

PERSONAL *Mr Nagrove*



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P 02306

From: J B UNWIN  
23 October 1986

LORD PRESIDENT

STAR CHAMBER, TAKING STOCK

The purpose of this minute is to suggest how you might tackle the meeting at 5.30 pm today to discuss the work of the Group.

Overall Position

2. I do not have the exact numbers but on a rough assessment if we settled on the proposals made this week to the Group we should exceed the target by some £0.8 billion in 1987-88, and by larger amounts than earlier assessed in the later years (particularly in the last year because of electricity). The general strategy must, therefore, remain to continue the pressure where ever you judge it feasible.

Main Issues

3. You will have to review Overseas Aid after today's meeting. Otherwise, the key outstanding issues now boil down to:-

(i) Social Security: year 1 is virtually settled. You have asked for savings of £100 and £250 million in years 2 and 3. The crucial issue is the new benefit rates in April 1988;

(ii) Health: the target/<sup>to</sup>aim at seems to me to be real increases of 2 per cent, 1 per cent and 1 per cent on HCHS (though it might be necessary to go to 2.2 per cent in the first year to match the previous year). This would give increases over baseline of £285, 264 and 659 million (£305 million for 2.2 per cent in year 1). The key question is

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whether the Group are prepared to hold out for this;

(iii) Wales and Scotland: you have told Mr Rifkind that his offer of reducing his bids to £50 million in year 1 is not good enough. The key issue is whether the Group are prepared to insist on the relative population change, which could not be concealed when the figures are public;

(iv) Electricity: Mr Walker's offers bring the increase over baseline to £380, 91 and 327 million (reducing his total bid of £1048 to £798 million). You have told him that, although we are nearly at agreement on year 2, the Group must seek much larger reductions on years 1 and 3. The key issues are:

- Year 1: whether the Group are prepared to face the April 1987 price increase issue head on (each 1 per cent increase gives £80 to 90 million);
- Year 3: whether to insist on a higher rate of return (an increase from 2.75 per cent to 3.75 per cent would yield around £350 million).

#### Next Steps

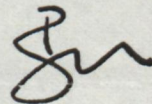
4. My assessment is that on social security and health you are still in negotiation, and there is still a prospect of agreeing a settlement. I suggest, therefore, that you should plan on an early meeting with Mr Fowler next week.

5. On Scotland and electricity, however, although you may want to make one last effort when you see their responses, I suspect that both of these will need to go to the Prime Minister. This may also be the case with Overseas Aid, if you make no progress this afternoon; as also on Arts and Libraries depending on developments.

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Handling

6. Subject to the Chief Secretary's views, I suggest you steer the Group through the discussion on the above basis.



J B UNWIN

Cabinet Office

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