



PUBLIC EXPENDITURE SURVEY 1986: WALES

Note of a meeting in the Chief Secretary's room, HM Treasury on Monday 15 September 1986

Present:

TREASURY

Chief Secretary
Mr FER Butler
Miss Peirson
Mr Gray
MR Norton
Mr Wetherell
Mr Judge
Mr Davis

WELSH OFFICE

Secretary of State for Wales
Mr MG Jeremiah

The Chief Secretary said that the difficult public expenditure position this year meant that he had to seek savings wherever he could. As well as the impact of decisions taken at E(LA) there were irresistible bids on many programmes including Agriculture and Social Security.

REGIONAL ASSISTANCE

2. The Chief Secretary proposed only a brief discussion on Regional Assistance to be followed by a Quadrilateral meeting at a later date. The Secretary of State said that his position was less difficult than that of Mr Rifkind; he was neutral on the question of distribution between the three spending departments. However postponement of the RDG2 moratorium would cause him severe difficulties; he would have to resist it because there was no money available in his programme. He also felt that the review of criteria for assistance had been unproductive so far.

3. The Chief Secretary drew attention to the problem of controlling expenditure. The Secretary of State said that the difficulty was how to accommodate the surge in RDG1; this was a current year problem. Summing up this part of the discussion the Chief Secretary said that he was concerned at possible abandonment of the moratorium and that if it was suggested at the quadrilateral that increased provision was required he would need offsetting savings.

LOCAL AUTHORITY CURRENT EXPENDITURE: WELSH CONSEQUENTIALS

4. The Secretary of State argued that the Chief Secretary's proposal for less than the full consequential implied that the Treasury was arguing for cessation of the normal block arrangements. He had a great number of internal bids which he would not be able to concede in full; while he accepted the need for Wales to carry its share of the pressures on English departments through the formula system he could not accommodate further cuts on top of that without making Survey bids of his own. The Secretary of State highlighted the following areas as causing particular pressures within his block:

4.1 The need to develop a proper infrastructure in order to encourage the private sector to invest in the Valleys.

4.2 The Health Service was in a serious state, due in part to particularly Welsh factors, such as an unusual wage structure.

5. The Chief Secretary agreed that he would not want to start arguing individual bids with the Secretary of State: he also accepted that in general there was no over-provision on the Welsh block. However there were very particular problems this year in terms of what could realistically be afforded within the agreed planning totals. There was no logic in giving full formula consequentials on a local authority settlement that was designed to set realistic plans for LA spending in all three territories in 1987-88. The Welsh Office had a good record in avoiding overspending relative to plans, which was an automatic call on the Reserve. Mr Judge pointed out that provision for LA Current in Wales for 1987-88 was set at the GDP deflator plus one per cent above 1986-87 budgets, compared with rises in line with only the GDP deflator in England and Scotland.

6. The meeting discussed the heavy call of the Health programme on the Welsh block. The Secretary of State said that social deprivation made it hardly surprising that per capita spending was higher than in England.

7. The Chief Secretary said that the internal bids raised in the Welsh Office would need to be pared down but that he was prepared to offer one-third of the excess LA Current consequential for each year (32, 27, 32) on the understanding that these figures would be increased if necessary to ensure that the total consequentials, including those from other programmes, did not fall below £60 million in any year. In exchange the Secretary of State would have to absorb any addition on regional assistance.

8. The Secretary of State replied that he could not see any scope for progress on that basis: it would only create deeper trouble in later years.

INDUSTRY

9. The Chief Secretary drew attention to his proposed reduction on Industry. The Secretary of State replied that much depended on whether he would transfer provision for land reclamation to the WDA. This brought us back to the block provision: he was acutely aware that he was falling behind England on land reclamation. The WDA gross baseline of under £77million had already been subject to substantial cuts in the 1985 Survey. The Chief Secretary said that he would want to see the proposals for any additional expenditure on land reclamation setting out clear objectives and output measures.

10. Mr Butler asked if there was a case for reductions on merit as a result of the review in the case of the WDA, and because of the change in funding arrangements in the DBRW. The Secretary of State said the DBRW was under pressure, and he would need flexibility on how he apportioned cuts between the two bodies. He saw some room for manoeuvre with the WDA's investment function, but the construction budget was under pressure. Factories were needed to attract inward investment. In the New Town industrialists were telling him that more expenditure on infrastructure was needed..

RUNNING COSTS AND MANPOWER

11. The Secretary of State said that he could agree the manpower figures worked out between officials but that he was reluctant to agree to an increase in running costs worked out on the basis of the GDP deflator. He was prepared to modify the Welsh Office position to the following overall figures:

£m

38.216m	39.339m	40.448m
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12. It was agreed that officials would explore a compromise between the above figures and the following Treasury position:

£m

37.841m	38.780m	39.490m
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CONCLUSION

13. In conclusion the Chief Secretary promised to write to the Secretary of State.

HM TREASURY

September 1986

Copies to:

Those present

PPS

PS/Sir Peter Middleton

Mr Turnbull

Mr Tyrie