

Personal



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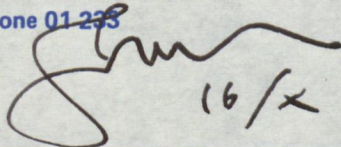
With the compliments of

David

We spoke. Let us
have another word
tomorrow morning (I am
seeing the Lord President
for a private round up at
10-30 a.m.

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From: J B UNWIN
16 October 1986

LORD PRESIDENT

STAR CHAMBER: TAKING STOCK

The Group are due to have a "take stock" meeting at 6 pm this evening. I thought you might find the following notes helpful.

Present state of play

2. Given the various uncertainties, I do not think it very useful just yet to try to draw up a revised score card of where we stand. But taking 1987-88 only at this stage, I think the following summarises the key points so far to have emerged:-

Defence: Mr Younger has offered baseline;

Health: Mr Fowler is to produce a paper showing how the gap could be halved. This would reduce the excess over baseline from 460 to 265;

Social Security: We have the uprating out of the way, but the other savings Mr Fowler agreed would only reduce the excess by about £20 million (including the mortgage interest restriction) [the position for the later years must await consideration of Mr Fowler's ranking of the possible savings];

Scotland: Mr Rifkind was asked to show how a saving of 80 below baseline could be achieved;

Wales: Mr Edwards offered 20, bringing down the excess over baseline to 75;

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[Electricity (England and Wales): to be discussed earlier this afternoon].

3. The above position and prospect leave the Group far short, of course, of the target the Treasury set. But I do not think the task is absolutely hopeless. I am quite sure that the Treasury will still have something up their sleeve, although it is not as voluminous as last year. And there is still scope for inroads into some of the big programmes, difficult though it will be.

4. My own view, after discussion with John Wiggins and Paul Gray, is that they Group's priorities should now be as follows:-

Defence: You must secure the 2.5 per cent uplift plus a realistic Falklands figure for the last year. The question then will be whether you could possibly push Mr Younger a bit further;

Scotland and Wales: I suggested this morning that you might try to impose on Scotland the relative population adjustment that Mr Edwards is prepared to accept for Wales. An alternative approach, however, would be to take local authority current expenditure now out of the Scottish and Welsh blocks altogether. I think this merits very serious consideration. Although it comes late in the day, it would be defensible if the territorial Secretaries were willing to go along with it. It would, of course, just about halve the size of the two blocks. But it would stop the absurd situation in which they are at present able to use local authority money they do not need for other purposes. If this could be achieved, the Chief Secretary's savings could be largely secured; and I think you could keep Northern Ireland out of it as being sui generis (their local authority arrangements are different anyway);

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Health: A possible alternative to the formula explored with Mr Fowler (halving the gap) would be to agree to a 2 per cent growth for the whole programme. This would probably give something like 220 above the baseline in 1987-88 and could be publicly defensible (thought I do not underestimate all the problems);

Social Security: The Group will have to have another go at this, but I really doubt whether you will be able to make any further significant inroads. It will not be worth spending a great deal of effort on this if you share this broad judgement when you see Mr Fowler's further paper on the savings options;

Electricity (England and Wales): Again, I do not underestimate the special difficulties, but it will be critical to get these bids down. Mr Walker is bidding for nearly £1 billion over the 3 years - the largest single bid after DHSS. However, you will need to appraise this after this afternoon's meeting.

5. The above does not, of course, take account of teachers' pay, which should be decided next week, and is bound to add several hundred £ million to the figures. But that has to be treated as a new factor, outside the Group's current terms of reference, and Treasury Ministers will have to consider in the first instance how they wish to advise treating it. The above analysis also excludes overseas aid; I suspect that the Group will do very well on this if they can halve the Foreign Secretary's bid.

Next week's timetable

6. In the light of the above I have asked Dr Walker provisionally to arrange the following time table for next week (scrapping the Monday morning meeting!):-

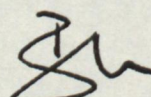
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Monday 20 October, 4.15 pm:	Work of the Group;
Tuesday 21 October, 9.30 am:	Social Security;
Tuesday 21 October, 3.15 pm:	Health;
Wednesday 22 October, 9.00 am:	Scotland;
Wednesday 22 October, 4.00 pm:	Wales;
Wednesday 22 October, 5.15 pm:	Defence;
Thursday 23 October, 9.00 am:	Electricity (England and Wales);
Thursday 23 October, 4.00 pm:	Overseas Aid;
Thursday 23 October, 5.30 pm:	Round up session.

On the assumption that one or two other things can be dealt with in the margins (eg Arts and Libraries) the above programme should enable you to cover the full ground and have a good idea of prospects by the end of the week. This would then enable you to report to the Prime Minister and give plenty of time for further meetings in the following week (it might, of course, be necessary to engage the Prime Minister in some "trilaterals").

Interim Report to the Prime Minister

7. You are due to see her at 5 pm next Tuesday. You will want to consider in the light of this afternoon's discussion whether to minute to her on how things are going. If you do, I imagine that you will not want to clear a text in terms with the Group, but you could outline your intentions to them at the meeting next Monday afternoon. If you decide not to report to her in writing, my present view is that there would still be great advantage in sounding her out on Tuesday on how far she would be ready to support pressure by the Group on some of the difficult issues discussed above.



J B UNWIN

Cabinet Office

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