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10 DOWNING STREET

*From the Private Secretary*

9 July 1979

The Prime Minister has seen the Home Secretary's minute of 6 July to the Chancellor of the Exchequer about television licensing fees. You should be aware of her preliminary view - which is that it would be better, for the sake of minimising the RPI effect this year, to have a licensing increase designed to last for only one year rather than two. In any case, she hopes that the relative effect on the RPI of an increase designed to last for one year or two years should be carefully considered before a decision is taken.

I am sending a copy of this letter to Tony Battishill (H.M. Treasury) and Martin Vile (Cabinet Office).

**T. P. LANKESTER**

John Chilcot, Esq.,  
Home Office.

SECRET



*It is important  
to try to keep down  
the RPI this year  
could be not to have  
a large increase for  
Mr Hodgson*

*Prime Minute*

CHANCELLOR OF THE EXCHEQUER

TELEVISION LICENCE FEES

The Home Secretary is proposing to increase TV licence fees - either £7 in July or £8 in September. But this is intended to last 2 years. In view of inflationary trend, it might be better to have a smaller increase to last for 1 year.

The purpose of this minute is to seek your views on the timing and size of increases in the television licence fees.

2. The BBC's licence fees were increased last November to £25 for colour and £10 for monochrome to last for about a year. Following the unexpectedly large CAC award to BBC staff, in January the BBC told the Government that it expected to reach the limit of its borrowing powers (then £30 million) in the spring rather than at the end of the year. Understandably, the last Government postponed the basic issue. They increased the BBC's borrowing powers to £75 million (and up to £100 million with the Home Secretary's agreement) in the Supplemental Charter which took effect in April. At the end of March the BBC was some £23 million in deficit; its deficit is currently increasing by some £4 million a month and will be around £50 million at the end of November.

6/7

3. While in Opposition, I made clear my view that adherence to the licensing system imposed on the Government the duty to fix licence fees at such a level and for such a period as to allow the BBC proper scope for its strategic planning in face of competition - competition which will be increased as a result of our decision that the IBA should supervise the fourth television channel and with the expected increase in the number of independent local radio stations. As your officials know, the Home Office has been working on a new structure for the BBC's Forward Planning which would involve separating the negotiation of expenditure figures (for which provisional planning figures would be settled in real terms for a period of four to five years ahead, somewhat on the lines as is done for university expenditure now), from the discussion of the revenue (and so of necessary fee increases) required to meet them from time to time. These discussions are making good progress. Meanwhile, I am clear that this time it is politically necessary to have fee increases designed to last for at least two years, and which are sufficient not only to cover the cost of BBC expenditure without recourse to borrowing, but also to repay the bulk of the existing borrowings in the course of the two year period. It so happens that fee increases which are sufficient to run for two years and to repay borrowings within that period are likely to cover part or all of a third year as well.

4. In May I invited the BBC to make a comprehensive case relating to its Forward Expenditure Plans. I made it clear to the Corporation that it needed to justify not only the figures it put forward but its general efficiency as well. I expect to receive this material in the course of the next few weeks. On the basis of the information available to me at present (which dates from January this year), however, it is clear that sizeable fee increases

SECRET



would be needed to maintain existing services, to repay borrowings and to allow for likely changes in prices and wages. I estimate that an increase of £7 in the colour licence fee in July (or £8 in September) would be enough to cover a two year period and allow for some small element of growth in real terms (though this, of course, very much depends on the rate of inflation during the next two years). It would cost about £10 on the colour licence if the fee increases were left to November. All these increases would last into a third year. There are political arguments for restricting the increase in the monochrome licence to £1 only.

5. On the last two occasions, the increase has been implemented at midnight on the day of the announcement: I propose to follow the same practice on this occasion. For technical reasons an increase is best made on the last or penultimate Friday of the month. It is not essential for an increase to be announced while the House is sitting, but it could hardly be announced on the day the House rises or the day after it has risen. This means that a July increase would have to be announced on Friday, 20 July.

6. My Department has also been looking into ways of making it easier to pay licence fees, e.g. by credit cards and by instalments. (There is, of course, already the savings stamp scheme which is much used). Their report is expected to be finalised this month and it will take a little time thereafter to decide and introduce agreed new arrangements. I regard it as essential that we should be able to offer something here when we announce the next fee increases.

7. I criticised the last Government strongly for its short-term and irresponsible approach to BBC finance. The fee increases must be large this time. I am anxious that they should be capable of being fully justified to the House and to the public. We also need to leave ourselves flexibility to deal with the situation at the time the fees next come to be raised in 1982 which could be more difficult than it is now. (The need to procure maximum flexibility in 1982 is the major reason for running down borrowings in the intervening period). It is never a good time to raise licence fees, but the effect of our tax cuts and pensions increases will be felt in October/November and there could be advantage in having fee increases as near as possible to these payments. (Households with pensioners account for one third of licence payers and the Labour Party proposed in its Manifesto, as you will recall, to phase out licences for pensioners). Unless, therefore, you feel that there are strong economic and political arguments for a July increase, I should prefer to deal with this in September by when my Department would have examined the BBC's Forward Estimates, and I should be able to make a firm statement about the arrangements for easier payments of the licence fees.

8. I am sending a copy of this minute to the Prime Minister.

*hwlw*

6 July 1979



-6 JUL 1979

