



Prime Minister

MS.

DHW

24/10.

PRIME MINISTER

PUBLIC EXPENDITURE: STAR CHAMBER

I thought I should let you have for the weekend a brief report on where matters stand following our discussion on Tuesday.

2. Since we met, I have had further discussions in the Star Chamber with Norman Fowler, Nicholas Edwards, Malcolm Rifkind, Peter Walker, Geoffrey Howe and Richard Luce. The outcome is broadly as follows:

- i. Social Security and Health: I have asked Norman Fowler to make further large reductions in the Social Security programme in the two later years (£100 and £250 million respectively) and to consider the implications of keeping within a profile of real increases of 2 per cent, 1 per cent and 1 per cent on the hospital and community health services current programme. He is due to report back to me by tonight and I very much hope that we shall be able to reach a settlement. There are indications that this may be possible;
- ii. Scotland and Wales: I have reached a conditional agreement with Nicholas Edwards on Wales, in which he is prepared to accept the adjustment for relative population change since 1979 (£8 million) provided Malcolm Rifkind does also. We are still, however, far from agreement on Scotland. I am pressing hard for acceptance of at least a substantial part of the population change effect there (the full amount would be £133 million in 1987-88) and I plan to see Malcolm Rifkind again in the Star Chamber next Tuesday;



- iii. Electricity: This is so far the most difficult, and most important, outstanding issue. Peter Walker has offered further modest savings, which would reduce his bid for an extra £1,048 million over the three years by some £250 million. He is adamant that he cannot do more. The Star Chamber have, however, made it clear to him that this is not an acceptable offer, and I have asked him to consider the possibilities further and let me have his reaction before the weekend. Subject to that, I plan to invite him to come to the Star Chamber again next Tuesday. As you know, the crucial issues are price increases and the target rate of return for the industry. To increase the present assumed rate of return of 2.75 per cent in the last year to 3.75 per cent would yield around another £350 million, which would make a crucial difference;
- iv. Overseas Aid: I saw Geoffrey Howe yesterday and made it clear that we saw no case at all for going beyond maintenance of the programme in real terms, which would mean rejecting his bids except for the addition of £6 million in the last year. He will reflect on this, and I think there is just a possibility that he may accept it;
- v. Arts and Libraries: Although the amounts are small, there remains a significant gap between the Group and Richard Luce, with whom, however, negotiations are still continuing.

3. As indicated above, I hope to see Norman Fowler, Malcolm Rifkind and Peter Walker - and if necessary Geoffrey Howe - again in the Star Chamber next Monday and Tuesday. I suggest, therefore, that it might be more sensible if I were to postpone



a meeting has been arranged.

seeing you for a further round up discussion until Wednesday,
when I believe you may have time in your diary in the afternoon.
I shall then be in a better position to advise you on the overall
position and in particular to discuss with you which of our
colleagues it might then be advisable for you to consider seeing
yourself. I shall, of course, continue to do what I can to
achieve the toughest possible settlements within the Star Chamber,
but the overall position is still very difficult indeed and
there are some hard nuts to crack.

4. I am sending a copy of this minute to the Chief Secretary.

A handwritten signature in blue ink, appearing to read "J. MacLaurin".

(Approved by the Lord President
and signed in his absence)

Privy Council Office
24 October 1986