

PRIME MINISTER

ITN - LEVY

I had lunch today with David Nicholas, Editor, ITN, and Sir Alastair Burnet.

They are concerned lest there is any change in the Budget to the system by which they are financed.

Under the existing system of financing - a levy on ITV company profits - the companies can offset their contributions against tax. A reversion to a levy on turnover (without offset) would clearly affect the companies' finances. And ITN fear they would be the first to suffer since they say they come second to the companies' own interests.

They make the point that they currently get £27.8m - 3.1% of the industry's net advertising revenue. This is about a fifth of the companies' contribution to Channel 4 and about the same as the amount spent on Wales Channel 4 (whose spending, ITN notes, takes place in parts of the world they find hard to reach).

But perhaps the most important point to grasp is that ITN is wholly dependent on the companies; it has no independent source of revenue. They are not arguing for it to be allowed to sell its own advertising time, but they do point out that the advertising break in the middle of News at Ten would be more than enough to finance ITN.

I attach a note Alastair Burnet has left with me.



BERNARD INGHAM
6 March 1985

*Put in folder for
my next appointment with the
Channels.*

ITN is the part of the ITV network whose operations are most likely to be jeopardised by a tightening of the ITV companies' budgets, caused either by a change in the levy system from profits to turnover or by a mixed system.

ITN is financed by annual budgets, on the basis of what the 15 ITV companies, who own it wholly, believe they can afford in providing an acceptable public service.

ITN is on its own in commercial television. It has always been run successfully, under the Television Acts, as a non-profit-making organisation, "effectively equipped and adequately financed", in providing a public service. Successive governments, while keeping it an anomaly in a commercial system, have always required high standards of it, and have not knowingly acted to prejudice its performance.

But it means that ITN does not share directly in the advertising revenue that its news and special programmes bring in to the network (such as the commercial break in News at Ten). So, unlike the rest of ITV, it has no opportunity of responding to any budget stringency by a commercial ability to earn more.

ITN's prospects of earning a significant independent revenue (such as hire of services) are limited by the requirements of regular news programmes on both ITV and Channel 4. Its employees hold no shares and do not enjoy any profit-sharing scheme. Bluntly, it depends on its owning companies' view of what can be done after they have taken care of their own financial priorities.

Under the existing levy on profits ITN has benefited from the companies' ability to set off their contributions to ITN's budget against the levy. This system has enabled ITN, over the years, to develop its ITV programmes - News at One, the 5.45 News and News at Ten - in a pioneering way that first broke the BBC's news monopoly, still encourages a healthy rivalry with the BBC, and has been singled out for praise by successive public inquiries into broadcasting.

If it were thought proper, on grounds of national finance, to revert to the previous system of a levy on turnover (or some variant) it would be only natural to expect that the ITV companies would have to think first of their own budgets and their obligations to their own shareholders. In their reducing or stabilising expenditure ITN would, certainly, be the first to come under pressure for substantial savings.

If ITN were to be instructed to cut back because of changes in the tax system outside its own power to find a commercial remedy, it would be extremely difficult for it to continue to produce the nightly news, and its coverage of political and royal occasions, at a competitive standard against the best that the BBC, with an increased licence fee, can be relied on to do.

It is a matter of urgent concern to ITN, and to its present and future services, that its special statutory status should be recognised in any consideration of the method or rate of taxation on ITV as a whole.

In particular, a levy on turnover would seriously jeopardise ITN's operations unless the companies' individual contributions to ITN's budget were exempted from it.

This would not mean a substantial loss to the revenue. ITN's charge to the ITV companies in 1983-84 was £27.8 million, or 3.1% of the industry's net advertising revenue (3.4%, 1982-83). But for that percentage ITN believes the country gets a highly efficient service and the companies exceptional value for money.

Although ITN has enjoyed, over the years, a generally business-like understanding with the ITV companies, it has been no less apparent, over the years, that no commercial company can be expected to proceed simply by benevolence.

ITN still depends on a system that encourages high standards, and does not diminish them.

In a country, and in a world, where information and communications are going to be of increasing importance, ITN's special vulnerability to changes influencing its financing will, it is hoped, be taken fully into account.