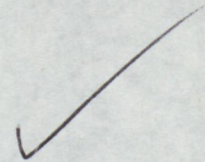


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PUBLIC EXPENDITURE SURVEY 1986: DEPARTMENT OF THE ENVIRONMENT

Note of a meeting held in the Chief Secretary's Room,
H M Treasury at 5.00pm on Monday, 29 September

PRESENT

HM Treasury

Chief Secretary
Mr Butler
Mr Jameson
Mr Moore
Mr Turnbull
Mrs Brown
Mr Pirie
Mr Legg
Mr Meadows
Mr Tarkowski
Mr Pike

Department of the Environment

Secretary of State
Mr Heiser
Mr Fletcher
Mr Osborn
Dr Smith

Property Service Agency

Mr Chipperfield
Mr Hawtin

Welsh Office

Mr Jeremiah

Opening Remarks

The Chief Secretary proposed that water should be dealt with first, followed by PSA, Housing and DOE other.

2. The Secretary of State proposed that, except in the case of water, he should have discretion over the precise allocation of reductions across his programme within the total savings agreed. The Chief Secretary saw no difficulty in principle with this proposal provided the amounts involved were small.

3. The Secretary of State said that it was possible that County Hall might be sold bringing in receipts of about £60 million

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which would be partially offset by the cost of re-housing ILEA. He proposed that, in view of the uncertainty, this should be considered outside the Survey. The Chief Secretary agreed, provided that the costs of rehousing ILEA were lower than the sale proceeds.

Water (excluding land drainage)

4. The Chief Secretary said that he was still looking for savings beyond those which had so far been offered. At their previous meeting the Secretary of State had argued against negative EFLs on the grounds that they would be seen as a tax. However, other industries had negative EFLs and there was no reason in principle why the water industry should not. He had earlier proposed that the level of real investment should not increase over the survey period, but he was now prepared to see some increase, provided that further savings in external finance were found.

5. The Secretary of State said that to some extent the level of investment was determined by outside pressures, such as EC Directives. The real question was how it should be financed. He was prepared to agree a negative EFL for 1989-90, but he could not go below baseline in 1988-89. For 1987-88 he was still seeking a small increase above baseline, in order to avoid a dip in real terms investment that year.

6. After discussion external finance (excluding land drainage) for the survey period of +£15 million, zero, and -£50 million was agreed.

7. The Secretary of State agreed to reconsider the position on 1988-89 and 1989-90 with a view to further reducing external finance, during the next IFR.

PSA (Office and General Accommodation Programme)

8. The Chief Secretary said that he did not feel able to increase his previous offer of a net addition of £40.0m a year, particularly

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in view of the substantial accommodation bids from departments following the transfer of PES responsibility for major new works.

9. The Secretary of State proposed that the difference between the Chief Secretary's offer of £40.0m for 1987-88 and his amended bid of £62.5m should be split with corresponding adjustments to the later years. He considered that the Chief Secretary's offer was insufficient to provide for adequate maintenance of the estate and a minimal new works programme. He would maintain pressure on the disposal of surplus property but the prospects of additional receipts did not look good.

10. The Chief Secretary said that he could not increase his offer. He pointed out that PSA would also have the benefit of the reduced requirements (in section C of the bidding table letter) which he had agreed that the Agency could retain.

Housing

1987-88

11. The Secretary of State drew a distinction between the first and the later years of the Survey. In 1987-88 the 80% commitment and the lack of a new capital control system would restrict his ability to increase provision in his areas of high priority, UHRU and the Housing Corporation, and to meet unavoidable extra expenditure arising from the Housing Defects Act. He needed a minimum of £160 million in 1987-88 for these three areas - £80 million more than the Chief Secretary's last offer.

12. The Chief Secretary replied that his last offer already represented a substantial increase in spending over the settlement reached last year and he could not improve on his latest offer given the mounting pressures on the planning total.

Later years

13. The Secretary of State said that he had reviewed the position on receipts for the later years of the survey and now had evidence

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that these could be substantially higher, perhaps by £200 million in both 1988-89 and in 1989-90. If he were allowed to retain these they would go a long way towards bridging the gap between his latest bid and the Chief Secretary's offer to settle at the existing net baseline.

14. The Chief Secretary replied that if he were to agree that the additional receipts could be retained, then, ^{with} the increase in baseline for 1987-88 he had already offered, the total gross expenditure on housing would be nearly £1 billion more than existing plans for the three years. He still saw no reason for increases in the baseline after 1987-88 when the 80% commitment came to an end.

15. In an attempt to reach a settlement, however, the Chief Secretary said he would be prepared to offer a further £20 million in 1987-88 and allow the Secretary of State to retain the additional receipts in later years. This would result in a gross capital baseline of:-

			£ million
1986-87	1987-88	1988-89	1989-90
3,384	3658	3408	3452

giving substantial increases over 1986-87 and over existing plans for the survey years.

16. The Secretary of State said that the offer would be insufficient to meet DOE's problems, especially in the first year. He would consider further.

DOE other

17. The Secretary of State did not accept that the offer of an additional £43m of PES in the Chief Secretary's letter of 25 September would enable him to meet the 80% assurance. He said that he needed a minimum of £51m for LES capital, which was £8m more than had been offered.

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18. The Secretary of State was also concerned about the size of the gap between the Chief Secretary's position and his position on the remainder of the programme. The Secretary of State said his final position was:

	1987-88	1988-89	1989-90
			£m (net)
LES	51	39	0
Urban	49	50	66
Other	27	26	26
NT receipts	-40	-30	-30
Reduced req.	-2	-17	-30
Change to baseline	85	68	32

19. The Chief Secretary said he was prepared to make the following offer, which was as far as he could go:-

	1987-88	1988-89	1989-90
			£million
LES Capital	50	-	-
NT receipts	40	30	30
TOTAL ADDITION GROSS	+90	30	30
less NT receipts	-40	-30	-30
change to baseline	+50	0	0

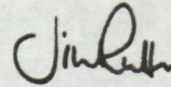
20. The Chief Secretary said that DOE would also be allowed to keep the benefit of the reduced requirements of £2m, £17m and £30m, which made the total offer on gross spending £92m, £47m and £60m. The Secretary of State said that the offer did not go far enough to meet his essential requirements.

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CONCLUSION

2\ . It was agreed that both sides would reflect on the offers made during the meeting and discuss them further the following day.



JILL RUTTER

Private Secretary

HM TREASURY
2 October 1986

Distribution
Those Present
PPS
Sir Peter Middleton
Mr Gray
Mr Norton

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pa public expenditure
2/10.

LINE TO TAKE WITH THE PRESS (for Bernard not Cabinet)

The Star Chamber is now being set up, as it has been for the past few years.

Q and A Briefing

(i) **Is there still a gap of several £ billion?**

Not going to be drawn into detailed discussion on Survey. There will always be reports of a large gap at this stage. These simply represent the additional bids departments are making rather than a realistic projection of the level at which they expect their programmes to be settled.

(ii) **Can the planning totals still be achieved?**

The Government decided in July to work within the existing published planning totals. That remains the position.

(iii) **Will the Treasury increase asset sales or reduce the Reserve to bridge the gap?**

Cannot provide details on the arithmetic of the Public Expenditure Survey. Wait for the Autumn Statement.

(iv) **Which programmes will go to the Star Chamber?**

This is not finally settled. On a number of programmes discussions are continuing and agreement may be reached before the Star Chamber starts work after the Party Conference.

(v) **Massive cuts in prospect?**

No. The purpose of the Survey is not to cut expenditure in aggregate but to decide the allocation of resources between programmes. For the most part so-called cuts represent no more than the rejection of departments' additional bids.

(vi) **Who is on Star Chamber?**

Not yet finally decided.

(vii) **When will the Autumn Statement be published?**

In November.

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