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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State  
Foreign and Commonwealth Office  
Downing Street  
London  
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22 July 1985

*Alan Geoffrey*

**BBC EXTERNAL SERVICES: THREE YEAR FUNDING**

Thank you for your minute of 26 June in which you propose a compromise for the settlement of three year funding.

I remain very reluctant to agree a settlement in advance of the Survey and am not fully convinced that three year funding necessarily requires additional money.

However, I recognise the importance of settling this issue quickly so that we can make the other important improvements identified in the recommendations of the Perry Review as quickly as possible. I cannot go as far as you suggest in your minute; but I would be prepared to agree to an increase of £4 million in 1986-87, and of £8 million in 1987-88 and (provisionally, since it falls outside the triennium) of £8 million in 1988-89. This agreement would be subject to 3 conditions:

- a. That the BBC undertake now to live within this cash limit for each of the years of the triennium, subject only to wholly exceptional circumstances arising. It would be for the FCO to adjust the "prescription" as necessary to allow the BBC to live within the cash available if costs were to rise more than is allowed for in this calculation - exactly as the Perry Report proposed.
- b. The increase does not represent a "floor" for the next triennium; we may well want to review the absolute level of BBC expenditure again when we come to consider the next triennium, during the public expenditure survey 1987.

- c. The offer should be put to the BBC on a "without prejudice" basis. It is designed to secure their acquiescence to the proposals of the Perry Review, and in particular to the proposal for a firm three-year budget. If the BBC do not accept the package, the offer is withdrawn.

I hope that in the light of this very generous concession you will, between now and the Survey discussions, take another look at the associated bids for capital expenditure. I hope that on reflection you will find it possible to accommodate this within your existing programme.

Copies of this letter go to the Prime Minister, the Home Secretary and the Defence Secretary, and to Sir Robert Armstrong and Sir Robin Ibbs.

*John van der ...*

PETER REES