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P 02327

From: J B UNWIN
31 October 1986

LORD PRESIDENT

STAR CHAMBER: DRAFT REPORT TO CABINET

I attach a draft report which, subject to a detailed check of the figures and to the points below, I have discussed and agreed with Treasury officials.

2. The Treasury are submitting it to the Chief Secretary tonight; subject to his and to your comments, I should like to circulate it as soon as possible on Monday morning for discussion and clearance by the Star Chamber at the meeting we have arranged for 4 o'clock on Monday afternoon. Thereafter I assume that you will want to show it to the Prime Minister before circulation to Cabinet on Wednesday.

3. Mutatis mutandis, the paper follows the same shape as last year's. The context is, however, very different. On this account, I have tried to spell out in reasonable terms in the introductory paragraphs the virtually impossible position from which the Star Chamber were asked to start their work. You will want to consider yourself whether you think the balance here is fair from your point of view; the Chief Secretary will no doubt be looking at it closely also. As for the outcome and how to explain it, I have by agreement with the Treasury simply concluded on the basis that the Chancellor of the Exchequer will be making separate recommendations.

4. I would invite your attention to the following particular points:-

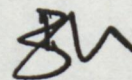
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(i) Scotland: we are still, I fear, not out of the wood, and I am minuting to you on this separately;

(ii) Defence: I think the Star Chamber should pause on this in their discussion on Monday. As you may recall, E(A) on 14 October saw a "good case for advancing the minehunter programme in order to provide continuity of work for Vosper Thornycroft". The decision was, however, remitted for further consideration in the Star Chamber in the context of the defence programme. Since then both the Chief Secretary and the Defence Secretary have confirmed in writing that they are not willing to finance the programme. You will, therefore, need to consider at this late stage whether some accommodation could be reached; or simply note that no agreement has proved possible. As things stand, neither the Chief Secretary nor the Defence Secretary are willing to fork out from the Reserve or the defence programme respectively;

(iii) Electricity: you will see that I have attributed to the Group a strong recommendation on the seriousness of the 3.75 per cent financial target. The purpose of this is to be able to secure endorsement of this proposition in the Cabinet Minutes for use next year. But you will need to consider whether this would be too provocative;

(iv) Social Security: as agreed with the Prime Minister and in the Star Chamber, I have omitted any specification of the possible savings in the packages for the later years. This is precisely the reverse of last year's policy when we took great trouble to itemise all the individual items so that no one could subsequently complain that they had not formally been warned. You may wish to reflect on this with your colleagues before giving final endorsement to this approach.



J. B. UNWIN

DRAFT

SECRET - CMO until 31 December 1986

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November 1986

CABINET

PUBLIC EXPENDITURE SURVEY 1986

Memorandum by the Lord President of the Council

At their meeting on 17 July the Cabinet decided that the Survey should be conducted within the published public expenditure planning totals of £144 billion for 1987-88 and £149 billion for 1988-89, and within a total of £153 billion for 1989-90, and invited the Chief Secretary, Treasury to pursue bilateral discussion of expenditure programmes with the Ministers responsible on that basis. At their meeting on 2 October (CC(86)32nd Conclusions, Item 2) the need to reach agreement with the Chief Secretary, Treasury was reinforced, and the Cabinet noted that a Ministerial Group on Public Expenditure (MISC 130) was being set up to discuss matters which could not be agreed between Departments and the Chief Secretary, Treasury and to make recommendations to the Cabinet.

2. This memorandum reports on the work of the Group and sets out the recommendations of MISC 130. I should like to express my gratitude both to the members of the Group and the spending Ministers who have appeared before us for the care and thoroughness which they have brought to the task.

3. A large number of programmes were agreed in bilateral discussions between the Chief Secretary, Treasury and the spending Ministers concerned. The effects on the Survey baseline are set out in Annex A; brief descriptions of the policy implications are in Annex B. MISC 130 were, however, left with eight programmes to consider.

4. Cabinet agreed on 17 July that discussions should be carried forward within the existing published planning totals referred to above. These contained uncommitted Reserves of £6 billion, £7.9 billion and £9.6 billion respectively. However, the July E(LA) decision on local authority current provision in 1987-88, together with the implications for the territories, added some £3.4 billion to the previous total, using up more than half the available 1987-88 Reserve. The subsequent agreement with the Ministers concerned to base provision for the two later years on 1/2 per cent real reductions in LA current spending also required additions to provision of £4.4 billion and £5.2 billion in 1988-89 and 1989-90 respectively. In addition to these amounts it was necessary to allow for increases of £1.0, £0.6 and £1.0 billion respectively over the 3 years to take account of the agreements reached bilaterally by the Chief Secretary, Treasury.

5. As a consequence of these changes, the Group were faced with the position summarised in the following table at the beginning of their work:

	£ billion		
	1987-88	1988-89	1989-90
LA current additions:	3.4	4.4	5.2
Additions from bilateral settlement:	1.0	0.6	1.0
Giving total agreed increases on programmes of:	4.4	5.0	5.1
Compared with starting Reserves of:	6.0	7.9	9.6

AGREED PROGRAMMES

6. I am glad to report that the Group have [reached agreement on all programmes] and made significant progress towards removing the outstanding excesses. Of total outstanding bids of £3.1 billion, £2.9 billion and £4.8 billion in the 3 years on the programmes described

below, the Group have agreed reductions of £0.7 billion, £0.7 billion and £1.3 billion, leaving additions of £2.5 billion, £2.2 billion and £3.5 billion. But the Group did not consider it practicable in the circumstances to seek reductions in programmes beyond this.

7. The proposals on the agreed programmes are summarised in paragraphs to below. All figures are in £ million unless otherwise stated.

Defence

8. The Survey baseline is as follows:-

18,818	18,990	19,268
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The Secretary of State for Defence had proposed the following additions to baseline -

+ 131	+ 148	+ 456
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The Chief Secretary Treasury sought reductions below baseline of

- 300	- 288	- 276.
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After taking account of small additions agreed by the Chief Secretary in the two later years as a contribution to the cost of advancing the order for AOR 02, the Group agreed to recommend the following provision in relation to baseline, which takes account of the latest estimate of Falklands costs.

0	[- 21]	[+ 181].
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[The Group have not been able to reach agreement on the cost of advancing the minehunter programme]

Electricity

9. The Survey baseline is as follows:

-1,685 -1,281 -1,313

The Secretary of State for Energy had proposed the following additions to baseline:

+ 450 + 171 + 427.

The Chief Secretary, Treasury was prepared to accept additions of 100 and 50 in the first two years, but sought a reduction of -150 below baseline in the last year. After discussion with the Group and with the Chief Secretary, the Secretary of State for Energy has agreed to reduce his bids above baseline by £70, £80 and £397 million respectively, leaving additions to baseline of

:

+ 380 + 91 + 30

The Secretary of State for Energy has made it clear that the large reduction in the final year must in his view be regarded as without commitment and subject to revision in the light of negotiations with the industry in due course. The Group are prepared to accept the EFLs now proposed, but they believe that further planning should be on the basis that the financial target for the period after 1987-88 is assumed to be an average rate of return on current net assets of 3.75 per cent in the years 1988-89 and 1989-90. The Group believe that this is a reasonable target to aim at, and that it would be right for the Government to press strongly for it to be agreed [in time for it to be taken into account in the 1978 IRF.] They therefore recommend the above figures on that basis.

Overseas Development Administration

10. MISC 130 and the Foreign and Commonwealth Secretary have agreed to recommend the following increase in the baseline provision for the overall programme:

[2]

[8]

[13]

This will maintain the net aid programme constant in real terms during the Survey Period.

Health & Personal Social Services

11. The Survey baseline (excluding local authority current expenditure) is as follows:

15,937

16,617

17,032

The Secretary of State for Social Services sought additions of:

+ 461

+ 408

+ 772

Following discussions with the Group, and taking account of bids of £191, £205 and £561 million for demographic growth a demand-determined service (eg Family Practitioner Services) already agreed by the Chief Secretary, Treasury, the Secretary of State for Social Services has agreed to accept the following additions to the baseline:-

+ 309

+ 291

+ 683

This will allow an increase of 2.2 per cent in real terms on hospital and community health services current spending in 1987-88, and 1 per cent in each of the two following years. The Group recommend these figures.

Social Security

12. The Survey baseline is as follows

44,197

45,617

46,758

There are very large additions as a result of the effect of revised economic assumptions and higher estimates of take-up of benefits which are inevitable without changes including the April 1987 uprating. In addition the Chief Secretary, Treasury has accepted further revisions for increased administration costs and other policy changes. The combined effect of these was to add the following net amounts to the above baseline

+1,597	+1,755	+2,618.
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In addition to this the Secretary of State for Social Services proposed further additions of £45, 35 and 11 million, whereas the Chief Secretary, Treasury sought reductions of:

- 150	- 300	- 550.
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13. After a very careful and detailed examination of the options for further savings, the Group, with the agreement of the Secretary of State for Social Services, recommend the following changes:

+ 35	- 100	- 250
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The savings in the later years will be achieved by a variety of policy changes which the Secretary of State for Social Services will be considering further with the Chief Secretary, Treasury. Some of them will require primary legislation, which will need to be introduced in November or December 1987, or very early in 1988. The Group accept that the Secretary of State for Social Services should retain some flexibility over the precise measures, and commend the above reductions on this basis.

Arts and Libraries

14. The Minister of State, Privy Council Office (Minister for the Arts) sought substantial additions to his programme (£20, £29 and £35 million in the 3 years respectively) in part to provide for overruns and other expenditure on the British Library St Pancras project, and in part for the Arts Council and for national museums and galleries. MISC 130 are concerned at the escalation of the British Library costs and agreed with the Chief Secretary, Treasury that further study is required before decisions can be taken. These bids have therefore been withdrawn and the position will be reviewed in the light of the above Study. MISC 130 have agreed the following additions to the baseline provision, with the Minister of State, Privy Council Office:

7

7

8

Wales

15 In addition to formula consequentials on central government and local authority capital programmes agreed in England, the Secretary of State for Wales sought in addition the full formula consequentials for the increase in local authority current expenditure in England resulting from the RSG settlement. This exceeded the amounts agreed for local authority current provision in Wales by:

95

97

98

MISC 130 took the view that, it would not be right to provide these full consequentials which would be devoted to the Secretary of State's other programmes. After discussion with the Group the Secretary of State for Wales agreed to surrender resources of £25, £27 and £28 million in the three years respectively. £8 million of this in each year reflects an adjustment to the baseline to reflect the change in population ratios since 1979.

Scotland

[16. To be completed later].

OVERALL POSITION

17. Parallel with the Group's discussions, the Cabinet agreed on 30 October to substantial additions for teachers' pay. Thus the position at the conclusion of the Group's work is as follows:

LA current	3.4	4.4	5.2
Teachers' Pay	0.6	0.9	1.0
Agreements reached bilaterally	1.0	0.6	1.0
Additions recommended by MISC 130	2.5	2.2	3.5
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Total additions to Programmes	7.5	8.1	10.6

(Note: Figures may not sum due to rounding).

The Group understand that the Chancellor of the Exchequer intends to consider and recommend to the Cabinet to what extent and how the Reserves need to be reconstituted in the light of the above outcome.

RECOMMENDATIONS

18. I invite the Cabinet to endorse the agreements reached, as summarised in paragraphs to above.