

CONFIDENTIAL AND APPOINTMENTS IN CONFIDENCE

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 8 JUNE

I have agreed with the Chancellor's office the following main items for the agenda:

1. Police Pay

The Chancellor will be chairing the next meeting of E(PSP) on 9 June which will be considering the line for the Official Side to take. You wanted to have a word with the Chancellor about this before E(PSP).

Relevant papers are at Flag A. The issues are summarised in the Cabinet Office note, and I suggest you use this as an aide memoir for the discussion. Other papers are the Home Secretary's paper E(PSP)(88)7 (which you have already seen), the Chief Secretary's letter of 6 June responding to it, and the background paper for E(PSP) on the possibility of changing the settlement date.

The central issue is whether or not to press ahead with seeking to change the uprating method for police pay from an earnings basis to a settlements basis. The Home Secretary had, at an earlier stage, been prepared to contemplate this, but now argues it would be imprudent. The Chief Secretary still wants to press ahead.

The next issue is how to handle changes to the rent allowance arrangement. All are still agreed that changes should be made, but the main point of contention is whether potential savings should accrue to the Exchequer or be recycled into other allowances.

I do not think you need bother with the issues of the London Allowance and whether or not to change the date of the police settlement.

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2. NEDO Director General

You will recall you had a brief discussion with the Chancellor about this. His further minute at Flag B sets out two alternative approaches, and comes down in favour of appointing Walter Eltis at Grade 2. If you are content with this, there will be no need to take up time in the bilateral.

3. Taxation of Life Assurance Offices

The Chancellor wants to publish a consultative document. His *PS's* minute on this is at Flag C.

Other possible issues the Chancellor may raise are: the position in the markets and aspects of the Summit.

*PRCC.*

PAUL GRAY  
7 June 1988

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