

CHANNEL FOUR TELEVISION CORPORATION
ARRANGEMENTS UNDER SCHEDULE 9 OF THE COMMUNICATIONS
ACT 2003
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CHANNEL FOUR TELEVISION CORPORATION

ARRANGEMENTS UNDER SCHEDULE 9 OF THE COMMUNICATIONS ACT 2003

The Communications Act 2003 (the “**Act**”) imposes on the Channel Four Television Corporation (the “**Corporation**”) certain new procedural obligations.

In Part I of this submission we set out the statutory obligations included in the Act.

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

As will be seen, the proposed arrangements have already been implemented by the Corporation in pursuit of good corporate governance and compliance with regulatory requirements that were set out in the ITC Licence dated 31 December 2002 and in the Digital Replacement Licence dated 17 December 2004.

PART I

The Statutory Framework: The Communications Act

1. Under paragraph 2(2) of Schedule 9 of the Act the Corporation must:

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 as the Arrangements.

2. In addition, under paragraph 2(3) of Schedule 9 of the Act, 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 the Act, 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 the Act 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 Act 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. When applying the principles and procedures referred to in this submission, in order to meet the specific requirements set out in Schedule 9 of the Act, the Corporation shall at all times consider its primary functions as set out in section 199 of the Act (the "**Primary Functions**"). Section 199 states:

(1) *The activities that the Corporation are able to carry on include any activities which 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.

(2) *The Corporation's Primary Functions are -*

(a) securing the continued provision of Channel 4; and

(b) the fulfilment of the public service remit under Section 265.

6. Section 265 states:

(3) *The public service remit for Channel 4 is the provision of a broad range of high quality and diverse programming which, in particular -*

(a) demonstrates innovation, experiment and creativity in the form and content of programmes;

(b) appeals to the tastes and interests of a culturally diverse society;

(c) makes a significant contribution to meeting the need for the licensed public service channels to include programmes of an educational nature and other programmes of educative value; and

(d) exhibits a distinctive character.

7. Section 199(4) amends sub-paragraphs (3) and (4) of paragraph 1 of Schedule 3 to the 1990 Act and expands on the Corporation's powers:
- (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 Primary Functions) through Channel 4 companies; and*
 - (c) to participate with others in the carrying on of any such activities.*
8. The Secretary of State has exercised the power conferred upon her by section 202 and made an order placing a limit on the borrowing that the Corporation is allowed to undertake, that limit is specified to be the sum of £200 million.

PART II : THE PROPOSED ARRANGEMENTS

Arrangements for exercise of functions and powers

9. The Primary Functions are carried out by the Corporation. Many of those “other activities” referred to in section 199 and paragraph 2 of Schedule 9 of the Act 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 Broadcasting Act 1990 as amended by the Act) 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 set out in section 362(1) of the Act. Specific arrangements and processes that ensure transparency include the following:
- The annual financial results of 4 Ventures Limited and its trading subsidiaries (Channel Four International Limited, Ostrich Media Limited and FilmFour Limited) are reported separately in their own statutory financial statements.
 - Segmental financial information in the Channel 4 Annual Report and financial statements highlights the performance of the main business operations of 4 Ventures Limited.
 - The majority of operational staff in the 4 Ventures’ businesses are not directly involved with activities for Channel 4 itself.
 - Where staff work across Channel 4 and other activities their cost is recorded against the Corporation and a proportion is recharged to other activities.
10. New commercially focussed activities are generally accounted for as part of 4 Ventures Limited. Should however new activities have relevance across the group as a whole, these will be accounted for as part of the Corporation with appropriate cost recharges.
11. 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

12. 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.
13. 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 operates four Board Sub-committees, for Budget, Audit, Remuneration and New Business. 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.

14. 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 17 – Investment Procedures. The Corporation Board is supported in its investment decision making by the New Business Board which, similar to the Budget Committee, reviews and agrees commercial new business investment proposals before they are referred to the Corporation Board for final approval. This group comprises two to four of the Executive Directors, including the Chief Executive, one to three non-Executive Directors, including the Chairman, plus external advisors and consultants and other senior managers of the Corporation as appropriate.
15. The Corporation seeks to comply with the provisions of the Combined Code in so far as they are relevant to an entity with its constitution.
16. 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:

- ***Budgeting process***

Comprehensive budgeting processes are in place whereby annual budgets, cashflow projections and performance targets are assessed and set for all business units. These budgets are approved by the Corporation's Budget Committee and Board. The Budget Committee comprises of two Executive Directors, including the Chief Executive, and three non-Executive Directors including the Chairman.

- ***Strategic planning process***

The Corporation operates short, medium and long-term operational strategies which encompass the activities of all business units including 4 Ventures Limited.

- ***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 business units 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, a quarterly review of risk is undertaken and reviewed by 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 there is a defined assessment, approval and monitoring procedure, with the potential effect on the Primary Functions being the most important consideration. 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, Strategic Planning, 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:

- Weekly Senior Executive Management Committee meetings
- Monthly Board meetings
- The Quarterly Review process
- Annually via Budget and Audit Committee review

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 External Auditors are currently KPMG.

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

- ***Financial controls***

The Corporation has appointed a Business Assurance (or Internal Audit) function (presently Grant Thornton) to review the system of internal control including financial controls and the Arrangements.

Investment Procedures

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

- ***Investment strategy***

The Corporation's investment strategy is to have a balanced portfolio of commercial 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 Section 199 of the Communications Act.

The majority, if not all, of the commercial investments, other than for the Primary Functions including programming, are made by 4 Ventures Limited.

- ***Investment budget***

The Corporation Board determines each year an amount in the budget which is earmarked specifically for new investments ("**Investment Budget**") and the procedures, parameters and criteria by which these funds may be allocated. The investment budget is determined as part of the Corporation's annual budget process, to ensure the proposed level is appropriate, when considering budgeted financial performance for the group as a whole, and anticipated investment opportunities. The funds will be allocated to specific investment opportunities as these are identified, and will be subject to the approval processes described in this paragraph. Any further investment required over and above the initial level will be further considered, in line with the approval processes, including referral to the full Corporation Board as needed.

- ***Corporate development department***

Investments funded by the Investment Budget are co-ordinated, researched and managed by a specific Corporate Development department, which reports to and takes its direction from the New Business Director. The Corporate Development department originates proposals and also supports the various departments and groups from which additional investment proposals originate.

This department is the initial reviewer of new ventures and is responsible for referring matters to the Senior Executive Management Committee, New Business Board and the Corporation Board as appropriate.

By having one department overseeing the analysis of each investment, the Corporation can adopt an efficient and standardised approach to investments and monitor and apply the Transparency Objectives effectively.

- ***Investment approval***

Investments are categorised for the purposes of approval:

- (i) High value/high risk
 - Comprehensive and detailed investment proposal including risk assessment
 - New Business Board and Corporation Board approval required
- (ii) Medium value:
 - Detailed investment proposal including risk assessment
 - Approval required from Senior Executive Management Committee
 - 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
 - Approval required from New Business Director and Head of Corporate Development
 - 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 indirect control of all other types of investments by virtue of the investment procedures it sets down in relation to the Investment Budget.

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.

As mentioned in paragraph 14 above, the Corporation Board is supported in its investment decision by the New Business Board which scrutinises, reviews and agrees

investment proposals before they are referred to the Corporation Board for final approval.

- ***Investment monitoring and reporting***

The New Business and Corporation Board are 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 and returns on significant investments. Day-to-day management and analysis of the investments is determined in accordance with the Investment Procedures, and as advised from time to time by the Corporate Development department.

Further Specific Arrangements

18. As will be apparent from paragraphs 9 to 17 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 Corporate Development department and the Investment Procedures referred to above complement the Corporate Governance Systems (also referred to above). By operating these procedures and systems, 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 will be 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 Systems and, if applicable, the Investment Procedures, outlined above.

For example, if the Corporation were to launch a new channel, the commercial viability of such a channel would be assessed in the same way as any other

investment and the Corporation would comply with the various licence requirements that accompany such a project.

(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 Systems 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. These costs are then allocated on a suitable basis, such as headcount or resources used. 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 has an established Archives Team which is responsible for the maintenance and retention of the Corporation's files. The Corporation and each of its subsidiaries are registered on the Information Commissioner's public register of data controllers.

An Information Management Committee has been established to enable the Corporation to meet its obligations pursuant to the UK Data Protection Act 1998 and the Freedom of Information Act 2000.

Regular checks

19. 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 Deloitte or such other third party, other than its auditors, appointed by the Corporation.