



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

19 October, 1979

Dr. Williams

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

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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".

(GEOFFREY HOWE)

19 OCT 1979

