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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
 SW1P 3AL

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Dear Richard,

26 October 1987

1987 PUBLIC EXPENDITURE SURVEY: ARTS AND LIBRARIES

This letter sets out the agreement we have now reached on the arts and libraries programme.

We confirmed the framework for a three-year rolling programme, as set out in your letter of 25 September and slightly modified in mine of 2 October. For the avoidance of doubt, I undertook to clarify what change in the Government's inflation assumptions might trigger review of the agreed programme. My proposal is that this should be a cumulative change of five percentage points in the GDP deflator over what, when the figures were settled, it was projected to reach in the relevant year. Starting from 1987-88, our Survey assumptions imply a cumulative increase in the GDP deflator by 1989-90 of 7.6 per cent and by 1990-91 of 10.9 per cent. For 1989-90, therefore, the trigger would be activated if, by the time of the 1988 Survey, the cumulative actual and forecast increase was more than 12.6 per cent; and for 1990-91, if that increase was more than 15.9 per cent.

We agreed increases of £34.7/46.5/52.9 million, of which £7.7/15.5/19.4 million is for the British Library St Pancras project and therefore outside the agreed three-year programme. For 1988-89, a further £0.9 million must be added to the figures set out above, representing the last tranche of additional provision for the British Museum refurbishment programme under the 1981 agreement about the treatment of receipts from the sale of leases of the Museum's Bedford Square properties. Within those overall totals, our officials have agreed increases of £0.210/0.215/0.230 million for running costs, including the costs of 6 additional staff in your department.

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My earlier letter acknowledged that it would not be prudent to allocate all of the agreed increases to particular clients in ways which meant that provision could not subsequently be switched to new priorities, or in order to meet unforeseen contingencies. Our officials have since discussed how this could be achieved in practice. For 1988-89 the situation will not in this respect differ greatly from that which has existed in the past. For later years, you will be giving forward indications of funding to your clients in the normal way. But, although you would not draw attention to the fact, these will be held to £5 million or so less in total than the programme as a whole. If questions are asked about the difference, you will need to make clear that some provision has been withheld to allow for risks and opportunities, and because it is not clear where areas of particular merits and priority will lie. But, as my earlier letter also stressed, you will need to do so in a way which avoids establishing a target against which your clients could bid, or we will not achieve the key aim of getting away from a bidding mentality.

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

John Major
John

JOHN MAJOR