



Broadcasting Policy
Television Licence Fees
Finances of the BBC
Policy of the BBC
World Television News

BROADCASTING

In attached folder: Broadcasting
Standards Council Code of Practice

Part 1: July 1979

Part 12: July 1990

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PREM 19/3618

PART 12 ends:-

SS INH to PM 28 8 92

PART 13 begins:-

PM to PM 2 9 92

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

A Code of Practice – November 1989
Broadcasting Standards Council
5 – 8 The Sanctuary
London SW1P 3JS

Signed J. Gray Date 27/9/2017

PREM Records Team

copy

POLICY-IN-CONFIDENCE

PRIME MINISTER

FUTURE OF THE BBC

The paper circulated by my office yesterday comprised an analysis of the main issues raised by the review of the BBC's Charter; a summary of the questions that participants in the public debate might address; and some basic facts and figures. In this minute, I would like simply to make five points about the debate that I wish to encourage:

(i) the discussion paper should be wide ranging in the questions it asks and radical in the issues that it raises, without painting us into an ideological corner. Though we do not want to be soft on the BBC's weaknesses, we must not give the impression of being out to destroy it because of its alleged prejudices. This means that we must not be perceived as wanting to attack the BBC's editorial independence.

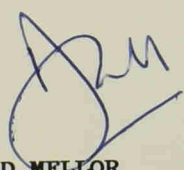
(ii) Discussion of the BBC's role and objectives is of prior importance to the number of television and radio channels that it runs, its organisation and means of finance. The discussion paper should be structured accordingly.

(iii) In that paper, we should be robust about the need both for internal management reform and for a new responsiveness in the quality of service, in keeping with the Citizen's Charter. The BBC is only belatedly picking up the reforms of the 1980's - financial management, target setting and privatisation - and must do so at the same time as it handles those of the 1990's - market testing and quality of service.

(iv) I believe we should be pragmatic about financing, only turning away from the licence fee if the case for a better system, which better fits the role of the BBC after 1996, is most persuasively presented.

(v) Accountability for programme quality and financial stewardship will require particularly delicate handling.

I am copying this minute to Norman Lamont, Kenneth Clarke, Michael Heseltine, John Patten, Mark Lennox-Boyd and Sir Robin Butler.



DAVID MELLOR
28 August 1992



PRIME MINISTER

Thank you. J 31.A

FUTURE OF THE BBC

Next Thursday you are chairing a meeting to discuss the future of the BBC. Mr. Mellor was asked to produce a strategic overview of the Government's approach to a review of the BBC for discussion at the meeting. In addition to him, the Chancellor, the Home Secretary, the President of the Board of Trade, the Secretary of State for Education and Mr. Goodlad (representing FCO) are attending.

Mr. Mellor's paper is attached, sent under cover of a minute from his Private Secretary. A covering minute from Mr. Mellor himself is expected, but will not now arrive until Tuesday. The holiday season has also prevented Policy Unit offering advice, and comments from them will also follow next week. I thought, however, you might find it useful to see the paper this weekend.

After a description of the rapidly changing context at home and abroad in which the BBC operates, the paper outlines the issues that need to be tackled in the review. All of the main issues are covered but, on the whole, they are simply raised and, perhaps disappointingly, few suggestions are offered. Clearly it would be helpful to have some idea where the issues lead before the consultation exercise begins, and I suspect you will wish to cover this at the meeting.

In summary, the issues covered are:

- (i) the objectives of public service broadcasting;
- (ii) the range of programmes and services the BBC should offer;
- (iii) whether reorganisation of the BBC is necessary to ensure it is as efficient as possible;
- (iv) whether the licence fee is the best form of funding; and

(v) how to ensure the BBC is accountable.

I understand Mr. Mellor nails his colours a bit more firmly to the mast in his covering minute expected next week. You may like to indicate if there are other issues you feel should be covered.



MARK ADAMS

28 August 1992

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DEPARTMENT OF NATIONAL HERITAGE
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From the Private Secretary

C92/5376/11383

Mark Adams Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

27 August 1992

Dear Mark,

FUTURE OF THE BBC

... I attach a paper from my Secretary of State for the discussion of the BBC to be held on 3 September. To give copy recipients as much time as possible to consider it, I am circulating it in advance of a minute which my Secretary of State may wish to send tomorrow.

I am copying it to Jeremy Heywood (Treasury), Colin Walters (Home Office), Peter Smith (DTI), Christina Bienkowska (DfE), Paul Speller (FCO) and Melanie Leech (Cabinet Office).

Yours ever,

Nicholas

N I HOLGATE
Private Secretary

FUTURE OF THE BBC

Note by the Secretary of State for National Heritage

1. The BBC's present Charter expires at the end of 1996. This gives us an opportunity to look radically at its role in the years ahead. Our Manifesto promised we would publish a discussion paper on the future of the BBC, recognising its special responsibilities for providing public service broadcasting. This paper outlines the issues to be raised in the discussion paper, which is intended to set the framework for a wide public debate.

2. Because there have been significant developments in broadcasting both in the United Kingdom and internationally in the past few years, the context in which we will take decisions about the BBC will be very different from the circumstances at any time in the last 70 years.

CONTEXT

In United Kingdom

3. The Broadcasting Act 1990 set the future framework for commercial television and radio and for cable and satellite services. There will be pressure to widen the debate about the future of the BBC into consideration of all broadcasting services in the United Kingdom; this was how it was done in the past. However, although some adjustments may be necessary to the provisions of the 1990 Act, we do not want to embark on a wholesale revision, which would create unnecessary uncertainties for other broadcasters.

4. There has been a considerable increase in the number of services available to viewers and listeners in the UK. Cable and satellite services have provided many more television channels, some of them from abroad. The first national commercial radio channel opens early in September and there are prospects for two more, as well as a fifth terrestrial television channel. There are over 100 independent local radio stations. While the BBC,

with two terrestrial television channels, five national radio networks and 39 local radio stations, remains the largest UK broadcasting organisation, it no longer has the dominant position it had ten years ago.

Internationally

5. There has been a similar increase in the number of broadcasting outlets in many other countries, with a huge demand for programmes and programme material. There is greater competition for the rights to broadcast sporting and cultural events, and a growing market for archive material, films and programme ideas. Multi-national media conglomerates are buying shares in European broadcasting stations to provide outlets for their programme material of all kinds. An increasing proportion of this programming is made for international audiences. In addition to the BBC's World Service Radio, financed by the FCO, and broadcasting in English and 37 other languages, the BBC has developed the self-funding World Service Television, providing television programming, particularly news and information, to foreign broadcasting organisations. But the BBC is a very small player in this growing international broadcasting market.

THE WAY FORWARD

Public service broadcasting

6. The debate about the BBC needs to encompass the objectives of public service broadcasting and how it will differ from other forms of broadcasting. The developments in the last few years have undermined what has hitherto been the justification for public service broadcasting: that a small number of services should be used for the benefit of the public as a whole, to broadcast programmes of information, education and entertainment appealing to a wide range of tastes and interests. A new definition of public service broadcasting is likely to be more than ensuring the provision of competent news services and programmes for minority interests, but this issue is fundamental to the future role of the BBC.

BBC programmes and services

7. At present, over 90% of the population watch some BBC television programmes each week and about 60% listen to BBC radio. ✓ The BBC could continue to provide a wide range of programmes. Alternatively, it could concentrate on the kind of programmes which are unlikely to be made by other broadcasters. Depending on the definition of public service broadcasting, the BBC could have a role in making national events and the cultural and sporting — cost? heritage readily accessible to audiences in the UK, and in producing programmes specifically for UK audiences, including those in Scotland, Wales and Northern Ireland. It could help to ensure that people had sufficient information to participate effectively as citizens in a mature Parliamentary democracy. It could make a distinctive contribution to education and training.

8. The number of BBC television and radio channels in future will depend on the range and nature of the programmes it is expected to provide. If the range of programmes is limited, then the number of BBC services might be cut. On the other hand, if it is expected to provide more programmes for Scottish, Welsh and Northern Ireland audiences or for minority interests, or a service devoted entirely to education and training, it might need more channels. The development of digital audio and television broadcasting could provide frequencies for more BBC services in future, if they are needed in the longer term. no

9. Decisions will be needed about the role of the BBC in providing programmes and services for audiences overseas. The BBC's reputation abroad - for the reliability of its news services and for its entertainment programmes - is a national asset. The worldwide market for programmes opens up opportunities for further development. The BBC could become a multi-national broadcasting organisation, providing self-financing radio and television programmes for other countries. But there would have to be a clear framework for these activities. Otherwise, the BBC could develop its international programming, while reducing the programmes made for audiences in the UK. Yes!

BBC functions and organisation

10. The BBC is a conglomerate, with a multiplicity of functions. It commissions, schedules and makes radio and television programmes; it provides the studios, equipment and staff to make them; it transmits programmes; it gathers news in this country and throughout the world; it provides educational services; it is a patron of the arts, employing writers, actors, and musicians of all kinds; it sells programmes to other broadcasting organisations and raises finance for co-productions; it makes available recorded versions of programmes, and supporting material to the general public; it publishes books and magazines. Many of these activities are undertaken to sustain its programmes, as part of its long-term investment in broadcasting. The BBC has nurtured talent, and this has been a significant factor in the cultural life of the country for the last 60 years.

11. There are major questions about the future functions of the BBC and how it should carry them out. Some of the most significant changes are likely to be made on these issues. The BBC still employs over 26,000 staff: this is too many. The BBC is already required to obtain 25% of its television programmes from independent producers. It is planning to take some of its radio programmes from independent producers and to cut its overheads and its support services, buying them in from outside. These have been encouraging developments. But there is a long way to go before we can be satisfied that the BBC is as efficient as it could be and gives value for money. Some activities could be contracted out or privatised. The BBC must conduct its activities in ways which provide incentives to staff reductions, to further improvements in efficiency year by year and which comply with fair competition policies. Depending on what the BBC is asked to do in future, some fundamental re-organisation may be necessary.

Paying for the BBC

12. The discussion document should expose the possible ways of paying for the BBC - the licence fee, taxation, advertising, subscription, or a mixture of financing, including increasing its

commercial activities and sponsorship. A consistent approach is needed to decisions about the programmes the BBC is expected to provide, its other functions, and how it is financed.

13. The paper can raise the possibility of using the licence fee to fund public service broadcasting by other broadcasters as well as the BBC, with the proceeds distributed by a Public Service Broadcasting Council. For example, the Government grant to the Welsh Fourth Channel Authority will be over £70 million in 1993/94. But a new council of this kind would be controversial and would only be justified if it met over-riding policy objectives. It would risk prejudging the definition of public service broadcasting and the need to subsidise it on other channels, with increased pressure on any means of public finance.

14. Although the licence fee is an oddity, so far no one has devised a better system. The BBC's income from the licence fee in 1991/92 was just under £1,400 million. The grant-in-aid from the FCO for the World Service was £157 million. The BBC's income from other sources was £29 million. Its trading activities had a turnover of £187 million, but made a loss in 1991/92, because of the costs of setting up BBC World Service Television and the subscription service, to use the television night hours. The licence fee costs each household about 22 pence a day; this should be justifiable provided someone in the household uses BBC services in the course of a week.

15. Depending on decisions about BBC's services and its organisation and staffing, it may be possible to hold down, or even to reduce, the licence fee or to give guarantees about future increases.

Accountability

16. The arrangements for making the BBC accountable need to be brought up-to-date. Changes are likely to be needed in the way it keeps in touch with its audiences, and seeks and reflects their views. There are questions about the role of the Governors, the Management Board, the Advisory Councils and the way the BBC sets

E.R.

and enforces programme standards and handles public complaints. This may require looking again at the responsibilities of the Broadcasting Standards Council and the Broadcasting Complaints Commission.

17. The BBC's objectives should be set out more clearly than they have been in the past and the BBC should publish results showing how far it has met them. But there will be a delicate balance to strike to prevent improved accountability from developing into tighter regulation, which would undermine the BBC's editorial independence. It would be inconsistent with our wider policies for the Government and Parliament to be drawn into closer supervision of the BBC's programming and management.

18. I attach a list of the main questions which I propose to raise in the discussion paper, together with some basic facts and figures.

Department of National Heritage
27 August 1992

DM

DM

*(Approved by the Secretary of State
and signed on his behalf)*

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SUMMARY OF QUESTIONS

Public service broadcasting

1. What should be the objectives of public service broadcasting in the future?

BBC programmes and services

2. Should the BBC continue to broadcast a wide range of services appealing to all tastes and interests, or should it concentrate on information, education and minority interests, and programmes unlikely to be provided by other broadcasters?

3. Should the BBC broadcast a high proportion of programmes, to reflect the interests of people throughout the United Kingdom, including programmes of special interest to audiences in Scotland, Wales and Northern Ireland?

4. Should the number of BBC television and radio services, including local radio, be changed?

5. Should the BBC continue to expand its services for audiences overseas?

6. What standards should the BBC be expected to meet in future in its programmes and services?

BBC functions and organisation

7. How many of its present functions should the BBC continue to carry out in future?

8. How can its organisation be improved to carry out these activities more effectively?

Paying for the BBC's services

9. Should the BBC reduce its expenditure by cutting the range and quality of its programmes and services?
10. Should the BBC continue to be financed by the licence fee in future?
11. If so, should any changes be made to present licence fee arrangements?
12. If not, how should the BBC be financed?
13. How can the BBC become more efficient, so it gives better value for money in its services?

Making the BBC accountable

14. Should changes be made in the way the BBC keeps in touch with its audiences?
15. How should the interests of audiences in Scotland, Wales and Northern Ireland be represented?
16. Should changes be made in the functions of the Governors and the BBC Board of Management?
17. Should there be a public service broadcasting council to promote and finance public service broadcasting by the BBC and other services?
18. Should the BBC have clearly stated objectives, and publish results showing how far it has met them?
19. Should the Government be able to impose sanctions on the BBC if its objectives are not met?

E.R.

20. Should there be improved arrangements for regular Parliamentary scrutiny of the BBC's objectives and how far the BBC has met them?

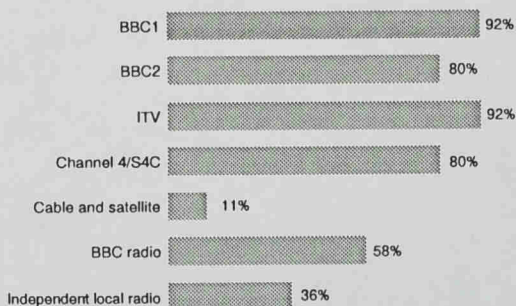
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AUDIENCES

Broadcasting is about programmes, the people who watch or listen to them, and the choices they make.

Most people in the United Kingdom watch or listen to broadcast television and radio programmes; on a typical day 80% of the population tune into TV, and 94% watch at some time during the week. Almost all of them will watch some BBC television. Almost half the population listen to the radio on a normal day and 76% do so over the week. Around a third will listen to the BBC on any given day and 58% do so in the course of a week.

Figure 1: Weekly audience reach, 1991-92



People spend an average of nearly 4 hours per day watching television, including VCR playbacks. The most popular programmes attract audiences of over 15 million. In recent years, the allocation of viewing between the BBC, ITV and Channel 4 has been fairly constant.

More recently, cable and satellite have accounted for almost 5% of total viewing, and around 30% in homes receiving these services.

Figure 2: TV audience share, 1991-92

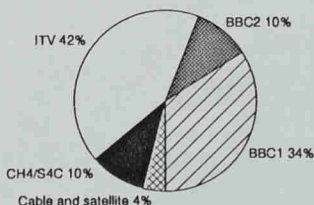
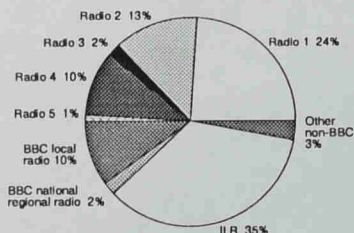


Figure 3: Radio audience share, 1991-92



The average time spent listening to the radio is around an hour and a half a day. The BBC's share is down from nearly 80% in 1981 to around 62% now, mainly due to the expansion of commercial local radio.

COSTS

The colour television licence fee costs £80 annually or 22 pence per day. It is cheaper than a daily newspaper and less than the price of sending a first class letter.

Most BBC services provide at least 16 hours of programmes per day. Last year BBC1 and BBC2 each broadcast over 6,000 hours of programmes. The five network radio stations broadcast a total of nearly 39,000 hours.

Figure 4: BBC expenditure

The BBC's total licence income in 1991-92 was £1,486.1 millions. It spent £593.7 millions on BBC1, £306.2 millions on BBC2 and £238.7 millions on its five national radio networks. The BBC spent £226.5 millions on regional broadcasting.

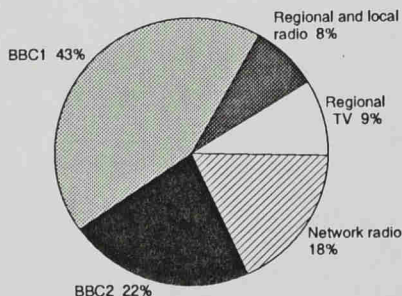


Figure 5: Costs per hour, 1991-92

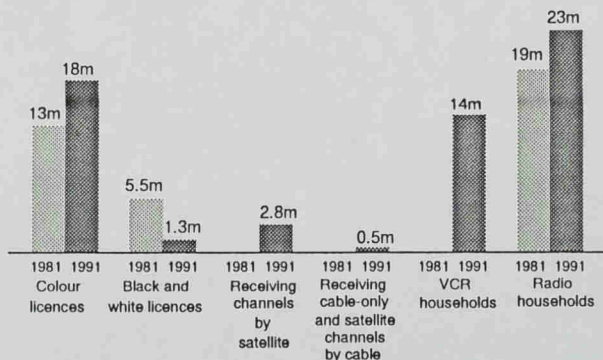


The costs of different kinds of programmes and services vary considerably. BBC Television costs three times as much as radio. The most expensive type is also one of the most popular: TV drama. This costs over ten times as much as sport or programmes purchased from other broadcasters.

EVOLUTION AND CHANGE

In 1981 there were three television channels: BBC1, BBC2 and ITV. There were four national BBC radio stations and 40 local radio stations, half of them run by the BBC. About two-thirds of the homes with television had colour licences but nearly a third still had black and white. Few people had video recorders.

Figure 6: Number of UK television and radio households



By 1991, Channel 4 was available throughout the UK. A fifth channel is planned to reach some 70 per cent of the population. There were more than 70 licensed cable and satellite channels. BSkyB provided six channels. Almost three million homes had direct access to satellite channels. Nearly 300,000 received up to three additional channels on narrowband cable. Almost 270,000 received up to forty additional channels on broadband cable. About 93 per cent of homes had colour television licences and almost two thirds had video cassette recorders.

There were also five national BBC radio channels. The first two independent national radio stations should begin broadcasting in 1992. In 1991, there were more than 160 local radio stations, three quarters of them independent radio.



10 DOWNING STREET

C/A

Further of BBC
meeting on 3

Saper

Pst note on
file that Mr
Goodlad will be
FCO representative
(not Mr Linnex-
Bond.).

S¹²/₁₈



CLP

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From the Private Secretary

File Br now

C92/4965/10210

Mark Adams Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

11 August 1992

Dear Mark

FUTURE OF THE BBC

Thank you for your letter of 3 August to Nicholas Holgate. The Secretary of State was glad to know that the Prime Minister broadly agrees with his approach to the public debate about the BBC. He agrees that radical solutions should be considered; the additional issues annexed to your letter are included in the discussion document, which has been drafted, though not all of them in the particular way you put them. You might like for reference a copy of the full draft text.

Mr Mellor welcomes the idea of a general discussion among the Ministers most concerned in September, and he will prepare a paper as a basis for the discussion. He hopes, nevertheless, that it will be possible to publish the Government document soon after Parliament reassembles in October. It is important that the Government document should set the framework for the debate and that it is published before the contributions from the BBC and other interested parties.

I am copying this letter to Sonia Phippard (Cabinet Office).

Yours

Susan

SUSAN HADLAND
Assistant Private Secretary

THE FUTURE OF THE BBC

AN AGENDA FOR DEBATE

Foreword

Every day throughout the United Kingdom, millions of people switch on their television and radio sets to watch or listen for pleasure and for information. There is now a greater choice of programmes for viewers and listeners than ever before. During the last 10 years, the Government has opened up opportunities for more services; it has encouraged new types of services and new ways of transmitting programmes. Many more programme services are available in this country and abroad. Our aim is to ensure that advances in technology yield diversity in broadcasting.

How should the BBC contribute to this diversity? For over 60 years, the BBC has typified public service broadcasting. Its programmes are enjoyed, admired and respected all over the world. In this country, there are few people whose lives have not been brightened and enriched by BBC programmes. In many ways, the BBC has both embodied and communicated our national heritage.

In 1996, the BBC's present Charter comes to an end. This gives us all an opportunity to consider its future. The shape of broadcasting is changing in this country and throughout Europe, and there are changes in people's lifestyles, in education and the arts, and in commerce and industry. Through the Citizen's Charter, the Government is introducing new measures to improve the quality of public services.

The BBC cannot remain unchanged in a changing world. So there are fundamental questions to be asked about what the BBC should do, and how it should be financed and organised.

what kind of programmes and services should the BBC provide and how should they be paid for? How can we make sure the BBC does not waste money? How should we make the BBC accountable for what it does? How can we ensure diversity and choice for audiences?

These are questions which need answers from viewers and listeners, as well as broadcasters and politicians. I hope many viewers and listeners will join in the debate about the future of the BBC. At this stage, the Government will listen to the arguments and weigh them, before deciding what proposals to put forward.

DAVID MELLOR

1. FUTURE ROLE OF THE BBC

1.1 In 1996, the BBC's Royal Charter will expire. This is an opportunity to consider what services the BBC should provide in the future and how it should be organised and financed to provide these services efficiently. We need to look at the role and objectives of the BBC in the years ahead and we should be ready to contemplate radical changes in the way the BBC operates. But any changes must be based on a clear view of the place of public service broadcasting in the 21st century.

1.2 The BBC cannot continue as if nothing had changed since 1981, when it was granted its present Charter. In the last 10 years, many large companies, providing all kinds of services, have had to change their objectives and to re-organise in order to meet their customers' needs at competitive prices. So have other broadcasters. The Broadcasting Act 1990 created a new statutory framework for commercial television and radio, and for local, cable and satellite services, with the aim of increasing the number of services and the choices for audiences. Against this background, the role, functions and organisation of the BBC are bound to change too.

1.3 The range and quality of the BBC's radio and television programmes, and its technical excellence, have received worldwide recognition. But there has been criticism of BBC programmes for offending public taste and feelings, for bias, and for excessive costs. Some people think the BBC is unresponsive to criticism, that it tries to carry out too many activities, and that it has too many staff. The BBC has taken steps to improve its efficiency and to adapt to changing circumstances. At a cost of about 22 pence a day for each licensed household, it provides two television channels and five national radio services, as well as local radio.

1.4 The BBC has special responsibilities for public service broadcasting in the United Kingdom. But this does not mean that

the BBC has to broadcast the same range of services or programmes in the future, nor that it must continue to be financed, organised and managed as it is now.

1.5 This paper is published to provide a framework for a debate about the future of the BBC. The Government invites comments and ideas from viewers and listeners, and from organisations with a particular interest in broadcasting policy. In particular, it would welcome answers to all, or any, of the questions asked in this paper.

Comments and replies should be sent to:

2.1 The debate about the BBC's future should range widely but there are likely to be a few key issues.

What should be the aims of public service broadcasting in the future?

2.2 Public service broadcasting does not have to be provided by a public authority nor to be financed from public funds. What are the objectives or features which distinguish public service broadcasting from other forms of broadcasting?

What kind of programmes and services should the BBC provide?

2.3 At present, the BBC is expected to broadcast programmes of information, entertainment and education. Should it continue to provide a wide range of programmes, or should it concentrate on the kind of programmes which are unlikely to be made by other broadcasters?

What functions should the BBC carry out in future?

2.4 The BBC makes, commissions and schedules programmes and transmits them. It has a range of other activities, including patronage of the arts, providing education services, research and development, training and publishing. How many of these functions should be the responsibility of people employed by the BBC? Can the BBC's organisation, staffing and use of resources be improved to carry out its functions more efficiently and economically?

How should the BBC programmes and services be paid for?

2.5 The BBC's services in the United Kingdom are paid for from the television licence fee. Should this continue to be the main source of the BBC's funds or should its services be paid for in whole or in part in other ways, such as advertising, sponsorship,

taxation or subscription?

How can the BBC be made more accountable while keeping its editorial independence?

2.6 Traditionally, Governments have not intervened in decisions about programmes nor in the day-to-day management of the BBC. But if the BBC is to continue as a public service broadcaster, there should be ways of ensuring that the BBC is responsive to its audiences, accountable for the services it provides and that it is efficient and gives value for money. Can a better framework be designed to achieve this without diluting the BBC's editorial independence?

Need for coherent policy

2.7 All these issues are interlocked. Decisions about BBC programmes, services, functions, organisation, finance and accountability need to be seen as part of a coherent policy both for the BBC and for broadcasting. It will be essential to take account of the impact of any decisions on other broadcasting organisations and on the diversity and choice of programmes and services for viewers and listeners.

PUBLIC SERVICE BROADCASTING

3.1 Broadcasting through public service authorities has been founded on the belief that a scarce public asset, the broadcasting frequencies, should be used for the benefit of the public as a whole, to provide services which combine information, education and entertainment. Since 1927, the BBC has operated as a public service; other public broadcasting services have been provided by the Independent Television Authority, and then by the Independent Broadcasting Authority. They have competed in providing a wide range of high quality programming but not for finance. Their services have been received throughout the country and have given people a source of shared experience and interest.

Evolution of public service broadcasting

3.2 There are many forms of public service broadcasting in different parts of the world. They reflect the different constitutional, legal and cultural traditions in different countries. In this country, public service broadcasting has evolved out of a system devised for a radio service to include television, and services financed by advertising. Public service broadcasting is not static: its purpose and focus can be adapted to suit new circumstances.

3.3 Public service broadcasting is still evolving. In the last 65 years, the BBC's interpretation of its public service responsibilities has changed and it is preparing its own proposals for the years ahead. The Broadcasting Act 1981 required the Independent Broadcasting Authority to ensure that all its services provided information, education and entertainment, and that the programmes maintained a high general standard in all respects and a proper balance and wide range in their subject matter.

3.4 The Broadcasting Act 1990 creates a new pattern for broadcasting, and opens the way for many more services. The Act sets out standards of taste, decency, accuracy and due

impartiality for all services licensed by the Independent Television Commission and the Radio Authority. Channels 3 and 5 will have to meet requirements on programme quality and to provide some programmes of information and education. But most services will be regulated more lightly than in the past. From 1993, only the BBC and Channel 4 will continue to be required to broadcast programmes as public services, although other channels and services will continue to have some public service obligations.

3.5 Throughout the United Kingdom, Channel 4 programmes will have to provide information, education and entertainment, and to cover a wide range of subject matter. Channel 4 in most of the United Kingdom will have to ensure that some programmes are likely to appeal to tastes and interests not catered for by Channel 3, and to encourage innovation and experiment in the form and content of programmes. In Wales, S4C has to ensure that a substantial proportion of its programmes are in Welsh.

New directions for public service broadcasting

3.6 The original justification for public service broadcasting - that a small number of services should be used for the benefit of the public as a whole - no longer exists. More services and greater choice have been made possible by developments in technology. With scientific advances, the frequency spectrum can be used more intensively. Programmes are being transmitted by satellite and by cable. So viewers and listeners have a wider choice of programmes and services, which should increase further in the years ahead.

3.7 In these circumstances, some people believe public service broadcasting is an idea which has had its day; the public will be well served by the growing number, and diversity, of television and radio channels. Others believe that there will continue to be a role for public service broadcasting, to ensure that certain types of programme continue to be available or to sustain in some services the values developed by successive generations of public

service broadcasters. They regard public service broadcasting as an approach to broadcasting, which influences the choice of programme subjects, and how programmes are made and scheduled, as well as the scope of the services. They believe that public service broadcasting consists of more than the provision of particular kinds of programmes, mainly for minority audiences.

3.8 With more services, there may be less need in future for a single service to reach most homes and offer a range of programmes. Each television channel or radio station could concentrate on a single type of programme, likely to appeal to people of a particular age group or with particular tastes or interests. There could be special channels for children or elderly people, or for news or education. More services could be provided for minority groups, including ethnic minorities. Most radio services are already designed to appeal to limited audiences; television services could move in the same direction. Increasingly, new services may cater for special tastes or interests.

3.9 As the number of services increases, so it is likely that the audience for them will be fragmented. Many people use audio and video cassettes; they are less dependent on broadcast programmes for entertainment, education, or information. They record broadcast programmes for future use. The audience for each programme and service in future is likely to be smaller than in the past. Even so, each service may be used by many households at some time.

3.10 If public service broadcasting is to continue in the 21st century, what will be its objectives and how will it differ from other forms of broadcasting? It may be possible to determine the ingredients which should be combined in any new objectives for public service broadcasting in the future, recognising that some of them may be shared, to some extent, by other broadcasters. Here are some possibilities:

- Focus on the audience. Public service broadcasting should be provided for the benefit of viewers and listeners. The audiences should take priority over other possible interests, the broadcasters, advertisers, shareholders or political parties.

- Quality. The Government aims to promote quality in all public services. Quality in broadcasting is difficult to define and can be achieved in different ways and in all kinds of programmes, in light entertainment or sports coverage, as well as news, documentaries and drama.

- Diversity and choice. A wide range of programmes can be achieved on one service or through a multiplicity of services. In the past, public service broadcasting has included all types of programmes, entertainment, information and education, and programmes which appeal to large audiences and those for minority audiences. Public service broadcasters have introduced experiments in programming. They have broadened the horizons of many viewers and listeners and encouraged new interests. With more entertainment services available to audiences, public service broadcasters could be required to concentrate on programmes which inform and educate, including news and current affairs, and to cut back the proportion of entertainment programmes. However, reducing entertainment and popular programmes would conflict with an objective of accessibility.

- Accessibility. There are two forms of accessibility: geographical coverage of services and broadcasting programmes which many people find enjoyable and interesting. Public service broadcasters have planned both to reach people throughout the country and to broadcast programmes which appeal to people with a wide range of tastes and interests, of different ages and

backgrounds and living in all parts of the country. This contrasts with services which cannot be received throughout the country or which are available only to those who pay more for them; both limit the opportunities for people to explore a diverse range of programmes.

- Editorial independence. It has been an essential feature of public service broadcasting in this country that decisions about programmes have been taken by broadcasters or broadcasting authorities, not by the Government or other interest groups. Editorial independence enables broadcasters to resist pressures from those who wish to manipulate audiences for their own purposes, but it carries the risk that broadcasters may become self-indulgent and unresponsive to public criticism.
- Efficiency and value for money. All public services, whether or not they are financed from public funds, should be efficient and give value for money in the services they provide.
- Accountability. Public service broadcasters should be held to account for what they do. They should be clear about their objectives, the services they are expected to provide and the standards they are expected to meet. If services are paid for from public funds, there should be ways of ensuring public money is used effectively and is not wasted.
- National identity. Public service broadcasters have taken the view that they should reflect the national interests and cultural traditions of their audiences. They can create a sense of community. They can ensure that national occasions can be seen and heard by the majority of the population. They can promote better

understanding of current events in the United Kingdom, in Europe and throughout the world, and greater participation in the processes of Parliamentary democracy through news and current affairs programmes. They can celebrate and enhance the national heritage and encourage people to enjoy it.

Question for the future

What should be the objectives of public service broadcasting in the future?

BBC PROGRAMMES AND SERVICES

4.1 If the BBC is to continue to be the main public service broadcaster in the United Kingdom, the objectives of public service broadcasting will have to be built into its future plans, programmes and finances. There should be a coherent framework for the range of the programmes which the BBC will be expected to provide, the number of its services, the way the programmes and services are paid for, the extent of the BBC's other activities, the way it is organised, and the arrangements for editorial decisions, and for public accountability both for programmes and value for money. It is the Government's responsibility to see that such a framework is in place by 1997.

4.2 Any debate about the future of the BBC must begin by considering the programmes and services which it should provide. The traditional public service broadcasting view has been that the best programmes are likely to combine information, education and entertainment, so giving people pleasure and extending their interests and knowledge. Programmes can present information in an entertaining way: information can be given by characters in a soap opera; a political discussion can include jokes.

4.3 The BBC has aimed at high standards in its programmes. It has acknowledged that good programming needs creative ideas, accurate information and high technical standards in production and transmission and depends on the skills of many people, producers and editors, writers, actors, musicians, journalists, designers, camera crews, engineers, and those who make the sets or costumes, put on the make-up or devise special effects. Quality in programming is achieved by talent and effort, not just by expenditure.

BBC programmes for audiences in the United Kingdom

4.4 At present, in the United Kingdom, the BBC broadcasts a wide range of programmes on its two television channels. The five

national radio services are aimed at different audiences, but together have a similarly wide range of programmes. Over 90% of the population watch some BBC television programmes and about 60% listen to BBC radio in the course of a week.

4.5 With the greater choice now available to viewers and listeners, the BBC could concentrate in future on providing news and current affairs, and programmes which are unlikely to be broadcast by other organisations. The BBC would broadcast few general entertainment programmes but more programmes for minority audiences, so increasing the overall diversity and choice of broadcast programmes for viewers and listeners. It could extend its coverage of the arts, of science and religion. It could broadcast more programmes made in other European countries. The BBC might be required to produce more educational programmes and programmes for minorities of all kinds, including ethnic minorities and people with special interests, for children and elderly people, and programmes and services for those with disabilities. However, if the aim is to encourage people to widen their interests, this is less likely to be achieved by narrowing the range of programmes and reducing the number of popular programmes, which attract more people to watch or listen to a service.

4.6 There are other possibilities. The BBC could produce programmes of particular interest to United Kingdom audiences, which reflect the British way of life, history and culture, national political issues and the United Kingdom's evolving place in Europe and the wider world. This need not be an insular approach. The European Directive on Television Broadcasting requires all Member States to ensure that broadcasters include a majority proportion of European programmes in their output. The BBC services could include programmes made in other European countries about their views of European and world issues and showing how different countries approach similar problems. The BBC might be expected to ensure that national events were accessible to audiences throughout the United Kingdom and to

encourage greater knowledge and understanding of the national cultural and sporting heritage. In this way, the BBC would sustain a sense of national identity and increase diversity at a time when programmes are increasingly produced by organisations with multi-national interests for transmission in more than one country.

4.7 As a public service broadcasting organisation, the BBC might be expected to continue to broadcast radio and television programmes of special interest to people in Scotland, Wales and Northern Ireland. The BBC already provides television and radio programmes for Scotland, Wales and Northern Ireland and some regional television programmes and local radio in England. However, programmes for the different regions in England have never been a strong element in BBC television services. Many people value the output of the BBC's 39 local radio stations, which includes a high proportion of news and information and special interest programmes, such as programmes in ethnic minority languages. Some people think BBC regional television and local radio programming should be strengthened; others question whether it is needed at all, since Channel 3 is regionally based and there are over 80 commercial radio stations.

4.8 There could be changes to the BBC's radio output. The five network radio services broadcast a wide range of music, from 'pop' to classical and contemporary music and the BBC relies less on records than other stations. The BBC provides news and information on all its national radio services and it is planning a 24 hour news service. It broadcasts entertainment programmes, including plays, talks and features, and commentaries on sporting events. Since it has had to give up some AM frequencies, the BBC has already had to make difficult decisions about the distribution of its programmes between its network services. Some further rationalisation may be necessary. Given the variety of other radio services, it is arguable that the BBC radio should no longer try to broadcast such a wide range of programmes, with the aim that everyone should find something of interest.

The scope of the BBC's services

4.9 The number and scope of the BBC's network services will, to a large extent, depend on the range and nature of the programmes it is expected to broadcast in the future. If the range of the programmes were to be limited, then the number of BBC services might be reduced. For example, if the BBC is not expected to broadcast popular music, then it might have three national radio channels, rather than five. Similarly, if its television programmes were to be mainly information, education and programmes for minority audiences, then they might be concentrated on one television channel. Another possibility would be for the BBC to lose its local radio stations.

4.10 On the other hand, if the BBC is expected to provide a full range of programmes, appealing to most tastes and interests, embracing information, education and entertainment, and to provide programmes of special interest in Scotland, Wales and Northern Ireland, as well as regional and local programmes, then it would be more difficult to reduce significantly the number of services the BBC broadcasts in the United Kingdom.

4.11 If the BBC is expected to provide more programmes for Scottish, Welsh and Northern Ireland audiences and for minority, or specialist, interests, it might need more radio or television network services. For example, it could have a service entirely for education and training programmes, or for European issues. Eventually, digital audio broadcasting (DAB) and digital television, as well as satellite services, could provide frequencies for more BBC services, if they are needed.

BBC services for overseas audiences

4.12 Overseas, the BBC provides a long established World Service in radio in English and 37 other languages. In 1991, it set up World Service Television, making available BBC news and other programmes for different parts of the world. Increasingly, it is

providing radio and television programmes for transmission by overseas broadcasting organisations. None of these services is financed from the television licence fee.

4.13 The BBC is celebrating the sixtieth anniversary of its overseas broadcasts, and during that time, the BBC has built up considerable respect for the independence, accuracy and diversity of its programmes. The BBC's overseas services are relied on by many people for accurate news, for learning English and for programmes of special interest in their own languages. These programmes are ambassadors for the United Kingdom and the British way of life.

4.14 The number of radio and television services is increasing in most countries in all parts of the world. So there is a growing demand for broadcast programmes of all kinds. The worldwide demand for programmes opens up new opportunities for the BBC. It could increase its activities in providing services in conjunction with other broadcasting organisations or in selling programmes to them. It could go further and become a multi-national broadcasting organisation, providing self-financing radio and television services in other countries. If the BBC is to expand the services it provides for audiences overseas, then it will be necessary to establish a clear framework for these activities. Otherwise, the BBC could produce a higher proportion of its programmes for multi-national audiences, at the expense of audiences in the United Kingdom.

Standards for BBC programmes and services

4.15 It is the Government's view that all public services should have explicit standards and should publish results to show whether those standards have been achieved. The public and the BBC will need to be clear about the range of the services the BBC is expected to provide and the other programme standards it is expected to meet. All broadcasters, including the BBC, are expected to keep to standards of taste, decency and impartiality

in their programmes. The European Directive on Broadcasting has established minimum requirements on programmes standards throughout the European Community, and, in the past, higher standards have been set for broadcasters operating in the United Kingdom.

4.16 The BBC's present programme standards are in the Annex to the 1981 Licence and Agreement. In this, the Board of Governors of the BBC re-affirmed that they would ensure that programmes maintained a high general standard and undertook to provide a properly balanced service, with a wide range of subject matter, to continue the policy of treating controversial subjects with due impartiality and to ensure that programmes should, so far as possible, not offend against good taste or decency or be likely to encourage or incite to crime or lead to disorder or be offensive to public feeling. Under the terms of the Licence and Agreement, the BBC is required to broadcast a daily account of proceedings in Parliament and any public service messages when asked to do so by the Government. It is prevented from broadcasting its opinion on current affairs or matters of public policy, from sending subliminal messages and from broadcasting programmes for payment, including sponsored programmes, without the agreement of the Secretary of State.

4.17 The Broadcasting Act 1990 loosened the controls on programmes broadcast by other organisations but it continues to place obligations on taste, decency and impartiality, on the services licensed by the Independent Television Commission and the Radio Authority. It introduced new requirements for setting and enforcing standards, especially those for ensuring due impartiality in the treatment of controversial issues in television programmes. The Act extended the law on obscenity, incitement to racial hatred and defamation to broadcast programmes, including the BBC's.

4.18 With more services and greater choice available to audiences, the programme obligations placed on or undertaken by

the BBC might be relaxed. Alternatively, if the BBC has a special role in the range of broadcasting services, the programme obligations could be tightened. The range of the BBC programmes and services could be defined, since more services do not necessarily result in a wider choice of different types of programmes, if broadcasters are competing for audiences and for money. The BBC could be required to broadcast specified programmes or quotas could be set for the proportion of different types of programmes, although this would risk introducing a mechanistic approach without enhancing programme quality.

4.19 The BBC could be required to maintain high quality and specified standards in its programme production. There could be a code for programme standards, setting out how the requirements on taste, decency and due impartiality in the treatment of controversial issues were to be achieved and enforced.

4.20 However, there are risks in devising more stringent arrangements for enforcing programme obligations and standards. Closer regulation might open up more opportunities for political influence or control, so encroaching on the BBC's editorial independence. Moreover, the new framework could be too rigid to allow for change, so the BBC could not respond to the changing interests and needs of its audiences, and would be prevented from exploring new ideas for programmes. It would be a dull and timorous broadcasting service which did not adapt, experiment and provoke controversy.

Questions for the future

Should the BBC continue to broadcast a wide range of services appealing to all tastes and interests, or should it concentrate on information, education and minority interests, and programmes unlikely to be provided by other broadcasters?

Should the BBC broadcast a high proportion of programmes, to reflect the interests of people throughout the United Kingdom,

including programmes of special interest to audiences in Scotland, Wales and Northern Ireland?

Should the number of BBC television and radio services, including local radio, be changed?

Should the BBC continue to expand its services for audiences overseas?

What standards should the BBC be expected to meet in future in its programmes and services?

5. THE BBC'S FUNCTIONS AND ORGANISATION

5.1 Although the BBC is sometimes described as a monolith, it might better be regarded as a conglomerate. It has a multiplicity of functions. It commissions and schedules radio and television programmes; it makes radio and television programmes; it provides the studios, equipment and skilled staff to make programmes; it transmits programmes; it gathers news in this country and throughout the world; it provides educational services; it is a patron of the arts, employing writers, actors, musicians of all kinds and maintaining five orchestras; it undertakes social and technical research; it trains production and engineering staff; it publishes books and magazines; it sells its programmes to other broadcasting organisations and raises finance for co-productions; it makes available recorded versions of programmes, and supporting material, to the general public. If the BBC is to operate efficiently in future, these strands of activity may need to be disentangled and decisions taken whether all of them should continue to be provided by people employed by the BBC.

Programme-making

5.2 Making programmes for television and radio is seen by many people as the main purpose of the BBC's existence. But there are many stages before a programme reaches its audience and these processes do not have to be carried out within one organisation. The independent production initiative has required the BBC Television and ITV to ensure that at least 25% of their output comes from independent producers. More use is made by many broadcasting organisations of studios and other production facilities run by independent companies.

5.3 These developments are promoting greater efficiency and innovation and are being extended to radio. The proportion of independent productions could be increased. It would be possible for the BBC to produce the majority of its programmes but to buy more production facilities rather than providing them within the

BBC. Producer Choice, announced in 1991, will allow television producers to select either BBC or outside facilities for production. This arrangement could be developed further, with the BBC operating its own studios and facilities commercially, offering production capacity to other programme-makers. This could sustain a body of creative skilled staff, used to working together and making a variety of programmes. Other broadcasting functions might be privatised, contracted out or opened up to commercial tendering, so creating more competition in making programmes and providing services.

Patronage of the arts

5.4 Broadcasting can bring the arts to the public at large and the BBC has seen this as one of its public service broadcasting responsibilities. The BBC has been a major patron of the arts, providing work for many actors, musicians, composers and writers. It maintains five orchestras and organises and supports a wide range of artistic events. For more than 60 years, the BBC has made an immeasurable contribution to cultural developments in the United Kingdom. Some people have questioned whether this is a desirable use of the licence fee. More thought may need to be given to the focus of the BBC's patronage of the arts, and to co-ordinating it with other patronage to ensure the most effective use of available finance for musical and other cultural activities throughout the country. The co-operation between the BBC and the Welsh Arts Council in funding the BBC Welsh Symphony Orchestra is one example of collaboration and it may point a way forward for the future.

Transmission services

5.5 There could be changes in the BBC's transmission arrangements. At present, the BBC transmits its services, which reach over 99% of the population in the United Kingdom from sites it owns or leases, or shares under an agreement with National Transcommunications Ltd (NTL). The BBC shares with the

Independent Television Commission responsibility for a programme of building up to 25 relay stations a year to bring UHF television services to those who cannot yet receive them. In practice, only groups of more than 200 people benefit from the relay programme. For smaller groups, there are self-help schemes, and the BBC and ITC are responsible for giving advice about them. The BBC aims for similar high geographical coverage for its national radio services. Radio relay stations are typically built only for unserved pockets of more than 1,000 people, although about one million people have difficulty in receiving the BBC's national radio services on FM. Digital audio broadcasting should provide more reliable reception for radio services in future. Technical developments, such as digital transmission, are likely to require substantial new capital investment.

5.6 For historical reasons, the BBC's transmission system is intertwined with that developed by the IBA, and most UHF television sites cater for BBC1, BBC2, and Channels 3 and 4. BBC sites and masts are made available to other broadcasters, though the BBC does not provide transmission services for all of them. The Independent Broadcasting Authority's transmission network was privatised in 1991 and is now owned by NTL. The BBC's transmission network could be sold to the private sector, and the new company could compete for business in transmitting BBC and other services. There are other options: the BBC's transmission could be put out to tender.

Long-term investment in broadcasting

5.7 In the past, the BBC has made long-term investments in broadcasting which have been of benefit to all British broadcasters. Investment in people, in their skills and in technological development, is necessary to maintain and improve the quality of British broadcasting. Otherwise, it will become dependent on foreign talent, production skills and technology.

5.8 The BBC has nurtured writers, composers, comedians and

musicians of all kinds. It has trained journalists for broadcasting, production staff and engineers. People trained by the BBC have taken BBC standards of programme production into other organisations. In the last few years, the BBC has been providing training, as well as programmes, for broadcasting organisations in Eastern Europe and for other broadcasters unaccustomed to operating in a plural and democratic society.

5.9 In future, each broadcasting organisation, the BBC and those licensed by the Independent Television Commission, the Radio Authority, the independent production companies and the transmission organisations could be left to make their own arrangements for training. If there is sufficient demand, training could take place in a variety of institutions, particularly if the broadcasting organisations co-operate in helping educational establishments to provide courses. But this may not be sufficient to provide practical experience and to foster the creative and performing talents on which future programming will depend.

5.10 Broadcasting technology is changing rapidly. The BBC is involved at many stages, from research to helping the public to adjust to new technologies. The BBC's Engineering Research Department has had a leading role in the development of many broadcasting technologies, contributing to advances in production, transmission and reception. BBC engineers have been engaged in setting European and international technical standards for broadcasting and the BBC's contribution to international negotiations is the more effective because of its prestige as a long established public service broadcasting organisation.

5.11 To ensure the quality of broadcasting services is maintained, the BBC, if it continues to be the largest broadcasting organisation in the United Kingdom, could become the focus for long-term investment in broadcasting; this would be a part of its public service functions. It could have specific obligations to nurture talent and to provide training and research

both for its own purposes, and for other organisations for payment. Alternatively, the BBC's research and development could be privatised or contracted out with all development work undertaken by the private sector or by universities.

The BBC in a competitive world

5.12 The BBC will be operating in an increasingly competitive world, nationally and internationally. Broadcasting is becoming a global industry. A few companies are acquiring an increasing stake in broadcasting in a number of countries and more programme material is being produced for international audiences by companies with multi-national interests. Some services show few original programmes, relying heavily on films, material made for other broadcasters, and on recordings. These developments could reduce the range and diversity of programmes for audiences. Keeping the BBC as a major force in British broadcasting could ensure a sustained service of British programming for United Kingdom audiences, provide British programmes for sale to overseas broadcasting organisations, and support the BBC's own overseas broadcasting, particularly its coverage of news and current affairs.

5.13 In recent years, the BBC has been encouraged to become an entrepreneur. It has exploited its assets, selling programmes, publishing books, magazines and video and audio cassettes and other merchandise linked to its programmes. Most of this activity is carried out by BBC Enterprises Ltd and its subsidiaries and some competitors consider that they enjoy unfair advantages from the links with the BBC, such as promotion on BBC services.

5.14 These activities could be curtailed or they could be further expanded to generate more income for the BBC. They could be separated from the BBC and placed in the hands of other organisations who would pay a commercial price to the BBC for the use of its material, though this would reduce the BBC's control over the use of its assets. Increased secondary exploitation of

the BBC's assets by the BBC or by others must take account of United Kingdom and European Community competition law. It may be necessary to draw a clear line between the BBC's broadcasting activities and its other businesses with separate accounts.

Organisation and staff

5.15 How the BBC is organised in the future depends essentially on what services it is expected to provide, and how it is expected to provide them. So decisions on organisation and staff depend on the decisions on programmes and services, whether the BBC continues to engage in all aspects of broadcasting from commissioning programmes to transmitting them, and how many other activities will be carried out by the BBC.

5.16 Although the BBC has been reducing its staff, it remains a large organisation, employing more than 26,000 people in its United Kingdom and overseas services. It has been criticised for unnecessary bureaucracy and over-rigid structures for decision-making. It needs to be a slimmer, more flexible organisation, which can respond more quickly to changing circumstances. Not all its functions need be carried out by BBC employees. Like other large organisations, the BBC has a range of services which support its activities; they include personnel, financial and legal services, libraries, archives and research. At present, most of these services are provided within the BBC; in future, some of this work could be contracted out or could be included in a programme of market testing.

5.17 Improvements in organisation will be needed for those functions which continue to be carried out by the BBC. BBC managers are already trying to make more efficient use of resources through greater co-operation and co-ordination between the radio, television and World services, particularly in the coverage of news and current affairs. This reverses earlier moves towards greater separation between television and radio services. There may be other strands of programming where it would be an advantage for BBC specialist staff to be involved in radio,

television and overseas services. The BBC is introducing a new Education Directorate, linking television and radio programmes, and the associated publications and audio and video cassettes. Another possibility would be to separate commissioning and scheduling from the making of programmes, though keeping both within the BBC.

5.18 Any changes in organisation should continue to provide a framework to secure and support the BBC's editorial independence, but with clear lines of accountability for programme content. Senior staff take responsibility for meeting the BBC's programming obligations and should be able to ensure that the obligations are met in practice. Similarly, the managerial framework should provide clear lines of financial responsibility and accountability. If the BBC is spending the public's money, it must do so in ways which enable the public to see, and understand, how and why its money is being used.

Questions for the future

How many of its present functions should the BBC continue to carry out in future?

How can its organisation be improved to carry out these activities more effectively?

6. PAYING FOR THE BBC'S SERVICES

6.1 At present, the BBC's services in the United Kingdom are financed almost wholly from the licence fee; the World Service Radio is financed by grant from the Foreign and Commonwealth Office. BBC Enterprises, and a number of other subsidiary companies, including World Service Television, operate commercially, enabling the BBC to raise additional funds by exploiting its assets.

6.2 The BBC's income from the licence fee, less the cost of collecting it, was £1,393 million in 1991/92. Its income from other sources, including BBC Enterprises and grants from the Open University was £[] million. Over £1,000 million was spent on television services and £300 million on radio services, including local radio.

6.3 The way the BBC services are to be paid for cannot be divorced from the services and programmes which the BBC is expected to provide. Although various forms of primary finance are possible - the licence fee, taxation, advertising or subscription - the method chosen will have an impact on the programmes which the BBC broadcasts. Services financed by advertising have to provide programmes to attract the audiences the advertisers wish to reach. If broadcasters are competing for audiences and for finance, more services will not necessarily result in a wider choice of programmes for viewers and listeners. At present, all households watching UK television services are obliged by law to pay the licence fee and the BBC is required by its Charter to provide broadcasting services as public services. In practice, it caters for a wide range of tastes and interests in its programmes and competes for a sizeable share of television audiences - which can be seen as a justification for the licence fee.

6.4 If the public wishes the BBC to maintain the range of its programmes, and the quality of its production, then the BBC will

need to be provided with sufficient resources to achieve these objectives. On the other hand, if the public prefers to pay less for a narrower or less expensive range of programming, then the BBC should not be expected to continue its present level of services.

Changing the BBC's costs

6.5 The overall cost of the BBC will depend mainly on the range and nature of the programmes and services it is expected to broadcast in future. If the range of programmes and services or the mix of programmes is altered, then the costs will change. For example, the BBC could reduce costs by relying more heavily on feature films and foreign series in its television output, since these are some of the cheapest programmes, costing less than £40,000 an hour on average. In comparison, educational and children's programmes cost over £100,000 an hour and one hour's television drama costs about £481,000 on average. It would be possible to reduce the costs of radio services by relying more on records and reducing the output of current affairs, drama, features and documentaries. Local radio services cost the BBC over £50 million a year; so does Radio 3; Radio 2 costs £47 million a year. Removing any of these services would save about 4% of the BBC's income from the licence fee and the licence fee could be cut by £3; or some increase in the licence fee could be deferred for one year; or the money could be used for additional or improved television programmes. In short, the BBC could cut its costs by reducing the range and quality of its television and radio output and it could alter the balance of programmes it provides for a similar level of expenditure. In contrast, if the BBC had to broadcast a higher proportion of programmes for minority audiences, made to the present standards, its average costs would be increased. But whatever the range of programmes or services, the BBC should aim for sustained improvements in organisation and efficiency.

Paying for the BBC - licence fee

6.6 The BBC services have been paid for from a licence fee since 1927 and, so far, no-one has devised an obviously better system. The licence fee is readily understood. It guarantees the BBC a regular income and it preserves the arm's length relationship between the broadcasters and the Government. Since 1971, both BBC radio and television services have been funded by the television licence.

6.7 Since 1 April 1992, owners of colour television sets pay £80 and owners of black and white sets £26.50 for their licences. In 1991, the licence fee increase was held below the Retail Price Index. The Government intends to keep further increases until 1996 in line with the RPI, subject to a mid-term review of the BBC's progress with measures to improve efficiency and to generate revenue. Although there is concern about level of the fee, a 1990 study suggested that many people would be prepared to pay more for BBC services of high quality.

6.8 But the licence fee is an oddity. All television viewers are obliged to pay it, irrespective of whether they watch or like many BBC programmes. Black and white television set owners pay less, though they receive the same programmes. Listeners to BBC radio services are not charged. Rich and poor must pay the same. Payment is enforced through the criminal law but evasion is estimated at nearly 8%. This, combined with estimated hidden evasion by people who have a black and white licence but use a colour set, represents an annual loss of some £170 million in revenue to the BBC.

6.9 In 1991, the BBC became responsible for collecting the licence fee. It is pursuing a range of measures to reduce evasion, by identifying potential and actual evaders, and prosecuting them when necessary. At the same time, the BBC is encouraging people to buy a licence and promoting different methods of payment. For those who find a single annual amount

difficult, payments can be spread, with a choice of instalment schemes, or by buying television licence savings stamps.

6.10 Continuing to fund some BBC services by the licence fee need not mean keeping the present system unaltered. The House of Commons Home Affairs Select Committee recommended in 1988 that the offence of television licence fee evasion should be decriminalised and treated as a civil debt. Many viewers might welcome this but there would be enforcement difficulties. The BBC at present has no reliable means of identifying those who do not pay. It cannot prevent them receiving its services. So evasion and late payment could be expected to increase, forcing up the licence fee for honest viewers.

6.11 It would be possible to reduce the fee for those least able to pay or to increase charges to those with more than one set. But the cost of reductions would have to be met by a further increase in the overall licence fee or through taxation. Exempting those on income support would add £21 to the cost of a colour TV licence. A fee for individual sets would require more frequent access to households, with the necessary powers of entry, and, nevertheless, would increase evasion and enforcement and collection costs. One means of increasing licence revenue, or holding down future increases, would be to abolish black and white licences and require all viewers to pay a combined fee. This would also eliminate hidden evasion of the full colour fee. But since the number of monochrome sets is declining, the increase in revenue would not be substantial. It would also penalise some viewers who are less well off.

Paying for the BBC by taxation

6.12 There are other possible ways of paying for BBC's services, or some services. One possibility is from general taxation. The BBC provides services which benefit the public as a whole. Some people believe that the BBC should be paid for by those who can most afford to contribute to the well-being of the community, and

not by all households which use television, regardless of their income. But if the BBC were financed from income tax, it would need an increase of nearly a penny in the pound on the standard rate to produce the amount which is at present raised from the licence fee. General VAT rates would have to be raised by almost 1% in order to produce the same revenue.

6.13 The BBC's funding might be tied to a particular form of taxation, such as a sales tax on television sets and VCRs, or the revenue from taxing the services licensed by the Independent Television Commission. But these are unlikely to produce an income which is adequate or reliable enough for the BBC to plan ahead to produce good quality programmes. At least £300 would have to be added in sales tax to the price of a set to raise income equivalent to the licence fee.

6.14 The argument against funding the BBC from general taxation has been that it would make the BBC vulnerable to Government, or political, pressure on the content of programmes. This pressure would be more intense if the level of the BBC's income had to be agreed each year. The pressure might be reduced by providing money to the BBC through another body, such as a new Public Service Broadcasting Council, which would receive funds from the Exchequer. But the size of the BBC's grant, at its present level of expenditure, would far exceed the grants to any other organisation, and an intermediate body might not give effective protection. Another possibility would be to finance some of the BBC services, such as educational programmes, or some of its activities, such as the cost of maintaining the orchestras, through a Government grant. This would not reduce the licence fee significantly but it would not require all households, however poor, to contribute to these costs.

Advertising on BBC services

6.15 The possibility of advertising on the BBC services was examined closely by the Peacock Committee on Financing the BBC,

which reported in 1986. They commissioned a number of research studies, looked at the position in other countries and considered evidence from broadcasting organisations, advertisers and others. They concluded that BBC television should not take advertising. Most of them thought that Radios 1 and 2 could take advertising, but they should not remain BBC services. Funding Radios 1 and 2 exclusively by advertising would enable the licence fee to be reduced by £4 a year. If Radios 1 and 2, and local radio were privatised, and similar services were paid for by advertising, over £140 million of advertising revenue would be needed to run the services at present standards.

6.16 If the two BBC television services were to be financed entirely from advertising, then £1,000 million would need to be found. This is unlikely to be achieved if the advertising were concentrated in "blocks" between programmes a few times a day, and not broadcast before, during and after most programmes.

6.17 Sponsorship is another form of advertising limited to a statement in a programme that it is being financed by a particular organisation. This is less intrusive, but unlikely to provide sufficient revenue to finance more than a small proportion of programmes. There is, too, a risk that organisations which pay for programmes are more likely to want to influence their content, and sponsorship might be thought to be an unsuitable method of financing some kinds of programme. The EC Directive on Broadcasting already forbids sponsorship of news or current affairs programmes, but there may be other programmes, for example, educational programmes, which should not be sponsored.

6.18 Advertisements on BBC services would increase choice and competition for advertisers and could lower their costs. But the interests of the advertisers are not the same as those of the audiences or the broadcasting organisations. Some people are amused by broadcast advertising; others find it irritating or intrusive. Although the audiences for BBC services would be attractive to advertisers, many viewers prefer BBC services

because they do not include advertising.

6.19 Introducing advertising might alter the range and quality of BBC programmes. They would have to attract sufficiently large, or affluent, audiences to persuade advertisers to pay enough to cover the programme costs. The BBC might be under pressure to increase its audiences at the expense of programmes of interest to smaller, or poorer, audiences. Many of those who wrote to the Peacock Committee made it clear that they would consider a limited range of programmes to be a reduction in the quality of the services.

6.20 Advertising on BBC services would change the prospects of others who benefit from advertising revenue, particularly other broadcasters and the press. The Channel 3 licensees, and others licensed by the Independent Television Commission and the Radio Authority, would probably take the view that there should be changes in the method of assessing how much they pay each year to the Commission, the Authority and the Exchequer. If the BBC continued to be funded in part by the licence fee, other broadcasters might question whether the BBC was competing for advertising revenue on equal terms.

6.21 It would be possible, as the Peacock Committee proposed, for more services to take advertising, but to remove them from the BBC. This would reduce the risk that the BBC would be forced to restrict the range of its programmes in order to compete for advertising revenue with other services. But it does not answer the question of whether there would be sufficient potential revenue from advertising to sustain more services and what kind of programming could be afforded.

Subscription

6.22 The Peacock Committee concluded that, in the longer term, subscription should replace the licence fee as the main source of BBC finance. It could take several forms, ranging from a single

fee for all BBC services to paying to watch individual programmes.

6.23 One advantage of subscription is that it could make a direct link between the providers and users of the services. Unlike the licence fee, subscription need not oblige television set owners to pay the same amount regardless of how many programmes or services they use. A switch to subscription would require changes to receivers, and additional billing and other costs. Income at present lost through licence fee evasion might be regained, though evaders might decide not to subscribe to BBC services. The technology for encryption would have to keep ahead of pirate decoders. But if programmes or services were encrypted to ensure payment of the subscription, this would discourage people from sampling a wide range of programmes and could reduce the availability of programmes for those less able to pay. In 1987, a study commissioned by the Home Office recommended a gradual introduction of subscription television but not a wholesale immediate switch of existing services to subscription. More use could be made of the night hours to show premium film and other subscriber only services, so reducing the BBC's dependence on the licence fee. Other possibilities would be to continue broadcasting certain programmes in clear or to regulate subscription prices.

Mixed financing

6.24 There is no reason why all the BBC's services should be financed exclusively by the licence fee or by any other means. Already, the BBC obtains part of its income through BBC Enterprises, trading commercially, and BBC World Service radio is funded by Government grant. While some options, such as the licence fee or subscription, could finance BBC services as a whole, others, such as sponsorship or turning the BBC's existing transmission and other assets to account, could provide some supplementary financing. For as long as the BBC is partly paid for by the licence fee or through direct government funding, any arrangements for mixed financing would have to comply with United

Kingdom and EC competition law, if the BBC is providing services commercially and in competition with other organisations.

6.25 Experience in other countries suggests that there are difficulties combining a licence fee system with advertising. The arrangement may begin with advertisements confined to particular services and particular times of the day. But the pressure to reduce the licence fee, or other government expenditure, creates pressures for more advertising. This would be unwelcome to those who dislike advertisements. The greater the proportion of advertising revenue taken up by the BBC, the more serious the implications would be for Channels 3, 4 and 5, satellite television services and for independent radio and the press. A growing income from advertising or subscription finance would reduce the BBC's dependence on the licence fee but could result in changes in the range of programmes and the audiences able to receive them.

Value for money

6.26 Whatever the method of financing, the BBC needs to give value for money and to demonstrate that it is doing so. It needs to improve the efficiency of its activities each year, while maintaining the quality of its programmes.

6.27 The Government has urged the BBC to improve its efficiency. The decision to hold licence fee increases below the levels of inflation, as measured by the retail price index, has encouraged the BBC to look for ways of reducing its costs and of diverting funds from administration to programmes. The BBC's initiatives, "Producer Choice" and "Re-shaping for the Future", and its scrutiny of overheads, are all steps in this direction. Efficiency can also be improved through greater use of market testing and contracting out, by employing contract staff and by moving more BBC functions to areas where rents and costs are cheaper than in London.

6.28 The BBC needs to develop a range of output and performance measures and indicators to cover the efficiency of its activities, the quality of service it provides, audience reactions, and financial performance. These should include measures of the unit costs of various types of programme and utilisation rates of assets and facilities. The BBC could be required to propose and publish clear targets for a number of aspects of its performance and to report subsequently on how far they had been achieved in practice.

6.29 Clear objectives are essential in achieving value for money. As the BBC moves towards the 21st century, it will need well defined aims and duties if the public are to be able to judge whether it is efficient and effective.

Questions for the future

Should the BBC reduce its expenditure by cutting the range and quality of its programming and services?

Should the BBC continue to be financed by the licence fee in future?

If so, should any changes be made to present licence fee arrangements?

If not, how should it be financed?

How can the BBC become more efficient, so it gives better value for money in its services?

7. MAKING THE BBC ACCOUNTABLE

7.1 In the past, the BBC's functions, powers and obligations have been set out, in general terms, in the Charter and the Licence and Agreement; the interpretation has been left mainly to the BBC. This has had the advantage that the BBC has been able to evolve, as the interests and needs of its audiences have changed.

7.2 In future, the public should know what services the BBC is expected to provide, how it is expected to provide them and whether it is providing them efficiently. It is important that viewers and listeners, Parliament as their representatives, and the BBC itself should be clear what the BBC is expected to achieve, how it will be financed to meet its objectives and whether it has met them. On the other hand, to tie the BBC down too closely would inhibit innovation, in both programming and management. Moreover, subjecting the BBC to closer scrutiny by the Government and Parliament could encroach on its editorial independence. The aims and duties should be clear, but they should be set out in ways which are sufficiently flexible to allow for change and development. In particular, the BBC should be responsive to the views of its audiences about its services.

Keeping in touch with audiences

7.3 If public service broadcasting exists for the benefit of its audiences and aims to reflect and meet the audience's interests and needs, then it will be essential for the BBC to keep in close touch with the audiences for its services.

7.4 The BBC has assessed the size of its audiences, their appreciation of programmes and their appreciation of its services, both through regular audience research undertaken jointly with other broadcasting organisations, and through research into specific issues. In this way, it has been able to gauge the public's reaction to its programmes and services and the way new services have affected the audiences for the BBC. More recently,

the BBC has introduced an annual television programme, when the Chairman and Director General answer questions from studio audiences, and similar radio programmes, so listeners can speak to the Controllers of the national radio networks. These programmes provide opportunities for the BBC to explain what it is doing, and why, but they cannot open up a continuing dialogue with the public about the BBC's services.

7.5 If the BBC is given a new remit for its services, then new measures for audience reaction are likely to be needed. These could look at the purpose of individual programmes, the likely audience and the degree of audience appreciation. Small audiences are to be expected for minority interest or educational programmes, but their appreciation may be intense. Larger audiences are likely for sport, drama and light entertainment, but their judgement of the quality of the programme could be a factor in assessing its success. If BBC services continue to broadcast a wide range of programmes, which will appeal to most tastes and interests, then it would be essential to know whether most households use one or more of the BBC services in the course of an average week.

Advisory councils

7.6 One way the BBC has traditionally kept in touch with the public is through its Advisory Councils. There are [61] Advisory Councils, headed by the General Advisory Council, and including local radio councils and advisory councils on particular topics, such as religious broadcasting, science, agriculture and appeals for charities. In 1988, the House of Commons Home Affairs Select Committee recommended that the structure of Advisory Councils and Committees should be reviewed, with a view to reducing the amount of administrative work, and the expense. They pointed out that these bodies require a great deal of effort on the part of the BBC management and the cost was at least £0.5 million a year. The BBC subsequently reviewed its arrangements and made more changes and economies.

7.7 Even so, there are questions about the purpose, functions and number of these advisory bodies. At present, they are not suited to keep the BBC in touch with most of its audiences. If their main purpose is to give the BBC specialist advice, there may be other, more economic, ways of achieving this. But if the aim is to reflect views of radio and television audiences, the councils might be selected differently. The new councils could become the focus for wider public consultations, holding meetings in different parts of the country and seeking the views of audiences on both present programmes and future plans.

Scotland, Wales and Northern Ireland

7.8 At present, the Board of Governors includes National Governors for Scotland, Wales and Northern Ireland. They are selected for their knowledge of the culture, characteristics and affairs of the people living in those countries and are expected to keep in close touch with public opinion there. The BBC also has a National Broadcasting Council for each country, chaired by its National Governor. The Councils contribute to BBC policies on programmes to be broadcast in each country and advise the BBC on other issues which could affect the interests of the people in Scotland, Wales and Northern Ireland.

7.9 The special needs and interests of Scotland, Wales and Northern Ireland will need to be reflected in any new organisational structure for the BBC. The BBC services in the three countries could be given a large measure of autonomy. But this could well result in greater duplication of effort, in London, Glasgow, Cardiff and Belfast. Many people in these countries will want to see and hear the BBC's programmes broadcast on its main services. On the other hand, it is essential that there should be sufficient programmes for each country, which reflect its special needs and interests, and arrangements should be made for broadcasting in Welsh and Gaelic. The amount and the type of these programmes will need to be determined in the light of the views of the people living in each country. So there

should be arrangements to ensure that these views are known, either through a National Council or in some other way.

Role of the BBC Governors and Board of Management

7.10 For over 60 years, public service broadcasters in the United Kingdom have been made accountable through broadcasting authorities. The Governors of the BBC, and the members of other broadcasting authorities, have been appointed to act as trustees of the public interest in broadcasting. They have been responsible for ensuring that any obligations in the Charter, or in legislation, are fulfilled. The BBC Governors and the other authorities have approved codes of practice for programme-makers.

7.11 This need not be the pattern for the future. The Independent Television Commission and the Radio Authority will be regulating commercial television and radio with a lighter touch. The Broadcasting Standards Council and the Broadcasting Complaints Commission have been given specific roles by the Broadcasting Act 1990. The Commission considers complaints from people who believe they have been treated unfairly or unjustly in programmes or who believe there have been unwarranted infringements of their privacy. The Council considers more general questions of programme standards, particularly the portrayal of violence and sexual conduct in programmes and advertisements, and standards of taste and decency. The BSC is required to draw up and keep under review a code of practice covering the matters within its remit, and broadcasters then have a duty to reflect the code in their own codes and programme guidelines. The responsibilities of both the Commission and the Council extend to all services broadcast in the UK, including the BBC's.

7.12 At present, the BBC Board of Governors are responsible for ensuring that all the obligations in the BBC Charter and Licence and Agreement are met. All the Governors are part-time; the Chairman works four days a week and the others spend one or two days a week on BBC business. The Board of Management, led by the

Director General, are appointed by the Governors and are responsible to the Governors for the management of the BBC, its services and its staff. It is the Governors who take the strategic decisions. Through the appointment of senior managers and the endorsement of editorial guidelines, they establish the manner in which the BBC will be run, and the thrust of its programme policies. There are those who believe that the Governors have been drawn too closely into the management of the BBC. On the other hand, others think that the Governors and the Board of Management could be merged, with the Governors becoming non-executive directors.

7.13 If there are to be Governors in future, they could be given a clearer remit than they have now. Their function would need to be distinguished from those of other broadcasting organisations, such as the Broadcasting Standards Council. The Governors need not become involved in detailed management, although they could continue to appoint the most senior staff of the Corporation. One possibility would be to give them a special responsibility for finding out the public's views of the BBC's services, for ensuring that the BBC managers are responsive to these views, and that the BBC's programme obligations are met. They might have a role in setting the targets for improved efficiency and monitoring whether the targets had been met. It has been suggested that the Governors should be elected from audiences, particularly those who watch or listen regularly to the BBC's services. But this might result in confused responsibilities between the Governors, as representatives of the BBC audiences, and Parliament and the Government, representing the general public.

A public service broadcasting council

7.14 It has been proposed that there should in future be a Public Service Broadcasting Council or Authority, to promote public service broadcasting. It would be responsible for financing public service broadcasting; it would receive the proceeds of the licence fee and any other sources of finance, and

would provide funds to the BBC and for other public service channels or programmes. It would be responsible for ensuring value for money for the services and programmes, which it financed. The Peacock Committee believed one of its purposes should be to ensure separate and secure funding for programmes of merit which would be unlikely to be broadcast if a number of channels, including the BBC, were competing for audiences and for finance. This would ensure diversity in the range of programmes. However, there would be a risk that such a council could develop into what the Peacock Committee described as a cultural dictatorship. It would be tempting for such a body, holding the purse-strings to sizeable resources, to try to impose its own views on programmes on all broadcasters, and more difficult for broadcasters to keep their editorial independence. A council on these lines might well inhibit diversity in programme content and styles.

7.15 If such a Council were established, with a remit which embraced all broadcasting services, it could take over some of the functions now carried out by the Broadcasting Standards Council and the Broadcasting Complaints Commission, and its relationship with other broadcasting authorities would need to be clearly defined.

Government responsibilities

7.16 Although Governments in Britain have never tried to exercise detailed control over broadcasting services in the United Kingdom, the Government has, and will keep, some responsibilities for broadcasting services. A major, though infrequent, responsibility is to put proposals to Parliament for the legal framework for broadcasting services and for the way they should be financed. In 1981, the framework was set in the BBC's Charter and in the Broadcasting Act 1981. The Broadcasting Act 1990 has set the future framework for commercial, cable and satellite services. This was the culmination of several years' consultation and debate. The discussion about the future framework for the BBC is

just beginning.

7.17 Once the framework has been designed, and approved by Parliament, the Government decides who will be responsible for making sure that the terms of the framework are observed by appointing the members of the broadcasting authorities. The Government also has reserve powers. If the BBC fell consistently short of meeting its legal obligations, the Government could remove the Governors. The Government has the power to require any broadcasting service to make public announcements; this may be essential during an emergency. The Government also has powers to require a broadcasting organisation, including the BBC, not to include particular material in its programmes. This power has rarely been used; the most recent use was in 1988 to require services not to include direct statements by Northern Ireland terrorist organisations and their apologists.

7.18 Ministers are answerable to Parliament for the way they carry out their responsibilities, but not for the management of the BBC nor for the content of BBC programmes. A new framework could increase or reduce Ministers' powers. For example, Ministers could have powers to impose a range of sanctions if the BBC's objectives, obligations or performance targets were not met.

Accountability to Parliament

7.19 Any issue of public concern or interest is likely to be raised in Parliament. Although the BBC has been established by Royal Charter, and not by legislation, it has been accountable to Parliament. In the past, there have been debates in both Houses of Parliament before a new Royal Charter has been granted. Even though Ministers have not been answerable for the content of individual programmes or the day-to-day management of the BBC, controversial programmes have resulted in Parliamentary debates or questions. Select Committees have scrutinised more closely the financing and management of the BBC.

7.20 If the BBC continues as a public service broadcasting organisation, and particularly if it continues to be financed from public funds, then it will remain accountable to Parliament. However, the degree of accountability could be increased or lightened. It would be possible, for example, to have a Sub-Committee of a Select Committee to monitor public service broadcasting continuously and it has been suggested that the appointment of Governors should be made on the recommendation of a committee of Privy Councillors or should be subject to Parliamentary approval. Both could increase political influence on programme content.

7.21 To many, the present arrangements for accountability seem haphazard and incoherent. It may be desirable to distinguish more clearly between the actions of Ministers, for which they would always be answerable, and the activities of the BBC. There could be arrangements for regular, but not continuous, Parliamentary examination of the BBC's programming and financial objectives and how far it had met them, so calling Ministers and the BBC to account for their different responsibilities. In this way, Parliament, representing the public, could ensure that the public throughout the United Kingdom were getting what they wanted from the BBC at a price they could afford.

Questions for the future

Should the BBC have clearly stated objectives and publish results showing how far it has met them?

Should changes be made in the way the BBC keeps in touch with its audiences?

How should the interests of audiences in Scotland, Wales and Northern Ireland be represented?

Should changes be made in the functions of the Governors and the BBC Board of Management?

Should there be a public service broadcasting council to promote and finance public service broadcasting by the BBC and other services?

Should the Government be able to impose sanctions on the BBC if its objectives are not met?

Should there be improved arrangements for regular Parliamentary scrutiny of the BBC's objectives and how far the BBC has met them?

SUMMARY OF QUESTIONS

Public service broadcasting

1. What should be the objectives of public service broadcasting in the future?

BBC programmes and services

2. Should the BBC continue to broadcast a wide range of services appealing to all tastes and interests, or should it concentrate on information, education and minority interests, and programmes unlikely to be provided by other broadcasters?

3. Should the BBC broadcast a high proportion of programmes, to reflect the interests of people throughout the United Kingdom, including programmes of special interest to audiences in Scotland, Wales and Northern Ireland?

4. Should the number of BBC television and radio services, including local radio, be changed?

5. Should the BBC continue to expand its services for audiences overseas?

6. What standards should the BBC be expected to meet in future in its programmes and services?

BBC functions and organisation

7. How many of its present functions should the BBC continue to carry out in future?

8. How can its organisation be improved to carry out these activities more effectively?

Paying for the BBC's services

9. Should the BBC reduce its expenditure by cutting the range and quality of its programmes and services?
10. Should the BBC continue to be financed by the licence fee in future?
11. If so, should any changes be made to present licence fee arrangements?
12. If not, how should the BBC be financed?
13. How can the BBC become more efficient, so it gives better value for money in its services?

Making the BBC accountable

14. Should changes be made in the way the BBC keeps in touch with its audiences?
15. How should the interests of audiences in Scotland, Wales and Northern Ireland be represented?
16. Should changes be made in the functions of the Governors and the BBC Board of Management?
17. Should there be a public service broadcasting council to promote and finance public service broadcasting by the BBC and other services?
18. Should the BBC have clearly stated objectives, and publish results showing how far it has met them?
19. Should the Government be able to impose sanctions on the BBC if its objectives are not met?

20. Should there be improved arrangements for regular Parliamentary scrutiny of the BBC's objectives and how far the BBC has met them?

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 August 1992

I am writing to confirm that the Prime Minister will chair a meeting on the Future of Broadcasting on Thursday, 3 September, at 1430 until approximately 1615. Because of work being carried out at 10 Downing Street, it will be held at Admiralty House.

Copies of this letter are being sent to the Offices of the Chancellor of the Exchequer, President of the Board of Trade, Home Secretary, Secretary of State for Education, and Mr. Lennox-Boyd (Foreign and Commonwealth Office), all of whom have been invited to attend the meeting.

MISS SANDRA PHILLIPS

Gwyn Owens, Esq.,
Department of National Heritage.

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*Di: 1-2 to
c/D/Owens*

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FILE

Home/BBC - KK



10 DOWNING STREET

LONDON SW1A 2AA

3 August 1992

From the Private Secretary

FUTURE OF THE BBC

The Prime Minister was grateful for an early sight of sections of your Secretary of State's draft discussion document on the BBC.

The Prime Minister broadly agrees with your Secretary of State's approach, in particular that the Government should open the debate with an assumption that public service broadcasting should continue and that the BBC should continue. However, he believes that the document should not rule out radical solutions to the provision and financing of public service broadcasting. He has suggested a number of key issues, beyond those mentioned in the draft, which he should like to be considered. A list of these is attached.

I imagine that your Secretary of State intended to work up the discussion document for agreement among Ministers. The Prime Minister has asked if a more general discussion could first be held, at which the issues to be included or not included in the consultation exercise can be considered. The meeting will need to include the Prime Minister, the Foreign Secretary, the Chancellor, the Home Secretary, the President of the Board of Trade and the Secretary of State for Education in addition to your Secretary of State. It will need to be held some time in September and the Prime Minister should be grateful if your Secretary of State could prepare a paper for discussion.

I am copying this letter to Sonia Phippard (Cabinet Office) only.

MARK ADAMS

Nicholas Holgate, Esq.,
Department of National Heritage.

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ADDITIONAL ISSUES FOR CONSIDERATION

- 1) Does the BBC need its existing number of TV and (especially) radio Channels to fulfil its public service obligations?
- 2) What commercial opportunities are open to the BBC which would allow it to generate more of its own income (and therefore protect its editorial independence?)
- 3) If the BBC's audience share declines as more channels become available, should the licence fee income necessarily remain exclusive to the BBC, or could it support public service broadcasting more generally?
- 4) How can the BBC expand its world-wide role, especially in television.
- 5) What incentives should there be for the BBC to become more efficient?
- 6) What long-term role is best for the BBC, in an increasingly diverse broadcasting environment?

Prime Minister

The most important section from the attached draft consultation paper is the 'key issues' on pages 3 and 4. As Damien suggests below, the draft is most cautious, and DNH problem need their resolve stiffening. Contact to pursue the points raised by Damien?

July 27th, 1992

PRIME MINISTER

cc Mrs Hogg

[Signature]
28/7

Damien/Alex
Two points
(1) Contact with you suggestions
Pl. Good to DNH

THE FUTURE OF THE BBC

(2) I'd like a mtg attended by Mr. Charles, Alex, Peter, Louisa to discuss all this on the basis of a paper by (attached) David Mellor.

DNH have sent you their draft discussion document on the future of the BBC, asking if you are happy with their approach, and their list of key issues.

In early Sept, 7th Oct.
Pl. advice v.v.o.
2-8.

The DNH proposals are, at this stage, rather thin and over-cautious. They are rightly concerned not to involve the Government in any conflict with the BBC at the early stages of consultation, but have over-compensated, and are in danger of producing a damp squib which ignores some of the key issues, and assumes that the status quo will continue with only minor changes. To send this message at the initial stages of consultation would, among other things, undermine those within the BBC who are working for a more efficient and stable organisation.

RECOMMENDATIONS

✓
agree

I suggest you write to the Heritage Secretary, agreeing that the Government should open the debate assuming that public service broadcasting should continue, and that an organisation called the BBC should continue. But you should stress that within those bounds, the document should not rule out radical solutions to the provision of public service broadcasting, and its financing.

In particular, among the key questions which the existing draft does not address, you may wish the paper to consider:

- ✓ 1) Does the BBC need its existing number of TV and (especially) radio Channels to fulfil its public service obligations?
- ✓ 2) What commercial opportunities are open to the BBC which would allow it to generate more of its own income (and therefore protect its editorial independence?).
- ✓ 3) If the BBC's audience share declines as more channels become available, should the licence fee income necessarily remain exclusive to the BBC, or could it support public service broadcasting more generally?
- ✓ 4) How can the BBC expand its world-wide role, especially in television?
- ✓ 5) What incentives should there be for the BBC to become more efficient?
- ✓ 6) What long-term role is best for the BBC, in an increasingly diverse broadcasting environment?

I suggest the tone of the document should be positive about the achievements of the BBC, while rigorously questioning its future scope and purpose. You may wish to guide DNH along these lines.

D. G.

DAMIAN GREEN

023.dg



DEPARTMENT OF NATIONAL HERITAGE
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From the Private Secretary

C92/4591

A C S Allan Esq
Principal Private Secretary
10 Downing Street
LONDON
SW1A 2AA

23 July 1992

Dear Alex,

FUTURE OF THE BBC

My Secretary of State has been considering the Manifesto commitment to issue a consultation document later this year about the future of the BBC, bearing in mind its public service responsibilities. He has substantially revised the draft consultation paper prepared in the Home Office earlier in the year and sent to the Prime Minister before the General Election.

2. My Secretary of State is anxious that there should be a considered and civilised debate about the future of the BBC, which paves the way for development of clear policies about its future role in United Kingdom broadcasting and takes account of its worldwide reputation. In recent weeks, many people have stressed to him how important the BBC is both in the cultural life of the nation and in maintaining a place for high quality British programmes in what is becoming a world market for broadcast programmes. But there are changes which need to be made, most obviously in the BBC's organisation and the arrangements for its accountability. He is pleased to note that the BBC are already thinking on these lines themselves and will, no doubt, make a positive contribution to the public debate.

3. He believes that the Government should open the debate assuming that there shall continue to be public service broadcasting in some form, and that there will be an organisation called the BBC. Some people may not share these assumptions and they can say so. But if we open the debate too widely, much of the argument is likely to be over-heated and unproductive. The BBC, and possibly the Government, would be forced on to the defensive, which would not be helpful.

... 4. I attach a copy of the early sections of the draft discussion document. Section 2 sets out the key issues, which are explored in more detail in the following sections. At this stage, the document has been worked on within the Department along the lines to which my Secretary of State earlier gave approval. Before it is taken further, he should be glad to know if the Prime Minister is happy with the way he proposes to approach this important policy issue, which affects the daily lives of so many people throughout the country.

Yours ever,

Nicholas

N I HOLGATE
Private Secretary

THE FUTURE OF THE BBC

AN AGENDA FOR DEBATE

Foreword

Every day throughout the United Kingdom, millions of people switch on their television and radio sets to watch or listen for pleasure and for information. There is now a greater choice of programmes for viewers and listeners than ever before. During the last 10 years, the Government has opened up opportunities for more services; it has encouraged new types of services and new ways of transmitting programmes. Many more programme services are available in this country and abroad. Our aim is to ensure that advances in technology yield diversity in broadcasting.

How should the BBC contribute to this diversity? For over 60 years, the BBC has typified public service broadcasting. Its programmes are enjoyed, admired and respected all over the world. In this country, there are few people whose lives have not been brightened and enriched by BBC programmes. In many ways, the BBC has both embodied and communicated our national heritage.

In 1996, the BBC's present Charter comes to an end. This gives us all an opportunity to consider its future. The shape of broadcasting is changing in this country and throughout Europe, and there are changes in people's lifestyles, in education and the arts, and in commerce and industry. Through the Citizen's Charter, the Government is introducing new measures to improve the quality of public services.

The BBC cannot remain unchanged in a changing world. So there are fundamental questions to be asked about what the BBC should do, and how it should be financed and organised.

What kind of programmes and services should the BBC provide and how should they be paid for? How can we make sure the BBC does not waste money? How should we make the BBC accountable for what it does? How can we ensure diversity and choice for audiences?

These are questions which need answers from viewers and listeners, as well as broadcasters and politicians. I hope many viewers and listeners will join in the debate about the future of the BBC. At this stage, the Government will listen to the arguments and weigh them, before deciding what proposals to put forward.

DAVID MELLOR

1. FUTURE ROLE OF THE BBC

1.1 In 1996, the BBC's Royal Charter will expire. This is an opportunity to consider what services the BBC should provide in the future and how it should be organised and financed to provide these services efficiently. We need to look at the role and objectives of the BBC in the years ahead and we should be ready to contemplate radical changes in the way the BBC operates. But any changes must be based on a clear view of the place of public service broadcasting in the 21st century.

1.2 The BBC cannot continue as if nothing had changed since 1981, when it was granted its present Charter. In the last 10 years, many large companies, providing all kinds of services, have had to change their objectives and to re-organise in order to meet their customers' needs at competitive prices. So have other broadcasters. The Broadcasting Act 1990 created a new statutory framework for commercial television and radio, and for local, cable and satellite services, with the aim of increasing the number of services and the choices for audiences. Against this background, the role, functions and organisation of the BBC are bound to change too.

1.3 The range and quality of the BBC's radio and television programmes, and its technical excellence, have received worldwide recognition. But there has been criticism of BBC programmes for offending public taste and feelings, for bias, and for excessive costs. Some people think the BBC is unresponsive to criticism, that it tries to carry out too many activities, and that it has too many staff. The BBC has taken steps to improve its efficiency and to adapt to changing circumstances. At a cost of about 22 pence a day for each licensed household, it provides two television channels and five national radio services, as well as local radio.

1.4 The BBC has special responsibilities for public service broadcasting in the United Kingdom. But this does not mean that

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the BBC has to broadcast the same range of services or programmes in the future, nor that it must continue to be financed, organised and managed as it is now.

1.5 This paper is published to provide a framework for a debate about the future of the BBC. The Government invites comments and ideas from viewers and listeners, and from organisations with a particular interest in broadcasting policy. In particular, it would welcome answers to all, or any, of the questions asked in this paper.

Comments and replies should be sent to:

2.1 The debate about the BBC's future should range widely but there are likely to be a few key issues.

What should be the aims of public service broadcasting in the future?

2.2 Public service broadcasting does not have to be provided by a public authority nor to be financed from public funds. What are the objectives or features which distinguish public service broadcasting from other forms of broadcasting?

What kind of programmes and services should the BBC provide?

2.3 At present, the BBC is expected to broadcast programmes of information, entertainment and education. Should it continue to provide a wide range of programmes, or should it concentrate on the kind of programmes which are unlikely to be made by other broadcasters?

What functions should the BBC carry out in future?

2.4 The BBC makes, commissions and schedules programmes and transmits them. It has a range of other activities, including patronage of the arts, providing education services, research and development, training and publishing. How many of these functions should be the responsibility of people employed by the BBC? Can the BBC's organisation, staffing and use of resources be improved to carry out its functions more efficiently and economically?

How should the BBC programmes and services be paid for?

2.5 The BBC's services in the United Kingdom are paid for from the television licence fee. Should this continue to be the main source of the BBC's funds or should its services be paid for in whole or in part in other ways, such as advertising, sponsorship,

taxation or subscription?

How can the BBC be made more accountable while keeping its editorial independence?

2.6 Traditionally, Governments have not intervened in decisions about programmes nor in the day-to-day management of the BBC. But if the BBC is to continue as a public service broadcaster, there should be ways of ensuring that the BBC is responsive to its audiences, accountable for the services it provides and that it is efficient and gives value for money. Can a better framework be designed to achieve this without diluting the BBC's editorial independence?

Need for coherent policy

2.7 All these issues are interlocked. Decisions about BBC programmes, services, functions, organisation, finance and accountability need to be seen as part of a coherent policy both for the BBC and for broadcasting. It will be essential to take account of the impact of any decisions on other broadcasting organisations and on the diversity and choice of programmes and services for viewers and listeners.

DRAFT OF 15.7.92

THE FUTURE OF THE BBC

AN AGENDA FOR DEBATE

Foreword

Every day throughout the United Kingdom, millions of people switch on their television and radio sets to watch or listen for pleasure and for information. There is now a greater choice of programmes for viewers and listeners than ever before. During the last 10 years, the Government has opened up opportunities for more services; it has encouraged new types of services and new ways of transmitting programmes. Many more programme services are available in this country and abroad. Our aim is to ensure that advances in technology yield diversity in broadcasting.

How should the BBC contribute to this diversity? For over 60 years, the BBC has typified public service broadcasting. Its programmes are enjoyed, admired and respected all over the world. In this country, there are few people whose lives have not been brightened and enriched by BBC programmes. In many ways, the BBC has both embodied and communicated our national heritage.

In 1996, the BBC's present Charter comes to an end. This gives us all an opportunity to consider its future. The shape of broadcasting is changing in this country and throughout Europe, and there are changes in people's lifestyles, in education and the arts, and in commerce and industry. Through the Citizen's Charter, the Government is introducing new measures to improve the quality of public services.

The BBC cannot remain unchanged in a changing world. So there are fundamental questions to be asked about what the BBC should do, and how it should be financed and organised.

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What kind of programmes and services should the BBC provide and how should they be paid for? How can we make sure the BBC does not waste money? How should we make the BBC accountable for what it does? How can we ensure diversity and choice for audiences?

These are questions which need answers from viewers and listeners, as well as broadcasters and politicians. I hope many viewers and listeners will join in the debate about the future of the BBC. At this stage, the Government will listen to the arguments and weigh them, before deciding what proposals to put forward.

DAVID MELLOR

1. FUTURE ROLE OF THE BBC

1.1 In 1996, the BBC's Royal Charter will expire. This is an opportunity to consider what services the BBC should provide in the future and how it should be organised and financed to provide these services efficiently. We need to look at the role and objectives of the BBC in the years ahead and we should be ready to contemplate radical changes in the way the BBC operates. But any changes must be based on a clear view of the place of public service broadcasting in the 21st century.

1.2 The BBC cannot continue as if nothing had changed since 1981, when it was granted its present Charter. In the last 10 years, many large companies, providing all kinds of services, have had to change their objectives and to re-organise in order to meet their customers' needs at competitive prices. So have other broadcasters. The Broadcasting Act 1990 created a new statutory framework for commercial television and radio, and for local, cable and satellite services, with the aim of increasing the number of services and the choices for audiences. Against this background, the role, functions and organisation of the BBC are bound to change too.

1.3 The range and quality of the BBC's radio and television programmes, and its technical excellence, have received worldwide recognition. But there has been criticism of BBC programmes for offending public taste and feelings, for bias, and for excessive costs. Some people think the BBC is unresponsive to criticism, that it tries to carry out too many activities, and that it has too many staff. The BBC has taken steps to improve its efficiency and to adapt to changing circumstances. At a cost of about 22 pence a day for each licensed household, it provides two television channels and five national radio services, as well as local radio.

1.4 The BBC has special responsibilities for public service broadcasting in the United Kingdom. But this does not mean that

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the BBC has to broadcast the same range of services or programmes in the future, nor that it must continue to be financed, organised and managed as it is now.

1.5 This paper is published to provide a framework for a debate about the future of the BBC. The Government invites comments and ideas from viewers and listeners, and from organisations with a particular interest in broadcasting policy. In particular, it would welcome answers to all, or any, of the questions asked in this paper.

Comments and replies should be sent to:

2. KEY ISSUES

2.1 The debate about the BBC's future should range widely but there are likely to be a few key issues.

What should be the aims of public service broadcasting in the future?

2.2 Public service broadcasting does not have to be provided by a public authority nor to be financed from public funds. What are the objectives or features which distinguish public service broadcasting from other forms of broadcasting?

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2.5 The BBC's services in the United Kingdom are paid for from the television licence fee. Should this continue to be the main source of the BBC's funds or should its services be paid for in whole or in part in other ways, such as advertising, sponsorship,

taxation or subscription?

How can the BBC be made more accountable while keeping its editorial independence?

2.6 Traditionally, Governments have not intervened in decisions about programmes nor in the day-to-day management of the BBC. But if the BBC is to continue as a public service broadcaster, there should be ways of ensuring that the BBC is responsive to its audiences, accountable for the services it provides and that it is efficient and gives value for money. Can a better framework be designed to achieve this without diluting the BBC's editorial independence?

Need for coherent policy

2.7 All these issues are interlocked. Decisions about BBC programmes, services, functions, organisation, finance and accountability need to be seen as part of a coherent policy both for the BBC and for broadcasting. It will be essential to take account of the impact of any decisions on other broadcasting organisations and on the diversity and choice of programmes and services for viewers and listeners.

3. PUBLIC SERVICE BROADCASTING

3.1 Broadcasting through public service authorities has been founded on the belief that a scarce public asset, the broadcasting frequencies, should be used for the benefit of the public as a whole, to provide services which combine information, education and entertainment. Since 1927, the BBC has operated as a public service; other public broadcasting services have been provided by the Independent Television Authority, and then by the Independent Broadcasting Authority. They have competed in providing a wide range of high quality programming but not for finance. Their services have been received throughout the country and have given people a source of shared experience and interest.

Evolution of public service broadcasting

3.2 There are many forms of public service broadcasting in different parts of the world. They reflect the different constitutional, legal and cultural traditions in different countries. In this country, public service broadcasting has evolved out of a system devised for a radio service to include television, and services financed by advertising. Public service broadcasting is not static: its purpose and focus can be adapted to suit new circumstances.

3.3 Public service broadcasting is still evolving. In the last 65 years, the BBC's interpretation of its public service responsibilities has changed and it is preparing its own proposals for the years ahead. The Broadcasting Act 1981 required the Independent Broadcasting Authority to ensure that all its services provided information, education and entertainment, and that the programmes maintained a high general standard in all respects and a proper balance and wide range in their subject matter.

3.4 The Broadcasting Act 1990 creates a new pattern for broadcasting, and opens the way for many more services. The Act sets out standards of taste, decency, accuracy and due

impartiality for all services licensed by the Independent Television Commission and the Radio Authority. Channels 3 and 5 will have to meet requirements on programme quality and to provide some programmes of information and education. But most services will be regulated more lightly than in the past. From 1993, only the BBC and Channel 4 will continue to be required to broadcast programmes as public services, although other channels and services will continue to have some public service obligations.

3.5 Throughout the United Kingdom, Channel 4 programmes will have to provide information, education and entertainment, and to cover a wide range of subject matter. Channel 4 in most of the United Kingdom will have to ensure that some programmes are likely to appeal to tastes and interests not catered for by Channel 3, and to encourage innovation and experiment in the form and content of programmes. In Wales, S4C has to ensure that a substantial proportion of its programmes are in Welsh.

New directions for public service broadcasting

3.6 The original justification for public service broadcasting - that a small number of services should be used for the benefit of the public as a whole - no longer exists. More services and greater choice have been made possible by developments in technology. With scientific advances, the frequency spectrum can be used more intensively. Programmes are being transmitted by satellite and by cable. So viewers and listeners have a wider choice of programmes and services, which should increase further in the years ahead.

3.7 In these circumstances, some people believe public service broadcasting is an idea which has had its day; the public will be well served by the growing number, and diversity, of television and radio channels. Others believe that there will continue to be a role for public service broadcasting, to ensure that certain types of programme continue to be available or to sustain in some services the values developed by successive generations of public

service broadcasters. They regard public service broadcasting as an approach to broadcasting, which influences the choice of programme subjects, and how programmes are made and scheduled, as well as the scope of the services. They believe that public service broadcasting consists of more than the provision of particular kinds of programmes, mainly for minority audiences.

3.8 With more services, there may be less need in future for a single service to reach most homes and offer a range of programmes. Each television channel or radio station could concentrate on a single type of programme, likely to appeal to people of a particular age group or with particular tastes or interests. There could be special channels for children or elderly people, or for news or education. More services could be provided for minority groups, including ethnic minorities. Most radio services are already designed to appeal to limited audiences; television services could move in the same direction. Increasingly, new services may cater for special tastes or interests.

3.9 As the number of services increases, so it is likely that the audience for them will be fragmented. Many people use audio and video cassettes; they are less dependent on broadcast programmes for entertainment, education, or information. They record broadcast programmes for future use. The audience for each programme and service in future is likely to be smaller than in the past. Even so, each service may be used by many households at some time.

3.10 If public service broadcasting is to continue in the 21st century, what will be its objectives and how will it differ from other forms of broadcasting? It may be possible to determine the ingredients which should be combined in any new objectives for public service broadcasting in the future, recognising that some of them may be shared, to some extent, by other broadcasters. Here are some possibilities:

- Focus on the audience. Public service broadcasting should be provided for the benefit of viewers and listeners. The audiences should take priority over other possible interests, the broadcasters, advertisers, shareholders or political parties.

- Quality. The Government aims to promote quality in all public services. Quality in broadcasting is difficult to define and can be achieved in different ways and in all kinds of programmes, in light entertainment or sports coverage, as well as news, documentaries and drama.

- Diversity and choice. A wide range of programmes can be achieved on one service or through a multiplicity of services. In the past, public service broadcasting has included all types of programmes, entertainment, information and education, and programmes which appeal to large audiences and those for minority audiences. Public service broadcasters have introduced experiments in programming. They have broadened the horizons of many viewers and listeners and encouraged new interests. With more entertainment services available to audiences, public service broadcasters could be required to concentrate on programmes which inform and educate, including news and current affairs, and to cut back the proportion of entertainment programmes. However, reducing entertainment and popular programmes would conflict with an objective of accessibility.

- Accessibility. There are two forms of accessibility: geographical coverage of services and broadcasting programmes which many people find enjoyable and interesting. Public service broadcasters have planned both to reach people throughout the country and to broadcast programmes which appeal to people with a wide range of tastes and interests, of different ages and

backgrounds and living in all parts of the country. This contrasts with services which cannot be received throughout the country or which are available only to those who pay more for them; both limit the opportunities for people to explore a diverse range of programmes.

- Editorial independence. It has been an essential feature of public service broadcasting in this country that decisions about programmes have been taken by broadcasters or broadcasting authorities, not by the Government or other interest groups. Editorial independence enables broadcasters to resist pressures from those who wish to manipulate audiences for their own purposes, but it carries the risk that broadcasters may become self-indulgent and unresponsive to public criticism.
- Efficiency and value for money. All public services, whether or not they are financed from public funds, should be efficient and give value for money in the services they provide.
- Accountability. Public service broadcasters should be held to account for what they do. They should be clear about their objectives, the services they are expected to provide and the standards they are expected to meet. If services are paid for from public funds, there should be ways of ensuring public money is used effectively and is not wasted.
- National identity. Public service broadcasters have taken the view that they should reflect the national interests and cultural traditions of their audiences. They can create a sense of community. They can ensure that national occasions can be seen and heard by the majority of the population. They can promote better

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understanding of current events in the United Kingdom, in Europe and throughout the world, and greater participation in the processes of Parliamentary democracy through news and current affairs programmes. They can celebrate and enhance the national heritage and encourage people to enjoy it.

Question for the future

What should be the objectives of public service broadcasting in the future?

4. BBC PROGRAMMES AND SERVICES

4.1 If the BBC is to continue to be the main public service broadcaster in the United Kingdom, the objectives of public service broadcasting will have to be built into its future plans, programmes and finances. There should be a coherent framework for the range of the programmes which the BBC will be expected to provide, the number of its services, the way the programmes and services are paid for, the extent of the BBC's other activities, the way it is organised, and the arrangements for editorial decisions, and for public accountability both for programmes and value for money. It is the Government's responsibility to see that such a framework is in place by 1997.

4.2 Any debate about the future of the BBC must begin by considering the programmes and services which it should provide. The traditional public service broadcasting view has been that the best programmes are likely to combine information, education and entertainment, so giving people pleasure and extending their interests and knowledge. Programmes can present information in an entertaining way: information can be given by characters in a soap opera; a political discussion can include jokes.

4.3 The BBC has aimed at high standards in its programmes. It has acknowledged that good programming needs creative ideas, accurate information and high technical standards in production and transmission and depends on the skills of many people, producers and editors, writers, actors, musicians, journalists, designers, camera crews, engineers, and those who make the sets or costumes, put on the make-up or devise special effects. Quality in programming is achieved by talent and effort, not just by expenditure.

BBC programmes for audiences in the United Kingdom

4.4 At present, in the United Kingdom, the BBC broadcasts a wide range of programmes on its two television channels. The five

national radio services are aimed at different audiences, but together have a similarly wide range of programmes. Over 90% of the population watch some BBC television programmes and about 60% listen to BBC radio in the course of a week.

4.5 With the greater choice now available to viewers and listeners, the BBC could concentrate in future on providing news and current affairs, and programmes which are unlikely to be broadcast by other organisations. The BBC would broadcast few general entertainment programmes but more programmes for minority audiences, so increasing the overall diversity and choice of broadcast programmes for viewers and listeners. It could extend its coverage of the arts, of science and religion. It could broadcast more programmes made in other European countries. The BBC might be required to produce more educational programmes and programmes for minorities of all kinds, including ethnic minorities and people with special interests, for children and elderly people, and programmes and services for those with disabilities. However, if the aim is to encourage people to widen their interests, this is less likely to be achieved by narrowing the range of programmes and reducing the number of popular programmes, which attract more people to watch or listen to a service.

4.6 There are other possibilities. The BBC could produce programmes of particular interest to United Kingdom audiences, which reflect the British way of life, history and culture, national political issues and the United Kingdom's evolving place in Europe and the wider world. This need not be an insular approach. The European Directive on Television Broadcasting requires all Member States to ensure that broadcasters include a majority proportion of European programmes in their output. The BBC services could include programmes made in other European countries about their views of European and world issues and showing how different countries approach similar problems. The BBC might be expected to ensure that national events were accessible to audiences throughout the United Kingdom and to

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encourage greater knowledge and understanding of the national cultural and sporting heritage. In this way, the BBC would sustain a sense of national identity and increase diversity at a time when programmes are increasingly produced by organisations with multi-national interests for transmission in more than one country.

4.7 As a public service broadcasting organisation, the BBC might be expected to continue to broadcast radio and television programmes of special interest to people in Scotland, Wales and Northern Ireland. The BBC already provides television and radio programmes for Scotland, Wales and Northern Ireland and some regional television programmes and local radio in England. However, programmes for the different regions in England have never been a strong element in BBC television services. Many people value the output of the BBC's 39 local radio stations, which includes a high proportion of news and information and special interest programmes, such as programmes in ethnic minority languages. Some people think BBC regional television and local radio programming should be strengthened; others question whether it is needed at all, since Channel 3 is regionally based and there are over 80 commercial radio stations.

4.8 There could be changes to the BBC's radio output. The five network radio services broadcast a wide range of music, from 'pop' to classical and contemporary music and the BBC relies less on records than other stations. The BBC provides news and information on all its national radio services and planning a 24 hour news service. It broadcasts entertainment programmes, including plays, talks and features, and commentaries on sporting events. Since it has had to give up some AM frequencies, the BBC has already had to make difficult decisions about the distribution of its programmes between its network services. Some further rationalisation may be necessary. Given the variety of other radio services, it is arguable that the BBC radio should no longer try to broadcast such a wide range of programmes, with the aim that everyone should find something of interest.

The scope of the BBC's services

4.9 The number and scope of the BBC's network services will, to a large extent, depend on the range and nature of the programmes it is expected to broadcast in the future. If the range of the programmes were to be limited, then the number of BBC services might be reduced. For example, if the BBC is not expected to broadcast popular music, then it might have three national radio channels, rather than five. Similarly, if its television programmes were to be mainly information, education and programmes for minority audiences, then they might be concentrated on one television channel. Another possibility would be for the BBC to lose its local radio stations.

4.10 On the other hand, if the BBC is expected to provide a full range of programmes, appealing to most tastes and interests, embracing information, education and entertainment, and to provide programmes of special interest in Scotland, Wales and Northern Ireland, as well as regional and local programmes, then it would be more difficult to reduce significantly the number of services the BBC broadcasts in the United Kingdom.

4.11 If the BBC is expected to provide more programmes for Scottish, Welsh and Northern Ireland audiences and for minority, or specialist, interests, it might need more radio or television network services. For example, it could have a service entirely for education and training programmes, or for European issues. Eventually, digital audio broadcasting (DAB) and digital television, as well as satellite services, could provide frequencies for more BBC services, if they are needed.

BBC services for overseas audiences

4.12 Overseas, the BBC provides a long established World Service in radio in English and 37 other languages. In 1991, it set up World Service Television, making available BBC news and other programmes for different parts of the world. Increasingly, it is

providing radio and television programmes for transmission by overseas broadcasting organisations. None of these services is financed from the television licence fee.

4.13 The BBC is celebrating the sixtieth anniversary of its overseas broadcasts, and during that time, the BBC has built up considerable respect for the independence, accuracy and diversity of its programmes. The BBC's overseas services are relied on by many people for accurate news, for learning English and for programmes of special interest in their own languages. These programmes are ambassadors for the United Kingdom and the British way of life.

4.14 The number of radio and television services is increasing in most countries in all parts of the world. So there is a growing demand for broadcast programmes of all kinds. The worldwide demand for programmes opens up new opportunities for the BBC. It could increase its activities in providing services in conjunction with other broadcasting organisations or in selling programmes to them. It could go further and become a multi-national broadcasting organisation, providing self-financing radio and television services in other countries. If the BBC is to expand the services it provides for audiences overseas, then it will be necessary to establish a clear framework for these activities. Otherwise, the BBC could produce a higher proportion of its programmes for multi-national audiences, at the expense of audiences in the United Kingdom.

Standards for BBC programmes and services

4.15 It is the Government's view that all public services should have explicit standards and should publish results to show whether those standards have been achieved. The public and the BBC will need to be clear about the range of the services the BBC is expected to provide and the other programme standards it is expected to meet. All broadcasters, including the BBC, are expected to keep to standards of taste, decency and impartiality

in their programmes. The European Directive on Broadcasting has established minimum requirements on programmes standards throughout the European Community, and, in the past, higher standards have been set for broadcasters operating in the United Kingdom.

4.16 The BBC's present programme standards are in the Annex to the 1981 Licence and Agreement. In this, the Board of Governors of the BBC re-affirmed that they would ensure that programmes maintained a high general standard and undertook to provide a properly balanced service, with a wide range of subject matter, to continue the policy of treating controversial subjects with due impartiality and to ensure that programmes should, so far as possible, not offend against good taste or decency or be likely to encourage or incite to crime or lead to disorder or be offensive to public feeling. Under the terms of the Licence and Agreement, the BBC is required to broadcast a daily account of proceedings in Parliament and any public service messages when asked to do so by the Government. It is prevented from broadcasting its opinion on current affairs or matters of public policy, from sending subliminal messages and from broadcasting programmes for payment, including sponsored programmes, without the agreement of the Secretary of State.

4.17 The Broadcasting Act 1990 loosened the controls on programmes broadcast by other organisations but it continues to place obligations on taste, decency and impartiality, on the services licensed by the Independent Television Commission and the Radio Authority. It introduced new requirements for setting and enforcing standards, especially those for ensuring due impartiality in the treatment of controversial issues in television programmes. The Act extended the law on obscenity, incitement to racial hatred and defamation to broadcast programmes, including the BBC's.

4.18 With more services and greater choice available to audiences, the programme obligations placed on or undertaken by

the BBC might be relaxed. Alternatively, if the BBC has a special role in the range of broadcasting services, the programme obligations could be tightened. The range of the BBC programmes and services could be defined, since more services do not necessarily result in a wider choice of different types of programmes, if broadcasters are competing for audiences and for money. The BBC could be required to broadcast specified programmes or quotas could be set for the proportion of different types of programmes, although this would risk introducing a mechanistic approach without enhancing programme quality.

4.19 The BBC could be required to maintain high quality and specified standards in its programme production. There could be a code for programme standards, setting out how the requirements on taste, decency and due impartiality in the treatment of controversial issues were to be achieved and enforced.

4.20 However, there are risks in devising more stringent arrangements for enforcing programme obligations and standards. Closer regulation might open up more opportunities for political influence or control, so encroaching on the BBC's editorial independence. Moreover, the new framework could be too rigid to allow for change, so the BBC could not respond to the changing interests and needs of its audiences, and would be prevented from exploring new ideas for programmes. It would be a dull and timorous broadcasting service which did not adapt, experiment and provoke controversy.

Questions for the future

Should the BBC continue to broadcast a wide range of services appealing to all tastes and interests, or should it concentrate on information, education and minority interests, and programmes unlikely to be provided by other broadcasters?

Should the BBC broadcast a high proportion of programmes, to reflect the interests of people throughout the United Kingdom,

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including programmes of special interest to audiences in Scotland, Wales and Northern Ireland?

Should the number of BBC television and radio services, including local radio, be changed?

Should the BBC continue to expand its services for audiences overseas?

What standards should the BBC be expected to meet in future in its programmes and services?

5. THE BBC'S FUNCTIONS AND ORGANISATION

5.1 Although the BBC is sometimes described as a monolith, it might better be regarded as a conglomerate. It has a multiplicity of functions. It commissions and schedules radio and television programmes; it makes radio and television programmes; it provides the studios, equipment and skilled staff to make programmes; it transmits programmes; it gathers news in this country and throughout the world; it provides educational services; it is a patron of the arts, employing writers, actors, musicians of all kinds and maintaining five orchestras; it undertakes social and technical research; it trains production and engineering staff; it publishes books and magazines; it sells its programmes to other broadcasting organisations and raises finance for co-productions; it makes available recorded versions of programmes, and supporting material, to the general public. If the BBC is to operate efficiently in future, these strands of activity may need to be disentangled and decisions taken whether all of them should continue to be provided by people employed by the BBC.

Programme-making

5.2 Making programmes for television and radio is seen by many people as the main purpose of the BBC's existence. But there are many stages before a programme reaches its audience and these processes do not have to be carried out within one organisation. The independent production initiative has required the BBC Television and ITV to ensure that at least 25% of their output comes from independent producers. More use is made by many broadcasting organisations of studios and other production facilities run by independent companies.

5.3 These developments are promoting greater efficiency and innovation and are being extended to radio. The proportion of independent productions could be increased. It would be possible for the BBC to produce the majority of its programmes but to buy more production facilities rather than providing them within the

BBC. Producer Choice, announced in 1991, will allow television producers to select either BBC or outside facilities for production. This arrangement could be developed further, with the BBC operating its own studios and facilities commercially, offering production capacity to other programme-makers. This could sustain a body of creative skilled staff, used to working together and making a variety of programmes. Other broadcasting functions might be privatised, contracted out or opened up to commercial tendering, so creating more competition in making programmes and providing services.

Patronage of the arts

5.4 Broadcasting can bring the arts to the public at large and the BBC has seen this as one of its public service broadcasting responsibilities. The BBC has been a major patron of the arts, providing work for many actors, musicians, composers and writers. It maintains five orchestras and organises and supports a wide range of artistic events. For more than 60 years, the BBC has made an immeasurable contribution to cultural developments in the United Kingdom. Some people have questioned whether this is a desirable use of the licence fee. More thought may need to be given to the focus of the BBC's patronage of the arts, and to co-ordinating it with other patronage to ensure the most effective use of available finance for musical and other cultural activities throughout the country. The co-operation between the BBC and the Welsh Arts Council in funding the BBC Welsh Symphony Orchestra is one example of collaboration and it may point a way forward for the future.

Transmission services

5.5 There could be changes in the BBC's transmission arrangements. At present, the BBC transmits its services, which reach over 99% of the population in the United Kingdom from sites it owns or leases, or shares under an agreement with National Transcommunications Ltd (NTL). The BBC shares with the

Independent Television Commission responsibility for a programme of building up to 25 relay stations a year to bring UHF television services to those who cannot yet receive them. In practice, only groups of more than 200 people benefit from the relay programme. For smaller groups, there are self-help schemes, and the BBC and ITC are responsible for giving advice about them. The BBC aims for similar high geographical coverage for its national radio services. Radio relay stations are typically built only for unserved pockets of more than 1,000 people, although about one million people have difficulty in receiving the BBC's national radio services on FM. Digital audio broadcasting should provide more reliable reception for radio services in future. Technical developments, such as digital transmission, are likely to require substantial new capital investment.

5.6 For historical reasons, the BBC's transmission system is intertwined with that developed by the IBA, and most UHF television sites cater for BBC1, BBC2, Channel 3 and 4. BBC sites and masts are made available to other broadcasters, though the BBC does not provide transmission services for all of them. The Independent Broadcasting Authority's transmission network was privatised in 1991 and is now owned by NTL. The BBC's transmission network could be sold to the private sector, and the new company could compete for business in transmitting BBC and other services. There are other options: the BBC's transmission could be put out to tender.

Long-term investment in broadcasting

5.7 In the past, the BBC has made long-term investments in broadcasting which have been of benefit to all British broadcasters. Investment in people, in their skills and in technological development, is necessary to maintain and improve the quality of British broadcasting. Otherwise, it will become dependent on foreign talent, production skills and technology.

5.8 The BBC has nurtured writers, composers, comedians and

musicians of all kinds. It has trained journalists for broadcasting, production staff and engineers. People trained by the BBC have taken BBC standards of programme production into other organisations. In the last few years, the BBC has been providing training, as well as programmes, for broadcasting organisations in Eastern Europe and for other broadcasters unaccustomed to operating in a plural and democratic society.

5.9 In future, each broadcasting organisation, the BBC and those licensed by the Independent Television Commission, the Radio Authority, the independent production companies and the transmission organisations could be left to make their own arrangements for training. If there is sufficient demand, training could take place in a variety of institutions, particularly if the broadcasting organisations co-operate in helping educational establishments to provide courses. But this may not be sufficient to provide practical experience and to foster the creative and performing talents on which future programming will depend.

5.10 Broadcasting technology is changing rapidly. The BBC is involved at many stages, from research to helping the public to adjust to new technologies. The BBC's Engineering Research Department has had a leading role in the development of many broadcasting technologies, contributing to advances in production, transmission and reception. BBC engineers have been engaged in setting European and international technical standards for broadcasting and the BBC's contribution to international negotiations is the more effective because of its prestige as a long established public service broadcasting organisation.

5.11 To ensure the quality of broadcasting services is maintained, the BBC, if it continues to be the largest broadcasting organisation in the United Kingdom, could become the focus for long-term investment in broadcasting; this would be a part of its public service functions. It could have specific obligations to nurture talent and to provide training and research

both for its own purposes, and for other organisations for payment. Alternatively, the BBC's research and development could be privatised, and all development work undertaken by the private sector.

The BBC in a competitive world

5.12 The BBC will be operating in an increasingly competitive world, nationally and internationally. Broadcasting is becoming a global industry. A few companies are acquiring an increasing stake in broadcasting in a number of countries and more programme material is being produced for international audiences by companies with multi-national interests. Some services show few original programmes, relying heavily on films, material made for other broadcasters, and on recordings. These developments could reduce the range and diversity of programmes for audiences. Keeping the BBC as a major force in British broadcasting could ensure a sustained service of British programming for United Kingdom audiences, provide British programmes for sale to overseas broadcasting organisations, and support the BBC's own overseas broadcasting, particularly its coverage of news and current affairs.

5.13 In recent years, the BBC has been encouraged to become an entrepreneur. It has exploited its assets, selling programmes, publishing books, magazines and video and audio cassettes and other merchandise linked to its programmes. Most of this activity is carried out by BBC Enterprises Ltd and its subsidiaries and some competitors consider that they enjoy unfair advantages from the links with the BBC, such as promotion on BBC services.

5.14 These activities could be curtailed or further expanded. They could be separated from the BBC and placed in the hands of other organisations who would pay a commercial price to the BBC for the use of its material, though this would reduce the BBC's control over the use of its assets. Increased secondary exploitation of the BBC's assets by the BBC or by others must take

account of United Kingdom and European Community competition law. It may be necessary to draw a clear line between the BBC's broadcasting activities and its other businesses with separate accounts.

Organisation and staff

5.15 How the BBC is organised in the future depends essentially on what services it is expected to provide, and how it is expected to provide them. So decisions on organisation and staff depend on the decisions on programmes and services, whether the BBC continues to engage in all aspects of broadcasting from commissioning programmes to transmitting them, and how many other activities will be carried out by the BBC.

5.16 Although the BBC has been reducing its staff, it remains a large organisation, employing more than 26,000 people in its United Kingdom and overseas services. It has been criticised for unnecessary bureaucracy and over-rigid structures for decision-making. It needs to be a slimmer, more flexible organisation, which can respond more quickly to changing circumstances. Not all its functions need be carried out by BBC employees. Like other large organisations, the BBC has a range of services which support its activities; they include personnel, financial and legal services, libraries, archives and research. At present, most of these services are provided within the BBC; in future, some of this work could be contracted out or could be included in a programme of market testing.

5.17 Improvements in organisation will be needed for those functions which continue to be carried out by the BBC. BBC managers are already trying to make more efficient use of resources through greater co-operation and co-ordination between the radio, television and World services, particularly in the coverage of news and current affairs. This reverses earlier moves towards greater separation between television and radio services. There may be other strands of programming where it would be an advantage for BBC specialist staff to be involved in radio,

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television and overseas services. The BBC is introducing a new Education Directorate, linking television and radio programmes, and the associated publication and audio and video cassettes. Another possibility would be to separate commissioning and scheduling from the making of programmes, though keeping both within the BBC.

5.18 Any changes in organisation should continue to provide a framework to secure and support the BBC's editorial independence, but with clear lines of accountability for programme content. Senior staff take responsibility for meeting the BBC's programming obligations and should be able to ensure that the obligations are met in practice. Similarly, the managerial framework should provide clear lines of financial responsibility and accountability. If the BBC is spending the public's money, it must do so in ways which enable the public to see, and understand, how and why its money is being used.

Questions for the future

How many of its present functions should the BBC continue to carry out in future?

How can its organisation be improved to carry out these activities more effectively?

6. PAYING FOR THE BBC'S SERVICES

6.1 At present, the BBC's services in the United Kingdom are financed almost wholly from the licence fee; the World Service Radio is financed by grant from the Foreign and Commonwealth Office. BBC Enterprises, and a number of other subsidiary companies, including World Service Television, operate commercially, enabling the BBC to raise additional funds by exploiting its assets.

6.2 The BBC's income from the licence fee, less the cost of collecting it, was £1,393 million in 1991/92. Its income from other sources, including BBC Enterprises and grants from the Open University was £[] million. Over £1,000 million was spent on television services and £300 million on radio services, including local radio.

6.3 The way the BBC services are to be paid for cannot be divorced from the services and programmes which the BBC is expected to provide. Although various forms of primary finance are possible - the licence fee, taxation, advertising or subscription - the method chosen will have an impact on the programmes which the BBC broadcasts. Services financed by advertising have to provide programmes to attract the audiences the advertisers wish to reach. If broadcasters are competing for audiences and for finance, more services will not necessarily result in a wider choice of programmes for viewers and listeners. At present, all households watching UK television services are obliged by law to pay the licence fee and the BBC is required by its Charter to provide broadcasting services as public services. In practice, it caters for a wide range of tastes and interests in its programmes and competes for a sizeable share of television audiences - which can be seen as a justification for the licence fee.

6.4 If the public wishes the BBC to maintain the range of its programmes, and the quality of its production, then the BBC will

need to be provided with sufficient resources to achieve these objectives. On the other hand, if the public prefers to pay less for a narrower or less expensive range of programming, then the BBC should not be expected to continue its present level of services.

Changing the BBC's costs

6.5 The overall cost of the BBC will depend mainly on the range and nature of the programmes and services it is expected to broadcast in future. If the range of programmes and services or the mix of programmes is altered, then the costs will change. For example, the BBC could reduce costs by relying more heavily on feature films and foreign series in its television output, since these are some of the cheapest programmes, costing less than £40,000 an hour on average. In comparison, educational and children's programmes cost over £100,000 an hour and one hour's television drama costs about £[450,000] on average. It would be possible to reduce the costs of radio services by relying more on records and reducing the output of current affairs, drama, features and documentaries. Local radio services cost the BBC over £50 million a year; so does Radio 3; Radio 2 costs £47 million a year. Removing any of these services would save about 4% of the BBC's income from the licence fee and the licence fee could be cut by £2.50; or some increase in the licence fee could be deferred for one year; or the money could be used for additional or improved television programmes. In short, the BBC could cut its costs by reducing the range and quality of its television and radio output and it could alter the balance of programmes it provides for a similar level of expenditure. In contrast, if the BBC had to broadcast a higher proportion of programmes for minority audiences, made to the present standards, its average costs would be increased. But whatever the range of programmes or services, the BBC should aim for sustained improvements in organisation and efficiency.

Paying for the BBC - licence fee

6.6 The BBC services have been paid for from a licence fee since 1927 and, so far, no-one has devised an obviously better system. The licence fee is readily understood. It guarantees the BBC a regular income and it preserves the arm's length relationship between the broadcasters and the Government. Since 1971, both BBC radio and television services have been funded by the television licence.

6.7 Since 1 April 1992, owners of colour television sets pay £80 and owners of black and white sets £26.50 for their licences. In 1991, the licence fee increase was held below the Retail Price Index. The Government intends to keep further increases until 1996 in line with the RPI, subject to a mid-term review of the BBC's progress with measures to improve efficiency and to generate revenue. Although there is concern about level of the fee, a 1990 study suggested that many people would be prepared to pay more for BBC services of high quality.

6.8 But the licence fee is an oddity. All television viewers are obliged to pay it, irrespective of whether they watch or like many BBC programmes. Black and white television set owners pay less, though they receive the same programmes. Listeners to BBC radio services are not charged. Rich and poor must pay the same. Payment is enforced through the criminal law but evasion is estimated at nearly 8%. This, combined with estimated hidden evasion by people who have a black and white licence but use a colour set, represents an annual loss of some £170 million in revenue to the BBC.

6.9 In 1991, the BBC became responsible for collecting the licence fee. It is pursuing a range of measures to reduce evasion, by identifying potential and actual evaders, and prosecuting them when necessary. At the same time, the BBC is encouraging people to buy a licence and promoting different methods of payment. For those who find a single annual amount

difficult, payments can be spread, with a choice of instalment schemes, or by buying television licence savings stamps.

6.10 Continuing to fund some BBC services by the licence fee need not mean keeping the present system unaltered. The House of Commons Home Affairs Select Committee recommended in 1988 that the offence of television licence fee evasion should be decriminalised and treated as a civil debt. Many viewers might welcome this but there would be enforcement difficulties. The BBC at present has no reliable means of identifying those who do not pay. It cannot prevent them receiving its services. So evasion and late payment could be expected to increase, forcing up the licence fee for honest viewers.

6.11 It would be possible to reduce the fee for those least able to pay or to increase charges to those with more than one set. But the cost of reductions would have to be met by a further increase in the overall licence fee or through taxation. Exempting those on income support would add £21 to the cost of a colour TV licence. A fee for individual sets would require more frequent access to households, with the necessary powers of entry, and, nevertheless, would increase evasion and enforcement and collection costs. One means of increasing licence revenue, or holding down future increases, would be to abolish black and white licences and require all viewers to pay a combined fee. This would also eliminate hidden evasion of the full colour fee. But since the number of monochrome sets is declining, the increase in revenue would not be substantial. It would also penalise some viewers who are less well off.

Paying for the BBC by taxation

6.12 There are other possible ways of paying for BBC's services, or some services. One possibility is from general taxation. The BBC provides services which benefit the public as a whole. Some people believe that the BBC should be paid for by those who can most afford to contribute to the well-being of the community, and

not by all households which use television, regardless of their income. But if the BBC were financed from income tax, it would need an increase of nearly a penny in the pound on the standard rate to produce the amount which is at present raised from the licence fee. General VAT rates would have to be raised by almost 1% in order to produce the same revenue.

6.13 The BBC's funding might be tied to a particular form of taxation, such as a sales tax on television sets and VCRs, or the revenue from taxing the services licensed by the Independent Television Commission. But these are unlikely to produce an income which is adequate or reliable enough for the BBC to plan ahead to produce good quality programmes. At least £300 would have to be added in sales tax to the price of a set to raise income equivalent to the licence fee.

6.14 The argument against funding the BBC from general taxation has been that it would make the BBC vulnerable to Government, or political, pressure on the content of programmes. This pressure would be more intense if the level of the BBC's income had to be agreed each year. The pressure might be reduced by providing money to the BBC through another body, such as a new Public Service Broadcasting Council, which would receive funds from the Exchequer. But the size of the BBC's grant, at its present level of expenditure, would far exceed the grants to any other organisation, and an intermediate body might not give effective protection. Another possibility would be to finance some of the BBC services, such as educational programmes, or some of its activities, such as the cost of maintaining the orchestras, through a Government grant. This would not reduce the licence fee significantly but it would not require all households, however poor, to contribute to these costs.

Advertising on BBC services

6.15 The possibility of advertising on the BBC services was examined closely by the Peacock Committee on Financing the BBC,

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which reported in 1986. They commissioned a number of research studies, looked at the position in other countries and considered evidence from broadcasting organisations, advertisers and others. They concluded that BBC television should not take advertising. Most of them thought that Radios 1 and 2 could take advertising, but they should not remain BBC services. Funding Radios 1 and 2 exclusively by advertising would enable the licence fee to be reduced by £4 a year. If Radios 1 and 2, and local radio were privatised, and similar services were paid for by advertising, over £140 million of advertising revenue would be needed to run the services at present standards.

6.16 If the two BBC television services were to be financed entirely from advertising, then £1,000 million would need to be found. This is unlikely to be achieved if the advertising were concentrated in "blocks" between programmes a few times a day, and not broadcast before, during and after most programmes.

6.17 Sponsorship is another form of advertising limited to a statement in a programme that it is being financed by a particular organisation. This is less intrusive, but unlikely to provide sufficient revenue to finance more than a small proportion of programmes. There is, too, a risk that organisations which pay for programmes are more likely to want to influence their content, and sponsorship might be thought to be an unsuitable method of financing some kinds of programme. The EC Directive on Broadcasting already forbids sponsorship of news or current affairs programmes, but there may be other programmes, for example, educational programmes, which should not be sponsored.

6.18 Advertisements on BBC services would increase choice and competition for advertisers and could lower their costs. But the interests of the advertisers are not the same as those of the audiences or the broadcasting organisations. Some people are amused by broadcast advertising; others find it irritating or intrusive. Although the audiences for BBC services would be attractive to advertisers, many viewers prefer BBC services

because they do not include advertising.

6.19 Introducing advertising might alter the range and quality of BBC programmes. They would have to attract sufficiently large, or affluent, audiences to persuade advertisers to pay enough to cover the programme costs. The BBC might be under pressure to increase its audiences at the expense of programmes of interest to smaller, or poorer, audiences. Many of those who wrote to the Peacock Committee made it clear that they would consider a limited range of programmes to be a reduction in the quality of the services.

6.20 Advertising on BBC services would change the prospects of others who benefit from advertising revenue, particularly other broadcasters and the press. The Channel 3 licensees, and others licensed by the Independent Television Commission and the Radio Authority, would probably take the view that there should be changes in the method of assessing how much they pay each year to the Commission, the Authority and the Exchequer. If the BBC continued to be funded in part by the licence fee, other broadcasters might question whether the BBC was competing for advertising revenue on equal terms.

6.21 It would be possible, as the Peacock Committee proposed, for more services to take advertising, but to remove them from the BBC. This would reduce the risk that the BBC would be forced to restrict the range of its programmes in order to compete for advertising revenue with other services. But it does not answer the question of whether there would be sufficient potential revenue from advertising to sustain more services and what kind of programming could be afforded.

Subscription

6.22 The Peacock Committee concluded that, in the longer term, subscription should replace the licence fee as the main source of BBC finance. It could take several forms, ranging from a single

fee for all BBC services to paying to watch individual programmes.

6.23 One advantage of subscription is that it could make a direct link between the providers and users of the services. Unlike the licence fee, subscription need not oblige television set owners to pay the same amount regardless of how many programmes or services they use. A switch to subscription would require changes to receivers, and additional billing and other costs. Income at present lost through licence fee evasion might be regained, though evaders might decide not to subscribe to BBC services. The technology for encryption would have to keep ahead of pirate decoders. But if programmes or services were encrypted to ensure payment of the subscription, this would discourage people from sampling a wide range of programmes and could reduce the availability of programmes for those less able to pay. In 1987, a study commissioned by the Home Office recommended a gradual introduction of subscription television but not a wholesale immediate switch of existing services to subscription. More use could be made of the night hours to show premium film and other subscriber only services, so reducing the BBC's dependence on the licence fee. Other possibilities would be to continue broadcasting certain programmes in clear or to regulate subscription prices.

Mixed financing

6.24 There is no reason why all the BBC's services should be financed exclusively by the licence fee or by any other means. Already, the BBC obtains part of its income through BBC Enterprises, trading commercially, and BBC World Service radio is funded by Government grant. While some options, such as the licence fee or subscription, could finance BBC services as a whole, others, such as sponsorship or turning the BBC's existing transmission and other assets to account, could provide some supplementary financing. For as long as the BBC is partly paid for by the licence fee or through direct government funding, any arrangements for mixed financing would have to comply with United

Kingdom and EC competition law, if the BBC is providing services commercially and in competition with other organisations.

6.25 Experience in other countries suggests that there are difficulties combining a licence fee system with advertising. The arrangement may begin with advertisements confined to particular services and particular times of the day. But the pressure to reduce the licence fee, or other government expenditure, creates pressures for more advertising. This would be unwelcome to those who dislike advertisements. The greater the proportion of advertising revenue taken up by the BBC, the more serious the implications would be for Channels 3, 4 and 5, satellite television services and for independent radio and the press. A growing income from advertising or subscription finance would reduce the BBC's dependence on the licence fee but could result in changes in the range of programmes and the audiences able to receive them.

Value for money

6.26 Whatever the method of financing, the BBC needs to give value for money and to demonstrate that it is doing so. It needs to improve the efficiency of its activities each year, while maintaining the quality of its programmes.

6.27 The Government has urged the BBC to improve its efficiency. The decision to hold licence fee increases below the levels of inflation, as measured by the retail price index, has encouraged the BBC to look for ways of reducing its costs and of diverting funds from administration to programmes. The BBC's initiatives, "Producer Choice" and "Re-shaping for the Future", and its scrutiny of overheads, are all steps in this direction. Efficiency can also be improved through greater use of market testing and contracting out, by employing contract staff and by moving more BBC functions to areas where rents and costs are cheaper than in London.

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6.28 The BBC needs to develop a range of output and performance measures and indicators to cover the efficiency of its activities, the quality of service it provides, audience reactions, and financial performance. These should include measures of the unit costs of various types of programme and utilisation rates of assets and facilities. The BBC could be required to propose and publish clear targets for a number of aspects of its performance and to report subsequently on how far they had been achieved in practice.

6.29 Clear objectives are essential in achieving value for money. As the BBC moves towards the 21st century, it will need well defined aims and duties if the public are to be able to judge whether it is efficient and effective.

Questions for the future

Should the BBC reduce its expenditure by cutting the range and quality of its programming and services?

Should the BBC continue to be financed by the licence fee in future?

If so, should any changes be made to present licence fee arrangements?

If not, how should it be financed?

How can the BBC become more efficient, so it gives better value for money in its services?

7. MAKING THE BBC ACCOUNTABLE

7.1 In the past, the BBC's functions, powers and obligations have been set out, in general terms, in the Charter and the Licence and Agreement; the interpretation has been left mainly to the BBC. This has had the advantage that the BBC has been able to evolve, as the interests and needs of its audiences have changed.

7.2 In future, the public should know what services the BBC is expected to provide, how it is expected to provide them and whether it is providing them efficiently. It is important that viewers and listeners, Parliament as their representatives, and the BBC itself should be clear what the BBC is expected to achieve, how it will be financed to meet its objectives and whether it has met them. On the other hand, to tie the BBC down too closely would inhibit innovation, in both programming and management. Moreover, subjecting the BBC to closer scrutiny by the Government and Parliament could encroach on its editorial independence. The aims and duties should be clear, but they should be set out in ways which are sufficiently flexible to allow for change and development. In particular, the BBC should be responsive to the views of its audiences about its services.

Keeping in touch with audiences

7.3 If public service broadcasting exists for the benefit of its audiences and aims to reflect and meet the audience's interests and needs, then it will be essential for the BBC to keep in close touch with the audiences for its services.

7.4 The BBC has assessed the size of its audiences, their appreciation of programmes and their appreciation of its services, both through regular audience research undertaken jointly with other broadcasting organisations, and through research into specific issues. In this way, it has been able to gauge the public's reaction to its programmes and services and the way new services have affected the audiences for the BBC. More recently,

the BBC has introduced an annual television programme, when the Chairman and Director General answer questions from studio audiences, and similar radio programmes, so listeners can speak to the Controllers of the national radio networks. These programmes provide opportunities for the BBC to explain what it is doing, and why, but they cannot open up a continuing dialogue with the public about the BBC's services.

7.5 If the BBC is given a new remit for its services, then new measures for audience reaction are likely to be needed. These could look at the purpose of individual programmes, the likely audience and the degree of audience appreciation. Small audiences are to be expected for minority interest or educational programmes, but their appreciation may be intense. Larger audiences are likely for sport, drama and light entertainment, but their judgement of the quality of the programme could be a factor in assessing its success. If BBC services continue to broadcast a wide range of programmes, which will appeal to most tastes and interests, then it would be essential to know whether most households use one or more of the BBC services in the course of an average week.

Advisory councils

7.6 One way the BBC has traditionally kept in touch with the public is through its Advisory Councils. There are [61] Advisory Councils, headed by the General Advisory Council, and including local radio councils and advisory councils on particular topics, such as religious broadcasting, science, agriculture and appeals for charities. In 1988, the House of Commons Home Affairs Select Committee recommended that the structure of Advisory Councils and Committees should be reviewed, with a view to reducing the amount of administrative work, and the expense. They pointed out that these bodies require a great deal of effort on the part of the BBC management and the cost was at least £0.5 million a year. The BBC subsequently reviewed its arrangements and made more changes and economies.

7.7 Even so, there are questions about the purpose, functions and number of these advisory bodies. At present, they are not suited to keep the BBC in touch with most of its audiences. If their main purpose is to give the BBC specialist advice, there may be other, more economic, ways of achieving this. But if the aim is to reflect views of radio and television audiences, the councils might be elected or partly elected bodies. The new councils could become the focus for wider public consultations, holding meetings in different parts of the country and seeking the views of audiences on both present programmes and future plans. *

Scotland, Wales and Northern Ireland

7.8 At present, the Board of Governors includes National Governors for Scotland, Wales and Northern Ireland. They are selected for their knowledge of the culture, characteristics and affairs of the people living in those countries and are expected to keep in close touch with public opinion there. The BBC also has a National Broadcasting Council for each country, chaired by its National Governor. The Councils contribute to BBC policies on programmes to be broadcast in each country and advise the BBC on other issues which could affect the interests of the people in Scotland, Wales and Northern Ireland.

7.9 The special needs and interests of Scotland, Wales and Northern Ireland will need to be reflected in any new organisational structure for the BBC. The BBC services in the three countries could be given a large measure of autonomy. But this could well result in greater duplication of effort, in London, Glasgow, Cardiff and Belfast. Many people in these countries will want to see and hear the BBC's programmes broadcast on its main services. On the other hand, it is essential that there should be sufficient programmes for each country, which reflect its special needs and interests, and arrangements should be made for broadcasting in Welsh and Gaelic. The amount and the type of these programmes will need to be determined in the light of the views of the people living in each country. So there

should be arrangements to ensure that these views are known, either through a National Council or in some other way.

Role of the BBC Governors and Board of Management

7.10 For over 60 years, public service broadcasters in the United Kingdom have been made accountable through broadcasting authorities. The Governors of the BBC, and the members of other broadcasting authorities, have been appointed to act as trustees of the public interest in broadcasting. They have been responsible for ensuring that any obligations in the Charter, or in legislation, are fulfilled. The BBC Governors and the other authorities have approved codes of practice for programme-makers.

7.11 This need not be the pattern for the future. The Independent Television Commission and the Radio Authority will be regulating commercial television and radio with a lighter touch. The Broadcasting Standards Council and the Broadcasting Complaints Commission have been given specific roles by the Broadcasting Act 1990. The Commission considers complaints from people who believe they have been treated unfairly or unjustly in programmes or who believe there have been unwarranted infringements of their privacy. The Council considers more general questions of programme standards, particularly the portrayal of violence and sexual conduct in programmes and advertisements, and standards of taste and decency. The BSC is required to draw up and keep under review a code of practice covering the matters within its remit, and broadcasters then have a duty to reflect the code in their own codes and programme guidelines. The responsibilities of both the Commission and the Council extend to all services broadcast in the UK, including the BBC's.

7.12 At present, the BBC Board of Governors are responsible for ensuring that all the obligations in the BBC Charter and Licence and Agreement are met. All the Governors are part-time; the Chairman works four days a week and the others spend one or two days a week on BBC business. The Board of Management, led by the

Director General, are appointed by the Governors and are responsible to the Governors for the management of the BBC, its services and its staff. It is the Governors who take the strategic decisions. Through the appointment of senior managers and the endorsement of editorial guidelines, they establish the manner in which the BBC will be run, and the thrust of its programme policies. There are those who believe that the Governors have been drawn too closely into the management of the BBC. On the other hand, others think that the Governors and the Board of Management could be merged, with the Governors becoming non-executive directors.

7.13 If there are to be Governors in future, they could be given a clearer remit than they have now. Their function would need to be distinguished from those of other broadcasting organisations, such as the Broadcasting Standards Council. The Governors need not become involved in detailed management, although they could continue to appoint the most senior staff of the Corporation. One possibility would be to give them a special responsibility for finding out the public's views of the BBC's services, for ensuring that the BBC managers are responsive to these views, and that the BBC's programme obligations are met. They might have a role in setting the targets for improved efficiency and monitoring whether the targets had been met. It has been suggested that the Governors should be elected from audiences, particularly those who watch or listen regularly to the BBC's services. But this might result in confused responsibilities between the Governors, as representatives of the BBC audiences, and Parliament and the Government, representing the general public.

A public service broadcasting council

7.14 It has been proposed that there should in future be a Public Service Broadcasting Council or Authority, to promote public service broadcasting. It would be responsible for financing public service broadcasting; it would receive the proceeds of the licence fee and any other sources of finance, and

would provide funds to the BBC and for other public service channels or programmes. It would be responsible for ensuring value for money for the services and programmes, which it financed. The Peacock Committee believed one of its purposes should be to ensure separate and secure funding for programmes of merit which would be unlikely to be broadcast if a number of channels, including the BBC, were competing for audiences and for finance. This would ensure diversity in the range of programmes. However, there would be a risk that such a council could develop into what the Peacock Committee described as a cultural dictatorship. It would be tempting for such a body, holding the purse-strings to sizeable resources, to try to impose its own views on programmes on all broadcasters, and more difficult for broadcasters to keep their editorial independence. A council on these lines might well inhibit diversity in programme content and styles.

7.15 If such a Council were established, with a remit which embraced all broadcasting services, it could take over some of the functions now carried out by the Broadcasting Standards Council and the Broadcasting Complaints Commission, and its relationship with other broadcasting authorities would need to be clearly defined.

Government responsibilities

7.16 Although Governments in Britain have never tried to exercise detailed control over broadcasting services in the United Kingdom, the Government has, and will keep, some responsibilities for broadcasting services. A major, though infrequent, responsibility is to put proposals to Parliament for the legal framework for broadcasting services and for the way they should be financed. In 1981, the framework was set in the BBC's Charter and in the Broadcasting Act 1981. The Broadcasting Act 1990 has set the future framework for commercial, cable and satellite services. This was the culmination of several years' consultation and debate. The discussion about the future framework for the BBC is

just beginning.

7.17 Once the framework has been designed, and approved by Parliament, the Government decides who will be responsible for making sure that the terms of the framework are observed by appointing the members of the broadcasting authorities. The Government also has reserve powers. If the BBC fell consistently short of meeting its legal obligations, the Government could remove the Governors. The Government has the power to require any broadcasting service to make public announcements; this may be essential during an emergency. The Government also has powers to require a broadcasting organisation, including the BBC, not to include particular material in its programmes. This power has rarely been used; the most recent use was in 1988 to require services not to include direct statements by Northern Ireland terrorist organisations and their apologists.

7.18 Ministers are answerable to Parliament for the way they carry out their responsibilities, but not for the management of the BBC nor for the content of BBC programmes. A new framework could increase or reduce Ministers' powers. For example, Ministers could have powers to impose a range of sanctions if the BBC's objectives, obligations or performance targets were not met.

Accountability to Parliament

7.19 Any issue of public concern or interest is likely to be raised in Parliament. Although the BBC has been established by Royal Charter, and not by legislation, it has been accountable to Parliament. In the past, there have been debates in both Houses of Parliament before a new Royal Charter has been granted. Even though Ministers have not been answerable for the content of individual programmes or the day-to-day management of the BBC, controversial programmes have resulted in Parliamentary debates or questions. Select Committees have scrutinised more closely the financing and management of the BBC.

7.20 If the BBC continues as a public service broadcasting organisation, and particularly if it continues to be financed from public funds, then it will remain accountable to Parliament. However, the degree of accountability could be increased or lightened. It would be possible, for example, to have a Sub-Committee of a Select Committee to monitor public service broadcasting continuously and it has been suggested that the appointment of Governors should be made on the recommendation of a committee of Privy Councillors or should be subject to Parliamentary approval. Both could increase political influence on programme content.

7.21 To many, the present arrangements for accountability seem haphazard and incoherent. It may be desirable to distinguish more clearly between the actions of Ministers, for which they would always be answerable, and the activities of the BBC. There could be arrangements for regular, but not continuous, Parliamentary examination of the BBC's programming and financial objectives and how far it had met them, so calling Ministers and the BBC to account for their different responsibilities. In this way, Parliament, representing the public, could ensure that the public throughout the United Kingdom were getting what they wanted from the BBC at a price they could afford.

Questions for the future

Should the BBC have clearly stated objectives and publish results showing how far it has met them?

Should changes be made in the way the BBC keeps in touch with its audiences?

How should the interests of audiences in Scotland, Wales and Northern Ireland be represented?

Should changes be made in the functions of the Governors and the BBC Board of Management?

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Should there be a public service broadcasting council to promote and finance public service broadcasting by the BBC and other services?

Should the Government be able to impose sanctions on the BBC if its objectives are not met?

Should there be improved arrangements for regular Parliamentary scrutiny of the BBC's objectives and how far the BBC has met them?

8. SUMMARY OF QUESTIONS

Public service broadcasting

1. What should be the objectives of public service broadcasting in the future?

BBC programmes and services

2. Should the BBC continue to broadcast a wide range of services appealing to all tastes and interests, or should it concentrate on information, education and minority interests, and programmes unlikely to be provided by other broadcasters?

3. Should the BBC broadcast a high proportion of programmes, to reflect the interests of people throughout the United Kingdom, including programmes of special interest to audiences in Scotland, Wales and Northern Ireland?

4. Should the number of BBC television and radio services, including local radio, be changed?

5. Should the BBC continue to expand its services for audiences overseas?

6. What standards should the BBC be expected to meet in future in its programmes and services?

BBC functions and organisation

7. How many of its present functions should the BBC continue to carry out in future?

8. How can its organisation be improved to carry out these activities more effectively?

Paying for the BBC's services

9. Should the BBC reduce its expenditure by cutting the range and quality of its programmes and services?
10. Should the BBC continue to be financed by the licence fee in future?
11. If so, should any changes be made to present licence fee arrangements?
12. If not, how should the BBC be financed?
13. How can the BBC become more efficient, so it gives better value for money in its services?

Making the BBC accountable

14. Should changes be made in the way the BBC keeps in touch with its audiences?
15. How should the interests of audiences in Scotland, Wales and Northern Ireland be represented?
16. Should changes be made in the functions of the Governors and the BBC Board of Management?
17. Should there be a public service broadcasting council to promote and finance public service broadcasting by the BBC and other services?
18. Should the BBC have clearly stated objectives, and publish results showing how far it has met them?
19. Should the Government be able to impose sanctions on the BBC if its objectives are not met?

E.R.

20. Should there be improved arrangements for regular Parliamentary scrutiny of the BBC's objectives and how far the BBC has met them?

AUDIENCES

Broadcasting is about programmes, the people who watch or listen to them, and the choices they make.

Most people in the United Kingdom watch or listen to broadcast television and radio programmes; on a typical day 80% of the population tune into TV, and 94% watch at some time during the week. Almost all of them will watch some BBC television. Almost half the population listen to the radio on a normal day and 76% do so over the week. Around a third will listen to the BBC on any given day and 58% do so in the course of a week.

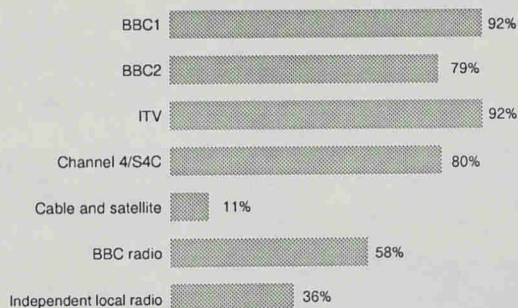


Figure 1: Weekly audience reach, 1991-92

People spend an average of nearly 4 hours per day watching television, including VCR playbacks. The most popular programmes attract audiences of over 15 million. In recent years, the allocation of viewing between the BBC, ITV and Channel 4 has been fairly constant.

More recently, cable and satellite have accounted for almost 5% of total viewing, and around 30% in homes receiving these services.

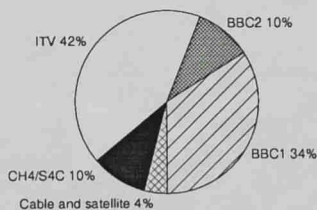


Figure 2: TV audience share, 1991-92

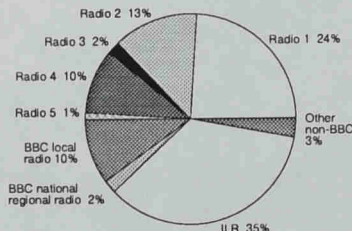


Figure 3: Radio audience share, 1991-92

The average time spent listening to the radio is around an hour and a half a day. The BBC's share is down from nearly 80% in 1981 to around 62% now, mainly due to the expansion of commercial local radio.

COSTS

*TO BE UPDATED
WITH 1991-92 FIGURES*

The colour television licence fee costs £80 annually or 22 pence per day. It is cheaper than a daily newspaper and less than the price of sending a first class letter.

Most BBC services provide at least 16 hours of programmes per day. Last year BBC1 and BBC2 each broadcast over 6,000 hours of programmes. The five network radio stations broadcast a total of more than 34,000 hours.

The BBC's total income in 1990-91 was £1,375.8 millions. It spent £528.7 millions on BBC1, £278.1 millions on BBC2 and £114.6 millions on local television. The BBC spent £207 millions on its five national radio networks.

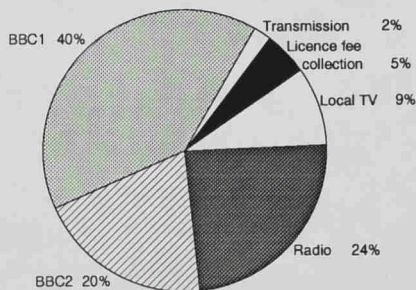


Figure 4: Allocation of BBC income

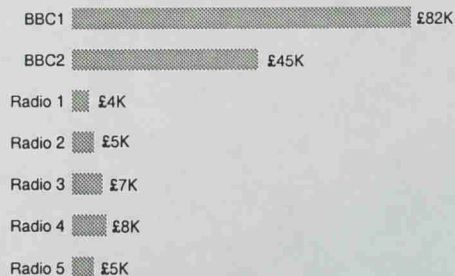


Figure 5: Costs per hour, 1990-91

The costs of different kinds of programmes and services vary considerably. BBC Television costs three times as much as radio. The most expensive type is also one of the most popular: TV drama. This costs over ten times as much as sport or programmes purchased from other broadcasters.

EVOLUTION AND CHANGE

In 1981 there were three television channels: BBC1, BBC2 and ITV. There were four national BBC radio stations and 40 local radio stations, half of them run by the BBC. About two-thirds of the homes with television had colour licences but nearly a third still had black and white. Few people had video recorders.

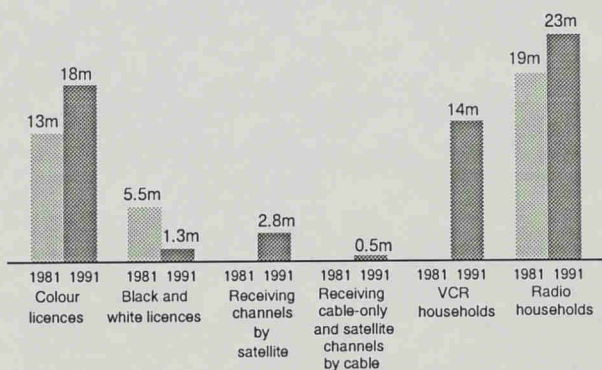


Figure 6: Number of UK television and radio households

By 1991, Channel 4 was available throughout the UK. A fifth channel is planned to reach some 70 per cent of the population. There were more than 70 licensed cable and satellite channels, about a third of them received by more than 100,000 households. BSkyB provided six channels. Almost three million homes had direct access to satellite channels. Nearly 300,000 received up to three additional channels on narrowband cable. Almost 270,000 received up to forty additional channels on broadband cable. About 93 per cent of homes had colour television licences and almost two thirds had video cassette recorders.

There were also five national BBC radio channels. The first two independent national radio stations should begin broadcasting in 1992. In 1991, there were more than 120 local radio stations, two thirds of them independent radio.



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ph

CONFIDENTIAL

PRIME MINISTER

FUTURE OF THE BBC

As you know, the BBC's present Charter expires at the end of 1996. Last September, we agreed that the Government should publish a consultation document this year, as a focus for public debate about the BBC's future.

.... Home Office officials have been working on this document and I enclose a copy of the latest draft. It has not yet been considered by officials in other Departments, so I am not circulating it to colleagues. But I thought you, and Chris Patten, would find it helpful at this stage to see the range of issues which we shall need to consider, in case any of them emerge in the next few weeks.

I am copying this minute, and the draft consultation document, to Chris Patten.

6 March 1992

CONFIDENTIAL

THE FUTURE OF THE BBC

AN AGENDA FOR DEBATE

Foreword by the Home Secretary

Most people in the United Kingdom watch or listen to broadcast programmes for pleasure and for information. The choice of programmes for viewers and listeners is greater now than it has ever been. During the last 10 years, the Government has made it possible for more services to be provided; it has encouraged new types of broadcast services and new ways of transmitting programmes.

Our aim is to ensure that advances in technology yield diversity in broadcasting. The question is how should the BBC contribute to this diversity?

For over 60 years, the BBC has typified public service broadcasting. The BBC's programmes are enjoyed, admired and respected all over the world. In this country, there are few people whose lives have not been brightened and enriched by BBC programmes. But the BBC has been criticised for bias and elitism in its programmes, and for profligacy and bureaucracy in the way it runs its affairs.

In 1996, the BBC's present Charter comes to an end. This gives us all an opportunity to consider its future. Few people actually call for the BBC to be abolished. But the shape of broadcasting is changing in this country and throughout Europe. There are changes in people's lifestyles, in commerce, in industry and in education and the arts.

The BBC cannot remain unchanged in a changing world. So there are

fundamental questions to be asked about what the BBC should do,
and how it should be financed and organised.

What kind of programmes and services should the BBC provide and
how should they be paid for? How can we make sure the BBC does
not waste money? How should we make the BBC accountable for what
it does? How can we ensure diversity and choice for audiences?

These are questions which need answers from viewers and listeners
as well as broadcasters and politicians. I hope many viewers and
listeners will join in the debate about the future of the BBC.

KENNETH BAKER

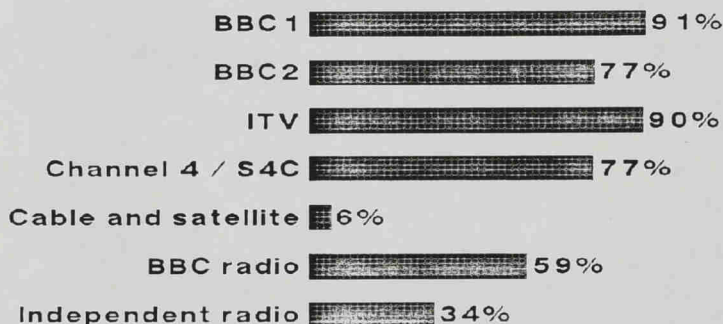
SOME FACTS AND FIGURES

AUDIENCES

Broadcasting is about programmes, the people who watch or listen to them, and the choices they make.

Most people in the United Kingdom watch or listen to broadcast television and radio programmes; on a typical day 75% of the population tune into TV, and 94% watch at some time during the week. Almost all of them will watch some BBC television. Almost half the population listen to the radio on a normal day and 75% do so over the week. Around a third will listen to the BBC on any given day and 60% do so in the course of a week.

Figure 1: Weekly audience reach, 1990-91



People spend an average of about 3½ hours per day watching television, including VCR playbacks. The most popular programmes attract audiences of over 15 million. In recent years, the allocation of viewing between the BBC, ITV and Channel 4 has been fairly constant.

More recently, cable and satellite have accounted for almost 5% of total viewing.

Figure 2: TV audience share, 1990-91

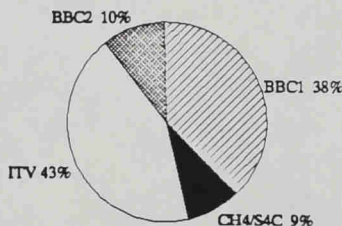
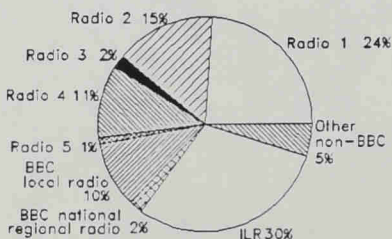


Figure 3: Radio audience share, 1990-91



The average time spent listening to the radio is around an hour and a half a day. The BBC's share is down from nearly 80% in 1981 to around 65% now, mainly due to the expansion of commercial local radio.

COSTS

The colour television licence fee costs £77 annually or 21 pence per day. It is cheaper than a daily newspaper and less than the price of sending a first class letter.

Most BBC services provide at least 16 hours of programmes per day. Last year BBC1 and BBC2 each broadcast over 6,000 hours of programmes. The five network radio stations broadcast a total of more than 34,000 hours.

Figure 4: Allocation of BBC income

The BBC's total income in 1990-91 was £1,375.8 millions. It spent £528.7 millions on BBC1, £278.1 millions on BBC2 and £114.6 millions on local television. The BBC spent £207 millions on its five national radio networks.

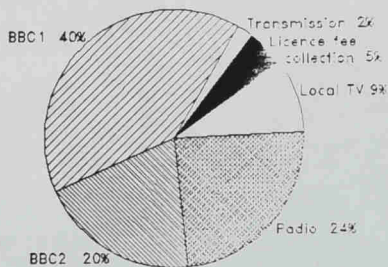
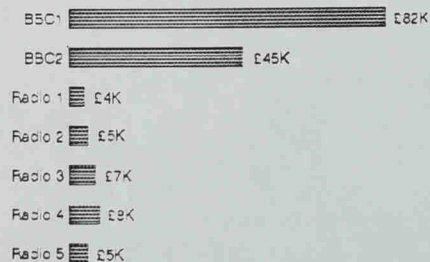


Figure 5: Costs per hour, 1990-91



The costs of different kinds of programmes and services vary considerably. BBC Television costs three times as much as radio. The most expensive type is also one of the most popular: TV drama. This costs over ten times as much as sport or programmes purchased from other broadcasters.

[Costs per viewer/listener of each service]

1. FUTURE ROLE OF THE BBC

In 1996, the BBC's Royal Charter will expire. This is an opportunity for the public to consider what services the BBC should provide in the future and how it should be organised and financed to provide the services efficiently.

The BBC cannot continue as if nothing else had changed since 1981, when it was granted its present Charter. The BBC is no longer the senior of two public service broadcasters, but one broadcasting organisation among many others. The Broadcasting Act 1990 created a new statutory framework for commercial television and radio, and for local, cable and satellite services, with the aim of increasing the number of services and the choices for audiences. Against this background, the role and functions of the BBC are bound to change too.

The range and quality of the BBC's radio and television programmes, and its technical excellence, have received worldwide recognition. On the other hand, BBC programmes have been criticised for offending public taste and feelings, for bias, and for unnecessarily high production costs. Some people think the BBC is unresponsive to criticism, that it tries to carry out too many activities, and it has too many staff. The BBC has taken steps to improve its efficiency and to adapt to changing circumstances. It considers it gives good value for money; at a cost of about 22 pence a day for each licensed household, it provides two television channels and five national radio services, as well as local radio.

Many people believe that the BBC should continue to be the focus of public service broadcasting in the United Kingdom. But this does not mean that the BBC has to broadcast the same range of services or programmes in the future, nor that it must continue to be financed, organised and managed as it is now. We need to ask whether radical changes are needed both to our ideas about public service broadcasting and to the role of the BBC.

2. DO WE NEED PUBLIC SERVICE BROADCASTING?

- * Do we need any broadcasting to be provided by a public authority in the United Kingdom in future, now there are more services and a greater choice of programmes for the viewers and listeners, and the number of services is likely to increase?
- * What are the essential ingredients of public service broadcasting for the future?

Broadcasting through public service authorities has been founded on the belief that a scarce public asset, the broadcasting frequencies, should be used for the benefit of the public as a whole, to provide services which combine information, education and entertainment. Since 1927, the BBC has operated as a public service; other public broadcasting services have been provided by the Independent Television Authority, and then by the Independent Broadcasting Authority.

Now more services and greater choice have been made possible by developments in technology. With scientific advances, the frequency spectrum can be used more intensively. Programmes are being transmitted by satellite and by cable. So viewers and listeners have a wider choice of programmes and services, which should increase in the years ahead. It is difficult to say that we must keep public service broadcasting because there are very few services.

Some people believe public service broadcasting is an idea which has had its day; the public will be well served by the growing number, and diversity, of television and radio channels. Others believe that there will continue to be a role for public service broadcasting. Public service broadcasting does not have to be provided by the BBC, nor does it have to be financed from public funds. Even with the lighter regulation of the services licensed by the Independent Television Commission after 1993, Channel 4 will remain as a public service, financed by advertising.

If public service broadcasting is to continue, we need to ask how it differs from other forms of broadcasting. As we move towards the 21st century, we need to consider what we mean by public service broadcasting, whether we want it in future and, if we do, how it is to be provided.

3. QUALITY AND DIVERSITY IN PROGRAMMES

- Is good quality programming an essential feature of public service broadcasting?
- Should public service broadcasting continue to aim to combine entertainment, information and education, and to extend people's interests and horizons?
- Or should public service broadcasting concentrate on programmes which inform and educate, with few entertainment programmes?

The Government aims to maintain and to improve the quality of public services. Programmes are the service which the broadcasters provide and programme quality and diversity have been considered essential features of public service broadcasting in the United Kingdom.

Quality in broadcasting is a matter of judgement and can be achieved in different ways. Some would measure it by the numbers who watch or listen to a programme; others would rely more on the audience's appreciation. How far did the programme engage the audience's interest? How much did they enjoy it?

Quality can be achieved in all kinds of programmes, in light entertainment or sports coverage as well as documentaries and drama. Programmes can present information in an entertaining way: information can be given by characters in a soap opera; a political discussion can include jokes. The traditional public service broadcasting view is that the best programmes are likely to combine information, education and entertainment, so giving people pleasure and extending their interests and knowledge.

Many factors contribute to quality and diversity in broadcast programmes: the range and depth of the programme content and the ways it is presented. Good programming needs creative ideas, accurate information from different sources, and high technical standards in production and transmission. It depends on the skills of many people: producers and editors, writers, actors, musicians, journalists, designers, camera crews, engineers, and those who make the sets or costumes, put on the make-up or create special effects.

A wide range of programmes can be achieved on one service or through a multiplicity of services. With more entertainment services available to audiences, public service broadcasters could be required to concentrate on programmes which inform and educate, including news and current affairs, and to cut back the proportion of entertainment programmes.

4. INDEPENDENCE AND ACCOUNTABILITY

- * Is editorial independence essential for public service broadcasting?
- * Should public service broadcasters be given a clear remit about the services, and range of programmes, which they are expected to provide?
- * How can standards be set for programmes and for obtaining value for money without restricting the scope for innovation and change?

Editorial independence has been held to be an essential feature of public service broadcasting in this country. Decisions about individual programmes have been taken by broadcasters or by broadcasting authorities, not by the Government or other interest groups.

Editorial independence allows the broadcasters to reflect aspects of the audience's wishes or needs, not necessarily revealed in the viewing and listening figures. It enables broadcasters to resist pressures from those who wish to manipulate audiences for their own purposes, whether they are sponsors, advertisers, or merely charlatans. But broadcasters may be over-confident that they are the best judges of what the public wants. They can interpret the audience's wishes and needs in ways which are self-indulgent and unresponsive to public criticism, resulting in recurrent disputes about editorial judgements on individual programmes.

Public service broadcasters have been expected to keep to standards of taste, decency and impartiality in their programmes, but there have been differing views on who should determine and enforce these standards and how broadcasters should be made accountable for their activities.

As the number of services and broadcasting organisations increases, public service broadcasters need to be clear about the services they are expected to provide and the standards they are expected to meet. More services do not necessarily result in a wider choice of different types of programmes, if broadcasters are competing for audiences and for money. If the programmes are paid for from public funds, there should be ways of ensuring that the public's money is used effectively and not wasted.

Any new framework needs to make public service broadcasters accountable, but also to be flexible enough to allow for change, so they can respond to the audience's changing interests and needs. Broadcasters need scope to explore new ideas for programmes. It would be a dull and timorous broadcasting service which never experimented with new ideas or provoked controversy.

5. ASPECTS OF UNIVERSALITY IN PUBLIC SERVICE BROADCASTING

- Should nearly everyone in the United Kingdom be able to receive public service broadcasts?
- Should public service broadcasters aim to have some television programmes watched by audiences of 10 or 15 million people?
- Or should they aim to offer a range of programmes, including some of special interest to minority groups, so that the programmes, taken together, reach many people in the course of a day, or a week or a month?

Universality has been regarded as one essential feature of public service broadcasting. Because there were few services, they were planned to reach people throughout the country. They broadcast programmes which appeal to people with a wide range of tastes and interests, of different ages and backgrounds, and living in all parts of the country; and some programmes aim to attract very large audiences. Broadcasting has brought people together, giving them a source of shared experience and interest.

There is now more choice for audiences. But some services cannot be received throughout the country and others are available only to those who pay for them, which limits people's opportunities to explore a diverse range of programme.

With more services, each service could concentrate on a single type of programme, likely to appeal to people of a particular age group or with particular interests. There can be special channels for children or pensioners, or for news or education. More services can be provided for minority groups, including ethnic minorities. Most radio services are designed to appeal to limited audiences; television services could move in the same direction. Increasingly, new services may cater for special interests. So there may be less need in future for a single service to reach most homes and offer a range of programmes.

As the number of services increases, so it is likely that the audience for them will be fragmented. Many people use audio and video cassettes; they are less dependent on broadcast programmes for entertainment, education, or information. They record broadcast programmes for future use. The audience for each programme and service in future is likely to be smaller than in the past. Even so, each service may be used by many households at some time.

6. NEW FORMS OF PUBLIC SERVICE BROADCASTING

- * Do we need new forms of public service broadcasting in future?

There are many forms of public service broadcasting in different parts of the world. They often reflect the different constitutional, legal and cultural traditions in different countries. In this country, public service broadcasting has evolved over time: a system devised for a radio service developed to include television, and services financed by advertising. Two public service broadcasting authorities, the BBC and the Independent Broadcasting Authority, have competed in providing a wide range of high quality programming, but not for finance.

Public service broadcasting is still evolving. The Broadcasting Act 1981 required the Independent Broadcasting Authority to ensure that its services provided information, education and entertainment, and that the programmes maintained a high general standard in all respects and a proper balance and wide range in their subject matter. The Broadcasting Act 1990 keeps standards of taste, decency and due impartiality for all broadcast programmes and places some requirements on quality, education and information on Channels 3 and 5. But most services licensed by the Independent Television Commission and the Radio Authority will be regulated more lightly than in the past. From 1993, only the BBC and Channel 4 will continue to be required to broadcast programmes as public services.

Throughout the United Kingdom, Channel 4 programmes will have to provide information, education and entertainment, and to cover a wide range of subject matter. Channel 4 in most of the United Kingdom will have to ensure that some programmes are likely to appeal to tastes and interests not catered for by Channel 3, and to encourage innovation and experiment in the form and content of programmes. In Wales, S4C has to ensure that a substantial proportion of its programmes are in Welsh.

So new directions are being developed for public service broadcasting. In the last 60 years, the BBC's interpretation of its public service remit has changed. Public service broadcasting is not static: its purpose and focus can be adapted to suit new circumstances. There could be a new role for the BBC in the years ahead.

7. THE BBC'S FUTURE

There will be a number of key issues in the debate about the future of the BBC.

Public service broadcasting does not have to be provided by a public authority nor to be financed from public funds. A public service broadcasting organisation can provide a wide range of programmes, or a narrower range of programmes, unlikely to be made by other broadcasters.

If public service broadcasting is thought to be necessary or desirable in future, then we need to be clear about the essential elements which distinguish it from other kinds of broadcasting.

If the BBC is to continue to be the main public service broadcaster in the United Kingdom, these essential elements will have to be built into its future plans, programmes and finances. So there are questions about the kind of programmes which the BBC should provide, the range of its programmes, the number of its services, the way the programmes and services should be paid for, the extent of the BBC's other activities, and the framework for editorial decisions, and for public accountability both for programmes and value for money.

All these issues are interlocked. Decisions about BBC programmes, services, finance and accountability need to be seen as part of a coherent policy, not just for public service broadcasting, but for all broadcasting. It will be essential to take account of the impact of any decisions on other broadcasting organisations and on the diversity and choice of programmes and services for viewers and listeners. Public service broadcasting is provided for the benefit of the audiences, not for the benefit of the broadcasters, advertisers, or political parties.

But any debate about the BBC's future should begin by considering the programmes and services which it is to provide.

8. BBC PROGRAMMES IN THE UNITED KINGDOM

- * If the BBC is to be the focus for public service broadcasting in future, should it continue to broadcast a wide range of programme services appealing to all tastes and interests?
- * Or should the BBC concentrate on information, education and minority interests, and programmes unlikely to be provided by other broadcasters?
- * Should the BBC be required to broadcast a high proportion of programmes to reflect the interests of people throughout the United Kingdom?

At present, in the United Kingdom, the BBC broadcasts a wide range of programmes on its two television channels. The five national radio services are aimed at different audiences, but together have a similarly wide range of programmes. At present, over 90% of the population watch some BBC television programmes and about 60% listen to BBC radio in the course of a week.

With the greater choice now available to viewers and listeners, the BBC could be restricted to provide news and current affairs, and programmes which are unlikely to be broadcast by other organisations. The BBC would be providing programmes mainly for minority audiences but with the aim of increasing the overall diversity and choice of broadcast programmes for viewers and listeners. It might be required to increase the proportion of educational programmes and programmes for minorities of all kinds, including ethnic minorities and people with special interests.

There are other possibilities. The BBC could concentrate on programmes which reflect United Kingdom interests and concerns, including those of people in Scotland, Wales and Northern Ireland, or to produce programmes of particular interest to United Kingdom audiences, which reflect the British way of life, history and culture, and the United Kingdom's evolving place in Europe and the wider world. This need not be an insular approach; it could include programmes about other countries' views of European and world issues and programmes showing how different countries approach similar problems. In this way, the BBC could help to maintain diversity at a time when programmes are increasingly produced by organisations with multi-national interests for transmission in more than one country.

9. BBC REGIONAL AND LOCAL PROGRAMMES

- * Should the BBC continue to broadcast radio and television programmes of special interest to people in Scotland, Wales and Northern Ireland?
- * Are there sufficient BBC programmes of special interest to audiences in Scotland, Wales and Northern Ireland?
- * Should the BBC continue to broadcast television programmes for people in different regions in England?
- * Is there a continuing need for BBC local radio?
- * Should the BBC increase its regional and local programmes?

The BBC also provides television and radio programmes for Scotland, Wales and Northern Ireland, some regional television programmes in England, and local radio stations.

As a public service broadcasting organisation, the BBC might be expected to continue to broadcast radio and television programmes of special interest to people in Scotland, Wales and Northern Ireland. However, programmes for the different regions in England have never been a strong element in BBC television services. Some people think regional programming should be strengthened; others question whether it is needed at all, since Channel 3 is regionally based.

The growth in the number of local radio services has been a feature of the last 20 years. The BBC pioneered local radio in England. Many people value the BBC's local programmes, which have a high proportion of news and information and which provide special interest programmes, for example, programmes in ethnic minority languages. However, local services can be, and are, provided by others, and the frequencies used by the BBC's local radio services could be used by other broadcasters.

10. BBC NETWORK SERVICES

- * Should one BBC TV channel be re-allocated for popular commercial television?
- * Should Radios 1 and 2, or other network radio services, be hived off from the BBC?
- * Should the BBC have more specialist network services?

If diversity and choice are to be increased for the public, it has been argued that the BBC's network services, broadcast nationally, should not duplicate or match those provided by other broadcasters. The BBC would have a particular niche in the whole range of broadcasting services. As the number of services increases, the BBC's share of broadcasting, and audiences, is likely to fall, even if it continues with the same number of network services as it has now.

The number of BBC services could be reduced, if the range of BBC programmes were to be limited, so that they complemented the output of other broadcasters. Instead of two network television channels and five network radio channels, the BBC might have one television channel and three national radio channels. This would release frequencies for use by other broadcasting organisations.

But if the BBC is expected to provide a full range of programmes, appealing to most tastes and interests, embracing information, education and entertainment, and to provide programmes of special interest in Scotland, Wales and Northern Ireland, as well as regional and local programmes, then it would be more difficult to reduce significantly the number of services the BBC broadcasts in the United Kingdom.

If the BBC is expected to provide more programmes for minority, or specialist, interests it might need to increase its radio or television network services. For example, it could have a service entirely for education and training programmes, or for European issues.

11. BBC OVERSEAS SERVICES

- Should BBC World Service Radio and World Service Television be maintained, expanded or cut back?
- Should these services continue to be produced mainly by the BBC?
- Or should more World Service programmes be made by independent production organisations?

Overseas, the BBC provides a long established World Service in radio in English and 36 other languages; in 1991, it began to provide World Service Television, making available BBC news programmes for different parts of the world and a selection of other programmes. Increasingly, it is providing radio and television programmes for transmission by overseas broadcasting organisations.

The BBC's overseas services are relied on by many people for accurate news, for learning English and for programmes of special interest in their own languages. These programmes are ambassadors for the United Kingdom and the British way of life. They are not financed by the licence fee and they need not be dealt with in the same way as the BBC's services for the United Kingdom.

The BBC overseas services draw on the programmes and information provided for its services in the United Kingdom. It would be difficult to maintain the scope and authority of the programmes if the overseas services were divorced from the BBC, but more programmes could be provided by independent producers.

12. THE BBC'S PROGRAMME OBLIGATIONS

- * In the United Kingdom, should the BBC be obliged to broadcast programmes that most viewers and listeners want?
- * Should it be required to broadcast innovative programmes, which may widen audiences' horizons and surprise them?
- * Or should the BBC be left to decide for itself the range and quality of programmes to be broadcast?
- * Should the BBC be required to keep to standards of impartiality, taste and decency in its programmes?

In 1981, the Board of Governors of the BBC re-affirmed that they would ensure that programmes maintained a high general standard. They undertook to provide a properly balanced service, with a wide range of subject matter, to continue the policy of treating controversial subjects with due impartiality and to ensure that programmes should, so far as possible, not offend against good taste or decency or be likely to encourage or incite to crime or lead to disorder or be offensive to public feeling. The BBC is required to broadcast a daily account of proceedings in Parliament and any public service messages when asked to do so by the Government. It is prevented from broadcasting its opinion on current affairs or matters of public policy, from sending subliminal messages and from broadcasting programmes for payment, including sponsored programmes, without the agreement of the Home Secretary.

The Broadcasting Act 1990 loosened the controls on programmes broadcast by other organisations but it continues to place some obligations on taste, decency and impartiality, on the services licensed by the Independent Television Commission and the Radio Authority. The Act extended the law on obscenity, incitement to racial hatred and defamation to broadcast programmes, including the BBC's.

With more services and greater choice available to audiences, the programme obligations placed on or undertaken by the BBC might be relaxed. Alternatively, if the BBC has a special place in the broadcast system, the programme obligations could be tightened. The range of the BBC programmes could be defined and it could be required to maintain high quality and specified standards in its programme production.

3. THE BBC'S FUNCTIONS

Although the BBC is sometimes described as a monolith, it might better be regarded as a conglomerate. It has a multiplicity of functions. It commissions and schedules radio and television programmes; it produces radio and television programmes; it provides the studios, equipment and skilled staff to make programmes; it transmits programmes; it gathers news in this country and throughout the world; it provides educational services; it is a patron of the arts, employing writers, actors, musicians of all kinds and maintaining five orchestras; it undertakes social and technical research; it trains production and engineering staff; it publishes books and magazines; it sells its programmes to other broadcasting organisations and raises finance for co-productions; it makes available recorded versions of programmes, and supporting material, to the general public.

Competition has been increasing in the broadcasting industry. There are many stages before a programme reaches its audience; more of these processes are being carried out by different organisations. The independent production initiative has required the BBC Television and ITV to ensure that at least 25% of their output comes from independent producers and more use is made of studios and other production facilities run by independent companies. These developments should promote greater efficiency and innovation. The BBC could develop further in the same direction. For example, a distinction might be made between the BBC's broadcasting functions and its other functions.

In the past, the BBC has made long-term investments in broadcasting, by nurturing writers and performers, and through training and research. Unless similar investments are made in future, the quality of British broadcasting is likely to decline. It will become dependent on foreign talent, production skills and technology. Long-term investment could continue to be one of the BBC functions or it could become the responsibility of other organisations.

14. CHANGING THE BBC'S BROADCASTING FUNCTIONS

- Should the BBC become a broadcasting publisher, commissioning and scheduling but not making programmes?
- Or should the BBC continue to commission, schedule and make radio and television programmes.
- Should many more programmes broadcast by the BBC be made by independent producers?
- Or should most programmes continue to be made by the BBC but using more outside support services?
- Should BBC transmission services be sold to the private sector or contracted out?

There could be radical changes in the BBC's broadcasting activities. It could become a broadcasting publisher, commissioning and scheduling programmes but not making them. The BBC is already required by the Broadcasting Act 1990 to take 25% of its television programmes from independent producers by 1993. This quota could be increased and could be applied to radio as well as television. The BBC could take more of its news coverage from other broadcasters or agencies. The BBC could then reduce its staff, close down more studios and sell off some of its estate.

But making programmes for television and radio is seen by many people as the main purpose of the BBC's existence. Even so, it would be possible for the BBC to produce the majority of programmes but to buy production facilities rather than providing them through BBC staff. Producer Choice, announced in 1991, will allow television producers to select either BBC or outside facilities for production. This arrangement could be developed further, with the BBC operating its own studios and facilities commercially, offering production facilities to other production companies. There are other BBC broadcasting functions which could be operated for profit, in addition to the sale of programmes to other broadcasters.

There could be changes in the way the BBC's transmission network is operated. The Independent Broadcasting Authority's transmission network was privatised in 1991. The BBC's transmission network could be sold to the private sector, where it could compete for business in transmitting BBC and other services. Alternatively, the BBC's transmission could be contracted out. Other broadcasting functions might be privatised or contracted out.

15. THE BBC'S OTHER ACTIVITIES

- * Should BBC patronage of the arts be cut or transferred to the Arts Council?
- * Does the BBC need to support five orchestras?
- * Should the BBC's educational services be reduced?
- * Should the BBC's commercial activities be expanded, reduced or placed in other hands?
- * Should BBC legal, library and other professional services be contracted out?

There are some activities which the BBC carries out in pursuit of its own interpretation of its public service broadcasting obligations. They include maintaining orchestras and patronage of a wide range of artistic events. In addition to its educational programmes, the BBC provides educational services, such as producing audio and video cassettes and supporting material for teachers and students.

These activities are not central to the BBC's role as a broadcaster. If the aim were to reduce the scope of the BBC's functions and its staff, these are examples of activities which could be restricted or stopped.

However, in recent years, the BBC has been encouraged to become an entrepreneur. It has exploited its assets, selling programmes, publishing books, magazines and video and audio cassettes and other merchandise linked to its programmes. Most of this activity is carried out by BBC Enterprises Ltd and its subsidiaries. Some activities have raised issues of competition policy and law. The Monopolies and Mergers Commission has been asked to examine the practice of broadcasters publicising, in the course of transmission, goods which they or their associates supply. These activities could be curtailed or further expanded or separated from the BBC and placed in the hands of other organisations who would pay a commercial price to the BBC for the use of its material, provided that any arrangements comply with United Kingdom and EC competition law.

Like other large organisations, the BBC has a range of services which support its activities; they include legal services, libraries, archives and research. At present, most of these services are provided by BBC staff; there may be opportunities for some of this work to be contracted out.

16. GEOGRAPHICAL COVERAGE OF BBC SERVICES

- * Is it necessary to spend more on expanding the present coverage of the terrestrial television networks?
- * Should more be spent on extending the coverage of BBC national radio services on FM?
- * Should BBC radio services be available through digital audio broadcasting?

At present, the BBC is responsible for transmitting its services, which reach over 99% of the population in the United Kingdom. The BBC shares with the ITC responsibility for a programme of building up to 25 relay stations a year to bring UHF television services to those who cannot yet receive them. In practice, only groups of more than 200 people benefit from the relay programme. For smaller groups, there are self-help schemes, and the BBC and ITC are responsible for giving advice about them. The BBC aims for similar high geographical coverage for its national radio services. Radio relay stations are typically built only for unserved pockets of more than 1,000 people, although about one million people have difficulty in receiving the BBC's national radio services on FM. Digital audio broadcasting (DAB) should provide more reliable reception for radio services in future.

For historical reasons, the BBC's transmission system is intertwined with that developed by the IBA, which was privatised in 1991. Most UHF television sites cater for Channel 3 and 4 as well as BBC's 1 and 2 and BBC sites and masts are made available to other broadcasters, though the BBC does not provide transmission services for all of them.

The nearly complete coverage of UHF television contrasts with that expected for Channel 5. Spare frequencies suitable for terrestrial television broadcasting are rare, and Channel 5 is likely to reach a maximum of only 74% of the population, and to build up to that figure during the first few years of its licence.

It also contrasts with the present coverage of cable services. Most of the UK population live in areas under franchise to cable operators. However, just over two million homes have so far been passed by cable; some 500,000 households subscribe to cable services and only 200,000 of them have broadcast services. Overall growth has been slow. While it is likely that, eventually, most of the country will be cabled, it is not possible accurately to predict when that will be achieved or how quickly people will take up the services which will be offered.

17. SERVICES BY SATELLITE

- * Could, or should, any of the BBC's national radio or television services be transferred to satellite?
- * Should the BBC be allowed to provide new UK services by satellite?
- * Should the BBC be encouraged to provide specialist subscription services by satellite?

The BBC operates satellite television services for audiences overseas, such as BBC TV Europe and the BBC World Television Service, but does not have satellite services for reception by audiences in the United Kingdom.

A satellite television channel depends for its coverage on the position and power of the satellite from which it is transmitted. Signal strength varies across the "footprint" of the satellite and larger dishes are required to pick up enough power to create a proper picture on the edge. The satellite station which is most widely received by dish in the UK is BSkyB, transmitted from the Astra satellite. Astra broadcasts to North Europe and the footprint fades over Northern Scotland.

The United Kingdom has been allocated five satellite television frequencies by international agreement. The original intention was that the BBC should be one of a number of broadcasters using these channels to provide competing services. But plans for a joint venture by the BBC and IBA did not materialise and the ITC is now responsible for licensing services on these frequencies. They were previously used by BSB and are being used by BSkyB in its transmissions from the Marcopolo satellites. They are receivable by viewers in the United Kingdom with the correct type of dish and receiving equipment, in most areas, except those where the topography or presence of buildings means that there is no direct line of sight to the satellite. After 1992, these frequencies will no longer be used by BSkyB and could be available for new services, or used for existing services, so releasing UHF channels for new services.

18. TECHNICAL DEVELOPMENTS

- * Should the BBC continue to work for technical improvements in the longer term, even though this could result in higher costs both for viewers and listeners and for the BBC?

Broadcasting technology is changing rapidly. The BBC is involved at many stages, from research to helping the public to adjust to new technologies. Some technical changes introduce new services, such as teletext, and others improve existing services, such as the introduction of stereo sound or improved picture quality. Many require viewers or listeners to buy new equipment in order to take advantage of them. Nearly all the changes require new European or international technical standards to be agreed and create additional costs for broadcasters, with capital costs for new equipment and sometimes higher production costs.

High definition television (HDTV) is a new concept, intended to bring cinema quality pictures to television screens. It was developed initially in Japan, with a competing incompatible system being developed in Europe under the EC's Eureka programme. The BBC Engineering Research Department has taken part in the first development phase and has a Treasury grant to take part in the next. The first change viewers will notice is likely to be the introduction of TV sets with wide screens, which match the shape of cinema screens. HDTV will increase the costs of programme production, as well as the initial costs to viewers for new receivers.

Radio data systems (RDS) is a technique being added to existing radio stations, which gives push-button tuning. Using it, listeners will be able to hunt across the spectrum for stations of a particular type, or to pick up travel announcements on other stations. With RDS receivers, car drivers can continue listening to a station as they cross the country, without re-tuning their radios. The BBC was involved in RDS from an early stage and BBC radio transmitters are already equipped for RDS.

Digital audio broadcasting (DAB) is a new method of transmitting radio signals, to provide reception of compact disc quality with more efficient use of the radio frequency spectrum. This opens up the possibility of many more national and local radio stations. The BBC have taken a leading role in the development of this technology, which will need new transmitters and receivers.

19. LONG TERM INVESTMENT IN BROADCASTING

- * Should the BBC's role in training and nurturing talent continue in future, as part of the functions of public service broadcasting?
- * Should the BBC provide training for other broadcasting organisations?
- * Should the BBC carry out long-term technological and other research?

The BBC has assumed responsibility for much of the long term investment in broadcasting in the United Kingdom. It has carried out this responsibility in a number of ways. It has nurtured writers, composers, comedians and musicians of all kinds. The BBC has trained journalists for broadcasting and many of the production staff in this country. People trained by the BBC leave and take BBC standards of programme production into other organisations. The BBC has conducted long-term research into broadcasting technology, contributing to advances in production, transmission and reception. It has trained broadcasting engineers. All these activities have improved the quality of British broadcasting as a whole.

Unless there is continuing long-term investment in people, in their skills and in technological development, standards in British broadcasting will decline and it will become increasingly dependent on programmes and technology from other countries.

Each broadcasting organisation, the BBC and those licensed by the Independent Television Commission and the Radio Authority, and the transmission organisations could be left to make their own arrangements for training and long-term research. If there is sufficient demand, it should be possible to have training taking place in a variety of institutions, particularly if the broadcasting organisations co-operate in helping educational establishments to provide courses.

To ensure these long-term activities are maintained, the BBC, which is likely to continue to be the largest broadcasting organisation in the United Kingdom, could become the focus for long-term investment in broadcasting; this would be a part of its public service functions. It could have specific obligations to provide training and research both for its own purposes, and for other organisations for payment.

20. OPTIONS FOR THE FUTURE OF THE BBC

There are many options for the future of the BBC as a focus for public service broadcasting. The number of its services, and the range of its programmes, could be kept at the present level, reduced or increased. Similarly, the scope for its other activities could be maintained, reduced or increased. These are some of the possibilities:

The BBC would go on providing two national television services, five national radio services and local radio, with a wide range of programmes, including popular programmes and programmes for minorities. It would continue to make, commission and transmit programmes and to carry out a wide range of supporting activities, including training and research.

The number of BBC services would be cut; the BBC's programmes would concentrate on news, current affairs, minority interests and education; the BBC would continue to make and transmit programmes and would keep up the other activities to support its restricted range of programmes.

The BBC's services would be cut; it would make most of the programmes but look to other organisations for most of its support services; its transmitters would be privatised.

The BBC would continue to broadcast its present range of programmes and services, but would obtain more of its programmes and support services, including transmission, from other organisations.

The number and range of BBC services would be increased, and it would continue programme production and all its other activities.

These are just some of the possible ways forward. The choice between them depends on what people want the BBC to provide, how much they are prepared to pay for BBC services and how they are prepared to pay for them.

21. PAYING FOR BBC SERVICES

At present, the BBC services in the United Kingdom are financed almost wholly from the licence fee; World Service Radio is financed by grant from the Foreign and Commonwealth Office. BBC Enterprises, and a number of other subsidiary companies, including World Service Television, operate commercially, enabling the BBC to raise additional funds by exploiting its assets.

The BBC's income from the licence fee, less the cost of collecting it, was £1,290 million in 1990/91. Its income from other sources, including BBC Enterprises and grants from the Open University, was £24 million. Over £900 million was spent on television services and £300 million on radio services, including local radio.

The way the BBC services are to be paid for cannot be divorced from the services and programmes which the BBC is expected to provide. Although various forms of primary finance are possible - the licence fee, taxation, advertising or subscription - the method chosen will have an impact on the programmes which the BBC broadcasts. Services financed by advertising have to provide programmes to attract the audiences the advertisers wish to reach.

At present, all households watching UK television services are obliged by law to pay the licence fee and the BBC is required by its Charter to provide broadcasting services as public services. In practice, it caters for a wide range of tastes and interests in its programmes and competes for a sizeable share of television audiences - which can be seen as a justification for the licence fee.

The Peacock Committee, which considered the future financing of the BBC and reported in 1986, concluded that the BBC's television services should continue to be financed by the licence fee, until it became possible to move to a form of payment by subscription.

However its services are paid for, the BBC needs to be organised so that it operates efficiently and gives value for money.

22. FINANCIAL EFFECTS OF REDUCING BBC SERVICES

- * If the number of BBC services were reduced, should the licence fee be reduced?
- * Or should any savings be used to finance more or better programmes on remaining BBC services?
- * Should the BBC save money by playing more records on its radio services and increasing the proportion of feature films and foreign series on its television services?

Reducing the BBC's services would open up financial options. If the BBC continued to be financed by the licence fee, then the licence fee could be reduced, or not increased. Alternatively, the money could be used to make programmes for the remaining BBC services.

Removing Radio 1 and Radio 5 from the BBC would save about £50 million, about 4% of its licence revenue. So, the licence fee could be cut by £2.50; or some increase in the licence fee could be deferred for one year; or the money could be used for additional or improved television programmes. For the weekly cost of Radios 1 and 5, BBC Television could broadcast a total of an hour of drama, an hour of children's programmes, a half hour programme for schools, an hour's light entertainment, two hours of sport, and an hour of documentary programmes.

Local radio services cost the BBC about £50 million a year; so does Radio 2; and Radio 3. If Radios 1 and 2, and local radio, were privatised, and similar services were paid for by advertising, over £140 million of advertising revenue would be needed to run services at present standards. If Radio 3 were funded by subscription, then its two million listeners would have to pay £20 a year or 40 pence a week.

It would be possible to reduce the costs of these services, for example, by relying more on records in the output of Radios 1, 2 and 3 and by cutting out the 1,400 hours of current affairs, features and documentaries broadcast by these three services.

If BBC television reduced its sports coverage, and the number of feature films and foreign series, its average costs would increase, since these are some of the cheapest programmes, costing less than £40,000 an hour on average. In comparison, children's programmes cost over £100,000 an hour and one hour's drama costs nearly £450,000 on average.

23. USING TAXES TO PAY FOR THE BBC

- * Should the licence fee be abolished and the BBC's services paid for by a grant from general taxation?
- * Should some of the BBC's services or functions, such as patronage of the arts, be paid for from general taxation?
- * Should any grants from taxation be paid direct to the BBC, or through another body, such as the Arts Council or a new Public Service Broadcasting Council?

The BBC's services, or some of its services, could be paid for from general taxation. The BBC provides services which benefit the public as a whole. Some people believe that the BBC should be paid for by those who can most afford to contribute to the well-being of the community and not by all households which use television, regardless of their income. But if the BBC were financed from income tax, it would need an increase of nearly a penny in the pound on the standard rate to produce the amount which is at present raised from the licence fee. General VAT rates would have to be raised by almost 1% in order to produce the same revenue.

The BBC's funding might be tied to a particular form of taxation, such as a sale tax on television sets and VCRs, or the revenue from taxing the services licensed by the Independent Television Commission. But these are unlikely to produce an income which is adequate or reliable enough for the BBC to plan ahead to produce good quality programmes. At least £300 would have to be added in sales tax to the price of a set to raise income equivalent to the licence fee.

The argument against funding the BBC from general taxation has been that it would make the BBC vulnerable to Government, or political, pressure on the content of programmes. This pressure would be more intense if the level of the BBC's income had to be agreed each year. The pressure might be reduced by providing money to the BBC through another body, such as the Arts Council or a new Public Service Broadcasting Council, which would receive funds from the Exchequer. But the size of the BBC's grant, at its present level of expenditure, would far exceed the grants to any other organisation, and an intermediate body might not give effective protection.

Another possibility would be to finance some of the BBC services, such as Radio 3, or some of its activities, such as the cost of maintaining the orchestras, through a grant from the Arts Council. This would not reduce the licence fee significantly but it would not require all households, however poor, to contribute to these costs. Another possibility would be to fund the BBC's educational services from taxation.

24. ADVERTISING ON BBC SERVICES

- Should the BBC take advertising on all its services, on some services or none?
- Should any advertisements be broadcast during programmes, or confined to blocks in intervals between programmes?
- Should the BBC show sponsored programmes?
- Should sponsorship be forbidden for certain types of programmes?

The possibility of advertising on the BBC services was examined closely by the Peacock Committee on Financing the BBC, which reported in 1986. They commissioned a number of research studies, looked at the position in other countries and considered evidence from broadcasting organisations, advertisers and others. They concluded that BBC television should not take advertising. Most of them thought that Radios 1 and 2 could take advertising, but they should not remain BBC services.

Funding Radios 1 and 2 exclusively by advertising would enable the licence fee to be reduced by £4 a year.

If the two BBC television services were to be financed entirely from advertising, then £1,000 million would need to be found. This is unlikely to be achieved if the advertising were concentrated in "blocks" between programmes a few times a day, and not broadcast before, during and after most programmes.

Sponsorship is another form of advertising; it is limited to a statement in a programme that it is being financed by a particular organisation. This is less intrusive, but unlikely to provide sufficient revenue to finance more than a small proportion of programmes. There is, too, a risk that organisations which pay for programmes are more likely to want to influence their content, and sponsorship might be thought to be an unsuitable method of financing some kinds of programme. The EC Directive on Broadcasting already forbids sponsorship of news or current affairs programmes, but there may be other programmes, for example, educational programmes, which should not be sponsored.

25. EFFECTS OF ADVERTISING ON BBC SERVICES

- * Should some broadcast services remain free of advertising?
- * Would finance from advertising be likely to alter BBC programming?
- * How would additional national services financed by advertising alter the prospects of the services licensed by the Independent Television Commission and the Radio Authority?

Advertisements on BBC services would increase choice and competition for advertisers and could lower their costs. But the interests of the advertisers are not the same as those of the audiences or the broadcasting organisations. Some people are amused by broadcast advertising; others find it irritating or intrusive.

Introducing advertising might alter the range and quality of BBC programmes. They would have to attract sufficiently large, or affluent, audiences to persuade advertisers to pay enough to cover the programme costs. The BBC might be under pressure to increase its audiences at the expense of programmes of interest to smaller, or poorer, audiences. Many of those who wrote to the Peacock Committee made it clear that they would consider a limited range of programmes to be a reduction in the quality of the services.

It would be possible, as the Peacock Committee proposed, for more services to take advertising, but to remove them from the BBC. This would reduce the risk that the BBC would be forced to restrict the range of its programmes in order to compete for advertising revenue with other services. But it does not answer the questions of whether there would be sufficient revenue from advertising to sustain more services and what kind of programming would be afforded.

Introducing advertising on BBC services would change the prospects of others who benefit from advertising revenue, particularly other broadcasters and the press. The Channel 3 licensees, and others licensed by the Independent Television Commission and the Radio Authority, would probably take the view that there should be changes in the method of assessing how much they pay each year to the Commission, the Authority and the Exchequer. If the BBC continued to be funded in part by the licence fee, other broadcasters might question whether the BBC was competing for advertising revenue on equal terms.

26. SUBSCRIPTION

- * Should the licence fee be replaced by a subscription charge for receiving BBC1 and 2?
- * Should one BBC TV service be available only to subscribers?
- * Should some BBC television programmes be supplied on a pay as you view basis?
- * Should specialist or minority services, like Radio 3, be financed by voluntary subscription?

The Peacock Committee concluded that, in the longer term, subscription should replace the licence fee as the main source of BBC finance. It could take several forms, ranging from a single fee for all BBC services to paying to watch individual programmes.

One advantage of subscription is that it could make a direct link between the providers and users of the services. Unlike the licence fee, subscription need not oblige television set owners to pay the same amount regardless of how many programmes or services they use. A switch to subscription would need changes to receivers, and additional billing and other costs. Income at present lost through licence fee evasion might be regained, though evaders might decide not to subscribe to BBC services. The technology for encryption would have to keep ahead of pirate decoders. But if programmes or services were encrypted to ensure payment of the subscription, this would discourage people from sampling a wide range of programmes and could reduce the availability of programmes for those less able to pay.

In 1987, a study commissioned by the Home Office recommended a gradual introduction of subscription television but not a wholesale immediate switch of existing services to subscription. More use could be made of the night hours to show premium film and other subscriber only services, so reducing the BBC's dependence on the licence fee. Other possibilities would be to continue broadcasting certain programmes in clear or to regulate subscription prices. Technological development may be the key to reducing installation and administration costs.

Subscription technology is not at present available for radio, though the development of digital audio broadcasting should enable radio services to be encrypted and decoded. Given the number and variety of sets in households and cars, encoding BBC radio for subscription would cause considerable inconvenience and cost. One subscription option for radio would be to stop other funding and leave each channel to raise its money by voluntary subscriptions: if audiences were not willing to pay for a particular radio service themselves, it would not continue.

27. LICENCE FEE

- Should the licence fee arrangements continue, at least until payment by subscription becomes possible?
- Should the level of the BBC's income, or the licence fee, be guaranteed for some years ahead; and, if so, how?
- What further measures could be taken to reduce evasion?

The BBC has been funded by the licence fee since 1926. Since 1971, BBC radio and television services have been funded by the television licence. [At present/from 1 April 1992] owners of colour television sets [must/will have to] pay [£77/£80] and owners of black and white sets [£25.50/£26.50] for their licences.

In 1991, the licence fee increase was held below the Retail Price Index. The Government intends to keep further increases until 1996 in line with the RPI, subject to a mid-term review of the BBC's progress with measures to improve efficiency and to generate revenue.

The licence fee is readily understood. It guarantees the BBC a regular income and it preserves the arm's length relationship between the broadcasters and the Government. Although there is concern about its level, a recent study has suggested that many people would be prepared to pay more for high quality BBC services.

But the licence fee is an oddity. All television viewers are obliged to pay it, irrespective of whether they watch or like many BBC programmes. Black and white television set owners pay less even though they receive the same programmes. Listeners to BBC radio programmes are not charged. Rich and poor must pay the same. Payment is enforced through the criminal law. Even so, evasion is estimated at nearly 9%. This combined with estimated hidden evasion by people who have a black and white licence but use a colour set, represents an annual loss of some £180 million in revenue to the BBC.

In 1991, the BBC became responsible for collecting the licence fee. They are pursuing a range of measures to reduce evasion, by identifying potential and actual evaders, and prosecuting them when necessary. At the same time, they are encouraging people to buy a licence and promoting different methods of payment. For those who find a single annual amount difficult, payments can be spread, with a choice of instalment schemes, or by purchasing television licence savings stamps.

28. CHANGES TO THE LICENCE FEE ARRANGEMENTS

- * Should licence fee evasion no longer be a criminal offence?
- * Should there be special reductions or exemptions for pensioners or those least able to pay?
- * Should these reductions be offset by increases in the general licence fee?
- * Should households with more than one set pay extra, with new powers of entry for enforcement staff?
- * Should separate black and white television licences be abolished?

Continuing to fund some BBC services by the licence fee need not mean keeping the present system unaltered.

The House of Commons Home Affairs Select Committee recommended in 1988 that the offence of television licence fee evasion should be decriminalised and treated as a civil debt. Many viewers might welcome this but there would be enforcement difficulties. The BBC at present has no reliable means of identifying those who do not pay. It cannot prevent them receiving its services. So evasion and late payment could be expected to increase, forcing up the licence fee for honest viewers. A reduction in the work of the criminal courts would probably be matched by an increase in civil courts business.

It would be possible to reduce the fee for those least able to pay or to increase charges to those with more than one set. But the cost of reductions would have to be met by a further increase in the overall licence fee or through taxation. Exempting those on income support would add £21 to the cost of a colour TV licence. A fee for individual sets would require more frequent access to households, with the necessary powers of entry, and, nevertheless, would increase evasion and enforcement and collection costs.

One means of increasing licence revenue, or holding down future increases, would be to abolish black and white licences and require all viewers to pay a combined fee. This would also eliminate hidden evasion of the full colour fee. But it would penalise the less well off, and, since the number of monochrome sets is declining the increases in revenue would not be substantial.

29. MIXED FINANCING

- * Should the BBC have one main source of revenue to finance all its United Kingdom services?

- * Should different BBC services be funded in different ways?

There is no reason why all the BBC's services should be financed exclusively by the licence fee, or by taxation, by subscription or other means. Already, the BBC obtains part of its income through BBC Enterprises, trading commercially, and World Service Radio is funded by Government grant.

Some options, such as the licence fee or subscription, could finance BBC services as a whole. Others, such as sponsorship or turning the BBC's existing transmission and other assets to account, could provide some supplementary financing.

One possibility would be to finance BBC1 from a lower licence fee and to encrypt BBC2 for payment by subscription. Alternatively, Radios 4 and 5 could be funded from the licence fee; Radio 1 and 2 could be required to take advertising; and Radio 3 could be funded by voluntary subscription. No single channel would have mixed finance, but the BBC's total income would come from a wider variety of sources.

Experience in other countries suggests that there are difficulties combining a licence fee system with advertising. The arrangement may begin with advertisements confined to particular services and particular times of the day. But the pressure to reduce the licence fee, or other government expenditure, creates pressures for more advertising. This would be unwelcome to those who dislike advertisements. The greater the proportion of advertising revenue taken up by the BBC, the more serious the implications would be for Channels 3, 4 and 5, satellite television services and for independent radio.

A growing income from advertising or subscription finance would reduce the BBC's dependence on the licence fee but could result in changes in the range of programmes and the audiences able to receive them.

For as long as the BBC is partly paid for by the licence fee or through direct government funding, any arrangements for mixed financing would have to comply with United Kingdom and EC competition law, if the BBC is providing services commercially and in competition with others.

30. BBC IN A COMPETITIVE WORLD

- * Should the BBC do more to exploit its assets commercially?
- * Can its activities financed by the licence fee and its other activities be separated sufficiently to ensure fair competition?
- Should more BBC activities be provided through commercial competition?
- * How can the BBC best contribute to keeping a United Kingdom share in an increasingly global broadcasting industry?

The BBC will be operating in an increasingly competitive world, nationally and internationally. This could affect the BBC's activities in a number of ways.

The BBC is using its assets to raise revenue, expanding the role of BBC Enterprises. This may also ensure that the BBC makes the most efficient use of its very considerable resources. But, while the BBC remains funded primarily by the licence fee, increased secondary exploitation of the BBC's assets must take account of United Kingdom and European Community competition law. It may be possible to draw a clear line between the BBC's broadcasting activities and its other businesses with separate accounts, although separation could jeopardise the economies of scale, as well as creating extra accounting costs.

More BBC activities could be opened up to commercial tendering, to increase competition in providing BBC services.

Broadcasting is becoming a global industry and more television programmes are being produced for international audiences by companies with multi-national interests. Some services show few original programmes, relying heavily on material made for other broadcasters or the cinema. A few companies are acquiring an increasing stake in broadcasting in a number of countries. These developments could reduce the range and diversity of programmes for audiences. Keeping the BBC as a major force in British broadcasting would ensure a sustained service of British programming for United Kingdom audiences, provide British programmes for sale to overseas broadcasting organisations, and would support the BBC's own overseas broadcasting, particularly its coverage of news and current affairs.

31. ORGANISATION AND STAFF

- * Should the BBC be broken up into separate businesses, either radio and television, or in some other way, such as broadcasting services and support services?
- * Should the BBC's administrative support services be reduced, consolidated or divided?
- * How can the BBC be organised to ensure both editorial independence and accountability?

How the BBC is organised in the future depends essentially on what services it is expected to provide, and how it is expected to provide them. So decisions on organisation and staff depend on the decisions on programmes and services and whether the BBC continues to engage in all aspects of broadcasting from commissioning programmes to transmitting them.

In the past, there were those who favoured separating the BBC's television services from its radio services. It was thought that the nature of the two services were different and that they would benefit from going separate ways.

Recently, BBC managers have tried to make more efficient use of resources through greater co-operation and co-ordination between the radio, television and World services, particularly in the coverage of news and current affairs. There may be other strands of programming where it would be an advantage for BBC specialist staff to be involved in radio, television and overseas programming. Alternatively, it would be possible to separate commissioning and scheduling from the making of programmes.

No large organisation can operate without a measure of central administration to support its services. But the BBC has been criticised for unnecessary bureaucracy and over-rigid structures for decision-making. Depending on the BBC's future services and functions, it may make more sense to centralise the support services, such as personnel, or to divide them either between services or functions. However they are organised, the administrative services should be kept to a minimum, so that resources can be concentrated on programmes.

Any changes in organisation should continue to provide a framework to secure and support the BBC's editorial independence, but with clear lines of accountability for programme content. Senior staff who take responsibility for meeting the BBC's programming obligations, should be able to ensure that the obligations are met in practice. Similarly, the managerial framework should provide clear lines of financial responsibility and accountability. If the BBC is spending the public's money, it must do so in ways which enable the public to see, and understand, how and why its money is being used.

32. GETTING VALUE FOR MONEY

- Should the BBC be required to work to clearly stated objectives and to produce and publish performance indicators?
- Should market testing with a view to contracting out be mandatory?
- Should the BBC make more use of contract staff and performance pay?

Value for money and improved efficiency will be required of all public services in future. The BBC cannot be exempt from these financial disciplines.

The BBC's own initiatives "Producer Choice" and "Re-shaping for the Future", and its scrutiny of its overheads, are all steps in this direction. Holding licence fee increases below general RPI levels has made the BBC look for economies, and find ways of diverting funds from administration to programmes.

Efficiency might be enhanced through greater use of contract staff and performance pay. Moving more BBC functions out of London might also bring long term savings in staff and other costs. Mandatory market testing, with a view to possible contracting out of BBC support, transmission and other services could bring greater market pressures to bear.

One possible way of improving efficiency, which was considered by the Peacock Committee and others, would be to make use of performance indicators. The BBC could be required to publish clear targets for its services and to report how far the BBC had met them. The performance indicators might measure output a day or for each member of staff, and the use of studio or other capacity. They could measure the public's use of the BBC's services. Assessing quality would be more difficult. Developing new measures of audience appreciation could be valuable, improving on simple ratings figures for audience size and appreciation.

Clear objectives are an essential in achieving value for money. As the BBC moves towards the 21st century, it will need well defined aims and duties if the public are to be able to judge whether it is efficient and effective.

33. FUTURE AIMS AND DUTIES OF THE BBC

In the past, the BBC's functions, powers and obligations have been set out, in general terms, in the Charter and the Licence and Agreement; the interpretation has been left mainly to the BBC. This has had the advantage that the BBC has been able to evolve, as the interests and needs of its audiences have changed. But, until recently, the BBC has either had a monopoly of broadcasting or was one of two public service broadcasters, which together regulated all broadcasting originating in the United Kingdom. As the number of other services and broadcasters has increased, and commercial broadcasting is regulated with a lighter touch, then it may well be necessary to define more closely the role and purpose of the BBC, the range and scope of its services and the nature of its obligations both in its programmes and its financial accountability.

The public has a right to know what services the BBC is expected to provide, how it is expected to provide them and whether it is providing them efficiently. On the other hand, to tie the BBC down too closely would inhibit innovation, both in programming and management. The aims and duties should be clear, but they should be set out in ways which are sufficiently flexible to allow for change and development. In particular, the BBC should be responsive to the views of its audiences about its services.

If the public wishes the BBC to maintain the range of its programmes, and the quality of its production, then this may have to be spelt out clearly for both the BBC and the public, so the BBC can be provided with adequate resources to maintain these services. On the other hand, if the public prefers to pay less for a narrower or less expensive range of programming, then the BBC should not be expected to maintain its present level of services. It is important that the audience, Parliament as the elected representatives of the audience, and the BBC itself should be clear what the BBC is expected to achieve and how it will be financed to meet its objectives.

34. KEEPING IN TOUCH WITH AUDIENCES

- * Should the BBC develop new forms of audience research to assess the appreciation and reach of its services?

Public service broadcasting exists for the benefit of its audiences and aims to reflect and meet the audience's interests and needs. As the choice of services becomes even greater, it will be essential for the BBC to keep in close touch with the audiences for its services.

The BBC has assessed the size of its audiences, their appreciation of programmes and their appreciation of its services, both through regular audience research undertaken jointly with other broadcasting organisations, and through research into specific issues. In this way, it has been able to gauge the public's reaction to its programmes and services and the way new services have affected the audiences for the BBC.

More recently, the BBC has introduced an annual television programme, when the Chairman and Director General answer questions from studio audiences, and similar radio programmes, so listeners can speak to the Controllers of the national radio networks. These programmes provide opportunities for the BBC to explain what it is doing, and why, but they cannot open up a continuing dialogue with the public about the BBC's services.

If the BBC is given a new remit for its services, then new measures for audience reaction are likely to be needed. These could look at the purpose of individual programmes, the likely audience and the degree of audience appreciation. Small audiences are to be expected for minority interest or educational programmes, but their appreciation may be intense. Larger audiences are likely for sport, drama and light entertainment, but their judgement of the quality of the programme could be a factor in assessing its success. If BBC services continue to broadcast a wide range of programmes, which will appeal to most tastes and interests, then it would be essential to know whether most households use one or more of the BBC services in the course of an average week.

35. ADVISORY COUNCILS

- * Should the BBC's Advisory Councils be kept, slimmed down or abolished?

- * Should the purpose of the BBC's Advisory Councils be changed, so some become the focus of wider consultation with the public?

One way the BBC has traditionally kept in touch with the public is through its Advisory Councils. There are [61] Advisory Councils, headed by the General Advisory Council, and including local radio councils and advisory councils on particular topics, such as religious broadcasting, science, agriculture and appeals for charities.

In 1988, the House of Commons Home Affairs Select Committee recommended that the structure of Advisory Councils and Committees should be reviewed, with a view to reducing the amount of administrative work, and the expense. They pointed out that these bodies require a great deal of effort on the part of the BBC management and the cost was at least £0.5 million a year.

This raises questions about the purpose, functions and number of these advisory bodies. At present, they are not suited to keep the BBC in touch with most of its audiences. If their main purpose is to give the BBC specialist advice, there may be other, more economic, ways of achieving this. But if the aim is to reflect views of radio and television audiences, the councils might be elected or partly elected bodies. The new councils could become the focus for wider public consultations, holding meetings in different parts of the country and seeking the views of audiences on both present programmes and future plans.

36. SCOTLAND, WALES AND NORTHERN IRELAND

- Should the BBC's operations in Scotland, Wales and Northern Ireland be separated further from those in England?
- Should there continue to be separate representation of Scotland, Wales and Northern Ireland on the Board of the BBC?
- Should there continue to be National Councils for Scotland, Wales and Northern Ireland?

At present, the Board of Governors includes National Governors for Scotland, Wales and Northern Ireland. They are selected for their knowledge of the culture, characteristics and affairs of the people living in those countries and are expected to keep in close touch with public opinion there. The BBC also has a National Broadcasting Council for each country, chaired by its National Governor. The Councils contribute to BBC policies on programmes to be broadcast in each country and advise the BBC on other issues which could affect the interests of the people in Scotland, Wales and Northern Ireland.

The special needs and interests of Scotland, Wales and Northern Ireland will need to be reflected in any new organisational structure for the BBC. The BBC services in the three countries could be given a large measure of autonomy. But this could well result in greater duplication of effort, in London, Glasgow, Cardiff and Belfast.

Many people in these countries will want to see and hear the BBC's programmes broadcast on its main services. On the other hand, it is essential that there should be sufficient programmes for each country, which reflect its special needs and interests, and arrangements should be made for broadcasting in Welsh and Gaelic. The amount and the type of these programmes will need to be determined in the light of the views of the people living in each country. So there should be arrangements to ensure that these views are known, either through a National Council or in some other way.

37. A PUBLIC SERVICE BROADCASTING COUNCIL

- * Should there be a Public Service Broadcasting Council, to promote and finance public service broadcasting by the BBC and other channels?

For over 60 years, public service broadcasters in the United Kingdom have been made accountable through broadcasting authorities. The Governors of the BBC, and the members of other broadcasting authorities, have been appointed to act as trustees of the public interest in broadcasting. They have been responsible for ensuring that any obligations in the Charter, or in legislation, are fulfilled and for making strategic decisions. The BBC Governors have appointed the BBC's senior managers; other broadcasting authorities have awarded contracts or licences to programme companies. The BBC Governors and the other authorities have approved codes of practice for programme makers.

This need not be the pattern for the future. The Independent Television Commission and the Radio Authority will be regulating commercial television and radio with a lighter touch. The Broadcasting Standards Council and the Broadcasting Complaints Commission have been given specific roles by the Broadcasting Act 1990.

It has been proposed that there should in future be a Public Service Broadcasting Council or Authority, to promote public service broadcasting. It would be responsible for financing public service broadcasting; it would receive the proceeds of the licence fee and any other sources of finance, and would provide funds to the BBC and for other public service channels or programmes. It would be responsible for ensuring value for money for the services and programmes, which it financed. The Peacock Committee believed one of its purposes should be to ensure separate and secure funding for programmes of merit which would be unlikely to be broadcast if a number of channels, including the BBC, were competing for audiences and for finance. This would ensure diversity in the range of programmes, although there could be a risk that such a council could develop into what the Peacock Committee described as a cultural dictatorship. Arrangements would be needed to prevent this, for example, by a regular and frequent turnover of the membership.

If such a Council were established, with a remit which embraced all broadcasting services, it could take over some of the functions now carried out by the Broadcasting Standards Council and the Broadcasting Complaints Commission, and its relationship with other broadcasting authorities would need to be clearly established.

38. ROLE OF THE BBC GOVERNORS AND BOARD OF MANAGEMENT

- Should the Board of Governors and the Board of Management be merged?

- Should there be BBC Governors in future and, if so, what should be their role?

At present, the Board of Governors are responsible for ensuring that all the obligations in the BBC Charter and Licence and Agreement are met. All the Governors are part-time; the Chairman works four days a week and the others spend one or two days a week on BBC business. The Board of Management, led by the Director General, are appointed by the Governors and are responsible to the Governors for the management of the BBC, its services and its staff.

There are those who believe that the Governors have been drawn too closely into the management of the BBC. On the other hand, there are those who think that the Governors and the Board of Management could be merged, with the Governors becoming non-executive directors.

If there are to be Governors in future, they could be given a clearer remit than they have now. Their function would need to be distinguished from those of other broadcasting organisations, such as the Broadcasting Standards Council or a future Public Service Broadcasting Council, and those of senior managers.

One possibility would be to give them a special responsibility for finding out the public's views of the BBC's services, for ensuring that the BBC managers are responsive to these views, and that the BBC's programme obligations are met. They could also be responsible for securing the BBC's financial probity, efficiency and value for money. The Governors would not become involved in detailed administration but could appoint the most senior staff of the Corporation, who would remain responsible to the Governors.

It has been suggested that the Governors should be elected from audiences, particularly those who watch or listen regularly to the BBC's services. But if the BBC Governors are to remain part of the arrangements for making the BBC accountable to Parliament, they would have to be appointed by Parliament, or by the Government or on its recommendation.

39. THE GOVERNMENT'S RESPONSIBILITIES

- Should the Government be able to impose sanctions if the BBC's objectives or obligations are not met?

Although Governments in Britain have never tried to exercise detailed control over broadcasting services in the United Kingdom, the Government has, and will keep, some responsibilities for broadcasting services.

A major, though infrequent, responsibility is to put proposals to Parliament for the legal framework for broadcasting services and for the way they should be financed. In 1981, the framework was set in the BBC's Charter and in the Broadcasting Act 1981. The Broadcasting Act 1990 has set the future framework for commercial, cable and satellite services. This was the culmination of several years' consultation and debate. The discussion about the future framework for the BBC is just beginning.

Once the framework has been designed, and approved by Parliament, the Government decides who will be responsible for making sure that the terms of the framework are observed. This has been the duty hitherto of the BBC Governors. It is the Governors who take the strategic decisions. Through the appointment of senior managers and the endorsement of editorial codes of practice, they establish the manner in which the BBC will be run, and the thrust of its programme policies.

Finally, the Government has reserve powers. If the BBC fell consistently short of meeting its legal obligations, the Government could remove the Governors. The Government has the power to require any broadcasting service to make public announcements; this may be essential during an emergency. The Government also has powers to require a broadcasting organisation, including the BBC, not to include particular material in its programmes. This power has rarely been used; the most recent use was in 1988 to require services not to include direct statements by Northern Ireland terrorist organisations and their apologists.

Ministers are answerable to Parliament for the way they carry out their responsibilities, but not for the management of the BBC nor for the content of BBC programmes. A new framework could increase or reduce Ministers' powers. For example, Ministers could have powers to impose a range of sanctions if the BBC's objectives or obligations were not met.

40. ACCOUNTABILITY TO PARLIAMENT

- Should there be closer Parliamentary monitoring of the BBC's activities, for example, by a Select Committee?
- Should appointments to the BBC Board of Governors be made subject to Parliamentary approval?
- Should arrangements be made for regular Parliamentary scrutiny of the BBC's objectives and how far the BBC has met them?

Any issue of public concern or interest is likely to be raised in Parliament. Although the BBC is established by Royal Charter, and not by legislation, it remains accountable to Parliament. In the past, there have been debates in both Houses of Parliament before a new Royal Charter has been granted. Even though Ministers have not been answerable for the content of individual programmes or the day-to-day management of the BBC, controversial programmes have resulted in Parliamentary debates or questions. Select Committees have scrutinised more closely the financing and management of the BBC.

If the BBC continues as a public service broadcasting organisation, and particularly if it continues to be financed from public funds, then it will be accountable to Parliament. However, the degree of accountability could be increased or lightened. It would be possible, for example, to have a Sub-Committee of a Select Committee to monitor public service broadcasting continuously and it has been suggested that the appointment of Governors should be made subject to Parliamentary approval. Both could well increase political influence on programme content.

To many, the present arrangements for accountability seem haphazard and incoherent. It may be desirable to distinguish more clearly between the actions of Ministers, for which they would always be answerable, and the activities of the BBC. There could be arrangements for regular, but not continuous, Parliamentary examination of the BBC's programming and financial objectives and how far it had met them, so calling Ministers and the Governors to account. The Governors would have responsibility for ensuring that the management met the BBC's obligations and objectives; Parliament, and the Government, would be responsible for ensuring that the Governors carried out their responsibilities. In this way, Parliament, representing the public, could ensure that the public were getting what they wanted from the BBC at a price they could afford.

NEXT STEPS

The Government would welcome views of the public on the future of the BBC. It invites proposals and comments from viewers and listeners, as well as those of organisations with a particular interest in broadcasting policy. In particular, it would welcome answers to all, or any, of the questions asked in this document.

Comments and replies should be sent to:

100 QUESTIONS ABOUT THE FUTURE OF THE BBC

Public service broadcasting

1. Do we need any broadcasting to be provided by a public authority in future, now there are more services and a greater choice of programmes for viewers and listeners, and the number of services is likely to increase?
2. What are the essential ingredients of public service broadcasting for the future?
3. Is good quality programming an essential feature of public service broadcasting?
4. Should public service broadcasting continue to aim to combine entertainment, information and education, and to extend people's interests and horizons?
5. Or should public service broadcasting concentrate on programmes which inform and educate, with few entertainment programmes?
6. Is editorial independence essential for public service broadcasting?
7. Should public service broadcasters be given a clear remit about the services, and range of programmes, which they are expected to provide?
8. How can standards be set for programmes and for obtaining value for money without restricting the scope for innovation and change?
9. Should nearly everyone in the United Kingdom be able to receive public service broadcasts?

10. Should public service broadcasters aim to have some television programmes watched by audiences of 10 or 15 million people?
11. Or should the aim be to ensure that public service broadcasting offers a range of programmes, including programmes of special interest to particular groups, so that many people are among the audiences in the course of a day, or a week or a month?
12. Do we need new forms of public service broadcasting in future?

BBC programmes and services

13. If the BBC is to be the focus for public service broadcasting in future, should it continue to broadcast a wide range of programme services appealing to all tastes and interests?
14. Or should the BBC concentrate on information, education and minority interests, and programmes unlikely to be provided by other broadcasters?
15. Should the BBC be required to broadcast a high proportion of programmes to reflect the interests of people throughout the United Kingdom?
16. Should the BBC continue to broadcast radio and television programmes of special interest to people in Scotland, Wales and Northern Ireland?
17. Are there sufficient BBC programmes of special interest to audiences living in Scotland, Wales and Northern Ireland?
18. Should the BBC continue to broadcast television programmes for people in different regions in England?

19. Is there a continuing need for BBC local radio?
20. Should the BBC increase its regional and local programmes?
21. Should one BBC TV channel be re-allocated for popular commercial television?
22. Should Radios 1 and 2 be hived off from the BBC?
23. Should the BBC have more specialist network services?
24. Should BBC World Service Radio and World Service Television be maintained, expanded or cut back?
25. Should these services continue to be produced mainly by the BBC?
26. Or should more World Service programmes be made by independent production organisations?
27. In the United Kingdom, should the BBC be obliged to broadcast programmes that most viewers and listeners want?
28. Should it be required to broadcast innovative programmes, which may widen audiences' horizons and surprise them?
29. Or should the BBC be left to decide for itself the range and quality of programmes to be broadcast?
30. Should the BBC be required to keep to standards of impartiality, taste and decency in its programmes?

The BBC's functions

31. Should the BBC become a broadcasting publisher, commissioning and scheduling but not making programmes?

32. Or should the BBC continue to commission, schedule and make radio and television programmes?
33. Should many more programmes broadcast by the BBC be made by independent producers?
34. Or should most programmes continue to be made by the BBC, but using more outside support services?
35. Should BBC transmission services be sold to the private sector or contracted out?
36. Should BBC patronage of the arts be cut or transferred to the Arts Council?
37. Does the BBC need to support five orchestras?
38. Should the BBC's educational services be reduced?
39. Should the BBC's commercial activities be expanded, reduced or placed in other hands?
40. Should BBC legal, library and other professional services be contracted out?

Technical developments

41. Is it necessary to spend more on expanding the present coverage of the terrestrial television networks?
42. Should more be spent on extending the coverage of BBC national radio services on FM?
43. Should BBC radio services be available through digital audio broadcasting?
44. Could, or should, any of the BBC's national radio or

television services be transferred to satellite?

45. Should the BBC be allowed to provide new UK services by satellite?
46. Should the BBC be encouraged to provide specialist subscription services by satellite?

Long-term investments in broadcasting

47. Should the BBC continue to work for technical improvements in the longer term, even though this could result in higher costs both for viewers and listeners and for the BBC?
48. Should the BBC's role in training and nurturing talent continue in future, as part of the functions of public service broadcasting?
49. Should the BBC provide training for other broadcasting organisations?
50. Should the BBC carry out long-term technological and other research?

Paying for BBC services

51. If the number of BBC services were reduced, should the licence fee be reduced?
52. Or should any savings be used to finance more or better programmes on remaining BBC services?
53. Should the BBC save money by playing more records on its radio services and increasing the proportion of feature films and foreign series on its television services?
54. Should the licence fee be abolished and the BBC's services

paid for by a grant from general taxation?

55. Should some of the BBC's services or functions, such as patronage of the arts, be paid for from general taxation?
56. Should any grants from taxation be paid direct to the BBC, or through another body, such as the Arts Council or a new Public Service Broadcasting Council?
57. Should the BBC take advertising on all its services, on some services, or none?
58. Should advertisements be broadcast during programmes, or confined to blocks in intervals between programmes?
59. Should the BBC show sponsored programmes?
60. Should sponsorship be forbidden for certain programmes?
61. Should some broadcast services remain free of advertising?
62. Would finance from advertising be likely to alter BBC programming?
63. How would additional national services financed by advertising alter the prospects of the services licensed by the Independent Television Commission and the Radio Authority?
64. Should the licence fee be replaced by a subscription charge for receiving BBC1 and 2?
65. Should one BBC TV service be available only to subscribers?
66. Should some BBC television programmes be supplied on a pay as you view basis?

67. Should specialist or minority services, like Radio 3, be financed by voluntary subscription?
68. Should the licence fee arrangements continue, at least until payment by subscription becomes possible?
69. Should the level of the BBC's income, or the licence fee, be guaranteed for some years ahead; and, if so, how?
70. What further measures could be taken to reduce evasion?
71. Should licence fee evasion no longer be a criminal offence?
72. Should there be special reductions or exemptions for pensioners or those least able to pay?
73. Should these reductions be offset by increases in the general licence fee?
74. Should households with more than one set pay extra, with new powers of entry for enforcement staff?
75. Should separate black and white television licences be abolished?
76. Should the BBC have one main source of revenue to finance all its United Kingdom services?
77. Should different BBC services be funded in different ways?

Efficiency and value for money

78. Should the BBC do more to exploit its assets commercially?
79. Can its activities financed by the licence fee and its other activities be separated sufficiently to ensure fair competition?

80. Should more BBC activities be provided through commercial competition?
81. How can the BBC best contribute to keeping a United Kingdom share in an increasingly global broadcasting industry?
82. Should the BBC be broken up into separate businesses, either radio and television, or in some other way, such as broadcasting services and support services?
83. Should the BBC's administrative support services be reduced, consolidated or divided?
84. How can the BBC be organised to ensure both editorial independence and accountability?
85. Should the BBC be required to work to clearly stated objectives and to produce and publish performance indicators?
86. Should market testing with a view to contracting out be mandatory?
87. Should the BBC make more use of contract staff and performance pay?

Accountability

88. Should the BBC develop new forms of audience research to assess the appreciation and reach of its services?
89. Should the BBC's Advisory Councils be kept, slimmed down or abolished?
90. Should the purpose of the BBC's Advisory Councils be changed, so some become the focus of wider consultation with the public?

91. Should the BBC's operations in Scotland, Wales and Northern Ireland be separated further from those in England?
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95. Should the Board of Governors and the Board of Management be merged?
96. Should there be BBC Governors in future and, if so, what should be their role?
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99. Should appointments to the BBC Board of Governors be made subject to Parliamentary approval?
100. Should arrangements be made for regular Parliamentary scrutiny of the BBC's objectives and how far the BBC has met them?



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

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Price
W

21 October 1991

Dear Andrew

TELEVISION LICENCE FEE INCREASE

I am writing to let you know that the Home Secretary intends to announce tomorrow that the television licence fees will go up to £80 for a colour licence and to £26.50 for a black and white licence from 1 April 1992.

Following last year's licence fee consultancy by independent management consultants Price Waterhouse, a new licence fee settlement was announced on 14 January 1991. This provided for an increase at RPI - 3% in April 1991, with annual increases thereafter at straight RPI until Charter expiry in 1996. The formula is, however, subject to review before the increase in 1994, at which time the BBC's progress in implementing the cost efficiency and revenue improvement measures recommended by Price Waterhouse will be reassessed.

Annual increases in the licence fee are calculated on the previous year's unrounded figures, which the results then being rounded to the nearest 50p. Applying the September RPI figure of 4.1% on this basis gives new figures of £80 and £26.50 respectively £3 and £1 more than the current rounded fees.

The Home Secretary intends to revert to the practice - interrupted only by the need to agree the new formula earlier this year - of announcing the licence fee increases by arranged PQ on the same day as or shortly after the Social Services Secretary's annual announcement of the pensions and benefits upratings, which are similarly based on the September RPI figure.

... That announcement is expected today. I enclose for your information and that of the other recipients of this letter the text of the Home Secretary's planned PQ reply.

I am copying this letter to the Private Secretaries to the Secretaries of State for Social Services and Trade and Industry, together with Sir Robin Butler.

Yours
Paul Pugh

PAUL PUGH

Andrew Turnbull Esq, CB
10 Downing Street
London SW1

E.R.

DRAFT

Draft Arranged PQ for written answer on October.

To ask the Secretary of State for the Home Department, if he will announce the television licence fees which will take effect from 1 April 1992.

Draft Reply

On 14 January 1991 I announced (Col 379) that the fee increase for April 1991, which was set at 3% below RPI, would be followed by annual increases at RPI over the subsequent four years. The operation of this formula would however be reassessed in 1994.

Licence fee increases are based on the annual increase in RPI as at the preceding September, in the same way as rises in pensions and other state benefits. Application of this year's September RPI figure of 4.1% to the current unrounded fees produces new rounded totals of £80 for a colour licence and £26.50 for a monochrome licence. The necessary regulations to bring these fees into force next April will be laid before the House in due course.



Independent Television Commission

Direct Line 071 824 7743
071 824 7744

36/91

16 October 1991

ITC ANNOUNCES CHANNEL 3 LICENCE AWARDS

The Independent Television Commission announces today (Wednesday 16 October) the award of the Channel 3 Licences. There are 15 Regional Licences and a single National Breakfast-time Licence. Each ten-year licence will come into force on 1 January 1993.

It is the duty of the Commission to license Channel 3 services in accordance with the relevant provisions of the Broadcasting Act 1990. The award of the licences is by competitive tender. Details of the awards as required under section 17(11) of the Act are attached.

Applications were invited in February 1991. A full specification of the requirements of the licensed services and the information required from applicants was published in the Invitations to Apply. A total of 37 applications for the Regional Licences and three for the National Breakfast-time Licence were submitted by the closing date on 15 May 1991. Each application was accompanied by a sealed envelope containing the cash bid.

The Commission is required not to proceed to consider whether to award a Channel 3 licence to an applicant on the basis of his cash bid in accordance with section 17 of the Act unless it appears to the Commission that: (a) his proposed service would comply with the requirements of Section 16(2) (in the case of regional licences) or Section 16(3) (in the case of the national breakfast-time licence) of the Broadcasting Act; and (b) that he

would be able to maintain that service throughout the period for which the licence would be in force.

The Commission considered the cash bids of all those applicants who satisfied the above requirements in accordance with section 17 and awarded each of the licences to the highest bidder. It did not appear to the Commission that there were any exceptional circumstances which made it appropriate to award any licence to an applicant who had satisfied those requirements and submitted a lower bid.

Following the awards today, the Commission expects to proceed to the grant of the licences in each case within six weeks. Each award has been made on terms that the grant of the licence will be conditional upon any necessary consents and approvals having been obtained, finance for the service being irrevocably committed, completion of a satisfactory declaration as regards the structure and the composition of the licensee, and compliance with the ownership requirements imposed by or under Parts III to V of Schedule 2 of the Act.

Should any of those awarded a licence be unable to meet these essential requirements within the six-week period, or such longer period as may be agreed by the Commission in its discretion, the Commission reserves the right to revoke the award. In that event the Commission will either reconsider the award of the licence on the basis that the successful applicant had not applied for it, or re-advertise the licence.

CHANNEL 3 LICENCE AWARDS - 16 OCTOBER 1991

<u>Channel 3 Regional Licences</u>		First part of the tender (see Note)	Cash bid (1993 prices)
<u>Area</u>	<u>Awarded to:</u>	per cent	£
Borders and the Isle of Man	Border Television plc	0	52,000
Central Scotland	Scottish Television plc	2	2,000
Channel Islands	Channel Television Ltd	0	1,000
East, West and South Midlands	Central Independent Television PLC	11	2,000
East of England	Anglia Television Ltd	7	17,804,000
London Weekday	Carlton Television Ltd	11	43,170,000
London Weekend	LWT (Holdings) plc	11	7,850,000
North of Scotland	Grampian Television PLC	0	720,000
North-East England	Tyne Tees Television Ltd	2	15,057,000
North-West England	Granada Television Ltd	11	9,000,000
Northern Ireland	Ulster Television plc	0	1,027,000
South and South-East England	Meridian Broadcasting Ltd	11	36,523,000
South-West England	Westcountry Television Ltd	0	7,815,000
Wales and the West of England	HTV Group plc	2	20,530,000
Yorkshire	Yorkshire Television Ltd	7	37,700,000
<u>Channel 3 National Breakfast-time Licence</u>			
	Sunrise Television Ltd	15	34,610,000

NOTE: Tender payments for each licence are in two parts. The first part of the tender is a percentage of annual qualifying revenue which has been set in advance by the Commission. The second is the cash bid. The percentage of the first part of the tender cannot be varied during the term of the licence. The amount of the cash bid cannot be altered but will be index-linked.

CHANNEL 3 REGIONAL LICENCE AWARDS: individual area details

Under sub-sections (11) and (12) of section 17 of the Broadcasting Act 1990 the Commission are required to publish certain matters after awarding a Channel 3 Licence. These matters are:

- (a) the name of the person to whom the licence has been awarded and the amount of his cash bid;
- (b) the name of every other applicant in whose case it appeared to the Commission that his proposed service would comply with the requirements specified in section 16(2) or (3) (as the case may be);
- (c) where the licence has, by virtue of section 17(3), been awarded to an applicant (appearing to the Commission to satisfy the requirements of 16(1)) who has not submitted the highest cash bid, the Commission's reasons for the licence having been so awarded; and
- (d) such other information as the Commission consider appropriate.

The Commission has not awarded any licence, by virtue of section 17(3), to an applicant who has not submitted the highest cash bid. In addition to the matters required by paragraphs (a) and (b) above the Commission has decided to publish the amount of the cash bid of each unsuccessful applicant, if that applicant has consented to such publication. The Commission has also decided that, if it did not appear to them that an applicant would be able to maintain his proposed service throughout the period for which the licence would be in force, it would publish that fact if:

- (i) the applicant's proposed service appeared to the Commission to satisfy the requirements of sections 16(2) or (3) (as the case may be);
- (ii) the amount of the applicant's cash bid was higher than that of the applicant to whom the licence has been awarded; and
- (iii) the applicant has consented to the publication of the amount of his cash bid.

The Commission is not publishing this information about any applicant in any other case.

1. BORDERS AND THE ISLE OF MAN

There was one applicant: Border Television plc. It appeared to the Commission that Border Television's proposed service would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Border Television has been awarded the licence. The amount of Border Television's cash bid was £52,000.

2. CENTRAL SCOTLAND

There was one applicant: Scottish Television plc. It appeared to the Commission that Scottish Television's proposed service would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Scottish Television has been awarded the licence. The amount of Scottish Television's cash bid was £2,000.

3. CHANNEL ISLANDS

There were two applicants: Channel Television Limited and CI3 Group Ltd. It appeared to the Commission that only the proposed service of Channel Television would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Channel Television has been awarded the licence. The amount of Channel Television's cash bid was £1,000. The amount of CI3's cash bid was £102,000.

4. EAST, WEST & SOUTH MIDLANDS

There was one applicant: Central Independent Television PLC. It appeared to the Commission that Central Television's proposed service would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Central Independent Television has been awarded the licence. The amount of Central Independent Television's cash bid was £2,000.

5. EAST OF ENGLAND

There were three applicants: Anglia Television Limited; CPV-TV Limited (East of England Television); and Three East Limited. It appeared to the Commission that the proposed services of both Anglia Television and Three East would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Anglia Television has been awarded the licence. The amount of Anglia Television's cash bid was £17,804,000. The amounts of the other cash bids were CPV-TV, £10,125,000; Three East, £14,078,000.

6. LONDON WEEKDAY

There were three applicants: Carlton Television Limited; CPV-TV Limited (Greater London Television); and Thames Television PLC. It appeared to the Commission that the proposed services of both Carlton Television and Thames Television would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Carlton Television has been awarded the licence. The amount of Carlton Television's cash bid was £43,170,000. The amount of CPV-TV's cash bid was £45,319,000. Thames Television will be disclosing the amount of its cash bid soon after the ITC's announcement of the awards.

7. LONDON WEEKEND

There were two applicants: Consortium for Independent Broadcasting Ltd (London Independent Broadcasting) and LWT (Holdings) plc. It appeared to the Commission that only the proposed service of LWT would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. LWT has been awarded the licence. The amount of LWT's cash bid was £7,850,000. The amount of London Independent Broadcasting's cash bid was £35,406,000.

8. NORTH OF SCOTLAND

There were three applicants: C3 Caledonia plc; Grampian Television PLC and North of Scotland TV Limited. It appeared to the Commission that only the proposed service of Grampian Television would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Grampian Television has been awarded the licence. The amount of Grampian Television's cash bid was £720,000. The amounts of the other cash bids were: C3 Caledonia £1,125,000; North of Scotland TV, £2,709,000.

9. NORTH-EAST ENGLAND

There were two applicants: North-East Television Limited and Tyne Tees Television Limited. It appeared to the Commission that the proposed services of both applicants would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Tyne Tees Television has been awarded the licence. The amount of Tyne Tees Television's cash bid was £15,057,000. The amount of North-East Television's cash bid was £5,010,000.

10. NORTH-WEST ENGLAND

There were two applicants: Granada Television Limited and North West Television Limited. It appeared to the Commission that only the proposed service of Granada Television would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Granada Television has been awarded the licence. The amount of Granada Television's cash bid was £9,000,000. The amount of North West Television's cash bid was £35,303,000.

11. NORTHERN IRELAND

There were three applicants: Lagan Television Limited; TVNi Limited; and Ulster Television plc. It appeared to the Commission that the proposed services of both TVNi and Ulster Television would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990, but it did not appear to the Commission that TVNi would be able to maintain its proposed service throughout the period for which the licence would be in force. Ulster Television has been awarded the licence. The amount of Ulster Television's cash bid was £1,027,000. The amounts of the other cash bids were Lagan Television, £2,712,000; and TVNi, £3,100,000.

12. SOUTH AND SOUTH-EAST ENGLAND

There were four applicants: Carlton Television Limited; CPV-TV Limited (South of England Television); Meridian Broadcasting Limited; and TVS Television Limited. It appeared to the Commission that the proposed services of Carlton Television, Meridian Broadcasting and TVS Television would all comply with the requirements specified in section 16(2) of the Broadcasting Act 1990, but it did not appear to the Commission that TVS Television would be able to maintain its proposed service throughout the period for which the licence would be in force. Meridian Broadcasting has been awarded the licence. The amount of Meridian Broadcasting's cash bid was £36,523,000. The amounts of the other cash bids were Carlton Television, £18,080,000; CPV-TV, £22,105,000; and TVS, £59,758,000.

13. SOUTH-WEST ENGLAND

There were three applicants: TeleWest Limited; TSW Broadcasting Limited; and Westcountry Television Limited. It appeared to the Commission that the proposed services of both TSW Broadcasting and Westcountry Television would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990, but it did not appear to the Commission that TSW Broadcasting would be able to maintain its proposed service throughout the period for which the the licence would be in force. Westcountry Television has been awarded the licence. The amount of Westcountry Television's cash bid was £7,815,000. The amounts of the other cash bids were TeleWest, £7,266,000; TSW Broadcasting, £16,117,000.

14. WALES AND THE WEST OF ENGLAND

There were four applicants: C3W Ltd; Channel 3 Wales and the West Ltd; HTV Group plc; and Merlin Television Limited. It appeared to the Commission that the proposed services of both C3W and HTV would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. HTV has been awarded the licence. The amount of HTV's cash bid was £20,530,000. The amounts of the other cash bids were C3W, £17,760,000; Channel 3 Wales and the West, £18,289,000; and Merlin Television, £19,367,000.

15. YORKSHIRE

There were three applicants: Viking Television Limited; White Rose Television Limited; and Yorkshire Television Limited. It appeared to the Commission that the proposed services of both White Rose Television and Yorkshire Television would comply with the requirements specified in section 16(2) of the Broadcasting Act 1990. Yorkshire Television has been awarded the licence. The amount of Yorkshire Television's cash bid was £37,700,000. The amounts of the other cash bids were Viking Television, £30,116,000; White Rose Television, £17,403,000.

16. NATIONAL BREAKFAST-TIME

There were three applicants: Daybreak Television Limited; Sunrise Television Limited; and TV-am plc. It appeared to the Commission that the proposed services of all three applicants would comply with the requirements specified in section 16(3) of the Broadcasting Act 1990. Sunrise Television has been awarded the licence. The amount of Sunrise Television's cash bid was £34,610,000. The amount of TV-am's cash bid was £14,125,000. Daybreak has not given agreement for its cash bid to be disclosed.

TEXT OF GEORGE RUSSELL'S STATEMENT
AT CHANNEL 3 LICENCE AWARDS PRESS CONFERENCE

Ladies and gentlemen.

Good morning.

It is almost three years since the Government published its broadcasting White Paper - Competition, Choice and Quality, almost two years since the Broadcasting Bill began its long and eventful passage through Parliament and less than twelve months since it got Royal Assent.

The Government's legislation set a framework to ensure a wider variety of broadcasting services. It also guaranteed greater scope for independent productions. This policy of diversity was not to be at the expense of quality, hence the requirements in the Act that there should be continuing positive programme obligations on Channels 3 and 4, and, in future, on Channel 5.

Today brings a major phase to an end. It is important to take a broader view. ITV contracts have always been for a fixed term and incumbents have in the past, as now, had to compete for a new franchise. This is bound to be unsettling, and this licence round has been no exception. And it comes on top of times of uncertainty which go back some five years to the publication of the Peacock Committee report. I pay tribute today to the sheer grit of an industry which can win awards on the international scene and win the ratings battle at home, at the same time as living with this undoubted turmoil.

Before I announce the licence awards, I would ask you to bear with me for a few moments while I reiterate the basic task which Parliament set the ITC. It is important to do this not only to understand the nature of the competitive tendering process that the ITC has carried out but also to recognise the significant differences between this process and past IBA contract rounds. The Act under which the IBA was operating in 1980 was silent on how it should choose the programme contractors. The 1990 Broadcasting Act is very detailed and specific as to how the ITC should select new Channel 3 licensees.

Last autumn, we decided that the map and the clock for Channel 3 would remain the same as currently for ITV. We then prepared a specification for the regional licences called the Invitation to Apply. We prepared a separate Invitation to Apply for the national breakfast-time licence. Last November, we put these out in draft for potential applicants to comment on - this had the added advantage of giving everyone an early start on the detailed preparation of their applications.

Applicants had 3 months from the day of advertisement in February to submit their applications. By the 15th of May, 37 valid applications were submitted for the 15 regional licences and 3 for the single national breakfast-time licence.

The Deputy Chairman, Chief Executive, Secretary and I went through the formality, the following day, of opening the cash bids - simply to verify that they were in the form prescribed.

Separate teams in the ITC then began the process of assessing the applications. Meanwhile the public were invited to comment on the applicants' proposals for structure, staffing, programmes etc. The public did not have access to the financial plans nor of course to the bids. Over 21,000 summaries of the applications were sent out. We are grateful that more than 2,200 organisations and individuals wrote in with their views, which have received careful consideration, as have the comments of the ITC's Viewer Consultative Councils.

Documents in the press pack outline the statutory requirements and the ITC's procedure. I would simply emphasise the following.

The Members of the Commission have approached their task with scrupulous regard for their statutory duties including those concerning the future quality of the new Channel 3 services. This is what the statute requires and what viewers expect. In the course of the Broadcasting Bill's passage through Parliament last year significant improvements were made to the clauses relating to Channel 3, reinforcing quality and diversity in the

programme service. Douglas Hurd, Tim Renton and David Mellor totally supported my personal commitment to popular, quality television and the importance I placed not only on the quality of programmes but on the money to deliver and sustain them. We were given the tools we needed. I trust you will agree we used them well.

Analysis of the applications has been rigorous, consistent and fair. The applicants' programme proposals and business plans were considered separately. The Members of the Commission have been closely involved at all stages. Each one taking a special interest in a particular licence area or areas. Of course, all the decisions have been taken by Members of the Commission as a body.

Points on which the ITC needed clarification have been put in writing to all applicants. A range of points arising from the public consultation and comment from third parties, where material, have also been put to the relevant applicants, so that they have had the opportunity to respond.

The nature of the statutory selection process is such that the Commission has to examine each licence area separately and each application on its merits. It is not a case of "do we like x better than y" but it is a matter of does each applicant satisfy the quality threshold in relation to this licence area. If so, the application should proceed to the next stage.

The Commission did not start out with any preconceptions as to the number of changes that should be made, nor indeed with a preconception that any changes must be made.

In every case where there were two or more applicants who passed the quality threshold and whose cash bids were then considered, we asked ourselves whether there were any "exceptional circumstances", which would make it appropriate for us to award the licence other than to the highest bidder.

Five months after the applications came in, we are announcing the

results. This is an important day but it does not mark the end of the process. We shall need to move swiftly from the award to the grant of the licences and much has to be achieved by the new licensees both separately and in partnership, in just over fourteen months to the start of broadcasting. Networking arrangements are crucial to this process. We shall do all we can to ensure, for the sake of the Channel 3 system and the viewers, that the new services start on time and in good shape.

Now to the details of the awards. In addition to the name of the person awarded each licence and the amount of their cash bid, the Act also requires us to publish the names of those applicants whose proposals appeared to the Commission to comply with the requirements specified in Sections 16(2) or (3) of the Broadcasting Act 1990, depending on whether the licence in question is regional or national. The text of Section 16 is included in your press pack and I shall refer, for the sake of brevity, to those who passed the programme quality threshold. I do not propose to go into the grounds on which particular applications in the Commission's judgement failed to meet the requirements.

I recently wrote to all applicants to ask if they would permit us today to reveal the size of their cash bids regardless of whether they have been awarded a licence or not. I did this in order that we could give as full a picture as possible about the bids and minimise further speculation. All but two of the applicants have agreed and one of these intends to publish their own bid if they have not been successful. I am most grateful for the co-operation we have received. Although I shall only read out the winning bids, the others will be on the screens and in the press release.

The main points are that

- 1) four of the incumbent ITV companies have not been awarded licences;
- 2) eight of the 16 licences have not gone to the applicant who on the 15th of May put the highest cash bid in the envelope;

- 3) the ITC, has not invoked exceptional circumstances; and
- 4) the Treasury get more money but not that much more.

First, the licence for the **Borders and the Isle of Man**. There was only one applicant, Border Television. Their application passed the programme quality threshold and they have been awarded the licence. Border Television's cash bid was £52,000.

Central Scotland. The only applicant was Scottish Television. Their application passed the programme quality threshold and the licence has been awarded to them. Scottish Television's cash bid was £2,000.

The Channel Islands. There were two applicants, Channel Television and CI3. One applicant passed the programme quality threshold, Channel Television, and they are awarded the licence. Their cash bid was £1,000.

East, West and South Midlands. Central Independent Television was the only applicant. Their application passed the programme quality threshold. Central are awarded the licence with a cash bid of £2,000.

For the **East of England** licence, the three applicants were Anglia Television, CPV-TV (East of England Television), and Three East Television. Two applicants, Anglia and Three East passed the programme quality threshold. Anglia submitted the highest cash bid and they are awarded the licence. The bid was £17,804,000.

The three applicants for the **London Weekday** licence were Carlton Television, CPV-TV (Greater London Television) and Thames Television. Two applicants, Carlton and Thames passed the programme quality threshold. The higher of the two cash bids was from Carlton Television and they are awarded the licence. Their cash bid was £43,170,000. Thames will be publishing their bid today.

London Weekend. There were two applicants, the Consortium for Independent Broadcasting (London Independent Broadcasting) and

LWT. Only one applicant, LWT, passed the programme quality threshold and they are awarded the licence with a cash bid of £7,850,000.

The three applicants for the **North of Scotland** licence were C3 Caledonia, Grampian, and North of Scotland TV. Of these only Grampian Television passed the programme quality threshold and they are awarded the licence with a cash bid of £720,000.

North-East England. There were two applicants, North-East Television and Tyne Tees Television. Both passed the programme quality threshold. Tyne Tees Television was the higher bidder at £15,057,000 and they are awarded the licence.

For the **North-West England** licence the two applicants were Granada Television and North-West Television. One applicant, Granada Television, passed the programme quality threshold and the licence is awarded to Granada, who made a cash bid of £9,000,000.

There were three applicants for the **Northern Ireland** licence, Lagan Television, TVNi and Ulster Television. Of these TVNi and Ulster both passed the programme quality threshold. However in the case of TVNi it did not appear to the ITC that they would be able to maintain the proposed service throughout the licence period. Therefore only Ulster Television's cash bid was considered and they are awarded the licence with a bid of £1,027,000. The cash bids on the screen show that TVNi were the highest bidder.

South and South-East England attracted four applicants, Carlton, CPV-TV, Meridian and TVS. Carlton, Meridian and TVS all passed the programme quality threshold. However it did not appear to the Commission that TVS would be able to maintain its proposed service throughout the licence period. Of the two remaining applicants Carlton and Meridian, the latter had made the higher cash bid. Meridian is awarded the licence with a cash bid of £36,523,000. As you can see from the screen TVS submitted the highest bid in this area.

There were three applications for the **South-West** licence from TeleWest, TSW and Westcountry Television. Two of these, TSW and Westcountry passed the programme quality threshold. In the case of TSW's application, it did not appear to the Commission that TSW would be able to maintain the proposed service throughout the licence period. Westcountry Television are awarded the licence with a cash bid of £7,815,000. As the screens indicate TSW submitted the highest bid.

Wales and the West of England. The four applicants for this dual region were C3W, C3WW, HTV Group and Merlin Television. Two of the four passed the programme quality threshold, C3W and HTV. HTV are awarded the licence with a bid of £20,530,000.

The last of the regional licences is for **Yorkshire**. Viking Television, White Rose Television and Yorkshire Television were the three applicants. Two of these, White Rose and Yorkshire Television passed the programme quality threshold. Yorkshire Television were the higher bidder at £37,700,000 and they are awarded the licence.

The final award is for the **national breakfast-time** licence. All three applicants, Daybreak Television, Sunrise Television and TV-am passed the programme quality threshold. The licence is awarded to the highest bidder, Sunrise Television, with a cash bid of £34,610,000. Daybreak has not given agreement for its cash bid to be disclosed.

I now want to say something about the overall outcome and its impact on the future of Channel 3 and then my colleagues and I will take your questions.

As you have seen virtually all the cash bids are being published today. No doubt there is some surprise at the range of these within individual licence areas and as a whole. Some may be thought to have got their licences "on the cheap". However you must not forget that the competitive tender is in two parts: the first, a percentage of annual qualifying revenue set for the

licence period by the ITC - the reserve price - and the second, the cash bid. For example Central Independent Television have bid only £2000 but they are also committed to paying 11% of their annual revenue to the Treasury. Only the five smallest licence areas in terms of revenue are required to pay the cash bid and no additional tender payment.

The applicants' business plans indicated the amount to be spent on programmes. In preparing their submissions regional licence applicants had to take a view not only on the budget for 1993 but on future trends in programme expenditure. We can confirm that in aggregate the successful applicants have allowed for real growth in the size of the network budget. A chart illustrating this will be available to you in hard copy.

There has been much written and said over the past few weeks about significantly greater sums going to the Treasury, and therefore being lost potentially from programmes, as a result of this tendering system.

We have done some calculations over the past few days taking into account not only the cash bids but also the likely yield from the first part of the tender. We have used applicants' own projections within their confidential business plans to arrive at some illustrative aggregate figures. The sums I shall now quote are all in constant 1991 prices.

Had the ITC been required to award each licence to the highest bidder (irrespective of whether he passed the quality threshold) the total tender yield per annum would have been almost £100M higher than it will be under the awards we have made. It is my opinion that had the quality provisions in the Bill not been strengthened and the tender as envisaged in the White Paper gone ahead, there might have been a further £100M or so put into cash bids rather than the programme service.

We estimate that, over the licence period, the average annual tender payments of winning licensees in 1991 prices, would be £350M, compared with average Levy payments (had that system

continued) of around £250M. A difference of approximately £100M. However, three late additions to the Bill quickly eat into the difference:-

- (1) the ITV companies currently pay directly to fund the Welsh Fourth Channel, S4C, with little compensatory revenue from advertising. In future the Government will do so. Therefore this is a saving to licensees of about £45M per annum at 1991 prices;
- (2) the Government has committed nearly £10M to Gaelic broadcasting;
- (3) there is also the significant fact that tender payments are to become tax deductible as were Levy payments but as the tender sums are higher it follows that the corporation tax relief is proportionately greater.

All in all by our calculations, taking into account the tender, the S4C payment, foregone tax and Gaelic broadcasting, it means that the Treasury may be "better off" to the tune of around £40M a year at 1991 prices throughout the licence period. The brunt of this additional payment is borne by the breakfast-time licensee. The programme makers of the 15 Channel 3 network companies will have nearly the same money to work with as under the current levy system.

You have listened very patiently to what I have had to say. To sum up, the awards will bring change to ITV. There are four new players including sizeable publisher licensees which will expand the independent sector. The Treasury gets a little more money. Even so there is a commitment in the licence applications to higher network expenditure. Both the viewer and the advertiser should continue to get the quality they want.

**SUMMARY OF ITC PROCESS FOR ASSESSING THE
CHANNEL 3 LICENCE APPLICATIONS
(May-October 1991)**

(1) RECEIPT OF APPLICATIONS

The ITC published its invitations to apply for Channel 3 licences on 15 February 1991. By noon on 15 May, the closing date, the ITC had received 37 applications for the 15 Channel 3 regional licences and 3 applications for the single national breakfast licence. The Borders, Central Scotland and the East, West and South Midlands areas each received one application.

(2) CASH BIDS

In order to verify the contents, the sealed envelopes containing the cash bids were opened on 16 May by the Chairman, Deputy Chairman, Chief Executive and Secretary. The cash bids were then locked away.

(3) BASIS OF DECISIONS

The decisions on these awards were taken by the Members of the Commission. A major part of the process was consideration of which applicants had satisfied the requirements of section 16(1) of the Act, known as the quality threshold. The ITC also needed to consider, in the case of applications for regional licences, whether all applicants' networking proposals were satisfactory as required by Section 36(2). It was only those applicants who satisfied these requirements whose cash bids were considered. Where more than one applicant had done so, the Members then considered whether it appeared that there were exceptional circumstances which made it appropriate to award the licence to an applicant other than the highest bidder who had met those requirements.

(4) ASSESSMENT OF APPLICATIONS

In considering the applications, Members were supported by teams of ITC staff. The consideration covered applicants' programme proposals (including networking), engineering proposals, business plans, and ownership. The ITC also had access to professional legal and financial advice. Each applicant's programme proposals and his business plan were considered separately.

(5)

PUBLIC CONSULTATION

Copies of Sections A and B of each relevant application and summaries were placed in 275 UK major libraries and in ITC Headquarters, National and Regional Offices. The business plans, Section C, of the applications were treated in strict confidence (and will remain confidential). Summaries of Sections A and B provided by the applicants were also available from all ITC offices. The six-week public consultation period was widely publicised in an ITC leaflet 'New Channel 3 (ITV) licences - Your chance to Comment' of which 70,000 copies were distributed and advertisements were placed in the press and in the TV Times. There were 21,250 requests for summaries. Comments were received from 2,278 individuals, companies and organisations by the deadline of 26 June.

In addition, the views of the 10 ITC Viewer Consultative Councils (VCCs) were considered, and those of the Gaelic Television Committee in relation to the proposals by applicants for the two Scottish licences for Gaelic-language programmes. The ITC took into account the views of the States of Jersey & Guernsey in relation to the applications for the Channel Islands licence.

(6)

GRANTING OF CHANNEL 3 LICENCES

The ITC intends to grant licences within six weeks of the award. Each grant will be conditional upon any necessary consents and approvals having been obtained, finance for the service being irrevocably committed, completion of a satisfactory declaration as regards the structure and the composition of the applicants, and compliance with the requirements imposed by or under parts III to V Schedule 2 of the Act.

16 October 1991

CHANNEL 3

OUTLINE OF PROCEDURE IN THE BROADCASTING ACT 1990 FOR INVITING APPLICATIONS AND AWARDED CHANNEL 3 REGIONAL LICENCES

(Note: the procedure is substantially the same for the single National Channel 3 licence)

INVITING APPLICATIONS

1. The ITC must first publish an invitation to apply for licences. This must specify the services to be provided for the licences which are offered (region, times of the day and week etc), the closing date, the fee payable by applicants and the percentage of qualifying revenue which would be payable by a successful applicant.

INFORMATION FROM APPLICANTS

2. Each application for a regional Channel 3 licence has to be accompanied by the applicant's proposals for providing a service that would comply with the requirements of section 16(2).

3. Section 16(2) lists the elements of the programme service which constitute statutory requirements. These are:

- (a) that a sufficient amount of time is given to news and current affairs programmes of high quality dealing with national and international matters, which, in the case of news programmes, are broadcast at intervals throughout the day;
- (b) that a sufficient amount of time is given in the service to programmes which are of high quality;
- (c) that a sufficient amount of time is given to a suitable range of regional programmes which are of particular interest to persons living within the area for which the service is provided, which may include provision for different parts of the area or communities living within the area;
- (d) that news programmes included in regional services should be of high quality;
- (e) that a suitable proportion of regional programmes included in the area are to be made within the area for which the service is to be provided;
- (f) that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests;
- (g) that a proper proportion of the matter included in the programmes is of European origin; and

- (h) that not less than 25 per cent of the total amount of time allocated to programmes in the service is allocated to broadcasting a range and diversity of independent production, in terms both of cost of acquisition as well as the type of programme which is involved.

There are additional requirements for programmes in Gaelic on Channel 3 in Scotland (section 184).

4. Information must also be provided by the applicant on proposals for promoting the understanding and enjoyment of the hearing and sight-impaired, on training and on the location of offices and studios (section 15(3)(c)(d) and (e)). The applicant must state his proposals for participating in network arrangements and the ITC must not allow his application to proceed unless it appears to them the proposals are satisfactory (section 39(2)).

5. The application also has to be accompanied by such information as the ITC may reasonably require as to the applicant's present financial position and his projected financial position during the period for which the licence would be in force and by such other information as the ITC may reasonably require for the purposes of considering the application (section 15(3)(g) and (h)).

ITC GUIDANCE

6. The ITC must, when inviting applications for Channel 3 licences, publish general guidance containing examples of the kinds of programmes whose inclusion would be likely to result in a finding by the ITC that the applicant's service would comply with those requirements (section 15(2)).

PUBLIC CONSULTATION

7. After receiving the applications, the ITC must publish each applicant's name and programme proposals and such other information as they consider appropriate. They must invite representations from the public with respect to any matter so published and set the date by which representations are to be received (section 15(6)).

QUALITY THRESHOLD

8. The ITC shall not proceed to consider whether to award the regional licence to an applicant on the basis of his cash bid unless it appears to them that his proposed service would comply with the requirements of section 16(2) and that he would be able to maintain that service throughout the period for which the licence would be in force (section 16(1)). In deciding whether an applicant's proposed service would comply with those requirements, the ITC must take into account any representations made to them with respect to that service in pursuance of the public consultation under section 15(6) (section 16(4)).

RANKING OF BIDS AND EXCEPTIONAL CIRCUMSTANCES

9. The ITC must then consider all the cash bids submitted by applicants for a Channel 3 licence who have passed the quality threshold and award the licence to the applicant who has submitted the highest bid (section 17(1)) unless it appears to them that there are exceptional circumstances which make it appropriate for them to award the licence to a lower bidder (section 17(3)). Exceptional circumstances may for example be considered where it appears to the ITC that the quality of the service proposed by such an applicant is exceptionally high and is substantially higher than that proposed by the highest bidder (section 17(4)).

PUBLICATION OF AWARD

10. When the ITC awards a regional Channel 3 licence they must publish the name of the successful applicant and the amount of his cash bid, together with the name of every other applicant whose service appeared to the ITC to comply with the requirements of section 16(2). If the licence has not been awarded to the highest cash bidder, in pursuance of section 17(3) ("exceptional circumstances"), the ITC must publish their reasons for the licence having been so awarded. The ITC may also at that time publish such other information as it considers appropriate (section 17(12)).

OWNERSHIP

11. The ITC must do all it can to ensure that the detailed provisions in Schedule 2 (Restrictions on the Holding of Licences) of the Broadcasting Act 1990 and the subsequent Broadcasting (Restrictions on the Holding of Licences) Order which came into force in May 1991 are complied with. Main provisions are concerned with disqualified persons, restrictions to prevent accumulations of interests, limits on participation, interests of connected persons, restrictions on controlling interests in both newspapers and other licensed services, and restrictions on cross-holdings, and the holding of licences for large or contiguous areas.

16 October 1991

CHRONOLOGY OF ITV

- 30.07.54** Television Act 1954 establishes the Independent Television Authority (ITA) and sets out the basis for Independent Television (ITV).
- 25.08.54** ITA advertises contracts for London, Midlands and the North of England. 27 applications are received.
- 14.10.54** ITA decides on the principle of a network system based on four companies operating in three areas on a weekday/weekend basis.
- 26.10.54** ITA awards the first ITV contracts as follows:-
- | | |
|--|---|
| London (Monday-Friday) | - Broadcast Relay Services/Associated Newspapers, later to operate as Associated-Rediffusion |
| London (Saturday-Sunday)
Midlands (Monday-Friday) | - Associated Broadcasting Development Co Ltd - later reorganised as Associated Television (ATV) |
| Midlands (Saturday-Sunday)
The North of England (Saturday-Sunday) | - Kemsley Newspapers-Maurice Winnick Group. When the backers fall out, the ITA withdraws the contract, re-advertises it and awards it to the Associated British Picture Corporation later to operate as ABC Television on 21.09.55. |
| The North of England (Monday-Friday) | - Granada Theatres - later to operate as Granada TV Network Ltd |
- 18.01.55** ITA approves the setting up of a news company owned and operated by the ITV companies.
- 04.05.55** ITN Ltd is incorporated.
- 22.09.55** ITV service opens (but only in London) from ITA's Croydon transmitter covering nearly 12 million people in London and the Home Counties.
- 30.05.56** ITA announces the award of the Central Scotland contract to Scottish Television (STV) from three applications.



Associated-Rediffusion
22.9.55 (London weekday)



ATV
24.9.55 (London weekend)
17.2.56 (Midlands weekday)



ABC Television
18.2.56 (Midlands weekend)
5.5.56 (North weekend)



Granada Television
3.5.56 (North weekday)



Scottish Television
31.8.57



TWW
14.1.58



Southern Televis
30.8.58



Tyne Tees Television
15.1.59



Anglia Television
27.10.59



Ulster Television
31.10.59



Westward Television
29.4.61



Border Television
1.9.61



Grampian Television
30.9.61



Channel Television
1.9.62

- 26.10.56 ITA announces the award of the South Wales and the West of England contract to Independent Television for South Wales and West of England, later to operate as TWW, from ten applications.
- 22.07.57 ITA announces the award of the South of England contract to the Rank Organisation/Amalgamated Press/Associated Newspapers group, later to operate as Southern Television, from 13 applications.
- 13.12.57 ITA announces the award of the North-East England contract to the News Chronicle/Sydney Box/George and Alfred Black group, later to operate as Tyne Tees Television, from 11 applications.
- 25.06.58 ITA announces the award of the East of England contract to the Manchester Guardian/Romulus Films/Wyndham Theatres group, later to operate as Anglia Television, from eight applications.
- 10.11.58 ITA announces the award of the Northern Ireland contract to Ulster Television from four applications.
- 16.12.59 ITA announces the award of the South-West of England contract to Westward Television from 15 applications.
- 28.03.60 ITA announces the award of the Channel Islands contract to Channel Islands Communications (Television) Ltd, later to operate as Channel Television, from two applications.
- 05.05.60 ITA announces the award of the Borders and the Isle of Man contract to Border Television from two applications.
- 02.08.60 ITA announces the award of the North-East Scotland contract to North of Scotland Television, later to operate as Grampian Television, from seven applications.
- 06.06.61 ITA announces the award of the West and North Wales contract to the Wales Television Association - Teledu Cymru, later to operate as Wales (West and North) Television (WWN), from four applications.
- 14.09.62 With WWN going on air the ITV system is complete.



Wales (West and North)
14.9.62

- 16.09.63 ITA invites applications for new ITV contracts to run from July 1964 for a period of three years or until the arrival of ITV2, whichever comes sooner. All the incumbent ITV companies apply plus eight new groups. Ulster, Grampian and Border Television are unopposed.
- 26.01.64 WWN closes because of financial difficulties and is taken over by TWW, and the two Welsh contract areas are combined. ITA announces that all 14 ITV companies have had their contracts renewed to 1967.
- 27.01.66 ITA extends ITV contracts to July 1968.
- 21.12.66 ITA announces intention to appoint five major programme contractors instead of four at the next franchise round, with seven-day companies everywhere except London as well as separate ITV services for Lancashire and Yorkshire to replace the North of England franchise area.
- 28.02.67 ITA invites applications for the 15 new ITV contracts to run from 1968 to 1974. There are 36 applications.
- 11.06.67 ITA awards new contracts to Anglia, Border, Channel, Grampian, Scottish, Southern, Tyne Tees, Ulster and Westward. Harlech Television (later to operate as HTV) replaces TWW. The new Yorkshire area is awarded to Yorkshire Television, the new Lancashire area to Granada, the new seven-day Midlands service to ATV and the new London weekend only service to LWT. For the new London weekday only contract, the ITA asks ABC to merge with Rediffusion to form Thames Television.
- 12.06.72 ITA is given the job of setting up Independent Local Radio (ILR) by the Sound Broadcasting Act 1972, and becomes the Independent Broadcasting Authority (IBA).
- 12.03.74 IBA extends ITV contracts to 1976.
- 31.07.74 Independent Broadcasting Authority (No.2) Act 1974 enables the IBA to extend the ITV contracts to 31 July 1979.
- 31.07.78 Independent Broadcasting Authority Act 1978 enables the IBA to extend the ITV contracts until 31 December 1981.
- 24.01.80 IBA advertises new ITV contracts for 1982-89, including a new breakfast-time service and a dual East and West Midlands region.



4.3.68



29.7.68



30.7.68



2.8.68

- 09.05.80 IBA receives 43 applications including eight for the breakfast-time franchise.
- 13.11.80 IBA is given the job of setting up the Fourth Channel in England, Scotland and Northern Ireland. The task in Wales is given to a new Welsh Fourth Channel Authority.
- 28.12.80 IBA awards new ITV contracts to Anglia, Border, Channel, Grampian, Granada, HTV, LWT, Scottish, Thames, Tyne Tees, Ulster and Yorkshire. It replaces Southern with Television South (TVS), Westward by Television South West (TSW) and requires ATV to take on a full commitment to the Midlands dual area, to be restructured as Central Independent Television. The breakfast-time contract is awarded to TV-am.
- 01.11.82 S4C goes on air, with programmes provided by BBC Wales, HTV and independent producers.
- 02.11.82 Channel 4 begins transmission provided by the Channel Four Television Company, a wholly-owned subsidiary of the IBA.
- 01.02.83 TV-am begins transmission.
- 09.04.87 The Broadcasting Act 1987 enables the IBA to extend the ITV contracts to 31 December 1992.
- 01.01.91 Under the Broadcasting Act 1990 the Independent Television Commission (ITC) replaces the IBA and the Cable Authority as the body responsible for licensing and regulating non-BBC services including Channel 3 (ITV) and Channel 4, the proposed Channel 5, Cable and Satellite.
- 15.02.91 ITC advertises the 16 Channel 3 (ITV) licences (15 regional plus one national breakfast-time licence) to be awarded by a process of competitive tender.
- 15.05.91 ITC receives 40 applications including three for the national breakfast-time licence.



12.8.81



CENTRAL

1.1.82



1.1.82



1.2.83

CHANNEL 3 LICENCES
SELECTED TERMS AND DEFINITIONS

Note: These definitions do not in any way substitute for a direct reading of the Broadcasting Act 1990, and its subordinate legislation or the ITC's Invitation to Apply and licence documents.

BROADCASTING ACT - received Royal Assent in November 1990. 204 Sections and 22 Schedules. Preceded by Government's White Paper 'Broadcasting in the 1990s: Competition, Choice and Quality' published November 1988.

CASH BID - sum of money offered by licence applicants for a Channel 3 licence; will be paid for first year of licence in 1993 and then will be annually adjusted for inflation. (See Tender)

CLOCK - times of broadcasting for ITC licensees are the same as current ITV pattern ie. split for London weekday/weekend; 24 hours per day minus breakfast-time slot (6am to 9.25am).

CODES - ITC is required by the Act to issue codes on programme content, advertising, and sponsorship. Compliance will then be a licence condition.

CONTIGUITY - after grant of licences, but subject to the moratorium (see below), a Channel 3 licensee may acquire, with ITC approval, a contiguous neighbour through takeover provided they are not both 'large' (see definition of 'large'.)

DISQUALIFIED PERSONS - those who are not allowed to control a Channel 3 licensee as set out in Schedule 2 of the Act; these include non-EC individuals and bodies, those whose objects are wholly or mainly political or religious, local authorities and advertising agencies.

DUAL REGIONS - ITC map has two dual regions, South and South East England, and Wales and West of England plus one triple region, East West, and South Midlands. Minimum levels of local programmes are set by the ITC for the region and the sub-regions in each of these licence areas.

EXCEPTIONAL CIRCUMSTANCES - a reason for the ITC to award a licence to other than the highest bidder. One instance mentioned in the Act would be if the quality of their proposed service is exceptionally high and substantially higher than the highest bidder.

FEES - to be paid by licensees to cover ITC's costs in discharging its regulatory functions. (For Channel 3 these will still be called rentals until the end of 1992 even though they exclude transmission costs).

Gaelic TV FUND - Government payment to ITC for establishment of fund, managed by Gaelic TV Committee, appointed by the ITC, which will make grants for Gaelic TV programmes in Scotland.

GRANT OF LICENCE - The grant of a licence following the award will be conditional upon (i) the body awarded the licence having obtained all necessary consents and approvals etc, and having the finance for the proposed revenue for the proposed service irrevocably committed, within six weeks of the date of award, (ii) the satisfactory completion of a declaration as regards its structure and funding and (iii) compliance with the ownership requirements imposed by or under Parts III to V of Schedule 2.

INDEPENDENTS - after 1 January 1993, Channel 3 licensees will have to allocate at least 25 per cent of broadcasting time to a broad range and diversity of programmes made by independent producers. Quota will be measured for each licensee against programmes broadcast rather than programmes commissioned.

ITC - Independent Television Commission is statutory body responsible for licensing and regulating all UK commercial television services including Channels 3 and 4, proposed Channel 5, cable, local delivery, domestic and non-domestic satellite services, licensable programme services, public teletext and other additional services.

LARGE C3 LICENCE AREAS - one body may hold a controlling interest in two regional Channel 3 licences as long as they are not both large. Of the 15 regional Channel 3 areas, the top nine (in terms of Net Advertising Revenue share) are designated, under a Government Order as 'large', and the bottom six as small. The top nine areas are London Weekday, London Weekend, East, West and South Midlands, Yorkshire, North West England, South and South East England, East of England, Wales and West, and Central Scotland. Small areas are Borders and the Isle of Man, Channel Islands, North of Scotland, South West England, North East England and Northern Ireland.

MAP - map for Channel 3 regional licences is same as current 14 ITV regions; includes two dual, one triple region and London split.

MEMBERS - ITC Members, or Members of the Commission, are appointed by Home Secretary; national Members for Scotland, N Ireland and Wales; maximum number of Members is 10, minimum is eight, excluding Chairman and Deputy Chairman. (Currently there are eight Members plus Chairman and Deputy Chairman).

MORATORIUM on takeovers - in period beginning with award of licence and ending one year after licence comes into force (ie end 1993) - no change can take place in control of licensee without ITC's approval.

NEWS PROVIDER - Channel 3 licensees must include news programmes supplied by a news provider nominated by ITC. ITN has been appointed the nominated news provider.

OWNERSHIP - detailed provisions are in Schedule 2 of the Broadcasting Act 1990, and in the Broadcasting (Restrictions on the Holding of Licences) Order 1991, which came into force in May 1991.

QUALIFYING REVENUE - the basis for calculating a number of financial obligations including payment of the first part of the tender. Includes advertising, subscription and sponsorship revenue.

QUALITY THRESHOLD - before their cash bids were considered by the ITC, Channel 3 applicants had to meet the requirements of section 16(1)(a) and 16(1)(b) of the Broadcasting Act 1990.

RENEWAL - a Channel 3 licensee may apply for renewal of a licence from the end of 1998 (ie four years before the licence ends.) The new term of the licence would run from the date of renewal.

SANCTIONS - ITC can apply specific penalties for breach of licence conditions; these include power to direct a licensee to broadcast a correction or apology; to impose financial penalties (up to a given maximum percentage of qualifying revenue) and to shorten licence terms. It can also ultimately revoke the licence.

SCHOOLS BROADCASTING - schools programmes will be broadcast on and funded by Channel 4.

S4C - The Welsh Fourth Channel will be funded, from 1 January 1993, directly by central government and not, as previously, from Fourth Channel subscriptions provided by ITV contractors.

SUBSTITUTE SERVICE - ITC may invite Channel 3 licensee, by a variation in licence, to provide a service in another region if the holder of that licence is no longer able or permitted to provide the service.

TENDER - Channel 3 licensees have the first part of their tender set by the ITC as a percentage of annual qualifying revenue. In addition they make a cash bid. The percentage of qualifying revenue which applicants for Channel 3 licences will be required to pay as the first part of the tender, in addition to the cash bid, has been set by the ITC at the following rates; 15 per cent (Breakfast Time), 11 per cent (London Weekday, London Weekend, Midlands, North West England, South and South East England), 7 per cent (Yorkshire, East of England), 2 per cent (Wales and West, Central Scotland, North East England), 0 per cent (South West England, Northern Ireland, North of Scotland, Borders and Isle of Man, Channel Islands).

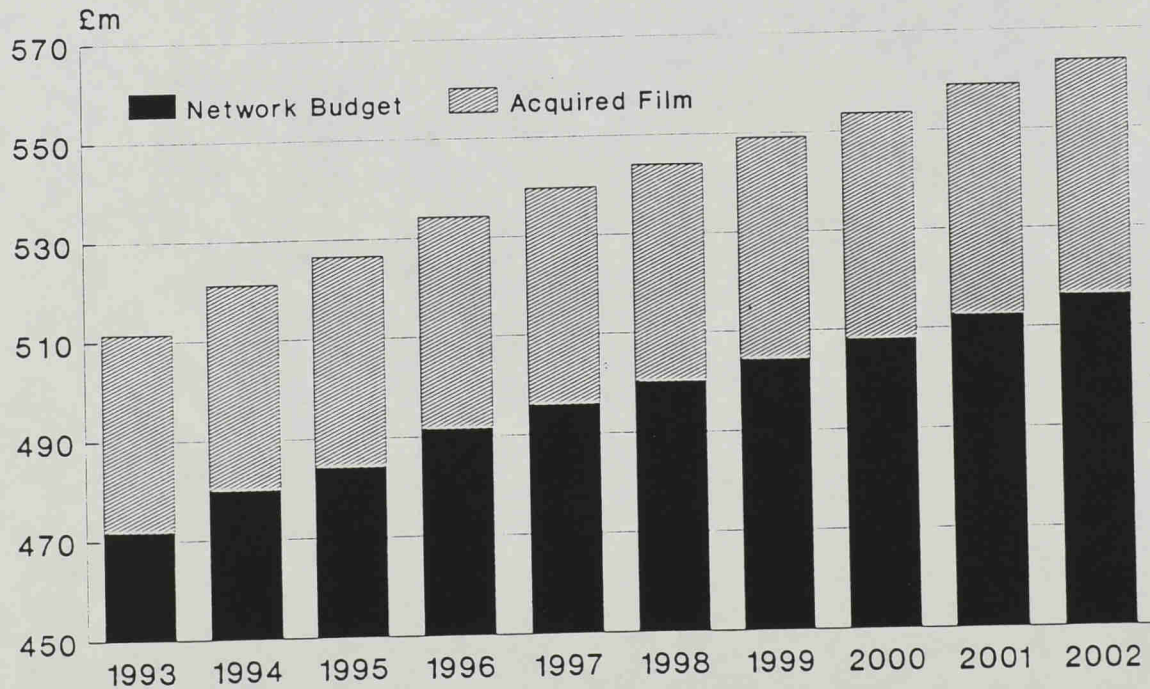
TRANSMISSION - Channel 3 licensees will make arrangements for transmission within their region with a transmission operator. This operator must be National Transcommunications Ltd (NTL) until at least 1996.

VARIATION OF LICENCE - Channel 3 licences may be varied by the ITC with consent of licensee on programme proposals and on the terms of the licence. Amount of first and second part of tender may not be varied.

VIEWER CONSULTATIVE COUNCILS (VCCs) - ten regional councils, appointed by ITC, to act as advisers to the ITC from end of 1990; includes councils for Scotland, N. Ireland and Wales. Councils have replaced IBA National Committees and General Advisory Council.

WELSH AUTHORITY - now named Sianel Pedwar Cymru (S4C) responsible for providing the Welsh Fourth Channel, S4C.

Regional Channel 3 Licensees' Projected Network Programme Budgets over the 10 year licence (1991 prices)



CONFIDENTIAL



NBA
7/10
CPA

Treasury Chambers, Parliament Street SW1P 3AG

071-270 3000

Fax 071-270 5456

The Rt Hon Kenneth Baker MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

at hand
7 October 1991

BBC BORROWING POWERS

Thank you for your letter of 2 October.

2. I understand that my officials have discussed with yours and the BBC the Corporation's borrowing needs, taking into account the measures they are pursuing to make the financial improvements which Price Waterhouse recommended. I welcome your intention to monitor their progress in reducing their debt, following its peak forecast for March 1993.

3. On this basis, I am content for the Charter to be amended to provide for an immediate increase in the BBC's borrowing limit of £100 million to £200 million, with discretion for you to agree a further £50 million increase if you were satisfied it was necessary. I also agree that we should leave on one side the question of the need for a further increase if the BBC introduce a monthly budget payment scheme until they come forward with firm proposals. But I would like to register now my feeling that it would be better for the BBC to investigate other options for easy payment to improve licence fee collection, which do not have the same adverse consequences for their medium term financial position.

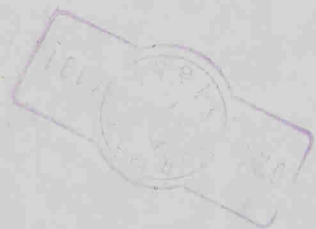
4. I am content for the BBC to meet their funding needs by drawing down the uncashed balances of the TV licence savings stamps scheme. I would be grateful if my officials could be consulted over the terms of the agreement under which responsibility for the scheme is passed from the Home Office to the BBC. Finally, whilst I appreciate that the benefit to the BBC of using this money rather than borrowing on the open market will not be substantial, we will need to keep it in mind in reviewing licence fee increases, to ensure that, if possible, it can be passed on to licence fee holders.

5. I am copying this to the Prime Minister and the Lord President.

DAVID MELLOR

BROADWAY: Policy

MI 2





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 October 1991

Dear Sir,

BBC WORLD SERVICE

Thank you for your letter of 1 October which the Prime Minister has seen.

The Prime Minister was grateful for the paper which you sent about the BBC World Service and BBC World Service television.

The Prime Minister is content with the policy and expenditure pattern which you are pursuing.

I am copying this letter to Jeremy Heywood and Nicholas Holgate (H M Treasury), Simon Webb (Ministry of Defence), Martin Stanley (Department of Trade and Industry), Colin Walters (Home Office) and Sonia Phippard (Cabinet Office).

J.S.
Steph

J. S. WALL

Simon Gass, Esq.,
Foreign and Commonwealth Office

File M
etc

M



BF with CST response
AF
CC PH

QUEEN ANNE'S GATE LONDON SW1H 9AT

2 October 1991

David Mellor

BBC BORROWING POWERS

I am writing to seek your agreement to a Charter amendment to increase the BBC's borrowing powers.

You will recall that I wrote to the Prime Minister on 21 December last year proposing a five year television licence fee settlement from 1991/92. This was based on the Price Waterhouse report, paragraph 38 of which pointed out that an increase in the BBC's borrowing limit was likely to be required.

The BBC have now proposed that the increase should be to £250 million in the first instance, with the Secretary of State having the power to raise it further to £400 million. The first increase is needed primarily to finance PAYGO - the quarterly television licence budget payment scheme, the short to medium term effects of the BBC's economy measures, the front loading of the discount against RPI which we applied to the licence fee, and the borrowings necessary each month before licence fee monies are paid by Government to the BBC. The further increase to £400 million would be contingent on the introduction of a monthly budget payment scheme. The BBC have not yet put formal proposals to me on that, but the idea would seem to tie in with our general aim of improving licence fee enforcement.

I have looked carefully at the need for the £250 million, which will arise by March 1993. There have also been discussions at official level between the Home Office and the BBC and with the Treasury. I believe that the BBC are making determined efforts to implement both the Price Waterhouse financial improvements and to reduce the deficit which was already facing them when the consultants reported. Amongst other measures staff are being cut by 5,000 between 1986 and 1993, many buildings are being closed and leases surrendered, and further savings in production and indirect costs are being sought.

However, the savings involve additional short term costs in the form of redundancies and the BBC are also having to face the effects of economic changes on BBC Enterprises in particular. Having examined these and the other elements of their figures, I believe they do need to borrow at the level proposed by March 1993. But I am particularly anxious that they should take steps to reduce the debt subsequently. They plan to cut borrowing again to £190 million by March 1996, and in their next budgetary exercise they will be looking carefully at the possibility of further reduction by March 1997. I intend to keep in touch with their plans to satisfy myself that they are controlling the debt properly.

The Rt Hon David Mellor, QC., MP.
Chief Secretary
Treasury Chambers
Parliament Street, S.W.1.

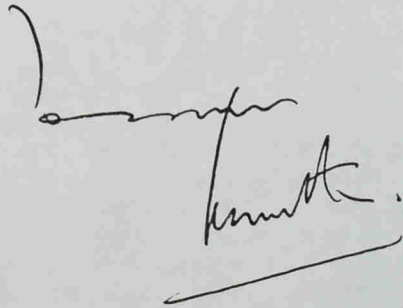
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Taking all this into account, I think it would be right to deal with the BBC's approach in stages. In the first instance I would like to increase their borrowing limit to £200 million, which would cover their needs up to next March. Much as with the present Charter as amended in 1982, I would want the Charter amendment to give me discretion to increase the limit further - to £250 million. For the moment I will keep the use of that discretion under review, and reach a firm decision early next year in the light of the BBC's further progress. I propose that we leave the question of a further increase to £400 million out of the present package. The financing consequences of a monthly PAYGO scheme will obviously have to be considered as and when the BBC put a formal proposal to me, and I think it would make sense to consider any need for a further Charter amendment at that stage. We may find on closer examination that it would be possible to go for a lower figure than £400 million.

There has also been considerable discussion between my officials and yours about the means by which the BBC would obtain the necessary further funds. Normally they would borrow on the open market, but officials have now agreed in principle that it would be appropriate on this occasion to allow the BBC the opportunity to draw on accumulated uncashed balances of funds from the purchase of TV licence savings stamps. This will be a little cheaper than borrowing on the market, and will make good use of these unredeemed sums. However, since the money will technically be borrowing, it has been established that a Charter amendment to increase the borrowing limit will still be required.

Although the BBC do not expect to reach the borrowing limit of £250 million for another 18 months, they will reach their present limit of £100 million this month. They are already having to defer payments specially to avoid breaching the limit. We are now up against a short deadline if we are to avoid them being unable to meet bills as the month progresses. I very much hope, therefore, that we can secure agreement to the change at the Privy Council meeting on 16 October and announce it by arranged Parliamentary Question on the same day. To enable the necessary steps to be taken I would be grateful for your approval by 10 October.

Copies go to the Prime Minister and the Lord President of the Council.





ccjc

Foreign & Commonwealth Office

COVERING RESTRICTED

London SW1A 2AH

1 October 1991

010

Prime Minister ①

Dear Stephen,

The BBC seem to be pushing hard. Television quite well without government funding. I'd be inclined to leave it that

BBC World Service *Wray* - *Stephen*

Thank you for your letter of 9 September to Christopher Prentice. I enclose a short paper about the BBC World Service and BBC World Service Television which covers the points raised by the Prime Minister.

The Foreign Secretary agrees with the Prime Minister that the BBC World Service radio is a tremendous asset.

The FCO accordingly negotiated a funding package for the current Triennium (1991-2 to 1993-4 inclusive), which gave the World Service a 6% increase in Grant-in-Aid for the first year over the preceding year, with further increases in the following years. The figures are set out in the enclosed note. The aim is to give the World Service scope to improve programme quality, particularly of English language news and current affairs broadcasts, and to provide for capital expenditure to improve audibility. At the same time we agreed with the BBC World Service on some increases in Arabic, Russian, Mandarin, Vietnamese and English output and the ending of the small Japanese and Malay Services.

The Triennial funding agreement also gives the BBC World Service some flexibility to respond to changing circumstances and needs. For example, the World Service increased their broadcasting in the Russian language from 46 to 124.25 hours a week in the immediate aftermath of the attempted Soviet coup. Broadcasting in Russian has since been cut back to 60 hours a week, which we and the BBC think right in present circumstances. The World Service are drawing up a proposal for launching a new Ukrainian language service. We believe that it should be possible to accommodate this within existing funds.

/The Grant-in-Aid

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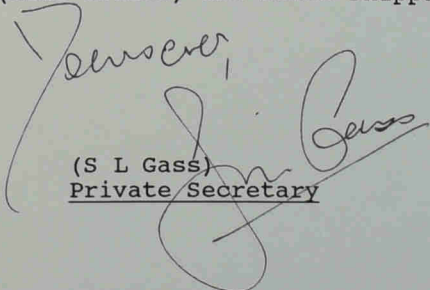
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The Grant-in-Aid to the BBC World Service is 16% of total FCO Diplomatic Wing expenditure. If extra resources had to be provided for the BBC World Service, the Foreign Secretary believes that there would need to be found from outside the FCO. The Diplomatic Wing is already under severe financial pressure from new and largely unforeseen commitments, notably monitoring operations in Yugoslavia, increasing our activities in Eastern Europe, the Baltic States and the Soviet Union, dealing with the Vietnamese boat people, international peacekeeping activities and the increase in VAT. In the longer term, the BBC will be able to bid for extra resources should they need them when they negotiate with us the level of funding for the next Triennium (1994/97).

As recorded in the enclosed paper, Ministers decided in 1988 not to provide Government funds to help launch BBC World Service Television, partly because there was already a commercial competitor (ITN's news service) in the field. However, we have assured the BBC of the Government's non-financial support and our missions overseas will help in marketing the service, as they would do for other British companies. The FCO has supported the BBC's efforts to establish, in partnership with Hutchvision of Hong Kong, a news channel to be broadcast initially in English, soon also in Mandarin, and eventually in Cantonese too, via ASIASAT, which has a footprint stretching across Asia from Arabia to Japan. This service, which will be formally launched on 14 October, is a major breakthrough for BBC World Service Television which until now has been broadcast only on certain cable networks in Europe. We hope the BBC will be able to negotiate other arrangements of this kind.

The FCO looks forward to making a contribution to the review of the BBC's Charter which the Home Secretary has just launched.

I am copying this letter to Jeremy Haywood and Nicolas Holgate (HM Treasury), Simon Webb (Ministry of Defence), Martin Stanley (Department of Trade and Industry), Colin Walters (Home Office) and Sonia Phippard (Cabinet Office).


(S L Gass)
Private Secretary

Stephen Wall Esq CMG LVO
10 Downing Street

COVERING RESTRICTED

THE BBC WORLD SERVICE : RADIO AND TELEVISION

BBC WORLD SERVICE (RADIO)

BACKGROUND

1. The World Service is widely acknowledged as the world's leading international broadcaster with an estimated world-wide audience of over 120 million listening at least once a week. Ministers recognised the value and effectiveness of the World Service when they approved substantial increases last year in the funding provided by Parliament (para 5 below).

2. The BBC World Service has its origins in the BBC's Empire Service of the 1930s and is financed by Grants in Aid administered by the FCO. The FCO are responsible for prescribing languages, hours and target countries for broadcasts (the "Prescription"), for setting priorities for the monitoring of foreign broadcasts (by BBC Monitoring at Caversham, Berkshire) and for setting the Grants in Aid at the minimum level necessary to implement the Prescription and sustain an agreed capital programme (largely audibility improvements). A set of agreed FCO/BBC objectives for the World Service (essentially that programmes are planned and prepared in the national interest and present a balanced British view) provide the framework for programming within which the World Service has complete editorial and managerial independence.

BROADCASTING OUTPUT

3. World Service output is now 810 hours a week in 36 languages (including English), the highest level since the early 1950s and an increase of 24 hours a week since April this year. Output is set and regularly reviewed in the light of foreign policy priorities and objectives, audience surveys and assessments from British diplomatic posts. A number of changes to broadcasting output have been made during the last year, including increases in Arabic, Russian, Mandarin, Vietnamese and English output, and the ending of the small Japanese and Malay services.

RESTRICTED

MONITORING OF FOREIGN BROADCASTING

4. BBC Monitoring, part of the World Service, is the national agency for monitoring the output of foreign broadcasting organisations and news agencies. It was founded in August 1939 and in 1942 entered into a collaborative agreement with the Foreign Broadcast Information Service (FBIS) of the US, part of the CIA. The two organisations divide the world between them, exchanging all information as it is monitored. BBC Monitoring concentrates on the USSR, East and West Europe, North Africa, parts of the Middle East, Afghanistan, East Africa and the Horn of Africa, and is based at Caversham Park, near Reading, with an out-station in Nairobi and a number of remote facilities elsewhere. FBIS has several overseas stations, the largest of which is based with BBC Monitoring at Caversham Park.

FUNDING OF BBC WORLD SERVICE

5. Since 1985, the Grants in Aid have been set on a 3-year basis (the "Triennium") in accordance with the BBC's own preference. The current Triennium runs until April 1994. The BBC were well satisfied with the outcome of the 1990 PES round which resulted in a significant increase in funding for the World Service (5% in real terms in the first year of the current Triennium and further increases in the two remaining years). Recent expenditure (including contributions from the MOD of 20% of the cost of BBC Monitoring) and for the remainder of the current Triennium is as follows:

86-87	87-88	88-89	89-90	90-91	<u>91-92</u>	<u>92-93</u>	93-94
102.42	101.85	120.09	125.99	142.53	159.58	166.36	175.86

The majority of expenditure falls to the broadcasting side of the World Service as the following breakdown of expenditure over the current Triennium shows:

RESTRICTED

	1991-92	1992-93	1993-94
Broadcasting: current	117.02	124.95	133.39
capital	26.12	23.13	24.08
Monitoring : current	12.32	13.53	14.96
capital	4.12	4.75	3.43
	-----	-----	-----
	£159.58	£166.36	£175.86
	-----	-----	-----

One of the principle aims of the favourable settlement reached last year was to improve the output quality of the World Service in English, which underpins all the vernacular services, by the production of more news and current affairs programmes and the appointment of more correspondents overseas. Furthermore the World Service has greater flexibility to enable it to react to changes in requirements during the current Triennium.

RECENT DEVELOPMENTS

6. During the previous Triennium, the hours of broadcasting rose from 757 hours to 786 hours. Several of these increases were to take advantage of new transmitters (eg Seychelles which went on the air in September 1988). 15½ hours of the increase were in high priority English language teaching broadcasts. Well over £100 mn have been spent during the past decade to improve audibility. During the previous Triennium the BBC:

- completed the new Seychelles relay station;
- built additional transmitters at Ascension Island relay station;
- made major improvements to the Cyprus relay station, Skelton (UK) and Rampisham (UK) to improve audibility in Eastern Europe and Soviet Union;
- and constructed the Lesotho Medium Wave relay station to serve southern Africa.

7. During the Gulf crisis, the BBC in consultation with the FCO

put English transmissions to the Gulf on a 24-hour a day basis and increased Arabic broadcasts by 5 hours a day. This entailed increased expenditure by the end of the last financial year (the end of the last Triennium) of £1.54mn which was funded mainly by the FCO but with a contribution from the BBC. Arabic has now been reduced with our agreement to 10½ hours per day. Extra costs are being borne by the BBC.

FUTURE DEVELOPMENTS

8. We regularly review the World Service's broadcasting and monitoring operations to ensure they are properly targetted, reflect international developments (eg the Gulf War, the collapse of the Soviet bloc) and are generally in tune with FCO objectives. The next meeting with the BBC to review the prescription will be held at Ministerial level in December 1991.

(a) EUROPE

9. In the week following the attempted coup in Moscow the BBC virtually tripled Russian broadcasts (to 16 3/4 hours per day). Broadcasts have now reverted to 60 hours per week, an increase on pre-coup levels of about 14 hours per week. The BBC are confident that this can be funded from within existing resources. A new series of programmes especially designed for listeners in East and West Europe will be introduced at the end of this month. By agreement with the FCO the BBC are planning to establish a Ukrainian Service probably in early 1992. Broadcasts to Czechoslovakia were recently split into Czech and Slovak streams, and broadcasts in Serbo-Croat will be split into Serbian and Croatian streams at the end of this month, to reflect the preferences of audiences in the target areas. A BBC team is presently visiting Moscow and St Petersburg to reopen discussions on the local rebroadcasting of BBC World Service programmes. Local rebroadcasting on VHF or Medium Wave is a valuable adjunct to direct broadcasting on Short Wave and brings high-quality signals to much wider audiences. World Service programmes are already rebroadcast in Czechoslovakia, Poland, Bulgaria and Hungary (from 28 September) and the BBC are in discussion with the Romanians and Albanians. However, it is

essential to maintain direct broadcasts to target areas: local rebroadcasting can be halted by the local authorities at the flick of a switch. We shall be discussing with the BBC at the beginning of October how best to increase World Service audiences in the USSR and the Baltic States. Depending on the results of the BBC's current discussions in Moscow and St Petersburg, the way ahead will probably include local rebroadcasting in major cities including possibly Vilnius and increased direct broadcasting on Short Wave.

(b) ELSEWHERE

10. Outside Europe, and apart from the increase in Arabic (para 7 above), we do not envisage significant changes in the hours and languages of World Service broadcasts. Our priority here is to improve audibility in the Indian sub-continent, which is mainly served by the Masirah relay station. A £16 mn project to improve the transmitting aerials at the station will begin next year (preparatory work is already underway) to be followed by a £15 mn project to upgrade the power station generators. If the level of audibility improvement achieved by this is insufficient, we have told the BBC that we are prepared to consider upgrading the Masirah transmitters (£15 mn) and possibly construct a new relay station in Thailand (£18 mn). The BBC have already held exploratory talks on the latter with the Thai government.

(c) CAPITAL INVESTMENTS

11. During the current Triennium (1991-94), capital investments are already earmarked for:

- completing the Skelton transmitting station;
- improving audibility in the Indian sub-continent by installing 12 replacement aerials at Masirah relay station and acquiring a site in Thailand for a new relay station;
- renewing the power station at Masirah relay station;
- improving monitoring facilities at Caversham Park; and
- redeploying in priority areas transmitters released by the rationalisation of transmitting facilities in the UK.

12. The BBC plan to spend £208 mn, up to the year 2000, on improvements in transmission (including the projects listed above). In addition, they have plans for capital expenditure in programme-making of £34 mn, excluding the cost of a possible relocation of their HQ from Bush House towards the end of this decade. Capital projects already under way total £70 mn. The total capital investment programme, for current and future projects up to 2000, is £312 mn. (This expenditure is in addition to the cost of actually making and broadcasting World Service programmes, which in the current Triennium totals £375 mn.)

WORLD SERVICE TELEVISION

BACKGROUND

13. In 1988 after a long debate the Government rejected a request from the BBC World Service for funds to launch a World Television News Service (WTNS). A major factor in this was ITN's existing commercial news service which had been launched without public funds. Furthermore unlike radio, the reception of international TV broadcasting is to a large extent at the whim of the authorities in the receiving state. Mr Eggar told the House in a response to an inspired PQ on 2 March 1988, that the provision of public funds to the BBC for a start-up of WTNS would not be justified.

14. In December 1990 the BBC announced their intention to establish a commercial company to produce and market a satellite TV news service, and in March 1991 they set up a wholly-owned subsidiary, BBC World Service Television Ltd (WSTV), to be responsible for all BBC satellite broadcasting, which incorporated their existing subscription channel, TV Europe. Answering questions in the House of Commons on 13 March on the eve of the launch of WSTV, Mr Lennox-Boyd said that it would receive strong government support but that when it came to financial support, we had to recognise that several companies with substantial ownership including ITN and BskyB were operating in the market.

15. The service, transmitted via Intelsat VI (which covers all of Europe) can at present be received by 1-1½ million homes by cable in

Western Europe, mainly in Scandinavia. In addition news programmes are widely rebroadcast in Eastern Europe, where they are being provided free of charge at present, although the BBC intend to introduce charges in due course.

RECENT DEVELOPMENTS

16. In August WSTV signed an agreement with Hutchvision of Hong Kong, which was made public on 18 September, to provide a news and information channel for transmission on the Asiasat Satellite (whose footprint stretches from Saudi Arabia across Asia to Japan). This project which will be inaugurated on 14 October, is a major breakthrough, and will eventually make BBC news and current affairs programmes available to a large proportion of the world's population. Transmissions will begin in English and Mandarin but the BBC hope that Cantonese can be added later. This should provide CNN with their first serious competition. WSTV are actively seeking to extend their coverage to other areas of the world and are currently negotiating with the M-Net television company of South Africa as a means of gaining access to the African continent.

17. WSTV is a separate operation from BBC World Service Radio, although they intend to draw increasingly on BBC correspondents around the world (for whose services they are undertaking to pay). WSTV are being financed from BBC Enterprises' overseas sales. Despite the need to remain even-handed in our dealings with WSTV and British commercial competitors such as ITN's World News, the FCO are supporting WSTV, for example by providing them with a letter of comfort to assist their negotiations with Hutchvision. The Secretary of State met senior representatives of Hutchvision and the BBC on 25 July, and assured them of the FCO's support for the project.

18. Satellite television is a risky business: CNN's international operations have been loss-making since their inception. Their funding is made available from domestic operations in the USA and from their owner's other business interests. WSTV hope to reach break-even point within a few years through deals with cable companies and other distributors around the world.

PROPAGANDA
Policy Pt 12

MSM

AS
20/9

CCPO



Foreign &
Commonwealth
Office

London SW1A 2AH

30 September 1991

Dear Colin,

Review of BBC's Royal Charter

The Foreign Secretary has seen the Home Secretary's minute of 10 September to the Lord Privy Seal and is content with the Home Secretary's proposals for carrying forward work on the review of the BBC's Royal Charter.

You will be aware of the FCO's strong interest in the review exercise, stemming from our sponsorship of the BBC World Service. We look forward to seeing your Department's consultative document on the Review later in the year.

I am copying this letter to the Private Secretaries to members of HS, Andrew Turnbull (No 10), Martin Stanley (DTI), Murdo Maclean (Chief Whip's Office) and to Sir Robin Butler.

*Answer
S L Gass*

(S L Gass)
Private Secretary

Colin Walters Esq
PS/Home Secretary

BROADCASTING : POLYMER PTTZ





ccp

The Rt. Hon. Peter Lilley
Secretary of State for Trade and Industry

POLICY IN CONFIDENCE

*NBRM
AT
2019*

The Rt Hon Kenneth Baker MP
Secretary of State for
the Home Department
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

Department of
Trade and Industry

Ashdown House
123 Victoria Street
London SW1E 6RB

Direct line
071-215 4440

DTI Enquiries
071-215 5000

20 September 1991

Dear Kenneth

REVIEW OF BBC CHARTER

Thank you for copying to me your letter of 10 September to David Waddington. I have also seen Andrew Turnbull's reply of 11 September recording the Prime Minister's agreement to your proposals.

The review of the BBC Charter will clearly be a major task which will command a significant degree of public interest. I am sure you are right that it is important for us to set the agenda for the debate. I therefore welcome your plans to make an early start by circulating a draft document to colleagues later in the year that will then form the basis for public comment. I should be grateful if your officials could consult mine on the drafting.

As you say, the central issue will be the future role of public sector broadcasting in a market that now offers a much greater degree of choice. Closely linked to this is the scope for competition in all aspects of broadcasting. We have already taken some major steps towards increasing competition and reducing barriers to market entry with our initiatives for the ITC franchises, the privatisation of NTL, independent production quotas, satellite broadcasting and the licensing of cable television companies. The review will provide a significant opportunity to build on the progress we have made so far.

I am copying this letter to the Prime Minister, Douglas Hurd, David Waddington, members of HS and Richard Ryder, and to Sir Robin Butler.

Peter Lilley

PE9187

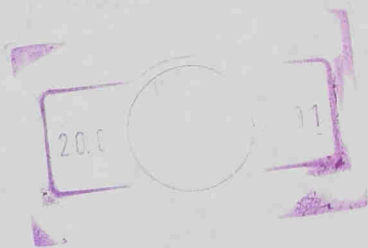
POLICY IN CONFIDENCE

dti

the department for Enterprise



BROADCASTING: Pd p 12



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 071-270 3000 (Switsfwrdd)
Tel. 071-270 0538 (Llinell Union)
Fax: 071-270 0568



NDM

CGH

18/9

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 071-270 3000 (Switchboard)
Tel. 071-270 0538 (Direct Line)
Fax: 071-270 0568

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon David Hunt MBE MP

From The Secretary of State for Wales

CT/3564/91

18th September 1991

Zear Kenneth

REVIEW OF BBC CHARTER *Har*

Your letter of 10 September to David Waddington sets out your proposals for handling the review of the BBC prior to the expiry of its current Royal Charter.

I endorse your general approach and look forward to the opportunity to feed into the process any consideration which affect the BBC's activities in relation in Wales.

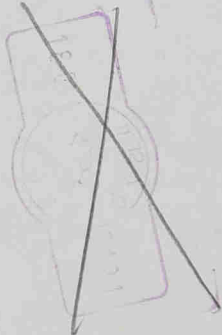
/ Copies of this letter go the Prime Minister, Douglas Hurd, members of HS, Peter Lilley, the Chief Whip and Sir Robin Butler.

Yours ever

The Rt Hon Kenneth Baker
Home Secretary
Home Office
Queen Anne's Gate
LONDON SW1H 9AT

[Signature]

BROADCASTING: Power Pt 2



CONFIDENTIAL



AT
FCS
ce by

Treasury Chambers, Parliament Street SW1P 3AG

071-270 3000

Fax 071-270 5436

The Rt Hon Kenneth Baker MP
Secretary of State for the Home Department
- Home Office
50 Queen Anne's Gate
London
SW1H 9AT

26 September 1991

REVIEW OF BBC CHARTER

60 p encs

Thank you for copying me your letter of 10 September to the Lord Privy Seal. I have also seen Andrew Turnbull's letter of 11 September, recording that the Prime Minister is content with what you propose.

2. I agree that we need to take the initiative in setting the agenda for public debate on the future of the BBC, and ensuring that all possible options are given a proper airing. I have no difficulty with the way forward you propose, and look forward to discussing the issues in due course.

3. I note that you intend to refer, in very general terms, to the proposed consultative process in your speech to the Royal Television Society's Biennial Convention, and would be grateful if your officials could let mine have a sight of the relevant sections of the speech.

4. I am copying this letter to the Prime Minister, Douglas Hurd, members of HS, Peter Lilley, Richard Ryder and Sir Robin Butler.

DAVID MELLOR

Broadcasting
- Broadcasting Policy
Pt 12 - July 90



CONFIDENTIAL

ECU.
clppswalters.



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

11 September 1991

Dear Com,

REVIEW OF BBC CHARTER

The Prime Minister has seen the Home Secretary's minute of 10 September. He was content with the way in which the Home Secretary proposes to carry forward the work on the review of the BBC Charter.

I am copying this letter to the Private Secretaries to members of HS, Richard Gozney (Foreign and Commonwealth Office), Martin Stanley (Department of Trade and Industry), Murdo Maclean (Chief Whip's Office) and to Sir Robin Butler.

*Your sincerely
Andrew Turnbull*

(ANDREW TURNBULL)

Colin Walters, Esq.,
Home Office.

CONFIDENTIAL



Princ Minutes
Mr Baker agreed to broad approach
with your letter

CCP.

HT 11/9
QUEEN ANNE'S GATE LONDON SW1H 9AT

10 September 1991

Continued 10.9

REVIEW OF BBC CHARTER

The BBC's current Royal Charter expires at the end of 1996 and needs to be reviewed before then. Although this may seem a long way off, the timetable for decisions, for reasons I discuss later in this letter, means that work needs to begin now. Specifically we have to identify the major issues, how to handle them and how to set the agenda for the inevitable public debate. I thought it would be helpful for colleagues, at this stage, to know what I have in mind.

We obviously cannot take decisions on a matter of this complexity before the general election. But nor can we simply leave the subject untouched until then. The debate on the BBC's future is already beginning and we need to prepare ourselves to take the initiative. Parliamentary interest will inevitably be strong after the election and we will need to be in a position to give an early indication of our thinking - I understand, for example, that the Home Affairs Select Committee may be thinking in terms of a Review of the BBC next year. If we are to put ourselves in a position to contribute to the process at an early stage and to establish the agenda, we need to begin work later this year.

We also have to allow for the possibility that our decisions will involve legislation. This would require legislation in the 1994/95 Session to leave time for implementation by the end of 1996. This means having a clear view of our policy by early 1994 at the latest.

I have already considered whether there is a case for a major review by an external Committee or Commission of Inquiry. I do not think that this is an area where a Royal Commission-type of Inquiry would help much. It would take a long time to establish and report; we would lose control of the exercise; and we would find it much less easy to influence the wider public debate. It might be possible to set up a small Committee with more restricted terms of reference which gave it, say, a year to eighteen months to report. But even this would narrow the timetable considerably; and I doubt very much whether any form of inquiry would add significantly to the sum of knowledge and range of options already identified by a whole range of previous Inquiries - the latest of which, of course, was Peacock.

The Rt Hon Lord Waddington QC.
Lord Privy Seal
Privy Council Office
WHITEHALL, S.W.1.

/cont...

I think that there should be a Government-led exercise. I propose later in the year to circulate to colleagues a document which sets out the full range options for the future of the BBC. It is vital that this document ensures that all the options - including the most radical - remain in play. When this document has been agreed with colleagues I intend to publish it and use it as a vehicle for stimulating public discussion. I envisage a consultative process lasting through the summer and autumn of 1992. This will enable us to set the agenda for discussion and to invite responses from the public as well as the interested parties. The process will take place against the background of the changes which the BBC will need to make in order to live within the licence fee settlement which we announced this year and which will put considerable pressure on the Corporation.

The crucial question for the whole review is, what is the role of public service broadcasting in the 1990s and beyond when there will be a much greater range of choice available from commercial television, satellite or by subscription? The central issue is that of universality - whether the BBC should continue to produce a range of programmes which cover everything from quiz-shows to opera or from "soaps" to Parliamentary broadcasts, and if so, how it should be structured and financed. This applies to both television and radio.

It is crucial that we do not let the debate run away from us or be dominated by the BBC. Nor do I want the pace to be set for us by the Home Affairs Committee. That is why we must take the initiative of issuing our own discussion document and opening up a much wider debate. As it is, the document will issue at a time when the BBC themselves are considering internally - with a view to publication - the various possibilities for structural change.

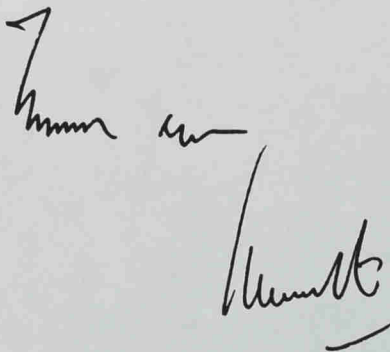
If we stick to this timetable, proposals could be put before Ministers during 1993, thereby leaving open the option for policy decisions should legislation seem a real possibility in early 1994. As a first step, officials here will consult yours and those of other interested colleagues on how to take forward consideration within Government of the issues and of possible solutions that are identified during the consultation period. We will have to devise, during the course of the consultation exercise, a satisfactory framework, at both official and Ministerial level, for taking these issues forward.

At this stage, I invite my colleagues to endorse the general approach set out in this letter and to note that I shall be commissioning preliminary work within this Department on the lines indicated in this letter with the aim of producing a document for collective consideration by about the turn of the year which might form the basis of a public consultation exercise.

/cont...

I would like to be able, as soon as possible, to speak publicly about our proposals for handling the review. I propose to refer to these issues in very general terms at the Royal Television Society's Biennial Convention on 19 September and to indicate that the Government will be inaugurating a consultative process.

Copies of this letter go to the Prime Minister, Douglas Hurd, members of HS, Peter Lilley, the Chief Whip and Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Douglas Hurd', is written in a cursive style. The signature is positioned in the lower right quadrant of the page.





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 September 1991

Dear Christopher,

BBC WORLD SERVICE

The Prime Minister has been very struck on his visits to the Soviet Union and China by the value to our interests of the BBC World Service. The most dramatic evidence of this came from President Gorbachev himself. The Prime Minister believes that the BBC is a tremendous asset which we should deploy, not just to bring news to those who would otherwise be denied it but to extend knowledge of our language and culture, and hence enlarge our influence.

The Prime Minister would be grateful for a note about our policy towards the BBC. This should include an indication of the scope for further development of the BBC's activities, in the form of broadcast hours, more relay stations, other means of better audibility, etc. The Prime Minister would also like to know what the profile of expenditure on the BBC has been over recent years and what the additional cost implications would be of possible improvements in the service.

The Prime Minister would also be grateful for a note on BBC World Service television. He would like a very short history of the project and its financing and an account of where it has now got to. The Prime Minister would like to assess the scope for putting the service on a par with, and preferably ahead, of CNN. This would presumably have implications both for policy and public expenditure. The Prime Minister would be grateful for an assessment of what these would be.

I am copying this letter to Jeremy Heywood and Nicholas Holgate (HM Treasury), Simon Webb (Ministry of Defence), Martin Stanley (Department of Trade and Industry) and Sonia Phippard (Cabinet Office).

J.S. Wall
J.S. Wall

Christopher Prentice Esq
Foreign and Commonwealth office

CONFIDENTIAL

FILE

c: Vbce (MIS)

bcc PC



10 DOWNING STREET
LONDON SW1A 2AA

file DA

(cc-IPPS 16 Aug)

cc H.O.

THE PRIME MINISTER

16 August 1991

Dear Sir,

I am grateful to you for telephoning my office to let me know of your concerns that the impartiality requirements in the Broadcasting Act 1990 are not to take effect until 1 January 1993. It was kind of you also to give notice of your intention to introduce a short Bill which would effectively apply the provisions of impartiality in the Broadcasting Act 1990 to current ITV contractors and to Channel 4.

I understand your concerns in this area, but I do have reservations about whether the Government ought at this time to be supporting a measure of the kind you propose. I think it would be very difficult for us to explain why we felt it was necessary to introduce a Bill which could, at best, introduce the provisions one year earlier than otherwise would have been the case, and probably no more than 6 months before the time when they would have been applied. Government support for such a Bill would be taken as Government criticism of the way the ITC was currently enforcing the impartiality requirements. And despite your own feeling that the question of the operative date of the provisions was not made sufficiently clear when the Bill was before Parliament, I am clear that there was no real room for doubt as to the Government's intentions and certainly no question of any deliberate attempt to mislead.

DM

I think we would be hard pressed to justify a Bill of the kind you describe. I regret, therefore, that I do not think we could give your Bill Government support. I know that you met Peter Lloyd recently to discuss these points, and he will be replying to you shortly in greater detail on the specific issues you raised with him.

Yours Ever,
Peter

The Lord Orr-Ewing, O.B.E.



1230/7
HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

CRPPS mt

30 July 1991

Dear Andrew,

Alap

Thank you for your letter of 26 July, asking for a draft letter to send to Lord Orr-Ewing, who contacted you last week about the short Bill which he proposes to introduce to apply the impartiality requirements in section 6 of the Broadcasting Act 1990 to the current ITV contractors and Channel 4.

Section 6 of the new Act broadly continues the requirement for impartiality which has been a feature of all legislation governing independent television services. However, it contains two significant changes. The first reflects the fact that the ITC will, in the future, be a regulator, but unlike the IBA will not in law be the publisher and broadcaster of the Channel 3 and 4 services. Whereas under the old legislation the IBA was required to "satisfy itself" that due impartiality was being achieved, under the new legislation, the ITC is required to "do all that it can" to ensure due impartiality in the programmes broadcast by its licensees. The second change is that, for the first time, the legislation requires the ITC to draw up a code indicating how impartiality is to be achieved and sets out certain areas which the code should cover. This, again, is intended to reflect the change in nature of the ITC from broadcaster to regulator, and to ensure that those who are responsible for broadcasting programmes know what is expected of them in terms of due impartiality.

However, section 6 of the Broadcasting Act 1990 applies only to licensed services. Despite Lord Orr-Ewing's claim that he and his supporters had been "hoodwinked" on this matter by Home Office officials, the fact is that it was never intended that the new requirements would apply to the tail end of the existing ITV contracts. The Broadcasting White Paper, which preceded the Bill, said explicitly that the new arrangements would apply, as regards ITV, only when the present contracts came to an end, and the Act accordingly provides that the relevant provisions should not come into effect as far as Channel 3 and Channel 4 are concerned until 1 January 1993. Lord Orr-Ewing however argues that they should be brought into effect sooner, since, he claims, they contain more stringent requirements relating to due impartiality. He has proposed a short two clause Bill for this purpose.

The Bill's drafting is flawed, but even so, it is by no means clear that it would be sensible to apply provisions, whose wording and purpose are designed for the new regime when the regulator and broadcaster are separate bodies, to an existing regime where the two functions are combined. Nor do we accept the contention that the new wording is stronger, as the Act repeats in similar terms the obligations placed upon the broadcasters by the 1981 Act to show due impartiality.

There is also the risk of timing. The Bill would be highly contentious, and it seems unlikely that business managers would want to risk further criticism by speeding it through the parliamentary process. It is unlikely that the Bill could receive Royal Assent much before Easter 1992, and could probably not in practice be brought into effect until the summer of 1992, since, once enacted, the ITC would have formally to amend the existing ITV companies' contracts. Accordingly, the impartiality provisions would be introduced only some 6 months earlier than otherwise would have been the case.

Of greater importance, in Mr Lloyd's view, however, is the political dimension in all this. When the Government's own impartiality amendments, which were designed to respond to the demands of Lord Orr Ewing, Lord Wyatt and others for tougher impartiality provisions, were tabled in the Lords during the passage of the Broadcasting Bill they attracted a good deal of hostility, from, amongst others, Lord Whitelaw, whom Lord Orr-Ewing now appears to be claiming as an ally. If the Government were actively to support Lord Orr-Ewing's proposed Bill, that would be seen as a direct criticism of the ITC's current handling of the requirement to ensure due impartiality. We could expect significant opposition from the opposition benches, and, in the Lords at least, clear reservations from influential Conservative peers. All this could create a great deal of hostility against the Government in what would be an election year, and the issue would of course be picked up in a big way by the media themselves.

... I attach a draft letter for the Prime Minister to send to Lord Orr-Ewing, as you requested.

Yours sincerely,
Fiona Spencer

FIONA SPENCER
Private Secretary

Andrew Turnbull Esq
Prime Minister's Office
10 Downing Street
LONDON SW1

Lord Orr Ewing
House of Lords

For signature : Prime Minister

Plt Hye
*are not to be fully subject until
15 January 1997*

I am grateful to you for telephoning my office to let me know of your concerns about the impartiality requirements in the Broadcasting Act 1990. It was kind of you also to give notice of your intention to introduce a short Bill which would effectively apply the provisions of impartiality in the Broadcasting Act 1990 to current ITV contractors and to Channel 4.

I understand your concerns in this area, but I do have reservations about whether the Government ought at this time to be supporting a measure of the kind you propose. I think it would be very difficult for us to explain why we felt it was necessary to introduce a Bill which could, at best, introduce the provisions one year earlier than otherwise would have been the case, and probably no more than 6 months before the time when they would have been applied. Government support for such a Bill would be taken as Government criticism of the way the ITC was currently enforcing the impartiality requirements. And despite your own feeling that the question of the operative date of the provisions was not made sufficiently clear when the Bill was before Parliament, I am clear that there was no real room for doubt as to the Government's intentions and certainly no question of any deliberate attempt to mislead.

I know of your concern about two programmes transmitted on Channel 4 during the period of the Gulf conflict. But it seems to me that the question of whether impartiality was achieved in that specific case is eminently arguable, particularly given the totality of the output on Channel 4 at that time. I know that the impartiality requirement must be satisfied over a series, but I imagine that it could be argued that a range of programmes on a particular channel could in those circumstances constitute a series, simply because of the immediate nature of the news event, its significance, and the consequential need for ad hoc programmes to be inserted in the schedules to report the day to day issues.

I think we would be hard pressed to justify a Bill of the kind you describe. I regret, therefore, that I do not think we could give your Bill Government support. I know that you met Peter Lloyd recently to discuss these points, and he will be replying to you shortly in greater detail on the specific issues you raised with him.

BROADCASTING:

Policy Pt 12



FLE

KK

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

26 July 1991

Dear Fiona,

BROADCASTING BILL: DUE IMPARTIALITY

Lord Orr-Ewing telephoned me last night in a state of high excitement. He and Lord Whitelaw had realised that the due impartiality provisions of the Broadcasting Act would not come into effect until 1 January 1993. He believed he and his colleagues had been hoodwinked by Home Office officials. He argued that it was essential to get these provisions into effect in 1992 before an election. He urged that a short Bill be introduced to this effect but having failed to convince Ministers he believed the only way to achieve this was for the Prime Minister to intervene.

I indicated to him that the legislative programme was extremely full but I undertook to relay his concerns to the Prime Minister. Could you provide me with a note setting out the background and a draft reply for the Prime Minister to send.

*Yours sincerely
Andrew Turnbull*

(ANDREW TURNBULL)

Ms. Fiona Spencer,
Home Office.

#



7 cl / see to discuss
Have for 15 mins with
Hb. Palmer before 10.15
10.6

Prime Minister
The Home Sec does not
seek any decisions at
this stage but would welcome
a steer on how to handle the
problem.
You might like to hear
Mr Patten's view first
Content to proceed (bus)
AT
2/6

Prime Minister

REVIEW OF BBC CHARTER

The BBC's current Royal Charter expires at the end of 1996. Although decisions on the future role and operation of the BBC cannot be taken this side of the Election, I believe that it is sensible for work to begin now on identifying the major issues. Before commissioning this work I thought I should let you know how I envisage we should proceed.

2. It is important that we should start preliminary work on the Charter review now for the following reasons:

- (a) the public debate is already beginning and we need to keep the initiative;
- (b) we must allow for the possibility that our decisions will involve legislation. This would almost certainly have to be enacted no later than the 1994/95 session, to leave time for implementation. So we would need to have a clear view of our requirements by early 1994 at the latest;
- (c) Parliamentary interest will inevitably be strong after the Election, and we need to be in a position to give an early indication of our thinking. I understand, for example, that the Home Affairs Select Committee are already thinking in terms of a major review of the BBC next year.

3. The options for the conduct of the review range from a major external committee or commission of enquiry to an exercise conducted wholly or largely within Government. I do not think that this is an area where a Royal Commission-type of enquiry

would be particularly illuminating. It would take a long time to establish and report; control of the exercise would be out of our hands until the report was available; and we would find it much less easy to influence the wider public debate through this means. Moreover we already have the 1986 report of the Peacock Committee, and there is the prospect before long of other reports from the Home Affairs Committee and the BBC themselves.

4. I propose that we should think at this stage in terms of a Government-led consultation exercise designed to focus the public and Parliamentary debate on the full range of possible options for the future of the BBC. This will ensure that the Charter review is informed by a substantial input of views and comment from outside Government, while enabling us to keep control of the exercise and steer it towards clear and timely conclusions.

5. The timing of such an exercise is of course complicated by the forthcoming General Election. It would make no sense politically to publish a consultation document on the eve of an Election. But equally I think it would be a mistake to delay launching the consultation exercise until after the election, if in the event it does not take place this year. In any case, we need the analysis and ground-clearing to be ready in good time, whether or not the paper is published in the form originally conceived.

6. I therefore propose to set in hand now the necessary in-house work on the assumption that we should plan to launch a public consultation exercise towards the end of this year, assuming that the Election has not intervened. We do not need to take a final view at this stage on the content or timing of such an exercise, and I would naturally want to consult you and other colleagues on these issues once the preliminary work has been undertaken and we can see what the consultation document looks like. I would welcome the opportunity to discuss this

with you, if you wish.

7. I am copying this minute to the Lord President, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, and the Chief Whip, and to Sir Robin Butler. If you are content with the general approach I will inform HS Committee of how we intend to proceed.

A handwritten signature in dark ink, appearing to be 'MS' or similar initials, written in a cursive style.

5 June 1991



PARLIAMENTARY UNDER
SECRETARY OF STATE

0.5.P.M. ~~cc PH~~
P.H.P.
512
HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

28 February 1991

Dear Francis

reap

I am sorry that I have not been able to respond before now to your letter of 21 December about the regulatory regime to be established in respect of NTL's charges to Channel 5 for site and mast rental.

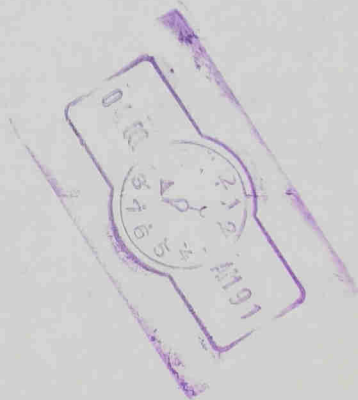
As you know, we sought the views of the Director General of Telecommunications. His response, a copy of which you have already received, confirms that a decision and announcement on the need for a price cap will be made at the time when the licence for Channel 5 is advertised. This should therefore remove any uncertainty over transmission charges which might otherwise have tended to depress the bids, and meets, I hope, all of your concerns.

Copies of this letter go to the Prime Minister, other former Members of Misc 128, Sir Robin Butler and Sir Bryan Carsberg.

PETER LLOYD

The Rt Hon Francis Maude MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

BROADCASTING - Policy pr 12





Prime Minister

You will be well aware
of 'X' below.

Content?

BHP

26/2

Prime Minister

BROADCASTING OWNERSHIP AND THE DAILY TELEGRAPH

You will have seen a copy of the attached letter from Conrad Black seeking changes in the ownership rules under the Broadcasting Act to increase the scope for shareholdings by the Daily Telegraph in future broadcasting licences.

I spoke to Conrad recently and he explained the difficulties the Telegraph is facing in expanding any further. The Broadcasting Act permits a national newspaper proprietor to hold one stake of up to 20% in the main broadcasting licence holders, but any further shareholding in such bodies is limited to a maximum of 5%. The Telegraph would like the number of 20% stakes to be increased to two or more, provided this was not against the public interest.

I attach a copy of the reply I have now sent to the Telegraph. As you see, I have pointed to the political impossibility of contemplating any change in restrictions which Parliament endorsed at every stage of a Broadcasting Bill which has only been law for four months. There has been no general pressure to make the kind of changes proposed. Even if there were not these overriding policy difficulties, any changes made would have to apply to all national newspaper owners, including News International. I need not rehearse the problems that would cause us, given that the most controversial aspect of the recent debate on broadcasting ownership has been the extent of Rupert Murdoch's cross-media holdings.

I know that the Telegraph will be disappointed, but I think they will appreciate the political difficulty we would be in.

22 February 1991

K-y



QUEEN ANNE'S GATE LONDON SW1H 9AT

2.2 February 1991

Am Conrad

- GR?

Thank you for your letter of 13 February about broadcasting ownership.

You suggest that it would be right for me to exercise my order-making powers under the Broadcasting Act 1990 so as to permit the proprietor of a national newspaper to hold investments of up to 20% in two or more Channel 3, Channel 5 or national radio licence holders, where no public interest was at issue.

Whatever the merits of such an approach, I am afraid that the Act does not permit me to introduce the kind of public interest test which you envisage. The shareholding limits in paragraph 2 of Part IV of schedule 2 to the Act apply to all proprietors of national newspapers; and any revised limits would similarly so apply. Paragraph 2(5)(b) permits me to prescribe additional restrictions, but I am advised that these must be specific and not rely on a discretionary test.

I think, however, that in any case there are overriding difficulties in making the kind of policy changes you propose at this time. The limit of a single holding of 20% for national newspapers was included in the Broadcasting Bill on introduction and remained unchanged throughout the passage of the Bill, despite the considerable debates on cross-media ownership. It reflected the policy which the IBA has long operated in relation to ITV companies - hence the limitation on the holding of Maxwell Communications in Central Television and Pearsons in Yorkshire. It would therefore be very difficult for the Government to propose variation of these restrictions within four months of the Broadcasting Bill becoming law, particularly since there has been no general pressure for change. The powers to vary these limits which are now in the Broadcasting Act were designed to meet changes in the media environment in the much longer term, rather than for instant use. If such changes were to be made in a few years time, they would need to be preceded by widespread consultation, including with bodies such as the ITC.

I am sorry that this will be such a disappointing response for you, but I feel sure you will understand the real political difficulty of making at this time the kind of changes in which you are interested.

James

Conrad Black

Conrad Black Esq
The Daily Telegraph PLC
181 Marsh Walk
LONDON E14 9SR

The Daily Telegraph plc

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FROM CONRAD BLACK

The Rt.Hon Kenneth Baker, MP
Secretary of State for Home Affairs
Home Office
50 Queen Anne's Gate
London, SW1H 9AT

February 13th 1991

Dear Kenneth

re: **Broadcasting Act 1990**

As discussed in our meeting yesterday, I wish to confirm we have been advised that under the Broadcasting Act 1990 the Secretary of State for Home Affairs exercises discretion, under Paragraph 2(5)(a) of Part IV to Schedule 2, to amend by order (among other things) Sub-paragraph 2(1) and 2(3) of Part IV to Schedule 2 by substituting different percentages for the percentages set out in those sub-paragraphs. Those sub-paragraphs as they now stand limit (among other things) the investments of the proprietor of a national newspaper to (a) one 20% investment in a body corporate which is the holder of a licence to provide a Channel 3 service or Channel 5 or a national radio service (a "Licenceholder") and (b) not more than 5% investments in other Licenceholders.

I also wish to confirm we have been advised that under the Broadcasting Act 1990 the Secretary of State for Home Affairs also exercises discretion, under Paragraph 2(5) (b) of Part IV to Schedule 2, to prescribe restrictions by order, in addition to that imposed by Sub-paragraph 2(3) of Part IV to Schedule 2 (discussed above), on the extent to which the proprietor of a national or local newspaper may be a participant in two or more Licenceholders.

While it is not my place to speculate on the motives for these provisions, I assume, as you indicated, that the authors of the legislation were aiming at potentially harmful combinations of multi-media ownership. I cannot conceive that our company, or any other national newspaper company not now a material investor in British television or radio would offend any reasonable notion of public policy by holding a second, or even third, non-controlling 20% interest in other such Licenceholders.

I am certainly sensitive to the concerns that apparently inspired these provisions, but their effect on us is to discriminate uniquely against our single category of businesses. Realistically, it will be difficult for the London newspapers as a group to increase their overall circulation from the present astonishing figure of about 15 million, or for us to raise our share of the daily broadsheet general market above our present 45%. We have



a significant annual cash flow which we wish to reinvest in this country in related businesses.

This legislation, without official variation by you, will likely oblige us to invest in other countries or, in the television business, force us into the unregulated sector of that industry where we would, ironically, be subject to the influence of our principal competitor which now effectively controls satellite telecasting in the U.K.

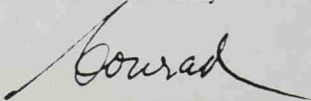
George Russell has not been able, to date, to assure us that 20% participation by us, or by any similarly positioned company, in more than one licence application will not have a negative effect on the official reception of all such bids, and therefore be a disservice to all associated with any such bids. Unless there is an expression of at least a disposition on your part to entertain the possibility of a national newspaper company owning more than one 20% interest in different Licenceholders, we may be undesirable participants in more than one such bid. This was surely not the purpose of the legislation, and will reduce, rather than enhance competition for the licences, while not contributing usefully to avoidance of offensive combinations.

I have no standing to give you unsolicited advice and would not presume to do so, but one remedial measure that would appear to eliminate inequity without sacrificing the public policy intention involved, would be for you to inform the regulators that you might, where no public interest was offended, be prepared to exercise your discretion under Paragraph 2(5)(a) of Part IV to Schedule 2 to permit the proprietor of a national newspaper to hold investments of up to 20% in two or more Licenceholders, and to refrain from imposing any further restrictions pursuant to Paragraph 2(5)(b) of Part IV to Schedule 2 on the ability of the proprietor of a national newspaper to invest in two or more Licenceholders.

I mentioned this matter to the Prime Minister this morning, who said he would discuss it with you, so I am taking the liberty of sending him a copy of this letter. Thank you for seeing me yesterday. I always enjoy our meetings and was delighted to find you so well settled in your proverbial great office.

With best wishes,

Yours sincerely

A handwritten signature in black ink, appearing to read "Conrad", with a long, sweeping underline that extends to the left and then curves back under the name.

Conrad Black.

JT/AG



n.b. P.M.
BHP
15/1

CEM

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

14 January 1991

Dear Kenneth,

BROADCASTING OWNERSHIP

Thank you for a copy of your letter to Ian of 4 January.

I am content to proceed along the lines of the compromise you suggest in your last paragraph on page 3. I should say here that as an East Anglian MP I would be strongly opposed to option 1.

I am copying this letter to recipients of yours.

Yours etc,
JH

JOHN MACGREGOR

The Rt Hon Kenneth Baker MP
Home Secretary
Queen Anne's Gate
London SW1

CONFIDENTIAL

Ree



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 January 1991

Dear Colin,

TELEVISION LICENCE FEE INCREASES

The Prime Minister was grateful for your Secretary of State's minute of 21 December proposing that the Government should endorse the approach to setting the BBC TV licence fee set out in the report prepared by Price Waterhouse. He has also seen the minute from the Chief Secretary of 3 January endorsing the Home Secretary's proposals.

The Prime Minister is content with your Secretary of State's proposals. Specifically, he is content for the rise in the BBC licence in April to be set at the September 1990 RPI annual increase minus 3 per cent, and for subsequent licence fee increases to be fully indexed to the RPI until 1996. He has noted, however, that the Home Secretary would propose to review the licence fee again in April 1994 in the light of the BBC's progress in improving efficiency and finding alternative sources of revenue.

I am copying this letter to Jeremy Heywood (Chief Secretary's Office), Helen Dudley (Department of Social Security) and to Sonia Phippard (Cabinet Office).

Yours,

Barry

BARRY H. POTTER

Colin Walters, Esq.,
Home Office.

CONFIDENTIAL

EAM

PRIME MINISTER

Content

TELEVISION LICENCE FEE INCREASES

The present link between the BBC TV licence and the RPI ceases in April. Home Office commissioned Price Waterhouse to advise on how future licence fee increases, as from this April onwards, might be set below RPI rises.

The Price Waterhouse report identified considerable scope for further financial improvements at the BBC, including savings of over £200 million cumulatively over the next five years. Against that background, they concluded this under-indexation of the licence fee would be appropriate.

The report identifies two options, with the same net effect over five years.

- (i) all increases to be at RPI minus 1 per cent;
- (ii) a rise of RPI minus 3 per cent next April, and then full RPI indexation until 1996.

The Home Secretary favours the second approach. Although the TV licence increases in April each year, the rise is linked to the previous September's RPI. For September 1990 the annual RPI rise was 10.9 per cent. The Home Secretary judges it better to keep the increase down to just below 8 per cent this year and allow full indexation thereafter. But he proposes to review the licence fee again in April 1994, in the light of the BBC's progress in improving efficiency and finding alternative sources of revenue.

Mr. Baker proposes an announcement in mid-January by means of a written reply to an arranged Parliamentary Question. The Chief Secretary, despite advice from Treasury officials in favour of a harder approach, supports Mr. Baker's proposals.

Content to approve the Home Office proposed line and written PQ in mid-January?

BHP

BARRY H. POTTER

3 January 1990

c:\economic\tv (kk)

copy

CONFIDENTIAL



FROM: CHIEF SECRETARY
DATE: 3 January 1991

PRIME MINISTER

TELEVISION LICENCE FEE INCREASES

WITH 30?

I have seen Kenneth Baker's minute of ~~21~~ December, and can support his proposals in their entirety. While it is clearly important to set the BBC challenging targets for financial efficiency, my experience as Minister for Broadcasting persuades me that any tighter package than that suggested by Kenneth would simply not be achievable politically.

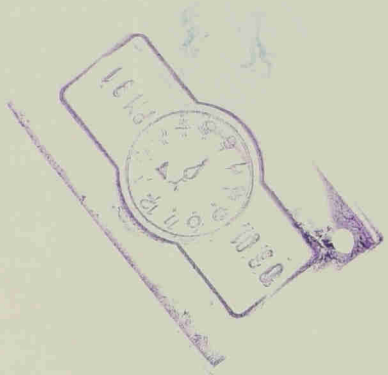
2. I similarly recognise the very real difficulties implied by some of the "policy proposals" in the Price Waterhouse report. It is nonetheless important that these ideas should be explored fully, and I am grateful for the acknowledgement in Kenneth's minute that this will be done before the next review of the fee.

3. I am copying this minute to Kenneth, to Norman Lamont, to Tony Newton and to Sir Robin Butler.

Step L Bowd

DAVID MELLOR

*[Approved by the Chief Secretary
and signed in his absence]*



CONFIDENTIAL.



DEPARTMENT OF SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 071-210 3000

From the Secretary of State for Social Security

alp
n.b. P.M.
JHP
4/1

The Rt Hon Kenneth Baker MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

January 1991

Ken

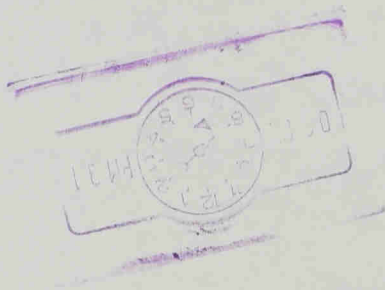
WITH BP

I write further to your minute of ~~21~~ December to the Prime Minister which outlined your proposals for the 1991 settlement of the BBC licence fee increase.

I am content with your proposals. Indeed while any increase will no doubt be unwelcome, the fact that it is significantly below the rate of inflation - and therefore ~~well~~ below the level of the forthcoming benefit increases - should at least avoid aggravating the pressure for expensive concessions.

I am copying this letter to the Prime Minister, Norman Lamont and to Sir Robin Butler.

TONY NEWTON



HOME OFFICE

TELEVISION LICENCE FEE STUDY

SECTION 1 : THE REPORT

INTRODUCTION

- 1 The BBC is big business. It has 24,000 staff, assets with a balance sheet value of £760 million and an annual income of £1,400 million. Its influence is even greater than these figures suggest. It dominates broadcasting in the UK, transmitting 44 hours of television and 644 hours of radio each day. It sets standards by which other broadcasters world wide are judged.
- 2 The Corporation has a strong culture, imbued with the principles of its founding Charter. This gives highest priority to providing viewers and listeners with high quality programmes across the full range of public tastes and interests. It is financed by the public, via a licence fee which, since 1988, has been linked to the Retail Price Index (RPI). The licence fee is fixed each April on the basis of the annual increase of the RPI in the preceding September. It is a comparable arrangement to the indexation of pensions and benefits which is also done by reference to the September RPI.
- 3 In the last decade, the world of broadcasting has changed fundamentally. The pace of development over the next ten years is unlikely to slacken. The proliferation of new TV and radio services is already giving viewers and listeners an increasingly wide choice. To some the licence fee arrangement provides an effective guarantee of the BBC's editorial independence and of maintaining the quality of broadcasting at a time when increased competition threatens to drive standards down. But others now see the licence fee as a flat rate imposition which takes little account of their interests or preferences. They question why the BBC is not required to compete for its income in the market. They seek reassurance that the BBC's costs are subject to similar competitive pressures to those of commercial television and independent producers and to equivalent top down pressures to the cash limits, staff ceilings, running costs targets, contracting out and value for money improvements required of central and local government.

- 4 Alternative sources of funding for the BBC are regularly canvassed. The Peacock Committee examined the options in detail and recommended in its report (1986) that subscription should replace the licence fee by the late 1990s. The Government's subsequent conclusion, explained in the White Paper "Broadcasting in the 1990s" (November 1988), was that the licence fee should eventually be replaced by other sources of funding. It also confirmed that the BBC should remain the cornerstone of British broadcasting but must not be insulated from change.
- 5 To encourage such change, the Government proposed setting the licence fee increase after April 1991 below the level of the increase in RPI. Our task has been to examine the scope for additional revenue and cost savings in the BBC in order to assess the consequences of applying the new formula at various levels over the years to 1996, when the Charter is due for renewal.

SCOPE FOR SETTING THE LICENCE FEE BELOW RPI

- 6 We considered a number of alternative indices to which the licence fee might be linked, such as average earnings, or audience viewing figures. We concluded that the most robust was the RPI and that a new licence fee formula of the RPI-X type is likely to be an effective instrument to ensure that the BBC maximises opportunities to raise revenue and reduce costs.
- 7 We estimate that a stretching management target for the BBC would be to secure £72 million in revenue and £131 million of savings over the next five years, making a total of some £203 million in potential financial improvements. The Corporation's own forecasts, which assume that the licence fee will keep pace with the RPI, show that it plans to go into deficit in 1991/92 and that by the end of 1995/96 the cumulative cash deficit will be around £180 million. If our suggested improvements are implemented with urgency, our conclusion is that the BBC could continue to meet its public service broadcasting responsibilities with a licence fee set at up to 1% below RPI for the next five years without going into a significantly worse cash deficit. An alternative option would be to reduce BBC funding by a greater margin in 1991/92, say by 3%, before reverting to a licence fee formula of RPI increases thereafter. Either formula would in our view provide the BBC with a strong incentive to improve performance, while maintaining standards, keeping open all options for the BBC's future development, and containing the licence fee.
- 8 On the first formulation, setting the licence fee at RPI-2 or beyond would carry a significant risk of forcing the BBC to sacrifice quality of output or to reduce the number of hours broadcast, unless the Government were to agree (and the BBC implement) the policy changes which we have identified but not carried through to the financial model. On the second formulation, increases below RPI in the years 1992/93 to 1995/96 would carry a similar risk.

*SUMMARY OF POTENTIAL FINANCIAL IMPROVEMENTS IN BBC 1991/92 - 1995/96
NET CONTRIBUTION AFTER DEDUCTION OF COSTS (AND TAX WHERE RELEVANT)*

fmillion 1990 Prices

POTENTIAL IMPROVEMENTS	1991/92	1992/93	1993/94	1994/95	1995/96	TOTAL
<u>REVENUE</u>						
Sponsorship of events	3.8	8.0	7.92	7.84	7.76	35.32
Additional European Sales	.09	.4	.85	1.56	1.97	4.87
Licensing	(.04)	.25	.29	.42	1.05	1.97
Direct marketing of BBC products	(.02)	.3	.3	.3	.03	.91
Radio Times	.19	.14	.14	.14	.14	.75
Additional sales from giving BBC Enterprises a more central role	.13	.09	.09	.09	.09	.49
Effect of changes to Net Book Agreement	(.61)	(.45)	(.50)	(.56)	(.63)	(2.75)
Improvements in efficiency of and changes in procedures for collection	4.7	6.0	6.5	6.5	6.5	30.2
Total revenue improvements	8.24	14.73	15.59	16.29	16.91	71.76
<u>COST SAVINGS</u>						
Reduction in indirect costs	.3	4.2	7.0	8.4	8.4	28.30
Reduction in production costs	-	2.4	6.4	6.4	6.4	21.60
Reduction in costs of 25% quota	.3	5.5	13.1	13.1	-	32.0
Improved management of working capital	7.1	(4.1)	22.1	3.3	3.3	31.70
Improved management of fixed capital	-	5.5	3.5	1.5	7.5	18.0
Total cost savings	7.7	13.5	52.1	32.7	25.6	131.60
TOTAL POTENTIAL IMPROVEMENTS	15.94	28.23	67.69	48.99	42.51	203.36

METHOD

- 9 The terms of reference for our study, including a six week time limit, precluded an in-depth examination of the BBC's operations. Instead, we have evaluated the measures taken or planned by the BBC to generate income, and reduce costs, relying primarily on the BBC's own data. The BBC have provided figures willingly and in considerable detail. Nevertheless, the information was not always clear and sometimes incomplete. All BBC planning has been carried out on the basis of licence fee increases in line with the RPI. Where relevant and where the information has been accessible in the time available, we have drawn comparisons between the BBC and other organisations in the public and private sector, including other broadcasters. We have also added our own ideas before reaching a judgement on what improvements the BBC can realistically be expected to secure over the next five years. In doing so we have had in mind the importance of keeping open future options for both the licence fee and the Charter.
- 10 We then developed a financial model to give a forecast of the cash position for the BBC over the five years 1991/92 to 1995/6, including improvements put forward by both the BBC and ourselves. The model demonstrates the consequences for the BBC of setting licence fee increases at various levels below RPI.

POTENTIAL IMPROVEMENTS: REVENUE AND COSTS

- 11 The table opposite summarises what in our view are the major opportunities for the BBC to generate additional revenue and secure further savings over the next five years. We have been as specific as the BBC's figures and the time available have allowed : the improvements suggested are intended to illustrate where the BBC might look for additional revenue or savings, not to provide a comprehensive list of everything they should do. The table shows only those improvements which we were able to quantify and which are within the remit of our study. Other opportunities to generate additional revenue or improve efficiency are mentioned here and described in more detail in Section 2 of the report, as part of our detailed findings. The following paragraphs highlight the progress which the BBC has already made and the main areas where we believe they can secure further improvements.

REVENUE

- 12 We estimate that total additional revenue could reach £17 million per annum by 1995/96. Most of the BBC's revenue generating activities are handled by BBC Enterprises, the commercial arm of the Corporation. But improvements in the way the licence fee is collected could also lead to extra income for the BBC.

- 13 BBC Enterprises had a turnover of £183 million in 1989/90, generating a net profit of £9.3 million, after tax, for reinvestment in BBC programmes. Present plans are to raise this profit to £24.2 million by 1994/95, an annual increase of 32%. We estimate that £34.2 million by 1995/96 would be a realistic target.
- 14 Achieving this target will require some changes in organisation and in behaviour. In particular, we believe that BBC Enterprises should have a greater say in the conception and development of TV and radio programmes, to improve the sale of programmes and related products, especially overseas.
- 15 Enterprises has been notably successful. It has doubled turnover between 1985/86 and 1989/90 and success breeds success. However, because of uncertainties about the future of their market place we have tended towards caution in our estimates of future income. We give below the net additional contribution, after deduction of costs and tax, which we believe Enterprises is likely to be able to achieve over the next five years. Section 2 (Study 1) provides full supporting detail, including estimates of gross sales and the breakdown between programme sales and other products.

- (1) **Sponsorship** There are two areas of opportunity: sponsorship of events, which in practice means a reduction in costs of BBC coverage, and sponsorship of programmes, now permitted under the new ITC regulations but prohibited by the current BBC licence and agreement. The first market is expected to double to £600 million per annum by 1995/96, which we would expect to give the BBC a cumulative benefit over five years of £35 million after tax.

The programme sponsorship market, only £5 million at present, promises to grow to £50 million per annum over the next 5 years (excluding the proportion expected to be substituted for advertising revenue). Although we believe that sponsorship of programmes could be worth an additional £50 million to the BBC over the remaining period of the Charter, we have not included it in our figures because we understand that the terms of the current licence and agreement can only be changed by mutual agreement between the Home Secretary and the BBC. Further, the BBC has told us that it believes such a change should not be made before the discussions leading to a new Charter from 1996.

- (2) **Increase European sales** BBC Enterprises plan a regional marketing structure in Europe to generate additional demand for BBC programmes and products. Local marketing should increase current sales by a third. The result would be an additional contribution of £4.8 million over this period.
- (3) **Licensing** BBC Enterprises license characters and programme titles created by the BBC to manufacturers. Exploitation is low at present, with a turnover of only £1.2 million, though the profit margin is high. We estimate that the additional contribution should be £1.9 million.

- (4) **Direct Marketing** At present BBC sells its products through conventional distribution routes and retail chains. Using a database to market products direct to customers would extend the market and allow new opportunities to be exploited rapidly. The additional contribution would be £0.91 million.
- (5) **Radio Times** The ending of the current listings duopoly will reduce the BBC's ability to generate revenue. But we believe the BBC has taken an unnecessarily pessimistic view of the future. Achieving a 10% greater circulation than forecast would produce an additional £0.75 million over five years.
- (6) **Net Book Agreement** Changes to the Net Book Agreement would reduce BBC revenue. We estimate that the reduction to contribution would be £2.7 million over five years.

Subscription

- 16 BBC Select, a wholly owned subsidiary of BBC Enterprises, has been set up to establish subscription services. It plans to launch a narrow cast subscription TV service in September 1991 and an additional 10 services from September 1992. Financial projections are for a cumulative profit over the first six years of £9.9 million, after initial losses. Although BBC Select's plans focus narrowly on specialist interests, we recognise that showing programmes of wider appeal (films, sport etc) only on subscription would involve a major change for the BBC. The Director General has told us that the Corporation's view is that it would not be appropriate for the BBC to enter the sports or film subscription market in competition with new satellite operators. We have not therefore attempted at this stage to quantify the additional revenue which such a change would bring. Within the limitations adopted, however, we think that the deals struck with BSB and Sky, for example, are imaginative and forward looking.

Evasion and collection

- 17 In April 1991 the BBC takes over from the Home Office responsibility for licence fee collection. In negotiating the new contract with TV Licensing (TVL) and Post Office Counters (POC), they can therefore take steps to maximise revenue for the BBC, which has not hitherto been a prime objective of either organisation. Areas for improvement which we have identified at TVL can be broken down into those which depend on efficiency improvements or changes in procedure and those requiring a change to current policy. The latter have not been carried forward to our financial model though, if pursued, they would make a significant contribution to BBC finances.

- 18 Because negotiations about the contract were going on at the time of our work TVL and POC declined to provide detailed costing information. Clearly the extent to which additional revenue can be generated for the BBC depends on the outcome of these negotiations. But we are confident that improvements of the order of magnitude described below are feasible.

Efficiency improvements and changes in procedures

- 19 If TVL were to improve the proportion of successful visits to households to check on licences (ie. those which settle matters one way or the other), from 50% to 55%, the additional revenue over five years would be around £11.5 million.
- 20 We believe that TVL feel their primary responsibility is to uphold the Wireless Telegraphy Act and therefore regard prosecutions as a priority. There is however a need to balance the marginal cost of prosecution against the incremental licence fee income encouraged by this approach. If prosecution costs were cash limited, we think it would be possible to save £9.5 million over this period.
- 21 TVL are investing heavily in information technology, but as yet have no plans to improve operational efficiency. As a minimum, there should be a 10% productivity target, which would yield £6 million over the next five years.
- 22 The simple device of not sending out annual certificates to those who pay the licence by direct debit would save at least £800,000 a year.

Options which would require policy changes

- 23 The savings stamps scheme was designed to be funded by the interest earned on deposits. In fact the shortfall has usually been of the order of £5 million. This amount could therefore be saved by abolition of the scheme or by adopting other measures, not considered in our study, to return it to break-even.
- 24 Use of a colour television is in many cases shielded by ownership of a monochrome licence. TVL are actively trying to reduce this type of evasion, but phasing out the differential between the colour and the monochrome licence (held by approximately 10% of licence holders) would remove the problem. Additional revenue would reach £75 million by 1995/96.
- 25 At present TV dealers purchase a £2.50 demonstration licence which lasts seven years. Replacement with an annual colour licence would boost income from 18,000 dealers by £1.3 million per annum. Alternatively, a case could be made for charging a dealer more than a householder, say £500 per annum. Additional annual revenue in that case would be £9 million.

COSTS

- 26 The greater part of the financial improvements which we have identified would come from better use of resources. Our analysis is based on historical and forecast data provided by the BBC and subsequent interviews with senior executives. We concentrated on identifying key trends, such as the movement of direct and indirect costs, reductions in staff and budget performance. We compared the BBC's performance with other organisations, though direct comparison with other broadcasters was hampered by the latter's unwillingness to release cost data. We also looked at the effectiveness of the BBC's budget and management systems in identifying and securing savings, as well as at the intended reallocation of these resources.
- 27 The BBC has already taken a number of initiatives to reduce its costs. In line with its declared policy to give the licence fee payer better value through better programmes, savings are usually identified for redeployment, not to reduce overall costs. An example is the "Funding the Future" project, which has a target of £75 million savings out of forecast expenditure, largely to be reallocated to financing a new pay structure but also to greater investment in programmes.
- 28 We believe that there is scope for the BBC to make additional savings and improvements in working capital. We estimate that these will amount to £131 million between now and 1995/96.
- 29 As with our suggested improvements in revenue, this target will not be achieved without some changes in the way the BBC operates. In particular, authority is highly decentralised to the four operational directorates (Network TV, Network Radio, Regional Broadcasting and News and Current Affairs). There is much to commend such an approach, not the least that key decisions about programmes are made by programme makers and those who commission programmes. Nevertheless, the risk is that an environment which stresses better value from better programmes hampers the ability of the centre to know where to apply top down pressure in the priority based budgeting system. Information on which to judge performance is often limited to comparing expenditure against total cash limits. Some performance indicators are used, but not generally as targets for future performance. Overall management of working capital and assets is now developing through sensible arrangements, for instance, on treasury management.
- 30 We have suggested in Section 2 (Study 3 and Study 4) practices which we recommend the BBC should follow. Detailed analysis of cost savings opportunities will also be found there. The major savings which we believe the BBC can make over the next five years are in the following areas:

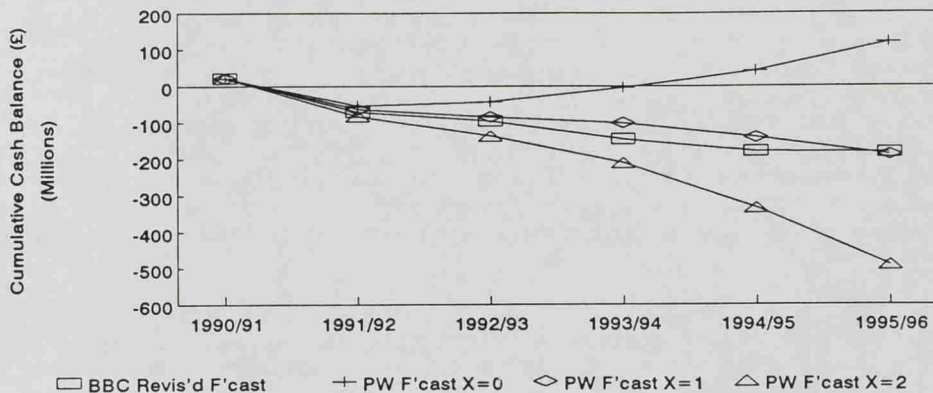
- (1) **Reductions in indirect costs** Over the past five years, the BBC's overall operating expenditure has increased in real terms by £146 million or 3.7% a year. There has been some redeployment of staff in favour of the operational directorates, but little in the way of overall staff reductions - total numbers have fallen by less than 1% a year since 1985. BBC forecasts show the proportion of indirect staff numbers still rising in some directorates against the background of a significant reduction in staff numbers, of 2,800 over the next three years. In these areas, we estimate potential savings of £28 million over the period.
- (2) **Reductions in production costs** Network Television have forecast a 10% reduction in certain production costs over the next few years. We estimate that they could achieve a further 5% improvement. This is consistent with the targets which they have adopted but not yet included in their forecast. The pressure for these improvements comes from increased competition from the private sector (ITV and latterly the emerging Independents sector). Network Radio will shortly be subject to similar competition, from independent national radio networks. Though a very different business from Network Television, we believe that Network Radio will be able to respond in an equally positive way and make similar improvements during this period. Additional savings from both directorates would be £21 million.
- (3) **Reduction in costs of moving to the 25% quota** By 1993 the BBC is required to commission 25% of new productions from independent producers. BBC forecasts include the cost of buying independent productions and some savings in Network Television. We judge that extra savings amounting to £32 million in the period are possible.
- (4) **Improved management of working capital** The BBC has recently sought to improve the rigour of its working capital controls. Nevertheless, we believe that the improvements they forecast are not as challenging as they might be, possibly because the rise in the significance of these controls is relatively recent. Once the controls have gathered momentum, we expect the BBC to be able to generate additional cash inflows of £31 million over the next five years. These savings arise principally from improvements in the holdings of broadcast stock, but also include improvements in debtors and creditors balances.
- (5) **Improved management of fixed capital** In the next five years the BBC plans to spend approximately £600 million on capital expenditure. (This sum excludes investment in the White City developments, which will run to approximately £200 million in the same period). As part of "Funding the Future", the BBC has planned to reduce this spend by 10% each year. We believe that this capital expenditure could be reduced by a further 3%, which would generate additional cash flows of £18 million.

THE FUTURE: IMPACT ON A NEW LICENCE FEE FORMULA

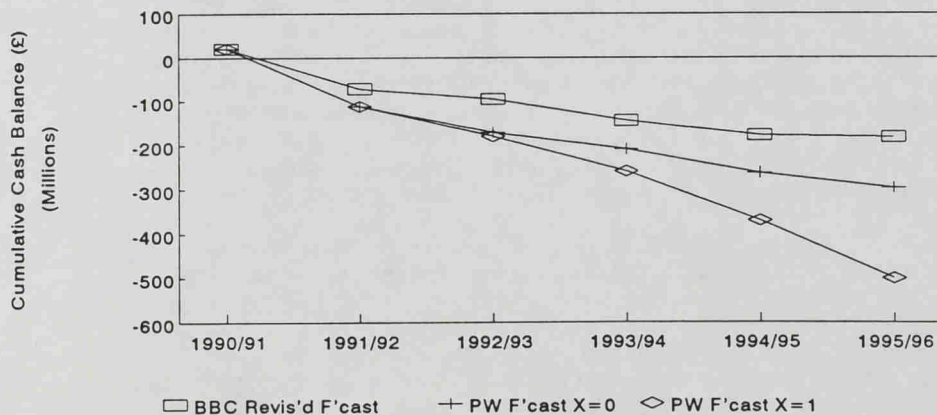
- 31 The final stage of our work was to develop a financial model to calculate the impact of all the financial improvements described above on a new licence fee formula linked to, but set below, the level of inflation. The methodology is described in detail in Section 3. The model is based on the BBC's own base line forecast of costs and revenue up to 1995/96. It is designed to be consistent with current accounting policy and forecasting procedures at the BBC. It can therefore demonstrate the effects on current BBC projections of initiatives for wider improvements. Savings have been listed by directorate and then put into the model, which computes cash surpluses and deficits for each year in which the RPI-X formula might be applied.
- 32 An important feature of the formula, clearly demonstrated in the model, is the progressive squeeze imposed by setting the licence fee below the rate of RPI. We have assumed that the formula will be renegotiated for the period after 1995/96. As it is, on any licence fee calculation set below the level of forecast RPI the BBC will have a cash deficit from 1991/92. An accumulating deficit cannot continue indefinitely. It must be corrected by increased income, lower costs or asset sales.
- 33 Public perception of what is a "fair" licence fee is highly subjective. On the one hand, recent research by the London Business School suggests that a significant portion of the BBC's present audience would pay up to £200 a year in subscription for programmes of BBC quality. But in terms of average gross earnings for manual workers, the UK licence fee is not greatly out of line with what others in Europe have to pay. The latest comparative figures (1988) are that it takes a manual worker in (West) Germany 10 hours to earn the price of a colour licence, 11.2 hours in France and Ireland, 12.9 hours in Denmark and 17.6 hours in Belgium, against 12.7 hours in the UK - and in the first three countries licence fee income is supplemented by advertising. Resentment of a £71 licence fee may have more to do with being compelled to pay, rather than the absolute cost, or with the perceived "inflation proofing" of the BBC which the present licence fee formula provides, or with the fact that until recently the licence had to be bought for 12 months in advance, usually in a single lump sum.
- 34 A more radical option than those canvassed so far in this report would be to abandon the licence altogether and to collect the fee by means of the tax system. The BBC are, understandably, wary of moves which may link their annual income more closely to the annual public expenditure round. Nor has government in the UK shown enthusiasm for hypothecated taxes. Nevertheless, we feel that we should draw attention to the cost savings which would result (possibly as much as £200 million a year, worth 15% of the licence fee) if the BBC's income were fixed by an RPI-linked formula, but collected by taxes. Additional benefits would be a closer link between the fee and the ability to pay and, for most, the ending of the lump sum demand.

**Cumulative Cash Balance Over Time for Three Possible
Licence Fee Policy Options**

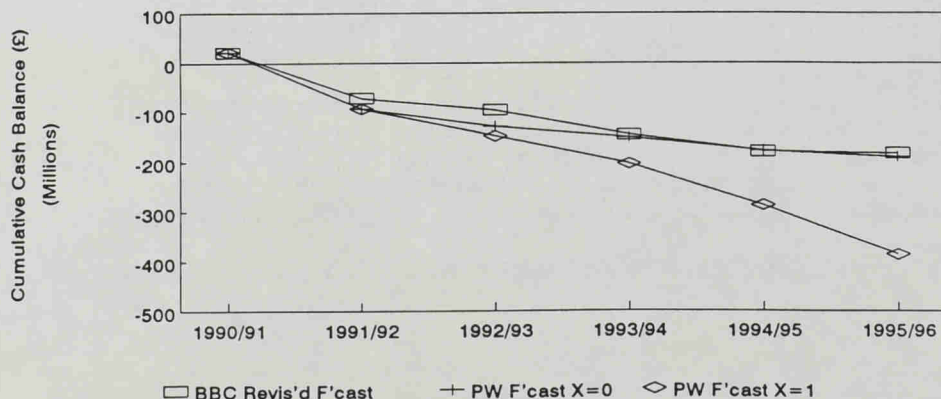
(i) Cumulative Cash Balance @ RPI-X



(ii) Cumulative Cash Balance with Initial RPI @ 7% then RPI-X



(iii) Cumulative Cash Balance with Initial RPI @ 8% then RPI-X



- 35 The BBC's own forecasts show that increasing the licence fee by the rate of RPI would produce a deficit of £180 million by 1995/96. In accordance with our terms of reference, we have taken the BBC's own data as the starting point for our study and have examined the scope for setting licence fee increases below RPI without significantly worsening the BBC's overall financial prospects.
- 36 In setting out the options, we have assumed that any new licence formula should ideally run for five years, up to the renewal of the Charter. This would allow the BBC to plan ahead, while maintaining a steady pressure on them to improve their financial performance. A settlement covering a shorter period would mean renegotiating the funding of the BBC just before or in parallel with negotiations on the renewal of the Charter. This would probably only be sensible if radical changes in broadcasting or new demands on the BBC were expected before 1996.

Option 1

- 37 The table below and first graph opposite illustrate the effect on the BBC's cash position of setting the licence fee at various levels from RPI to RPI-2, taking account of the financial improvements we have proposed.

<u>Licence fee increases</u>	<u>Licence fee 1 April 1991</u> £	<u>Forecast cash @ 31 March 1996</u> £M
All years:		
RPI - 0	79.00	119.1
RPI - 1	78.50	(188.2)
RPI - 2	77.50	(490.9)

- 38 Such deficits would have to be financed either from the BBC's reserves (which on present forecasts would be inadequate) or from borrowing, which would require a relaxation of the present borrowing limit (£100m). In the case of the forecast cash deficit of £188.2 generated by RPI-1, we understand that the main requirement for borrowing in excess of the £100 million limit will be the increase in working capital to fund the budget payment scheme.

Option 2

- 39 An alternative approach would be to impose a greater part of the burden of reduced funding in the early period of the new system. The table below and graphs (ii) and (iii) opposite page 10, assume increases of RPI-4 or RPI-3 in 1991/92, followed by increases of RPI or RPI-1 in subsequent years.

<u>Licence fee increases</u>	<u>Licence fee 1 April 1991</u> £	<u>Forecast cash @ 31 March 1996</u> £M
Year 1: RPI-4	76.0	
All subsequent years:		
RPI-0		(297.2)
RPI-1		(501.0)

<u>Licence fee increases</u>	<u>Licence fee 1 April 1991</u> £	<u>Forecast cash @ 31 March 1996</u> £M
Year 1: RPI-3	77.0	
All subsequent years:		
RPI-0		(188.6)
RPI-1		(385.4)

- 40 Each of the two options would have a slightly different impact. Option 1 would ensure a steady and cumulative squeeze on the BBC, but would meanwhile produce a relatively generous looking increase in the licence fee in April 1991. Option 2 would have a more dramatic impact in the first year, shaking out the financial improvements sooner than under Option 1. It would then allow a rapid return to the current formula of licence fee increases linked to RPI - though we accept that, while a major part of the BBC's costs are rising ahead of inflation, even RPI increases ensure some continuing pressure for improvement.

Conclusion

- 41 Our study has shown that, at a conservative estimate based on the BBC's own data, the BBC could make financial improvements worth £203 million over the next five years. There are two main options for a new licence fee formula. The first is to set licence fee increases at RPI-1 over five years. The second is to limit the increase to RPI-3 in the first year and revert to RPI increases thereafter. Either option would mean that the cash position would be no worse than the BBC's own forecasts.

*Price Waterhouse
14 December, 1990*

CGP



n.5. P.M.

34P

29/12

Treasury Chambers, Parliament Street, SW1P 3AG

Peter Lloyd MP
Parliamentary Under Secretary
of State for Home Affairs
50 Queen Anne's Gate
LONDON
SW1H 9AT

21 December 1990

Dear Mr Lloyd,

IBA TRANSMISSION PRIVATISATION: ECONOMIC REGULATIONS

Your letter of 13 December ^{has} to Peter Lilley proposes dropping the requirement for NTL to provide operation and maintenance services for a Channel 5 licensee. I agree.

I would however like to reiterate the importance of ending the uncertainty over the regulatory regime for Channel 5 renting site and mast space before the ITC invites cash bids for the Channel 5 franchise. As I made clear in my letter of 15 November doubts about transmission charges would tend to depress bids, and thus reduce Exchequer receipts. Is there any reason why the decision will not be taken in time? If so, what needs to be done to speed things up?

I am copying this letter to the Prime Minister, other former members of Misc 128 and to Sir Robin Butler and Sir Bryan Carsberg.

Yours sincerely,

FRANCIS MAUDE

(Approved by the Financial Secretary
and signed in his absence).

BROADCASTING : POLICY PTR

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Prime Minister

TELEVISION LICENCE FEE INCREASES

Following the Peacock Committee Report in 1986 the television licence fee has increased annually by the rate of inflation. This arrangement has now ended and we have to agree a new formula for April 1991 onwards. This is likely to prove contentious and we shall have to pick a careful path between strongly opposed lobbies. Some will argue that as the cornerstone of British broadcasting the BBC should be allowed to continue broadly on present lines, with an inflation-proofed income from the licence payer. Others want a very tight squeeze, claiming that it remains overstuffed, overly bureaucratic and that the private television companies have been going through a testing time.

2. The present linkage with RPI has already imposed a significant restraint on the BBC, operating as it does against the background of a strong pull on pay rates exerted by its commercial competitors. The internal Phillips review has identified the £75 million of savings which are being made. But as the 1988 Broadcasting White Paper indicated, we had hoped to go further in holding down what is effectively a compulsory levy on all TV viewers. Our original aim was to discount the licence fee by reference to subscription income but the prospects for this proved to be very limited in the short term. We therefore commissioned Price Waterhouse to advise how future fee increases could be set below RPI. I attach a copy of the management summary of their findings

(→ to Policy Unit)

3. Price Waterhouse identified significant opportunities for further financial improvements on the part of the BBC, totalling £203 million cumulatively over the next five years. This is made up first of £72 million in extra revenue from sources such as sponsorship, additional sales of programmes and products, and improvements and changes in the collection of the licence fee, which the BBC itself will collect from April. The second saving of £131 million arises from reducing production and overhead costs, the buying in of programmes under the 25% independent quota, and improved management of working and fixed capital. The BBC have disputed the scale of savings or revenue achievable in some of these areas, but Price Waterhouse have made clear to us that their assessments have been deliberately cautious. Even if some of the detail can be disputed in what was after all a quick study, they believe financial improvements of this order can be achieved.

4. Price Waterhouse concluded that with these savings the licence fee could safely be discounted below RPI, whilst still leaving the BBC capable of fulfilling their public

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service broadcasting remit and in no worse a financial position than they themselves had forecast. This forecast was that under the present RPI formula they would reach a cumulative deficit of £180 million by 1995-96. The BBC explained that this was a provisional forecast. They would have taken measures to avoid a deficit and many of the more obvious ones they could have taken are the same as those now identified by Price Waterhouse. The BBC are claiming that the report would in effect double count future savings and that they will have to find savings of over £300 million.

5. Price Waterhouse offered two options for discounting, both with the same net effect over the five years. The first is to set all future annual increases at RPI - 1%; the second is an increase of RPI - 3% from April 1991 with subsequent annual increases at RPI. Both we and the BBC favour a "front-loaded" approach in principle. The basic RPI reflator we use is the September year on year figure. This was unusually high in 1990 at 10.9%, and an increase from 1 April at RPI - 3, which would be 7.9%, would be more acceptable and closer to the general rate of inflation which should then obtain.

6. Price Waterhouse saw advantage in any formula lasting until the current BBC Charter falls due for renewal in 1996. There is some sense in that approach. It would remove a potentially sensitive issue from the political agenda over a period when Government can expect to be engaged in active debate about the future and funding of the BBC after 1996. Having to negotiate a new licence fee settlement against that background could prove troublesome. A longer term settlement would also provide stability for the BBC during a period of change and uncertainty in the broadcasting scene.

7. However, I believe a simple five year formula would be perceived as letting the BBC off too lightly. Some will say that the reduction below RPI recommended by Price Waterhouse is not rigorous enough. There is a clear general answer to that - we hired independent consultants precisely so as to reach a dispassionate expert view on what is possible - but I do believe there is a case for reviewing, and perhaps increasing, the squeeze further before Charter renewal falls due. We want to ensure that the BBC are as well prepared as they can be in organisational and efficiency terms for the stresses and strains of the more competitive situation they are likely to face after Charter renewal. We also want to ensure that they pursue more actively the available alternative sources of income to the licence fee: that will put Government in a much better position in several years' time to decide whether a major shift away from the licence fee is reasonable.

8. I therefore propose that we endorse the general Price Waterhouse approach to setting the licence fee; that of their two options, we prefer the front-loaded one whereby a 3% reduction is followed by RPI linkage up to 1995/96; but that we will

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reassess the operation of that formula in three years' time, i.e. with the April 1994 increase in view. At that stage we would look at the BBC's progress in improving efficiency and in developing the alternative sources of revenue. Moreover, since the two Price Waterhouse formulae have unequal cumulative effects over three years, the front-loaded approach leaving the BBC £50 million worse off by the end of 1993/94, the review would have to take account of the effects in practice of the front-loaded formula. Finally, it may also provide a suitable opportunity to implement any changes arising out of Price Waterhouse's wider suggestions on television licences (e.g. abolition of the black and white licence); but I stress that these will need very careful consideration and may in the event have to be ruled out.

10. As to the effect of my proposals on the April 1991 settlement, the present rounded fees are £71 (colour) and £24 (monochrome). Applying the RPI - 3% factor of 7.9% to the unrounded 1990 figures produces new fees of £77 and £25.50 respectively. I should like to announce this new settlement and my longer-term intentions by way of a written reply to an arranged Parliamentary Question in mid-January. I would publish the management summary of the report on the same day: the rest cannot be released since it contains commercially sensitive information.

11. To meet this timetable, it would be helpful to have a response by 4 January.

12. I am copying this minute to Norman Lamont, Tony Newton and Sir Robin Butler.



21 December 1990

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the department for Enterprise

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n.b.p.m.

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21/12

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Peter Lloyd Esq MP
Parliamentary Under Secretary
of State
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

Department of
Trade and Industry

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Direct line
Our ref
Your ref
Date

071-215 5622
PE12185

21 December 1990

Dear Minister

IBA TRANSMISSION PRIVATISATION : ECONOMIC REGULATION

Thank you for your letter of 13 December 1990 about two aspects of the regulatory regime on National Transcommunications Limited (NTL) as it affects the provision of services to Channel 5.

I agree with you that it would be helpful, if possible, to let any potential applicants for the Channel 5 franchise know at the time of application whether or not the provision of site and mast rental will be price capped, although the actual size of that cap may have to be determined later. This does, of course, assume that the ITC will decide between the two most likely configurations in advance of inviting applications and, indeed, fix on a configuration precise enough to enable OFTEL to determine whether or not NTL would have a position dominant enough to justify a price cap. This latter point is, of course, a matter for the Director General of Telecommunications and I should be interested to know what Sir Bryan considers possible.

On your second point, I agree that the market for operations services to Channel 5 is likely to be open enough not to require any obligation to provide to be placed on NTL. The company itself has asked for this change in its representations on the draft licence and I propose to



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the department for Enterprise

change the licence accordingly as a result of that representation.

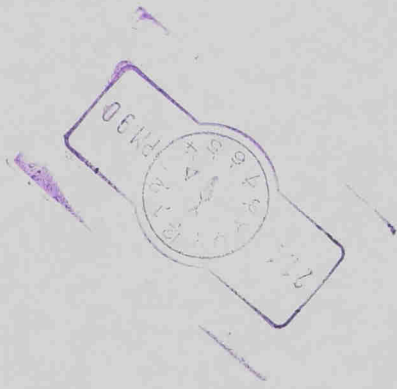
I am copying this letter to the Prime Minister, the other members of MISC 128, to Sir Robin Butler and to Sir Bryan Carsberg.

Yours sincerely

He Bishop

(Approved by the Secretary of State
and signed in his absence)

BROADCASTING: Policy
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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Kenneth Baker MP
Secretary of State for the Home Department
Home Office
Queen Anne's Gate
LONDON

13 December 1990

Dear Kenneth,

BROADCASTING OWNERSHIP *flat*

Our predecessors exchanged correspondence about Home Office proposals for supplementary rules on ownership of Channel 3 licences. During this Malcolm Rifkind argued strongly against a proposal to drop the rule preventing ownership of contiguous companies but shortly before the Cabinet Changes, and without my having an opportunity to consider the matter, a draft Order was issued without such a rule. You and I were not involved in these discussions and I must ask you to look again at the concerns expressed in Scotland on the contiguity rule when you consider the responses to the draft Order.

Since the Home Office published its intentions on ownership a great deal of opposition has been expressed in Scotland to the dropping of the contiguity rule. The Managing Directors of both Border Television and Grampian Television have come to see me to accuse the Government of going back on promises, made repeatedly during the passage of the Broadcasting Bill, that we would protect regional broadcasting by preventing a single television company from owning 2 neighbouring Channel 3 franchises. This concern has been echoed by MPs of all parties in Scotland and by the CBI in Scotland. All see the Government as renegeing on a promise.

The contiguity rule was initially proposed specifically to protect the regional broadcasting structure in Scotland. The introduction of the rule, coupled with Robert MacLennan's amendment preventing the designation of the whole of Scotland as a single Channel 3 licence area, did much to allay widespread Scottish fears that the new Channel 3 structure would disregard the sharp cultural and political diversities which divide Scotland into 3 areas, the North, the populous central belt and the Borders. The Independent Television Commission's announcement a few months ago that they would invite applications for Channel 3 licences on the basis of the existing ITV map provided further reassurance. This has all now been completely upset by publication of the draft Order.

I cannot impress upon you too strongly how important it is to have a diverse regional flavour to the Channel 3 services in Scotland. I accept that provisions added during the passage of the Bill will now go some way towards the maintenance of such a flavour, irrespective of which company owns the licence, but the broadcasters themselves have told me how little reliance can be placed on these. Without the contiguity rule a big company like Granada is bound to be able to build economies of scale into its cash bid and therefore have a head start in bidding for an area like Border. Having won the licence, the big company will, despite the fact that the ITC licence will in theory require maintenance of regional production facilities and programming, inevitably concentrate equipment and staff talent on its main base at the expense of the junior satellite. The affinity of the junior company with its region and the employment focus in that region will then both be lost.

I also remain concerned despite David Waddington's assurances at the prospect of the Scottish Office financing a Gaelic Television Fund which could be monopolised by just one company, with serious consequences for value for money and for Scottish Ministers' broad objectives in securing this Fund.

I regard the maintenance of diversity in Scottish Broadcasting and with it cultural and political variety in Scotland as of considerable political importance to us. Our own backbenchers feel very strongly indeed about this.

I understand that the ITC considered the whole matter of contiguity at its last meeting and accepted the case put forward for retention of the contiguity rule by the Earl of Dalkeith, the Scottish Member on the ITC and someone with considerable experience of broadcasting. I believe, however, that the ITC are also concerned that the rules should not prevent a small company in financial difficulties being taken over or merging with its contiguous neighbour. Accordingly, I understand, the ITC are now proposing that the contiguity rule should apply only during the initial bidding process and the moratorium, ie it should cease to apply at the end of 1993.

The ITC proposal is a compromise which would be acceptable to me and also to Grampian and Border. It would give new licence holders in the small areas a chance to establish themselves but would also mean that if they begin to suffer from the increasing competition which the DTI forecast for the mid-90s, licences could be combined to face this situation. I urge you and colleagues very strongly to support this compromise without which the Order will encounter some fierce opposition in the House and the Government will lose support in Scotland.

Copies of this letter go to the Prime Minister, John MacGregor, David Waddington, David Hunt, Peter Lilley, Richard Ryder and Sir Robin Butler.

*Yours ever,
Ian.*

IAN LANG

BROADWAY 101
AT 12



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14/12



PARLIAMENTARY UNDER
SECRETARY OF STATE

HOME OFFICE
QUEEN ANNES GATE
LONDON SW1H 9AT

13 December 1990

Dear Peter

IBA TRANSMISSION PRIVATISATION : ECONOMIC REGULATION

I am grateful for your agreement, and that of Francis Maude, to the proposals on the economic regulation of National Transcommunication Limited (NTL) put forward by David Waddington in his letter of 7 November. The agreed values of Po and X have now been published in NTL's draft Telecommunications Act licence.

Francis Maude agreed that the regulatory regime for the rental of site and mast space by NTL to Channel 5 should be clarified before the Channel 5 licence is advertised. The decision on whether or not a price cap will be necessary will turn on whether Channel 5 follows the 25 site model, or whether a local opt-out model using a greater number of sites is adopted. The shadow ITC are still considering this in the light of their recent consultation exercise about Channel 5. Subject to Sir Bryan Carsberg's views, however, I should see every advantage in Oftel indicating whether or not a price cap will be imposed once the ITC have reached a view on the configuration of Channel 5. Ideally, this decision would be communicated to potential applicants as part of the licence advertisement.

Our officials have, I understand, identified one further aspect of the regulation of NTL's services to Channel 5 which needs to be reviewed. As the draft licence stands, NTL would be obliged to provide operation and maintenance services to a Channel 5 licensee if he so requested. An obligation to supply can be justified only where the customer would have no other ready choice of supplier. In the present case, however, it is clear that other operators would be capable of providing operation and maintenance services to Channel 5 in competition with NTL. I propose therefore that the obligation to supply such services should be removed.

Finally, David Hunt registered his concern about the effect of the proposed value of Po on S4C. I am happy to confirm David Waddington's undertaking that we will review S4C's position sympathetically in 1992. Indeed, my officials have already held preliminary discussions with S4C about this.

I am copying this letter to the Prime Minister, other former members of Misc 128 and to Sir Robin Butler and Sir Bryan Carsberg.

A handwritten signature in cursive script, appearing to read 'Peter Lloyd', is centered on the page. The signature is written in dark ink and is positioned above the printed name.

PETER LLOYD

The Rt Hon Peter Lilley MP
Secretary of State for
Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON

BROADCASTING Policy
Pg 12





Prime Minister
To be aware. Both DTI - Home Office

②

CEH

appealed for No 10 intervention. But they have
now agreed to try & sort out
the difference of view bilaterally.

QUEEN ANNE'S GATE LONDON SW1H 9AT

28 November 1990

Dear Peter

RHP

30/11

BROADCASTING OWNERSHIP

at Nat.

Thank you for your recent letter in reply to mine of 21 November. I have also seen Richard Ryder's letter of 26 November and Malcolm Rifkind's letter of 27 November.

I do of course fully understand your reason for wishing to see as much flexibility in ownership of Channel 3 licences as possible. But we are not starting here with a clean sheet. Our decision to allow joint ownership of two Channel 3 licences, provided they were not both large or contiguous, was itself a major departure from existing practice, and has been opposed by many commentators, particularly those who represent the smaller ITV companies. We have defused most of the earlier criticism by pointing to the substantial protection which our proposed restrictions on large and contiguous joint holdings would offer. That in itself greatly assisted the smooth handling of the Broadcasting Bill in both Houses.

If we were now to announce our intention to abandon the contiguity rule, without putting any other protection in its place, we would I believe be open to justified accusations of bad faith. Not only would we face opposition on behalf of the smallest companies, who would inevitably see themselves threatened by abandonment of the contiguity rule; we would also unite a wider regional lobby arguing on behalf of the middle size companies like Anglia, HTV and Scottish who under your proposal would see their continued independence seriously at risk. Malcolm Rifkind and David Hunt would I know be very much opposed to going down this road, as indeed would I.

You suggest that if there is significant opposition we could undertake to reconsider the issue. But I really believe that this would be to court the worst of all worlds. I have no doubt whatsoever that we would face the strongest criticism were we to proceed as you propose. If we then back down in response to pressure we will have generated suspicion and bad feeling for no good reason. Such a course would in my judgement jeopardise the subsequent Parliamentary handling of the order, which is bound in any case to be controversial because of the Murdoch dimension. I see no point at all in giving our opponents gratuitous criticism on other issues to fire at us.

The Rt Hon Peter Lilley MP
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0BT

/over

In his letter of 27 November Malcolm Rifkind proposes retaining a contiguity rule for Scotland alone. I appreciate his particular concerns about Grampian, but I do not think that it would be feasible to confine a contiguity rule to Scotland as he suggests. Were we to do so we would have no argument against demands from the small English regional companies for similar protection. If moreover we were both to retain a contiguity rule of general application and to designate 9 areas as large, we would have ruled out almost all the possible licence combinations which might be sought.

For these reasons I am afraid that I see no alternative but to proceed as I originally proposed and I am asking for the arranged PQ to be tabled for answer on Monday 3 December.

I am copying this letter to the Prime Minister, and other members of MISC 128, and to Sir Robin Butler.

Yours ever
Jens



BROADCASTING: Policy Pt 12.



7.5. P.M.
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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon David Waddington QC MP
Home Secretary
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

27 November 1990

BROADCASTING OWNERSHIP

I have seen your letter of 21 November to Peter Lilley seeking agreement to your proposals to drop the contiguity rule and designate the top 9 licence areas (in terms of net advertising share) as large.

I note the wide range of differing views already expressed by colleagues on your proposals and I appreciate your desire to have the issue resolved quickly but I am afraid that I cannot agree to what you propose. As you would expect I am content with your proposal that 9 licence areas should be designated as large but it is your proposal to drop the contiguity rule that still poses most difficulty for me.

Recent comments in the trade press that we were considering dropping the contiguity rule have already resulted in some strong lobbying north of the Border. I have been reminded of the views expressed by David Mellor in Commons Committee that:-

"By saying that no-one may control more than 2 regional franchises, and that no-one will be allowed to control 2 large franchises, we make even clearer our commitment to prevent the system from becoming too much in thrall to one exceptionally large company.

To preserve the integrity of the system and the regional commitment, 2 viable, contiguous franchises may not be held in the same ownership."

These comments, together with similar statements made by Robin Ferrers, did much to allay the fear that the majority of the Scottish population could be served by one Channel 3 company. I cannot impress upon you strongly enough that this is a matter of great significance in Scotland and I fear that we could come under a great deal of opposition in Parliament and elsewhere if the contiguity rule was removed. There are major cultural differences between the north and central belt of Scotland and we must ensure that these differences are reflected on Channel 3. One

company holding the licence for both these areas would undoubtedly rationalise its operations and concentrate its activities in Glasgow or Edinburgh. This would result in a poorer service for viewers in the north.

I note your comment that co-ownership of the 2 main Scottish licence areas would not necessarily prevent effective competition between them to make Gaelic programmes. I find that difficult to accept. Any company with almost sole access to a fund in excess of £8 million is obviously going to be in a strong position to maximise its income from this source. It would also result in independent producers having to deal with one company to win commissions for Gaelic programmes and indeed for general programmes to be made in Scotland. This is something I feel we must prevent not only to ensure value for money from public funds but equally importantly to ensure that independent sector flourishes in Scotland and that the Gaelic viewer is provided with a broad range of high quality programmes.

I accept your view that we need to resolve this issue quickly and would suggest, therefore, that we adopt your proposals to designate 9 licence areas as large and drop the contiguity rule in all areas except Scottish and Grampian. I believe that the circumstances in Scotland are different from the rest of the UK and that we can defend taking these exceptional measures.

Copies of this letter go to the Prime Minister, other Members of MISC 128 and to Sir Robin Butler.

MALCOLM RIFKIND

27.11. 1976
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n. 5. P.M
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26/11
CC PM



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Waddington QC MP
Secretary of State for
the Home Department
Queen Anne's Gate
LONDON
SW1H 9AT

26 November 1990

Dear Home Secretary,

BROADCASTING OWNERSHIP

... as requested if required.

Your letter of 21 November to Peter Lilley asked colleagues to reconsider their objections to increasing from six to nine the number of areas designed as large.

Despite the possibility of a political reaction in relation to HTV or Scottish TV my view remains that the objectives of encouraging efficiency and providing for economies of scale can best be met by keeping the large areas to six while dispensing with the contiguity rule.

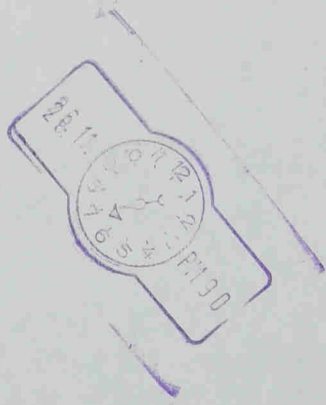
I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

Yours sincerely,

Grie Hashing

RICHARD RYDER

*(agreed by the
Paymaster General
and signed in his
absence).*



dti

the department for Enterprise

n.b. P.M.

BHP

28/11

CCFO

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Rt Hon David Waddington QC MP
Secretary of State for the
Home Department
Queen Anne's Gate
LONDON
SW1H 9AT

Department of
Trade and Industry

1-19 Victoria Street
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Direct line 071 215 5622

Our ref JW22035

Your ref

Date

23 November 1990

Dear David

BROADCASTING OWNERSHIP

WITH BA?

Thank you for your letter of 21 November.

I am afraid that I am still opposed to increasing the number of Channel 3 licence areas designated as large. It seems to me wrong in principle that we should restrict the market in this way. Our aim in this case is to provide regional diversity in broadcasting. In my view this should be achieved by placing strict limits on the nature of the service in different regions and the way in which it is provided but not on who happens to own the licensee. As you said in your previous letter, the regional requirements of the Broadcasting Act are now much stronger than they were in the Bill stage. We should not go further than this and interfere in the market's view as to how best these and other requirements can be met.

You refer to the advantage in economic terms of retaining flexibility of ownership. In fact the advantages go wider than this. Terrestrial broadcasting is just one means of providing television services. We are seeing the emergence of cable television companies and satellite as alternatives. The television market will become increasingly competitive in future. By placing constraints on ownership, we make it that much more difficult for the terrestrial broadcasters to compete. This in turn undermines their ability to provide a service, including the regional services to which you and other colleagues attach importance.



Recycled Paper



the department for Enterprise

You refer to the political pressure that arose during passage of the Broadcasting Bill for ownership restrictions. In my view the Sky/BSB announcement together with the strengthened regional requirements in the Act justify our taking a fresh view of the issues. I believe this would be understood by many of those who attach importance to regional diversity. The Parliamentary Question you are proposing to answer before making the Order provides an ideal opportunity to test the position.

I would therefore propose that, in answer to the Parliamentary Question, you should announce that only six of the Channel 3 areas will be designated as large. If this leads to significant pressure for a stronger line then I would be prepared to reconsider the issue. I do not, however, think we should start by announcing tighter restrictions than are desirable.

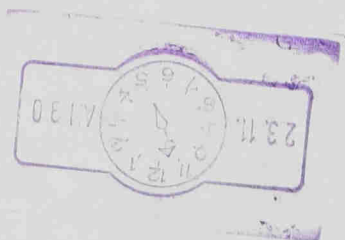
I am copying this letter to the Prime Minister and other members of MISC 128 and to Sir Robin Butler.

Yours ever

Peter



Recycled Paper





QUEEN ANNE'S GATE LONDON SW1H 9AT

21 November 1990

Dear Secretary of State

BROADCASTING OWNERSHIP

Thank you for your letter of 7 November. I have also seen Richard Ryder's letter of 13 November; David Hunt's letter of 12 November and Malcolm Rifkind's letter of 15 November.

I note the differing views expressed about the number of Channel 3 licence areas which should be designated large. While I take the point that in economic terms there is benefit in retaining the flexibility for the maximum possible combinations of ownership, I really do think that in political terms we would find it very hard to sustain abandoning the contiguity rule without also increasing the number of areas to be designated as large. The possibility of, say, Central owning HTV or Anglia or indeed Scottish would I think produce a strong political reaction. Since the ownership order is subject to affirmative resolution we could face serious embarrassment if a significant regional lobby were to spring up against it.

I believe in any case, as I argued in my earlier letter, that in terms of the policy already agreed amongst us, an increase in the number of licence areas designated as large is a necessary quid pro quo for dropping a separate contiguity rule. Our earlier decision was that it should be permissible for a single body to own two Channel 3 licence areas provided that they were not both large or contiguous. Although we did not at that stage indicate the number of licence areas which would be designated as large (because at that point the Channel 3 map had not been determined) we recognised that if the Channel 3 map remained as the ITV map is now - and the shadow ITC has confirmed that that will be the case - then we would expect roughly the top third of the licence areas to be designated as large.

Throughout the Parliamentary passage of the Bill David Mellor and Robin Ferrers gave assurances about future ownership restrictions based on the Misc 128 decision. These proposals were widely welcomed as being necessary to prevent combinations of ownership whereby an unacceptably large area of Channel 3 coverage would be controlled by one company. I really do think that if we abandoned the contiguity rule at this stage without compensating for this by increasing the number of areas to be designated as large, we would be rightly accused of going back on earlier commitments.

The Rt Hon Peter Lilley MP
Department of Trade and Industry
1-19 Victoria Street
London SW1

/over

I noted Malcolm Rifkind's concern about contiguity. I think we do need some kind of compromise here. I hope he would accept that if Scottish were designated a large area, that would go some way to allaying his fears, I take his point about the Gaelic Television fund, but I do not think that just because two licence areas were co-owned that would necessarily prevent effective competition between them for the revenue to make Gaelic programmes. This would in any case not be an adequate justification for maintaining a contiguity rule which would obviously have to be of general application.

I hope, upon reflection, that you, and colleagues, will agree with my proposal to drop the contiguity rule but to designate the top nine areas as large. This, I believe, better achieves the original Misc 128 objective; of preventing unacceptably large areas from falling into common ownership, while allowing for perfectly proper economies of scale to be achieved in other cases. The only real alternative in my view is to designate the top six areas as large but to retain a contiguity rule. That would be less satisfactory because of the real objections to the contiguity rule which I set out in my earlier letter. I am quite clear that designating only six areas without an accompanying contiguity rule is not an option.

The Order prescribing the supplementary ownership rules needs to be made before Christmas. To allow for some period of consultation, I propose to announce the content of the rules by way of an arranged Parliamentary Question, which I hope to table before the end of this week. I attach a copy of the arranged PQ on which I should be grateful for any comments by Thursday 22 November.

I am copying this letter to the Prime Minister, other members of Misc 128 and to Sir Robin Butler.

Yours sincerely,

Hester Wilkinson

Approved by the Home Secretary
and signed in his absence

PQ FOR WRITTEN ANSWER ON []

Mr (): To ask the Secretary of State for the Home Department if he is in a position to announce the supplementary ownership rules which he proposes to implement by Order under Schedule 2 of the Broadcasting Act 1990.

DRAFT REPLY

The ownership rules will contain the following provisions:

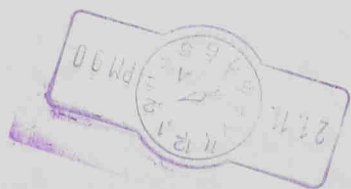
- a) it will be permissible for one body to hold a controlling interest in two regional Channel 3 licences as long as they are not both large. Of the 15 regional Channel 3 areas, we shall designate the top nine (in terms of NAR share) as large, and the bottom six as small.
- b) in relation to regional Channel 3, national Channel 3 and Channel 5 licences, where a person owns two licences (in the case of regional Channel 3) or one licence (in the case of national Channel 3 or Channel 5) he will be permitted to have a maximum of a 20% stake in one further such licence, and a maximum stake of 5% in any further licences.
- c) where a person has no controlling interest in any licence, he will nevertheless be permitted to have more than a 20% interest in two regional or one national licence, a maximum of a 20% interest in one further such licence and a maximum of a 5% interest in any further licences.

- d) national newspaper proprietors will not be permitted to have more than a 20% interest in any local radio licence. No national or local newspaper proprietor will be permitted to have more than a 20% interest in a domestic satellite service licence.

- e) no public telecommunications operator will be permitted to have a controlling interest in any Channel 3, Channel 5, national radio or domestic satellite licence.

- f) there will be a points scheme to indicate the maximum ownership permitted of local radio stations. All stations (with their associated channels) will be awarded points on the basis of their audience reach. It will be permissible to own stations which correspond to a maximum of 15% of the total number of points in the system.

I have placed a more detailed set of proposals in the library.
I hope to place an Order before the House in December.



dti

the department for Enterprise

N.S.P.M

BHP

23/11

CCPU

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Rt Hon David Waddington QC MP
Secretary of State for the
Home Department
Queen Anne's Gate
LONDON
SW1H 9AT

Department of
Trade and Industry

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Direct line
Our ref
Your ref
Date

071-215 5622
PE11091

16 November 1990

Dear David

IBA TRANSMISSION PRIVATISATION : ECONOMIC REGULATION

Thank you for your letter of 7 November about the economic regulation of National Transcommunications Ltd (NTL).

I am grateful to you for agreeing that there should be scope for price regulation of the rental of site and mast space for Channel 5. Whilst it would in theory have been preferable to have agreed a price formula for Channel 5 rentals in advance, the uncertainties over both the timing and coverage of the channel make that impracticable. I thus agree with your proposal to allow the Director General of Telecommunications to impose a price cap if he considers it necessary in the circumstances at that time.

Turning to the regulatory formula for Channels 3 and 4 and S4C, I agree that there should be tough efficiency targets and I welcome a negative "X" to ensure that NTL's customers get a better deal over the course of the regulatory period. I also understand your concern that the total sum Channels 3 and 4 and S4C pay to NTL and the ITC next year should be no more in real terms than they pay to the IBA now. I note that your calculations are based on no real growth in regulatory costs between the IBA and the ITC. We must be careful however not to allow unnecessary costs of the ITC to drive down P_0 and thus reduce the viability and attractiveness of NTL.



dti

the department for Enterprise

Provided that you are satisfied on this last point I am content to endorse a P₀ of £61 million and an X of 1. These figures will be incorporated into the draft Telecommunications Act licence which will go out to statutory consultation on Friday.

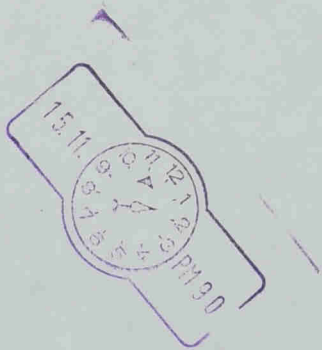
I am copying this letter to the Prime Minister, other Members of MISC 128 and to Sir Bryan Carsberg.

Yours ever

Peter



Recycled Paper





NEWS RELEASE

INDEPENDENT BROADCASTING AUTHORITY

70 Brompton Road London SW3 1EY Tel: 071-584 7011 Fax: 071-589 5585

Prime Minister

②

Ext. 7743

X' is pretty meaningless, since BSB users will have time for be switched to sky services.

6
19 November, 1990

67/90

BHP 16/4

MERGER BETWEEN BSB AND SKY

The IBA has considered the information it has received in the course of its investigation into the recent merger between British Satellite Broadcasting Limited ("BSB") and Sky Television PLC ("Sky"). The legal relationship between the IBA and BSB is constituted by a Programme Contract, entered into pursuant to the provisions of the Broadcasting Act 1981 and the Cable and Broadcasting Act 1984. The Authority's rights in relation to the merger derive solely from the terms of that Programme Contract, to which the IBA, BSB and BSB Holdings Limited alone are parties.

It is clear to the IBA that the completion of the merger, for which the IBA's consent was neither obtained nor sought, gave rise to a serious breach of BSB's Programme Contract. The IBA is entitled, in consequence of the merger, to terminate that Contract and intends to do so. It considers that immediate termination would not be in the interests of viewers of BSB's services and will accordingly engage in further discussions with BSB regarding transitional arrangements, prior to issuing the notice which will set the termination date for BSB's Programme Contract.

The Shadow ITC has considered the matter from the point of view of the functions it will assume under the Broadcasting Act 1990. The Shadow ITC will wish to consider feasible possibilities for the continued provision of television services on the frequencies currently used for BSB's services, after the termination of BSB's Programme Contract. The Shadow ITC will accordingly be inviting interested parties as soon as possible to inform it of their proposals for the use of such frequencies.

The television services currently provided by sky will require a non-domestic satellite services licence from the ITC under Part 1 of the 1990 Act. BSB have informed the Shadow ITC of their intention that one or more companies in the merged BSB/Sky group should apply for one or more such licences. The Shadow ITC will be giving careful consideration to the implications of such proposed applications.



YD
2.5 P.M.
RHP
23/11

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Waddington QC MP
Home Secretary
Home Office
50 Queen Anne's Gate
LONDON
SW1A 9AT

15 November 1990

Dear David

IBA TRANSMISSION PRIVATISATION: ECONOMIC REGULATION

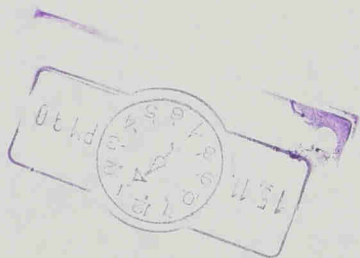
with BP/will request if required
Your letter of 7 November proposed an initial transmission tariff of £61 million with subsequent price increases limited to RPI-1 per cent.

I am content with your proposals, which will stop transmission charges rising as a result of privatisation and keep subsequent price increases below general inflation.

You also propose enabling the Director General of Telecommunications to bring within the scope of regulation rental of site and mast space by NTL to Channel 5. Bidders for NTL would then know that their dealings with Channel 5 would be subject to either competition or regulation and I am content for this course to be adopted. But this aspect of the regulatory regime needs to be clarified before the Channel 5 franchise is auctioned, so bidders can estimate their transmission costs accurately. Any uncertainty would tend to depress bids for that franchise.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robin Butler and Sir Bryan Carsberg.

FRANCIS MAUDE





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon David Waddington QC MP
Home Secretary
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

15 November 1990

Dear David,

BROADCASTING OWNERSHIP

WITH B?

I have seen a copy of your letter of 1 November to Peter Lilley setting out the contents of the Order you propose to make on rules governing license ownership. I have also seen Peter's response.

I know that you are well aware of the importance attached in Scotland to retention of a strong regional broadcasting structure and indeed the recent announcement by the shadow Independent Television Council that it intends advertising 3 Channel 3 licences in Scotland has been welcomed. As you know, there has always been a fear that Scottish Television would take over the Grampian Television area and that the quality of regional programmes in the North of Scotland would suffer as a result. I am sure that it was for this reason that Robert MacLennan's amendment to the Bill preventing the designation of the whole of Scotland as a single licence area was so warmly received.

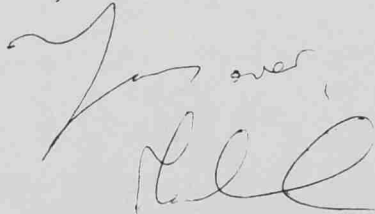
While I accept that the provisions on regionality have been strengthened considerably during the Bill's passage, I am not convinced that they are strong enough to ensure that a bid from a contiguous company would produce anything more than a very basic regional service. Taking local radio as an example, I know that when Radio Forth took over Radio Tay (a contiguous ILR franchise) it promised to retain Tay's regional identity and to reflect this in news and current affairs programming. In the event this has not happened and the listeners in Tayside now have a poorer service than the one they enjoyed in the past.

I am also keen to ensure that no single company owns both the Scottish and Grampian area licences. As you know, I am to fund 200 hours of Gaelic television on Channel 3 from 1993 and I want to see competition between the 2 relevant Scottish Channel 3 companies for money from the Gaelic TV Fund.

For these reasons I cannot support the removal of the contiguity rule. Your proposal to designate 9 of the 15 regions as "large" will no doubt

come as an unwelcome surprise to a few of the existing major ITV companies. Nevertheless, I see merits in what you propose, particularly with regard to the future of the Scottish Television area, and I accordingly support your proposal. I take Peter's point about the prospect of increasing competition, but there are limits to our ability to predict accurately the factors bearing on the industry in the future and I think we should act to avert the more certain and immediate risks. For me that has to mean acting to avert the ownership by bid or takeover of the Scottish Television area by a large company based in England. It could be that the creation of the 6 economically strong licensees which Peter argues for will simply perpetuate the dominance of the main commercial channel by the "major" companies. I had thought that this was contrary to our intentions.

I am copying this letter to the Prime Minister, to other members of MISC 128 and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Malcolm Rifkind', with a stylized flourish above the name.

MALCOLM RIFKIND



CCP4



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Waddington, QC MP
Secretary of State
for the Home Department
Queen Anne's Gate
LONDON
SW1H 9AT

13 November 1990

David

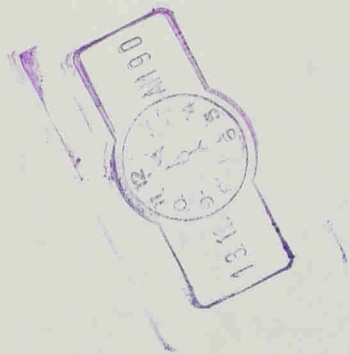
BROADCASTING OWNERSHIP

with BP?
Your letter of 1 November proposed dispensing with the contiguity rule while increasing the number of areas designated as large from six to nine.

I am content to see the contiguity rule abolished in order to increase competition for franchises and maximise the chances that economies of scale will be achieved. But increasing the number of Channel 3 licences designated as large would have the opposite effect. Overall your proposals would rule out more combinations of ownership than previously envisaged. I doubt we need do this and suggest not more than the original six of fifteen Channel 3 licence areas should be designated as large.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robin Butler.

Jan.
Ryder.
RICHARD RYDER



CCPO,



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GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 071-270 3000 (Switchboard)
071-270 0538 (Linell Union)
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Fax: 071-270 0561

The Rt Hon David Hunt MBE MP

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

1206 November 1990

Zear David

BROADCASTING OWNERSHIP

*Will BP? /
Will request y
request*

Thank you for your letter of 1 November setting out your revised proposals covering the ownership of Channel 3 licences.

I see some attraction in proceeding in the way you propose. However for your proposals to be acceptable to Welsh interests it will be essential for HTV to be included in the extended list of 'large' areas as you propose. During the course of the Bill the question of how regional requirements should be interpreted as far as Wales, Scotland and Northern Ireland were concerned was an issue which received considerable attention. Even hinting that we would be prepared to see a change in the Channel 3 map as it affects Wales would only rekindle this controversy and would I believe be completely the wrong signal to send at this stage.

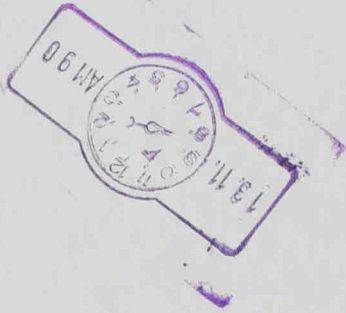
On the understanding that HTV would appear on the list of 'large' areas I would support a change along the lines you propose.

/ I am copying this letter to the Prime Minister, other members of MISC and to Sir Robin Butler.

Yours ever

David

The Rt Hon David Waddington QC MP
Secretary of State for the Home Department
Home Office
Queen Anne's Gate
LONDON SW1H 9AT





n.b.p.m
PMP
3/11
ccfp

QUEEN ANNE'S GATE LONDON SW1H 9AT

7 November 1990

Peter

IBA TRANSMISSION PRIVATISATION: ECONOMIC REGULATION

Colleagues agreed during August to the broad regulatory framework for the new private transmission company - National Transcommunications Limited (NTL) - proposed in the paper attached to my letter of 1 August. Since then officials from our two Departments and from OFTEL have, with the assistance of further economic and accountancy advice from NERA and Grant Thornton, been carrying out the detailed work necessary to establish the initial transmission tariff (Po) and the price increase formula (i.e. the value of X in the RPI-X formula). The purpose of this letter is to seek your agreement, and that of colleagues, to one development of the regulatory framework originally proposed; and to the proposals agreed between our officials for Po and X.

The development of the regulatory framework concerns the rental of site and mast space by NTL to Channel 5. The paper circulated on 1 August proposed that this should not be subject to price regulation; reliance on the general non-discrimination clause in NTL's licence would suffice provided that OFTEL had sufficient information to detect any abuse. Both you and Francis Maude expressed some reservation about this conclusion. Having reconsidered this, our officials now agree that price regulation would be a necessary protection for Channel 5, if the 25 site model is adopted, since this model would give the Channel 5 operator no option but to use certain NTL sites. If, however, the local opt-out model is adopted price regulation may not be necessary; depending on the precise configuration chosen, the operator might have a range of non-NTL sites to choose from. Officials have therefore proposed that NTL's Telecommunications Act licence should be drafted in such a way as to enable the Director General of Telecommunications to impose a price cap if thought appropriate. I endorse this proposal.

.... Turning to the details of the price regulation formula, officials have proposed that the overall Po (i.e. for ITV, Channel 4, and S4C combined) should be £61 million and that the value of X should be 1. I attach an annex which shows how Po breaks down as between different customers and services.

The two main determinants of this decision are the target rate of return over the regulatory period, and the scope for efficiency savings. Both these are matters of judgment; there is no objectively "correct" answer to either question. As to the rate of return, officials have concluded that a

The Rt Hon Peter Lilley, MP.
Secretary of State for Trade & Industry
1-19 Victoria Street
LONDON, S.W.1.

/over...

rate of return of 17% on an HCA basis would be acceptable. This judgment is based on the assessment that NTL's regulated business will have a very low degree of risk attached to it over the regulatory period. It is virtually immune from the normal business cycle, and it is hardly conceivable that NTL will lose any of its customers. Accordingly, the regulated business appears to be less risky than that of most other regulated utilities, and to be roughly on a par with the water industry.

As regards efficiency savings, the proposals give NTL an implicit target of making a 2% annual reduction in real unit labour costs. As the output of the regulated business cannot increase (this follows from the way in which the unit of supply has been defined), NTL will have to reduce labour costs in the regulated business by 2% in real terms each year to meet this target. Against the background of the 20% reduction in manpower being made in the preparations for privatisation, I believe that this target, though achievable, is very tough. The reason why such a tough target results in a fairly modest value of X is simply that, as the output of the regulated business will not increase, productivity gains cannot be achieved (as typically happens in other regulated utilities) by spreading greater output over the same fixed costs. The financial model developed for the regulatory exercise showed that the proposed values of P_0 and X would enable NTL to earn an average rate of return of 17%, rising over the period assuming that the efficiency savings were made evenly. But my officials will be looking to ensure that, in revising its business plan, NTL makes as many savings as possible early in the period, thus tending to even out the rate of return.

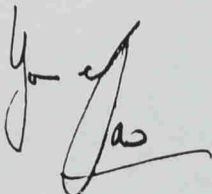
We also have to be aware of the relationship between the sum of P_0 and the regulatory charges to be imposed on the ITV companies by the ITC and the rental which the companies would have had to pay the IBA had privatisation not taken place. It would clearly be embarrassing if privatisation generated a real increase in costs for the ITV companies, particularly having regard to the recent drop in advertising revenue. Our assessment is that, provided the costs of regulating ITV do not increase in real terms, the overall cost for ITV companies in 1991, assuming a P_0 of £61, should be broadly equivalent in real terms to the present IBA rentals. However, a higher value of P_0 could cause serious political difficulties.

Colleagues may also wish to be aware of the implications of these proposals for Channel 4 and S4C. Their position will be fully protected in 1991 and 1992, as the IBA have undertaken that the Fourth Channel subscription will be increased to cover the full amount of their transmission charges. From 1993 onwards they will be protected by the safety net arrangements in the Broadcasting Act. In calculating the level of the safety net, assumptions were made about future transmission charges. In the case of Channel 4, these assumptions are broadly consistent with my proposals. However, in the case of S4C, the charges would be roughly £1.25 million higher than assumed. (The reason for this is that, when making the original assumption, the IBA underestimated the proportion of Fourth Channel transmission costs attributable to S4C). This amounts to about 2.5% of S4C's current budget. It is not clear

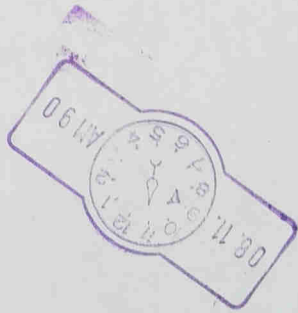
at this stage whether this will cause S4C any difficulties, largely because it is difficult to predict the exact level of terrestrial NAR (on which the safety net is based) in 1993. The Broadcasting Act does, however, enable the safety net to be revised to take account of transmission costs. If S4C express any concern about the proposals, we will therefore be able to indicate, without commitment, that we would look at this point in 1992, having regard to their overall financial position at that stage.

We need to agree our proposals on Po and X very soon, in order to allow sufficient time for the period of statutory consultation on NTL's Telecommunications Act licence. I should therefore be grateful for a response by 14 November.

I am copying this letter to the Prime Minister, other members of MISC 128, Sir Robin Butler and Sir Bryan Carsberg.

A handwritten signature in black ink, appearing to be 'G. J. ...' with a large flourish at the end.

BROADCASTING: POLYON PT12.



ANNEX

BREAKDOWN OF REGULATED PRICES: Po

1. Operation and maintenance and site-rentals

Channel 3	£26.78m
Channel 4	£21.01m
S4C	£ 3.71m

Total	£51.50m
-------	---------

2. Distribution

Channel 3	£ 6.84m
Channel 4	£ 2.26m
S4C	£ 0.40m

Total	£ 9.50m
-------	---------

3. Totals by Channel

Channel 3	£33.62m
Channel 4	£23.27m
S4C	£ 4.11m

4. Overall total

Po	£61.00
----	--------

All figures assume £9.5m for distribution with the remainder falling to operation and maintenance and site rental. NTL are currently receiving the distribution figure which may vary up or down by perhaps £100-200k, with a compensating variation in the non-distribution figure. These calculations do not affect the overall Po figure of £61m, and any adjustment will not substantially affect the Channel by Channel breakdown above.

(ANNEXB)



the department for Enterprise

celt

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Rt Hon David Waddington QC MP
Secretary of State for the
Home Department
Queen Anne's Gate
LONDON
SW1H 9AT

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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Direct line 071 215 5622
Our ref JW11072
Your ref
Date 7 November 1990

Dear David

BROADCASTING OWNERSHIP

with BP? If not, will request if required.

Thank you for your letter of 1 November in which you propose that there should not be a bar on the ownership of contiguous Channel 3 franchises but that the definition of "large" franchises should be extended.

I am pleased that you accept the economic case for allowing the common ownership of adjacent franchises and I agree that this could prove the best way of ensuring the continued viability of some of the smallest ones.

I am less happy about your proposal to extend the definition of "large" to include the medium-sized franchise areas of Anglia, HTV and Scottish. Whilst I accept that it was earlier agreed that no-one should be allowed to own two large Channel 3 licences, I believe we should allow maximum flexibility within that limit.

The addition of Anglia, HTV and Scottish would increase the number of "large" franchises to 9 out of 15 and would actually produce a more restrictive regime than retaining the restriction on contiguous franchises. I really cannot see any reason for it, particularly as each of the three franchises in question is large and distinct enough to retain its regional identity even without the backstop of the strengthened regional requirement.

As the television market becomes increasingly competitive, it will be important for there to be an economically strong federation of Channel 3 licensees. The recent Sky/BSB announcement could well lead to satellite television becoming





the department for Enterprise

a potent competitor to the terrestrial channels much more quickly than we had previously thought. We should therefore seek to reduce the restrictions on licence holdings as far as possible consistent with our policy of maintaining a network with strong regional characteristics.

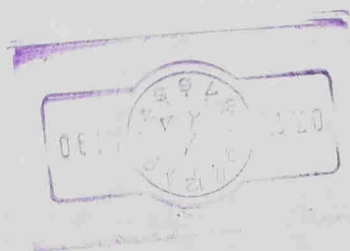
I hope therefore that you will be prepared to agree to restricting the category of "large" to the top six franchises in the interests of ensuring a strong set of Channel 3 licensees.

I am copying this letter to the Prime Minister, to the other members of MISC 128 and to Sir Robin Butler.

Yours sincerely
Peter



Recycled Paper



BROADCASTING: Pg 12 Pt 12



QUEEN ANNE'S GATE LONDON SW1H 9AT

1 November 1990

Ken Peter

BROADCASTING OWNERSHIP

I shall need very soon to make an Order under Schedule 2 of the new Broadcasting Act setting out supplementary rules on ownership. Among other things, these rules will spell out which combinations of Channel 3 licence areas may be held by a single person. I should welcome your views on a proposal I am considering for simplifying the approach we have hitherto envisaged.

Our basic assumption has up to now been that a single person should be allowed to own a maximum of two Channel 3 licenses, provided they were not both for large areas or for areas that were adjacent to one another. We have, however, accepted that ownership of two adjacent licences might have to be permitted if the smaller area became non-viable and only the larger neighbour was prepared to take it on.

Our proposal to bar contiguous ownership has been criticised on the basis that it rules out precisely those combinations of licences that may make most sense in terms of economies of scale. Moreover, to allow contiguous takeovers only where one licensee has clearly become non-viable not only risks creating prolonged uncertainty, but may also diminish the chances of getting a contiguous licensee to take over the ailing licence whose financial weakness will have been so publicly displayed.

We put forward this proposal originally to help to buttress the requirement on regional Channel 3 companies to show a suitable proportion of material of particular interest to their particular region. Since then, however, the regional requirements in the Bill have themselves been strengthened in a number of important respects, particularly as regards the use of facilities within the region; the provision of high quality regional news; the potential for the ITC to designate dual regions, each with its own distinctive programming; and the requirement that Scotland may not constitute a single licence area.

In these circumstances I am inclined not to proceed with a separate contiguity rule, but instead to designate rather more licence areas as "large" for the purpose of the ownership rules. We would inevitably have to designate the top six areas (Thames, LWT, Granada, Central, Yorkshire and TVS) as large. If we added to this list the areas covered by Anglia, HTV and Scottish we

The Rt Hon Peter Lilley, MP.
Secretary of State for Trade & Industry
1-19 Victoria Street
LONDON, S.W.1.

/over...

would automatically deal with some of the combinations of ownership for which a contiguity rule would otherwise have been required (e.g. Central and Anglia), while also ruling out other combinations which might be thought equally undesirable (e.g. Granada and Scottish). In presentational terms, the somewhat reduced scope for rationalisation of ownership which would result from increasing the number of designated larger areas would be balanced by the additional flexibility flowing from the abandonment of any separate rule on contiguity.

I accept that, under this proposal, there would be a potential for those small regions - Grampian, Border, Tyne Tees and TSW - which would otherwise be protected by a contiguity rule to be taken over by a larger neighbour. But as I have indicated, we have already accepted that this might be inevitable if one of those regions became non-viable during the licence period, and in my judgment increasing the scope for "penny-farthing" arrangements of this kind at the outset offers the best guarantee of continued viability for the smaller licence areas.

I hope, in the light of these considerations, that you and colleagues will agree that the ownership rules should not include a specific bar on contiguous ownership.

Since I need to announce these proposals as quickly as possible after the beginning of the new session, I should be grateful for a reply within the next week.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robin Butler.

Yours ever
ans



CONFIDENTIAL

PRIME MINISTER

BROADCASTING: IMPARTIALITY

You set out your views on the impartiality clause in the Broadcasting Bill at Cabinet. In particular, you argued for a way of ensuring that the code to be adopted by Independent Television should be made applicable to the BBC. The Home Secretary has argued that to extend the impartiality provisions to the BBC at this stage in the Bill would be to introduce a major new issue just as the Bill was reaching its final stages. I have told his office that he should minute you either to say how your wish that the Bill be extended to the BBC should be met, and if he does not think using the Bill is right, how else he thinks the BBC can be brought into line with ITV. He was planning to minute you tonight.

When Clause 6 was debated in the Lords, Lord Wyatt's attempt to insert provisions bearing on impartiality directly was defeated. Lord Chalfont, who, to a large degree, shares his viewpoint, argued that such matters were best left to the code which Clause 6 required the ITC to prepare. Summing up the debate, Lord Ferrers set out a compromise position under which the legislation would not attempt to draft the code directly but would list certain features that it should contain.

Earlier this week, Mr. Mellor published the proposed amendment to Clause 6 unexpectedly (flag B). This is still confined to Independent Television. ITN and ITC have this afternoon made clear their opposition to this amendment and have circulated some briefing notes for peers to use in Thursday's debate. George Russell (IBA) has sent Bernard a copy of these notes and Sir David Nicholas (ITN) has written to him (flag C).

The Home Secretary, rather than finding ways of extending the impartiality provisions to the BBC, finds himself defending what is already proposed. This has delayed his minute to you which is now promised for Monday.

CONFIDENTIAL

CONFIDENTIAL

- 2 -

Bernard has suggested that the Government puts on record what it does and does not mean by the amendment. This does not obviate the need for getting the clause right, as the clause in future years, will take into account what is on the statute book not what was said in debates at the time.

AT

ANDREW TURNBULL

Tharbyou

5 October 1990

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C:\wpdocs\pps\impartiality (pmm)

CONFIDENTIAL

A

PART I

(iii) if so, what steps would be required to be taken by or in relation to him in order for any such requirements to be complied with;

- (b) make the grant of a licence to any person conditional on the taking of any specified steps that appear to them to be required to be taken as mentioned in paragraph (a)(iii);
- (c) impose conditions in any licence enabling them to require the licence holder, if a body corporate, to give to them advance notice of proposals affecting—
- (i) shareholdings in the body, or
 - (ii) the directors of the body,

where such proposals are known to the body;

- (d) impose conditions in any licence enabling them to give the licence holder directions requiring him to take, or arrange for the taking of, any specified steps appearing to them to be required to be taken in order for any such requirements as are mentioned in subsection (1)(b) to be complied with.

(3) Every licence shall include such conditions as the Commission consider necessary or expedient to ensure that where—

- (a) the holder of the licence is a body corporate, and
- (b) any change affecting the nature or characteristics of the body, or any change in the persons having control over or interests in the body, takes place after the granting of the licence, and
- (c) the change is such that, if it fell to the Commission to determine whether to award the licence to the body in the new circumstances of the case, they would be induced by the change to refrain from awarding the licence to the body,

the Commission may revoke the licence by notice given to the holder of the licence and taking effect forthwith or on a date specified in the notice.

(4) Before revoking a licence under conditions imposed in pursuance of subsection (3) the Commission shall give the licence holder a reasonable opportunity of making representations to them about the matters complained of.

(5) In subsection (3) "control" has the same meaning as in Schedule 2.

General provisions about licensed services

6.—(1) The Commission shall do all that they can to secure that every licensed service complies with the following requirements, namely—

- (a) that nothing is included in its programmes which offends against good taste or decency or is likely to encourage or incite to crime or to lead to disorder or to be offensive to public feeling;
- (b) that any news given (in whatever form) in its programmes is presented with due accuracy and impartiality;
- (c) that due impartiality is preserved on the part of the person providing the service as respects matters of current political

General requirements as to licensed services.
[j060]

PART I

or industrial controversy or relating to current public policy; and

- (d) that its programmes do not include any technical device which exploits the possibility of conveying a message to, or otherwise influencing the minds of, persons watching the programmes without their being aware, or fully aware, of what has occurred.

(2) In applying subsection (1)(c) a series of programmes may be considered as a whole.

(3) The Commission shall—

- (a) draw up, and from time to time review, a code giving guidance—

(i) as to the rules to be observed in determining what constitutes a series of programmes for the purposes of subsection (2), and

(ii) as to the rules to be observed in other respects in connection with the application of subsection (1)(c) in relation to licensed services; and

- (b) do all that they can to secure that the provisions of the code are observed in the provision of licensed services.

(4) Without prejudice to the generality of subsection (1)(c), the Commission shall do all that they can to secure that there are excluded from the programmes included in a licensed service all expressions of the views and opinions of the person providing the service on matters (other than broadcasting, or the provision of cable services, of whatever nature) which are of current political or industrial controversy or relate to current public policy; and they shall also do all that they can to secure that there are excluded from those programmes all expressions of that person's views and opinions on religious matters.

General code for programmes.
[058]

7.—(1) The Commission shall draw up, and from time to time review, a code giving guidance—

- (a) as to the rules to be observed with respect to the showing of violence, or the inclusion of sounds suggestive of violence, in programmes included in licensed services, particularly when large numbers of children and young persons may be expected to be watching the programmes;
- (b) as to the rules to be observed with respect to the inclusion in such programmes of appeals for donations; and
- (c) as to such other matters concerning standards and practice for such programmes as the Commission may consider suitable for inclusion in the code;

and the Commission shall do all that they can to secure that the provisions of the code are observed in the provision of licensed services.

(2) In considering what other matters ought to be included in the code in pursuance of subsection (1)(c), the Commission shall have special regard to programmes included in licensed services in circumstances such that large numbers of children and young persons may be

Broadcasting Bill

B

Impartiality Amendments.

AMENDMENTS TO BE MOVED ON REPORT

Clause 6

BY THE EARL FERRERS

Page 6, line 45, leave out from beginning to second ("in") in line 1 on page 7 and insert ("as to the rules to be observed")

Page 7, line 5, at end insert—

("and the Commission may make different provision in the code for different cases or circumstances.")

Page 7, line 6, leave out ("(c)")

Page 7, line 11, at end insert—

("(4A) The rules specified in the code referred to in subsection (3) shall, in particular, make provision—

- (a) for due impartiality to be preserved on the part of the person providing a licensed service as respects individual issues which are matters falling within subsection (1)(c) (rather than as respects such matters taken as a whole);
- (b) as to what due impartiality does and does not require, either generally or in relation to particular circumstances;
- (c) as to the way in which due impartiality is to be achieved in connection with programmes of particular descriptions;
- (d) as to the period within which a programme must be included in a licensed service if its inclusion is intended to secure that due impartiality is achieved for the purposes of subsection (1)(c) in connection with that programme and any programme previously included in that service taken together;
- (e) for determining what constitutes a series of programmes for the purposes of subsection (2);
- (f) as to the prominence to be given, in the programmes comprised in any such series of programmes, to material which is intended to secure, or assist in securing, that due impartiality is achieved in connection with the series as a whole; and

Clause 6—continued

- (g) in relation to any inclusion in a licensed service of any such series of programmes which is of a description specified in the rules—
- (i) for the dates and times of the other programmes comprised in the series to be announced at the time when the first programme so comprised is included in that service, or
 - (ii) if that is not practicable, for advance notice to be given by other means of subsequent programmes so comprised which include material intended to secure, or assist in securing, that due impartiality is achieved in connection with the series as a whole.

(4B) The rules specified in pursuance of subsection (4A)(b) shall, in particular, indicate that due impartiality does not require absolute neutrality on every issue or detachment from fundamental democratic principles.”)

Clause 46

BY THE EARL FERRERS

Page 44, leave out lines 38 and 39 and insert—

- “(c) the following provisions shall be omitted, namely—
- (i) subsections (3) and (4A) to (5), and
 - (ii) in subsection (4), the words from the beginning to “subsection (1),”.

(5A) The Commission shall—

- (a) draw up, and from time to time review, a code giving guidance as to the rules to be observed in connection with the application of section 6(1)(c) (as substituted by subsection (5) above) in relation to a service in respect of which a determination under subsection (4) above is in force; and
- (b) do all that they can to secure that the provisions of the code are observed in the provision of any such service.

(5B) The Commission shall publish the code drawn up under subsection (5A), and every revision of it, in such manner as they consider appropriate.”)

Clause 58

BY THE EARL FERRERS

Page 55, line 19, leave out (“subsection (2) above and”)

Page 55, line 20, leave out (“section 6(2) and”)

Clause 89

BY THE EARL FERRERS

Page 77, line 11, after (“that”) insert (“(without prejudice to the generality of subsection (1)(b) or (2A)(a))”)

Clause 89—continued

Page 77, line 23, leave out (“(2)(a) to any licensed”) and insert (“(2A)(a) to a national service a series of programmes may be considered as a whole; and in applying subsection (2A)(b) to a local, satellite or licensable sound programme”)

Page 77, line 26, leave out from (“guidance”) to (“and”) in line 29 and insert—

(“i) as to the rules to be observed in determining what constitutes a series of programmes for the purposes of subsection (3),

(ii) as to the rules to be observed in other respects in connection with the application of subsection (2A)(a) in relation to a national service, and

(iii) as to the rules to be observed in connection with the application of subsection (2A)(b) in relation to a local, satellite or licensable sound programme service;”)

Page 77, line 31, at end insert—

(“and the Authority may make different provision in the code for different cases or circumstances.”)

- C
1. MR POWELL
 2. A. R.
 3. PRIME MINISTER

BROADCASTING - IMPARTIALITY

I have been the subject of a lobby by ITN (Sir David Nicholas) and IBA (George Russell) over the Government's impartiality amendment to the Broadcasting Bill.

As a layman, I think they have a point. We are in danger of endless litigation.

Sir David and George Russell have separately sent me respectively a letter (Annex I) and a briefing note to peers (Annex II).

Sir David's letter reflects my oral advice to him over the telephone: if you cannot kill the amendment then for heaven's sake make sure that the Government puts on record what it does and does not mean by the amendment.



BERNARD INGHAM
October 5, 1990

Independent Television News Limited

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266448 Newsroom: Channel Four News
268296 Newsroom: World News
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FROM THE CHAIRMAN
& CHIEF EXECUTIVE

ANNEX I

4 October 1990

Private & Confidential

The Rt Hon Margaret Thatcher FRS MP
Prime Minister
10 Downing Street
London
SW1H

Dear Prime Minister,

Broadcasting Bill

I would like to draw your attention to certain misgivings we have at ITN about the effect of the Government amendment on impartiality, due to be discussed in the House of Lords next week during the Report Stage of the Broadcasting Bill.

The requirement for ITV to have a news service of due impartiality and balance has been in place since the 1954 Television Act.

Let me say at the outset that in ITN we have never looked upon this rule as what has sometimes been described as a dreary doctrine, which inhibits robust reporting. Rather we have taken the view that our country is not short of organs of opinion but is short of sources of good, hard, reliable information. The need to be balanced and impartial, therefore, has been a positive asset in our box office appeal to a public hungry for quality news.

Our concern is that the amendment, which requires balance on individual issues in the same programme, could be interpreted as too sweeping in its application and could lead to unworkable absurdities in regular news programmes.

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Our legal advice is that a statutory definition of this kind opens the way for ill-intentioned people to smother news programmes under an avalanche of obligatory balancing statements from any quarter, which considers itself to have a say on a given issue, regardless of its standing. Any omission could be grounds for court action.

For instance, our advice is that if a party conference were debating a major issue, such as defence, we would be obliged that night to give balancing responses to all other parties on that issue. In our Parliament Programme on Channel 4, we frequently invite an MP on Friday to look back on the week's work in Parliament. We aim to balance the selection of MPs over a period of time. But under this amendment we could be expected to include MPs from all parties within the same programme: an unworkable formula.

We are assured that this is not the Government's intention and that it is for the ITC to draw up a code which clarifies definitions. Our legal advice persists, though, that the danger remains in the wording in the Bill.

From the perspective of news programmes, we feel that no new definitions of impartiality are called for. But if the amendment is to be accepted, it is of vital importance that it is made clear in debate what is in ministers' minds: that the amendment is not intended to dislodge what plain people would currently judge to be commonsense and fair play in reporting a given issue; that there is no automatic right of response by a roll-call of interested parties within a given news programme.

We are anxious that in any future legal action over interpretation of this provision, a judge could find guidance as to the Government's intentions as regards daily news.

I would be most grateful if you would give our concerns sympathetic consideration.

*Yours ever,
David*

Sir David Nicholas

ANNEX IIExtract from a background brief prepared by the Shadow Independent Television Commission for the House of Lords Report Stage of the Broadcasting BillImpartiality

1. The Shadow ITC wholeheartedly accepts the provisions in Clause 6 of the bill requiring due accuracy and impartiality in news programmes (clause 6 (i) (b)) and due impartiality on the part of persons providing a service as regards matters of political or industrial controversy or relating to current public policy (clause 6 (i) (c)). We support the proposal for an ITC Code of due impartiality (clause 6 (3)) in order to give clear and unequivocal guidance to licence holders and the programme-makers working for them and agree that the requirements of the Code must be effectively enforced (clause 6 (4)). The ITC believes that the due impartiality obligations in the 1981 Act have, with rare exceptions, been fully honoured in 35 years of Independent Television. We recognise the legitimate concern to see that due impartiality is upheld but it is important to frame rules which command widespread support and understanding.
2. The Shadow ITC has considered the Government's amendments to Clause 6 and has taken legal advice on them. It welcomes the Government's re-statement that the Code will be an ITC Code. Nevertheless, the detailed provisions regarding the content of the Code in the Government's amendments in Clause 6 (4A) go further than Government had previously indicated, appear to have effects which may not have been appreciated or intended, and

raise serious doubts about its workability in practice. By definition the Code is intended to deal with controversial matters where views are likely to be strongly held and there is the risk of litigation and possibly of vexatious litigation. It is in everyone's interest that such a risk should be avoided. A Code which is not workable will bring the law into disrepute and it is unfair to ask the ITC to administer it.

3. The Shadow ITC's concerns are principally with Clause 6(4)(a) and (4A)(f). These deal with due impartiality in respect of 'individual issues' and the prominence to be given to certain issues intended to secure due impartiality in a debate.
4. As regards 6(4A)(a) the News Office has stated that its approach does not see due impartiality as a matter which can be reduced to any rigid mechanical formulae. However, the actual words of the statute are what will count in any legal proceedings and the Shadow ITC believes, that the wording does in this subsection could expose it and its licensees to serious risk of prior restraint through injunctions or subsequent judicial review.
5. The amendment's requirements on 'individual issues' (a term which is itself open to a variety of interpretations) could have serious effects on news programmes since it would appear to require that news events on a particular day, involving for example the Prime Minister or Leader of the Opposition, would have to be balanced by comments on the same issue from the opposing party. There are many single news programmes when such balance rightly takes place within a single news programme, but

to make it an invariable requirement on every issue would be an unrealistic constraint.

6. Moreover, in a series of interviews with party leaders in either news or current affairs programmes it could have the effect of limiting the agenda in terms of issues discussed to that set by the first interview. The same problem could arise in regional programmes where local MPs are interviewed over a series. The requirement could also have the effect of preventing the inclusion in programmes reporting Parliament of segments in which MPs drawn in series from different parties give their own assessment of the week in Westminster. In each case the issues addressed would be different because of the moving Parliamentary agenda.

7. Clause 6 (4A)(f) referring to prominence could be interpreted as meaning that specific percentages of time be given to differing points of view. We believe that this is not Government's intention, but rather that the Code should allow for judgements to be made about the relative importance of different points of view. We doubt whether a Code could give detailed practical guidance in advance on the prominence to be given to differing points of view in any particular series. Any series covered by the Code would need to assess the relative importance of different points of view but consideration of this is, in the Shadow ITC's view, adequately provided for in sub-sections (b) and (c). We therefore recommend that (f) should be deleted.

8. The IBA has supported Clause 6 throughout the passage of the Bill through both Houses of Parliament. We prefer to see the matters covered by the Government's amendments left to the ITC's judgement in drawing up the Code. The Shadow ITC has undertaken to consult widely about its contents. Should the Government amendments not be withdrawn we would wish to see them further amended as follows:-

- 6(4A) The Code referred to in sub section (3) shall give guidance on the rules:-
- (a) for due impartiality be preserved on the part of the person providing a licensed service on the matters falling within sub section (1) (c)
 - (b) as stated
 - (c) as stated
 - (d) as stated
 - (e) as stated
 - (f) delete
 - (g) as stated
- 4(B) as stated

IBA Pension Scheme

40. The IBA has a long established pension scheme and the Trustees are responsible for determining the arrangements for its continuation for staff of the ITC and the Radio Authority and for IBA pensioners. The Trustees are obliged to determine, with actuarial advice, appropriate sums to transfer into the new transmission company pension scheme.
41. A government amendment seeks to give the Secretary of State power to override the Trustees' decision and the Trustees feel that it is improper to use this legislation for this purpose.

Extract from background brief prepared by the Shadow Independent Television Commission for the House of Lords Report Stage of the Broadcasting Bill

Impartiality

1. The Shadow ITC wholeheartedly accepts the provisions of clause 6 of the bill regarding the impartiality of programmes (clause 6 (i) (b)) and due impartiality of persons providing a service as regards political or industrial controversy or religious controversy (clause 6 (i) (c)). We support the principle of due impartiality, clause 6 (i) (b) and (c), and give unequivocal guidance to licence holders and programme makers working for them and agree that the requirements of the Code must be effectively enforced (clause 6 (ii)). We believe that the due impartiality obligations must be, with rare exceptions, been fully honoured in the Independent Television. We recognise the legitimate need to see that due impartiality is upheld but it is important that rules which command widespread respect and are clear and simple.
2. The Shadow ITC has considered the Government's amendments to Clause 6 and has taken legal advice on them. It welcomes the Government's re-statement that the Code will be applied. Nevertheless, the detailed provisions regarding the content of the Code in the Government's amendments in Clause 6 (4A) go further than Government had previously indicated, appear to have effects which may not have been appreciated or intended.

raise serious doubts about its workability in practice. By definition the Code is intended to deal with controverted matters where views are likely to be strongly held and the risk of litigation and delay is high. It is in everyone's interest that such a risk should be avoided. A Code which is not workable is not worth having and it is unfair to ask the ITC to administer it.

3. The Shadow ITC's code of practice is intended to deal with individual issues and (4A)(f). These deal with the 'individual issues' and the ITC is intended to regulate the general situation.

4. As regards 6(4A)(b) the Home Office has stated that its approach does not see due observance as a matter which can be reduced to any rigid mechanical formula. However, the amendments to the statute are that will lead to a rigid code. The Shadow ITC believes that the working code to which it could expose it and it is a serious restraint through individual issues.

5. The amendment's requirements are which is itself open to a variety of interpretations with serious effects on news programmes since it would appear to require that news events on a particular day, involving for example the Prime Minister or Leader of the Opposition, would have to be balanced by comments on the same issue from the opposing party. There are many single news programmes when such balance rightly takes place within a single news programme, but

to make it an invariable requirement on every issue would be an unrealistic constraint.

6. Moreover, in a series of interviews with party leaders in the news or current affairs programmes it would have the effect of limiting the agenda in terms of issues discussed to those they the first interview. The fact that the programmes themselves have a requirement to discuss a wide range of issues and the inclusion of people who do not have a particular agenda which MPs do not wish to discuss would be a poor assessment of the work of the House. The issues addressed in the Shadow ITC's agenda would be a narrow agenda.

7. Clause 6 (4A)(f) requires the Shadow ITC to be as meaningful as the Government's agenda. This is a different point to the one raised in the previous paragraph. The Government's agenda is a list of issues for judgement by the House. It is not a list of different points for discussion. The Shadow ITC would give detailed practical proposals for each issue. It would give to differing points of view. The series covered by the Shadow ITC would be of importance of different points of view. It is, in the Shadow ITC's view, adequately covered by sections (b) and (c). We therefore recommend that it be deleted.

8. The IBA has supported Clause 6 throughout the passage of the Bill through both Houses of Parliament. We have not raised any matters covered by the Bill in our evidence. It is for the hon. Member's judgement in drawing up the Bill. The Shadow Secretary of State for the Home Department should be consulted widely about his contacts. It is suggested that the amendments should be amended as follows:

6(4A)

(a)

(b)

(c)

(d)

(e)

(f)

4(5)

A Pension Scheme

The IRA has a long established pension scheme. The rules are set out in the IRA Act 1968. The scheme is a defined contribution scheme. Contributions are made by the IRA and the individual. The actual amount of the pension depends on the amount of contributions made. The scheme is subject to the provisions of the Pension Act 1975.

A government has the power to alter the scheme. It is the duty of the government to ensure that the scheme is fair and equitable.



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

1 October 1990

Dear John,

The way in which impartiality and balance are to be achieved in news and current affairs programmes is the subject of fierce debate at present and efforts are being made to create a statutory framework and to impose it on the BBC. The BBC is naturally resisting these pressures, arguing that the Charter already imposes such a duty and the Governors provide the mechanism for enforcing it.

Having heard the Opinion programme at 6.30 on Sunday evening, I do not think the BBC has really helped its case. This was a personal statement programme by Vivien Westwood about current policy on museums and galleries, and in particular on the use of entrance charges. It was a dreary, thirty minute, whinge telling a story of unrelieved underfunding and philistinism. Every conceivable criticism of the Government position was deployed and every critic given a platform.

It raises, however, an important question of how impartiality and balance are to be maintained. It was, I believe, one of a series of personal statement programmes. It can be argued that if, over the series, there is a range of presenters, some supporting and some criticising the Government, then the BBC's duty is fulfilled. But is this really enough? On the particular issue of museums and galleries, the listener is still left with an extremely biased presentation which will not be balanced by inviting someone from the Institute of Economic Affairs the following week to argue for education vouchers.

How are the many points which could be adduced against Vivien Westwood to be aired?

- (i) No mention was made of the belief of many of those in museums who have imposed charges that visitors are better treated and the staff more responsive. The latter no longer look upon visitors as a problem to be kept away from the exhibits, but as people with legitimate rights to information and assistance;
- (ii) There is a creditable record to be set out on the construction of new galleries, e.g. the Clore Gallery at the Tate, the Tate of the North, the move of the Courtauld Gallery to Somerset House and the National Gallery extension;

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- (iii) The case of the great experts at the V&A went unchallenged (these, after all, were the people who connived in closing the V&A on Fridays). No mention was made of their disregard for the general public, as opposed to fellow cognoscente, or their refusal to accept any corporate responsibility for the development of the museum;
- (iv) The experience of English Heritage, the National Trust and Museums Abroad is that entry charges are quite compatible with meeting growing interest in the heritage.

All of these points have gone by default and no mechanism seems to exist for allowing them to be made and for your listeners to draw their own conclusions on the balance of evidence and argument.

Although I have a professional interest in the impartiality issue, the above should be regarded as a personal observation from a member of the listening public rather than a formal representation from Government.

*Yours sincerely,
Andrew*

Andrew Turnbull

John Birt, Esq.

PERSONAL

M117



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

1 October 1990

BBC LICENCE FEE

The Prime Minister has seen the revised terms of reference for the licence fee consultancy and was content.

ANDREW TURNBULL

Colin Walters, Esq.,
Home Office

867

CPK



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

27 September 1990

Dear Andrew

Yes ms

BBC LICENCE FEE

at lap
... Thank you for your letter of 26 September. I attach revised terms of reference in which we have tried to meet the Prime Minister's concerns.

I should be very grateful to know on Monday if possible whether the Prime Minister is content.

Prime Minister

X replaces the phrase "whether it is still feasible to set"

Y omits the reference to "taking account of the prospect for inflation in broadcasting industry"

Contact with revised version?

AT

28/9

C J WALTERS

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

ANNEX C

LICENCE FEE CONSULTANCY

TERMS OF REFERENCE

X | 1. The White Paper "Broadcasting in the 1990s" said that "the
Y | Government intends after April 1991 to agree licence fee
increases of less than the RPI increase in a way which takes
account of the BBC's capacity to generate income from
subscription". It is now clear that subscription will not
generate substantial income for the BBC in the immediate future.
The purpose of the study, therefore, is to assess how future
increases in the television licence fee can be set below the
level of RPI inflation, and the consequences of a range of
formulas for such increases. The study will take account of the
interests of the licence paying public and will investigate the
scope for further economies within the BBC, while maintaining
the policy set out in the White Paper that the BBC should:

"provide high quality programming across the full range of
public tastes and interests, including both programmes of
popular appeal and programmes of minority interest, and to
offer education, information and cultural material as well
as entertainment".

2. The study and recommendations should cover, but need not be
restricted to, the following issues:-

- (a) the rigour and effectiveness of the BBC's plans and
procedures for identifying economies through
efficiency measures, consistent with the obligations
described above;
- (b) the adequacy of controls over budget setting and

monitoring;

- (c) an assessment of the potential for income generation from subscription services;
- (d) an assessment of any additional revenue or reductions in expenditure likely from other existing or planned activities, including, for example, asset disposals, the management of working capital and research spending;
- (e) the extent to which the cost of programmes made by the BBC differs from those made by other broadcasters or independent producers;
- (f) a broad comparison, where possible, of the efficiency of the BBC with that of public service broadcasters providing similar services in other countries;
- (g) the potential for increase in the BBC's net income by reducing licence fee evasion or reducing the administrative costs of collecting the licence fee;
- (h) in the light of (a) to (g) above, what savings or additional income might reasonably be expected to accrue.

CONFIDENTIAL



File
do
cc: Policy Unit pps / BBC

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

26 September 1990

BBC LICENCE FEE

The Prime Minister has seen the proposed terms of reference for the study into the efficiency of the BBC which were attached to your letter of 25 September to Barry Potter.

The Prime Minister was concerned at the way the first paragraph called into question ("whether it is still feasible") the objective of securing the increase in the licence fee below the general rate of inflation. She was also concerned at the implication that inflation in the BBC's costs should be accommodated ("will take account of the prospect of inflation in the broadcasting industry"). She has commented that if inflation is to be brought down, the BBC, in common with industry generally, will have to absorb much of the increase in costs through greater efficiency.

The Prime Minister also commented that she doubted whether the BBC had made a major effort to generate substantial income from subscription; that while seeking economy, the BBC had just added a new radio service; and that a comparison with other public service broadcasters was likely to be of limited value as there were none quite like the BBC.

The Prime Minister would be grateful, therefore, if the Home Secretary could consider drafting changes to paragraph 1 which meet her concerns.

I am sending copies of this letter to John Gieve (HM Treasury), and Sonia Phippard (Cabinet Office).

ANDREW TURNBULL

C.J. Walters, Esq.,
Home Office.

CONFIDENTIAL

db

From: THE PRIVATE SECRETARY

Prime Minister

Content to approve the terms of reference for a consultancy study on efficiency of the BBC - to

scope for keeping licence fee increases below the RPI movement? HOME OFFICE QUEEN ANNES GATE LONDON SW1H 9AT



25 September 1990

BHP 2519

Dear Barry

BBC LICENCE FEE

Thank you for your letter of 6 July conveying the Prime Minister's agreement to the proposed study by consultants on the efficiency of the BBC. The Prime Minister asked that the No. 10 Policy Unit should be involved in setting in place the study and in drawing up the terms of reference.

The Home Secretary has now approved arrangements for the study and the enclosed terms of reference, which have been discussed and agreed in substance with the Policy Unit, the Treasury and the BBC. Time constraints preclude a first order efficiency review, and the study will accordingly focus primarily on the scope for discounting the licence fee below RPI as a result of further efficiency savings. It will need to draw heavily on evidence from other recent studies, along with some original research.

We need to take a decision on next year's licence fee by about the end of this year and it is therefore important that we set up the consultancy quickly. The Home Secretary would therefore be grateful if you could let me know by tomorrow morning if possible whether the Prime Minister is content with the terms of reference.

I am copying this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer and Sir Robin Butler.

C J WALTERS

No - it should not include 'prospects for' in the 'broadening' and would be clear that... We are in a period when RPI... We are in a period when RPI... We are in a period when RPI...

ANNEX C

LICENCE FEE CONSULTANCY

TERMS OF REFERENCE

1. The White Paper "Broadcasting in the 1990s" said that "the Government intends after April 1991 to agree licence fee increases of less than the RPI increase in a way which takes account of the BBC's capacity to generate income from subscription". It is now clear that subscription will not generate substantial income for the BBC in the immediate future. The purpose of this study, therefore, is to provide an independent assessment of whether it is still feasible to set future increases in the television licence fee below the level of RPI inflation and to assess the consequences of a range of formulas for such increases. The study will take account of the prospects for inflation in the broadcasting industry and the interests of the licence paying public and will, in particular, investigate the scope for further economies within the BBC, having regard to the policy set out in the White Paper that the BBC should:

"provide high quality programming across the full range of public tastes and interests, including both programmes of popular appeal and programmes of minority interest, and to offer education, information and cultural material as well as entertainment".

2. The study and recommendations should cover, but need not be restricted to, the following issues:-

- (a) the rigour and effectiveness of the BBC's plans and procedures for identifying economies through efficiency measures, consistent with the obligations

Became
the RPI
have refused
to do it

Yes

No

They have
just added a
new radio service

described above;

- (b) the adequacy of controls over budget setting and monitoring; *at what level?*
- (c) an assessment of the potential for income generation from subscription services;
- (d) an assessment of any additional revenue or reductions in expenditure likely from other existing or planned activities, including, for example, asset disposals, the management of working capital and research spending;
- (e) the extent to which the cost of programmes made by the BBC differs from those made by other broadcasters or independent producers;
- (f) a broad comparison, where possible, of the efficiency of the BBC with that of public service broadcasters providing similar services in other countries;
- (g) the potential for increase in the BBC's net income by reducing licence fee evasion or reducing the administrative costs of collecting the licence fee;
- (h) in the light of (a) to (g) above, what savings or additional income might reasonably be expected to accrue.

There aren't any like the BBC.

BROADCASTING: POLICE PRIC



FROM THE PRIVATE SECRETARY TO THE LEADER OF THE HOUSE
AND THE CHIEF WHIP

ce/p
n.b. P.M.

BHP

17/9

17 September 1990

Jean Peter,

BROADCASTING BILL: QUALITY THRESHOLD

Thank you for your letter of 7 September. Both the Lord Privy Seal and the Chief Whip are most concerned about the way in which this decision has been announced. They fear that it may have serious implications for the future of the Bill, though they will obviously work to minimise that.

As a general rule, the announcement of the Government's intentions regarding a defeat in the House of Lords should not be made whilst the Bill is still in the House. It creates bad blood if an announcement is made outside Parliament, particularly by a Commons Minister. It is very possible that the Leader of the Opposition will make a formal protest about this on the floor of the House, thereby getting the Report Stage of the Bill off to an exceptionally bad start in the spill-over.

Secondly, from the point of view of handling Government defeats in the Lords, the Chief Whip always argues strongly that all hostile amendments that might be sent back from the Lords to the Commons should be considered as a package, after the Bill has completed its Lords stages, so as to ensure that the handling of reversals is as smooth as possible. To make premature announcements relating to individual defeats runs counter to this. This may not seem to matter in the present case, granted that this very large and controversial Bill has so far suffered only one defeat in the House of Lords. That is, however, all the more reason for avoiding creating bad feeling at Report.

There is probably nothing that can be done in the light of Mr Mellor's announcement of 4 September to rectify events in the present case. The Lord Privy Seal and Chief Whip would however be grateful if proposals for any similar announcements could in future be cleared with them in advance.

I am copying this to the Private Secretaries to members of MISC 128, to Gillian Kirton (Lord Privy Seal's Office), and to Sonia Phippard (Cabinet Office).

Yours etc
Jean Peter

D F SLATER

P Storr Esq
Home Office



n.b.P.M.
BHP 10/9

CC 79



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

7 September 1990

Dear Douglas,

BROADCASTING BILL: QUALITY THRESHOLD

Thank you for your letter of 3 September ^{kap} conveying the Lord Privy Seal's advice on the handling of possible further amendments to the Broadcasting Bill following the defeat suffered by the Government in Committee on the group of amendments introduced by Baroness David.

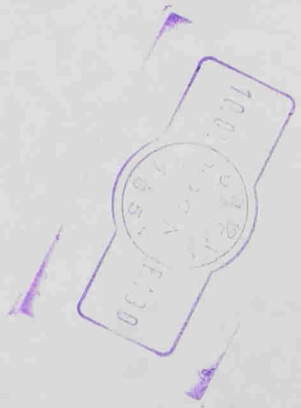
Following the recent exchange of correspondence between the Home Office, No 10 and DTI, we agreed that the cleanest solution was for the Government to seek at Commons Consideration to reverse all the amendments in question. Consequently the question of reformulating those sections of the amendments which we had originally suggested might be accepted does not now arise. As you will no doubt now have seen, Mr Mellor announced the Government's decision to seek to delete these amendments at a speech to the Royal Television Society on 4 September.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Sonia Phippard (Cabinet Office).

Yours ever,

P R C STORR

D F Slater Esq
Private Secretary to
Leader of the House of Lords
House of Lords
LONDON SW1A 0PW





FROM THE PRIVATE SECRETARY TO THE LEADER OF THE HOUSE
AND THE CHIEF WHIP

3 September 1990

CPD
n.5.P.M.
BTP
G/R

Jas Sara,

BROADCASTING BILL: QUALITY THRESHOLD

The Lord Privy Seal has seen your letter of 2 August to Barry Potter.

He believes that it would be much stronger to leave the "reformulation" of those sections of the amendments to which we are intending to agree until the House of Commons. He would have thought that there were business management advantages in the Commons in any case; but in the House of Lords, it would give the Government much ammunition in securing the agreement of the House to the reversal of that part of the original set of proposals to which we cannot agree.

If the "reformulation" is to be done in the House of Lords, it will have to be done with the agreement of all the movers of the amendments. This may present difficulties in itself.

I am copying this to Barry Potter, to the Private Secretaries to other members of Misc 128, and to Sonia Phippard (Cabinet Office).

Yours ever
Joyce Kallis

D F SLATER

Ms Sara Dent
APS/The Rt Hon David Waddington MP

Broadcasting

Policy

8412



n.b.p.m.
RHP
JA
CSP

QUEEN ANNE'S GATE LONDON SW1H 9AT

31 August 1990

IBA TRANSMISSION PRIVATISATION: ECONOMIC REGULATION

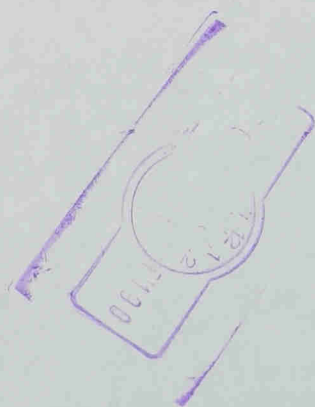
at frap
Thank you for your letter of 17 August in response to mine of 1 August. I have also seen Francis Maude's letter of 8 August.

I am glad that we are agreed on the general approach set out in my previous letter. I also agree that our officials will need to give further consideration with Oftel to the position in relation to Channel 5 when they receive more information, as well as to the detailed mechanics of implementing the cross-subsidy arrangements for Channel 3 companies.

I am copying this letter as before.

The Rt Hon Peter Lilley Esq MP
Secretary of State for
Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

BROADCASTING: Policy Pt 12





QUEEN ANNE'S GATE LONDON SW1H 9AT

29 August 1990

n. b. P.M.
BHP
30/8

Francis

Plan

Thank you for your letter of 8 August. I am grateful for your agreement that ED Department should be included in the privatisation. My officials will monitor the position carefully to check that it remains viable.

I do not accept your comments about my PES bids for start-up loans for the ITC in 1991-92 and 1992-93. The fact that the viability of ED Department does not depend on the success of my PES bids does not imply that the ITC will not need a start-up loan. This inference would be valid only if, as Peter Lilley appeared to assume in his letter of 6 July, the sole or predominant purpose of the loan was to finance the ITC's R&D expenditure. But as I explained in my letter of 8 August, and as you now accept, this is not the case. The main purpose of the loan is to help finance other aspects of the ITC's expenditure too.

The fact that I acknowledged in my letter of 26 July that non-R&D expenditure would have to be cut if my PES bid was unsuccessful does not imply that I would regard such cuts as acceptable. They would not be. During 1991 and 1992 the ITC will have two roles: it will have transitional responsibilities for the contracts and licences inherited from the IBA and the Cable Authority; and it will be preparing for the award of the new Channels 3 and 5 and local delivery licences. The former role will be financed from inherited contract rentals and licence fees. The costs of the latter will in due course be recovered from the new licensees. But interim financing will be needed until revenue is available from that source. Hence the need for a start-up loan. I cannot therefore agree to withdraw my PES bid.

I am copying this letter to the Prime Minister, to other members of MISC 128, and to Sir Robin Butler.

Francis

The Hon Francis Maude MP
Treasury Chambers
Parliament Street
LONDON SW1P 3AG



BOB GASTING
July 12

dti

the department for Enterprise

NISPVY
CIB
SCPS

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Rt Hon. David Waddington QC MP
Secretary of State for the
Home Department
Queen Anne's Gate
LONDON
SW1H 9AT

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071-215 5623

Our ref PE1ASR

Your ref

Date 17 August 1990

Dear David,

map

IBA TRANSMISSION PRIVATISATION: ECONOMIC REGULATION

Thank you for your letter of 1 August about the economic regulation of the privatised IBA transmission network, and the attached paper.

I welcome the paper's overall conclusion that price regulation should only be used when more market - oriented measures do not exist. This is clearly desirable and should, I hope, lead to a gradually lighter regime as genuine competition enters into the market. I accept, however, that for the time being it is necessary to impose price regulation on site and mast rental and operation and maintenance charges for Channels 3, 4 and S4C.

Such regulation may also be necessary for site and mast rental for Channel 5. Since the decision not to allow the BBC to compete to provide Channel 5 sites in cases where there is a genuine choice, the Channel 5 licensee is likely to find no choice in its selection of sites. It may be possible to rely on the "non-discrimination" clause in the licence but to be effective, that will require OFTEL to have (or calculate) an accurate figure for a similar service to Channels 3 or 4. The peculiar characteristics of Channel 5, such as its use only of a small number of major transmitters and the likelihood that several existing masts will need to be strengthened to accommodate the new aerials, may make such comparisons difficult. I understand that our officials will consider this when they receive more detailed information on costs from the IBA. Whilst it might also be possible to make use of the BBC/IBA site sharing agreement, that will need to be used with great caution since it



Recycled Paper



the department for Enterprise

is in the interests of both the BBC and the IBA to increase the rental charges they levy on one another, as they broadly balance, and the higher they are the more either broadcaster can charge other users of their masts.

The paper refers to the cross-subsidy arrangements for Channel 3 licensees to pay for their transmission services on the basis of revenues rather than costs. Whilst I accept this is a necessary interim measure, it is essentially uncompetitive and I would be unhappy to see it enforced through the Telecommunications Act licence as may be inferred from your letter. It would also be helpful for future consideration of the cross-subsidy and in assessing the barriers to entry of new competitors for it to be administered transparently so that the size of the cross-subsidies was made clear. May I suggest that our officials, along with those from OFTEL, consider how this might be done.

Apart from these particular points I am content to endorse the approach you have outlined. I look forward to considering your more detailed proposals for price regulation in due course.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robin Butler.

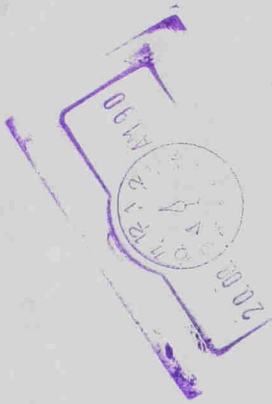
Yours ever

Peter



Recycled Paper

BROADCASTING - Policy p 12



dti

the department for Enterprise

CCPM

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Handwritten scribble

Ms Sara Dent
Private Secretary to
Rt Hon David Waddington QC MP
Queen Anne's Gate
LONDON
SW1H 9AT

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071 215 5623

Our ref

Your ref

Date

17 August 1990

Dear Sara

BROADCASTING BILL: QUALITY THRESHOLD

at least

Thank you for copying us your letter of 2 August to Barry Potter about the Government's reverse in the House of Lords on the Channel 3 quality threshold.

My Secretary of State fully supports the Home Secretary's proposal to reverse the amendment requiring the listed programme types to be shown at appropriate times. This would inevitably bring the ITC into scheduling, something which Ministers have all along been keen to avoid.

The Home Secretary's other proposal does cause my Secretary of State some concern. Albeit for good Parliamentary reasons, the Government was forced earlier this year to make a number of concessions on the quality threshold, in particular by spelling out the "exceptional circumstances" provision and adding childrens and religious programmes to the requirement for news, current affairs and regional programmes. At the time the Home Secretary said that he did not think that such concessions would weaken the Government's ability to hold out against demands for a more extensive "shopping list".



Your letter reports that the Home Secretary is proposing to put forward a more general form of words in place of the specific requirements contained in the amendment, but that those words would retain the essential comments of the extended list. Mr Lilley is concerned that this could not be done without returning more or less to the requirement in the present Broadcasting Act of a service "for disseminating information, education and entertainment", the very concept that Ministers found so unsatisfactory at the beginning of this debate.

We do, however, have some time before any amendment needs to be tabled. Mr Lilley would like to suggest that officials should discuss his concerns on the basis of a draft from Parliamentary Counsel with a view to returning the question to Ministers next month. I hope this can be arranged.

I am copying this letter to the recipients of yours.

Yours
Rosalind Cole

ROSALIND COLE
PRIVATE SECRETARY

ING3967

BROADCASTING: POLY
A 12



CONFIDENTIAL



KC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 August 1990

Dear Sara,

BROADCASTING BILL: QUALITY THRESHOLD

Thank you for your letter of 2 August to Barry Potter which the Prime Minister has seen. This describes the amendments put down by Baroness David to the Broadcasting Bill and sets out the Home Secretary's proposals to deal with them. The Prime Minister had only one comment. She would prefer to minimise the additions to the list of programme types which must be included in Channel 3 services. In particular, she would wish to resist strongly the inclusion of "social action" programmes in this list.

I am copying this letter to the Private Secretaries to other members of MISC 128, to Gillian Kirton (Lord Privy Seal's Office) and Sonia Phippard (Cabinet Office).

Yours sincerely,

Caroline

(CAROLINE SLOCOCK)

Ms. Sara Dent,
Home Office.

CONFIDENTIAL

15

cf. H.



NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Waddington QC MP
Secretary of State for the Home Department
Queen Anne's Gate
LONDON
SW1H 9AT

8 August 1990

Dear Home Secretary,

AKC with PP

IBA TRANSMISSION PRIVATISATION: ECONOMIC REGULATION

Your letter of 1 August proposed a broad regulatory framework for the privatised transmission company and suggested further work for officials.

I am content with the approach you propose. However we will need to check that OFTEL can ensure Channel 5 is not charged more than Channels 3 and 4 for site and mast rentals; otherwise these charges may also need to be regulated.

Remaining work by officials needs to be completed by December to keep open the option of a sale in the first month or two of 1991. We can then decide on our preferred timing for the sale.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robin Butler.

Yours sincerely,

PP FRANCIS MAUDE
(approved by the
Financial Secretary
and signed in his
absence)



COMMERCIAL-IN-CONFIDENCE



NBPM

AS

ccp

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Waddington QC MP
Secretary of State for the Home Department
Queen Anne's Gate
LONDON
SW1H 9AT

8 August 1990

Dear David,

FUTURE OF IBA EXPERIMENTAL AND DEVELOPMENT DEPARTMENT

Your letter of 26 July covered a revised Business Plan for the Experimental and Development (E&D) Department of the IBA.

Since the viability of E&D Department is not dependent on the success of your PES bids I am content for it to be included in the privatisation. As you suggest, the business plan will now need to be continuously updated. If there is any suspicion in future that the department may not be viable we will need immediately to consider what corrective action to take.

However, your letter suggests the benefits to be gained from your PES bids for ITC start-up loans of £1.5 million in 1991-92 and £0.3 million in 1992-93 are not clear. If this is correct, it would seem sensible to withdraw them.

I am copying this to the Prime Minister, to other members of MISC 128, and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'Francis Maude'.

FRANCIS MAUDE

COMMERCIAL-IN-CONFIDENCE



CEPH



Prime Minister
Content to proceed in
this way?

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

AT 618

2 August 1990

I should prefer to
reinsert the additional -

Dear Barry The idea of 'social action' programmes
being compulsory will give us a load of hassle.
BROADCASTING BILL : QUALITY THRESHOLD

The Broadcasting Bill successfully completed its Committee Stage in the House of Lords on 26 July. Although pressed hard by the Opposition parties on a number of issues, the Government in the event suffered only one reverse. This was on a group of amendments, put forward by Baroness David with all-party support, which were designed to strengthen the quality threshold for Channel 3. The Home Secretary has been considering what response the Government should make.

The amendments have two essential purposes. First, they add to the list of programme types which must be included in Channel 3 services three further categories: documentaries, educational programmes, and "social action" programmes (i.e. programmes encouraging active citizenship and promoting community initiatives and charity fundraising). Second, they require all the stipulated programme types to be shown at appropriate times of the day and week, having regard to the potential viewers for programmes of each type.

The Home Secretary is clear that the second of these amendments must be reversed. As it stands it is inconsistent with the Government's clear view that scheduling should be left entirely to licensees to determine; and it would inevitably draw the ITC into scheduling policies in a way that he and other colleagues have been very anxious to avoid.

The first of the amendments raises greater difficulties. In principle it is undesirable to place more and more required categories of programming on the face of the Bill, since this risks imposing an excessive degree of regulatory control. On the other hand the Bill already contains a general requirement for a diversity of programming appealing to a wide range of tastes and interests, and Ministers have argued in both Houses that in practice this is likely to mean that most if not all of the existing programming strands offered by ITV will continue to form part of the Channel 3 output. Against this background it would not be easy to justify seeking to reverse the addition to the Bill of the further categories specified in the amendments.

The Home Secretary is inclined, therefore, not to seek to reverse these amendments, but instead to come forward on Lords Report with a more general form of words, which retains the essential components of the extended list but avoids the presentational unattractiveness of the "laundry list" approach now embodied in the Bill. This tactic should make it easier to resist demands for yet further additions to the list of prescribed programme types, while at the same time making it easier to secure agreement in both Houses to the reversal of the scheduling provision in the other amendment.

We understand that it would not be acceptable to the House of Lords to seek to reverse the scheduling amendment on Lords Report. What we therefore envisage is to deal then only with the reformulation of the list of programme types; and to vote down the scheduling amendment when the Bill returns to the Commons at the end of the spillover.

The Home Secretary would be grateful to know whether colleagues are content for us to proceed accordingly.

I am copying this to the Private Secretaries to other members of MISC 128 and to the Lord Privy Seal, and to Sonia Phippard (Cabinet Office).

y
Jans,
Saz.

MS S J DENT

Barry Potter, Esq.,
No 10 Downing Street
LONDON, S.W.1.



NDPM
AT 6/8
CFO

QUEEN ANNE'S GATE LONDON SW1H 9AT

1 August 1990

Peter

IBA TRANSMISSION PRIVATISATION: ECONOMIC REGULATION

In June last year, MISC 128 discussed the privatisation of the IBA's transmission system, and we agreed that the new company would initially need to be regulated by OFTEL, because of its dominant market position. We also agreed that there should be a uniform tariff for Channel 3 companies, based on their share of the total Channel 3 income, and that this arrangement should be reviewed following decisions to be taken on the future of the BBC transmission system after 1996. This we announced on 4 July last year, as part of our statement on the privatisation of transmission.

Early this year, we appointed National Economic Research Associates (NERA) to undertake a study of the economic regulation of the new company. The study, which was carried out with guidance from your officials, OFTEL, and the Treasury, has now been completed. Officials have discussed the report of the study, and agreed the attached paper.

The paper suggests the broad regulatory framework which OFTEL should operate through the new company's Telecommunications Act licence. Its main features will be:

- i) price regulation of site and mast rental, and operation and maintenance charges, for Channel 3 and 4 and S4C;

The Rt Hon Peter Lilley MP
Secretary of State for Trade
and Industry
1 Victoria Street
LONDON SW1H 0ET

/over

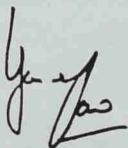
- ii) the use of a price formula, with no provision for passing through to the customer unanticipated changes in supply costs;
- iii) no price regulation of other Transcom services (eg radio, distribution, local services);
- iv) powers for OFTEL to prevent unfair discrimination between customers if market forces are not operating effectively;
- v) a review of the regulatory regime in 1996, to coincide with consideration of the privatisation of the BBC's transmission operation.

I believe that this framework strikes the right balance between excessive regulation on the one hand, and on the other the danger of allowing the new company to exploit its monopoly position before other transmission operators have a chance to establish themselves. Staff of the nascent company have some reservations about a number of detailed aspects which we shall be discussing further with them. There is, however, broad agreement to the main principles.

A great deal more work needs to be done to establish the correct initial prices for the new company; to set an X factor sufficient to give the company efficiency incentives without unduly threatening its profitability; to consider how far the BBC will require similar regulation. I propose that officials from our two Departments, OFTEL, Treasury and the Cabinet Office should supervise further work in order that the full regulatory regime may be ready for the New Year.

I should be grateful for your agreement to the proposals in the attached paper, and the proposed course of action.

I am copying this letter to the Prime Minister, other members of MISC 128, and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'G. J. ...', written in a cursive style.

E.O.A.
ECONOMIC REGULATION OF TERRESTRIAL BROADCASTING

1. In June last year, Ministers agreed to the need for economic regulation of the private transmission company which is to inherit the IBA's transmission functions. Home Office and DTI engaged National Economic Research Associates (NERA) to undertake this task, which was completed in May.

2. This paper summarises and comments upon the main conclusions of the study.

Mechanisms for economic regulation

3. The economic regulation of the transmission company (National Transcom) will be effected through a Telecommunications Act (T Act) licence policed by Oftel. The principal aims of the licensing regime will be to prevent Transcom from abusing its monopoly position by obliging it:

- i) to grant transmission facilities to Channels 3, 4 and 5 so that they can fulfil their broadcasting obligations;
- ii) to do the same for the BBC;
- iii) to grant access to its masts to other transmission operators;
- iv) not to discriminate unfairly between customers (ie. arbitrarily subsidising one at the expense of another (but see paragraph 4 below));
- v) to charge certain captive customers prices regulated by a price formula (see paragraph 5 below).

4. Transcom will also be obliged to charge Channel 3 customers according to a special tariff which will charge each Channel 3 company on the basis of its revenues rather than

E.R.

actual transmission costs. This will protect the fringe companies (like Channel TV, Grampian and Ulster) whose transmission costs would otherwise be prohibitively high.

Main conclusions of the NERA Report: scope of price regulation

5. On the scope of regulation, NERA have proceeded on the principle that price regulation (throughout this paper, "price regulation" means the regulation of prices by a formula) should be used only where there are neither real competitors nor comparative prices to enable Oftel to check whether Transcom is abusing a quasi-monopoly position.

* Ministers are invited to endorse this principle

6. Using this principle, and dividing the transmission services offered by Transcom into the three categories of mast and site rental, operation and maintenance, and distribution, NERA conclude that price regulation will be required for the following services for the foreseeable future:

- Channel 3 mast and site rental
- Channel 4¹ mast and site rental
- Channel 3 operation and maintenance
- Channel 4 operation and maintenance

* Ministers are invited to endorse this conclusion.

7. NERA also conclude that Channels 3 and 4 distribution (ie. the delivery of programmes between studios and transmitters by fixed or microwave links) will require price regulation until the end of 1994 (the expiry of Transcom's contract with

¹Throughout this paper, "Channel 4" includes S4C

British Telecom for distribution links); and that Channel 3 distribution will need price regulation beyond that date if the Channel 3 companies continue to be required (in order to preserve the cross-subsidy arrangements for Channel 3 transmission charges) to use Transcom for distribution (a question being considered by the Home and DTI at the moment).

8. In the period up to 1993, the ITV companies and Channel 4 will have contracts with Transcom for transmission services including distribution, and these can be used to regulate the price for that period. From 1993, Channel 4 will be able to make alternative distribution arrangements. It may also be possible to allow the Channel 3 companies to make alternative arrangements for distribution. While it is true that Transcom's very favourable contract with BT makes it unlikely that the Channel 3 and 4 companies will seek to make their own distribution arrangements, that is not an argument for regulation. Officials have therefore concluded that no price regulation for Channel 4 distribution will be necessary, and that price regulation of Channel 3 distribution will be required only if the Channel 3 companies are locked into Transcom as a result of the cross subsidy arrangements.

* Ministers are invited to endorse this conclusion

9. On Channel 5, NERA conclude that it will be realistic for other transmission operators (using Transcom and BBC sites) to undertake the operation and maintenance of Channel 5; and that Channel 5 will have a choice of distribution suppliers. NERA also provisionally concluded against regulation for Channel 5 site and most rentals. With sufficient data, Oftel believe that the non-discrimination clause in Transcom's T Act licence will be sufficient protection for Channel 5. Subject to sufficient information being available, we think avoiding formal price regulation is the most attractive option.

* Ministers are invited to endorse this conclusion

E.R.

10. NERA conclude that independent local radio transmission and all independent radio distribution will be subject to real competition, and price regulation will therefore be unnecessary.

* Ministers are invited to endorse this conclusion

11. The extent to which independent radio companies will have a genuine choice over sites and masts is debatable. The national AM companies will have no effective choice of sites, and price regulation of the BBC for this function seems unavoidable. In the case of the national VHF and all local radio, there is in theory more choice of sites, though planning permission and coverage problems mean that in practice changing sites may be restricted. However, there are analogous site and mast services offered to cellular and other operators: NERA conclude that the existence of these analogous service, coupled with a prohibition on price discrimination, and the fact that for about two to three of the five years of the first regulatory period the independent radio companies will have fixed price contracts with Transcom, means that formal price regulation of site and mast rentals is unnecessary.

* Ministers are invited to endorse this conclusion

A table showing the proposed scope of price regulation is
... attached at Annex A.

Main conclusions: mechanics of regulation

12. There are two main types of price regulation. Tariff basket regulation controls the total price of a specified list of services; revenue yield regulation controls the price per unit of output. The former is easier to apply, but in some circumstances can lead suppliers to tamper with prices for individual services. NERA conclude that in this case tariff

basket regulation is preferable to revenue yield, because:

- revenue yield requires the selection of a suitable supply unit, which in this case is not available;
- tariff basket is easier to apply, and appears to offer no significant disadvantages in this case.
- * Ministers are invited to endorse this conclusion

13. For administrative simplicity, and because there appear to be no significant disadvantages, the Report suggests that the price formula should be based upon historic (rather than forecast) RPI; and that, given the likely regulatory and contractual arrangements governing distribution and power costs during the period up to 1996, it seems unlikely, at present, that a separate allowance for cost pass-through is necessary or desirable.

- * Ministers are invited to endorse this conclusion

14. In order to balance the need for some medium-term certainty for the regulated company with the need to reconsider the price formula after the system has had time to settle down, NERA recommend a six year initial period for price regulation at the end of which Oftel would review the formula. This would allow the first review to coincide with the review of the BBC's Charter, at which time the BBC's transmission system may be privatised, so reducing the need for price regulation.

- * Ministers are invited to endorse this conclusion

15. The Report considers the extent to which the price formula for Channels 3 and 4 should be applied separately to the three main service components - site and mast rental, operation and maintenance, and distribution. If distribution is not to be included in the price formula, the price formula will cover

E.R.

two service elements for each of the three channels (3, 4, S4C), making six potential tariffs in all.

16. The question is, to what extent do these six tariffs need to be individually specified and controlled?

17. It is clear that the price formula should be applied separately to the three Channels: if it were not, Transcom might start to increase charges to Channel 3 companies (which will be captive customers) in order to cut charges to Channel 4 and 5 companies (who will have the option to go elsewhere). Less clear is the extent to which the charges for the two regulated service components should be separately identified and controlled.

18. Channel 3 will effectively be obliged to procure both site and mast rental, and operation and maintenance, from Transcom for some time (so the separation of its charges into component services would, from the Channel 3 companies' point of view, be academic). However, Channel 4 may wish to consider using alternative operators for operations and maintenance from 1993; and Channel 5 may choose to use Transcom sites and masts but not Transcom operation and maintenance.

19. This suggests that it will be necessary for the Regulator to be able to check the true costs of each service category, rather than simply control the increase in total prices. However, this does not necessarily mean that each category of service has to be separately capped. It may be enough for the Regulator to be able to require Transcom to specify the prices of each category of service within the overall price caps of Channels 3 and 4.

20. Another way of regulating site and mast rental would be to use the site sharing agreement being developed by the BBC and IBA as a means of setting the rates they charge each other. We understand that this agreement will break down costs for individual classes of site, and thus could prove a

useful yardstick for Oftel to monitor whether new transmission operators (eg. the Channel 5 operators) were being charged a fair rental for site and mast use. We shall need to look closely at this.

21. NERA set considerable store by this agreement as a means of avoiding formal price regulation.

- * Ministers are invited to agree that Channels 3 and 4 transmission should each be subject to price regulation by a price cap, with each service category price unbundled but not separately capped; and that officials should explore the use of the BBC/IBA site sharing agreement to facilitate this.

Outstanding questions: Mechanics of regulation

22. The main outstanding question on the mechanics of regulation is the way in which costs should be allocated between customers and reflected in regulated prices. The NERA report recommends that, in some circumstances, the price cap could be of the form RPI-X.. The difficulty arises when additional customers necessitate new sunk costs, or reduce unit costs. For example, if the advent of a Channel 5 transmitter on a mast means additional strengthening of the mast, how should these costs be apportioned? Similarly, if no new capital costs are incurred, the addition of a Channel 5 transmitter is likely to reduce the unit costs of maintenance and operation. Should Channels 3 and 4 share in this reduction? The NERA Report does not answer this question, except to say that the additional costs should be allocated equally when contracts come up for renewal.

23. Channel 5 is the only new entrant to the market which is likely to throw up the problem of cost allocation in a significant way. Whether Transcom secures Channel 5 business will have a major effect upon its cost profiles. It seems likely to be necessary to include in the licensing regime an

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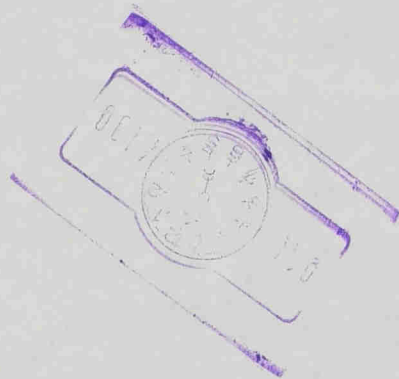
assumption about Channel 5 business, and an ability to alter the price regulation formula if the assumption proves wrong.

- * Ministers are invited to agree that the price formula should be capable of adjustment to allow for changes caused by the advent of Channel 5 business.

PROPOSED SCOPE OF PRICE REGULATION

<u>Programme co.</u>	<u>Site and mast</u>	<u>Op. & Maint.</u>	<u>Distrib.</u>
Channel 3	Yes	Yes	No
Channel 4	Yes	Yes	No
Channel 5	No *	No *	No
All other cos.	No	No	No

* Subject to Oftel having sufficient data to enforce the non-discrimination clause in Transom's licence.



CONFIDENTIAL



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

1 August 1990

Dear Colin

BBC LICENCE FEE EVASION

The Prime Minister has seen the Home Secretary's minute of 31 July. The Prime Minister remains strongly opposed to criminal sanctions and unpersuaded by the arguments advanced in favour of retaining the sanctions. She will want to return to the subject with the Home Secretary when both are back from the August break.

I am sending copies of this letter to the Private Secretaries to members of MISC 128, to Tim Sutton (Lord President's Office), Gillian Kirton (Lord Privy Seal's Office), Paul Stockton (Lord Chancellor's Office), Jeremy Heywood (Chief Secretary's Office, HM Treasury) and to Sonia Phippard (Cabinet Office).

Yours ever

Dominic

Dominic Morris

Colin Walters, Esq.,
Home Office.

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He will return to report your work
not



Prime Minister

cefr

PRIME MINISTER

① Almost identical arguments to those made last year (though the measures on p 3 are an improvement). Whether the Home Office now

DECriminalISATION OF TELEVISION LICENCE FEE EVASION
say these arguments will continue to be deployed until or unless the licence fee is abolished / there is a technical solution (eg. decoders) to its enforcement.

② Consider to accept the Home Secretary's judgement? or Do you want a meeting with him before drafting on the Criminal Justice Bill is finished?

You will recall that last year we considered a recommendation of the Home Affairs Select Committee that the offence of television licence fee evasion should be decriminalised and treated as a civil debt, in the same way as water and other public utility charges. We concluded that although there were no objections in principle, the practical difficulties in adopting such a procedure were substantial. In the absence of any means for the BBC to disconnect supply to non-payers, evasion and late payment could be expected to increase, putting pressure on us to allow a compensatory increase in the licence fee. At our bilateral on 17 November we therefore agreed to leave things as they were for the time being, but to keep the matter under review in the context of next session's Criminal Justice Bill.

(Minute attached)

DM
31/7

2. Since then we have carried out more work on the issue, which has included further discussions with the public utilities and further discussion with the Lord Chancellor's Department on the possible impact on the civil courts. We have also been conscious that the Public Accounts Committee are likely to report shortly that levels of evasion and revenue loss are already too high and that greater efforts must be made to reduce them.

3. The utilities' view remains firmly that the threat of disconnection is an essential sanction - far more effective than court proceedings, which they regard as expensive, time-consuming and frequently unproductive. Research into the TV licensing arrangements suggests that it is largely the threat of criminal prosecution and public perception of the likely size of the fine - compared to the cost of a licence - which persuades the potential evader to obtain a licence. There is another problem. A criminal fine relates to a single act, whereas a civil debt relates to the period of evasion which can be proven; and it might be difficult to prove use over a long time. The sum

awarded by the court would frequently, therefore, be no more - or even less - than the cost of one annual licence. A fine, on the other hand, can be over five times as much as the licence fee. Many more licence payers would take the risk of evading or deferring payment. Furthermore, in many cases it would be uneconomic for the TV Licensing Organisation to pursue court action. They would have to write cases off, further reducing the deterrent effect.

4. There would also be greater problems for the civil courts than we previously identified. LCD have looked carefully at the practicalities of applying a civil debt regime to licence evaders. As a result of various recent initiatives and Parliamentary measures, a great deal of extra work is already expected to fall on the county courts. TV licence evaders are not quick to pay fines imposed by the criminal courts, and they would not provide an easy enforcement task for the civil courts. In the circumstances, LCD could not support decriminalisation.

5. For all these various reasons, therefore, I do not believe that for so long as the BBC depend so heavily on the licence fee income, and while they do not have the ability to withhold the service from particular viewers, we can take the risk of removing the key sanction against non-payers and late payers.

6. I should add that even if the policy presented no problems, use of the Criminal Justice Bill would. The pressures on the Parliamentary timetable for 1990/91 are already severe, and I am conscious of Geoffrey Howe's strictures about the need to limit the scope of that Bill. Decriminalisation provisions would open up the Bill to amendments on a range of other civil law matters; and they would also be contentious in their own right - provoking wide ranging debate about the future of the BBC well before the Charter review is due. I can accordingly foresee severe business management problems if we were to try to include measures on decriminalisation in the Bill.

7. I accept, of course, that we should not rule out removal of the criminal sanction in the longer term; and the issue must be properly aired in the run-up to the renewal of the BBC's Charter in 1996. In the meantime, we are making every effort to

limit the resentment some people feel about criminal liability for non-payment of sums of this kind. In particular, we are doing our best to make payment easier for the less well off. In addition to existing saving stamps and credit card payment arrangements, we are now promoting our new budget payment scheme hard. This enables viewers to obtain a licence on payment of the first of four quarterly instalments; it is no longer necessary to pay for a full year's licence in advance. The scheme is proving very popular. Half a million people have already joined, and over one million are expected to have signed up by the end of the year. We are also in practice using prosecution as a measure of last resort. Most evaders now first receive three written warnings; action against first time offenders is withdrawn provided they buy a (short dated) licence; and the decision to prosecute has now been vested in more senior management in the Television Licensing Organisation to ensure better and more consistent decision-taking. In addition, we are working on schemes to encourage dealers and manufacturers to remind people buying TV sets of the need for a licence.

Copies of this minute go to members of MISC 128 and to Geoffrey Howe, John Belstead, James Mackay, Norman Lamont and Sir Robin Butler.



31 July 1990



CONFIDENTIAL

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c/pps/Dent

10 DOWNING STREET

From the Principal Private Secretary

30 July 1990

**SALARIES OF BBC GOVERNORS AND
IBA/ITC RADIO AUTHORITY MEMBERS**

The Prime Minister has reflected further on the Home Secretary's proposals as set out in his minutes of 12 January and 23 July. She has approved the proposed increase in salary from £5,000 to £6,000 a year on a one day a week basis.

(ANDREW TURNBULL)

Ms. S.J. Dent,
Home Office.

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PRIME MINISTER

27 JULY 1990

BROADCASTING : 25% INDEPENDENT PRODUCTION QUOTA

Earlier this week I received the enclosed letter from Michael Darlow. I met him today and we discussed it in detail.

The situation quite simply is that both BBC and ITV are effectively crippling the 25% initiative.

I believe that the main issues are set out well by Mr Darlow in his detailed letter but the worst offender at present is the BBC.

Apart from insisting that independents use BBC facilities and impose unfair terms, BBC's output of news and news related programmes in 1986 was under 23% - today the best guess is that it is 51%. For ITV the figure is 44%.

The only way for the initial proposal to succeed is for you to take up the matter with the Home Secretary and for the Home Secretary to take the issue up with his Broadcasting Department.



BRIAN GRIFFITHS

P.S. I enclose the numbers employed by major broadcasting companies in the world. The BBC figure is around 30,000! - the only larger employer is Russian radio. (022)

INDEPENDENT ACCESS STEERING COMMITTEE

The Production Centre, 5th floor, Threeways House,
40/44 Clipstone Street, London W1P 7EA
Tel: 01-323 3220 Telex: 266075 Prodco - G Fax: 01-637 2590

Professor Brian Griffiths
Head of Policy Unit
10 Downing Street
London SW1

24 July 1990

CONFIDENTIAL

Dear Professor Griffiths

25% INDEPENDENT TELEVISION PRODUCTION INITIATIVE

Thank you very much indeed for agreeing to see me. I don't wish to burden you with huge additional amounts of paper, but I thought you might find it useful if I set out the basis of our concerns before we meet on Friday.

There is mounting evidence that unless urgent steps are taken, either through amendments to the Broadcasting Bill or through secondary legislation, the 25% initiative's effectiveness is going to be fatally weakened and that the plan to bring competition into programme supply will fail.

Four main issues need to be addressed urgently:

- 1 the way in which the 25% is interpreted as regards both the number of hours and value of commissions to independents by broadcasters;
- 2 the terms on which independent productions are commissioned as regards open competition in the supply of facilities, equipment and personnel;
- 3 the establishment of a fair contractual balance of power for negotiation between independents and broadcasters over programme distribution and other associated rights;
- 4 the definition of an independent producer or programme for the purposes of the initiative.

Each of these matters has been the subject of debate since the 25% policy was announced, but it now looks ominously as if an alliance of the broadcasters and the civil servants are going to succeed in fudging and blunting each one to the point where the total impact of the initiative will be marginalised.

.... / ...



THE PRODUCERS
ASSOCIATION

IPPA

THE INDEPENDENT PROGRAMME
PRODUCERS ASSOCIATION

1 At the Prime Minister's recent seminar on the film industry representatives of The Producer's Association received the clear impression that the Prime Minister believed that the 25% initiative would be implemented in full; that is to say, the wording in the Bill (Clause 16 2f) 'that not less than 25% of the total time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions' means what it says, and that any interpretation which excludes 'news or news related' programmes from the calculation of the 25% target was not to be used so as to reduce the hours of original production commissioned from independents. However, the broadcasters, and the BBC in particular, are quite openly interpreting this part of the Bill in a way that will effectively halve the number of hours commissioned from independents. Indeed the evidence points to a small group of Home Officials and their opposite numbers in the BBC and the IBA privately carving up the definition between them so as to reduce the hours made by independents to a minimum - about 12.5% of the originated hours on BBC and ITV.

If they get away with this, the result will be to minimise competition, management re-organisation and economies in the broadcasting organisations. Something has to be done to stop the broadcasters from diverting their output into news and thus protecting their organisations from the competition provided by the independent initiative. Alternatively, compensatory amounts of other categories of programmes have to be offered to independents. 25% should simply mean what it says.

There is, of course, no inherent reason why independents should be prevented from making news programmes. Indeed, a limited number of news inserts in the Channel Four News are now made by independents without either loss of quality or increase in cost. It might even be considered that there is something inherently unhealthy, as regards freedom of expression and information in a democracy, for the dominant television channels to be supplied by only two news organisations, each operating an effective monopoly on the channel they service. Nevertheless, if the Government wishes news programming to remain outside the ambit of the independent production sector, this decision should not be used to reduce the 25% target.

We have expressed our concerns to the BBC in correspondence copied to David Mellor about the BBC's slow implementation of the 25% initiative. In the year to March 1990 only 4% of original programmes transmitted by the BBC were made by independents. My officials are now seeking an urgent meeting with the BBC to establish the basis for the figures already supplied by the Director General. If BBC policy towards independents is allowed to continue, it will not only lower the overall impact of the initiative but damage the prospects for the growth of the independent sector and employment outside London and the Southeast in particular. (See Appendix A)

2 One provision of the Trading Guidelines drawn up between the broadcasters (BBC & ITV) and the IASC following the announcement of the Government initiative, was that an independent producer should not be put under duress to use the broadcaster's staff or production facilities. In fact, many ITV companies and most of the BBC regional centres continue routinely to make it a prior condition of contract that the independent shall use broadcasters' own facilities and staff. They do this in order to protect their own businesses and reduce the effects of competition. As facilities and technical staff account for a major part of broadcasters' business, and historically have been a major source of their inefficiency and restrictive practices, this matter too ought to be dealt with specifically in the Bill or the secondary legislation.

3 A further factor serving to undermine the 25% initiative is the extent to which the broadcasters use their privileged position in the market to take control not only of the rights necessary for them to transmit on their own networks programmes commissioned from independents, but all other broadcasting and related rights in such programmes and material flowing from them. For independent producers the asset represented by their programmes is the only real asset upon which to build a viable business. While the broadcasters deny independents these rights, or 'cherry-pick' the commercially valuable programmes, our sector will be unable to acquire the financial maturity and weight necessary to provide real competition in programme supply to the broadcasters own production arms.

By taking the rights in independently produced programmes the broadcasters are also able to ensure that they distribute and sell these programmes. In this way they prop up their own, often inefficient, distribution arms, while at the same time hindering the financial development of independent distributors and reducing programme sales income to independents. Not all the broadcasters take control of every programme they commission but they do take control of those they judge the most commercially valuable and prevent sales (even of those programmes over which they have chosen not to exercise control) to any broadcaster they consider might be a competitor. This even applies to Channel Four who control distribution of only the one third of their programming that has real export sales potential. The broadcasters do this even though they have made no financial contribution to the programme beyond that related to commissioning it for transmission on their own channel. Quite apart from the fact that this is inequitable and prevents or reduces the independents' ability to benefit from his or her own work, it also reduces the potential income available from programme exports, and inhibits competition in programme distribution.

As you know, the question of rights ownership is currently under initial examination by the Office of Fair Trading. However hints emerging from the OFT, and the legal advice we have received from leading competition lawyers, suggest that even though the OFT may uncover problems in this area, those problems may not fall strictly under competition law, being more in the nature of an imbalance of power between the contracting parties. In which case it would be necessary, if the imbalance is to be corrected, for the Government to act. We are advised that precedents exist for this kind of corrective measure; for instance, in the Landlord and Tenant Act of 1954 as regards business tenants, the Unfair Contract Terms Act and in the proposed changes in the law as regards compensation for commercial agents. If this is the case, we hope that the Government would consider an appropriate amendment to the Broadcasting Bill or related secondary legislation in respect of the definition of an independent production qualifying for the 25% initiative.

- 4 One final, but fundamental, area of concern is the definition of an independent producer as regards programmes qualifying for the initiative. We understand that the secondary legislation will address this issue. Clearly, unless the definition is tightly enough drawn, the way will be open for broadcasters, whether by taking effective control through minority shareholdings acquired by themselves, their subsidiaries or other associated companies, or by the exercise of undue influence, to undermine the intentions of the initiative. Home Office civil servants have been discussing this subject with the broadcasters. The independents have not been consulted.

To summarise: broadcasters remain able, with impunity, to impose far worse trading terms on independents than those that apply in other industries where there is greater competition. Ironically, because of the anticipated increase in independent production resulting from the 25% initiative, and consequent growth in the number of independent producers competing for the broadcasters uncertain favours, the contractual imbalance between individual broadcasters and individual independent producers doing business together is likely (unless corrective action is taken) to become even greater than it was when independents effectively dealt with only one broadcaster - Channel Four.

The potential loophole created by the broadcasters through the exclusion of 'news and news related' programmes from the 25% quota (effectively halving the initiative's impact), taken together with their continued ability to force independents to use their facilities and the rights deals they are able to impose, means that the broadcasters are going to be able to contain the initiative on the margin and dodge its impact. In the case of the BBC, I believe that they are hoping that the next election will bring a Labour victory and that they will be let off the hook, with the result that they are playing for time while putting off difficult management decisions.

..5

As you know, my colleagues and I are convinced that the 25% independent production initiative has enormous potential to create a diversity of programmes, to release new sources of creative energy and to introduce the benefits of competition into the programme production industry. If fully implemented it contains the basis for creating the efficient industry necessary for British television production to succeed in the coming era of international competition and to generate large export earnings from international programme sales. However, if the escape routes for the broadcasters are not blocked this potential will not be realised.

Yours sincerely

Best wishes
Michael

Michael Darlow
Chairman

P.S. An Appendix on the effect of the 'News Exclusion' and calculation is attached.

APPENDIX A

The latest figures available from the IBA suggest that of 3,888 hours of original programming networked, 720 hours came from ITN, and that of 6,342 hours of local original programming, 3,840 hours were within the category 'news and news related'; the effect is to reduce the total hours qualifying for the independents' target of 25% of original programmes from 25% to under 14%.

Parallel figures for the BBC have been the subject of correspondence between the Independent Programme Producers Association and the Director General of the BBC in recent weeks. The latest published figures from the BBC suggest that of 5,871 hours of original network programmes transmitted, 1,195 hours were categorised as 'news and news related' and of 3,242 of regional programmes 2,120 hours were categorised as 'news and news related'. These figures themselves show a marked increase in news programmes, at the expense of programmes in categories where independents can compete for commissions, over figures available when the Government announced the initiative. Figures supplied more recently still by the Director General of the BBC to IPPA imply even greater cuts in the target figure of programmes in categories for which independents can seek commissions.

The latest figures supplied to us by the Director General appear to demonstrate that the production of programmes in the non-news categories for regional BBC audiences is being massively reduced, apparently from circa 2,000 per annum in the last year for which BBC published figures exist, to circa 100 in the current year. No plans have been announced by the Corporation for a reduction of their regional programme staff or facilities on an equivalent scale. The Director General has said that the BBC is not planning to recategorise these hours as 'news or news related' programmes - the areas from which independents are excluded - nor does it seem from the figures given by the Director General that it is planned to increase by a compensatory amount either the total number of hours of network production or the hours of network programmes made in the regions. The BBC's regional hours therefore remain a mystery. Local non-news programmes are notably popular with BBC regional audiences (recent series of documentary programmes to which independents have contributed in the regions have gained audiences two or three times as big as those for BBC local news programmes). So if the BBC does plan to increase the local programmes made by news departments at the expense of other programmes it will be doing a notable disservice to the licence payers as well as striking at the roots of the economic viability of many independents outside the London area.

The BBC could easily come out with a clear statement on the hours and the way in which the percentage of news to other programmes has varied in the years since the 25% initiative was announced. They seem remarkably coy about doing this in a straight forward manner. We suspect that this is because the figures would show that in that time the proportion of news programmes has about doubled and that today 'news and news related' programmes account for almost half their original output. If so, the independents' 25% amounts to just 12.5%.

..../..

The way in which the value as well as the volume of productions coming within the initiative is counted will also be important. To date the IBA has tended to count money raised from all sources, whether by ITV companies, independents, overseas pre-sales or co-producers found by independents or broadcasters, towards the total announced in each quarterly return. This can give a very misleading picture. In order that the initiative's intentions are met, it is important that only the money, or realistically priced resources, committed by a commissioning broadcaster towards a programme's production and acquisition of rights for its transmission in the UK by that broadcaster, are counted in assessing implementation of the 25% quota. If assessment is not done in this way, huge distortions of the real picture can occur. The monitoring authorities (whoever is appointed after 1993) might therefore be required, either through the Broadcasting Bill or secondary legislation relating to the Bill, to assess and report back on these matters.

The clear implication of these figures is that an 'across the board' news exclusion will undermine 'the spirit and the letter' of the initiative that the Prime Minister wishes to see observed. Its impact will be hugely blunted if not lost.

NUMBERS EMPLOYED BY MAJOR BROADCASTING COMPANIES

(In America, Australia, France, New Zealand and Italy staff numbers have reduced over the past year).

June 1990

AUSTRALIA	ABC	5,500 (TV + Radio)	
BELGIUM	BRT	2,800	
CANADA	CBC	11,600 (+ 2-3000 Freelance staff)	
FRANCE	Antenne 2	1,300	
W GERMANY	ZDF	4,500	
	WDR	4,500 1,200	Permanent employees. Freelancers.
	ARD	3,000	
IRELAND	RTE	2,093	
ITALY	RAI	14,000	
JAPAN	NHK	15,000	
NEW ZEALAND	NZ Broad- casting	650	
RUSSIA	Gostel	10-12,000	Moscow
	Radio	83,000	Nationwide
SPAIN	RTV	10,961	
USA	CBS	6,000	
	ABC	9,500	
	NBC	5,700	

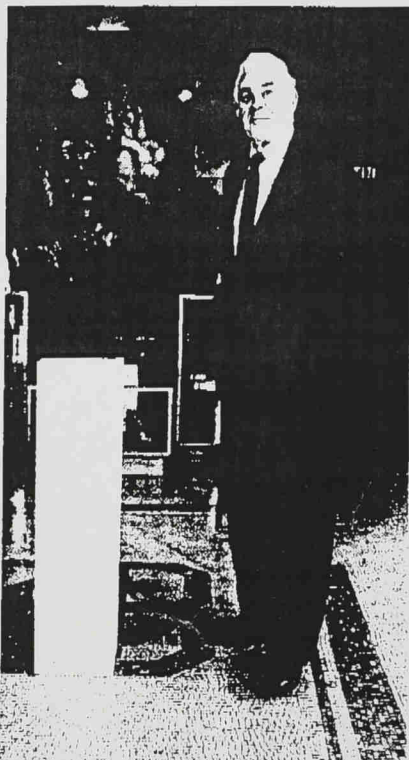
BBC

circa 30,000

4.6.90

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importantly papers

I Chairman's Foreword



BBC Chairman
Marmaduke
Hussey with a
bronze bust of
Lord Reith on
the centenary of
Reith's birth

This has been a year of significant change for the BBC and for the whole broadcasting industry. This might easily have been written in each of my three previous introductions to the BBC's Annual Report to Parliament. But, after so many predictions, much guesswork and some false starts, we have finally seen in the last 12 months the real transformation of the broadcasting landscape.

The BBC began its life as a government-protected monopoly and then, after the arrival of ITV, became part of a government-protected duopoly. Now that comfortable arrangement has gone once and for all, and the BBC is part, albeit the largest and most wide-ranging part, of a multi-national, highly competitive and increasingly market-directed industry. The passage of the

Broadcasting Bill this year and the growth of satellite television and commercial radio channels underscore this sea-change.

The BBC has welcomed this new broadcasting environment. Much has been achieved by everyone in the BBC over the past years and I believe that we are now a more confident and better-managed organisation. Our structures have been rationalised. The Board of Governors and Board of Management work harmoniously together. Our staff has a much clearer idea of the BBC's objectives and they are better equipped to face the Nineties. Last summer's dispute, though, focused our minds on the challenges which confront the BBC. The fundamental issue we face is to reconcile an adequate and competitive staff remuneration with the investment necessary to retain and continually to improve the quality of our programmes. The resolution of this equation, examined in the 'Funding the Future' report published at the beginning of the year, will inevitably affect the way the BBC is structured and staffed. The recommendations of that report are a start, but senior management will have to work hard to maintain the momentum.

The guiding principle of the BBC must be what it always has been – to provide the widest range of quality programmes right across the full range of licence-payers' tastes, interests and enthusiasms, or, as the Charter outlines, to inform, educate and entertain.

In the past year we celebrated an important anniversary – the centenary of the birth of Lord Reith. In 1924, when broadcasting technology was in its infancy, John Reith defined with remarkable prescience the objectives of the BBC in a deceptively simple but telling sentence:

'The BBC's role is to bring the best of

Chairman's Foreword continued |

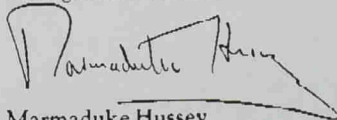
everything to the greatest number of homes'

I am proud to repeat Reith's words because I believe that BBC programmes in the past year have demonstrated beyond doubt our continuing commitment to his vision. The BBC reported the historic events in Eastern Europe on television, radio and the World Service with unrivalled authority and immediacy. There is still an enormous hunger for unbiased news and information in this country and across the world. The World Service's trusted role in disseminating truth in this year of European revolutions has been outstanding. The time has now come when the World Service should secure the appropriate funds to augment its radio broadcasting with television transmissions. At home we are all conscious of the impact that the successful introduction of cameras to the House of Commons has made to political coverage on television and we welcome it. The World Service equally should add cameras to their microphones.

What makes the BBC different from every other broadcaster is its method of funding. The licence fee is a unique contract between the broadcaster and the public, which listens to and watches BBC programmes for an average of nearly three hours a day, every single day of the year.

That represents extraordinary loyalty and affection for our programmes in all their diversity, nationally, regionally and locally and, equally, extraordinary value for money.

The licence fee, I believe, remains the best system available for ensuring that the BBC retains its courage, integrity and independence – independence from pressure from any source, political, commercial or propagandist. In return for this distinctive form of funding, the BBC must be ever conscious of the privilege and responsibility that goes with it. We must continue to offer licence-payers the highest quality programmes, enabling the nation to speak to itself in a fair and unbiased manner, in news and information, entertainment and the arts. Critical to that is not just quality but the objective and impartial presentation of public issues across our entire output. Every time we fall below those high standards we weaken the argument for the retention of the licence fee. It is the joint responsibility of the Board of Governors and the Board of Management to ensure that we do not.



Marmaduke Hussey
Chairman

PES

I accept that we should not pre-empt the outcome of this year's PES round, and therefore that we should consider the consequences for ITC expenditure in 1991-92 and 1992-93 if my PES bid for a start-up loan is not successful. The worst case would involve the ITC having to make reductions in its planned expenditure of £1.5m in 1991-92 and £0.3m in 1992-93. Although the ITC's budgetary plans are still at a formative stage, we understand that the shadow ITC considers that R & D funding should have a high priority. It may be therefore that they would decide to maintain R & D expenditure at its planned level even if reductions had to be made in the overall budget. I nevertheless agree that it is right to test the robustness of the business plan on the assumption that some cuts had to be made in ITC funding. I can, however, see no basis for assuming, as your letter implicitly does, that 90% of the £1.5m reduction which the ITC might have to make in 1991 would fall on R & D expenditure. A more reasonable, though still cautious, assumption would be that any cuts would be broadly proportionate to R & D's share of the overall planned expenditure. Accordingly, my officials have asked Transcom management to prepare a revised P and L account (copy attached) on the assumption that the ITC funding will be £250K lower than planned in 1991 and £50K lower in 1992. You will see from the account that E & D remains profitable (though, naturally, less profitable than before) throughout the forecast period on the revised assumptions.

BSB contract

Nicholas Ridley's letter mentioned the BSB revenue. Transcom have secured a five year contract with BSB for the period April 1991 - March 1996 for research and development work to the value of approximately £0.5m pa, with the exact sum to be agreed six months before the beginning of each financial year. It is the existence of that contract which underpins the assumption in the business plan about the constant level of funding from BSB. BSB's commitment to Transcom reflects their reliance on E & D's niche expertise in MAC technology.

Other contracts

Since my earlier letter, Transcom's negotiations with other potential customers have tended to bear out the assumptions in the business plan. They have now agreed a contract with

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BROADCASTING

Policy

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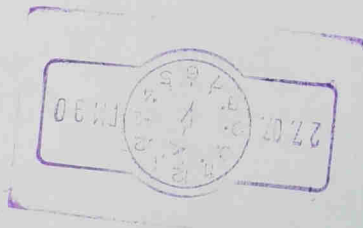
Scientific Atlanta worth £225K in 1991, with an option for further work worth up to £200K in future year(s). Transcom management consider that they have a better than even chance of securing two further contracts which they have been pursuing: one with BTS (Bosch) worth £1m over 2 years; and another with Thomson LGT worth £0.5-1m. The Scientific Atlanta contract fulfils the business plan assumption for 'other' contracts in 1991. Winning either of the other two contracts would exceed that assumption by at least £0.5m.

Conclusion

In the light of this encouraging recent progress, and the fact that the revised P and L account shows that the viability of E & D is not dependent on the success of my PES bid, I hope that we can now agree the business plan as a basis for including E & D in the privatisation. The plan will, of course, need to be reviewed continuously in the light of changing circumstances; and I would therefore propose to ask Transcom's management for a report on progress in securing new contracts at the end of September.

I am copying this letter to the Prime Minister, to other members of MISC 128, and to Sir Robin Butler.

John G. ...





n.b.P.M.
BMP
3117

cap. U.
(BP content)

QUEEN ANNE'S GATE LONDON SW1H 9AT

COMMERCIAL IN CONFIDENCE

26 July 1990

de Peter

FUTURE OF IBA EXPERIMENTAL AND DEVELOPMENT (E & D) DEPARTMENT

Thank you for your letter of 6 July as Financial Secretary. I am replying also to Nicholas Ridley's letter of 9 July. *A/E with A?*

We share the concern, expressed in Nicholas Ridley's letter, that over-optimistic assumptions should not be made about E & D's business prospects. Against that concern, however, must be weighed others:

- (i) the need to maximise the sale price of the new transmission company;
- (ii) the need to preserve the skills base of the company for future ventures;
- (iii) the need to give the emerging management of the new company a firm basis upon which to plan as soon as possible.

None of the courses of action open to us is risk-free. If we take too pessimistic a view of the new company's potential

The Rt Hon Peter Lilley MP
Secretary of State for Industry
1-19 Victoria Street
LONDON SW1H 0ET

/over

E & D business, the sale price may suffer and the company will lose potentially lucrative contracts and staff with valuable skills. On the other hand, we must avoid loading the new company with E & D overheads which cannot be supported by contracts.

We and Price Waterhouse have reviewed the E & D business plan in the light of Nicholas Ridley's and your concerns; and we have reviewed the assumptions in consultation with Transcom management.

ITC funded research

We accept that an increasing proportion of ITC research contracts is likely to go to companies or organisations other than Transcom, as the ITC puts new projects out to competitive tender. (The IBA fully accepts that the ITC will be expected to do this.) The business plan reflects this. However, as your letter of 6 July recognises, the programme planned for 1991 and 1992 consists of on-going projects which could not be placed elsewhere without considerable disruption.

Your letter referred to two projects in particular: enhancements to PAL; and additional uses of the UHF spectrum. Both projects flow from the ITC's statutory duties under Clause 64 of the Bill. In the case of the PAL research (which is proceeding in tandem with privately funded research) a delay would hamper the development of the use of the VBI for additional services under the Bill. The UHF research is concerned with finding a way, through the use of digital techniques, to fit additional television channels into the UHF spectrum currently used for the four terrestrial channels. If successful, this research would open up interesting new options for us (ie the possible introduction of several new near-universal channels), which would further our general broadcasting policy objectives, as well as being conducive to efficient spectrum management. I think that it is very unlikely that this important project would be funded by the private sector: any commercial spin-off would be long term; contingent upon subsequent Government policy decisions (and, probably, primary legislation); and would not necessarily accrue to those who had funded the research.

/cont

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JT

Acpts?

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

25 July 1990

Dear Colin.

SALARIES OF BBC GOVERNORS AND IBA/ITC AND RADIO
AUTHORITY MEMBERS

The Prime Minister has seen your letter to me of 23 July. She is still unwilling to agree that the salaries of board members should be increased by 20 per cent. She doubts whether the increase from £5000 to £6000 for one day a week would make any difference to a calibre of members willing to serve. She commented that £5000 seems adequate in relation to the demands of the job.

*Yours sincerely
Andrew Turnbull*

A TURNBULL

Colin J. Walters, Esq.,
Home Office

CONFIDENTIAL

KW

PRIME MINISTER

SALARIES OF BBC GOVERNORS AND IBA/ITC AND RADIO AUTHORITY MEMBERS

The Home Secretary wrote to you in January arguing that the salaries of BBC Governors and IBA board members had got out of line and were too low to attract people of the right calibre. It was important to rectify this given the major developments in broadcasting which are now underway. He proposed (Flag A) that there should be a 20 per cent increase in members salaries. In most cases this would represent an increase from £5000 to £6000 for one day a week. You expressed concern that this proposal would have difficult repercussions for the then forthcoming Pay Review Body reports.

The pay of the staff (as opposed to the board members) of the BBC and IBA is not formally linked to TSRB rates but Home Office and Treasury use it as a guideline. They have now agreed that the staff of the broadcasting bodies should receive the same increases as other TSRB groups i.e. 6 per cent from 1 April 1990 and 1 per cent from 1 January 1991. The Home Secretary believes that announcing a 20 per cent increase for board members would not now have serious repercussions. The pay awards for other review body groups such as teachers, nurses and doctors are now sufficiently in the past.

(Flag B)

Agree the TSRB increases should be announced for the staff with a 20 per cent increase in the salaries of members of broadcasting bodies?

AT

I don't think the increase would make any difference to the calibre of members willing to serve

(ANDREW TURNBULL)

24 July 1990

c:\wpdocs\pps\salaries (srw)

£5,000 for one day a week
was more than adequate
for this not very exciting job



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DCCFO
cc: [unclear]

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

23 July 1990

Dear Andrew

SALARIES OF BBC GOVERNORS AND IBA/ITC RADIO
AUTHORITY MEMBERS

When I wrote to Paul ^{Asap P70} Gray at the beginning of this year about a proposed 20% general increase in the salaries of members of the BBC and IBA, he replied on 16 January to say that the Prime Minister thought that the handling of any announcement about such an increase would need to be considered further in the light of Ministerial consideration of the reports from the Pay Review Bodies.

This consideration has now taken place with the result that the TSRB increases for the broadcasting bodies will be 6% from 1 April 1990 and 1% from 1 January 1991. The Home Secretary does not believe that the scale of these increases should inhibit a simultaneous announcement about a general 20% increase in the salaries of members of the BBC and IBA.

We have also had to consider, however, the position of the Independent Television Commission and the Radio Authority as successor bodies to the IBA. These bodies were set up in shadow form on 1 January this year and will be formally established on 1 January 1991, subject to Parliament's approval of the Broadcasting Bill. As a result, the IBA will not exist beyond the end of this year. Some of their members are already serving on the shadow ITC and shadow Radio Authority.

In the Home Secretary's view, we could not apply the 20% increase to IBA members without also applying it to the ITC and RA, a view which is shared by the Treasury. Those bodies are taking over many of the IBA's responsibilities and a few additional regulatory functions. They will be very busy during the rest of this year, and subsequently, in formulating their strategic objectives and ensuring that the necessary regulatory systems are in place and operate satisfactorily. The weight of responsibility they will carry will be no less than that of IBA members.

The Home Secretary therefore considers that the time has now come to announce the TSRB increases for the various broadcasting bodies along with a general increase of 20% in the salaries of members of the BBC, IBA, shadow ITC and shadow Radio Authority, already negotiated with the Treasury. As intimated in my letter of 12 January to Paul Gray, he will then open up

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2.

discussions with the Chief Secretary about the best way to make further progress in linking the salaries concerned to analogous grades in the Civil Service. He would be grateful for the Prime Minister's approval of this approach.

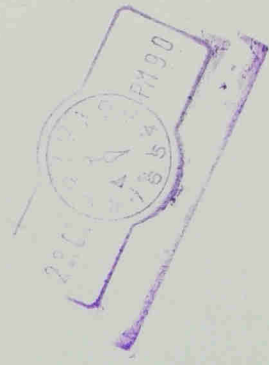
Yours sincerely
Sara Dent

MS S J DENT

Andrew Turnbull, Esq.,
No 10 Downing Street
LONDON, S.W.1.

CONFIDENTIAL

BROADCASTING: POLYMER LETTER



hwe
JR



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

12 July 1990

RELIGIOUS BROADCASTING

The Prime Minister has seen and noted Mr. Mellor's letter of 3 July which you sent me under cover of your letter of 4 July.

ANDREW TURNBULL

Miss Jane Harrison
Home Office

clj



*B.F.
of P. U.
ack'd
further
re-written.*

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

10 July 1990

*RHH
10/7*

Dear Ben

BROADCASTING BILL : NETWORKING

Thank you for your letter of 27 June.

*AAP
2/11*

The Home Secretary was grateful for the views of the Secretary of State for Trade and Industry. He notes that officials of our two Departments are currently discussing with OFT the details of the networking provisions to be included in the Broadcasting Bill, and the concerns which OFT have in relation to the current proposals of the ITV Association for a new networking arrangement designed to run for the remainder of the present franchise period, which might also be capable of being rolled forward into the new licence round. The Home Secretary is confident that the various concerns expressed in your letter about the role of OFT in relation to networking will be satisfactorily resolved as a result of these discussions.

As to the particular points you raise about the nature of the competition test to be applied by OFT, I confirm that we now envisage a wider test of the kind currently being discussed between officials. Our concern hitherto, which was reflected in the terms of the Home Office press release to which you refer, and the Home Secretary's letter of 27 June to Sir Gordon Borrie, has simply been that OFT should not be required to consider whether networking per se was a fair or competitive practice, or whether the existence of a Channel 3 network in itself raised competition issues as regards the Channel's position vis a vis other broadcasters. But subject

Ben Slocock Esq
Private Secretary
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1 0ET

/cont

to these points we accept that OFT should not be required to adopt any artificially constrained approach to their consideration of competition issues in relation to networking.

As regards the point in your final paragraph, the Home Secretary agrees that if the ITC were to decide to issue guidance to licensees about networking, they should be required first to consult the Director General of Fair Trading, and take into account any views which he might express. There would of course be no statutory requirement for the ITC to issue such guidance, but they might wish to do so on a purely illustrative basis, in which case the consultation requirement would be triggered.

I am copying this letter to Barry Potter (No 10), the Private Secretaries of other members of MISC 128, Jim Gallagher (Scottish Office), Steven Leach (NIO), Sonia Phippard (Cabinet Office) and Martin Howe (OFT).

Jaw,
Saw

MS S J DENT





the department for Enterprise

ccgs

nb PM

JTP

117

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

COMMERCIAL IN CONFIDENCE

The Rt Hon David Waddington, MP
Secretary of State
Home Office
Queen Anne's Gate
London SW1

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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071-215 5000

Telex 8811074/5 DTHQ G
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Direct line 071 215 5622
Our ref PB4APK
Your ref
Date 9 July 1990

David Bain

into BP

FUTURE OF IBA EXPERIMENTAL AND DEVELOPMENT (E&D) DEPARTMENT

Thank you for your letter of ^{Pres PTH} 22 June enclosing a copy of the plan for the IBA's E&D Department prepared by the future management of the private transmission company which is to inherit the IBA's transmission operation at the beginning of next year. In agreeing earlier this year that we should give the IBA the opportunity to make a case for retaining more than a minimal technical development unit, I emphasised the importance of such a case being a robust one. I am doubtful of the extent to which this has been achieved.

In assessing the plan, much depends on the expectation of future income. I found it less than convincing on this, for three reasons. First, we do not have any firm assurance over the future of the contracts which the ITC may wish to place with the E&D Department. Much of their projected future income will depend on this. In the first 2 years it is more than one half, declining to about one third after 5 years. As the plan explains, no commitment can be made at this stage on behalf of the ITC. Thus the IBA has been able to do no more than agree that the ITC should endorse the assumptions in the plan and place high priority on confirming the proposed levels of expenditure. Moreover, your letter notes that some trimming of ITC budgets may be necessary if you are not entirely successful in your bid in



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the department for Enterprise

this year's PES for a £2 million loan for the ITC. In view of my further points below, any change in the expected position of the ITC contracts would need to be looked at carefully.

Secondly it appears from the plan that the next major element of income, from contracts with British Satellite Broadcasting, is also not secure. My understanding is that the only firm commitment is for expenditure up until 31 March 1991 which will be at about the time of privatisation of the transmission network. I am also unclear as to why the plan assumes that BSB income will continue at a constant level of funding thereafter when the E&D Department will be in a competitive market, a point that is taken into account in the declining level of receipts from ITC contracts.

Thirdly it appears that none of the "other" sources of income proposed in the plan is based on a firm contract either. The extent to which the E&D Department can secure such external contracts will depend to a large degree on the ability of the management. As the plan points out, however, the Department presently lacks experience in managing the demands of the commercial market place. Finally I see that the income from these sources shows an encouraging doubling between 1992 and 1993 but unfortunately this does not seem to be supported by anything in the text.

As you may appreciate, these points make me doubt the overall robustness of the case presented, particularly since they are from just one, albeit critical, area of the plan. Against this we have to judge the likelihood that including the E&D Department in the privatisation would depress the proceeds from the sale of the transmission network. Here I note that your financial advisers, Price Waterhouse, believe that it would be unlikely to depress, and might well enhance, the proceeds. I should find it helpful to know whether, in reaching this judgement, they took full account of the points I have raised. I should also be interested in any other concerns they may have expressed over the projections in the plan as to E&D's viability.

Subject to a clear assurance on these points, I would be prepared in principle to proceed in the way you propose but I feel we should press the company further on the need to secure future contracts in advance of privatisation. In particular, I think it should be a condition that, by the end of this year, they have in place a firm commitment from BSB for funding in 1991/92 at the level envisaged and that they should also have secured contracts for a significant part of the projected "other" income in the first two years of the plan. I hope you would also agree that,



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the department for Enterprise

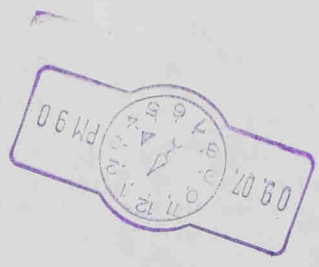
given the importance of the ITC contracts, we would need to look again at the proposal should the ITC decide in due course that they are not prepared to place the contracts currently envisaged for 1991 and 1992.

I am copying this letter to the Prime Minister and other members of MISC 128, and to Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'J. ...', is positioned in the center of the page.

A second handwritten signature in black ink, appearing to read 'A. ...', is located below the first signature.

BROADCASTING : POLYMER P1T2



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10 DOWNING STREET

LONDON SW1A 2AA

Final
From the Private Secretary

6 July 1990

BROADCASTING BILL: IMPARTIALITY

The Prime Minister has seen the Home Secretary's minute of 5 July. She has commented that the proposals represent a significant advance and she accepts the Home Secretary's judgement that the Government should not, at this stage, seek to bring the BBC directly into the scope of the Bill. Nevertheless, she very much hopes that it will be possible to secure from the Governors of the BBC an undertaking to adopt in their own guidance the more stringent requirements now being imposed on Independent Television. She hopes also that, if this can be done, it will be possible to persuade Lord Wyatt that his objectives have been met.

I am copying this letter to Robert Canniff (Private Secretary to Chancellor of the Duchy of Lancaster).

ANDREW TURNBULL

Colin Walters, Esq.,
Home Office

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tw



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 July 1990

BBC LICENCE FEE

The Prime Minister was grateful for the Home Secretary's minute of 5 July proposing a study by consultants on the efficiency of the BBC. This would be designed to identify the scope for further possible improvements and hence cost savings.

The Prime Minister is content to proceed as the Home Secretary proposes. The Prime Minister would be grateful, however, if the No.10 Policy Unit could be involved in the setting in place of the proposed study, including the drawing up of the terms of reference.

BARRY H. POTTER

Colin Walters, Esq.,
Home Office

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cc PU



Prime Minister

'X' seems sensible.

Content?

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Prime Minister

Yes

BBC LICENCE FEE

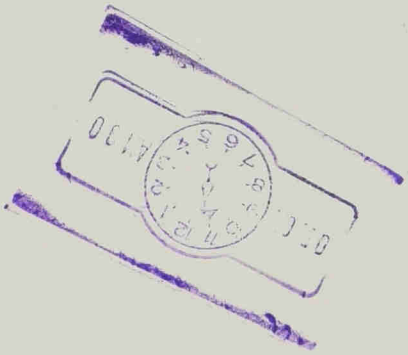
At our bilateral on 24 May we discussed the proposals in my minute of 11 May for the handling of the next BBC licence fee settlement.

2. You expressed misgivings about the proposal that the Home Office should retain consultants to examine the revenue raising potential of any new commercial ventures undertaken by the BBC, in addition to the night hours subscription services which we have already approved. Although this was not the intention, I accept that there is a danger that this might encourage expansionism on the part of the BBC.

3. However, even if our consideration of the licence fee settlement focuses primarily on the scope for further cost savings rather than extra income, I remain of the view that the Home Office needs a source of independent advice as the basis for scrutiny of the BBC's proposals. I still consider, therefore, that a study would be useful, but that it should be directed mainly to identifying the scope for further possible efficiency savings. If you agree in principle, my officials will consult the other Departments concerned about the terms of reference. The study will need to be established very soon, if there is to be sufficient time to consider its findings.

[Handwritten signature]

5 July 1990



①
PRIME MINISTER

BROADCASTING BILL: IMPARTIALITY

The Home Secretary's minute attached represents significant progress but you will need to judge whether it goes far enough. He has agreed:

- i) to delete the reference to "current" political and industrial controversy
- ii) to bring "personal view" programmes within the scope of the impartiality regime
- iii) to include in Clause 6 some prescriptions on what the ITC's code must cover, e.g. timescales for broadcasting balancing programmes and arrangements to ensure that the audience is made aware of them.

He proposes to set out the Government's approach on 11 July but to table the detailed amendments in the overspill. His conclusion is that the ITC licensees would find these steps difficult to circumvent.

But he is not proposing to make these provisions directly applicable to the BBC, though he proposes to call in the chairman and tell him that the Government will expect the BBC to bring its code into line. Also he is not proposing to give a policing role to the BSC.

He argues that to tackle the BBC head on would rekindle the fierce controversy which the Bill encountered initially but which has been successfully diffused.

The Home Secretary has spoken to Lord Wyatt who was content with the proposed changes to Clause 6 (they are very similar to his own proposals). Lord Wyatt will still be seeking a watchdog role for the BSC. The Home Secretary still hopes that by securing the

undertaking from the BBC described above he can reach an accommodation with Lord Wyatt.

Do you feel that sufficient progress has now been made?

Yes not

Or do you, even at the risk of greater controversy, still want to pursue the policing role for the BSC?

AT

ANDREW TURNBULL

The Home Secretary

*has gone a long way -
don't think we can press
him further. not*

5 July 1990

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CONFIDENTIAL



CCPCU

Prime Minister

BROADCASTING BILL: IMPARTIALITY

record at Rap
R 11

Following our meeting on 28 June I have given further thought to the impartiality provisions in the Broadcasting Bill.

2. First of all, I think it would be helpful if I spelled out how we might strengthen the existing provisions on impartiality in clause 6 of the Bill. We accept that there is a need for the ITC's code on impartiality to be more prescriptive, and feel it would be appropriate for the Bill to be amended so as to require the code to cover:

- (a) ways in which impartiality is to be achieved in specific contexts, having regard to the subject matter, the nature of the programme, and the circumstances in which broadcasting takes place;
- (b) the timescales within which requirements for balance must be met;
- (c) the circumstances in which licensees should be obliged to announce, at the time of the first programme in a series, the planned dates and times of the broadcasting of subsequent balancing programmes; and
- (d) where identification of balancing programmes is impracticable, what alternative strategies for securing achievement of balance would be acceptable.

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3. I also think that the reference to "current" political and industrial controversy should be dropped and that it should be made clear that the provisions on impartiality apply to "personal view" programmes exactly as they apply to other types of programme.

4. We shall have to consider with the business managers how these matters should be dealt with in the context of the Lords' proceedings on the Bill. John Belstead's preliminary view is that we should be unwise to grasp this nettle before the summer recess. My view is that we should canvass our suggestions when clause 6 is reached in Lords Committee and, if they are well received, table them at Report Stage in the autumn. This would enable us to be sure of winning the trick before playing our cards.

5. The changes I have suggested would ensure a level of detail in the code's provisions which the ITC licensees would find difficult to circumvent. But this leaves the question of what should happen to the BBC. I think we would be in serious difficulty if we were to bring the BBC within clause 6. Some would see it as direct Government interference in the activities of the BBC, and a serious erosion of the special constitutional position which the BBC occupies through its Charter, Licence and Agreement. Given that the Charter will be reviewed in the normal course of events in the run-up to its expiry at the end of 1996, we would find it hard to explain why we have chosen now to apply this particular set of provisions through legislation.

6. I think we would also be in difficulty if we were to extend the Broadcasting Standards Council's (BSC) remit to give it a regulatory role in respect of the BBC (and in practice the ITC too) on the subject of impartiality. The BBC's Board of Governors, who are appointed to protect the public interest, would be left in an impossible position if the BSC were to usurp their regulatory responsibility in so important and central an area; and again it would clearly cut across the constitutional position provided for in the Royal Charter, and Licence and Agreement.

CONFIDENTIAL

3.

6. Even if there were not these larger considerations, I do not think it would be right to request the BSC to deal with complaints on impartiality. In the case of taste and decency, the BSC will provide the broadcasters with advice and publish its findings on those programmes which are clearly unacceptable in terms of violence, sex and decency. It would be a much more difficult proposition for the Council to adjudicate on the sensitive and more subjective area of impartiality, where it is often difficult to decide the precise boundaries between what is and what is not acceptable.

7. I also understand from earlier contact with William Rees-Mogg that he would not welcome such an extension to the BSC's remit. It would divert the Council from its main work, and taking on so controversial a task could undermine its credibility with the broadcasters and the public, on which it has worked hard. We might end up by seriously reducing the effectiveness of the BSC in its primary role of setting standards for taste and decency.

8. So far as the Broadcasting Bill is concerned, I am quite sure that trying either to bring the BBC within the ambit of clause 6 or extending the role of the BSC to cover the BBC would unite a range of interests against the Government, would provoke great controversy when most of the controversy over the Bill has been defused, and would be an immensely dangerous tactic when the Government is still vulnerable in the Lords.

9. I am not suggesting for one moment that there is not room for improvement on the part of the BBC, and I made this plain to the Governors at a recent conference of the Governors and Board of Management. When, therefore, during the Committee Stage, Robin Ferrers sets out the changes I have outlined for independent broadcasting, I propose he should go on to say that the Government expects the BBC to bring its code into line with them. If there is time, I would propose to call in the Chairman of the BBC before the

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4.

debate to put this point to him in the hope of an early undertaking which could be announced either in Committee or at some later stage of the Bill. I am conscious that Duke Hussey is aware of some failure in this area, and am fairly optimistic that he could be persuaded to do this.

10. I have, as you suggested, spoken to Woodrow Wyatt and explained to him the sort of amendments to clause 6 which might be thought appropriate. He indicated that he would be broadly content with them, and although he wanted the BBC to come within the remit of the BSC, he was not asking for the BSC to have a regulatory role. I did not broach with him the suggestion I am now making that the BBC should be asked to give an undertaking, but I have a feeling that he would be satisfied with such an outcome.

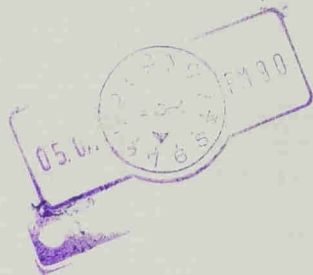
11. If you are content with these proposals, Robin Ferrers will be able to let the House know what is in our minds when clause 6 is reached, possibly on 11 July.

12. I am copying this minute to Kenneth Baker.

5 July 1990

CONFIDENTIAL

BROADCASTING BUREAU
A12



11

ecp

*n.b.P.M.
BHP
5/7*



QUEEN ANNE'S GATE
LONDON SW1H 9AT

5 July 1990

de Mid

REGULATION OF BBC ACTIVITIES

Full with B.P.

I agree that it is best to resolve the remaining areas of disagreement swiftly, and I am therefore content to accept the compromise you propose.

My officials will be writing to the BBC, explaining our decisions and inviting any comments before we make a public announcement.

I am copying this letter to the Prime Minister, other members of MISC 128, and Sir Robin Butler.

[Handwritten signature]

The Rt Hon Nicholas Ridley, MP.
Secretary of State for Trade & Industry
Department of Trade & Industry
1-19 Victoria Street
LONDON, S.W.1.

BROADCASTING POLICE PTIC





R4/7

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

-4 JUL 1990

Dear Andrew,

RELIGIOUS BROADCASTING

Thank you for your letter of 3 July.

... Mr Mellor replied to Michael Alison's letter of 28 June on
3 July. I attach a copy of that letter and the relevant press
release.

Yours sincerely,

JANE HARRISON
Private Secretary

Andrew Turnbull Esq
Principal Private Secretary
10 Downing Street



file for
a: pps/mellow

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

3 July 1990

RELIGIOUS BROADCASTING

Bf // Michael Alison sent a copy of his letter to your Minister of 28 June to the Prime Minister. She would be interested to learn how it is proposed to respond to Mr. Alison's suggestions.

ANDREW TURNBULL

Miss Jane Harrison,
Minister of State's Office,
Home Office.

AT



*file for
at/ps/reh/son*

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

3 July 1990

RELIGIOUS BROADCASTING

Thank you for copying to me your letter to Mr. Mellor. I have shown it to the Prime Minister who has asked me to find out from Mr. Mellor how he proposes to respond to the concerns you have expressed.

ANDREW TURNBULL

The Rt. Hon. Michael Alison, M.P.



Prime Minister
Mr Mellow has sought to meet Michael
Alison's concerns that the traditional
religious advisers to BBC and IBA would try
to exclude any new entrants, but he proposes
to do so by publication of guidelines rather
than including definitions in the Bill.

cc Proposed Guidelines
HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

AT 517
3 July 1990

Dear Mr Alison,

RELIGIOUS BROADCASTING

I was most grateful for your letter of 28 June in response to mine of 20 June. The religious broadcasting amendments were tabled yesterday. I thought you might like to see the enclosed press release.

I was very glad that you felt able to welcome the proposed amendment to Clause 6. I thought your argument for preferring "abusive" to "insulting" was a good one, and the amendment now incorporates the point.

I have reflected very carefully on your point about the "appropriateness" test in Schedule 2. I understand why you would like to see this pinned down. And it is certainly no part of the Government's intention that the discretion should be used to exclude religious groups merely because they are insufficiently "establishment" or "mainstream". I do, however, have reservations about tying the discretion exclusively to the consumer protection and fit and proper persons safeguards. This is partly for technical drafting reasons but mainly because I am not satisfied that these criteria would exhaust the circumstances in which the discretion should be used to refuse a licence. Suppose, for instance, that the ITC received an application from a new religious cult or extremist group to own a satellite channel. There might be no hard evidence that the group did not intend to comply with the consumer protection safeguards and no provable record of wrong doing or irresponsible behaviour upon which to ground invoking the fit and proper persons provision. I question whether it would be right if the regulatory body had no power to regard such a group as disqualified in such circumstances.

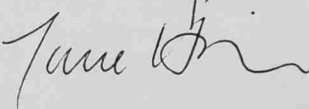
/I have therefore

The Rt Hon Michael Alison MP

I have therefore tried to meet your point by the alternative means of requiring the regulatory bodies to publish general guidance to applicants as to the principles to be applied by them in determining whether it was appropriate for religious groups to hold the relevant licences. This would provide a vehicle for making clear that consumer protection considerations would normally be the basis upon which the discretion would operate. You will see that I have tried to get some of this flavour across in the press release, and Robin Ferrers will also seek to do so in moving the amendments.

I hope you will see this as a serious effort to meet the concerns expressed in your letter. I am most grateful, as before, for all your help with this sensitive subject.

I am copying this letter to Ian Orr-Ewing.

Yours sincerely,


DAVID MELLOR
(Approved by the Minister in draft
and signed on his behalf)



Home Office

NEWS RELEASE

50 Queen Anne's Gate London SW1H 9AT
(Night line 071-273 4595)

Contact Number:

071-273 4620

2 July 1990

RELIGIOUS BROADCASTING

MELLOR ANNOUNCES NEW BALANCE BETWEEN FREEDOM AND RESPONSIBILITY

The Government is today tabling amendments to the Broadcasting Bill for the Lords Committee stage which follow up undertakings on religious broadcasting given by Home Office Minister of State David Mellor QC MP.

He said today: "This Bill gives far greater freedom to religious broadcasters than previous broadcasting legislation. At the same time, it contains clear safeguards against abuse. The balance which will now be struck between freedom and responsibility in religious broadcasting should, I believe, be welcomed by all who take an interest in this important subject."

Mr Mellor said that he was proposing three main changes:

"First, we are deleting the 'no-editorialising' and 'no undue prominence' rules in relation to all religious broadcasting. There was much anxiety about the effect of these rules on religious groups who had won licences to run satellite or cable channels or radio stations. Some feared, for instance, that broadcasts of church services would have been prevented. I do not believe that the rules would have been this restrictive in their effect. But I did not want there to be any unnecessary anxiety or uncertainty.

"So, secondly, we are replacing them with a tailor-made safeguard for religious broadcasting. This will require all religious programmes to avoid any improper exploitation of the susceptibilities of the audience and any abusive treatment of the religious beliefs of others. This is a much clearer safeguard against abuse of religious broadcasting. It will operate alongside the other viewer and listener protection safeguards in the Bill.

"Thirdly, there is no intention that religious groups should be prevented from owning satellite and cable channels and radio stations merely because they are innovative or not mainstream. I would envisage that the Independent Television Commission and Radio Authority would not normally regard religious groups as disqualified unless they were thought unlikely to comply with the viewers and listener protection safeguards, or to be unfit persons to hold broadcasting licences.

"We therefore think it right to require the regulatory bodies to publish general guidance for applicants as to the principles which they will apply in deciding whether any religious group is disqualified from holding satellite, cable or radio licences.

"These proposals would complete the refinements which we have agreed to make to the Bill on religious broadcasting. They are another example of our readiness to listen to arguments and to propose changes to the Bill where we thought there was a good case for doing so. I have held meetings with representatives of many groups with an interest in religious broadcasting. I am particularly grateful to Michael Alison MP for co-ordinating many of these representations."

NOTE FOR EDITORS

The Bill will start its Lords Committee stage next week. It has already been amended to require Channel 3 and Channel 5 licensees to give a sufficient amount of time to religious programmes; and to give the ITC discretion to allow religious groups to own cable and non-DBS satellite channels. The Radio Authority, under the amendments being tabled today, would have discretion to allow religious groups to own local, restricted and satellite radio licences, and licences for licensable sound services.

PRIME MINISTER

RELIGIOUS BROADCASTING

Michael Alison has copied to me a letter he has written to David Mellor about the clauses and schedules dealing with religious broadcasting. As you are aware, religious bodies were originally prevented from holding broadcasting licences but the Bill has subsequently been amended to allow this, subject to a test of "appropriateness". Michael Alison is worried that if this test is left vague the judgements will be taken by the existing religious advisors to the BBC and the IBA. They have been hostile to the campaign to allow independent religious broadcasting and are likely to advise that this should be tightly controlled. The end result will be the continuation of the virtual monopoly for the Church of England.

Michael Alison and others are seeking to spell out in the Bill rather more of the way in which discretion will be exercised. ✓

Agree I find out from David Mellor's office how he intends to respond to this?

AT

7 to 15

ANDREW TURNBULL

2 July 1990

PART 11 ends:-

CST to HOME SEC 28.6.90

PART 12 begins:-

AT to PM 2-7-90