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10 DOWNING STREET

*From the Principal Private Secretary*

SIR ROBERT ARMSTRONG

The Prime Minister discussed with you this morning your minute of 17 March about the involvement of Mr. David Mellor MP, Permanent Under Secretary of State, Home Office, in the DHSS's dealings with Intermed.

In discussion it was agreed that a number of mistakes had been made in this matter. First, the DHSS Minister concerned should not have asked one of his officials to speak on such a sensitive issue to a Minister with such an important constituency interest. Nor was it wise for Mr. Mellor to discuss the matter with the department in front of representatives of the company concerned. But it was noted that he had specifically stated that the Government's approach to this matter should be compatible with Government policy. The official concerned had acted perfectly correctly when he had responded as you reported in paragraph 4 of your minute. Nor had Mr. Mellor apparently said or done anything which had forced the department to consider Intermed's point, though they clearly believed that the intervention had undermined their position in the negotiation.

Summing up the discussion the Prime Minister agreed that Mr. Newton in the DHSS should let Mr. Mellor know that the Comptroller and Auditor General could refer to this matter in his report to the PAC. This could cause political embarrassment both to the department and to Mr. Mellor. There seemed, however, nothing to be done in the interim. You should keep the Prime Minister informed of any significant developments, particularly those which might become public knowledge. You should also consider whether guidance needs to be given to departments about the circumstances in which it was, and was not, appropriate for officials outside Private Offices to talk directly to Ministers and Members of Parliament on such sensitive constituency issues.

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21 March 1986

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