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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Richard Luce MP
Minister for the Arts
Office of Arts & Libraries
Room 62/2
Government Offices
Great George Street
London
SW1

14 October 1988

Dear Minister,

1988 PUBLIC EXPENDITURE SURVEY: OFFICE OF ARTS AND LIBRARIES AND OMCS

I am writing formally to confirm the agreements we have now reached on your arts and libraries and OMCS programmes.

We agreed an increase of £15 million in 1991-92 to roll forward the three-year programme for the arts into the new third year. The programme will be rolled forward subject to the same terms and conditions, including the exceptional circumstances in which it might be reopened, which applied to the original three-year settlement, as set out in your letter of 25 September and mine of 2 and 26 October 1987.

I am generally content for you to determine, within the total agreed programme for the new third year, how much should be allocated to the performing arts, to the national museums and galleries and to the British Library. I hope, however that a minimum £2 million of the increase will go on additional incentive funding. You will also need to find the £75,000 increase in running costs in 1991-92 - which officials subsequently agreed, and with which I am content - from within the overall total. I regret that it again proved impossible to reach a three-year settlement on running costs in this Survey. Considerable further work is, however, needed on your management plan. I propose that my officials should work with yours between now and the next Survey to improve the plan so that it can form the basis for a three-year settlement of running costs next year; my officials will contact yours shortly to agree a detailed programme of work. Any increase next year in provision for running costs in 1990-91 or 1991-92 will need to be met from within the overall three-year programme.

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I am content with increases of £4.1/1.6/5.4 million to compensate for the new liability to VAT on the NMGs' building programmes and on the British Library St Pancras project, and to bring provision for that project into line with projected expenditure for the two later years of the Survey (ie £42.25 and 50 million respectively).

Separately on the British Library St Pancras projects, we agreed a cost target of £300 million in cash for phase IA. We were unable to agree about the completion phase. I repeated that I was not prepared to make available as much as the £80 million plus VAT (at 2Q 1987 prices) for which you had asked. My letter of 4 October offered to provide £70 million, including VAT. You said that in your view, based on the feasibility study, the minimum sum for which a worthwhile completion phase could be built was £75 million plus VAT. You undertook to write to me setting out in detail the basis for that figure. In the meantime, we agreed that - once a decision has been reached on the completion phase - the surplus land at St Pancras should be disposed of as quickly as possible, and the proceeds returned to the Exchequer. I propose that officials should discuss the optimum timing and terms for that disposal at the next meeting of the Steering Group.

On Challenge Funding for training I accepted your bid for 1989-90, which you reduced to £1 million. You agreed to drop the bids for this scheme in 1990-91 and 1991-92 and review the position again in the 1989 Survey. Our officials will now need to discuss further the details of the scheme, and how it is to be ring-fenced. I agreed that the central subsidy to the Civil Service College should not be cut in 1989-90 and that we should return to the issues of the subsidy when we are closer to taking decisions on the future financial status of the College, and take account of these in the 1989 Survey.

I am copying this letter to the Prime Minister, and to Peter Walker and Malcolm Rifkind.

P. Walker

pp JOHN MAJOR
(approved by the
Chief Secretary and signed
in his absence)