

An organisation
fit-for-purpose
for the digital age

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An organisation fit-for-purpose for the digital age

5.1 Changes to Channel 4's funding and operating model

- Channel 4's vision strikes a pragmatic balance between maximising public impact within rigorous commercial disciplines
- To deliver its distinctive public role, Channel 4 should remain an independent publicly-owned statutory corporation
- Channel 4 will follow best practice for public organisations by maximising the resources available to fulfil its public role
- Channel 4's ability to deliver its remit has always been underpinned by public support and its reinvestment of profits in its public service output
- The transition to digital TV is undermining the model that has hitherto sustained traditional high levels of public service provision by advertising-funded broadcasters
- Channel 4 faces pressures on its financial position, which will intensify in the coming years. The funding gap will have grown to around £100 million by the end of digital switchover in 2012
- Channel 4 will require a replacement form of public support to deliver its public role in the future
- Channel 4 remains open to the best model of support for the organisation – whether direct or indirect. It is clear on the criteria that should be used to assess these options

5.2 Enhancing Channel 4's governance and accountability

- Channel 4's governance is underpinned by clear structures and processes that cover its regulatory and commercial responsibilities
- Channel 4 will strengthen its extensive procedures with a number of new measures to meet growing expectations about public accountability

5.3 Channel 4's new public value framework

- Channel 4's public purposes build on the values embodied in its remit, and form the basis of its public value framework
- Channel 4 will assess its performance with a basket of measures covering individual components of its public purposes, and publish a new annual Public Value Report alongside the annual Financial Report and Accounts

5.1 Changes to Channel 4's funding and operating model

Channel 4's vision strikes a pragmatic balance between maximising public impact within rigorous commercial disciplines

As Channel 4 has developed the vision presented in this document, we have sought to strike the optimum balance between three drivers of our operating model:

- The need to maintain the necessary investment in the programmes and content that deliver against our purposes
- The need to preserve cash balances to cover our working capital requirements and protect Channel 4 against dramatic movements in the advertising market
- The need to invest in commercial businesses that create new income streams and provide scale and relevance in a multi-platform world.

We believe the approach we have taken is sensible, prioritising our resources to deliver against our ambition in the short-to-medium term, whilst ensuring that Channel 4 remains in a viable financial position ahead of the forthcoming debate about funding. But it is fundamentally clear that a form of financial support is required to replace Channel 4's historic model of gifted analogue spectrum and to secure our public service role in the future. Without this, our economic model and our public service delivery will come under significant financial pressure in the coming years, resulting in an inevitable reduction in our public contribution.

To deliver its distinctive public role, Channel 4 should remain an independent publicly-owned statutory corporation

Channel 4's ability to deliver its distinctive public service role has always been intrinsically linked to its institutional model. As a statutory corporation without commercial shareholders, it has the editorial freedom to deliver its remit by taking creative risks and showing challenging and provocative programming.

We set out in the previous chapter Channel 4's ambition to remain an organisation whose primary role is the delivery of public value, with all commercial activities being a means to this end. We believe that the current

organisational model – a publicly-owned statutory corporation which is not required to maximise profits for shareholders – remains the best way to achieve this, enabling the organisation to focus on meeting its public duties, while protecting its independence from external influence.

As well as safeguarding its editorial independence, Channel 4's institutional model also provides rigorous financial disciplines. Channel 4 has to engage sufficiently large audiences to deliver the advertising revenues that constitute the large majority of its income, and equally importantly it has to manage its cost base effectively. We believe the hybrid model of commercial funding and public support works well for Channel 4, bringing with it a culture of efficiency and commercial innovation that can sometimes be a lower priority in purely publicly-funded organisations.

Channel 4 will follow best practice for public organisations by maximising the resources available to fulfil its public role

From the outset, Channel 4 has delivered its public purposes by employing a comparatively small number of staff to fulfil its duties and by commissioning content from the market. This has helped to keep the overhead base low, while the reliance on commercial income means the organisation benefits from market disciplines. In recent years, this model has been important in ensuring efficiency as Channel 4 has extended the range of channels and services that it offers. The staff base in 2007 is more than 10% smaller than in 2001, despite the huge growth in the number of services and channels now offered.

Channel 4 will always aggressively pursue a strategy of self-help to ensure that its operating model works as effectively as possible, through prioritisation of resources and efficiency across all activities. The vast majority of Channel 4's cost base is invested in the creation, distribution and marketing of content and services. Administrative expenses account for less than 4% of total spend. Year-on-year efficiency gains have been achieved at the same time as Channel 4 has faced new and more complex content, distribution, rights management and sales demands on its support services. A combination of outsourcing, corporate transactions and restructuring has affected over one third of Channel 4's staff in the last two years.

We will continue to ensure Channel 4's overhead base is deployed as effectively as possible, and exit any activities that do not contribute commercially, nor offer genuine public impact (as we have already done with our international distribution business, educational publishing and PRTS activities). We will manage costs to ensure maximum resources are devoted to our programmes and services and our off-screen activities, and will continue to ensure value for money in everything that we do.

Channel 4 will also continue to prioritise investment in its core channel programming budget to ensure it provides the greatest impact and commercial performance. We are also committed to an investment approach across multichannel TV, new media, and other commercial ventures such as Box TV and Project Kangaroo that balance commercial and public objectives. These ventures will all contribute to Channel 4's delivery of public value, while having a clear path to profitability.

Channel 4's ability to deliver its remit has always been underpinned by public support and its reinvestment of profits in its public service output

Throughout its existence, Channel 4 has always benefited from a model of public support, along with an institutional model that allows it to retain any profits within the Corporation, to enable the organisation to deliver its remit. This public support has never compromised the organisation's independence or its ability to take creative risks.

At launch, Channel 4 was funded through a direct income stream from the ITV companies, paid as a total proportion of the advertising generated across the two networks. From 1992, Channel 4 began selling its own airtime, giving it financial independence from ITV. The "funding formula" was established to offer protection from downturns in Channel 4's performance, although it proved to be a financial drain on the organisation and was removed in 1998. Since then, Channel 4 has generated all its income from its own activities, primarily from spot advertising and programme sponsorship on its portfolio of channels (E4 and Film4 were originally launched as pay-TV services, but are now both free-to-air).

Channel 4 has also always benefited from access to analogue spectrum, in effect "gifted" to the organisation to enable it to transmit its core channel without having to

make financial payments to the Treasury. This analogue spectrum still has a residual value, and has been supplemented by the allocation of digital terrestrial spectrum, although this has a lower value. Channel 4 has been able to direct the revenues that would otherwise have been used to cover these costs into public service programming.

This implicit form of support underpinned the cross-subsidy model that has enabled Channel 4 to commission, and to show in peak-time, a wide range of high-quality originated programming, much of which is loss-making in commercial terms (in that the value of the advertising sold around those programmes is less than the cost of the commissions) balanced with other programming that is more profitable (including acquisitions).

The transition to digital TV is undermining the model that has hitherto sustained traditional high levels of public service provision by advertising-funded broadcasters

As audiences migrate to the more competitive world of digital television, viewing to the traditional PSB network channels declines, and the resulting loss of audience translates into a lower share of advertising revenues for the commercially-funded broadcasters. As a result, the value inherent in the broadcasters' analogue licences diminishes, as does their ability to continue to invest in public service programming.

With over 85% of homes in the UK now having digital TV, the value of access to analogue spectrum is reducing rapidly, and will continue to diminish as digital switchover reaches completion in 2012. As a result, the profitability of the core channel is already under pressure.

These trends have been recognised in the industry for some time, by the broadcasters themselves and by Ofcom. Back in 2004, Ofcom argued that "a new model of provision will be needed in the digital age if PSB is to maintain its unique ability to reach millions of people with a plurality of suppliers providing distinctive content"¹⁴. Ofcom returned to this theme in the Terms of Reference for the second PSB Review in late 2007: "The advertiser-funded model for TV broadcasting faces pressures both from the growing popularity of online advertising and from multichannel subscription television. As anticipated in our first review of PSB, access to analogue spectrum is now

¹⁴ PSB Review Phase 2 – Meeting the digital challenge, Ofcom, November 2004

worth significantly less than it used to be, posing challenges to traditional funding methods for PSB.”¹⁵

Channel 4 faces pressures on its financial position, which will intensify in the coming years. The funding gap will have grown to around £100 million by the end of digital switchover in 2012

Channel 4’s share of viewing has held up remarkably robustly since the introduction of digital TV, in large part due to its commitment to innovation and to seeking new programmes and formats that can engage large audiences with public service content. As a result of its success in maintaining share over most of the last decade, Channel 4 has managed to increase the price premium on its advertising sales, helping to bolster advertising revenues.

But as the 10% decline in viewing experienced by the core channel between 2006 and 2007 suggests (from 9.8% to 8.7%), historic levels of Channel 4’s advertising revenues are unlikely to continue in the face of increased competition brought about by digital switchover. And despite growth in the advertising market in 2007, it is still at a lower level than in 2005, while the majority of forecasts for growth in 2008 are lower than inflation.

Simultaneously, the rise in the number of digital television channels has increased demand for, and the price of, both original and acquired programming. There are now more competitors than ever before with the scale to outbid Channel 4 for content, in some cases using attractive programmes (whose audiences were often built up by Channel 4 in the first place) as loss-leaders to drive subscription revenues.

Ofcom tasked consultants LEK to review Channel 4’s finances in late 2006 with a view to establishing the nature and extent of the funding challenges facing Channel 4. LEK undertook the most thorough independent review of Channel 4’s financial position in its history. Their final report, published in April 2007, confirmed the arguments that Channel 4 had previously made that it will face a significant funding gap by the time the digital switchover process is completed in 2012.

The central case in LEK’s modelling confirmed our own analysis, calling into question the sustainability of Channel 4’s current funding model, and predicting Channel 4 would become loss-making after 2010. LEK’s low case was more severe and in line with Channel 4’s

own forecasts, suggesting that Channel 4 will make losses from 2009, that it will exhaust its cash reserves by 2011, and that losses will grow to more than £100 million by 2012. LEK also believed the factors that drove this potential downside scenario outweighed the potential upsides. LEK concluded that Channel 4 would quickly face difficult trade-offs between retaining cash reserves, investing to create future profit streams and maintaining programme budgets for delivery of the remit.

Following the publication of LEK’s report, Ofcom concluded that “it is reasonably likely that Channel 4 will face increased financial pressures in the medium-term”, that “these pressures are likely to result in renewed pressure on its remit delivery from around 2010”, and that “over time, this pressure could significantly weaken Channel 4’s overall contribution to the purposes of public service broadcasting”¹⁶. Former Secretary of State Tessa Jowell also confirmed in June 2007 that the Government would pursue a plan for the BBC to assist Channel 4 with the costs associated with digital switchover, in light of the growing financial pressures on the organisation.

The Corporation’s operating profits have declined significantly in the last few years, as we anticipated in our original modelling work three years ago. The Group is approaching the point at which it will effectively be operating at break-even, with profits from our digital channels and other ventures beginning to subsidise emerging losses on the core channel. There is now widespread consensus regarding the financial pressures facing Channel 4. Ofcom and LEK have confirmed Channel 4’s own view that with no change to the current model, it will increasingly face the choice between moving into losses or having to cut back on public delivery.

Channel 4 will require a replacement form of public support to deliver its public role in the future

Channel 4’s transition to a public service network, and the set of commitments it has made as it rebalances its activities, do not materially change the financial implications in its base financial case reviewed by LEK. In line with the financial projections presented to Ofcom in 2006-7, Channel 4 will face a funding gap in its base case model of around £100 million by the end of switchover.

The pilot funds for 4IP and children’s programming have been established over the next two years through

¹⁵ Ofcom’s Second Review of Public Service Television Broadcasting: Terms of Reference, Ofcom, September 2007

¹⁶ Source: Channel 4 Financial Review: Statement, Ofcom June 2007

reprioritisation within existing budgets and through redeployment of funds released through the sale of Channel 4 International, but would require incremental ongoing support above and beyond the £100 million gap if Channel 4 were to continue with them in the medium- to long-term. The main objective of these pilots is to invest in new forms of public service output and demonstrate the contribution that Channel 4 can make in both areas, but they will also help us understand the scale of the additional support that would be required to have sufficient impact if they were to continue beyond the period of the pilots.

Despite increased competition for advertising from other digital channels and online services, Channel 4 expects advertising to continue to be the most important driver of revenues for the organisation in the years ahead. But revenues earned in the marketplace alone will not be sufficient for Channel 4 to fund all of its activities – at its height, gifted analogue spectrum is estimated to have been worth around 15-20% of Channel 4's turnover. A new form of public support that would directly replace this indirect public funding is needed.

To this end, we are not seeking a radical re-engineering of Channel 4's hybrid funding model. Rather, we are seeking to maintain the traditional balance between public and private funding to enable us to deliver our public service responsibilities. The vast majority of our income should continue to come from commercial activities, as has always been the case. We do not expect our future needs to significantly increase, and expect that any new form of public support would represent no more than 15-20% of Channel 4's income.

Channel 4 remains open to the best model of support for the organisation – whether direct or indirect. It is clear on the criteria that should be used to assess these options

Over the coming months, Channel 4, Ofcom and Government need to consider a variety of potential models of support to sustain Channel 4's public service role in the digital age. Channel 4's historic model has been one of indirect support, but other models of public subsidy should also be examined.

We have identified a number of criteria against which different models should be assessed, including:

- **Independence from editorial interference** by interest groups, to protect the ability to deliver value by taking creative risks (and being allowed to fail), provoking debate and challenging consensus – characteristics of Channel 4's output to which audiences and stakeholders attach particularly high value
- Funding must be **sufficient** in scale to meet requirements, while **stability** is essential to enable long-term investment decisions to be made
- Sufficient **flexibility** to allow for innovation, given the changing nature of public service broadcasting
- **Promotion of efficiency**, incentivising and rewarding "good" performance
- **Low bureaucratic overhead** and cost of implementation to ensure efficiency
- **Clear accountability** in the use of public funds, to ensure they are deployed to support the provision of content that fulfils the relevant public objectives
- **Transparency** to allow for regulatory oversight, particularly relevant in the case of mixed-funding models, where there is a risk of the creation of market distortions from the cross-subsidy of commercial activities by public funds.

Our initial research, looking at broadcasting markets in the UK and overseas, has identified a wide range of forms of direct and indirect forms of public support with varying strengths and weaknesses. Models include forms of indirect funding – such as gifted spectrum or tax breaks – along with other forms of direct public subsidy, such as general taxation, a licence fee, voluntary donations and industry levies. Hybrid models which mix public funding and commercial ventures are most common. There is no single solution that clearly outperforms the others against all the criteria above, and all merit further investigation and discussion.

Channel 4 welcomes Ofcom's PSB Review and the Government's Convergence Think Tank, which will consider a range of public policy options, ahead of any future changes that will need to be enacted in legislation. Through these reviews, there is now a clear process to address the pressures on the delivery of PSB by advertising-funded broadcasters. We believe this broader

debate to be extremely important, for Channel 4 and for the sector as a whole, particularly in resolving how best to promote plurality in public service delivery. We expect to set out our own views on funding solutions in the autumn, at the relevant point in the Ofcom and Government reviews.

Unless a new model of public support is agreed over the course of these reviews, the commercial pressures resulting from switchover mean that Channel 4 will quickly have to reduce its commitments to loss-making genres such as arts, religion, comedy, challenging contemporary drama, film, and to much of its news and current affairs output. Across its popular output, it would be less focused on innovation and risk-taking, on seeking mainstream programming with educational value, and on diversity. And off-screen, it would have to reduce commitments to development and training, regional support and initiatives, talent development schemes and working with such a wide range of independent companies.

Finding a solution which will support Channel 4 in the coming years is no easy task. We remain open to considering all options, including any new or innovative approaches to public support. But the stark fact remains: without some replacement form of support, Channel 4 will not be able to deliver on its future vision and will be forced to cut back on the level of public value it delivers through its impact on audiences, society and the creative economy. Nor would it be able to continue to make its vital contribution to public service plurality at a time when other commercially-funded public service broadcasters are reducing the scale and scope of their public service obligations.

5.2 Enhancing Channel 4's governance and accountability

Channel 4's governance is underpinned by clear structures and processes that cover its regulatory and commercial responsibilities

As a publicly-owned corporation whose primary focus is the delivery of its statutory remit, Channel 4 is accountable to the public, and committed to ensuring it demonstrates best practice in achieving this. Just as operational and financial disciplines are imposed on private companies by their shareholders, Channel 4 has

its own governance and accountability arrangements that ensure delivery of its public service role and sound financial stewardship, while being appropriate to the nature of the organisation. These arrangements are designed to be:

- sufficiently robust to ensure that Channel 4 is held to account for its actions
- sensitive to the culture and ethos of Channel 4 as a creative, risk-taking organisation
- protective of Channel 4's self-determination and editorial independence, giving the organisation the freedom to provoke and challenge, to tackle sensitive subject-matter, and at times to risk causing offence.

Clear and effective structures and processes help the public, key stakeholders and the wider industry understand the unique contribution that Channel 4 makes. And they offer mechanisms to respond to instances when the organisation falls short of expectations. Channel 4's governance mechanisms comprise:

- A unitary board, with a majority of Non-Executive members appointed by Ofcom
- A clear framework for content regulation set out by an independent body, Ofcom
- Rigorous corporate governance procedures typical of any FTSE 100 company.

The Channel 4 Board

The Channel 4 Board is the independent body responsible for ensuring that Channel 4 meets its financial and public service responsibilities, and is accountable to Ofcom, the Government, and most importantly, the public.

The Board is unitary in structure and comprises a majority of Non-Executives (including a Non-Executive Chairman, Deputy Chairman and Non-Executive Directors) all of whom are appointed by Ofcom. The responsibilities of the Chairman and the Board include:

- Appointment of the Chief Executive and other Executive Directors
- Approval of annual budgets (both programming and non-programming)

- Approval of significant new business investments
- Review of audited accounts and appointment of auditors.

The formulation of the Board, and in particular its Non-Executive membership, ensures that Channel 4's Executive team is routinely held to account in all matters relating to the running of the organisation and the delivery of its remit. The Board acts as a vital link between Channel 4's Executive and Ofcom, ensuring that all regulatory and legal requirements are met, while protecting Channel 4's editorial independence (from the regulator and Government).

Channel 4's public service activities

The 2003 Communications Act stipulated that communications regulator Ofcom should assume responsibility for regulating television services, including the public service broadcasters. As part of this, Ofcom oversees the licensing and regulation of Channel 4 in a number of ways.

Channel 4's services are regulated by Ofcom through a number of licences. The main licence is the Digital Replacement Licence (DRL) granted to Channel 4 in 2005, covering the core Channel 4 service as delivered via terrestrial platforms, and reflecting its quantitative PSB obligations. The DRL also sets out further responsibilities for Channel 4, including its obligations relating to digital switchover, its commitments to schools output, to access services (subtitling, signing and audio description) and a range of other obligations including, for example, party political broadcasts and contribution to the national TV archive.

Alongside the requirement that the core Channel 4 service fulfils specific content production targets set out in its licence (e.g. hours of news and current affairs, regional production and original production), Channel 4 is also required by Ofcom to publish an Annual Statement of Programme Policy at the beginning of each year, and an Annual Review of its performance against this Statement at the end of the year. Both reports are approved by the Board prior to publication.

Channel 4 also falls within Ofcom's overall obligations to assess the delivery of public service broadcasting taken collectively, carried out through its ongoing data collection, PSB Annual Reports (the first of which was published in 2007) and the quinquennial Public Service

Broadcasting Reviews. Channel 4 must also comply with the various Broadcast, Advertising and Promotional codes set out by Ofcom.

Finally, Channel 4 also uses a wide range of its own indicators for assessing its public service delivery and performance over time, many of which are shared with Ofcom and Government. These include detailed measures of volume and expenditure by genre, data on the range of independent producers we work with, and various forms of audience research.

Channel 4's secondary activities

The Communications Act also requires Channel 4 to set out arrangements for those activities which are not directly related to Channel 4's delivery of its public service remit. These arrangements, known collectively as Schedule 9, are designed to ensure that there is a transparent financial and organisational separation between Channel 4's primary activities, as required by its remit, and other secondary activities designed to support the Corporation as a whole. Channel 4 has appointed an independent auditor to review and provide an independent report on its compliance with these requirements, which are regulated by Ofcom.

Corporate governance procedures

Aside from the requirements of its regulator, Ofcom, and other key stakeholders, Channel 4 complies with all the corporate governance procedures expected of any major commercial corporation.

There are a number of sub-committees to the Channel 4 Board to handle individual aspects of financial control and corporate governance. These include separate audit, remuneration and budget and new business committees, all answerable to the main Board and involving representatives from the Board as well as Executives from Channel 4.

Channel 4 is also required to lay before Parliament its annual review of its financial accounts and performance. It has appointed KPMG as its statutory, external auditor and Grant Thornton as its internal auditor. Since the publication of the Combined Code on Corporate Governance in 2003, Channel 4 complies with corporate governance best practice in so far as the code is applicable, and continues to follow amendments to this Code.

Channel 4 will strengthen its extensive procedures with a number of new measures to meet growing expectations about public accountability

We believe that the structures and processes set out above constitute an effective system of governance and accountability that currently works well for Channel 4. We do not believe that the model – with a unitary Board comprising a majority of Non-Executives appointed by Ofcom, and all the corporate governance procedures that would exist in any FTSE company – needs to be fundamentally changed at this stage.

In particular, the separation between the Channel 4 Board and the regulatory body responsible for assessing delivery of our public service responsibilities (Ofcom) helps to underpin the Channel's delivery of its public role. It allows Channel 4 room to take the creative risks that are necessary to deliver against its remit, while establishing a clear and independent framework to review output against established guidelines.

However, important issues were raised about the relationship between all broadcasters and their audiences over the last 12 months. Channel 4 has already responded to particular concerns regarding *Celebrity Big Brother* and phone voting. The initiatives it announced include changes to its escalation procedures, a New Producers Handbook with best practice guidelines, enhanced training for producers and staff, ongoing live audits of telephone votes, the introduction of a contract inspection function and a major programme of audience research.

Channel 4 is clear that, as a public organisation, it needs to demonstrate the highest levels of accountability. We recognise that expectations of accountability and transparency in major institutions have increased in recent years, and broadcasting is no exception. The review of our future role has provided an opportunity for us to consider ways to strengthen Channel 4's accountability, through three new initiatives.

Creation of a new public value framework

In recent years, public organisations around the world have come to face far greater expectations regarding their governance and accountability, leading to the development of "public value" frameworks intended to help them to improve their dialogue with end-users, to assess their performance and to prioritise investment

decisions. Public value provides a mechanism for articulating the wider social benefits arising from an organisation's activities, thereby engendering trust and legitimacy among key stakeholders.

In its first review of public service broadcasting in June 2004, Ofcom set out a revised approach for assessing the performance of the public service broadcasters taken together which embraced components of public value. Its new framework represented a move away from the traditional regulatory approach based purely on metrics of genre-based inputs and outputs (e.g. hours or spend on particular genres) towards a greater focus on social outcomes, as described in the purposes and characteristics of PSB that Ofcom articulated for the first time.

Channel 4 is in the process of implementing a new public value framework suitable for the needs of the organisation, which it has been discussing with Ofcom and Government. This will help it to articulate more precisely the distinctive space that it occupies in the PSB ecology, and to demonstrate transparency and public accountability as to how it is performing in the delivery of its public purposes over time. Further details are set out in Section 5.3.

Creation of a new Content sub-committee to the Board

The Channel 4 Board is forming a new Content sub-committee (which would take its place alongside existing sub-committees responsible for Budget, Audit, Remuneration and New Business). It will help the Board determine and review programming policy and standards for Channel 4, and in particular ensure effective delivery of the Corporation's public remit, e.g. through consideration of annual Statements of Programme Policy.

As the range of the organisation's activities grows in the digital age, it will provide more time than is possible in routine Board meetings for non-executives and executives to consider content issues from a broader strategic perspective. In particular, it may assist in developing Channel 4's policies and standards to ensure they are appropriate for new content and services on digital platforms.

Consistent with widely accepted principles of corporate governance, the sub-committee will help to set overall policy, but will not interfere with day-to-day executive decision making, nor will it consider individual programmes ahead of transmission.

Strengthening of Channel 4's audience accountability

Channel 4 has always believed in strong audience research at the heart of its commissioning and scheduling strategy, and has clear processes for monitoring the response of viewers via daily logs of viewer enquiries.

In 2007, Channel 4 sought to strengthen its relationships with the appointment of a Viewers' Editor. The purpose of this new role is to monitor Channel 4's output from the viewer's perspective, interfacing directly with viewers (either online or through the Viewers' Enquiry Team), and working independently of Channel 4's commissioning teams. This new appointment will further enhance our understanding of audience opinion and feedback around issues that matter to viewers, and will give them additional reassurances that they are adequately represented in decision-making.

As we described in Chapter 4, Channel 4 is also introducing a range of measures to strengthen its engagement with audiences and enable greater opportunity for them to interact with Channel 4. This includes the monthly *TV Show*, our increased commitment to blogs and online forums to discuss particular programmes, and an ongoing programme of audience research.

5.3 Channel 4's public value framework

Channel 4's public purposes build on the values embodied in its remit, and form the basis of its public value framework

Many components of Channel 4's remit – such as innovation and risk-taking – are difficult to quantify. As a consequence, Channel 4's contribution has not typically been fully captured in previous reviews of public service broadcasting conducted by Ofcom and others. The development of Channel 4's public value framework, and the basket of measures it will include, provides an opportunity for Channel 4 to address this, and to secure a greater understanding and validation of its role by audiences and stakeholders.

To this end, the starting point for the establishment of a new framework has been the development of a clear set of purposes for Channel 4 that captures the distinctive role that the organisation plays in the UK broadcasting system. These purposes, which were presented in the previous chapter, have been defined, tested and refined

iteratively over the course of the past year, both internally and with audiences and stakeholders. They articulate what the public expects of Channel 4, and what Channel 4 believes its role should be.

The purposes build on the foundations of the remit, and set out a broader scope for the organisation's role in a multi-platform world, which reflects the contribution it makes both on- and off-screen. They can also be mapped across to the public service framework of purposes and characteristics established by Ofcom.

Channel 4 will assess its performance with a basket of measures covering individual components of its public purposes, and publish a new annual Public Value Report alongside the annual Financial Report and Accounts

Channel 4 is currently in the process of building up the components of its new public value framework, including a basket of measures that will assess performance against the individual purposes. We are drawing on input from external consultants, including accountancy firm PricewaterhouseCoopers and TV audience data specialists Attentional, to challenge the overall framework and to ensure the measures meet the following criteria:

- The public value framework needs to be complete and fit-for-purpose, and sufficiently rigorous and robust to hold Channel 4 to account
- It should be suited to the nature of Channel 4 as an organisation: it must not constrain commissioning editors' editorial and creative decision-making, nor should it be overly unwieldy or bureaucratic
- It should allow comparisons to be made of Channel 4's performance over time and, where possible, between Channel 4 and other broadcasters
- It needs to capture the public value provided on all platforms and services – including the core channel, digital channels, other forms of digital media and film – along with any new kinds of services that might be developed in the future
- It also needs to capture Channel 4's contribution to the creative economy, by nurturing talent and supporting creative businesses

- It should be capable of dealing with accountability requirements related to the potential future receipt of new kinds of public support
- It should be sufficiently distinctive from other public value frameworks and reflect Channel 4's overall purposes.

The basket of measures will draw on the huge volume of data collected by Channel 4, much of which is already routinely supplied to Ofcom as part of our regulatory returns (though not always historically made publicly available). It will reach a pragmatic view on the advantages and disadvantages of the use of existing and new data. It will also make use of the detailed audience research that we regularly undertake, tracking perceptions of Channel 4 against other broadcasters, and looking at individual audience segments, such as young people or minority groups.

We will enhance existing ongoing research projects to ensure that they cover the different elements of Channel 4's purposes. Where necessary, we will collect entirely new measures or commission new research, in order to capture additional components of our PSB delivery or to enable comparisons with other broadcasters to be made (for example, we will want to track on an ongoing basis the number of new programmes on Channel 4 compared to other channels). Many elements of public value cannot easily be quantified, and where it is impractical or inappropriate to use hard data, case studies will be used.

The information in the basket of measures will form the basis for a new annual Public Value Report. This report will set out a detailed assessment of Channel 4's performance against its purposes over the prior year, in a form that is accessible to the general public and stakeholders alike. The first full report will be published in 2009, and will cover the 2008 calendar year.

The annual reports will also help to make clear the impact of the increasing financial pressures that Channel 4 will face under its current operating model in the years ahead, and how these affect Channel 4's delivery against its four purposes.

As part of the public value framework, Channel 4 will continue to engage in dialogue with our audiences and stakeholders, building on the detailed consultation exercise that we conducted over the last nine months.

We recognise that further revisions to our accountability arrangements may be required in the future as a result of changes to our funding model. Any such changes would need to be appropriate and proportionate to the nature of any new intervention, and would need to respect the ethos of the organisation, allowing it to continue to take creative risks. They would also need to be proportionate to an organisation that will remain predominantly commercially-funded.

05 Conclusions

- The Channel 4 Board believes that Channel 4 should remain a publicly-owned, statutory corporation, independent of direct shareholder influence, and with a clear regulatory framework for its programme output
- Channel 4 should remain primarily funded through its commercial activities, which have been a fundamental part of its historic model. We will continue to implement a proactive strategy of self-help, including cost management and investment in new commercial income streams. However, the analysis conducted by LEK and Ofcom in 2007 demonstrated clearly that self-help alone will not be sufficient to address the financial pressures on Channel 4 brought about by digital switchover. Without a new model of support to replace the declining value of our gifted analogue spectrum, Channel 4 will face an emerging funding gap of £100 million, against which cash reserves offer only short-term protection
- A new model of support will be required if Channel 4 is to continue to play a key role in delivering public value. The Channel 4 Board is considering a range of potential models of support, and welcomes the commitment of Ofcom and Government to address the need to find a new funding solution over the coming months, ahead of likely changes in legislation. Channel 4's future funding has to be addressed with urgency, to avoid deterioration in our public impact
- Channel 4's current governance procedures remain fit for purpose, and ensure the organisation fulfils its public service and commercial responsibilities. The Board is committed to ensuring it operates best practice in terms of public accountability, and we are introducing a number of new procedures to strengthen accountability to viewers and stakeholders. We will establish a public value framework for Channel 4 with the organisation's core purposes at its heart, and create a Content sub-committee
- Further changes to Channel 4's accountability arrangements may be required as a result of changes to our funding model. If needed, these should be appropriate and proportionate to the nature of any new intervention