

FA

PRIME MINISTERPUBLIC EXPENDITURE NEGOTIATIONS

You may like to have an update of the Chief Secretary's further negotiations since you saw him earlier in the week.

He seems to have made further good progress. The major remaining problem areas are:

- (i) Defence
- (ii) DOE
- (iii) Social Security
- (iv) Transport
- (v) The territorial Departments

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Health

The Chief Secretary and Kenneth Clarke have today concluded an agreement. This provides for very substantial additions to the programme - £1.1 billion in 1989/90 rising to £1.8 billion in 1991/92. In addition, health authority budgets will benefit to the tune of nearly £300 million a year from reduced employers pension contributions. All these figures are for England only, and the impact on the UK as a whole will be roughly 20 per cent higher.

Even so, virtually all the extra money in 1989/90 is accounted for by carrying through the consequences of the 1988 Review Body pay decisions and removing what has become known as the "underlying over commitment" in health authority budgets. The Chief Secretary thinks it is a fair settlement.

Treasury and DoH are still discussing details of the further addition to this year's budgets for nurses' pay restructuring. The Chief Secretary fully takes your point that he has to be satisfied that the announcement of the further increase will effectively put to an end the arguments. The present expectation is that a figure of about £100 million will be

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agreed early next week. But Kenneth Clarke accepts he will only go ahead if all the RHA Chairmen have publicly signed up to saying that the further award fully funds their proposals.

Other Departments Settled

Settlements have also been reached, or virtually reached, in troublesome areas like the FCO and DTI (including adequate provision for the Seville EXPO '92!).

Territorial Departments

The Chief Secretary has taken me through the offer he will today be making to Mr. Walker on Wales. It seems to me very fair. Doubtless Mr. Walker will continue to quibble, but I think the offer should provide the basis for a settlement; and certainly if there is any question of Mr. Walker continuing to want to make a direct appeal to you I would not advise you to grant him a penny more. The key point in the Chief Secretary's offer is the proposal that Mr. Walker should not have to absorb the negative formula consequential arising from higher prices on council house sales receipts. (He will, however, be expected to match the extra volume of property disposals.)

There are some awkward knock-on effects from this Wales offer for Scotland and Northern Ireland. The Chief Secretary has proposals in hand on those that offer a reasonable prospect of bilateral settlements.

Star Chamber Candidates

If the territories can be settled bilaterally, this just leaves Defence, DOE, Transport and Social Security as the main Star Chamber candidates.

Defence is proving difficult. But a further meeting is planned for Brighton next week.

The gap on DOE is also still large - around £500 million a year. The Treasury have not, however, given up hope of bilateral progress.

On Transport, the issue is boiling down to a straightforward argument about the roads programme. Mr. Channon is sticking out for a volume enhancement programme rather than just accepting compensation for higher prices; and continues to say he must put this point to colleagues generally.

On Social Security, as you know the two key issues are child benefit/some alternative economy and overseas ^{pensions.} ~~benefits~~.

If significant further progress is achieved in the continuing bilaterals at Brighton, there is perhaps the possibility that the Star Chamber will not be needed. In any event, it seems likely to have a relatively small agenda compared with the heavy programmes in 1984-86. If the number of outstanding issues gets very small, I think there will be a question whether the Star Chamber, particularly under a new Chairman, is the best forum to resolve them. But we will have to consider that point if and when it arises.

Overall Outcome

The aggregate numbers are still expected to be close to those described by the Chancellor and Chief Secretary on Monday - i.e. cash additions of about £1½ billion and £4 billion in 1989-90 and 1990-91 respectively.

Paul

Paul Gray

7 October 1988