



10 DOWNING STREET

DE

make.

✓ BG will be
commenting on this

She

19.5.87.

1. ~~DN~~ IS see d/s.

No need for urgent action. I
hold etc tho we would await
colleagues comments before replying.
And BG will also be telling us
how views.

2. CF F of on 27/5. Next



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

19 May 1987

The Rt. Hon. Douglas Hurd MP
Secretary of State for the Home Office

Stan Taylor

DN on return
CMO

TV LICENCES: PAY-AS-YOU-GO

Thank you for your letter of 1 May. I have also seen the Prime Minister's comments recorded in her Private Secretary's letter of 12 May to your Private Secretary.

I am not as convinced as you seem to be of the benefits of "pay-as-you-go" licences. You say that you see the main benefit as being discouraging evasion among those who do not pay through financial hardship or disorganisation. But surely these are the least likely people to set up direct debit arrangements? Indeed, many may not even have bank accounts. Existing schemes for paying in advance by direct debit both spread the cost and make payment automatic, but have only a 1 per cent take up at present. Nor am I aware of any significant demand for a pay-as-you-go scheme.

You suggested that people are now becoming so aware of interest costs that they would be reluctant to pay for a TV licence in advance. I am not sure that I agree that this is a significant consideration for £60, but in any case your own proposal involves charging a premium equivalent to 15 per cent interest, so it would not help this problem.

I agree that, were this scheme to go ahead, the BBC should charge a premium on "pay-as-you-go" licences to pay off their debts, although I would not want to see this become a permanent element of the BBC's income thereafter. The BBC does not have the flexibility in the level of its charges that electricity boards, for example, do (and electricity is paid for in arrears, so monthly payments speed up the cash flow).

There seems to me to be a possible extra cost that could result from "pay-as-you-go". Licence fee refunds are at present very limited and not generally available on surrendering a licence; but "pay-as-you-go" might make this position more difficult: it is harder to insist that someone should go on making payments for something they have already surrendered than it is to refuse to refund part of a payment



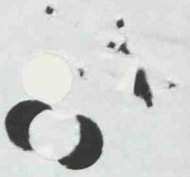
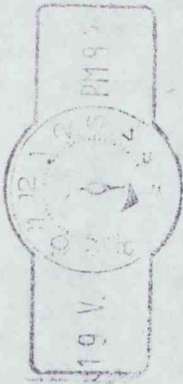
already made.

I am therefore sceptical about the value of your proposal which might, by leaving the BBC heavily indebted, complicate moving to any new means of finance. I understand that the costings of the amount the BBC would have to borrow are to some extent conjectural, but I would not wish to dispute your estimate of £170 million. While I fully understand why you have put the proposal forward, I cannot see sufficient benefits in "pay-as-you-go" to justify this, even though I recognise that the increase in the PSBR would in the long term be recouped.

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

NIGEL LAWSON

A handwritten signature in black ink, appearing to be 'Nigel Lawson', written in a cursive style with a long horizontal stroke at the end.



BROADCASTING: Frances p 4.