

CC TV
Press
Questions

APPOINTMENTS - IN CONFIDENCE



HOME OFFICE
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LONDON SW1H 9AT

21 March 1985

Dear Counsel,

Prime Minister

BBC LICENCE FEE

11/11/85
Lor J.

Agree the terms of
this statement?

Following the Prime Minister's meeting about the licence fee on 22/3
... Thursday last, I now attach a draft of the statement the Home
Secretary proposes announcing the decision on Wednesday, 27 March.

The Home Secretary believes that the passage in square brackets
meets Ministers' concern to ensure that the BBC acts on the Peats
Report. The Chairman of the BBC Board of Governors has agreed to
this being said.

As you will see, the Home Secretary proposes to indicate in general
terms some of the considerations which led to the settlement. This
goes somewhat further than similar announcements in the past and
the Home Secretary considers it important that the Government should
not respond in any greater detail to the inevitable requests for
further elucidation - for example about the inflation assumption
on which this settlement was made.

You will also see that we intend to announce that Professor Alan
Peacock will chair the review. The Home Secretary saw Professor
Peacock yesterday and he indicated his willingness to undertake
this task. The Home Secretary is considering, in consultation
with Professor Peacock, the membership of the review, and a further
announcement on this will be made in due course.

I am sending a copy of this letter to Tim Flesher (No 10) and
Richard Hatfield (Cabinet Office).

Yours ever,
H H TAYLOR
H H TAYLOR

DRAFT STATEMENT

With permission Mr Speaker, I shall make a statement about the financing of the BBC. In December 1981 the BBC were granted increases in the colour television licence fee to £46 and the black and white licence to £15 and required to live within the income thus generated for the period ending on 31 March this year. This they have done. The result of the way their expenditure was, as planned, phased over this period is that the cost of their service in the current year equates to a £51 licence fee. As the House knows the Corporation applied last year for an increase in the colour licence to £65 and in the black and white licence to £18 to last for a further three years.

This application has stimulated renewed discussion about the possibility and desirability of some or all of the BBC's services being financed through advertising or by other means than the licence fee. On the one hand it is suggested that at least a proportion of the BBC's services are of a character which would not be materially affected if they were financed in whole or in part by advertising. On the other hand, it is said that the impact on advertising is bound to lead to a lowering of standards, and that if advertising were introduced in one area the pressure for it to be extended to all BBC services would be irresistible and damaging. In considering these issues, however, it is essential not just to consider the impact on the BBC of any change in its methods of financing. It is also necessary to take account of the impact of any such change on independent broadcasting and on other media supported by advertising revenue and also on the Exchequer.

The issues raised are complex. In my view, they require more detailed, careful and above all comprehensive analysis than they have so far received before any conclusions can be reached. I am therefore appointing a Committee to review all of these matters and I am glad to announce that Professor Alan Peacock, Chief Economic Adviser to the Departments of Industry and Trade from 1973 to 1976 and more recently Vice-Chancellor of the University of Buckingham, has agreed to chair it. I hope to announce the other members of the Committee before long. The review will be required to assess the effects of the introduction of advertising or sponsorship on the BBC's Home Services either as an alternative or a supplement to the income now received through the licence fee and to identify a range of options with an indication of their advantages and disadvantages. One of the central questions for the Committee is the possible impact the introduction of advertising would have on the character and quality of all broadcast services. It will also consider the scope for the BBC to obtain additional revenue from the consumer other than through the licence fee. I am circulating a copy of the full terms of reference in the Official Report, and copies are also available in the Vote Office.

I must stress that the appointment of the Committee does not in any way imply that the Government has decided to make changes in the present arrangements, still less changes of any particular character. Nonetheless the appointment of the Committee does mean that options for changes will have to be considered in the light of its report. I cannot of course commit the Committee to a precise timescale, but I hope it will have completed its work by the summer of next year, after which its conclusions will have to be carefully considered. I have therefore decided that the

present licence fee settlement should be for a period of 2 years with the intention that any possible changes in the system of financing broadcasting should be considered in the light of the Committee's report before the licence fee falls to be further renewed. But if decisions cannot be made in the light of the report within 2 years, or it is decided there should be no change to the system, this settlement will run for a third year with the licence fee continuing at the rates I am announcing today. The BBC should therefore plan its expenditure for the next 3 years on the basis that it must for that period live within the income equivalent to that generated by fees at the level announced today.

As to the level of the fee, my task has, as always, been to balance the interests of the licence fee payer with the needs of the BBC while ensuring that the Corporation's Home Services are adequately funded.

I first have to take into account the present cost of operating the BBC's services. The settlement in 1981 provided the BBC with an income at the rate of £46 per colour licence until the end of March 1985. Taking account of inflation, it was clearly understood at the time that the effect of this was that the BBC would be spending at less than the rate of £46 per licence at the beginning and more at the end of the period. Currently services are being provided at a cost of approximately £51 per colour licence.

But I also have to consider whether and to what extent it would be reasonable to expect the present ⁷services to be provided more efficiently and therefore more cheaply than at present. As against

that I have to decide what allowance I have to make for increases in the cost of providing the present services over the period of the settlement.

Finally I have to consider the extent to which it is appropriate to allow for the provision of improved and enhanced services by the BBC. I have to take account not only of the merit of the BBC's proposals, but also of the extent to which licence payers as a whole can reasonably be expected to afford them.

In accordance with previous practice I do not propose to give a detailed account of the way in which I have balanced these various factors and it will be for the Corporation to decide how to use the money available to it. I can say, however, that I have adopted a more stringent attitude than did the BBC to the likely increase in their costs from inflation. Moreover, any Corporation which is financed through a compulsory levy on the viewer must demonstrate its efficiency. The BBC has a useful programme of activity reviews and is I know firmly committed to the principle of achieving value for money. I believe, however, that the BBC could and must achieve greater productivity than it has done in the past or has so far planned for the future. Moreover, in the light of the report from Peat Marwick and Mitchell commissioned by the BBC with my agreement and subsequently published, I believe there is also scope for the BBC to achieve greater efficiency through improved management procedures and strengthened management attitudes. [I am pleased that the BBC has already produced an Action Plan to implement all but two of the specific recommendations in the Peat Marwick Report by the end of 1985/6, with three quarters of them being

implemented within the next 6 months. The Governors will also be calling for reports every 6 months not only on the implementation of these specific recommendations and the continuous programme of activity reviews but also on the management training programme and other steps designed to ensure that the change in emphasis in management style and approach sought by Peats is being achieved.]

Taking into account the various factors that I have mentioned, my aim in the new settlement is to enable the BBC to maintain its present level and range of services. But the ability of the BBC to improve or extend its services will depend very largely on its ability to achieve the improvements in efficiency that I have referred to. I have accordingly decided to increase the fee for a colour television from £46 to £ and for a monochrome licence from £15 to £

I have laid the necessary regulations which bring the new fees into effect at midnight tonight.

Finally I recognise that the licence fee represents a substantial sum for many people, but particularly so when it is seen as an annual payment. There are now a number of schemes to enable those who wish to do so to spread the cost in advance over the year. In addition to the television savings stamp scheme it is possible for people to pay towards their next licence by instalments through a direct debit from their bank account or by cash instalments over post office counters. Payments may also be made by credit card. But I am conscious that far too few people pay for their licences in any of these ways compared with the number who would find the

licence fee easier to pay if they did so. I shall therefore be urgently examining with the BBC and the Post Office whether any improvements can be made in these arrangements and whether any new arrangements can be made to help people to pay the licence fee without greatly increasing costs of administration or imposing extra burdens on the tax payer.

I appreciate that the review I have announced will lead to a period of inevitable uncertainty, not only for the BBC but for the other media, in particular independent broadcasting. But our broadcasting system has inevitably had to develop over the years, and there is nothing new in the fact that it is facing at least the possibility of change now. What will not change is the Government's commitment to broadcasting services which achieve the highest standards, in quality, popularity and diversity of consumer choice.