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**MISC 128 - REFORM OF THE ITV SYSTEM**

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**Constitution of ITN**

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The Home Secretary plumps for option (a) which is to open up ITN to new outside investors while allowing the ITV companies to retain control.

This is an improvement on the existing arrangement. My clear impression however is that ITN would prefer to go for option (b); namely the separation of ITN into two companies, one concerned with the core business (providing news for ITV companies), and the other with new enterprises. The advantage of option (b) over option (a) is that individual ITV companies could decide how much new capital they wish to put into new ventures, with some putting in nothing at all. This would mean that the board of the new company would then be wholly committed to its success - unlike the present situation in which some members of the board are indifferent or positively opposed to new ventures because they have no financial involvement.

The only argument put forward in the paper against option (b) is that it would isolate the core business from efficiency. I very much doubt however whether an injection of outside capital is sufficient to change the cost structure of ITN. Something which will change the cost structure however is increased competition among the ITV companies themselves which will result from new companies

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entering the business. As their concern for their own profit grows only then will they begin to look more keenly at the cost of their contribution to ITN.

Option (b) therefore has one distinct advantage over option (a) without having any major disadvantages. For that reason it is to be preferred.

#### Recommendation

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Opt for (b) in which ITN is divided into two separate companies.

## Future Constitution of Channel 4

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This is an ingenious proposal with regrettably little commercial flavour.

From the final paragraph (6) of the paper, the Home Secretary is clearly opposed to privatising Channel 4. In fact he would prefer to retain the status quo. His major argument is that if C4 were to be privatised it would lose its distinctive remit.

I am not at all convinced by the argument. Michael Grade, whose judgement I respect on this kind of issue, has argued powerfully that it would be possible to run a privatised C4 and keep to a tight remit - providing that the remit is clearly set out and known by all - the investing public, the IBA and the management of C4.

The case that privatising C4 would lead to a downgrading of quality normally rests on two pieces of evidence, TV am and the Peacock Report's view of the BBC selling air time. But neither piece of evidence holds in relation to C4.

TV am : TV am started with a "mission to explain" but as a result of competitive pressure soon ended up, after it was rescued, showing Roland Rat. It is fallacious to make a comparison between TV am and C4 however because C4 is already up and running. The argument that the selling of air time by a private company leads to falling standards might have been true if C4 had been first started as a private company. But C4 is now well past this position. Therefore this case does not apply.

Peacock and the BBC selling air time. The Peacock Report suggested that if the BBC were to sell air time its standards would fall. Again this is not a good analogy.

The BBC is a part of the duopoly with 40% + of the market. If in the present situation it started to sell its air time, then because of the duopoly it would soon find itself in a ratings war.

But C4 has only 7½% of the total television market. It would not be under this pressure to nearly the same degree. In any case it could target certain groups much more effective than it does at present.

In addition to these pieces of evidence it is wrong to think of C4 as a kind of television Third programme with especial concern for ethnic minorities. It is nothing of the sort. C4 has its biggest audiences from programmes such as

Treasure Hunt (with Anneka Rice)  
Countdown (daily quiz show)  
Cosby Show (soap opera from the US)  
Brookside (twice weekly soap)  
Hill Street Blues (which Grade originally bought for  
ITV)

In other words C4 is already a mix of serious programmes as well as quiz shows, games and soap operas. It is most definitely not the Third Programme of television.

Michael Grade's point therefore is that running C4 is in principle no different from running any other existing British television company: they are all a mixture of serious and light programmes.

In addition to all of this a powerful argument against the present proposal is that it provides management with no incentive for greater efficiency in the running of C4. In this respect C4 would remain a broadcasting department, virtually unchanged from its present status.

## Recommendation

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The real issue is the importance you attach to privatising Channel 4. There is certainly a strong case to be made for privatising C4 if you wish to make it.

## Competitive Tender and the Levy

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The problem with the present method of allocating ITV franchises is that it lacks transparency. One alternative, recommended by Peacock was to introduce auctions. The present proposal from the Home Office for tendering (heavily influenced by the Treasury) is to move to a two stage process:- first companies have to meet the criteria laid down explicitly by the IBA (financial strength, programming, quality of management) and then if they pass the test, they put in a bid and the highest bidder wins. In terms of transparency it would be an improvement on the present system.

The one argument against it is that it would allow people such as Maxwell, Murdoch and <sup>Burlusconi</sup> ~~Bellesconi~~ to enter British television. The opposition to such people is not their ownership of television stations, per se. Rather it is to the kind of programmes they would produce. But the two step process can cope with this. If there is a substantive objection, then the basis for it could easily be discovered in the first stage of the franchising process.

The only new point which emerges from the Home Secretary's present paper is that a single TV company will not be able to hold or invest in more than one ITV contract. The Home Secretary states his position from a somewhat Olympian height:

"Although there is an argument that a company which is more efficient should be able to build up holdings in the ITV system, I am persuaded that the public policy objective of ensuring diversity and competition points to a limitation of this kind."

This really does need to be spelt out in more detail. Why for example should Thames not own LWT? Does the existing structure really lead to greater diversity and competition? I somehow doubt it. If we wish our ITV companies to excel in world markets we may have to be less parochial - always assuming of course that domestic competition does not suffer unduly.

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