INDEPENDENT BROADCASTING AUTHORITY
70 Brompton Road, London SW3 1EY
Tel: 01-584 7011 Telex: 24345

THE RT. HON. THE LORD THOMSON OF MONIFIETH, KT, PC Chairman

25th April, 1988

Dear Prime Minister.

On Tuesday, 26th April, the IBA is publishing a major policy statement on Independent Television in the 1990s. A press briefing on this statement is also being held at the IBA on 26th April.

I am enclosing a copy of this document together with a shorter more popular account.

I hope that these will provide a constructive basis for further debate on the key issues which will face broadcasting in the next decade.

Yours sincerely,

George

The Rt. Hon. Margaret Thatcher, MP,
10 Downing Street,
London SW1A 2AA.

Enc.

IBA

NEWS RELEASE
INDEPENDENT BROADCASTING AUTHORITY
70 Brompton Road London SW3 1EY Tel: 01-584 7011 Telex: 24345

Ext. 235

EMBARGO: Not for use before 12 noon on Tuesday, April 26, 1988

26/88 April 26, 1988

IBA STATEMENT ON FUTURE OF INDEPENDENT TELEVISION

The Independent Broadcasting Authority (IBA) today, April 26, published a policy statement, Independent Television in the 1990s. It also published Independent Television now - and in the 90s, a viewers' guide.

Lord Thomson of Monifieth, Chairman of the IBA, said:

> "It is high time that the interests of viewers were placed at the centre of the debate on broadcasting.
>
> "The IBA believes that the number and character of new services becoming available during the 1990s will still be sufficiently limited to leave a clear need for public service broadcasting (PSB) on the four existing channels (ITV, Channel 4, BBC1 and BBC2).
>
> "We welcome the opportunities that the 1990s will bring. The challenge for broadcasters, and for the Government in its new legislation, will be to manage the pace of change of the arrival of new channels in a way that preserves and enhances the range of choice for viewers. The ITV channel should continue to be part of the PSB system so that viewers will have at least as many choices as they do now. The viewers must come first."

The main points of the IBA policy statement are attached.

Note to Editors

Independent Television in the 1990s, a policy statement by the IBA; and Independent Television now - and in the 90s, a viewers guide, are both available from the IBA at 70 Brompton Road, London SW3 1EY.

MAIN POINTS OF THE IBA POLICY STATEMENT OF 26 APRIL 1988

- The UK television industry is changing fast, and will continue to do so in the 1990s.
- The IBA wants the full potential of these changes to be seized and exploited in the interest of UK viewers.
- The IBA, as a body appointed by Parliament to act on the public's behalf, proposes to invite the viewers to say what they think, in advance of legislation.

The current organisation of independent television

- UK television is organised, at the will of Parliament, to provide public service broadcasting (PSB) across all four channels (ITV, Channel 4, BBC1, BBC2). Viewers have a wide choice of programmes that are available all over the UK; and that the programmes and advertisements meet the broadcasting authorities' standards of taste, decency and impartiality.
- ITV's special feature is that it is a regional federation, providing regional programmes both locally and for the whole UK. Many of these are provided from outside London.

New Services

- The IBA believes that a fifth (and possibly sixth) terrestrial channel could become available in the UK. Multi-point video distribution systems (MVDS) are a further possibility. These channels would probably have less than national coverage, but this could be turned to good account by using these new outlets for local interest programmes. The IBA would like to see services on a fifth terrestrial channel financed by advertising.
- The IBA believes that it is not likely, on administrative and legislative grounds, that new terrestrial services could be in place before 1993. The IBA believes that the full impact of any new terrestrial services should not be felt until DBS has had a reasonable opportunity to establish itself.

The need for PSB

- Consumer interest in new services is uncertain. Viewers' enthusiasm for video cassette recorders may not be repeated with additional services, some of which may be available on a subscription basis.

- The IBA believes that the rate of penetration of new services will be sufficiently gradual throughout the 1990s for there to continue to be a need for PSB on existing channels.

PSB and ITV

- ITV's revenues from advertising will come under pressure during the 1990s as new services financed by advertising become available. The IBA believes that if it is decided to charge ITV companies, in some way or other, for their contracts in 1992 the method chosen should be such as to minimise the risk to ITV's PSB commitments.

Opening up the process

- The IBA believes that the next contract awards should be much more open. The IBA will explain why successful applicants have been chosen, but parts of the contract award process touching commercial or personal matters will have to be protected.

Contract award

- The IBA's preferred option for the next round of ITV contract awards is for this to be done on the basis of judgements made by the IBA about ability to fulfil a clearly and publicly stated set of programme requirements. ITV's monopoly profits should continue to be taxed by a levy, but the arrangements should be changed so that one part, based on Net Advertising Revenue (NAR), would be a royalty payment in respect of use of scarce spectrum resources; the other part, based on profits, would decline as competition increased.

- The IBA believes that this method is flexible enough to cope with the uncertain evolution of ITV's economic position in the 1990s.

- There are a number of practical problems with a system of competitive tendering. Despite the fact that it is not our preferred option, the IBA has considered whether there is a way that the essence of the proposal - pricing ITV contracts - could be achieved with the least possible damage to PSB.

- We believe that a possible way of conducting a modified form of competitive tendering would be a two stage process. At Stage 1 the IBA would set out the financial and organisational considerations for satisfying a public service broadcasting requirement, and on the basis of professional advice, set a price for the contract. It would then assess whether applicants for the contract could meet these requirements. At Stage 2 the IBA would determine which amongst the contenders who had met the Stage 1 requirements, offered the best programme proposals.

- The IBA believes that the set price should be expressed as a proportion of NAR in future years, rather than as a price for the full term of the contract payable up front.

- The IBA believes that a system of auctioning, or undiluted competitive tendering, in a scenario of declining ITV revenue, would undermine public service broadcasting on ITV.

Ownership and control

- IBA is considering a number of issues, including limits on the size of individual shareholdings in ITV companies; limitations on cross-holdings in television companies; take-overs.

Regional considerations

- The IBA will in 1989 begin a process of research and public consultation to establish public views on whether the regional boundaries should be altered.

Night hours

- The IBA is planning to use the early part of the 1989-92 period as an experiment when viewers can show what it is they want to see during the very late night/very early morning hours. Depending on this, the IBA will make proposals about whether the television clock should continue to be divided up into segments; and what size of segments might be viable.

Publisher-contractors

- The IBA proposes that, in addition to the traditional programme-making contractors who have held ITV contracts in the past, a new type of contractor, the publisher-contractor, should be eligible to apply for ITV contracts.

- Publisher-contractors would, however, have to demonstrate a substantial and permanent base in their region, and be able to provide local news and current affairs programmes and contributions to the network made within their regions.

The Network

- The IBA intends that, in the run-up to 1992, the principle will apply, until further notice, that guaranteed access to the network should be progressively reduced so that all companies would have an equal opportunity to offer programmes to the network. Further developments of these arrangements will be considered for the new contracts.

Length of contracts

- The IBA proposes that the next round of ITV contracts should last for 10 years with two reviews.

Channel 4 and S4C

- The IBA believes that the remit and independence of Channel 4, both of which it regards as important for the structure of PSB, are best secured by its present ownership arrangements.

- The IBA believes that if ITV revenue shares decline, as new services develop, those new services might contribute financially to Channel 4.

- The IBA does not propose any change to the arrangements for S4C.

ITN

- The IBA has told the ITV companies that it expects them to use the period 1989-1992 to increase the competitiveness of ITN so that it is better placed to compete with new news services in the 1990s, while building on its existing strengths.

Future regulation

- The IBA believes that both 'consumer protection' regulation and the regulation of programme standards on ITV and Channel 4 will continue to be important in the 1990s. The IBA is considering the introduction of a range of cumulative penalties for poor performance.

- The IBA believes that different kinds of regulation are both necessary and possible for different services. There is a synergy in the regulation of different services by one agency which has expertise in programming, financial and engineering aspects of broadcasting.

- The IBA believes that an additional quango, such as the Broadcasting Standards Council, with undefined relationships to programme contractors, would not be an effective means of enforcing standards.

IBA engineering

- IBA engineering is already developing a commercial thrust. The IBA is exploring the feasibility of carrying on its engineering activities through an agency run on commercial lines but operating within the IBA.

****

- ENDS -

26 April 1988

EMBARGO:

NOT FOR USE BEFORE 12 NOON ON
TUESDAY, APRIL 26, 1988

Independent Television in the 1990s

IBA INDEPENDENT BROADCASTING AUTHORITY

IBA POLICY STATEMENT

Erratum Slip

Paragraph 3.8, line 7 should read

"remaining DBS services should not be advertised ......".

INDEPENDENT TELEVISION IN THE 1990s

****

A policy statement by the IBA

****

<u>April 1988</u>

Independent Broadcasting Authority
70 Brompton Road
<u>London SW3 1EY</u>

C O N T E N T S

Independent Television in the 1990s

Executive Summary

(Numbers in brackets are paragraph numbers in the main text)

Introduction

1 The UK television industry is changing fast, and will continue to do so in the 1990s.(1.1)

2 The IBA wants the full potential of these changes to be seized and exploited in the interest of UK viewers. (1.2)

3 The IBA, as a body appointed by Parliament to act on the public's behalf, proposes to invite viewers to say what they think in advance of legislation. (1.6)

4 Key dates for the future of independent television are 1989, when new legislation is expected to be introduced, and 1993 when new contracts come into force. (2.2)

The current organisation of independent television

5 UK television is organised, at the will of Parliament, so as to provide public service broadcasting (PSB) across all 4 channels (ITV, Channel 4, BBC1, BBC2). PSB means that viewers have a wide choice of programmes; that the programmes are available all over the UK; and that the programmes and advertisements meet the broadcasting authorities standards of taste, decency and impartiality.

6 ITV has the special feature that it is run as a regional federation, providing regional programmes both locally and for the whole UK. Many of these are provided from outside London. (2.9)

7 Will PSB still be **needed** in the 1990s if there is a proliferation of new channels? And will ITV be able to **afford** it if the next round of contracts is expensively priced?

New Services

8 The IBA believes that a fifth (and possibly sixth) terrestrial channel could become available in the UK. (MVDS transmissions could also be realised.) These channels would probably have less than national coverage but this could be turned to good account by using these new outlets for local interest programmes. The IBA would

like to see services on a fifth terrestrial channel financed by advertising. (3.5, 3.6, 3.10, 3.11, 3.17)

9 The IBA believes that it is not likely, on administrative and legislative grounds, that new terrestrial services could be in place before 1993. The IBA believes that the full impact of any new terrestrial services should not be felt until DBS has had a reasonable opportunity to establish itself. (3.8)

Will PSB be needed?

10 The IBA believes that it will. (4.2, 4.3)

11 Consumer interest in new services is uncertain. UK viewers have responded enthusiastically to the video cassette recorder. But will they take with equal enthusiasm to additional services, some of which may be available on a **subscription** basis?

12 **The IBA believes that the rate of penetration of new services will be sufficiently gradual throughout the 1990s for there to continue to be a need for PSB on existing channels. We believe that most UK viewers will continue to look to the four established channels for most of their viewing. To remove the ITV channel from the PSB system would diminish the choices available to UK viewers.** (4.3, 4.4)

Will ITV be able to afford PSB?

13 ITV's revenues from advertising will come under pressure during the 1990s as new services financed by advertising become available. **The IBA believes that if it is decided to charge ITV companies, in some way or other, for their contracts in 1992, the method chosen should be such as to minimise the risk to ITV's PSB commitments.** (4.5, 4.6, 4.7)

An open process

14 The IBA believes that the next round of contract awards should be much more open than on previous occasions. The IBA will explain why successful applicants have been chosen, but parts of the contract award process touching commercial or personal matters will have to be protected. (5.12)

Contract award

15 The IBA's **preferred option** for the next round of ITV contract awards is for this to be done on the basis of judgements made by the IBA about ability to fulfil a clearly and publicly stated set of programme requirements. ITV's monopoly profits should continue to be taxed by a

levy, but the arrangements should be changed so that one part, based on Net Advertising Revenue (NAR), would be a royalty payment in respect of use of scarce spectrum resources; the other part, based on profits, would decline as competition increased. (5.16)

16 The IBA believes that this method is flexible enough to cope with the uncertain evolution of ITV's economic position in the 1990s.

17 There are a number of practical problems with a system of competitive tendering. Despite the fact that it is not our preferred option, the IBA has considered whether there is a way in which the essence of the proposal - pricing ITV contracts - could be achieved with the least possible damage to PSB. (5.19)

18 We believe that a possible way of conducting a modified form of competitive tendering would be a two-stage process. At Stage 1 the IBA would set out the financial and organisational considerations for satisfying a public service broadcasting requirement, and, on the basis of professional advice, set a price for the contract. It would then assess whether applicants for the contract could meet these requirements. At Stage 2 the IBA would determine which amongst the contenders, who had met the Stage 1 requirements, offered the best programme proposals. (5.20)

19 The IBA believes that the set price should be expressed as a proportion of NAR in future years, rather than as a price for the full term of the contract payable up front. (5.21)

20 The IBA believes that a system of auctioning, or undiluted competitive tendering, in a scenario of declining ITV revenue, would undermine public service broadcasting on ITV. (5.22)

Ownership and control

21 The IBA is considering a number of issues, including limits on the size of individual shareholdings in ITV companies; limitations on cross-holdings in television companies and take-overs. (5.23 - 5.26)

Regional considerations

22 The IBA will in 1989, begin a process of research and public consultation to establish public views on whether the regional boundaries should be altered. (5.30)

Night hours

23 The IBA is planning to use the early part of the 1989-92 period as an experiment when viewers can show what it is they want to see during the very late night/very early

morning hours. Depending on this, the IBA will make proposals about whether the television clock should continue to be divided up into segments; and what size of segments might be viable. (5.31 - 5.33)

Publisher-contractors

24 The IBA proposes that, in addition to the traditional programme-making contractors who have held ITV contracts in the past, a new type of contractor, the publisher-contractor, should be eligible to apply for ITV contracts. (5.34 - 5.36)

25 Publisher-contractors would, however, have to demonstrate a substantial and permanent base in their regions, and be able to provide local news and current affairs programmes and contributions to the network made within their regions. (5.37, 5.38)

The Network

26 The IBA intends that, in the run up to 1992 the principle will apply, until further notice that guaranteed access to the network should be progressively reduced so that all companies would have an equal opportunity to offer programmes to the network. The IBA will consider how the arrangements for networking might be developed post-1992. (5.39)

Length of contracts

27 The IBA proposes that the next round of ITV contracts should last for 10 years with two reviews. (5.44)

Channel 4 and S4C

28 The IBA believes that the remit and independence of Channel 4, both of which it regards as important for the structure of PSB, are best secured by its present ownership arrangements. (5.47)

29 The IBA believes that, if ITV revenue shares decline, as new services develop, those new services might contribute financially to Channel 4. (5.49)

30 The IBA does not propose any change to the arrangements for S4C. (5.50)

ITN

31 The IBA has told the ITV companies that it expects them to use the period 1989-92 to increase the competitiveness of ITN so that it is better placed to compete with new news services in the 1990s, while building on its existing strengths. (5.53)

Future regulation

32 The IBA believes that both 'consumer protection' regulation and the regulation of programme standards on ITV and Channel 4 will continue to be important in the 1990s. The IBA is considering the introduction of a range of cumulative penalties for poor performance. (5.56, 5.60)

33 The IBA believes that different kinds of regulation are both necessary and possible for different services. There is a synergy in the regulation of different services by one agency which has expertise in the programming, financial and engineering aspects of broadcasting. (5.61)

34 The IBA believes that an additional quango, such as the Broadcasting Standards Council, with undefined relationships to programme contractors, would not be an effective means of enforcing standards. (5.57)

IBA engineering

35 IBA engineering is already developing a commercial thrust. The IBA is exploring the feasibility of carrying on its engineering activities through an agency run on commercial lines but operating within the IBA. (5.67)

The need for flexibility in the forthcoming legislation

36 The framework for broadcasting in the 1990s will have to be flexible enough to cope with a range of possible scenarios developing through the decade to shape the television industry, and its service to viewers, in the 21st century. (6.2)

****

1. Introduction

1.1 Television in the United Kingdom - and television elsewhere in Europe - is changing. New services provided by the first UK Direct Broadcasting by Satellite (DBS) contractor are imminent. Broadcasting technology is developing apace. Ways of organising the supply of programmes are changing. The Independent Broadcasting Authority (IBA) is involved in all these changes.

1.2 The IBA wants to see the full potential of these changes seized and exploited, primarily in the interest of UK **viewers**. The IBA also wishes a framework to be developed for the 1990s which will enable **television**, as one of the UK's most successful service industries, to continue its rapid growth in both home and export markets. And it is concerned that the **advertisers**, who have hitherto provided the financial base of independent television, and who will continue to be enormously important to it as a source for finance in the 1990s, should have a range of choices in the television market of the 1990s.

1.3 The debate on broadcasting initiated by the Peacock Report in 1986 has come to be dominated by the issue of how the next round of ITV contracts, due to begin in 1993, should be awarded. The possibilities for additional terrestrial channels, the future of public service broadcasting with its commitment to a wide range of programmes and universality of coverage of UK homes, the trade-off between preservation of standards and deregulation, the future status of Channel 4 and the future organisation of ITN, also figure in this debate. These are important and inter-related issues that require careful consideration as a whole, and full public debate before they are resolved. The IBA offers preliminary comments on these later in this submission.

1.4 There is, however, a prior issue, which is fundamental to the consideration of how independent television will develop, and how it should be regulated. This is the question of **new television services**. When will they arrive? How should they be financed? What will be their impact on the rest of the system? And, most important, will they widen the range of programmes available to viewers? The exciting vision of the electronic bookstall has been sketched out by some commentators - but is it likely to happen? In section 3 of this submission, we set out our view of the technological possibilities; and we argue for legislation that will ensure as far as possible that change serves the viewer.

1.5 This submission also comments on the other issues that have to be addressed in the forthcoming legislation on the future of television. These are:

- **ITV contracts**: **how** should they be awarded? **who** should be eligible? **what** should they cover (in terms of geography and share of the broadcasting clock)? **how long** should they last?

- regulation: what should it consist of?; should it be different for different services?; who should do it?; should engineering be separate from contract regulation?;

- Channel 4 and S4C: their relationship to ITV; to new services; their finances;

- ITN: its future.

1.6 All of these issues are important in their different ways in determining what will be on our screens, and how it will get there, in the 1990s. The IBA, as a body appointed by Parliament to act on the public's behalf, proposes to invite the viewers to say what they think in advance of legislation.

****

2. Independent television to 1993

2.1 This section describes some of the main features of the regulation, engineering and financing of independent television from now until 1993. It is not an exhaustive account of how the system operates; (Annex A, however, sets out key facts and figures on the present structure and its finances). This section sets out

- the main features of the present system which are the subject of debate and which may be changed in 1993;

- how the 'issues for the 1990s' arise from the current system and foreseeable developments;

- some of the changes which will, with or without legislation, take place in independent television between now and 1993.

The contract and legislative timetable

2.2 By way of background to what follows, the following milestones on the road to 1993 need to be kept in mind:

April 1988:	extended contracts (to end 1992) offered to existing ITV contractors
September 1989:	launch of UK DBS service by BSB
Autumn 1989:	legislation on television expected to be introduced
January 1990:	extended contracts come into force
late 1990:	framework for next contract round set
late 1991:	contractors appointed
January 1993:	new contracts come into force

The IBA's current responsibilities

2.3 The IBA is a body of 12 people appointed by the Home Secretary but independent of Government. (The Authority Members at March 1988 are listed at Annex B). The IBA and its staff are required by Act of Parliament to:

- select the independent broadcasting companies;

- supervise the programmes;

- control the advertising;

- transmit the programmes.

All of these requirements currently relate both to independent television and independent local radio. What follows relates only to television.

Selection of contractors

2.4 The conduct of this process will be a major issue to be addressed in forthcoming legislation. Proposals for the next round of contract awards are sometimes discussed in terms that contrast them with what happened when these contracts were last awarded in 1980. In order that the yardstick for this comparison should be accurate, we describe briefly the 1980 process. This involved two rounds of widespread public consultation. The first in 1979, considered possible changes in areas and in the sharing of broadcasting times together with regional views and preferences about programme services. The second, in 1980, involved many public meetings held around the country by Members of the IBA, and IBA regional officers. These were supplemented by public opinion surveys. The IBA required the consortia to publicise their applications, together with popular summaries, and make them widely available. Allowing for a year to prepare for the new contracts to start, the whole process took three years. In the event two of the contractors were replaced and several others underwent major structural changes.

2.5 The interviews with prospective contractors were conducted in private, for reasons of commercial and personal confidentiality. The IBA made a public announcement about the basis for its selections, but did not give detailed reasons. This avoided the possibility of legal challenge, and the consequential delay in getting the new system into place. **We believe that the next round of contract awards offers an opportunity to introduce greater transparency into the selection process**, and we set out our proposals in section 5.

2.6 The ownership and control of ITV companies is the subject of detailed provisions in the Broadcasting Act 1981. The IBA has areas of discretion in the way it achieves the objectives of the legislation.

Supervision of programmes - choice and range of programmes

2.7 Independent television is required by statute to be a public service of information, education and entertainment. The requirement to produce this range of programmes - similar in width to the BBC's - was conceived by the architects of ITV as part of the return that ITV companies had to make for being granted a monopoly on television advertising. In practice it has meant that UK viewers have had access to a wide range of programmes from a limited number of channels.

2.8 The IBA has worked with its contractors to make sure that the general requirement - inform, educate, entertain - has been translated into programmes of quality. Through its responsibilities for scheduling, the IBA has ensured that different kinds of programmes are broadcast in peak time, (e.g. news, drama, serials , current affairs, films, documentaries) so that a wide range of tastes is catered for at the time when most of us watch.

2.9 From the start ITV has been a regional and federal system. ITV's distinctive contribution to the range of programmes available to UK viewers is <u>regional programmes</u>. In 1987, ITV companies produced over 6,000 hours of local interest programmes (about 8% of total ITV broadcasting). ITV companies, based in the regions and strongly identified with them, both reinforce and reflect regional identities. The ITV network system is not London-dominated and ensures that many programmes produced outside London are shown nationwide. This is a major difference between ITV and the BBC, as is the far greater number of regional programmes shown in each region by ITV. The ITV regional contractors are substantial regional employers, providing a wide range of jobs with different skills.

2.10 In addition to its supervision of the content and timing of programmes the IBA makes sure that programmes and advertisements do not misinform or exploit viewers. This has become known as "consumer protection" regulation and leads on to the consideration of standards.

<u>Supervision of programmes - standards</u>

2.11 The IBA is required by Act of Parliament to set and enforce standards for programmes shown on independent television. The IBA draws up guidelines on the most important aspects of programme standards. These cover:

- fairness and impartiality
- offence against taste and decency
- the portrayal of violence
- family viewing policy.

These guidelines are publicly available.

2.12 The IBA draws on a number of sources, including audience research and the advice of its various Advisory Councils and Committees in formulating these guidelines. The IBA changes these guidelines from time to time, to reflect shifts in public taste. Last year, for example, the IBA strengthened its procedures for monitoring the incidence of violence, and will in the autumn of 1988 publish a report on the portrayal of violence in both programmes and news coverage during the preceding year.

2.13 Programmes are carefully monitored, and some pre-vetted. There are formal meetings between the IBA and each contractor every year and a continuing process of consultation and discussion between them and the IBA. In 1985 there was a full-scale review, the results of which were published, of all aspects of each contractor's performance since the contracts began in 1982.

2.14 The IBA's programme contractors can be - and have been - publicly reprimanded by the IBA for breaches of contract. At the extreme, ITV contracts can be terminated.

2.15 This summarises the system whereby programme standards are enforced by the IBA, the body with which the television companies have a contractual relationship. We believe that a direct relationship like this, with a range of sanctions available for failure to observe standards, is the most effective way of ensuring that standards are met.

Programmes: issues for the 1990s

2.16 The IBA did not invent the concept of broadcasting regulation: Parliament did. But the IBA has implemented a regulatory regime for independent broadcasting devised to extract the best out of a system of limited channel choice.

The issues for the 1990s are:

- Will a regulator still be needed to undertake programme regulation of this type?

- Should we carry deregulation to the point where standards are not being set and enforced?

The IBA believes that:

- **although an increased range of TV services available to viewers in the 1990s, there will remain a need for the IBA's regulatory role in that period;**

- **the development and enforcement of programme standards is a crucial task. We do not believe that UK viewers will accept any reduction in the standards of what they see on their screens in the 1990s.**

Channel 4

2.17 Channel 4 is owned by the IBA and has a special remit, spilt into an Act of Parliament, to provide programmes that are innovative, educational, cater for minority tastes, and are complementary to ITV. It is subject to the same requirements as ITV with regard to standards and the broad remit to inform, entertain and educate.

2.18 Channel 4 was the first UK television channel to be conceived and run as a '**publisher**' - not making its own programmes, but commissioning them. The Act requires it to take a substantial proportion of programmes from independent producers and this has helped to create a healthy new sector of independent producers capable of extending their activities into ITV and BBC channels. In the year to March 1987, nearly a quarter of Channel 4's transmission hours were supplied by UK independent producers.

2.19 Channel 4 is financed by the ITV companies, who sell, and receive the proceeds of, its advertising airtime. It has built up audiences to the point where it is now generating advertising revenue almost equal to the ITV subscription that finances it.

2.20 The issues for the 1990s raised by Channel 4 are: should it continue to be owned and financed as it is now?; should its airtime be sold separately by the Channel itself?; and should its minority taste/innovative remit continue into the 1990s? The answers to these questions are interconnected: **different financial and structural arrangements for the channel would inevitably affect its remit**. In section 5 we set out the IBA's view about the future of Channel 4, taking as our starting point the interests of UK viewers.

Fourth Channel in Wales (S4C)

2.21 S4C is responsible to a separate Welsh Fourth Channel Authority and has a special remit to provide Welsh language programmes. It receives programmes free of charge from the BBC and Channel 4 and a share of the ITV fourth channel subscription with which it buys programmes from the ITV's contractor in Wales and from independent producers. The subscription greatly exceeds the proceeds from advertising on the channel. The issue here is: **how can the remit be sustained in the much more competitive climate of the 1990s?.**

British Satellite Broadcasting

2.22 In September 1989, the IBA's DBS contractor, BSB, will start to operate three new channels, one expected to be financed by subscription and two expected to be financed by advertising. BSB is subject to broadly the same regulatory requirements as ITV except that the Act relaxed some of the IBA's programming criteria relating to proper balance and wide range.

2.23 The imminent advent of BSB makes it part of "independent television today". The issues it will raise for the 1990s are: what will be its impact on the advertising revenues of ITV? Will UK viewers take to subscription enthusiastically? **And will a single regulatory structure continue to be sufficiently flexible to handle competing services?**

TV-am

2.24 A separate nationwide breakfast time contract started in 1983. The issue for the 1990s is should there continue to be a separate contract of this kind?

ITN

2.25 ITN is jointly owned by the ITV contractors (except TV-am), and provides a range of services and programmes for them and for Channel 4 The issue for the 1990s is: should the ownership and structure of ITN be changed as it too moves into a more competitive world?

Control of advertising

2.26 The IBA controls the standards, the amount and scheduling of television advertising. Advertising currently accounts for nearly 12% of all transmission time, and over 6,000 new commercials reach the screen each year. The IBA's responsibility is to integrate this substantial part of the broadcast output into the whole, in a way that preserves viewers' enjoyment of programmes, and which also protects their interest as consumers.

2.27 Television is highly valued by advertisers; over 40% of all display advertising expenditure in the UK is spent on television. Television advertising is also highly competitive. One consequence of this is that the creative and production standards of television commercials are often outstandingly high. They can frequently be excellent television in their own right. But in the search for ever newer and more original appeals to their particular target markets, advertisers also quite often press against the limits of general acceptability.

2.28 The careful and detailed pre-vetting arrangements which the IBA administers, in close co-operation with the ITV companies, are designed to iron out most problems before commercials reach the air; as a result, very few indeed have to be modified or withdrawn after a transmission schedule has begun. The importance of these arrangements is illustrated by the fact that a typical commercial for a nationally advertised product is nowadays likely to cost over £100,000 just to produce. So late changes can be very expensive.

2.29 The benchmarks for the IBA's advertising control activities are set out in its Code of Advertising Standards and Practice. This is kept under continuous review by the IBA's Advertising Advisory Committee (AAC) on which both consumer and industry interests bodies are represented.

2.30 The range of television advertising is steadily extending: for example, a current issue is the possibility of lifting long-standing restrictions on television advertising by charities. A new dimension to the IBA's work will be the adoption of the proposed EC Directive and Council of Europe Convention on broadcasting matters in Europe. Both instruments contain important provisions for common minimum broadcast advertising standards.

Engineering

2.31 The IBA has built and operates some 1,750 transmitters. These are paid for by the rental paid by the ITV contractors. The IBA's whole engineering activity, including development work on new technology, represents about £1.50 per household per year. Over 99% of the population is covered by these services - UK-wide coverage is required by law but is not cheap. The rentals paid by some of the smaller contractors do not cover the costs of transmission services provided to viewers in their areas.

2.32 The engineering services of the IBA have been developed so that the vast majority of viewers enjoy high technical standards of reception. Changes in the service - such as the transition to colour TV in the 1960s and the introduction of stereo sound now - have been managed so that there is a planned transition which takes account of the viewers' investment in their existing sets. IBA engineers have played an important part in developing the technology of broadcasting by, for example, their work on the development of teletext, and on the European transmission standard for DBS.

2.33 Broadcasting engineering has always been done by the IBA and the BBC as part of their overall responsibilities for delivery of a broadcasting service. The issue for the 1990s is: **should broadcasting engineering continue to be the responsibility of the broadcasting regulators**?

Finance

2.34 Since they were set up in the 1950s, the ITV companies have had a monopoly of the right to sell television advertising in their own regions. In return for this monopoly the first claim on the revenues of the companies has been expenditure on important and valuable, but less commercial, aspects of broadcasting. The remaining monopoly profit has been subject to a special profits-based levy which the ITV companies pay in addition to corporation tax. Although the levy is administered by the IBA the proceeds are paid wholly to the Government. Essentially the rates of levy are 45% on domestic profit and 22.5% on overseas profit. In 1986/87 the levy yielded £75m.

2.35 The ITV contractors are all limited liability companies operating under the Companies Act. Once the broadcasting claims on monopoly profits imposed by the IBA, and the Exchequer levy imposed by Government, have been satisfied, the responsibility to provide shareholders with an acceptable return on their investment, and for the efficient use of resources, rests upon the Board of Directors of each ITV company. The IBA has neither statutory responsibilities nor powers in this area.

2.36 The IBA does, nevertheless, have an interest in, and a concern for, the economic wellbeing of the industry, and is, for example, currently establishing an interfirm comparison service for comparing companies' performance. Essentially, this involves the construction of "league tables" which show various cost and other performance indicators which can be reported back to the ITV companies as a contribution to management information and an incentive to improve performance.

2.37 In the 1990s, ITV will be faced for the first time with significant competition for advertising revenue. The issues for the 1990s are: **what will be the effect on ITV's financial base (and Channel 4's)? How fast will the ITV monopoly be eroded? Can a financial framework be devised for independent television which will put strong downward pressure on monopoly**

<u>profits while still preserving programme quality? And should the industry's regulators take a closer interest in the industry's economic efficiency?</u>

<u>Organisational changes in the pipeline</u>

2.38 Finally, three developments are in the pipeline which will affect the organisation of independent television, and the service it provides for viewers:

- **<u>24-hour broadcasting</u>**: the IBA wants to see the broadcasting clock fully used for programmes. We have asked the ITV companies to produce proposals for the use of the late night hours in the period 1989-92. If ITV does not produce satisfactory proposals, we shall look elsewhere. We want, in the next period, to find out what viewers want in the way of late night programming and what the commercial viability of late night services is, as a basis for making informed decisions about the shape of the contracts to be advertised in 1991

- **<u>independent productions</u>**: we intend that by 1992 an increasing proportion of all of ITV's output, normally excluding news, should be provided from independent production companies outside ITV. We believe that the Government target of 25% can be reached subject to the range and quality of programmes being maintained

- **<u>loosening the network agreement</u>**: in 1987 the IBA put forward proposals for increasing access by the 10 regional companies to the network and for re-casting the financial arrangements. The detailed implementation of these proposals has begun for the programme year 1988/89. The IBA wants to see more access by the regional companies, and expects ITV to make rapid progress on this during 1988. At the same time the costs of programmes supplied to and bought within the network have been more realistically calculated. Against this background of change, the IBA wishes to see a progressive development in competition for network exposure.

2.39 Much attention has been focused recently on <u>industrial relations</u> systems and structures in ITV. It is clear that there is a need to review existing systems and agreements in order to be able to meet the challenges of an increasingly competitive environment. This is an issue which current evidence suggests is being tackled in a positive manner.

****

3. Technical change and new services

3.1 We said at the outset that the question of the pace and take-up of technical change needs to be addressed. This is because the rate at which changes in the technology of broadcasting are translated into new services, and new services that consumers want, will determine:

- the range of choice available to UK viewers during the next ITV contract period; and

- the rate at which the ITV monopoly of advertising is eroded.

Methods of paying for these new services will determine how the financial base of independent television will change in the 1990s.

3.2 The type of regulation that will be appropriate in the 1990s, and indeed the future of public service broadcasting, will depend in large part on the view that is taken about technical change. Will the coming changes transform the broadcasting landscape or will they be less dramatic? A statement of the IBA's view on technology change and its implications for broadcasting is at Annex C. The following are some of the key points.

Timing of new services

3.3 When **BSB's** three new satellite channels become available late in 1989, the number of national television channels will rise to seven. The IBA is still discussing with BSB the range of programmes that will be available from these new services: we and BSB aim to make these real additions to viewers' choices. One 'premium' channel will show films, and will be available on **subscription**. This will be an innovation for most UK TV viewers, although not to the small number who have cable TV.

3.4 BSB is the most certain of the possible new services for the 1990s. **Astra**, which may be launched in late 1988, is expected to have a number of English language channels, and the UK is part of its target market. **Cable** is already a reality, although on a small scale. There appears to be some revival of interest in cable franchises as business propositions at this time. It seems unlikely, however, that, even if penetration of cable speeds up, it will reach anything approaching the majority of the population this century.

3.5 There are exciting possibilities in **terrestrial** television. These are described more fully in Annex C. Together with the BBC the IBA has been working with the Government to see if there are technical possibilities for introducing further terrestrial channels in the UK. This work is not yet complete but is far enough along the road for the IBA to believe that, subject to some constraints set out in Annex C, a fifth (and possibly a sixth) terrestrial channel could become available. The coverage of such a channel (or channels) would be considerably less than national, with reception available only in certain parts of the country. This limitation could be turned to good account by making the use of extra frequency spectrum a new outlet for local interest programmes. The initiative rests with the Government. For our part we hope that the debate on the scenario for additional services, followed by the necessary legislative, contractual and engineering steps, can be initiated soon.

3.6 "Multi-point video distribution systems" (MVDS) are a further possibility. The technology of MVDS, operating in the microwave frequency bands, is being developed. By its nature MVDS is capable only of local coverage, though such services could be networked. But this too might be turned to account by using it to enlarge viewers' range of local interest programmes. IBA engineers are working on techniques to achieve commonality between DBS receiving equipment and that needed to receive local terrestrial MVDS services. This would have the advantage that viewers could receive more services without having to buy yet more incompatible domestic equipment. It is uncertain when MVDS will become available. This could be in the early 1990s, but not everywhere in the UK.

3.7 The uncertainty about the timing of new channels is relevant to the policy options discussed later in this paper. The tentative dates mentioned above depend on the markets and scenarios for new services. They cannot, in our view, be made more precise at this stage. This means that the legislation to shape television in the 1990s will have to be flexible enough to allow for some slippage in these forecasts.

3.8 We do not regard it as likely, on purely administrative and legislative grounds, that new terrestrial services could be in place before 1993. But in any event, we think it only right that the impact of any new terrestrial services should not be fully felt until DBS has had a reasonable opportunity to establish itself. This principle was recognised by Government when it decided that the remaining DBS channels should be advertised for three years after the first DBS services had started broadcasting.

3.9 Changes in the technology of broadcasting may make new services **possible**; - but will viewers want them? This question of "take-up" depends on:

- the shape and character of additional terrestrial services and the programmes available on them;

- how the services will be paid for;

- how difficult and/or expensive it will be to adapt receiving equipment to receive the new services.

3.10 **Shape and character of new terrestrial services**: The introduction of further television services in this new era of seven national channels should in our view entail increased emphasis on the local character of television services. It is sometimes said that ITV regions are too large to provide the local character in news and advertising that viewers want. New local television stations could satisfy this need. Though they would compete with local radio and the local press for advertising revenue, they could also provide new advertising markets associated with growth sectors of local business and information services (e.g. tourist information). It is unlikely that they could afford, at least initially, themselves to provide more than a small part of a full programme service. But this is no disadvantage, since we would also envisage the availability of networked popular programming.

3.11 A framework could be developed under a regulatory structure provided by the IBA, for such local stations to take sustaining feeds of approved programme material of popular appeal from other sources for a substantial part of their programme transmission hours. This flexibility would also allow successful stations to expand their local content (to an extent permitted by their increasing revenue base). Some of these local television stations could perhaps evolve from successful independent local radio businesses.

3.12 The addition to the existing four services first of BSB's three DBS channels with their nationwide coverage, and then of possible new terrestrial services with regional/local interest material, could provide, if not exactly an explosion of choice in the 1990s, at least a range of exciting new possibilities for the viewer.

3.13 **Paying for new services**: take-up of the new services will depend not only on attractive programmes, but on how they are paid for. One of BSB's channels will be a **subscription** channel. Subscription is new to most viewers, and it is not at all clear how enthusiastically they will take to it as an additional payment on top of the licence fee. The growth of the home video market suggests that UK viewers are prepared to pay for new services: but has the very growth of video taken the edge off the desire to pay for even more new services?

3.14 IBA research, carried out when the DBS contract was awarded to BSB, suggested that there is an unsatisfied demand for 'premium' programmes (major sporting events, relatively new films) which might be met by subscription. The IBA would like subscription to play a part in financing **new** UK television services - and this contributed to our decision to award the DBS contract to a contractor committed to subscription as a major part of its financing plans.

3.15 To introduce subscription on some part of the existing independent services which are financed by advertising is unlikely to be popular with viewers. It would add to costs for both broadcasters and the public. It would be likely, other things being equal, to harden advertising rates which would not be welcome to advertisers. And the effect of introducing subscription piecemeal in the federal, regional ITV system, with its overlapping boundaries and different time preferences for similar programmes, could be chaotic.

3.16 Another way of introducing **subscription** into the system would be for one of the possible new terrestrial channels to be financed by subscription. If the technology for receiving MVDS is compatible with DBS (as described above), an appealing route would be for at least some MVDS to provide subscription services.

3.17 The IBA would, on the other hand, like to see services on the fifth terrestrial channel financed by **advertising**. We recognise the strong desire of the advertising industry to have a wider range of choice of regional television outlets, a demand that we regard sympathetically. We recognise that this would mean breaking ITV's monopoly on regional advertising. (Other things being equal, a fifth channel financed by subscription would be likely to reduce audiences available to advertisers and so harden rates.)

3.18 **Reception equipment**: BSB's services will be received by a small dish aerial the size of a dinner plate at a cost of around £ 200. Astra's will require a different, larger dish aerial at a significantly greater cost. The fifth channel will be receivable by a conventional aerial, although most viewers will probably need to have a new aerial. MVDS would require further reception equipment. Though UK viewers have shown that they are willing to accept add-ons to their TV sets (videos, home computers), there is a danger that, without a cohesive framework of broadcasting system development, the viewer may become confused by fragmented and incompatible technologies. The initial thinking on such a framework is at Annex C.

3.19 The rate of take-up of new services will depend on the **programmes**, **the method of payment** and the new home equipment required. We cannot be certain how these will interact. Our expectation is that a proportion of UK viewers, based on past experience, will respond enthusiastically to these new opportunities provided the programmes are good enough.

3.20 The implication of these developments for "the broadcasting landscape" is that, by 1993, UK viewers will have three national DBS channels in addition to the existing four terrestrial channels. A fifth terrestrial channel and MVDS transmissions with more local coverage could be in place. Transfrontier satellite broadcasting by telecommunications satellites has an uncertain market - but some new channels will undoubtedly be available from this source.

****

4. Viewer choice in the 1990s

4.1 The force of the previous section is that new channels will become available to UK viewers in the 1990s. Will these new channels add to viewers' choices?

4.2 UK viewers currently have a relatively wide range of programmes on their screens, despite the fact that there are only four national TV channels. As stated earlier, this has not come about by chance, but because broadcasting legislation has required television to be managed in a way that offers wide choice. The issue for the 1990s is: **will this kind of management of broadcasting still be needed**?

4.3 The IBA believes that the answer to this question is **yes**. The rate of arrival, and take up, of new services is highly uncertain, for the reason described in the previous section. We believe that the four existing terrestrial channels will continue in the 1990s to be the main suppliers of television to 99% of the UK population. They provide viewers with a wide range of programmes at a very cheap price to them. We believe that this existing range of choice should not be diminished - as it would be if the system for regulating programmes described earlier were no longer in force.

4.4 It could be objected that the two BBC channels, and Channel 4, could between them continue to provide the 'public service' core of the television system, leaving the ITV channel free to produce whatever programmes it found commercially satisfactory. This would, however, reduce consumer choice for no good reason. ITV provides a range of regionally based programmes which Channel 4 and BBC2 do not provide at all, and BBC1 only to a limited extent. The public have shown that they appreciate these programmes. To change the ITV remit would therefore **reduce** consumer choice. It would also affect the prospects for Channel 4 and have knock-on effects on the BBC.

4.5 In the 1990s, additional advertising-financed television and radio services may, as we have said, be introduced. They will compete with the present independent broadcasting services (ITV and the fourth channel) for revenue. These new services include new satellite services from BSB and Astra; a possible fifth terrestrial channel (Channel 5); further cable services, and three national radio services. During this period total television advertising revenue is expected to grow by 5% per annum, in real terms, from £ 1.6 billion in 1990 to £ 2.7 billion in 2001.

4.6 The IBA has assessed the possible impact of these new services on independent television revenue in terms of broad brush scenarios (assuming low, medium and high growth in the new media). The following picture emerges:

Impact of new media on independent television revenue
(i.e. ITV and Fourth Channel combined)

New media scenario	Year	Independent television: Share of total %	Independent television: Estimated revenue (£m at 1987 prices)
Low growth	1990	97	1,560
	1995	81	1,657
	2001	78	2,138
Medium growth	1990	96	1,529
	1995	69	1,423
	2001	65	1,762
High growth	1990	94	1,506
	1995	59	1,211
	2001	52	1,431

4.7 What this shows is that the ITV monopoly on advertising will persist into the 1990s, although it will be progressively eroded. New services financed by advertising will reduce ITV's monopoly profits. Although this will not happen overnight, ITV will come under increasing pressure; and the pressure could be quite sharp, especially on the smaller companies, if the scenario for the new media is one of medium or fast growth. Competition will however exert downward pressure on companies' costs. For as long as ITV continues to enjoy some of the fruits of monopoly, we believe that it should be required to produce public service broadcasting.

4.8 The IBA's primary objective for independent television in the 1990s is, therefore, to enable the range of viewers' choice on ITV and Channel 4 to be maintained and if possible enhanced. This means that there should continue to be a range of programmes available across the four existing channels that are:

- informative (and in the integrity and impartiality of whose information viewers can place reliance);
- entertaining;
- educational (in the widest sense).

4.9 The IBA believes that the **regionalism** of ITV has made a major contribution both to the quality and vitality of TV programmes, and to the life of the regions in the UK. The regional ITV system:

- produces programmes that are highly appreciated by viewers;
- reflects, and reinforces, some of the diversity of our national life and helps to resist a drift towards metropolitanism;

- provides a national system for networking programmes originating in the regions;

- reinforces the national identities of Northern Ireland, Wales and Scotland, which are important to the political and social life of the UK;

- gives viewers freedom to choose whether they want to be entertained or informed, or both, and gives producers and performers many different opportunities for applying and developing their skills.

4.10 The IBA believes that the ITV channel should continue to be organised on a regional basis. But this does not mean that the present regional structure of ITV is unchangeable. The IBA will review regional boundaries as part of the preparation for the next contract round.

4.11 The IBA's view about the range of programmes that ITV should continue to provide in the 1990s is relevant to the process by which contracts are awarded next time. Meeting public service broadcasting requirements is not cheap. As the ITV advertising sales monopoly is eroded, ITV's financial base will come under pressure. This is likely to affect the smaller regions especially, where contractors are at present subsidised both as regards network programming and IBA rentals by the more prosperous companies. The system for awarding contracts should not extract so much of the prospective revenue of ITV that public service broadcasting becomes impossible. This would damage the interests of UK viewers by reducing the choice of programmes available to them.

****

5. The policy options

5.1 The issues for the 1990s that we have identified are:

- the system for awarding ITV contracts;
- the future of Channel 4 and S4C;
- the future of ITN;
- the system for regulating independent television;
- the organisation of broadcasting engineering.

5.2 We believe that the criterion for choosing between the options discussed under these headings should be: which option will contribute most to the preservation and enhancement of consumers' choices of viewing?

ITV contracts: how should they be allocated

5.3 The selection of ITV contractors, however it is conducted, is a massive shake-up to the system. It influences programme and investment decisions for the existing contractors for some years in advance, and consumes a great deal of management time. After decisions are known, the selected contractors have to adjust to new conditions in the regional federal system. Most of the existing contractors are now public companies: ITV is their main business and the loss of an ITV contract is devastating even if there are more alternative opportunities for programme producers in the 1990s than there were in the 1980s. This is part of the price which has to be paid for the degree of monopoly they enjoy. The IBA believes that it is right and necessary to consider the shape of the system (including the regional areas) in 1989-90 and to select contractors in 1991 who can meet the changing conditions of the 1990s. However, since 'contract blight' shows up on the screen and affects viewers, **the IBA urges that the selection process itself should be made less rather than more disruptive, shorter rather than longer, and should occur at less frequent intervals and that change merely for the sake of change should be avoided**.

5.4 There are three main ways of selecting ITV contractors in 1991:

- **auction**, accepting the highest financial bid;
- judgements about the **relative quality of programme proposals**;
- **competitive tendering**, combining financial payment with judgements about programme proposals.

5.5 **Auction** provides an automatic and open solution to the problem of choosing between contenders for a contract. Contenders bid against each other in the knowledge of what each others' bids are, and on the clear understanding that the highest bid wins.

5.6 <u>Judgement based on programme proposals</u> is in a sense at the opposite end of the spectrum of possibilities. A variety of elements contribute to the judgement: financial resources, managerial and technical skills and programme-making potential of the contenders. The awarding body allocates the contract to whichever of the contenders is, in its view, likely to provide the best service to viewers in each region. This method makes delivery of public service broadcasting the first charge on the proceeds of the monopoly.

5.7 <u>Competitive tendering</u>, unlike an auction, is not conducted in the open. Bids are sealed. A financial bid is the key part of tendering, but it is not the sole basis for selecting a winner. The identity and capabilities of the successful contender in relation to the requirement of the contract are also important. This means that the contract-awarding body has to have a way of weighting the financial bid relative to the other criteria involved.

5.8 These are the three broad concepts of how ITV contracts could be awarded. What they have in common is that each requires the terms and nature of the contract to be spelt out in some detail. In the case of auction and competitive tendering, they have to be spelt out with sufficient precision for a financial value to be placed on the contract. It is assumed that, subject to any provision for negative rentals for smaller areas, the proceeds of the auction or competitive tender would be paid to the Exchequer, thus replacing the levy. (IBA rental would be calculated and paid separately as now.)

5.9 Clearly, any system of auction or competitive tender which takes money out of the system - especially if it is taken in the form of an 'up-front' payment - is likely to favour applicants with access to large resources - and to penalise smaller applicants, who would probably be applying for small regional contracts. Unless there were provision for some form of negative tender, it might be necessary drastically to reduce the number of ITV regions.

5.10 As described in section 2, the method used in 1980 was the second of these three. Contracts were awarded on the basis of judgements about the relative quality of programme proposals and after wide public consultation. Incumbent contractors had no right to re-selection. And, since then, as we have described, contractors' performance in carrying out the contract has been carefully monitored by the IBA.

5.11 The 1980 procedure has been criticised on the grounds that neither the interviews with the applicants nor the final decision by the IBA was open to public scrutiny. Our view is that there is a limit to which any body - be it public or private - which has to make complex judgements involving personalities and styles of management, can be expected to give a full public account of the reasons for its decisions. In particular, the reasons given for <u>not</u> appointing individual applicants could harm the future prospects of those concerned.

5.12 We propose an even greater degree of transparency in the next contract award round. We propose that the various stages of the process - from the definition of the areas, the advertisement of the contracts, the receipt of applications and public comment on them up to the final award, should be explained and discussed on television. We shall require each applicant to provide a video presentation of its proposals, in addition to the full written application and summary that was provided for public discussion last time. We propose also to arrange for those parts of the contract interviews which are not concerned with confidential matters about finance or individuals to be held in public and made available for television, so that viewers can see for themselves what is on offer from different contenders. The IBA would also explain publicly why the successful applicant has been chosen.

5.13 Critics of the ITV system have also argued that contractors have had little incentive to make the most efficient use of resources, and that they have acquired monopoly profits which have had to be removed by other means (the Exchequer levy).

5.14 It would be inappropriate for the IBA to second-guess the commercial or industrial relations decisions of its contractors. Competition from new services will, however, automatically exert downward pressure on companies' income and costs. This is already happening and companies are negotiating reductions in manpower and changing manning practices. The IBA is taking a new initiative to collect detailed information on costs across the industry. This would enable us, for example, to show each company how it was performing on costs, against the average for the industry. This will be important for post-award contract monitoring in the 1990s. As ITV profits are reduced by competition, we need to be able to identify whether it is "avoidable costs" or programme quality that is taking the strain.

5.15 In considering which of the three methods of selection is best suited for awarding contracts in 1991, the IBA has taken the view that the problem of monopoly is best tackled direct, by applying a revised form of levy to the industry. The levy is well suited to a situation of uncertainty where monopoly profit will be competed away by newcomers to the television advertising market at a rate which cannot be predicted.

5.16 The IBA's preferred course for ITV contract awards in 1991 is therefore as follows:

- contracts would be awarded on the basis of judgements made by the IBA about applicants' ability to fulfil a clearly and publicly stated set of programme requirements;

- the process of contract award, would be carried out in public, except where commercial or personal confidentiality would be breached;

- the reasons for making the award would be publicly stated;

- the problem of monopoly profits would be addressed direct by a revised Exchequer levy. We propose a two-part levy. One part would be a percentage of net advertising revenue (NAR) and would, in effect, be a royalty payment in respect of use of scarce spectrum resources. The second part would be based on profits; its yield would decline as monopoly profits were competed away.

5.17 The IBA would, as its second preference, opt for a selection process which we believe fulfils the underlying objective of competitive tendering, but in a rather different way. We describe a possible process of this kind in paragraph 5.20.

5.18 As applied to broadcasting, competitive tendering is conceived as a two-stage procedure, one involving programme standards, the other, money. The majority view of the Peacock Committee was that in the first stage contenders should have to demonstrate ability to satisfy public service broadcasting requirements. In the second stage the IBA would select a 'best contender' (amongst those who passed the first stage) in terms of value for money for broadcasting services. Under the Peacock formula, if the IBA's choice were not also the highest bidder, a full public statement of the reasons would need to be made. The IBA sees strong practical objections to this procedure for reasons given below.

5.19 Competitive tendering raises three problems:

- setting the criteria for public service broadcasting in a regional-federal system. These would need to be closely defined for each regional contract, so as to provide an equitable base on which to decide who has satisfied them. But area contracts would not necessarily be identical from region to region. A very precise statement of public service broadcasting requirements in particular contracts - for example, drama, education or current affairs - will introduce too much rigidity into the working, over a period of years, of a system which we intend to open up to greater internal competition. On the other hand, loose criteria would lay the IBA open to the possibility of legal challenge at the beginning of the process; which, even if not successful, could cause delays and add to uncertainty;

- working out the trade-off that might be needed at Stage 2 between quality of programme proposals, and financial proposals. There would be no easy way of evaluating how much extra money for the Exchequer would compensate for how much second best programming for viewers in a particular region - or vice versa;

- pricing the contract: potential contenders, and the IBA, would no doubt take professional advice about the appropriate price of contracts, and of reserve prices in the case of single bidders. Difficulties would arise if contenders overbid: they would then be likely to try to solve their resultant financial problems at the expense of the quality end of their public service broadcasting obligation. And (bearing in mind that all the ITV contracts are awarded at the same time) if several contractors have overbid, the system as a whole would be damaged.

5.20 Despite the fact that it is not our preferred course, the IBA accepts that devising some method of placing a value on the profit potential of an ITV contract from the outset is an option that requires careful consideration. It provides a return to the Exchequer which is known in advance for the use of the frequency spectrum and increases the pressure on contractors to use resources efficiently. We have therefore considered whether a selection process could be devised which would involve <u>pricing the contract</u> but with less risk of over-bidding or of conflict between the financial and programming aspects of a bid. **<u>A possible way would be</u>**:

- **<u>Stage 1</u>**: the IBA would set out the financial and organisational conditions for satisfying a public service broadcasting requirement, e.g. the required provision for regional news and current affairs and for other programming to be provided from within the region; the financial contributions to be made to the fourth channel, the network, ITN and for IBA rental; and the arrangements regarding purchase of programmes from independent producers. On the basis of professional advice the IBA would set a price for the contract based upon its profit potential. The IBA would then assess whether applicants for the contract could meet all these requirements;

- **<u>Stage 2</u>**: the IBA would determine which, amongst the contenders who had met the Stage 1 requirements, offered the best programme proposals.

A two-stage process of this kind would reduce the risk that over-precise programme criteria would introduce rigidities into the subsequent working of the system.

5.21 The IBA believes that the contract price should be expressed as a proportion of future years' net advertising revenue (NAR), rather than as a lump sum figure for the full term of the contract, payable in advance. ITV NAR can be volatile; and it is expected anyway to come under pressure during the 1990s. Pricing a contract in terms of NAR would to some extent insulate the programmes (and viewers) from the effects of a misjudgement about the price.

5.22 The IBA believes that its preferred course (paragraph 5.16) is the best safeguard for the qualities of public service broadcasting. It equally believes that <u>auctioning</u> or <u>undiluted competitive tendering, in a scenario of declining ITV revenue, would undermine public service broadcasting on ITV</u>. It is significant that no such system has been adopted in any other country.

<u>Ownership and take-over of ITV contracts</u>

5.23 The method of awarding contracts would become less significant, if the requirements regarding ownership and take-over of ITV companies were made less stringent. The current requirements are set out in the Broadcasting Act. They allow the IBA a degree of interpretation and discretion in giving effect to the wishes of Parliament. We do not recommend any relaxation of the current provisions which prevent ownership by non-EC nationals. Sufficient resources will continue to be available to finance indigenous television to meet the needs of UK viewers from EC sources and in particular from within the UK. Nor do we wish it to be made easier for advertising and other interests which benefit financially from the services provided by the industry, to purchase shareholdings which would enable them to influence the service provided to viewers.

5.24 Rather than the consortia which have tended to apply in the past, public companies and other bodies may apply for future contracts. The value of more dispersed shareholdings has already been recognised by the IBA during the period of current contracts, with a substantial reduction in its own discretionary role in controlling voting shareholdings.

5.25 There will, however, remain a need for clear rules and for firm regulation. Whatever method is adopted in allocating contracts will affect the regulation of ownership. It will be important that any developments in ownership rules within the terms of the current contracts and legislation do not give the incumbent contractors either any special advantages or disadvantages as against other contenders for contracts in 1991.

5.26 Ownership and control issues are being reviewed by the Authority at present. Among the major points that need to be considered are:

- <u>should there continue to be limits on the size of individual shareholdings in ITV companies</u>?

- <u>should there be restrictions on cross-holdings</u>?

- <u>should the take-over of ITV contracts be allowed, and, if so, under what conditions</u>?

<u>Regional geography of ITV and the broadcasting clock</u>

5.27 Running the ITV channel as a regional network (apart from the breakfast-time contract) is a complicated and relatively expensive way of doing the job. But the IBA believes, for the reasons set out in section 4, that the benefits of regional television are substantial, even though the practical possibilities for introducing innovation piecemeal into the system are limited. We have already noted this point in the context of subscription: and it is equally relevant in considering the scope for changing the way the broadcasting clock is divided.

5.28 <u>The key questions for the 1990s</u> are:

- Are the regional boundaries at present drawn 'correctly', in the sense that they correspond to areas where viewers feel a genuine community of interest?

- Will the existing regional structure continue, in a period of increasing competition, to be able to support a wide range of programmes?

- Are there commercially viable possibilities for new divisions of the 'broadcasting' clock, which will neither reduce the attractiveness of the schedule as a whole to viewers nor themselves undermine the commercial viability of the remaining user of the clock?

5.29 Given the uncertainty about the rate at which new services will be delivered and taken up and possible changes in legislation, it is too early to answer these questions precisely. The IBA has two initiatives in hand which are intended to point towards answers.

5.30 **<u>Regional boundaries</u>:** the IBA will in 1989 carry out research and public consultation similar to that undertaken before the 1980 contract round, to establish <u>public</u> views on whether any regional boundaries should be altered. There are however a number of constraints about what changes may be possible topographical (television signals travel by line of sight and cannot through hills), engineering (the difficulties and expense of changing the transmitters), Governmental (constraints on changes in the use of frequencies and on providing two ITV services to boundary areas so long as some parts of the UK population do not yet receive four television services), financial (the need for an ITV region to be viable in the more competitive conditions of the 1990s). And, finally, decisions are likely to be affected by the Government's proposals on future broadcasting policy.

5.31 **<u>Late night/early morning</u>:** the IBA is examining the programming, and commercial results, of experiments by the current ITV contractors in the use of very late night/very early morning hours to 6.00 a.m. when the breakfast-time contract begins. We have asked the ITV contractors to produce proposals for use of these hours during the period of the extended contracts, from 1989-92. We will also consider alternative proposals if these are not forthcoming. We regard the immediate future as a useful and useable experimental period, and would not consider narrowing the options for the 1990s by awarding a contract for use of these hours that extended beyond 1992.

5.32 Depending on the use viewers make of these extensions of broadcasting, there are a number of options:

- continue to make these hours available to the new ITV contractors as part of their allocated time slots;

- offer these hours as a separate contract, on either a national or regional basis;

- join them to a national breakfast-time contract;

- offer 24-hour contracts to the incoming ITV contractors.

The IBA will test viewers' responses to these possibilities - as well as consider the financial and programming implications of different time splits - before coming to a firm view.

5.33 The definition of a "late night" contract would not be easy, given that normal broadcasting has been extending beyond midnight, with variations between weekdays and weekends and in various regions. Basing the use of time within the ITV system on the regional/federal model does provide the regional contractors with the opportunity to develop services which are tailored to the daily life of the region, and to reflect different uses of viewers' time as between regions.

<u>Publisher-contractors and the independent producers</u>

5.34 In 1980 the IBA required contractors to have studios in their areas. Contractors with studio and programme-making facilities in their region demonstrate their commitment to life in the region, offering employment, and show their ability to provide programmes of national (and international) as well as regional quality. It would be wrong to put those contractors at a disadvantage next time <u>because</u> they have fulfilled previous IBA requirements.

5.35 On the other hand, Channel 4 has since shown that it is possible to provide high quality programmes on a <u>national</u> service without owning any programme-making facilities (though Channel 4 had the advantage of an assured and adequate source of funding and support from the ITV companies). In the next round of ITV contracts, the IBA is prepared to consider the Channel 4 publishing model as an appropriate structure for an ITV contractor, <u>provided of course that such an applicant meets the other criteria for winning a contract</u>.

5.36 Publisher-contractors would provide a further strong stimulus to the development of the independent production sector of the industry, which is already having an impact not only on Channel 4 but also in ITV and the BBC. The IBA believes that the development of the independent production sector should be an important way of making the UK television industry accessible to new talent. Most of the independent companies providing programmes for Channel 4 are, however, London-based, and one of the IBA's objectives for the 1990s is to set a framework that will encourage the development of independent production companies in the regions.

5.37 The IBA is therefore proposing that applicants for the next round of contracts should be able to apply <u>either</u> as programme maker-contractors, <u>or</u> as publisher-contractors. In order to preserve the regional flavour of ITV, the IBA would require that:

- all applicants should spell out the nature of their regional commitment and how they would give practical effect to it;

- successful applicants would have a permanent and substantial (i.e. more than a token) regional base;

- local news and current affairs programmes, no matter how supplied, should be made within the region, and there should be capacity, however supplied, from within the region, to contribute to the network.

5.38 The IBA recognises that publisher-contractors may be unworkable for some of the small regions, which would be unable to sustain a diversity of independent production houses.

Network arrangements

5.39 Any move towards publisher contractors would not automatically imply changes in networking arrangements. The changes described in paragraph 2.37 are already in the pipeline. These allow more commercial terms to prevail in programme exchange among the ITV companies for the purchase of material for use on the network. The IBA intends that in the run up to 1992 the principle will apply, until further notice, that guaranteed access to the network should be progressively reduced so that all companies would have an equal opportunity to offer programme to the network. Further developments of these arrangements will be considered for the new contracts.

Length of contracts

5.40 The contracts at present offered by the IBA under legislation are of eight years' duration, although Parliament has approved an extension of three years to allow for consideration of the findings of the Peacock Report, and for new broadcasting legislation to be prepared.

5.41 Both longer and shorter contract periods have been proposed:

- the Peacock Committee suggested - in the context of the selection of contractors by competitive tender - that contracts might be extended to <u>10 years</u>;

- in recent evidence to the Home Affairs Select Committee, the ITV Association argued that ITV companies might want to see <u>12-year</u> contracts or longer, more in line with the 15-year contract available to the DBS contractor who will be a major competitor in the 1990s;

- others have envisaged far shorter contracts in order to maintain the pressure of potential competition on the contractor, and to encourage the development of services generating revenue as quickly as possible.

5.42 The IBA believes that:

- <u>eight years</u> is the minimum period consistent with the investment and programme production lead times in a public service broadcasting system where contractors make their own programmes;

- the <u>15-year</u> contract award to BSB, the DBS contractor, reflected the special circumstances of high investment and high risk inherent in getting UK DBS started as a private sector venture;

- very short terms of <u>three or four years</u> would seriously reduce the scope for planning and executing quality programmes - which can have lead times of up to two years.

5.43 The IBA does not advocate the award of contracts that can 'roll over' indefinitely subject to satisfactory performance. The need to be able to review the whole independent television system periodically and to make substantial adjustments according to changing circumstances will be no less relevant in the 1990s than it has been in the past. On the other hand it will be important - and possibly harder than in the past - to attract and retain longer term shareholding in the independent television system to back public service broadcasting on a commercial basis. Uncertainties about the rate at which effective competition will develop is bound to exercise an influence. Stability within the constraints of a fixed term contract system will therefore remain important.

5.44 The IBA believes that 10 years, as recommended by Peacock, is the appropriate length of term, reconciling both the need for stability with the requirement to be able to look afresh at the system at the turn of the century. There should be provision for two major performance reviews within such a period.

<u>Channel 4 and S4C</u>

5.45 The IBA wholly supports the maintenance of the Channel 4 remit, as does the Channel 4 Board. We believe that this will best be maintained in the competitive situation of the 1990s by retaining the present arrangements for financing Channel 4 which provide secure and adequate funding, and retaining Channel 4 as a wholly-owned subsidiary of the IBA. This arrangement was the result of conscious decisions by a previous Home Secretary. It was decided on by Parliament only eight years ago and we have no hesitation in saying that it is working extremely well - a fact is widely recognised inside and outside the UK.

5.46 We do not believe that Channel 4 programmes would benefit by Channel 4 selling its own airtime and retaining the proceeds. While its revenue might rise, so would its costs; and the security of its future funding would be reduced. It would also be unlikely in the longer term that the benefits to viewers of complementarity with ITV could be maintained.

Moreover, a change in selling arrangements would not in itself create any additional advertising time and would not therefore reduce the cost of Channel 4 and ITV airtime to advertisers.

5.47 The IBA believes that the remit and independence of Channel 4 is better secured by its present ownership arrangements than by some form of privatisation. If it were privatised, the pressure to make a profit for shareholders could, especially in more competitive conditions, put the remit at risk.

5.48 Television advertising is important to the UK economy, and the interests of advertisers, as the main providers of finance to independent broadcasting, need to be carefully considered. However, in a public service broadcasting system, the interests of viewers should take precedence. We believe that the way to do most for viewers' choice is <u>not</u> to risk inhibiting the way Channel 4 implements its remit. Instead, the IBA wishes to meet the legitimate concerns of the advertising industry by providing for some of the new services - DBS, new terrestrial channels, MVDS and national commercial radio - to be financed by advertising.

5.49 At present the fourth channel (Channel 4 and S4C) receives 17% of total television advertising revenue. If ITV's share of that revenue declines in the 1990s because of the pressure of new terrestrial television services, particularly if they are not carrying the full range of public service broadcasting obligations, it would be reasonable to look to those services to contribute towards such a subscription.

5.50 <u>S4C</u>: the IBA has no desire to change the system or funding arrangements for S4C. It is expensive in terms of audience reached and seems unlikely ever to be self-supporting, But the case for S4C has never been a financial one. A prosperous ITV system can support its share of these costs. A harder pressed ITV in competition with others should not be expected to do so alone. Possible new arrangements for financing Channel 4 should, if agreed, be extended to S4C.

<u>ITN</u>

5.51 The IBA and the independent broadcasting system are proud of ITN's reputation for providing authoritative news services to ITV, Channel 4 and Super Channel.

5.52 ITN cannot expect to remain indefinitely the main provider of news to ITV and Channel 4 without external competition. The IBA has, therefore, encouraged the ITV companies, as ITN's owners, to start <u>now</u> to make ITN a more commercial organisation in readiness for the competitive challenges of the 1990s.

5.53 Specifically, the IBA has told the ITV companies that it believes they should:

- carry out a fundamental review of ITN's structure and management now;

- widen board membership of ITN as soon as practicable;

- establish ITN as a separate profit centre (during the period 1990-92) on the basis of contracts between ITN and its various customers, which would provide a profit margin.

The IBA believes that a widening of the shareholding in ITN could be beneficial to the company.

5.54 The IBA believes that, if these actions are carried through, ITN will gave a sharper commercial edge by the beginning of the next contract round. The IBA believes that ITN will not, at that stage, be ready to become a free standing quoted company. This is however a possibility for the future.

The future of regulation

5.55 The key issues for the 1990s are:

- how should broadcasting be regulated?

- should there be different services regulated differently?

- should there be more than one regulator for independent television?

- should **engineering** be separate from contract regulation?

5.56 **Form of regulation**: the IBA believes - and this is common ground between all who participate in this debate - that the **consumer protection** type of regulation - protecting the standards of both programmes and advertisements - should continue in the 1990s. The rights of viewers to receive information that is accurate and impartial, and does not seek unfairly to manipulate responses, will have to be strenuously maintained across all services, existing and new.

5.57 The IBA believes that standards of taste and decency, in both programmes and advertisements, should continue to be set and enforced in the 1990s, again across all services. We have already said that we believe that this is most effectively done by the agency with which there is a contractual relationship, and which therefore has at its disposal a range of sanctions. The IBA believes that an additional quango, such as the Broadcasting Standards Council, with undefined relationships to programme contractors, would not be an effective means of enforcing standards. It has noted the Government's statement that the responsibility for enforcing broadcasting standards must rest with the broadcasting authorities.

5.58 The IBA's current regulatory system has been described in section 2. It both sets and enforces standards; and enables and promotes the production of a wide range of quality programmes. Much of the IBA's programme regulation happens before the event though there is subsequent monitoring as well.

This is central to the IBA's enabling function regarding choice and quality, especially in a federal system. It is also an aspect of the IBA's enforcement role as it identifies many possible problems in advance. The IBA believes that this system of programme regulation has provided a tough but flexible framework within which independent television has developed into a major industry.

5.59 In the 1990s a key issue, as already noted, will be whether, as competition increases, public service broadcasting requirements can still be met. Whatever the method adopted, contracts will be awarded, on the basis of a careful judgement that public service broadcasting requirements can indeed be met. But the monitoring of contractual commitments will have to be stringent in the 1990s.

5.60 The IBA is evaluating possible new systems for imposing sanctions - including financial sanctions - on contractors who fail, for reasons within their control, to deliver what their contract application promised. In particular, the IBA is considering the practicalities of a 'yellow card' and 'red card' system - i.e. cumulative penalties that could culminate in contract termination.

5.61 Different kinds of regulation for different services: the IBA believes that different regulatory requirements need to be devised, and can in practice be implemented, for different services - as we have shown by implementing different regimes for BSB, Channel 4 and ITV. In particular the IBA believes that different requirements with regard to range of programming are appropriate to services that are starting up in competition with existing services, and that have less than national coverage.

5.62 A single regulator: the IBA believes that there is synergy in the regulation of different services by one agency which has expertise in programming, financial and engineering aspects of broadcasting, which can identify new opportunities and new markets, and bring new services on air. The IBA itself has identified and developed, through its engineering skills, new technical opportunities such as teletext, radiotext and stereo/dual channel sound services, as well as the MAC transmission standard for DBS which lead the way to wider screens and to effective subscription technology. The IBA was instrumental in identifying the scope for a contract to provide DBS programme services. It is well fitted to play a similar role in launching the fifth (and sixth) channel on a commercial basis, perhaps using a combination of technologies.

5.63 A single agency is an efficient use of specialised regulatory resources. And, as we have argued, different regulatory requirements can be carried out by the same agency. Looking ahead to the early years of the next century, and bearing in mind the possibilities for convergence between telecommunications and broadcasting, the IBA can see a strong case for there being ultimately only one body regulating all the ways the picture reaches the screen. The IBA strongly believes that the regulatory structure for the 1990s should be such as to move towards this possibility rather than away from it. Further "balkanisation" of regulation between agencies responsible for particular technologies should be avoided. The IBA proposes that it should regulate the new terrestrial channels and thus bring responsibility for regulating all television not financed by licence fee under one roof.

5.64 Engineering: As explained in Annex C, the IBA believes that the development of television broadcast and broadband cable systems should in due course come within the same framework. What are the implications of this for the IBA's engineering activities?

5.65 The engineering task is to develop and manage a new framework flexible enough to bring forward technical changes in a way and at a pace that is attractive to the consumer, financially sustainable and commercially viable. The management of such a framework requires changes in the management of the engineering activity of the IBA.

5.66 This activity has already developed in recent years and, within the limitations of existing legislation

- we already offer consultancy services;

- we operate a business for the leasing of facilities to other users of our broadcast aerial masts;

- we are currently in discussion with independent local radio companies about service contracts for the provision of transmission and other engineering facilities in the new radio environment;

- we will be able to offer frequency planning services to the new Radio Authority.

5.67 For these various reasons, we are exploring the feasibility of conducting our engineering activities through an agency run on commercial lines but operating within the IBA. The agency would operate in pursuit of a policy, and within a resource framework, set for it, but would be free to exploit new transmission technologies, commercial opportunities and manage the resources allotted to it without detailed reference back. A development of this kind could provide the benefits of privatisation without isolation from a broadcasting authority, with its important national and international responsibilities for technical standards and engineering regulatory aspects.

5.68 The issues raised by a consideration of the future organisation of IBA's engineering activities are regulatory, commercial and industrial. On the regulatory side, there are, as noted, real advantages to be gained from maintaining close working links between the engineering activity, however organised, and the other regulatory activities of the IBA. But the issues go wider than the IBA. The BBC also has a major presence in broadcasting engineering. Both broadcasting and other sectors of industry, notably telecommunications, are developing along lines that may lead to a high degree of convergence of activities before the end of the century. There are therefore industrial and commercial issues to be considered about the best form of organisation for IBA's broadcasting engineering, so that opportunities in home and overseas markets can be seized and exploited.

5.69 These are complex matters of considerable importance to UK industry, as well as to the broadcasters. Recognising their importance, the IBA has set up a high-level Working Group to examine options, and make recommendations to the Authority. The IBA's considered view about the future organisation of its engineering activities will be made public later this year.

The IBA in the 1990s

5.70 We believe that in the 1990s the IBA will make a major contribution to the evolution of broadcasting in the UK in a rapidly changing technological environment through its expertise in programming, financing and engineering.

****

6. Questions for the year 2000

6.1 In this paper we have focused primarily on the 1990s - the period of the next ITV contracts and therefore the next phase in the development of U.K. television. Given the uncertainty about how the range of services will develop and the economics of the system will evolve, as well as future developments in related areas such as cable and telecommunications, it might seem sensible on the face of it to concentrate on the immediate next stage rather than look further ahead.

6.2 However, precisely because the possibilities for broadcasting are so difficult to predict, the IBA believes that it is right to begin now to take a view about 2000 and beyond. It is desirable that any framework for broadcasting in the 1990s should be sufficiently flexible and forward-looking, to avoid stifling new developments and to avoid a period of "contract blight" at the end of the 1990s.

6.3 We list below the questions that we think should be in our, and the Government's minds, as the independent television world of the 1990s is shaped:-

- Subscription: will it be widely accepted as a means of paying for programmes and, if so, how long will this take?

- Structural change: as the industry becomes less vertically integrated, will competitive pressures lead to the formation of large production units (as opposed to large television contractors)?

- Will the BBC continue to be a large, unitary, programme-commissioning, programme-making organisation and regulatory organisation?

- What will regulators do in the next century? Will broadcasting authorities still be needed to regulate programme quality and choice, or will the market (plus possibly an arts council of the air) provide?

- Should the consumer protection standards (e.g. regarding complaints by the public, as to advertisements, good taste and decency) which apply to broadcasting also apply to the press?

- Is it possible to ensure that the whole UK population will still receive at least four television services in the next century?

- Will more than one regulatory body still be needed? Efficiency and consistency suggest not. Why not plan ahead for one regulator for all the ways by which television-based entertainment and information arrive in the home?

- What sort of people should be regulators: the great and the good? economists? lawyers? broadcasting professionals or engineers? a mixture of lay and professional people? Should this be a full-time or part-time responsibility?

- What influence will the European and global dimensions have on the development of UK broadcasting?

And the most important question of all: how can broadcasters best serve the viewers?

****

7. Conclusion

7.1 We began by describing television today: what is currently available to viewers and how it is made available to them. Having made this long journey through the engineering and economics of broadcasting, the mechanics of regulation in the 1990s and a tentative look ahead to the turn of the century, we return to the viewer.

7.2 We believe that, given our perception of technical change and its pace and direction, the regulatory structure we have proposed for independent television in the 1990s will deliver the range and quality of programmes that UK viewers want. We conclude by saying that it is essential to start <u>now</u> to look further ahead. As the industry develops, the regulation of broadcasting should be adapted so that it fosters change and new ideas, which will in turn ensure that good TV programmes will always be there - at the touch of a button.

****

ANNEX A

INDEPENDENT TELEVISION - KEY FIGURES
(Year ending 31 March)

	1984	1985	1986	1987	1988
UKIB SERVICES/CONTRACTORS (nos.)					
Television channels (terrestrial)	2	2	2	2	2
DBS TV channels (contract awarded)	-	-	-	-	3
ITV programme contractors	16	16	16	16	16
Teletext: Television channels	2	2	2	2	2
DBS (draft contract offered)	-	-	-	-	1
PROGRAMME HOURS TRANSMITTED (per year)					
ITV (in average region)	5,422	5,443	5,473	5,568	6,000 (Est)
TV-am	1,066	1,066	1,092	1,085	1,195 (Est)
C4	3,171	3,595	3,914	4,138	5,300 (Est)
TOTAL	9,659	10,104	10,479	10,791	12,495 (Est)
TRANSMISSION					
IBA transmitters in operation (nos.)	1,023	1,226	1,414	1,624	1,752
UK coverage (%) : ITV	99.0	99.1	99.2	99.3	99.3
: Fourth Channel (C4 & S4C)	95.0	97.6	98.5	99.2	99.3
Reliability (%) : ITV	n/a	n/a	99.68	99.72	99.89 (Est)
: Fourth Channel (C4 & S4C)	n/a	n/a	99.81	99.84	99.90 (Est)

	1984	1985	1986	1987	1988
ADVERTISING CONTROL (nos.)					
TV scripts submitted	16,548	15,614	16,576	16,096	15,721
Finished TV commercials viewed	6,944	6,317	6,658	6,566	6,806
STAFF (average nos.)					
IBA	1,494	1,480	1,438	1,411	1,378
Channel 4	202	230	246	267	310 (Est)
ITV (including TV-am)	14,470	14,781	14,909	15,121	15,310 (Est)
***FINANCE** (£m)					
Net advertising revenue (NAR)					
: ITV (including TV-am) & C4/S4C	857	921	1,065	1,256	1,410 (Est)
: C4	n/a	75	113	155	207 (Est)
: S4C	n/a	2	2	3	3 (Est)
IBA rentals: ITV	52	55	59	63	65
Fourth Channel subscription	133	163	175	183	203
Channel 4: subscription allocation	105	111	129	136	163
S4C : subscription allocation	25	28	32	34	40
Exchequer levy	23	40	20	75	87 (Est)
Gross exports	37	51	62	74	75 (Est)

***NOTES**

IBA rentals are in respect of IBA's costs for developing, operating and maintaining the transmission facilities for independent broadcasting and for programme and advertising control.

The Fourth Channel subscriptions are paid by the ITV programme contractors (other than TV-am) to the IBA to meet the operating costs of Channel 4, and the Welsh Fourth Channel (S4C), and the servicing and repayment of loans raised in 1982-83 to support those activities.

ANNEX B

MEMBERS OF THE INDEPENDENT BROADCASTING AUTHORITY

Chairman: The Rt Hon The Lord Thomson of Monifieth

Currently: Chancellor of Heriot-Watt University; director of the Royal Bank of Scotland Group, the Woolwich Equitable Building Society and ICI; President of the History of Advertising Trust; board member of the English National Opera.

Formerly: journalist; Labour Cabinet Minister; EEC Commissioner; Chairman of the Advertising Standards Authority.

Deputy Chairman: Sir Donald Maitland GCMG OBE

Currently: Director of Slough Estates and Northern Engineering Industries.

Formerly: Chief Press Secretary at Downing Street; Ambassador to Libya and UK Permanent Representative to the United Nations and to the European Community; Permanent Under Secretary at the Department of Energy; Chairman of the Independent Commission for Worldwide Telecommunications Development.

Members

Sir Michael Caine

Currently: Chairman and Director of Booker plc; Director of the Commonwealth Development Corporation; member of Governing Body of the Institute of Development Studies, Sussex University, of the National Institute of Economic and Social Research, and of Queen Elizabeth House, Oxford; Chairman of Council, Royal African Society.

Formerly: Council member of the Institute of Race Relations; Chairman of the Council for Technical Education and Training for Overseas Countries.

Professor Alexander Cullen OBE FRS

Currently: Professor Emeritus in the University of London and Honorary Research Fellow at the Department of Electronic and Electrical Engineering, University College, London; Fellow of the Royal Society; Honorary Professor of the Northwestern Polytechnical University at Xian in China; Honorary DSc of the Chinese University of Hong Kong; Honorary D.Sc., University of Kent; Honorary D.Eng, University of Sheffield.

Formerly: Professor of Electrical Engineering at Sheffield, and at University College, London.

Professor John Fulton

Currently: Pro-Vice Chancellor and Professor of Education and Director of the School of Education at Queen's University, Belfast; member of the Northern Ireland Council for Educational Research.

Formerly: Chairman of the BBC's Schools Broadcasting Council for Northern Ireland.

Mr Roy Grantham

Currently: General Secretary of the Association of Professional, Executive, Clerical and Computer staff (APEX); Executive Committee member of the Confederation of Shipbuilding and Engineering Unions, and a director of Henley Management College.

Formerly: Bevin Boy at Stafford Colliery; member of the Royal Commission on Environmental Pollution and of the Council for National Academic Awards; director of Chrysler UK and Talbot UK.

Sir Anthony Jolliffe GBE DSc FCA

Currently: Chairman of Walker Greenbank plc; President of the London Chamber of Commerce and Industry; Chairman of City of London business in the Community.

Formerly: Lord Major of London, Treasurer of the National Marriage Guidance Council.

Mr Gwilym Rhys Peregrine DL

Currently: Member of the Welsh Fourth Channel Authority.

Formerly: Clerk and Chief Executive, Carmarthenshire County Council, also Clerk to the Probation and Magistrates Court Committees; first Chief Executive of Dyfed County Council

Lady Popplewell JP

Currently: Council Member of the Open University; chairman of the Oxford Diocesan Council for the Deaf, and Buckinghamshire County Probation Committee; governor of several schools.

Formerly: Member of Buckinghamshire County Council and Chairman of the County Education Committee; member of Board of visitors of Aylesbury Prison.

Mr John Purvis

Currently: Managing Director of his own company, Gilmerton Management Services Limited, financial and banking consultants; member of Council of St Leonards School, St Andrews; director of G B Papers plc.

Formerly: Member of the European Parliament for mid-Scotland and Fife (Conservative/European Democratic Group); Treasurer with Noble Glossant Limited.

Mrs Paula Ridley JP

Currently: Director of the Community Initiatives Research Trust and a director of New Enterprise Workshops (Toxteth) Limited; consultant to the Centre for Employment Initiatives and to BAT Industries Small Businesses Limited; member of the Court, University of Liverpool; Chairman of the Merseyside Civic Society; Chairman of Tate Gallery Liverpool Committee; Trustee of the Tate Gallery.

Formerly: Lecturer in Government and public administration.

Mr Ranjit Sondhi

Currently: Senior lecturer in Youth and Community Work at Westhill College, Birmingham; member of the Administrative Council of the Royal Jubilee Trusts and the West Midlands Prince's Youth Business Trust.

Formerly: Founder and first Director of the Asian Resource Centre in Handsworth; author of research publications on race, media and minority rights.

April 1988

ANNEX C

TECHNOLOGY CHANGE AND ITS IMPLICATIONS IN BROADCASTING

1. In any consideration of technological change and its implications for broadcasting, it is important to take into account the whole supply chain from programme production, through transmission, to reception by members of the public in their homes.

2. In this regard, a most important fact is that the capital investment in broadcast receiving equipment by the public (some £10b in the UK) substantially outweighs the investment made by the broadcasters in compiling and transmitting the programme material (some £400m.). Technological change, particularly involving transistors and silicon chips, has increased the reliability and longevity of receiving equipment and increased the difficulty of effecting any change in broadcasting systems which is not of a carefully planned evolutionary nature.

3. Yet, technological change is at a most dynamic period. The contrast between this effervescence and the inertia of the consumer base, if not handled correctly, could stifle innovation and new markets by lack of consumer confidence, resulting from slow uptake of diverse and often incompatible new equipment and systems. What is required is a framework which recognises the market constraints and the need for coherence, but emphasises a technology-transparent structure which permits the maximum penetration of new initiatives.

4. The underlying change in electronics in recent years is that of representing information electronically more in digital form rather than in analogue form. The lower information content associated with voice telecommunication circuits or audio signals have been the first to be processed or transmitted digitally. The television signal, as transmitted, is however still an analogue signal, though with the introduction of stereo sound to television and with DBS, the sound part of these signals will become digital to provide the highest quality available. The ITV Association has developed a totally digital experimental studio in which the full camera signals are converted into digital form and all subsequent manipulation is carried out by "computer-like" electronics. It is reasonable to expect that television studios in the 1990s will make the transition to fully digital systems. Consumers too, though unaware of it, have an increasing amount of digital processing in their home receivers. The falling costs of digital memory have considerable implications for television receiver enhancement and home data terminals in the future. The evolution of current transmission methods must therefore take into account these developments and the eventual likelihood that all future transmission techniques will need to be digital, capable of carrying a flexible and essentially indistinguishable mix of signals for television, telephone and data applications.

5. The UK has currently four national television services of over 99% population coverage. This is achieved using 44 channels in the UHF band and some 850 transmitting sites. The large number of transmitting sites is required in order to achieve coverage in difficult terrain areas; as a result, each frequency channel is used some 80 times over in separated regions.

6. A recent study showed that only very low coverage, involving some 20% of the population, could be achieved with a further UHF service if existing channels and existing planning rules were used. To relax the planning rules would lead to increased interference and could seriously disadvantage some viewers tuned to the existing services.

7. However, the study also showed that if several new channels could be made available as a result of reallocation from other uses, then more substantial coverage, perhaps approaching 70% of the population could be achieved with a new service. Taking into account the needs of international frequency assignment co-ordination, service planning and transmitter construction, such a new service could start to become available after 1992.

8. It should also be borne in mind that new transmitters and aerials would be required to transmit services on these extra channels. The timescale for initiating services would be longer than that for the build-up of the fourth channel to a similar coverage of the population because site tests would need to be carried out using pilot transmissions at the new channels, followed by the development of the transmitting aerials and their installation, neither of which was necessary in general for the fourth channel. If existing transmitter sites are used, some viewers may not need new domestic aerials, but this will not in general be the case. It is questionable how many viewers would be keen to make this investment for only one further channel - hardly a large extension of consumer choice.

9. Consideration has also been given to the re-use of VHF bands, recently assigned to mobile radio from broadcasting. Despite the fact that some of these bands are excellent for the propagation of broadcasting signals, this seems a retrograde step in the general evolution of telecommunications and broadcasting, requiring the public to invest in further new equipment for very limited diversity of choice.

10. Little consideration has so far been given to the market for and the use of such a new television service. By late 1989, the UK will have four national terrestrial channels and three national DBS channels. Bearing in mind the market saturation for national channels seen in other countries, a valid question is therefore whether a national service is the correct format for any further terrestrial channels.

11. A constructive approach for further television services in this new era of seven national channels, lessening the danger of programme mediocrity or decline in quality, involves the development of a more local character to television services. It is sometimes said that ITV regions are too large to provide the local character in news and advertising that viewers desire. Local or "City" television stations could satisfy this need; though they would compete with local radio and the local press for advertising revenue, they could also provide new advertising markets associated with growth sectors of local business and information services. It is unlikely that they could afford, at least initially, to provide more than a small part of a full programme service themselves, but this is no disadvantage since public interest requires the availability of networked popular programming.

12. A framework may be developed, however, under a light regulatory structure provided by the IBA, for such local stations to take sustaining feeds of approved programme material of popular appeal from other sources for a substantial part of their programme transmission hours. This flexibility would also allow successful stations to expand their local content to an extent permitted by their increasing revenue base. In a number of cases such local television stations could evolve from successful independent local radio business.

13. It is not only the technological possibilities for new terrestrial UHF television channels that could facilitate this evolution. MVDS (Multi-point video distribution systems), operating in the microwave frequency bands, are by their very nature transmission systems capable only of local coverage. Though a number of technical aspects remain to be evaluated and the limitations of line-of-sight propagation, which may produce somewhat sporadic coverage, need to be carefully considered, MVDS could play a useful role in this new scenario perhaps as a complement to the use of UHF channels according to geographical or environmental constraints.

14. The IBA, together with UK industry, is currently investigating the interesting concept of MVDS in the 12GHz band using a MAC transmission format. This would, in principle, allow DBS receiving equipment also to be used for local terrestrial MVDS services, thereby avoiding the proliferation of different equipment. Local television services could therefore be introduced by means compatible with existing television receivers or DBS equipment. Moreover, since DBS receivers will carry conditional access technology, subscription and pay-as-you-view capability is automatically introduced to the new services at no extra charge.

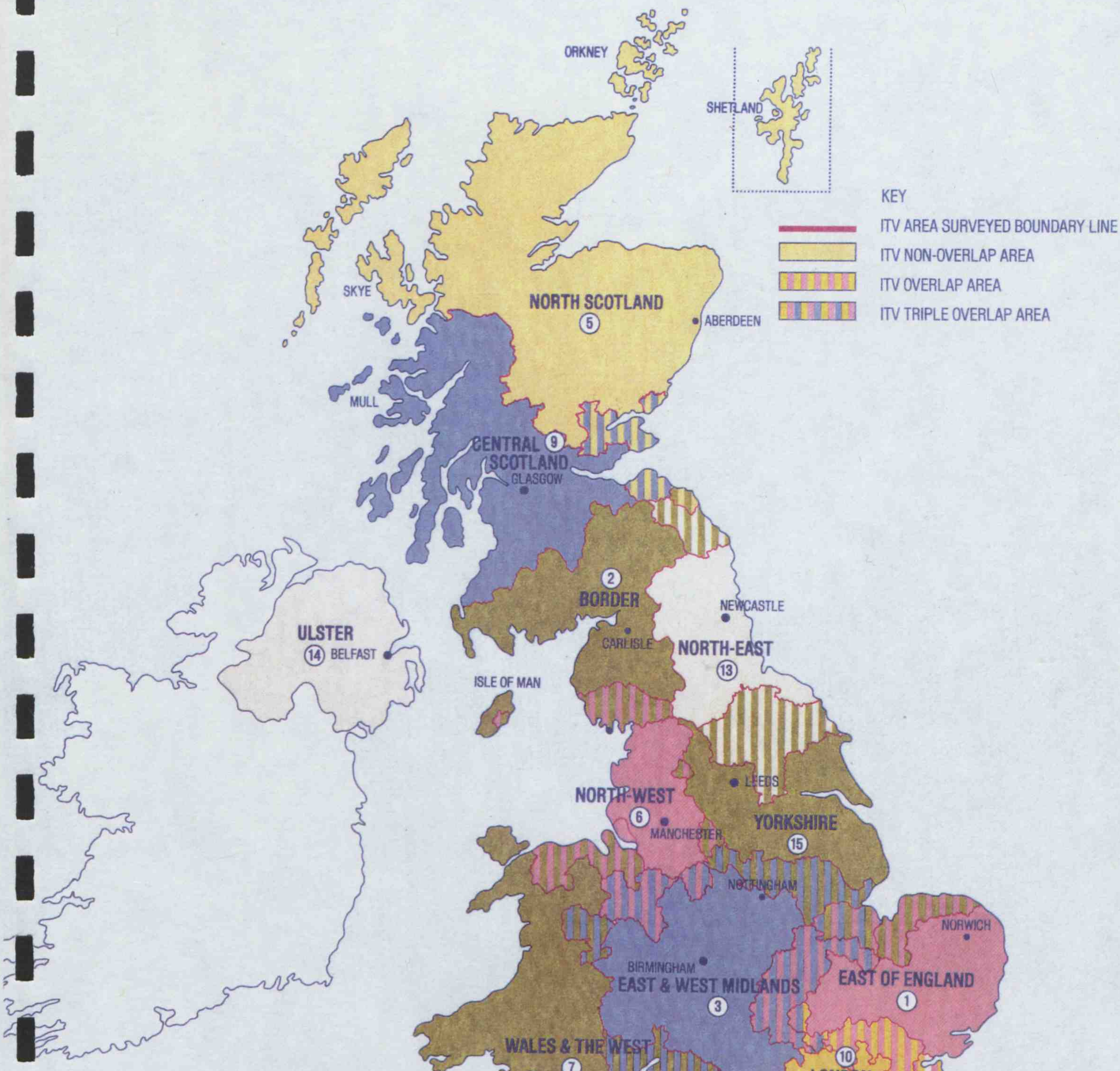
15. This scenario has attractions in the much longer term. Such MVDS local systems could be progressively and compatibly replaced by broadband cable or optical fibre as market and economic considerations dictate. The MAC format is well-suited to cable systems and could naturally evolve to full digital

transmission more than a decade in the future. The scenario leads naturally to a great degree of technology-transparency within the IBA framework, encourages local markets and independent operators, and provides an evolutionary route for both broadband cable systems and broadcast systems. It highlights, however, the need for the IBA itself to take the role of a television authority responsible for all delivery of non BBC television services to the home.

16. It is vital that the development of television broadcast and broadband cable systems come within the same framework in the future. Only in this way can the business be managed as market share changes between the two if the consumer, who has far the largest investment, is not to be severely disadvantaged.

****

MAP OF ITV AREAS



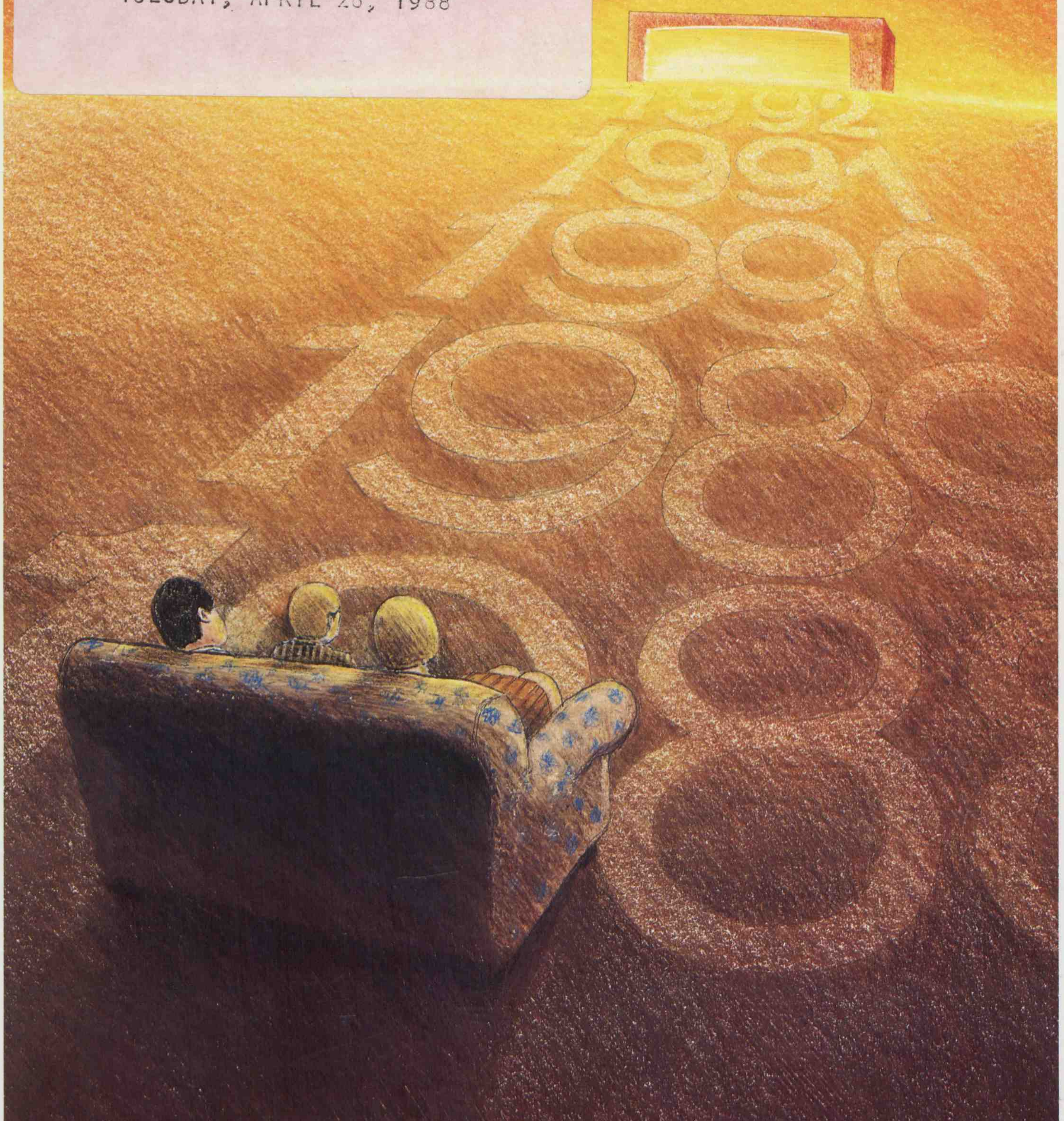
PRODUCED WITH ACKNOWLEDGMENT TO BARB

1. East of England. ANGLIA TELEVISION
2. The Borders and the Isle of Man. BORDER TELEVISION
3. East and West Midlands. CENTRAL INDEPENDENT TELEVISION
4. Channel Islands. CHANNEL TELEVISION
5. North Scotland. GRAMPIAN TELEVISION
6. North-West England. GRANADA TELEVISION
7. Wales and West of England. HTV
8. London, 5.15 p.m. Friday-Sunday. LONDON WEEKEND TELEVISION
9. Central Scotland. SCOTTISH TELEVISION
10. London, Monday-5.15 p.m. Friday. THAMES TELEVISION
11. South-West England. TSW-TELEVISION SOUTH WEST
12. South and South-East England. TVS TELEVISION
13. North-East England. TYNE TEES TELEVISION
14. Northern Ireland. ULSTER TELEVISION
15. Yorkshire. YORKSHIRE TELEVISION

INDEPENDENT TELEVISION NOW – AND IN THE '90s

EMBARGO:

NOT FOR USE BEFORE 12 NOON ON TUESDAY, APRIL 26, 1988



IBA INDEPENDENT BROADCASTING AUTHORITY

Foreword

The Government is expected to introduce legislation in Autumn 1989, that may have a far-reaching effect on independent television.

We at the IBA believe that there should be a public debate, about the future of television both in the run-up to this legislation and while it is going through Parliament.

We have produced this booklet as a contribution to the public debate. It describes the main features of the independent television system as it is now, and looks ahead to some of the changes that might come.

We hope that you find it interesting, and that it helps to clarify your views about independent television.

INDEPENDENT TELEVISION NOW - AND IN THE 90s

Television now

1. People like watching television. It is the most popular leisure activity of any in the UK. The average UK viewer spends the equivalent of **more than one whole day a week** watching TV.

2. People are getting more and more used to watching television during the day and many of us use video recorders to watch programmes when **we** want to watch them, rather than when the people who plan the schedules want us to. We like to watch with our families, and expect to be told in advance if a programme is going to be frightening or offensive.

3. Some people have Cable TV, or satellite dishes that give them programmes from space. But most of us have just four TV channels to look at and have come to expect a wide range of programmes to be available on them. On a Monday night in April 1988, between 7pm and 9pm, the choice on the four channels included: **Coronation Street**, **Nature Watch**, **World in Action**, **Channel 4 News**, **Kate & Allie** (US comedy), **The Russ Abbot Show** and **Open Space**.

A look back

4. You don't have to be much over 40 to remember a quite different world of television viewing. Think back to the Coronation, in 1953, the first big national occasion to be televised. At that time, television sets were a rarity. Many of us can remember crowding into the homes of our neighbours, the lucky ones who had televisions, to watch black-and-white pictures on a tiny screen embedded in a huge wooden cabinet. The idea that televisions would ever be small enough to pick up and carry around, that people would have more than one in their homes, was unimaginable.

5. Even then, however, UK television was about to undergo an enormous change. In 1954, Parliament agreed that there could be a second channel financed by showing adverts and <u>**not**</u> run by the BBC. Again, many of us can remember the excitement of actually seeing ads on the screen for the first time.

6. The television scene changed slowly but steadily after that. In 1964, BBC2 came along, and then in 1969 we had colour. There was then rather a long pause before, in 1982, Channel 4 started up, to be followed rapidly in early 1983 by breakfast television. All the time, television sets were changing: the screens were getting bigger, the whole set was getting more compact (and relatively cheaper), the technology was getting more reliable. But it all happened rather gradually: there was never a time when you woke up and found that, overnight, your television set was no longer useable because the technology had **suddenly** changed.

7. We are now standing on the edge of another big upheaval in television - probably bigger than anything that has happened since ITV came on air in 1955 and broke the BBC's monopoly. The rest of this booklet aims to describe the changes that we know are going to happen, and speculates about some that might. From where we stand now, there are a lot of choices to be made that will shape our television world in the 1990s - and beyond. This booklet describes some of the options, and explains which we at the IBA think will make for better television. But before looking to the future, we need to describe where we are now, and how we got there.

Who does what, and why

8. Television in the UK is the responsibility of two organisations, the Independent Broadcasting Authority (IBA) and the BBC. They are organised quite differently, but are both required to produce a certain kind of television, "public service broadcasting". This sounds as if it means worthy (and perhaps dull) programmes of limited interest. What it actually means is that both the BBC and the IBA are required to organise their channels so that they offer a **range** of programmes. This is what "public service" means in broadcasting - that, even though we have only four buttons to push, we can be reasonably sure that somewhere amongst them we can find programmes that are serious and informative; **and** programmes that are fun and entertaining; **and** programmes that offer some sort of educational interest. And we can also be sure that we get a mix of those programmes at the time when most of us watch: between say 7.00pm and 10.30pm.

9. The **BBC** operates under a Charter. It has two national TV channels, both of which carry some regional programmes. It makes programmes, and its Board of Governors is ultimately responsible for what appears on the screen. It is financed by the TV licence fee (currently set at £62.50p per year and generating £1,021m (in 1986/87)), of which £961m went to the BBC (the rest is the cost of collecting the licence fee and dealing with evasion). It owns, operates and maintains a transmitter network.

10. **Independent television** also has two channels. But it is quite different from the BBC. One of its channels, the ITV channel, is (except at breakfast time) divided up into regions, so that in different parts of the UK you often get different programmes. The programmes are not totally different, because major programmes, and the national news, are common right across the ITV network. But you do get regional programmes that are about your region, and available only in your region. (Last year, ITV showed 6,000 hours of local interest programmes - about 8% of total ITV broadcasting). This arrangement also means that, in each of these regions of the UK, there is a television programme-making company. So programmes made outside London frequently find their way onto the screens of the whole nation. (There is a list of the ITV companies at the back of this booklet.)

11. TV-am is an ITV company. Unlike the others, however, it provides a **national** service, although it only does so for part of the day - at breakfast time.

12. The ITV companies do not get any of the licence fee. This goes to the BBC. ITV's money comes from selling space around, and within, the programmes, to advertisers. So they are, in the business sense, rather like newspapers.

13. **Channel 4** is the second independent channel. It is a national channel. It was set up by an Act of Parliament which specifically required it to do things differently from ITV: to make innovative, experimental programmes, and to make sure that, at any given time of day, it is offering something different in kind from ITV. Channel 4 also has advertisements between and within its programmes. These ad slots are sold by the ITV companies, who get the money for them. In return, they give Channel 4 a slice of finance (a percentage of their advertising revenue) every year. The point of this arrangement is that Channel 4 is able to get on with its distinctive and innovative programming without **having** to make programmes that will have high ratings and pull in the finance.

14. In Wales, the Welsh Fourth Channel service - S4C - is provided separately not by the IBA but by the Welsh Fourth Channel Authority. It has a special remit to provide Welsh language programmes. It receives a share of the finance that ITV provides for the fourth Channel, as well as programmes provided free by the BBC and Channel 4.

15. **ITN** is jointly owned by the ITV companies (except TV-am), and provides news for them and for Channel 4.

16. British Satellite Broadcasting (BSB), due to start broadcasting direct from a satellite in 1989, is also an IBA contractor.

17. The governing body of independent television is the Independent Broadcasting Authority (IBA). It is responsible for selecting the ITV companies, which it does every eight years (unless Parliament has granted an extension); it owns Channel 4; it owns, operates and maintains a transmitter network; it sets the standards for the ads that appear on ITV and Channel 4; and it supervises the programmes that go out on ITV and Channel 4.

18. **The IBA** is a group of twelve people, appointed by the Home Secretary. (The current Members of the IBA are listed at the back of this booklet). They represent a variety of experience and interests and three of the Members specifically represent the interests of Scotland, Wales and Northern Ireland. The IBA has a range of advisory bodies, again drawn from a wide cross-section of people, to advise on programmes, on adverts, and on special topics such as education. But it is the Members of the IBA that are responsible for what appears on the screen. Their responsibilities are laid down by an Act of Parliament - which means, amongst other things, that their decisions can be reviewed by the Courts.

19. General requirements for what appears on independent television are, therefore, laid down by Parliament. The IBA has set up a series of guidelines that it publishes so that everyone knows where it stands on these important issues. The guidelines (which are updated from time to time) cover, for example:

- fairness and impartiality;

- offences against taste and decency;

- portrayal of violence;

- family viewing policy.

20. What the IBA is required to do, in this most important part of its work, is to act as a watchdog on behalf of the public.

21. The ITV companies (including TV-am) are required by the IBA, with whom they have a legal contract, to conform to the IBA's standards on the kinds of issue just listed. (So is Channel 4, which does not have a contract with the IBA but is owned by it.) The IBA can call in any programme made by independent television before it is transmitted, to check if it conforms to what the IBA requires. The IBA can require cuts to be made in programmes or refuse to allow a programme to be shown. Given the sheer amount of programmes made for independent television, it is not practicable for IBA staff to preview each and every programme. The responsibility for meeting the IBA's standards rests with the individual companies. If they are not sure about a programme, they can - and do - seek the IBA's views in advance.

22. Despite these elaborate arrangements, mistakes are made from time to time. The IBA could, at the extreme, take away a company's contract during the contract period if the company failed to observe IBA requirements. This might mean the extinction of the company and has in fact never happened - although one of the ways in which the system works is that everyone knows that it is a possibility. Less dramatically, the IBA can, and does, publicly reprimand its contractors.

23. That is the watchdog side of the IBA's programme work. The other side is a more positive kind: for example, discussing with companies their plans for programmes; making sure that a full range of programmes is included - in other words that independent television is a 'public service' in the sense that we have already described; making sure that regional programmes are made; making sure that religious programmes cover a wide range of religious experience; planning the provision of educational programmes (television is enormously important as a teaching and learning resource, because of its accessibility to schools and in people's homes); ensuring that quality (which can mean 'expensive') programmes are made; and making sure that peak hour viewing contains some serious programmes as well as some entertaining ones.

24. The obvious question is: why on earth does the IBA do this? The quick, but not very helpful answer, is: because Parliament has told us to. The real question, then, is: why does Parliament want the IBA to concern itself with all this?

25. The answer is: Parliament (and not just this one: the current broadcasting system reflects the wishes of many different Governments, and Parliaments) has decided that **all four** of the UK TV channels ought to be overseen in a way that offers a wide range of programmes to UK viewers. The ITV companies are businesses, which have responsibilities to their shareholders and employees. If they were just to be run in the way that was best for the business, they might find it more profitable simply to concentrate on cheap game shows and even cheaper imports rather than, for example, high quality drama, which can be very expensive indeed; a first class news service like ITN, which is also costly; or good local interest programmes, which have large local audiences but are relatively expensive. So the role of the IBA is to ensure that other interests are met and that ITV companies, although in business to make money, provide programmes that are of high quality, and programmes that have less than mass appeal.

26. Which is why, as we said above in paragraph 3, on a random Monday in April, your choice of viewing in peak time included news and current affairs; entertainment; and "educational" programmes - using education in a rather wide sense.

Changes in the pipeline

27. **New television services** are shortly to become available to UK viewers. From about Christmas 1989, three new national TV channels are expected to be beamed direct into the UK from a satellite. The company responsible for these new services, British Satellite Broadcasting (BSB) is, as we have said, also an IBA contractor. To receive its programmes, you will need a dish aerial - no bigger than a dinner plate - and a black box converter. The dish will be much smaller and cheaper than the dishes that some people currently use to get satellite TV, because the BSB satellite is a "high-powered" broadcasting satellite, giving out very strong signals.

28. The programmes that will be shown on these three new channels are still being worked out. One completely new feature will be that one of the channels - probably showing films - will be receivable only if you pay for it direct, by a subscription. The other two BSB channels will be financed, like ITV, by advertising. So for the first time, ITV will have a competitor selling advertising on TV.

29. There may also be new services available at about the same time from a European satellite, Astra, but this will require a larger (and more expensive) dish for its reception.

30. Finally, the Government is studying (with some advice from the IBA and BBC) the possibility of new services beamed from land-based transmitters, as television is now, rather than

satellites. It looks possible that, at least in some parts of the country, there may be yet another channel opening up. The timing of this is uncertain at the moment; it has to be carefully established whether there is space on the airwaves for another channel, without, for example, causing interference to other users of the airwaves. But it looks as if it **may** be possible for at least some parts of the UK to have another land-based channel - or perhaps more than one - some time in the early 90s.

31. Apart from the possibility of new services, there are also some changes in the pipeline that will affect how we see and hear our television over the next few years. Stereo sound for TV will soon become a reality. The IBA engineers are working on a system for getting TV pictures much closer to the quality of films. We hope that this will eventually be available on our BSB satellite channels.

What happens next

32. The next big milestone in the life of UK television is the year 1991. This is the year before the current ITV contracts run out, when new contractors will be chosen. The questions that have to be decided are:

- how will the contractors be chosen?

- who will be allowed to be ITV contractors?

- will there still be regional television?

- will there still be a watchdog for independent television?

33. All of these topics are being debated **now**, and the Government is planning to publish its own proposals this year. The Government is expected to bring in legislation during 1989/90 to set the framework for all this, and whatever new system is decided on will come into force at the beginning of 1993. So we need to think **now** about the best way of taking the next steps.

ITV contracts: how are they awarded

34. ITV contracts are awarded by the IBA. (The last time this happened was in 1980). In 1980, the system adopted was that the IBA undertook a massive public consultation exercise in the run up to the contract award hearings. We asked viewers, for example, whether they were getting the programmes that they wanted, in terms of range, quality and scheduling; and whether they felt the boundaries of the regions were 'right'. This might, incidentally, seem an odd question. If, say, you live in Birmingham you are probably pretty sure that your 'local' news is "Midlands" news. But what if you live in, say, Gloucester? Are you part of the West Midlands? Or do you feel

closer to the South West, or Wales? Getting the boundaries right is, in some parts of the country, something we can only do by asking people - and sometimes we can't please everybody. And sometimes where we draw the boundaries has to be determined by engineering realities - since television signals, unlike radio, have to have an uninterrupted passage and can easily be blocked by hills.

35. Then, in previous contract rounds, the IBA has announced what sort of programmes it is looking for from its contractors.

36. New groups have been formed to apply for the contracts in competition with the incumbents. Often they have involved established television people, both from the business and the programme side. In 1980, groups applying for contracts set out their proposals at public meetings organised around the country by the IBA.

37. The IBA then interviewed all the applicants (in private). Existing contractors do not have an inside track, and in the past some have not been re-appointed.

38. Once they are chosen, the newly-appointed companies are required to make programmes for both their region and for showing on the network; and to finance this, they have the sole right to sell TV advertising in their region. This can be, and indeed usually is, a profitable business. Until now, they have in return paid a special profits tax which goes to the Treasury. This special tax is a percentage of their profits. (In 1986/87, ITV's special tax payment totalled £75m). As their profits go up or down, so does their tax payment, which they pay in addition to the rent they pay to the IBA for using the transmitter system.

Paying for ITV contracts

39. The questions now are: should applicants for ITV contracts compete with each other in advance to decide which is ready to pay most for the right to broadcast? If they do, what will happen to the programmes?

40. We at the IBA have always seen the logic of the argument that says that ITV should pay for access to the airwaves, and for its right to sell TV advertising. We have always been against the idea of selling ITV contracts, because we have been concerned about the impact this would have on the programmes that ITV produces.

41. The Government would, we believe, like to find a new way of charging for ITV contracts. If this happens the IBA would like to find a way of charging for the contracts that has a built-in protection for programme **quality** and for programme **standards**. Why? Because there is a risk that, the more a company pays for a contract, the less it has to spend on programmes; and because we, as a viewers' watchdog, know that viewers are enormously, and rightly, concerned about the standards of what they see on TV. The question of how, if at all, ITV contracts are paid for, must, in our view, be resolved

by asking: what will be best for **the viewers:** - not for the Treasury, and not for the shareholders in TV companies. So, first, we have to think about the number of TV channels there might be in the future.

How many TV channels in the 90s

42. In earlier sections, we talked about how our present four channels provide a range of programmes, and include quality programmes. The question for the 90s is: will there be sufficient **new** channels for us not to have to be concerned about the range and quality of what's on? Will there be a channel for every taste?

43. In the 90s, at least three DBS channels will be available. There might be another land-based channel. There will be other satellite channels broadcasting in English from the skies over mainland Europe.

44. Some or all of these new services will become available during the 1990s. But what neither we - nor anyone else - can be sure about at this stage is how fast viewers will want to take up these new channels. The equipment needed to receive them will be additional to existing TV sets: will people want the add-ons?

45. At the IBA we believe that new services will "take off" relatively slowly in the 90s, so that viewers will still for the most part be relying on the existing four channels for much of their viewing. There will be new services. And they will carry ads - so that ITV will, increasingly come under financial pressure in the 90s. There will be real competition in the second half of the 1990s. But we do not think, at this stage, that there will be an explosion of channel choice **early** in the decade.

46. For this reason we think that we need to make sure that the ITV channel - and Channel 4 - are run in such a way that it still provides programmes that are diverse, and of high quality. UK viewers will still be, mostly, pushing four buttons. They want good programmes on all of them. And we think that viewers will go on wanting the programmes - such as local interest programmes on ITV - that are expensive, but hugely appreciated.

Ways of paying for ITV contracts

47. We believe that the **best** way - ie the way that will make for the best programmes - is for ITV companies to continue to have to pay a special tax - the "levy" - that goes up and down with their profits. As and when the competition hots up, and their profits go down, this would mean that the money going into programmes was protected. But we believe that part of their payment should be a fixed percentage of their (net) advertising revenue. This two-part system would mean they were

paying for the right to be in business; but that thereafter these payments would depend on how well they did in **profits terms**. In a bad year their tax payments would be lower - so the money they need to make good programmes would not be hit.

48. There are other possibilities. One is simply to sell the contracts to whoever bids the most. The money would go to the Treasury, so it would be good news for taxpayers. But would it be good news for the viewers? We believe it would not. The highest bidder would have paid a substantial amount of money just to be in business. To keep his shareholders happy, he might decide to make cheaper programmes. This could be a very different kind from what viewers get now, which they tell us they like.

49. The next possibility is a two-stage process. Stage 1 would be that the IBA would set out a list of requirements for the kinds of programmes that companies would have to produce. It would cover many of the kinds of programmes we have now, such as regional programmes, which viewers like but which might be sacrificed in a ratings war. And the IBA would set a price on the contract. At Stage 1, the IBA would decide how many of the possible candidates would be able to run a company capable of producing this popular mix of diverse programming **and** who could afford the price set for the contract. At Stage 2, the IBA would decide which of the contenders who had successfully got through Stage 1 was **best** able to meet the programme commitments.

50. We believe that our first choice, choosing companies on the basis of a judgement about ability to make good and diverse programmes, and then making them pay a special tax that fluctuates with their business success, would provide the best service for viewers in the 90s. Our second-best choice is the two-hurdle one: first, a company demonstrates that it can do the job and pay the price: then the IBA chooses the best of those who leaped the first hurdle.

An open process

51. The ITV contracts are due to be awarded during 1991, and will become effective during 1993. The IBA is making plans for a lot of the process by which the new contractors are chosen to be carried out in public. In particular, we would like to screen some of the interviews at which applicants appear. There would have to be some private discussion, to protect commercial confidentiality.

The regions

52. The shape of ITV regions is partly determined by geography, and the constraints this puts on broadcasting engineering. But it is also partly determined by viewers' preferences. In 1989, the IBA will launch a major public consultation exercise (and start to commission research) on the ITV regional map in the 1990s.

Broadcasting around the clock

53. The IBA is also keen to see **all** the broadcasting clock used for programmes, if this is commercially viable. Some ITV companies are already broadcasting through the night. We want to use the period from now until the next contracts start, to experiment with various ways for using these hours, and have asked ITV to come up with ideas by the summer of 1988.

Channel 4 and S4C

54. It has been suggested that Channel 4 should become a free-standing contractor, selling its own airtime and keeping the proceeds. On the face of it, this might look like a sensible idea. What concerns the IBA, however, is the impact this might have on the kind of programmes that Channel 4 shows. As we explained in paragraph 13, Channel 4 is specifically required by Act of Parliament to make innovative, experimental programmes; and to make sure that at any given time of day, it is offering something different in kind from ITV.

55. If **Channel 4** were being run as a free-standing business, selling its own advertising time, we would be concerned that the innovative, experimental programmes might have to be given up in favour of programmes that pulled in the ratings, and hence the advertising money. And separating it from ITV would mean that there would be no guarantee that the two channels would schedule their programmes so as to maintain a wider choice. Accordingly, the IBA believes that the unique contribution that Channel 4 makes to UK television will be best maintained by keeping the present arrangements for Channel 4 intact. Channel 4 is a success - so why tamper with it? Our view can best be summed up as "if it ain't broke, don't fix it".

56. As for **S4C**, the IBA does not want the system for supporting S4C to be changed. We think, however, that if ITV is financially hard-pressed in the 1990s, the Government might look to widen the financial support base of S4C.

A watchdog for the 1990s

57. The IBA will have important tasks to carry out in the 1990s. It will have to select the new ITV contractors. It will have to continue to ensure that, whatever companies are chosen, their programmes will meet the standards that UK viewers expect. And, until there really is a sufficiently wide range of channels - so that choosing your TV programme is like walking into a supermarket to do your shopping from a wide range of products - the IBA will need to make sure that even a relatively small number of channels offer a wide range of choices.

58. The IBA is proposing now to tackle these jobs on behalf of the viewing public. Television is enormously important to us all. It comes into our homes, and pervades our lives. What is on the television matters to all of us. Through the licence fee, and through advertising, the viewers pay for television. The public - the audience - is the paymaster of television.

59. The Government is expected to bring in a new law that will shape the future of television in the 1990s. We hope that the information in this booklet will be useful when you think about how this law might affect TV. If you would like to know more about independent broadcasting, or if you would like to let us have your views, please write either to your local IBA Regional Office, listed at the back of this booklet, or to the IBA at 70 Brompton Road, London, SW3 1EY.

****

APRIL 1988

THE INDEPENDENT TELEVISION COMPANIES

ITV COMPANY	REGION
Anglia Television	East of England
Border Television	The Borders and Isle of Man
Central Independent Television	East and West Midlands
Channel Television	Channel Islands
Grampian Television	North Scotland
Granada Television	North-West England
HTV	Wales and West of England
LWT - London Weekend Television	London, 5.15pm Friday-Sunday
Scottish Television	Central Scotland
Thames Television	London, Monday-Friday 5.15pm
TSW - Television South West	South-West England
TVS Television	South and South-East England
Tyne Tees Television	North-East England
Ulster Television	Northern Ireland
Yorkshire Television	Yorkshire

TV-am	National breakfast television

Members of the Independent Broadcasting Authority

Chairman:

The Rt Hon The Lord Thomson of Monifieth KT PC

Deputy Chairman:

Sir Donald Maitland GCMG OBE

Members:

Sir Michael Caine

Professor Alexander Cullen OBE FRS

Professor John Fulton

Mr Roy Grantham

Sir Anthony Jolliffe GBE DSc FCA

Mr Gwilym Rhys Peregrine DL

Lady Popplewell JP

Mr John Purvis

Mrs Paula Ridley JP

Mr Ranjit Sondhi

****

IBA Regional Offices

Northern Ireland

Royston House
34 Upper Queen Street
BELFAST
BT1 6HG

Scotland

123 Blythswood Street
GLASGOW
G2 4AN

Wales and West of England

Elgin House
106 St Mary Street
CARDIFF
CF1 1DX

8th Floor
The Colston Centre
Colston Avenue
BRISTOL
BS1 4UB

East of England

24 Castle Meadow
NORWICH
NR1 3DH

Midlands

Lyndon House
62 Hagley Road
BIRMINGHAM
B16 8PE

10-11 Poultry
NOTTINGHAM
NG1 2HW

North-West

Television House
Mount Street
MANCHESTER
M2 5WT

South of England and Channel Islands

Castle Chambers
Lansdowne Hill
SOUTHAMPTON
SO1 0EQ

Ground Floor
Lyndean House
Albion Place
MAIDSTONE
ME14 5DZ

Royal London House
153 Armada Way
PLYMOUTH
PL1 1HY

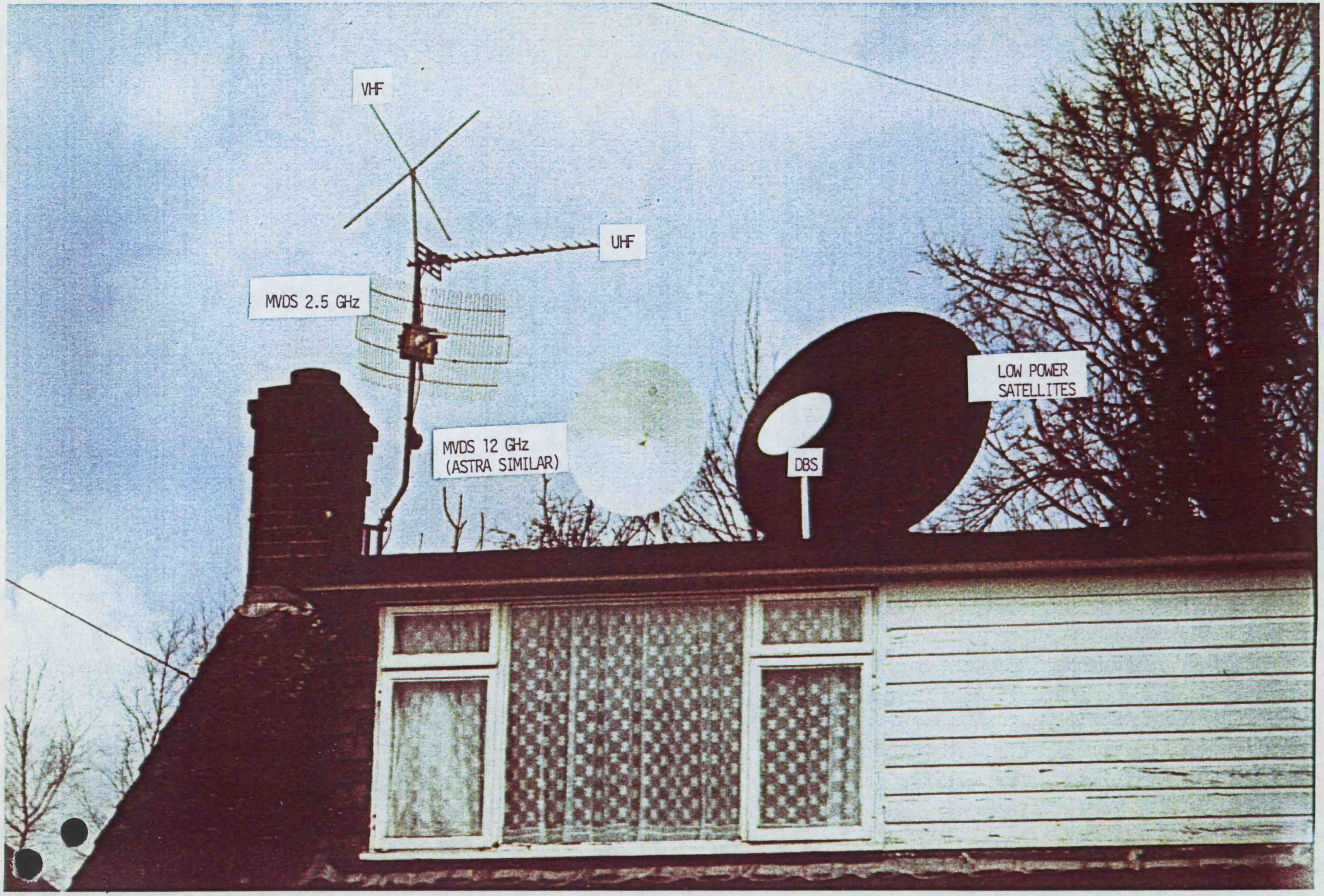
Yorkshire

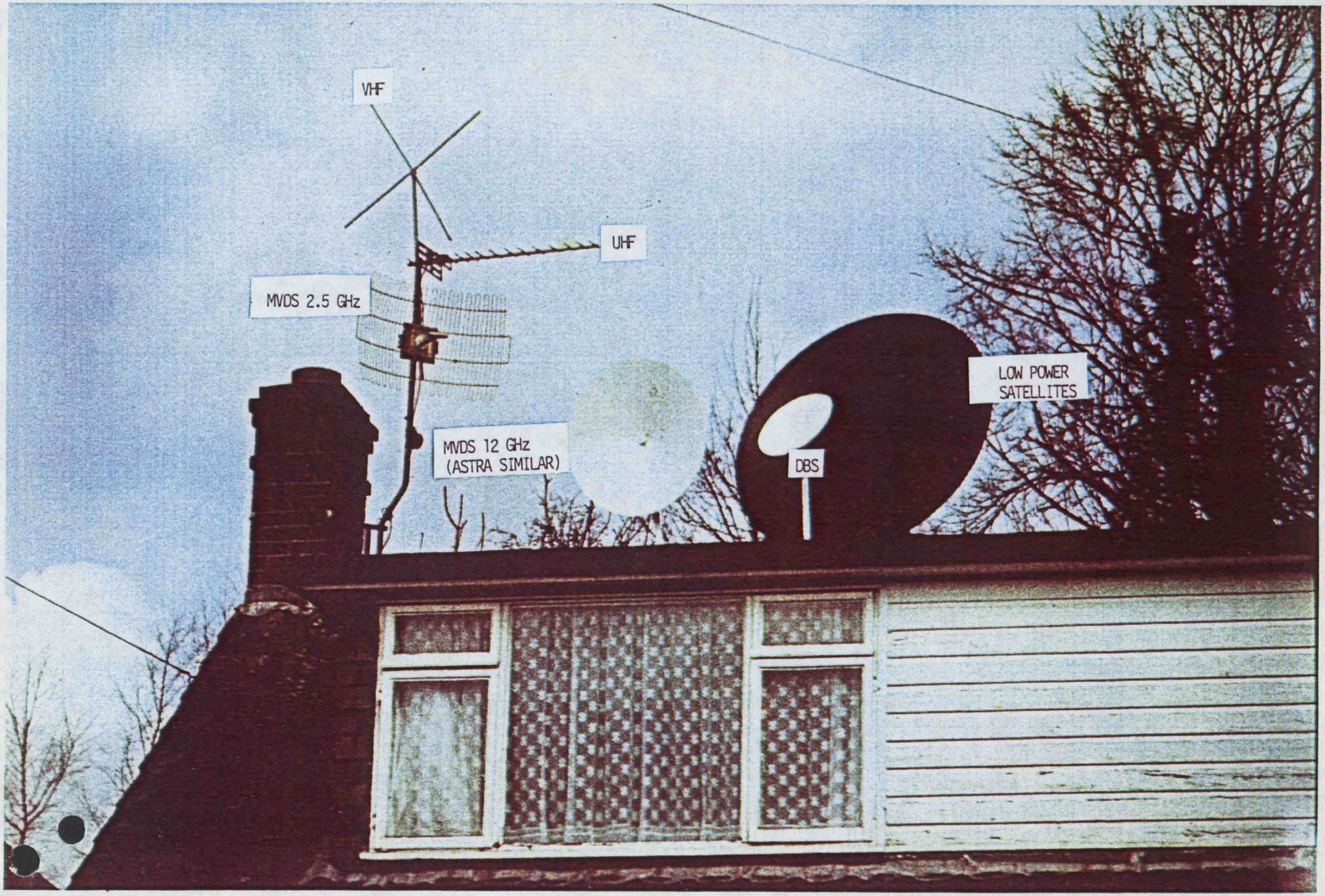
Dudley House
Albion Street
LEEDS
LS2 8PN

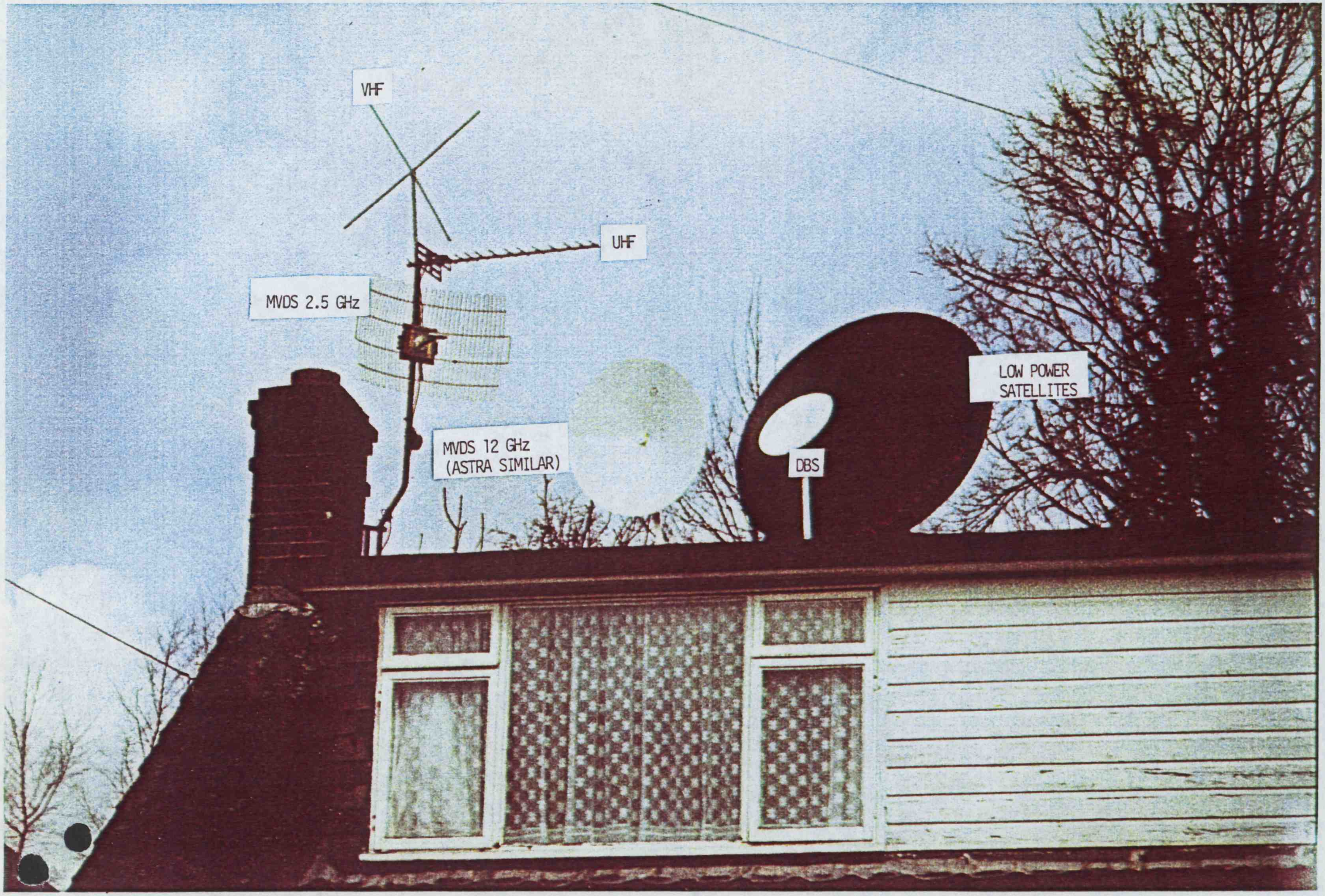
North-East England, The Borders and Isle of Man

3 Collingwood Street
NEWCASTLE UPON TYNE
NE1 1JS

49 Botchergate
CARLISLE
CA1 1RQ


VHF
UHF
MVDS 2.5 GHz
MVDS 12 GHz
(ASTRA SIMILAR)
DBS
LOW POWER
SATELLITES


VHF
UHF
MVDS 2.5 GHz
MVDS 12 GHz
(ASTRA SIMILAR)
DBS
LOW POWER
SATELLITES


VHF
UHF
MVDS 2.5 GHz
MVDS 12 GHz
(ASTRA SIMILAR)
DBS
LOW POWER
SATELLITES