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CABINET
DEFENCE AND OVERSEA POLICY COMMITTEE

BBC EXTERNAL SERVICES

Memorandum by the Chief Secretary to the Treasury

1. The Foreign Secretary's paper OD(81)42 of 8th September, proposes that we should "negotiate" with our back-benchers so as to avoid a possible defeat in the House of Commons over our plans to make certain reductions in the BBC external service's current expenditure.

2. I am not happy about tackling the problem through such negotiations. Our original intention in reviewing the requirements of the external services was to help finance an accelerated capital investment programme through achieving certain savings in current expenditure, notably by terminating some vernacular services, and withdrawing the subsidy to the Transcription Service. It now appears that this course is unacceptable to many of our supporters, who believe that the BBC's current services should be maintained at their present level; that there should be no retrenchment; and no contribution by the Corporation to the investment programme.

3. I realise that we must accept political realities. But rather than "negotiate", I suggest that we should make it clear, with regret, that if economies cannot be found in the current expenditure, that must have implications for the capital programme. Thus that programme will have to be reduced to the extent that the economies are not forthcoming. This, as I understand it, is the proposal outlined in paragraph 7(c) of the Foreign Secretary's paper, but I would suggest that we decide it collectively rather than reach it

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by a process of negotiation. (The BBC would of course absorb the cost of its excess salary award, whether through savings on capital or on current expenditure.) In taking this line we would be acting in a way which is consistent with our posture in other similar situations. We would much prefer to save the current expenditure in order to make room for the capital expenditure. But if this is not acceptable, the capital expenditure must at least be deferred.

4. Even if the capital programme is rephased, the BBC external services will still be receiving more resources for this programme in 1983-84 and 1984-85 than was envisaged in last year's survey. Thus, if no savings in current expenditure took place, and the full rephasing of the capital programme became necessary, we would still be providing the following sums (in cash) over and above last year's survey figures.

1982-83	-	£1.5 million;
1983-84	+	£7.6 million;
1984-85	+	£5.5 million;

The reason for this of course is that we only expected current expenditure savings to finance a small part of the capital programme. This makes it all the more reasonable to insist on some degree of deferral if even that modest requirement is not to be met.

5. I would suggest that Government supporters who have taken an interest in this matter be informed of our intention to move in this direction. It is just conceivable, although I accept unlikely, that faced with this prospect they will indicate a preference for protecting the capital spending by reverting to our original proposals. In any event we shall also need a further high level approach to the BBC to bring home to them the severe financial constraints under which the Government is operating, the inescapable need for economy on the part of all publicly funded bodies, and the Government's intentions if current expenditure economies are not attainable.

L.B.

HM TREASURY
16 September 1981

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