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PRIME MINISTER

28 October 1986

PEACOCK REPORT

Independent Producers

Many of the inefficiencies in the BBC (and ITV) stem from its vertically integrated structure whereby the programme producer is insulated from competitive pressures however inadequate or costly his product. Even the 1% of programmes labelled as independent production are often co-productions where the independent producer has to use crews and facilities provided by the BBC and operate to the BBC's restrictive practices. Genuine independent production would not only reduce costs but ought also to increase quality through the diversity of competing providers. It represents a privatisation of activities that the BBC currently undertakes at public expense.

It is claimed that independent productions will mean job losses (so proving that the restrictive practices put up costs). But with more programmes, more actively marketed, television exports might climb from the BBC's current level of 4% towards the 70% that the independent film producers achieve. If this happened jobs might actually be created rather than lost.

Best endeavours towards using more independent producers will be insufficient. The unions and management vested interests will just drag their feet. Some coercion will be necessary. For the BBC this could be done by linking approval of the RPI increases in the licence fee to achievement of a steadily rising quota of genuine independent productions. Action on the ITV may have to wait until new full franchises start in 1992, but the Government could announce that in the interim before the new franchises that the ITV will be expected to match the BBC's progress on independent

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productions. The quota could be an extra 150-300 hours of independent productions every year.

Privatising Radio

We fully support the Home Secretary's proposal to end simulcasting on the BBC, to provide a lighter regulatory regime for independent radio, and to transfer supervisory responsibility to the cable authority. All this is long overdue, indeed he could have gone further and also implemented the Peacock recommendation for auctioning radio frequencies to the highest bidder. But where we strongly disagree with him is on privatising BBC radio: this is at the heart of changing BBC attitudes. The Official Group on Peacock has not been given the opportunity to discuss the subject.

Table 2.6 (attached) in the Peacock reports shows radio absorbs 28% of the licence fee. Only 10% of this goes directly on radios 3 and 4. If the BBC were to be strictly limited to just these services then the licence fee could be cut by £10. In fact the 1% spent on transmission and some of the regional and capital expenditure would still be needed, and so the possible cut would be less.

To claim that the BBC has nothing to sell is rather like claiming that the huge figures being paid by foreign companies for city institutions aren't happening. What these city institutions are selling is their name, their service, their licence to trade, their customer base, their staff and occasionally some physical assets. The BBC's situation is identical: they would be selling the radio 1 and 2 names, the service of programmes they have developed, the licence (with Home Office permission) to use the airwaves, the established audience base, and people who work in producing the programmes. In addition there are

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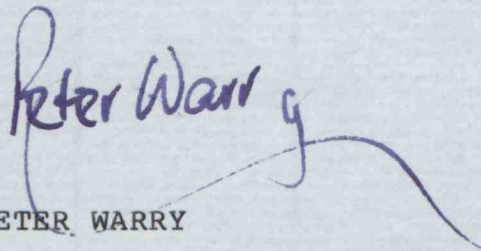
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considerable physical assets (where else is the £30m annual capital expenditure on radio going?).

Just as with any commercial transaction the purchaser would expect the BBC to enter into a restrictive covenant promising not to compete with the business that it had sold for, say, 10 years. There would be no need for the Government to intervene to restrict what the BBC could do.

The case for privatising local radio is even stronger than for radios 1 and 2 because this competes directly with the existing independent stations. If eliminating subsidised competition encourages new independents to set up then consumer choice will not be reduced. Simply committing to advertising on radios 1 and 2 would fall between two stools: it would aggravate those people who don't wish to listen to adverts without achieving any significant reduction in the licence fee.

The provision of pop music which other commercial channels would be keen to supply cannot be a requirement of public service broadcasting. If the BBC's publicly funded long march into every broadcasting activity is to be halted then privatising radio is essential. Even if the radio stations were given away, it would still save the licence fee payer between £5 and £10 a year.



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Table 2.6: BBC Expenditure Allocation

	Television (72%) comprising		Radio (28%) comprising
BBC1	35%	Radio 1	2%
BBC2	19%	Radio 2	4%
Regional TV	7%	Radio 3	4%
Transmission of TV programmes	2%	Radio 4	6%
Capital expenditure	9%	Regional Radio	4%
		Local Radio	3%
		Transmission of radio programmes	1%
		Capital expenditure	4%

Breakfast TV accounts for 1.5% of BBC TV's Operating Expenditure.

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