

SECRET

Copy No. 1 of 2 1

In letter
to the Postings

Prime Minister



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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

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with
M. Whelan?
T2
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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



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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.

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.

worth
about
0.1%
on the
RPI.
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Wals

26. September 1979

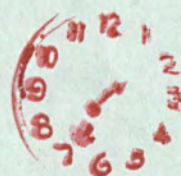
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LICENCE FEES IN EUROPEMARCH 1979

	<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



1111