

42A-B

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 17 JANUARY

There is a full agenda for tomorrow's 45 minute bilateral.

(1) Pay Review Bodies

This is the main item. Papers are in Divider 1. You saw over the weekend my note and one from Robin Butler summarising the main recommendations.

Robin has this evening sent you the further note reporting on his meeting this afternoon with the relevant Permanent Secretaries, and setting out proposals on the detailed work now being put in hand. A draft paper will be available for the further meeting you will be having with the Chancellor, Chief Secretary and the Cabinet Office next week.

At tomorrow's bilateral you will want to have a first exchange of views with the Chancellor focusing on the issues raised in Robin's latest note. One issue to consider is whether detailed work should be done on options for abating the recommendations as well as staging them.

Two of the full Review Body Reports are now available. You saw Armed Forces at the weekend. I have also now included Doctors and Dentists; it is every bit as bad as we feared.

(2) Latest Economic Indicators and the Markets

The pound has continued strong this week, in part because the markets have interpreted Monday's high retail sales figures as ruling out any early move on interest rates. But the (excessive) New Year confidence in the equity market has evaporated. Oil prices have been slipping back a bit in the last few days.

The further news to come this week covers the PSDR, unemployment/earnings and the RPI. The PSDR is out tomorrow; the note in Divider 2 reveals the December figure is about £2 billion worse than the City expects. The summary note on unemployment/earnings, to be announced on Thursday, is also in Divider 2, together with today's evening report. We should know some time tomorrow the exact figure for Friday's RPI.

to follow.

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(3) Bank of England Appointments

Having resolved the Bank of England executive appointments and your attitude towards their pay the next issue is the reappointment/appointment of four of the non-executive directors. A note from the Treasury making recommendations is in Divider 3.

(4) Pension Fund Assets and Short-Termism

You saw over the weekend the latest Treasury note commenting on the CPS proposal to transfer ownership of pension fund assets to individuals - papers in Divider 4. You have also had discussions on the wider but related issue of City short-termism both with members of the Plowden Group and members of the Conservative Backbench Trade and Industry Committee.

You may want to have a brief word with the Chancellor about the more general issue of short-termism. And you need to settle with him whether you are content not to pursue further the CPS idea on ownership of pension fund assets.

(5) Other Issues

Other points you might touch on briefly are:

- the Chevening meeting. I am told this went well but a lot of further work has now been commissioned. You may want to defer any detailed discussion until the seminar with the Chancellor and senior Treasury officials now scheduled for 30 January and the subsequent first chat you will be having with the Chancellor about his Budget ideas;
- local authority grant settlement and community charge. You will have had a further meeting with a small group of Ministers earlier in the afternoon to discuss handling of Thursday's debate;
- Mr. Ridley's paper on the ERM. You gave the Chancellor a copy last week. I am not sure if he has yet had a chance to consider it.

(PAUL GRAY)

16 January 1990

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PM meeting with Chancellor.

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