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QUEEN ANNE'S GATE LONDON SW1H 9AT

22 October 1987

Prime Minister ² cc BA

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Dear Nigel,

TELEVISION LICENCE FEE INCREASES

On 14 January this year, I announced that the television licence fees would remain at their present level until April 1988, and would then be revised annually in line with the movement in the RPI over the 12 months to the preceding September starting from notional baselines of £60 for the colour licence and £20 for the monochrome licence. This was, of course, in accordance with the decisions we had taken in MISC 128.

The September RPI, announced on 9 October, showed a year on year increase of 4.2%. Applying this to the above baselines would produce precisely indexed fees of £62.52 (colour) and £20.84 (monochrome); but for consumer convenience and for economy of administration a degree of rounding is clearly sensible. Rounding to the nearest pound would affect the BBC's annual revenue by too much (up to £8 million) and would introduce too great an arbitrary element into the indexation formula. Rounding to the nearest 50 pence - as your officials have suggested - strikes a better balance. Certainly on this occasion there is virtually no difference in terms of the BBC's revenue between the precisely indexed fees, and rounded fees of £62.50 and £21. I would not, however, wish to commit us now to a hard and fast rule to round to the nearest 50 pence in all future years.

I therefore propose to announce that the fees from 1 April 1988 will be £62.50 and £21.00 by way of Written Reply to an Arranged Parliamentary Question, on the same date as the annual pension and social security upratings are announced by John Moore. I understand this will probably be on 27 October. I enclose for your information and that of colleagues with an interest the draft of that announcement.

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

Yours
Doyl

The Rt Hon Nigel Lawson, MP.

DRAFT PQ

INCREASES IN TELEVISION LICENCE FEES

DRAFT ARRANGED PQ FOR ANSWER ON (?) * TUESDAY 27 OCTOBER

*To be confirmed with T2 Division

To ask the Secretary of State for the Home Department whether he is yet able to announce the level of the television licence fees to take effect from 1 April 1988, and whether he will make a statement.

DRAFT REPLY

The television licence fee has remained at £58.00 for a colour licence and £18.00 for a monochrome licence since 28 March 1985. On 14 January this year I announced that the fee would be increased only in line with the increase in Retail Price Index. I also said that the increase would be calculated from a notional baseline fee of £60.00 for a colour licence and £20.00 for a monochrome licence (Hansard Vol 128, No 30, Col 263).

The principle of indexation and the choice of the baseline were both designed to encourage increased efficiency and economy by the BBC. Its costs had historically risen at a higher rate than the RPI and it was then planning to spend money on the provision of television and radio services in the present financial year at a rate higher than that represented by the baseline fee.

The RPI figure for September published on 9 October showed a year on year increase of 4.2%. I have accordingly decided that from 1 April 1988 the colour licence fee should be £62.50 and the monochrome fee £21.00. The necessary regulations will be laid before the House in due course.

As I have already announced, the licence fee for the two years starting 1 April 1989 and 1 April 1990 will also be calculated in

accordance with changes in the RPI which themselves determine the rate of increase of pensions and other state benefits.



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