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Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon David Hunt MBE MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London
SW1A 2 ER

2 October 1990

Dr David

1990 PUBLIC EXPENDITURE SURVEY: WALES

WITH B². NIT CE

Thank you for your letter of 28 September. Like you, I am pleased we were able to agree a way forward on home renovation grants. Given the desperately difficult background against which I am working, however, I cannot accept that your letter offers an adequate basis for a settlement. It does not of course, deliver a settlement below baseline, as you argued.

2. I am grateful for your offer of a further improvement in the industry figures, and I am prepared to go along with your request that on this occasion you should have freedom to allocate total industry provision between now and the Autumn Statement once we have agreed appropriate industry figures. I note however that your letter says nothing at this stage about the question of WDA receipts, on which you kindly agreed to consider further my request that we should build in some substantial receipts assumptions in all 3 Survey years for a portfolio sale or sales. Our officials are meeting urgently to discuss this, and I will want to reserve my general response until we have advice on the possibilities. But I should stress the importance which I attach to this option.

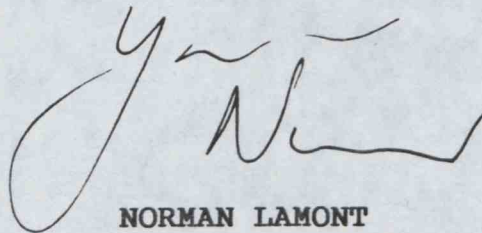
3. While I have considered the arguments you put on NHS cross border flows I am not fully persuaded. I understand that, following discussion between officials, you should now be able to agree with Kenneth Clarke that the phased costs to you of this aspect of the Health Service reforms should amount to some £9/18/28m. And, as you know, while I would have been happy with any bilateral solution that you and Kenneth were able to reach I must seek to limit to the very minimum the impact of even those bids to which colleagues attach the very highest importance.

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4. On cross border flows, I am prepared to move some way towards you, even though that would result in a block settlement, as you defined it in your letter, above rather than below baseline. However, the block system does of course mean that you have received consequentials over the years on all additions to comparable programmes in England. Throughout the 1980s the health programme in England has included the full cost of treating all patients in England (including some Welsh patients) and you have received consequentials of all the additions made to the English programme. These incremental consequentials now account for more than half of your total block provision, and these past and continuing benefits must be set against the additional expenditure you are now facing. I am prepared, nevertheless, to offer you half the cross border flows not covered by Kenneth Clarke's transitional offer, viz £4.5/9/14 million, provided that we can agree on further significant reductions below baseline on your industry programme.

5. On AEF, I suggest that officials should now agree the detailed figures for all three years.

6. I am copying this letter as you did yours, to the Prime Minister.

A handwritten signature in black ink, appearing to read 'Norman Lamont', with a large, sweeping initial 'N'.

NORMAN LAMONT

