

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.
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(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.

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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 db 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

