

Mr Barclay  
for your own information.

Peter Werry  
25/2

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25 February 1985

BBC LICENCE FEE

You asked for a note showing my calculations for a £55 licence. This is given at Appendix 1 and is based entirely upon schedules provided by the BBC with the following adjustments.

1. Expenditures on enhancing the quality of the existing service and on new services have been halved - saving £84 million.
2. Capital expenditure has been cut by 25% - saving £108 million. If replacement of worn out and obsolete equipment is left untouched then this equates to a 45% reduction in 'non-essential' capital expenditure.
3. Efficiency of all operations within the BBC is assumed to increase at 1% per annum (consistent with Peat Marwick report) instead of the 0.3% they have used - saving £35 million.
4. Inflation at the rate of 5% per annum has been applied throughout. The BBC's basic figures are at April 1985 prices and therefore need escalating by  $\frac{1}{2}$ ,  $1\frac{1}{2}$  and  $2\frac{1}{2}$  years' inflation respectively.

The calculation relies upon the accuracy of the BBC's forward projections: this is uncertain as their forecast figures are not matched by any equivalent year by year analysis of historical performance.

More importantly it assumes the BBC's present rate of expenditure is justifiable (vide Peats report), and that all of the current BBC activities are appropriate for it to

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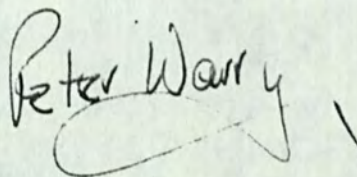
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continue, eg, breakfast TV, local radio, Direct Broadcasting by Satellite. For these reasons, I would suggest £55 is the upper limit for the new licence rather than the correct level.

By way of comparison, escalation of the present £46 licence by inflation over the last three years also gives a £55 licence. Similarly, inflating the April 1985 level of spending, equivalent to a £51 licence, 1½ years to mid-1986/7 prices at 5% p.a. again yields a £55 licence.

Moreover, if the BBC were to achieve overall the same 4.8% p.a. growth in the output/head that the production sector of the economy has achieved over the last three years, (instead of the 1% p.a. I have assumed), then the cuts in service enhancements and capital expenditure could be avoided completely.

Appendix 2 comments on the five major non-financial arguments that the BBC put forward to justify the licence increase.

A handwritten signature in dark ink, reading "Peter Warry". The signature is written in a cursive style with a large, sweeping underline that loops back under the name.

PETER WARRY

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Appendix 1

CALCULATION OF REVISED LICENCE FEE

	<u>85/6</u>	<u>86/7</u>	<u>87/8</u>	<u>Total</u>
Total expenditure April 85 prices (BBC Appendix A)	882.8	911.2	912.2	2706.2
<u>Less</u>				
50% cut in service enhancements (BBC Appendix A, Schedules 1&2)	(19.9)	(28.8)	(34.9)	(83.6)
25% cut in capital expenditure (BBC Appendix A)	(36.6)	(35.8)	(35.3)	(107.7)
	<hr/>			
SUB TOTAL	826.3	846.6	842.0	2514.9
Overall efficiency increased by 1% p.a. instead of 0.3%	820.6	834.9	824.7	2480.2
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5% inflation applied at mid-years	841.1	898.4	931.9	2671.4
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If BBC's original total expenditure of £3136.4 million equates to a £65 licence then the revised expenditure of £2671.4 million equates to a licence of  $\frac{2671.4}{3136.4} \times 65$  ie. £55.4

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Appendix 2

NON-FINANCIAL ARGUMENTS

1. The public 'expects' the BBC to improve both the quality and quantity of its output. But they provide no evidence that the public would be prepared to pay 41% more for this.
2. Cost increases are higher for the BBC than others - BBC inflation over the next three years is set at 8% pa except for artists and sport which are 10-11% pa. Their argument is wholly unconvincing and is not fully supported by Peat Marwick Mitchell.
3. They have made tremendous strides in management effectiveness and productivity. In fact they show they have performed far worse than the economy in general, eg in the ten years to 1983/4, TV output per member of staff has grown by only three minutes/man-year, from 41 to 44, despite more daytime broadcasting and far more foreign productions.
4. That compared to other European countries with the £46 (but not the £65) licence the BBC in total expenditure terms is cheapest. But on actual licence comparisons where the BBC has the double advantage of a large population over which to spread the costs and the universality of the English language, it will be cheaper only than the Scandinavian countries and Austria. The current average licence in Europe weighted by population is £48.
5. To stay abreast of technological developments. But they say this yields only 'occasional gains in productivity' so one must question the competence of their management in approving such investment and their engineers in using it.

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