

cc Mr Lyman
Mr Hoskyns
Mr Wotton

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Prime Minister



The Home Secretary is floating the idea of increasing the colour TV licence from £34 to around £45 to last for 3 years. He wishes to discuss. We will need the Chancellor too (I am assured the Home Secretary expects him to be present). Shall I arrange?

Yes Mr.

PRIME MINISTER

B.B.C. FINANCE

When I announced the last increases in the television licence fees in November 1979 I said that these would have to last for at least two years. It is not too soon to consider our basic approach to the next 12 increases, and I should welcome an early discussion with you about this.

For a number of reasons the next few years are going to be critical for our broadcasting arrangements as a whole and for the B.B.C. in particular. There will certainly be a significant increase in broadcasting outlets, with the expansion of independent television, subscription television by cable and more local radio; and there is also the possibility of direct broadcasting by satellite if the positive lead we have given is taken up by the broadcasters and by industry. Compared with other countries our broadcasting services and arrangements are strong. They are also, despite some criticism, highly regarded by the electorate as a whole. They represent an asset which could be of great importance to us in the future. Indeed, the prospects for our aerospace and electronics industries could depend to a significant degree on our capitalising on this asset. I am convinced that our broadcasting strength depends heavily on the B.B.C; and in the new Charter and Licence and Agreement we have enabled the Corporation, with my consent, to adapt itself to exploit the new technologies which will be coming available.

The television licence fees finance the B.B.C.'s principal activities - the Home Services. This method of finance is not easy to operate and is becoming less easy as the inherent buoyancy of the revenue declines. Although in real terms the cost of the licence has declined over the last 10 years, the licence fee is seen by some as a regressive poll tax and as an unfair burden on the less well-off sections of society, particularly pensioners. I believe however that it is fundamentally the right method of financing our principal national

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instrument of broadcasting and that this view commands widespread support. Our task is to make the licensing system work. This means ensuring that the fees provide the B.B.C. with an adequate income but are at the same time fair to the licence payer.

It is most important, therefore, that the B.B.C. should be, and should be seen to be, efficient. The B.B.C. is highly respected for its professional competence by other broadcasters and in comparison with other comparable broadcasting organisations at home and abroad it probably is efficient, though it is not possible to test this over the whole field of the Corporation's activities. Moreover, since much of the evidence comes from B.B.C. sources, the claim does not carry general credibility. There is need to encourage greater efficiency, but in ways which avoid accusations that we are not to undermine the Corporation's independence. The previous Government's experience when they proposed Service Management Boards with half the appointments on them being made by the Home Secretary is a useful warning of how not to proceed.

The Corporation's own proposal for a Licence Fee Commission was designed in part to expose its efficiency to outside scrutiny, and as you know I saw some merit in the proposal. However, the Chancellor is strongly opposed, understandably, to the idea of one-off review bodies, and on reflection I do not believe that the proposal would materially help to make the licence fee system of financing the B.B.C. work any better. It is however essential to find other ways of encouraging efficiency in the B.B.C. There is no single answer but several possibilities which together could be a powerful incentive.

The first and obvious one is to strengthen the Board of Governors with people who can bring the right sort of financial and industrial experience to bear, and this we are now seeking to do. We should not, however, overestimate the influence which the Governors, however good they are, can in practice bring on day-to-day management.

Next we might consider some form of efficiency audit. A Government imposed and supervised efficiency audit would undermine the

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the Corporation's independence, and would produce an outcry, I suspect, from some of our supporters. In addition it could push us towards accepting licence fee implications which it is impossible to predict in advance and which we might well be unwilling to concede. In this way it has some of the disadvantages which we saw in the B.B.C.'s own idea of an independent Licence Fee Commission. But I think that we should encourage, and if necessary press, the Corporation to set up some form of efficiency audit of its own. Charles Hill encouraged the B.B.C. to bring in McKinseys and I believe they came back some years ago to monitor the B.B.C.'s control systems. It would be no humiliation to the B.B.C. to ask them back for a fresh look. I am trying this out informally on the Chairman. I shall hope to persuade him that it is in the B.B.C.'s own best interests to let us see their findings in confidence.

Thirdly, the most important spur to efficiency is a clear appreciation on the part of the B.B.C. that money is, and is going to continue to be, tight. This brings me to our approach to the next fee increase, and in particular to the period which it should cover. In this context it is worth noting that B.B.C. expenditure on the Home Services is now running at some £545m a year as compared with net licence income of just over £500m, and that the B.B.C. may be expected to be in deficit to the tune of about £40m by the end of November.

I have been attracted to the idea of as small an increase as possible for as short a period as possible (in practice one year) providing the best financial discipline. Moreover, it would avoid discussion about longer term trends in inflation. There are, however, disadvantages in that it does nothing to encourage the B.B.C. to plan ahead realistically and economically: on the contrary it positively encourages the Corporation to spend on programmes, to ignore the needs of capital expenditure which has been neglected in the past, and to borrow up to the hilt in the hope of - and indeed in order to justify - a better increase next time. Although a fee increase designed to last for one year would of course be smaller than one designed to last for, say, three, it is curious that, because of the special characteristics of the system, it would not be much smaller. It would be likely to

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attract the same level of criticism from the public and more criticism from the B.B.C., which is campaigning actively for a three year increase. And the same issues would arise again in a year's time.

I have, therefore, been looking very carefully at the case for an increase designed to last about three years. Properly handled this would encourage sensible forward planning and financial discipline. It would be essential to secure that the surplus which the increase would generate in the first year was put to one side to finance the deficit in the last year. Another major advantage of a three year increase is that it would take us past the next general election. It would also, I think take the licence fee out of the public eye for a while and this might sap the momentum of the campaign for concessions.

On balance I am inclined to recommend a three year increase with certain conditions which, this time, we shall need to explore with the B.B.C. in advance. A principal condition would be to limit the total amount of money the B.B.C. could spend in each of the three years. In the first year there would be an expenditure limit which was smaller than the revenue of the licence fee for that year but by the third year the expenditure limit would be greater than the net licence fee revenue; and the difference would be made up by drawing on the reserve which would have been established in the first year. The Corporation should also pay off its deficit on current account during the three year period.

Firm proposals from the B.B.C. for the next fee increase will not be available until July, but the Corporation is lobbying hard for a £50 colour licence fee to last for about three years and appears to be having some success with this campaign, as the recent Debate on the Charter shows. It is said that £50 would enable the B.B.C. to embark on a number of new commitments: in order of priority these are an earlier evening start to B.B.C.2; afternoon programmes on B.B.C.1; extending the B.B.C. until later at night on most weekdays; reducing U.S. imports by expanding home produced drama output; extending V.H.F. coverage on radio and the local radio network from 22 to 38 stations. The B.B.C. will also be looking to the Government to enable it to finance

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the increased hours of Welsh language television (from seven to ten) which have been promised as from autumn 1982. Within a three year period, there could also be preparatory expenditure on D.B.S. services if those were permitted.

The Government does not want to be identified with supporting or blocking particular B.B.C. services but we, like the public, are entitled to have a view about the priority to be attached to taking on new commitments, however desirable, as additions to existing commitments in times when resources are scarce. The costs of any new commitments will therefore need to be identified in the July estimates. All the figures will need to be checked in the light of the July estimates but it is worth noting that present indications are that a colour licence fee of the order of £45 should be sufficient to pay off the existing deficit and allow something like a 10 per cent annual increase in expenditure in cash terms over three years. This should enable existing services to be maintained for three years but few if any additional commitments to be taken on. A one year increase designed simply to maintain existing services would be of the order of £42 for colour.

We should not overlook the fact that the Opposition has returned to the attack about some form of concessionary licence for pensioners and other disadvantaged persons which would undoubtedly have political attractions in the electorate. If this grows, sympathy for it is likely to grow among some of our own members. The numbers involved, however, could be very large and there is no agreement on which classes of persons are deserving of a concession. Any extension of concessions on a wide scale would put strains on the licensing system which it would not be able to bear. Moreover, since it would not be possible to finance major concessions by increasing the fees for other licence holders, the question of government grant to top up would be bound to rise; we could not contemplate this consistently with our aims for reductions in public expenditure. The Home Office is looking with the B.B.C. at the question of payment of the licence by instalments but I am very encouraged by the success of the television savings stamp scheme which is much more flexible and more attractive, and which seems to be attracting a great deal of support. Nearly £100 million a year is collected in savings

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stamps (nearly 20 per cent of the licence income) and the proportion is growing. I believe that this is all that can be done to alleviate the burden on the less well off. We should do all we can to publicise the existence of this scheme and to encourage even more use of it.

Finally, we all know from experience that the B.B.C.'s ability to campaign in its own interest should not be underestimated. When we are clear what our general approach should be, we shall need to go public on it. I am already putting in hand work to counter some of the more exaggerated claims now being put round by the B.B.C. of what will happen if it does not get £50. But even so they would bitterly and vociferously object to a proposal of £45 and would I fear carry with them the support of a good number of our M.P.'s and certainly a section of public and press opinion.

I am copying this minute to the Chancellor.

hills.

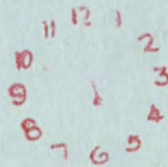
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