



Independent Television Commission

Paper 164 (91)

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C3 CALEDONIA:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. C3 Caledonia is a company newly formed to compete for the North of Scotland licence. The company would be based in Aberdeen, with additional local studio facilities in Dundee and Inverness. The major shareholders include [REDACTED]

2. Tables on amounts of programming which are attached to this paper relate both to C3 Caledonia and to the other applicants for the North of Scotland, [REDACTED] and North of Scotland.

B. PROPOSED SERVICE

The Applicant's Proposals

3. Caledonia (C3C) intends to be mainly a publisher-licensee. Regional news and current affairs, and some Gaelic programmes will be produced in-house. Other regional programmes and programmes for the network will be commissioned from independents. The application provides only limited evidence, however, of any arrangements for programme provision, either in-house or from independent producers.

4. In a letter of 31 July, the ITC sought clarification on six points arising from the application. In its response of 8 August, C3C in particular confirmed its intention to enter into commercial agreements with the Central Scotland licensee for the sale and purchase of Gaelic programmes; stressed that its opt out arrangements would be confined to only the most localised Gaelic material; and clarified the identity of its proposed Director of Programmes.

Minimum Requirements and Expectations

5. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s). S184(1), concerning Gaelic programmes, applies to this service, and the relevant elements are dealt with after S16(2)(c).

6. S16(2)(a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

C3C'S proposals cover the the minimum scheduling requirements for national and international news and current affairs and accept the nominated network news provider. Non-regional current affairs will be taken from the network.

We conclude that C3C's application satisfies this requirement.

7. S16(2)(b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

C3C is dependent for the great majority of its output upon the network, to which it must look for most programmes of high quality. It has ambitious plans to supply "some 10 hours of programming per year", or more, to the network but none of this is underpinned by firm contracts or other production arrangements. There is similarly a substantial absence of satisfactory arrangements for the production of regional output. There is no evidence of in-house provision in most programme areas to compensate for the lack of agreement with independent suppliers.

8. The absence of any assurance that there will be some regional programmes of high quality means that we do not conclude that C3C is able to provide sufficient programmes of high quality.

We do not conclude that C3C's application satisfies this requirement.

9. S16(2)(c)

that a sufficient amount of time is given in the programmes so included:-

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and
- (ii) (not applicable to this licence)

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

C3C's proposals for regional programmes cover a wide range of programme strands, including local news. We have already noted above the failure to demonstrate convincingly a production capability (in-house or independent) to deliver regional programming. Programme proposals are very thin and give no acceptable assurance of proving of particular interest to a local audience. C3C provides very little audience research information to indicate an understanding of the region. The individuals named in key posts do not collectively have sufficient experience of regional programme-making.

10. The arrangements for regional news are similarly undeveloped. The Director of News is insufficiently experienced and supported by a staff complement of 20 which is not adequate to the purpose. A necessary dependence upon stringers in a large geographical area indicates a likely overall lack of direction and control. It is therefore not apparent that regional news programmes will be of high quality.

We do not conclude that C3C's application satisfies these requirements.

11. S184

(1) Section 16 shall have effect in relation to any service to which this section applies as if the following requirements were included among those specified in subsection (2) of that section, namely-

- (a) that a suitable proportion of the programmes included in the service are programmes in Gaelic other than funded Gaelic productions;
- (b) that the service includes funded Gaelic productions of which-
 - (i) a suitable proportion are of high quality, and
 - (ii) a suitable proportion are shown at peak viewing times;

and

- (c) that (taking the programmes included in the service in accordance with paragraphs (a) and (b) above as a whole) the service includes a wide range of programmes in Gaelic.

C3C's Gaelic plans include a weekly $\frac{1}{2}$ hour teenage show and a weekly $\frac{1}{2}$ hour news, current affairs and diary programme in fulfilment of the one hour per week of programmes in Gaelic in the regional requirement. No other specific Gaelic programme proposals are set out. C3C's proposal to provide an opt-out service for Gaelic speakers in the West is not supported by information about actual transmitter coverage or programme streams. Its ambitions to take £6 million from the Gaelic Television Committee's annual fund are quite unrealistic, and take insufficient account of the rival claims upon this finance. In a letter of 3 September, C3C has argued that its proposals do not depend upon GTC funding alone. This does not however change the staff view that the Gaelic proposals are not sufficient. The GTC's view is in line with our own : it concluded unanimously that the Gaelic proposals in this application are inadequate.

We do not conclude that C3C's application satisfies this requirement.

12. S16(2)(d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

The application does not provide sufficient evidence of contractual or other arrangements with regionally based independents, or of information about actual studio plans, or of more than very vague aspirations in relation to local staffing. C3C provides a commitment to "exceed the requirement that 80 per cent of the hours of regional programming transmitted in the calendar year must be made within the region". The evidence for this is agreements of a fairly unspecific nature with three independent companies, one of which is based in Bristol.

We do not conclude that C3C's application satisfies this requirement.

13. S16(2)(e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

C3C proposes to include 2 hours of non-regional and 30 minutes of regional religious programming every week. It proposes $10\frac{1}{2}$ hours of non-regional children's programming.

We conclude that C3C's application satisfies this requirement.

14. S16(2)(f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interest

Similar considerations apply to those expressed in paragraphs 8-10 above. While C3C is dependent upon the network for the great majority of its scheduled programming, the weakness of its provision for regional programming means that a most important area of its programmes (taken as a whole) is not, in our view, calculated to appeal to a wide variety of tastes and interests. The inadequacy of C3C's arrangements both for in-house production and for independent supply, as well as its failure to demonstrate through research evidence or other means an understanding of its region, mean that regional tastes and interests will not be adequately provided for.

We do not conclude that C3C's application satisfies this requirement.

15. S16(2)(g)

that a proper proportion of the matter included in those programmes is of European origin

C3C undertakes to comply with the "EEC requirement".

We conclude that C3C's application satisfies this requirement.

16. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions.

C3C confirms that it will transmit "not less than the required minimum of independently produced programmes", and intends to "meet the range and diversity requirement by commissioning specific programmes or series of programmes from competent independent producers". It does not, however, have contractual agreements in place.

We conclude that C3C's application satisfies this requirement.

Other Matters

17. C3C has provided assurances that it will comply with relevant codes and licence conditions, but provides no satisfactory proposals for arrangements for the necessary control procedures. Evidence of plans for offices and studios is insufficient and staff numbers are very spare at 118 including freelances. Proposals for training are unsatisfactory as are those for the promotion of the understanding and enjoyment of programmes by people with hearing or sight

impairments.

Conclusion

18. It does not appear that C3C's proposed service would comply with the requirements specified in Section 16(2)(b), (c), (d) and (f), and Section 184(1) in relation to programmes in Gaelic.

C. BUSINESS PLAN

Revenue

19. The analysis of revenue is sketchy and contains a number of factual and analytical errors. It takes up just one page. Total UK television advertising revenue is put at £2.12bn in 1993 which is very optimistic, and it is then projected to rise extremely rapidly at 6.2 per cent a year. This gives industry revenues which we would regard as grossly optimistic. The revenue projections for the North of Scotland region are much more reasonable, although it is difficult to reconcile them with the earlier industry and Channel 3 figuring. The average regional revenue of £20.8m arises from a reasonable initial figure for 1993 of £16.5m which increases to £20m by 1997 followed by a sharp rise to £25.6m in 2002.

Cost of the Programme Service

20. Again there are difficulties with interpreting the figures. However, the average cost of the programme service as revealed in the profit and loss account is rather low at £7.47m. The separate analysis of regional programmes shows expenditure of £11.7m which consists of 338 hours at £34.8k an hour. This would be an extremely high unit cost for a small regional company and we doubt that it is correct. It is not possible to reconcile these figures with those in the profit and loss projections. We suspect that they incorrectly include some costs other than overheads.

21. On Gaelic programmes the applicant says that there is too much uncertainty about the policy of the Gaelic Television Committee for this issue to be addressed, although in Section A Caledonia refers to setting up a subsidiary for commissioning and producing £6m worth of Gaelic programmes. We doubt whether any non-funded Gaelic programme provision has been included in the regional programming figures although Section A refers to 1 hour per week.

22. The contributions to the network budget are substantially above what would be required on the basis of the ITC's indicative formula, and real growth is provided for at a high 3 per cent a year.

Overheads

23. The provision for overhead costs lacks credibility. The stated average of £7m a year is extremely high, approaching what

we would expect for one of the larger publisher licensees. Although we cannot be certain, the likelihood is that this figure wrongly includes the cost of airtime sales, in house transmission and the ITC licence fee. We cannot find these expenditures anywhere else. Staff at 118 looks very low in relation to the proposed volume of output, and to the proposals for other non-ITV companies applying for smaller licences.

Programme Sales

24. For the three years 1993 to 1995, sales to the network average £0.6m and are shown as contributing £268k to annual profits. Other domestic sales, including sales to Channel 4, contribute an average of £271k to profit. Over the licence period, average programme exports amount to £0.8m, equivalent to over 10 per cent of trading profits, which for such a small company, we do not find credible.

Profits

25. The business plan shows a trading surplus of £7.2m which represents a very substantial margin of 31 per cent. Quite apart from the unsatisfactory business expertise which is evident from the way in which this plan has been constructed and presented, we do not find it credible that an average trading surplus of £7.2m and a profit margin of over 30 per cent can be earned from this licence whilst at the same time a satisfactory regional programme service is provided to viewers. There is little doubt that C3 Caledonia would be unable to secure substantially discounted contributions to the network if it earned surpluses of over £7m a year.

Cash Bid

26. The cash bid is relatively low in absolute terms and is low in relation to both revenue and pre-tax profit. The bid would give the Exchequer 35 per cent less than the levy would have done. We should bear in mind however, that for the small regional licensees, the first part of the tender expressed as a percentage of revenue was set at zero. The total bid is therefore fixed in real terms whereas levy payments are related to revenue and profit.

Balance Sheet and Cash

27. Pre-operational expenditure looks light, particularly in the areas of land and buildings and equipment. It may be that some equipment is to be leased; the plan is not clear on the point. As presented, cash flow is generally healthy reflecting the buoyant trading surplus, but there are some important reservations. First it is by no means clear that the projections include the cash bid. If this is a correct interpretation (and we think it is) then including the cash bid would push the company into overdraft in 1993. Secondly, the provision for debtors does not recognise the industry practice that, for example, advertising for the month of January 1993 will not actually be paid until the end of February. Thirdly, the build up of payroll costs implies that less than 40 per cent

of the 118 staff would be in post by the start of broadcasting. This is not acceptable.

28. The proposed funding structure is as follows:-

	<u>£k</u>
Founding Shares	50
New Shares	<u>6,000</u>
	6,050
Secured Loan	1,000
Finance Leases	<u>2,150</u>
	9,200
	<hr/>

The £50k of founding shares has been raised. Since the application was submitted Noble and Company, a small Scottish merchant banking operation, has advised us that the remaining £6m has been committed although on a conditional basis. Funds are to come from investment institutions, a number of whom are substantial. The same letter refers to a £2m leasing facility having been arranged, but this falls short of the £2.15m used in the projections. The bank facility letter for the loan of £1m secured on the property is highly conditional.

Sensitivity Tests

29. Given the impact on cash flows of the buoyant profit projections it is not surprising that the adverse circumstances specified in the sensitivity tests can be accommodated within the cash available, although in a couple of cases the margin is small. However, once the cash bid is taken into account, together with adequate allowance for debtors and the earlier recruitment of staff then it is unlikely that the resources would prove adequate.

Conclusion

30. Some of the revenue projections are optimistic, particularly in relation to the sale of programmes overseas, and expenditure under a number of headings looks inadequate. We would find it hard to believe that this licence area could generate an average trading surplus of £7.2m a year over a ten year period. There is still some uncertainty about the funding package although progress has been made since the application was submitted.

31. The real criticism of this business plan however, lies not so much in the credibility of individual figures as in the extent to which it reveals confusion and muddle, and a lack of any proper professional grasp of the issues and skills involved in providing a licensed broadcast service. Although this licence area is small, and in some respects less complex than the larger areas, it poses difficult problems of its own arising out of the limited opportunity for profitability which it

offers, and the risks associated with fixed costs which are high in relation to total costs. We are not satisfied that this applicant would have the knowledge and skill to tackle these problems successfully and to sustain the licence over the full ten year term.

32. It does not appear that C3 Caledonia would be able to maintain the proposed service throughout the ten year period for which the licence would be in force.

D. ENGINEERING ASPECTS

33. 

judging from the quality of the application on engineering matters this does not appear to be a cause for concern.

34. There are some details lacking in the application, notably concerning the quality monitoring arrangements to be used for commissioned programmes and concerning technical arrangements for outside broadcasts. However, in general terms the application is impressive on grounds of technical quality with full and adequate details given both on staffing and equipment.


35. There are no firm transmission opt-out plans in the C3 Caledonia proposals, although it is indicated that the technical possibilities for a Gaelic opt-out are being considered with NTL. The budget estimates for transmission costs appear to allow sufficient headroom for any transmission re-arrangement which might be considered.

2 October 1991


North of Scotland

1. Allocation of time to different types of non-regional programmes

Time per week


Programme Strand	<u>C3 Caledonia</u>			<u>NSTV</u>		<u>1989 Figures</u>		<u>Minimum Requirement</u>	
	Hrs	Mins		Hrs	Mins	Hrs	Mins	Hrs	Mins
Drama	54	45		30	05	47	57	-	-
Entertainment	20	00		12	52	27	11	-	-
Sport	5	30		6	13	8	22	-	-
News	14	30		11	36	15	18	5	25*
Factual	23	30		15	21	21	19	1	30
Education	1	30		2	09	2	23	-	-
Religion	2	00		1	30	1	31	2	00
Arts	1	30		1	30	0	58	-	-
Children's	10	30		12	20	11	29	10	00
(Night-time)**	-	-		42	00	-	-		
Total	133	45		135	36	136	28		

* Excludes requirement for "appropriate news" at Weekends and during public holidays.

** Caledonia and  did not provide separate figures for night-time.

2. Allocation of time to different types of regional programmes

Time per week


<u>Programme Strand</u>	<u>C3 Caledonia</u>			<u>NSTV</u>		<u>1989 Figures</u>		<u>Minimum Requirement</u>	
	<u>Hrs</u>	<u>Mins</u>		<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>
Entertainment	1	00		0	42	1	07		
Sport	0	15		0	56	0	24		
News	3	30		4	50	4	35		
Factual	1	00		1	17	1	05		
Education	0	10		0	17	-	-		
Religion	0	30		0	38	0	24		
Arts	0	15		0	07	-	-		
Gaelic *	-	-		-	-	-	-		
Children's	-	-		-	-	-	-		
Other	-	-		0	15	0	01		
Total	6	40		9	02	7	36	6	30

* Caledonia and NSTV did not provide separate figures for Gaelic programmes.

3.

Amounts of programmes which the applicant intends to supply to the network

Time per year

<u>Programme Strand</u>	<u>C3 Caledonia</u>			<u>NSTV</u>		<u>1989 Figures</u>	
	<u>Hrs</u>	<u>Mins</u>		<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>
Drama	-	-				-	-
Entertainment	4	30				-	-
Sport	-	-				0	52
Factual	2	20				12	08
Education	-	-				2	36
Religion	2	00				4	20
Arts	-	-				-	-
Children's	1	00				4	20
Other	-	-				-	-
Total	9	50				24	16
						** 26 00+	

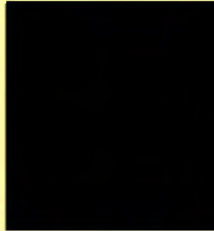
* No breakdown of figures but strands will include religion, children's and daytime.

** No annual figure provided, but plans for entertainment, factual and drama strands etc indicate intentions of this order.

4. Proportion of output allocated to original productions/commissions

C3
Caledonia

65%



NSTV

65%
(Confirmed in reply
letter of 8 August)

Minimum Requirement

65%

5. Proposals for Gaelic programming

C3
Caledonia

NSTV

Regional commitment
(1 hour per week
minimum)

1 hour p.w.

1 hour p.w.

Regional Programming Strands

- (i) ½hr. teenage show
p.w.
- (ii) ½hr. news/ current
affairs/ diary
programme p.w.

- (i) News 40 mins +
- (ii) Current affairs
- (iii) Religion
[plus sport, arts,
documentaries, childrens:
letter of 8 August]

***GTC commitment**

- up to 200 hours
transmitted

- up to 200 hours
transmitted
- ca 170 hours produced

***GTC programming strands**

News, current affairs,
business, schools,
adult education,
children's, arts,
drama, sport (incl.
simultaneous Gaelic
commentary on NICAM)

Drama, sport, education
(incl. language
teaching), news,
entertainment, children's

*Gaelic Television Committee/Comataidh Telebhisean Gaidhlig



Independent Television Commission

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CHANNEL 3 LICENCE ASSESSMENTS:
OVERVIEW

Paper by [REDACTED]

INTRODUCTION

1. This paper summarises the staff's work so far on assessing the applications for Channel 3 licences. Eight of the licences (out of 16) are reported on here, including the six largest regions. The staff have made recommendations in all cases on whether applicants have passed the quality threshold, according to the terms of the Broadcasting Act and the ITC's Invitation to Apply which flowed from the legislation. A summary of the statutory procedures is attached as an Annex to this paper.

2. The decisions taken by Members on these first eight areas at the July 18/19 meeting of the Commission should be regarded as provisional, pending a final decision on all areas to be taken in September/October. This reflects the importance which Members have attached to making and announcing all final decisions at the same time. It also give the opportunity to revisit any of the more difficult areas and issues which have arisen. The future timetable of staff work is designed to provide as many as possible of the remaining assessments for the Commission meeting on 5 September, leaving the 19 September and 17-18 October meetings for final decisions on the awards and the methods of public presentation of the decisions.

3. This paper also describes the process, which Programme, Finance and Engineering Divisions have followed, in analysing the applications and preparing recommendations. [REDACTED] and [REDACTED] will be present on 18/19 July to give legal and financial advice as required.

4. The background to the staff's recommendations is contained in separate papers related to each application which is to be considered at the meeting, as follows:

North-West England

[REDACTED]
North West Television - ITC
Paper 72(91)

London Weekday

[REDACTED]
Greater London Television -
ITC Paper 74(91)

London Weekend

[REDACTED]
Consortium for Independent
Broadcasting - ITC Paper
76(91)

South and South-East England

[REDACTED]
South of England Television -
ITC Paper 79(91)

[REDACTED]
TVS - ITC Paper 81(91)

Yorkshire

Viking - ITC Paper 82(91)

White Rose - ITC Paper 83(91)

Midlands

[REDACTED]
Central - ITC Paper 85(91)

Central Scotland

Borders

[REDACTED]
Border - ITC Paper 87(91)

Each paper contains the staff's analysis under the following headings:

- A. A brief introduction giving some details of ownership and key individuals involved in the application.
- B. The proposed service
- C. The business plan
- D. Engineering aspects

5. In addition, there is an Information Paper for each region describing the outcome of the public consultation, in terms both of comments received direct from the public and the deliberations of the Viewer Consultative Councils (ITC Information Papers 63-70(91) inclusive). An overview paper summarises the results of the public consultation exercise related to the licences in question (ITC Information Paper 62(91)).

6. The papers prepared by staff for the meeting draw on source materials prepared by staff assessment teams, or, in the case of public comment, by regional staff. The Member who is taking a special interest in the region has been taken through the assessment by the staff concerned, and has also been copied in on the basic source materials. These documents (Programme and Finance Division assessment documents in particular) are also available to any Member who wishes to see them.

7. The papers do not cover ownership matters. Scrutiny of the applications has not revealed any serious problems that should affect the Commission's decisions on the award of licences under consideration. Nor is there any indication that any applicant should be deemed not to be a 'fit and proper person' (Section 3(3)), or that any applicant should be referred to the Home Secretary because of sources of funds which might be contrary to the public interest (Section 17(5)).

MATTERS FOR DECISION

8. Subject to final confirmation of each decision at a later meeting when Members have considered the staff's recommendations on all applications, Members are asked to consider whether applicants for the following eight licence areas should be judged to have met the criteria to enable their cash bid to be considered: North-West England; London Weekday; London Weekend; South and South-East England; Yorkshire; East, West and South Midlands; Borders and Isle of Man; and Central Scotland.

9. Members are also asked to agree that, subject to further consideration, certain among these applications are possible candidates to be regarded as "exceptional" in terms of section 17(3)-(4) of the Act. This would not preclude other applicants emerging as candidates for "exceptional circumstances" at a later stage.

RECOMMENDATIONS

10. A summary of the statutory procedure for inviting applications and awarding licences appears at the Annex to this paper.

11. In brief, the ITC is required to satisfy itself before considering an applicant's cash bid that the proposed service will comply with specific programme requirements (section 16(1)(a)). It must also be satisfied so far as possible that the applicants would be able to maintain the service throughout the period for which the licence would be in force (section 16(1)(b)). The ITC is also responsible for ensuring that the signals carrying the licensed service would be able to maintain high standards in terms of technical quality and reliability (section 66(4)). It is stated in the Invitation to Apply that these requirements, taken together, will be considered to constitute the quality threshold.

12. The applicant must convince the ITC that his proposals in all these respects satisfy the requirements of the Act.

13. Staff recommend that Members should consider and agree the separate recommendations which arise out of each part of the assessments prepared by staff. In detail, these recommendations are as follows:

Programme and Other Related Matters

- (i) That the following applicants have provided convincing evidence that their proposed service would comply with the requirements set out in section 16(1)(a) and 16(1)(b) of the Act:

North-West England

[REDACTED]

London Weekday

[REDACTED]

London Weekend

[REDACTED]

South and South-East England

[REDACTED]

Yorkshire

White Rose Television

[REDACTED]

Midlands

[REDACTED]

Central Scotland

[REDACTED]

Borders

Border Television*

*Subject to further clarification of staffing intentions for [REDACTED] and programme plans for Border.

- (ii) That the following applicants have not provided convincing evidence that their proposed service would comply with the requirements set out in section 16(1)(a) of the Act:

North-West England

North West Television

- (iii) That the following applicants have not provided convincing evidence that they would be able to maintain the services throughout the period for which the licence would be in force (section 16(1)(b)):

North West England

North West Television

London Weekday

Greater London Television (CPV-TV)*

London Weekend

London Independent Broadcasting

South and South East England

South of England Television (CPV-TV)*

Yorkshire


Viking

*Subject to further consideration of supplementary information.

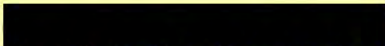
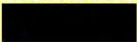
Financial Matters

- (i) That the following applicants have provided convincing evidence that their proposed service would comply with the requirements set out in section 16(1)(b):

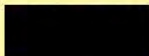
North West England


North West Television

London Weekday


Greater London Television (CPV-TV)


London Weekend



South and South East England

[REDACTED]
South of England Television (CPV-TV)
[REDACTED]

Yorkshire

[REDACTED]

East, West and South Midlands

[REDACTED]

Central Scotland

[REDACTED]

Borders and Isle of Man

Border Television

- (ii) That the following applicants have not provided convincing evidence that their proposed service would comply with the requirements set out in section 16(1)(b):

London Weekend

London Independent Broadcasting

South and South East England

Television South (TVS)

Yorkshire

Viking Television
White Rose Television

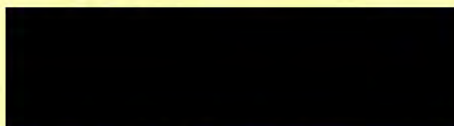
Engineering Matters

That no applicant among those under consideration has put forward proposals which give serious doubt as to their capability to perform their engineering responsibilities under the Act.

A summary table of the staff's recommendations will be available at the Meeting on 18/19 July.

Exceptional Circumstances

14. Staff recommend that the following applications among those considered may, subject to further detailed consideration, be possible candidates for consideration in September/October as "exceptional" (section 17(3)-(4)):



15. Firm recommendations could not be provided at this stage on whether "exceptional" treatment would be appropriate in any instance because the Act requires that a candidate for "exceptional" treatment at least on grounds of quality, must, in terms of the Act, have proposed a service not only of exceptionally high quality but also higher than the applicant who has submitted the highest bid (section 17(4)). The relative size of the bids among those whose applications cross the threshold is a matter which the Commission has yet to address. In the case of licences for which there are two bids but only one which staff recommend to have crossed the "quality threshold", it would seem invidious to consider at this stage whether there might or might not also be a case for "exceptional" treatment, and we have therefore not addressed the issue.

Meetings with Applicant Groups

16. Staff do not consider that there is a case for Members to interview any of the applicant groups to establish whether or not they satisfy the requirements of the "quality threshold". The matter of interviews to address "exceptional circumstances" cases will be raised in connection with staff recommendations on this point in September/October.

Further Consideration

17. If the Commission considers that there is a sufficient element of doubt about the case advanced by staff in support of any of their recommendations, the staff would be asked to reconsider or resubmit recommendations at a subsequent meeting of the Commission.

BACKGROUND TO RECOMMENDATIONS

18. As background to the above recommendation, the remainder of the paper is as follows:

- A. Method of assessing programme proposals.
- B. Method of assessing financial proposals.
- C. The engineering aspect.

Annex Summary of statutory background

A. Method of Assessing Programme Proposals

19. The task of assessment is divided among six staff teams, each led by an experienced member of staff and including the relevant National or Regional Officer. In addition, specialist officers submit written notes on each application on the sections dealing with children's and religious programmes (both mandated categories), education programmes, audience research, subtitling for the deaf and provision for people with hearing or sight impairment, VBI line use, training and equal opportunities.

20. The teams have access to Sections A and B of the applications and the confidential side letters, including names and biographies of key staff and details of arrangements made with independent producers. Where replies are received from applicants in response to questions put by us for clarification, these are considered. In the case of one applicant (CPV-TV), the supplementary information is still the subject of more detailed scrutiny. No one in Programme Division had sight of any part of Section C when preparing the assessments.

21. To ensure an even-handed approach, the assessments are prepared against a standard checklist, based largely on the substance and sequence of the Invitation to Apply. Programme proposals for network and regional plans are compared with figures for 1989. Due to delay in installing a new computer system, full programme statistics were not available for 1990 when the first assessments were being carried out, but a check against figures for the main programme categories does not indicate any significant difference between 1989 and 1990.

22. The comparison with 1989 covers the supply of programmes to the network. While no applicant can guarantee that it will be able to persuade the network to accept its programme offers, nonetheless an applicant's potential capacity to supply network programmes is appropriately one factor in the assessment related to whether the programme service can be sustained.

23. Proposals for independent productions are a key feature of the applications, particularly for publisher-licensees. Understandably, independent producers may not be exclusively wedded to a particular applicant, but it is important to test the firmness of programme proposals in terms of securing a reliable service from January 1993. A further detailed check is therefore in progress to assess multiple proposals from independent producers, set alongside their capacity, as far as it is known.

24. After each team assessment is drafted, it is discussed in detail with [REDACTED] (Director of Programmes) and [REDACTED] (Chief Assistant, Policy) who carry out their own separate assessments. The final versions of the completed checklists reflect these discussions. Copies of the relevant completed checklists have been distributed to the nominated Member for each licence region. It is not intended to distribute them to all Members, although they are available on request.

25. The recommendations on passing or failing the quality threshold take the following principle factors into account:

- a) do the proposals satisfy the minimum requirements and expectations as set out in the Invitation to Apply, including whether the proposals are complete in themselves and internally consistent?
- b) has the applicant put forward convincing evidence that the proposals can and will be delivered?

26. As part of the consideration by Programme Division, questions a) and b) assess whether the experience of the responsible staff, including the senior management team, give us confidence that the applicant understands the full extent of a licensee's editorial task in meeting the requirements of the Act, the licence and the ITC's Programme Code, and that compliance will be reliably delivered.

27. In cases where more than one applicant is judged to have passed the quality threshold in a particular licence area, if it is considered that an application contains elements of exceptionally high quality, this is indicated as part of the recommendation.

28. Four tables of comparative statistics for the main programme categories have been prepared for each licence. These are attached to the programme section of the paper on the first application in alphabetical order for each licence.

B. Method of Assessing Financial Proposals

29. The financial assessment of each application has been directed specifically towards Section 16(1)(b) of the Act which says:

" . . . where a person has made an application for a Channel 3 licence in accordance with Section 15, the Commission shall not proceed to consider whether to award him the licence on the basis of his cash bid in accordance with Section 17 unless it appears to them . . . that he would be able to maintain the service throughout the period for which the licence would be in force".

30. In addition, it is important to consider applications as a whole, and there has been liaison between Finance Division and Programme Division on, for example, questions of programme costing and staffing. However, in these discussions Finance Division staff have not revealed to Programme Division the size of the constant price cash bid or whether an applicant has satisfied us on financial grounds. This was first revealed to [REDACTED] at the Management Board meeting on 8 July.

31. Section C of the Invitation to Apply is based upon financial projections made by the applicant over the 10 year period of the licence mainly in the form of profit and loss, cash flow and balance sheet statements, although the

applications generally contain substantial supporting argument and information.

32. Within Finance Division there are two teams, each of two persons, and each team is responsible for half of the licence areas. These teams report to [REDACTED] as Chief Assistant (Finance). The teams prepare for each area a standard statistical analysis of Section C which runs to some 12 pages, and for each applicant in the area covers issues such as advertising revenue, programme costs, other costs, programme sales to the network, profitability, employment, regional and network programmes and a number of financial indicators. These tables also include relevant figures taken from a revised version of the model which the ITC constructed in relation to the earlier decisions on the Channel 3 map and clock, and the percentage of qualifying revenue which would form the first part of the tender.

33. Having prepared this factual statistical analysis, the teams also write notes which express their own judgements about the standard of the applications, and whether they believe that an application satisfies the test in Section 16(1)(b) of the Act. So far as these judgements are concerned the ITC's own modelling provides useful guidance, but it is not held to produce figures which are intrinsically superior to those provided by an applicant. The case put by an applicant must be evaluated on its own merits.

34. The next step is that [REDACTED] meets the relevant team to discuss their findings, and following this meeting she prepares a short report of her own analysis and conclusions. This is sent, together with the analysis sheets to [REDACTED] as Director of Finance and simultaneously to [REDACTED] the Director of [REDACTED] who leads for the bank on this assignment. [REDACTED] also have available to them a copy of Section C of the application. The bank's task is not to replicate the ITC's assessment, but to pass a second opinion on it, and in particular to advise upon the funding of applicants which are not already going concerns. The bank provides a short written report of its findings which is made available to the relevant Finance Division staff.

35. [REDACTED] then takes a meeting with [REDACTED] and the relevant Finance Division team together with the bank in order to consider the content of Section C and in particular the statistical analysis and the separate reports prepared by [REDACTED]. These meetings are minuted.

36. Following the meeting a short report is prepared for Members (though it is first considered by the Management Board) which sets out in a standard format the main strengths and weaknesses of Section C ending with the conclusions which have been reached and a recommendation on whether staff believe that an applicant has satisfied the requirements of Section 16(1)(b). Towards the end of this process a meeting is also held between [REDACTED] who has designated

responsibility for the licence area. The papers referred to above are available for examination by Members.

C. Engineering Assessment

General

37. The Engineering assessment of the applications has majored on the issues of technical quality and reliability. But it has also considered the following additional elements:

- Plans for Research and Development
- Plans for use of capacity in the VBI (Vertical Blanking Interval) of the television signal
- Feasibility of transmission arrangements for sub-regional opt-outs

Methodology

38. On issues of technical quality and reliability the two most experienced members of the small Technical Regulation team who had previously been with the IBA's Quality Control department prepare 3 - 4 page assessments for each application. Members of staff with experience in UHF frequency planning and in Research & Development similarly prepare brief assessments on opt-out and Research & Development proposals respectively. A staff meeting then takes the applications in turn in terms to reach an engineering conclusion. [REDACTED] chairs this meeting and has an overview role in the process, sifting out points of detail from points of substance and drafting the engineering contributions to the assessment papers presented to Members.

Technical Quality and Reliability

39. Paragraph 77 (in the Regional version) of the Invitation to Apply for Channel 3 licences puts the capability of maintaining high standards of technical quality and reliability as the "third leg" of the "quality threshold", alongside programme and financial considerations. However, the situation with regard to status in the Act is rather different for this than it is for the programme and financial aspects of the quality threshold. This is because technical standards are not explicitly included among those items about which the Commission need to be satisfied prior to considering the cash bid.

40. A condition in the draft Channel 3 licence reflecting section 66 of the Act requires the licensee to "do all that he can to ensure that the relevant provisions of the Technical Performance Code are observed . . .". It is in this way that high standards of technical quality and reliability will be required. The winning applicant's detailed proposals for ensuring that the condition is complied with would not be written into the licence as his programme proposals, for example, would be.

41. The purpose of the technical quality assessment of the applications is therefore one of assessing basic credibility.

The questions (notably A.16 and A.17) were not drafted to elicit sufficiently detailed plans that the ITC would be able to approve them, in the same way as an engineering project manager might be required to but rather to test whether applicants appeared to display the necessary underlying competence.

42. The engineering assessments included in the papers for Members are therefore rather general, aimed at flagging up points of serious concern on competence rather than points of detail - many of which have been noted by staff for subsequent discussion, if appropriate, with the licensees after award.

43. The fact that none of the concerns expressed are considered to be sufficient to fail any of the 17 applicants on engineering grounds may well be in part precisely because a high profile was given to technical quality and reliability in the Invitation to Apply. Applicants were clearly sufficiently aware of the importance of these issues to employ the services of a competent engineer to prepare those aspects of the applications.

Qualified Personnel

44. There is one particularly well-qualified Chief Engineer whose name appeared in the confidential side-letters to no less than six different applications. We considered a situation in which more than one of these applications might be successful and concluded that this need not be material to the assessment of the application. This is because the pool of competent and experienced engineering managers who might be available will exceed the number of vacancies. Therefore, providing any successful applicant who was subsequently let down by the named engineer were to employ another suitably qualified candidate, the technical strength of the proposals need not suffer materially.

Quality of Material Supplied by Independents

45. One general theme which emerged from considering many of the "publisher" applications was a potential gap in procedures for ensuring that the finished product as delivered from independents is of high technical quality. All applicants promised to ensure this by means of contract conditions but few gave comprehensive details of procedures. This issue is one which should be discussed with licensees once appointed, in a similar way to previous practice in the IBA when many such practical issues were worked out collectively.

46. We have no reason to doubt that independents will be capable of providing a high technical quality, since many do so already, but an increasing emphasis on independent production is likely to lead to a change in operational practices of quality control. This appears not to have been accepted by some incumbents in their comments on rival applications from publisher-applicants. We noted these comments, but the issues raised had already been identified by the staff assessments.

Research and Development

47. The plans for Research and Development presented by applicants have varied significantly in the level of detail provided and in the extent to which specific financial commitments have been indicated. However, all applicants have indicated support for Research & Development in principle, via work carried out under ITC arrangements, and typically also by the joint funding of a small technical development programme similar to that organised currently by the ITV Association.

VBI Capacity

48. The applicants' plans for using VBI capacity for engineering purposes (test signals etc), for subtitling and for providing services which are ancillary to programmes and directly related to their contents have been noted. This has been valuable in our consideration of the definition of "spare capacity", which will be made available for additional services, but it is not a quality threshold issue as such.

New Opt-outs

49. We have considered the feasibility of any new transmission arrangements for sub-regional opt-outs which have been proposed by applicants and have raised concerns where these appear to be over-optimistic. The circumstances under which such concerns have been raised all relate to tentative "future" plans by applicants for extending and improving opt-out arrangements.

D.G

12 July 1991

SUMMARY OF STATUTORY PROCEDURE FOR INVITING
APPLICATIONS AND AWARING LICENCE

1. Each application for a regional Channel 3 licence must be accompanied by the applicant's proposals for providing a service that would comply with the requirements of section 16(2) (section 15(3)(b)).

2. Section 16(2) lists the elements of the programme service which constitute statutory requirements. These are

- (a) that there should be news and current affairs programmes of high quality dealing with national and international matters, which, in the case of news programmes are broadcast at intervals throughout the day;
- (b) that a sufficient amount of time is given in the service to programmes which are of high quality;
- (c) that a sufficient amount of time is given to a suitable range of regional programmes which are of particular interest to persons living within the area for which the service is provided, which may include provision for different parts of the area or communities living within the area;
- (d) that news programmes included in regional services should be of high quality;
- (e) that a suitable proportion of regional programmes included in the area are to be made within the area for which the service is to be provided;
- (f) that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests;
- (g) that a proper proportion of the matter included in the programmes is of European origin; and
- (h) that not less than 25 per cent of the total amount of time allocated to programmes in the service is allocated to broadcasting a range and diversity of independent production, in terms both of cost of acquisition as well as the type of programme which is involved.

3. The ITC must, when inviting applications for Channel 3 licences, publish general guidance containing examples of the kinds of programmes whose inclusion would be likely to result in a finding by the ITC that the applicant's service would comply with those requirements (section 15(2)). Our Invitation to Apply, which was issued on 15 February, stated that "in considering the diversity of the proposed service, the ITC will have regard to the programme range in the present ITV schedule". It went on to list the strands constituting the range which the applicant would be expected to provide.

4. We also stated in the Invitation what would be deemed by the ITC to constitute a "sufficient amount" in the various categories of mandated programmes. In the case of programmes of high quality, the applicant was expected to state how he would provide a service consistent with the requirements of the Act. A limit is also set on the amount of acquired programmes which the service may contain.

5. The application has to be accompanied by such information as the ITC may reasonably require as to the applicant's present financial position and his projected financial position during the period for which the licence would be in force and by such other information as the ITC may reasonably require for the purposes of considering the application (section 15(3)(g) and (h)). The ITC may require the applicant to furnish additional information under (inter alia) any of paragraphs (b), (g) and (h) of section 15(3), before determining the application.

6. After receiving the applications, the ITC must publish each applicant's name and programme proposals and such other information as they consider appropriate. They must invite representations from the public with respect to any matter so published and set the date by which representations are to be received (section 15(6)).

7. The ITC shall not proceed to consider whether to award the regional licence to an applicant on the basis of his cash bid unless it appears to them that his proposed service would comply with the requirements of section 16(2) and that he would be able to maintain that service throughout the licence period for which the licence would be in force (section 16(1)). In deciding whether an applicant's proposed service would comply with those requirements, the ITC must take into account any representations made to them with respect to that service (section 16(4)).

8. When the ITC award a regional Channel 3 licence they must publish the name of the successful applicant and the amount of his cash bid, together with the name of every other applicant whose service appeared to the ITC to comply with the requirements of section 16(2) (see paragraph 14 above). If the licence has not been awarded to the highest cash bidder, in pursuance of section 17(3) ("exceptional circumstances"), the ITC must publish their reasons for the licence having been so awarded. The ITC must also at that time publish such other information as it considers appropriate (section 17(12)).

12 July 1991



Independent Television Commission

Paper 100 (91)

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C3WW:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. Channel 3 Wales and the West (C3WW) is a newly formed company headed by [REDACTED]. C3WW intends to have facilities in Cardiff and Bristol with the proposed site for the Welsh facility at [REDACTED]. Executive Directors include [REDACTED].

[REDACTED]. The major shareholders with proposed holdings of about 19 per cent each are [REDACTED].

B. PROPOSED SERVICE

The Applicant's Proposals

2. C3WW intends to operate mainly as a publisher-licensee, producing regional news, current affairs, social action and sport in-house. Other regional programmes and network projects (the latter amounting to 155 hours a year) will be commissioned from independent producers.

3. In a letter of 20 June, C3WW proposed amendments to Annex F Table 1 (non-regional programmes). The amendments involved minor clarifications to the original Table and have been taken into account in this assessment. In a letter of 17 June to C3WW, the ITC asked for clarification of the response to section A.11 of the Invitation to Apply to check whether it complied with the ITC's guidance on networking arrangements. The clarification provided by C3WW is considered acceptable. Clarification was sought later on C3WW's proposals for children's and religious programmes, regional opt-outs, staffing and advisory committees. C3WW replied on 27 August and this assessment refers to that letter where relevant.

Minimum Requirements and Expectations

4. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the applicant satisfies the specified requirement(s).

5. S16(2)(a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

C3WW commits to taking the ITN service and its plans cover the minimum scheduling requirements for national and international news. These include suggestions for radical change to the current structure and scheduling of bulletins. While these proposals for national and international news are satisfactory, plans for non-regional current affairs are confused and inadequate. A footnote to Annex F Table 1 (proposals for non-regional programmes) says C3WW will "take all current affairs and documentaries currently in the schedule" and gives current ITV series as examples. Elsewhere, in Section A.15 (Programme Supply) there is a blanket undertaking "to relay proper proportions of programming defined as essential by the ITC in areas such as ...current affairs..." However the illustrative schedule at Table 1 shows only one hour a week of non-regional current affairs, well below the mandatory minimum of 1½ hours. Table 2 shows a further 29 minutes of regional current affairs for each part of the region, but this is not likely to be concerned with "national and international matters" (and there is nothing in the application to suggest that it will be).

We do not conclude that C3WW's application satisfies this requirement.

6. S16(2)(b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

No convincing evidence is provided in C3WW's application that the service as a whole will include sufficient programmes of high quality. Detail is scant on both regional and non-regional programmes making an assessment of likely quality difficult. Though there is an illustrative schedule there is no information in the section on programme supply on sources of programmes in the mandated categories or programmes of high quality.

7. C3WW sets much store by its proposed network drama offers as indicators of its commitment to high quality. However these are not fully fleshed-out proposals and contain no costings or details of the creative talent likely to be involved and little evidence that much thought or effort, other than obtaining the rights, has been invested. Among proposed network projects in other programme areas there is little detail, and no convincing evidence of quality. All network projects will be supplied by independent producers, some yet to be identified.

8. Among regional programme plans the large number of concert and performance items included in the arts strand for Wales, **Spectrum**, is welcome and there are ambitious plans for a pan-regional drama, **Severnside**, for which however no supplier has been identified. There are no obvious examples, however, that fit the sample criteria for quality set out in the Invitation to Apply, and detail is generally too skimpy to enable a proper assessment to be made.

9. Key personnel (the Controller of Programmes (Wales), the Head of Drama, the Head of Scheduling and the Head of News and Current Affairs) all have substantial experience with BBC Wales. The Chief Executive Officer is a distinguished and experienced figure. Though there are separate Programme Controllers for Wales and the West it is unclear whether there are to be two discrete production structures or whether all production management functions will operate out of Cardiff. The Management structure and lines of editorial control are also unclear.

10. Despite C3WW's claim to offer "a substantially improved service" there is little evidence for this in the statement on programme policy. Comments in this section on programmes of high quality cross-refer to the network programme proposals and do not convince us that C3WW will secure and sustain the required range of high quality programmes, particularly in relation to regional output.

11. C3WW makes no specific commitment to meeting the 65 per cent minimum for originated and commissioned material and expects the network to observe and monitor the requirements for programmes of European origin.

We do not conclude that C3WW's application satisfies this requirement.

12. S16(2)(c)

that a sufficient amount of time is given in the programmes so included -

- (i) **to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and**

- (ii) if the service is to include the provision of such programmes as are mentioned in section 14(3), to a suitable range of programmes for each of the different parts of that area or (as the case may be) for each of the different communities living within it, being in each case a range of programmes (including news programmes) which are of particular interest to persons living within the relevant part of that area or (as the case may be) the relevant community.

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

C3WW proposes a weekly average of 12 hours 31 minutes for Wales and 12 hours 15 minutes for the West. These figures include proposals for drama, arts and entertainment to be shown in both regions. 'Dedicated' regional programmes thus amount to 12 hours 5 minutes for Wales and 11 hours 50 minutes for the West. This is still a substantial increase on 1989 levels of 7 hours 46 minutes and 7 hours 15 minutes respectively and a significant increase on the required minima of 8 hours for Wales and 7 hours 30 minutes for the West. Proposals are offered across the range of programme strands.

13. There is little evidence, however, that regional programmes have been separately tailored to the needs and interests of the two very different parts of the licence area. Programme formats (e.g. **Sunday Best**, **Countrywise/Out West**, **Weekend Out**) are common to both areas with content apparently adapted to each. Other programmes, however, such as **Sevenside**, **Top Town** and **Theatre Night**, are designed for pan-regional audiences rather than to cater as an effective regional service distinctly for Wales or the West of England. It does not appear that that part of the requirement relating to providing programmes of particular interest to persons living within the different parts of the licence area will be met.

14. Many regional proposals lack detail, and information on suppliers is incomplete. The style and content of continuing sport, current affairs, religious and children's news strands are not well-defined and do not give confidence that quality, diversity and vitality will be sustained.

15. Plans for regional news are ambitious, calling on the resources of a number of automated news facilities in Bangor, Carmarthen, Cirencester, Mold and Taunton, and mobile ENG units. This would provide a minimum of 7 hours 10 minutes on average per week in each part of the region, a very substantial increase on 1989 levels. In addition possible sub-regional splits are mooted for Wales but no engineering or programme details are given. The proposed Director of News and Current Affairs, who will be in charge of output in both parts of the region, has appropriate managerial and editorial experience in both the BBC and a regional ITV company. No staff numbers are given for news production in section A. The C3WW proposals for a regional news service include attractive and innovative features, although the

more ambitious elements of their plans have not been fully prepared. Nevertheless we believe on the available information the news programmes will be of a satisfactory quality.

16. Knowledge of and commitment to the region is not evenly matched for both parts. Senior staff include a number of BBC executives with long experience of programming in and for Wales, but there is no corresponding senior management or production experience that reflects knowledge of and commitment to the West of England.

We do not conclude that C3WW's application satisfies these requirements.

17. S16(2)(d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

C3WW intends that, initially at least, all its regional production will come from within the licence area itself. We therefore believe there will be little difficulty in meeting this requirement.

We conclude that C3WW's application satisfies this requirement.

18. S16(2)(e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

The minimum amounts of time for mandated programme categories are met. Proposals for non-religious programmes are however extremely cursory. No specialist commissioning editor is proposed for these or for regional religious programmes. Proposals for children's programmes are similarly unconvincing with only the briefest consideration given to this strand. (C3WW's letter of 27 August provided only limited clarification). Nevertheless, in strict terms, the minimum requirements have been met.

We conclude that C3WW's application satisfies this requirement.

19. S16(2)(f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

C3WW's allocation of hours to different types of non-regional programming includes a very marked reduction in factual material and a large increase in entertainment (see Table 1 attached to ITC Paper 99(91)). These changes are not explained, nor are they supported by audience research, and would be likely to have an adverse effect on the diversity of the overall service.

20. C3WW proposes an increased number of hours for the regional service, and, within this, over seven hours weekly of regional news. This does not compensate for the very substantial loss of factual (not news) programming from the non-regional part of the service.

We do not conclude that the application satisfies this requirement.

21. S16(2)(g)

that a proper proportion of the matter included in those programmes is of European origin

C3WW assumes that the network, via the central scheduler, will ensure compliance with the requirement for programmes of European origin. It has no plans to include non-EC material in its regional service. Though we may assume, on the basis of this information, that the requirement will be met, C3WW makes no effort to demonstrate how this will be achieved, as requested by the Invitation to Apply.

We conclude that C3WW'S application satisfies this requirement.

22. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions.

C3WW expects 60 per cent of programmes for Wales and 60.7 per cent of programmes for the West to be supplied by independents in 1993, amounting to 150 hours of programming a year. No provision or estimate is made beyond the first year of the licence. The range and diversity of independent productions is satisfactory and there is evidence of preliminary contractual arrangements with a number of independents: these appear to have satisfactory track records.

We conclude that C3WW'S application satisfies this requirement.

Other Matters

23. Production and administration centres are planned on green field sites in Bristol and Cardiff. Staff numbers will be evenly split between the two sites. In addition 'mini-studios' for regional news input are planned for Cirencester and Taunton in the West and Carmarthen, Bangor and Mold in Wales. Staff numbers are not allocated by function in the section on organisation and staffing. C3WW's arrangements for training are very thin and rely on national provision from the ITV Association, which may or may not be providing courses in future.

24. Arrangements for hearing and visually impaired people are similarly lacking in detail. Comments on audio description are brief but adequate. Despite a proposal to subtitle the social affairs magazine *Prism*, C3WW does not explain how this would be achieved.

25. Proposals to ensure compliance with ITC Codes are short and vague. Although the Director of Programmes is identified as being responsible for compliance there is no information about editorial control of independent producers or of referral procedures for regional factual programmes. Procedures for handling complaints are adequate.

Conclusion

26. It does not appear that C3WW's proposed service would comply with the requirements specified in Section 16(2)(a), (b), (c), and (f).

C. BUSINESS PLAN

Revenue

27. The short term projections of total industry advertising revenue are very optimistic leading to a figure of £2.142bn in 1993. This is followed by an optimistic average growth rate of 4.5 per cent over the ten year licence term. The revenue share of the regional Channel 3 licensees holds up strongly and falls to only 68.9 per cent by 2002. The revenue share for the licence area is reasonable, starting from 6.81 per cent in 1993 and rising to 7.10 per cent by 2002. These figures for the market share of the licence area are very similar to those of HTV, and may be a bit cautious, but not by enough to offset the optimism at industry level. The average revenue for the licence period is very high at £130.4m. There is some comfort - though not much - in that the figures are more buoyant in the second half of the licence period than in the first.

Cost of the Programme Service

28. The average cost of the programme service is reasonable at £66.78m a year. Regional programmes cost £36.6m which consists of 1,268 hours at £28.9k an hour. Local programme costs include a substantial allocation of depreciation, leasing and overheads, but are reasonable, and allow for a high cost of current affairs and documentaries. All news and current affairs programmes are to be produced in house.

29. The provision for network programmes is towards the lower end of the ITC's indicative range, and no real growth has been provided for. The figure for news is a bit low at £55m and again no real growth has been provided for. Overall these provisions are acceptable, but may well prove a bit light in the later years. One saving feature is that the ITC's contribution formula has been wrongly applied, and news contributions are overstated by £180k a year.

Overheads

30. The cost of administration looks reasonable, although the provision for NTL transmission costs looks too high by about £1m a year. The applicant plans either to sell its own airtime, or to reach a sales agreement with TSW. The expenditure provided for looks reasonable at £3.52m a year, but the staff at only 33 looks much too light. An extra 50 staff, which may well be needed, would add £1.4m a year to the wages bill.

31. Staff numbers more generally at 456 (excluding sales staff) look quite low in relation to the volume of output. If all network programmes were to be commissioned, ie, none produced in house, these numbers would look better.

Programme Sales

32. Proposed programme sales to the network are ambitious at £27.4m a year. The contribution to profit is negligible, but co-funding income of £3.7m a year is included as additional net revenue. In addition approximately 10 per cent of overheads are charged to these sales. There is therefore some considerable financial exposure if the planned volume of sales do not materialise. Programme sales to S4C of 70 hours in 1993 are provided for, with more in later years. A profit of £375k a year is included for the earlier years. This would give a profit margin of 15 per cent which is more than S4C has been willing to pay in the past, but this is not significant to the business plan as a whole. Sponsorship income looks high at up to £3m a year in the earlier years.

Profits

33. The average trading surplus is very high at £43.8m a year, which gives a profit margin on income of 26 per cent. This is based on what we regard as very optimistic revenue assumptions and insufficient manpower. The average trading surplus for the first three years is lower at £29.5m, giving a margin of 19 per cent. This reflects the less buoyant revenue forecasts in the early years. We would find it hard to believe that this licence area can produce a trading surplus anything like as high as an average of £43.8m consistent with providing a high quality programme service in a dual region which is particularly difficult to serve.

Cash Bid

34. The cash bid amounts to 12.3 per cent of revenue and a moderate 39.9 per cent of pre tax profit. The Exchequer would take just 1 per cent more from the total tender payments (including the first part which has been set at 2 per cent of qualifying revenue) than the levy would have done.

Balance Sheet and Cash

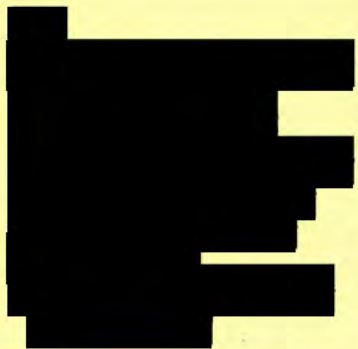
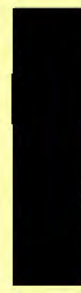



35. Pre-operational expenditure of £25.4m, including £10.7m for the purchase of film rights and programme stocks, looks sufficient. Subsequent cash flows reflect the optimism of the revenue and profit projections. The company plans £12m of bank facilities which, in the main case set out in the projections, is not needed. If however, we are correct about the degree of optimism in the revenue projections then the bank facilities would be fully utilised, and the intended early repayment of loan stock would have to be deferred.

36. Total funding at £64.1m is satisfactory. It consists of:-

<u>£m</u>	
Equity	15.5
Subordinated Loan Stock	12.5
Bank Facilities	12.0
Equipment Leasing	15.0
Property Leases	<u>9.1</u>
	64.1
	<hr/>

It is reasonable to treat the subordinated loan stock as equity, and on this basis gearing is reasonable. There is, however, some confusion and inconsistency about the funding package. For example it appears, from correspondence subsequent to 15 May, that the applicant is now thinking in terms of equity and loan stock of £30m rather than £28m, and bank debt and leasing finance of £30m rather than £27m. The bank facilities are also subject to some uncertainty, and are, in any case, subject to annual review.

37. The list of shareholdings is as follows:-

	<u>£m</u>	<u>Equity/Loan Stock</u> %
		
	<hr/>	
		
	<hr/>	

This is about half of the total equity and loan stock envisaged, and leaves some £13-15m to be allocated. [REDACTED] have expressed their belief that this sum can be found, but correspondence since 15 May suggests that it is not proving an easy task. There is no shareholders' agreement at this stage, although it is planned to draw one up before 30 August. We have no doubts about the ability of [REDACTED] to make their investments. (We note that the [REDACTED] investment is on behalf of clients.) We have no recent information about [REDACTED], but have no reason to doubt that it could make its investment. For [REDACTED] the investment would be substantial, and we shall need to review its position when we come to examine [REDACTED] application for the South West licence.

38. Overall, the funding of this application is not nearly as settled or as advanced as we would wish at this stage, and there must be quite serious doubt about whether the funding package could be irrevocably in place within the maximum of six weeks between the award and grant of a licence. This early difficulty and uncertainty, together with the absence of one or more large investors, raises doubts about the ability of the group to raise further equity at a later stage should the need arise.

Sensitivity Tests

39. The approach to the sensitivity tests adopted in this application is rather unconventional. However, the tests show that the applicant would be brought close to the limit of its facilities and exceed them in one case. Headroom to deal with this problem would be provided by postponement of loan stock repayments, and we doubt that the company would need to make support payments to [REDACTED] on the scale envisaged in the plan. Indeed, in the early years the company may well receive payments from [REDACTED]. It might be possible for the applicant to cope with revenue which was 10 per cent lower than its projections, but if the shortfall was 15 per cent then funding would be inadequate in one or two years.

Conclusion

40. The main difficulty with this application, so far as its trading position is concerned, is that the advertising revenue, sponsorship and co-funding income and profit projections are very optimistic, and we have doubts about whether the staff numbers are adequate. Against this the applicant could cope with a significant reduction in revenue and profit. This is because, in relation to profit, it has been cautious about the level at which it has pitched its cash bid. There is always the risk however that an applicant who had to accept very much lower profits than envisaged would seek to minimise the shortfall by reducing planned programme budgets.

41. The funding package is however a source of serious concern. The total sum envisaged is reasonable, and the slight augmentation since 15 May makes it more satisfactory. The problem is the incomplete and somewhat confused state of this package, together with the indications that pulling it together is proving more difficult than anticipated. It would be

difficult to reject an application on this basis alone. This is because it is always possible to award a licence and give the applicant the opportunity to demonstrate that he can raise the necessary funds. If he does not do so within the six weeks allowed, then the offer would be withdrawn and the licence would be awarded to another applicant. However, this is not a course upon which we should embark lightly because if, in the event, a licence cannot be granted to the applicant to which it is first awarded then, in a federal system, the delay will lead to substantial difficulty in having the regional Channel 3 licensees as a group fully prepared to start broadcasting by 1 January 1993. Uncertainty about whether a funding package can be assembled in good time can therefore be a material contributory factor to an overall assessment.

42. This is not a strong application either in terms of the applicant's trading prospects which we see as over ambitious or the state of preparedness of the funding package. Taking both points together we are not wholly convinced that this applicant could sustain the programme service over the ten year term of the licence. Without the funding problems however the judgement would be a fine one.

D. ENGINEERING ASPECTS

43. The Chief Engineer associated with the C3WW application, whose name was supplied in confidence, is [REDACTED] who is [REDACTED]. The staffing arrangements are well specified and appear adequate but the description of equipment lacks detail in some areas and the explanation of technical quality monitoring and compliance procedures is poor. These deficiencies have been explored in recent questions of clarification. The responses to these questions are satisfactory. The detailed equipment listing has been delegated to the suppliers, Sony Broadcast, and technical compliance will form part of the responsibilities of the Director of operations. Contracts with independent programme suppliers will include conditions requiring compliance with ITC technical standards.

44. The description of a possible separate news opt-out for North and South Wales is rather vague with no specific transmission proposals.



Independent Television Commission

Paper 162(91)

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3 October 1991

CONSORTIUM FOR INDEPENDENT BROADCASTING:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. The Consortium for Independent Broadcasting Limited is trading, in its application for the London Weekend licence, as

[REDACTED] In addition to [REDACTED]
[REDACTED], the main shareholders are [REDACTED]

[REDACTED]: [REDACTED]
[REDACTED] as the first main shareholder if the application is successful.

Directors include [REDACTED]
[REDACTED]
[REDACTED]

2. Tables on amounts of programming which are attached to this paper relate both to LIB and to the other applicant for the London Weekend licence, LWT.

B. PROPOSED SERVICE

The Applicant's Proposals

3. LIB intends to be mainly a publisher-licensee. Independent producers will supply most regional programmes and nearly all programmes for the network.

4. The application contains a considerable number of conflicting or unclear statements and errors. In a letter of 18 June to LIB, the ITC asked for clarification in matters relating to LIB's plans for: religious, educational and news programmes; drama; non-regional programme output; regional news; originally produced or commissioned output; staffing, premises location, and equal opportunities. LIB responded on 28 June, proposing a number of amendments to the application itself. It may

reasonably be assumed that, had the ITC not drawn these deficiencies to LIB's attention, they would not have sought to correct them. In those cases where the effect of LIB's letter of 28 June is to change the application we have not accepted the changes and they are not taken account of in the following.

Minimum Requirements and Expectations

5. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

6. S16(2)(a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

LIB's plans cover the minimum scheduling requirements for national and international news, and accept the nominated network news provider. It is not apparent, however, that LIB is able to provide current affairs programmes of high quality.

7. LIB has neither appointed nor nominated an executive to commission and control current affairs output. [REDACTED] nominated as "consultant" on current affairs. [REDACTED]

[REDACTED] in a position to exercise control on behalf of LIB.

8. Brook Productions would be responsible for LIB's current affairs output both for non-regional and regional transmission. Brook is a respected company with a good track record in network current affairs programming. LIB's plans will however require a considerable increase in Brook's capacity in order to produce the flagship network Sunday lunchtime programme (26 one hour programmes a year) as well as two regional current affairs series (A.5.2: a further 46 programmes). It is not apparent that Brook can, alone, deliver programmes of high quality at such volume. LIB has included no significant plans in its application to supplement or support Brook's output. The weekend schedule may well be dependent upon the London Weekend licensee for this strand (unlike the weekday schedule where the supply is likely to have more than one source). To sum up, it is uncertain whether Brook could deliver the volume of current affairs indicated. Just as importantly, LIB's own supervisory arrangements for this sensitive area of output appear inadequate.

9. In correspondence subsequent to the application, LIB's solicitors have emphasized the important role to be played by

[REDACTED]

We do not conclude that LIB's application satisfies this requirement.

10. S16(2)(b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

LIB expresses a strong commitment to high quality programming in a number of programme areas. Though many programme ideas are only sketchily indicated, there are some where high quality is likely to be achieved. However, for the weekend licence, LIB allocates nearly 22 hours, out of a total weekly non-regional output of just over 50 hours, to drama. It allocates another 12 $\frac{3}{4}$ hours to entertainment. LIB also intends to supply 42 hours of drama to the network each year and 73 $\frac{1}{2}$ hours of entertainment (out of a total LIB offering of just under 258 hours). These two programme strands are therefore crucial to the application.

11. With the exception of one company (Cinema Verity) which is under contract for a single series, however, none of the British companies named in the application has a substantial track record in television drama. The collective experience of the companies named in the light entertainment field is limited to popular music, alternative comedy and [REDACTED]. There is no significant track record of mainstream television comedy or popular studio programming.

12. LIB has no plans for in-house production of drama or entertainment.

13. LIB's application furthermore does not provide coherent plans for the production or commissioning of religious programmes, a mandated category under S16(2)(e), and with particular significance for the London Weekend licensee, as set out in the Invitation to Apply. No independent production company with an appropriate track record has been identified nor any individual nominated for staff or in-house responsibility. In the case of children's programming, also mandated under S16(2)(e), an experienced independent production company has been identified (though no individual has been nominated with staff responsibility).

14. The application is also unclear about its intentions in relation to educational programmes. No independent production company with an appropriate track record is identified nor any individual nominated for staff or in-house responsibility.

15. Further, the information provided in the application about key postholders indicates a particularly serious deficiency. The Chief Executive and the Deputy Director of Programmes (whose contracts with LIB will be for 5 years) have experience of programme acquisition but not of programme making or commissioning. The Director of Programmes is the only individual with experience relevant to controlling original programme output and delivering programmes of high quality; his contract with LIB will be in any case for two years only, to the end of the first year of transmission (1993). None of these individuals has experience of senior executive office within UK terrestrial television. No commissioning executive or any other programme executive has been appointed or even nominated below the level of Deputy Director of Programmes.

16. We do not conclude therefore that LIB has sufficient production arrangements or the staff to provide a sufficient number of programmes of high quality.

17. A final point: Mentorn appears to be LIB's largest single proposed supplier. Its founder, owner and chief executive would, in order to take up his designated post as Director of Programmes for LIB, have to stand down from his duties at Mentorn. This would raise questions about Mentorn's ability to sustain previous standards and output.

18. See also comments under S16(2)(f) below.

We do not conclude that LIB's application satisfies this requirement.

19. S16(2)(c)

that a sufficient amount of time is given in the programmes so included:-

(i) **to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and**

(ii) **(not applicable to this licence)**

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

LIB proposes 3 hours 47 minutes of regional programmes compared with a minimum requirement of 2 hours 30 minutes. Significant increases are proposed in sport and factual material. In general, the range of regional programmes offered is satisfactory.

20. However, LIB's appraisal of regional interests (A.12.3) is brief and superficial. The application takes little apparent account of the south eastern part of the region, or that beyond the suburbs of London. The demographic analysis in A.21 contains no data derived directly from the audience about its viewing habits, tastes, interests and preferences. LIB has chosen to

attack the incumbent's performance in a very selective fashion, instead of conducting original audience research designed to complement its demographic analysis and look at different aspects of regional identity. The application does not provide evidence, therefore, that regional programmes will be of particular interest to persons living within the area for which the service is provided.

21. None of the companies identified as suppliers of regional programmes (with the exception of Mentorn) has a significant record of production within a London regional context.

22. The application puts forward three different plans for regional news bulletins, respectively on pages A.1.28 and A.1.31, and in section A.20, varying both in their length and frequency. It is apparent that local news has been inadequately thought through within the application and LIB's letter of 28 June has conceded various errors. LIB also lays considerable emphasis upon a proposal for a joint news operation with the London Weekday licensee. There is however no written agreement with either Thames Television or any other London weekday applicant, and LIB does not appear to have progressed its plans further than a meeting without formal or detailed commitments with Thames. It does not appear therefore that LIB's regional news programmes will be of high quality.

We do not conclude that LIB's application satisfies these requirements.

23. S16(2)(d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

LIB undertakes that all its regional programming will be made within the region.

We conclude that LIB's application satisfies this requirement.

24. S16(2)(e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

LIB proposes to include 2 hours of non-regional religious programming every week. (Note, however, the reservations expressed in paragraph 13 above about LIB's plans for production.) It proposes 3½ hours of non-regional children's programming (broken down acceptably into the three main strands of entertainment, drama and information). The mandated minimum amounts are therefore met.

We conclude that LIB's application satisfies this requirement.

25. S16(2)(f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

Tables 1 and 2 (attached) set out LIB's proposed allocation of programmes by individual strand. The non-regional allocation commits some time to each major strand. The regional allocation omits some strands, but compares satisfactorily with current ITV provision.

26. However, LIB's proposed allocation of non-regional programming produces major changes from current provision which are not supported by research or other argument. Their effect is to increase drama programming significantly, and to decrease some of the other principal weekend strands to an extent that adversely affects the diversity of the programme service. The reduction in the time given to sport, news and children's programming is particularly marked.

27. The application includes an unusual emphasis upon the use of drama and entertainment repeats, whose likely effect would be to diminish diversity.

28. The requirement set out in the Invitation to Apply that at least 65 per cent of programmes must be originally produced or commissioned for Channel 3 is not met in the application. The figures given there indicate that only 59.16 per cent will be original output. This emphasis upon acquired material is further supported within the application by a proposal for increased network acquisition costs. Two of the three designated senior programme executives have a background in film acquisition.

29. The effect of this proposed high proportion of acquired material would be to narrow the range and variety of programmes and to diminish the scope for original high quality material. (The changes proposed in LIB's letter of 28 June, intended to show how the 65 per cent requirement would be achieved, still - according to ITC staff calculations - fall slightly short of the target. However, these changes involved significant amendments to the text of the application. They have not therefore been accepted.)

We do not conclude that LIB's application satisfies this requirement.

30. S16(2)(g)

that a proper proportion of the matter included in those programmes is of European origin

LIB commits to a minimum of 65 per cent to European programming.

We conclude that LIB's application satisfies this requirement.

31. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions.

A satisfactory assurance is given in relation to the quota for independent productions. Within the limited part of the output covered by the 25% quota, the range and diversity of productions should be satisfactory.

We conclude that LIB's application satisfies this requirement.

Other Matters

32. LIB's proposals for compliance with relevant ITC codes and licence conditions are acceptable. The procedures for handling complaints are however inadequate. Adequate proposals are put forward for promoting the understanding and enjoyment of programmes by people with hearing or sight impairments and for training. An undertaking is given that facilities and offices will be sited within the region but no premises are identified in the application.

Conclusion

33. It does not appear that LIB's proposed service would comply with the requirements specified in section 16(2)(a), (b), (c) and (f) of the Act.

C. BUSINESS PLAN

Revenue

34. Average advertising revenue of £169.9m looks reasonable across the full ten year term. However, a very quick recovery is projected from the present recession, leading to very optimistic revenue figures in 1993 and for the following two years - ie, an average of £181m in the difficult initial period for a new company. Revenue remains at about £165m from 1996 to 1999 and then falls to £158.8m by 2002. The degree of optimism in the first three years is probably in the region of £10-20m a year. (LIB's revenues are £22m a year higher for the first three years than the projections made by LWT, and we thought that LWT's figure for the first year was a bit optimistic.)

Cost Of The Programme Service

35. The total cost of providing the programme service looks reasonable at £89.3m a year. Regional programmes amount to £13.3m which represents 184 hours at £72.4k an hour. These figures are very close to those of LWT. This is surprising because we have always thought that LWT's programmes are good but very expensive. We would not have expected a newcomer to try to match them. Regional programmes of quality at a still high cost of £50k an hour would save £10m a year.

36. A network contribution of £64.6m is provided for 1993 on the basis of a total budget of £450m. This is at the top of the ITC's indicative range, and high initial figures have also been provided for sport, acquired material and news. However, there is no provision for any subsequent real growth in these costs. Some other applicants have adopted this approach, but it is a source of concern for the later years. The subdivision within London between the weekdays and the weekend is however reasonable.

Overheads

37. The proposed staffing of 299 is light in relation to the nature of the business and the programme supply envisaged. An allocation of only 61 staff to sales at a unit cost of £22.5k looks low. The remaining overheads are in line with those for other publisher contractors, but may be on the low side for London. We also have a concern that not only are the initial costs of transmission equipment deficient, but also that the subsequent provision for running costs are inadequate.

Programme Sales

38. Income from programme sales to the network averages £59m which accounts for 13 per cent of the total network budget, and a 10 per cent profit margin has been allowed. The costs per hour of programmes supplied to the network are within historic ranges. In addition however, the plan shows substantial revenue from sales to other UK outlets and overseas. For example, overseas sales are shown to generate net income of £2m in 1993, rising to £14m by 1997 and £16m by 2002. These sales constitute 4 per cent of profit in 1993, 25 per cent in 1997, and 30 per cent by 2002. They are therefore of considerable importance, particularly in the later years. On the basis of [REDACTED] experience we are doubtful that sales on this scale can be achieved. The plan is also bullish about sponsorship income providing for £5.3m of new money in 1993. This is ahead of other applicants' expectations. We would have expected a figure of under £2m. However, some limited comfort can be taken in the earlier years because LIB make no provision for receipts or payments under the [REDACTED] [REDACTED]. Although there may be outgoings later on, receipts of £2m or more in the early years could well arise.

Profits

39. The average trading surplus is projected at £53.1m giving a high margin of 21 per cent. This is a substantial sum and we would have found a figure in the range £40-45m more credible, particularly in the earlier years. Dividend provision is low at just 6 per cent of pre-tax profit.

Cash Bid

40. The cash bid is large and accounts for a high percentage of both revenue and profit. The Exchequer would take 81 per cent more in total tender payments than under the levy system.

Balance Sheet And Cash

41. The pre-operational cash flows show only £3m for the purchase or lease of fixed assets. We do not believe that this would be sufficient to cover the cost of transmission equipment, other broadcasting assets and airtime sales equipment. There may be some misclassifications but we cannot see where. We suspect therefore that insufficient attention has been given to the requirements of setting up the business.

42. We believe that total funding at £51m is inadequate. There are large borrowings especially in the early years, and substantial debt repayments of £33m have to be made over the four years 1993 to 1996. The funding consists of:

	<u>£m</u>	<u>%</u>
Ordinary shares	7.6	14.9
Deferred convertible shares	0.4	0.8
Convertible, redeemable preference shares	10.0	19.6
Revolving credit facility	<u>33.0</u>	<u>64.7</u>
	51.0	100.0

The main shareholders are:

<u>Ordinary Shares</u>	<u>%</u>
	26.3
	15.0
	15.0
	15.0
	28.7
<u>Convertible Shares</u>	
	100.0

43. We do not have doubts about the ability of [REDACTED] or [REDACTED] to fund its investment. The next three investors are all independent production companies, and in default of their investment [REDACTED] would take over their shares.

44. There are some reservations about the funding package. The borrowing facilities are for four years when five would have been more sensible. These facilities are not yet fully secured, and there are signs that substantial further negotiation has yet to take place with the banks involved. Currently the terms under discussion between the banks are different and this may not be

a stable position. There are a number of inconsistencies in the information given in different parts of the application, although individually they are not substantial. However, the general impression is that this proposal is not as far advanced or quite as thorough as we would wish.

Sensitivity Tests

45. The £33m loan finance has to be repaid by mid-1996, and the plan is therefore vulnerable to any revenue shortfall in the early years. Even on the applicant's own projections two of the ITC's prescribed sensitivity tests result in cash shortfalls which would require additional funding of £5-6m in 1996. If the doubts expressed earlier about advertising revenue projections, overseas sales and sponsorship income were borne out then the shortfall could be much greater, but could be mitigated somewhat if costs were significantly reduced. A letter from Polygram's Treasurer says he believes that additional funding of £5-6m could be secured, but this is not an independent assessment, and the letter does not commit Polygram to any further funding in these circumstances.

Conclusions

46. The business plan reveals weaknesses in several areas. Advertising revenue looks very optimistic in the earlier years, and we also regard the projections of net income from overseas programme sales and sponsorship as optimistic. On the other hand, the cost of regional programmes may be unnecessarily high. Initial network provision is good (although allowance is not made for subsequent real cost increases). Pre-operational expenditure and some subsequent annual overhead expenditure looks inadequate. We have some unease about the degree of thought and/or expertise that has been applied to the task of establishing a new business.

47. The total funding package at £51m is inadequate, and there are substantial borrowings, requiring capital repayments of £33m in the early years 1993 to 1996. The signs are that there is substantial negotiation yet to be completed in relation to the borrowings. Two of the ITC's prescribed sensitivity tests show a requirement for additional funding of £5-6m by 1996. The applicant recognises this, but none of the investors have taken the opportunity to commit themselves to further funding. The shortfall would probably not be too serious if it were only £5-6m, but our concerns about the very optimistic revenue projections in the early years lead us to believe that the deficiency could easily be very much greater.

48. It does not appear that London Independent Broadcasting would be able to maintain the proposed service throughout the ten year licence period for which the licence would be in force.

D. ENGINEERING ASPECTS

49. The Head of Engineering and Operations for LIB has not yet been identified. The general approach proposed in the LIB application to deal with technical quality issues is a satisfactory one. For example, the proposals provide for the

engineering monitoring of the quality of all output and the inclusion of technical standards requirements in independent production contracts.

50. However, the proposals contain more gaps of detail than one might have expected and contain some very general statements which give cause for some concern on the level of understanding of the applicant. On issues of detail there is no reference to any signal routing or distribution equipment. This was not specifically requested, but it is generally included by other applicants. It is also stated that programmes supplied by independents will be monitored, but no details are given in the application as to the equipment or rooms to be used for this purpose. This point was raised in a recent question of clarification put to LIB, the response to which was very satisfactory and sufficient in detail. One general statement made is that independents will have to use "approved facilities", but there is no explanation in the application as to who would approve them.

51. There is not sufficient concern to fail LIB on technical quality grounds, but it is certainly one of the weaker applications in terms of the level of detail presented. We believe LIB's engineering plans would require further clarification to be provided on matters of detail after award of the licence if they were to be successful, presumably after the appointment of a suitable Head of Engineering and Operations.

3 October 1991

London Weekend

1. Allocation of time to different types of non-regional programmes

Time per week

Programme Strand	<u>LIB</u>		<u>1989 Provision</u>		<u>Minimum Requirement</u>	
	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>		
Drama	21	51	16	46	-	-
Entertainment	12	45	11	00	-	-
Sport	2	00	5	43	-	-
News	3	00	5	12	-	*
Factual	4	01	3	56	0	40
Education	0	35	0	17	-	-
Religion	2	00	2	09	2	00
Arts	0	36	0	44	-	-
Children's	3	30	5	13	3	00
Total	50	18	51	00		

* Requirement is for "appropriate news" at weekends and during public holidays

2.

Allocation of time to different types of regional programmes

Time per week

Programme Strand	LIB	1989 Provision		Minimum Requirement		
		Hrs	Mins	Hrs	Mins	
Entertainment		0	25	0	53	
Sport		0	47	0	05	
News		1	10	1	07	
Factual		1	10	0	48*	
Education		0	15	0	0	
Religion		0	00	0	00	
Arts		0	00	0	00	
Others		0	00	0	00	
Total		3	47	2	53	2 30

* The 1989 figure includes social action

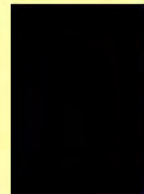
3. Amounts of programmes which the applicant intends to supply to the network

Time per year

<u>Programme Strand</u>		<u>LIB</u>		<u>1989 provision</u>	
		<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>
Drama		42	00	61	32
Entertainment		73	30	143	00
Sport		13	00	93	36
Factual		26	00	37	16
Education		3	00	6	04
Religion		8	00	4	20
Arts		26	00	26	00
Children's		62	00	0	00
News		4	24		
Total		257	54	371	48

4.

Proportion of output allocated to original productions/commissions



<u>LIB</u>	<u>Minimum Requirement</u>
59.16%*	65%

*In a letter of 28 June replying to an ITC letter requesting clarification, LIB provided revised figures. Even so, our calculations indicate a revised proportion of only 64.229% (compared to LIB's own new calculation of 65.2%).



Independent Television Commission

Paper 176 (91)

Circulation SECRET

2 October 1991

SOUTH OF ENGLAND TELEVISION (CPV-TV):

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. CPV-TV's application for the South and South-East of England licence is in the name of South of England Television. CPV-TV has also applied for the London Weekday and East of England licences. The shareholders in CPV-TV with interests of more than 5 per cent are

[REDACTED] The Chairman is [REDACTED]
[REDACTED]) and the Vice-Chairman [REDACTED] Executive
Directors include [REDACTED]
[REDACTED]

B. PROPOSED SERVICE

The Applicant's Proposals

2. South of England Television (CPV-TV) intends to operate mainly as a publisher-licensee. Regional news bulletins and the daily news magazine will be made in-house. Other regional programmes and programmes for the network will be commissioned from independents.

3. After the closing date for applications, CPV-TV submitted changes to the tables showing the allocation of time to different types of regional and non-regional programmes. Alternative tables were offered to the ITC and these have been used in this assessment, since they more accurately reflect the applicant's proposals. The ITC then wrote to CPV-TV on 28 June seeking clarification of numerous points in the application, relating to children's programmes, regional programmes, sources of programmes, the supply of programmes to the network, original productions/commissions and arrangements for handling complaints. CPV-TV responded on 4 July with clarifying information on all

these points backed up, where relevant, with copies of contracts with independent producers. Staff have taken into account throughout this assessment the material which appears to give relevant clarification in response to the questions asked without changing the proposals put forward in the original application.

Minimum Requirements and Expectations

4. This section compares the requirements of S16(2) of the Broadcasting Act with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

5. S16(2) (a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

CPV-TV confirms that it will transmit the full range of ITN's network output and meet its share of the cost. The amount of current affairs proposed exceeds the minimum requirement. It suggests replacing the present two half-hour programmes with a peak-time hour, to be called 'The Correspondents'. Although this programme is described in section A.1 as if it were an offer to the network from CPV-TV (and is indeed proposed as such in CPV-TV's London application), in fact CPV-TV intends to offer only an element of the programme, such as a special debate. While CPV-TV's plans for current affairs are adequately expressed on paper, therefore, the source of the particular programme referred to is not stated in the application. Nonetheless, given the fact that the licensee for this region is likely to depend on the network for its supply of current affairs programming, the requirement for high quality is likely to be met.

We conclude that CPV-TV's application satisfies this requirement.

6. S16 (2) (b)

that a sufficient amount of time is give in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

CPV-TV offers ideas for programmes of high quality. However, compared with other applicants for this licence, plans for the development of programmes do not appear to have progressed very far. Copies of contracts with programme suppliers have been given to the ITC, but these are mostly written in very general terms and usually amount to little more than preliminary

agreements to co-operate, in principle, in the production of programmes. Information provided about the content of some of the programmes is also of a very preliminary nature. The amount of programmes offered to the network is higher than the 1989 provision (see Table 3 attached to ITC Paper 174(91)). However, section A.15 of the application fails to address the question of how non-regional programmes, other than those commissioned by CPV-TV, will be supplied. We cannot therefore be sure how CPV-TV intends to meet its obligations to provide a sufficient amount of high quality non-regional programming.

7. We also have concerns about the proposed level of programme staffing, at 259. This seems a very lean operation. While requirements may vary from case to case, we do not feel that CPV-TV will be able to meet its regional production commitments and exercise proper supervision over commissioned programmes in order to maintain quality. The team of key post-holders, led by [REDACTED], is satisfactory. A Head of Regional Programmes is identified (currently Head of Features and Education at TVS). But senior staff cannot function properly if there are insufficient staff below them.

8. The application does not contain a clear commitment to meet the 65% requirement for original productions/commissions. The figures for original productions/commissions for each programme strand and for the output as a whole, requested in question A.1(iii) in the Invitation to Apply, are not provided. Their absence implies too high a proportion of acquired material and diminished scope for original high quality material. In its letter of 4 July the applicant argues that sufficient information about original and acquired programmes is contained in the description of programmes in sections A.1 and in the outline schedules in A.8 and A.20 of the application. This explanation is unsatisfactory. It is not possible to derive a precise figure for original programmes from the application. The effect of this omission is to cast doubt on the range and variety of programmes and the scope for original high quality material.

We do not conclude that CPV-TV's application satisfies this requirement.

9. S16(2) (c)

that a sufficient amount of time is given in the programmes so included:-

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and**
- (ii) if the service is to include the provision of such programmes as are mentioned in section 14(3), to a suitable range of programmes for each of the different parts of that area or (as the case may be) for each of the different communities living within it, being in each case a range of programmes (including news programmes) which are of particular**

interest to persons living within the relevant part of that area or (as the case may be) the relevant community,

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

After the closing date for applications the applicant informed the ITC that because of a printer's error the line for drama had been omitted from the summary table for regional programmes. More significantly, the table was based on an incorrect interpretation of the definition of "regional programmes". The Invitation to Apply, reflecting the wording of the Act, makes it clear that regional programmes must be "of particular interest to persons living within the region" as well as broadcast exclusively for them (paragraph 92). CPV-TV explained that it had counted as regional "all programmes which might not be supplied by the network including a night-time service acquired and presented by CPV-TV purely for the region". We calculate that the amount of regional programmes, as defined in the Invitation to Apply, is 14 hours 40 minutes, per viewer, not 60 hours 40 minutes, as shown in the application. For the purposes of this assessment we have used CPV-TV's alternative figures (referred to in paragraph 3 above), since it is impossible otherwise to make a sensible comparison with the current ITV service and with the proposals of other applicants.

10. The description of the proposed content of regional programmes is vague although with the help of CPV-TV's letter of clarification we are able to deduce that programme plans do exist to provide at least the minimum requirement of 8 hours a week per viewer. The regional service depends heavily on **Live At Six**, a one-hour magazine to be broadcast at 6.00 p.m. on weekdays and repeated overnight. **Live At Six** will embrace not only news but much of the rest of the company's regional output, including sport, current affairs, social action, consumer programming, leisure features, reports on the arts and entertainment scene, and travel information. Repeats of **Live At Six** will account for approximately five hours out of the 14 hours 40 minutes allocated for regional programmes.

11. CPV-TV intends to produce **Live At Six** and regional news bulletins in-house. Staff for this number 200 in Ashford and 50 in Winchester. We do not believe this is adequate. Five reporters in the South East and four in the South are unlikely to be able to deliver the amount of news that is proposed. One more will be based in Reading. The staffing structure, for example the relationship between the Head of Regional Programmes and Head of News, is unclear. From the information that is provided we are unable to confirm that regional news output will be of high quality.

12. Separate editions of **Live At Six** will be broadcast to each of the sub-regions. In correspondence CPV-TV states that 1 hour 50 minutes will be common to the two sub-regions. The application states that each edition of **Live At Six** will contain a further opt-out of between 2 and 5 minutes a night. However, in correspondence CPV-TV states that only one of these opt-outs

is definite - from the Hannington transmitter serving Reading and its surrounding area. The other is still under consideration. We estimate that the total amount of regional programmes, including sub-regional and opt-out material, will be 21 hours 50 minutes, with 7 hours 10 minutes of separate programmes for each sub-region. However, the statistics are confusing and the proposals as a whole unconvincing. The application does not inspire confidence that an effective service will be provided.

13. Regional religious programmes are not described in the application but five minutes a week are included in the summary table. In correspondence CPV-TV states that the five minutes relates to two series which it had included in the section on non-regional programming and which it intends to offer to the network. If the network does not want them, they will be transmitted regionally. From this, it appears that the programmes are being counted twice in the tables: as non-regional and regional.

14. Audience research has been used mainly to criticise TVS, not always successfully since some of the conclusions reached are not supported by the research. In its use of research, as in other areas, CPV-TV fails to demonstrate a deep knowledge of the region or a strong commitment to meeting regional needs and interests.

We do not conclude that CPV-TV's application satisfies these requirements.

15. S16 (2) (d)

that a suitable proportion of the regional programmes included in the service in accordance with the paragraph (c) are made within the area for which it is to be provided

CPV-TV states that 80% of regional programmes will be made in the region. It provides no evidence that the independents it intends to use will set up regional bases and lists no existing locally based independents. However, it will produce news bulletins and news magazines itself.

We conclude that CPV-TV's application satisfies this requirement.

16. S16(2) (e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

CPV-TV plans to show two hours five minutes of networked religious programmes and five minutes of regional religious material. However, it provides no breakdown to show what this output will include. It also proposes eleven hours and twenty minutes of children's programmes. This is a high figure and may include repeats. The application does not specify the amounts of time to be allocated to different sub-strands within

children's programmes, as listed in the Invitation to Apply i.e. drama, information and entertainment. CPV-TV claims in correspondence that this was due to the difficulty of categorising pre-school programming into sub-strands. We do not find this explanation convincing. However, the omission is not of great significance since the text of the application makes it clear that "a varied and diverse mix of children's programmes" will be transmitted. The executive in charge of children's programmes has a good track record and some interesting ideas have been provided.

We conclude that CPV-TV's application satisfies this requirement.

17. S16(2) (f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

On the basis of CPV-TV's alternative table of non-regional programmes it appears that it plans significantly more drama, more sport and arts but far fewer factual and entertainment programmes compared with the 1989 figures (see Table 1 attached to ITC Paper 174(91)). In general more emphasis is placed on programmes of wide appeal than on programmes for minority interests. The pattern of scheduling (eg acquired drama planned at 9.00pm on three nights a week) would also restrict diversity. We have already noted CPV-TV's failure to give a clear commitment to fulfil the 65% requirement for original productions/commissions. Taking these factors together, we are not satisfied that CPV-TV's proposed service demonstrates sufficient diversity.

We do not conclude that CPV-TV's application satisfies this requirement.

18. S16 (2) (g)

that a proper proportion of the matter included in those programmes is of European origin

A satisfactory assurance is given in relation to the quota for European programmes.

We conclude that CPV-TV's application satisfies this requirement.

19. S16 (2) (h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions

CPV-TV confirms that it will exceed the 25% independent production requirement. The status of John Gau Productions and David Paradine Productions under the terms of the statutory order

is in doubt, but this should not present a major problem as far as the 25% requirement is concerned. Within the limited part of the output covered by the 25% quota the range and diversity of independent productions should be satisfactory.

We conclude that CPV-TV's application satisfies this requirement.

Other Matters

20. The level of staffing appears inadequate to ensure compliance with ITC codes and licence conditions. Our concern about compliance is reinforced by the fact that no information is provided in the application about how programme complaints will be handled, although arrangements for handling advertising and sponsorship complaints are described.

21. Adequate proposals are put forward for deaf and hard of hearing people and for the blind and partially-sighted. Proposals are put forward for training although they are very limited for a licence of this size. Proposals are also put forward for offices, studios and staff, although as stated above we are concerned about the level of staffing. CPV-TV devotes only a few lines to arguing why its main premises should be based in Ashford and Winchester. These are not obvious choices in terms of regional geography.

Conclusion

22. It does not appear that CPV-TV's proposed service would comply with the requirements specified in Section 16(2)(b), (c) and (f) of the Act.

C. BUSINESS PLAN

Revenue

23. The revenue projections are plausible, but prudent, at an average of £182.5m. The figure of £162.2m for 1993 is cautious, but this rises quite strongly to £203.7m in 2002.

Costs of the Programme Service

24. The total annual cost of £90m is satisfactory, but a little on the low side. Regional programmes cost £16.6m and consist of 931 hours at £18k an hour. This average cost is low by ITV standards. Although it can be achieved we have some concern about the cost of the local news service at only £12.4k an hour.

25. The network contribution is £57m in 1993 and is based on a budget of £477m, ie, the mid-point of the ITC's indicative range. Real growth, ie, over and above inflation, is allowed for in the cost of drama and entertainment, but not for sport or acquired material. The provision for other common costs is adequate.

Overhead

26. Media and Airtime Sales (MAS) will handle the South East's airtime. The cost will be 2.5 per cent of NAR, and this is reasonable.

27. Other overhead expenditure looks sufficient. Staff numbers at 325 look low (particularly administration staff at 66) but in financial terms the figures look more reasonable, ie, high remuneration may be compensating for low numbers.

Programme Sales

28. Sales to the network average £69m and account for 14 per cent of the proposed network budget. Although the projected costs per hour are above historic averages this proposed level of supply is quite demanding for a newly formed company. Sales make no contribution to overheads or profits and do not however affect profitability.

Profit

29. An average trading surplus of £51m represents a comfortable margin of 19 per cent. The revenue projections are conservative and the surplus may turn out to be higher. Alternatively, the business plan could accommodate significantly higher programme costs.

30. No dividend is proposed in the projections, but shareholders are paid 4 per cent above LIBOR* on the loan stock. Although this is an unusual approach to shareholders' returns the projections suggest that dividends could be paid without unduly depleting the balance sheet.

Cash Bid

31. The cash bid is low in relation to both revenue and profit. Tender payments would be 34 per cent more than the sums which would have been paid to the Exchequer under the levy.

Balance Sheet And Cash

32. Initial funding amounts to £73m and consists of:

	<u>£m</u>
Share Capital	21.26
Shareholders' Loan Stock	21.25
Senior Debt	20.00
Finance Leases	10.47
	<u>72.98</u>

* London Inter Bank Offer Rate.

33. The main participants in the equity and loan stock are:

<u>Ordinary</u> <u>Shares</u>	<u>Loan</u> <u>Stock</u>
<u>‡</u>	<u>‡</u>

34. On the basis of the subscription and shareholders' agreements and board minutes we are satisfied as to the strength and commitment of [REDACTED]. As explained in this company's application for the London Weekday licence, [REDACTED] needed to refinance debt on a substantial scale during the course of this year.

35. Pre-operational expenditure amounts to £32.6m. The bulk of fixed assets are to be leased and this keeps pre-operational cash flows to a minimum. Cash flow is generally strong and positive in all years, with the exception of 1996 when the senior loan is repaid.

Sensitivity Tests

36. The cash margins under the prescribed sensitivity tests are very comfortable. There is no need for additional financing and further, cumulative variances to the business plan could be accommodated without difficulty.

Conclusion

37. The proposed expenditure on regional programmes is a little light, but the revenue projections are cautious. The business probably could therefore accommodate higher costs, or alternatively perform better in terms of profitability, than the projections suggest. Section C is broadly similar to CPV-TV's application for the London Weekday licence, and some of the conclusions, ie, the plan may not do the applicant justice, the lack of provision for dividends is unconventional, and Virgin Holdings needed to refinance debt on a substantial scale, are also similar. However, the licence would not be granted unless funds were irrevocably committed and the need for refinancing by Virgin is not a sufficient concern to prevent the award of the licence.

38. It appears that CPV-TV would be able to maintain the proposed service throughout the ten year period for which the licence would be in force.

D. ENGINEERING ASPECTS

39. The proposed Director of Engineering is Ellis Griffiths. The application displays a similar commitment to technical quality, in principle, to that from CPV-TV for the London Weekday licence (Greater London Television). However, the proposed Engineering staffing is more substantial, numbering 125 compared with 80 for the GLT application. We have no substantial concerns with the application from a technical quality point of view.

2 October 1991



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EAST OF ENGLAND TELEVISION:**ASSESSMENT****Paper by Staff****A. INTRODUCTION**

1. East of England Television is the name under which CPV-TV are applying for this licence. (They are also applying for the South and South-east of England and London Weekday licences.) The transmission centre would be in the Cambridge area, with regional news bases in Norwich and Ipswich. The CPV-TV board members include

[REDACTED]

B. PROPOSED SERVICE**The Applicant's Proposals**

2. East of England Television (CPV-TV) intends to operate mainly as a publisher-licensee. It will produce its own regional news magazine. Other regional programmes and programmes for the network will be commissioned from independents.

3. After the closing date for applications, CPV-TV submitted significant changes to the tables showing the allocation of time to different types of regional and non-regional programmes. Revised tables were offered to the ITC and these were used in this assessment, since they more accurately reflect the text of applicant's proposals. The ITC then wrote to CPV-TV on 29 August seeking clarification of numerous points in the application, relating to children's programmes, religious programmes, supplies of programmes, the regional service, original productions/commissions, regional provision and equal opportunities. CPV-TV responded on 4 September with clarifying

information on all of these points, backed up, where relevant, with copies of agreements with independent producers. Staff have taken into account throughout this assessment the material which appears to give a relevant clarification in response to the questions asked without changing the proposals put forward in the original application.

Minimum Requirements and Expectations

4. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

5. S16 (2) (a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times.

CPV-TV confirms that it will transmit the full range of the network output of the nominated news provider and meet its share of the cost. It would press the network to bring News at Ten forward to 9.00 p.m. CPV-TV would like to see an amalgamation of network current affairs output into a programme called 'The Correspondents', which would exceed the minimum requirement for length.

6. Although this programme is described in section A.1 as if it were an offer to the network from CPV-TV (and is indeed proposed as such in CPV-TV's London application), no such current affairs programme is listed in response to the question about network supply. While CPV-TV's plans for current affairs are adequately expressed on paper, therefore, the source of the particular programme proposed in the application does not appear to be secure. Nonetheless, given the fact that the licensee for this region is likely to depend on the network for its supply of current affairs programming, the requirement for high quality is likely to be met.

We conclude that CPV-TV's application satisfies this requirement.

7. S.16 (2) (b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

CPV-TV offers some ideas for programmes of high quality in a number of programme areas. However, plans for the development of programmes do not appear to have progressed very far. Contracts with programme suppliers are mostly couched in very general terms and usually amount to little more than preliminary agreements to co-operate in principle. Section A.15 fails to address the question of how non-regional programmes, other than those commissioned by CPV-TV, will be supplied. CPV-TV's failure to give a clear commitment to meet the 65% requirement for original programming laid down in the Invitation to Apply implies too high a proportion of acquired material and diminished scope for high quality original material (see also paragraph 18 below).

8. The applicant has a satisfactory management at the most senior levels. However, below them staffing seems very light, at around 200 in Cambridge, backed up with 6 to 10 each in Norwich and Ipswich. The heads of department in the fields of comedy, children's and news/factual programming, for example, are provided with only secretarial support. No other posts are shown in any of these departments. This is dubious, even for a publisher-licensee. No other posts are shown in any of these departments. Staffing proposals for the regional service are also unsatisfactory (see paragraph 11).

We do not conclude that CPV-TV's application satisfies this requirement.

9. **S.16 (2) (c)**

that a sufficient amount of time is given in the programmes so included -

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area of which the service is provided, and**
- (ii) if the service is to include the provision of such programmes as are mentioned in section 14(3), to a suitable range of programmes for each of the different parts of that area or (as the case may be) for each of the different communities living within it, being in each case a range of programmes (including news programmes) which are of particular interest to persons living within the relevant part of that area or (as the case may be) the relevant community,**

and that any news programmes so included in accordance with sub-paragraph (i) and (ii) are of high quality.

After the closing date for applications, CPV-TV informed the ITC that because of a printer's error the line for drama had been omitted from the summary table for regional programmes. More significantly, the table was based on an incorrect interpretation of the definition of "regional programmes". The Invitation to Apply, reflecting the wording of the Act, makes it clear that regional programmes must be "of particular interest to persons

living within the region" as well as being broadcast exclusively for them (paragraph 92). CPV-TV, however, appears to have counted all programmes not provided by the network, including acquired material from the United States, as "regional". The amount of regional programming, as defined in the Invitation to Apply, is 14 hours 05 minutes a week rather than the 60 hours 40 minutes shown in CPV-TV's summary table included with the application. Since it is impossible otherwise to make a sensible appraisal of CPV-TV's regional proposals, we have used the revised figures supplied by the applicant for this assessment.

10. The description of the proposed content and scheduling of regional programmes is vague, though with the help of CPV-TV's letter of clarification we are able to deduce that programme plans do exist to provide at least the minimum requirement of eight hours a week on every screen.

11. The regional service depends heavily on 'Live at Six', the applicant's proposed hour-long news magazine. This will embrace not only news, but much of the rest of the company's regional output, including sport, social action, consumer programming, social action and other education. However, in the absence of information on editorial management or staffing, we cannot be confident that 'Live at Six' could be successfully implemented. No posts are shown and no overall figures are given for the numbers of journalists to be employed or of news crews and other backup staff. There is no mention of independents supplying strands for this programme and arrangements for providing news are far from clear. The applicant dislikes structured bulletins on principle. The absence of detailed information makes it impossible to confirm that the regional news output will be of high quality.

12. In the Invitation to Apply, the ITC required some subdivision of news provision to be made for different parts of the region, though no amounts were specified. Applicants were asked to specify the pattern they proposed to follow. In section A4 CPV-TV proposes separate programmes for three opt-outs. It says that the total amount of sub-regional news will be nearly four hours a week, but this is not compatible with information given elsewhere, e.g. on pages 8 and 13, where the opt-outs average 3 hours 14 minutes, taking news bulletins and the magazine together. The proposed three-way split is technically feasible, but the proposals put forward are unconvincing and somewhat incoherent.

We do not conclude that CPV-TV's application satisfies these requirements.

13. S.16 (2) (d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

CPV-TV states that 88% of regional programmes will be made in the region, but the figures given in support of this proposition (565

hours out of 642) do not tally with the figures given in the summary table for regional programmes. The total of 642 hours of regional programming a year can be found nowhere else in the application. In its letter of clarification, CPV-TV provides a new breakdown explaining how the above figures were arrived at. They in fact exclude repeats and the night-time service to be transmitted with other licensees. This explanation offers sufficient evidence that at least 80% of the hours of regional programming will be made within the region, when regional programming is properly defined.

We conclude that CPV-TV's application satisfies this requirement.

14. S.16 (2) (e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children.

The mandated minimum amount of religious programming is met, although the lack of supporting evidence raises doubts about its quality. Nor is any information given about when the proposed regional religious programming will be scheduled or of what it will consist. This is explained in the letter of clarification as being due to the fact that CPV-TV regards its network offer of 'Yours Faithfully' as equally suitable for regional transmission. So, if it does not find a network slot, or only some of the programmes do, CPV-TV intends to transmit them regionally. This is an unconvincing answer to the question that was posed, though it does not materially affect CPV-TV's commitment to transmit a sufficient number of religious programmes.

15. CPV-TV proposes to broadcast 11 hours 20 minutes of children's programming per week, well exceeding the mandated requirement of 10 hours. The application fails to show how children's programmes will be broken down into the required sub-strands of drama, entertainment and information. In its letter of clarification, CPV-TV apologises for this omission, which it attributes to the difficulty of categorising pre-school programming into sub-strands. The letter of clarification offers a detailed breakdown of the three sub-strands which it says can be extracted from the information already provided in the application. This is acceptable, and leads us to believe that the requirements of the Invitation to Apply are likely to be met.

We conclude that CPV-TV's application satisfies this requirement.

16. S.16 (2) (f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interest.

CPV-TV's proposed allocation of hours to different strands of non-regional programmes would produce significant reductions in

entertainment and factual material (see table 1 attached to ITC Paper 106(91)). This is not compensated for in the allocation to regional programmes (see Table 2), and is not supported by research or other argument. The pattern of scheduling (e.g. with drama series planned for 9.00 - 10.00 pm on four nights a week) would also restrict diversity.

17. CPV-TV's proposed allocation of hours to different strands of regional programming makes no provision outside the daily news magazine programme for local entertainment, sport, education or arts programming. Regional sports provision overall is particularly thin.

18. As stated in paragraph 7 above, the figures for original productions/commissions for each programme strand and for the output as a whole, requested in question A.1(iii) in the Invitation to Apply, are not provided. In its letter of 5 September CPV-TV argues that sufficient information about original programmes is contained in the description of programmes in sections A.1 and in the outline schedules in A.8 and A.20 of the application. This explanation is unsatisfactory. It is not possible to derive precise figures from the application. The effect of this omission is to cast doubt on the range and variety of programmes and the scope for original high quality material. Taking these factors together we are not satisfied that CPV-TV's proposed service would appeal to a sufficiently wide range of tastes and interests.

19. The range and diversity of the regional programming offered in this application (including that to be commissioned from independents) is in our view particularly deficient.

We do not conclude that CPV-TV's application satisfies the requirement.

20. S.16 (2) (g)

that a proper proportion of the matter included in those programmes is of European origin

CPV-TV confirms that the quota for European material will be met.

We conclude that CPV-TV's application satisfies this requirement.

21. S.16 (2) (h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions.

CPV-TV confirms that the quota for independent productions will be met. As a publisher-licensee, CPV-TV will have no difficulty in meeting the 25% independent quota, although it has now been established that two of its shareholding companies, [REDACTED]

_____ may lose their status as independents should CPV-TV be awarded a licence.

We conclude that CPV-TV's application satisfies this requirement.

Other Matters

22. CPV-TV's main studio centre will be in Cambridge. Although the City Council has said it does not wish to give planning permission, we have established that the proposed site is outside the city boundaries in a practical and accessible location.

23. Adequate proposals are made for providing services for the deaf and hard of hearing and the blind and partially sighted. Proposals for training are extremely limited, but just about acceptable. Compliance with ITC codes are dealt with adequately, but no information has been provided about dealing with programme complaints.

Conclusion

24. It does not appear that CPV-TV's proposed service would comply with the requirements of S16(2)(b)(c) and (f).

C. BUSINESS PLAN

Revenue

25. The revenue projections are prudent, at an average of £106.6m. The figure of £95.2m for 1993 is cautious, and revenue then rises quite slowly to £118.1m in 2002. It would not be surprising if revenue turned out to be higher than projected.

Costs of the Programme Service

26. The total annual costs of £53.4m are on the low side, although the business plan leaves sufficient margin to accommodate higher costs. Regional programmes cost £10.6m and consist of 646 hours at £16k an hour. This average cost is low by historic ITV standards. Although it can be achieved, within it we have some concern about the cost of the local news service at only £12.5k an hour.

27. The network contribution is £33m in 1993 and is based on a budget of £477m, ie, the mid-point of the ITC's indicative range. Real growth, ie, over and above inflation, is allowed for in the cost of drama and entertainment, but not for sport or acquired material. As a result, costs may be light in later years. The provision for other common costs is adequate.

Overheads

28. Media and Airtime Sales (MAS) will handle CPV-TV's airtime. The cost will be 3 per cent of NAR, and this looks reasonable.

29. Other overhead expenditure looks generous. Staff numbers

at 268 look low, but in financial terms the figures look more reasonable, ie, high remuneration may be compensating for low numbers.

Programme Sales

30. Sales to the network average £34m and account for 7 per cent of the proposed network budget in the period 1993 to 1995. Although the projected costs per hour are above historic averages this proposed level of supply is quite demanding for a newly formed company. Sales are on a cost recovery basis, and do not affect profitability. Overseas income and sponsorship are marginal to this business plan.

Profit

31. An average trading surplus of £28m represents a comfortable margin of 19 per cent. The revenue projections are prudent and the surplus may turn out to be higher. Alternatively, the business plan could accommodate significantly higher programme costs.

32. No dividend is proposed in the projections, but shareholders are paid 4 per cent above LIBOR* on the loan stock. Although this is an unusual approach to shareholders' returns the projections suggest that dividends could be paid without unduly depleting the balance sheet.

Cash Bid

33. The cash bid is low in relation to both revenue and profit. Tender payments would be just 8 per cent more than the sums which would have been paid to the Exchequer under the Levy.

Balance Sheet And Cash

34. Initial funding amounts to £53.44m and consists of:

	<u>£m</u>
Share Capital	15.00
Shareholders' Loan Stock	15.00
Senior Debt	14.00
Finance Leases	<u>9.44</u>

53.44

* London Inter Bank Offer Rate.

35. The main participants in the equity and loan stock are:

	<u>Ordinary Shares</u>	<u>Loan Stock</u>
	<u>%</u>	<u>%</u>
Director of Engineering	[REDACTED]	[REDACTED]

36. On the basis of the subscription and shareholders' agreements and board minutes we are satisfied in relation to the strength and commitment of [REDACTED]. As explained in this company's application for the London Weekday licence, our merchant bank advisers are concerned about the ability of [REDACTED]. This is based mainly on the need for [REDACTED] to re-finance debt on a substantial scale. If it seemed likely that this licence would be awarded to CPV-TV we could check on the progress of this re-financing.

37. Pre-operational expenditure amounts to £23.9m. The bulk of fixed assets are to be leased, and this keeps pre-operational cash flows to a minimum. Cash flow is generally strong and positive in all years. Indeed, the projections suggest that CPV-TV does not need to draw down the full amount of the senior debt as shown in the projections.

Sensitivity Tests

38. The cash margins under the prescribed sensitivity tests are very comfortable. There is no need for additional financing and further, cumulative variances to the business plan could be accommodated without difficulty.

Conclusion

39. The proposed expenditure on regional programmes is a little light, but the revenue projections are cautious. The business probably could therefore accommodate higher costs, or alternatively may perform better in terms of profitability, than the projections suggest. Section C is broadly similar to CPV-TV's application for the London Weekday and South and South East licences, and some of the same conclusions apply, ie, the plan may not do the applicant justice, the lack of provision for dividends is unconventional and [REDACTED] have some concerns about whether [REDACTED] would be able to make the necessary investment. The licence would not be granted unless funds were irrevocably committed.

40. We believe that CPV-TV Limited (East of England Television) would be able to maintain the service for the full ten year term of the licence.

D. ENGINEERING ASPECTS

41. The Director of Engineering associated with this application, whose name was supplied in confidence, [REDACTED] [REDACTED] The description of the studio installation and equipment is thorough and the commitment to technical quality and reliability through operational procedures is high. The engineering staff complement of 110 appears adequate. We are satisfied therefore that East of England TV should be able to comply with the requirements of the Technical Performance Code.

42. The equipment for news gathering includes a satellite uplink of adequate quality, although this is not made a significant feature of the application. The proposal to use "video suggestion boxes" for viewers' inserts are likely to require discussion with ITC staff concerning conditions for technical exemption.

43. Three sub-regional opt-outs are proposed, based on the region's three main transmitters (Tacolneston, Sudbury and Sandy Heath). There are no major technical problems associated with this proposal.

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EAST OF ENGLAND TELEVISION (CPV-TV):ASSESSMENT**Paper by Staff****A. INTRODUCTION**

1. CPV-TV's application for the East of England licence is in the name of East of England Television. CPV-TV has also applied for the South and South East and London Weekday licences. The transmission centre would be in the Cambridge area, with regional news bases in Norwich and Ipswich. The CPV-TV board members include

[REDACTED]

The shareholders in CPV-TV with interests of more than 5 per cent are

[REDACTED]

B. PROPOSED SERVICEThe Applicant's Proposals

2. East of England Television (CPV-TV) intends to operate mainly as a publisher-licensee. It will produce its own regional news magazine. Other regional programmes and programmes for the network will be commissioned from independents.

3. After the closing date for applications, CPV-TV submitted significant changes to the tables showing the allocation of time to different types of regional and non-regional programmes. Alternative tables were offered to the ITC and these were used in this assessment, since they more accurately reflect the text of applicant's proposals. The ITC then wrote to CPV-TV on 29 August seeking clarification of numerous points in the application, relating to children's programmes, religious programmes, supplies of programmes, the regional service, original productions/commissions, regional provision and equal opportunities. CPV-TV responded on 4 September with clarifying

information on all of these points, backed up, where relevant, with copies of agreements with independent producers. Staff have taken into account throughout this assessment the material which appears to give a relevant clarification in response to the questions asked without changing the proposals put forward in the original application.

Minimum Requirements and Expectations

4. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

5. S16 (2) (a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

CPV-TV confirms that it will transmit the full range of the network output of the nominated news provider and meet its share of the cost. It would press the network to bring News at Ten forward to 9.00 p.m. CPV-TV would like to see an amalgamation of network current affairs output into a programme called 'The Correspondents', which would exceed the minimum requirement for length.

6. Although this programme is described in section A.1 as if it were an offer to the network from CPV-TV (and is indeed proposed as such in CPV-TV's London application), no such current affairs programme is listed in response to the question about network supply. While CPV-TV's plans for current affairs are adequately expressed on paper, therefore, the source of the particular programme referred to is not stated in the application. Nonetheless, given the fact that the licensee for this region is likely to depend on the network for its supply of current affairs programming, the requirement for high quality is likely to be met.

We conclude that CPV-TV's application satisfies this requirement.

7. S.16 (2) (b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

CPV-TV offers ideas for programmes of high quality in a number of programme areas. However, compared with other applicants for this licence, plans for the development of programmes do not appear to have progressed very far. Contracts with programme suppliers are mostly couched in very general terms and usually amount to little more than preliminary agreements to co-operate in principle. Section A.15 fails to address the question of how non-regional programmes, other than those commissioned by CPV-TV, will be supplied. CPV-TV's failure to give a clear commitment to meet the 65% requirement for original programming laid down in the Invitation to Apply implies too high a proportion of acquired material and diminished scope for high quality original material (see also paragraph 18 below).

8. The applicant has a satisfactory management at the most senior levels. However, below them programme staffing seems very light, at around 200 in Cambridge, backed up with 6 to 10 each in Norwich and Ipswich, and up to 20 freelance staff working on contract. (This may exclude some transmission and administrative staff.) The heads of department in the fields of comedy, children's and news/factual programming, for example, are provided with only secretarial support. No other posts are shown in any of these departments. This is unsatisfactory, even for a publisher-licensee. Staffing proposals for the regional service are also unsatisfactory (see paragraph 11).

We do not conclude that CPV-TV's application satisfies this requirement.

9. **S.16 (2) (c)**

that a sufficient amount of time is given in the programmes so included -

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area of which the service is provided, and**
- (ii) if the service is to include the provision of such programmes as are mentioned in section 14(3), to a suitable range of programmes for each of the different parts of that area or (as the case may be) for each of the different communities living within it, being in each case a range of programmes (including news programmes) which are of particular interest to persons living within the relevant part of that area or (as the case may be) the relevant community,**

and that any news programmes so included in accordance with sub-paragraph (i) and (ii) are of high quality

After the closing date for applications, CPV-TV informed the ITC that because of a printer's error the line for drama had been omitted from the summary table for regional programmes. More significantly, the table was based on an incorrect interpretation of the definition of "regional programmes". The Invitation to Apply, reflecting the wording of the Act, makes it clear that

regional programmes must be "of particular interest to persons living within the region" as well as being broadcast exclusively for them (paragraph 92). As in its other two applications, however, (see ITC Papers 160 and 176(91)) CPV-TV, counted all programmes not provided by the network, including acquired material from the United States, as "regional". The amount of regional programming, as defined in the Invitation to Apply, is 14 hours 05 minutes a week per viewer, rather than the 60 hours 40 minutes shown in CPV-TV's summary table included with the application. For the purposes of this assessment, since it is impossible otherwise to make a sensible appraisal of its regional proposals, we have used the alternative figures supplied by CPV-TV (see paragraph 3 above).

10. The description of the proposed content and scheduling of regional programmes is vague, though with the help of CPV-TV's letter of clarification we are able to deduce that programme plans do exist to provide at least the minimum requirement of eight hours a week on every screen.

11. The regional service depends heavily on 'Live at Six', the applicant's proposed hour-long news magazine. This will embrace not only news, but much of the rest of the company's regional output, including sport, politics, consumer programming, social action and other education. However, in the absence of detailed information on editorial management or staffing, we cannot be confident that 'Live at Six' could be successfully implemented. No posts are shown and no overall figures are given for the numbers of journalists to be employed or of news crews and other backup staff. There is no mention of independents supplying strands for this programme and arrangements for providing news are far from clear. The absence of detailed information makes it impossible to confirm that the regional news output will be of high quality.

12. In the Invitation to Apply, the ITC required some sub-division of news provision to be made for different parts of the region, though no amounts were specified. Applicants were asked to specify the pattern they proposed to follow. In section A.4 CPV-TV proposes separate programmes for three opt-outs. It says that the total amount of sub-regional news will be nearly four hours a week, but this is not compatible with information given elsewhere, e.g. on pages 8 and 13, where the opt-outs average 3 hours 14 minutes, taking news bulletins and the magazine together. The proposed three-way split is technically feasible, but the proposals put forward are unconvincing and somewhat incoherent.

We do not conclude that CPV-TV's application satisfies these requirements.

13. **S.16 (2) (d)**

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

CPV-TV states that 88% of regional programmes will be made in the region, but the figures given in support of this proposition (565 hours out of 642) do not tally with the figures given in the summary table for regional programmes. The total of 642 hours of regional programming a year can be found nowhere else in the application. In its letter of clarification, CPV-TV provides a new breakdown explaining how the above figures were arrived at. They in fact exclude repeats and the night-time service to be transmitted with other licensees. This explanation offers sufficient evidence that at least 80% of the hours of regional programming will be made within the region, when regional programming is properly defined.

We conclude that CPV-TV's application satisfies this requirement.

14. S.16 (2) (e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

The mandated minimum amount of religious programming is met, although the lack of supporting evidence raises doubts about its quality. Nor is any information given about when the proposed regional religious programming will be scheduled or of what it will consist. This is explained in the letter of clarification as being due to the fact that CPV-TV regards its network offer of 'Yours Faithfully' as equally suitable for regional transmission. So, if it does not find a network slot, or only some of the programmes do, CPV-TV intends to transmit them regionally. This is an unconvincing answer to the question that was posed, though it does not materially affect CPV-TV's commitment to transmit a sufficient amount of religious programmes.

15. CPV-TV proposes to broadcast 11 hours 20 minutes of children's programming per week, well exceeding the mandated requirement of 10 hours. The application fails to show how children's programmes will be broken down into the required sub-strands of drama, entertainment and information. In its letter of clarification, CPV-TV apologises for this omission, which it attributes to the difficulty of categorising pre-school programming into sub-strands. The letter of clarification offers a detailed breakdown of the three sub-strands which it says can be extracted from the information already provided in the application. This is acceptable, and leads us to believe that the requirements of the Invitation to Apply are likely to be met.

We conclude that CPV-TV's application satisfies this requirement.

16. S.16 (2) (f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interest

CPV-TV's proposed allocation of hours to different strands of non-regional programmes would produce significant reductions in entertainment and factual material (see Table 1 attached to ITC Paper 156(91)). This is not compensated for in the allocation to regional programmes (see Table 2), and is not supported by research or other argument. The pattern of scheduling (e.g. with acquired drama series planned at 9.00 pm on three nights a week) would also restrict diversity.

17. CPV-TV's proposed allocation of hours to different strands of regional programming makes no provision outside the daily news magazine programme for local entertainment, sport or education. Regional sports provision overall is particularly thin.

18. As stated in paragraph 7 above, the figures for original productions/commissions for each programme strand and for the output as a whole, requested in question A.1(iii) in the Invitation to Apply, are not provided. In its letter of 5 September CPV-TV argues that sufficient information about original programmes is contained in the description of programmes in sections A.1 and in the outline schedules in A.8 and A.20 of the application. This explanation is unsatisfactory. It is not possible to derive precise figures from the application. The effect of this omission is to cast doubt on the range and variety of programmes and the scope for original high quality material. Taking these factors together we are not satisfied that CPV-TV's proposed service would appeal to a sufficiently wide range of tastes and interests.

19. The range and diversity of the regional programming offered in this application (including that to be commissioned from independents) is in our view particularly deficient.

We do not conclude that CPV-TV's application satisfies the requirement.

20. **S.16 (2) (g)**

that a proper proportion of the matter included in those programmes is of European origin

CPV-TV confirms that the quota for European material will be met.

We conclude that CPV-TV's application satisfies this requirement.

21. **S.16 (2) (h)**

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions

CPV-TV confirms that the quota for independent productions will be met. As a publisher-licensee, CPV-TV will have no difficulty in meeting the 25% independent quota, although it has now been

established that two of its shareholding companies, [REDACTED], may lose their status as independents should CPV-TV be awarded a licence. Within the limited part of the output covered by the 25% quota, the range and diversity of productions should be satisfactory.

We conclude that CPV-TV's application satisfies this requirement.

Other Matters

22. CPV-TV's main studio centre will be in Cambridge. Although the City Council has said it does not wish to give planning permission, we have established that the proposed site is outside the city boundaries in a practical and accessible location.

23. Adequate proposals are made for providing services for the deaf and hard of hearing and the blind and partially sighted. Proposals for training are extremely limited, but just about acceptable. Compliance with ITC codes are dealt with adequately, but no information has been provided about dealing with programme complaints.

Conclusion

24. It does not appear that CPV-TV's proposed service would comply with the requirements specified in section 16(2)(b), (c) and (f) of the Act.

C. BUSINESS PLAN

Revenue

25. The revenue projections are prudent, at an average of £106.6m. The figure of £95.2m for 1993 is cautious, and revenue then rises quite slowly to £118.1m in 2002. It would not be surprising if revenue turned out to be higher than projected.

Costs of the Programme Service

26. The total annual costs of £53.4m are on the low side, although the business plan leaves sufficient margin to accommodate higher costs. Regional programmes cost £10.6m and consist of 646 hours at £16k an hour. This average cost is low by historic ITV standards. Although it can be achieved, we have some concern about the cost of the local news service at only £12.5k an hour.

27. The network contribution is £33m in 1993 and is based on a budget of £477m, ie, the mid-point of the ITC's indicative range. Real growth, ie, over and above inflation, is allowed for in the cost of drama and entertainment, but not for sport or acquired material. As a result, costs may be light in later years. The provision for other common costs is adequate.

Overheads

28. Media and Airtime Sales (MAS) will handle CPV-TV's airtime. The cost will be 3 per cent of NAR, and this looks reasonable.

29. Other overhead expenditure looks generous. Staff numbers at 268 look low, but in financial terms the figures look more reasonable, ie, high remuneration may be compensating for low numbers.

Programme Sales

30. Sales to the network average £34m and account for 7 per cent of the proposed network budget in the period 1993 to 1995. Although the projected costs per hour are above historic averages this proposed level of supply is quite demanding for a newly formed company. Sales are on a cost recovery basis, and do not affect profitability. Overseas income and sponsorship are marginal to this business plan.

Profit

31. An average trading surplus of £28m represents a comfortable margin of 19 per cent. The revenue projections are prudent and the surplus may turn out to be higher. Alternatively, the business plan could accommodate significantly higher programme costs.

32. No dividend is proposed in the projections, but shareholders are paid 4 per cent above LIBOR* on the loan stock. Although this is an unusual approach to shareholders' returns the projections suggest that dividends could be paid without unduly depleting the balance sheet.

Cash Bid

33. The cash bid is low in relation to both revenue and profit. Tender payments would be just 8 per cent more than the sums which would have been paid to the Exchequer under the Levy.

Balance Sheet And Cash

34. Initial funding amounts to £53.44m and consists of:

	<u>£m</u>
Share Capital	15.00
Shareholders' Loan Stock	15.00
Senior Debt	14.00
Finance Leases	<u>9.44</u>
	<u>53.44</u>

* London Inter Bank Offer Rate.

35. The main participants in the equity and loan stock are:

	<u>Ordinary Shares</u>	<u>Loan Stock</u>
	<u>£</u>	<u>£</u>
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

36. On the basis of the subscription and shareholders' agreements and board minutes we are satisfied in relation to the strength and commitment of [REDACTED]. As explained in this company's application for the London Weekday licence, [REDACTED] on a substantial scale during the course of this year.

37. Pre-operational expenditure amounts to £23.9m. The bulk of fixed assets are to be leased, and this keeps pre-operational cash flows to a minimum. Cash flow is generally strong and positive in all years. Indeed, the projections suggest that CPV-TV does not need to draw down the full amount of the senior debt as shown in the projections.

Sensitivity Tests

38. The cash margins under the prescribed sensitivity tests are very comfortable. There is no need for additional financing and further, cumulative variances to the business plan could be accommodated without difficulty.

Conclusion

39. The proposed expenditure on regional programmes is a little light, but the revenue projections are cautious. The business probably could therefore accommodate higher costs, or alternatively may perform better in terms of profitability, than the projections suggest. Section C is broadly similar to CPV-TV's application for the London Weekday and South and South East licences, and some of the same conclusions apply, ie, the plan may not do the applicant justice, the lack of provision for dividends is unconventional and [REDACTED] on a substantial scale during the course of this year. However, the licence would not be granted unless funds were irrevocably committed, and the need for [REDACTED] is not a sufficient concern to prevent the award of the licence.

40. It appears that CPV-TV Limited (East of England Television) would be able to maintain the proposed service throughout the ten year period for which the licence would be in force.

D. ENGINEERING ASPECTS

41. The Director of Engineering associated with this application, whose name was supplied in confidence, [REDACTED]. The description of the studio installation and equipment is thorough and the commitment to technical quality and reliability through operational procedures is high. The engineering staff complement of 110 appears adequate. We are satisfied therefore that East of England TV should be able to comply with the requirements of the Technical Performance Code.

42. The equipment for news gathering includes a satellite uplink of adequate quality, although this is not made a significant feature of the application. The proposal to use "video suggestion boxes" for viewers' inserts are likely to require discussion with ITC staff concerning conditions for technical exemption.

43. Three sub-regional opt-outs are proposed, based on the region's three main transmitters (Tacolneston, Sudbury and Sandy Heath). There are no major technical problems associated with this proposal.

3 October 1991



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GREATER LONDON TELEVISION (CPV-TV):

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. CPV-TV's application for the London Weekday licence is in the name of Greater London Television. CPV-TV has also applied for the South and South East and East of England licences. The shareholders in CPV-TV with interests of more than 5 per cent are



B. PROPOSED SERVICE

The Applicant's Proposals

2. Greater London Television (CPV-TV) intends to operate solely as a publisher-licensee. It will make no programmes itself and has contracted TV-am to produce its regional news magazine programme.

3. After the closing date for applications, CPV-TV submitted significant changes to the tables showing the allocation of time to different types of regional and non-regional programmes. Alternative tables were offered to the ITC and these have been used in this assessment, since they more accurately reflect the text of the applicant's proposals. The ITC then wrote to CPV-TV on 12 June seeking clarification of numerous points in the application, relating to children's programmes, religious programmes, regional programmes, sources of programmes, the supply of programmes to the network, original productions/

commissions, audio description and the location of headquarters. CPV-TV responded on 19 June with a 12 page letter backed up by four large volumes of programme information and copies of contracts with programme suppliers. Staff have taken into account throughout this assessment the material which appears to give a relevant clarification in response to the questions asked without changing the proposals put forward in the original application.

Minimum Requirements and Expectations

4. This section compares the requirements of S16(2) of the Broadcasting Act with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

5. S16(2)(a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

CPV-TV confirms that it will transmit the full range of the network output of the nominated news provider and meet its share of the cost. It would press for News at Ten to be moved to 9.00 pm. In current affairs, it suggests replacing the present two half-hour programmes with a peak-time hour, to be called 'The Correspondents' which CPV-TV will commission from [REDACTED]. The proposal offers a programme of sufficiently high quality, and exceeds the minimum requirement for length.

We conclude that CPV-TV's application satisfies this requirement.

6. S16(2)(b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

CPV-TV offers ideas for programmes of high quality in a number of programme areas. However, compared with other applicants for this licence, plans for the development of programmes do not appear to have progressed very far. As noted in paragraph 2 above, copies of contracts with programme suppliers have been given to the ITC, but these are mostly written in very general terms and usually amount to little more than preliminary agreements to co-operate, in principle, in the

production of programmes.

7. Information provided about the content of some of the programmes is also of a very preliminary nature. The amount of programmes offered to the network is significantly lower than the 1989 provision (see Table 3 attached to ITC Paper 159(91)). At the same time, section A.15 of the application fails to address the question of how non-regional programmes, other than those commissioned by CPV-TV, will be supplied. We cannot therefore be sure how CPV-TV intends to meet its obligations to provide a sufficient amount of high quality non-regional programming.

8. We also have concerns about the proposed level of staffing. A total of 162, excluding sales and 7 freelance staff, seems a very lean operation, even taking account of the additional staff which TV-am will employ to produce CPV-TV's regional magazine programme. While requirements may vary from case to case, we do not feel that CPV-TV will be able to exercise proper supervision over commissioned programmes in order to maintain high quality. The named team of key post-holders, led by [REDACTED], is satisfactory, apart from the absence of a head of regional programming, but these cannot function properly if there are insufficient staff below them.

9. A clear commitment is not made to meet the 65 per cent requirement for original programming. The figures for original productions/commissions for each programme strand and for the output as a whole, requested in question A.1(iii) in the Invitation to Apply, are not provided. Their absence implies too high a proportion of acquired material and diminished scope for original high quality material. In its letter of 19 June CPV-TV argues that sufficient information about original programmes is contained in the description of programmes in sections A.1 and in the outline schedules in A.8 and A.20 of the application. This explanation is unsatisfactory. It is not possible to derive precise figures from the application. The effect of this omission is to cast doubt on the range and variety of programmes and the scope for original high quality material.

We do not conclude that CPV-TV's application satisfies this requirement.

10. **S16(2)(c)**

that a sufficient amount of time is given in the programmes so included:-

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and**
- (ii) (not applicable to this licence)**

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

After the closing date for applications CPV-TV informed the ITC that because of a printer's error the line for drama had

been omitted from the summary table for regional programmes. More significantly, the table was based on an incorrect interpretation of the definition of "regional programmes". The Invitation to Apply, reflecting the wording of the Act, makes it clear that regional programmes must be "of particular interest to persons living within the region" as well as be broadcast exclusively for them (paragraph 92). CPV-TV explained that it had counted as regional "all programmes which might not be supplied by the network including a night-time service acquired and presented by CPV-TV purely for the region". We calculate that the amount of regional programming, as defined by the Invitation to Apply, is 13 hours 15 minutes, not 36 hours 45 minutes as shown in the application. For the purposes of this assessment we have used CPV-TV's alternative figures (referred to in paragraph 3 above), since it is impossible otherwise to make a sensible comparison with the current ITV service and with the proposals of other applicants.

11. The description of the proposed content of regional programmes is vague, though with the help of CPV-TV's letter of clarification we are able to deduce that programme plans do exist to provide at least the minimum requirement of 6 hours a week. The regional service depends heavily on 'The Capital Hour' a one-hour magazine, to be broadcast at 6.00 pm on weekdays and repeated overnight. 'Capital Hour' will embrace not only regional news but also much of the rest of the company's regional output, including sport, current affairs, social action, consumer programming, entertainment listings, reviews and previews, and travel information. We estimate that, of the 13 hours 15 minutes allocated to regional programmes, 4 hours will consist of repeats of 'Capital Hour'.

12. The likely appeal of a programme such as 'Capital Hour' is difficult to judge. CPV-TV does not put forward a convincing case for the programme in its own research, which has been used more as a tool to criticise the incumbent rather than to tailor its own proposed programming.

13. Capital Hour will be provided for CPV-TV by TV-am at its Camden Lock studios. However, CPV-TV has not lined up an alternative supplier to guard against the possibility that TV-am might cease operating. In its letter of 19 June, CPV-TV states that, if this were the case, it is satisfied that it could itself provide a news and magazine programme to an equivalent quality within the budget estimate. However no evidence is put forward to support this. The budget estimate is based on the costs that TV-am would incur in providing the programme alongside the breakfast-time service. The costs would almost certainly be higher if the programme could not be provided in this way. Production staffing for the programme, as given in section A.6, is 43. This is very low, even by TV-am's current standards, for a major programme covering so many different strands.

14. We are also concerned that, if the programme is supplied by a separate organisation such as TV-am, CPV-TV, as the licensee, may not have a sufficiently direct involvement in what will be its major regional programme. In its letter of 19 June, CPV-TV compares its proposal with the arrangement which Channel

4 has with ITN. However, Capital Hour's wide ranging content will place different demands on programme staff. The nature of the programme as described makes it much more than a news programme. We do not believe that the need for close editorial involvement has been fully recognised, bearing in mind that the programme will account for almost two-thirds of the applicant's regional output.

We do not conclude that CPV-TV's application satisfies these requirements.

15. S16(2)(d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

All CPV-TV's regional programmes will be produced in the region.

We conclude that CPV-TV's application satisfies this requirement.

16. S16(2)(e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

CPV-TV plans to mark certain religious festivals when they fall on weekdays and to cover certain other events. No time is allocated to religion, however, in the summary tables. In its letter of 19 June, CPV-TV acknowledges that this was an error; in the tables, 2 minutes should be taken out of Drama and inserted under Religion. No mention is made of broadcasting festivals of faiths other than Christian, many of which are well represented in the London area.

17. CPV-TV's proposals exceed the minimum requirement for children's programmes. No breakdown is given of the amounts of time allocated to the three sub-strands - drama, entertainment and information - as requested in the Invitation to Apply. However, the omission is not of great significance since the text states that CPV-TV will broadcast a varied and diverse mix of children's programmes.

We conclude that CPV-TV's application satisfies this requirement.

18. S16(2)(f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

CPV-TV's proposed allocation of hours to different strands of non-regional programmes would produce significant reductions

in entertainment and factual material (see table 1 attached to ITC Paper 159(91)). This is not compensated for in the allocation to regional programmes (see table 2), and is not supported by research or other argument. The pattern of scheduling (eg with acquired drama series planned at 9.00 pm on three nights a week) would also restrict diversity. We have already noted above CPV-TV's failure to give a clear commitment to fulfil the 65 per cent requirement for original productions/commissions. Taking these factors together, we are not satisfied that CPV-TV's proposed service demonstrates sufficient diversity so as to appeal to a wide variety of tastes and interests.

We do not conclude that CPV-TV's application satisfies this requirement.

19. S16(2)(g)

that a proper proportion of the matter included in those programmes is of European origin

A satisfactory assurance is given in relation to the quota for European programmes.

We conclude that CPV-TV's application satisfies this requirement.

20. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions.

A satisfactory assurance is given in relation to the quota for independent productions. As a publisher-licensee, CPV-TV should have no difficulty in meeting the 25 per cent independent quota, although it has now been established that two of its shareholding companies, [REDACTED] may lose their status as independents should CPV-TV be awarded a licence. Within the limited part of the output covered by the 25% quota the range and diversity of productions should be satisfactory.

We conclude that CPV-TV's application satisfies this requirement.

Other Matters

21. The level of staffing appears inadequate to ensure compliance with ITC codes and licence conditions. Our concern about compliance is reinforced by the fact that no information is provided in the application about how programme complaints will be handled, although arrangements for handling advertising and sponsorship complaints are described.

22. Adequate proposals are put forward for deaf and hard of hearing people and for the blind and partially-sighted. Proposals are put forward for training although they are very limited for a licensee of this size. Proposals are also put forward for offices, studios and staff, although as stated above we are concerned about the level of staffing. In its letter of 19 June, CPV-TV states that various possible locations for headquarters are being investigated. Architects' drawings have been prepared for sites in Chiswick High Road and London Docklands. CPV-TV has been advised that there will be no planning permission difficulties for the first of these.

Conclusion

23. It does not appear CPV-TV's proposed service would comply with the requirements specified in Section 16(2)(b), (c), and (f) of the Act.

C. BUSINESS PLAN

Revenue

24. The revenue projections are reasonable at an average of £235.4m. The figure for 1993 at £214m is the highest of the three applicants (all of which might be a bit optimistic in relation to 1993) and revenue increases to £259m by 2002.

Cost Of The Programme Service

25. The total annual cost at £114m is acceptable. Regional programmes cost £14.8m consisting of 500 hours at £29.6k an hour. The number of hours is high, but the cost per hour is low. It is below the network average and there is room for some doubt about whether programmes of sufficient quality can be produced at this cost in London. The company proposes to operate as a pure publisher licensee with no production resources of its own. Local news is to be produced by a dedicated team of staff at TV-am, but this proposition is bound to be affected to some greater or lesser extent if TV-am do not secure the breakfast licence.

26. The network contribution is put at £75.2m in 1993 which reflects a total network budget of £478m, ie, in the middle of the ITC's indicative range. Costs for network drama and entertainment are projected to rise at 2 per cent and 1 per cent a year respectively in real terms, but no increase is provided for in relation to sport or acquired material. The provision for news and other federal costs is adequate.

Overheads

27. The company proposes that its advertising should be sold by Media and Airtime Sales Limited (MAS) for 2 per cent of revenue. This is a keen price which might be difficult to replicate if ITC rules were to prevent a contract with MAS from going ahead. Staff numbers at 169 look low even after allowing for advertising being sold on an agency basis and the separate news staff of 60 at TV-am, (which includes 17 non-production staff not referred

to in paragraph 13 above). When expressed in financial terms however, the overhead costs look more satisfactory.

Programme Sales

28. Sales of programmes to the network at £87m a year in 1993 to 1995 would account for 18.0 per cent of the total network budget. This must be an ambitious target for a newly formed company, although the cost per hour for the various categories are above historic averages. No contribution to overheads or profits is assumed and these sales do not therefore have a material impact on the business plan.

Profits

29. The average trading surplus at £71.8m is high representing a margin of 21 per cent. (Both figures are remarkably close to the Carlton projections.) Doubts have been expressed about low local programme costs but some additional expenditure could be accommodated. No dividend is provided for in the projections. Shareholders have to make do with interest at a substantial 4 per cent above base rate on the loan stock. This interest is rolled up until 1995 and the stock is scheduled for repayment between 1997 and 2002. This is an unusual approach to shareholders' returns but the business plan shows that dividends could be paid without depleting the balance sheet.

Cash Bid

30. The cash bid is high both in terms of revenue and profit, and the revenue taken by the Exchequer would be 64 per cent higher than under the levy arrangements. Again these percentages are remarkably similar to those of Carlton.

Balance Sheet And Cash

31. The initial funding amounts to £82.7m consisting of:

	<u>£m</u>
Equity	25.5
Subordinated, unsecured loan stock	25.5
Senior debt and revolving credit facility	24.0
Finance Leases	<u>5.7</u>
	<u>82.7</u>

Bearing in mind that the company would not have an in-house sales force, and would be a pure publisher licensee, this level of funding looks adequate.

32. The main investors and participants in the equity and unsecured loan stock are:

§

[REDACTED]

We have seen the subscription and shareholders' agreements for these investments and the relevant board minutes. There is no reason to doubt the strength or likely commitment of

[REDACTED]
However, [REDACTED] and there would therefore be difficulty in raising its holding should any other investor drop out - given that [REDACTED] per cent would raise questions of control. [REDACTED]. As at 31 July 1990 the company had net tangible assets of [REDACTED] after accounting for [REDACTED], much of it thought to be connected with the cost of buying the [REDACTED] and [REDACTED] needed during the course of this year. The [REDACTED] was

[REDACTED]
[REDACTED] In relation to [REDACTED] we would not doubt the confirmation from [REDACTED] and [REDACTED] that the company can make available up to [REDACTED] to meet its commitment.

33. The pre-operational expenditure amounts to £34m. In relation to the proposed network programme supply this may be a bit light and outgoings may need to be higher particularly in 1992. However, the relevant programme expenditure could double without jeopardising the pre-operational cash flow.

Sensitivity Tests

34. The prescribed sensitivity tests can be readily accommodated within the business plan without the need for further borrowing facilities, or any reduction in programme expenditure. There is always some vulnerability in the initial years of a new venture, but the funding should be adequate unless there were several setbacks which were cumulative in their adverse consequences.

Conclusion

35. The light regional programme expenditure is primarily a matter for consideration in relation to Section A of the application. Section C is in some respects an untidy and inelegant statement which may not do the applicant justice. The lack of specific provision for dividends is unusual, and [REDACTED] needed to refinance debt on a substantial scale. However, the licence would not be granted unless funds were

irrevocably committed, and the need for refinancing by Virgin is not a sufficient concern to prevent the award of the licence.

36. It would appear that CPV-TV would be able to maintain the proposed service throughout the ten year period for which the licence would be in force.

D. ENGINEERING ASPECTS

37. The proposed Director of Engineering, whose name was supplied in confidence, is [REDACTED]

[REDACTED]. The proposed equipment and operational arrangements have been very well planned and give no cause for concern. A strong point is that the proposed arrangements with independent programme suppliers include the delivery of regular samples of material during production for assessment by Greater London Television quality control staff. Details of procedures for ensuring that the daily live magazine programme from TV-am maintains a high technical quality are not spelt out. However, we have no reason to suspect that these would be substandard.

38. The engineering staff numbers (80) appear tight but just about workable. Our judgement is that five or six extra staff might be needed in practice. The numbers are somewhat depressed by the fact that there are planned to be 60 staff working exclusively for GLT in TV-am and also a small number of studio staff would be employed on a casual basis from the freelance market.

39. The absence of a well worked out fall-back position in the event of TV-am not being able to supply the daily live magazine programme (see paragraph 13 above) has engineering implications. The GLT studio is less than half the size of that for TV-am, for example, and GLT would not normally have the extensive Electronic News Gathering and radio link facilities required for such an operation.

3 October 1991



Independent Television Commission

Paper 171 (91)

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LAGAN:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. Lagan Television is a newly formed company which would have its headquarters adjacent to the River Lagan in Belfast, with additional facilities in Londonderry. The board members of Lagan include

[REDACTED]
Principal shareholders are

2. Tables on amounts of programming which are attached to this paper relate both to Lagan and to the other two applicants for the Northern Ireland licence, [REDACTED]

B. PROPOSED SERVICE

The Applicant's Proposals

3. Lagan intend to operate as a producer-licensee, though with substantial commissions to independents. All their proposed network material (10 hours a year of drama) will be commissioned through a subsidiary, Lagan Films. Regional news and current affairs, a viewer comment slot and church services will be produced in-house. Of other regional programmes, approximately 40 per cent will be independently produced.

4. Lagan were asked to clarify points of detail in their proposals for current affairs, religious programmes and regional programmes. Where answers do not change the programme proposals these have been accepted, though they do not materially alter the assessment. Lagan were also asked to clarify their intentions on originated and commissioned productions. Although they have provided revised figures the proposed total of acquired material is still too high to achieve the 65 per cent minimum for original production. Finally, Lagan have stated that their agreements with [REDACTED] provide for them to live and work in Northern Ireland.

Minimum Requirements and Expectations

5. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

6. S16(2)(a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

The application makes it clear that the requirement for high quality news and current affairs will be met by programmes from the nominated news provider and the network respectively. Lagan commit fully to ITN and expect at least two weekly current affairs strands from the network.

We conclude that Lagan's application satisfies this requirement.

7. S16(2)(b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

Insufficient evidence is provided in the application to show that high quality will be achieved in non-regional programmes. No illustrative schedule is provided, the section on programmes of high quality in the application makes no reference to non-regional programmes, and the section on programme supply is unsatisfactorily thin, with no mention of mandated programme categories or programmes of high quality, as referred to in the Invitation to Apply.

8. Among regional proposals there are some interesting

individual ideas but none that immediately suggest high quality. Proposed comedy-drama series for the network have potential for high quality but insufficient detail is offered of the two series listed. A third network drama project referred to in the application is in doubt following a dispute about ownership with independent company Darlow/Smithson and East of England applicant Three East. Lagan have said that they would replace it with a production of similar quality.

9. Though Lagan have committed to meeting the European production requirement, their proposals for originated or commissioned material do not meet the minimum 65 per cent of total output set in the Invitation to Apply. Although no total figure is provided, staff calculate from other information in the application that it will be 61.78 per cent, a shortfall of over 3 per cent. (In their letter of clarification of 9 August, Lagan calculated 2756 hours per annum of acquired material out of a total of 7482 hours per annum. This indicates that original material would amount to 63.16 per cent of total output.)

10. Information on programme supply is lacking in detail. Independent sources mentioned have good track records but there is no evidence that contracts have been entered into. The proposed programme mix contains very little detail of non-regional programmes, including the night-time service, and the construction of the schedule is not supported by any research evidence.

11. The Managing Director, [REDACTED]
[REDACTED] the proposed Director of Programmes and Director of Lagan Films have [REDACTED]. However the proposed Director of News and Current Affairs (who is also Deputy Director of Programmes) comes from [REDACTED] and has [REDACTED]

We do not conclude that Lagan's application satisfies this requirement.

12. S16(2)(c)

that a sufficient amount of time is given in the programmes so included -

(i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and

(ii) (not applicable to this licence)

that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

Though Lagan propose a large amount of regional programmes (an average 11 hours weekly) it is doubtful whether these proposals

constitute an effective regional service. The statements on news, current affairs and other factual programmes fail to make explicit how the service would meet the need to reflect the diverse traditions and communities in Northern Ireland. In addition, the arrangements for regional news and current affairs do not appear adequate either in respect of staffing levels or editorial management. The proposed Director of News and Current Affairs has no editorial experience in broadcasting (he is a newspaper journalist and editor) and the Director of Programmes has no experience of news or current affairs. As far as religious programmes are concerned the proposals are thin despite an interesting idea for a 'socio-religious' series.

13. The Invitation to Apply for Northern Ireland does not require separate or sub-regional programmes, but it is reasonable to expect that an application for this licence area should demonstrate a thoughtful and knowledgeable approach to programmes and propose a regional service that reflects the needs and interests of Northern Ireland. We are not convinced on the evidence available that those designated to provide the programme service (as distinct from the non-executive Directors) have the necessary knowledge and experience to provide a broad-ranging and effective regional service. An Advisory Committee, no matter how eminent its members, is no substitute for experienced executives.

We do not conclude that Lagan's application satisfies these requirements.

14. **S16(2)(d)**

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

Lagan expect all their regional programmes to be produced within Northern Ireland. The majority of programmes will be produced in-house. For the remainder Lagan has agreements with local independents, although no evidence of contracts has been supplied.

We conclude that Lagan's application satisfies this requirement.

15. **S16(2)(e)**

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

Lagan do commit to providing 2 hours 30 minutes of religious programmes weekly, 30 minutes of which is regional. Staff doubts about the nature of regional religious proposals are expressed in paragraph 12 under S16(2)(c) above. We would add that little detail is provided about the content and pattern of worship programmes and other networked religious programmes to demonstrate Lagan's commitment to this mandated programme category of particular importance to Northern Ireland. Though

10 hours 30 minutes of children's programmes are proposed, little detail is offered on the likely range and content of such provision. These are qualitative not quantitative judgements however.

We conclude that Lagan's application satisfies this requirement.

16. S16(2)(f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

Considerations apply similar to those expressed in paragraphs 12-13 above. The weakness of Lagan's provision for regional programming means that a most important area of its programmes is not calculated to appeal to a wide variety of tastes and interests. Lagan's inadequate arrangements for programme production and management, and its failure to show the necessary knowledge and experience, mean that regional tastes and interests will not be adequately provided for.

17. The shortfall in original programming referred to in paragraph 9 above is likely to produce an additional constraint upon variety of programming and appeal.

We do not conclude that Lagan's application satisfies this requirement.

18. S16(2)(g)

that a proper proportion of the matter included in those programmes is of European origin

Lagan's expectation of a minimum 75 per cent of European-made material is not supported by any accompanying evidence. They propose to show a large amount of acquired drama which is predominantly non-EC (45 hours a week, compared with a 1989 level of 34 hours) which would appear to put them up to the margin. However, on the available evidence, Lagan appear able to meet the requirement of a simple majority of EC programming.

We conclude that Lagan's application satisfies this requirement.

19. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions.

In addition to independent productions supplied by the network, Lagan propose to commission 40 per cent of regional productions from independents, excluding news and current affairs but otherwise covering a range of programme types although no

information is provided on contracts or financial arrangements.

We conclude that Lagan's application satisfies this requirement.

Other matters

20. Plans for studios and staff in the region are clearly set out. Arrangements for people who are hearing or visually-impaired lack sufficient detail to be wholly convincing. Proposals for training are adequate, if basic.

21. Arrangements for compliance with ITC Codes appear adequate though their effectiveness will depend largely on the judgement and experience of senior staff. Aside from the Managing Director experience is lacking in factual programmes. The description of procedures for handling complaints is thin but adequate.

22. The application overall fails to demonstrate a sound knowledge of the region. This is crucial for any prospective provider of a programme service for Northern Ireland. Though the Board members are ~~representative of, and~~ firmly based in, the region, the company's senior management and the programme proposals do not reflect the detailed knowledge and experience required to provide an effective regional service for the Province.

Conclusion

23. It does not appear that Lagan's proposed service would comply with the requirements specified in section 16(2) (b), (c) and (f) of the Act.

C. BUSINESS PLAN

Revenue

24. Lagan's projection of total UK revenue starts at a high figure of £2.098bn in 1993, compared with a consensus figure from other applicants of about £1.965bn. Revenue then grows at a high 5 per cent a year. As a result the figures for UK revenue are not credible. The optimism at industry level is offset to some degree by apparently more modest figures for the market share of Channel 3, and the share of the Northern Ireland licence.

25. One problem we have throughout this business plan is that it provides only ten year averages, ie, the individual figures provided for each year are all the same. We find this an unreasonable degree of simplification which makes the plan, and the comprehension of those who prepared it, difficult to evaluate. However, by implication the Channel 3 market share falls to 57.5 per cent by 2002, and the Northern Ireland share falls from a reasonable 1.53 per cent in 1993 to 1.29 per cent by 2002. Even so we believe that the revenue projections at an average of £24.0m a year are a little optimistic.

Cost of the Programme Service

26. The average cost of the programme service is high at £13.1m. Regional programme costs are £6.74m made up of 552 hours at £12.2k an hour. This is close to the average costs for the small regional ITV companies, although the cost of commissioned programmes looks a bit low.

27. The network budget, for newly commissioned programmes and sport, upon which Lagan's contribution is based, is high at £540m. However, the ITC's illustrative contribution formula has not been used, and the contribution has been put at a fixed sum of £1.64m a year. A total budget for acquired programmes of £40m for the industry is above average, but again the method of calculating the Northern Ireland contribution is unclear and unconvincing. The provision for news is reasonable at the outset, but does not decline with revenue share as would be expected. The combination of high industry budget assumptions for networked programmes, and oversimplified calculations of the Northern Ireland share, point to some over provision in this area.

Overheads

28. Overhead expenditure looks light at £1.29m and would be difficult to achieve. The remuneration of administrative staff at £16k a year looks particularly low (we would expect over £20k) and at this price there must be doubt about the quality of staff which could be recruited. An in-house sales operation is planned with offices in Belfast, Dublin and London. We do not believe however, that Lagan could manage and produce the projected sales revenue with only 36 staff. The total cost of £1.14m is also low and (given the complication in this licence area of selling regionally, nationally and in the Republic of Ireland) we doubt that an external sales agency would take on the task for this sum. Total staff of 170 is low. Given the planned output, programme staff of 109 would have to achieve very high productivity.

Programme Sales

29. Proposed sales to the network average £5m consisting of 10 hours of drama at £500k an hour. It must be doubtful whether a small company could consistently offer programming with such high production values. The issue is not material in financial terms however, because this revenue is not shown as contributing either to overheads or to profit. Sponsorship income looks excessive at £2m a year, particularly on the basis that it is all held to be new money, ie, it does not reduce conventional advertising revenue. Net of any impact on spot advertising revenue we would expect to see sponsorship income averaging substantially less than £1m a year.

Profits

30. The trading surplus averages £6m a year which represents a profit margin on total income of 19 per cent. We find it hard to believe that this licence can generate an average surplus as high as £6m and provide a good quality local service to viewers. Quite apart from the low quality of analysis reflected in this application, the revenue from both advertising and sponsorship is overstated. Some important cost components, notably sales and other overhead costs, are understated. The network contribution, and the contribution to other industry programme costs, looks high. However, if this licence could produce an average surplus as high as £6m a year it is very doubtful that the other Channel 3 licensees would agree to a contribution formula which provided as much help to Northern Ireland as the ITC's indicative formula.

Cash Bid

31. For a licence of this size the cash bid is high both in absolute terms and as a percentage of revenue and profit. It would provide the Exchequer with 63 per cent more revenue than the levy would have done. Moreover, the burden of levy would fall if revenue and profit did not match expectations, but for the small licence areas the first part of the tender (which would fluctuate with qualifying revenue) has been set at zero, and the cash bid is fixed in real terms.

32. In the small licence areas the fixed costs of providing the programme service tend to be very high in relation to total advertising revenue. Consequently, relatively small adverse variances in revenue or costs can take the applicant into trading losses. A high cash bid accentuates this problem. In this application fixed costs excluding the bid are 69 per cent of advertising revenue, but if the bid is included then this figure rises to 80 per cent.

Balance Sheet and Cash

33. Pre-operational expenditure of £11m looks adequate and includes £4.4m for land and buildings and £4.5m for equipment.

34. The funding package consists of:

	<u>£m</u>
Ordinary Shares	5.57
7 Year Term Loan	5.00
Overdraft	<u>2.00</u>
	<u>12.57</u>

All of the ordinary shares, the term loan, and a part of the overdraft, are absorbed by the pre-operational expenditure of £11m. Given the traditional industry arrangements whereby

advertising revenue for January is not actually received until the end of February, Lagan could easily exceed the unused portion of its overdraft facility in the first few months of broadcasting.

35. The ten main shareholders are:

Number Of
Ordinary Shares

[REDACTED]	[REDACTED]
------------	------------

We have seen the shareholders' agreement, and acceptable evidence has been provided that the investors have the necessary resources. A letter of intent from the Investment Bank of Ireland confirms the availability, in principle, of the borrowing facilities. It appears however, that there is substantial discussion/negotiation still to take place with the bank, and we are not aware of the covenants.

Sensitivity Tests

36. Under two of the sensitivity tests Lagan has inadequate funding in the early years of the licence period - up to 1996 in one case - and remains in overdraft up to the year 2000, ie, almost the whole of the licence period. The applicant says that it would obtain additional overdraft facilities to cover this shortfall. However, it is far from clear that such facilities would be forthcoming. We already have a concern that Lagan is using planned overdraft facilities to cover medium to long term rather than short term requirements.

Conclusion

37. The quality of analysis upon which this application is based is rather poor, and the oversimplified figuring makes assessment difficult. We believe that the projections of advertising revenue are overstated. Sales costs are understated and so too is ^{the} manpower and remuneration. Compared with the ITC's illustrative formula, contributions to the network and other common programme costs are overstated, but against this if the projected £6m a year trading surplus were to materialise then it is likely that the other licensees would seek a higher contribution towards these network costs. Although a surplus of £6m might be achieved in a good year, we do not believe that this licence area can generate an average surplus of £6m over a ten

year period whilst providing a strong regional programme service. The cash bid is high and significantly increases the applicant's fixed costs as a percentage of total net advertising revenue from 69 per cent to 80 per cent. Finally, we believe that the funding package is light.

38. It does not appear that Lagan would be able to maintain the proposed service throughout the ten year period for which the licence would be in force.

D. ENGINEERING ASPECTS

39. The Director of Operations associated with the Lagan application, whose name was supplied in confidence, is

ODI
[REDACTED] A head of Engineering has not yet been appointed, but consultancy advice in the preparation of the application was provided [REDACTED] a [REDACTED]

40. The application is thin on detail, particularly in the specification of equipment, but is quite well thought out. We have noted a substantial list of questions which might be explored if the applicant were awarded the licence, but at this stage we are satisfied that the plans adequately cater for a service of high technical quality and reliability.

ap
2 October 1991

Northern Ireland

1. Allocation of time to different types of non-regional programmes

Time per week

Programme Strand	<u>Lagan</u>		<u>TVNI</u>		<u>1989 Provision</u>		<u>Minimum Requirement</u>	
	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>
Drama	59	00	35	55	46	59	-	--
Entertainment	16	00	24	30	26	55	-	--
Sport	10	00	5	10	8	12	-	--
News	12	00	11	50	15	22	5	25 ¹
Factual	17	00	19	30	20	42	1	30
Education	4	00	1	00	2	27	-	--
Religion	2	00	2	30	2	12	-	--
Arts	2	00	1	00	0	57	2	00
Children's	10	30	11	30	11	46	10	00
Network Promotion	0	25	0	00	0	00	-	--
Total	132	55	112	55	135	32		

1. Excludes requirement for "appropriate news" at weekends and public holidays.

2. Allocation of time to different types of regional programmes

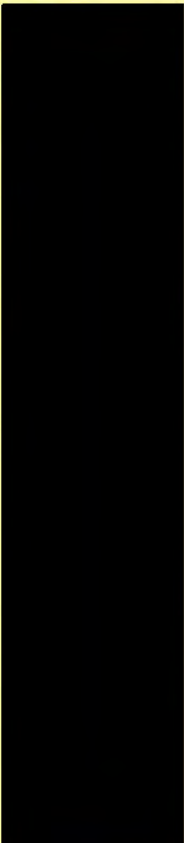
Time per week

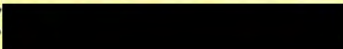
<u>Programme Strand</u>	<u>Lagan</u>		<u>TVNI</u>		<u>1989 Provision</u>		<u>Minimum Requirement</u>	
	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>
Entertainment	2	30	0	08 ²	0	49		
Sport	1	00	0	58	1	06		
News	4	45	8	10	4	07		
Factual	1	45	1	53	2	22 ⁴		
Education	0	30	0	20	0	00		
Religion	0	30	0	15	0	06		
Arts	0	00 ¹	0	23	0	03		
Other	0	00	1	25 ³	0	00		
Total	11	00	13	32	8	33	6	30

- Lagan have not included a weekly average for their proposed arts programming but staff calculate this to be five minutes per week.
- TVNI's Entertainment, Sport, Factual and Arts figures have been rounded up to the nearest minute, accounting for an additional 2 minutes on their figures in summary Table 2.
- This figure includes children's programmes and promotional slots.
- 1989 figure includes social action

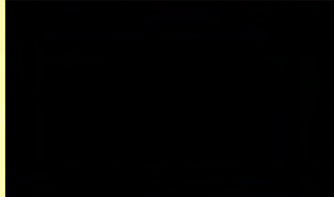
3. Amounts of programmes which the applicant intends to supply to the network

Time per year

<u>Programme Strand</u>	<u>Lagan</u>		<u>TVNI</u>			<u>1989 Provision</u>	
	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>		<u>Hrs</u>	<u>Mins</u>
Drama	10	00	3	00		0	00
Entertainment	0	00	6	30		0	00
Sport	0	00	0	00		0	00
Factual	0	00	0	00		3	28
Education	0	00	0	00		0	00
Religion	0	00	0	00		4	20
Arts	0	00	0	00		6	04
Children's	0	00	0	00		3	28
Total	<u>10</u>	<u>00</u>	<u>9</u>	<u>30</u>		<u>17</u>	<u>20</u>

1. Includes factual and adult education segments within longer programmes, ()

4. Proportion of output allocated to original productions/commissions.

<u>Laqan</u>	<u>TVNI</u>		<u>Minimum Requirement</u>
61.78% calculated from application	73% calculated from application		65%
63.16% calculated from reply letter of 9 August			



Independent Television Commission

Paper 102 (91)

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MERLIN:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. Merlin Television is a new company headed by [REDACTED] as Chairman, with [REDACTED] as Deputy Chairman. Merlin would be based in Cardiff, with news centres in Carmarthen and Conwy, and with a parallel centre located near Bristol. Merlin's Executive Directors include [REDACTED]

[REDACTED] Major shareholders are [REDACTED]

B. PROPOSED SERVICE

The Applicant's Proposals

2. Merlin intends to operate principally as a publisher-licensee, producing regional news, current affairs and sport in-house, with all other production, including a large number of regional programmes and seven possible network offers, supplied by independents.

3. Clarification was sought on Merlin's proposals for religious, current affairs and regional news and factual programmes, on proposed network supply, staffing and engineering matters. Merlin replied on 27 August. The reply does not appear to affect the conclusions of this assessment in any material way.

Minimum Requirements and Expectations

4. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S(16)2 is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

5. S16(2)(a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

Merlin's plans meet the minimum scheduling requirements for national and international news and it commits fully to the ITN service. The proposals for non-regional current affairs, though rather confused, commit to the minimum 1 hour 30 minutes average per week.

We conclude that Merlin's application satisfies this requirement.

6. S16(2)(b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

Merlin expects many of its high quality programmes to come from the network and an illustrative schedule contains examples of current and recent popular quality ITV series. Sections in the application on quality, programme supply, and the statement of programme policy all emphasise a commitment to quality at some length. An additional 1 per cent of the regional programme budget is allocated to support the development of high quality programmes. There is however little practical detail in the programme proposals.

7. Network supply proposals include some potentially popular ideas, including "a contemporary melodrama" and a children's drama. These comprise just seven projects totalling 102 hours of drama, childrens, arts, and a keep-fit strand for older people, and are a reduction in level and range from the 1989 HTV supply. It is not clear if this is all for 1993 or whether this level of supply would be sustained. Five of the projects described are to be supplied by the i

providing the arts and fitness programmes respectively. Although some writers and actors (e.g.) are mentioned in association with some projects, the details are limited and there

is little firm evidence that these will be high quality productions. The [REDACTED] is based on a worthwhile idea (to reflect the increasing cultural activity in the regions ... of the UK") but is too vaguely described to make an assessment of its likely style, content or quality possible.

8. Regional proposals are discussed only in general terms by programme strand. For example, current affairs programmes for Wales and the West are untitled and the information provided about their likely format, style and content (apart from being "story-led" and "multi-item" in both cases) is too unspecific to provide convincing evidence of overall quality. Regional religious programmes (a 13-part magazine) will be supplied by Templar Productions, an independent company which does not have a significant track record of programme production. (In its letter of 27 August, Merlin was unable to provide details of any Templar productions in answer to a specific question that it should do so.) Many regional projects are untitled and only vaguely outlined. A substantial commitment to a pan-regional arts/entertainment strand **The Club With No Name** (variously described as a 15 and 26 week series) is outlined in general terms but does not offer clear evidence that quality will be sustained.

9. Named senior executives include the experienced and able [REDACTED] the management and programmes team took sound, with firm roots and experience in Wales (but not the West of England).

10. Merlin commits to an effective 82 per cent originated or commissioned programmes in its service. This is an unusually high estimate and, given other errors and miscalculations in the application, may be a mistake.

11. Overall, though there are some ideas of merit and non-regional programmes will include quality items, the absence of any assurance that there will be regional programmes of high quality is a major deficiency.

We do not conclude that Merlin's application satisfies this requirement.

12. S16(2)(c)

that a sufficient amount of time is given in the programmes so included -

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and
- (ii) if the service is to include the provision of such programmes as are mentioned in section 14(3), to a suitable range of programmes for each of the different parts of that area or (as the case may be) for each of

the different communities living within it, being in each case a range of programmes (including news programmes) which are of particular interest to persons living within the relevant part of that area or (as the case may be) the relevant community,

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

As noted above, there is a difficulty in assessing the value of Merlin's proposed regional service on the basis of the rather general information provided and summary tables which aggregate provision for the two parts of the region. The weekly average claimed for each is a very high 17 hours 56 minutes but this includes nearly 5 hours of the teletext service **Jobline**; amounts for regional news have been aggregated for both parts of the region and also include three sub-regional opt-outs in Wales. Realistically, we estimate the total at 11 hours 20 minutes, still a very substantial increase on both current provision (7 hours 46 minutes for Wales and 7 hours 15 minutes for the West) and the required minima (8 hours and 7 hours 30 minutes respectively).

13. Regional plans appear to be extensive and wide-ranging but on closer inspection lack substance. There are many inconsistencies between the text and summary tables. More seriously, Merlin's claimed commitment to quality and "a distinctly regional flavour" to programming is not convincingly supported by the limited details offered. There is no information about how the programme service is likely to develop beyond the first year of the licence.

14. The news service is one of the few programme areas described in some detail. A complex opt-out arrangement is proposed for Wales, involving the creation of three sub-regions for North, West and mid-Wales and South Wales. Merlin claims to have tested the financial and engineering feasibility of these plans. However NTL transmission paths do not correspond with the proposed coverage areas, and transmission anomalies (such as geographically and culturally distant communities receiving the same signal) are likely to result. Opt-outs are planned for just five minutes of the regional news magazine **Tonight**, plus separate bulletins at lunchtime and after **News at Ten**. The thinking behind the opt-outs is not fully articulated and the proposal is not supported by any research evidence.

15. Though proposals for sport are strong and will be supplied by independents (Cheerleader and Chrysalis) with excellent records in this area, other special interest strands are poorly or inadequately catered for. Education proposals are limited and poorly scheduled in the early morning. Social action proposals are not supported with off-air activities. (A Community Officer is mentioned in passing but does not appear in the staff plans: Merlin's letter of clarification of 27 August informs us that the duties will be taken by the General Manager). Doubts about the supplier of religious programmes are expressed above at paragraph 8.

16. Proposed senior staff have strong links with Wales but none have an association with the West of England. A number of senior programme staff are not identified.

17. Merlin's application stresses the importance of audience research as an integral part of its business. A commissioned qualitative study on audience preferences and perceptions of the current service does not have the authority claimed for it in the text. The sample is too small (60 people in Wales, 80 in the West, including overlap areas) to be useful, and the 'findings', while critical of the current regional service, in fact offer little support for Merlin's plans, and in any case would need to be substantiated by larger and more representative responses before being used in designing a regional service. Merlin's proposals for research offer some support for its claims to a commitment to serve the region. We find little evidence, however, that the applicant has thought through how to utilise any findings so as to develop the service. Merlin's plans for opting-out in Wales, or for 85 hours of pan-regional programming, are not supported by any research evidence that they would be welcome to the audience.

18. It does not therefore appear that Merlin's proposed service for Wales and the West of England will be of particular interest to persons living within the area for which the service is provided.

We do not conclude that Merlin's application satisfies these requirements.

19. S16(2)(d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

Merlin proposes that all regional programmes will be made within the region. The eight independent producers named as regional suppliers are all based in the region.

We conclude that Merlin's application satisfies this requirement.

20. S16(2)(e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

Plans for the mandated categories of religious programmes and programmes for children exceed the required minima at 2 hours 18 minutes and 11 hours 18 minutes respectively. Proposals for children are adequate and include a commitment to the present quality of **Children's ITV**. Merlin proposes to make network offers in two competitive areas - children's drama and a Saturday morning magazine. Details of how the proposed 2 hours 18 minutes of religious programmes are to be made up are scant

although they do include an undertaking to show acts of worship and "a range of other programme types". As noted above there are more serious doubts about the likely content and quality of regional religious programmes. The application is only barely adequate in this area.

We conclude that Merlin's application satisfies this requirement.

21. S16(20)(f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

Because of its extensive regional plans, Merlin proposes a considerable reduction (over 10 hours a week) in the non-regional service provided by the network. This appears to be mainly at the expense of network drama and, to a lesser extent, factual programmes. Otherwise the balance and diversity of non-regional programmes is maintained (see Table 1 attached to ITC Paper 99(91)). Given that Merlin acknowledges the central importance of network drama in its service the proposal to reduce it by such a significant amount is surprising.

22. Merlin has, by contrast, concentrated its own network supply effort on drama. The proposals include some attractive ideas, but these are neither as extensive nor as varied as 1989 levels supplied by HTV and there are doubts about their potential as quality productions (and therefore their eligibility for the network).

23. Regional proposals do not include many programmes likely to have wide audience appeal. Entertainment plans are limited to a long-running youth-orientated strand, and a bought-in quiz format. Some potentially popular series are inaccessibly scheduled; for example the pan-regional gardening series is to be shown at lunchtime, and repeated in the early morning. Proposed education series are limited in their scope and poorly scheduled. Religious programmes come from one, unproven, supplier and may not be of wide audience appeal. Suggested topics for regional documentaries are varied and appear to include a social action and a health strand, but with few details about their likely audience target or content.

24. Merlin expects an unusually high percentage of its output to be originated or commissioned and also predicts a similarly high proportion of European material. Our main concerns however lie in the insubstantial and in some areas inadequate programme proposals.

We do not conclude that Merlin's application satisfies this requirement.

25. S16(2)(g)

that a proper proportion of the matter included in those programmes is of European origin.

Merlin expects "at least 76 per cent" of output to be originated in Europe and a brief though adequate demonstration of the basis to this expectation is provided.

We conclude that Merlin's application satisfies this requirement.

26. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions.

pt.
Merlin estimates that 43 per cent of its qualifying output will be independently produced. The figure is reached by the conflation of an estimated 84 per cent of regional independent production and an assumed 25 per cent non-regional independent production. All Merlin's network proposals are to be independently produced. The range and value of such projects are satisfactory.

We conclude that Merlin's application satisfies this requirement.

Other Matters

27. Identical studio centres are planned for greenfield sites in Cardiff and Bristol, though no site plans are provided. News bureaux are planned for centres in mid and west Wales (unspecified but believed to be Conwy and Carmarthen) and Gloucester and Taunton for the West. Of a total staff of 354, 168 come in the category of news and current affairs and sport, of whom 91 will be based in Wales, 75 in the West and 2 at Westminster. The staff and management structure, though slim and very briefly described, seems adequate for a largely publisher-licensee. A strong commitment is made to staff training, with the appointment of two training managers reporting to the General Manager.

28. Merlin's response on provision for visually and hearing impaired people is confused, for example on whether the network or the supplier would be responsible for subtitling, and no firm commitment on signing is made. There is also no commitment to making programmes for the deaf.

29. Merlin proposes adequate arrangements for ensuring compliance with ITC codes, and for handling complaints.

Conclusion

30. It does not appear that Merlin's proposed service would comply with the requirements specified in Section 16(2)(b), (c) and (f).

C. BUSINESS PLAN

Revenue

31. Short term revenue growth at the industry level is reasonable, giving a total revenue in 1993 of £1.937bn. However, subsequent growth of 5.48 per cent a year is very optimistic, and an added concern is that the higher growth rates are in the earlier years. Offsetting this optimism are prudent assumptions about the Channel 3 regional revenue share which falls from 74.7 per cent in 1993 to 59.6 per cent by 2002. The revenue share for this licence area is acceptable in 1993 at 6.96 per cent, but it then rises rapidly to 7.52 per cent by 2002. We would expect some growth, but not as much as this. Average revenue for the licence area of £126m is very optimistic, but the optimism of this average figure is moderated in the important initial three years of the licence.

Cost of the Programme Service

32. The average cost of the programme service is reasonable at £65.42m a year. The cost of regional programmes at £18.0m consists of 1,551 hours at £11.6k an hour. This is a very low unit cost, but we believe that it has not been drawn up on a total cost basis. If a reasonable allocation of overheads and depreciation is included the figure would rise to £15.3k. This is low but should be achievable. The main problem here is the very high number of programme hours, which arises out of a proposal to have a three way split within the Welsh part of the region based on Cardiff, Carmarthen and Conway. The licence would commit the applicant to the number of hours proposed, but any increase in unit costs would be particularly expensive.

33. The projections for network programmes are at the lower end of the ITC's indicative range, and no allowance has been made for any real growth in costs. News provision at £59m is acceptable, but again there is no provision for growth. These provisions may well become tight in the second half of the licence period.

Overheads

34. Overheads average £4.5m a year which looks low. Although the applicant proposes to be mainly a publisher licensee this is a complicated dual region with sizeable premises required in Cardiff and Bristol and the applicant proposes a three way split within the Welsh part of the region. Expenditure on in-house transmission at £1.35m a year looks light for the type of operation proposed.

35. An in-house sales team is planned at an average cost of £3.7m and employing 53 staff. The costs look reasonable, but we are more doubtful about the staff numbers particularly bearing in mind that the applicant wishes to exploit regional advertising more fully in order to attract under-represented advertisers.

36. Given the complexity of the proposed operation and the high volume of programme output total staff of 330 (excluding sales staff but including 29 freelance staff) looks low.

Programme Sales

37. Proposed programme sales to the network for the first three years are £8.2m a year for 70 hours of programming. This is close to HTV's current supply. Profit projections from these programmes are modest and, so far as we can see, no overheads have been charged to them. The proposals are not therefore material to the overall profitability of the business plan. The applicant does not propose to offer programmes for sale to S4C, and other sales within the UK or overseas are not significant. Sponsorship income looks high.

Profits

38. The average trading surplus is put at £43.3m a year which gives a profit margin on income of 30 per cent. This reflects the very optimistic revenue projections and some understated costs. As for the revenue projections however, the trading surpluses in the initial years are more credible but still quite high. The average for the first three years is £27.8m a year, giving a margin of 23 per cent. Nevertheless, we find it hard to believe that on average this licence is capable of producing trading surpluses anything like as high as £43.3m a year consistent with providing a high quality programme service in a dual region which is particularly difficult to serve.

Cash Bid

39. The cash bid amounts to 13.3 per cent of revenue and 39.5 per cent of pre-tax profit. The Exchequer would take just 2.7 per cent more from the total tender payments (including the first part of the tender which has been set at 2 per cent of qualifying revenue) than the Levy would have done. The bid is recognised by the applicant as cautious, in case the revenue and profit projections set out in the plan are not fully achieved.

Balance Sheet and Cash

40. Pre-operational expenditure amounts to £24.9m and should be sufficient. There is some useful flexibility in the early years because the pre-operational expenditure is less than the equity and debt funding of £37.2m. This provides cash of £11.6m at the start of the licence. Subsequent cash flows reflect the optimism of the revenue and profit projections. However, we believe that there is substantial optimism in the projected revenues and a number of the costs. After allowing for these considerations the cash position would become tight and we doubt whether the funds would be available to meet the loan repayments in 1995 to 1997 or to redeem the preference shares as early as planned.

41. Total funding of £37.2m looks light. It consists of:-

<u>£m</u>	
Ordinary Shares	4.4
Preference Shares	17.8
Senior Debt	10.0
Mezzanine Debt	<u>5.0</u>
	37.2

Gearing is high in the initial years. The mezzanine debt is not offered on attractive terms, and the covenants are rather tight. One covenant refers to the regulation of operating expenses as a percentage of revenue, and we would be concerned that this could be used to drive down programme expenditure. We would have liked to see this limited package supported from the outset by some standby overdraft facilities.

42. The shareholders are:-

	<u>Ordinary</u> <u>Shares</u> %	<u>Preference</u> <u>Shares</u> %	<u>Total</u> £m
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Board minutes confirm the investments from [REDACTED]. It seems to be [REDACTED] that has been the moving force behind the application. We are satisfied that [REDACTED] have the necessary resources to meet their investments, although for [REDACTED] the investment would be substantial. There are however, some complications. The investment of [REDACTED] could be restricted because of its involvement in an application for the South West licence. There must also be some doubt about [REDACTED] ability to invest £6.3m, which is in excess of its market capitalisation. [REDACTED] also has an investment in [REDACTED]. A letter of comfort from [REDACTED] covers the other investments.

Sensitivity Tests

43. Given the buoyancy of revenue and profits these tests have only a limited impact on the business plans. Nevertheless, in four out of the five tests prescribed by the ITC the applicant would respond by postponing or containing local programme expenditure. This may not be possible under the terms of the licence, and it is, in any case, cause for concern that under quite plausible assumptions on adverse trading conditions reductions in programme expenditure would be the response.

Conclusions

44. Although this was a generally comprehensive and thorough application we have difficulties in relation to both the trading prospects and the funding package. On the trading side advertising revenue and sponsorship income show substantial optimism; the applicant is committed to a very large number of regional programming hours and we have doubts about the staff numbers and whether some overhead expenditure is adequate. The profit projections are very optimistic. Against this, the applicant could cope with a significant reduction in revenue and profit. This is because, in relation to profit, it has been cautious about the level at which it has pitched its cash bid. However, there is always the risk that an applicant who has to accept very much lower profits than envisaged would seek to minimise the shortfall by reducing planned programme budgets.

45. In relation to funding there are two problems. First, if we are right about revenue and costs then the funding package looks tight without a standby overdraft facility. Secondly, [REDACTED] may have some difficulty in raising its investment and there are potential complications arising from the investment of [REDACTED] in an applicant for the South West licence. We shall need to review this point when we come to consider the applicants for the South West licence.

46. Even if the complications in relation to the South West licence are removed we are not wholly convinced that this applicant could sustain the licence over the full ten year term, but the judgement is a fine one.

D. ENGINEERING ASPECTS

47. The Chief Engineer for Merlin is [REDACTED] formerly with [REDACTED]. The description of equipment is satisfactory but details on staffing and Technical Code compliance procedures are lacking. These areas have been explored in recent questions of clarification. The engineering staff plans had been omitted from the application due to an oversight and appear satisfactory. The responses to questions on technical compliance procedures lack detail, but appropriate promises are made (eg "Merlin Television will not commission any programme maker unless the technical standards are achieved").

48. Merlin propose to offer three news opt-out sub-regions in Wales, namely:

South Wales:	Wenvoe
West and Mid Wales:	Carmel, Presely and Blaen-Plwyf
North Wales:	Llanddona and Moel-y-Parc

These appear to be technically feasible but the resulting sub-regional coverage would have a number of anomalies due to the difficult topography and complex arrangements of transmitters in Wales. The HTV application rules out a North/South (or any other) sub-regional split in Wales citing such transmitter coverage anomalies as one reason for doing so. It is certainly the case that the coverage derived from the six main transmitters in Wales does not naturally lend itself to providing opt-out services to coherent regional identities.

30 August 1991



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NORTH OF SCOTLAND:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. North of Scotland TV is a new company headed by its Chairman [REDACTED]. It would be based in Aberdeen. Executive Directors, in addition to [REDACTED] [REDACTED] [REDACTED] [REDACTED]. Apart from the British Linen Bank, shareholders are individuals (see paragraph 31 below).

B. PROPOSED SERVICE

The Applicant's Proposals

2. North of Scotland Television (NSTV) intends to be mainly a publisher-licensee. It has ambitious plans to supply programmes to the network which are wholly dependent upon arrangements with independents. 56.9 per cent of its original regional programmes (excluding news, current affairs and sport, which will be produced in-house) will be made by independents.

3. In a letter of 31 July, the ITC sought clarification on seven points arising from the application. In its response of 8 August, NSTV in particular explained elements relating to current affairs, Gaelic programming, night-time programming, the proportion of original programming intended, its regional commitment, and production arrangements for religious programmes. The additional information did not cause staff to change their conclusions based on the original application.

Minimum Requirements and Expectations

4. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s). S184(1), concerning Gaelic programmes, applies to this service, and the relevant elements are dealt with after S16(2)(c).

5. S16(2)(a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

NSTV's proposals cover the minimum requirements for national and international news and current affairs. News will be broadcast at appropriate intervals and in peak time. News will be taken from the nominated news provider and non-regional current affairs from the network.

We conclude that NSTV's application satisfies this requirement.

6. S16(2)(b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

NSTV is dependent for the great majority of its output upon the network, to which it must look for most programmes of high quality. It has ambitious plans to supply more than 26 hours a year of original network programming, which aspire to high quality. Several of NSTV's regional programming ideas are lively and original and the quality of some of its independent suppliers suggests high production standards can be achieved. It is noted, however, that NSTV gives no indication of how the relative merits of the long list of programme proposals from independent producers have been assessed and what priority they have been given. This could have an important bearing on quality.

7. None of the individuals nominated for key positions has a

[REDACTED]

no key postholder is able

to demonstrate a [REDACTED] (the largest channel in the geographical area, with regional output in two languages). It is not therefore apparent that the regional element of NSTV's output, albeit the minority, can be delivered to a sufficient level of quality.

We do not conclude that NSTV's application satisfies this requirement.

8. S16(2)(c)

that a sufficient amount of time is given in the programmes so included:-

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and
- (ii) (not applicable to this licence)

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

NSTV proposes 9 hours 2 minutes of regional programmes compared with a minimum requirement of 6 hours 30 minutes and a 1989 provision of 7 hours 36 minutes. NSTV's proposals for regional programmes cover a wide range of programme strands, including local news. It intends to use a range of regionally-based independent companies, and plans studios in Aberdeen, Inverness, Dundee and Stornoway. Plans for news provision are generally impressive and its proposals indicate a commitment to a comprehensive regional service.

9. We have already referred to the lack of NSTV management experience and understanding of the region (paragraph 7 above). The applicant furthermore provides inadequate details of audience research into the characteristics and preferences of the region's viewing population. There is no indication of a proper understanding of the variations in opinion in different parts of the region. The applicant, in short, does not appear to be properly informed about his regional audience including the Gaelic element within it. It is in particular disappointing that NSTV has failed to show through research how it can justify elements in its proposed programme mix, for example the special commitment to current affairs. It is not therefore apparent that the application will provide a suitable range of programmes which are of particular interest to persons living within the area.

We do not conclude that NSTV's application satisfies these requirements.

10. S184

- (1) Section 16 shall have effect in relation to any service to which this section applies as if the following requirements were included among those specified in subsection (2) of that section, namely-
- (a) that a suitable proportion of the programmes included in the service are programmes in Gaelic other than funded Gaelic productions;
 - (b) that the service includes funded Gaelic productions of which-
 - (i) a suitable proportion are of high quality, and
 - (ii) a suitable proportion are shown at peak viewing times; and
 - (c) that (taking the programmes included in the service in accordance with paragraphs (a) and (b) above as a whole) the service includes a wide range of programmes in Gaelic.

NSTV undertakes to provide the required minimum of Gaelic programming (52 hours a year) including news and has plans to produce/commission and schedule Gaelic Television Committee-funded Gaelic programmes which are extremely ambitious (and unlikely to be fully achievable). A wide range of programme strands is proposed, but it is not clear that they are based upon an adequate understanding of the Gaelic needs of the region, or are always practicable or realistic. Proposals for local Gaelic opt-outs have not been properly tested against local opinion or needs. The GTC's own view of NSTV's proposals was broadly similar to that separately reached by ITC staff. It felt that the Gaelic proposals in this application were inadequate and criticised programme proposals as uninformed or unrealistic. The GTC also rejected the principle of opt-outs - but this was not entirely consistent with its acceptance of [redacted] Gaelic opt-out proposals. This particular criticism of NSTV was not shared by ITC staff. See also ITC Information Paper 81(91), attachment E of which summarizes GTC views.

We do not conclude that NSTV's application satisfies these requirements.

11. S16(2)(d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

NSTV commits itself to producing and/or commissioning at least 80% of regional programmes from within the region.

We conclude that NSTV's application satisfies this requirement.

12. S16(2)(e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

NSTV proposes to include 1½ hours of non-regional and 38 minutes of regional religious programming every week. It proposes 12 hours 20 minutes of non-regional children's programming, and 15 minutes of regional children's programmes (which appears in their Table 2 as "Other"). These amounts exceed the mandated minima and are sufficient.

We conclude that NSTV's application satisfies this requirement.

13. S16(2)(f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

NSTV is dependent upon the network for the great majority of its scheduled programming. Its regional proposals place considerable emphasis on programmes which are designed to appeal to general or minority audiences, but, as noted above, this is not supported by research evidence, or by a track record of relevant regional experience and understanding among key postholders. It is not apparent, therefore, that the tastes and interests of viewers in the region will be adequately provided for overall.

14. There is no specific commitment in the application to an overall output of 65 per cent originally produced or commissioned programming. However, given NSTV's dependence on the network, and its ambitious commitment to original regional programming, this target should be achieved. It has been confirmed by NSTV in its letter of clarification of 8 August. This does not, however, compensate for the reservations expressed in paragraph 13.

We do not conclude that NSTV's application satisfies this requirement.

15. S16(2)(g)

that a proper proportion of the matter included in those programmes is of European origin

NSTV undertakes that it will meet the requirement that "at least the majority of hours of programming transmitted within a calendar year... must be of European origin".

We conclude that NSTV's application satisfies this requirement.

16. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions

As a publisher-licensee, NSTV should have no difficulty fulfilling the mandated minimum, and formally confirms that it will do so. Its proposals for range and diversity are satisfactory.

We conclude that NSTV's application satisfies this requirement.

Other Matters

17. NSTV has provided assurances that it will comply with the relevant codes and licence conditions, though we have a reservation about the experience of key postholders in operating IBA-ITC programme codes and requirements. Satisfactory evidence of region-based offices and studios has been provided. Staff numbers (given on page 88 of the Application as 112 - which appears to exclude freelance personnel) seem very spare even for a publisher-licensee. Proposals for training are barely adequate. Proposals in relation to the promotion of the understanding and enjoyment of programmes by people with hearing or sight impairments are acceptable.

Conclusion

18. It does not appear that NSTV's proposed service would comply with the requirements specified in Section 16(2)(b)(c) and (f) and Section 184(1) in relation to programmes in Gaelic.

C. BUSINESS PLAN

Revenue

19. The short term projection of total UK television advertising revenue is above average at £2.073bn, but growth thereafter is a reasonable 3.6 per cent. The declining market share of the regional Channel 3 licensees to 63 per cent in 2002 is also reasonable. Within the region some growth in revenue share is predicted. This may be difficult to secure, although there is scope for argument that, in terms of advertising revenue, [REDACTED] have underperformed in recent years. The average revenue of £20.4m is credible therefore, if somewhat optimistic.

Cost of the Programme Service

20. The average cost of the programme service at £11.6m is quite high for an area of this size. Regional programmes at £8.7m are made up of 446 hours at £19.6k an hour. Excluding the Gaelic programmes which are included in the regional programme figures, the average cost per hour is £20k which is quite generous, although news at £9k an hour is tight.

21. The information given in the application on Gaelic programmes is rather confused. Subsequent clarification revealed that the cost per hour was quite low, and that the company expected to secure 75 per cent of the funding to be allocated by the Gaelic Television Committee to programmes despite competition for these funds from the Central Scotland licensee and, possibly, the BBC. This is ambitious and the contribution to overheads at £450k a year is therefore likely to be overstated.

22. The projections assume an overall network budget, including sport, of £490m which is at the upper end of the ITC's range, and substantial real growth rates of 2 per cent a year have been included. The provision for news and acquired material is acceptable.

Overheads

23. Overhead expenditure looks reasonable at an average of £2.6m for the three studios proposed in addition to the Aberdeen headquarters, ie, Dundee, Inverness and Stornoway. Airtime sales costs look low at £1.18m, but good deals are available from the sales agencies. This one is with MAS. Staff numbers at 134 look low in relation to the proposed volume of output. Planned in-house production is nearly 420 hours, and output per production employee at nearly 4 hours could be very difficult to achieve.

Programme Sales

24. For such a small company, planned programme sales to the network are ambitious at almost 15 hours and a revenue of £1.4m a year initially, but rising in the later years to give an average £2.3m a year. However, these sales are not shown in the business plan as making a contribution to overheads, so in financial terms no harm is done if they do not materialise. Indeed, lower provision of network programmes would make the proposed staffing more realistic. The small revenue from programme sales to [REDACTED] looks achievable.

Profits

25. The average trading surplus of £5.4m provides a healthy margin of 20 per cent. This is derived from some revenue optimism, and staff numbers look low, but against that some of the costs may be on the high side. The profit is broadly in line with the projections for [REDACTED] but is significantly more than has been earned from this area in the past. The indicative formula for network contributions which is used in the company's application contributes about £3m a year to profits. However, if North of Scotland Television were to achieve the projected level of profits it would have difficulty in securing the size of discount on its contribution to the network budget which has been included in its projections. We would be surprised, in such a small area, if any licensee could sustain a profit as high as this over a ten year period coupled with a creditable programme service.

Cash Bid

26. The cash bid is high for a small licence area. Although, by the standards of other areas, it looks reasonable in relation to both revenue and profit, it would increase the amount that the Exchequer would take out of this licence by 95 per cent compared with the levy system. We should also bear in mind that the whole of the tender payment is fixed in real terms. This is because for the small regional licences the first part of the tender which would have been related to revenue was set at zero.

27. A particular problem with the small licence areas is that the fixed costs are high in relation to total costs and revenues, and a high fixed cash bid substantially extends this weakness. We estimate that, including the cash bid, fixed costs would account for 80 per cent of advertising revenue (and more if we are correct in thinking that the revenue projections are a bit optimistic). If the bid were excluded altogether then this figure would fall to 68 per cent. A lower bid would therefore have substantially improved the resilience of this business plan.

Balance Sheet and Cash

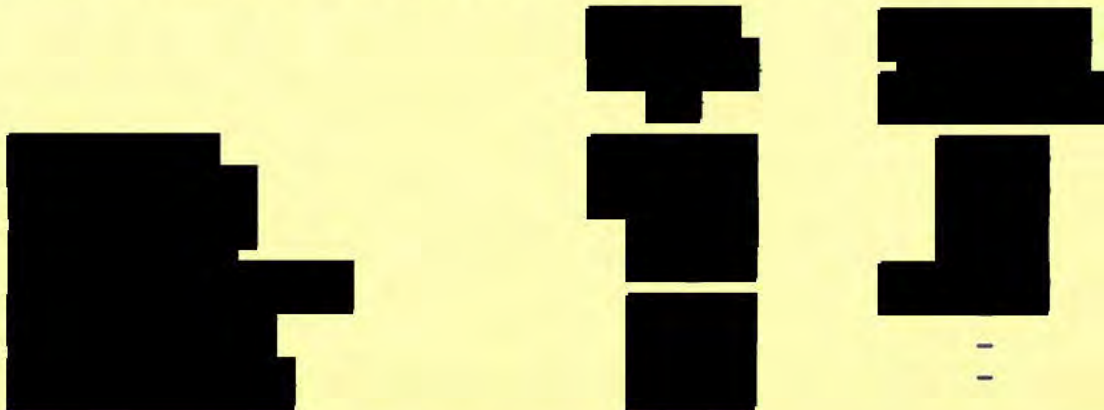
28. Pre-operational expenditure of £4m usefully includes £297k as a contribution to the network budget before the start of broadcasting in 1993. It also includes £400k for the purchase of film rights from [REDACTED]. Properties are to be rented, but there is no apparent allowance for conversion costs.

29. Cash flow is tight in 1993 with a closing balance of £554k and this is on the basis of projections which we find somewhat optimistic. However, the £2m overdraft facility remains unused and is an important source of headroom.

30. The proposed funding package is:-

	<u>£m</u>	<u>%</u>
Ordinary Shares	3.351	29
Convertible Preference Shares/Loan Stock	2.000	18
Overdraft Facility	2.000	18
Leasing	<u>4.000</u>	<u>35</u>
	11.351	100
	—————	—————

31. The shareholders are mostly individuals as shown below:



32. It is clear that, for the size of the licence, the applicant has made substantial arrangements for financing. The shareholders' agreement commits the individual investors to meet their investments and there is a strong commitment from [redacted] [redacted] partly to subscribe for and partly underwrite its £1.7m. (The [redacted] commitment is conditional on lease finance and the overdraft facility being made available by its parent, [redacted]) The offer of overdraft facilities from [redacted] is, however, still very conditional. The due diligence work has not yet been undertaken, and the terms and security arrangements are not known. But given the participation of [redacted] and the relationship between the two [redacted] there should be reasonable prospects that the facility could be arranged. In any event the licence would not be granted unless the funding package was fully in place.

Sensitivity Tests

33. Generally the sensitivity tests put a strain on cash flows in the years 1993 to 1995. This is a period in which the revenues may prove optimistic, and the high bid is an incubus. However, so long as the £2m overdraft facility can be obtained funding should prove adequate unless a series of adverse developments were to coincide.

Conclusion

34. Although we have doubts about some elements of the income and expenditure projections, this is generally a creditable application. If the licence area itself offered stronger commercial opportunities we would not be minded to reject the application on financial grounds. However, we believe that this licence area will prove only marginally profitable, and we doubt that a trading surplus as high as an average £5.4m a year over a ten year period can be attained. With a surplus as high as this it is very doubtful that the contributions to the network budget would be as low as envisaged in the application. If the size of the discount included in the projections was not forthcoming then profits would be reduced to an amount which barely covered the high bid. Licensees in the smaller areas are very vulnerable to adverse movements in revenue and/or costs,

because the fixed costs of the service are so high in relation to total costs. This is substantially exacerbated by the size of the bid which this applicant has made.

35. The judgement is a fine one, but we believe that this is a case of overbidding which makes it difficult for us to feel confident that the service could be sustained over the full 10 year term of the licence.

36. It does not appear that North of Scotland Television would be able to maintain the proposed service throughout the ten year period for which the licence would be in force.

D. ENGINEERING ASPECTS

37. The proposed Chief Engineer for North of Scotland Television, whose name was given in confidence, is [REDACTED] and so the application is rather thorough and commendable on equipment provision and on technical quality procedures. The application mentions the availability of a satellite uplink for use with [REDACTED] but does not indicate the type of equipment which is planned. A question of clarification has resolved that the equipment proposed appears satisfactory, although the quality of SNG links is not something which is yet specified in the Technical Performance Code. In principle, the quality should be no worse than that provided by land-based microwave links already in regular use and specified in the Code.

38. The North of Scotland Television application includes the provision of three one-man news units equipped with S-VHS equipment. The main ENG (Electronic News Gathering) operation will be carried out by six crews equipped with full broadcast quality equipment. We are currently preparing guidelines for the Technical Performance Code indicating the circumstances within which the use of S-VHS might be justifiable in ENG applications. We believe that the proposals from North of Scotland Television should be capable of being reconciled with these guidelines.

39. North of Scotland Television have firm plans for a Gaelic opt-out from the Eitshal and Skriaig transmitters which appears feasible.



Independent Television Commission

Paper 117(91)

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13 September 1991

NORTH WEST TELEVISION:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. North West Television (NWT) is a newly formed company, whose shareholders with seats on the board include

[REDACTED]

The Chief Executive is [REDACTED]. It is the intention of North West Television to have its headquarters on a site owned by Mersey Television on the outskirts of Merseyside.

B. PROPOSED SERVICE

The Applicant's Proposals

2. The applicant will be both a producer-licensee and a publisher-licensee. He proposes to quadruple regional programming with the introduction of an hour-long evening news magazine, a new late-evening business and arts programme, daytime local news programmes and a night-time service for the region. Some of this material will be produced by North West Television. Much of the applicant's regional and non-regional provision, however, is intended to be commissioned from independent producers or will be acquired.

3. Information provided by the applicant after the 15 May deadline, in response to an ITC letter requesting clarification, referred to his links with independent producers, the separation of North West Television as a business entity from Mersey

Television, and his proposals for training. The applicant failed to provide clearer evidence than that given in his original application of contractual agreements or of firm arrangements with independents in respect of many of his programme plans. Additional information supplied at this stage which indicated that Mersey Television was not regarded as an "independent", even though clearly stated as such in the application, shed further doubts on whether the applicant would meet the 25% quota for independent productions. Follow-up correspondence from the applicant underlined even more conclusively than the original application, the applicant's dependence on Mersey Television for management, technical and production expertise. The response on training was also unconvincing.

4. This section compares the requirements of Section 16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

5. S16(2) (a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

North West Television's proposals cover the minimum scheduling requirements for national and international news and current affairs, and accept the nominated network news provider. The applicant proposes a new current affairs strand to be offered to the network drawing upon the experience of co-producer

We conclude that NWT's application satisfies this requirement.

6. S16(2) (b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

The applicant's network offerings are ambitious in the areas of drama and children's programming, but far less so elsewhere. The total amount offered is 356 hours compared with a 1989 provision of 728 hours (see table 3 attached to ITC Paper 116(91)). The drama and children's submissions rely heavily on the production capacity of Mersey Television, which also has very substantial programme-making commitments with other broadcasters, notably [REDACTED]. There is very little evidence of firm contractual arrangements having

been made for the supply of programmes or indeed of key programme plans having been developed very far with writers, directors or producers.

7. The application covers the minimum amounts of mandated categories of programmes. However, compared with the 1989 figures, NWT's proposed schedule contains less drama, sport, and factual programmes, including less current affairs and much less documentary or feature material. There will be a significantly increased amount of entertainment and marginal increases in news, education, religion, arts and children's programmes. Since the increased regional entertainment provision is almost wholly taken up by the night-time service, the main difference between NWT's proposed schedule and that currently available during the remaining viewing hours is the marked reductions in non-regional drama, sport, and factual material. The significantly greater amount of potentially low quality night-time material, when audiences will be tiny, does not compensate for the above losses.

8. There is a lack of supporting evidence in respect of most of NWT's programme plans and a concern, strengthened as a result of follow-up correspondence from the applicant, that North West Television will lean heavily, for management, production and technical expertise, on Mersey Television. Programme Division believes that it is not a sufficiently secure arrangement for a major Channel 3 licensee to be so dependent upon a single independent producer in respect of so many of its core organisational functions.

9. We also have doubts about whether there is sufficient experience among the applicant's senior personnel to hold the designated management positions in what would be a major Channel 3 licensee. Despite the fact that the applicant announced to

[REDACTED]

not yet filled.

We do not conclude that NWT's application satisfies this requirement.

10. 16(2)(c)

that a sufficient amount of time is given in the programmes so included:

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and
- (ii) (not applicable to this licence)

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

The applicant's proposed service includes a very significant increase in the amount of regional programming, 58 hours 10 minutes compared with a minimum requirement of 8 hours (see Table 2 attached to ITC Paper 116(91)). The proposals include access programmes during the day for local communities, schools and colleges, and drama/media courses in the region. These would involve the use of sub-broadcast standard equipment and semi-professional or non-professional programme makers, provided with a very low level of funding by the applicant. Programme Division has serious doubts about whether this material would be of a satisfactory standard and appeal to viewers in the region as a whole.

11. We have concerns about other aspects of the proposed regional service. The applicant proposes an early evening one-hour regional news magazine, for example, with correspondents, including aspiring programme makers, using equipment below normal technical standards. An overnight radio-style talk show with video material is also presented as part of the regional provision. This will include repeats of daytime local access programme-making. Although described as "regional" the overnight programme will include some non-regional acquired material. Taken as a whole, the regional output would not have sufficient appeal to viewers' particular regional interests, in our judgement, and runs a risk of undermining the viability of the Channel 3 service in this region.

We do not conclude that NWT's application satisfies this requirement.

12. S16(2) (d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

NWT undertakes to produce practically all of its regional programmes within the region. Evidence supplied about the location of NWT's studios and offices, and its stated intention to use independent producers in the region to produce regional strands, support the company's commitment.

We conclude that NWT's application satisfies this requirement.

13. S16(2) (e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

NWT proposes to transmit two hours 25 minutes of non-regional religious programmes and a further one hour of regional religion, thus exceeding the minimum requirement. Eleven hours 10 minutes per week of children's programmes are proposed, exceeding the minimum requirement, with an ambitious proposal for a new daily children's drama serial, Cressington Park.

We conclude that NWT's application satisfies this requirement.

14. S16(2) (f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

The applicant's programme proposals contain a number of new ideas for reaching minority audiences both regionally and non-regionally. Thus, his intention to serve a variety of audience tastes and interests is not called into question.

The fundamental issue is NWT's ability to deliver the service it proposes and the soundness of the thinking behind it. While programmes in major strands are promised, there is uncertainty about the capacity of the applicant to fulfil his own production undertakings and about his signing up of independents with the capacity to provide other promised programme strands.

15. A late-evening regional arts/business programme is offered for every weekday evening, to be broadcast after the network news at 10.00pm. This would inevitably displace a wider variety of network programmes, such as sport and feature films, likely to prove of more popular appeal. NWT states that 86.5% of its output will consist of original productions/commissions.

16. Staff have serious reservations about the general shape of the applicant's proposed service and the evidence used from research to back up his thinking. We question the efficacy of much of the applicant's audience research evidence and his reading of it in supporting his programme ideas. Much of the research presented in this application provides an incomplete and in many places irrelevant picture of the regional audience and its programme tastes and interests.

We do not conclude that NWT's application satisfies this requirements.

17. S16(2) (g)

that a proper proportion of the matter included in those programmes is of European origin

NWT undertakes to broadcast a proper proportion of programming of European origin. ITC computations based on available (incomplete) information from the applicant indicate that over 80 per cent of transmissions are likely to be of European origin.

We conclude that NWT's application satisfies this requirement.

18. S16(2) (h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions

The situation on independent productions is confused. While clearly describing programmes to be made by Mersey Television as "independent productions" in the application, NWT states in follow-up correspondence to the ITC that the application was prepared on the basis of an assumption that Mersey Television and its affiliates would not qualify as independents. Few programme arrangements have been made between NWT and independents other than Mersey Television. Given the high proportion of regional programmes offered and the lack of evidence that many of these will be supplied by independents the ability of the applicant to meet the 25% requirement is uncertain. Nonetheless the independent sector in the North West is still undeveloped and it is reasonable to expect that new companies will emerge and reach agreements with the Channel 3 licensee. A considerable number of independent productions will also be included within the output supplied by the network.

We conclude that NWT's application satisfies this requirement.

Other Matters

19. The large amount of supervision which the proposed access programmes in particular will require is not acknowledged in the application. We are concerned that this has not been properly taken into account in the staffing structure, in order to ensure compliance with ITC codes. The description of procedures for handling complaints is also thin.

20. Arrangements proposed for meeting the needs of the hearing and vision-impaired are adequate. Proposals for training are vague but just acceptable. The applicant has clearly identified its regional bases and staffing numbers.

Conclusion

21. It does not appear that North West Television's proposed service would comply with the requirements specified in Section 16(2)(b), (c), and (f).

C. BUSINESS PLAN

Revenue

22. The revenue projections are plausible, though somewhat optimistic, with average NAR of £181.1m. An initial NAR of £160.9m for 1993 rises steadily each year to £204.4m by 2002 reflecting a view that the North/South divide has now run its course.

Cost Of The Programme Service

23. The total annual cost of providing the programme service is acceptable at £85.6m. Regional programmes cost £16.6m a year, made up of 3,025 hours at only £5.5k an hour. The very large number of hours (and low cost per hour) reflects the proposal to schedule some 2,000 hours of very cheap public access

programming, in place of acquired material, mostly in the night hours. If these public access hours are excluded then the cost per hour of regional programmes rises to £13k. This is low compared with average ITV experience, particularly for the major companies, but not outside the costs of some larger regional ITV companies and a number of other applicants.

24. A network contribution of £53.7m is envisaged in 1993 to a total network budget of £465m. This is towards the lower end of the ITC's indicative range, but 1 per cent a year real growth is allowed for thereafter. Other provisions for common programme and related costs are acceptable. The full cost of network acquired material is provided for even though the company does not propose to transmit a substantial part of this product, because of its plans to transmit so many hours of regional programming.

Overheads

25. Staff numbers at 425 are bound to be much lower than for a producer licensee, but are within the range proposed by other publisher licensees applying for the larger licence areas. However, the allocation of staff to the administrative function looks low, and there are doubts about the company's ability to contain its overhead expenditure within the low sums provided.

Programme Sales

26. Income from sales to the network of programmes commissioned by North West Television averages £46.8m a year which accounts for 10 per cent of the proposed network budget (including sport). The cost per hour of these programmes is on the low side, but not unreasonably so. No profit margin is sought on these commissions and they do not appear to contribute to overhead expenditure so there is no direct impact on the profitability shown in the business plan.

Profits

27. A degree of optimism in relation to both revenue and costs leads to strong profit projections, with the trading surplus averaging £57.4m which represents a high profit margin of 24 per cent. The return to shareholders is modest however, representing an average of 14 per cent of pre tax profits.

Cash Bid

28. The cash bid is high in relation to both revenue and to profit. The total tender payments would take 66 per cent more out of the company than levy would have done. Cash bid payments, which cannot be varied, account for a very much larger percentage of profit than the amount allocated to shareholders which is capable of reduction in hard times.

Balance Sheet And Cash

29. The optimistic view of revenue and costs leads to a positive cash position throughout. However, this is a new company and a funding package of £65.2m is proposed, consisting of £50.2m of equity and £15.0m of debt. The debt/equity ratio is projected

at 31 per cent in 1993, falling to 13 per cent by 1995 and 2 per cent by 1998. Although the application seems to have been inspired by [REDACTED]

30. The initial shareholder funding proposed at this stage amounts to [REDACTED]

[REDACTED] This would be a reasonably sized investment for [REDACTED]. Currently [REDACTED] has a [REDACTED] and cash in the balance sheet at 30 September 1990. Having regard to its application for its own licence area we are satisfied that [REDACTED]

[REDACTED] Although [REDACTED] states in its application for the North East that it has arranged a loan to fund its investment we believe that the loan repayments would exacerbate [REDACTED]

31. Some £15.8m of the equity (ie, over 30 per cent) has not yet been issued chiefly in order to allow [REDACTED] if it is not successful in its bid for the Yorkshire licence. [REDACTED] A letter from [REDACTED] indicates that, if necessary, a private placement of these shares would be possible.

32. Pre-operational expenditure of £68.5m including £1.5m in contingencies looks reasonable, but this is an area in which the risk of cost over-run is always present. Of this sum £53.4m would be spent in 1992.

Sensitivity Tests

33. The ITC's prescribed sensitivity tests enable the programme service to be maintained while making little impact on the profit and cash flow projections. The most damaging of these tests delays the redemption/repayment of capital provided by shareholders, and beyond this there remains a £15m overdraft facility. We have also considered the shortfall in revenue and/or rise in costs which would be necessary to breach the most stringent of the funding covenants in the early years where the company is most vulnerable. A 13 per cent fall in qualifying revenue over the three years 1993-95 would be needed, or an 8.7 per cent rise in operating costs. These are significant margin [REDACTED] s, but not beyond the bounds of possibility.

Conclusion

34. As presented the business plan indicates that the company would be profitable and have sufficient cash to meet its needs. The funding package should be sufficient, but the £15.8m of shares not yet placed is a source of uncertainty. The plan shows that there is sufficient headroom to support the high cash bid and the redemption of preference shares and loan notes. But there is some optimism in this plan in relation to both revenue

and costs, and only limited resilience but the high bid leads to a significant risk that substantial problems might emerge along the way.

35. We are satisfied that North West Television should be able to maintain the licence service.

D. ENGINEERING ASPECTS

36. The proposed Technical Director, G

37. North West TV's technical plans are ambitious and forward looking, planning to employ the very latest digital technology in the permanent studio installations. However, the information given, coupled with [REDACTED] track record are sufficient to convince us that they are realisable. Following responses to questions of clarification on staff levels and quality monitoring procedures, we are satisfied with NWTV's ability to comply with the Technical Performance Code.

38. There are two specific types of programmes in the NWTV application for which it is indicated that technical exemption would be requested. These are for local correspondents' contributions to the regional news programme and for some of the community access material. In both cases it is proposed that S-VHS or Hi-8 equipment would be used. These are not formats which are normally recognised as broadcast standard and so they are used by existing contractors only under a dispensation given by the IBA that they can be used for occasional news contributions (usually provided by stringers). Nevertheless if high quality S-VHS replay equipment is used and if all editing is done on a better format (eg Beta-SP), then modern S-VHS equipment can, in fact, approach full broadcast standard and give very satisfactory results in a news context. Hi-8 equipment is not yet up to this standard, but improvements planned by the manufacturers promise that it will be by 1993.

39. The NWTV application indicates that they would transfer the S-VHS or Hi-8 material to a better format for editing and, in any event, makes reference to the likely need for technical exemption. This is a procedure under the Technical Performance Code by which lower technical standards can be accepted for important situations, such as news or actuality, when it is not practicable to obtain a better quality. Although we are concerned that these proposals involve the use of S-VHS or Hi-8 equipment for regular, rather than occasional, news contributions, we are satisfied that NWTV have at least given careful consideration to the technical aspects of the proposals. We conclude that the proposals are not necessarily inconsistent with the requirements of the Technical Performance Code.

13 September 1991



Independent Television Commission

Paper 170 (91)

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NORTH WEST TELEVISION:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. North West Television (NWT) is a newly formed company, whose shareholders with seats on the board include

[REDACTED]

It is the intention of NWT to have its headquarters on a site owned by Mersey Television on the outskirts of Merseyside.

B. PROPOSED SERVICE

The Applicant's Proposals

2. The applicant will be both a producer-licensee and a publisher-licensee. NWT proposes to quadruple regional programming with the introduction of an hour-long evening news magazine, a new late-evening business and arts programme, daytime local news programmes and a night-time service for the region. Some of this material will be produced by NWT. Much of the applicant's regional and non-regional provision, however, is intended to be commissioned from independent producers or will be acquired.

3. Information provided by the applicant after the 15 May deadline, in response to an ITC letter requesting clarification, referred to his links with independent producers, the separation of NWT as a business entity from Mersey Television, and his

proposals for training. The applicant failed to provide clearer evidence than that given in his original application of contractual agreements or of firm arrangements with independents in respect of many of his programme plans. NWT stated that Mersey Television was not regarded as an "independent", even though clearly identified as such in the application. Follow-up correspondence from the applicant underlined even more conclusively than the original application, the applicant's dependence on Mersey Television for management, technical and production expertise. The response on training was adequate.

Minimum Requirements and Expectations

4. This section compares the requirements of Section 16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

5. S16(2) (a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

NWT's proposals cover the minimum scheduling requirements for national and international news and current affairs, and accept the nominated network news provider. The applicant proposes a new current affairs strand to be offered to the network drawing upon the experience of co-producer [REDACTED] documentary team.

We conclude that NWT's application satisfies this requirement.

6. S16(2) (b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

The applicant's network offerings are ambitious in the areas of drama and children's programming, but far less so elsewhere. The total amount offered is 356 hours compared with a 1989 provision of 728 hours (see table 3 attached to ITC Paper 169(91)). The drama and children's submissions rely heavily on the production capacity of Mersey Television, which also has very substantial programme-making commitments with other broadcasters, notably [REDACTED]. There is very little evidence of firm contractual arrangements having been made for the supply of programmes or indeed of key programme

plans having been developed very far with writers, directors or producers.

7. The application covers the minimum amounts of mandated categories of programmes. However, compared with the 1989 figures, NWT's proposed schedule contains less drama, sport, and factual programmes, including less current affairs and much less documentary or feature material. There will be a significantly increased amount of entertainment and marginal increases in news, education, religion, arts and children's programmes. Since the increased regional entertainment provision is almost wholly taken up by the night-time service, the main difference between NWT's proposed schedule and that currently available during the remaining viewing hours is the marked reductions in non-regional drama, sport, and factual material. The significantly greater amount of potentially low quality night-time material, when audiences will be tiny, does not compensate for the above losses.

8. There is a lack of supporting evidence in respect of most of NWT's programme plans and a concern, strengthened as a result of follow-up correspondence from the applicant, that North West Television will lean heavily, for management, production and technical expertise, on Mersey Television. Programme Division believes that it is not a sufficiently secure arrangement for a major Channel 3 licensee to be so dependent upon a single independent producer in respect of so many of its core organisational functions.

9. We also have doubts about whether there is sufficient experience among the applicant's senior personnel to hold the designated management positions in what would be a major Channel 3 licensee. Despite the fact that the applicant announced to

[REDACTED]

with a number of senior positions, especially ones connected with regional programming, not yet filled.

We do not conclude that NWT's application satisfies this requirement.

10. 16(2)(c)

that a sufficient amount of time is given in the programmes so included:

(i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and

(ii) (not applicable to this licence)

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

The applicant's proposed service includes a very significant increase in the amount of regional programming, 58 hours 10 minutes compared with a minimum requirement of 8 hours (see Table 2 attached to ITC Paper 169(91)). The proposals include access programmes during the day for local communities, schools and colleges, and drama/media courses in the region. These would involve the use of sub-broadcast standard equipment and semi-professional or non-professional programme makers, provided with a very low level of funding by the applicant. Programme Division has serious doubts about whether this material would be of a satisfactory standard and appeal to viewers in the region as a whole.

11. We have concerns about other aspects of the proposed regional service. The applicant proposes an early evening one-hour regional news magazine, for example, with correspondents, including aspiring programme makers, using equipment below normal technical standards. An overnight radio-style talk show with video material is also presented as part of the regional provision. This will include repeats of daytime local access programme-making. Although described as "regional" the overnight programme will include some non-regional acquired material. Taken as a whole, the regional output would not have sufficient appeal to viewers' particular regional interests, in our judgement, and runs a risk of undermining the viability of the Channel 3 service in this region.

We do not conclude that NWT's application satisfies this requirement.

12. S16(2) (d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

NWT undertakes to produce practically all of its regional programmes within the region. Evidence supplied about the location of NWT's studios and offices, and its stated intention to use independent producers in the region to produce regional strands, support the company's commitment.

We conclude that NWT's application satisfies this requirement.

13. S16(2) (e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

NWT proposes to transmit two hours 25 minutes of non-regional religious programmes and a further 35 minutes of regional religion, thus exceeding the minimum requirement. Eleven hours 10 minutes per week of children's programmes are proposed, exceeding the minimum requirement, with an ambitious proposal for a new daily children's drama serial, 'Cressington Park'.

We conclude that NWT's application satisfies this requirement.

14. S16(2) (f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

The applicant's programme proposals contain a number of new ideas for reaching minority audiences both regionally and non-regionally. Thus, his intention to serve a variety of audience tastes and interests is not called into question. The fundamental issue is NWT's ability to deliver the service it proposes and the soundness of the thinking behind it. While programmes in major strands are promised, there is uncertainty about the capacity of the applicant to fulfil his own production undertakings and about his signing up of independents with the capacity to provide other promised programme strands.

15. A late-evening regional arts/business programme is offered for every weekday evening, to be broadcast after the network news at 10.00pm. This would inevitably displace a wider variety of network programmes, such as sport and feature films, likely to prove of more popular appeal. NWT states that 86.5% of its output will consist of original productions/commissions.

16. Staff have serious reservations about the general shape of the applicant's proposed service and the evidence used from research to back up his thinking. We question the efficacy of much of the applicant's audience research evidence and his reading of it in supporting his programme ideas. Much of the research presented in this application provides an incomplete and in many places irrelevant picture of the regional audience and its programme tastes and interests.

We do not conclude that NWT's application satisfies this requirements.

17. S16(2) (g)

that a proper proportion of the matter included in those programmes is of European origin

NWT undertakes to broadcast a proper proportion of programming of European origin. ITC computations based on available (incomplete) information from the applicant indicate that over 80 per cent of transmissions are likely to be of European origin.

We conclude that NWT's application satisfies this requirement.

18. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions

The situation on independent productions is confused. While clearly describing programmes to be made by Mersey Television as "independent productions" in the application, NWT states in follow-up correspondence to the ITC that the application was prepared on the basis of an assumption that Mersey Television and its affiliates would not qualify as independents. Few programme arrangements have been made between NWT and independents other than Mersey Television. Given the high proportion of regional programmes offered and the lack of evidence that many of these will be supplied by independents the ability of the applicant to meet the 25% requirement is uncertain. Nonetheless the independent sector in the North West is still undeveloped and it is reasonable to expect that new companies will emerge and reach agreements with the Channel 3 licensee. A considerable number of independent productions will also be included within the output supplied by the network.

We conclude that NWT's application satisfies this requirement.

Other Matters

19. The large amount of supervision which the proposed access programmes in particular will require is not acknowledged in the application. We are concerned that this has not been properly taken into account in the staffing structure, in order to ensure compliance with ITC codes. The description of procedures for handling complaints is also thin.

20. Arrangements proposed for meeting the needs of the hearing and vision-impaired are adequate. Proposals for training are vague but just acceptable. The applicant has clearly identified its regional bases and staffing numbers.

Conclusion

21. It does not appear that North West Television's proposed service would comply with the requirements specified in section 16(2)(b), (c) and (f) of the Act.

C. BUSINESS PLAN

Revenue

22. The revenue projections are plausible, though somewhat optimistic, with average NAR of £181.1m. An initial NAR of £160.9m for 1993 rises steadily each year to £204.4m by 2002 reflecting a view that the North/South divide has now run its course.

Cost Of The Programme Service

23. The total annual cost of providing the programme service is acceptable at £85.6m. Regional programmes cost £16.6m a year, made up of 3,025 hours at only £5.5k an hour. The very large number of hours (and low cost per hour) reflects the proposal to schedule some 2,000 hours of very cheap public access programming, in place of acquired material, mostly in the night hours. If these public access hours are excluded then the cost per hour of regional programmes rises to £13k. This is low compared with average ITV experience, particularly for the major companies, but not outside the costs of some larger regional ITV companies and a number of other applicants.

24. A network contribution of £53.7m is envisaged in 1993 to a total network budget of £465m. This is towards the lower end of the ITC's indicative range, but 1 per cent a year real growth is allowed for thereafter. Other provisions for common programme and related costs are acceptable. The full cost of network acquired material is provided for even though the company does not propose to transmit a substantial part of this product, because of its plans to transmit so many hours of regional programming.

Overheads

25. Staff numbers at 425 are bound to be much lower than for a producer licensee, but are within the range proposed by other publisher licensees applying for the larger licence areas. However, the allocation of staff to the administrative function looks low, and there are doubts about the company's ability to contain its overhead expenditure within the low sums provided.

Programme Sales

26. Income from sales to the network of programmes commissioned by North West Television averages £46.8m a year which accounts for 10 per cent of the proposed network budget (including sport). The cost per hour of these programmes is on the low side, but not unreasonably so. No profit margin is sought on these commissions and they do not appear to contribute to overhead expenditure so there is no direct impact on the profitability shown in the business plan.

Profits

27. A degree of optimism in relation to both revenue and costs leads to strong profit projections, with the trading surplus averaging £57.4m which represents a high profit margin of 24 per cent. The return to shareholders is modest however, representing an average of 14 per cent of pre tax profits.

Cash Bid

28. The cash bid is high in relation to both revenue and to profit. The total tender payments would take 66 per cent more out of the company than levy would have done. Cash bid payments, which cannot be varied, account for a very much larger percentage of profit than the amount allocated to shareholders which is capable of reduction in hard times.

Balance Sheet And Cash

29. The optimistic view of revenue and costs leads to a positive cash position throughout. This is a new company and a funding package of £65.2m is proposed, consisting of £50.2m of equity and £15.0m of debt. The debt/equity ratio is projected at 31 per cent in 1993, falling to 13 per cent by 1995 and 2 per cent by 1998. Although the application seems to have been inspired by

[REDACTED] there are limits on newspaper holdings, and there would be limits [REDACTED] holdings if these companies succeeded in their other bids across the [REDACTED]

30. The initial shareholder funding proposed at this stage amounts to £31m, including [REDACTED]

[REDACTED] this would be a reasonably sized investment for [REDACTED]. Currently [REDACTED]

[REDACTED] having regard to its application for its own licence area we are satisfied that [REDACTED]

Although [REDACTED] that it has arranged a loan to fund its investment we believe that the loan repayments would [REDACTED]

31. Some £15.8m of the equity (ie, over 30 per cent) has not yet been issued chiefly in order to [REDACTED]

[REDACTED] A letter from [REDACTED] indicates that, if necessary, a private placement of these shares would be possible.

32. Pre-operational expenditure of £68.5m including £1.5m in contingencies looks reasonable, but this is an area in which the risk of cost over-run is always present. Of this sum £53.4m would be spent in 1992.

Sensitivity Tests

33. The ITC's prescribed sensitivity tests enable the programme service to be maintained while making little impact on the profit and cash flow projections. The most damaging of these tests delays the redemption/repayment of capital provided by shareholders, and beyond this there remains a £15m overdraft facility. We have also considered the shortfall in revenue and/or rise in costs which would be necessary to breach the most stringent of the funding covenants in the early years where the company is most vulnerable. A 13 per cent fall in qualifying revenue over the three years 1993-95 would be needed, or an 8.7 per cent rise in operating costs. These are significant margins, but not beyond the bounds of possibility.

Conclusion

34. As presented the business plan indicates that the company would be profitable and have sufficient cash to meet its needs.

The funding package should be sufficient, but the £15.8m of shares not yet placed is a source of uncertainty. The plan shows that there is sufficient headroom to support the high cash bid and the redemption of preference shares and loan notes. There is some optimism in this plan in relation to both revenue and costs, and only limited resilience. The high bid leads to a significant risk that substantial problems might emerge along the way.

35. It appears that North West Television would be able to maintain the proposed service throughout the ten year period for which the licence would be in force.

D. ENGINEERING ASPECTS

36. The proposed Technical Director, [REDACTED], is [REDACTED]

[REDACTED]

37. NWT's technical plans are ambitious and forward looking, planning to employ the very latest digital technology in the permanent studio installations. However, the information given, coupled with [REDACTED] track record are sufficient to convince us that they are realisable. Following responses to questions of clarification on staff levels and quality monitoring procedures, we are satisfied with NWT's ability to comply with the Technical Performance Code.

38. There are two specific types of programmes in the NWT application for which it is indicated that technical exemption would be requested. These are for local correspondents' contributions to the regional news programme and for some of the community access material. In both cases it is proposed that S-VHS or Hi-8 equipment would be used. These are not formats which are normally recognised as broadcast standard and so they are used by existing contractors only under a dispensation given by the IBA that they can be used for occasional news contributions (usually provided by stringers). Nevertheless if high quality S-VHS replay equipment is used and if all editing is done on a better format (eg Beta-SP), then modern S-VHS equipment can, in fact, approach full broadcast standard and give very satisfactory results in a news context. Hi-8 equipment is not yet up to this standard, but improvements planned by the manufacturers promise that it will be by 1993.

39. The NWT application indicates that they would transfer the S-VHS or Hi-8 material to a better format for editing and, in any event, makes reference to the likely need for technical exemption. This is a procedure under the Technical Performance Code by which lower technical standards can be accepted for important situations, such as news or actuality, when it is not practicable to obtain a better quality. Although we are

concerned that these proposals involve the use of S-VHS or Hi-8 equipment for regular, rather than occasional, news contributions, we are satisfied that NWT have at least given careful consideration to the technical aspects of the proposals. We conclude that the proposals are not necessarily inconsistent with the requirements of the Technical Performance Code.

2 October 1991



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SOUTH OF ENGLAND TELEVISION (CPV-TV):

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. CPV-TV's application for the South and South-East of England licence is in the name of South of England Television. CPV-TV has also made applications for the London Weekday and East of England licences. The shareholders in CPV-TV with holdings of more than 5 per cent of existing shares are

[REDACTED]

B. PROPOSED SERVICE

The Applicant's Proposals

2. South of England Television (CPV-TV) intends to operate mainly as a publisher-licensee. Regional news bulletins and the daily news magazine will be made in-house. Other regional programmes and programmes for the network will be commissioned from independents.

3. After the closing date for applications, CPV-TV submitted changes to the tables showing the allocation of time to different types of regional and non-regional programmes. Revised tables were offered to the ITC and these have been used in this assessment, since they more accurately reflect the applicant's proposals. The ITC then wrote to CPV-TV on 28 June seeking clarification of numerous points in the application, relating to children's programmes, regional programmes, sources of programmes, the supply of programmes to the network, original productions/commissions and arrangements for handling complaints. CPV-TV responded on 4 July with clarifying information on all

these points backed up, where relevant, with copies of agreements with independent producers. Staff have taken into account throughout this assessment the material which appears to give a relevant clarification in response to the questions asked, without changing the proposals put forward in the original application.

Minimum Requirements and Expectations

4. This section compares the requirements of S16(2) of the Broadcasting Act with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

5. S16(2) (a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

CPV-TV confirms that it will transmit the full range of ITN's network output and meet its share of the cost. The amount of current affairs proposed exceeds the minimum requirement. It suggests replacing the present two half-hour programmes with a peak-time hour, to be called 'The Correspondents'. Although this programme is described in section A.1 as if it were an offer to the network from CPV-TV (and is indeed proposed as such in CPV-TV's London application), in fact it intends to offer only an element of the programme, such as a special debate. While CPV-TV's plans for current affairs are adequately expressed on paper, therefore, the source of the particular programme proposed in the application does not appear to be secure. Nonetheless, given the fact that the licensee for this region is likely to depend on the network for its supply of current affairs programming, the requirement for high quality is likely to be met.

We conclude that CPV-TV's application satisfies this requirement.

6. S16 (2) (b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

CPV-TV offers some ideas for programmes of high quality. However, compared with certain other applicants, plans for the development of programmes do not appear to have progressed very far. Contracts with programme suppliers have been given to the ITC, but these are mostly written in very general terms and

usually amount to little more than preliminary agreements to co-operate, in principle, in the production of programmes. Information provided about the content of some of the programmes is also of a very preliminary nature. The amount of programmes offered to the network is higher than the 1989 provision (see table 3 attached to ITC Paper 123(91)). However, section A.15 of the application fails to address the question of how non-regional programmes, other than those commissioned by CPV-TV, will be supplied. We cannot therefore be sure how CPV-TV intends to meet its obligations to provide a sufficient amount of high quality non-regional programming.

7. We also have serious concerns about the proposed level of staffing. 258, excluding sales, seems a very lean operation. While requirements may vary from case to case, we do not feel that CPV-TV will be able to meet its regional production commitments and exercise proper supervision over commissioned programmes in order to maintain quality. The team of key post-holders, led by [REDACTED] is satisfactory. A [REDACTED] [REDACTED] staff cannot function properly if there are insufficient staff below them.

8. The application does not contain a clear commitment to meet the 65% requirement for original productions/commissions. The figures for original productions/commissions for each programme strand and for the output as a whole, requested in question A.1(iii) in the Invitation to Apply, are not provided. Their absence implies too high a proportion of acquired material and diminished scope for original high quality material. In its letter of 4 July the applicant argues that sufficient information about original and acquired programmes is contained in the description of programmes in sections A.1 and in the outline schedules in A.8 and A.20 of the application. This explanation is unsatisfactory. It is not possible to derive a precise figure for original programmes from the application. The figures which CPV-TV has subsequently supplied should not be accepted as part of the application in our view.

We do not conclude that CPV-TV's application satisfies this requirement.

9. S16(2) (c)

that a sufficient amount of time is given in the programmes so included:-

- (i) to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within the area for which the service is provided, and
- (ii) if the service is to include the provision of such programmes as are mentioned in section 14(3), to a suitable range of programmes for each of the different parts of that area or (as the case may be) for each of the different communities living within it, being in each case a range of programmes

(including news programmes) which are of particular interest to persons living within the relevant part of that area or (as the case may be) the relevant community,

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

After the closing date for applications the applicant informed the ITC that because of a printer's error the line for drama had been omitted from the summary table for regional programmes. More significantly, the table was based on an incorrect interpretation of the definition of "regional programmes". The Invitation to Apply makes it clear that regional programmes must be "of particular interest to persons living within the region" as well as be broadcast exclusively for them (paragraph 92). CPV-TV explained that it had counted as regional "all programmes which might not be supplied by the network including a night-time service acquired and presented by CPV-TV purely for the region". We calculate that the amount of regional programmes, as defined in the Invitation to Apply, is 14 hours 40 minutes, per viewer, not 60 hours 40 minutes, as shown in the application. CPV-TV is the only applicant, as far as we are aware, to have made this mistake. For the purposes of this assessment we have used CPV-TV's revised figures, since it is impossible otherwise to make a sensible comparison with the current ITV service and with the proposals of other applicants.

10. The description of the proposed content of regional programmes is vague although with the help of CPV-TV's letter of clarification we are able to deduce that programme plans do exist to provide at least the minimum requirement of 8 hours a week per viewer. The regional service depends heavily on 'Live At Six' a one-hour magazine, to be broadcast at 6.00 p.m. on weekdays and repeated overnight. 'Live At Six' will embrace not only news but much of the rest of the company's regional output, including sport, current affairs, social action, consumer programming, leisure features, reports on the arts and entertainment scene, and travel information. Repeats of 'Live At Six' will account for approximately five hours out of the 14 hours 40 minutes allocated for regional programmes.

11. CPV-TV intends to produce 'Live At Six' and regional news bulletins in-house. Staff for this are included in the 200 proposed for the Ashford base and the 50 in Winchester. One more will be based in Reading. We do not believe this is adequate. Five reporters in the South East and four in the South, for example, are unlikely to be able to deliver the amount of news that is proposed. The staffing structure, for example the relationship between the Head of Regional Programmes and Head of News, is also unclear. From the information that is provided we are unable to confirm that regional news output will be of high quality.

12. Separate editions of 'Live At Six' will be broadcast to each of the sub-regions. In correspondence CPV-TV states that 1 hour 50 minutes will be common to the two sub-regions. The application states that each edition of 'Live At Six' will

contain a further opt-out of between 2 and 5 minutes a night. However, in correspondence CPV-TV states that only one of these opt-outs is definite - from the Hannington transmitter serving Reading and its surrounding area. The other is still under consideration. We estimate that the total amount of regional programmes, including sub-regional and opt-out material, will be 21 hours 50 minutes, with 7 hours 10 minutes separate programmes for each sub-region. However, the statistics are confusing and the proposals as a whole unconvincing. The application does not inspire confidence that an effective service will be provided.

13. Regional religious programmes are not described in the application but five minutes a week are included in the summary table. In correspondence CPV-TV states that the five minutes relates to two series which it had included in the section on non-regional programming and which it intends to offer to the network. If the network does not want them, they will be transmitted regionally. From this, it appears that the programmes are being counted twice in the tables: as non-regional and regional.

14. Audience research has been used mainly to criticise TVS, not always successfully since some of the conclusions reached are not supported by the research. In its use of research, as in other areas, CPV-TV fails to demonstrate a deep knowledge of the area or a strong commitment to meeting regional needs and interests.

We do not conclude that CPV-TV's application satisfies these requirements.

15. **S16 (2) (d)**

that a suitable proportion of the regional programmes included in the service in accordance with the paragraph (c) are made within the area for which it is to be provided

CPV-TV states that 80% of regional programmes will be made in the region. It provides no evidence that the independents it intends to use will set up regional bases and lists no existing locally based independents. However, it will produce news bulletins and news magazines itself.

We conclude that CPV-TV's application satisfies this requirement.

16. **S16(2) (e)**

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

CPV-TV plans to show two hours five minutes of networked religious programmes and five minutes of regional religious material. However, they provide no breakdown to show what this output will include. They also propose eleven hours and twenty minutes of children's programmes. This is a high figure and may include repeats. The application does not specify the amounts

of time to be allocated to different sub-strands within children's programmes, as listed in the Invitation to Apply i.e. drama, information and entertainment. CPV-TV claims in correspondence that this was due to the difficulty of categorising pre-school programming into sub-strands. We do not find this explanation convincing. However, the omission is not of great significance since the text of the application makes it clear that "a varied and diverse mix of children's programmes" will be transmitted. The executive in charge of children's programmes has a good track record and some interesting ideas have been provided.

We conclude that CPV-TV's application satisfies this requirement.

17. S16(2) (f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interests

On the basis of CPV-TV's revised table of non-regional programmes it appears that it plans significantly more drama, a little more sport and arts but far fewer factual and entertainment programmes compared with the 1989 figures (see table 1 attached to ITC Paper 123(91)). In general more emphasis is placed on programmes of wide appeal than programmes for minority interests. The pattern of scheduling (eg with drama series planned for 9.00 - 10.00 pm on four nights a week) would also restrict diversity. We have already noted CPV-TV's failure to give a clear commitment to fulfil the 65% requirement for original productions/commissions. Taking these factors together, we are not satisfied that CPV-TV's proposed service demonstrates sufficient diversity.

We do not conclude that CPV-TV's application satisfies this requirement

18. S16 (2) (g)

that a proper proportion of the matter included in those programmes is of European origin

A satisfactory assurance is given in relation to the quota for European programmes.

We conclude that CPV-TV's application satisfies this requirement.

19. S16 (2) (h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions

CPV-TV confirms that it will exceed the 25% independent production requirement. The [REDACTED]

[REDACTED]

We conclude that CPV-TV's application satisfies this requirement.

Other Matters

20. The level of staffing appears inadequate to ensure compliance with ITC codes and licence conditions. Our concern about compliance is reinforced by the fact that no information is provided in the application about how programme complaints will be handled, although arrangements for handling advertising and sponsorship complaints are described.

21. Adequate proposals are put forward for deaf and hard of hearing people and for the blind and partially-sighted. Proposals are put forward for training although they are very limited for a licence of this size. Proposals are also put forward for offices, studios and staff, although as stated above we are concerned about the level of staffing. CPV-TV devotes only a few lines to arguing why its main premises should be based in Ashford and Winchester. These are not obvious choices in terms of regional geography.

Conclusion

22. It does not appear CPV-TV's proposed service would comply with the requirements specified in Section 16(2) (b) (c) and (f).

C. BUSINESS PLAN

Revenue

23. The revenue projections are plausible, but prudent, at an average of £182.5m. The figure of £162.2m for 1993 is cautious, but this rises quite strongly to £203.7m in 2002.

Costs of the Programme Service

24. The total annual cost of £90m is satisfactory, but a little on the low side. Regional programmes cost £16.6m and consist of 931 hours at £18k an hour. This average cost is low by ITV standards. Although it can be achieved we have some concern about the cost of the local news service at only £12.4k an hour.

25. The network contribution is £57m in 1993 and is based on a budget of £477m, ie, the mid-point of the ITC's indicative range. Real growth, ie, over and above inflation, is allowed for in the cost of drama and entertainment, but not for sport or acquired material. The provision for other common costs is adequate.

Overhead

26. Media and Airtime Sales (MAS) will handle the South East's airtime. The cost will be 2.5 per cent of NAR, and this is

reasonable. Participants in the equity and loan stock are:

27. Other overhead expenditure looks sufficient. Staff numbers at 325 look low (particularly administration staff at 66) but in financial terms the figures look more reasonable, ie, high remuneration may be compensating for low numbers.

Programme Sales

28. Sales to the network average £69m and account for 14 per cent of the proposed network budget. Although the projected costs per hour are above historic averages this proposed level of supply is quite demanding for a newly formed company. Sales make no contribution to overheads or profits and do not however affect profitability.

Profit

29. An average trading surplus of £51m represents a comfortable margin of 19 per cent. The revenue projections are conservative and the surplus may turn out to be higher. Alternatively, the business plan could accommodate significantly higher programme costs.

30. No dividend is proposed in the projections, but shareholders are paid 4 per cent above LIBOR* on the loan stock. Although this is an unusual approach to shareholders' returns the projections suggest that dividends could be paid without unduly depleting the balance sheet.

Cash Bid

31. The cash bid is low in relation to both revenue and profit. Tender payments would be 34 per cent more than the sums which would have been paid to the Exchequer under the levy.

Balance Sheet And Cash

32. Initial funding amounts to £73m and consists of:

Conclusion

	<u>£m</u>
Share Capital	21.26
Shareholders' Loan Stock	21.25
Senior Debt	20.00
Finance Leases	<u>10.47</u>
	<u>72.98</u>

The business plan is a little light, but the business plan probably overstates costs, or alternatively, the business plan could be more conservative. The business plan is generally strong and positive and the business plan could be more conservative. The business plan is generally strong and positive and the business plan could be more conservative.

We are satisfied that GPT-TV would maintain the licence

33. The main participants in the equity and loan stock are:

	<u>Ordinary Shares</u>	<u>Loan Stock</u>
[REDACTED]	£	£
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

34. On the basis of the subscription and shareholders' agreements and board minutes we are satisfied as to the strength and commitment of [REDACTED]. As explained in this company's application for the London weekday licence, our merchant bank advisers are concerned about the [REDACTED]. This is based mainly on the need for [REDACTED]

* [REDACTED]

35. Pre-operational expenditure amounts to £32.6m. The bulk of fixed assets are to be leased and this keeps pre-operational cash flows to a minimum. Cash flow is generally strong and positive in all years, with the exception of 1996 when the senior loan is repaid.

Sensitivity Tests

36. The cash margins under the prescribed sensitivity tests are very comfortable. There is no need for additional financing and further, cumulative variances to the business plan could be accommodated without difficulty.

Conclusion

37. The proposed expenditure on regional programmes is a little light, but the revenue projections are cautious. The business probably could therefore accommodate higher costs, or alternatively perform better in terms of profitability, than the projections suggest. Section C is broadly similar to CPV-TV's application for the London Weekday licence, and some of the conclusions, ie, the plan may not do the applicant justice, the lack of provision for dividends is unconventional and Hill Samuel have some concerns about whether Virgin would be able to make the necessary investment. The licence would not be granted however unless funds were irrevocably committed.

38. We are satisfied that CPV-TV could maintain the licence service.



D. ENGINEERING ASPECTS

SECRET

39. The proposed Director of Engineering is [redacted]. The application displays a similar commitment to technical quality, in principle, to that from CPV-TV for the London Weekday licence (Greater London Television). However, the proposed Engineering staffing is more substantial, numbering 125 compared with 80 for the GLT application. We have no substantial concerns with the application from a technical quality point of view.

STATE OF ENGLAND TELEVISION (CPV-TV)

16 September 1991

MEMORANDUM

1. The proposed Director of Engineering is [redacted]. The application displays a similar commitment to technical quality, in principle, to that from CPV-TV for the London Weekday licence (Greater London Television). However, the proposed Engineering staffing is more substantial, numbering 125 compared with 80 for the GLT application. We have no substantial concerns with the application from a technical quality point of view.

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3. The proposed Director of Engineering is [redacted]. The application displays a similar commitment to technical quality, in principle, to that from CPV-TV for the London Weekday licence (Greater London Television). However, the proposed Engineering staffing is more substantial, numbering 125 compared with 80 for the GLT application. We have no substantial concerns with the application from a technical quality point of view.

4. The proposed Director of Engineering is [redacted]. The application displays a similar commitment to technical quality, in principle, to that from CPV-TV for the London Weekday licence (Greater London Television). However, the proposed Engineering staffing is more substantial, numbering 125 compared with 80 for the GLT application. We have no substantial concerns with the application from a technical quality point of view.

5. After the closing date for applications, CPV-TV submitted changes to the tables showing the allocation of time to different types of regional and sub-regional programming. Revised tables were filed by the ITC and these were then used in this assessment, albeit they were accurately reflect the applicant's intentions. The ITC then wrote to CPV-TV on 28 June seeking clarification at various points in the application, relating to the proposed programming, regional programming, services of the proposed network of programmes in the network, original programming and arrangements for handling complaints. CPV-TV responded only with clerical information on all



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VIKING:

ASSESSMENT

Paper by Staff

A. INTRODUCTION

1. Viking Television is a newly formed consortium company in which TVF, an independent production company, would have a 15 per cent stake. Its headquarters would be situated in Leeds. The Chief Executive responsible [REDACTED]

2. Tables on amounts of programming which are attached to this paper relate both to Viking and to the other two applicants for the [REDACTED]

B. PROPOSED SERVICE

The Applicant's Proposals

3. Viking's application is made as a publisher-licensee. Only regional news programmes would be produced in-house.

4. In general, the application has proved difficult to assess because of its lack of clarity and detail in the majority of programme strands. Clarification was sought on a number of inconsistencies in a letter of 26 June. The response of 2 July reveals that the table of regional programmes submitted with the application was an early draft. Revised figures have now been offered in all but one category, and in total broadcasting hours. We have taken the new table into account in our assessment. However, the mistake and the fact that Viking did not report it until the letter of 2 July does not inspire confidence.

Minimum Requirements and Expectations

5. This section compares the requirements of S16(2) of the Broadcasting Act 1990 with the undertakings provided in the application. The relevant part of S16(2) is in each case set out in full. There is then an assessment of the relevant elements in the application, based on the standard checklist produced within Programme Division for assessing all applications, leading to a conclusion as to whether or not the application satisfies the specified requirement(s).

6. S16(2) (a)

that a sufficient amount of time is given in the programmes included in the service to news programmes and current affairs programmes which (in each case) are of high quality and deal with both national and international matters, and that such news programmes are broadcast at intervals throughout the period for which the service is provided and, in particular, at peak viewing times

Viking's proposals cover the minimum scheduling requirements for national and international news and current affairs and accept the nominated network news provider. In terms of supply to the network, Viking claims that it plans to offer two 'analytical' current affairs programmes to the network, but they have no nominated supplier: the submission merely of two titles ('Test Case and Internal Affairs') offers no evidence that these will be of high quality, in the absence of any supporting detail. Nevertheless, it is reasonable to expect that the licensee for this region will take high quality current affairs from the network.

We conclude that Viking's application satisfies this requirement.

7. S16(2) (b)

that a sufficient amount of time is given in the programmes included in the service to programmes (other than news and current affairs programmes) which are of high quality

On network programmes Viking puts forward few specific ideas of its own, relying mainly on a belief that free market forces and greater competition within the Channel 3 system will of themselves deliver quality. While persistently criticising ITV, Viking is happy for many existing programmes to continue. Although the mandated minimum amounts and strands appear to be covered, the proposals lack substance. For example, according to the revised figures submitted in correspondence, 58 hours a week are allocated to drama. However, the main emphasis appears to be on acquired feature films and current ITV successes such as 'Inspector Morse', 'Poirot' and 'Coronation Street'. Viking states that it would be "happy to offer 'Emmerdale' to the network should [redacted] acting as an independent supplier choose to pursue that course".

8. Viking make no clear statements about the number of hours they expect to supply, in each strand, to the network. Overall, they say they expect to supply between 4.75 hours per week and 14 hours per week, depending on their competitive success. Much reliance is placed on the power of competition to guarantee the supply of high quality programmes. Viking has agreements with some independent producers, including two with international reputations, but in general it believes that output deals "make little sense in the context of a publisher-contractor". While there is some force to the argument that applicants need not, and should not, tie themselves down too much at this stage, nonetheless the position taken by Viking strains the applicant's credibility as a major supplier to the network in line with its size and ambitions.

9. In terms of the regional service, programme descriptions lack detail and sources of supply are generally ill-defined. This gives little confidence that there will be sufficient programmes of high quality in Viking's regional service.

10. Viking's statement of thinking is optimistic about Controllers "simply picking the best... of an enormous variety of fresh ideas", but the lack of specific agreements with suppliers or detailed programme ideas gives no indication that sufficient high-quality programmes will be commissioned.

11. Viking's application names several key post-holders with good track records, but some of the appointments named lack relevant experience at senior level. [REDACTED]

[REDACTED] staffing appears adequate at 205, with 175 working in production, commissioning and transmission. Six controller posts are listed on page 84 of the application but only five on page 77. Viking's clarification in the letter of 3 July sheds little light on the matter.

12. Viking's application is vague about meeting the minimum requirement of 65 per cent for original productions/commissions. No single summary figure appears in the application and figures given for particular programme strands are qualified by "about" and "approximately". In its letter of 2 July, Viking states that 3,198 hours annually will be original productions/commissions, "exclusive of repeats and news from ITN". We calculate this as 58% of Viking's total output (see Table 4, attached). This implies too high a proportion of acquired material and diminished scope for original high quality programmes.

We do not conclude that Viking's application satisfies this requirement.

13. **S16(2) (c)**

that a sufficient amount of time is given in the programmes so included:-

- (i) **to a suitable range of regional programmes, that is to say, programmes (including news programmes) which are of particular interest to persons living within**

the area for which the service is provided, and

- (ii) if the service is to include the provision of such programmes as are mentioned in section 14(3), to a suitable range of programmes for each of the different parts of that area or (as the case may be) for each of the different communities living within it, being in each case a range of programmes (including news programmes) which are of particular interest to persons living within the relevant part of that area or (as the case may be) the relevant community,

and that any news programmes so included in accordance with sub-paragraph (i) or (ii) are of high quality

Para 3 above refers to confusion in Viking's application about the correct figures for regional output. The description of regional programmes also lacks detail. Both sets of figures submitted by Viking (original and revised) amply exceed the minimum required. The revised figures, which match the text of Section A1 of the application, reveal that the total weekly output offered is 12 hours 50 minutes compared with a minimum requirement of 8 hours 30 minutes. Within the minimum figure is a further requirement for two news opt-outs of one hour each. Viking offers three opt-outs of one hour 40 minutes each, and has ambitions for a fourth, for Humberside, to begin operating in 1993 or 1994. This would involve a new relay transmitter. Engineering Division do not believe that the necessary frequencies would be available. To avoid the problems of overlap with the North East region, Viking proposes a "fifth opt-out", in fact a shared news operation with the neighbouring licensee, transmitted from Bilsdale. A proposed possible further extension of coverage from the Sheffield relay to cover Doncaster and Barnsley also poses problems, since the likelihood of the necessary additional transmitters being provided is small, as Viking in fact acknowledges.

14. A great deal of space in the application is devoted to attacking [redacted] Viking claims that its news service will be more relevant, more up-to-date, more technically accomplished and "above all it will be more intelligent". Despite the proposed use of lightning vans and a helicopter to increase immediacy, Viking's plans are not convincing in their detail, given the doubts about new transmitter patterns, and consequently do not promise high quality.

15. There is reasonable diversity in the non-news regional programmes, with outline plans for current affairs and business, sport, features, entertainment, religion, arts and social action. A topical magazine for ethnic minorities is offered together with Asian films and drama series in a night-time service. The specific descriptions of plans are very limited in detail, however, often amounting to a few phrases, with little definition of style or content and sources of supply are not clearly identified.

16. The applicant's proposals on how to form judgements on the nature of the region and the attitudes of viewers are vague. No details are given of how the five "viewer panels" and "more comprehensive surveys" mentioned would be organised or be used to influence the service. Doubts about the effectiveness of these arrangements are strengthened by the fact that no details have been included about the methodology used in the two surveys conducted in preparing the application.

We do not conclude that Viking's application satisfies these requirements.

17. S16(2) (d)

that a suitable proportion of the regional programmes included in the service in accordance with paragraph (c) are made within the area for which it is to be provided

Viking does not give a straight answer to the question whether at least 80% of regional programmes will be made in the region. It states instead that it would "need to be careful not to be overweening" over requiring independents to make regional programmes in the region.

We do not conclude that Viking's application satisfies this requirement.

18. S16(2) (e)

that a sufficient amount of time is given in the programmes included in the service to religious programmes and programmes intended for children

Viking proposes to include 2 hours of non-regional and 15 minutes of regional religious programming every week. It proposes 10 hours of non-regional children's programming. The proposals in each strand are only thinly sketched out, and in the case of religion, no source of supply is identified. Nevertheless, minimum requirements are met.

We conclude that Viking's application satisfies this requirement.

19. S16(2) (f)

that (taken as a whole) the programmes so included are calculated to appeal to a wide variety of tastes and interest

Again, the evidence offered in support of programming intentions is weak. In terms of programmes of wide appeal, although there are generalised statements, Viking's non-regional entertainment plans, for example, offer only an intention to transmit the current range of output. Regionally, there is a single proposal (without further details) for a 'knockout quiz' called 'Local Knowledge'. Similarly, although there is mention of regional plans for ethnic minority programming, arts programmes and social

action output, no evidence is advanced of source of supply or content. Viking's proposals are not sufficiently detailed or thought through to give confidence that they would appeal to a wide range of tastes and interests. The failure to demonstrate that Viking would provide the required minimum amount of original productions/commissions (see paragraph 11, above), is also relevant here.

We do not conclude that Viking's application satisfies this requirement.

20. S16(2)(g) that a proper proportion of the matter included in those programmes is of European origin

Viking declares that 'a comfortable majority of our output will be of European origin'. There should be little difficulty in achieving this, although it is relevant that only 58% of transmitted material is to be originally produced/commissioned.

We conclude that Viking's application satisfies this requirement.

21. S16(2)(h)

that in each year not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes in the service is allocated to the broadcasting of a range and diversity of independent productions

Viking intends to exceed the minimum required by a wide margin. As a publisher-licensee, Viking should have no difficulty fulfilling the requirement, although it does not have contractual agreements in place.

We conclude that Viking's application satisfies this requirement.

Other matters

22. The arrangements proposed to ensure compliance with ITC codes are weakened by the applicant's intention to call on the ITC as "an expert adviser... to help make the necessary judgements". This indicates a serious misunderstanding about the licensee's own responsibility.

23. The application does not contain clear and precise plans for offices and studios, although it is stated that the main complex will be in Leeds, with news studios in Sheffield and Lincoln. A suitable commitment is made to subtitling for the deaf but no reference is made to signing. The applicant's response on promoting the enjoyment of programmes by sight-impaired people is adequate. Proposals are put forward for training but they are vague and unconvincing.

Conclusion

24. It does not appear that Viking's proposed service would comply with the requirements specified in Section 16(2) (b), (c), (d), (f).

D. BUSINESS PLAN

Revenue

25. The revenue projections are ill-considered but a series of fortuitous, offsetting calculations results in a credible, but rather high, average NAR of £139.2m over the period. This reflects a bullish figure of £130.4m in 1993, rising to £163m in 2002.

Cost of the Programme Service

26. The total annual cost of providing the programme service is acceptable at £74.8m. Regional programme costs in 1993 amount to £15.9m, consisting of 582 hours at £27k per hour. These costs are slightly below ITV historic averages, but are satisfactory as projected figures.

27. The contribution to the network budget, at £45.12m in 1993, is based on a total budget of £477m, excluding acquired material, ie, about the mid-point of the ITC's indicative range. Sensible cost growth has been incorporated. The contribution to acquired material has been wrongly calculated and costs are understated by £600k to £2m a year over the licence period. Other industry costs are reasonable.

Overheads

28. Viking plans to employ 285 staff, including its own sales force. The staff numbers appear low in relation to the volume of output. We are concerned also that inadequate provision has been made for sales staff. Costs may be understated by £2m a year. This problem needs to be linked with the earlier conclusion that the revenue projections are not thoroughly considered.

29. Overhead expenditure is very low initially but subsequent growth of 4 per cent a year above inflation helps to alleviate any concerns. The budget for in-house transmission may, however, be about £2m too low.

Programme Sales

30. Income from sales to the network averages £43.9m, accounting for 9 per cent of the proposed network budget. The costs per hour are low, but within historic ranges. Sales contribute 17 per cent towards overheads and, thus, the level of supply has an important bearing on profitability.

31. Overseas sales income has been calculated crudely at [REDACTED]
[REDACTED] The projected

figure of £35m over the licence period may not be unreasonable, but the approach to its estimation leaves much to be desired.

Profit

32. The average trading surplus at £48.6m represents a very substantial profit margin of 25 per cent on income. However, this is built on some vulnerable assumptions about costs, overseas sales, and bullish NAR. The return to shareholders is a modest 10.6 per cent of pre-tax profits, although more could be distributed without serious erosion of the company's financial base.

Cash Bid

33. The cash bid is high in relation to both revenue and profits. Total tender payments would take 58 per cent more for the Exchequer than the levy would have done.

Balance Sheet and Cash

34. This is a new company. Funding of £70m comprises:

	<u>£m</u>
Ordinary Shares	15
Convertible Loan Stock	10
Overdraft	20
Lease Finance	<u>25</u>
	<u>70</u>

35. Evidence to support this funding is scant. There is no letter indicating that a bank will provide the overdraft facility, no details of the lease finance, or the convertible loan stock. Written agreement to subscribe for £5.07m of the ordinary shares is provided, although it is subject to shareholder approval, but we are doubtful

[REDACTED]

The funding is therefore by no means secure.

36. The proposed funding structure leaves the company with unacceptably high gearing of 409 per cent in 1993. This falls to a more manageable 59 per cent in 1994.

37. Pre-operational expenditure of about £18.3m is reasonable. Most of the assets are to be leased.

38. Cash flow is generally healthy. But more plausible projections of short term NAR and costs could lead to a deficiency of cash in 1994 which would exceed the overdraft facility.

Sensitivity Tests

39. Two of the sensitivity tests leave Viking with a cash deficit, in excess of their overdraft facility, in 1994. A third test results in only a very small cash margin. These tests add to concerns that Viking may face short term liquidity problems. The company states that it will deal with this by rolling forward the overdraft facility, of which we have no substantive proof of existence. In the absence of that evidence it is not possible to attach credence to the Directors' statement that the applicant has adequate working capital at least until the end of 1995.

Conclusion

40. A major problem with this application lies not so much in the quantitative projections as in the lack of analysis and expertise underpinning them. There is a general paucity of analysis and reasoning and it is not apparent that Viking has given enough consideration to the creation of the necessary infrastructure to support the business, and to generate advertising revenue in particular. The cash bid is very high, revenue projections are optimistic and some costs are understated. There is a lack of information and evidence about funding.

41. We are not satisfied that Viking could maintain the service over the ten year period of the licence.

D. ENGINEERING ASPECTS

42. The proposed Director of Operations for the Viking application, whose name was supplied in confidence, is [REDACTED]

43. The application is well presented, but detail is lacking in certain areas. For example, although viewing theatres will be made available for the quality assessment of recorded programmes and although contracts with independents will include conditions on technical standards, there are no descriptions as to how these will be put to practical effect.

44. The equipment described is of sufficient quality, but the quantity seems low in certain areas, eg in the editing suites. The Viking application is thus one of the weaker ones from an engineering point of view, but the concerns are not sufficiently concrete to judge that the application should fail on technical quality grounds.

45. Viking indicate that they would wish to extend from the existing three opt-out areas to five in the future. They state that a Humberside opt-out might be able to be operational by 1994 by means of a new really transmitter. We do not believe that this is realistic. Viking claim that NTL have suggested that there

is channel availability, but there are not four frequency channels available for a full relay station. The BBC and DTI are opposed to the concept of single-channel relays and our judgement is that a Humberside station would not be realised. Furthermore there appears to be no specific budgetary provision for such a new transmitter. The fifth potential future "opt-out" is for North Yorkshire, which would depend not on a technical solution but on editorial cooperation with the Channel 3 licensee for the North East.

46. A further opt-out enhancement which Viking would wish to pursue is the extension of the Sheffield service to include Barnsley and Doncaster by the addition of further relays. Viking admit in the application that channel availability is limited in that area. This is indeed the case and we think it is very unlikely that such an extension could be achieved.

16 September 1991

These are revised figures submitted by Viking in correspondence (letter of 2 July 1991)

Yorkshire1. Allocation of time to different types of non-regional programmes

Programme Strand	<u>Time per week</u>				<u>1989 Figures</u>		<u>Minimum requirement</u>	
	<u>Viking**</u>		<u>White Rose</u>		<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>
	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>				
Drama	58	00	47	50	48	00		
Entertainment	25	00	24	35	28	48		
Sport	5	00	7	30	7	05		
News	12	00	11	40	15	16	5	25 *
Factual	7	30	20	30	20	10	1	30
Education	12	30	0	45	2	17		
Religion	2	30	2	05	2	12	2	00
Arts	1	00	1	00	0	52		
Children's	11	00	13	05	11	36	10	00
<u>Total including all sub-regional</u>	<u>134</u>	<u>30</u>	<u>129</u>	<u>00</u>	<u>136</u>	<u>16</u>		

* Excludes requirement for "appropriate news" at weekends and during public holiday periods

** These are revised figures submitted by Viking in correspondence (letter of 2 July 1991)

2. Allocation of time to different types of regional programmes


Time per week

Programme Strand	<u>Viking**</u>		<u>White Rose*</u>		[REDACTED]	<u>1989 Figures</u>		<u>Minimum requirement</u>	
	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>		<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>
Entertainment	0	15	0	34		0	02		
Sport	1	30	0	52		1	05		
News	5	00	5	15		4	20		
Factual	1	35	0	45		1	25		
Education	0	25	0	29		0	45		
Religion	0	10	0	0		0	06		
Arts	0	15	0	34		0	22		
Other	0	20	-	--		-	--		
Total for each sub-region	9	30	8	29		11	05	7	30
Total including all sub-regional programmes	12	50	15	09		9	38	8	30

* Excluding Jobfinder

** These are the revised figures which Viking submitted in correspondence

3. Amounts of programmes which the applicant intends to supply to the network

Programme Strand	<u>Time per year</u>						
	<u>Viking*</u>		<u>White Rose</u>			<u>1989 Figures</u>	
	<u>Hrs</u>	<u>Mins</u>	<u>Hrs</u>	<u>Mins</u>		<u>Hrs</u>	<u>Mins</u>
Drama			67	0		88	24
Entertainment			57	30		83	12
Sport			---	---		1	44
Factual			13	0		77	08
Education			30	0		7	48
Religion			---	---		9	32
Arts			5	0		6	56
Children's			80	0		41	36
TOTAL	---	---	252	30		316	20

* Viking do not give precise figures for supply to the network.

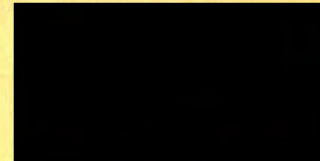
4. Proportion of output allocated to original productions/commissions

Viking*

58%

White Rose**

66%

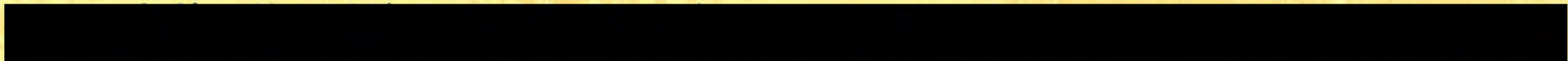


Minimum requirement

65%

* Taking account of responses received in the letter of 2 July 1991

** As detailed in White Rose's response of 3 July 1991



ITC

15 September 1991

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