



Prime Minister (2)

ms 8/2

QUEEN ANNE'S GATE LONDON SW1H 9AT

7 February 1983

Dear Leon

BBC EXTERNAL SERVICES PAY

I have read with interest Francis Pym's minute to you of 4 February.

I endorse all he says about the effectiveness of the BBC lobby, and it seems to me important that we avoid if at all possible an annual Parliamentary row over the financing of the External Services. I do hope therefore that you will feel able to accommodate his proposals within Treasury policy.

Copies of this letter go to the Prime Minister, the Foreign Secretary and the Defence Secretary.

*M
Pym
L/M*

mt

Broadcasting : July 79 : TV licences

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RESTRICTED

Mr. Llewellyn to see

Mr 7/2

of the Broadcasting

Prime Minister

(2)

Ms 4/2

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FCS/83/24

CHIEF SECRETARY, TREASURY

BBC External Services' Pay

1. During our bilaterals on the Public Expenditure Survey we agreed that officials should again try to find a solution to the problem arising from the subjection of the BBC External Services to cash limits whilst being obliged to pay the same salary rates as the much larger BBC Home Services, who are not so bound. I attach a paper which my officials prepared and which has been discussed with Treasury and Home Office officials. We are agreed on the factual background but not on the conclusions.
2. I am most reluctant to continue as at present, ie arguing about a pay shortfall each year. In our recent talks with the BBC they have left us in no doubt that they set great store by the successful resolution of this problem which they expect to be with us for some time to come. They are looking for an early response and I judge will not let matters rest if they are told that the Government can offer no long-term solution. If that is our answer, we are likely to face a strong campaign inside and outside Parliament with the threat that without some assurance of further resources they will have to make substantial cuts in the External Services. We know from past experience the effectiveness of the BBC lobby in Parliament and with public opinion. I do not see how it can be in our interest to become embroiled in such a wrangle at this time. We must avoid another parliamentary row over the External Services this session.

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RESTRICTED



3. This is essentially a political problem for the Government as a whole and we are in an impossible position. The FCO have no control over the BBC's pay; nor do I have provision elsewhere in my programmes to finance any excess awards. We have to recognise that the Corporation is something unique, with part of its activities subject to cash limits and part not. The BBC's pay is settled in a competitive industry against trends in the independent sector and developments such as cable and DBS will add to the demand for trained broadcasters and technicians. I believe we should rely on the overall limit on the BBC's expenditure inherent in the constraints of the licence fee income. I very much hope therefore that you will feel able to have a further look at this and consider whether we could not agree to something on the lines of paragraph 8(b) of the attached paper.

4. I am sending copies of this minute to the Prime Minister, the Home Secretary and the Defence Secretary.

A handwritten signature in dark ink, appearing to be 'FP', is located to the right of the typed name.

(FRANCIS PYM)

Foreign and Commonwealth Office
4 February 1983



LONG TERM FINANCING OF BBC EXTERNAL SERVICES

1. The House of Commons Foreign Affairs Committee have drawn attention in paragraph 14 of their Third Report on the FCO Estimates of 19 July (HC 406) to a problem concerning the method of financing the BBC External Services:

'The pay scales used by External Services are those of the BBC as a whole, which are fixed without reference to cash limits, and External Services have little or no say in determining them; yet the funds made available by the FCO to pay staff are fixed by the Government's overall cash limit restrictions. Cutting down staff numbers, and so cutting services to provide additional money, is not a step we consider to be sensible. The FCO recognises that there is a difficulty and the matter is still being dealt with.'

2. Officials from Treasury, Home Office and FCO have considered this difficulty. The situation is unique. The external Services of the BBC is the only publicly financed organisation subject to cash limits in which the pay of all staff is directly linked with the pay scale of an outside organisation not subject to cash limits. The BBC is an indivisible entity as regards staff, with complete inter-changeability and the same unions. The FCO grant-in-aid of the External Services of approximately

/ £70 m.



£70 million per annum amounts to no more than 9% of the BBC's total annual income which is derived largely from the TV Licence fee. Of total BBC staff, only 11% work for the External Services.

3. In both 1981/82 and 1982/83 the basic pay increase accorded to BBC staff (8¹/₂% and 6¹/₂%) exceeded the Government's pay factors (6% and 4%). Changes in hours worked, holidays etc meant that the External Services' pay bill increased by 12% and 9% respectively. The External Services managed with great difficulty to absorb the short-fall in 1981/82. For 1982/83 special arrangements have been agreed whereby their expected shortfall of £3 million will be met mainly by savings elsewhere on FCO Votes and partly from unexpected 'windfalls' such as cancellation of a satellite feed installation in Singapore. Provision for a similar amount, recosted at £3.2m has been included in 1983/84 and the remaining years of the PES period; but such a sum will be inadequate if, as is probable, the BBC's pay continues to increase faster than the Government's cash limits pay factor.

4. The same situation seems bound to recur in the future, particularly in the light of next year's 3¹/₂% cash limit on pay. BBC pay awards relate more closely to those in the television industry than to those of the Civil Service.

/There



There is now no margin in the grant-in-aid for such a contingency and usable savings from FCO Votes are not expected to materialise in 1983/84 and beyond. Unless there is a supplement from external sources, the shortfall could only be accommodated therefore by making reductions in broadcasting hours. That would provoke strong Parliamentary criticisms and frustrate the Government's aim of maintaining the present level of language services.

5. Officials have invited comments from the BBC who made the following proposal:

'The immediate problem facing the External Services is the fact that its pay levels are determined by the Corporation as a whole, but the finance is determined by Treasury limits. Separation of the grant into two components would allow the pay portion to be funded to the extent required by Corporation policy (which is ultimately determined by HMG at one remove through the constraints imposed by the licence settlement). The 'other elements' position would be subject to the normal cash limits.

6. Officials have considered whether there could be a case for acknowledging that constraints on External Services' pay should derive only from the licence settlement and not from

/cash limits



cash limits. The revenue which the BBC obtains from the licence fee does impose some limit on the amount it can pay its employees, whether in the Home or the External Services. Excessive awards can only be at the expense of non-pay expenditure such as broadcasting equipment and programme costs.

7. Officials have considered other methods of financing the External Services but have found none which are satisfactory. It would theoretically be possible to index the rate of increase of the grant-in-aid in step with the rate of increase of the TV licence fee; but that would not provide a predictable amount in the light of which the FCO could prescribe hours of language broadcasts on an assured basis. (Moreover, in some years it might increase the grant-in-aid more than is needed.) Nor would the problem be eased if the grant-in-aid were returned to the Home Office Vote.

8. Officials believe there are only two practicable options:

- a) to continue as at present. This would mean that around May of each year when the BBC's salary award was known the External Services would ask the FCO to finance the gap between that award and the Government's pay factor in the financial year just beginning. Since the

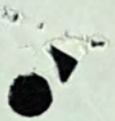
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FCO cannot again be expected to find savings elsewhere, the Government would then have to decide whether to provide ad hoc finance to meet the gap in the shape of new money or to require a reduction in language services with the inevitable Parliamentary and foreign policy consequences.

- b) To adopt the suggestion in paragraph 5 above but with some added form of control to ensure against abuse. This could be done through the Comptroller and Auditor-General, who is about to exercise his right to enquire into the External Services' finance, and by a thorough management review of the External Services by an independent firm of consultants.

9. Officials consider that an exemption as in (b) (for pay only) would be appropriate and defensible in the special circumstances of the External Services: the alternative of annual disputes about cuts in services would be politically unacceptable.



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Mr Fletcher

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To see

ms 4/2

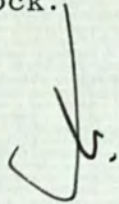
MR SCHOLAR

cc Mr Mount
Mr Walters
Mr Ingham

BBC EXTERNAL SERVICES' PAY

It is not necessary to reach a judgement about the importance of the BBC's External Services to decide what should be done about their pay. In each of the last two years they have by the FCO's own admission got away with excessive pay increases, and in the BBC as in any other organisation both management and workforce must learn the hard way that money for pay comes out of the total budget, not thin air. The fact that the External Services are linked to the non-cash-limited BBC pay scales is neither here nor there, because the major part of the problem seems to have arisen from the way in which the External Services have regularly done better than the rest of the BBC (paragraph 3). Anyway the BBC's External and Ordinary Services are different in nature, purpose and funding and I see no reason why the link should be immutable.

But I do not think the Prime Minister need intervene in this correspondence until the Chief Secretary and Mr Pym have reached deadlock.



4 February 1983

CONFIDENTIAL

Broadcasting of JV



QUEEN ANNE'S GATE LONDON SW1H 9AT

Prime Minister

(2)

MUS 5/4

3 April 1982

Dear Jeffrey

B.B.C. PAY

The Home Secretary seems
to have no plans for
calling in the Chairman.
MUS

Thank you for your letter of 30th March.

The B.B.C. pay offer is for a six and a half per cent increase in basic pay; for an increase of £100 on London Weighting (currently £230); and for a reduction from October in the hours of weekly paid staff (about 5000) from 45 hours to 42 hours to bring them into line with monthly paid staff. This reduction in hours is conditional on satisfactory arrangements being made for the absorption of the costs. The B.B.C. estimate that the total cost of the offer for 1982-83 would be about 7.3 per cent on the pay bill.

The B.B.C. are keenly aware - not least because I have told them so in no uncertain terms - that they have got to live within the revenue produced by the new level of the television licence fees until the end of the 1984-85 financial year. In fact, at a meeting with the unions in February the B.B.C. emphasised that phasing and control of expenditure was absolutely critical if the Corporation was to adhere to the requirement placed upon it by the Government to live within its revenue over the three and a third year period of the new licence fees.

Copies of this letter go to the recipients of copies of yours.

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The Rt. Hon. Sir Geoffrey Howe Q.C. M.P.