



CF-PA

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

16 November 1988

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

Prime Minister
You will wish to be aware
of these exchanges. Following
certain arguments Home Office
and Treasury do not seem
to be seeking a sensible
compromise.

Stan

and

Re: 6

17/11

ITV LEVY CONTRACT EXTENSION PERIOD AND BSB LEVY

Thank you for your letter of 1 November.

I accept that ITV companies will be under pressure to reduce their costs before the post 1993 franchises are auctioned and I continue to see advantages in reinforcing those pressures by adopting a revenue levy that maximises the incentive to reduce costs. But I accept that, until viewers have access to a greater range of channels, we must guard against the accusation that we are indifferent to quality. In view of your concern therefore I am prepared to settle for a mixed scheme consisting of around three quarters yield from revenue and one quarter from profit between 1990 and 1992. Our officials will need to go through the detailed figures proposed by the IBA very thoroughly and ensure that they are likely to deliver a levy yield commensurate with that of the pre 1986 levy for a reasonable range of possible changes in costs and revenues. Moreover, agreement on the details will have to be reached quickly if we are to include the relevant clauses in the 1989 Finance Bill.

Second, you suggested we give BSB an assurance about the Government's future intentions with regard to the levy. I accept that BSB should be zero rated for levy purposes until they reach cumulative profit and that we should tell them so before they have to raise more finance. But I do not believe we should go further. Once BSB do reach cumulative profit, the size of their investment,



the time required to achieve break even and the level of risk involved will be historical facts of little relevance in determining what their future levy liabilities should be. And the existence of competition from television services not subject to levy liability would affect all ITV companies, not just BSB. An undertaking not to apply a levy on BSB until they are in cumulative profit should reassure investors that the levy will not stop them earning a return on their finance and will affect only the split of future profits earned by exploiting scarce spectrum.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a large, stylized initial 'N' and a long horizontal stroke extending to the right.

NIGEL LAWSON

BROADCASTING Co. Financials.

Pt. 7 :

