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PREM 19/1677

Television Licence Fees  
 Finances of the BBC  
 Pay of the BBC

BROADCASTING

PT 1: JULY 1979

PT 2: APRIL 1985

(Peacock report in folder attached)

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PT 2							
ENDS							

Attached Folder contains:

The BBC's Second Submission to  
the Peacock Committee. 20 Dec. 1985

The Peacock Report

PART 2 ends:-

HOME OFFICE to DN 30/6/86

PART 3 begins:-

DN to PM 1/7/86

From: THE PRIVATE SECRETARY

*CUBG*

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HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

*pa*

30 June 1986

*Dear David,* PEACOCK REPORT

I attach a copy of the revised draft oral statement which the Home Secretary proposes to make when the Peacock Report is published, which we now expect on 3 July.

The draft has been revised in the light of a discussion at the meeting the Prime Minister held on 25 June, and which was recorded in your letter of the 26th.

A copy of this goes to Joan MacNaughton (Lord President's Office), Rachel Lomax (HM Treasury), John Mogg (Department of Trade & Industry), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Murdo Maclean (Chief Whip's Office) and Michael Stark (Cabinet Office).

*Yours  
Clare*

MS C PELHAM

D Norgrove, Esq.

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DRAFT STATEMENT

PEACOCK COMMITTEE

With permission, Mr Speaker, I should like to make a statement on the Report of the Committee on Financing the BBC under the Chairmanship of Professor Alan Peacock which was published today. I should like to record my deep gratitude to Professor Peacock and his colleagues for their industry in pursuing their enquiries and for their efficiency in completing their work and producing this Report in 12 months.

The Committee puts forward a number of interesting and constructive proposals for replacing the present system of financing the BBC in a few years' time, which I shall come to. However, it rejects the proposal that the BBC should at present be funded wholly or in part by advertising and concludes that at this stage the licence fee, with some modifications, should remain as the principal source of funding for the BBC. The Committee argues that, since spectrum is still scarce, and there is as yet no way in which the consumer can pay direct for the programme of his choice, the introduction of advertising would reduce the effective range of choice open to viewers and listeners. Given the original work which the Committee undertook and commissioned on the economics of the advertising market and on the relationship between advertising and broadcasting services, we cannot lightly put aside its assessment of this point. However, before reaching any conclusions the Government would welcome comments on the Committee's analysis.

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The Committee's view is that our present system of public service broadcasting has provided the best means of securing diversity of choice and programmes of quality - under the prevailing market conditions. The Committee sees a need for this system to remain in being for some years, though with important modifications, but argues that, under pressure for inevitable technological change, it must and should give way to arrangements where, as channels multiply and customers find means to register their own preferences directly, a genuinely competitive broadcasting market develops. The Committee believes that this will take time but in a few years, in preparation for this, payment for BBC services should be made through subscription, leading to the end of the licence fee system. In the longer term, perhaps through the provision of a national cable grid, a genuinely competitive market in television services could be brought about so that the current arrangements, dependent on the duopoly, would no longer be needed. There would be scope for greater diversity of programmes and a wider choice for consumers, who would have much greater freedom than is now possible to decide which programme services they would like and at what price. Special arrangements are envisaged to ensure that public service programmes are available which, though needed, the market might not produce unaided.

The Government sees much merit in this approach which fits well with our general philosophy. All of the Committee's proposals, which have profound implications for all broadcast services, and the institutions which provide them, deserve and will receive careful study. We shall reach final views on the Report only in the light of Parliamentary and public reaction; and we should welcome any comments from the public and other interested parties. However, there are four matters on which I should like to make some comment now.

First, there is the proposal by four members of the Committee that IBA contracts should be awarded by a competitive tender, with the IBA required to make a full public and detailed statement of its reasons if it decided to award a franchise to a contractor other than the one making the highest bid. The Government has reached no conclusion on this recommendation. However, it is anxious that the option for change should remain open. This would not be the case if the IBA proceeds to arrange new ITV contracts to take effect from the beginning of 1990 for eight years. Accordingly we are considering with the IBA the relationship between this timetable and the Committee's recommendation. We do not propose to disturb the work the IBA has in hand to make a contract for the provision of DBS services.

Second, there is the question of the regulation of the content of broadcast programmes. The Committee suggests that broadcast services should be subject only to such regulation as is provided for all material in the general law of the land, as is the case for the print media, and that in the long term there should be no pre-publication censorship or vetting of any kind of broadcasting. There is also a recommendation that arrangements should be made now that the non-occupied night time hours of existing broadcasting frequencies should be sold for broadcasting use and that there should be no regulation of the programme content for such services except insofar as the law of the land, amended as necessary, restricted it. Our present arrangements reflect the view that the peculiarly intrusive nature of broadcasting, and in particular of television, continue to require special regulatory arrangements to ensure certain standards in broadcast services. For this reason we have broadcasting authorities to enforce controls on such matters as taste and decency in broadcasting which are much stricter than applying to the print media, or that could not easily be accommodated in the criminal law. The present regulatory regime, and the institutions to give effect to them, are certainly not sacrosanct; but the Government does not share the apparent view of the Peacock Committee that there is nothing in the nature of the broadcast medium itself to require special regulatory arrangements.]

are quite clear that any future system of controls must be no weaker than the present system.



Third, there are the recommendations on radio. The Peacock Committee recommends that the BBC should have the option to privatise Radios 1, 2 and local radio in whole or in part and the IBA regulation of radio should be replaced by a looser regime. Five of the Committee's members went further and said that Radio 1 and Radio 2 should be privatised and financed by advertising and that further radio frequencies becoming available should be auctioned to the highest bidder. I have already announced my intention to publish a Green Paper looking at the existing framework for the provision and regulation of radio broadcasting as a whole. I believe that it would be helpful for this consultative document to examine further services at national, local and community level and that the future of BBC radio services and of those provided by the IBA should be looked at in the light of the Peacock's Committee's recommendations.

Fourth, we see merit in a number of the Committee's shorter term proposals designed to pave the way for the free broadcasting market which they wish to create, including for example the recommendation to increase the proportion of television programmes supplied by independent producers.

I welcome the Committee's Report and the many stimulating ideas which it contains. It is a challenging piece of work. We look forward to the constructive public debate about the future of broadcasting which I am sure it will encourage.



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10 DOWNING STREET

From the Private Secretary

25 June 1986

Dear Stephen,

PEACOCK REPORT

The Prime Minister this afternoon held a meeting to discuss the Peacock Report on the basis of the Home Secretary's minute of 11 June. Present were the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Chancellor of the Duchy of Lancaster, the Secretary of State for Trade and Industry, the Chief Whip and Sir Robert Armstrong.

The Home Secretary believed the Peacock Report was likely to be criticised from several different quarters. However its analysis was in many ways attractive, in arguing that there would have to be a move away from regulated broadcasting, and that "pay as you view" was a form of consumer choice preferable to the introduction of advertising across the board. But many of the specific recommendations presented difficulties. They would need to be treated as a cue for debate, with decisions coming later. There were three areas where the statement to be made on publication of the report would need to be more specific. First, major changes were taking place in radio which were not discussed in the report. Moreover it would be important not to jeopardise independent local radio and the Government were committed to an experiment in community radio. A Green Paper on radio was in preparation and the recommendations made about privatisation of Radios One and Two could be dealt with in that context. Secondly, the Peacock Committee by a majority had recommended auctioning of IBA contracts. The next round of licensing would have to take place under the present system unless there were legislation. It would however be possible to consider whether existing licences could be extended if colleagues wished that. Thirdly, the proposal that the only regulation of the programme content of television should be the law of the land would be very controversial and the Government should make its position clear immediately on publication.

In discussion the Home Secretary's general approach was agreed. The conceptual framework adopted in the report was distinguished and the Home Secretary's initial statement should foreclose as little as possible.

It was agreed that the Home Secretary should look further at the position on IBA contracts. There was a strong case for postponing action on a further round of

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contract awards until the next Parliament. The Home Secretary's draft statement would need to be revised in the light of the results of his study of the possibilities.

On the question of the regulation of programme content it was agreed that the law as it stood at present was rightly supplemented by regulation. There were substantial criticisms even of the present system, which would itself become more difficult to operate with the increasing ability to receive transmissions originating in other jurisdictions. It would increasingly be necessary to seek international agreement on regulation of programme content. At this stage the Home Secretary's statement should be firm in saying that any future system must be no weaker than it was now. A possible line to take in answer to questions would be to say that if the existing system of regulation were abolished it would be necessary to consider whether the existing law of the land was adequate. The regulation of programme content would need to be further considered during the course of future detailed study of the Report's recommendations.

Other main points made during the discussion included the following.

- (i) The phasing of the changes would be politically important. There was a strong case for moving as rapidly as possible towards pay as you view (or pay per channel) in order to secure early abolition of the licence fee. A prospect of this kind could provide a defence against expensive proposals to abolish the licence fee for pensioners.
- (ii) The proposal to impose a licence fee on car radios would be very controversial and probably unacceptable and the recommendation to give free licences to pensioners on supplementary benefit would be difficult to handle against the background of the Opposition's promise to give free licences to all pensioners.
- (iii) The question of the level of the licence fee would need to be further considered in the Autumn. Looking further ahead, the Committee had recommended linking increases in the licence to the RPI; one possibility would be to link them to an RPI minus x formula, as with BGC and British Telecom.
- (iv) The form of the ITV levy should be reviewed in further work. A revenue based levy could well be preferable to a profits based levy, with the effect that had on pay levels, restrictive practices, the encouragement of gold plating and the like.
- (v) The question whether using a British Telecom cable network for distribution of television programmes would be pro or anti competitive should also be considered. It was possible that the balance of the arguments had now changed.

- (vi) There would be little purpose in going through the difficult process of changing the basis of licence fee collection if later the system would be moving to pay as you view.
- (vii) The question remained open whether in the later stages the BBC would be free to take advertising if it chose to do so.

Summing up the discussion the Prime Minister invited the Home Secretary to revise in the light of the discussion the parts of the statement dealing with IBA contracts and the regulation of the content of programmes and to circulate a further draft. Further work on the report should be carried forward by a MISC group of Ministers with officials and experts, on the basis of papers prepared by officials and experts. It could well be helpful to associate with the work someone with commercial experience. The Prime Minister invited Sir Robert Armstrong to make detailed proposals on how this should be taken forward. In considering the Committee's recommendations it would be important to distinguish between action to be taken during this Parliament and recommendations which would be for action later.

I am copying this letter to Joan McNaughton (Lord President's Office), Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Murdo Maclean (Chief Whip's Office) and Michael Stark (Cabinet Office).

*John*  
*David*

DAVID NORGROVE

Stephen Boys Smith, Esq.,  
Home Office



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PRIME MINISTER

PEACOCK REPORT

Douglas Hurd minuted you on 11 June about the Peacock Report. I thought it might be helpful if I gave my views before the meeting on 25 June.

2 I welcome the Committee's ultimate vision of a full broadcasting market based on "consumer sovereignty". But it is disappointing that in the three-stage approach proposed by the Committee, the first stage effectively preserves much of the status quo for a period as long as 10 years. I believe that there should be a full public debate of the report, and that the Government's initial response should not foreclose discussion on the important issues.

Advertising on the BBC (Recommendation 2)

3 I was surprised by the conclusion on advertising (for which I have industry sponsorship responsibilities). I favour advertising on the BBC; though I agree with Douglas Hurd that it would not be easy for us to question the Peacock recommendation.

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However, the Report appears to produce little evidence to support the view that advertising would significantly affect the range of choice open to viewers. I therefore believe that we ourselves should examine this in some depth, particularly the implications of limited advertising and sponsorship on the BBC.

Competitive Tender for ITV franchises (Recommendations 10, 11, 13)

4 I appreciate Douglas Hurd's point about the short-term difficulty caused by the timing of the next round of contracts. However, the greater use of competitive tendering has been a major feature of our approach to other areas of this kind, and if this opportunity is missed now it will not arise again for several years. I therefore believe we should encourage some public debate on this issue rather than reject it straight away for the next round, as proposed in Douglas Hurd's draft statement. However, I accept that timing rules out any change at this stage in the tendering procedures for DBS.

Programmes from independent producers (Recommendation 8)

5 I strongly support the recommendation that the BBC and ITV should be required to make more use of independent producers and I hope that Douglas Hurd can reflect this in his statement. Such

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a move would considerably strengthen the position of the independent sector, which has been stimulated by Channel 4. It would also have a beneficial effect on BBC and ITV production costs as well as the practices of trade unions in the traditional broadcasting field. I would hope that we could achieve this objective through a formal understanding with the broadcasters rather than by legislation.

Telecommunication Common Carriers (Recommendation 15)

6 This issue goes well beyond the Committee's terms of reference and the recommendation runs counter to our current cable and telecommunications policies. Changes in approach might be welcomed by British Telecom, but they could have important consequences for Mercury - and for our hopes that cable systems should develop as local competition for BT. Douglas Hurd will be reviewing cable policy in the autumn. At that time, with the advice in particular of the Director General of Telecommunications, I shall review the telecommunications policy aspects.

Peritelevision Socket (Recommendation 1)

7 In reaching a view on this we would need to look more widely at the use of the TV set in the future - as part of home computer

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systems and for displaying DBS as well as terrestrial TV. I share Douglas Hurd's doubts as to whether this proposal needs to be brought into effect by ~~legislation~~. A voluntary agreement - ~~promoted~~, possibly, by a joint industry-Government initiative along the lines of the Teletext Programme - might be more successful than a mandatory requirement which would be unattractive to consumers generally because of the extra cost.

Collection of licence fee (Recommendation 4)

8 Competitive tendering for public service work is an important part of our competition policy and I support it. I understand Douglas Hurd's apprehension that the recommendation could lead to a confusion of responsibility, and I see attractions in Nigel Lawson's suggestion that the BBC should take over complete responsibility for collection and enforcement. But colleagues must be aware of the fragile industrial relations in the Post Office at the present time. Any change in the collection arrangements would need to be handled with great care.

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Other recommendations

9 There are a number of other recommendations of relevance to my Departmental interest. These include the proposal to privatise Radios 1 and 2, on which I agree with Douglas Hurd's proposal that this should be examined in the Green Paper on Sound Broadcasting. It is important therefore that my Department should be involved in the follow-up work that is undertaken.

PC

PAUL CHANNON

*[Handwritten mark]*

24 June 1986

(Copied to the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Chancellor of the Duchy of Lancaster, the Attorney General, the Chief Whip and Sir Robert Armstrong).

Department of Trade & Industry

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DBIF for  
Peacock meeting. /BF  
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PRIME MINISTER

20 June 1986

PEACOCK REPORT: SPECIFIC RECOMMENDATIONS

Recommendation 1: All new television sets sold or rented in the UK market should be required from the earliest convenient date, and in any case not later than 1.1.88, to have a peritelevision socket and associated equipment which will interface with a decoder to deal with encrypted signals.

This is an essential part of Peacock's overall strategy: it should not cost more than £25 per television. Already 18% of all new TV sets have such a socket, and both France and Italy have made them a legal requirement. If the Government were to announce its intention ultimately to switch over to encrypted transmission then the manufacturers would be likely to instal the sockets without the necessity of specific legislation.

Recommendation 2: BBC television should not be obliged to finance its operations by advertising while the present organisation and regulation of broadcasting remain in being.

A central part of the Peacock philosophy but only valid if its other major recommendations are implemented.

Recommendation 3: The licence fee should be indexed on an annual basis to the general rate of inflation.

Peacock proposes that index linking should run from April 1987 starting from a base of a £60 licence fee, (compared to £58 today). The Home Secretary proposes that index linking should run, initially for one year, from April 1988 starting from a base of £58. Both proposals give the BBC less than inflation during 1985 and 1986.

Recommendation 4: To permit the BBC to be the managing agent in the collection of the licence fee, the Post Office should be released from its responsibility as agent to the Home Office for collection and enforcement procedures associated with the licence fee. The BBC should become responsible for inviting proposals for collection and enforcement procedures and for identifying the most efficient and economic collection and enforcement system. (The Post Office, of course, could tender for the role of agent.)

This is worth considering although we agree with the Home Secretary that it would be better for the BBC to take over total responsibility for collection and enforcement of the licence fee rather than just be the managing agent.

Recommendation 5: On the understanding that the proceeds would be used to reduce the cost of the television licence and not to increase the total sum available for broadcasting, a separate licence fee of not less than £10 should be charged for car radios.

Although radio accounts for 28% of BBC expenditure it is difficult to justify singling out just car radios. Because the charge would apply to all cars fitted for radio whether they had a car radio or not, it would in effect be a tax on all cars. The proposal fits oddly with the rest of the Peacock recommendations and is very hard to support.

Recommendation 6: Pensioners on supplementary benefit in households wholly dependent on that supplementary benefit should be exempt from the licence fee.

This is also a surprising recommendation to come out of Peacock. It goes against the grain of allowing pensioners to make their own decisions rather than hypothecating the

benefits on their behalf. The issue having been raised it will be difficult for Government to ignore it completely.

Recommendation 7: The BBC should have the option to privatise Radios 1, 2 and local radio in whole or in part. IBA regulation of radio should be replaced by a looser regime.

Recommendation 7a: Radio 1 and Radio 2 should be privatised and financed by advertising. Subject to the Government's existing commitments to community radio, any further radio frequencies becoming available should be auctioned to the highest bidder. IBA regulation of radio should be replaced by a looser regime.

Peacock believes that advertising on Radios 1 and 2, coupled with looser regulation over independent radio, would encourage advertisers and make independent radio more robust. This could be true; there is certainly a strong case for the BBC not providing services that could equally well be provided in the private sector. Any buyer would expect the BBC to undertake not to re-enter this market. If the BBC licence fee was also reduced to reflect such a sale, then this would be an additional incentive for the BBC to stay honest.

Recommendation 8: The BBC and ITV should be required over a ten year period to increase to not less than 40% the proportion of programmes supplied by independent producers.

This is a vital measure if the BBC's cosy inefficiency is to be ended.

Recommendation 9: The non-occupied night-time hours (1.00 am to 6.00 am) of the BBC and ITV television wavelengths should be sold for broadcasting purposes.

This is a sensible use of resources but the transmissions should not be totally unregulated: the same restrictions should apply as for cable television.

Recommendation 10: Franchise contracts for independent companies should be put to competitive tender. Should the IBA decide to award a franchise to a contractor other than the one making the highest bid it should be required to make a full, public and detailed statement of its reasons.

Recommendation 11: Franchises should be awarded on a rolling review basis. There would be a formal annual review of the contractor's performance by the Authority.

Recommendation 12: Consideration should be given to extending the franchise periods, perhaps to 10 years.

These are sensible recommendations which we would strongly endorse. The inefficiencies of the BBC and ITV companies feed off each other; eliminating the levy would provide a major incentive to improve.

Recommendation 13: DBS franchises should be put to competitive tender.

This seems sensible.

Recommendation 14: Channel 4 should be given the option of selling its own advertising time and would then no longer be funded by a subscription from ITV companies.

Peacock makes this recommendation conditional on Channel 4 continuing to offer complementary services to ITV. With this proviso it is perhaps the right time to start thinking about allowing Channel 4 to progress from being a child of the ITV companies to an adult company in its own right.

Recommendation 15: National telecommunication systems (eg British Telecom, Mercury and any subsequent entrants) should be permitted to act as common carriers with a view to the provision of a full range of services, including delivery of television programmes.

This will be controversial: is it worth sacrificing the potential benefits of competition to the more certain advantage of achieving a national, common-carrier network? Given the disappointing take-up of cable so far there would appear to be strong arguments for concluding that the current fragmented approach may end up with the consumer getting a worse service than might be achieved through a monopoly carrier.

Recommendation 16: The restriction of cable franchises to EEC owned operators should be removed.

There is no longer a flood of applicants for these franchises, so foreigners are unlikely to displace British companies. They could offer a service that the consumer would otherwise not receive.

Recommendation 17: All restrictions for both Pay-Per-Channel and Pay-Per-Programme as options should be removed, not only for cable but also for terrestrial and DBS operations.

This is an essential pre-requisite for moving towards the Peacock goal of electronic publishing. The Home Office is wrong to be frightened of it.

Recommendation 18: As regulation is phased out the normal laws of the land relating to obscenity, defamation, blasphemy, sedition and other similar matters should be extended to cover the broadcasting media and any present exemptions should be removed.

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This actually increases the amount of regulation on broadcasting until stage 2 of the Peacock proposals is implemented sometime in the 1990s. Although it presents political difficulties it must happen sometime.

*Peter Warry*  
PETER WARRY

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10 DOWNING STREET

Prime Minister

Papers for a meeting  
possibly next week.

I strongly recommend  
dipping into the report from  
page 250 onwards to get  
the flavour of the Committee's  
approach.

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PRIME MINISTER

PEACOCK REPORT

This note is offered on the strength of having been one of the secretaries to the Annan Committee on the future of broadcasting in the mid-70s, and of a continuing interest in broadcasting arrangements since then.

My impression is that the Peacock Committee, as with all committees on broadcasting, became seduced by the exciting possibilities of the future at the expense of dealing in the political realities of the present. Only that can explain the fact that, as the Home Secretary rather bitterly complains, most of the Report is concerned with arrangements which were outside their terms of reference and on which they took no evidence. However rigorous the analysis, which is what one would expect from a committee with people like Alan Peacock and Sam Brittan, it is flawed by a number of what seem to me fundamental misconceptions. These apply both to their recommendations on existing broadcasting arrangements and those for the future.

Financing the BBC: Peacock's Recommendations

Advertising

The Committee reject, as was only to be expected, advertising on BBC Television. In my view this is right: there is no serious possibility that advertising on BBC Television will be saleable politically. On radio, however, they advocate "privatising" Radios 1 and 2 and financing them by advertising. As the Home Secretary says in his minute, this is a very odd concept. Radios 1 and 2 are not companies or commodities: they are the way in which the BBC happens to use the wave lengths which have been allocated to it. The BBC cannot sell the wave lengths because they are not the BBC's to sell. Nor can the Government force the BBC to give up Radio 1 and 2: even if it took away the wave lengths, the BBC could simply use one of its other wave lengths for a service of that kind.

The Committee's analysis seems to me to miss the obvious answer which is to get the BBC to put advertising on Radio 1 and 2 thereby increasing their income, thereby reducing the licence fee. This of course would be a breach in the BBC's firm front against advertising. As such, they would resist it bitterly. But I find it very difficult to believe that they could seriously argue that advertising would adversely affect the nature of Radios 1 and 2.

#### Concessionary Licences

On the licence fee, the Committee recommend indexation and free licences for pensioner households dependent on supplementary benefit to be financed by a levy on car radios. If the licence fee is to be retained, and advertising on Radio 1 and 2 rejected, then indexation would help politically. But the proposal for concessionary licence fees is a dangerous one. Quite apart from the initial cost, it would be very difficult indeed to hold the concessions there. There would be very strong pressure first for extension to all pensioners with supplementary benefit and then to all pensioners. This is of course Labour Party policy. The Committee say that they prefer cash benefits to benefits in kind, yet they recommend something which is flatly contrary to that principle.

#### Car Radio Licence


The Committee salve their consciences by proposing a car radio licence. If this was a serious proposition, it would have been done long ago as a means of reducing the overall licence fee. Their proposal is that a fee should be paid by every owner of a car fitted for radio. Leaving aside the question of equity (is it right to tax people whose cars are fitted for radio, but do not actually have one?), this tax will be unpopular and easy to evade. If charged on a once and for all basis, when a new car is bought, it would add substantially to its cost: if charged annually, in addition to road tax, it would add at least 10%. The Committee only advance this proposal to offset their idea of concessionary licences: better to have neither.

### The Future

Much of the Committee's Report is concerned with preparing the way for broadcasting to become what they call a "full broadcasting market" in which there is an indefinite number of channels, mostly funded by direct subscription, although with a public service provision for "unpopular" programmes. They call this "a sophisticated market system based on consumer sovereignty". In such a system, they envisage the disappearance of broadcasting authorities in the traditional sense, and also controls over the content of what is broadcast. They say:

"What we do expect to disappear or much diminish is the need for negative censorious controls. If the right conditions are established, there will be little need for "regulation" apart from the general law of the land to cover such matters such as public decency, defamation, sedition, blasphemy and most of the other matters of concern in broadcasting."

They say they are aware of public concern about excesses of violence and sex on television: they argue that the recourse for public concern about these areas should lie with the normal remedies of the law.

This seems to me to be a case of free market enthusiasm overcoming political sense. Broadcasting cannot simply be regulated by the law of the land. If that law is effective then the broadcasters will be swamped by law suits. If it is not effective (and experience suggests this), the broadcasters will be virtually completely unregulated. Regulating television broadcasting cannot be left to the vigilance of individual viewers, their willingness to take legal action, and the size of their purses. Someone - a broadcasting authority - must be responsible. 

What the Committee proposes does not, of course, apply to the immediate future. If, however, the Government were to accept the premises behind their Report, it would mean moving in a

direction totally contrary to its current approach. The popular demand is for more regulation on broadcasting the content of television and not less. But less is what the Committee proposes.

*This is a little unfair I think. JH*

I believe that the Committee's view of the future is also flawed because it assumes that broadcasting will move in a particular direction, i.e., towards a multiplicity of channels based on distribution by cable. Experience demonstrates that it is almost impossible to say where broadcasting is going. For example, in the last ten years the big development in broadcasting has been the massive increase in video recording. Yet ten years ago all the evidence to the Annan Committee suggested that video was almost likely to be a minority taste, and was in any event up a technological blind alley. I attach a copy of the relevant paragraph in the Report. When you read that the British Radio Equipment Manufacturers' Association thought that there was unlikely to be a very great expansion of demand for video recorders, it becomes clear why British manufacturers completely lost out on the video boom!

The Annan Committee was told that the next ten years lay in cable, and framed its recommendations accordingly. But cable was a flop, and is likely to remain so for the foreseeable future.

Any technological assumptions about the future of broadcasting are likely to be wrong: indeed, almost certain to be wrong. The Committee should not have spent its time constructing elaborate hypotheses about an unknowable future.

*TF*

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13 June, 1986.

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25.17. In their 1972 Report, the Television Advisory Committee concluded that the most likely market for recording equipment was for education and training and it was not likely to become so widely used by the general public as to make people want less or a different kind of television during the franchise period after 1976. This conclusion was not seriously disputed by those who gave evidence to us, although we received some evidence, for example from the National Video Cassette Working Party, composed of representatives of the video recording industry, which suggested that the market for video equipment would grow rapidly in the late 1970s and that the cost of video disc equipment would be well within the mass consumer pocket. But the BBC believed that even if manufacturers and retailers of discs and cassettes captured a large market by current standards, their audiences would be small by comparison with those of the BBC and ITV, and the IBA believe that video recording would appeal to "only the minority that is acutely choosy in its attitude to broadcasting and can afford the equipment which makes it possible to be choosy". The British Radio Equipment Manufacturers Association also thought there was unlikely to be a very great expansion of demand for video recorders at the present selling price, and the National Television Rental Association suggested that the domestic market for video cassettes was likely to be limited, although they foresaw more future in video discs.

PRIME MINISTER

13 June 1986

PEACOCK REPORT

Our unstated objectives in establishing the Peacock Committee could reasonably have been described as:

1. To knock the BBC down to size, to force them to improve efficiency, and to prevent them from extravagantly expanding into everything from DBS to breakfast-time TV.
2. To bring an end to the regular battles over the level of the licence fee.
3. To prepare the broadcasting structure for the advent of new technology.
4. To help out the rest of the broadcasting industry.

We had anticipated that the best way to achieve the first two objectives was through a measure of advertising on the BBC. But although Peacock does not recommend advertising, he has come up with a package of proposals which, if implemented in full, would still achieve all the above objectives. It is the total package of proposals which is necessary to achieve the objectives, just indexing the licence fee would leave the fundamental problems untouched.

The Committee did not reject advertising on the grounds of economics: although they obtained evidence that suggested that increasing the supply of advertising might reduce the total revenue secured, they generally retained an open mind. Advertising was rejected because it did not meet the Committee's ideals on consumer sovereignty, ie ensuring overall that the majority of individual consumers were able to watch the individual programmes they most wanted rather than being forced by advertising pressures to watch the

programmes that numerically got the highest audiences but did not necessarily give the highest overall satisfaction. If the Committee suspected that only selected recommendations were to be adopted then it might well have preferred to endorse advertising despite the disadvantages.

### The Peacock Analysis

Peacock argues that the present, highly-regulated duopoly in television has come about because of the limited amount of frequency spectrum available. If the frequency spectrum restriction had not existed then broadcasting might well have developed as for newspapers, with a multiplicity of opinions and choice. The influence of any single station would have been small and there would have been no need for a state-financed corporation to exploit the monopoly. Peacock believes that broadband cable, DBS, video-taping etc will produce just such a situation in the next 10 to 20 years - true 'electronic publishing' with as many different choices as the consumer demands.

To cope with this revolution Peacock proposes a three-stage approach determined by the rate of take-up of the technology. The three stages are:

1. **Preparatory:** new televisions to have sockets for receiving encrypted signals, a national common carrier broadband cable spine to be developed by BT (and Mercury), more commercial pressures to be put on BBC and ITV, but otherwise status quo.
2. **Intermediate:** more choice now available for consumers, lighter control of BBC and ITV output.
3. **Final:** full range of stations/programmes available, regulation probably reduced to purely the law of the land.



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For the BBC these three stages equate to:

1. Index linking of the licence fee, gradual increase in proportion of programmes made by independent producers, hiving-off of radios 1, 2 and local radio.
2. <sup>(No.) Subscription</sup> Pay per view replaces [part of] licence fee, lighter regulation of output.
3. Although some public service element may continue, BBC effectively independent and financing itself through pay per view or indeed with advertising.

Such a deregulatory approach ultimately leaves the BBC without any special controls over its output other than the law of the land. This is not necessarily a bad thing. The current need to control the BBC derives from the influential nature of present duopoly TV output, and the desire to ensure that licence payers' money is not frittered away on unworthy programmes. Once the BBC becomes just one of many channels and its viewers are able to elect whether to watch (and pay for) its programmes, the argument for special control is much reduced. Of course it will still be necessary to ensure impartiality in news and political and industrial controversy, and to require that the output does not offend against good taste and decency. But this can be enshrined in statute, (just as it has been for cable TV) and the need for pre-publication censorship removed.

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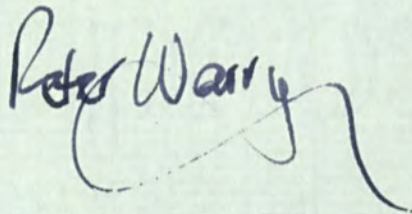
Government Response

The Home Office summary of Peacock is slightly slanted and not a little smug, perhaps reflecting the self-satisfied approach of the vested interests which it sponsors. The Home Office support most of the recommendations that maintain the status quo and would be happy to push the others into the long grass.

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We support the general thrust of Peacock's conclusions and most of his recommendations. But whatever view one takes of the recommendations it would be unwise to peremptorily brush any of them aside - the Peacock Committee, more than most, was composed of powerful and effective communicators. Moreover they specifically state (paragraph 710) that it is not possible just to pick and choose.

There is no necessity to stick our heads over the parapet at this stage. We strongly recommend that the Home Secretary should not rule out anything in his Commons statement. The Report should be allowed to stand or fall on its own merits, and the Government then respond to the public demand.

A handwritten signature in blue ink that reads "Peter Warry". The signature is written in a cursive style with a long, sweeping tail that extends to the right.

PETER WARRY

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PRIME MINISTER

PEACOCK REPORT: FINANCING THE BBC

OBJECTIVES AND CONCLUSIONS OF THE MEETING

1. The principal objective of the meeting you are holding next week is to consider the immediate Government reaction to the Peacock report and the line the Home Secretary should take in the statement he proposes in his minute of 11 June. Since, in essence, the Home Secretary proposes to reserve the Government position on the bulk of the report there is no need to take firm decisions on its recommendations now, save on those the Home Secretary proposes specifically to reject. It is clearly important, however, to get the tone of the statement right, particularly in its treatment of the future of the licence fee, the rejection of advertising and the possibility of a subscription system. To do this the meeting will need to have a general discussion of the substance of the report and its overall thrust.

2. You might also like to use this discussion to establish whether anything might be done, taking account of the report, to take quicker action to introduce an alternative form of finance and to commission work on any options identified.

3. Once the statement has been made on publication of the report (perhaps in the first week of July), the next public step the Home Secretary proposes to take would be an announcement in the autumn of future handling of the licence fee. One possible course would be to delay a decision on whether he should do so until nearer the time and have a further more substantive discussion with colleagues at that point. Such a further meeting could assess the report in the light of public reaction and consider the results of work commissioned as indicated above.

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BACKGROUND

4. You will recall that the Peacock Committee was set up in March last year in response to public interest in the possibility of introducing advertising into the BBC. This had been stimulated by the licence fee review of that year and the feeling that the quality of BBC television had declined and was not notably superior to that of the ITV companies, particularly since the advent of Channel 4. There was also a view that the development of new technology would provide increasing opportunity to break down the current duopolistic service and enable greater competition with its resultant benefits of improved efficiency.

5. The success of the Committee in tackling these issues is doubtful. They have set out a radical vision of the future in which technological advance - cable and satellite transmission - could be used to create a genuine free market with viewers being able to register their preference directly by "pay-per-view". That would accord well with much of the Government's general philosophy but it is many years before it could be brought into being and is to some extent speculative.

6. The difficulties arise from the fact that the Committee have subordinated what can be done immediately to their longterm goal. They rule out advertising on BBC television altogether, and propose the retention of an (indexed) licence fee for a ten year period until technological advance has produced a sufficient spread of broadcasting channels to enable a subscription system to be introduced for the BBC. Under their subscription scheme transmissions would be encoded on broadcast and could only be decoded by possession of a device and code number for the channel for which a subscription would be paid. This in itself is seen as only a second transitional phase before the ultimate goal is achieved of a full unregulated broadcasting market with an indefinite number of channels paid for by whatever means the market can bear.

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7. Although subscription is not in itself an unattractive means of finance, the Committee's timescale of implementation would leave the Government in the difficult position of having to retain the licence system for a 10 year period and having to face the prospect of dealing with a number of short-term recommendations - for example, changes in the structure of the licence fee - which would be politically unpopular for no immediate dividend.

MAIN ISSUES RAISED IN THE REPORT

(i) Advertising Versus Subscription

8. The report rules out advertising as a means of funding the BBC effectively on two grounds. First because of the conclusion, after a detailed economic study, that while the volume of advertising would increase with extension to the BBC the total amount of revenue generated and available to broadcasters would decline. However, the Committee emphasise that their conclusion against advertising would still stand even if they were more optimistic about the likely growth of advertising expenditure and its sensitivity to price reduction. Their principal objection is a philosophical one. They set as their primary objective consumer welfare. They consider that the main defect of a system based on advertising finance is that channel owners "do not sell programmes to audiences, but audiences to advertisers". Within our duopolistic system, they believe the consequence would be to reduce consumer choice through the BBC being driven into a ratings war to attract advertisers and consequent financial pressure being put on ITV companies, which would make it more difficult for them to meet IBA requirements; programmes which did not secure top audience ratings would be squeezed out. The Committee believe that a subscription, on the other hand, would transfer genuine power to the consumer and enable a multiplicity of channels to develop, serving all needs.

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9. This analysis has its attractions but it is open to challenge. While the Committee's findings on the effects on advertising revenue probably do rule out total funding of the BBC from advertising, the Committee is less convincing in its consideration of limited advertising. The BBC is already engaged in competition with ITV companies with many of its programmes and it is hard to see that advertising limited both in total broadcasting time and to a certain percentage of programmes would materially affect the mix of programmes available. The conclusion of the Committee that "the BBC and the regulated ITV system have done far better, in mimicking the effects of a true consumer market, than any purely laissez faire system financed by advertising could have done under conditions of spectrum shortage" presupposes that a laissez faire system would have been the basis on which advertising was introduced: but it would be equally possible for the present regulatory control system to continue. The Home Secretary rightly points out the political difficulties of rejecting the Committee's findings on advertising but it might be possible to put work in hand internally to examine the possibilities for limited advertising. The form of words that the Home Secretary proposes to use would not close off this option.

10. It is by no means clear that the consumer sovereignty enjoyed under a subscription system with a multiplicity of channels would give a better effective range of choice given there would be a price inhibition on the number of channels or programmes for which a subscription could be paid. Since there would be no ban on advertising it is not entirely clear how the market of a mixed supply of free channels by advertising and subscription channels will work and whether the latter would prove profitable. There would certainly be an awkward transition. Given these difficulties the Home Secretary's proposal for an initial neutral response inviting public comment and analysis of the Committee's reasoning seems the right course to take.

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(ii) The Licence Fee

11. The Home Secretary proposes an announcement in the autumn that the present £58 licence fee will be extended for its third year to 1988 (the current settlement runs until 1987 and, unless displaced by a different system, until 1988), with a commitment to an indexed increase for a fourth year based upon the RPI. He points out that this would take the matter beyond the General Election, whenever it took place, and would avoid the need for a messy debate in early 1988. You will probably wish to defer a decision on this point until a more substantive discussion of the Government response to the report can take place. In particular you may wish to consider whether there is any other alternative source of finance that could be identified on the basis of the analysis in the report.

(iii) Privatisation of BBC Radios 1 and 2

12. It is not entirely clear what privatisation means in this context since the most valuable asset - the frequency spectrum - is not owned by the BBC. Moreover, if the BBC lost the frequencies there would be nothing to prevent them making the remaining service more populist. We understand informally that the Peacock Committee gave no thought to these questions, which clearly demand more subtle analysis. In the circumstances, the Home Secretary's proposal that his initial announcement should detach this and the other radio recommendations from the rest of the report, for consideration in the context of his current review of radio policy as a whole, seems right. His current intention is to publish a Green Paper in the autumn, and this will address other controversial issues, such as community radio.

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(iv) IBA Contracts to be Awarded by Competitive Tender and by Rolling Review

13. The timing of this recommendation is awkward as the IBA will be advertising television contracts late next year, select contractors by the end of 1988, and new contracts would begin in 1990. To make changes in this process would require new primary legislation. This legislation would be controversial and would have to be prepared in advance of consideration of the wider issues raised in the report. The Home Secretary is therefore probably right to propose rejecting the recommendation as it stands. You might, however, like to consider whether the possibility of moving in this direction should be kept open for the longer term future.

(v) Programme Content

14. The report recommends both that the content of programmes should be subject only to such regulation as is provided in the general law of the land and that the current unused nighttime airwaves should be used for unregulated broadcasting. The Home Secretary wishes to reject these proposals. He believes they ignore the current concern about broadcasting standards and the particularly intrusive nature of the media. Some would argue that on specific issues - for example, obscenity - the general law was a more effective mechanism than the duties placed on the BBC and IBA. But reliance on the general law would leave areas such as political impartiality unregulated and this is surely unacceptable.

(vi) Telecommunications Systems

15. The proposal that the telecommunications systems should be permitted to act as common carriers runs completely counter to deliberate Government competition policy in this area of providing cable programme services through local interactive networks. This policy, however, has not led to the rapid



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development of cable networks which had been hoped and it may be worth taking a fresh look at the alternatives. There is no need for an early public response.

(vii) Structure of the Licence Fee

16. The Committee's proposals for exempting pensioners on supplementary benefit from the licence fee, abolishing the concession for people in residential care, and extending it to car radios are unattractive politically as is the possibility canvassed of narrowing the differential between the monochrome and colour licence fee. Decisions could not be taken in advance of further consideration of the future of the fee as a whole and are probably best taken on that timetable.

HANDLING

17. You will wish to invite the Home Secretary to introduce his paper. You may then wish to invite general comments on the Peacock approach, and subsequently to go through the particular recommendations the Home Secretary has highlighted. All those present will have views.

AJL

A J LANGDON  
13 June 1986

PRIME MINISTERPEACOCK REPORT

Professor Peacock presented the report of his Committee to me last week. I propose to arrange for its publication at the earliest suitable date, perhaps in the first week in July. I shall at that time need to give the Government's initial response to it. What follows are my first thoughts on the report and its handling, together with a trial draft of the statement which I might make on publication. I enclose a copy of the report, which it may be helpful if we discussed before the draft statement is circulated more widely. The crucial part is Chapter 12, which opens with a summary of the Committee's conclusions and includes all the recommendations. I also attach a list of the recommendations together with some initial comments on them.

2. The Committee has gone beyond its terms of reference (which were aimed at the financing of the BBC) to map out a route for the phased transformation of broadcasting from regulated public service broadcasting to the ultimate goal of a completely unregulated market for broadcasting services which might be described as "electronic publishing". The fact that it neither took, nor invited, evidence on some of these wider matters will be controversial and may reduce the authority of its conclusions. Although radical in its long term vision, the report is conservative in its short term recommendations. In particular it rejects all proposals for advertising on the BBC (though Radios 1 and 2 and the BBC local radio, if privatised, would carry advertisements).

THE COMMITTEE'S CONCLUSIONS

3. The main intellectual thrust is best understood in the (by no means novel) analogy made throughout the report between the history of printing and that of broadcasting. This argues that, just as the proliferation of printing presses forced the Government of the late 17th century to lift controls on printing with wholly beneficial results, so the inevitable direction of broadcasting will be towards a similar free market, as fast as technological developments make this possible. This is something which the Committee welcomes, and seeks to accelerate.

4. Thus the Committee's guiding principle is that of consumer sovereignty (which it distinguishes from "commercial laissez faire" with its risk of unregulated monopolistic practices) which it believes is best served by the creation of a genuinely competitive broadcasting market. The Committee identifies three pre-conditions for the creation of such a market:

- (i) viewers must be able to register their preference directly by "pay-per-view";
- (ii) there must be freedom of entry for programme makers; and
- (iii) transmission facilities must be operated on a common carrier basis.

(Paragraph 55)

5. The Committee recognises that these are ideal conditions and that the technology does not yet exist to implement all of them, although it is clear that it will within a matters of years. The Committee emphasises that broadcasting services financed by advertising do not fulfil condition (i) in its fullest sense.

6. The Committee acknowledges that while spectrum scarcity prevails and there is no direct means of consumer payment for programmes, the present system of public service broadcasting provided by broadcasting authorities may be the best means of maximising consumer welfare through the provision of programmes of popularity, merit and diversity. In particular it concludes that "the BBC and the regulated ITV system have done far better, in mimicking the effects of a true consumer market, than any purely laissez faire system financed by advertising could have done under conditions of spectrum shortage" (Paragraph 581). This leads them to reject advertising for the BBC which, under present conditions, they argue would "reduce the effect of range of choice open to viewers and listeners (Paragraph 541(vii)). Nonetheless the present system has the natural imperfections of a regulated duopoly (including economic efficiency and the inhibition of freedom of expression) and should not be perpetuated once a better system is available.

7. The Committee therefore chart a course in three stages. Stage 1 is seen as a preparatory stage lasting about ten years in which the current structure of broadcasting remains, but with a number of detailed modifications to the BBC and IBA services in order to prepare for Stage 2. Under this stage BBC services would be paid for by subscription, and other broadcasting systems on cable and satellite would be allowed to proliferate, using whatever payment system was appropriate. The long term goal would be Stage 3, where the full broadcasting market is achieved by means of an indefinite number of channels paid for by pay-per-programme or pay-per-channel. One way of achieving this is through a national wideband fibre optic grid throughout the country, and some of the recommendations under Stage 1, which critically affect our current telecommunications and cable policies, are intended to expedite the development of such a grid.

8. In both Stages 2 and 3 "public service broadcasting" is preserved but based upon a narrower definition than that now applying to the BBC and IBA, and limited to programmes which would not be produced by a free market. These programmes (which appear to include the whole of Radios 3 and 4, among other things) are to be supported by subsidy disbursed by a new body, the Public Service Broadcasting Council. It is not clear to me that there is general acceptance - and indeed I am not convinced that public service broadcasting in the wider sense is at the end of its useful life; and I think this is one of the less persuasive parts of the report.

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9. I do not believe that the Peacock recommendations provide a sound basis on which to make early legislative changes; and I shall not be seeking to persuade you and our colleagues that this is needed. Nonetheless I consider that the Committee's analysis and its attempt to develop a coherent framework for the long term development of policy has much to attract us, in particular the proposals for the replacement of the BBC licence fee by direct subscription. The concept that in the end the consumer should select and pay for his own viewing fits our philosophy well. Accordingly our early response should not seek to distance us from this aspect of the Committee. However, Stages 2 and 3 are some years ahead, and I do not believe that it is necessary or desirable for the Government to take a firm position on them in its immediate response. More difficult are some of the immediate and detailed recommendations which the Committee make, all of which apply to Stage 1, and which will require a response in due course. The Committee believes that all these recommendations must be implemented if Stages 2 and 3 are to be viable. I am not convinced that this is so.

10. The recommendations which are likely to prove most controversial are those which concern the BBC, including the rejection of advertising (Recommendation 2), the continuation of the licence fee (indexed to RPI) (Recommendation 3), and the privatisation of BBC local radio and Radios 1 and 2 (Recommendation 7). The conclusion on advertising will disappoint some of our supporters. On the other hand, in view of the composition of the Committee and the weight of economic evidence on which it bases its conclusion, it would be difficult for the Government to reject it and to seek to impose advertising on the BBC despite the Committee's arguments of principle, and their assessment that advertising revenue for broadcasting as a whole would actually go down. My inclination, therefore, is not to respond immediately but to allow some time for the implications of this recommendation to sink in. I nevertheless believe that a decision will need to be taken soon on the licence fee question to prevent the issue building up again in a way which would help no-one. My present view is that we should announce in the Autumn that the present £58 licence will be extended for its third year to 1988 (the current settlement runs until 1987 and and, unless displaced by a different system, until 1988), with a commitment to an indexed increase for a fourth year based upon the RPI. This would take the matter beyond the General Election whenever it takes place and avoid the need for a messy debate in early 1988.

11. The Committee offers two alternative recommendations concerned with BBC's Radios 1 and 2 (Recommendations 7 and 7(a)). A majority suggests that the BBC should be required to privatise the two radio stations; the whole Committee agree that they should be given the option of doing so, and of privatising local radio. (It is not entirely clear what privatisation means in this context since the most valuable asset - the frequency spectrum - is not owned by the BBC. Moreover, there would be nothing to prevent the BBC making its remaining service more populist). It also recommends a looser regulation of independent radio. These proposals have the merit of opening up the nature and extent of the IBA and BBC role in radio. I have already announced my intention to publish a Green Paper to look at radio in the round on which I shall, of course, be consulting colleagues in due course. In my

statement, therefore, I will want to detach the radio recommendations from the rest of the Report and to say that the Government will be looking at the whole of radio policy in its Green Paper which I hope may be published in the Autumn.

12. Another recommendation (made by only four members of the Committee) which requires an early response is that IBA contracts should be awarded by competitive tender and by rolling review (Recommendations 10 and 11). As things stand the IBA will advertise television contracts late next year, select contractors by the end of 1988, and new contracts would begin in 1990. These arrangements are grounded in the present legislation. There is, therefore, little time for change to be made before the next round of contracts and to do so there would need to be legislation next Session. This would be controversial and would inevitably raise wider questions to which the report does not, I think, provide the answers. Like the three dissentient members of the Committee, I see no great merit in the auction approach and several disadvantages. To prevent unsettling the independent sector any further, I would therefore wish to make an early rejection of this approach.

13. Another recommendation which I would want to reject at the outset is that the content of programmes should be subject only to such regulation as is provided in the general law of the land (Recommendation 18). This approach in effect dismisses the need for the regulatory powers of the BBC Board of Governors and the IBA. It will, of course, antagonise those who argue - and with whom I have a lot of sympathy - that because television is particularly intrusive, the broadcasting authorities have a particular responsibility for their treatment of violence, obscenity and, indeed, politics. This recommendation is linked in the report to the provision of unregulated night-time services (Recommendation 9). It will be bound to raise speculation about "adult" films being shown in the early hours of the morning. My statement on publication would, therefore, reject this proposal, citing the current concern about broadcasting standards and the particularly intrusive nature of the medium. This blind spot is reflected also in the fact that the report barely mentions as a feature of our present public service broadcasting arrangements the requirement on the broadcasting authorities to produce accurate and impartial news and to ensure balance and impartiality in dealing with matters of public policy and political or industrial controversy. Although we may have doubts about their success in always meeting these high standards we have no doubts about their importance. In the Peacock view of the future all this would disappear, with the broadcast media being subject to no greater regulation than newspapers and the other print media.

14. As I have already mentioned, one route to the Committee's long term vision of a free broadcasting market is through the provision of a national optical fibre grid. We of course share the hope of securing national interactive broadband telecommunications networks. But we deliberately decided against provision television programme services solely through the telecommunications duopoly. The Committee recommends, however, (Recommendation 15) that telecommunications systems (by which they mean British Telecom, Mercury and any subsequent entrants) should be permitted to act as common carriers with a view to the provision of a full range of services, including delivery of television

programmes. This proposal, which the Committee reached without seeking or receiving evidence on it from the Home Office or the Government Department principally involved - the Department of Trade and Industry - goes to the heart of our hope of providing cable programme services through local interactive networks which would provide a desirably competitive medium. Nonetheless it is clear that our present cable policy has not so far led to the rapid development of local cable networks which we hoped to see. There is no need for an early public response to this recommendation but we obviously need to form our own collective view on it.

15. There is, finally, one group of recommendations which, although relatively small in relation to the scale of some of the others, raises considerable political difficulties. These concern concessionary licences. You may be aware that there is a Labour Party pledge to exempt all pensioners from the licence fee, the cost (about £325 million per annum) being met from general taxation. The Peacock Committee makes a number of relevant comments. First, it makes a formal recommendation (Recommendation 6) that pensioners on supplementary benefit in households wholly dependent on that supplementary benefit should be exempt from the licence fee, the cost (about £80 million per annum on their estimate) being recovered by their proposal (Recommendation 5) of a separate licence fee for car radios. Second, in Paragraph 635, the Committee suggests abolishing the existing concessions for people in accommodation for residential care (which "costs" about £20 million per annum in licence revenue foregone). Third, in Paragraph 627, the Committee again suggests, though without making it a formal recommendation, that attention should be given to increasing the monochrome licence fee to bring it closer to that of the colour fee. (At present about 2.7 million households have monochrome licences and if each of these were to pay the colour licence fee an additional £108 million per annum would be raised).

16. While on merits there is much to be said for abolishing the existing concessions, to do so would provoke an unattractive row with a group some 600,000 strong which includes some severely disadvantaged people such as the mentally and physically handicapped. (It was indeed pressure from this lobby which led us in 1984 to widen the concessions which had previously applied only to the elderly). It might be possible to mitigate (but not avoid) the outcry if at the same time alternative arrangements were introduced aimed in particular at disadvantaged pensioners. But I am not convinced that the package envisaged by the Committee would provide an acceptable solution. The proposal to broaden the licence fee base, by introducing a new licence for car radios, might be both unpopular and administratively cumbersome. There is something to be said for removing the monochrome licence (which is sometimes obtained to evade the colour licence fee). But the existence of this relatively cheap licence (£18) is a useful answer to those who see the colour licence as an oppressive poll tax. This is very difficult territory, and I propose to avoid any commitments in my initial statement; and, of course, nothing firm could be said unless we were prepared to acknowledge the continued life of the licence fee system.

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17. For most of the rest of the recommendations I see no need for the Government to give an early indication of its view; indeed I see positive advantage in encouraging a wider debate on the issues and in letting the Committee's recommendations find their own level. Indeed reserving our position for a while may help to maintain an element of pressure on the BBC. On these matters, therefore, my initial statement would simply invite comments from the public and other interested parties.

18. A copy of this minute goes to the Lord President, the Chancellor of the Exchequer, the Secretary of State for Trade & Industry, the Chancellor of the Duchy of Lancaster, the Attorney General, the Chief Whip and to Sir Robert Armstrong.

*Douglas Hurd*

11 June 1986

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## COMMENTS ON PEACOCK COMMITTEE RECOMMENDATIONS

Recommendation 1: All new television sets sold or rented in the UK market should be required from the earliest convenient date, and in any case not later than 1 January 1988, to have a peritelevision socket and associated equipment which will interface with a decoder to deal with encrypted signals.

The Committee see this recommendation as a essential to prepare for their Stage 2, where the BBC (and other broadcasters if they wish) would be financed by subscription. There is no necessity for an early decision, and it is not clear that legislation is the best or most desirable way of achieving the necessary modification to television equipment: if it is clear that the Government is committed to this approach it is likely that the market would follow. The requirement would put up the price of sets and would be unpopular with consumers and with manufacturers.

Recommendation 2: BBC television should not be obliged to finance its operations by advertising while the present organisation and regulation of broadcasting remain in being.

These recommendations are rooted in the principle of consumer sovereignty and the conclusion that 'the BBC and the regulated ITV system have done far better, in mimicking the effects of a true consumer market, than any purely laissez-faire system financed by advertising could have done under conditions of spectrum shortage'. This leads the Committee to reject advertising for the BBC which, under present conditions, would 'reduce the effective range of choice open to viewers and listeners'. This rejection applies equally to the idea that the BBC should be partly financed by advertising - the so-called 'topping up' of the licence fee. In addition, the economic studies commissioned by the Committee showed that there was not enough additional advertising revenue to support both sides of the duopoly, although this finding is not central to their rejection.

In view of the composition of the Committee and the extensive economic research which it commissioned, I believe that the Government will find it difficult to reject this recommendation. The current licence fee settlement runs until March 1987 or March 1988 unless the licence fee is displaced by some new system



of financing the BBC. Accordingly unless we make the position clear fairly soon pressure may mount, particularly from those who still want advertising on the BBC. I doubt if this, or a further licence fee application aimed at March 1988, is in anyone's interests. Accordingly, I believe that a fairly early response is needed. However, rather than deal with this in my July statement, I would rather leave the implications of the recommendation to sink in, particularly with our supporters, during the Summer. I would suggest making an announcement in the Autumn confirming that the present £58 licence fee will continue until 1988, with a commitment to a further extension to 1989 linked to RPI (see below). This would then take the matter well beyond the life of this Parliament.

Recommendation 3: The licence fee should be indexed on an annual basis to the general rate of inflation.

The Committee see this as a way of enhancing the BBC's independence and avoiding the awkwardness of large triennial increases. The choice of RPI would have the benefit of enforcing a degree of economy and efficiency in the organisation, given the pace ITV sets and the labour intensive nature of the broadcasting industry. The BBC will have mixed feelings about this proposal, and particularly the choice of index, but on balance I would expect them to accept it.

I have suggested above that we should make a commitment to linking the 1989 licence fee settlement to RPI. Although this would not go so far as the Committee would wish and give a long term commitment to indexation, it would probably be difficult for this or any other Government to step back from indexation once the principle has been established. It is clearly important, as the Committee envisaged, that any increase above the RPI should be exceptional and justified only by special circumstances.

Recommendation 4: To permit the BBC to be the managing agent in the collection of the licence fee, the Post Office should be released from its responsibility as agent to the Home Office for collection and enforcement procedures associated with the licence fee. The BBC should become responsible for inviting proposals for collection and enforcement procedures and for identifying the most efficient and economic collection and enforcement system. (The Post Office, of course, could tender for the role of agent.)



Under this proposal, while my own responsibilities would remain unchanged, the BBC would become responsible for inviting proposals for collection and enforcement procedures and for identifying the most efficient and economic collection and enforcement system. I must say that I find this proposal profoundly unattractive as it would lead to a confusion of responsibility with no compensatory advantage. If we do reach the conclusion that the licence fee system must be kept in existence for some years I would see more merit, at first sight, in the idea Nigel Lawson put to me recently: namely that the BBC should take over complete responsibility for the collection and enforcement of the licence fee, though the matter is far from straightforward. We might explore this further, in consultation with the BBC, if and when we conclude that the licence fee system cannot be displaced altogether, at least in the short term, by some other method of funding the BBC.

Recommendation 5: On the understanding that the proceeds would be used to reduce the cost of the television licence and not to increase the total sum available for broadcasting, a separate licence fee of not less than £10 should be charged for car radios.

The Committee considered it undesirable that there should be no radio licence since radio accounted for 28% of the BBC's expenditure. It recognised the difficulties of re-introducing a full radio licence, but argues that a licence on car radios, where much of the listening takes place, would be practicable and enforceable. The Committee apparently expected this proposal to raise about £80m pa.

We have looked at similar proposals in the past which have been put to us by the BBC as a way of increasing their revenue. There are difficulties both of principle and practicality. First, if we are to go back to a radio licence, it is somewhat illogical to confine it to radios installed in cars. The only justification for doing so is the ease of policing and the fact that fiscally it is somewhat progressive (since car ownership is mostly confined to the better off). On the other hand collection would add a new tier of administrative complexity, especially if there were to be an annual charge. If the Committee's recommendation for a one-off charge were accepted, then the cost would need to be in the order of £50-60. This would be extremely unpopular and would be liable



to create back-street markets in radio fitting. It is worth noting that the new trend for car radio aerials concealed in window surrounds or heater elements will make it progressively less easy to identify cars with radios installed.

This proposal has been given a public airing in the past. I see no need for an immediate response and I think that public discussion of the matter will ease the way towards rejecting it.

Recommendation 6: Pensioners on supplementary benefit in households wholly dependent on that supplementary benefit should be exempt from the licence fee.

The Committee estimates that the cost of this proposal in terms of revenue forgone would be about £80m pa. Like the existing concessions this proposal would create awkward anomalies at the margins, and is in conflict with our broad approach of avoiding specific concessions and subsidies. There are, for example, needy groups other than the elderly poor whose claims could be forcefully argued and there is no obvious reason why concessions, if granted, should extend to full exemption from the licence fee, rather than being limited to, say, a 50% reduction. Indeed much of the pressure for wider concessions, including recent representations from Age Concern, argues only for cheaper rather than free licences. There are also obvious risks in relating eligibility for concessions to criteria such as receipt of certain benefits or other factors which might reflect only temporary rather than long term need; and establishing with certainty the circumstances of a household as a whole (rather than an individual member of it) could produce considerable complication. Nonetheless it is clear that there is a wide measure of concern (to which the Labour Party proposal to provide free licences for all pensioners is a response) about the way the licence fee bears on the elderly in particular. Our response to this is linked to the action if any we propose to take on the present concessionary arrangements.

Recommendation 7: The BBC should have the option to privatise Radios 1, 2 and local radio in whole or in part. IBA regulation of radio should be replaced by a looser regime.



Recommendation 7a\*: Radio 1 and Radio 2 should be privatised and financed by advertising. Subject to the Government's existing commitments to community radio, any further radio frequencies becoming available should be auctioned to the highest bidder. IBA regulation of radio should be replaced by a looser regime.

There has always been some criticism of the BBC's involvement with what was seen to be the commercial end of the radio market. The suggestion that these radio stations might be privatised is a logical one from this Committee which takes a restricted view of the 'public service broadcasting' which it believes the BBC would provide in the medium term. However, the proposal is not as straightforward as it seems. Radios 1 and 2 are not separate entities like a local radio station: they use the studios and support facilities of the rest of the BBC radio services, and they are transmitted from the same transmitters. In effect ~~all~~<sup>what</sup> the Committee is suggesting is that the frequencies currently assigned to these radio services (which the BBC does not of course own) should be allowed to be used by commercial radio interests. This would have an immediate impact on the viability of independent local radio and in the longer term on proposals for an independent national radio network (INR). Without a change in our constitutional relationships with the BBC - where it is for them to decide the nature of these programme services - there would in practice be nothing to prevent the BBC developing on its receiving frequencies replacement music services. Radio 4, for example, might become more populist and music orientated.

The Government is already committed to a Green Paper which will look at radio in the round, and I suggest that these recommendations on radio, should be detached from the report and considered in the context of the Green Paper. Subject to the views of colleagues, I will make this clear in my July statement.

\*proposed by 5 members of the Committee

Recommendation 8: The BBC and ITV should be required over a ten year period to increase to not less than 40 per cent the proportion of programmes supplied by independent producers.

Channel 4, which is required to take a certain proportion of its material from independent producers, has been very successful in creating an efficient and



professional independent production industry in the UK. The Committee has clearly been impressed with what it has seen, and the arguments that greater access to BBC and IBA airwaves would promote greater efficiency. The creation of an independent sector is also important for its long term plans for electronic publishing.

There is no doubt merit in the general idea, but the particularly mechanistic way in which the Committee has proposed it will undoubtedly provoke hostile reaction from the broadcasters (as has a more modest proposal in the EC draft directive). It would require legislation to enforce the recommendation and there seems no need for the Government to take a forward position on this.

Recommendation 9: The non-occupied night-time hours (1.00 am to 6.00am) of the BBC and ITV television wavelengths should be sold for broadcasting purposes.

The Committee sees the unused night-time capacity as an opportunity for introducing at an early stage some of freer market conditions which the report looks forward to in Stages 2 and 3. In particular it argues that the content of programmes broadcast at these times should not be subject to special regulation (nor to the control of any broadcasting authority) except the general law of the land. They would, in effect, be the first steps towards electronic publishing. There is a link with the separate proposal (Recommendation 10). ~~I am sure we cannot accept Recommendation 9 as it stands. Question of accepting Recommendation 9.~~

In view of the concern about sex and violence on television, and indeed the central point that the broadcasting medium requires special treatment by its nature, I would want to reject the concept of unregulated broadcasting at once (see also Recommendation 18). As to the use of night-time hours, both the BBC and the IBA are already toying with their own proposals and a three-month experiment on Yorkshire Television is due to begin shortly. It would be open to the IBA to offer a separate contract for night-time broadcasting, on the lines of TV am. The BBC already use some of the silent hours to transmit educational programmes for recording, and they could, if they wished, extend these arrangements

(Note: Spoke to Home Office 13/6.  
How does the College of the Air fit in with this?  
JRS  
13/6)



to a subscription service for entertainment programmes at night. There are, therefore, ways of taking forward this proposal which would not involve the complete deregulation which the Committee desires, and which would not necessarily deprive the existing broadcasters of their right to use this time, which they would resist strongly. This is a matter which will find its own level in public discussion, and I will confine my initial remarks to rejecting the concept of completely unregulated broadcasting.

Recommendation 10\*\*: Franchise contracts for independent companies should be put to competitive tender. Should the IBA decide to award a franchise to a contractor, other than the one making the highest bid, it should be required to make a full, public and detailed statement of its reasons.

This proposal would require new legislation which would undoubtedly be controversial and which would inevitably provide opportunities for raising a wide range of matters beyond the scope of the immediate recommendation. I do not believe that it would be timely to introduce such legislation before a General Election. The IBA is bound by the present law to make new contracts by 1990, and the process of advertising these contracts will begin in Autumn 1987. To avoid any further uncertainty in the independent television sector, which has already been shaken by the possible implications of advertising on the BBC and the development of DBS, I should like to make an early announcement that the new round of contracts will continue on the established basis. This means that they would last until 1998.

Even in the longer term I see little merit in the auction approach and some of my doubts appear to be shared even by those members of the Committee who supported this proposal since they suggest that it would not be necessary to accept the highest bid. In this case there seems little reason for not adopting a fully discretionary approach based upon an assessment of the highest quality applicant. The Committee links its proposal for an auction to the phasing out of the levy. This would be a mixed blessing: the levy provides a more flexible tax on windfall profits than would an auction and there are good reasons for believing that the levy goes some way to facilitating the IBA's task of encouraging contractors to produce services of high quality.

\*\*proposed by 4 members of the Committee.



Recommendation 11: Franchises should be awarded on a rolling review basis. There should be a formal annual review of the contractor's performance by the Authority.

Recommendation 12: Consideration should be given to extending the franchise periods, perhaps to 10 years.

The Committee argues that contracts should be awarded subject to termination, after due warning, if contractors failed to fulfil their obligations. Such a scheme would require legislation. It is not clear how different in fact this proposal is from the way the IBA supervises the present contracts. Since the point was beyond the terms of reference of the Committee I imagine they received no evidence on the point. There may well be a case for making changes on these lines. But I do not think it is a sufficiently strong one to justify taking the necessary legislative steps in time for the next round (which would imply legislation next Session or, at a pinch, the one after that). Accordingly I see no need for us to give an early lead on these proposals.

Recommendation 14: Channel 4 should be given the option of selling its own advertising time and would then no longer be funded by a subscription from ITV companies.

The Committee also suggests that Channel 4 should no longer be a subsidiary of the IBA. The Committee believe that this proposal would introduce a more competitive edge into the present duopolistic system. However, it is not clear from the report that the Committee fully considered the extent to which Channel 4's freedom to be innovative and to provide a complementary service (as the Act requires) is a consequence of the present financing arrangements. What the Committee propose was expressly rejected by Government spokesmen in the debates on the 1980 Bill and since. The recommendation would fundamentally change the relationship between ITV and Channel 4 and would be reflected in ways which were not necessarily to the public good: for example, the sharing of TV Times, the cross-trailing of programmes, and complementary scheduling.

There seems no need for the Government to give an early lead on this recommendation, which would require legislation.





Recommendation 15: Telecommunication systems (eg British Telecom, Mercury and any subsequent entrants) should be permitted to act as common carriers with a view to the provision of a full range of services, including delivery of television programmes.

This is a highly technical and specialised area in which the Committee has taken no evidence from the bodies responsible for present policies: the Department of Trade and Industry (which perhaps has the major interest), the Cable Authority, or the Home Office. The Committee, aware of the slower than expected growth of cable, and prompted by British Telecom - who wish to extend their involvement in cable - see this proposal as a necessary way of expediting the development of cable which would be necessary for the Committee's long term vision on a national optical fibre grid.

The Government shares the Committee's hope of securing one (or more) national interactive broadband telecommunications networks but it expressly decided against providing television programme services through the telecommunications duopoly since it believed that the creation of a separate tier of local broadband networks - led by entertainment services - would provide desirable competition to the national carriers. It is paradoxical that a Committee so concerned about competition should recommend such an enhancement of the telecommunications duopoly. Certainly our present cable policy is in the doldrums and I am conscious of the need for an (internal) review of the position. The implication of the proposal for cable, broadcasting and telecommunications policy have not been fully worked through; and I should be most interested in the views of Ministers with Departmental interests. I see no need to adopt an immediate position on this recommendation, subject to colleagues' views.

Recommendation 16: The restriction of cable franchises to EEC owned operators should be removed.

The Committee argues that foreign companies may be more willing than those in the UK to put up the venture capital required for the installation of cable systems and that there is much expertise and experience on these matters in the US which could usefully be brought to bear. This recommendation would require legislation to amend the Cable and Broadcasting Act 1984 and would be



controversial: in many people's view there is already an excessive US influence in British television, and cable programming at the present time is dominated by American exports. This is not a matter which is central to the Committee's case and is well outside its immediate terms of reference. I see no need for the Government to make an early response to it.

Recommendation 17: All restrictions for both Pay-Per-Channel and Pay-Per-Programme as options should be removed, not only for cable but also for terrestrial and DBS operations.

This recommendation is relevant to the Committee's long term belief in a full broadcasting market where consumers can express the intensity of their preferences through pay-per-view. Although it is intelligible in that light it is less clear that it makes sense in Stage 1. The Committee sees the present minor restrictions on the provision of pay-per-view on cable as an obstacle to be removed, and they wish to see pay-per-view able to be provided on terrestrial and DBS services.

This recommendation would require amendments to the BBC's Charter and to the 1981 and 1984 Acts. It would be counter to the present philosophy of public service broadcasting that it should be provided for general reception to a universal audience. The lifting of restrictions on pay-per-view on cable would be a relatively minor matter, but there is no evidence at the present time of a market for these services. Such restrictions as exist are designed to protect the existing broadcasting services from losing the coverage of major sporting events - such as football or Wimbledon - which would be to the detriment of viewers as a whole.

The technology for pay-per-view is still some way off. There seems no pressing need for the Government to respond to this recommendation, but when we do so we will emphasise the importance we attach to ensuring that pay-per-view, which has a legitimate part on cable, does not damage the interests of viewers as a whole by limiting the broadcast coverage of traditional national sporting events.



Recommendation 18: As regulation is phased out the normal laws of the land relating to obscenity, defamation, blasphemy, sedition and other similar matters should be extended to cover the broadcasting media and any present exemptions should be removed.

As discussed in relation to Recommendation 9, I would want to make an early announcement rejecting this proposal.

PEACOCK COMMITTEE: DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on the Report of the Committee on Financing the BBC under the Chairmanship of Professor Alan Peacock which was published today. I should like to record my deep gratitude to Professor Peacock and his colleagues for their industry in pursuing their enquiries and for their efficiency in completing their work and producing this Report in 12 months.

The Committee rejects the proposal that the BBC should at present be funded wholly or in part by advertising and concludes that the licence fee, with some modifications, should remain as the principal source of funding for the BBC. The Committee argues that, in present conditions of spectrum scarcity and in the absence of direct means of consumer payment for programmes, the introduction of advertising would reduce the effective range of choice open to viewers and listeners. Given the original work which the Committee undertook and commissioned on the economics of advertising market and on the relationship between advertising and broadcasting services, we cannot lightly put aside its assessment of this point. However, before reaching any conclusions the Government would welcome comments on the analysis which led the Committee to its recommendation on this.

The Committee's view is that our present system of public service broadcasting has provided the best means of maximising the welfare of viewers and listeners - in terms of providing diversity of choice and programmes of quality - under the prevailing market conditions. The Government welcomes this endorsement of the important contribution of the BBC and the IBA. But the Committee argues that, under pressure from inevitable technological change, the present system must and should give way to arrangements where as channels multiply and the customers find means to register their own preferences directly, a genuinely competitive broadcasting market develops. The Committee believes that this

/will take time

will take time but that in a few years, in preparation for this, payment for BBC services should be made through subscription. Provision already exists for services provided through cable and by direct broadcasting by satellite to be paid for, at least in part, by subscription.

The Government sees considerable attraction in moving towards arrangements to finance broadcasting through subscription. Such a development would have profound implications for the broadcasting services now intended to be universally available and accordingly requires careful consideration.

The Government is committed to broadcasting services which achieve the highest standards in quality, popularity and diversity of consumer choice, and in reaching conclusions on the Report, which clearly has the same objectives, we will have very much in mind the public interest in our broadcasting arrangements. The Government will reach final views on the Report only in the light of Parliamentary and public reaction; and it would welcome any comments from the public and other interested parties. However, there are three matters on which I should like to make some comment now.

First, there are the recommendations on radio. The Peacock Committee recommends that the BBC should have the option to privatise Radios 1, 2 and local radio in whole or in part and the IBA regulation of radio should be replaced by a looser regime . Five of the Committee's members went further and said that Radio 1 and Radio 2 should be privatised and financed by advertising and that, subject to the Government's existing commitments to community radio, any further radio frequencies becoming available should be auctioned to the highest bidder. I have already announced my intention to publish a Green Paper looking not only at community radio and its possible implications for the existing

framework for the provision and regulation of radio broadcasting, but also at the future of radio services as a whole. I believe that it would be helpful for this consultative document to examine further services at national, local and community level and that the future of BBC radio services and of those provided by the IBA should be looked at in the light of the Peacock Committee's recommendations.

Second, there is the proposal by four members of the Committee that IBA contracts should be awarded by a competitive tender, with the IBA required to make a full public and detailed statement of its reasons if it decided to award a franchise to a contractor other than the one making the highest bid. The Government does not accept the case for doing this in the short term and does not propose to make early changes to the provisions governing these matters. Accordingly the IBA will award ITV contracts in the next round, and complete its present consideration of applications for DBS contracts, under the law as it now stands.

Third, there is the question of the regulation of the content of broadcast programmes. The Committee suggests that broadcast services should be subject only to such regulation as is provided in the general law of the land, as is the case for the print media, and that in the long term there should be no pre-publication censorship or vetting of any kind of broadcasting. There is also a recommendation that arrangements should be made now that the non-occupied night time hours of existing broadcasting frequencies should be sold for broadcasting use and that there should be no regulation of programme content for such services except in so far as the law of the land restricted it. Our present arrangements reflect the view that the peculiarly intrusive nature of broadcasting, and in particular of television, continue to require special regulatory arrangements to ensure that broadcast services achieve appropriate standards. For this reason

/we have

we have broadcasting authorities to enforce controls on such matters as taste and decency in broadcasting which are much stricter than apply to the print media, or than could easily be accommodated in the criminal law. While the present regulatory regime, and the institutions to give effect to them, are not sacrosanct, the Government does not share the apparent view of the Peacock Committee that there is nothing in the nature of the broadcast medium itself to require special regulatory arrangements.

I welcome the Committee's Report and the many stimulating ideas which it contains. We look forward to the constructive public debate about the future of broadcasting which I am sure it will encourage.

## PEACOCK COMMITTEE RECOMMENDATIONS

Recommendation 1: All new television sets sold or rented in the UK market should be required from the earliest convenient date, and in any case not later than 1 January 1988, to have a peritelevision socket and associated equipment which will interface with a decoder to deal with encrypted signals. (Para 611)

Recommendation 2: BBC television should not be obliged to finance its operations by advertising while the present organisation and regulation of broadcasting remain in being. (Para 615)

Recommendation 3: The licence fee should be indexed on an annual basis to the general rate of inflation. (Para 620)

Recommendation 4: To permit the BBC to be the managing agent in the collection of the licence fee, the Post Office should be released from its responsibility as agent to the Home Office for collection and enforcement procedures associated with the licence fee. The BBC should become responsible for inviting proposals for collection and enforcement procedures and for identifying the most efficient and economic collection and enforcement system. (The Post Office, of course, could tender for the role of agent.) (Para 628)

Recommendation 5: On the understanding that the proceeds would be used to reduce the cost of the television licence and not to increase the total sum available for broadcasting, a separate licence fee of not less than £10 should be charged for car radios. (Para 632)

Recommendation 6: Pensioners on supplementary benefit in households wholly dependent on that supplementary benefit should be exempt from the licence fee. (Para 634)

Recommendation 7: The BBC should have the option to privatise Radios 1, 2 and local radio in whole or in part. IBA regulation of radio should be replaced by a looser regime. (Para 637)

Recommendation 7a:\* Radio 1 and Radio 2 should be privatised and financed by advertising. Subject to the Government's existing commitments to community radio, any further radio frequencies becoming available should be auctioned to the highest bidder. IBA regulation of radio should be replaced by a looser regime. (Para 637)

Recommendation 8: The BBC and ITV should be required over a ten year period to increase to not less than 40 per cent the proportion of programmes supplied by independent producers. (Para 647)

Recommendation 9: The non-occupied night-time hours (1.00 am to 6.00 am) of the BBC and ITV television wavelengths should be sold for broadcasting purposes. (Para 652)

Recommendation 10:\*\* Franchise contracts for independent companies should be put to competitive tender. Should the IBA decide to award a franchise to a contractor, other than the one making the highest bid, it should be required to make a full, public and detailed statement of its reasons. (Para 655)

\*proposed by 5 members of the Committee.

\*\*proposed by 4 members of the Committee.



Recommendation 11: Franchises should be awarded on a rolling review basis. There would be a formal annual review of the contractor's performance by the Authority. (Para 657)

Recommendation 12: Consideration should be given to extending the franchise periods, perhaps to 10 years. (Para 658)

Recommendation 13: DBS franchises should be put to competitive tender. (Para 659)

Recommendation 14: Channel 4 should be given the option of selling its own advertising time and would then no longer be funded by a subscription from ITV companies. (Para 660)

Recommendation 15: Telecommunication systems (eg British Telecom, Mercury and any subsequent entrants) should be permitted to act as common carriers with a view to the provision of a full range of services, including delivery of television programmes. (Para 665)

Recommendation 16: The restriction of cable franchises to EEC owned operators should be removed. (Para 667)

Recommendation 17: All restrictions for both Pay-Per-Channel and Pay-Per-Programme as options should be removed, not only for cable but also for terrestrial and DBS operations. (Para 668)

Recommendation 18: As regulation is phased out the normal laws of the land relating to obscenity, defamation, blasphemy, sedition and other similar matters should be extended to cover the broadcasting media and any present exemptions should be removed. (Para 669)



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SUBJECT CCMASTER

10 DOWNING STREET

From the Principal Private Secretary

9 June 1986

**THE PEACOCK REPORT ON THE BBC**

The Prime Minister had a short discussion this morning with the Home Secretary about the handling of the Peacock Report. The following was agreed.

The Report should be circulated to:-

Prime Minister,  
Lord President,  
Chancellor of the Exchequer (or the Chief Secretary),  
Chancellor of the Duchy of Lancaster,  
Secretary of State for Trade and Industry,  
Chief Whip,  
Attorney-General.

I think it would also be appropriate for a copy to be sent to Sir Robert Armstrong.

The Home Secretary would circulate a draft of his statement on publication of the Report to these Ministers. The Prime Minister was ready to hold a meeting to consider the statement and the further follow-up action.

I am sending a copy of this letter to Michael Stark in Sir Robert Armstrong's office.

N.L. WICKS

Stephen Boys Smith, Esq.,  
Home Office.

RESTRICTED

BY

MANAGEMENT IN CONFIDENCE



File 116  
cc Sir P Cadogan  
Prof Griffiths

10 DOWNING STREET

*From the Private Secretary*

11 February 1986

REVIEW OF BBC EXTERNAL SERVICES

Thank you for your letter of 10 February about implementation of the Report of the Review of the BBC External Services.

The Prime Minister was grateful to be kept informed and is content with the proposed draft Parliamentary Question and Answer.

I am copying this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (H.M. Treasury), Stephen Boys Smith (Home Office) and Sir Robin Ibbs (Efficiency Unit).

CHARLES POWELL

Len Appleyard, Esq., C.M.G.,  
Foreign and Commonwealth Office.

MANAGEMENT IN CONFIDENCE

*AP*

CCBG  
①



Foreign and Commonwealth Office

London SW1A 2AH

10 February 1986

Yes Mr  
Prime Minister  
Agree to  
proposed Pp e Answer?  
CDP  
FLAP P11

Dear Charles,

Review of BBC External Services

Please refer to your letter of 4 February last year about the Prime Minister's wish to be consulted about the Government's reaction to the Report of the Review of the BBC External Services and my reply of 8 February.

You will recall that the Foreign Secretary had welcomed the Report in a letter of 1 February to the Chairman of the BBC Board of Governors, Mr Stuart Young, annexed to the Report itself, expressing support for the proposals intended to improve the efficiency, effectiveness and economy with which the External Services were run. In announcing the Report's publication during the Adjournment Debate on 4 February, Mr Renton also welcomed the Report in general terms adding that we were considering our response to it.

In the meantime, we have had intensive discussions at official level with the BBC and Treasury about interpretation and implementation of the Report's recommendations. We are glad to say that we have reached agreement with the BBC on an "Action Plan" (copy enclosed) setting out what has been done by way of implementing the Perry Report, such as the recent agreement on three year funding for the BBC, and what remains to be done. The Treasury and the Efficiency Unit have been kept fully in the picture throughout, and have endorsed both the terms of the Action Plan and the FCO's own "Implementation Report" (copy enclosed) which provides a more detailed account of the way in which the Perry Report is being translated into action.

The Foreign Secretary attaches importance to the effective and speedy implementation of the Report's recommendations, so as to ensure that the objectives of the Review are achieved; and the way is now clear to move ahead with this. He is confident that implementation of the Report's recommendations on the lines set out in the Implementation Report will meet the objectives of the Review and lead to real improvements in the efficiency, effectiveness and economy with which the BBC External Services are run.

/We regard



We regard implementation of the Report as a continuing process which will enable us to keep the activities of the BBC External Services under much closer scrutiny. As part of this process we are pursuing with the BBC three points of detail arising from the Report: implementation of the recommendations on staffing and pay; early implementation of the Case Study recommendations; and the revision of the Financial Memorandum. But as part of this process we would also expect to identify, with the BBC, further improvements in efficiency and effectiveness which go beyond the immediate scope of the Report itself. The Case Study recommendations, for example, should also lead to the establishment of procedures for a continuous programme of self-inspection and Activity Reviews.

In the circumstances the Foreign Secretary recommends that the time has come for the Government to indicate publicly that all parties concerned with the Review have now reached agreement in principle on the specific recommendations in the Perry Report and that considerable progress has been made on their implementation. Subject to the Prime Minister's agreement the Foreign Secretary proposes to answer an inspired PQ on the lines of the attached draft, the terms of which have been agreed by Treasury officials and the Efficiency Unit.

I am copying this letter to Joan Naughton (Lord President's Office), Rachel Lomax (Treasury), Stephen Boys Smith (Home Office) and Sir Robin Ibbs (Efficiency Unit).

Yours ever,

Len Appleyard

(L V Appleyard)  
Private Secretary

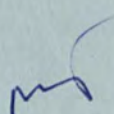
C D Powell Esq  
10 Downing Street

Question

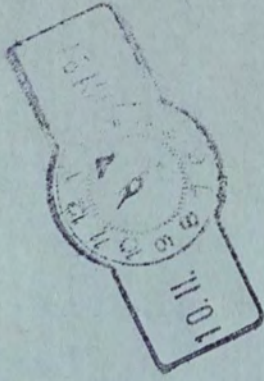
What action has the Government taken on the Report of the Review of the BBC External Services, which was published on 4 February 1985.

Answer

We have had intensive discussions with the BBC since the Report was published in February <sup>1985.</sup> A wide measure of agreement has been reached with the BBC on the Report's recommendations, including agreement on the central proposal for multi annual funding. The Government believes the Report provides a firm foundation for the future development of the External Services and that implementation of the Report's recommendations, on which considerable progress has already been made, will lead to real improvements in the efficiency and economy with which the External Services are run.



BROADCASTING  
BSE  
PT. 2





1984 REVIEW OF THE BBC EXTERNAL SERVICES - ACTION PLAN

Recommendation (Report para no)	Action to date	Responsibility/ Perry Target date to complete implementation	Action in next 6 months
4.8		FCO/BBC Feb 86	Prepare first report due in Feb 1986.
5.5		FCO/BBC Feb 88	None.
6.13	Being implemented in light of Prescription Committee conclusions.	FCO July 85	Complete implementation as priorities further refined by Prescription Committee.
6.21	Implemented as part of 7.13 and 7.14, with FCO posts abroad and the BBC providing more detailed assessments of effectiveness.	FCO Feb 86	Continue process of implementation as part of 7.13 (regular Prescription Committee meetings) and 7.14 (three year review programme of services and activities).
6.22	Implemented. First meeting of BBC/FCO Audience Research Committee held on 10 October.	FCO/BBC July 85	Determine forward programme of research.
7.8	Agreed and being implemented as part of 7.13 and 7.14. Transcription Service reviewed in September 1985.	FCO Feb 86	Continue process of implementation as part of 7.13 and 7.14 .
7.10	Being implemented as part of 7.13 and 7.14	FCO Feb 86	Continue process of implementation as part of 7.13 and 7.14
7.11	Implemented Dec 1984.	FCO July 85	None.
7.12	Being implemented as part of 7.14. Transcription Service reviewed in September 1985.	FCO July 85	Continue process of implementation. Detailed reviews of other prescribed activities being carried out as part of three year Rolling Review programme (See 7.14).
7.13	Implemented. Prescription Committee met in December 1984 and June 1985.	FCO Feb 86	Continue process of implementation.

## 1984 REVIEW OF THE BBC EXTERNAL SERVICES - ACTION PLAN

Recommendation (Report para no)	Action to Date	Responsibility/ Perry Target date to complete implementation	Action in next 6 months
7.14	Implemented. Detailed reviews of Russian and South East European Services held in July 1985 and Transcription Service in September 1985. Programme of individual reviews agreed with BBC to July 1986.	FCO July 85	Continue process of implementation. Further meetings of Rolling Review Committee to examine individual services and activities.
7.15	Implemented as part of 7.13 and 7.14. BBC have provided details of marginal costs for Prescription Committee and detailed reviews of services.	FCO/BBC July 85	Continue process of implementation.
7.16	Implemented. Information being provided by FCO to BBC on a regular basis.	FCO July 85	Review, in consultation with the BBC, the quantity and quality of information being supplied.
8.10	Revised draft Financial Memorandum, including increase in delegated financial levels and reference to NAO access to carry out economy, efficiency and effectiveness examinations, agreed with HMT in September 1985.	FCO/BBC/ HMT July 85	Reach agreement on a revised Memorandum with BBC and implement it.
8.14	These requirements, agreed in principle by the BBC, are set out in the revised Financial Memorandum (See 8.10).	BBC July 85	Implementation when agreement reached on revised Financial Memorandum (See 8.10).
9.17	Implemented. Agreement reached between FCO, BBC and HMT on levels of current and capital funding for three years to 1987-88.	FCO/BBC/ July 85	None.

1984 REVIEW OF THE BBC EXTERNAL SERVICES - ACTION PLAN

Recommendation (Report para no)	Action to Date	Responsibility/ Perry Target date to complete implementation	Action in next 6 months
9.20	Agreed. First applicable to end 1985/86 figures.	FCO/BBC/ July 85	None.
10.22	Being implemented. A revised budgetting system being introduced taking into account the agreement on multi-year funding (see 9.17).	BBC Feb 86	Complete implementation with introduction of a revised budgetting system.
10.33	Implemented. Resource management training programme established. Some managers have already attended courses.	BBC Feb 86	Continue process of implementation.
10.36	Implementation being studied in detail. Appropriate computer systems being designed and developed.	BBC Feb 86	Continue process of implementation with gradual introduction of expanded costing system.
10.43	Monthly forecasts requested by Chief Accountant External Services from Chief Accountant Engineering, Domestic Services.	BBC July 85	Reach decision. Provision of monthly forecasts likely to require changes in Corporate accounting practice and policy.
10.59	Implemented. CSAC met on 21 Aug 1985.	FCO/BBC/ Feb 86 HMT/Home Office	Follow-up to first CSAC meeting.
11.12	Being implemented in accordance with overall BBC practices.	BBC Feb 86	Continue process of implementation.
11.14	Being implemented in accordance with overall BBC practices.	BBC Feb 86	Continue process of implementation.

## 1984 REVIEW OF THE BBC EXTERNAL SERVICES - ACTION PLAN

Recommendation (Report para no)	Action to Date	Responsibility/ Perry Target date to complete implementation	Action in next 6 months
11.20	Being implemented in accordance with BBC practices by line managers as part of the annual staff appraisal procedures. These procedures are themselves under review by the BBC.	BBC Feb 86	Continue process of implementation.
11.22	Need for closer control of staff resource allocation agreed in principle. Method of implementation under active consideration by Controller Resources and Administration (CRAXB).	BBC July 85	Complete consideration in light of four detailed BBC Activity Reviews led by outside management consultants due to be completed in next six months and bearing in mind likely cost of establishing group (estimated by Perry to be about £60,000 a year).
12.3) 12.5)	New post of Controller Resources and Administration (CRAXB) created.	BBC July 85	Further develop role of CRAXB in resource management.
13.15	Being implemented. Draft memorandum on capital expenditure responsibilities incorporated in revised Financial Memorandum agreed with HMT (see 8.10).	FCO/BBC/ HMT July 85	Reach agreement on Financial Memorandum with BBC and implement it (see 8.10).
13.17	Being implemented. Appropriate reference incorporated in memorandum on capital expenditure responsibilities at 13.15.	FCO/BBC/ HMT July 85	Reach agreement on Financial Memorandum with BBC and implement it (See 13.15 and 8.10).

## 1984 REVIEW OF THE BBC EXTERNAL SERVICES - ACTION PLAN

Recommendation (Report para no)	Action to Date	Responsibility/ Perry Target date to complete implementation	Action in next 6 months
13.18	Being implemented. Transmitter sharing opportunities regularly reviewed by BBC with other external broadcasters.	FCO/BBC Feb 86	Establish procedure for regular joint review of opportunities for sharing transmitters with other external broadcasters as part of Prescription Committee (7.13), Rolling Review programme (7.14) and capital expenditure reviews (13.23).
13.20	Implemented. Committees chaired by Controller Resources and Administration (CRAXB) established.	BBC July 85	Continue process of implementation.
13.21	Implemented as part of 13.20.	BBC July 85	Continue process of implementation.
13.23	Being implemented as part of CRAXB's responsibilities.	BBC Feb 86	Continue process of implementation.
13.24	Agreed in principle. Timing of BBC annual review being actively considered to tie in with PES cycle.	BBC/FCO Feb 86	Agree timing of BBC annual review.
14.5	Agreed in principle.	FCO in 1990/91	None. Timing of review to be considered in light of progress on modernisation programme, which is due to be completed in 1991.
14.15	Some savings already made, other proposals being actively studied in line with timetable suggested in the Case Studies.	BBC over several years	Continue process of implementation. Further study and implementation, as appropriate, of proposals identified in Case Studies.

Information Department  
Foreign and Commonwealth Office

25 November 1985

REVIEW OF THE BBC EXTERNAL SERVICES

REPORT BY THE FOREIGN AND COMMONWEALTH OFFICE

INTRODUCTION

1. Mr Renton announced publication of the Perry Review Report on 4 February 1985 during an Adjournment Debate in the House of Commons on the BBC External Services.
2. During subsequent detailed discussions the BBC accepted without demur the majority of recommendations. However, they took the line that implementing certain recommendations would infringe their editorial independence and managerial responsibilities, and made considerable play in this context of the exchange of letters between the Foreign Secretary and the Chairman of the Board of Governors attached to the Review. They objected in particular to aspects of Chapter 7 (Determination of the Prescription), Chapter 11 (Staffing and Pay) and Chapter 12 (Resource Control). However, after intensive examination of these points, the BBC have now accepted in principle all the Review recommendations other than those relating to "Resource Control" or involving constraints imposed on the External Services by overall Corporation policy and practice, on which they have proposed solutions which, in the FCO's view, meets the spirit, if not the letter, of the Review. We are confident that implementation of the Report's recommendations, on the lines set out in the following summary, will meet the objectives of the Review and lead to real improvements in the efficiency, effectiveness and economy with which the BBC External Services are run. The attached Action Plan indicates the progress made in implementing each recommendation.

THE REPORT'S RECOMMENDATIONS

3. The Review Report itself makes 38 recommendations on the External Services as a whole. Some of these will have far reaching consequences for the BBC and for the relationship between the FCO and the External Services. The unpublished volume of Case Studies attached to the Report looked at selected External Services' activities, making a further 57 detailed recommendations, which if implemented in full could, over the next few years, result in annual savings, the Report anticipates, of up to £1.6 million. Most of the recommendations associated with the Case Studies deal with administrative and procedural matters, and will be largely for the BBC alone to implement, though the FCO will be monitoring their implementation closely.
4. The recommendations fall broadly into eight categories:
  - i Managing the Prescription

MANAGEMENT IN CONFIDENCE

- ii Improving FCO financial monitoring procedures
- iii Funding
- iv Financial Control within the External Services
- v Staffing and Pay in the External Services
- vi Resource control
- vii Appraisal and monitoring of capital projects
- viii Savings

MANAGING THE PRESCRIPTION

5. The Report recommends that the FCO and the BBC should review the objectives of the External Services every three years (paragraph 5.5). Prior to the review no formal statement of objectives existed. We agreed objectives with the External Services for inclusion in the Report at Annex 7. We consider this to have been a valuable result of the review. The objectives are now the corner-stone of the prescription, and it makes sense that they should be subjected to periodic review.

6. The recommendations in Chapter 6 concerning audience research are generally sensible. In accordance with paragraph 6.13 the FCO will identify a set of categories which more clearly identifies the relative priorities of target areas. Paragraph 6.21 recommends that the FCO and BBC should seek information to measure the External Services' performance more clearly against the agreed objectives. Action on this recommendation is linked with other recommendations, including that in paragraph 6.22, which proposes the establishment of a committee to determine a forward programme of audience research, and those in Chapter 7 proposing the detailed examination of individual External Services activities against a set of criteria which include the assessment of target and actual audiences. The proposal on audience research (paragraph 6.22) is particularly welcome and a BBC/FCO Committee met in October to consider the BBC's programme of research in 1985/86 and 1986/87. The FCO have hitherto played little part in the forward planning of audience research projects, which have not always been conducted in countries where we would regard audience information to be of greatest importance. We also welcome the opportunity to influence the type of questions asked in surveys so as to improve the knowledge of the type of programmes (eg news, commentary, music etc) for which listeners are turning to the BBC. It should be noted, however, that in some of the countries which we regard as being of greatest priority for the External Services, eg Eastern Europe and other "closed" societies, accurate audience research is impossible.

7. The main proposals concerning management of the prescription are contained in Chapter 7. We recognise, there is a need for the management of the prescription to be put onto a more systematic basis; the recommendations should answer this need. We have already made considerable progress in implementing them. A Prescription Committee has been established. It has met twice, in December 1984 and June 1985 under the chairmanship of the Under-Secretary supervising Information Department, and is to meet henceforth at six-monthly intervals. Perry recommended an annual prescription review; the biannual one is in the nature of an experiment. The External Services cooperated fully in the preparations for the meetings, and submitted a large volume of material. The Committee scrutinised the entire pattern of External Services activities, as required in paragraph 7.13, on the basis of assessments submitted by posts and geographical departments against the criteria listed at the end of Chapter 7. The December 1984 meeting recommended some changes which have been discussed with the Managing Director of the External Services, approved by FCO Ministers and implemented. The conclusions of the June 1985 meeting are being followed up in the same way.

8. We welcome the recommendation in paragraph 7.14 that a committee should be established under the chairmanship of an Assistant Secretary (the head of FCO Information Department) to review in detail, on a rolling basis and over a period of three years, all BBC services and activities. Although a heavy task for Information Department, we are confident that with the cooperation of the BBC we shall be better able than in the past to monitor programme content, to assess the impact of individual activities and to advise the Prescription Committee on opportunities for change and improvement. The first meeting of this Committee was held in June, at which the Russian and South East European Services were reviewed with the BBC. The next language service to be reviewed will be the Far Eastern Service in December and a timetable for the review of other Services has been agreed to July 1986.

9. The FCO and BBC accept the principle of the recommendation (paragraph 7.8) that the FCO should prescribe the output of activities such as the Transcription Service, Topical Tapes and English by Radio. In practice, these activities do not lend themselves to prescription in the same way as straightforward broadcasting services, but we accept it is desirable that their output should be more firmly controlled and more closely scrutinised by the FCO. We are devising, with the BBC's help, suitable procedures for this based on a modified version of the criteria set out at the end of Chapter 7 (as recommended in paragraph 7.12) and Case Study I. This will include an annual review of trading accounts. The first activity to be reviewed was the Transcription Service in September.



10. The BBC accept the principle of the recommended procedures for reviewing the prescription (paragraph 7.10), but they are concerned that aspects of these procedures could constitute an infringement of their editorial independence and managerial responsibilities. They accept the FCO has every right to look at and question all aspects of services and activities provided it is clearly understood that matters of programme content are ultimately for the BBC to decide. The External Services have said they will listen to FCO ideas and suggestions about programme content, but they would regard any instructions from the FCO on this as unacceptable interference in the editorial independence and managerial responsibilities of the BBC, and contrary to the position reaffirmed in the Foreign Secretary's letter of 1 February 1985, to the Chairman of the BBC, which is attached to the Review. We consider this is as far as the BBC can reasonably be pressed on the recommendations in Chapter 7. In practice we expect the BBC to take a constructive attitude, as they have in the past, to FCO comments about programme content. Moreover, the BBC are well aware the FCO have the ultimate sanction on a particular service through exercise of prescriptive responsibilities for all output. We are therefore confident the objectives of the Review for the prescription can be met.

11. Action has already been taken on the Report's recommendation (paragraph 7.16) to improve the flow of information from the FCO to the BBC. This is being monitored to ensure it is working satisfactorily.

#### IMPROVING FINANCIAL MONITORING PROCEDURES

12. As recommended (paragraph 8.10), the existing Memorandum on the External Services finance and principles governing expenditure is being revised and updated to include inter alia a description of the financial and management control systems adopted by the BBC and FCO and, in relation to the latter, a clear statement of the responsibilities of the FCO's Accounting Officer.

13. The BBC have agreed, with only minor modifications, to provide the FCO with the financial and management information recommended in the Report (paragraph 8.14). Receipt and analysis of this information will be geared to the Estimates and PES cycles and should enable the FCO to discharge its responsibilities for administering the grants-in-aid in accordance with the terms of the Memorandum.

14. The Report refers to the position in the Memorandum of the Comptroller and Auditor General (paragraph 8.9) and the BBC's reluctance to allow value for money examinations to be carried out. The BBC can be expected to resist any reference to economy, efficiency and effectiveness examinations in the revised Memorandum on the grounds that

/the

## MANAGEMENT IN CONFIDENCE

the BBC is specifically excluded from the terms of the National Audit Act 1983 by virtue of Section 7(4). It is, however, arguable that Section 6(3)(d) of the Act should apply to the External Services and it is the FCO's intention to use the passage in the Report to seek access for the National Audit Office to carry out such examinations. The NAO have agreed that this should take place at a time when it may be possible to judge better the effects of implementing the Report's recommendations. The FCO have told the NAO that their request for the Foreign Secretary to use his influence with the BBC on their behalf will be dealt with on this basis.

### FUNDING

15. A central recommendation in the Report is that the grants-in-aid to the External Services should be set for a three-year period in step with the Licence Fee (paragraph 9.17). This proposal has been welcomed by the BBC and the FCO and accepted by the Treasury. Detailed arrangements for implementing this recommendation have been agreed between the Treasury, FCO and BBC. The Report also recommends (paragraph 9.18) that the External Services be allowed increased flexibility of 10 per cent between years on capital expenditure. This has been accepted by the Treasury. The advantages of multi-year funding are that it will avoid annual haggles in the Public Expenditure Survey and should enable the External Services to plan ahead more efficiently and effectively.

### FINANCIAL CONTROL WITHIN THE EXTERNAL SERVICES

16. The External Services have accepted in principle the proposals in Chapter 10 of the Report for improving budgeting, resource management training, costing and cash forecasting. They accept the need for a revised budgeting system (paragraph 10.22) although it may not turn out to be wholly practical or cost effective to introduce a system as detailed as that proposed in the Report. The External Services agree that the present costing system should be expanded (paragraph 10.36) to increase user awareness of the resources being consumed and appropriate computer systems are being designed and developed for this purpose. They are, however, unlikely to wish to charge transmitter costs to output units because it is important that allocation of transmitter time remains the responsibility of management not individual services. The Chief Accountant External Services has asked the Chief Accountant Engineering to provide monthly forecasts of capital expenditure (paragraph 10.43). It is not current corporate accounting practice to provide this information and a change in Corporation policy may be necessary to implement this proposal.

17. The Common Services Apportionment Committee has met as recommended in the Report (paragraph 10.59) and the FCO are seeking further information from the BBC to satisfy

/themselves

## MANAGEMENT IN CONFIDENCE

themselves that the shared costs of central BBC directorates being charged to the External Services are calculated according to the agreed principles.

### STAFFING AND PAY IN THE EXTERNAL SERVICES

18. The External Services agree in principle the need for closer control of staff resources proposed in Chapter 11, although they have pointed out that the proportion of staff in the External Services who receive special awards is significantly lower than in other Corporation Directorates. They have also pointed to the basic difference between job descriptions as understood in Whitehall, which allow changes to and flexible interpretation of responsibilities within a particular grade, and those in the BBC, which are called role specifications, form part of the pay relativities and union negotiation processes, and are relatively inflexible. A change in the responsibilities of a particular job in the BBC may well lead to a change in job grading and any attempt to lay down a procedure which is too hard and fast could stifle the limited flexibility that currently exists. Staffing and pay in the External Services is, however, governed by corporate personnel policy. The recommendations are therefore being implemented in so far as this is consistent with present corporate policy, but they have been brought to the attention of the Corporation's Director of Personnel to see whether any changes should be made in corporate policy.

19. The External Services agree that Discretionary Salary Elements (paragraph 11.12) should be reviewed. In future these will be reviewed and scrutinised annually as part of the procedure covering annual appraisal reports. The award of Special Personal Salaries (paragraph 11.14) will also be reviewed annually and scrupulously by the Managing Director External Broadcasting under the general supervision of the Corporation's Director of Personnel. The Report also recommends (paragraph 11.20) job descriptions should be agreed for each job holder. The External Services have accepted that the established procedure of annual reports on each job holder will include a description of the responsibilities of the job agreed by the job holder and his or her line manager. This recommendation is being considered in the context of the current corporate review of the BBC annual reporting system. The FCO understand the constraints imposed on the External Services by Corporation policy and practice, but we believe the way the External Service propose to implement these recommendations meets the intentions of the Review.

### RESOURCE CONTROL

20. The External Services accept the need for more precise control of resources proposed in Chapter 12 of the Report. The Board have, however, taken the view that the Deputy Managing Director is not the proper post to exercise this

/responsibility

responsibility as recommended in the Report (paragraph 12.3). In the Board's view, exercising its responsibility for management of the External Services, there was a need for a single Deputy, who was part of the main editorial chain of command and who would be able to take over whenever required. They therefore decided that the responsibility for use of resources should be vested in the new post of Controller Resources and Administration, which replaces the post of Controller Administration. Mr Witherow, former General Manager of the BBC Monitoring Service, was appointed to fill this post in May. Mr Witherow is directly accountable to the Managing Director for the responsibilities set out in the Report (paragraph 12.4). He has specific senior responsibility as Head of Establishment of the whole of the External Services, excluding only Engineering and Monitoring. Mr Witherow is looking into the establishment of a special staff resource allocation group (paragraph 11.22). A decision will be taken on how to implement this proposal after considering the conclusions of four Activity Reviews currently by being carried out and bearing in mind the cost of establishing a group, which the Report estimated at about £60,000 a year.

21. The FCO understand the reasons why the BBC have decided to implement the recommendations in this way and we believe this meets the intentions, if not the letter, of the Review. We shall monitor the way in which the new post of Controller Resources and Administration is working.

#### APPRAISAL AND MONITORING OF CAPITAL PROJECTS

22. The FCO has prepared a draft memorandum on responsibilities for capital projects (as recommended in the Report (paragraph 13.15)) which will be incorporated into the revised financial memorandum (see paragraph 12) as an annex. The External Services will give consideration to the full range of practical alternatives at all stages capital projects are being considered (paragraph 13.17). The External Services and FCO will establish a procedure for the regular review of possibilities for sharing overseas broadcasting facilities with others (paragraph 13.18), but the BBC have pointed out that the opportunities are limited. The recommendation about a major projects Steering Committee (paragraph 13.20 and 13.21) have been accepted by the BBC. The new Controller, Resources and Administration will chair the Steering Committee and be responsible for coordinating an annual review of External Services' capital expenditure over the next five years (paragraph 13.23). This procedure will be integrated with the annual PES discussions to keep the FCO and Treasury informed of progress on existing schemes and possible future bids for capital expenditure (paragraph 13.24).

23. The analysis of capital expenditure and the consideration of options proposed in Chapter 13 of the

/Report

Report may require a degree of technical expertise which is not available in the FCO (DW), particularly after the transfer of the FCO Broadcast Group to the BBC in 1986. The FCO may then need to have recourse to expensive outside advice, where such exists in the highly specialised field of external broadcasting.

#### SAVINGS

24. Savings will occur as a result of implementing the recommendations made in the Case Studies of individual services (Chapter 14) and similar studies which the BBC are expected to undertake in those areas not covered by the Review. The Report estimates that net savings of £1.6 million during the next few years could be made in areas covered by the Case Studies. The BBC have accepted and implemented some of these recommendations. As indicated in the Case Studies others are to be implemented over a number of years, but the BBC have told us they regard some of the recommendations as impractical or involving unacceptable reductions in quality. We shall press them, but we doubt whether the full savings identified in the Report will be realised e.g. the BBC contend that a saving of £447,000, resulting from the rationalisation of transmitter staff at Rampisham, has already been taken into account. The Report identified other Savings to be achieved over a shorter period (£600,000 over 12 months), but given the need for advance notice, severance payments etc, these are unlikely to begin to have appreciable effect much before 1986/87. It is also relevant that the External Services are finding £1.2 million savings in 1985 as a result of decisions in the 1984 PES, a sum greater than that identified in the Review for that year. Additionally they are being required to absorb overseas risen costs estimated at £800,000 in 1985/86. There may be scope for additional savings to be realised from study of those areas not covered by the Case Studies. These savings are likely to be smaller as the studies will mainly cover smaller cost centres, even in common service expenditure shared with the rest of the Corporation where it will be difficult to identify or isolate potential savings. We shall continue to pursue rigorously opportunities for savings and keep up pressure on the BBC to find them in all areas of the External Services' activities, paying particular attention to the External Services' own in-house inspections, their programme of Activity Reviews, staff resource control mechanisms and our own detailed reviews of individual services and activities.

#### MONITORING SERVICE

25. The Report recommends (paragraph 14.5) that the Monitoring Service should be the subject of a review. This will be carried out towards the end of the current modernisation programme which is due to be completed in 1991.

Information Department  
Foreign and Commonwealth Office

25 November 1985



Prime Minister 2  
DJS  
27/11

QUEEN ANNE'S GATE LONDON SW1H 9AT

27<sup>th</sup> November 1985

CBE

Dear John,

~~XXXXXXXX~~

BBC ACCOUNTS

Thank you for your letter of 4 November. You will since have seen that the Prime Minister does not favour the issue of an accounting direction to the BBC.

I nevertheless fully share your and her criticism of the misleading form of the accounts for 1984-85, which fail to give proper effect to the request, clearly stated by Leon Brittan earlier this year, that they should follow standard accounting practice in respect of depreciation. The accounts are due to be published on 28 November, together with the BBC's annual report for 1984-85, and it is therefore too late to seek their amendment. I shall write to the Chairman before 28 November, expressing disappointment at the lack of progress made to date and urging him to take steps to ensure that the accounts for the current financial year will be prepared on a more satisfactory basis. If questioned we shall make it clear that we regard the 1984-85 accounts as in an important respect misleading.

I am copying this letter to the Prime Minister.

mt

Yours,  
Douglas

The Rt John MacGregor, OBE, MP

Broodstocking : BBC Finorus

PEZ

CONFIDENTIAL



late  
SB  
CC BG

10 DOWNING STREET

*From the Private Secretary*

15 November 1985

**BBC ACCOUNTS**

The Prime Minister has seen the Chief Secretary's letter to the Home Secretary of 4 November about the BBC's accounts. She does not favour the Government issuing a direction to the BBC. She thinks it would be better for the Government continually to point out how misleading the BBC figures are.

I am copying this letter to Richard Broadbent (Chief Secretary's Office).

**DAVID NORGROVE**

Stephen Boys Smith, Esq.,  
Home Office

CONFIDENTIAL

RB



Prime Minister!

ppr please (letter <sup>act</sup> came in recently)

Agree to write as proposed?

- I do not like issuing a direction. I should

MR NORGROVE

JRS  
12/11

6 November 1985

BBC ACCOUNTS

prefer continuing to point out what the BBC is doing

The BBC are to report a deficit for the year ending 31 March 1985 (ie prior to the licence increase) of £43m compared to a loss for the preceding year of some £8m. But the BBC only achieve these depressing figures by charging the whole of the year's capital expenditure against the income that they receive in that year, rather than the normal accounting practice of depreciating assets over their useful lives.

PWarry is copying

Leon Brittan wrote twice to Stuart Young earlier this year urging proper treatment of capital expenditure in the 1984/5 accounts. But all the BBC have done is add a note in the depths of their accounts indicating the effect of adopting normal depreciation practice. These accounts were agreed with the BBC's auditors back in July but (despite being chased) the BBC delayed sending them to HMG until October leaving little time to negotiate any changes if the publication date is still to be met.

John MacGregor would still like Douglas Hurd to issue an accounts direction to the BBC for the year 1984/5 (which he has the power to do). Given the shortness of time and the sensitivity of any such direction to the BBC it is probably best that we let 1984/5 accounts stand. But there was public criticism of the BBC's accounting practices during the debate of the new licence and we therefore recommend that Douglas Hurd be invited to use the publication of the 1984/5 accounts as a justification for immediately issuing an accounts direction for 1985/6.

\* the Treasury also want Mr Hurd to consider a direction for 1984-85.

Peter Warry  
PETER WARRY

BBC ACCOUNTS

The accounts for the year ended 31st March 1964 show a deficit for the year ending of £1,000,000. This deficit is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation. The deficit on the operations of the Corporation is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation. The deficit on the operations of the Corporation is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation.

The accounts for the year ended 31st March 1964 show a deficit for the year ending of £1,000,000. This deficit is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation. The deficit on the operations of the Corporation is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation. The deficit on the operations of the Corporation is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation.

The accounts for the year ended 31st March 1964 show a deficit for the year ending of £1,000,000. This deficit is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation. The deficit on the operations of the Corporation is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation. The deficit on the operations of the Corporation is made up of a deficit of £1,000,000 on the operations of the Corporation and a deficit of £1,000,000 on the operations of the Corporation.

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NBPN

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP  
Secretary of State  
Home Office  
50 Queen Anne's Gate  
London  
SW1H 9AT

n.  
4 November 1985

Dear Douglas,

#### BBC ACCOUNTS

I understand that you are now considering the BBC accounts for 1984-85 which the Corporation only recently sent your officials. Apparently their accounts do not meet Leon Brittan's request that they should follow standard accounting practice over the treatment of capital assets. Not only have they not changed their accounting to meet Leon's request but there appear to be inconsistencies between what they describe as their accounting policies for fixed assets and the actual numbers supposedly giving effect to those policies in the notes to the accounts. Without these inconsistencies it is possible that the underlying result might even be a small surplus for the year rather than the reported deficit.

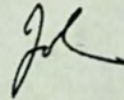
Nigel Lawson wrote to Leon about this in December last year and in his reply of 17 January Leon said he would prefer to use powers of persuasion on the BBC so long as they would work for 1984-85. He hinted that continued resistance might be met by an accounts direction. Now that the BBC have failed to be persuaded I wonder whether you see merit in issuing a direction for 1984-85. I am told that, if they had to, the BBC could change the accounts to our preferred format even at this late stage.

I realise that this is a sensitive period in relations with the BBC but they have had plenty of time to fall into line. It is hard to see how the BBC will be more amenable to persuasion in 1985-86 so there is a very strong case for

issuing an early direction for that year. Would a direction for 1984-85 be any more difficult?

I am copying this to the Prime Minister.

Yours ever,



JOHN MacGREGOR



NBP 17  
JLW  
9/9

FCS/85/237

CHIEF SECRETARY, HM TREASURY

BBC External Services: Three Year Funding

1. I refer to Peter Rees' letter of 22 July and confirm that we have put the proposals for additional current expenditure in 1986/87 and 1987/88 to the BBC External Services.
2. I am glad to say that they have given their general agreement to the terms offered. In doing so they made some minor and qualificatory comments which I do not regard as any impediment to our going ahead. My officials will shortly be in touch with yours about the points made by the BBC and how we can now proceed with the final stages of our consideration of the Perry Review.
3. This is, of course, a very welcome development. The proposal for three year funding is central to the Perry Review and BBC agreement to your proposals for current expenditure removes the last major obstacle to its implementation. I am writing separately about rephrasing my bids for capital expenditure.
4. I am copying this minute to the Prime Minister, the Home Secretary, the Defence Secretary, Sir Robert Armstrong and Sir Robin Ibbs.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
9 September 1985

BBC Finances: Broadcasting. PC-2




 2. NYSM  
 BT  
 2317

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP  
 Secretary of State  
 Foreign and Commonwealth Office  
 Downing Street  
 London  
 SW1A 2AL

22 July 1985

*Alan Geoffrey*

**BBC EXTERNAL SERVICES: THREE YEAR FUNDING**

Thank you for your minute of 26 June in which you propose a compromise for the settlement of three year funding.

I remain very reluctant to agree a settlement in advance of the Survey and am not fully convinced that three year funding necessarily requires additional money.

However, I recognise the importance of settling this issue quickly so that we can make the other important improvements identified in the recommendations of the Perry Review as quickly as possible. I cannot go as far as you suggest in your minute; but I would be prepared to agree to an increase of £4 million in 1986-87, and of £8 million in 1987-88 and (provisionally, since it falls outside the triennium) of £8 million in 1988-89. This agreement would be subject to 3 conditions:

- a. That the BBC undertake now to live within this cash limit for each of the years of the triennium, subject only to wholly exceptional circumstances arising. It would be for the FCO to adjust the "prescription" as necessary to allow the BBC to live within the cash available if costs were to rise more than is allowed for in this calculation - exactly as the Perry Report proposed.
- b. The increase does not represent a "floor" for the next triennium; we may well want to review the absolute level of BBC expenditure again when we come to consider the next triennium, during the public expenditure survey 1987.

- c. The offer should be put to the BBC on a "without prejudice" basis. It is designed to secure their acquiescence to the proposals of the Perry Review, and in particular to the proposal for a firm three-year budget. If the BBC do not accept the package, the offer is withdrawn.

I hope that in the light of this very generous concession you will, between now and the Survey discussions, take another look at the associated bids for capital expenditure. I hope that on reflection you will find it possible to accommodate this within your existing programme.

Copies of this letter go to the Prime Minister, the Home Secretary and the Defence Secretary, and to Sir Robert Armstrong and Sir Robin Ibbs.

*John van der ...*

PETER REES





1. CDP  
2 NBSM  
AT 28/11

FCS/85/193

CHIEF SECRETARY, HM TREASURY

BBC External Services: Three-Year Funding

- will request if required*
1. Thank you for your letter of 10 June. I was disappointed at your rejection of my proposals for implementing the recommendation in the recent review of the BBC External Services that their grant-in-aid should be set for a three-year period in step with the licence fee. A central background feature for the review was the unique nature of the External Services, funded by FCO and MOD but with all its staff costs and much of its other expenditure intertwined with the other nine-tenths of the Corporation funded by the licence fee.
  2. The licence fee has just been increased by 26%. It is quite unrealistic to assume, as your letter does, that the External Services can survive merely with the 3% and 2½% PES uplift factors. The difference would be immediately apparent to the External Services' supporters in Parliament who will recall the Home Secretary setting the licence fee to "enable the Corporation to maintain its present level and range of services".
  3. My own proposals are already modest enough, namely no increase at all in the first of the three licence fee years followed by £14.3 million and £11.2 million in the next two years. Most of this corresponds to the capital programme to improve audibility overseas to which the Government is committed by statements to Parliament in 1981, together with the increased running costs of the more powerful transmitters. It is net of substantial efficiency savings arising from the recent review.



4. I fully share the general view that the efficiency of the BBC as a whole should be improved. To this end the recent review rightly proposed that the External Services should have something closer to the three-year planning certainty now enjoyed by the Home side of the BBC. But we are not going to get the cooperation we need from the External Services if we say that three-year funding means no extra funding at all. There can be no question of switching resources from other FCO programmes which are already hard pressed and the consequence would therefore be a massive reduction in vernacular language services and drastic postponement of the audibility programme.

5. We are now nearly three months into the first three-year period. To allow the issue to be mixed up with the Public Expenditure Survey could take us up to November which would be too late for launching a multi-year planning scheme. Unless therefore you can agree to us offering the External Services realistic additional funding on the lines I have proposed, we must sadly abandon the concept of three-year funding and continue with the unsatisfactory previous practice of "annual battles". This would be a great pity and would I am sure frustrate our objective of improving the efficiency of the External Services and indeed of the Corporation as a whole. I am however prepared to offer a compromise. I could with reluctance agree to postpone a decision on the capital part of my bid until the Survey. This would leave the current part amounting to an additional £6.7 million in 1986/87 and £10.4 million in 1987/88 (with an appropriate uplift into the period starting 1988/89). I am prepared to reduce these figures by £1 million in each year to be found by yet further efficiency savings including the savings we hope will arise in later years from the transfer to the BBC of the staff running the FCO relay stations. I should stress that I can only make this reduction on the basis of an agreement now which will enable the BBC to plan. It would not be possible to

/maintain



maintain it in the Autumn PES bilaterals and I could only vary the figure in the FCO (Other) chapter if it were an agreed bid. In view of the urgency which you recognise I hope you can agree to this proposal as soon as possible.

6. I am sending copies of this minute to the Prime Minister, the Home Secretary, the Defence Secretary, Sir Robert Armstrong and Sir Robin Ibbs.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
26 June 1985

PRIME MINISTER

Not submitted.

Ho letter already sent,  
Hyl as amended following suggests  
for LPS notes. RITA's office informed.  
14/5

The National Audit Office have asked the Home Office for access to the Supplementary Volumes of the Peat Marwick Report into Economy, Efficiency and Effectiveness in the BBC. (The Home Office minute is at Flag A.) They propose to make their report available, while pointing out that they remain unconvinced that there is a legal obligation to do so, and that the report would be relevant for the use to which the NAO are entitled to put it.

Advice from Sir Robert Armstrong is at Flag B. He does not recommend the Home Office withhold the report, though he suggests that the NAO first be asked to give assurances that the report is genuinely required for an examination which they are entitled to undertake.

Content to accept Sir Robert's advice?

GR

OK?  
enclosed.

Pl. advise with the  
other letter which came  
in or this today. Then  
let me have back pl.

Mark Addison

MARK 14/5

14 May, 1985.



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

14 May 1985

Dear Dmd,

MBPM

Thank you for your letter of 8 May about the request of the NAO to see unpublished supplementary volumes of the Peat Marwick report on the BBC.

As you know our officials discussed with Cabinet Office slight changes to the amendments you have suggested and I attach a copy of the letter which has now been sent to the NAO by our Principle Finance Officer.

I regret that Richard Broadbent's letter of 13 May reached us after the letter had been despatched but I believe his points are fully covered by the final text.

I am copying this letter to Tim Flesher, Murdo Maclean, Richard Hatfield and to the Private Secretaries to other members of the Cabinet.

Yours (H),

Hugh Taylor

H H TAYLOR

D R Morris, Esq

13 May 1985

E S Young Esq  
National Audit Office  
Audit House  
Victoria Embankment  
LONDON  
EC4Y ODS

Thank you for your letter of 13 March, formally requesting a copy of the full Peat Marwick report on value for money in the BBC, in connection with a possible economy, efficiency and effectiveness examination in relation to the settlement of the licence fee and the part played in this by the report.

As you know, the Peat Marwick report consists of a main report and two supplementary volumes. The Corporation has already published the main report, but not the supplementary volumes, which the BBC has explained contain commercially sensitive information. Given the care with which the National Audit Office customarily treat information of this kind, we have no objection to your seeing the supplementary volumes and I therefore enclose a copy. In doing so, however, I should say that we are not persuaded that the National Audit Act 1983, by reference to which as we understand it, the formal request in your letter is made, entitles you to access to the report for the purposes you describe. As you appreciate, the BBC itself is, of course, outside the scope of the Act.

J F HALLIDAY

Broadcasting; BBC finances Pt 2



15 MAY 1985



Treasury Chambers, Parliament Street, SW1P 3AG

H H Taylor Esq  
 Private Secretary to Secretary of State  
 Home Office  
 Queen Anne's Gate  
 London  
 SW1H 9AT

CP

JRU p.c. [unclear]

The letter should go on the [unclear] [unclear]

13 May 1985

Dear Hugh

**C & AGs ACCESS TO PAPERS**

Thank you for sending me a copy of your letter of 3 May to David Morris about the release to the C & AG of unpublished material supporting the published Peat Marwick report on the BBC.

I understand that your proposed course of action is in line with advice given by the Treasury Officer of Accounts and that the purpose of your consultation with other departments is to avoid prejudicing their positions, e.g. in relation to nationalised industries papers, without giving them a chance to comment.

We entirely agree that constant vigilance is required if the specific terms of the National Audit Act, which were the subject of considerable debate with the sponsors of the Stevas Bill, are not to be effectively undermined by "precedents" established by the NAO. In this particular case the substance of what the NAO desire to see is not something which there is any point in seeking to "conceal" but the terms on which it is released are important and we think the addition to your draft letter suggested by David Morris is an improvement.

I am copying this letter to Tim Flesher, Murdo Maclean, Richard Hatfield and the Private Secretary to other members of the Cabinet.

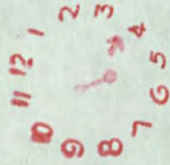
Yours sincerely  
 Richard Broadbent

R J BROADBENT  
 Private Secretary



BBC Finance.

173 MAY 1965



40  
48

PRIME MINISTER

The Home Secretary wished to let you know that the National Audit Office have asked the Home Office for access to the published Supplementary Volumes of the Peat Marwick Report into Economy, Efficiency and Effectiveness in the BBC. The Home Office minute is at Flag A. They proposed to make the full report available, while pointing out that they remained unconvinced that they were legally obliged to do so, nor that the report would be relevant for the use to which the NAO were entitled to put it.

Advice from Sir Robert Armstrong is at Flag B. He does not recommend the Home Office withhold the report, though he suggests that the NAO first be asked to give assurances that the report is required for an examination which the NAO are entitled to undertake.

Content to accept Sir Robert's advice?

MCA

13 May, 1985.

Ref. A085/1299

MR ADDISON

Release of Supplementary Volumes of the Peat Marwick  
Report to the National Audit Office

I understand that the Prime Minister has asked for advice on the letter of 3 May, from the Home Secretary's Private Secretary, concerning the release of the two supplementary volumes to the Peat Marwick Report into Economy, Efficiency and Effectiveness (EEE) in the BBC to the National Audit Office (NAO).

2. The report itself has been published. The two supplementary volumes have not; they contain information which the BBC regard as commercially sensitive.

3. The Home Office proposes to release the supplementary volumes to the NAO but, in doing so, to make it clear that they:

a. expect the NAO to treat the commercially sensitive information contained in the volume in the customary way.

b. do not necessarily accept that the NAO has a right of access to the Report under the National Audit Act 1983.

4. The first condition does not cause any problems: the NAO have a good record for dealing with the commercially sensitive information. The second is more difficult.

5. Under Section 7(4) and Schedule 4 of the Act the BBC is specifically excluded from EEE investigations by the NAO. The Home Office is subject to such investigations. In carrying out such investigations the Comptroller and Auditor General (C & AG) has "a right of access .....to all such documents as he may reasonably require."



6. The NAO claim that they have a right to see the report in connection with an EEE examination which the Comptroller and Auditor General is expecting to be asked by the Public Accounts Committee to undertake "in relation to the settlement of the licence fee". If such an examination were concerned with the EEE with which the Home Office discharged its function of considering and deciding the question of the level of the TV licence fee, then the NAO clearly have the right under the Act to carry out such an examination. Since the Peat Marwick Report was clearly relevant to the decision, the NAO would also be entitled to see the report.

7. If, however, as the Home Office suspect, such an examination would in fact be concerned with the question whether the grant to the BBC, particularly after the increase, represents value for money, then the NAO probably do not have the right to carry out such an investigation because:

a. the decision on the TV licence fee increase reflects Ministerial policy objectives, the merits of which, under Section 6(2) of the Act, cannot be questioned by the NAO.

b. EEE examinations of the BBC's use of the Home Office's grant are excluded from the Act.

If the NAO examination were of this broader kind the Home Office could perhaps legitimately refuse to release the report.

8. Any refusal by the Home Office to release the supplementary volumes would probably lead to a disagreement with the Public Accounts Committee which would, in due course, be taken to the House of Commons. The Home Office are in effect arguing that, since it is possible to conceive of an EEE examination within the scope of the Act, albeit of a very limited kind, to which access to the report could reasonably be required by the NAO, it would be better to avoid such a disagreement. At



the same time it is important for the Home Office to reserve its position as far as the wider type of examination is concerned, not least because of the precedent which could be set for future inquiries in other Government Departments. That is the purpose of the last sentence of the Home Office draft.

9. The Home Office proposal is supported by the Lord Privy Seal and, I understand, by the Treasury.

10. Perhaps the Government's position is sufficiently protected by the final paragraph of the draft letter. But given the doubts about why the NAO is seeking access to these volumes and whether the NAO is within its rights in doing so, there would be something to be said for the Home Office, without refusing the request, asking the NAO to satisfy them that the volumes are required for an examination which the Comptroller and Auditor General has the right to undertake.

11. I attach a draft letter to the Home Office.

REA

ROBERT ARMSTRONG

13 May 1985



DRAFT LETTER FROM MR ADDISON TO HUGH TAYLOR ESQ  
PS TO THE HOME SECRETARY

The Prime Minister has seen your letter of 3 May to David Morris about the NAO request to see the supplementary volumes to the Peat Marwick Report on the BBC.

It seems from your letter that the Comptroller and Auditor General has not yet been asked to conduct an economy, efficiency and effectiveness examination in relation to the settlement of the TV licence fee; he is only expecting to be asked to do so.

Given the doubts about the purposes for which the NAO wants to see the volum<sup>me</sup>s and about their right to have access to them, the Prime Minister suggests that the reply to the NAO should in effect be confined to the last paragraph of the draft enclosed with your letter, with an invitation to the NAO to satisfy the Home Office on the matters in doubt before the request for release of the documents is further considered.

I am sending copies of this letter to the Private Secretaries to other members of the Cabinet, to Murdo MacLean and Richard Hatfield.

Blasdeline: BBC Finance

Pa



COMMISSIONER

ccu BBC Finance  
APPS



10 DOWNING STREET

*From the Principal Private Secretary*

10 May 1985

PEACOCK COMMITTEE

The Prime Minister was grateful for the Home Secretary's minute of 9 May and is content that the Home Secretary should approach Sir Peter Reynolds to be a member in place of Dr Peter Main.

The Prime Minister agrees that Mr Hardie's Chairmanship of Broadlands Radio should not be an obstacle to his serving as a member of the Committee.

I am copying this letter to Sir Robert Armstrong.

Hugh Taylor Esq  
Home Office

SPW





Prime Minister

PEACOCK COMMITTEE

You will wish to know the latest position following our recent discussion of the membership of the Peacock Committee.

Mr Samuel Brittan, Miss Judith Chalmers, Mr Jeremy Hardie, Professor Alastair Hetherington and Lord Quinton have each indicated that they would be pleased to serve on the Committee.

Dr Peter Main has declined to serve because his son is an employee of the BBC. At our discussion we envisaged that Mrs Patricia Mann should be the first reserve if any of our preferred list proved to be unavailable. But as it is the industrialist candidate who is unable to serve, I think we should reconsider this as I do feel that the Committee should have on it one member with a weighty and distinguished industrial background. Accordingly, I would now like to approach Sir Peter Reynolds, Chairman of Ranks Hovis McDougall, who was recommended to me by John Wakeham. Are you content with that?

I should also mention a point which has emerged in connection with Jeremy Hardie. It appears that he has been the Chairman of Broadlands Radio, the independent local radio station which operates in Norfolk. He is now only an unpaid Director of the Company with a small shareholding

/in it.

Prime Minister

Yes no Agree Sir Peter Reynolds?

I will make sure that Sir Robert Armstrong sees no difficulty about Mr. Hardie's connection with Broadlands Radio.

FERB

9.5.

in it. In the context of his extremely extensive commercial and other interests I do not think this presents any problem, either of substance or presentation and all who have been examining these matters in the Home Office share that view.

I am sending a copy of this minute to Sir Robert Armstrong.

L. B.

9 May 1985

REYNOLDS, Peter William John, CBE 1975; Chairman, Ranks Hovis McDougall plc, since 1981; b 10 Sept. 1929; s of Harry and Gladys Victoria Reynolds; m 1955, Barbara Anne (née Johnson); two s. Educ: Haileybury Coll., Herts. National Service, 2nd Lieut. R.A. 1948-50. Unilever Ltd. 1950-70: Trainee; Managing Dir, then Chm., Walls (Meat & Handy Foods) Ltd. Asst Gp Managing Dir, Ranks Hovis McDougall Ltd, 1971, Gp Man. Dir, 1972-81. Recreations: gardening, beagling. Address: The White House, Beamond End, Amersham, Bucks. T: High Wycombe 713248. Clubs: Naval and Military, Farmers'.

BROADCASTING BBC Finance

MEMO

11 12

09 MAY 1985



CF pps?

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

8 May 1985

MBPM

Dear Hugh,

Thank you for your letter of 3<sup>✓</sup> May about the request of the NAO to see the unpublished supplementary volumes of the Peat Marwick report on the BBC.

I agree that these volumes should be made available. I would suggest, however, that since the NAO appreciate (second paragraph of your letter) that their remit does not extend to the BBC, perhaps the basis on which this is done might be achieved by merely adding after "enclose a copy" the words "for use in accordance with the provisions of the National Audit Act 1983. As you appreciate, the BBC itself is of course outside the scope of the Act". The remainder of the letter could then be deleted.

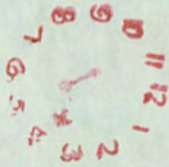
I am copying this letter to Tim Flesher (No 10), the Private Secretaries to the other members of the Cabinet, to Murdo Maclean (Chief Whip's Office) and to Richard Hatfield (Cabinet Office).

As ever,  
David

D R MORRIS  
Private Secretary

H Taylor Esq  
Private Secretary to the  
Secretary of State for the Home Department

BROADCASTING: Training of BBC  
PT 2



29 MAY 1945

DRAFT LETTER

ADDRESSEE'S REFERENCE .....

TO	ENCLOSURES	COPIES TO BE SENT TO
<p data-bbox="267 419 609 510">E S Young, Esq., National Audit Office</p> <p data-bbox="240 805 609 839">(FULL POSTAL ADDRESS)</p>		<p data-bbox="982 805 1485 839">(FULL ADDRESSES, IF NECESSARY)</p>

LETTER DRAFTED FOR SIGNATURE BY ..... MR HALLIDAY .....

(NAME OF SIGNATORY)

Thank you for your letter of 13 March formally requesting a copy of the full Peat Marwick report on value for money in the BBC in connection with a possible economy, efficiency and effectiveness examination in relation to the settlement of the licence fee and the part played in this by the report.

As you know, the Peat Marwick report consists of a main report and two supplementary volumes. The Corporation has already published the main report but not the supplementary volumes, which the BBC has explained contain commercially sensitive information. Given the care with which the National Audit Office customarily treat information of this kind we have no objection to your see the supplementary volumes and I therefore  
 ..... enclose a copy. In doing so, however, I must make it clear that we are not persuaded that the National Audit Act 1983, by reference to which, as we understand it, your formal request is made, would necessarily entitle you to access to the report for the purposes you describe.

It is not apparent to us that such an examination as you have in mind would be within the terms of Act, or that the Peat Marwick report, which is, of course, about economy, efficiency and effectiveness in the BBC (which the Act specifically excludes you from examining), would be relevant to an examination of the Home Office's use of its resources in discharging its functions.



A



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

3 May 1985

Dear David,

The Home Secretary thought that his colleagues would wish to be aware that the National Audit Office have asked the Home Office for access to the published supplementary volumes of the Peat Marwick report into economy, efficiency and effectiveness in the BBC. The Corporation commissioned this study at the Home Secretary's request in connection with the recent television licence fee settlement. The main report was published but the BBC considered that the supplementary volumes contained commercially sensitive information.

The National Audit Office's request is to enable the C & AG to respond to a proposal he expects the Public Accounts Committee to make that he should conduct an economy, efficiency and effectiveness examination under the National Audit Act 1983 "in relation to the settlement of the licence fee and the part played in this by the Peat Marwick report". The National Audit Office appreciate that the BBC is one of the bodies excluded from the scope of the 1983 Act and maintain that the examination they are contemplating would be of the Home Office.

We do not think that the National Audit Office's request is a clear cut breach of the restrictions in the Act, though equally we are not persuaded that they have (yet) made out a clear case for entitlement to access to the report. Given the care with which the National Audit Office customarily treat commercially sensitive information we have no particular wish to prevent them from seeing the supplementary volumes; and given that the main report has been published we propose to let them see the supplementary volumes, making it clear, however, that we are not persuaded that they are entitled to access to them under the Act. If access was refused it seems clear that this would lead to a public disagreement between the Public Accounts Committee and the Government which would probably be taken to the House of Commons. Given the circumstances of the Peat Marwick report and the licence fee settlement, the Home Secretary does not think it would be possible to argue convincingly that the Home Office was not concerned in any way with the economy, efficiency and effectiveness of the BBC and that the National Audit Office accordingly had no legitimate interest in the Peat Marwick report.

The National Audit Office have also indicated that they will want access to "the Home Office papers concerned" with the licence fee settlement. If, as we believe, they could conduct an examination of the economy, efficiency and effectiveness with which the Home Office used its resources in discharging its function of fixing the television licence fee, we believe that we could not withhold from them access to the Home Office files on the matter. On past form we might expect them to use some of the analytical material on our files in any report to the Public Accounts Committee but to respect the confidentiality of papers containing advice to Ministers. Given the restrictions in the Act on the National Audit Office questioning the merits

of policy objectives, we think that in principle a defensible line might be drawn between papers preparatory to Ministerial consideration of the issues and those which resulted from Ministerial discussions and consultations. However, this line cuts through the middle of some of our submissions, and, as I have said, we do not think we shall be able to deny the National Audit Office sight of them.

The urgency is that the Home Office Accounting Officer appears before the Public Accounts Committee on a related matter on 15 May, where the question of access to the Peat Marwick report may be raised. In view of recent controversies about the question of access, the Home Secretary thought he should bring this matter to the attention of his colleagues. Unless there are any comments before 9 May, however, he proposes that the Department should reply to the National Audit Office on the lines of the attached draft.

....

I am copying this letter to Tim Flesher (No 10), the Private Secretaries to the other members of the Cabinet, to Murdo Maclean (Chief Whip's Office) and to Richard Hatfield (Cabinet Office).

Yours ever,

Hugh Taylor

H H TAYLOR

D R Morris, Esq.



## 10 DOWNING STREET

*From the Principal Private Secretary*

24 April 1985

*Dear Hugh,*

## PEACOCK COMMITTEE

The Prime Minister discussed with the Home Secretary and Sir Robert Armstrong this afternoon the Home Secretary's minute of 17 April.

The Prime Minister concluded with regret that since Sir Alastair Burnett is a Director of ITN which relies on financial support from the independent television companies, he would be regarded as having an interest in the outcome of the Peacock Committee and that he should not, therefore, be included as a member. The Prime Minister was also not inclined to have Mr. Peter Jay on the Committee, but was content that Mr. Samuel Brittan should be a member, on the basis that Professor Peacock was prepared himself to say that he wanted him to be on the Committee. The conclusion of the discussion, therefore, was that the members should be:-

Mr. Samuel Brittan  
Miss Judith Chalmers  
Mr. Jeremy Hardie  
Professor Alastair Hetherington  
Lord Quinton  
Dr. Peter Main

The Prime Minister agreed that Mrs. Patricia Mann should be regarded as a reserve.

Provided she does not have any further thoughts within the next twenty-four hours, the Prime Minister will be content for the Home Secretary to approach the people mentioned above.

I am copying this letter to Sir Robert Armstrong.

*Yours ever,*

Hugh Taylor, Esq.,  
Home Office.

*Robin Butler*

APPTS  
FERB

Ref. A085/1134

MR BUTLERPeacock CommitteeThe Home Secretary's minute of 17 April. *attached*

2. I am content with the names proposed by the Home Secretary. But I wonder whether there should be a woman on the Committee. Possibilities that occur to me are Dr Christine Challis, (the Secretary of the London School of Economics), Mrs Heather Brigstocke, and Mrs Mary Moore. Or one might think of Marghanita Laski, who went over this ground as a member of the Annam Committee.

3. As to whether Mr Sam Brittan should be appointed, I should have no doubts about his qualifications. But the subject so politically controversial, and his appointment would give ammunition to those who might want to suggest that the Home Secretary was trying to park the Committee with people likely to share his own views of the matter. So I should have thought better not.

*Carl Bowdery**Approved by*

ROBERT ARMSTRONG

*and signed in his absence.*19 April 1985

Broadcasting; success of BBC



CONFIDENTIAL



FILE

207

10 DOWNING STREET

*From the Principal Private Secretary*

19 April 1985

The Prime Minister was grateful for the Home Secretary's minute of 17 April about membership of the Peacock Committee and the financing of the BBC. She would like to have a general conversation about these proposals with the Home Secretary, and we have now arranged for the Home Secretary and Sir Robert Armstrong to call on the Prime Minister on Wednesday, 24 April at 1500 hrs.

I am sending a copy of this letter to Sir Robert Armstrong.

H Taylor Esq  
Home Office

APPOINTMENTS IN CONFIDENCE



Prime Minister

I see some difficulty about Alastair Burnet. Would you be content with the rest of the list.

F.R.B.

17.4.

Prime Minister

PEACOCK COMMITTEE

*Will discuss generally not*

I am anxious to proceed as quickly as possible with the appointment of the other members of the Peacock Committee on the financing of the BBC. I envisage a committee of seven or eight people and we need to choose members for the particular contribution they can make, rather than their general merit or reputation. Thus, while we do not want to appear to have selected representatives of particular organisations or interest groups, we need members with knowledge of public affairs, of business, of advertising, of the media and of broadcasting itself.

I have considered the suggestions made by a number of our colleagues and also had a talk with Alan Peacock himself. Having done so I have it in mind to approach the following to see if they would be willing to serve:

- *Peacock*  
Mr Samuel Brittan or Mr Peter Jay
- Sir Alastair Burnet
- Miss Judith Chalmers
- Mr Jeremy Hardie
- Professor Alastair Hetherington
- Dr Peter Main
- Lord Quinton

*Palmer Park*

... I attach copies of the relevant Who's Who entries (with the exception of Miss Judith Chalmers), and go on to explain the thinking behind each of the names.

My general approach is to select a committee that our own supporters will find satisfactory, but which others will recognise as having a credible spread of political and other opinion and experience.

The first two names on the list are probably - though for very different reasons - the most potentially controversial but I include them because I think it is essential to have at least one person who is iconoclastic in temperament, intellectually rigorous and starts off with a bias against monopolies and vested interests. Either Samuel Brittan or Peter Jay would meet that requirement. Alan Peacock himself prefers my brother and thinks he would be a very useful member of the committee. He would be very ready to say publicly that he welcomed the appointment. He hopes that the relationship with me would not of itself be a bar to appointment. For my part I obviously recognise the risk of criticism and would not want to press the suggestion if you felt the presentational difficulties were too great, but on objective grounds I do agree with Alan Peacock. The risk with appointing Peter Jay, who would certainly bring an original mind and relevant background to the work of the committee and whose instincts in this area are not likely to be conventional or those of the traditional left, is that he may be too closely associated in the public mind with the initial difficulties of TV AM.

*Surely this would give rise to a conflict of interest*

Turning to the other names: although Alastair Burnet is a director of ITN I do not myself think this need rule him out. He would bring to the committee a considerable and varied experience of work in the media including of course the editorship of both The Economist and The Daily Express.



Alastair Hetherington was, of course, at one time the editor of The Guardian and now occupies an academic post concerned with the media. I think it would be difficult not to include anyone who has had a direct involvement with the BBC and Alastair Hetherington was Controller of BBC Scotland from 1975 to 1978. I have reason to believe, however, that he is far from uncritical of the BBC. He would, however, be seen to represent a different political and economic point of view from that of other members.

Judith Chalmers is well known, has broadcasting experience, and is likely to bring an active interest and good sense to bear on the subject. Her appointment last year to the National Consumer Council is also helpful.

Jeremy Hardie is an astute economist and experienced accountant and business man who has undertaken a number of public appointments. He served as a member and Deputy Chairman of the Monopolies and Mergers Commission and I attach importance to that. He is not a well known Party political figure although he contested a seat for the SDP in 1983. He certainly represents the free market element of opinion within the Alliance.

I do not know Peter Main, the Chairman of Boots, personally, but he was commended to me by Norman Tebbit. If he were not able to find the time to serve on the committee I would look to either Mr Ronald Halstead or Sir Peter Reynolds to give the committee the benefit of direct experience of large scale business and the actual use of advertising.

Finally, while I am very anxious that the membership of the committee should appear direct and business-like, rather than containing people who might

have been deemed suitable members for an old-fashioned deliberative Royal Commission, there is a case for choosing one member who would be thought of as being concerned primarily with intellectual standards in broadcasting. It seems reasonable to look, for this purpose, to the Tory benches in the House of Lords and Anthony Quinton is an occasional broadcaster as well as a distinguished philosopher.

I cannot of course be certain that all these people would be willing and able to serve on the committee, but I hope you would agree that I should approach them. If you would like a word about these proposals (either about the position of my brother and Peter Jay, or more generally), perhaps your Office would let mine know.

I am sending a copy of this minute to Sir Robert Armstrong.

L. B.

17 April 1985

Yes please -  
we will discuss

**BRITTAN, Samuel**; Principal Economic Commentator, since 1966, and Assistant Editor, since 1977, *Financial Times*; b 29 Dec. 1933; s of late Joseph Brittan, MD, and of Rebecca Brittan (née Lipetz). *Educ*: Kilburn Grammar Sch.; Jesus Coll., Cambridge. 1st Class in Economics, 1955; MA Cantab. Various posts in *Financial Times*, 1955-61; Economics Editor, Observer, 1961-64; Adviser, DEA, 1965. Fellow, Nuffield Coll., Oxford, 1973-74, Vis. Fellow, 1974-; Vis. Prof. of Economics, Chicago Law Sch., 1978. Financial Journalist of the Year Award 1971; George Orwell Prize (for political journalism), 1980. *Publications*: *The Treasury under the Tories*, 1964, rev. edn, Steering the Economy, 1969, 1971; *Left or Right: The Bogus Dilemma*, 1968; *The Price of Economic Freedom*, 1970; *Capitalism and the Permissive Society*, 1973; *Is There an Economic Consensus?*, 1973; *Second Thoughts on Full Employment Policy*, 1975; (with P. Lilley) *The Delusion of Incomes Policy*, 1977; *The Economic Consequences of Democracy*, 1977; *How to End the Monetarist Controversy*, 1981; *The Role and Limits of Government*, 1983; articles in various jls. *Address*: Flat 10, The Lodge, Kensington Park Gardens, W11.

**BURNET, James Williams Alexander, (Alastair Burnet)**; broadcaster with Independent Television News, since 1976, Associate Editor, News at Ten, since 1982; b 12 July 1928; s of late Alexander and Schonaid Burnet, Edinburgh; m 1958, Maureen Campbell Sinclair. *Educ*: The Leys Sch., Cambridge; Worcester Coll., Oxford. Sub-editor and leader writer, *Glasgow Herald*, 1951-58; Commonwealth Fund Fellow, 1956-57; Leader writer, *The Economist*, 1958-62; Political editor, Independent Television News, 1963-64; Editor, *The Economist*, 1965-74; Editor, *Daily Express*, 1974-76. Ind. Dir. Times Newspapers Hldgs Ltd, 1982-. Has appeared regularly on TV prog. News at Ten, Panorama, This Week. Member: Ctee of Award, Commonwealth Fund, 1969-76; Ctee on Reading and Other Uses of English Language, 1972-75; Monopolies Commn specialist panel on newspaper mergers, 1973-; Richard Dimbleby Award, BAFTA, 1966, 1970, 1979; Judges' Award, RTS, 1981. *Address*: 43 Hornston Court, Campden Hill Road, W.8. T: 01-937 7563; 33 Westbourne Gardens, Glasgow. T: 041-339 8073. *Club*: Reform.

**HARDIE, (Charles) Jeremy (Mawdesley)**, CBE 1983; b 9 June 1938; s of Sir Charles Hardie, *qv*; m 1st, 1962, Susan Chamberlain (marr. dis. 1976); two s two d; 2nd, 1978, Xandra, Countess of Gowrie, d of late Col R. A. G. Bingley, CVO, DSO, OBE, one d. *Educ*: Winchester Coll.; New Coll., Oxford (2nd Cl. Hon. Mods, 1st Cl. Lit. Hum.); Nuffield Coll., Oxford (BPhil Econ), ACA 1965, Peat, Marwick, Mitchell & Co.; Nuffield Coll., Oxford, 1966-67; Jun. Res. Fellow, Trinity Coll., Oxford, 1967-68; Fellow and Tutor in Econ., Keble Coll., Oxford, 1968-75. Partner, Dixon Nelson & Co., 1975-82. Chairman: National Provident Instn, 1980- (Dir, 1972, Dep. Chm., 1977); Alexander Syndicate Management Ltd, 1982-; Dep. Chm., Alexanders Discount Co. Ltd, 1981- (Dir, 1978); Stockholders Investment Trust Ltd, 1979-; Unilever Pensions Investment Management Ltd, 1980-; IBM UK Pensions Trust Ltd, 1981-83; NAAFI, 1981-; John Swire and Sons, 1982-; Andall (UK) Ltd, 1983-; London Bd. Bank of Scotland, 1983-. Member: Monopolies and Mergers Commn, 1976- (Dep. Chm., 1980-83); Council, Oxford Centre for Management Studies, 1978-; Hammersmith Health Authority, 1982-83. Contested (SDP) Norwich South, 1983. Trustee, Esmée Fairbairn Charitable Trust, 1972-. *Recreations*: sailing, skiing. *Address*: The Old Rectory, Metton, Norfolk NR11 8QX. T: Cromer 761765.

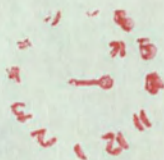
**HETHERINGTON, (Hector) Alastair**; journalist; Research Professor, Stirling University, since 1982; former Editor of *The Guardian*; b Llanibenn, Glamorganshire, 31 Oct. 1919; yr s of late Sir Hector Hetherington and Lady Hetherington; m 1st, 1957, Miranda (marr. dis. 1978), d of Professor R. A. C. Oliver, *qv*; two s two d; 2nd, 1979, Sheila Janet Cameron, widow of Hamish Cameron; one step s two step d. *Educ*: Gresham's Sch., Holt, Corpus Christi Coll., Oxford (Hon. Fellow, 1971). Royal Armoured Corps, 1940-46. Editorial staff, *The Glasgow Herald*, 1946-50; joined *Manchester Guardian*, 1950, Asst Editor and Foreign Editor, 1953-56, Editor, 1956-75; Director: *Guardian and Manchester Evening News Ltd*, 1956-75; *Guardian Newspapers Ltd*, 1967-75; Controller, BBC Scotland, 1975-78; Manager, BBC Highland, 1979-80. Member, Royal Commission on the Police, 1960-62. Vis. Fellow, Nuffield Coll., Oxford, 1973-79. Trustee, Scott Trust, 1970-. Journalist of the Year, Nat. Press awards, 1970. *Publication*: *Guardian Years*, 1981. *Recreations*: hill walking, golf. *Address*: 38 Chalton Road, Bridge of Allan, Stirling FK9 4EF. T: Stirling 832168; Tigh na-Fraoich, High Corrie, Isle of Arran KA27 8JB. T: Brodick 81652. *Club*: Athenaeum.

**JAY, Peter**; Chairman, National Council for Voluntary Organisations, since 1981; Director, Economist Intelligence Unit, since 1979; Senior Editorial Consultant, Banking World, since 1983; b 7 Feb. 1937; s of Rt Hon. Douglas Patrick Thomas Jay, *qv*; m 1961, Margaret Ann, d of Rt Hon. James Callaghan, *qv*; one s two d. Educ: Winchester Coll.; Christ Church, Oxford. MA 1st cl. hon. PPE, 1960. President of the Union, 1960, Nuffield Coll., 1960. Midshipman and Sub-Lt RNVR, 1956-57. Asst Principal 1961-64, Private Sec. to Jt Perm. Sec. 1964, Principal 1964-67, HM Treasury; Economics Editor, The Times, 1967-77, and Associate Editor, Times Business News, 1969-77; Presenter, Weekend World (ITV Sunday morning series), 1972-77; The Jay Interview (ITV series), 1975-76; Ambassador to US, 1977-79. Vis. Scholar, Brookings Instn, Washington, 1979-80; Wincoet Meml Lectr, 1975; Copland Meml Lectr, Australia, 1980. Consultant, Economist Gp, 1979-81; Dir, Landon Press Ltd, 1982-83; Chm. and Chief Exec., TV-am Ltd, 1980-83 and TV-am News, 1982-83; Pres., TV-am, 1983; Presenter, A Week in Politics, 1983. Chm., NACRO Working Party on Children and Young Persons in Custody, 1976-77; Trustee, Charities Aid Foundn, 1981-; Chairman, United Way (UK) Ltd, 1982-; United Way Feasibility Studies Steering Cttee, 1982-; Mem. Council, Cinema and TV Benevolent Fund, 1982-83; Governor, Ditchley Foundn, 1982-; Dir, New Nat. Theatre, Washington, DC, 1979-81. Political Broadcaster of Year, 1973; Harold Wincoet Financial and Economic Journalist of Year, 1973; Royal TV Soc.'s Male Personality of Year (Pye Award), 1974; SFTA Shell Internat. TV Award, 1974. FRSA 1975; FRGS 1977. Hon. DH Ohio State Univ., 1978; Hon. DLitt Wake Forest Univ., 1979; Berkeley Citation, Univ. of Calif., 1979. Publications: The Budget, 1972; (contrib.) America and the World 1979, 1980; contrib. Foreign Affairs j. Recreation: sailing. Address: 39 Castlebar Road, W5 2DJ. T: 01-998 3570; Elm Bank, Glandore, West Co. Cork. T: (028) 33198. Clubs: Garrick; Royal Naval Sailing Association, Royal Cork Yacht.

**MAIN, Dr Peter Tester**, ERD 1964; Chairman, The Boots Company Ltd, since 1982 (Director, since 1973); b 21 March 1925; s of late Peter Tester Main and Esche Paterson (née Lawson); m 1952, Dr Margaret Finister, MB, ChB (née Tweedle); two s one d. Educ: Robert Gordon's Coll., Aberdeen; Univ. of Aberdeen (MB, ChB 1948, MD 1963). MRCP 1961, FRCPE 1962. Captain, RAMC, 1949-51; MO with Commando Bde, Suez, 1956; Lt-Col RAMC (AER), read 1964. House Surg., Aberdeen Royal Infirmary, 1948; House Physician, Woodend Hosp., Aberdeen, 1949; Demonstrator, Univ. of Durham, 1952, gen. practice, 1953-57; joined Res. Dept, Boots, 1957; Dir of Res., 1968; Man. Dir, Industrial Div., 1979-80; Vice-Chm., The Boots Co. Ltd, 1980-81. Governor, Henley Management Coll. CBIM (FBIM 1978). Publications: contribs on therapeutics to learned j. Recreation: fly fishing, shooting, Scottish music. Address: The Boots Co. Ltd, Nottingham NG2 3AA. T: Nottingham 56111. Clubs: Naval and Military, Flyfishers.

**QUINTON, Baron *et* 1982 (Life Peer)**, of Holywell in the City of Oxford and County of Oxfordshire; Anthony Meredith Quinton, FBA 1977; President of Trinity College, Oxford, since 1978; b 25 March 1925; s of late Richard Frith Quinton, Surgeon Captain, RN, and late Gwenlllyan Letitia Quinton; m 1952, Marcelle Wegier; one s one d. Educ: Stowe Sch.; Christ Church, Oxford (St Cyres Scholar, BA 1st Cl. Hon. PPE 1948). Served War, RAF, 1943-46: flying officer and navigator. Fellow, All Souls Coll., Oxford, 1949-55; New Coll., Oxford, 1955-78. Delegate, OUP, 1970-76. Mem., Arts Council, 1979-81. Vis. Professor, Swarthmore Coll., Pa, 1960; Stanford Univ., Calif, 1964; New Sch. for Social Res., New York, 1976-77. Lecturer, Dawes Hicks, British Acad., 1971; Gregynog, Univ. of Wales, Aberystwyth, 1973; T. S. Eliot, Univ. of Kent, Canterbury, 1976. Pres., Aristotelian Soc., 1975-76. Governor, Stowe Sch., 1963. (Chm. Governors, 1969-75); Fellow, Winchester Coll., 1970. Emeritus Fellow, New College, Oxford, 1980. Publications: Political Philosophy (ed), 1967; The Nature of Things, 1973; Utilitarian Ethics, 1973; (trans.) K. Ajdukiewicz (with H. Skolimowski) Problems and Theories of Philosophy, 1973; The Politics of Imperfection, 1978; Francis Bacon, 1980; Thoughts and Thinkers, 1982. Recreation: sedentary pursuits. Address: President's Lodgings, Trinity College, Oxford. T: Oxford 242888. Clubs: Garrick, Beef steak, United Oxford & Cambridge University.

Broadcasting: Finances of BBC.



17 APR 1985



Mr Pike  
Mr Innes.  
Mr Thomas O/r  
Mr Butler  
~~Mr Eggleston~~  
Mr Kennedy  
Dr Coleman  
Mr Mower

Mr Cook  
£16.425

(67)

QUEEN ANNE'S GATE LONDON SW1H 9AT

16 April 1985

Stuart,

pa

BBC ACCOUNTS.

Thank you for your letter of 4 April about the treatment of capital expenditure in your published accounts.

It is not really clear to me what your approach to Professor Liekerman is designed to achieve. Your officials have of course urged on mine their interpretation of Professor Liekerman's views. I took this into account, as well as the strongly contrasting views of the Head of the Government's Accountancy Service and a range of prominent academics in reaching my decision to ask you to revise your accountancy practice. I hope that you will accept that that decision was not taken lightly. The issue, after all, has been with us for a long time.

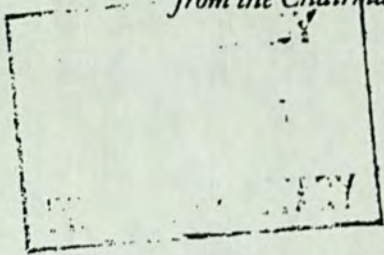
It therefore remains and will remain my policy that your accounts should reflect the depreciation of fixed assets, according to normal commercial practice, and that I should like to see this change embodied in your accounts for 1984/85. If Professor Liekerman's advice to you were to assist you in meeting these objectives, that would of course be useful.

Stuart

Stuart Young, Esq.

British Broadcasting Corporation, Broadcasting House, London W1A 1AA

from the Chairman, Stuart Young



4th April 1985

cc Mr Webber  
Mr Pike  
Mr Butler  
Mr Mower

Mr Coleman.  
Mr Eggeston

Mr Innes: frad u, pe

Dear Leon,

Thank you for your letter of 13th March about the form of the BBC's Annual Accounts.

As you know, the BBC believes that as a non-trading public service organisation, the present treatment of capital expenditure in its published accounts conforms to good accounting practice. Our external auditors continue to view the treatment of assets as appropriate and Peat Marwick and Mitchell also stated "we do not believe there are sufficient grounds to warrant change to the present policy". Peats also observed that for non-trading public service sector organisations the BBC's treatment of its capital expenditure was not unusual.

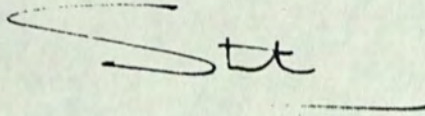
Given the degree of accord already reached by the professional accountants and the need to ensure that the general aspects of public accountability are given proper weight, I felt it wise to obtain an independent opinion. I support your wish to reach a speedy resolution of this problem. I have therefore agreed that the Director of Finance should approach Professor Andrew Likierman of the London Business School, who is well known for his work on improving public sector expenditure reporting.

Professor Likierman will be asked to propose to us how best to meet the joint objectives of proper treatment of capital expenditure in our Annual Accounts whilst providing meaningful information to the general public about the use of licence fee income.

/continued

The Director of Finance will keep your officials and our external auditors fully informed and will arrange for them to see and discuss Professor Likierman's report before any changes are implemented.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'S Stt', with a horizontal line extending to the right from the end of the signature.

The Rt. Hon. Leon Brittan, Q.C., M.P.,  
Secretary of State for the Home Department,  
Home Office,  
50 Queen Anne's Gate,  
London, SW1H 9AT.



PART 1 ends:-

CC (85) 12th Item 6 28. 3.85

PART 2 begins:-

~~Home Sec to Am 17.4.85~~  
Chairman BSC Co Home Sec 4/4/85

