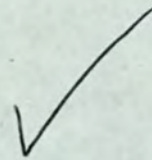


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PUBLIC EXPENDITURE SURVEY 1986: DEPARTMENT OF THE ENVIRONMENT

Note of a meeting held in the Chief Secretary's Room,

H M Treasury, at 12.30pm on Monday, 22 September

Present

HM Treasury

Chief Secretary  
Mr Butler  
Mr Jameson  
Mr Moore  
Mr Turnbull  
Mr Instone  
Mr Hoare  
Mr Legg  
Mr Meadows  
Mr Perfect  
Mr Tarkowski  
Mr Pike  
Mr Betenson  
Mr Sharp

Department of the Environment

Secretary of State  
Mr Heiser  
Mr Fletcher  
Mr Osborn  
Mr Hobson

Property Services Agency

Mr Chipperfield  
Mr Hawtin

Scottish Office

Mr Elvidge

Welsh Office

Parliamentary Under Secretary  
of State  
Mr Jeremiah  
Miss Paulett

Parliamentary works (PSA resumed)

1. The Chief Secretary said that during his discussion of the Bridge Street Phase 1 project with the Lord Privy Seal in July he had made it clear that in agreeing to the preliminary contract he would be looking for offsetting savings to contain the cost of the project within baseline. The Secretary of State said that in view of the undertakings already given to Parliament on Bridge Street, Phase 1, he did not consider it would be politically

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acceptable to contain expenditure by extending the period of the contract. On the Palace Chambers bid the Secretary of State said that he wished to investigate the possibility of private sector involvement. The Chief Secretary asked whether the cost of the project was likely to increase further. PSA could give no firm assurance on that, but hoped there would be no further changes to the specification.

2. The Chief Secretary said that he was prepared to agree to additions of £1.7m (1987-88), £3.8m (1988-89) and £3.8m (1989-90) for Bridge Street Phase 1 but that he must resist the remaining bids. The Secretary of State said that he would consult the Lord Privy Seal in the light of the Chief Secretary's offer.

DOE other

3. The Chief Secretary said that now that he had got further down the road in the Survey the position was now more difficult than when housing had been discussed. The Chief Secretary could not entertain additional bids of the order of 25 per cent on the baseline. The Chief Secretary said that he accepted the reduced requirements proposed by Mr Ridley on New Towns and other water services and asked if there was a possibility of any extra New Towns receipts.

4. The Secretary of State said that he had been pondering the position over the weekend and in the light of the decisions on LA capital controls he felt that he had to withdraw the offer he had made at the last bilateral to reduce the housing bids in the later years. On New Towns receipts, the forecast had been revised and he was able to offer additional receipts of £40m, £30m and £30m in the Survey years.

LES Capital

5. The Chief Secretary said that given the enormously difficult position faced in the Survey he did not feel he could give more than was required to meet the 80 per cent commitment ie £207m in allocations. He felt that this was a low priority area and did not accept that an additional 5 per cent (£12.9m) was required

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For the LA Associations and he saw no need for the £5m safety margin.

6. The Secretary of State said that he thought the 5 per cent for the LA Associations was necessary, but could concede the £5m safety margin if the figures were correct. The 1985-86 outturn was £417m (at 1987-88 prices) compared with provision of £179m for 1987-88, which if maintained would be an enormous cut in real terms. He could not accept as large a cut as that.

7. The Chief Secretary noted that the Shire Districts benefited most from receipts. He recognised that the Secretary of State would wish to make a case for waste disposal for London and the Mets, but he thought ILEA merited nothing given the resources they were inheriting from the old ILEA and the GLC. The Chief Secretary also thought that PONORI was a low priority this Survey. He noted a DOE explanation that some of the resources for PONORI were from past commitments; that DOE did not have a precise split between past and new commitments and that it might be possible to reduce the bid slightly. The Chief Secretary remained unconvinced of the need for an addition beyond that necessary to meet the 80% commitment. It was agreed to move on to other elements of the DOE other bids.

Urban Group

8. The Chief Secretary suggested that the Urban Group should be considered as a block. He recognised that the Secretary of State attached high priority to new Urban Development Corporations (UDCs) but E(A) had made clear that any UDCs which might be agreed must be funded from within existing provision. Priority for UDCs meant that less provision could be made for Urban Regeneration Grant, the Urban Programme and Derelict Land Grant. The Chief Secretary said that he could not offer any increase in provision against baseline for the Group as a whole.

9. The Secretary of State said that he could accept a £20 million reduction in his bid for 1987-88 by allocating some existing

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provision from the Urban Programme and Derelict Land Grant to new UDCs. He could not go beyond this because spending in the inner cities would already be reduced by any LES cuts and because the new UDCs would cover restricted areas and could not be seen as a replacement for the Urban Programme elsewhere. In DOE's view considerable progress had been made on Urban Programme objectives and monitoring. Substantial cuts in the Programme should not be made.

10. The Chief Secretary noted the reduction in bid offered by the Secretary of State for 1987-88. He would have to consider this, together with the increase in New Town receipts, in the context of the DOE other programme as a whole, and in the light of what movement the Secretary of State could offer for the later years.

Other bids

11. The discussion then moved on to the other bids. The Secretary of State said that the extra resources for the heritage were required to make good the fire damage at Hampton Court. There was strong support within the Department for the bids for environmental bodies. The Chief Secretary said that the NCC has fared well in recent years and this might be the time to rein back. The Secretary of State thought the present management agreement system of paying farmers for not doing something was wholly illogical and he would be delighted to tackle it by possible changes to the planning law, but this would have to be done after the Election rather than before.

Development Commission

12. The Chief Secretary thought that there was a case for a cut in the Development Commission rather than the proposed increase. In the last two Surveys the Commission had been spared the reductions imposed on comparable bodies such as EIEC and the 4 regional territorial agencies. New arrangements whereby EIEC credited DC with net receipts from the DC funded portion of the EIEC factory estate (£2m - £4m in 1986-87) meant that the same level of factory building could be maintained with a lower public

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expenditure requirement. The baseline contained flm provision for Corporation Tax which had been reclassified as non-public expenditure. Consultants had also suggested that there was room to charge considerably more for services. The Secretary of State mentioned that Lord Vinson had threatened to resign if he did not get more money; but he was not aware of the point made by the Chief Secretary: he would ask DOE officials to pursue.

Civil defence

13. The Secretary of State said that the bid on civil defence in the water industry was to comply with an OD(HD) decision earlier in the year. His department had no departmental interest in the bid, however. The Chief Secretary said that he was unable to form a view on the bid as he did not have all the details, and he agreed to consider it further.

Conclusions

14. Summing up this part of the discussion the Chief Secretary said that given the high priority the Secretary of State was attaching to LES capital and UDCs, he had to resist all of the smaller bids.

15. The Secretary of State suggested that the position be considered globally. For 1987-88 the bid was £221m. He was prepared to reduce his bid to £110m, taking account of the extra £40m of New Towns receipts, a £20m reduction in the urban group bid and a £50m reduction in the LES capital bid (which was not required to meet the 80% commitment). The Chief Secretary noted the position and said that the scope for a settlement in 1987-88 would partly depend on the Secretary of State's position on the future years.

16. It was agreed that discussion of the future years was without commitment either way. The Chief Secretary made the point that the 80% commitment did not apply to these years. The Secretary of State expected the UDC expenditure to grow at the expense of LES. The extra New Towns receipts needed to be taken into account. He wanted a baseline level in cash terms. It was agreed that

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officials would sort out the basis on which figures were to be negotiated, without commitment either way. The Chief Secretary would then write to the Secretary of State commenting on the position reached.

DOE Running costs and manpower

17. The Secretary of State agreed that the deal struck at official level on running costs and manpower was acceptable. DOE would do their best to keep within the revised manpower ceiling. DOE felt that running costs were tight and they would find it very difficult to live within the running costs limit in 1987-88 if there was a 6-7 per cent pay award. The Chief Secretary confirmed that the deal, which was subject to certain conditions discussed at official level, was acceptable to him. The Secretary of State confirmed that the addition could be contained within his reduced bid of £110m.

Water

18. The Chief Secretary said that he was seeking a reduction in the bid for water by reducing the level of investment and by securing higher operating cost reductions. There had been a large increase in water investment in real terms over recent years and further real increases appeared unjustifiable. The returns to be sought from the industry needed to reflect its preparation for privatisation and this required improved results and returns.

19. The Secretary of State found the proposals in the bidding letter unacceptable. He said that a negative EFL would be seen as a tax on water and as exploitation of the industry's monopoly position. Real increases in charges needed to be associated with real increases in the level of investment and improvements in service.

20. The Chief Secretary pointed out that negative EFLs were a necessary consequence of adequate preparation for privatisation. They did not represent a tax: they should be regarded as analogous to a dividend in a private sector company, and they also allowed for a marginal reduction in the very substantial outstanding

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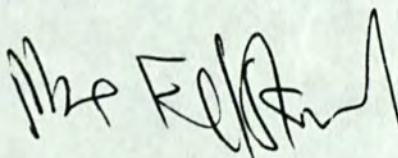
growings of the industry. Nor did he accept that real investment would fall as a result of his proposals if operating costs could be further reduced in line with achievements in other nationalised industries. Daily water charges were low in absolute terms and UK charges were also low compared to those in other countries.

21. The Secretary of State said that the industry had already made significant decreases in operating costs and reductions beyond 1% real a year could not be envisaged. However, he could offer a reduction in his bid to £25 million in 1987-88 and baseline in 1988-89 and 1989-90. The £25 million bid in 1987-88 reflected his reluctance to see a reduction in real capital expenditure. He would be prepared to consider substantially negative EFLs for 1988-89 and 1989-90 in the next IFR, but baseline was the lowest acceptable figure he could agree to appearing in this year's White Paper.

22. The Chief Secretary said these proposals did not meet his objectives, but agreed to consider Mr Ridley's revised proposal further.

End of meeting

23. The Chief Secretary agreed to write to Mr Ridley about the position reached.

PP   
JILL RUTTER  
Private Secretary

HM TREASURY  
25 September 1986

Distribution

Those present  
Principal Private Secretary  
Sir Peter Middleton  
Mr Gray