



Prime Minister

I am puzzled to know why Gas, Electricity
and Water (and rates)

QUEEN ANNE'S GATE LONDON SW1H 9AT

can be paid monthly

with no extra charge,

whereas this is not proposed for the

licence fee. Agree to enquire?

1 May 1987

Dear Chancellor

DLW

11/5.

at floor PT3

Yes

no

TV LICENCES: PAY-AS-YOU-GO

In my statement on 14 January confirming our decision to index the television licence fee to the RPI I also said that both we and the BBC saw attractions in arrangements under which licences could be issued on a pay-as-you-go basis and would jointly be considering how they could be put into practice. Our officials have since identified arrangements which, with investment in new direct debit systems at the National TV Licence Records Office capable of the automated handling of large volumes of direct debit payments, could be put into effect in 1988-89. We estimate that pay-as-you-go would prove attractive to enough licence payers to produce significant savings in the cost of running the licensing system after three years.

I understand that the main stumbling block, as your officials see it, is that the more popular pay-as-you-go proves, the greater the interruption of the BBC's cash flow. This could only be covered by additional borrowing, which would count towards the PSBR. We think that borrowing of up to £170 million might be needed. This assumes a maximum take-up of 50% over three years, and that pay-as-you-go licences carry a premium sufficient to meet the interest cost to the BBC of the borrowing needed and to repay the principal within a ten year period (about £4.50 at current interest rates). Licence holders would, of course, retain the option of obtaining licences by paying the standard fee in full in advance, as at present.

The BBC are willing to borrow on this basis, on the condition that that borrowing was additional to the present limit of £75 million (£100 million with my consent) contained in their Charter, which they see as necessary to cover their broadcasting requirements and associated contingencies.

Pay-as-you-go would therefore entail an amendment to the Charter. It would also require amendment of the regulations made under the Wireless Telegraphy Act 1949 which govern the licence fee and its payment.

I hope that you would feel able to agree to the proposal that the BBC's borrowing limits should be extended in this way. The potential benefits are substantial. We know that many people find the licence fee difficult to pay in one lump sum, and are not attracted to the existing schemes for spreading the cost, all of which require payment in advance and hence sacrifice of interest. The more successful we are in promoting wider share ownership and educating the public to appreciate value for money the harder it will be to overcome this problem. There should be two effects on

licence fee evasion (which costs up to £100 million a year in lost revenue). First, pay-as-you-go is the only system which offers any realistic prospect of attracting people now without licences. Second, the pay-as-you-go facility would be available only to those paying by direct debit. It is well established that automated payments systems are less prone to evasion than arrangements under which people have to undertake period payment action. Our research shows that many people who evade payment do so not for reasons of financial hardship but through lack of financial organisation or after moving house and so getting one step ahead of the licence records system. Direct debit will deal with both these categories.

We are of course awaiting advice from our consultants on the feasibility of subscription replacing the licence fee as a means of financing the BBC. But it seems clear that pay-as-you-go would rectify one of the faults of the present system which the public most resents (and to which Peacock drew attention) and prepare the ground for any decision to move towards subscription, anticipating the cash flow problems that that change would entail and reducing the administrative cost.

I hope that the PSBR effect need not prevent early progress: we could introduce pay-as-you-go in the next financial year. Additional borrowing by the BBC would of course be one-off, and the borrowing limit could be adjusted downwards as the loan was repaid.

There are a number of points of detail which officials still need to resolve, but I should welcome your agreement in principle to extending the BBC's borrowing limits in the way proposed.

I am copying this letter to the Prime Minister, to other members of MISC 128 and to Sir Robert Armstrong.

Yours sincerely

William Liddle

*(Approved by the Home Secretary
and signed in his absence.)*



Broadcasting Licence Fees PT4