CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Prime Minister

Agree the Chancellor's proposals?

Yes ok.

21/9

PRIME MINISTER

FINANCING THE COST IN 1979-80
OF THE FIRST CLEGG REPORTS

Flag A

At our discussion in E Committee on 11 September - E(79)7th Meeting - I was asked to consult with the Secretary of State for Social Services about the precise arrangements for offsetting the extra costs arising this year from the Clegg recommendations in the National Health Service; and the Secretary of State for the Environment and other relevant Ministers about the most appropriate way of offsetting the cost of the award to the manuals.

2. On the National Health Service the Chief Secretary and I have discussed with the Secretary of State how much should be absorbed. The Secretary of State accepts fully that the inefficiencies and restrictive practices noted by Clegg should be taken into account and, more fundamentally, that the Service should take urgent steps to eradicate them as soon as possible. But he pointed out that, however energetically the matter is tackled, only comparatively small savings can be expected in the current financial year though he agreed that savings should begin to accrue during the last quarter. He is of the view that over and above the general squeeze exerted on health authorities this year (including the £24 million offset imposed by our predecessors) the most that can be looked for is £4 million, covering Great Britain as a whole, in the remainder of 1979-80. I appreciate that this sum

 /may not

may not appear big, but in all the circumstances the Chief Secretary and I are satisfied that it represents a reasonable assessment of what can be done and will exert a useful discipline; we shall, however, expect full savings for the next financial year and will want to take these into account in settling the 1980-81 cash limit.

3. On the local authorities, the Secretary of State for the Environment feels that we should leave over the question of further abatement of the Rate Support Grant or alternative offsetting action until we consider the Increase Order in November. I am willing to accept this approach which is consistent with my statement in the Budget that the abatement of the Rate Support Grant would be determined in November before the increase orders are made. But if in the meantime our decision about the health authorities raises questions about the line we will be taking with the local authorities, we should say that we will similarly be expecting improvements in efficiency to be achieved by them.

4. The way is now clear for the Secretaries of State concerned to inform the relevant authorities about our decisions as they affect the health and education authorities. Since the amount to be found by the health authorities is relatively small and we have no final decision to announce at this stage about the local authorities, I suggest that we do not make a coordinated announcement but that each Secretary of State should make such announcement as he thinks necessary about the action being taken in his own field. If between now and the determination of the Rate Support Grant Increase Order questions are raised about our intentions on the local authorities we should take the line in my previous paragraph. I shall follow this line in my reply to the letter which the General Secretary of the TUC wrote to me asking about our policy on financing the Clegg awards. We will, of course,

/have to

have to announce the adjustments to the cash limits to the House when it returns in October and we will have to consider later in the year what further adjustments we may need to make in response to the subsequent reports due from Clegg.

5. I am copying this minute to other members of E Committee, the Secretary of State for Social Services, the Secretary of State for Scotland and Sir John Hunt.

(G.H.)
21 September 1979