

Mr

mt

PRIME MINISTER

PROGRESS WITH PUBLIC EXPENDITURE NEGOTIATIONS

During the last week the Chief Secretary has made good progress in completing negotiations on the remaining expenditure programmes. There will be no major issue for the Star Chamber to settle. We are on schedule for the Autumn Statement on 9 November.

Social Security is now virtually sorted out, including a package for the disabled. I hope to get a note to you about this before the uprating announcement next Wednesday.

Final details are also being sorted out on Defence, Scotland and Wales.

The most difficult programme has been Transport. But here too progress has been made:

- Agreement has today been reached on the roads programme, involving a total addition of £1.5 billion over the three years.
- Agreement has also been reached on British Rail and London Regional Transport, taking into account your views on the maximum acceptable fare increases.
- An extension of the Jubilee line into Docklands has been agreed. No extra money will be included in the Autumn Statement, but it will be provided subsequently from the Reserve. This is because the negotiations with Olympia and York on the contribution they will make will not be completed until 20 November, ie after the Autumn Statement, and if precise figures were included in that document it would prejudice the negotiations.

But there is one point still outstanding on Transport. The Treasury are arguing that nothing further needs to be considered

at this stage on the other two proposed London "mega" projects, ie. a east/west Cross Rail and a Chelsea/Hackney line. You will recall that at an earlier stage you felt we could only afford to plan this year for one of the three projects. Mr. Parkinson, however, feels that a decision in principle should be taken now to build a Chelsea/Hackney line, and that politically he must announce this at the same time as the late November announcement on the Jubilee line extension. He argues that if only the Jubilee line project is announced - which will simply benefit the Docklands - there will be uproar from commuters in the rest of London given the present levels of over-crowding on BR/LRT. By contrast the Chief Secretary sees no need for any announcement about Chelsea/Hackney at this stage and argues that consideration of it should await next year's survey when a detailed financial proposal can be considered.

To try to break this deadlock, Mr. Parkinson would like you to chair a meeting, to be attended amongst others by the Chancellor of the Duchy (who apparently supports his case for an early announcement). The Treasury are not keen on such a meeting and would prefer to continue to handle this bilaterally with Mr. Parkinson.

I hope they can do it.

My own feeling is that there would be major problems about an early announcement about Chelsea/Hackney, before the proposal has been properly looked at and without any clear indication of the likely costs. And given the magnitude of the other expenditure increases that will be reported in the Autumn Statement, I am not persuaded that an early announcement is necessary. But the point at issue is essentially political.

Further studies before decision can be reached

As regards handling, another possible approach would be to urge Mr. Parkinson and the Treasury to try to sort it out, but if they are unable to do so, to ask the Star Chamber to consider this point.

Conclusion

- (i) Are you content to chair a meeting to look at the Chelsea/Hackney issue? ~~Yes~~ Not necessary

OR

- (ii) Would you prefer to urge the Treasury and Mr. Parkinson to try to resolve the issue, and if need be refer it to the Star Chamber?

Yes

Recg

PAUL GRAY

20 October 1989