



QUEEN ANNE'S GATE LONDON SW1H 9AT

cc D/O.
2

25 April 1983

Prime Minister:

The Home Secretary proposes an increase in the BBC's borrowing powers to finance satellite broadcasting development.

Dear Jeffrey

BBC DBS SERVICE

I last addressed my colleagues on this subject in my letter of 22 December to Leon Brittan. Since then the BBC have sent us - and my officials have shown to yours - their financial proposals. They have now formally asked - as has all along been expected - for an extension of their borrowing powers for the financing of the service.

JF 26/4

The BBC's outline estimates of income and expenditure show that they would have to start borrowing in the coming financial year, build up to a peak debt of £157 million (at 1982 prices) in financial year 1989/90, and effectively clear that debt three years later, with the revenue coming from subscriptions. The BBC estimate that subscribers would rise from 200,000 in year one to two million in year five, with a much slower growth beyond that date. They emphasise that they regard the estimates of take-up which they have put forward as being conservative. As far as programme costs are concerned, the BBC are confident of reaching various agreements on film packages, in some at least of which the costs will bear a relation to the number of viewers.

The BBC's request, which I am satisfied is soundly based, is for new and separate borrowing powers to cover the full extent of the projected debt. Since the figures are in 1982 prices and the debt will extend over several years, I have in mind to confer borrowing powers of up to £150 million, with a further increase to £225 million with my approval (the existing Charter offers a precedent for this tiered arrangement). The powers are conferred by a supplement to the BBC's Charter. The borrowing would be carried out by the BBC through its ordinary financial mechanisms, and would not affect the PSBR.

The reason why the requirement arises now is that the BBC, having signed Heads of Agreement with Unisat in March for the provision of their two channels for DBS, are due to sign formal contracts at about the end of May. This is the lead time required so that the Unisat hardware and the BBC software can be available for the start of the new service in the autumn of 1983. The BBC tell us that Unisat, on the prompting of their bankers, will require an assurance at the time of contract signature that the BBC is financially in a position to honour its undertakings. This means that the BBC will need to be able to demonstrate that they have power to borrow money to cover the maximum they estimate they will incur during the start-up period. We have considered whether the existing borrowing powers under the Charter (£75 million, which may be increased to £100 million with my consent) would be sufficient in the short term, but the Corporation are satisfied that this would not meet Unisat's wishes. More importantly, their own legal advice is to the effect that this would be unacceptable, since it would be wrong for the Corporation to enter

into a contract of this kind without being confident that they can finance in full the type of service which will recover the rental expenditure.

I acknowledge of course - as we have done all along - that this is a novel commercial venture for the BBC, with an element of commercial risk which is inevitable if we are to secure this important technological advance and the benefits it will bring to British industry as well as our broadcasting services. I have considered the BBC's financial approach carefully before concluding that it is the right one; and our officials have been in touch on aspects of the proposals. I know that you will wish to be assured regarding the security for the borrowing, and the situation that would arise if the venture were not to prosper. The position is that the BBC have established that the necessary finance will be available against the background of their valuable property assets. There is no question of their wanting or seeking any form of Government guarantee. In the ultimate of course, were DBS to fail, the licence fee income could represent the only security. The BBC make the point, however, that they regard their projections as conservative, and the risks of failure low; and they also emphasise that there would be no question of the project failing with the maximum borrowing requirement incurred. They would be monitoring DBS closely from its inception and, if they foresaw trouble, would act in adequate time; and while they would have to meet the leasing costs of the DBS channels, they would be able to recoup some of their capital and programme costs. In the last analysis, the total exposure to loss in a "doomsday" situation might be about one-eighth of a year's licence fee income; and if repayment was spread over a period, and proper economies made, the financial effects though noticeable would be endurable.

I understand that your officials have raised the question whether, instead of financing the whole costs of the project through borrowing, a contribution might be found from current licence fee revenue, particularly since the rate of general inflation is now somewhat lower than was assumed at the time of the last licence fee settlement. I am myself satisfied that borrowing is the right answer. Since the BBC are financed in a way which means that they do not accumulate reserves, increasing borrowing powers represent the only source of finance, and we recognised the need for this when we decided collectively last year that the BBC should provide a DBS service. I believe that it would be quite wrong to divert licence fee revenue, which is designed to support the Home Services which are available to all licence holders, to subsidise a subscription service. Such a course could also be criticised by subsequent providers of DBS services who had to rely solely on subscription income as being unfair competition.

I therefore conclude that it is right to confer the additional borrowing powers for DBS on the BBC as they have requested. I am anxious for the necessary formalities to be completed without delay. The target date of the service (September 1986) is tied to the contract signature date at the end of May, which in turn depends on the making of a Supplemental Charter at the Privy Council meeting on 18 May. The development of the whole project involves a complex inter-relationship between the provision of a headquarters and infrastructure, the negotiation of programme deals and packages, and progress with the satellites. Any disruption of this critical path would lead to a disproportionate delay. It is clear that neither the BBC nor Unisat will sign the contract until the financial arrangements are certain. The date for contract signature is publicly known, and any delay to that would not only mean that the 1986 target date would not be met but, by implying Government doubts about DBS

financing, would undermine confidence within Unisat and in the manufacturing sector generally and prejudice the viability of DBS overall. I therefore seek my colleagues' early concurrence in my proposal.

There is no formal Parliamentary procedure associated with a Supplemental Royal Charter. But Parliament needs to be informed, and I therefore have it in mind to answer an arranged Parliamentary Question on the lines of the attached draft in the week beginning 3 May, and to place a draft of the Supplemental Charter in the Library of the House. This could prompt some Parliamentary interest, but I see no reason why we should not be ready for the Privy Council meeting on 18 May.

Copies of this letter go to the Prime Minister, the Lord President, the Secretaries of State for Industry and for Trade, and to Sir Robert Armstrong.

*Yours
Lester*

DRAFT ARRANGED PARLIAMENTARY QUESTION

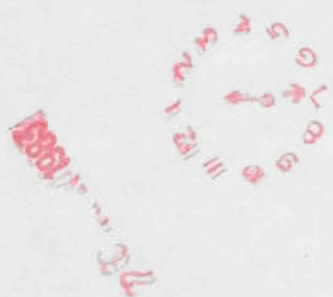
To ask the Secretary of State for the Home Department, what further progress has been made on the introduction of DBS; and if he will make a statement.

DRAFT REPLY

The BBC are continuing with their plans to have two DBS services in operation by September 1986. They have signed Heads of Agreement with Unisat for the provision of two DBS channels, and contracts are due to be signed shortly. Substantial investment will be required before the introduction and during the period of take-up of the new services, and this will be financed by borrowing. The BBC's existing borrowing powers are insufficient, and should in any case remain available if necessary for the existing Home Services. A Supplemental Royal Charter is therefore being prepared which would allow the Corporation to borrow for the provision of satellite services up to £150 million, with the possibility of an increase to a maximum of £225 million with the permission of the Secretary of State. A draft of the Supplemental Royal Charter has been placed in the Library of the House.

The IBA have now submitted proposals for DBS broadcasting by independent companies in this latter half of this decade. I am considering these, and will bring forward proposals as soon as I am able.

BROADCASTING; Cable
Pt 3.





Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon William Whitelaw CH MC MP
Secretary of State
Home Office
50 Queen Anne's Gate
London SW1H 9AT

3 May 1983

Dear Secretary of State

DT
3/5

DIRECT BROADCASTING BY SATELLITE

Geoffrey Howe has asked me to reply on his behalf to your letter of 25 April.

We are grateful for the full account you have given us of the BBC's plans, and I accept that we must now let them proceed with their commitments.

We remain sceptical however about the potential market for the new channels, and I am glad therefore to read that the BBC is not seeking any form of Government guarantee. It must be absolutely clear to the Corporation that any loss on the satellite service will have to be met from their general licence revenue and that they would have no claim on any other form of Government subvention.

Given that we are not pursuing the earlier suggestion that the initial costs of the new service might be met from licence fee revenue, it seems also to be doubly important to see how we can restrain BBC expenditure in the interests of licence fee payers. In this context I may wish to return to the proposals associated with the Parliamentary Control of Expenditure (Reform) Bill, but the principal means of restraint would obviously be a tighter financial regime. I await therefore with interest your response to Geoffrey Howe's recent suggestion that the period of operation of the licence fee could be extended for a further year.

I am copying this to the Prime Minister, the Lord President, the Secretaries of State for Industry and for Trade, and to Sir Robert Armstrong.

Yours sincerely

J. G. G. G.

J. LEON BRITTAN

[Approved by the Chief Secretary].

BROADCASTING : DBS : Pt 3



5 MAY 1993



Broadcasting ✓

QUEEN ANNE'S GATE LONDON SW1H 9AT

December 1982

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DIRECT BROADCASTING BY SATELLITE

Handwritten initials

23/12

Thank you for your letter of 10 December about the BBC's plans for a DBS service.

Let me start with three immediate points on the question whether cable operators should be required to make provision for the relay of DBS subscription services as well as those which are "free". First, when I raised this question in my letter of 26 November, it was not with a view to securing an immediate decision on it, but merely as an illustration of Government decisions outside the immediate area of DBS which could have an impact on the BBC's judgment of the viability of its DBS project. The time and place for a decision is, I believe, in the context of our collective consideration of the White Paper on Cable, drafting of which is now being put in hand.

Secondly, I would see this not as a special privilege conferred on the BBC but as a provision relating to all five DBS channels which the United Kingdom is entitled to take up - irrespective of who operates them. In the case of subscription channels there will, of course, be a need for appropriate financial arrangements between the DBS provider and cable operator.

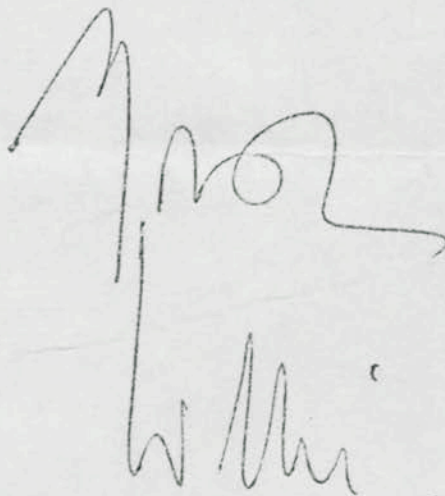
Thirdly, cable relay of the BBC service would certainly reduce the risk which you mention of failure placing a burden on the ordinary licence fee holder.

But the essential argument - and it is as much a DOI as a Home Office argument, as Patrick Jenkin's letter of 1 December testified - is this. The Government has an interest, for technological and industrial reasons (as the Prime Minister brought out in her recent Barbican speech), in the well-being of our space programme. DBS is an important element in that programme. DBS relies on reception of two kinds; by individual receiving equipment, and by cable relay. Our cable policy means that reception by cable will become progressively more significant. It would not make good sense if the result of leaving it to cable operators' choice was that these two aspects of technology policy worked against one another instead of together. I hope, therefore, that when we come to consider this question in the cable context early next year, we can approach it in that spirit.

Can I take this opportunity of reporting to you and other colleagues the present position on the BBC's DBS project? I explained in my earlier letter that the Corporation has been working on its detailed plans, including financial plans, for the project. It has felt hampered by uncertainty regarding the interaction of the Government's policy, as it has rapidly developed, for cable, and regarding the choice of transmission standard. Meanwhile the satellite consortium, Unisat, have been pressing the BBC for a firm commitment to the renting of the satellite facilities, on which they have already spent substantial sums. The Board of Governors considered the situation at a meeting last Thursday, and agreed that the necessary commitment could be given to Unisat, in advance of the Corporation's completing, and presenting to me, its assessment of the project as a whole. It was informed in advance of the Board's intention, and decided, with the support of Industry Ministers, that I should not seek to intervene in the Board's judgment and handling of the situation. However, as I have stressed to the Corporation, it underlines the need for it to complete its plans as soon as possible so that I can give early consideration to them, especially to those aspects - for example extent of borrowing powers - in which there is a specific Government role. My Department remains in close touch with the BBC and, with the help of the Department of Industry, is doing all that it can to encourage the BBC to carry the project forward in a timely manner.

We are also in contact with the IBA about possible uses for one or more of the remaining DBS channels that stand allocated to the United Kingdom.

I am copying this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for Industry and for Trade and Kenneth Baker, and to Sir Robert Armstrong.



Broadcasting, Direct Broadcasting,
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23 DEC 1984

Broadcasting



13/12

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon William Whitelaw CH MC MP
Secretary of State
Home Office
50 Queen Anne's Gate
London SW1H 9AT

10 December 1982

Sec Secretary of State
DBS SUBSCRIPTION SERVICES

1/12/82

I have seen the recent correspondence between your and Patrick Jenkin's private secretaries about transmission standards and the suggestion that, in order to encourage the BBC to proceed with their DBS project, we should require cable operators to make provision for relaying satellite subscription services.

I must say that I am most unhappy about this proposed extension of the decisions we have reached in 'E' and 'E'(TP) about satellite and cable policy. I think we should have the opportunity to discuss it collectively before any firm indication of Government policy is given to the BBC.

As I understand it the purpose of this concession would be to put the BBC into a privileged position in comparison to other subscription services. But the BBC obviously has good reasons at the moment to want to review its involvement in DBS and I do not think that we should offer them inducements or safeguards which might lead them to take a less than wholly commercial decision.

We have always recognised that involvement in DBS is a risky venture and, if in the light of discussions on cable and on technical standards, the BBC chose not to become involved then that could be for the benefit of the ordinary licence payer who might otherwise have to bear the considerable costs of failure. Given that the television licence fee is in effect a direct tax affecting 97 per cent of households, including many who do not pay any other form of direct taxation, I think we should be especially cautious about pushing the BBC into new ventures. They would presumably be most unwilling to cut back their other services if the satellite channel failed to attract subscribers.

I am copying this letter to the Private Secretaries to the Prime Minister, Foreign Secretary, Secretaries of State for Industry and Trade and Sir Robert Armstrong.

Yours sincerely

LSL
for LEON BRITTAN

(Approved by Archibald Secretary & signed in his absence)

10 DEC 1982

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CONFIDENTIAL



JF2163

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
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/ December 1982

Mrs L Pallett
Private Secretary to the
Secretary of State for Home Affairs
The Home Office
Queen Anne's Gate
LONDON
SW1H 9AT

Handwritten initials: D
Handwritten date: 1/12

Dear Herley

DBS TRANSMISSION STANDARDS AND SUBSCRIPTION SERVICES

In your letter of 26 November, you asked to be informed of any difficulties raised by the proposal to indicate the Government's acceptance of the Part Panel's report by means of a draft arranged Parliamentary Question. We spoke and I let you know that we were content for you to proceed as proposed.

2 Your letter also described the Home Secretary's concern that the BBC might decide to pull out of the establishment of a DBS service unless full weight was given to their views on certain of the Hunt recommendations on cable television, including the "must carry" rule in relation to DBS services.

3 My Secretary of State agrees that cable operators should be required to make provision for relaying DBS subscription services in addition to the "free" DBS services, subject always, of course, to the payment of the subscription by the customer and the payment of an appropriate commission to the cable operators.

In cases of difficulty there may be a need to establish arbitration procedures.

4 I am sending a copy of this letter to the recipients of yours.

Yours sincerely
David Saunders

DAVID SAUNDERS
Private Secretary

Broadcasting 043

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1 DEC 1982

2 PPS 1



Prime Minister:

The Home Secretary proposes to accept the Part Committee recommendation that the IBA system for transmission by satellite should be preferred to the BBC system. This risks a BBC withdrawal, which would jeopardise the 1986 target. Agree proposed announcement?

Dear David,

JF 26/4

HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

26 November 1982.

- Yes no

DBS TRANSMISSION STANDARDS

In announcing the publication of the Report of the Advisory Panel on Technical Transmission Standards for direct broadcasting by satellite on 22nd November the Home Secretary said that the Government would be studying the Panel's recommendations as a matter of urgency. When Sir Antony Part and his colleagues on the Panel saw the Home Secretary and your Secretary of State on 16th November they stressed the importance of an announcement by the end of this year at the latest if British industry is to be able to design and manufacture the necessary consumer electronics equipment in time for it to be available for the introduction of the first two B.B.C. channels in 1986.

The Panel came to the firm conclusion that the M.A.C. system, designed by the I.B.A., should be adopted as the United Kingdom standard for D.B.S. rather than the P.A.L. system which the B.B.C. favour. They were satisfied that M.A.C. was technically superior both to basic P.A.L. and to the "extended P.A.L." (E-P.A.L.) system which, under the B.B.C. proposal, might be introduced at a later stage. They endorsed the unanimous view of British manufacturers that M.A.C. offered the better opportunities for our electronics industry and, unlike P.A.L., had potential both to form the basis of a common European standard and to be taken up in North America. They considered that there would be no extra cost to the B.B.C. or the consumer in adopting M.A.C. rather than E-P.A.L. and that the difference above basic P.A.L. was marginal only.

As anticipated, the B.B.C. have taken the Panel's recommendation very badly. The Home Secretary met George Howard and senior B.B.C. staff on Wednesday and I understand that Mr. Baker saw Alasdair Milne and others yesterday. The B.B.C. believe that the Panel have misled themselves about the prospects that M.A.C. would be adopted elsewhere in Europe, and have underestimated the consequences that would flow if in the event we were the only country to adopt it. They fear two things in particular: first that while our manufacturers might be happy with a small, protected market for D.B.S. receiving equipment, the higher cost this will mean to the consumer may seriously damage the take-up of the service; secondly that problems over dual standard equipment will mean that fewer people in continental Europe than the B.B.C. had hoped will take their subscription channel. The effect of both would be to jeopardise the financial viability of the B.B.C.'s D.B.S. services, which will in any case have to work hard to secure sufficient audience growth in the early years.

These are all points which the B.B.C. put to the Panel, who firmly reject them in their Report. In view of this the Home Secretary put it to George Howard that, strongly though the B.B.C. feels, it is very difficult to see that there are any grounds on which the Government could consider not accepting the Panel's conclusions. He recognises this, and does not expect anything other than early acceptance by the Government of the Part proposals. However, he stressed that acceptance of M.A.C., together with a greater competitive threat from cable than was apparent when the B.B.C. framed its D.B.S. proposals, plus the risk of unwelcome decisions on specific cable issues such as 'pay-per-view', create the risk that the B.B.C. will feel unable to proceed with D.B.S. The Corporation is due to enter into contractual arrangements with Unisat Limited early next year and will now have to rework its financial calculations on the basis of new assumptions before it can be sure that it would be right to commit itself.

In taking a decision in favour of M.A.C. Ministers have therefore to face the possibility that the B.B.C. may pull out of D.B.S. It is impossible to say with certainty whether, if they did, commercial broadcasters would be willing to come forward - and take a risk which the B.B.C. had already rejected as too great. The likelihood is that they would. But at the least there would be a substantial interval before commercial broadcasters were in a position to commit themselves. The 1986 target would certainly slip by at least a year, and Ministers would be faced with the need both for immediate decisions on the franchising and supervisory arrangements for the commercial channels and for early legislation.

While the Home Secretary rather doubts if the B.B.C. will pull out, he recognises that it is necessary to take the measure of that risk. Nevertheless it seems to him, and he believes that this was also the view which your Secretary of State took when they saw Sir Antony Part, that they ought not to reject, or to delay accepting, the Advisory Panel's recommendation on transmission standards. The Home Secretary believes that the confident conclusions of a strong Panel could not plausibly be overturned because of the line taken by the B.B.C. It is difficult to see that any fresh evidence could now be forthcoming which would justify a different view. Nor would waiting a little longer make the Government's position with the B.B.C. any easier: while it increases the risk that it will be criticised by the consumer electronics industry, who want a firm decision this year.

/The Home Secretary

... The Home Secretary's strong preference therefore is to get the issue out of the way before next Thursday's debate on cable. If your Secretary of State and copy recipients of this letter agree, he proposes to table the attached Question on Monday 29th November for answer on the Tuesday. If this causes any difficulties could you please let this office know by telephone by midday on Monday.

The Home Secretary has of course made it clear to the B.B.C. that Ministers very much hope that they will go ahead with D.B.S. He also draws the conclusion that, in taking decisions on cable, full weight must be given to the B.B.C.'s views on those particular Hunt recommendations to which the Corporation attaches great importance. Those which they stressed to the Home Secretary again on Wednesday were: the "must carry" obligation; no "pay-per-view" for cable; and no "exclusive rights" for cable over major sporting events. On "must carry" they have made the point that the obligations of cable operators should include a requirement to make provision for relaying D.B.S. subscription services as well as "free" D.B.S. services available to their customers, subject of course to customers' paying the subscription and to cable operators' collecting an appropriate charge for the relay service. The Home Secretary is sure that this idea should be looked at sympathetically, in the interests of getting D.B.S. successfully launched.

Copies of this letter, together with a copy of the Panel's Report, go to the Private Secretaries to the Prime Minister, Foreign Secretary, Chancellor of the Exchequer, Secretary of State for Trade, Chief Secretary to the Treasury and Sir Robert Armstrong.

Yours sincerely,

Lesley Pallett.

MRS. L. PALLETT

DRAFT ARRANGED QUESTION

To ask the Secretary of State for the Home Department whether he is yet able to announce the Government's conclusions on the Report of the Advisory Panel on Technical Transmission Standards for direct broadcasting by satellite.

DRAFT REPLY

My rt hon Friend the Secretary of State for Industry and I have now considered the Panel's Report and have decided to accept its recommendation that the C-MAC system should be adopted as the standard for direct broadcasting by satellite in the UK. The detailed specification will be published before the end of the year and I shall ensure that a copy is placed in the library of the House. I shall arrange for the question of encryption to be considered urgently as recommended by the Panel.

26 NOV 1982

