

CONFIDENTIAL

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PRIME MINISTER

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*Home Sec + Chancellor  
have decided not to introduce  
new levy arrangements in  
this year's legislative programme.*

ITV LEVY

*MA 11/1/80*

You wished to be kept in touch with the review of the ITV levy which the Chancellor of the Exchequer and I were undertaking. His Private Secretary wrote to mine on 8 May setting out a possible scheme for a change which would involve a "prior charge" based on revenue and a continuing profits-based element at a lower rate. The main advantage would be a reduction in the marginal rate of levy and Corporation Tax combined.

The Chancellor and I have now discussed this, and we are both agreed that such a change cannot be included in the Broadcasting Bill at this late stage in its progress in the Commons. We do not want to prejudice its passage and to add complications to the despatch of our legislative programme. We do not, however, wish to rule out change. We have, therefore, instructed officials to study the possibilities further and to have consultations, including some with the programme companies. If we decide then to make a change it would not be appropriate to a Finance Bill but to broadcasting legislation, and it might therefore require a short bill. This would not, of course, be this Session.

I attach a draft passage which I propose to include in my speech on the Third Reading of the Broadcasting Bill which the Chancellor has agreed.

I am sending a copy of this minute to the Chancellor of the Exchequer.

*Q*

9 June 1980

CONFIDENTIAL

## DRAFT PASSAGE FOR HOME SECRETARY'S SPEECH ON THIRD READING OF THE BROADCASTING BILL

## ITV LEVY

During the Debate on the Second Reading of this Bill, I informed the House that my Rt Hon and Learned Friend the Chancellor of the Exchequer and I were reviewing the whole operation of the ITV levy. I explained that we were firmly of the view that the public should share in the profitability of the exploitation of a public monopoly, that we were anxious about the high marginal rate which the present system of levy, together with corporation tax, produces, and that we believed that the companies should be encouraged to be cost conscious. Although this review has not yet been completed, I should like to tell the House about our present thinking on these matters. I am conscious of my responsibility not only to maintain, but to extend and enhance, the range and quality of television already available to the public. I have also to consider the effect which developments may have - as far as can be foreseen - on the totality of broadcasting in this country.

The effects of the special position in broadcasting enjoyed by the programme contracting companies and of intervention in it by Government in the public interest are more difficult to interpret when the immediate future is uncertain. At the present time the combination of structural changes in independent television in the early 1980s - the new franchises, the introduction of the fourth channel and the possibility of breakfast-time television - make the future particularly uncertain. The very high marginal rate which is a feature of the present ITV levy system has some inherently unsatisfactory elements and it could in certain circumstances appear to be a positive incentive to unnecessary expenditure. However, the costs of setting up the fourth channel will be substantial and it seems clear that there will be a significant decline in the profitability of the ITV companies during the period when the fourth channel is being introduced. This in itself may be expected to provide some incentive to the ITV companies to be economical in the use of resources.

/In addition,

In addition, I would remind the House that there is power for me, with the consent of the Treasury, to make changes in the levy by order. This would enable me, if I thought it right to do so, to change the rate of levy. There is also power for me, with the consent of the Treasury, to prescribe a minimum amount of levy to be paid by a programme contractor if I am of the opinion that the levy to be paid by that contractor is deficient because of excessive expenditure. The use of this particular power would be bound to have the effect of involving Government more closely in the assessment of matters relevant to programme content, which would have its problems, but I intend, in consultation with the IBA, to continue to keep the use of this power under review.

My Rt Hon and Learned Friend and I have concluded that we will not propose amendments to the Broadcasting Bill to change the present powers in respect of the levy. It must be remembered that the present profits based levy replaced a levy based on advertising revenue which was found to be so unsatisfactory only 6 years ago that both political parties agreed that it could no longer stand. As a levy based purely on advertising revenue has been demonstrated to be unsatisfactory there would be no point going back to it. But I cannot rule out change in the future. Although we have rejected a levy based purely on advertising revenue, it may well be that a rather more sophisticated system combining some elements of a revenue based levy and some of a profits based levy would be found the most appropriate. If, however, we were to contemplate making a change of this kind in the ITV levy, we should need to consider the implications for the ILR system. For these and other reasons, the option requires more thorough study and consultations which I am setting in train. I will report to the House any conclusions reached by my Rt Hon and Learned Friend and myself.