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1984 Review of External Services: Report  
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TELEVISION LICENCE FEES.  
FINANCES OF THE BBC.  
PAY OF THE BBC.

BROADCASTING

PART 1

JULY 1979

| Referred to                  | Date | Referred to | Date | Referred to | Date | Referred to | Date |
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PART 1 ends:-

CC (85) 12th Item 6 28.3.85

PART 2 begins:-

Home Sec to Am 17.4.85  
Chairman BSC to Home Sec 4/4/85







## Television Licence Fee

3.31 pm

**The Secretary of State for the Home Department (Mr. Leon Brittan):** With permission, Mr. Speaker, I shall make a statement about the financing of the BBC.

In December 1981, the BBC was granted increases in the colour television licence fee to £46 and the black and white licence to £15, and was required to live within the income thus generated for the period ending 31 March this year. This it has done. The result of the way its expenditure was, as planned, phased over this period is that the cost of its service in the current year equates to a £51 licence fee. As the House knows, the corporation applied last year for an increase in the colour licence fee to £65 and in the black and white licence fee to £18, to last for a further three years.

That applications has stimulated renewed discussion about the possibility and desirability of some or all of the BBC's services being financed through advertising or by means other than the licence fee. On the one hand, it is suggested that at least a proportion of the BBC's services are of a character that would not be materially affected if it was financed in whole or in part by advertising. On the other hand, it is said that the impact of advertising is bound to lead to a lowering of standards, and that if advertising were introduced in one area the pressure for it to be extended to all BBC services would be irresistible and damaging. In considering these issues, however, it is essential not just to consider the impact on the BBC of any change in its methods of financing; it is also necessary to take account of the impact of any such change on independent broadcasting, on other media supported by advertising revenue and on the Exchequer.

The issues raised are complex. In my view, they require more detailed, careful and, above all, comprehensive analysis than they have so far received before any conclusions can be reached. I am therefore appointing a committee to review all of these matters and I am glad to announce that Professor Alan Peacock, chief economic adviser to the Departments of Industry and Trade from 1973 to 1976, more recently vice-chancellor of the university of Buckingham, and now at Heriot Watt university, has agreed to chair it. I hope to announce the other members of the committee before long.

The review will be required to assess the effects of the introduction of advertising or sponsorship on the BBC's home services either as an alternative or as a supplement to the income received through the licence fee and to identify a range of options with an indication of their advantages and disadvantages. One of the central questions for the committee is the possible impact the introduction of advertising would have on the character and quality of all broadcast services. It will also consider the scope for the BBC to obtain additional revenue from the consumer other than through the licence fee. I am circulating a copy of the full terms of reference in the *Official Report*, and copies are also available in the Vote Office.

I must stress that the appointment of the committee does not in any way imply that the Government have decided to make changes in the present arrangements, still less changes of any particular character. Nonetheless, the appointment of the committee does mean that options for a change will have to be considered in the light of its

report. I cannot, of course, commit the inquiry to a precise time scale, but I hope the committee will have completed its work by the summer of next year, after which its conclusions will have to be carefully considered.

I have therefore decided that the present licence fee settlement should be for a period of two years with the intention that any possible changes in the system of financing broadcasting should be considered in the light of the committee's report before the licence fee falls to be further renewed. But if decisions cannot be made in the light of the report within two years, or if it is decided there should be no change to the system, this settlement will run for a third year with the licence fee continuing at the rates I am announcing today. The BBC should therefore plan its expenditure for the next three years on the basis that it must for that period live within the income equivalent to that generated by fees at the level announced today.

As to the level of the fee, my task has, as always, been to balance the interests of the licence fee payer with the need to ensure that the corporation's home services are adequately funded.

I start from the present cost of operating the BBC's services. The 1981 settlement provided the BBC with an income at the rate of £46 per colour licence until the end of March 1985. Taking account of inflation, it was clearly understood at the time that the effect of this was that the BBC would be spending at less than the rate of £46 per licence at the beginning and more at the end of the period. Currently, services are being provided at a cost of approximately £51 per colour licence.

There will no doubt be some inescapable cost increases over the next three years, and the corporation would like to improve and enhance its services in various ways. On the other hand, it is right that the BBC should strive for greater efficiency and economy, and there is a limit to what licence fee payers can reasonably be expected to afford.

In accordance with previous practice, I do not propose to give a detailed account of the way in which I have balanced these various factors and it will be for the corporation to decide how to use the money available to it. I believe, however, that the BBC could and must achieve greater productivity than it has done in the past or has so far planned for the future. The BBC already has a useful programme of activity reviews and has stressed its commitment to achieving value for money. But, in the light of the report from Peat Marwick Mitchell commissioned by the BBC with my agreement and subsequently published, I believe there is scope for the BBC to achieve greater efficiency through improved management procedures and strengthened management attitudes.

The BBC has already produced an action plan to implement all but two of the specific recommendations in the Peat Marwick report by the end of 1985-86, with three quarters of them being implemented within the next six months. The governors will also be calling for reports every six months not only on the implementation of these specific recommendations and the continuous programme of activity reviews but also on the management training programme and other steps designed to ensure that the change in emphasis in management style and approach sought by Peat is being achieved. [HON. MEMBERS: "What is the fee?"]

Taking all the various factors into account, I believe a settlement substantially below the level requested by the



BBC should enable the corporation to maintain its present level and range of services. But the BBC's ability to enhance its services will depend very largely on the degree to which it achieves the improvements in efficiency that I have referred to. *[Interruption.]*

**Mr. Nicholas Winterton** (Macclesfield): Get a move on.

**Mr. Speaker:** Order. I think that the Home Secretary is just coming to an important point.

**Mr. Brittan:** You have been prescient, Mr. Speaker, but characteristically so.

On that basis I have decided to increase the fee for a colour television licence—[HON. MEMBERS: "Ah!"]—from £46 to £58 and for a monochrome television licence from £15 to £18. I have laid the necessary regulations which bring the new fees into effect at midnight tonight.

I of course recognise that the licence fee represents a substantial sum for many people, particularly so when it is seen as an annual payment. There are now a number of schemes to enable those who wish to do so to spread the cost in advance over the year. In addition to the television savings stamp scheme, it is possible for people to pay towards their next licence by instalments through a direct debit from their bank account or by cash instalments over post office counters. Payments may also be made by credit card. But I am conscious that far too few people pay for their licences in any of these ways compared with the number who would find the licence fee easier to pay if they did so. I shall therefore be urgently examining with the BBC and the Post Office whether any improvements can be made in those arrangements and whether any new arrangements can be made to help people to pay the licence fee without greatly increasing costs of administration or imposing extra burdens on the taxpayer.

I appreciate that the review that I have announced will lead to a period of uncertainty, not only for the BBC but for the other media, in particular independent broadcasting. But our broadcasting system has inevitably had to develop over the years, and there is nothing new in the fact that it has to face the possibility of change now. What will not change is the Government's commitment to broadcasting services which achieve the highest standards, in quality, popularity and diversity of consumer choice.

*Following are the terms of reference:*

- (i) To assess the effects of the introduction of advertising or sponsorship on the BBC's Home Services, either as an alternative or a supplement to the income now received through the licence fee, including
  - (a) the financial and other consequences for the BBC, for independent television and independent local radio, for the prospective services of cable, independent national radio and direct broadcasting by satellite, for the press and the advertising industry and for the Exchequer; and
  - (b) the impact on the range and quality of existing broadcasting services; and
- (ii) to identify a range of options for the introduction, in varying amounts and on different conditions of advertising or sponsorship on some or all of the BBC's Home Services, with an assessment of the advantages and disadvantages of each option, and
- (iii) to consider any proposals for securing income from the consumer other than through the licence fee.

**Mr. Gerald Kaufman** (Manchester, Gorton): The Home Secretary's statement lasted 11 minutes. It could have been limited to the three words, "I cop out."

The statement is another example of the shoddy and opportunistic approach—*[Interruption.]*—that is the

biggest cheer so far today from the Conservative Benches—the shoddy and opportunistic approach which has characterised the Home Secretary's tenure of office. His reception from his own side shows that such an approach satisfies nobody.

The Government have announced an inquiry, but let me make it clear that Labour Members consider that it is the wrong inquiry. An inquiry into the finances of the BBC, and, indeed, of broadcasting in general, is one thing. An inquiry almost solely confined to the effects of the introduction of advertising and options for advertising is unacceptable. It is based on an assumption that advertising is the only alternative to the present system that is worth considering, and that is an assumption that Labour Members utterly reject.

Therefore, let me make it clear that, whatever the outcome of the inquiry, there are no circumstances in which a Labour Government will permit advertising on either BBC television or radio. Professor Peacock must take that into account in his activities—[HON. MEMBERS: "Why"?]—

**Mr. Robert Atkins** (South Ribble): We do not take any notice of you; why should he?

**Mr. Kaufman:** Those Conservative Members who jeer will not be here when the licence fee next comes round for renewal.

Professor Peacock must take that into account in his activities as a firm statement of policy and principle.

Despite shortcomings which we could all illustrate, Britain has the highest standards of broadcasting and television in the world. Those standards are set, and they are maintained by ITV, and by the BBC as a public broadcasting organisation. It is that standard that prevails in Britain and to which ITV has to live up. Advertising would change the nature of the BBC permanently and irrevocably, and we reject it.

As the licence fee rises ever higher, it becomes ever more regressive. The lower the income, the bigger the burden. Schemes for staggering the burden over the year do not make it any less of a burden.

A Labour Government will consider how the licence cost might be taken into account in assessing the needs of those on supplementary benefit. A Labour Government will also phase out the licence so that no retirement pensioners will have to pay for a television licence. Television is one of the few pleasures available to many pensioners. We shall make sure that that pleasure is not taxed. I make that commitment clearly and firmly on behalf of the Labour party and the next Government of this country.

**Mr. Brittan:** The right hon. Gentleman began his observations by referring to what he called the Government's shoddy and opportunistic approach. His strictures might have carried a touch more weight if they were not applied to everyone and everything said on any occasion. Such observations have a ritualistic character that totally debases them.

The right hon. Gentleman says that it will be the wrong inquiry, relating only to advertising. He is mistaken. The inquiry does not relate only to advertising but will also consider sponsorship and any other proposals for securing income from the consumer other than through the licence fee, including such measures as subscription.



[Mr. Brittan]

As for the right hon. Gentleman's ringing statement that in no circumstances will a Labour Government permit advertising, that commitment is not something that we need greatly fear. It is most unlikely ever to be put to the test.

The right hon. Gentleman referred to the highest standards of broadcasting. I do not disagree with that assessment. The question is not whether standards should be reduced but how they should be financed.

The right hon. Gentleman made another ringing statement, to the effect that pensioners would no longer have to pay the licence fee. The cost of implementing that pledge would be £325 million a year. If the right hon. Gentleman believes that that pledge has any credibility or will put him in the position in which it would be up to him to decide whether advertising should be taken, he gravely misjudges the judgment and good sense of the British people.

**Mr. Mark Carlisle** (Warrington, South): I totally reject the squalid electioneering of the right hon. Member for Manchester, Gorton (Mr. Kaufman), and assure my right hon. Friend that I believe that, although many people will find the increase from £46 to £58 a considerable one, they will nevertheless still feel that the television licence represents some of the best value for money in this country.

While fully accepting the need for an inquiry into the future financing of the BBC, I should like to ask my right hon. and learned Friend two questions. First, can I take it that the inquiry will be allowed to consider the scope and role of the BBC today? Secondly, can I assume that the terms of reference of the inquiry will not prevent it from deciding that there should be no advertising on the BBC?

**Mr. Brittan:** Among many other things, the inquiry will investigate the impact of any changes on the BBC. That being so, I do not see how it can fail to look closely at what the BBC is doing today.

On the second point, I assure my right hon. and learned Friend that the inquiry would be perfectly free to come to the conclusion that he mentions.

**Mr. Clement Freud** (Cambridgeshire, North-East): We accept the rise in the colour television licence fee but greatly regret the more than index-linked rise in monochrome licences. It is right that the terms of reference for Professor Peacock's committee should be so wide-ranging, but will the Home Secretary assure the House that the members of the committee will reflect a wide range of expertise in public service broadcasting?

**Mr. Brittan:** My intention is that those who are appointed should have no preconceived notions and should be broadly based and qualified to bring judgment and wide experience to their task.

**Sir Paul Bryan** (Boothferry): Does my right hon. and learned Friend agree that, owing to the pace of change in all broadcasting, the report of any committee is almost out of date before it appears? For example, the accepted view on cable television, direct broadcasting by satellite, the fourth channel or the income of television companies one year ago would already be out of date now. We know nothing about what will happen on our screens with the invasion of satellites from other countries. We should need

the wisdom of Solomon to decide on the future of the BBC's role in one committee. Does my right hon. and learned Friend agree that we need a standing advisory committee on broadcasting of the highest calibre, to which the Government could turn for advice as required?

**Mr. Brittan:** I accept that the pace of change in the industry is extremely fast. Nevertheless, decisions have to be taken using the best information at the time. Now is the right time to set in hand an inquiry to consider the impact of financing changes, such as advertising on the BBC and its impact on other parts of the system. The inquiry might conclude that the impact is uncertain, for the reasons that my hon. Friend has given. That would be an important part of its deliberations. I see the force of what my hon. Friend says about a standing advisory committee but, for the moment at least, we should let Professor Peacock continue with his deliberations.

**Mr. Joseph Ashton** (Bassetlaw): Does the Home Secretary accept that 13 million people in Britain do not regard £58 as disposable income? Does he accept that the committee has the right to consider Government subsidies? Does he also accept that the committee can examine sponsorship in sport and current advertising on the BBC such as the Canon league and the Milk Cup? Will he guarantee that the House will eventually have a vote on the matter, as otherwise my right hon. Friend the Member for Manchester, Gorton (Mr. Kaufman) will be making policy without giving a ballot to the rest of us, rather like the Prime Minister does?

**Mr. Brittan:** I know of the hon. Gentleman's support for a remedy in the form of advertising. How he has that out with his right hon. and learned Friend is beyond my ken. The committee is not being asked to consider Government subsidy, but sponsorship is included in its terms of reference.

**Mr. Tim Brinton** (Gravesham): Is my right hon. Friend aware that many people feel that he has got the answer right today? The temporary rise was necessary, but the inquiry was urgent. Will he add two things to the committee's term of reference — first, that it must consider what the licence fee should be used for in terms of services, if it continues to exist; secondly, that it should consider whether to look towards sponsored programmes but deny the BBC straight advertising as, if it advertises, there will be a question mark over whether we need a BBC?

**Mr. Brittan:** I am grateful to my hon. Friend. I agree that examination of these matters is urgently needed and that any increase announced today should not prejudice the outcome of the examination. I hear what my hon. Friend says about sponsorship. That is within the inquiry's terms of reference. As to examining what the money is used for, in producing a range of options, which is what the inquiry will be asked to do, it is bound to consider the consequences in terms of what will be provided for any combination in that range.

**Mr. Donald Stewart** (Western Isles): Is the right hon. and learned Gentleman aware that the shortfall between the figure he has announced and that which the BBC thought essential might postpone and even cancel the five-year plans for a broadcasting service in the Gaelic language? Does he recall that in the 1981 licence fee



settlement there was an allocation which gave a great boost to Welsh language broadcasting? Is he now prepared to consider a similar recommendation in respect of Scotland?

**Mr. Brittan:** I believe that what I have announced will enable the BBC to carry on with its current plans. If it wishes to make any advances or changes, that is a matter for the corporation. I have said that the extent to which it would be able to do that will depend on the extent to which it is able to keep its costs down and to improve productivity. I have clearly indicated why I think there is scope for both.

**Mr. John Stokes** (Halesowen and Stourbridge): Is my right hon. and learned Friend aware that some Conservative Members would be more enthusiastic about an increase in the licence fee if the BBC generally showed a more patriotic stance and, for instance, did not denigrate our national heroes?

**Mr. Brittan:** I am aware that that is a sentiment which others, as well as my hon. Friend, share.

**Mr. Robin Corbett** (Birmingham, Erdington): Will the Home Secretary try again to justify this inquisition into the future of public service broadcasting? Will he give the House a categorical assurance that, by the appointment of this inquisition, he is not implying that he expects it to come to his foregone conclusion that there should be advertising at least on BBC1 and BBC2?

**Mr. Brittan:** There is no question of it coming to my foregone conclusion, because I do not have one.

**Mr. Peter Bruinvels** (Leicester, East): Will my right hon. and learned Friend accept that the figure announced today will be seen as a victory for the BBC? Will he make it quite clear to the BBC that, unless it economises in the way that is necessary and accepts some limited advertising, it cannot expect such increases in the fee? It should also be encouraged to continue with its local radio services, which are at least successful.

**Mr. Brittan:** When yesterday I told the BBC what I would announce today, the demeanour of those emerging from my room was not that of victors.

**Mr. Willie W. Hamilton** (Fife, Central): Does not the Home Secretary agree that the BBC is probably the best television and radio service in the world and that any attempt to change its method of financing would jeopardise that? Does not he understand that many Labour Members have great suspicion of the enormous vested interest in advertising firms among Conservative Members? More than 50 Conservative Members have private vested interests in advertising agencies. Are not these the people, along with the Prime Minister, who are urging the increased financing of the BBC by advertising, and would that not be the death knell of the BBC's present quality?

**Mr. Brittan:** The difference between the hon. Gentleman and Conservative Members is that he seems to be interested in the personalities—

**Mr. Willie W. Hamilton:** Yes, we are.

**Mr. Brittan:**—and we are concerned about the arguments. If what the hon. Gentleman says is right, he will have ample opportunity to make that case before the Peacock committee.

**Sir Anthony Kershaw** (Stroud): While accepting that £325 million is too much for the rest of us to pay so that retirement pensioners like myself can have television licences, will the committee have scope to examine ways in which the extra cost can be mitigated for retirement pensioners living alone?

**Mr. Brittan:** No, that will not be within the committee's terms of reference.

**Mr. Merlyn Rees** (Morley and Leeds, South): May I express the hope that the Home Secretary will not listen to talk of patriotism and the BBC—[HON. MEMBERS: "Why not?"]—because the most patriotic broadcasting and television system in the world comes from Moscow and we do not want that kind of thing here. Does the right hon. and learned Gentleman agree that, whatever happens about finance, there must be no Government or political control of any kind?

**Mr. Brittan:** I agree that the BBC should be independent, and I seek no political influence whatever over it. I am sure that the right hon. Gentleman accepts that broadcasting is moving as fast as my hon. Friend the Member for Boothferry (Sir P. Bryan) has suggested and that it is irrational to approach the matter with a closed mind, as some people have done. It is for exactly that reason that the committee is being appointed. To say, as the right hon. Member for Manchester, Gorton (Mr. Kaufman) did, that in no circumstances would advertising be contemplated by the Labour party is to approach the matter with a closed mind.

**Sir Dudley Smith** (Warwick and Leamington): Does my right hon. and learned Friend agree that it is essential for the committee to look into the vast amount of free advertising on BBC radio and television day by day, which has reached almost scandalous proportions?

**Mr. Brittan:** Yes, I do agree.

**Mr. Norman Buchan** (Paisley, South): Does the right hon. and learned Gentleman agree that there are few more unpleasant, unpatriotic or obscene images in society today than that of Conservative Members slavering at the chance of picking over the bones of a dismembered great national institution?

Has not the committee been set up specifically to follow the Prime Minister's dictum that advertising should now be introduced? Will the right hon. and learned Gentleman ensure that the Committee is not as loaded as its terms of reference? Will he bear in mind that there are other ways to deal with the matter besides advertising, such as taxation and the measures suggested by my right hon. Friend the Member for Manchester, Gorton (Mr. Kaufman)?

Above all—

**Mr. Speaker:** Briefly, please.

**Mr. Buchan:** Above all, will the right hon. and learned Gentleman bear in mind that advertising is a concealed tax which hurts the poor more than the rich?

**Mr. Brittan:** I do not favour financing the BBC out of taxation, for the reasons advanced by the right hon. Member for Morley and Leeds, South (Mr. Rees), himself a former Home Secretary. I cannot believe that that is the way to preserve the independence of the BBC.

As for the other matters, the hon. Gentleman's suggestions about the motives behind the setting up of the



[Mr. Brittan]

committee are wholly unfounded. It is astonishing that a party which regards itself as progressive in its thinking should have such a completely closed mind on an issue.

**Mr. Willie W. Hamilton:** We do not. We just know what you are up to.

**Mr. Brittan:** To refuse even to recognise the possibility of change in a constantly changing situation is an extraordinary attitude.

**Mr. Anthony Beaumont-Dark** (Birmingham, Selly Oak): Does my right hon. and learned Friend accept that this has been a week of strange birds, with cuckoos, grouse and now a peacock, and that the last is the most unnecessary of all? Does he agree that most Governments set up commissions when they know what they should do but do not want to make a public statement about it? Is it not time that we accepted that "Blankety-Blank", "The Eastenders" and sport will not be deprived by advertising? Should we not now have some limited advertising to see how we go instead of giving way to the BBC and offering it a £58 licence fee? Is my right hon. and learned Friend aware that many of us would be inclined to congratulate the governor and director general of the BBC on their great victory in this respect?

**Mr. Brittan:** Governments who do not want to make decisions do not appoint committees with such a short time scale. My hon. Friend's view contrasts with the almost unanimous view of the Opposition that the whole thing was a plot. In fact, it is neither a means of avoiding a decision nor a way of imposing a decision. It is a way of bringing independent expertise to bear on a problem which has implications not just for the BBC but for the independent television sector and broadcasting generally, for the newspapers and for a wide variety of other interests. If my hon. Friend makes that comparison, he will find that other interests do not necessarily take the view to which he has sought to give currency.

**Rev. Martin Smyth** (Belfast, South): Having asked everyone to keep an open mind about financing, will the Minister himself keep an open mind on the question of pensioners living alone, especially those on supplementary benefit?

Secondly, although we may not wish the BBC to become a patriotic body, we expect it to be neutral, especially when dealing with terrorism. Does the Home Secretary appreciate that many taxpayers and licence fee payers take strong exception to paying a licence fee which is often used to portray terrorism? Does he agree that we should follow the example of Radio Telefis Eireann and keep terrorists off the screen?

**Mr. Brittan:** I understand and respect the hon. Gentleman's deeply held views about terrorism, which I think we all share.

The cost of a concession for single pensioners living alone would be about £125 million. That is a very considerable sum to add to the Exchequer.

**Mr. Nigel Forman** (Carshalton and Wallington): I welcome the Peacock review as an eminently sensible way to proceed, but will my right hon. and learned Friend recognise that at a little more than £1 per week the licence fee is still good value and does not greatly exceed the usual cost of subscribing to a newspaper for the same period?

Does he agree, however, that a Gresham's law of broadcasting has been evident since 1954—that the bad drives out the good?

**Mr. Brittan:** Those matters are at the very centre of the Peacock inquiry and I do not wish to prejudice that, but I know that what my hon. Friend has said represents a standard opinion.

**Mr. Allen McKay** (Barnsley, West and Penistone): Has not the right hon. and learned Gentleman already closed his own mind to the plight of the pensioners? Will he consider the numerous 10-minute Bills that we have had on this, in consultation with old people's associations which have suggested methods of providing concessions for pensioners? Does he agree that it is brass neck for him to talk about the millions that this would cost, when he is a member of a Government who have just spent billions of pounds trying to destroy the National Union of Mineworkers and the trade union movement?

**Mr. Brittan:** I do not think that that comparison assists us. It is worth pointing out, however, that the cost of the television licence is a component in the retail price index on the basis of which increases in pensions are assessed.

**Mr. John Butterfill** (Bournemouth, West): Does my right hon. and learned Friend accept that more than 30 per cent. of my constituents who are pensioners will welcome the Peacock inquiry but will be appalled at the 26 per cent. increase in the licence fee? Will he accept that many of them have legitimate reservations about the need for the BBC to expand its services so greatly in local radio and in the provision of breakfast television, which many of them regard as totally unnecessary? Does my right hon. and learned Friend feel that economies could be made in those areas?

**Mr. Brittan:** It is only fair to point out that the cost of breakfast television is £8 million per year, or just 1 per cent. of the BBC's total income. Traditionally, these have been regarded as matters for the BBC and not for the Government. It is precisely because maintaining the BBC's financing in the way that has previously obtained has led to increases that many people find it difficult to bear that we are asking the Peacock committee to examine alternative methods of financing the BBC, either in whole or in part. Until the committee has completed its work, however, it would be unrealistic to assume that we could proceed other than in a balanced way by applying the system that has existed so far.

**Mr. John Ryman** (Blyth Valley): The right hon. and learned Gentleman has mentioned the cost of concessionary television licences for old people. Does he recognise and deplore the anomaly in the law which compels old people to pay the full cost of the television licence unless they live in certain types of accommodation with a warden? Does he agree that that is utterly unfair because it means that some pay the full licence fee while others pay only a nominal fee? Is it not also an encouragement for all sorts of schemes with titular wardens to avoid paying the full fee? Will the Home Secretary do something about that?

Also—

**Mr. Speaker:** Order. One question is enough.

**Mr. Ryman** *rose*—

**Mr. Speaker:** Order. It is unfair.

**Mr. Ryman** *rose*—



**Mr. Speaker:** Order. The hon. Member has asked one question and that is enough.

**Mr. Brittan:** I accept that the hon. Gentleman has pointed out an anomaly, and I would not seek to say that the present system is exactly right. We are constantly considering that, but it is not easy to find a solution.

**Mr. Albert McQuarrie (Banff and Buchan):** My right hon. and learned Friend will not be surprised that his statement will be greeted with great dismay in Scotland at a time when people are facing massive rate increases because of revaluation. A 26 per cent. increase for the BBC, which is completely inefficient, cannot be justified. Why does he not dig his heels in and give the BBC only an increase in line with inflation, instead of 56 per cent.?

**Mr. Brittan:** When my hon. Friend talks about a 26 per cent. increase, he does not take adequate account of the time scale. The last increase was in December 1981, which must be taken into account. There may well be a case for changing the system, which is what the Peacock committee will look into, but we cannot prejudge the issue by changing it by default in advance.

**Mr. John Cartwright (Woolwich):** Does the Home Secretary accept that continued dependence on a flat rate poll tax system, such as the licence fee, inevitably involves hardship and some injustice, and that it is therefore perfectly sensible to have a serious examination of alternative sources of finance, including advertising? Does he also accept that the review would carry greater conviction if he had set up the inquiry last year when the problem first arose, and if he had established a tighter time scale than the two or three years implied in his statement.

**Mr. Brittan:** I am glad that the hon. Gentleman welcomes the inquiry. The time scale must be sufficient to allow proper examination of these matters. The impact on areas outside the BBC requires proper consideration. I do not think that the time scale that I have envisaged, but which I cannot impose, is unreasonable. The question whether to set up the inquiry last year or this year is not a fruitful area of controversy. The point is that it has been set up now.

**Mr. Robert Key (Salisbury):** Will my right hon. and learned Friend tell us whether the committee will be asked to look at the financing of community radio, bearing in mind the fact that some areas of the country have neither local independent radio nor local BBC radio, and that there is great uncertainty surrounding the future of community radio?

**Mr. Brittan:** Community radio does not exist at present. I have made a positive announcement of its introduction. I hope to report about the precise financing and regulation of community radio soon, but I am not yet in a position to do so.

**Mr. Dennis Skinner (Bolsover):** Is the Home Secretary aware that he has announced a bailing-out system, which flies in the face of monetarism, for the BBC, which consists of uneconomic units of production without reserves, unlike the philosophy that the Government applied to allegedly uneconomic pits. He has brought a bloke from the cloisters to organise a committee which will last until after the general election. Why did he not appoint Lord Bridge for the job—he deals with things extremely swiftly? If the Home Secretary wants to

know where money for pensioners can come from, he could cancel Trident. There is plenty of money there. Then the pensioners would be on the same basis as all hon. Members who manage to see television without paying a licence fee.

**Mr. Brittan:** I do not believe that the licence fee and Trident are viable alternatives.

**Mrs. Elaine Kellett-Bowman (Lancaster):** My right hon. and learned Friend referred to the scope for greater efficiency, but that does appear to be included in the inquiry. Does he accept that many teams of the BBC are grossly over-inflated, that there should be room for greater efficiency, and that an increase to £58 will bring great hardship to many elderly people and to the lower paid in regions such as my own?

**Mr. Brittan:** The fact that I am greatly worried about efficiency in the BBC is reflected in my suggestion that the Peat Marwick review should take place, my statements this afternoon about the follow up, which is of great importance, and the measures taken to deal with the specific recommendations and its more general criticisms of the Peat Marwick review. The six-monthly review of those matters is of great importance. Those matters need to be examined, and the machinery is in hand for doing so.

**Mr. Barry Sheerman (Huddersfield):** Is the Home Secretary aware that our public broadcasting system is the envy of people throughout the world? Is he further aware that many people are suspicious, because of the ideological drift of the Conservative party, that this is yet another committee which will attempt to undermine public broadcasting? The Government have already started with local radio and are now moving into national radio and television. Are we to be assured that the chairman, Professor Peacock, is an independent chairman, or is he another member of the Conservative party who is as Right-wing as can be found?

**Mr. Brittan:** The hon. Gentleman may have overlooked the fact that Professor Peacock was an adviser to the Labour Government from 1974 to 1976 although he was appointed from 1973. There is not much to be gained from such statements. Opposition Members must get their heads together and decide whether their case is that this is a subtle plot to force advertising on the BBC, or a way of seeing the problem through until after the general election. It is neither. Curiously enough this is what it says it is—an independent inquiry into the methods of financing the BBC, without any foregone conclusions attached.

**Mr. Richard Holt (Langbaugh):** Does my right hon. and learned Friend accept that many hon. Members will be disappointed that he has been unable in the past six months to make a statement of this nature to enable us to debate the subject fully and properly before the announcement of the increase? Will he bear in mind that one of the bodies which should make representations to the Peacock committee is this House? Will he encourage the Leader of the House to set at least two days aside for a debate in the Chamber to allow all hon. Members to speak on the subject?

**Mr. Brittan:** There will be two views about whether that is the best way of giving evidence to the Committee. I will draw my hon. Friend's remarks to the attention of my right hon. Friend the Leader of the House.



**Mr. Ian Wrigglesworth** (Stockton, South): Will the Home Secretary reconsider his reply to the question about the anomaly that some pensioners pay only 5p for a licence and others the vast new sum that he announced today? It is totally discredited and objected to by people right across the political spectrum. It is no good the Government saying that they are trying to look into that. Will the Home Secretary not submit the matter to the inquiry, but do something about it long before the inquiry reports?

**Mr. Brittan:** I will not submit it to the inquiry, as the hon. Gentleman suggests. We are considering the matter. The right hon. Member for Morely and Leeds, South (Mr. Rees) will agree that it is fair to say that successive Governments have examined the anomaly, and that the task of finding a solution which would not either cost vast sums to the Exchequer or deprive people of something to which they are accustomed is not easy.

**Mr. John Watts** (Slough): While I welcome my right hon. and learned Friend's decision to set up a committee of inquiry, can he justify the excessive level of the increase that he has announced, which, by my calculation, is 14 per cent. above the current cost of £51, to which he referred in his statement, and far ahead of any anticipated increase in inflation for the two years over which the fee is intended to run?

**Mr. Brittan:** My hon. Friend must bear in mind that the figure may have to stand for three years. He should also take into account that we must consider both the prospective rates of inflation and costs. Costs are affected by what the BBC has to pay. The market leader in this is not the BBC, but ITV. BBC costs are 30 per cent. below those of ITV.

**Several Hon. Members** *rose*—

**Mr. Speaker:** Order. I must bear in mind the fact that we are operating under a timetable today. Therefore, I may be unable to call every hon. Member who wishes to speak. Nevertheless, I shall bear in mind those whom I do not call for any debate that may take place. I shall allow questions to continue for another five minutes.

**Mr. Francis Maude** (Warwickshire, North): Is my right hon. and learned Friend aware that the £6 a year increase that he has announced is almost as much as the BBC asked for to cover three years, and that that places him under very little pressure to implement the improvements in efficiency which the Peat Marwick Mitchell report identified? Does he accept that it is crucial that the result of the inquiry leads the way to breaching the principle of inviolability to which the BBC is so attached? Is it not crucial to introduce another form of finance so that the outdated licence fee system can be scrapped as soon as possible?

**Mr. Brittan:** The last point is a matter for the inquiry. On the first point, the BBC asked for £65.

**Mr. David Maclean** (Penrith and The Border): Although my right hon. and learned Friend is to be congratulated on going some way down the road which my hon. Friends have been urging, does he accept that many Conservative Members believe that the increase, which is three times above the level of expected inflation, cannot be justified and that the time scale for the inquiry is too lax? Furthermore, when we see the paranoia in the Opposition about having an inquiry into the dark corridors

of the BBC and when advertising is mentioned, does he not smell a rat? Does it not make him think that Conservative Members may be right?

**Mr. Brittan:** I agree entirely with my hon. Friend about the paranoia of the Opposition, and I made clear my view on that in answer to questions from some Labour Members. As this matter will have implications for the rest of communications, not just for the BBC, I do not believe that the time scale is anything other than tight. As to costs, in answer to my hon. Friend the Member for Warwickshire, North (Mr. Maude), I made it clear why a straightforward comparison with inflation is misleading, because the BBC is, in many respects, a price taker, not a price maker. Anyone who knows the relationship between BBC costs and ITV costs will confirm that that is so.

**Mr. David Harris** (St. Ives): In view of the importance of the subject to millions of people, and taking into account the obvious anxiety of hon. Members on both sides of the House, does my right hon. and learned Friend accept that the time has come when a decision of such importance should be made by the House? Many of us believe that we do not need yet another committee to tell us that the BBC is thoroughly overstretched in what it is trying to do, and also overmanned.

**Mr. Brittan:** I do not believe that the Committee will be concerned only with the point made by my hon. Friend. It will be concerned with the impact of specific changes, the nature of which may be stated in general terms by some of my hon. Friends, but which have not been outlined specifically. Nor have we studied the impact of what hon. Members have suggested on the independent television sector, on newspapers and on the Exchequer. There is a need for an inquiry, and I defend its setting up.

**Mr. Harry Greenway** (Ealing, North): Will my right hon. and learned Friend confirm that the licence fee appears on the retail price index and is taken into consideration for supplementary benefit? Will he ask the Peacock committee to consider a two-tier licence fee, with wage earners paying the normal fee, and pensioners, who are currently ineligible for the 5p licence, and the unemployed paying a substantially reduced fee?

**Mr. Brittan:** I confirm that the RPI includes the cost of the licence fee and that the increase in the licence fee will be reflected in all benefits that are related to the RPI. The Peacock committee will take a wide range of evidence and will be able to consider all the matters which my hon. Friend raised.

**Mr. Robert B. Jones** (Hertfordshire, West): Is my right hon. and learned Friend aware that, by granting a licence fee increase above the rate of inflation, he is encouraging the BBC to become less efficient instead of more? Does he accept that his point about the IBA is invalid? Many Conservative Members believe that, if advertising appeared on the BBC, it would encourage the IBA to become more efficient.

**Mr. Brittan:** My hon. Friend's latter point is of the greatest importance. However, he must remember that that desirable process cannot take place under the present system. At present, the BBC depends, to some extent, on what the ITV companies can pay. The position might be



different if we introduced changes such as those suggested by my hon. Friend and others, but we do not have that system yet.

**Mr. John Townend** (Bridlington): Does my right hon. and learned Friend accept that many of my constituents would consider an increase of 26 per cent. as excessive? When many organisations, private and public, have had to keep down increases in costs to the level of inflation, why could not the BBC's costs have been kept down to that level since 1981? Why were manning levels excluded from the investigation by Peat Marwick Mitchell.

**Mr. Brittan:** The investigation by Peat Marwick Mitchell disclosed many matters. There were 30 specific recommendations, apart from the general ones. Peat Marwick Mitchell was in no way inhibited, and in the part of my statement which was perhaps less audible, I gave a clear commitment on my part and on the part of the BBC that what Peat Marwick Mitchell recommended should be pursued vigorously.

**Mr. Christopher Chope** (Southampton, Itchen): Does my right hon. and learned Friend accept that the most offensive aspect of the increase is the element of compulsion? Will the Peacock committee consider the idea of people who wish to opt out of receiving the BBC television signal being able to have their television sets so adapted?

**Mr. Brittan:** That is certainly something which the Peacock committee will be able to consider.

**Mr. Robert Atkins** (South Ribble): How do I explain the anomaly to my constituents who live in council-owned sheltered accommodation next to private sheltered accommodation, that those who live in the council accommodation pay only 5p for their licence fees, whereas those who live in the private accommodation, which is identical, must pay the full rate? Will my right hon. and learned Friend ask the committee to consider that ridiculous anomaly?

**Mr. Brittan:** That is not a matter for the Committee, but I am acutely conscious of the anomaly. In answer to previous questions, I explained the problems that we have in dealing with it.

**Mr. Peter Griffiths** (Portsmouth, North): Does my right hon. and learned Friend accept that, although the inquiry will be widely welcomed, there is no evidence in the actions or statements by the BBC that it will ever be willing to seek economies or alternative sources of finance? Whatever the result of the inquiry, change will have to be imposed by his Department.

**Mr. Brittan:** When the committee reports we shall have to consider its conclusions and the alternatives that it proposes. The decision about what to do at that point will not be made by the BBC.

**Mr. Michael Brown** (Brigg and Cleethorpes): I congratulate my right hon. and learned Friend on appointing Professor Peacock to chair the inquiry. He is a distinguished man, in so far as he taught me economics at York university. I lament the fact that my right hon. and learned Friend will probably be surrounded by those who will not be anxious to publish the results of an inquiry which may be in line with what Conservative Members look forward to.

**Mr. Brittan:** My hon. Friend will have observed during his studies that Professor Peacock is not a man who is readily persuaded to take a view different from the one that he holds.

**Mr. Norman Buchan** (Paisley, South): On a point of order, Mr. Speaker. There is a general welcome in the House for the recent development of your allowing extended questions on statements so that the House can have almost a mini-debate. In the past, such important matters were sometimes dealt with by written answer, with no opportunity for debate. We must thank you for that, Mr. Speaker. However, would you consider another innovation? When we have such statements, which relate not only to political matters but to matters of interest, should not hon. Members preface their questions with a statement of interest?

**Mr. Speaker:** The hon. Gentleman knows that there is a Register of Members' Interests. What he suggests will not be necessary.



TERMS OF REFERENCE OF REVIEW OF FINANCING THE BBC

- (i) To assess the effects of the introduction of advertising or sponsorship on the BBC's Home Services, either as an alternative or a supplement to the income now received through the licence fee, including
  - (a) the financial and other consequences for the BBC, for independent television and independent local radio, for the prospective services of cable, independent national radio and direct broadcasting by satellite, for the press and the advertising industry and for the Exchequer; and
  - (b) the impact on the range and quality of existing broadcasting services; and
- (ii) to identify a range of options for the introduction, in varying amounts and on different conditions of advertising or sponsorship on some or all of the BBC's Home Services, with an assessment of the advantages and disadvantages of each option, and
- (iii) to consider any proposals for securing income from the consumer other than through the licence fee.



*AS*



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

CONFIDENTIAL

27 MAR 1985

*TF - to see. The accident  
sketch the statement by  
a page or so.*

*Dear Margaret,*

*CF - p.c.*

*NBPM  
r*

BBC LICENCE FEE

Thank you for your letter of 25 March conveying the Chancellor's comments on the Home Secretary's draft statement about financing the BBC.

The Home Secretary was most grateful for the Chancellor's helpful comments. As the Chancellor will see from the enclosed revised version of the statement the Home Secretary has drawn heavily on the Chancellor's comments, and the suggested revise of paragraph 5 and following. In particular he has accepted the suggestion that the statement should not make explicit reference to the Government's inflation assumptions in reaching a settlement.

The Home Secretary did not feel able to go all the way with the Chancellor's proposals. One reason for this is that it is necessary to maintain the constitutional independence of the BBC and to avoid any implication that the Home Office provides management oversight of the BBC. Nonetheless the Home Secretary shares the view that it is important for us to keep closely in touch with the action the BBC takes to respond to the Peat Marwick Mitchell report. In addition to what is said in the statement about this - indicating that the Governors will be calling for reports every six months on the implementation of Peat's recommendations and so on - the Home Secretary will make it clear in answer to supplementaries that he will be concerned to learn from the BBC what progress these reports indicate has been made.

I am copying this letter to Tim Flesher (Number 10) and Richard Hatfield (Cabinet Office).

*Yours ever,  
H H Taylor*

H H TAYLOR

Miss Margaret O'Mara



CONFIDENTIAL

HOME SECRETARY'S STATEMENT ON FINANCING THE BBC

27 MARCH 1985

With permission, Mr Speaker, I shall make a statement about the financing of the BBC.

In December 1981 the BBC were granted increases in the colour television licence fee to £46 and the black and white licence to £15 and required to live within the income thus generated for the period ending on 31 March this year. This they have done. The result of the way their expenditure was, as planned, phased over this period is that the cost of their service in the current year equates to a £51 licence fee. As the House knows, the Corporation applied last year for an increase in the colour licence to £65 and in the black and white licence to £18 to last for a further three years.

This application has stimulated renewed discussion about the possibility and desirability of some or all of the BBC's services being financed through advertising or by other means than the licence fee. On the one hand it is suggested that at least a proportion of the BBC's services are of a character which would not be materially affected if they were financed in whole or in part by advertising. On the other hand, it is said that the impact of advertising is bound to lead to a lowering of standards, and that if advertising were introduced in one area the

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/pressure for it .....



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pressure for it to be extended to all BBC services would be irresistible and damaging. In considering these issues, however, it is essential not just to consider the impact on the BBC of any change in its methods of financing. It is also necessary to take account of the impact of any such change on independent broadcasting, on other media supported by advertising revenue and also on the Exchequer.

The issues raised are complex. In my view, they require more detailed, careful and above all comprehensive analysis than they have so far received before any conclusions can be reached. I am therefore appointing a Committee to review all of these matters and I am glad to announce that Professor Alan Peacock, Chief Economic Adviser to the Departments of Industry and Trade from 1973 to 1976, more recently Vice Chancellor of the University of Buckingham, and now at Heriot Watt University, has agreed to chair it. I hope to announce the other members of the Committee before long. The review will be required to assess the effects of the introduction of advertising or sponsorship on the BBC's Home Services either as an alternative or a supplement to the income now received through the licence fee and to identify a range of options with an indication of their advantages and disadvantages. One of the central questions for the Committee is the possible impact the introduction of advertising would have on the character

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/and quality of .....



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and quality of all broadcast services. It will also consider the scope for the BBC to obtain additional revenue from the consumer other than through the licence fee. I am circulating a copy of the full terms of reference in the Official Report, and copies are also available in the Vote Office.

I must stress that the appointment of the Committee does not in any way imply that the Government has decided to make changes in the present arrangements, still less changes of any particular character. Nonetheless the appointment of the Committee does mean that options for changes will have to be considered in the light of its report. I cannot, of course, commit the enquiry to a precise timescale, but I hope the Committee will have completed its work by the summer of next year, after which its conclusions will have to be carefully considered. I have therefore decided that the present licence fee settlement should be for a period of two years with the intention that any possible changes in the system of financing broadcasting should be considered in the light of the Committee's report before the licence fee falls to be further renewed. But if decisions cannot be made in the light of the report within two years, or it is decided there should be no change to the system, this settlement will run for a third year with the licence fee continuing at the rates I am announcing today. The BBC should therefore plan

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/its expenditure for ...



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its expenditure for the next three years on the basis that it must for that period live within the income equivalent to that generated by fees at the level announced today.

As to the level of the fee, my task has, as always, been to balance the interests of the licence fee payer with the need to ensure that the Corporation's Home Services are adequately funded.

I start from the present cost of operating the BBC's services. The 1981 settlement provided the BBC with an income at the rate of £46 per colour licence until the end of March 1985. Taking account of inflation, it was clearly understood at the time that the effect of this was that the BBC would be spending at less than the rate of £46 per licence at the beginning and more at the end of the period. Currently services are being provided at a cost of approximately £51 per colour licence.

There will no doubt be some inescapable cost increases over the next three years, and the Corporation would like to improve and enhance its services in various ways. On the other hand, it is right that the BBC should strive for greater efficiency and economy, and there is a limit to what licence fee payers can reasonably be expected to afford.

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/In accordance with .....



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In accordance with previous practice I do not propose to give a detailed account of the way in which I have balanced these various factors and it will be for the Corporation to decide how to use the money available to it. I believe, however, that the BBC could and must achieve greater productivity than it has done in the past or has so far planned for the future. The BBC already has a useful programme of activity reviews and has stressed its commitment to achieving value for money. But, in the light of the report from Peat Marwick & Mitchell commissioned by the BBC with my agreement and subsequently published, I believe there is scope for the BBC to achieve greater efficiency through improved management procedures and strengthened management attitudes. The BBC has already produced an Action Plan to implement all but two of the specific recommendations in the Peat Marwick Report by the end of 1985/86, with three quarters of them being implemented within the next six months. The Governors will also be calling for reports every six months not only on the implementation of these specific recommendations and the continuous programme of activity reviews but also on the management training programme and other steps designed to ensure that the change in emphasis in management style and approach sought by Peat is being achieved.

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/Taking all the .....



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Taking all the various factors into account, I believe a settlement substantially below the level requested by the BBC should enable the Corporation to maintain its present level and range of services. But the BBC's ability to enhance its services will depend very largely on the degree to which it achieves the improvements in efficiency that I have referred to.

On this basis I have decided to increase the fee for a colour television from £46 to £58 and for a monochrome licence from £15 to £18.

I have laid the necessary regulations which bring the new fees into effect at midnight tonight.

I, of course, recognise that the licence fee represents a substantial sum for many people, particularly so when it is seen as an annual payment. There are now a number of schemes to enable those who wish to do so to spread the cost in advance over the year. In addition to the television savings stamp scheme it is possible for people to pay towards their next licence by instalments through a direct debit from their bank account or by cash instalments over post office counters. Payments may also be made by credit card. But I am conscious that far too few people pay for their licences in any of these ways compared with the number who would find the licence fee easier to pay if they did so. I shall therefore be

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/urgently examining ...



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urgently examining with the BBC and the Post Office whether any improvements can be made in these arrangements and whether any new arrangements can be made to help people to pay the licence fee without greatly increasing costs of administration or imposing extra burdens on the taxpayer.

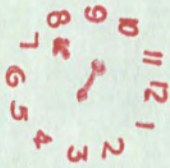
I appreciate that the review I have announced will lead to a period of uncertainty, not only for the BBC but for the other media, in particular independent broadcasting. But our broadcasting system has inevitably had to develop over the years, and there is nothing new in the fact that it has to face the possibility of change now. What will not change is the Government's commitment to broadcasting services which achieve the highest standards, in quality, popularity and diversity of consumer choice.

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BROADCASTING: BBC

July 79



27 MAR 1985



A0



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

25 March 1985

H H Taylor Esq  
Private Secretary to the  
Secretary of State for the Home Department

NBPM

*Dear Hugh,***BBC LICENCE FEE**

The Chancellor has seen a draft of your Secretary of State's statement about the financing of the BBC, enclosed with your letter of 21 March.

While the Chancellor is generally content, he feels the passage about the licence fee could benefit from some shortening. He suggests that the present version might invite further questioning, for example about our inflation assumptions. He is concerned that it might seem to endorse the Corporation's present range of activities when the justification for some recent innovations such as breakfast television, appears rather dubious, and that it might expose the Government to charges, however unfair, that the new fee level was inadequate. He also feels that it gives the Corporation more credit than they deserve for such limited action as they have already taken to improve efficiency. (As you know, the Peats report reveals serious failings in the implementation of the 'activity reviews' programme and of other previous management recommendations.)

... I enclose a revised draft of this section. The Chancellor is certainly not wedded to the precise text but would be grateful to know if your Secretary of State sees any difficulty with its general thrust.

More generally, the Chancellor would be interested to know what further action your Secretary of State envisages taking to ensure the Corporation implement the Peats recommendations. He acknowledges that the decisions so far announced are, on the face of it, encouraging but in view of the way the Corporation sought to present the Peats report as a justification of their licence fee bid, he seriously doubts whether the message has sunk in. He believes that some senior BBC staff will also need to change their attitudes fundamentally if any progress is to be made.

I am copying this letter to Tim Flesher (No.10) and Richard Hatfield (Cabinet Office).

*Yours sincerely,*  
*Margaret O'Mara*

MISS M O'MARA  
Private Secretary



SUGGESTED REVISE OF PARAGRAPHS 5 AND FOLLOWING

As to the level of the fee, my task has, as always, been to balance the interests of the licence fee payer with the needs of the BBC.

In the current year, the Corporation, drawing on savings made earlier in the present licence fee period, is spending at a level equivalent to the product of a £51 licence fee. There will no doubt be some inescapable cost increases over the next three years, and the Corporation would like to improve and enhance its services in various ways. On the other hand, it is right that the BBC should strive for greater efficiency and economy, and there is a limit to what licence fee payers can reasonably be expected to afford.

In accordance with previous practice, I do not propose to give a detailed account of the way in which I have balanced these various factors and it will be for the Corporation to decide how to use the money available to it. I should say, however, that I have paid particular attention to the scope for improvement in the Corporation's planning, management and control of resources, and in its efficiency and economy. I do not doubt the BBC's commitment to the principle of achieving value for money. But I believe it could and must achieve greater productivity than it has done in the past or has so far planned for the future. The report from Peat Marwick and Mitchell commissioned by the BBC, with my agreement, and subsequently published, identified a number of measures that should be taken to improve management procedures and strengthen management attitudes. I understand that the Corporation plans to implement all but two of the



Report's recommendations by the end of 1985-86, three quarters of them within the next six months. The Governors will be calling for reports every six months on the implementation of these and also on the programme of activity reviews which has already started, on the management training programme, and on other steps designed to ensure that the change in management style and approach sought by Peats is being achieved.

All this I very much welcome. Successful implementation should allow the Corporation to provide a satisfactory level of service with a licence fee well below the level they have requested. I have accordingly decided.....



BROADCASTING: Finances of BBC July 79



25 MAR 1985



CC TV  
Press  
Questions

APPOINTMENTS - IN CONFIDENCE



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

21 March 1985

Dear Counsel,

Prime Minister

BBC LICENCE FEE

11/11/85  
Lor J.

Agree the terms of  
this statement?

Following the Prime Minister's meeting about the licence fee on 22/3  
Thursday last, I now attach a draft of the statement the Home  
Secretary proposes announcing the decision on Wednesday, 27 March.

The Home Secretary believes that the passage in square brackets  
meets Ministers' concern to ensure that the BBC acts on the Peats  
Report. The Chairman of the BBC Board of Governors has agreed to  
this being said.

As you will see, the Home Secretary proposes to indicate in general  
terms some of the considerations which led to the settlement. This  
goes somewhat further than similar announcements in the past and  
the Home Secretary considers it important that the Government should  
not respond in any greater detail to the inevitable requests for  
further elucidation - for example about the inflation assumption  
on which this settlement was made.

You will also see that we intend to announce that Professor Alan  
Peacock will chair the review. The Home Secretary saw Professor  
Peacock yesterday and he indicated his willingness to undertake  
this task. The Home Secretary is considering, in consultation  
with Professor Peacock, the membership of the review, and a further  
announcement on this will be made in due course.

I am sending a copy of this letter to Tim Flesher (No 10) and  
Richard Hatfield (Cabinet Office).

Yours ever,  
H H Taylor

H H TAYLOR

Miss Rachel Lomax



## DRAFT STATEMENT

With permission Mr Speaker, I shall make a statement about the financing of the BBC. In December 1981 the BBC were granted increases in the colour television licence fee to £46 and the black and white licence to £15 and required to live within the income thus generated for the period ending on 31 March this year. This they have done. The result of the way their expenditure was, as planned, phased over this period is that the cost of their service in the current year equates to a £51 licence fee. As the House knows the Corporation applied last year for an increase in the colour licence to £65 and in the black and white licence to £18 to last for a further three years.

This application has stimulated renewed discussion about the possibility and desirability of some or all of the BBC's services being financed through advertising or by other means than the licence fee. On the one hand it is suggested that at least a proportion of the BBC's services are of a character which would not be materially affected if they were financed in whole or in part by advertising. On the other hand, it is said that the impact on advertising is bound to lead to a lowering of standards, and that if advertising were introduced in one area the pressure for it to be extended to all BBC services would be irresistible and damaging. In considering these issues, however, it is essential not just to consider the impact on the BBC of any change in its methods of financing. It is also necessary to take account of the impact of any such change on independent broadcasting and on other media supported by advertising revenue and also on the Exchequer.



The issues raised are complex. In my view, they require more detailed, careful and above all comprehensive analysis than they have so far received before any conclusions can be reached. I am therefore appointing a Committee to review all of these matters and I am glad to announce that Professor Alan Peacock, Chief Economic Adviser to the Departments of Industry and Trade from 1973 to 1976 and more recently Vice-Chancellor of the University of Buckingham, has agreed to chair it. I hope to announce the other members of the Committee before long. The review will be required to assess the effects of the introduction of advertising or sponsorship on the BBC's Home Services either as an alternative or a supplement to the income now received through the licence fee and to identify a range of options with an indication of their advantages and disadvantages. One of the central questions for the Committee is the possible impact the introduction of advertising would have on the character and quality of all broadcast services. It will also consider the scope for the BBC to obtain additional revenue from the consumer other than through the licence fee. I am circulating a copy of the full terms of reference in the Official Report, and copies are also available in the Vote Office.

I must stress that the appointment of the Committee does not in any way imply that the Government has decided to make changes in the present arrangements, still less changes of any particular character. Nonetheless the appointment of the Committee does mean that options for changes will have to be considered in the light of its report. I cannot of course commit the Committee to a precise timescale, but I hope it will have completed its work by the summer of next year, after which its conclusions will have to be carefully considered. I have therefore decided that the



present licence fee settlement should be for a period of 2 years with the intention that any possible changes in the system of financing broadcasting should be considered in the light of the Committee's report before the licence fee falls to be further renewed. But if decisions cannot be made in the light of the report within 2 years, or it is decided there should be no change to the system, this settlement will run for a third year with the licence fee continuing at the rates I am announcing today. The BBC should therefore plan its expenditure for the next 3 years on the basis that it must for that period live within the income equivalent to that generated by fees at the level announced today.

As to the level of the fee, my task has, as always, been to balance the interests of the licence fee payer with the needs of the BBC while ensuring that the Corporation's Home Services are adequately funded.

I first have to take into account the present cost of operating the BBC's services. The settlement in 1981 provided the BBC with an income at the rate of £46 per colour licence until the end of March 1985. Taking account of inflation, it was clearly understood at the time that the effect of this was that the BBC would be spending at less than the rate of £46 per licence at the beginning and more at the end of the period. Currently services are being provided at a cost of approximately £51 per colour licence.

But I also have to consider whether and to what extent it would be reasonable to expect the present <sup>7</sup>services to be provided more efficiently and therefore more cheaply than at present. As against



that I have to decide what allowance I have to make for increases in the cost of providing the present services over the period of the settlement.

Finally I have to consider the extent to which it is appropriate to allow for the provision of improved and enhanced services by the BBC. I have to take account not only of the merit of the BBC's proposals, but also of the extent to which licence payers as a whole can reasonably be expected to afford them.

In accordance with previous practice I do not propose to give a detailed account of the way in which I have balanced these various factors and it will be for the Corporation to decide how to use the money available to it. I can say, however, that I have adopted a more stringent attitude than did the BBC to the likely increase in their costs from inflation. Moreover, any Corporation which is financed through a compulsory levy on the viewer must demonstrate its efficiency. The BBC has a useful programme of activity reviews and is I know firmly committed to the principle of achieving value for money. I believe, however, that the BBC could and must achieve greater productivity than it has done in the past or has so far planned for the future. Moreover, in the light of the report from Peat Marwick and Mitchell commissioned by the BBC with my agreement and subsequently published, I believe there is also scope for the BBC to achieve greater efficiency through improved management procedures and strengthened management attitudes. [I am pleased that the BBC has already produced an Action Plan to implement all but two of the specific recommendations in the Peat Marwick Report by the end of 1985/6, with three quarters of them being



implemented within the next 6 months. The Governors will also be calling for reports every 6 months not only on the implementation of these specific recommendations and the continuous programme of activity reviews but also on the management training programme and other steps designed to ensure that the change in emphasis in management style and approach sought by Peats is being achieved.]

Taking into account the various factors that I have mentioned, my aim in the new settlement is to enable the BBC to maintain its present level and range of services. But the ability of the BBC to improve or extend its services will depend very largely on its ability to achieve the improvements in efficiency that I have referred to. I have accordingly decided to increase the fee for a colour television from £46 to £     and for a monochrome licence from £15 to £

I have laid the necessary regulations which bring the new fees into effect at midnight tonight.

Finally I recognise that the licence fee represents a substantial sum for many people, but particularly so when it is seen as an annual payment. There are now a number of schemes to enable those who wish to do so to spread the cost in advance over the year. In addition to the television savings stamp scheme it is possible for people to pay towards their next licence by instalments through a direct debit from their bank account or by cash instalments over post office counters. Payments may also be made by credit card. But I am conscious that far too few people pay for their licences in any of these ways compared with the number who would find the



licence fee easier to pay if they did so. I shall therefore be urgently examining with the BBC and the Post Office whether any improvements can be made in these arrangements and whether any new arrangements can be made to help people to pay the licence fee without greatly increasing costs of administration or imposing extra burdens on the tax payer.

I appreciate that the review I have announced will lead to a period of inevitable uncertainty, not only for the BBC but for the other media, in particular independent broadcasting. But our broadcasting system has inevitably had to develop over the years, and there is nothing new in the fact that it is facing at least the possibility of change now. What will not change is the Government's commitment to broadcasting services which achieve the highest standards, in quality, popularity and diversity of consumer choice.



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hte DA



10 DOWNING STREET

*From the Principal Private Secretary* 19 March 1985

Dear Hugh,

I am writing to confirm that, after further consideration, the Prime Minister has not felt able to suggest a better candidate for the Chairmanship of the Financing Review of the BBC than Professor Peacock; and she would therefore be content if the Home Secretary were to invite him to take on this task.

I also record that you mentioned to me that the announcement of the Government's conclusions on the BBC's licensing fee is likely to be on Wednesday 27 March so that it does not clash with the White Paper on schools. The Prime Minister is content with this change of timing.

I am copying this letter to Rachel Lomax (H M Treasury) and Sir Robert Armstrong.

Yours ever,

Hugh Taylor, Esq.,  
Home Office.

Robin Butler

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ROBERT KEY'S QUESTION

Question: To ask the Prime Minister, if she is satisfied with the arrangements for financing of public service broadcasting; and if she will make a statement.

Suggested Answer

The current BBC licence fee application will be settled on the basis of the present arrangements. *As far as the longer term is concerned I have made it absolutely clear that we do* We do not rule out changes in the longer term.

Suggested Supplementary Answer

The BBC licence fee is a compulsory levy on the television viewer regardless of whether he watches BBC at all or indeed whether his television set is capable of receiving BBC services. That kind of levy is bound to seem to many people to be difficult to justify. As I said in my reply to my hon Friend the Member for Wolverhampton South West on 13 December we might have to consider other methods of raising the requisite revenue for the BBC in the longer term, including advertising.



**Mr. Maxwell-Hyslop:** In her worthy enthusiasm for reducing unemployment, will my right hon. Friend concentrate on the unincorporated sector of the self-employed and bring home to many of her Ministers the fact that it is not just reducing tax rates but reducing the burden of non-productive administrative work—dealing with tax returns such as VAT and national insurance—that discourages them from taking on new employees?

**The Prime Minister:** My hon. Friend is absolutely right. There are still many restrictions that inhibit the self-employed from taking on more employees and inhibit small businesses from taking on extra people. Each of them raise difficult issues but we are examining the regulations. My right hon. and hon. Friends in the Department of Trade and Industry hope to bring proposals before the House.

**Dr. Owen:** We on the Alliance Benches also welcome the Patronage Secretary, although he will understand our not wishing him great success, as we hope that the rebellions will continue at the pace that has been set during the past few months. The Prime Minister is rumoured in the press now to be contemplating increased expenditure on the community programme and a restructuring of employees' insurance contributions. Why should we wait for the Budget? Many hundreds of thousands of people want action and now. Why not action this day?

**The Prime Minister:** I should have thought that the right hon. Gentleman would know that there is a time for public expenditure surveys and a time for the Budget. I confess that there are many occasions when I wish that they happened together so that the choices that have to be made were more clearly put. Of course, my right hon. Friend the Secretary of State for Employment and my right hon. and noble Friend the Minister without Portfolio are seeing whether we can better spend the £2 billion that we spend on special employment measures.

**Q2. Mr. Budgen** asked the Prime Minister if she will list her official engagements for Thursday 13 December.

**The Prime Minister:** I refer my hon. Friend to the reply that I gave some moments ago.

**Mr. Budgen:** In the discussions about the BBC's licence fee, will my right hon. Friend recognise that introduction of advertising would change the nature of the BBC? Will she also examine carefully the recent introduction of early morning television and BBC local radio stations? Will she please ask the BBC why it cannot concentrate on those things that are most important to it?

**The Prime Minister:** I think that a number of people will agree with my hon. Friend and wonder why the BBC has to take on so many new programmes when their needs can be fulfilled by other programmes. My right hon. and learned Friend the Home Secretary has to take into account the fact that the BBC licence fee is a sort of compulsory levy on the television viewer, irrespective of whether he watches BBC programmes a great deal. He will wish to balance the needs of the BBC with the interests of the licence fee payer. For that, he will need to take many things into account but I doubt whether, this time, he will consider the introduction of advertising although, in the longer term, we might have to consider other methods of raising the requisite revenue for the BBC.

**3. Mr. Ron Davies** asked the Prime Minister if she will list her official engagements for Thursday 13 December.

**The Prime Minister:** I refer the hon. Gentleman to the reply that I gave some moments ago.

**Mr. Davies:** Is the right hon. Lady aware that her Parliamentary Under-Secretary at the Department of Transport has written a letter to all Conservative Members of Parliament promising them preferential treatment from himself, his Department and his civil servants in dealing with parliamentary inquiries—[*Interruption.*]—from their constituents? Has that letter been written with the authority or knowledge of the Prime Minister? If so, does it mark a change of policy in that the Government are prepared to use Government funds to advance the cause of the Conservative party?

**The Prime Minister:** I do not know of the letter to which the hon. Gentleman refers, and there seems to be a good deal of dissent in the House to the interpretation that he gave of it. Inquiries from all Members of Parliament are dealt with expeditiously and courteously.

**4. Mr. Marland** asked the Prime Minister if she will list her official engagements for Thursday 13 December.

**The Prime Minister:** I refer my hon. Friend to the reply that I gave some moments ago.

**Mr. Marland:** Is my right hon. Friend aware that some of our Common Market partners are seeking to use bogus methods to prevent our exports penetrating their markets? Will she take this opportunity to reassure our exporters, be they in industry, agriculture or commerce, that she will use her best offices to make sure that our exporters can compete in Europe on equal terms?

**The Prime Minister:** I am grateful to my hon. Friend. That is the purpose of the Dooge committee of the Common Market. We are urging the completion of the internal market. The Common Market treaty prohibits barriers to trade, and my hon. Friend will have special reason to know of the success of my right hon. Friend the Minister of Agriculture, Fisheries and Food in getting rid of the barriers to the importation of whisky by Italy—something on which he is to be congratulated.

**5. Mr. Tony Lloyd** asked the Prime Minister if she will list her official engagements for Thursday 13 December.

**The Prime Minister:** I refer the hon. Gentleman to the reply that I gave some moments ago.

**Mr. Lloyd:** Knowing that the Prime Minister places a high priority on conforming to the letter of the law, will she join me in condemning the Conservative-controlled Trafford borough council, which she is refusing to conform with both the spirit and the letter of the Chronically Sick and Disabled Persons Act by not providing adaptations for handicapped people until July next year? Will she have a quiet word with the Secretary of State for Social Services and ask him to use his powers to make that council conform?

**The Prime Minister:** I seem to remember that in that Act there is a good deal of discretion as to how it is applied. It is not absolutely mandatory. Any question arising from the case to which the hon. Gentleman referred would not be for me but would be a matter for the courts to decide.





10 DOWNING STREET

*From the Principal Private Secretary*

14 March 1985

FINANCING THE BBC

The Prime Minister discussed with the Home Secretary and the Chancellor of the Exchequer this morning the Home Secretary's minute of 11 March, together with the earlier exchange of minutes about a review of the financing of the BBC.

On the period of the settlement, it was recognised that the length of time needed for the financing review and for taking policy decisions in the light of it was uncertain at this stage. It was agreed, that, in the light of the considerations in the Home Secretary's minute, it would be unlikely to be less than two years. The best course might therefore be to fix a new fee for a period of two years, with a statement on the lines that an extension for a further year was not ruled out but in that case the licence fee would remain at the same level.

On the amount of the licence fee, a decision was reached, which I am not recording in this letter.

The Home Secretary said that he had considered ways of widening the terms of reference of the licencing review so that it could cover sources of finance other than advertising, such as receiver subscription. He now proposed to do that by adding a final sentence to the terms of reference which would read as follows: "to consider any proposals for securing income from the consumer other than through the licence fee". There was a brief discussion about the proposed Chairman of the review and it was agreed that this discussion would be resumed next week. The Home Secretary said that it would be helpful to avoid as far as possible, in advance of the announcement of the new licence fee and of the financing reveiw on 26 March, statements which would lead to expectation of consideration of new methods of financing the BBC in the longer term.

Summing up the discussion, the Prime Minister said that the proposed licence fee from April 1985 was agreed: it would run for two years and would be accompanied by an announcement to the effect that an extension for a third



year was not ruled out but the licence fee would in that case continue at the same level: the Home Secretary would give further consideration to the exact form of words. She would discuss further the appointment of the Chairman of the financing review with the Home Secretary in the coming week.

I am copying this letter to Rachel Lomax (H M Treasury) and Sir Robert Armstrong.

FRB

Hugh Taylor Esq  
Home Office





Mr Webber  
 Mr Gibson  
 Mr Butler  
 Mr Innes  
 Mr Mower  
 Mrs Harris  
 Mr Ggleston

Copy to Mr Lambour,  
 - Treasury.  
 14/3 9/13

QUEEN ANNE'S GATE LONDON SW1H 9AT

13 March 1985

2 Stuart,

BBC Accounts

I understand that for a number of years my officials have raised with yours misgivings about the form of the BBC's annual accounts. Our concern has been that in the past the accounts have not provided a full and clear exposition of the Corporation's financial position. Following discussions in recent months a number of points have been cleared up, but there remains one major and fundamental issue relating to the treatment of fixed assets which I would wish to see resolved before the accounts for 1984-85 are prepared.

As you know, it has until now been the BBC's practice to write off in its income and expenditure account all its capital expenditure in the year of acquisition, rather than spreading the cost over the assets' useful life by way of a depreciation charge. This does not conform with standard accounting practice, and I understand that in November of last year the Treasury wrote to the Director of Finance reiterating our view that the accounts should be changed in this respect and provided, at the BBC's request, suggestions of how this might be done. However, the Deputy Director of Finance has now replied that the Corporation does not feel that the change is justified.

I think it is important that the BBC should be seen to be conforming with good accounting practice: it is required under paragraph 17(2) of its Charter to make proper provision for replacing or renewing its property, and I think it is right in principle for the accounts to reflect both these factors by showing depreciation of its fixed assets. As you know there is provision in the Charter for me to specify the information to be given in the accounts, and I am anxious that the depreciation of fixed assets should be incorporated into the income and expenditure account.

I should be quite prepared for you to decide how this should be presented, but of course Treasury and Home Office officials would be prepared to offer assistance if required.

Yours,  
 L

Stuart Young, Esq.



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PRIME MINISTER

13 March 1985

BBC LICENCE FEE

Very very crudely over three years a £1 reduction in the licence can be achieved by:

1. Reducing expenditure by £50 million
- or 2. Reducing inflation by 1% pa
- or 3. Increasing overall productivity by 1% pa

Thus the Home Secretary's £59 licence required to maintain existing services assuming 8.4% inflation would:

- a. reduce to just under £56 if 5% inflation were used
- b. further reduce to £52 if capital expenditure were limited to replacement of worn out and obsolete equipment ie £190 million instead of £395 million
- c. would remain at £52 if all the further £167 million on new and improved services was spent and productivity were nearer 5% pa (close to UK production sector average of last 3 years). Alternatively have more capital expenditure and less enhanced services.

But these calculations assume that the underlying BBC figures are correct (which is not wholly true) and that its existing level of spending is on the right things and gives value for money.

Peat Marwick report that the BBC lack even rudimentary commercial management discipline. Appendix A of the Home Secretary's note lists their more important findings. The

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E. R.  
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report also identified that the BBC were paying 30% more than necessary on office cleaning and security, that they had lost £12½ million on foreign currencies through failing to adopt recommendations by Barclays Bank, and that their Langham site development plans would house 250 more staff than required.

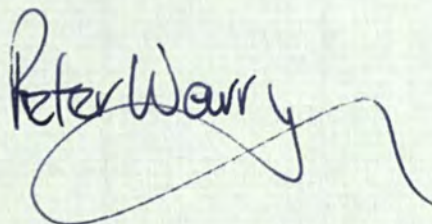
Further savings could be made if the BBC withdrew from local radio, breakfast TV and Direct Broadcasting by Satellite and concentrated more on true public service broadcasting.

### Conclusion

Uplifting the present £46 licence by inflation over the last three years would yield a £55 licence. With 5% inflation the BBC could maintain its existing service and capital spending on a £56 licence. Therefore if they are to be left any scope for improvement £55 should be the maximum three year licence. £52 should be the minimum and would permit them to limp along with no modernisation or enhancement.

If a 3 year licence increase is granted then the propaganda war for the next licence is likely to start in mid-1987. The battle on a two year licence would start in mid-1986 which would conveniently follow on from the result of the financing review. This is probably the better option.

A two year licence equates to a little over a pound less than an equivalent three year one. We therefore recommend a £53 licence to last for two years but conditional on active implementation of the Peat Marwick recommendations.



PETER WARRY

CONFIDENTIAL - 2 -





Prime Minister

We shall be meeting on 13 March to discuss the BBC licence fee settlement. I hope this minute will assist our discussion.

The BBC's proposals may be briefly summarised as follows. Using their own figures:

- (a) the cost of providing existing services for 3 further years without a change, and without inflation, requires a colour licence fee of £51/52
- (b) if, however, costs rise to the extent the BBC assumes, the provision of those services without change for 3 years would require a colour licence fee of £59
- (c) the addition of the cost of new and enhanced services, increased capital expenditure, and the inflation associated with both, brings the BBC claim to £64.6

The BBC's application assumes a 1% per annum improvement in labour productivity.

I should explain that the previous settlement was reached on 2 December 1981, when the BBC were in deficit by about £30m.



Under it, the BBC were required to pay off their deficit and live within the income provided by the new fees until 31 March 1985. Implicit in a settlement for a fixed period of years, where the annual income remains more or less constant but prices rise, is that spending cannot match income in each year (assuming no significant change in the level of service). The BBC's expenditure plan for the period 1982/83 to 1984/85 therefore showed them spending less than their income at the beginning of the period and using the surplus to fund their spending at the end. This pattern has been followed and the BBC will break even as at 31 March 1985, spending in 1984/85 a total of £771m. This is what was envisaged when the settlement was made in December 1981, it is for this reason that the BBC is currently spending at a rate equivalent to a £51 fee.

It will of course be for the BBC and not the Government to decide how to allocate their total licence fee income; and they may decide to do so in different ways when they know they will not get £65. But it is convenient to consider the various components of the application separately and we need to ask:-

- (a) could the improvement in productivity assumed in the application be increased, so that existing services could be provided for less than is assumed?
- (b) to what extent should the BBC's inflation assumptions be accepted?
- (c) what extent, if at all, should money be provided



for the cost of new and enhanced services and increased capital expenditure?

With regard to productivity, the position is that the BBC originally assumed a 0.3% annual improvement in productivity, but adjusted the assumption in the application to 1% in the light of the Peat Marwick Mitchell report. The report does, however, suggest a substantial number of ways in which management procedures and management culture could be improved. Some of the most critical points are set out in Appendix A. The difficulty, however, is that Peats do not give a figure for the amount of money that could be saved by changes of the kind that they imply are necessary, and some of the changes are of such a fundamental kind that they are unlikely to yield results for some time. Consequently, it would be very difficult to know what assumptions it would be reasonable to make for the improvements that could properly be expected in the coming years, which would lead to a further reduction in cost. Nonetheless, I do think that it is reasonable to make some such assumption, however arbitrary it may seem, and no doubt we will wish to discuss its extent.

With regard to the inflation assumptions, the position is that the BBC have calculated, by reference to past experience and with some assistance from Peat Marwick Mitchell and other forecasters about future trends, different inflation rates for different elements of their expenditure. On capital expenditure they suggest a rate of 7%, but Peats think this should be 5.5%. On operating costs they suggest a number of rates which aggregate at 8.4%.



This includes 8% for staff costs, with basic pay increasing at 5% a year. (The Treasury of course expects earnings to rise by 7.5% this year.) In the case of a Government Department it would be regarded as wholly unacceptable to assume inflation rates so much above the GDP deflator. But the BBC contend that they are a price taker, rather than a price maker, as they have to compete with the ITV system for labour and are already paying 30% below ITV rates. (A note giving details of the BBC's inflation assumptions is at Appendix B.) Although it is undoubtedly true that ITV have until recently been extremely unheroic in their attitude to trade union pressure, and have agreed to inordinately high wage increases and manning levels, I still do not think that we could possibly agree to the assumed BBC cost increases to anything approaching the extent that they suggest. Again, we will want to discuss how far it would be reasonable to go.

The nature of the new enhanced services, that the BBC wish to provide is set out in summary in Appendix C. The bid for £249.9m for new and improved services includes £47.1m which the BBC says is better regarded as essential expenditure on existing services which, because of state of the art improvements in technology, has an unavoidable element of improvement. I think we should regard this item as the residual one, to be provided for only to the extent that there is room for it within what we would regard as the overall acceptable fee.

You will also of course need to consider the period of the settlement. In 1981 we made a great virtue of a 3 year settlement,



and since then statements have been made about its desirability, but not to the extent of this amounting to any sort of commitment. I do not think that a one year settlement would make sense in the light of the financing review. We certainly want the review to be crisp and businesslike, and carried out in a reasonable time scale, but it is bound to take a little more time to find the members of the inquiry and set it up. In addition we must remember that the inquiry is designed to produce options, rather than a single recommendation, and this means that we in Government will have to make up our mind on exactly how to proceed after the results of the inquiry are to hand. Moreover, even if income from licence fees is to form only part of the BBC's income as a result of the study, some time would still be needed to reach the next settlement on that aspect of the BBC's income. For these reasons I think that a settlement for less than 2 years is impracticable, and we will need to discuss the political and other advantages and disadvantages of 2 years and 3 years respectively.

I am sending a copy of this minute to the Chancellor of the Exchequer and to Sir Robert Armstrong.

L. B.

11 March 1985



PMM REPORT: WEAKNESSES IN THE BBC'S FINANCIAL MANAGEMENT  
AND ATTITUDE TO RESOURCES

1. The Incremental Approach

- a. "A persistent belief that there is a directly proportional relationship between quality and money in broadcasting".
- b. A general expectation "that the status quo represents a base on which new activities and expansion can be built".

2. Resource Management

- a. Not sufficient pressure for adequate mechanisms everywhere in the system to ensure that the best value is obtained for the BBC as a whole.
- b. Not always adequate justification or consideration of costs and benefits when new projects or ventures are under consideration.
- c. Insufficient development of the management skills of middle managers, who often have a "creative" background.
- d. Accountability for resources sometimes poorly matched with the authority to use them.
- e. Inadequate follow-up to the 1982 systems review of the BBC.



- f. In some areas managers do not have a clear view of their objectives.
- g. More attention needed in the BBC's activity review programme to implementation, the preparation of action plans, priorities, and timetables.

### 3. Productivity

- a. "Any sizeable organisation can achieve some improvements in efficiency and economy without affecting its output and the Corporation is no exception."
- b. "New techniques and methods of production .... are regarded primarily as adding to quality and complexity rather than productivity."



## THE BBC'S INFLATION ASSUMPTIONS:

1. People. 56% of the BBC's expenditure goes on staff, and a further 19% on artists and sporting contracts. Their assumptions in this area are as follows:

- a. Staff. 7% per annum for pay, allowing for basic pay awards of 5%, with the balance to meet enhancements in pay, London Weighting and increments. A recent agreement on conditions of service will add a further 1% per annum.

Total 8%

PMM comment: Had they been asked to make a forecast they would have suggested 7.1% to 8.4% in individual years over the period. If the BBC fail to provide earnings increases broadly in line with that projection, they thought it a reasonable expectation that labour turnover will increase and the quality of recruits decline.

- b. Artists and Sporting Contracts.

10-11%

The BBC is in direct competition with ITV. BBC artists fees (writers, musicians, performers) are about 35% below



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current ITV rates. The cost of films and sporting rights continues to rise.

PMM comment: Nil.

## 2. Things.

### a. Programme cash costs:

10% per annum

(Design, materials, costumes, graphics etc)

### b. Other operating costs:

5½% per annum

(But exceeded in some areas, such as rental increases for BT lines).

### c. Capital expenditure

7% per annum

The BBC accept that 5½%-6% should generally reflect changing price levels, but the rising costs of hi-tech "state of the art" equipment leads them to increase the allowance.

PMM comment: 5½-6% would be an appropriate figure.

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ENHANCEMENTS AND NEW SERVICES

APRIL 85 PRICES

Enhancements(a) Capital

|  |        |        |
|--|--------|--------|
| 1. The BBC explain that £395.1 million capital expenditure they plan over 3 years includes an unavoidable element of enhancement, which they estimate amounts to | £47.1m | £47.1m |
|--|--------|--------|

(b) Operating

|  |         |         |
|--|---------|---------|
| 2. Visible improvements to television drama, and the quality of other television programmes                                  | £69.9m  |         |
| 3. Similar improvements to radio   | £11.4m  |         |
| 4. Improvements in television news and current affairs   | £35.5m  |         |
| 5. Strengthen news gathering capacity of local radio; wider coverage of overseas matters, closer ties with local communities | £9.9m   |         |
|  | £126.7m | £126.7m |

New Services(a) Capital

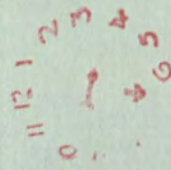
|   |        |
|---|--------|
| 6. New Services for Television (largely Parliamentary broadcasting) | £7.3m  |
| 7. Construction of 10 new local radio stations                      | £14.2m |



|   |               |                |
|---|---------------|----------------|
| 8. Increase in local radio output   | £10.3m        |                |
| 9. Gaelic broadcasting and development of community stations in Scotland and Wales  | £3.9m         |                |
|   | <u>£35.7m</u> | <u>£35.7m</u>  |
| <br>(b) <u>Operating</u>  |               |                |
| 10. 2 hours additional television, weekday afternoons   | £10.6m        |                |
| 11. Televising Parliament   | £2.3m         |                |
| 12. Improved television regional programming  | £4.5m         |                |
| 13. Operating costs of 10 further local radio stations and to increase local and network programming to sustain local radio | £19.5m        |                |
| 14. Minor developments in radio programming in national regions including increase in Gaelic broadcasting                   | £3.5m         |                |
|   | <u>£40.4m</u> | <u>£40.4m</u>  |
| Total improvements and New Services   |               | <u>£249.9m</u> |



11 MAR 1985







Prime Minister

Pl. also see Mr. Tebbit's  
minute attached.

I doubt that Sir  
Christopher Hogg would do it,  
and none of the other  
suggestions below strike me  
as quite right.

Ref. A085/713

MR BUTLER

Financing the BBC

Thank you for your minute of 6 March.

2. I share the Prime Minister's reservations about Professor Alan Peacock as the Chairman of the proposed Inquiry.

FERS  
8-3.

3. I have been trying to think of alternative possibilities. I offer four names for consideration:

(1) Sir Cecil Clothier QC. Sir Cecil (65) was the Parliamentary Commissioner for Administration until the end of 1985. Before that he had had a distinguished career at the Bar and had served as a Recorder. His experience as Parliamentary Commissioner for Administration has given him a wider understanding of the processes and problems of government.

(2) Mr Brian Currie (mid-40s), the senior partner of Arthur Andersen and Company, and one of the leading accountants. The Prime Minister will remember that he was considered as a possible Comptroller and Auditor General.

(3) Sir Christopher Hogg (48), the Chairman of Courtaulds.

(4) Lord Rawlinson of Ewell QC. I understand that Lord Rawlinson is cutting down on his commitments at the Bar, and would be willing to be considered for public service of this kind. He clearly has intellect and standing; I do not know that he has a position on the issues in question, though I suppose that his being a former member of the Conservative Administration might be thought to carry the presumption of some degree of support for advertising or sponsorship.





4. Out of these four, my own first choices would be Sir Christopher Hogg and Mr Currie.

RTA

ROBERT ARMSTRONG

8 March 1985



cc NYO

JF7749



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APPOINTMENTS IN CONFIDENCE

PRIME MINISTER

FINANCING THE BBC

Leon Brittan copied to me his minute of 28 February, proposing the terms of reference for a study chaired by Professor Alan Peacock, to review the financing of the BBC. I have seen also the record of your discussion with Leon Brittan on 5 March.

2 I am content with the proposed terms of reference, as amended in your discussion. As regards Professor Peacock, I feel less sceptical than you about his willingness to investigate these matters robustly notwithstanding the special pleading of interested parties. I believe it would be desirable for the membership of the inquiry team to include one or more industrialists with knowledge of the requirements of companies for whom advertising is undertaken. I shall write separately to Leon Brittan to suggest names.

N T

8 March 1985

Department of Trade & Industry



Broadcasting : BBC 7/79.

→ 8 MAR 1985

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9 8 7 6 5 4 3 2 1



SUBJECT  
 cc Master Self



file  
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## 10 DOWNING STREET

From the Principal Private Secretary

6 March 1985

### FINANCING THE BBC

The Home Secretary called on the Prime Minister yesterday to discuss his minute of 28 February covering the draft terms of reference for a review of financing the BBC and a proposal of the name of a Chairman.

On the terms of reference, the Prime Minister felt that the alternative methods of financing the BBC should not be limited to advertising and sponsorship. There were objections in principle to obliging people to pay the BBC licence fee simply for owning a receiver when they might wish only to receive non-BBC programmes. If manufacturers could market receivers which were incapable of receiving BBC programmes, she saw no reason in principle why people should not be able to have these without paying a BBC licence fee.

The Home Secretary said that, as a matter of fact, surveys had found that there would be insufficient demand for television sets which could only receive non-BBC programmes. There would also be difficulties about enforcement of the licence fee if such sets were made available. Nevertheless, he would have no objection to widening the terms of reference by including words on the lines of "or other methods of raising finance" after "advertising or sponsorship".

On the suggestion of a Chairman, the Prime Minister commented that she had doubts whether Professor Alan Peacock had sufficient knowledge of broadcasting to prevent the wool being pulled over his eyes by those who have a vested interest in opposing alternative methods of financing the BBC. She would not rule him out as a member of the inquiry but, until she had had the opportunity to consider alternatives, she was doubtful about whether he would be appropriate as Chairman.

The Home Secretary and the Prime Minister agreed that they would both give further consideration to alternative names for the Chairmanship of the Inquiry and then resume their discussion.



I am copying this letter to Janet Lewis-Jones (Lord President's Office), Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (H M Treasury), David Morris (Lord Privy Seal's Office), Callum McCarthy (Department of Trade and Industry) and Sir Robert Armstrong.

*Leib*

Hugh Taylor, Esq.,  
Home Office





*ate* *SM*

10 DOWNING STREET

15

*From the Principal Private Secretary*

SIR ROBERT ARMSTRONG

You will see from the attached minute that the Prime Minister is not so far persuaded about the suggestion of Professor Alan Peacock as the Chairman of the Inquiry into ways of financing the BBC. The Home Secretary emphasised that it was essential to have somebody who had no known position or vested interest but had intellect and drive and a standing which would command respect. If you can think of any paragon who would satisfy this description, I am sure that the Prime Minister would be very grateful.

*Perb*

6 March 1985

CONFIDENTIAL - APPOINTMENTS IN CONFIDENCE

*ls*



CONFIDENTIAL

*TH*

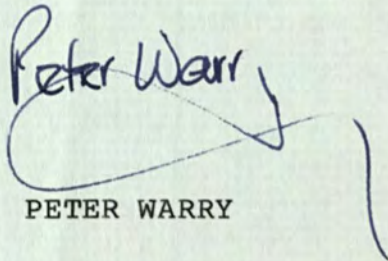
*Seen by*

PRIME MINISTER

1 March 1985

FINANCING THE BBC

We support Leon Brittan's enquiry and the appointment of Professor Alan Peacock as Chairman. Our only detailed comment is that the Committee's range of alternative options should include one showing what services the BBC should continue to provide in the absence of any advertising at all.

*Peter Warr*  


PETER WARRY

CONFIDENTIAL





No. of the terms of reference are far

Pr. Minister: CEBI

PRIME MINISTER

Agree that

Professor Peacock should be approached to chair the BBC inquiry?

too limited  
I might be consulted?!

FINANCING THE BBC

As you know, I have been considering with colleagues, alongside the BBC's application for an increase in the licence fee, the establishment of an inquiry into the possibility that the BBC should be funded, at least in part, through advertising, on the lines that we discussed on 9 January.

I have now discussed this proposal with the Lord President, the Foreign & Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal and the Secretary of State for Trade and Industry, all of whom support it. The Lord President considers that, because of the close association of the proposal with the licence fee settlement itself, the proposal need not be submitted to H Committee.

Accordingly, I now seek your approval to my announcing, with the licence fee settlement which we shall be considering separately, a study with the attached terms of reference (subject to any comments the chosen Chairman may have on them). These have been approved by colleagues and reflect my view that the study must consider all the implications of advertising, and put forward a range of alternative options, rather than a single recommendation. I remain convinced that this kind of study is a more effective way of securing that a wider variety of issues relating to the BBC is considered, than setting up an inevitably time-consuming inquiry of a more general kind. This view is shared by the colleagues with whom I have discussed the matter.

I envisage that the study should be undertaken by a small inquiry team, with about seven members. It would be a great help if, when we come to announce the study, we can give also the name of the Chairman. I propose, if you agree, to approach Professor Alan Peacock. He is currently the Principal of the University College at Buckingham and is, of course, a distinguished economist.

Nd  
shop enough



CONFIDENTIAL

2.

In addition to his academic career, he has served as Chief Economic Adviser to the Department of Industry and Trade (as it then was) and has worked on a number of public inquiries. It is relevant that he combines his economic expertise with interest in the arts and that he has undertaken an economic analysis of the market place for musical composition. Experience in bringing a market perspective to a cultural matter usually approached in a different way should be most helpful.

I am sending a copy of this minute to the Lord President, the Foreign & Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal and the Secretary of State for Trade and Industry, and to Sir Robert Armstrong.

L.B.

28 February 1985

CONFIDENTIAL



DRAFT TERMS OF REFERENCE FOR REVIEW OF FINANCING THE BBC

- (1) To assess the effects of the introduction of advertising or sponsorship on the BBC's Home Services, either as an alternative or a supplement to the income now received through the licence fee, including
  - (a) the financial and other consequences for the BBC, for independent television and independent local radio, for the prospective services of cable, independent national radio and direct broadcasting by satellite, for the press and the advertising industry and for the Exchequer; and
  - (b) the impact on the range and quality of existing broadcasting services; and
  
- (11) to identify a range of options for the introduction, in varying amounts and on different conditions of advertising or sponsorship on some or all of the BBC's Home Services, with an assessment of the advantages and disadvantages of each option.

Home Office  
28 February 1985





10 DOWNING STREET

*From the Private Secretary*

27 February 1985

During the course of their meeting this afternoon, the Prime Minister enquired about the progress of the Home Secretary's consideration of the BBC's application for an increase in the licence fee. She mentioned to the Home Secretary that she had received a letter from an independent producer on a number of aspects of the licence fee system including the possibility of development of a scrambler system which would limit reception in particular television sets to one or other service. If this were technically possible it would facilitate a move away from the present arrangements which amounted to a compulsory levy on all viewers regardless of whether they watched BBC. I attach a copy of the memorandum which has been sent to the Prime Minister.

(TIM FLESHER)

Mrs Christine Heald,  
Home Office.



Mr Barclay  
for your own information.

Peter Werry  
25/2

CONFIDENTIAL

CF p&e keep.

DWB  
26/2

HOME SECRETARY

25 February 1985

BBC LICENCE FEE

You asked for a note showing my calculations for a £55 licence. This is given at Appendix 1 and is based entirely upon schedules provided by the BBC with the following adjustments.

1. Expenditures on enhancing the quality of the existing service and on new services have been halved - saving £84 million.
2. Capital expenditure has been cut by 25% - saving £108 million. If replacement of worn out and obsolete equipment is left untouched then this equates to a 45% reduction in 'non-essential' capital expenditure.
3. Efficiency of all operations within the BBC is assumed to increase at 1% per annum (consistent with Peat Marwick report) instead of the 0.3% they have used - saving £35 million.
4. Inflation at the rate of 5% per annum has been applied throughout. The BBC's basic figures are at April 1985 prices and therefore need escalating by  $\frac{1}{2}$ ,  $1\frac{1}{2}$  and  $2\frac{1}{2}$  years' inflation respectively.

The calculation relies upon the accuracy of the BBC's forward projections: this is uncertain as their forecast figures are not matched by any equivalent year by year analysis of historical performance.

More importantly it assumes the BBC's present rate of expenditure is justifiable (vide Peats report), and that all of the current BBC activities are appropriate for it to

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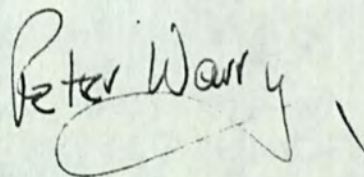
CONFIDENTIAL

continue, eg, breakfast TV, local radio, Direct Broadcasting by Satellite. For these reasons, I would suggest £55 is the upper limit for the new licence rather than the correct level.

By way of comparison, escalation of the present £46 licence by inflation over the last three years also gives a £55 licence. Similarly, inflating the April 1985 level of spending, equivalent to a £51 licence, 1½ years to mid-1986/7 prices at 5% p.a. again yields a £55 licence.

Moreover, if the BBC were to achieve overall the same 4.8% p.a. growth in the output/head that the production sector of the economy has achieved over the last three years, (instead of the 1% p.a. I have assumed), then the cuts in service enhancements and capital expenditure could be avoided completely.

Appendix 2 comments on the five major non-financial arguments that the BBC put forward to justify the licence increase.

A handwritten signature in black ink that reads "Peter Warry". The signature is written in a cursive style with a large, sweeping underline.

PETER WARRY

CONFIDENTIAL



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Appendix 1

CALCULATION OF REVISED LICENCE FEE

|  | <u>85/6</u> | <u>86/7</u> | <u>87/8</u> | <u>Total</u> |
|--|-------------|-------------|-------------|--------------|
| Total expenditure<br>April 85 prices<br>(BBC Appendix A)                 | 882.8       | 911.2       | 912.2       | 2706.2       |
| <u>Less</u>  |             |             |             |              |
| 50% cut in service<br>enhancements<br>(BBC Appendix A,<br>Schedules 1&2) | (19.9)      | (28.8)      | (34.9)      | (83.6)       |
| 25% cut in capital<br>expenditure<br>(BBC Appendix A)                    | (36.6)      | (35.8)      | (35.3)      | (107.7)      |
|  | <hr/>       |             |             |              |
| SUB TOTAL  | 826.3       | 846.6       | 842.0       | 2514.9       |
| Overall efficiency<br>increased by 1% p.a.<br>instead of 0.3%            | 820.6       | 834.9       | 824.7       | 2480.2       |
|  | <hr/>       |             |             |              |
| 5% inflation applied<br>at mid-years                                     | 841.1       | 898.4       | 931.9       | 2671.4       |
|  | <hr/>       |             |             |              |

If BBC's original total expenditure of £3136.4 million equates to a £65 licence then the revised expenditure of £2671.4 million equates to a licence of  $\frac{2671.4}{3136.4} \times 65$  ie. £55.4

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Appendix 2

NON-FINANCIAL ARGUMENTS

1. The public 'expects' the BBC to improve both the quality and quantity of its output. But they provide no evidence that the public would be prepared to pay 41% more for this.
2. Cost increases are higher for the BBC than others - BBC inflation over the next three years is set at 8% pa except for artists and sport which are 10-11% pa. Their argument is wholly unconvincing and is not fully supported by Peat Marwick Mitchell.
3. They have made tremendous strides in management effectiveness and productivity. In fact they show they have performed far worse than the economy in general, eg in the ten years to 1983/4, TV output per member of staff has grown by only three minutes/man-year, from 41 to 44, despite more daytime broadcasting and far more foreign productions.
4. That compared to other European countries with the £46 (but not the £65) licence the BBC in total expenditure terms is cheapest. But on actual licence comparisons where the BBC has the double advantage of a large population over which to spread the costs and the universality of the English language, it will be cheaper only than the Scandinavian countries and Austria. The current average licence in Europe weighted by population is £48.
5. To stay abreast of technological developments. But they say this yields only 'occasional gains in productivity' so one must question the competence of their management in approving such investment and their engineers in using it.

CONFIDENTIAL



MR BUTLER

MR BARCLAY

MR FLEWELLER

Yes  
for  
Also to cover the point we  
discussed this morning?

The Home Secretary's office rang this morning asking for a half hour slot next week to discuss licence fees. I have put the Home Secretary in the diary at 1500 hours on Wednesday 27 February. — cancelled.

They have also asked for a separate meeting later to include the Chancellor and I have put them both in at 1115 on Wednesday 13 March.

CR.

Caroline Ryder

19 February 1985





R10/2

Prime Minister  
You may care to read the attached  
by the producer of the  
4 programs of the  
advocates subscription  
as an alternative to  
licence and advertising

# Brook Productions

2 Newburgh Street, London W1V 1LH. Tel: 01 - 439 9871

14th February 1985

*John 25/2*

Rt Hon Margaret Thatcher MP,  
The Prime Minister,  
10 Downing Street,  
London SW1.

Dear Prime Minister,

X

I thought you might like to know that the interview you gave on A WEEK IN POLITICS attracted the highest audience so far for our series, by some considerable margin.

I would also like to add a personal note of thanks for the kindness and consideration you showed towards the studio crew and my own production team.

Just in case you have time to read an independent producer's views on funding the BBC, I am enclosing a copy of an article that will appear in the March edition of Televisual.

Yours sincerely,

*David Elstein*

David Elstein  
Executive Producer  
A WEEK IN POLITICS

Enc.



Cards on the table.

I am an independent producer, having spent 14 years freelancing in ITV, and 4 at the BBC. As a potential co-producer and as a viewer, it is in my interests to see the BBC well run, amply financed and making high quality television. The cash crisis currently confronting the BBC needs to be resolved. It was entirely predictable. Sadly, the BBC failed to predict it, and even now offers only one solution, rejected overwhelmingly by government and public: increase the licence fee to £65.

Eight years ago, the Annan Committee reported the BBC's belief that it could manage on a 25% licence increase every 3 years in a period of 8% inflation, and every 6 years in a period of 4% inflation. The colour licence fee at the time was £18. Since then, we have seen licence fee increases of 16%, 19%, 36% and 35%, with another 41% increase currently being sought. Inflation has been below 5% for two years.

How could the BBC have so miscalculated? In the mid-70's, although the total number of TV licence holders was rising by only 1 or 2% each year, the proportion of these with a (more expensive) colour licence was rising by nearly 10% each year. It was this gearing which enabled the BBC to increase its income faster than the licence fee rose, and underlay the BBC's optimism to Annan. However, sooner or later - by the trend in the mid-70's, within 5 years - the proportion of colour licence holders would reach a maximum, and the hidden gearing would disappear. That has now happened.

The BBC today admits that, far from being able to manage within the going rate for inflation, there is currently a "broadcasting inflation rate" which exceeds the general inflation rate. Not only that: the BBC's wish to expand can no longer be financed out of the colour-licence gearing: it must be borne by an extra increase in the licence fee itself.

The chances of this government - intent on reducing both public expenditure and inflation - agreeing to a 41% increase in the licence fee must be zero. The BBC argues that the licence fee now costs 47% less in real terms than it did in 1968. This is demonstrably untrue. The correct figure is 25% less, but a £65 licence would represent 12.5% more than the 1968 level. Projecting current inflation rates to April, the BBC needs a £58 licence fee to restore its 1968 purchasing power.

The BBC has added to its discomfiture by now embarking on a public relations exercise wholly inappropriate to its political vulnerability. It might modestly have said to the government: "we are a fairly successful, reasonably efficient public service organization, with the right mix of programmes - to sustain ourselves, we need, inevitably, more resources - we prefer to rely on the licence fee alone - what do you suggest?"



Instead, it describes itself as "the best bargain in Britain": but which bargain is so good you would willingly pay 41% more for it? It claims to be Britain's most efficient programme-maker: but Channel Four's independent sector is unquestionably more efficient. It underlines its declining costs per hour: but any expanding organization should be able to reduce its unit costs.

Above all, in its campaign against advertising, it betrays its old arrogance with one of those too-clever-by-half slogans that so irritate the public: "you can't be a little bit pregnant". (Who remembers those jokes about cable and "wall-to-wall Dallas", now that the BBC has a corporate heart attack over losing Dallas to Thames?)

Although no-one at the BBC these days argues that advertising lowers editorial standards, the phrase carries implications of virginal purity that scarcely bear examination.

Low-cost chat shows have long been subsidized by writers and performers trading "plugs" for fees. Great swathes of BBC sports coverage are subsidized by sponsors. For years, BBC publications have earned millions from advertisements without sacrificing the BBC's independence. Nor does the "little bit pregnant" analogy even hold in the case of on-screen paid advertising: it can be limited in its scope and impact.

The BBC's argument depends on the assumption that advertising, once accepted, would eventually displace the licence fee: yet the only proposal currently in circulation is to freeze the licence fee, and let advertising fund everything that the BBC thinks it needs above its current income. If the target were, say, £200 millions, that could be easily raised without the BBC changing any programme in its current schedule, and, in all likelihood, without any significant impact on ITV rates, revenue or profits.

After all, in the last two years an extra £100 millions in advertising revenue has been raised to fund Channel Four and TV-AM, yet ITV profits are at record levels. At the very worst, the BBC could follow Channel Four's example, and preserve ITV's advertising monopoly in exchange for a guaranteed income. This may not suit the advertisers, but it has never been seriously argued - even by the agencies - that the purpose of the exercise is to force down advertising rather than solve the BBC's funding problem.

As the top media consultant, Harold Lind, has decisively demonstrated, 2 minutes per hour in BBC peak-time would earn £200 millions a year. To pretend that this would be the end of western civilization is foolish hyperbole.



All this is offered, not in a spirit of wishing advertising on a reluctant BBC, but to defuse the calamitous warnings uttered by BBC executives. The lack of rationality they display on this subject is revealed by the occasional remark let slip that "if we accept advertising, we might as well go the whole hog and put ITV out of business". Who worries about pregnancy on the way to an orgy? Advertising on the BBC, controlled and calculated, would undermine neither the BBC nor ITV. If the BBC wants to avoid advertising, the way to do so is not to sulk, or sound like Cassandra, but offer a better alternative.

Such an alternative exists. It was not considered by Annan, nor is it currently one of the options suggested by the BBC as it tries to ward off unacceptable substitutes for the licence, such as advertising or a Treasury grant. Yet it is so obvious a possibility that one is driven to the conclusion that it is not mentioned for fear of its transparent merits proving irresistible. That alternative is subscription.

The BBC claims to be the best bargain in Britain. It can prove its case in the market-place. With suitable notice (one year minimum), announce the abolition of the licence fee. Set the engineers to work at Sinclair, GEC, Racal and the like, designing a low-cost descrambler to be fitted to all televisions. Keep the costs of manufacture and distribution below the current annual £57 millions needed to run the licence system. Tell viewers they will be free to choose to subscribe to BBC TV, on (say) a bi-monthly basis (any less frequent and you encourage pirate manufacturers). Then scramble BBC TV signals.

The pure-ITV viewer will no longer feel disgruntled at paying the BBC for not watching its programmes. Multi-set owners - private and corporate, including hotels - will decide for themselves how many of their sets to make BBC-capable. Dodgers (currently evading £100 + millions each year in unpaid licences) will no longer be able to dodge. Discrimination against the poor and honest would cease. Subscription would be socially equitable and efficient: it would restore at a stroke the BBC's independence, so constrained by the need to haggle over the licence: but would it raise enough revenue?

It is already clear that consumers will pay premium amounts for cable, video-cassettes and other ancillary viewing opportunities. By comparison, BBC TV is outstanding value. Professor Ehrenburg, of the London Business School, reckons there would be a 75% take-up of a £104 annual subscription. By that standard, a £60 subscription would surely generate a 90% take-up. Add on the benefits of multiple subscription and elimination of evasion, and a £1,200 millions income is not unrealistic: equivalent to a £65 licence, without any of its disadvantages.

Above all, the BBC could decide for itself what balance of services it offers the public. The worst aspect of the present debate is that the wide opposition to a £65 licence gives the BBC's critics a field day: impose advertising, break up the structure, sell off local radio - all manner of unwelcome thrusts can be made at an unwilling corporation whilst it is the plaything of politicians. In the subscription market-place, there is only one critic the BBC need face: the viewer.



BBC funding

CONTINUATION





Foreign and Commonwealth Office

London SW1A 2AH

8 February, 1985

*Dear Charles,*

Review of BBC External Services

*NBQM  
CDP  
8/2*

Thank you for your letter of 4 February.

It was very helpful to have this indication of the Prime Minister's views in advance of the Adjournment Debate on the External Services which took place that evening.

We made a considerable effort, with the BBC, so that the Report on the External Services could be published in time for the Adjournment Debate since this was an obvious opportunity to draw the House's attention to the report. But Mr Renton made it clear that the Government was still considering the recommendations and the follow-up to the Report; and that this speech did not constitute the Government's response to it. He also referred to some of the more important recommendations in the Report and drew on the language in the exchange of letters between the Foreign Secretary and the Chairman of the BBC which was published with the Report. We shall be putting recommendations to the Prime Minister as soon as possible on which of the Report's conclusions the Government should accept.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (HM Treasury), Hugh Taylor (Home Office), Paul Thomas (Office of Arts and Libraries), and Andrew Stott (Efficiency Unit, Cabinet Office).

*Yours ever,*

*Len Appleyard*

(L V Appleyard)  
Private Secretary

C D Powell Esq  
10 Downing Street



Broadcasting: BBC July 79

Office of the Librarian of Congress

Library of Congress

3 6 2

8 FEB 1985



*[Faint handwritten text]*

*[Faint handwritten text]*



file



10 DOWNING STREET

From the Principal Private Secretary

4 February 1985

Dear Peter,

REVIEW OF BBC EXTERNAL SERVICES

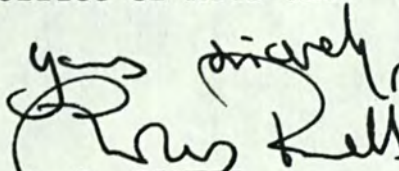
Thank you for your letter of 1 February.

In your letter of 26 November, you said that Sir Geoffrey Howe would study the recommendations of the Report of the Review of the External Services carefully before deciding whether the Government should accept all or some of them. In my reply I said that the Prime Minister looked forward to seeing recommendations on how the Government should react.

It now seems that the Government will be giving their view on the Report in the House this evening before the Prime Minister has seen or commented on any recommendations by the Foreign Secretary. While I have no reason to think that the Prime Minister does not accept the Report's conclusions, I believe that she may feel that in some respects they do not go far enough and that further steps are needed.

May I suggest therefore that any presentation of the Government's view at this stage should leave open the possibility of a further announcement of the more precise steps intended by the Government; and that the Prime Minister now be consulted upon these.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (Treasury), Hugh Taylor (Home Office) and Paul Thomas (Office of Arts and Libraries).

Yours sincerely,  
  
S. D. POWELL

P. F. Ricketts, Esq.,  
Foreign and Commonwealth Office

SL3AAM

SLH





NBPM  
CDP 4/2.  
Foreign and Commonwealth Office

London SW1A 2AH

4 February 1985

Dear Charles,

Review of BBC External Services ← attached

I wrote to you on 1 February about the Report of the Review of the BBC External Services.

/ I now enclose a copy of the revised version, including the exchange of letters between the Chairman of the Board of Governors and the Foreign Secretary, which has just been printed. Copies will be placed in the Libraries of the House this afternoon.

I am copying this letter, with a copy of the Report, to Janet Lewis-Jones (Lord President), David Peretz (HM Treasury), Hugh Taylor (Home Office) and Mary Brown (Arts).

Yours,  
Peter Ricketts

(P F Ricketts)  
Private Secretary

C D Powell Esq  
10 Downing Street





Foreign and Commonwealth Office

London SW1A 2AH

1 February, 1985

Dear Charles,

Review of BBC External Services

I wrote to you on 26 November about the Report of the Review of the BBC External Services and undertook to let you know how the BBC responded to it. In your reply of 27 November you said the Prime Minister looked forward to seeing recommendations on how the Government should react. I am now writing to bring you up to date with subsequent developments.

Publication and implementation of the Review Report have been delayed because of reservations expressed by the BBC about the possible infringement of their constitutional position arising from the recommendations contained in Chapter 7 of the Report - "Determination of the Prescription". After discussion with the BBC, the author of the Report made a number of amendments, agreed with the FCO, to the wording of Chapter 7 to meet the BBC's concerns: in particular making it clear that the recommended procedures are designed to improve value for money and not to compromise the BBC's editorial independence.

Before agreeing to publication, the BBC also made a last-minute request that their Chairman and the Foreign Secretary should make a joint statement confirming the BBC's editorial independence which should be bound into the printed Report. The Foreign Secretary had reservations about a joint statement, and after discussion we agreed that an exchange of letters should be attached at the back of the Report (copies enclosed).

Mr Cyril Townsend, MP, has an adjournment debate on the BBC's External Services on 4 February. This provides a timely opportunity to draw Parliament's attention to the Report. We propose to place it in the libraries of the House that afternoon. Mr Renton, who will be taking the debate, then proposes to welcome the report and express our determination to implement those proposals which are intended to improve the efficiency and economy with which the External Services are run. A further statement could be made in due course after Members had had a chance to study the report.





The FCO and the BBC will make a simultaneous announcement to the media on Tuesday morning 5 February.

Some of the recommendations in the Report are already being implemented. Interdepartmental discussion at official level has begun. We shall also be going through the recommendations in detail with the BBC. We shall keep you informed of progress.

I am copying this letter to Janet Lewis-Jones (Lord President), David Peretz (HM Treasury), Hugh Taylor (Home Office) and Mary Brown (Arts).

*Yours,*

*Peter Ricketts*

(P F Ricketts)  
Private Secretary

C D Powell Esq  
10 Downing Street



BROADCASTING: Finances of ABC  
July 79

21 FEB 1985

10 11 12 1 2 3 4 5  
9 8 7 6







18 JAN 1985

QUEEN ANNE'S GATE

LONDON SW1H 9AT

Mr Faulkner

17 January 1985

CST

Mr Bailey

Mr Gilmore

Mr Lord

Mrs Thomas

✓ 18/1 V23

Dear Nigel,

BBC ACCOUNTS

Thank you for your letter of 27 December about the BBC's accounting policy in relation to the capital assets which they acquire each year.

I agree that this departs from standard accounting practice, and that the BBC's reasons for resisting a change in the past have not been persuasive. Under their Royal Charter, I have of course power to direct the Corporation to include particular information in their Accounts, Balance Sheet or Appendices, but they appeared, towards the end of last year, to be prepared to adopt a more co-operative attitude. An agreed settlement, provided it can be reached before the Accounts for 1984/85 are prepared, seems to me to be preferable and my officials will therefore be reminding the BBC of the deadline. Should they continue to resist or delay, however, I shall certainly return to the point, and the BBC will also be reminded of my powers under the Charter.



SUBJECT  
cc Master.

file



DSC

10 DOWNING STREET

From the Private Secretary

9 January 1985

Dear Hugh,

BBC LICENCE FEE

The Home Secretary came to see the Prime Minister this afternoon to discuss handling of the BBC's application for an increase in the licence fee.

The Prime Minister reiterated her concern about the BBC's journalistic standards. News and current affairs coverage was too often biased and irresponsible; and some programmes on both radio and television were distasteful to the point of offending against public decency. On the latter point, particularly, it might be worth considering applying the IBA statutes to the BBC.

The Home Secretary acknowledged the Prime Minister's concern. He had been giving thought to the best way of putting pressure on the Corporation to raise their standards. On such a sensitive matter, it would be wrong to tackle them head-on by instituting a comprehensive inquiry. It would, in his view, be better to approach the subject by way of the financial issues which arose naturally from the current application.

The Home Secretary continued that he had it in mind to propose an inquiry into the Corporation's financing, and in particular the question of advertising and sponsorship revenue, to be announced at the same time as the Government's decision on the licence fee. He had not yet identified possible members for such an inquiry, but they should be few in number. The Auld Committee provided a useful model.

The Home Secretary envisaged that an inquiry on these lines might expose the weaknesses in the BBC's traditional defence against advertising, which relied heavily on the argument that journalistic standards and objectivity would be threatened. It would, however, be necessary for the inquiry to look also at the impact of advertising by the BBC, at a range of levels, on independent television and on the press. The Prime Minister commented that much would depend on the individuals chosen to conduct the inquiry - she suggested that Sir Woodrow Wyatt might be a good

DSC



candidate for the Chairmanship. She agreed that the Home Secretary's proposal offered a sensible way forward.

Turning to the licence fee application itself, the Home Secretary said that he intended to scrutinise it extremely carefully. The report by Peat Marwick, which he expected shortly, should provide a useful basis. The starting point would be an examination of the bid relating to the BBC's current operations. In addition to searching for economies in this area, the Home Secretary would look very critically at bids for additional activities. The Prime Minister welcomed this. She had long regarded the BBC as unnecessarily extravagant, and she was clear that it did some things which could easily be left to the private sector. In her view, local radio was an example, although the Home Secretary argued that, particularly in smaller towns, the BBC provided a unique service to the local community.

The question arose of how long the next licence fee should run. The Prime Minister's initial view was that the period should be relatively short - say twelve months. The Home Secretary pointed out, however, that this would give insufficient time for the proposed inquiry to report and for the Government to take decisions (and still less action) on its recommendations. A fee lasting two years raised political difficulties in relation to the timing of the next General Election. He was therefore inclined to favour another three year period.

Summing up the discussion, the Prime Minister said that she would be content for the Home Secretary to pursue with colleagues his proposal for an inquiry into the Corporation's finances, and in particular the question of advertising, to be announced with the Government's decision on the licence fee. She urged him to look very critically indeed at the size of the increase which the BBC sought, and at the extensions of their activities which they believed to be necessary.

I should be grateful if circulation of this letter could be restricted to those with an operational need to know.

Yours ever,

David

David Barclay

Hugh Taylor, Esq.,  
Home Office.

DG2AAZ



Public Order

PRIME MINISTER

Meeting with the Home Secretary: Broadcasting

The Home Secretary has asked for this meeting to discuss his approach to the current BBC licence fee application and the wider issues it raises.

I attach a detailed brief on the licence fee by the Policy Unit. The Home Secretary believes that the application for an increase to £65 is excessive, and he will seek to argue it down with ammunition provided by the Peat Marwick Report (not yet formally received). At the same time, he has it in mind to propose an external inquiry of the BBC's future financing which would look specifically at the question of advertising, but also at issues of efficiency and value for money. If an inquiry on these lines finds favour with colleagues, the Home Secretary would announce it at the same time as the Government's decision on the licence fee application.

and  
attend-  
activity

The Home Secretary does not want an inquiry directed specifically at journalistic standards. He shares some of your doubts about these, but believes that improved financial discipline may provide much of the answer. He is also extremely wary of the political dangers of appearing to intervene - for that reason he would rather see deficiencies in the BBC's coverage exposed to criticism from third parties.

DB

mt

David Barclay  
8 January 1985



Public Theory  
Bias  
Frictions.



BBC LICENCE FEE

The BBC produce five arguments for the £65 licence:-

1. The public 'expects' the BBC to improve both the quality and quantity of its output. But they provide no evidence that the public would be prepared to pay 41% more for this.
2. Cost increases are higher for the BBC than others - BBC inflation over the next three years is set at 8% pa *why?* except for artists and sport which are 10-11% pa. They put forward a wholly unconvincing appendix to support this and because Peat Marwick Mitchell have supplied some of the numbers (no doubt just for the economy in general) the BBC try to infer that Peats endorse the whole appendix.
3. They have made tremendous strides in management effectiveness and productivity. In fact they show they have performed far worse than the economy in general, eg in the ten years to 1983/4, TV output per member of staff has grown by only three minutes/man, from 41 to 44, despite more daytime broadcasting and far more foreign productions.
4. That compared to other European countries with the £46 (but not the £65) licence, the BBC in total revenue terms is cheapest - all other countries bar Belgium and some of Scandinavia making up the balance with advertising. But on actual licence comparisons where the BBC has the double advantage of a large population over which to spread the costs and the universality of the English language for importing and exporting programmes, it will be cheaper only than the Scandinavian countries and Austria whose combined populations are barely half ours.



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The current average licence in Europe weighted by population is £48.

5. To stay abreast of technological developments. But they say this yields only 'occasional gains in productivity' so one must question the competence of their management in approving such investment and their engineers in using it.

Amazingly the BBC provide no analysis to show how the various cost increases equate to a £65 licence and the few financial figures they do give are suspended in mid-air - commencing with 1985/6 but with no actuals. This is compounded by bizarre accounting which allows them to write off all new capital expenditure as it is incurred. (Nigel Lawson rightly wants this changed). Thus although they say current expenditure is equivalent to a £51 licence, very roughly each £15 million less spent on capital would reduce this by £1.

The figures they do provide show operating expenditure rising from present levels [of roughly £700 million] to £969 million in 1987/8. £63 million (6½%) of this is spent improving programme content. Capital expenditure over the three years is £480 million, one fifth on buildings. £37 million (capital + revenue) is to be spent establishing new local radio stations. Appendix 1 shows how the money is divided amongst their services.

Even if one disregards the shifting sand on which the whole application is based, there is still clearly room for cuts of 10% in total - say half from capital expenditure and half from foregoing services improvements or extent of coverage. Together with reducing the inflation forecast to a more realistic 5% pa and allowing just 1% pa for cost and productivity improvements, this would more than allow the licence increase to be restricted to £55 - an increase of

CONFIDENTIAL



E.R.

CONFIDENTIAL

20% and more in keeping with inflation since the last review.

The Peats value for money report (if they resist BBC nobbling) should show up further potential savings even before considering the more radical options: selling off assets, hiving off popular radio, pulling out of DBS, stopping breakfast TV, advertising etc.

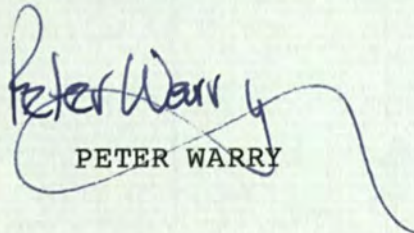
And you need not worry about the impact on the BBC. They tell us that last time the impact of giving them 20% less than they wanted was to :-

- a. prevent them enhancing the range and quality of services as planned
- b. limit investment in new local radio stations and replacement of old buildings
- c. prevent them increasing wages to narrow the gap with ITV.

If b. and c. can be repeated we should continue the medicine.

A decision on the licence cannot be taken in isolation from the longer term future of broadcasting. Appendix 2 reviews the technological changes that are likely to undermine the justification and viability of a licence by the 1990's and considers what the future role of the BBC should be, advertising and the ITV.

For the present it is recommended that a £55 licence be granted for three years, or better, say, a £53 licence for two years.

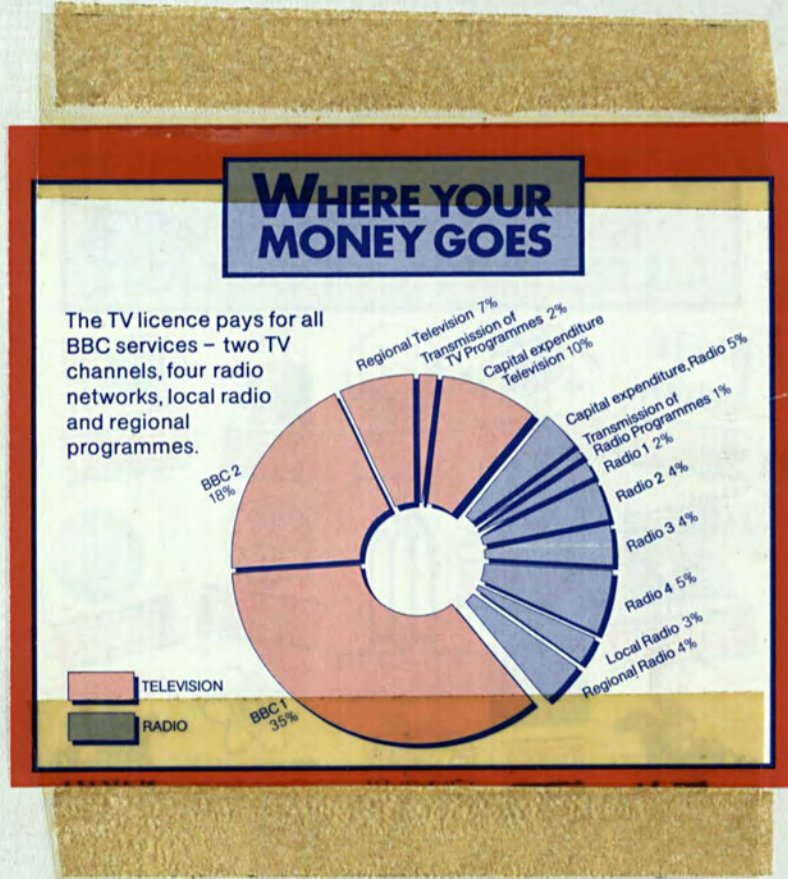
  
PETER WARRY

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WHERE THE MONEY GOES

(BBC licence fee literature)





BBC - THE FUTURE

Cable and DBS technology will reduce the BBC's attainable market share and together with home computers and Value Added Network Services (VANS) will convert the television into a piece of household equipment, rather than an outlet solely for the BBC and ITV.

When founded the BBC rightly strove to provide as wide a service as possible as there was then no commercial offering. This is no longer true, is it therefore right for the BBC to continue to strive for 50% of the audience and to continue to be represented in everything from breakfast TV to local radio?

True public service broadcasting cannot just be a carbon copy of commercial TV but without the adverts. The BBC's objective must be a quality service rather than a share of the audience or full coverage.

The first flat-screen TVs are on the market at a price of £99. Second generation flat screens will be available before 1990 and these will not activate detector vans. They could have the same impact on TV licences as transistors had on radio licences. Furthermore, as BBC's share of TV usage declines, justification for the licence fee must decline with it, and ultimately the preparedness of the majority of the population to pay it must come into question.

Many would consider advertising to taint the BBC's quality image, others would see it as a sensible undermining of the BBC's Reithian aloofness and financial arrogance. All of the vested interests will be against it: the ITV companies will be concerned at the erosion of their monopoly and possible reduction in their revenues. They will ensure that the advertising agencies sing a similar tune and tell horror stories of how the advertising barrel is dry.



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One choice is to abolish the licence altogether putting the BBC on the same footing as ITV but the right solution could be for the BBC to continue with a fixed level of licence fee income but be allowed, not instructed, to top it up with a controlled amount of advertising. This would leave the decision in their hands. And if they contract down to just true public service broadcasting, then they may not need advertising at all. Nevertheless ultimately the licence may have to be replaced by a direct subsidy.

If the BBC do adopt a more 'quality' approach, then any advertising they do will not necessarily affect the volume or price of ITV's; and even if it did, this barrel is clearly not dry yet. Radio advertising is less desirable: it would compete directly with the financially weak independent companies and generate comparatively little income from a barrel that is almost dry.

The ITV levy is currently the subject of a review between Government and the IBA. The high marginal rate of tax and levy on ITV profits (84%) must reduce their incentive to tight management which the BBC argue causes high wages and bad working practices for them as well. If the franchises were auctioned with the price being paid in instalments over the life of the franchise, then the levy could be eliminated and overall more income be raised. This would substantially reduce the marginal tax rate and significantly increase the incentive to good management.

When the ITV franchises come up for renewal in 1989 (unless deferred as a result of the DBS concession) they should be auctioned in lieu of the levy. It would also be sensible that any advertising on the BBC be introduced well in advance of this date, which suggests only a 2-year BBC licence be approved.

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OFFICE OF ARTS AND LIBRARIES  
Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

*From the Minister for the Arts*

*ans  
8/1*

Tim Renton Esq MP  
Parliamentary Under Secretary of State  
Foreign & Commonwealth Office  
LONDON SW1A 2AH

4 January 1985

*Dear Tim,*

*attached*

Thank you for copying to me your letter to Neil MacFarlane, dated 19 December 1984. I am delighted to hear that you are able to agree with his decision to refuse the BBC application to site their transmitter at Bearley. Although the evidence was conflicting, I think there was certainly a risk that the Stratford Theatre would have been affected. Naturally, I shall say nothing about the decision for the moment, but I should be grateful if you would let me know the date of the Orfordness announcement as soon as it is fixed.

I am copying this letter to Neil MacFarlane, Norman Lamont, David Trefgarne and to No. 10.

*Lous,  
T/mj  
2*

GOWRIE

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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

27 December 1984

The Rt. Hon. Leon Brittan QC MP  
Secretary of State for the Home Department

Prime Minister (2)

*[Handwritten signature]*

This and other BBC accountancy issues were discussed in two excellent articles by Kenneth Peet of The Times. I attach copies.

**BBC ACCOUNTS**

It has been drawn to my attention that the BBC persists in a policy of writing-off (in its income and expenditure account) all the costs of its assets in the year they are acquired, rather than spreading the costs through a depreciation charge.

Not only is the practice at odds with standard accounting policy but it enables the BBC to appear to be hard up simply by bringing forward capital spending. I understand that officials in both our departments have been trying to get things put right for some years, but that the BBC has been very reluctant to change. The Finance Director, amongst others there, is apparently worried that spreading the cost might lead to suggestions that the BBC had made a profit when, in fact, there was no cash surplus. I find this wholly unconvincing.

I gather that officials here wrote to the BBC recently with proposals on what should be done. If the BBC resists yet again, I should be grateful for a word about how we might make progress, perhaps in the context of the licence fee settlement.

I am copying this to the Prime Minister.

NIGEL LAWSON

*[Handwritten signature: Nigel Lawson]*

dms  
3/1



**FINANCE AND INDUSTRY****Executive Editor Kenneth Fleet**

# If the BBC is asset rich, should we pay more?

The BBC's claim for an increase in the colour television licensing fee from £46 to about £65 - it would be the first rise since December 1981 - is causing more than ripples in the sensitive pool of the Beeb's finances. The 41 per cent increase the corporation wants could add 0.5 per cent to the Retail Price Index, conceivably just before the annual spring increase in social security payments.

As the latter are index-linked, satisfying the BBC would swell public expenditure by a pro forma £150 million.

Understandably the Government is appalled at the prospect. Schemes to supplement the BBC's revenue are being desperately examined. A crackdown on licence-dodgers and taxes on car radios are two of them. ITV companies may also find their profits levy increased.

But should the BBC receive any increase at all in the licence fee? Should the fee be cut? The answer is by no means clear from the BBC's accounts. The latest available figures are not only at least two years out of date, they are also prepared along ultra-conservative lines.

The BBC Handbook for 1983 includes figures for the financial year ended March 31, 1982. The 1984 Handbook, due out shortly will presumably carry the financial story only up to the spring of last year.

At the heart of the problem of assessing the BBC's finances - and hence the validity of its claim for a bigger licence fee - is the corporation's ambivalent attitude to capital and revenue. Under the BBC's Royal Charter, the corporation may, at its discretion, write off all capital expenditure in the year in which it is incurred against revenue, as opposed to making a charge for depreciation. Since capital expenditure in recent years has been running at around £70 million, double the rate of the late seventies, the income and expenditure account has looked occasionally queasy. Yet had a portion, not the whole, of the useful life of the asset been charged against the year's trading, then a far healthier trading picture would have been shown to the world. In 1981-82 for example, depreciation of £38 million might have been charged compared with capital expenditure of £66 million.

Doubtless, the BBC would argue that it is financially conservative in the interests of prudence, but its claim that it is overrunning its budget needs to be seen in the context of its accounting techniques.

By the same token, the value of the corporation's assets may be massively understated. According to the 1983 Handbook, the BBC still depreciates freehold and long leasehold land and buildings and there is not much sign that these assets are ever revalued.

Can it be that freehold land and buildings valued in the balance sheet under Radio at £22 million is Broadcasting House? Is the TV Centre valued at £52 million? Does the £1.9 million entry under Programme Stocks for BBC Recording relate to the world famous BBC archives?

It is hard to answer these questions with certainty, not least because the BBC is reluctant to discuss them.

But if the asset figures are foggy, so too are the income and expenditure data. The key figure which is missing is the total wages bill. All that is offered, apart from the revelation that in 1981-82, another 192 employees pushed their wages into the £20,000-£25,000 bracket, is an entry under "Operating expenditure" for "Production and other staff costs". This entry can mean "Production costs and other staff costs", or "Production staff costs and other staff costs". Assuming the latter, then the BBC's wage bill is 44 per cent of total revenue. At Thames TV, the bill runs at around 27 per cent of revenue.

What is indisputable however, is that something is going wrong at the Beeb. The corporation appears to be chronically short of money. Annual income is now well over the £500 million mark. Yet, judging from the accounts, the corporation survived one financial crisis in the early eighties only by dint of stringent economies. Borrowings shot ahead at the turn of the decade.

Taking July 29, 1977, as a starting point, and assuming that the BBC is granted a licence fee of £65, the fee would have gone up by 209 per cent, or double the estimated rate of inflation over the same period (98 per cent).

On one reading, the BBC is asset rich and cash flow poor. It has a number of choices, including cutting back programme costs, generating capital receipts by selling off some of the assets and taking in advertising. The value of accounts prepared on an up to date basis is that they would show just how acute the BBC's financial problem really is.



Dec 11, 1984

# FINANCE AND INDUSTRY

Executive Editor Kenneth Fleet

## The BBC still not sending out a clear picture

The BBC is a picture of a wounded monolith. The corporation is under pressure in the perpetual ratings war with commercial broadcasting companies.

It responds in Pavlovian fashion by pushing into new areas like breakfast TV and local radio to hold its own. This costs money, which ultimately is provided by the public through the licence fee. The current £46 colour TV licence lasts until April next year. The BBC would like £65, and the only certainty is that it has a stiff fight on its hands.

Two weeks ago I asked the question here: "If the BBC is asset-rich, should we pay more?" The basic difficulty in finding a rational answer to this and related financial questions that go to the heart of the Beeb's predicament, is the opaqueness of the corporation's accounts. Despite improvements in the latest set (for the financial year ended March 31) they still give off a fairly musty smell. But credit where credit is due.

In the books for the first time are staff costs. Salaries and wages show an increase, at £327.1 million, of 12.7 per cent over 1982/83, twice as fast as the rate of inflation. At £327 million, salaries and wages were 45 per cent of the total BBC income, will up on the previous year's 42 per cent. No signs appear of any cutbacks. The number of people earning between £30,000 and £35,000 rose from 10 to 22; the TV workforce jumped from 17,100 to 17,679.

Changes in accounting policy have been made to highlight the main areas of expenditure, and the sources of funding such expenditure. The balance sheet and notes have been modified to comply with the Companies Act, 1981, an overdue reform, but not the profit and loss account.

Publications (*Radio Times*, etc) have sales of £53 million and profits of £4.3 million. BBC Enterprises, consolidated for the first time, has sales of £31.4 million and profits of £6.9 million (against £2.2 million), on net assets of £5.3 million. Both are healthy looking businesses.

Capital expenditure is still charged against revenue. In 1983/84, it was about £100 million (£86 million), contributing to the 1983/84 deficit of £7.7 million, a swing from 1982/83's £48 million surplus of over £55 million. The BBC has land, freeholds and long leaseholds in the books at written down value of £111 million. How much would they be worth on up-to-date valuation?

What is evident is the continued erosion of the BBC's financial position. Between 1983 and 1984, the adverse movement in net liquid funds was a £58 million downswing, even though interest on bank loans dropped from £0.8 million to £0.1 million. Bank overdrafts for the Home Services (TV and radio broadcasting in the UK) were stable at around £1.8 million, but Other Creditors rose from £22.5 million to £28.1 million.

Capital spending commitments are still as high as ever. In 1984, fixed asset additions which are authorised but not contracted for total £85.4 million, while fixed asset additions which are contracted for but not provided for are £20.6 million.

The BBC conveys an impression of continued growth with little sense that this growth needs ultimately to take account of available finance. Is the sale of some of the Beeb's assets such a heinous suggestion? Every other nationalised industry has been forced to do it; is the BBC so special? Many companies find that an imbalance exists between market aspirations; cash flow; and assets. Using assets to generate income flows, via sale and leaseback, is a commonplace of modern business.

## Banks sound a sour note

Relations between the big clearing banks, the Bank of England and the Government in the form of the Treasury have been sorely tested in recent years and would

seem to be at a particularly low ebb at the moment.

The banks are no lovers of Mr Nigel Lawson, the Chancellor and architect of a succession of tax measures which have already cost the banks dear, and hold more problems in store with the extension of composite rate tax next spring. Bankers also tend to resent the Bank of England for failing to speak up for their interests more forcibly to the Government and the recent row over indemnities to cover likely losses at Johnson Matthey Bankers has not improved relations between the banks and the Old Lady.

Irritation within the Bank of England at the way the clearers grumbled when asked to rally round for the general good are mirrored in about equal measure by dissatisfaction among the banks at having to fork out for something which was not their fault.

The clearers' latest gripe, which sheds interesting light on the complex web of relationships between government, central bank and banking system, is over the phasing out of the £1 note. The extra costs the banks will incur as a result are likely to far exceed the savings to the Government from replacing it with the unpopular coin.

That the clearers appeared initially to welcome the disappearance of the £1 note, is a sign that the Bank of England has not entirely lost its touch to cajole and persuade whatever the experience over JMB. The clearers even appear to have agreed to forgo voicing publicly reservations about the phasing out of the note under Bank of England encouragement.

The changing relationship between the banks and the authorities was also illustrated recently by the way a minor, esoteric dispute between the clearers and Bank of England had to be settled through an arbitration case. It was another example of how the old-fashioned system of informal chats does not always work as effectively as it used to.

## Tax fighters head for a showdown

Florida's repeal last Friday of its unitary tax law ends the phoney war in which campaigners against the tax feared they were floundering. All eyes are now on California where both sides will be marshalling their forces for a possibly decisive encounter next month when another motion to repeal or modify the law will be introduced into the state legislature. The law taxes multinationals on the proportion their local business represents of their business worldwide.

It has been a remarkable campaign in many ways: an object lesson in how influential businessmen can be

It has educated enough politicians in this arcane subject for an early day motion in the Commons, urging retaliation against the United States to attract the unusually large number of 220 signatures. It has even won round the normally adamant Mr Donald Regan, the US treasury secretary, who now hints at federal action if the states do not put their houses in order.

The campaign has been highly effective at the practical as well as the theoretical level. Florida's change of heart owed much to the collapse of investment in the state after it adopted the tax.

California is a less easy nut to crack. As one of the world's biggest economies it offers far more than, say, Oregon, which also repealed the tax recently, for foreign companies. California is also the home of populist tax changes. Trickiest of all is the relationship between the foreign opponents of unitary tax and American multinationals. The latter are strongly hostile to the tax, but in Oregon they were left in its net. A similar solution in California would be bitterly resisted by American companies.

It may be that the campaigners will yet have to call the Regan cavalry to their rescue.



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Foreign and Commonwealth Office

London SW1A 2AH

20 December 1984

From the Parliamentary Under Secretary of State's  
Private Secretary

Dear Tim,

JK  
2/12

Please find enclosed a copy of a letter from Tim Renton to Neil MacFarlane. I thought that, in view of the sensitivity of the subject matter (particularly the second page) I should send it to you personally rather than simply marked to your office.

Yours sincerely  
Alistair Harrison

Alistair Harrison  
Private Secretary to  
Tim Renton MP

Tim Flesher Esq  
10 Downing Street  
LONDON

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PERSONAL



Foreign and Commonwealth Office

London SW1A 2AH

From the Parliamentary Under Secretary of State

19 December 1984

*Dear Neil,*

PROPOSED BBC TRANSMITTING STATION AT BEARLEY

Thank you for your letter of 19 November. We have studied your views, and the Report of the Inspector who conducted the public inquiry, very carefully.

I am bound to say that there are some views expressed in the Report with which we would disagree. The Inspector recommends against granting the BBC's application on two grounds, environmental and technical. The environmental arguments are a matter for subjective judgement, and I accept that you and the Inspector are better qualified to assess them than we are. But on the technical side it is our opinion that the Inspector has been strongly swayed by those who for a variety of reasons oppose the construction of the transmitting station, and that he has given undue weight to fears which there is little reason to believe would prove justified.

Nevertheless, I accept that for a number of reasons, including the very strong public feeling which has been aroused by this application, it would be difficult for you to do other than to accept the Inspector's recommendation. We agree therefore with the decision to refuse the application. However, the BBC fear that if undue emphasis is given to the technical case as against the environmental one and the evidence is circulated, it could expose them to expensive legal problems in connection with their other operations in the UK, not least at Daventry. They would probably feel obliged to make some statement saying they disagreed with the technical case, while accepting reluctantly the environmental one. On the assumption that it is unavoidable to quote the Inspector's technical arguments, would it be possible for you to modify the Department of the Environment commentary on them by introducing the notion that the technical case is not entirely proven. This could be done by amending paras 4 and 5 of the draft decision letter in the form enclosed with this letter.

/I would

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Neil MacFarlane Esq MP  
Parliamentary Under-Secretary of State  
Department of the Environment





Neil MacFarlane Esq MP

19 December 1984

I would also draw your attention to the fact that the new UK transmitting station for the BBC's External Services is a central element in the £102 million audibility programme which we announced in 1981. We are committed to the completion of this important programme, which because of delays over Bearley is now behind schedule. You will be aware that we have identified a possible alternative site for the transmitting station at Orfordness, which, although more expensive to develop and to operate than Bearley, should serve the purpose equally well. We are most anxious that announcement of the Bearley decision should not adversely affect consideration of the application to construct the station at Orfordness. I very much hope therefore that it will be possible for you to delay sending the letter to the Chief Executive of Stratford-upon-Avon District Council until the Orfordness decision, which is imminent, has been announced. If the Orfordness application were also to fail the audibility programme would be in very serious trouble, since, contrary to suggestions made by objectors at the Bearley public hearing, it could be extremely difficult to find another suitable site. Yet another application for planning permission would probably involve a lengthy and controversial public hearing, and following the precedent of Bearley and Orfordness the outcome might well be unsatisfactory.

There is one further point that concerns us about Orfordness. The planning procedures have been completed there with the District Planning Authorities. There has, however, now been a change of rules and there appears to be a danger that the procedures may have to be gone through again at County level. We are naturally anxious to avoid this since we would then face a further delay to the Orfordness decision. I understand that officials from our Departments and the PSA are in touch about our concerns on this point.

I am sending copies of this letter to Grey Gowrie, Norman Lamont, David Trefgarne and to No 10.

*Yours**Tim*

Tim Renton





10 DOWNING STREET

Robin

The PM has retained  
the paper which we  
discussed this AM.  
If you agree this should  
go to the Home Secy  
we shall need to  
recover it from  
handbag.



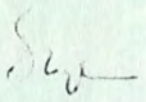
"Master" filed  
in PM Meeting  
Record file

MR BUTLER

IAN MCINTYRE'S VISIT

I attach a personal and confidential record of the Prime Minister's meeting this morning with Ian McIntyre, Controller BBC Radio 3, with his paper attached.

You will wish to consider whether we should forward this correspondence to the Home Secretary under personal cover, or whether I should brief his Private Secretary.



BERNARD INGHAM  
14 December 1984



NOTE FOR THE RECORD

The Prime Minister today saw Ian McIntyre, Controller BBC Radio 3, from 10.30 to 10.55am. The meeting was arranged some time ago and the attached paper formed the background to the discussion.

Mr McIntyre, referring to the BBC's application for an increased licence fee, said the issue confronting the country was much larger: namely, the function, size and editorial intention of the BBC.

After the war the BBC had expanded considerably but it had never adjusted to the ending of its broadcasting monopoly. It retained the belief that it should be the "natural instrument of broadcasting" and in charge of broadcasting. It had become a powerful state within a state. Until the BBC was smaller and better managed, nothing would change.

The problem was simply stated but by no means simple to resolve. The BBC had a great deal of talent, and some gifted bureaucrats, but they were mostly good at making programmes. There were few good managers and increasingly the Corporation found itself on the defensive.

It was permeated with the view, stemming from its desire to be in charge of broadcasting and its belief that only the BBC really knew how to do it, that if a new frontier opened it must be there. It had, however, been argued at the time of Suez that the Egyptians could not run the Suez Canal yet the ships went through. And a lot of people outside the BBC had demonstrated they were rather good at making programmes.

This approach, which was particularly strong in television, led the BBC to try to compete on other people's terms and vice versa. The commercial companies spent a lot of time claiming they were a public service while the BBC pretended it could be commercial as and when it chose to be. In the process, attention had been diverted - damagingly - away from the prime broadcasting purpose of making programmes.



This was not what Parliament had intended when the BBC's monopoly had been broken. The intention had been that one should complement the other.

So far as External Services were concerned, they were widely regarded as brilliant but this was not necessarily so. They still probably occupied first place in the "league of reputation", but in terms of effectiveness and penetration they were behind the United States, Russia, China and Egypt.

Mr McIntyre said that Britain was heard to be speaking with two voices in Poland because the Polish language service was populated by Solidarity exiles.

The overlap between BBC2, BBC 4 and the External Services was considerable. Moreover, the BBC was spending £20m a year on local radio, and was planning to spend more to "complete the chain". This raised serious questions of management.

The Prime Minister expressed some dissatisfaction with the portrayal of Britain abroad by BBC External Services before turning to the licence fee. This, she said, was a compulsory levy on people, regardless of whether they watched BBC. Theoretically, at least, the public ought to have some influence on its activities and the licence fee application offered an opportunity to bring about changes.

The Prime Minister added that the Government had had problems in India because of broadcasts of statements by Sikh leaders in this country. But she had received only a bland reply from the Chairman.

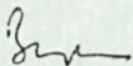
Mr McIntyre said that there was enormous charm and glamour about the BBC and this drew people in and corrupted them. The structure of power was also such that the Board of Governors was not up to the task of controlling a large organisation of 30,000 people.



So far as the licence fee was concerned, Mr McIntyre said that the BBC always hoped it would achieve a longer rather than shorter settlement. He canvassed the idea of a two year settlement linked with an inquiry specifically into the objectives, organisation, management and scope of the BBC.

There was a desultory discussion of who might conduct the inquiry, but neither the Prime Minister nor Mr McIntyre canvassed names.

The Prime Minister, in thanking Mr McIntyre for his views, said she would consider what he had said and pursue the matter.



14 December 1984



E.R.

PRIME MINISTER

*The Butler  
You may need to put  
this on file of 4  
1*

IAN MCINTYRE

You are to see Ian McIntyre, Controller, Radio 3, at 10.30am tomorrow for 45 minutes. I will accompany him. \_\_\_\_\_

The origin of this meeting was a suggestion from a party source that it would be useful for you to see him since he is one of the few supporters in the BBC hierarchy.

I have been in touch with him and clearly he considers the talk most opportune in view of our disclosure of your attitude to advertising on BBC. You might care to question him on this method of financing, or of supplementing, the licence.

The attached document is necessary background.

*mt*

*[Handwritten signature]*

BERNARD INGHAM  
13 December 1984



"The Best National Instrument of Broadcasting  
We've Got?"

Argument - page 1

Action - page 5



ARGUMENT

To an increasing number of people the BBC, Britain's 'national instrument of broadcasting', has lost its way. It is no longer what it used to be, or what it should be. John Reith would not be amused.

It remains true, as the Corporation frequently and immodestly asserts, that it is the best broadcasting organisation in the world. To say that, however, is not to say a great deal. No amount of boasting can obscure the fact that the BBC no longer measures up to the high standards which it was itself instrumental in establishing. The evidence is there not only in public dissatisfaction with much of the output but in frequently voiced concern among the staff about poor leadership and the loss of a sense of direction.

It is, of course, not easy to run a very large organisation efficiently, and some of the trouble undoubtedly stems from the fact that the Corporation is now so very big. There is a strong case to be made for reducing the size of its staff - that has never been attempted except as a short-term expedient in times of financial stringency, and the numbers have always crept up again very quickly. There is an even stronger case for saying that not simply the size of the staff but the whole scale and range of the BBC's operation should be reduced.

For some years now the Corporation has been chronically over-extended. Attempting too much with too little has become almost a way of life. The BBC has never fully adjusted to the ending of the monopoly. It is still in its heart resentful of competition, feels it ought to have a finger in every pie (breakfast television, satellite broadcasting) and cannot bear to see others trespassing on what it sees as its preserve. In the pioneering days of the monopoly the instinct



to push out the frontiers was an entirely healthy and proper one. Today, the impression is of an over-extended perimeter and not enough legionnaires to patrol it.

This reflects in the main on the quality of senior management. Management is something of which the BBC has traditionally been rather disdainful. It is full of talented programme makers, and has some quite effective administrators. The importance of management, however, and in particular the management of financial resources, has never been fully grasped, and this lies at the root of much of the extravagance and arrogance which have become such marked characteristics of the Corporation. Highmindedness and financial irresponsibility are unlikely bedfellows, but they are frequently to be found tucked up together in Portland Place.

Another factor apparent in recent years, and not at all in the best interests of the organisation, has been the increasing pervasiveness of the journalistic ethos. News and current affairs are an important part of the output, certainly, but the imposition of their values on the Corporation as a whole has had a baleful effect. There are important areas of the BBC's activity where the journalistic virtues have absolutely no useful application. Newsmen live for the story of the day and are temperamentally ill-equipped to take a long view. Snap decisions and the tyranny of deadlines are not conducive to calm reflection and considered judgement.

The dominance of journalism has also had damaging effects on the Corporation's dealings with the political parties and with government. There is a kind of journalistic 'machismo' which does not have much of a contribution to make either to rational argument or to diplomatic exchange.



It is also the case that some senior BBC officials have made a nonsense of the requirement about impartiality on the part of the BBC, and take the view that it is the function of the Corporation to act as some sort of political third force between what they regard as extremes of left and right (Mr. Benn in the red corner, Mrs. Thatcher in the blue). This goes far beyond the infatuation of young and impressionable producers with the policies of the SDP and is plainly unconstitutional.

A further reason for the BBC's loss of effectiveness is that it no longer gives undivided attention to its central activity, which is to make and broadcast programmes of high quality. It now spends so much time selling computers, publishing books and trying to come to grips with the new worlds of cable and satellite that its energies are dissipated. Nor is it particularly good at all these fringe activities. It has embarked on some of them for purely defensive or pre-emptive reasons, and it performs poorly in others because it lacks commercial acumen. There are quite a few areas of Corporation activity which cry out to be hived off or privatised.

The Corporation has a highly developed capacity for shrugging off criticism, usually by arguing that it is ill-informed. It is a common complaint of the Board of Governors that they are either ignored or manipulated by senior management, and they acknowledge that although constitutionally they are the BBC, their influence is slight. A part-time Chairman, coming from outside, is a poor match for a sophisticated and articulate bureaucracy, and even those Chairmen who have set out with strongly interventionist intentions seem very quickly to succumb to the charm of the place, to assimilate its assumptions and attitudes and become little more than a mouthpiece for their propagation.







ACTION

Anyone who tangles with the BBC quickly understands the feelings of a very young puppy confronting an old and extremely sly hedgehog.

Unless a government is prepared for a large scale constitutional confrontation, there are few occasions for radically effective intervention. The Charter was renewed for a 15 year period only a few years ago. The present Chairman is only in mid-term.

Immediately, therefore, that leaves only the impending licence fee award. The BBC should certainly be given less than it is asking for and less than it expects (it doesn't expect more than £57), but financial restraint alone would be a blunt instrument.

The award should be for two years, not three, and should depend on the Governors' formal acceptance of a number of conditions:-

- a general commitment to doing less and doing it better;
- a specific effort to regain the Corporation's former authority by improving the quality of the programmes, particularly of news and current affairs programmes;
- a reduction in the size of the staff;
- greater responsiveness to public taste and opinion;
- a greater concentration on the primary purposes of the organisation.



Informally, they should be invited to give their minds to the following;-

1. The failure of management to insist on the operation of new technology and its toleration of many restrictive practices:
2. Extensive over-manning, even at the most senior levels of management;
3. The lack of clear editorial objectives for the television channels and radio networks, resulting in overlap, internal competition and restriction of choice for the viewer and listener;
4. Widespread and costly duplication between domestic radio and the World Service. A degree of integration and some adjustments to the grant-in-aid system could achieve better value for money in the important area of overseas broadcasting and spare the Foreign Office some of the odium that attaches to cuts;
5. The question of whether the Corporation, with its two boards and its proliferation of directorates and departments is best structured for the task in hand;
6. The costly muddle over local radio. The BBC stations in London, Manchester and Birmingham broadcast to ludicrously small audiences. Elsewhere the Corporation continues to open new stations at enormous capital cost, but shortage of revenue obliges them to relay network programmes for substantial periods, thus further narrowing choice. (The Annan solution - of taking local radio away from both the BBC and the IBA - is still available);



7. The notorious inefficiency of some of the Corporation's publishing and marketing activities.

8. The obsessional concern with the 'ratings' (really only with audience size); this is either denied, or excused on the ground that smaller audiences would offer the government a pretext for reducing the licence fee. This was plainly not how Parliament wanted the BBC to respond when it broke the monopoly. Its clearly expressed wish for greater choice is being frustrated because both sides tend to compete by emulation rather than by being themselves.

The foregoing would deliver a salutary shock to the system. Left to itself, however, the BBC will never put its house in order. Although it is only a decade since the Annan Committee was appointed, they have been 10 years of rapid change, and there is a good case for setting up a new committee of enquiry at the time the licence fee settlement is announced. It should be more streamlined than Annan. It could look either at the whole waterfront or at the BBC alone. It should in either case be required to present its report within 18 months. The timetable is tight, but that would just allow time for public debate and the introduction of any necessary legislation before the next election.

-----



Gordon Reece

Prime Minister  
to see

17 Great College Street · Westminster · London SW1 · Telephone: 222 0995

13th December 1984

Dear Prime Minister

I understand from reliable and confidential sources within the BBC that yesterday the Director-General instructed all BBC outlets to interview the Director-General without any contrary opinion being broadcast - that is without balance of any sort.

Only one producer, David Dickinson of Newsnight, objected and refused to take the Director-General at all on those terms.

Great pressure was put on him. He continued to refuse and of course his job is in jeopardy.

As it happens, he is one of my candidates for a new head of BBC News if my proposal that I put to you last week should ever come to success.

He will be at my Christmas party tomorrow and I will make sure he meets you.

Another BBC man I want you to meet, this time in Radio, is Francis Hailwood, who has, I am informed, spoken up well for democratic process in broadcasting at internal BBC meetings. He is involved in News at One and the PM programme.

Yours  
Gordon

The Prime Minister.





Bernard Ingham

To follow up,  
please, with the  
Home Office after

10 DOWNING STREET

Ian McIntyre's

visit,

Prime Minister

FERS

13.12.

Your question below.

I have discussed with  
Bernard Ingham.

We feel that, if it got out  
that Ian McIntyre had seen you  
and the Home Secretary together,  
that would make his position  
difficult in the BBC since it would  
be clear that you must have talked  
about more than what would be  
normal for a visit from a media man.

We suggest you ask Leon Brittan to  
see McIntyre separately afterwards.

Agree? Yes not FERS

12.12.



Gordon Reece

Reece

17 Great College Street · Westminster · London SW1 · Telephone: 222 0995

7th December 1984

Prime Minister

Subject to your views, since Bernard fixed up this meeting I think he should attend it in the usual way. If you agree I will show Bernard the attached paper but not his covering letter.

My dear Caroline

The Prime Minister sees Ian McIntyre, Controller of Radio 3 and an old friend of mine, on Friday.

FEB

She might care to glance at the attached paper which is the proposal McIntyre will make to her.

11.12.

She will recall that Willie may shortly be making a suggestion that will cure the 'journalistic' problem that McIntyre refers to.

I strongly recommend that either Stephen or Michael should be present at the interview. The presence of a civil servant would be prejudicial to Ian McIntyre's future.

Love

cr.

Can this be filed somewhere!

Ryder

cr 14/12

Dealt with.

Mrs Caroline Ryder.

FEB

Is Leon

available?

mt





hte 881

10 DOWNING STREET

*From the Private Secretary*

SIR ROBIN IBBS

Scrutiny of BBC External Services

The Prime Minister was most grateful for your minute about the recent scrutiny of the BBC external services. The Prime Minister proposes to make use of the points in your note when she sees what recommendations are produced by departments concerned on the scrutiny.

I am sending a copy of this minute to Richard Hatfield (Cabinet Office).

CDP

C D Powell

3 December 1984

881





Treasury Chambers, Parliament Street, SW1P 3AG

P F Ricketts Esq  
Private Secretary to the  
Foreign Secretary  
Foreign & Commonwealth Office  
King Charles Street  
London  
SW1A 2A1

30 November 1984

*Dear Peter*

**REVIEW OF BBC EXTERNAL SERVICES**

The Chief Secretary has seen a copy of your letter of 26 November. He agreed that the review should be made public as suggested.

2 He thinks that when Ministers come to discuss the issues raised in the report and in your letter, they will need to do so on the basis of papers agreed by officials after joint consideration of the issues and the options for implementing the Report. On the matter of three year funding in particular, he has asked me to point out that this is a matter of considerable interest to the Treasury. He also feels that the report's recommendations should be taken as a package and considered as a whole. Decisions will need to be taken quickly so that implementation can coincide with the license review which is due to be settled by 1 April next year.

I am copying this letter to Charles Powell (No. 10), Hugh Taylor (Home Office) and to Robin Ibbs.

*Yours Sincerely*  
*Paul Broadbent*  
P R J BROADBENT  
Private Secretary



BROADCASTING : Furman & He Beals : July 79

1898  
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3 0 NOV 1984





SCRUTINY OF BBC EXTERNAL SERVICES

I understand that the Foreign Office have sent you a note about the scrutiny. It is a good piece of work which reveals that the BBC (and the Foreign Office) could, and should, make substantial improvements in value for money. They are too prone to ask for more money when they ought to be asking how they can produce more with the money they have got.

Mr Powell of  
Prime Minister  
A very helpful  
minute.

I have commented separately to Geoffrey Howe but I should like to draw your attention to some important points:

The scrutiny  
report will  
be the  
subject of  
recommendations  
to (Minister).  
Agree to use  
Robin Ibbot  
points as  
ammunition  
at next  
stage?  
CDP  
'/12

- 1 The case studies show that many uneconomical practices persist and I was certainly surprised to see that the number of permanent posts has risen 4.5 % in the past four years.
- 2 BBC financial procedures concentrate on settling cases for additional expenditure which are then consolidated into a baseline. They do not challenge the baseline effectively.
- 3 The objectives the FCO have set for external services do not indicate clearly how success or failure is to be measured. The FCO need to get this put right if the tools the scrutiny provides are to be used to good effect.
- 4 The procedural improvements recommended will not work unless attitudes change. The Government must give a clear signal to the BBC Governors that continued funding will depend on continuing real improvements in performance against costs. Agreement to multi-year funding should be dependent on this and target savings, year by year, should be deducted in arriving at a figure.
- 5 Considerable emphasis has been put on the need for BBC pay increases to be more than the cash limits have allowed for. This is said to be necessary to retain staff on the domestic side of the BBC in competition with the commercial companies. If the pay link between the two sides has to be kept - a decision for the Governors - this should be used as a force for increased productivity not for asking for more funding.
- 6 I believe that the increasingly emotive discussions which this report will cause will be more constructive if the report is published quickly and in full. I also think publication will improve the chances of securing better value for money in the BBC.

Yes  
no

I am copying this to Sir Robert Armstrong only.

ROBIN IBBS  
29 November 1984



BROADCASTING : Union of the Bees : July 79



[The body of the document contains several paragraphs of text that are extremely faint and illegible. The text appears to be a formal letter or report, possibly related to the 'Union of the Bees' mentioned in the header. The layout includes a header, a main body of text, and a footer area at the bottom of the page.]





cc COL

10 DOWNING STREET

*From the Private Secretary*

27 November 1984

Review of BBC External Services

Thank you for your letter of 26 November enclosing the report of the review on the BBC's External Services.

The Prime Minister has noted the report and the fact that it is to be made public. She looks forward in due course to seeing recommendations on how the Government should react.

I am copying this letter to David Peretz (HM Treasury) and Hugh Taylor (Home Office).

(C.D. POWELL)

P.F. Ricketts, Esq.,  
Foreign and Commonwealth Office.





Foreign and Commonwealth Office

London SW1A 2AH

26 November 1984

Dear Charles,

Review of BBC External Services

We wrote to you on 20 July to inform you that terms of reference for the joint review of the External Services had been agreed with the BBC. I am writing to you now to tell you that the review has been completed and that the report, which is in two volumes, has been submitted by the Chairman of the Steering Committee to the Foreign Secretary and to the Chairman of the BBC Board of Governors. A copy is enclosed.

There is much in the report that will require careful consideration, but our preliminary reaction is that the review team have done a thorough and useful job. In the main part of their report they have examined the general concept of the External Services, including objectives, the relationship with the FCO and financial and management practices; and in the accompanying volume they have looked in detail at a number of External Services activities, including four of the 36 vernacular services, chosen as reasonably representative, and the World Service.

The team say it is clear that the BBC has a high reputation abroad for the quality, accuracy and impartiality of its output and that they have heard nothing to refute the view that in substantial areas of the world the output and reputation of the BBC do enhance the UK's image. They recognise, however, that it is extremely difficult in many parts of the world to generate precise evidence. The team recommended that a greater effort should be made in the area of audience research. The team also recommended a number of other measures to improve the FCO's ability to monitor the BBC's performance, without in any way compromising the editorial independence of the External Services. These measures are designed to ensure the most efficient use of the available resources by the BBC in line with agreed priorities.

/The disappointing

CCBT <sup>with</sup> ②

*[Handwritten initials]*

*Prime Minister  
Only action at this  
stage is to inform  
Parliament and to  
publish the report.  
CDP  
26/11*





The disappointing aspect of the report, from our point of view, is that the review team have been unable to propose a clear-cut solution to the longstanding problem of the pay shortfall, which arises because BBC pay tends to rise faster than the pay element in the Treasury inflation factor. They have, however, proposed a change in the method of funding the External Services, which may contribute to that end. They recommend that when the licence fee is under discussion, the Government and the Board of Governors should also consider the level of the grant-in-aid, which instead of being determined annually, should be set for a fixed period of three years to coincide with the period of the licence fee agreement. They believe that such an arrangement would give the BBC an element of confidence about funding which at present is lacking, and would enable them to plan their expenditure more efficiently and effectively. Sir Geoffrey will wish to consider carefully whether such an approach would be possible given the annual PES cycle.

We do not yet know how the BBC themselves will react to the report, which is due for consideration by the Board of Governors only later this month. They may be disappointed that it has not given the clear endorsement of their activities that they had hoped for. But on the other hand the review found no evidence of serious mismanagement; on the contrary in some services they noted particularly good and effective management. And while the review recommended some staff cuts, these were mainly in the supporting staff and not the broadcasters. Our preliminary contacts with the External Services suggest that they will be able to accept the recommendations in the main part of the report, but that several of the more detailed recommendations contained in the case studies will be more difficult for them to implement. They believe that many of the staff reductions proposed show an insufficient understanding of the requirements of international broadcasting, and they are sceptical about the savings which the review team have identified. If fully realised, these reductions could produce savings of some £700,000 in a full year and about as much again after three years or longer.

Sir Geoffrey Howe will wish to study the recommendations carefully before concluding whether the Government should accept all or some of them. In the meantime he sees no objection to making the report public. He is writing to the Chairman of the BBC's Board of Governors proposing that Parliament should be informed of the report, which we would arrange by means of an inspired written Parliamentary Question, and that a copy of the main part should be placed in the House of Commons Library. (The Board of Governors may well feel that the case studies, which identify individuals by function, are not suitable for publication. We would not press them on this.) If the Board of Governors agree, a simultaneous announcement by the





BBC and the FCO would follow, and copies of the main report would be made available to members of the press and public who are interested. We shall let you know of the BBC's response.

I am copying this letter to David Peretz (HM Treasury) and Hugh Taylor (Home Office).

*Yours ever,*  
*Peter Ricketts*

(P F Ricketts)  
Private Secretary

C D Powell Esq  
10 Downing Street









10 DOWNING STREET

*From the Private Secretary*

26 November, 1984.

BBC Licence Fee

The Prime Minister understands that the BBC have now lodged an application for an increase in their licence fee, to take effect from 1 April 1985. She understands, further, that the increase sought in the colour licence is no less than 20% in real terms.

The Prime Minister knows that the Home Secretary intends to scrutinise this application with the greatest care, drawing on the value for money audit being conducted by Peat Marwick Mitchell. She welcomes the rigorousness of his approach.

The Prime Minister believes that, in addition, the opportunity of this application should be taken to consider critically the extent to which the BBC currently succeeds in giving effect to the terms of its own licence.

She would be grateful if the Home Secretary could keep her in touch with his consideration of these issues.

I should be grateful if this letter could be retained within Private Office, and not copied. Any work commissioned in relation to it should make no reference to the origin of the remit.

David Barclay

Nigel Pantling, Esq.,  
Home Office.

PERSONAL AND CONFIDENTIAL



CONFIDENTIAL

h

MR. WARRY

BBC Licence Fee

Thank you very much for your note of 21 November about the BBC licence fee application. I showed this to the Prime Minister over the weekend. Her comments are reflected in the attached letter which I have sent to the Home Secretary's Private Secretary on a personal basis.

D B

26 November, 1984.

CONFIDENTIAL

h



B.P.

We need to talk about other things with the way in which we B.B.C. does / does not carry out its business

Prime Minister (4)

Early warning. I understand that the Home Secretary is well seized of these considerations, and will not decide before January.

21 November 1984

MR BARCLAY

BBC LICENCE FEE

Sub 22/11

The BBC have now lodged their application for an increase in the licence fee from £46 to £65 for colour and from £15 to £18 for monochrome. Their intention is that these new rates should be introduced from 1 April 1985 and last for three years. We have no commitment to either the date or time period.

The increase on colour sets is 41%, and in real terms a staggering 20%. The only partial justification they have is that they want to also provide for a modest expansion of the day-time television service and to complete their local radio network. We would expect efficiency and new technology to more than fund this.

why?

There has been some speculation about a decision being taken before Christmas. However, the Government have made a public commitment to consider the licence fee in the light of a value for money audit being conducted by Peter Marwick Mitchell into domestic services which will only report in January. (There is also a scrutiny into the external services which has just reported).

There can be no basis for any decision on the licence fee until these two reports have been properly considered and in any event no decision would normally be announced until the day before implementation ie April 1985 at the earliest.

Peter Warry  
PETER WARRY





MANAGEMENT IN CONFIDENCE

MR BARCLAY

SCRUTINY OF BBC EXTERNAL SERVICES

The scrutiny report will be transmitted to the BBC Governors and the Foreign Secretary this week (probably on 8 November) under cover of a formal note from the BBC Chairman of the steering group. It will be for the Foreign Secretary to decide how to bring in relevant colleagues, including the Prime Minister. I understand, however, that FCO officials will advise that he informs the Prime Minister, the Chancellor of the Exchequer, and the Home Secretary of the outcome.

This minute is to let you know that I am now sending a copy of the report to Sir Robin Ibbs who will be ready to comment on it to the Prime Minister if she wishes to have his views.

I am copying this to Richard Hatfield in Sir Robert Armstrong's office.

*IB*

IAN B BEESLEY  
7 November 1984

Mr Powell CD 78/ki

This may come to you. The PM generally does appreciate Sir Robin Ibbs' views.

*Jus*  
87.



*per  
GR*



Foreign and Commonwealth Office

London SW1A 2AH

16 October 1984

*Dear Andrew,*

Prime Minister's Luncheon at the BBC, Wednesday,  
17 October: BBC External Services

I enclose a brief on FCO subjects for the Prime Minister's luncheon at the BBC on 17 October.

We have included in the Essential Facts an account of the state of play on the review of the BBC External Services, of which the Prime Minister is aware. Correspondence on this subject rests with Len Appleyard's letter to you of 20 July.

*Yours ever,*

*P F Ricketts*

(P F Ricketts)  
Private Secretary

Andrew Turnbull Esq  
10 Downing Street

*Andrew*

*No. And a day late!*

*h  
b  
/o*

*~~Revised~~*

*There seems to have been a misunderstanding!  
Were these subjects mentioned at all?*

*Chris*





PRIME MINISTER'S LUNCHEON WITH THE BBC, 17 OCTOBER

BBC EXTERNAL SERVICES

POINTS TO MAKE

REVIEW OF BBC EXTERNAL SERVICES

1. Welcome review. Important to reconsider periodically objectives and the use of resources for attaining them. Look forward to reading conclusions.

REPORTING OF UK AFFAIRS

2. Concern at prominence given to negative news about UK. Good news is also news.

BEARLEY PLANNING APPLICATION

3. Politically sensitive. Great strength of local opposition. Important that local views should be respected. Hope BBC are giving thought to possible alternative sites.

AUDIBILITY PROGRAMME

4. Government committed to improving audibility of External Services. 1981 programme now well advanced.

PROPOSED BBC TRANSFER (if asked what is happening)

5. We recognise the BBC's concern for ensuring that they receive the resources needed to cover the extra responsibilities which they would have if they took over the FCO relay stations. We are confident that the FCO will be able to satisfy the BBC accountants who are now investigating the figures.





## Essential Background

### BBC EXTERNAL SERVICES

1. The External Services are financed by grant in aid (£79 million in 1984/85) administered by the Foreign and Commonwealth Office. They broadcast in English (the World Service) and in 36 languages for a total of 724 hours per week. Regular audiences around the world are estimated to exceed 100 million.

2. The languages in which the BBC broadcasts, and the number of hours in each, are decided by the Government and reflect foreign policy priorities: programme content is the responsibility of the BBC. The External Services are however required to broadcast in the national interest. To this end they have regular contact with the Foreign and Commonwealth Office, who brief them on all aspects of HMG's policies overseas and who give them regular access, at management level, to official papers, including telegrams and despatches from diplomatic posts. A copy of the draft objectives of the External Services, at present under consideration between the BBC and the FCO, in the context of the External Services Review (see below), is attached.

3. Generally the relationship works well. There is no doubt that the BBC enjoys a reputation for credibility and impartiality which is unmatched by any other international broadcaster. Behind this reputation, which contributes greatly to Britain's standing in the world, lie the BBC's professionalism and its editorial independence. However, we have recently been concerned by the BBC's projection of British affairs. Posts overseas, and members of the public, have observed that the External Services, in reporting British affairs, sometimes follow the lead of the national press in placing undue emphasis on negative news stories which reflect no credit on Britain. Mr Renton raised this recently with the External Services management and told them that we are monitoring their output carefully.

### Review of the BBC External Services

4. At the suggestion of the Foreign Secretary and the Chairman of the BBC's Board of Governors, a review of the External Services has been commissioned. The review team, which includes FCO, Efficiency Unit and BBC representatives, is led by a Treasury Under-Secretary and is expected to complete its work by the end of October. The purposes of the review are to look at the efficiency and effectiveness of the External Services, to examine the relationship between the External Services and the Government, and to look at the future of External Broadcasting in the light of technological developments. We also hope it will provide a solution to the annual problem of making good the shortfall in the grant in aid between BBC pay awards and the Treasury pay factor. The review team have told us in confidence that they intend to recommend inter alia the establishment of improved FCO/BBC machinery for reviewing regularly and systematically the FCO's relationship with the BBC, and improvement in the flow of financial information to the FCO to enable the FCO to monitor more closely the spending of the grant in aid. We shall welcome this.





### Audibility Programme

5. In 1981 the Government announced a ten year £102 million programme to boost the worldwide audibility and technical quality of the External Services. The programme includes the modernisation of the External Services headquarters, the replacement of much antiquated transmitting equipment in the United Kingdom, and the construction of relay stations in Hong Kong and Seychelles to strengthen the BBC's signals to the Far East and East Africa respectively. Plans are proceeding to make start on the overseas projects this year.

### Bearley Transmitting Station

6. The audibility programme provides for the construction of a new transmitting station in the United Kingdom. The BBC have identified Bearley in Warwickshire as the most suitable site. With the approval of the FCO they have submitted a planning application, which has generated much local opposition on both environmental and technical grounds. The environmental argument against siting the transmitters at Bearley is that the 24 transmitting masts, some of them up to 300 feet high, would spoil an area of natural beauty near the important tourist centre of Stratford-on-Avon. The technical argument is that signals from the transmitters would interfere with local industry and with equipment used by the Royal Shakespeare Company at their theatre in Stratford. The planning application was the subject of a public enquiry between November 1983 and March 1984. The Inspector's report is now with officials at the Department of the Environment, who have told us in confidence that they expect to recommend a decision on the application to the Secretary of State for the Environment by the end of this month. We are urging the BBC to consider alternative options should the decision be negative and not susceptible to reversal.

### Proposed BBC Transfer (if asked by the BBC what is happening)

7. At present, the FCO operate four broadcasting stations relaying the External Services of the BBC, employing some 120 technical staff. Last autumn FCO Ministers agreed to investigate whether it would make sense to hand the transmitters over to the BBC. This would be in line with Government policy to transfer work out of Government departments whenever this is commensurate with sound management and good value for money for the taxpayer.

8. Since then, discussions with the BBC and other interested parties have indicated in principle that transfer to the BBC should show a saving in manpower and also a modest financial saving to the taxpayer. The BBC are now looking at the figures very closely before finally deciding whether to accept responsibility for operating the stations. They wish to be sure of receiving the financial resources needed to run the stations on BBC terms of service etc.



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM

Reference

DEPARTMENT:

TEL NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

The Objectives of the BBC External Services:

.....In Confidence

CAVEAT.....

- 1) In order to enhance Britain's standing abroad and form, amongst listeners, a better understanding of the UK, its values, its way of life, its policies and politics to provide an external broadcasting service to target audiences overseas, in as many languages as are prescribed (including the World Service in English) as part of the pattern of priorities arrived at in consultation with the prescribing departments, and to plan and prepare such broadcasts in the national interest.
  - a. to provide a credible, unbiased, reliable, accurate, balanced and independent news service, covering international and national developments;
  - b. to give, in addition, a comprehensive British view of these developments and of world problems in general, taking into account British Government policy and, in particular, Britain's membership of the European Community, the Commonwealth and NATO;
  - c. to represent accurately and effectively British life, institutions and achievements in the main fields of human activities - political, social,

/economic

Enclosures—flag(s).....



2.

economic, industrial, scientific, literary and artistic; and thereby to promote where appropriate and relevant, British trade, industry, technology and expertise;

d. to increase and improve the understanding and speaking of English, in particular by means of specially devised Radio (and television) programmes and supporting material;

e. to transmit such broadcasts by whatever means are most effective to ensure the best possible audibility for target audiences worldwide.

- 2) To make programmes of an appropriately high professional quality, relevance and interest.
- 3) To promote the distribution of BBC programmes and support material to other broadcasting stations, and in so doing to recover as far as possible the costs incurred.
- 4) To make, after consultation and evaluation of the practicalities, including cost, such changes in the prescription as may be considered desirable by the FCO, or to make proposals for such changes for approval by the FCO.
- 5) To provide an efficient and effective monitoring service:
  - a. to monitor the broadcasts of selected foreign and overseas countries for news and information on political, social, economic, military, and other required matters; meeting, as far as possible, the priority requirements of the principal customers of the service;
  - b. to provide the British Government and the BBC with regular and expeditious documentation of the significant content of such broadcasts;

/c.



3.

- c. to provide a 24-hour service of urgent and immediate news items selected from monitored material;
  - d. to collaborate closely with the FBIS of the USA, and, where practicable, agencies of other friendly countries, in an agreed division of monitoring effort and exchange of monitoring material to achieve as far as possible a comprehensive and economic global coverage;
  - e. to maintain up-to-date schedules of the broadcasting activities of foreign and overseas countries, and to keep the British Government and the BBC informed;
  - f. to recover costs and achieve a financial return on Monitoring Service outputs where these can appropriately be sold commercially.
- 6) To maintain a system of financial control which ensures comprehensive planning, accurate forecasting, and effective monitoring and management.
- 7) To achieve the objectives of the Services as efficiently as possible and with minimum use of resources within the total of the grants in aid.

#### Advisory Functions

In general BBC External Services should also:

- 1) Advise HMG on the best methods of achieving high quality broadcasting throughout the world both within the agreed pattern of prescription and expenditure and beyond it, and to look to the consequences of anticipated technological advances.
- 2) Advise HMG on the state of international broadcasting, on developments (technological, programmatic, geographical and political) planned by other external broadcasters;

/on the



4.

on the allocation of frequencies under the ITU, such as the various cycles of WARC; and on the state of jamming and how to counter it.

Editorial Independence

In accordance with its traditions the BBC External Services will enjoy editorial independence.





10 DOWNING STREET

From the Private Secretary

Prime Minister (2)

You asked about efficiency studies  
and the BBC.

(i) At the Home Secretary's insistence,  
the Governing Board have appointed  
Preston Maxwick to do a Value for Money  
study of the Corporation

(ii) The BBC have asked Treasury and  
Home Office to look at External  
Services

(iii) BBC have appointed consultants  
to look at BBC Enterprises (as publications)

AT

24/9

mf



010  
From: THE PRIVATE SECRETARY

cc 100 2



Prime Minister

HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

JH

22 August 1984

Dear David,

23/8

mt

PROPOSED REVIEW OF TV LICENCE FEE CONCESSIONS

The operation of the 5p concessionary TV licence fee is attracting growing criticism, and the Home Secretary has come to the view that the time has come for an independent review of the system. This review will be carried out by a retired senior civil servant. It will not involve any subvention from public funds, or any resultant increase in the normal TV licence fee.

... The Home Secretary thought that the Prime Minister would wish to be aware of this, and I attach a copy of Mr Hurd's letter to colleagues which sets matters out in greater detail.

Yours  
RGV

H H TAYLOR

D Barclay, Esq





HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

21st August 1984

Dear Norman,

Before his departure on leave, Leon Brittan discussed with me the 5p concessionary TV licence scheme, which is attracting growing criticism. We have concluded that some sort of look at the situation is necessary, and the purpose of this letter is to let you know what we have in mind, and seek, where necessary, the help of your officials.

The scheme was introduced in 1969 for certain residents in old people's homes as a piece of administrative "tidying-up", but over the years has expanded until it is now seen as a significant concession which benefits over half a million people. Indeed so valuable is the concession that some local authorities are reorganising sheltered housing schemes in order to attract it. The concessionary licences are now available to old people in residential homes and in sheltered housing where a recognised communal facility exists. The only certain common factor has been that the beneficiaries are all of pensionable age, but we have recently extended the concession to the disabled in analogous accommodation. The total cost of the concession is about £15m per annum.

The Annan Committee recommended in 1977 that this form of concessionary licence should be phased out, but the recommendation was never taken up. We for our part have made it clear that we do not favour any more general or radical concessions, let alone free or concessionary licences for all pensioners as the Opposition demand. But this leaves us with the existing system which is generally recognised as anomalous, and the gap between the 5p concessionary licence and the full colour fee of £46 has become progressively more difficult to defend. We receive a heavy volume of criticism of the scheme, linked with unacceptable suggestions for extending it in one direction or another.

We therefore think the time has come to have an independent review of the position. Because of the administrative complexity of the subject, we think that the review should be carried out by a retired and senior civil servant, possibly with a DHSS background, and officials are in touch about this. There is no question of any subvention from public funds, or of any hidden subsidy through higher licence fees for those who do not benefit from a concession. We hope that the review could explore whether the existing £15m could be distributed in any fairer and more defensible manner. We recognise that this may be impossible, but there is advantage in showing that we have taken the trouble to review it; and if the review does not find a solution, this should strengthen our hand in considering the unattractive alternatives of phasing the concessions out or retaining the present scheme with all the anomalies and resentments which it breeds.

/We envisage the

The Rt. Hon. Norman Fowler M.P.



We envisage the reviewer proceeding by having access to official papers as required, with an official in each of the relevant Departments being assigned the duty of providing liaison for him. While the reviewer may in practical terms proceed by chairing an inter-departmental group, we would not wish to stress this aspect of it less this implied that the group was to take the decision. Outside bodies would be invited to put forward their views. We envisage that the reviewer might also take into account the existing small and quite anomalous concession of a rebate of £1.25p on each TV licence issued to blind persons. The Home Office will provide a secretary for the review.

Against this background, the review might have the following terms of reference:

To examine the operation of the statutory provisions in relation to concessionary television licences; to consider whether changes should be made, without further loss of total licence fee revenue or any resultant increase in the normal licence fee, which would result in the concessions being made equitably distributed; and to make recommendations.

We would announce the creation of the review and its scope, and would invite outside contributions to it through a low-key announcement during the Recess.

I hope that the approach I have outlined is acceptable to you, and I should be glad if you and the action copy addressees of this letter could let us have the name of the official who would provide liaison for the review. I am sending copies of this letter to Jim Prior, George Younger, Nicholas Edwards, Patrick Jenkin, and Sir Robin Ibbs, who I hope can nominate a member of the Efficiency Unit. I am also sending a copy for information to all other Members of H Committee and to Sir Robert Armstrong.

Younger,

Douglas Hurd.

(DOUGLAS HURD)



cc.  
HMT  
FCO  
CO



BMC

10 DOWNING STREET

*From the Private Secretary*

30 July 1984

Dear Hugh,

Review of Value for Money in the  
BBC Home Service

Thank you for your letter of 27 July, which the Prime Minister saw over the weekend. She has taken note that Peat, Marwick Mitchell and Co. will be undertaking a "value for money" inquiry for the Board of Governors of the BBC, at the Home Secretary's suggestion, and that the object is to complete this review by the end of the year. Copies of this letter go to the other recipients of your letter.

Yours ever,  
David

(David Barclay)

Hugh Taylor, Esq.,  
Home Office

h





HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

27 July 1984

Dear David,

Mr Marks

REVIEW OF VALUE FOR MONEY IN THE BBC HOME SERVICE

On Friday last the BBC announced that the Board of Governors had agreed to a request by the Home Secretary that there should be a "value for money" inquiry by independent consultants into the BBC's domestic broadcasting services. I gave you advance notice of this announcement, which was brought forward because the Press had got wind of the project (and which in the event attracted little publicity). I am now writing at the Home Secretary's request to explain more fully what is proposed.

In considering how to handle, later in the year, the BBC's expected approach regarding a new licence fee to take effect from spring 1985, the Home Secretary formed the view that it would be of great advantage for there to be, alongside the BBC's proposals, an independent and expert assessment of the scope for providing the existing services at their present standard but at lower cost through increased efficiency in the use of resources. Given the constitutional position of the BBC Board of Governors, such a study would desirably be carried out on their initiative, provided that they and the Home Secretary were agreed on the sort of approach that would help. Various forms of efficiency review are, of course, no new thing to the BBC: at the time of the last licence fee settlement in 1981 the Board of Governors, at the prompting of the then Home Secretary, instituted a review of the systems by which the BBC monitors its efficiency, and there followed a number of case studies; and recently the Corporation of its own initiative has instituted a programme of Activity Reviews which will study objectives department by department and examine whether they are being attained in an effective and economical manner. However, what the Home Secretary has in mind is an examination of the scope for increased value for money, to be carried out within such a time scale that its findings can be available before the time comes for a decision to be taken on the next licence fee.

The Home Secretary put this proposal to Mr Stuart Young last week; it found favour with him and, subsequently, with the Board of Governors at their meeting on 19 July. The Home Secretary indicated that he was content to leave the choice of consultant to the BBC, in consultation with the Department; and they have now approached Peat, Marwick Mitchell and Co, a firm of high reputation with experience of working (*inter alia*) for the BBC and other broadcasting bodies, whom the Home Secretary regards as an entirely suitable choice. The BBC, and Home Office officials, have already been in touch with Peat Marwick regarding the form that the review could most usefully take in the limited time available, and terms of reference should be settled shortly. The object is to complete the review by the end of the year. Its report will be submitted to the Board of Governors and the Home Secretary simultaneously.

/The

David Barclay, Esq



The Home Secretary believes that a review of this kind, even though time must limit its scope to some extent, will provide a useful input to the final licence fee discussions and a helpful assurance to him, other Ministers and Parliament at that time.

A Parliamentary Question, for priority written answer today, will afford an opportunity for some of the explanation above to be placed on the Parliamentary record.

I am sending a copy of this letter to the Private Secretary to the Chancellor (Home Office officials have already been in touch with Treasury officials); the Private Secretary to the Foreign Secretary; and to Sir Robert Armstrong.

Yours ever,

Hyt

H H TAYLOR



Friday, 27th July, 1984.

Written No. 52

W Mr. Tony Banks (Newham North West): To ask the Secretary of State for the Home Department, why he has set up an inquiry into the running of the British Broadcasting Corporation; what individuals will be involved in the inquiry; when the report will be ready; and to whom it will be made.

MR. DOUGLAS HURD

Under the terms of the existing licence fee settlement, the BBC is required to live within the income provided until 31st March 1985. We therefore expect, later in the year, to receive from the BBC an application regarding a new licence fee. In considering how then to proceed my rt. hon. and learned Friend formed the view that it would be of great advantage for there to be, alongside the BBC's application, an independent and expert assessment of the scope for the BBC to provide their existing services at their present standard but at lower cost through increased efficiency in the use of resources. The Board of Governors have accepted this proposal, which is in line with their continuing concern that the Corporation should be run efficiently and effectively and with proper regard to financial discipline. The inquiry will be carried out by independent consultants appointed by the BBC, and the Corporation will be consulting with us to establish agreed terms of reference. The consultants' report will be submitted simultaneously to the Board of Governors and to the Home Secretary, we hope by the end of this year.



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27 JUL



CCP



Foreign and Commonwealth Office

London SW1A 2AH

20 July, 1984

Re.  
CM

Mr. Ingham v.  
 (a bit all in  
 the by. I'm afraid)  
 (C) P 20/7

Dear Charles,

Review of BBC External Services

In your letter to me of 28 June you conveyed the Prime Minister's agreement that Mr Whitney should write to the acting Managing Director of the BBC External Services in the terms of the draft sent to you under cover of my letter of 21 June.

The BBC Board of Governors have now accepted, with two minor amendments, the draft terms of reference for the proposed review. They have asked for a preamble to make it plain that the review is to be made at the invitation of the BBC. This follows the precedent set by the 1974 review, and is acceptable to us. The preamble which we have agreed with the BBC is as follows:

"The BBC's Board of Governors have decided to invite a review of the BBC External Services. This decision arose out of discussions between the Foreign and Commonwealth Office and the BBC External Services".

/ I enclose a revised version of the terms of reference.

/ The way is now clear for us to announce the review. We have agreed the text of a press release with the BBC. I enclose a copy. The BBC propose to make the text available to journalists at 9 am on 20 July. This timing accords with their normal practice, and is therefore consistent with their wish and ours not to draw more attention to the review than is necessary. Our News Department will make the release available at the same time, and will draw journalists' attention to it in low key at the 12.30 news conference.

/ I also enclose a copy of the press briefing which our News Department intends to use in response to questions. This, too, has been agreed with the BBC.

External Services Management propose to inform their senior staff in confidence about the review at a six-monthly liaison meeting due to be held this afternoon. It is therefore possible that news of the review will leak in advance of today's announcement, and that we or the BBC will receive questions. In this event our News Department will draw on the press release and press briefing as appropriate.





Throughout our discussions with the BBC we have stressed the positive aspects of the review and I believe that we can now count on their cooperating in the review as full and equal participants. They appear to share our concern that the review should be honestly and constructively presented in public.

I am sending copies of this letter to Janet Lewis Jones (Lord President's office), David Peretz (HM Treasury), Hugh Taylor (Home Office) Mary Brown (Lord Gowrie's Office).

*Yours ever,*

*Len Appleyard*

(L V Appleyard)  
Private Secretary

C D Powell Esq  
10 Downing Street



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For information  
from me





## REVIEW OF BBC EXTERNAL SERVICES

### TERMS OF REFERENCE

The BBC's Board of Governors have decided to invite a review of the BBC External Services. This decision arose out of discussions between the Foreign and Commonwealth Office and the BBC External Services management.

In consultation with the BBC the Review Team will be appointed by the Secretary of State for Foreign and Commonwealth Affairs :

To examine the extent to which the BBC External Services meet the objectives laid down in the Licence and Agreement, taking into account the relationship with the BBC's Board of Governors and with the Departments of State ;

To consider how efficiency and effectiveness can be improved further;

To consider the effects of new technological developments on the future of external broadcasting;

And to report to the BBC's Board of Governors and the Secretary of State for Foreign and Commonwealth Affairs.

For the purpose of the review, the Team will have access to documents and records in the BBC External Services and in the Foreign and Commonwealth Office, and the right to interview employees of both organisations and to examine the management and financial procedures used by the BBC External Services, including pay, recruitment and staffing, identifying areas where improvements or economies could be made; and will take account of the operations of similar broadcasting services in selected allied countries.



## NOTE FOR PRESS OFFICERS

### REVIEW OF BBC EXTERNAL SERVICES

#### 1. Why have a review?

There has been no thoroughgoing review of the External Services since that conducted by the Civil Service Department in 1974, which concluded that the External Services was a "smoothly running organisation ... served by able and industrious staff" and found no evidence of mismanagement of resources. The Central Policy Review Staff looked at the External Services in the course of their review of overseas representation in 1977, but their review was incomplete and the recommendations they made were not accepted. Broadcasting is a fast changing area, and we think that it is time for a fresh look.

#### 2. Does this mean that the FCO has no faith in the BBC's management procedures?

Certainly not. We have no evidence to suggest that the External Services are anything other than well managed and efficient. But the FCO is responsible for the administration of the very large amount of public money (£79m in 1984/85) which is put towards external broadcasting, and we and the BBC have an interest in seeing that this money is spent to the best possible effect. It is the Government's policy that all areas of public expenditure should be subjected to regular review.

#### 3. Will the review lead to cuts?

We have no preconceived ideas about this, but the review has not been established as a cost-cutting exercise. We are seeking to ensure that the money we spend is used to the best possible effect. The review team may recommend some changes in the pattern of expenditure on external broadcasting. If they do, it will be for the FCO and the BBC to decide where and how these should be made.

#### 4. Why has this type of review been chosen?

The FCO has a responsibility to Parliament, as laid down in the Government's Financial Management Initiative, to subject major areas of expenditure to scrutiny. The type of scrutiny selected for the External Services has been decided in conjunction with the Efficiency Unit, which is charged with supervision of the FMI.

#### 5. What are the "changing circumstances" in paragraph 2 of the press release?

The review team will look at the overall pattern of external broadcasting and consider its appropriateness to the late 20th Century, taking into account not only technological change but also the evolution of British national interests. The Licence and Agreement requires the BBC External Services to plan and prepare its programmes in the national interest, and authorises the Secretary of State, after consultation with the BBC, to determine languages and hours of broadcasting.



6. Why is the BBC directly involved in the review team?

The report will be both to the Secretary of State and to the BBC Board of Governors. The BBC have been fully involved from the beginning in the preparations for the review and, taking into account the complexities of the ground to be covered, their participation will be important for a successful outcome.

7. What other similar broadcasting services in allied countries will be consulted?

It will be for the review team to decide what outside comparisons need to be made and whether any overseas visits will be necessary.

8. Will the results be published?

This will be for the Secretary of State and the BBC's Board of Governors to decide.

9. Will the recommendations be binding?

No.



## REVIEW OF BBC EXTERNAL SERVICES

The Board of Governors of the BBC has decided to invite a review of BBC External Services, following discussions between the Foreign and Commonwealth Office and BBC External Services. The terms of reference have been approved by the Board. Under the guidance of a steering committee, whose chairman will be Christopher Bell, Acting Deputy Managing Director, External Broadcasting, and whose other members will be drawn from the FCO, the Treasury and the Efficiency Unit, a five man examining team has been appointed under the leadership of Alan Perry, Assistant Secretary, HM Treasury. Other members of the team will be: James Norris, Head of the BBC's Eastern Service, Gavin Hewitt, FCO, Andrew Stott, Efficiency Unit and a representative of the Corporation's auditors - Deloitte, Haskins and Sells.

The review team's brief is to examine the efficiency and effectiveness of the BBC External Services. While taking realistic account of restraints on resources, it will also look at the opportunities for external broadcasting offered by developments in broadcasting technology, and at the way in which the BBC External Services might respond to changing circumstances. The steering committee will monitor the progress of the review team and will be responsible for submitting the team's final report to the BBC's Board of Governors and the Secretary of State for Foreign and Commonwealth Affairs.

Work will begin immediately and is expected to last some three months. At the BBC's invitation the review team will be based at Bush House, the London headquarters of the External Services.



Broadcasting July 29

BBC finances



CCNO



QUEEN ANNE'S GATE LONDON SW1H 9AT

17 JUL 1984

*n.b. pm  
DMB  
17/7*

Thank you for your letter of 4 July about our proposals for hotels, holiday camps and similar establishments to pay higher television licence fees and in particular for granting refunds of half the cost to seasonal establishments which close for six months or more each year. Norman Tebbit and Nick Edwards refer to the same point in their letters of 11 and 13 July respectively.

In formulating the new policy for hotel etc licensing I felt that some relief had to be given to seasonal establishments, particularly self-catering ones, some of which open for only four or five months each year. I considered the possibility of issuing six month licences at half fees but to achieve this the licence fee regulations would have had to be changed in a way which would have had undesirable repercussions in other areas of licensing. I therefore opted for refunds, even though this will involve a slight increase in administrative costs.

Similarly I do not expect difficulty in establishing firm criteria for granting refunds to seasonal establishments. Although under the Post Office Act 1969 the Treasury must authorise the circumstances in which refunds may be given, the power to grant refunds is a discretionary one. We must clearly ensure that the refund conditions apply uniformly, but we do not have the problem of having to define them in legislation. This has the advantage that we can look at unprecedented applications for refunds as they arise, although I should say that our current view is that a simple requirement that establishments must close their letting accommodation completely for six months will suffice. We are told that holiday camps are generally open for 20 weeks and then shut down, and that local authorities require caravan parks to close down completely for a fixed period. Since these are the establishments which are most likely to seek refunds we do not think that establishing their entitlement will be unduly complicated.

I am copying this letter to the Prime Minister, Norman Tebbit, other Members of H Committee and Sir Robert Armstrong.

The Rt Hon Lord Hailsham of Marylebone CH FRS DCL



Broadcasting 1179

TV fees

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47 JUL 1984





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GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

*Oddi wrth Ysgrifennydd Gwladol Cymru*

The Rt Hon Nicholas Edwards MP

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

*From The Secretary of State for Wales*

13 July 1984

*Dear Sir*

You copied to me your letter of 25 June to Norman Tebbit about your proposals for television licence fees for self-catering establishments. I have seen the subsequent correspondence from Willie Whitelaw and George Younger.

My Office has already indicated that I am content for you to proceed as proposed. I am simply writing to confirm this.

Your proposal for half of the cost of the licences to be refunded to those operators who are open for six months or less is a useful form of relief. It is a bit unfortunate that this can only be managed as a refund after the event and not a reduction in the cost of the licence but I realise the difficulties. I note, however, that Quintin highlighted the practical difficulties with this in his letter of 4 July.

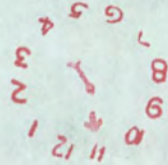
Copies of this letter go to the Prime Minister, Members of H Committee, Norman Tebbit and to Sir Robert Armstrong.

*John*  
*Bar*

The Rt Hon Leon Brittan QC MP  
Secretary of State for the Home Department  
Home Office  
50 Queen Anne's Gate  
LONDON  
SW1H 9AT



BROADCASTING: TV licence fee: July 79.



16 JUL 1984





PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

9 July 1984

*Wapin sub 1077*

TV LICENSING - HOTELS AND SELF-CATERING ESTABLISHMENTS

Thank you for copying to H Committee your letter of 25 June to Norman Tebbit proposing a compromise formula for the television licensing of holiday camps, self-catering establishments etc.

I understand that Norman, Nick Edwards and Jim Prior are in fact content; and I see from his letter that George Younger is too. In his letter of 4 July Quintin Hailsham points out that the formula is complex and could be difficult to operate in practice; and you will wish to consider the point he makes about the benefit which is to be derived from it. I know, however, that you are anxious to make progress; and in the circumstances I will leave it to you to consider the points Quintin has made. If you are satisfied on those, you may take it that you have H Committee clearance for the general proposition.

I am sending copies of this letter to the Prime Minister, the members of H Committee, the Secretary of State for Trade and Industry, and to Sir Robert Armstrong.

The Rt Hon Leon Brittan QC MP



Broadcasting 7179

Fees.





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

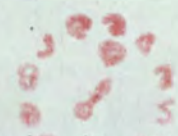
*copy.*

The Rt Hon Leon Brittan QC MP  
Secretary of State for the Home Department  
Home Office  
Queen Anne's Gate  
LONDON  
SW1R 9AT

*Dub  
6/7*

*S July 1984*

*Dear hem,*



Thank you for copying to me your letter of 25 June to Norman Tebbit about the new television licensing arrangements proposed for hotels and self-catering establishments.

The concession proposed in your letter for seasonal establishments is most welcome and will be especially appreciated by Scotland's many small holiday businesses who open only in the summer season and who operate on a narrow profit margin. I am therefore content for my interests that you proceed now with the preparation of the requisite Regulations.

I am copying this letter to the Prime Minister, Members of H Committee and to Sir Robert Armstrong.

*Yours well,*

*George*



TV Licenses: Broadcasting, July 79.



1981 JUL 9





CCND

HOUSE OF LORDS,  
SW1A 0PW

4 July 1984

nbpm  
DMS  
5/7

My dear Leon:

TV LICENSING: HOTELS AND SELF-CATERING ESTABLISHMENTS

In your correspondence with Norman Tebbit about TV licensing in hotels you have looked into the position of holiday camps and self-catering establishments. In your letter of 25th June you tell him that you have decided that while self-catering establishments, holiday camps and so forth will have to pay the new scale of fees, half of the cost will be refunded to those who are open for six months or less and you add that the same relief would apply to seasonal hotels.

Your scheme seems simple but it strikes me that it may well prove complicated and expensive to operate in practice both because of the double exercise of payment coupled with refund and through difficulties in defining the actual circumstances to which refunds will apply such as whether the whole site has to be shut throughout the six-month period.

If these problems are real, you may wish to consider whether the price for sealing up this loophole in your TV licensing arrangements is not rather high.

I am copying this letter to the Prime Minister, to Norman Tebbit and the other members of H Committee and to Sir Robert Armstrong.

yrs:

The Right Honourable  
Leon Brittan, Q.C., M.P.,  
Secretary of State for  
the Home Department.



0.45  
Broadcasting: Finances of BBC 7/79.

11 21 23 24 25 26 27 28 29 30 31 32

4 JUL 1984





Foreign and Commonwealth Office

London SW1A 2AH

2 July, 1984

*Jon Archer,*

Proposed Review of the BBC External Services

Thank you for your letter of 28 June.

Mr Whitney wrote accordingly to the Acting Managing Director of the BBC External Services on 28 June. The latter has now been in touch to express concern about the reference in our letter to the BBC's initiative of introducing Activity Reviews and the possibility of extending it to the External Services. He said that this initiative was, for the moment, confidential, that it would not be put to the Board of Governors until 5 July, and that he was anxious, therefore, that they should not hear about it in the meantime from sources outside the BBC. We replied that it was the BBC's own staff who had asked us in writing to consider the Activity Review, but that we would of course regard that particular point as having been put to us in confidence.

I am copying this letter to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary and Lord Gowrie.

(R B Bone)  
Private Secretary

C D Powell Esq  
10 Downing Street



BROADCASTING: Financing of the NBC  
July 79

OFFICE OF THE ATTORNEY GENERAL  
WASHINGTON, D.C.

UNITED STATES DEPARTMENT OF JUSTICE



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- 2 JUL 1984





Je vs  
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10 DOWNING STREET

*From the Private Secretary*

28 June 1984

Proposed Review of the BBC External Services

Thank you for your letter of 21 June on this subject.

The Prime Minister agrees that the BBC should be told that the Activity Review does not meet our requirements and that we wish to proceed with the original wider review. She is content with the terms of the draft letter from Mr. Whitney to the acting Managing Director of the BBC External Services enclosed with your letter.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury), Hugh Taylor (Home Office) and Mary Brown (Lord Gowrie's Office).

(C.D. POWELL)

Len Appleyard, Esq.,  
Foreign and Commonwealth Office.

vs





QUEEN ANNE'S GATE LONDON SW1H 9AT

25<sup>th</sup> June 1984

*nbpm  
26/6*

*2 Norman,*

TV LICENSING: HOTELS AND SELF-CATERING ESTABLISHMENTS

*will request if required.*  
In my letter of 23 May, I told you that we would be consulting representatives of the self-catering industry about the implementation of the new arrangements for TV licensing which it had been agreed should apply to the hotel industry. This we have now done, the only substantive replies coming from the National Federation of Site Operators and the National Association of Holiday Centres.

They have argued for a relaxation of the arrangements we propose for hotels, since

- a. even large establishments on which a heavy licensing liability could fall open only for the Summer season (in some cases, their opening period being restricted by licence);
- b. holiday camps and self-catering establishments, irrespective of size, are generally at the cheaper end of the market; and
- c. the points at a. and b. above taken together mean that proprietors would be much less able than hotels to absorb or pass on higher licensing charges.

It is unfortunate that the organisations have not quantified the problems which they claim will arise; with one exception the trade associations in Scotland and Wales to whom we outlined our proposals have not replied; and it is expected that Northern Ireland will be unaffected. Nevertheless, there is a prima facie case which, in the interests of resolving the whole issue, I am prepared to meet. I have therefore decided that while self-catering establishments, holiday camps and so forth will have to pay the new scale of fees, half of the cost will be refunded to those who are open for 6 months or less. (The same relief would of course have to apply to seasonal hotels.)

The resolution of this limited but irksome problem of hotel and self-catering licensing has taken rather a long time, but we now have a satisfactory outcome where the legal position will be brought back on an even keel; the imposition on the industry will be limited by the generous banding system we have provided; additional relief

/will be

The Rt Hon Norman Tebbit, MP



will be available to the seasonal operators; the new arrangements will not come into force until 1 January 1985; and we will not expect the industry to take out new licences until their existing ones expire. I am therefore proceeding now with the laying of the requisite Regulations which, as I have told you, will also discharge our undertakings to the disabled in residential homes or sheltered housing, as well as tidying-up the sheltered housing provisions generally.

I am copying this letter to the Prime Minister, members of H Committee and to Sir Robert Armstrong.

Yours,  
L

RECEIVED  
1985



Broadcasting : To hiano fees July 78

26 JUN 1978

6 5 4 3 2 1  
L B S  
19 78





Foreign and Commonwealth Office

238/6

Prime Minister

London SW1A 2AH

21 June 1984

JR

Mr Powell - Many thanks.

My fear was that undue secrecy would lead to scare mongering about death of 1000 cuts. The External Services in a 26/6 This seems to deal with it.

Agree to stick to original concept of review and not be deflected by BBC's alternative?

Mr. Redwood

You will want to see how this is progressing (slowly). CDD 21/6

2 DP 22/6/84

Proposed Review of the BBC External Services

Please see John Coles' letter of 8 June.

We have discussed the proposed review again with the Efficiency Unit and agreed that there is no difficulty about the proposed terms of reference. There is no conspiracy of silence and no misunderstanding about the FMI or the need for radical questioning. As I said in my previous letter, we wish to be as open as possible on publicity over what is a normal initiative designed to produce results, not a backdoor way of cutting the External Services. We wish the team to consider the full range of options, both to get positive action for improvement, to look at pay and to solve the pay bill problem.

The Efficiency Unit's main concern related to the draft covering letter to Mr Muggeridge, namely that the Unit should be in the review team as well as the steering group and should use the techniques which have been proven in scrutinies in Government Departments. We have consulted the BBC informally whether they would see any objection. They saw no difficulty about the addition to the team or about the application of the principles of the scrutiny technique, suitably modified to meet the special circumstances of an independent body like the BBC. We conclude that it would be a good idea for the review to be run on suitably modified scrutiny lines and for the Efficiency Unit to join the examining team.

In the meantime, the BBC have come back to us with further minor amendments to the terms of reference (which we can accept) and with an entirely new proposal for conducting a somewhat different kind of review. I enclose the BBC's revised draft terms of reference with two amendments underlined. The first draws on wording used in the last Civil Service Department Review of the External Services in 1974 and is designed to avoid undue

/emphasis





emphasis on the relationship between the External Services and the FCO, which the BBC fear might compromise their independence in the minds of their overseas listeners. The second is designed to make the review more acceptable to the Board of Governors.

The Director-General of the BBC has, however, asked that consideration should also be given to a possible alternative approach which the BBC are about to initiate in various parts of the Corporation. It derives from a permanent series of Activity Reviews concerned with overall efficiency in terms of financial control and management. We see this as an interesting idea and the Government would no doubt wish to encourage the BBC to carry through such periodic reviews of their efficiency. However, their idea has not yet been put into practice and our concern is to get ahead with a review quickly. The direction of the Activity Review would be firmly in the BBC's hands and it might prove difficult for officials to cover government requirements adequately. It would not examine the future of broadcasting, which is of concern to us (and previously to the BBC themselves). It would seem thus to be limited in scope and designed specifically for the BBC's internal purposes. It would not allow the thorough, wide-ranging examination which we believe is necessary. We would propose therefore that Mr Whitney, in his letter to the BBC (a revised draft of which I enclose), should tell them that the Activity Review did not match up to our requirements, and that we would prefer therefore to proceed with the original wider review.

The BBC's Board of Governors have a meeting scheduled for 5 July. If they are to consider the review then, the BBC will need to have our firm proposals in the course of the next week. We shall liaise closely with the BBC about how the review is to be presented publicly.

I am copying this letter to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary and Lord Gowrie.

*Yours ever,  
L V Appleyard*

(L V Appleyard)  
Private Secretary

C D Powell Esq  
10 Downing Street



REVIEW OF BBC EXTERNAL SERVICES

TERMS OF REFERENCE

The Review Team will be appointed by the Secretary of State for Foreign and Commonwealth Affairs in consultation with the BBC:

To examine the extent to which the BBC External Services meet the objectives laid down in the Licence and Agreement, taking into account the relationship with the BBC's Board of Governors and with the Departments of State.

To consider how efficiency and effectiveness can be improved further;

To consider the effects of new technological developments on the future of external broadcasting;

And to report to the Secretary of State for Foreign and Commonwealth Affairs and the BBC's Board of Governors.

For the purpose of the review, the Team will have access to documents and records in the BBC External Services and in the Foreign and Commonwealth Office, and the right to interview employees of both organisations and to examine the management and financial procedures used by the BBC External Services, including pay, recruitment and staffing, identifying areas where improvements or economies could be made; and will take account of the operations of similar broadcasting services in selected allied countries.



DRAFT: ~~minute~~/letter/~~teleletter~~/~~despatch~~/~~note~~ x

TYPE: Draft/Final 1+

FROM: Mr Whitney

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

A S Kark Esq  
 Acting Managing Director  
 BBC External Services  
 Bush House  
 Strand WC2B 4PH

Blind Copies to:

- PS
- PS/PUS
- Mr MacInnes
- Mr Miles
- Mr Clark, Inf Dept
- Mr Marshall, Finance Dept
- Mr Beastall, Treasury
- Mr Beesley, Efficiency Unit
- Mr Moriarty, Home Office

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

REVIEW OF THE BBC EXTERNAL SERVICES

I wrote to you on 21 March putting forward a proposal for a review of the BBC External Services and the terms on which it might be conducted. You responded on 27 March to the effect that, while you felt that some form of enquiry was appropriate, you questioned the acceptability of the proposed terms of reference to your Board of Governors.

Since then, officials have been in touch with your staff to try and work out terms of reference which would be likely to meet acceptance on all sides. You have also put to us your interesting idea about a possible alternative approach based on your series of Activity Reviews.

Enclosures—flag(s).....

We have given thorough consideration to the BBC's most welcome initiative of introducing Activity Reviews and the possibility of extending it to the External Services. We hope that you will find such Reviews useful

/for



for your effectiveness. We have concluded however that they do not appear to match up to our mutual desire for a wide-ranging and forward-looking review, which would among other things look at the future of broadcasting. We would prefer therefore to revert to our original proposal.

For the sake of completeness, I repeat here the form the review might take. We propose that it should be carried out by a four-man team, which would be chaired by a senior official from the Treasury and which would also include representatives of the BBC, FCO and the Efficiency Unit, on the general lines of the latter's scrutiny technique. Outside advisers might also be employed if the team thought it necessary to have expert advice on any aspect of their enquiries. The team would work under the guidance of a steering committee, the functions of which would be to facilitate the establishment of the review, to monitor its progress, and to receive and transmit the final report. We envisage that the steering committee would meet under the chairmanship of a nominated representative from the BBC and would also include representatives of the FCO, the Treasury and the Efficiency Unit.

As to the terms of reference, I enclose wording which has been amended substantially to meet your principal concerns. Some glosses are necessary.

First, in considering the effects of new technological developments the team will have to take account of the continuing limitations of financial resources which will be bound to influence the possibility of providing new resources.

/Secondly,



Secondly, I wish to make it clear that the review will be limited to the External Services and that any enquiries that may need to be made within the Corporation as a whole would be purely for the purpose of eliciting information about the External Services.

Thirdly, in examining the financial procedures used by the External Services the team will consider to what extent the External Services follow principles of financial management, as defined in the Government's Financial Management Initiative.

Fourthly, there is no question of any interference in the BBC's editorial freedom. But we would expect the team to look at the present pattern of hours and languages prescribed.

We are anxious to make a start on the review as soon as possible and to conclude it in a reasonably short period, taking due account of possible interruptions during the summer holidays and any travel abroad to visit analogues that may be necessary.

We have given further thought to the question of making the review public. I would hope that any announcement to your staff would be made the first task of the review team to coordinate with you.

If, as I hope, the BBC find this an acceptable basis for proceeding, I should be grateful if you would let me have your formal acceptance. In this event, I assume that we can count on your full cooperation over the administrative needs of the review team.



BROADCASTING : ABC Finance

July 79

Dear Sir,  
I am pleased to hear that you are interested in the  
services of ABC Finance. We are a leading financial  
services company with a long history of providing  
high quality services to our clients.

Our services include a wide range of financial  
products and services, including loans, mortgages,  
and investment services. We have a team of experienced  
professionals who are dedicated to providing the  
best possible service to our clients. We are currently  
looking for new clients and would be pleased to  
discuss your requirements with you.

If you are interested in our services, please  
contact us at the address below. We would be  
pleased to provide you with more information  
and to discuss your requirements in detail. We  
are confident that we can provide you with the  
services you need.

Yours faithfully,  
ABC Finance  
[Signature]

ABC Finance  
123 Main Street  
London, EC1A 1AA  
Tel: 01-234 5678  
Fax: 01-234 5679



MANAGEMENT IN CONFIDENCE

BRE



File

10 DOWNING STREET

*From the Private Secretary*

8 June 1984

Proposed Review of the  
BBC External Services

Thank you for your letter of 5 June.  
In view of Mr. Beesley's minute of 7 June,  
I should be grateful for your comments.

BRE

I am copying this letter to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary and Lord Gowrie.

Len Appleyard, Esq.,  
Foreign and Commonwealth Office

MANAGEMENT IN CONFIDENCE

JK





MANAGEMENT IN CONFIDENCE

MR COLINS ✓

Letter to F.I.C.  
M 9/6.

PROPOSED REVIEW OF THE BBC EXTERNAL SERVICES

I am afraid I have only just seen Len Appleyard's letter of 5 June about this proposal; and feel that I ought to point out that it is not wholly correct that the Terms of Reference and the covering letter have been agreed with the Efficiency Unit. I attach a copy of my latest letter on this subject from which you will see there are still some key changes to be made before I could recommend to Sir Robin Ibbs that this be included in the Prime Minister's scrutiny programme. I have asked the Foreign Office to put these to the BBC but I understand they have not yet done so.

Unless we can be sure that the review will be done on scrutiny lines I would be concerned that the necessary independence of mind and radical questioning may not be present. So inclusion of an Efficiency Unit member on the team doing the work - similar to the recent scrutiny of the urban programme - is important to us if we are to lend our name to the final result. Without this I think we would have to reconsider whether it would be a good use of my time to sit on a Steering Committee.

Incidentally, the area is so fraught with political overtones that I should have thought it would be desirable from the BBC's point of view to have a representative of the Efficiency Unit fully involved in the review. If it would be helpful I would of course be prepared to talk to the BBC directly about this. Meanwhile I am a little surprised that the Foreign Office have not drawn this to your attention.

I am copying this to John Redwood, Len Appleyard, John Beastall in the Treasury and Mary Brown in Cabinet Office, MPO.

IAN B BEESLEY

7 June 1984



Prime Minister's

Foreign and Commonwealth Office

Agree with letter and  
terms of reference attached?

London SW1A 2AH

5 June 1984

A.F.C. 6/6.

Dear John,

Proposed Review of the BBC External Services

// Would you please refer to your letter of 3 April to me. Subject to the Prime Minister's views, we are now ready to put our proposals for a Review formally to the BBC. I attach draft terms of reference and a draft covering letter from Mr Whitney to the Managing Director of the External Services which have been agreed with the Treasury and the Efficiency Unit.

In our view, both texts ought to prove acceptable to the BBC Board of Governors, although we can by no means be certain that this will prove to be the case. In our informal discussions with members of the External Services, they have suggested that the terms of reference are narrow and they are unhappy about our reference in the covering letter to the continuing limitations on financial resources. However, we believe the Review should concentrate on managerial efficiency and not be the pretext for the BBC to seek new money or otherwise expand their activities.

We are taking steps to ensure that BBC officials are under no misconceptions about the purposes of the proposed Review. We are emphasising our genuine wish to seek mutually beneficial results. We wish to be as open as possible about this Review, but the question of publicity is something on which the BBC themselves should be allowed to take the lead. We wish to present the Review as a normal and natural initiative and not something which is a back door way of cutting down the External Services.

I am sending copies of this letter and enclosures to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary, and Lord Gowrie.

Yours ever,

Len Appleyard

(L V Appleyard)  
Private SecretaryA J Coles Esq  
10 Downing Street



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT: REVIEW OF THE BBC EXTERNAL SERVICES

.....In Confidence

CAVEAT.....

I wrote to you on 21 March putting forward a proposal for a review of the BBC External Services and the terms on which it might be conducted. You responded on 27 March to the effect that, while you felt that some form of enquiry was appropriate, you questioned the acceptability of the proposed terms of reference to your Board of Governors.

Since then, officials have been in touch with your staff to try and work out terms of reference which would be likely to meet acceptance on all sides. I am glad that this work is now complete and that I can put to you a formal proposal.

For the sake of completeness, I repeat here the form the review might take. We propose that it should be carried out by a three-man team, which would be chaired by a senior official from the Treasury and which would also include representatives of the FCO and the BBC. Outside advisers might

/also

Enclosures—flag(s).....



also be co-opted if the team thought it necessary to have expert advice on any aspect of their enquiries. The team would work under the guidance of a steering committee, the functions of which would be to facilitate the establishment of the review, to monitor its progress, and to receive and transmit the final report. We envisage that the steering committee would meet under the chairmanship of a nominated representative from the BBC and would also include representatives of the FCO, the Treasury and the MPO.

As to the terms of reference, I enclose wording which has been amended substantially to meet your principal concerns that the review should be broadly based and forward looking. Some glosses are necessary.

First, in considering the effects of new technological developments the team will have to take account of the continuing limitations of financial resources which will be bound to influence the possibility of providing new resources.

Secondly, I wish to make it clear ~~what~~ that the review will be limited to the External Services and that any enquiries that may need to be made within the Corporation as a whole would be purely for the purpose of eliciting information about the External Services.

Thirdly, in examining the financial procedures used by the External Services the team will consider to what extent the External Services follow principles of financial management, as defined in the Government's Financial Management Initiative.

/Fourthly,



Fourthly, there is no question of any interference in the BBC's editorial freedom. But we would expect the team to look at the present pattern of hours and languages prescribed.

We are anxious to make a start on the review as soon as possible and to conclude it in a reasonably short period, taking due account of possible interruptions during the summer holidays and any travel abroad to visit analogues that may be necessary.

As before, we still see no particular need for a formal announcement about the review, but would be prepared to answer any press enquiries about it on lines which we would like to agree with you.

If, as I hope, the BBC find this an acceptable basis for proceeding, I should be grateful if you would let me have your formal acceptance. In this event, I assume that we can count on your full co-operation over the administrative needs of the review team.



REVIEW OF BBC EXTERNAL SERVICES

TERMS OF REFERENCE

The Review Team will be appointed by the Secretary of State for Foreign and Commonwealth Affairs in consultation with the BBC;

To examine the extent to which the BBC External Services meet the objectives laid down in the Licence and Agreement as agreed with the Foreign and Commonwealth Office.

To consider how efficiency and effectiveness can be improved further;

To consider the effects of new technological developments on the future of external broadcasting;

And to report to the Secretary of State for Foreign and Commonwealth Affairs.

For the purpose of the review, the Team will have access to documents and records in the BBC External Services and in the Foreign and Commonwealth Office, and the right to interview employees of both organisations and to examine the management and financial procedures used by the BBC External Services, including pay, recruitment and staffing, identifying areas where improvements or economies could be made; and will take account of the operations of similar broadcasting services in selected allied countries.





1. Mr Stott  
2. Mr Wallis - pt of

MANAGEMENT IN CONFIDENCE      EFFICIENCY UNIT

70 WHITEHALL, LONDON SW1A 2AS

Enquiries : 01-233 8412

Direct line : 01-233 7359

29 May 1984

T J Clark Esq  
Information Department  
Foreign and Commonwealth Office  
London SW1A 2AH

*Dear Clark,*

REVIEW OF THE BBC EXTERNAL SERVICES

Thank you for sending me a copy of your letter of 24 May to John Beastall and its enclosures. I am sorry that a previous engagement prevented me joining you on 22 May. But perhaps I might make a few comments and suggestions on the proposed terms of reference and exchange of correspondence.

First, I presume that the inclusion of the Efficiency Unit (not, incidentally, in the MPO) in the steering group means that you intend the team to adopt the scrutiny method. I am not whether the BBC are aware of its principles and how they are usually applied. But I would hope that copies of our "Notes of Guidance" will be widely available to them. For convenience, I am enclosing copies of the new edition, I think that they should apply more or less as they stand to the review, with the obvious addition of the role for the steering group.

I should also be keen that someone from the Efficiency Unit (probably Mr Andrew Stott, one of my Principals) should be a member of the investigating team. This follows the practice adopted for the review of the Urban Programme, for example, which has proved quite successful.

Second, I am still troubled by the conspiracy of silence. It is far better to make the terms of reference and, subsequently, the study plan widely available to the staff of the External Services so that they will not be forming their opinions on the basis of hearsay and rumour. Our experience is that staff are often fearful of investigation not because of what is actually being looked at, but because they suspect a hidden agenda. The more that they can be brought into the confidence of management in



respect of the questions to be addressed, the easier it seems to become to gain the confidence of individual staff members so that they will talk freely about their jobs.

I also think that Ministers would be well advised to take the initiative in presenting the review as something which is normal and natural and not something which is a backdoor way of cutting down the External Services.

Finally, I have a couple of drafting points on the draft letter from Mr Whitney to Mr Muggeridge. I am not quite sure what is meant at the top of the second page by, "and submit the final report." I would envisage that the steering group is free to put whatever gloss it considers appropriate on the report, but Mr Perry's report will be submitted exactly in the form in which he finalises it and he will have personal responsibility for it.

In the references to the Financial Management Initiative I understand the BEC's hesitations. (In this context it seems a pity that the Financial Management Unit's paper on NDPBs has not been published.) But surely it is right to ask the team to consider how the principles of the FMI can be applied to the External Services. And that applies to the relationship between the BBC and the FCO as well as to the management of the External Services. I think this needs to be brought out in the covering letter.

I am copying this to John Redwood in the Policy Unit (with particular reference to the need for openness) and to John Beastall in the Treasury.

*Yours sincerely*  
*Ian B Beesley*

IAN B BEESLEY



OBC Finance



B.R.

Told HO PM had no comments  
Please p.a.

DMS  
2/15

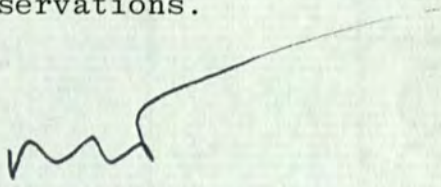
TIME MINISTER

You may wish to be aware of the attached correspondence between Lord Forte and Mr. Douglas Hurd about television licences in hotels.

Understandably, perhaps, Lord Forte is unhappy with the Government's proposals for new charging arrangements, under which hotels would pay a single television licence fee for up to 15 sets, with a further fee for each 5 rooms beyond that figure (you will recall that the Home Office originally proposed an additional fee for each 3 extra rooms, but you felt that this was rather harsh and the higher figure was substituted).

Mr. Hurd has offered Lord Forte a meeting to discuss his reservations.

DMS



18 May 1984





cc Mrs Heald  
Mr. Hyde  
Mr. Moriarty  
Mr. Mower  
Mr. Seymour  
Mr. Innes  
Mr. Osborne  
Mr. Eggleston  
Mr. R. Harris  
PS to Prime Minister \*  
PS to Norman Lamont \*  
(\* with earlier papers)

HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

17th May 1984

Dear Lord Forte.

Thank you very much for your letter of 15th May about the licensing of television sets in hotels.

I hope that you safely received my letter of 3rd May written on the day of our Parliamentary Answer with which I sent you the texts, both of the Answer and of the fuller Home Office Statement. You will have seen that the Statement set out clearly the legal position.

It is because we were anxious not to put an unfair burden on the industry that we consulted widely and settled in the end on a scheme which took full account of the anxieties which had been expressed.

Rather than go over the ground further on paper I wonder if I could come and see you and have a talk about the background to our decision.\* If you think this is a useful idea I will ask my office to get in touch with yours to find a time.

Yours sincerely,  
Douglas Hurd

(DOUGLAS HURD)

\* which was, of course, a decision of the Government  
as a whole.

Lord Forte





## Trusthouse Forte

86 Park Lane London W1A 3AA England  
Telephone: 01-493 4090 Telex: London 24871

Chairman  
LORD FORTE

CF/jc

15th May, 1984.

The Rt. Hon.

Douglas Hurd, Esq., MP.,  
Minister of State,  
The Home Office,  
50 Queen Anne's Gate,  
London SW1H 9AT.

*My dear Minister*

I am sure you will appreciate, following my letters to you of the 7th March and 13th April, how disappointed I was to see the statement to the House of Commons on the proposal to extend the licensing of television sets in hotels.

I understand that our very real concern is more than shared by the Department of Trade and Industry, as well as the Scottish Office and the Welsh Office.

The Hotel and Catering Industry is, as I know you are aware, one of the most important contributors to the future prosperity of our country. It employs some 2 million people (approximately 9% of the total working population) and, given reasonable support, will continue to expand and to employ even more people. In the field of Exports, we are a major invisible earner. My Company alone has trading receipts from overseas interests and overseas visitors in excess of £350 million per annum! In addition, the industry also spends hundreds of millions of pounds on equipment and services for its operations, thereby providing employment in many other industries in this country.

As mentioned in my earlier letter, my Company already pays taxes in excess of £120 million per annum, a significant sum when one appreciates that our percentage return on turnover is very low indeed (8% on turnover before tax), and only achieved with considerable skill and dedication. With some 26,000 sets in our hotels, the extension of television licensing is a further serious imposition.



Trusthouse Forte PLC

A company registered in England under number 76230, registered office 12 Sherwood Street, London W1V 7RD



15th May, 1984.

Despite repeated assurances by Government Ministers that they recognise the importance of Tourism to the economy, I cannot recall any positive steps taken specifically for the benefit of the industry and now it is proposed to penalise us. You will appreciate, therefore, the very strong feelings that this proposal has produced amongst us all.

Similar licensing proposals were mooted only as recently as 1982. Mr. Clive Derby, the Chief Executive of the British Hotels, Restaurants and Caterers Association, met with the Home Secretary, and he and his officials then saw the logic of our objections. Indeed only 18 months ago the Minister of State at the Home Office announced in the House of Commons that "after careful consideration we have decided that this is not the right time to change the television licensing requirements for commercial premises, including hotels". I know that recently you have kindly seen Mr. Derby and other representatives of the industry who again put to you their trenchant arguments against the proposals. I understand that you were sympathetic to the views expressed but mentioned, as you did in your letter to me, that the main reason was a legal one. I understand, however, that other reasons were given in the House of Commons announcement.

The additional income that would be generated from the proposal is, in comparative terms, negligible when set against the considerable harm and concern that will be felt in the industry. As staunch supporters, and in fact ardent supporters of the Government as an industry we would ask you, even at this late stage, to reconsider the proposal, and assist us in maintaining our competitive position in the international market.

With all best wishes.

Yours sincerely,

  
Charles Forte

P.S. In London my Company alone pays just under  
£8 million a year in rates!

cc : The Rt. Hon. Mrs Margaret Thatcher, PC  
Norman Lamont MP





HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

3rd May 1984

*Dear Lord Forte,*

Thank you very much for your letter of 13th April.

... I thought you might like to see the enclosed parliamentary answer and press statement which we have released this afternoon. You will see that we have taken aboard your worries and made considerable efforts to meet the concerns of the industry. I think the arrangements we propose are reasonable and cannot sensibly be interpreted as putting a major burden on the industry.

*Yours,  
Douglas Hurd.*  
(DOUGLAS HURD)

Lord Forte





# Home Office

## NEWS RELEASE

50 Queen Anne's Gate London SW1H 9AT  
Telephone 01-213 3030/4050/5050  
(Night line 01-213 3000)

May 3, 1984

### TV LICENCES

In reply today to a Parliamentary Question from Mr Max Madden MP, the Rt Hon Douglas Hurd, Minister of State at the Home Office, made clear that the Government intended shortly to bring forward proposals whereby hotels would pay a single television licence fee for up to 15 television sets installed in guests' rooms, with a further fee being payable for each five rooms beyond that figure.

A special licence for hotels already exists, for which the law prescribes the payment of an additional fee for each guest room in which a set is installed. Successive Governments, however, have not insisted on hotels being licensed in this way and for many years it has been the practice to allow TV sets to be installed in any number of rooms on payment of a single fee. The Government has decided that this disparity should not continue and that hotels should pay fees related to the number of separate rooms where sets are installed.

At the same time the Government does not wish to impose an unreasonable burden on the industry. In considering what should be done, therefore, they have consulted representatives of the hotel and tourist industry; in particular Mr Hurd has held two meetings with the British Hotels, Restaurants and Caterers Association. The Government accepts their views on the importance of the industry, the need to protect its financial health, and the particular position of the small hotels.

In the light of this, the Government intends shortly to bring forward Regulations to introduce a scheme whereby each hotelier can install television in up to 15 guest rooms on payment of a single fee. A further fee will be payable in respect of each additional five rooms



above that figure. Probably over 60% of British hotels have 15 rooms or less, and about 80% 25 rooms or less. Hotels with up to 15 rooms will pay no more than at present; a 25 roomed hotel would incur additional costs of ~~£100~~<sup>£92</sup> per annum or perhaps 2p per room per night; assuming a 50% occupancy rate and a 100 roomed hotel £782 per annum or about 4p per room per night. The Government will propose that the changes will not be introduced until 1 January 1985. The Government believes that these proposals will bring to an end an undesirable anomaly. They recognise the interests both of the hotel and tourist sector in this country and of licence fee payers in general, and in the circumstances are fair and reasonable.

At the same time the Government will propose in accordance with the undertaking given by the former Home Secretary last year, that disabled people in residential homes will be eligible for 5p concessionary television licences on the same basis as retirement pensioners in similar accommodation, and will eliminate an inconsistency in the way the present conditions of eligibility apply to occupants of sheltered housing provided for elderly people by housing associations.

The necessary changes will be introduced by new Regulations which will be laid before Parliament.



Thursday, 3rd May, 1984.

Written No. 107

Mr. Max Madden (Bradford West): To ask the Secretary of State for the Home Department, when he expects to complete his review of television licensing arrangements for hotels; and if he will make a statement.

MR. DOUGLAS HURD

We have completed the substance of our review, and have concluded that in future hotels should pay a single licence fee for up to 15 guest rooms in which television sets are installed and an extra fee at the standard rate for each additional 5 rooms with television above that figure. We are still considering one or two consequential matters but we expect to lay Regulations before the House shortly to provide for these new licensing arrangements. We anticipate that the requirement to pay higher fees will apply from the beginning of next year.

The same Regulations will provide for the early implementation of my noble Friend the former Home Secretary's proposals to modify the concessionary 5p television licence scheme so that physically disabled and mentally disordered people in certain residential accommodation may benefit on the same terms as retirement pensioners.





## Trusthouse Forte

86 Park Lane London W1A 3AA England  
Telephone: 01-493 4090 Telex: London 24871

Chairman  
LORD FORTE

CF/jc

13th April, 1984.

Douglas Hurd, Esq., MP.,  
Minister of State,  
The Home Office,  
50 Queen Anne's Gate,  
London SW1H 9AT.

*Dear Minister*

I am grateful to you for your letter on television licence fees but I am advised that the Ministry is still proposing to raise the fee to the hotel industry. The Government, I believe, is now aware of the importance of tourism to the United Kingdom and yet would impose this further and unnecessary burden on us. We already pay heavy taxes which certainly do not help in competing in the international market.

The present Government has given very little help to an industry which is labour intensive and is able to employ still more people. This further imposition is really most unwelcome.

I would urge you, Minister, to carefully reconsider the matter.

With all best wishes.

Sincerely,

*Charles Forte*  
Charles Forte



Trusthouse Forte PLC

A company registered in England under number 76230, registered office 12 Sherwood Street, London W1V 7RD

*On  
24/4.*





HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

19th March 1984

Dear Lord Forte.

Thank you for your letter of 7th March about television licence fees for hotels.

You will know from my letter to Mr. Derby of the British Hotels Restaurants and Caterers Association our reasons for considering changes in the licensing arrangements for hotels. It is not easy to refute the argument that the present arrangements which allow hotels to install many sets in guests' rooms for the same fee as an ordinary householder pays for a single set represent a substantial concession to hotels which is not available to television users generally. Furthermore, the fact that there is no legal provision for hotels to be licensed in this way, and that the law actually requires the payment of an additional fee for each guest room in which a set is installed, makes our position that much more difficult. I do not see how we could really allow the present disparity between law and practice to continue indefinitely, and we would not have much hope of success if we asked Parliament to legalise such a sweeping concession to hotels while denying it to pensioners and the poor.

However, as I said in my letter to Mr. Degby, we accept that to apply the law as it stands would impose a heavy liability on the hotel industry. We do not want to impose an unreasonable burden. There are clearly many factors, such as those you have drawn to our attention, which need to be taken into account in deciding what changes should be made. We have not yet taken firm decisions (although we shall need to do so shortly), but we feel that a scheme of licensing of the kind I outlined to Mr. Derby would go some way towards alleviating the understandable concern of the hotel industry and at the same time be regarded as fair by licence fee payers generally. We have yet to hear the BHRCA's response, and we shall of course take full account of the points which you and they have made when a final decision is taken.

Best wishes,  
Yours,  
Douglas Hurd.

(DOUGLAS HURD)

The Lord Forte





# Trusthouse Forte

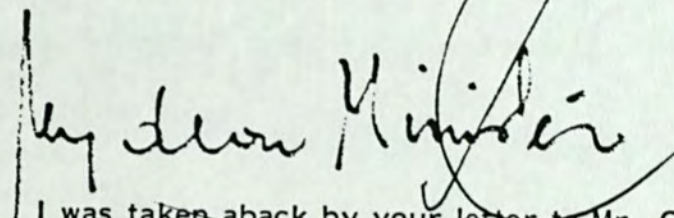
86 Park Lane London W1A 3AA England  
Telephone: 01-493 4090 Telegrams: Grovhows London W1 Telex: London 24871

Chairman  
LORD FORTE

CF/jc

7th March, 1984.

Douglas Hurd, Esq., MP.,  
Minister of State,  
The Home Office,  
50 Queen Anne's Gate,  
London SW1H 9AT.



I was taken aback by your letter to Mr. Clive Derby, Chief Executive of the British Hotels Restaurants and Catering Association, in reference to the proposed increase in television licence fees.

I enclose a schedule of tax payable by this Company alone which amounts to £120 million per annum.

I need not point to you the great work that the hotel industry is doing for this country. As you know it is a large earner of foreign currency and a very large employer of labour, apart from the hundreds of millions spent each year with ancillary businesses, again in turn giving work and employment to those businesses.

I believe it is also relevant to mention that most of the guests staying in hotel rooms around the country already pay television fees in their own homes.

I certainly hope, my dear Minister, that you will give further consideration before adding this additional burden to our industry.

With all best wishes.

Sincerely,



Charles Forte



Trusthouse Forte PLC

A company registered in England under number 76230, registered office 12 Sherwood Street, London W1V 7RD



CORPORATION TAX

EXCISE DUTIES

NATIONAL INSURANCE (COMPANY  
CONTRIBUTIONS)

OVERSEAS PAYROLL TAXES

INCOME TAX ON LOAN INTEREST

RATES

ROAD FUND LICENCES

STAMP DUTY

CAPITAL DUTIES

DEVELOPMENT LAND TAX

INDUSTRIAL TRAINING LEVIES

COMPANIES REGISTRATION FEES

LIQUOR LICENCES

OVERSEAS WITHHOLDING TAXES

OVERSEAS TAXES ON PROFITS





HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

115 FEB 1984

I was glad to have the opportunity to meet you on 6 February and to hear at first hand your Association's and Bob Hicks' views on possible changes in the television licensing arrangements for hotels. You will recall that I undertook to write to you setting out our reasons for wishing to alter the present arrangements, and to give you some indication of the changes we have in mind.

I mentioned that the television licensing system is coming under increasing scrutiny, both in the House and elsewhere. The arrangements which permit some large hotels to install hundreds of television sets for the same fee as an ordinary householder pays for a single set are subject to particular criticism. The Government's reluctance to allow concessions to needy people such as pensioners, which we could not afford, is contrasted unfavourably with what many consider to be a substantial concession to hotels, and it is becoming more difficult to defend the seemingly favourable treatment which hotels enjoy.

I must stress, however, that our unease about the present licensing arrangements for hotels does not arise solely or even mainly from our difficulties in defending them. Our concern is made more acute because for some years the law has required hotels to pay an additional licence fee at the full rate for each guest room in which a television set is installed, a requirement that successive Governments have failed to endorse. This embarrassing disparity between law and practice is clearly unacceptable, and cannot be allowed to continue much longer. We do not think it would be either right or feasible simply to bring the law into line with licensing practice, and so our thoughts have been turning towards the alternative of charging hotels fees in the way the law prescribes.

I have thought carefully about the points which you and Mr Durban made at our meeting, some of which had been put to me with equal vigour by Norman Lamont and other colleagues with responsibilities for tourism. I think we can accept that to apply the law as it stands would impose a heavy liability on the hotel industry, and in particular on the smaller and seasonal hotels which you mentioned. This could be eased if, for example, we were to allow hotels to install television sets in a limited number of guest rooms on payment of a single fee, and charge an extra fee for perhaps each two rooms with television over that limit. In this way no hotels would be required to comply with the current legal requirements, but smaller hotels would pay rather less proportionately than larger ones. Assuming 50% occupancy, a typical small hotel might face additional costs of perhaps six to seven pence per night per room and even in the largest hotels, the figure would only be about eleven pence. If occupancy rates were higher the additional cost per room would be that much lower. Viewed in this light, I would hope you would feel that a scheme of this kind would place only a modest burden on the hotel industry.

/ There

Clive Derby Esq OBE



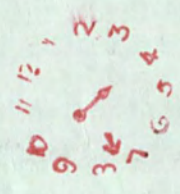
There was a further point you raised at our meeting on which I think I can offer reassurance. You said that the industry would have misgivings about licence inspectors visiting hotels to establish how many television sets were installed there. The public generally are liable to receive enquiries if there are grounds to believe that they are failing to comply with the television licensing requirements, and clearly similar measures would apply to hotels. But just as the public remain undisturbed unless there is genuine doubt, so it would not be necessary to make frequent inspections of hotel rooms.

I am sure that your Association will consider these outline proposals carefully and constructively, and I should be most grateful to receive your comments by, say, 16 March. I am of course copying this letter to Bob Hicks.

(DOUGLAS HURD)



1118 MAY 1960







ce 100

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

18 May 1984

Dear Len

DMS  
18/5

TELEVISION LICENCES FOR HOTELS

You wrote to me on 19 April seeking H Committee's agreement to a new formula for charging licence fees in respect of hotel guest rooms.

Three issues have arisen in the subsequent correspondence. First, the Prime Minister proposed a slightly more generous formula - one fee to cover fifteen rooms and a further fee for every five additional rooms - and in view of pressure to make an announcement I agreed that Douglas Hurd could make this public on 3 May. Secondly, your proposal to apply the same formula to caravan sites, holiday camps and self-help catering establishments has not as yet won the Committee's approval, and I think that Norman Tebbit and other colleagues are right to say that the issues must be explored further with them and representative organisations before we can take a decision. Thirdly, Patrick Jenkin has written suggesting that the 5p concessionary licence should apply to private sector as well as to public sector sheltered housing schemes. I would be grateful if you could consult him and Peter Rees direct about that and let me know whether you are able to reach agreement.

I am sending copies of this letter to the Prime Minister, the members of H Committee, the Secretary of State for Trade and Industry, and Sir Robert Armstrong.

Norman  
Brittan

The Rt Hon Leon Brittan QC MP



BROADCASTING: Finances of BBC

July 79







MS

10 DOWNING STREET

cc H Com  
CO.  
SS/TI

*From the Private Secretary*

25 April 1984

Thank you for sending us a copy of the Home Secretary's letter of 19 April to the Secretary of State for Trade and Industry about television licensing requirements for hotels.

The Prime Minister feels that the proposal to require an additional fee for each three rooms with television above fifteen may be too harsh. She suggests that an additional fee for each five rooms above fifteen might be more appropriate. The Prime Minister would be grateful if H Committee could consider this possibility.

I am sending copies of this letter to the Private Secretaries to the recipients of the Home Secretary's letter.

David Barclay

Mrs. C.J. Heald,  
Home Office,



From: THE PRIVATE SECRETARY



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

19 APR 1984

Prime Minister <sup>(1)</sup>

Content with these  
proposals?

Dear Mr Coles,

The Prime Minister will wish to know that the Home Secretary proposes to change the way in which the television licensing requirements apply to hotels, while at the same time introducing Regulations extending the 5p licence to physically disabled and mentally disordered people in residential homes and some sheltered housing schemes, as announced by Viscount Whitelaw last year. DMS  
24/

... I enclose a copy of the Home Secretary's letter to the Members of H Committee setting out his proposals, which have been accepted by those colleagues with a direct interest in hotels and tourism.

Yours sincerely

Christie Heald

MRS C J HEALD

A J Coles Esq





QUEEN ANNE'S GATE LONDON SW1H 9AT

19 APR 1984

*2 Norm,*

On 16 August Douglas Hurd wrote to Cecil Parkinson and other members of H Committee expressing our serious concern about the present television licensing arrangements for hotels and, in particular, the fact that hotel licence fees are not being collected in the way the law requires. It was agreed that he and his colleagues with responsibility for the hotel industry and tourism should consider how the problem could be resolved.

You will know that Norman Lamont, Hamish Gray, Adam Butler and John Stradling Thomas were involved in discussions with Douglas Hurd, and expressed reservations about requiring hotels to pay a full fee for each set in guests' rooms as the law currently requires. We found their points about the impact of such higher fees on small and seasonal hotels particularly telling, and because room occupancy in many hotels is relatively low we accept that the principle of one fee for each set would place a burden even on some larger hotels. We also appreciate that any new requirements we impose should not put at risk your efforts to encourage hotels to improve the facilities and services they offer to visitors.

*Russell  
Lough  
Jic  
ms*

I have weighed up carefully these and other considerations put to us by the British Hotels Restaurants and Caterers Association, and I have concluded that in all the circumstances it would be reasonable to allow hotels to install television sets in up to 15 guest rooms on payment of a single fee, but to require an additional fee for each three rooms with television over that limit. This proposal was found acceptable by all the Ministers involved in the discussions with Douglas Hurd. Although it is a toughening of the present actual practice, it amounts to a significant concession compared with the present legal requirements, and it goes a considerable way towards meeting the points which have been made on behalf of the hotel industry. The industry will no doubt continue to argue that the "perk" of paying only for one licence per hotel is important to their prosperity, but to accept this would be out of line with our general approach to such privileges.

I intend that these licensing requirements will also apply to places such as caravan sites, holiday camps and self-help catering establishments where the proprietor installs a number of television sets for visitors use. I am anxious to introduce the necessary Regulations to implement the change quickly, because the same Regulations will make provision for physically disabled and mentally disordered people in residential homes and some sheltered housing schemes to qualify for the special 5p licence on the same terms as retirement pensioners.

/This measure,

The Rt Hon Norman Tebbit MP



This measure, which Willie Whitelaw announced in reply to a Parliamentary Question on 23 February 1983, has been long delayed and this is giving rise to understandable impatience. I also intend to take this opportunity to make a further modest extension of the concessionary scheme to rationalise the conditions on which retirement pensioners and disabled people in accommodation provided by housing associations may qualify for the concession. The concessionary provisions will come into effect quickly, but those relating to hotels will not apply until 1 January 1985, so allowing hotels time to make any necessary adjustments to their tariffs to take account of the higher fees.

The proposals outlined above give effect to a public undertaking and deal with two particular anomalies. Nevertheless, I am very conscious that the whole question of concessions on the TV licence will remain highly controversial. The sheltered housing arrangements made in 1969 and the refusal to allow refunds on TV licences except within very narrow limits give rise to a great volume of correspondence. Thus I expect that these Regulations, which will be subject to negative resolution, may well be prayed against. There may be some Members who will want to press us for a general concession to all pensioners; others who will want to extend the housing concession to all private sheltered accommodation; others again on our side of the house will resent on behalf of the hotel industry even the lenient proposal above for regularising the present irregular position. But overall, I believe that our proposals are defensible and should be defended.

I should be grateful if you and other Members of H Committee to whom I am copying this letter could confirm within the next few days that you are content with these proposals. I am also sending a copy of this letter to Sir Robert Armstrong.

3 14 1984

W  
W,  
L



24 APR 1984







Treasury Chambers, Parliament Street, SW1P 3AG

LV Appleyard Esq  
Foreign & Commonwealth Office  
Whitehall  
LONDON  
SW1A 2AL

A. J. C. <sup>13</sup>/<sub>4</sub> 12 April 1984  
p.a.

Dear Sir

PROPOSED REVIEW OF THE BBC EXTERNAL SERVICES

The Chief Secretary has seen the recent exchange of correspondence on this subject and is anxious that the proposed review is seen in the right perspective.

There is no intention on our part to create another row over the External Services. But we do consider it important from our point of view that the External Services, which are wholly funded from the Exchequer, should be subject to the same periodic review of ~~the~~ efficiency and effectiveness as other parts of the public sector. There is certainly no intention on our part to get at the BBC and we would hope that a review would produce some helpful savings to offset the perennial pay problems which the External Services seem to have. Perhaps we need to reconsider the presentational aspects of the review.

We are also concerned about the BBC's proposals for widening the terms of reference for the review. In the Chief Secretary's view nothing is more likely to excite the external services lobby than to include objectives or priorities within the scope of the review. In his view the Government should make plain that it is not calling in question the present objectives but is reviewing the efficiency and effectiveness with which they are pursued.

We would be grateful if you would keep us in touch with any developments.

Copies of this letter go to John Coles and to the Private Secretaries to the Lord President, the Home Secretary and Lord Gowrie.

Yours sincerely

J. Gieve

JOHN GIEVE



73 APR 1984

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V. S. C. V. S.





10 DOWNING STREET

*From the Private Secretary*

3 April 1984

PROPOSED REVIEW OF THE  
BBC. EXTERNAL SERVICES

The Prime Minister has noted the contents  
of your letter of 2 April.

A. J. COLES

Len Appleyard, Esq.,  
Foreign and Commonwealth Office.

A handwritten signature in dark ink, appearing to be 'A. J. Coles', located in the bottom right corner of the page.





Foreign and Commonwealth Office

London SW1A 2AH

2 April 1984

Prime Minister.

To be aware.

A.D.C. 3/4.

Dear John,

Proposed Review of the BBC External Services

You asked to be kept informed about the proposed review of the BBC External Services.

As you may recall, the idea of a Review was first developed as a means of finding a better way to deal with what has now become the perennial pay problem of the External Services; as things stand, this regularly threatens to cause problems with Parliamentary and public opinion. It was also recognised that the Review would provide an opportunity for a careful examination of whether the External Services, which have not been reviewed since 1974, continue efficiently to meet national objectives and provide value for money, and whether they are taking appropriate account of technological developments.

When Mr Whitney discussed the proposal with Mr Muggeridge, Managing Director of the External Services, on 21 March, the latter's initial reaction was positive and he promised full co-operation over the public presentation. Indeed, he said 'there is no point in stirring things up when we are trying to agree terms of reference'. He showed particular interest in the reference to seeking a solution on pay. At the same time he thought the BBC would want to make some changes in the terms of reference and would want to discuss them further with us before putting the proposal up to their Board of Governors. We said we too would want to look again at the terms and consult you and other Departments before the matter went any further.

However, Mr Muggeridge has subsequently consulted his Director-General and, in the light of that, has now written formally to say that while the BBC recognise some form of enquiry may be appropriate, our proposed basis for it is too narrow and not sufficiently forward-looking. In the judgement of the Director-General and Mr Muggeridge, the Board of Governors would be most unlikely to agree to it in its present form. We are now considering how this might

/be





be carried forward and as part of that process intend to ask Mr Muggeridge to come and discuss the matter with us further, as he has himself suggested. Any observations which you or other recipients of this letter might have at this stage would be particularly welcome before such a meeting. It remains to be seen how far the BBC will go towards accepting some amendments to the present terms to reflect the BBC's future role, a matter of concern to us all.

In the meantime, we have prepared a line for our News Department to take pointing up the positive aspects of the Review, just in case there should be a leak and any misconstruction put on the proposal. In view of the BBC's reaction so far, I would hope that this would not happen.

I should add that Sir Robin Ibbes has expressed interest in the Review as part of the Government's drive to improve efficiency.

I am copying this letter, with earlier correspondence, to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary and Lord Gowrie.

*Yours ever,*

*Lev Appleyard*

(L V Appleyard)  
Private Secretary

A J Coles Esq  
10 Downing Street



BF

MANAGEMENT IN CONFIDENCE

file Bot



bc John Redwood,

10 DOWNING STREET

From the Private Secretary

9 March 1984

Proposed Review of BBC External Services

The Prime Minister has seen your letter of 5 March about the above Review.

Mrs. Thatcher has commented that she believes that the Review will raise alarms and be very difficult to present. I note that Ministers are being consulted about the public presentation. I should be grateful if in due course you could let me know the conclusions reached by Ministers so that the Prime Minister can look at this matter again.

A. J. COLES

Brian Fall, Esq.,  
Foreign and Commonwealth Office

MANAGEMENT IN CONFIDENCE





10 DOWNING STREET

Prime Minister.

Review of BBC External Service

You may wish to know where  
this proposal stands.

A.C.C. - P/3.

I think it will raise  
claims which will be  
very difficult  
to meet.



cc/c



Mr. Sedwood

Foreign and Commonwealth Office

*You may like to have a word.*

London SW1A 2AH

*A.C. 5/3*

*Yes not*

32/3

*FR 6/3/84*

5 March 1984

Mr Coles

*Dear John*

*fine, if the objectives are explained to the press - do not include some cuts Jc*

Proposed Review of BBC External Services

We spoke on the telephone about the proposed review of the BBC External Services and you asked what the position was.

The review originated in attempts by FCO, Treasury and Home Office officials to find a way around the problem which has arisen in each of the last three years when the cash limits applied to the External Services' grant-in-aid have proved inadequate to cover the pay settlement negotiated between the BBC as a whole and the broadcasting unions.

The idea of a review was endorsed in principle by FCO Ministers in the summer of 1983 and supported by the Treasury. You may recall that on 12 August 1983 Timothy Flesher wrote to John Holmes to say that Mrs Thatcher agreed generally with the approach set out in the Chief Secretary's letter of 10 August to Sir Geoffrey Howe, which had agreed that the idea of a review was worth pursuing. The Prime Minister had further commented that the BBC could not go on increasing pay while retaining overmanning and inefficiency.

We will now be consulting Ministers about the terms of reference on the basis of a draft (a copy of which I enclose by way of background) which has been agreed by officials; and also about how best to present them to the BBC. We envisage that the review will be conducted by a three-man enquiry team headed by the Treasury and including representatives of the BBC and the FCO, guided by a steering committee headed by the BBC and including representatives of the FCO, BBC and MPO. We hope it will start in mid-April and last about three months.

We are also consulting Ministers about the public presentation, which will need to be handled with care. We have it in mind to suggest to the BBC that there need be no formal announcement (e.g. by means of a PQ, the means used at the time of the last Civil Service Department review); but that the review should be seen as part of the normal process of relations between the External Services and the government department to which they are accountable. We would expect that the BBC would want to make an announcement

/to their





to their own staff, and we would propose to agree a line with them which News Department could also use for answering questions. Any such announcement would make it clear that the review is for the purposes set out in the enclosed terms of reference. These are obviously not directed towards cuts in the External Services. Rather, we wish to ensure that we are receiving value for money for the BBC's annual grant-in-aid. We hope also that it may lead to a solution to the pay problem, and that it may produce some practical ideas about the application of new technology.

*Answered,  
John*

(B J P Fall)  
Private Secretary

A J Coles Esq  
10 Downing Street



## INDEPENDENT REVIEW OF BBC EXTERNAL SERVICES

### TERMS OF REFERENCE

The Review Team will be appointed by the Secretary of State for Foreign and Commonwealth Affairs:

To examine the extent to which the BBC External Services meet the national objectives agreed with the FCO;

To consider how efficiency and value for money can be improved, taking account of recent developments in technology;

And to report to the Secretary of State for Foreign and Commonwealth Affairs.

For the purposes of the review, the Team will have access to documents and records in the BBC and in the Foreign and Commonwealth Office, and the right to interview employees of both organisations and to examine the management and financial procedures used by the BBC External Services, including pay, recruitment and complementing, identifying areas where improvements or economies can be made; will consider the application to the External Services of the principles of the government's Financial Management Initiative as described in Cmnd 8616 and Cmnd 9059; and will compare the operation of similar broadcasting services in selected allied countries, examining the extent to which the BBC External Services are or should be complementary.



5 MAR 1984





2 March 1984

MR COLES

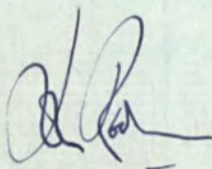
*✓ AM 7/3*

*D. U. to me*

*10/3 A.S.C. 7/3  
f.a.*

BBC EXTERNAL SERVICES

I am writing to confirm that you will not put our note to the Prime Minister in to her. I understand you wish to ascertain the facts about the service first, and will satisfy yourself that there is no scope for later embarrassment about possible cuts to the external services as a result of this activity.



JOHN REDWOOD



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

1 March 1984

Review of BBC External Services

We had a word about this on the telephone the other day.

I should be grateful for a brief letter which would enable me to show the Prime Minister where the proposal for a review now stands.

I should also be glad to know what is proposed in the way of public handling. I have heard from one source that it is intended that the review shall be secret - but I rather gathered from you that the FCO expect the BBC to make an announcement to their own staff about it. Is it intended to make it clear publicly (if this is the case) that the purpose of the review is not to cut the external services further but to secure value for money?

ALL COLES

Brian Fall Esq  
Foreign and Commonwealth Office.

CONFIDENTIAL



MR. REDWOOD

BBC External Services

I held up your minute (attached) in order to bring to your attention some of the background.

The idea of a review of the external services arose in August 1983. The Foreign Secretary and the Chief Secretary were keen on the idea and the Prime Minister endorsed it.

It is not my impression that anybody intends to keep the review secret. The FCO do not envisage a public announcement - nor publication of the report - but they do expect the BBC to make an announcement to their own staff. Nor is it my impression that those who are sponsoring this review intend it to lead to further cuts. They want to ensure value for money and find a solution to the pay problem.

You may care to discuss.

A.J.C.

29 February 1984

Mr Coler ✓ Letter to F/C.O. first AP  $\frac{1}{3}$ .

I have tried several times without success to catch you to discuss. The Efficiency Unit tell me that it is intended to keep it secret. In view of the PM's agreement you are right that my first recommendation is inappropriate. I wonder, however, if you could draw her attention to the dangers of secrecy & failure to explain, at least in background briefing, the fact that cuts are not intended?



28 February 1984  
Policy Unit

*E. R. Wood*  
PRIME MINISTER

BBC EXTERNAL SERVICES

I hear from the Efficiency Unit that it is likely there will be a review of the BBC External Services. Total spending on overseas information services is £128 million in 1983/84, and this includes the grant-in-aid in respect of British Council expenditure.

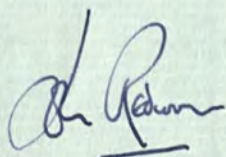
Whilst the sums of money involved are tiny, the potential political aggravation is quite considerable. When the BBC External Services was reviewed before, and suggestions came forward for cuts, there was a storm of protest.

The intention at the moment is to keep this review secret. That would be doubly fatal. It would be bound to leak out from somewhere in the FCO, and the press would then run a whole series of scare stories about the Government intending to cut away at the much valued BBC External Services.

Recommendation

It is probably best to intervene at this stage, and to say that this is not a suitable area for review.

If you wish to go ahead, I would advise that the fact of the review be made public at an early stage, along with broad guidelines as to the reason for the review. These should concentrate upon greater efficiency rather than upon reducing the network of services. In this way there would be some reassurance, and the review would not be as accident-prone as it would be if conducted in secret.



JOHN REDWOOD



PERSONAL AND IN CONFIDENCE



*With the compliments of*

THE PRIVATE SECRETARY

(B J P FALL)

to: A J Coles Esq  
10 Downing Street

FOREIGN AND COMMONWEALTH OFFICE  
SW1A 2AH



Mr Fall

cc: Mr Clark, Information Dept

POSSIBLE REVIEW OF BBC EXTERNAL SERVICES

1. In 1982 the House of Commons Foreign Affairs Committee commented on the problem which arose from the cash limits applied to the BBC External Services' grant-in-aid, whilst pay for the BBC as a whole outstripped the Treasury's inflation factors. FCO, Treasury and Home Office officials have tried in vain to find a solution to this problem. One idea put forward by FCO was that if External Services pay could be exempt from the cash limit process there could be an efficiency review of the External Services to ensure there was no abuse of this exemption and that full value for money was being obtained for the grant-in-aid.
2. The idea of a review was endorsed in principle by FCO Ministers in the summer of 1983 and warmly supported for its own sake by the Treasury. During 1983 the idea was put informally to the BBC as a possible quid pro quo for solving the pay shortfall problem. The BBC initially reacted negatively, saying that they had undergone several reviews culminating with that by the CPRS in 1977. But we pointed out that the previous review in 1974 by the then Civil Service Department (a similar review to the one we now have in mind) had given the External Services high marks for efficiency and we believed a further demonstration of this would be of benefit to the BBC as well as the FCO.
3. In recent months the BBC External Services have appeared to be more enthusiastic about a review. They have suggested that its terms of reference could be widened from financial considerations to embrace new technology, such as possible expansion of the overseas services into the television field. In the last few days, FCO, Treasury and MPO officials have agreed terms of reference based on a draft approved by Mr Whitney. A submission is about to go to Mr Whitney proposing that a letter be sent to Mr Muggeridge, Managing Director of the External Services, putting forward the proposed terms of reference and suggesting a 3-man enquiry team headed by Treasury with representatives from BBC and FCO. This would be guided by a

/Steering



Steering Committee chaired by the BBC with Treasury, FCO and MPO representatives.

4. We believe that if handled carefully such a review would be acceptable to the BBC. We would not envisage any public announcement nor publication of the report. However, we would expect the BBC to make an announcement to their own staff and FCO and Sir Robin Ibbs are keen to include the enquiry in a list of activities in 1984/85 in the context of the Government's Financial Management Initiative.

5. The review is in no way intended to lead to further cuts. Instead we wish to ensure value for money, whilst if possible finding a solution to the pay problem.

*K G MacInnes*

K G MacInnes

29 February 1984





*GC 2 N O*  
*Prime Minister*  
 Treasury and FCO  
 still arguing about  
 BBC External Services Pay  
 in the current year.

Treasury Chambers, Parliament Street, SW1P 3AG

*AT*  
*15/11*

Rt Hon Sir Geoffrey Howe QC MP  
 Secretary of State for Foreign Affairs  
 Foreign & Commonwealth Office  
 Downing Street  
 LONDON  
 SW1A 2AL

14 November 1983

*Dear Secy of State*

BBC EXTERNAL SERVICES: THE PAY PROBLEM

I am sorry not to have replied before to your minute of 22 September.

As you know, the totals which we have now agreed for FCO programmes in the Public Expenditure Survey should provide sufficient additional resources to finance the consequential effects of this year's BBC pay award in the Survey years. I trust that when you inform the BBC of this decision you will make it clear to them that this does not imply that the Government will be prepared to underwrite future BBC pay awards in the same way.

*Good*

However, the fact that we have been prepared exceptionally to allow extra provision for the future does not provide any grounds for relaxing the normal discipline of cash limits in the current year. I must make it clear that I am still unable to accept a bid on the central Contingency Reserve.

I do not have much to add to our previous exchange of correspondence on this point. In brief:-

- (a) it is wrong in principle to increase cash limits to fund excessive pay increases. Such pay increases must be financed from administrative savings. As you know, the Prime Minister has commented that the BBC cannot go on increasing pay like this while retaining overmanning and inefficiency;
- (b) the BBC External Services were generously treated at the time of the July cash limit cuts. Their provision was reduced by only £0.5 million instead of the £1.2 million which would have resulted from the application of the formula. You gave no indication when reaching that settlement that you would shortly be coming back with a request for more money;



CONFIDENTIAL

(c) I understand that, contrary to expectations in July, the BBC have been able to find the cash limit cut without using the saving of £0.5 million which results from slippage in capital expenditure on the modernisation of Bush House. This £0.5 million is therefore still available, and is clearly a useful contribution to the £1½ million which the BBC need to find.

I suggest that the BBC's expenditure plans for the rest of this financial year should now be rigorously scrutinised to identify what further administrative economies they could make to absorb the rest of the cost of the pay rise within their present cash limit. They must already have been giving some thought to this, since they will have had no reason to assume that extra money would be available, particularly in the light of my earlier letter. I do not think we should readily accept that the only available option is to make damaging cuts in broadcasting services. If it appears that the BBC would have genuine difficulties in finding the whole of the balance themselves, our officials will then have to discuss whether part of the cost can be absorbed on other FCO programmes. I believe it is very important to avoid any impression that we are willing to increase agreed public expenditure totals to fund excessive pay rises.

On your suggestion for dealing with the longer term problem, I note Leon Brittan's point about the terms of the existing Licence and Agreement, but, like him, I agree that it would be useful for our officials to discuss how to proceed.

I am copying this letter to the recipients of yours.

Yours sincerely

J. Gieve

J. PETER REES

[Approved by the Chief Secretary]



Broadway. Frances S. RBC 7/79



115 NOV 1983





Prime Minister <sup>②</sup> *gmc*

*HT* 4/10

Secretary of State for Foreign and Commonwealth Affairs

BBC EXTERNAL SERVICES: THE PAY PROBLEM

Thank you for sending me a copy of your minute to the Chief Secretary about the BBC External Services pay problem.

I am of course content for officials of the three Departments to get together for a further examination of the problem and to consider the proposal put forward in your minute. On the substance of that proposal I must, at this stage, reserve my position. One point, however, that is worth making now is that what you propose is not a simple question of persuading the BBC to take on a commitment to meet an External Services shortfall from Home Services licence fee revenue. It seems clear that they are debarred from doing so by the existing Licence and Agreement. A fresh Licence and Agreement would have to be tabled in Parliament, precisely because of its External Services content, and would be debated. The sort of changes you have in mind would thus be squarely in the spotlight and might well prove difficult to defend.

Copies of this minute go to the recipients of yours.

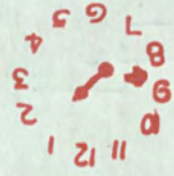
*ms*

L. B.

3rd October 1983



Broadcasting,  
July 79,  
BBC pay



-4 OCT 1983





LEC NO

Prime Minister (4)

MS 22/9

FCS/83/179CHIEF SECRETARY, HM TREASURYBBC External Services: The Pay Problem

1. Thank you for your letter of 10 August about the BBC External Services' pay problem. I have also seen the letter of 12 August from the Private Secretary at No 10.
2. I well understand your views on the need for the External Services to be subject to cash limits just like any other recipient of public money. I also have much sympathy with what you say about the BBC's current healthy position and the situation the Government finds itself in because of the present bar on cross-subsidisation from the Home to the External Services. It seems to me that it is only in the latter area that there may be some hope of finding a long-term solution.
3. There is of course the immediate problem to tackle first. Because of the 1983 pay settlement the BBC will be overspent by £1.5 million in the current year. But I hope you will accept that it would be quite unreasonable to expect the FCO Vote to meet the External Services' pay shortfall, this year or in the future. As in previous years, it is quite beyond our control and no money is or has been available to meet it. And I have no doubt that it is politically impossible to seek to impose broadcasting cuts on the External Services to make up for the pay shortfall - and, indeed, I believe such cuts would be against our national interests. This year at least, therefore, I see no alternative to the Central

/Contingency





Contingency Reserve bearing the £1.5 million shortfall. (I understand that the £0.5 million slippage from the Bush House modernisation scheme is still needed for urgent safety work at Caversham.)

4. The £1.5 million shortfall will recur next year and in subsequent years unless the BBC's cash limit is increased to take account of it. For this reason we have included an additional sum equivalent to the 1983 shortfall in our PESC forecast for 1984/85 onwards. I hope we shall be able to agree on the need for this when we discuss PES on 23 September.

5. Meanwhile I have looked again at the various solutions which have been considered to the longer-term problem, but found each of them lacking. I believe that the best way round it may lie in an arrangement on the following lines.

6. The size of the broadcasting licence fee will be due for review towards the end of next year. This might be a good moment to put to the BBC the thought that in the interests both of the indivisibility of the Corporation and of their international reputation, they might be willing to make up any pay shortfall in the External Services in 1984 and in subsequent years from licence fee income. We would propose to the BBC that if they were to agree to take on this commitment any additional burden which it might impose on their finances would be taken into account in striking the balance between the new licence fee and their likely costs, including the consequence of their own pay-bargaining. I am not suggesting that there should be any change in the relationship between the External Services and the FCO, who would continue to administer the grant-in-aid and to decide the prescription; but this arrangement would, of course, add a new element to the understanding that exists between the BBC and the Home Office, which has hitherto precluded cross-subsidisation.





7. I am of course aware of the likely objections to diverting part of the licence fees to pay for services for which they were not collected and Leon Brittan will have views on this. However, I think that it would be useful, as a first step, for officials from our three Ministries to meet to examine the ways in which this suggestion might be developed, and in particular to see whether such an arrangement could be achieved within the terms of the present Charter and Licence Agreement. I would not put it forward if it were not clear that, in the absence of some such device, this problem will continue to give us all headaches.

8. I am copying this to the Prime Minister, the Home Secretary and the Defence Secretary.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office  
22 September 1983



Broadcasting July 79  
pay of BBC

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22 SEP 1979





Broadcasting July 79

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

31 August 1983

Dear Cecil,

Dr 31/8

will request if required.

I have seen Douglas Hurd's letter to you of 16 August about television licences and hotels.

I am very much in agreement with his general statement of principle. There is a case, of course, for abolishing the television licence fee and financing the BBC by other methods. However in the absence of such a decision we must try to ensure that the law and its administration are in line. If the Government cannot apply its own laws correctly, we are open to considerable criticism and it might be said, we are wasting our time in passing even more laws.

As far as our policy line is concerned, I also agree that we should begin from the standpoint that the existing law should be applied unamended. Only if the hotel industry present a convincing case for relief based on some objective factors eg room occupancy, should we consider amending the law. We should not do so simply because hotels will have to pay more for the service they receive. The fact that they have had an advantage for so long should not in itself give them a prescriptive right to it for the future.

I am copying this to other members of H, to Douglas Hurd and to Sir Robert Armstrong.

JOHN BIFFEN

The Rt Hon Cecil Parkinson MP  
Secretary of State  
Department of Trade and Industry



10003

11 SEP 1963



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11-2-2

10001







CC NO  
SS

Agreed

MA

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State  
Foreign & Commonwealth Office  
Downing Street  
London SW1A 2AL

Prime Minister

The Chief Secretary argues that

- ✓ (a) the BBC should either be told to live within their cash provision for external services; <sup>10 August 1983</sup>
- ✓ (b) the FCO should fund increases for external services from offsetting savings in their programmes;.

✓ Sec Secretary of State, He agrees that a full and independent sanctioning of the management and finance of the external services would be desirable.

BBC EXTERNAL SERVICES

Thank you for your minute of 1 August.

WR  
w/s

I am aware that the problem of how to absorb the cost of BBC pay rises within FCO's grant-in-aid to the External Services is a recurring one and has been the subject of lengthy correspondence between our predecessors. I should say at the outset that I entirely agree with the view expressed in Leon Brittan's letter of 21 February to Francis Pym that it would be quite contrary to our general policy on pay costs which are a charge on the Government to agree to provide extra finance for any level of pay award that the BBC decides to make. At least as far as the External Services are concerned the BBC must be made to understand that they are subject to the same cash limit disciplines as any other recipients of public money.

The fact that we have agreed to treat the External Services exceptionally leniently in the context of this year's cash limit reductions (where, as you know, the agreed £500,000 cut is to be found from slippage in capital expenditure which would have happened anyway) should make it easier for them to find the necessary savings without making damaging cuts in broadcasting services. As Leon Brittan said in his letter of 22 March, it does not seem unreasonable for the Corporation to be asked to pay for any cost which its policy on External Services' pay entails over and above what the Government is prepared to offer through its grant-in-aid. We know that as a result of the 1981 licence fee settlement the BBC as a whole is in an economically healthy position. While I appreciate that overt cross-subsidisation from the licence fee revenue is precluded at present, there must be some scope for reallocating overheads or similar costs at the margin. In any event I think we should reconsider whether the present bar on cross-subsidisation remains appropriate.

I understand that when Leon Brittan met the Director General and the Head of the External Services for lunch earlier this year



they told him that the present PES and cash limit position for the External Services was well known to them and accepted. However my officials have heard privately that the BBC have apparently recently appointed a full-time PR man specifically to co-ordinate their efforts to lobby against further public expenditure cuts. I hope you will agree that we should not allow them to get away with that!

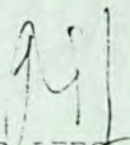
For these reasons I am convinced that the BBC should simply be told to live within their cash provision for the External Services like everyone else. Given that the increase they are seeking relates to a higher than average pay award, I doubt whether their case would attract much public sympathy, provided that the Government is prepared to take a fairly robust line at the outset.

If you feel that the political difficulty of taking such a course with the BBC is just too great, it would of course be open to you to fund an increase for the BBC from offsetting savings on your other programmes. I cannot accept that this is not possible. As you know, there have been two substantial windfall gains to FCO Votes recently which have largely offset your problem with overseas inflation and exchange rate movements. I have no doubt that, if it were really necessary, you could find another £1.5 million from within the main FCO cash limit of nearly £330 million. I cannot therefore agree to a claim on the Contingency Reserve for this purpose in the current year. I understand that you have already entered additional bids in this year's Public Expenditure Survey for the consequential effects in future years. We shall of course be discussing these alongside your other bids at our bilateral meeting next month but I can hold out little prospect that I will be able to agree to them, given the overall objectives for public expenditure which we have agreed in Cabinet. Last year's PES settlement for the FCO was particularly generous and, I would have thought, unrepeatable.

At the end of your minute you suggest that it would be desirable to have a full and independent scrutiny of the management and finances of the External Services. I agree that this is an idea worth pursuing in its own right quite apart from any decisions we take on the consequences of this year's pay award. It would be essential to have a clear idea in our own minds of the scope and terms of reference of such a review before putting proposals to the BBC. I suggest that it would be useful for our officials to have further discussions on this - we might for example commission something on the lines of a Rayner scrutiny. A review would however only be of value if we are prepared to show the BBC that they remain subject to the normal financial disciplines of cash limits.

I am sending copies of this letter to the recipients of yours.

*Yours sincerely*



for PETER REES

*(Approved by the Chief Secretary & signed in his absence)*





*They cannot go on increasing pay like this over and over again and inefficient operation.*  
*CONFEIDENTIAL*  
 Prime Minister SS

FCS/83/153  
 CHIEF SECRETARY TO THE TREASURY


*The Foreign Secretary sees no alternative to increasing the grant in aid to the BBC's external services by £10.5m to meet the costs of the BBC's pay increase, but proposes that the BBC should be asked to retain consultants to review the management and finances of the External Services as a condition of this extra grant.*

1. The Chancellor and I agreed last week that an exception should be made for the BBC External Services from bearing the full effect of the reduction in their cash limit for 1983/4. We recognised that to have done otherwise would have run the risk of public and Parliamentary outcry which could have been damaging to the Government's interests. I regret that we now face a problem over BBC External Services' pay where I believe similar considerations apply.

2. The FCO grant-in-aid to the External Services is increased annually by the inflation factors determined by the Government. But the External Services' pay bill has been rising faster than the inflation factor, since its size depends on the pay scales decided by negotiations between the BBC as a whole and the TV and broadcasting unions. There is thus a gap, which this year will be some £1.5m and which will be carried forward into future years.

3. You will recall that the cut of £0.5m in the External Service's cash limits is to be found mainly from savings in capital expenditure. There is no further scope for savings of the order of magnitude of £1.5m without reducing broadcasting time. We consider that broadcasting hours are already at the minimum acceptable level and that any further reduction would lead to a significant loss of overseas listenership to the BBC's competitors. More to the point, we would certainly face major political difficulties.





4. The House of Commons Foreign Affairs Committee have suggested that a long-term solution to this problem should be found. Our officials have considered the question carefully but could find no solution acceptable to all. There is clearly no easy way of getting round the problem and it may be that we shall have to continue to deal with it on an ad hoc basis.

5. I believe that in 1983/4 the shortfall should be met from the Central Contingency Reserve with the same sum being built into PES provisions for future years as happened in 1982. BBC pay is a factor over which neither I nor any other Minister has so far secured any effective control; the maintenance of the present level of the External Services is a matter of general Government concern; and it is simply not possible for any shortfalls to be met by other activities funded by FCO.

6. So far we have none of us been able to find anything firmer than the overall constraint of licence fee income to set limits to the BBC's wages bill.

7. We need to look for some additional weapon. I believe it would be desirable to have a full and independent scrutiny of the management and finances of the External Services. I presume the use of the Comptroller and Auditor-General would be excluded given the Government's policy on the extension of his remit. And the BBC successfully resisted an attempt by him last year to examine their affairs. A possible alternative would be a firm of management consultants, which the BBC came close to accepting once before. I should like to make such a review a condition of providing extra funds for the pay award.





8. If you would like to hold a meeting on this I would be ready to attend. If so, I believe that it would be helpful if the Home Secretary were also to be present.

9. I am copying this letter to the Prime Minister, the Home Secretary and, because of his interest in the BBC Monitoring Service, to the Defence Secretary as well.

Foreign and Commonwealth Office  
1 August 1983





*Cenlo 2*  
Prime Minister

*WR*

*27/4*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

The Rt Hon William Whitelaw, CH MC MP  
Secretary of State for the Home  
Department

29 April 1983

*Dear Home Secretary*

I have seen your minute of 30 March to the Prime Minister about BBC pay, and the subsequent exchange between her private secretary and yours.

We must hope that the BBC remains firm in its intention not to increase its pay offer. The offer is already on the high side in relation to the main public service settlements. And it would cause further problems with the financing of the external services. I accept that intervention may not yet be justified. But we should certainly register our disquiet with the BBC if it looks like making any significant increase in the offer.

I recognise also that we should be careful about being thought to prejudice the constitutional independence of the Corporation. But the BBC is financed almost exclusively by a form of poll tax. We therefore have a responsibility to licence payers to ensure that the financial regime under which it operates is a tight one, conducive to efficient management and control; and that we do not set a wasteful pattern for the private sector.

Given the difficulties of intervening directly, I wonder whether one approach for you might be to tell the Corporation that it should not continue to plan on the assumption of an automatic increase in the licence fee from March 1985, as is its current expectation, but that it must make its present resources last at least a year longer? This would increase the pressure on it to operate economically. It would recognise the reality that inflation has followed a much lower path than was generally expected when we agreed the £46 colour licence fee in December 1981. And it would ensure that the windfall gain the BBC has received from lower price rises could not be dissipated in pay and other current expenditure.

/I think we



CONFIDENTIAL



I think we ought also to take a critical look at the limited amount of BBC expenditure which we can directly control. One such area is satellite broadcasting on which we shall be writing separately.

I am copying this letter to the Prime Minister, the members of E(PSP), the Foreign Secretary, the Secretary of State for Scotland and Sir Robert Armstrong.

Yours sincerely,

Margaret O'Hara

GEOFFREY HOWE

[Approved by the Chancellor and signed in his absence]

CONFIDENTIAL

271







Broadcast<sub>2</sub>

Prime Minister  
ms 13/4

FCS/83/75

CHIEF SECRETARY TO THE TREASURY

BBC External Services' Pay

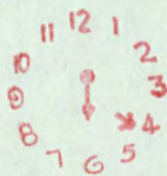
1. Thank you for your letter of 22 March. I have also seen the Home Secretary's letter to you of 10 April. *will request it reviewed*
2. I have no doubt that we need soon a meeting involving myself, you and the Home Secretary to discuss the principle involved in this unique situation. My office will be in touch with yours to try to arrange this. Our officials should certainly meet afterwards to discuss follow-up, eg a possible review by the Comptroller and Auditor-General or independent consultants. But our paper made clear this was only to be an added form of control to ensure against abuse once we had agreed to treat the External Services as a special case. This is a political point requiring a long-term solution in view of the cumulative effect of each year's pay shortfall. To treat it ad hoc in every Public Expenditure Survey would inevitably lead to annual rows in Parliament.
3. I am copying this to the Prime Minister, the Home Secretary and the Defence Secretary.

72

Foreign and Commonwealth Office  
13 April 1983



13 APR 1983





cc NO  
Broadcasters



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

12 April 1983

Prime Minister 2

Dear John,

MUS 15/4

BBC PAY

Thank you for your letter of 5 April in which you sought some further information for the Prime Minister on BBC pay negotiations.

The BBC at present pay their London staff a flat rate of £930 London Weighting per annum. They have offered an increase of £100, which the union side will probably accept. The resultant figure of £1,030 pa compares with the average figures of inner and outer London Weighting of £1,220 (Cable and Wireless), £1,117 (Civil Service), £1,127 (British Telecom), £1,261 (British Airways), £1,230 (CEGB), and £1,214 (Water Supply): these figures have been payable for at least nine months.

The proportion of staff of the Corporation working in London has increased over the years with the growth of television, so that now over two thirds of the BBC's staff of nearly 28,000 are eligible for London Weighting allowance. But it has always been deployed nationwide and it would be difficult to claim that the BBC's basic levels of pay, unlike those of other organisations, were established in relation to London levels only.

We do not maintain detailed information on conditions of service, and cannot offer detailed comments on relative job security, other than to say that qualified labour is fairly scarce in the broadcasting world as a whole, and likely to continue to be so with the growth of cable and DBS. The ITCA settlement in 1982 was a 2 year one, with the second year being tied to the RPI. The outcome of this in July of this year, excluding London Weighting, is thus likely to be about 5%, compared with the BBC's offer of 5.3% on basic rates (which they equate to 5% of the total pay bill). On the other hand, the ITCA settlement last year was 1½% higher than the BBC one, and their London Weighting figure was a further £300 per annum ahead. Between 1979 and 1982, ITCA basic rates rose by 73.4%; the IBA's by 62.4%; Independent Radio's by up to 76%; and the BBC's by 48%.

While artists employed by the BBC work on a contract basis, producers, directors and technicians are generally members of BBC staff. A BBC Senior Television Engineer is paid about 32% less than his ITV counterpart; a Film Editor about 20% less; a Film Cameraman about 40% less; and an Assistant Produced over 70% less. The lowest paid craftsmen, riggers and drivers are over 60% behind their independent sector analogues.

/I am

John Coles, Esq



CONFIDENTIAL

I am copying this letter to the Private Secretaries to Members of E(PSP) and the Secretary of State for Scotland, and to Sir Robert Armstrong.

Yours truly,

Tony Rawsthorne

A R RAWSTHORNE

CONFIDENTIAL



BROADCASTING

TV license fees

July 1979.

11 3 APR 1980

11 3 APR 1980



Broadcasting



Prime Minister <sup>2</sup> *cg/no*

*ms 12/4*

QUEEN ANNE'S GATE LONDON SW1H 9AT

10 April 1983

*Dear Sir,*

Thank you for sending me a copy of your letter of 22 March to Francis Pym about External Services pay in the BBC. I thought that I should comment on the propositions of, first, separating External Services pay from BBC pay generally; or second, asking the BBC to subsidise the External Services from its general revenues.

I have to say that I do not regard either as a starter. I think it inescapable that the Corporation function is an indivisible entity. Their staff move from radio to television and vice versa, and to different areas of work within the BBC. This seems to be the only way of sharing and developing creative ability. In addition, there are the staff of the Central Services which support both the Home and External Services, their costs being apportioned pro rata. I do not believe that the Corporation would be able, even if they were willing, to establish pay scales for External Services posts on a different basis, and at a different level, from analogue posts in the rest of the organisation. Good staff would not move to External Services posts on that basis, and the External Services would quickly come to be seen as a second class part of the organisation. The value which the country derives from having its external broadcasting provided by the BBC, and not as a Government operation, would inevitably be impaired.

Nor can I see the logic of the argument that because the BBC functions as a single entity, it should pay for part of the Government's requirements out of its general revenues. Those revenues come from licence fees levied to fund the Home Services. I think that we would be exposed to severe and justified criticism if part of those fees were devoted to quite different purposes. And in practical terms, any effort to do this would have a cumulative effect. Within 2 or 3 years the diversion of resources would be quite marked.

In sum therefore I do not think that further exploration by officials can make any further contribution in these areas. The questions of C&AG access and efficiency studies are ones for Francis Pym and you. But whatever can be achieved here, we come back, I think, to choosing between exempting the pay element of the External Services from PES, facing the same potential problem each year, or cutting the output of the External Services; and that seems to me, as indeed Francis Pym has said from the outset, a political decision.

I am copying this letter to the recipients of yours.

*Yours truly  
L. Brittan*



Broadcasting,  
July 79, BBC pay.

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72 APR 1983





B/E.

JD

## 10 DOWNING STREET

From the Private Secretary

5 April 1983

Dear Tony,

BBC PAY

The Prime Minister read over the Easter weekend the Home Secretary's minute of 30 March on this matter. She would be grateful for further information on a number of points.

Mrs. Thatcher has asked why an increase in London Weighting is contributing as much as an 0.8 per cent increase in pay. This would appear to imply a very significant increase in London Weighting. The question perhaps also arises of whether London Weighting is not tantamount to a bonus since most BBC staff work in London and, presumably, their basic levels of pay are established in relation to London levels.

Mr. Whitelaw referred to the differentials between BBC and ITV pay. The Prime Minister has asked whether conditions of service (e.g. job security) in the BBC do not to some extent compensate for these differentials. Further, although the BBC may risk losing some staff to ITV, is it necessary to pay all of its 27,000 staff an increase above the rate of inflation?

Mrs. Thatcher notes that the ITV settlement for the year from July 1983 is linked to the RPI (less than 5 per cent). If this is the case, why should the BBC settlement not similarly be linked to the RPI?

Finally, with regard to the BBC's desire to recruit and retain creative staff, is it perhaps the case that really creative people employed by the BBC are working on free-lance contracts, outside the regular pay scales?

I should be most grateful if you could let me have answers to these points, for the Prime Minister's consideration.

I am copying this letter to the Private Secretaries to members of E(PSP), the Secretary of State for Scotland, and Sir Robert Armstrong.

Yours ever  
 BH Wls.

Tony Rawthorne, Esq.,  
 Home Office.

GF

B/F



Prime MinisterMR SCHOLAR

cc Mr Mount

Please see Mr Whitelaw's response

Yes in handwriting (attached) to your concern about BBC pay.  
Agree I write, enquiring as at X?BBC PAY

MS 31/3

Mr Whitelaw's response to the request for more information about the BBC's pay negotiations emphasises the BBC's special position - its exposure in the job market and the need to retain creative and technical staff.

The vagueness of this defensive letter is not as reassuring as it might be, neither are the arguments contained in it:

(i) We learned that BBC management's "initial view" was 5% plus 0.8% London Weighting. What is their view now?

(ii) Why is an increased LW contributing as much as a 0.8% increase in pay? This must imply a very significant increase in LW. And isn't the LW something of a bonus anyway? Most BBC staff work in London and presumably their basic levels of pay are established in relation to London levels.

(iii) One would like to know more about the differentials with respect to ITV. Do the conditions of service, eg job security, in BBC compensate for these? But if BBC is in danger of losing such staff, why is it necessary to pay all of its 27,000 staff an increase above the rate of inflation?

(iv) If the ITV settlement for the year from July 1983 is linked to the RPI (less than 5%) why not the BBC?


(v) The reference to "creative staff" may be misleading: the really creative people are probably on freelance contracts, outside the regular pay scales.



E. R.  
CONFIDENTIAL

- 2 -

If the Prime Minister agrees, you might invite clarification of some or all of these questions as a prelude to inviting Mr Whitelaw to stiffen the management's resolve. The BBC is certainly special, but not as special as is being maintained.

  
NICHOLAS OWEN

CONFIDENTIAL



CONFIDENTIAL



CC/NO

PRIME MINISTER

B.B.C. PAY

My officials reported to PSP(O) last week the latest information we had on the possible B.B.C. settlement for 1983 which is due on 1 April. It seemed to me that you and other colleagues would wish to know the present position.

The B.B.C. have told us that the unions have submitted a claim for an increase in rates in line with inflation, a narrowing of the differentials with the I.T.V. companies, and an increase in London Weighting, together with some minor adjustments relating to improved holiday arrangements. My officials have made it clear to the B.B.C. that they would be expected to get the lowest possible settlement. The B.B.C.'s initial view was that they might be able to settle for an increase of about 5% of the total pay bill, with a further 0.8% in respect of London Weighting (which would still leave their London Weighting figure lower than, among others, those of the Civil Service, the utilities, and the independent television companies). They have subsequently made an offer falling slightly short of this which the union side has now formally rejected. Further meetings will take place shortly, but B.B.C. officials tell us that they do not intend to increase their offer.

I believe for a number of reasons that the likely level of settlement is a reasonable and defensible one and that an attempt on my part to intervene or otherwise react would be mistaken. First, the B.B.C. is unique as a public sector body having to compete directly with a strong private sector - the I.T.V. companies. In the great majority of technical and production grades, the Corporation's rates are well behind those of the I.T.V. companies (in some cases by 60% or 70%). If this gap is seen by staff with marketable skills as unacceptably wide, they will desert the B.B.C. to its and the public's loss. Last year the B.B.C. settled for an increase of 6.9% on average earnings, compared with the I.B.A.'s 7% and the I.T.V. companies' 8.5%. The I.T.V. settlement was a two year one, the second year (from July this year) being linked to the R.P.I. Any increase in London Weighting would be in addition to it. Thus the B.B.C. are not setting out to narrow the gap this year; but certainly they cannot allow it to widen further, since the quality of their programming depends directly on the quality of the creative staff they can recruit and retain. Moreover, given the special circumstances of broadcasting employment I do not see any risk of a knock-on factor in the public sector generally.

The 1981 licence fee settlement was based on our philosophy of giving the B.B.C. a period of stability to plan ahead, provided its expenditure was carefully controlled. In my statement of 1 December 1981, I made it clear that the settlement should last for at least three years and that the B.B.C. were expected to live within the income which it provided until the end of March 1985. I shall, of course, continue to watch carefully to ensure that

CONFIDENTIAL



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2.

the B.B.C. stay within their expenditure plans; but I judge that it would be both ineffective and wrong for me to try to influence how their expenditure should be distributed.

Copies of this minute go to the members of E(PSP), the Secretary of State for Scotland and Sir Robert Armstrong.

*Law.*

30 March 1983.

CONFIDENTIAL



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Prime Minister <sup>2</sup>

MUS 23/3

cc NO

TPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Francis Pym MC MP  
Secretary of State  
Foreign and Commonwealth Office  
Downing Street  
London SW1A 2AL

22 March 1983

Francis,

BBC EXTERNAL SERVICES: PAY

Thank you for your minute of 14 March.

I note that you see no possibility either of separating the External Services' pay from BBC pay generally or of asking the BBC to fund any excess pay costs of the External Services from its general revenues. Although I would not seek to minimize the difficulties in persuading the BBC to adopt either of these courses. I am bound to say I find their position somewhat weak in logic: if it is Corporation policy to regard the BBC as an indivisible entity for staff purposes, it does not seem unreasonable to me for the Corporation to be asked to pay for any cost which that policy entails over and above what the Government is prepared to offer through its grant-in-aid. However, as you say, this is primarily a matter for Willie Whitelaw and I should be interested to see his comments on these possibilities.

Of course I am ready to discuss these questions with you and Willie if you wish. But I still think there is scope for further examination by officials, not least of the suggestion in your earlier letter that we should look at ways of containing the costs of the External Services either through the C&AG or through a management review by independent consultants. In any event, if you wished to make a bid for additional resources for the External Services in the light of any pay settlement the BBC may eventually concede, we would have to consider this in the Public Expenditure Survey alongside all the other claims for additional resources both for FCO and for other Departments. I can see no way in which a meeting would enable us to agree to a "solution" to this problem which effectively exempted the External Services from the normal PES disciplines. This would create an unacceptable precedent for our dealings with other publicly funded bodies which conduct their own pay negotiations, notably the nationalised industries and local authorities.

I am copying this letter to the Prime Minister, the Home Secretary and the Defence Secretary.

LEON BRITTAN



BROADCASTING  
TV license fees  
en.  
July '79

23 MAR 1983





RESTRICTED



*ec No.*  
*Broadcasting*  
*NBPM*  
*ms 18/3*

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 9/12

17th March 1983

BBC EXTERNAL SERVICES PAY

Thank you for sending me copies of your correspondence on this subject with Leon Brittan and for giving me an opportunity to attend the meeting you have proposed.

The BBC Monitoring Service is valuable to us. However our financial contribution to it of 20% is very much a minority one, and the Monitoring Service is itself only a small part of the External Services.

I do not therefore feel that we need be represented at the meeting though I should like to be kept in touch with the conclusions that are reached.

Copies of this letter go to the Prime Minister, the Home Secretary, and the Chief Secretary.

Michael Heseltine

The Rt Hon Francis Pym MC MP

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Broadcasting July 79  
TV License Fees

18 MAR 1983

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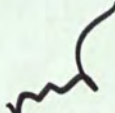
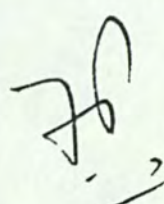




FCS/83/51

CHIEF SECRETARY TO THE TREASURY

1. Thank you for your letter of 21 February.
2. I doubt whether there is any advantage in asking our officials to go over the ground again. They have already considered various solutions over a period of months, including the ones you mention. I can see no possibility of separating External Services' pay from BBC pay generally given that the BBC is an indivisible entity as regards staff. Nor could the BBC Home Services be expected to absorb excess External Services' costs; of course this is a matter primarily for Willie Whitelaw, but I would point out that the services are financed in completely different ways and there would be considerable resentment from the BBC lobby and the licence fee-paying public.
3. I should therefore like to propose, if you agree, that we get together to discuss the matter with the Home Secretary. The Defence Secretary may also wish to attend in view of his interest in the BBC Monitoring Service.
4. I am copying this minute to the Prime Minister, the Home Secretary and the Defence Secretary.

*cc TV Broadcast*  
*Prime Minister<sup>2</sup>*  
*Mus 14/3*  
  
  
 (FRANCIS PYM)



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Broadcasting

Prime Minister

MUS 21/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP  
Secretary of State  
Foreign & Commonwealth Office  
Downing Street  
London SW1A 2AL

21 February 1983

Dear Secretary of State

BBC EXTERNAL SERVICES PAY

Thank you for your minute of 4 February.

I am afraid I cannot accept your proposal that the pay of the BBC External Services should be removed from cash limits and that we should stand ready to provide extra finance for whatever pay awards the BBC decide to make. This would be quite contrary to our policy towards pay costs which are a charge on Government's funds. It would also be contrary to the principles of the Public Expenditure Survey, one of the main purposes of which is to identify for Ministerial consideration cases where it is claimed that the normal provision is not sufficient. I think it is important that we should examine such claims each time, so that we can decide how far they are justified and, to the extent that they are, how they should be financed.

However, I welcome your suggestion that ways should be examined of containing the costs of the BBC External Services, whether through the C&AG or through a management review by independent consultants. While I acknowledge the difficulties of it, I think we should also consider the feasibility of separating External Services pay from BBC pay generally, so that we can relate it to what the Government can afford. In addition, there is the possibility of asking the BBC to absorb excess External Services costs from within their general revenue - the amounts would be marginal in terms of the BBC's total activities and would arguably not prejudice the principle that the licence fee is for home broadcasting.

I suggest therefore that our officials should do further work on these and any other ideas for limiting the costs to us of the External Services.

I am copying this letter to the Prime Minister, the Home Secretary and the Defence Secretary.

Yours sincerely

J.S. Gieve

for LEON BRITTAN

[Approved by the Chief Secretary]



21 APR 1988

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Prime Minister (2)

ms 8/2

QUEEN ANNE'S GATE LONDON SW1H 9AT

7 February 1983

Dear Leon

BBC EXTERNAL SERVICES PAY

I have read with interest Francis Pym's minute to you of 4 February.

I endorse all he says about the effectiveness of the BBC lobby, and it seems to me important that we avoid if at all possible an annual Parliamentary row over the financing of the External Services. I do hope therefore that you will feel able to accommodate his proposals within Treasury policy.

Copies of this letter go to the Prime Minister, the Foreign Secretary and the Defence Secretary.

*[Handwritten signature]*  
L/Morris

*[Handwritten initials]*



Broadcasting : July 79 : TV licences

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Mr. Clegg to see

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Prime Minister (2)

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ms

FCS/83/24

CHIEF SECRETARY, TREASURY

BBC External Services' Pay

1. During our bilaterals on the Public Expenditure Survey we agreed that officials should again try to find a solution to the problem arising from the subjection of the BBC External Services to cash limits whilst being obliged to pay the same salary rates as the much larger BBC Home Services, who are not so bound. I attach a paper which my officials prepared and which has been discussed with Treasury and Home Office officials. We are agreed on the factual background but not on the conclusions.
2. I am most reluctant to continue as at present, ie arguing about a pay shortfall each year. In our recent talks with the BBC they have left us in no doubt that they set great store by the successful resolution of this problem which they expect to be with us for some time to come. They are looking for an early response and I judge will not let matters rest if they are told that the Government can offer no long-term solution. If that is our answer, we are likely to face a strong campaign inside and outside Parliament with the threat that without some assurance of further resources they will have to make substantial cuts in the External Services. We know from past experience the effectiveness of the BBC lobby in Parliament and with public opinion. I do not see how it can be in our interest to become embroiled in such a wrangle at this time. We must avoid another parliamentary row over the External Services this session.

/3.

RESTRICTED





3. This is essentially a political problem for the Government as a whole and we are in an impossible position. The FCO have no control over the BBC's pay; nor do I have provision elsewhere in my programmes to finance any excess awards. We have to recognise that the Corporation is something unique, with part of its activities subject to cash limits and part not. The BBC's pay is settled in a competitive industry against trends in the independent sector and developments such as cable and DBS will add to the demand for trained broadcasters and technicians. I believe we should rely on the overall limit on the BBC's expenditure inherent in the constraints of the licence fee income. I very much hope therefore that you will feel able to have a further look at this and consider whether we could not agree to something on the lines of paragraph 8(b) of the attached paper.

4. I am sending copies of this minute to the Prime Minister, the Home Secretary and the Defence Secretary.

A handwritten signature in dark ink, appearing to be 'FP', is located to the right of the typed name.

(FRANCIS PYM)

Foreign and Commonwealth Office  
4 February 1983





## LONG TERM FINANCING OF BBC EXTERNAL SERVICES

1. The House of Commons Foreign Affairs Committee have drawn attention in paragraph 14 of their Third Report on the FCO Estimates of 19 July (HC 406) to a problem concerning the method of financing the BBC External Services:

'The pay scales used by External Services are those of the BBC as a whole, which are fixed without reference to cash limits, and External Services have little or no say in determining them; yet the funds made available by the FCO to pay staff are fixed by the Government's overall cash limit restrictions. Cutting down staff numbers, and so cutting services to provide additional money, is not a step we consider to be sensible. The FCO recognises that there is a difficulty and the matter is still being dealt with.'

2. Officials from Treasury, Home Office and FCO have considered this difficulty. The situation is unique. The external Services of the BBC is the only publicly financed organisation subject to cash limits in which the pay of all staff is directly linked with the pay scale of an outside organisation not subject to cash limits. The BBC is an indivisible entity as regards staff, with complete inter-changeability and the same unions. The FCO grant-in-aid of the External Services of approximately

/ £70 m.





£70 million per annum amounts to no more than 9% of the BBC's total annual income which is derived largely from the TV Licence fee. Of total BBC staff, only 11% work for the External Services.

3. In both 1981/82 and 1982/83 the basic pay increase accorded to BBC staff (8<sup>1</sup>/<sub>2</sub>% and 6<sup>1</sup>/<sub>2</sub>%) exceeded the Government's pay factors (6% and 4%). Changes in hours worked, holidays etc meant that the External Services' pay bill increased by 12% and 9% respectively. The External Services managed with great difficulty to absorb the short-fall in 1981/82. For 1982/83 special arrangements have been agreed whereby their expected shortfall of £3 million will be met mainly by savings elsewhere on FCO Votes and partly from unexpected 'windfalls' such as cancellation of a satellite feed installation in Singapore. Provision for a similar amount, recosted at £3.2m has been included in 1983/84 and the remaining years of the PES period; but such a sum will be inadequate if, as is probable, the BBC's pay continues to increase faster than the Government's cash limits pay factor.

4. The same situation seems bound to recur in the future, particularly in the light of next year's 3<sup>1</sup>/<sub>2</sub>% cash limit on pay. BBC pay awards relate more closely to those in the television industry than to those of the Civil Service.

/There





There is now no margin in the grant-in-aid for such a contingency and usable savings from FCO Votes are not expected to materialise in 1983/84 and beyond. Unless there is a supplement from external sources, the shortfall could only be accommodated therefore by making reductions in broadcasting hours. That would provoke strong Parliamentary criticisms and frustrate the Government's aim of maintaining the present level of language services.

5. Officials have invited comments from the BBC who made the following proposal:

'The immediate problem facing the External Services is the fact that its pay levels are determined by the Corporation as a whole, but the finance is determined by Treasury limits. Separation of the grant into two components would allow the pay portion to be funded to the extent required by Corporation policy (which is ultimately determined by HMG at one remove through the constraints imposed by the licence settlement). The 'other elements' position would be subject to the normal cash limits.

6. Officials have considered whether there could be a case for acknowledging that constraints on External Services' pay should derive only from the licence settlement and not from

/cash limits





cash limits. The revenue which the BBC obtains from the licence fee does impose some limit on the amount it can pay its employees, whether in the Home or the External Services. Excessive awards can only be at the expense of non-pay expenditure such as broadcasting equipment and programme costs.

7. Officials have considered other methods of financing the External Services but have found none which are satisfactory. It would theoretically be possible to index the rate of increase of the grant-in-aid in step with the rate of increase of the TV licence fee; but that would not provide a predictable amount in the light of which the FCO could prescribe hours of language broadcasts on an assured basis. (Moreover, in some years it might increase the grant-in-aid more than is needed.) Nor would the problem be eased if the grant-in-aid were returned to the Home Office Vote.

8. Officials believe there are only two practicable options:

- a) to continue as at present. This would mean that around May of each year when the BBC's salary award was known the External Services would ask the FCO to finance the gap between that award and the Government's pay factor in the financial year just beginning. Since the

/FCO





FCO cannot again be expected to find savings elsewhere, the Government would then have to decide whether to provide ad hoc finance to meet the gap in the shape of new money or to require a reduction in language services with the inevitable Parliamentary and foreign policy consequences.

- b) To adopt the suggestion in paragraph 5 above but with some added form of control to ensure against abuse. This could be done through the Comptroller and Auditor-General, who is about to exercise his right to enquire into the External Services' finance, and by a thorough management review of the External Services by an independent firm of consultants.

9. Officials consider that an exemption as in (b) (for pay only) would be appropriate and defensible in the special circumstances of the External Services: the alternative of annual disputes about cuts in services would be politically unacceptable.





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Mr Fletcher

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To see

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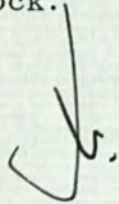
MR SCHOLAR

cc Mr Mount  
Mr Walters  
Mr Ingham

BBC EXTERNAL SERVICES' PAY

It is not necessary to reach a judgement about the importance of the BBC's External Services to decide what should be done about their pay. In each of the last two years they have by the FCO's own admission got away with excessive pay increases, and in the BBC as in any other organisation both management and workforce must learn the hard way that money for pay comes out of the total budget, not thin air. The fact that the External Services are linked to the non-cash-limited BBC pay scales is neither here nor there, because the major part of the problem seems to have arisen from the way in which the External Services have regularly done better than the rest of the BBC (paragraph 3). Anyway the BBC's External and Ordinary Services are different in nature, purpose and funding and I see no reason why the link should be immutable.

But I do not think the Prime Minister need intervene in this correspondence until the Chief Secretary and Mr Pym have reached deadlock.



4 February 1983



CONFIDENTIAL

Broadcasting of JV



QUEEN ANNE'S GATE LONDON SW1H 9AT

Prime Minister

(2)

MUS 5/4

*[Handwritten initials]*

3 April 1982

Dear Jeffrey

B.B.C. PAY

The Home Secretary seems to have no plans for calling in the Chairman.  
MUS

Thank you for your letter of 30th March.

The B.B.C. pay offer is for a six and a half per cent increase in basic pay; for an increase of £100 on London Weighting (currently £230); and for a reduction from October in the hours of weekly paid staff (about 5000) from 45 hours to 42 hours to bring them into line with monthly paid staff. This reduction in hours is conditional on satisfactory arrangements being made for the absorption of the costs. The B.B.C. estimate that the total cost of the offer for 1982-83 would be about 7.3 per cent on the pay bill.

*[Handwritten mark]*

The B.B.C. are keenly aware - not least because I have told them so in no uncertain terms - that they have got to live within the revenue produced by the new level of the television licence fees until the end of the 1984-85 financial year. In fact, at a meeting with the unions in February the B.B.C. emphasised that phasing and control of expenditure was absolutely critical if the Corporation was to adhere to the requirement placed upon it by the Government to live within its revenue over the three and a third year period of the new licence fees.

Copies of this letter go to the recipients of copies of yours.

*[Handwritten signature]*  
MUS  
LAD

CONFIDENTIAL

The Rt. Hon. Sir Geoffrey Howe Q.C. M.P.



5 APR 1982





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TV

CONFIDENTIAL



Prime Minister

This is appalling.

Treasury Chambers, Parliament Street, SW1P 3AG

MUS 30/3

01-233 3000

30 March 1982

The Rt. Hon. William Whitelaw CH MC MP  
Secretary of State for the Home Department

*In Willie*

*ms*

BBC PAY

I understand that the BBC have offered their staff a 6½ per cent increase in basic salaries. Moreover, and even more worrying, they apparently propose a double figure percentage increase in London Weighting (which a high proportion of BBC staff must get), and a reduction of no less than three hours in the working week of weekly paid staff. This last concession alone would, on the face of it, be worth about 7 per cent.

The effect of the offer on earnings and on the pay bill seems likely to be large. On top of last year's increase of about 11 per cent, it suggests a degree of irresponsibility in the BBC's approach to pay costs. Is there nothing we can do to encourage a more stringent approach?

As you made clear in announcing our decisions on the licence fee, the BBC cannot expect us to re-open them if their pay costs take off, as now seems on the cards.

I am copying this letter to the Prime Minister, members of E(PSP), to Mr Ibbs and to Sir Robert Armstrong.

*[Handwritten signature]*

GEOFFREY HOWE



30 MAR 1982





30 pm

## Television Licence Fee

**The Secretary of State for the Home Department**  
**Mr. William Whitelaw:** With permission, Mr. Speaker, I shall make a statement about the television licence fees. As right hon. Members will be aware, the BBC has made an application for an increase in the colour television licence fee to about £50 to last for three years. In considering that application it is my duty to ensure that the corporation's home services are adequately funded, and at the same time to have regard to what is fair to the licence fee payer.

I have therefore decided, and have today laid the necessary regulations, to increase the fee for a colour television licence from £34 to £46 and for a monochrome licence from £12 to £15. The new fees come into effect at midnight tonight. It is my intention that this level of fees should last for at least three years and I shall make it clear to the BBC that I shall expect it to pay off its current deficit and live within the revenue that these new levels of fees will produce until the end of the 1984-85 financial year.

My purpose in deciding on an increase to last for at least three years is to make the licence fee system work as it should. It is also my aim to fix the level of fees for a period that will enable the corporation to plan ahead more effectively. A three-year increase will require considerable financial discipline on the part of the corporation, and the extent to which it will be able to pursue its plans for new or improved services will depend crucially on its ability to keep down its costs, particularly labour costs.

In that context, the board of governors has announced that it has commissioned a wide-ranging review of the systems by which the BBC monitors its efficiency. I welcome that decision, which indicates how seriously the board of governors takes its responsibility for ensuring that the licence fee paying public get an efficient service and value for money.

I recognise that it is not easy for some people to find the licence fee in a single lump sum each year. I therefore intend to provide a range of means to enable members of the public who wish to do so to spread the cost of the licence fee over the year. To supplement the successful and widely used television saving stamps scheme, I have approved plans for the introduction of payments by instalments. We propose, during next summer, to start accepting monthly instalments towards the following year's licence fee by means of direct debit from bank accounts, and to introduce at least a pilot scheme for payment by credit cards. That will be followed, I hope by the summer of 1983, by a scheme for the payment of monthly cash instalments over post office counters towards the following year's fee.

I believe that the three-year increases that I have announced today, coupled with greater flexibility in the methods of payment, will do much to strengthen the licence fee system and preserve the independence of the BBC.

**Mr. Roy Hattersley** (Birmingham, Sparkbrook): Is the Home Secretary aware that Opposition Members believe that the BBC should be financed in a way that both preserves its independence and enables it to maintain the high levels of its programmes? I therefore accept that an income of the sort that the Government propose is necessary, and that it should be obtained by means of a

licence fee. However, is the right hon. Gentleman equally aware that a television licence fee of £46 will bear heavily on some members of the public, particularly retirement pensioners? The fact that the increase will be reflected in the retail price index is no comfort because, at best, the pension will be adjusted next November to compensate for tonight's new licence level and, at worst, next year's pension increase, like this year's, will not reflect the full change in the cost of living. Nor will the variety of easy payment schemes be of much benefit to most pensioners, few of whom—whatever may be said to the contrary—will ever possess credit cards, and all of whom will be required to pay instalments on next year's licence this year, in advance of receipt of programmes.

Therefore, I repeat to the right hon. Gentleman what my hon. Friend the Member for Halifax (Dr. Summerskill) said in the summer, that we shall not support the proposed increase unless a concession is made for retirement pensioners and the chronically sick.

May I suggest one means of raising compensating revenue for that purpose? Is it not absurd that the Savoy Hotel, for example, with hundreds of television sets used for commercial purposes, should pay the same licence fee as a single pensioner? Should there not therefore be a separate and higher commercial fee, separate from and higher than the domestic licence? Should it not be levied on every set in commercial use?

**Mr. Whitelaw:** I am glad to hear the right hon. Gentleman accept that the licence fee is the best method of financing the BBC. I am also glad to hear him say that the sort of income that I have designed through the licence fee is what he believes to be correct for the BBC over the next three years.

I accept that the problems of pensioners cause considerable anxiety. The easy payment schemes that I have proposed to introduce supplement the television stamps, which are available to pensioners and are helpful. A large proportion of television licences are now taken out by that method, which shows that it is valuable and worth while.

I accept that there is a problem with hotels. We set up a working party on the matter, which recommended that hotels should pay more. I am prepared to consider how best we should implement that proposal.

**Mr. Peter Emery** (Honiton): Does not my right hon. Friend accept that a 36 per cent. increase in the licence fee is steep, but that people will accept it on the understanding that it is essential to keep the BBC independent of any political pressure? Therefore, will my right hon. Friend also ask the BBC to look particularly at those small areas of the country where reception is very bad? There are areas that have been promised improvements in their reception for five and six years—places in Devon where hills and coombs make ordinary reception difficult? That promise by the BBC has not been fulfilled. Is my right hon. Friend aware that people in those areas will find it unpleasant to have to meet this increase when they have had no improvements in reception over the last five years?

**Mr. Whitelaw:** On my hon. Friend's first point, it is fair to say that the proposal for an increase in the licence fee is to last for three years. It is important for the House and the country to appreciate that under the arrangement there will be no increase in the licence fees for three years from now.



**The Prime Minister:** Yes, Sir. I wholly agree with my hon. Friend. That is exactly what we have done. In fact, retirement pensions have kept up with the cost of living.

**Mr. Donald Stewart:** Is the Prime Minister aware that the imposition of the NATO base on the Western Isles is resisted by most of the people there—

**Mr. Speaker:** Order. The right hon. Gentleman's question is not related to earnings-related benefit.

**Mr. McCrindle:** Will my right hon. Friend take this opportunity to repeat that the Government's policy on the taking up of social benefits is to give publicity to what is available and to encourage the maximum take-up at the same time as the Government pursue their perfectly legitimate campaign against the fraudulent claims about which we are sometimes abused?

**The Prime Minister:** My hon. Friend has expressed perfectly. I cannot improve upon what he has said, I can only endorse his remarks.

**Mr. Peter Bottomley:** Will my right hon. Friend take steps to ensure that when poor families apply for any benefit the benefit office checks to see whether they are entitled to any other benefits at the same time?

**The Prime Minister:** That is an administrative matter. It seems to be a good idea that that should happen. I shall, of course, convey the suggestion to my right hon. Friend the Secretary of State for Social Services, who may have heard it, to see whether it is administratively possible.



30 November 1981

Thank you for sending us a copy of your letter of 26 November to Peter Jenkins, about the television licence fees statement.

The Prime Minister is content.

M A PATTISON

Andrew Jackson, Esq.,  
Home Office.

A



cc Mr Ingham  
Mr Scholar

Prime Minister

Content with the Home  
Secretary's draft?

Yes ~~not~~

MAJ  
27/11

From: THE PRIVATE SECRETARY  
**CONFIDENTIAL**



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

26 November 1981

Dear Peter

I attach a draft of the statement announcing the increases in the television licence fees which the Home Secretary proposes to make after Questions on Tuesday, 1 December. (After a request from Mr Hattersley, the Home Secretary agreed that the statement should be oral.) The Home Secretary would be grateful to know if the Chancellor would be content with the terms of the draft.

I am sending a copy of this letter to Mike Pattison (No 10) and David Wright (Cabinet Office).

*Yours ever*  
*Alex Jenks*

A P JACKSON

P S Jenkins, Esq.

**CONFIDENTIAL**



**CONFIDENTIAL**

DRAFT STATEMENT

TELEVISION LICENCE FEES

1. Mr. Speaker, I will with permission make a statement about the television licence fees. As hon. and rt. hon. Members will be aware, the B.B.C. has made an application for an increase in the colour licence fee to about £50 to last for three years. In considering that application it is my duty to ensure that the Corporation's Home Services are adequately funded, and at the same time to have regard to what is fair to the licence fee payer.
2. I have therefore decided, and have today laid the necessary regulations, to increase the fee for a colour television licence from £34 to £46 and for a monochrome licence from £12 to £15. The new fees come into effect at midnight tonight. It is my intention that this level of fees should last for at least three years and I shall be making it clear to the B.B.C. that I shall expect it to pay off its current deficit and live within the revenue which these new levels of fees will produce until the end of the 1984/85 financial year.
3. My purpose in deciding on an increase to last for at least three years is to make the licence fee system work as it should.
4. It is also my aim to fix the level of fees for a period which will enable the Corporation to plan ahead more effectively. A three year increase will require considerable financial discipline on the part of the Corporation; and the extent to which it will be able to pursue its plans for new or improved services will depend crucially on its ability to keep down its costs, particularly labour costs.

**CONFIDENTIAL**



E. D.

CONFIDENTIAL

5. In this context the Board of Governors has announced that it has commissioned a wide ranging review of the systems by which the B.B.C. monitors its efficiency. I welcome this decision, which indicates how seriously the Board of Governors take their responsibility for ensuring that the licence fee paying public gets an efficient service and value for money.

6. I recognise that it is not easy for some people to find the licence fee in a single lump sum each year. I therefore intend to provide a range of means to enable members of the public who wish to do so to spread the cost of the licence fee over the year. To supplement the successful and widely-used television saving stamps scheme, I have approved plans for the introduction of payments by instalments. We propose in the course of next summer to start accepting monthly instalments towards the following year's licence fee by means of direct debit from bank accounts, and to introduce at least a pilot scheme for payment by credit cards. This will be followed, I hope by the summer of 1983, by a scheme for the payment of monthly cash instalments over Post Office counters towards the following year's fee.

7. Mr. Speaker I believe that the three year increases which I have today announced, coupled with greater flexibility in the methods of payment, will do much to strengthen the licence fee system and preserve the independence of the B.B.C.

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Prime Minister

(2)

These increases were  
being to be announced on

Treasury Chambers, Parliament Street, SW1P 3AG Nov 24m. The  
01-233 3000

20 November 1981

Home Secretary

proposed 8 December; this

is the Chancellor's reply,

MS 20/11

The Rt. Hon. William Whitelaw, CH, MC, MP  
Secretary of State for the Home Department

*W. Whitelaw*

*nt*

TELEVISION LICENCE FEES

*TPM*

Thank you for your minute of 3 November about television licence fees.

I agree that the increases should be deferred from 24 November. If at all possible, however, we should avoid recourse to a Contingencies Fund advance at a time so close to when we are present Winter Supplementary Estimates.

I would therefore much prefer your announcement to be made on 1 December. That would be certain to avoid a demand on the Fund. An announcement on the 8th might not do so if Supplementaries proceed according to schedule.

1 December would also ensure that all licences bought in December would be renewed at the higher level, increasing the flow of money to the BBC and treating all licence payers equitably.

I recognise that no date is ideal from all points of view, but I hope that you will be able to agree to 1 December.

I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

*[Handwritten signature]*

GEOFFREY HOWE



20 NOV 1957



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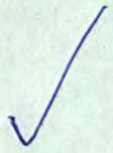
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CONFIDENTIAL



CHANCELLOR OF THE EXCHEQUER

TELEVISION LICENCE FEES

The Paymaster General attaches great importance to the increase in the television licence fees being announced on 8 December rather than (as the Prime Minister, you and I had agreed) on 24 November.

I believe that we should accept the Paymaster General's advice. A consequence of postponing the date of the increase is that it will be too late to enable the Winter Supplementary Estimates to include provision for the increase of £60 million in grant payments to the BBC for the remainder of the current financial year. There would appear, therefore, to be no option but to have recourse to the Contingencies Fund. I should be grateful for your agreement to this postponement and to the use of the Contingencies Fund for this purpose.

I am sending a copy of this minute to the Prime Minister and Sir Robert Armstrong.

*Holls*

*3*

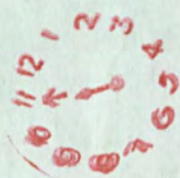
November 1981

*If you wish to speak to me about this  
Mean when Mrs,*

CONFIDENTIAL



L-4 NOV 1981





CONFIDENTIAL

HU

CC Home  
CO  
Bradbury



10 DOWNING STREET

From the Private Secretary

30 October 1981

BF for details of announcement

Television Licence Fees

The Prime Minister is grateful for the Home Secretary's minute of 28 October about the proposal to increase television licence fees from £34 to £46 for colour and from £12 to £15 for monochrome.

The Prime Minister agrees to the increases agreed between the Home Secretary and the Chancellor of the Exchequer. She is also content with the Home Secretary's proposal that the increases be announced on 24 November, subject to the Home Secretary's agreeing the precise terms of the announcement with the Chancellor.

I am sending copies of this letter to John Kerr (H.M. Treasury) and David Wright (Cabinet Office).

M.C. SCHOLAR

John Halliday, Esq.,  
Home Office.

MM

CONFIDENTIAL



CONFIDENTIAL

ku



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

Television Licence Fees

The Prime Minister was grateful for your minute of 28 October about the exchange of correspondence between the Home Secretary, the Chancellor and the Prime Minister proposing increases in the television licence fees.

The Prime Minister has decided to agree the proposals which the Home Secretary has agreed with the Chancellor.

M. C. SCHOLAR

30 October 1981





CONFIDENTIAL

Prime Minister

Z/44 (1)

MR. WHITMORE

Agree the Home Secretary's and  
Chancellor's proposed increases?

Yes

or would you like a black and white  
fee of £16?

No

Television Licence Fees

or a discussion?

No

M66 28/10

The Home Secretary sent the Prime Minister a minute on 28th October, proposing increases in the television licence fees from £34 to £46 (colour) and £12 to £15 (black and white).

2. Ministers agreed in June to go for a licence fee increase to last for three years (and thus until after the next General Election).

3. If the licence fee is to be set at a level to last for three years, and it has to be assumed that inflation will continue at a rate of 5 - 10 per cent a year during that period, then the fee will inevitably seem large in the first year. One has to try to look at the period as a whole.

4. We have not seen and the Home Secretary does not include in his minute (and did not include in his earlier minute to the Chancellor) any projections of the BBC's expenditure during the next three years. But other considerations suggest that the levels proposed are not unreasonable.

5. To restore the colour fee to a level comparable (in terms of purchasing power) with that of ten years ago would require an increase to £42 (at April 1981 prices); the comparable figure for black and white would be £24. The colour fee, at £46, would thus at first be, in purchasing power terms, a little high, but in the second and third years at or below the figure comparable (in contemporary purchasing power terms) with ten years ago. The black and white fee, at £15, would be far below.

6. Comparisons with the past are made more difficult by the change in the proportions of licences issued for colour and for black and white sets. In 1971-1972 the colour fee was £12, and the black and white fee was £7, but there were only about 1½ million colour licences and 15 million black and white. Now the fees are £34 and £12; but there are getting on for 15 million colour licences and only about 4 million black and white. The switch to colour means that the revenue from colour licences has increased more sharply than the fee has; but that has been in considerable measure offset by the fall in the number of black and white licences and the fact that the black and white fee has been increased by much less than the cost of living.



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7. The Home Secretary's minute does not give any yield figures; but in very round figures the pattern is as follows:-

|         | <u>Colour</u> |                        |              | <u>Black and White</u> |                        |              | <u>Total</u>           |              |
|---------|---------------|------------------------|--------------|------------------------|------------------------|--------------|------------------------|--------------|
|         | <u>Fee</u>    | <u>No. of Licences</u> | <u>Yield</u> | <u>Fee</u>             | <u>No. of Licences</u> | <u>Yield</u> | <u>No. of Licences</u> | <u>Yield</u> |
|         | £             | m                      | £m           | £                      | m                      | £m           | m                      | £m           |
| 1971-72 | 12            | 1.5                    | 18           | 7                      | 15                     | 105          | 16.5                   | 125          |
| 1979-80 | 34            | 13.5                   | 460          | 12                     | 5                      | 60           | 18.5                   | 525          |
| 1981-82 | 46            | 15                     | 690          | 15                     | 4                      | 60           | 19                     | 750          |

8. The Home Secretary believes that £46 is the minimum fee (colour) likely to last for three years (see page 6 of his minute of 13th October to the Chancellor). That would be an increase of £12, or 35 per cent: the largest absolute increase ever, but not the largest percentage increase ever (that was the 50 per cent increase from £12 to £18 in 1975). The increase proposed in the black and white fee of £3, or 25 per cent, is the largest increase ever both absolutely and relatively.

9. Over the years the difference between the black and white and the colour fee has increased considerably, as the following table shows:

|      | <u>Colour</u> | <u>Black and White</u> | <u>B &amp; W/Colour</u> |
|------|---------------|------------------------|-------------------------|
|      | £             | £                      |                         |
| 1971 | 12            | 7                      | 0.58                    |
| 1975 | 18            | 8                      | 0.44                    |
| 1977 | 21            | 9                      | 0.43                    |
| 1978 | 25            | 10                     | 0.4                     |
| 1979 | 34            | 12                     | 0.35                    |
| 1981 | 46            | 15                     | 0.33                    |

There is no "objective" justification for any particular difference. It can be argued that it has been allowed to become too great. But it has always been felt right to keep the increase in the black and white fee lower than that in the colour fee, on the argument that holders of black and white licences (the people who have no colour sets) are preponderantly the poor and the old. I have never seen statistics to demonstrate the validity of that argument. It is arguable that it would be possible to put the black and white fee up to £16; that





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would still be proportionately less than the proposed increase in the colour fee, and would increase the yield by about £4 million a year. This would slightly improve the chances of getting to the end of three years without another licence fee increase: on the other hand the difference - less than 1 per cent of total yield - may be too small to bother about.

10. Unless the Prime Minister is disposed to suggest that the black and white fee should on this occasion be increased broadly in line with the colour fee (i.e. to £16 rather than £15), I think that she can agree the proposals which the Home Secretary has agreed with the Chancellor.

Robert Armstrong

28th October 1981

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PRIME MINISTER

TELEVISION LICENCE FEES

The Chancellor of the Exchequer and I have discussed my minute of 13th October to him and have agreed that the television licence fees should be increased from £34 to £46 for colour and from £12 to £15 for monochrome.

This increase would be subject to the conditions outlined in my minute of 13th October: the increase would have to last until at least November 1984 and the B.B.C. would have to plan on the basis that the net revenue which the new fees will produce is all it is going to get until March 1985. I should ask the Corporation to keep me informed as to how expenditure was going. If these reports showed it to be necessary I should then warn the Corporation not only that I was expecting it to keep its expenditure until March 1985 within the net licence fee revenue, but also that it could not assume that any deficit which it might incur during the period would necessarily be taken into account when fee increases are next considered.

Part of our three year strategy is that the B.B.C. should commission a wide-ranging efficiency audit. The Corporation has agreed to an audit (to be conducted by Peat Marwick) and will, I understand, be announcing its plans today. It has undertaken to make the results of the audit available to us and we shall be able to take them (and any further information we think we need in the light of these results) into account in the context of the next fee increase. This audit will be in addition to the value for money audits which the B.B.C. has already asked its own accountants to undertake.

As I said in my minute to the Chancellor, there are risks attaching to our three year strategy. However, we continue to believe that the strategy is right and that the increases we

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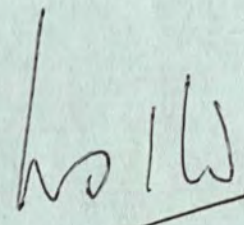


CONFIDENTIAL

propose should keep the risks within reasonable limits. I should be grateful for your agreement to the proposed increases and to my announcing them on 24th November (I should of course agree the precise terms of the announcement with the Chancellor). Should you wish to discuss these proposals, the Chancellor and I would, of course be ready to do so.

At our meeting on 6th August you raised the question of finance for such services of direct broadcasting by satellite as we might allow the B.B.C. to provide. The problem of financing D.B.S. services is among the most important we shall have to examine when we consider the next steps on this subject in the light of the outcome of the consultation exercise which followed the publication of the Home Office D.B.S. study. You will wish to be aware, however, that the expenditure plans in the B.B.C's application for a fee increase included no provision for D.B.S. services until 1985-86, i.e. until after the period covered by the proposed increase.

I am sending a copy of this minute to the Chancellor and to Sir Robert Armstrong.

  
\_\_\_\_\_  
28 October, 1981

-2-  
CONFIDENTIAL



28 OCT 1981



[Faint, illegible text, likely bleed-through from the reverse side of the page]



B. R.

Broadcasting

BF

NOTE FOR THE FILE

Television Licence Fee

Apparently there is a minute coming from the Home Secretary about the above. It is possible that a meeting will not be required.

es.  
↓

21 October 1981

Also Treasury  
Minute. Hold  
until received  
M.C.S.



CONFIDENTIAL



*C. Adygnid*  
*J. A. Watters* (4)  
Prime Minister 27/10/45

CHANCELLOR OF THE EXCHEQUER

To note. We are penciling  
in a meeting (see penultimate para) for 27/10.  
MUS 13/10

TELEVISION LICENCE FEE

In my minute of 29th June to the Prime Minister I outlined a strategy for our handling of the next television licence fee increase: that we should go for an increase which would have to last the B.B.C. for three years and which would be subject to certain conditions designed primarily to ensure that it did so. At our meeting with the Prime Minister this strategy was agreed.

Since then, we have received the B.B.C. application for a licence fee increase, which amounts to a request for fees of £52 for colour and £15 for monochrome, to last until the end of 1984 (or £53 and £15 to last until March 1985). Your officials and mine have examined this application and a good deal of additional information has been sought from the Corporation in order to clarify certain aspects of it. I have also been considering in more detail what conditions should be attached to a three-year increase, and how they could be made to stick. And I have had a preliminary talk about the application with George Howard and some of his senior people.

The further thought that I have given to the problem, and my talk with the B.B.C., has confirmed my provisional view that the right course is to go for a three-year increase, provided the new licence can be set at a level that enables the B.B.C. to maintain a service at a satisfactory level and does not provoke too much resentment from the licence-purchasing public. The case for a three-year increase is essentially the one set out in my earlier minute, but four points are worth recalling:

- (a) even if we went for a one-year licence, we would not avoid a substantial increase - it could not be set lower than £42 (and £15 for monochrome); and we should face further increases in the two succeeding years. The increase to a figure that

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the public could be assured would last for three years would not be all that much greater.

- (b) a three year increase would have the advantages of giving the public a sense of stability, and of taking the issue out of the public eye until beyond the next Election; and it should help to sap the campaign for concessions in deserving cases which - however much we may sympathize - would be costly, and hard to draw up on a defensible basis.
- (c) the licence fee system is important to the independence of the B.B.C. from Government and enables public service broadcasting to be financed otherwise than from public expenditure. A series of one-year increases would go a long way to undermining it.
- (d) a three-year increase enables the B.B.C. to plan ahead in a realistic and disciplined way.

But all depends on getting right the level, and the conditions.

First as regards the conditions, the Chairman of the B.B.C. has agreed to commission a wide-ranging efficiency audit, and has engaged Peat, Marwick and Company (who have experience on the I.T.V. side) to conduct it. He is keen to make an early announcement. The resulting report could be expected in something like nine months time. The Chairman is happy to make it available in confidence to the Home Office and the Treasury. In the light of its findings, and the B.B.C.'s reaction thereto, you and I will need to consider what further information to ask the B.B.C. to supply before the next increase in licence fee. The efficiency audit would be on top of the value-for-money audits which the B.B.C., of its own initiative, has asked its own auditors to undertake in particular areas of the organisation. And of course the Corporation has its own management service people and in general gives me the impression that it cares a good deal about the pursuit of efficiency.



Next, the question of expenditure limits. The B.B.C. need, for their own purposes, to draw up an annual expenditure plan, in particular so as to ensure that too much of the three-year income is not spent in the first year. They will bring this plan (and any change in it) to me, so that we shall have an opportunity of commenting on it and, if necessary, warning them of the necessity of making the licence fee last at least three years. But in the last analysis decisions about apportioning expenditure over the three years must be theirs. What is crucial, if a three-year increase is to last, is that the B.B.C. should understand - and proceed on the assumption - that the net revenue which the licence fees will produce in the three years is all it is going to get; so that it plans to build up a surplus of revenue in the first year to finance a shortfall in the third in order to reach the end of the three years with a nil deficit. That is the real discipline of a three-year increase. To achieve this end I believe that the right approach would be to make it clear to the Corporation that:-

- (a) the next increase will last for at least three years - i.e. the fees will not be increased before November 1984.
- (b) furthermore it must plan on the basis that there will be no fee increase until the end of March 1985 - i.e. for the rest of this year and the next three full financial years;
- (c) it must have a nil deficit in November 1984 and should aim to have a nil deficit in March 1985;
- (d) if it appeared from these plans that the Corporation would be going into deficit between November 1984 and March 1985 it should not assume that I will necessarily be prepared when I come to fix the next increase after November 1984 to take the deficit into account: the effect of my not taking the deficit into account would be to reduce the B.B.C.'s borrowing powers.



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Of course, the strategy of a three-year increase has risks, which we have to take into account in fixing the level of licence. If the increase decided on turns out to be insufficient, either because of inflation or because the B.B.C. fails to control its expenditure, or because licence revenue from the fees we fix fails to match our estimates, I could be faced with a serious B.B.C. financial crisis, quite possibly in the run up to the Election. In this event our strategy - indeed the licence fee system itself - would have to be reviewed.

As I said above, the B.B.C.'s request is for an increase to £52/53 (monochrome £15). To judge from the B.B.C. inspired talk of a "£50 licence", even the Corporation does not expect to get £52. And we could not contemplate so high a figure.

The B.B.C. seeks, over the next three years, some £140m (at April 1981 prices) for maintaining and improving the quality of the existing service, and for certain new services (including the increase in Welsh language programmes). A further £80m (at April 1981 prices) is sought for capital expenditure, largely for the replacement of ageing equipment. I do not believe that the licence fee increase should reflect these objectives in full. On the other hand I am convinced that the B.B.C. will have to spend more in real terms, in order to prevent further decline in the quality of the existing service which has undoubtedly gone down over the last couple of years. I believe that the Corporation should also improve its services in the sense of reducing repeats and bought-in material. I believe too that the case for some increase in capital spending (when there has been a history of cutting back) is made out. I recognize, and have put to the B.B.C., the difficulty for the Government in approving a fee increase that allows for growth at a time when cut-backs in services are the order of the day. But what seems to me the crucial point here - and one which the B.B.C. has stressed to me - is that it is one part of an enterprise the rest of which is in the private sector. It is in direct competition with I.T.V., whose advertising revenues



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are holding up well (and, prospectively, with the Fourth Channel). It would not be in the interests of a healthy broadcasting system to allow too wide a gap in standards to develop between the B.B.C. and I.T.V. The B.B.C. say that they also need a further £140m (current prices) over three years to halve the gap that exists between what they and I.T.V. pay to staff and artists. We cannot ignore this point because the quality of a broadcasting service depends so heavily on the quality of the creative people making the programmes.

The remaining, and larger, part of the B.B.C.'s case - £670m (current prices) over three years - reflects their assumption that inflation of their costs will amount to 10% per annum generally (and more as regards some specific costs) over the three-year period. I have made clear to them how difficult it is for H.M.G. to accept from them - and still more to base a licence increase explicitly upon - estimates of future inflation which are at variance with its own intentions. The risk in a three-year settlement which makes inadequate provision for increases in costs is of course that the B.B.C. may simply run out of money (including borrowing capacity) before the period expires - possibly in a pre-Election period.

So much for my general approach. It is not my task to go through the Corporation's detailed plans, accepting some and rejecting others. I do not have any control over how the B.B.C. spends its money in detail. To do so would anyway be artificial, because our primary aim must be to make the three-year strategy work. If we can do that, we shall have achieved an important objective. If we fail because we set the fee level too low, or abandon the attempt because we cannot bring ourselves to set it at a level that enables the B.B.C. to operate throughout this period, we place ourselves in great difficulty, for the reasons that I have indicated.

CONFIDENTIAL



As regards the actual amount of the new licence, I see the minimum licence likely to last for three years as £46 (£15 monochrome). That would allow the B.B.C. to increase its rate of spending by 11 per cent a year - i.e. would provide for inflation and some modest growth (unless, that is, the B.B.C.'s more pessimistic inflation assumptions were proved right). But as I said in my minute of 29th June - and subsequent talkswith them has reinforced my earlier view - the B.B.C. would forcefully object to an increase to no more than £45 and I am certain that they would have a good deal of support from a number of our own backbenchers and a section of public and press opinion. To avert that, and to make it more sure that the settlement will last the three year period, I believe there is a good case for an increase to £48 and £15.

The presentation of the increase to Parliament and the public will need careful handling. I should want to announce the increase in the context of a new strategy for making the licence fee system work and for enabling the B.B.C. to plan ahead. I should spell out that the increase would have to last for at least three years; that the B.B.C. will be expected to plan on the basis that the increase will have to last until the end of 1984-85, and on the basis that it should pay off its current deficit and keep out of deficit until March 1985. I should also want to welcome the B.B.C.'s plans for a wide ranging efficiency audit and say that the results will be taken into account when the fees are next reviewed. I would say that the fee increases should enable the B.B.C. to sustain the quality of its existing services but that the extent to which it will be able to do so will depend on its ability to keep down its costs, particularly labour costs. By using a formula of this kind I should hope to avoid (and would hope that the B.B.C. would also avoid) any detailed discussion of what element in the increase represented an allowance for future inflation. I should also want to say as much as I can about the development of methods of paying the fee by instalments.



Tentatively  
arranged  
for 27/10  
MUS

I suggest that we should seek the opportunity of a discussion with the Prime Minister about these proposals soon after she returns from Mexico. It might be helpful if you and I had a preliminary meeting in the meantime and perhaps our offices could be in touch about that. When we have reached decisions on these proposals, I should then need to secure - as I believe I can - the B.B.C.'s agreement to the conditions I have outlined above. I envisage that the increases should be announced on 24th November (the day after the two year anniversary of the last increase). They could hardly be announced in December because of Christmas, and I should prefer not to announce in January, so soon after Christmas. By February the B.B.C. could well be right up against its borrowing limit.

I am sending a copy of this minute to the Prime Minister, and to Sir Robert Armstrong.

Ann T. L.

(Private Secretary -  
approved by the Home Secretary  
and signed in his absence)

13th October 1981



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CONFIDENTIAL

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SUBJECT



10 DOWNING STREET

From the Private Secretary

6 August 1981

Dear Tom,

BBC Finance

As you know, the Home Secretary and the Chancellor of the Exchequer called on the Prime Minister this morning to discuss BBC finance. They had before them the Home Secretary's minute of 29 June.

The Home Secretary said that he had asked for the meeting, not with a view to reaching a conclusion on the size of the licence fee increases, but so as to obtain a steer from the Prime Minister on the basic approach he should adopt. The key question was whether to go for increases lasting one year or three years. The argument in favour of one year was that this would mean the lowest possible increases. But they would still be substantial, and not much less than for increases lasting three years. The argument in favour of going for three years was, firstly, that it would make it unnecessary to have further increases before the next General Election; and secondly, it would be better for the BBC. On balance, he was inclined to recommend three years. But this would have to be on condition that the total amount of money the BBC could spend in each of the three years would be limited; in the absence of such limits, they would tend to spend too much in the first year. Also, he would try to persuade them that it was in their own best interests to take on consultants to carry out an efficiency audit. It would be better if they were to set up such an audit themselves rather than for the Government to impose it upon them. If the Prime Minister could agree on a three year period, his officials could then get together with Treasury officials and examine the BBC's proposals. He hoped a decision on the level of increases could then be reached quickly. It appeared that, taking the BBC's own assumption of inflation over the three years of 10% a £45 colour licence fee would be sufficient for them to maintain their existing level of services, as well as enabling them to pay off the existing deficit. They were, however, asking for a colour fee of around £50 to enable them to embark upon a number of new commitments. He would instruct his officials to examine the case for each of these very carefully. The Treasury would also of course have a view on the BBC's inflation assumptions.

/ The Chancellor

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- 2 -

The Chancellor said that he agreed that the next increases should last for three years. But, as the Home Secretary had indicated, this should be strictly on condition that the BBC should be limited on their annual spend: in effect, the Home Office and the BBC should agree on annual cash limits. He would find it difficult to accept the BBC's 10% inflation assumption, even though it was the case that a lower assumption would not have much effect on the increases in fee that would be necessary. He was also anxious about the BBC's proposals to extend their services. In several areas, such as the extension of local services, he did not believe this could be justified.

Summing up, the Prime Minister said she agreed that it would be right to go for fee increases to last for three years. Home Office and Treasury officials should proceed, on this basis, to examine the BBC's proposals with a view to reaching an early decision. They would need to look very critically at any proposals from the BBC for extending their services. She had noted that the BBC were seeking additional finance for satellite development. Rather than have the BBC rely entirely on additional licence money for this development, she suggested that your Department should get in touch with the Department of Education and Science and the Department of Industry to see whether any funding might be available from the Science Research Council or from the Department of Industry's Research and Development budget for this purpose.

I am sending a copy of this letter to Peter Jenkins (H.M. Treasury).

*m. m.*

*Tim Lasker.*

John Halliday, Esq.,  
Home Office.

CONFIDENTIAL





10 DOWNING STREET

From the Private Secretary

- ① M. Dickins <sup>HW</sup> <sub>22/7</sub>
- ② M. ~~at~~ <sup>at</sup> ~~at~~ <sub>22/7</sub>

① & 830 Finance  
have been reversed  
once again on Friday 24<sup>th</sup>  
as the Foreign Secretary is  
entertaining the Norwegian  
Foreign Minister at  
chewing for breakfast  
& there wasn't going to  
be time for the  
Scrambled eggs. So:-

①. 1030 830 Fin:  
11.00 ①  
approx

21/7



Broadcasting.



RBF for mtg  
which Carshin  
is arranging

10 DOWNING STREET

July 1, 1987.  $\pi$

T ✓  $\pi$

① Most of B.B.C. with one Wager (?)

Why allow 10% annually for next 3 Years?

② 

|      |      |      |
|------|------|------|
| £42  | -£45 | -£48 |
| Yr 1 | 2    | 3    |

 fixed 3 YEARS.

would make more sense. If they have a surplus in Year 1 they won't resist pressure, including on Wager, and they will be in trouble in year 3.

Also 7.1% increase Yr 1 - Year 2  
6.9% " " 2 - " 3

get right progression.

DW.



BF 6.7.81



Broadcasting

10 DOWNING STREET

~~Contin~~

—

Mr arrange

3/4 hour mtg within

next 2 weeks

with Chancellor

Home Sec

Tim.

arranged for Tuesday  
7th July at 9.30.

cf. 1/7.

R 30.6.81.

CF Mr Hiller in Lyham  
S.D. 1.7. that mtg is 7/7 in case  
he wants to brief. R



cc Mr Lyman  
Mr Hoskyns  
Mr Wotton

CONFIDENTIAL

Prime Minister



The Home Secretary is floating the idea of increasing the colour TV licence from £34 to around £45 to last for 3 years. He wishes to discuss. We will need the Chancellor too (I am assured the Home Secretary expects him to be present). Shall I arrange?

Yes Mr.

PRIME MINISTER

B.B.C. FINANCE

When I announced the last increases in the television licence fees in November 1979 I said that these would have to last for at least two years. It is not too soon to consider our basic approach to the next 12 increases, and I should welcome an early discussion with you about this.

For a number of reasons the next few years are going to be critical for our broadcasting arrangements as a whole and for the B.B.C. in particular. There will certainly be a significant increase in broadcasting outlets, with the expansion of independent television, subscription television by cable and more local radio; and there is also the possibility of direct broadcasting by satellite if the positive lead we have given is taken up by the broadcasters and by industry. Compared with other countries our broadcasting services and arrangements are strong. They are also, despite some criticism, highly regarded by the electorate as a whole. They represent an asset which could be of great importance to us in the future. Indeed, the prospects for our aerospace and electronics industries could depend to a significant degree on our capitalising on this asset. I am convinced that our broadcasting strength depends heavily on the B.B.C; and in the new Charter and Licence and Agreement we have enabled the Corporation, with my consent, to adapt itself to exploit the new technologies which will be coming available.

The television licence fees finance the B.B.C.'s principal activities - the Home Services. This method of finance is not easy to operate and is becoming less easy as the inherent buoyancy of the revenue declines. Although in real terms the cost of the licence has declined over the last 10 years, the licence fee is seen by some as a regressive poll tax and as an unfair burden on the less well-off sections of society, particularly pensioners. I believe however that it is fundamentally the right method of financing our principal national

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instrument of broadcasting and that this view commands widespread support. Our task is to make the licensing system work. This means ensuring that the fees provide the B.B.C. with an adequate income but are at the same time fair to the licence payer.

It is most important, therefore, that the B.B.C. should be, and should be seen to be, efficient. The B.B.C. is highly respected for its professional competence by other broadcasters and in comparison with other comparable broadcasting organisations at home and abroad it probably is efficient, though it is not possible to test this over the whole field of the Corporation's activities. Moreover, since much of the evidence comes from B.B.C. sources, the claim does not carry general credibility. There is need to encourage greater efficiency, but in ways which avoid accusations that we are not to undermine the Corporation's independence. The previous Government's experience when they proposed Service Management Boards with half the appointments on them being made by the Home Secretary is a useful warning of how not to proceed.

The Corporation's own proposal for a Licence Fee Commission was designed in part to expose its efficiency to outside scrutiny, and as you know I saw some merit in the proposal. However, the Chancellor is strongly opposed, understandably, to the idea of one-off review bodies, and on reflection I do not believe that the proposal would materially help to make the licence fee system of financing the B.B.C. work any better. It is however essential to find other ways of encouraging efficiency in the B.B.C. There is no single answer but several possibilities which together could be a powerful incentive.

The first and obvious one is to strengthen the Board of Governors with people who can bring the right sort of financial and industrial experience to bear, and this we are now seeking to do. We should not, however, overestimate the influence which the Governors, however good they are, can in practice bring on day-to-day management.

Next we might consider some form of efficiency audit. A Government imposed and supervised efficiency audit would undermine the

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# CONFIDENTIAL

the Corporation's independence, and would produce an outcry, I suspect, from some of our supporters. In addition it could push us towards accepting licence fee implications which it is impossible to predict in advance and which we might well be unwilling to concede. In this way it has some of the disadvantages which we saw in the B.B.C.'s own idea of an independent Licence Fee Commission. But I think that we should encourage, and if necessary press, the Corporation to set up some form of efficiency audit of its own. Charles Hill encouraged the B.B.C. to bring in McKinseys and I believe they came back some years ago to monitor the B.B.C.'s control systems. It would be no humiliation to the B.B.C. to ask them back for a fresh look. I am trying this out informally on the Chairman. I shall hope to persuade him that it is in the B.B.C.'s own best interests to let us see their findings in confidence.

Thirdly, the most important spur to efficiency is a clear appreciation on the part of the B.B.C. that money is, and is going to continue to be, tight. This brings me to our approach to the next fee increase, and in particular to the period which it should cover. In this context it is worth noting that B.B.C. expenditure on the Home Services is now running at some £545m a year as compared with net licence income of just over £500m, and that the B.B.C. may be expected to be in deficit to the tune of about £40m by the end of November.

I have been attracted to the idea of as small an increase as possible for as short a period as possible (in practice one year) providing the best financial discipline. Moreover, it would avoid discussion about longer term trends in inflation. There are, however, disadvantages in that it does nothing to encourage the B.B.C. to plan ahead realistically and economically: on the contrary it positively encourages the Corporation to spend on programmes, to ignore the needs of capital expenditure which has been neglected in the past, and to borrow up to the hilt in the hope of - and indeed in order to justify - a better increase next time. Although a fee increase designed to last for one year would of course be smaller than one designed to last for, say, three, it is curious that, because of the special characteristics of the system, it would not be much smaller. It would be likely to

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## CONFIDENTIAL

attract the same level of criticism from the public and more criticism from the B.B.C., which is campaigning actively for a three year increase. And the same issues would arise again in a year's time.

I have, therefore, been looking very carefully at the case for an increase designed to last about three years. Properly handled this would encourage sensible forward planning and financial discipline. It would be essential to secure that the surplus which the increase would generate in the first year was put to one side to finance the deficit in the last year. Another major advantage of a three year increase is that it would take us past the next general election. It would also, I think take the licence fee out of the public eye for a while and this might sap the momentum of the campaign for concessions.

On balance I am inclined to recommend a three year increase with certain conditions which, this time, we shall need to explore with the B.B.C. in advance. A principal condition would be to limit the total amount of money the B.B.C. could spend in each of the three years. In the first year there would be an expenditure limit which was smaller than the revenue of the licence fee for that year but by the third year the expenditure limit would be greater than the net licence fee revenue; and the difference would be made up by drawing on the reserve which would have been established in the first year. The Corporation should also pay off its deficit on current account during the three year period.

Firm proposals from the B.B.C. for the next fee increase will not be available until July, but the Corporation is lobbying hard for a £50 colour licence fee to last for about three years and appears to be having some success with this campaign, as the recent Debate on the Charter shows. It is said that £50 would enable the B.B.C. to embark on a number of new commitments: in order of priority these are an earlier evening start to B.B.C.2; afternoon programmes on B.B.C.1; extending the B.B.C. until later at night on most weekdays; reducing U.S. imports by expanding home produced drama output; extending V.H.F. coverage on radio and the local radio network from 22 to 38 stations. The B.B.C. will also be looking to the Government to enable it to finance



# CONFIDENTIAL

the increased hours of Welsh language television (from seven to ten) which have been promised as from autumn 1982. Within a three year period, there could also be preparatory expenditure on D.B.S. services if those were permitted.

The Government does not want to be identified with supporting or blocking particular B.B.C. services but we, like the public, are entitled to have a view about the priority to be attached to taking on new commitments, however desirable, as additions to existing commitments in times when resources are scarce. The costs of any new commitments will therefore need to be identified in the July estimates. All the figures will need to be checked in the light of the July estimates but it is worth noting that present indications are that a colour licence fee of the order of £45 should be sufficient to pay off the existing deficit and allow something like a 10 per cent annual increase in expenditure in cash terms over three years. This should enable existing services to be maintained for three years but few if any additional commitments to be taken on. A one year increase designed simply to maintain existing services would be of the order of £42 for colour.

We should not overlook the fact that the Opposition has returned to the attack about some form of concessionary licence for pensioners and other disadvantaged persons which would undoubtedly have political attractions in the electorate. If this grows, sympathy for it is likely to grow among some of our own members. The numbers involved, however, could be very large and there is no agreement on which classes of persons are deserving of a concession. Any extension of concessions on a wide scale would put strains on the licensing system which it would not be able to bear. Moreover, since it would not be possible to finance major concessions by increasing the fees for other licence holders, the question of government grant to top up would be bound to rise; we could not contemplate this consistently with our aims for reductions in public expenditure. The Home Office is looking with the B.B.C. at the question of payment of the licence by instalments but I am very encouraged by the success of the television savings stamp scheme which is much more flexible and more attractive, and which seems to be attracting a great deal of support. Nearly £100 million a year is collected in savings



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stamps (nearly 20 per cent of the licence income) and the proportion is growing. I believe that this is all that can be done to alleviate the burden on the less well off. We should do all we can to publicise the existence of this scheme and to encourage even more use of it.

Finally, we all know from experience that the B.B.C.'s ability to campaign in its own interest should not be underestimated. When we are clear what our general approach should be, we shall need to go public on it. I am already putting in hand work to counter some of the more exaggerated claims now being put round by the B.B.C. of what will happen if it does not get £50. But even so they would bitterly and vociferously object to a proposal of £45 and would I fear carry with them the support of a good number of our M.P.'s and certainly a section of public and press opinion.

I am copying this minute to the Chancellor.

hills.

29 June, 1981

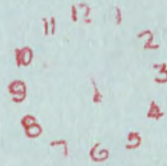
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**30 JUN 1981**



**CONFIDENTIAL**



PRIME MINISTER

Seen by Pm

Broadcasting

The Home Office offer this background note for your weekend with George Howard.

(W/A) You may also like to be reminded of Lord Vaizey's leading questions about BBC finances. As you requested, I passed the questions on to the Home Office without identifying Lord Vaizey. I have reminded them several times in recent months that the Home Secretary owes you some comment on these points, and I specifically suggested that it would be helpful to have it before this weekend. Nothing has appeared.

MA

8 January 1981



From: THE PRIVATE SECRETARY



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

8 January 1981

Dear Mike

... I attach a note which the Home Secretary hopes the Prime Minister may find useful when she sees the Chairman of the BBC this weekend.

*Yours ever*

*A. P. Jackson*

(A P JACKSON)

M A Pattison Esq



### BBC Charter

1. The present Charter expires on 31 July 1981. The Home Secretary intends to give the BBC a new Charter to last to 31 December 1996: the IBA has been given a similar 15 year extension in the Broadcasting Act 1980. The BBC's programme obligations which are at present incorporated in a letter from the then Chairman, Lord Normanbrook, to the Postmaster General in 1964, are being brought up to date and will be attached, in the form of a resolution by the BBC Governors, as an annex to the Licence and Agreement. The new Charter will also take account of technological developments (see paragraph 10 below). The new Charter and Licence and Agreement will be debated in Parliament probably in May.

### BBC Finance

2. The BBC remains opposed to advertising and will continue to depend on the licence income for the cost of its Home Services. The Home Secretary is, however, looking at a number of matters in this context.

3. The last fee increase in November 1979 was designed to last for at least 2 years, was intended to give the BBC an opportunity to put their finances on a sounder basis, to recover from the position they had been encouraged by the previous Government to get into of using borrowing to finance current expenditure, to increase its expenditure on capital equipment and to prepare to increase its expenditure on Welsh language broadcasts by the autumn of 1982. The Government envisaged that the increase should permit the BBC to provide its existing services provided that it paid attention to containing costs, especially labour costs but this assumption proved optimistic. Early in 1980 the BBC reviewed its expenditure and announced reductions in planned expenditure of £130 million over the next 2 years. £90 million was found by deferring or dropping capital projects and developments. The further £40 million was not an absolute saving but constituted economies in some areas to pay for expenditure in others. The deficit is likely to be some £16 million in March 1981.



4. The BBC has proposed that future requests for fee increases should be considered by a new independent body to be called the Broadcasting Licence Fee Commission. The Commission would have the power to call for further information from the BBC and would make a recommendation to Government. This would indicate, inter alia, what period an increase should cover and on what assumptions it had been made, including assumptions about future rates of inflation. The BBC hopes that the Government would bind itself to accept the Commission's recommendations but, if not, the implications for the BBC's Services would be evident from the Commission's report. The BBC's proposal is described in the Annex.

..

5. There are a number of obvious difficulties about this proposal. Independent review bodies tend to magnify the importance of the activity for which they are responsible and to give too little weight to other relevant economic and financial factors. There is no question of the Government's making or endorsing publicly estimates for future inflation, and in present circumstances the size of licence fee increases sufficient to cover a period of several years ahead is likely to be unacceptable. Moreover, the body could only be advisory: the Government could not bind itself in advance to accept its recommendations. Nevertheless, the Home Secretary thinks that the proposal would have the substantial merit of encouraging the BBC to justify its estimates and its efficiency publicly in a way which it is difficult for the Government to enforce under present arrangements, and that it could expose the implications of various levels of licence fee to Government and the public in an informed way. The BBC would be under greater pressure to implement the decisions which emerged from such a process than it is now. It may also be possible to combine independent scrutiny of this kind with certain elements of the more PES type approach that we have been seeking, including agreement on the use of the BBC's borrowing powers. The Home Secretary proposes, therefore, to hold further discussions with the BBC, about which the Treasury would be consulted, to see how these proposals might be developed. It would be useful if the Commission could be set up in time to consider the request, which the BBC is

/likely to make



likely to make in the middle of 1981, for a substantial increase in the fees later this year.

6. The Home Office is also considering with the BBC and the Post Office ways of easing the method of payment of the licence fee, e.g. by payment of instalments over Post Office counters and possibilities for expanding the base of the licensing system. However, it is unlikely that proposals for significant new sources of revenue will emerge on the second front.

#### BBC efficiency

7. The Home Office is not able to make detailed comparisons over the whole range of the BBC's activities. However, we believe that the BBC's record of productivity as a programme producer compares favourably with other broadcasting organisations both in the United Kingdom and abroad (though ITV bears the extra cost of a federal system). We believe also that the BBC is improving its arrangements for earning money through the sale of programmes overseas, publications, etc, though these can represent only marginal additions to the licence revenue.

#### Local radio

8. The Home Office Local Radio Working Party, on which the BBC and IBA are represented, has recently submitted comprehensive proposals for the expansion of local radio over the United Kingdom. The Home Secretary will take a decision on these proposals after a consultation period ending on 30 April 1981.

#### Direct satellite broadcasting and subscription television

9. The BBC has submitted proposals in connection with the Home Office study of direct satellite television broadcasting (dbs). Briefly, the BBC favours the earliest possible introduction of satellite broadcasting and hopes to provide 2 services on it. One service would be a best of BBC 1 and BBC 2, which would make use of the BBC's existing programme stock, and the other a subscription television service. Although the BBC would need capital to get the project started, the BBC hopes that the subscription service would in due course provide a small subsidy to



the main Home Services. The proposals are imaginative and economical and, unlike proposals for the introduction of additional advertising - financed dbs services, they could enable the United Kingdom to make an early start with satellite broadcasting within our traditional structure of public service broadcasting. But we shall need to give further consideration to these and other possibilities in the context of the direct broadcasting by satellite study.



BROADCASTING LICENCE FEE COMMISSION

The role of the Commission and the amount of information to be provided to them are for discussion. The BBC suggests the following:

- (i) The BBC should initiate a proposal for an increase in the licence fee in two or three months time and submit it for consideration by the Commission. This would consist of 3 or 4 members, perhaps a senior industrialist, a retired Treasury official and a leading accountant. One member should have a successful experience of running a major public or private enterprise. The Commission would meet only when needed and would have access to financial and other advice, eg. from a major firm of accountants.
  - (ii) The BBC's proposal would indicate the period to be covered. This would be, if possible, for three years, but during periods of high inflation the changes, and so the reviews, might need to be more frequent. The proposal would be made public.
  - (iii) In drawing up its proposal, the BBC would need to continue to consult with the Government about the long term development of national broadcasting policy, and the level of service to be provided by the BBC.
  - (iv) The Commission would indicate what information they required, but the BBC would expect to provide the Commission with a financial estimate covering a period of three to five years, together with details of the actual income and expenditure for the preceding financial year. The estimate would show the cost of the existing services of Television and Radio, together with statistical information on costs per hour and staffing ratios, to assist the Commission in forming a judgement about the BBC's cost effectiveness and productivity.
- Information would be given about new services planned, and about the major capital projects, showing plans for modernisation and replacement separately from new buildings and equipment. Provision would be made for inflation at clearly stated rates, and it would be essential that the Commission's report would be equally clear about its assumptions on inflation.
- (v) The Commission might want to seek advice on specialist matters, such as engineering, but broader matters of broadcasting policy would be more appropriately left to the periodic full Committees of Inquiry, such as Beveridge, Pilkington, Annan, etc.
  - (vi) The Commission would announce their conclusion in a reasoned report and the BBC would hope that the Home Secretary would implement their recommendation in full, but if not, the implications for the BBC's services would be evident.
  - (vii) While the Commission would be free to comment on the BBC's plans, once the level of the licence fee had been fixed, and the size of the BBC's income established, the Board of Governors would continue to decide how that income should be spent.

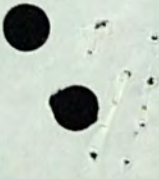
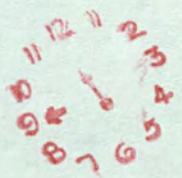


R.

[The BEC has suggested that the Commission should be appointed by The Queen in Council and their conclusions, if accepted, be embodied in an order in Council to be laid before Parliament instead of a Statutory order made under the Wireless Telegraphy Act but the Home Secretary does not agree with this.]



-8 JAN 1981





**CONFIDENTIAL**

*our  
Broadcasting*

4 August 1980

Thank you for your letter of 31 July, setting out the Home Secretary's initial reaction to the queries on BBC finance raised with the Prime Minister.

The Prime Minister has noted the approach which the Home Secretary has in mind, and she looks forward to discussing this with him when he has gone over these matters with the new Chairman in the autumn.

M. A. PATTISON

A.P. Jackson, Esq.,  
Home Office.

*KR*

**CONFIDENTIAL**



PRIME MINISTER

I wrote to the Home Secretary's Office early last month, raising (anonymously) the questions over BBC finances put to you by Lord Vaizey.

Here is an interim reply. The Home Secretary is attracted by the idea of an independent body which would make recommendations to the Government about the level of the licence fee, and which would create pressure for more detailed BBC accountability for their activities and the management of their finances.

You will see that the Home Secretary intends to go over this ground with the new Chairman in the autumn, prior to talking to you about it.

MA

MS

1 August 1980



**CONFIDENTIAL**



HOME OFFICE  
QUEEN ANNE'S GATE LONDON SW1H 9AT

31 July 1960

Dear Mike

The Home Secretary has seen your letter of 1st July about B.B.C. finances. It was timely since he has recently been giving careful consideration to this subject. He very much agrees that it needs to be looked at in the round as well as piecemeal. The points mentioned in your letter are all relevant and there are others to be taken into account.

We need to examine the future of the financing of the B.B.C. in the medium term - the duration of the current licence fee - and in the longer term.

As to the medium term, when the Home Secretary announced an increase in the licence fee last year, he made it clear that the income generated was expected to last at least two years, was intended to give the B.B.C. an opportunity to put their finances on a sounder basis and to recover from the position they had been encouraged by the previous Government to get into of using borrowing to finance current expenditure.

The general terms of his statement were accepted by the B.B.C. at the time and it was our intention to move towards a more P.E.S. type method of planning for future expenditure to which the B.B.C. had given general assent in principle. This is an ambitious objective and requires time to work out. The B.B.C. are at the moment not prepared to take discussions about longer term planning further without raising questions about the level of inflation and undertakings by the Government to compensate at least in some degree for it. And, with their General Advisory Council in the lead, they are having some success in persuading some areas of public opinion to believe that an earlier increase in the licence fee is required.

Meanwhile they have returned to an idea they have been toying with for some time that there should be some kind of independent body, if not to fix the level of the licence fee, at least to make recommendations to the Government about it. There can be no question of final responsibility for the level of the licence fee resting anywhere than with the Government; views from any other body would be only a part of those to be taken into account. Nevertheless the B.B.C.'s idea does carry with it the most valuable consequence that they would be committed to the acceptance, which they have hitherto avoided, of detailed accountability for their activities and the management of their finances. There is something here which the Home Secretary considers could be built on to bring us more detailed and reliable information than we have had in the past. The kind of questions mentioned in your letter - and others - would then come in for detailed scrutiny.

/The Home Secretary

M. A. Pattison, Esq.

**CONFIDENTIAL**



CONFIDENTIAL

SECRET  
THE HOME SECRETARY'S OFFICE

The Home Secretary intends to have a full discussion with the new Chairman in the autumn during which all aspects of B.B.C. finances will come under review. He would then like to talk to the Prime Minister.

Yours sincerely  
A. P. Jackson

A. P. JACKSON

1 AUG 1980



CONFIDENTIAL



From: THE PRIVATE SECRETARY



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

10 July 1980

BF ✓ 21.7.80

Dear Mike

I am sorry that we are not yet able to reply to your letter of 1 July about BBC finances.

Your letter raises a good number of meaty issues, which will need careful consideration, not only by officials but also, I imagine, by the Home Secretary personally. We will, of course, reply substantively as soon as we can.

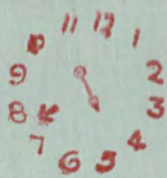
Yours sincerely  
A. P. Jackson

A. P. JACKSON

M. A. Pattison, Esq.



110 JUL 1980







RH  
Broadcasting  
R/F 10-7-80.

## 10 DOWNING STREET

From the Private Secretary

1 July, 1980

The Prime Minister has recently heard a number of comments made about BBC finances. Given the signs that the BBC will be looking for a further increase in income in the foreseeable future, she would like to ensure that all options are properly considered before the Government is faced with demands for a further licence increase.

Points made to the Prime Minister recently include the argument that the technological revolution is changing the structure of broadcasting costs elsewhere in the world, but that the BBC is not making the most of this; that the BBC local radio service does not appear to be filling a gap where independent local radio could not function - at least in London, where the BBC Radio London and LBC services seem very similar; that in major American cities the costs of all-night music programmes are essentially met by the record industry, but no comparable arrangements have been tried here; that the argument against the acceptance of advertising by some of BBC's radio services need re-examining, and should not be dismissed on the basis of the subjective assertion that commercialism means low standards and vulgarity; that the popularity of the Overseas Service - with its apparently lower production costs - should be exploited, in preference to making the Overseas Service unavailable in the UK when new facilities come into operation.

The Prime Minister has seen several of these points discussed and dismissed individually, but she does feel that a list like this indicates a range of possibilities for improving the Corporation's finances, and she would like to know what serious consideration is being given to improving the Corporation's economic position other than by further increases in the licence fee.

M. A. PATTISON

J F Halliday, Esq  
Home Office





10 DOWNING STREET

THE PRIME MINISTER

30 June 1980

*Dear John.*

Thank you for your letter of 17 June about the economics of the BBC.

I have considerable sympathy with all the points you make. I agree with you that, when considered together, they do suggest that there is some room for improvement. On the basis of your letter, I shall reinforce my enquiries. But the BBC is well able to argue its own case against Government, as was demonstrated over external services earlier in the year. The more independently-minded public figures who raise these questions, the more likely we are to see some improvement.

*Lawson*  
*Raymond*

The Lord Vaizey

PERSONAL

*5*





**10 DOWNING STREET**  
**PRIME MINISTER**

You wanted to reply to Lord Vaizey's comments without consulting the Home Secretary. I attach a draft endorsing his theme.

I still think that it would be very helpful to put these questions to the Home Secretary on your behalf, without necessarily identifying Lord Vaizey as the source. May we do so?

*Yes*  
*md*  
*MA*  
*See 17/7/80*

27 June 1980





10 DOWNING STREET

PRIME MINISTER

Here is a letter from Lord Vaizey about the economics of the BBC. He puts together a number of criticisms of the BBC, most of which are being heard increasingly in various quarters.

Would you like us to ask the Home Secretary to provide a draft reply for you to send?

~~Yes - we~~ ~~should reply to~~ ~~Lord O.~~ *MAP*

~~Lord O.~~ We can 25.6.71

do it. Many of his points are very valid and need more publicity -  
no





Nick A

17 June 1980.

My dear Margaret

The Economics of the BBC.

1. The Annan committee scarcely considered the matter and its views were banal.
2. The licence fee is a tax, by all criteria established by Adam Smith.
3. The present Administration ought not to increase taxes.
4. The technological revolution is altering the structure of broadcasting costs and the BBC is not making the most of them.
5. The BBC's performance is patchy; Overseas producers do several times more hours broadcasting per man than Radio 4 producers.
6. Overseas (Bush House) is very popular. Why is it not generally available?
7. Why is BBC in local radio when commercial stations are satisfactory (compare LBC with Radio London)?
8. Why do we not, like Chicago, New York, Washington, have all-night music financed by the record industry?
9. Why do not BBC 1 & Radios 1 and 2 accept advertising apart from producers against "commercialisation", which they equate with low standards and vulgarity.

Why are these questions not put?

Yours ever

John Vaizey



SECRET



*Broadcasting* ~~13~~ 14

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

22nd November 1979

*R*  
*27/11*

*Dear Sir,*

The Chancellor has seen the Home Secretary's minute of 20 November covering the draft Written Answer on TV licence fees which he proposes to table on Friday 23 November.

The Chancellor has asked me to say that he is content with the terms of the draft.

*J. A. Hall*

*M.A.*

M.A. HALL

J. A. Chilcot Esq.

SECRET



22 NOV 1979

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9 8 7  
6 5 4



SECRET

COPY NO 3 OF 6

by Mr Lytton



Prime Minister 13<sup>2</sup>

This seems alright.

Agreed

R.

27.11

CHANCELLOR OF THE EXCHEQUER

Following my minute of 31 October we agreed that I should announce increases in the television licence fee this coming Friday, 23 November. I attach a copy of my proposed Answer to an arranged Written Question which will issue at 11 a.m., at which time I am also having a Press Notice issued.

I am arranging to see the Chairman and acting Director-General of the BBC on Wednesday, 21 November to tell them of my proposals and to make it clear to them that I intend that the Corporation should operate within the cash figures implied by the fee increases.

I am sending a copy of this minute to the Prime Minister.

W.A.D.

20 November 1979

SECRET



## ARRANGED WRITTEN PARLIAMENTARY QUESTION

To ask the Secretary of State for the Home Department, what progress has been made in the discussions between his officials and the BBC about the basis upon which the BBC can be enabled to carry forward its longer-term planning on the Home Services.

## DRAFT REPLY

1. The previous administration increased the television licence fees in November 1978 to last for about a year. They recognised in January 1979, following the CAC award to BBC staff, that that level of fees was inadequate to finance the BBC Home Services and would bring the Corporation to the limit of its borrowing powers in much less than a year, but they decided that a further increase in the fees then was not acceptable, and instead increased the BBC's borrowing powers from £30 million to £100 million. Since then the BBC has been going increasingly into deficit. The decision of the previous administration has inevitably meant that the fee increases which I am making today are larger than they would otherwise have been in order to enable the BBC to repay its deficit on current account.

2. I have today laid the necessary regulations to increase the fee for a colour television licence by £9 to £34 and the monochrome licence by £2 to £12. The new fees come into effect at midnight tonight. I intend these fees to last for at least two years. The new fees mean that viewers will be paying less than 70p a week if they have a colour television set and less than 25p a week for a monochrome set. Even at the increased levels, these fees are less than those in most other European countries.

3. In recent months, the Home Office, the BBC and the Post Office have participated in two studies designed to strengthen the



operation of the television licensing system and to enable the BBC to plan ahead. I have today published in one booklet two papers about aspects of financing the BBC; copies are available in the Vote Office.

4. The first paper - on methods of payment of the television licence fee - was prepared by the standing Working Party on the Administration of the Broadcast Receiving Licence. It sets out the facts regarding various methods of payment of the television licence fee. I have decided as a result to give greater publicity to the Television Licence Savings Stamp scheme. This scheme provides the most flexible way of enabling people to pay for their licence in advance by instalments of their own choosing, both as to size and timing, and it has proved particularly helpful to pensioners and other persons with limited incomes. In addition, a pilot scheme has been introduced to evaluate the possibility of payments being made by direct debit from purchasers' bank accounts, possibly also by instalments, <sup>if</sup> as I hope, this works well, I intend to introduce payments by direct debit more widely. I am also considering, in consultation with the Post Office, the possibility of payments by credit cards. I have concluded that payment of the licence fees by instalments over the Post Office counter cannot be introduced, because of the cost involved and the additional complexities this would introduce into the existing system.

5. The second paper which was undertaken by the Home Office and the BBC sets out proposals designed to enable the BBC to carry forward its longer-term planning in the Home Services while at the same time maintaining its editorial independence. It envisages, first, that consideration of future expenditure should be separated from consideration of the need for, and timing of, particular changes in the licence fees. It also envisages that the Government should signify its agreement to provisional planning figures for BBC expenditure for a four year period even though a particular increase in the licence fees might relate to a shorter period of time. The aim is that there should be a

/firm cash



firm cash figure for the first financial year in the period and provisional planning figures on the same price basis for the later years. The figures would be reviewed annually at the turn of each calendar year and would be brought to the notice of Parliament thereafter. I welcome the broad approach in this paper.

6. Discussions will begin immediately on setting a firm cash figure for the BBC expenditure in the financial year 1980-81 and provisional planning figures for the three following years. It will be for the Governors to decide how the money is to be spent but these discussions will take place in the context that the fee increases announced today must last for at least two years, that they take account of the need for the BBC to pay off its deficit on current account and to increase its expenditure on capital equipment and that they enable it to prepare to increase its Welsh language television broadcasts by the autumn of 1982. I shall expect the BBC to live within the cash figure set. This means that particular attention will have to be paid to containing increases in costs, especially labour costs, if there is to be no diminution in the BBC's services. I believe, however, that the fee increases and the new arrangements announced today should enable the BBC to plan ahead with a greater degree of confidence and stability than has been the case for several years.



SECRET



FILE

12 VLB  
Broadcasting  
CC CO  
MAP  
Ingham  
Walker  
Hortons

cc HMT

10 DOWNING STREET

From the Private Secretary

6 November 1979

Television Licence Fees

The Prime Minister has now had an opportunity to consider the Home Secretary's minute of 31 October, and she agrees with his proposals - including increases in the licence fees of £9 for colour T.V. sets and £2 for monochrome sets to be announced on 23 November.

The Prime Minister has noted what the Home Secretary says about advertising on B.B.C. Radio programmes, and has decided that - on reflection - it would be a mistake for the Home Secretary even to raise the possibility of the B.B.C.'s accepting radio advertising at this stage. Thus, while the Home Secretary should certainly make it clear to the B.B.C. that they must live within the limits set by the licence fees increase, he should not for the moment say that "the Government for its part would not exclude the possibility of the B.B.C.'s accepting advertising on Radio 1 or B.B.C. local radio." But she would not like to rule this out for all time, and has suggested that the Home Secretary might like to consider putting forward a paper for collective discussion - possibly in H Committee.

The Prime Minister was also grateful for the note attached to your letter of 31 October which discusses certain other issues which she raised with the Home Secretary when they met on 28 September.

I am sending a copy of this letter to Tony Battishill (H.M. Treasury).

T. P. LANKESTER

John Chilcot, Esq.,  
Home Office.

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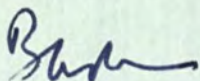
11

MR. LANKESTER

On your advice, I raised the issue of advertising on BBC with the Prime Minister this morning. I said the departure had such serious implications that it ought to be given the most serious consideration before it was put forward outside Government.

I begged of her to ensure that it was properly discussed within Government and I believe she took my point. Clive, who was there will, I hope, confirm that you should raise this issue with the Home Office with a view to ensuring that the idea is not conveyed to the BBC pending further consideration.

11



B. INGHAM

5 November, 1979

SECRET



cc. Mr. Gaffin

MR. LANKESTER

TV Licence, etc.

I discussed with you that part of the Home Secretary's minute of October 31 which mentions the possibility of advertising on the BBC and promised you a note.

It is not clear from Mr. Whitelaw's note whether he intends to disclose publicly that the Government would not exclude the possibility of advertising as a means of BBC's raising non-licence revenue. I take it that he would merely indicate this to the BBC. In practice, however, that may well be tantamount to publication, given that the BBC is such a leaky vessel.

However, at this stage, I am less concerned about mechanics than with principles. I have not been able to establish from the papers available to me this weekend whether the concept of advertising on BBC has been fully considered by Cabinet. It is, however, such an important departure that it merits the most careful discussion before there is any public speculation. To canvass the possibility in the context of cash limits would cause severe (and contemptuous) criticism.

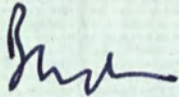
First point, then, is whether the Government is agreed, as a Government, to contemplate advertising on BBC and whether it is in a position, on or before November 23, to deploy arguments in favour (and to meet criticisms)?

That there will be criticism of a stern kind, I have no doubt, leaving aside the effect on commercial stations. (And the Government has enough trouble at present on the BBC front with External Services). I doubt whether I am the stuffiest member of society, but I would consider it a retrograde step to introduce advertising to BBC radio or television. The BBC's reputation world wide rests in part on its integrity as an independent source of information financed without commercial sponsorship. To introduce commerciality could only, in my view, damage its reputation, particularly in the areas of news and



current affairs. I do not suggest that standards or independence would necessarily be eroded; it would, however, be much easier to persuade people that standards were being debased.

I feel I would be failing in my duty if I did not signal heavy weather ahead on this subject and I am grateful to you for giving me the opportunity to do so. Specifically, I think it is crucial that the Government should have discussed and reached a collective view on advertising on BBC before the idea is canvassed with the BBC or publicly.



B. INGHAM

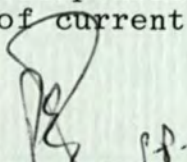
5 November, 1979



TIM LANKESTER

You should know that the Prime Minister is seeing the Chairman of the BBC tomorrow morning.

I have discussed this note with Bernard Ingham and we are agreed in practice that the introduction of advertising into BBC Radio or Television would be retrograde. The BBC has established its international reputation on its integrity as an independent source of information financed without sponsorship. I am sure that any erosion of that philosophical principle could harm its reputation and its acceptability particularly in the field of current affairs.



Henry L James  
1 November 1979



SECRET



Prime Minister

2 PPs. 9

I think the Chancellor is content with these proposals. Assuming he is, do you agree them? I think this minute, and the note at Flag B, deal reasonably with the points you raised at your meeting with

PRIME MINISTER

A speed out

TELEVISION LICENCE FEES

the Home Secretary. (I am submitting this tonight rather than wait for the Committee because of your meeting with Swann tomorrow).

Flag A

I welcome the general approach in the Chancellor of the Exchequer's letter of 19 October. I criticised the last Government strongly for its hand to mouth attitude to BBC finance and I regard it as essential politically on this occasion to have fee increases designed to last at least two years. This will not only demonstrate our faith in the licensing system as the right means of financing the BBC but will enable me to exercise maximum influence over the BBC's finances through the new four year system for setting provisional planning figures for BBC expenditure which I propose to introduce at the same time. Tax repayments have now reached wage packets and the increase for pensioners will be paid on 12 November. I very much hope that you will agree that I may announce increases in the licence fees of £9 for colour and £2 for monochrome, that is to £34 and £12 respectively, on 23 November. Any further delay is undesirable and expensive. To leave the BBC no worse off the licence fee would have to be raised by about £1 on colour for each month that the increase was deferred.

T  
1/11

I propose to make it clear to the BBC that fee increases of this size can only be justified if they last for at least two years, whatever the pressures on the pay front. It is for the Governors to decide how to manage their expenditure within the total limits, but I shall tell the Chairman that if costs exceed forecasts within that period, I shall expect the BBC either to reduce its expenditure or to increase its non-licence revenue and I shall make it abundantly clear that the Government for its part would not exclude the possibility of the BBC's accepting advertising on Radio 1 or BBC local radio.

SECRET



SECRET

I propose to make it clear to the BBC that I expect the Corporation in the course of the next two years to reduce that part of its borrowing - some £40 million by the end of November - which is due to the deficit on the current account. (There would, however, still be some borrowing at the end of the two year period to finance temporary cash flow needs and, possibly, any agreed items of major capital expenditure). I intend to discuss with the BBC the merits of a reduction in its borrowing powers when the Charter comes to be renewed in the middle of 1981.

As regards advertising on the BBC's light music or local radio channels, under the terms of the Charter this would be for the Governors to propose to us. To raise this issue would cause alarm in the Independent Local Radio (ILR) sector, where franchises have only recently been given for the nine new stations approved last year, and I am on the point of approving a further 15 stations. The annual advertising revenue of the 19 existing ILR stations is about £40 million, of which about one third is national advertising. Radio 1 reaches the whole of the country: if it were to take advertising, there seems to be little doubt that advertising on radio for national campaigns would move to the BBC, particularly from the smaller ILR stations which are probably the most valuable in fostering local spirit. It is not easy to weigh the advantages of an extra £10 to £15 million or so a year for the BBC against the damage to the ILR system which is, as you know, popular with our supporters.

You asked about the impact of the proposed changes on pensioners. The 18 million television licences are divided roughly as between 13 million for colour and 5 million for monochrome. Of the 6 million licences estimated to be held by pensioners, 3 million are colour licences and 3 million are monochrome licences. In terms of broadcasting policy, there are considerable advantages in spreading the burden of fee increases to some extent to monochrome licence-holders. It is open to pensioners (and others) to save for their television licences by means of special stamps bought at the Post Office: the stamp scheme, which was first introduced in August 1976, has proved very successful and is now bringing in some £60 million a year. I propose to announce that this method of

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paying by instalments will be supplemented by measures to permit the payment of licence fees by direct debit either annually or by instalments payable in advance. Such measures could take effect in 1980. I also have it in mind to explore the possible use of credit cards.

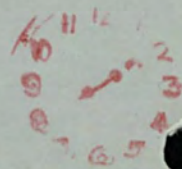
I hope you will agree that I should now go ahead on the lines proposed in paragraph 1.

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

31 October 1979



31 OCT 1979





From: THE PRIVATE SECRETARY

SECRET

8



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

31 October 1979

Dear Tim

The Prime Minister is receiving a minute from the Home Secretary at the same time as this letter. You have also had a copy of the letter from the Chancellor of the Exchequer to the Home Secretary of 19 October.

Following the Home Secretary's discussion with the Prime Minister, a number of suggestions were raised about additional or alternative arrangements in the field of broadcasting finance.

I enclose a note which assesses these.

A copy of this letter and enclosure goes to Tony Battishill.

J. A. CHILCOT

Yours,  
John

Tim Lankester, Esq.

SECRET



SECRET

B

The Prime Minister suggested that now there is no "radio-only" licence fee, consideration might be given to charging a levy on all radio purchases which would be payable to the BBC. We have looked at this. The main question about it is that as the income derived would be impossible to forecast, it would not be possible to know before introducing it whether the BBC would receive more or less income from this source than estimates of its agreed expenditure levels required, and what should be done if such income was more or (more probably) less than forecast. No doubt the Treasury would be reluctant to complicate the tax system and could be expected to object to a hypothecated tax. The Department of Industry would clearly also be anxious about the effect on British manufacturing industry (we understand that there are at present on average about three radio sets per household). An increase in the price of radio sets due to a special tax might well show the demand for them to be inelastic, at any rate for a time, and so lead to a disproportionate decrease in the demand for and purchase of new sets.

2. We have looked also into the suggestion that TV sets might be produced which could only be tuned to the IBA service. This is an interesting idea and it would be possible to manufacture a fixed tune set. But there would be serious technical and enforcement problems. For a set to be properly "tamper-proof", the whole "front end" of the set would have to be a sealed unit. Each television reception area uses four channels in different inter-related combination from a total of 66. A receiver which is fixed and tuned to two ITV channels in one area would be unable to receive ITV channels in another, necessitating a new - and costly - tuner each time the owner (or the set) moved; moreover, there is the added complication that it is possible that by retaining the ITV tuner, BBC channels might be receivable in the new area. As there will ultimately be some 700 different reception areas, the numbers of fixed tuner units which would need to be manufactured and held in stock by retailers could run into hundreds. We are advised that it is doubtful whether it would be economically sensible to require the manufacturing and other effort to put into such an enterprise to be created.

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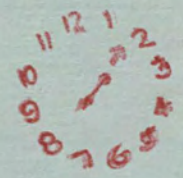
3. Even if the set were properly "tamper-proof", evasion of the licence fee would be likely to increase; and if it were not, evasion could be expected to increase by leaps and bounds. It would, therefore, be necessary to strengthen the machinery for enforcement. This means adding to the expense of administering the enforcement system. The normal TV detector can would be able to detect licence evasion by monitoring local oscillator radiation, but it would probably be necessary to supplement this use of detector vans by a power of entry. This would be controversial. It might not be long before the enforcement of the television licensing system became unmanageable.

4. The other principal problem that arises on this suggestion is that no one can assess with confidence how many households would opt to receive ITV only. Their options would clearly be affected by the level of the licence fees at the time when the option was made. Would it be the Government's intention to put up the licence fees sufficiently for the remaining viewers to attempt to offset the loss of income from ITV viewers only, perhaps at the cost of doubling them or more; or by some lesser amount? If so, how would the amounts be determined? What would happen if the Government guessed wrongly about viewers' preference: it takes time to reduce staff costs substantially - would the Government bail the BBC out or let it go bankrupt? Would the Government welcome an all out effort by the BBC to be genuinely competitive with the independent system, e.g. giving it the opportunity to find other income from advertising on both radio and telephone, if this meant a general reduction in standards and, probably, the destruction of much of Independent Local Radio and an end to the Government's plans for the fourth channel? Or would they let the BBC rapidly decline to some very small share of the viewers? In the Home Secretary's judgment it is not easy to see how questions like these should be answered.

SECRET



31 OCT 1979



P.F.





Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

19 October, 1979

*Dr. Williams*

*ABM  
R  
WJW*

TELEVISION LICENCE FEES

Thank you for your minute of 26th September, copied to the Prime Minister, outlining your proposals for the next increase in TV licence fees. I understand that you have already had discussions with the Prime Minister about the options.

I agree that there are strong arguments for giving the BBC a licence fee increase for a longer period than that given by the previous Administration. It would mark a break with the past and enable the BBC to improve the quality of its service, refurbish its capital equipment and face the challenge of the Fourth Channel.

We must however consider the effects on the Retail Price Index. I understand that a £7 increase in the colour licence - the minimum necessary to keep the BBC afloat for a year - would increase the RPI by 0.104 per cent. Your proposal to raise the fee by £9 would increase the index by 0.128 per cent (assuming that the monochrome licence was in each case increased by £2). Thus the cost of providing the BBC with a little leeway would be an additional 0.024 per cent on the Index.

It would be worth accepting that penalty if we could gain some solid advantage from it. I have in mind that you might say to the BBC that the increase was designed to last at least two years and that the Government expect them to live within their means whatever the pressures on the pay front. If their costs exceeded the forecasts we would expect them either to reduce their expenditure - which I see they are planning to increase in real terms - or to increase their non-licence revenue, for example by accepting advertising on Radio One or local radio. The decisions on how to accommodate costs would be for the BBC; but there should be no recourse to

/the

The Rt. Hon. William Whitelaw, M.P.





the Government within the two year period. This approach could be reinforced in the annual discussions with your Department over their indicative expenditure plans.

If you think this is a line we can hold, even if the BBC are faced with demands for comparability with ITV staff, then I am prepared to agree to your proposals to increase the licence fees by £9 for colour and £2 for monochrome, that is to £34 and £12.

On the timing of the announcement, I understand that you would be prepared to wait until November. This would have the clear advantage that the final budget tax changes will have come through into pay packets and pensions will have been increased. But I have doubts, as I expect you do, about the wisdom of any longer delay. To leave the BBC no worse off, the licence fee would have to be raised by about an extra £1 on colour for each month that the increase was deferred.

If you agree, I suggest you report our joint view to the Prime Minister, to whom I am sending a copy of this letter.

A handwritten signature in black ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

(GEOFFREY HOWE)



19 OCT 1979



19 OCT 1979





Top Copy on: Econ Pol, P5,  
Public Exp.

PRIME MINISTER

Meeting with the Chancellor - Thursday 18 October, 0845

I understand the Chancellor may want to discuss the following issues with you tomorrow morning:

i) RSG Cash Limit for 1980/81

There is a minute on this at Flag A. This proposes certain assumptions on pay and prices for working out the cash limit. The pay assumptions (in paragraph 7) consist of estimates of what will be the effect of the outstanding Clegg awards, an assumption of 14% in other settlements up to end July 1980, and 12½% for settlements for the following year. On prices, the Chancellor proposes 13% - rather less than the Treasury's forecast/assumption for price increases generally. The purpose of this is to put some additional squeeze on the local authorities. MISC 21 have decided (see minutes at Flag B) that the RSG percentage should be 61%, as against 58% proposed by the Treasury. This, if endorsed by Cabinet, will reduce pressure for rate increases; on the other hand, it will mean more public expenditure than the Treasury were counting on. In order to soften the public expenditure effect of a 61% grant, it would be wise to have a tight cash limit, and therefore the Chancellor's proposals on pay/price assumptions seem right. (If they are too tight, the local authorities will not believe the pay/price assumptions on which they are based; and will again put up the rates by an excessive amount.)

ii) TV Licences

The Chancellor has agreed the Home Secretary's proposals for TV licence increases, which the Home Secretary discussed with you. These call for a £9 increase for colour sets from November and a £2 increase for monochrome sets; and they are to last for 2 years. You made various suggestions

/ to the Home Secretary



to the Home Secretary (record at Flag C) - such as that there should be no increase for monochrome sets if the monochrome licence falls largely on pensioners. I think it would be best to wait for a minute from the Home Secretary, in which he will no doubt cover your points, before taking any final decision.

(iii) NEDC Membership

You discussed this last time, and suggested that Sir Leslie Murphy should not be re-appointed and should be replaced by somebody from small businesses and that Mr. Shanks should be replaced by Daisy Hyams.

(iv) Gas Prices

The Chancellor will show you figures on the PSBR effect of delaying the gas and electricity price increases by one year - as suggested in E this afternoon.

(v) Defence Expenditure

There is a dispute between the Treasury and MOD about the interpretation of the 3% NATO commitment. The argument is continuing to rage (as reflected in three minutes which are in the Cabinet folder). You told the Chancellor earlier that you would support him against Mr. Pym.

At last week's meeting with the Chancellor you asked for a note on additional demands for finance coming forward from the nationalised industries, Rolls Royce, British Leyland, etc. This is at Flag D. It shows that there are some substantial potential demands - in 1981/82 as much as £850 million - and this is on the assumption that the Chief Secretary's proposals to Cabinet for "cutting" expenditure are agreed, including the energy price increases. The note simply reinforces the importance of getting as much of the Chief Secretary's proposals on public expenditure through Cabinet as possible.

12.



SECRET



6

file  
Broadcaster  
cc Wolfson  
M. Vile.

cc Mr. Hall, Treasury.

10 DOWNING STREET

From the Private Secretary

28 September 1979

The Home Secretary called on the Prime Minister at 1100 today to discuss his proposals for increased television licence fees. They had before them the Home Secretary's minute of 26 September.

The Prime Minister said that she was concerned about the extravagance of some of the BBC's spending. It also seemed that they were unable, because of union opposition, to introduce proper manning scales and the new electronic news-gathering technology. It was essential, in her view, to bring pressure upon the BBC on both these fronts before agreeing a new level of licence fees.

As for the Home Secretary's proposals, she was worried about their RPI effect, and the large percentage increase over the existing level which the proposals implied. She was also concerned, in particular, about the impact which the proposed increases would have on pensioners. She would therefore prefer it if the increase were kept to a minimum. Even though the BBC would dislike an increase which would only last them for one year, her initial view was that an increase of £7 would be the most that could be borne. Alternatively, if it could be shown that monochrome sets were largely owned or rented by pensioners, it would be worth considering having no increase for monochrome sets and setting the increase for colour sets at £9. The larger increase for colour sets would be more tolerable if the Home Office were to introduce monthly payment arrangements. As regards the timing of the increase, she understood that the Home Secretary was planning on the end of October. This would be too early because it would precede the November uprating of pensions. It might be better to put off the increase until December or January. A final view on this ought to take into account the expected inflation rate in each of the coming few months.

The Prime Minister went on to say that consideration ought to be given to raising revenue for the BBC in other ways. She proposed, first, that the possibility of introducing advertising on light music radio programmes should be considered. Secondly, since there was no longer a licence on radios, consideration might be given to charging a levy on all radio purchases, which would be payable to the BBC.

The Prime Minister also suggested that people ought to have the option of not paying for a licence and only watching ITV. This would put pressure on the BBC to be more competitive, and it would be consistent with the Government's aim of giving people as much free choice as possible. But it would of course

/be necessary

SECRET



be necessary for the TV manufacturers to produce a set which could only be tuned in to ITV stations.

The Home Secretary said that he took the Prime Minister's points about the BBC's spending and productivity. On the other hand, the BBC had a reputation for quality and their productivity was better than the ITV companies', and better also than the productivity of television companies abroad.

As regards the licence increase, Mr. Whitelaw said that there was a very strong case for allowing an increase which would last for at least two years. One-year increases were bad for the BBC's planning; they were accordingly disliked by the BBC management and were therefore liable to make the BBC less favourable to the Government than they otherwise might be; and one-year increases had been severely criticised by the Government when in Opposition. He hoped, therefore, that the Prime Minister would - on further reflection - be willing to agree an increase of £9 for colour sets. But he would certainly be willing to postpone the increases until November to allow time for the pensions up-rating to come through. He would prefer not to wait any longer than this; but would be prepared to do so if the Prime Minister insisted and if he could be assured of the £9 increase. He would also consider the Prime Minister's suggestion that there should be no increase for monochrome sets: the case here would depend on whether in fact the monochrome licence fell largely on pensioners.

Mr. Whitelaw said that he would also consider the Prime Minister's suggestions for raising finance for the BBC from radio advertising and from a levy on radio purchases, as well as her idea about ITV-limited TV sets.

TPL

J.A. Chilcot, Esq.,  
Home Office.



SECRET

Copy No. 2 of 3

5.



CHANCELLOR OF THE EXCHEQUER

TELEVISION LICENCE FEES

In your letter of 18 July you agreed that we should defer the next television licence fee increases until this month at the earliest. I have now had an opportunity of reconsidering the whole matter in the context of the BBC's 10 Year Estimates, a copy of which has been seen by your officials.

As you know, my officials have been working with the BBC's to evolve a new approach to the Corporation's Forward Planning which, like the licensing system, has been badly hit by the effects of inflation and our predecessors' reluctance to think more than one year ahead at a time. This aims at separating discussions of BBC expenditure figures from particular decisions on the size and timing of the television licence fees, though clearly revenue (including agreed borrowing) and expenditure will have to keep in balance taking one year with another. It also includes proposals for giving agreement to provisional planning figures for BBC expenditure for four years ahead. Your officials have been aware of this exercise and have been very helpful. I endorse the general approach in the paper which has been produced by officials and intend to publish it at the time I make a statement about increases in the fees. I mentioned this in the speech I made to the Royal Television Society at Cambridge recently and I attach a copy of the relevant paragraphs of that speech which set out my views more fully.

When I make a statement about increases in fees I would also announce methods I propose to introduce to make it easier to pay the licence fees. These are the conclusions which flow from my consideration of another report I have received, and a copy of which I attach, and which I would also intend to publish at the time of the statement. The methods I propose to adopt are to bolster the present savings stamp scheme mainly by increased publicity, and (although this will take a year or so to do) to negotiate the use of direct debiting and credit cards.

When we were in Opposition you will recall that we strongly criticised the annual increases in licence fees implemented by our predecessors, together with their decision in January to increase the borrowing limits so as to enable the BBC to finance an increasing current deficit. In my view this year is make or break for the licensing system. I am certain that it is politically necessary to announce a fee increase covering at least two years and to enable the BBC to repay its present debt so that they are on a solid financial basis. I also believe that in setting indicative planning figures for BBC expenditure over the next four years, we need to take account of the increasing shabbiness of the service and the need to replace capital equipment. It will certainly be no easier next year to achieve these aims.

/I now believe

SECRET





I now believe that the best time for fee increases would be October. The Conferences will be out of the way then; it will be closer to the time when retirement pensions are increased; it will be after income tax repayments are made following your budget; and the House will be sitting so that I can make either a written or an oral statement. For technical administrative reasons, therefore, I would wish to make my announcement on Friday, 26 October, so that the new fees will come into effect at midnight on that day.

As to the level of the fees, I would first mention monochrome. In our exchange of correspondence in July we agreed that this increase should be restricted to £1. I have reflected on this and now think that an increase of £2, that is from £10 to £12, is politically acceptable and that it is right to distribute the burden of the increases rather more fairly. At present £1 on the monochrome licence brings in between £4-£5 million.

The BBC has a good record for improving productivity as shown in the note which the Director-General handed to you recently, but there are grounds for believing that this may be less easy in the future when there will be less scope for economies of scale and new technology is not wholly labour saving. The Corporation needs to restore and improve the quality of its output in view of the increasing competition it will face from the fourth television channel and from the continued development of independent local radio: it has an urgent need for further capital equipment: both these were gravely inhibited by the short term approach of our predecessors. I do not envisage any significant expenditure on new services.

I attach a note setting out the options for various increases in the colour fee on the assumption that the monochrome fee will be increased by £2 from £10 to £12 and that we assume a declining rate of inflation from the present level of the RPI at 15.8%. If, as we all hope, inflation goes down at a very rapid rate the increases will last longer than stated on the table. If, on the other hand, it stays at its present level and we take no other action with the BBC, the Corporation will go into deficit rather earlier than the table suggests but, as it will have paid back some or all of its present borrowing, we would still have flexibility on the size and timing of the next fee increases. You will see from the table that an increase of £7 would enable the Corporation to continue without any growth, but that an increase of £11 would be necessary for the Corporation to implement all its proposals. I do not believe we can accept all the BBC's proposals and I must admit that my own preference on broadcasting grounds would be for an increase of £10. On political grounds, however, I do not believe that we could use this somewhat symbolic figure. Anything less than £9 could not be presented as setting the

/Corporation's finances



SECRET




3.

Corporation's finances on an even level, would attract little less odium, would lead to greater problems in the future and, above all, would give us less room for manoeuvre when we face the question of the licence fees next time. My conclusion, therefore, is to go for £9 and I hope you will support me in it.

My officials, after consultation with yours, would discuss with the BBC the level of expenditure over the next two years and the use to be made of the borrowing powers which would be compatible with this decision and what indicative figures should be set for the third and fourth year of the planning period. It will be for the Governors to decide what adjustments to make to their 10 Year Plan within the expenditure level indicated as acceptable. When these consultations are completed I would make a further statement about the BBC's expenditure plans, probably early in the New Year.

I believe that increases in the television licence fees of £9 on colour to £34, and £2 on monochrome to £12 are fully justified and can be defended politically. I hope you will be able to agree that I announce these increases on 26 October.

I am sending a copy of this minute to the Prime Minister.

WLB  
  
26 September 1979

P.S. For comparison I attach a table showing the scale of licence fees in other European countries.

SECRET



EXTRACT FROM SPEECH BY THE HOME SECRETARY  
THE RT HONOURABLE WILLIAM WHITELAW, CH, MC, DL, MP  
AT THE ROYAL TELEVISION SOCIETY CONVENTION - TELEVISION IN A FREE SOCIETY -  
KING'S COLLEGE, CAMBRIDGE, FRIDAY 14 SEPTEMBER 1979.

B.B.C.

I will start by saying something about the B.B.C. Broadcasting in this country began with the B.B.C. as the national broadcasting service and the B.B.C. is an essential element in our broadcasting system. The relationship between the Government and the B.B.C., which was for many years our only broadcasting organisation, set the pattern for our approach to public service broadcasting in this country. As the Annan Committee said, the B.B.C. is arguably the single most important cultural organisation in the nation and its reputation extends far beyond the United Kingdom. In these circumstances I was always clear that there was no need for the last Government's proposals for the Service Management Boards.

The Annan Committee recommended that the B.B.C. should continue to be financed from the revenue of the broadcast receiving licences. But the licensing system needs to be operated in such a way as to allow the B.B.C. proper scope for its strategic planning in the face of competition. I have therefore been paying particular attention to the need to give the B.B.C. an improved basis for its forward strategic planning which has been badly hit by inflation. My predecessor initiated discussions with the B.B.C. last November to this end. These have been followed up vigorously and, although there are problems still to be resolved on both sides, I am glad to say that discussions between Home Office officials and the B.B.C.'s Finance Division are nearly complete. I intend to publish a paper on this in due course. The main change proposed is to separate the process of negotiating B.B.C. expenditure from time to time from the process of settling how the revenue is to be raised to meet this. And the aim is that the Home Office and the B.B.C. should reach a provisional understanding about the level of expenditure which would be likely to be acceptable for each year in a 4 Year Planning Period. The proposals recognise the B.B.C.'s need to ensure its editorial independence and freedom in its everyday management, both of which are endorsed by the Government. They also recognise the Home Secretary's need to satisfy himself, Parliament and the licence holders who actually pay the licence fees, about the level of the financial provision made for B.B.C. broadcasting.

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## HOME OFFICE STUDY ON ALTERNATIVE METHODS OF PAYING THE TELEVISION LICENCE FEE

- I INTRODUCTION
- II METHODS OF PAYMENT
- III SHORT TERM LICENCES
- IV LICENCES WITH A UNIFORM EXPIRY DATE
- V LICENCES FOR AN INDEFINITE PERIOD
- VI SUMMARY



## I INTRODUCTION

### 1. Scope and purpose of report

1.1. In a Written Answer in the House of Commons on 24 November 1978 announcing the Government's decision on the television licence fee increases, the then Home Secretary acknowledged the problems created by a one-year increase in the licence fees for the BBC's future planning and said that the Home Office was ready to enter into discussion with the BBC about the Corporation's future financial requirements and about the basis upon which it could be enabled to carry forward its longer-term planning. One of the areas examined is the general question of making payment of television licence fees less of a financial burden to people on low incomes and providing facilities for other licensees to spread their financial commitments over the year. This Report by the ABRL Working Party contains an analysis of possible options and estimates (where known) of their respective costs.

### 2. Background

2.1. In 1922 the British Broadcasting Company, owned jointly by firms with an interest in wireless telegraphy, was granted a monopoly for a limited period both over the right to broadcast and to manufacture receiving equipment for which the Postmaster-General issued a licence. The Company was originally financed by contributions from its members in proportion to their respective sales of equipment and by a proportion of the revenue received from the issue of broadcast receiving licences. However, because a large number of private individuals started to construct their own wireless sets the equipment monopoly collapsed and first the Company, then the British Broadcasting Corporation, became wholly dependent on the licence revenue to pay for the establishment of wireless stations.

2.2. In 1925, following legislation, it became an obligation to be licensed to install or work a broadcast receiving set and this requirement was subsequently embodied in the Wireless Telegraphy Act 1949. The Post Office continued the task of



collecting the licence fee and issuing the licences. The work, which has developed over the years and now covers the issue of television licences, is still done by the Post Office, as the Secretary of State's agent, through the National Television Licence Records Office (NTVLRO) located in Bristol.

2.3. The licence fee is levied on a "per household" basis and now covers the use of television sets by all members of a household. The full fee is payable on the issue of a licence which normally remains valid for 12 months.

2.4. The system of collecting the licence fees has remained basically the same since the licences were first introduced except that, in order to increase efficiency, the licence records and some of the routine clerical processes have been computerised and the work centralised at the NTVLRO.

2.5. Under the present arrangements, when a licence is first taken out (which can be done at any post office) a copy of the licence is sent to the NTVLRO. The particulars are stored in the computer records and a reminder is prepared automatically when the licence is about to expire. Unless particulars of a replacement licence for that licence are fed into the computer, a second (final) reminder is sent. That basic routine is supplemented in two main ways. The computer draws attention periodically to addresses for which no licences have been taken out and prepares enquiry letters, and it also assimilates the notifications (required under the Wireless Telegraphy Act 1967) from dealers of television set transactions, checks whether or not the appropriate licences are held and if not prepares enquiry letters. If any of these methods do not result in a licence being taken out the computer prepares a form of request to the local television licence enquiry office to visit the address in question to ascertain whether a licence is held. If not and a set is found to be in use, consideration is given to prosecution. The maximum fine on conviction is £200. At present there are about 60,000 successful prosecutions annually - over 99% of all prosecutions.



2.6. Approximately 88% of television licences are now obtained over Post Office counters and 12% by post from the NTVLR0. Payments are normally made by cash, cheques or savings stamps, but licensees may also pay by giro transfer or standing order. It is estimated that between 25% to 30% of the total value of licences obtained over counters is paid for by cheque and 16% by savings stamps.

2.7. A licence was at first required for the use of radio only and by 1946 over 10 million licences were in force. In 1946, following the reintroduction of a television service, a combined sound and television licence was introduced and by 1968 the number of such licences had reached over 15 million. Over the same period the number of radio-only licences fell to  $2\frac{1}{2}$  million. With the introduction of colour television by 1968 a supplementary fee was charged for the reception of colour. In 1971 the radio-only and the combined radio/television licences were abolished and the present television-only licence introduced. There are now 18.5 million television licences in force of which 65% are for colour. Although colour penetration is expected to reach about 85% by the middle 1980's any future growth in the total number of licences is likely to be minimal.

2.8. Licence revenue is used to finance the BBC to enable it to provide not only two television services but also the four national radio networks, regional radio services and local radio. Radio accounts for some 28% of the BBC's expenditure. External services are financed separately by Government grant-in-aid.

2.9. The relative stability of the economy up to the early 1970's together with the continuing growth in the number of licences issued meant that the revenue collected was always sufficient to cover the cost of developing the broadcasting services without there being too frequent increases in the value of the fees. The 10 shilling radio licence lasted for nearly 24 years until 1946 when it was increased to £1. At the same time the first combined sound/television licence costing £2 was introduced. The rapid increase in the use of television during the 1950's made



it possible to hold the fees steady and only modest increases were needed until January 1968 when a colour supplement of £5 was introduced.

The popularity of colour television together with the higher fee meant that licence revenue continued to rise during the 1970's. Although colour growth stabilised after 1975 at around one million a year, licence income would have still been sufficient to sustain the BBC's operations, including its by then comparatively minor developments, but for the high rate of inflation that occurred. This increase in inflation meant that large and more frequent increases in the fees were needed. Fees were increased to £8 for black and white and £18 for colour in April 1975, to £9 and £21 in July 1977, and to the present level of £10 and £25 in November 1978.

## II METHODS OF PAYMENT

### 3. Payments by Instalments

3.1. There is an increasing tendency at all levels of society to pay large bills by instalments and a large number of public authorities provide instalment facilities. Some also have stamp schemes to enable customers to save towards their bills. In addition most local authorities permit ratepayers to spread their payments over the year. It is not known to what extent people now pay in instalments for public services and local rates but, in a recent survey by Research Services of Great Britain, 70% of those interviewed said that if there were to be an increase in the television licence fee they would think it a good idea for it to be payable in instalments. In an earlier survey carried out by the BBC Audience Research, people were asked about which method of saving in advance towards their television licence would suit them best if the licence fee were to rise substantially. About a half of those interviewed said they would prefer to pay a lump sum annually, 29% considered the purchase of savings stamps suited them best and 17% said they would prefer to have a fixed sum transferred from their bank account each month. (Transfers could also be made at quarterly, four-monthly or six-monthly intervals). As television



licence fees increase there is growing public resistance to payment in one annual sum. Instalments payments could be paid in the same way as annual licence fees with cash, cheques, savings stamps, giro transfers, standing orders or direct debits when introduced (see paragraph 5.1).

3.2. In any instalment system there is always the problem of whether the payments should be in advance or in arrears. Payments in arrears, or partly in arrears and partly in advance, could cause problems when fees are increased, and on a change from monochrome to colour viewing. There would also be considerable enforcement difficulties if people stopped paying their instalments, as the licensee would hold a licence to which he was not legally entitled. Moreover, there would be an initial loss of revenue in the first year of the introduction of an instalment system with payments in arrears, which might lead to cash flow difficulties for the BBC. No problems should arise if payments were completed in advance of the time when a licence was due to expire. Ideally, to allow for accounting and other matters to be dealt with, payments should be completed at least two months before the renewal date of a licence so that any default could be corrected, or payment made of an additional amount to cover any increase in the licence fee during the previous year.

3.3. The renewal of each of the current total of 18.5 million licences in force costs an average of 48p giving a total cost of £8.88 million\*. The annual cost per licence under an instalment plan would vary according to which method of payment was adopted and how many payments were needed to cover the annual fee. It is considered unlikely that everyone would want to pay by instalments and estimates of probable additional costs have been made based on the findings of the BBC's survey (see paragraph 3.1). The following estimates, which are based on 3 million licensees paying instalments by direct debit and 3 million paying instalments in cash over post office counters, allow for the costs of additional staff, accommodation and equipment. No account has been taken of the interest that would be earned on the

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\*NOTE: The total annual Post Office costs are about £30 million, ie a further £21 million for enforcement, interference investigation, etc.



balance of money held from payments made in advance nor the initial non-recurring cost of setting up an instalment system which is likely to amount to nearly £1 million

Additional costs for collection

|                            | £million |
|----------------------------|----------|
| a. 12 monthly payments     | 14.97    |
| b. 10 monthly payments     | 12.21    |
| c. 4 quarterly payments    | 3.78     |
| d. 3 four monthly payments | 2.31     |
| e. 2 six monthly payments  | 0.81     |

3.4. Unless the additional annual collection costs were recovered by corresponding increases in licence fees there would be a reduction in the income of the BBC. The extra cost expressed in terms of cost per licence to be added to, (i) licences held by people paying by instalments or, (ii) all licences, would be of the order of:

|                            | (i)   | (ii) |
|----------------------------|-------|------|
| a. 12 monthly payments     | £2.50 | 81p  |
| b. 10 monthly payments     | £2.04 | 66p  |
| c. 4 quarterly payments    | 63p   | 20p  |
| d. 3 four monthly payments | 39p   | 12p  |
| e. 2 six monthly payments  | 14p   | 4p   |

4. Payment by Savings Stamps

4.1. About a sixth of licensees already save towards the cost of their licence by purchasing savings stamps and sticking them on the card provided free at post offices. The results of this special television licence stamp savings scheme, which was introduced in August 1976, have exceeded all expectations and total sales now amount to over £50 million a year. The scheme provides a flexible means of saving as the



special stamps can be obtained in the amounts and at the times most convenient to the purchaser at any of the 23,000 post offices spread throughout the country. To publicise the scheme further posters are being displayed in post offices and leaflets are being inserted in all licence reminders so that over a period of twelve months the 18.5 million people with television licences will have the facility brought to their attention. The current cost of running the savings stamp scheme amounts to just over 6p per £1 sales.

4.2. The scheme is at present restricted in so far as only 25p savings stamps are available, but consideration could be given to the introduction of higher value stamps which might be more convenient to those people who do not need to visit post offices at frequent intervals. The introduction of more than one value of stamp would, however, lead to higher costs because of the longer time taken at Post Office counters to calculate the value of cards bearing a mixture of different value stamps. If a separate card were introduced for each value of stamp, there would be additional printing costs plus the cost of the extra time taken to deal with cases where a stamp had been stuck in the wrong book.

## 5. Payment by Direct Debit

5.1. A pilot scheme is planned for introduction late in 1979 to allow the annual licence fee to be paid by a single direct debit if evaluation judges the pilot scheme to be a success consideration will be given to extending it to the whole of the country. It is estimated that the cost of collecting the fee and issuing the licence would be about 17p. The scheme could be adapted, without the need for new legislation, to provide for the payment of instalments by direct debit in advance of the renewal date of an annual licence. The cost would then be higher - for example, an annual licence paid by monthly instalments would cost about £1 to collect (which is 17p plus 11 x 8p handling costs).



## 6. Payment by Credit Card

6.1. Consideration is being given to a method of paying by credit card within the direct debit system to meet the needs of people who might like to pay for their licence in instalments other than by purchasing savings stamps. Although most credit card holders have bank accounts this is not essential. It would therefore have the advantage that some people without a bank account would be able to use the facility. The same procedure as for handling direct debits could be followed except that the licensee's credit card number would be used instead of a bank account name. At the end of each month the NTVLRD would receive one payment in respect of the full value of all credit card debits in the same manner as for direct debits originated at the same time. A service charge based on the total amount collected in any one calendar month would be levied by the credit card companies. From the technical viewpoint the method proposed is simple and there would be little development costs, provided that the annual direct debit system had been introduced. Although no firm figures are available, it seems likely that the cost of collection would compare favourably with monthly instalments by direct debit (paragraph 5.1).

## 7. Payment through Television Rental Companies

7.1. There are between 11.5 million and 12 million rented television sets which represent 60% of all sets in use. Since such a large proportion of the population rent their sets, a scheme by which licence fees could be paid by instalments with the rental payments through the rental company is prima facie an attractive one. One advantage would be that an existing effective method of payment would be used which might keep costs down and minimise the initial troubles associated with a new system. Moreover, people who rent sets, many of whom are least able to cope with paying a lump sum licence fee every year, would be enabled to pay the fee on a weekly or monthly basis.

7.2. The National Television Rental Association have been consulted as to the feasibility of this proposal. They said that they were not in favour of introducing



it and raised a number of points of difficulty as follows:

- (a) Some 9 million television sets are not rented, and their owners could not be given the option of this facility. In the rental sector there are large numbers of very small businesses over whom it would be difficult to exercise control.

The rental companies would be in the position of tax collectors (they already collect VAT and PAYE and their experience with the former has not been a happy one). Customers would not distinguish between licence fee increases and rental increases and the rental industry would incur commercial odium every time the licence fee was increased. The requirement to collect television licence fees with rentals would be commercially unfair relative to businesses dealing in the same commodity (eg those which sell rather than rent sets.) The Association think that there could also be commercial disadvantages in having to quote rentals enhanced by the licence fee. They also question whether they should be expected to be responsible for paying the licence fees of subscribers who default in their payments.

- (b) There would be a number of administrative difficulties which would require extra expense to overcome. For example, subscribers would need to be notified individually of every change in the licence fee which would be expensive; new subscribers might already have a licence, but if not they would need to buy one and then start paying by instalments for the next one, and if they returned their sets in the middle of the television licence year this would be difficult to allow for; conversion to colour, or the reverse, could cause difficulties; the licence covers the address and not the set and there would be difficulty where a licensee had two sets, one rented and one purchased; there would be considerable additional office work needed and possibly computer programmes would need to be re-written; more staff would be needed who would have to understand and be able to explain the licensing system to customers; complications could arise



in taking additional money from showrooms to the bank and the responsibility for stolen licence fee money would need to be established.

7.3. If such a scheme were to be introduced there is little doubt that legislation would be necessary requiring the rental companies to provide this facility. For the scheme to operate effectively the rental companies would need to be required to forward to the Secretary of State (as his agent) the annual licence fees of the households where there are rented sets (some 12 million) recovering the cost by an appropriate increase in the rental charges they make to their customers to cover (a) the cost of the licence fee and (b) the cost of having to wait for a period of time to recover the outlay made for the licence fee. The addition to an existing weekly rental for a monochrome set at current licence fees would be about 21p, and for a monthly rental about 88p. Similar increases for colour set rentals would be about 53p (weekly rental) and about 218p (monthly rental).

7.4. As NTVLRO would be dealing in the rented sector with only two or three thousand firms instead of some 12 million households there might well be savings in collection costs especially as some 75% of rental business is currently carried out by ten large companies. Other savings should also accrue because of reduced demand for television licence savings stamps, less follow-up computer work, visits to apparently unlicensed premises etc. On the other hand, NTVLRO's experience with bulk renewals suggests that mistakes by outside bodies in collecting licence fees and making returns would cause them considerable extra manual work, which would lead in turn to a requirement for extra staff to operate the system. In any event there would be extra work and some extra cost for the computer system.

7.5. It would be for careful consideration whether people who rent their television sets should be required to pay their licence fees through the rental company whether they wanted to or not. No doubt many would be pleased to do so, but there could well be criticism that this requirement would be an unacceptable restriction of



personal liberty. If, however, the scheme were to be a voluntary one, so far as the renter was concerned, much of the advantage it might have over the present system of fee collection would be lost.

7.6. Another question of doubt is whether the rental companies should be given statutory responsibility in relation to some 60% of the television licensing system. They have already expressed objections to the proposal (paragraph 7.2). Moreover, it is for consideration whether it would be satisfactory to rely on the staff of some 2,000 to 3,000 companies (some consisting of one outlet only) to administer the licensing system and to explain it where necessary to the public.

A further question would be the legal position where a licence holder had paid his licence fee or part of it to the rental company which failed for any reason to remit the fee to the NTVURO. And it is known that the companies would expect to be reimbursed for the extra work and responsibility involved.

### III SHORT-TERM LICENCES

8.1. The above paragraphs assume that a licence would continue to be valid for one year. It is likely, however, that the availability of payment by instalments would stimulate interest in the provision of licences for a shorter term than one year. These could be introduced by Regulations without the need for main legislation but enforcement of such licences would be difficult and costly because reminders and visit request notices would have to be sent more often. It would be impossible to enforce monthly, and probably quarterly, licences by present methods.

8.2. In addition to the high collection and enforcement costs that would be incurred there would be an initial loss of revenue in the first year of any change-over to a short-term licence. Revenue would also suffer in subsequent years because people could claim to have given up viewing for a particular period, or to have been away on holiday, and there would be no way to enforce payment for such periods. If there were to be a choice between an annual licence or a short-term licence it would be



appropriate to add to the short-term licence fee the additional administrative cost involved.

8.3. Cost of collection (based on current costs).

|                          | <u>Total</u> | <u>In terms of cost per licence</u> |
|--------------------------|--------------|-------------------------------------|
|                          | £m           |                                     |
| Annual licences          | 8.88         | £0.48                               |
| a. Monthly licences      | 91.58        | £4.95                               |
| b. Quarterly licences    | 32.06        | £1.73                               |
| c. Four monthly licences | 24.41        | £1.32                               |
| d. Half yearly licences  | 16.74        | £0.90                               |

The above figures assume that all the 18.5 million licences would be renewed either monthly, quarterly, four monthly or half yearly. However, a more realistic estimate can be obtained by reference to the experience gained from the motor vehicle licensing system. Four-monthly motor vehicle licences can be obtained but the facility is available only for licences having a yearly rate of £18 or more. A third of the 18 million registered motor vehicles are licensed for the shorter period\*. A similar restriction applied to television licences would mean that only short term colour licences would be allowed. The cost of collecting television licences on the basis that one third of licensees take out short-term licences would be:

|  |       | <u>Extra cost in terms of cost per licence</u> |                      |   |
|--|-------|--|----------------------|---|
|  | £m    | <u>Total extra cost</u>                        | <u>All licensees</u> | <u>Only licensees paying by instalments</u> |
|  |       | £m   |                      |   |
| a. 1/3rd of all licences issued quarterly                          | 17.14 | 8.26   | 45p                  | £1.27                                       |
| b. 1/3rd of colour licences issued quarterly                       | 14.01 | 5.13   | 28p                  | £1.28                                       |
| c. 1/3rd of colour licences issued on a 4-monthly basis            | 12.33 | 3.45   | 19p                  | £0.86                                       |
| N.B. Current cost - all licences issued annually (48p per licence) | £8.88 |  |                      |   |

Staff, accommodation and equipment requirements would be the same as for payment by instalments.

\*NOTE: A large proportion of vehicles are licensed by private companies on an annual basis and this reduces the proportion of short-term licences.



#### IV LICENCES WITH A UNIFORM EXPIRY DATE

9.1. A system of making all licences valid for a year and all expiring on the same date would have some advantage. It would allow the licence fees to be fixed and published well in advance without the problem of people taking out overlapping licences in order to put off paying the increased fee. (When an increase in licence fees is announced before implementation, it may be financially worthwhile for a licence holder to take out an overlapping licence before the current licence has expired). It would also allow more time to make the arrangements for implementing an increase in fees. At present some 14.3 million licensees replace their licences without the need for a second reminder (12.6 million at post office counters and 1.7 million at the NTVLRO) and about 40% of them do so before the current licence has expired. A 30 September expiry date would be the most practicable since a majority of people at present replace their licences later in the year and thus any necessary follow-up procedures could be carried out in the winter months when people are more likely to be at home and using television.

9.2. A method of payment in 10 monthly instalments would be simpler to administer with a single expiry date. On the receipt of a reminder people could make arrangements with NTVLRO to pay by this method and could be issued with a licence and 10 payment slips to be presented at a post office during the year. Accounting could be accomplished by means of the use of licence fee stamps with a value of 1/10th of the annual fee plus, if desired, an additional loading to cover the extra cost. The problems of instalment payments in arrears discussed in paragraph 3.2 would still need to be overcome. The costs of such a scheme expressed in terms of cost per licence would be of the order of £4.15. There would also be an initial loss of revenue in the first year of a switch to a common licence expiry date.

9.3. The overriding difficulty with any such scheme would be the severe staffing problems connected with concentrating the work of collecting the licence fees into a period of 3-4 months. Although the issue of licences in respect of renewals sent



to NTVLRO could perhaps be delayed, the 12.6 million licences renewed without the need for a second reminder at post office counters would all be presented around the expiry date and this would inevitably place an unacceptable strain on post offices. Moreover, enforcement work would become seasonal only, thus making it difficult to recruit and retain experienced staff. In addition the use of a computer for a limited period each year would be clearly uneconomic unless other computer work could be found for the rest of the year.

#### V. LICENCES FOR AN INDEFINITE PERIOD, SUBJECT TO AN ANNUAL RENEWAL FEE

10.1. At present over 96% of the households in the United Kingdom have television sets and an individual licence is issued annually to some 18.5 million households. These licences are issued by the Home Secretary as permissions to receive broadcasting services transmitted by the broadcasting authorities.

The licence document itself provides immediate evidence that a household is not using a television set illegally. To move away from this structure would mean that the system would be much more difficult to enforce: process might have to be in the civil courts and a sum of £25 would be but a small debt which, in most cases, would either be unenforceable or uneconomic to try to enforce. Nevertheless, the reissue of licences under the present system is expensive and it might be worth considering how the system could be changed. A possibility would be the issue of a licence which was revalidated each year on payment of the fee. But the need to provide evidence where necessary that the licence was valid would almost certainly require the issue of a further document stating that such revalidation had taken place. Consequently any saving in costs from the introduction of a licence for an indefinite period would be negligible in present circumstances. However, if direct debit or credit card methods of payment were introduced and became used by significant numbers of licensees, these systems might well provide legally acceptable evidence of payment and thus make an indefinite term licence system cost effective. The licence would need to state that it was valid only while the annual renewal



payments were maintained. Thus, if they were not maintained, the licence would lapse and if the holder then continued to use television he could be prosecuted in the courts in the normal way. It may be that people would expect to receive a licence each time they paid, but in that case no savings would accrue.



## VI SUMMARY

This report considers the following options:-

1. payment by instalments (paragraphs 3.1 - 3.4);
2. payment by savings stamps (paragraphs 4.1 - 4.2);
3. payment by direct debit (paragraph 5.1);
4. payment by credit card (paragraph 6.1);
5. payment through television rental companies (paragraphs 7.1 - 7.6);
6. short term licences (paragraphs 8.1 - 8.3);
7. licences with a uniform expiry date (paragraphs 9.1 - 9.3);
8. licences for an indefinite period subject to an annual renewal fee (paragraph 10.1).

Sections II to V contain a full discussion of each option, together with the estimated cost where appropriate. The Working Party has not attempted to make any recommendations of its own in this document.



## SECRET

## OPTIONS FOR INCREASES ON COLOUR TELEVISION LICENCES

Assuming monochrome is increased by £2, and the rate of increase in the R.P.I. decreases from its present level of 15.8%

|  | One year |      | Two years |      | Three years |      |
|--|----------|------|-----------|------|-------------|------|
|  | All      | Half | All       | Half | All         | Half |
| Repay borrowing<br>within period<br>covered by fee<br>increase |          |      |           |      |             |      |
| No growth  | 7        | 6    | 7         | 7    | 9           | 9    |
| Total BBC Bid  | 10       | 8    | 11        | 11   | 14          | 13   |

SECRET



LICENCE FEES IN EUROPE

MARCH 1979

|                       | <u>COLOUR</u> | <u>MONOCHROME</u> |
|-----------------------|---------------|-------------------|
|                       | £             | £                 |
| DENMARK               | 68            | 40                |
| SWEDEN                | 53            | 38                |
| * BELGIUM             | 53            | 34                |
| FINLAND               | 52            | 30                |
| * AUSTRIA             | 49            | 49                |
| NORWAY                | 47            | 38                |
| IRELAND               | 38            | 23                |
| FRANCE                | 35            | 23                |
| * SWITZERLAND         | 34            | 34                |
| GERMANY               | 33            | 33                |
| NETHERLANDS           | 30            | 30                |
| ITALY                 | 30            | 15                |
| <u>UNITED KINGDOM</u> | <u>25</u>     | <u>10</u>         |

\* Additional fee payable for Radio



26 SEP 1979

10 11 12 1 2 3  
4 5 6 7 8 9



SECRET

Copy No. 1 of 2 1

In written  
at the Headquarters

Prime Minister



4

I don't think you will want to preempt the Chancellor on the licence fee (your earlier view was that they should go for a 1 year increase, but an increase for 2 years costs little more - £9 instead of £7). But do you wish to discuss this

PRIME MINISTER

TELEVISION LICENCE FEES

I have sent you a copy of my minute to the Chancellor. He will be in Yugoslavia for the next week or so and I should welcome the chance of a talk with you on some issues of broadcasting policy before we discuss my minute together.

The Home Office has been working out arrangements with the BBC under which I should approve provisional planning figures for BBC expenditure for a four year period. The intention is that this should give the BBC a clearer financial basis on which to plan ahead instead of the one year horizon imposed on them by our predecessors' decisions. As part of this exercise, we have acquainted ourselves more closely with the BBC expenditure than ever in the past and will continue to be kept in much closer touch in future. I think it important that we should get this new and better system, with which the Treasury are broadly in agreement, off to a good start by dealing reasonably with the setting of the first four year planning figures and this year's licence fee increases. We should also put an end to the improvident practice of borrowing to meet a current deficit which was forced on them by our predecessors.

To get matters in perspective, it is worth remembering that the licence fees in the United Kingdom are the lowest in Europe (Annex A) and that the Annan Committee noted that the public was getting good value for its licence fee.

It is not easy to make direct comparisons between BBC productivity and efficiency and that of ITV/ILR over the whole field - a subject in which I know you are interested - but we believe that the BBC has a better record of productivity in a number of ways. This is partly due to economies of scale, since the BBC is running two national television networks, four national radio networks, twenty local radio stations and the external services, and is far larger than any individual company in the independent sector. For instance, we know that BBC television studios are used day and night seven days a week whereas the studios of the individual ITV companies do not usually need to be used more than five days a week. McKinseys told the Annan Committee that the BBC was by far and away the most efficient user of studios they had come across anywhere in the world. We understand that the average output of the BBC's London studios in 1978-79 was eighteen minutes of finished product per hour of use; so far as we know, the best output in the world (this compares with sixteen minutes in Finland, fourteen minutes in Holland, eleven minutes in France and Spain and five minutes in West Germany and Italy). The Annan Committee commented that the staffing levels of the BBC on the studio floor and elsewhere are notably lower than in some ITV companies. We understand that in studios, the basic BBC crew for general network programmes consists of thirteen people, whereas in London Weekend and Thames it is nineteen and twenty

/respectively.

SECRET

So in the  
should be  
of being.

and other  
matters  
(eg. products)  
with  
M. Whelan?  
T2  
26/9





respectively. In outside broadcasts, a single BBC camera unit consists of seven whereas Thames uses eight. In processing films the average BBC crew is three and the average ITV crew is four (excluding electricians). This is partly due to the fact that the BBC has an easier union to deal with in the Association of Broadcasting Staff than the ITV companies with the ACCT. It is our understanding that one of the factors in the present ITV dispute is the effort by the ITV companies to negotiate for improvements in productivity towards the BBC scale. There is an efficient engineering organisation which designs some of its own equipment and has this manufactured for sale to others under licence as well as for itself.

We have been told that over the last few years almost every leading television operation in the world has sent delegations at its own expense to Shepherds Bush to study the cost control systems at the Television Centre. Some examples of their reactions were:

- NETHERLANDS - clear that your cost control system really works.
- NEW ZEALAND - NZBC's pilot television costing scheme, which was adapted from the BBC system in the first instance, will be developed and used by the TV1 Corporation at the new Avalon television complex.
- SWEDEN - you are three to four years ahead of us.
- GERMANY - the BBC has a good record on this subject. We will try to reduce our stocks to your levels.

I might also mention that the Annan Committee concluded: "That the BBC's production costs are three times lower than those in America, that it is more economical in resources, costs and output than ITV, that its productivity in terms of average daily output per studio exceeds that of other countries, can all be explained away - though the presumption must be that it is efficient. The presumption is strengthened by the fact that cost per hour in real terms for all programme services has decreased in the past ten years and the number of staff per hour of output has also declined. Its productions on average are not extravagant."

There is no doubt room for improvement and greater cost consciousness in the BBC's performance although these comparisons show that it is on the right lines but I think it is fair to say that we cannot expect the continuing record of productivity improvements that there have been over the last ten years to be continued in the future because there will not be the same opportunities for economies of scale with the growth of output. In local radio recently, for instance, the BBC reduced hours of output in order to improve the quality of the service without extra cost.



SECRET



3.

In the present situation, there are various options as I have set out in my letter to the Chancellor. But I am certain that we must take this opportunity to get the borrowing down. To repay the borrowing within a year would cost £3 on the licence or over about eighteen months £2. These figures are due to our predecessors' decision to duck the issue of the licence fee last January. I shall make the fullest use of this politically.

A one year increase would be almost impossible to defend after all we have said in criticism of our predecessors, and would unite not only the BBC but the independent companies against us. The minimum increase we could contemplate would be £7 on the Colour Licence and that would only last one year, whereas a £9 increase would carry with it the immense advantage of taking this politically sensitive problem out of the limelight for a couple of years and demonstrating our faith in the licensing system, while at the same time attracting, I suspect, little more odium.

worth  
about  
0.1%  
on the  
RPI.  
TL

I know that there have been suggestions that the BBC should be funded at least in part from advertising. This would be extremely controversial and would be bitterly criticised by the BBC Governors and others in the broadcasting world as well as by some people in our Party. The financial effects on the BBC would probably not be great, especially so far as radio is concerned; although the effect on the independent system (and the Press) is difficult to establish, it would undoubtedly be adverse. To allow advertising on Radio 1 would be likely to affect the finances of the existing ILR companies and slow up the growth of the ILR system. To allow competitive advertising on BBC 1 - to which I would be strongly opposed both on financial grounds and grounds of principle - would make nonsense of our plans for the Fourth Channel.

Wals

26. September 1979

SECRET



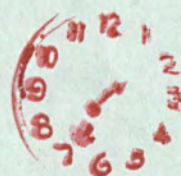
LICENCE FEES IN EUROPEMARCH 1979

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\* Additional fee payable for Radio



26 SEP 1979



1111



*C. M. Hoskyns**Broadcasting 3**WBSM*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

*R 1911*

18 July 1979

*Dear Sir*

Thank you for your minute of 6 July in which you invite my views on the next TV licence increase. I have also seen the Prime Minister's comments in the No 10 letter of 9 July.

There are merits in having an increase in July - it would involve a slightly smaller increase to have the same effect on the BBC's revenue as a September increase while the timing of an announcement just before the holidays would have less impact. On the other hand I think the advantage of waiting until we have a clearer idea of the BBC's own expenditure forecasts is greater. Furthermore, as you say, you should then be able to make an announcement about easier ways to pay. Also the timing of an announcement nearer the point when the Budget changes in direct tax rates and pensions are received, and further from the time when the VAT increases have worked through, is better (though the fact that licence renewals will be spread throughout the following 12 months makes this more of a presentational point).

Another argument for going for September is that we can make a proper assessment of the pros and cons of an increase designed to last at least two years, as you wish, or of a smaller increase to last about one year, as suggested by the Prime Minister. Although the BBC have a clear preference for longer intervals between increases, the discussions you are having with them over long-term planning - which are intended to give them greater confidence about their future plans - should reduce the feeling that frequent increases impose a hand-to-mouth existence on them. On the other hand, though the RPI effect of a TV licence increase is significant (an increase of £8 for colour and £1 for monochrome would, I understand, raise the RPI by about 0.1 per cent) the increases necessary for one year would not be significantly lower than for two, because of the need to pay off current borrowing. We can weigh these factors when we have proposals based on precise estimates.

/ I assume

The Rt. Hon. William Whitelaw CH., MC., MP.





I assume that in your discussions with the BBC on long-term planning you are considering how they compare with other similar organisations in their efficiency and use of staff and whether they can be encouraged to greater efficiency. Let us consider this point too when we have their estimates.

I agree however that, whatever the decision about the colour licence fee, the increase in the monochrome licence should be restricted to £1.

I am sending a copy of this letter to the Prime Minister.

A handwritten signature in black ink, appearing to read 'Geoffrey Howe', written in a cursive style.

GEOFFREY HOWE





JUL 19 1979



Mr Hoskyns

Prime Minister Broadcast

would you like me to feed in any of these points, especially

No point? ?  
No  
10/7

PRIME MINISTER

TELEVISION LICENCE FEES

This is the sort of issue on which one can argue either way, which probably means that it is not of crucial importance to take one approach rather than the other. However, one or two comments:

1. It is probably better to do licence fees on an annual basis and I would prefer to get it over with now, along with all the other recent price increases. It should also be firmly linked to the award to BBC staff, mentioned by the Home Secretary. It is a golden opportunity to teach economic cause and effect. If it is done in the autumn, the cause-effect link might look a little tenuous.
2. Doing it now would mean that we could keep a little more good news, recoding on income tax etc, for the autumn when the unions will be trying to raise their campaign to a crescendo.
3. In the longer term, do we plan to phase out TV licences? I assume that, with the high percentage of households with a television and the substantial level of evasion, the administrative costs of licensing are not justified.
4. A first step might be to exempt pensioners (as Labour suggested during the election campaign, I think). That could be represented as an unfair bonus to the rest of the households, but they do after all have the responsibility of looking after the pensioners. Something along those lines could be a symbolic gesture, but only if complete phasing-out was envisaged.
5. I understand the objection to phasing-out of licences is that it would give rise to fears of Government directly controlling the BBC. However, depending on the costs involved, it is something which will presumably be looked at at some stage.

The Home Secretary has today announced that they will not be exempted

JA

about £300 m per year.

JOHN HOSKYNs  
10 July 1979



SECRET

H8



cc HMT  
CO

10 DOWNING STREET

*From the Private Secretary*

9 July 1979

The Prime Minister has seen the Home Secretary's minute of 6 July to the Chancellor of the Exchequer about television licensing fees. You should be aware of her preliminary view - which is that it would be better, for the sake of minimising the RPI effect this year, to have a licensing increase designed to last for only one year rather than two. In any case, she hopes that the relative effect on the RPI of an increase designed to last for one year or two years should be carefully considered before a decision is taken.

I am sending a copy of this letter to Tony Battishill (H.M. Treasury) and Martin Vile (Cabinet Office).

**T. P. LANKESTER**

A handwritten signature in blue ink, appearing to be 'J.P.L.' or similar.

John Chilcot, Esq.,  
Home Office.

SECRET



*It is important  
to try to keep down  
the RPI this year  
could be not to have  
a large increase for  
Mr Hodgson*

*Prime Minute*

CHANCELLOR OF THE EXCHEQUER

TELEVISION LICENCE FEES

The Home Secretary is proposing to increase TV licence fees - either £7 in July or £8 in September. But this is intended to last 2 years. In view of inflationary trend, it might be better to have a smaller increase to last for 1 year.

The purpose of this minute is to seek your views on the timing and size of increases in the television licence fees.

2. The BBC's licence fees were increased last November to £25 for colour and £10 for monochrome to last for about a year. Following the unexpectedly large CAC award to BBC staff, in January the BBC told the Government that it expected to reach the limit of its borrowing powers (then £30 million) in the spring rather than at the end of the year. Understandably, the last Government postponed the basic issue. They increased the BBC's borrowing powers to £75 million (and up to £100 million with the Home Secretary's agreement) in the Supplemental Charter which took effect in April. At the end of March the BBC was some £23 million in deficit; its deficit is currently increasing by some £4 million a month and will be around £50 million at the end of November.

6/7

3. While in Opposition, I made clear my view that adherence to the licensing system imposed on the Government the duty to fix licence fees at such a level and for such a period as to allow the BBC proper scope for its strategic planning in face of competition - competition which will be increased as a result of our decision that the IBA should supervise the fourth television channel and with the expected increase in the number of independent local radio stations. As your officials know, the Home Office has been working on a new structure for the BBC's Forward Planning which would involve separating the negotiation of expenditure figures (for which provisional planning figures would be settled in real terms for a period of four to five years ahead, somewhat on the lines as is done for university expenditure now), from the discussion of the revenue (and so of necessary fee increases) required to meet them from time to time. These discussions are making good progress. Meanwhile, I am clear that this time it is politically necessary to have fee increases designed to last for at least two years, and which are sufficient not only to cover the cost of BBC expenditure without recourse to borrowing, but also to repay the bulk of the existing borrowings in the course of the two year period. It so happens that fee increases which are sufficient to run for two years and to repay borrowings within that period are likely to cover part or all of a third year as well.

4. In May I invited the BBC to make a comprehensive case relating to its Forward Expenditure Plans. I made it clear to the Corporation that it needed to justify not only the figures it put forward but its general efficiency as well. I expect to receive this material in the course of the next few weeks. On the basis of the information available to me at present (which dates from January this year), however, it is clear that sizeable fee increases

SECRET



would be needed to maintain existing services, to repay borrowings and to allow for likely changes in prices and wages. I estimate that an increase of £7 in the colour licence fee in July (or £8 in September) would be enough to cover a two year period and allow for some small element of growth in real terms (though this, of course, very much depends on the rate of inflation during the next two years). It would cost about £10 on the colour licence if the fee increases were left to November. All these increases would last into a third year. There are political arguments for restricting the increase in the monochrome licence to £1 only.

5. On the last two occasions, the increase has been implemented at midnight on the day of the announcement: I propose to follow the same practice on this occasion. For technical reasons an increase is best made on the last or penultimate Friday of the month. It is not essential for an increase to be announced while the House is sitting, but it could hardly be announced on the day the House rises or the day after it has risen. This means that a July increase would have to be announced on Friday, 20 July.

6. My Department has also been looking into ways of making it easier to pay licence fees, e.g. by credit cards and by instalments. (There is, of course, already the savings stamp scheme which is much used). Their report is expected to be finalised this month and it will take a little time thereafter to decide and introduce agreed new arrangements. I regard it as essential that we should be able to offer something here when we announce the next fee increases.

7. I criticised the last Government strongly for its short-term and irresponsible approach to BBC finance. The fee increases must be large this time. I am anxious that they should be capable of being fully justified to the House and to the public. We also need to leave ourselves flexibility to deal with the situation at the time the fees next come to be raised in 1982 which could be more difficult than it is now. (The need to procure maximum flexibility in 1982 is the major reason for running down borrowings in the intervening period). It is never a good time to raise licence fees, but the effect of our tax cuts and pensions increases will be felt in October/November and there could be advantage in having fee increases as near as possible to these payments. (Households with pensioners account for one third of licence payers and the Labour Party proposed in its Manifesto, as you will recall, to phase out licences for pensioners). Unless, therefore, you feel that there are strong economic and political arguments for a July increase, I should prefer to deal with this in September by when my Department would have examined the BBC's Forward Estimates, and I should be able to make a firm statement about the arrangements for easier payments of the licence fees.

8. I am sending a copy of this minute to the Prime Minister.

*hwlw*

6 July 1979



-6 JUL 1979





