

SUBJECT CCMAS TER



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From the Private Secretary

21 October 1986

PUBLIC EXPENDITURE

The Prime Minister this afternoon discussed with the Lord President, the Chancellor of the Exchequer and the Chief Secretary the position reached so far in the Star Chamber. Sir Robert Armstrong and Mr. Unwin were also present. The meeting discussed in turn each of the major programmes which have not so far been settled.

Please handle this letter with particular care.

Scotland

The Lord President and the Chief Secretary explained that Mr. Rifkind and Mr. Edwards were adamant in refusing as a matter of principle to accept any overt reduction in the full consequentials of the local authority settlement in England. Mr. Edwards was prepared to accept a reduction of £8 million on the grounds of relative population changes. The counterpart reduction in Scotland would be over £130 million in the first year and Mr. Rifkind was not willing to accept that. There was also a Northern Ireland dimension. Mr. King had accepted less than the full consequentials from the English local authority settlement. If Wales and Scotland were to receive the full amount he might seek to reopen the settlement in Northern Ireland, and he could also ask for more money on the grounds of population changes.

It was agreed that the Star Chamber should seek to win the largest concessions possible from Mr. Edwards, including the reduction on account of population changes. They should do the best deal they could. This would establish the principle of the population adjustment which could then be used against Scotland. The Star Chamber should open by seeking the full population adjustment in Scotland, though it might be necessary to accept some reduction in this. Mr. Rifkind should be left the freedom to decide how to justify the reduction in public. Any request from Mr. King to reopen the settlement in Northern Ireland should be firmly refused. The Lord President would be willing to see him if necessary.

Social Security

It was agreed:

- (i) the decision that people on supplementary benefit should meet their mortgage interest payments in their first six months on benefit should stand;
- (ii) it would certainly be worth considering whether 16 to 18 year olds could be denied the right to supplementary benefit; this would also probably save on payments of housing benefit because the people concerned would then not set up independent homes; no guarantee of a YTS place should be given;
- (iii) extension of the period for which the voluntary unemployed could be denied social security was certainly worth considering; withdrawal of the 25p payment for over 80s was not;
- (iv) the least difficult way of finding the required savings in 1988/89 and the bulk of the savings in 1989/90 would be to begin the new social security system with lower rates of payment in April 1988;
- (v) it would be important to agree figures for reductions with Mr. Fowler which he was prepared to accept without too much reluctance; this would reduce the risk that he would seek to open up a discussion in Cabinet.

It was recognised that to agree global reductions with Mr. Fowler, rather than specific measures would reduce the risk of damaging leaks though it would in turn increase the risk that when specific proposals were put forward later they would be rejected and the savings lost.

Health

It was agreed that the Star Chamber should work very hard to achieve a settlement which involved no more than a two per cent increase in health spending in real terms in 1987/88 and one per cent in each of the two following years.

Overseas aid

It was recognised that Sir Geoffrey Howe was unlikely to reach agreement with the Star Chamber. The Prime Minister would see him, with the Lord President, the Chancellor and the Chief Secretary, after the Star Chamber had met him.

Electricity

It was noted that the effect of achieving the Treasury's objective of a three per cent nominal increase in electricity prices in the first year would put a shade under 0.1 per cent on the RPI for a reduction of £¹/₄ billion in public expenditure. It should be perfectly possible to ensure that

the increase was put into effect. Indeed three per cent amounted to a reduction in real terms and was less tough than the agreement which had been reached for electricity in Scotland in the first year.

It was agreed that Mr. Walker should be presented with the choice of finding savings of this order in the first year in his own way or by an increase in electricity prices. If this failed to achieve a settlement the matter would have to be brought to the Prime Minister.

It was agreed that a further meeting with the Lord President, the Chancellor and the Chief Secretary would be held early next week to take stock of the position then reached by the Star Chamber.

I am copying this letter to Alex Allan (H.M. Treasury), Jill Rutter (Chief Secretary's Office), Trevor Woolley (Cabinet Office) and Brian Unwin (Cabinet Office).

John

David

DAVID NORGROVE

Miss Joan MacNaughton,
Lord President's Office.