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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon William Whitelaw CH MC MP
Home Secretary
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

2 November 1979

Dear Sir,

INDEPENDENT BROADCASTING : LEGISLATIVE PROPOSALS

I understand that your officials, after consulting officials in the Treasury and other Departments, have issued instructions to Counsel to prepare legislation to implement H Committee decisions on the framework and administration of the Fourth TV Channel. The Committee agreed at the end of our discussion of this subject on 31 July that the Minister of State, Home Office would report back on the outstanding matters on which we did not reach a conclusion, including the proposals on finance and the treatment of the Welsh language.

Broadly speaking I am content with the proposed financial arrangements and the legislative framework to give effect to them. And we shall have an opportunity for a further collective discussion in due course. But I would like to raise with you now two matters on the financial aspects which concern me and on which you might reflect further.

First I am concerned about the future viability of the Channel. I am sure we all expect the Fourth Channel to be commercially successful. Most of us also believe that there is sufficient buoyancy in the advertising industry to provide revenue to ensure this. But this is essentially an act of faith. Advertising may be discouraged by the minority appeal of the Channel, particularly in Wales, and the revenue may not build up fast enough to sustain a successful new channel.

This may not matter. Under your proposals the programme contractors would be required by the IBA to provide whatever sums are necessary to meet the Fourth Channel expenditure. If they are not getting sufficient advertising revenue, they will no doubt demand that IBA restrict expenditure accordingly. But can we be sure that they will have sufficient clout to keep the Fourth Channel budget within bounds, particularly if the IBA has power to control their share of programmes on the Channel?

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Clearly this is an uncertain area which we shall need to watch very carefully. At this stage I think we can only do our best to see that the legislative framework provides no impediments to commercial viability (beyond the necessary constraints to ensure that our objectives on quality and programme balance are met), and that you are in a position to prevent the IBA from incurring expenditure on the Fourth Channel beyond a level the programme contractors are prepared to support, or indeed to wind up the Channel altogether if it proves continuously unviable. I should be glad to have your assurance on this point.

My second concern is that you propose no change in the levy system, at present related to profits. The argument that a profits-based levy does nothing to check waste and inefficiency on the part of the TV companies is a familiar one. After paying levy at its present rate, and corporation tax, a company only retains 17 per cent of any marginal surplus of revenue over expenditure. This is particularly relevant to increases in pay, and their impact on the BBC. The new Bill provides an opportunity to look at this again and take action if we choose to do so. I can appreciate the arguments against making a further change, which may be unpopular with the companies. But I should like H Committee to have an opportunity for a collective discussion of this subject, when your further proposals are put before them. One way of arranging this would be for me to circulate a paper.

I should also like to register one other point about the legislative proposals, which in my view should be considered collectively in H Committee. The PAC asked the Government to consider whether final statutory authority for levy assessments should continue to rest with the IBA alone, or whether this should be changed in the new legislation - which could require the Authority to consult the Home Office and the Treasury. Given that the levy is a form of tax payable to the Consolidated Fund, I think there is a strong case for making this change; and I hope you will agree to include a discussion of the merits in your H Committee paper.

I am sending copies of this letter to the other members of H Committee and Sir Robert Armstrong.



JOHN BIFFEN

SECRETARY OF STATE'S OFFICE	
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