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CABINET

REPORT OF BROADCASTING COMMITTEEPERCENTAGE OF NET LICENCE REVENUE TO
BE PAID TO THE B.B.C.Memorandum by the Chancellor of the Exchequer

I disagree with the proposal made by the Secretary of State for Commonwealth Relations and the Postmaster-General (C.P.(51) 183, paragraphs 11 - 15) that the B.B.C. should continue for a further three years to receive 100% of the net licence revenue. My proposal is that the percentage should be reduced to 80.

2. The income available to the B.B.C. for financing its home and television services was rising steadily before the war, and has risen strikingly since, as the following figures show:-

<u>Year</u>	<u>Percentage of Net Licence Revenue</u>	<u>Amount paid to B.B.C.</u> £m.
1939-40	75 + special addition for television and foreign languages broadcasts	3.7
1947-48	85	8.9
1948-49	85	9.2
1949-50	85	9.7
1950-51	100	12.6
1951-52	100	12.7

Notes (i) From 1940 to 1946 the B.B.C. received an Exchequer grant not related to licence revenue.

(ii) The post-war figures, unlike the 1939-40 figure, do not include anything at all in respect of the B.B.C.'s overseas services: they are now quite separately financed, and the problem now at issue relates only to home broadcasting and television. Allowing for this the difference between 1939-40 and 1951-52 is of course even wider than the table shows.

3. The increase has been due partly to the greater number of licences bought by the public, partly to the increase in the licence fee in 1946 (from 10s. to £1 for sound only and £2 for sound and television), and partly to the increase in the percentage allowed to the B.B.C.

4. Before 1935 the percentage was on a sliding scale which gave the B.B.C. 90% on the first million licences and smaller percentages thereafter, down to 60% on licences in excess of three million. In 1935, following on the Ullswater Report, an overall percentage of 75% was adopted. Thereafter, however, at the time when all industry was being asked to make a national defence contribution to rearmament, the B.B.C. was similarly appealed to, and voluntarily sacrificed part of its 75% for a few years. Ignoring the contribution, the percentage went up by stages from 75% to about 90% in 1939; this, however, covered overseas broadcasting, which was not then separately financed.

5. In 1946 when the percentage again came up for review (the licence fee having been increased, so that the percentage meant a great deal more in cash, and overseas broadcasting having been separately dealt with) the B.B.C. asked for 100% but were given only 85%. In 1950 for the first time 100% was granted. It has not, therefore, got any long tradition behind it.

6. I cannot accept the suggestion in paragraph 11 of the memorandum by the Secretary of State and the Postmaster-General that what was said in 1946 is relevant to the present situation: the financial climate today is very different from that of 1946. Still less do I accept paragraph 15 of the paper. I cannot agree that there is any decisive argument of principle in favour of leaving any form of entertainment, however useful, untaxed at the present time. Particularly when there is a prospect of falling revenue from cinemas, it should be clearly understood that the Government may quite legitimately tax radio and television entertainment also.

7. The Secretary of State and the Postmaster-General argue their case mainly on the B.B.C.'s capital needs: and their paper admits no possibility of economy by the B.B.C. in its current expenditure. We are entitled to expect some economy from the B.B.C. as from everyone else.

8. As regards capital expenditure, the increase to 100% was claimed and granted in 1950 mainly on the ground that the B.B.C. had a heavy capital programme in prospect, which could only be financed from current revenues (or from money put to reserve out of the revenue of previous years). In the event, however, the capital programme has not made as rapid progress as was hoped for, and it is clearly unlikely that arrears can be overtaken in the near future. The effect is that the B.B.C. has accumulated a very considerable reserve: the amount now stands at £4.46 millions.

9. In 1950-51 the Corporation's income was £13.3 millions and expenditure £12.2 millions. In the absence of any early prospect of a higher rate of capital development, and in face of the very large reserve already in hand, it seems to me wrong to continue a basis of payment which results in a big surplus year by year and which is likely to increase the pressure from the B.B.C. to spend more on development.

10. I have seen no supporting evidence for the figures quoted in paragraph 14 of the memorandum by the Secretary of State for Commonwealth Relations and the Postmaster-General, and I gather they depend upon a number of somewhat arbitrary assumptions about the future.

My own calculation is that if the B.B.C. received 80% of net licence revenue from 1st January next the result would be somewhat as follows:-

	1951-52	1952-53	1953-54	1954-55
	£m.	£m.	£m.	£m.
Balance in hand	4.4	4.8	3.7	3.0
<u>Income</u>				
Licence income (100% to 31.12.51, 80% from 1.1.52.)	12.0	10.6	11.0	11.3
Other receipts (publica- tions etc.) say	1.0	1.0	1.0	1.0
Total	17.4	16.4	15.7	15.3
<u>Expenditure</u>				
Current expenditure (a)	9.9	10.8	11.4	12.1
Capital	1.7	1.9	1.3	1.2
Income Tax	1.0 (estd.)	(b)	(b)	(b)
Total	12.6	12.7	12.7	13.3
Balance carried forward	4.8	3.7	3.0	2.0

(a) This table assumes that current expenditure will be as forecast by the B.B.C. itself in evidence given to the Beveridge Committee. It may be argued that rising costs would increase these forecasts if they were to be revised now, but the rate of increase already allowed for in the figures looks so considerable that it ought to cover that. The figure forecast for 1950-51 was in fact very close to the event, in spite of increased costs since the forecast was prepared.

(b) The figures quoted for the first three years of the new Charter period omit the effect of income tax. If expenditure exceeded current revenue to the extent shown, income tax credit would be due, which would have the effect of slowing down the depletion of reserves by roughly 50%, so that the reserves in hand at the end of the period would probably be over £3 millions instead of £2 millions as shown.

11. I do not agree, therefore, that on the 80% basis the present reserve would approach vanishing point in the period we are considering. I consider that there is every likelihood that an appreciable reserve would remain.

12. The point at issue, however, is not a mere difference of opinion about the correct way of making calculations. I cannot accept the implication that the restriction of capital investment is a very temporary phenomenon and that large undertakings like the B.B.C. should therefore accumulate larger and larger reserves in order to catch up on all their postponed capital development as rapidly as possible when investment control is relaxed. If I were to accept that argument as a general one, the pressure to relax the control would soon be irresistible.

13. In any case, it would be perfectly simple to provide for any sudden upsurge in the B.B.C.'s capital expenditure some years hence, without increasing licence fees, by giving powers under the new Charter (as recommended by the Beveridge Committee) for a higher borrowing limit than the present £1 million. I have not pressed the point, but I doubt whether the Secretary of State and the Postmaster-General are wise to reject this recommendation (paragraph 27 of the draft White Paper).

14. For all these reasons I propose that for the first three years (at least) of the new Charter the B.B.C. should receive only 80% of net licence revenue.

H.G.

Treasury Chambers, S.W.1,

3RD JULY, 1951.

