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PRIME MINISTER

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Spendley

ALP

CHANNEL 4

why? The Home Secretary rejects a privatised C4 or a link between C4 and C5. He opts for restructuring C4 as follows:

- (a) a non-profit subsidiary of the ITC;
- (b) selling its own advertising independently of C3;
- (c) receiving a guaranteed income of 14% of NAR (net Advertising Revenue);
- (d) the source of the guarantee would be the revenue of the competitive tender procedure (presumably C3, C5 and local delivery licences);
- (e) C4 should hand over any financial surpluses to the ITC;
- why?* (f) C3 and C5 must announce at programme junctions the next programme on C4 - but C4 would have no such reciprocal obligations;
- (g) S4C would be funded out of the revenue from the tender.

COMMENT

This proposal is nothing less than astonishing. It is ill thought-out and needs root and branch revision. The basic problem is the incentives it creates for C4 to be inefficient eg

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- C4 has little incentive to sell its advertising time,
as a shortfall will be made up from guaranteed income;
- the growth of guaranteed income will set the pace of
the growth of costs;
- the Chief Executive of C4 has every incentive to lobby
the Home Office by playing politics to get as much
deficit finance as possible.

The Treasury will suffer apoplexy when they realise that revenue which is theirs (ie the product of the tender process) and for whom they are simply stewards on behalf of the taxpayer, is being allocated without their having any control.

The Privatisation Option

I am still not convinced that this option is unworkable. The argument against is that

- (i) the advertising income of C4 is not sufficient for it to be viable, and
- (ii) the remit will come under pressure for commercial reasons; it is impossible to hold the line on quality.

On the first point I find it very curious that the advertisers as a group believe that C4 could raise more revenue than at present - whereas the Home Office reject their argument.

I believe you need more evidence on this point.

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I do also have difficulty on the second point. We are imposing a quality hurdle for all ITV companies. They are private commercial concerns. The hurdle will be interpreted in detail by the ITC and then monitored. If companies fail to live up to their undertakings they will be shown a yellow and then a red card.

If this process holds good for ITV companies why would it not also hold good for C4?

RECOMMENDATIONS

- (1) The proposal for C4 to receive guaranteed income is to give them the same security as the BBC. It goes in the opposite direction to the whole thrust of the reforms.
- (2) The Home Office arguments against privatisation need re-examining. It remains an attractive option.
- (3) Any fall-back position must remove a guaranteed income for C4 and separate its ownership from the ITC eg in a C4 Trust.

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