



QUEEN ANNE'S GATE LONDON SW1H 9AT

NBRM

REC 6 27/9

26 September 1989

Dear Norman,

INDEPENDENT TELEVISION COMMISSION

I am grateful for the letter which Peter Lilley sent on your behalf on 23 August, suggesting a possible solution to our difficulties with the proposed PES classification of the ITC and Radio Authority.

I accept that franchise payments should be classified as government revenue and paid directly into the Consolidated Fund. Nor do I anticipate any difficulties with your proposal that any government provision for start-up costs for the ITC should be treated as public expenditure. Accordingly, I am prepared to accept that the ITC and Radio Authority should be classified as central government non-trading bodies, on the basis that the separate licence fees paid to these authorities will be treated as negative public expenditure. I much appreciate your willingness to be flexible on this issue.

I recognise that your proposed approach will mean that the "safety net" proposal for S4C will be voted expenditure and will fall to be counted in PES. Peter Walker has commented on this in his letter of 12 September. I share his belief that there are strong reasons for distancing broadcasters from Government and agree with him that we should avoid any impression that Government intends to exercise direct control over the pursestrings. If therefore the funding of S4C cannot remain

/outside PES

The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
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outside PES control, then in order to minimise the perception of Government control of S4C which might otherwise result from this, I would want to make more rigorous the method by which the level of S4C funding is in future determined. I propose therefore that the level of S4C funding should be expressed in the Bill as a proportion of total terrestrial broadcasting revenue (ie net advertising revenue, subscription and sponsorship revenue for Channel 3, Channel 4, Channel 5 and S4C). Any change in this figure could be achieved only after I had taken advice from the ITC and S4C, and would be subject to Parliamentary scrutiny.

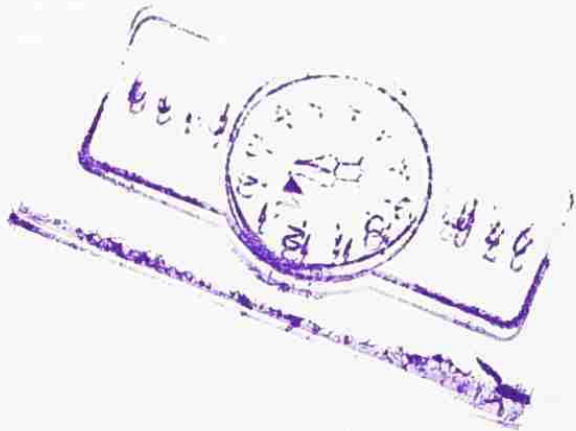
Payments to S4C would need to come from a separate S4C PES vote. In principle this could be controlled either by the Treasury, the Home Office or the Welsh Office. My preference is for it to be controlled by the Home Office. But it would need to be a non-cash limited vote. In practice, the Home Office would make realistic PES bids on the basis of estimates of total terrestrial broadcasting revenue supplied by the ITC. But in the event that a supplementary bid was required I hope that you accept that it would not be right to expect the Home Office to fund that from within its own resources.

I am not yet in a position to set the level of S4C funding. At present, S4C receives in any given year 3.4% of the total net advertising revenue of the previous year. However, in the new regime the Welsh Fourth Channel will incur additional expense for transmission, sales of advertising, and regional advertising engineering costs. I shall write again shortly when I have an accurate estimate of what these costs will amount to.

I am copying this letter to Peter Walker.

Yours,  
Douglas

Broadcasting CL4 Pt3.



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