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THE RT. HON. THE LORD THOMSON OF MONIFIETH, KT, PC Chairman

CONFIDENTIAL

28 July 1988

Dear Douglas,

Levy in the extended ITV contract period

1 Thank you for your letter of 6 June.

2 We informed the ITV companies and BSB (as well as Channel 4 and S4C) of the contents of your letter before 30 June, the date set for the ITV area contractors to accept the extension of their franchises on a subject-to-contract basis. As you suggest, the legal formalities will take some time to resolve. It was particularly useful to have some illustrative figures on the sort of revenue-based levy you have been considering. I realise that the precise rates and bands of any revised levy would not be determined ahead of legislation, although a firm policy decision on the form of the levy between 1990 and 1992 will be taken within the next few months. However, I should draw your attention to the effects that uncertainty about the Government's intentions is already beginning to have in the industry.

3 In addition to notifying the ITV companies and BSB of your proposals, we have sought their views. The purpose of this letter is to let you know the companies' response as well as our own. Despite our different standpoints - the IBA as regulator and levy administrators, the contractors as public companies and programme makers - there is a considerable amount of common ground between us.

The IBA view

(a) ITV and the fourth channel

4 The degree of monopoly of television advertising which ITV presently enjoys will be reduced significantly in 1989 with the launch of the BSB and Astra satellite services (to be followed by other new services both terrestrial and satellite). I accept that it will take some time for new services to become fully competitive with the established position of ITV in the market place but the result must be that ITV monopoly profits will diminish and then disappear. Levy can no longer be regarded as a permanent feature of the landscape: the point beyond which it cannot be justified will need to be monitored and judged with care.

5 In the meantime, the form of the levy is of great importance. The problem with profit-based levies is that, when they involve high marginal rates, they are held to undermine cost consciousness. I recognise the force of that argument. But the problem with levies based upon advertising revenue (NAR) is that they impose as much downward pressure on the high programme costs involved in news, documentaries and good quality drama - including the substantial support which ITV gives to the struggling British film industry - as they would in relation to some costly, inflexible and indefensible manning agreement. These latter problems can be and are being tackled by the ITV companies in ways that do not jeopardise good quality diverse programming.

6 Revenue-based levies would not be so threatening to programme production, and therefore to the service we provide to viewers, if advertising revenue moved broadly in step with profits - either as between one ITV company and another, or from one year to the next. However, this is not the case, as is demonstrated in the confidential note at Annex 1 attached which is derived from the illustrative figures contained in Annex A to your own letter.

7 The main points to arise from the analysis in Annex 1 are:-

(i) Your illustrative NAR-based levies would differ very substantially in the impact they would have from one ITV company to another. They would however strike at the production base of the industry because the five major companies which are currently responsible for about 85% of the network programmes (including programmes commissioned from independent producers) would be particularly badly hit.

(ii) If revenue growth falls relative to cost, then the burden of revenue-based levies is accentuated, quite possibly to the point at which substantial levy is payable even in the presence of trading losses. Annex 1 shows circumstances in which 8 of the 15 ITV companies would be incurring losses and yet these would be paying levy of some £120m. It was indefensible anomalies of this kind which brought to an end the NAR-based levy which operated up to 1974. Inflation rates were higher then, but this is not central to the problem. It is the relative movement of revenue and cost which does the damage. Given the downward pressure which will be placed on ITV revenues in 1993 and beyond, as new services come on stream, we do not believe that a revenue-based levy could survive into the middle 1990s. It must be regarded as a short life measure. A profit-based levy, or a mixed levy based partly on NAR and partly on profit, would have the necessary resilience to extend beyond 1992.

8 You will see from Table 5 of Annex I that, even on favourable assumptions about revenue and cost movements, your illustrative revenue-based levies would increase the levy liability of the five major production companies by between 43% and 80%. For one company, levy liability would double in your lowest yield option, and increase by two and a half fold in the highest yield case. This would reduce the company's profit from £35m in 1990/91 to between £19m and £12m.

9 The announcement of new levy structures which would have consequences of this magnitude would lead to the most striking deterioration in stock market confidence in ITV, and in the value of their shares. If, in these circumstances, the companies' efforts to reinstate profitability were to be focussed on the need to secure greater efficiency, then even so harsh a change might have merit. But this is not what would happen. Changes of this magnitude and at such short notice (bearing in mind the gestation period for programme production) must strike at programme budgets. The companies would be under considerable financial pressure to focus narrowly on low-cost popular programme types, including imported material. There would be substantial resistance to the production of higher cost British drama and film, documentaries, or to meeting the proper costs of ITN and the fourth channel.

10 It would be unreasonable to impose such radical change in an extended contract period and at short notice.

11 We have experimented with some different forms of revenue-based levy to see if the problems referred to above could be alleviated. For example, in order to soften the impact on the companies we examined a NAR-based levy without a progressive rate structure, i.e. a system with just a free slice and a single rate. We found, however, that modifications of this kind still left intact over 90% of the increased levy liability which fell on the major production companies.

12 Another option, which - if Parliament were to decide on a NAR-based levy - we would strongly support, is that fourth channel subscriptions should be allowed as a deduction from NAR with only the net figure subject to a revenue-based levy. Under the Broadcasting Act, the ITV companies have to pay a subscription in return for the rights to advertise on the fourth channel; Channel 4 is an efficient, low-cost operation with an important programme remit which caters for specialised and minority audiences. The fourth channel subscription also meets the cost of S4C which (bearing in mind that the case for Welsh language broadcasting has never been a financial one) will always impose a net cost on ITV. There might be a case for some exemption of other special activities e.g. support for the Open College.

13 We do, however, find it impossible to see how a wholly NAR-based levy could avoid considerable damage to programme quality and range if it were to yield as much as, let alone more than the existing profits-based levy because it redistributes it in such a way as to have most impact on those who are obliged to produce most of the system's programmes.

14 At the same time I recognise the pressures which exist in the Public Accounts Committee (PAC) for some increase in the levy yield. One option to meet that concern could be a mixed part-NAR, part-profit-based levy. For example, initial modelling, on much the same illustrative basis as your own, indicates that if the existing levy rate of 45% on domestic profits were reduced to the 22.5% rate on overseas profits (so as to give 22.5% across the board), then an additional revenue-based component at about 7%, after allowing for an initial free slice, would give a yield equal to the pre-1986 levy. The principal features would be:-

(i) the introduction of the revenue principle;

(ii) a 50% reduction in the higher marginal levy rate on profits;

(iii) a yield of the kind for which the PAC is likely to press;

(iv) a substantially increased emphasis on cost-consciousness, but with much less risk to programme quality and diversity;

(v) scope, at a later date, if this were considered appropriate, for changing the balance between the revenue and profit components.

15 In summary:

(i) We have no doubt that a high yielding revenue-based levy would lead to a deterioration in programme quality, and in the period 1990 to 1992 that would be a major setback for commercially financed independent television.

(ii) The middle 1990s will see radical change and expansion in commercially financed broadcasting. That will bring in its wake great opportunities as well as risks.

(iii) With skillful management the end of the century will see more and better commercially financed broadcasting than ever before, but that will be jeopardised by a false start if, in the important transitional years between 1990 and 1992, there is a substantial deterioration in programme standards.

(iv) It would be unreasonable to impose such a radical change as a move to a high-yielding revenue-based levy in an extended contract period and at short notice.

(v) If Parliament decides a change is necessary, a move to a mixed NAR/profit based levy would better balance the sometimes conflicting objectives of broadcasting, efficiency and levy yield.

(b) <u>BSB</u>

16 I have dealt so far with ITV, but your letter also referred to BSB. There are three main points here. The first is that at no stage in its existence will BSB enjoy a monopoly profit from television advertising.

17 Secondly, even with a zero rate in the period 1990-1992, the possibility of future levy liability on a NAR basis (which takes no account of profitability) would be particularly damaging to this bold venture as it approaches the period of greatest commercial risk. Given that, in all probability, a wholly NAR-based levy cannot survive beyond the ITV extended contract period, the best course would be to omit BSB from short life legislation.

18 Thirdly, if in principle DBS were to be brought within the scope of a revenue-based levy, it would be indefensible to omit other UK based services broadcast on lower-powered satellites such as Astra. These will carry advertising and could provide strong competition for BSB. It may well be possible for the operators of lower-powered satellite services to put themselves outside the reach of UK taxation, but any levy legislation should be even-handed. The simplest course would be to omit satellite broadcasting of all forms from a revenue-based levy.

(b) <u>Industry consultation</u>

19 I now turn to the views of the ITV contractors. We have had full discussions at meetings with the Managing Directors on 12 and 21 July. They were greatly concerned at the possibility of a wholly revenue-based levy at the sort of yields envisaged in your illustrative figures. Even those who would do relatively well out of such a change recognise the damage to the system as a whole which would be caused by a levy which struck at the industry's production base.

20 If there had to be a revenue-based levy, then the companies would like to see it take a form which did not increase the relative burden on those companies which make and commission most of the network programmes. In this context, the companies would argue for the fourth channel subscription to be treated as a prior deduction from revenue so that levy was charged only on the net amount. Channel 4 have also argued strongly for this approach. There might well be a case for other deductions.

21 The companies consider that levy should remain on a profit basis which they regard as equitable, and which provides the best balance between their commercial and their broadcasting obligations.

22 As regards the yield of the levy, while the companies too recognise the sort of pressures which exist in the PAC for some increase, they believe that the Committee does not take into account the many millions of pounds that have been diverted from that yield to create and sustain Channel 4 and S4C. In spite of that, having got Channel 4 right, the yield is increasing and will continue to increase with the system's profitability.

23 In the course of discussion the following further points were made:-

(i) The companies had been prepared to face competition for new eight year contracts with effect from the 1st January 1990. They had, all along, expressed mixed views and reservations about the desirability and length of the contract extension which had been introduced to meet the needs of Government rather than those of the industry.

(ii) The companies must face the extended contract period essentially with their existing infrastructure, and the changes introduced in this period should therefore be minor rather than major and radical. The new contract period starting on 1 January 1993 would be the right moment to introduce major fiscal change.

(iii) Nearly all the ITV contractors have become public companies in recent years. They are already tackling industrial relations reform in a vigorous way (although in the short-term this involves the extra costs of redundancy etc). They are also adjusting production capacity to cope with access by independent producers, and the networking arrangements are in the process of reform. There is a limit to the amount of major change that can be absorbed at any one time without damage to investors' confidence, or the quality of the service provided to viewers. A radical change in the form of the levy at this stage and/or an increased yield on the scale recommended by the PAC, could have a disastrous effect on the market capitalisation of ITV companies, and consequently on their programme plans, their capital expenditure, their support of independent producers and their encouragement of the UK film industry.

(iv) The period of notice for a levy change which would become effective in January 1990 is too short. Many of the more expensive programmes take over a year to produce, and commitments have already been made on the basis that the production costs will attract levy relief when the programmes are actually transmitted in 1990 and beyond. This applies particularly strongly to the support given to feature films which have a three year period of cinema release before they are televised. Apart from the considerable equity problem this raises, the reconstruction of programme budgets, including programme cancellations, would begin as soon as a change in levy were announced. The present uncertainty is already producing cancellations and charges.

(v) The companies believe that the statements made by Mr. John Nott (the Treasury Minister) and Sir John Eden (the Minister of Posts and Telecommunications) when the end of a NAR-based levy was announced on 31 January 1974, apply just as forcefully today. (Hansard vol. 868 No. 54).

(c) BSB

24 We have also consulted BSB who share the IBA views expressed earlier. BSB have, however, laid particular stress on the following points:

(i) A revenue-based levy would lead to inequitable and capricious results between different contractors.

(ii) BSB will operate in a highly competitive environment from the outset.

(iii) The DBS venture involves investment in the order of £625m. The operating period needed to see this investment repaid is a lengthy one.

(iv) BSB investors need an assurance that levy would not be introduced at a positive rate before cumulative breakeven had been achieved, and this must necessarily be beyond 1992.

(v) Operators on Astra and Eutelsat will see the UK as amongst their prime target markets. A levy on BSB which was not extended to these other operators, or which did not recognise the major differences in start-up costs between them, would introduce a gross distortion in competition.

25 I have written at length, since the issues you have raised are of fundamental importance to the quality of the programme services which commercial television will be able to provide over the coming years. I hope that, before final decisions are taken, there will be an opportunity for us to meet and to discuss these issues further, perhaps on the basis of additional modelling carried out jointly by our respective officials.

Yours sincerely,

George

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COMPARATIVE ANALYSIS OF NAR AND PROFIT BASED LEVIES IN ITV

COMPARATIVE ANALYSIS OF NAR AND PROFIT BASED LEVIES IN ITV

SUMMARY AND CONCLUSIONS

1. The starting point for this note is Annex A to the Home Secretary's letter of the 6th June to Lord Thomson. This set out estimated total levy yields of four illustrative revenue (NAR) based levies, the existing profits based levy, and the pre-1986 profit based levy.

2. The following analysis:-

   (i) reviews the numerical model which the Home Office have used to make their estimates;

   (ii) shows the impact of the illustrative levy options on the individual ITV companies.

3. The main conclusions are:-

   (i) Home Office figures for the yield of the existing and pre-1986 profit based levies are over stated by about 10%.

   (ii) Had the yields for the profit based levies been more accurately stated, then the yields of the four illustrative NAR based levies would probably have been pitched 10% lower.

   (iii) Projections into the early 1990s which are based on the latest NAR and cost figures for 1987/8 are probably better than averages over the three years 1985/6 to 1987/8.

   (iv) The Home Office illustrative figures for NAR based levies would shift the burden of levy so as to take more levy from the larger companies which make or commission most of the expensive network programmes.

   (v) The relationship between profit and revenue (ie, the profit margin) varies considerably between one ITV company and another.

   (vi) The introduction of a NAR based levy would cause major disturbance in the cost and profitability of a number of ITV companies, including most of the larger ones. TV-am would be the main beneficiary.

(vii) NAR based levies respond poorly to a squeeze on profitability which arises from different growth rates for revenue and cost. This is not simply a phenomenon associated with high rates of inflation.

(viii) A NAR based levy is a limited life option which would not last beyond the three year extended contract period from 1990 to 1992. A longer life would lead to significant risk of substantial levy liability being associated with trading losses.

(ix) A profit based levy or a mixed profit/NAR based levy could, if necessary, survive until the competitive environment of the middle 1990s eliminated any remaining monopoly profit in ITV.

(x) The illustrative NAR based levies would depress the profits of some companies very substantially. It is inconceivable that these companies would not seek to reinstate their profitability by cutting costs, and this must include programme budgets. The lower programme expenditures would be visible on the screen.

THE HOME OFFICE MODEL

The Free Slice

4. All numerical modelling involves simplification, and therein lies both the strength and the weakness of the approach.

5. The main problem with the Home Office model is that when calculating the yield for the two profits based levies it was assumed that the free slice is fixed for each ITV company instead of being the greater of £1m (at 1990/91 prices) or 2.8% of net advertising revenue (NAR). A more accurate approach reduces the yield of the profit based options by about 10%, ie, from £133m to £120m for the existing levy, and from £177m to £158m for the pre-1986 levy.

6. Had the Home Office been aware of these adjustments, doubtless they would have pitched the yield of their illustrative NAR based levies at about 10% lower. For comparative purposes however an adjustment of this kind has not been made in the following tables.

7. Table 1 shows the impact of the various illustrative levy options as they would affect each of the fifteen ITV companies after adjusting the free slice. In order to reduce the amount of figuring however, only the highest (B1:R1) and the lowest (B2:R2) of the four NAR based levy options have been shown.

The Base Period

8. The starting point for the Home Office assumptions was NAR and profit averaged over the three years 1985/6, 1986/7 and estimated results for 1987/8. This averaging approach is probably more satisfactory for profits and costs than it is for NAR. Later information for 1987/8 is now available, and Table 2 shows what changes in revenue and costs (and hence profit) would have to take place between 1987/8 and 1990/91 if the Home Office working assumptions were to prove correct.

9. On average, over the three year period between 1987/8 and 1990/91 there would have to be an annual growth in advertising revenue of only 2.2%, and annual growth in ITV costs of only 0.3% both measured in real terms. These figures must surely be too low.

10. A better course is therefore to take the most recent figures for 1987/8 (which were not available when the Home Office made their calculations) and use them as the basis for producing estimated 1990/91 figures. The results of this alternative approach are set out in Table 3.

THE IMPACT OF THE ILLUSTRATIVE LEVY OPTIONS
ON INDIVIDUAL COMPANIES

The Relationship Between Profit And NAR

11. If, within ITV, there were a stable relationship between profit and NAR then it should be possible to move from a profit to a NAR based levy without too much disruption. Table 4 shows for each ITV company the levy payable on the existing profit based system, as shown earlier in Table 3, but expressed as a percentage of NAR.

12. It can be seen from Table 4 that for the industry as a whole the yield of the existing profit based levy accounts for rather less than 9% of NAR. For the five major and the five large regional companies the figure is just over 8.5% of NAR, while for the five small regional companies it is much lower at 4.6%.

13. Within the three groups however there are very substantial differences between one company and another. Starting with the major companies, which produce or commission most of the network programmes, Central Television pays 6.57% of its NAR in levy, while Granada pays very much more at 11.34%. Within the large regional companies HTV pays 6.88% of its NAR in levy while Anglia pays much more at 9.48%. The disparity within the smaller regional companies is even greater ranging from 0.21% for Border to 6.33% for TSW. Finally, TV-am pays as much as 18.86% of its revenue in levy; very much more than any other company.

14. These disparities are not surprising bearing in mind the different obligations of network and regional contractors; the existence of dual regions; a weekend only contractor in London;

and a national breakfast service. But whatever the reasons, there is not a close correlation between revenue and profit as between one ITV company and another. The conclusion must be therefore that a revenue based levy that produces a levy yield equal to, or greater than, the existing profits based levy cannot be introduced without causing considerable disruption to costs and profitability at the individual ITV company level.

A NAR Basis Shifts The Levy Burden Between Companies

15. The scale of the disruption is illustrated in Table 5. This is derived from Table 3 and shows the percentage increase or decrease in yield which would occur for the two NAR based options, and the pre-1986 levy, compared with the existing profit based levy. For example, the highest yielding of the NAR based options (B1:R1) would increase the industry's levy yield by 55.7%, but the increase for the five major companies would be much higher at 80.3%. The increase for the large regional companies would be much smaller at 44.3%, while there would actually be a levy reduction of 12% for the small regional companies.

16. In other words, the illustrative NAR based options shift the burden of levy so as to fall more heavily on the major companies which currently provide over 85% of the expensive network programmes (ie, they either make these programmes themselves or commission them from independents). Despite the reform of the networking arrangements these companies are likely to supply a very large proportion of the network programmes for the foreseeable future. It might be possible to design a NAR based levy which did not shift the burden between groups of companies in quite such a marked way, but the disparities between individual companies within each group cannot be removed by modifying the bands or rates of a revenue based levy. This is an inescapable and damaging feature of NAR based levies.

17. For example, Table 5 shows that, under NAR based option B1:R1, TV-am (which provides a popular national breakfast service) would see its levy fall by 48.1%, while Central Television (which has a dual franchise involving separate studios and separate local programming for the East and West Midlands, which makes a major contribution to expensive and high quality network programming, and which has a strong export performance) would see its levy bill rise two and a half fold from £15m to £38m.

18. The problem is that a NAR based levy applies a single free slice and rate structure to all contracts no matter how different they may be in relation to, for example, size; whether their coverage is regional or national; governed by time of day or time of week; the prosperity of the region; or programming and dual region obligations.

The Relative Growth Of NAR And Costs

19. The analysis so far has been in terms of the disturbance which the introduction of a NAR based levy would create between one ITV company and another. But differential movements over time between the growth of NAR, costs and therefore profit are also important.

20. Table 6 shows levy yields for ITV as a whole on three different sets of assumptions about the growth of revenue and costs (and hence profits). The first assumption consists of 6% annual NAR growth in real terms and 3% annual real growth in costs, ie, the Home Office assumptions which were used as the basis of Table 3. The highest yield revenue based levy option (B1:R1) would lead to a 55.7% increase in levy for ITV as a whole compared with the existing system, while B2:R2 would give a 20.4% increase.

21. The second set of figures are based upon a lower NAR growth rate of 5.0%, with costs growing by 3.0%, ie, equally plausible assumptions, but involving a narrower gap between revenue and costs and thereby lower profitability. The figures in Table 6 show that the yield of the existing profits based levy would be much more responsive to this lower profitability than would the NAR based options. Option B1:R1 would now produce 73.8% more than the existing levy while B2:R2 would yield 33.8% more.

22. The final set of figures in Table 6 is based upon no real growth in NAR, but a 1.5% annual real increase in costs. This may be an unlikely scenario within the extended ITV contract period from 1990 to 1992, but would not be at all unlikely during the middle to later 1990s when competition for revenue from new broadcast services both terrestrially and by satellite is likely to become intense and yet the demand for additional programming will be strong. Again, the yield of the existing levy drops sharply to reflect falling profit, but for the NAR based variants the adjustment is very much smaller. As a result, the levy yield for the NAR based option B1:R1 is more than three times as high as the yield of the existing levy, while even for B2:R2 it is substantially more than twice as high.

23. The conclusion to be drawn from Table 6 must surely be that, at best, a NAR based levy could only be a short life option to cover the three year extended contract period. It could not survive into the more competitive broadcasting environment of 1993 and beyond without giving rise to indefensible anomalies.

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The Impact On Profits

24. Finally, Tables 7 to 9 show the effect on ITV profitability of the three sets of NAR and cost growth assumptions which were used in Table 6.

25. Table 7 shows that the highest NAR based levy option B1:R1 involves a reduction in profit for ITV as a whole of £83.5m (or 32%). Some £69.8m (a fall of 45%) of this is attributable to the five major companies which make or commission most of the network programmes. At the individual company level, the fall in profit for Central alone would be over £23m (or 66%), while, at the other end of the spectrum, TV-am's profit would actually be increased by £6.1m (35%).

26. Tables 8 and 9 show that, as profit falls in the face of tighter margins, the damage to profits caused by NAR based levies increases very markedly. Indeed, for option B1:R1 in Table 9 it can be seen that eight of the fifteen companies (including four of the five majors) are driven into trading losses, and yet these same eight companies would between them be incurring a levy liability of some £128m. This is, to say the least of it, an anomalous situation, bearing in mind that the main purpose of levy is to deal with excess monopoly profit! It was anomalies of this kind which put an end to the previous generation of NAR based levy which operated in the decade up to 1974.

27. Even setting aside the bleak outlook reflected in Table 9, public companies faced with the sort of sudden and substantial increases in levy liability which NAR based levies would involve from January 1990, cannot be expected to react simply by acquiescing to a reduction in their profit or by rapidly increasing their efficiency. There are now daily reports of efficiency improvements in ITV, and the momentum of reform has taken hold, but this is not a process that can be accelerated at will. It is inconceivable - especially in the short-term of a year or two - that the sort of sharply increased levy liabilities referred to above would not lead to reductions in programme expenditure, quality and diversity of a kind which would be all too obvious on the screen. In the climate of the early 1990s it would be an attractive strategy for companies under commercial pressure to focus on a relatively narrow range of inexpensive but very popular programming. Faced with commercial pressures as powerful as this no regulator can sustain programme quality. Independent television involves a balance between commercial and public service broadcasting objectives. The regulator must work with the grain of commercial realities; he cannot meet commercial pressure head-on and hope to prevail.

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TABLE 1

Estimated Yields In 1990/91 From NAR And Profit Based Levies

(Using The Home Office Assumptions)

££m at 1987/8 Prices

Band/Rate Structure	B1:R1	B2:R2	Existing Basis	Pre-1986 Basis
	££m	££m	££m	££m
Thames	37.0	30.0	18.3	23.2
Central	32.5	25.9	12.1	12.6
Granada	23.8	18.1	17.8	25.0
LWT	24.2	18.4	12.1	15.4
Yorkshire	17.9	13.5	8.7	12.1
	135.5	105.9	69.0	88.4
TVS	23.1	17.4	13.9	19.1
HTV	10.7	8.3	5.8	5.2
Scottish	9.3	6.9	7.8	11.5
Anglia	9.4	7.0	7.2	9.6
Tyne Tees	5.1	3.1	3.6	4.9
	57.6	42.7	38.3	50.2
TSW	2.1	0.9	2.2	3.2
Ulster	0.7	-	1.0	1.5
Grampian	0.6	-	0.9	1.3
Border	-	-	0.1	0.1
	3.4	0.9	4.1	6.1
TV-am	4.4	2.4	8.7	12.8
TOTAL	200.8	151.9	120.1	157.6

TABLE 2

Required Changes In 1987/8 NAR And Costs To Achieve Home Office Figures for 1990/1

	Annual Real Change In NAR	Annual Real Change In Costs
	%	%
Thames	2.4	0.7
Central	1.2	(0.2)
Granada	1.3	(1.1)
LWT	3.6	1.3
Yorkshire	2.3	1.0
	2.1	0.2
TVS	1.7	(0.7)
HTV	3.0	1.3
Scottish	3.8	0.6
Anglia	1.5	(0.1)
Tyne Tees	3.7	3.2
	2.5	0.5
TSW	3.3	0.7
Ulster	3.7	0.4
Grampian	5.4	2.3
Border	3.7	-
	3.9	0.9
TV-am	(2.2)	(2.1)
TOTAL	2.2	0.3

TABLE 3

Estimated Yields In 1990/91 From NAR And Profit Based Levies

(Assuming Annual Growth of 6% in NAR, 3% in Costs From 1987/8)

££m at 1987/8 Prices

Band/Rate Structure	B1:R1	B2:R2	Existing Levy Basis	Pre-1986 Basis
	££m	££m	££m	££m
Thames	42.02	34.47	23.28	30.62
Central	38.49	31.29	15.44	16.47
Granada	26.10	20.14	19.62	28.33
LWT	29.12	22.85	16.42	22.22
Yorkshire	20.92	15.59	12.15	17.29
	156.65	124.35	86.90	114.93
TVS	27.25	21.17	16.31	22.89
HTV	12.15	9.45	7.11	7.68
Scottish	10.10	7.69	7.98	11.82
Anglia	11.20	8.72	9.29	12.89
Tyne Tees	5.71	3.60	5.33	7.69
	66.41	50.64	46.01	62.96
TSW	2.39	1.11	2.46	3.64
Ulster	0.85	0.00	0.99	1.47
Grampian	0.61	0.00	0.90	1.33
Border	0.00	0.00	0.02	0.03
	3.85	1.11	4.37	6.47
TV-am	6.57	4.40	12.66	18.72
TOTAL	233.47	180.50	149.95	203.07

TABLE 2

Required Changes In 1987/8 NAR And Costs To Achieve Home Office Figures for 1990/1

	Annual Real Change In NAR	Annual Real Change In Costs
	%	%
Thames	2.4	0.7
Central	1.2	(0.2)
Granada	1.3	(1.1)
LWT	3.6	1.3
Yorkshire	2.3	1.0
	2.1	0.2
TVS	1.7	(0.7)
HTV	3.0	1.3
Scottish	3.8	0.6
Anglia	1.5	(0.1)
Tyne Tees	3.7	3.2
	2.5	0.5
TSW	3.3	0.7
Ulster	3.7	0.4
Grampian	5.4	2.3
Border	3.7	-
	3.9	0.9
TV-am	(2.2)	(2.1)
TOTAL	2.2	0.3

TABLE 3

Estimated Yields In 1990/91 From NAR And Profit Based Levies

(Assuming Annual Growth of 6% in NAR, 3% in Costs From 1987/8)

££m at 1987/8 Prices

Band/Rate Structure	B1:R1	B2:R2	Existing Levy Basis	Pre-1986 Basis
	££m	££m	££m	££m
Thames	42.02	34.47	23.28	30.62
Central	38.49	31.29	15.44	16.47
Granada	26.10	20.14	19.62	28.33
LWT	29.12	22.85	16.42	22.22
Yorkshire	20.92	15.59	12.15	17.29
	156.65	124.35	86.90	114.93
TVS	27.25	21.17	16.31	22.89
HTV	12.15	9.45	7.11	7.68
Scottish	10.10	7.69	7.98	11.82
Anglia	11.20	8.72	9.29	12.89
Tyne Tees	5.71	3.60	5.33	7.69
	66.41	50.64	46.01	62.96
TSW	2.39	1.11	2.46	3.64
Ulster	0.85	0.00	0.99	1.47
Grampian	0.61	0.00	0.90	1.33
Border	0.00	0.00	0.02	0.03
	3.85	1.11	4.37	6.47
TV-am	6.57	4.40	12.66	18.72
TOTAL	233.47	180.50	149.95	203.07

TABLE 4

Levy On The Existing Basis As Shown In Table 3 As A Percentage Of NAR

	%
Thames	9.22
Central	6.57
Granada	11.34
LWT	8.73
Yorkshire	8.26
	8.73
TVS	9.12
HTV	6.88
Scottish	8.80
Anglia	9.48
Tyne Tees	8.68
	8.65
TSW	6.33
Ulster	4.22
Grampian	4.26
Border	0.21
	4.62
TV-am	18.86
TOTAL	8.88

TABLE 5

Percentage Increase (Decrease) In Levy As Shown In Table 3 Compared With The Existing Levy

Band/Rate Structure	B1:R1	B2:R2	Pre-1986 Basis
	%	%	%
Thames	80.5	48.1	31.5
Central	149.3	102.7	6.7
Granada	33.1	2.7	44.4
LWT	77.4	39.2	35.4
Yorkshire	72.1	28.3	42.2
	80.3	43.1	32.2
TVS	67.1	29.8	40.4
HTV	70.9	33.0	8.1
Scottish	26.6	(3.6)	48.2
Anglia	20.6	(6.1)	38.7
Tyne Tees	7.2	(32.5)	44.3
	44.3	10.1	36.8
TSW	(2.9)	(54.9)	47.8
Ulster	(14.3)	(100.0)	48.2
Grampian	(32.3)	(100.0)	48.1
Border	(100.0)	(100.0)	48.2
	(12.0)	(74.6)	47.9
TV-am	(48.1)	(65.3)	47.8
TOTAL	55.7	20.4	35.4

TABLE 6

Levy Yields And Indices For The Industry As A Whole In 1990/91

On Varying NAR And Cost Growth Assumptions

Band/Rate Structure	B1:R1	B2:R2	Existing Levy	Pre-1986 Levy
6% NAR Growth 3% Costs (as in Table 3)	£233.5m 155.7	£180.5m 120.4	£150.0m 100.0	£203.1m 135.4
5% NAR Growth 3% Costs	£224.7m 173.8	£173.0m 133.8	£129.3m 100.0	£172.5m 133.4
0% NAR Growth 1.5% Costs	£184.2m 327.2	£137.8m 244.8	£56.3m 100.0	£69.9m 124.2

Note: Levy yields are shown at 1987/8 prices.

TABLE 7

Estimated Post Levy Profits In 1990/91
For NAR And Profit Based Levies
(Assuming Annual Real Growth Of 6% In NAR, 3% In Costs From 1987/8)

££m at 1987/8 Prices

Band/Rate Structure	B1:R1	B2:R2	Existing Basis	Pre-1986 Basis
	££m	££m	££m	££m
Thames	22.61	30.17	41.36	34.02
Central	12.00	19.20	35.05	34.01
Granada	23.46	29.42	29.94	21.23
LWT	15.79	22.05	28.49	22.69
Yorkshire	11.30	16.63	20.07	14.93
	85.16	117.46	154.91	126.88
TVS	15.92	21.99	26.86	20.28
HTV	10.82	13.51	15.86	15.28
Scottish	10.17	12.58	12.29	8.45
Anglia	13.51	15.99	15.42	11.82
Tyne Tees	8.17	10.28	8.55	6.19
	58.58	74.35	78.98	62.02
TSW	4.18	5.46	4.11	2.94
Ulster	2.35	3.20	2.21	1.73
Grampian	2.39	3.00	2.10	1.67
Border	1.05	1.05	1.03	1.02
	9.98	12.71	9.45	7.35
TV-am	23.53	25.70	17.44	11.38
TOTAL	177.25	230.22	260.77	207.64

TABLE 8

Estimated Post Levy Profits In 1990/91

For NAR And Profit Based Levies

(Assuming Annual Real Growth Of 5% In NAR,

3% In Costs From 1987/8)

££m at 1987/8 Prices

Band/Rate Structure	B1:R1	B2:R2	Existing Basis	Pre-1986 Basis
	££m	££m	££m	££m
Thames	16.95	24.36	37.37	31.53
Central	6.73	13.79	31.35	31.70
Granada	19.58	25.44	27.21	19.52
LWT	11.57	17.73	25.53	20.83
Yorkshire	8.00	13.08	17.75	13.48
	62.83	94.40	139.20	117.06
TVS	11.91	17.88	24.04	18.51
HTV	8.50	11.02	14.23	14.27
Scottish	8.01	10.39	10.86	7.56
Anglia	11.17	13.63	13.88	10.86
Tyne Tees	6.70	8.80	7.58	5.58
	46.30	61.72	70.58	56.78
TSW	3.20	4.16	3.50	2.55
Ulster	1.76	2.54	1.85	1.51
Grampian	1.86	2.41	1.77	1.47
Border	0.74	0.74	0.74	0.74
	7.56	10.15	7.86	6.28
TV-am	21.93	24.08	16.38	10.72
TOTAL	138.61	190.36	234.03	190.84

TABLE 9

Estimated Post Levy Profits In 1990/91

For NAR And Profit Based Levies

(Assuming Annual Real Growth Of 0% In NAR,

1.5% In Costs From 1987/8)

£m at 1987/8 Prices

Band/Rate Structure	B1:R1	B2:R2	Existing Basis	Pre-1986 Basis
	£m	£m	£m	£m
Thames	-1.20	5.54	23.29	22.63
Central	-9.38	-2.93	19.03	21.57
Granada	6.67	11.89	17.31	13.27
LWT	-1.90	3.76	15.06	14.22
Yorkshire	-2.53	1.38	9.57	8.32
	-8.34	19.63	84.25	80.02
TVS	-1.01	4.49	14.03	12.19
HTV	0.73	3.10	9.23	10.23
Scottish	0.84	3.10	5.78	4.35
Anglia	3.42	5.74	8.38	7.38
Tyne Tees	1.87	3.88	4.15	3.42
	5.85	20.31	41.57	37.58
TSW	-0.04	1.12	1.41	1.26
Ulster	-0.16	0.31	0.31	0.31
Grampian	0.13	0.40	0.40	0.40
Border	-0.30	-0.30	-0.30	-0.30
	-0.37	1.52	1.82	1.67
TV-am	15.98	18.04	12.26	8.13
TOTAL	13.11	59.51	139.89	127.40

ANNEX

A) REVENUE ELEMENT

NAR	Rate
£m	%
0-15	0
15+	10

B) PROFITS ELEMENT

Profits (after deduction of revenue levy)	Rate
£m	%
0-1 (or 2.8% whichever is greater)	0
1+	25

Note 1 Rate applies equally to domestic and overseas profits

Note 2 Fourth Channel subscription included as now in expenditure relevant for levy purposes, but calculated as percentage of NAR before revenue levy

C) ESTIMATED YIELD IN 1990-91

£206m, compared to £203m ,under pre-1986 scheme

Note: assumes 6% real annual growth in NAR, 3% on costs from 1987-88 actual figures as set out in IBA letter of 28 July

<ak>sub/smith/bann/itv/levy/5/9/enclA