "caps" on capital expenditure in each year which will be subject to available cash resources.

Within this context, RTÉ have provided estimates of essential annual capital expenditure spend, as follows (all amounts on an approximate basis):

- € [redacted] on mast maintenance of RTENL
- €[redacted] on property maintenance of the Montrose site;
- €[redacted] - m on technology spend to account for essential upgrades and the introduction of new technology in areas such as general IT systems and finance, and the transfer of production studios to high definition.

This represents an average annual spend of €[redacted] approx, or €[redacted] on a cumulative basis over the course of the five years. This equates to [redacted] % of the €[redacted] projected above, with the majority of the difference arising in 2017 when RTÉ anticipates that additional capital expenditure will need to be incurred to take account of projects which may be deferred from 2013 to 2016, and also to provide an estimate of further

essential costs that will need to be incurred in the areas of technology and property maintenance.

Whilst RTÉ have not provided a further breakdown or detailed analysis of the above projections within their five-year plan, we would question whether such forecasts are achievable given that available cash balances are forecasted to remain broadly consistent at €[redacted] from 2013 to 2017.⁵⁶

In addition, RTÉ have detailed a number of “future opportunities” within their five-year plan.⁵⁷ However, the amounts indicated have not been included within the financial projections from 2013 to 2017 and represent other areas of operational and capital expenditure, should additional resources become available.

We would recommend that the annual review process review the annual capital expenditure outlays of RTÉ to ensure that the set “caps” above are being maintained, with any significant deviations from these amounts being reviewed in detail. In addition, the review should consider the areas of annual capital expenditure to ensure that spend is occurring in areas which provide the optimum return on investment.

Recommendation 2: The annual review process for both public service broadcasters should take full account of capital expenditure projections, and ensure that spend is occurring in areas which provide the optimum return on investment.

7.8.4 Proposed Cost Reductions

In its costed five-year strategic plan, RTÉ provides some detail in respect of the cost reductions achieved over the previous five-year period (2008-12), which amounted to more than €100m, of which the most significant contributions were achieved as a result of reductions in staff costs (€36m from a combination of headcount reductions and pay cuts), commissioned programmes (€32m), goods and services (reduced volumes and more competitive procurement yielding €10.6m), and contractor costs (€7m). In addition, a further €16.6m in cost reductions was achieved in other areas ranging from travel and subsistence and premises costs to reduced printing and marketing costs, and a reduction in Top 10 talent fees.

Overall, therefore, it is clear that RTÉ has implemented a significant cost reduction programme, which has helped to reduce its operating costs from an historical level of €439m in 2008 to budgeted level of €314m in 2013 (a 28% reduction).

Looking ahead to the five-year period covered by this strategic plan, RTÉ refers to its key priority being “*to maintain the savings which have been made to date through cost reduction initiatives and restructuring*”. Contained within the five-year plan is a series of targeted efficiency measures over each of the five years, as follows:⁵⁸

56 RTÉ five-year plan: Today Tomorrow: Section 7.6, Page 183

57 RTÉ five-year plan: Today Tomorrow: Section 8.1, Page 207

58 Source: RTÉ Today, Tomorrow 2013-17, Tables 35 and 36, p141; it should be noted that roundings in the base data apply.

RTÉ Targeted Efficiency Measures(all figures €m)					
Cost efficiencies	2013	2014	2015	2016	2017
Sports copyrights	*	*	*	*	*
Acquisitions	*	*	*	*	*
Top talent	*	*	*	*	*
Work practice reform	*	*	*	*	*
Other efficiencies	*	*	*	*	*
Total efficiencies	*	*	*	*	*
Total operating costs	*	*	*	*	*
Efficiencies as % of total operating costs	*	*	*	*	*

In the five-year plan, RTÉ have identified that they expect to achieve a **[redacted]**% reduction in spend on acquired programmes (compared with 2012 levels), **[redacted]**. RTÉ also expects to reduce its sports copyright costs by **[redacted]**% by 2015 “**[redacted]**” (It expects to reduce the level of fee payments to its Top 10 talent **[redacted]**). A further €**[redacted]** of “other efficiencies... as yet unidentified” are also included in the plan.

7.8.5 Analysis of RTÉ’s Proposed Efficiencies

From our assessment of RTÉ’s forward financial plans, we believe that there are some risks attached to the targeted efficiencies contained in the five-year plan, and also that further scope may exist for the identification and achievement of more stretching efficiency targets.

[redacted] The cost of sports rights is therefore not wholly within RTÉ’s control, and there is some risk that the cost reductions predicted within the five-year plan may not be fully deliverable, particularly towards the end of the period, **[redacted]**– which would have a knock on impact on other programming costs (as other material would be needed to fill gaps in the schedule).

Similarly, the RTÉ plan estimates savings of €**[redacted]** arising from the reduction of acquired programming over the five-year period. This is also subject to market forces outside RTÉ’s direct control, and some risks exist with regard to the deliverability of these savings, as noted in our market assessment.

It is also proposed that RTÉ will achieve savings of €**[redacted]** in its Top 10 talent fees over the lifetime of the plan, continuing a process which saw a €1m reduction in costs in the previous five years. This seems to be stretching target, as the most recent figures released by RTÉ⁵⁹ showed that its top 10 presenters (seven contractors and three staff) earned a total of €3.6m in 2011, and that the total has now reduced to €2.9m (down from €3.9m in 2009, **[redacted]**

Given the extent of the reductions in top talent fees over the last four years, and in the last two years in particular, we believe that achieving a further €**[redacted]** per annum in each of the five years covered by this plan may be difficult, **[redacted]**

[redacted]

59 Source: RTÉ press releases, 11 November 2011 and 28 March 2013

In contrast to the above proposals, the five-year plan includes a sum of only €[redacted] in other personnel related efficiency measures, which we believe is relatively modest. We also note that, notwithstanding the risks identified above, the proposed efficiencies become more ambitious towards the end of the five-year period, and that the efficiencies to be generated in the first three years of the plan come to €[redacted], as opposed to €[redacted] in the final two years (i.e. it is back-loaded).

This contrasts quite sharply with the approaches being adopted in other parts of the broader public service / State-funded sector, where initiatives to reduce cost have been developed under the direction of the Direction of Public Expenditure and Reform, through measures including:⁶⁰

- rationalisation of state agencies;
- implementation of shared services models for HR, payroll, pensions etc;
- evaluation of new business models for the delivery of non-core services;
- reform of public procurement processes and property rationalisation; and
- reducing costs, addressing duplication and eliminating waste to support job creation.

Many of these initiatives are intended to produce early results over the early years of the Government's term of office, and – by way of context – it is noteworthy that the 2013 Departmental estimates produced by the Government are forecasting an overall net reduction in public current expenditure of 3.7% between 2012 and 2013 (not including capital spend).

7.8.6 Personnel Related Operating Costs

A further issue which we have examined is the projections presented by RTÉ in respect of overall personnel related operating costs (PROCs), which are forecast to rise annually from €[redacted] in 2013 to €[redacted] in 2017. Over the five-year period, an additional €[redacted] expenditure on PROCs is forecast as a result of these annual increases. The RTÉ strategic plan states that [redacted].⁶¹

We would query the appropriateness of this approach within the RTÉ cost projections, given that the Government is continuing to require public service organisations to adhere to strict pay policy requirements, including actual reductions in basic pay and benefits for certain employment groups (for example, the sliding pay cuts of between 5.5% and 10% for public servants earning over €65,000 per annum proposed under the “Croke Park 2” agreement between unions and Government, along with other reductions in overtime and freezes to pay increments, etc).

Given RTÉ's challenging financial and commercial outlook, a more challenging reconsideration of future pay increases for RTÉ staff may be required, and where the need is proven (e.g. in the case of binding contractual commitments which cannot be renegotiated), it may be more appropriate for the Government and the regulator to require RTÉ to meet any such cost increases from within its own resources (i.e. from further efficiencies).

7.8.7 Conclusions Regarding RTÉ Efficiencies

60 Department of Public Expenditure and Reform: Public Service Reform plan, Nov 2011
61 Source: RTÉ Costed 5-Year Plan: Today, Tomorrow – a New RTÉ for the Connected Age, section 7.6, p 183

Overall, our conclusion is that the RTÉ efficiency plan for the next five years, although it includes some proposals which may be hard to achieve, is less ambitious than we would have expected, particularly taking into account the expenditure reductions being seen across the public service, and allowing for the significant reductions in RTÉ's operating costs which have been achieved over the previous five years.

Whilst we appreciate that RTÉ have implemented a substantial reduction in staff costs as a result of early retirement, redundancy and voluntary severance schemes, and from major expenditure areas like commissioned programming, we would query whether more can be achieved by RTÉ as a result of more radical reform. For example, changing the business model to place more emphasis upon the use of the independent production sector, and scaling back on in-house resources, may provide RTÉ with the opportunity to reduce its costs more significantly over time.

In this regard, RTÉ – like many organisations which have their roots in the public service – currently bears costs which relate to its unionised operating environment (including pay, pensions and other benefits) and to its long-standing legacy as Ireland's primary public service broadcaster (including the Montrose site). Inevitably, the costs associated with in-house production for a public service broadcaster can often be relatively high, when compared against commercial broadcasters and independent producers.

7.9 Use of External Production Companies

In its Costed 5-Year Strategic Plan, and in subsequent discussion with the Review Team, RTÉ have indicated that their expectation is that current levels of production delivered by external production companies will continue, and that possible future increases in the licence fee would result in more output being outsourced, rather than delivered in-house.

We questioned RTÉ as to whether any option for greater use of external production companies had been considered if the licence fee were to be unchanged, and in particular whether RTÉ had undertaken any cost-benefit analysis to determine whether the same level of output might be produced at less cost if more use were to be made of external production resources. RTÉ shared with us an internal analysis of in-house production costs and, as a consequence, they do not believe that better value for money would be achieved through greater outsourcing. Central to RTÉ's argument was the likely costs which would be associated with staff redundancy and asset disposals if a decision were taken to reduce in-house production and outsource more work, which RTÉ felt would be prohibitive, given the restrictive nature of public service employment and factors such as pension liabilities. A further consideration was that non-recoverable VAT would be charged to RTÉ by independent producers, whereas in-house production costs would not be subject to VAT.

Furthermore, RTÉ also indicated that they were unconvinced that the capacity would exist in the independent production sector to meet the demands of greater outsourcing, although it must also be noted that their own plans for growth in the event of licence fee increases involve making greater use of that external capacity. Information received from Screen Producers Ireland (SPI), the representative body for the independent production sector, would also suggest that the industry would have the capacity to respond to any increase in demand from RTÉ, as had been the case when several large-scale productions (such as *The Tudors*, *Vikings*, *Moone Boy*, and *Ripper Street*) were made in Ireland in recent years for UK, US and international broadcasters. SPI stated to us that although the independent production sector in Ireland had suffered a significant reduction in the amount of work commissioned by RTÉ from 2008 onwards, the industry has had to be resilient and to pursue new opportunities, often outside Ireland. SPI expressed the view that the independent sector is flexible and adaptive, particularly in its use of sub-contractors and capacity to assemble resources (creative, technical, managerial, etc) to meet particular production demands.

The Review Team takes the view that more empirical analysis needs to be undertaken before firm conclusions can be reached on the question of outsourcing of programme production, and that there is no clear evidence at this stage regarding whether increased use of external production companies, and a reduction in in-house output, would deliver better value for money. A number of factors would need to be considered in conducting such analysis:

- Detailed assessment of the full costs of current in-house production within RTÉ, including all direct costs, indirect costs and overheads;
- An objective and evidence-based review of the capacity of the independent production sector to meet any significantly increased demand from RTÉ;
- A full review of the costs of externally-commissioned productions, conducted on a like-with-like basis and compared against RTÉ's in-house costs;
- A comprehensive and detailed assessment of the financial consequences of any strategic decision by RTÉ to commission more external production at the expense of in-house resources, including staffing costs such as redundancy and redeployment, and costs relating to real estate, equipment, technology and other capital assets.

We are cognisant that such analysis, and the possible consequences, would represent a major break with tradition for RTÉ, which has long operated a mixed economy between external commissions and programmes produced in-house. By contrast, for other national public service broadcasters, a combination of national political imperatives, financial pressures and a public desire for better value for money have resulted in a shift in the balance of production in recent years, with more outsourcing and less in-house activity. For RTÉ, greater use of the independent sector might provide the opportunity to enhance value for licence fee money, and we believe that this option needs to be tested thoroughly and objectively, ideally through some form of market testing exercise, independently commissioned by the regulator (in line with the BAI's statutory remit to review "the adequacy or otherwise of public funding to enable the corporation to meet its public service objects").⁶²

Recommendation 3: An independent, objective review should be commissioned by the BAI to determine the scope for greater use of outsourced production by RTÉ, and to identify definitively whether greater value for money would be obtained in the long run from transferring programme production from in-house to external resources.

7.10 Chapter 7 Key Messages

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- RTÉ have reduced their cost base over the last five years, by about 28%.
- RTÉ project to further reduce its costs by €[redacted] million by the end of 2013, in a mix of personnel and cash costs text.
- RTÉ are expecting to make a further €[redacted] million of efficiency savings over the course of the plan in sports rights and acquired programming (€[redacted]); "other efficiencies" (€[redacted]); and personnel related costs (€[redacted]).
- We question whether these future efficiencies are sufficiently stretching and whether the balance between programme rights and controllable internal expenditure is correct.
- The commercial revenue projections of RTÉ appear cautious compared to our own analysis which suggests modest growth over the period.

We now move on to consider the overall conclusions and recommendations for RTÉ in Chapter 8.

8 Conclusions and Recommendations – RTÉ

8.1 Programme and Content Mix: Investments and Future-Proofing

RTÉ's base-case envisages maintaining the current range of services, with some modest – but nevertheless significant – adjustments in the mix of programmes contained within them.

The approach adopted by RTÉ in its costed five-year strategic plan is broadly coherent, and is consistent with RTÉ's public remit: the shift of spend away from acquired programmes permits some modest enhancements of the original programme offer; while prioritising spend on news and current affairs and services aimed at securing younger audiences both builds on audience strengths and addresses audience weaknesses.

The individual service definitions lack detailed programme plans or outputs against which they could be monitored over time. More information would be helpful here. But in our judgement the overall plans, taken alongside the spend projections contained in the appendices, give enough shape for RTÉ as a whole to be held to account for its delivery, although there are some areas where greater specificity is needed, and one case where RTÉ's recent decisions are inconsistent with the plan (see following comments regarding RTÉjr Television).

However, this is a stabilising plan, rather than one that addresses the broader strategic threats referred to above:

- There is very little enhancement of the digital services envisaged in the base case. While this may be prudent in the current financial circumstances, it nevertheless exposes RTÉ as audience expectations of choice and range increase;
- Plans (set out in alternative scenarios) for the use of more public funding would benefit from a clearer explanation of priorities. While proposed enhancements to original programming are likely to add most public value, other proposals seem less suited to addressing the identified strategic challenges, and proposed new spend on digital services is limited;
- In the absence of more funding to implement some of the more ambitious plans contained in the alternative scenarios set out in the final section of the strategic plan, RTÉ might be compelled to consider the spread of services it can maintain.

A further issue which we note is RTÉ's very recent proposal, announced in March 2013, to transfer its daytime (11am to 3pm, during school term-time) children's programming from RTÉ Two to the new RTÉjr Television digital channel (available on Saorview), and to replace it in the RTÉ Two schedule with content for mature audiences. This change will also enable RTÉ to show advertisements during this four-hour slot, something which it previously did not do. We found this planned change rather surprising, as it represents a significant shift from the plans for children's programming outlined in the costed five-year strategic plan which had been presented to us by RTÉ in mid-January.

Of course, it would be unreasonable to expect any business to treat its strategic plan as wholly binding and unalterable for its full duration, and indeed every organisation should be encouraged to examine itself critically and to make improvements during the life of a strategic

plan; but this planned transfer of children’s content, which we assume has been under consideration / in preparation for some time, does not feature in RTÉ’s five-year strategic plan, which – as noted in Chapter 7.5 above – contained rather vague proposals for RTÉjr Television.

8.2 Efficiencies

RTÉ report that they have very significantly cut their costs over the last five years, by about 28%. Most recently, this has required RTÉ to reduce its costs by a further €[redacted] million by the end of 2013, in a mix of personnel and cash costs.

Over the projected course of the plan, RTÉ are expecting to make a further €[redacted] of efficiency savings. However, there are some striking features of these plans:

- [redacted] million are projected to come from lower costs of sports rights and acquired programmes – and while RTÉ may benefit from a market where other competitors have no appetite to drive up prices through competitive bidding, nevertheless, these costs are much less within the control of RTÉ;
- a further €[redacted] million of the savings are projected to come from “other efficiencies”, as yet unspecified;
- only €[redacted] million of the projected savings therefore come from personnel related costs, and of these, only €[redacted] million are projected to come from “work practice reform”; and
- the cost reductions are very much back-loaded: the first two years of the plan deliver €[redacted] million, while the final two years deliver more than twice as much.

We acknowledge the very significant programme of cuts that RTÉ has already implemented, but we nevertheless question whether these future efficiencies are sufficiently stretching. In particular, we question whether the balance of efficiencies between programme rights and controllable internal expenditure is correct.

In this regard, we suggest RTÉ should be encouraged to reconsider whether there are more opportunities to be gained through more extensive use of the independent production market. We note that this area of expenditure took a very significant hit in RTÉ’s cost-cutting between 2008 and 2011; and RTÉ has shared with us the analysis it undertook to compare costs between in-house and independent. We recognise the difficulties of comparison, but we suggest that, provided more significant outsourcing could be accompanied by commensurate reductions in fixed overhead costs, the flexibility offered by the independent sector could benefit RTÉ’s overall financial and creative position in the medium term.

We also note that RTÉ forecasts an additional €[redacted] expenditure in personnel-related operating costs over the lifetime of the plan, [redacted]. We query the appropriateness of this approach, given continued Government requirements for public service organisations to adhere to strict pay policy frameworks, which continue to entail pay cuts, pay freezes and other cost reduction measures across the broader public service.

8.3 Revenues

RTÉ's base case relies essentially on three assumptions:

- That its audience share will remain broadly level over the five years of the plan – bolstered by the programme and service changes outlined above;
- That it will benefit from a modest projected upturn in the advertising market, less in core TV and radio advertising, but particularly in its digital and international revenues which it expects to see *[redacted]*; and
- That it will secure an uplift in the licence fee, partly through an increased fee and supported by significantly greater efficiency in its collection.

RTÉ has not presented a detailed analysis to underpin its audience or revenue assumptions, which makes it harder to judge the reliability of its projections.

On the basis of our own analysis, we believe that the revenue target is challenging: the plan allows for comparatively little investment in new original programming that might sustain the audience, and as we have noted above, RTÉ will be increasingly vulnerable to competition in securing popular acquired programmes. Cable/satellite platforms may take more market share from Saorview.

Even so, the commercial revenue projections seem cautious: RTÉ projects that its TV advertising income will *[redacted]*% over the period, but our own analysis suggests that there may be potential for some modest growth of some €10m to 15m. The radio and on-line projections are credible.

We do not comment on the likelihood of securing additional licence fee income, other than to note that the uplift required over the period – €16m, of which €5m is accounted for by greater efficiency in collection – would be roughly balanced out by our more optimistic assumptions about advertising revenue; and to note that the plan backloads the majority of these additional public revenues – so leaving time to adjust if the advertising revenues fail to pick up as we believe they might.

A further issue which we note is the correspondence from RTÉ to the Minister for Communications, Energy and Natural Resources, dated 6 November 2012, in which RTÉ request permission to change the balance of advertising minutage across the TV schedules, thereby allowing an increase in commercial revenues. This proposed change is not referred to in RTÉ's costed five-year strategic plan, which we find somewhat surprising in terms of its capacity to support improvements in RTÉ's financial position. (By contrast, other revenue improvements which are also dependent upon decisions or actions outside RTÉ, such as reduced TV licence evasion, are formally included in RTÉ's financial base case.)

8.4 Compliance

RTÉ is required to comply with the European Commission's requirements about transparency and the avoidance of over-compensation. This is achieved by a combination of measures that include:

- A public service remit which clarifies the scope of services to be included;
- The entrustment of accountability for, and oversight of, the remit and any extension to it to bodies and processes with sufficient independence of the PSB;
- Separate accounting for public service activity that demonstrates no cross-subsidy;

- Clear rules to prevent the build-up of surpluses from public funding;
- Calculations of public funding requirements based on the real cost of delivering the public service schedule.

In our judgement, RTÉ meets these requirements, although we recommend (see Recommendations 4 and 8 below) that further work is done within RTÉ to provide greater assurance to the regulator with regard to its financial accounting and reporting arrangements.

However, we also observe that much of the way it does this is through custom and practice rather than formal, published and transparent policies. We therefore welcome the new approach RTÉ is taking to give clarity to its allocation of public funding across its public services – although we note that there remains some potential confusion in the classification of its RTÉ.ie service as part of its commercial subsidiary arm. This lack of clarity may well have fed complaints from commercial competitors, not least the National Newspapers of Ireland, that RTÉ’s ability to use its newsgathering and production at no extra cost give it the ability to depress the prices it charges for on-line advertising to the detriment of the wider market.

Recommendation 4: RTÉ should develop formal policies and procedures with respect to its separation of commercial and public service activities, the methodologies used during the allocation of costs and the commercial arrangements entered into between commercial and public service activities.

It is not our role to judge whether this complaint is justified – although clarifying the public service role of the RTÉ.ie service would certainly help with the transfer pricing issue. But we do believe that RTÉ generally should underpin its approach in this area with a more robust and formal set of fair trading guidelines on which it should consult, and against which it should report to the BAI as part of its formal reporting process.

More generally, (see below) an improved reporting framework will in future help the BAI more effectively monitor RTÉ’s performance against its public service remit, and assess the extent to which RTÉ is operating as efficiently as could be expected.

8.5 Overall Conclusion on RTÉ

8.5.1 Assessment of the RTÉ Costed Five-Year Strategic Plan

The base case plan, although in some areas lacking in detail, is clear, coherent and, subject to the risk of further economic shocks, achievable, even without the requested uplift in public funding. We believe there is sufficient scope both for additional commercial revenue and further efficiency savings to implement, and possibly exceed, the reinvestment in services it anticipates, without calling on increased public funds (i.e. without any increase in the licence fee, and without any further revenues arising from reduced licence fee evasion).

However, this plan will sustain RTÉ rather than secure it against the competitive threats it will face. The lack of investment in digital services, and the lack of investment in digital distribution infrastructure and development, risks weakening RTÉ’s position over the five-year period, and may not equip it to meet its public remit effectively in the longer term.

The alternative options set out by RTÉ show how they would address this problem if they were to achieve an increase in their funding. Some of their proposals, most notably extra investment in content, seem more relevant to their competitive challenges than others. But we believe a more aggressive stance on future efficiencies would also significantly help to liberate more funds for programme and service enhancements; and that RTÉ should anyway be held to a stretching efficiency target for the five years of the plan.

Nevertheless, it is unlikely that efficiencies alone will allow RTÉ to thrive; and if no further public funding is available over the course of the plan, then it may well be that the BAI and the Government will need to explore with RTÉ contingencies over the longer term which might involve a more significant rationalisation of its portfolio of services to secure future funding for those activities which would be at the heart of a successful digital future. For example, we have noted the very high costs incurred by Raidió na Gaeltachta to secure an extremely small percentage of audience share (by comparison, RTÉ Radio 1 costs just over three times as much as Raidió na Gaeltachta, but has an audience share which is 39 times higher); one option which may be worthy of consideration is merging TG4 and Raidió na Gaeltachta in order to achieve economies of scale within an integrated package of Irish language programming across television, radio and Internet.

8.5.2 Adequacy of Public Funding for RTÉ

For RTÉ, we believe that its existing (base case) plans can be funded from current licence fee revenues, assuming that:

- The level of commercial revenues can be increased;
- Greater efficiency savings can be generated.

However, the funds for investment in RTÉ's new digital services do not appear to be available in the base case, and would need to come from either an increase in public funding or a more radical reappraisal of the range of services offered by RTÉ. Our view is that RTÉ needs to have very clear and coherent plans for its future digital investments and services, and that these should – at least in part – be able to be funded from existing revenues.

We therefore conclude that public funding at the present level will probably be adequate to meet RTÉ's five-year plan under the base case, and should be conditional on the recommendations presented in this report being implemented (or showing positive signs of being implemented) during the lifetime of the plan, with particular focus on RTÉ's preparation and implementation of a more coherent and demanding efficiency plan. This should be reviewed as part of the annual funding review process.

Core Recommendation

Recommendation 5: The BAI should accept the RTÉ costed five-year strategic plan as being an affordable plan which will likely sustain existing levels of public service output in the short to medium term, with two specific provisos:

- A more aggressive approach to generating efficiency savings should be agreed with the BAI during 2013, and the plan reworked as necessary as part of the annual review process;
- More opportunities for enhancing commercial revenues should be sought, consistent with RTÉ's overall public service remit, and reviewed as part of the annual review process.

Subject to the above, RTÉ should not need to receive any additional revenues from licence fee income or from improved collection / reduced evasion of the licence fee to sustain existing service levels.

However, having regard to our analysis of the broadcasting market and associated findings, greater public funding will be needed if RTÉ is to continue to develop its digital services, distribution and infrastructure, in order to sustain and enhance its public service contribution in the medium to longer term.

The provision of any additional public investment should be conditional on RTÉ providing detailed information regarding how this money will be spent, and what return can be expected on this investment, with this information being reviewed by the BAI as part of the annual regulatory process of setting performance commitments and funding review.

SECTION 4: TG4

9 Introduction

9.1 Preamble

9.1.1 Process Followed

The process followed during our review was set in order to gain an in-depth understanding of the background and contextual position of TG4. This involved a detailed review of the current operations, and future development plans, of TG4 in order to ascertain the use of public funding, current and future investment requirements, cost allocations, accounting principles, future efficiencies, and so on. In addition, we conducted an assessment of the broadcaster's overall compliance with regulatory and legislative requirements.

This approach used an extensive body of information provided by the BAI at the outset of the project, and provided during the course of the project by TG4, which included the following;

- Financial documentation relating to TG4: Management Accounts, Budget reports, Annual reports, etc;
- Background correspondence between TG4 and the BAI;
- TG4 Statement of Strategy 2012 to 2016;
- TG4 2009, 2010 and 2011 (Draft) Annual Review of Public Funding reports;
- TG4 Risk Management Report 2011;
- TG4 Annual Statement of Performance Commitments for 2010, 2011 and 2012.

In addition, we conducted a number of meetings with senior management representatives of TG4 on the below dates, which provided an opportunity to discuss the various components of the costed five-year strategic plan, and to discuss the underlying assumptions and estimates used in the preparation of the draft plans produced in December 2012 and January 2013.

Date	Purpose
Tues 31 Jul 2012	Project Initiation meeting with TG4
Tues 14 Aug 2012	Meeting with TG4 to discuss the strategic issues pertaining to the review
Tues 18 Sept 2012	Meeting to review the financial management arrangements of TG4
Fri 09 Nov 2012	Meeting to review the development of the 5 year costed plan and the strategic issues emerging
Thurs 06 Dec 2012	Meeting to review the draft strategic plan of 03 December 2012
Tues 29 Jan 2013	Meeting to review the final draft of the strategic plan of 21 January 2013

We had originally requested the TG4 strategic plan to be made available to us during October 2012. However, the senior management team of TG4 explained to us that they had had a new Board of Directors in position from 2012, and that their governance processes involved presentation of the strategic plan to the TG4 Board in early 2013. Consequently, the process followed with TG4 was that an early draft of the costed strategic plan was made available to us on 3 December 2012, with a full "final" draft then supplied to us on 21 January 2013. This document was then signed off in full and without change by the TG4 Board of Directors on 25 February 2013.

As a result of the delays to the delivery of the TG4 costed five-year strategic plan as outlined above, and the separate delays experienced in respect of RTÉ, the work plan agreed between Crowe Horwath and the BAI had to be amended, and as a result the original agreed date for the completion of the project (end of December 2012) had to be set back to an agreed date of March 15, 2013, for submission of a draft report to the BAI.

9.1.2 Nature of our Analysis and Recommendations

As with our assessment of the RTÉ costed five-year strategic plan (referred to in Chapter 7.1.1 above), it should be noted that our analysis of the TG4 strategic plan is based on a recognition that it is a matter for TG4 to define how best its remit is to be served, in terms of the establishment and development of its services, and the broadcasting of content via its various platforms. Against that backdrop, we have examined TG4's costed five-year strategic plan to assess whether the plan stands up as a statement of strategic intentions; whether it contains sufficient detail in respect of concrete plans for the next five years; whether costs and revenues have been coherently presented; and whether the plan is designed to bolster core public service broadcasting outputs. We have also sought to analyse the extent to which the plan takes adequate account of wider market developments, audience preferences and other influencing factors.

Our conclusions are therefore centred around the adequacy of the plan as a strategic document: its implementation, and the delivery of the various strategic objectives which TG4 has set for itself, are matters which lie beyond this review, and it is not possible for us to determine at this stage whether the actual content which TG4 proposes to broadcast over the next five years will actually work, how competitors may react, or how other external influences will impact on TG4's commercial position by the end of 2017.

9.2 Engagement with TG4

During the course of our review we directly engaged with the Director General and the Finance Director of TG4 on a regular basis via a number of site visits to the headquarters of TG4 at Baile na hAbhann, Co. Galway, and by follow up email and telephone conversations. In addition, our engagement involved discussion with SJ Consulting, who were assisting TG4 with the development of the costed five-year strategic plan.

We very much appreciate the time and commitment given by senior members of the TG4 executive team to provide information and clarification to the Crowe Horwath review team, often at short notice.

9.3 Structure of Our Analysis

In line with our methodology for this assignment, our analysis of the five-year costed strategic plan presented by TG4 is set out within the following structure:

- **Chapter 10** presents our **Market Analysis for TG4**, commencing with a description of TG4's view of its market environment over the next five years, and its assessment of the strategic challenges which it faces. We then move on to assess the key market related assumptions presented by TG4, including audience projections and forecast commercial revenue. We identify the market related costs which may be faced by

TG4 over the coming five years, and the potential downside risks for TG4, including the scale of the response which may be required to meet these future challenges and address the risks.

- **Chapter 11** provides our **Assessment of TG4's Costed Five-year Strategic Plan**, and commences by describing the various services which TG4 plans to run over the next five years, and the costs associated with each area of service activity. We examine future efficiencies and investment plans proposed by TG4, the suggested allocation of public funding, and a quantification of any impact of changes in public funding over the period in question.
- **Chapter 12** sets out our **Conclusions and Recommendations** specifically in respect of TG4, including a summary of the principal findings and conclusions reached in the earlier analytical chapters (10 to 11), and our recommendations on the requisite level of public funding required to permit TG4 to fulfil its public service objects over the period 2013 to 2017.

10 Market Analysis for TG4

10.1 Introduction

In this section, we examine TG4's own view of the market over the next five years, its broad strategic response to the key opportunities and risks, and the extent to which it has provided a realistic analysis of the implications of market developments for both its revenues and (where relevant) its costs.

10.2 TG4's View of the Market

In its five-year plan, TG4 sets out a clear assessment of the market challenges it will face, in the main consistent with our own assessment, and also provides clear targets for key aspects of its performance, which can be tracked over time.

In common with others, TG4 observes that there may be some modest return to economic growth over the period, although growth may be stronger in the second half of the plan period than the first. TG4 also assesses possible demographic changes, and notes in particular an increase in the proportion of the Irish population accounted for by older (55+) age groups. Overall, though, TG4 thinks that the population will be younger and more computer-literate than today.

In common with other market commentators, TG4 sees overall broadcast TV viewing holding up well, but identifies a range of developments which will have an increasing effect on established consumption patterns over the next five years. These include increased PVR penetration, more on-demand viewing, and longer term competition from new platforms and devices. The result, TG4 concludes, will be audience fragmentation among established TV channels, and an increasing importance of new on-demand services. Passive broadcasting will be a thing of the past, it argues, and there will be a need for TG4 to optimise its content for consumption on many different platforms.

Like RTÉ, TG4 observes that there will be no single dominant TV distribution platform. By implication, TG4 needs to be available on all platforms. Regarding competition between platforms and channels, it notes the growth in market share taken by the main cable and satellite platforms in recent years, and recognises that competition for audience share in that environment is becoming more challenging. In that context, Saorview is seen as an important tool in protecting share.

TG4 also provides an analysis of the state of play with the Irish language. It argues that there has been some continuing increase in public interest in, and use of, the Irish language over recent years, and that a successful broadcast channel has played an important part in those developments. More progress can be made in future if the broadcast channel is strengthened, alongside new initiatives which take advantage of opportunities presented by digital media.

10.3 TG4 Strategic Challenges

Drawing on this analysis, TG4 identifies a number of key challenges which its plans must address. These include:⁶³

Theme	Challenge	Response
Audiences	<p>People want to consume content when and where they want</p> <p>Need to improve performance in key areas, including 15-34 year olds, women and children</p>	<p>Content must be accessible on multiple platforms and devices, develop on-demand and catch-up services – need to re-purpose and reformat</p> <p>A range of new content investments are proposed, including programming for children and younger people, drama and docs</p>
Content	<p>Increased demand from audiences for high production value content, and for sports and acquisitions</p>	<p>Must continue to invest in high quality Irish content: proposed move to a core 40 week, 6 hours a day, broadcast schedule on the main channel.</p> <p>New initiatives, such as the Learning Irish resource</p>
Competition	<p>Intense competition for both audiences and advertising income. Risk of slippage in audience share if no changes made.</p>	<p>Increased commercial income as content proposition improves.</p> <p>Continue to attract audiences with best acquired programming and sports as well as original content</p> <p>Digital and interactive platforms offer some further potential for audience and revenue growth.</p>
Irish language	<p>Continue to support progress in interest and engagement with the Irish language among both Gaeltacht and non Gaeltacht communities.</p>	<p>Programming designed to attract key audience groups to the TV channel</p> <p>New on-demand and online resources.</p>
Costs	<p>Cost challenges remain</p>	<p>Less scope for further cost savings, but will continue to work with the independent production sector, and as output grows, will spread overheads over higher volumes.</p>

These challenges seem to us, in the main, to represent a reasoned analysis of the market pressures TG4 will face.

TG4 sets out a clear strategy in response to these challenges. Its twin-track approach is:

- to invest substantially more in high quality original Irish language content and move to a core broadcast schedule for 40 weeks a year, showing first run Irish language content;
- Develop new ways of creating, formatting and distributing content via the many available new platforms and devices.

Given this approach, TG4’s plans contain a detailed assessment of projected audiences over the next five years. From a base in 2013 of “around 2%”, it hopes to increase audience share to 2.5% – 3% by the end of the period, as a result of its key plan to invest more in high quality content, and move to a 40-week core schedule.

TG4 also projects that its daily audience reach will increase from 577,000 to 673,000.

63 Based on TG4 costed five-year strategic plan.

Overall, TG4 believes that it must be a broadcaster of reasonable scale to deliver its objectives, attracting audiences across the board with a diverse range of programming on a strong linear TV channel.

TG4 also believes it needs to act now to prepare itself for the new on-demand world, even though the main impact of convergence is unlikely to be felt immediately. We agree with this view. A “wait and see option” which would involve TG4 postponing investment in new platforms until they reach a certain market penetration could save money now and arguably keep open future options. Although potentially attractive at a time of constrained budgets, this approach carries significant risks. In particular, it would mean losing profile among younger audiences who (see below) currently make up the largest group of daily Irish language speakers.

10.4 Assessment of the Key Market-Related Assumptions

10.4.1 Overview

While the broad analysis presented by TG4 provides a coherent and realistic view of the challenges ahead, some of the more detailed market-related assumptions used in constructing the five-year financial plans can be questioned. We now turn to those assumptions, and focus in particular on those which could have a significant impact on TG4's five-year financial plans.

10.4.2 Audience Performance

TG4, as noted above, expects an increase in audience share and reach over the period, on the assumption that it can put its plans in place.

A number of factors suggest this might be over-optimistic, however:

- First, although TG4 sets out its starting point as around 2% audience share, in fact recent data show that early 2013 performance is below this. Table 2.4 in the market appendix with the TG4 costed five-year strategic plan shows that 2012 audience share was only 1.85%, and there is likely to have been a further small slippage since then.
- Second, TG4 has to date performed considerably better in analogue than digital multi-channel homes (4.62% share compared with 1.34%). Following switch-off, it is likely that there will be some further rebalancing of share towards the level experienced in multi-channel homes, which could bring the base level share in 2013 down to below 1.8%.
- Third, TG4 has some way to go to gain improved audience share for some of its key target groups. It currently performs best with men and over 55s, but is quite weak among women and children. The proposed programming initiatives should help address these concerns, but there is clearly a challenge ahead if a significant improvement in performance is to be achieved.
- Fourth, TG4 refers to the success of its programming on special days such as Christmas and St Patrick's Day, and suggests that this shows what can be achieved with more resources all year round. Whilst it is likely that more programming spend

will deliver higher audiences, it would probably be misleading to assume that such large share increases could be sustained on a consistent basis throughout the year.

- Finally, as TG4 notes, there is likely to be increasing competition from niche channels on multi-channel platforms and from new non-broadcast providers, which – all else being equal – would have been expected to drive down the TG4 share further.

Against this background, TG4’s projected 40% increase in audience share (from 1.8% to 2.5%) will be challenging and a 66% increase (to 3%) seems optimistic.

10.4.3 Irish Language Speakers

At present, TG4 does not have data on its audience share among Irish language speakers, which would be an important measure of its effectiveness in reaching its core constituency. It is hard to know, therefore, whether TG4’s projected increase in audience share over the next five years comes from those who speak Irish on a daily basis, or those who have a more limited understanding of the language, but are interested in learning more.⁶⁴

TG4 does, however, present some data on Irish language speakers more generally, taken from census data and from its own recent surveys. It also has audience reach data broken down by proficiency in Irish. In 2012, compared with an overall daily reach of 14%, its reach among fluent Irish speakers was 16%, and among those with a reasonable standard of Irish was 14.9%. It is perhaps surprising that these reach figures are not that different from its overall reach score.⁶⁵

It is argued that there has been a resurgence of interest in both learning and speaking Irish, and that there is scope for doing more over the next five years. Comparing recent census data (2011 v 2006), for example, the number of people reporting that they use Irish has risen from 1.66m to 1.77m (although it should also be noted that this is a slight drop taken as a proportion of the population as a whole – from 39.5% to 38.6%). A recent Ipsos/Mori poll for TG4 also reveals that 74% of respondents said they could understand or speak some Irish.

As TG4 says, it is undoubtedly true that the channel has contributed to this interest and engagement, providing a “positive and accessible” way of promoting the Irish language with a sense of “fun and enjoyment”. What is less clear is whether an increase in the scale and scope of TG4’s broadcasting activities would deliver a further and proportionate improvement in interest and engagement, and within which constituencies or audience groups.

Recommendation 6: TG4 should further develop its audience share metrics to identify its share among Irish language speakers, in order to facilitate a review of its effectiveness in reaching its core audience during future review processes.

64 There may be a current mismatch of targets and results. TG4’s highest viewing shares are recorded among over 55 male audiences. However, census data shows that this group is among the lowest in terms of Irish language speakers. The cause is likely to be the preponderance of sport in the TG4 schedules.

65 We understand that TG4 has for some years been concerned about the accuracy of its audience data as reported by the Nielsen measurement system. Following an independent assessment, TAM Ireland and Nielsen have agreed to make changes to their audience panel, and revised data is expected next year.

10.5 Commercial Income

10.5.1 Overview

Most of the extra funding needed to deliver TG4's plan is assumed to come from public sources. However, some increase in commercial funding is also projected.

TG4 currently receives around €3m commercial income a year, and it expects this to increase to €3.76m by 2017. As shown in Appendix 1 on market developments, this rate of increase is relatively large, certainly compared with projected by RTÉ in its Costed Plan (see Figure 10.5 below). The graph shows that TG4 is taking a much more optimistic view of its commercial income during 2013-2017 compared with RTÉ (and for additional comparison we have shown available Core Media forecasts of the overall advertising market and the TV/radio advertising market in Ireland 2013-2015). However, commercial income will continue to remain a small part of TG4's overall income (< 10% during 2013-2017).

[redacted]

Figure 10.5: Commercial Revenue Projections of TG4 and RTÉ (2013-2017)⁶⁶

66 Source: PSBs' Costed Plans, Consultancy Team analysis

10.5.2 TV Advertising and Sponsorship

In its plan, TG4 presents forecasts for growth in the overall advertising market in Ireland and for TV advertising:

Annual percentage growth in:	2013	2014	2015
Total advertising	*	*	*
TV advertising	*	*	*

**Data redacted*

These forecasts are more optimistic than those used by RTÉ, and would be at the top end of our own expectations for the sector.

TG4’s own share of total TV advertising, which reaches €[redacted] in 2017, is based on the assumption that they will get “between a [redacted] and [redacted] % share” of the total TV market. Given what we know about discounts which apply to small channel airtime sales, and TG4’s projected audience shares, this seems a reasonable assumption to make. Its achievement very much depends on TG4 realising the audience share targets discussed above, however.

10.5.3 Other Commercial Income

TG4 also projects income from new digital formats in 2017 at around €[redacted] compared with €[redacted] in 2013 – that is, more than doubling over the period. It identifies VOD, mobile and tablets, and improved targeting of display advertising as potential sources of this increase. This, in our view, is a stretching but achievable target, given TG4’s plans to develop new digital media services, and experience in the rest of the market.

10.5.4 Other Funding

TG4 relies on BAI (Sound and Vision) and ILBF (Irish Language Broadcast Fund) funding to enhance its schedule. But this source may not, it acknowledges, always be available to the independent production sector for TG4 commissions. If the funds were to cease, reduce in size, or change priorities, TG4 would suffer. Accordingly, this must be recognised as a funding risk.

10.6 Market-Related Costs

As we noted above (Chapter 6) in our analysis of RTÉ, there are some key market-related factors which should be taken into account when considering detailed cost projections.

First, the general outlook for the Irish media sector, as set out above, is one in which revenues will grow only slowly. Commercial companies will be under continuing pressure to control costs, and are unlikely, in the main, to inject significant inflationary pressures into the market for broadcast or media personnel.

Similarly, for non-personnel costs, including external commissions from Irish language independent producers, TG4 should be a significant “price setter”, not “price taker” in the current market. At least in the early years of the next five-year plan, TG4 should be in a

relatively good position to exert strict control over any prices paid for key inputs. TG4 currently deals with 93 independent producers. It notes, though, that the sector has just experienced very difficult times and may be vulnerable to further pressures.

However, there are risks associated with costs of programme acquisitions and sports rights costs. TG4 notes that for sports rights, it faces competition from TV3, Sky and RTÉ, as there is increasing interest in Gaelic football rights, and it also highlights competition for acquired programming rights from all broadcasters. It concludes, rightly, that it will have diminishing purchasing power in these markets.⁶⁷

10.7 Other Observations

In preparing its plan, TG4 has identified a number of weaknesses and threats which its plan must address:

- Inadequate funding and exposure to ancillary funding sources;
- Lack of a 40 week core schedule;
- Exposure to competition for rights;
- Potential fragile state of the Irish language independent production sector; and
- Audience share challenges.

It has then set out a clear broadcast-centred strategy for dealing with these threats. Its funding proposals are heavily weighted to conventional audio visual content for the main linear channel, which makes this an expensive strategy to pursue.

However, that strategy is highly dependent on accessing a significant increase in public funding, which may or may not be realistic. Moreover, funding and spend is back loaded – for understandable reasons, given the large call on public funds – and it may as a result not have the impact expected over much of the five-year plan period.

If funding is not forthcoming on this scale, there may be an opportunity for TG4 to explore alternative, lower cost alternatives to achieving some of its main aims. Some of its proposed new media initiatives, for example, seem to offer potential value for less investment (for example a cost of **[redacted]** for the proposed Learning Irish resource). Digital media (online and on-demand) may offer new opportunities for increasing the reach and impact of audiovisual content in the Irish language, and for improving access to TG4's Irish language archive. This approach would be especially relevant to those younger age groups who are more likely to be using the Irish language (both in and out of education), and in whose lives new media plays a central role.

While TG4 fulfils an important PSB function for a culturally important of life in Ireland – namely broadcasting in the Irish language – an important consideration concerns the cost involved in reaching its audience. While TG4's spend per percentage point of audience share is unavoidably high, given the nature of its remit, it is instructive to examine the expected trend in this particular metric over the period 2013-17 and, in particular, whether it is predicted to rise or fall.

67 The importance of rights to TG4 is demonstrated by the fact that one third of proposed new Irish language programming hours for 2017 is sport.

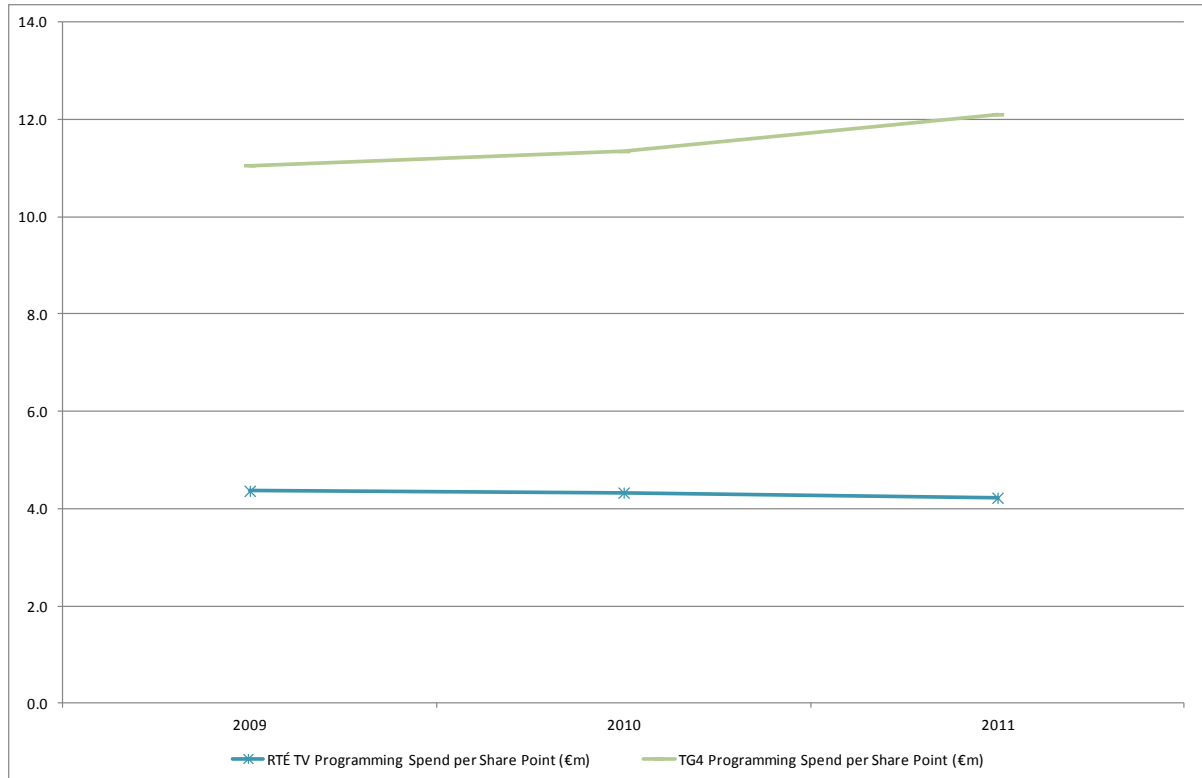


Figure 10.7a: PSBs' Programming Spend per Market Share Point (€m) (2009-2011)⁶⁸

Figure 10.7a above shows TG4's and RTÉ's programming spend (comprising the sum of indigenous and acquired programmes costs, but excluding other programming costs such as transmission costs etc., whose inclusion would not alter the trends) per percentage point market share during 2009-2011. It shows that the programming spend for TG4 has, unsurprisingly, been much higher compared with RTÉ: in 2011, for example, programming spend by TG4 was about €12m to achieve a one percentage point share of the Irish television market, whereas the corresponding figure for RTÉ was just over €4m.

Figure 10.7b below looks at the programming spend per market share of the two PSBs as implied by their market share and financial projections during 2013-2017. The gap between the two will remain but it is noteworthy that TG4's costed five-year strategic plan implies an appreciably large increase in the programming spend per percentage point market share in 2016 and 2017.

68 Source: PSBs' Costed Plans, Consultancy Team analysis. Note: RTÉ's market share is peak time.

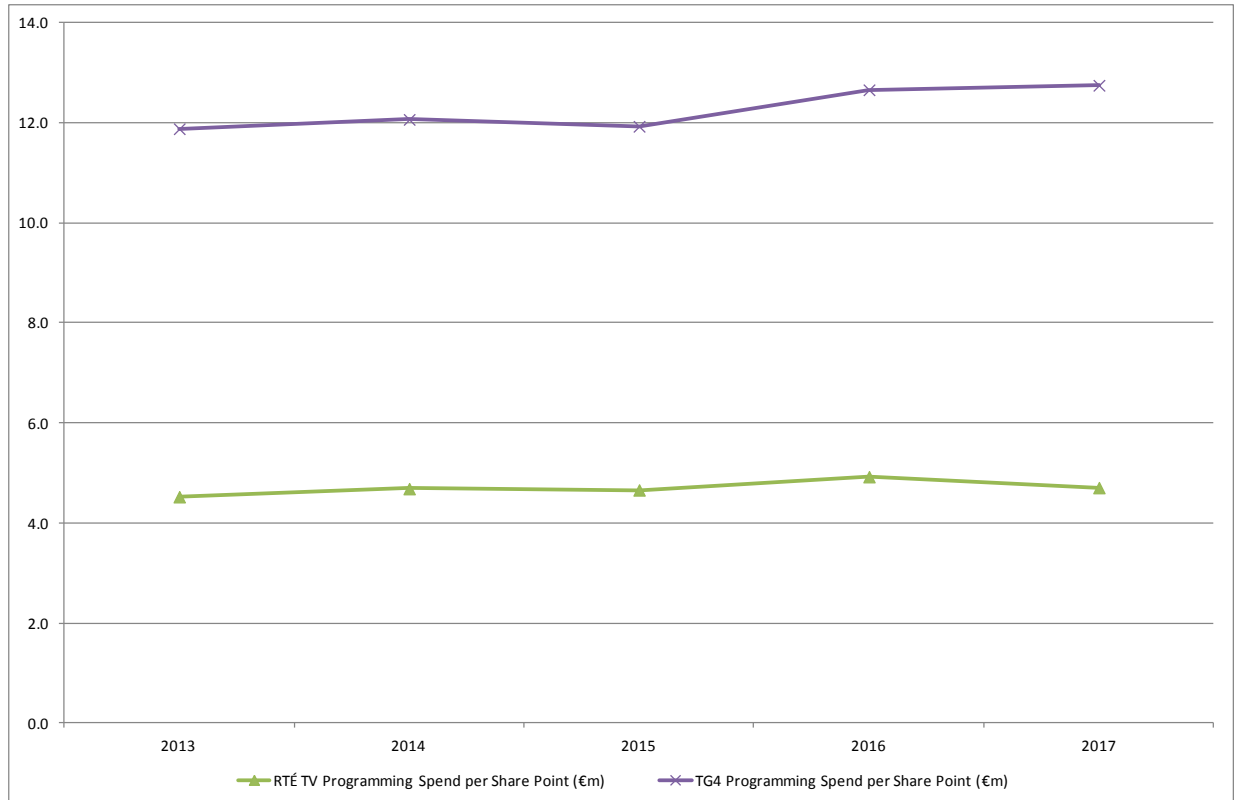


Figure 10.7b: PSBs' Programming Spend per Market Share Point (€m) (2013-2017)⁶⁹

10.8 Chapter 10 Key Messages – Market Analysis for TG4

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- TG4 believes that it must be a broadcaster of reasonable scale to deliver its objectives, attracting audiences across the board with a diverse range of programming on a strong linear TV channel.
- The majority of funding needed to deliver TG4's plan is assumed to come from public sources with modest increases in commercial income from €3m in 2013 to €3.76m in 2017.
- TG4 has set itself stretching targets for increasing share and reach which may be difficult to achieve: it has performed considerably better in analogue than in digital multi-channel homes which may impact on audience share post switch-off, it faces increased competition from niche channels and new non-broadcast providers, and it is probably misleading to assume that increased programme spend will deliver higher audiences on a consistent basis throughout the year.
- Even if its targets are achieved, on TG4's own figures, each improved percentage point of share and reach will be costly to deliver.
- TG4 does not currently have audience share data among Irish language speakers which makes it difficult to assess the level of share which come from audiences who

69

Source: PSBs' Costed Plans, Consultancy Team analysis. Note: RTÉ's market share is peak time. TG4's market shares in 2015-2017 calculated here using the mid-points of the ranges predicted by TG4 in its Costed Plan (i.e. 2-2.25% in 2015, 2.25-2.5% in 2016 and 2.5-3% in 2017).

speaking Irish on a daily basis or those who have a more general interest in Irish language and culture.

11 Assessment of TG4's Costed 5-Year Strategic Plan

11.1 Introduction / Overall Strategic Approach

TG4's costed five-year strategic plan was prepared as part of an approach in which the broadcaster develops each year a rolling Statement of Strategy to cover the next five years. As a result, the TG4 document covering the period 2013 to 2017 is based upon the previous Statement of Strategy for 2012-16, which had been approved by the TG4 Board and submitted to the BAI and the Department in 2012. On this basis, the main strategic policies and plans contained in the Statement of Strategy represented a core set of priorities for TG4, which have been further analysed and developed for the purposes of this PSB funding review.

11.2 Strategic Priorities and Plans for TG4

The TG4 strategic plan is a detailed and comprehensive document which sets out 14 strategic objectives and a series of initiatives related to each of these. The plan has been developed as a result of considerable internal analysis and discussion, both at executive level and within the TG4 Board. Whilst we do not propose to replicate in this report the detail of TG4's strategic plan, it is worth noting that the plan envisages a series of outcomes being achieved by the end of 2017, including the following:

- an increase in the average daily audience from 577,000 to 673,000;
- an increase in reach from 14% to 15.6%;
- an increase in audience linear share from under 2% to between 2.5% and 3%;
- an increase in the number of Irish language users in Ireland from the present level of 1.77m in the Republic and 185,000 in Northern Ireland;
- multiplatform content delivery (TV, Mobile, Computer, Tablet, Smart TV);
- significant increase in multiplatform audience levels, as follows:
 - an increase from [redacted] million visitors to [redacted] million visitors to the website and TG4 Player between 2013 and 2017;
 - an increase in page impressions from [redacted] m to [redacted] m;
 - an increase in streams from [redacted] to [redacted] ;
 - an increase in App downloads from [redacted] to [redacted] .
- an increase in the TG4 core schedule from the present level of 32 weeks/5 hours per day of new Irish language programming to a proposed new level of 40 weeks/6 hours per day;
- an increase in the remaining weeks of the TG4 programme schedule from 4 hours to 4.5 hours per day;
- the development of new services, including two interrupted live online streams, a new TG4 app, other new TG4 player services, a new children's web channel, and associated apps in relation to these new services;

- full high-definition service;
- fully digitised Irish language archive.

In summary, TG4 have presented an ambitious strategic plan anchored around an increase in Irish language programming, with an overall increase in new Irish language programming hours (all genres) of 21% over the five-year period. However, it is noteworthy that these increases are back-loaded towards the end of the period – the overall increase over the first three years is only 2.5% - and that the most significant increases (in terms of both volume and percent) occur in entertainment / lifestyle programmes and in sports coverage. Table 11.2 below shows the forecast hours and the % increases over the first three years and over the full five years of the strategy period:

Genre	Forecast Hours					% increase	
	2013	2014	2015	2016	2017	2013-15	2013-17
Documentaries / Human Interest	*	*	*	*	*	*	*
Drama / Irish Language Soap	*	*	*	*	*	*	*
Sport	*	*	*	*	*	*	*
Music	*	*	*	*	*	*	*
Children's	*	*	*	*	*	*	*
Entertainment / Lifestyle	*	*	*	*	*	*	*
News / Current Affairs	*	*	*	*	*	*	*
Oireachtas / European Parliament	*	*	*	*	*	*	*
Arts	*	*	*	*	*	*	*
Science & Technology (& Wildlife)	*	*	*	*	*	*	*
Religion	*	*	*	*	*	*	*
Other	*	*	*	*	*	*	*
Total	*	*	*	*	*	*	*

Table 11.2: TG4 target new Irish language programming hours by genre 2013 to 2017 and percentage increase over two periods within the strategy timeframe⁷⁰

- *Data has been redacted*

The TG4 strategic plan also proposes that the channel will maintain and strengthen its presence on all broadcast and non-linear platforms, including additional investment proposed in the learning Irish multiplatform service, along with a second on-line channel which will be aimed at younger audiences. Significant reference is made within the strategy to the development of apps in respect of the various new services proposed, and a common thread within the TG4 strategic vision is the capacity to engage with audiences on multiple platforms, recognising the current and emerging trends within the broadcasting landscape.

11.3 Financial Metrics for TG4

Given the ambitious nature of the strategic plan put forward by TG4, it is unsurprising that the TG4 plan notes “the need to secure additional funding to deliver (the strategy)... Given the highly competitive broadcasting content landscape in which TG4 operates”.

70 Source: TG4 Statement of Strategy 2013-17, Table 3.2

The TG4 plan involves significant increases in its expenditure in order to realise the various objectives set out within the strategy. Table 11.3 below presents the key financial metrics over the five-year period of the strategic plan, and the highlights are as follows:⁷¹

- 36.4% increase in overall capital and revenue expenditure between 2013 and 2017;
- 31.7% increase in current expenditure, rising from €32.7m in 2013 to €44.9m in 2017;
- towards the end of the five-year programme, additional year-on-year programme expenditure of between €4.7m and €5.0m per annum (i.e. commissioned and acquired programmes);
- €5.9m expenditure on capital projects over the five years, involving a 60% increase between the first and third years;
- significant capital investment in the development of the TG4 archive (€1.4m over five years) and content distribution/online development (€1.1m over the same period).

€'000	2013	2014	2015	2016	2017	Total
Strategic Initiative						
Operational Expenditure on Strategy						
Additional annual Programme Expenditure		374	1,217	4,714	4,999	11,304
Additional Staff Costs		*	*	*	*	*
Additional Transmission Costs		*	*	*	*	*
Additional Marketing		*	*	*	*	*
Additional Overheads (total above)		330	235	356	400	1,321
Key Additional Opex Year-on-Year		704	1,452	5,070	5,399	12,625
Capital Investment						
Archive		*	*	*	*	*
Business Continuity Project		*	*	*	*	*
Content Distribution Project & Online Development		*	*	*	*	*
Digital Teletext Pilot		*	*	*	*	*
Interactive Services Pilot		*	*	*	*	*
HD (equipment)		*	*	*	*	*
Building Investment		*	*	*	*	*
IT Systems Development		*	*	*	*	*
Annual Upgrades		*	*	*	*	*
Total Annual Capital Expenditure (net of VAT)		850	1,250	1,365	1,030	5,450
Funding						
Current	32,750	33,382	34,766	39,708	44,889	
Increase in current funding year-on-year	*	632	1,384	4,942	5,181	
Capital Allocation	920	1,350	1,475	1,105	1,035	
Total Current & Capital	33,670	34,732	36,241	40,813	45,924	

Table 11.3: Proposed Funding Requirement & Strategy Investment

*redacted

11.4 Costs, Efficiencies and Value for Money within TG4

11.4.1 Projected Operating Costs within TG4

71

Source: TG4 Statement of Strategy 2013-17, Executive Summary, Table 2

In its strategic plan, TG4 notes that its funding and income fell by just under €5m annually between 2009 and 2012, and that in order to address these income reductions, TG4 implemented a significant cost reductions which included the following:

- reduction in salaries and overheads of €1.35m between 2009 and 2012;
- reduction in external programme costs of €1.77m;
- reduction in acquisitions expenditure of €1.38m.

TG4 has also conducted an analysis of its average programme costs per hour, which tend to suggest that for its main genres, its costs are either comparable to S4C or are significantly less expensive. Although like with like comparisons are difficult and relevant comparative data may be unavailable, the information provided by TG4 would suggest that its level of recurring cost compares well with other broadcasters including RTÉ, the BBC and S4C.

11.4.2 Projected Capital Costs within TG4

Projected capital costs over the five years of the TG4 strategic plan appear to be in line with the various initiatives and developments proposed within the strategy. Although we have not independently audited these capital expenditure forecasts, they appear to be broadly compatible with the main elements of the strategic plan.

11.4.3 Efficiencies and Value for Money within TG4

TG4 has presented a series of proposals on cost control measures to be adopted over the five years of the strategy, which we believe are reflective of good financial management and governance practice. Although no specific efficiency measures have been proposed by TG4, we note that the broadcaster is starting from a relatively modest baseline position, and that comparable programming costs seen for other broadcasters would appear to suggest that TG4 is currently being run efficiently.

11.5 Chapter 11 Key Messages

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- TG4 have presented an ambitious strategic plan based on an increase in Irish language programming with an overall increase in new Irish language programming hours.
- The core of TG4's plan rests on a very significant uplift in public funding, and funding from additional public sources, which may or may not occur.
- TG4 is projecting a €11.5m increase in funding to secure an additional 0.5% linear share, with a projected increase in the average daily audience from 577,000 to 673,000.
- The TG4 plan involves a 31.7% increase in current expenditure from €32.7m in 2013 to €44.9m in 2017.
- From 2009 to 2012 TG4 implemented total expenditure reductions of €4.5m across salaries and overheads (€1.35m), external programme costs (€1.77m), and acquisition costs (€1.38m).

- TG4 are currently operating from a relatively modest baseline position and as a result the only significant efficiencies over the course of the plan are derived from increases in revenue and output rather than any reduction in non-programme costs.

We now move on to consider the overall conclusions and recommendations for TG4 in Chapter 12.

12 Conclusions and Recommendations

– TG4

12.1 Introduction

TG4's five-year plan rests on four broad assumptions:

- An increase in their level of Irish language programming of over 300 hours over the course of the plan, resulting in a full 6 hour daily schedule for 40 weeks of the year, with a 4.5 hour schedule for the remaining 12 weeks (compared to the current position of a 5 hour schedule for 32 weeks, and a 4 hour schedule for the remaining 22 weeks). The most significant areas of new programme spend will be Sport (an additional **[redacted]** hours); Entertainment and Lifestyle (**[redacted]** hours) and Documentaries (**[redacted]** hours). However, these mix changes are very much back-loaded: in the first three years of the plan, only Entertainment and Lifestyle sees a significant change, with an additional **[redacted]** hours;
- This, it is suggested, will drive an increase in audience share from roughly 2% to 2.5 – 3% over the period, with emphasis on establishing a stronger position among the core audience of mothers with young children – currently an area of weakness for the channel. Audience reach is projected to increase over the period by just under 100,000 – from 577,000 to 673,000;
- The expansion in the schedule will be achieved through a very significant increase in funding: from €23.8m in 2012 to €35.1m by the end of the plan. The bulk of this funding to be achieved from public funds;
- TG4 will maintain its presence on all broadcast and non-linear platforms, with additional investment in the Learning Irish multi-platform service, and a second, on-line channel aimed at younger audiences.

TG4 points to an earlier study which first made the case for an extension of the schedule to 6 hours, and points out that other indigenous language broadcasters operate with a more complete schedule.

However, we make a number of observations:

- First, that this is a costly exercise – a €11.5m increase in funding to secure an additional 0.5% share means that the cost per share actually rises over the period, not least because the projected share increase is comparatively modest;
- Second, that the increase in reach – probably a better measure of performance for PSB services generally, and for indigenous language services specifically – is unquantified in terms of the core audience of Irish language speakers;
- Third, that TG4's fortunes, like those of RTÉ, are closely linked to the prospects for the DTT platform, Saorview: and therefore any failure of the platform to gain more traction with the audience may further undermine TG4's prospects of achieving this plan.

We also note TG4's view that the success of its programming on special days such as Christmas and St Patrick's Day suggests that such results may be achievable on a more consistent basis all year round, were additional funding to be available. We believe that there

is little clear evidence to support this contention, and that allocating significant additional resources to TG4 would be something of a high risk strategy at this point.

Unlike RTÉ, TG4 has not presented a plan based on existing funding: the Board of TG4 clearly believe that the only way in which the remit can properly be fulfilled is by a strategy of general expansion.

12.2 Efficiencies

TG4 observes that, as a very small publisher / broadcaster, its scope for efficiencies is extremely limited: and indeed, the only significant efficiencies over the course of plan – the proportion spent on non-programme costs – are derived from the increase in revenues and output rather than any reductions in non-programme costs.

This seems to us realistic and fair. The bulk of the original output is commissioned from independent production companies – TG4 is currently working with more than 90 different companies. There may be scope for efficiencies in longer term output deals with some companies – but this is obviously dependent on the channel being able to secure the range and diversity of programmes it needs, and should be weighed against the benefit of spreading the economic impact of its commissioning more widely across the Gaeltacht community.

12.3 Revenues

As noted above, the core of TG4's plan rests on a very significant uplift in public funding, as well as continuing to secure additional public funds, indirectly, from both the BAI's Sound and Vision scheme, and the ILBF, as well as other one-off funds for specific projects from, for instance, the Department of Education and Skills.

However, TG4 also depends on some TV advertising, and where we considered RTÉ's projections unnecessarily cautious, we are concerned that TG4 may be optimistic. The rise in projected advertising revenue is dependent on achieving the increased share: and we note that the starting point for the rise is shy of the 2% captured in the plan (TG4's share in 2012 was 1.85%). An increase to 2.5% would be nearly 40%: a share of 3% would represent an increase of 60%. In the competitive environment TG4 will face, we believe these are challenging aspirations.

12.4 Compliance

As a dual funded broadcaster, TG4 is also required to meet the standards for transparency and accountability in its spending of public money.

We have concluded that TG4 has adequate separation of commercial activities from its public services, and that there is no risk of over-compensation.

12.5 Overall Conclusion on TG4

12.5.1 Assessment of TG4's Costed Five-Year Strategic Plan

TG4 makes an ambitious case for growth and expansion: substantial increases in funding to achieve a challenging uplift in share and reach. Audiences are overall positive about the value for money it currently represents – our research suggests that it benefits from its very obvious public service credentials in serving a specific audience with content that the market would never provide.

We note the absence of an alternative plan showing how TG4 believes it would fulfil its objectives on current levels of spending. But we also note that, recognising the current challenging economic climate, TG4 has back-loaded both its funding and content enhancements until the back-end of the plan.

On the one hand, this may give the government an opportunity to wait and see how the first two years of the plan are working before taking the decision over whether to fund the more extensive later years. However, we are concerned that, given the competitive environment that TG4 faces, these investments may come too late to achieve even the comparatively modest benefit that the plan outlines.

Taking all of these considerations into account, we must therefore consider whether the TG4 costed five-year strategic plan is actually affordable. As things stand, TG4 have presented a strategic plan which is based on a very substantial increase in funding, with almost all of the additional revenue coming from the State, and only a modest amount from commercial income. Furthermore, although TG4 makes reference in the plan to the service curtailments which would arise if funding were not to be secured, it is very much an “all or nothing” strategy, with no alternative approaches presented. From that perspective, we must conclude that the TG4 costed five-year strategic plan will only be affordable if the Government agrees to a very significant loosening up of public money.

We therefore believe that TG4 should be encouraged to investigate an equally radical plan which does not depend on significant additional revenues, but which instead explores other ways to make existing funding go further. These might include:

- Accelerating the pace of investment in non-linear and on-demand services;
- Structural changes – including closer relationships with RTÉ.

12.5.2 Adequacy of Public Funding for TG4

For TG4, we believe that further work is required to produce a more affordable and more radical costed five year strategic plan than that which has been presented to us; for that reason, we conclude that public funding, on the basis of current licence fee revenues, will not be adequate meet TG4's plans. Careful reconsideration of the forward plan by TG4 is therefore required.

Core Recommendation

Recommendation 7: The Minister should request TG4 to investigate a more radical costed five-year strategic plan which details its expected commercial position and future service delivery options, should additional revenues not be forthcoming.

SECTION 5: Overarching Issues

13 Legislative and Regulatory Compliance

13.1 Legislative and Regulatory Challenges

13.1.1 Overview and European Context

An important part of our terms of reference is to assess RTÉ's and TG4's compliance with certain European and Irish legislative requirements as they relate to transparency and accountability. In this chapter, we briefly summarise the legislative background, set out its implications for the PSBs and their governance, and provide an assessment of the extent to which the PSBs meet the main legislative requirements. In a separate appendix, we set out in more detail the relevant legislative context, and refer to a number of European cases which have informed our thinking

The revised Broadcasting Communication issued by the European Commission in 2009, taken together with some specific decisions made since then,⁷² clarify a range of issues of which this review needs to take account. They fall into three distinct groups:

- decisions that affect the **permissible scope of PSB**;
- **obligations on the state** as regards the accountability and governance framework for PSB;
- **obligations on the PSBs** with regard to reporting and accountability for their activity, accounting for public funding, and fair trading.

13.1.2 Decisions on Scope

The European Commission's rules (and specific decisions) relate to two main aspects of scope:

- The permissible remit for PSBs;
- The range of services they can offer, and in particular new on-line services.

On the first point, (remit) the Commission's rules are clear that the definition of a public service mandate (or remit) falls within the competence of Member States. It is not for the Commission to decide which programmes can be provided or financed, or to make judgements about programme quality. A public service schedule may legitimately be comprised of programmes from a broad range of genres. In its 2009 Broadcasting Communication, the Commission has even left open the possibility that the range of services offered by a PSB could include Pay-TV channels. So the fact that PSBs like RTÉ use public funding for a range of programmes including premium sport and acquired programmes is explicitly recognised by the Commission as being within the permitted scope of a PSB remit. The Commission does, however note that concerns could arise where state aid is being used to finance activities which do not bring added value in terms of serving the social, democratic and cultural needs of society.

72 In the five years between 2007 and the end of 2011, the European Commission made 18 decisions in relation to the potential abuse of State Aids rules by PSBs. This includes the decision in 2008 about the governance of RTÉ and TG4, in response to complaints brought by both TV3 and the National Newspapers of Ireland; other countries investigated include Spain, Germany, Belgium France, Denmark, Austria, Holland and Portugal.

On the second point (new services), the majority of the complaints dealt with by the European Commission have concerned the extent to which PSBs should be permitted to extend their scope to include new on-line services. These complaints have frequently covered the plans by PSBs to enter into the on-line space, often with text-based services that newspaper publishers have seen as a direct threat to their business.

The decisions by the Commission have clarified that PSBs may legitimately extend their services to include non-broadcast activities. However, there are two important qualifications to this:

- that any new service must first be subjected to a test, prior to approval, and carried out by a body that is sufficiently independent of the management of the public service body – thus leaving open the option for the supervisory body of the PSB to take the decision. The test must encompass an assessment of the potential impact on the market as well as the contribution to public benefit;
- that the simple fact that the new service is to be provided by a PSB does not automatically mean that it is a legitimate extension of the public service remit – even if it is comprised of content that was originally created for a public service broadcast channel (this is clearly of relevance to news sites where the material is a by-product of the core television and radio newsgathering).

13.1.3 Obligations Placed on Governments and Regulators

The Commission expects an effective independent regulatory and supervisory infrastructure to be put in place to oversee PSB. The majority of cases decided by the Commission in the last few years have turned on the adequacy of the supervisory regime operated by Member States.

The key requirements that underpin all the Commission's decisions in this area are:

- that the remit of public service broadcasters should be more clearly defined in law – albeit in ways that do not in any way impair the editorial independence and integrity of the PSB itself;
- that the supervision of fulfilment of the remit should be entrusted to a body with sufficient independence from the management of the PSB itself; and that the supervisory body should have the necessary powers and resources to carry out such supervision, and to require appropriate remedies in case of non-fulfilment of the remit, or failure to comply with public service obligations;
- and that the level of public funding made available to the PSB should be subject to specific, and preferably annual, assessments by a body completely independent of the PSB itself, of the level of necessary funding – to guard against potential “over-compensation”.

The genesis of this current 5-year review can be traced back to the decision by the European Commission (EC) in 2008 to remove its objections to the system of funding and accountability for Irish PSB.⁷³ In the process of arriving at this decision, the Irish government gave undertakings to the EC to:

73 State Aid E 4/2005 (ex NN 99/1999) – State Financing of RTÉ and TG4, Brussels 27.02.2008 C(2008)723 final (http://ec.europa.eu/eu_law/state_aids/comp-2005/e004-05.pdf). The EC's decision was the result of an investigation it carried out triggered by a complaint by TV3 in respect of state aid to RTÉ. result of an investigation it carried out triggered by a complaint by TV3 in respect of state aid to RTÉ.

- establish an independent regulator (the Broadcasting Authority of Ireland) to oversee public service broadcasters;
- ensure much clearer public service remits;
- Institute a system of periodic reviews (annually and over a 5-year basis) by the Broadcasting Authority of Ireland to assure the government and the EC that the particular concerns over state aid and overcompensation were being thoroughly addressed.

Since the new regulatory structures have come into effect, the BAI has completed two annual reviews of public service broadcasters, and (during the course of this assignment) was in the process of completing the third review.

13.1.4 Obligations Placed on PSBs

In addition to complying with the reviews and supervision outlined above, the PSBs themselves are specifically required to take action in several areas.

- First, they must adopt transparent cost-allocation rules which will help demonstrate whether or not they are over-stating the costs of their public service programming remit.
- Second, they must ensure that their reporting arrangements are sufficient to demonstrate complete separation of accounts for public service and non-public service activity.
- Third, they must show they are operating as efficiently as possible and, in the specific case of the requirements placed on the Irish PSBs, to ensure that they are maximising the commercial potential of their public service content.
- A final but equally important requirements placed on PSBs is to be able to demonstrate that, when operating in the marketplace (for example to raise commercial income or compete for programme rights) that they do not engage in conduct which would affect trading conditions and competition to an extent which would be contrary to the common interest.

13.1.5 Implications for this Review

This review is itself part of the supervisory structure implemented by the Irish Government in response to the complaints brought by the commercial competitors to RTÉ, and agreed with the Commission. The key questions for the review concern the adequacy or otherwise of the funding for the PSBs, the extent to which they are complying with their obligations to account for the public funding they receive, and the extent to which there are processes in place to guard against over-compensation.

This review does not address the setting of the PSB remit, or the scope of services undertaken by the PSBs: we have assumed that this is primarily a matter for the relevant supervisory body, as set out in the Broadcasting Act.

In practice, this suggests that we should report to the regulator across three areas of focus:

- Proportionate funding of public services;
- Clear separation of commercial from public service activities;
- Fair competition or trading.

Taken together, these three areas of focus should provide the BAI and other stakeholders, including the European Commission as well as competitors, with the reassurance or guarantees needed to satisfy themselves that the PSBs are not engaged in over-compensation. The third area also provides more general comfort that the PSBs are not engaging in unfair and disproportionate competitive conduct. Further specific comment is provided in the following sections.

13.2 Proportionate Funding of Public Services

13.2.1 Overview

The PSBs must be able to demonstrate that no more public funding is being used than is needed for delivering the agreed public services, assuming they are a) provided as efficiently as possible, and b) that commercial income (e.g. advertising) generated in association with those services is effectively sold and channelled back into public service delivery.

The Commission states that it starts from the consideration that public funding is normally necessary for the PSB to carry out its public service tasks. However, in order to satisfy the proportionality test, it is as a general rule necessary that the amount of public compensation does not exceed the net costs of the public service mission, taking also into account other direct or indirect revenues derived from the public service mission. For this reason, the net benefit of all commercial activities related to the public service activity will be taken into account in determining the net public service costs.⁷⁴

The Commission also provides that PSBs may retain yearly overcompensation above the net costs of the public service (as public service reserves) to the extent that this is necessary for securing the financing of their public service obligations. In general, the Commission considers that an amount of up to 10% of the annual budgeted expenses of the public service mission may be deemed necessary to withstand cost and revenue fluctuations. As a rule, overcompensation above this limit must be recovered without undue delay (paragraph 73) (more than 10% is permissible in exceptional circumstances, paragraph 74).

In practice, this means that the PSBs must both identify all public service activities (e.g. all television channels, radio stations, orchestras, online services), and be able to demonstrate

- that their forecast expenditures and capital investment are consistent with what has been broadly agreed as their objectives and remit, and that costs are not being overstated, or revenues not significantly under-estimated;
- that appropriate cost efficiencies are being planned across key budget headings (including main programme genres and other key cost items) for the period, and that costs are not out of line with market comparators/benchmarks;
- that the Public Service activities are not taking on an unfair share of common costs and are not cross-subsidising non-Public Service activities;
- that airtime sales are operating efficiently, and channelling revenues back into the PS operation;
- and that the planned Public Service budgets will not generate more than a 10% surplus, after allowing for all relevant costs and any commercial income forecast.

74 The proportionality test basically refers to satisfying the PSB remit whilst ensuring conditions amenable to competition and the functioning of the Common Market. See also below on Proportionality and Market Behaviour.

13.2.2 Public Funding Attribution

In the rest of this section, we focus primarily on RTÉ, given its greater complexity of funding. The original public funding attribution model adopted by RTÉ was processed on a retrospective basis which did not reflect the “actual” use of public funds. This model was based on an approach which took account of the gross cost of each public service activity, reduced by the surpluses on commercial opportunities that could be directly linked to the specific elements of public service. This methodology⁷⁵ was adopted on the following basis:

Category	No Potential to Generate Commercial Income	Limited Potential to Generate Commercial Income	Insufficient Commercial Revenue to Cover Costs	Residual Allocation	Targeted to Generate Sufficient Commercial Income to Cover Costs
Services/ Activities	<ul style="list-style-type: none"> ▪ RTÉ Raidió na Gaeltachta ▪ Programming for TG 4 	<ul style="list-style-type: none"> ▪ RTÉ Lyric fm ▪ RTÉ Performing Groups 	<ul style="list-style-type: none"> ▪ RTÉ Radio 1 	<ul style="list-style-type: none"> ▪ RTÉ One ▪ RTÉ Two 	<ul style="list-style-type: none"> ▪ RTÉ 2fm
Rationale	PSB Service which has no potential to generate commercial income	PSB Service with limited opportunity to generate commercial income	PSB Service with costs greater than commercial opportunity	PSB Residual allocation. (split is based on indigenous content % per channel)	PSB service which should not require any public funding
Public Funding	RANK 1 (100%)	RANK 2 (75%)	RANK 3 (<50%)	RANK 4 (<30%)	RANK 5 (0%)

In late 2012, as part of its preparation of the costed five-year strategic plan for 2013 to 2017, RTÉ developed a new approach on a prospective basis which attributes public licence fee income based on the capacity of activities/services to generate commercial income to contribute to the cost of PSB activities/services. This approach considers the entire funding contribution, including the exploitation of commercial opportunities as a fund available to “top up” licence fee funding of services/activities, which in turn will cover the total cost of RTÉ’s public service objects, as follows:⁷⁶

75 Source: Papers supplied to Crowe Horwath by RTÉ / Accenture as part of a “BAI Finance Working Session” on 23 August 2012

76 Source: RTÉ 5 Year Costed Strategic Plan: Section 7.8.2

Category	No Potential to Generate Commercial Income	Limited Potential to Generate Commercial Income	Significant Potential to Generate Commercial Income
Services/ Activities	<ul style="list-style-type: none"> ▪ RTÉ Raidió na Gaeltachta ▪ Programming for TG 4 ▪ Supplementary DTT and DAB Channels ▪ Corporate H.Q. ▪ Financing Costs 	<ul style="list-style-type: none"> ▪ RTÉ Lyric fm ▪ RTÉ Performing Groups 	<ul style="list-style-type: none"> ▪ RTÉ One ▪ RTÉ Two ▪ RTÉ Radio 1 ▪ RTÉ 2fm ▪ Online
Rationale	PSM Activity which has no commercial potential	PSM Service with limited commercial opportunity	PSM Service with significant commercial potential
Public Funding	Fully Funded	Full Funding of net cost of public service	Available public funding attributed in proportion to net cost of public service

Under this model, any surpluses on commercial activities that arise directly from the provision of a particular service/activity will be used to reduce the net public service cost of that service/activity. Surpluses which cannot be directly linked to a service/activity will be totalled and attributed to those public services/activities which have significant revenue-generating potential in proportion to their gross public service cost. These amounts will further reduce the net public service cost of such services/activities.

Licence fee funding will primarily be attributed to fully fund the net public service cost of those services or activities which have no or limited potential to generate commercial income. The remaining balance of licence fee funding will then be distributed between services/activities with significant potential to generate commercial income, in proportion to their net public service cost.

13.2.3 Public Funding Thresholds

In line with the newly adopted approach to licence fee attribution, RTÉ proposes to implement a range of upper (ceiling) and lower (floor) thresholds to be used during the attribution process.

These thresholds have been calculated by allowing for movements from the expected attributions which take account of a number of internal and external risk factors such as commercial revenues, operating costs, unscheduled special events (e.g. General Election), broadcast risk, and movements in the actuarial valuation of defined benefit pension schemes.

Under this method, a ceiling on the amount of public funding to be attributed to a service/activity would be implemented if such risks resulted in a negative financial impact. Conversely, a floor on the amount of public funding to be attributed would be implemented if a positive result were to be realised.

Using this approach, RTÉ have prepared a series of workings (including those for the core services shown below⁷⁷) using the Base Case Scenario in the five-year plan which

77 Source: RTÉ 5 Year Costed Strategic Plan: Section 7.8.2

demonstrate the proposed thresholds allowing for the internal and external risks and uncertainties referred to above.

[Table redacted]

We acknowledge the significant change and development of RTÉ's attribution model and welcome this new approach in the aim of achieving greater transparency with respect to the use of public funding. A key advantage is that it involves active decisions about the distribution of public funding rather than an "after the event" reconciliation. It also provides information which the regulator can track over time.

However the new system will only be as good as the cost data on which it is based.

Where possible, RTÉ costs are recorded in cost-pools (cost-centres) designated on the basis of their primary function (e.g. indigenous content, commissioned programmes, or in-house productions). Direct costs are charged in the first instance to the IBD, activity, or programme to which they relate and are controlled. Other indirect, shared service costs are allocated at the end of each financial year using absorption costing and are allocated as directly as possible to each IBD, activity, etc.

RTÉ uses a number of assumptions and triggers (currently circa 280) during this process in order to accurately allocate costs. For example, RTÉ assesses central or shared support functions and determines the activities which they support. Costs are then attributed to such activities based on the most appropriate apportionment methodology.

The Agresso financial management system is used to allocate costs downwards. However, the system does not facilitate reverse engineering in order to expand the allocated costs upwards to arrive at the overall costs prior to allocation.

Our analysis suggests that further work will be needed to improve RTÉ's accounting and financial reporting methodologies, so that they are fit for purpose, both as a source of regulatory comfort, and as a means of exercising effective internal control over costs. This may include changes to RTÉ's allocation of costs, attribution of funding, accounting systems and chart of accounts in order to arrive at a more accurate and reliable basis for gauging financial performance by service area, genre, programme, etc.

Recommendation 8: RTÉ should further develop its accounting and financial reporting methodologies to exercise more effective internal control over costs, and to provide greater assurance to the regulator and Government regarding the fitness for purpose of these methodologies. This exercise should be overseen by the regulator.

13.3 Clear Separation of Commercial from Public Service Activities

13.3.1 Overview

Second, we must be confident that no public funding is being used to support commercial services. This means:

- PSBs must identify all non-public service (purely commercial) activities, including the activities identified by the EC and any others which fall outside the PSB remit;

- The review must satisfy itself that there are sufficiently robust accounting arrangements to guard against cross-subsidisation of commercial from public service activities – for example:
 - clear separation of the revenues and costs of all such activities from any public service activities
 - ensuring the appropriate allocation of common costs
 - establishing proper payments for access to any Public Service content and rights needed for the non-public service activities.

The Commission has helpfully defined – non-exclusively – the types of non-public service activity that should be separated out from public service activity in the PSBs accounts.

Section 48 of the 2009 Broadcasting Communication specifically refers to:

- advertising;
- e-commerce;
- teleshopping;
- the use of premium rate numbers in prize games;
- sponsorship;
- merchandising.

It is for the PSBs to ensure that these and any other activities of a similar nature are wholly separate in their accounts, to ensure that they cannot be funded or cross-subsidised by public funds.

13.3.2 Expenditure Allocation

In allocating costs between commercial and PSB areas, clear rules must be followed. As stated above, the Commission has consistently ruled that a broad programme schedule is a legitimate part of the public service remit; and it has further clarified that production costs which are entirely attributable to public service activities, but which then work to the benefit of non-public service activities (e.g. by downstream merchandising or other commercial exploitation) do not need to be re-apportioned between the two, provided always that the net benefit of any non-public service activity such as commercial exploitation is fully taken into account when setting the level of public funding required.

Given the analysis of European requirements set out above, it is also neither productive nor appropriate for this review to seek to assign public funding to individual programmes or even genres. Indeed, the EC accepts that “it is virtually impossible to divide programme costs into PSB and non-PSB”. Nevertheless, the EC seeks “sufficient guarantees to avoid disproportionate effects of public funding, over-compensation and cross-subsidisation”. Although there is no formal procedures manual in place detailing the methodologies, calculations and triggers used during the allocation process, the triggers / rules are informally documented. When a cross-over between commercial and PSB activities occurs. In such instances, RTÉ uses available marketplace rates to account for such transactions to conform to relevant accounting and broadcasting regulations.

RTÉ have stated that the methodologies adopted to allocate income and expenditure are consistent year on year and are subject to review as part of the external audit process. In addition, it has been noted that RTÉ are currently in the process of compiling a formal procedures manual for allocations which will be available for review in due course.

Given the critical importance of ensuring and being able to demonstrate clear separation of public from commercial activities, including separate accounts, we suggest that RTÉ in particular be required to introduce much tighter and properly documented procedures and methodologies in this area.

13.3.3 Fair Competition

Finally, the regulator must be satisfied that RTÉ is not distorting competition by unfair behaviour. This means that the PSBs should be able to demonstrate:

- that in certain competitive genres (such as sports rights and acquired programmes), they have safeguards in place to ensure that they are not using public funding to inflate the amount they can bid for such rights in competition with fully commercial rivals (or to use other anti-competitive practices such as hoarding rights);
- and that mechanisms are in place to ensure that the PSBs airtime is not sold at an unfairly low price, which could undermine the businesses of their rivals, or that they use their market power to secure a higher than would be expected share of the TV advertising market.

While it has not been our responsibility to undertake a competition review of any of RTÉ’s activities, we note that there is significant on-going disquiet among RTÉ’s commercial rivals about the way in which it engages in certain commercial activities and the impact of those activities on the rest of the market. The Competition Authority has recently reviewed RTÉ’s airtime sales practices, for example, which resulted in RTÉ agreeing to remove a share deal scheme.

To an extent, these sorts of tensions are inevitable – any significantly-sized PSB in receipt of public funding will have an impact on the wider marketplace, and some commercial rivals will find their market shares adversely affected as a result of the PSBs success in attracting audiences and revenues. However, given their potential impact and privileged receipt of public funds, it is incumbent on such PSBs to take be especially aware of their wider market impact.

This means being extra careful to avoid the possibility of anti-competitive behaviour, and calls for rigorous internal competition compliance rules. More widely, PSBs have a responsibility to ensure that their conduct in commercial markets goes beyond simply avoiding complaints, and actively demonstrates a commitment to fair and responsible trading. This is an area in which RTÉ (and to a lesser degree) TG4 need to make further progress.

13.4 Conclusions

13.4.1 Transparency

Both PSBs have accounting systems that identify clearly their public and commercial revenues and their accounts are externally audited in the context of European and Irish legislative requirements.

In the case of RTÉ, whose commercial revenue accounts for a far greater proportion of its total income than TG4, it has a system of calculating the net public cost, in which licence fee income is first allocated to those services that generate no commercial revenue and then allocated to those services with commercial revenue on a net public service cost basis (where the commercial revenue is deducted from the gross cost). Its future approach, described above, will be a sensible improvement on this process, but RTÉ may also need to do further work to upgrade its more general cost accounting approaches.

Regarding TG4's transparency arrangements, its operating and accounting system illustrates that public funding serves to underwrite the net operating deficit (including interest receivable and disposal of fixed assets).

However, it is important to ensure that the system does not give each broadcaster an incentive to over-spend or relax its cost control and/ or that the system does not dilute any incentive for them to seek to maximise their commercial revenues, which would mean a lower level of public funding to underwrite any operating deficit. There should therefore be a key role for the annual reviews in ensuring that each organisation's incentives are firmly focused on cost control and maximising productivity (see next chapter).

Recommendation 9: The annual review process should include an assessment of the methods employed by each broadcaster to ensure that they are incentivised with regard to cost control and maximising productivity.

13.4.2 Exercise of Ministerial Powers

In relation to the above, we have also been requested specifically by the BAI to consider whether, in respect of Section 108(2) of the Broadcasting Act 2009 (which deals with pursuance of the exploitation of commercial opportunities object by PSBs), there is a sufficient

degree of transparency, or whether the lack of transparency is such that a report on compliance is required under Section 108(3). In the case of Section 109, the BAI has requested us to provide a view on whether the reporting arrangements currently utilised by each PSB in respect of Section 109(9) are sufficiently transparent or whether the Minister should consider his powers under Section 109(11).

Our view on these matters is that RTÉ needs to do more in order to ensure that there is sufficient transparency in its financial reporting and that there is clear separation between the financing of its commercial and public service objects. We appreciate that work is ongoing at RTÉ to produce new procedures manuals and to present its accounts in order to be clearer on the allocation of licence fee funding; this should be examined closely as part of the next annual funding review to be commissioned by the BAI. Accordingly, at this stage we do not believe that would be necessary for the Minister to invoke his powers under Section 109(11), but that this matter should be kept under close scrutiny by the regulator.

In addition - as set out in Recommendations 4 and 8 – RTÉ should develop formal policies and procedures with respect to its separation of commercial and public service activities, and should develop and publish accounting and financial reporting methodologies to exercise more effective internal control over costs, and to provide greater assurance to the regulator and Government regarding the fitness for purpose of these methodologies. These matters should also be examined as part of the annual review process.

In relation to TG4, we believe that there is adequate separation between commercial and public service objects within its accounts, and in any case commercial revenues represent only a small percentage of TG4's income. Financial reporting within TG4 is reasonably transparent and no further action is required, other than the routine assessment within the context of the annual funding review.

13.4.3 Overcompensation

On the issue of overcompensation, as per the narrow financial guidelines set out by the EU within the 2009 Communication, broadcasters in respect of public funding are permitted to retain up to 10% of revenues as profit/net income. The table below⁷⁸ shows RTÉ revenues and results from 2013 to 2017 which illustrate amounts below the EU threshold. This suggests that the issue of surpluses and RTÉ compliance with this EU requirement does not apply over the years from 2013 to 2017.

	2013 (B)	2014 (B)	2015 (B)	2016 (B)	2017 (B)
Revenue (including interest receivable)	*	*	*	*	*
Expenditure (including interest payable and income tax)	*	*	*	*	*
(Deficit)/Surplus for the year	*	*	*	*	*
(Deficit)/Surplus as % of revenue	*	*	*	*	*

**Data redacted*

The system operated by TG4 also demonstrates the public funding which underwrites the net operating deficit and illustrates the fact that there is no issue of overcompensation.

⁷⁸

Source: RTÉ Annual Reports (2008-2011) and 5 Year Costed Strategic Plan

This narrow measure of overcompensation does not address concerns about efficiencies or income maximisation. More widely, we again emphasise that both RTÉ and TG4 should take all steps within their capability to ensure that the public subvention to address the net operating deficit is minimised by ensuring that costs are kept to a minimum and productivity maximised so that the call on the public purse is as low as possible and this should be monitored closely in the annual reviews.

13.4.4 Commercial Separation

While measures have been taken by both RTÉ and TG4 to ensure separation of public service and non-public service activities, including appropriate accounting arrangements, we are concerned that as yet much of the processes and rules are documented only informally. Urgent work is needed here to tighten up processes, especially at RTÉ. Clarity is also needed regarding which parts of the RTÉ service portfolio are considered as purely commercial activities, and which are part of the core public service. The position of RTÉ, ie in particular needs further clarification. Whether an activity is classified as public service or commercial has significant implications for the regulatory safeguards required and the accounting and cost allocation methods employed.

13.4.5 Fair Trading

The main focus here is on RTÉ. It is less clear that RTÉ in particular is as rigorous as would be expected in ensuring that its external market-related conduct is consistent with regulatory requirements. We have no evidence of anti-competitive or disproportionate behaviour on the part of RTÉ, but the PSB occupies a powerful market position, and its competitors view its behaviour in some areas with concern. The onus should be on RTÉ, given its privileged position (and its likely dominant position in the market for television advertising in the State, as concluded by the Competition Authority in 2012), to put in place and to publish the internal processes and codes which can demonstrate clearly that it is behaving fairly and with due consideration of its market impact. Only then will the public and the commercial marketplace have the necessary confidence that appropriate measures have been taken.

Specifically, we suggest that RTÉ should be required to draw up its own detailed competition compliance and fair trading guidelines, which could be subject to annual external audit, and would address issues such as:

- Separate accounting for its commercial activities;
- Clear transfer pricing, based on costs or market prices;
- Approaches to competitive bidding for rights;
- Transparency in airtime sales.

We have no reason to think that TG4's commercial activities raise similar worries, which, given their relatively small scale, is not surprising. Nevertheless, there may be value in TG4 considering a more streamlined version of this approach to address any future external concerns.

13.5 Chapter 13 Key Messages

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- Both PSBs have accounting systems that identify clearly their public and commercial revenues and their accounts are externally audited in the context of European and Irish legislative requirements.
- RTÉ and TG4 will, on the basis of their plans, continue to act in compliance with the overcompensation requirements under EU regulation. This will be for the annual reviews and the BAI to recommend to the Minister on foot of the actual outcomes during each year between 2013 and 2017
- The system operated by TG4 demonstrates their net operating deficit and illustrates that there is no issue of overcompensation.
- Both RTÉ and TG4 comply with legislative and regulatory requirements as set out by the European Commission and the BAI.
- RTÉ's compliance is through custom and practice rather than formal, published and transparent policies, and more rigorous processes are needed
- RTÉ should also take action to tighten up its internal codes and practices on fair trading and competition compliance.

We now move on to introduce our recommendation for the future annual broadcaster returns framework in Chapter 14.

14 Framework of Annual Broadcaster Returns

14.1 Introduction

The five-year funding review is one part of a wider reporting framework for the PSBs, which also includes Public Service Statements, Statements of Strategy, Annual Statements of Performance Commitments (ASPCs) and Annual Reviews. In this chapter, we examine that overall framework and, in the light of the work we have completed on the five-year funding review, suggest how the framework could be modified to enhance the value of the annual statements and reviews, while potentially reducing the resource costs involved. To carry out this part of our terms of reference, we have held discussions with the key stakeholders, reviewed the documentation associated with the current process, including the ASPCs and various annual reviews, and drawn on our own understanding of similar processes in the UK and elsewhere in Europe.

This chapter also addresses the requirement for a process review report as stated in our terms of reference, and details the lessons learned and the impacts to the annual statement of performance commitments and the annual review of public funding processes.

14.2 The Current System

The 2009 Broadcasting Act established a number of reporting processes designed to strengthen the public accountability of RTÉ and TG4, and to assess the adequacy of their funding. This was partly a response to wider EU concerns about the funding and accountability of public broadcasters, outlined in an earlier chapter. The key components are:

- The PSB remits – as set out in the Act, which determine the range of activities and objectives for each PSB.
- Public Service Statements – which each PSB must produce every five years, and which must set out the principles and activities involved in fulfilling their remit.
- Statements of Strategy – which should be prepared and presented by the PSBs to the Minister every five years.
- ASPCs – which should be prepared by each PSB by the end of January each year, and which should set out commitments for the coming year.
- Annual Reviews – carried out on behalf of the BAI and presented to the Minister, which monitor performance against commitments, and report on the adequacy of public funding.
- Five-yearly reviews of public funding – which the BAI should undertake at least once every five years, and which should examine the adequacy of public funding to enable each PSB to meet its public service objectives.

It is clear that this framework involves a significant degree of oversight and review of each PSB, and risks imposing substantial costs on both the broadcasters and the BAI. The challenge looking forward is how to retain and where practicable enhance the transparency and accountability provided by a robust review process, while making it more timely and efficient.

14.3 Opportunities for Improvement

14.3.1 Overview

Our assessment has highlighted a number of shortcomings with the current system, which have partly risen because the ASPC/annual review process inevitably had to be launched in advance of the first five- year funding review. In our view, there are two sets of issues, which are closely connected:

- Effectiveness and cost of the existing annual review process
- Ensuring that the five-yearly and annual reviews fit together into a single coherent reporting framework.

If a coherent and integrated reporting framework can be designed and implemented, many of the problems identified with the annual process can be resolved.

14.3.2 The Annual Process

Following the 2009 Act, the BAI assumed responsibility for reviewing the fulfilment of performance commitments by RTÉ and TG4 in each year, and for issuing a report to the Minister on the outcomes of those reviews, including any recommendations regarding proposed changes in public funding. Several problems with this annual process have been identified.

- First, the process has been resource-heavy and time-consuming. Each broadcaster has produced lengthy ASPC documents each year setting out its service and programme commitments, and the BAI has in response carried out a detailed review, supported by external advice.
- Second, the time taken to complete each stage of the process, and its sequencing, do not facilitate timely decision making. Recommendations on funding adequacy are typically produced on the basis of reported data which is already at least one year old and often more (for example, the most recent annual reviews carried out for the BAI reported on 2011 data, but were only completed at the start of 2013).
- Third, the ASPCs have typically focused on a large number of quite “micro-level” individual commitments (often in the form of inputs) , rather than on high-level or strategically important outcomes, which have increased their length but perhaps reduced their value as a means of assessing performance – especially in tracking progress over time. The granularity of these commitments has made it difficult to judge the answer to the critical questions concerning adequacy of public funding and overall fulfilment of the PSB remit.
- Fourth, with funding adequacy addressed on an annual basis, the process creates some uncertainty about future funding levels, increasing the difficulty of long-term financial planning for each PSB. Uncertainty also arises to the extent that slightly different approaches have been taken each year in the format and focus of the reviews.
- Fifth, although the public service remits of each of the PSB services appear in Statute, how they are given expression by the PSBs has not always been stated clearly enough, and has not been accompanied by standard performance metrics which would enable effective oversight over time.

The completion of the first five-yearly review presents an opportunity to re-assess the annual process and how it fits into the overall reporting framework.

14.3.3 Integration With The Five-Yearly Review

The five-yearly review requires BAI to examine the adequacy or otherwise of public funding to enable each of the PSBs to meet its public service objectives over the coming (five-year) period. In carrying out such a review, the BAI is required to take into account the existing financial resources available to each PSB, likely levels of public and commercial funding, the PSS in force during the course of the period under review, international developments in PSB, and any other relevant matters.

In effect, it provides the PSBs and the BAI with an opportunity to agree a framework of medium term goals and performance indicators which can be monitored by subsequent annual reviews. In doing so, it should help address the problems identified above. The annual reviews should become more focused on plans already set out by the PSBs as part of the five-yearly review process, and provide a mechanism for monitoring performance against those plans at the appropriate level. The annual reviews could become more standardised, with commentary and assessment focused on significant changes. As such, the annual process should become more manageable and less costly.

The five-yearly review experience so far also highlights three further issues regarding the overall framework:

- There is an overlap between the five-yearly reviews and the Statements of Strategy required periodically to be presented to Ministers. In future, it would make sense to incorporate the two requirements into one process – the five-yearly review – which would ensure that the strategy statements and costed plans were properly aligned.
- There should also be a clear link between the Public Service Statements and the five-year strategic plans, so that PSBs can demonstrate that their plans are consistent with their agreed remit and objectives. In future years, this process might be made more explicit as the starting point for the five-yearly review process.
- For the reporting process to work well, there must be clear timetables, a good understanding by all sides of what is needed and what is feasible in the time available, and a commitment to delivering the relevant documentation on time and in sufficient detail to be of value. We elaborate later on our experience with the current five-year review and lessons to be learned for future reviews.

Recommendation 10: The annual review process should be fully integrated with the five-yearly review process, to ensure alignment of strategy statements and costed plans. There should also be a clear link between the Public Service Statements and the five-year strategic plans. For the reporting process to work well, there must be clear timetables, a good understanding by all sides of what is needed and what is feasible, and a commitment to delivering the relevant documentation on time and in sufficient detail to be of value.

14.4 Scope of the New Framework

14.4.1 Overview

We now present an outline of what should be covered by the new reporting framework, focusing on the revised annual reviews.

14.4.2 General Approach

As outlined above, there is broad agreement among the key stakeholders that the five-yearly reviews should be clearly linked to a more streamlined annual reporting process and vice versa.

Recommendation 11: The five-yearly reviews should:

- Review the PSBs' strategic plans in terms of their consistency with agreed remits and the extent to which they properly address audience, market and technology challenges;
- Assess the adequacy of funding available to deliver those plans, in the light of commercial income potential, cost expectations, and any efficiency savings;
- Advise on public funding levels for the period of the plan;
- Agree the service mix and medium term performance goals, including the broad remits of each main service, against which performance can be assessed over the coming years;
- Establish the key accounting processes, and reporting measures, which PSBs must implement to demonstrate compliance with EC guidelines on transparency and over-compensation, as well as meeting domestic expectations on fair conduct in commercial markets.

Recommendation 12: The annual review process should:

- Focus on a manageable number of key commitments, as set out in the five-year plan, including (as a minimum), the public service characteristics of each main service, planned changes in genre hours or spend, or additional investments in existing or new services (and certainly many fewer individual commitments than has been the case to date).
- Report performance each year on a consistent basis against a tightly defined number of key quantifiable performance indicators, including (as a minimum) reach among key audience groups, commercial income, programme hours and spend by genre, and key cost indicators.
- Track "outcomes", for example as measured by audience perceptions of quality, distinctiveness, and value for money.
- Report progress against any statutory obligations, including (as a minimum) Irish language programming, external commissions, etc.
- Report against the key transparency and fair trading requirements to address any over-compensation concerns.

The overall aim of the annual reporting framework would be to monitor progress against the strategic plan, identify any major changes from that plan, and assess the need for corrective action if any is required. The PSBs would be obliged to explain the rationale for, or cause of, any significant changes in the plan and its core performance metrics. Annual adjustments to funding might then be the exception rather than the rule. They would only be considered if there have been significant changes in either the external environment or internal challenges which were not foreseen by the strategic plan.

We are aware that RTÉ is developing its own "public value framework", which aims to identify a range of key performance indicators to help it track internally progress against its strategic plan and important public service goals. It would be sensible for any new set of performance indicators developed by the BAI for the annual review process to be reflected by RTÉ in its own public value framework.

14.4.3 The Annual Reporting Framework in More Detail

In the table below, we set out an outline illustration of the annual reporting framework which might be introduced, consistent with our recommendations above.

The BAI should now finalise the structure of the annual reviews and the core metrics which it expects to see reported each year, and communicate these expectations to each PSB. We suggest thinking about the framework in two parts:

1) Main commentary

- This would, in effect, form the new ASPC from the PSBs.
- It would report on progress against the five-year plan.
- It would highlight any significant changes in the external environment that need to be noted, and measures being taken to address such changes.
- It would set out any major new commitments by genre or service, and any changes to the original plan.
- It would contain any revised forecasts for the main elements of the plan (income, costs etc.), if needed.
- It would highlight any key issues, such as funding issues, which need to be addressed, with reference to the key metrics outlines below.

2) Supporting information

- This would provide a consistent set of core metrics which can be of internal value to broadcasters as well as the regulator, and should be aligned as far as possible with any internal PSB processes, such as RTÉ's propose public value framework.
- It would present data which can be collected systematically throughout the year, and should draw on information already gathered by each broadcaster for its own operational purposes, and hence should be available quickly after the end of the year which is being reviewed.
- It should focus on a relatively small number of important indicators, rather than highly detailed descriptions of individual programme or service initiatives.
- It should provide sufficient quantitative data to enable the BAI to detect and scrutinise any significant changes in the plan or in the main performance metrics.
- It would enable the BAI to review more promptly and effectively PSBs' annual performance against their five-year plan and any previous year commitments.

To be clear, we do not think that the PSBs should be asked to specify and meet detailed quantitative commitments for each of their services (in the form of quotas or targets for programme genres, for example). We do, however, suggest that sufficient data are reported each year at the level of each main service to enable the BAI to reach an informed view about the extent to which the PSBs are meeting their stated broad objectives.

This proposal should not be seen setting out a definitive set of performance metrics; rather it is indicative of what could be achieved.

We would suggest that this outline framework could provide a basis for the BAI to quickly determine the priority areas for reporting, the detailed core metrics under each heading, and the precise approach to implementation. In total, we think that around 50 core metrics would be needed for this exercise, as set out in the following tables.

Category	Aim	Core metrics
Main commentary		
Progress against strategic plan	<p>Annual health check to monitor progress against key elements of the five-year strategic plan:</p> <ul style="list-style-type: none"> ■ Revenues ■ Costs ■ Main investments ■ Public service goals ■ Rationale for any major changes during the past year 	<ul style="list-style-type: none"> ■ Actual v. projected income (by main category) ■ Actual v projected operating costs (people, other) ■ Progress with key planned investments (e.g. digital) ■ For each core service: <ul style="list-style-type: none"> ➢ Genre mix by spend and hours ➢ Irish originations by spend and hours ➢ Acquisitions by spend and hours ➢ (for radio) percentage of speech (hours) ➢ Major new programme initiatives ■ For non-core services, data on total spend and hours, proportion of amount spent in Ireland, and main new initiatives
Significant proposals/commitments for the coming year	<p>Annual opportunity for the PSBs to propose any course corrections or new initiatives to help deliver their agreed plans, and explain reasons for changes</p>	<ul style="list-style-type: none"> ■ Confirmation, or otherwise, that the main agreed elements of the five-year plan would continue to be delivered, with particular focus on deliverables over the next 12 months ■ Any significant new proposals or modifications to existing plans, and explanation of rationale. ■ Any additional initiatives/major commitments, which were not in the plan but with the PSBs wish to include.
Supporting information		
Impact and reach	<ul style="list-style-type: none"> ■ Monitor performance in reaching and engaging with all audiences. ■ Assess contribution of social as well as consumer benefits 	<ul style="list-style-type: none"> ■ Top-line audience share and reach data across media and by key demographic group, in total, for each core service, and for specified non-core services ■ Specified measures of audience approval (survey data), to cover perceptions of quality, distinctiveness, trust, accuracy, impartiality, relevance, importance as a source of news etc. ■ Levels of engagement, e.g. measured by use of interactivity, participation
High quality and distinctive content	<ul style="list-style-type: none"> ■ Monitor the delivery of high quality programming and ensure that PSBs are adding to rather than simply duplicating what the market could provide. 	<ul style="list-style-type: none"> ■ Hours broadcast and overall spend by main programme genre, including news for each core service ■ Percentage of total hours and spend accounted for by originated

Category	Aim	Core metrics
	<ul style="list-style-type: none"> ■ Assess progress against goals of innovation and creativity. ■ Assess extent to which PSBs are serving specific communities 	<ul style="list-style-type: none"> ■ programming for each core service ■ Percentage of total hours and spend of Irish language programming for each specified service ■ Measures of innovation e.g. no of new programme titles launched in the year and percentage of total output which they comprise. ■ Commentary on key new service or programme developments.
Value for Money	<ul style="list-style-type: none"> ■ Monitor the costs associated with delivering the plan and progress in delivering value for money through efficiency savings, use of new technologies, efficient commissioning etc. ■ Contribution to the overall Irish economy and the creative sector specifically. ■ Effectiveness in generating commercial income 	<ul style="list-style-type: none"> ■ Realised efficiency savings by main cost category, year on year ■ Proportion of total costs which are spent on output ■ Costs per hour and per user hour of core services and by main genre ■ Proportion of total output commissioned externally (hours and spend, by key genre) ■ In-house compared with external programme costs, by key genre ■ Acquired programme costs in total and per hour of programming ■ Commercial income: market shares by main category, costs of sales as a proportion of total income.
Trust and good governance	<ul style="list-style-type: none"> ■ Monitor the extent to which the PSBs are complying with requirements to be open and accountable in their use of public funds and to avoid over-compensation. ■ Ensure any specific statutory obligations are being met. ■ Monitor relationships with the public, especially as regards complaints and complaints handling. ■ Ensure that activities are carried out in a way which does not cause a disproportionately adverse effect on the external market. 	<ul style="list-style-type: none"> ■ Report on performance against key statutory obligations (e.g. specified programme genres, Irish language, external commissions etc.) ■ Numbers of complaints handled and timeliness in so doing ■ Confirmation of compliance with internal rules on fair trading. ■ Report on attribution of public funds to main services, planned and actual ■ Confirmation of separation of public and non public services

Table 14.4.3: Illustrative Outline Annual Reporting Framework

14.4.4 Accounting and Financial Reporting Policies and Standards

Transparency and accountability, as applied both to private and public sector organisations, have over the last few years become increasingly discussed by policy makers and the wider media. This has been in response to concerns that insufficient transparency arrangements have limited the effectiveness of governance mechanisms.

Within this context, both RTÉ and TG4 have demonstrated their willingness and commitment to ensuring that they operate in an open and transparent manner. Accordingly, it is imperative that the BAI should consider the relative transparency and accountability requirements and objectives of each broadcaster, particularly within the context of the development of costed plans by both RTÉ and TG4 as part of a cyclical five-year review process.

The process should consider the following:

- The development of a framework showing the relationship between transparency and accountability within each of the broadcasters;
- The accountability objectives of each broadcaster spread across the range of its key stakeholder groups;
- The limitations to the efficient disclosure of information within the context of the cost and benefit of providing certain types of information;
- A high-level benchmarking of current broadcaster practices in information disclosure as compared to a number of private and public sector institutions;
- The consistent format and structure of financial reports for each broadcaster from a regulatory perspective (rather than a statutory company law perspective) which clearly segregates commercial and public service corporate structures, activities, and the associated costs and revenues.

In addition, it would be particularly important to address technical accounting policy issues affecting the media industry, and more specifically the impact of same on the financial performance and reporting of TG4 and RTÉ, for example in areas such as the accounting for royalty arrangements, acquired programme rights, revenue recognition, joint venture arrangements, and so on.

This process should also seek to establish the acceptable procedures relating to the allocation of costs and the attribution of revenue of each broadcaster.

14.5 Chapter 14 Key Messages

In summary, the following key messages arise from the analysis presented in the preceding paragraphs of this chapter:

- We would recommend that the Public Service Statements and Statements of Strategy prepared by broadcasters be integrated with the five-year review process, and the annual reviews should help track progress against the five-year plans
- The PSBs should be encouraged to specify the broad remits of each of their main services more clearly, and required to provide key quantitative metrics, which can be reviewed over time.
- We suggest that the annual reporting framework be split between two sections: a main commentary; and supporting information which would highlight performance

against key metrics, report progress against the five-year plan, highlight key issues, and so on.

- The annual review process should be further developed to report progress against statutory obligations, key transparency and fair trading requirements, and so on.
- The annual review process should incorporate a more focused approach with respect to overcompensation and the related transparency of financial information.

15 Process Review

15.1 Introduction

In the previous chapter, we outlined a proposal for modifying the overall regime of regulatory oversight involving Public Service Statement, Five-yearly Review and Annual Statement of Programme Commitments. In this chapter, and based on our experience of the last year, we suggest practical ways in which the process of the five-yearly reviews could be modified to ensure that they are as meaningful, cost-effective and efficient as possible.

It is important to stress the importance of harmonising the various different review timetables. The fact that this review was carried out at mid-point of TG4's existing five-year strategy created a potential confusion that in future should be avoided: and bringing the process into line with the setting and agreeing of the Public Service Statement would also give greater clarity about the relationship of this review of funding to the wider setting of the overall remit.

Beyond that fundamental change, we believe there are three specific areas where the process could be modified that would be of benefit both to the PSBs and the Authority. These proposed changes are outlined in the following paragraphs.

15.2 Establishing a Core of Agreed Audience and Financial Data

The proposals in the previous chapter for remoulding the overall regulatory approach would, automatically, deliver a growing, and authoritative, body of agreed data covering the key metrics of the broadcasters' performance over the previous five years. This would include:

- Agreed metrics of audience share and reach, including audience groups who have been the target of specific strategic focus or initiatives;
- Agreed output data, showing changes to the mix and volume of programmes across the range of services, along with associated costs;
- Agreed financial data, showing high level performance against the financial plan including both commercial as well as licence fee, and other public sector revenue;
- Other key compliance data – for instance, the compliance over the five intervening years with the European requirements over transparency of reporting, and other fair trading commitments.

Having this common core of data at the outset of the review would save considerable time and potential duplication of effort, and would ensure that both the reviewers and the PSBs were operating from the outset from the same agreed information.

There should still be a role for specifically commissioned pieces of work that are independent of the data supplied by the PSBs. These should include:

- Specific qualitative audience research into perception of performance, willingness to pay, and future priorities;
- Contextual analysis of key elements of current or future market behaviour – e.g. prospects for the advertising market; technology developments; international comparisons;
- Comparative and forensic analysis of cost-cutting and wider efficiency measures.

However, these specific pieces of research could be commissioned in the confident knowledge that the core data was agreed, and already built into a consistent time-series set of reports over the previous five years.

15.3 Establishing a Clear Starting Point for the Engagement of External Consultants

Our previous chapter recommended bringing the process into line with the five-yearly submission and approval of the Public Service Statement. This would certainly help with the second of our recommendations here: ensuring that the review is initiated by the submission of the statements by the broadcasters.

Given that the focus of the review is the affordability of the delivery of the PSB remit over the coming five-year period, the starting point has to be the detailed plan developed by the broadcasters with the assumptions about both costs and revenue, the programme plans, the investment in new technology and the efficiencies needed to deliver the outcome.

While some contextual analysis can be done before the plans are submitted, in practice this threatens to prolong the process, and potentially lose its focus: so we would strongly suggest that there should be a very clear, agreed and enforceable timetable established for the start of the review, which would see the five-year plans submitted to the Authority before any external consultants are hired to assist in the analysis.

15.4 An Agreed and Widely Understood Policy on Consultation

We note that the legislation does not require either the Minister or the Authority to consult either the wider industry or the public as part of the review process. Nevertheless, it is impossible for the review to be complete without the views of wider stakeholders being taken into account:

- Audience research is a form of public consultation, especially if it is probing issues of future priorities;
- Competitors will have valuable insight into the wider market, and the likely impact of the PSBs plans;
- Civil society may have specific insight into the changing role of public service content and delivery.

However, we also recognise that this review must be – and must be seen to be – quite distinct from other adjacent but separate processes:

- It is not a proxy for wider competition-related assessments;
- It is not a proxy or substitute for Sectoral Impact Assessments required by the legislation if new services are to be launched;
- It is not a review of the adequacy of the Public Service Statement.

As part of this review, we took advice from the Authority over whose views we should canvas, and, to the extent that they were relevant to the scope of our review, we have endeavoured to include them within our overall report. But we are aware that this was not part of a formal and agreed policy, which would have been helpful in setting the terms of our engagement with those we consulted.

In future, therefore, we recommend that the Authority – presumably in agreement with the Department and the Minister – should agree a formal process of consultation. In our view this policy should cover at least two key aspects:

- The extent to which the PSBs' five-year plans are to be made public – or if the consultation is to be more general. If the plans are part of the consultation, this will have implications for both the timing – since the consultation will have to follow publication of the plans, and be complete before the end of the review process – and the nature of the publication itself – since the plan will undoubtedly include financial and strategic information that the PSBs may not wish to make public;
- The framing of the consultation by the Authority, which clearly sets out the questions that stakeholders are being invited to respond to – and in the process makes clear the boundaries within which the review is operating; as well as the responsibility for addressing issues raised in the consultation within the overall review.

There are advantages to putting the PSBs' own plans at the heart of the consultation process: it allows those consulted to focus on future strategy as well as past performance, and it allows those conducting the review to place their assessment in the context of wider views. Certainly, among those whose views we sought in this current review process, there was some expressed dissatisfaction that they were being consulted as part of a review of plans of which they had no knowledge or insight.

But there are disadvantages too: not only might it extend the process, but it might also inhibit the amount of detail that the broadcasters were prepared to include. If the consultation process were to cover the broad strategic thrust of the plan (for example, the core editorial focus of the channels, the broad disposition of resource), then it is possible that the detail of investments, of service changes over time, and of specific strategies to address areas of audience weakness, might all be casualties of greater openness.

Our recommendation on balance is that the consultation should precede the publication of the broadcasters' plans; that it should be pitched at higher, strategic questions about the role and its fulfilment; and that stakeholders should be invited to outline the key issues that they would expect the PSBs to be addressing in their five-year plans. This would then allow the consultation to be included as a further element against which the plans themselves can be assessed.

15.5 Chapter 15 Key Messages and Recommendations

In summary, the following key messages and recommendations arise from the analysis presented in the preceding paragraphs of this chapter:

Recommendation 13: A core set of agreed audience and financial data should be established, and the data gathered and made available in advance of the commencement of each review (annual or five-yearly).

Recommendation 14: A clear starting point for the engagement of external consultants within the review process should be established and implemented.

Recommendation 15: An agreed and widely understood policy on consultation should be adopted and implemented as part of the review process.

16 Summary of Recommendations

In the preceding chapters of this report, we have made a series of recommendations relating to the funding of public service broadcasting in Ireland. These recommendations are summarised as follows (with the two core recommendations regarding future funding for RTÉ and TG4 highlighted in yellow):

No.	Main Recommendation	See Chapter
1	RTÉ should consider the proposals for additional services ⁷⁹ set out in Section 8 of their plan and test these against key market and strategic challenges before concluding whether such opportunities are worthy of investment.	6.6
2	The annual review process for both public service broadcasters should take full account of capital expenditure projections, and ensure that spend is occurring in areas which provide the optimum return on investment.	7.8
3	An independent, objective review should be commissioned by the BAI to determine the scope for greater use of outsourced production by RTÉ, and to identify definitively whether greater value for money would be obtained in the long run from transferring programme production from in-house to external resources.	7.9
4	RTÉ should develop formal policies and procedures with respect to its separation of commercial and public service activities, the methodologies used during the allocation of costs and the commercial arrangements entered into between commercial and public service activities.	8.4
5	<p><u>Core Recommendation:</u></p> <p>The BAI should accept the RTÉ costed five-year strategic plan as being an affordable plan which will likely sustain existing levels of public service output in the short to medium term, with two specific provisos:</p> <ul style="list-style-type: none"> ■ A more aggressive approach to generating efficiency savings should be agreed with the BAI during 2013, and the plan reworked as necessary as part of the annual review process; ■ More opportunities for enhancing commercial revenues should be sought, consistent with RTE's overall public service remit, and reviewed as part of the annual review process. <p>Subject to the above, RTÉ should not need to receive any additional revenues from licence fee income or from improved collection / reduced evasion of the licence fee to sustain existing service levels.</p> <p>However, having regard to our analysis of the broadcasting market and associated findings, greater public funding will be needed if RTÉ is to continue to develop its digital services, distribution and infrastructure, in order to sustain and enhance its public service contribution in the medium to longer term.</p> <p>The provision of any additional public investment should be conditional on RTÉ providing detailed information regarding how this money will be spent, and what return can be expected on this investment, with</p>	8.5

79 These proposed services consist of a Digital Library, Open Archive, RTÉ Ireland channel for the UK, IPTV channels, Saorview Anywhere, DAB plus, and a Donnybrook digital hub and campus.

	this information being reviewed by the BAI as part of the annual regulatory process of setting performance commitments and funding review.	
6	TG4 should further develop its audience share metrics to identify its share among Irish language speakers, in order to facilitate a review of its effectiveness in reaching its core audience during future review processes	10.4
7	<u>Core Recommendation:</u> The Minister should request TG4 to investigate a more radical costed five-year strategic plan which details its expected commercial position and future service delivery options, should additional revenues not be forthcoming.	12.5
8	RTÉ should further develop its accounting and financial reporting methodologies to exercise more effective internal control over costs, and to provide greater assurance to the regulator and Government regarding the fitness for purpose of these methodologies. This exercise should be overseen by the regulator.	13.2
9	The annual review process should include an assessment of the methods employed by each broadcaster to ensure that they are incentivised with regard to cost control and maximising productivity.	13.4
10	The annual review process should be incorporated into the five-yearly review process, to ensure alignment of strategy statements and costed plans. There should also be a clear link between the Public Service Statements and the five-year strategic plans. For the reporting process to work well, there must be clear timetables, a good understanding by all sides of what is needed and what is feasible, and a commitment to delivering the relevant documentation on time and in sufficient detail to be of value.	14.3
11	The five-yearly reviews should: <ul style="list-style-type: none"> ■ Review the PSBs' strategic plans in terms of their consistency with agreed remits and the extent to which they properly address audience, market and technology challenges; ■ Assess the adequacy of funding available to deliver those plans, in the light of commercial income potential, cost expectations, and any efficiency savings; ■ Advise on public funding levels for the period of the plan; ■ Agree the service mix and medium term performance goals, including the broad remits of each main service, against which performance can be assessed over the coming years; ■ Establish the key accounting processes, and reporting measures, which PSBs must implement to demonstrate compliance with EC guidelines on transparency and over-compensation, as well as meeting domestic expectations on fair conduct in commercial markets. 	14.4

No.	Main Recommendation	See Chapter
12	<p>The annual review process should:</p> <ul style="list-style-type: none"> ■ Focus on a manageable number of key commitments, as set out in the five-year plan, including (as a minimum), the public service characteristics of each main service, planned changes in genre hours or spend, or additional investments in existing or new services (and certainly many fewer individual commitments than has been the case to date). ■ Report performance each year on a consistent basis against a tightly defined number of key quantifiable performance indicators, including (as a minimum) reach among key audience groups, commercial income, programme hours and spend by genre, and key cost indicators. ■ Track “outcomes”, for example as measured by audience perceptions of quality, distinctiveness, and value for money. ■ Report progress against any statutory obligations, including (as a minimum) Irish language programming, external commissions, etc. ■ Report against the key transparency and fair trading requirements to address any over-compensation concerns. 	14.4
13	<p>A core set of agreed audience and financial data should be established, and the data gathered and made available in advance of the commencement of each review (annual or five-yearly).</p>	15.2
14	<p>A clear starting point for the engagement of external consultants within the review process should be established and implemented</p>	15.3
15	<p>An agreed and widely understood policy on consultation should be adopted and implemented as part of the review process</p>	15.4

Appendix 1

Analysis of the Broadcasting Market and Landscape

Appendix 1: Analysis of the Broadcasting Market and Landscape

1 Introduction

In this appendix we identify and review the main factors which will influence the development of the broadcasting and wider media market in Ireland over the next five years. Our aims are to provide the context against which the five-year plans presented by the public broadcasters, RTÉ and TG4, can be assessed, and to identify the key strategic challenges which they and government must address. Our analysis is based on a range of published data and information sources; evidence presented by RTÉ, TG4 and other parties, and our own understanding of media market trends in Europe and elsewhere.

2 Current State of Play

2.1 Overview

Any review of the next five years must start from an understanding of key recent trends. In our view, the defining features of the current broadcasting market and the position of the public broadcasters within that market over the next five years are:

- The major downturn in the Irish economy since 2008
- Increased intensity of competition for audiences and revenues, associated with multi-channel provision
- Consequent severe financial pressures.

2.2 The Economic Recession

Between 2008 and 2010, the Irish economy (measured in terms of real GDP) contracted by 8.2 per cent.⁸⁰ It has recovered slightly since then, but in 2012 real GDP was still 5.6 per cent less than in 2008.⁸¹ The unemployment rate is now 14.8 per cent (compared with 6.4 per cent in 2008) and real consumer spending has fallen by 8 per cent over the same five-year period. According to various industry estimates, overall advertising spend in Ireland fell by around one third during this period.⁸²

Not surprisingly, the broadcasting sector has suffered along with the economic downturn. According to Group M,⁸³ overall TV advertising in Ireland fell by 25 per cent from €250m in 2008 to around €190m in 2012. Radio advertising declined from €103m to €72m. Pay-TV

80 Some commentators believe that GNP (gross national income) rather than GDP is more appropriate for measuring the performance of the Irish economy because it strips out the influence of foreign multinationals and their profit repatriation and transfer pricing activities. There might be some merit in this view but it is generally considered that GDP is the more appropriate measure because (1) it is used in international comparisons, (2) it is the predominant indicator for the Irish economy, including its use in deflating the exchequer deficit and national debt, and (3) the multinationals are an integral part of the Irish economy, as they have been for many years, sustaining thousands of jobs and contributing significantly to exports, innovation, competitiveness and the exchequer, among other things.

81 Ireland: Eighth Review Under the Extended Engagement", IMF, November 2012.

82 For example, estimates by Accenture research and Group M, presented by RTÉ

83 Group M data. Note: different sources (such as Zenith and Carat) report different estimates of both total and TV/radio advertising in Ireland, but there is broad agreement on the overall trends.

subscription income on the other hand has grown from around €500m to over €540m,⁸⁴ as take-up of multi-channel pay-TV increased.

This has had a direct impact on the two public broadcasters. RTÉ and TG4 are both mixed-funded (or hybrid) free-to-air public broadcasters, financed from both public funding (licence fee and government grant) and commercial income (mainly from airtime sales). We estimate that they currently account for around one third of the total Irish broadcasting market – radio and TV - in revenue terms – a share which has been declining as the pay TV sector has grown.

RTÉ is proportionately more dependent on commercial income than most comparably-sized public broadcasters in the rest of Europe. It has therefore been profoundly affected by the decline in the advertising market, but has also experienced cutbacks in public funding. Since 2008, RTÉ's income has dropped from €441m to €351m in 2011. According to RTÉ's annual reports, during 2008-2011, licence fee income fell by €17m and commercial income by €73m.

TG4's reliance on commercial funding is proportionately less than RTÉ's. According to its annual reports (comparable financial data for the organisation), between 2009 and 2011, TG4's commercial income fell by over €500,000 from €3.6m to €3.1m or by 14 per cent; its State funding fell by €2.1m or 6% (from €36.1m to €34m). State funding as a proportion of total income was 92 per cent in 2011 (gross basis) or 93% when the net cost of sales is incorporated. RTÉ's ratio of licence fee to commercial revenue was 52 per cent-to-48 per cent, compared with 44 per cent-to-56 per cent in 2007, prior to the economic crisis. Thus, even though the share of total income accounted for by licence fee income at RTÉ has increased, and the share of commercial revenue has fallen, the split between State funding and commercial income at RTÉ is less pronounced compared with that at TG4, which is not surprising given that the latter is operating in a much more niche segment of the market and producing programmes through Irish which otherwise would be unlikely to be produced (without State funding).

2.3 Increased Competition

At the same time as meeting these economic challenges, RTÉ and TG4 have faced increased competition from a range of other broadcasters.

Ireland is one of the most open TV broadcasting markets in Europe. By November 2012, 86.7 per cent of households had access to multi-channel TV (defined by ComReg to include cable, Sky, FTA satellite and UK DTT) on their primary sets, up from 68 per cent in 2008.⁸⁵ Irish Digital Terrestrial TV (DTT) accounted for the remaining 13.3 per cent. Sky satellite and UPC cable platforms offer some 300 plus English language channels, including popular sport, film and entertainment programming. Some of these channels sell opt-out advertising aimed at the Irish market, hence competing for airtime sales as well as subscriber fees and audience ratings.⁸⁶

In addition, many households have access to the broadcast services of the main UK TV stations, such as BBC One and Two, ITV and Channel 4, with big budget original English language programming.

84 Perspectives estimates based on Ofcom and Oliver & Ohlbaum data.

85 "Irish Communications Market: Key Data report", ComReg, Q3 2012. Figures are based on "highest form of reception available within the home". Note, if all sets are included, Irish DTT reaches 20 per cent of homes.

86 About 30 channels sell opt-out advertising in Ireland, including the channel portfolios offered by Sky, Channel 4 and Viacom.

The impact of this competition has led to a gradual decline in RTÉ and TG4 audience shares. RTÉ's TV audience share (including time-shifted viewing) in December 2012 was 28.25 per cent, down from an annual average 36.62 per cent in 2008.⁸⁷ TG4's share in December 2012 was 1.94 per cent, down from 2.49 per cent in 2008.⁸⁸ During this period, the main increases in viewing share have been taken by a long tail of cable/satellite channels, whose share has grown collectively from 31 per cent to 42 per cent.

In radio, RTÉ's share has fallen from 36 per cent in 2008 to 32.8 per cent in 2011.⁸⁹

2.4 Financial Pressures

Falling revenues and, in some areas, rising investment demands, have had a marked impact on the financial health of RTÉ and TG4. While income has gone down, the past five years have seen the roll-out of a new digital terrestrial TV transmission network, and a period of dual running before the eventual switch-off of the analogue network at the end of 2012. RTÉ has also launched a portfolio of new digital channels to be made available on all digital platforms. At the same time, both broadcasters have invested in new online services, including RTÉ's catch-up TV service, requiring further investment in online content versioning and distribution capacity.

As a result, the PSBs have had to embark on significant cost-cutting initiatives. According to RTÉ's annual accounts, between 2007 and 2011 (latest available), the broadcaster reduced its operating costs by almost €61m (from approximately €430m to €370m) or by 14 per cent and RTÉ's Costed Plan shows further cost-cutting in 2012, so that, according to the organisation, it has reduced operating costs by €90m or 20 per cent. TG4 states in its Costed Plan that it has reduced its operating costs by a similar proportion (comparable accounting data for the organisation, as available in its annual reports, show that its expenditure fell by about 7 per cent between 2009 and 2011 (from €39.17m to €36.6m) (during the same period RTÉ's operating costs fell by 5%, according to its annual reports). Understandably, perhaps, these measures have so far been more reactive than strategic, and in some areas have focused on areas which are easy to cut quickly – such as external spend.

At the same time, both public broadcasters have tried to maintain their existing scale and scope of services and indeed have expanded into new online activities. Rival commercial broadcasters complain about the extent to which the public broadcasters, especially RTÉ, continue to spend substantial sums on acquiring sports and other programme rights. Newspapers complain that RTÉ's investment in online services is crowding out their own potential investment in similar areas. RTÉ's recent operating deficit suggests that it still has more to do to bring spending in line with expected income.⁹⁰

The practice/policy of the PSBs seeking to maintain scale in an environment of falling revenue and the necessity for cuts to be made in operating costs is not a recipe for long-term financial sustainability, nor for providing public value to Irish audiences. The new five-year plans provide an opportunity for a more strategic review of how RTÉ and TG4 should adjust to the changes which have already taken place, and respond to the challenges ahead.

87 RTÉ Two has seen a greater decline in its audience share than RTÉ One.

88 Nielsen TV Audience Measurement for Television Audience measurement (TAM) Ireland Ltd

89 RTÉ data, based on JNLR survey, daytime hours 7am to 7 pm.

90 The latest annual review of RTÉ's performance from Indecon notes that although cost reductions have been made, these have been insufficient so far to deal with the collapse of revenues.

3 Key Market Drivers For The Next Five Years

3.1 Overview

Looking ahead, the broadcasting market is likely to undergo further change over the period under consideration (2013-2017). Rather than the external economic shocks which have dominated the past five years, the next five are likely to be characterised by changes in the nature and structure of the audio-visual media market. Following the impact of digital multi-channels, there will be a second wave of competition from internet-delivered on-demand services.

In this section, we assess the outlook for the Irish audio-visual market in five key areas:

- Economic and demographic trends
- Technology developments
- Audience demands
- Competition
- Audience and funding implications.

Although broadcast radio and TV will remain important, this next period will bring accelerating changes in the way in which audio-visual content is made, distributed and consumed. While their impact on public broadcasters may seem modest at first, the longer term implications of these changes could be profound.

3.2 Economic and Demographic Trends

Prospects for the Irish economy are an important place to start, as they affect the scope for increases in public funding for broadcasting, and the extent to which commercial income might improve. Demographic trends have implications for the number of households (paying the licence fee) and for the size and mix of the audience (affecting commercial prospects).

Economic prospects

As already noted, the past five years have seen the Irish economy suffer from the impact of the global recession. Looking ahead, the country faces a period of further uncertainty, although most economic forecasters now see some modest growth over the next five years.⁹¹

The Department of Finance's recent medium term fiscal statement⁹² suggests that real GDP will grow by 1.5 per cent in 2013, 2.5 per cent in 2014 and 2.9 per cent in 2015. Forecasts from bodies such as the EU, the IMF and OECD all paint a similar picture of relatively slow recovery initially, with real GDP growth rising towards but less than 3 per cent in the later years of the period. Even so, the Irish economy in 2016/17 will be little bigger than it was in 2008. It is likely that unemployment will drop only slowly, and consumer confidence may remain fragile for much of this period (not least given the cumulative impact of fiscal austerity in response to the crisis)

91 Given the difficulty of making accurate economic forecasts, any projections should be treated with caution if used as a basis for planning. Even short term forecasts are often revised, as has recently been the case with all growth forecasts for the Irish economy over the next year.

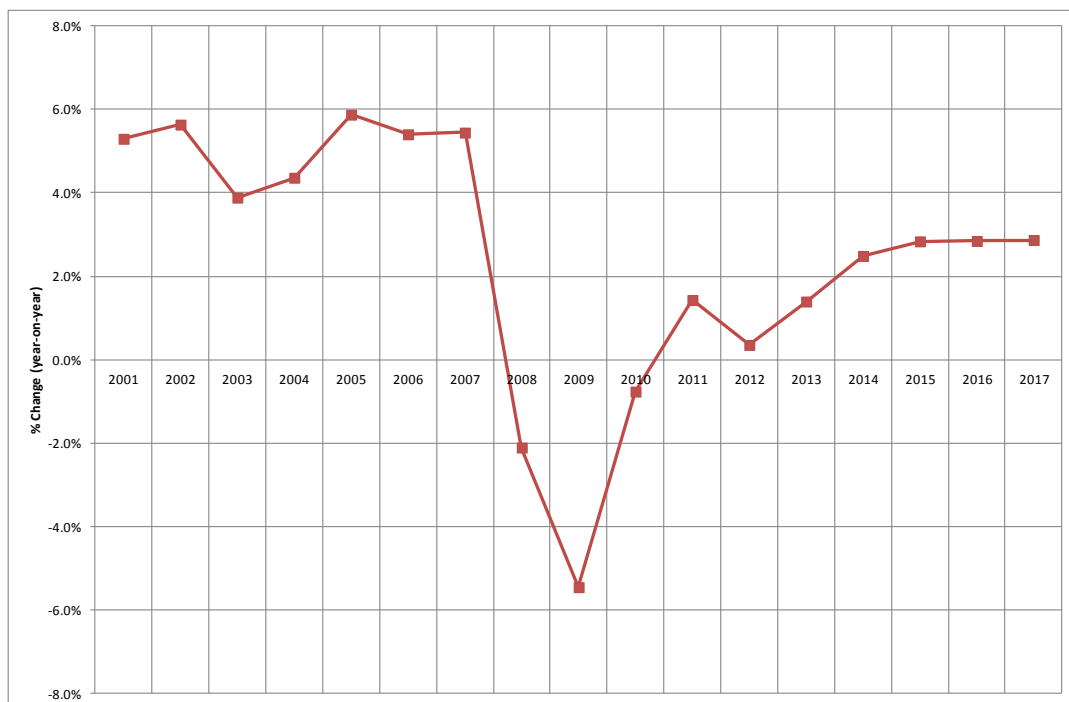
92 "Medium Term Fiscal Statement", Department of Finance, November 2012.

Ireland: Real GDP growth projections (annual %)	2013	2014	2015
Dept of Finance (Nov 2012)	1.5	2.5	2.9
IMF (Dec 2012)	1.1	2.2	2.8
OECD (2012)	1.3	2.2	n/a
European Commission (Autumn 2012)	1.1	2.2	n/a
Central Bank (Jan 2013)	1.3	2.5	n/a

Source: Consultancy team review of various projections.

The chart below makes use of data on Ireland's real GDP growth rate until 2017 (latest available from the IMF's World Economic Outlook, October 2012). Of interest is to note that the rate of real GDP growth is expected to level off at a rate of 2.8-2.9% per year during 2015-2017. It is also apparent from the graph that the heady real GDP growth rates witnessed during 2001-2007 (before the crisis) are not anticipated over the next five years.

Figure 1: Real Gross Domestic Product (GDP) Growth in Ireland (2001-2017)



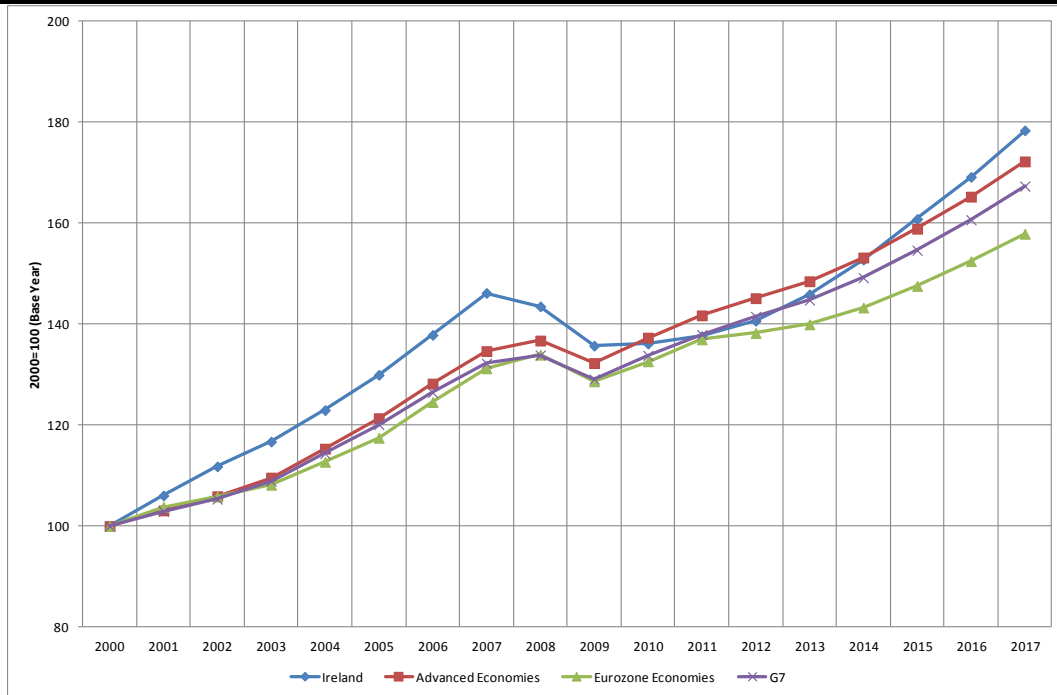
Source: IMF World Economic Outlook Database, October 2012.

Note: Estimates start after 2011.

The next chart below shows further IMF data on GDP based on purchasing-power-parity (PPP) per capita GDP and allows comparison of the expected economic growth rate in Ireland with other countries to 2017. The graph illustrates how Ireland's GDP per capita (adjusted for differences in the cost of living across countries) grew appreciably more rapidly in the years up to the crisis, experienced a bigger 'hit' during the crisis, but is expected to recover

relatively strongly in the coming years, so that by 2017 Ireland is expected to have the highest PPP-adjusted GDP per capita (as it had in 2007 prior to the collapse in the economy). Thus, even though Ireland is not expected to experience the same high growth rates that it experienced before the crisis, it is nevertheless expected to emerge from the recession relatively strongly in the next five years – more sustainable (non-inflationary) growth during 2013-2017, according to the IMF data.

Figure 2: Gross Domestic Product (GDP) per Capita (Purchasing Power Parity, PPP) in Ireland, the UK, Euro Area and the G7 (2000-2017) (2000=100)



Source: IMF World Economic Outlook Database, October 2012.

Note: The Euro Area comprises Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia and Spain; the G7 comprises Canada, France, Germany, Italy, Japan, UK and US. In the IMF data, the PPP-adjusted GDP per capita figures are expressed in current international dollars and have been indexed (2000=100) by the Crowe team to aid in comparison. Estimates start after 2011. Note also in this chart that the vertical axis begins at 80 (and not zero); this is to better illustrate the differences between the countries.

The main drivers of Ireland’s economic recovery over the next five years are/will be FDI and the performance of a number of larger indigenous enterprises, including in the agri-food sector. Tourism is also contributing to the economic recovery. In other words, the international/exports sector is a key driver of Ireland’s economic recovery.⁹³ These growing sectors are also noteworthy here because they constitute a large part of the user base in relation to advertising. Advertising is generally considered to be a ‘leading’ indicator of economic activity (whereas unemployment is a ‘lagging’ indicator), suggesting that, ahead of the anticipated economic recovery gathering momentum, businesses will start to increase

93 Some 54% of Ireland’s exports are accounted for by pharmaceutical products (which are dominated by foreign affiliates operating in Ireland – there are approximately 120 foreign pharma companies in Ireland, including 9 of the top 10 in the world and 15 of the top 25 medical technology firms), 32% manufactured products (including computers and high-tech engineering goods) and food and drink products account for 10% of all exports from Ireland.

their advertising and this in turn will start to drive recovery (albeit economic growth on a lower rate compared with before the crisis).⁹⁴

It would seem sensible to use the underlying growth assumptions as a base point for the public broadcasters' five-year plans, which (see elsewhere in the report) should imply the scope for a modest upturn in revenues over the period. Given economic uncertainties, though, consideration should also be given to the downside risks associated with slower than expected growth.

The box below sets out the latest thinking of the IMF in relation to the Irish economy from its latest review. Further signs of optimism for the period ahead including the fact that Ireland has started to re-enter the sovereign bond market and that international confidence is beginning to return to the country. In relation to the latter, overseas investors are now factoring in a higher rate of return on investments in Ireland compared with other developed economies and this is reflected in part by the historically high levels of FDI and private equity financing entering the country. In respect of the former, US investment manager Franklin Templeton is buying up Irish debt and currently holds 10% of all such liability. Bank of Ireland, ESB and NAMA have all borrowed from international markets, showing overall confidence in Ireland's economic prospects.

Box 1: Ninth Review of the Troika's Recovery Programme in Ireland (February 2013)

Staff teams from the Troika visited Dublin during 29 January-7 February 2013 for the ninth review of the government's economic recovery programme and met with a range of stakeholders. According to the Troika's statement,⁹⁵ Ireland's strong track record of programme implementation has been maintained, contributing to substantial improvements in market access and conditions for the sovereign and also – albeit more moderately – for the banks. EC/ECB/IMF⁹⁶ mission teams continued technical discussions with the authorities on the scope for further improving the sustainability of the well-performing adjustment programme. Mission teams also began discussions on how best to prepare for and support a successful and durable exit from programme financing.

Ireland's economic recovery is continuing and is expected to gradually gain momentum, with growth forecast to firm to over 1% in 2013 and over 2% in 2014. The growth of Irish exports is a key driver of the on-going recovery, but is highly dependent on the pace of recovery in trading partners. Net exports are nevertheless supported by a significant reversal of competitiveness losses experienced during the boom period. At the same time, high unemployment and still weak balance sheets continue to weigh on the domestic economy. A timely resolution of banks' non-performing loans will pave the way for improving the situation in the banking sector, restoring credit supply, reducing uncertainty, and, ultimately, enabling a durable revival in domestic demand.

The Troika also notes that market conditions for Irish bonds continue to improve, with benchmark 8-year yields now below 4.5% and recent bond issues attracting broad investor interest. There have also been encouraging improvements in financing conditions for banks and semi-state utilities. The significant yield declines on Irish sovereign debt reflect growing international confidence in Ireland's robust policy implementation, as well as the euro area leaders' statement on June 29 and the ECB's announcement of Outright Monetary Transactions in early September. But market confidence remains vulnerable given high public and private debts and the mission teams stressed the need for continued strong policy efforts by the Irish authorities in order to lay solid foundations for successful programme exit at end 2013 and a durable return to market financing.

Separately on 7 February, the re-structuring of the promissory notes in respect of the €31 billion given

94 For example, Google's Q4 results 2012 show significant increases in advertising, suggesting the process is already underway.

95 <http://www.imf.org/external/np/sec/pr/2013/pr1340.htm>.

96 The Troika consists of the European Commission (EC) and the European Central Bank (ECB) as well as the IMF.

to the former Anglo Irish Bank was announced, whereby the loan was re-structured into a government debt arrangement between the sovereign and the Central Bank over an extended period of time (beyond the 10-year period attached to the promissory notes). This will ease this particular debt burden and will consolidate international confidence in the Irish economy.

Source: Statement of the IMF, EC and the ECB on Ireland, 7 February 2013.

Demographic trends

According to 2008 projections from the CSO,⁹⁷ the population of Ireland could reach between 4.6m and 5.2m in 2016, depending on assumptions made about fertility and migration rates (migration rates have by far the most significant effect on this number). The 2011 census recorded an actual population of 4.6m, compared with 4.2m in 2006. Given uncertainties about economic prospects and the potential for higher population outflows over the period than would normally be expected, we suggest that it would be prudent to plan on the basis of a relatively modest further increase over the next five years.

Within this total, the CSO expects a slight reduction in the proportion of the population of working age, and a slight increase in both young (0-14) and old (65+) groups.⁹⁸ These changes are probably not sufficiently marked to alter the structure of the economy or consumer spending patterns dramatically within the five-year period under review, but could lead to a small dampening impact on any growth in advertising income over the period.

Future household formation trends are difficult to predict. Between May 2007 and May 2012, there was a small increase in the total number of television households in Ireland (6.6 per cent). But recent economic developments suggest that it will be prudent to assume little change over the next five-year period. In October 2012 there were 1.59m TV households in Ireland, compared with 1.58m in 2010, for example.⁹⁹

Irish language speakers

The 2011 census identified some 1.77m Irish language speakers in Ireland (around 40 per cent of all respondents), an increase from 1.66m in 2006. The peak age group for spoken Irish language is among 5 to 10 year olds, largely in the education system. Some 519,181 people (12 per cent) speak Irish daily in the education system only; while a further 94,000 (2 per cent) speak Irish daily outside the education system.

The government's objectives, as set out in its 20 year strategy for the Irish language, include increasing daily speakers outside the education system to 250,000, and the number of people with knowledge of Irish to 2 million. Overall, it aims to "increase on an incremental basis the use and knowledge of Irish as a community language".¹⁰⁰

By way of comparison, the 2011 census also reports that 514,000 people speak a language "other than Irish or English" at home, with the largest group (119,000) speaking Polish.

97 "Population and Labour Force Projections", Central Statistics Office, April 2008

98 Eurostat, the official statistics agency of the EU, predicts a reduction in the proportion of 15-34 year olds in Ireland between 2015 and 2020 (from 26% to 23%) and a small rise in the percentage of those over 65 years during the same period (from 13% to 14%).

99 Nielsen TV Audience Measurement Establishment Survey.

100 "20 year strategy for the Irish language, 2010 – 2030".

3.3 Technology Developments

The past five years have already seen major changes in the way in which broadcast content is produced and distributed. The next five years will bring further change in each of these areas.

Production

Around the world, there have already been substantial advances in the way in which TV and radio programmes are made, with implications for both quality and cost.

Digital production techniques can reduce reliance on labour and radically reduce the need for physical studio space. New digital capture and editing technologies can reduce costs substantially. Newsgathering costs can be reduced by adoption of lightweight cameras, portable satellite links to replace old OB units, smaller crews and other initiatives. It is likely that further costs savings are available to broadcasters who continue to innovate and introduce new production equipment and techniques, although such initiatives may have initial capital investment and restructuring-cost implications.

However, some areas of future development may bring with them new costs:

- Move to HD and possibly 3D broadcasts – which require upfront investment in equipment and skills, and require more transmission bandwidth
- Expansion of online and on-demand – which will call for investment in rights, content creation, software development and server capacity
- Digitising programme archives – which requires investment in creating new digital copies, cataloguing, and incorporating the necessary information (metadata) to enable material to be sorted and retrieved.

Broadcast distribution

At the end of 2012, TV broadcasting in Ireland had entered an all-digital world, with four key broadcast platforms: Sky, UPC, Saorview, and Saorsat.¹⁰¹ The broad split of households by main platform used is: Sky 49 per cent, UPC: 20 per cent, Irish DTT: 14 per cent, and UKDTT/FTA satellite: 11 per cent.¹⁰² No single broadcast platform reaches all Irish households, so universal distribution of public TV channels depends on their having access to each of these platforms, at least until broadband availability improves significantly.

Viewing of the public broadcasting channels varies across these platforms, and is higher in DTT households (where there is less choice) and lower on multi-channel platforms. Arguably, much of the major movement of audiences between platforms has already taken place, so further changes in RTÉ and TG4 audience shares due to audiences shifting from terrestrial to multi-channel should be relatively modest. The pay platforms might be expected to see some further increase in their market shares over the next five years, however, as audiences continue to seek the most attractive channel propositions, and as the platforms themselves compete to secure further subscriber growth (for example by bundling broadcast, broadband and on-demand services).

101 Saorview (DTT) is available to 98% of the population of Ireland. Due to the landscape, some areas have always been impossible to reach via a terrestrial network. Saorsat is the infill free-to-air satellite television service put in place by RTÉNL to deliver Irish television services to the 2% of homes that are not covered by Saorview. The full list of TV channels available on Saorsat is: RTÉ One, RTÉ Two HD, TG4, RTÉ News Now, RTÉjr, and RTÉ One+1.

102 Estimates based on Nielsen TV Audience Measurement Establishment Survey.

On-demand and non-broadcast distribution

While broadcast distribution may appear reasonably settled for the next five years, new ways of distributing TV and audio content are emerging which promise further significant change.

Already PVRs (which allow time-shifting) are changing the way in which audiences consume programming and eating into live viewing. According to TAM data, 49 per cent of homes in Ireland now have PVRs (up from 36 per cent at the start of 2011), although 93 per cent of all viewing is still live.¹⁰³ PVR take-up should continue to grow over the next five years, with a consequent impact on the mix of live and recorded TV viewing.

Alongside PVRs, TV delivered over the internet, which has for some time been a minority interest, will also become a more mainstream platform in one of four main forms:

- hybrid broadcast and broadband platforms, which combine broadcast and internet content via the same set top box
- managed IPTV services, such as that provided by BT Vision in the UK (and which may themselves be part of a hybrid broadcast/broadband service)¹⁰⁴
- so-called over-the-top (OTT) services which can be delivered to a range of connected fixed and mobile devices over the open internet
- tethered services in which the platform and devices are closely linked, such as the Apple iStore/iPhone/iPad environment.

Typically, these new platforms involve some combination of a broadband network, an electronic device such as a tablet or set top box, and a new consumer interface or gateway. Initially, these platforms will be largely complementary to rather than a substitute for conventional broadcast television, and will not – at least in the near future - be adopted by all viewers. But they will gradually erode main linear channel audience shares. Public broadcasters therefore have a choice to make regarding how far and how quickly they need to adapt their services to be available on these new platforms.

A key difference is the extent to which the new platforms will in future connect to television receivers in the living room and with increasingly popular smartphones and tablets:

- Connected TVs , developed by companies like Samsung and Sony, but now widely available, allow viewers to use their primary set not only to watch broadcast TV, but also to connect to the internet and view on-demand content via app-like icons or buttons on the main screen
- Other TV-connected devices, such as Google TV and the Microsoft Xbox enable users to by-pass broadcast channels and access a wide variety of on-demand films and TV content from the internet, delivered via a consumer interface which looks very different to the traditional EPGs used by established satellite and cable platforms
- Mobile devices increasingly offer catch up, on-demand and streamed video services for consumption on the move and away from the living room.

The extent to which these services make inroads into the share taken by conventional broadcast platforms partly depends on the availability of high speed broadband connections

103 "Nielsen TV Audience Measurement Establishment Survey for TAM Ltd", October 2012. 62 per cent of digital homes have PVRs.

104 So far there has been no national IPTV proposition in Ireland, but three Irish operators have launched IPTV services in urban areas. They account for only a small share of viewing.

to households and on 4G or Wi-Fi capacity for mobile devices. According to ComReg,¹⁰⁵ Ireland's fixed broadband penetration rate per capita of 23.6 per cent (Q2, 2012) remains behind the benchmark EU average of 28.2 per cent, and the UK's 34 per cent. Including mobile broadband, penetration rises to 36.1 per cent.

In August 2012, however, the Irish Communications Minister launched the national plan for broadband, which sets targets for delivering high speed broadband to every home and business over the lifetime of the current government. The targets include:

- 70-100 Mbps connections for more than half the population by 2015
- At least 40 Mbps to a further 20 per cent of the population
- A minimum of 30 Mbps for every remaining home and business in the country.

These targets, it is suggested, will be met by a mix of on-going industry investment, 4G mobile spectrum release, and state investment in more rural areas. If these targets are met, a significant number of Irish households will have access to broadband connections which are capable of supporting high quality video services by the end of the five-year period we are reviewing, increasing the potential demand for new IPTV services and on-demand access to programming.

Implications of these changes

By the end of the five-year period under review, it is therefore likely that a mixed pattern of distribution will still be needed to ensure universal availability of public broadcast TV services.

Public channels will still need to use all four main broadcast platforms. Moreover, as more people (who pay the licence fee or pay tax to fund broadcasting) use connected TVs and mobile devices, so it will be hard for public broadcasters not at some stage to make available their key content on those platforms, too.

There is a question of timing, however. A "wait and see option" which would involve public broadcasters postponing investment in new platforms until they reach a certain market penetration could save money now and arguably keep open future options. Although potentially attractive at a time of constrained budgets, this approach carries significant risks: lack of involvement now would mean lack of influence in how the platforms develop and present their content, it would mean losing profile among younger and more affluent audiences who are already hard to reach, and could increase the price of negotiating carriage with platforms at a later stage.

On balance, we think public broadcasters will need to move sooner rather than later into this new world. This will require a more sophisticated approach to content distribution than has been needed so far. Whereas in the past, public broadcasters could themselves control or strike deals with a relatively limited number of distribution channels, in future they will have to negotiate with a much wider range of intermediaries – from smartphone app stores like Apple's iTunes, to manufacturers of connected devices like Samsung and Google. They will need to develop comprehensive syndication strategies, and ensure that their brands receive sufficient profile on these new gateways to sustain public interest. In some cases, they may have to pay for shelf space in these new shop windows.

105 "Irish Communications Market: Key data report", op cit. 71 per cent of residential broadband connections were to lines with between 2 and 10 Mbps speeds.

There are cost implications associated with these challenges – catch-up services and apps for mobile devices require investment, and duplicate distribution platforms impose additional costs (although analogue switch-off has provided a one-off cost reduction for all public broadcasters). There are also audience and revenue implications. New platforms and devices also introduce a further step-change in the availability of programming to audiences, and hence an increase in competition for audiences across the schedules.

3.4 Audience demands

Against this backdrop, audience tastes and preferences are changing, affecting both the type of content demanded and the way in which it is consumed.

Television

TV will need to work harder to retain viewers given the increasing choice they have available. Broadcasters around the world are finding that modestly-budgeted “schedule filler” programming no longer draws audiences as effectively as it did in a limited channel market. Audiences demand high quality “appointment to view” programming, which could mean major dramas or documentaries, or live sports and entertainment events. Such programming also increasingly has to work across media – on PCs, smartphones and tablet apps as well as on broadcast release.

Each genre faces its own competitive pressures. Traditional news bulletins face competition from rolling 24 hour news channels. Locally made programming must compete with the production qualities offered by the latest Hollywood studio release. Specialist or niche channels can often better meet audience needs for particular types of factual programming (for example, arts, science, history) than can a more conventional mixed genre channel.

These trends have a number of significant implications for public broadcasters. The first is the need to prioritise programme and service budgets so that schedules can offer the sort of high profile programming audiences demand. At the extreme, this may mean some marginal programme areas or services need to be dropped or closed down to sustain investment elsewhere. Research shows that audiences expect their public broadcasters to continue to offer major sports and entertainment programming alongside more challenging dramas and documentaries. If budgets are limited, then hard choices will have to be made.

The second is to work even harder to commission and show the sorts of programmes which their commercial rivals cannot afford to or do not want to schedule – whether in presenting news and current affairs from a national and local perspective, or in showcasing local stories and talent. If they simply replicate what is available from their commercial rivals, they will quickly lose their reason to exist.

The third is to devise and make programmes which can take full advantage of cross-media potential – whether online or in the form of smartphone apps. The broadcast element of the programme in future will be only one component of a much wider viewer experience. News programming in particular benefits from a cross-media approach, which can result in a much richer media experience than provided by broadcast services alone.

Finally, public broadcasters may face particularly acute challenges in reaching younger audiences who are more likely to be leading-edge users of new platforms and devices, and

are most exposed to competition for their attention from a wide range of new content suppliers.

Radio

In radio, RTÉ faces competition not only from commercial music radio stations, but also from many new internet-delivered music services such as Spotify. The future for music-only stations is challenging, and younger audiences are increasingly turning away from broadcast radio to find their music entertainment. To attract audiences in future, public radio must offer a wider range of speech and information than would typically be provided by the commercial radio sector or online digital music providers.

Patterns of consumption

Live v. on-demand

The technology developments described above will also affect how audiences find and consume content. For some types of content – major sports events, news, reality shows and the like – live viewing will remain critically important. Live broadcast channels can be streamed to computers and mobile phones. There seems to be a continuing appetite for live radio, especially for stations which engage with audiences through popular presenters and interesting speech content.

But increasingly viewers will prefer to access some types of programmes on-demand, requiring new ways of marketing and distributing content.

How quickly on-demand will capture a large share of total viewing is as yet unclear. In the UK, for example, on-demand accounts for around 15 per cent of viewing across all devices,¹⁰⁶ but many experts argue that this is set to double to 30 per cent over the next five years. Much depends on the take-up of connected TV devices – at present, connected TVs account for 15 per cent of all TVs in the UK and France, 10 per cent in Germany. As this share grows, so on-demand viewing on the main living room TV set will grow.

Of that on-demand total, a significant proportion is and is likely to remain time-shifted linear broadcast content. Another large share is accounted for by main broadcaster catch-up services like RTÉ Player. Content which has not previously been broadcast, delivered by new suppliers, will also grow (albeit from a very small base). Although the share taken by non-broadcast content may remain low, its reach (i.e. the number of people who access such content on a regular basis) is likely to be much higher. Often, OTT services will be accessed on secondary screens and devices rather than the primary home-based TV set. A Europe-wide study by Analysis Mason¹⁰⁷ suggests that OTT viewing on primary sets will be fairly limited by 2016, with only 1.4 per cent of households in Europe projected to use OTT video services as their primary source of TV at home. In contrast, they suggest that OTT may reach 30 per cent of homes on secondary screens.

Although the Irish market may lag marginally behind UK developments (due to initially lower high speed broadband coverage, and smartphone/tablet penetration), the long term outlook for this new range of distribution platforms is likely to be similar.

106 “TV, non-linear and disruption”, Enders Analysis, October 2012.
107 Analysis Mason, July 2011.

Online

More conventional online services (using combinations of text, graphics and audio visual material) will also continue to be important for some key genres. News is the most obvious example – future news services will be truly cross-media, with newspapers and broadcasters competing for consumers in the online environment. Other genres may also benefit from this “converged” approach – for example by extending the value of broadcast programming through discussion forums, online information and so on.

Public broadcasters cannot ignore these trends. Online services can enhance the public value they deliver to their audiences, although care must be taken to guard against “mission creep” (that is, extending into a wide range of online services which may have little connection with the broadcaster’s public remit and which are already well provided for in the commercial sector).¹⁰⁸

Enhanced PSB

The longer term development of digital services could bring real opportunities for PSB:

- PSBs may be able to reduce costs by reducing the number of broadcast services which need to be provided. While this may not be feasible over a five-year horizon, it will be important to put the building blocks in place which allow this to be a credible option in the longer term. Such action might include designing brands for new on-demand services, and devising content strategies which focus on long term value.
- PSBs may be able to use new media to better deliver the purposes originally set for broadcast services – for example, in the case of Irish language content, interactive and on-demand service may be more effective at spreading understanding of the language than broadcast programming, especially for school-aged audiences.

This prospect may be especially significant for TG4. For broadcasters which attract relatively small audiences, and offer specialist programming, one option is to switch from a mainly broadcast to a mainly on-demand delivery model. Rather than funding an extensive linear channel, with audience expectations about programme mix, levels of repeats and broadcast hours, it is possible to envisage at some later stage a more effective on-demand broadband delivered service in which funding could be focused more on content rather than on channels and distribution.

3.5 Competition

The competitive environment over the next five years will have implications for public broadcasters’ audience shares, income and costs, and – as importantly – the perceived need (or otherwise) for different aspects of the public broadcasting remit.

Key competitive developments

Key developments in television might include:

- More investment in content by the main cable/satellite channels available in Ireland (for example Sky channels, which are investing both in UK-originated content and in building up their premium US programming stock)

108 Note, a key feature of the BBC’s recent strategy review in the UK was to slim down radically its non-core online operations, with the closure of many online activities.

- Further penetration of pay TV market share, as TV services are bundled with high speed broadband contracts
- Competition from entirely new audio-visual content suppliers from outside Ireland, who will deliver on-demand content over broadband services
- Competition for “screen time” from non-TV payers (games, social networking etc.).

In radio, as indicated above, additional competition is likely to come from new IP-based music services targeted at mobile devices and PCs. Competition for younger audiences will be particularly intense – not only from the commercial radio sector (which has targeted this market successfully in recent years) , but also from these new services. There are few signs, though, that DAB radio will account for significant growth in listenership or competition over the next five years.

Both RTÉ and TG4, therefore, may suffer from a continuing gradual erosion of audience share, which they will need to counter by ensuring a wider distribution of their content via the new platforms and gateways described above. These developments are also likely to affect RTÉ’s main commercial broadcasting rival, TV3, which will also face increasing competitive pressures.

Different parts of the broadcasters’ schedules may be impacted differently – for example, major programming landmarks are likely to continue to win audiences, but less popular or less striking programming will suffer disproportionately. Peak viewing shares (where money on screen can attract larger audiences) may be more resilient than daytime shares. Content which is readily available elsewhere may find it harder to sustain viewing levels than content which is unique to public broadcasting.

This raises the question of value for money. Is there a level of audience engagement below which it no longer makes sense to direct public funding into a public broadcaster? For TG4 this could be especially problematic if its share falls much below the current 1.85 per cent, calling into question the value received for public funding invested. To address this challenge, it will be important for RTÉ and TG4, together with the BAI, to be clear about how success should be measured in future – perhaps in terms of audience reach and impact, and programming distinctiveness, as well as share measures. Strategic plans can then be fine-tuned to help deliver these new objectives.

For RTÉ, it will be important to assess likely consumption levels for each of its services over the next five years. Given the need to focus priorities on programming and services which deliver clear value to the public, those which for one reason or another appear to be underperforming will need either a turnaround plan or plans for closure.

Possible changes to the need for public service programming

It is not the purpose of this report to review the overall case for public broadcasting in Ireland. However, it is appropriate to ask whether, over the next five years, any competitive developments might materially affect the priorities of the public broadcasters and the range and type of content they should be asked to deliver.

At a broad level, RTÉ and TG4 meet their public service aims by offering a wider range and diversity of locally produced programming than would be available from the commercial marketplace alone. Both broadcasters produce and broadcast a greater proportion of programmes made in and about Ireland, and cover a wider range of programme genres

(including news, current affairs, and minority interest material) than would their commercial competitors. TG4 importantly delivers Irish language programming that commercial broadcasters could not afford or have little inclination to broadcast.

There is little sign that this will change over the next five years. TV3 faces continuing commercial challenges as the economy slowly pulls out of recession and may be hard pressed to significantly increase its investment in locally-produced programming. The other main players in the Irish market are almost exclusively focused on UK and international content. If local programming is seen as important, which appears to be the case given lists of the most viewed television programmes, then public intervention will still be needed over the next five years to guarantee its delivery at anything like current levels.

Neither is it likely that the commercial sector sustain the costs of the sort of newsgathering operation provided by RTÉ. In radio, too, high quality speech radio will be affordable only through public intervention. The same is true for the range of Irish language programming currently delivered by TG4. If that remains a key priority, it will require continuing public funding.

Further, public broadcasters have a role to play in ensuring Ireland develops its own converged media skills and resources. If Ireland is to nurture its own online, on-demand and mobile content services, this will again significantly depend on the actions taken by the public broadcasters.¹⁰⁹ Their activities can help support the emergence of a critical mass in new media production and can have a positive effect on broadband take-up.

In some areas, however, commercial players could increase their contribution if RTÉ or TG4 were to pull back their involvement, namely:

- Sports coverage (although TV3's capacity to schedule an immediate large increase in sports would be limited)
- Acquired programming (e.g. US-made dramas, comedies and films)
- Music radio.

The extent to which PSBs continue to offer such programming and on what scale depends on a range of factors, including public expectations, the role that such programming plays in generating public value (likely to be the case for major sports events which bring the nation together, for example), and the contribution such programming makes to maintaining the share, reach and hence impact of each public broadcaster.

3.6 Audience and Funding Implications

Audiences – overall viewing

TV viewing overall has held up well in recent years, despite increased competition for leisure time from new media and games. According to recent Nielsen research,¹¹⁰ more TV is watched in Ireland now than five years ago. Average all-day viewing in 2011 reached 205 minutes per person, 10 per cent higher than in 2008. This is indicative of increased multi-tasking, with many viewers watching television at the same time as playing games, using a PC or smartphone etc. It is also partly a function of tough economic times in which TV, as a

109 Here, though, the potential role of newspaper publishers should be taken into account – to the extent that action by RTÉ deters them from investing in their own online services, then this could be a cause for concern.

110 As reported in "TV Viewing Trends", Nielsen TV Audience Measurement.

comparatively cheap form of entertainment, becomes relatively more popular. The next five years may not bring a similar increase in viewing, but should see these high levels sustained – new platforms and devices increasing further the opportunity to view, even though other forms of leisure may become more affordable again.

Radio listenership in Ireland continues to be strong, with audiences tuning in to listen to an average of almost 4 hours a day between 7am and midnight. Recent JNLR reach figures indicate that 85 per cent of all adults listen to the radio daily and radio analysts do not expect a significant decline in this number over the medium term.¹¹¹

Audience shares

As noted, RTÉ and TG4 have suffered from a decline in audience shares over the past five years. Over the next five, they will face additional pressure from:

- Any further shift in households to the pay-TV platforms
- Further erosion as audiences drift to other content suppliers.

Platform competition: In an earlier report for the BAI,¹¹² we anticipated that around 5 per cent of households might switch from terrestrial platforms to satellite/cable pay platforms following switch-off. This, we argued, could lead to a further small erosion of 1.7 percentage points from RTÉ's main channel audience share, which would be partially offset by higher viewing of RTÉ digital channels. Overall, we concluded, the net effect of switch-off might be a one-off fall in RTÉ's audience overall share of around one percentage point. All else remaining equal, this small further platform-related reduction in RTÉ's audience share should still be a reasonable base case assumption for the next five-year period.

Content competition: In addition to the above, RTÉ and TG4 will see existing content providers competing more aggressively with popular acquired programmes, and some limited new competition from non-broadcast content services. The latter may become more important towards the end of the five-year period in question, as high speed broadband availability and take-up grows.

For radio, the lack of progress so far in securing consumer take-up of DAB in Ireland suggests that major distribution changes are unlikely over the next five-year period, and major shifts in broadcaster audience shares are unlikely.

Advertising trends

Against a continuing tough economic climate, the prospects for commercial income remain challenging, but could experience some uplift over the five-year plan period. Overall spend on advertising tends to follow the economic cycle closely. Many academic studies¹¹³ have shown that advertising expenditure goes hand-in-hand with economic growth, and that GDP is generally a good predictor of long run trends in advertising spend. Modest forecasts for GDP growth will typically mean modest expectations for advertising growth.

In fact, since 2008, advertising spend in Ireland has fallen by around a third, according to Group M data, a greater decline than might be suggested by GDP trends alone. Could

111 Data from JNLR, presented in RTÉ's Costed Plan.

112 "An Assessment of the Sectoral Impact of RTÉ's Proposed Channels and Services", Perspectives, December 2010.

113 See, for example, "Economic Growth and Advertising Expenditures in Different Media in Different Countries", Van der Wurff, Bakker and Picard, Journal of Media Economics, 2008.

advertising bounce back at a faster rate than predicted for the overall economy? As alluded to earlier, advertising can be a 'lead' indicator of growth, and hence sometimes moves ahead of the macroeconomic data, so this could occur. But equally, the extent of the recent downturn and slow return of consumer confidence may dampen any such bounce back. Global industry forecasts offer differing views. For example, Zenith Optimedia (September 2012) suggested that Eurozone advertising spend would return to only slow growth in 2013 after a decline in 2012. Others, such as Carat, are equally cautious about the immediate future.

PwC, in their recent Global Entertainment report for 2012-16¹¹⁴ take a more optimistic view, predicting that global advertising spend will increase at 6.4 per cent compound growth over the period. They expect that, although internet advertising will be the fastest growing segment, TV advertising will keep pace with the sector average. Print advertising will grow most slowly.

In what follows, we look at the trends in Irish advertising in recent years, examining independent data on cinema, outdoor, radio, online, TV and press advertising since 2009 (as well as looking at the overall advertising market in Ireland). In the process, we also review RTÉ's advertising and commercial income since that time, and TG4's commercial income. The purpose of the analysis is to get a sense of recent historical trends and forward projections, making use of available projections for the Irish advertising sector and its constituent parts. The following analysis will help to inform our assessment of the PSBs' commercial revenue projections (2013-2017) and whether they might be cautious or ambitious elsewhere in the report (in our review of the PSBs' Costed Plans). Table provides independent estimates and projections of the advertising market in Ireland to 2015, showing the component parts of the market as well. Accepting that estimations and forward projections of the advertising market can vary from agency to agency (the figures below are from Core Media), the table nevertheless provides some interesting patterns that reflect the consensus view of the market.

First, the Irish advertising market is not expected to reach the level seen in 2009 (€780m) during the period 2013-2015. The Core Media figures suggest that the market will recover from 2013, but modestly to reach €733.4m in 2015.

Second, the pattern of modest recovery for the whole advertising market from 2013 is expected to occur in each of the TV and radio advertising markets, while the online advertising market is anticipated to grow strongly.

Thirdly, press advertising is expected to continue to decline during the period, with a very significant reduction in its share of the overall market (from 35% in 2009 to 20% in 2015).¹¹⁵ Meanwhile the shares of TV and radio advertising are expected to be steady at 28% and 15% respectively, while online is expected to become the largest component of the market, with a share of 29% predicted in 2015, up strongly from 12% in 2009. The Core Media figures suggest that TV and radio will retain their shares of the overall advertising in the context of rapid growth of online, while the loser will be press advertising. This is in line with UK and other forecasts (see further below) and points to the complementary nature of online, TV and radio advertising.

114 "Global Entertainment and Media Outlook 2012-2016", PwC, September 2012.

115 Newspaper sales in Ireland fell by 7% over the second half of 2012 compared to the same period in 2011. The falls were seen both across the Sunday and daily markets. The Audit Bureau of Circulation figures, reported in the media on 22 February 2013, show that *The Irish Independent* is still the highest circulation daily newspaper despite a 5.5% dip in sales to just under 124,000. These drops in sales are part of the process in which press advertising is falling and expected to fall in the coming years. Reflecting the growth in mobile reading devices, the number of people reading newspapers or downloading news items is growing, despite falling circulation figures for hard-copy papers.

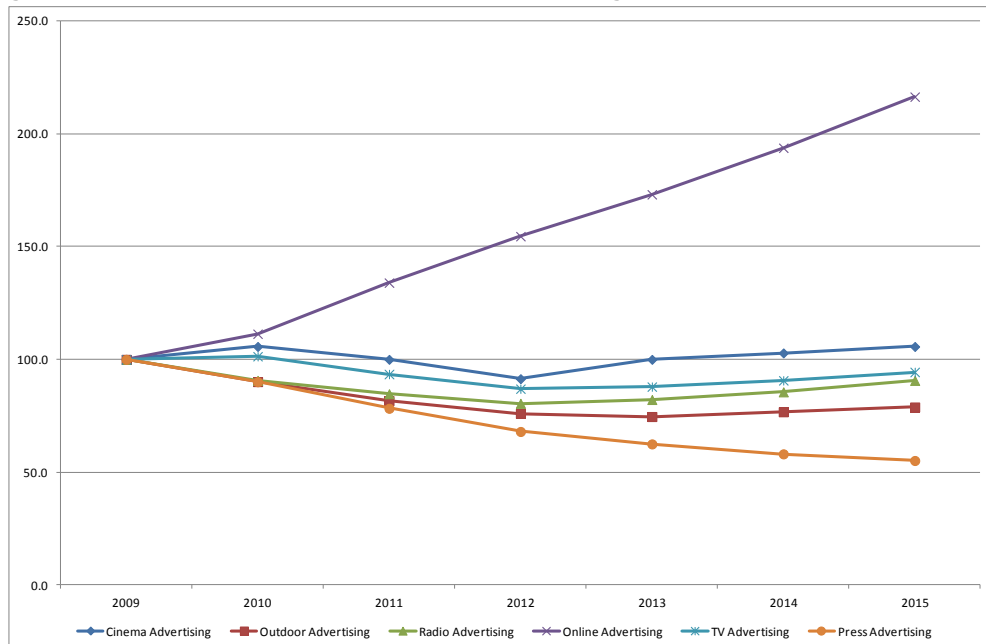
Irish Advertising Market (€m)							
	Cinema	Outdoor	Radio	Online	TV	Press	Total
2009	7.0	71.0	118.0	97.0	215.0	272.0	780.0
2010	7.4	64.0	107.0	108.0	218.0	245.0	749.4
2011	7.0	58.0	100.0	130.0	201.0	213.0	709.0
2012	6.4	54.0	95.0	150.0	187.0	185.0	677.4
2013	7.0	53.0	97.0	168.0	189.0	170.0	684.0
2014	7.2	54.5	101.0	188.0	195.0	158.0	703.7
2015	7.4	56.0	107.0	210.0	203.0	150.0	733.4

Irish Advertising Market (% Shares)							
	Cinema	Outdoor	Radio	Online	TV	Press	Total
2009	1%	9%	15%	12%	28%	35%	100%
2010	1%	9%	14%	14%	29%	33%	100%
2011	1%	8%	14%	18%	28%	30%	100%
2012	1%	8%	14%	22%	28%	27%	100%
2013	1%	8%	14%	25%	28%	25%	100%
2014	1%	8%	14%	27%	28%	22%	100%
2015	1%	8%	15%	29%	28%	20%	100%

Source: Core Media Estimates (November 2012), Consultancy Team analysis.

The trends in the components of the advertising market during 2009-2015 are illustrated in Figure 3 below, where we have based each trend on 2009 (index number format with the 2009 values set equal to 100). The graph is striking for showing the strong upward trend in online advertising, while the divergent trend in press advertising is equally noteworthy. In-between these differing outcomes are TV and radio advertising, which are expected to recover from 2013 but not to the extent that the 2009 values will be reached.¹¹⁶

Figure 3: Trends in the Components of Irish Advertising (2009-2015) (Base Year 2009=100)



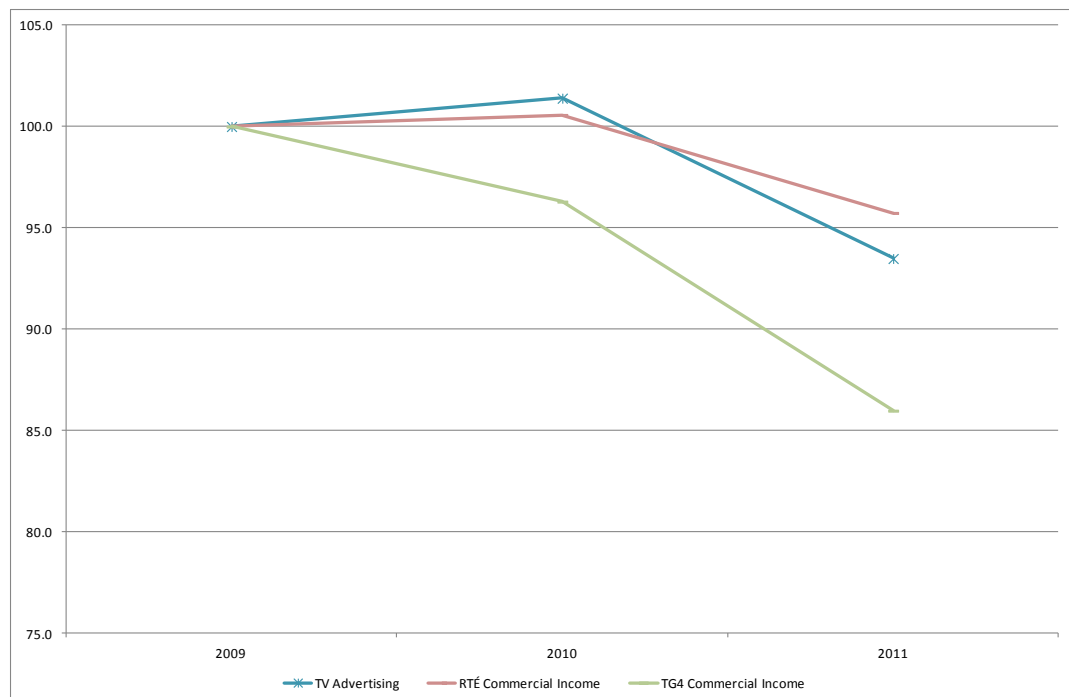
Source: Core Media Estimates (November 2012), Consultancy Team analysis.

116 Note that the Core Media projections go up as far as 2015.

It is instructive to consider the trends in the PSBs' commercial income of RTÉ and TG4 along with that of TV advertising in Ireland since 2009. In what follows, we first look at the sub-period 2009-2011 and then proceed to consider 2013-2015.

Figure 4 shows that, during 2009-2011, commercial income at TG4 fell more rapidly than TV advertising in Ireland and RTÉ's commercial income, which fell the least rapidly of the three. It should be noted that commercial income at TG4 accounts for a small proportion of that broadcaster's total income (less than 10%).

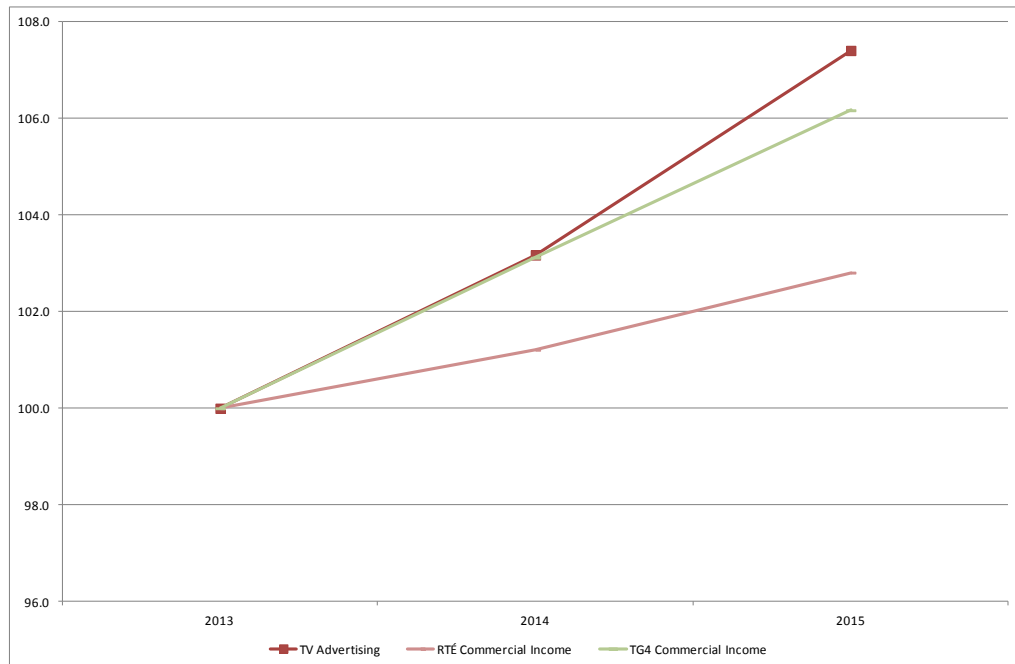
Figure 4: Trends in Commercial Income of RTÉ and TG4 together with Irish TV Advertising (2009-2011)
(Base Year 2009=100)



Source: Core Media Estimates (November 2012), PSBs' Costed Plans, Consultancy Team analysis.

Moving to consider the situation during 2013-2015 a rather different picture emerges, as shown in Figure 5. In particular, RTÉ predicts modest growth in its commercial income in its Costed Plan whereas TG4 is more ambitious regarding its future commercial income – closer in line with that predicted for the TV advertising market (although we should bear in mind that commercial income accounts for a small minority share of TG4's overall income, less than 10%).

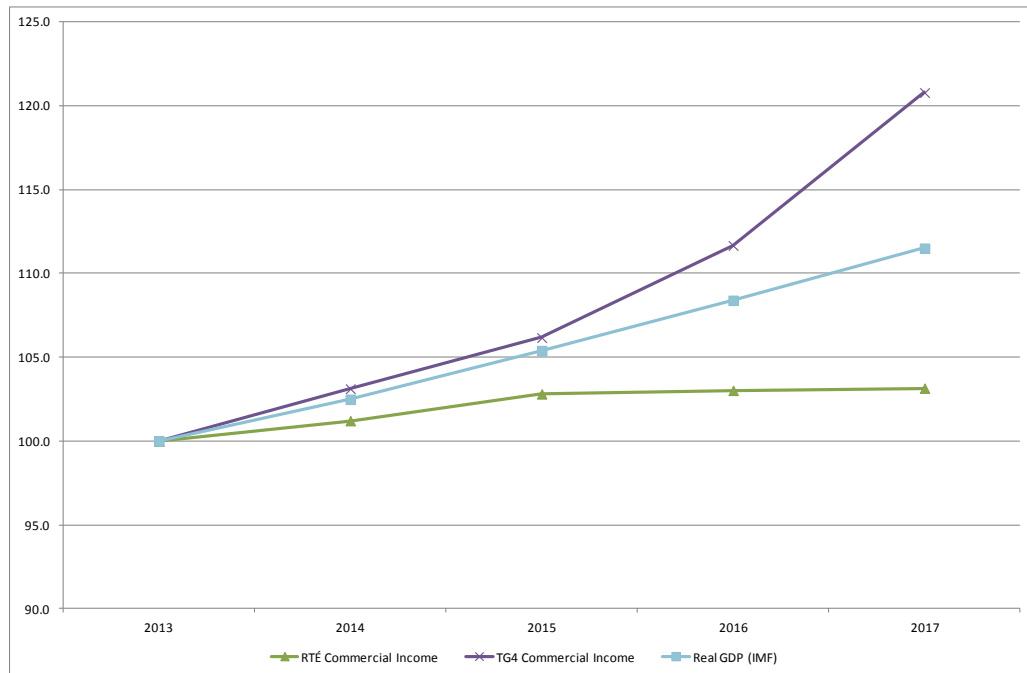
Figure 5: Trends in Commercial Income of RTÉ and TG4 together with Irish TV Advertising (2013-2015) (Base Year 2013=100)



Source: Core Media Estimates (November 2012), PSBs' Costed Plans, Consultancy Team analysis.

The graph just presented suggests that RTÉ may be taking a cautious approach to its commercial income in its Costed Plan, which may be understandable given that its commercial income fell by over 30% between 2008 and 2011. Elsewhere in the report, we examine the cautionary or otherwise view of RTÉ's commercial revenue projections (during 2013-2017) in more detail but ahead of that we note the patterns in Figure 6, which show that RTÉ's commercial income projections during 2013-2015 are lower compared with the IMF's projected real GDP in Ireland and TG4's commercial income expectation. In particular, the latter organisation's projection of its commercial income is ahead of the IMF's project real GDP, while RTÉ's commercial revenue projection is growing less rapidly than the IMF's forecast for real GDP.

**Figure 6: Trends in Commercial Income of RTÉ and TG4 together with Irish Real GDP (2013-2017)
(Base Year 2013=100)**



Source: Core Media Estimates (November 2012), IMF World Economic Outlook (October 2012), Consultancy Team analysis.

Summing up the analysis presented above, we think that it would be prudent to assume – in line with independent GDP projections – that advertising spend in the Irish economy will do well to return to 2009 or 2008 levels by the end of the five-year period under review.

Market shares of total advertising

The specific impact of these developments on RTÉ and TG4 depends on a number of factors, including television’s and radio’s share of the total advertising cake, and their own share of television and radio advertising.

Evidence from markets around the world suggests that TV’s share of total advertising has held up reasonably well during the recession, and radio has performed satisfactorily, too, although spend on both TV and radio has declined in absolute terms. Group M reports that TV’s share of total advertising spend in Ireland rose from 20.7 per cent to 25 per cent from 2008 to 2012¹². Radio’s share increased from 8.6 per cent to 9.3 per cent. Although online advertising has been a major growth area in recent years, the main losers have been newspapers (especially regional and local papers), not broadcasters. This is clearly evident in the earlier figures of Core Media (Table and Figure 3 above).

There are risks in future, though, as major structural changes in advertising markets threaten TV and radio as well as press. Advertisers’ budgets tend to be relatively fixed in total and then divided among different media. If online advertising-based services continue to gain ground, and advertisers see improving results from targeted online advertising, then TV and radio could lose some share over the next few years. On the other hand, TV and radio still have some key advantages over online. TV is still the most effective way for advertisers to

reach large audiences quickly and efficiently, and to build brand value, and will remain so for some time. Live TV programming such as sports, news and reality TV is much less threatened by time-shifted viewing (and ad-skipping) than other genres. TV may also be able to take advantage of its growing on-demand services to collect customer data and hence target advertising more effectively at particular consumer groups. Radio can still help advertisers reach certain target audience groups quickly and with immediacy.

The Core Media projections above (Table and Figure 3) suggest that TV and radio advertising in Ireland will hold their shares in the context of the projected rapid growth of online advertising but shrinkage of press advertising.

Market experts in the UK suggest at best a relatively flat market for TV advertising over the next few years. Some analysts – for example Enders¹¹⁷ – even predict a real terms decline in TV advertising as online alternatives exert downwards pressure on airtime prices. The picture is similar for radio advertising, although factors specific to the UK radio market might provide some uplift.¹¹⁸

On balance, we think it would be realistic to assume that part of the increase in overall advertising market spend expected in Ireland over the next few years would be offset by a small decline in TV's overall share of that market, resulting in a relatively modest overall increase in TV advertising over the period.

Within the Irish TV market, our estimates suggest that RTÉ is currently the market leader with around a 50 per cent share of TV and radio advertising. TV3 is its nearest rival with around 20 per cent. Other broadcasters offer opt-out advertising, which is increasing its share of the TV market as audiences to those channels gradually increase. Counter-intuitively, however, even if RTÉ's audience share were to slip further over the next five years, its revenues might not decline proportionately. It would still be the most effective route for advertisers wishing to reach large audiences, and it may be able to charge more per impact delivered to offset its audience decline. The same may not be true of TG4, which has a much smaller audience, and therefore cannot charge the same sort of premium (and is much less reliant on commercial revenue, which accounts for less than 10% of its overall income).

In summary, therefore, the overall Irish advertising market should see some modest recovery over the five-year period but TV/radio could well experience a small decline in their share of that market (it is unlikely that TV and radio will see growth in their shares of the Irish advertising market). Although RTÉ may see some slippage in its audiences over the period, this would not necessarily translate into a proportionate decrease in RTÉ's advertising revenues. The (smaller) TG4 may, however, face a bigger challenge in holding onto its revenue share.

Other commercial income, including that generated by digital services, is currently only a small part of RTÉ and TG4's total income (8 per cent for RTÉ, for example). There may be some opportunity for digital income to grow over the next five years (in line with the projected growth in online advertising), but it will still represent a relatively small share of the total. In the UK, for example, Enders Analysis reports that online video advertising is now worth around €160m a year, rising at rate of €37.5m a year: that is, with the potential to double over the next five years. On a pro-rata basis, this suggests a total annual market in Ireland of around

117 "TV advertising forecasts 2012-17", Enders Analysis, November 2012.

118 For example the Advertising Association suggests growth in UK radio advertising of over 2 per cent in 2013, partly helped by the increasing importance of national airtime sales.

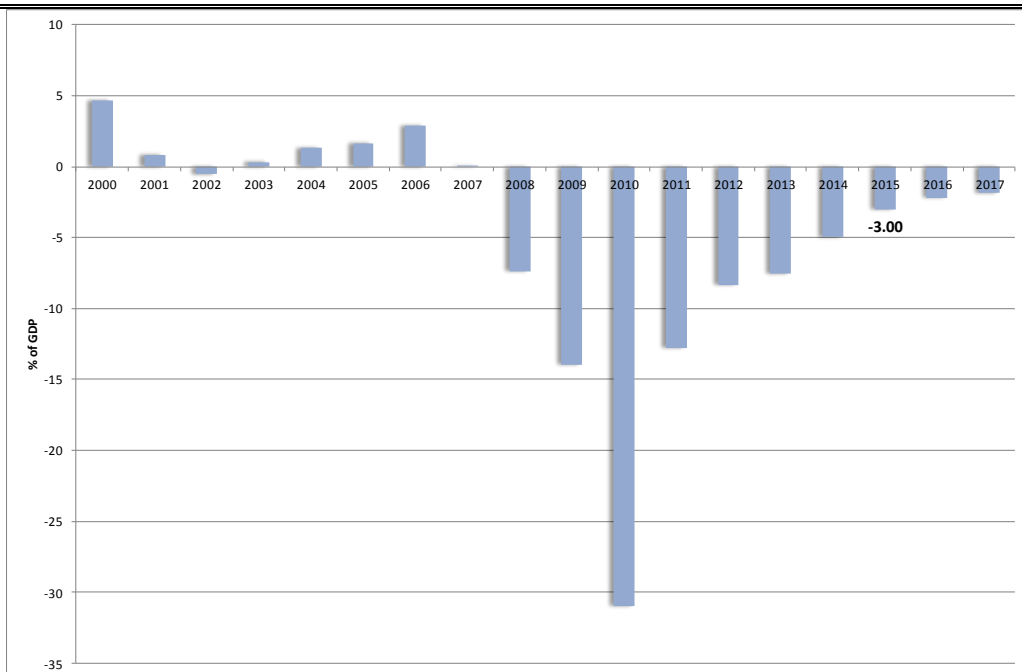
€10m, which could rise to more than €20m by the end of the period. RTÉ, with its supply of well-known local content, might be well-placed to capture a large share of this potential growing market.¹¹⁹

Public funding

While there may be some uplift in commercial income, the prospects for any significant early increase in public funding of broadcasting in Ireland may be limited given the economic difficulties still faced by many households, and pressure on public spending budgets. Scope may exist for increasing funding by reducing licence-fee evasion and collection costs, although this may not produce immediate results and will be difficult to achieve at a time when household budgets are under pressure (and evasion rates might be expected to rise). Wider decisions on public funding, however, depend on the strength of the cases advanced by both public broadcasters, which we address in the main body of our report.

The pressure on Ireland’s public finances stems from the primary fiscal target of the government, namely that of reducing the general government or exchequer deficit to 3% of GDP by 2015 (see Figure 7 below). The date by which this target was originally to be achieved was 2014 (when the Troika are due to exit Ireland). The IMF expects an exchequer deficit of just less than 5% in 2014. The fiscal targets are currently on track and this is helping to restore confidence in the Irish economy, which in turn is reflected in falling bond yields in respect of sovereign Irish debt – the government has raised debt finance independently this year at sustainable rates and will be returning to the markets again during the year.

Figure 7: General Government Deficit as a Proportion of GDP in Ireland (2000-2017)



Source: IMF World Economic Outlook Database, October 2012.

Note: The spike in 2010 was due to the bank bailout, which the EC required to be set against the then fiscal situation. Estimates start after 2011.

119 We estimate that in the UK, ITV’s online and on-demand revenues in 2012 reached around £100m a year, or about 10 per cent of their total non-production related revenues. If RTÉ were to replicate ITV’s performance, that implies around €15m a year, consistent with the potential size of the Irish market.

According to the Department of Public Expenditure and Reform,¹²⁰ as at September 2012, public service numbers were 28,000 lower (at approximately 292,000) than their peak (about 320,000) at the end of 2008. The exchequer pay bill has been reduced by 17.7% between 2009 and 2012, from €17.5bn (gross) to €14.4bn (net of the pension-related deduction). Over the period 2009 to 2015, the exchequer pay bill is expected to reduce by €3.8bn, or €3.3bn net of expected increases in public service pension costs. The various savings initiatives include shared services, e-government, procurement aggregation and initiatives in respect of enhancing openness, transparency and accountability.

In late January 2013, the Minister for Public Expenditure and Reform announced developments regarding the introduction of voluntary redundancy schemes in targeted sections of the public service, where the overall aim is to ensure a leaner, more efficient public service. On 2 October 2012, it was agreed to accelerate the reduction in public service numbers in order to achieve the previous 2015 target of 282,500 by the end of 2014 instead. In the statement on 22 January 2013, the Minister announced that “some posts have been identified as surplus” and “[w]here surplus staff cannot be redeployed, Voluntary Redundancy can now be used”. The Minister’s statement proceeds to say that:

“Initially Voluntary Redundancy will be rolled out in three areas – the Department of Agriculture, Food and the Marine and specific parts of the Health and Education Sectors. These Departments estimate that there will be scope to effect (sic.) about 2,000 exits from these areas over time, mainly from back office and support areas and management and administrative grades. The availability of Voluntary Redundancy for these areas will be useful in supporting the achievement of organisational reforms and restructuring. Obviously, as Voluntary Redundancy is being targeted at areas with identified staff surpluses, there will not be replacement of the departing staff”.

It is proposed to proceed with these schemes as soon as possible. Each relevant department is liaising with the Department of Public Expenditure and Reform to ensure roll out of voluntary redundancy as soon as the necessary plans have been finalised and arrangements made. The statement on 22 January 2013 adds that the scheme may be rolled out to other areas of the public service if deemed appropriate. The scheme will operate by application for redundancy.

While progress is being made in reducing the general deficit as a proportion of GDP, the national debt remains exceedingly large, passing €190 billion in 2012 and expected to exceed €213 billion by 2017 – well over 100% of GDP. Like most other members of the single currency, Ireland is far from meeting the agreed conditions for further economic integration and this illustrates the risks that still surround the euro (particularly its credibility as an economic and monetary union when the majority of its members are many years off meeting the agreed integration requirements in respect of national debt and exchequer deficit as a proportion of GDP).

Notwithstanding the anticipated economic recovery between now and 2017, the challenges facing the public finances, and the austerity measures necessary to bring the public finances under control, are likely to have significant implications for RTÉ and TG4, which now rely on the State for a substantial part of their funding. These include staff efficiencies and the

120 Statement on Public Service Reform Plan (6 September 2012).

general requirement pervading the entire public service that productivity must be improved and more is to be achieved from less, on a continual basis into the future.

For the dual-funded PSBs, this translates as on-going productivity and competitiveness – namely to continue to keep costs under control and seek efficiencies, and to continually strive to maximise commercial revenues (in the context of legislative parameters, including ensuring compliance with EU and Irish competition law).

Costs

Aside from the operational savings referred to earlier, changes in the competitive environment may also have an impact on the RTÉ and TG4 cost base.

For most Irish-made programming, the public broadcasters are the main buyers, and should therefore be able to act as “price setters”. Competitive pressures on key production inputs, such as talent costs and production personnel and resources, are likely to remain muted over the next few years, and new production technologies should bring potential for cost savings.¹²¹

For some types of programming, though – sports and acquired material in particular – RTÉ and TG4 will find themselves in competition with their commercial rivals such as TV3 and Sky, and occasionally with each other. The precise impact on programme costs of such competition is difficult to predict, and will vary across the market.

TV3, although an active market player, faces the same economic and commercial pressures as RTÉ, and cannot afford to engage in aggressive across-the-board competitive bidding for programming. Sky and other satellite channels, however, may force up the prices of popular US programming as they bid for both UK and Irish rights. New on-demand players may be able selectively to acquire rights for a limited number of programmes, but in the short to medium term will not have the customer base in Ireland to support extensive across the board acquisitions.

Given this, both RTÉ and TG4 should be in a position to exercise some degree of control over the costs of both their original productions and acquisitions over the next five-year period. The key pressure point may be the cost of popular US dramas and comedies. While there is unlikely to be across-the-board aggressive bidding for sports rights, competitive pressures could bid up the cost of this sort of acquired programming.

4 Strategic challenges

In summary, RTÉ and TG4 face a continuing tough economic and commercial outlook. Competition for viewers and revenues will be as intense as ever. At the same time as responding to immediate pressures, they will need to prepare for further fundamental changes to the broadcasting landscape driven by the increasing importance of on-demand and mobile services. They will also face continuing pressure to show that they are delivering public value and are acting in accordance with competition law to ensure that there is no distortion of competition in any relevant broadcasting markets.

Upside opportunities include:

121 Although some developments, such as HD programming, could increase production costs.

- A gradual improvement in the Irish economy
- Scope to exploit Saorview and Saorsat
- Increasing opportunities provided by on-demand and catch-up services across new platforms
- New digital technologies which can help reduce costs and increase efficiency
- Viewers still supportive and value key aspects of PSB
- Possible upside to the licence fee, if collection/evasion costs can be reduced or a small increase sanctioned.

Downside risks include:

- Further gradual erosion of audiences and commercial revenues
- Greater competition from major UK and international players
- Loss of support from younger audience groups
- Continuing reductions in operating costs might prove difficult to achieve, especially if PSBs, having made significant savings to date, do not fully buy-in to the need to make continuing productivity improvements.
- High investment costs associated with adapting to the future
- Implications of additional costs in meeting public policy objectives.

RTÉ's and TG4's strategic five-year plans should be reviewed against this backdrop.

Over the next five years, competition in the Irish media market will increase not diminish. Rival providers will include powerful UK players like Sky and – over time – likely major American corporations like Amazon and Google. For this reason, there is a strong case for sustaining a public broadcaster with at least the scale of RTÉ, able to reach enough audiences each week to make a real impact and achieve the wider social and cultural objectives set for it. It would be hard for RTÉ to make this impact without a reasonable portfolio of services and without investing in new online and mobile platforms and on-demand services. Even so, this should not be seen as an excuse to continue with “business as usual”. The changes in the broadcasting market identified in this report suggest that significant strategic action will be needed. Some output and services will need to be cut back to help fund these new developments. It is incumbent on the PSBs to re-state their purposes and goals to reflect these changes, and provide comfort that their proposals for services and programming are consistent with those new goals.

5 Supplement to This Appendix

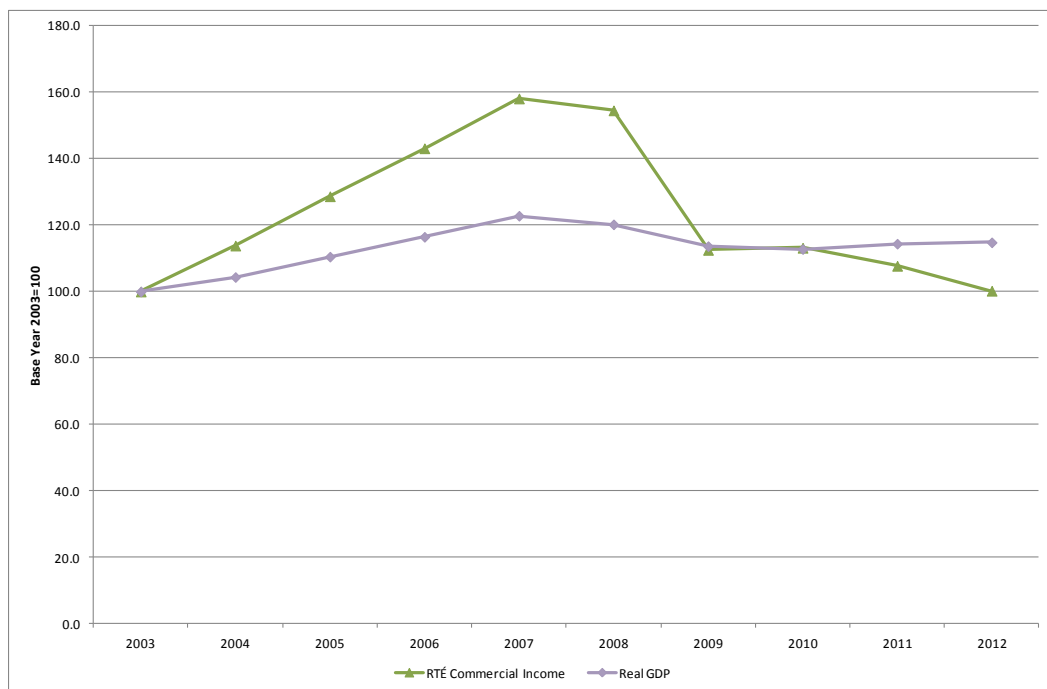
5.1 Quantitative analysis of RTÉ's Commercial Income

To further inform our assessment of RTÉ's commercial revenue projections in its Costed Plan, we have conducted quantitative analysis of its commercial income using historical data going back to 2003 in RTÉ's annual reports together with IMF projections of Ireland's real GDP during 2013-2017 (as well as IMF real GDP data from 2003 to 2012 inclusive).

By way of overview, the analysis supports our earlier view that RTÉ’s commercial revenue projections are cautious, given that economic recovery is predicted independently (by the IMF and other bodies, albeit modest recovery).¹²²

The chart below illustrates the co-movement between national income and commercial revenue (largely driven by advertising) in the case of RTÉ and Irish real GDP during 2003-2012 (real GDP being GDP adjusted for the cost of living). More specifically, albeit with a small sample size (10 observations during the period), the graph shows the ‘elastic’ relationship between commercial revenue and real GDP – as real national income increases, commercial revenue also increases but at a faster rate and, when real national income falls (after 2007), commercial revenue also falls but faster and over the rest of the period.

Figure 8: Trend in RTÉ’s Commercial Income and Irish Real GDP (2003-2012) with Base Year 2003



Source: RTÉ, IMF World Economic Outlook (October 2012), Consultancy Team analysis.

Note: The 2012 figure for RTÉ’s commercial income is based on its 2012 budget while the figures for 2003-2011 are as reported in RTÉ’s annual reports.

We can analyse the elastic relationship between RTÉ’s commercial revenue and Irish real GDP over the economic cycle using the data charted above, taking the year 2007 as the demarcation point between pre-crisis and post-crisis Ireland.

Between 2003 and 2007, real GDP increased by 23%. During the same period, RTÉ’s commercial revenue grew even more rapidly by 58%. In turn, the elasticity of RTÉ’s commercial revenue with respect to Irish real GDP during the sub-period was 2.5 – the elasticity is greater than unity as expected (from the graph). The estimated elasticity means that for every 10% growth in GDP during the upturn, RTÉ’s commercial revenue grew by 25%.

122 RTÉ is duly aware of the various economic forecasts and the inherent margin of error in all such projections, which is a fact of life in economics and indeed all scientific disciplines (even physics).

The elasticity concept works both ways and we would also expect the elasticity of RTÉ's commercial revenue with respect to Irish real GDP to be greater than one during the downturn. In fact, the magnitude of the elasticity is even greater compared with during the upturn. In particular, during the post-crisis sub-period (2007-2012), real GDP fell by 7%. During this time, RTÉ's commercial revenue fell by much more, namely 37%, implying that the elasticity of RTÉ's commercial revenue with respect to Irish real GDP during the period was 5.6. During the downturn, therefore, every 10% fall in real GDP was associated with a reduction in RTÉ's commercial revenue of the order of 56%.

(In our consultations with RTÉ, and in the supplementary materials provided by that organisation to the Crowe Horwath Consultancy Team, senior management of RTÉ emphasised the importance of consumer behaviour/confidence in driving advertising and commercial revenue. The Central Statistics Office (CSO) publishes data on retail sales serving to capture this aspect of the market – however there are no corresponding forecasts of retail sales by the CSO or internationally respected bodies like the IMF. Nevertheless, it is useful to also estimate the elasticity of RTÉ's commercial revenue with respect to retail sales. On *a priori* grounds, it would not be unreasonable to expect an elastic relationship between retail sales and RTÉ's commercial revenue, similar to that between GDP and RTÉ's commercial revenue. CSO annual data on retail sales in Ireland are available since 2005, where there are two measures of retail sales – by volume and by value. During the pre-crisis sub-period (2005-2007), the elasticity of RTÉ's commercial revenue with respect to the *volume* of retail sales is estimated at 1.6, meaning that as the volume of retail sales increased by 10%, RTÉ's commercial revenue increased by 16% during the time; the corresponding elasticity of RTÉ's commercial revenue with respect to the *value* of retail sales was 1.4. During the post-crisis sub-period for which CSO data on retail sales are available (2007-2011), the elasticities of (a) RTÉ's commercial revenue with respect to the *volume* of retail sales and (b) RTÉ's commercial revenue with respect to the *value* of retail sales were 1.7 and 1.3 respectively. As expected, therefore, the relationship between RTÉ's commercial income and retail sales (whether measured on a volume or value basis) is the same as that between RTÉ's commercial revenue and real GDP, namely elastic – in which commercial revenues rise faster in times of recovery/upturn but fall more rapidly in times of economic downturn.)

During the next five years, the IMF predicts (in its latest World Economic Outlook, October 2012)¹²³ that real GDP for Ireland will grow by 11.5% (cumulatively). Using the relevant estimated elasticity for the last upturn period for Ireland (namely the aforementioned 2.5 during 2003-2007) implies that RTÉ's commercial income will grow by [redacted]% during the period – reaching an estimated €[redacted] in 2017.

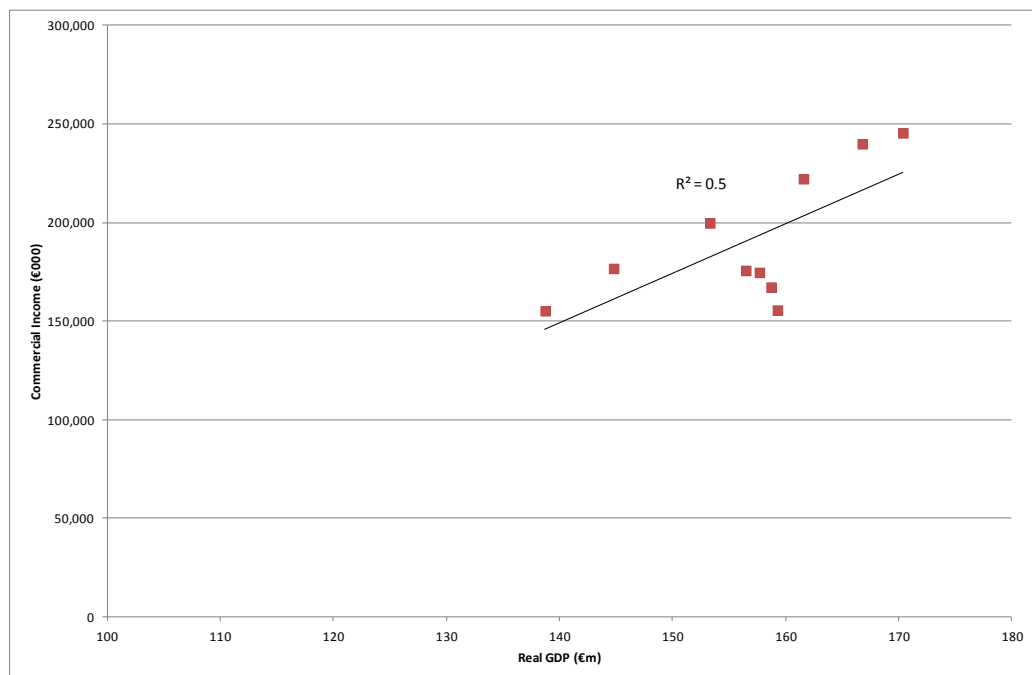
However, this prediction for the level of RTÉ commercial revenue in 2017 is unlikely to occur because it is based on an elasticity of 2.5 that occurred during a period of unprecedented (and unsustainable) growth in the Irish economy. Over the next five years, there remain significant risks in respect of the Irish, and international, economies, not least regarding the euro and the cumulative effects of internationalised fiscal austerity (remembering that austerity programmes in Ireland's largest trading partners, including the UK, commenced *after* Ireland's austerity programme and therefore the effects have yet to become significantly apparent in these countries, which could mean lower growth in Ireland). Given the inherent risks, a smaller elasticity needs to be considered and a reasonable (in fact conservative) estimate is to take an elasticity in which the growth in RTÉ's commercial revenue will marginally exceed Ireland's real GDP growth during 2013-2017 (11.5% according to the IMF). A conservative elasticity of 1.01 (rather than 2.5) implies that RTÉ's commercial revenue will

grow by marginally more than 11.5% during the next five years (i.e. by 11.6%) and in turn means projected commercial revenue for RTÉ of €[redacted] in 2017. In this scenario – ‘Elasticity 1.01’ – RTÉ’s commercial revenue would grow at an average rate of 3.6% per annum, compared with an average annual growth rate of 2.8% in respect of the IMF’s forecasts for Irish real GDP during 2013-2017 (this scenario builds in the empirical fact for Ireland of an elasticity greater than unity, but much more conservatively than previously because the elasticity is cautiously assumed to be 1.01 reflecting the inherent risks associated with Irish and international economic growth prospects in the coming five years).

This is not the only scenario we have considered in our examination of RTÉ’s commercial revenue projections during 2013-2017. The next scenario makes use of econometric analysis of the relationship between RTÉ’s commercial revenue and Irish real GDP during 2003-2012. The (economical) econometric modelling results given below in Table 3 reveal a very high goodness of fit to the factual data comprising of RTÉ’s commercial revenue and Ireland’s real GDP during 2003-2012 and we proceed to use the results to project, as another possible scenario, of RTÉ’s commercial income during 2013-2017.

The econometric analysis begins with the following scatter diagram, which plots RTÉ’s commercial income against Irish real GDP during 2003-2012 (Figure 9). The superimposed regression line explains the graph reasonably well, with real GDP accounting for 50% of the variation in RTÉ’s commercial revenue.

Figure 9: Scatter Diagram of RTÉ’s Commercial Income and Irish Real GDP (2003-2012)



Source: RTÉ, IMF World Economic Outlook (October 2012), Consultancy Team analysis.

Note: The 2012 figure for RTÉ’s commercial income is based on its 2012 budget while the figures for 2003-2011 are as reported in RTÉ’s annual reports.

However, it must be remembered that the available sample size is small (10 observations corresponding to the years between 2003 and 2012 inclusive) and we also need to take account of the trend nature of the data during the period.

In Table 3 we present the results of an econometric regression model of RTÉ’s commercial income using Irish real GDP and a time trend during 2003-2012. The inclusion of the trend variable in the model, which basically captures developments during the period, results in a strong fit to the data, with both real GDP and the time trend explanatory variables highly significant (p-values less than 1%).¹²⁴ The estimated coefficients on the constant, time trend and real GDP may in turn be used to project RTÉ’s commercial income during the planning period 2013-2017, which we perform below.

Table 3: Results of Econometric Analysis of RTÉ’s Commercial Income and Irish Real GDP (2003-2012)
[redacted]
<i>Source: RTÉ, IMF World Economic Outlook (October 2012), Consultancy Team analysis (using Stata/SE 12.1.</i>
<i>Note: The 2012 figure for RTÉ’s commercial income is based on its 2012 budgeted figure while the figures for 2003-2011 are as reported in RTÉ’s annual reports.</i>

Figure 10 brings together the results of the above quantitative analysis and gives alternative projections for RTÉ’s commercial income during 2013-2017. To give perspective to the projections, we also show in the graph the historical trend 2003-2012. As well as giving RTÉ’s own projections of its future commercial income and the alternative scenarios based on the elasticity analysis (namely scenario ‘Elasticity 1.01’, which is based on a conservative elasticity of RTÉ’s commercial revenue with respect to real GDP) and the above econometric analysis, we also report a fourth scenario in which RTÉ’s commercial income would grow according to the rate of growth that TG4 is forecasting in respect of its commercial income.¹²⁵

It is evident from the graph that RTÉ’s projections are by some margin the most cautious. The scenario yielding the largest increase in commercial income is that arising from our econometric analysis (using the estimated equation presented in Table 3), which is based on explaining RTÉ’s commercial revenue with real GDP and a time trend using data during 2003-2012 inclusive. According to the econometric analysis, RTÉ’s commercial income would reach just over €[redacted] in 2017. If RTÉ’s commercial income were to grow by the same rate projected by TG4 for its commercial revenue (albeit accounting for a much smaller proportion of its total revenue) then RTÉ’s commercial revenue would be €190.6m in 2017. According to our elasticity approach, which is based on a conservative figure for the elasticity of RTÉ’s commercial income with respect to real GDP (namely an elasticity of just 1.01, reflecting risks to economic growth during the next five years), RTÉ’s commercial income would reach €181.5m in 2017. In comparison, RTÉ projects that its commercial revenue will [redacted] from €[redacted] in 2013 to €[redacted] in 2017 (even in the last scenario considered in its Costed Plan where it would receive additional public funding, it does not envisage there would be a positive knock-on effect on its commercial revenues, possibly missing the dynamic between increased public funding to support programming, audiences and in turn commercial revenue).

Another observation on the graph below is that in all of the alternative scenarios considered here, the rate of growth in RTÉ’s commercial revenue during 2013-2017 would be [redacted] than that which occurred before the economic crisis (i.e. [redacted]% during 2003-2007) and in none of the alternative scenarios modelled by the Consultancy Team would the level of

124 The model was fitted with Newey-West standard errors to address the autocorrelation that was found when the model was estimated by ordinary least squares (OLS).

125 TG4 predicts average annual growth in its commercial revenue of 4.8% during 2013-2017 and this rate has been applied to give the additional alternative scenario shown in Figure 10.

RTÉ's commercial income in 2017 come anywhere close to the peak level witnessed in 2007 (namely €245m).

Figure 10: Projections of RTÉ's Commercial Income – RTÉ and Alternative Projections (2013-2017)

[Table redacted]

Source: RTÉ, IMF World Economic Outlook (October 2012), Consultancy Team analysis.

Note: The 2012 figure for RTÉ's commercial income is based on its 2012 budgeted figure while the figures for 2003-2011 are as reported in RTÉ's annual reports. The figures for 2013-2017 are projections.

Accepting, like RTÉ, that it is impossible to forecast future income or other streams with a high degree of confidence, the alternative scenarios presented here are designed to be used as comparisons with RTÉ's projected commercial revenue and, taken together, suggest that RTÉ is forecasting cautiously.

Before the presentation of the quantitative analysis above, we made the point that we would expect RTÉ to be able to at least maintain its TV airtime revenues at their 2012 levels and, most probably, achieve some modest uplift over the period. This would, we considered, equate to additional commercial income of between €10m and €15m a year by 2017, depending on whether TV revenues are held flat or slightly increased. The complementary quantitative analysis of RTÉ's commercial income suggests that achieving this additional income is possible and in turn that it would be feasible to expect commercial income in the region of €173-178m by 2017 (compared with the €[redacted] in total commercial revenue forecast by RTÉ in that year).

Appendix 2

Audience Research: Quantitative Survey Findings

Appendix 3

Summary of RTÉ Strategic Initiatives, Plans and Key Financial Metrics, by Service

RTÉ One

A3/1 Strategic Initiatives and Actions Planned for RTÉ One

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ One:

Strategic Intent	<i>To serve the wider population with high impact programmes, landmark drama, documentary, factual and entertainment programming, news and current affairs and bring the country together for key national events.</i>
Strategic Initiatives	Actions and Milestones
<i>Refresh the schedule</i>	<ul style="list-style-type: none"> ■ Comprehensive schedule review to create a more contemporary schedule and [redacted]
<i>Refocus the brand</i>	<ul style="list-style-type: none"> ■ Rejuvenate the brand to reflect a more modern and relevant Ireland ■ Leverage audience insights to align content with audience needs
<i>Increase News and Current Affairs in the schedule</i>	<ul style="list-style-type: none"> ■ Refresh current affairs and investigative journalism programming in peak time ■ New daily programme in the RTÉ One schedule ■ New investigative unit will deliver full programmes and short reports into Prime Time ■ Six One News will become more investigative and aim to become a major breaker of news stories
<i>Reflect and tell Irish stories for Irish people – informing and educating</i>	<ul style="list-style-type: none"> ■ Continue to commission and produce relevant and high quality documentary and factual programming that includes history, lifestyle, education, science and technology ■ Mark the Decade of Centenaries with documentaries reflecting the First World War, the 1916 Rising and the Civil War ■ Continue to make and broadcast Irish language programmes in peaktime
<i>Increase our National Event Coverage</i>	<ul style="list-style-type: none"> ■ RTÉ One will be primary outlet for all major events, including coverage of events commemorating the Decade of Centenaries, GAA events, European Presidency 2013 events, and political elections and budgets.
<i>Entertain the Nation with Chat, Music and Comedy</i>	<ul style="list-style-type: none"> ■ Grow younger audiences with contemporary, quality content ■ Reinvigorate entertainment and lifestyle strands and refresh popular existing brands ■ Enrich the schedule with new popular entertainment formats such as chat, lifestyle and talent shows

A3/2 Financial Metrics for RTÉ One

Key financial metrics for RTÉ One over the period 2013-17 are as follows:

RTÉ One (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
In-house productions	*	*	*	*	*
Commissions	*	*	*	*	*
Acquired Programmes	*	*	*	*	*
Broadcast and Distribution	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(130.0)	(130.7)	(133.0)	(135.5)	(136.2)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

As an indication of planned activity in 2013 and 2017 only (to show the start and end points of this costed five-year strategic plan), the programme costs for RTÉ One break down by genre as follows:

RTÉ One (all amounts in €m)					
Programme Costs by Genre	2013	% of total	2017	% of total	% change 2013-17
Factual	*	*	*	*	*
Drama	*	*	*	*	*
Entertainment	*	*	*	*	*
Music	*	*	*	*	*
News, Current Affairs and Weather	*	*	*	*	*
Sport	*	*	*	*	*
Young Peoples	*	*	*	*	*
Total Indigenous Programme Costs	*	*	*	*	*

The following table shows a series of key financial metrics for RTÉ One as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ One	2013	2017
Gross Public Service Cost as % of total for RTÉ	42.0%	42.4%
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

RTÉ Two

A3/3 Strategic Initiatives and Actions Planned for RTÉ Two

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ Two:

Strategic Intent	<i>With innovation as its hallmark, RTÉ Two will provide distinctive and relevant programming for young people through factual, entertainment, comedy, sports, documentary and acquired drama.</i>
Strategic Initiatives	Actions and Milestones
<i>Rebalance the schedule</i>	<ul style="list-style-type: none"> ■ Build on strengths in sport and young people’s programming and increasing home produced content hours in areas relevant to younger Irish audiences ■ Increase production of new factual programming aimed at the younger Irish adult ■ Increase commitment to contemporary music programming and to Irish movies and film ■ RTÉ Two funding will increase to rebalance the schedule, with new activities including a revamp of News on Two to enhance relevance to the RTÉ Two audience; new drama shorts; an additional 12-14 hrs of new factual documentaries for young people; reduction in sports costs and hours of sport programming in peaktime.
<i>Innovate in programming and production</i>	<ul style="list-style-type: none"> ■ Development of new formats and new talents, and encouragement of new ideas; ■ Continued innovation with Irish generated formats, new Irish comedy and new talent; ■ Exploration of use of new production models and user-generated content on RTÉ Two; ■ Development of comedy writing and performance, continued development of Comedy Night, and launch of a new comedy strand; ■ Enhancement of audience experience driven by cross-platform teams, with better creativity, integration and efficiencies.
<i>Reinvigorate the RTÉ Two brand</i>	<ul style="list-style-type: none"> ■ Reinforce role as voice of Irish young people through strong branding and marketing, and alignment of audience target with programme content ■ A single focussed brand identity will inform scheduling, commissioning, acquisitions and marketing decisions ■ Develop new talent and presenters who can re-invigorate programmes and RTÉ Sports coverage
<i>Engage our audiences</i>	<ul style="list-style-type: none"> ■ Harness social media and deliver second screen experiences to increase audience engagement and give linear content new expression online, through engaging with younger audiences on their terms; commissioning home produced programmes with digital engagement / interaction in mind; and enriching viewing experience through online hubs, social media, and mobile apps.

Maximise our National Event coverage	<ul style="list-style-type: none"> ■ RTÉ Two will be primary outlet for major sporting events such as World Cup soccer and rugby in 2014 and 2015, Olympics in 2016, and Euro 2016 soccer.
---	---

A3/4 Financial Metrics for RTÉ Two

Key financial metrics for RTÉ Two over the period 2013-17 are as follows:

RTÉ Two (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
In-house productions	*	*	*	*	*
Commissions	*	*	*	*	*
Acquired Programmes	*	*	*	*	*
Broadcast and Distribution	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(72.9)	(78.6)	(75.8)	(82.0)	(75.4)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

As an indication of planned activity in 2013 and 2017 only (to show the start and end points of this costed five-year strategic plan), the programme costs for RTÉ Two break down by genre as follows:

RTÉ Two (all amounts in €m)					
Programme Costs by Genre	2013	% of total	2017	% of total	% change 2013-17
Factual	*	*	*	*	*
Drama	*	*	*	*	*
Entertainment	*	*	*	*	*
Music	*	*	*	*	*
News, Current Affairs and Weather	*	*	*	*	*
Sport	*	*	*	*	*
Young Peoples	*	*	*	*	*
Total Indigenous Programme Costs	*	*	*	*	*

The following table shows a series of key financial metrics for RTÉ Two as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ Two	2013	2017
Gross Public Service Cost as % of total for RTÉ	23.6%	23.5%
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

RTÉ Radio 1

A3/5 Strategic Initiatives and Actions Planned for RTÉ Radio 1

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ Radio 1:

Strategic Intent	<i>To remain the national flagship radio station through a mixed genre speech and music schedule for an adult audience</i>
Strategic Initiatives	Actions and Milestones
<i>Strengthen the schedule and maintain the reputation as the station of record</i>	<ul style="list-style-type: none"> ■ Committed to delivering and developing news and current affairs offerings to ensure that RTÉ Radio 1 remains the most trusted source of radio news coverage in the country; ■ Be the home of our national sports and teams through live coverage of major national sporting events; ■ Ensure coverage of all major national events; ■ Produce a landmark series (with TV) looking at events in the Decade of Anniversaries and launch a series of programmes to track the decade through involvement of the public / their ancestors; ■ Innovate in documentary making; ■ Maintain record in first run new Irish writing in drama.
<i>Develop new programming strands aligned with audience interests and RTÉ's areas of focus</i>	<ul style="list-style-type: none"> ■ Review emphasis on key areas identified by RTÉ such as science and technology, investigative journalism, minority communities, and new voices and talent; ■ Enhance current strands and add new, distinctive programming to increase audience appeal; ■ Reassess allocation of resources / reprioritise where necessary, to back up areas of focus; ■ Develop investigative journalism, with between 5 and 10 investigations featuring on radio first by 2016.
<i>Increase 35-54 audience</i>	<ul style="list-style-type: none"> ■ To recruit younger listeners, RTÉ Radio 1 will continue comedy programming and refocus music policy for the station; ■ Continue introduction of younger voices on air (presenters and contributors), with emphasis on more diverse selection of voices; ■ Wider appeal of the station through content, presenters and contributors that are contemporary and innovative, and develop new on air talent; ■ Broadcast a primetime comedy slot for 33 weeks in 2013 and develop a cross-media strategy on comedy writing and performing; ■ Showcase live performance of Irish music in the schedule and use music entertainment programmes to attract 35-54s; ■ Continue Annual Big Music Week and launch a new music show with strong brand and digital presence.
<i>Drive creativity, efficiency and value for money</i>	<ul style="list-style-type: none"> ■ Invest in people and technology to ensure efficiency in all that RTÉ Radio 1 does.

A3/6 Financial Metrics for RTÉ Radio 1

Key financial metrics for RTÉ Radio 1 over the period 2013-17 are as follows:

RTÉ Radio 1 (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
In-house productions	*	*	*	*	*
Commissions	*	*	*	*	*
Broadcast and Distribution	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(32.9)	(32.6)	(33.1)	(34.2)	(33.7)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

As an indication of planned activity in 2013 and 2017 only (to show the start and end points of this costed five-year strategic plan), the programme costs for RTÉ Radio 1 break down by genre as follows:

RTÉ Radio 1 (all amounts in €m)	2013		2017		% change 2013-17
Programme Costs by Genre	2013	% of total	2017	% of total	
Factual	*	*	*	*	*
Drama	*	*	*	*	*
Entertainment	*	*	*	*	*
Music	*	*	*	*	*
News, Current Affairs and Weather	*	*	*	*	*
Sport	*	*	*	*	*
Total Indigenous Programme Costs	*	*	*	*	*

The following table shows a series of key financial metrics for RTÉ Radio 1 as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ Radio 1	2013	2017
Gross Public Service Cost as % of total for RTÉ	*	*
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

RTÉ 2fm

A3/7 Strategic Initiatives and Actions Planned for RTÉ 2fm

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ 2fm:

Strategic Intent	<i>To grow its audience of 20-44 year olds through innovative programming, excellent music scheduling and increased sport and comedy content.</i>
Strategic Initiatives	Actions and Milestones
Grow audience	<ul style="list-style-type: none"> ■ Grow the audience by creating relevant content for listeners (particularly 20-44s) and developing on-air and editorial talent; ■ Increase position of sport within 2fm.
Strengthen the schedule	<ul style="list-style-type: none"> ■ Revitalise the station's music policy; ■ Feature more music from Irish artists and commit to a guaranteed level of Irish music on peak time playlist; ■ Increase distinctive programming – both peaktime and late night; ■ Increase sports coverage by moving resources from Radio 1; ■ <i>[redacted]</i>; ■ Increase commitment to comedy – explore partnerships with RTÉ Television and <i>[redacted]</i>.
Talent development	<ul style="list-style-type: none"> ■ Identify and develop new contributors, voices and comedy talent.
Digital integration	<ul style="list-style-type: none"> ■ Online and DAB activity will continue to evolve using the latest multimedia tools to put audio at the centre of the user's experience with content indexing, streaming and podcasts; ■ 2fm will continue to use social media outlets and the website to build audience connections and increase programme impact in addition to increasing synergies between 2fm and RTÉ 2xm and RTÉ Pulse DAB stations.
Efficiencies and effectiveness	<ul style="list-style-type: none"> ■ Increase the range and diversity of programming in peak and off-peak; ■ Increase revenue and grow station share, particularly among the target demographic; ■ Increase percentage of Irish music on peak time.

A3/8 Financial Metrics for RTÉ 2fm

Key financial metrics for RTÉ 2fm over the period 2013-17 are as follows:

RTÉ 2fm (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
In-house productions	*	*	*	*	*
Broadcast and Distribution	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(11.6)	(11.9)	(12.1)	(12.3)	(12.4)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

As an indication of planned activity in 2013 and 2017 only (to show the start and end points of this costed five-year strategic plan), the programme costs for RTÉ 2fm break down by genre as follows:

RTÉ 2fm (all amounts in €m)	2013		2017		% change 2013-17
Programme Costs by Genre	2013	% of total	2017	% of total	
Entertainment	*	*	*	*	*
Music	*	*	*	*	*
News, Current Affairs and Weather	*	*	*	*	*
Sport	*	*	*	*	*
Total Indigenous Programme Costs	*	*	*	*	*

The following table shows a series of key financial metrics for RTÉ 2fm as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ 2fm	2013	2017
Gross Public Service Cost as % of total for RTÉ	*	*
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

RTÉ lyric fm

A3/9 Strategic Initiatives and Actions Planned for RTÉ lyric fm

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ lyric fm:

Strategic Intent	<i>To provide a unique alternative listening choice for an audience of classical, world music and arts lovers</i>
Strategic Initiatives	Actions and Milestones
<i>Achieve a wider, more diverse listenership</i>	<ul style="list-style-type: none"> ■ Reach out to potential listeners under 50's through improved awareness, working with sister stations and enhanced audience engagement with improved digital offerings without diluting the core proposition; ■ Publish CDs to promote Irish music.
<i>Establish and maintain collaborative and creative partnerships</i>	<ul style="list-style-type: none"> ■ RTÉ Lyric will partner with Arts agencies and venues to bring major festivals to a wider audience; ■ Commission work from Irish composers; ■ Develop our Education and Outreach programme to public events and educational institutions.
<i>Build on commitment to quality content</i>	<ul style="list-style-type: none"> ■ Broadcast of feature programmes which will examine music and music makers in all their creative and collaborative contexts.

A3/10 Financial Metrics for RTÉ lyric fm

Key financial metrics for RTÉ lyric fm over the period 2013-17 are as follows:

RTÉ Lyric fm (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
In-house productions	*	*	*	*	*
Commissions	*	*	*	*	*
Broadcast and Distribution Costs	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(6.4)	(6.3)	(6.4)	(6.5)	(6.7)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

As an indication of planned activity in 2013 and 2017 only (to show the start and end points of this costed five-year strategic plan), the programme costs for RTÉ Lyric fm break down by genre as follows:

RTÉ Lyric fm (all amounts in €m)					
<i>Programme Costs by Genre</i>	2013	% of total	2017	% of total	% change 2013-17
Factual	*	*	*	*	*
Entertainment	*	*	*	*	*
Music	*	*	*	*	*
News, Current Affairs and Weather	*	*	*	*	*
Total Indigenous Programme Costs	*	*	*	*	*

The following table shows a series of key financial metrics for RTÉ Lyric fm as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ Lyric fm	2013	2017
Gross Public Service Cost as % of total for RTÉ	*	*
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

RTÉ Raidió na Gaeltachta
A3/11 Strategic Initiatives and Actions Planned for RTÉ Raidió na Gaeltachta

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ Raidió na Gaeltachta:

Strategic Intent	<i>Provide national Irish language service that connects listeners to a personalised, authentic Gaeltacht and Irish language world</i>
Strategic Initiatives	Actions and Milestones
Increase listenership	<ul style="list-style-type: none"> ■ Reach out to audiences outside of the Gaeltachtaí and abroad; ■ Strengthen online offering to engage Diaspora – create a mobile application; ■ Develop the Irish language learning offering for home and overseas audiences.
Re-focus the schedule	<ul style="list-style-type: none"> ■ Create content to appeal to younger listeners; ■ Develop new talent; ■ Strengthen on-air schedule.
Develop strategic partnerships	<ul style="list-style-type: none"> ■ Build on and establish partnerships that allow for additional content provision, promotional opportunities and repurposing of content; ■ Create a publically accessible archive.
Modernise the brand	<ul style="list-style-type: none"> ■ Make the brand more relevant in a changing Irish society and a changing Irish language demographic; ■ Explore renaming the brand.

A3/12 Financial Metrics for RTÉ Raidió na Gaeltachta

Key financial metrics for RTÉ Raidió na Gaeltachta over the period 2013-17 are as follows:

RTÉ RnaG (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
In-house productions	*	*	*	*	*
Commissions	*	*	*	*	*
Broadcast and Distribution Costs	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(10.9)	(10.9)	(11.0)	(11.2)	(11.3)
Revenues					
B: Surplus on Commercial Activities	0.0	0.0	0.0	0.0	0.0
C: Distribution of Non Channel Commercial Surplus	0.0	0.0	0.0	0.0	0.0
D: Net Cost of Public Service (A+B+C)	(10.9)	(10.9)	(11.0)	(11.2)	(11.3)
E: Licence fee revenue attribution	10.9	10.9	11.0	11.2	11.3
(Deficit)/Surplus before income tax (D+E)	0.0	0.0	0.0	0.0	0.0

As an indication of planned activity in 2013 and 2017 only (to show the start and end points of this costed five-year strategic plan), the programme costs for RTÉ Raidió na Gaeltachta break down by genre as follows:

RTÉ RnaG (all amounts in €m)					
<i>Programme Costs by Genre</i>	2013	% of total	2017	% of total	% change 2013-17
Factual	*	*	*	*	*
Entertainment	*	*	*	*	*
Music	*	*	*	*	*
News, Current Affairs and Weather	*	*	*	*	*
Sport	*	*	*	*	*
Young Peoples	*	*	*	*	*
Total Indigenous Programme Costs	*	*	*	*	*

The following table shows a series of key financial metrics for RTÉ Raidió na Gaeltachta as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ RnaG	2013	2017
Gross Public Service Cost as % of total for RTÉ	3.5%	3.5%
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

<i>RTÉ Online Services</i>

The RTÉ costed five-year strategic plan sets out the strategic intent, initiatives, actions and milestones for all “free to user” RTÉ online services, which include RTÉ.ie, the RTÉ Player, RTÉ Radio Player and RTÉ Aertel.

A3/13 Strategic Initiatives and Actions Planned for RTÉ.ie

The RTÉ strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ.ie:

Strategic Intent	<i>To deliver RTÉ content to both Irish and international audiences through a first-class user experience and multi-platform, multi-device availability.</i>
Strategic Initiatives	Actions and Milestones
<i>Meet Audience Needs</i>	<ul style="list-style-type: none"> Provide distinctive, high-quality content that meets online users' needs, both at home and internationally
<i>New Hub for Arts and Culture</i>	<ul style="list-style-type: none"> Aggregate arts and culture content on new online platform and evolve production models to allow greater access to RTÉ's cultural content.
<i>New application for RTÉjr</i>	<ul style="list-style-type: none"> Integrate RTÉ's three RTÉjr outputs (Television, Radio and online) through applications, content sharing and other means of enriching young audiences experience of Irish children's content.
<i>Create a better user experience</i>	<ul style="list-style-type: none"> Increase and simplify the sharing and discovery of RTÉ content through the creative integration of social-media tools with RTÉ's content-creation
<i>Drive Innovation</i>	<ul style="list-style-type: none"> Deploy personalisation and customisation tools, and innovate in our production models and processes to improve the audience experience
<i>Strategic Partnerships</i>	<ul style="list-style-type: none"> Foster an open approach to partnerships and collaborations across the digital landscape, and prioritise projects which reflect the lives and concerns of all social strata in Ireland
<i>Meet the needs of the Irish abroad</i>	<ul style="list-style-type: none"> Develop a strategy for more in-depth and focused engagement of the Diaspora, ensuring that RTÉ.ie is a valued link to home for the millions of Irish abroad

A3/14 Strategic Initiatives and Actions Planned for RTÉ Player

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ Player:

Strategic Intent	<i>To become the leading Irish on-demand television service, giving audiences choice and control to enjoy RTÉ programmes wherever and whenever they choose</i>
Strategic Initiatives	Actions and Milestones
<i>Improve the user experience</i>	<ul style="list-style-type: none"> ■ Launch HD video streaming; ■ Introduce social and personalisation tools; ■ implement improved video playback features.
<i>Diversify content strategy from catch-up to full on-demand service</i>	<ul style="list-style-type: none"> ■ Introduce full series; ■ Launch archive collections; ■ Develop content offerings for international markets.
<i>Extend the platform roadmap</i>	<ul style="list-style-type: none"> ■ Continue to roll out RTÉ Player on relevant platforms and devices
<i>Grow revenue</i>	<ul style="list-style-type: none"> ■ Grow video-on-demand advertising revenue; launch premium content offering

A3/15 Strategic Initiatives and Actions Planned for RTÉ Radio Player

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ Radio Player:

Strategic Intent	<i>To hold its place as Ireland's leading live and on-demand radio service, to provide wider choice, richer function and to become a pivotal element of future hybrid radio for our audiences</i>
Strategic Initiatives	Actions and Milestones
<i>Improve the user experience</i>	<ul style="list-style-type: none"> ■ Introduce additional rich media elements – radio as a visual experience (slideshows, cameras etc), improved sharing capabilities, personalisation, scheduled recordings etc;
<i>Progress hybrid radio</i>	<ul style="list-style-type: none"> ■ Progress, in co-operation with European partners, technologies to provide broadcast radio and internet connectivity in one device, via a single app;
<i>Pursue All-Ireland player</i>	<ul style="list-style-type: none"> ■ Work with sector to explore common IP platform for Irish Radio.

A3/16 Strategic Initiatives and Actions Planned for RTÉ Aertel

For RTÉ Aertel, the costed five-year strategic plan does not present any specific initiatives or planned actions, but refers to the present situation, which entails:

- a weekly audience of 1.2 million users;
- close to 5 million monthly page impressions generated via online and mobile platforms;

- research suggesting that its strengths are convenience, ease of access and capacity for rapid navigation to information content spanning news, sport, business, entertainment, weather, stocks and shares, exchange rates, TV and cinema listings, flight times, holidays, public information and county councils, and subtitles.

A3/17 Financial Metrics for RTÉ Online Services

Key financial metrics for RTÉ Online Services over the period 2013-17 are as follows:

RTÉ Online Services (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
In-house productions	*	*	*	*	*
Commissions	*	*	*	*	*
Non-Broadcast Output Costs	*	*	*	*	*
Other costs	*	*	*	*	*
A: Gross Public Service Cost	(10.5)	(10.3)	(10.5)	(10.8)	(10.8)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

As an indication of planned activity in 2013 and 2017 only (to show the start and end points of this costed five-year strategic plan), the programme costs for RTÉ.ie break down by genre as follows:

RTÉ Online Services (all amounts in €m)					
Programme Costs by Genre	2013	% of total	2017	% of total	% change 2013-17
Drama	*	*	*	*	*
Entertainment	*	*	*	*	*
News, Current Affairs and Weather	*	*	*	*	*
Sport	*	*	*	*	*
Young Peoples	*	*	*	*	*
Total Indigenous Programme Costs	*	*	*	*	*

The following table shows a series of key financial metrics for RTÉ.ie as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ Online Services	2013	2017
Gross Public Service Cost as % of total for RTÉ	*	*
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

<i>RTÉ New Digital Services</i>
--

A3/18 Strategic Initiatives and Actions Planned for RTÉ News Now

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉ News Now:

Strategic Intent	<i>To be Ireland's leading 24-hour News and Current Affairs service available on online, on mobile and on television</i>
Strategic Initiatives	Actions and Milestones
<i>Overhaul of Panels & Tickers</i>	<ul style="list-style-type: none"> ■ Create a more up to date integrated news service which will cater for breaking and latest news updates, embedded video and twitter/social media feeds to be live in 2013
<i>More live bulletins</i>	<ul style="list-style-type: none"> ■ The goal for the channel is to have live news bulletins at the top of the hour, every hour between 7am and 12am. However, this is finance dependent. Currently headlines are carried at 9,10,11,12 and 1 as well as bulletins at 6 and 9 and three new evening bulletins will be live in 2013.
<i>Enhance the News Now Application (App)</i>	<ul style="list-style-type: none"> ■ Build on the aggregation of content from News, Business, Sport, and Entertainment from RTÉ, and supplement stories with rich multimedia content. Social media and community-building will be integral to the redeveloped application which will be delivered in 2013

A3/19 Strategic Initiatives and Actions Planned for RTÉjr Television

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for RTÉjr:

Strategic Intent	<i>To offer young children a diverse schedule of original Irish content and acquired programming</i>
Strategic Initiatives	Actions and Milestones
<i>Programme delivery</i>	<ul style="list-style-type: none"> ■ RTÉjr will deliver entertainment, music programmes, documentaries, animated drama series, arts activities, dancing, animals and pets, comedy programmes.
<i>Online application</i>	<ul style="list-style-type: none"> ■ In 2012 a new online application will be launched and the service will be available on all broadcast platforms for the first time.
<i>New strand</i>	<ul style="list-style-type: none"> ■ A new strand, building on elements of contemporary and traditional culture will feature in the schedule and fresh collaborations with relevant stakeholder groups will ensure maximum impact.

A3/20 Strategic Initiatives and Actions Planned for RTÉ Digital Radio

For RTÉ Digital Radio, the costed five-year strategic plan presents limited information on future initiatives or planned actions, other than to promote these services player on-air and

online, to merge RTÉ Choice with RTÉ Radio 1 Extra, and to conduct a further evaluation of RTÉ Gold and RTÉ Pulse in 2013. The plan also refers to the present situation, which entails:

- six RTÉ Digital Radio Services currently available on DAB, online, SAORVIEW, UPC and streamed on the RTÉ Radio Player;
- low-cost service provision (RTÉ does not present full financial data on its digital radio services);
- RTÉ Digital Radio serves approximately 1.5 million streams every month to fixed and mobile devices and provides access to all of RTÉ’s Radio services, live and on-demand. This equates to roughly 1.5% of total minutes listened on FM per month.

The portfolio of RTÉ Digital Radio Services currently consists of:

Service	Description
RTÉ Radio 1 Extra	An extension of the Radio 1 brand featuring re-scheduled Radio 1 content combined with “split” wavelength content and similarly styled acquisitions
RTÉ Choice	The best talk radio from the English speaking radio world
RTÉ Gold	Pop music radio station programmed with music from 60s, 70s & 80s
RTÉjr	Radio station aimed at the under 8’s, aligned with the television and online brand
RTÉ 2xm	Alternative music for an alternative audience with the best indie anthems and sessions from RTÉ 2fm for 15-34 year olds
RTÉ Pulse	Electronic dance music station.

RTÉ Other Services
A3/21 Strategic Initiatives and Actions Planned for RTÉ Orchestras, Quartet and Choirs

The RTÉ costed five-year strategic plan sets out the following strategic intent, initiatives, actions and milestones for the RTÉ Orchestras, Quartet and Choirs:

Strategic Intent	<i>To offer Irish music lovers the highest quality live music experiences and help new music lovers to find the RTÉ Orchestras and Choirs through great live and quality broadcast music</i>
Strategic Initiatives	Actions and Milestones
<i>Grow audience, and widen audience base</i>	<ul style="list-style-type: none"> ■ Be more responsive to audience needs e.g. timing of concerts, new formats, more cost-effective touring, visits to workplaces.
<i>Develop closer relationship with audience</i>	<ul style="list-style-type: none"> ■ Improved website technologies, develop Outreach, new strategic partnerships, extend the close relationship with RTÉ broadcast services.
<i>Support Irish Artists</i>	<ul style="list-style-type: none"> ■ Solo platforms for Irish artists, engage Irish performers as soloists and conductors.
<i>Invest in New Music</i>	<ul style="list-style-type: none"> ■ Creation and presentation of new music in Ireland.
<i>Create Commercial Recordings</i>	<ul style="list-style-type: none"> ■ CDs with Irish artists; ■ Film Music for Irish Productions; ■ Popular classics with acclaimed Irish soloists; ■ Commemorative recordings marking significant events.

A3/22 Financial Metrics for RTÉ Orchestras, Quartet and Choirs

Key financial metrics for RTÉ Orchestras, Quartet and Choirs over the period 2013-17 are as follows:

RTÉ Orchestras, Quartet and Choirs (all amounts in €m)	2013	2014	2015	2016	2017
Costs					
Indigenous non-broadcast output costs	*	*	*	*	*
Other costs	0.0	0.0	0.0	0.0	0.0
A: Gross Public Service Cost	(14.4)	(14.6)	(14.7)	(14.9)	(15.2)
Revenues					
B: Surplus on Commercial Activities	*	*	*	*	*
C: Distribution of Non Channel Commercial Surplus	*	*	*	*	*
D: Net Cost of Public Service (A+B+C)	*	*	*	*	*
E: Licence fee revenue attribution	*	*	*	*	*
(Deficit)/Surplus before income tax (D+E)	*	*	*	*	*

The following table shows a series of key financial metrics for RTÉ Orchestras, Quartet and Choirs as a percentage of the totals for RTÉ as a whole, for 2013 and 2017 (representing the start and end points of this costed five-year strategic plan):

RTÉ Orchestras, Quartet and Choirs	2013	2017
Gross Public Service Cost as % of total for RTÉ	*	*
Surplus on Commercial Activities as % of total for RTÉ	*	*
Net Cost of Public Service as % of total for RTÉ	*	*
Licence fee revenue attribution as % of total for RTÉ	*	*

A3/23 Strategic Initiatives and Actions Planned for RTÉ Archives

For RTÉ Archives, the costed five-year strategic plan does not present any specific initiatives or planned actions, but refers to the present situation, which entails:

- The RTÉ Archive being the largest national audio-visual archive in Ireland, comprising hundreds of thousands of hours of moving image and sound recordings from today's broadcasts as far back as the earliest decades of the 20th Century;
- Along with significant collections of photographs and documents relating to RTÉ Public Service history they provide a unique record of Irish social, political, economic and cultural life in the 20th and 21st centuries;
- The RTÉ archive also represents an important business asset and is commercially managed for sale and licence under the terms of the Broadcasting Act 2009 for licence of this material for commercial and educational re-use;
- RTÉ is required by law to establish and maintain its archives and has in place managed services to acquire, conserve, preserve, and document these collections which are augmented on a daily basis.

Appendix 4

Legislative and Regulatory Compliance

Appendix 4: Legislative and Regulatory Compliance

1 Legislative and Regulatory Challenges

1.1 Overview and European Context

In this appendix, we consider the regulatory environment for European PSBs, particularly in relation to European Commission decisions about State Aids.

In the five years between 2007 and the end of 2011, the European Commission made 18 decisions in relation to the potential abuse of State Aids rules by PSBs. This includes the decision in 2008 about the governance of RTÉ and TG4, in response to complaints brought by both TV3 and the National Newspapers of Ireland; other countries investigated include Spain, Germany, Belgium France, Denmark, Austria, Holland and Portugal.

2 Relevant Comparisons

2.1 Overview

In addition to a number of very specific cases considered by the Commission – for instance, into the recapitalisation arrangements for the Portuguese PSB, or the state financing of Denmark's TV2, there are two more wide ranging adjudications made by the European Commission which offer significant pointers to the issues that the Irish PSBs should address, as described in the following paragraphs.

2.2 Comparison 1: The Funding of German PSB¹²⁶

Following a number of complaints about the scope of PSB, the nature of its financing and the exercise of control, as well as the purchase of sports rights, the Commission concluded in 2007 that Germany needed to:

- create a clear definition of the scope of on-line activity that could be included within the overall PSB remit, subject to a prior test before they could be launched;
- create a legal framework that would explicitly require a clear separation of accounts between public service and purely commercial activity;
- create legal provisions which explicitly limited the public funding to the net costs of the public service activity, by ensuring that
 - only costs attributable to public service activities are included;
 - that all commercial revenues associates with them are deducted before the allocation is made;
 - and that the commercial revenues deducted are properly reflective of market principles;
- ensure that the sports rights acquired by the PSBs are limited to those that are necessary to fulfil their public service role.

126 http://ec.europa.eu/competition/state_aid/register/ii/doc/E-3-2005-WLWL-en-24.04.2007.pdf

2.3 Comparison 2: The Funding of Dutch PSB¹²⁷

Following complaints from commercial broadcasters and newspaper groups about the scope and funding of services offered by the Dutch PSB, the Dutch government undertook to change both the way it defined the scope of PSB activity and the requirements for ensuring against over-compensation. In its determination of 2010, the Commission drew the following conclusions:

- the legal enactment mandating separate accounting now met Commission requirements;
- the deduction of commercial revenue from the costs of the public service remit in order to arrive at the net public service cost was consistent with Commission requirements, and that there were sufficient safeguards against overcompensation in the rules governing the retention of surpluses;
- but that the funding arrangements of NPO, the umbrella PSB organisation, were not adequately covered in the relevant legislation. However, this is of limited relevance in the case of RTÉ and TG4 since there is no equivalent body;
- they further required the Dutch government to further in ensuring ex ante assessment before the PSB could launch new services.

3 Regulatory Compliance within Irish Public Service Broadcasting

The genesis of this 5-year review can be traced back to the decision by the European Commission (EC) in 2008 to remove its objections to the system of funding and accountability for Irish public service broadcasting (PSB).¹²⁸ In the process of arriving at this decision, the Irish government gave undertakings to the EC to:

- establish an independent regulator (the Broadcasting Authority of Ireland) to oversee public service broadcasters;
- ensure much clearer public service remits;
- institute a system of periodic reviews (annually and over a 5-year basis) by the Broadcasting Authority of Ireland to assure the government and the EC that the particular concerns over state aid and overcompensation were being thoroughly addressed.

Since the new regulatory structures have come into effect, the BAI has completed two annual reviews of public service broadcasters, and (during the course of this assignment) was in the process of completing the third review. The annual reviews are conducted on a retrospective basis and inform the decision by the Minister of Communications, Energy and Natural Resources regarding the licence fee funding for both RTÉ and TG4. With respect to the 5-year review process, the Act provides that “*the [BAI] shall within a period of not more than 3 years after the passing of the Act, and every 5 years thereafter, or as directed by the Minister, carry out a review of the adequacy or otherwise, of public funding to enable a corporation to meet its public service objects*”.

127 http://ec.europa.eu/competition/state_aid/register/ii/doc/E-5-2005-WLWL-en-26.01.2010.pdf
128 State Aid E 4/2005 (ex NN 99/1999) – State Financing of RTÉ and TG4, Brussels 27.02.2008 C(2008)723 final (http://ec.europa.eu/eu_law/state_aids/comp-2005/e004-05.pdf). The EC's decision was the result of an investigation it carried out triggered by a complaint by TV3 in respect of state aid to RTÉ. result of an investigation it carried out triggered by a complaint by TV3 in respect of state aid to RTÉ.

A key strategic goal for the BAI is to discharge its responsibility for ensuring that PSBs provide value for money through an increased level of transparency and accountability in accordance with the appropriate European and Irish law.

4 Key Aspects of the Regulatory Environment

4.1 Introduction

There are a number of key issues setting the regulatory context for the 5-year review. These make reference to the EC's 2008 decision on public service broadcasting (PSB) in Ireland and the EC's Communication on the Application of State Aid Rules to Public Service Broadcasting (2009/C 257/01) plus the *Altmark* case (Case C-280/2000).

The EC's State Aid Communication (2009) highlights the significance of PSB in the context of public funding (paragraph 9):

“Public service broadcasting, although having a clear economic relevance, is not comparable to a public service in any other economic sector. There is no other service that at the same time has access to such a wide sector of the population, provides it with so much information and content, and by doing so conveys and influences both individual and public opinion”.

The same document is also mindful of other media organisations that compete with PSBs (paragraph 16):

“At the same time and notwithstanding the above, it must be noted that commercial broadcasters, of whom a number are subject to public service requirements, also play a significant role in achieving the objectives of the Amsterdam Protocol to the extent that they contribute to pluralism, enrich cultural and political debate and widen the choice of programmes. Moreover, newspaper publishers and other print media are also important guarantors of an objectively informed public and of democracy. Given that these operators are now competing with broadcasters on the Internet, all these commercial media providers are concerned by the potential negative effects that State aid to public service broadcasters could have on the development of new business models. As recalled by the Audiovisual Media Services Directive, ‘the coexistence of private and public audiovisual media service providers is a feature which distinguishes the European audiovisual media market.’ Indeed, it is in the common interest to maintain a plurality of balanced public and private media offer also in the current dynamic media environment”.

4.2 Public Service Remit – Importance of Clear and Precise PSB Definition

The EC's 2008 decision¹²⁹ is clear on the need for Ireland's PSB to be clarified. According to paragraph 120 of the decision:

129 *Supra* footnote 128.

“Ireland should clarify the public service remit with regard to activities other than broadcasting. The legal framework needs to make sure that purely commercial activities are not part of the public service remit and do not benefit from state funding. The definition of the public service tasks should be sufficiently clear in order to determine ex ante under which circumstances a particular activity included in the powers of RTÉ is of a public service nature and when it constitutes a commercial service/product”.

The EC’s State Aid Communication (2009) recognises that “definition of the public service mandate falls within the competence of the Member States, which can decide at national, regional or local level, in accordance with their national legal order” (paragraph 44). However, in the next paragraph of this document, the Commission states that (paragraph 45):

“The definition of the public service mandate by the Member States should be as precise as possible. It should leave no doubt as to whether a certain activity performed by the entrusted operator is intended by the Member State to be included in the public service remit or not. Without a clear and precise definition of the obligations imposed upon the public service broadcaster, the Commission would not be able to carry out its tasks under Article 86(2) and, therefore, could not grant any exemption under that provision”.

The EC proceeds to recognise the importance of having a clear and precise PSB definition in the context of other broadcasters and media organisations competing with PSBs (paragraph 46 of its State Aid Communication):

“Clear identification of the activities covered by the public service remit is also important for non-public service operators, so that they can plan their activities. Moreover, the terms of the public service remit should be sufficiently precise, so that Member States’ authorities can effectively monitor compliance”.

The role of the Commission regarding the definition of the public service in the broadcasting sector is limited to checking for “manifest error”. It is not for the Commission to decide which programmes are to be provided and financed as a service of general economic interest, nor to question the nature or the quality of a certain product. The definition of the public service remit would, however, be in manifest error if it included activities that could not reasonably be considered to meet — in the wording of the Amsterdam Protocol — the ‘democratic, social and cultural needs of each society’. As stated by the Commission in paragraph 48 of its State Aid Communication (2009):

“That would normally be the position in the case of advertising, e-commerce, teleshopping, the use of premium rate numbers in prize games, sponsoring or merchandising, for example. Moreover, a manifest error could occur where State aid is used to finance activities which do not bring added value in terms of serving the social, democratic and cultural needs of society”.

4.3 Transparency

According to the EC in its 2008 decision to remove its objections to the system of funding and accountability for Irish PSB (paragraph 124):

“Ireland should adopt the necessary measures to ensure full respect of the requirements of the Transparency Directive. This includes not only the separation of accounts (based on a clear distinction between public service and other activities) but also objective and consistent cost allocation rules”.

This was a very clear requirement for the current PSB broadcasters, RTÉ and TG4, to institute accounting separation between its PSB and non-PSB activities and to operate objective and consistent cost allocation rules.

According to the Commission’s (2009) Communication on State Aid in PSB, any state aid assessment by the Commission requires a clear and appropriate separation between public service activities and non-public service activities including a clear separation of accounts as well a clear and precise definition of the public service remit (paragraph 60).

In particular, as stated in paragraph 61 of the Communication:

“Separation of accounts between public service activities and non-public service activities is normally already required at national level as it is essential to ensure transparency and accountability when using public funds. A separation of accounts provides a tool for examining alleged cross-subsidisation and for defending justified compensation payments for general economic interest tasks. Only on the basis of proper cost and revenue allocation can it be determined whether the public financing is actually limited to the net costs of the public service remit and thus acceptable under Article 86(2) and the Amsterdam Protocol”.

In addition, at paragraph 66 of the Communication, the Commission states that:

“Costs specific to non-public service activities [e.g. the marketing cost of advertising] should always be clearly identified and separately accounted. In addition, input costs which are intended to serve the development of activities in the field of public and non-public services simultaneously should be allocated proportionately to public service and non-public service activities respectively, whenever it is possible in a meaningful way”.

At paragraph 67 of the Communication, the Commission highlights an important methodological principle pertaining specifically to public service broadcasting (as opposed to other regulated markets):

“In other cases, whenever the same resources are used to perform public service and non-public service tasks, the common input costs should be allocated on the basis of the difference in the firm’s total costs with and without non-public service activities. In such cases, costs that are entirely attributable to public service activities, while benefiting also non-public service activities, need not be apportioned between the two and can be entirely allocated to the public service activity. This difference to the approach generally followed in other utilities sectors is explained by the specificities of the public broadcasting sector. In the field of public broadcasting, the net benefits of commercial activities related to the public service activities have to be taken into account for the purpose of calculating the net public service costs and therefore to reduce the public service compensation level. This reduces the risk of cross-subsidisation by means of accounting common costs to public service activities”.

4.4 Overcompensation – Net Public Service Costs plus Margin

In its 2008 decision to remove its objections to the system of funding and accountability for Irish PSB, the European Commission recommended that (paragraph 125):

“Ireland should adopt the necessary provisions which ensure that the public funding of public service broadcasters is limited to the net public service costs. This implies on the one hand that only costs related to the public service are taken into account (excluding costs/losses incurred by commercial activities). On the other hand, it needs to be ensured that all commercial revenues generated by the exploitation of the public service are deducted. This also implies that it needs to be ensured that the deductible commercial revenues are those that would be generated under market conditions”.

At paragraph 126, the Commission added that:

“In addition, there must be clear rules and control of any possible surplus at the end of a given financial year as well as at the end of a certain period. This means in particular that any accumulated surplus at the end of a licence fee period needs to be fully deducted from the compensation granted for the next license fee period. This also means that possible surpluses recorded at the end of any given financial year shall not exceed what is necessary as a buffer against unforeseen fluctuations in costs or revenues (i.e., 10% of the annual compensation). A higher annual reserve could be justified, for instance where the surplus is intended to be used for predetermined projects, the costs of which have been certified by an independent body and which are to be carried out at a later, provided that there are satisfactory control mechanisms ensuring that these reserves cannot be used for other purposes”.

These requirements also form part of the Commission’s Communication on State Aid in respect of PSB (2009). At paragraph 71, the Commission states that it starts from the consideration that public funding is normally necessary for the PSB to carry out its public service tasks. However, in order to satisfy the proportionality test, it is as a general rule necessary that the amount of public compensation does not exceed the net costs of the public service mission, taking also into account other direct or indirect revenues derived from the public service mission. For this reason, the net benefit of all commercial activities related to

the public service activity will be taken into account in determining the net public service costs.¹³⁰

In the Communication, the Commission provides that PSBs may retain yearly overcompensation above the net costs of the public service (as public service reserves) to the extent that this is necessary for securing the financing of their public service obligations. In general, the Commission considers that an amount of up to 10% of the annual budgeted expenses of the public service mission may be deemed necessary to withstand cost and revenue fluctuations. As a rule, overcompensation above this limit must be recovered without undue delay (paragraph 73) (more than 10% is permissible in exceptional circumstances, paragraph 74).

4.5 Proportionality and Market Behaviour

According to its Communication on State Aid in PSB (2009), the Commission states (paragraph 93):

“When carrying out commercial activities, public service broadcasters shall be bound to respect market principles and, when they act through commercial subsidiaries, they shall keep arm's length relations with these subsidiaries. Member States shall ensure that public service broadcasters respect the arm's length principle, undertake their commercial investments in line with the market economy investor principle, and do not engage in anti-competitive practices with regard to their competitors, based on their public funding”.

At paragraph 94 of the Communication, the Commission sets out an example for illustrative purposes:

“An example of anti-competitive practice may be price undercutting. A public service broadcaster might be tempted to depress the prices of advertising or other non-public service activities (such as commercial pay services) below what can reasonably be considered to be market-conform, so as to reduce the revenue of competitors, insofar as the resulting lower revenues are covered by the public compensation. Such conduct cannot be considered as intrinsic to the public service mission attributed to the broadcaster and would in any event ‘affect trading conditions and competition in the Community to an extent which would be contrary to the common interest’ and thus infringe the Amsterdam Protocol”.

130 The proportionality test basically refers to satisfying the PSB remit whilst ensuring conditions amenable to competition and the functioning of the Common Market. See also below on Proportionality and Market Behaviour.

5 Irish Legislation

5.1 Overview

The above principles of European compliance apply in Ireland and are reflected in the 2009 Broadcasting Act. In particular:

- Section 108 provides that a PSB's public service objects and the exploitation of commercial opportunities will be carried out at arm's length and on commercial terms (Proportionality and Market Behaviour);
- Section 109(9) provides for the separation of (total) costs and revenues as between PSB and commercial activities (Transparency);
- Section 109(10) provides for a statement of the cost accounting principles and methods by which costs and revenues have been assigned to the activities referred to Section 109(9) (Overcompensation).

We will now move onto consider the extent to which each public service broadcaster is operating in compliance with the above provisions of the Broadcasting Act.

5.2 Section 108 of the Broadcasting Act 2009

Section 108 of the Broadcasting Act requires that *"The commercial activities undertaken by a corporation in pursuance of its exploitation of commercial opportunities object shall:*

- (a) be operated in an efficient manner so as to maximise revenues, and*
- (b) be used to subsidise its public service objects.*

All transactions or arrangements entered into by a corporation as between the activities arising from

- (a) its public service objects, and*
 - (b) its exploitation of commercial opportunities object,*
- shall be made at arm's length and on commercial terms.*

On the direction of the Minister, the Compliance Committee shall prepare and submit to the Minister a report on compliance by the corporation with the [above] requirements."

With respect to the initial requirements of this section of the Act, RTÉ have developed an attribution model, as described below, which attributes commercial income across services in proportion to their gross public service cost. This demonstrates a considered approach to ensure that commercial activities are used to subsidise public services before the attribution of public funding. This is described in Chapter 14 of the main report.

RTÉ has stated that transactions between activities (i.e. business units) in pursuance of its public service objects, and in exploitation of commercial opportunities, have been executed using available market rates.

However, we are aware that there may be a number of exceptions to this process. There appears to be no transfer pricing or costing arrangements between RTÉ.ie in its use of content generated from other services within the organisation. Such an arrangement will likely affect the rates for advertising on RTÉ.ie in a manner which possibly depresses the rates that may be achieved on competitive online media facilities within the market. We would

therefore suggest that the BAI conduct a review of such arrangements to ensure compliance with the relevant provisions of the Act, and to ensure that such behaviour does not have an adverse effect on the online advertising market.

5.3 Section 109 (9) of the Broadcasting Act 2009

Section 109 (9) of the Broadcasting Act requires that *“Without prejudice to subsection (3) and section 110, a corporation shall as soon as may be after the end of each financial year, send to the Minister—*

(a) a statement of the use it has made, of the monies paid to it under section 123 in that financial year, in pursuance of its public service objects, and

(b) a statement in respect of the total revenue and costs derived by the corporation in that financial year distinguishing between monies received or expended on—

(i) activities in pursuance of its public service objects, and

(ii) activities in pursuance of its exploitation of commercial opportunities object.”

With respect to RTÉ, senior management have stated that the segmental report contained within their Annual Reports (e.g. Page 72 of the 2011 Annual Report of RTÉ) illustrates the use of monies in pursuance of its public service objects and the total revenue and costs received or expended on activities in pursuance of its public service objects, and in the exploitation of its commercial opportunities object.

Whilst the RTÉ Annual Report complies with the above section of the Act, we note that it is prepared at the end of each financial year on a retrospective basis and does not accurately reflect the “actual” use of public funding in a given year.

However, RTÉ have detailed a new attribution model within their costed plan which attributes funding to services on a prospective basis in an attempt to adopt an approach which is meaningful and related to the actual functioning of their business rather than being merely an accountancy exercise, and delivers greater transparency about where licence fee funding will actually be spent.

5.4 Section 109 (10) of the Broadcasting Act 2009

Section 109 (9) of the Broadcasting Act requires that *“A corporation shall include in the statement required under subsection (9) a statement of the cost accounting principles and methods by which costs and revenues have been assigned to such activities”.*

RTÉ have confirmed that the notes contained within their Annual Reports (e.g. pages 68 and 69 of the 2011 Annual Report) detail the accounting principles and methods for assigning costs and revenues to activities in pursuance of its public service objects, and in pursuance of the exploitation of its commercial opportunities object.

Our review of the compliance with this section of the Act was further expanded to gain an understanding of the methodologies and principles underlying public funding attribution, commercial income reporting and expenditure allocations, as set out in the following paragraphs.

6 Competition Authority's Enforcement Decision 2012

In 2012, RTÉ agreed with the Competition Authority (CA) to remove its scheme in respect of advertising.¹³¹ It is important to note that the CA's decision in this case was an *enforcement decision* and did not result in any criminal or civil legal action against RTÉ.

The background to the case is that TV3 complained to the CA that RTÉ's 'share deal' was anti-competitive. The share deal was a scheme used by RTÉ to sell airtime to advertisers. One element of the scheme offered advertisers discounts based on the *share* of their television advertising budget committed to RTÉ.

The CA investigated the complaint by TV3 and had concerns that the share deal could be in breach of Irish and European competition law. During the investigation, RTÉ proposed changes to the share deal and gave undertakings to the CA to change the scheme with effect from July 2012. The Authority expressed satisfaction that the undertakings addressed its concerns and the share deal no longer exists.

The CA's investigation raised concerns that the share deal could amount to a breach of Section 5 of the Competition Act, 2002 and/or Article 102 of the Treaty on the Functioning of the European Union (TFEU). The CA was satisfied that the undertakings offered by RTÉ addressed its concerns under Section 5 of the Act. Therefore, the Authority decided to close its investigation.

Section 5 of the Competition Act, 2002 and Article 102 of the TFEU prohibit an abuse by one or more undertakings of a dominant position. Generally speaking, conditional rebates with loyalty-inducing effects granted by a dominant undertaking may amount to an abuse of a dominant position in breach of Section 5 and/or Article 102. The CA's investigation was initiated with the aim of reaching a view on the following issues: (i) the relevant market, (ii) whether RTÉ held a dominant position in the relevant market, and (iii) whether the RTÉ share deal amounted to an abuse of its dominant position.

On the relevant market, the CA reached the view that the relevant market was likely to be the market for television advertising airtime in the State (although the CA's view in this regard was not definitive, hence the use of the word 'likely' in this regard).

On the second issue of dominance – a legal concept underpinned by economic principles and analysis that basically describes an economic operator with significant market power capable of behaving to a large degree independently of its rivals, potential competitors, customers/users and ultimately of consumers – the CA came to the view that RTÉ is likely to hold a dominant position in the relevant market (for television advertising airtime in the State). In support of this, the CA had regard to RTÉ's share of the relevant market, barriers to expansion (RTÉ being an "unavoidable trading partner"), insufficient countervailing buyer power and "possibly RTÉ's dual funded status" (paragraph 5.12 of the CA enforcement decision).

During its investigation, the CA obtained information on the estimated market shares of the major broadcasters in the State measured by both television advertising revenue (and

131 The decision (E/12/001 of 17 January 2012) is available at: <http://www.tca.ie/EN/Enforcing-Competition-Law/Decisions-and-Notices/Enforcement-Decisions/Decisions/RTs-Conduct-in-the-TV-Advertising-Market.aspx>.

impacts).¹³² The information obtained by the CA showed that RTÉ's market share by revenue has been quite substantial and relatively stable between 2002 and 2007, at 55-65%, albeit declining at a moderate rate since 2008. The CA was of the view that this was a strong indicator of RTÉ's dominant position.

The CA also examined RTÉ's market share relative to its largest competitors, which is also relevant to consideration of dominance generally speaking. The information obtained by the CA showed that RTÉ's market share was substantially higher than that of its closest competitors, TV3 and Sky TV. In the CA's view, the disparity in the size of market shares together with the actual size of RTÉ's market share indicated that RTÉ was likely to be dominant on the market for television advertising airtime in the State.¹³³

In regard to the "unavoidable trading partner" characteristic of the market, the CA noted that many advertisers felt that they had to do business with RTÉ because of its position in Irish society as well as its market position and that this (and the RTÉ share deal) prevented the expansion of competitors in the relevant market.

In regard to RTÉ's dual funding status shaping its dominant market position, RTÉ referred to the requirements of the Broadcasting Act, 2009 in regard to accounting separation between PSB and commercial activities. The CA acknowledged this but also held the view that the requirement for accounting separation does not necessarily mean that licence fee revenue does not afford RTÉ a competitive advantage in the relevant market (a commercial broadcaster would be unlikely to be capable of sustaining the deficits that have characterised dual-funded RTÉ over recent years). The CA also stated that RTÉ's dual funded status serves to make RTÉ unique in the relevant market, reinforcing its dominant position.

In regard to the RTÉ share deal amounting to an abuse of a dominant position, the CA took the view that the share deal may have loyalty-inducing effects, thereby foreclosing competition, and which could therefore constitute unlawful conduct by RTÉ in the relevant market for television airtime in the State.

On August 2011, RTÉ submitted a proposal to the CA that it would abolish its share deal system from 1 July 2012. After some discussion with RTÉ, the CA accepted RTÉ's proposal. The Department of Communications, Energy and Natural Resources has had sight of the developments in this case and continues to monitor the situation.

132 One commercial impact is generally defined as one person watching one advertisement once. As noted by the CA in its enforcement decision (paragraph 2.8), The price of impacts is expressed as cost per thousand (CPT) impacts for each audience group. RTÉ publishes CPTs across 18 audience groups (such as All Adults, Men, Women, Housekeepers and Children) prior to annual negotiations. These published prices are used as reference prices during annual deal negotiations. Discounts are negotiated against these reference prices. At paragraph 2.9 of its decision, the CA observed that its preliminary market investigation "suggested that other broadcasters also use RTÉ's published prices as a benchmark during their negotiations with advertisers or advertising agencies".

133 The CA's decision also observes that RTÉ's relevant share by impacts of the four most commercially demanded audiences has declined at a moderate rate since 2002; "being [50-60]% in 2002 and [40-50]% in 2010 (a reduction of [10-20] percentage points)" (paragraph 5.17).