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Treasury Chambers, Parliament Street, SW1P 3AG
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17 October 1988

The Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Department
Home Office
Queen Anne's Gate
LONDON SW1H 9BW

*NBPM at the
stage*

REC 19/10

Dear Secretary of State

ITV LEVY FOR CONTRACT EXTENSION PERIOD

Thank you for your letter of 17 September, which covered a copy of the IBA's reply of 28 July. I have also seen Peter Walker's letter of 27 September and David Young's letter of 10 October. *FILE WITH PG*

The IBA accept that a revenue levy would promote cost consciousness, but oppose it on other grounds. You drew my attention to two particular difficulties. First a move away from a levy on profits would redistribute the burden of the levy between companies. In practice, there does not seem to be much to choose between the revenue levy arrangements which you put to the IBA and their own mixed levy proposals. And to the extent that the change in burden reflects differences in efficiency, that is fully justifiable. Insofar as it reflects the distribution of costs imposed by the IBA, the remedy lies in the hands of the IBA and ITV companies who could improve the distribution by ensuring the costs of programming are fairly shared between the ITV companies.

Second, you suggest there will be a variety of pressures on ITV companies to reduce costs and, if a straight revenue levy is introduced, programme standards may be cut. I agree that if the ITV companies were to adopt a strategy which created dissatisfaction in the period before wider choice becomes available, there would be cause for concern. But it seems unlikely that any commercial television station would find it profitable to drop programme standards in a way which resulted in lower viewing figures.



I do not therefore find the arguments against a revenue levy convincing. Consequently I continue to favour doing as much as we can to encourage efficiency in the television industry, by adopting a straight revenue levy.

There are two related issues raised in the correspondence. Peter Walker has suggested that subscriptions to the fourth channel should be allowed for when calculating liability for revenue levy, and I am content with that. On BSB, I would hope the current arrangements under which they are subject to levy at nil rate could be continued. This would maintain the principle that television channels broadcast over scarce spectrum are subject to levy, without damaging the prospects of BSB earning a return on their investment.

I am copying this letter to the recipients of yours.

Yours sincerely,

Moir Wallace

PP NIGEL LAWSON

Approved by the Chancellor
and signed in his
absence.

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