
FINANCE AND CONTROL OF THE BBC - A RADICAL ALTERNATIVE

ANDREW SHARP

Introduction

As the BBC approaches its Charter renewal, its purpose and role is being re-debated. The questions being asked again appear to cover the same fundamental issues as before: how should it be funded? How should it manage its costs? Should it broadcast mainstream programming or only what commercial channels will not carry? The very fact that the "wound" is re-opened every 10 years or so suggests that no satisfactory long-term solution has been found to date.

The argument of this paper is that:

- 1) The problems of the BBC derive inherently from its ownership. And that any solution other than a radical transfer of ownership may be merely "tinkering" and could result in long-term decline of the institution.
- 2) The preservation of the BBC as a mainstream Broadcaster is heavily in the UK viewers' interest - not just for the sake of its own output but also the effect it has on the output of commercial competitors.
- 3) The current stark alternatives for national institutions (of either government or Capital ownership) can be augmented by a third - that of returning ownership directly to the paying customers, the viewers.

1. The BBC's predicament - it is government TV

The viewer pays for the BBC via a fee for a TV licence.

Whether this is explicitly recognised and felt to be a purchase of BBC services is debatable. It probably just ranks with all the other obligatory charges required to live in the UK - such as electricity, council tax, telephone rental etc. - and where payment is somewhat "de-coupled"

from consumption and where service levels are determined by state officials. The BBC is then received as "free" TV.

The net effect is that government, BBC staff and the viewer all tend to see the BBC as government-funded - and to debate the issue in the context of whether it is a good or bad use of public funds. In recent months Ministers, MPs and even BBC governors have spoken of the BBC being supported by public money - with the implication that the BBC belongs to a residual group of state-owned monopolies where the prime managerial task is to contain expenditure. In fact the BBC is fairly directly funded by the viewer. The BBC collects the licence fee. But it is a transaction in which the consumer has no real choice or influence.

It is the government that stipulates the licence fee and provides the power to enforce the fee. The government grants the BBC permission to broadcast, the funds and it appoints the Governors.

Given that pricing, directors and even product is to some extent controlled by "government PLC", then, in essence, the BBC can be regarded as a wholly-owned subsidiary of the government - over which it has ultimate control.

Despite the camouflage of this quasi-independent board of Governors the obvious essential truth is that the BBC can be dominated by government and this became clearer during the Thatcher Tebbit era. Peace may appear to have broken out in recent months.. but it is doubtful whether the BBC, while it retains a reasonable audience, and can be controlled by government, will ever be off the political agenda.

Charles Jonscher, former advisor to Thatcher, recently suggested that irrespective of the eventual charter deal done the BBC would, over the coming years, have to continue justifying itself to politicians.

Such freedoms or editorial independence as the BBC has ever enjoyed effectively exist by consent (or absence of objection from) the owner. BBC independence is therefore somewhat

fragile - and government involvement in editorial and organisational issues, however wrong-headed, is entirely predictable given the relationship.

The BBC Real Lives imbroglio was a symptom of a basic structural problem. Compare this with C4 where the government has no direct control over the income stream or the choice of directors - and which can therefore take a more independent line over Northern Ireland.

The BBC's pre-eminent role in influencing the nation's opinions complicates, but does not alter, the issue - it strengthens the government motivation to interfere whilst at the same time making it afraid of being caught. The stated BBC strategy of concentrating on news makes the channel even more vulnerable in future.

Of the 3 stakeholders in the BBC - viewers, staff and the government - the role of the last is naturally and structurally dominant. This means that debates over the future of the BBC are essentially a dialogue between BBC staff and the government. Until recently, the customers or viewers, were not invited.

The licence fee has become taxation without representation.

The BBC recognises this, and therefore the emphasis for survival consists of looking upwards to government . Consistently recruits to influential BBC posts are chosen for their Whitehall skills - not their organisational skills, their programme skills, their business skills or any other skill that might produce direct incremental benefit for the viewer.

The BBC therefore becomes a supplicant. Inevitably around the time of licence fee or charter renewal the BBC will "creep" to the government without even being asked. How else are we to interpret the scrapping of Peter Jay's pre-election Panorama analysis of the economy? The agenda for reform at the BBC becomes defensive, an attempt to please the narrow interests of the "controller":

Although the government may effectively dominate the BBC it has no real motivation or incentive to look after it. For a number of reasons, the government is not a disinterested representative of viewers . First the licence fee contributes to inflation via the Retail Price Index. Secondly if the licence fee is raised the government would be identified with raising costs.. but not with the benefits..if any. And there are no votes in price rises. Third, there is the " they're always criticising us" that perennial complaint from politicians of any hue. In the case of in the case of Conservatives it would not be paranoid to suggest that most other (shareholder owned) media interests would be more favourable to their policies in the long run.

In a world where commercial interests are supplying more and more hours of programming through more and more channels an unwritten government policy of benign (malign?) neglect would seem both politically possible and eminently sensible. Nothing too abrupt, but a slow managed decline.

Support for this comes from the curious absence from the agenda of issues which a government seriously concerned with delivering the best TV to the electorate should consider. For example, in the Green paper the section on value for money concentrates almost exclusively on the negative issues - "efficiency" - or cost-cutting and fails to consider the positive case: "the BBC as the best media value for viewers" arguments - which are strong :

1. The BBC can deliver enormous value for money. The licence fee as it stands delivers the entire range of its services for 22p per home per day.

There is no equivalent commercial offer that can equal this.

2. The BBC is in fact relatively (if not absolutely) efficient :

	1990 Receipts for TV £m (est)	% spent on programming	Source
ITV	1482	42	Company reports Anglia, Thames, Central
BBC	1046	66.5	Company Report
C4	218	83	Company Report

In fact the BBC could deliver even more value. An unencumbered organisation would set its price to offer perceived value for money to customers - which is not necessarily the cheapest price. In BBC terms this might have meant putting a proposition to viewers that the extra cost to BBC licence payers to out-bid BSkyB for Premier football would have been c. £2 per household - whereas now via BSkyB they will have to pay £72 p.a. In a free referendum the rational would vote for the BBC.

The government in pursuing its own limited internal agenda to the detriment of a state corporation's best interests, is reminiscent of the (un)managed decline of some other state-owned industries that failed in competitive markets - e.g.. cars, or ship-building.

2. Why a healthy BBC makes for a happy viewer

If the government is not the ideal owner then why not privatise it? In theory, a perfectly competitive market looks after customer, or viewer interests irrespective of ownership. To fail to meet customer needs is to fail. Private companies tend to be more motivated, agile and

efficient than state institutions so what role is there for a Public Service Broadcaster any longer?

This seems to be at least the tacit view shared by all European governments where almost universally they are de-regulating to favour private channels, whilst at the same time holding down licence fees, and effectively weakening the position of their Public Service Broadcaster's. In Italy recently RAI was threatened with privatisation, and in Germany , France and the Netherlands the Public Service Broadcaster's revenues have been constrained in real terms. In Switzerland the heavily controlled state TV Broadcasters have lost audiences to such an extent that their whole existence is being called into question. Switzerland stands on the brink of losing its only single national medium - a once powerful uniting cultural force

The argument in defence of Public Service Broadcaster's is that, contrary to economic theory, in practice purely commercial TV markets do not compete perfectly. They become co-operative markets- thereby reducing the quality of their output to viewers below the optimum. Quality has become a nebulous term and it is important for each author to define their terms - what does quality equal in this argument?

The first criteria is cash. The assumption is that , creativity being equal, high average expenditure per hour spent on talent, locations etc. produces more attractive programming. Commercial Broadcasters, in an efficient market, should invest up to, but not beyond, sufficient quality to get the audiences they need. Surplus goes to the shareholders.

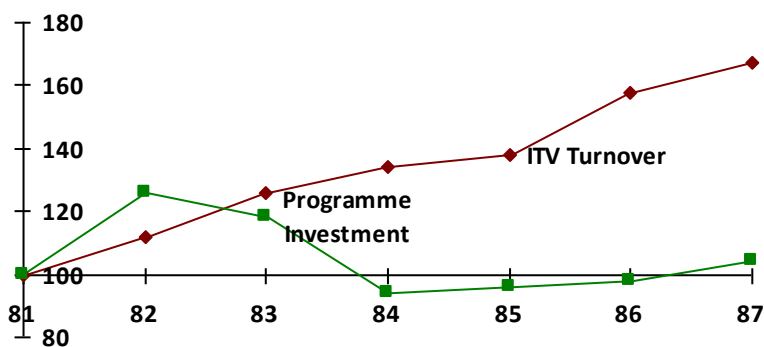
The second is a preparedness to take risks. Commercial broadcasters will put safe predictable programming first. Predictable ratings are desirable to advertisers but unpredictable ratings must carry a discount. As Greg Dyke, MD of LWT observed " the only downside of the new ITV is that it will take less risks - commercialism means less risks" (The Independent 1992)

In a competitive commercial environment Broadcasters will avoid risk by running successful series longer (perhaps past their sell-by date); and by tending to copycat successful programming - a natural co-operative effect. Any tendency towards a reduction in investment, innovation and variety constitutes a loss of overall quality for the viewer.

British viewers, up to now, have been partly insulated from this effect by the fact that ITV franchises, as mini-monopolies made more money than they actually required to give shareholders an acceptable return.

Free from strong shareholder pressure for returns the UK commercial network adopted a quasi- Public Service Broadcaster culture - indeed it has been suggested that in the Seventies and Eighties Granada TV had the strongest Public Service Broadcaster culture in the country!. Even so there were many examples during the dramatic TV revenue growth that occurred in the 1980's when ITV companies failed to increase their investment in programming at the same rate as their revenue growth - and exploited their monopoly on advertising airtime by directing surpluses into their own hands or those of their shareholders rather than returning the value to viewers in the form of more expensive programming or more experiments.

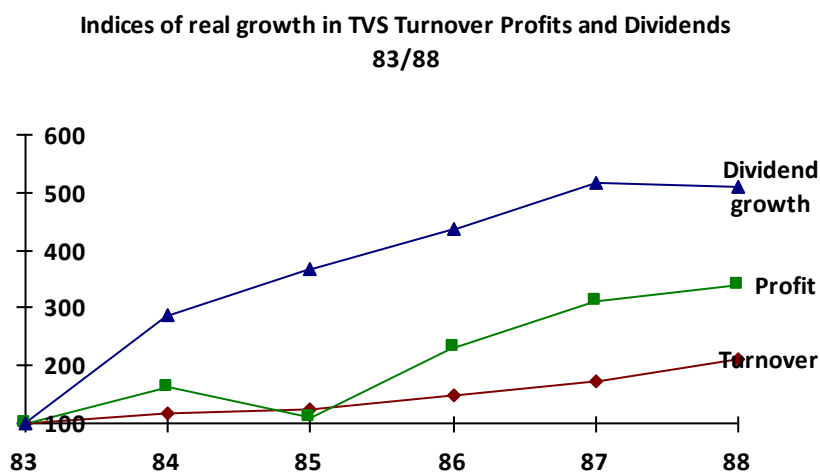
Index of ITV Turnover vs. Programme Investment



As the graph above shows during a period of record revenue growth, apart from in 1982, ITV failed to raise its programme investment at all.

The consequence was that from 1986 till 1989 the BBC progressively improved its share - innovating new series which improved its Top 50 programme share.

Where did the money go? If we look at TVS (much criticised for its lack of programming innovation at the time), we see that the excellent profit growth was accompanied by an increased payout to shareholders - at the very time that ratings were decreasing!



From 1993 onwards it is safe to assume that new constraints and philosophies in ITV will further reinforce the primacy of the shareholder interest.

Evidence from the most mature purely commercial market - the US - demonstrates how risk averse the 3 major well-funded networks have become. There was competition between the networks during the Eighties in terms of raising programming costs - but prices were bid up on the rights costs (rather than the production costs) of safe, well established, low risk programming such as sports events (Olympics, NFL) or popular comedies (Cheers) where value is a known amount.

The desire for large safe predictable audiences to please advertisers and thus safe predictable cash flows for shareholders leads to enormous conservatism. Failure to take risks and innovate led to stagnation and low Quality.

The ultimate effect of constant risk reduction is copycatting and a convergence of output - network clones like ABC, NBC, CBS in the US or Channels 7,9,10 in Australia. Diversity of programming can only be regained by the viewer by subscribing to niche channels from multi-channel suppliers (cable) - which is costly. Even this may not optimise viewing - new TV competition tends to be low risk in format if not investment terms - they tend to concentrate on familiar strands already successfully developed by the main networks - e.g sport.

Perfect competition probably only occurs when there are low barriers to entry and exit - this is not the case for television markets anywhere in the world - typically the majority of viewing is carved up between 3 or 4 players.

In imperfect markets there needs to be a separate guarantee for the viewer of highest possible producer standards. This guarantee can come from a strong well funded Public Service Broadcaster which sets the quality equilibrium at a higher level than a purely commercial market.

If there is a Public Service Broadcaster which is

- well-funded
- widely available
- committed solely to viewers and not shareholders
- efficient in putting its resources on screen
- capable of taking risks
- successful with viewers,

then a high quality benchmark is created that commercial operators have to match.- thus challenging the commercial channel's natural motivation to reduce costs and reduce change, and thereby improving the entire TV market output.

The BBC therefore performs a vital role in the UK Television market by forcing up the minimum quality level for all channels. As Michael Grade has said - "it (the BBC) keeps us honest"

This effect only occurs if the Public Service Broadcaster invests in all programming strands. If it withdrew to concentrate just on news, opera and single documentaries then the cost and the risk required for commercial TV to be competitive in, say, light entertainment falls.

The debate on financing the BBC has centred on 4 financing choices

- 1 Direct grant - from government
- 2 The existing licence fee - mandated by government
- 3 Advertising or Subscription
- 4 A mixture of these

But if one accepts that the government is structurally disqualified from being the best steward of the BBC, that the BBC should be broadcast in clear and that putting ads on the BBC, even if it were a credible option, would stop the "Public Service Broadcaster effect" - improving all Broadcasters quality - then none of these financing options is viable. A radical new alternative is required.

3. Is Mutuality the solution?

Mutuality is a form of corporate organisation that entails:

- no equity share-holders
- ownership by the members - who might be staff, customers, or both
- and therefore control by the members
- with one person one vote irrespective of size of financial input.

The concept of "mutuality" arose in the 18th Century when groups of would-be home-owners, unable to access capital from banks, pooled savings to create capital that would eventually allow members to purchase property. Subsequently the format became popular for other co-

operative financial institutions - e.g.. Building Societies and Life Assurance companies which survive and prosper to this day.

Mutualising the BBC would mean:

- transfer of ownership of the BBC to the viewers who pay for it.
- the Governors being elected from amongst the licence payers rather than appointed from the ranks of government favourites.

Mutuality, as a form of company structure, seems peculiarly appropriate when there is necessarily a conflict of interest between owners and customers. For example in the area of pensions a pay-out to shareholders must subtract from the earnings possible on savings. Or, as Maxwell showed, control by interests other than the members provides too many temptations. It is most viable when no large sums of capital are required immediately - so equity does not have to be issued for financing. And for mature organisations who can realistically expect their cash flow to be sufficient to re-build their future assets. The BBC meets these conditions.

In financial terms there seems no reason why BBC and mutuality should not succeed. Licence fees simply become members fees, yielding the same income. The BBC could become the biggest subscription service in the world (in clear). The key cultural difference would be that the members would now own the BBC which could make no changes without the vote of the members. In "Extending Choice" the BBC promised to take greater notice of viewers wishes - Mutuality is the logical extension of this intention.

The major change is that the government must lose its pre-eminent role. The contract is now between the viewer and the broadcaster - interference in the pricing or the policies of a TV station owned and controlled by millions of the electorate would be politically difficult.

Is this a rather impractical ideal? There are 5 obvious objections to mutualising the BBC:

- co-operatives have a poor track record (it is said)

- If licence evasion runs at 8% plus now - how much greater will be the shortfall when the fee is a private contract and not mandatory?
- the logistics of a multi million member organisation are too complex to be feasible
- a vote-driven organisation is vulnerable to "hi-jacking" by sectional interests.
- What are the checks on management pursuing their own self-interest?

Each of these objections can be answered in turn.

Co-operatives have a poor track record. The most well-known UK example is the Co-Operative Wholesale Society - Grocery stores owned by the members (and financed by fixed interest debt sold to customers), which in the last 30 years have seen their share of Grocery sales halved. A number of causes have been suggested.

First, the societies were locally based.. and fiercely defended their independence ... they thus forfeited national scale efficiencies available to say Tesco's

Second, the directors were frequently laymen who protected narrow sectional interests over the greater good - i.e. they were unwilling to rationalise lines or branches. This resulted in cross-subsidy and a decline in apparent price competitiveness. Consumer's price comparisons are made on key brands , not the whole basket or the cost of getting to the store. So Sainsbury aggressively price cut key brands.

Third, lay members had neither vision nor resources to keep pace with a competitive "arms race" in terms of store fixtures, site quality and site size, and staff training. So the shopping experience offered was increasingly uncompetitive.

Fourth, "internal promotion only" reduced the pool of talent. And fifth, dividends kept up high shelf prices. This led to a conflict of interest since customers prefer jam (price-cuts) today not jam (dividends) tomorrow.

What lessons are relevant to the BBC? First, Mutuals need professional management - not lay directors (unlike the current BBC!). Second, Mutuals must avoid conflicts of interest. They must have a simple mission - for example put as high a percentage of the cash as possible into good programmes.

Third, to operate in a competitive market they must embrace all available efficiencies for customer good, and avoid producer interests. Otherwise the organisation fails.

Finally, the concept of mutuality works as long as the market is relatively steady state (or evolutionary) and you can fund change from cash flow alone. But when there is "paradigm shift", an abrupt change in conditions, which favours the contender who invests most, earliest, then the competitor who has access to equity markets is favoured.

In Scandinavia the Co-operative retail movement avoided falling into these pitfalls and survives to maintain a strong share of the market. The UK experience is not conclusive.

Enforcement. There exists a problem in mutuality - you cannot enforce a contract and therefore you cannot enforce membership. Therefore the BBC broadcasting in clear would be unable to make a membership charge mandatory.

But what it can do is make watching it without paying fraud! In the latest Copyright Act there are provisions aimed at making pirate decoders illegal. But as part of this, the Act makes receiving a TV signal fraudulently illegal. The trick will be proving that non payers, but BBC users, knew they were supposed to pay and thus are fraudulent. It should be possible to reasonably establish this via frequent TV announcements and targeted mailings.

In practise there are few traumatic changes for the viewer. The licence fee becomes a membership fee but with the added advantage of a legal right to vote for BBC policy - i.e. at last you can have some say in what you pay for. Most people, as now, should pay and non-payers could be caught, as now, by detector vans.

In fact their task of detection is simplified - the vans detect emissions from sets which vary according to what channel is being watched. If BBC watching is the criteria the detectors only need to tune to the BBC frequencies.

But if Copyright law is the stick, there needs to be a carrot . The best protection for the BBC is by persuasion and through incentive. It should redirect its efforts from pleasing government

and meeting their demands to building a tangible and demonstrable relationship with its members.

The process of implementing a viewer democracy could in itself strengthen the BBC. The new subscription channels , Canal+, BskyB , are setting great store by their customer relations operations which give them a strength of relationship with their customers which far exceeds that which current Broadcasters enjoy.

Sky, in marketing its subscription services, is building up a personal relationship in a cost-effective way with each and every one of its current subscribers, a relationship which exceeds the typical current broadcaster-viewer relationship - and one that will be a strong competitive advantage for them.

The BBC is going to have to emulate, and even surpass, this example in order to make this massive membership organisation work. The BBC would have to install the means to reach members regularly by mail and phone - indeed it must seek the widest possible vote in order to avoid narrow interests hijacking the institution at some small AGM. Member voting will have to be encouraged and conducted via national media - of which the BBC itself is the strongest example.

It is easy to imagine the benefits that membership of the BBC could bring in the form of free publications, cheap(er) tapes and discs, privileged access to events and participation in large - scale competitions. As part of the benefits of being a member they could even get a free weekly copy of 'Radio Times', whose circulation would then rise to c.20 million, making it one of the world's largest publications (with a consequent rise in its ad revenue.)

Logistics.The most reasonable criticism of the idea is that the task of implementing Mutuality will be an administrative nightmare. Organising the membership, presenting the issues to members and accurately recording voting will be an expensive and time-consuming extra burden. But if you accept that all TV companies are going to have to make themselves more

interactive with their viewers, or face a loss of loyalty, then at least some of the work will have to be undertaken anyway.

It may be, however, that the frequency and depth of feedback required to run a broadcasting Mutual effectively may not be collectable using current techniques. Future technology may provide the key.

The risk of "hi-jacking" by sectional interests. This is less of a threat for the BBC than it is for other mutual organisations. The new BBC mutual society would have to be granted a licence to broadcast on television from an authority. Within these licences would be enshrined programme remits which would lay on the mutual society an obligation to continue to provide a range of entertainment, information and education consistent with the BBC role. No doubt there would be much debate about the wording of such a remit. That might be very healthy. The mutual society could then constitute itself with a unified board of directors and senior full-time executives whose prime concerns would be to see that the society:

- lives within its means,
- is responsible and lives up to its members' interests
- satisfies the conditions of the licence and
- broadcasts within the law.

Directors are voted for by members - they are not appointed by the government or the government through the privy council. In principle anyone can apply, so a million applicants is a theoretical and nightmarish possibility. But this is a common problem for all mutuals which they cope with in a variety of ways within their various constitutions.

But whatever their background the new governors, instead of operating on the basis of "personal prejudice", are bound to represent the interests of all viewers. They will have to find out what the millions of viewers want and put those views forward.

So would Mary Whitehouse seek election? Possibly ... but she might find it an unrewarding experience. Firstly she would be bound by the licence and secondly bound by a legal responsibility to represent all viewers, not just her section of opinion.

Checks on Management. One of the most serious problems associated with mutual organisations is the control of the management. Each additional voter has very little influence - the members can be divided and ruled. These are the criticisms that are levelled at current large UK mutuals such as the A.A. or certain Building Societies. In the case of the BBC the extremely high visibility of the management's actions will act as a greater check than might be the case in less prominent organisations.

4. Conclusion

Turning the BBC into a viewer-owned mutual corporation is a course of action which puts the BBC at risk. But which is the greater real risk to the BBC: a possible "death by a thousand cuts", or throwing itself upon the goodwill of the public? Research points to strong public support, the public's willingness to pay and the viewers' desire to see the BBC's present range and quality of programmes continue.

But if ultimately there turns out to be inadequate support for the BBC from its members then, in all conscience, what mandate can there have been for the licence fee anyway?

The author is grateful to Michael Grade and Colin Leventhal of Channel Four for their comments and encouragement and particularly to Professor Peter Abell of the London School of Economics for his contribution to the positive arguments for Mutuality.