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The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
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2 August 1989

In Norman

PES 1989: DOE (CENTRAL)

will request if required

Your predecessor wrote to mine on 20 July about DOE programmes. I thought that it might be helpful if I were to set out my initial views, in advance of the detailed exchanges we shall obviously need to have after the summer. This letter is concerned only with Housing and DOE Other.

DOE public expenditure programmes have been substantially reduced in real terms over the last few years. Provision for housing gross capital spending in 1989-90, for example, is down 34% since 1979-80 outturn; and 18% since 1984-85. The number of new subsidised rented houses completed this year is likely to be around 30,000, compared with 55,000 only 5 years ago. Similarly, on DOE Other, the 1990-91 baseline is over 20% lower, in real terms using the GDP deflator, than outturn in 1984-85.

Moreover, since the 1988 Survey inflation has been considerably higher than was assumed last year, particularly in the construction industry. Even if the peak has now passed (as it has, for example, in housebuilding) we still start this Survey knowing that the baselines agreed last year will not go nearly as far as we had hoped.

It is against this kind of background that Nicholas Ridley made his bids. It is clear to me that those bids - as both of us would expect from him - are tautly constructed and an accurate reflection of the minimum needed if Government policies are to be properly carried out. I do not intend, at this stage, to respond in detail to John Major's letter of 20 July. But I must say that I stand by Nick's bids as being entirely realistic; what would be unrealistic would be to imagine that DOE programmes can be held at baseline (still less, as John Major's initial response suggested, reduced below baseline) without reversing a number of Government policies in my area of responsibility.

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Nick Ridley's bids left some points unresolved, which I need to record now. Most were trailed in Nick's letter of 31 May; all have been the subject of some discussion with your officials.

You will be aware that no bid could sensibly be submitted for the London Docklands Development Corporation (LDDC) in advance of the Prime Minister's recent meeting. I am writing to you separately with the detail of the LDDC bids, following the decisions taken there.

Paragraph 33 of the letter of 31 May said that DOE and OAL would be discussing whether to bid for the National Heritage Memorial Fund, who have been pressing us strongly for additional funding. Richard Luce and I have discussed their requirements. We shall each bid for £4.5m in 1991-92 and 1992-93. Such an increase, which would bring the total annual resources available to NHMF to £12m, would allow NHMF to meet the annual rate of spend that we assess to be needed. It is likely to be the minimum acceptable to the Board.

On the National Rivers Authority (NRA) a number of additional expenditure items have emerged since the original bid. The main ones in the PES period are the cost of buying out staff benefits from those transferring from water authorities, and the costs of completing works to provide the NRA with accommodation, laboratories etc in each region. Taking account of these new elements, our latest estimate is that the total NRA bid for the 3 Survey years should be £20.6m, £8.3m and £2.5m.

Finally, we need to provide grant-in-aid for the new Football Licensing Authority. Proposals for setting up the authority have been endorsed by members of H Committee. Exact costings are still a little uncertain, but are likely to be in the range £500,000 to £750,000 each year.

My officials will be supplying yours with detailed material explaining these bids. I hope also that officials can make progress, in advance of the bilateral, in clearing away some of the issues that need to be resolved between our two Departments, particularly on those bids that are either technical or inescapable.

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



CHRIS PATTEN



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