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PRIME MINISTER

MINISTERIAL GROUP ON BROADCASTING SERVICES:

30 OCTOBER 1986

Objective of meeting

1. This meeting is being held to settle all the outstanding broadcasting issues on which the Government need to have an agreed line within the next couple of months.

2. Item 1 is to tie-off an unfinished piece of business from the first meeting, about the machinery for indexing the TV licence fee to the RPI. It should be straightforward.

Item 2 is to consider the Peacock recommendation to encourage more use of independent producers both by the BBC and in ITV. The line that the Government takes on this will be seen as one of the key indicators of their attitude towards what Peacock calls the "cosy duopoly".

Item 3 turns away from television issues and considers the Home Secretary's proposals on radio policy. The commitments here go further back than Peacock, but a key decision needs to be taken on Peacock's recommendation for the privatisation of Radios 1 and 2.

Separate briefs on these items are attached and you will wish to ensure that the Group reach clear decisions on all of them. The most urgent matter from the Home Secretary's point of view is the clearance of his Green Paper on radio policy, which he is committed to publish "in the Autumn".

3. At the end of the meeting you may wish to ask the Chief Whip to confirm whether the first "take-note" debate on the Peacock Report is still likely to be towards the end of November. You may also wish to invite the Home Secretary to report in writing to MISC 128 on the attitudes revealed in the debate. The timing of the next meeting can be decided in the light of that report, but the next major subject on which policy needs to be settled is probably the auctioning of ITV contracts, on which the Government will be pressed to show their hand during the passage of the forthcoming short Cable and Broadcasting Bill.

Handling and other matters

4. At the last meeting you asked Sir Robert Armstrong to put proposals to you for handling the Peacock recommendation (No 15) on telecommunications policy. He is minuting you to propose a small official group chaired by the Cabinet Office and a small sub-committee of E, which you may wish to chair yourself. If you agree with that, you may want to mention it briefly.

You have agreed.

5. I understand that the Chancellor of the Duchy of Lancaster will have to leave the meeting early for an unavoidable formal luncheon. You may wish to ask him to summarise his main points on the agenda before you start going through it.

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29 October 1986

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ITEM 1: OPTIONS FOR INDEXING THE LICENCE FEE
MISC 128(86)5

CONCLUSION

1. At its last meeting the Group agreed that the television licence fee should remain at £58 until April 1988 and then be indexed to the RPI. The Group now need to decide the machinery of indexation. The Home Secretary proposes:

(i) that the licence fee should be increased annually (as opposed to triennially) in line with RPI movements in the previous year;

(ii) that indexation should be geared to a notional licence fee of £60 on 1 April 1987 (Peacock: paragraph 621). Assuming that the RPI increases by about 3 1/2 % in the 12 months ending 30 September 1987 the fee introduced on 1 April 1988 would thus be £62 compared with the current fee of £58;

(iii) that the announcement of the new arrangements should avoid an absolute commitment to continue indexation on this model beyond 1988-89.

You will wish the Group to reach firm decision on these proposals.

BACKGROUND AND MAIN ISSUES

2. The proposal to base indexing on RPI movement in the previous year, as is done for social security benefits, seems manifestly right. At the first meeting of the Group, however, you were concerned:

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(i) that the base year and base figures chosen for indexation should be those most readily defensible (which pointed to adopting the exact Peacock recommendation) provided this did not involve being over-generous to the BBC;

(ii) that the BBC should have a sufficiently certain indication of future income to enable them to plan ahead sensibly.

3. As far as the choice of base year and base figure is concerned the current (1985) licence fee settlement involved a fee of £58 for a possible 3 years. The BBC were left entirely free to plan levels of expenditure within this. They spent well below the equivalent of £58 in 1985/86 in order to enable them to spend above it in later years. The expectation is that during financial year 1987/88 they will be spending at a rate equivalent to a fee of £62. This leaves a straight choice before the Group. The first option would be to take that level of expenditure as given with the result that the base line for a new settlement would be a notional fee of £62 on 1 April 1987, leading to an actual new fee of £64 in April 1988. But Peacock suggested a base figure of £60 on 1 April 1987, which roughly reflects BBC expenditure in 1986/87. The Peacock proposal means that in financial year 1988/89 the BBC income would be lower in real terms, but not in cash terms than their likely expenditure during the previous financial year. This is a tough position. But as the Home Secretary points out, it would give a very clear signal to the BBC that the Government were no longer prepared to finance continued expansion of its role and activities.

4. As your inclination at the first meeting was to follow Peacock as being a readily defensible position, and the further work has revealed that this is also the option most in line with the imposition of tight financial discipline, there seems a very

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strong case for proceeding on that basis, as the Home Secretary recommends. If there is a sufficiently early announcement, the BBC will have time to prepare themselves gradually for the tighter financial regime.

5. As for the extent of forward commitment, the Home Secretary would prefer to stop short of giving an absolutely firm undertaking that a Conservative government would continue indexed up-rating of the fee in the two years after 1988/89. Such a guarantee would stretch well into the next Parliament and you may think that you need not limit your room for manoeuvre to that extent.

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ITEM 2: INDEPENDENT PRODUCERS
MISC 128(86)6

CONCLUSIONS AND DECISIONS

1. The purpose of this item is to decide the Government's reaction to the Peacock proposal that the BBC and ITV should be required over a 10 year period to increase to not less than 40% the proportion of programmes supplied by independent producers.
2. The general thrust of the recommendation is clearly in accord with established Government policy of stimulating competition and it is unlikely that any member of the Group will wish to argue against it. Discussion is likely to focus instead on the best way to ensure a wider use of independent producers. The Home Secretary does not believe that the quota approach recommended by Peacock is the right one. Instead he proposes that he should make a firm statement of the Government's intention to see a significant and sustained increase in independent production and that there will be a monitoring system, on a basis to be discussed with the broadcasters, to ensure that this increase is delivered.
3. You will wish the Group to reach decisions on:
 - (i) whether the Home Secretary is right to drop the quota approach;
 - (ii) whether his alternative is sufficiently robust to obtain the progress required from reluctant broadcasting organisations.

If the Group believed the Government response did need

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strengthening then an alternative to the full quota approach might be to follow the Home Secretary's general line but to incorporate within it a clear target - perhaps 25% of programmes within 5 years. This could be further strengthened by a statement of intent to legislate at a future date if satisfactory progress was not made in the meantime.

BACKGROUND AND MAIN ISSUES

Current Position

4. The BBC and ITV companies make in-house most of the programmes they transmit. Of the programmes they do buy in from outside, the majority consists of foreign TV programmes and films made for the cinema. With the exception of Channel 4 only about 1% of programmes are made for television by independent producers. Channel 4, by contrast, is under a statutory obligation to take on a substantial proportion of its output from independent producers. Currently this runs at about 25%. Peacock identified this state of affairs as one of the undesirable consequences of the 'comfortable duopoly'.

Advantages of a Change

5. There are very strong arguments for encouraging a genuine increase in independent production. There are potential cost savings, not least by weakening the ability of broadcasting unions to sustain restrictive practices. An increase in the number of bought-in programmes would encourage greater diversity and innovation in both technology and programme content. The independent production sector has a stronger incentive to export programmes and it has a better record in doing so than either the BBC or the ITV companies. Opening up the market would also reduce the total dominance Channel 4 currently enjoys over the independent production sector. The change would be fully in

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accord with the Government's competition policy and be an important signal of the Government's intention eventually to create a free market in broadcasting.

6. The BBC and ITV do not dispute the desirability of some increase in independent production; they consider the 40% quota, however, to be quite unrealistic. The broadcasting unions are strongly hostile to the change which they see as leading to the "casualisation" of the industry with substantial job losses in consequence. Peacock on the other hand considered that job losses would be offset to a greater or lesser extent by the creation of new jobs in the independent sector.

7. The Group are likely to favour the wider use of independent producers. They will, however, want to consider carefully how this is best achieved. There are two main issues: what exactly is the changed pattern of production the Government sees as desirable and how can the Government best ensure the broadcasting companies will move towards that pattern, given that, whatever lip service is paid to the concept of independent production, there is likely to be resistance within the organisations to a move that will involve the dismantling of internal empires.

What Sort of Independent Sector do the Government Want to Encourage?

8. The Home Secretary rightly identifies as one of the weaknesses of the Peacock recommendation a lack of clear definition of what a move to independent production should mean. Peacock seems to envisage little more than an enlargement of the role of the companies now supplying Channel 4, which tend to specialise in features, films and documentaries; but in fact the opportunities extend beyond that to include sport, outside broadcasting and light entertainment. Furthermore the term 'independent producer' is one capable of a wide variety of

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interpretation. The 'independent' arrangements presently going on cover every sort of situation from the genuinely independent producer, who develops an idea, secures financing, makes the product with independent facilities and sells it, to freelance producers hired to implement an internal organisation idea using in-house crews, facilities and budgets.

9. Against this background, the Home Secretary is probably right in his belief that a quota, which is an inherently rigid concept, would prove impossibly difficult to attach to such a shifting body of programmes and people. There would also appear to be considerable force in his proposal that the key to success lies in close monitoring and in fixing beforehand - after consultation with the broadcasters - the basis on which such monitoring takes place. Otherwise there is all to clear a danger that the broadcasters will simply increase the amount of freelance work described above and only in fairly narrow areas of activity, but claim the result as an increase in independent production.

How Best to Secure Compliance with the Government's Objectives

10. The Group will, however, wish to probe whether it is sufficient simply to express a general desire to see an unqualified "significant and sustained" increase in independent production even if backed by the monitoring arrangements the Home Secretary describes. A similar general formula has it is true worked in the case of Channel 4 but that was a new operation starting afresh without internal vested interests against which to contend. In his discussions with the broadcasters it is hard to see how the Home Secretary can avoid being forced into disclosing what he would view as being a "significant" increase and that being the case there could be advantage in disclosing it from the outset and making it a firm target. It is true that whatever figure was selected would have to be arbitrary but this

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should not in itself rule out its use. The Home Secretary may argue that a target is little different from a quota, and so subject to the difficulties he identifies in paragraph 4 of his paper particularly problems of definition. But these difficulties would seem to apply with almost equal force to a formula such as a 'significant increase'.

11. The other question which the Group may wish to address is whether legislation should be used to ensure compliance. There are strong arguments in support of the Home Secretary's conclusion that it would be wrong to include any element of compulsion in the short Bill next Session on IBA and DBS contracts. The Lord President and the other business managers will not wish to see a further piece of controversial legislation added to the programme at this stage given the spate of recent bids for late additions, and in any event it is unlikely that the definitional problems could be resolved in time. Furthermore, such action could only apply to ITV and not to the BBC. Some members of the Group may, however, wish to see a general statement of intent to legislate at a future date if satisfactory voluntary progress was not made. The equivalent for the BBC would be to amend the Charter, but an alternative route might be to indicate that they cannot take the licence fee uprating for granted if they do not make satisfactory progress on this front.