

Prime Minister!
Content with the
proposed paper?

Yes Mr 4/11
DLS

The hard ? President is
to be thanked most
eagerly for his
involvement
state of duty
Mr.



PRIME MINISTER

STAR CHAMBER: REPORT TO THE CABINET

I thought that you would like to see the attached copy of the Star Chamber's report which I should like to circulate tomorrow to Cabinet for consideration on Thursday.

2. After a further very difficult meeting this morning, I have now settled with Malcolm Rifkind on the basis of an addition of £10 million to baseline in 1987-88, with an equivalent arrangement in the two later years. This is not as low as either I or the rest of the Star Chamber would have wished, but I fear it was the best that was possible in the circumstances, given the desirability of not leaving this programme unresolved for Cabinet.

3. The key facts of the overall exercise are summarised in paragraphs 4 to 6 and in paragraph 17. In brief, despite reductions secured by the Group of £0.7 billion, £0.7 billion and £1.3 billion in the three Survey Years, the overall outcome (including the amount agreed last week for teachers' pay) exceeds the present published programmes, including the Reserves, by some £1.5 billion, £0.2 billion and £1.1 billion in the three years. As stated in paragraph 17 of the report, the Chancellor of the Exchequer will be recommending to the Cabinet to what extent the Reserves now need to be reconstituted.

4. What the bare figures above do not convey is the extreme difficulty of the task that faced the Star Chamber. We started from a position where the combination of the July local authority settlement, the irresistible demand led additions to the social security programme, and the range of bilateral agreements already reached by the Chief Secretary had more than exhausted the whole of the Reserve in the first year and about 90 per



cent of it in each of the two following years. Moreover, we were left with the most difficult, and certainly most politically sensitive, programmes to deal with.

5. As a result, I have to say that the negotiations were the toughest I have experienced, and in many respects the most unpleasant. In some cases, in addition to separate bilateral talks that I myself held, the Group had to hold three protracted negotiating sessions with the Minister concerned, and 25 full meetings in all. I should, of course, have liked to be able to bring the outcome nearer to the agreed planning totals. But I strongly believe that I have carried our position to the limits of political acceptability - and indeed in some cases beyond the limits of what the Minister concerned considered defensible.

6. I think that, after the dust has settled on this exercise, we shall need to consider very seriously how to tackle this exercise in the future. I am sure that the Chief Secretary will have views on this too. I should not like to see the Star Chamber again being required to operate from such a difficult and constrained negotiating position as on this occasion.

W/O

Privy Council Office
4 November 1986

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, inevitably the most difficult.

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 £4.3 billion and £5.1 billion in 1988-89 and 1989-90 respectively. In addition to these amounts it was necessary to allow for increases of £1.1 billion, £0.8 billion and £1.1 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	4.3	5.1
Additions from bilateral settlement:	1.1	0.8	1.1
Giving total agreed increases on programme of:	<u>4.5</u>	<u>5.1</u>	<u>6.2</u>
Compared with starting Reserve of:	<u>6.0</u>	<u>7.9</u>	<u>9.6</u>

AGREED PROGRAMMES

3.1	2.9	4.8
0.7	<u>0.7</u>	<u>1.3</u>
<u>2.4</u>	2.2	<u>3.5</u>

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, of which already agreed demand led changes and changes in administration costs on the social security programme account for some £1.6 billion, £1.8 billion and £2.6 billion. On the basis of the evidence presented to them the Group did not consider it practicable, in many cases from a political point of view, to seek reductions in programmes beyond this.

7. The proposals on the agreed programmes are summarised in paragraphs 8 to 16 below. All figures are in £ million unless otherwise stated.

Defence

8. The Survey baseline is as follows:-

18,817	18,990	19,268
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Changes agreed outside the Group's discussions, including contributions to the cost of advancing AOR 02, are:

- 23	+ 26	+ 40.
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The Secretary of State for Defence had proposed the following further additions to baseline -

+ 131	+ 136	+ 432
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The Chief Secretary Treasury sought reductions below baseline of £300 million in each year.

return on current net assets of 3.75 per cent in the years 1988-89 and 1989-90. (For the three years up to 1987-88 a target of 2.75 per cent has already been set). The Group believe that 3.75 per cent 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 1987 Survey. 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:

+ 5
+ 8
+ 15

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 million, £205 million and £561 million for demographic growth and 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:-

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 million, £29 million 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 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 million, £27 million 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. In addition to formula consequentials on central government and local authority capital programmes agreed in England, the Secretary of State for Scotland sought the full formula consequentials for the increase in local authority current expenditure in England from the RSG settlement, together with additional provision for regional and industrial expenditure. These sums totalled

+ 107

+ 76

+ 91

As in the case of Wales, MISC 130 took the view that it would not be right to provide either these full consequentials or the extra provision for regional and industrial assistance. After discussion with the Group the Secretary of State for Scotland agreed to reduce the additional sums he sought to:

+ 10

+ 9

+ 9

Part of the sums foregone reflects the need to take some account of the change in population ratios since 1979, as in the case of Wales.

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	4.3	5.1
Teachers' Pay	0.6	0.9	1.0
Agreement reached bilaterally	1.1	0.8	1.1
Additions recommended by MISC 130	2.5	2.2	3.5
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Total additions to Programmes	<u>7.5</u>	<u>8.1</u>	<u>10.7</u>
(compared with starting Reserves of)	6.0	7.9	9.6

(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 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 6 to 16 above.