

# Annex 1

The Secretary of State's letter to Gavyn Davies  
and press notice



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*From the Secretary of State for Culture, Media and Sport*  
THE RT HON CHRIS SMITH MP

Gavyn Davies Esq OBE  
Partner  
Goldman Sachs  
Peterborough Court  
133 Fleet Street  
LONDON  
EC4A 2BB

30 November 1998

## Review of the Future Funding of the BBC

I am very pleased that you have agreed to make time to chair the independent review panel; I know how busy you are. I am writing today to let you have some further information on the role of the panel.

As you are aware, the BBC's Royal Charter guarantees the future of the Corporation until 2006. A separate formal Government Agreement with the BBC guarantees the licence fee until the end of March 2002 and provides for a review of the funding arrangements before that date in the light of technological and other developments.

The level of the licence fee until 2002 is based on a five-year settlement announced in April 1997 following an independent assessment of the BBC's funding needs. The settlement amounts to a cumulative change for the five years from 1 April 1997 just below the level of changes in the RPI (RPI minus 0.08%). The level of the licence fee post-2002 will be looked at separately in the run up to 2002.

### **Extent of the review**

The review will be a closely defined one. The time is not right for an extensive review of the BBC's purpose and governance; that will be more appropriately carried out in 2003-04 when we approach the issue of Charter renewal. Nor is it yet appropriate to consider alternatives to the licence fee as the main source of BBC funding. The review will therefore start from the position that the licence fee is sustainable, at least until Charter review. It will focus, within the existing framework, specifically on a number of closely defined issues, including ways in which funding to support public service output can be extended from other sources, regulation of the BBC's fair-trading commitment and the current concessionary arrangements.

**Handling**

As part of this review, I am establishing an independent review panel which you have agreed to chair. As you know it is to include people with a range of experience. I am asking the panel to consider the issues set out in the terms of reference (Annex A).

I shall be asking the panel to take a high level, strategic look at these issues and to provide clear and objective advice which will inform the Government's decisions.

The prospective members of the panel are shown at Annex B. I suggest you arrange an early meeting with Melanie Leech (Head of Broadcasting Policy Division) and Paul Heron to discuss the exercise, in particular how you wish to handle issues like the taking of evidence. The meeting should also provide a helpful initial opportunity to consider how best the Department can give the panel the support it needs.

I expect the panel to report to me no later than the end of July. I will then consult on the panel's findings.

I am confident that your personal authority and experience of broadcasting will enable you to guide the panel's deliberations and help it to produce clear, impartial advice on the issues. The outcome is important to the population as a whole as well as to those directly involved in broadcasting.

Yours ever  


**Chris Smith**

DCMS 4/99



12 January 1999

NEWS RELEASE

## Chris Smith announces panel to carry out BBC funding review

**Culture Secretary Chris Smith announced the membership of the BBC funding review panel.**

The panel will be chaired by Gavyn Davies and comprises Lord Newton of Braintree, Lord Gordon of Strathblane, Sir Alan Budd, Rabbi Julia Neuberger, Helen Black, Ruth Evans, David Lipsey and Heather Rabbatts.

The review will start from the position that the licence fee is sustainable at least until the review of the BBC's Charter due in the run up to 2006. It will, within the existing framework, take a strategic, high level look at ways in which funding to support public service output can be extended from other sources, and how to secure an appropriate balance between the BBC's public and commercial services.

The review will also examine the mechanisms under which the fair-trading commitment as to commercial services is delivered, and consider the current structure of the concessionary licence scheme and whether a suitable alternative structure could be available.

The panel will report to Chris Smith by the end of July 1999, who will then consult publicly on its findings.

Announcing the composition of the review panel, Chris Smith said:

*"This is an important review which aims to ensure the BBC's continuing ability to meet its public service obligations effectively, while at the same time ensuring that it retains the ability to operate effectively in a competitive market place."*

*"I am pleased that Gavyn Davies has accepted my invitation to chair the review panel. The panel members have the knowledge, authority and judgement to weigh the issues, and I am confident that they will do so impartially, without preconceptions and with the national interest in mind."*

Gavyn Davies said:

*"I am delighted to have been asked by the Secretary of State to chair this panel. These are important issues and I am fully aware that the outcome of the review is important to the population as a whole as well as to the Government and those directly involved in broadcasting. The panel will give careful consideration to all the issues and aim to make positive recommendations."*

There will be a further announcement on how the panel intend to take the review forward, including the taking of evidence, once they have held a preliminary meeting.

A note of the precise remit for the review is attached.

## Biographical details

**Gavyn Davies** - Chief International Economist at Goldman Sachs International, responsible for managing the global economics department, and co-head of London Investment Research. He became a Partner of Goldman Sachs in 1988. Gavyn Davies has been repeatedly ranked as the City's top UK, European or global economist in surveys of institutional investors over the past two decades. Previously an economist at Simon and Coates, 1981-86, and Phillips and Drew, 1979-81. From 1974-76, Gavyn Davies was a member of the Policy Unit at 10 Downing Street and was an Economic Policy Adviser to the Prime Minister, 1976-79. He was also a member of HM Treasury's Independent Forecasting Panel; Economic Adviser to the House of Commons Select Committee on the Treasury; and is now a Visiting Professor at the London School of Economics. In July 1998, he received an Honorary Doctor of Science (social sciences) from the University of Southampton.

**Lord Newton of Braintree** - Professional Standards Director of the Institute of Directors, and part-time Non-executive Chairman of the North-East Essex Mental Health NHS Trust. As Tony Newton, he was Conservative MP for Braintree, Essex, from 1974-1997, and held various Ministerial positions, including Minister for Health, Social Security Secretary and Leader of the House of Commons. He became a life Peer in 1997.

**Lord Gordon of Strathblane** - Chairman of Scottish Radio Holdings since 1996, having previously been Managing Director of Radio Clyde since 1972, and for a period political editor of STV. He was Chairman of Scottish Exhibition Centre, 1983-1989. He has also served on the Committee of the Scottish Development Agency and the Committee of Inquiry into Teacher's Pay and Conditions. Recently he chaired the Advisory Group on Listed Sports Events. He is currently Chairman of the Scottish Tourist Board.

**Sir Alan Budd** - Member of the Monetary Policy Committee of the Bank of England since 1997. Previously Chief Economic Adviser to HM Treasury and Head of the Government Economic Service; Professor of Economics at the London Business School, 1981-92; Group Economic Adviser, Barclays Bank, 1988-91; Director of the Centre for Economic Forecasting, 1980-88; Special Adviser, House of Commons Treasury and Civil Service Committee, 1979-81; Ford Foundation Visiting Professor, Carnegie-Mellon University, Pittsburgh, 1969-70; Member, Bloomsbury Health Authority, 1986-88; Member, Securities and Investment Board, 1987-88; Special Trustee, Middlesex Hospital, 1989-97. He is currently a Member of the Advisory Board for Research Councils; a Governor of the London School of Economics; and Chairman of the British Performing Arts Medicine Trust.

**Rabbi Julia Neuberger** - Chief Executive of the King's Fund since 1997, Member of the General Medical Council and Medical Research Council. Julia Neuberger served the South London Liberal Synagogue as its Rabbi for twelve years, Chaired Camden and Islington Community Health Services NHS Trust for five years until 1997, and is Chancellor of the University of Ulster. (She was a Visiting Fellow at Harvard Medical School as a Harkness Fellow 1991-92, and is on the Board of Visitors of Memorial Church, Harvard University.)

**Helen Black** - Regional Head of Health in UNISON's Southern Region, having previously worked as a Regional Officer for the Confederation of Health Service Employees (COHSE) in Wales. She has also been a campaign worker for a local community health campaign group and a researcher for the London Community Health Council.

**Ruth Evans** - From 1992-98, Director of the National Consumer Council. Previously a consultant to the Department of Health, 1991; General Secretary of War on Want, 1990; Deputy Director, then Acting Director of the National Association for Mental Health (MIND), 1986-90; and Director of the Maternity Alliance, 1981-86. Currently Chair of the Standing Advisory Group on Consumer Involvement in the NHS Research and Development Programme; Chair of the Money Advice Trust Planning Committee; a Trustee of the Money Advice Trust; and a Member of the NHS Charter Advisory Group; the 'Consumers First' Award Scheme Panel; the UK Round Table on Sustainable Development; the Sustainable Development Education Panel; the Financial Services Authority Ombudsman Board; and the Liverpool Victoria Group.

**David Lipsey** - On sabbatical from The Economist this year while serving on the Jenkins Commission on the Voting System and the Royal Commission on the Funding of the Long Term Care of the Elderly. Political Editor, The Economist, 1994-98. Previous journalistic posts include: acting Deputy Editor, The Times; co-founder and Deputy Editor, The Sunday Correspondent; Editor, New Society; and Economics Editor, The Sunday Times. Formerly a special adviser to the Prime Minister, 1977-79, and to Anthony Crosland MP as Foreign Secretary, 1976-77, and Environment Secretary, 1974-76. He is currently Public Interest Director at the Public Investment Authority; Director of the Horserace Totalisator Board; and Visiting Professor of Public Policy at the University of Ulster.

**Heather Rabbatts** - Chief Executive of the London Borough of Lambeth since 1995. Previously Chief Executive of the London Borough of Merton, 1993-95; Director of the Women's Department (1987-89), Director of Personnel (1989-91) and Deputy Chief Executive and Director of Strategic Services (1991-93) at the London Borough of Hammersmith and Fulham; and Equalities Officer, then Parliamentary Liaison Officer at the Local Government Information Unit, 1983-86. She is currently a Governor of the London School of Economics.

## Notes to editors

1. Chris Smith announced the panel membership in a Written Answer to Joan Ryan MP (Enfield North). A copy of the Answer is attached
2. The precise terms of reference for the review are as follows:

**"The review panel will:**

- i. against an expectation that the licence fee will remain the principal source of funding for public services for the Charter period:
  - consider ways in which funding to support public service output can be extended from other sources; and
  - take a forward look at other possible mechanisms for funding the BBC in the longer term, particularly in the light of technological development
- ii. consider how to secure an appropriate balance between the BBC's public and commercial services, and review the mechanisms under which the fair-trading commitment as to commercial services is delivered;
- iii. consider the current structure of the concessionary licence scheme and whether a suitable alternative structure could be available.

The review panel will report no later than the end of July to the Secretary of State, who will then consult on the panel's findings."

3. The Secretary of State announced details of the review in his speech to the Royal Television Society Symposium on 14 October 1998. Details can be found in PN 256/98.

**Press Enquiries: 0171-211 6266**

**Out of hours: Ask for pager 01399 751153**

**Public Enquiries: 0171-211 6200**

**<http://www.culture.gov.uk>**

**Joan Ryan MP** (Enfield North)

To ask the Secretary of State for Culture, Media and Sport when he will announce the membership of the panel looking at the future funding of the BBC, and if he will make a statement.

**Answer**

**Culture Secretary Chris Smith**

The panel will be chaired by Gavyn Davies and comprises The Rt Hon Lord Newton of Braintree, Lord Gordon of Strathblane, Sir Alan Budd, Rabbi Julia Neuberger, Helen Black, Ruth Evans, David Lipsey and Heather Rabbatts.

This is an important review which aims to ensure the BBC's continuing ability to meet its public service obligations effectively, while, at the same time, ensuring that it retains the ability to operate effectively in a competitive marketplace.

I am pleased that Gavyn Davies has accepted my invitation to chair the panel. The panel members have the knowledge, authority and judgement to weigh the issues, and I am confident that they will do so impartially, without preconceptions and with the national interest in mind.

The panel will be announcing shortly how it intends to take the review forward, including the taking of evidence.

The panel will report to me by the end of July and I will then consult on its findings.



# Annex 2

The Review Panel and support

**Gavyn Davies (Chair)**

**Helen Black**

**Alan Budd**

**Ruth Evans**

**James Gordon**

**David Lipsey**

**Tony Newton**

**Julia Neuberger**

**Heather Rabbatts (resigned February '99 on being appointed BBC Governor)**

***Secretariat***

**Paul Heron**

**Eleanor Street**

**Ian Windle (Economist)**

**Tanya Stocks (Economist)**

# Annex 3

Invitation to submit evidence

DCMS 18/99



27 January 1999

NEWS RELEASE

## BBC funding review panel invites evidence

**The review panel looking at the future funding arrangements of the BBC today highlighted the areas on which it would be taking written evidence.**

The panel has invited written submissions on the following areas:

- whether, in order to support the BBC's public service output, the licence fee needs to be supplemented;
- ways in which funding to support the BBC's public service output could be extended from other new sources;
- how to secure an appropriate balance between the BBC's public and commercial services;
- the mechanisms under which it is ensured that the BBC is trading fairly and openly in commercial markets; and
- the current structure of the concessionary licence scheme and possible alternative structures (including the funding of such structures).

Views are also sought on possible mechanisms for funding the BBC in the longer term, ie post-2006, particularly in the light of technological development.

The review is proceeding on the basis that the licence fee is sustainable at least until the review of the BBC's Charter due in the run up to 2006.

The panel will decide, having reviewed written submissions, whether to take oral evidence. Respondents should not assume therefore that there will be an opportunity to give oral evidence and should give all the evidence they would wish the panel to see in writing.

All responses, unless otherwise indicated, may be published in due course. Respondents are therefore requested to confine confidential material where practicable to clearly marked annexes.

## Notes to editors

1. This news release is issued on behalf of the independent review panel.
2. The review is not intended to be an extensive review of the BBC's purpose and governance; it is the Government's intention to carry out such a review in 2003-04 when the issue of Charter renewal is approached. Nor has the panel been asked to consider alternatives to the licence fee as the main source of BBC funding. The review is therefore starting from the position that the licence fee is sustainable, at least until Charter review. Similarly, issues relating to the content of programmes is outside the scope of the review. The intention is that the review should focus, within the existing framework, specifically on a number of closely defined issues, including ways in which funding to support public service output can be extended from other sources, regulation of the BBC fair-trading commitment and the current concessionary arrangements. The full terms of reference which the panel has been asked to consider is attached.
3. The Secretary of State for Culture, Media and Sport announced details of the review in his speech to the Royal Television Society Autumn Symposium on 14 October 1998 and membership of the review panel on 12 January. Details can be found in PN 256/98 and 4/99 respectively.
4. Views should be submitted no later than Wednesday 31 March to the panel's secretary, Paul Heron, at the Department for Culture, Media and Sport, Room 410, 2-4 Cockspur Street, London SW1Y 5DH.

**Press Enquiries: 0171-211 6269**

**(Out of Hours Telephone Pager No: 01399 751153)**

**Public Enquiries: 0171-211 6200**

**Internet: <http://www.culture.gov.uk>**

The precise terms of reference for the review are as follows:

The review panel will:

- i. against an expectation that the licence fee will remain the principal source of funding for public services for the Charter period:
  - consider ways in which funding to support public service output can be extended from other sources; and
  - take a forward look at other possible mechanisms for funding the BBC in the longer term, particularly in the light of technological development;
- ii. consider how to secure an appropriate balance between the BBC's public and commercial services, and review the mechanisms under which the fair-trading commitment as to commercial services is delivered;
- iii. consider the current structure of the concessionary licence scheme and whether a suitable alternative structure could be available.

The review panel will report no later than the end of July to the Secretary of State, who will then consult on the panel's findings.

# Annex 4

Analysis of Davies Review correspondence

## Summary of written evidence

The review panel issued a press release on 27 January, inviting written evidence by close on 31 March. Letters were also sent to 78 organisations - to other broadcasters, trade associations, trades union and consumer groups - seeking views on the issues the panel had been asked to consider. In all, 187 letters were received, broken down as follows:

<b>Industry</b>	28
<b>Consumer Groups</b>	14
<b>Employee Representation</b>	7
<b>Others</b>	138

The review panel sought views on the following five issues:

- i. whether, in order to support the BBC's public service output, the licence fee needs to be supplemented;
- ii. ways in which funding to support the BBC's public service output could be extended from other new sources;
- iii. how to secure an appropriate balance between the BBC's public service and commercial activities;
- iv. the mechanisms under which it is ensured that the BBC is trading fairly and openly in commercial markets;
- v. the current structure of the concessionary licence scheme and possible alternatives (including the funding of such structures).

The BBC was asked to submit its evidence to the panel by 28 February. It is referred to and quoted extensively in the text of the report and is not, therefore, covered in this annex.

A number of respondents chose not to address each of the issues raised - the majority of submissions from MPs and members of the public, for example, focused solely on the concessionary scheme, while a small number of industry representations addressed only a suggestion that the panel was considering a digital supplement to the licence fee as a means of giving the BBC revenue buoyancy.

Many respondents also chose to flag up issues outside the review panel's remit, suggesting that a fundamental review of the BBC's purpose was a necessary precursor to this review and that issues of governance, including self-regulation, needed to be addressed.

There was widespread support for the BBC and an acknowledgement that its strong position in the UK broadcasting market contributed to high standards in programming, as well as the licence fee as an appropriate system for funding it.

### Industry responses

**FUNDING** On the first two questions, relating to the BBC's funding, many industry respondents said that a prior question was how to define the BBC's objectives more clearly. There was support for the licence fee as a mechanism for funding the Corporation and strong opposition to the introduction of advertising on the BBC because of the likely impact on commercial broadcasters' revenues. The exception on this latter point was the Incorporated Society of British Advertisers, which suggested that limited advertising on BBC 1 & 2 would stimulate growth in the advertising market. Most respondents who commented on a digital supplement to the licence fee were opposed on the grounds that it would hinder migration from analogue.

**COMMERCIAL BALANCE & FAIR TRADING** There was general support for the BBC exploiting its assets, but while PACT thought it could do so more effectively, other respondents felt that the BBC should be focusing less on commercial activities. There was also much concern expressed about unfair competition - particularly cross promotion of BBC services through the various media. External regulation - whether by a single regulator for the industry as a whole or a Board of Governors one step removed from BBC management - was universally supported as were, going back to the point about the BBC's remit, clear boundaries for the use of licence fee income.

**CONCESSIONS** Little remarked upon by industry respondents. What comments there were favoured concessions on the basis of inability to pay and funded through the benefits system, without eroding the BBC's revenue.

### Consumer representative responses

**FUNDING** There was support for the licence fee as a mechanism for funding the BBC at least in the medium term, but it was considered likely to become increasingly unsustainable due to its inherent unfairness and the implications of a multi-channel future. Most respondents referred to a need for the BBC's remit to be clarified and for clear performance measurements against that remit. The National Viewers' & Listeners' Association suggested National Lottery funding, among others, as a means for funding the BBC, while the Voice of the Listener & Viewer suggested linking the licence fee to broadcasting inflation - i.e. unit production costs.

**COMMERCIAL BALANCE & FAIR TRADING** The few respondents who addressed this felt that the BBC should be attempting to extract maximum value for the licence fee payer through exploitation of its unique archive, but that the current system of self-regulation was not compatible with transparency and openness.

**CONCESSIONS** All respondents found the ARC scheme overly complex and unfair. RNIB said that the current concession for blind people was derisory. There was a general consensus that any widening of the ARC scheme should not be at the BBC's cost, although the National Viewers' & Listeners' Association did not see any case for concessions at all. Pensioner groups supported a universal concession for pensioners. A number of respondents commented on the need to improve services for people with sensory impairment.

**Employee representative responses**

**FUNDING** A general conviction that the BBC was inadequately funded was apparent - solutions offered revolved around RPI + increases in the licence fee, perhaps linked to inflation within the industry: advertising and sponsorship would threaten editorial independence and distinctiveness; a digital supplement to the licence fee would hinder take up. The Broadcasting, Entertainment, Cinematograph and Theatre Union proposed reopening the five-year settlement to allow for RPI + increases in 2001 and 2002.

**COMMERCIAL BALANCE AND FAIR TRADING** The role of BBC Worldwide in enhancing the BBC's reputation overseas and raising additional revenue for programming was generally welcomed, but the need for ringfencing to ensure that commercial activities were not subsidised by the licence fee payer was called for. Most respondents also pointed out that whilst the Corporation's commercial activities would undoubtedly become increasingly important, its public service ethos should remain undiminished at the heart of its output.

**CONCESSIONS** Respondents said that the cost of any concessions should not be met by the BBC, with the exception, the Musicians' Union suggested, of concessions to registered blind people. Any concessionary scheme needed to be fair and sustainable and not give rise to anomalies or inequities.

**Others**

The vast majority of the rest of the correspondence, from MPs, the public, housing associations and local authorities focused on the concessionary scheme. Without exception the scheme was viewed as overly complex, anomalous and inequitable. The favoured outcome for the review in this area was a widening of the concession to, or free licences for, all pensioners. Most respondents declined to address how this might be funded, but efficiency savings at the BBC, funding from the Exchequer or the National Lottery were all suggested as potential sources of revenue.

## Respondents

Advertising Association

Age Concern

Peter Ainsworth MP (on behalf of the Conservative Party)

The Almshouse Association

Peter Atkinson MP

BBC

Peter Bradley MP

Bill O' Brien MP

British Film Institute

British Internet Publishers' Alliance

British Radio & Electronic Equipment Manufacturers' Association

Broadcasting Entertainment Cinematograph & Theatre Union

Bromsgrove District Council

BSkyB

Cable & Wireless Communications

Campaign for Press & Broadcasting Freedom

Capital Radio

Channel Four Television

Christopher Chope MP

Commercial Radio Companies' Association

Consumers' Association

The Rt Hon Denzil Davies MP

David Davis MP (chairman of the Public Accounts Committee)

East Devon District Council

East Riding of Yorkshire Council

Equity

Federation of Entertainment Unions

David Graham & Associates

John Grogan MP

Mike Hall MP

Hanover Housing Association

Image Industry Alliance

Incorporated Society of British Advertisers

Independent Television Commission

Institute of Practitioners in Advertising

IPC tx Ltd

ITV Network Ltd

Dr Ashok Kumar MP

Local Government Association

Fiona MacTaggart MP

McCarthy Stone plc

Musician's Union

National Consumer Council

National Housing Organisation

National Union of Journalists

National Viewers' & Listeners' Association

The Newspaper Society

North Manchester Pensioners' Association

North West Leicestershire District Council

Office of Fair Trading

ONdigital

Pace Micro Technology plc

Painted Fabrics Tenants' & Residents' Association

Pensioners' National Campaign for Reduced Television Licences

People First

The Peverel Group

Producers' Alliance for Cinema & Television

Ken Purchase MP

RADAR - The Disability Network

Radio Authority

Royal National Institute for the Blind

Royal National Institute for Deaf People

S4C

Scottish Media Group plc

Marsha Singh MP

Stannington Tenants' & Residents' Association

David Taylor MP

Teletext Ltd

Tendring District Council

Thame District Housing Association

Carol Tongue MEP

Trades Union Congress

UK National Widescreen Forum

United News & Media

Voice of the Listener & Viewer

Wansbeck District Council

David Winnick MP

Rosie Winterton MP

Writers' Guild

Wyre Forest District Council

Yours Magazine

# Annex 5

Opinion polling data

# Attitude Survey on behalf of the BBC Funding Review

Quantitative Study

Research Study Conducted for Department for  
Culture, Media and Sport



April 1999

## Introduction

### Background and objectives

This report contains the summary findings, and marked-up questionnaire of a study carried out by MORI on behalf of the Department for Culture, Media and Sport.

The study focused on:

- examining public opinion on how public service output funding can be extended from other sources;
- understanding public reaction to long-term alternative methods of funding;
- testing public perception of the most appropriate balance between BBC public and commercial services;
- examining views of the concessionary licence fee;
- understanding attitudes towards BBC development of digital television, and BBC Online.

### Methodology

MORI interviewed 1,051 adults aged 15+ in 86 sampling points across the United Kingdom. Interviews were conducted face-to-face, in home between 10-14 April 1999.

Data are weighted to the known profile of the population (by sex, age, social class, working status, tenure and geographical region). Data are based on all respondents unless otherwise stated.

### Interpretation of the data

It should be remembered at all times that a sample, not the entire population of the United Kingdom, has been interviewed. In consequence, all results are subject to sampling tolerances, which means that not all differences are statistically significant.

Where percentages do not sum to 100, this may be due to computer rounding, the exclusion of 'don't know' categories, or multiple answers. Throughout the volume an asterisk (\*) denotes any value of less than half a per cent.

In the report, reference is made to 'net' figures. This represents the balance of opinion on attitudinal questions, and provides a particularly useful means of comparing the results for a number of variables. In the case of a 'net agree' figure, this represents the percentage with a particular issue, less the percentage disagreeing. For example, if a statement records 40% agreeing and 25% disagreeing, the 'net agree' figure is +15 percentage points.

### Publication of the Data

Any press release or publication of the findings of this survey requires the advance approval of MORI. Such approval will only be refused on the grounds of inaccuracy or misrepresentation.

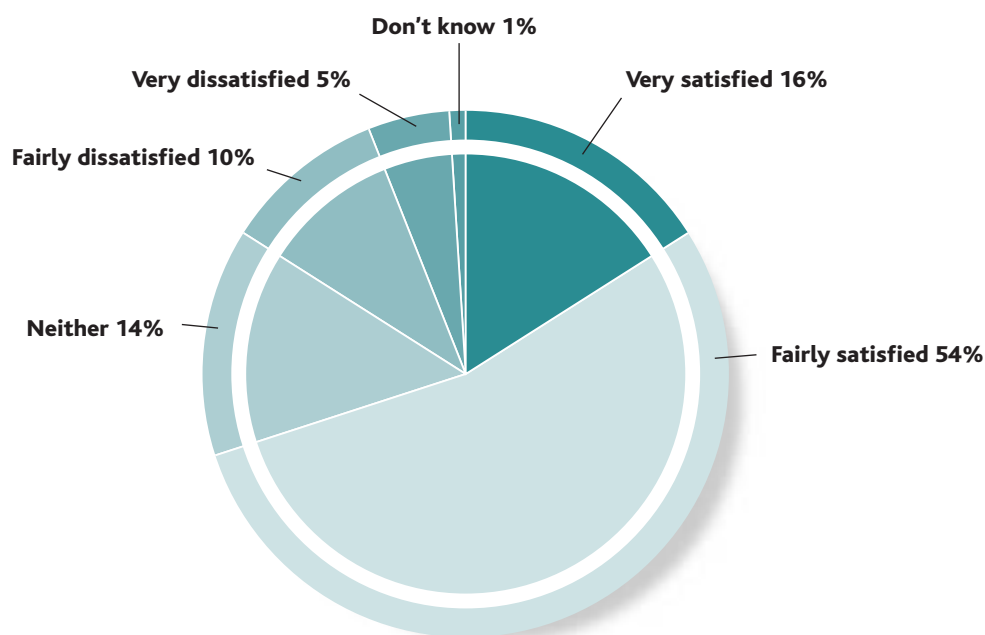
## Key findings

### Image of the BBC

Seven in ten are satisfied with the BBC - one in six (16%) are very satisfied, with the majority (54%) saying they are fairly satisfied with the BBC.

### Satisfaction with the BBC

*Q Overall, how satisfied or dissatisfied are you with the BBC?*



Base: All (1,051)

Source: MORI

Satisfaction is significantly higher among younger viewers (aged 15-34), 77%, and among the middle class 76% (compared to 65% among DEs). Those who think the BBC provides good value for money are significantly more likely to feel satisfied, 84%.

There is strong endorsement of the view that the BBC is good for Britain's image around the world - seven in ten (71%) agree, and only one in ten disagree. Older (aged 65+) and middle class respondents are more likely to agree.

Half (47%) disagree with the statement 'The BBC is out of touch with people like me' - a third (33%) agree. This sense of affinity varies significantly among population sub-groups. Men are more likely to agree with the statement than women (37% men, 31% women). Younger respondents aged 15-34 (29%) and ABs (24%) are least likely to agree. In contrast, almost half (44%) of older viewers (aged 65+), and two in five (41%) DEs agree the BBC is out of touch.

### Quality of programmes

On balance, the BBC is felt to provide better quality, and variety, of programming than other broadcasters.

Almost half (45%) agree the BBC provides better quality programmes, while a third (32%) disagree. Older (aged 65+) 56%, and middle class respondents (58%) are significantly more likely to describe the BBC as providing better quality broadcasting. Similarly, it is younger and working class viewers who are most critical of the variety of broadcasting provided by the BBC.

Respondents were asked to say which broadcaster best provided a number of different types of television programme. The BBC is mentioned as the best broadcaster for 11 of the 14 types of programmes asked about (as listed below).

As a provider of programmes on national events, nature, education and documentaries, the BBC is seen by a majority of respondents as the best provider. When thinking about news, drama and comedy, the BBC predominance is challenged by the ITV, which is considered the second best provider. Respondents cite ITV as the best provider of soap operas, game shows and daytime chat shows.

	BBC	ITV	Channel Four	Channel Five	Satellite	Cable	Don't watch	Don't know
	%	%	%	%	%	%	%	%
National events	<b>63</b>	19	1	*	3	1	5	8
Nature programmes	<b>59</b>	4	6	3	10	6	7	5
Education	<b>53</b>	4	9	1	4	2	19	7
Documentaries	<b>51</b>	11	16	2	6	3	5	7
News	<b>48</b>	31	4	1	8	3	2	2
Drama	<b>40</b>	39	3	3	2	1	5	6
Comedy	<b>40</b>	23	12	1	6	4	5	10
Home and leisure	<b>33</b>	16	2	1	12	7	19	10
Music	<b>32</b>	7	5	2	17	9	20	10
Sport	<b>30</b>	15	3	1	21	6	17	7
Children's TV	<b>29</b>	22	1	1	9	4	26	8
Soap operas	21	<b>45</b>	3	3	3	1	18	6
Daytime chat shows	8	<b>27</b>	5	2	6	4	39	9
Game shows	5	<b>57</b>	5	2	3	2	19	6

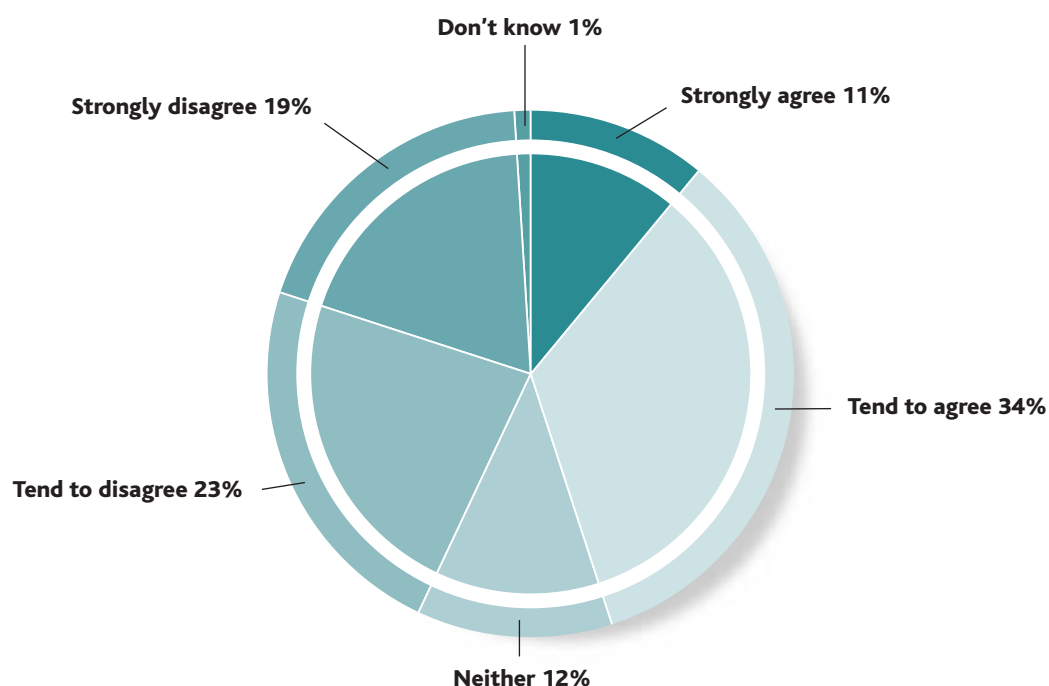
### The BBC licence fee

Opinion is divided on whether or not the BBC licence fee provides good value for money - 45% agree, while 42% disagree. There is greatest variation in opinion by social class - among ABs 69% feel they receive good value for money, falling to 31% among DEs.

Perception of value for money is also closely tied to overall satisfaction with the BBC. Those satisfied with the BBC are more likely to consider they receive good value for money from the licence fee, 53%, in contrast to those dissatisfied, 17%.

## Value for money

*Q 'The BBC licence fee provides good value for money'*



Base: All (1,051)

Source: MORI

Almost half (46%) support the maintenance of the existing range of BBC services, with licence fee increases broadly in line with inflation. One in eight (13%) feel that a rise in the licence fee above inflation is necessary to improve BBC services, while three in 10 (29%) want the BBC to cut services, for a reduced licence fee. Middle class respondents who tend to be on higher incomes, support inflation rises in the licence fee - in contrast, DEs and those on lower incomes are relatively likely to favour a cut in the licence fee.

Only seven per cent consider the BBC too commercial now. However, a further two in five (37%) feel that it is currently in danger of becoming too commercial. Middle-class and older respondents are more likely to mention this as a concern. On the other hand, over two in five (44%) say that the BBC is not commercial enough. This rises to 47% among those aged 15-34, and 50% among DEs.

### Alternatives to the licence fee

Three-quarters (74%) would support the introduction of sponsorship - only one in six are opposed. A majority (55%) feel the BBC should introduce advertising, but a significant minority are opposed. In both cases, support is strongest among younger and working class respondents.

The balance of opinion favours the replacement of the licence fee with advertising on the BBC - 58% in favour, and 38% opposed. This position has remained relatively constant since first asked of the public by MORI in 1988:

*Q Would you favour or oppose the replacement of the licence fee with commercial advertising on BBC television?*

	<b>May 1988</b>	<b>Jan 1993</b>	<b>April 1999</b>	<b>Change ±%</b>
Favour	58	60	58	-2
Oppose	35	34	38	+4
Don't know	7	6	5	-1

Base: all

There is strong opposition to the introduction of a subscription charge similar to that of BSkyB. Four in five disagree with this idea, with 56% saying they strongly disagree. Only one in seven support this proposed change. Support is marginally higher among those already receiving satellite and cable TV.

### **Concessionary licence fees**

The vast majority (97%) of respondents feel that specific groups should receive a reduced licence fee. Four in five (79%) support a reduced fee for blind people, three-quarters (77%) for pensioners, and seven in ten (70%) support a reduction for deaf people. Two in five (43%) feel those with disabilities should receive a concessionary licence fee, and a third say those on income support should.

Despite this high level of support for the concept of reduced licence fees for particular groups, three in five are not prepared to pay a higher licence fee to fund the scheme. Among those prepared to pay an additional fee, the average supplement is an additional £5.35 per year.

### **Digital television**

Awareness of digital television is low. Only one in seven say they know a lot or a fair amount about digital television, with a further one in four (27%) who know 'just a little'. Half (53%) have heard of it, but know nothing about it. Knowledge is higher among those under 35, and middle class respondents.

Despite remaining low in awareness, there has been a significant increase over the last two years:

*Q How much would you say you know about digital TV?*

	<b>1997</b>	<b>1999</b>	<b>change ±%</b>
I know a lot about it	1	3	+2
I know a fair amount about it	6	12	+6
I know just a little about it	18	27	+9
I have heard of it but know almost nothing about it	42	53	+11
I have never heard of it	31	4	-27
Don't know	3	2	-1

Base: all

Among those who have at least a little knowledge of digital television, the key advantages are seen to be the wider choice of programmes (57%), and improved picture quality and reception (37%). A small minority mention benefits such as access to information services (6%), home shopping (3%) and home banking (2%).

A majority (54%) support current BBC spending of the licence fee to move into digital broadcasting. Three in 10 (31%) think it is wrong to dedicate 10% of its licence fee revenue in this way. Opposition is greatest among those who are less likely to be aware of digital television (older and working class respondents), and among those who currently feel the licence fee does not provide good value for money.

Only a third (33%) agree that a supplement should be charged to the licence fee, for those who use the new digital services. Half (47%) oppose the introduction of the supplement. Were the supplement to be introduced, over a third feel it should be between zero and £10 per year, and three in 10 (29%) 'don't know', reflecting the low level of knowledge about digital TV.

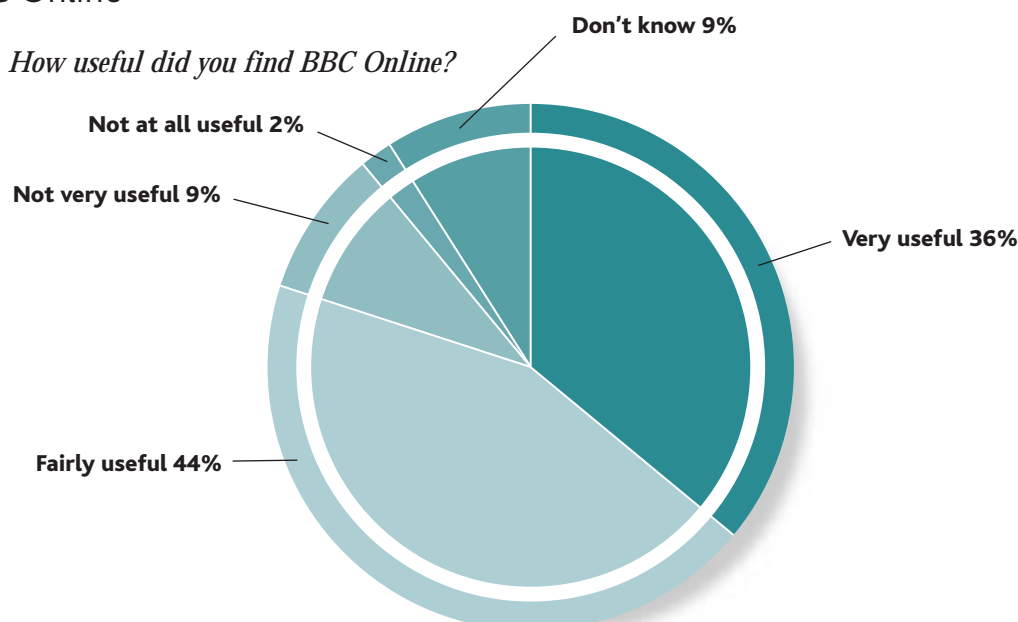
### BBC Online

One in ten respondents have accessed BBC Online on the Internet. Users are predominantly under 35, and are more likely to be male and middle class. Their purpose for doing so is to access programme information, education or news.

Users of BBC Online are very positive about the service - four in five found it useful.

### BBC Online

Q How useful did you find BBC Online?



Base: All who have accessed BBC Online on the Internet (112)

Source: MORI

As with the move into digital television, respondents support the spending of licence fee revenue on providing BBC Online. Half (51%) think the BBC is right to spend licence fee revenue in this way, while a third think this is wrong. Again, opposition is stronger among those least likely to use the service.

### Statistical reliability

The respondents to the questionnaire are only samples of the total 'population', so we cannot be certain that the figures obtained are exactly those we would have if everybody had been interviewed (the 'true' values). We can, however, predict the variation between the sample results and the 'true' values from a knowledge of the size of the samples on which the results are based and the number of times that a particular answer is given. The confidence with which we can make this prediction is usually chosen to be 95% - that is, the chances are 95 in 100 that the 'true' value will fall within a specified range. The table below illustrates the predicted ranges for different sample sizes and percentage results at the '95% confidence interval':

Size of sample on which survey result is based	Approximate sampling tolerances applicable to percentages at or near these levels		
	10% or 90%	30% or 70%	50%
	±	±	±
100 interviews	6	9	10
250 interviews	4	6	6
500 interviews	3	4	4
750 interviews	2	3	4
1,000 interviews	2	3	3

For example, with a sample size of 1,051 where 30% give a particular answer, the chances are 19 in 20 that the 'true' value (which would have been obtained if the whole population had been interviewed) will fall within the range of  $\pm 3$  percentage points from the sample result.

When results are compared between separate groups within a sample, different results may be obtained. The difference may be 'real', or it may occur by chance (because not everyone in the population has been interviewed). To test if the difference is a real one - i.e. if it is 'statistically significant', we again have to know the size of the samples, the percentage giving a certain answer and the degree of confidence chosen.

If we assume '95% confidence interval', the differences between the results of two separate groups must be greater than the values given in the table below:

Size of samples compared	Differences required for significance at or near these percentage levels		
	10% or 90%	30% or 70%	50%
	±	±	±
100 and 100	7	13	14
200 and 200	7	10	11
200 and 500	5	8	8
500 and 500	4	6	6
500 and 1,000	3	5	5

## Social class definitions

- A Professionals such as doctors, surgeons, solicitors or dentists; chartered people like architects; fully qualified people with a large degree of responsibility such as senior editors, senior civil servants, town clerks, senior business executives and managers, and high ranking grades of the Services.
  - B People with very responsible jobs such as university lecturers, hospital matrons, heads of local government departments, middle management in business, qualified scientists, bank managers, police inspectors, and upper grades of the Services.
  - C1 All others doing non-manual jobs; nurses, technicians, pharmacists, salesmen, publicans, people in clerical positions, police sergeants/constables, and middle ranks of the Services.
  - C2 Skilled manual workers/craftsmen who have served apprenticeships; foremen, manual workers with special qualifications such as long distance lorry drivers, security officers, and lower grades of Services.
  - D Semi-skilled and unskilled manual workers, including labourers and mates of occupations in the c2 grade and people serving apprenticeships; machine minders, farm labourers, bus and railway conductors, laboratory assistants, postmen, door-to-door and van salesmen.
  - E Those on lowest levels of subsistence including pensioners, casual workers, and others with minimum levels of income.
-

## FUTURE OF THE BBC - Topline Findings

- Results are based on interviews with 1,051 people aged 15+. Interviews were carried out face-to-face, in home in 86 sampling points across the United Kingdom.
- Fieldwork was conducted between 10-14 April 1999.
- A representative quota sample was interviewed with quotas set by age, sex and working status.
- Data are weighted to the known profile of the population (sex, age, class, work status, tenure, and geographical region)
- Where results do not sum to 100, this may be due to multiple responses, computer rounding or the exclusion of don't knows/not stated.
- An asterisk (\*) represents a value of less than half of one per cent, but not zero.
- Results are based on all respondents unless otherwise stated.

### Gender%

Male	48
Female	52

WRITE IN & CODE EXACT AGE

Exact Age:	(22)	(23)	%
	15-24		16
	25-34		20
	35-44		17
	45-54		16
	55-59		6
	60-64		7
	65+		20

### Occupation of Chief Income Earner

Position/rank/grade

Industry/type of company

Quals/degree/apprenticeship

Number of staff responsible for

REMEMBER TO PROBE FULLY FOR PENSION  
AND CODE FROM ABOVE

### Class

	%
A	3
B	19
C1	27
C2	23
D	17
E	12

### Respondent is:

	%
Chief Income Earner	58
Not Chief Income Earner	42

**QA How many children or young people are there under the age of 15 in your household?** SINGLE CODE ONLY

No	1	2	3	4	5	6	7	8	9+	0
%	15	16	5	1	*	*	*	0	0	63

### Tenure:

	%
Owned outright by household	28
Being bought on mortgage	42
Rented from Local Authority	15
Rented from Housing Association	6
Rented from private landlord	7
Other	2

Working Status of Respondent	%
Working - Full-time (30+ hrs)	44
- Part-time (9-29 hrs)	10
Unemployed - seeking work	3
- not seeking work	3
Not working - retired	24
- looking after house/children	7
- invalid/disabled	2
Student	8
Other	1

Signature: \_\_\_\_\_

Interviewer Name (CAPS): \_\_\_\_\_

Interviewer Number: \_\_\_\_\_

    /  \_\_\_\_\_

 Day of Interview: 1 2 3 4 5 6 7  
 (Mon) (Thu) (Sun) \_\_\_\_\_
**Interviewer Declaration**

I confirm that I have carried out this interview face-to-face with the above named person and that I asked all the relevant questions fully and recorded the answers in conformance with the survey specification and within the MRS Code of Conduct.

Date of Interview: //99 \_\_\_\_\_

THIS FORM IS THE PROPERTY OF MARKET &  
 OPINION RESEARCH INTERNATIONAL  
 (MORI) LTD  
 95 SOUTHWARK STREET, LONDON SE1 0HX

QB SHOWCARD M **Could you please give me the letter from this card for the group in which you would place your total household income from all sources, before tax and other deductions?** SINGLE CODE ONLY

	%
G Under £2,500	2
C £2,500-£4,499	5
O £4,500-£6,499	4
H £6,500-£7,499	3
J £7,500-£9,499	5
D £9,500-£11,499	6
M £11,500-£13,499	4
K £13,500-£15,499	4
A £15,500-£17,499	5
I £17,500-£24,499	11
P £24,500-£29,999	5
L £30,000-£34,999	3
B £35,000-£39,999	3
F £40,000-£44,999	2
N £45,000-£49,999	2
E £50,000 or over	3
Refused	14
Don't know	17

**Good morning/afternoon/evening. I'm from MORI, the Market Research company. We're conducting a short survey about broadcasting, and I wonder if you could spare a few minutes of your time.**

Q1- SHOWCARD A (R) **I am going to read out some different types of television**

Q14 **programmes. Using this card, please tell me which of these broadcasters best provides each type of television programme.** SINGLE CODE ONLY. READ OUT. ROTATE ORDER. TICK START

		BBC	ITV	C4	C5	Satellite	Cable	Don't watch	Don't know
		%	%	%	%	%	%	%	%
<input type="checkbox"/>	Q1 Nature programmes	59	4	6	3	10	6	7	5
	Q2 National events (e.g. Princess Diana's funeral)	63	19	1	*	3	1	5	8
	Q3 Documentaries	51	11	16	2	6	3	5	7
	Q4 Game shows	5	57	5	2	3	2	19	6
	Q5 Comedy	40	23	12	1	6	4	5	10
<input type="checkbox"/>	Q6 Sport	30	15	3	1	21	6	17	7
	Q7 Education	53	4	9	1	4	2	19	7
	Q8 Children's TV	29	22	1	1	9	4	26	8
	Q9 News	48	31	4	1	8	3	2	2
	Q10 Daytime chat shows	8	27	5	2	6	4	39	9
<input type="checkbox"/>	Q11 Home and leisure	33	16	2	1	12	7	19	10
	Q12 Music	32	7	5	2	17	9	20	10
	Q13 Soap operas	21	45	3	3	3	1	18	6
	Q14 Drama	40	39	3	3	2	1	5	6

Q15 SHOWCARD B (R) **Overall, how satisfied or dissatisfied are you with the BBC?** SINGLE CODE ONLY

	%
Very satisfied	16
Fairly satisfied	54
Neither satisfied nor dissatisfied	14
Fairly dissatisfied	10
Very dissatisfied	5
Don't know	*

Q16- SHOWCARD C (R) **I am going to read out some statements about the BBC. For each,**

Q19 **please tell me whether you agree or disagree.** READ OUT. ROTATE ORDER OF Q16-

Q19. TICK START. SINGLE CODE ONLY

		Strongly agree %	Tend to agree %	Neither %	Tend to disagree %	Strongly disagree %	Don't know/ no opinion %
<input type="checkbox"/>	Q16						
	The BBC provides better quality programmes than other television stations	10	35	22	25	7	1
	Q17						
	The BBC provides less variety of programmes than other television stations	6	29	23	34	6	2
<input type="checkbox"/>	Q18						
	The BBC is out of touch with people like me	10	23	17	36	11	2
	Q19						
	The BBC is good for Britain's image around the world	26	45	14	8	2	5

Q20 SHOWCARD D (R) **On this card are a number of statements about the BBC licence fee.**

**Please tell me which comes closest to your personal opinion?** SINGLE CODE ONLY

		%
A	The BBC should try to maintain its existing range of services, with the television licence fee (currently £101 a year) increasing broadly in line with inflation	46
B	The BBC should improve its services, increasing the licence fee by more than inflation in order to do so	13
C	The BBC should cut its services and cut the licence fee	29
	Other	7
	Don't know	5

Q21 **Would you favour or oppose the replacement of the licence fee with commercial advertising on BBC television?** SINGLE CODE ONLY

	%
Favour	58
Oppose	38
Don't know	5

Q22- SHOWCARD E (R) **I am going to read out a number of suggestions of ways in which the BBC could raise extra money, in addition to the funding it receives from the licence fee. For each, please tell whether you agree or disagree.** READ OUT. SINGLE CODE ONLY. ROTATE START ORDER. TICK START ✓

		Strongly agree %	Tend to agree %	Neither %	Tend to disagree %	Strongly disagree %	Don't know/ no opinion %
<input type="checkbox"/>	Q22 The BBC licence fee provides good value for money	11	34	12	23	19	2
	Q23 The BBC should introduce advertising	25	30	5	14	26	1
	Q24 The BBC should introduce sponsorship of programmes	27	47	8	9	7	2
<input type="checkbox"/>	Q25 The BBC should charge people to receive some of its programmes through a subscription like that charged by BSkyB	2	12	5	23	56	3
	Q26 The BBC should charge a supplement on the licence fee for those who use its new digital services	7	26	10	21	26	10

Q27 showcard F (r) **On this card are a number of statements about the BBC. Please tell me which comes closest to your personal opinion?** Single Code Only

		%
a	The BBC is too commercial already	7
b	The BBC is in danger of becoming too commercial	37
c	The BBC is not commercial enough	44
	Don't know	12

Q28 showcard G **Looking at this card, which, if any, of these people do you think should receive a reduced licence fee?** multicode ok

	%
Blind people	79
Deaf people	70
People with other disabilities	43
Old age pensioners	77
People on income support	34
Other	1
None of these	3
Don't know	*

ask all codes 1 to 6 at q28

Q29 **In order to pay for a reduced licence fee for these people, how much more would you be prepared to pay for your licence fee?** Write in exact figures in boxes below.

Using leading zeros, if necessary. If not prepared to pay any extra, write in £00

Base: All think certain groups should receive a reduced licence fee (1,200)

	%
Nothing	57
Up to £5 a year	14
Over £5 - £10 a year	17
Over £10 - £20 a year	6
Over £20 - £30 a year	2
Over £30 - £40 a year	1
Over £40 - £50 a year	1
Over £50 a year	*
Don't know	1
Average £5.35 a year	

ask all

Q30 showcard H (r) **Using the categories on this card, how much would you say you know about Digital TV? Please take into account any of the ways you have learned or heard about the service.** Single Code Only

	%
I have never heard of it	4
I have heard of it but know almost nothing about it	53
I know just a little about it	27
I know a fair amount about it	12
I know a lot about it	3
Don't know	2

ask all who know at least a little about Digital TV (codes 3-5 at q30)

Q31 **You said that you had heard of Digital Television. What benefits, if any, do you think Digital Television will offer over current TV services?**

Multicode ok. do not prompt

Base: All who know at least a little about Digital TV (433)

	%
Access to home shopping	3
Access to home banking	2
Access to information services	6
Better reception/picture quality	37
Wider choice of programmes	57
Other	15
None	7
Don't know	15

ASK ALL

Q32- Showcard I (R) **I am going to read out some statements about Digital Television.**

Q34 **For each, please tell me whether you agree or disagree.** read out. single code only.

alternate start. tick start ✓

		Strongly agree %	Tend to agree %	Neither %	Tend to disagree %	Strongly disagree %	Don't know/ no opinion %
<input type="checkbox"/> Q32	Digital Television will offer greater choice to viewers	18	41	12	7	1	21
Q33	Digital Television will provide poorer quality programmes	2	14	20	26	10	28
<input type="checkbox"/> Q34	Digital Television will provide better picture and sound definition	21	37	11	4	1	27

Q35 Showcard J (R) **If the BBC introduced an increased licence fee for people using its digital services, how much do you think this additional licence fee should be?**

Single Code Only.

	%
Up to £10 a year	36
Over £10 - £20 a year	17
Over £20 - £30 a year	10
Over £30 - £40 a year	3
Over £40 - £50 a year	3
Over £50 a year	2
Don't know	29

- Q36 **The BBC is spending £1 in every £10 of the money it gets from the licence fee on moving into digital broadcasting. Do you think the BBC is right or wrong to do this?** Single Code Only.

	%
Right	54
Wrong	31
Don't know	15

- Q37 **Have you ever accessed BBC Online on the Internet?** If yes, ask Q38, if not go to Q40

- Q38 **And for what purpose did you access BBC Online?** Multicode ok

	%
Yes:	
News	3
Education	4
Access to programme information	4
To make a complaint	*
Other	4
No	89

- Q39 Showcard K (R) **How useful did you find BBC Online?** Single Code Only  
Base: All who have accessed BBC Online on the Internet (112)

	%
Very useful	36
Fairly useful	44
Not very useful	9
Not at all useful	2
Don't know	9

ASK ALL

- Q40 **The BBC is spending some of the money it gets from the licence fee on providing BBC Online, the BBC's Internet service. Do you think the BBC is right or wrong to do this?** Single Code Only

	%
Right	51
Wrong	33
Don't know	16

Q41 **How many televisions do you have in your home?** Single Code Only

No. of TVs	1	2	3	4	5+	0
%	30	37	19	9	4	1

Q42 showcard L (R) **Which, if any, of these apply to you? Just read out the letters that apply.** Multicode ok

	%
A I/we have Home Satellite TV	19
B I/we have Home Cable TV	16
C I/we have Home Cable telephone (i.e. non BT)	16
D I/we do not have cable TV or cable telephone but cable companies serve this area	26
E I/we have home computer games console (e.g. Sega Megadrive, Sony Playstation)	34
F I/we are connected to the Internet at home	17
G I personally use the Internet at work, or at my place of study	18
None of these	25

**Go to demographics on pages 1 and 2, thank and close**



# Annex 6

Possible reform of the Accommodation for Residential  
Care concessionary scheme

## Possible reform of the Accommodation for Residential Care Concessionary Scheme

This scheme allows pensioners, people with disabilities, mental illnesses or learning difficulties to pay a £5 licence fee provided they live in one of two categories of accommodation:

- registered residential or nursing homes (whether run by the private or public sector); or
- certain categories of sheltered housing schemes run by local authorities, housing associations or development corporations.

Most complaints about the current scheme come from those in sheltered housing. These complaints fall into two categories:

- those deriving from the criteria for sheltered housing; and
- the time taken to evaluate (against complex criteria) whether an individual scheme qualifies or not.

Under the current criteria, sheltered housing must be:

- a group of at least four dwellings within a “common and exclusive boundary” provided for occupation by the “eligible groups”;
- erected or converted for that purpose;
- provided with a warden who lives or works there for at least 30 hours per week; and
- run by a local authority, housing association or development corporation.

The majority of complaints relate to the warden rules, with the remainder about social mix (ie there were people not in the eligible groups within the sheltered housing scheme) and boundary issues.

A possible reform might consist of four changes:

- to remove the restriction that the scheme must be a group of at least four dwellings within a common and exclusive boundary;
- to remove the hours limit on warden assistance;
- to strengthen the criterion that the property must have been erected or converted for the purpose (eg the Regulations could demand that the properties had been “significantly converted”); and
- to provide that the scheme must be separately managed by the local authority, housing association or development corporation.

NB It would be important to ensure that the strengthened criteria of “significant conversion” and “separate management” were carefully defined to ensure that the numbers qualifying and therefore the cost of the scheme were kept within reasonable bounds.

The **advantages** of the proposed reform would be that:

- all warden assisted sheltered housing would qualify;
- the boundary issue would be removed; and
- local authorities would have much greater flexibility to designate which properties (and thus which residents) were part of the scheme for licence fee concessions purposes.

The **disadvantages** would revolve around cost. It is estimated that there are some 785,000 sheltered housing units in the UK for the eligible groups of which around 604,000 are pensioners. 413,000 of that 785,000 are currently eligible and claiming for the £5 concession. If all the remaining 372,000 claimed the £5 licence, the revenue foregone by the BBC would be £36 million in 1999-2000. This figure would rise yearly thereafter as the gap between the £5 licence and the standard licence fee increased (and would widen still further if a digital licence supplement were introduced and those receiving the concession paid no digital licence supplement - at present both those with mono and colour sets pay the same £5 fee) and as the number of people in sheltered housing increased.



# Annex 7

Letter from David Davis MP, Chairman of the Public  
Accounts Committee



## COMMITTEE OF PUBLIC ACCOUNTS

Switchboard : 0171-219 3000  
Fax : 0171-219 2782  
Direct Line : 0171-219 5708

COMMITTEE OFFICE  
HOUSE OF COMMONS  
LONDON SW1A 0AA  
B.1425/29/252

2 July 1999

### Review of the future funding of the BBC

I have a particular interest in that part of the BBC Funding Review Panel's considerations that deal with the mechanisms to ensure that the BBC is trading openly and fairly in commercial markets. There is considerable overlap here with my own concern that there should be effective oversight of the Government funding which the BBC receive from the licence fee.

The BBC is, of course, widely regarded as one of the world's leading public service broadcasters, and an important reason for this has been its editorial independence from political and commercial influences. But as Janet Anderson, the Minister for Film, Tourism and Broadcasting, said in the House of Commons on 21 October 1998:

*"The BBC's independence brings with it obligations, including the need to be, and seen to be, accountable to licence fee payers, as stakeholders and customers; to my right hon. Friend the Secretary of State, as the custodian of its charter and agreement; and to Parliament, as the public authority for the moneys paid through the licence fee".*

Accountability must therefore be a major consideration when reviewing the future funding of the BBC. The main source of the BBC's funding is an annual grant from the Department for Culture, Media and Sport, which is voted by Parliament. This has conventionally been equivalent to the money paid into the Consolidated Fund through the television licence fee, less central government costs.

Most expenditure voted by Parliament can be examined by the Comptroller and Auditor General, who plays a key role in providing Parliament with assurance that the money has been spent properly and wisely. With the support of his 750 staff of the National Audit Office, he audits the accounts of government departments and other public bodies, and ensures that their expenditure accords with Parliament's intentions and represents good value for money.

The Comptroller and Auditor General can examine the BBC World Service to support his audit of the grant (of around £170 million a year) from the Foreign and Commonwealth Office. His most recent report to Parliament was last December<sup>1</sup> and covered the new financial arrangements of the World Service and my Committee has just published their own conclusions<sup>2</sup> on this subject drawing together the Comptroller and Auditor General's report and the evidence taken on it by the Committee.

<sup>1</sup> Report by the Comptroller and Auditor General 'BBC World Service: New Financial Arrangements' HC 26 1998-99

<sup>2</sup> Committee of Public Accounts, Nineteenth Report HC 219 1998-99

PRINTER TO DROP IN SCAN  
OF LETTER

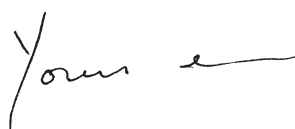

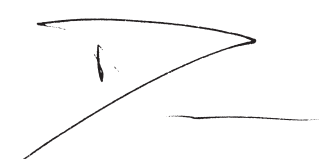
- 2 -

The Comptroller and Auditor General can also examine the BBC's arrangements for collecting the licence fee. However, whilst the Comptroller and Auditor General audits the accounts of the Department of Culture, Media and Sport, he has at present no access to the BBC to enable him examine how the Department's grant of around £2 billion a year, is spent. This means, for example, that he is not in a position to examine whether this grant has been used to subsidise commercial activities which are meant to be self-financing.

I consider that the Comptroller and Auditor General's inability to report to Parliament on the way the BBC uses the licence fee seriously weakens the public accountability of the BBC. That weakness could be remedied were the Department to agree with the BBC that the Comptroller and Auditor General could examine the BBC activities or specific issues relating to them. Such improved public scrutiny would not cut across the proper independence of the BBC. The Comptroller and Auditor General's examinations focus only on administrative efficiency, and on proper financial management and accounting. They do not question policy objectives; nor, as his work on the BBC World Service and the Arts Council shows, do they question matters of editorial or artistic judgement.

A move to provide Parliamentary scrutiny through the Comptroller and Auditor General would be in line with the Government's endorsement of greater accountability of the BBC. In their response in February 1999<sup>3</sup> to a report by the Select Committee on Culture, Media and Sport, on the BBC's Report and accounts, the Government said that it believed "*strongly that the BBC - as a public corporation - must be, and be seen to be, transparent and accountable*". The Government therefore welcomed "*the steps the BBC had taken over recent years to enhance transparency and accountability and its commitment - reiterated in 'BBC Beyond 2000' - to being a model for public accountability and a benchmark in the industry for openness*".

I trust your review will recognise the importance of the BBC's accountability, will accept my proposal as a useful strengthening of progress to that end, and will make suitable recommendations to Government to address the issues I have raised.

  
  
  
**DAVID DAVIS**  
Chairman

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<sup>3</sup> Cm 4258 Memorandum by the Department for Culture, Media and Sport, February 1999



# Annex 8

## Market Failure in Broadcasting

## Market Failure in the Broadcasting Industry

### An efficient broadcasting market?

Economic efficiency is a situation in which no one could be made better off without making somebody else worse off<sup>1</sup>. In order for this to occur, a number of conditions need to be met.

- A particular good or service should be *produced efficiently* - a given quantity of a good of a given quality should be produced at the lowest possible cost.
- A good or service should be *used efficiently* - everyone who values a good or service more than its cost of production, should consume the good or use the service.
- *All* goods or services that customers value more than they cost to supply should be produced.

Economically efficient outcomes are generally produced by competitive markets. In a competitive market, the price of a good and the quantity of a good supplied are set by equating supply and demand. At this point, there are no potential customers who would be willing to pay more for the product than it would cost to produce additional units of the good. In addition, the value to society of consuming an additional unit of the good<sup>2</sup> is equal to the value to the individual who purchases the good, and the social and individual values of producing the good are also equal. That is, in an efficient market, the interests of the firm and society exactly coincide.

While the market functions well for allocating normal “private” goods, it does not do so for all goods. Once the economic conditions required for a free market fail to hold, market forces will no longer guarantee an efficient outcome. This may occur, for example, due to the cost or complexity of information or because natural monopoly exists due to significant economies of scale in production. The failure of free markets to function optimally provides the underlying rationale for public sector intervention on efficiency grounds<sup>3</sup>.

The potential for market failure exists in the broadcasting industry for a number of reasons.

### Broadcasting is a public good

A good is “public” if providing the good to *anyone* makes it possible, without additional cost, to provide it to *everyone*. A public good has two distinguishing features - non-rivalry and non-exclusivity. The essential problem with public goods is that it is difficult to get people to pay for goods where they do not have exclusive rights to consume the good in question (non-exclusivity) and when their consumption of the good does not affect the good itself (non-rivalry). Under these circumstances, it is difficult to direct a good exclusively to the person who is paying for it - this is often referred to as the “free rider” problem. If left to the market, provision of public goods will be less than socially optimal<sup>4</sup>.

Intervention by public bodies to enhance the provision of public goods necessarily raises issues of cost. Whether it is national defence, street lighting or public broadcasting, such activities have to be paid for. Evaluating the extent of market failure and the resulting level of public provision requires a balance to be struck. There may be a danger that the economic costs of intervention can exceed the welfare benefits of the public activity.

Broadcasting includes many features of a public good - one person watching a television programme does not prevent others from watching the same programme. Because consumption does not reduce the amount available for others, the social value of non-rivalrous goods is given by the sum of everyone's willingness to pay, rather than an individual's valuation. The social value of a TV programme is therefore the aggregated valuation of all those people who *might* watch the programme, not just those that *do*. The public good characteristics of broadcasting therefore have important implications for the provision of broadcasting services - restricting the viewing of programmes that, once produced, could be made available to everyone at no extra cost, leads to inefficiency and welfare losses.

#### **Quality broadcasting is a merit good**

A merit good is a good whose value exceeds the valuation an individual would place upon it. Merit goods are deemed intrinsically desirable and provide one rationale for the government providing access to health care, museums and libraries, etc. The opposite to a merit good is one (for example, alcohol, addictive drugs, etc) whose consumption is generally discouraged.

Television has the capacity either to restrict or expand the knowledge, experience and imagination of individuals. If all television is provided via the free market, there is a danger that consumers will under-invest in the development of their own tastes, experience and capacity to comprehend because it is only in retrospect that the benefits of such investment become apparent.

#### **Consumers are not fully informed**

One of the key assumptions of a competitive market is that consumers are fully, indeed "perfectly", informed. This assumption is seriously flawed in broadcasting. One role of broadcasting is to inform and educate, yet the process of learning and understanding the world is part of how individuals form their preferences. These preferences cannot therefore be taken as a given in advance.

In general, markets do not always work well where what is being sold is information or experience. This is because consumers do not know what they are buying until they have experienced it, but once they have they no longer need to buy it.

#### **Broadcasting produces externalities**

Externalities are spill over effects that occur when the social costs and benefits derived from some activity are different from the costs and benefits derived by the producers and consumers of the products. Externalities can be positive or negative and can arise from production and/or consumption. Externalities lead to market failure because the full costs and benefits of an activity are not borne by the same people.

Externalities exist in broadcasting if it is assumed that television has some influence on the behaviour of the people who watch it. Because the wider social costs of programming output are not borne by the broadcaster, there may be a tendency for the market to provide more television with negative externalities than is socially optimal. Examples might include screen violence or offensive language.

### **Economies of scale exist in broadcasting**

The making and broadcasting of television programmes has exceptionally high fixed costs and very low marginal costs - it costs no more to make a programme available to extra people (within range of a given transmitter system). This phenomenon (termed economies of scale) makes it difficult for new firms to enter the broadcasting market and therefore results in a highly “concentrated” industry - a high percentage of total programming output is accounted for by a few providers.

### **Spectrum scarcity**

In the past, spectrum scarcity has placed a technical limit on the number of television services able to be provided by the broadcasting industry. This limited competition and created a natural monopoly environment without freedom of entry. Spectrum scarcity, along with the arguments discussed above, provided the underlying rationale for public sector intervention in the broadcasting industry.

The establishment of a publicly owned broadcaster, in combination with regulation of the private broadcasting market through a variety of rules, has ensured the provision of free-to-air broadcasting in the UK which does not exclude people on the basis of ability or willingness to pay and the provision of certain types of welfare enhancing programming that the market alone would not provide. It is sometimes argued that a public broadcaster is more likely to be willing to innovate, take a long term view, and invest in training (which benefits the whole industry) than its private sector counterparts.

### **Will market failure persist with new broadcasting technology?**

New technology is rapidly moving broadcasting into an apparently far more competitive and market driven environment. Within a few years, it is likely that digital broadcasting will be providing consumers with a choice of several hundred channels. In addition, the Internet provides the scope for interactive television and the capacity to order programmes as and when required. Many believe this new environment should lead to a highly competitive broadcasting market, where it is possible to sell programmes like any other good or service and where there is little scope or need for public policy beyond minimal regulation to uphold standards of taste and decency.

While it is true that the disappearance of spectrum scarcity will increase the number of channels, it does not automatically follow that the number of broadcasters will also increase or that the market on its own will produce all that is desired by individual consumers or society. There is a strong case to suggest that market failure will persist in the new environment. With the exception of spectrum scarcity, the arguments discussed above, which led to the current combination of regulation and public service broadcasting, still hold. Furthermore, economic

theory suggests that, rather than removing the case for public service broadcasting, the commercial pressures and globalisation that are reinforced by digital technology, could *increase* the need for such a broadcaster.

#### **Over-concentration in the market - the risk of private monopoly**

Digital technology creates strong pressures toward a broadcasting industry where ownership is concentrated.

- **Economies of scale will remain** - Many argue that the new technology is lowering entry costs (in particular, equipment costs) and therefore the broadcasting market will become more competitive. However, the fixed costs of transmission are likely to be large and, more importantly, for quality programming the real cost of talent and desirable content is rising quickly. The technical change in delivery is enhancing this phenomenon - more channels with multimedia companies operating on an increasingly global basis is generating greater competition for services which are already in short supply.
- **Economies of scope will increase** - Digital information can be endlessly edited, copied and merged with other information and can reappear in many formats. The digitisation of information is therefore increasing economies of scope in the broadcasting market, which explains the large number of multimedia mergers observed in recent years.
- **Bottlenecks may exist in gateways** - New technology is increasing the means by which broadcasting can be delivered as well as the number of channels that can be carried by each of these means. In the future, all digital signals will have to pass through a set-top (or built in) box which provides a gateway for the signals and will control access and payment (where applicable). This represents a powerful gateway, especially as it is likely that consumers will only be willing to buy one. If this is the case, then despite the increase in the number of delivery systems, there will only be a single point through which every digital channel from every broadcaster has to pass.

High quality programming can still be produced in the digital era and yet cost very little per unit provided it reaches a large number of people and/or provided it is used in a variety of formats. However, the exploitation of these economies of scale and scope increases pressure toward concentration of ownership. Therefore, although the new technology has removed one source of monopoly, spectrum scarcity, it has replaced it with another, the natural monopoly of economies of scale. Rather than promoting free competition, there is a risk that the digital era will foster high concentration in private broadcasting.

#### **Increased audience fragmentation**

Experience to date has shown that increasing the number of available channels does not increase the amount of time consumers spend watching television. Further increases in the number of channels available are therefore likely to result in greater fragmentation of audiences as the audience per channel or per programme decreases. Because minimum cost production in broadcasting is high, audience fragmentation is likely to increase average costs.

### **Negative externalities may increase**

As previously discussed, the wider social costs of programming are not borne by the broadcaster which may lead to more TV being produced with negative externalities and less TV with positive externalities than is socially desirable. With expanding numbers of channels in the digital era, it may be substantially more difficult for regulators to ensure that programming standards are upheld.

It is not intended to suggest that dealing with market failure, in broadcasting as in other industries, is a straightforward matter. Where there is imperfect information or a restricted set of policy instruments, there may be limits to what can be achieved through intervention. More specifically, in trying to deal with one source of market failure (e.g. 'bad' externalities in broadcasting) other problems may be created (such as monopoly power, or loss of freedom).

### **Programming in a free market**

The nature of a broadcaster's funding mechanism will tend to determine its programming incentives. Assuming that broadcasters operating in a free market are funded<sup>5</sup> through either Pay TV (subscription or pay per view), advertising or sponsorship, economic theory suggests that not all types of desired programming would be provided.

### **Programmes provided via advertising funding**

The customer for a broadcaster funded through advertising is the advertiser - not the viewer. The incentive on the broadcaster is therefore to deliver the largest possible audience at the lowest possible cost, as this will maximise advertising revenue and profits. Because the broadcaster is not concerned with the value consumers place on a programme, advertising funding tends to encourage the production of programmes with shallow but wide appeal - for example, a game show or sitcom would be shown in preference to a news programme, classic serial or a listed sporting event - especially at peak viewing time.

Other types of programmes are likely to deliver audiences (and therefore advertising revenues) which are too small. For example, programmes which are highly valued but by small audiences, such as specific sporting events, cultural events or quality series, would not be shown. This becomes increasingly likely in the new technology, as fragmenting markets will tend to reduce the average size of audiences per channel or per programme. The impact may be that advertising is less likely to be used to generate income or that it becomes more focussed with advertisements reaching a smaller, but more targeted, audience.

### **Programming via pay TV funding (subscription or pay per view)**

To a certain extent this market failure can be corrected through commercially provided Pay TV, because it enables the profitable production of the types of programme which small audiences value highly and are prepared to pay for. It is likely however, that Pay TV would still fail to produce programmes which have a wide appeal and are valued highly, eg certain sporting events, news programmes and classic serials. This is because it is difficult for the commercial broadcaster to maximise revenue for this type of programme - if a high price is charged, revenue is lost by excluding the large number of people who would pay a moderate price, and if a moderate price is charged a large amount of potential revenue from those people prepared to pay

a higher price has been lost. If the programme is expensive to make, it may not be made in a market funded by Pay TV, even if the total value of the programme is well in excess of the cost of making it.

The fundamental problem, which will persist with new technology, is that in charging for any broadcast program the cost of serving the additional viewer is zero, and therefore *any* charge will exclude viewers whose enjoyment exceeds the marginal cost of providing it.

In the UK, the tendencies described above have been tackled partly through content regulation of the commercial sector, with programming requirements imposed on the relevant networks. In an unregulated free market, however, analysis suggests that broadcasters funded through Pay TV, subscription or advertising may be unlikely to provide enough programmes that are valued highly and appeal to a wide base of consumers. In addition, there would not be strong incentives in place to provide special interest programmes that are valued positively by many people (and valued highly by some). In contrast, a publicly funded broadcaster will provide *all types of programmes* because it is concerned with whether the social value of a programme justifies its cost not whether the cost will be covered by advertising or subscription payments.

### **Implications for broadcasting in the future**

Economic theory suggests that private markets in the new digital broadcasting industry could fail on their own to produce the overall quality of broadcasting that consumers either individually or collectively would desire. Furthermore, there is a danger that if broadcasting were left entirely to the market the industry could become excessively concentrated.

Equally, the deficiencies in the market cannot be filled just by negative regulation as the new technology makes regulation, especially content regulation, less effective. For these reasons, it has been argued that public policy in the broadcasting industry requires a positive force that would:

- act as a counterweight to the private concentration of ownership
- provide a centre of excellence which both makes and broadcasts programmes
- be large enough to influence the market and so act as the guarantor of quality
- widen choice both now and in the future by complementing the market through the pursuit of public service purposes.

Public service broadcasting, acting as a complement to the commercial sector, would provide this pressure. Therefore, while a public broadcaster has no *right* to exist, there are *purposes for its existence*. Furthermore, rather than removing the case for public service broadcasting, there is a possibility that digital technology may even increase the need for such a broadcaster.

### Endnotes

1. The allocation of resources between individuals beyond this point raises equity and redistribution issues, rather than efficiency issues.
2. Assuming all goods are “private”.
3. Intervention for reallocative and equity issues is a separate matter
4. Public goods were first discussed by Adam Smith over 200 years ago. However, the terms of the modern discussion were set by US economist Paul Samuelson.
5. It is possible that PayTV will provide the greatest source of revenue for commercial broadcasters in the digital era. However, targeting specific advertising or sponsorship to niche channels or types of programming (for example, children’s advertisements on a digital Children’s station or beauty products to a soap series) may provide alternative sources of funding

This Annex draws heavily on the following sources:

- A. Graham and G. Davies; *Broadcasting, Society and Policy in the Multimedia Age*; 1997
- C. Koboldt, S. Hogg & B. Robinson; ‘The Implications of Funding for Broadcasting Output’. In A. Graham et al; *Public Purposes in Broadcasting: Funding the BBC*; 1999





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