



*They cannot go on increasing pay like this and increasing overheads and inefficient operation.*  
CONFIDENTIAL  
Prime Minister  
CNO  
SV

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 £1.5m to meet the costs of the BBC's pay increase, but proposes that the BBC External Services should be asked to retain constraints 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.

*WR  
1/8*

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.





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.

A handwritten signature in dark ink, appearing to be 'J.M.', is located in the lower right quadrant of the page.

Foreign and Commonwealth Office  
1 August 1983

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10 DOWNING STREET

*From the Private Secretary*

12 August 1983

*Dear Tim*

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 1 August to the Chief Secretary about BBC External Services, together with the Chief Secretary's response of 10 August. Mrs. Thatcher agrees generally with the approach set out in the Chief Secretary's letter. She has commented further that the BBC cannot go on increasing pay like this while retaining overmanning and inefficiency.

I am sending copies of this to Hugh Taylor (Home Office), John Gieve (Chief Secretary's Office) and Richard Mottram (Ministry of Defence).

*Yours ever  
Tim*

Timothy Flesher

John Holmes, Esq.,  
Foreign and Commonwealth Office.

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SP

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Agreed

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> or
- ✓ (b) the FCO should find increases for external services from offsetting savings in other programmes;.

Sec Secretary of State  
BBC EXTERNAL SERVICES

He agrees that a full and independent scrutiny of the management and finances of the external services would be desirable.

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!

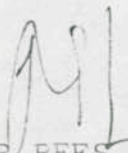
For these reasons I am convinced that the BBC should simply be told to live within their cash provision for the External Services like everyone else. Given that the increase they are seeking relates to a higher than average pay award, I doubt whether their case would attract much public sympathy, provided 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, 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 & agreed in his absence).

NO AUG 1983

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Foreign and Commonwealth Office

London SW1A 2AH

21 October 1983

*Den Andrew*

BBC External Services: Additional Bids

You asked about the additional PES bids for the BBC External Services, in particular the one relating to pay. As a contribution to the cuts, we have withdrawn a bid for the purchase of Bush House, although it could lead to substantial savings in the longer term. The outstanding bids are as follows:

Increased Running Costs (+ £1.0 m. in 1986/87)

In 1981 the Government announced in Parliament a new capital programme to improve the audibility of the External Services at a total cost of £102 million in 1981 Survey Prices. As part of this programme, Treasury Ministers agreed to fund the increased running costs of the more powerful transmitters, which are being progressively introduced. This was taken into account in last year's PES and in 1986/87, running costs will be £1 million higher than in the previous year.

Audibility Programme (+ £0.4m. in 1986/87).

1986/87 is expected to be the peak year in the disbursements of capital in the audibility programme and expenditure will be £0.4 m. higher than in 1985/86 (it decreases in later years).

Bush House New Technology (+ £0.6 m. in 1985/86 and + £0.9 m. in 1986/87)

The same programme allowed £17 million for the modernisation of Bush House, the External Services' headquarters, of which a large proportion has already been spent. The plans were drawn up in 1979. Advances in technology since then mean that additional sums will be required in 1985/86 and 1986/87, to take full advantage of expenditure so far.

/BBC





BBC Monitoring Service Modernisation (+ £1.9 m., + £3.5 m,  
+ £5.6 m. in the 3 PES years)

These bids relate to the first 3 years of a new 5-year project to modernise the Monitoring Service's unreliable, mainly World War II equipment, which is unable to cope with contemporary communications developments, e.g. the satellite transmission techniques used by the Soviet Union. An efficient BBC monitoring service is of particular concern to the Americans, who share the task of monitoring world broadcasts with the BBC and consider this an important part of our joint intelligence activities. This project offers good opportunities for British industry and DTI have already committed £100,000 to a technical study of computerisation.

Pay

There has been considerable inter-ministerial correspondence this year (of which you have copies) resting with Sir Geoffrey Howe's minute to the Chief Secretary of 22 September, on which the Home Secretary commented on 3 October. The nub of the problem is that 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 pay scales decided by negotiations between the Corporation as a whole (of which the External Services forms only 10%) and the broadcasting unions. There is thus a gap of £1.5 m. this year which is carried forward in the PES period.

The shortfall cannot be met by savings in Diplomatic Service votes or in the grant-in-aid; and the present BBC Licence and Agreement debars cross-subsidisation from the home services. Any change in this would require Parliamentary approval; and Sir Geoffrey has suggested that officials should examine the possibility for the future. For the current year, however, he sees no alternative to meeting the shortfall from the central contingency reserve. Cuts in the BBC's activities would not produce the necessary savings in time, given the need to make redundancy payments.

For future years, Sir Geoffrey considers it important that a lasting solution be found to what will otherwise be a recurrent problem. (The same point has been made by the House of Commons Foreign Affairs Committee.) If the £1.5 m. is not written into the PES the BBC will be obliged to reduce broadcasting services. To raise the sum required next year the BBC would have to end some major services altogether (e.g. French and German; or Chinese, Hindi and Farsi) or a larger number of smaller services (see table attached). And, unless a long-term solution is found, the

/number



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number of vernacular services will have steadily to decline; or the(English-language) World Service will have to be progressively reduced. We do not believe that either would be in the national interest. The financial savings would be relatively small, and such cuts would risk a repeat of the political and public opposition which led to the defeat in the House of Lords last time around.

*Yours ever,  
E.*

(B J P Fall)  
Private Secretary

Andrew Turnbull Esq  
10 Downing Street

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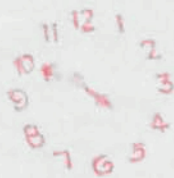


COST OF BBC CURRENT SERVICES AS AT 1 OCTOBER 1982

	Hours per Week	Annual Cost	1981 Reduction Hours
		£000	
Arabic	63	2,423	
French: to Africa)3½ hr pw are common to Europe)to both services	22¼ 12¼	942	- 8¼
Russian	45	1,063	
Spanish to Latin America (including 8¼ hr pw increase in 1982)	31½ <del>36¼</del>	1,065	
German	22¼	805	
Polish (including 5¼ hr pw increase in December 1981)	26½	615	
Czech/Slovak	21¼	588	
Hungarian	18	489	
Serbo-Croat/Slovene	16¼	408	
Chinese (Cantonese/Mandarin)	15¾	548	
Portuguese to Latin America	8¾	285	- 7
Hindi	14	451	
Romania	14	349	
Farsi	10½ <del>12¼</del>	431	
Bulgarian	12¼	333	
Turkish	10½	316	
Greek	10½	296	
Indonesian/Malay	10½	350	
Urdu	10	343	
Hausa	8¾	265	
Portuguese to Europe and Africa	8¾	283	
Vietnamese	8¾	289	
Finnish	8½	233	
Bengali	8	276	
Swahili	7	255	
Burmese	7	205	
Japanese	7	257	
Thai	7	212	
Italian (tapes)	-	75	- 7
Spanish to Europe (tapes)	-	82	- 7
Somali	7	188	
Tamil	2	41	
Nepali	¾	25	
Pashto	3¼ <del>1¼</del>	72	
Maltese	-	-	- ½
Sub Total (Vernaculars)	<del>480</del> <del>485¼</del>	14,858	
World Service (excluding accommodation and transmission costs)	201½	3,855	
Calling the Falklands (including 1½ hr temporary increase in 1982)	1 <del>2¼</del>	92	
English by Radio and TV	37¼	293	
Topical Tapes		226	
Transcription Service		742	- 45%
Overheads and other current costs		34,066	
1982 "Excess pay award" for <u>broadcasting</u> staff (not Monitoring Service)		2,745	
<b>TOTAL HOURS AND <u>CURRENT</u> COSTS</b>	<b>719¾ <del>726¼</del></b>	<b>56,877</b>	



21 OCT 1985



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10 DOWNING STREET

Prime Minutes ②

You asked for a note from the FCO on BBC External Services. Their additional bid is

	1984/85	1985/86	1986/87
	3.4	5.6	9.5
of which pay	$\frac{1.5}{}$	$\frac{1.5}{}$	$\frac{1.5}{}$

The FCO note fails to explain how the pay problem can be prevented from recurring.

Sir Geoffrey is meeting the CST on Monday.

AT 21/10