

MISC 128: CHANNELS 3, 4 & 5

At the time Cabinet approved the setting-up of Channel 5, the DTI noted that it would involve a once-for-all cost associated with the re-allocation of channels within the radio spectrum.

The DTI's best estimate for that cost is £100m: with the re-adjustment of video-recorders being a significant element in the total.

The Treasury have rightly asked the question, "Who pays?" In principle the cost could be allocated to four different groups:

- (a) the Exchequer;
- (b) TV licence holders or owners of video recorders;
- (c) applicants for the C3 and C5 franchises;
- (d) the broadcasting industry as a whole;
- (e) some combination of the above.

The Treasury propose option (c), (ie a non-returnable fee would be charged to all those bidding for C3 and C5 licenses) not because they consider it ideal, but because they cannot think of a better.

The DTI are right to emphasise the weakness of this scheme: it would be a major disincentive for companies to

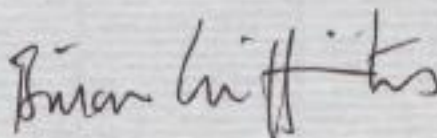
apply for C3 and C5 licences, and would distort the relative attraction of cable and satellite TV. In addition, given the size of the costs involved, it would be virtually impossible to cover the total costs of establishing C5 in this way.

An alternative would be to place a levy on all territorial broadcasting companies which use the scarce spectrum and which depend on the DTI for its proper management: this could be in the form of an actual rent payable over a fixed number of years, equal in total to the cost of re-allocating spectrum to fit in C5.

Other alternatives are possible.

RECOMMENDATION

Invite the DTI to respond to the Treasury's concern by setting out alternative ways of financing.

A handwritten signature in dark ink, reading "Brian Griffiths". The signature is written in a cursive, slightly slanted style.

BRIAN GRIFFITHS