



ÚDARÁS
CRAOLACHÁIN
NA hÉIREANN

BROADCASTING
AUTHORITY
OF IRELAND

BAI Five-Year Review of Public Funding
for Public Service Broadcasters
and
BAI Report and Recommendations to the
Minister for Communications, Climate Action and
Environment

Redacted Version

14th June 2018

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Foreword

The pioneers of public service broadcasting set themselves a challenge to inform, to educate and to entertain. While some critics might suggest that this mission has been honoured more in the breach than the observance, it remains a noble aspiration which is relevant for broadcasters today. If anything, with dramatic social change in Ireland and the impact of globalisation and new technology, it is even more relevant.

The role and value of public service broadcasting should not be taken for granted. A flourishing and vibrant modern democratic society is dependent on a flourishing and vibrant public service broadcasting sector. Quality public service broadcasting in Ireland reflects the voice and interests of Irish citizens, serves their needs and connects them to the wider world; it provides a trusted and impartial source of news and current affairs; it supports linguistic diversity; and it makes an indispensable contribution to social, political and cultural life.

This Five-year Review of Public Funding examines the strategic challenges facing RTÉ and TG4 and the related funding required to support their work in serving Irish audiences in the evolving digital environment. It concludes that the ability of PSBs to continue to serve Irish audiences is threatened if the current situation on funding does not change.

The sustainability of Public Service Broadcasters impacts on audiences, on the wider audio-visual (independent production and creative) sector and ultimately on the public good. It is scarcely an exaggeration to say that Public Service Broadcasting in Ireland faces wide-ranging and significant challenges and that urgent action is now required.

Prof. Pauric Travers
Chairperson, BAI

Introduction

Public service broadcasting is central to an open, democratic society's understanding of itself and of its place in the world. Facilitating public service broadcasting plays a central role in realising the BAI's vision of a media landscape that shapes and reflects who we are as a modern, pluralistic, democratic society, where liberty of expression is embraced and the social, linguistic, and cultural diversity of Ireland is expressed. In pursuing this vision, it is the BAI's objective to contribute to achieving sustainability for the Irish audiovisual sector and to foster the delivery of creative, innovative and culturally-relevant content for Irish audiences.

This five-year review of public funding for Ireland's two public service broadcasters (PSBs) – RTÉ and TG4 – is a critically important activity in the BAI's regulatory cycle of oversight of public funding, as it comes at a crucial time of change and development in the Irish media landscape. In presenting the outcomes and recommendations arising from our review, the BAI has taken account of the fact that, notwithstanding its frequent recommendations to Government in the case of RTÉ, there has been no television licence fee increase in over ten years. Funding recommendations for TG4 have not been fully realised either, despite an increasingly competitive environment for content – both linear and non-linear.

In examining the challenges facing the PSBs from 2018 to 2022, this report focuses in the main on the adequacy of funding to support the PSBs in their role of serving Irish audiences in the evolving digital environment. It facilitates consideration of the wider strategic challenges facing PSBs and concludes that the current situation for public service broadcasting requires a substantive and urgent response by Government in relation to funding.

Report Overview

In undertaking its review, the BAI was assisted in its work by Consultants, Communications Chambers, and our Report and Recommendations are informed by the findings and conclusions of the Consultants (a copy of the Consultants' report is contained in **Appendix 1** to this Report). The BAI's Report and Recommendations are also informed by our regulatory experience since 2009 in supervising the use of public funds by the PSBs, including our annual reviews of public funding since the last five-year review was undertaken.

Before presenting our recommendations, the BAI considers that it is helpful to consider the approach which we took to this review and the rationale underpinning that approach. This is set out in Section 1 of **Part 1** below. Part 1 of this report also includes a commentary on the evolving media landscape, and an explanation on why funding of public service broadcasters not only continues to be relevant but is critical to supporting public service broadcasting over the coming years. Finally, in positioning our recommendations, the Authority reflects on its own regulatory experience in supervising PSBs in the five years since the last review was completed, as well as on developments in the regulatory environment more generally over that period.

Part 2 of this Report sets out the BAI's recommendations to the Minister – in response to the conclusions and recommendations of the Consultants. These include specific, separate recommendations in respect of RTÉ and TG4, and more general recommendations on a range of legislative and other relevant, regulatory matters.

Part 1

1. Review Specification

The central focus of the current review is to examine the strategic challenges facing the PSBs during the period from 2018-2022 and, consequently, the funding required to support their work in serving Irish audiences in the evolving digital environment. As well as funding needed to take account of the responses required by the PSBs to changes in the media environment, the BAI also considers it essential that the funding provided to support the PSBs should also have a consequential positive impact on innovation and sustainability in the Irish audiovisual sector, recognising that this meets the interests and concerns of Irish audiences.

Expected Outcomes

As well as meeting the statutory requirements in respect of such reviews, the BAI expected the review to:

- Set the strategic context for the delivery of public service broadcasting over the next five years, exploring changes in audience behaviours and setting out the expected extent of future change.
- Assess the impact on PSBs and their ability and capacity to respond strategically, ensuring that they remain relevant for Irish audiences.
- Examine the role and contribution of the PSBs in supporting the wider creative economy in Ireland and ensuring the future delivery of creative and innovative content for Irish audiences.
- Assess the adequacy of current funding and adjustments that might be required over the next five years to respond to environmental challenges and the needs and interests of Irish audiences.
- Make funding recommendations and provide a clear and unambiguous strategic framework for measuring the performance of the PSBs in the utilisation of such funding over the next five years.

Elements of the Review

The review encompassed both retrospective and prospective dimensions, including an assessment of the performance of the PSBs over the period since the last review and the impact of change on their activities. Consultation with a range of stakeholders – including the Department of Communications, other broadcasters, and the independent production sector – and perspectives gained from these players were key elements of the work. The work was also supported and informed by research undertaken by the BAI, the Consultants, the PSBs themselves and other players, both during the review period itself and over the past number of years.

The research of the broadcasters informed the submission of costed strategic plans for the 2018-2022 period which were subject to in-depth analysis and inquiry by the Consultants. The plans were submitted under two scenarios – firstly, a scenario that envisaged a reasonable uplift in public funding and, secondly, a “flat-cash” scenario where levels of public funding would remain the same or would

be reduced. Ultimately, the assessment of these plans, together with an assessment of the PSBs' strategic capability and their understanding of Irish audiences, informed the BAI's conclusions and specific funding recommendations to the Minister as set out later in this Report (see **Part 2** below).

2. The Irish Media Landscape

The BAI's recommendations need to be viewed in the context of the current media landscape in which the public service broadcasters operate. Several pieces of research have informed the BAI's deliberations in this regard.

2.1 Specifically, for this review, **Communications Chambers** examined the wider economic and demographic environment in Ireland before taking a more in-depth look at the broadcasting sector and considering a range of issues including trends in consumption, the state of competition for audiences, and developments in commercial revenue. It also looked at three adjacent sectors – independent production, broadband and social media. It concluded that there will be significant challenges for PSBs going forward¹:

- A challenging macro-economic environment, with slower growth and rising inflation, with various implications for the PSBs but RTÉ particularly.
- In addition to increasing competition for the attention of audiences from online players, a recently-strengthened TV3 presents greater competition for television audiences.
- The high production values of SVOD services resets audience expectations and PSBs are challenged to provide content with high production value in order to compete.
- There is increasing competition for advertising spend from other media and broadcasters, with further growth in online advertising spend likely.
- Competition for rights has put upward pressure on the costs of rights, especially for premium content such as sports where, traditionally, PSBs have been dominant.
- While acknowledging the advantages of PSBs, generally European PSBs face specific challenges in a more dynamic environment, including: the need to make the case for continued public funding against the backdrop of competitive challenge and declining shares; the need to protect linear broadcasting while moving into digital markets and engaging with younger audiences in particular; the need to address the inherent tension between offering popular content to win audiences and commercial revenue, while retaining sufficient distinctiveness to justify public status and associated public funding.
- While Irish PSBs are relatively well-funded on a per capita basis, in absolute terms, funding of RTÉ and TG4 lags the larger European markets as well as similar-sized countries in Northern Europe. In the case of RTÉ, its current deficit, sharper drops in revenue and a greater reliance on commercial income are more acute than in other European PSBs.

¹ See Pages 16-36 inclusive of the Communications Chambers Report, attached at Appendix 1.

2.2 Research conducted by Mediatique, in the context of the BAI's Broadcasting Services Strategy review, confirmed that while there is an increasingly complex picture of content consumption in the Irish media landscape, it is still primarily led by broadcast media. They found that:

- Media consumers undertake an increasing range of activities, although both broadcast TV and radio remain the largest media in terms of activity and time spent.
- Younger age groups are reducing their consumption of broadcast media at a faster rate than other groups, although even among youngest adults, television and radio remain two of the most used media.
- In-home use of traditional broadcast equipment remains the primary means of receiving and consuming video and audio content, although take-up and use of connected devices continues to increase.
- There was broad consensus that Irish television channels reflected diversity and delivered fairly well on plurality.
- On average, most Irish audiences are happy with the provision and performance of television and radio broadcasters and, while Irish audiences claim broad satisfaction with the range and quality of content available on Irish broadcast media, there is some scope for Irish broadcasters to improve the way they reflect Irish culture and diversity and to increase the amount of available content that is made in Ireland.

Examining future sustainability of Irish broadcast media, Mediatique forecasts many challenges in the Irish landscape, not least in ensuring that content can be made in Ireland, and for Ireland, on a sustainable basis. They note the following:

- The material proportion of television viewing and revenue that accrues to international channels with no commitment to Irish content.
- The continuing shifts in consumer behaviour (particularly to on demand) and the associated economic challenges for funders of Irish content as presenting significant challenges for sustainability, diversity and distinctiveness in providing audiovisual content for Irish audiences in the future.
- Without commercially-viable models and/or increased public funding, the ability of the domestic market to sustainably fund Irish content will continue to be challenged.

2.3 2017 represented the third year that the Broadcasting Authority of Ireland funded the inclusion of Ireland in international research published by the Reuters Institute for the Study of Journalism². The research captures the changing ecology in news in Ireland and provides insights on how audiences are interacting with an array of news outlets and sources (both traditional and digital). From a BAI perspective, it provides not only a critical knowledge base on the extent to which there is a plurality of voices, viewpoints, outlets and sources for Irish audiences but also provides valuable insights into the role of public service media in news provision in Ireland.

The study reported high levels of dissatisfaction internationally with the quality of news and comment generally and on social media particularly. However, the study also found that Ireland's trust in news

² Reuters Institute Digital News Report 2017 (Ireland); Paul McNamara, Kevin Cunningham, Eileen Culloty and Jane Suiter; Dublin City University (DCU) Institute for Future Media & Journalism, Reuters Institute for the Study of Journalism, Broadcasting Authority of Ireland (BAI); 2017.

provision by the news media is higher than the international average and is higher than trust in news provision by social media.

In 2017, traditional consumers of news (mainly using newspapers, radio and television) grew by two percentage points to 31%, whereas digitalists, (those who consume news via smartphones, tablets and computers), fell by four percentage points to 23%. Mixed users increased by a single percentage point to 45%.

A breakdown of the sources of traditional news used in Ireland in 2017 shows that the country roughly mirrors the international average, except for the relative dominance of the public service broadcaster, RTÉ. Some 66% of respondents indicated that they use RTÉ as a main source of traditional news, compared to an international average of 49%. This was also reflected in the RTÉ News website, used by 34% of digital users, compared to an international average of 20%.

- 2.4 The BAI concludes from the available evidence that there is a strong justification not only for continuing to support public funding for PSBs but to support an appropriate increased level of funding which assists the PSBs in meeting environmental challenges as well as audience expectations.

3. Irish Regulatory Environment for Public Service Broadcasting, 2013-2018

It is also helpful to consider the Irish regulatory environment for public service broadcasting over the period 2013-2018. It provides a context for the current report and positions the BAI's recommendations, not only in terms of the current review, but in the context of its ongoing supervision of the use of public funding by the PSBs in the years leading into the current review. This experience also informed the BAI's approach to the review, as well as the content of our recommendations.

3.1 *PSB Performance and BAI Funding Recommendations 2013-2018*

In the years since the BAI's first Five-Year Review was conducted (2013), PSBs have been providing annual reports to the BAI on the fulfilment of their performance commitments and the BAI in its annual reviews of public funding has analysed these reports and made its own recommendations to the Minister on the adequacy of public funding.

Successive BAI annual reviews have resulted in a wide range of performance areas being tracked and measured. The structure of this annual activity has ensured a comprehensive review of performance under five key thematic headings:

- I. Audiences – Impact and Reach
- II. Content – Quality and Distinctiveness
- III. Promotion and Development of the Irish Language and Culture
- IV. Transparency and Efficiency
- V. Trust and Good Governance

In consultation with the BAI, and in line with the broadcasters' own strategic plans, the PSBs set annual performance commitments and subsidiary targets under each of the thematic areas set out above. A pragmatic approach towards the range of commitments and targets has resulted in key public service metrics, such as trust and good governance and audience reach and share, being measured.

Along with these key indicators, other commitments and targets are introduced and measured from time to time in response to the changing circumstances of the respective PSB, or in response to the wider changing broadcasting environment in Ireland and the interests and needs of the BAI as regulator. This dual approach, of continual review of core commitments, and the ability to introduce new commitments and targets, facilitates a dynamic regulatory environment. It also ensures that regulation drives best practice and fosters adaptability at strategic and operational levels within the PSBs.

The BAI acknowledges that a positive cumulative effect of the BAI's annual supervisory functions has been the development of a maturing regulatory relationship between the BAI and the PSBs. More recent years, particularly, have seen greater engagement by the PSBs in the regulatory processes, and more open and consultative exchanges have occurred. This experience was largely shared by the Consultants undertaking the Five-Year Review, while acknowledging that there is further room for a greater level of information-sharing, particularly concerning strategic options considered and the rationale to support the choices made.

In the period since 2013, the BAI's Annual Reviews of Public Funding have found that the performance of the PSBs against their statutory remits, as well as their own strategic objectives and commitments, have been satisfactory for the most part. In addition, the BAI has also been able to confirm that it is largely satisfied with the efficiency in the use of public funds by the public service broadcasters.

Notwithstanding the positive recommendations made by the BAI to the Minister in respect of adjustments in public funding for the PSBs arising from the Annual Reviews, these recommendations have not always been acted upon – particularly in the case of RTÉ. Given the wider economic context within which these recommendations were made, the BAI wishes to express its concern on this matter, especially given the increasing range of challenges being faced by the PSBs and the impact such challenges have for the services and content available to Irish audiences.

3.2 Audience Perception of PSB Performance

The BAI commissioned tracker research from Behaviour and Attitudes into the perceptions of Irish audiences regarding public service broadcasting in Ireland. The research, which commenced in 2015 and is set to conclude in 2018, provides statistical information over time on public opinion and perception on the extent to which the PSBs are viewed as fulfilling their statutory public service remits and on their value, relevance and importance. Further similar reports and surveys are likely to be conducted going forward. While this research is not yet in the public domain, broadly, the BAI is satisfied that the broadcasters are fulfilling their statutory obligations and provide distinct content for Irish audiences in areas not catered for by other broadcasters³.

³ Communication from the Commission on the Application of State Aid Rules to Public Service Broadcasting; 2009/C 257/01

3.3 *Other BAI Regulatory Activities 2013-2018*

The BAI's annual regulatory work continues to provide assurance on: the position regarding on-going efficiencies and cost controls within the operations of the PSBs; the extent to which commercial revenue is maximised; understanding of the challenges and impact of change on the PSBs and, therefore, on their recent and planned changes, at both strategic and operational levels. Research provides useful insights into public service broadcasting and the operations of the broadcasters, including their relationship with the wider Irish audiovisual production sector. Finally, it provides assurance to the BAI that PSBs are complying with the principles and objectives of the EC's 2009 Communication on the funding of public service broadcasters⁴.

4. Rationale for Continued Public Funding of Public Service Broadcasting

The question is often asked as to why should PSBs continue to be funded from the public purse. In the view of the BAI, there is a compelling rationale for continuation of such public support in Ireland.

4.1 *PSBs: Trusted and Impartial News Providers*

In the ever-changing world of audio-visual content and news provision, with its ever-increasing range of media players and content providers, the BAI views the role of public service broadcasting as being critical to the Irish media environment. All broadcasting serves a public purpose, so what can properly-funded public service broadcasting offer to the mix of news and other content available for Irish audiences?

The growth of highly personalised, online news services particularly, means that media consumers of all ages have a plethora of choices to avail of. Whereas the traditional perception of news providers was that of objective and impartial organisations, recently we have seen the emergence of avowedly partisan and often explicitly politically-aligned services.

Faced with this onslaught, the Irish audience is now faced with the universal challenges brought about by so-called "fake news", misinformation and the proliferation of echo chambers. In the BAI's view, the presence of fact-based, impartial news has rarely been so necessary in supporting plurality of the media and freedom of expression, fostering relevant, open, democratic debate and providing a trustworthy and impartial source of news serving Irish society.

The Irish audience relies on the Irish broadcast media, including the PSBs, to provide them with clear facts and impartial, objective analysis – regardless of the story being told. There is a real danger that without sufficient funding, this integral output of Irish PSBs could be under threat. The potential consequences for Irish citizens as a result are both real and stark.

There is growing evidence to suggest an erosion of trust by audiences in traditional, linear news providers. However, in Ireland PSBs still rate more highly on trust than other news providers. An adequate level of public funding is essential to continuing to ensure that no further erosion takes place and that, most especially in a non-linear context, PSBs are enabled to continue to grow and develop their online presence as trusted news providers.

⁴ Communication from the Commission on the Application of State Aid Rules to Public Service Broadcasting; 2009/C 257/01

4.2 Diversity

Providing a diverse range of culturally-relevant content is central to the objectives of any public service media provider. It is about more than extending choice. As acknowledged by the Amsterdam Treaty 1997⁵, public service broadcasting is directly related to the democratic, social and cultural needs of each society and the need to preserve media pluralism. It is a way of ensuring content provision for national audiences not necessarily fulfilled to the optimal extent by other providers. In Ireland, this is particularly significant given the availability of services from, and the established nature of viewing to, high quality, non-domestic, same-language television service providers – primarily from the UK. Given the range of content and viewpoints available from an ever-increasing range of sources, ensuring access for Irish audiences to socially- and culturally-relevant content provision is more relevant than ever.

4.3 Increased Competition for Audiences and Content

Irish PSBs' delivery of drama and entertainment content is being challenged by non-linear platforms and services such as Netflix and Amazon Prime. Linear television consumption among Irish audiences, while still significant, is reducing, and the prevalence of connected/Smart television sets in Irish homes rose to 34% in 2017, an increase of nine percentage points on the previous year⁶. Netflix and Amazon Prime are no longer simply platform delivery systems, they are commissioners and producers of high quality content, offering critically acclaimed, big-budget, productions to the global market. The market for rights, particularly sports rights, is increasingly competitive. To compete for viewers, Irish PSBs must be positioned to produce high quality, culturally-relevant content that serves the needs and interests of Irish audiences.

4.4 Irish Language

Uniquely, the Irish PSBs are the only audiovisual services serving Irish language speakers and, in so doing, contribute significantly to sustaining and fostering the Irish language among Irish audiovisual audiences. They provide access to a mix of voices, opinions and sources of news and current affairs, and increase the production and availability of diverse, innovative and culturally-relevant programming for Irish-speaking audiences.

4.5 Digital-first – The Challenge of Younger Viewers

Like the audiences they serve, Irish PSBs need to be dynamic, fluid and adaptable to the ever-changing behaviours and consumption habits of their audiences. The strategies of both Irish PSBs demonstrate an understanding of the need to reach younger viewers particularly.

⁵ <http://www.eurotreaties.com/amsterdamtreaty.pdf>

⁶ Behaviour and Attitudes PSB Tracker Survey, 2017

To achieve the BAI's vision of a media landscape that shapes and reflects who we are, it is vital that *all* audiences – not just traditional audiences – are served. PSBs must work to gain the trust and respect of younger viewers, while, in tandem, continuing to meet the needs of existing audiences. Such challenges require funding to deliver new and innovative content for younger viewers, while PSBs continue to cater for linear audiences that have enjoyed public service content for many years and wish to continue doing so.

Part 2

5. BAI Conclusions and Recommendations: RTÉ and TG4

The BAI now sets out its own conclusions and recommendations below. By way of context, the BAI references here (in summary), and responds to, the conclusions of the Consultants, **Communications Chambers**, in their review. While, for the most part, the BAI's recommendations reflect the findings of the Consultants, the Authority occasionally takes a stronger or more nuanced view. In such instances, the recommendation made has been reached having regard to the BAI's statutory functions, its strategic objectives, its regulatory experience and the range of information, including research, available to it.

At the outset, it must be said that the BAI overwhelmingly supports the conclusion of the Consultants that RTÉ and TG4 continue to deliver great value for Irish audiences and play a unique role in the Irish media landscape. However, the BAI also recognises that there is a critical need for change within these broadcasting organisations over the next five-year period. In this context, current levels of public funding are not sufficient to sustain the reach and impact of the current provision, let alone allow the broadcasters to evolve in such a way as to adequately fulfil their statutory remit in serving Irish audiences. In order to facilitate a structured approach to planning and provide some degree of certainty for broadcasters and audiences, the BAI encourages the Government to adopt the Authority's recommendations on funding over the next five-year period, as now set out below.

5.1 RTÉ

5.1.1 Introduction

The BAI recognises that strategic planning, while being an essential element of any organisation, is of paramount importance at times of such deep change, as is the case in the Irish and wider international audiovisual environment. For this reason, the requirement for effective strategic planning was essential on the part of the broadcasters given that the submission of a five-year costed strategic plan was an integral element of the BAI's approach to this Public Funding Review. The BAI is satisfied that RTÉ adopted a well-structured approach, and put in place appropriate resources to support its strategy development process. Appropriately, RTÉ has also put in place a comprehensive reporting framework which will facilitate both the broadcaster, and the BAI as regulator, in assessing performance against its strategic objectives over the next five years.

However, the BAI expresses some disappointment that RTÉ did not share more of the insights arising from the strategy planning process, particularly regarding the challenges and implications for the future of RTÉ services. The broadcaster's strategy processes, in the future, should facilitate a greater sharing of the range of options considered and greater insight into the rationale for the conclusions reached in the strategic decision-making process.

The BAI acknowledges RTÉ's co-operation and engagement in the review process. The BAI also acknowledges the extensive market and audience research and analysis undertaken by RTÉ, as well as

the time given to meeting with the BAI and the Consultants and in the preparation of submissions to the BAI. However, these acknowledgements come with some caveats. Greater clarity might have been provided on how the research was used to inform not only the various elements of the strategy but the range of services and platforms that are required in the future.

While it is the understanding of the BAI that the RTÉ Board discussed a range of options should no additional funding be forthcoming, including the possibility of significant changes to RTÉ's range of services, the options considered were not reflected in the final submissions to the Authority. The BAI had expected engagement with RTÉ on the choices facing the broadcaster on the future of its services and platforms, particularly in the absence of increased funding. Moreover, a higher level of specificity in respect of the broadcaster's priorities regarding services and platforms, particularly should the current constrained funding context continue, was desirable. Such options and choices have consequences not only for RTÉ as a public service broadcaster, but also for the BAI as regulator, should a continuation of all services, regardless of varying levels of public value, result in the running of accounting deficits on an on-going basis. Critically, this also has potential to impact the range and availability of diverse, innovative and culturally-relevant content that caters for the interests and needs of Irish audiences.

For these reasons, the BAI considered it unsatisfactory that RTÉ chose not to provide all the relevant information requested by the BAI. The BAI also considers that an appropriate framework should be put in place by the broadcaster which facilitates decision-making by RTÉ in allocating its spend so as to serve a wide variety of audiences and maximise its public value. (The implementation of such a framework is discussed further below at paragraph 5.1.3.)

5.1.2 Funding

The BAI presents its funding recommendation having regard to:

- The BAI's current Statement of Strategy 2017-2019 and its strategic objectives as set out in its Strategy
 - The review of the Consultants;
 - The strategic plans of the broadcasters;
 - Developments in the wider media environment, as well as in the Irish audiovisual sector;
 - The current and future economic and trading environment for audiovisual services in Ireland, as highlighted in this report;
 - RTÉ's operational efficiency in the last number of years, as evidenced by the BAI and NewERA⁷;
 - A concern that not only is RTÉ restricted in investing in the new services expected of a public service broadcaster in the digital era but may be required to reduce or diminish services already available to audiences if no funding increases are forthcoming;
 - Recent recommendations of the BAI in its annual reviews of public funding to the Minister;
 - The desirability of stability in the funding available to the PSBs.
1. Notwithstanding that the Consultants have commented at length on potential sources of additional funding for RTÉ, the BAI chooses not to be prescriptive on the source/s from which additional funding should be drawn, respecting that this is a matter of policy for the Minister, together with his Government colleagues. However, the BAI encourages stability and

⁷ NTMA/NewERA; RTÉ Review for Department of Communications, Energy and Natural Resources, May 2014

predictability in the level of additional funding and certainty in the source of funds going forward, allowing the broadcaster to plan and invest strategically in infrastructure and services. Such stability would also facilitate audiences and the broadcaster's accountability to its audience. The BAI notes that some of the sources of funding proposed by RTÉ and/or the Consultants would require legislative change with the drawback that given the time required to conduct the legislative process as well as the timeframe for additional funds coming on stream, the BAI would prefer a source of funds that would adequately meet RTÉ's needs in the short- to medium-term.

2. Also in the interests of stability in the operations of the broadcaster and predictability in the level of future funding, and acknowledging the political challenges in increasing the level of the licence fee, the BAI concurs with the recommendation of the Consultants that the licence fee should be linked to the Consumer Price Index (CPI).
3. The BAI recommends, *at a minimum*, that RTÉ **should receive an increase in its annual public funding of €30m**, with the expectation that, subject to the submission and review of further detailed, costed plans, this level of funding could increase. This would entail an increase in the estimated value of licence fee revenue to €215m per annum (based on an estimated value of €185m in 2017). Given the urgency of RTÉ's current funding position, the increased level of public funding recommended should be available to the broadcaster immediately (i.e. in and from 2018 onwards).

The BAI believes that a funding increase of €30m per annum is justified, as, in the Authority's view, the funding currently available is not sufficient to ensure the broadcaster's sustainability. It reflects the fact that there has been no increase in the television licence fee in over ten years. In addition, there has been an unprecedented decline in the broadcaster's commercial revenue since 2008 and the commercial environment for the next five years is predicted to be equally challenging. A situation where there is no increase in public funding would be likely to lead to further loss of viewing by Irish audiences.

Crucially, an increase of this level will facilitate RTÉ in growing its digital offerings, while at the same time continuing to serve linear audiences. It will also facilitate the broadcaster in pursuing its creative vision for Irish audiences in collaboration with the Irish independent production sector, thereby contributing to the sustainability of the wider audiovisual ecosystem.

Finally, and importantly, a funding increase of this level will guard against other commercial uncertainties in the current environment, including the impact of Brexit and the current substantive competition in the marketplace from major players such as Netflix and Amazon.

In the view of the Consultants, RTÉ had not made a sufficient case for the full level of funding suggested (€55m per annum). While the BAI concurs with the view expressed by the Consultants, the Authority remains open to making a further recommendation(s) for funding in excess of €30m per annum, based on more detailed, clearly articulated proposals from the broadcaster, aligned with RTÉ's statutory remit and strategic plan, particularly in the latter stages of the implementation of the broadcaster's five-year strategy period.

4. In the view of the BAI, there are a number of conditions upon which funding increases should be granted. These include:

- RTÉ should clearly specify its plans for the application of the funds; the implementation of such plans should be monitored and reviewed by the BAI in its oversight of RTÉ's performance commitments-setting on an annual basis and through the BAI's regulatory process of reviewing the use of public funding annually.
- RTÉ gives an undertaking that it will avoid running on-going deficits and plans to operate, at a minimum, at break-even.
- Funding should be granted for the provision of additional broadcasting services designed to drive audience value, such that they address unmet needs of linear audiences and do not super-serve existing linear audiences. In the context of digital services, additional services should add to RTÉ's current digital offerings and not super-serve digital audiences.
- RTÉ commits to moving from a tactical audience focus to a more rigorous, audience-based service prioritisation within a six-months timeframe (this is explained and elaborated on further at paragraph 5.1.3 below).
- RTÉ undertakes the above by the most effective means possible whether through in-house production or via independent production.
- Where RTÉ makes spending commitments in respect of the independent production sector, they should specify the value to be created for that sector.
- RTÉ should make adequate investment cases for additional services and these should be assessed using the appropriate statutory mechanisms (such as SIAs, PVTs etc.).
- RTÉ agrees to report each year on cost-per-user hour and cost-per-genre in its television content.

5.1.3 Strategic Audience-based Service Prioritisation Framework

The Consultants express the view that RTÉ should shift its audience focus from a tactical to a strategic one. The BAI concurs with this view, not only as a condition of additional funding but should, in any event, be applied to existing services. Why? Because such a **strategic prioritisation framework** would allow comparisons of public service return on spend on different services (including existing services) over time and would facilitate the BAI in taking a view on whether funding is targeted at, and delivers value for, the right audiences and continues to be used in a cost-efficient manner. This approach recognises that efficiency is not simply about achieving cost savings but is also about generating the biggest audience share and reach.

The BAI believes that the implementation of a strategic prioritisation framework is realisable within the six-months timeframe recommended by the Consultants. RTÉ is poised for such a development because of the data available to the broadcaster from groundwork already undertaken in research conducted during the strategy development process. Furthermore, as other PSBs are utilising such an approach, it is likely that, should it need to do so, RTÉ would be positioned to access support from its European counterparts e.g. via the EBU.

BAI also recommends that RTÉ agrees to report each year on cost-per-user hour and cost-per-genre in the production of its television content. This is in line with recommendations made by the BAI in its Annual Reviews of Public Funding.

5.1.4 Political and Regulatory Support

The BAI notes the Consultants' proposal that RTÉ should efficiently evolve its portfolio of services and not simply add new services but that such moves would require regulatory and political support, particularly where cuts to existing services are envisaged.

If the current funding arrangements continue without any increase in funding, or if there are any further reductions in RTÉ's funding, the BAI takes the view that cuts to services are inevitable. There has been no licence fee increase in more than 10 years and the media advertising market has undergone significant economic and structural change. Clearly, RTÉ needs to respond to the increasingly-competitive linear and non-linear environment. In such circumstances, public and political expectations in respect of service and/or staffing cuts will have to change if the current funding arrangements remain unchanged.

In the view of the BAI, each case (for staffing or service cuts) should be examined on its merits or otherwise against RTÉ's objects and strategy, the principles of the 2009 Act and the 2009 Communication, as well as against the level of funding available, and the extent to which audiences will be impacted.

Even in a situation where RTÉ receives an increased level of funding, the evolution of its portfolio of services may mean that changes and/or cuts to services may be desirable in the interests of efficiency and in the interests of RTÉ's audiences.

5.1.5 Production: In-house or Independently-commissioned?

The issue of appropriate levels of in-house and independently-commissioned content/programmes has been the subject of focus for the BAI for some years. Specific recommendations in this regard were made in the BAI's first five-year review of public funding and in several of its annual reviews of public funding since that time. On foot of the BAI's recommendations in the first five-year review, the Department of Communications commissioned NewERA to produce a report in respect of the efficiency aspects of RTÉ's approach and practices in this regard. The outcomes of their work were set out in a further report for the Department of Communications by the NTMA/NewERA⁸.

However, the nature of this debate requires that this issue is looked at from time to time, not only because of the ongoing requirement for RTÉ to demonstrate cost efficiencies in its approaches to content production but also to ensure that the best approach is adopted in terms of the creativity and innovation in content that is on offer to Irish audiences.

Based on experience with other PSBs, including the BBC in the UK, **Communications Chambers** recommend that RTÉ should be encouraged to reduce its reliance on in-house production, separate from any decision on public funding, and the BAI and Government should consider how best to ensure that this happens. This might include a revision of the statutory provisions or a clear plan from RTÉ to extend its commitments in this regard over a specified timeframe.

The BAI broadly supports the views of the Consultants as outlined on the basis that it provides strategic flexibility to RTÉ to respond to the dynamics of the evolving media environment. It also contributes to a strong, independent creative audiovisual sector in Ireland and it supports creativity and innovation in the content available to Irish audiences. However, the view of the BAI in this respect is

⁸ NTMA/NewERA; RTÉ Review for the Department of Communications, Energy and Natural Resources; May 2014

that, before any revision to RTÉ's existing obligations are considered, there should be a review conducted on the effectiveness of the existing statutory provisions, as well as the benefits, constraints and challenges to changing the current arrangements. Such a review might identify the optimum balance between in-house and outsourced production, on a genre-by-genre basis, together with a consideration of possible targets and timelines for the broadcaster in reducing its reliance on in-house production. The extent to which independent production might be linked to increased funding could also be a consideration.

The BAI proposes to undertake such a review, in line with its functions pursuant to the Broadcasting Act 2009 and in line with its strategic objectives of sustainability for the Irish audiovisual sector and creativity and innovation in content for Irish audiences. We also recommend that RTÉ is requested to engage and co-operate with the BAI in such a review.

5.2 TG4

5.2.1 Introduction

The BAI is broadly satisfied with TG4's overall approach to strategic planning and considers that the broadcaster put in place the appropriate resources to support an effective planning process for this review. This work was supported by considerable efforts to involve both the Board and Staff of the broadcaster, and was complemented by a comprehensive range of external insights. Furthermore, TG4 has put in place a comprehensive reporting framework which will facilitate both the broadcaster, and the BAI as regulator, to assess performance against strategic aims over the next five-year period. As was the case with RTÉ, the BAI was assured that all strategic options, including the most radical options, were factored into the broadcaster's planning process. While the BAI accepts such assurances, the BAI would have welcomed a greater level of disclosure in this regard to the Authority to provide greater insight into the strategic choices made.

The BAI acknowledges TG4's full co-operation with the BAI's review process.

5.2.2 Twin-pole Strategy

The BAI notes the recommendation of the Consultants that TG4 reviews the balance of increased content spend between core Irish Language content and content for national audiences, and considers whether prioritising new and better content for the Irish language audience would deliver most distinctive public value. Such an approach would, the Consultants argue, focus on the core audience's consumption and satisfaction as primary performance metrics, with less attention paid to national share and reach. It follows that such an approach raises a query between the balance of spend between the two poles or audiences that are in focus for TG4.

The BAI, while sharing the view expressed by the Consultants that funding for the broadcaster's core Irish language audience should be protected, expresses its support for TG4's twin-pole strategy, having regard to its remit under statute, which includes a statutory responsibility to cater for the expectations of those with an interest in Irish as well as those whose first language is Irish. In this context, the BAI considers it legitimate that TG4's plan seeks to cater for, and retain, its core Irish language audience and to increase the quality and level of content available to that audience, while, at the same time, growing its reach and share with the wider national audience.

5.2.3 Funding

The BAI recommends an increase of **€6m per annum** in public funding for TG4, over and above TG4's 2017 public funding provision (current) of €32.8m. This increase should have full effect from 2018 and onwards over the period of TG4's strategy.

However, such additional funding should be subject to the following conditions:

- The provision of detailed proposals in respect of the deployment of the funding.
- The deployment of funds which:
 - (i) expands TG4's digital offerings;
 - (ii) offers maximum public value and

(iii) strikes an appropriate balance between the two key audiences articulated in the broadcaster's strategy – its core Irish language audience and its wider national audience.

The BAI expects, however, given the nature of the content targeted to its core audience pursuant to its strategy, that a majority of any additional funding would cater for the station's core Irish language audience.

- In the case of investment projects, a detailed review of the costs and benefits of each proposed venture, thereby supporting transparency and accountability in the use of the funds.

The Authority has expressed its view in the past, that additional funding should not be deployed for HD purposes on Saorview, but rather that any additional funding should be targeted at public value content that serves TG4's audience. The Authority's view in this regard remains unchanged.

6. BAI General Recommendations

6.1 *Source of Public Funding for PSBs*

The Consultants express their views in respect of the source/s from which additional public funding should come. Indeed, the BAI is also mindful of a range of other views recently articulated in this regard, including those of the broadcasters themselves and the Joint Oireachtas Committee on Communications, Climate Action and Environment.

The BAI expressly chooses not to specify the source of additional funding for the public service broadcasters, recognising that this is a matter of Government policy. However, the BAI asks that the Minister have regard to the need to provide as much financial stability as possible for the broadcasters when deciding the most appropriate course of action. Both the level and timing of public funding increases should be predictable and provide a degree of certainty for the broadcasters and the sector over the five-year period of their strategies. This is essential to allow the broadcasters to implement strategic plans in a coherent and structured way, to enter into multi-annual rights agreements as is so frequently required in the audiovisual sector and to realise their commitments to their stakeholders – most particularly the independent production sector.

Several possible funding solutions have been the subject of much public and Oireachtas debate in the past year, many of which are likely to require legislative amendments or new legislative provisions. In this context, the BAI also recommends that the Minister makes appropriate **interim** arrangements for the additional funding needs of the PSBs pending the enactment of new legislation.

Finally, regardless of whether a new legislative scheme is put in place or whether additional funding is sourced from existing arrangements, the BAI recommends that the Minister considers linking adjustments in public funding in the future to the Consumer Price Index (CPI) as a matter of course.

6.2 *Statutory Framework for Regulation of PSBs*

6.2.1 *Governance of PSBs*

The Consultants make an argument for less prescriptive governance of public service broadcasting. The BAI considers that the arguments made by the Consultants have merit but the Authority is also mindful of the original basis for the Part 7 provisions of the Broadcasting Act 2009 i.e. to provide a regulatory framework for the commitments given by the Irish State to the European Commission in 2005. The BAI is of the view that the principles underpinning the current legislative provisions are sound and should remain unchanged. However, the Authority is open to discussion with the Minister on how some specific aspects of the statutory provisions might evolve to more closely reflect the BAI's regulatory experience to date, as well as technological changes in the audiovisual and wider media environment. The BAI believes that this can be achieved while, at the same time, maintaining an effective regime of transparency and accountability in the use of public funding by Ireland's public service broadcasters.

6.2.2 *Prominence Rules*

The BAI concurs with the view expressed by the Consultants that there is a strong case to support a modernisation of the prominence rules for public service broadcasters, to include on-demand and other online services. Indeed, the Authority notes that such an approach has significant support at a

European level. The BAI suggests that the Minister considers the potential for such reform (together with any role that might be appropriate for the Authority in this regard) in the context of the transposition of the provisions of the revised Audiovisual Media Services Directive.

6.2.3 Carriage Fees for PSB Services on Pay Platforms

In its submission to the BAI, RTÉ made a case for the introduction of carriage fees for PSB services on key pay platforms. In its conclusions, **Communications Chambers** did not support the case for the introduction of such fees, although the BAI notes that the Consultants expressed a conflict of interest on this matter in their report.

The BAI is mindful that this issue was recently the subject of debate and consideration by the House of the Oireachtas Joint Committee on Communications, Climate Action and Environment and has been reflected in the Committee's recent Report to the Minister⁹. The BAI concurs with the recommendation of the Oireachtas Joint Committee that a detailed regulatory impact analysis be conducted examining all potential financial and economic implications of introducing transmission fees.

6.3 Irish Language Content

The Consultants express the view that the Irish language audience in Ireland is a small segment of a small national market and that the structure by which Irish language broadcast media is provided appears unnecessarily complex. They recommend that, at a minimum, there should be greater coordination between RTÉ and TG4 on Irish language content and several suggestions are put forward on how this might be done.

The Authority notes that the broadcasters themselves have each identified the value of greater co-operation, within the parameters of their respective statutory remits. The Authority is happy to monitor progress in this regard, in the context of any performance commitments made by the broadcasters in their annual statements of performance commitments. In addition, the BAI would be willing to facilitate further discussions/debate between the broadcasters, should this be considered desirable, in the context of the Authority's own statutory and strategic objectives in respect of the Irish language.

6.4 Governance and Accountability: Fair Trading

The Consultants make some specific recommendations on foot of the Minister's request that the BAI's process for its Five-year Review of Public Funding includes a review of RTÉ's compliance with its Fair Trading Policy, Practices and Procedures. These are set out in paragraph 10.4.4 of the Consultants' report and the BAI is satisfied to endorse the recommendations.

The Authority also points out that general oversight of RTÉ's fair trading activities has recently been incorporated into the process for the BAI's annual review of public funding and is, and will continue to be, reported on annually in its report to the Minister.

6.5 Audience Insights

As part of its five-year review, the BAI sought to evaluate the extent to which the PSBs understood the interests and needs of their audiences and, acknowledging the extensive research conducted by the broadcasters in this regard, whether such data was utilised to maximum effect. In the case of RTÉ,

⁹ Houses of the Oireachtas Joint Committee on Communications, Climate Action and Environment; *Report of the Joint Committee on the Pre-Legislative Scrutiny of the General Scheme of a Broadcasting (Amendment) Bill 2017 and Retransmission Fees*; 8th March 2018

Communications Chambers examined the extent to which the data generated would be fully driven through its strategic plan over the next five-year period. In the case of TG4, the focus of the Consultants centred on whether the broadcaster's strategic analysis takes sufficient account of the needs of its own audience, as opposed to broader trends.

The BAI proposes to discuss with each of the broadcasters separately, the findings of the Consultants, having regard to their recommendations, as well as the cost and operational implications of the proposals made.

6.6 Capacity for Creativity and Innovation

Creativity and innovation are a central component of the performance framework agreed between the BAI and the PSBs. In this review, the Authority sought to examine the role and contribution of the PSBs in supporting the wider creative economy in Ireland, and to identify any additional mechanisms or changes that might increase or improve the contributions of the PSBs to creativity and innovation in the Irish audiovisual sector.

The BAI notes the conclusions of the Consultants that the broadcasters' performance against agreed creativity and innovation targets is consistently strong, while also noting that audience expectations are high and the BAI's audience tracking research shows that ratings for innovation statements are low relative to other aspects of public service performance. The contributions (both comments and criticisms) of other stakeholders in the consultation are also noted by the Authority. Several practical suggestions are made by the Consultants concerning areas for continued focus by the PSBs.

The BAI proposes to discuss these suggestions individually with the broadcasters with a view to ascertaining the extent to which the recommendations might be taken on board and built into their respective frameworks of annual performance commitments and the timeframe over which this might be done.

6.7 Use of Outsourcing

Reflecting the findings in its first five-year review of public funding, and its specification for this review, the BAI sought to examine the scope for greater use of outsourced production by RTÉ and whether greater value for money, as well as a greater level of creativity and innovation, could be achieved in the longer term from transferring elements of content production from in-house to external sources.

The Consultants assessed, *inter alia*, the extent to which the PSBs are using the external production sector in a way that helps them to make effective use of available funding and gives them access to the best creative ideas at best value. RTÉ's positioning of the independent production sector within its content strategy and the extent to which the broadcaster's plans were based on a robust assessment of the costs and benefits of greater use of the sector were also considered.

In the case of RTÉ, the Consultants concluded that there is a compelling case for some increase in RTÉ's outsourcing of content over the next five years. In addition, the Consultants are critical of RTÉ's omission of a longer-term strategy for finding the right balance between in-house and external commissions. Any such strategy should be well-signalled now and phased in over the five-year duration of the strategic plan.

In the case of TG4, the Consultants remark that the broadcaster has a clear strategy for outsourcing which seems well designed to achieve a balance between the effective use of public funding and support for the wider creative sector. The effectiveness of its remaining in-house (digital) production needs to be kept under review.

The BAI supports the views expressed by the Consultants that, given the nature of the Irish sector and a range of factors in the external environment, the merits of any new measures to support and expand the independent sector need to be carefully scrutinised. Such fundamental sectoral issues require a wider policy debate, to which the BAI is very happy to contribute.

The BAI also notes the comment of the Consultants that modest changes to the strategies of the PSBs could have a beneficial effect on both their own output and on the sector. The Authority proposes to discuss the findings of the Consultants in detail with the PSBs, ultimately with a view to reaching incorporation of the Consultants' recommendations into the performance commitments of the PSBs in ways that are readily measurable and accountable.

6.8 Compliance

At the request of the Minister, the BAI's project specification also required the Consultants to discuss compliance by the PSBs with certain statutory and regulatory requirements, including: commercial efficiency; subsidy; fair trading and State Aid.

While the Consultants noted that RTÉ has largely complied with recommendations in the BAI's last Five-year Review of Public Funding, they make some proposals to strengthen its processes and procedures in this regard going forward. The BAI endorses these proposals.

In relation to TG4, **Communications Chambers** suggests that the broadcaster's compliance is strong but TG4 should put in place its Code of Fair Trading Practice in a manner that ensures the greatest overall value creation for both the broadcaster and the independent production sector. The BAI endorses this recommendation.

7. Conclusion

The BAI believes that all of the elements comprising this report – the BAI’s views on the role of PSB and its contribution to the Irish media landscape, the Authority’s funding and associated recommendations for the next five years, together with the findings and conclusions of the independent Consultants to the BAI, Communications Chambers – provide a comprehensive and robust evaluation of the media environment in which Ireland’s two public service broadcasters, RTÉ and TG4, are endeavouring to fulfil their statutory obligations and serve Irish audiences. The Authority also believes that the challenges - current and future – to fulfilling their respective roles, have been clearly articulated.

The BAI urges the Minister and the Government to consider urgently the need to address the financing required for public service broadcasting over the next five-year period. This will be essential in ensuring strong public service broadcasting going forward and to bolster the ongoing contribution which PSBs make to cultural and linguistic diversity in content and plurality in sources of news, information and current affairs for Irish audiences.

The BAI would welcome engagement with the Minister and his officials to elaborate further on the proposals contained within this report and to find the most expedient way to address the challenges that lie ahead.

APPENDIX 1

Review of Funding for Public Service Broadcasters

Report of Communications Chambers

Report for the Broadcasting Authority of Ireland

**Review of Funding for Public Service Broadcasters –
Final report (Redacted for publication)**

31 January 2018

This report has been redacted for publication. Cuts are shown by the [✂] symbol

Disclaimer

This is an independent report funded by the Broadcasting Authority of Ireland. The opinions offered herein are purely those of Communications Chambers. They do not necessarily represent the views of the BAI.

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1 Executive Summary

1.1 Purpose of this report

Communications Chambers was commissioned by the Broadcasting Authority of Ireland (BAI) to help it fulfil its statutory duty to review, every five years, the adequacy of public funding to enable the public service broadcasters to meet their public service objects.¹ This report contains our findings and recommendations.

Like the first five-yearly review in 2013, we have taken a forward-looking approach, considering how the PSBs' roles may need to change to continue to be relevant to Irish audiences. RTÉ and TG4 prepared detailed costed five-year plans, setting out their preferred strategies (assuming that they might have access to some increase in public funding)². We also asked them to prepare alternative plans on the assumption that no such increase was available (a 'flat cash' scenario). We have then considered the adequacy and realism of these plans as a means of reaching our overall conclusions.

We were also asked by the BAI to examine the role and contribution of the PSBs in supporting the wider creative sector in Ireland, the adequacy of the current funding model for public service media, and any policy or regulatory changes needed.

1.2 Pressures on the PSBs

This second five-yearly review finds the public service broadcasters (PSBs) confronting significant challenges.

Increased broadband connectivity, and the proliferation of entertainment options and

media devices available to Irish audiences, are creating opportunities and challenges for all media providers. New services have launched, and the market for high quality content is increasingly global. Consequently traditional TV operators have come under pressure - mass market multi-genre channels are less relevant than they once were.

TV still accounts for most video consumption, but average individual TV viewing fell by 8% between 2013-17 – and by over 30% amongst under 25s. Radio consumption has been more stable.

Since 2013, the Irish economy has returned to growth, and advertising spend with it. However, much of the benefit has flowed to digital media, and Facebook and Google in particular. The market for TV advertising has become more competitive, with an increasing number of non-Irish 'opt-out' channels offering inventory to Irish advertisers. Brexit has had a chilling effect on the UK advertising market which spilled over to Ireland in 2017.

So, the PSBs face increased competition both for audiences and revenues. At the same time, they face challenges of their own, including the need to reach all audience groups to justify public support, and a fall in public trust in established institutions. The Irish PSBs have seen significant declines in their reach and share, especially on TV; taking RTÉ and TG4 together, their combined share of viewing fell six percentage points between 2011-16. RTÉ's share of radio listening also declined, although to a lesser extent.

¹ Broadcasting Act (2009), s124(8)

² In our guidance to the PSBs, we suggested that they should reach their own view about what a "realistic" level of additional funding might be.

Although the PSBs are well regarded by many in Ireland, BAI research found significant minorities who were not satisfied³ with the broadcasters' offers – a little over three in ten adults for RTÉ and nearly four in ten Irish speaking adults for TG4. Their audiences are ageing, with younger people hard to attract and retain.

Our analysis suggests there is a persuasive case that the PSBs need to change what they do, including looking critically at their programme mix and quality, and developing new online propositions that target younger audiences.

However, the PSBs do have strengths to draw on. The market is not delivering significantly increased volumes of the kind of content offered by RTÉ and TG4, that is fundamental to the delivery of public service objects: high quality audio-visual content, in a range of genres, reflecting Irish society, values and cultural and linguistic diversity. Both broadcasters have loyal audiences, and RTÉ continues to be by far the largest broadcaster in Ireland (by audience size). PSBs across Europe are still highly valued for their unique cultural contribution and in many cases for their high quality, impartial and accurate news coverage – hugely important as other news providers face financial pressures and trust in digital news is in doubt.⁴

1.3 The broadcasters' finances over the last five years

The PSBs launched several new services and reviewed existing services over the course of the last five years. Among RTÉ's launches were the RTÉjr children's channel, an HD version of RTÉ One, and the redesigned News Now app. TG4 converted to HD transmission on most platforms, redeveloped its website, and

expanded its archive services and range of Irish language apps.

Nonetheless, neither achieved the level of content spend and investment anticipated in their previous five-year plans.

In 2016, RTÉ's revenue amounted to €337m, comprised of €179m public funding and €158m commercial income. Its revenue grew somewhat between 2012-16 as commercial income slowly returned to growth, although it did not receive the increases in public funding that it anticipated or that were recommended by annual public funding reviews. Taking 2013-16 as a whole, RTÉ's income was €[]m less than it expected in the previous five-year plan, or []% of planned revenue.

Although it has occasionally returned a surplus, RTÉ has typically run at a loss for much of the last 20 years. It did not achieve financial equilibrium over the last five years, with debt increasing from €16m at the end of 2012 to €40m at the end of 2016. In response to deteriorating cashflow it has cut capital expenditure, resulting in a shrinking and ageing asset base.

TG4's funding has been more stable, partly reflecting its lower exposure to commercial income volatility. It saw a moderate increase in funding between 2012-16, from €37.1m to €37.7m. It has run roughly at breakeven.

As with RTÉ, successive annual funding reviews recommended funding increases, which were not implemented, although we note the recent announcement of a €2m increase in funding for 2018.

1.4 RTÉ's five-year plans

RTÉ's preferred strategy seeks to position the broadcaster for what it calls a "third phase"

³ Giving a rating of 6 or less out of 10

⁴ Reuters Institute, [Digital News Report 2017](#), June 2017

for national public service media, and proposes that RTÉ should become a “fully integrated multi-media organisation.”

While seeking to remain Ireland’s main broadcaster for all audience groups, and offer the widest range of locally produced public programming, it recognises the need to strengthen its appeal to younger audience groups, and extend its content into new digital media and platforms.

RTÉ’s key proposals to enhance its content and services include: a significant shift in budget from broadcast TV and radio to online, especially in news and content for younger audiences; increased spend on high quality Irish programming, particularly drama, entertainment, factual and arts; and creation of a Digital Lab to produce multi-genre on-demand content.

Based on this plan, RTÉ anticipates reversing declines in its overall reach and first stabilising then growing TV and radio share.

Its proposals are underpinned by two key assumptions:

- Organisational reform, which is already underway, creating a new integrated division with responsibility for overall editorial, audience and commissioning strategy across most key services; and
- Public funding reform, including reversal of cuts made under the National Recovery Plan and reform of the TV licence system with the aim of increasing licence fee yield.

To fund its new plan, RTÉ believes it needs significant revenue increases, from a budgeted €[€]m in 2017 to €[€]m by 2022. With limited growth in commercial revenue expected, its plan depends on receipt of more public funding. It believes reform measures

could increase total public income from €[€]m in 2017 to €[€]m by 2022.

Deficit reduction absorbs about [€] of this increase, while [€] goes to increased content spend and new investment. RTÉ plans to spend much of this planned income growth on commissions from independent producers.

To reduce costs, it has launched a Voluntary Exit Programme which it expects to result in 200-300 staff leaving the organisation. [€]. The proceeds of sale of part of its Donnybrook site will be used to cover restructuring costs, technology and infrastructure investment, and debt reduction.

If no additional public funding were available – the ‘flat cash’ scenario - RTÉ estimates that it would face a cumulative shortfall of €[€]m in its funding plans, relative to its preferred strategy. It has not provided a detailed plan for this eventuality, but in headline terms says it would remove all new investment from its plan, have to find additional content savings of €[€]m over the period, and reduce surpluses. It advises that the impact on affected areas would be significant, [€].

Our assessment

We agree that the status quo is not sustainable for RTÉ, if it is to remain a valued public service broadcaster, capable of impacting on the lives of everyone in Ireland. Its broad strategic approach seems sensible, given this overall objective, but the challenges it faces should not be underestimated.

In the next period, it will need to eliminate deficits; halt and ideally reverse recent declines in reach and share, invest in new technology, and review the tone, format and distribution of content to ensure it is relevant to all audiences. At the same time, it will be bedding in a new organisational structure.

RTÉ has set out plans to reduce headcount, and we believe it could make further modest savings in the later years of its plan. However, overall we agree with its assessment that cost savings alone will be insufficient to return RTÉ consistently to surplus and at the same time improve audience performance.

Nor is commercial growth likely to deliver significant new income; RTÉ projects slow growth over the next five years and in our view possible macroeconomic downsides represent risk even to these forecasts.

This leaves either reprioritising (or cutting) some of RTÉ's current output, or more public funding, or some combination of the two.

RTÉ has not yet fully assessed the scope for reprioritisation within its service portfolio. It says that its new audience-led organisational structure and business planning process are intended to achieve this, but at the time of writing these are work in progress.

There may therefore be scope for some spending to be reduced, either on services and content with lower impact, or on services and content that super-serve certain (older) audiences. This would enable funds to be released for reinvestment in content and services for under-served (younger) audiences.

However, immediate reprioritisation on a much larger scale would be a risky strategy, with RTÉ needing to make substantial cuts just to break even, before any further funds can be released for new content and services. Cuts are likely to be contentious, potentially raising political and union opposition, as well as complaints from existing audiences. Moreover, if cuts are made in popular programming, there may be associated declines in commercial revenue, creating a downward spiral in income.

We therefore recommend an increase in RTÉ's funding over the five-year plan period, alongside a commitment from RTÉ to develop a rigorous approach to reprioritisation early in the period, with a view to making savings in existing services to fund additional investment in subsequent years.

In order to enable RTÉ to deliver at least some of the changes it has proposed, we judge that increases in public funding should be at least to the level that would be delivered by reform of licence fee collection (which is justified on its own merits, as we discuss below).

We also believe that greater use of the independent production sector could be a driver of innovation, and give RTÉ additional flexibility in its operating model. There is a compelling case for it to aim to reduce its reliance on in-house production over time even if proposed increases in public funding are not realised.

1.5 TG4's five-year plans

TG4's preferred strategy also seeks to restore its impact and reach after declines in the previous five years. It has adopted a 'twin-pole' strategy which addresses the needs of both a national audience, and a core Irish speaking audience, and which it argues will be to the benefit of both audiences.

For the core Irish language audience, TG4 plans a refreshed schedule and programming strategy, focused on news and current affairs, drama, entertainment, factual programmes and children's content. Digital content plans include an online education portal, a short-form news and entertainment hub, and a language/cultural archive.

Plans for the national audience focus on sport, music and factual content. To reach a younger audience, TG4's plan envisages a non-linear

and social media content strategy, including content sourced from users and community-based creators as well as production companies.

Overall, TG4 plans to broadcast fewer hours in total at the end of the five-year period, but with an increase in own-produced or versioned content at the expense of licensed content. Multi-annual agreements with independent producers and a minority-stake co-production fund will help build capacity in Irish language production and help fund output that can be sold internationally.

TG4 also proposes organisational reform to achieve this new focus. While it does not intend significant changes in headcount, it plans to redeploy [x] FTEs (from a current workforce of 77) from linear content to non-linear.

With commercial income representing a relatively small proportion of TG4's revenue, it is largely reliant on public funding increases to achieve this plan. It anticipates increases in public funding from €[x]m in 2017 to €[x]m by 2022, and an additional temporary increase in capital funding in 2018.

TG4 estimates that this strategy will increase its national TV audience share to [x]% by 2022, up from 1.8% in 2017. Average weekly reach will also grow. The plan aims to boost satisfaction amongst the core Irish language audience, from 7.5 out of 10 to 8.5.

If no increases in public funding were achieved, TG4 would still pursue its twin pole strategy, but assesses that the impact on its audience performance of a weaker schedule would result in its national audience share falling to between [x]%. It argues its low staff levels and overheads gives it little flexibility in its operating model; in effect, its flat-cash scenario is a stand-still strategy, with little

change in its schedule or mix of spending across services.

Our assessment

TG4's position is more financially sustainable, since it is less dependent than RTÉ on commercial income, has already recently received an increase in public funding, and is not currently operating at a loss.

However, like RTÉ, it faces challenges in maintaining reach and share, seeks to improve audience satisfaction, and needs to develop new ways of serving younger audiences.

We have no evidence of systematic inefficiency in its current operations. However, we note that staff costs and overheads are forecast to rise over the next period, and question whether TG4 might have scope to manage some cost increases through efficiencies and reprioritisation. It argues that it has little flexibility in the use of its budgets, but its publisher-broadcaster model appears to have given it greater capacity to flex its costs than RTÉ has had in recent years.

However, if Government supports its 'twin pole' strategy, and wishes it to seek to regain national share and reach, additional public funding is likely to be needed.

Risks to the achievability of this strategy must be recognised. While its recent audience performance is encouraging, TG4 will continue to face intense competition for national audiences, where it has less competitive advantage. It is unclear whether its strategy of using low-cost acquisitions to maintain audiences will be sustainable on a long-term basis, as the choice available to viewers continues to expand.

TG4 believes there is a 'sweet spot' of Irish sport, music and cultural events that appeal to both national and habitual Irish speaking

audiences. However, there will be limits to the amount of such content that its schedule can accommodate, and TG4 recognises that Irish speakers value a much wider mix of programmes. Significant increases in spend on content for national audiences may risk reducing funds available to serve the Irish speaking core.

We believe that the €2m increment TG4 has recently been granted should help stabilise TG4's audience situation, at least for the first half of the next five years. A further increase is likely to be needed to sustain performance beyond this point, although we see fully funding its preferred strategy as more discretionary at this point.

Before further funding increases are delivered, we would recommend TG4 undertake a more detailed review of the costs and benefits of some of its proposals, specifically its digital ventures and the launch in HD on Saorview. Furthermore, we would recommend it reviews the balance of increased content spend between core Irish language content and content for national audiences, considering whether prioritising new and better content for the Irish language audience would deliver most distinctive public value.

Such a strategy would focus on the core audience's consumption and satisfaction as primary performance metrics, with less attention paid to national share and reach.

1.6 Adequacy of public funding

Our analysis therefore suggests that current levels of public funding are not sufficient for RTÉ and TG4 to rebuild share and reach, and continue to fulfil their full range of public interest objectives.

However, neither PSB has made an unarguable case in their plans for the precise amount or use of extra funding requested. Nor have they presented evidence of their full scope to reprioritise existing spend to meet changing audience needs.

RTÉ acknowledges that it still has work to do in assessing spending priorities, and its new audience-led division will take the lead in this task over the next year or so. TG4 argues persuasively for its 'twin poles' audience strategy, but there may be scope for rebalancing some spending across those groups.

In our view, any additional funding will only deliver real impact if it is accompanied by a robust focus on unmet needs, with rigorous assessment of the performance of existing and planned services, ambitious targets and capacity to adapt the content and service mix rapidly in response to demonstrable audience impact. There is scope for both broadcasters to improve their work in this area, and to develop a more transparent prioritisation framework which enables progress against priorities to be tracked over time at the level of individual services.

We believe that this approach might help identify opportunities for both PSBs to reprioritise some of their current spend consistent with their planned strategies, freeing up resources for new activities. However, this may involve cuts to content or services that deliver less audience value, or that super-serve current audiences.

If additional funding was not available, both PSBs would certainly need to radically rethink their priorities, making significant changes to address changing audience needs and, in RTÉ's case, dealing with a significant deficit. While some of the broadcasters' projections for the flat-cash scenario seem unduly pessimistic,

simply cutting spend across the board is not a long-term sustainable option. Instead, more fundamental change, with some service cuts, would be required. The absence of a prioritisation framework in that situation would be a serious constraint on the broadcasters' ability to respond effectively to challenging financial circumstances.

1.7 Policy and regulatory reform

We have also examined several options for regulatory reform with a view to identifying those which might have material benefits for the future provision of PSB in Ireland. A key priority, recognised by many including the recent Oireachtas Joint Committee on Future Funding of PSB, is reform of the administration of the licence fee. We agree that this is an important priority, which should be pursued with urgency. Two other areas for possible action stand out. First, the specification in legislation of detailed content and service requirements; and secondly, annual decisions about the level of public funding available to the broadcasters.

With respect to the first point, we note that both PSBs have largely assumed that they need to maintain a full range of their existing programme genres and services over the next five years. They argue their room for manoeuvre in reshaping their service portfolio in response to changing audience needs is limited – not just by statutory constraints, but by the prospect of public resistance to change. New services therefore tend to be added to existing portfolios, rather than replacing services which may no longer be effective.

Moreover, there may be a risk of apparent divergence between the broadcasters' strategies and their legislative objects, as both broadcasters explore opportunities to deliver their public service commitments online.

The legislative framework is now almost a decade old, and it may be appropriate to consider different approaches, which might allow the PSBs more flexibility in switching investment between services, content genres and audience groups. A more flexible statutory remit would of course require robust governance to ensure public service objects are met and state aid considerations addressed, but in our view the annual processes of performance commitments and reviews provide a good starting point. Currently the regulatory remit focuses on funding, but in future a streamlined review could concentrate more on performance and strategic response.

With respect to the second point, multi-annual funding settlements would help both PSBs plan for the longer-term, and in particular address RTÉ's persistent deficits. In the current situation, RTÉ has little incentive to deliver surpluses, because doing so may raise state aid concerns, and result in any surplus being netted off its public funding in the next year. Conversely, when commercial revenues fall, it is hard for RTÉ to manage cost out, and it has no built-up reserves to cover losses and restructuring expenses. Trying to persuade government to increase funding instead may seem an attractive option.

Multi-annual settlements, with the ability to smooth surpluses and deficits over the funding period, would both incentivise good financial management on RTÉ's part, enhance its independence and remove the need for Government to make sensitive funding decisions every year.

Consistent with any multi-annual deal, it would be possible to link broadcasters' income each year to inflation, to ensure that public funding fairly reflects broad changes in each broadcaster's costs.

In our view, both these recommendations would increase the broadcasters' strategic autonomy and encourage long-term planning and innovative thinking about the future role and scope of PSB in Ireland.

Finally, a different legislative approach could include a reassessment of how best to ensure effective delivery across TG4 and RTÉ of Irish language content. The Irish audio-visual market is probably too small to realise material benefits from competition between the two PSBs for Irish-speaking audiences. It is more likely to be in the public interest to achieve the best possible coordination of their activities, while encouraging each to play to its strengths. For example, TG4 could be asked to lead on all Irish language content commissioning, while RTÉ can use its strengths in distribution and audience reach to ensure such content is accessed by the widest possible audience. A collaborative approach to online services and news should be encouraged. One option might be to require the PSBs to set out and agree proposals for better collaboration in future as a condition of any additional public funding.

1.8 Conclusions

RTÉ and TG4 continue to deliver great value to audiences and play a unique role in the Irish media market. Nonetheless, we conclude this second five-year review by observing that change in the next five-year period is essential. Current levels of public funding will not, in our analysis, be sufficient to sustain the reach and impact of Irish PSB.

RTÉ makes a persuasive case that the status quo is not an option. TG4 has explained the potential for additional content and services to support the Irish language. However, there is a risk that not all the additional public funding requested by both PSBs will deliver

optimal value for money. The BAI and Government may therefore wish to consider linking some or all of any additional funding to a more comprehensive review of current and planned services, to ensure that money is not being spent on content that no longer efficiently meets audience needs. Both broadcasters could benefit from a more transparent framework for prioritisation that allows them to compare the public service return on spend on different services over time. Robust governance will be required to monitor delivery of audience objectives, and the PSBs must be able to change tack as the impact of spending decisions becomes clear.

The BAI and Government may also wish to consider scope for changes in the way in which the PSBs' statutory objectives are specified, and the merits of moving to multi-annual funding agreements. We think that both measures could help the PSBs respond more effectively to change, and encourage them to take a more strategic approach their financial management.

Overleaf we offer a summary of our recommendations.

1.8.1 Recommendations: RTÉ

Recommendation	Rationale
Increase RTÉ's funding, via reform of the licence fee	<ul style="list-style-type: none"> • RTÉ faces structural deficits and falling share; additional funds are needed to stabilise it • LF reform is justified on its own merits
Pending this, equivalent funds should be provided in the interim	<ul style="list-style-type: none"> • LF will take time • Other funds will bridge the gap, and provide an incentive to policy makers to implement reform in a timely manner
This grant of funds should be linked to an RTÉ 'strategic prioritisation framework', within 6 months	<ul style="list-style-type: none"> • Will support RTÉ in making the hard choices necessary to ensure value for public money in its choice of services
BAI should monitor RTÉ's progress in developing audience focussed strategy	<ul style="list-style-type: none"> • Important transition for RTÉ, which will enable it to capitalise on the current reorganisation
RTÉ to be provided with regulatory and political support for cuts	<ul style="list-style-type: none"> • Making efficient use of funds will require difficult choices – RTÉ will need backing for this
RTÉ should be encouraged to use more independent production	<ul style="list-style-type: none"> • Will provide greater strategic flexibility

1.8.2 Recommendations: TG4

Recommendation	Rationale
A further increment of funding is appropriate, perhaps linked to specific investments	<ul style="list-style-type: none"> • Fully funding TG4's strategy may be unnecessary • However, elements such as the increase in Irish language digital content appear valuable
Costs and benefits of investments (digital, HD Saorview) should be reviewed	<ul style="list-style-type: none"> • While digital is intuitively attractive, individual offers merit further review • HD Saorview is of uncertain value
If funds are constrained, content for habitual Irish speakers should be protected. Undue focus on national share should be avoided	<ul style="list-style-type: none"> • TG4 has a clearly distinct and important offer for this audience • The case for serving the national audience is more indirect

1.8.3 Recommendations: General

Recommendation	Rationale
Reform of the licence fee is necessary and urgent	<ul style="list-style-type: none"> • Current system is wasteful, and risks (through evasion) undercutting public support • Other markets are reforming LF scope
Funding should be moved to a multi-annual basis (potentially linked to CPI)	<ul style="list-style-type: none"> • Constant possibility of government help (or clawback of gains) discourages PSBs from maximising efficiency • Long term planning also difficult with uncertain public funds • Would allow simplified annual reviews
Less prescriptive governance may be appropriate	<ul style="list-style-type: none"> • To support PSB flexibility, their mandate could be more audience focused, rather than based on specified services
Prominence rules should be updated	<ul style="list-style-type: none"> • Increasingly, consumption is not via linear EPGs. PSB content risks being lost
Statute should be updated to explicitly recognise the importance of online	<ul style="list-style-type: none"> • Online is increasingly critical to PSBs, and is not simply an adjunct to their broadcast services

2 Introduction

2.1 Background

Section 124(8) of the Broadcasting Act 2009 (“the 2009 Act”) requires the BAI, every five years, to carry out a review of the adequacy of public funding to enable the Irish public service broadcasters, RTÉ and TG4, (“the PSBs”), to meet their public service objects.

The Act sets out the range of matters to be considered in conducting such a review, which include the existing financial resources available to each PSB, the current levels of public funding, the multi-annual nature of funding requirements, the level of commercial funding available, international developments in public service broadcasting, results of annual reviews, and such other matters as the Authority may consider relevant.

A forward-looking approach is taken, in which the PSBs are asked to develop detailed costed five-year plans, which are assessed in terms of their strategic approach and funding needs.

For this review, which covers the years 2018-2022, the BAI appointed media consultants Communications Chambers to assist the process – specifically, to prepare and submit a report and recommendations to the Authority on the strategic challenges facing each public service broadcaster and the likely adequacy of funding over the next five years. This report will inform the deliberations of the Authority, which will subsequently submit its report and recommendations to the Minister for Communications, Climate Action and Environment (“the Minister”).

This is the second five-year review to be carried out under the Act. The first review was conducted by consultants Crowe Horwath and was completed in July 2013. In the years before and since 2013, PSBs have also been

providing annual reports on the fulfilment of their performance commitments and the BAI, in its accompanying annual reviews of public funding, has analysed these reports and made its own recommendations to the Minister in respect of public funding adjustments.

2.2 Terms of reference

The central focus of this review, set out by the BAI, was to examine the strategic challenges facing the PSBs from 2018 to 2022 and, consequently, the adequacy of funding required to support the PSBs in serving Irish audiences in the evolving digital environment.

Among the matters to be examined by the consultants were:

- The strategic context for the future delivery of public service broadcasting, including changes in the media landscape and audience behaviours.
- Public service ethos, including how the role of PSBs may need to change to continue to be relevant to Irish audiences in the overall delivery of public service content.
- Creative economy: the role and contribution of the PSBs in supporting the wider creative economy in Ireland, and their impact on creativity and innovation in the Irish audio-visual sector.
- Funding model: an assessment of the adequacy of the current funding model for public service media over the next five years, and any policy/regulatory changes needed.
- Funding recommendations: an evaluation of the PSBs’ costed five-year plans to form the basis for future

funding recommendations on the part of the BAI in respect of the PSBs.

More specifically, the core part of the review was expected to include:

- Assessment of the current state of Irish public service media
- Assessment of the current strategic capability of Irish PSBs
- Analysis of the costed, five-year strategic plans to be submitted by each PSB for the period ahead.

2.3 Methodology

Communications Chambers carried out this work in the following modules, agreed at the outset with the BAI. The main part of the work was carried out from March to December 2017, and the overall approach involved many detailed discussions with the PSBs themselves, examination of extensive external analysis and research, comparisons with audio visual markets and PSBs outside of Ireland, consultations with key stakeholders, and independent scrutiny of the PSB's financial plans.

2.3.1 *Review of market trends relevant to PSBs and the audio-visual sector*

Underpinning our work, we carried out a review of market trends relevant to PSBs and the sector, including issues such as:

- Changing consumption patterns
- The state of the TV and radio advertising markets
- Changes in ownership amongst commercial broadcasters
- The state of the platform market
- The status of the independent production sector.

2.3.2 *Assessment of the current state of Irish public service media*

Drawing on the annual assessments submitted to the Authority for the years since the first 5-year review was undertaken, we considered:

- The overall performance of each broadcaster.
- The financial performance of each PSB.
- The changes made to their production and distribution strategies.

We also undertook a broader assessment of the political and social context for public service broadcasting generally within Europe, to help set Irish developments in this wider context.

2.3.3 *Assessment of the current strategic capability of Irish PSBs*

We conducted a high-level overview of the PSB's strategic capabilities, including:

- Assessment of the extent to which the prerequisites for successful strategy development and implementation are in place at each PSB
- Discussions with the PSBs to understand their overall approach to strategic planning
- High level audit of the tools they use in the strategic planning process.

We were interested in establishing the extent to which the PSBs are thinking radically enough about the challenges posed by digital and on-demand media.

2.3.4 *Proposal for the form and content for costed 5-year strategic plans*

In the last five-year funding review, properly costed strategic plans were produced relatively late in the process, and only partially met the requirement of explaining the key strategic choices that had been made and how

they were then reflected in costs and revenues going forward. At a very early stage in this project, therefore, we produced our own proposals for the format and content of the costed strategic plans, for discussion with the Authority and each PSB before finalisation. Once agreed, these were expected to act as clear templates for each PSB.

In particular, we asked the PSBs to set out their preferred strategy, based on a realistic assessment of the levels of public funding that might be available to them, but also requested a “flat cash” scenario, in which they were asked to show how they would respond to no increase in public funding over the five-year plan.

2.3.5 Analysis of costed five-year plans

We assessed the adequacy and realism of the completed five-year plans, drawing on three sources of relevant insight:

- Our independent analysis of market trends, the PSBs’ recent performance and existing strategic capability.
- Publicly available benchmark data from other public service broadcasters.
- Our team’s direct, extensive and recent experience of strategic planning in public service broadcasters.

The analysis considered the extent to which:

- The plans are aligned to the PSBs’ mission and objectives.
- The plans take account of changing audience behaviours and anticipated market developments.
- The PSBs have provided credible evidence to support the proposed targets and measures of success.
- Likely risks have been identified and effectively mitigated.

- The plans are appropriately costed, financial expectations are credible and the proposals are affordable.

2.3.6 More detailed assessments

We also carried out more detailed assessments in four areas requested by the BAI:

- The PSBs’ understanding of their audiences.
- The PSBs’ capacity for supporting creativity and innovation.
- The scope for outsourcing of programmes and other content.
- Compliance of the PSBs with key legal and regulatory requirements.

2.3.7 Recommendations regarding future public funding

Drawing on the work from all the previous modules, we assessed the consequences of different funding decisions by policy makers – for instance, what would be the consequences for RTÉ or TG4 of a continuing flat licence fee, versus one that increased.

2.3.8 Review of legislative and/or regulatory changes required

As part of our concluding work, we assessed the extent to which any legislative and/or regulatory changes might be needed to support the future role and development of PSBs in Ireland and their accountability in use of public funds.

2.4 Wider consultation

As part of our work, we had discussions with several other interested parties to seek their views on the funding review, and we also invited parties to make written submissions if they wished to do so. By these means we

received input from Communicorp, eir, IBI, IFB, Sky, SPI, TV3 and the Wireless Group.

We thank all those who gave up their time and contributed to help make this report as comprehensive as possible. The views

expressed in this report, however, are those of the consultants only, and should not be interpreted as either opinion expressed by the PSBs, other parties, or the BAI.

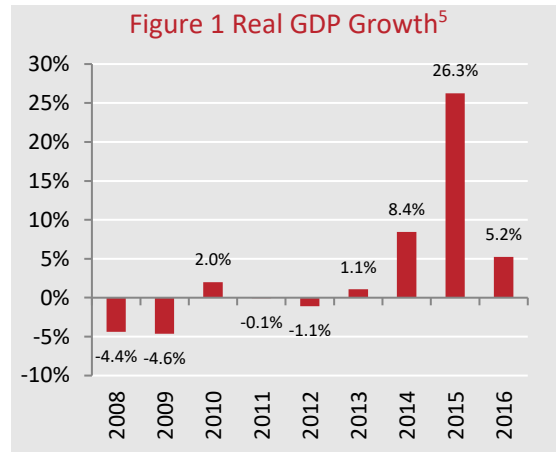
3 Review of market trends

In this section, we consider the market context for the PSBs. We first look at the wider economic and demographic environment. We then turn to TV and radio, considering: platform mix; trends in consumption; the state of competition for audiences; and developments in advertising. Finally, we look at three important adjacent sectors, independent production, broadband and social media.

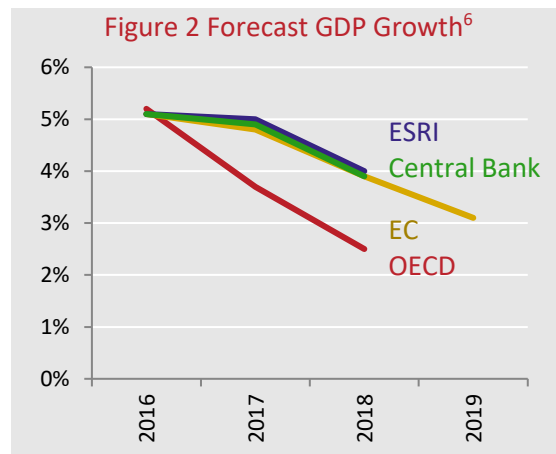
3.1 The Irish macro environment

3.1.1 GDP

After sharp declines during the crisis and a period of relative stagnation up to 2013, Irish GDP growth is once again healthy:



Looking ahead, there is consensus that GDP growth will still be healthy, albeit at somewhat slower rates than in recent years (in part due to Brexit):



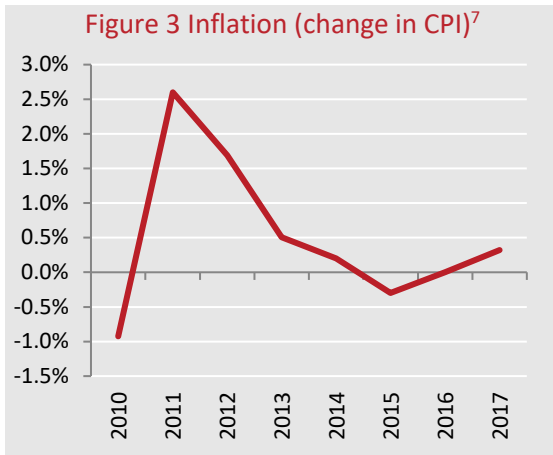
⁵ CSO

⁶ Central Bank, *Quarterly Bulletin*, October 2017; ESRI, *Quarterly Economic Commentary, Autumn 2017*, 27

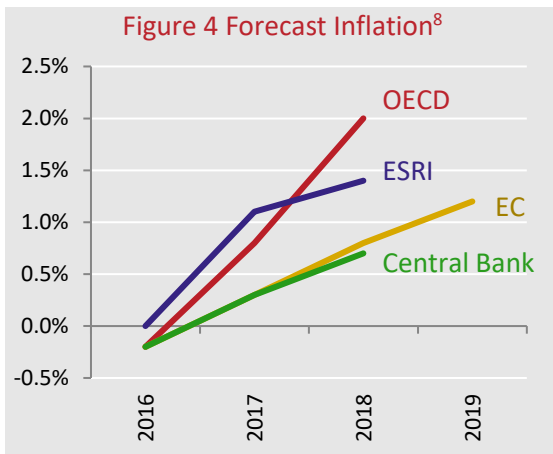
September 2017; EC, *Autumn 2017 Economic Forecast – Ireland*, November 2017; OECD, *Ireland – Economic forecast summary*, June 2017

3.1.2 Inflation

Inflation in Ireland has fallen, and in recent years has been near-zero:



It is expected that inflation will rise again, but remain modest at 2% or less:

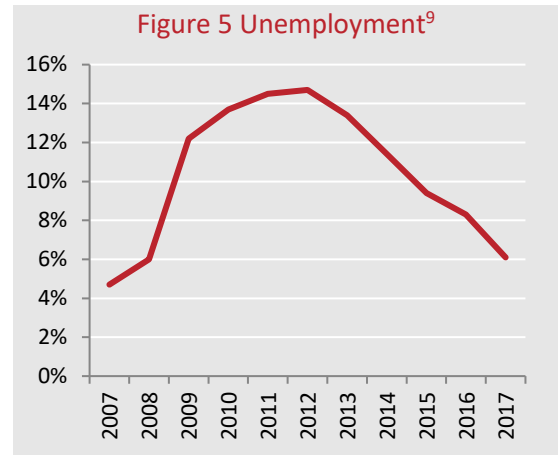


⁷ CSO, [Consumer Price Index](#) [2017 is average to Oct]

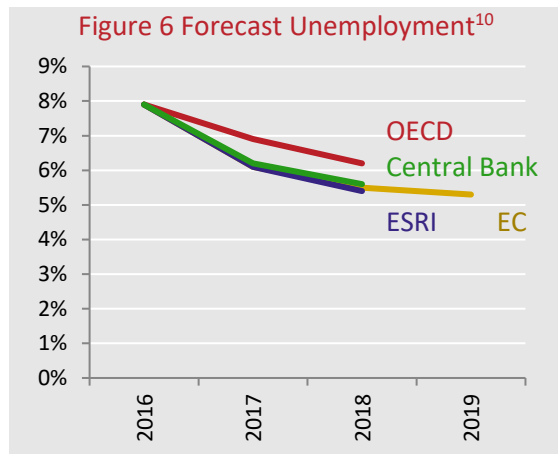
⁸ Per FN 6

3.1.3 Unemployment

Unemployment in Ireland has also fallen rapidly, though is not yet at pre-crisis levels:



The downward trend is expected to continue, though at a slower pace:

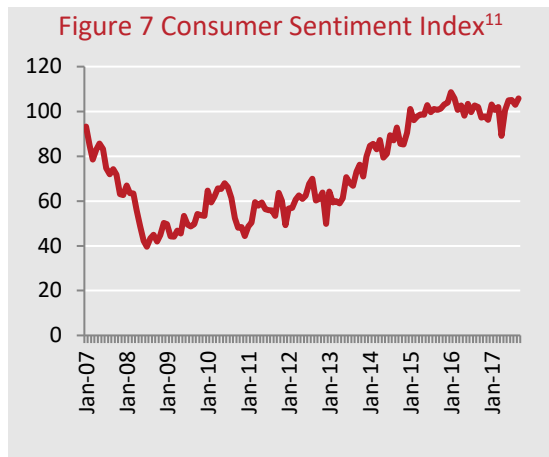


⁹ CSO, [Seasonally Adjusted Monthly Unemployment Rates %](#). Figures are for June of each year

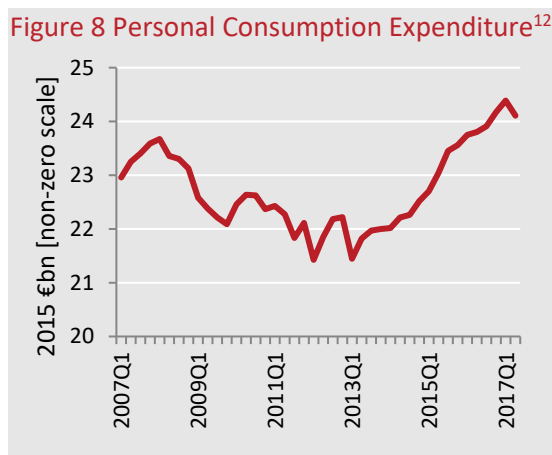
¹⁰ Per FN 6

3.1.4 Consumer confidence and spend

Consumer confidence is also healthy, albeit no longer rising:



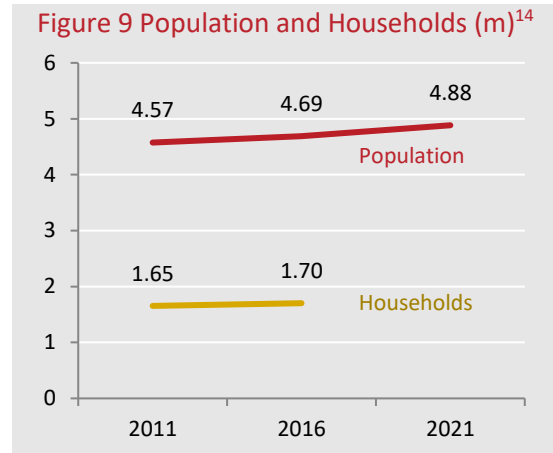
This has contributed to a growth in personal consumption, which is up relatively sharply since 2013, though it may now have peaked.



3.1.5 Demographics

Annual Irish population growth is predicted to increase from 0.5% in 2011-16 to 0.8% in 2016-21. However, household size has been rising slightly (from 2.73 to 2.75, 2011-16).¹³ If this trend continues, household growth will be

slower than population growth. The number of households is an important factor in the number of licence fee payers.



3.1.6 Conclusion

In aggregate, these metrics suggest that the previous five-year planning period covered (in large part) a recovering economic cycle in Ireland. While there is no expectation of a return to recession in the short term, the next five-year period may cover a more challenging macro-economic environment, with slower growth and rising inflation.

This may have various implications for the PSBs, but for RTÉ in particular, it may affect the available advertising revenue – ad spend is generally believed to be quite sensitive to the macroeconomic environment.

3.2 Television

3.2.1 Platform mix

Since the completion of digital switchover, the mix of TV platforms in Ireland has been broadly stable. That said, there does appear to

¹¹ ESRI, [Consumer Sentiment Index](#)

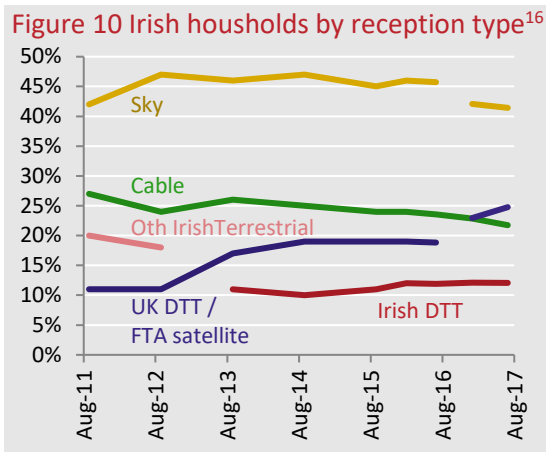
¹² CSO, [Personal consumption expenditure](#)

¹³ CSO, [Census of Population 2016 - Profile 4 Households and Families](#)

¹⁴ CSO, [EY011: Private Households 2011 to 2016 by Composition of Private Household, Persons per](#)

[Household and Census Year](#); CSO, [C08 Projected Population from 2011 by Age Group, Criteria for Projection, Year and Sex](#). Population forecast is based on a simple average of the six forecasts provided by CSO

be a moderate decline in pay TV households, both Sky and cable.¹⁵



The implications of platform mix changes for the PSBs are complex. Pay TV households represent a particularly competitive environment for their channels, with many alternatives available, including a wide array of specialist channels, more targeted than the PSBs’ multi-genre offerings. Thus, all else being equal, a decline in pay TV might be helpful for the PSBs.

However, in some free-to-air households, RTÉ and TG4 may be entirely unavailable. For instance, in lapsed Sky households, unless the customer has a ‘freesat from Sky’ card, the Irish PSBs will not be available since they are encrypted.

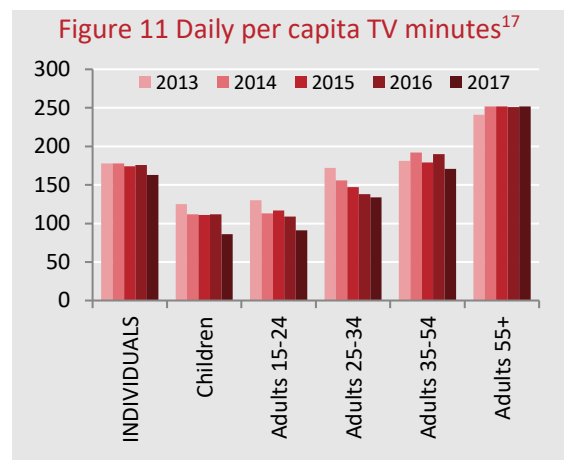
Note that while both Sky and Virgin Media have long operated in both Ireland and the UK, they are now part of larger international groups. Sky (formerly BSkyB) merged with Sky Italia and Sky Deutschland in 2014. Virgin was acquired by Liberty Global (with operations across Europe) in 2013.

¹⁵ As of 2017 Nielsen changed its allocation of ‘lapsed Sky’ households from the Sky category to the UK DTT/FTA satellite category, and thus for these categories figures before and after are not comparable

Saorview (Irish DTT) has seen modest growth, but remains small with just 12% of households using it as their only platform. (However, 41% households will make use of it on at least one set in the home). Looking ahead, Saorview may benefit from households switching from pay broadcasters to SVOD services, but using DTT for ‘foundational’ linear TV.

3.2.2 Consumption trends

Individual TV viewing in Ireland (live and via PVR) has fallen by a total of around 8% over the last four years.



However, this decline has been unevenly distributed. For those under 24, viewing has dropped by over 30%. By contrast, viewing amongst those aged 55 and over is up by 5%.

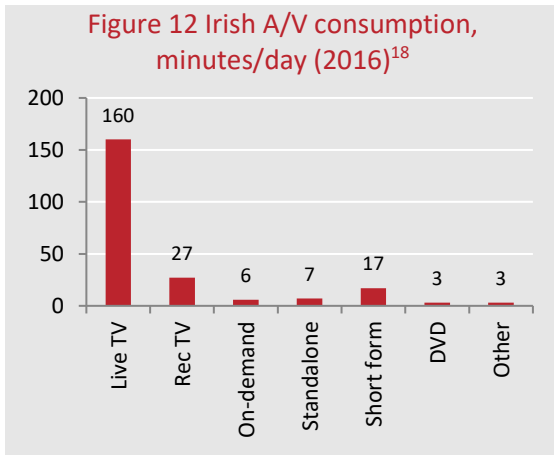
Despite the decline in broadcast TV viewing (live and recorded), it remains far more important than other forms of video consumption. In 2016 it represented 84% of video consumption by adults.

Further, while broadcast TV viewing has fallen, this is unlikely to be wholly due to substitution by other forms of video. For example, while short form video (such as YouTube) has

¹⁶ Nielsen Establishment Survey

¹⁷ TAM Ireland. Figures are for June each year, including time-shifted (via PVR) viewing

grown, this is not necessarily at the expense of TV. YouTube may be consumed at times and places (for instance via mobile devices out of home) when TV viewing would have been unlikely.



Perhaps more significant for TV viewing than competition from other forms of video is competition from other forms of digital entertainment. Alternatives ranging from Facebook to Xbox are now available to consumers looking to pass time, inevitably putting pressure on hours spent with TV. In the UK, for example, as of 2016 consumers spend 39% of their media time with TV – but 41% with computers or mobile devices (up from 36% in 2010).¹⁹

3.2.3 Competition for audiences

Amongst broadcasters

Recent years have seen significant change in the competitive landscape for TV in Ireland.

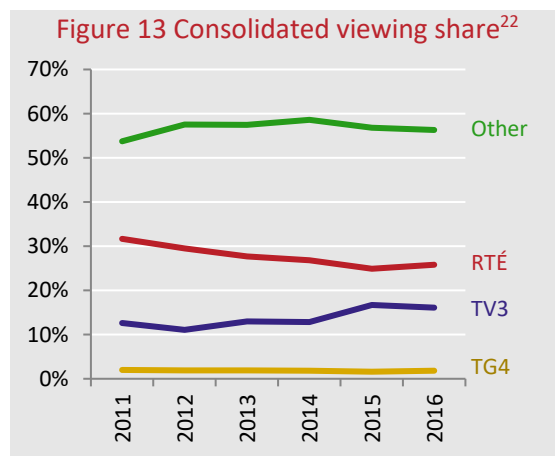
Within linear TV, TV3 has been acquired by Liberty Global (the owners of Virgin Media). Previously controlled by private equity group Doughty Hanson, TV3 is now part of a major

international company, with interests in both cable TV and content.

Liberty also acquired UTV Ireland in 2016, a new channel that had been launched at the beginning of 2015. It has been rebranded be3 and positioned as a female-oriented channel. It is the third channel in TV3’s portfolio, alongside the TV3 channel and 3e.

TV3 now claims that its portfolio’s “share of commercial impacts is 25% bigger than RTÉ Group for Adults 15-44”, an important demographic for advertisers.²⁰

We discuss PSB viewing in greater detail later,²¹ but Figure 13 shows that one of the key trends over the last five years has been a drift of viewing from RTÉ to TV3:



While not a new issue, all Irish broadcasters continue to face the extra competitive challenges of being an English-speaking market, and adjacent to the UK. These two factors mean that it is easy for both US and UK content to be deployed in Ireland, with its costs recovered over far larger audiences than Ireland-only content might capture.

¹⁸ TAM Ireland, *Review 2016*, 14 February 2017 [Adults 15+]

¹⁹ Ofcom, Digital Day 2016, *Media and communications diary (Aged 6+ in the UK)*, August 2016; Ofcom, *The Consumer’s Digital Day*, 14 December 2010

²⁰ Virgin Media, *TV Advertising on TV3, 3e and be3*. Sourced to TAM/Nielsen, January 2017 [accessed 17 October 2017]

²¹ See page 29

²² TAM Ireland, Individuals 4+

This issue is exacerbated because some platforms (Sky, Freesat and – in some parts of Ireland – Freeview) serve both UK and Irish audiences. Programming on these platforms reaches Ireland ‘by default’, without even a conscious decision to serve the Irish market.

From VOD players

Beyond linear TV, in the last five years adoption of SVOD has increased appreciably. Netflix, which launched in Ireland in 2012, is now used by 25% of all Irish households,²³ and more than half of those aged 18-24 have Netflix access at home.²⁴ In December 2016 it was joined by Amazon Prime.

As we have seen, such services do not currently capture a significant percentage of overall viewing (though that percentage is likely higher for young or affluent audiences sought by advertisers).

The competitive significance is rather that the high production values of content from the likes of Netflix is resetting audience expectations. This requires broadcasters to ‘put more money on screen’ to compete, particularly in genres such as drama.

The high production values of the SVOD players is enabled by their global scope. Netflix is available in over 190 countries (with China being the main market where it is not available). It has 104m subscribers, paying an average of €8.02 per month.²⁵ This scale allows them to amortise the cost of content over far more viewers than most broadcasters

can hope to match, even allowing for international rights sales in select markets.

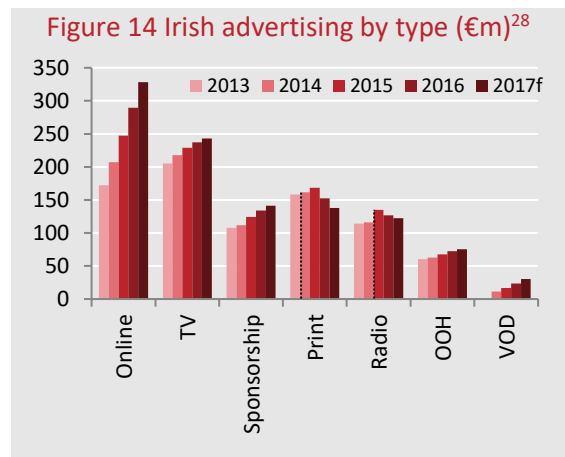
3.2.4 Competition for adspend

TV broadcasters face competition for adspend both from other media and from other broadcasters. We take these in turn.

TV in the wider advertising market

In part because of the robust economy, the Irish advertising market grew from €825m in 2013 to an expected €1,086m in 2017, an increase of €262m.²⁶ (We note that this forecast by Core Media for 2017 was made before the full impact of Brexit became apparent. Other forecasters have since revised down their predictions for 2017. Zenith Optimedia, for instance, dropped its growth expectation from 3-4% to 0%).²⁷

However, the growth of the ad market in recent years has been unevenly distributed. Digital saw an increase of €156m, whereas TV only grew €38m. (Print saw a €20m decline over this period). Per the Core Media forecast, 2017 TV ad spend will be €243m.



²³ TAM/Nielsen, *Establishment Survey*, January 2017

²⁴ RTÉ, *Time User Survey 2016*, 2016

²⁵ Netflix, *Q3 17 Financials Statements*, 16 October 2017)

²⁶ Core Media, *Outlook17*, February 2017, and prior year equivalents

²⁷ John McGee, “Brexit damage starts to hit Irish media companies”, *Independent*, 9 July 2017

²⁸ Core Media, *Outlook17*, February 2017, and prior year equivalents. Cinema excluded (approx. €8m per year). OOH is ‘out of home’. Note series breaks for print in 2014 and radio in 2015 – figures before and after these dates for these media should be compared with caution

Approximately half of online adspend is for search advertising. Such spend is not necessarily captured from other media - search enables advertising for niche products which never would have been able to justify advertising in traditional media. However, some of this online spend undoubtedly is captured from TV.

Further the targeting and measurability of online advertising can degrade the perceived value of TV and other forms of advertising which lack these advantages.

Growth in online adspend is likely to continue, driven by increasing hours online, expansion of mobile advertising, and the transition to higher value formats such as video. However, there are some countervailing trends, including advertiser concern regarding effectiveness; uncertain contexts; and ad fraud.

TV is now the #2 advertising medium in Ireland, having been overtaken by online in 2015. It represents 22% of all Irish adspend.

Recent developments in linear TV advertising

As we have seen, TV3 has strengthened its proposition for advertisers by capturing viewing. According to Core Media:

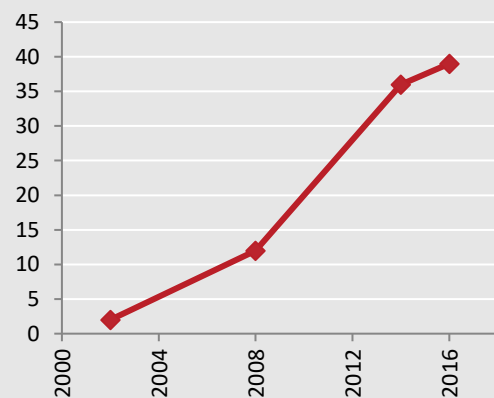
“[Virgin Media Solutions] can now offer advertisers a wide audience spectrum: TV3 for broad audiences, 3e for youth and Be3 for older female biased viewers. It can now compete with RTÉ in terms of delivering a wide audience profile. VMS can also compete with RTÉ on scale. ... This competition is of significant benefit to advertisers. Both organisations will have to innovate and seek competitive

advantage in the battle for share of advertising budgets.”²⁹

A further significant change has been the rise of ‘opt out’ channels – that is, non-Irish channels available in the State that create a separate broadcast with Irish focused-advertising.

Such channels do not necessarily take away increasing viewing share from RTÉ and TG4 (since they have long been available in cable and satellite homes). However, as they make advertising slots available to Irish advertisers, they capture adspend and increase the competitive intensity of the TV advertising market. Sky (the main sales house for the opt-out channels) now offers 33 channels on this basis.³⁰ As of November 2016, there were 39 opt-out channels in total:

Figure 15 Opt-out channels in Ireland³¹



However, while the competition from opt-out channels is now a significant factor in the Irish market, it is (from the perspective of RTÉ and TG4) unlikely to worsen. Firstly, the growth in the number of opt-out channels appears to have slowed (though see below re the potential effect of AdSmart). Secondly, incremental channels are likely to have a

²⁹ Core Media, *Outlook 17*, February 2017

³⁰ Sky Media, *Channels* [accessed 17 October 2017]

³¹ Dr Roddy Flynn, “RTÉ need to get with the programme in a rapidly changing TV landscape”, *Irish*

Examiner, 1 April 2017; RTÉ, *Statement by Dee Forbes to the Joint Committee on Communications, Climate Action and Environment*, 22 November 2016

smaller viewing share than those which already offer opt-outs.

Indeed, such smaller channels may not be able to justify the fixed costs of becoming an opt-out, notably transponder capacity and participation in TAM.³²

Another source of pressure on RTÉ and TG4's revenues is ad skipping – the fast-forwarding past ads by those watching programming via a PVR. Ad skipping substantially reduces the effective audience for advertising in such time-shifted viewing.

The importance of ad-skipping has grown, as time-shifted viewing has grown from 7% of total viewing in 2011 to 11% in 2016. However, as with opt-outs, this issue may now have stabilised. Growth in both PVR ownership and time-shifted viewing is now minimal.³³

Future developments in linear TV advertising

Looking ahead, an important development for the market is addressable (targeted) TV advertising. One example is Sky's AdSmart technology, which allows ads that are specific for an individual household to be inserted at the set top box. This means that two different households watching the same programme may see entirely different advertising.

This has several advantages:

- It allows much finer targeting, allowing an advertiser to (say) address one town or a precise demographic
- It allows an advertiser to tailor its spots to different demographics

- It allows advertisers to control frequency (how often an ad is shown to each household)³⁴

AdSmart was first launched in the UK in 2014. It is now available on over 50 UK channels, including Sky and Channel 5's portfolios. Credit Suisse estimate that AdSmart represents 11% of advertising sold by Sky (by value).³⁵

Sky launched AdSmart in Ireland in April 2017. In June 2017 it signed a partnership with Virgin covering both the UK and Ireland to provide an integrated service across both platforms. (Virgin will use its own technology on its platform). In addition to being platform providers, Sky and Virgin (via TV3) represent the two largest ad sales houses after RTÉ.

Targeting increases the efficiency of TV advertising, and thus may well grow the value of the market. However, it also introduces a new element into the value chain. Thus, it is unclear how much of this additional value will flow to broadcasters or to the likes of Sky and Virgin for the provision of targeting services. Further, within broadcasters, the smaller players may benefit more, since targeting will allow advertisers to 'assemble' mass reach from multiple small channels – whereas previously advertisers would have been more dependent on major channels for such reach.

To date, in the UK ITV and Channel 4 have not chosen to participate in AdSmart, and instead have retained control of their advertising and ad sales. If broadcasters continue to have different strategies, then addressable advertising may redistribute value not just between platforms and broadcasters, but also between individual broadcasters.

³² The measurement system for TV viewing in Ireland. Participation is necessary to have audience figures to demonstrate value to potential advertisers

³³ Nielsen Company, [Overview of time-shift viewing](#), May 2017

³⁴ Sky, [Sky AdSmart in Ireland](#) [accessed 17 October 2017]

³⁵ Credit Suisse, [The Future of Advertising](#), 25 April 2017

One further potential impact of AdSmart is that it may enable more channels to opt-out. Ireland-specific advertising could be inserted at the set-top box, which would be cheaper than renting transponder capacity to broadcast an entirely separate Irish stream. This may, at the margin, make opting out viable for additional channels, though they would still need to carry the cost of participation in TAM.

Forecast TV adspend

Up to date third party forecasts for Ireland are not available. However, TG4, in its market analysis, offered two estimates for 2020 TV advertising: €247 and €260m, up from €237m in 2016. It stated that both these estimates were conservative.³⁶ That said, if 2017 is a 'lost year' for ad revenue growth (due to Brexit), then these forecasts may be more challenging.

In the UK WARC expects TV ad expenditure to *fall* 2.4% in 2017 (compared to overall expenditure growth of 3.1%). For 2018, it expects TV to be in-line with the market, at 2.8%.³⁷

A challenge for all Irish media is that for international brands, advertising budgets are often controlled out of London, with scope across the UK and the Republic. This means a loss of confidence in the UK can spill over to Irish spend.

3.2.5 Competition for rights

Intensified competition in the AV sector has put upward pressure on the costs of rights, although the situation varies significantly depending to the type of right in question.

Acquired programming

RTÉ reports that UK based broadcasters, such as Sky and Channel 4, are increasingly seeking

exclusive rights in Ireland for the programming they acquire. This would be consistent with the rise of opt-out channels. If it is possible to directly monetise Irish audiences through opt-outs, exclusivity of content in Ireland becomes more valuable to UK broadcasters.

SVOD players are also now active in the market for acquired programming. Netflix, Amazon and others may contribute to cost inflation. From the perspective of rights-owners, they are attractive customers since a single sale can address a global market (as opposed to selling to multiple national broadcasters).

Sports

TV3 is a strong competitor to the PSBs for sports rights. In 2015, it outbid RTÉ for the Six Nations Championships (2018-21) and in 2016 it won rights for UK horse racing including the Grand National and Ascot (2017-20)

Newer domestic players (such as Eir) also compete. However, such players would not necessarily go head-to-head with the PSBs for the more premium events.

More serious is the competition from international broadcasters, who may bid for regional rights that include Ireland. Discovery, for example, bid €1.3bn to secure the European rights to the Olympics (2018-24). RTÉ was only able to get broadcast rights by subcontracting from Discovery.

Recently, Amazon has started to pursue sports rights, and recently bid an estimated €11m per

³⁶ TG4, *Summary of TG4's Operating Environment*, July 2017

³⁷ WARC, [UK advertising delivers strongest H1 on record](#), 31 October 2017

year to secure the ATP World Tour (tennis).³⁸ However, the SVOD players are not yet active in the market for rights specifically relevant to Ireland

3.3 Radio

3.3.1 Platform mix

Analogue broadcast is by far the most important platform for radio in Ireland - 95% of listening is via this platform. Just 4% is streamed (either to a computer or mobile device). Listening via a TV set is around 1%.³⁹

Listening via DAB is minimal. Only RTÉ broadcasts via DAB, and with population coverage of 56%, it is unavailable outside major urban areas. Only 400,000 DAB radios have been sold.⁴⁰

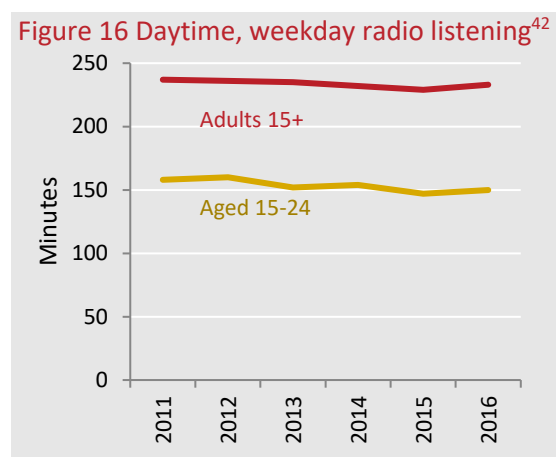
Looking ahead, streamed audio – including radio but also other kinds of content, particularly on-demand music - may grow in part due to adoption of ‘smart speaker’ services such as Amazon’s Echo. These provide (streamed) audio services with a voice-command interface.

The Echo is not yet officially available in Ireland. It was launched in the UK in September 2016, but adoption has been rapid – by the Spring of 2017 penetration had reached 9%. In the US, Gartner expects 75% of households to have such a device by 2020.⁴¹

RTÉ already offers ‘skills’ (audio apps) for the Echo. In the UK, Radioplayer offers a skill covering both commercial and BBC radio stations. (The Irish Radioplayer streaming service is based on the UK version).

3.3.2 Consumption trends

Consumption of radio in Ireland has been relatively steady. While younger audiences listen to less radio, their consumption has not seen the steep drop-off experienced in TV. Between 2011 and 2016 it fell by 5%.



3.3.3 Competition for audiences

Amongst broadcasters

By contrast to TV, the competitive landscape for broadcast radio has been relatively stable.

There has not been material consolidation in the market, though the UTV stations (rebranded Wireless Group) are now owned by News Corp. There have been some smaller acquisitions, such as Clare FM’s acquisition of a controlling stake in Tipp FM.

There have also been only limited changes in product. This is in part because commercial stations operate under Programme Policy Statements agreed with the BAI. Such statements specify format mix over the week (for example, that 20% of content should be news and current affairs), genres of music to be played and so on. This inevitably limits

³⁸ Mark Sweney, “Amazon outbids Sky to win exclusive ATP tour tennis rights”, *The Guardian*, 1 August 2017

³⁹ IPSOS MRBI, *JNLR – Sales House Report – 2017-2*, July 2017

⁴⁰ WorldDAB, *Ireland* [accessed 25 October 2017]

⁴¹ RadioCentre, *Getting Vocal*, May 2017

⁴² IPSOS MRBI

commercial broadcasters' room to manoeuvre.

RTÉ does have somewhat greater flexibility. For example, in 2015 it repositioned 2fm to have greater appeal to younger audiences (though its overall share has since declined).

From other forms of audio

Radio also continues to dominate audio consumption, representing 88% of listening. 'Own music' captures 8%, with Spotify and podcasts taking 3% and 1% respectively.⁴³ The streamed services are more likely to substitute for 'own music' listening than radio, supporting the latter's continued resilience.⁴⁴

Audio is often consumed passively – while doing something else such as driving or housework. In such circumstances, interactive services are not an attractive alternative, since they require attention. Thus, radio has been less threatened by new digital alternatives than has TV.

That said, the mix of listening via smart speakers (such as the Echo) is rather different, likely because a voice interface facilitates interaction. In the UK, radio represents just 72% of Echo audio entertainment consumption, with streamed music capturing 26%.⁴⁵ As adoption of the Echo and other smart speakers rises in Ireland, this may over time boost streamed music listening at the expense of radio.

3.3.4 Competition for adspend

Radio advertising has been in decline as the medium loses share to other media – it now stands at 11% of the advertising market. In 2016 alone it saw a 6% drop in revenues,⁴⁶ and the industry anticipates a similar drop in 2017.

Radio groups have sought to compensate by pushing their digital offerings (on their websites and social media), but the scale of these is generally limited.

For advertisers running audio campaigns, Spotify is now relevant. Though its listening share is far smaller than radio as a whole, it does have reach comparable to an individual larger radio station. Thus, it is increasingly used as a component of a campaign, particularly if the target audience is younger.

3.4 Independent production

An important element of the Irish audio-visual landscape is the independent production sector, comprising over 130 separate companies.⁴⁷

The sector receives funds from a variety of sources, including international and Irish broadcasters, Section 481 tax relief (a credit against Irish production costs), the Irish Film Board and the BAI's Sound & Vision fund. Any one production will generally draw on two or more such sources.

According to SPI (the industry trade body), trading was steady in 2016. Figures for total revenues of the independent sector are not available. However, the trend of Irish production expenditure supported by Section 481 is upwards (Figure 17). Growth has been driven by incoming commissions - Irish commissions have been broadly flat.

The credit is worth 32% of the lower of (1) 'eligible expenditure' - broadly spend on goods, services and staff in Ireland; and (2) 80% of production costs.

⁴³ IPSOS MRBI, *JNLR – Sales House Report – 2017-2*, July 2017

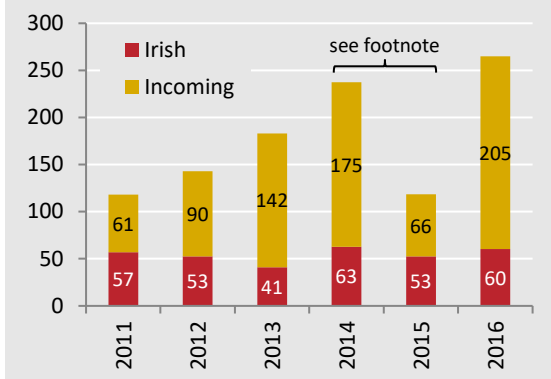
⁴⁴ Core Media, *Outlook 17*, February 2017

⁴⁵ RadioCentre, *Getting Vocal*, May 2017

⁴⁶ Core Media, *Outlook 17*, February 2017

⁴⁷ Based on the number of SPI members. This may not include all producers, as some animation companies may not be included, for example.

Figure 17 Irish production expenditure (€m) certified under Section 481⁴⁸



Note that Section 481 support is only available to certain genres – TV drama (€185m of certified expenditure in 2016), film (€35m), animation (€32m) and documentary (€13m) – so the production expenditure shown above is not a complete picture. Certified spend in these genres was €265m in 2016. Note that this spend is the amount against which Section 481 grants are calculated, rather than the level of 481 support. This total spend will include amounts funded indirectly by (for example) the PSBs.

The growth in commissions suggested by these figures is healthy, though incoming commissions may bring lesser secondary rights, and thus be less valuable to the sector than Irish commissions.

Section 481 aside, Irish sources of funding have generally been flat or in decline:⁴⁹

- Since 2012, RTÉ's spend with independent producers had been steady at approximately €40m. TG4 has spent roughly \$21m in recent years, moderately up from €18m in 2012

⁴⁸ SPI, [Annual Report 2016](#), 12 April 2017. In 2015 Section 481 support moved from an investor led model to a Corporation Tax Credit model. This transition meant that the deadline for 2014 projects was extended into 2015. As a result, some 2015 expenditure is shifted to 2014 in the reported figures

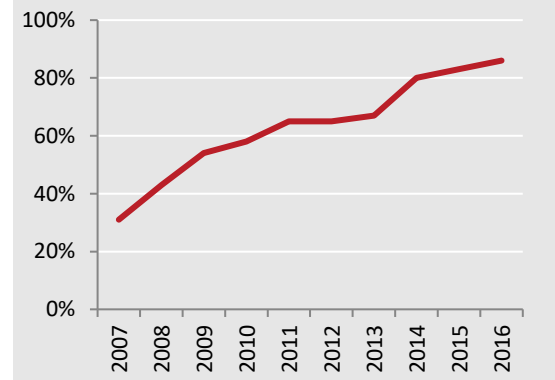
- Irish Film Board grants in 2016 were €12m, down from €13m in 2012 (and greater sums in earlier years)
- The Sound & Vision Scheme is funded at 7% of the licence fee. In 2016 awards totalled €10m

3.5 Broadband

Broadband (via fixed and mobile devices) is an increasingly important enabler for media consumption. Broadband access supports video and audio streaming, both from traditional and new providers. Mobile devices increase opportunities for consumption, both geographically (rooms in the home without a TV set or radio; out of home) and simultaneously (allowing consumption of a different service while the main TV set is already in use).

As of 2016, 86% of Irish households have broadband access (compared to the EU average of 83%).

Figure 18 Household broadband penetration in Ireland⁵⁰



Rapidly improving speeds are also increasing the proportion of broadband households that

⁴⁹ For a more detailed discussion of the figures in this section, see SPI, [Annual Report 2016](#), 12 April 2017

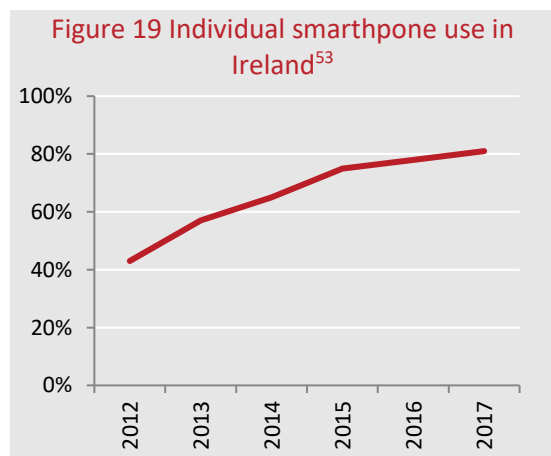
⁵⁰ ComReg, [Irish Communications Market Quarterly Key Data Report - Data as of Q2 2017](#), 14 September 2017

can reliably make use of video streaming services. In the two years to July 2017, the portion of households with broadband speeds below 10 Mbps fell from 30.2% to 19.7%.⁵¹

The National Broadband Plan and purely commercial deployments of faster broadband will further increase availability and adoption of higher speeds. By 2020, high-speed broadband will be available to over 90% of households.

Broadband speeds are unlikely to be a constraint on the use of streaming video services in the areas of the country reached by the NBP, and even in some areas beyond. The RTÉ Player, for instance, uses a maximum of 1 Mbps for its video stream.⁵²

Mobile device adoption is also increasing, and as of 2017 81% of people in Ireland use a smartphone. Of those with a smartphone, 35% report using them to watch video daily.



3.6 Social Media

Widespread, convenient internet access has supported the growth of social media. Today

64% of Irish adults have a Facebook account, and of these 71% use it daily. For Twitter, the figures are 28% and 36% respectively).⁵⁴

The time consumers spend with social media, and Facebook in particular, means it is an important route for media companies and other brands to reach audiences.

However social media also poses threats to traditional media. First, it now captures significant advertising revenues, estimated at €114m in 2016.⁵⁵ Second, when social media acts as an intermediary for consumption (for example, for news), information regarding end users (for personalization or ad targeting) is generally retained by the social media platform, rather than being available to the underlying media provider. Third, while social media can drive significant traffic to media outlets, this is very much subject to the workings of its algorithms. For instance, updates to the code which prioritises Facebook’s ‘Newsfeed’ can make a dramatic difference to referral traffic flowing to media websites. That said, social media is not yet a significant intermediary for PSB content other than news.

3.7 Conclusion

In the period of the next five-year plan, the market context will be different in several ways. Aspects that will be more challenging include:

- Slowing GDP growth and rising inflation
- A recently strengthened TV3
- Increasing threat from SVOD

⁵¹ ComReg, [Irish Communications Market Quarterly Key Data Report - Data as of Q2 2017](#), 14 September 2017

⁵² RTÉ, [RTÉ Player Help – Frequently Asked Questions](#) [accessed 22 November 2017]. A new version of the Player is pending, but we have not had indications that this will use more bandwidth

⁵³ Google, [Consumer Barometer](#) [accessed 26 October 2017]

⁵⁴ IPSOS MRBI, [Social Networking Tracker](#), August 2017

⁵⁵ IAB Ireland, [IAB PWC Online Adspend 2016 Infographic](#), April 2017

- Rising audience expectations, as global players invest more in high production value content.
- Increasing competition for audiences' attention from online services of all types.

Some issues will remain important in the next planning period, but will not represent an *increased* challenge to the PSBs, notably:

- Continuing competition for adspend from digital alternatives
- Increased costs of rights for premium content.

In some areas, the context for next period may be somewhat more benign than the last, including:

- The end of growth of opt-out channels
- The potential of targeted TV advertising.

Overall, these changes suggest a “central case” commercial context that appears to be moderately more challenging for all broadcasters than that of the previous five years. However, PSBs across Europe face particular challenges – such as engagement with younger audiences - which we turn to in the next section. Further (as we will see in section5), Irish PSBs also face specific issues, such as the deficits run by RTÉ.

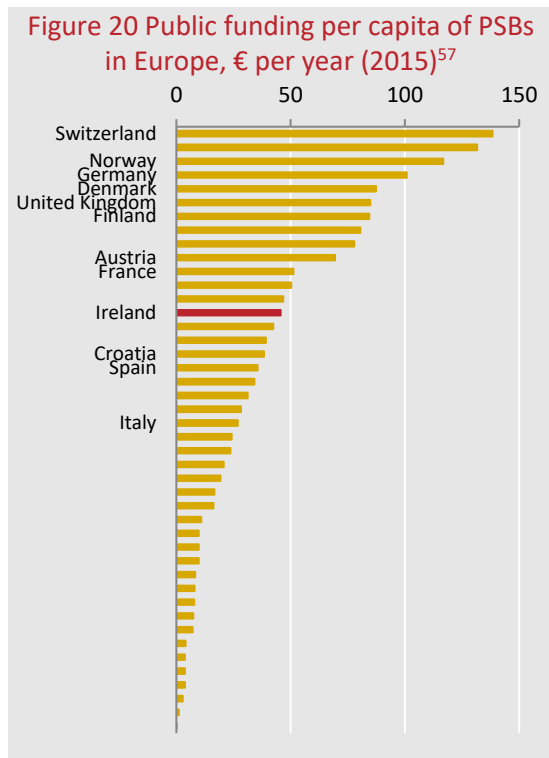
4 State of public service media in Europe

To provide context for our analysis of RTÉ and TG4, we now discuss European PSBs. We begin with a quantified perspective, drawing on European Broadcasting Union (EBU) figures. We consider funding levels and performance. We then turn to a qualitative discussion of some of the challenges and opportunities faced by PSBs.

4.1 Funding of PSBs

4.1.1 Public Funding

In 2015 per-capita public funding of PSB in Ireland was €45.60. This ranked it 14th out of the 44 countries⁵⁶ tracked by the EBU, or 10th out of the EU28. (Figure 20 – we highlight the EU5 and other markets of similar scale to Ireland).



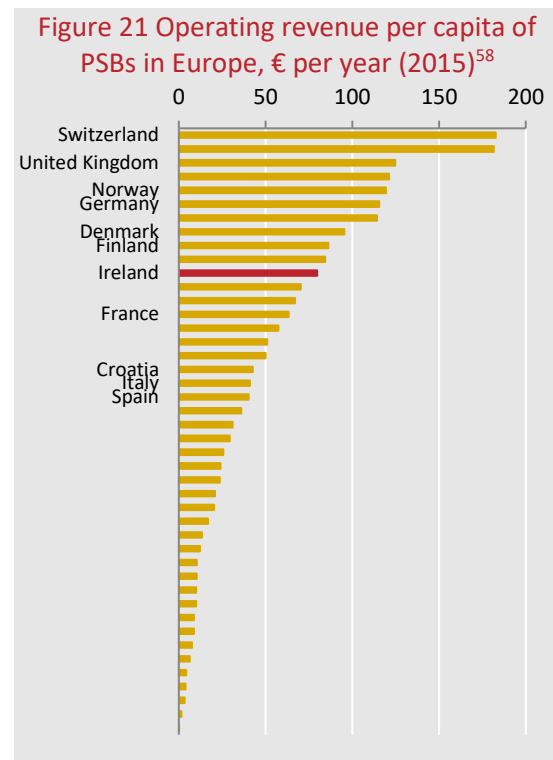
⁵⁶ In addition to the EU28, this group includes EFTA countries and others such as Turkey, Albania, Armenia, Georgia, Morocco, Moldova and the Ukraine

Public funding in Ireland is behind most EU/EFTA countries of similar size, with the exception of Croatia.

We note that the ‘long tail’ of Figure 20 includes numerous Eastern European countries, which both have a lesser tradition of PSB than Ireland, and lower GDP per capita.

4.1.2 Total funding

Because of RTÉ’s substantial commercial income, Ireland ranks higher based on total revenues per capita for PSBs – 11th out of EBU countries, and 7th out of the EU28 (Figure 21).



Looking at total revenue (rather than per capita) we can see that RTÉ ranks 22nd out of the 66 PSBs tracked by the EBU. However unsurprisingly it is far behind the lead PSBs in

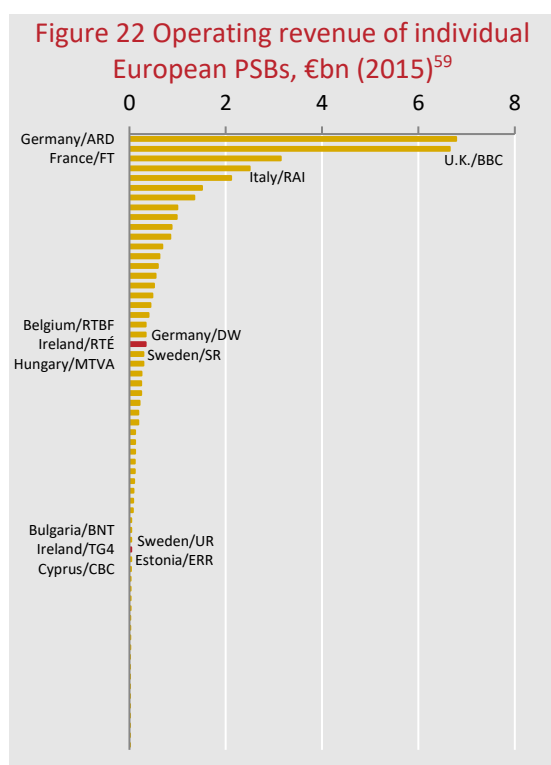
⁵⁷ EBU, *Funding of Public Service Media 2016*, December 2016

⁵⁸ EBU, *Funding of Public Service Media 2016*, December 2016

the EU5. TG4 ranks 43rd – the smaller PSBs are predominantly from Eastern Europe or the former Soviet Union.

Different PSBs also have very different scopes. For example, looking at the PSBs with similar funding to RTÉ:

- RTBF in French-speaking Belgium provides four TV channels and six radio stations
- Deutsche Welle is Germany’s equivalent of the BBC World Service, focused on news internationally
- Sveriges Radio in Sweden which (as its name suggests) only offers radio, albeit across a wide variety of stations
- MTVA in Hungary offers six TV channels and seven radio stations

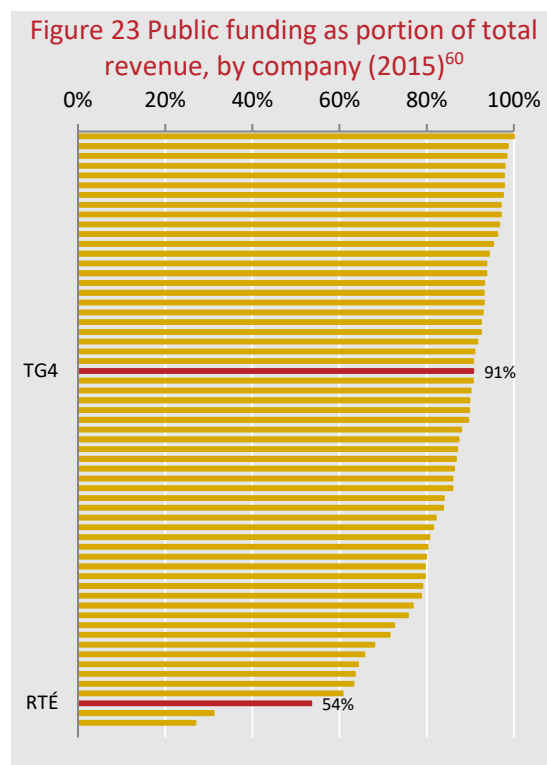


4.1.3 Mix of funding

With regard to mix of income (on a company basis), TG4 is fairly typical of PSBs tracked by

⁵⁹ EBU, *Funding of Public Service Media 2016*, December 2016

the EBU, with the great majority of its funding coming from public sources. However RTÉ is atypical, with much of its income coming from commercial revenue – just three PSBs (PBS in Malta, TVP in Poland and Channel 4 in the UK) get a smaller share of their income from public sources.



4.1.4 Levels of licence fee

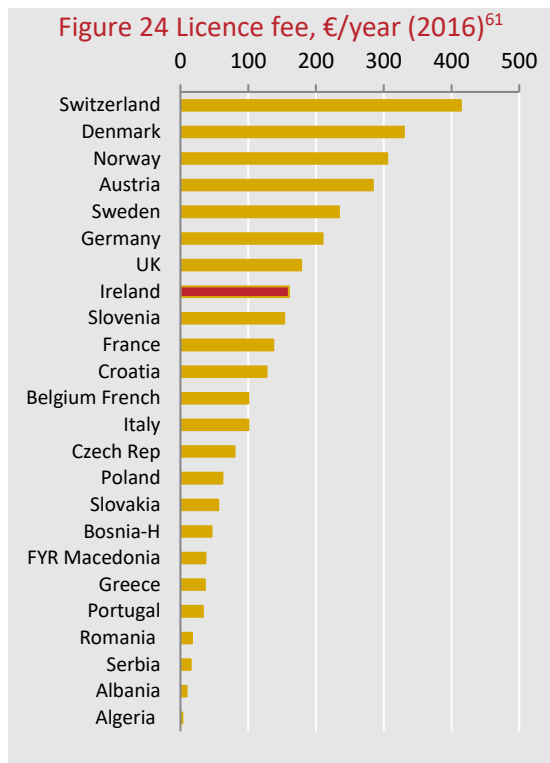
The comparatively low proportion of public funding for RTÉ is despite the fact that Ireland has a comparatively high licence fee (Figure 24). For instance, the €160 fee in Ireland compares to €137 in France and €100 in Italy. For the 17 EU countries with licence fees covered by the EBU, the average is €135. However, Scandinavian licence fees range from €230 to €330.

There are several reasons for this apparent discrepancy between the level of the Irish

⁶⁰ EBU, *Funding of Public Service Media 2016*, December 2016

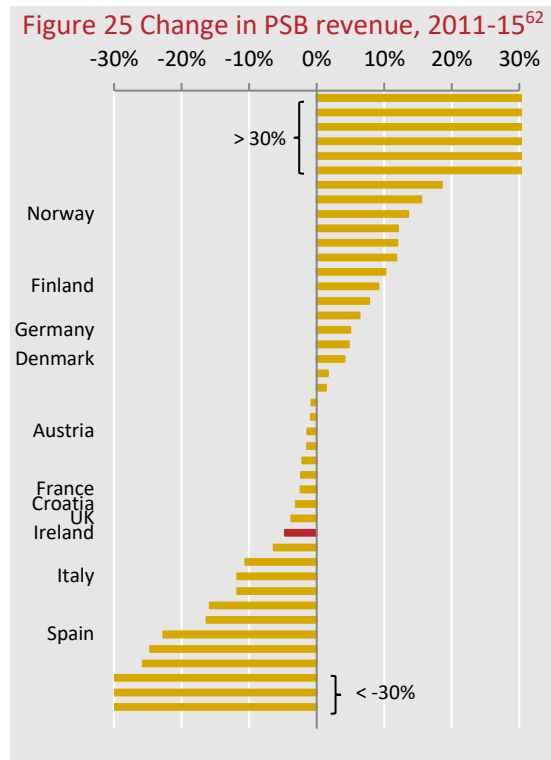
licence fee and the proportion of public funding for RTÉ, including:

- Ireland’s small size, meaning a higher effective per-household operating cost for RTÉ
- Higher licence fee evasion in Ireland
- A lower share of licence fees received allocated to RTÉ than to main PSBs in most other markets (in part due to the Sound & Vision scheme)



4.1.5 Trends in income

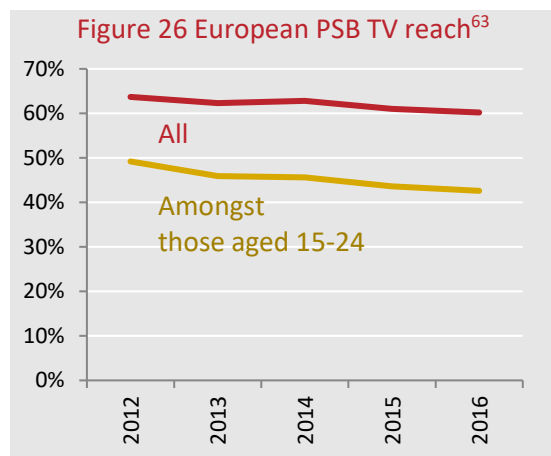
In terms of trends in income (on a local currency basis), there is quite wide variation amongst EBU countries. In the period 2011-15, Ireland ranks 31 out of 45 (Figure 25). However, it is far from alone in seeing a contraction of PSB income. Roughly half of the EBU countries have done so



4.2 Performance of European PSBs

4.2.1 TV

European public service broadcasters have seen a steady decline in viewing reach, dropping by 3.5 percentage points, 2012-16. The reach amongst younger audiences started lower and is falling faster, down 6.6 percentage points in the same period.



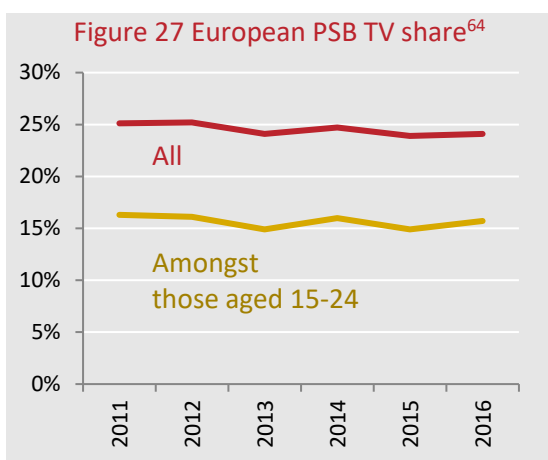
⁶¹ EBU, *Licence Fee 2017*, October 2017 [Free registration required]

⁶² EBU, *Funding of Public Service Media 2016*, December 2016. Local currency basis

⁶³ EBU, *Audience Trends Television 2017*, July 2017. Weekly 15 min consecutive reach. 41 EBU markets for total, 18 for youth

The challenge of retaining a connection with younger audiences is common to all PSBs – but it is also a problem for TV in general. TV reach (across all channels) fell by 5.7 percentage points in the same period.

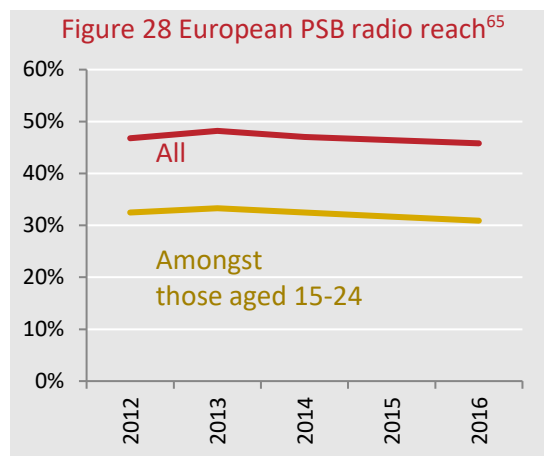
PSB viewing *share* has been more stable. Of the total market, it is down 1.0 percentage points since 2011, and of young audiences it is down 0.6 points:



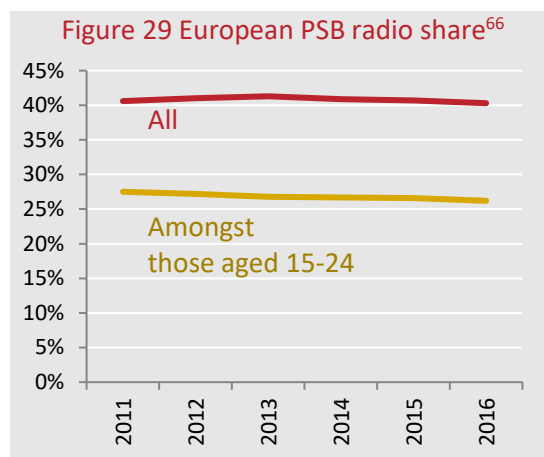
For the total market viewing is slightly up since 2011 (3:36 hours per week to 3:40), but for young audiences it is down from 2:16 to 2:00.

4.2.2 Radio

The radio market has seen less change. PSB overall reach has declined 1.0 percentage points and 0.8 amongst the young:



PSB radio market share is also little changed, down 0.4 points for both total and young audiences:



4.3 Issues facing PSBs

As we discussed in section 3.2, all broadcasters (including PSBs) are facing increased competition, for audiences, advertising spend and content.

However, PSBs are face in addition several specific challenges. These include:

⁶⁴ EBU, *Audience Trends Television 2017*, July 2017. 45 EBU markets for total, 44 for youth

⁶⁵ EBU, *Audience Trends Radio 2017*, July 2017. Weekly 15 min consecutive reach. 22 EBU markets for total, 18 for youth

⁶⁶ EBU, *Audience Trends Radio 2017*, July 2017. 29 EBU markets for total, 14 for youth

4.3.1 *Erosion of trust*

A recent Edelman survey found that trust in the media was at an all-time low in 17 out of the 28 countries it surveyed.⁶⁷ While PSBs are generally more trusted, they too have seen falls. For example, the proportion of UK consumers saying they trust BBC News journalists fell from 81% in 2003 to 58% in 2014.⁶⁸

A loss of trust is particularly problematic for PSBs, in part because news is such an important component of their public service offering. Further, their value lies in part in being seen as authoritative and accurate.

4.3.2 *Challenges to multi-genre channels*

PSBs' historic strength has been in multi-genre channels, but the market is increasingly shifting to more specialised channels (history, nature, sports and so on). UTV Ireland and Channel 5 in the UK show the difficulties in developing well-performing generalist channels.

Some PSBs have responded to this challenge by developing portfolios of more targeted channels, such as France 4 aimed at youth audiences.

4.3.3 *Challenges to universality and hence licence fees*

The availability of more – and more specialised - channels has led to audience fragmentation. This challenges licence-fee funded PSBs. A charge imposed on everyone effectively requires a service for everyone, but some segments of the audience may today simply feel there are better options than the PSB.

This can leave PSBs in the situation of superserving some audiences (often the elderly) but losing a connection with others (as evidenced in the viewing of younger audiences).

In turn, this may result in a growing constituency who resent a licence fee requirement. To prevent this, PSBs may feel they cannot retreat from any segment, no matter how competitive.

4.3.4 *Challenges to national channels*

Increasingly AV content is developed to serve many international markets. A Disney or Discovery will expect to recover the cost of its content in multiple markets, through carriage of their channels on pay platforms globally. Netflix now has a direct route to audiences on a near global basis.

By contrast, PSBs are inherently national. Part of their purpose is to speak specifically to their own market. But this inevitably deprives them of economies of scale available to other broadcasters.

4.3.5 *A more dynamic environment*

The TV market has become increasingly dynamic. Barriers to entry have been removed, thanks to reduced licence requirements, removal of technical constraints on capacity, lower transmission costs, online delivery and so on. The pace of change has also accelerated as technology becomes a more important aspect of the market.

A dynamic market challenges all players, but particularly those who are less flexible. PSBs often are (unavoidably) in this category, since they may:

⁶⁷ Edelman, *Edelman Trust Barometer*, 17 January 2017. Evidence regarding Ireland specifically is mixed. Edelman found it ranked second lowest for trust, while the Reuters Institute survey found it to be above

average. Reuters Institute, *Digital News Report 2017*, June 2017

⁶⁸ YouGov, *Trust Tracker*, 5 December 2016

- Have statutory obligations to provide certain services
- Have ‘soft’ obligations (e.g. expectations regarding regional production)
- Require regulatory approval for service changes
- Face political or audience push-back in response to service changes
- Need to pursue universality to protect the licence fee (as noted)
- Be unable to reduce or redeploy staff as quickly as a commercial player.

4.3.6 *Advantages of PSBs*

While PSBs do face multiple challenges, they also have some significant advantages. They have well known (and often much loved) brands. In a crowded market, this is an important advantage.

Public funding is also an important source of stability in a market where commercial revenues may be volatile. This can give PSBs flexibility to experiment and innovate in content when commercial players might be more cautious.

4.4 Conclusion

4.4.1 *The European situation*

In most European countries, the importance of PSB is still recognised against a backdrop of global AV companies and powerful digital platforms – if anything, the potential role of PSBs in providing trustworthy news from a local perspective, and supporting local culture and creativity is often seen to be more vital than ever.

However, this is not to minimise the challenges faced.

All PSBs face the challenge of making the case for continued public funding against the backdrop of competitive challenge and

declining shares – they have to show they can continue to make an impact and justify public support.

Across the board, they are seeking to protect linear broadcasting (which is still their main source of consumption) while moving into digital markets, but not always with clear strategies for what they aim to achieve and how best to do it.

Mixed funded PSBs face particular tensions arising from the need to offer popular programming to win audiences and ad revenues, while retaining enough distinctiveness to justify PSB status (and comply with EU rules on State Aid, accountability and so on).

There is no obvious preferred or consistent “PSB” strategy across Europe and elsewhere to address the challenges identified – some PSBs are retreating to their core “public interest” output, others remain convinced they need to offer something for everyone. Some are expanding their service portfolios, others are cutting back to marshal resources more effectively. Some see a faster move to digital, on-demand services, others believe linear broadcasting has a long life left. Some are opting out of expensive bidding wars (e.g. for sports rights) others see the need to remain the national broadcaster of major sporting events.

4.4.2 *Irish PSB in the European context*

These are all choices facing the Irish PSBs – who also face some specific challenges of their own.

While PSB in Ireland is relatively well funded on a per-capita basis, in absolute terms funding of RTÉ and TG4 lags behind the larger European markets and also similar-sized countries in northern Europe.. Further, some of the other PSBs with similar funding have

appreciably narrower scope than RTÉ, which is a 'full service' broadcaster.

While there is enormous variation in the change of funding of PSBs across Europe, Ireland has seen a bigger drop than most (in part due to the decline in ad revenues, on which Irish PSB is unusually dependent).

All PSBs face challenges in the increasingly dynamic broadcasting environment, and this is feeding through to diminished viewing share across Europe. Some of these challenges are more acute in Ireland. We have noted the problems of being a 'spill-over market' for the UK for content and advertising, for example.

5 Performance of Irish PSBs

In this section, we consider the performance of the PSBs over the period of the previous five-year plan. We review their:

- Financial performance
- Audience performance (in terms of levels of consumption, audience mix and audience perceptions)
- Strategic developments

Where the PSBs made relevant forecasts in their respective previous five-year plans, we compare actual performance to those forecasts.

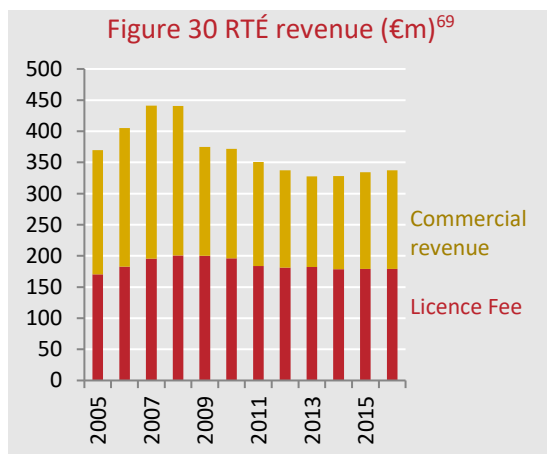
5.1 Financial performance

For each PSB we first look at the changes over the last five years, before taking a more detailed look at current revenues and spend.

5.1.1 RTÉ (Last five years)

Revenues

In the period 2013-16, RTÉ saw a moderate recovery in its revenues, from €328m to €337m (Figure 30). This was driven entirely by advertising growth.



However relative to the 2007 peak of €441m, RTÉ's revenue is down 26% in real terms.

⁶⁹ RTÉ Annual Reports

⁷⁰ RTÉ Annual Reports, RTÉ 2013-2017 plan

(Conversely, 2016 revenues were *above* those of 2002 in real terms, though RTÉ's service portfolio has expanded since then).

RTÉ's revenues have also been well below those anticipated in its prior five-year plan:

Figure 31 RTÉ revenue vs plan (€m)⁷⁰

[✂]

The gap between plan and reality grew from €[✂]m in 2013 to €[✂]m in 2016. Initially the gap was entirely due to commercial revenues. The plan anticipated €[✂]m growth in advertising in 2013, but, in reality, revenues were down €11m that year. Licence fee revenues were [✂] in 2013.

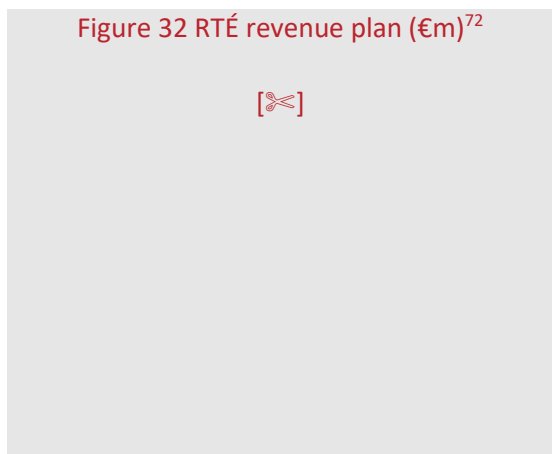
However, by 2016 commercial revenues were [✂], compared to a [✂] shortfall in licence fee income. RTÉ had assumed [✂]. It had also anticipated improved collection efficiency and reduced evasion. None of these came to pass. Indeed, on the contrary, in the National Budget 2014 RTÉ saw its public funding reduced by €5m.

In this context, the annual funding reviews of the PSBs have recommended increases in public funding for RTÉ,⁷¹ though these recommendations have not been taken up.

⁷¹ Most recently in Indecon, [Public Funding Review of Public Service Broadcasters](#), September 2016

Over 2013-16, the total revenue shortfall was €[redacted], or [redacted]% of planned revenues. Of this, €[redacted] or [redacted] percentage points was related to commercial revenues, and [redacted] due to the licence fee.

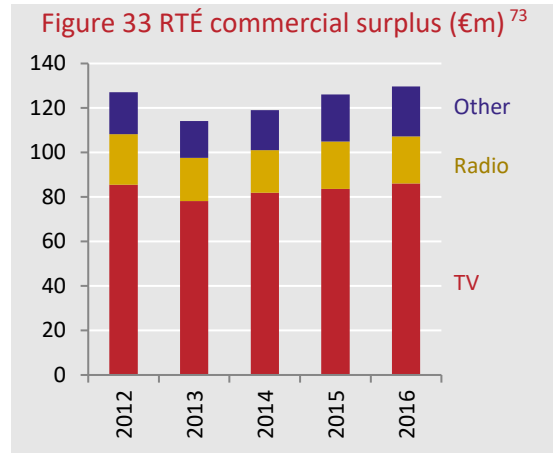
RTÉ’s prior five-year plan also included, as a scenario, “No increase in Public Funding & Decline in Commercial Revenue”, the worst case it presented. In reality total 2013-16 revenues were €[redacted] below even this case, largely because [redacted].



RTÉ said of this worst case that it “would require a fundamental re-evaluation of RTÉ’s statutory remit and public purpose”. This has not happened, and the service cuts anticipated in this scenario were not made. One consequence is that RTÉ has tipped into a material deficit, as we discuss below.

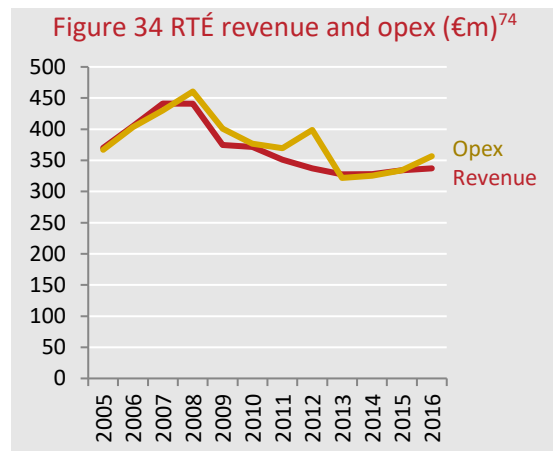
Commercial surplus

RTÉ’s commercial surplus dipped in 2013, but since then it has grown across the three main service groups. TV and radio have been growing at 3% per year since 2013, and ‘other’ at 10%.



Operating costs

RTÉ has managed down its operating expenditure from a 2008 peak (Figure 34). This has included staff reductions (from 2,351 in 2008 to 1,984 in 2016), salary cuts and reductions in rates paid to third parties (for instance, independent producers and rights holders).



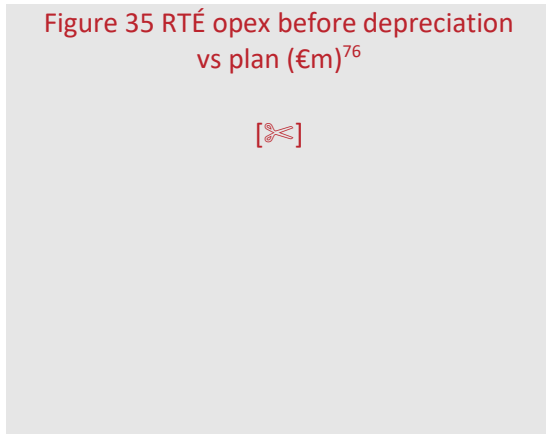
Over the shorter term, the picture is more complex. RTÉ undertook a significant restructuring in 2012. This came with a one-off cost of €46m, but reduced ongoing opex from €369m in 2011 to €321m in 2013 (and staff from 2,093 to 1,856). However, since 2013 operating costs have been rising, and stood at €357m in 2016 (with staff of 1,984).

⁷² RTÉ Annual Reports, RTÉ 2013-2017 plan

⁷³ RTÉ Annual Reports

⁷⁴ RTÉ Annual Reports; opex includes depreciation

Compared to the previous plan, RTÉ's opex before depreciation⁷⁵ was initially slightly below plan, but the recent increases mean that 2016 costs were above both those in the previous plan's Worst and Base cases. (As we have seen, 2016 revenues were just above the Worst case).



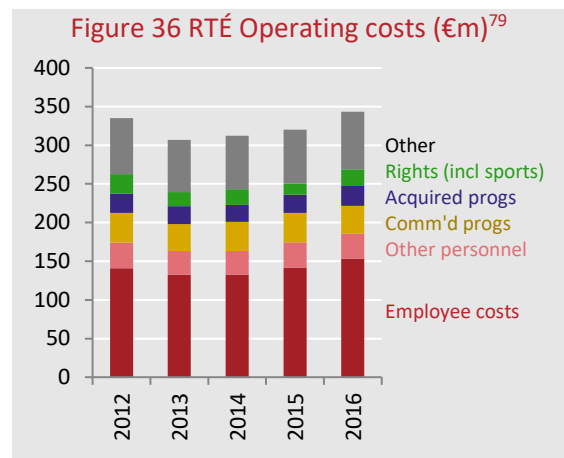
According to RTÉ's current strategic plan:

“RTÉ had already made many content commitments for 2016, such as sports rights for the Olympics and European Soccer as well as significant production undertakings for the 1916 Centenary. These commitments were made in the context of RTÉ's reasonable expectation of some improvement in public funding levels, through the promised reform proposals [such as a Public Broadcasting Charge].”⁷⁷

Cost mix

A key driver of RTÉ's recent opex growth has been increasing employee costs, which rose from €133m in 2013 to €153m in 2016. This was both as a result of increased numbers (1,834 vs 1,715) and increased cost per

employee (€83,600 vs €77,400).⁷⁸ Increased numbers have been due (in part) to investment in digital capabilities.



Spend on commissioned programmes (the largest single category after personnel costs) has been close to the statutory minimum of €40m. Acquired programming spend fell in the years up to 2014, but has since risen appreciably and is back at 2011 levels.

Sports and other rights costs are variable by year, depending on sporting events. In general, spend is higher in even years. As we have discussed, competition for sports rights has been increasing. However, RTÉ has been containing its spend in this area, in part by letting certain events go.

Profit

As we have seen, operating expenses have tended to outstrip revenues. Consequently, RTÉ has only made an operating profit in three out of the last ten years (Figure 37).⁸⁰ Over this period, RTÉ has made cumulative losses of €130m, of which €11m relate to 2013-16.

⁷⁵ Note that opex including depreciation is not shown in the previous plan

⁷⁶ RTÉ Annual Reports, RTÉ 2013-2017 plan

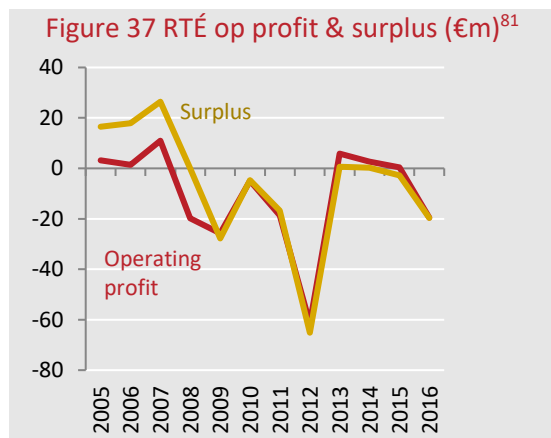
⁷⁷ RTÉ, RTÉ Strategy 2018-2022, October 2017

⁷⁸ RTÉ annual reports. Employees are average FTE by year. Cost is Employee cost divided by average FTEs

⁷⁹ RTÉ annual reports. Excludes depreciation

⁸⁰ Note that this excludes 2015, when RTÉ made a nominal operating profit of €379,000

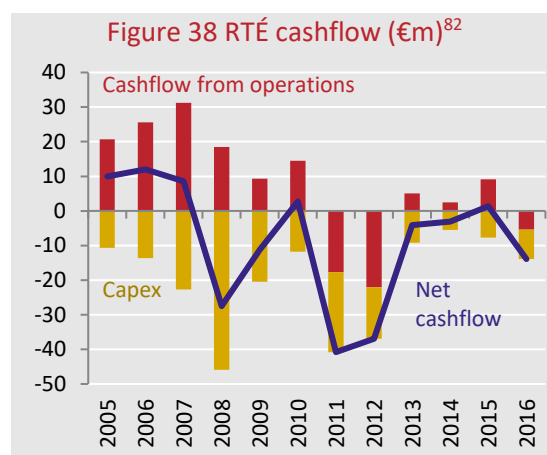
2012 was a particularly poor year in financial terms, due to the €46m charge for restructuring costs. In 2016 a €20m loss was in part due to the costs of the Olympics and the 1916 centenary.



Immediately prior to 2008, RTÉ's annual surpluses (reflecting net finance charges and tax in addition to operating profit) were appreciably stronger than operating profit, in part because RTÉ's pension scheme was running a surplus. However, this position has now reversed.

Cashflow

This poorer performance at the contribution level has fed through to poorer cashflow from operations. RTÉ has responded by reducing capital expenditure, which has been in the range of €6-9m since 2013 – less than half the average of the previous four years.



At just 55% of depreciation, this level of capex is below the replacement rate. (By contrast, PSBs generally have roughly equal capex and depreciation).⁸³ As a consequence, RTÉ's asset base is shrinking. Property, plant and equipment stood at €70m at end 2016, down from €99m at the end of 2012. This may suggest an aging of assets and underinvestment in new technology. (That said, modern production technology is less expensive than previous generations).

Despite reduced capex, RTÉ's net cashflow has been negative, and the company's net debt grew from €16m at end 2012 to €40m at end 2016.⁸⁴

Conclusion

The above figures do not suggest that RTÉ was in good financial health in the period of the last five-year plan. While the picture was better than in the aftermath of the 2008 crisis or in 2012 (when the last restructuring took place), nonetheless RTÉ had not reached equilibrium. Growing operating costs contributed to appreciable aggregate losses, and (notwithstanding a capex holiday) negative cashflow.

⁸¹ RTÉ Annual Reports

⁸² RTÉ Annual Reports

⁸³ NewERA, *Review of RTÉ for the Department of Communications, Energy and Natural Resources*, 15

May 2014

⁸⁴ RTÉ Annual Reports. Net debt = Interest-bearing loans and borrowings (current and non-current) less liquid investments and cash & cash equivalents

RTÉ's recent performance also needs to be seen in the context of the economic environment. In the period 2014-16 the Irish economy was relatively robust, which – all else being equal – might have been expected to support strong advertising revenues. The absence of surpluses in these years is thus concerning, since such surpluses may be required to balance losses in leaner economic environments.

5.1.2 RTÉ (Current financials)

We now turn to a more detailed review of RTÉ's 2016 financials.

Sources of funding

RTÉ's funding (as of 2016) is as follows:

Figure 39 RTÉ funding & spend, 2016 (€m)⁸⁵

Commercial contribution	
TV	86.1
Radio	21.2
Other	22.4
Total (net of consolidation adj)	129.3
Licence revenue	179.1
Total income	308.4
Cost of Public Service activities	327.8
Pre-tax deficit	-19.4

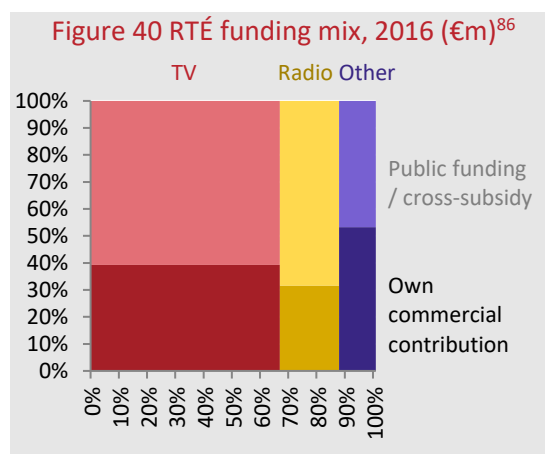
Of RTÉ's funding, 58% comes from the licence fee, 28% from TV commercial revenue (net of sales costs), and 7% each from radio commercial revenue and other commercial activities.

Mix of funding and spend

RTÉ spent €328m on its public service activities in 2016. Two-thirds of this (€215m) related to television, one fifth (€67m) to radio, and the remainder was mainly spent on

orchestras (€16m), online (€12m) and TG4 support (€8m).

Across each of TV, radio and 'other', between one third and one half of the spend comes from the commercial contribution of the service in question. However, each group relies on substantial licence fee funding (supplemented by a small €13m cross-subsidy from purely commercial services).

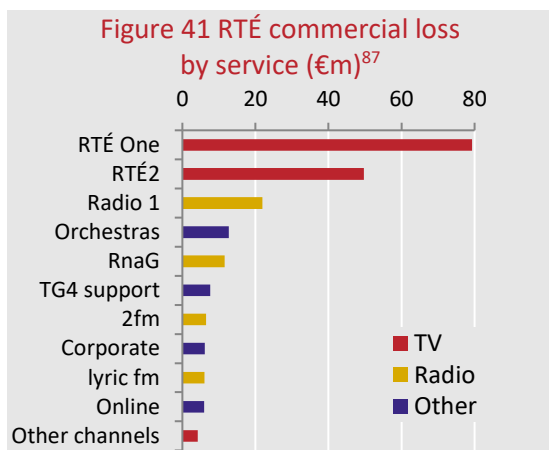


Note that within each of these broad categories there are individual services which make no commercial return and therefore are entirely funded by the licence fee (or cross subsidy from purely commercial services, such as the *RTÉ Guide*). Examples include RTÉjr, RnaG and TG4 support.

Figure 41 shows the commercial loss (total costs less any commercial contribution) by service. This represents the additional funding that is required for that service, primarily by allocation of the licence fee, but also by cross subsidy:

⁸⁵ RTÉ Annual Report 2016

⁸⁶ RTÉ Annual Report 2016



While the main TV channels generate substantial commercial revenue, they nonetheless each also require significant financial support. The commercial loss on RTÉ One is as great as that associated with all non-TV services combined.

Run rate losses

We now turn to an estimate of RTÉ’s ‘run rate’ loss.

As we have seen, RTÉ made a €19m loss in 2016. In part, this was due to special events, which cost €16m to cover. However, these events brought extra viewing, which in turn brought extra revenue, so the profit impact may have been less than €16m. Further, special events are regular – the Olympics, the World Cup and elections all recur, for example.

Thus, it seems reasonable to assume (for illustration purposes) that the net impact of events in 2016 was a loss of €12m, and in a average year it would be €6m. This implies that the run rate loss, adjusted for special events, is €13m.

We also need to adjust for the recent underspend on capex. We assume that bringing capex up to a sustainable level would require an increment of €7m per year.⁸⁸

Subsequent to 2016, there have been two further changes likely to impact RTÉ’s run rate. First, there has been an erosion of TV advertising, in part due to Brexit. We allow €4m for this. Second, RTÉ has undertaken a voluntary exit programme (VEP). Based on a mid-point of the range of savings expected, we allow for a €[redacted]m benefit of this.⁸⁹

After these various adjustments, we conservatively put RTÉ’s run-rate loss at €[redacted]m, *after* the benefit of the VEP.

Figure 42 RTÉ estimated Run rate loss (€m)⁹⁰

2016 loss	-19
Special events	
Add back: SE cost in 2016	12
Deduct: Annualised SE cost	-6
Deduct capex underspend	-7
Adjusted 2016 loss	-20
Post 2016 changes	
TV ad revenue reduction	-4
Restructuring benefit	[redacted]
Estimated run rate loss	[redacted]

RTÉ have also suggested to us that staff have forgone pay increases for some time, and that great pressure was put on independent producers to keep costs down to ‘play their part’ in managing down RTÉ’s cost base. In RTÉ’s view, these costs must ‘spring back’ at

⁸⁷ RTÉ Annual Report 2016

⁸⁸ Strictly this will not directly impact the deficit, since it is capex not opex. However, in cash terms it will require immediate funding

⁸⁹ In addition to the VEP, RTÉ is also planning service changes and content cuts to save a further €9m, but we set these aside for analysis of RTÉ’s run-rate position

⁹⁰ RTÉ Annual Report 2016

some point. However, we have not made allowance for these factors.

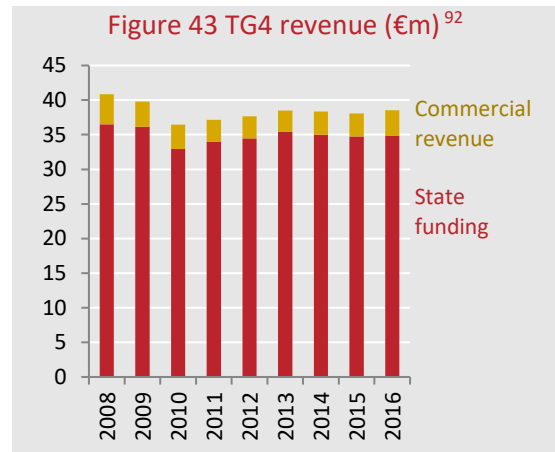
5.1.3 TG4

By contrast to RTÉ, TG4’s income has been rather more stable. This is in part because it is much less dependent on commercial revenues, and because its state funding is less volatile than RTÉ’s licence fee income. Its publisher-broadcaster model (making heavy use of independent production rather than in-house production capability) also gives it more control over costs.

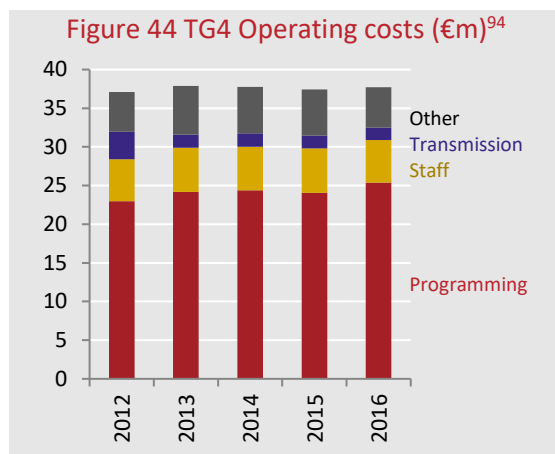
In addition to its cash funding, TG4 also receives a contribution in kind from RTÉ, in the form of programming made by RTÉ for broadcast by TG4. In 2016 RTÉ states that it spent €7.7m on such programming.

Between 2012 and 2016, TG4 saw a moderate (nominal) increase in cash funding, from €37.1 to €37.7m. This was almost entirely due to a €0.4m increase in state funding.

Nonetheless, as with RTÉ, successive annual funding reviews recommended further funding increases, which (up to 2017) were not implemented.⁹¹



TG4’s cost position is primarily driven by programming costs. At €25.4m, they represent two thirds of TG4’s total. (Of this, over 80% is for commissioned programmes, with the remainder for acquisitions and dubbing.) The next largest cost is staff, at €5.5m.⁹³



In developing its previous 5-year plan, TG4 offered forecasts and strategies for three cases, which can be described as ‘Original Strategy Requirement’, ‘Current funding plus extra to maintain competitiveness’ and ‘Current Funding’. Actual revenue was closest to the last of these three:

⁹¹ Aside from a one-off grant of €900,000 for Centenary programming in 2016

⁹² TG4 Annual Reports. State funding includes amortisation of capital grants

⁹³ Including board costs

⁹⁴ TG4 annual reports. Excludes depreciation

Figure 45 TG4 revenue vs plan (€m)⁹⁵

[redacted]

Over the five years to 2017, actual funding is expected to be €[redacted] ahead of the 'Current Funding' case, in part due to a special programming grant of €900,000 in 2016.

TG4's costs have been closely aligned with income – since 2009 its pre-tax result has ranged from a surplus of €31,000 to a deficit of €82,000.

The company's cash position has also been stable, increasing from €124,000 to €272,000 from 2012 to 2016. TG4 carries no debt.

TG4's capex has been in the rough range of €1-2m in recent years. This is lower than depreciation, and the company's fixed assets have fallen from €11m to €7m. This appears to be a result of the ongoing depreciation of a substantial one-off investment in each of HD and Digital Asset Management, circa 2011.

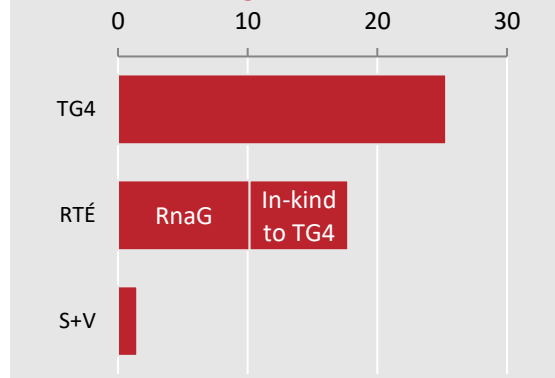
Thus, the financial picture of TG4 is both simpler and healthier than that of RTÉ.

5.1.4 Funding for Irish language content

Before leaving the financials of the PSBs, we believe it also useful to take a holistic view of total funds allocated to Irish language content, since these are diffuse. In addition to the direct funding of TG4, there is also an in-kind

contribution from RTÉ, RnaG (funded by RTÉ) and Sound and Vision grants:

Figure 46 Irish language content funding (€m), 2016⁹⁶



In aggregate, these total €45m, of which funds spent by TG4 contribute €25m. (The above excludes Irish language content within RTÉ's own television channels, and Section 481 funding, for which figures are not available). Thus while TG4 is clearly important, it is not dominant in the production of Irish language content.

5.2 Audience performance

We now turn to the performance of the Irish PSBs, in terms of audience consumption and perception.

5.2.1 TV consumption

Share

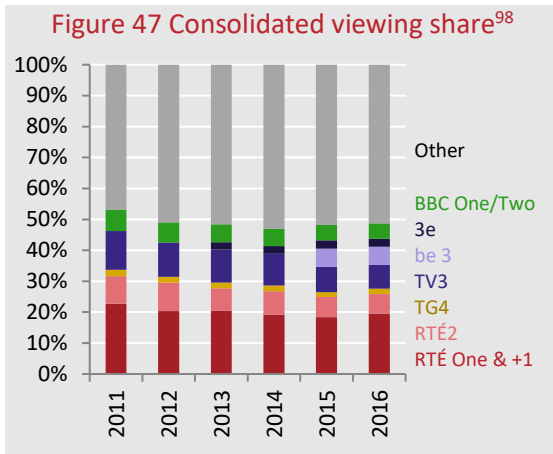
Between 2011 and 2016, RTÉ's viewing share (across RTÉ One and its +1 and RTÉ2) fell from 31.7% to 25.8%. The previous five year plan anticipated [redacted], though this was against a higher funding assumption.

In the same period, TG4's share fell from 2.0% to 1.8%. (This loss of share is within a total TV

⁹⁵ TG4, *Statement of Strategy 2018-22*, October 2017

⁹⁶ PSB accounts, SPI Annual Report 2016 (Sound and Vision funding included if for the benefit of TG4)

market which is itself contracting, as we have seen⁹⁷).



This aggregate drop of approximately 6 percentage points for PSB TV in Ireland is considerably higher than the European average, which was approximately 1 percentage point.⁹⁹ In the UK, the BBC lost 1.0 percentage points of viewing share, 2011-16.¹⁰⁰

The loss of Irish PSB viewing has primarily been driven by the growth of the ‘other’ category – predominantly international channels available on platforms other than Saorview and Saorsat. These channels have gained 6 percentage points of share. The TV3 portfolio has gained 2 percentage points, primarily due to the addition of be3 (formerly UTV Ireland, launched in 2015).

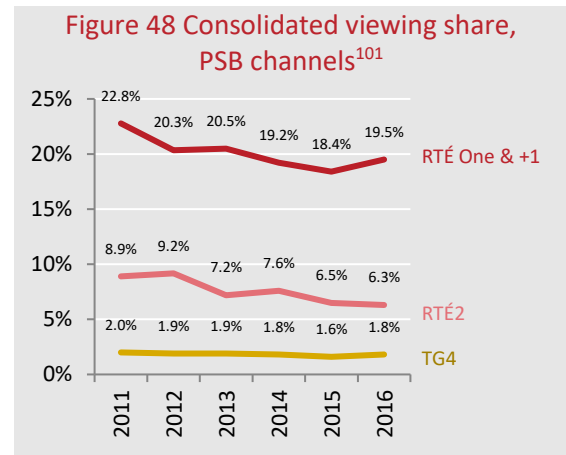
A contributing factor to the PSBs’ share loss in this period may have been digital switchover (which completed in August 2012). As households moved away from analogue TV, they were generally faced with a far wider choice of channels, and consequently they

⁹⁷ See page 9

⁹⁸ TAM Ireland, Individuals 4+

⁹⁹ European fall is for period 2011-2015. See 4.2.1

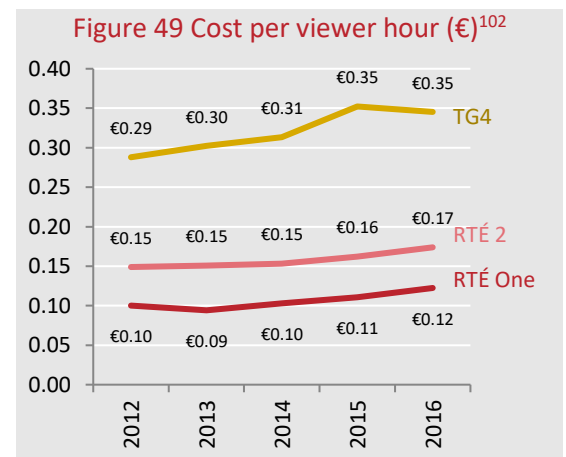
¹⁰⁰ BARB, *Trends in Television Viewing*, March 2017



reduced their RTÉ and TG4 viewing. However, RTÉ 2’s resilience in 2012 suggests that this was perhaps not a major factor. Share losses have continued since 2012, albeit with an uptick in 2016 (likely due to the Olympics and Centenary coverage).

Cost per viewer hour (CPVH)

One consequence of the PSBs’ declining share, even as they have held spend on programming broadly flat, is that CPVH has grown, particularly for RTÉ One. Just between 2013 and 2016, RTÉ One’s cost per viewer hour has increased by 25%.



¹⁰¹ TAM Ireland, Individuals 4+

¹⁰² Communications Chambers analysis of data from TAM Ireland, RTÉ and TG4 annual reports. TG4 cost includes value of in-kind support from RTÉ

(TG4’s CPVH is appreciably higher than RTÉ’s, but this is to be expected given its narrower target market and smaller scale).

Thus, RTÉ and TG4 are becoming less efficient at converting programming spend into audiences. Note that this does not necessarily mean that they are becoming less efficient in an operational sense – the increase in CPVH could be due to rights cost inflation, increasing competition for audiences, or other factors beyond RTÉ’s control.

For comparison, we estimate TV3’s CPVH at €0.07, lower than the PSB channels. However, TV3 carries lighter obligations and can choose to broadcast more lower cost content. It can also target easier-to-reach audiences, whereas RTÉ must aim for universality.

Reach

The PSB channels have also seen falls in reach:

Figure 50 Weekly reach of PSB channels¹⁰³

	2012	2016
RTÉ One	79.5%	72.6%
RTÉ Two	72.4%	61.4%
TG4	41.7%	35.0%

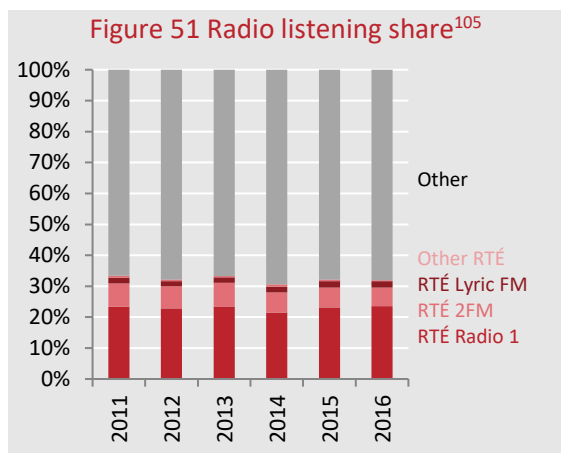
The reach decline has been particularly sharp for RTÉ Two, which has seen the largest proportionate share loss in this period

While TG4 has seen an appreciable loss of national reach, its reach amongst Irish language audiences has been far more resilient, standing at 92% in 2016.¹⁰⁴

5.2.2 Radio consumption

RTÉ has seen a 1.5 percentage point loss of listening share, 2011-16. It now captures 31.9%. This is roughly in line with RTÉ’s expectations in its previous five year plan. The

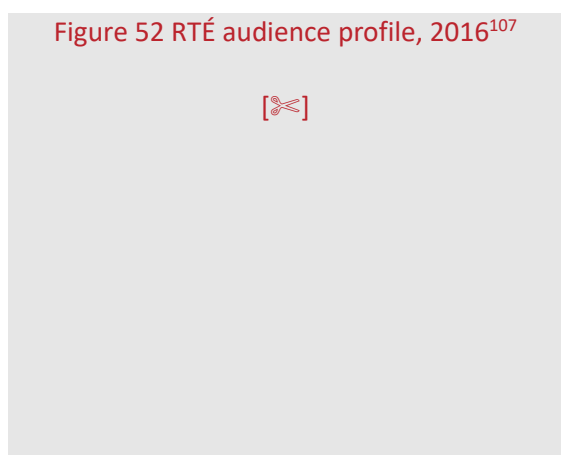
decline is due to the contraction of RTÉ 2FM, which saw its share drop from 7.5% to 6.0%.



RTÉ’s share of radio listening amongst those aged 15-34 is – at 17.4% in 2016 - roughly half that of its overall share.¹⁰⁶

5.2.3 Audience profile

Figure 52 shows the age profile of the audience of different RTÉ services. The majority of RTÉ’s services have a significantly higher proportion of older users than the population as a whole. The flagship services, RTÉ One and Radio 1, are particularly skewed. Even RTÉ 2 under-indexes for young audiences, notwithstanding a 2014 re-focus and re-branding to appeal more to this age group.



¹⁰³ TAM Ireland, Individuals 4+

¹⁰⁴ TG4 Annual Report 2016

¹⁰⁵ IPSOS MRBI. Share of national listening, weekdays

7am-7pm, Adults 15+

¹⁰⁶ Ipsos MRBI, *JNLR – Sales House Report – 2016-4*, February 2017

¹⁰⁷ RTÉ, *Strategy 2018-2022*, from various audience measurement systems

In part this is simply because younger audiences consume less TV. Conversely, older audiences are less active online, and all RTÉ's internet services (RTÉ Player, RTE.ie and the News Now app) over-index for young audiences. The RTÉ service with the youngest skew is 2fm, which adopted a schedule overhaul in 2014 to better engage with those aged 25-34.¹⁰⁸

However, these services generally have lighter usage compared to the main broadcast services, and thus overall this suggests that RTÉ's relationship with those aged 15-34 is an area of weakness.

This is a critical audience to engage, not least because their current consumption may be shaping habits for a lifetime. That said, it is a diminishing part of the population. In 2016 those aged 15-34 represented 25% of those in TV households, down from 29% in 2012.¹⁰⁹

5.2.4 Audience perception

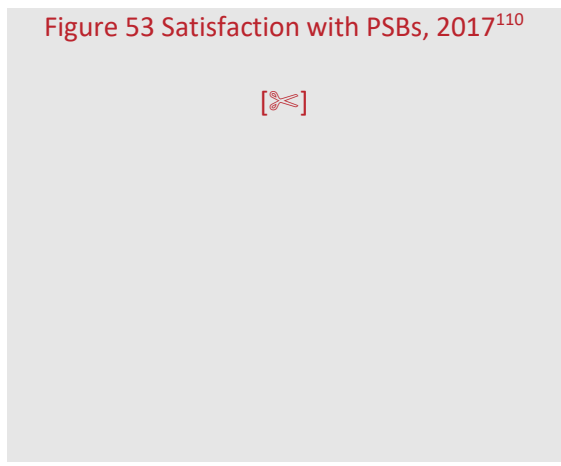
In this section, we consider attitudes of Irish citizens to the PSBs, based on quantitative consumer research undertaken by B&A on behalf of the BAI.

Satisfaction

Satisfaction with the PSBs is broadly favourable. For RTÉ in 2017, [x] % give a satisfaction score of 7 out of 10 or higher. For TG4, the figure is [x]%. Of course, RTÉ's budget is substantially higher, and all else being equal, this might be expected to result in higher satisfaction.

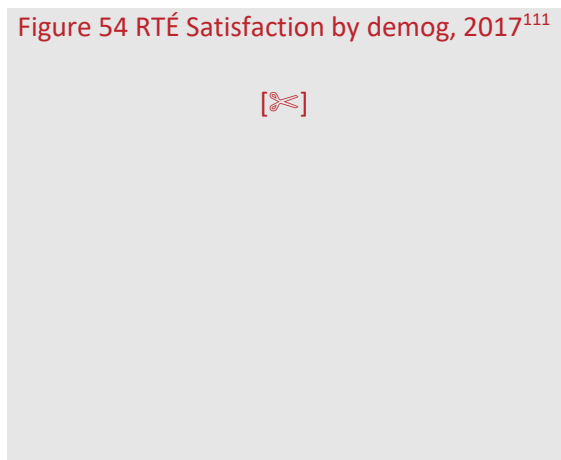
These represent increases from a year prior (when the figures were [x] % and [x] % respectively). But they nonetheless suggest significant minorities who are unsatisfied.

Figure 53 Satisfaction with PSBs, 2017¹¹⁰



For RTÉ satisfaction is broadly consistent across demographics, though it performs less well with those aged 25-34, and better with those aged 65+:

Figure 54 RTÉ Satisfaction by demog, 2017¹¹¹



The demographic differences are starker for TG4, which scores much higher with older audiences. On the other hand, of those aged 24 and below, [x] give it a satisfaction score of 7 or higher.

¹⁰⁸ RTÉ, *Annual Report 2014*

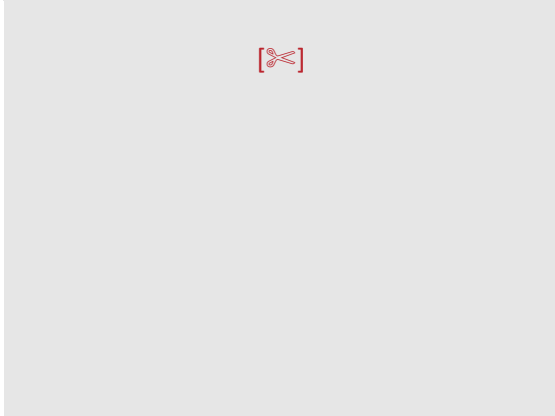
¹⁰⁹ Nielsen TAM Establishment Surveys. Figures for share of total population were broadly similar

¹¹⁰ B&A (for BAI), *Audience Tracking Research - An island of Ireland Survey*, May 2017. Figures rebased to exclude 'Don't Knows'

¹¹¹ B&A (for BAI), *Audience Tracking Research - An island of Ireland Survey*, May 2017. Figures rebased to exclude 'Don't Knows'

While satisfaction scores for TG4 are somewhat higher amongst Irish speakers than amongst the general population, the difference is not stark. (Even amongst Irish speakers, satisfaction is slightly higher for RTÉ than TG4).

Figure 55 TG4 Satisfaction by demog, 2017¹¹²

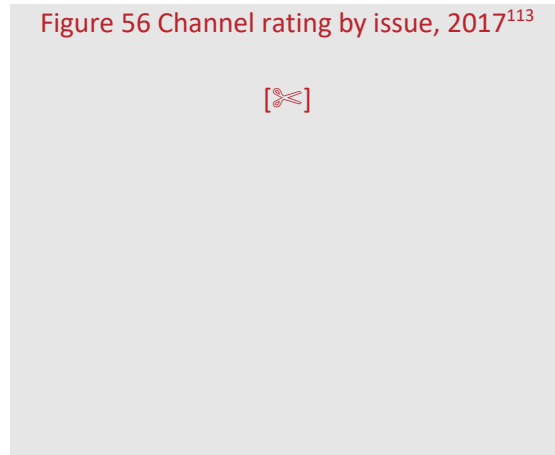


Distinctiveness

Figure 56 shows consumers' views of the PSBs' performance on various dimensions (compared to TV3 for reference). This is based on the aggregation of a set of more detailed questions. For example, 'Diversity/alt views' is based on the average of the responses to two questions: "Its programmes give me a sense of the different cultures within the island" and "Its programmes give me a sense of the different viewpoints within Ireland today".

The results show that RTÉ is seen as clearly distinct. It is [] percentage points ahead on all aggregate measures except 'Engagement' and 'Innovative/creative'.

Figure 56 Channel rating by issue, 2017¹¹³



TG4 is less obviously distinct, other than for 'Reflects Irish culture'. [].

Value for money

The BAI survey also asked respondents if they agreed (for each broadcaster) "I don't think they should be supported by funding from the TV licence fee".

For RTÉ []% agreed with this, and for TG4 []% did so. [].

5.3 Strategic developments

We now turn to a brief discussion of developments in the PSBs' services and platforms delivered during the period of the previous plan.

5.3.1 RTÉ

RTÉ used the last five-year plan to set out a new vision and strategy, which included:

- High quality and distinctive content across a range of genres and accessible across multiple platforms
- A range of content initiatives, including a new approach to investigative journalism, new factual and entertainment programming

¹¹² B&A (for BAI), *Audience Tracking Research - An island of Ireland Survey*, May 2017. Figures rebased to exclude 'Don't Knows'

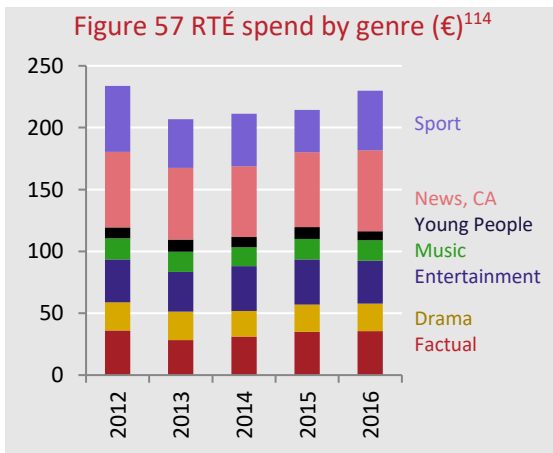
¹¹³ B&A (for BAI), *Audience Tracking Research - An island of Ireland Survey*, May 2017. Figures rebased to exclude 'Don't Knows'

aimed at younger people, increased investment in Irish landmark drama, and investment in new digital distribution, including on demand etc.

For this, it said it would need an increase in public funding, and at the same time would be restructuring to improve cost efficiencies and fund new capital investments.

Assessing the then five-year plan, the consultants said that this was a coherent strategy, but observed that RTÉ might be underestimating the challenges. They concluded that more public funding would be needed if RTÉ were to successfully realise its new strategy, especially the digital element. They also noted that only modest changes were proposed in the funding mix across genres and services, notwithstanding the significant content aspirations set out.

As we have seen, no increase in public funding was forthcoming, and commercial revenues were initially lower than anticipated. RTÉ constrained its investment in content as a result – between 2012 and 2016, spend on indigenous programming fell from €234m to €230m. The latter year included an uplift for the Centenary – the intervening years saw lower spend.



¹¹⁴ RTÉ, Annual Reports – Indigenous programming

However, RTÉ went ahead with a number of other elements of its stated strategy. Since 2012 it has:

- Launched the RTÉjr children’s channel, and an HD version of RTÉ One
- Launched the GAAGO international on-demand service for Gaelic games
- Launched the RTÉ Player International, to make Irish programming available on-demand globally
- Repositioned both RTÉ2 and 2FM to appeal more to younger audiences
- Marked the 1916 Centenary
- Redesigned RTÉ.ie and the News Now mobile app.

This has created the challenging financial situation described above. It also has meant that RTÉ has missed 20% of its annual commitments in the period 2013-16, primarily in the areas of audience and content targets.¹¹⁵

5.3.2 TG4

In its last plan, TG4 set out an ambitious supply-led strategy which involved a significant increase in original content on its TV channel, and various digital initiatives alongside its linear broadcasting. The five-year plans called for a substantial increase in public funding to realise this ambition.

The consultants at the time, however, questioned whether this proposed increase offered clear value for money in terms of the extra audiences it would deliver, and suggested that the opportunities offered by new digital platforms might be explored as an alternative approach. TG4 was subsequently asked to prepare a revised strategy based on existing funding plus a smaller increase, but

¹¹⁵ Annual funding reviews

ultimately it was not granted any immediate funding increase.

As a result, TG4 was forced to scale back its ambitions for increasing original broadcast content, and has seen its audience reach and share slip further. More recently it has been able to invest more in original programming on the back of special funding for the Centenary.

Since 2013 TG4 has also:

- Converted to HD transmission (on most platforms)
- Redeveloped its website
- Expanded its archive services
- Expanded its range of Irish language apps.

5.4 Conclusion

Both PSBs put forward ambitious plans in the previous five-year reviews, based on material

increases in public funding. However, they took different approaches once funding was not forthcoming.

Both broadcasters have continued to offer much attractive content to consumers, but in RTE's case in particular, this has been at a cost. TG4, with its publisher-broadcaster model, is perhaps better able to respond quickly to adverse circumstances.

Looking to the next five years, both PSBs need to take a realistic view of funding and build strategies on this basis. Moreover, the importance of flexibility is only going to increase. The environment faced by PSBs (and other broadcasters) is growing more fluid and uncertain, making it essential that they can rapidly respond to new challenges.

6 Summary of PSBs' plans

The BAI invited the broadcasters to prepare strategic plans for the next five years, in order that our assessment of the adequacy of their funding was based on a realistic view of their planned response to strategic challenges and opportunities. This approach was also taken in the previous five-year review. This section describes the plans received by the BAI. Following sections provide our qualitative and financial assessments of the plans.

6.1 Our approach

The PSBs were asked to provide costed five-year plans addressing two scenarios: a 'preferred' strategy, based on a 'realistic' expectation of the outlook for public funding; and a 'flat-cash' strategy, based on no increase in public funding over the period. The intention was not to provide two choices for decision, but to illustrate the range of possibilities arising from different funding scenarios, and the potential impact of maintaining current levels of funding.

With the broadcasters' input, we developed a template to support the development of their plans. We suggested the plans include a detailed analysis of market and other challenges, and the implications for competition, audience reach and share, commercial and public income, and costs. We proposed they should set out how they intended to deliver their strategic objectives in their preferred scenario, in terms of each service, content genre and target audience, and to explain the rationale for proposed changes to their portfolios, including any specific new initiatives. We also suggested they set out proposals for content production (including the mix of in-house and externally commissioned programming); for distribution (including the mix of broadcast and on-

demand distribution and plans for different platforms); and organisational and property strategies (including plans to secure further operational efficiencies). We advised that the plans should set out funding expectations, both with respect to public and commercial revenue, including any plans to increase commercial income, as well as cost implications. Finally, we suggested that the plans should set out the key targets the PSBs intended to set themselves, in sufficient detail (in terms of service remit or description, programme spend and mix, public service contribution, audience objectives and revenue targets) for the BAI to monitor performance at a service level over the five-year period.

We also indicated that a further set of detailed financial projections would be needed to consider the 'flat-cash' scenario, and that this should spell out the changes in strategy that this would require, and the implications for target outcomes.

Plans were provided to us by both broadcasters in October 2017; we requested further information in several areas which was provided in November 2017.

We held a number of meetings with both broadcasters during the development of the plans and provided feedback on work-in-progress that they shared with us. Although our assessment is based primarily on the plans as provided, the meetings were helpful in clarifying the context for the plans and we have also drawn on those discussions and the material provided for them in preparing this report.

We next provide an overview of the broadcasters' plans as provided, before turning to our assessment.

6.2 RTÉ

6.2.1 Overview

RTÉ's plan seeks to position RTÉ for what it calls a "third phase" for national public service media, underpinned by two "key assumptions": organisational reform (already underway in RTÉ) and public funding reform.

It proposes that RTÉ should become a "fully integrated multi-media organisation," sustaining RTÉ's position at the heart of Irish cultural life and the national conversation, while innovating for younger audiences. It seeks to ensure that RTÉ maintains its commitment to high quality indigenous content, partners with the wider creative sector, and supports Irish communities.

This broad ambition is encapsulated in a new vision for RTÉ: "to champion Irish culture by captivating audiences with trusted, engaging and challenging content, celebrating our country's rich diversity, and cultivating Ireland's talent." This is accompanied by a refreshed mission: "to enrich Irish life with content that challenges, educates and entertains."

RTÉ believes it starts from a strong position, as one of the most trusted organisations in Ireland, with high audience reach, the most watched and most listened-to services in Ireland, and online and mobile services used by almost half Irish adults each week. But its plan recognises it faces significant challenges.

6.2.2 Challenges

RTÉ's plan describes a number of challenges facing Irish broadcasters in general: shifting consumer behaviour, especially amongst younger audiences, towards online and mobile services; increased competition for audiences, content and rights; the growth of digital advertising, which coupled with Brexit creates significant uncertainty in the Irish

advertising market; global platforms' growing share of advertising and increasingly significant role in content discovery, news and entertainment; and excess inventory in radio advertising.

The plan also identifies challenges more specific to RTÉ, including its skew to older audiences. RTÉ previously shared with us the findings of its internal content review, which raised questions about the reliable supply of affordable, high quality content from the independent sector and in-house, rights and format costs, a perception that its schedules and content were too serious or 'heavy', and a need for experimentation, new faces and greater on-air diversity.

The plan also highlights the 'shortfall' in funding relative to RTÉ's expectations in the previous review, which resulted in less investment in digital services, innovation, technology and new content than it wished.

6.2.3 Responses: organisation, content, services and distribution

Organisation

In response to these challenges, RTÉ has initiated a major organisational restructure ('One RTÉ') intended to put a focus on audience needs at "the heart of our decision making", and to promote collaboration, flexibility, creativity and innovation.

The restructure was first announced in March 2017. It created nine top-level divisions, with the central changes being:

- Creation of an integrated Audiences, Channels and Marketing division, with responsibility for content investment prioritisation, and service/channel development, scheduling, marketing and distribution;

- Establishment of a Content division to deliver programming and content across all media and services (except News and Current Affairs, which remains a separate division); and
- Integration of operations and production services into a single Operations division.

RTÉ explained to us that bringing channels, marketing and audiences together is intended to enable a more audience-led approach to service and channel strategy. In the previous structure this was the responsibility of integrated business divisions (IBDs) which combined commissioning and production.

Content strategy

This new structure is tasked, in RTÉ's preferred funding scenario, with delivering a "two-pronged" content strategy.

First, RTÉ's plan envisages increased spending on high quality Irish programming and content on all platforms (although the largest increase is in online services). There is a particular focus on 'key content pillars' including news and current affairs, drama and comedy, sport, entertainment, arts and culture, factual programmes, children and young people's programming. RTÉ conducted a substantial review of output by genre to support the plan and its plan includes detailed genre investment proposals, including greater volume of and investment in Irish drama, greater diversity and risk in arts and culture content, more varied and innovative entertainment output and innovative factual output that is lighter in tone while still addressing important social issues. Commitments to coverage of special events

and Irish language content will continue and be strengthened.

Second, RTÉ's plan proposes to strengthen its online services, including becoming 'digital first' in news and current affairs, creating more digital-only content and targeting a younger audience. A central element of this 'prong' is the investment of €[redacted]m pa (by 2021) in a Digital Lab online production unit, working across genres and content formats, including long-form digital series, video shorts, podcasts, 360° video, augmented reality (AR) and virtual reality (VR), and bringing in Irish 'digital-native' talent.

These proposals affect the balance of RTÉ's spending across genres and platforms. RTÉ has provided detailed analysis to us showing that spend in online services is planned to increase from [redacted]% of total content costs in 2017 to [redacted]% by 2021 (Figure 58). Spend on RTÉ One, although expected to increase in absolute terms, will fall as a proportion of total content costs from [redacted]% to [redacted]% over this period; spend on RTÉ Two is expected to fall in both absolute terms and proportionally (from [redacted]% of content spend to [redacted]%).¹¹⁶

In radio, trends are similar – spend on Radio 1 will [redacted], while spend on 2fm will [redacted]. Radio's share of content spend will [redacted].

¹¹⁶ In these data, the whole of a programme's cost counts against the service on which it is first broadcast. Shifts in the balance of spend may partly reflect more

online premieres rather than cheaper broadcast programmes

Figure 58 RTÉ originated programme spend forecast by service (€m)¹¹⁷

[REDACTED]

By genre, the main beneficiaries of increased spending on content are [REDACTED].

Figure 59 RTÉ originated programme spend forecast by genre (€m)¹¹⁸

[REDACTED]

The plan does not envisage substantial changes in RTÉ’s service line-up, but proposes to [REDACTED].

Irish language content

The existing main categories of Irish language spend – TG4 support and RTÉ Raidió na Gaeltachta (RnaG) – see a total of [REDACTED]% growth in spend over the period, compared to [REDACTED]% for the other, primarily English language services.

The plan states that “RTÉ will become the home of innovation in Irish-language media,

and create a dynamic environment for Irish-language content creation.” It floats the possibility of [REDACTED].

Distribution

Distribution plans include working with connected TV platforms to enhance the user experience and findability of RTÉ’s services as platform interfaces evolve; the launch of Saorview Connect in late 2017; experimentation with social and distributed media as ways to access news and promote other forms of content; and continued focus on FM as RTÉ’s main radio platform, plus podcasts and streaming.

6.2.4 Strategic enablers

Delivery of these content and service plans will be supported by internal reforms and investment including:

- An audience engagement strategy including [REDACTED]
- An audience experience (AX) strategy, comprising [REDACTED]
- Measures to enhance innovation and creativity, including [REDACTED];
- Greater investment in externally commissioned content (RTÉ plans to spend [REDACTED]% of proposed increases in public funding with the independent production sector);
- Investment in new technology for digital production and distribution, including [REDACTED];
- A new people strategy, including initiatives to increase staff involvement, build a One RTÉ culture, attract new talent and make RTÉ a leader in diversity and inclusion; and

¹¹⁷ RTÉ, excludes other programme costs (lyric FM, RnaG, TG4 support)

¹¹⁸ RTÉ, excludes TG4 support

- A range of other initiatives including [REDACTED].

6.2.5 Funding RTÉ's 'preferred strategy'

As we noted in section 5.1.1, RTÉ's income fell below its expectations in the previous five-year period, due initially to declines in commercial income, and later to anticipated changes in public funding not being realised.

RTÉ argues this resulted in a 'cumulative shortfall' in income of €[REDACTED]m compared to its base case in its previous 5-year plan, resulting in it delaying investments in online technology and capital refresh, and running at a deficit.

RTÉ's preferred strategy aims to make good this shortfall and secure further increases to support investment. In total, it seeks total revenue increases from a budgeted €[REDACTED]m in 2017 to €[REDACTED]m in 2022 (Figure 60).

Figure 60 RTÉ preferred strategy revenue and cost forecast (€m)¹¹⁹



RTÉ expects commercial funding to grow slowly over the five-year period, from budgeted €[REDACTED]m in 2017 to €[REDACTED]m by 2022. While it plans to seek carriage fee income from TV platforms if regulation is changed to allow it, it has not assumed this is achieved in its forecasts.

Consequently, it focuses on improved public funding as a means to growth, identifying three main opportunities:

- Full reversal of cuts made under the National Recovery Plan post the 2008 financial crisis, delivering €[REDACTED]m pa benefit from year one of the new plan;
- Reform of the TV licence system, including moving to a 'media charge' rather than one tied to TV ownership, and exploiting opportunities to cut evasion and reduce collection costs. RTÉ believes this could generate €[REDACTED]m pa in increased licence income, of which it anticipates receiving [REDACTED]%, or about €[REDACTED]m, by 2021; and
- Linking the level of the licence fee to the Consumer Prices Index.

Taken together RTÉ believes this could increase its total public income from €[REDACTED]m to €[REDACTED]m in 2022.

These increases are used, in RTÉ's plan, both to repair its existing deficit position (and cover the costs of debt), and to fund investment in improved services and new or refreshed technology (Figure 61). Investment ramps up to €[REDACTED]m per annum by 2022; cumulative spend on new content and services is €[REDACTED]m, [REDACTED]% of its total spend over that period (€[REDACTED]m).

¹¹⁹ RTÉ. Costs include operating costs, pensions, tax, interest, depreciation and amortisation, asset disposals

Figure 61 Flow of funds in RTÉ's preferred scenario (€m)¹²⁰

[REDACTED]

Over the five-year period, planned efficiencies arise mainly from the reorganisation already announced. RTÉ has launched a Voluntary Exit Programme (VEP) which is expected to result in between 200-300 staff leaving the organisation, or 17% of the staff base. RTÉ hopes this will result in annual savings of €[REDACTED]m. (For comparison, between 2011 and 2013, RTÉ lost 220 staff and reduced employee costs by €20m).

RTÉ aims to maintain output despite this headcount reduction, in part through a reorganisation and changes to work practices, which it believes will bring greater efficiency.

Redundancies will be funded with proceeds of the sale of the Donnybrook site which will raise €107.5m. The proceeds will be also be used to pay down debt, and for technology and digital investment. Through reduced interest and operating costs, these too will provide ongoing savings. RTÉ also expects savings from greater use of partnerships.

However, RTÉ argues that having already reduced costs by 30% between 2008-13, scope for further efficiencies is limited, and notes that the 2014 NewERA report reached the same conclusion. (However, we note that NewERA's analysis was based primarily on

2012 data. As such it may have diminishing relevance as a guide to RTÉ's efficiency in 2018.)

RTÉ's plan also indicates that it will review future options for [REDACTED], the orchestras and [REDACTED], releasing some further savings.

In summary, and looking at the five-year period as a whole relative to the 2017 position, RTÉ's financial plan has three main elements:

- Efficiencies through restructuring, saving €[REDACTED]m over the period, which broadly covers the impact of inflation in ongoing costs (€[REDACTED]m)
- Increases in funding (€[REDACTED]m public, €[REDACTED]m commercial), which enable €[REDACTED]m spend on new initiatives, €[REDACTED]m to be allocated to special events costs, and fund deficit reduction and additional costs of €[REDACTED]m
- Use of the proceeds of sale of part of the Donnybrook site for restructuring costs, technology and infrastructure investment, and debt reduction.

6.2.6 Targets and governance

Supplementary material provided to us for this review included RTÉ's expectations of the impact of its preferred strategy on audience share and reach.

Broadly, these involve reversing the declines in overall reach RTÉ has experienced in recent years. This is achieved by [REDACTED]. Amongst older audiences, [REDACTED].

With respect to share of consumption, RTÉ plans to [REDACTED].

¹²⁰ RTÉ

In other areas, RTÉ has not provided detailed targets at this stage, but its plan includes a wide range of indicators, covering:

- Content metrics (output measures)
- Culture metrics (attitudes and participation)
- Diversity indicators
- Talent indicators (spend on external commissions, coproduction and partnership funding, new faces)
- ‘Enabler’ indicators (efficiencies, commercial revenue, operational and delivery indicators)
- Accountability indicators.

These will be tracked through a balanced scorecard and continuous assessment.

6.2.7 Risks and sensitivity analysis

RTÉ has not provided detailed risk analysis at this stage, but has shared details of its risk management approach, which it intends to evolve in line with best practice. It has an established strategic risk monitoring process and plans a further workshop with its Board to identify risks to its plan in the fourth quarter of 2017.

It analysed the sensitivity of its plans to shortfalls in commercial income and efficiencies (sensitivity to public funding expectations is addressed by the flat-cash scenario, see below). A 5% decline in commercial revenue, followed by growth on-plan, coupled with below-plan efficiency savings would result in [REDACTED].

6.2.8 The flat-cash scenario for RTÉ

RTÉ’s analysis suggests that a flat-cash public funding scenario would result in a cumulative gap of €[REDACTED]m in its funding plans over the period. This would be funded by [REDACTED]. This scenario involves RTÉ continuing to run at a

small deficit, which would increase in years with special event costs.

RTÉ has not provided details of how the additional spending cuts would be achieved, but has indicated that they might impact areas including contraction in regional activities, sport content, external commissioning, Irish language support, orchestras, special events, archives, genres including drama, arts, education and religion, and ‘specialist services’. [REDACTED].

RTÉ states this would likely require compulsory redundancies, and changes to legislation, as it would impact its ability to fulfil its statutory remit in some areas.

6.3 TG4

6.3.1 Overview

Not unlike RTÉ, TG4 sees itself at a crossroads, facing significant challenges but with an opportunity to restore its impact and reach, which have declined significantly over the past five years, as we saw in section 5.2.1.

At the heart of its five-year plan is a ‘twin-pole’ strategy, which seeks to address the needs of both a national audience with an interest in Irish language and culture, and the core daily Irish speaking audience. TG4’s preferred strategy aims to bolster its role in promoting the Irish language, sustaining the Irish independent production sector, nurturing new Irish speaking talent, and delivering regional economic benefit.

Its plan has three “pillars”: growth (in audiences, in the independent production sector, in commercial capability and in skills); partnership (in content and distribution); and “solidarity” (improving the offer to the core Irish speaking audience and supporting cultural diversity).

Like RTÉ, it has developed a new vision: “TG4’s brand will be synonymous with strong, creative Irish language content. Our content will be available in the home, on the go and in cinemas, both in Ireland and worldwide, through direct and syndicated provision. Through this, we will ensure universal access and the normalisation of the Irish language in the daily lives of Irish people.”

And a revised mission: “We deliver entertaining and innovative media services that celebrate Irish language creativity and connect with audiences at home and worldwide. Through partnership with the Irish language audio-visual sector, we enable the creation of world-class content and support economic growth in Ireland.”

6.3.2 Challenges

TG4’s plan identifies two core challenges:

- Global competition, driving increased content choice, costs and a growing ‘discoverability’ challenge, and posing a risk that TG4 is ‘personalised out’ of a predominantly English language media market; and
- Funding, needed to deliver better programmes and a more diverse portfolio to respond to the competitive threat, and to deliver increasing technical requirements in content creation, distribution and data. It highlights the threat of a recession to commercial revenue.

Like RTÉ, TG4 emphasises declines in TV viewing amongst younger audiences. It also highlights a decline in the number of daily Irish speakers, and falls in the population of Gaeltacht areas. On the other hand, it states that attitudes to the language are becoming more positive, and points to the 560,000 people who speak Irish daily in the education system.

The plan acknowledges declines in reach and share over the decade from 2007, which it says arise from these challenges. It also acknowledges that satisfaction of the core Irish audience with its offer “could be stronger”, and that it lacks sufficient content in some genres, such as children’s programmes and entertainment.

The plan sees improvement in TG4’s digital performance, with programme hours streamed on its player increasing by [x] % in 2016, and unique visitors to its website up [x] %.

6.3.3 Responses: content, production, distribution and skills

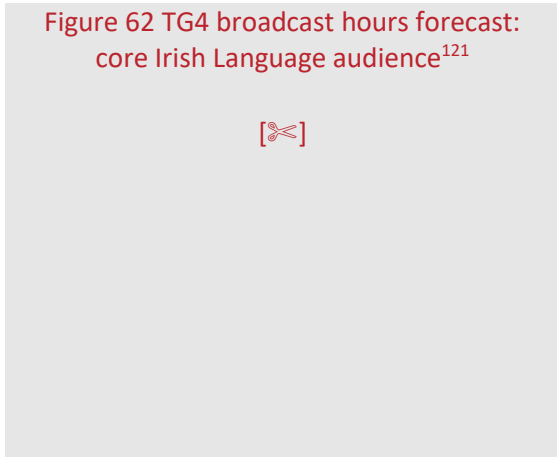
TG4’s plan proposes eight overarching goals supported by 25 specific initiatives.

Its starting point is a shift from a production-led strategy (targeting six hours per day of new Irish language programmes), to an audience-led strategy, targeting “twin poles”:

- A core audience of habitual Irish speakers, who are heavy or frequent viewers of TG4, want a high quality multi-genre service, and particularly value its news and drama; and
- A national audience, comprising non-Irish and non-habitual Irish speakers, who come to TG4 primarily for music, sport and factual content.

TG4 argues that this twin-pole approach underpins its mission, which includes a statutory responsibility to cater for the expectations of those with an interest in Irish as well as habitual Irish speakers. Its plan seeks to retain the core Irish language audience, and increase its satisfaction, while at the same time growing reach and share with the wider national audience.

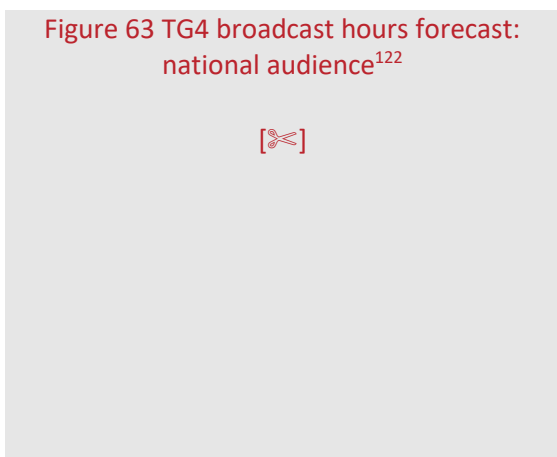
For the core Irish language audience, TG4 plans a refreshed schedule and programming strategy, with a focus on [redacted]. The biggest area of growth is in [redacted] (Figure 62).



In addition, TG4 proposes [redacted].

Total spend on content for the core audience increases by €[redacted]m over the five years. The proportion of public funding spent on Irish language content [redacted].

For the national audience, TG4 seeks to grow national audience share and reach with [redacted]. Spend increases on national content by a little over €[redacted]m per annum. Again, [redacted].



To reach the younger national audience (under 35s), the plan envisages [redacted].

TG4 also proposes measures to support on-screen diversity and reflect the changing nature of Irish society, with examples given of its coverage of women’s and youth sports, arts programming and Gaelic games.

TG4’s preferred scenario envisages [redacted].

As a publisher-broadcaster, TG4 is dependent on the external production sector to deliver this content strategy. To support the “development and internationalisation” of the sector, it proposes to [redacted]; these are intended to help its partners achieve the necessary scale, infrastructure and talent to compete internationally.

It also proposes to [redacted]. It has agreed a collaboration with the BAI and Irish Film Board (IFB), Cine4, to build drama and film skills through co-produced films distributed to cinemas and broadcast on TG4.

To promote the development of Irish language production talent, TG4 plans to partner with training boards, both to identify and give experience to new talent, and to support development of current industry talent, including running training programmes with Screen Training Ireland and other training partners.

TG4 plans further development of the distribution of its services, with a ‘TG4 Everywhere’ vision. [redacted]. TG4 has a long-standing goal to launch an HD version on Saorview, [redacted].

In total, the plan represents a significant shift in focus and resource, requiring new organisational structures and skills. TG4 plans

¹²¹ TG4

¹²² TG4, includes produced, versioned and licensed hours

to embed a new structure based on two integrated multidisciplinary teams: Programme Commissioning and Acquisition (responsible for all long-form content procurement), and Marketing & Short-form/non-linear content.

It does not intend significant changes in headcount, [§]. It says it will work to encourage creativity and innovation, cross-functional teams and knowledge sharing, and develop new skills including content curation, digital marketing, developer skills, user experience design and analytics.

6.3.4 Funding TG4's preferred strategy

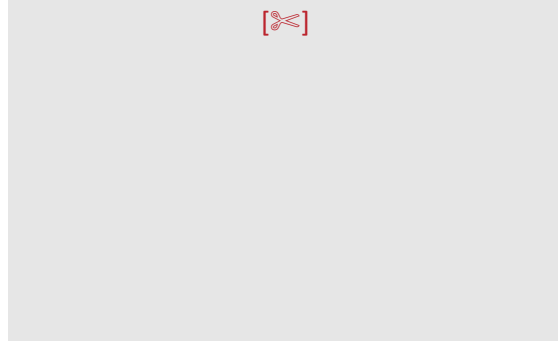
TG4 saw a moderate nominal increase in funding from 2012-16, from €37.1m to €37.7m (see section 5.1.3).

However, TG4's plan outlines a number of impacts that have weakened its financial position over the longer term. Its annual funding was cut by €3m between 2008-11, and by a further €0.5m in 2015. Since 2009 it has incurred a non-recoverable VAT liability of €1.5m and new regulatory levies of €0.5m. Advertising and sponsorship income fell after 2008, although it has grown new sources of income subsequently.

TG4 assesses the net impact to be a 20% reduction in funds available for services over the past decade, afforded by a reduction in staff numbers, voluntary salary cuts, cuts in commissioned programme costs and reductions in overheads and other spending.

TG4's preferred scenario [§]. It anticipates an increase in total spending from €[§]m to €[§]m (Figure 64).

Figure 64 TG4 preferred strategy revenue and cost forecast (€m)¹²³



Commercial income provides a lower share of TG4's revenue than for RTÉ, expected to be a [§] in 2017. It has plans to enhance its commercial capabilities and sees opportunities to grow advertising and sponsorship income and international programme sales. Nonetheless, this makes only a limited contribution to TG4's funding goals, with €[§]m net commercial income growth over the five-year period, including €[§]m recouped from its production sector investment.

Consequently, as with RTÉ, TG4 anticipates an €[§]m increase in public funding from €[§]m in 2017 to €[§]m by 2022. This is an average increase of [§]% per annum, although the funding requirement is front-loaded in the first two years of its preferred scenario – the uplift to 2019 is €[§]m.

In addition, it seeks a temporary increase in capital funding from €[§]m in 2017 to €[§]m in 2018, before falling back to €[§]m pa thereafter.

Most of the increased funding ([§]%) is allocated to programming and content. Spend on commissioned and versioned content increases from €[§]m to €[§]m over the

¹²³ TG4, excludes capital expenditure

five-year period; spend on licensed content from €[x]m to €[x]m. Staff costs increase on average by [x]% per annum, operating and administration expenses by [x]%. Transmission costs increase €[x]m with the launch of TG4 HD on Saorview, while marketing and social media costs increase steadily ([x]% average per annum).

TG4 has an eye to 2008 in setting out this funding proposal. TG4 notes it is “seeking restoration of pre-recessionary funding levels.” It does not set out why it believes this was the optimum level of funding.

6.3.5 Targets

TG4 has forecast the impact of its content investment plans on key audience targets. While it expects its average cost per broadcast hour to increase (from €[x] to €[x]), its cost per viewer hour is unchanged at the end of the period (€[x]).¹²⁴ In other words, TG4 expects to convert extra programme investment proportionally into increased viewing.

The aggregate result is an increase in TG4’s national TV audience share to [x]% by 2022, up from [x]% in 2017 (or a [x] increase in viewing hours). Average weekly reach with the national audience is expected to grow from 37% to [x]% over the same period, making TG4 [x].

TG4 projects reach with the Irish language audience to increase from 80% to [x]%, and satisfaction of this audience will grow from 7.5 out of 10 to 8.5.

TG4 has also predicted impacts of its preferred strategy on wider policy goals, assessing that it will help the Irish government achieve its

target of 250,000 daily Irish speakers by 2030, support [x] jobs in the Irish economy (up from 772 in 2017), and contribute €[x]m to annual national incomes relative to €63.2m now.

TG4 has identified a range of other performance indicators, with targets, including TG4 Player usage (target [x]% reach, [x]% increase in streams and hours watched), web visitors and social media video views (both up [x]%), ratings on a range of reputational dimensions, and Northern Ireland reach ([x]%).

6.3.6 Risks and sensitivity analysis

TG4 has modelled a range of scenarios including below-expectations growth in public funding, failure to achieve planned commercial income growth, and cost increases. It predicts that a 20% shortfall in anticipated public funding increases would reduce its national audience share to [x]% in 2022; a 50% shortfall would deliver [x]% share. Cost increases could be accommodated without losing share, but only if TG4 runs at a deficit. Shortfalls in commercial income growth do not directly harm audience share, but declines in commercial revenue would. Combinations of these scenarios drive bigger impacts, with the most significant variable appearing to be the size of the gap in planned public funding increases.

TG4 has also appended a risk analysis to its plan, with a wide range of financial, strategic and execution risks, with accompanying evaluation and mitigations.

¹²⁴ Note that this figure excludes the viewing and cost of the hours provided by RTÉ. As such, it is not comparable to the CPVH shown in Figure 49

6.3.7 The flat-cash scenario for TG4

Given this sensitivity analysis, it is perhaps not surprising that TG4 assesses that zero increase in public funding would have a significantly negative effect on audience outcomes. It forecasts national audience share to fall to between [x] % in this scenario, with total income of €[x]m forecast for 2022, no change in commissioned/versioned content spend and decline in licensed content spend. The channel's cost-per-viewer-hour increases dramatically, from €[x] to €[x] in 2022.

In the flat-cash scenario, TG4 does not propose to amend its mission. Its plan continues to be underpinned by the twin pole audience strategy. TG4 argues that "Irish is a minority language in a national context" – its national content serves habitual Irish speakers as well as non-habitual or non-speakers. Therefore, any dilution of its focus on national audience also has an impact on core audience performance. This, according to TG4, does not change even in more constrained financial circumstances; were TG4 to serve habitual Irish speakers only in the flat-cash scenario,

this would reduce its "national resonance" and importance to both audiences, and over time result in a very substantial loss of share.

Furthermore, TG4 says it has little or no flexibility to use operational budgets in other ways, to respond to a flat-cash scenario. Most of its funding is spent on content, and cutting content budgets would be competitively damaging, and counter to its remit. It is locked into long-term content commitments (e.g. independent sector multi-annual deals, the GAA rights contract and sports production contracts). And with staff and overheads representing just 10% and 6% of operating expenditure in 2016, there is little scope for further savings in those areas.

In effect, therefore, TG4's flat-cash scenario is a stand-still strategy. Hours of content by type and genre [x] in 2022, relative to 2017. TG4 sees little scope for investment and therefore many aspects of its preferred strategy are reduced or dropped, including:

- [x]

7 Assessment of the plans (Qualitative)

Our brief is to assess the ‘adequacy and realism’ of the broadcasters’ plans. To do so, we have considered the extent to which:

- The plans are aligned to the PSBs’ mission and objectives, and the concerns and interests of the Authority and the Minister
- The plans take account of changing audience behaviours and anticipated market developments, identify key strategic challenges, and propose appropriate responses
- The PSBs’ strategic capability will be sufficient to execute the plans effectively and efficiently, including whether their proposed approach to implementation and governance of the plans is robust
- The PSBs have provided credible evidence to support the proposed targets and measures of success
- Likely risks have been identified and effectively mitigated
- The plans are appropriately costed, financial expectations are credible and the proposals are affordable, including if commercial revenue falls behind expectations.

We provide an overall summary of our assessment of the plans, then consider each of these criteria in turn.

7.1 Overall assessment

Both the broadcasters’ own assessment and our analysis, described in the earlier sections of this report, provide a compelling case for the need for change in how PSB objectives are delivered. The PSBs face an increasingly competitive environment, with younger audiences in particular facing a growing array

of alternative information and entertainment options. Yet the market has not developed in ways that remove the need for PSB: there is no evidence that commercial providers are delivering significantly increased volumes of high quality audiovisual content that reflects Irish life, cultures and values. And in particular, there is very little commercial provision of material in the Irish language.

The question is whether the broadcasters’ plans represent an adequate and realistic response to the challenges they face.

RTÉ’s plans include detailed proposals both to improve performance of its broadcast services and to compete more effectively online. Its preferred strategy appears to be a credible high-level response to changing audience needs, if it is agreed that Ireland still needs a ‘full service’ PSB, appealing to all audiences, across a range of genres, and operating online as well as on broadcast platforms.

However, we believe the plan as it stands has risks. While RTÉ says it has reviewed the effectiveness of its current service and content offer, it has not made specific proposals to change or cut current output. This creates the impression of an incremental strategy, in which new initiatives are bolted on to existing services, rather than a fundamental review. If this is accurate, it is possible that RTÉ will miss opportunities to save money by cutting back on less effective services; or, that the changes it does make will be insufficiently radical to turn around challenging audience trends. This will be particularly problematic in a ‘flat cash’ scenario, in which it will need to contemplate very difficult choices in order to balance the books while also adapting its offer to the new audience and market context.

TG4's preferred strategy also envisages new spend on both broadcast and online output to repair declines in national share and reach, and audience satisfaction. While the proposals are credible and TG4 has provided a well-evidenced rationale for them individually, there remains a risk that collectively they fail to achieve the stretching goals TG4 has set. In particular, the ambition to rebuild national share and achieve significant online impact may be hard to realise even with planned increases in spend – which are significant relative to TG4's budget but small in the context of a highly competitive national media market.

7.2 Alignment with mission

The broadcasters have a number of statutory obligations set out in the 2009 Act.¹²⁵ We discuss these in greater detail in section 9.2. Here we simply note that the broadcasters' vision and mission statements, as laid out in their five-year plans, are aligned with these objects. Their specific proposals in their preferred strategies do not appear to involve any changes that would prevent them meeting their specific requirements; we note RTE's intention to review its orchestras and archive, but it has not proposed changes to its statutory remit in these areas.

The objects specified in the Act are both wide-ranging and, in some cases, very specific. They include detailed requirements with respect to both genre and service portfolio. This may constrain both broadcasters' capacity to adapt their service portfolios in response to changing audience needs, and risk creating inflexibility in their operating models. We

consider whether alternative statutory approaches might be feasible in section 9.

We note that RTE's flat-cash scenario is likely to involve, in the broadcaster's view, changes that would require statutory reform. However, it has not identified the particular changes it believes would be needed.

With respect to other concerns and interests of the BAI and the Minister (beyond the requirements of the Act), we have not been advised of any specific expectations of the broadcasters, but note a number of legislative and political developments that shape the context for their plans:

- Efforts to encourage the development of and full participation in the digital economy, for example the Getting Citizens Online Programme; the National Broadband Plan to ensure universal availability of high quality broadband services, the National Digital Strategy to promote online trade, build digital skills and support digital schools; and the creation of a business environment in which digital businesses can thrive;¹²⁶
- Promotion of a diverse and plural media sector, including a sustainable funding model for public service broadcasting;¹²⁷
- The 20-year Strategy for the Irish Language, which includes an objective to increase the number of people that can access television, radio and print media in Irish;¹²⁸ and
- Continued action in support of economic recovery.

¹²⁵ Broadcasting Act 2009, sections 114 (RTÉ) and 118 (TG4)

¹²⁶ Department of Communications, Climate Action & Environment, [Statement of Strategy 2016-2019](#), Jan 2017, pp14-17

¹²⁷ *Ibid.*, pp18-20

¹²⁸ Department of Education and Skills, [20-Year Strategy for the Irish Language 2010-2030](#), July 2013

7.3 Identification of challenges and appropriateness of responses

Both broadcasters' plans contain a detailed analysis of market, audience and organisational challenges, which is broadly consistent with our independent assessment.

Both emphasise the increasingly competitive Irish media market, characterised by more choice and greater quality (broadcast and online), commercial revenue risks and inflation in content and distribution costs. They recognise the particular challenges faced by Irish broadcasters, operating in a small market accessible by bigger and better funded US and UK competitors.

It is unclear whether all types of content and service offered by the broadcasters are equally susceptible to these threats. Both RTÉ and TG4 offer distinctive content that is popular with Irish viewers and often not replicated by international competitors.

Nonetheless PSBs across Europe have experienced performance declines in the face of similar trends, especially amongst younger audiences (see section 4.2). RTÉ and TG4 are certainly not immune to these challenges.

Indeed, a key question regarding the broadcasters' analysis of challenges is whether they have accurately assessed the scale of the risk posed by audience fragmentation, given the decline in share and reach, and the ageing of their audiences, they have experienced in recent years (see section 5.2).

Looking ahead, RTÉ's TV and radio reach and share targets will require significantly more effective commissioning, marketing and audience engagement strategies than in the previous five-year plan.

TG4 has also experienced declines in audience performance, losing a tenth of its audience share over the previous five-year period, which it intends to reverse with more effective content commissioning and stronger audience focus.

This audience challenge is at the heart of the broadcasters' strategies and goals for the next five years. We have sought to assess whether, on the evidence available to us, the broadcasters' proposed responses are sufficient to achieve the intended turnaround – first for RTÉ, then TG4.

7.3.1 RTÉ

RTÉ has systematically reviewed its content strategy, including an analysis of strengths and weaknesses, and developed new cross-platform proposals by content genre for the next five years. RTÉ has explained to us that these were based on analysis of audience needs and the effectiveness of its current content offer in meeting them.

It has carried out a range of audience studies in recent years which it has drawn on in preparing its plans. In particular, it carried out a major segmentation study that should provide the basis for an audience-led content strategy. We understand that it has begun to integrate this segmentation into its various audience measurement and tracking tools.

While we support this approach, RTÉ does not yet appear to have a robust strategic framework for making trade-offs between content and services. Such a framework would help assess the performance of current and future services on a consistent basis, identify which audiences the broadcaster is superserving, and drive reallocation of funding accordingly. While RTÉ's plan does involve reprioritisation, this appears to be based on general assessment of market trends rather

than specific analysis of audience needs or services' current performance.

A rigorous, evidence-based approach to reprioritisation will be vital for RTÉ as it embarks on a period of further significant change. It would be urgent in a flat-cash scenario. Without such a framework, the risk is that money is reallocated without a clear understanding of the likely impacts. This makes it hard to assess value for money of proposed changes, and harder to drive through change; PSBs often find it hard to drive through systematic change that benefits one audience at the expense of another, which tends to result in “pushback” from loyal older audiences who feel they are losing some of their favourite content.

Yet such impacts are highly likely if RTÉ is to achieve stabilisation of TV and radio reach and share amongst younger audiences. Even in its preferred strategy, with anticipated increases in public funding, investments in online services can only be funded with real-terms reductions in spend on broadcast output.

In some areas, it is unclear that planned content spend respond effectively to identified audience challenges. Investment is planned in drama, but what kind of drama, and what hard-to-reach audiences look for in RTÉ drama, is not specified. In arts and culture, spending is planned to [redacted]. Arts audiences skew older, urban and ABC1, so this new investment will need to take a more diverse, accessible, risk-taking approach to achieve audience targets. RTÉ's editorial proposals in this area – [redacted] – may deliver distinctive public interest TV and radio programming, but may find it harder to produce a return on investment in audience terms.

It is also possible that the proposed changes in content and genre mix are insufficient to

deliver the desired change, even if they do head in the right direction.

For example, while online spending is due to [redacted], this spend is distributed between different genres, with the largest share going to [redacted]. The ‘young peoples’ genre receives €[redacted]m of the increase. A little over €[redacted]m is spent on non-broadcast output. This may prove to be [redacted].

Based on this analysis, our sense is that RTÉ has more to do to drive the need to respond to significant audience challenges systematically and comprehensively through its five-year plan. We would have expected to see a clearer focus on areas of strength to consolidate; activities or services to reduce or cease, either because they are no longer effective or because they super-serve certain audience groups; and targeted investments in areas of weakness, with funding allocated to public service activities most likely to deliver impact with hard-to-reach groups. We would also have expected more radical options to have been at least considered, if only to assess the risks and benefits of the preferred approach relative to possible alternatives.

We note that RTÉ's ongoing reorganisation is intended to deliver the kind of audience focus we have discussed here. This is still in the process of implementation, and RTÉ's plans and approach may evolve as the new structure beds down. We consider our assessment of the impact of reorganisation in section 7.4. However, we note that there is a difference between what might be called ‘tactical’ audience focus – will a particular programme meet audience expectations and achieve a large audience in its target demographics – and ‘strategic’ audience focus – is the portfolio of services as a whole effectively serving audiences, avoiding both under-serving and super-serving.

As noted above, the Broadcasting Act contains a number of specific content- and service-related obligations, which may limit the PSBs' room for manoeuvre. Nonetheless, the Act is not prescriptive about the scale and scope of the broadcasters' activities in pursuit of their objects. It appears to us that the broadcasters do have some flexibility to reallocate spending in line with changing audience needs, including from broadcast services to online.

The EBU peer-to-peer review of RTÉ, commissioned by the broadcaster, found that [§<] Our review suggests this analysis was correct, but it is not clear that RTÉ's preferred strategy fully addresses the need.

More generally, strategic flexibility will be increasingly important as the pace of change in media continues to accelerate. With that in mind, it is surprising that RTÉ's plan [§<]. We would see a strong case for reducing its reliance on in-house production as part of developing a more flexible model. In addition, increased outsourcing should over time help drive a more competitive external market, leading eventually to better programmes and lower costs.

We believe that RTÉ should develop a strategy that finds the right balance between in-house and external commissions, regardless of the level of funding. We understand that this may require further cuts to in-house teams, which would be disruptive and likely politically sensitive. RTÉ may therefore need political support, and possibly regulatory direction, to support it in making this strategic shift. We discuss the prospects for independent production in more detail in section 11.4.

7.3.2 TG4

TG4's publisher-broadcaster model, and smaller scale, may give it more flexibility than RTÉ. As noted above (section 6.3.1), its plan

involves a significant shift in strategy, from an output-led goal to the audience-focused 'twin pole' strategy.

With respect to the national pole, TG4 recognises the risk of increased competition over the next five years – both for audiences, and for its most attractive sport content. This is likely to drive inflation in content costs and could mean loss of some of the content that is most effective in drawing in national and younger audiences. Consequently, its growth targets may be ambitious, as we discuss below.

In addition, we note some stakeholders' views that some of TG4's English language output delivers relatively little benefit to its public service objects. These industry representatives felt that TG4 spent too much on sports rights relative to other kinds of content. While there may be some self-interest in these observations, it emphasises the importance of TG4 being able to focus any new funding on content that adds distinctive public value, as well as bringing in audiences.

This will be particularly important with respect to TG4's digital plans for the national audience. The concept of a 'mixed schedule', offering the ability to cross-promote and 'hammock' different kinds of content, may be less appropriate to online environments than broadcast. So TG4's digital investments must be carefully targeted at specific opportunities where it has a sustainable competitive advantage. TG4's plan contains little detail about what its plans for non-linear content and social media involve. Nor does it provide specific evidence of audience demand or market gap in these areas, relevant to TG4 and its public service objects. TG4 should undertake a detailed assessment of the costs and benefits of online ventures before any

investments are made or new services approved.

We also note that the twin pole strategy may be feeding into TG4's service focus. Its investment plans are oriented towards TV, with limited increases for online services. In the context of a twin pole strategy, this makes sense. Visual content is more likely to cross over to audiences with limited or no Irish, by contrast to more text-heavy online content. However, a strategy more focused on Irish speakers might spend more on online content.

With respect to the core audience, TG4 receives positive ratings in the BAI's research for Irish language programmes providing a fresh view on Ireland, reflecting a range of interests for all age groups, and covering news well.¹²⁹ But overall satisfaction is mixed, with 36% of Irish speakers saying they are not satisfied.

TG4's plan makes a number of proposals to address the satisfaction challenge. However, little evidence is provided to justify expectations of impact. It is not clear that TG4 has systematically sought the views of its audiences on programme priorities; on the appeal of digital portals; or on the launch of TG4 on Saorview, for example. While TG4 HD is undoubtedly a gap in its free-to-air portfolio, it is unclear whether this is likely to add much viewing. We would expect to see an up-to-date cost-benefit analysis for sizeable investments such as this in advance of any final approval.

The basis for evaluating TG4's proposed digital investments for the Irish speaking core is similarly unclear. As TG4 says, Irish is a "minority language in a national context", meaning that these new services will need to

compete with the full range of English language online content as well as the more limited Irish language alternatives; indeed, the relative paucity of online content in Irish may reflect relatively little demand for it, as well as limited supply. TG4's investments in digital hubs and portals are small-scale relative to this wider market; there is little consideration in the plan of the promotion and discovery of these new online services, which will be essential if they are to achieve impact.

In summary, while we support the overall approach of the twin pole strategy, in considering the balance of spend between the two poles, we suggest that TG4's *prime* public value should lie in its support for Irish language viewers. Therefore it may be appropriate for TG4 to consider whether a greater proportion of income growth should be directed towards original TV and digital content in Irish. By extension, if funds are constrained, services for the Irish language core should be protected.

Overall this would involve a rebalancing of TG4's content hours and spend relative to its preferred strategy, with less spend on 'national' content and increased spend on services targeting the core audience. This would seem to be consistent with TG4's statutory remit, which does not require it to expose all Irish citizens to Irish, but only to cater for those with an interest in Irish.

In any case, we note that in the material provided to us by TG4, there is no basis for resolving such trade-offs between the 'twin poles', or comparing different possible allocations of resource between them. While such judgements will inevitably have a subjective element, it is important that TG4 does have such a framework in place to help it

¹²⁹ BAI/B&A, *Audience Tracking Research: an island of Ireland survey*, May 2017

adapt its strategy over time, especially if its financial goals are not realised.

One further option would be for RTÉ and TG4 to reconsider the nature of their relationship and the division of responsibility for Irish language content. Neither plan addresses this in any detail, although RTÉ says that it is considering scope to include TG4 content on RTÉ Player.

The Irish audio-visual market is probably too small to realise material benefits from competition between the two PSBs for Irish-speaking audiences. It is more likely to be in the public interest to achieve the best possible coordination of their activities, while encouraging each to play to its strengths. For example, TG4 could be asked to lead on Irish language content commissioning, while RTÉ can use its strengths in distribution and audience reach to ensure such content is accessed by the widest possible audience. A collaborative approach to online services and news should be encouraged. One option might be to require the PSBs to set out and agree proposals for better collaboration in future as a condition of any additional public funding.

We recognise that these options raise complex questions of control, governance and funding, but these should not prevent exploration of opportunities to deliver a more effective joint Irish language strategy.

7.4 Capability to execute the plans, including approach to implementation and governance

Both broadcasters have restructured in advance of preparation of their five-year

plans. These new organisational structures and capabilities will be critical success factors.

7.4.1 RTÉ

It is too early to judge the efficacy of RTÉ's new structure at this stage, although we note that it is consistent with the kind of audience-led, cross-media approach recommended by the EBU and implemented by other PSBs. However, we also note the EBU's findings that [✂].

Rebuilding culture is a challenging task that, as both RTÉ and the EBU highlight, will require substantial change management efforts. We note that RTÉ's stakeholder consultation, which emphasised RTÉ's quality and important place in Irish society, but also identified a perception that RTÉ was too slow to change relative to the wider pace of change in the media.¹³⁰ It was not seen as an organisation with a significant digital presence, despite its portfolio of established digital services. The organisation was viewed as being responsive rather than innovative.

This challenge would be aggravated if RTÉ's strategy is too incremental. Perhaps counter-intuitively, more dramatic change can sometimes be easier for organisations to implement. Radical change concentrates minds, makes it easier to focus on a small number of big goals, and makes the need to acquire new skills unavoidable, even at the expense of significant staff turnover. It is easier for organisations to row back on more limited change or for its impact to be diluted in implementation.

Of course, this does not mean more radical changes should be made for the sake of it, but

¹³⁰ RTÉ/Amárach Research, *RTÉ Stakeholder Consultation Research Report: Summary Findings*, 2017 (unpublished)

it does highlight the significance of RTÉ's change challenge.

We would therefore expect RTÉ in due course to be able to explain further how it intends to drive change and embed the new audience focus. This would include greater clarity about allocation of budgets and accountabilities. For example, our understanding is that the Audiences, Channels and Marketing division will hold commissioning budgets, to be spent on content (both in-house and externally commissioned) in line with audience-led strategies. But responsibility for achieving the target audience share for a particular schedule slot sits with the Content division (for example, in the job descriptions for senior Content roles advertised in 2017).

How the 'genre' perspective in Content will be reconciled with 'audience' objectives in AC&M therefore remains unclear. In a fully audience-led strategy, AC&M would choose the best content from any supplier, whether in-house or external. But there will be strong pressures from Content colleagues to continue to prioritise in-house production. Clear and frequent steers from RTÉ's leadership, about how these tensions should be addressed, will be necessary. Clarity about who 'owns' the creative response to audience needs may in practice be as important to the success of RTÉ's strategy as who controls commissioning budgets.

Other questions to be resolved include: how collaboration across TV, Radio and Online will be driven within AC&M; how performance of individual divisions will be managed, including target-setting and single points of accountability for achieving them; how performance will be linked to resource allocation; and the justification for any variance from the overall approach (for example, the organisation chart that we have

seen places Radio One in the Content department, which seems at odds with the broader approach).

We discuss RTÉ's strategic capacity in more detail in Section 10.

7.4.2 TG4

Reorganisation is also central to TG4's plan, although given the much smaller scale of the organisation this involves less operational complexity than for RTÉ. Perhaps the most significant challenge for TG4 is acquiring the skills necessary to make an impact with online investment in a highly crowded market.

In TG4's view, its new plan does not involve significant innovation in activity; the necessary organisational capacity already exists, and the main gap is in the funding needed to deliver the plan. However, we note that the plan involves significant shift of personnel [§], and that this is to be achieved without redundancies.

While there will presumably be some organic churn in staff over the plan of the period, TG4 also intends to redeploy a number of people to digital roles, training them to give them the necessary skills. While it is a strength of TG4's model that it has the flexibility to adapt in this way, and training its staff will be a valuable contribution to digital skills in its local community, there may be risks to successful implementation here.

7.5 Evidence to support proposed targets and measures of success

7.5.1 RTÉ

As discussed above, RTÉ anticipates [§].

RTÉ has not provided detailed modelling to underpin these targets. Given a backdrop of steady decline in reach and share in recent years, and the need for RTÉ to address

financial deficits, they are challenging; but these seem appropriately stretching given the ambition of RTÉ's audience-led transformation in its preferred scenario. We would expect RTÉ to prepare a further, more granular breakdown of targets by service; to closely monitor progress towards those targets; and to review promptly activities that are not achieving audience goals. This might become part of a revised annual performance review process.

7.5.2 TG4

The ambition we noted in TG4's preferred strategy is reflected in its targets. It anticipates national reach and TV share [X]. However, with only a [X]% increase in the average cost per broadcast hour over the same period, this implies that TG4 will be able to convert broadcast spend into viewing much more efficiently than it has in the recent past.

It is not entirely clear how individual programme investments aggregate up to overall reach and share from the material available to us. Nonetheless, given the extent of competition for TG4's national audience, and the inflationary risk in some content categories, we assess that TG4's targets may be unrealistically high in its preferred scenario.

It also seems likely that if TG4 did achieve its share growth targets, the growth would likely to come substantially from English speaking audiences, since Irish speaking audiences only have so much share to 'give'. Daily and weekly speakers represent 4% of the population. If (to take an extreme case) all of TG4's viewing share gain came from Irish speakers, this would require a [X] percentage point share gain amongst this audience. This seems unlikely.

We also note very significant differences between audience outcomes in the flat-cash scenario compared to the preferred scenario. Total funding in flat-cash is a [X] lower than in the preferred scenario, by 2022, yet national TV share falls by around [X] in flat-cash ([X]% to [X]%), and national reach also falls by around a quarter. Given that in the flat-cash scenario we assume TG4 would seek to sustain the programmes that deliver most reach and share as far as possible, these declines seem unrealistic.

We note that national reach and share are only two of several audience indicators used by TG4 to assess performance. Given TG4's remit, it is appropriate that it continues to include these as part of a basket of measures. But we would question whether these should be the *primary* focus of TG4's performance assessment. The broadcaster, together with the BAI and Government, may wish to consider whether targets linked specifically to its Irish language remit, including satisfaction of the core Irish speaking audience, may be more appropriate lead metrics.

7.6 Identification and mitigation of risk

RTÉ's plan includes its current risk register and sensitivity analyses (although these are limited to shortfalls in commercial funding). RTÉ has an established risk monitoring process in place, but intends to review its risk register in subsequent meetings. We note that the risks in its current register are long-range and are likely to be static from quarter to quarter; it may be helpful to explore more dynamic risk indicators, that would help RTÉ assess its risk profile on a more regular basis.

TG4's risk analysis appears comprehensive, with appropriate mitigating actions. In general, it has ranked financial risks as more

significant than audience risks. Arguably, audience risks could be given higher profile, given the risks arising from the competitive challenge, especially to its digital plans.

One risk TG4 does not cite in its plan (but of which it is clearly aware) the sustainability of its producer supplier base. These suppliers are materially dependent on TG4, and vice versa.

As we have seen, TG4 is seeking to address this by providing select suppliers with multi-year contracts. The logic for this is clear, and it takes advantage of TG4's own secure funding. That said, it does cede a measure of TG4's own strategic flexibility.

8 Assessment of the plans (Financial)

In this section, we begin by offering our own perspective on the financial context for the PSBs' plans, before assessing those plans, in both the preferred and flat cash scenarios.

8.1 The financial context

We consider here the various markets in which the PSBs operate. Given that TG4's commercial operations are small, we focus primarily on RTÉ.

We also consider RTÉ's run rate surplus. RTÉ starts the next five-year period making appreciable losses.

8.1.1 Television

Two-thirds of RTÉ's commercial revenue comes from television, or 28% of total revenue. For TG4 commercial income provides less than 10% of total revenues. The great majority of PSB TV revenue relates to advertising and sponsorship.

On a global basis, there is some caution re the prospects of material long term growth for linear TV advertising in developed markets. That said, targeted advertising represents a wild-card, which could enable capture of 'call to action' marketing budgets (away from, say, direct mail). What is unclear is how much of this spend would accrue to broadcasters rather than the providers of the targeting platforms.¹³¹

Turning to RTÉ in particular, as we have seen it has pushed through material above-inflation price increases for TV advertising – a rise of 18% between 2013 and 2016. While this has helped defend revenues (and has been supported by a relatively strong economy), it

inevitably reduces the return on investment from an advertiser's perspective.

This in turn creates a vulnerability as the cross-media market for advertising continues to grow more competitive and (potentially) if the economy softened. Expectations for GDP growth in the next three years are well below that of the last three.¹³²

Clearly if overall TV consumption continues to fall (as seems likely), this will reduce the impacts RTÉ has to offer advertisers, particularly if RTÉ's share within that consumption also continues to decline at its recent rate of a percentage point per year.¹³³ Further, if share declines, then reach is also likely to decline. High reach has in the past been a basis for RTÉ's advertising commanding a premium, but this premium could be jeopardised.

Thus, there are threats to RTÉ's TV ad revenues, beyond the pricing and economic issues.

There are also some positive factors – in particular, market entry by a player such as UTV is unlikely to be repeated. But given the appreciable risks, we believe it is appropriate to take a cautious stance on RTÉ's TV ad revenue prospects. RTÉ's own view is that "is confident [it] can [⌘] over the next five years".¹³⁴

There are potential new revenue streams for RTÉ. It has noted the possibility of [⌘], and of

¹³¹ Group M, *This Year Next Year*, September 2017; Credit Suisse, *The Future of Advertising*, 25 April 2017

¹³² See page 5

¹³³ See page 36

¹³⁴ RTÉ, *RTÉ Commercial Strategy Briefing Document*, 13 July 2017

revenue from retransmission fees (discussed in more detail below).¹³⁵

For TG4, the same macro-economic factors apply, although there is less risk of an adverse reach or price shock.

8.1.2 Radio

RTÉ's commercial position in radio appears somewhat more stable. Naturally radio advertising, like TV, is vulnerable to a wider economic slowdown. However, RTÉ does not appear to have pushed through such significant price increases in recent years, and its listening share is more stable than its viewing share. (RTÉ expects that [⊗]).

8.1.3 'Other'

RTÉ's 'other' category is diverse. It includes digital; content & merchandising; broadcast and transmission services; orchestras; the *RTÉ Guide* and so on.

RTÉ's net commercial revenues for digital grew by €0.5m in 2016, but its costs grew by €0.9m. Digital ad-funded businesses are increasingly challenging. While digital advertising is growing, a great majority of this growth is going to Facebook and Google. Further, these businesses can generate page views at very low cost, and hence be profitable at ad-rates which are challenging for traditional media companies.

Nonetheless, this is a growth area, and we note that ITV has (relative to its advertising revenue) proportionately greater digital revenue than RTÉ, suggesting RTÉ has headroom for growth.

Merchandising of TV related products such as DVDs is (as we have seen) under pressure, as is the *RTÉ Guide*. Growth seems unlikely.

Broadcast and transmission services are stable, with solid customer base and regulated prices. However, these prices in part depend on RTÉ's asset base in this area, which is declining with depreciation.

GAA Go is expected to [⊗], though in absolute terms it remains small (and RTÉ's 50% share of its profits will be even smaller).

RTÉ anticipates programme sales will be stable, facilities sales may see moderate growth, and teleshopping will be under pressure.

8.2 The preferred plans

8.2.1 RTÉ

RTÉ's plan clearly and plausibly sets out the funding gap arising from maintenance of its existing proposition, given deficits, limited scope for further efficiencies and content inflation risk.

RTÉ also takes a cautious view on the potential for commercial revenue growth, and for the reasons set out above, we agree this is appropriate.

On costs, we have no reason to believe that *significantly* greater efficiencies are achievable. Some commercial stakeholders argued that RTÉ paid its staff more than them, but we received no conclusive evidence of this, and note that even if it were true RTÉ may have limited flexibility to address it.

However, we note that the majority of planned efficiency savings are achieved by 2018, as a result of the ongoing Voluntary Exit Programme.

While the restructuring is undoubtedly a substantial undertaking, it will not be transformative for RTÉ's costs. By way of

¹³⁵ See page 90

illustration, 2016 operating costs (excluding special event costs) were €327m.¹³⁶ If [€]m saving RTÉ anticipates from the current VEP were applied to this run-rate, it would give a reduced cost base of €[€]m. This compares to actual opex in 2014 of €312m. In other words, the VEP [€].

Thus, it may be reasonable to expect RTÉ to deliver some further savings in 2019 and beyond, although these will likely be smaller than in 2017 and 2018.

For comparison, the BBC has already made substantial savings through its DQF programme,¹³⁷ but has a target of efficiencies of 4% per year through 2021/22.¹³⁸

(We recognise that such a figure may not carry across to RTÉ – it depends on a range of factors, including the starting level of efficiency and the degree of flexibility available in making cuts.)

However, in the round, we agree that RTÉ's capacity to sustain its existing services while also investing in new activities (in particular digital) will indeed be heavily dependent on the level of public funding.

As we have seen, RTÉ's run rate loss entering the new planning period (after the benefit of the VEP) may be of the order of €[€]m per year.¹³⁹ RTÉ believes it will be able to substantially address this shortfall through service changes and content cuts, at least in the short term. However, this would leave no room for future inflation, nor any funds available for the new investments set out in RTÉ's plan.

Thus, absent increased funding RTÉ would have three options: run at a deficit (not a

sustainable long-term solution); reduce its plans for new investments, posing risk to its goal to stabilise share and reach; or cut more deeply into existing services (or some combination of these options).

RTÉ's plan does not appear to have considered fully the potential to make bigger cuts in existing services, as we discuss in section 7, at least not in the material available to us. Systematic reprioritisation would be appropriate even if it *does* receive an increase in funding. (The smaller the increase, the more vital this would be). Such a reprioritisation would consider the extent to which new investments could be funded through existing service reductions, and the relative audience costs and benefits of these options.

BAI and government could link additional funding to RTÉ developing such a prioritisation framework.

We recognise that execution of an extensive reprioritisation would be risky. Cuts are likely to be contentious, potentially raising political and union opposition as well as complaints from audiences. RTÉ would need political and regulatory support in this area.

Moreover, if cuts are made in popular programming, there may be declines in commercial revenue, creating a downward spiral in income. Conversely, if cuts are made in programming with lower audiences but more distinctive public value, RTÉ's ability to deliver part of its remit may be jeopardised. Any reprioritisation will need to avoid such traps.

8.2.2 TG4

TG4 also provides a credible picture of the impact of its recent financial position on its

¹³⁶ RTÉ annual report 2016

¹³⁷ Note that DQF included both efficiencies and service cuts

¹³⁸ BBC, *Annual Report and Accounts 2016/17*, 22 June 2017

¹³⁹ Section 5.1.2

ability to invest in the future. We have no evidence of systematic inefficiency in its current operations; its publisher-broadcaster model appears to have given it greater capacity to flex its costs than RTÉ has had in recent years.

However, we note that staff costs and overheads are forecast to rise over the next period, and question whether TG4 might have scope to manage some cost increases through efficiencies.

Its commercial expectations, like RTÉ's, may be more likely to err to positive than negative. In particular TG4 has not provided evidence of its ability to secure material growth in digital revenues, and we note that RTÉ anticipates decline in digital advertising in the next period.

The bigger risk for TG4 may be that increases in funding could be insufficient to respond to increasing competition for national audiences and potential cost increases. Even in its preferred strategy, TG4's investments are relatively small-scale compared to the wider English language media market, especially its digital investments.

Both broadcasters' plans for the next five years include new investments with spend, and audience benefit, that only ramp up over a period of years. Such investments benefit from certainty of funding which provides a basis for multi-year commitments and supports long-term planning.

Both broadcasters highlighted challenges they say they have faced arising from unanticipated Government decisions in the previous five-year period. The EBU report also concluded that [§<].

8.3 The flat-cash scenarios

8.3.1 RTÉ

Given RTÉ's run-rate deficit of €[§<]m (after the cost savings from the current restructuring), we agree with RTÉ's view that flat public cash would require significant change.

We are somewhat more optimistic than RTÉ about the possibility of further efficiency gains in future years. It is also possible that if RTÉ's restructuring results in it being more audience-focused, this could improve its viewing share (and hence ad revenues).

Conversely, market changes could accelerate the decline. Thus, there is a material risk that – without changes in approach – RTÉ consumption could fall to a level that would be alarming for a PSB funded from a universal licence fee, and would have knock-on consequences for commercial revenues, too.

RTÉ's plan in response to flat-cash removes all of the funding allocated to new activities and content in its preferred scenario, and then requires some additional savings in current activities. It therefore appears to prioritise sustaining existing services over developing new activities. This is essentially the approach RTÉ has been taking for the last few years, and it has resulted in a continuing decline in viewing share.

We have not seen evidence to suggest that this would be the most beneficial strategy in response to continuing flat cash. Given that RTÉ has experienced declines in audience impact in recent years, it seems likely that more radical strategies (such as service closures) should at least be considered.

This would need to be based on a systematic approach to prioritisation and rigorous assessment of audience performance for each

service, to (as the EBU puts it) “ensure their relevance, in general and against their targeted audience, their market share, and against [the broadcaster’s] vision, mission and strategy.”¹⁴⁰ Without such an approach RTÉ will be fighting a rear-guard action to defend legacy services which may be a poor way to reach audiences and deliver public value.

In such a scenario, it would be important for RTÉ to have flexibility. For example, some of the services that might be considered for closure are required by statute. If the law was not changed, this might lead to other services being cut that perhaps were more valuable to audiences. (For the avoidance of doubt, we are not suggesting that RTÉ would be unable to meet its statutory objects in a flat cash scenario).

RTÉ might also find itself forced to use involuntary redundancy, in order to effectively and rapidly target cuts.

In any event, a more radical review of the type we suggest would only allow for cuts to be efficiently targeted to best preserve value for audiences, not for such cuts to be eliminated. With or without it, there is no doubt that flat-cash would involve real and rapid impact on services on air and online.

8.3.2 TG4

TG4, being in a more sustainable financial position, envisages a more stable strategy under flat-cash. As with RTÉ, TG4’s proposed response to this scenario is to continue with a broadly similar strategy, but on a tighter budget. It says flat-cash would prevent it from making proposed investments, with damaging impacts on reach and share.

It sees viewing share from [x] % (2017) to [x] in 2022. Associated with this is a substantial increase in cost-per-viewer-hour, from €[x] to €[x].¹⁴¹

This forecast appears aggressive to us, based on the strategy TG4 proposes for this scenario. It would represent a material acceleration in TG4’s loss of viewing, compared to the previous period where TG4 also operated with (broadly) flat cash. Viewing hours fell by 10%, 2012-16, and CPVH rose by 20%.

However, a more fundamental point is whether TG4’s focus should continue to be on national viewing share in such a scenario. TG4 could instead rebalance its spend towards Irish language audiences. Because the available Irish language audience is much smaller, this might result in much lower viewing share. However, the public value delivered might be *higher*. While TG4 offers a uniquely valuable proposition for Irish speakers, it is one option amongst many for English speakers.¹⁴² However, this is not TG4’s proposed approach in a flat cash scenario.

Regardless, continued flat cash would represent a severe challenge for TG4 as competitive pressures continue to rise. Viewing share would continue to contract, and TG4 has limited room to respond. It already runs very lean. (Its cost per *broadcast* hour is roughly half that of RTÉ2, and a quarter that of RTÉ One), and has few prospects for greater commercial revenue.

Finally regarding TG4 and flat cash, we understand that TG4 is to receive a €2m increment to its funding. In our view this will stabilise TG4 for a few years, though not necessarily the full life of the five year plan. It

¹⁴⁰ EBU, *RTÉ: Peer-to-Peer Review on PSM Values*, July 2017 (unpublished)

¹⁴¹ Excluding programming provided by RTÉ

¹⁴² We recognise that most Irish speakers will also choose from English language programming

will also not provide material funding for an expansion of online services, as TG4 sets out in its preferred strategy.

8.4 Conclusion

Both broadcasters make a credible case that flat cash would require them to accept ongoing share decline, continuing the concerning trend of much of the last five years (though we believe TG4's forecast decline may be overstated). In RTÉ's case, serious consideration would have to be given to the closure of certain services in such a flat cash scenario.

We therefore share the conclusion of previous reviews that both PSBs require additional public funding if they are to continue fulfilling their public purposes to the full.

In RTÉ's case, stabilising share (particularly amongst younger audiences) should be a priority for such funds. However, RTÉ has not yet fully considered the scope for reprioritisation within its existing services which could free up resources for new initiatives. In our view, this should be done before agreement is given to its full funding demand.

For TG4, we believe audience satisfaction amongst Irish speakers should be the primary objective. Any new funding should be based on an understanding that this is a priority area. Further, given the range of new initiatives suggested by TG4 (including digital and HD proposals), it may be sensible to ask for further detailed cost benefit analysis on each of these before final approval of additional funding.

9 Legislative and regulatory issues

9.1 Context

As part of our review, we were asked to consider the extent to which any legislative and/or regulatory changes could help support the future role and development of PSBs in Ireland, and their accountability in the use of public funds.

Based on our own analysis and on discussions with both the PSBs and other stakeholders, we have identified several areas which we think warrant further consideration. These are:

- The PSBs' statutory remits
- The overall approach to public funding of PSB
- Effectiveness of the licence fee collection system
- Other regulatory changes
- 'Soft constraints'.

Of these, we think the most important issues for consideration are those which relate to the PSBs' remits and the system of collecting, distributing and administering public funding. This is consistent with the conclusions of the recent Oireachtas Committee Report on Future Funding of PSB.¹⁴³

In other areas, we conclude that the benefits to the PSBs from possible regulatory changes would be small, uncertain, or slow to emerge, and could have unintended and possibly adverse consequences for other broadcasters and consumers.

As regards accountability, our review suggests that both PSBs now have in place appropriate internal procedures to ensure good governance and accountability in the use of

public funds, although the continuing effectiveness of these procedures, including the relevance of agreed KPIs, should be monitored by the BAI as part of its annual and 5-yearly reviews. We do not, therefore, make any further substantive suggestions in this area.

9.2 PSB statutory remits

The broadcasters' objects are laid down in the 2009 Broadcasting Act.¹⁴⁴ These include, in summary form:

- To provide a national television and sound broadcasting service, with the character of a public service, available free-to-air and (where practical) to the whole island of Ireland;
- To provide a website and teletext services in connection with its services;
- To establish and maintain orchestras (for RTÉ), choirs and other performing groups;
- To provide emergency information;
- To establish and maintain an archive;
- To provide broadcast services to Irish communities outside the island of Ireland;
- To provide local, community or regional broadcasting services;
- To provide "non-broadcast non-linear audiovisual media services...[with] the character of a public broadcasting service" (subject to the consent of the Minister, with advice from the BAI, unless ancillary to their broadcasting services);

¹⁴³ Oireachtas Joint Committee on Communications, Climate Change and Environment, *Report on the Future Funding of Public Service Broadcasting*, November 2017

¹⁴⁴ Broadcasting Act 2009, sections 114 (RTÉ) and 118 (TG4)

- For RTÉ, to operate at least one national multiplex; and
- To exploit commercial opportunities.

In pursuing these objects, the broadcasters must address the interests and concerns of the community across the island of Ireland, including having regard for the distinctive aspects of Irish culture, and the Irish language in particular, and (for TG4) the Gaeltachtaí.

Their broadcast schedules must provide a comprehensive range of programmes in Irish and English, reflecting the cultural diversity of the whole island of Ireland, including programmes that entertain, inform and educate, and provide coverage of sporting, religious and cultural activities. TG4 must cater for the expectations of those whose preferred language is Irish or who have an interest in Irish. Both broadcasters must provide news and current affairs, in Irish and English, and primarily in Irish for TG4. They must facilitate cultural expression and encourage innovation in broadcasting. RTÉ must commission programmes to the value of €40m or more from independent producers.

The first thing to note about these objects is that they are quite prescriptive, both of the overall aims of the PSBs and the means by which they should pursue these aims – for example, specifying particular programme genres (such as programmes which cover sporting, religious and cultural activities), and specific services (such as teletext and orchestras). There is a risk that the continuing need to meet all these objects unduly constrains the PSBs in anticipating and responding to change in what are undoubtedly fast-moving markets. We note that both PSBs have largely assumed that they need to maintain a full range of their existing programme genres and services over the next five years, and their room for manoeuvre in

reshaping their service portfolio in response to changing audience needs is limited – not just by statutory constraints, but by the prospect of highly public resistance to any change from interested parties. It is our view that, as a result, there is a risk that innovative thinking about the future role, scope and operating model of each PSB is constrained. New services tend to be added to existing portfolios, rather than replacing services which may no longer be effective.

Secondly, we note that both broadcasters' plans now extend well beyond broadcasting, in RTÉ's case with the stated goal of becoming a public service media provider as opposed to simply a broadcaster, and in TG4's case involving establishment of a range of online portals and hubs. While the Broadcasting Act provides for the broadcasters to maintain online services, these are somewhat limited in legislation, to "a website and teletext services" and "non-broadcast non-linear audio-visual media services...[with] the character of a public broadcasting service."

If, in common with many other PSBs, RTÉ and TG4 continue to evolve online services which exist separately from, and to some extent independently of, their broadcast networks, it may be helpful to recognise this in a revision to the Act, acknowledging that online is a key part of the public service portfolio, not just an adjunct to broadcasting. The current legislation dates back to a period when PSBs' use of online was relatively limited, and perhaps more ancillary to broadcast content than it is in many markets today. We note that the Oireachtas Joint Committee on PSB Funding suggested adopting the term Public Service Media, rather than Public Service Broadcasting, to reflect the increasing importance of online and other digital media, alongside television and radio broadcasts.

We acknowledge that the Act is not prescriptive about the scale and scope of the broadcasters' activities in pursuit of their objects. Hence the broadcasters do have some flexibility to reallocate spending in line with changing audience needs, including from broadcast services to online. However, it is worth considering how this flexibility could be more clearly recognised in legislation. Rather than prescribing output in terms of programme genres and specific services, a more flexible approach might focus on key public interest principles and broad aims and hoped-for-outcomes for each audience group. This would help create a climate in which the PSBs feel more able to respond quickly to the challenges they face.

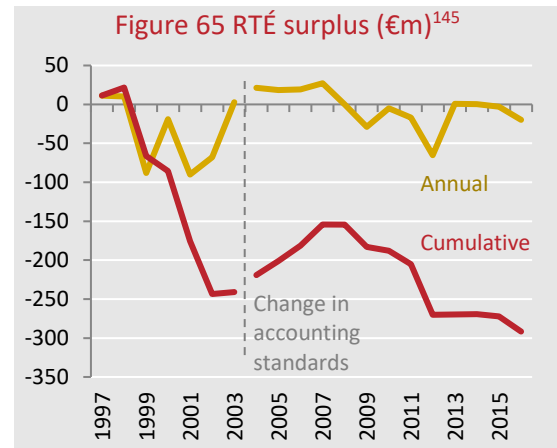
9.3 The funding system

9.3.1 Moral hazard

We now turn to the moral hazard represented by public funding which is (effectively) under constant review. This creates the constant prospect (if not the reality) of a government solution to challenges that the PSBs face, which may represent a disincentive to 'self-help'.

The RTÉ case

RTÉ offers a clear example of this, we think. Its funding has arguably lagged audience and policy-makers' expectations for twenty years.



Over this period RTÉ has made a cumulative loss of almost €300m (excluding the €157m gain on the 1999 sale of Cablelink). Bar the period 2005-07, when RTÉ made material profits, the history has mostly been of minimal profits to material losses, punctuated by substantial losses when restructuring occurs.

Arguably this pattern is a consequence of being a state-funded broadcaster with material dependence on advertising revenues, unlike the majority of similar PSBs. As ad revenues rise, RTÉ expenditure may rise too, in part for fear of being accused of over-compensation. (Alternatively, the government may claw back a portion of public funding for other purposes). However, when ad revenues fall, it is then difficult to manage costs out, creating a ratchet effect.

Regardless, the consequence is that audiences, over an extended period, have become acclimatised to receiving a rich set of services from RTÉ that are arguably not fully funded. The fact that RTÉ enters the next funding period running a deficit is in fact typical rather than exceptional.

In parallel, the PSBs may be reluctant to make difficult strategic choices if there exists a

¹⁴⁵ RTÉ Annual Reports; omits €157m profit on sale of Cablelink in 1999

chance that they can avoid those choices by persuading government to increase public funding on an annual or frequent basis.

This problem is perhaps exacerbated by the PSBs using 2008 as a benchmark, a high water mark for public funding. It is now a decade past, and there is little prospect of the return either of an equivalent macroeconomic environment or an equivalent broadcasting market. The PSBs should, by now, be adapted to a very different environment.

9.3.2 Multi-annual funding agreements

More generally, both RTÉ and TG4 have noted that funding uncertainty from year to year makes it more difficult to plan over a five-year period. In the current system, the five-year planning review is designed to assess the adequacy of funding for the next five-year period, but annual reviews also report each year on funding needs and make annual recommendations. Setting aside the issue of whether any funding level recommendations are accepted or rejected, it would, we think, be helpful to move towards multi-annual funding settlements for each PSB. Ideally these would last for the full five-year plan period.

The advantages for the PSBs are clear – more certainty about their funding levels, a sounder basis for making longer term strategic changes, and more incentive to reduce costs (in the expectation that any gains will be retained by the PSB for at least the period of the plan). For the BAI, multi-annual deals should reduce the costs involved in annual reviews – which could be streamlined.

For the Government, the highly sensitive process of deciding the level of the licence fee would take place only once every five years. It might also reduce the risk of an emerging “dependency” culture (an over-reliance on

public funding to solve problems) by removing the possibility of emergency annual or interim funding grants designed to address financial shortfalls, and so encouraging the PSBs to accept more responsibility for their medium-term finances.

Moving to multi-annual deals arguably also creates more distance between the PSB and the State, as any leverage given to the State by the funding review changes from an annual to a periodic process.

Consistent with any multi-annual deal, it would be open to link broadcasters’ income each year (through the level of the licence fee) to changes in CPI, to ensure that, over the five-year period, public funding fairly reflects broad changes in each broadcaster’s costs. It is our sense that a licence fee linked to CPI for the next 5-year period would provide the PSBs with a better foundation for a period of strategic change than would reliance on uncertain outcomes from proposed improvements in licence fee collection and evasion costs (see below).

Even if a multi-annual deal does not yield any increase in public funding, it would at least enable each PSB to focus on delivering its remit within a clear and certain five-year financial framework, rather than hoping that funding levels might be revisited in each subsequent annual review.

9.4 Effectiveness of licence fee collection

As RTÉ and others have argued, whatever level is set for the licence fee, the actual amount raised is also dependent on the effectiveness with which it is collected. There is broad agreement, it seems, that the system is due for reform.

Three areas warrant attention:

- The definition of homes required to pay the licence fee
- The costs of collection
- The effectiveness of collection in reducing evasion.

On the first point, RTÉ has argued in its 5-year plan that about 153,000 homes fall outside of the TV licence system because of the exemptions established by ministerial order in 2009. This order¹⁴⁶ exempted from paying the licence fee those users who use only portable devices such as mobile phones and tablets and PCs and laptops to watch PSB channels via internet-streamed services.

Across Europe, authorities are examining how to secure the application of the TV licence fee to new digital devices and services. In the UK, streamed online services have already been covered by licence fee legislation for some time and recent changes have extended coverage to households using only on-demand catch-up services such as BBC iPlayer.¹⁴⁷ There is a good case for pursuing this course of action in Ireland, although the scope for effective collection of the licence fee from non-broadcast TV households remains uncertain. Such households present greater challenges with identification and enforcement than do conventional TV households.

On the second point, collection costs, RTÉ argues that TV licence collection costs of over €[€]m a year represent about [€] % of the revenue collected. In the UK, for example, costs are closer to 3% of revenue collected¹⁴⁸.

¹⁴⁶ S.I. No 319/2009 – Television Licence (Exemption of Classes of Television Set) Order 2009. The exemption applies to smaller screen sizes for mobile devices.

¹⁴⁷ The BBC Licence Fee Trust estimates that closing the “iPlayer loophole” generated an extra €14m revenues in 2016/17

Costs are probably higher as a percentage of revenue in smaller markets (as fixed costs must be recovered from a smaller household base), but there may be scope for improvement here. In the UK, costs were reduced through giving the BBC oversight of the process, creating a powerful incentive for them to ensure that the process worked as efficiently as possible. The collection process itself was outsourced by the BBC through competitive tendering. Various initiatives have since been taken, including updating the licence fee database and introducing a wider range of payment choices, which have improved performance significantly.

On the third point – evasion – RTÉ contrasts the evasion rate in Ireland of 15% with that of 6% in the UK.¹⁴⁹ Evasion rates are partly addressed by effective collection and enforcement processes, but are also affected by external factors such as ability and willingness to pay for PSB. Factors in the UK which bring down evasion rates include higher household disposable income than in Ireland,¹⁵⁰ a BBC which depends entirely on public funds rather than on commercial income (hence reducing resistance to paying), and perceived value for money (a UK licence fee which is roughly the same level as in Ireland, but which supports a wider portfolio of services and content).

Nevertheless, there no doubt exists potential to reduce evasion rates in Ireland over time, given reform of the system as whole. Such reform might involve institutional and process

¹⁴⁸ According to UK TV Licensing, total costs were 2.7% of revenues collected in 2014/15,

¹⁴⁹ UK TV Licensing reports evasion rates of “6-7%” in its 2016/17 Annual Report, and there are emerging concerns that it is proving hard to reduce evasion further.

¹⁵⁰ OECD data, 2014

changes along the lines of those introduced in the UK.

RTÉ in its 5-year plan suggests that the total gain from such reforms, if introduced, could be €[redacted]m a year. RTÉ itself could benefit to the tune of some €[redacted]m a year of additional funding, assuming it receives [redacted]% of the increase. We have not conducted a full review of each proposed reform, or of its potential impact. We observe, though, that RTÉ's projections are based on assumptions which are arguably at the top end of possible outcomes in each area, which may be over-optimistic as a central plan assumption.

Regardless of the benefits to RTÉ, there are strong arguments for addressing evasion. Sustained and high levels of evasion are ultimately corrosive to the very idea of the licence fee, and risk creating a situation where those who do pay the fee feel foolish for doing so.

9.5 Other regulatory proposals

9.5.1 Retransmission fees

RTÉ has proposed introducing retransmission fees for carriage of its PSB channels on the main digital platforms in Ireland. This it thinks could be a valuable additional source of revenue to help support PSB in Ireland. In July 2017 it presented a Mediatique report to the Oireachtas Joint Committee on Communications, Climate Action and the Environment in support of its proposal.¹⁵¹

Both sides benefit from carriage. Popular PSB channels deliver value to platform providers (for example in terms of higher take-up). Distribution by a key platform provides value to the PSB channel providers (increased viewing and advertising revenues). In a freely

functioning commercial market, a negotiation would take place between the parties and a price for carriage would be agreed depending on (amongst other factors) the balance of that value. That price might involve payments from the platforms to the channel providers but there are also circumstances in which the payment could be from the channel to the platform.

In its work for RTÉ, Mediatique assessed the balance of value which would be lost to platforms and the PSBs if those PSB channels were not available on the main digital (Sky or Virgin) platforms in Ireland. It concluded that a commercial negotiation would likely result in payments of around €28m to RTÉ from Sky and €18m from Virgin. We have not reviewed the methodology used by Mediatique, so cannot comment on the accuracy of these figures.

The platforms themselves, not surprisingly, have argued strongly against the imposition of a retransmission fee regime. They argue that even if there were to be a commercial negotiation, the outcome would be uncertain and may be worth little to the PSBs. They also raise other concerns:

- Any such payment would be passed on to their customers, hence resulting in some Irish households effectively paying twice for their PSB channels.
- There is a risk that, in the event of no acceptable deal, the PSBs would be dropped from one or more platforms. This would have a serious impact on their universal availability.
- Given the likely difficulty in reaching a deal acceptable to both parties, regulatory intervention would inevitably be needed to set the price,

¹⁵¹ Mediatique on behalf of RTÉ, *Platform-supplier Relationships – the case for transmission fees*

[Submitted by to the Oireachtas Joint Committee on Communications], July 2017

which itself would not be straightforward exercise.

Additionally, the platforms have threatened that they would either refuse to carry the PSB channels on principle (for fear of creating precedents that might be used in other markets), or provide “work arounds” which would allow their customers to view the PSBs¹⁵² seamlessly via Saorview.¹⁵³

We must declare an interest here. Robert Kenny, director of this project, has previously authored papers which argue against the introduction of retransmission fees. Nevertheless, our collective sense, based on reading of the evidence so far presented to the Committee, is that there remain significant risks associated with the introduction of retransmission fees, and they could, in certain circumstances, have a negative effect on public support for PSBs and the licence fee.¹⁵⁴

PSB supply security would be placed at risk if left entirely to the outcome of purely commercial negotiations between the various parties, running the risk of blackouts and/or poor outcomes for consumers. Sky, for example, has made it clear it is unwilling to negotiate any fees for carriage.

If retransmission fees are to be considered further, it is therefore the case, we think, that they would have to be implemented through clear and direct regulation, with the BAI or similar body determining the fees to be paid, and mandating “must offer” and “must carry” for PSB channels at those fees. Arguably, a

regulated agreement is in effect what happens now, although the “regulated price” of € zero is not explicitly described as such.

If retransmission fees were set at a modest level, the risks of any consumer pass-through (and backlash) might be reduced to manageable levels. Competition between platforms might mean that some of the extra costs were absorbed by the platforms themselves rather than all passed through to consumers. Moreover, those consumers – who have already chosen to pay substantial monthly pay TV subscriptions - are arguably in a reasonable position to absorb a slight increase in the amount they pay for PSB.

Whether the amount of additional funding that would be generated for the PSBs justifies codifying this sort of regulatory approach further, including more explicit price controls, compliance processes and, presumably mechanisms for appeal, is not at all clear, however.

9.5.2 Advertising minutage changes

Following the last 5-year review, the Ministry of Communications commissioned a report from Indecon¹⁵⁵ on the Irish advertising market. One of its aims was to assess the impact of a reduction in permitted advertising minutage on PSB channels on their own revenue and on the revenues earned by other broadcasters. For this review, we have considered whether the opposite – an increase in airtime that PSBs are allowed to sell – might have any value in helping secure the future of PSB.

¹⁵² Sky, in its presentation to the Committee said it would point blank refuse to pay RTÉ for its channels and raised the possibility of a free to view “USB dongle”

¹⁵³ Note, if such workarounds are possible, then the risk to universality of PSB is much less than claimed.

¹⁵⁴ Robert Kenny [for eir, Sky, Virgin Media & Vodafone], *The implications of retransmission fees for Irish broadcasting*, December 2016. The platform

operators submitted this paper to the Oireachtas Joint Committee in October 2017. This paper, in Kenny’s personal view, identified “significant drawbacks” with retransmission fees, due to their unintended consequences and implementation challenges.

¹⁵⁵ Indecon: Economic Analysis of the Advertising Market in Ireland, April 2014

At present, the PSBs are restricted to selling 6.5 minutes an hour of advertising. Their commercial counterparts, regulated by the BAI, can sell up to 12 minutes in any clock hour for TV and 10 minutes for radio, and should not exceed 18% of broadcast airtime in any 24 hours. Indeed, the main increase in available TV airtime in recent years has come from the Irish opt-out ads on UK originated channels. Partly as a result, RTÉ's share of commercial impacts sold has been in gradual decline – now less than 40% of the total market - and its share of TV advertising revenues has also fallen – to around 44%. RTÉ also told us that it is now behind its main rivals, TV3, in terms of portfolio share of key younger demographics. While most of the increase in broadcast competition may now have worked its way through the market, a further shift of advertiser spend into digital advertising might continue to put pressure on RTÉ and TG4.

One option to stem further decline might be to allow the PSBs to sell more advertising minutage per hour. The merits of this would depend on the impact of any increase in volume on price, its knock-on effect on the rest of the market, especially on TV3, and consumer reaction to more advertisements on RTÉ and TG4.

To assess the impact of any change in volume sold on price, we can look at various previous models of TV advertising in Ireland and the UK. Indecon's econometric modelling suggested that a reduction in minutage sold by PSBs would reduce their overall advertising income. RTÉ, for example, would be able to offset some but not all of the decline in volume by increasing its prices – such that it would claw back around 50% of lost revenues, but would still be a net loser. Given the volume/price relationship is symmetrical, we can infer from this that an increase in airtime on RTÉ would result in some reduction in the price of its

commercial impacts, but overall its income would likely go up slightly. Other broadcasters would see a drop in their airtime prices and a loss of market share.

However, UK studies we are familiar with have found quite widely ranging results for TV advertising elasticities. Analysys Mason, for Ofcom in 2010, concluded that ITV1 in the UK had a price elasticity of 0.95. This means that an increase in the supply of impacts on ITV1 by 10% would lead to a 10.5% reduction in price per impact. In other words, overall revenues would fall. PwC for the BBC in 2015 noted that previous UK studies had estimated TV advertising elasticities ranging from 0.75 to 2.4, while Communications Chambers (also for the BBC) chose representative elasticities of 0.75, 1.0 and 1.25 to test the impact of various changes in commercial impacts in the UK. In other words, depending on which elasticity is used, the results of a volume increase in TV advertising could vary from a net loss to a net gain.

Clearly there is a large element of uncertainty about the precise effect on prices and revenues of any change in airtime rules. A further risk to RTÉ is that increased airtime could help to erode the premium which RTÉ can currently charge in the market for its airtime, but which is already under pressure as its market share declines. Alternatively, if RTÉ sees a net income gain, commercial broadcasters such as TV3 would likely be worse off, possibly affecting their spend on original Irish content.

More widely, account must also be taken of the possibly negative effect of more TV advertising on the viewer experience, and likely consequential effects of this both on RTÉ viewing (which might go down) and on public perceptions of the overall value of PSB.

Given these uncertainties, and the possible downside risks, we do not think that increasing available advertising airtime on RTÉ or TG4 would help secure the future of PSB. It would be unlikely to produce significant revenue benefits, and could risk having a negative effect over time on the PSBs' advertising premiums, audiences and viewer perceptions. It would also negatively affect commercial broadcasters.

Before leaving this topic, we note that the Oireachtas Joint Committee Report on PSB Funding identified as another possible source of revenue the option of imposing a levy or additional tax on opt-out advertising carried on UK-based TV channels. We have not assessed the effectiveness of this proposal, as it could take many different forms and levels, but any such assessment would need to take into account the costs (such as increased costs to local advertisers and to the channel providers) as well as any revenue benefits, which in turn might affect viewer choice and inward investment.

9.5.3 Prominence

An important benefit to PSB TV channels like RTÉ One and TG4 is that they can easily be found by viewers, whichever platform is being used to access their services. To date, this has meant a top or prominent position on the relevant page of each electronic programme guide (EPG) on the Saorview, Sky and Virgin platforms.

Section 74 of the Broadcasting Act provides for the BAI to enter into a contract with EPG providers in Ireland and for that contract to require an EPG provider to “ensure that the electronic programme guide or guides (prepared under the contract) prioritise within the guide or guides the positioning of each

broadcast service provided in the State by RTÉ, TG4 and the service provided under a television programme service contract by the television service programme contractor”.¹⁵⁶ This appears to give a reasonable degree of protection to the PSB channels, and ensures that they are found by viewers in a prominent position on each guide.

As a result, PSB channels are given a head start in persuading audiences to sample and consume the types of public service content which society has decided are of wide social and cultural value. In effect regulations help to “nudge” audiences to make the viewing choices society thinks will be beneficial to them as individual viewers and for society as whole.

But the world is changing. Existing cable/satellite programme guides are moving away from traditional programme grids, organised channel by channel, to a more interactive presentation of individual programmes, both broadcast and on-demand. “Smart” TVs now provide their own programme interfaces which may or may not provide prominence to PSBs, and are often based on “app” style menus. New content suppliers such as Netflix and Amazon have their own content gateways. These changes will impact on the future availability and findability of PSB content.

While to date, much public service content has been given a prominent position on these new platforms, reflecting its popularity with audiences, it is not difficult to imagine future scenarios in which platforms and other intermediaries prefer to promote their own content, or allocate paid-for prominence to non-PSBs.

¹⁵⁶ We note Sky's view that they are not legally obligated to provide prominence

For this reason, the future-proofing of prominence regulation has become a matter of concern across the EU. Organisations such as the EBU have suggested that prominence regulations should be updated to include on-demand services and new platforms. In the UK, the government recently asked Ofcom to prepare a review of prominence regulation in the UK, and to revise its guidelines by 2020. Although any action in this area is unlikely to generate significant audience or financial benefits for the PSBs for the next 5-year plan period, an updated prominence framework could help provide a more favourable longer-term environment for the sustainability of PSB.

9.5.4 AVMS

An updated proposal for the EU Audiovisual Media Services Directive (AVMSD) is nearing the end of its legislative process. The main changes to emerge include:

- Increased protection for vulnerable consumers of AV services on VOD and (newly defined) video sharing platforms
- Strengthened European content rules for such platforms
- More flexibility in some areas for traditional broadcasters – for example relaxation of rules on permitted advertising minutes
- Continuation with country of origin rules, but with clearer processes for resolving disputes.

There do not appear to be any major changes here which will directly affect the sustainability or otherwise of PSBs in Ireland, although one impact of Brexit might be more broadcasters seeking to locate in the Republic to take advantage of country of origin regulations.

9.6 'Soft constraints'

By soft constraints we mean constraints that are not a matter of statute or regulation, but rather are grounded in long standing practice or expectation.

A prime example is RTÉ's understandable reluctance to use involuntary redundancy, which it believes would be damaging to industrial relations and staff enthusiasm. (In RTÉ's view, staff goodwill is what has enabled pay restraint).

However, this policy does come at a cost:

- It reduces the ability to take costs out of the organisation quickly
- It also reduces the ability to take out costs in a targeted manner (since voluntary redundancy inevitably focuses savings on where there are volunteers, rather than on where they are most needed)
- It discourages RTÉ from using independent contractors (since migrating from in-house to external production would likely mean reductions in staff numbers)
- It discourages RTÉ from exiting marginal businesses, which would also require staff cuts.

We discuss elsewhere some of the benefits of greater use of independents, which would provide greater strategic flexibility. (RTÉ is aware of this point, and has told us they plan to focus future investment in areas that lock in less cost).

Exiting marginal businesses would allow greater strategic focus, and leave management's attention less divided. To take one example, RTÉ could consider selling the *RTÉ Guide* (as the BBC did with the *Radio Times* in 2011).

It is not for us to judge the overall costs and benefits of the policy of no involuntary redundancies. We recognise the benefits are very real, and that were RTÉ to move abandon this policy and move to involuntary redundancies, this might set a precedent for other semi-state bodies. (We note that RTÉ is required to consult with the Minister regarding redundancy plans).

However, it seems clear that the policy does come at some cost to RTÉ's strategic flexibility, which may be more important as the environment becomes more turbulent. Put another way, if policy makers wish this policy to continue, that would imply (all else being equal) greater public funding.

10 Recommendations

We conclude by summarising our recommendations on funding and on potential changes to PSB statute and regulation. We consider RTÉ and TG4 specifically, and then some overarching issues. Key recommendations are highlighted in bold.

10.1 Market Context

Following the challenging impact of the 2008 financial crisis, the PSBs' income stabilised over the last five years, although neither RTÉ nor TG4 achieved the funding increases hoped for in their last five-year plans. However, as Ireland's media market became increasingly competitive, they found it impossible to maintain reach and share, and – in RTÉ's case – saw costs rise faster than income.

The environment for the next five years is likely to be equally challenging. Commercial income is unlikely to grow significantly, and there are only limited additional operating efficiencies available for each PSB. If no additional public funding becomes available, (our "flat cash scenario") the result could be strategic stasis, in which the PSBs do not react sufficiently to changing audience needs, and see a continuing loss of viewing.

10.2 RTÉ

10.2.1 Funding requirement

RTÉ faces the most acute situation. Not only has it seen ongoing share declines, it has done so despite outspending its income and therefore running deficits. Simply put, the status quo is unsustainable.

RTÉ has put forward, in its preferred strategy, a series of high-level programme and service

proposals which are aimed at addressing the audience challenges it faces, with a rebalancing of spend to digital content. We broadly support this approach.

However urgent funding questions must be addressed. RTÉ is tackling the situation through its voluntary redundancy programme and other restructuring plans, but this is unlikely to be sufficient. Without additional public funding, RTÉ will need to radically change or weaken its offering, and likely see further loss of reach and share – potentially to levels that significantly reduce its public impact, and hence jeopardise the case for the licence fee.

Therefore **we recommend an increase in RTÉ's funding over the next five-year plan period** (though we remain cautious regarding the mix of spending of RTÉ's currently proposed spending plans, as we discuss further below).

In order to cover a reasonable "run rate" of expenditure and to enable RTÉ to deliver at least some of the changes it has proposed, **we think that this increase should be at least to the level that would be delivered by reform of licence fee collection**¹⁵⁷ (which is justified on its own merits). RTÉ estimates such reform is worth €[<]m in 2019, rising to €[<]m in 2021 and beyond, though our own estimates would be somewhat more cautious. Since licence fee reform may take time to put in place, we suggest **equivalent funds should be provided from other sources in the interim**.

However, for the reasons set out below, we suggest that RTÉ's receipt of this funding should be linked to it taking a more rigorous

¹⁵⁷ Licence fee collection is discussed further below at 10.4.1

approach to a strategic audience-based service prioritisation, with the goal of releasing funds for additional investment.

RTÉ also proposed additional public funding from reversal of the emergency cuts and linking the licence fee to CPI, worth €[€]m in 2022 (for a total increment of €[€]m). We do not believe that the case has yet been made for this level of funding.

10.2.2 Audience-based service prioritisation

With or without additional funding, RTÉ will need to make hard choices as to how to allocate its spend, so as to serve a wide variety of audiences and maximise its public value. In particular if no extra public funding is forthcoming (a flat-cash scenario) it would need to consider cutting certain services that no longer efficiently meet audience needs (as opposed to simply shaving budgets across the board).

In the context of this five-year review, RTÉ has not engaged in detail with the choices necessary under flat-cash. Moreover, we do not see evidence that it currently has a strong framework for making such trade-offs.

We recognise that part of the purpose of RTÉ's reorganisation is to become more audience focused. However, there is a difference between what might be called 'tactical' audience focus ("will this commission be attractive to viewers") and 'strategic' audience focus ("is my portfolio of services efficiently serving audiences, avoiding both underserving and super-serving").

Such strategic audience focus will be critical in a flat cash scenario, but will also be important even if extra funding is supplied. While RTÉ appears to be relatively efficient in how it does things, it is less obvious that it is making efficient choices as to *what* it does.

Thus, **the BAI and Government may wish to consider linking additional funding for RTÉ to development of a 'strategic prioritisation framework', and application of this framework to existing services as well as any new proposals.** Such a framework should allow them to compare the public service return on spend on different services over time. It should (amongst other metrics) consider cost-per-user-hour for different services and audiences.

This framework would give confidence that additional funding would be well spent, but also (if the Government decided not to provide further funding) would provide an essential basis for the hard choices that would then be necessary.

To be of value, given the urgent challenges ahead, we suggest that any such framework and its application should be completed within the next six months. However, reform of the licence fee – which stands on its own merits – should proceed in parallel. In light of the outcome of the framework, RTÉ's share of incremental licence fee could be adjusted as appropriate.

More generally, **the BAI should monitor RTÉ's progress in developing a more audience focussed strategy.**

10.2.3 Political and regulatory support

The goal should be for RTÉ to efficiently evolve its portfolio of services, not simply add new ones as the market develops – RTÉ already has a very diverse set of offers. However, such evolution may involve the closure of or radical change to services which deliver less public value than new initiatives, but nonetheless have loyal public audiences who may be vociferous in their objections. **RTÉ should be provided with regulatory and political support for cuts to services that are no longer**

optimal. This would include support for involuntary redundancies, if appropriate. Without such support for RTÉ, the value of a prioritisation exercise will be greatly reduced.

10.2.4 Production

More generally, strategic flexibility will be increasingly important as the pace of change in media continues to accelerate. Greater use of independent production would provide such flexibility, and **RTÉ should be encouraged to reduce its reliance on in-house production, separate from any decision on public funding.** The Government and BAI may wish to consider how best to ensure that this happens, for example by revisiting RTÉ's existing statutory obligations or requiring a clear plan from RTÉ to exceed such obligations over time.

10.3 TG4

10.3.1 Level of funding

The €2m increment TG4 has recently been granted represents approximately [x] of the 2018 increase it sought in its preferred scenario, and [x] of that it sought in 2022.

In our view this increment should help stabilise TG4's audience situation, at least for the first half of the next five years. However, TG4's preferred scenario hopes to do more than this. In particular, it anticipates spending more on content for its national audience leading to an appreciable growth in national share; more programming targeted at the core Irish speaking audience; making TG4 available in HD on Saorview; and expanded digital offerings in Irish and English.

We are uncertain whether increased spend on content for the national audience and distribution of TG4 in HD on Saorview generate substantial net public value. We also suspect that the national share objectives set by TG4 are very stretching, given the

competitive environment ahead. We are more convinced by the merits of expanded digital offerings, although (as we have noted) TG4's case for these is incomplete.

On this basis, we believe **a further increment in TG4's funding, beyond the additional amount already granted, is appropriate,** but we would see fully funding TG4's preferred strategy as more discretionary at this time. **The Government and BAI may wish to link further funding to specific investments (such as digital content in Irish) which add clear distinctive public value.**

10.3.2 Twin pole strategy

The key prioritisation question from TG4 relates to its twin pole strategy. TG4 is of the view that serving national audiences supports its mission to serve Irish language audiences. The idea that it should serve both is arguably underpinned by statute. However, this leaves open the balance of spend between the two poles. We suggest that TG4's *prime* public value should lie in its support for Irish language viewers. By extension, **if funds are constrained, funding which supports services for Irish language viewers should be protected. Conversely, undue focus on TG4's share of national viewing should be avoided.**

10.3.3 Investment cases

TG4 is proposing increased spend on its online offers. However, at this time there is relatively little detail available on these – either regarding evidence of market demand or the proposed services. Further, this is an area where TG4 currently has limited in-house skills, and thus there is a measure of additional risk. Thus, we believe that **before investment is made, TG4 should undertake a more detailed review of the costs and benefits of each of its proposed online ventures.**

Similarly, the **costs and benefits of the proposed investment in HD on Saorview should be reviewed.**

10.4 General recommendations

10.4.1 Licence fee collection

We share the view that **reform of the licence fee is necessary and urgent.** Not only would this secure incremental funding (for RTÉ and others), it is also will secure the very concept of the licence fee, which will be jeopardised if evasion becomes widespread. We also believe **the level of the licence fee should be linked to CPI.**

10.4.2 Statutory Framework

The BAI and Government may wish to consider whether **less prescriptive governance of PSB might be more effective than the current statutory framework.** This may require a review of legislation to define the PSBs' remits in terms of broader principles and objectives rather than prescriptive content and service requirements. It could also incorporate a **move to multi-annual funding settlements,** which we think would deliver benefits to the PSBs, Government and the BAI. Within this broader legislative framework, the broadcasters would have more flexibility to develop appropriate medium-term plans and targets. The BAI could evolve the current annual review and reporting processes to transparently assess progress towards audience-driven objectives, based on more granular targets by service and segment. (Conversely, there would be a lesser focus on funding, and scope to reduce the complexity of the annual review process).

Such a change to the statutory framework might include **more explicit recognition of the PSB's online services.** This would be consistent with a licence fee reform to include those households without TV sets.

As a related point, the government may wish to consider **modernising prominence rules to include on-demand and other online services.**

We are not persuaded of the case for introducing carriage fees for PSB services on the key pay platforms: this would require significant new regulatory intervention, with ongoing price setting and review, for only modest gains. (As noted earlier, one of the current authors provided a paper on this issue for the pay platforms in 2016).

10.4.3 Irish language content

The Irish language audience is a small segment of a small national market. Given this, the structure by which Irish language broadcast media is provided seems unnecessarily complex. **At minimum, greater co-ordination between RTÉ and TG4 on Irish language content should be encouraged.** It would be for the PSBs to determine the best approach, but - for example - they might wish to move forward with the joint production of Irish language news (across TV and radio). The BAI could monitor progress in this area via the annual reviews.

10.4.4 Governance and accountability

We have reviewed the accountability and compliance frameworks and processes at both PSBs. In particular, we have examined RTÉ's fair trading guidelines and procedures. These were introduced to reflect concerns highlighted in the previous five-year review, and appear to be working effectively. **We suggest, though, that in any future iteration of its fair trading guidelines, RTÉ should be asked to extend their scope to cover in more detail the competitive impact of their public service activities on the wider market.**

10.5 Concluding observations

Both PSBs cooperated extensively with this five-year review process and, in our view, have

correctly assessed the strategic challenges they face in the next five years and beyond. They have made convincing cases that PSB in general has a continuing and central role to play in Ireland, and that they each in their different ways play a critical part in the overall media ecology.

TG4 presented us with a carefully argued preferred strategic approach, and a clear view of how it would respond to a flat cash scenario. RTÉ, while setting out a positive vision of the future, provided less detail about the consequences of a flat cash outcome.

Overall, we think they have both shown that current levels of public funding are insufficient

to enable them to continue to make a fully effective contribution, although not all of their strategic plans necessarily deliver clear public value, and we are worried a little that they are adding new content and services to existing levels of activity, rather than pursuing a full re-prioritisation across all their output. Our recommendations, which suggest additional funding but with some conditions, are therefore designed to create an environment in which, when or if Government agrees to more public funding, it can be confident that such funding will be used by both PSBs to deliver best public value.

11 Annex: Assessment of the capabilities of PSBs

11.1 Strategic capability

11.1.1 Overview

As part of our work, we were asked to assess the extent to which the prerequisites for successful strategy development and implementation are in place at each PSB, including organisational capability, resources, culture and governance. This would include:

- discussions with the PSBs to understand their overall approach to strategic planning.
- a high-level audit of the tools they use in the strategic planning process, which might include market and audience research, scenario analysis etc.
- review of the effectiveness with which they have developed and implemented previous strategic plans.

We were interested in establishing the extent to which the PSBs understood the challenges posed by digital and on-demand media, how their PSB remits might evolve to respond to changing audience needs, where they might best focus investment to deliver most public value, and what organisational and structural changes might help achieve their goals.

Our overall conclusions, which we develop in the following section, are that both RTÉ and TG4 have in the main put in place the appropriate resources and capacity for effective strategic planning, including extensive analyses of market, audience and technology challenges, and internal programmes to ensure significant staff involvement in the overall strategic process. Both PSBs have sought external insights from a mix of stakeholders, experts and other third parties. As far as we have been able to

observe, effective governance processes have been put in place at both Board and senior executive levels to ensure accountable decision-making. Both PSBs have developed a comprehensive reporting framework with a range of KPIs to track actual performance against strategic aims.

To some extent, both PSBs face constraints on their room for manoeuvre when developing strategies. Statutory obligations, stakeholder pressures, regulatory processes, audience expectations and political realities may limit their scope for radical change. Against this background, it is perhaps understandable that both have developed strategies which add new initiatives to their existing range of output and services.

However, in both cases, we think that the PSBs could usefully have been more radical in their thinking about longer term options, setting out how they might re-prioritise their output and activities, develop innovative approaches, and perhaps curtail those no longer relevant. Even if in the end not pursued, such options could have helped test the merits of those finally adopted. In particular, we think that RTÉ could have done much more as part of this 5-year planning review to demonstrate that it is taking a serious and rigorous approach to the identification and evaluation of options for dealing with a “flat cash” scenario.

11.1.2 The strategy development process

First, we looked in detail at the strategy development process and resources put in place by each PSB. Both RTÉ and TG4 have new CEOs appointed partly with the aim of charting a new strategic direction for their respective organisations. Both have developed a more comprehensive approach since the first 5-year planning cycle, building on lessons learnt

during that exercise, and both were able to demonstrate a considered and well-designed planning capability, largely resourced in-house.

RTÉ

RTÉ used a strategic planning “roadmap” with four phases: defining the context, evaluating content choices, making key decisions, and planning detailed actions. This was scheduled to take place over a 12-month period from September 2016.

Around 18 senior executives were involved in the process, with a much larger number (approx. 300) of people from across RTÉ engaged in workshops, working groups or other forms of involvement. The focus of this wider engagement was on the service and content choices facing RTÉ.

A small core strategy team, with some external consulting input was formed to oversee the process, led by the MD Corporate Affairs, and at key stages the RTÉ Executive and the Board (in full or via a sub-committee) were involved to give direction and final sign-off.

TG4

TG4 followed a similar approach to that taken by RTÉ although understandably on a smaller scale. It too adopted a four-stage approach: mobilisation, research and initial work, development of strategy statement, financial projections and documentation. The process was led by the CEO, supported by the COO, with input from an external consultant. The wider management team was involved in helping understand trends and developments in the industry, and in an initial filtering of strategic options. Various decision criteria were applied to the strategic options, with the aim of guiding the final decision-making process. The TG4 Board was involved at key

moments, for example agreeing the statement of purpose/mission, agreeing the overarching strategy, and signing off the 5-year plan.

Summary

In sum, both PSBs for this 5-year planning exercise have adopted clear and well-structured approaches to strategy development. Key market challenges have been identified, expert resources involved, and there has been a wide engagement with staff throughout the organisation.

There is a risk, though, that an exercise such as this becomes overly mechanistic (“ticking the boxes”), and might fail to ask enough of the tough questions (especially on remit and funding) which each organisation should confront.

We were assured by both PSBs that this has not been the case, and that all options have been considered as part of their strategy development process. But the detail of this thinking has not been shared with us. We cannot be certain, therefore, that the process has allowed enough space for the appropriate level of radical challenge at senior executive and Board level. Both PSBs might be asked to ensure that room for such challenge is built into their future strategy development work, especially as they respond to unexpected changes over the next five years.

11.1.3 External insight

Critical to good strategic thinking is external insight – an understanding of markets, audiences, technologies and best practice elsewhere.

RTÉ

We were impressed by the amount of work RTÉ this time has put into gaining such insight, including ongoing audience research, market

analysis, views of stakeholders¹⁵⁸, and a “peer review” carried out by the EBU. RTÉ has also drawn on several sources of independent research which examined the Irish advertising market, production efficiencies, and structural change in other similar-sized PSBs.

RTÉ identified the key challenges faced by PSBs in a fast-changing environment, and we find much to agree with in their analysis, including likely pressures on commercial funding, inflation in some key cost categories, difficulties in attracting younger audiences to conventional broadcast services, and so on.

The key question, though, is has this research been used by RTÉ to beneficial effect in its strategy process? Here we make four observations:

First, there is a risk of over-generalising both the challenges faced, and the responses required. For example, not all programme genres face the same inflationary cost pressures, some types of broadcast output reach younger audiences more effectively than others, not all content types require an online version, some genres require more radical re-thinking than others etc. In forming its strategic response (and hence its priorities for the future) we would have expected RTÉ’s strategy to reflect these variations.

Second, while much audience research has been undertaken, and it has often guided high level strategic thinking, it is less clear how it has been used to inform each element of the strategy. Elsewhere in our report, we explain how RTÉ might have done more to use more granular audience research to drive its content and service priorities. The EBU peer review

also commented on RTÉ’s audience research capacity and focus.¹⁵⁹

Third, RTÉ might have been expected to say more about what it means to be a public service media organisation in the new digital world. The stakeholder survey underlined the perceived importance to Irish society of RTÉ as a public service broadcaster, with an emphasis on news and current affairs, Irish culture and heritage. It asked for more innovation and a less Dublin-centric approach. Our sense is that RTÉ’s strategy should indeed be judged by the extent to which it is based on a clear view of what its audiences demand of it as Ireland’s main PSB, and how it differs from fully commercial players.

Finally, we might have expected RTÉ to draw some much sharper conclusions about the range of services and platforms it needs in future. The EBU peer review, for example, argued that RTÉ currently has a very broad offer, and potentially suffers from lack of focus, with too many services and platforms. It concluded by suggesting that RTÉ reduce the number of its services, proposing an approach described as “fewer, bigger, better”. With funding under pressure, this is a challenge that RTÉ might have been expected to address head-on, even if disagreeing with the specific recommendations made by the EBU team.

RTÉ reports in its 5-year plan that it completed a critical review and prioritisation of its services and developed a range of service choices for consideration. However, what these choices were and how they were made is not set out in the preferred strategy presented in the 5-year plan. For the flat-cash scenario, RTÉ presented only a high level

¹⁵⁸ 19 external stakeholder groups were consulted, and the results of the process were analysed and reported by Amarach Research.

¹⁵⁹ RTÉ has explained to us how its new organisational structure, with an Audiences and Channels division, will help ensure that this is done much more effectively in future.

response to what would clearly be continuing and serious financial challenges. We are therefore unable to judge the extent to which the RTÉ Executive and Board have properly addressed the challenges they face and how they would respond in such a scenario.

TG4

TG4, with more limited resources, has also undertaken a programme of work to establish its likely operating environment, audience challenges, and stakeholder expectations. Much of its market analysis draws on already published data and reports, while its stakeholder discussions have been carried out on a less extensive, less formal basis than those set up by RTÉ. Nevertheless, TG4 has been able to access a comprehensive range of external analysis and insights at a broad-brush level. Something akin to RTÉ's more structured external peer review might have added further value, here.

Again, the key question is whether these various insights been reflected in TG4's proposed strategy?

Our main observation is that TG4 makes a persuasive case for the future broadcasting needs of Irish speakers (its "core" audience) and how it can effectively continue to serve them. However, its strategy for addressing the needs of less proficient Irish speakers (its "national" audience) is arguably harder to accomplish and riskier. TG4 argues that the two "poles" of its strategy are closely linked, given its statutory obligations and the importance, as it sees it, of retaining wider support from non-Irish speakers. However, the success of this approach will depend on the extent to which TG4 can continue to attract these audiences to the range of its output in a more competitive digital, on-demand world, while ensuring sufficient funding for its core Irish audience output.

11.1.4 Engagement and accountability

We also examined engagement in the strategy process at each PSB, both throughout each organisation and at Board level. The hypothesis being that an effective strategy should be overseen by a well-informed Board, capable of scrutinising executive proposals, but should also aim for a sense of ownership by all in the organisation.

RTÉ

At RTÉ, clear efforts were made to involve many people in parts of the strategy development process. There was a major content-focused internal exercise with the establishment of 13 genre-based groups, whose remit was to bring together audience research and creative thinking to help develop new content strategies for RTÉ. The outputs we saw set out a wide range of aspirations for long form content, new ideas for reaching younger audiences and proposals for new digital content and services, some of which require further development.

This initiative seems to have generated a keen sense of engagement across RTÉ, and produced many interesting ideas, not all of which call for extra money. Perhaps inevitably, this sort of "bottom-up" exercise is less effective at addressing funding priorities, which - we understand - was a task reserved for the core strategy team and ultimately senior executives and the Board.

Given this, it is critical that the senior team, including the Board, has an effective understanding of and input into the final strategic choices to be made. We understand that RTÉ established a Board strategy working group which met eight times and was regularly updated on the strategy process and the options as they were being developed. Six meetings of the full Board were scheduled to discuss and finally agree the strategic plan.

It was not part of our remit to review any detailed Board discussions of the emerging strategy, nor to establish the range of options put before the Board. Nevertheless, our understanding is that some options which involved significant changes to RTÉ's range of services were discussed, although not presented as part of the final preferred strategy.

As far as we can ascertain, therefore, RTÉ has made positive efforts both to engage the entire organisation with the strategy process, and to ensure proper processes have been in place to secure Board scrutiny of and approval of the strategy. It is perhaps less clear how well managed the interface has been between these "bottom up" and "top down" approaches.

As regards external accountability in this five year review, RTÉ has fully co-operated with the consultants during the review period, and provided a comprehensive account of its preferred strategy and five-year plans, although its final submission lacked some of the detailed information requested at the start of this review. Some of these data have been subsequently provided to us on request. [redacted].

TG4

At TG4 a series of workshops with the management team and key staff were held at which we understand the draft "top down" strategic aims were explained, and "bottom up" ideas and proposals were discussed.

We understand that the TG4 Board received regular updates throughout the year on performance against budget and strategy, and was fully involved in each stage of the strategy process. In effect, it was the Board's recognition that a new strategy was needed which informed the appointment of TG4's

new CEO. This has ensured a close link between senior executive and Board strategic thinking.

TG4 also co-operated fully with the review, and complied fully with the requests for detailed and costed plans for both the preferred strategy and for the "flat cash" scenario, supported with detailed financial and other supporting data.

In sum, both PSBs have made considerable efforts to secure organisational involvement in strategy development, although ultimately the key strategic decisions, as would be expected, have been taken at Board level. Both appear to have proper Board processes in place to ensure effective scrutiny of proposals put to them by senior executives, with the caveat mentioned earlier that we cannot be certain that all the most radical options were fully discussed.

TG4 co-operated fully with this 5 -year review process, and submitted detailed responses to the 5-year plan template, including both their preferred strategy and the flat-cash scenario. RTÉ likewise engaged constructively in most stages of the process, but chose in the end to present much less information than requested in some areas, most importantly in their response to the flat-cash scenario. This has made it more difficult for us to reach a considered view on RTÉ's funding adequacy.

11.1.5 Implementation

Finally, in this examination of strategic capabilities, we looked briefly at implementation – both at how the previous 5-year strategy had been implemented, and processes in place to ensure effective implementation of the new strategy.

The past 5 years

After the previous 5-year funding review, steps were taken to put in place agreed KPIs at

each PSB, which would be reported to each PSB Board, and would be assessed as part of the annual funding reviews carried out for the BAI. This process is now bedded down in both RTÉ and TG4. Each PSB reports progress against KPIs on a regular basis to its respective Board. Both have Board Committees which oversee audit and risk management (including performance against strategic objectives, strategic risks etc), and track the main KPIs.

As regards financial planning, both PSBs track key financial data throughout the year, and progress against strategic objectives is adjusted according to any financial constraints (or opportunities) which arise.

However, while these regular processes work well in tracking financial and operating performance in a relatively stable environment, we sense that there is a risk they may be less well equipped to identify major strategic challenges/risks, especially in times of major uncertainty and change.

The risk of a “five year plan” is that it suggests a fixed strategy for the whole five years – clearly unrealistic in such a fast changing world. For example, during the last 5-year plan, even in the absence of the additional public funding needed, RTÉ continued to try to implement its preferred strategy. Consequently, RTÉ has underinvested in digital assets and services, and at the same time seen its financial deficit increase. RTÉ’s susceptibility to fluctuations in commercial revenues makes this problem more acute. It is at least arguable that a more radical change of course might have been advisable.

TG4, in contrast, was left in the uncertain position of not knowing whether its revised strategy and plan had been approved, but responded by dropping many of its more ambitious proposals in the absence of

requested extra funding, in order to live within its means.

The next 5 years

Both PSBs expect to continue to implement the reporting processes put in place for the last review, and this would seem a sensible place from which to start.

Further thought needs to be given, however, to ensure that the reporting measures and benchmarks do not become irrelevant if the market or funding position changes dramatically and in unforeseen ways. Faster and more impactful responses to changes in financial fortunes may be essential over the next 5 years if the PSBs are to avoid further financial difficulties.

Likewise, significant market changes may require significant changes in strategic approach. It may therefore be helpful to ensure that major internal strategic assessments are scheduled at least once a year, to ensure proper consideration of emerging trends and challenges – for example those identified in the on-going audit and risk management process.

Our conversations with both PSBs give us some confidence that they each recognise this challenge, and are putting in place processes which will ensure a more flexible approach to their strategic thinking in future. Their aim is to be able to respond more quickly to significant changes in their external environment as and when needed.

Additionally, it would be worth taking stock to assess whether the agreed set of KPIs are still fully relevant for the next period, given uncertain funding and possible changes in the significance of various aspects of each PSB remit. In this context, the RTÉ/EBU peer review report noted that RTÉ might wish to [redacted].

11.2 Understanding of audiences

PSBs face particular challenges in ensuring their strategic and editorial decision-making responds to audience needs. They are often subject to pressures that may not directly relate to audience preferences. The level of public funding may not be linked to audience performance. Measurable aspects of audience impact – reach, share, appreciation – may not always correlate with delivery of public purposes, creating scope for tension between objectives, and lack of clarity about whether public service remits are, in fact, being met.

Meeting audiences' needs therefore requires PSBs to use appropriate tools to gather audience understanding, and to cultivate an organisational and cultural focus that puts audiences at the heart of decision-making. While editorial strategy must be shaped ultimately by each PSB's particular public service remit, it must ensure that content is not produced for content's sake, but because it meets a well-articulated and understood audience need.

In assessing the PSBs' understanding of their audiences, and the effectiveness of their focus on audience needs, we have drawn on three principal sources.

First, we have reviewed the PSBs' own internal research, to understand audience drivers and assess whether their future plans will address them, and also to consider its effectiveness as sources of insight into audiences' changing requirements.

Secondly, we have held discussions with both PSBs to assess how effectively audience insight is embedded in their decision-making and planning processes, both strategic and creative. We have considered whether the PSBs draw on an appropriate range of sources of insight, including the Audience Councils and

informal audience feedback as well as research.

Finally, we have reviewed the objectives and measures of success included in the PSBs' annual statements of performance commitments, to consider whether they make appropriate use of audience metrics.

11.2.1 RTÉ: audience insight sources and plans

RTÉ has access to a range of sources of audience insight, including both quantitative and qualitative, external and internal. Performance data includes TAM audience data provided by Nielsen, JNLR radio listening data provided by Ipsos/MRBI, and comScore online analytics. Attitudinal insight is provided by an appreciation panel, brand tracker and corporate reputation research. RTÉ commissions a range of bespoke projects, including a segmentation study that contributed to the creative proposals in the five-year plan. The plan was also shaped by workshops with younger audience members and RTÉ staff, and consultations with external stakeholder groups, and an extensive internal engagement programme. At the time of preparation of this report, it was in the process of re-rendering its data analytics capability to provide better real-time online performance data across the organisation.

RTÉ told us that audience insight is used across the organisation, both centrally, up to Board level, and by editorial and creative teams. Audience research reports are discussed weekly in the Television division, monthly in News, and quarterly in Radio, aligned with the reporting cycles of the relevant industry data sources. Increasingly, these discussions consider performance of competitors as well as RTÉ's own services. RTÉ is seeking ways to develop a common picture of audiences across disparate datasets, including working

to integrate its segmentation study with standard industry measurement tools.

We note the concerns raised in the EBU's peer review of RTÉ that [REDACTED].

RTÉ described the work it was undertaking to drive more effective use of audience insight in the organisation. In the previous structure, research was siloed between the integrated business divisions (IBDs), relied on quantitative industry sources, and was often retrospective rather than forward-looking or diagnostic. As a result content production was creatively led, and research primarily used to measure performance after-the-fact. As one executive put it, [REDACTED]

In the new organisation structure, this is expected to change, with the Audiences, Channels and Marketing division responsible for providing a single view of RTÉ's audience and using it to inform commissioning and scheduling, to align RTÉ's brands and to drive marketing and cross-promotion. RTÉ provided examples of where audience research had affected editorial decisions, for example the segmentation analysis helped make the decision to swap 'The Voice' with 'Dancing with the Stars'.

RTÉ says that this is work in progress. It is likely that editorial adoption of insight tools will progress at different rates in different parts of the organisation. And, as RTÉ also said to us, the purpose of research is to support strategic and creative decision-making, not drive it.

An important element of RTÉ's five-year plan in this context is investment in first-party data, sign-in and personalisation tools. It has built an ID system and (at the time of a meeting in October) accumulated [REDACTED] signed-in users. [REDACTED]. The primary purpose is to improve marketing and cross-promotion, but the user data gathered should in time provide another

valuable source of behavioural insight into content consumption.

RTÉ's annual statements of performance commitments include a wide range of audience metrics. Its 2017 targets include headline consumption goals including overall, TV and radio reach and share, all adults and by age group, and total online reach, unique browsers and video streams; and broad image attributes (importance to Irish life, trustworthiness, quality, creativity, range of content, service for Irish speakers, ease of access, value for money and so on).

11.2.2 TG4: audience insight sources and plans

TG4's detailed analysis of its operating environment, prepared in support of its five-year plan, includes audience analysis, trends in Irish language usage and stakeholder views, as well as market, competitive and technology reviews. Its 'twin pole' audience strategy includes analysis of the genre preferences of its core Irish speaking constituency and the wider national audience. It identified a correlation between low satisfaction levels and increased in-house, studio-based productions in the previous period, which it now plans to change. It provided TV ratings data to support its TV programming proposals and evidence from recent online performance to support its online content plans.

A critical tool for TG4 is the Fios Físe audience panel, which provides data on Irish speakers' viewing, addressing the limitations of TAM with respect to this audience. This panel, established by the National University of Ireland, initially comprised 300 fluent Irish speakers; it was expanded in 2017 to 500 members, to include weekly speakers of Irish. It provides both quantitative and qualitative insight. TG4 is also informed by its Audience Council and ad hoc audience feedback.

Online data is provided by analytics tools including comScore, Alexa, Grabyo, Sprout Social and Brightcove. In addition TG4's online plans are based on market insight demonstrating younger audiences' greater use of online, short-form and social content.

Organisationally, TG4 told us that audience insight was embedded in day-to-day activity as well as strategic decision-making. Research is frequently discussed with the management team and at every Board meeting. The audience research team is part of the Content department, and the head of research is part of a small group that meets regularly to discuss commissioning and content decisions. Every programme proposal has to have a clear audience target, including reach and share projections, which are debated by this group.

Nonetheless, TG4 also recognises that it has opportunities to improve its use of audience insight. It says that a cohesive, comprehensive picture of audience need and impact is still some way off.

Like RTÉ, its annual performance commitments include targets for overall reach and share, and a range of online metrics. TG4 also sets cost per viewer hour targets. Audience satisfaction is a key attitudinal target. Finally, TG4 targets its position in Ireland's most-watched channel list, and its reach in Northern Ireland.

11.2.3 Assessment

It appears to us that RTÉ has access to the sort of data which any broadcaster needs to track performance across services, programmes and demographics, and that this data is widely communicated within the organisation. As we discuss in section 9, however, it is less clear whether the implications of that data have been fully driven through its plan for the next five-year period. RTÉ may need to consider the

audience implications of more thoroughgoing service and content reprioritisation, particularly in the event that its funding goals are not achieved. It is unclear from the material provided to us whether it has developed an audience-based framework for undertaking that kind of assessment, and if so how far it has been used to support development of its plans. It is also unclear whether it tracks suitable metrics regarding innovation and creativity (see below).

While TG4's audience research activities are inevitably more constrained than RTÉ's, it has nonetheless been able to draw on a wide range of sources of audience insight in preparing its five-year plan, and has a clear overview of the major trends driving changing audience behaviour at a macro level.

The question for TG4 is whether this strategic analysis takes sufficient account of the particular needs of its own audience, as opposed to broader trends. TG4's arguments for its proposals, especially for online content, generally consider broad market and audience trends, and sometimes the experience of other indigenous language broadcasters. They do not generally demonstrate a specific unmet need to which the proposals respond, nor do they always provide evidence of impact of existing initiatives.

For example, TG4's rationale for its proposed [redacted] includes evidence about [redacted], but not about [redacted]. Similarly, its rationale for launching TG4 HD on Saorview does not provide any data about the benefit it gains from being available in both HD and SD on satellite and cable platforms.

Since most of its core audience is bilingual, TG4 is in effect competing online with an enormous range of English language services, even if the Irish language Internet is relatively

under-developed. TG4 cites Pobal research that found interest amongst younger Irish speakers in Irish language media content – but only one in five expressed interest in using Irish language apps. More focused audience insight – although it would come at a cost – might be required to help TG4 develop proposals with the best chance of breaking through.

Both broadcasters may have a case to spend more on audience insight in coming years – RTÉ to put in place first-party data capture and analytics tools (as per its plan), and TG4 to develop greater insight into online opportunities. They are likely to face tension between increased investment in these areas, and the desire to prioritise investment in content, especially if their funding goals are not achieved. They may consider opportunities to rebalance audience research spend away from performance measurement to more diagnostic approaches, although the core measurement tools – TAM, JNLR, comScore – will continue to be essential.

Both PSBs acknowledge room to further improve their use of audience insight in day-to-day editorial activity. Future reviews might assess the extent and consistency of use of this insight, particularly throughout a wider leadership group.

Both broadcasters said they received regular input from their Audience Councils, but did not provide much detail about their use of these bodies. While they should not be used as a substitute for robust, professional research into audience needs and preferences, they can provide a less formal sounding board for new ideas. A more focused role, that takes advantage of the particular mix of expertise on each body to address particular problems or projects, may be one option to consider.

11.3 Capacity for innovation

At the heart of any PSBs' strategy must be the pursuit of creative ambition and editorial innovation. This will derive from the creative challenge expressed by the commissioners of content; the production skill and expertise of those - both in-house and independent - who secure the commissions; the risks taken with new talent, new ideas, new formats to energise schedules and catalogues; and the extent to which the organisations learn from both themselves and others. Creative partnerships, external suppliers and co-productions can play an important role in extending the range, diversity and originality of broadcasters' content.

Innovation and creativity are a central component of the performance reporting framework put in place by the BAI. Goals were agreed between the broadcasters and the BAI following the first five-year review of funding, including broadcast output targets, independent production and partnership objectives, goals related to accessibility and discoverability, awards and nominations, non-linear content provision (for TG4) and audience perceptions (for RTÉ).

To assess the extent to which the broadcasters display creative ambition and editorial innovation, we have drawn on three sources:

- The PSBs' annual statements of performance commitments, reports on delivery against those commitments, and the BAI-

commissioned annual reviews of public funding,¹⁶⁰

- Discussions with the broadcasters, and the plans and further information they submitted for this review; and
- The BAI's research into audience perceptions of the PSBs.

We discuss each PSB's record of creativity and innovation over the past five years in turn, and their goals for the future, before considering implications for our review.

11.3.1 RTÉ: creativity and innovation performance 2013-17

RTÉ's objectives, agreed with the BAI, have included a range of initiatives, and associated targets, related to creativity and innovation. Its 2017 statement of performance commitments¹⁶¹ identifies seven actions, and accompanying targets (**Figure 66**).

Figure 66 RTÉ Initiatives and targets¹⁶²

Key measure/initiative	2017 target
Continue to deliver the big national events that bring the country together	Maintain public perception that RTÉ <i>enables me to connect with national events</i> at ≥80%
Make RTÉ content accessible to the widest possible audience across different devices and platforms	Maintain public perception that RTÉ <i>programmes and services are easily accessible on a range of devices</i> at ≥80%
Support and promote innovation and creativity	Maintain public perception that RTÉ is a creative organisation at ≥60% Broadcast five pilots on RTÉ Television
Maintain a high proportion of first-run home production on RTÉ Radio	Maintain ≥80% of RTÉ Radio's FM output as first-run indigenous content
Ensure a high proportion of home-production during peak on RTÉ One	Maintain indigenous hours as ≥70% of total peaktime hours on RTÉ One
Support the Irish Independent production sector through commissioning Radio and Television programmes	Meet statutory spend requirement
Support arts activities in Ireland	Maintain public perception that RTÉ supports arts activities in Ireland at ≥70%

RTÉ's reports show that it has consistently met its targets in this area. In 2016, more than four in five adults agreed that RTÉ 'enables me to connect with national events' (84%) and that 'its programmes and services are easily accessible on a range of devices' (82%). A fraction under the three-in-five target (59%) agreed 'RTÉ is a creative organisation. Five pilots were broadcast on RTÉ Television, 80% of FM radio content was first-run indigenous programming, as were 77% of peak-time RTÉ

¹⁶⁰¹⁶⁰ We have not repeated the analysis carried out for those reports, but link where appropriate to relevant reports

¹⁶¹ [RTÉ Annual Statement of Performance Commitments 2017](#)

¹⁶² TAM Ireland, Individuals 4+

One broadcast hours.¹⁶³ In 2015 and 2014, all its creativity and innovation targets were met.

This positive record is also confirmed by the independent annual reviews of public funding carried out since the previous five-year review. For example, the 2014 review concluded that “RTÉ continues to produce a good range of new content, returning key series and developing new strands in all major genres. RTÉ continues to innovate in multi-platform content. Creativity was evident in radio with 35 new Irish radio plays.”¹⁶⁴

RTÉ has described a number of organisational changes and investments made to support innovation. These include:

- Creation of an internal Development Unit by RTÉ Television, tasked with refreshing existing programmes and developing new programme formats, working with independents and in-house commissioners;
- Review and restructure of the Independent Radio Production Unit, with a fund of just over €1m pa, which is now split 50:50 between new commissions and recommissions. The IRP’s 2016 comprised 15 commission briefs to radio independents (which have historically provided a very small proportion of RTÉ’s radio output) and led to several new series;
- A Digital Innovation Fund, which solicited 36 submissions from staff for new digital ideas, of which four were selected for funding.

More broadly, RTÉ has made efforts to create a stronger culture of innovation across the organisation. A central component has been the launch of a Creative Leadership

Programme, combining training, development, events, collaboration and cross-divisional problem solving. More than 320 staff and managers have participated, and are intended to act as facilitators and ambassadors of creativity across the organisation. RTÉ is adopting a systematic approach to content innovation similar to that used by NRK, Norway’s public service broadcaster, and based on an ideation framework developed by Stanford University.

To support this activity, RTÉ has established partnerships with training providers including the BBC Academy, Irish Management Institute, Dublin City University, Trinity College Dublin and the Open University.

Creative partners include Creative Ireland (the Government’s legacy programme for Ireland 2016); the Irish Film Board (support for new Irish scripted comedy and co-curated seasons of Irish feature films); BBC Worldwide (co-development of new Irish comedy and comedic talent); Animation Ireland (to support the development of the Irish animation sector, commissioning of Irish and co-produced animation and provision for Irish children); and the Arts Council of Ireland (to increase public engagement in the arts).

RTÉ’s reports also contain many examples of content to illustrate performance against creativity and innovation goals, including coverage of national occasions such as the 1916 Commemoration events, new series and formats, and shows produced using innovative production techniques. It has provided examples of co-funded and co-produced drama and documentaries, including a two-year deal with ARTE, the Franco-German public broadcaster, to produce arts, culture and factual documentaries, and free exchange

¹⁶³ RTÉ Performance Commitments Report 2016: Today, Tomorrow, Together, unpublished

¹⁶⁴ Oliver & Ohlbaum, [Public Funding Review of Public Service Broadcasters](#), July 2014

of back catalogue programmes for online distribution.

However, RTÉ did not provide systematic analysis of the volume, genre and type of new originated TV titles and returning series, or data on co-productions.

Looking ahead, RTÉ's new five-year plan includes a central focus on innovation. This includes *service* innovation, with a growing focus on online content and distribution, and also *editorial* innovation, including the potential creative dividend of the One RTÉ restructure and the proposed establishment of a Digital Lab (see section 6.2.3). Its content critique identified a need for new faces on-screen, more opportunities to develop new titles and formats, and staff 'rejuvenation'.

11.3.2 TG4: creativity and innovation performance 2013-17

TG4's agreed objectives and targets have less detail regarding creativity and innovation than RTÉ's. Nonetheless its annual statements of performance commitments have consistently included measures in this area; in 2017 this was: "Promote innovation and creativity throughout TG4's content, services and partnerships." Other relevant commitments include: "Introduce innovative measures to promote greater stability and growth in the Irish independent production sector, including in the Gaeltacht," as well as a range of commitments to ensure its content and services are valued highly, and to strengthen TG4's position with younger audiences.¹⁶⁵

Targets for 2017 include implementation of new genre strategies delivered through new partnerships; increased production of non-linear and social content; establishment of new multi-annual commissioning agreements

with independent producers and other initiatives with the production and film sectors; to support 490 'creative resources'; and new partnerships with other broadcasters.

The most recent annual review of public funding¹⁶⁶ assessed creativity with respect to:

- the volume and value of new Irish language programming TG4 commissioned from independent producers (680 hours in 2015, at a cost of €18.2m, of which 80 hours were "brand new" against a target of 87);
- the number of creative staff supported (473, against a target of 438);
- number of awards and nominations (89, compared to 97 in 2014 and 75 in 2013).

Historic data provided to us by TG4 suggests that the volume of new Irish language commissions has fluctuated slightly, but not significantly, since the last five-year review. Hours of 'brand new' content increased to 91 in 2016. TG4 typically runs around 27-28 new series per year, compared to 34-36 returning series, and 50-55 new one-off programmes. In 2016 the number of new series fell to 21 and the number of returning series increased to 38.

TG4 also provided details of a range of initiatives to support training and development of new talent, internally, in the independent production sector and in media education. It delivers approximately 1,500 hours of external training annually for its

¹⁶⁵ TG4,

¹⁶⁶ Indecon, [Public Funding Review of Public Service Broadcasters](#), September 2016

(currently) 79 staff, with a significant focus on creative and content-technical skills.

Production sector training and development schemes are often undertaken in partnership with a range of training bodies and co-funded by the industry, BAI or Irish Language Broadcast Fund (ILBF). These have included initiatives to develop new Irish language writing, directing and producing talent. Sometimes TG4 has broadcast, or published online, the output from these courses.

TG4 argues that the relatively small talent pool it can draw on enables it to create opportunities for talent at a very young age, and that a number of well-known broadcast personalities started or continued their careers on the channel.

Beyond the independent production sector itself, key creative partners include the ILBF and BAI, and the World Indigenous Television Broadcasters Network (WITBN), of which TG4 was a founding member. WITBN members exchange and share media content and knowledge, offering TG4 free access to 48 hours of programming and a news exchange scheme.

TG4 provided details of a wide range of co-productions, which it says deliver high-quality content at lower cost and expanded the hours of programming available to Irish audiences. Partnerships with UK broadcasters (S4C, BBC Alba, BBC Northern Ireland, BBC Scotland, Channel 5) appear to have generated most content, but other examples range across Europe, and occasionally to Australia or the US.

A significant initiative for 2017 is the launch of Cine4, a joint-funded initiative with the Irish Film Board and the BAI, to support the development and production of feature films in the Irish language. The initiative aims to submit two projects for funding to the BSAI's Sound & Vision scheme, which will receive festival and theatrical release as well as broadcast on TG4.

11.3.3 Assessment

The broadcasters' performance against agreed creativity and innovation targets is consistently strong. Both broadcasters recognise the need to continue to focus on creative excellence in an increasingly competitive media environment, and have made changes to seek to embed audience focus even more centrally in their organisations and creative strategy.

However, audiences' expectations with respect to creativity and innovation are high, and likely to continue to rise. In the BAI's audience tracking research, both broadcasters' ratings for innovation statements are low relative to other aspects of public service performance.¹⁶⁷ For example, just 40% say of RTÉ that "there is always something new or interesting in the programme schedule;" 42% agree that "it provides programmes with new ideas and different approaches." These come 26th and 24th in a ranking of 32 positive attributes, although they represent a slight improvement on 2016's scores.

TG4's average ratings on the same attributes are slightly lower, even amongst Irish speakers.¹⁶⁸

¹⁶⁷ BAI/B&A, Audience Tracking Research: an island of Ireland survey, May 2017

¹⁶⁸ RTÉ average mean score out of 10 for a bundle of 'innovation, creativity, originality' statements was 6.7 in

2017; the equivalent score for TG4 amongst Irish speakers was 6.6

We note also that stakeholders' views, particularly of RTÉ, are somewhat critical of the organisation's capacity for innovation. Research commissioned by RTÉ found that stakeholders feel it is somewhat bureaucratic and can be difficult to engage with as a partner. Editorial/news stakeholders believe there is too high a degree of conformity in RTÉ's viewpoints; greater diversity, achieved through greater permeability and external hiring, is seen as a possible solution, which some feel would enhance creativity and engagement with a broader audience.

Stakeholders want RTÉ to understand the pace of change in the media sector. They perceive that that RTÉ's own change has been too slow, to date. RTÉ is not viewed as an organisation with a significant digital presence, despite the range of services it offers. Consequently, the organisation is viewed as responsive rather than innovative; reactive rather than proactive. There is a desire for RTÉ to succeed, and a view that it can be a catalyst for innovation in the wider creative sector, but it will need to change to do so.

Our analysis of the broadcasters' plans and performance with respect to creativity and innovation suggests a number of areas for continued focus.

First, the broadcasters will need to continue to build on the initiatives introduced over the previous five years to develop and embed a culture of innovation. Some external stakeholders perceived in RTÉ a culture that was resistant to change, which many public service broadcasters grapple with. The new organisational structure provides a good foundation, but RTÉ's change management programme will need to retain a strong focus on cultural transformation to ensure that the

intent of the reorganisation is realised in practice. TG4's extensive use of external relationships – with producers, funders and co-producers – should help ensure it is open to new ideas, but its small in-house headcount may make it hard to bring in new skills and makes it dependent on the ability of existing staff to flex in response to changing audience needs and technological opportunities.

Secondly, it will be important to identify and monitor appropriate measures of success. The broadcasters may want to consider how to assess the impact of training and change programmes on commissioning decisions. However, output metrics alone are not sufficient; what matters is impact. However, audience perceptions such as those tracked in the BAI's studies are likely to move slowly. Questions the broadcasters will need to resolve include how to assess creativity and innovation at the level of individual programmes or services; how to track audience impact (we believe this should be possible with the range of tools already available to them); and how to integrate this into performance commitments and reports. It was unclear from our discussions with RTÉ whether measures of success for innovation initiatives such as the Creative Leadership Programme had been identified and monitored. We question the value of the number of awards and nominations as a measure of success, noting that a previous review has suggested that it may be useful to evaluate the significance of awards won.¹⁶⁹

Finally, the broadcasters will need scope to experiment, take risks and learn lessons. This means making resources available for higher-risk projects and commissions, and setting performance targets that can tolerate a certain level of creative failure. Greater

¹⁶⁹ Indecon, *op. cit.*

diversification of content supply, especially for RTÉ, may offer benefits, as we discuss in the next section. Given relatively small margins of error in the TG4 budget, and the wider range of suppliers it already draws on, there may be less scope for high-risk TV commissions, with online representing the main opportunity to experiment with new approaches.

11.4 Use of outsourcing

11.4.1 Overview

In their 2013 review, Crowe Horwath questioned whether RTÉ had been sufficiently challenging in its assessment of the role that independent production could play in supplying content.

For this review, we were asked to look again at RTÉ's positioning of the independent production sector within its content strategy, and the extent to which those plans are based on a robust assessment of the costs and benefits of greater use of the independent production sector. We have also briefly reviewed TG4's strategy for use of the independent production sector.

Our work has drawn on published data concerning the current health of the Irish TV and radio production sector, available research on the costs and benefits to the PSBs and the wider economy from using the independent sector, and on an analysis of the plans produced by each PSB.

Our primary remit is to assess the adequacy of funding for public service broadcasting across the next 5 years. The most important question for us therefore, is whether the two PSBs are using the external production sector in a way which helps them make most effective use of available funding, and gives them access to the best creative ideas at best value.

The extent to which content is outsourced by the PSBs could be important for several reasons.

- Outsourcing could help in reducing production costs by establishing a competitive market for production skills and talent.
- It can provide valuable creative and financial flexibility in an uncertain market. It could ultimately lead to fewer internal overhead costs.
- The independent sector might also provide PSBs with wider access to innovative and creative ideas, and could help increase the range and diversity of voices on-screen and on-air.
- Some types of talent prefer to work in the independent sector – the PSBs need to be prepared to deal with them if they are to get the best programmes for their audiences.

There may also be costs.

- It is not always the case that the independent sector can supply programmes at lower cost than in-house producers. Indeed, the independent sector can enable top producers, writers and artists to extract higher prices from broadcasters competing for their talent.
- Overall PSB costs may rise in the short to medium term if more outsourcing takes place without a proportionate reduction in internal production resources and costs.
- An under-resourced and sub-scale independent sector might fail to generate the hopes for quality and innovation sought by the PSBs.

Finally, there is a plausible case to be made that a key factor in the success of public service broadcasting is the shared culture, values and expertise which resides in in-house production. For a larger PSB, like RTÉ at least, there may well be significant positive value in retaining in-house production in some or all genres to ensure there is a sustainable critical mass of “PSB” production activity and culture at the heart of the organisation. News is often cited as being a core in-house capability. In-house resources also allow PSBs to benchmark external costs and more easily retain programme rights.

It is unlikely, therefore, to make sense for RTÉ to pursue an extreme publisher/broadcaster model. Neither, though, is it clear that the current in-house/external balance is optimal. For a much smaller broadcaster like TG4, which would not be able to support a wide enough range of permanent in-house skills and talent, the choice is simpler – the case for dealing either wholly or mainly with external content suppliers is much clearer.

11.4.2 The current position

Overall scale and scope

As far as we can ascertain, there is no publicly available estimate of the total size of the Irish independent TV and radio production sector, but we think it is likely to be around €130m a year.¹⁷⁰

Currently, RTÉ spends only its statutory minimum obligation of around €40m a year in

the independent sector (TV and radio), while TG4 accounts for approximately €18m of programme spend. This amounts to around 22% of RTÉ’s annual spend on TV commissioning and 75% of TG4’s.

If news and sport – which are largely in-house – are omitted from the total, RTÉ’s external spend is currently closer to 45% of its remaining programme investment.

RTÉ has cut back its “non-statutory” external commissioning in recent years as it has tried to control costs and utilise what would otherwise have been idle internal resources. This is an example of the “flexibility” benefit referred to above. Although a “long tail” of small production companies does business with RTÉ each year, RTÉ has tended to commission the bulk of its external programming from a relatively small number of companies. The Irish Times¹⁷¹ reported, for example, that in 2016 six companies accounted for around half of RTÉ’s external commissions. Until recently, TG4 has tended to use a relatively wide range of small suppliers.

The result has been an Irish independent sector consisting of quite small companies which, outside of content eligible for Section 481 tax credits, is highly dependent on commissions from its two main customers, RTÉ and TG4. While there has been some increase in programme commissioning from other Irish-based broadcasters¹⁷² and from outside Ireland, the sector’s overall growth prospects are closely linked to the fortunes

¹⁷⁰ Communications Chambers estimate based on 2015 data to include the sum of direct spend with the independent sector by broadcasters, BAI/IFB investment, and S481 funding for TV drama and docs. Note, 2016 S481 data show higher amounts, although it is not clear what the longer-term level will be. If we add Section 481-supported film and animation spend to this, the total might rise to around €200m. Other sources have quoted a total value of €550m for the entire Irish audio-visual media sector. A study is

currently underway into the economic impact and potential of Irish film, TV and animation, commissioned by the Ministry for Arts, Heritage, Regional, Rural and Gaeltacht Affairs.

¹⁷¹ The Irish Times, August 14, 2017

¹⁷² TV3 is reported to spend around €47m a year on original content (‘cost of sales’ for TV3 Television Network Ltd), and Sky has recently announced a €2m annual fund for Irish content

and funding of the PSBs. Perhaps as a result, there has been less change and consolidation in the sector than has characterised independent production in larger markets, such as the UK.

Cost benchmarks

An independent review of RTÉ's costs and efficiencies was commissioned by the Irish government from NewERA¹⁷³ which concluded that, although RTÉ's scope for further major efficiencies in programme costs might be limited, there might be some benefits to be realised from further outsourcing of content production.

The NewERA report examined the extent to which RTÉ might benefit from increasing its spend with the independent sector. Its conclusions were that the answer is not clear-cut. To the extent that it was able to benchmark in-house and external programme costs, NewERA found that RTÉ appeared to have higher in-house costs in two genres examined, but lower in-house costs in three genres. The report acknowledged, however, that it is difficult to make like for like comparisons.

However, NewERA went on to argue that there might be longer-term value in encouraging more independent commissioning by RTÉ, and suggested the possibility of introducing something like the BBC's Window of Creative Competition (WoCC) to make that happen. The WoCC guarantees minimum amounts of commissioning each year for both the independent sector and for in-house suppliers, but incorporates (the window) a flexible proportion of commissioning which

can be bid for by both indies and in-house producers. The aim is to ensure that there is scope for independent producers to increase their share of commissions if they offer the best ideas/value, while giving some certainty to in-house producers and hence allowing better planning of internal resources.

We agree with NewERA's conclusions that more flexible use by RTÉ of the independent sector might create a more effective competitive market that should lead to a range of benefits over the longer term, even if it did not lead to substantial cost savings or further efficiencies in the short to medium term.

However, the costs involved in setting up something like the WoCC for RTÉ might be considerable, and it is not wholly consistent with a more planned approach over time to an increase in external commissioning. We return to this later in the section.

11.4.3 The current 5-year plans

RTÉ

RTÉ sets out limited proposals for expanding independent commissions in its new 5-year plan.

It notes that RTÉ itself is the largest Irish employer of actors, writers, musicians, film makers and other creative professionals. It acknowledges the continuous need to support and refresh creativity and innovation, and it highlights the importance of working via partnerships¹⁷⁴.

In the event of further public funding being available during the next 5 years, [X] of any increase during the period will be channelled

¹⁷³ Review of RTÉ, National Treasury Management Agency (NewERA), April 2015

¹⁷⁴ Potential partners are identified, including BBC Worldwide, ARTE, and the Irish Film Board. RTÉ also

notes that its proposed new Digital Lab would allow relationships to be developed with many new content providers.

into external commissioning. This would mean, for the first time for some years, RTÉ would move beyond its existing statutory obligations. The practical implication would be, on RTÉ's estimates, that an additional €[redacted]m a year (a [redacted]% increase) could flow into the independent sector by 2020/21, with around €[redacted]m extra in 2019. This would undoubtedly help provide much-needed extra support for the Irish independent sector. RTÉ's plan indicates that this would mean more external funding in particular of TV drama, children's content and animation.

Where possible, RTÉ would look for 2-year deals on large scale projects, possibly signalling a further focus on larger suppliers.

In a "flat cash" scenario, RTÉ at best would meet its statutory minimum requirements, and has suggested that it might need to cut this spend further.

RTÉ's headline proposals for shared use of any uplift in public funding reflect a welcome recognition of the benefits that the independent sector might deliver to the costs and quality of RTÉ's programming. However, the basis on which this new commitment has been determined is not clear, so it is difficult to judge whether it is any more than an arbitrary number. RTÉ reports in its 5-year plan that a small team reviewed content commissioning within RTÉ, assessed the Irish production sector and explored future commissioning options and how they might impact RTÉ and the independent production sector. The detailed findings of this work are not presented, though.

There is a case to be made – as highlighted already by NewERA and others - that, over time, more of RTÉ's existing funding (as opposed to funding increases) should be used for external commissioning, and that steps

could be put in place now to work towards that increase over a defined period. It is also not clear why such plans could not also be developed for a flat funding scenario, too.

We would expect that an organisation like RTÉ would take a strategic view over time of its in-house/external commissioning mix, taking a full range of factors into account, including allowance for any difficulty in reducing in-house production resource levels. It would likely take a different view about the appropriate mix by genre and media. It might be able to take a pro-active approach where concerns exist about the capacity of independent producers to deliver that programming needed. Ultimately, it would be surprising if the outcome of such a strategic review were that, over time, the statutory minimum remained the optimal mix of in-house and external commissioning.

TG4

TG4's 5-year plans are based on an additional €[redacted]m a year spend on broadcast content by 2019, rising thereafter [redacted]. In-house production of linear content ended in 2017, with a transfer of some in-house staff to digital production from linear. For the new 5-year plan, [redacted], which TG4 sees not only as a means to improving the quality and value for money of its own programming, but as part of its remit to help grow jobs, drive innovation and growth in the creative economy, and also to support the development of the Gaeltacht and regional economies. TG4 also proposes small initiatives in the areas of film and a minority stake production company.

In the event of a flat cash scenario, TG4 would continue its strategy of outsourcing, but would have less money to spend on content.

A key part of TG4's strategy is to move to a number of significant multi-annual deals with

a smaller number of principal suppliers. This will have the benefit of bringing greater certainty to those suppliers and should help them with a more secure funding base on which to build additional, perhaps international, business. The downside, of course, is that TG4 may have less access to the range of creative ideas that might be associated with a wider supplier base, and some smaller independent producers may be disadvantaged. On balance, though, we think this is a sensible way in which to allocate what is a relatively small total budget each year with a view to achieving both value for TG4 itself and a stronger supply base.

One issue remains, however. To accommodate the new strategy of outsourcing linear content, TG4 is understandably planning to shift internal resources into digital production. If successful, this would be a good outcome for both staff and audiences. However, there may be risks in using existing resources to develop content in what is a very different field to conventional broadcasting. It would seem essential for TG4 to monitor closely and report on the quality and value delivered by the new in-house digital content teams over time, to ensure that public funds are being spent effectively in this area, too.

11.4.4 Observations

Our primary remit is to assess the adequacy of funding for PSB across the next 5 years. The most important question therefore, is whether the two PSBs are using the external production sector in a way which helps them make effective use of available funding, and gives them access to the best creative ideas at best value.

RTÉ

Available evidence, including that presented in the NewERA report, suggests that, in the

short run, RTE could not gain significant financial benefit from increasing its external commissioning. However, we still think that there is a compelling case for some increase in RTÉ's outsourcing of content over the next five years:

- Scope to establish a more competitive external market which should lead eventually to lower costs
- Potential to access better programmes, which will deliver more value to audiences for each euro of public funding invested. While RTÉ might be making its in-house programmes efficiently in cost terms, this does not necessarily mean that it is making available the best quality/value programmes to audiences.

While RTÉ's 5-year plan proposes to share any increase in public funding between in-house and independent productions, it is silent on a longer-term strategy for finding the right balance between in-house and external commissions. We think this is a significant omission. Any such strategy would need to be well-signalled now and phased -in over the 5-year duration of the plan.

While a Window of Creative Competition approach might achieve a positive outcome over time, it could be costly to administer relative to the amount of funding which would be affected, and might not help RTÉ achieve a managed transition to a more flexible in-house/external balance. It might therefore be preferable either to increase RTÉ's statutory obligations here, or to set RTÉ a clear requirement to develop and publish its own strategy for a measured and meaningful increase in external commissions over the next 5 years, to be tracked in the annual

performance reviews, regardless of the extent to which it receives any public funding uplift.

TG4

In contrast to RTÉ, TG4 has a clear strategy for outsourcing, which seems well designed to achieve a balance between effective use of public funding and support for the wider creative sector. The effectiveness of its remaining in-house (digital) production needs to be kept under review.

The wider independent sector

Both PSBs argue that support for them will also bring wider economic benefits. The Irish independent sector will directly benefit from any increase in public funding given to RTÉ and TG4, given that both 5-year plans envisage a flow through of some or all of that additional funding to the sector.

This increased investment could contribute to building a better resourced and more competitive creative sector in Ireland, supporting a wider range of independent and entrepreneurial companies¹⁷⁵.

Could the Irish independent sector develop further and faster if the PSBs were to be required to outsource significantly more of their programming needs than is likely under current plans?

The independent TV production sector in the UK, for example, has seen robust growth made possible by a range of factors: a strong and sizeable domestic market, several buyers of content, with new broadcast and on-demand customers alongside the existing PSBs, a

supportive regulatory environment and success in international markets.

In Ireland, by contrast, the structural problems associated with a relatively small home market and only two main content buyers remain potentially difficult challenges, even if we consider film and animations alongside TV and radio production. Ongoing challenges have been identified, we understand, in the areas of access to project finance, skills, market access, and building viable production clusters¹⁷⁶. Brexit may increase the opportunities for Irish-based producers to sell programming into the EU, but the nature and scale of such opportunities are difficult to predict.

TG4 already commissions most of its content from independents, hence its scope for further growth depends wholly on access to extra public funding. Even if RTÉ increases its external commissioning as suggested, the sector will still be faced with little competition between buyers, and remain dependent on the decisions of a small number of commissioners. It will be difficult for them to spread financial risks across a range of commissions and commissioners.

Given this, the merits of any new measures to support and expand the independent sector should be carefully scrutinised.

Even if it is decided to support the independent sector, it is not obvious that channelling funds via the PSBs is the only or most effective approach as compared, for example, to a better-resourced Sound and Vision fund or other forms of direct

¹⁷⁵ Note, the public funding channelled via TG4 and RTÉ could alternatively be directed to other sectors of the economy, where it might equally help support jobs and economic development. This report has not assessed whether the net impact per € invested in the creative sector is better or worse than in other sectors, although

studies in the UK have identified factors which suggest that the creative sector there offers strong long-term growth potential.

¹⁷⁶ Initial findings from an Olsberg SPI study, as reported to us by TG4.

intervention. Such approaches could at least help increase the range of funding sources in the sector. The balance of support for Irish and English language content (the latter may provide a better base for exports?) would also need to be examined, as would the genre mix of programming so-commissioned.

For this 5-year review, we have identified where the PSBs have sensible strategies for external commissioning and where they could do more, to better deliver value to their audiences and to licence payers. A wider policy debate would be needed to address these more fundamental sectoral issues. It is possible to acknowledge that modest changes to the strategies of the PSBs could have a beneficial effect on both their own output and on the overall independent sector (which we think they will), while also recognising that their impact might disappoint those with more ambitious expectations for the Irish independent sector.

12 Annex: Compliance

In this section, we discuss compliance by RTÉ and TG4 with certain statutory and regulatory requirements, namely those related to commercial efficiency, subsidy, fair trading and State aid.

Clause 108 of the Broadcasting Act¹⁷⁷ specifies that:

“(1) The commercial activities undertaken by a corporation [RTÉ and TG4] 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.

(2) 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.”

Restrictions on State aid for broadcasters were set out by the Commission in 2009. Clause 71 of the relevant communication¹⁷⁸ specifies that:

“[I]t 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”.

¹⁷⁷ [Broadcasting Act](#) (as revised), 16 June 2017

¹⁷⁸ EC, [Communication from the Commission on the application of State aid rules to public service broadcasting, 2009/C 257/01](#), 27 October 2009

12.1 RTÉ

12.1.1 Recommendations from prior Five Year Review

The 2013 review recommended:

“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.”

In more detail, it called for guidelines that would address:

- Separate accounting for commercial activities;
- Clear transfer pricing, based on costs or market prices;
- Approaches to competitive bidding for rights;
- Transparency in airtime sales.

As we discuss below, RTÉ has made significant progress across these areas.

12.1.2 Developments since 2013

RTÉ appointed a Fair Trading officer in January 2016, and published its first fair trading policy in February 2016 (discussed below).¹⁷⁹ A board sub-committee (the Fair Trading Committee) has been appointed to oversee application of the policy.

Functional separation

RTÉ also introduced functional separation as of January 2016. It created a ‘Commercial

¹⁷⁹ RTÉ, [RTÉ Fair Trading Policy and Procedure](#), February 2016

Integrated Business Division’, responsible for the great bulk of the company’s commercial revenues (the main exception being transmission, mast and towers income). This change has brought both organisational and accounting consequences.

Approximately [30] staff now report in to the Commercial Director heading this IBD. RTÉ state that the creation of the IBD, and the associated staff education programme and briefings, have increased consciousness and clarity regarding fair trading issues.

Note that while responsibility of ad sales against a channel or station’s schedule sits within the Commercial IBD, RTÉ states that it is the management of the channel or station itself which has sole responsibility for the scheduling decisions.

Regarding accounting, RTÉ’s annual report for 2016 breaks out the results of the Commercial IBD.

Most of the Commercial IBD’s revenue stems from advertising sold on with the RTÉ broadcast channels (TV and radio). Since no costs for these channels are attributed to the IBD, it is unsurprising that it makes a substantial surplus: €121m in 2016.

Also within the Commercial IBD’s results are the costs and revenues of other RTÉ commercial activities such as merchandising, international rights sales, facilities rental to third parties and so on.

RTÉ does not undertake a material exercise in setting market-based transfer pricing in preparing the accounts by IBD, though the Commercial IBD does receive an allocation of

costs for support services such as accommodation, accounting and so on.

In addition to its accounts based on IBDs, RTÉ continues to publish accounts by channel and service (e.g. RTÉ One). These attribute ‘surplus on commercial activities’ to each channel or service. For channels and stations, this is primarily the value of advertising and sponsorship sold against the respective service, less cost of ad sales (such as staff, specialist software and so on).

Fair trading policy

The fair trading policy states that it is underpinned by the following principles:

- *Arm’s length principle*, with a clear separation between public and commercial activities
- *Fair competition*, in particular that prices should reflect market conditions
- *Transparency and accountability*, including a governance framework

Regarding transfer pricing it simply¹⁸⁰ says:

- “transactions involving trade between public service and commercial activities must be conducted on an arm’s length basis”; and
- “any trade shall be at a price that reflects market conditions”

The policy includes brief guidelines on rights acquisition, saying that such acquisitions should align with RTÉ’s objects and strategy; prices paid should reflect market conditions; and the rights should be used effectively.

Since the publication of the policy in February 2016, RTÉ reports that there have been two complaints, one related to a claim of unfair

¹⁸⁰ For contrast, see the more detailed treatment in BBC, *Fair Trading Guidelines*, 1 April 2009 [¶13.12 onwards]

treatment between two advertisers, and the other related to a claim of conflict of interest on the part of a staff member. These complaints led, respectively, to a change of policy and a notice-to-desist for the staff member. RTÉ does not believe either of these cases represented material market distortion.

We note that the policy does not address in detail the wider effects on competition of RTÉ's public service activities, which are potentially as or more important to many commercial rivals than those of its fully commercial activities.

In the UK, for example, the BBC has for some time been required to observe a Competitive Impact Code, which provides guidance not only on fair trading of commercial activities, but on a wider range of BBC public service activities which might impinge on the market. These include, for example, rights acquisition, cross-promotion, sale of facilities, agreements with commercial partners, dealing with third parties either as supplier or commissioner of services, and so on. These are intended to complement any more formal competitive impact or sectoral impact assessments which are required in the event of a major change in BBC services. The role of overseeing such guidance was transferred last year to Ofcom. These issues might usefully be addressed in the next iteration of RTÉ's fair trading policy.

12.1.3 Airtime sales

To support transparency, RTÉ publishes its advertising prices for TV¹⁸¹ and radio¹⁸² well in advance. Prices are offered on a cost-per-thousand basis for a range of demographics, or a cost per spot. Pricing varies by time of

year (monthly for TV). Short term prices and special offers are available from time to time.

Advanced booking discounts are available, as are volume discounts (known as a 'Graduated Expenditure Discount' for TV). The terms of the volume discounts are not public.

We note that between 2012 and 2017, RTÉ has increased its headline TV CPT¹⁸³ rate for the benchmark 'Adults 15+' by 23%, compared to aggregate inflation of 1%.¹⁸⁴ While figures for RTÉ's achieved revenue per viewer hour are not available for 2012-2017, we note that in the period 2012-2016, this figure rose from €0.055 to €0.067 (an 23% increase).¹⁸⁵ This suggests that the rise in headline rates is feeding through to a rise in achieved rates.

In the past RTÉ's rivals have argued that RTÉ was able to keep its advertising rates artificially low thanks to the licence fee. The appreciable increase in rates may mitigate such concerns.

We note however that RTÉ's radio rivals have the view that RTÉ's pricing – particularly in summer months – can be highly aggressive.

12.1.4 State Aid

In the period 2013-2016 RTÉ generated a substantial aggregate deficit (€21.5m). Its best single year contribution was €658,000 in 2013.

Thus, RTÉ clearly passes the test set out in Clause 71 of the Commission's guidance on State Aid, namely that "the amount of public compensation does not exceed the net costs of the public service mission".

We note also the Commission's recent finding regarding a complaint by Newstalk, which

change of respective months' prices. Note that a change of the structure of RTÉ's radio rate card mean that a similar comparison is not possible for radio

¹⁸⁵ Communications Chambers analysis of data from RTÉ annual reports and Nielsen TAM

¹⁸¹ RTÉ Media Sales, [Fixed AB Sales](#)

¹⁸² RTÉ Radio Sales, [Airtime](#)

¹⁸³ Cost per thousand impressions

¹⁸⁴ Communications Chambers analysis of RTÉ Fixed AB Prices, 2012 and 2017. Based on simple average of

alleged breaches of State Aid guidance by RTÉ. The Commission reviewed a range of evidence in response to Newstalk’s multipart complaint, and found nothing to support Newstalk’s case. It concluded:

“the Commission does not see any evidence that RTÉ has engaged in anti-competitive behaviour in commercial markets which would lead to an increased State funding. There are no signs that overcompensation took place.”¹⁸⁶

12.1.5 Ancillary commercial activities of RTÉ

In addition to the sale of advertising and sponsorship against its broadcast services, RTÉ has a wide range of other commercial activities, including:

- Merchandising
- Transmission, distribution and multiplex services
- Programme sales
- Premium rate services
- Facilities rental
- International VOD
- The *RTÉ Guide*
- Orchestra performance revenues

For most of these services, there is no reason to expect material adverse market impact. In some of the markets, RTÉ is a small player in a highly competitive market, most notably international VOD and Programme Sales. Other markets are unlikely to attract competitive entry, such as Transmission and Orchestras. Premium rate services are tightly tied to RTÉ’s own output, and are unlikely to be substitutional for similar services from others.

This leaves Facilities Rental, Merchandising and the *RTÉ Guide*.

RTÉ’s Facilities Rental business provides studios and other facilities to third parties, primarily independent production companies. This has down-stream benefits in enabling the independent production sector. It provided RTÉ with €[redacted]m in revenue in 2016.

It seems likely that RTÉ is a very significant player in this market. However, this does not appear to be discouraging investment by other players. TV3 in particular has been investing substantially in studio space, for its own use and for independent producers.¹⁸⁷

Merchandising is suffering significant contraction, as consumers switch from CDs and DVDs to downloaded or streamed content. The situation has been exacerbated by the closure of HMV/Xtravision, a key distributor. According to RTÉ this “has necessitated a complete re-evaluation of the activity, with business activity limited to managing existing stock and exploring licensing deals.” This suggests merchandising has limited market impact, but – if RTÉ is to be efficient in its commercial activities – it highlights the need to manage associated cost out of the business.

The *RTÉ Guide* is a major player in the consumer magazine market, with a 28% share of annual copy sales. (Its closest rival is *TV Now!* with 13%).¹⁸⁸ RTÉ reports that though circulation has been declining, the Guide is profitable, which mitigates concerns that it may be being cross-subsidised from the public service activities of the company. Listings for RTÉ channels are widely available, which also

¹⁸⁶ EC, [State Aid SA.39346 \(2014/FC\) – Ireland: Implementation of Commission Decision in case E 4/2005 – State financing of Radio Teilifís Éireann \(RTÉ\) and Teilifís na Gaeilge \(TG4\)](#), 11 July 2017

¹⁸⁷ See, for example, Sara McCabe, “TV3 submits application for new Ballymount TV studio”, *The Independent*, 14 August 2016

¹⁸⁸ Communications Chambers analysis of ABC data

suggests that the company is not exercising market power by limiting their distribution.

12.1.6 Financial accounts

RTÉ publishes detailed and timely accounts, presenting a variety of perspectives on the business. We are not aware of any reason to believe that these are not compliant.

That said, we note the following:

Commercial IBD accounts

The value of the Commercial IBD accounts (at least as published) is not entirely clear. The allocation of all revenues associated with channels and stations, but none of their costs, mean that there is a fundamental asymmetry in the financials of this IBD. Consequently, its surplus figure is not particularly meaningful.

Advertising revenues

Further, the new (2016) format of the accounts means that figures for each of TV and radio advertising are no longer published. These figures are useful for understanding the business, and could usefully be included in future accounts. (An aggregate figure across radio and TV is supplied, and – for the individual services – a ‘surplus on commercial activities’ is provided).

As a related point, it would be helpful to split out the cost of ad-sales from the other, very different, activities of the Commercial IBD.

Cost per user hour

RTÉ’s accounts include a cost per transmitted hour, but not a cost per user hour. The latter is more helpful for understanding the efficiency of RTÉ’s spend on services.

12.1.7 Findings of the annual reviews

The various annual reviews have also considered the issues above, and (with some minor exceptions) have found RTÉ to be compliant.

12.1.8 Conclusion re RTÉ

As noted, the previous five year review called for RTÉ to create guidelines to address: separate accounting for commercial activities; clear transfer pricing; approaches to bidding for rights, and transparency in airtime sales.

To a greater or lesser extent, these are now all in place. We note though that the guidelines re bidding for rights are rudimentary, saying no more than prices should reflect the market.

Regarding functional and accounting separation, RTÉ’s creation of the Commercial IBD appears to have had value in that it has clarified the split of the business for staff, and provides a distinct organisational framework for current and future commercial ventures.

Looking ahead, we recommend that wider competition issues are fully captured in the next iteration of RTÉ’s FTP, and also that RTÉ should be required to separate out the ad sales income from the rest of their commercial activities in their financial reporting by division.

12.2 TG4

In some ways the compliance issues of TG4 are simpler for several reasons:

- As a much smaller organisation, its impact on the market is inherently likely to be less.
- It has much more limited commercial activities, and thus there is a reduced risk of cross subsidy or downstream fair trading issues.
- It has run at very close to break-even, so that State Aid overcompensation concerns to do not arise
- As a publisher-broadcaster, there is not a tension between in-house and independent production

12.2.1 Fair trading

TG4 is of course vital in sustaining an independent production sector in the Gaeltacht. However, the consequence of this is that the independent producers in question are highly dependent on TG4. Inevitably this means steps such as the move to multi-year contracts with certain independent producers – while very positive for those selected – is deeply problematic for those left out.

We note that TG4 lacks some of the formal structures regarding indies that RTÉ has. For example, we understand there is not yet an agreed Code of Fair Trading Practice between TG4 and SPI.¹⁸⁹

Maintaining a viable Irish language independent production sector is vital to TG4, since the two are co-dependent. Thus, a Code that ensures the greatest overall value creation (which can then be shared by the parties) is clearly important.

12.2.2 Financial accounts

In general, TG4's accounts appear clear, and are published in a timely manner. Their format has been consistent for several years, which is helpful.

We note however that the contribution in kind from RTÉ – though acknowledged in the discussion in the accounts – is not shown in the financial statements as a form of public support. This may be entirely appropriate in regard to accounting practice, but it does mean the accounts have at least the potential to mislead. The €7.7m spent by RTÉ in 2016 to provide programming as an in-kind contribution compares to the €23.1m TG4 spent on commissioned and acquired programming.¹⁹⁰

12.2.3 Findings of the annual reviews

The annual reviews did not highlight areas of concern related to TG4's compliance.

12.2.4 Conclusion re TG4

TG4's compliance record is strong. The main area for improvement appears to be the terms of trade with independent producers.

¹⁸⁹ SPI, [Annual Report 2016](#)

¹⁹⁰ RTÉ and TG4 accounts, 2014