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MISC 11(79) 1st Meeting

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CABINET

MINISTERIAL GROUP ON PUBLIC EXPENDITURE

MINUTES of a Meeting held in the  
Chancellor of the Exchequer's Room, House of Commons  
on THURSDAY, 12 JULY 1979 at 4.30 pm

PRESENT

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
(In the Chair)

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social Services

The Rt Hon John Nott MP  
Secretary of State for Trade

The Rt Hon John Biffen MP  
Chief Secretary  
Treasury

The Rt Hon Tom King MP  
Minister of State, Department of  
the Environment  
(Minister for Local Government and  
Environmental Services)

Mr John Stanley MP  
Minister of State  
Department of the Environment  
(Minister for Housing and  
Construction)

The Rt Hon Reginald Prentice MP  
Minister of State, Department of  
Health and Social Security  
(Minister for Social Security)

SECRETARIAT

Mr P Le Cheminant  
Mr P Mountfield  
Mr T J Burr

SUBJECT

PUBLIC EXPENDITURE 1980-1981

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PUBLIC EXPENDITURE 1980-81

The Committee considered the proposed additions and reductions set out in Annex B to C(79) 26 on expenditure within the responsibilities of the Secretary of State for the Environment and the Secretary of State for Social Services.

a. Department of Environment (Housing)

THE CHIEF SECRETARY, TREASURY said that he had proposed a reduction of £1264 million in the housing programme for 1980-81, although he would not object to switches in the expenditure reductions between the Secretary of State's programmes subject to consideration of the overall balance of the cuts proposed. This was higher than the  $7\frac{1}{2}$  per cent level of options for reductions which the Cabinet had requested, plus the further 3 per cent which he had proposed, because the Cabinet had agreed that options to the level of the cuts identified in Opposition should be identified where these were higher than the percentage options.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he was being asked to make a reduction in the housing programme of more than 19 per cent. With one or two exceptions, other Ministers were being asked to do considerably less. The cuts identified in Opposition had been subject to review in Government, and did not represent a binding agreement. He was, however, prepared to accept reductions in most of the areas proposed. On local authority land acquisition he could offer a saving of £100 million; on new housebuilding £425 million; on local authority mortgage interest subsidy £5 million; on option mortgage subsidy £50 million; on the first-time purchasers scheme £50 million; and on housing associations/new towns £25 million. On the other items he was prepared to accept the Chief Secretary's proposals in full, except on improvement grants, rent increases, and the further 3 per cent reduction, where he did not feel able to offer any savings. This amounted to a total reduction of some 12 per cent, which exceeded the  $7\frac{1}{2}$  per cent and the extra 3 per cent. He was separately proposing a £100 million increase in improvement grants, and a further £100 million increase on local authority mortgage lending.

In discussion it was argued that council house subsidies were a major area of subsidy expenditure which must be tackled if the necessary reductions in expenditure were to be achieved. Rents had fallen as a proportion of earnings, and represented a considerably smaller proportion than the average owner occupier's outlay. There were difficulties in getting local authorities to make the desired rent increases, but the fact that the Secretary of State for

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the Environment was prepared to offer savings in the later years implied that it could be done. On the other hand the Chief Secretary's proposal implied a 27 per cent increase in rents next year. If implemented this would add to the pressure on wages; but Labour councils would put up rates instead, and there was no way of making them increase rents apart from legal compulsion on the lines of the Housing Finance Act 1972, an approach which the Government were unlikely to want to try again. In any case legislation could hardly be effective in time for 1980-81. In the longer term the solution to the subsidy problem lay in selling council houses; but it would be wrong to put up rents at a rate which could be misrepresented as coercion to buy. On the other hand, there would be little incentive to buy if the level of rents was too low. If a larger saving was needed on housing in 1980-81, an alternative way of achieving it would be to sell new town assets, though strictly this should count towards the £500 million sale of assets proposed in C(79) 26.

b. Department of the Environment (PSA and other)

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he accepted in full the Chief Secretary's proposals on the Property Services Agency. On other expenditure, he accepted all the proposals (though the saving on Parliamentary building would be achieved by absorbing the cost, not by cancelling the work) except on the extra 3 per cent and on the urban programme, where it was important to maintain the planned increase in expenditure, for example to provide for the rehabilitation of derelict inner city sites. He was however, prepared to increase the saving on miscellaneous expenditure from £2 million to £4 million.

In discussion it was pointed out that the Chief Secretary's proposal on the urban programme was to avoid an increase, not to reduce the existing level of expenditure. Moreover, the proposed reduction on local environmental services was relatively small, though this reflected the difficulty of getting local authorities to make reductions.

THE CHANCELLOR OF THE EXCHEQUER, summing up the discussion of the first two items, said that the Secretary of State for the Environment had reserved his position on the level of local authority rents, and the Committee would have to report disagreement on the housing programme. The extra 3 per cent cut on other expenditure was also disagreed. On the urban programme the Committee agreed that the proposed reduction should be halved to £30 million, and that the

Secretary of State for the Environment should take measures to secure the remaining £30 million by further reductions on local environmental services. All the other non-housing changes were accepted as agreed in discussion.

The Committee -

1. Took note, with approval, of the Chancellor of the Exchequer's summing up of this part of their discussion.

c. DHSS (Social Security)

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he did not think that the necessary Parliamentary support would be forthcoming for raising women's pension age, or for abolishing the maternity and death grants. The abolition of preferences would be contrary to categorical assurances in the case of war pensions, and would cause a strong union reaction in the case of industrial injury benefits. Given the proposal to shift the cost of sickness benefit to employers in the first six weeks of sickness (which could not be implemented in 1980-81) and the proposal to tax short-term benefits, it would be very difficult to take further action on short-term benefits by modifying earnings related supplement as proposed. However, he was prepared to make up most of these savings by a saving of £35 million from postponing next year's uprating for a week to restore its original 1975 November date, and by an additional £30 million saving on fraud prevention, provided that an additional 1000 staff could be agreed. He accepted all the other reductions.

In discussion, it was pointed out that savings could also be made in the revenue and other fields by increased fraud prevention effort. Although there was a Manifesto commitment on social security fraud, the implications of this proposal would have to be examined before it could be accepted. Another possible saving would be to cease paying invalidity benefit on the basis of linked spells on sickness benefit. This should also be examined, as should the possibility of savings on public service pensions, including local authority pension arrangements.

d. DHSS (Health and Personal Social Service)

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he accepted the £85 million saving on health. On personal social services, he felt that a global reduction in local authorities' expenditure, which left them free to decide on the allocation of cuts, would be better than attempts to secure reductions in

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specific areas such as personal social services. This was also relevant to the question of the extra 3 per cent on the Secretary of State for the Environment's expenditure.

THE CHANCELLOR OF THE EXCHEQUER, summing up the discussion on these two items, said that the Committee had identified possibilities for further savings on social security and on public service pensions which needed further study. The Chief Secretary, Treasury, should arrange for officials to examine these urgently, and also the possibility of a new regime for local authorities' expenditure which would apply separate limits to total current and capital expenditure, leaving them to decide the allocation between services.

The Committee -

2. Took note, with approval, of the Chancellor of the Exchequer's summing up of their discussion, and invited the Chief Secretary, Treasury, to proceed accordingly.

Cabinet Office

13 July 1979

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