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PRIME MINISTER

13 March 1985

BBC LICENCE FEE

Very very crudely over three years a £1 reduction in the licence can be achieved by:

1. Reducing expenditure by £50 million
- or 2. Reducing inflation by 1% pa
- or 3. Increasing overall productivity by 1% pa

Thus the Home Secretary's £59 licence required to maintain existing services assuming 8.4% inflation would:

- a. reduce to just under £56 if 5% inflation were used
- b. further reduce to £52 if capital expenditure were limited to replacement of worn out and obsolete equipment ie £190 million instead of £395 million
- c. would remain at £52 if all the further £167 million on new and improved services was spent and productivity were nearer 5% pa (close to UK production sector average of last 3 years). Alternatively have more capital expenditure and less enhanced services.

But these calculations assume that the underlying BBC figures are correct (which is not wholly true) and that its existing level of spending is on the right things and gives value for money.

Peat Marwick report that the BBC lack even rudimentary commercial management discipline. Appendix A of the Home Secretary's note lists their more important findings. The

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report also identified that the BBC were paying 30% more than necessary on office cleaning and security, that they had lost £12½ million on foreign currencies through failing to adopt recommendations by Barclays Bank, and that their Langham site development plans would house 250 more staff than required.

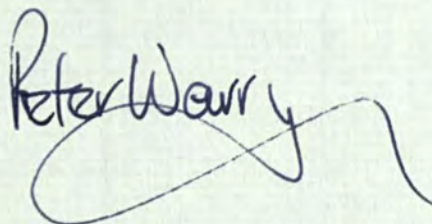
Further savings could be made if the BBC withdrew from local radio, breakfast TV and Direct Broadcasting by Satellite and concentrated more on true public service broadcasting.

Conclusion

Uplifting the present £46 licence by inflation over the last three years would yield a £55 licence. With 5% inflation the BBC could maintain its existing service and capital spending on a £56 licence. Therefore if they are to be left any scope for improvement £55 should be the maximum three year licence. £52 should be the minimum and would permit them to limp along with no modernisation or enhancement.

If a 3 year licence increase is granted then the propaganda war for the next licence is likely to start in mid-1987. The battle on a two year licence would start in mid-1986 which would conveniently follow on from the result of the financing review. This is probably the better option.

A two year licence equates to a little over a pound less than an equivalent three year one. We therefore recommend a £53 licence to last for two years but conditional on active implementation of the Peat Marwick recommendations.



PETER WARRY

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