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From the Private Secretary

3 May 1988

I am writing on the Prime Minister's behalf to thank you for your letter of 27 April and the attached paper. The Prime Minister was able to study your paper over the weekend, and was most grateful to you for setting out this further detail of the points raised when she visited Central ten days ago.

PAUL GRAY

Leslie Hill, Esq.

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PRIME MINISTER

ITV

I attach three letters you may like to glance at over the weekend:-

Flag A - the IBA policy statement which received publicity earlier this week

Flag B - the promised letter from Central Television spelling out the ideas they mentioned to you in Nottingham

Flag C - a political letter from Lord Buxton on the future of ITV, in which he comments on Central's ideas.

I have already acknowledged the IBA material. We will put together replies to the other two letters next week.

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Paul Gray

29 April 1988

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The Rt. Hon. Margaret Thatcher, MP.,
10 Downing Street,
LONDON SW1

27 April 1988

Dear Prime Minister,

We were grateful for the interest you took in all that you saw during your visit to Central on Friday.

As promised, I am enclosing a one page list of major action points and a short paper which sets out our thinking about ITV's approach to the future. The paper also includes some comments on Channel 4 and competitive tendering for franchises in response to your question on the two things we would not want to happen.

I would be delighted to amplify any of the points made in the paper.

Yours sincerely,

Leslie Hill

Leslie Hill
Managing Director



CENTRAL INDEPENDENT TELEVISION PLC

ITV - MAJOR ACTION POINTS FOR THE 1990's

1. THE ITV FEDERAL SYSTEM

Re-structure the 15-company ITV system so that there are no more than 6 equal sized companies.

2. REGULATION

Reduce programme scheduling regulations and constraints to provide greater viewer satisfaction and lower "cost per thousand viewers" for the benefit of advertisers.

3. ITN

Set up ITN to become a worldwide news service and profit earner. *ditto*

4. SPONSORSHIP

Relax restrictions on sponsorship.

5. FRANCHISE ALLOCATION AND PAYMENT

Base competitive tendering for franchises on the quality of programming offered after fixing a lump sum payment or percentage of revenue to represent the value of the franchise.

Free up ownership controls, so that ITV companies may be taken over, subject to certain specific safeguards. Speed-up franchise allocation process, and make hearings public.

27 April 1988

CENTRAL INDEPENDENT TELEVISION PLC

THE FUTURE OF ITV

Central is in the process of re-structuring its activities into a series of profit centres. In this way, groups of managers will respond to the market place, satisfy customers, and earn profit. Overall performance will be improved and growth achieved. For example, we will sell our production facilities both to independents and overseas producers.

Central has moved quickly to use independent producers and we are well set to achieve our proportionate share of IBA targets.

Central has identified its strengths and a number of new business developments are under consideration. Already we have set-up with American and French partners, a Los Angeles based company to develop, produce, and exploit world class film and television programmes for the international market. We are selling our programmes on video and commissioning special programming for video.

However, as part of the ITV federal system, Central is heavily constrained from operating as a normal commercial business. We would like to see the following changes:-

1. THE ITV FEDERAL SYSTEM

The 15-company system is expensive, bureaucratic, slow to make decisions and inward looking. It will not be sustainable through the next decade in its present form since it is not in a fit shape to take on competition in the nineties. It is unable to promote itself or schedule its programmes effectively enough, or promote its programmes properly. The solution is fewer companies. Some will argue that this will result in the destruction of ITV's great strength, its regional system. This need not be so. In fact, savings from the huge costs (see recent NERA report) of running the 15-company system could be directed towards increasing and enhancing regional and local interest programming.

2. REGULATION - PROGRAMMING AND SCHEDULING CONSTRAINTS

It is our intention to preserve quality and high programming standards. However, the programme schedule is currently subject to too many constraints, more, it sometimes seems, than the BBC, and certainly more than the new BSB satellite channels. One of the reasons for the "cost per thousand viewers" to the advertiser increasing so rapidly is ITV's declining audience. Fewer scheduling constraints could produce better audience ratings for the advertiser and more satisfaction for the majority of viewers.

It is not practicable for ITV companies to produce their own programme schedule totally divorced from the national network. The economics of running ITV companies and the need to compete for top artists looking for a national audience require a national network. A reduction in the number of ITV companies would mean that fewer, stronger companies could produce an improved network schedule.

3. ITN

We believe that ITN should become a worldwide news provider, aggressively marketing its service to international customers. To this end we would take the following steps:-

- a) Set up ITN as a profit centre with real commercial incentives.
- b) Finance it adequately from a limited number of the larger ITV companies or, if necessary, obtain outside finance, possibly by widening the ownership of ITN.
- c) Appoint an outside independent Chairman of ITN with no allegiance to any one ITV company.

We see ITN as having major growth prospects and would like it to be provided with the management and financial resources to achieve a UK based international news service, run on commercial lines.

4. SPONSORSHIP

We would welcome an easing of restrictions on sponsorship which would allow more sponsorship of programming including public service strands of programming. We would see this as a way of ensuring the survival of minority programming in a more commercial environment.

Turning to other current issues in the industry, we would like to make comments on two subjects:-

COMPETITIVE TENDERING FOR FRANCHISES

We do not think that franchises should be awarded to the highest bidder because:-

- a) It will not be possible to make a realistic estimate of the worth of an 8 or 10 year franchise in the early nineties.
- b) TV Contracts are interesting and glamorous. Those with deep pockets, but with no real commitment to quality programming, may bid highly for personal aggrandisement.
- c) It has and will remain extraordinarily difficult to hold a successful bidder to a programme remit, particularly if the financial going gets tough.
- d) Some of the winning bids may be too low, in which case the Exchequer will lose. Others will be too high, in which case resources devoted to programme making will decline. The entry of "highest bidders" into the ITV company federal system will cause further strains and the network could break down under these strains.

But the method of franchise allocation and payment can be improved. For example, payment for the franchise could be calculated as a lump sum by the Treasury, IBA, and merchant bankers, and reviewed every three years. Or alternatively, a new formula for calculating levy could be a percentage based on turnover, provided certain fixed levels of profit are also achieved. In conjunction with changes in payment for franchises, it would also be worth considering allowing the ITV companies to operate under the normal Stock Exchange discipline, i.e. the threat of takeover, although there would need to be some special safeguards.

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CHANNEL FOUR

Channel Four has satisfied its remit well and has been helped in this by its unique structure and method of financing. It has provided the viewer with more choice. If C4 is separated from ITV or privatised it is unlikely that the present programme service could be maintained since commercial pressures would inevitably weaken the programme remit.

The complete separation of Channel Four from ITV would, in any case, produce no real overall benefits. Operated separately its airtime would probably be sold nationally at premium rates, thus removing advertising revenue from the ITV companies, particularly smaller regional companies. At the same time the opportunities for the smaller first time advertiser, who can experiment with C4 on a regional and low cost basis, would be reduced.

Overall advertisers would gain nothing, since there would be no increase in total air time. The larger advertiser might be able to strike better deals with a nationally sold Channel Four versus Regional ITV. However, since the amount of airtime would remain the same, as probably would the total monies devoted to television advertising, the larger advertiser would benefit at the expense of the small advertiser. The case for the separation and/or the selling of C4 airtime separately, remains unproven, both in terms of benefit to the advertiser and the viewer.

GENERAL SUMMARY

Our overall vision of British television in the mid-nineties is:-

- a) Two BBC channels financed initially by the licence fee and carrying out the major public service broadcasting role. Subscription should be considered as an alternative to the Licence Fee.
- b) Channel Four developing its distinctive role without the need to seek high audience ratings.
- c) ITV as a genuine commercial broadcaster producing high quality programming but with less programme regulation, although still using its great regional strength to contribute news and local interest programmes. This would be achieved more effectively at lower cost through far fewer separate companies.

.../....

- d) A fifth channel could provide a subscription based movie channel, or alternatively an advertising financed service, filling the gap between regional and national TV. The use of Channel 5 needs to be looked at in the light of all new developments in British broadcasting and used to fill the greatest gap.
- e) Three BSB channels as already approved.
- f) ITN as a UK based provider of news to worldwide customers including, although not necessarily ITV and Channel Four.
- g) All services increasingly operating within the law as the primary regulator, rather than existing regulations which will come under strain as new channels develop.

Leslie Hill
27 April 1988