

**RTÉ Response to non-financial aspects of PwC's draft report
25th November 2004**

Page 2, point 3, 4th bullet point
Performing Arts

Should correctly state:
Performing Groups

**Page 4, Right Hand Column (RHC),
section (ii)**

draft Strategy Document is being prepared and will be available in May 2005.

Should correctly state:
draft Strategy Document is being prepared and will be available in 2005 for Authority
being appointed in May 2005.

section (iii)

Complaints to Competition Authority

As phrased there may be some confusion in this paragraph.
The first sentence correctly refers to a case lodged in 2004 re favourable treatment of
RTÉ Guide. This in fact has been closed (November 2004) and RTÉ's position has
been accepted.
The second sentence is also correct but we are concerned that the reader may link
the two. It may clarify if it stated that the second case, lodged in 2003 and ruled on in
2004 related to allegations that RTÉ used the Licence Fee to distort the advertising
market.

Page 5 LHC, section (v)
Audience Council

It is important to note:

- (i) the Audience Council is, under legislation, an Advisory Committee, rather than a sub-committee, of the Authority.
- (ii) Section 21 (4) of the Broadcasting Act, 1960 states that:
'The Authority and the Director-General shall have regard to but shall not be bound by the advice of any committee or adviser under this section.'
- (iii) There is a defined link between the Audience Council and the Authority (as outlined in chart on page 12) through membership of Chair of programming sub-committee of the Authority.

Page 6 LHC, first paragraph

For clarification should be split into two paragraphs – at line 11. Start new paragraph with “*Broadcasting output...*” – as from this point on it refers to both RTÉ One and RTÉ Two – to this point it refers to RTÉ Two only.

**Page 11 RHC,
second box**

Same point as on Page 4, Right Hand Column above

third box

Update – decision now advised to RTÉ by Competition Authority - accepting RTÉ's position

**Page 16, LHC
second last paragraph**

RTÉ aims to only play Sport on RTÉ One when there are two clashing live sports events.

Should correctly state:

RTÉ only plays Sport on RTÉ One when there are two clashing live sports events.

last paragraph

Broadcasting output for the four genres above in 2002 for both RTÉ One and Two totalled 1487 hours. Minimum commitments for 2005 are 1462, notwithstanding the substantial increase in the licence fee in the interim period.

This is focussing on four specific genres and peak-time commitments. It is inappropriate to focus on a sub-section of output in this way. All the audience must be considered – peak-time programming in key genres such as Sports and Young Peoples are excluded.

For example in Young Peoples the new Irish series *The Café* (or similar) will give an additional 13 actual hours (15 gross) in peak-time. In Sport there will likely be 240 hours in peak-time.

Page 17, RHC

Table of hours commitment by genre

Error in tot of 2005 column – the figures actually add to 6,040.

Also, use of totals in relation to these figures is not meaningful, as subtitling is not a genre. As subtitling spans various genres it does not make sense to add subtitling hours to genre hours and this total line should be deleted.

Page 18, LHC

Table of hours – 4th section Gaelic games

All of the figures in this section are one line out of sync with the descriptions in the first column.

Also, the figure for GAA Championships in the total column should read 121 (not 12). As a result the total figure should read 934 (not 825).

Page 21, first paragraph

(a) It is important to note that the “total” of indigenous content quoted **excludes** News and Current Affairs.

(b) *RTÉ Two is also forecasting that it will exceed its indigenous output commitments of peak-viewing time for 2004, but such commitments were significantly more modest at circa 193 hours.*

Given the history and raison d'être of RTÉ Two the commitments to indigenous programming could not be anything other than significantly less than those for RTÉ One.

(c) *... 21 were indigenous productions...*

Should correctly state:

...22 were indigenous productions...

Page 27, table Educational Activities, second column

... will exceed commitment by 11...

Should correctly state:

...will exceed commitment by 14

Page 22/23, both columns

References to Radio 1, 2fm, Lyric fm and Raidió na Gaeltachta

All channels are now pre-fixed with RTÉ – RTÉ Radio 1, RTÉ 2fm etc

Page 32, RHC, second bullet point

While total operating costs are budgeted to increase by €24m (7.6%) in 2005, this is not matched by a significant increase in programming commitment for 2005.

We do not accept the implication in this statement for three reasons:

- (i) Minimum targets only are indicated
- (ii) The hours charts, understandably, concentrate on peak-time and so exclude other investments made. For example, RTÉ One will have an extra 50 actual hours of indigenous programming next year by the addition of a second daytime programme *The Big Bite*, at a cost in 2005 of over €1m. Young Peoples is investing over €400k in two new Irish series – *Adventure Sports* and *It's My Life*. Young Peoples will also invest a further €1m in 13 hours of Young Peoples Drama, *Foreign Exchange*, in 2005 for RTÉ Two.
- (iii) The implementation of the new policy for RTÉ Two means there are no repeats on it from RTÉ One – such as programmes like *Bachelors Walk* in previous years, including 2003.

Page 36, LHC, second paragraph

RTÉ believes that success should be measured qualitatively and/or quantitatively in terms of cost savings or headcount reduction.

Should correctly state:

RTÉ believes that success should be measured both qualitatively and quantitatively. Quantitative measures could be in terms of cost savings and/or headcount reduction.

Page 37, RHC, middle paragraph

Should read *recurring guest contributors* – are counted in headcount; once off guest contributors are not.

**Page 39, LHC
first paragraph**

The Director General and Executive Board performance targets are considered as part of each individuals annual performance appraisal

The relevant extract in submission reads:

Each member of the Executive Board has agreed Performance Targets for 2004 that flow from this (i.e Director-General's targets). These in turn have been devolved to the various management groupings under their responsibility and across all management.

second paragraph

RTÉ had committed to roll out performance measurements across the whole organisation but this process has stalled at the Corporate Partnership level.

Should correctly state:

RTÉ had committed to roll out performance measurements across the whole organisation and all management are now subject to this process. But further implementation has stalled.

Page 39, RHC third paragraph

The IRT meets monthly and discusses all potentially difficult industrial relations issues.

Should correctly state:

There is a monthly IRT process meeting which discusses all potentially difficult industrial relations issues.

Page 43, RHC, last box

...all our Round commissions...

Should correctly state:

All out of round Commissions

AUDIENCE SHARE

Audience share, specifically in terms of RTÉ One, is referred to in three different sections of the draft document as follows:

Page 5 RHC, section (i)

Audience share for RTÉ One is more or less in line with last year.

Page 20, RHC, last paragraph

RTÉ One experienced a slight further decline in peak time market share during 2004

...

Page 21, first paragraph

Audience share for RTÉ One is more or less in line with last year

These comments appear to be based on an analysis of the following:

National Individuals All Day	[1 January 2003 – 30 September 2003]	25.2%
National Individuals Peak Time	[1 January 2003 – 30 September 2003]	31.8%

National Individuals All Day	[1 January 2004 – 30 September 2004]	25.3%
National Individuals Peak Time	[1 January 2004 – 30 September 2004]	31.7%

An update on this is as follows:

National Individuals All Day	[1 January 2003 – 14 November 2003]	25.3%
National Individuals Peak Time	[1 January 2003 – 14 November 2003]	31.7%

National Individuals All Day	[1 January 2004 – 14 November 2004]	25.7%
National Individuals Peak Time	[1 January 2004 – 14 November 2004]	32.2%

This shows an increase since the Autumn schedule kicked in – and we believe increase will be maintained to year end.

However, this demographic, all individuals, is not a currency used in the Sales and Marketing industry. Purchasers of air-time always want to target advertising spend and therefore specific demographics are selected. RTÉ air-time is sold across 14 demographic groupings as follows:

- Adults
- Men
- Housekeepers
- Children
- Women
- Housekeepers with kids
- Housekeepers ABC1
- Adults 15-24
- Adults 15-34
- Adults ABC1
- Women 15-34
- Women ABC1
- Men 15-34
- Men ABC1

It is more appropriate to look at audience share movements in demographics sold rather than in National Individuals which is not sold. With the exception of kids all key demographics show an increase year on year.

RTÉ

**OUTLINE COMMENTS FROM RTÉ ARISING FROM A REVIEW OF
DRAFT 1 "RTÉ LICENCE FEE ADJUSTMENT REVIEW, 2004"
& RELATING PRIMARILY TO THE FINANCIAL, TRADING & HEADCOUNT
ELEMENTS OF THAT DRAFT REPORT**

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Note

The following list focuses on potentially misleading items and on factual inaccuracies only. In all other respects it does not seek either to agree or disagree, with any of the opinions expressed by the PwC Consultants.

No attempt has been made to itemise typographical &/or spelling errors in the document.

The comments are listed in Page number order and as a result similar points are repeated as the observations occur.

Commercially Sensitive Information -- Not for Publication

26th November 2004

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Page	PwC document	RTÉ comment
Page 6	<p>Trading and Financial Position – 1st paragraph includes: “... the forecast net surplus for 2004 of € 6.5m. This surplus will increase to € 20m with the one off profit from the sale of property”</p>	<p>The RTÉ Forecast Net Surplus for 2004 is € 6.5m + and not € 20m:</p> <ul style="list-style-type: none"> • As set out in the Sept. Management Accounts, subject to finalisation of the appropriate accounting treatment of the exceptional gain on disposal of the site at Beaumont in RTÉ's published financial statements at year-end, the Operating result for September is stated before the exceptional gain. • As set out in the Supplementary Financial Information provided to PwC on 10th November, a Fixed Asset Utilisation & Impairment review project (using external surveyors) has been underway and is still in progress. The review is targeted to reach an interim conclusion by late-December 2004. • The impairment review of the Building fabric on the Donnybrook site is entirely different in nature and scale from the earlier and separate review of the existence and value of Equipment assets recorded in the Fixed Asset Register and which has given rise to the accelerated depreciation charges referred to in the report. • At the 10th Nov. meeting, RTÉ indicated that it expects that further charges in respect of a potential impairment relating to the Building fabric at the Donnybrook site will arise when the Impairment Review of the Building Fabric is completed. • The RTÉ Authority and DCMNR have also been appraised of this matter.

Page 30	<p>Trading and Financial Position Income & Expenditure forecast 2004,</p> <ul style="list-style-type: none"> • Heading: "Going forward, future cash surpluses will, in the main, be applied to major capital expenditure programme costing €112m over 2005 to 2009. At an average yearly spend of €22 m, this is double the amount spent in recent years". • 2nd bullet • 3rd bullet, which reads: " ... This yields total net savings of € 15.0m." • 5th bullet includes: "This gain will be reflected in the annual financial statements. Consequently, the net surplus to be reported for 2004 will be in the region of € 20m." 	<ul style="list-style-type: none"> • This characterisation of the Indicative Capital Programme is incomplete and maybe misleading - please see the attached Appendix 1 setting out the level of capital expenditure from 1999 to 2009 together with the further comments set out above in respect of the same topic at Pg.6. • Should read € 15.3m (not € 15.0m) • Should read € 15.3m (not € 15.0m) • The RTÉ Forecast Net Surplus for 2004 is € 6.5m + and is incorrectly stated here at € 20m. See comments under equivalent point referring to page 6 above.
Page 31	<p>3rd bullet point which quotes figures of :</p> <ul style="list-style-type: none"> • forecast capital expenditure of € 11m • uncommitted & unspent € 3.6m 	<p>These numbers are incorrect. As per the Supplementary Financial Information provided to PwC on 10th November:</p> <ul style="list-style-type: none"> • The forecast figure of € 11m quoted is a cash element (see Cash Flow set out at Appendix II of the Supplementary Financial Information) of forecast capital expenditure. • Forecast capital expenditure for the year is not expected to exceed € 15.5 m (see response point 4 in the Supplementary Financial Information) • The amount remaining uncommitted at 30th September was € 8.8m (not € 3.6m), which has reduced to € 7.1m at 31st October (see response point 4 in the Supplementary Financial Information)
Page 32	Consolidated Group Income & Expenditure	The headings for Sept.2004 are confusing as these figures relate to the 9 Months ended Sept. 2004 whereas all other headings refer to complete calendar years.

Page 32	<p>Income & Expenditure table of figures 2003 column</p> <ul style="list-style-type: none"> Personnel n/a Other n/a 	<p>The actual figures for the year ended 31st.Dec.2003 are:</p> <ul style="list-style-type: none"> Personnel €139,664,000 Other €151,500,000 <p>(see the Supplementary Financial Information)</p>
Page 32	<ul style="list-style-type: none"> 2nd. Bullet point states: "While total operating costs are budgeted to increase by € 24m in 2005, this is not matched by a significant increase in programming commitment for 2005" 4th. Bullet Point states: "The budgets assume a substantially similar level of output to that achieved in 2004" 	<p>Both of these points are incorrect in respect of planned increases in in-house production and commissioned output included in the Budget plans for 2005. Please note that the Published Programme Commitments, generally referred to elsewhere, are expressed as Minimum Targets to be achieved.</p>
Page 33	<p>1st bullet point text which includes: "This is based on capital expenditure of € 11m during 2004. Of this amount only € 7.4m was incurred expenditure by September 2004."</p>	<p>These numbers are incorrect. See points made in respect of Page 31 above.</p>
Page 33	<p>3rd. Bullet Point states: "The scale of the proposed capital investment programme is very significant (approximately double that of recent years), and we are surprised that a programme of this magnitude was not anticipated earlier (i.e. it was not factored into the 2004 budget)."</p>	<ul style="list-style-type: none"> This characterisation of the Indicative Capital Programme is incomplete and maybe misleading and could result in a material under-estimation of the general level of capital expenditure required to sustain RTE's business. Please see the attached Appendix 1 setting out the level of capital expenditure from 1999 to 2009 together with the further comments set out above in respect of the same topic at Pg.6. Most of the capital renewal and development elements now shown were identified, and included in the capital projections for 2004 and beyond, when the 2004 Budget & the Indicative Projections for 2005/2006/2007 were being prepared in 2003. As a result of: <ul style="list-style-type: none"> The long-term capital renewal pattern required within RTE (as illustrated at Appendix 1). Planning activities carried out in 2004 in relation to 2005 and beyond Advances and developments in specific broadcasting technologies The successful control of capital spend by the IBD's <p>RTE is now in a better position than it has been for a number of years to prudently plan its future long-term capital needs in a manner that would have been unrealistic in the circumstances of recent years.</p>

Page 33	<p>4th Bullet Point states: "... If the capital expenditure programme is scaled back, the cash reserves will increase accordingly."</p>	<p>This comment may be misleading - please see the attached Appendix 1 setting out the level of capital expenditure from 1999 to 2009 together with the further comments set out above in respect of the same topic at Pg.6. It appears to incorrectly imply that the Planned Capital Expenditure can be scaled back, and cash balances preserved / increased without adversely impacting on the ability of RTÉ to function.</p>
Page 33	<p>Final bullet point includes: "... which is expected to be eliminated by 2017."</p>	<p>This might more appropriately read: "... which is expected to fully utilised by 2017."</p>
Page 34	<p>6th Bullet Point states: " However, at all stages, substantial cash reserves are present and these will increase if the capital expenditure programme is scaled back"</p>	<p>This comment may be misleading - please see the attached Appendix 1 setting out the level of capital expenditure from 1999 to 2009 together with the further comments set out above in respect of the same topic at Pg.6. It appears to incorrectly imply that the Planned Capital Expenditure can be scaled back, and cash balances preserved / increased without adversely impacting on the ability of RTÉ to function.</p>
Page 37	<p>Paragraph below 1st table includes: "RTÉ Management states that the very stringent application of the 'Goodbody' principle (of accounting for part time contractor type staff as headcount) accounts for...."</p>	<p>This is not an accurate portrayal of what is known as the 'Goodbody' effects:</p> <ul style="list-style-type: none"> • The original (1st) 'Goodbody' effect relates to the offering of formal employment contracts, during 2002 and 2003, to 313 people who were at that time engaged with RTÉ using a variety of contractor / non-employment type contracts. • The 2nd Effect is not that of accounting for part-time contractor type staff as headcount, as was stated in this quotation, but rather that RTÉ now offers employment type contracts to people who previously would have been offered various contractor / supplier / non-employment type contracts and who thus, previously would not have been measured as part of headcount or FTE.
Page 37	<p>2nd table presented - 2005 column</p>	<ul style="list-style-type: none"> • In the existing table the term read should read "Budget" (not Forecast) • Set out at Appendix 2 is an alternative table showing additional information relevant to an improved understanding of the relative movement in manpower utilisation over the period since 1999.
Page 37	<p>Paragraph 5, which includes "All such contractors are now included in headcount numbers, including for example guest contributors to radio shows each of who will therefore represent a portion of a FTE."</p>	<p>The application of the 'Goodbody' principles, together with Revenue Guidelines (July 2004), has the effect of requiring certain categories of recurring engagements with certain individuals to be engaged as employees rather than engaged as independent contractors. However the specific example given is not accurate.</p>

Page 37	<p>Question raised by PwC:</p> <ul style="list-style-type: none"> Is it possible to fill out the table ? 	<p>Analysis of the contracts specified in the manner requested is not available. The system currently holds details as follows:</p> <table border="0" style="width: 100%;"> <tr> <td></td> <td style="text-align: center;">Dec 2003</td> <td style="text-align: center;">Sept 2004</td> </tr> <tr> <td>Term Contracts</td> <td style="text-align: right;">413</td> <td style="text-align: right;">466</td> </tr> <tr> <td>"Permanent & Pensionable"</td> <td style="text-align: right;">638</td> <td style="text-align: right;">633</td> </tr> <tr> <td>Other Continuous</td> <td style="text-align: right;"><u>974</u></td> <td style="text-align: right;"><u>1,061</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>2,025</u></td> <td style="text-align: right;"><u>2,160</u></td> </tr> </table> <p>This information is not available for 2002 as previously outlined.</p>		Dec 2003	Sept 2004	Term Contracts	413	466	"Permanent & Pensionable"	638	633	Other Continuous	<u>974</u>	<u>1,061</u>		<u>2,025</u>	<u>2,160</u>						
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Page 37	<p>Question raised by PwC:</p> <ul style="list-style-type: none"> Is the "greater flexibility" attaching to new employees evident from the underlying contracts? 	<p>In practice this will only become truly evident with the passage of time.</p>																					
Page 37	<p>Question raised by PwC:</p> <ul style="list-style-type: none"> How many different types of employment contracts ? 	<p>The <u>employment</u> contracts in use in RTÉ can be grouped as follows:</p> <ul style="list-style-type: none"> Term (full-time or part-time or casual) Fixed Purpose (full-time or part-time) Continuous (full-time or part-time) 																					
Page 38	<p>Question raised by PwC:</p> <p>Is it possible to fill out the table ?</p>	<ul style="list-style-type: none"> The information is not available for 1999-2002 The forecast for 2004 was not prepared in that format The Actual figures for 2003 are as follows: <table border="0" style="width: 100%;"> <tr> <td></td> <td style="text-align: center;">Actual 2003</td> <td style="text-align: center;">Budget 2003</td> </tr> <tr> <td></td> <td style="text-align: center;">€</td> <td style="text-align: center;">€</td> </tr> <tr> <td>Staff costs</td> <td style="text-align: right;">110,429,000</td> <td style="text-align: right;">106,181,000</td> </tr> <tr> <td>Supplementary resources</td> <td style="text-align: right;">10,533,000</td> <td style="text-align: right;">10,148,000</td> </tr> <tr> <td>Other staff costs</td> <td style="text-align: right;">2,004,000</td> <td style="text-align: right;">1,335,000</td> </tr> <tr> <td>Fees</td> <td style="text-align: right;">16,699,000</td> <td style="text-align: right;">36,708,000</td> </tr> <tr> <td>Personnel Related Costs</td> <td style="text-align: right;"><u>139,665,000</u></td> <td style="text-align: right;"><u>154,372,000</u></td> </tr> </table>		Actual 2003	Budget 2003		€	€	Staff costs	110,429,000	106,181,000	Supplementary resources	10,533,000	10,148,000	Other staff costs	2,004,000	1,335,000	Fees	16,699,000	36,708,000	Personnel Related Costs	<u>139,665,000</u>	<u>154,372,000</u>
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Page 38	Line which reads: "Over the five years to 2009, total personnel related costs are projected to increase by just under 15% or an average of 3% a year."	Corrections are required to the percentages quoted: "Over the five years to 2009, total personnel related costs are projected to increase by just under 15% or an average of 3% a year."
Page 38	Paragraph describing: "redundancy programmes totalling € 52m"	It is not clear how the figure of € 52m quoted by PwC is arrived at. <ul style="list-style-type: none"> • Set out at Appendix 3 is an outline of the movements and composition of the Restructuring Provisions over the 6 years to 31 December 2004. In those 6 years, a total of € 83m will have been paid to 782 individuals under the various restructuring and redundancy programmes. • As of 31 Dec. 2004, a total of € 33m remains to be paid over the coming years.