

From: Mark Gray
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To: BBC Charter Review
Subject: BBC Review - contribution

On funding and commercial services

1. I believe that the BBC should continue to pursue both commercial and public broadcasting objectives, primarily because it is superlatively good at both. However I believe the distribution and welfare effects have to be monitored and controlled.

1. The report of the Davies committee assumed that the mission of the BBC was to be either self-supporting or funded. It assumed, in short, that activities were either wholly associated with private goods provision - for which markets existed and for which charges above marginal cost were a reasonable short to medium term expectation given the BBC's share of the domestic and international market in a variety of sectors - or public goods provision, for which subsidy at 'worst' and cost-only support at 'best' would be funded from a form of levy (direct funding, license fee etc.).

2. The reality is that the BBC's activities do not neatly fit this bifurcated reality. Activities which are publicly funded and serve a public need (and have other public goods characteristics) may, in other markets, earn a private return. The public funding argument is whether the levy fails to recognise this additional potential income so that the levy actually over-compensates for the public benefit. In effect the allocative question we should all be concerned with ("Is the BBC offering value for money for the funding sources?") comes down to the extent to which the levy (whether through tax or license or other direct means) is priced to fully comprehend the level of private market benefit the BBC gains from sales of publicly provided broadcasting.

3. One essential first step for DCMS is to use the evidence of the BBC's now long (15 year) experience of combining public service activity with an associated, if later, commercial gain from resale, repackaging etc to estimate the extent to which levy sources over-compensate - and hence overcharge the payer. If, as I suspect, an analysis of the welfare loss from the over-compensation, and an associated estimate of the variance and hence risk in this difference, suggests that levy should be reduced, the public-side funding model - whether by license fee or tax - should be adjusted. A good model, then, would be to price the total funding per hour of public service (charter related) activity as,

Cost of public delivery - (adjusted revenue forecast per unit from commercialised activity) + (adjustment factor for historical risk)

Refinements to this approach would anticipate tax funding for fixed costs, based on a 'best in field' comparator) and a variable cost estimate for delivery together making up the first term.

4. On regulation, the time has come to ensure that the welfare loss from over-levied public contributions (as above) is monitored and limits - rather like rail franchise holder limits and triggers - set for compensation. Compensation should take the form of reductions in future annual levy. This would redistribute the benefit of a public corporation's private benefits to the 'shareholders'.

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Dr. Mark A. Gray