



PRIME MINISTER

BBC SUBSCRIPTION AND LICENCE FEE

The existing formula for increasing the BBC licence fee expires in April 1991. We need to consider what arrangements should be made from that point on, and I should be grateful to have your views on the way forward before I put detailed proposals to colleagues. The present formula (increases in line with RPI as recommended by Peacock) has worked well. It has removed the political steam from licence fee increases. And because broadcasting inflation is higher than RPI it has put a squeeze on the BBC.

2. The need for new arrangements links with our policy on subscription. Paragraphs 3.10 - 3.11 of the Broadcasting White Paper said that we would be looking to encourage the progressive introduction of subscription services by the BBC. As a financial incentive, licence fee increases after (i.e. as from) April 1991 would be held below RPI - or discounted - "in a way which takes account of the BBC's capacity to generate income from subscription".

3. The BBC have made some progress in developing subscription services. A new company - Subscription TV Ltd - has been formed, and a Managing Director appointed. Discussions are underway with a number of possible commercial partners with a view to providing specialist updating or information services on the BBC2 night hours. Parallel discussions are aimed at providing niche leisure services - "video magazines" and so on - on the BBC1 night hours.

4. Clearly, though, subscription is still at a very early stage. The BBC's pilot project, a medical information service run by a commercial partner (BMTV), was recently suspended after

difficulties with decoding equipment prompted the withdrawal of BMTV's major shareholder. Work is now in hand on improved decoders which can be used by all future commercial partners. A range of services will probably start operating next year; profits will not emerge before 1992/93 and they are likely to be very small in the first few years.

5. I have therefore been considering whether the discount on the licence fee should be broadened. It would, I think, be a mistake to push the BBC into daytime subscription before we have seen what progress SKY and BSB make. But we might extend the discount to cover any new commercial activities undertaken by the BBC without being seen to depart too far from the terms of the White Paper. The kinds of activity I have in mind are the rental of mast space to new broadcasters; engineering consultancy services; and foreign satellite ventures such as BBC TV Europe. If we did go down this road we would have to define very clearly the activities we were trying to catch. If you agree, I will explore this possibility further.

6. Whatever the scope of the discount, we need to be able to form a realistic view of the profits which might derive from the activities covered. We also need to assure ourselves that the BBC are not dragging their feet. In doing this we shall not have the benefit of outside comparisons, since there is no experience anywhere in the world of a night hours service for downloading onto VCRs. We therefore need to find some way of second-guessing the BBC's projections. It seems to me that this exercise is best done by outside consultants.

7. The terms of reference for the consultancy would obviously bear some thought. But the focus could be on the BBC's plans for subscription services, and their profit projections. We would want to know that the BBC's plans were sufficiently ambitious, and that the pace of development was reasonable. If you agree in principle, I will ensure colleagues are consulted about the precise terms of reference.

*JW*

11 May 1990



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