


CONFIDENTIAL

CEBG
CCB-4P

PRIME MINISTER

MINISTERIAL GROUP ON BROADCASTING

SERVICES: 15 OCTOBER 1986

[MISC 128(86)2; MISC 128(86)3]

OBJECTIVE AND CONCLUSIONS OF THE MEETING

1. The meeting of the Ministerial Group on 15 October is focussed on the immediate questions surrounding the BBC licence fee. A further meeting is arranged for 30 October to consider the Home Secretary's proposals for a Green Paper on radio, and the Peacock recommendation on extending the BBC's use of independent producers. (Both these latter topics raise similar questions about the BBC's independence.) In the light of the two meetings the way should be clear for initial debates on Peacock in both Houses, and for the Home Secretary to announce decisions on the licence fee issues soon thereafter.

2. The meeting on 15 October will also consider a short paper by the Trade and Industry Secretary on the handling of Peacock's recommendation for a radical change of policy - with implications going far beyond broadcasting - on the restrictions applied to the national telecommunications systems (BT and Mercury). Sir Robert Armstrong will be submitting a separate brief on that item after the weekend.

3. The immediate matters on which the Home Secretary seeks decisions are set out in paragraph 21 of his paper,



the Chairman of the Official Group, with a series of more detailed annexes attached to his report. On some of the issues, at least, the Home Secretary's paper will probably provide all the information that the Group needs to take a decision. But on concessions, in particular, you may wish to look at the note from the Official Group (Annex B to MISC 128(86) 2), as the background is very complicated and untidy.

(i) Subscription

5. Nobody disputes the Home Secretary's proposition that subscription cannot displace the licence fee for some years. Bearing in mind Peacock's recommendation that the Government should require new television sets to have decoder equipment from January 1988, however, you will wish to satisfy yourself that the study of the feasibility of subscription is being pressed ahead with proper urgency.

6. The Official Group concluded that a thorough appraisal was needed of both the economic feasibility and technical feasibility of a move to subscription before Ministers would be in a position to take decisions. An outside firm of consultants (Communications, Studies and Planning International Limited) has been appointed to carry out the study. They have a good working knowledge of both the technical and economic issues of subscription television, and practical experience of introducing subscription systems in the United States. The technical appraisal will examine the availability, cost and feasibility of technologies for encryption and decryption of the signal including such issues as maintaining security of transmission and the capital cost to the consumer of installing the appropriate receiver. The appraisal will also look at the system for collection of subscriptions and enforcement of payment. The economic appraisal will look at various options

e.g. a subscription system applied only to the BBC or one
available to more than one channel.

7. Given the importance of establishing the facts on subscription for future broadcasting strategy, you may not think that the scope and timescale of the consultants' study is unreasonable. The report is expected at the end of March 1987. You may wish to confirm that there should be a presentation to the Ministerial Group as soon as possible after the consultants have reported.

(ii) Advertising

8. Starting from the assumption that the licence fee must remain for some few years at least, the Official Group have identified limited advertising and indexation of the fee as the two possible approaches to the BBC's revenue. Nobody is questioning Peacock's view that BBC full reliance on advertising is unrealistic.

9. On limited advertising (which was, incidentally, recommended in a Times leader) the Official Group have taken their study simply to the point of concluding that modest growth in the economy would enable the BBC to take on advertising without imperilling ITV revenue. They do not have a consensus view on whether even limited advertising would jeopardise BBC standards, though Peacock (and now the Home Secretary) believe that it would.

10. The Home Secretary invites the Group to decide firmly against any BBC advertising in the immediate future, partly because of his fear about programme standards, but also because of the following points.



(i) Limited BBC advertising would represent inherently unfair competition to ITV companies that have no recourse to public funds.

(ii) It would jeopardise the flow of advertising revenue to direct broadcasting by satellite (DBS) which the IBA are presently hoping to launch.

(iii) It would be very difficult politically to press for advertising after Peacock so robustly turned it down.

11. You will also wish to bear in mind that advertising is but one of the contentious issues that will need to be settled quite soon, and that there may be a practical limit to the number of points that can be settled in a direction that the BBC would fiercely resist.

12. The Secretary of State for Trade and Industry, however, may wish to probe the matter further and if the Group does think that limited advertising is a realistic route, then more detailed work would have to be put in hand urgently. If the Group decides against advertising, alternative approaches to BBC revenue will need to be examined.

(iii) Indexation

13. This is fairly straight forward. The last settlement of the fee was on the basis that it would run until March 1987 and thereafter for a further year unless displaced by a new system for financing the BBC. The Home



Secretary's proposal is that the Government should confirm that the present fees (£18 and £58) will remain in force until March 1988 and that thereafter they should be indexed (initially for one year) to the retail price index. The attractions of this package are that it would avoid the wrangle about a discretionary settlement at least into the next Parliament. The BBC will object to the RPI as an index, arguing that the bulk of its costs are wage-related and that movements in the RPI do not fairly reflect the inflationary pressures upon it. Against this, indexation to the RPI will be widely understood by the consumer and wage costs are indirectly reflected in it. It would be possible to be tougher and adopt a formula of RPI minus X but the Home Secretary does not recommend this. The bulk of the population have now switched from black and white to colour sets and the consequent diminished buoyancy of the BBC revenue from the licence fee will in any event put pressure upon them. Indexation to the RPI should impose a real discipline on the BBC to contain costs, while retaining the advantage of simple presentation as far as the public are concerned.

(iv) Concessionary Licences

14. This is one of the most difficult issues for the meeting. The present concessionary scheme - analysed in more detail in the report from the Official Group - benefits some 630,000 pensioners (and mentally and physically handicapped people) in certain residential homes and sheltered housing who can obtain licences for 5p a year, but it does not extend to pensioners living in their own homes. It costs more to administer than the revenue it raises, and some £25 million in licence revenue foregone. An unpublished internal review last year,



the conclusions of which were endorsed by the Efficiency Unit, concluded that the scheme was hopelessly flawed, and full of anomalies and interpretational difficulties. It attracts a large volume of complaints from pensioners excluded by the rules. But the internal review was unable to identify a satisfactory replacement, which would not run into the same problems of definition, policing and administration. In short, it is not realistic to use concessionary schemes as social policy instruments.

15. Without consulting the Departments involved, however, the Peacock Committee recommended that the present scheme should be abolished and replaced with one whereby pensioners drawing supplementary pension in households wholly dependent on a pension should be exempt from the licence fee. They also made recommendations for funding the additional costs of this concession by charging a licence fee for car radios, an increased fee for multiple sets and an increase in the monochrome licence fee.

16. The proposal to limit the concession to households wholly dependent on a pension is impractical. The internal review found that it was impossible to identify, within any realistic cost limits, even supplementary pensioners living alone, let alone to make more detailed judgements about their financial circumstances. To identify those wholly dependent on a pension would involve some form of individual examination of every one of the 1.6 million potentially eligible households. The difficulties of identification will be even more pronounced after the introduction of the Income Support Scheme in 1988. Any licensing concession would therefore have to benefit all 1.6 million households drawing supplementary pension (possibly more if pensioners who do not now claim benefit because it is only worth a few pence a week, regard it as a passport to a free television licence). But even with this scheme, expensive special



arrangements would have to be made to bring in the old and disabled who live in residential homes where they are subsidised by a reduced rent and are not required to claim supplementary benefit, and the disabled whose entitlement to attendance allowance lapsed after entering the home and who would have no other passport to the scheme.

17. On the other side of the coin there are obvious problems about most of Peacock's ideas for raising more revenue to finance extra concessions. In particular - and notwithstanding the Home Secretary's comments - the proposal for a car radio licence looks like a straight burden on virtually all motorists, whether they use their radios or not. (You should note, however, that the possibility of raising the monochrome licence fee might be decoupled from the argument on concessions, and examined again later.)

18. Faced with all these manifold problems, the Home Secretary concludes that - despite the Labour Party's pledge to abolish the licence for all pensioners - the least bad solution is to leave the present concessionary system as it is, with all its acknowledged defects. If the Group decides that more is needed in this field, the Home Secretary believes that it could only take the form of a straight cash payment to all pensioners. Such payments would presumably be made through the social security system and would be quite separate from the licence system (though they might enable the present concessions to be run down). The Official Group has not done any work on such cash payments and if the idea were to be taken further DHSS would have to be brought into urgent consultation.



(v) Collection of the Licence Fee

19. The Peacock Committee recommended that the BBC's role in the collection of the licence fee should be enhanced. The Official Group consider that there is a case for going further and making the BBC itself responsible for collection and accountable to Parliament. The Home Secretary agrees with this suggestion. He points out that the BBC has the greatest incentive to maximise the revenue that a given licence fee can yield and that the change would clarify lines of responsibility. The change would also help to pave the way for the operation of a subscription system. A minor technical amendment to primary legislation may be needed (which could conceivably be done through a Finance Bill) and the BBC's licence agreement from the Home Office (and possibly its charter) would have to be amended. It seems quite right to take this forward with the BBC as the Home Secretary proposes.

(vi) "Easy-payment" arrangements.

This, at least, must be non-controversial. Nobody will dispute the Home Secretary's intention to pursue easier-payment methods with the BBC, as set out in paragraph 16 of his Paper.

HANDLING

20. You will want to invite the HOME SECRETARY to introduce his paper. You may then like to invite the TRADE AND INDUSTRY SECRETARY to add his comments. The discussion could then be divided into 3 parts:

(i) The Future of the Licence Fee



Should limited advertising be permitted or does indexation of the licence fee provide the better course? The TRADE AND INDUSTRY SECRETARY may wish to give some indication of the views of the advertising industry. The CHANCELLOR OF THE EXCHEQUER and the CHANCELLOR OF THE DUCHY OF LANCASTER will have views as to whether the RPI option or a tougher RPI minus X option is the right one to follow. The LORD PRESIDENT may wish to comment on the advertising option which he has always opposed in the past.

(ii) Concessionary Scheme

Is simple retention of the existing scheme feasible politically? Is there any alternative? All members of the Committee will have views in this area. If it is thought that some change is politically essential then the Official Group should be remitted to work up the best mix of options for further consideration.

(iii) Other Issues

The question of collection of the licence fee seems relatively straightforward although the TRADE AND INDUSTRY SECRETARY may wish to comment on the implications of any change for the Post Office. "Easy-payment" schemes can simply be noted. You may want to say something about a presentation on subscription when the consultants' study is available next year.

A.J.L.

A J LANGDON.

10 October 1986