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PUBLIC EXPENDITURE SURVEY 1986: OAL/MPO
Note of a meeting held in the Chief Secretary's Room
HM Treasury at 6.00pm on Monday 15 September

Present

HM Treasury

Chief Secretary
 Mr Anson
 Mr Gilmore
 Mr Turnbull
 Mr Burr
 Mr Hoare
 Mr Meadows
 Mr Kelly
 Mr Tyrie

OAL

Minister for the Arts
 Mr Wilding
 Mrs Brown
 Mr Leamy
 Mr Thomas

MPO

Mr Phillips
 Mr Parry

Secretary of State for Wales
 Mr Jeremiah

Mr Scott SED

Arts Programme

The Minister for the Arts said that/ his department's bids were the result of a careful assessment of the/^{arts} programme against the background of the Government's 1983 Manifesto commitment. He welcomed the Budget tax changes and the switch to grant-in-aid for the NMGs. For the Government, however, to be seen to be reducing its funding would jeopardise continued success in generating private support. His bids reflected the growing demand for, and interest in, the arts and their important contribution to overseas earnings from tourism. The arts were also a cost-effective means of generating jobs. The other main political parties were committed to large increases in arts spending. It was important that the Government should not go into the next Election against a public perception of penny-pinching on the arts. The Secretary of State for Wales underlined the wide and growing interest

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in the arts, and their role in triggering urban renewal and job creation.

2. The Chief Secretary said that he faced a very difficult task in containing the pressures on programmes within the Government's agreed objectives for public spending. He welcomed the Minister's acknowledgement of the importance of the Budget and other changes in encouraging increased private sector donations to the arts. Their importance to tourism also pointed to potential for increased earnings from that source. He had been impressed by the success of the National Trust in exploiting that potential. Against that background, he could not accept that the baseline did not represent an adequate level of public funding for the arts.

British Library St Pancras project

3. The Chief Secretary said that there were real difficulties over accommodating the additional bids for the BL St Pancras project. Its costs also represented a significant pre-emption of the arts budget. He proposed further consideration of the project at three levels:

- an urgent review of the scope for reducing and/or rephrasing the estimated costs of stages 1AA and 1AB.
- a radical review of the justification for stage 1B and subsequent stages. That review would need to take account of the implications of IT and the future of legal deposit. Amongst the options which it should consider would be the 'least cost' option for producing a viable building. The Chief Secretary could not agree to the bid for design work on stages 1B and 1C in advance of the outcome of that review;
- a review of the management control of the project, including the recommendations of the Ibbs report on capital expenditure contracts.

4. Amongst the options considered by the first two reviews would be a 'least cost' option for producing a viable building. It was suggested that failure to go ahead with design work on stages 1B

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and 1C in the meantime would lead to wasted expenditure if it was ultimately decided that those stages should proceed. It was pointed out, however, that the design work was not scheduled to begin until early in 1987-88 and that it would be possible to take a decision nearer the time (although without prior commitment on the public expenditure cost) in the light of the outcome of the reviews.

5. The Minister for the Arts said that he believed that there remained a strong case for the St Pancras project. To abandon it after stage 1 would also lead to an outcry from the libraries' world. He was nonetheless content to agree to the radical review proposed by the Chief Secretary, and to the other proposals for further work, although his department's own review of the scope for reducing the costs of stages 1AA and 1AB suggested that the scope for such reductions was severely constrained and subject to substantial cost penalties. The Chief Secretary welcomed the Minister's agreement to his proposals. He undertook to write to the Minister about his bid for the additional costs of stages 1AA and 1AB following the urgent review of the scope for reducing those costs.

Grants in aid

6. The Minister for the Arts said that it was only with the greatest reluctance that he was proposing to abandon the tapering down of the extra post-abolition central funding agreed in the last Survey. Failure, however, to meet him on that element of his bid (£4m in 1987-88 and £5m in 1988-89) would result in the Government being faced with all the problems which it had managed to avoid last year. His further proposal to increase the Arts Council's grant in aid by 4 per cent in 1987-88 was intended to allow the Council to maintain its present level of activity against the background of costs rising faster than general inflation. Salary costs had consistently risen faster than planned provision, and represented typically 75-90 per cent of total costs for the NMGs. The bid to increase their grant in aid was intended to compensate for the squeeze, in particular since 1985-86. The proposed increased grant in aid for the BL would allow it broadly to maintain its current level of activity against the restrictions which had inevitably

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had to be imposed on its current expenditure in the light of the St Pancras project.

7. The Chief Secretary said that, in the light of MISC 120's decision in the last Survey, he could not agree to abandon the post-abolition taper. Nor could he agree to what represented in effect an attempt to return to volume planning for grants in aid.

Other arts programme bids

8. In discussion of the other bids for additional provision for the arts programme, the Minister for the Arts made the following main points:

- at least partial restoration of the cuts in NMG purchase grants in 1985-86 was necessary if the institutions were to be able even selectively to continue to acquire pre-eminent objects for the nation;
- some increase in grant in aid was necessary to cover the running costs of new developments (eg the Tate in the North) to which the Government was committed and of projects (eg the Clore Gallery) whose capital costs were being met from private donations; such capital donations would not be forthcoming if there were no contribution from public funds;
- increased provision was necessary for the museum building/maintenance programme in order to accommodate even the highest priority needs and to meet the transitional costs of untying the NMGs from the PSA;
- the marketing/management initiative represented a key part of his strategy to give a clear lead to the arts bodies in more effective and efficient marketing; and
- the proposed increase in OAL's manpower ceiling represented essential strengthening of what was a small and over-worked team.

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9. The Chief Secretary regretted that the bids lacked clear targets and objectives for what would be achieved with the additional provision. The Minister had also failed to identify clear priorities between his bids. The Chief Secretary believed that they should be capable of being absorbed by offsetting savings elsewhere within the arts programme. In particular, he believed that it should be possible to absorb the transitional costs of untying the NMGs from the PSA, which the Treasury believed were anyway probably overstated. He undertook, however, to consider the Minister's bids further in the light of the discussion and to write to him, although he could not entertain bids on anything like the scale put forward. In the meantime, it would be helpful if OAL officials could undertake further work on target-setting; details should also be provided of phases 2 and 3 of the proposed Imperial War Museum redevelopment.

MPO programme

10. The Chief Secretary said that he wanted to consider further the Minister's proposal to free the Civil Service College from gross running cost controls. He asked the Minister how real the restraints would be bearing in mind that most of the College's business was in the public sector. The Minister for the Arts said that the College was not a monopoly. It was in competition for much of its business with external organisations, which provided four times as much civil service training. Gross running cost controls imposed an arbitrary level on the amount of business the College could undertake. If the Chief Secretary felt unable to agree to exemption he would have to seek an increase in MPO's gross running cost targets of between £500,000 and £600,000 a year to provide the necessary headroom. The Chief Secretary said he would consider the Minister's request further in the light of his arguments.

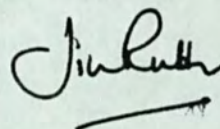
11. On the additional bids, the Minister for the Arts explained that:

- he considered the condition of the residential accommodation to be appalling. There was a risk that departments would look to better equipped outside institutions to meet their training needs, though probably at an increased cost;

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- the extra accommodation in Richmond Terrace would be shared with Cabinet Office and was needed to relieve overcrowding and to allow some space in Standard House to be given up; and
- the proposed office automation system for the Parliamentary Council Office would produce real net savings in cost.

12. The Chief Secretary said he would consider the bids further and would write to the Minister, but he emphasised the problems of affordability.



JILL RUTTER
Private Secretary

H M TREASURY
20 September 1986

Distribution:

Those present
PS/Chancellor
PS/MST
PS/Sir P Middleton
Mr F E R Butler
Mr Scholar
Mr C Allan
Mr Gray
Mr Instone
Mr Norton



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