



*Prime Minister* <sup>G.C. (2) N.O.</sup>  
*Treasury and FCO*  
*still arguing about*  
*BBC External Services Pay*  
*in the current year.*

Treasury Chambers, Parliament Street, SW1P 3AG

*AT*  
*15/11*

Rt Hon Sir Geoffrey Howe QC MP  
 Secretary of State for Foreign Affairs  
 Foreign & Commonwealth Office  
 Downing Street  
 LONDON  
 SW1A 2AL

14 November 1983

*Dear Secy of State*

BBC EXTERNAL SERVICES: THE PAY PROBLEM

I am sorry not to have replied before to your minute of 22 September.

As you know, the totals which we have now agreed for FCO programmes in the Public Expenditure Survey should provide sufficient additional resources to finance the consequential effects of this year's BBC pay award in the Survey years. I trust that when you inform the BBC of this decision you will make it clear to them that this does not imply that the Government will be prepared to underwrite future BBC pay awards in the same way.

*Good*

However, the fact that we have been prepared exceptionally to allow extra provision for the future does not provide any grounds for relaxing the normal discipline of cash limits in the current year. I must make it clear that I am still unable to accept a bid on the central Contingency Reserve.

I do not have much to add to our previous exchange of correspondence on this point. In brief:-

- (a) it is wrong in principle to increase cash limits to fund excessive pay increases. Such pay increases must be financed from administrative savings. As you know, the Prime Minister has commented that the BBC cannot go on increasing pay like this while retaining overmanning and inefficiency;
- (b) the BBC External Services were generously treated at the time of the July cash limit cuts. Their provision was reduced by only £0.5 million instead of the £1.2 million which would have resulted from the application of the formula. You gave no indication when reaching that settlement that you would shortly be coming back with a request for more money;

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(c) I understand that, contrary to expectations in July, the BBC have been able to find the cash limit cut without using the saving of £0.5 million which results from slippage in capital expenditure on the modernisation of Bush House. This £0.5 million is therefore still available, and is clearly a useful contribution to the £1½ million which the BBC need to find.

I suggest that the BBC's expenditure plans for the rest of this financial year should now be rigorously scrutinised to identify what further administrative economies they could make to absorb the rest of the cost of the pay rise within their present cash limit. They must already have been giving some thought to this, since they will have had no reason to assume that extra money would be available, particularly in the light of my earlier letter. I do not think we should readily accept that the only available option is to make damaging cuts in broadcasting services. If it appears that the BBC would have genuine difficulties in finding the whole of the balance themselves, our officials will then have to discuss whether part of the cost can be absorbed on other FCO programmes. I believe it is very important to avoid any impression that we are willing to increase agreed public expenditure totals to fund excessive pay rises.

On your suggestion for dealing with the longer term problem, I note Leon Brittan's point about the terms of the existing Licence and Agreement, but, like him, I agree that it would be useful for our officials to discuss how to proceed.

I am copying this letter to the recipients of yours.

Yours sincerely

J. Gieve

J. PETER REES

[Approved by the Chief Secretary]

Broadway. Frances S. RBC 7/79



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