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PREM 19/2029

TELEVISION LICENCE FEES

FINANCES OF THE BBC

PAY OF THE BBC

WORLD TELEVISION NEWS

BROADCASTING

PART 1: JULY 1979

PART 4: MARCH 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
17.3.77		31.7.87					
18.3.87		10.8.87					
20.3.87		9.9.87					
27.3.87		10.5.77					
24.4.87							
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12.5.87							
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22.7.87							
23.7.77							
28.7.87							
30.7.77							
10.8.77							

PREM 19/2029

PART 4 ends:-

SS/DTI TO SS/HOME 10.V.V7

PART 5 begins:-

SS/HOME TO PM 8.9.V7

CCRB



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

PS/

31 July 1987

Colin Miller Esq
Private Secretary
Home Office
Queen Anne's Gate
LONDON
SW1

NBM

Dear Colin,

SUBSCRIPTION TELEVISION : REPORT BY CONSULTANTS

at flap

Thank you for sending me a copy of your letter of 22 July to Alex Allan, about the presentation by the Consultants.

My Secretary of State would certainly wish to attend, and Mr Butcher and Sir Jeffrey Sterling would also be glad to come.

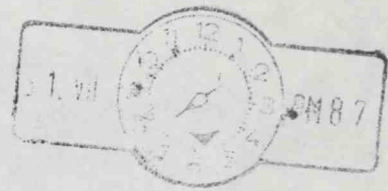
I am copying this to David Norgrove and the Private Secretaries represented on MISC 128, and to Sir Robert Armstrong.

Yours sincerely

Gina M. Davis

GINA M DAVIS
Private Secretary

Broadcasting: BBC PT4





DG2CCM

cc: BG

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HMT
HO
WO
CDL
JTI
CW

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 July 1987

INDEPENDENT PRODUCERS

The Prime Minister thought that members of MISC 128 might like to see the transcript of exchanges on the Today programme about independent producers and the BBC. The exchange between John Humphreys and Brian Redhead is particularly revealing.

I am copying this letter to the Private Secretaries to the members of MISC 128 and to Trevor Woolley (Cabinet Office).

David Norgrove

William Fittall, Esq.,
Home Office.

Lo

PRIME MINISTER

INDEPENDENT PRODUCERS

You might like to see the transcript attached from the 'Today' programme, about independent producers working for the BBC. The exchange between Brian Redhead and John Humphreys is revealing.

It might be useful to circulate this to colleagues at Misc 128.

Yes

DRS

ms

D.R.N.

29 July 1987

UNCHECKED

JOHN HUMPHREYS REDHEAD - CONVERSATION ON MICHAEL GRADE INTERVIEW

Transcript from: BBC Radio 4, Today, 29 July 1987

HUMPHREYS: I noticed Brian that when you talked to the Director of Programmes, Michael Grade, earlier you were very modest. You didn't mention the fact that you yourself have been involved in an independent production last week.

REDHEAD: Well it came as a great surprise to me too. An old friend rang me up and said would you like to come to Crewe station and make a programme about railway trains - which I always say yes to - and it turned out that was indeed an independent production. It's exactly like making a non-independent production I have to say, except perhaps you get on with it a bit faster.

HUMPHREYS: Well there's money at stake. From Brian and me good morning.

UNCHECKED

MICHAEL GRADE - INTERVIEW ON BBC INDEPENDENT PRODUCTION

Transcript from: BBC Radio 4, Today, 29 July 1987

INTERVIEWER: (BRIAN REDHEAD) The BBC will today announce details of the television programmes that it intends to commission from independent producers. Now in the trade this is seen as a great change but will the viewer notice any difference. Well with me is the Director of Programmes for BBC television, Michael Grade. First of all, how many programmes are we talking about?

GRADE: Well today's package there are about 45, 50 programmes.

INTERVIEWER: And how much money is involved?

GRADE: Nearly £5 million.

INTERVIEWER: And are there no go areas, I mean are independent producers excluded from certain activities?

GRADE: Only news related programmes, obviously like the 9 o'clock News, Newsnight, Breakfast Time.

INTERVIEWER: But not current affairs as long as its faintly historical?

GRADE: Well it can be topical, it can be current, certainly.

INTERVIEWER: Now when you get an independent production what does that mean in terms of the viewer? Does it just mean there's another name at the end of the programme?

GRADE: Well no, we hope it will lead to more choice for the viewers because in the past the BBC's always had a monopoly of programme making. There are now lots of very talented people who don't wish to work inside the BBC or inside ITV and want to be what are called independent producers and run their own little businesses and create their own programmes and not be subject to the discipline of BBC programme department.

INTERVIEWER: But is there any evidence that they will produce programmes markedly different from the programmes that they produced

when they worked inside the BBC or inside ITV?

GRADE: I think that will happen yes because in order to make a sale to the BBC independent producers have got to identify gaps in our output. And that of course will lead to better choice for the viewers.

INTERVIEWER: But if they suggest something, a gap in the output, you with all those producers to pay could say well wait a minute we could do that ourselves, why don't we just pinch the idea?

GRADE: No because we will obviously be reducing our programme making capacity in order to pay for the independent production.

INTERVIEWER: You mean putting people out of work?

GRADE: No, no. Over a period of time the BBC will shrink, just through natural wastage.

INTERVIEWER: But why are you doing this? Is it just because the Government insists?

GRADE: No, because the talent wants to work that way. The BBC is in the business of getting the best possible programmes for the viewers from wherever it can get them. And these days a lot of highly talented individuals don't want to work inside the BBC. They want to be independent producers. The BBC has a duty to get programmes from those people because they are the best programme makers in some cases.

INTERVIEWER: I've heard though independent producers whimpering that the decision making process is complicated and you really need to understand the BBC in order to sell them something?

GRADE: Although there's bound to be a year or two as they get to know how we work and we get to know how they want to work - Channel 4 went through all this in the beginning because it was Channel 4 that started the independent production business. They're bound to be teething problems.

INTERVIEWER: Is there a danger though of falling standards? The BBC

has always had, it is said, a reputation for producing high quality television in the professional sense, will it be upheld?

GRADE: Well this is an experiment and over the next 3 years we'll be producing about 12% of our output with the independents. At the end of that 3 years we will look back and see whether the independents have matched up to the quality and the standards that we expect and whether or not their programmes we hope are going to be a little bit cheaper.

INTERVIEWER: You said 12%, eventually you've got to make it 25?

GRADE: Well at the end of 3 years what we've said is that we will review what has happened in the 3 years, whether the cost and the quality of the programmes is what we have expected. And then we'll review it in the light of what the Government's requirement is of 25%.

INTERVIEWER: One final word on this point, cheaper, is it in fact likely to produce ^{cheaper} in the sense of not costing as much?

GRADE: I sincerely hope so yes.



QUEEN ANNE'S GATE LONDON SW1H 9AT

28 July 1987

u bpm

Dear Nigel,

COMPETITION POLICY AND BROADCASTING

As you will recall, I recently reminded you of my interest in the implications for broadcasting of copyright law and restrictions on needle time. I hope that my Department will be fully involved before this question is brought back to the Competition Policy Sub-Committee of the Steering Committee on Economic Strategy (E(CP)).

I have read with interest the minutes of the Sub-Committee's recent meeting on 20 July (E(CP)87 1st meeting). I see that there are one or two other points in issue which may touch on my interests and I hope that in any further consideration of them I am fully consulted.

First, during the discussion of competition and employment law, you are recorded as saying that one possibility for a reference to the Monopolies and Mergers Commission for investigation is restrictive labour practices in the broadcasting industry. The Secretary of State for Employment is invited to give this question further thought and to submit a paper to the Sub-Committee before the end of the year suggesting suitable candidates. I would not at this stage wish to offer any comments on the merits of this possibility: only to register that I would like to be fully consulted.

Second, in discussion of the action programme and future work of the Sub-Committee you invite the Parliamentary Under-Secretary of State for Trade and Industry to arrange for papers to be submitted on radio frequency spectrum management and on needle time. I have already mentioned my interest in needle time and as a result of my earlier intervention my Department and the Department of Trade and Industry are now in touch on this. I should also like to reiterate my interest in any consideration of radio frequency spectrum management, which I have of course registered in the correspondence associated with the consultants' report "Deregulation of the Radio Spectrum in the UK".

I am copying this letter to the Prime Minister, the Lord President and members of E(CP), and to Sir Robert Armstrong.

Yours,
Douglas





Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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28 July 1987

The Rt Hon Douglas Hurd MP
Secretary of State for the Home
Department

Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

NBRM

INDEPENDENT TELEVISION PRODUCERS

... I have received the attached letter from Mr Michael Darlow, the independents' head of negotiations with the BBC and ITV companies in the current 25 per cent debate. Given our meeting, together with Nigel Lawson, on Thursday, I thought it would be timely to circulate it to you and other colleagues on MISC 128. It is a useful summary of how the independents see these negotiations.

When we meet on Thursday, there seem to me to be three points to consider. The first is the question of 25 per cent. As regards the independent television companies I see no reasons why we should not stick to our public commitment to 25 per cent overall, as re-stated in our manifesto. We need to discuss what additional pressure we can put on the ITV companies through the IBA, if necessary backed up by legislation.

Secondly, the rights issue is a crucial one for the independents. Here, contrary to the practice in other areas of the audiovisual industry, the broadcasters seem to be using their monopoly position to force as a matter of course the small independent production companies to give up all rights to exploit their programmes. The Channel Four model seems a rather fairer guide where, even when Channel Four provides 100 per cent of the finance for an independently produced programme, there remains scope for

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individual negotiation of residual rights, including a minimum of 30 per cent of net export revenues. If we wish to build up a viable independent third force in broadcasting they must be able to build up their strength when they have produced successful products.

Thirdly, the definition of "independent producer" is fundamental. In my view we should exclude from being counted towards the 25 per cent target, material produced by companies in which the ITV companies hold more than a 10 per cent shareholding, or where the producers are not completely free to choose their own studios, staff and working practices.

At MISC 128 there was some discussion as to whether the target should be different for the BBC than for the ITV companies. The BBC will be under tighter financial disciplines in future, with the licence fee now tied to the RPI and it may be sensible to give the BBC greater flexibility in achieving our objective.

It is important to bring about a rapid solution to all these matters - and I suspect the broadcasters are dragging their feet since the commissioning process for the 1988/89 programming year will soon have gone too far for much more independent programming to be incorporated in it. And that is already two to three years from our initial commitment to 25 per cent.

Copies of this letter and enclosure go to the Prime Minister, the Chancellor, other members of MISC 128 and Sir Robert Armstrong.

LORD YOUNG OF GRAFFHAM

JF6ANO

INDEPENDENT ACCESS
STEERING COMMITTEE

74 NEWMAN STREET
LONDON W1P 3LA
TELEPHONE 01 323 3220
TELEX 266075 PRODCO-G

Lord Young of Graffham
Dept. of Trade & Indust
1-19 Victoria Street
London SW1H 0ET

Dear Secretary of State

INDEPENDENT TELEVISION PRODUCERS

I am writing on behalf of the Independent Television producers associations who have been negotiating jointly with the BBC and ITV to reach voluntary agreement to implement Government policy aimed at securing that 25% of the new output of programmes in the schedules of the BBC and ITV shall be supplied by independent producers. I have to report that these discussions have not gone well, especially in the case of ITV. In recent weeks we have been forced to the reluctant conclusion that the ITV companies in particular have been pursuing a policy of deliberate prevarication, with the intention of inhibiting the economic growth of the independent sector.

I fully recognise that as the representative of one of the parties involved in the process of negotiation on issues relating to the practical implementation of the Government initiative I might be thought to have a partial motive in writing to you at this time. However, I wish to make a clear distinction in this letter between those items which are probably susceptible to agreement within the current negotiations and fundamental matters relating to the overall stance of the broadcasters which are a cause for much more far reaching concern among independents. It is exclusively on these latter matters that I am writing.

I will not take up your time with a detailed recital of the progress, or non-progress, of the talks between ourselves and the BBC and ITV companies in the last four to five months, abetted by the failure of the IBA to hold the ITV companies to the timetable



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set by the Authority for their conclusion (I would be happy to supply details should you require them). Suffice it to say that the independent producers now fear that the Government initiative could have the long term effect not of strengthening the independent sector but of undermining it.

The hours currently on offer to independents, 500 each from the BBC and ITV, amount to only 5% of the total of the new output of each system and are so limited as to be of only marginal consequence to the operations of the broadcasters. We find it hard to believe that the broadcasters can seriously intend reaching the 25% target within the period set by the Government, as to do so would appear to entail introducing independent productions during the second phase of implementation at four times the rate they have set themselves in the initial phase. The hours currently on offer are certainly not sufficient to induce the kind of change in the programme making practices of the broadcasters, nor level of competition, envisaged in the Peacock Report. Further, the money the BBC has earmarked for independent production is equivalent to only about 60% of their own total production costs for an equivalent number of programmes. This pre-supposes that independents must attract substantial co-production finance in the vast majority of cases. This cannot always be a realistic expectation, in which case independent programmes will frequently have to be produced using BBC facilities, staff and existing working methods whether appropriate or not.

Crucially, also, neither the BBC nor the ITV companies have been willing to offer guidelines as to the principles that should underlie the business terms between independent producers and broadcasters which hold out any prospect of the independent sector being able to develop as a genuine "third competitive force" in the supply of television programmes. They are unwilling to agree even to minimum tariffs and margins for the independent producer, a principle fully recognised, however, by Channel 4.

The BBC and ITV system enjoys the monopoly use of a public asset - the right to transmit, and in the case of ITV make a profit from selling advertising. Both the BBC and ITV intend to take over the most valuable asset of the independent producer - the right to exploit and build a proper capital and asset base from his intellectual and creative property. Although the independent would be called upon to supply substitute programming to meet the needs of the broadcasters schedules, the broadcasters are insisting that in return for entering into a contract to supply a programme the independent must be willing to give up all rights to distribute or exploit the completed programme elsewhere in the world. In addition, the independent must relinquish all ancillary rights related to the programme, the material or idea upon which it is based, or that is included within it. In this way the independent sector's potential for expansion will be limited solely to servicing the broadcasters.

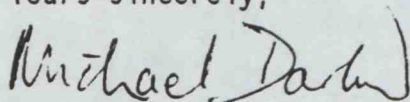
In the meantime, and in the absence of guidelines, many ITV

companies are entering into deals with the individual independent producers which in effect reduce the role of the independent to that of a packager or freelance. Although these deals are represented by the ITV companies as Independent productions they bear no resemblance to the kind of thing that the Peacock Report envisaged and are no basis for the growth of a healthy and competitive independent sector. These ad hoc arrangements are likely to jeopardise the ability of the independent sector to trade competitively and if extended would have the effect of undermining it.

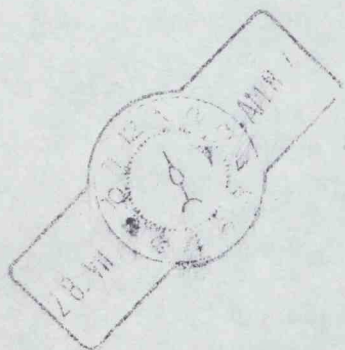
Further, the ITV companies are insisting on the right to hold, at their discretion, up to 25% of the shares of an independent production company making programmes for the targets set for independent production in ITV's schedules. Again this materially prejudices the growth of a genuinely independent "third force".

While our negotiations with the BBC have not yet attained quite the same level of disagreement, a similar chasm has opened between us over the question of underlying principles that would afford the independent sector any prospect of a healthy or competitive future. We now seem to face the prospect of the IBA issuing guidelines, unseen by ourselves, for the implementation of their interpretation of Government policy. These seem, on the evidence to date, likely neither to meet the reasonable needs of the independent sector nor match the Government intention as to target output or the creation of a "third force" by independents. In such circumstances the independent producers may have no alternative but to dissociate themselves from the IBA's action and would probably wish to be able to make direct representations to the Government.

Yours sincerely,



MICHAEL DARLOW
Head of Negotiations



Ref. A087/2211

MR WICKS



DN - to see
I have told Philip
Down
NBP17
23-7

Ministerial Consideration of Broadcasting Policy

Thank you for your minute of 6 July. *at flap*

2. As the broad lines of broadcasting policy emerge and the main decisions are taken in MISC 128 under the Prime Minister's chairmanship, I think that it may well become possible for some of the detailed proposals to be considered in meetings of MISC 128 chaired by another senior Minister. But I doubt whether the time has come for that quite yet. The other senior Minister could only be the Lord President: I do not see how we could make use of the Lord Chancellor or the Lord Privy Seal for this purpose. I have no doubt that the Lord President would be prepared to take this on, and would discharge the duty faithfully; but it became clear at the meeting of MISC 128 earlier this week that he is not wholly in sympathy with every aspect of the policies which are likely to emerge from MISC 128, and it would be only fair to him to get the main lines of policy securely established before asking him to chair meetings on detailed proposals.

3. I think that we should revert to this idea in September, after the next meeting of MISC 128 under the Prime Minister's chairmanship has secured the main lines of the Government's policies.

RA

ROBERT ARMSTRONG

23 July 1987



Broadcasting Licence fees PT4



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COMMUNICATIONS
DEPARTMENT
PERTH
WESTERN AUSTRALIA



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

22 July 1987

Dear Alex,

N.B.M.

SUBSCRIPTION TELEVISION: PRESENTATION BY CONSULTANTS

The Home Secretary has asked me to return to the question, left over since before the Election, of a presentation by the Consultants to those Ministers who are interested in hearing it.

We will seek to arrange this presentation as soon as a convenient date can be arranged. I am sure that the Chancellor and the Secretary of State for Trade and Industry would wish to be present, and it may be that other Ministers in their Departments or in the others represented on MISC 128 would also wish to come along. Perhaps you, and the others to whom a copy of this goes, could let me know and we will make the necessary arrangements.

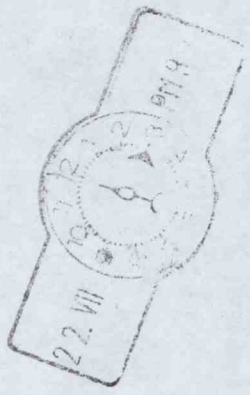
I am copying this to David Norgrove in No 10 and to the Private Secretaries represented on MISC 128 and to Sir Robert Armstrong.

Yours ever,

Clin

C R MILLER

A Allan, Esq





be: BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 July 1987

Dear William,

MISC 128: INDEPENDENT TELEVISION PRODUCERS

At this morning's meeting of MISC 128, the Prime Minister promised to send the Home Secretary information which she had received privately about the position reached in negotiations between the independent producers on the one hand and the BBC and ITV companies on the other.

In terms of hours, by 1989 twenty-five per cent of the new output of ITV would be 2,430 hours, made up of 1,024 hours for network programming plus 1,406 hours of regional or local interest programming. Against this ITV had, earlier this month, offered just 500 hours to be achieved over the first two years. For the BBC, twenty-five per cent of new output is forecast at 2,569 hours, 1,512 hours network and 1,057 hours regional. The BBC have offered 500 hours per year of independent production to be achieved by the production year 1991/92. A similar figure of 500 hours would be achieved by ITV by the end of 1989.

The BBC has earmarked for independent production £20 million against £113 million that the BBC itself would spend. The BBC have alternatively offered to allow the independents use of BBC facilities.

The broadcasters are insisting that in return for entering into a contract to supply a programme the independent would be expected to give up all rights to distribute or exploit the complete programme elsewhere in the world. In addition, the independent must relinquish all ancillary rights related to the programme, the material or idea upon which it is based, or those included within it.

The ITV companies are insisting on the right to hold between twenty per cent and twenty-five per cent of the shares of an independent producer whose productions would count towards the achievement of the targets set for independent production in ITV schedules.

The information is not always clear, but this gives the flavour.

David Norgrove

DAVID NORRGROVE

William Fittall, Esq.,
Home Office.

DBG

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MINISTERIAL GROUP ON BROADCASTING SERVICES

20 JULY 1987

ITEM 3: INDEPENDENT PRODUCERS

CONCLUSION

The Manifesto for the last Election said that

"We will ensure that at least 25 per cent of programmes broadcast on both ITV and BBC will be supplied by independent producers as soon as possible."

2. You will wish the Group to reach decisions on how the Government should respond to the proposals the IBA and the BBC have brought forward for moving towards this target. The options the Home Secretary identifies are

(i) broadly to welcome the proposals and to ask the broadcasters to work out the details; or

(ii) to take the view that the proposals are inadequate and to prepare legislation to place a duty on the broadcasters to take 25 per cent of their programmes from independent producers.

A compromise would be

(iii) to put the ball back in the broadcasters' court by telling them that unless they - or at least the BBC - improve their proposals legislation will be introduced to place a duty on them to take 25 per cent of their programmes from independent producers.

This option was earlier favoured by the Chancellor.

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BACKGROUND AND MAIN ISSUES

3. At its meeting on 30 October (MISC 128(86)2nd Meeting), the Group agreed that steps should be taken to encourage the greater use of independent producers. This was expected to have the effect of reducing costs, not least by weakening the ability of broadcasting unions to sustain restricted practices; encouraging greater diversity and innovation; promoting exports (on which the independent production sector has a better record than either the BBC or ITV companies); and reducing the dominance Channel 4 currently exercises over the independent production sector. The Home Secretary proposed that a precise figure should not be set; but the Group decided that a quantified target was needed to ensure that progress was satisfactory. It invited the Home Secretary to open discussions with the industry on the basis of the target of 25 per cent use of independent producers to be achieved over 4 years.

IBA Proposals

4. The IBA have drawn up an intermediate target of an annual production from the independent sector of 200-400 hours of locally shown material and 175-225 hours of network material (ie 8-10 per cent of network output) by the end of 1989, when the current ITV contracts come to an end. They then propose to review the position and, provided the independent sector have proved capable of delivering the quantity and quality of programmes required at competitive cost, they believe the 25 per cent target will be achieved within the contract period 1990-92. The IBA are optimistic that the ITV companies will agree to their scheme but they have indicated that they would be willing to write provisions into the contracts for 1990-92 should this prove necessary.

5. Both the Chancellor of the Exchequer and the Trade and Industry Secretary are likely to suggest that, while the timescale is rather longer than the 4 years originally envisaged, the IBA proposals are

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broadly satisfactory. The Trade and Industry Secretary may ask that the question whether the IBA have the necessary legal powers to impose targets in the 1990-92 contract provisions should be clarified before the Government responds to the broadcasters. However, this does not seem necessary: if, on further investigation, the IBA appear not to have the requisite powers, this can be remedied in the Broadcasting Bill planned for later in this Parliament.

BBC Proposals

6. The BBC plan by mid-1990 to have allocated finance for the commissioning of 500 hours from the independent sector to be added to the 100 hours already provided by independent producers. The 500 hours would be network programmes, representing 8 per cent of the total BBC network programme production budget excluding news and news-based programmes which the BBC believe should continue to be made in-house. This would be supplemented by increased co-productions with the independent sector together with the possible use of programmes made by independent producers as a result of commissions by commercial sponsors (on which the Home Secretary will be consulting colleagues separately in due course). From 1990-92, depending on a review of the independent sector's performance up to that time, the BBC would move to the second phase of increasing independent production in which they would "recognise the Government's desire" to reach the 25 per cent target.

7. As both the Chancellor of the Exchequer and Mr Channon as Trade and Industry Secretary have pointed out in correspondence, these proposals are manifestly inferior in a number of respects to those of the IBA. First, much of the 100 hours already provided by independent producers would not count as independent productions under the Peacock definition since they generally represent the work of free-lancers who make use of BBC crews, studios and other facilities. Second, the BBC target of 500 network hours by mid-1990 is expressed in terms of the allocation of finance; because of the lead times

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involved, this will not translate into programmes actually transmitted until the end of 1992. Third, the BBC have excluded from their calculations news programmes and news-related programmes including "Breakfast Time". Fourth, the BBC's commitment beyond 1990 simply to "recognise" the Government's target is exceedingly vague. Finally, a point applying also to the IBA proposals, the review in 1990 will be in-house and must therefore be of doubtful impartiality.

Next Steps

8. The Home Secretary says that the two sets of proposals represent a major shift in practice and thinking and that the initiative will develop its own momentum. He believes that the Government should now welcome the broadcasters' proposals and ask them to work out the details. The threat of legislation can be kept in the background should they fail to deliver. The Home Secretary believes that this approach would enable an early start to be made whereas a decision to legislate could well result in the withdrawal of co-operation and therefore delay. The Lord President agrees with the Home Secretary that the voluntary approach is the best way of proceeding.

9. The Chancellor of the Exchequer and the Trade and Industry Secretary, on the other hand, will argue that the BBC should be told that, unless they substantially improve their proposals, the Government will have no choice but to introduce legislation to compel them to meet their target. They believe that if the Government were to approve their current proposals, the BBC would not take future threats of legislation seriously. The IBA could be told that the possible need for legislation reflected not on them but on the BBC's failure to co-operate.

10. The choice facing the Group is, therefore, not quite so stark as the Home Secretary portrayed it in his minute of 19 May. If the Group considered the BBC's proposals to be unsatisfactory, it would not be necessary straightaway to take a decision on whether or not to

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introduce legislation; the Group could instead invite the Home Secretary to make clear to the BBC that unless they substantially improve their proposals, it would probably be necessary to introduce legislation to place a duty on them to comply with the Government's target. A final decision on whether to introduce legislation could then be taken in the light of the BBC's further proposals and could take account also of the risk that the introduction of legislation could cause a withdrawal of co-operation and the consequent postponement in the use of the independent sector. The Home Secretary may resist this on the ground that it is unlikely to secure any real improvements in the BBC's proposals. However, it seems likely that the Group will conclude that the BBC's proposals are so far short of the Government's target that, unless they are substantially improved, the Broadcasting Bill which the Home Secretary hopes to bring forward in the 1988-89 Session should include provisions placing a duty on broadcasters to meet that target. If, in the meantime, the BBC withdrew co-operation the proposals are so inadequate that little would be lost.

HANDLING

11. You will wish the HOME SECRETARY to introduce this item. You may then wish to invite the LORD PRESIDENT, the CHANCELLOR OF THE EXCHEQUER and the TRADE AND INDUSTRY SECRETARY to comment.

MINISTERIAL GROUP ON BROADCASTING SERVICES: 20 JULY 1987

ITEM 4: THE SALE OF UNUSED TELEVISION NIGHT HOURS
(PEACOCK RECOMMENDATION 9): MISC 128(87)3

OBJECTIVES AND CONCLUSIONS OF THE MEETING

This paper deals with the only Peacock recommendation which the Group have yet to address. The Home Secretary invites the Group to note his provisional conclusions which are

- i. Peacock's concept of unregulated night hours' franchises should be rejected.
- ii. Any improvements to the ITV contract system should apply also to contracts for night hours.
- iii. The Home Secretary should explore with the IBA the case for developing separate and competitive contracts for night hours on the ITV frequencies.
- iv. Channel 4 should be left free to develop its night hours, at least if the Home Secretary's proposal for the contingent separation of Channel 4 is accepted (this will have been discussed under Item 2).
- v. No decision should be taken at this time on the BBC's night hours pending further consideration of subscription.

2. These proposals are contingent in large part on the conclusions reached on the ITV system and on Channel 4 (which will have been discussed in Item 2) and on the decisions taken in due course on subscription (on which the consultation period on the CSPI report ends on 30 September). No decisions need to be taken at this meeting,

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though the Group may wish to give the Home Secretary a steer on at least some of his proposals. An appropriate conclusion might be that all these matters be considered further by the Official Group (MISC 129) in the context of the working up of the proposals on the ITV system and of the further consideration of subscription. The Home Secretary could bring his proposals back for decision once this work has been undertaken.

BACKGROUND AND MAIN ISSUES

3. Peacock recommendation 9 was that the hours between 1.00 am and 6.00 am should be removed from the IBA and BBC and sold through the aegis of the Department of Trade and Industry to the highest bidder, the proceeds to be retained by the Treasury. The IBA companies and the BBC would not be permitted to bid for this slot for three years to prevent them from inhibiting potential new entrants. The assumption was that the air time would be used as a subscription service down-loading programmes for video recording.

4. The Home Secretary rejects Peacock's recommendation that night hours broadcasting should be left unregulated save for the criminal law, and this is clearly right. However, while there is no reason why controls on sex and violence should be made any less effective than those which will operate on broadcasting generally, there may be scope for a lighter touch (similar to that exercised by the Cable Authority) on matters such as scheduling.

5. The Home Secretary also rejects Peacock's recommendation that there should be a simple auction to the highest bidder. He proposes instead the same arrangements as he puts forward for the ITV system: a modified form of competitive tender subject to a quality threshold. Provided the Group agree the proposed tender arrangements for the ITV system (which will have been discussed under Item 2) there should be no difficulty in agreeing that the same arrangements should apply for night hours. However, the Trade and Industry Secretary may wish to

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make the point that the quality threshold should not be set so high that few, if any, bidders come forward.

6. The Home Secretary suggests, consistent with Peacock, that there is a good case, for ensuring that after the 1989 or 1992 contract round ITV night hours are used other than by existing ITV contractors. This will probably be welcomed by the Group: night hours stations will not require much capital to set up and the exclusion of day-time contractors will encourage new entrants. The Chancellor of the Exchequer and the Trade and Industry Secretary may press for these arrangements to be established in time for the 1989 contract round: this would help to prepare the ground for the major contract round in 1992 when it is hoped that several new companies will seek entry into the market.

7. The Home Secretary suggests that it would be consistent with his proposals to provide for the separation of Channel 4 for it to be allocated 24 hour use of its channel. However, the Group may think it premature to take a view on this until further work has been undertaken on the future of the ITV system and on subscription.

8. The Home Secretary suggests that, given the decision to index the licence fee and to require 25% independent productions, the BBC is well on course to become more commercial and more cost conscious and that there may be a case, therefore, for its retaining its night hours. Other members of the Group may not share his optimism about the BBC but the Home Secretary's conclusion that no decisions be taken until further work has been undertaken on subscription seems clearly right.

HANDLING

9. You will wish to invite the HOME SECRETARY to introduce this item. You may then wish to invite the CHANCELLOR OF THE EXCHEQUER and the TRADE AND INDUSTRY SECRETARY to comment.

MINISTERIAL GROUP ON BROADCASTING SERVICES:

20 JULY 1987

ITEM 2: THE INDEPENDENT TELEVISION SYSTEM MISC128(87)2

DECISIONS TO BE REACHED

The purpose of this item is to consider the Government's stance on the future development of the independent television system, including Channel 4.

2. You will wish the Group to reach clear views on the matters on which the Home Secretary seeks decisions. These are that the Official Group should develop proposals for:

(i) the allocation of ITV contracts by competitive tendering with contracts incorporating annual payments based on advertising revenue (paras 5-10 of Memorandum);

after passing IBA quality tests

(ii) legislation providing for the separation - to be triggered by secondary legislation - of Channel 4 from the IBA with a requirement to finance itself through its own advertising but to preserve its present distinct programme service (paras 14-16 of Memorandum).

Once the Official Committee have reported back and the Ministerial Group have reached conclusions on these matters, the results would be included in the White Paper proposed under item 1.

3. The Home Secretary invites the Group also to take note:

(iii) that he proposes to invite the IBA to devise an improved system for the supply of programmes to the ITV network (paras 12-13 of Memorandum);

(iv) that he and the Trade and Industry Secretary will keep under review the position on advertisers' complaints about ITV

sales practices in the light of the inquiry (which has now been established) by the Office of Fair Trading (para 11 and Annex to Memorandum).

MAIN ISSUES

(i) Allocation of ITV Contracts and Levy Arrangements

4. Under the present arrangements for the award of contracts to ITV companies, the IBA selects the prospective contractor which seems likely to provide the best mix of programmes. The likely return to the Exchequer through levy and tax is not relevant (though the financial plans are taken into account in assessing whether the programming promises will be fulfilled). The contract period is eight years.

5. These arrangements are open to accusations of arbitrariness in that it is difficult to assess objectively which company will produce the best programming. The present arrangements also provide an in-built advantage to existing contractors because the IBA is inclined to have more confidence in companies with an existing track record. A majority of the Peacock Committee therefore proposed a system of auctioning the franchise contracts.

6. The IBA answer to all this is to propose the extension of the contract period from 8 to 12 years with full-scale review of a company's performance in the fifth and ninth years and the option to renew contracts without readvertisement if this seemed desirable in the light of the second of these reviews. Such an arrangement would, of course, further entrench existing contractors. It totally fails to meet the objections to the existing arrangements.

7. Like Peacock the Home Secretary proposes instead the introduction of a system of competitive tendering. Under his proposals (which are developed from Peacock's outline) the IBA would set a quality threshold and would then select the company satisfying that

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requirement which put in the highest bid in the form of a lump sum payment, part of which might be phased over the contract period.

8. The Home Secretary proposes that contractors should also pay an annual rental based on revenue. This would replace the existing levy based on profits. The profits levy is currently 45% for UK profits (above a certain threshold) and 22.5% for overseas profits. Together with corporation tax, this makes for a marginal rate of deduction of 64.3%. The majority of the Official Committee considered that this provided insufficient incentive to the elimination of restrictive practices and inflated labour costs. Apart from obvious objections on grounds of efficiency, inflated costs in the independent sector drag up the costs of the BBC which, because its income will be pegged to the RPI, may respond by reducing standards.

9. The replacement of the profits levy by a revenue levy would increase incentives for profit-making and, hence, for rooting out restrictive practices: it could increase Exchequer revenues substantially and would certainly provide the Exchequer with a more certain return. And it would help to curb the growing disparity between ITV and BBC income.

10. There is a risk that this package could lead to a reduction in standards with companies which had based their tenders on over-optimistic forecasts being forced to go down-market in an attempt to maximize their returns. As in the case of TV-AM, the IBA is unlikely to veto even a very radical modification of the original undertakings on programming if to do so would put the company out of business. There is some risk also that ITV companies would react adversely to the proposals by refusing in the period before the introduction of competitive tendering in 1993 to co-operate in securing greater use of independent producers. However, both these risks are inherent in any scheme which threatens the relatively entrenched position existing contractors presently enjoy. If the ITV companies proved to be intransigent about independent producers they could be brought into line by legislation (see item 3).

11. I understand that the Chancellor of the Exchequer and the Trade and Industry Secretary are likely to support the Home Secretary's proposals. The Trade and Industry Secretary may also suggest that the Official Group's remit be extended to take in consideration of the contracting out of the transmission of ITV programmes (para 18 of the Report by the Official Group), on which the Chairman of the Official Group suggested that further work could be undertaken if Ministers so wished.

Channel 4

12. The Home Secretary proposes that power be taken for secondary legislation to require that Channel 4 be converted from a subsidiary of the IBA to a separate non-profit making broadcasting authority. He fears that, unless this is done, the IBA's role in the television market could become overdominant should its three DBS channels become established in the early 1990s.

13. He also proposes that if Channel 4 is thus separated then it should be required to finance itself by selling its own advertising. (He rejects the Peacock recommendation of simply giving Channel 4 the option on this point.) The advertising industry would welcome this as providing greater choice even though, as they are aware, it might well lead to increases in the cost of advertising on Channel 4.

14. There is a risk that requiring Channel 4 to finance itself through advertising could squeeze its revenue, forcing it to abandon its remit to provide a distinctive and innovative service. It is difficult to predict how likely this would be: much would depend on the state of the advertising industry at the time, Channel 4's performance, and the vigilance of the IBA in seeking to maintain standards. The Channel 4 Board (including the new chairman) are themselves opposed to any change in the status quo and this is the background to the Home Secretary's proposal that the Bill should provide a power to float off Channel 4, exercisable by secondary legislation. A decision on whether or not to implement it can take

account of the attitude of the Channel 4 Board at the time, the state of the market etc.

15. The Chancellor of the Exchequer and the Trade and Industry Secretary are both likely to welcome the Home Secretary's proposals. The latter may suggest that consideration would need to be given to the creation of a joint advertising authority to ensure that advertisers need concern themselves with only one regulatory body for television advertisements. If this idea commends itself to the group it could be remitted to the Official Group for consideration.

Networking

16. Production of programmes for screening throughout the ITV network is at present concentrated in the five largest companies. The Home Secretary proposes to invite the IBA to devise a better system with stated objectives, including that programmes for networking should first pass some competitive process of selection, that non-network ITV companies should be given access on equal terms and that independent producers should be given access in accordance with the already announced initiative. Members of the Group may wish to probe whether it is satisfactory to leave this to the IBA themselves or whether some form of independent inquiry would be more effective.

Advertising Practices

17. There is a long history of complaints by the advertising industry about unfair practices by the ITV companies. The Office of Fair Trading are now making inquiries into the market for advertising in the United Kingdom. The Home Secretary invited the Group to note that he and the Trade and Industry Secretary will keep the matter under review. Some members of the Group may wish to probe whether it is possible to respond more vigorously to the advertisers' complaints; but it might be difficult for the Government to take any initiative of its own, since this would risk appearing to undermine the position of the Office of Fair Trading.

HANDLING

18. You will wish to invite the HOME SECRETARY to introduce his paper. The discussion might then be divided as follows.

(i) Allocation of ITV Contracts and Levy Arrangements

Do the Group agree that the Official Group should be remitted to work up proposals for the allocation of ITV contracts by competitive tendering with annual payments based on advertising revenue? The CHANCELLOR OF THE EXCHEQUER and THE TRADE AND INDUSTRY SECRETARY will have comments.

(ii) Channel 4

Do the Group agree that the Official Group should work up proposals for legislation providing for the separation of Channel 4 from the IBA and self-financing through advertising? The TRADE AND INDUSTRY SECRETARY may wish to report the views of the advertising industry. The CHANCELLOR OF THE EXCHEQUER may have views. The LORD PRESIDENT may wish to comment given his responsibility for the legislation which established Channel 4.

(iii) Other Issues

(a) Networking

The TRADE AND INDUSTRY SECRETARY may wish to probe whether it is satisfactory to leave it to the IBA to come forward with proposals for improving the networking arrangements.

(b) Advertising

The TRADE AND INDUSTRY SECRETARY may wish to comment on the inquiry by the Office of Fair Trading. Other members may wish to probe whether the Government could respond more vigorously to the advertisers' complaints.

MINISTERIAL GROUP ON BROADCASTING SERVICES

20 JULY 1987

ITEM 1: PROPOSALS FOR BROADCASTING LEGISLATION: (MISC 128(87)4)

OBJECTIVES AND CONCLUSIONS OF THE MEETING

1. This paper is a broad overview of the main themes in the Government's broadcasting policy, and it runs over the main issues which the Home Secretary proposes to cover in the Broadcasting Bill which he hopes to bring forward in the 1988/89 Session. It will provide the opportunity for a "Second Reading Debate" on his proposed package, and for members of the Group to indicate whether it covers the right ground. However, you will probably wish to avoid detailed discussion of particular points on which members of the Group will not have been fully briefed. In particular, you will wish to prevent discussion under this item on subjects which come up later in the agenda.

2. The proposed shape of the Bill seems to be on the right lines and the Chancellor of the Exchequer and the Trade and Industry Secretary will be briefed to endorse it. You will wish to check whether there are any items which have been excluded; or whether there are any points which members of the Group wish to register at this stage.

3. The only matter on which the Home Secretary seeks a decision is that he should work up proposals for a White Paper for publication not later than the end of November. That timing may be optimistic, but the general idea of a White Paper seems right. You may wish to explore the degree of detail that the Home Secretary has in mind.

MAIN ISSUES

4. The paper begins by stating the general principle of encouraging competitiveness and response to the consumer, and the special considerations that qualify the application of the principle in the field of broadcasting. It then reviews the progress to date in combatting these obstacles by increasing access to the spectrum and extending direct payment by the consumer. It then reviews, in turn, the areas of radio, independent television, programme standards, and the BBC, outlining the contents of the Bill in each area.

5. Subject to the decisions to be taken under items 2 and 3, the only major point of broadcasting policy that will be outstanding after this meeting is the future of subscription payment which was the foundation for much of Peacock's argument. This cannot be taken much further until the consultation period on the Consultants' report runs out at the end of September, and the Home Secretary has assessed the results. It would clearly be the next major issue on which MISC 128 focuses. You may wish to tell the Home Secretary that you trust he will be able to bring forward his proposals on subscription to a meeting of the Group in October.

6. Some of the areas touched on in the paper (especially in paragraphs 3 and 13) interact with the work on the future communications infrastructure which is being overseen separately by the Sub-Committee on Telecommunications Policy (E(TP)) and its supporting Official Group (MISC 131). As announced by Ministers in April, a consultancy study has been commissioned from the PA consulting group, and a consultation paper has been issued by DTI. The consultants' final report is due in December, with an interim report in July. The Trade and Industry Secretary can report on this work. You may wish to probe with him and the Home Secretary how far it may be necessary to bring these matters into the scope of a Broadcasting Bill.

HANDLING

7. You will want to invite the HOME SECRETARY to introduce his paper. You may then like to invite the CHANCELLOR OF THE EXCHEQUER and the TRADE AND INDUSTRY SECRETARY to add their comments. Other members of the Group may also wish to comment.



10 DOWNING STREET

Letter to Fittall is
not of course to go
until B G has
commented on it.

~~DRN~~

Then in fine.

23

~~DRN~~

PROFESSOR GRIFFITHS

Here is a draft letter attempting to summarise the letters you have received from Michael Darlow. I confess that I find his letter of 7 July difficult to follow: I do not see how the numbers fit together and the time scale for achieving 500 hours is different on the first and second pages of the letter. But that is a small point.

Nevertheless, I think it would be better if Darlow were also to write direct to the Home Office.

JKS

DAVID NORGROVE

20 July 1987

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PRIME MINISTER

17 July 1987

MISC 128 : Broadcasting

The Agenda covers four items.

1. Proposals for Broadcasting Legislation

The proposals contained in this paper are, not unsurprisingly, rather vague and ill-defined.

Recommendation

The coverage of the proposed White Paper is admirable. The only point that really needs to be made at this stage is that colleagues should have ample opportunity to discuss the specific ideas of the White Paper and not have it bounced on them.

2. The Independent Television System

ITV: Levy and Auction

The present financing of the ITV companies needs a major shake-up for the reasons put forward by Peacock. Now that the government has grasped the nettle of the BBC's finances by indexing the licence fee, the current and potential growth of advertising (estimated by Saatchi's earlier this week as 25% over the next four years) will create a very uneven playing field between the BBC and the ITV companies.

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The growth of revenue on this scale will only consolidate restrictive practices in ITV and transform the television industry into a pre-Wapping version of Fleet Street. The suggestion in the paper is for officials to develop the proposal of a mixed system of auction and levy.

Recommendation

This is a good suggestion but perhaps you might wish that does not reject the idea of the auction system (which has worked well in the North has for oil) quite so quickly.

Networking

This is a practice which certainly needs to be examined.

But not by the IBA - it is already too much under the influence of the large companies.

Recommendation

It would be far better if it were done by a committee of say three independent minded people, including at least one businessman.

Channel 4

C4 has been a great success, both in terms of audience (rising from 9% to 15% of the commercial viewing audience) and in terms of advertising revenue.

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We now have three options for C4:

- (a) keep it as it is - owned by the IBA;
- (b) allow IBA to retain current ownership but permit C4 to advertise directly and not indirectly via the ITV companies as at present;
- (c) privatise it.

The Home Secretary opts for the second. But privatisation would be a far bigger prize. The ITV companies would not like privatisation but the management of C4 would and believe it to be perfectly feasible. Last week the Managing Director of C4 came to see me and argued that it was perfectly feasible. Others (such as Michael Grade) have argued exactly the same. I am told that Sir Richard Attenborough (Chairman C4) also favours privatisation. (However as the Board is made up of representatives of the ITV companies it is hardly surprising they remain officially opposed).

The major argument against privatisation would be that C4 would no longer be able to carry out its remit in terms of its quality of broadcasting. It is interesting to note however that over the past five years its share of audience has increased as well as its advertising revenue, even though it has kept to its remit meticulously.

Recommendation

It is worth asking the Treasury to work up a paper examining the case for privatisation.

3
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3. Independent Producers

The present negotiations between the independent producers and the BBC and ITV companies are not going well. I enclose two letters dated the 7th and 15th July from the Head of Negotiations for the independent producers.

Contrary to the Home Office's memorandum of 26th May, the ITV companies are far worse than the BBC.

The case made by the independents is that

- (a) the BBC and ITV offer of 500 hours is just about one-fifth of what the government intended - this means an extremely difficult and in fact unlikely second stage;
- (b) their offer of cash is equally derisory;
- (c) they are not prepared to allow the independents the right to exploit intellectual property (e.g. if an independent developed a highly successful cartoon series - the continuing profits would go to BBC or ITV and not the independents).

Recommendation

Do not accept the Home Office recommendation that the attainment of a 25% target should be left to BBC, ITV companies or the independents. It is virtually certain never to happen.

The Government must step in and enshrine its commitment in law and make a statement now to that effect.

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4. ITN

The one issue not discussed in the paper is ITN. This was dealt with extensively at the dinner earlier in the year.

Recommendation

Why not ask the Home Office with DTI to work up a paper on alternative structures for the future of ITN.

Brian Griffiths

BRIAN GRIFFITHS

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PRIME MINISTER

MISC 128

The purpose of this meeting is to take stock of the progress on formulating a comprehensive broadcasting policy post-Peacock; to check that planning is on course for the consultation and further decisions that will be needed for a White Paper which the Home Secretary proposes to publish later this year and for a major Bill next Session; and to take, or confirm, two or three decisions on major points on which the Home Secretary needs his instructions now.

Item 1 is the overview paper that you agreed the Home Secretary should produce when you had a bilateral with him recently. It will be an opportunity for you to give the Home Secretary any steer that you think he needs at this stage.

Item 2 brings forward some major ITV issues. The Home Secretary, the Chancellor and the Trade and Industry Secretary should, however, be in agreement on all the important points.

Item 3 is a question whether there is a disagreement between the Home Secretary (and perhaps the Lord President) on the one hand and the Chancellor and Lord Young on the other about the forcefulness with which the Government should pursue its policy on independent producers, ~~with the BBC~~. This will need full discussion, since Mr. Hurd needs to be given clear negotiating instructions.

Item 4 is a last minute addition to the agenda by the Home Secretary. It discusses unused television night hours, where there are potential opportunities for experiment. No firm decisions are needed at this stage.

Dhs

DAVID NORGROVE

17 July 1987

SLHALM

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MIBOM.

PRIME MINISTER

MISC 128: *20* JULY

The purpose of this meeting is to take stock of the progress on formulating a comprehensive broadcasting policy post-Peacock; to check that planning is on course for the consultation and further decisions that will be needed for a White Paper which the Home Secretary proposes to publish later this year and for a major Bill next Session; and to take, or confirm, two or three decisions on major points on which the Home Secretary needs his instructions now.

Item 1 is the overview paper that you agreed the Home Secretary should produce when you had a bilateral with him recently. It will ^{be an} provide the opportunity for the Group to discuss the overall strategy and for you to give the Home Secretary any steer that you think he needs at this stage. ~~Broadly, the whole package appears to be developing in a way that the Group ought to endorse without too much trouble.~~

Item 2 brings forward some major ITV issues. The Home Secretary, the Chancellor and the Trade and Industry Secretary should, however, be in agreement on all the important points, ~~and this item should be straightforward.~~

Item 3 exposes what, on present form, is a disagreement between the Home Secretary ^(and perhaps the Lord President) and his senior colleagues about the forcefulness with which the Government should pursue its policy on independent producers with the BBC. This will ^{need} require full discussion, since the ^{to Hurd} Home Secretary needs to be given clear negotiating instructions.

*And Lord
Cunning
is the
other*

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It discusses unused television night hours, there are potential opportunities for experiment.

Item 4 is a last minute addition to the agenda by the Home Secretary. ~~The most that can be done is to take note of the way in which he intends to approach the Peacock recommendation on unused television night hours. No firm decisions are needed at this stage, and it would not matter greatly if the item was not discussed in detail.~~

~~Briefs on items 2 and 3 are attached. Those on items 1 and 4 will come forward shortly.~~

AJL

A J LANGDON
16 July 1987

DRN

INDEPENDENT ACCESS STEERING COMMITTEE

74 NEWMAN STREET
LONDON W1P 3LA
TELEPHONE 01 323 3220
TELEX 266075 PRODCO-G

Professor Brian Griffiths
Head of Policy Unit
10 Downing Unit
London SW1

15 July 1987

Dear Professor Griffiths,

INDEPENDENT TELEVISION PRODUCERS

Further to my letter of 7th July I am writing to give you an update on the progress of negotiations during the last few days between the independent producers and the BBC and ITV. I have to report that things have not gone well, especially in the case of ITV. While there are still a few more days to go before any breakdown could become formal I am anxious that once Parliament rises it may be difficult to institute action to counter what looks increasingly like a policy of deliberate prevarication, coupled with the aim of inhibiting the economic growth of the independent sector, on the part of the ITV companies in particular.

I will not take up your time with a detailed recital of the extremely measured progress, or non-progress, of the talks between ourselves and the BBC and ITV companies in the last four to five months, abetted by the failure of the IBA to hold the ITV companies to the timetable set by the Authority for their conclusion (I would be happy to supply details should you require them). Suffice it to say that I shall today be advising the Committee of the three independent producer associations that they must consider publicly dissociating their organisations from any statements in the next few weeks from the IBA or the BBC, suggesting that the basis for a voluntary agreement between the broadcasters and the independents has been arrived at. I will have to advise them that as things stand the initiative aimed at including increased amounts of independent production in the schedules of the BBC and ITV may have the long term effect not of strengthening the independent sector but of undermining it.

The reasons for this advice are that the BBC and ITV companies are



ASSOCIATION OF INDEPENDENT PRODUCERS LTD.



THE BRITISH FILM
& TELEVISION PRODUCERS
ASSOCIATION LIMITED



unwilling to offer guidelines as to the principles that should underlie the business terms applied to individual contracts between independent producers and broadcasters which hold out any prospect of the independent sector being able to develop as a genuine "third competitive force" in the supply of television programmes. They are unwilling to agree even to the minimum guarantees of profit for the independent producer promulgated by Channel 4. Although the independent is called upon under the initiative to supply substitute programming to meet the needs of the broadcaster's schedules in this country the broadcasters are insisting that in return for entering into a contract to supply a programme the independent shall give up all rights to distribute or exploit the completed programme elsewhere in the world. In addition the independent must relinquish all ancillary rights related to the programme, the material or idea upon which it is based, or that is included within it. The broadcasters are thus using their public asset - the right to transmit (and in the case of ITV make a profit from selling advertising) to take over the most valuable asset of the independent - the right to exploit and build a proper asset and capital base from his intellectual and creative property. In this way the independent sector's potential for expansion will be limited solely to servicing the broadcasters. The ITV companies in particular must be anxious to restrict the growth of the independent sector in the time leading up to the point at which there is a real multiplicity of means of transmission; they cannot welcome the creation of a vigorous and financially independent sector able to compete with them on anything like equal terms to supply programmes in a future when their right of access to the transmitters is a much less valuable asset than it is today.

Even if one doubts that such considerations underlie ITV'S strategy in the current negotiations one only has to look at the deals that many ITV companies are entering into with individual independent producers at the present time while there are no guidelines to help independents in the difficult task of negotiating contracts with powerful ITV companies. Many of these deals reduce the role of the independent to that of a packager or freelance. Although these deals are represented by the ITV companies as Independent productions they bear no resemblance to the kind of thing that the Peacock Report envisaged and are no basis for the growth of a healthy and competitive independent sector. Indeed the extension of such practices would be likely to undermine even the degree of independence that the sector has achieved through its often less than adequate dealings with Channel 4.

On top of this the ITV companies are insisting on the right to hold between 20% and 25% of the shares of an independent producer whose productions would count towards the achievement of the targets set for independent production in ITV's schedules.

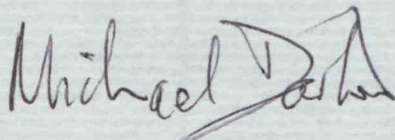
While our negotiations with the BBC have not yet reached quite the degree of disagreement reached with ITV a similar chasm has opened between us over the question of principles to underlie deals that would afford the independent sector any prospect of a healthy or

competitive future. Further, as indicated in the paper on BBC and ITV Outputs which I sent you on 7th July, the money the BBC has earmarked for independent production is so inadequate as to mean that the independent sector is going to be forced to introduce so much co-production money into deals that the ability of the independent to benefit from exploitation of programmes outside Britain must be seriously curtailed. Similarly the hours on offer, 500 each from the BBC and ITV, are so limited as to be of only marginal consequence to the operations of the broadcasters.

At present the IBA plan to put a "policy statement" before a full Authority meeting on 23rd July. If agreed then it will be forwarded to the Home Office as an outline of the way in which they are, or intend, to proceed to implement Government policy on Independent Access. We have to date not seen any draft of this paper and seem unlikely to see one, if at all, before 20th or 21st July. To judge from our last meeting at the IBA on 8th July, which ended close to deadlock, it seems improbable that the IBA's "policy statement" will meet enough of the independent sector's reasonable expectations for us to be able to acquiesce in its content. Possible courses of action open to the independent sector in that event will form the major part of the agenda on which I shall be seeking the advice and instructions of the constituent associations of this Committee later today.

I am sorry to have to report to you in such gloomy terms, but I thought that you would rather be advised in advance about the way in which things appear to be moving. If there is any further information or detail I can give you please do not hesitate to ask.

Yours sincerely,



MICHAEL DARLOW
Head of Negotiations



QUEEN ANNE'S GATE LONDON SW1H 9AT

14 July 1987

Dear Nigel,

TV LICENCES: PAY-AS-YOU-GO

Thank you for your letter of 19 May.

You expressed some doubt in your letter about the likely demand for a pay-as-you-go scheme, although you did not seek to dispute my estimate of up to £170 million as the amount of borrowing that the BBC might have to undertake to cover the temporary cash-flow effects of my proposals. That estimate assumed a maximum take-up of 50% over 3 years, and was largely based on the advice of the consultants who last year carried out the market research in preparation for the successful TV licence direct mailing campaign that has just been completed.

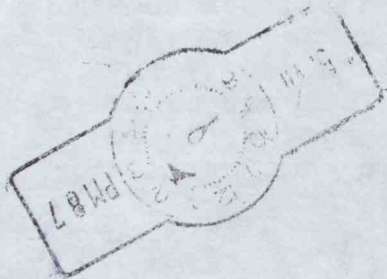
In the light of your reservations, I have asked for supplementary market research to be carried out. This will compare the likely demand for the pay-as-you-go scheme described in my letter against alternative instalment schemes which minimise the need for BBC borrowing. I shall write to you again after I have had an opportunity to consider the results of this research.

I am copying this letter to the Prime Minister, the other members of MISC 128 and Sir Robert Armstrong.

over,
Douglas

The Rt Hon Nigel Lawson, MP

BROADCASTING: TV licence fees
P14



INDEPENDENT ACCESS STEERING COMMITTEE

74 NEWMAN STREET
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Professor Brian Griffiths
Head of Policy Unit
10 Downing Street
London
SW1A 2AA

7 July 1987

Dear Professor Griffiths,

INDEPENDENT TELEVISION PRODUCERS

When we were in touch earlier in the year over Government policy re the access of independent producers to the BBC and ITV, I promised to keep you informed as to how our negotiations with the broadcasters progressed and send you any factual papers that might be helpful. The purpose of this letter therefore is to bring you up to date and let you have a copy of a paper which we have commissioned from a leading expert on TV costs and outputs on the question of implementation of the Governments policy for a 25% independent quota.

Since we met the three leading independent producers associations have set up a joint steering committee to co-ordinate their negotiations with the BBC and ITV on access and invited me to lead their negotiating team. Discussions with the BBC and ITV have been in progress since March and all parties have said they would like to see enough progress by the end of July for there to be an announcement covering the principles of how independent access will be implemented. Progress has been made on a number of important issues, but an equal number of matters which will be crucial if the independents are ever to become a third genuinely competitive force remain a long way from resolution. A series of vital negotiations are scheduled during the next ten days and I will let you know their outcome. At the moment failure to agree on a range of fundamental matters is decidedly on the cards, in which case the talks between ourselves and the broadcasters would almost certainly break down.

Now to the enclosed paper which we commissioned shortly after the BBC and ITV had made their "offers" of first tranches of 500 hours per year of independent production - to be achieved by the BBC by the production year 1991-2 and ITV by the end of 1989. The IBA seem to have been talking to the Government about an intention to achieve the full 25% quota over 4 years and the BBC over 6 years. The BBC "offer" consisted of 400 hours of Network programmes and



THE BRITISH FILM
& TELEVISION PRODUCERS
ASSOCIATION LIMITED



100 of Regional Programmes for which a total £20m is to be set aside. ITV's "indicative figures" had no specific sum of money earmarked and according to the IBA would consist of 175-225 hours per year Network and 200-400 hours per year Regional. In both cases the "offers" were to be increments towards the Government's 25% target and Independents were to be commissioned to make programmes across the entire spectrum of programme categories. Reviews of "cost and quality" are to take place at the end of the first phase before any move to the full 25%.

We commissioned the research paper to give us an objective assessment of the viability of these "offers" as a means of progressing to the full implementation of the Government's objectives.

Two of the best known firms of City accountants with intimate working knowledge of ITV and BBC were asked to check the paper's findings. Both called the paper "stark".

It reveals serious deficiencies in both "offers". By 1989 25% of the new output of ITV would be 2,430 hours, made up of 1,024 hours of Network programming plus 1,406 hours of Regional or Local Interest programming. Against this ITV has "offered" just 500 hours to be achieved over the first two years - that is only just over one fifth of the target set by the Government.

The BBC's offer of 500 hours to be achieved over three years goes even less far towards achieving the Government's target. Twenty-five percent of the BBC's new output will amount to 2,569 hours, 1,512 hours Network and 1,057 hours Regional. The paper shows that the money the BBC has earmarked for Independent production is more derisory still - £20m against the £113m that the BBC would itself spend on the programmes the Government plans will be made for them by Independents.

The paper, which uses methods agreed with BBC Television's own accountants, reveals for the first time so far as I know the true total cost per hour of the BBC's own new productions. The result demonstrates that whereas the total cost of the BBC's own Network productions averages £63,300 per hour they are offering the independents only £44-46,000 per hour. The BBC appears to be expecting the independents to find anything from 38% to 43% more money to help make programmes for them. Alternately the BBC expects the independents to use the BBC's facilities - studios, cameras and technicians - despite the fact that the BBC has made a point of saying that independent producers will be free to choose what facilities they use.

In both cases therefore- ITV and BBC - it looks as if the "offer" - the proposals ostensibly aimed at making the Government's policy work in practice will not do so.

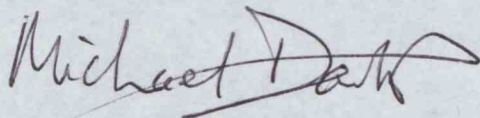
I am afraid that there appear to be only two interpretations that can be placed on the BBC and ITV proposals - either they are not

really trying to grapple with implementation of Government policy or they have skilfully devised a ploy which is aimed at frustrating the Government policy because it is calculated to fail - and when it does fail will give the appearance that the failure is due to the independents. In both cases the hours are too few to act effectively as a first step towards the smooth implementation of a 25% quota, leaving such a large number of hours to be achieved in any second period that reaching the 25% target within the time allowed is, if not impossible, bound to cause serious disruption. The money on offer is such as to result in the independent sector never being able to grow sufficiently to become a genuine, competitive force. Other factors in the negotiations lead us to be rather gloomy about just what the BBC and ITV are up to.

The paper is also interesting - in that Jonathan Davis reveals the extent to which television costs tend to outstrip RPI and offers a plausible explanation for this. He also casts serious doubts on the findings of the NERA Report for ITV, suggesting that the data on ITV costs provided to NERA was seriously at variance with other data provided over the years to Government and in the IBA Annual Reports.

We are planning to release the paper to selected journalists during the next week in the hope that this may prod the BBC and ITV into rather greater action.

Yours sincerely,

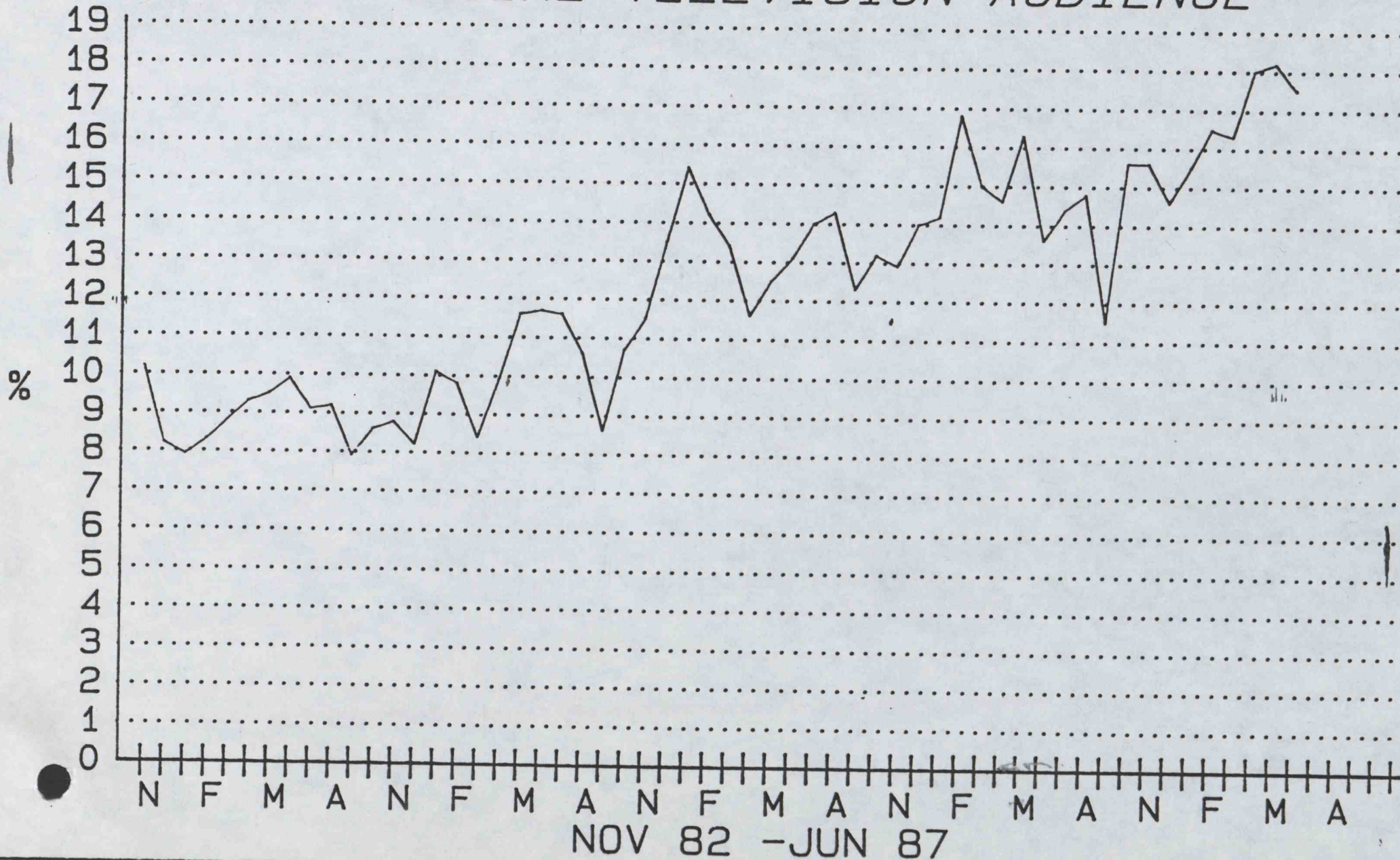
A handwritten signature in dark ink, appearing to read "Michael Darlow". The signature is fluid and cursive, with a long horizontal stroke at the end.

MICHAEL DARLOW
Head of Negotiations

FIVE YEAR SUMMARY

Year ended 31st March	1983 £m	1984 £m	1985 £m	1986 £m	1987 £m
Income and Expenditure					
A) Income from the IBA	84.0	105.2	111.0	129.1	135.9
Cost of programme transmission	(37.5)	(89.3)	(95.4)	(101.3)	(114.2)
Operational & administrative expenses	(8.4)	(12.1)	(11.8)	(13.3)	(16.0)
Other income less expenditure after taxation	(0.1)	(0.2)	0.2	0.1	0.8
Net transfer to deferred income	38.0	3.6	4.0	14.6	6.5
Balance Sheet					
Fixed assets	8.2	9.7	9.7	9.4	9.1
Current assets	48.2	53.1	60.4	72.1	80.9
Current liabilities	(5.8)	(8.6)	(11.9)	(8.7)	(10.7)
Net assets	50.6	54.2	58.2	72.8	79.3
Capital: £100	—	—	—	—	—
Deferred income:					
At start of the year	12.6	50.6	54.2	58.2	72.8
Transfer during the year	38.0	3.6	4.0	14.6	6.5
At end of the year	50.6	54.2	58.2	72.8	79.3
Advertising Revenue					
B) Total ITV & C4 NAR (excluding TV-am)	722.1	850.3	903.3	1,034.0	1,212.7
C) NAR attributable to Channel 4 <i>net Adv. rev.</i>			75.2	112.6	155.2
D) Percentage of total NAR attributable to Channel 4			8.3%	10.9%	12.8%
E) Channel 4 subscription as a percentage of total NAR in the current year	11.6%	12.3%	12.3%	12.5%	11.2%
Audience					
F) Channel 4 audience as a percentage of the total commercial television audience	7.6%	8.9%	12.2%	13.9%	14.8%

CHANNEL 4 SHARE OF COMMERCIAL TELEVISION AUDIENCE





10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

MINISTERIAL CONSIDERATION OF BROADCASTING POLICY

The Home Secretary recently told the Prime Minister about his intention to circulate to MISC 128 an overview setting out the main decisions necessary on broadcasting policy. He pointed out that it would then be necessary to have a series of meetings with colleagues about the details of legislation. He wondered whether the Prime Minister would want to take those meetings or would prefer them to be chaired by another Minister.

The Prime Minister did not respond to the Home Secretary's suggestion that another Minister might chair the meetings of MISC 128 which would consider the detailed proposals for legislation. I should be grateful if you could let her have some advice on whether you think it advisable for her to chair these meetings or whether another Minister should do so; if the latter, which Minister should take the chair?

N.L.W.

N.L. WICKS

6 July 1987

ECU



file LPO
ccBly

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 July 1987

Dear William,

**SUBSCRIPTION TELEVISION: REPORT FROM
CONSULTANTS**

The Prime Minister has seen the Home Secretary's minute of 29 June about the report by consultants on subscription television and, subject to the views of colleagues, is content for it to be published on Thursday, 9 July with a short introductory note by the Home Office but with no indication of the Government's own reaction.

I am copying this letter to the Private Secretaries to the members of MISC 128 and to Trevor Woolley (Cabinet Office).

*Yours,
David*

David Norgrove

William Fittall, Esq.,
Home Office.

COBG



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

2 July 1987

The Rt Hon Douglas Hurd MP
Secretary of State for Home Affairs
Home Office
50 Queen Anne's Gate
LONDON
SW1

NBM

Douglas

SUBSCRIPTION TELEVISION : CSP INTERNATIONAL STUDY

FILE WITH DAN

Thank you for copying to me your minute of 29 June to the Prime Minister.

I am content for the Study to be published on 9 July and I hope that it will be possible to arrange for a presentation by CSP International for Ministers concerned with the issues it raises shortly thereafter.

I am copying this letter to members of MISC 128 and to Sir Robert Armstrong.

L. Young

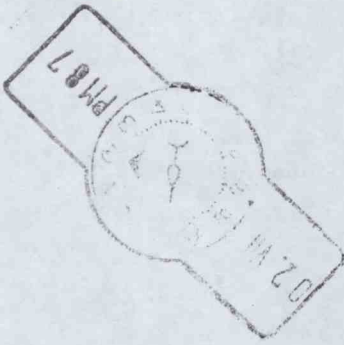
LORD YOUNG OF GRAFFHAM

DW1DCG

BROADCASTING

~~DBS~~ BPC

0764





ce/BG.
GG/BJ

1 Prime Minister

Prime Minister

Content? (You have not already agreed to publication.)

DRN
30/6.

SUBSCRIPTION TELEVISION: REPORT FROM CONSULTANTS

Yes no

You will recall that we agreed before the election that this report (which I circulated under cover of my minute of 12 May) should be prepared for publication after the election at a date of our choosing. The report is now with HMSO, who would be able to publish on Thursday, 9 July. As we agreed, the report would be published in full with a short introductory note by the Home Office inviting comments, but without any indication of our reaction.

at trap

I should be grateful to know if you and colleagues to whom this minute is copied see any difficulties in publication on this date.

I am copying this to members of MISC 128 and to Sir Robert Armstrong.

Doyler Hand.

29 June 1987

BROADCASTING: BBC Finance PT4



cc B.A.

nb pm



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

1 June 1987

The Rt Hon Douglas Hurd CBE QC MP
Secretary of State for the Home Dept
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9BW

Dear Home Secretary,

SUBSCRIPTION TELEVISION: REPORT FROM CONSULTANTS

at Har

Thank you for sending me a copy of your minute of 12 May to the Prime Minister. I have also seen her comments of 13 May.

I agree with you that the report should be published in full. Public discussion of the issue at this stage would be very valuable, and should clearly be as well informed as possible. I tend to share your preference for publishing the report without any statement of our own views, but inviting comments. It would be helpful if this were to happen as soon as possible.

I would also like to take this opportunity to agree to the suggestion you made in your minute of 22 April to the Prime Minister that CSP should make a presentation to MISC 128 about their main findings.

I am copying this letter to other members of MISC 128 and to Sir Robert Armstrong.

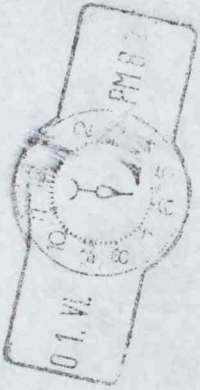
Yours sincerely,

Cathy Ryding

PP NIGEL LAWSON

(Approved by the Chancellor and signed in his absence.)

BROADCASTING : BBC finances Pt 4





Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

cc BG

27 May 1987

The Rt Hon Douglas Hurd CBE
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

PPS PH
Jap

nbpm

Douglas,

INDEPENDENT PRODUCERS

I am grateful to you for your note to colleagues on MISC 128 bringing us up to date with progress on this important issue after David Mellor's latest round of discussions with the BBC and IBA.

I welcome the positive attitude shown by the IBA in response to your Commons statement of last November that the Government had "the aim of seeing independent producers providing something like one-quarter of relevant programming within a period of about four years". Realistically given scheduling lead times, that period could not begin before 1988, so the IBA's intermediate target for end 1989 of between 200-400 hours of locally shown material and between 175-225 hours of network material (8 -10 per cent of original network output) seems a good prompt start. However, our political commitment is to the full 25 per cent in around 4 years and I trust that any public statement by the IBA will make it clear that this is their intent, and that the mid-point review is just that and not the limit of their commitment.

I do not underestimate the undoubted difficulties the IBA will experience in seeing that some, but by no means all, ITV companies make their reasonable contribution to achieving that target. The IBA's powers to impose targets in the 1990-1992 contract provisions are obviously of crucial importance. I, for one, would want a clear answer on this before there was any Government statement to the broadcasters, so that the ITV companies could be left in no doubt of the IBA's determination to achieve the Government's targets during the 1990-92 contract period.

JF5BYF



As to the BBC, where the legal position seems to be more difficult, I am much less happy. As I understand it, much of the 100 hours already provided by independent producers would not qualify as "independent production" under Peacock's definition since the producers invariably come in as freelancers and use existing BBC crew, studios and ancillary facilities. If so, the 500 network hours and the percentage of target achieved by mid-1990 could in reality be substantially lower than the approximate 8 per cent the BBC are claiming. I note too they speak of programmes commissioned rather than shown; since there can be a lead time of up to eighteen months between these two events this could mean that in reality they will only be achieving 8 per cent by the end of 1992. The BBC are also proposing to exclude from the base for calculation the substantial area of news and news-based programmes which they wish to continue making entirely in-house. I am particularly concerned about how widely "news based" programmes are defined since independents working for Channel 4 have shown themselves capable of doing a variety of current affairs programmes from which the BBC wish to exclude them totally.

Obviously some review of the cost and quality of independent production is reasonable as the BBC moves towards the full 25 per cent. But that review, whose impartiality of judgement must be unquestionable, should not delay progress towards the full target within the timescale we have laid down. The BBC's commitment to achieving 25 per cent in a three year second phase which I take to be 1992-1994 seems to me still both too insubstantial and not to meet our targets.

Consequently I am reluctant for us to say we are broadly content at the present time with the BBC's proposals, not just because of the unanswered questions I have outlined, but also because the BBC's negotiations with the independents on matters of principle are still continuing.

Equally at a time when our manifesto states unequivocally "at least 25 per cent of programmes broadcast on both ITV and BBC will be supplied by independent producers as soon as possible" we cannot afford to give the wrong signals to the broadcasters, the independent producers or the public or to be seen to be prepared to settle for a great deal less.

I am copying this letter to the other members of MISC 128 and Sir Robert Armstrong.

[Handwritten signature]
[Handwritten signature]

JF5BYF

PAUL CHANNON

BROADCASTING: BBC FINANCIAL PTU



1000 1000 1000



CSPG

Prime Minister (4)

John Fairclough does not dissent from the CSP conclusions. You have agreed that the report may be published after the election.

26 May 1987

MEF 27/5/87

W0356

PRIME MINISTER

SUBSCRIPTION TELEVISION: REPORT FROM CONSULTANTS

Mr Hurd has sent you a copy of the report by CSP International on the technical and economic feasibility of subscription television. I can only claim competence on the technical aspects, and those economic conclusions which follow immediately from them.

2. The technical analysis is quite comprehensive and there are no obvious flaws in it. The basic conclusion is that either subscription of pay-per-view is technically feasible for off-air programmes, but evasion can only be convincingly countered by encryption with individually-addressable decoders. This leads to quite high costs. It is arguable that CSP's analysis builds in too many options for the ways in which payment can be made, and hence increased costs, but it is not clear that this is decisive in the economics.

3. The underlying theme of the CSP study is that the costs of pay-per-view make it viable only for premium programming or if prices are pitched so high as to exclude a large proportion of viewers. I cannot comment on the economic analysis, but it is clear that the only circumstances in which pay-per-view could be implemented much more cheaply are those of a broad-band network so comprehensive that off-air broadcasting could be abandoned for most of the population. Such a network has addressability built-in, and would obviate the need for encryption, but at present it seems unlikely to be realised in the near future.

4. I am copying this minute to Sir Robert Armstrong.

JOHN W FAIRCLOUGH
Chief Scientific Adviser

BROADCASTING: BBC Finances: Pt 4



CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

26 May 1987

From the Private Secretary

Dear Mr Fittall,

INDEPENDENT PRODUCERS

We discussed the correspondence on independent producers which rests with the Chancellor's letter to the Home Secretary of 26 May.

This seems to be a matter which could now be left until after the Election. A decision can be taken then on how best to take it forward. A discussion in Cabinet Committee may well be the best course.

You will no doubt let me know if there is some reason for a more urgent decision.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Trevor Woolley (Cabinet Office).

Yours sincerely

J. Auld

(DAVID NORGROVE)

pp

William Fittall, Esq.,
Home Office

OA



LCBGE

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

26 May 1987

The Rt Hon Douglas Hurd CBE QC MP
Secretary of State for the Home Dept
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9BW

Dear Home Secretary,

Jap

INDEPENDENT PRODUCERS

Thank you for sending me a copy of your minute of 19 May to the Prime Minister. I have also seen Willie Whitelaw's comments of 20 May.

The proposals put forward by both the IBA and the BBC are couched in terms of proportions of programmes they themselves originate, excluding repeats and "acquired programmes" such as films or imports. MISC 128 did not actually specify what was meant by "programme", but in my letter to you of 26 March I suggested that the BBC and IBA should "fill 25 per cent of their airtime with independent productions", and our Manifesto refers to 25 per cent of "programmes broadcast", which must be taken to include repeats and acquired programmes as well as new material. I do not wish to press the point now, as I realise that this definition would mean a still higher proportion of independent productions by value, as repeats and imports are often very cheap; but this is something we should bear in mind when evaluating the broadcasters' proposals.

With this qualification, the IBA proposal seems to me satisfactory. The timescale is rather longer than the four years we envisaged but there is a good deal of sense in relating the phasing in of independent productions to the timing of the ITV contracts. I was particularly pleased to see that the IBA was prepared to write into the contracts themselves an obligation to take independent productions, if that proved necessary.

The BBC's proposal is manifestly inferior. They have presented it in misleading terms, by referring to the time when finance is allocated rather than when programmes are shown (I understand the



latter is often 18 months later), and by excluding from their calculations news programmes and "Breakfast Time". If this is taken into account, then by the end of 1992 the IBA hope to have met the 25 per cent target, but less than 8 per cent of the BBC's new programmes will be made by independent producers. Thereafter the BBC's commitment to simply "recognising" our target seems far too vague. I do not think we can endorse their proposal.

I suggest that the best course of action would be for you to tell the BBC that unless they substantially improve their proposal, you will have no choice but to introduce legislation to compel them to take 25 per cent of programmes from independent producers. We should not back down now. If we were to approve the BBC's current proposal, I doubt whether they would take future threats of legislation seriously. You might have to make it clear to the IBA that the introduction of legislation did not reflect upon them, but had been forced by lack of co-operation from the BBC.

Securing the necessary legislation should not prove too difficult. It is clear from Clement Freud's attempt to amend the Broadcasting Bill, which you will recall we opposed for tactical and technical reasons, that there is considerable sympathy on both sides of the House for bolstering independent production, and we should build on that feeling.

I am copying this letter to the Prime Minister, to other members of MISC 128 and to Sir Robert Armstrong.

Yours sincerely,

Cathy Ryding

NIGEL LAWSON

(Approved by the Chancellor
and signed in his absence)



BROADCASTING

Financing of BBC

194



file No
cc Chief
Wings
Off

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 May 1987

INDEPENDENT PRODUCERS

The Prime Minister has seen the Home Secretary's minute of 19 May. She has also noted views of the Lord President (Mike Eland's letter to David Norgrove of 20 May).

The Prime Minister agrees, subject to the views of other colleagues, that the broadcasters should be asked to proceed with their plans, with a view to an announcement in due course when the details have been agreed with the independent producers.

I am sending a copy of this letter to the Private Secretaries to the members of MISC 128 and to Trevor Woolley (Cabinet Office).

MARK ADDISON

Philip Mawer, Esq.,
Home Office.

AB

E.R.
PRIME MINISTER

INDEPENDENT PRODUCERS

The Home Secretary's minute seeks agreement that the IBA and the BBC should be told that the Government are content with the initial plans they have drawn up to increase the proportion of programmes provided by independent producers. The minute needs to be seen in the light of the Manifesto commitment:

"We will ensure that at least 25 per cent of programmes broadcast on both ITV and BBC will be supplied by independent producers as soon as possible."

The Lord President agrees with the Home Secretary that the voluntary approach, which seems to have met with a very good response so far, is the best way of proceeding.

Agree, subject to the views of colleagues, that the broadcasters should be asked to proceed with their plans, with a view to an announcement in due course when the details have been agreed with the independent producers?

Man Addison

Yes

MARK ADDISON

22 May 1987

EL3BYK

PRIME MINISTER

INDEPENDENT TV

Last evening I had dinner with Geoffrey Tucker, G E McWatters (chairman) and Patrick Dromgoole (managing director), HTV.

They raised with me an issue which is likely to arise after the election and which, taken with your briefing by ITN about their aspirations and your somewhat shambolic lunch with all 15 ITV companies a few years ago, underlines the unsatisfactory state of commercial TV in this satellite age.

Essentially, HTV claims that one single reform - the ending of the control exercised by the main five companies over production and scheduling - is urgent and essential in the national interest.

According to them Granada, Yorkshire, Central, Thames and LWT exercise a stranglehold over the 15 companies' operations. These top five companies are responsible under IBA custom and practice for providing 42 hours of TV per week for the ITV network. The other 10 companies have to pay their share for that output even if they don't use it. There is a number of consequences :

1 - the companies are facing increasing criticism from their advertisers and the companies whose goods are being advertised about the inadequacy of their programmes and schedules in relation to BBC's output; they said that Michael Grade, with control over both BBC TV 1 & 2, was beating ITV hands down. (You will recall that I reported recently that Alastair Burnet was depressed about ITN's reverse in having to move its lpm news to 12.30) The implication of HTV's position is that it would like ITV and Channel 4 to be scheduled by one person so that they compete directly with BBC. Mr Dromgoole was specific in opposing the flotation of Channel 4 as a separate entity.

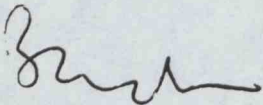
2 - the unions ruthlessly exploit the top five (whose drive to contain costs is much weakened by their ability to spread the overheads over 10 other largely helpless companies. Mr Dromgoole claimed that the costs per hour or per person employed of the top five could be approaching double those of the other 10 - figures of £40,000 and £70-75,000 per hour were quoted.

3 - some of the other 10 companies find it easier to sell their own productions abroad than get them scheduled at home.

4 - some of the other 10 companies are so flush with money (and in some cases, notably TVS and HTV, more flush than the top five) that they are investing it abroad because they cannot find TV outlets for it in Britain.

I asked Messrs McWatters and Dromgoole why IBA tolerated this unsatisfactory state of affairs. They said that Sir Donald Maitland was aware of it and was getting out and about and discussing the problem. But the IBA's tradition was not to lead but to regulate and they had the impression that the IBA was awaiting a lead from the Home Office. Thus the projected Government Green Paper on television broadcasting was crucial. You are aware that ITN regards the Green Paper in this light, too.

I understand that David Mellor is also well versed in the problem, but HTV clearly fear that he will find himself with a new job if you win the election.



B Ingham
May 21, 1987.



CCB

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

20 May 1987

Dear David,

NBN.

INDEPENDENT PRODUCERS

~~ATTACHED~~
The Lord President has seen the Home Secretary's minute to the Prime Minister of 19 May about independent producers.

He agrees with the Home Secretary that the voluntary approach, which seems to have met with a very good response so far, is the best way of proceeding.

I am sending a copy of this letter to the members of MISC 128 and to Sir Robert Armstrong.

yours sincerely,
Mike Eland.

M J ELAND
Private Secretary

David Norgrove Esq

BROADCASTING: BBC Finance PTU

POST OFFICE
WHITEHALL LONDON SW1A 1AA



1/2

PROFESSIONAL

pa

PRIME MINISTER

20 May 1987

Independent Producers

The minute from the Home Secretary outlines the responses from the IBA and BBC to his request that 25% of their programmes should be produced by independent producers. He puts forward two possible courses of action, and comes down strongly in favour of making an announcement that we are "broadly content" with the present state of affairs.

I have considerable reservation about his interpretation of what is happening, cannot see why we need to make any announcement at present, and would seriously question the favoured way forward.

The BBC and IBA Proposals

Both BBC and IBA have proposed moving to the 25% target in two stages: an initial move to 8% over a period of 2 to 3 years, followed by a subsequent review in 1989.

Although the BBC and the IBA openly welcome independents, their producers nevertheless constitute a great threat to their present method of operation. If independent producers are to have a major impact on our television industry (which is the reason for the 25% figure) then both BBC and the ITV companies need to take two crucial steps:

- a. release cash roughly equal to 25% of programme production cost which would enable them to finance independent producers: to achieve this they would need to reduce in-house production correspondingly;

- b. use that money not for co-production (where e.g. they may put up £50,000 for a programme costing £1 million) but to commission programmes (for example by putting out to tender a weekly series on sport and quoting a figure of £50-60,000 per programme as the available budget).

Unless these conditions are met, the real benefits of admitting independent producers will not be realised. If independents are required to use existing in-house facilities, then they will be subject to in-house unions and costs will therefore be higher. And if they are offered co-production facilities, they will find it difficult to expand existing activities, because of the high risk to private investors of putting money into for example a possible drama series.

Present Discussions

At present discussions are taking place between the independent producers (IPPA) and the two major networks - the BBC and the independent TV companies (ITCA).

The major opposition to change is coming from the companies themselves. As para 5 of this minute makes clear, the BBC would like to see all of the extra 500 hours which will be commissioned from independents being produced within the BBC. Some of the ITV companies (Yorkshire especially but also to a lesser extent Granada) see no need for change at all and are doing their best to drag their feet. Hence the IBA does not necessarily represent fully the views of the companies.

Whatever figures the BBC and IBA may quote in terms of programmes produced by independents, the grip of unions on the duopoly is such that they will find the managerial

problems of delivering their side of the bargain very difficult.

For example

- The Chart Show (an ITV version of Top of the Pops) was recently put out to tender and was awarded to Tyne Tees, with apparently fierce opposition to it being given to an independent producer.
- LWT recently put out to tender regional news: Thames opposed the plan - and the tender has now been withdrawn.

The Options Facing Us

Nowhere in the Home Secretary's minute is a case argued for making an announcement now.

In addition the two options put forward represent two extreme priorities, neither of which are desirable. It is quite wrong to infer as the Home Secretary does that because "these two sets of proposals represent a major shift in practice and in thinking the initiative is now likely to develop its own momentum" (para 6). The problem is likely to be a lack of momentum for the reasons outlined.

Far more likely is that the strategy of the BBC and ITV companies is to accept some independent production but then attempt

- (a) to stick to the proposal of 8% over 2-3 years but then add very little in the future;
- (b) put in as much co-production and as little commissioning of programmes as possible;

(c) insist on using in-house facilities wherever possible.

Recommendation

An early announcement on this subject should be questioned.

If an announcement is necessary before 11th June it should make the following points:

1. We are delighted that talks are taking place between the BBC, ITCA and IPPA with a view to implementing our decision on independent producers.
2. We have made a firm commitment in the Manifesto to ensure that this is implemented.
3. We prefer not to introduce legislation but recognise that it may be necessary - the Broadcasting Act 1981 is a precedent.
4. The process of monitoring the implementation of these proposals is important. It will need to ensure that the might of the duopoly is not used unfairly against independent producers. One possible institution for this purpose is the Office of Fair Trading.

If an announcement could be delayed until after 11th June, it would be best to have this whole matter discussed in MISC 128.

Brian Griffiths

BRIAN GRIFFITHS

Recommendation

The following recommendations are made in order to ensure that the financial statements of the Corporation are prepared in accordance with the provisions of the Broadcasting Act 1996 and the Financial Reporting Manual (FRM) issued by the Financial Reporting Council (FRC).

1. The Corporation should ensure that its financial statements are prepared in accordance with the provisions of the Financial Reporting Manual (FRM) issued by the Financial Reporting Council (FRC).

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cc BQ
Any pp's? (An MEA)

PRIME MINISTER

INDEPENDENT PRODUCERS

This minute brings you and colleagues up-to-date with progress on our initiative on independent productions, on which I had proposed to report at the meeting of MISC 128 scheduled for 30 April.

2. Following the decision of MISC 128 on 30 October I announced during the Commons debate on the Peacock Report on 20 November last year that the Government was looking for a broad target of 25% of programmes on BBC and ITV to be provided by independent producers. On 5 December, with David Mellor, I met the Chairmen and Directors-General of the BBC and IBA to discuss practical steps towards this target. We explained that we saw the target as applying to original programme material and that we wished it to be achieved within a period of about four years. The BBC and IBA were invited to develop plans for progress towards this objective in the light of discussions with the independent producers and others in the industry.

3. Since then, David Mellor has had separate meetings with the BBC and IBA at Chairman level to review progress. The broadcasters have further work to do to refine their schemes and to reach a common understanding with the independent producers and, in the case of the IBA, with the ITV companies. Accordingly, this is necessarily an interim report.

4. Briefly, the IBA has drawn up an intermediate target of an annual production from the independent sector of between 200-400 hours of locally shown material and between 175-225 hours of network material by the end of 1989. This latter figure translates into between 8% to 10% of the original network output, including TV AM and ITN. The IBA then proposes to assess the position at the end of 1989, when the current ITV contracts come to an end. Provided that the independent sector has proved to be capable of expanding at the rate required and of delivering the range of programmes that this would involve at competitive quality and cost, the IBA believes

that our 25% target will be achieved within the limited three year contract period between 1990-1992 prescribed under what is now the Broadcasting Act 1987. The IBA is optimistic that the ITV companies will agree to its scheme, but has made clear its intention to write provisions into the contracts covering the period between 1990-1992 should this prove necessary. It believes it has the power to do so, but further advice may be needed on this point.

5. The BBC's proposals also envisage two phases. In the first they plan by mid-1990 to have allocated finance for the commissioning of 500 hours from the independent sector to add to the 100 hours already provided by independent producers. 500 hours would be networked programmes, representing approximately 8% of the total BBC network programme production budget, excluding news and news-based programmes, which the BBC believe should continue to be made in-house. These commissioned programmes would be supplemented by plans for increased co-productions with the independent sector and - a proposal on which I shall be consulting colleagues separately - the possible use of programmes made by independent producers as a result of commissions by commercial sponsors. The BBC plan to close, by 1990, major London studios (at Lime Grove) and some associated facilities. The BBC will, over the next three years, move to the second phase of increased independent production of network and local programmes which recognises the Government's desire to see independent production reach 25% of originated programmes. This will depend on the outcome of a review of the independent sector's performance during the first phase.

6. These two sets of proposals represent a major shift in practice and in thinking, and the initiative is now likely to develop its own momentum. The independent producers themselves, whose broadcasting work will roughly double in the first phase, recognise this and the problems which the broadcasters will face in putting their plans into practice.

7. We now have a choice. We can let the broadcasters know that we are broadly content with the plans they have outlined as an initial response and ask them to continue to work up the detail of terms of trade and related matters in discussion with the independent production sector. On this basis I would make an announcement, when agreement has been reached on fully developed schemes, welcoming the response to our initiative and looking forward to further progress in subsequent phases.

8. Alternatively, we could take the view that the proposals are not satisfactory. To secure an improvement legislation would be necessary. The BBC's Charter and Licence and Agreement cannot in practice be amended during its lifetime without the consent of the BBC, so that legislation would be required to impose a duty on the Corporation in regard to independent productions. (Such legislation has precedents: the Broadcasting Act 1981 already imposes obligations on the BBC in terms of the Broadcasting Complaints Commission and on the supply of programmes for the Welsh Fourth Channel Authority). But legislation, as this would be, on a matter central to the operation of the BBC as a broadcasting authority would raise difficult issues if, as might be the case, the BBC resisted it on the grounds that it was in conflict with its view of the proper discharge of the Charter responsibilities. The same issue would arise in the case of legislation requiring the IBA to write into its contracts with the ITV companies provisions in relation to independent production which it regarded as inconsistent with its duties under the Broadcasting Act.

9. After careful consideration I believe the balance of advantage lies in the first of these two courses, which will enable an early start to be made on the contracting-out of programme production. By our arguments and pressure we have achieved what amounts to a breakthrough. We can keep the threat of legislation in the background; there is no need to renounce it. But it seems sensible to exploit strenuously the openings which we have created. In contrast a decision now to legislate, as well as proving controversial, could well result in the withdrawal of co-operation and therefore delay.

10. It will, of course, be essential for the implementation of these plans to be carefully monitored, and for information about the allocation of airtime and production budgets to be made available. Since the second phase of the plans is contingent on cost and quality it is also helpful that both the BBC and IBA have attached importance to the development of sensible arrangements for the comparison of costs with the independent sector.

I should be grateful to know that you and colleagues agree that the broadcasters should be asked to proceed with their plans, with a view to an announcement in due course, when the details have been sharpened up and agreed with the independent producers.

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I should be grateful to know that you and colleagues agree that the broadcasters should be asked to proceed with their plans, with a view to an announcement in due course, when the details have been sharpened up and agreed with the independent producers.

I am copying this minute to the other members of MISC 128 and to Sir Robert Armstrong.

Douglas Hurd.

19 May 1987





10 DOWNING STREET

DE

make.

✓ BG will be
commenting on this

She

19.5.87.

1. ~~DN~~ IS see d/s.

No need for urgent action. I
hold etc tho we would await
colleagues comments before replying.
And BG will also be telling us
how views.

2. CF F of on 27/5. Next



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

19 May 1987

The Rt. Hon. Douglas Hurd MP
Secretary of State for the Home Office

Stan Taylor

DN on return
CMO

TV LICENCES: PAY-AS-YOU-GO

Thank you for your letter of 1 May. I have also seen the Prime Minister's comments recorded in her Private Secretary's letter of 12 May to your Private Secretary.

I am not as convinced as you seem to be of the benefits of "pay-as-you-go" licences. You say that you see the main benefit as being discouraging evasion among those who do not pay through financial hardship or disorganisation. But surely these are the least likely people to set up direct debit arrangements? Indeed, many may not even have bank accounts. Existing schemes for paying in advance by direct debit both spread the cost and make payment automatic, but have only a 1 per cent take up at present. Nor am I aware of any significant demand for a pay-as-you-go scheme.

You suggested that people are now becoming so aware of interest costs that they would be reluctant to pay for a TV licence in advance. I am not sure that I agree that this is a significant consideration for £60, but in any case your own proposal involves charging a premium equivalent to 15 per cent interest, so it would not help this problem.

I agree that, were this scheme to go ahead, the BBC should charge a premium on "pay-as-you-go" licences to pay off their debts, although I would not want to see this become a permanent element of the BBC's income thereafter. The BBC does not have the flexibility in the level of its charges that electricity boards, for example, do (and electricity is paid for in arrears, so monthly payments speed up the cash flow).

There seems to me to be a possible extra cost that could result from "pay-as-you-go". Licence fee refunds are at present very limited and not generally available on surrendering a licence; but "pay-as-you-go" might make this position more difficult: it is harder to insist that someone should go on making payments for something they have already surrendered than it is to refuse to refund part of a payment



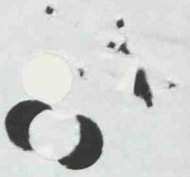
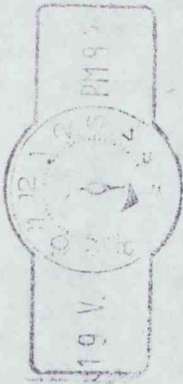
already made.

I am therefore sceptical about the value of your proposal which might, by leaving the BBC heavily indebted, complicate moving to any new means of finance. I understand that the costings of the amount the BBC would have to borrow are to some extent conjectural, but I would not wish to dispute your estimate of £170 million. While I fully understand why you have put the proposal forward, I cannot see sufficient benefits in "pay-as-you-go" to justify this, even though I recognise that the increase in the PSBR would in the long term be recouped.

I am copying this letter to the Prime Minister, to other members of MISC 128 and to Sir Robert Armstrong.

NIGEL LAWSON

A handwritten signature in black ink, appearing to be 'Nigel Lawson', written in a cursive style with a long horizontal stroke at the end.



BROADCASTING: Frances p 4.

CCBG
/



HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

15 May 1987

Den David

|| B/F 12/6

TV LICENCES: PAY-AS-YOU-GO

Thank you for your letter of 12 May ^{at Kap} requesting further information on the proposals set out in the Home Secretary's letter of 1 May to the Chancellor of the Exchequer.

The cash flow problems which pay-as-you-go licences would create for the BBC result from the fact that at present the licence fee must be paid in full before a licence can be issued. There are, of course, already schemes for spreading the cost of a licence over a year, including television licence savings stamps and instalment payment by direct debit. But these are, in effect, savings schemes in which participants pay for the cost of their next licence (and in which the BBC benefits from the interest on the payments). There is at present no way, apart from borrowing, that a licence holder can spread the cost of his licence over the period of its validity. The Home Secretary's proposals would allow this. The result would be that, with quarterly payments, three-quarters of the fee would be paid, on average, six months later than at present. At 10% interest, £58 paid on this basis has a net present value of about £2.18 less than £58 paid in full on the issue of the licence. A premium of this level would therefore be sufficient to offset the interest cost to the BBC of borrowing to make good the revenue shortfall as people switched to the new method of payment. As explained in the Home Secretary's letter, this borrowing could be as much as £170 million. However, a premium at that level would not be sufficient to repay the principal; and the BBC has made it clear that it would not be prepared to carry borrowing liability indefinitely.

.....
A higher premium, as suggested in the Home Secretary's letter, would enable the borrowing requirement to be gradually reduced over a period of time, and eventually eliminated. In broad terms, the quarterly payment scheme proposed would, given the colour fee of £62 likely to apply in the first year of operation, result in an average borrowing requirement of £23.25 per licence ($£62 \times 0.75 \times 0.5$), which would be fully eliminated after about 9-10 years by a total premium of approximately £4.50 a year. The calculations do, of course, vary with differing interest rates, and the enclosed analysis shows the differing effects. You will see that Table 2, which shows the effect of a £3 premium, leaves the BBC with a substantial borrowing requirement even after 12 years.

It would of course be possible, if the licence fee system was then still operational, to reduce or eliminate the premium once the borrowing had been repaid since it would then no longer be needed.

It is not possible to make a fair comparison with gas and electricity budget payment schemes since the conventional billing arrangements for these services have always involved quarterly payments in arrears. The budget payment schemes now available at worst spread negative cash flow effects over a much shorter period, but in many cases involve a degree of advance payment with consequent cash flow benefits. In contrast, as explained above, all television licence fees are now payable in full in advance.

In relation to general and water rates, there is a more realistic basis for comparison as these payments have traditionally been required in advance either in full or in half yearly instalments. Their payment in monthly or quarterly instalments must therefore have some adverse cash flow effects, but to the extent that these are not offset by reduced collection and enforcement costs there is (except in the case of rate-capped authorities) scope for the shortfall to be recovered through overall levels of charges, rather than through a separately identifiable premium.

The scheme proposed by the Home Secretary can be regarded as in some respects analogous to the facility to obtain a Vehicle Excise Duty licence valid for six months. The fee for such licences is 55% of that for twelve month licences. In this case the premium is intended to cover additional administrative rather than borrowing costs, but the principle is the same.

I am copying this letter to the Private Secretaries to members of MISC 128, and to Sir Robert Armstrong.

Yours ever
W R Fittall

W R FITTALL

D R Norgrove, Esq.,

BEC CUMULATIVE DEFICIT
BY QUARTER (£M)

TABLE 1: £4.50 PREMIUM

Year	8%	10%	12%	Interest rate
1.00	57.81	57.81	57.81	
	95.49	95.76	96.02	
	112.66	113.38	114.10	
	108.91	110.19	111.44	
2.00	127.45	129.26	131.06	
	138.13	140.59	143.03	
	140.80	143.97	147.13	
	135.31	139.22	143.13	
3.00	153.76	158.40	163.07	
	163.73	169.20	174.73	
	165.06	171.43	177.90	
	157.58	164.88	172.32	
4.00	154.11	162.33	170.74	
	149.05	158.19	167.59	
	142.36	152.42	162.82	
	134.01	144.98	156.38	
5.00	129.83	141.69	154.09	
	123.97	136.73	150.13	
	116.41	130.06	144.48	
	107.11	121.64	137.06	
6.00	102.13	117.52	133.95	
	95.41	111.64	129.08	
	86.89	103.97	122.42	
	76.56	94.45	113.91	
7.00	70.71	89.39	109.85	
	63.02	82.49	103.95	
	53.47	73.70	96.15	
	42.00	62.97	86.41	
8.00	35.19	56.86	81.26	
	26.45	48.82	74.17	
	15.76	38.78	65.09	
	3.06	26.71	53.95	
9.00	(4.81)	19.42	47.57	
	(14.70)	10.10	39.14	
	(26.65)	(1.32)	28.60	
	(40.69)	(14.87)	15.90	
10.00	(49.73)	(23.48)	8.11	
	(60.88)	(34.24)	(1.85)	
	(74.19)	(47.19)	(14.02)	
	(89.69)	(62.39)	(28.49)	
11.00	(100.01)	(72.47)	(37.89)	
	(112.54)	(84.81)	(49.57)	
	(127.34)	(99.47)	(63.60)	
	(144.43)	(116.49)	(80.06)	
12.00	(156.16)	(128.22)	(91.28)	
	(170.21)	(142.33)	(104.91)	
	(186.62)	(158.87)	(121.04)	
	(205.46)	(177.91)	(139.73)	

TABLE 2: £3 PREMIUM

8%	10%	12%	Interest rate
58.30	58.30	58.30	
96.98	97.25	97.52	
115.66	116.40	117.12	
113.95	115.25	116.53	
134.75	136.62	138.46	
147.93	150.47	153.00	
153.34	156.64	159.94	
150.84	154.94	159.04	
172.54	177.44	182.38	
186.02	191.86	197.75	
191.14	197.99	204.94	
187.72	195.64	203.69	
188.44	197.43	206.62	
187.68	197.77	208.13	
185.41	196.62	208.19	
181.59	193.95	206.76	
182.08	195.59	209.65	
181.02	195.71	211.07	
178.38	194.27	210.98	
174.13	191.25	209.33	
174.35	192.70	212.18	
172.96	192.56	213.49	
169.91	190.81	213.22	
165.20	187.39	211.33	
165.12	188.62	214.11	
163.35	188.20	215.28	
159.87	186.08	214.81	
154.63	182.23	212.64	
154.21	183.21	215.32	
152.04	182.45	216.33	
148.07	179.93	215.62	
142.27	175.60	213.14	
141.48	176.28	215.71	
138.85	175.15	216.52	
134.35	172.18	215.54	
127.94	167.31	212.71	
126.72	167.65	215.12	
123.59	166.10	215.71	
118.51	162.62	214.41	
111.43	157.16	211.19	
109.75	157.11	213.41	
106.07	155.08	213.72	
100.34	151.03	212.07	
92.54	144.92	208.41	
90.33	144.42	210.39	
86.04	141.85	210.38	
79.62	137.18	208.33	
71.02	130.34	204.17	

Assumptions:

1. Maximum take-up of 50% after 3 years.
2. Scheme available only for colour licences, at £62 fee likely for 1988-89.
3. Quarterly instalment payments, not rising in line with any licence fee increase during the relevant year.

BROADCASTING — BBC FRANCIS
PT 4



File
LPO

cc WPO CWO
HMT CO
WO Bq
CAL
ATT



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 May 1987

Dear William,

SUBSCRIPTION TELEVISION:
REPORT FROM CONSULTANTS

The Prime Minister has seen the Home Secretary's minute of 12 May, and is content that officials should arrange for HMSO to set up the text of the report by CSP International so that it could be published after the Election at a time of the Government's choosing.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Sir Robert Armstrong.

David
David Norgrove

William Fittall, Esq.,
Home Office.

df



C.B.S.
(letter only)

Prime Minister 1

Content for the report to be set up in print for possible publication after the election?

Yes mb

JW
12/5.

PRIME MINISTER

SUBSCRIPTION TELEVISION: REPORT FROM CONSULTANTS

in folder

I reported, in my minute of 22 April, the likely outcome of the technical and economic study of subscription television from our consultants, CSP International Ltd. I have now received their final report, a copy of which is attached for you and the other members of MISC 128.

2. As was made clear in the specification for the study, which was circulated with MISC 128(86)2, the consultants were asked to offer a judgment on the cost and feasibility of introducing subscription, guidance on the best method and timing to be adopted and the case, in economic and other terms, for doing so, and on what basis. Chapter 11 of the report - Summary and Conclusions - brings together the main findings from the consultants' research. These are very much on the lines foreshadowed in my earlier minute, though with one addition.

3. The chapter canvasses a number of options for the gradual introduction of subscription for new services consisting mainly of premium programming. Options 1 and 2 deal with the possible use of the night hours of BBC 2 and Channel 4, and the possible replacement of some parts of the BBC 2 schedule. Option 3 (which is the addition and which derives as much from CSP's work on spectrum allocation for DTI as from this consultancy) introduces the new idea that there might be additional terrestrial television services, also consisting of premium material and financed on a subscription basis. The spectrum for these services could be found either by making better use of the UHF frequencies now used for television or by reclaiming for television broadcasting some of the VHF spectrum formerly used for that purpose. (As the report acknowledges, this would imply a reversal of our earlier decisions to transfer this spectrum to mobile radio users).

4. The report will require detailed study in order to test its analysis and to consider the implications of the consultants' findings. The options mentioned in the previous paragraph raise difficult issues of broadcasting

policy and of policy on the allocation of spectrum. They also have serious potential implications for DBS and cable. That said however, the report clearly provides the raw material for a much more informed discussion of the issues. I think there is every advantage in our planning to publish it in full, through HMSO, so that the work can be fully tested and subject to comment by economic and other experts.

5. My preference, as indicated in my earlier minute, would be for the report to be published as a self-contained document produced by independent consultants on which the Government would welcome comments and that we should not accompany publication with any statement of policy. We need not, however, decide that point now. What I would propose to do, subject to any comments that you or other colleagues may have, is to instruct officials to arrange for HMSO to set up the text in print over the next few weeks so that it could be published at a time of our choosing after the election.

6. We can also return, after the election, to the possibility of arranging for the consultants to give a presentation of their work to myself and other interested colleagues.

I am copying this minute to colleagues on MISC 128 and to Sir Robert Armstrong.

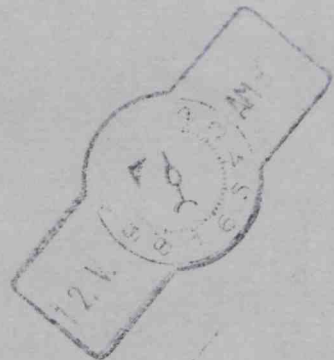
Raymond Hunt.

12 May 1987

BROADCASTING

BBC FINANCES

PTY





10 DOWNING STREET
LONDON SW1A 2AA

DAS
ceBG cwo
LPO CO
HWT
WO
CDLO
DTI

From the Private Secretary

12 May 1987

Dear William,

TV LICENCES: PAY-AS-YOU-GO

The Prime Minister has seen the Home Secretary's letter to the Chancellor of 1 May about the possibility of issuing TV licences on a pay-as-you-go basis.

SF //

The Prime Minister has noted the intention that pay-as-you-go licences would carry a premium to meet the interest cost to the BBC of the borrowing needed and to repay the principal within a 10 year period. The premium is put at £4.50 at current interest rates. The Prime Minister would be glad to know the calculations which underlie this estimate and also for a comparative analysis with gas, electricity, water and rates, where no premium is charged for monthly payments.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Sir Robert Armstrong.

Jan,
David.

D R NORGROVE

William Fittall, Esq.
Home Office

✓

CONFIDENTIAL

PRIME MINISTER

6 May 1987

BROADCASTING COMPLAINTS AUTHORITY

Both the City and Broadcasting have traditionally set their own standards.

Yet the contrast between our record in raising standards in the City (Companies Acts of 1980 and 1981, Insolvency Act 1985, Financial Services Act 1986 and the establishment of the CIB, the Banking Bill and the setting up of the Banking Commission, the strengthening of the Take-Over Panel and the Review of Competition and Mergers policy) and our failure to raise standards in broadcasting is marked.

The existing Broadcasting Complaints Council may have worked well, but because it has such a narrow remit, it is of little practical consequence.

There is no doubt that there is growing public anxiety over the issue. Last week Dukey Hussey mentioned to me privately "we are at present out of step with the general public". I also enclose a letter from the Bishop of Peterborough who has considerable experience in the media.

The Home Secretary's conclusion therefore in his paper for Cabinet tomorrow is a definite step forward.

But it needs considerable strengthening.

Our draft Manifesto

This says "We will establish a new Broadcasting Complaints Authority to produce reports on general programme standards and to receive and deal with individual complaints about programmes. The Authority will lay an annual report before Parliament."

While welcoming the Home Secretary's proposal it is important that the following points in our existing draft Manifesto are preserved.

- (i) the title Authority is necessary in order to distinguish the new body from the existing rather ineffective Council; it also suggests greater importance;
- (ii) "to deal with" - this is vital, otherwise the new body will end up without any teeth what ever;
- (iii) "lay an annual report before Parliament" - this too is important because it involves a mechanism for public accountability by the industry to the nation.

All of this will doubtless be resisted very strongly by the industry and Home Office officials.

Conclusion

By making a strong Manifesto commitment on this issue, I believe that you have a unique opportunity to raise standards on British television: it is something which should prove very popular with the general public in all parts of the country.

Brian Griffiths

BRIAN GRIFFITHS

23. April 1987:

My dear Bill,

As you probably know, all Bishops are expected to take on extra responsibilities and over the years I have been much concerned with communications. I was on the Press Council for 6 years; have been a Religious Adviser to IBA for four and a member of the BBFC Video Consultative Council for the last two. As a result I have met a lot of people in the media, have learned something about their attitudes and skills and have come to look on their work with an informed - but very cool - eye.

I have noticed a marked change in what is judged to be acceptable for public showing. That which would have been judged totally unacceptable ten years ago is now the norm.

This is especially worrying when one looks at the portrayal of violence. It seems to me that direct physical violence against people (especially women) is shown with an almost loving care. There is almost an enjoyment of it and the sufferer is not seen as a human being, created in the image of God, but as no more than an object.

The extreme edge of this may be seen in the Video. I have seen very skilful films of this which have been sickening. They were rejected for Video classification by the BBFC censors but they (the censors) and under perpetual pressure to relax their standards and I just fear that if the progression we have seen in the level of what is acceptable continues at the present rate, then those videos could be on our television screens by 1995.

I believe that there is a link between what is turned out night after night on Television and the increase of (for example) rape in this country (24% up last year) and the growth of very unpleasant and sometimes horrific crimes of violence. I believe that what we see alters our feelings about what is acceptable behaviour.

Now the television industry's leaders deny this. They say that television does not influence people in this way. They say that all their surveys show this. (Although the answers to surveys depend on the questions put.) If they are right and people are not influenced by television, why do firms spend millions on advertising? Television is a persuasive medium, well ahead of any other, in my view. I would trust the instinct of the advertiser rather than the statements of the television captains.

They do not like criticism and act as if television was 'theirs' - almost a private possession of those who produce

the programmes. If they are pressed too hard they cry out 'Mrs Whitehouse' - a sort of rallying cry against those who would persecute them!

I see then two problems:

- (i) a lowering of sensibility towards violence especially, which is cultivated by the television screen and the video.
- (ii) The control of television and the video which is in the hands of a group of people within those fields. The thinking of this group has been formed within the confines of their industry and the attitudes and standards are those formed within that closed world.

I believe that outside that world a large number of people are now very worried about what they see and hear on the screens. They feel that we have gone far enough and they increasingly are less cowed by shouts of "censorship".

I believe, too, that in the industry there are people who are worried by what is going on. They are worried about the implications for the future.

When I was present at discussions of the current Bill I noticed that although many people in the industry did not feel that this was quite the right way to do it, a number of them seemed to feel that there was a need for something to be done.

Certainly, out in the country there seems no groundswell of opinion against the current Bill and I have encountered in a lot of places the expression of view that it is time to call a halt: enough is enough.

A law which made those who have such an influence over our lives more answerable would, I believe, have strong support in the nation and would be to our great advantage.

Law on Bill.

Professor Brian Griffiths

*1.2 Mr Apolopolis for the typist.
Mr Secretary in 262.*

Ref. A087/1241

PRIME MINISTER

Broadcasting: Independent Oversight of Programme Standards
(C(87) 8)

CONCLUSIONS

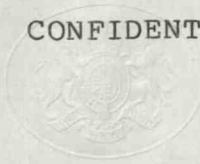
You will wish the Cabinet to come to a conclusion whether a commitment should be made in principle to replace or strengthen the Broadcasting Complaints Commission (BCC) so as to carry out wider responsibilities in relation to programme standards on radio and television.

BACKGROUND

2. As the annex to the Home Secretary's paper shows, this is a fairly familiar issue on which opinions have swung to and fro over the last decade. The BCC was originally conceived by the Annan Committee as a body that would consider complaints of unjust or unfair treatment or of invasion of privacy, but not matters of taste, content or standards of programmes. The Labour Government then took the idea up but expanded it to embrace matters of programme standards and the broadcasting authorities' response to complaints about them. The present Government took the view in 1980 that only the narrow role was appropriate and legislated accordingly in 1980. The Government line since then has been that a wider remit would confuse the responsibilities of the broadcasting authorities.

MAIN ISSUES

3. The general thrust of the Government's broadcasting policies is to sharpen competition, reduce waste and strengthen



the voice of the consumer. These are primarily economic objectives. The main current proposal that is relevant to matters of taste and decency is the proposition in Mr Howarth's private Member's Bill to end the broadcasting authorities' immunity from prosecution under the Obscene Publication Acts. If the judgment is that a way must be found to express and channel public concern about taste and decency in broadcasting, then strengthening the role of the BCC is one of the few pieces of machinery that come to hand.

4. There are, however, some cogent arguments in the other direction, which the Cabinet will wish to weigh carefully before coming down firmly in favour of an early commitment.

5. First, there is a genuine point about blurring, and perhaps undermining, the responsibilities of the broadcasting authorities. A great deal would depend on the scope and powers that are contemplated. Nevertheless, it might not be easy to strike the right balance that, on the one hand, commands public confidence while, on the other hand, avoiding unreasonable management conflict with the broadcasting authorities. If the new style body has no "teeth" it risks looking foolish and there will doubtless be pressure to extend its powers. But a body with "teeth" could get very close to imposing its own judgment over the broadcasting authorities on prime matters for which they are answerable.

6. Second, the paper is written in terms of matters of taste and decency, but there must be some risk that taking this initiative would stimulate demands for a further extension into the area of political impartiality and fair reporting. You may wish to pause for a moment to consider which side of that argument the Government might wish to favour.



7. Third, a more heavyweight BCC would need a calibre of membership that could take on the broadcasting authorities on their own terms, and it might not be too easy to find such people in practice.

8. While none of these points is decisive, they do indicate the kind of pitfall that the Home Secretary mentions in his paper as requiring a good deal of further thought and attention. If the Cabinet agree the proposal in principle, you may think that it would be prudent to couch any commitment in very general terms that leave as much room for manoeuvre as possible about the way in which an enhanced monitoring role might be delivered in practice.

HANDLING

9. You will wish to invite the Home Secretary to introduce his paper. There are no other departmental interests, but the Chancellor of the Duchy of Lancaster and other Ministers will doubtless have general political comments.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

6 April 1987



Prime Minister

I am puzzled to know why Gas, Electricity
and Water (and rates)

can be paid monthly
with no extra charge,

whereas this is not proposed for the
licence fee. Agree to enquire?

QUEEN ANNE'S GATE LONDON SW1H 9AT

1 May 1987

Dear Chancellor

DLW

11/5.

at floor PT3 Yes no

TV LICENCES: PAY-AS-YOU-GO

In my statement on 14 January confirming our decision to index the television licence fee to the RPI I also said that both we and the BBC saw attractions in arrangements under which licences could be issued on a pay-as-you-go basis and would jointly be considering how they could be put into practice. Our officials have since identified arrangements which, with investment in new direct debit systems at the National TV Licence Records Office capable of the automated handling of large volumes of direct debit payments, could be put into effect in 1988-89. We estimate that pay-as-you-go would prove attractive to enough licence payers to produce significant savings in the cost of running the licensing system after three years.

I understand that the main stumbling block, as your officials see it, is that the more popular pay-as-you-go proves, the greater the interruption of the BBC's cash flow. This could only be covered by additional borrowing, which would count towards the PSBR. We think that borrowing of up to £170 million might be needed. This assumes a maximum take-up of 50% over three years, and that pay-as-you-go licences carry a premium sufficient to meet the interest cost to the BBC of the borrowing needed and to repay the principal within a ten year period (about £4.50 at current interest rates). Licence holders would, of course, retain the option of obtaining licences by paying the standard fee in full in advance, as at present.

The BBC are willing to borrow on this basis, on the condition that that borrowing was additional to the present limit of £75 million (£100 million with my consent) contained in their Charter, which they see as necessary to cover their broadcasting requirements and associated contingencies.

Pay-as-you-go would therefore entail an amendment to the Charter. It would also require amendment of the regulations made under the Wireless Telegraphy Act 1949 which govern the licence fee and its payment.

I hope that you would feel able to agree to the proposal that the BBC's borrowing limits should be extended in this way. The potential benefits are substantial. We know that many people find the licence fee difficult to pay in one lump sum, and are not attracted to the existing schemes for spreading the cost, all of which require payment in advance and hence sacrifice of interest. The more successful we are in promoting wider share ownership and educating the public to appreciate value for money the harder it will be to overcome this problem. There should be two effects on

licence fee evasion (which costs up to £100 million a year in lost revenue). First, pay-as-you-go is the only system which offers any realistic prospect of attracting people now without licences. Second, the pay-as-you-go facility would be available only to those paying by direct debit. It is well established that automated payments systems are less prone to evasion than arrangements under which people have to undertake period payment action. Our research shows that many people who evade payment do so not for reasons of financial hardship but through lack of financial organisation or after moving house and so getting one step ahead of the licence records system. Direct debit will deal with both these categories.

We are of course awaiting advice from our consultants on the feasibility of subscription replacing the licence fee as a means of financing the BBC. But it seems clear that pay-as-you-go would rectify one of the faults of the present system which the public most resents (and to which Peacock drew attention) and prepare the ground for any decision to move towards subscription, anticipating the cash flow problems that that change would entail and reducing the administrative cost.

I hope that the PSBR effect need not prevent early progress: we could introduce pay-as-you-go in the next financial year. Additional borrowing by the BBC would of course be one-off, and the borrowing limit could be adjusted downwards as the loan was repaid.

There are a number of points of detail which officials still need to resolve, but I should welcome your agreement in principle to extending the BBC's borrowing limits in the way proposed.

I am copying this letter to the Prime Minister, to other members of MISC 128 and to Sir Robert Armstrong.

Yours sincerely

William Tittel

*(Approved by the Home Secretary
and signed in his absence.)*



Broadcasting Licence Fees PT4

u.BG



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 75422

Secretary of State for Trade and Industry

30 April 1987

The Rt Hon Douglas Hurd MP
Home Secretary
Home Office
Queen Anne's Gate
London SW1

Dear Douglas.

NRBRN

SUBSCRIPTION TELEVISION: REPORT FROM CONSULTANTS

at Harp

I have seen a copy of your minute of 22 April to the Prime Minister about CSP's report and the possibility of a presentation to MISC 128.

to

I support your suggestion of a presentation on what is an important study by CSP, assuming a suitable date can be found. It will be useful for us to have the opportunity to question the consultants directly about their findings. As you say, a decision on whether report should be published in full through HMSO is one that we can leave until we have the final report, but at this stage I see no problem over this.

I am copying this letter to colleagues on MISC 128 and to Sir Robert Armstrong.

[Handwritten signature]

PAUL CHANNON

JG3AZT

BROADCASTING -

Financing



PL-4



10 DOWNING STREET
LONDON SW1A 2AA

EL3BXE
cc: LPO
HMT
HO
WO
CDHO
DTI
CWO
bc: BG

From the Private Secretary

27 April 1987

Dear Stephen,

SUBSCRIPTION TELEVISION:
REPORT FROM CONSULTANTS

The Prime Minister has seen the Home Secretary's minute of 22 April about the study of subscription television which has been carried out by CSP Limited.

BF // The Prime Minister does not wish to attend a presentation by CSP in the near future, though she would be content for the Home Secretary to arrange one. She would in any event wish the Home Secretary to offer advice on whether the report should be published, nearer the time of possible publication.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Trevor Woolley (Cabinet Office).

Yours,

David

DAVID NORGROVE

Stephen Boys Smith, Esq.,
Home Office.

SM.



cc BG

K01619

MR WICKS

per

WSP/PM?

SUBSCRIPTION TELEVISION: REPORT FROM CONSULTANTS

The Prime Minister will have under consideration the Home Secretary's minute of 22 April suggesting that Communications Studies and Planning International Ltd (CSP) should give a presentation of their report to Ministers, perhaps to MISC 128 with the Prime Minister presiding. A slot for such a MISC 128 meeting is provisionally booked for 5 May.

2. I am sure that it would be as well for the Home Secretary to meet the consultants, and to invite other MISC 128 colleagues who want to join him. Whether the Prime Minister wishes to find time to turn the occasion into a full MISC 128 meeting is, I think, very much a personal judgement for her. For what it is worth, however, I find the Home Secretary's present minute a good deal clearer and easier to follow than were the charts and graphs that CSP produced by way of a presentation to the Official Committee. Presiding herself over the presentation would, on the other hand, give the Prime Minister the chance of asking the consultants direct questions about, for example, the validity of the techniques they used to assess popular demand for various types of programme.

3. As the Home Secretary's minute makes clear, there will be an important handling decision to take on whether or not to make the consultants' report available to the public, and you may wish to register that the Prime Minister will certainly expect the Home Secretary's advice on that in due course.

A/L

A J LANGDON
24 April 1987



070

ccp

MW



Prime Minister 2
Paragraph 3(v) is the
key conclusion.

~~Agree that the consultants
should give a presentation to
Misc 128? (At some stage.)~~

DW
24/4.

PRIME MINISTER

(mistaken)

SUBSCRIPTION TELEVISION: REPORT FROM CONSULTANTS

As you will recall, in the wake of the Peacock Report we commissioned a technical and economic study of subscription television from consultants: Communications Studies and Planning International Ltd (CSP). I expect to receive CSP's report shortly and you, and colleagues on MISC 128, will wish to know the findings which are likely to emerge. A preliminary presentation has been made to the Official Group on Broadcasting (MISC 129) and colleagues may wish to consider whether we in MISC 128 should have something similar.

2. The consultancy proceeded by undertaking a close examination of the technical feasibility of introducing subscription for off-air terrestrial television services. They also estimated the costs, in terms of both equipment and administration, of doing so. They undertook some original market research, and looked at other evidence, to assess the willingness of consumers to pay for existing and possible new television services. They have had wide-ranging discussions with those in the industry and those with relevant technical and economic skills to ensure that they were fully abreast of the state of the art, now available or in prospect. In doing so they took account of all the relevant considerations such as the likely impact of subscription on picture quality, and the necessary demands of security to prevent unauthorised viewing. Finally, they attempted an economic benefit-cost analysis of the value of introducing subscription in the light of the evidence they had collected.

3. CPS is now finalising its report and on the basis of the presentation to officials I expect its main findings to include the following:

- (i) putting some, or all, of our terrestrial television services on a subscription basis would be technically feasible. There are some qualifications and uncertainties, particularly because no comparable system on the scale required exists. The consultants are confident, however, that technological obstacles are unlikely to cause a plan for the introduction of subscription television to fail; but
- (ii) if the subscription is introduced it should be on a progressive basis. There are two reasons for this: first, the consultants expressed great concern about the likely administrative chaos if subscription were introduced suddenly, even on a region by region basis. Second, their assessment is that the cost of the necessary equipment associated with the television set would fall to manageable proportions only if it were fully integrated in the set at the production stage. That implies a long and gradual change-over as people purchase new sets;

financial advantage
presumably.

- (iii) on balance there would be little advantage in using subscription technology as a substitute for the licence fee. Although more money might be collected because of a reduction in evasion this would be outweighed by additional costs;
- (iv) there is a substantial and largely unmet demand for additional television services, in particular of a premium quality (that is, such things as first run feature films for which there is a large market, and for which a relatively small proportion would wish to pay a substantial amount). A service of subscription television, particularly if linked to a new service concentrating on such material, would be profitable;
- (v) if the BBC's services were put on a subscription basis, while ITV and Channel 4 remained unscrambled, they would not be viable: that is, they would not attract enough revenue to cover the programme costs. (The same would be true of commercial television: that is, ITV and Channel 4 would not be viable on a scrambled basis if the BBC was at the same time receivable in clear). Costs would only be recovered if there were a substantial departure from the existing public service broadcasting mix of premium material, information programming and light entertainment. The implication is that the BBC services could be financed through subscription and not through licence fee if, but only if, it made a radical change in its programming mix, and then only by pricing its product at a level which meant that the majority of the population would choose not to receive it;
- (vi) if all four terrestrial channels were put on a subscription basis they would be unlikely to raise enough money from subscription alone to cover their costs, though BBC2 and Channel 4 would probably do so (because of their relatively low cost, rather than their greater popularity). However, if account is taken of advertising revenue this approach would be practicable. But the operators would need to price their services at a level which meant that a substantial proportion of the population would choose not to receive them;
- (vii) taking account of their view that subscription should be introduced on a progressive basis, and of their other findings including their assessment that there is a big demand for additional premium services (as evidenced in part by expenditure on video shops), they suggest that a possible way forward would be to start a premium subscription service perhaps on BBC2 or Channel 4's frequencies, and initially confined to the night hours. As the system developed, and the necessary technology became more widely available, it would be possible to move an increasing number of hours over to a subscription basis, thereby providing a soft route into subscription.

4. The report, when it is available, will clearly require detailed study to test the validity of its analysis and to consider the implications. Since Peacock was published I have made clear, in Parliament and elsewhere, my own hopes that subscription offered a way forward consistent with our own general philosophy that consumers should be able to exercise choice by paying directly for the services they want; and that, in the medium term, subscription would remove the necessity for the licence fee as we move towards a more competitive broadcasting market. To that extent I had hoped that the findings of the report would be more positive. Clearly the matter requires further study, in the light of the report. The report may point the way forward, though on a more gradual basis than originally hoped.

5. It seems likely that the report will in any event considerably advance public understanding and discussion of the issues, including the technical possibilities. Other things being equal the best way to allow it to be fully tested would be through publication, or at least making it publicly available. This would enable us to judge how far it stood up to critical appraisal. On balance I am inclined to favour full publication through HMSO, adopting the same approach as that taken recently by the Secretary of State for Trade and Industry with CSP's other report on spectrum allocation: namely with Government emphasising that the report is that of an independent consultancy on which Government would welcome comments.

6. We shall need to see the report before we come to a final view on that, and some of the economic arguments are not easy for the layman to assess at, so to speak, a first reading. Despite this, however, it may help us if at an early meeting of MISC 128 we invite the consultants to make a presentation of their main findings so that we can test them at first hand. I would see considerable advantage in that and if you agree the necessary arrangements could be made for a presentation later this month or early in May.

I am copying this minute to colleagues on MISC 128 and to Sir Robert Armstrong.

Douglas Hurd.

22 April 1987



CC/BG



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215)

(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

6 April 1987

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Dept
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

NBM

Handwritten signature of Douglas Hurd

BROADCASTING BILL - INDEPENDENT PRODUCERS

at-tras

I have seen Nigel Lawson's letter to you of 26 March.

I share Nigel's concern about the slow progress of discussions between the broadcasters and the independent producers, and the low percentage of airtime which the BBC and IBA have offered so far. When we considered the Peacock proposal at MISC 128 on 30 October we agreed that the fastest possible time-table should be followed. While I recognize that a 25 per cent target over a 4-year period raises a number of difficult issues for the broadcasters to consider, I hope that your own discussions with them can be drawn to a conclusion shortly so that MISC 128 can take an early decision on the next steps to be taken.

I accept the reasons for opposing Clement Freud's amendment to the Broadcasting Bill. However, like Nigel, I think it important that this should not be regarded by the broadcasters - or indeed the independent producers - as a lack of will on our part to legislate in due course should the need arise.

I am copying this letter to members of MISC 128 and to Sir Robert Armstrong.

Handwritten signatures and initials

JF5BVK

PAUL CHANNON

BROADCASTING: Legislation PT2



CONFIDENTIAL

CC B9?

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS



Chancellor of the Duchy of Lancaster

Tel No: 270 0020
270 0296

30 March 1987

Robert Culshaw Esq
Private Secretary to the Secretary of
State for Foreign and Commonwealth
Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

MBA

Dear Robert,

EXTERNAL TV BROADCASTING

top encl.

Thank you for your minute of 27 March recording the meeting of 24 March about the prospects for external TV broadcasting.

You set out some assumptions on which the draft paper is to be based. May I offer one comment about these? In a reply to the BBC, I think it may be wrong to go so far as to "encourage" them to develop a TV news product. For the present, it may be sufficient to rule out a global subsidy, which was the basis of their proposal, and allow the BBC to consider whether an alternative is available. If a satisfactory means can be found of putting ITN and BBC on an equal footing, and if a specific requirement were identified for which the Government would wish to receive tenders, then one might go on to encourage the BBC to put forward a proposal.

I am sending a copy of this letter to Charles Powell (No. 10), Stephen Boys-Smith (Home Office), Jill Rutter (Treasury) and Timothy Walker (DTI).

Andrew Lansley
A. Lansley

ANDREW LANSLEY
Private Secretary



CCPC



Foreign and Commonwealth Office

London SW1A 2AH

27 March 1987

Dear Stephen,

RDS
24/3External TV Broadcasting

The Foreign Secretary held a meeting with colleagues on 24 March to consider the prospects for external TV broadcasting. The Home Secretary, the Secretary of State for Trade and Industry, the Chief Secretary, the Chancellor of the Duchy of Lancaster and Professor Brian Griffiths were present. The discussion was based on the FCO paper circulated in advance, including the proposals put forward by BBC and ITN for a world TV news service.

The Foreign Secretary began by observing that, if regulation was left aside as a separate issue, the key question was whether or not HMG should be involved at all in external TV broadcasting. In judging this we should look at the pace of technological advance, existing activity in the private sector, the role of other Governments, and the nature of the audience which HMG might wish to reach in pursuit of its own objectives. He himself saw very little case for any HMG involvement in British external broadcasting to OECD countries, which was likely to develop satisfactorily anyway. But the closed societies and the Third World deserved careful consideration as potential targets for TV broadcasting, as they were already for external radio.

All those present agreed that TV broadcasting to the OECD area did not need (and might not benefit from) Government input. Some doubts were expressed about the wisdom of HMG involvement anywhere, since this was a sector of the economy which was doing well in private hands (and previous experience of the public sector approach, for example over DBS, was not encouraging). Nevertheless no-one dissented from the proposition that British TV broadcasting to closed societies and the Third World could in some circumstances bring political or commercial advantage. The Chief Secretary pointed out the technical limitations of what might be achieved in



closed societies, because of the cost and poor availability of dishes and the obstacles in the way of individuals wishing to acquire them. The Chancellor of the Duchy of Lancaster agreed, doubting that glasnost had yet gone this far. He also queried how many poor countries would be able or keen to absorb external TV broadcasting by satellite. The Foreign Secretary cautioned against too rigid a classification: a number of societies (eg Indonesia, Turkey, UAE) were neither poor nor closed, and might be valid targets. The Home Secretary suggested that a case by case approach would be best: this idea was generally endorsed.

Discussion then turned to the relative merits of BBC and ITN as providers of a service, if the Government wished to subsidise or purchase one for particular target audiences. The Foreign Secretary pointed out the value of the BBC label overseas, given the high reputation of its external sound broadcasting. The Trade and Industry Secretary asked whether TV broadcasting in vernacular languages was contemplated; it was agreed that this would be too difficult to provide. The Home Secretary argued that there was no need to judge a priori whether the BBC or ITN would be the better supplier; instead we should identify the package needed for a given country or region, and buy from whoever was best placed to provide it.

The BBC's existing proposal was then criticised in detail. The Chancellor of the Duchy of Lancaster and others pointed out vigorously that it assumed a Government subsidy, and contained inadequate or misleading costings. It also did not make sufficient effort to identify markets where its product could be sold on a commercial basis or show the true relationship between revenue thus generated and the costs of distribution elsewhere. The fundamental BBC error was to assume a worldwide TV news service for which HMG would be required to pay a price: external radio, with its wartime origins and State monopoly, was not an appropriate model for external TV broadcasting in the competitive diversity of the late 1980s. The Home Secretary noted with relief that the BBC were at least precluded from using any licence fee revenue for external broadcasting. Professor Griffiths pointed out that the existing BBC proposal predated recent changes in the Corporation; the relationship between Mr Tusa and BBC management might have changed in recent weeks. The Home Secretary suggested that it was still right to deal with Mr Tusa.



The Chancellor of the Duchy of Lancaster argued that before HMG could even consider purchasing from the BBC an external TV news product, the BBC would need to establish a separate organisation with audited accounts. Only thus could the market rate for this BBC material be established, and cross-funding between the new organisation and the rest of the BBC be ruled out. If the BBC did this, and could run a TV news service commercially to some countries, then HMG might consider the option of paying them to extend the service to audiences of our choice.

The Foreign Secretary pointed to the need to put the BBC and ITN on an equal footing, so that the Government could fairly choose between their competing offers. ITN, for example, had access to risk capital from which the BBC External Services were debarred. ITN also benefitted from their ability to offset new venture costs against their liability to levy and corporation tax, and insofar as their external TV was funded out of domestic profits, there was a notional loss to the Exchequer. Professor Griffiths added that ITN had difficulties because of the different shareholders of its domestic and external operations. There were also copyright problems.

The meeting ended in agreement that FCO officials should now draft a short paper refining the policy options in the light of this discussion and attaching a draft reply to the existing BBC proposal. Input from other Departments would be needed to draft this paper, which should then be considered further by Ministers. Meanwhile the Foreign Secretary would explain to Mr Tusa that the BBC proposal was being considered carefully, and that a reply would be sent as soon as possible.

Our officials will now begin this further work. Unless you or any copy recipient sees objection, we shall base our draft paper on the following assumptions:

- there is virtually no case for HMG involvement in TV broadcasting to OECD countries;
- the political, commercial or cultural case for a HMG role in such broadcasts to closed societies and the Third World needs examining, on a regional or country-by-country basis;
- if a case for HMG involvement is demonstrated, it is likely to be in distribution rather than production;



- the right approach then would be to purchase the best available package for the audience identified, from whichever supplier we judged best;
- the reply to the BBC should rule out the possibility of a global subsidy and encourage them instead to develop a TV news product which HMG could consider buying for specific markets;
- further thought is needed about how to put the BBC and ITN on an equal basis for this purpose (taking into account taxation, capacity to borrow, and other limitations).

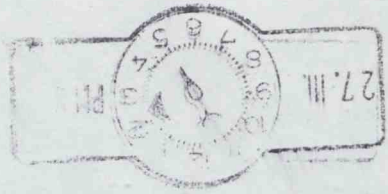
I am copying this letter to Timothy Walker (DTI), Jill Rutter (Treasury), Shirley Oxenbury (Chancellor of the Duchy of Lancaster's office), and Charles Powell (Number 10).

Yours ever

A handwritten signature in dark ink, appearing to read 'R N Culshaw' with a flourish at the end.

(R N Culshaw)
Private Secretary

Stephen Boys Smith Esq
Home Office





Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

26 March 1987

The Rt Hon Douglas Hurd, MP
Secretary of State for the Home Office

NBAR.

Stan

BROADCASTING BILL: INDEPENDENT PRODUCERS

at-top

I have seen your Private Secretary's letter of 18 March, and David Mellor's letter of 17 March to Lord Thomson of Monifieth.

I am disturbed that both the BBC and the IBA have offered only around 500 hours each, less than 5 per cent of their total broadcast airtime, for independent productions. If we are to keep to the four year time table for our 25 per cent target, the broadcasting authorities must be made to realise this. Given Mr Checkland's recent statements to the press, in which he said a 25 per cent target was "impractical", and the vested interests the BBC in particular has in maintaining its own in-house productions, I suspect that the BBC and IBA will almost certainly have to be obliged to deliver an adequate proportion of independent programmes.

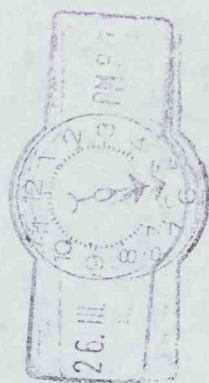
The real problem with Clement Freud's amendment is that it is incomplete in not covering the BBC, and in not defining "independently produced programmes". I accept your judgement that it would be unproductive at this stage; but it is important that the BBC and IBA do not get the impression that because the Government is opposing this particular amendment, there is any lack of determination to legislate should they not willingly agree to fill 25 per cent of their airtime with independent productions.

I am copying this letter to members of MISC 128.

Nigel Lawson

NIGEL LAWSON

BROADCASTING legislation



CONFIDENTIAL

CCBG



rep

FCS/87/066

HOME SECRETARY

with NW?

World Television News Service Proposal

1. My minute of 12 March attached a paper prepared by my officials setting the BBC's world television news service proposal in a wider context. I undertook then to send you a short list of the specific questions on which we will need to focus at our meeting. It is now enclosed. It takes account of the points in Norman Tebbit's helpful letter of 17 March.
2. I am copying this minute and its enclosure to the Prime Minister, Nigel Lawson, Paul Channon and Norman Tebbit.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
20 March 1987

CONFIDENTIAL

EXTERNAL TV BROADCASTING

Key Questions

1. Is there a case for Government involvement in external TV broadcasting?

- What is the potential audience?
(how is it split geographically: - OECD/closed societies/third world)
- How effective is the medium?
(potency of pictorial material: - more controversial)
- What kind of material?
(news/documentary/cultural - but always in English)
- What is the context? What do we and other Governments do and want to do?
(Other Government involvement in external TV)
(Private sector external TV)
- What are the prospects for regulation?
(International, especially EC and ITU)
(Problems: - copyright, ethics, advertising)

2. If there is a case, what are the options for Government?

- Support provision of UK service to target areas.
- BBC and independent companies on equal footing.



cc PG

CP to see

BF // ~~Amay~~ views

e.g. ~~Professor Gill Mills~~
~~Mr. Layton~~
~~re: notes~~

FOREIGN SECRETARY

WORLD TELEVISION NEWS SERVICE PROPOSAL

Thank you for your minute of 12 March and enclosures. I have also seen Norman Tebbit's minute to you of 17 March. ^{will request if reqd}

2. We have not yet considered together the BBC proposal to develop a television equivalent of the World Television News Service but I think there is now general agreement that if the Government were to sponsor a service of this kind ITN (and indeed others) should be given the opportunity of tendering or participating. I think it is also common ground that there is no question of using the licence fee for funding the project. I look forward to hearing your judgment on the merits of the BBC proposal.

3. On the wider questions raised in your paper, I welcome and endorse your view that government involvement in the new broadcasting technologies is not justified on technological or commercial grounds. It is, of course, for you to decide whether intervention on cultural or information grounds would be justified, but before doing so it is perhaps worth considering how this bears on our present policies. Our strategy in dealing with the new technologies has been to make opportunities available and lift regulatory obstacles, but to leave it to the market to decide whether and when to take up the possibilities. This strategy has been a success, and arguably more so than that of other European countries where large government subsidies have yet to show tangible results. In contrast in the United Kingdom we have:

- (i) a commercially funded DBS project scheduled to start in 1989 (though we cannot, of course, rule out the possibility that the market will decide against funding the project at this time);
- (ii) eight commercial low-powered satellite channels uplinked from the United Kingdom, a number of which have substantial audiences in Europe;
- (iii) Superchannel, carrying the best of independent and BBC broadcasting, beaming to Europe and carrying a regular news service provided by ITN;
- (iv) domestic BBC television services relayed by cable services in a number of Northern European countries;
- (v) the BBC and ITV companies as major players in the world market for television programmes.

4. Our continuing policy is to improve the efficiency of British broadcasters through increased competition: our decisions on the licence fee and on the greater use of independent producers should, amongst other things, help to achieve this. I believe that these policies will further encourage and equip our broadcasters to exploit world markets.

5. In these circumstances my own judgment is that there is no great need for government intervention in overseas programming and I question whether it would add anything significant to the substantial progress which British entrepreneurs are already making on their own account. But of course I am willing to discuss.

6. I am copying this minute to the Prime Minister, Nigel Lawson, Paul Channon and Norman Tebbit.

Day 1 - Hand.

18 March 1987

BROADCASTING: BBC Financing: Pt 4



WJG



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

18 March 1987

1. *Q&A*
2. *NBPN.*

Dear Antony,

BROADCASTING BILL; INDEPENDENT PRODUCERS

As you know, an amendment to the Broadcasting Bill proposed by Mr Clement Freud was carried at the final sitting of the Bill's Commons Committee Stage. The amendment places a duty on the IBA to enter into television, radio and DBS contracts, whenever they are made, only on condition that the contracts require a substantial proportion of programmes to be provided by independent producers.

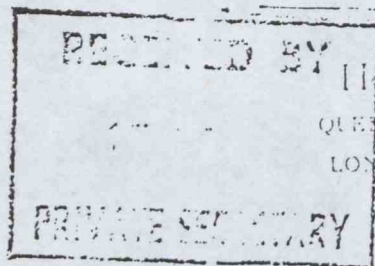
The Home Secretary is in no doubt that the amendment should be overturned on Report on 26 March, for the reasons explained in the attached letter from Mr David Mellor to Lord Thomson of Monifieth. As you will see, that letter makes it clear that the Government remains committed to pursuing a 25% target for independent production on television over a four year period.

The next meeting of MISC 128 might provide an opportunity for the Home Secretary to update colleagues on the progress of discussions with the BBC and IBA, although of course these discussions have yet to be concluded.

I am copying this letter to the Private Secretaries of members of MISC 128.

*Yours ever,
C R Miller*

C R MILLER



HOME OFFICE
QUEEN ANNE'S GATE
LONDON, SW1H 9AT

17 MAR 1987

Dear George

INDEPENDENT PRODUCTION INITIATIVE

As you know, when Standing Committee B considered the Broadcasting Bill on 3 March it decided, against Government advice, to include in the Bill an amendment prohibiting the Authority from entering into future broadcasting contracts which do not require a substantial proportion of programmes to be provided by independent producers. The purpose of this letter is to let you know that we shall be asking the House, at Commons Report, to restore the Bill to the form in which it left the Lords. In view of the wide interest in this matter I hope you will not mind that I am making this letter available to the press.

We remain, of course, fully committed to a substantial shift towards independent productions on both BBC and ITV. As you know, we have told you that we would like to see about 25% of programmes supplied by independent producers over a four year period. I am looking forward to seeing you on 23 March to hear from you the progress that you have made in developing proposals in the light of discussions with the ITV companies and representatives of the independent producers towards this broad target. I understand that some useful practical steps have already been identified in your discussions.

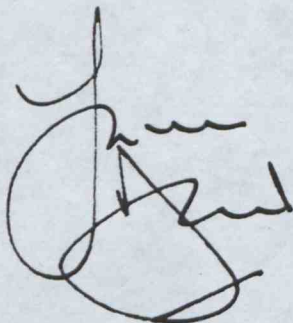
Against this background, we take the view that it would not be sensible at least at this stage to consider embedding the Government's target in statutory form. There are, of course, a number of important issues which need to be addressed in the context of broader access by independent producers to the main ITV channel, arising principally though not exclusively from the regional nature of the service. Although the amendment added to the Bill on 3 March essentially sought to extend the provisions of section 12 of the Broadcasting Act 1981 from programmes provided by the independent producers on Channel 4 to the main ITV channel, the two situations are rather different. There is, for example, the important question of the extent to which programmes produced for regional broadcasting only should be regarded in the same way as networked programmes. Bearing in mind that there are nearly twice as many hours a year of regional as of network programmes, the way in which the Authority moves towards the target of substantially increasing the use of independent producers needs careful thought. No doubt the Authority has been considering the position of regional production and proper arrangements for the provision of services of local interest, and I look forward to hearing the outcome.

The Rt Hon the Lord Thomson of Monifieth KT

The amendment added to the Bill on 3 March also throws up a number of substantial questions of definition and interpretation, bearing in mind for example the fact that account has to be taken of programmes provided by companies operating in other parts of the European Community and the fact that the expression 'independent programme producer' in the amendment has not so far been used or defined in broadcasting legislation.

As the Authority takes forward its plans in the light of discussions with interest parties the way in which such questions should be answered will become clearer. Our view is that the amendment would not be likely to help the Authority in its efforts to identify and implement practical and sensible measures. There is also, of course, the point that, in the nature of the Bill, the amendment cannot extend to the BBC. We regard it as important to ensure that our initiative applies equally to both broadcasters.

While we have always made it clear that we do not rule out the possibility of legislation in due course in this area should it prove to be needed, we do not think that this point has yet been reached. Although we wish to see early and specific progress, we think that the discussions now taking place should be allowed to bear fruit without statutory intervention of the kind proposed.

A handwritten signature in black ink, appearing to read 'David Mellor', written in a cursive style.

DAVID MELLOR

0921A



Chancellor of the Duchy of Lancaster

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Tel No: 270 0020
270 0296

17th March 1987

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

CP
pa.

D. Geoffrey,

WORLD TELEVISION NEWS SERVICE PROPOSAL

Thank you for the copy of your minute of 12 March to Douglas Hurd and for the accompanying paper and other material, which I have looked at with interest. *WITH NUN?*

I look forward to discussing this on 24 March. I agree that a distillation of the essential questions will help; I see them as four-fold:

- Do we want a U.K. world T.V. news service?
- If so, is subsidy needed?
- If yes, are we willing to pay?
- If yes, to whom - the B.B.C. or the private sector?

I am sending a copy of this letter to the Prime Minister, Nigel Lawson, Douglas Hurd and to Paul Channon.

Norman

NORMAN TEBBIT



PART 3 ends:-

SPECTATOR ARTICLE 21.2.V7

PART 4 begins:-

CDL TO FCS 17.3.V7

Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19

