

Note on Schedule 9 arrangements

Introduction

1. The Channel Four Television Corporation (C4C) is the UK's only publicly-owned, commercially-funded public service broadcaster, with a statutory remit to be innovative, experimental and distinctive. Unlike other broadcasters, C4C is not shareholder owned—commercial revenues are the means by which C4C fulfils its public functions and remit, and C4C's not for profit status ensures that the maximum amount of its revenues are reinvested in the delivery of its public functions and remit.
2. In response to changing viewer demand, C4C has broadened its portfolio in recent years to offer a range of digital services. In addition to the main Channel 4 service, the Channel 4 portfolio includes E4, More4, Film4 and 4Music, as well as "+1" and HD services, including Channel 4 HD. The portfolio also includes a range of related online activities including channel4.com, Channel 4's bespoke video-on-demand service 4oD, and stand alone digital projects. These services help to ensure that Channel 4's content continues to reach as wide an audience as possible as viewers consume content across a range of devices.

Channel 4's activities

Primary functions

3. Prior to the Digital Economy Act 2010 (DEA 2010), C4C's "primary functions" were defined in section 24 of the Broadcasting Act 1990 (BA 1990) and section 199 of the Communications Act 2003 (CA 2003) as (a) securing the continued provision of Channel 4 (ie. the main Channel 4 service); and (b) the fulfilment of the public service remit for that channel under section 265 of the CA 2003. That is, the "primary functions" were defined solely in relation to the main analogue Channel 4 service (and its digital equivalent).

Other activities

4. The statutory framework draws a distinction between these "primary functions" and C4C's "other activities"—for example the digital services outlined in paragraph 2 above. Since 1990, C4C has been expressly permitted to invest in "other activities" alongside the "primary functions". The CA 2003 specified that C4C could carry out any activities which appear to it to be appropriate to carry out in association with the "primary functions"; and to be connected, otherwise than merely in financial terms, with activities undertaken by C4C for the carrying out of the primary functions. The CA 2003 also confirmed C4C's express powers to do anything which appears to it to be incidental or conducive to the carrying out of its "primary functions" (including borrowing money subject to a borrowing limit; establishing subsidiary companies to carry out such permitted commercial activities; and participating with others in respect of the same).
5. Many of these "other activities" are carried out by 4Ventures Limited, a wholly-owned subsidiary of C4C, or by one of 4Ventures' subsidiaries or associated companies.

Schedule 9 obligations

6. The CA 2003 also imposed procedural obligations on C4C, providing a clear regulatory framework for Channel 4's permitted "other activities". These obligations, outlined in Schedule 9 of the CA 2003, require C4C to:
 - identify, evaluate and properly manage any "other activities", so as to protect the "primary functions" of C4C.
7. C4C is also required to set out arrangements to secure the "transparency objectives":
 - appropriate financial and organisational separation between the activities of C4C that relate to the carrying out of its "primary functions" and "other activities"; and
 - an appropriate degree of transparency in financial and other reporting where resources are shared between activities or where there is some other financial or practical connection between otherwise separated activities.
8. In summary, these obligations are designed to ensure that C4C takes a sensible approach to the way it invests in its "other activities" such that these investments never come at the expense of C4C's duties to deliver the "primary functions" and public service remit.

January 2006 arrangements

9. In January 2006, C4C published arrangements to meet its obligations under Schedule 9 of the CA 2003. These set out: arrangements for the exercise of C4C's functions and powers; corporate governance systems; investment procedures; and further specific arrangements covering issues such as risk assessment and record keeping.
10. The arrangements were approved by Ofcom, and C4C's compliance with the arrangements is reviewed on an annual basis by independent reporting accountants, and the report is published in C4C's Annual Report and Accounts.

Digital Economy Act 2010

11. C4C's "primary functions" were recently expanded by section 22 of the DEA 2010. In summary, the "primary functions" now also include: participation in the making of a broad range of relevant media content and cinema films; and participation in the broadcasting and distribution of such content and films. The "primary functions" were also expanded to include, among other things, participation in the broadcasting and distribution of media content and films by means of a range of different types of electronic communications networks.
12. The DEA also revised C4C's accountability and reporting framework, with the new arrangements providing a much greater degree of transparency about C4C's activities across the entire Channel 4 portfolio. From 2011, C4C prepares an annual Combined Statement of Programme and Media Content Policy, which is published alongside its Annual Report and Accounts. Taken together, these documents provide an unprecedented degree of transparency about C4C's investment across a wide range of activities, allowing Parliament, Ofcom and other stakeholders to see specifically where Channel 4 is investing in order to deliver its remit.

13. The DEA 2010 also amended Schedule 9 of the CA 2003 to require C4C, in the light of these amended “primary functions” and revised accountability framework, to submit new proposals to Ofcom for the arrangements under which C4C will meet its obligations under Schedule 9.

Proposals for revised Schedule 9 arrangements

14. In the light of the DEA 2010, C4C has assessed comprehensively its current Schedule 9 arrangements to make certain that they continue to ensure that significant risks to the carrying out of its “primary functions” are identified, evaluated and properly managed, and that the arrangements also secure the transparency objectives. In the light of this assessment, C4C proposes a number of amendments to the arrangements to continue to ensure transparency and good governance.

15. C4C has also taken the opportunity to propose a number of amendments to the arrangements to reflect changes to the Channel 4 Board structure, which were made in order to bring more decision making into the remit of the full Board.

16. The accompanying document sets out, for approval by Ofcom, C4C’s proposal for a revised set of Schedule 9 arrangements. In the most part, C4C has retained the existing structure and framework for the arrangements as these continue to be effective in meeting the obligations as framed currently in Schedule 9.

17. The main proposed changes to the arrangements are as follows.

- *Revised “primary functions”*: The revised arrangements reflect the changes to Channel 4’s “primary functions” in the DEA 2010. In summary, the “primary functions” now also include: participation in the making of a broad range of relevant media content and cinema films; and participation in the broadcasting and distribution of such content and films. The “primary functions” were also expanded to include, among other things, participation in the broadcasting and distribution of media content and films by means of a range of different types of electronic communications networks. These changes are reflected in Part I of the proposals.
- *Investment authorisation process*: The revised arrangements set out new investment procedures for C4C, specifying that all investments, irrespective of whether they fulfil “primary functions” or “other activities” should follow a set approval process, based on whether the investment is deemed to be high value/high risk, medium value, or low value/project development capital. Where an investment relates to a primary function it shall be specifically documented as such. These changes are reflected in Part II of the proposals.
- *Board structure*: The revised arrangements also reflect changes to the Channel 4 Board structure. In particular, arrangements reflect the discontinuation of the Budget Committee and the New Business Board, with budgets and significant investments now referred to the full Board for approval. These changes are reflected throughout Part II of the proposals.

18. Overall, the proposals represent an evolution of the arrangements and in C4C's view continue to meet the Schedule 9 obligations, as discussed below.

The revised arrangements meet the obligations in Schedule 9

19. C4C believes that the revised Schedule 9 arrangements continue to ensure that significant risks to the carrying out of its "primary functions" are identified, evaluated and properly managed, and that the arrangements also secure the transparency objectives:

- appropriate financial and organisational separation between the activities of C4C that relate to the carrying out of its "primary functions" and "other activities"; and
- an appropriate degree of transparency in financial and other reporting where resources are shared between activities or where there is some other financial or practical connection between otherwise separated activities.

20. The revised Schedule 9 arrangements sit alongside C4C's new accountability and reporting framework, which has also been revised in the light of the DEA 2010. As outlined above, the new accountability arrangements provide a much greater degree of transparency about C4C's activities across the entire Channel 4 portfolio. In particular, the Combined Statement of Programme and Media Content Policy reports on C4C's investment in content and services across the Channel 4 portfolio, for example reporting expenditure on particular genres such as film or drama, and in particular areas such as Future Media or the 4Channels parts of the business. In addition to being an important accountability tool, C4C believes that the annual Statement of Media Content Policy represents a step change in transparency, in line with the objectives of Schedule 9.

21. The following sections set out how the revised arrangements continue to meet the Schedule 9 obligations.

Reduced risk to "primary functions"

22. Prior to the DEA 2010, C4C's "primary functions" were defined narrowly, such that all activities outside the provision of the main Channel 4 service were defined as "other activities". As the DEA 2010 expanded significantly C4C's "primary functions", many of the activities carried out by C4C which were formerly classified by Schedule 9 as "other activities" now fall within the "primary functions". As a result, there is a significant reduction in the scope of those "other activities" and consequently in the amount of risk they create for the carrying out of the "primary functions".

Arrangements and processes ensure separation and transparency

23. The revised proposals set out specific arrangements and processes that ensure the transparency objectives—ie. separation and transparency between the activities that relate to the "primary functions" and "other functions"—are met.

24. As noted above, many of C4C's "other activities" are carried out by 4Ventures Limited, a wholly-owned subsidiary of C4C, or by one of 4Ventures' subsidiaries or associated companies. The revised arrangements therefore include the following measures to ensure transparency:

- The annual financial results of 4Ventures Limited and its trading subsidiaries will be reported separately in their own statutory financial statement.
 - Segmental financial information in the Channel 4 Annual Report and Accounts and financial statements will highlight the performance of the main business operations of C4C and 4Ventures Limited, which will assist in the identification of relevant information.
 - Costs and revenues will be appropriately allocated across different business areas.
 - “Other activities” (not forming part of the “primary functions”) will be accounted for as part of 4Ventures Limited.
25. C4C believes that, taken together, these measures satisfy the transparency objectives set out in Schedule 9, in particular by ensuring financial and organisational separation between “primary functions” and “other activities”, and in ensuring transparent reporting where resources are shared or activities are connected.

Risks managed across all activities, regardless of status as “primary function” or “other activity”

26. Under the revised arrangements, the risk assessment procedures, management processes and cost allocation reporting proposals will be applied not only to C4C’s “other activities”—as required by Schedule 9—but across all activities of C4C.
27. Therefore, under these proposals, the Schedule 9 processes will go beyond what is necessary to meet the legislative requirements as they apply to all significant investments, irrespective of whether they form part of the Channel 4’s “primary functions” or are deemed to be a permitted “other activity”. This will help to ensure that C4C applies appropriate levels of financial stewardship such that it does not compromise its obligations to fulfil the expanded “primary functions” taken as a whole. C4C believes that this will continue to help ensure that there are proper procedures in place to identify, evaluate and properly manage any significant risks.

Clear investment procedures in place

28. The revised arrangements also set out the procedures C4C will operate in respect of investment decisions, which help ensure that all significant risks to the “primary functions” are identified, evaluated and properly managed.
29. In particular, the arrangements set out an investment approval process, covering all investments regardless of whether they are for activities which will fulfil “primary functions” or for “other activities”. Investments are categorised as either high value/high risk, medium value or low value/project development capital, and the arrangements set out authorisation procedures to be followed for each type of investment.
30. Under the arrangements, the Board has direct control and approval of high and medium value investments, and those which are determined to be high risk. C4C believes that these arrangements help to ensure that it meets its obligations under Schedule 9 to identify, evaluate and properly manage risks to the “primary functions” of C4C.

Corporate governance systems ensure greater scrutiny at full Board level

31. The revised arrangements also set out C4C's corporate governance structure. The Channel 4 Board is ultimately responsible for agreeing group strategies and compliance with legislation and regulatory licences. The arrangements set out a range of corporate governance systems which, between them, enable C4C to identify, evaluate, and properly manage any significant risks to the "primary functions". These include:
- Strategic budgeting and financial planning processes: whereby annual budgets, cashflow projections and performance targets are assessed and set for all areas of the business.
 - Compliance processes: which ensure that monitoring and advisory systems are in place to ensure C4C and 4Ventures Limited measure and meet their various regulatory, statutory and licence requirements.
 - Risk management processes: to identify, evaluate and ensure effective management of significant business, operational, financial and compliance risks.
 - Investment appraisal: for new ventures and investments, whether or not they are aimed at fulfilling any of the "primary functions", there is a defined assessment, approval and monitoring procedure, with the potential effect on the newly-widened "primary functions" being the most important consideration.
 - Systems for financial management and reporting, and external audit.
32. The revised arrangements also reflect changes to the Channel 4 Board structure, which were made in order to bring more decision making into the remit of the full Board. In particular, the arrangements reflect the discontinuation of the Budget Committee and the New Business Board. As a result, budgets are referred to the full Board for review and approval and all significant investments are also referred to the full Board, ensuring greater scrutiny of activities and management of risk.

Further procedures and practices established to meet Schedule 9 obligations

33. Finally, the proposals continue to cover the matters listed in para (2)(5) and para (2)(7) of Schedule 9, which suggest a range of specific issues which could be addressed in the arrangements.
34. These set out arrangements covering: the initiation and management of new ventures, the exercise of particular powers, the assessment of risks, the imposition of charges, the keeping of records and audit of C4C's compliance with the arrangements. C4C does not propose to make any significant changes to these further specific arrangements, and continues to believe they satisfy the obligations set out in Schedule 9 of the CA 2003.

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