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HL
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SUBJECT



10 DOWNING STREET

From the Private Secretary

6 August 1981

Dear Tom,

BBC Finance

As you know, the Home Secretary and the Chancellor of the Exchequer called on the Prime Minister this morning to discuss BBC finance. They had before them the Home Secretary's minute of 29 June.

The Home Secretary said that he had asked for the meeting, not with a view to reaching a conclusion on the size of the licence fee increases, but so as to obtain a steer from the Prime Minister on the basic approach he should adopt. The key question was whether to go for increases lasting one year or three years. The argument in favour of one year was that this would mean the lowest possible increases. But they would still be substantial, and not much less than for increases lasting three years. The argument in favour of going for three years was, firstly, that it would make it unnecessary to have further increases before the next General Election; and secondly, it would be better for the BBC. On balance, he was inclined to recommend three years. But this would have to be on condition that the total amount of money the BBC could spend in each of the three years would be limited; in the absence of such limits, they would tend to spend too much in the first year. Also, he would try to persuade them that it was in their own best interests to take on consultants to carry out an efficiency audit. It would be better if they were to set up such an audit themselves rather than for the Government to impose it upon them. If the Prime Minister could agree on a three year period, his officials could then get together with Treasury officials and examine the BBC's proposals. He hoped a decision on the level of increases could then be reached quickly. It appeared that, taking the BBC's own assumption of inflation over the three years of 10% a £45 colour licence fee would be sufficient for them to maintain their existing level of services, as well as enabling them to pay off the existing deficit. They were, however, asking for a colour fee of around £50 to enable them to embark upon a number of new commitments. He would instruct his officials to examine the case for each of these very carefully. The Treasury would also of course have a view on the BBC's inflation assumptions.

/ The Chancellor

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The Chancellor said that he agreed that the next increases should last for three years. But, as the Home Secretary had indicated, this should be strictly on condition that the BBC should be limited on their annual spend: in effect, the Home Office and the BBC should agree on annual cash limits. He would find it difficult to accept the BBC's 10% inflation assumption, even though it was the case that a lower assumption would not have much effect on the increases in fee that would be necessary. He was also anxious about the BBC's proposals to extend their services. In several areas, such as the extension of local services, he did not believe this could be justified.

Summing up, the Prime Minister said she agreed that it would be right to go for fee increases to last for three years. Home Office and Treasury officials should proceed, on this basis, to examine the BBC's proposals with a view to reaching an early decision. They would need to look very critically at any proposals from the BBC for extending their services. She had noted that the BBC were seeking additional finance for satellite development. Rather than have the BBC rely entirely on additional licence money for this development, she suggested that your Department should get in touch with the Department of Education and Science and the Department of Industry to see whether any funding might be available from the Science Research Council or from the Department of Industry's Research and Development budget for this purpose.

I am sending a copy of this letter to Peter Jenkins (H.M. Treasury).

m. m.

Tim Lasker.

John Halliday, Esq.,
Home Office.

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From the Private Secretary

- ① M. Dickson ^{HW} _{22/7}
- ② M. ~~at~~ ^{Andrew} _{22/7}

① & 830 Finance
have been reversed
once again on Friday 24th
as the Foreign Secretary is
entertaining the Norwegian
Foreign Minister at
chewing for breakfast
& there wasn't going to
be time for the
Scrambled eggs. So:-

①. 1030 830 Fin:
11.00 ①
approx

21/7

Broadcasting.



RBF for mtg
which Carshin
is arranging

10 DOWNING STREET

July 1, 1987. π

T ✓ π

① Most of B.B.C. with one Wager (?)

Why allow 10% annually for next 3 Years?

②

£42	-£45	-£48
Yr 1	2	3

 fixed 3 YEARS.

would make more sense. If they have a surplus in Year 1 they won't resist pressure, including on Wager, and they will be in trouble in year 3.

Also 7.1% increase Yr 1 - Year 2
6.9% " " 2 - " 3

get right progression.

DW.

BF 6.7.81



Broadcasting

10 DOWNING STREET

~~Contin~~

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Mr arrange

3/4 hour mtg within

next 2 weeks

with Chancellor

Home Sec

Tim.

arranged for Tuesday
7th July at 9.30.

cf. 1/7.

R 30.6.81.

CF Mr Hiller in Lyham
S.D. 1.7. that mtg is 7/7 in case
he wants to brief. R