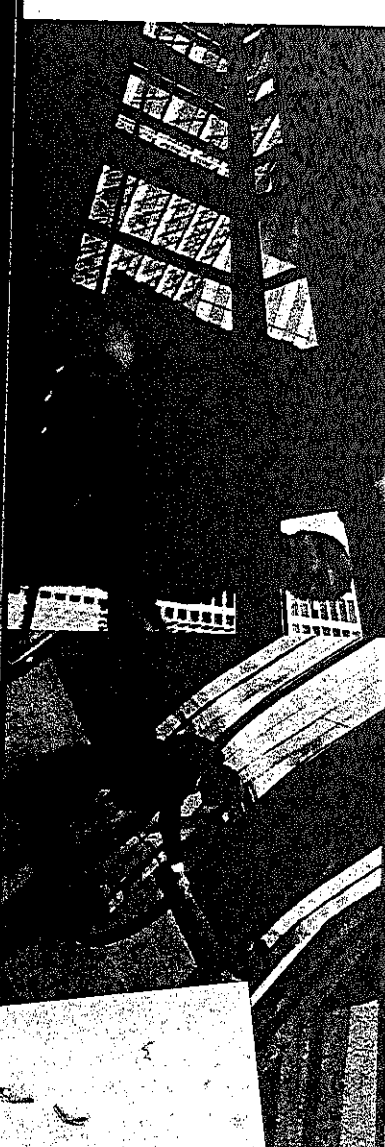


Strategy Advisory Services

RTE Licence Fee Adjustment Review, 2004

November 2004

DRAFT 1



# Pros

- 1) Financial Merit - Goal Sheet Remained CASH.
- 2) RESULTS
- 3) Merit Plus - Performance - figures
- 4) Schedule

# Cons

- 1) Strategic Targets
- 2) Linkage CH Merit to SMART Targets
- 3) No IT/ISING Grace Merit
- 4) No Plan for Over
- 5) Pace of Referral  $\Rightarrow$  Big Pressure/Slow.
- 6) No hard capex requirements CHANGE  
[Pace Divisions] - SILENT but  
WANT THERE BEING  
ASKED TO DO.

Inc Fee	2002	2003	2004	% change.
Total Inc.				% change.

Eamonn Molloy  
Assistant Secretary

Department of Communications, Marine and Natural Resources  
29-31 Adelaide Road  
Dublin 2

November 2004

## RTÉ Licence Fee Adjustment Review

Dear Eamonn,

In accordance with your instructions as confirmed in our engagement letter dated 20 October 2004, we attach our 'RTÉ Licence Fee Adjustment Review 2004' report for your attention.

The scope of the work centred around reviewing the extent to which RTÉ has delivered upon its commitments as set out in it's 2004 Statement of Commitments.

Our work was primarily based on information and data supplied by RTÉ. This information has not been separately verified by us. We have proceeded on the assumption that this information is complete and accurate.

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The financial data used in the report has not been audited and our work on this Review in no way constituted an audit of these figures.

With regard to projected figures, management at RTÉ are solely responsible for these projections and we express no opinion as to their ultimate realisation.

Yours faithfully

PricewaterhouseCoopers

Donald O'Connor, Oliver Alexander, Alan Hickey, Patrick Burke, Pat Scanlon, Mark Carter, Andrew Craig, Denis Cremenis, Bill Cunningham, Cleoíola Deegan, Jean Dehoney, David Dwyer, Kevin Egan, Eoin Fingleton, John Fay, Anne Fitzgerald, Martin Foyce, Tom Grace, Maureen Gartin, Teresa Harrington, Paul Hennessy, Mary Hynes, Ken Johnson, Cain Kelly, John Kelly, Anna Kishane, Chand Kothli, Peter Lacey, Dick Lane, Vincent MacMahon, Darina McCurry, Tom McCarthy, Teresa McColgan, Jim McDonnell, John McDonnell, Michael McEneaney, Declan McKee, Robin McKenzie, Alan Morrison, Jim Meehan, Neil Murphy, Ronan Murphy, Brian Nelson, Damian Nychol, Andy O'Callaghan, Ann O'Connell, Carol O'Connor, Marie O'Connor, Paul O'Connor, Terry O'Driscoll, Dave O'Malley, Garvan O'Neill, Michael O'Neill, Billy O'Riordan, Terence O'Rourke, Joe O'Shea, Ken Owens, George Keenan, Doreen Kelly, Pat Roche, Bob Sample, Mike Sullivan, Billy Swectman, Paul Tait, Joe Tynan, Pat Wall, Aidan Walsh, Andy Walsh, Tony Walsh

Also at Cork, Galway, Kilkenny, Limerick, Waterford and Wicklow

PricewaterhouseCoopers is authorised by the Institute of Chartered Accountants in Ireland to carry on investment business.

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  - Radio
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- 5 Organisational Development and Change

## Appendices:

\* Connectedthinking

# 1. **Executive Summary – Key Findings & Conclusions**

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# 1. Executive Summary – Key Findings & Conclusions

## Context for Review

In December 2002, the Government decided that annual adjustments to the television licence fee will be based on the consumer price index (CPI), with an adjustment for both:

- The extent to which the output commitments were achieved by RTÉ
- The extent to which an effective change agenda for RTÉ has been implemented within the organisation.

This review of RTÉ's performance seeks to inform the Government's decision with regard to the 2005 increase in the licence fee.

## Terms of Reference

The Terms of Reference required the Consultants to:

- Assess the extent to which RTÉ has delivered upon its commitments as set out in the Charter for Public Service Broadcasting and its 2004 Statement of Commitments
- Assess the extent to which RTÉ has placed and implemented effective change management processes within the organisation and
- Make proposals to the Minister in respect of the CPI-X formula (as per Government decision December, 2002)

The review process commenced mid-October with a Final Report being submitted to the DCMNFR on 30 November. Financial and other data contained in this report comprises 'actual data' and performance up to the end of September and RTÉ forecasts for the remaining three months.

## Key Findings

### 1. Corporate Commitments for 2004

**RTÉ's Corporate Commitments embraced six broad areas. In each area RTÉ has made steady progress.**

#### (i) New PSB Charter

A number of measures have been undertaken, and are planned, as a means of communicating the new Charter to internal staff and external stakeholders. Allied to which the document 'RTÉ's Guiding Principles – Implementing the Public Service Broadcasting Charter' has been structured and framed in a manner that is reflective of the principles enunciated in the Charter.

#### (ii) Three year Strategy Document

A draft Strategy Document is being prepared and will be available in May 2005 for the incoming Authority / governing body once appointed. It was not considered appropriate to propose to the existing Authority members that they adopt a multi-annual plan, during their last six months. The document 'RTÉ's Guiding Principles – Implementing the Public Service Broadcasting Charter' is a precursor to the Strategy Document.

#### (iii) Code of Fair Trading Practice

The Code of Fair Trading Practice sets out RTÉ's obligations in relation to four key areas: the transmission network; the sale of advertising time; the commissioning of content; and the acquisition of content.

There is a formal process in place to receive and address complaints and queries. For the year to date no complaints have been received, and only two queries were submitted – both related to air time sales.

Outside of the RTÉ complaint process, one complaint was lodged during 2004 with the Competition Authority in relation to the favourable treatment by RTÉ to the RTÉ Guide with regard to programme listings. The Competition Authority ruled in January 2004, in relation to a 2003 complaint against RTÉ under the terms of the Competition Act 2002. The complaint was not upheld.

In August 2004, an external process auditor (KPMG) was appointed for RTÉ TV's IPU. The commissioning of content from November 2003 up to 9 August 2004 has been audited.

# 1. Executive Summary – Key Findings & Conclusions

## Key Findings (cont'd)

(iv) Strategic relationships with Metro Eireann and the Amateur Drama Council of Ireland. RTE is building strategic relationships with both organisations. Specific objectives were identified for each relationship, and three-year commitments have been made with both organisations (2005 – '08).

### (v) Audience Council

The Council has been set up as a sub-committee of the Authority. The Council acts as an advisory group to the RTE Authority. It comprises 22 persons - 11 representative members, 10 individual members and one ex-officio ordinary member, who is also the Chairperson of the Authority's Programme Sub-Committee, and acts as the link between the Council and the Authority. The Council's role and remit has been set and Standing Orders agreed. The Council has met five times during 2004, with the Authority receiving the minutes from each meeting. The minutes are also posted on RTE's website Future Annual Reports will contain a report from the Audience Council.

In our view, in order for the Audience Council to be able to make a meaningful contribution, and to be seen to be doing so, it will be important that a formal and transparent process exists whereby the views and advice of the Council are considered by the Authority and in turn by the Executive Board, with clear decisions being made and/or actions taken.

### (vi) New Format Annual Report (2003)

The 2003 Annual Report represents a significant improvement in the range and depth of the information provided. The provision of financial statements for each of the IBDS affords greater transparency and insight into the performance of various divisions within the organisation.

## 2. Output Commitments 2004

While the year is not yet over, nevertheless RTE is forecasting that it will deliver on all of its output commitments for RTE Television, RTE Radio, RTE Publishing, and the Performing Groups.

*Some good news*

### (i) Television Content and Programming

RTE Television is forecasting to exceed its 2004 content commitments on both RTE One and RTE Two across each genre, and there is a significant bank of work (both in-house and IPU) to demonstrate that much has been achieved in delivering on the more qualitative objectives for the two schedules in relation to the objectives of: 'originality', 'experimentation', 'encouraging new talent', 'high standards' and 'taking risks in creativity'.

RTE One is forecasting to exceed its commitment to broadcasting 1140 hours of indigenous content during peak viewing time (6.00pm – 11.30pm). In all, just over 1200 hours of indigenous programming, across a number of different genres, will be broadcast by the year end. This means that on average [65%] of peak-viewing content is now indigenous programming. Audience share for RTE One is more or less in line with last year, and of the 25 programmes that generated the greatest audiences for RTE One, 21 were indigenous productions (in-house, IPU, Irish acquisition). Indigenous content target for peak-viewing time in 2005, is currently projected to be some 5% up on 2004 output.

# 1. Executive Summary – Key Findings & Conclusions

*Sally, like a d.*

## 2. Output Commitments 2004 (cont'd)

RTÉ Two is also forecasting that it will exceed its indigenous output commitments at peak-viewing time for 2004, but such commitments were significantly more modest at 193 hours. As part of the re-branding and re-positioning of RTÉ Two in recent months, its management's intention to: increase home production on the channel; to offer real alternative choice in the schedule; to identify and develop new on-air talent specifically suited to RTÉ Two, and to give a new and more contemporary 'look and feel' to the channel. A strengthening of RTÉ Two's overall proposition and market share position during 2005 is a key priority for RTÉ Television. Initial commitments for indigenous content at peak-viewing time for 2005 reflects a small increase at 197 hours on 2004's commitments. To deliver on this strategy will require a significant up-lift in the funding / resourcing of the channel.

RTÉ Sports and News & Current Affairs, across both channels, have also delivered on their specific commitments for 2004.

### (ii) Radio Content and Programming

The four radio services – RTÉ Radio 1, RTÉ 2fm, RTÉ lyric fm and RTÉ Raidió na Gaeltachta – broadcast close to 35,000 hours a year, which is almost entirely home-produced. As such, 2004 commitments were focused on improving the range, diversity and quality standards of the services rather than adding new hours of broadcast.

Specific priorities and commitments were set for each of the four channels, with all such commitments being delivered upon.

### (iii) RTÉ Performing Groups

The Performing Groups committed to 181 performances nation-wide during 2004. By the end of September they had undertaken 132 performances with a forecast to complete another 62 before the year end, which if delivered will result in an additional 13 performances. In addition, 74 education-related performances/ workshops were committed to, 54 delivered to date and another 34 scheduled before the year end.

### (iv) RTÉ Publishing

RTÉ Publishing's commitment was to the publication of a once-off supplement celebrating the 'European Year of Education through Sport'. This was published w/b 22 November. Its ePublishing commitments regarding the launch of RTÉ.ie Health site and enhanced coverage of various 2004 elections and sports coverage have been delivered upon.

## 3. Trading and Financial Position

The forecast financial outcome for 2004 indicates a strong trading position, primarily due to better than expected level of advertising income, with operating costs being held slightly below budget. As a result EBITDA for 2004 is forecast at €33M against a budget of €18M, an improvement of €15M. However, this improvement will be eroded by significant and unbudgeted depreciation and maintenance changes of just over €11M, leaving the forecast net surplus for 2004 of €6.5M. This surplus will increase to €120M with the one off profit from the sale of property.

For 2005, RTÉ is forecasting a net surplus of €9M and similar surpluses for the four years to 2009.

RTÉ's financial position continues to improve with forecast cash reserves at the end of 2004 of €68M. These reserves are projected to increase to €78M by 2009. However, this assumes an average capital expenditure spend over the five years of €22M or nearly double that actually spent per year to 2004. In our view, significant more work is needed to validate the nature, scale and justifications of this projected capital expenditure.

In summary, RTÉ's financial position has improved considerably and care must be taken over the next number of years to ensure its financial resources are wisely invested.

# 1. Executive Summary – Key Findings & Conclusions

## 4. Organisation Development and Change

In our 2003 Report, we pointed out that the achievement of certain objectives and specific individual actions, such as the movement to the IBD structure and the improved financial transparency, were significant and would be very beneficial in terms of managing RTE's activities. The IBD structure, which represents a significant change for RTE, is now successfully bedded-in and has brought greater accountability at IBD level in terms of revenues, costs and decision-making. This can be seen at summary level, in the RTE Annual Report for 2003.

It is difficult to comment meaningfully on the trend in headcount numbers over the past five years as a consequence of the re-categorising and regularisation of manpower in accordance with the 'Goodbody' principle. However, there has been an increase in staff in 2004 relative to 2003, and a further increase is anticipated in 2005.

The change initiatives set out by RTE in 2004 represent a step forward but need to be critically assessed at year end. RTE needs to establish initiatives for 2005 and even further ahead and to establish a clear link between these and their overall strategic plan. This would demonstrate how any change programme would assist the organisation in achieving their strategic objectives.

Within the overall strategic plans and using 2004 as the base line year, there should exist a manpower programme which sets out the personnel needs of the organisation during the period of any such strategic plan. In order to manage the manpower process required to achieve its strategic objectives RTE needs to:

- document the full range of existing skills with each IBD;
- set out the high level requirements for additional skills going forward;
- plan for the management of older/less used skills;
- unblock any obstacles to the implementation of a Performance Management System throughout all levels of the organisation and not just the management teams

**Overall Assessment**

In accordance with our Terms of Reference, we conclude that RTE has delivered on its Corporate Commitments and Output/programming commitments in full. Trading performance has improved primarily as a consequence of an up-lift in advertising revenues (13% increase forecasted for full year), while incurring a 6% increase in its operating cost base. As the financial performance of RTE improves, it will be important that the operating cost base is kept in check (while recognising the need to make certain strategic investments). We recognise that the financial controls are now in place to ensure that this happens. However, in parallel with strong financial controls, we believe that there is still further scope to transform the organisation into one which leverages technology improvements and adopts best-in-class contemporary work practices in order to work smarter and more efficiently and as a means of delivering a value-for-money service to licence fee payers.

### Assessment of Performance

	Not Achieved	Partially Achieved (Level Three)	Partially Achieved (Level Two)	Partially Achieved (Level One)	Fully Achieved
1. Corporate Commitments					
2. Output <ul style="list-style-type: none"> <li>• TV</li> <li>• Radio</li> <li>• Publishing</li> <li>• Performing Groups</li> </ul>					
3. Trading & Financial Position					
4. Organisational Development and Change					

# 1. Executive Summary – Key Findings & Conclusions

## Concluding Comments

RTÉ is nearing the end of year two of its reform programme – with much having been achieved. In many respects the organisation has moved from a period of 'crisis management' to one of 'operational management' whereby the new Executive Board has:

- focused on restructuring the organisation into more manageable IBDs with clearer financial transparency and accountability;
- has greatly improved the quality and level of indigenous programming and the composition of its schedules;
- has improved the connectivity between the development of the schedules and advertising/ commercial revenue optimisation;
- has rolled-out a number of redundancy programmes and regularised its contractual relationship with its employee base, resulting in what management believe to be a more flexible workforce, and
- has started to get a better understanding of the investment needs of the asset base in terms of buildings and broadcasting infrastructure.

We are of the view that it is now timely for RTÉ to adopt a more long-term 'strategic management' perspective in terms of how it intends to position and further strengthen the organisation for the future - a future, in a digital world, which is likely to be radically different from the past.

There are many challenges and uncertainties facing RTÉ. Key challenges are around its ability, firstly, to sustain and grow the level of commercial income it can generate in an increasingly fragmented and competitive broadcasting environment, and secondly, to make the transition to the digital environment which will require new content formats, new skills and expertise and additional investment in capital equipment and infrastructure.

The prevailing uncertainties are around a myriad of different external factors which fall within the ambit of DCMNR and Government but which will have an impact on RTÉ, for example, discussions with DG on Competition regarding the State Aid issue vis a vis Public Service Broadcasting; the establishment of the BAI; the roll-out of DTT, digital satellite and DAB; the potential change in RTÉ's legal / governance status and the membership of the new Authority/ Board; the establishment of TG4 as a separate legal entity from RTÉ; and the potential replacement for An Post as the collection agency for the licence fee. *New col are Regulate ourselves*

RTÉ management should not allow these factors to serve as obstacles to the development of a long-term vision and strategic plan for the organisation. Key elements of any such plan are likely to include:

- A vision for the organisation which sets out the fundamental 'raison d'être' for the station and which positions it within a competitive environment which is likely to be very different to that of today;
- Strategic objectives which reflect the key priorities for achieving that vision. These might include:
  - Content and schedule changes such as a strengthening of RTÉ Two's proposition, schedule and market share;
  - A commitment to leverage newer broadcasting and communications technologies for the better quality and delivery of services to its audiences. Examples of this would be a plan for the development of digital television, including new and innovative content formats;
  - A focus on best-in-class work practices, improved productivity and performance, supported by the ability to demonstrate and measure value-for-money;
  - A need to ensure that RTÉ's much improved financial resources are invested wisely;
  - A need to remain 'close to the audience' and to constantly update RTÉ on their changing make-up and needs;
  - A continued emphasis on cost containment throughout the organisation

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## **2. Corporate Commitments 2004**

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## 2. Corporate Commitments 2004

*RTÉ's Corporate Commitments for 2004 embraced six broad areas. In each area RTÉ has made steady progress.*

We summarised below progress to date in relation to the Corporate Commitments, with more detail provided in Appendix 2.1

Corporate Commitments (2004)	PwC View on Progress
i. Operate under the new Charter published by the Minister for Communications Marine and Natural Resources	<ul style="list-style-type: none"> <li>Charter has been distributed and communicated to all staff and has been promoted to external stakeholders.</li> <li>Principles within the Charter being discussed at Management and staff level and embraced in 'Guiding Principle' document.</li> </ul>
ii. Publish a 3-year Strategy Document	<ul style="list-style-type: none"> <li>Published 'RTÉ's Guiding Principles – Implementing the PSB Charter' which is a precursor to the Strategic Plan. Draft Plan to be ready in May for the Incoming Authority to consider.</li> </ul>
iii. Continue to operate under the Code of Fair Trading Practice which sets out its obligations in relation to four key activities: the transmission network, the sale of advertising time, the commissioning of content and the acquisition of content	<ul style="list-style-type: none"> <li>RTÉ continues to operate under the Code.</li> <li>No formal complaints received year-to-date. Two queries received, both responded to, and related to air time sales.</li> <li>One complaint lodged with Competition Authority in relation to favourable treatment by RTÉ of the RTÉ Guide with regard to programme listings.</li> </ul>
iv. Establish strategic relationships with key country-wide organisations in specific interest areas: <ul style="list-style-type: none"> <li>- Metro Eireann – to promote cultural diversity in the media, sponsor Media Awards</li> <li>- Amateur Drama Council of Ireland – promoting amateur drama, sponsor season</li> </ul>	<ul style="list-style-type: none"> <li>RTÉ building relationships with both organisations.</li> <li>Specific objectives were identified for each relationship.</li> <li>Three-year commitment (2005-'08) have been given to both organisations, with the option to review thereafter.</li> </ul>

## 2. Corporate Commitments 2004

Corporate Commitments (2004)	PwC View on Progress
<p>A. Provide communication tool to facilitate the work and interaction of the Audience Council</p>	<p><b>Audience Council</b></p> <ul style="list-style-type: none"> <li>The Council has been set up as a sub-committee of the Authority and acts as an advisory group to the RTÉ Authority.</li> <li>It comprises 22 persons – 11 representative members, 10 individual members and one ex-officio ordinary member, who is also the Chairperson of the Authority's Programme Sub-Committee, and acts as the link between the Council and the Authority.</li> <li>The Council's role and remit has been set and Standing Orders agreed.</li> <li>The Council has met five times during 2004, with the Authority receiving the minutes from each meeting. The minutes are also posted on the RTÉ website. Future Annual Reports will contain a report from the Audience Council.</li> </ul> <p>In our view, in order for the Audience Council to be able to make a meaningful contribution, and to be seen to be doing so, it will be important that a formal and transparent process exists whereby the views and advice of the Council are considered by the Authority, and in turn the Executive Board, with clear decisions being made and/or actions taken</p>
<p>B. Publish a new format Annual Report (for 2003) meeting all transparency commitments</p>	<ul style="list-style-type: none"> <li>The 2003 Annual Report represents a significant improvement in the range and depth of the information provided. The provision of financial statements for each of the IBDs affords greater transparency and insight into the performance of various divisions within the organisation.</li> </ul>

## 2. Corporate Commitments – Indicative for 2005 (subject to Budget)

RTÉ's Corporate Commitments for 2005 are set out below:

- Focus on year one of implementation of the Guiding Principles to ensure we meet our responsibilities under the Public Service Broadcasting Charter
- Develop a position on the organisation's Corporate Social Responsibilities for consideration and adoption by the new Authority and subsequent publication
- Ensure the organisation is in a position to meet the new legislation language requirements which are likely to be implemented for RTÉ in late 2005 or early 2006
- Be the Premier Partner of Cork 2005 (European Capital of Culture) and work with the organisers to maximise the opportunities for the city and the country while benefiting RTÉ's output and relationship with the region
- Consolidate the strategic relationship developed in 2004 with Metro Eireann and the Amateur Drama Council of Ireland
- Ensure corporate sponsorships deliver maximum output opportunities for IBDs
- Work with the Department of Communications, Marine and Natural Resources to facilitate the development of the most appropriate Digital Broadcasting Strategy for Ireland
- Maintain the very high level of accountability and transparency developed over recent years as evidenced by the Code of Fair Trading, new formal Annual Report, Complaint Procedures etc.
- Work with the Department of Communications, Marine and Natural Resources to facilitate new legislative framework for RTÉ and other Irish regulated broadcasters
- Develop, for agreement by the new RTÉ Authority, a 5-year business plan based on principles articulated in "RTÉ's Guiding Principles – Implementing the Public Service Broadcasting Charter"

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### **3. Output Commitments**

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### 3. Output Commitments – RTÉ

*While the year is not yet over, nevertheless RTÉ is forecasting that it will deliver on all of its output commitments for RTÉ Television, RTÉ Radio, RTÉ Publishing, and the Performing Groups.*

In this section we review RTÉ's performance with regard to the output commitments for each of the four IDBs:

- i. RTÉ Television
- ii. RTÉ Radio
- iii. RTÉ Publishing
- iv. RTÉ Performing Groups

## Output Commitments – RTÉ Television

*RTE Television is forecasting to exceed its 2004 content commitments on both RTE One and RTE Two across each genre, and there is a significant bank of work (both in-house and IPU) to demonstrate that much has been achieved in delivering on the more qualitative objectives for the two schedules in relation to the objectives of: 'originality', 'experimentation', 'encouraging new talent', 'high standards', and 'taking risks in creativity'.*

RTÉ's television commitments were on a number of levels:

- i. Specific schedule commitments for RTÉ One and RTÉ Two during peak time viewing across a number of genres.
- ii. Specific programming commitments for RTÉ Sport
- iii. Qualitative Commitments  
*"The schedules will show originality, the will for experimentation, and the will to take risks in creativity which are beyond the expectations of commercial broadcasters. In particular, RTÉ will encourage new talent – on and off air – highlighting Irish artists and implement initiatives to maintain and develop on-air talent across all services. High standards, creating a benchmark for broadcasting in Ireland, will be set and achieved."*

A summary of performance against peak time schedule commitments for RTÉ One and RTÉ Two follows. In addition, the actual hours broadcast for 2003 are noted, as well as the minimum 2005 target hours. Performance against the sports commitments is presented in the subsequent table. RTÉ has provided PwC with significant illustrative examples of how the organisation has delivered on (iii) above – the key highlights of which we have endeavoured to capture on the matrix later in this section