

C/Group
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PRIME MINISTER

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MISC 128: MEETING ON 19 NOVEMBER
RADIO POLICY: MISC 128(87)13

OBJECTIVES OF THE MEETING

At the last MISC 128 meeting it was agreed that there should be Broadcasting Bills in each of the next two Sessions, and that there should be a White Paper next Spring setting out the Government's proposals in as much detail as possible. The present meeting is the first of a series on which the Home Secretary will be seeking MISC 128 approval for various segments of the policy to be announced in the White Paper. He is anxious that radio policy should be considered as a self-contained topic, and nothing else has been placed on the agenda. (At the next meeting, scheduled for 10 December, the Home Secretary will seek decisions on the various ITV issues, including independent producers and Channel 4, on which the Group have already had preliminary discussion. That meeting may also take a paper on subscription policy.)

2. At the present meeting, you will therefore wish the Group to reach clear decisions on the three outstanding issues on which the Home Secretary is reporting back. These are

- i. The appropriate authority to regulate independent radio.
- ii. The funding and ownership of independent radio services.
- iii. The basis of selection for national independent radio contractors.

Subject to decisions on these points, you will wish the Group to endorse the policies on radio set out in the Green Paper, as the basis for what is said about radio in next Spring's White Paper, and for inclusion in next Session's Broadcasting Bill. The Home Secretary asks for authority to make an "announcement in due

course", and you may wish to probe if there is any need for a statement before the White Paper.

BACKGROUND

(i) General

3. The BBC operates four national radio services (and regional services in Wales, Scotland and Northern Ireland) and about 30 local radio stations. Independent Local Radio (ILR) consists of about 50 local services run by companies under contract from the IBA. BBC Radio 1 accounts for about a quarter of total radio listening. In areas where both services are available Radio 1 and ILR have similar listening figures.

4. Local radio broadly takes a town as its unit size. Below that level, there is the possibility of community radio, which could either be aimed at small geographical areas or at specialised common interest groups. Although Mr Brittan announced in 1985 his intention of establishing an experiment with community radio, H Committee subsequently decided that it would be unwise to proceed with this before the appropriate regulatory regime had been put in place.

5. The Peacock Committee's main recommendations on radio were that IBA regulation of radio should be on a looser regime and, by a majority, that the BBC should relinquish Radios 1 and 2, which should be privatised and financed by advertising.

(ii) The Green Paper

6. Mr Hurd did not think that it would be sensible to try to remove Radios 1 and 2 from the BBC as going concerns, or to prevent the BBC from broadcasting that type of material. But it was clear to him that the BBC was sitting on top of more radio spectrum for sound broadcasting than it required, and was wasting this resource by the practice of simulcasting (ie broadcasting the same material on different frequencies simultaneously). He

therefore proposed that two frequencies should be removed from the BBC allocation, leaving it to the BBC to decide how it wished to adjust its services in consequence. Together with the extra frequency that had been promised to the BBC from 1990, that made three frequencies suitable for national broadcasting networks, and Mr Hurd proposed that these should be set up as three distinct national independent radio services. These new national services, the present independent local stations, and the proposed community radio services should all be run on a light regulatory regime similar to that applied to Cable, and Mr Hurd proposed that the Cable Authority would be the best authority to regulate all three segments.

7. At their meeting on 30 October 1986 MISC 128 regretted that the BBC had seen fit to compete with local radio on its own terms, but did not question that BBC local radio services were now an inevitable part of the picture. MISC 128's main doubts, however, were that the proposed regime for community radio in particular might be too light, and that local authorities and political parties should not be allowed to finance these new services. Subject to this proviso, which was written into the Green Paper, MISC 128 approved the overall scheme proposed by Mr Hurd, and the Green Paper was published last February.

MAIN ISSUES

8. It is clear from the summary above that radio policy is not circumscribed by spectrum shortage in the same way as television policy. Mr Hurd's proposals in fact constitute a far more radical shake up of radio than is proposed for television, with totally new services at national and community level, and with competition between the BBC and independent radio both at local and national levels. In broad principle this highly competitive scenario, made possible by removing excess spectrum resources from the BBC, is entirely in tune with the Government's philosophy, and it is most unlikely that any colleagues on MISC 128 will have major second thoughts about the overall structure.

9. As you will realise, the continued BBC involvement in radio must be financed by syphoning off some of the proceeds of the licence fee which is levied not on radio, but on television receivers. This is highly anomalous, and when the licence fee is eventually run down some new way of financing BBC Radio will doubtless have to be found. You may think, however, that this is not a problem for the present Parliament.

(i) The appropriate authority to regulate independent radio

10. Mr Hurd believes that it would be unsatisfactory for the IBA to attempt to run a light regulatory regime for radio alongside the public service broadcasting regime for television, and that the regulatory job for radio should be done by some other authority. When MISC 128 considered radio questions a year ago Mr Hurd was in favour of the Cable Authority, which clearly has experience with an appropriate type of regime under its present functions. Since then, however, the world of Cable has sunk into the doldrums, and the Cable Authority may not now seem a plausible choice for radio regulation. Mr Hurd therefore proposes a new authority altogether, which he envisages as a very small body.

11. Although there is an inexorable process of elimination behind Mr Hurd's proposals, you will wish to weigh them against the argument that we are in danger of creating too many authorities in the broadcasting world. There are already the BBC, IBA, S4C and the Cable Authority; and there will certainly be a Broadcasting Standards Council in addition to these four. If, at its next meeting, MISC 128 agrees to set up Channel 4 as a separate authority, a Radio Authority would bring the total to seven.

(ii) Funding and ownership of independent radio services

12. In accordance with MISC 128's earlier decisions, the Green Paper (paragraph 7.10) makes it clear that public authorities, political organisations and groups (such as trade unions) affiliated to them should not be allowed to control local radio services. The only change that Mr Hurd now proposes to this is

that, while these bodies should continue to be prohibited from investing in radio stations for profit, they should be allowed to make financial contributions up to 10% of a station's annual income. This seems reasonable, but it depends on a political judgement whether that limited degree of influence over a station's output is acceptable.

13. On the ownership of radio services, Mr Hurd proposes that the Broadcasting Bill should give him powers to limit the number of local stations which might be owned by the same group, and to start off with a limit of six. The main point here is whether this needs to be weighted in some way for concentration, and for size. Would it be acceptable for all the local radio stations in the Birmingham conurbation to be in the same hands, for example?

14. On newspaper interests Mr Hurd proposes to formalise the 20% limitation that the IBA currently imposes on newspaper shareholdings in independent radio stations, and to extend it reciprocally so as to apply to shareholdings by radio stations in newspapers. This is expected to be welcomed by the Newspaper Society, and seems right in principle, though it is not clear that ownership of newspapers by independent local radio is much of a problem in practice.

(iii) Selecting the independent national radio contractors

15. This is the most important point in Mr Hurd's paper. The Green Paper canvassed the range of arguments about the extent to which the new national independent services should compete with the BBC in all areas of activity, and ended by suggesting (paragraph 4.19) that the best approach "might be to allow those operating the new services to make their own programming judgements....in the light of their own assessments of what listeners want to hear". Mr Hurd is now having second thoughts whether it would be right to go quite so far in repudiating the public service broadcasting ethos. He suggests that it might be better to place on the new authority a duty to ensure that the services, taken together, provide a diverse range of programming,

without dictating what the nature of these services should actually be. The fear is that, unless there is some arrangement of this kind, the three new national services will simply broadcast endless pop music and advertisements.

16. It is difficult to consider the independent half of the equation without knowing what the BBC will do when it loses its two frequencies. If the BBC should pull in its horns and concentrate on Radios 3 and 4, then it might not greatly matter if the three new commercial services were similar, and down market. But if the BBC maintain services similar to Radios 1 and 2 - and Mr Hurd is clear that they cannot be forbidden to do this - then the anxieties about replicating yet further pop music services have more weight. Present advice is that the BBC would wish to continue with Radios 1 and 2, as they see it as their public service duty to cater for all tastes.

17. There is also a Treasury revenue point in this. At present there is a (zero-rated) revenue levy for independent local radio. The Chancellor of the Exchequer will doubtless expect a levy system for independent national radio, and the potential revenue from this might be limited by any control of the market forces in pursuit of an artificially diverse range of programming.

18. Last, there is the practical machinery for selection. If there is to be no balancing of the programme content, then the licences could simply be auctioned. But if the radio authority is to ensure that the services, taken together, provide a diverse range of programmes, than an auction would not be appropriate, and the radio authority would have to award the contracts on the basis of its own view of the overall range of programmes that the three services would be presenting, taken together.

19. Mr Hurd argues that the radio authority itself should not stipulate what the nature of the services should be, but you may want to probe whether this would be sustainable in practice. If all the potential contractors put forward similar programme packages, then the radio authority could only ensure a diverse

overall picture by imposing its own suggestions or by requiring that a short-list of potential operators should collaborate in devising complementary programmes. But what would be the basis on which the short-list would be selected?

20. You may think that, if the Group agree with Mr Hurd's preference for some arrangement to secure diversity of programming, then Mr Hurd should be invited to work up the details and clear them in correspondence. If, on the other hand, the Group settle for a straight auction and revenue levy, with no manipulation of the range of programming, then that is a straightforward decision that need not come back to MISC 128.

HANDLING

21. You will wish to invite the HOME SECRETARY to introduce his paper, and it may then be most convenient to take the three main topics in the order in which they appear in the paper.

22. On the appropriate regulatory authority, the TRADE AND INDUSTRY SECRETARY may well have views on the suitability of the Cable Authority.

21. On funding and ownership of local radio services, the TRADE AND INDUSTRY SECRETARY will have competition policy points both on the proposed limitation of total numbers and on the newspaper dimension.

22. On the basis of selection for national radio contractors the TRADE AND INDUSTRY SECRETARY will be concerned with how far the proposals reflect competition policy, and the CHANCELLOR OF THE EXCHEQUER will be concerned with levy arrangements.

23. Other members will doubtless have political comments on all these issues.

A.J.L.

A J LANGDON

18 November 1987

