

CONFIDENTIAL

Ref. A0198

PRIME MINISTER

Financing the Cost in 1979-80 of the First Clegg Reports

(E(79) 33)

BACKGROUND

The Committee is considering separately its response to the first group of Clegg Reports, and its attitude to the future of the Clegg Commission. Ministers have already agreed that the pay increases recommended by Clegg should be implemented. (There are one or two minor adjustments still to be agreed: these do not seriously affect the overall cost.) Ministers agreed in correspondence at the end of July (your Private Secretary's letters of 23rd and 30th July) a carefully-worded statement which protected the Government's position on costs for a few weeks. Now the Committee must decide what part of the extra cost, if any, the Government should pay.

2. Two of the Ministers concerned have set out their own initial positions:

Baroness Young's letter of 5th September, and the Secretary of State for Social Services' letter of 5th September; the Secretary of State for the Environment has not yet written but officials' views (and those of the Scottish Office) are set out in paragraph 18.

3. The Chancellor of the Exchequer has now made his own offer: an extra £1.8 million for universities; £18 million for the Health Services; and £23 million for local authorities. This looks (and will probably be seen in public) like "splitting the difference", since these amounts are roughly half the extra costs not covered by present cash limits. But, internally at least, the rationale is different. The Budget arithmetic deliberately allowed for a little more than the cash limit provision. I doubt if the Ministers concerned realised this at the time. The Chancellor did not say so in public (hence his reference in paragraph 2 to the "implicit" Budget arithmetic). He may not even want to use the argument very clearly now. But he is really asking his colleagues to absorb the whole cost not allowed for at Budget time, thus protecting the PSBR for the rest of the year; he deliberately does not seek offsetting savings in other services.

CONFIDENTIAL

The Chancellor justifies this approach, in paragraphs 4 and 5, by the need to "get the message across" and to encourage the search for economies in the services concerned. This relates very closely to his separate papers on "Public Attitudes" and the "Forum". If the Government takes a firm line on absorbing part of the Clegg costs, it will reinforce the general message with some practical examples. But it will cause a lot of trouble, especially in the NHS; and arguably it is inconsistent with the line taken over the Pay Research settlement for non-industrials earlier in the year. (Decisions on the pay of the industrial Civil Service have yet to be taken: negotiations are continuing.)

4. You might stress that this discussion is only about the remainder of this financial year. Decisions on next year's cash limits, for these and other services, follow at the end of October. Before then, the Committee has to endorse the general policy on "pay and cash" limits (postponed from this week to the meeting on 20th September).

HANDLING

5. You might ask the Chancellor to introduce his paper. You could then call for any general comments on the approach, notably from the Secretary of State for Employment and the Secretary of State for Industry. It is unlikely that anyone will seriously dissent from the need to pass on part of the "extra" cost.

6. You can then turn to the three individual services:

(a) Universities: This should be easy. There is an existing commitment to find £1.8 million for the manuals' settlement, but the bulk of the extra costs will fall on the universities, and Mr. Carlisle is not likely seriously to dispute this. Nor is he likely to press the extra £0.2 million "consequential" for the Research Councils.

(b) NHS ancillaries and ambulancemen: There will be a fight here.

Mr. Jenkin says, in effect, "I can fight one Lambeth/Lewisham case but not 20". Much will turn on his assessment:

- (i) Of the real chance of getting further savings this year from improvements in working practices.
- (ii) Of the risk of further resignations or confrontations.

- (iii) Of other Ministers' support for the idea that the Government should take a firm stand. Here it seems important that the line on local authorities should be at least as tough as that on the NHS. Local authorities have reserves to draw down, and the theoretical option of a supplementary rate. NHS has only the option of economies. On balance I expect the Committee will back the Chancellor, though Mr. Jenkin is likely to fight hard.
- (c) Local authority manuals: Mr. Heseltine has not yet shown his own hand; you may want to make him say clearly at the start whether he accepts the Chancellor's proposals. You then need confirmation from Scotland and Wales. Education and Social Services both have a legitimate interest here too, because some of the manuals work in the parts of local authority service which they sponsor; and offsetting economies may offset these parts disproportionately. However, for the reasons given in (b)(iii) above, it should be easier to take a tough line with local authorities than with NHS. Note that in this case the mechanism is to increase the reduction already agreed in the RSG.

CONCLUSIONS

7. Subject to the discussion, you should be able to guide the Committee to conclude that:

- (i) The 1979-80 costs of the first "Clegg" reports not already covered by existing cash limits or allowed for in the Budget should in general be absorbed within the relevant programmes.
- (ii) That the cash limits for universities should be increased by £1.8 million.
- (iii) That the cash limits for the NHS as a whole (including Scotland) should be increased by £18 million.
- (iv) That the across-the-board reduction in the Rate Support Grant should be increased from £335 million to £358 million (United Kingdom).


JOHN HUNT

10th September, 1979