



LEC NO

Prime Minister (4)

MS 22/9

FCS/83/179CHIEF SECRETARY, HM TREASURYBBC External Services: The Pay Problem

1. Thank you for your letter of 10 August about the BBC External Services' pay problem. I have also seen the letter of 12 August from the Private Secretary at No 10.
2. I well understand your views on the need for the External Services to be subject to cash limits just like any other recipient of public money. I also have much sympathy with what you say about the BBC's current healthy position and the situation the Government finds itself in because of the present bar on cross-subsidisation from the Home to the External Services. It seems to me that it is only in the latter area that there may be some hope of finding a long-term solution.
3. There is of course the immediate problem to tackle first. Because of the 1983 pay settlement the BBC will be overspent by £1.5 million in the current year. But I hope you will accept that it would be quite unreasonable to expect the FCO Vote to meet the External Services' pay shortfall, this year or in the future. As in previous years, it is quite beyond our control and no money is or has been available to meet it. And I have no doubt that it is politically impossible to seek to impose broadcasting cuts on the External Services to make up for the pay shortfall - and, indeed, I believe such cuts would be against our national interests. This year at least, therefore, I see no alternative to the Central

/Contingency



Contingency Reserve bearing the £1.5 million shortfall. (I understand that the £0.5 million slippage from the Bush House modernisation scheme is still needed for urgent safety work at Caversham.)

4. The £1.5 million shortfall will recur next year and in subsequent years unless the BBC's cash limit is increased to take account of it. For this reason we have included an additional sum equivalent to the 1983 shortfall in our PESC forecast for 1984/85 onwards. I hope we shall be able to agree on the need for this when we discuss PES on 23 September.

5. Meanwhile I have looked again at the various solutions which have been considered to the longer-term problem, but found each of them lacking. I believe that the best way round it may lie in an arrangement on the following lines.

6. The size of the broadcasting licence fee will be due for review towards the end of next year. This might be a good moment to put to the BBC the thought that in the interests both of the indivisibility of the Corporation and of their international reputation, they might be willing to make up any pay shortfall in the External Services in 1984 and in subsequent years from licence fee income. We would propose to the BBC that if they were to agree to take on this commitment any additional burden which it might impose on their finances would be taken into account in striking the balance between the new licence fee and their likely costs, including the consequence of their own pay-bargaining. I am not suggesting that there should be any change in the relationship between the External Services and the FCO, who would continue to administer the grant-in-aid and to decide the prescription; but this arrangement would, of course, add a new element to the understanding that exists between the BBC and the Home Office, which has hitherto precluded cross-subsidisation.



7. I am of course aware of the likely objections to diverting part of the licence fees to pay for services for which they were not collected and Leon Brittan will have views on this. However, I think that it would be useful, as a first step, for officials from our three Ministries to meet to examine the ways in which this suggestion might be developed, and in particular to see whether such an arrangement could be achieved within the terms of the present Charter and Licence Agreement. I would not put it forward if it were not clear that, in the absence of some such device, this problem will continue to give us all headaches.

8. I am copying this to the Prime Minister, the Home Secretary and the Defence Secretary.

GEOFFREY HOWE

Foreign and Commonwealth Office
22 September 1983

Broadcasting July 79
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