



They cannot go on increasing pay like this over and over again and inefficient operation.
CONFEIDENTIAL
 Prime Minister SS


FCS/83/153
 CHIEF SECRETARY TO THE TREASURY

The Foreign Secretary sees no alternative to increasing the grant in aid to the BBC's external services by £10.5m to meet the costs of the BBC's pay increase, but proposes that the BBC should be asked to retain consultants to review the management and finances of the External Services as a condition of this extra grant.

1. The Chancellor and I agreed last week that an exception should be made for the BBC External Services from bearing the full effect of the reduction in their cash limit for 1983/4. We recognised that to have done otherwise would have run the risk of public and Parliamentary outcry which could have been damaging to the Government's interests. I regret that we now face a problem over BBC External Services' pay where I believe similar considerations apply.

2. The FCO grant-in-aid to the External Services is increased annually by the inflation factors determined by the Government. But the External Services' pay bill has been rising faster than the inflation factor, since its size depends on the pay scales decided by negotiations between the BBC as a whole and the TV and broadcasting unions. There is thus a gap, which this year will be some £1.5m and which will be carried forward into future years.

3. You will recall that the cut of £0.5m in the External Service's cash limits is to be found mainly from savings in capital expenditure. There is no further scope for savings of the order of magnitude of £1.5m without reducing broadcasting time. We consider that broadcasting hours are already at the minimum acceptable level and that any further reduction would lead to a significant loss of overseas listenership to the BBC's competitors. More to the point, we would certainly face major political difficulties.

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4. The House of Commons Foreign Affairs Committee have suggested that a long-term solution to this problem should be found. Our officials have considered the question carefully but could find no solution acceptable to all. There is clearly no easy way of getting round the problem and it may be that we shall have to continue to deal with it on an ad hoc basis.
5. I believe that in 1983/4 the shortfall should be met from the Central Contingency Reserve with the same sum being built into PES provisions for future years as happened in 1982. BBC pay is a factor over which neither I nor any other Minister has so far secured any effective control; the maintenance of the present level of the External Services is a matter of general Government concern; and it is simply not possible for any shortfalls to be met by other activities funded by FCO.
6. So far we have none of us been able to find anything firmer than the overall constraint of licence fee income to set limits to the BBC's wages bill.
7. We need to look for some additional weapon. I believe it would be desirable to have a full and independent scrutiny of the management and finances of the External Services. I presume the use of the Comptroller and Auditor-General would be excluded given the Government's policy on the extension of his remit. And the BBC successfully resisted an attempt by him last year to examine their affairs. A possible alternative would be a firm of management consultants, which the BBC came close to accepting once before. I should like to make such a review a condition of providing extra funds for the pay award.



8. If you would like to hold a meeting on this I would be ready to attend. If so, I believe that it would be helpful if the Home Secretary were also to be present.

9. I am copying this letter to the Prime Minister, the Home Secretary and, because of his interest in the BBC Monitoring Service, to the Defence Secretary as well.

A handwritten signature in dark ink, appearing to be 'J.M.' or similar, written in a cursive style.

Foreign and Commonwealth Office
1 August 1983