

CHANNEL FOUR TELEVISION CORPORATION

**ARRANGEMENTS UNDER SCHEDULE 9 OF THE COMMUNICATIONS
ACT 2003**

SEPTEMBER 2016

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CHANNEL FOUR TELEVISION CORPORATION

ARRANGEMENTS UNDER SCHEDULE 9 OF THE COMMUNICATIONS ACT 2003

The Communications Act 2003 (“**CA 2003**”) imposes on the Channel Four Television Corporation (the “**Corporation**”) certain procedural obligations in relation to its arrangements for the assessment and management of risks and in respect of securing transparency.

In Part I of this submission we set out the statutory obligations included in the CA 2003, as amended by the Digital Economy Act 2010 (“**DEA 2010**”).

In Part II we set out the arrangements proposed by the Corporation to meet these obligations.

PART I

The Statutory Framework:

1. Under paragraph 2(2) of Schedule 9 of CA 2003 the Corporation must, after receiving notification from Ofcom under paragraph 1 of the Schedule:

Submit proposals to Ofcom for the arrangements under which they are proposing to secure, so far as reasonably practicable, that all significant risks that their other activities will have an adverse effect on the carrying out, during the relevant licence period, of their primary functions are -

(a) identified;

(b) evaluated; and

(c) properly managed.

These proposals are referred to in this submission as the Arrangements.

2. In addition, under paragraph 2(3) of Schedule 9 of CA 2003, the Corporation's proposals must include proposals for arrangements which the Corporation considers appropriate for securing the transparency objectives as set out in 2(4) of Schedule 9 of CA 2003, namely:

(a) an appropriate financial and organisational separation between the activities of the Corporation that relate to the carrying out of their primary functions and their other activities; and

(b) an appropriate degree of transparency in financial and other reporting where resources are shared between separated activities or where there is some other financial or practical connection between otherwise separated activities.

These two matters are referred to as the Transparency Objectives.

3. Paragraph 2(5) of Schedule 9 of CA 2003 sets out the matters to which the submitted Arrangements may relate. These include the procedures and other practices to be followed by the Corporation in the case of:

(a) the initiation and management of new ventures;

(b) the exercise of particular powers;

(c) the assessment of risks;

(d) the imposition of charges; and

(e) the keeping of records.

4. Paragraphs 2(7) and 2(8) of Schedule 9 of the CA 2003 require the Corporation to put in place regular checks to confirm that the Corporation is complying with the Arrangements:

(7) The arrangements proposed by the Corporation must contain provision for compliance with the arrangements to be checked regularly by a person appointed in accordance with that provision.

(8) That person must be a person other than the person for the time being [the Corporation's auditor].

5. As can be seen, the statutory framework draws a distinction between the carrying out of the Corporation's primary functions and its other activities. The primary functions of the Corporation, following the coming into force of the DEA 2010, are defined in section 199(2) of the CA 2003 as being:

(a) the performance of the Corporation's duties under section 198A (this being a new set of duties added by the DEA 2010);

(b) securing the continued provision of Channel 4;

(c) the fulfilment of the public service remit for that Channel under section 265.

The duties of the Corporation under sub-section 198A(1) are to participate in:

(a) the making of a broad range of relevant media content of high quality that, taken as a whole, appeals to the tastes and interests of a culturally diverse society;

(b) the making of high quality films intended to be shown to the general public at the cinema in the United Kingdom, and

(c) the broadcasting and distribution of such content.

These duties are specified in further detail in other subsections of section 198A. The full text of the section is annexed to this Submission.

6. The Corporation's powers to carry on activities other than its primary functions are set out in the Broadcasting Act 1990 ("**BA 1990**") and the CA 2003.

The powers under the BA 1990 are set out in paragraphs 1(3) and 1(4) of Schedule 3 of that Act as follows:

(3) The Corporation may do anything which appears to them to be incidental or conducive to the carrying out of their functions.

(4) The powers of the Corporation under sub-paragraph (3) include power, to the extent that it appears to them incidental or conducive to the carrying out of their function to do so –

(a) to borrow money;

(b) to carry on activities (other than those comprised in their duty to carry out their Channel 4 functions) through Channel 4 companies; and

(c) to participate with others in the carrying on of any such activities.

The 'Channel 4 functions' referred to in (b) are the second and third of the primary functions referred to in paragraph 5 above, namely:

(b) securing the continued provision of Channel 4;

(c) the fulfilment of the public service remit for that Channel under section 265.

The Corporation's powers under the CA 2003 to carry on activities other than its primary functions are set out in section 199(1), which provides that the Corporation may carry on any activities that appear to them

(a) to be activities that it is appropriate for them to carry on in association with the carrying out of their primary functions; and

(b) to be connected, otherwise than merely in financial terms, with activities undertaken by them for the carrying out of those functions.

7. The Secretary of State has exercised the power conferred by section 202 of the CA 2003 and made an order placing a limit of £200 million on the borrowing that the Corporation is allowed to undertake.

PART II: THE PROPOSED ARRANGEMENTS

Arrangements for exercise of functions and powers

8. As required by the CA 2003, those of the Corporation's primary functions which have now been defined by the DEA 2010 specifically as "Channel 4 functions" are carried out by the Corporation.
9. Following the coming into force of the DEA 2010, the Corporation's primary functions were expanded to include participation in the making, broadcasting and distribution of relevant media content and films on other platforms, activities which the Corporation had already been undertaking either itself or through Channel 4 companies.¹ In order to reflect the expansion of the Corporation's primary functions, the Corporation began to carry out a wider range of these activities than it had done previously, for example the activities of its digital channels. The primary functions are mainly fulfilled by the Corporation itself with a more limited range of those activities being met by Channel 4 companies. The Corporation shall identify which activities form part of the primary functions.
10. By 31 October 2016, and thereafter each year within 3 weeks of the Annual Report being signed off by its Board, the Corporation shall supply to Ofcom a table setting out, as at the date on which it is provided:
 - (a) the categories of activities which have been identified by the Corporation as forming part of the primary functions; and
 - (b) the categories of activities which have been identified as "other activities",in each case with a short explanation as to why the category has been identified as (a) or (b). For the avoidance of doubt:
 - the table will set out the categories of activities (e.g. Advertising Sales, Programme Commissions, Equity Investments) which the Corporation or Channel 4 companies have entered into, and not specific activities within those categories, unless a specific activity does not fit into a category;
 - the categories reported in the table will be sufficiently granular for Ofcom to understand the nature of the specific activities included in each category;
 - the table will not include categories which are in contemplation but have not yet been entered into.Any substantive update to the table during the year will be provided to Ofcom as soon as reasonably practicable.
11. On request, the Corporation shall provide to Ofcom details of the other activities identified, including, for example i) the materiality of the other activities in terms of revenue earned, costs incurred or assets owned; and ii) the risk factors identified by the Corporation as being associated with the other activities.

¹ A Channel 4 company, as defined in section 202(1) of the BA 1990, means

(a) any body corporate which is controlled by the Corporation; or

(b) any body corporate in which the Corporation or any body corporate falling within paragraph (a) above is (to any extent) a participant (as defined in paragraph 1(1) of Part 1 of Schedule 2 of the BA 1990)

12. Many of the “other activities”, which the Corporation has the power to undertake are carried out not by the Corporation itself alone or in participation with others (as permitted under sub-paragraph (4) of Schedule 3 to the BA 1990) but instead (as is also permitted by that sub-paragraph) by 4 Ventures Limited, a wholly-owned subsidiary of the Corporation, or by one of 4 Ventures’ subsidiaries or associated companies falling within the definition of Channel 4 companies.
13. Specific arrangements and processes that ensure that the Transparency Objectives can be met include the following:
 - The annual financial results of 4 Ventures Limited and its trading subsidiaries are reported separately in their own statutory financial statement.
 - Segmental financial information in the Channel 4 Annual Report and financial statements highlights the performance of the main business operations of the Corporation and 4 Ventures Limited.
 - Costs and revenues are appropriately allocated across different business areas.
14. Other activities (not forming part of the primary functions) are generally accounted for as part of 4 Ventures Limited.
15. The risk identification, evaluation and management proposals in this submission deal with the co-existence and inter-operation of the primary functions and other activities, considering at all times the Transparency Objectives.

Corporate Governance Systems

16. The Board of the Corporation (“**Corporation Board**”) is ultimately responsible for agreeing group strategies and compliance with legislation and regulatory licences. Management of the Corporation is undertaken by the Senior Executive Management Committee.
17. The Corporation Board consists of between 13 and 15 members, the majority of whom are non-executive. The Chairman of the Board is appointed by Ofcom. The non-executive members are appointed, following consultation with the Corporation’s Chairman, by Ofcom with the approval of the Secretary of State. All non-executive members are considered to be independent. The Corporation Board operates sub-committees, including, but not limited to, an Audit Committee and a Remuneration Committee. The Chairs of these Committees report to the Board on the work of their committee and bring proposals to the Board for approval. The Corporation Board has overall responsibility for the Corporation’s system of internal control and for reviewing its effectiveness. The role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure in the achievement of business objectives. In pursuit of these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.
18. The Corporation Board is responsible for investment decisions and the oversight and monitoring of the performance of 4 Ventures Limited’s businesses and investments. It has delegated certain investment decisions to the Corporation’s

Senior Executive Management Committee as set out in paragraph 21 – Investment Procedures.

19. The Corporation seeks to comply with the provisions of the UK Corporate Governance Code in so far as they are relevant to an entity with its constitution.
20. The Corporation operates the following corporate governance systems which, between them, enable it to identify, evaluate and properly manage any significant risks to the carrying out of the Primary Functions:

- ***Strategic Budgeting and financial planning processes***

Comprehensive budgeting processes are in place whereby annual budgets, cashflow projections and performance targets are assessed and set for all areas of the business. These budgets are approved by the Corporation Board.

The Corporation operates short and long-term operational financial plans which encompass all areas of the business.

- ***Compliance process***

Monitoring and advisory systems are in place to ensure the Corporation and 4 Ventures Limited measure and meet their various regulatory, statutory and licence requirements (e.g. Ofcom Licences; Companies Acts; Communications Act; etc.). There is a formal system of quarterly reviews. Reports covering financial performance and key performance indicators against targets are prepared by areas of the business and reviewed by the Chief Executive and the Group Finance Director in quarterly review meetings with business unit heads, prior to presentation of summary reports to the Board.

- ***Risk management***

The Corporation Board operates a group-wide business risk evaluation process. This process is designed to identify, evaluate and ensure effective management of significant business, operational, financial and compliance risks. Alongside the quarterly review process, regular reviews of risk are undertaken and reviewed by the Audit Committee and the Corporation Board.

The Executive management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to monitor and mitigate such 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. Where an investment relates to a primary function, it shall be specifically documented as such. Progress against approved plans is reported to the

Board and all new ventures and investments are considered as part of the quarterly review process.

- ***Financial management and reporting***

Detailed financial reports are prepared and submitted to the Corporation Board monthly. These reports show actual results for the period to date, and forecasts to the end of the financial year. The reports compare actual results with budgets, and include commentary on any significant variances.

The on-going management accounting and financial reporting procedures form the basis of Budgeting and Financial Planning processes, Investment Appraisal and Risk Management processes.

As part of these procedures the Senior Executive Management Committee and Board are kept informed of the significant key stages and other significant issues that occur in major investments and projects via the following mechanisms:

- Regular Senior Executive Management Committee meetings
- Monthly Board meetings
- The Quarterly Review process

For less significant issues and investments, the head of the applicable department or project lead monitors progress and refers matters to the Senior Executive Management Committee as appropriate.

- ***External Audit***

The published statutory financial statements of the Corporation and 4 Ventures Limited are audited annually in line with Companies Act requirements, to the extent applicable.

The Corporation has appointed reporting accountants to check compliance with the Arrangements. Their reports have been published in the Corporation's Report and Financial Statements since 2001.

- ***Financial controls***

The Business Assurance function periodically reviews the system of internal control including financial controls.

Investment Procedures

21. In respect of investments, the Corporation operates the following procedures:

- ***Investment strategy***

The Corporation's investment strategy is to have a balanced portfolio of investments which all pass key strategic and screening criteria and which are balanced in terms of size and risk and are activities that the Corporation is able to carry on in accordance with its statutory powers.

The majority of investments relating to the “other activities” are made by 4 Ventures Limited.

- ***Investments Management***

Investment proposals are referred to the Senior Executive Management Committee and the Corporation Board as appropriate.

Investments are co-ordinated, researched and managed by the appropriate area of the business.

- ***Investment approval***

All Investments, whether for activities that will fulfil primary functions or which are “other activities”, are categorised for the purposes of approval as follows:

(i) High value/high risk:

- Comprehensive and detailed investment proposal required including risk assessment
- Corporation Board approval required

(ii) Medium value:

- Detailed investment proposal required including risk assessment
- Approval required from Senior Executive Management Committee and the Corporation Board
- Maximum aggregate approval of medium value projects not to exceed an agreed level in any one year without further Corporation Board approval

(iii) Low value - Project Development Capital:

- A development proposal indicating risks and benefits is required
- Approval in line with the Corporation’s delegated authority framework.
- Maximum aggregate development capital in any one year not to exceed an agreed level without further Corporation Board approval.

The Corporation Board, therefore, has direct control and approval of high value investments, or those which are determined to be high risk. For medium value investments, it is the responsibility of the Senior Executive Management Committee to make an initial risk assessment and to determine whether Corporation Board approval is required:

The Senior Executive Management Committee always has the option to refer a particular investment of any size to the Corporation Board.

The Corporation Board has ultimate responsibility for all activities in the Channel 4 Group. It reserves the right to call for any item of activity to be referred to it for review and approval.

- ***Investment monitoring and reporting***

The Corporation Board is given regular presentations in relation to investments approved by it, or other investments which have developed in such a way as to require the Corporation Board to be informed. Examples of such developments would be a business partner becoming financially unstable, or the risk of the investment increasing significantly.

During such presentations, the Corporation Board is kept informed of key investment milestones, implementation timetables, returns on significant investments and any significant risks.

Further Specific Arrangements

22. As will be apparent from paragraphs 8 to 21 of this submission the Corporation has established certain procedures and practices to deal with the issues referred to in paragraphs 2(5) and 2(7) of Schedule 9 of the Act. Here we re-iterate and expand upon those arrangements with specific reference to the matters identified in those paragraphs of the Act:

(a) *the initiation and management of new ventures*

The Investment Procedures referred to above complement the Corporate Governance framework. By operating these procedures and framework, the Corporation ensures that its Primary Functions are always considered when initiating and managing new ventures. At all times during the process, the impact on the Primary Functions (taken as a whole) are considered, including when the opportunity is first identified, as the business case is developed and during review and approval process (at Corporation Board level for large and high risk investments). Investment evaluation criteria are established to ensure investment proposals are aligned with the aims of the Primary Functions and comply with regulatory requirements.

(b) *the exercise of particular powers*

The Corporation exercises all of its powers in accordance with the Corporate Governance framework and, if applicable, the Investment Procedures, outlined above.

(c) *the assessment of risks*

As part of the Investment Procedures, the risks of a new venture are assessed. For projects other than new ventures, as referred to under the Corporate Governance framework outlined above, there is a formal risk assessment process.

(d) *the imposition of charges*

Internal re-charges between the Corporation and 4 Ventures Limited are set to ensure that revenues and costs are fairly apportioned, reflecting the cost of provision of the service or, where appropriate, comparable market rates. This is necessary to meet the Transparency Objectives. Recharges are calculated by determining the total cost of the department providing the relevant services. This total cost is adjusted to remove any costs of services that are used exclusively for the purpose of the Primary Functions. Where practical, recharges are compared to market rates.

(e) *the keeping of records*

The Corporation maintains accounting records and publishes annual audited Financial Statements in accordance with best corporate practice.

The Corporation's Archives Team is responsible for the maintenance and retention of the Corporation's files.

The Corporation and, where relevant, each of its subsidiaries are registered on the Information Commissioner's public register of data controllers.

The Corporation's Legal & Compliance and Business Assurance teams ensure that the Corporation to meet its obligations pursuant to the Data Protection Act 1998 and the Freedom of Information Act 2000.

Regular checks

23. The compliance by the Corporation with the Arrangements set out in this report, as required by the Act, is and will continue to be monitored annually by independent auditors (other than auditors appointed by the Corporation for the purpose of its annual report and financial statements).