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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.

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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.

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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

