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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on

MONDAY 23 JULY 1979

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

Rt Hon William Whitelaw MP  
Secretary of State for the Home Department

The Rt Hon Lord Hailsham  
Lord Chancellor

Rt Hon Lord Carrington  
Secretary of State for Foreign and  
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon Francis Pym MP  
Secretary of State for Defence

Rt Hon Lord Soames  
President of the Council

The Rt Hon James Prior MP  
Secretary of State for Employment

Rt Hon Sir Ian Gilmour MP  
Privy Seal

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

Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

Rt Hon Humphrey Atkins MP  
Secretary of State for Northern Ireland

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

Rt Hon Norman St John-Stevas MP  
Chancellor of the Duchy of Lancaster

The Rt Hon John Nott MP  
Secretary of State for Trade

Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP  
Secretary of State for Education and Science

Rt Hon John Biffen MP  
Secretary, Treasury

The Rt Hon Angus Maude MP  
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

Hon Norman Fowler MP  
Minister of Transport

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt  
Mr P Le Cheminant  
Mr P Mountfield

SUBJECT

PUBLIC EXPENDITURE



The Cabinet's discussion and the conclusions reached are recorded separately.

CABINET

LIMITED CIRCULATION PAPER

GC(79) 112: C. 12-13-14

Monday, 23 July 1979 at 12.30 pm

The Cabinet reached its discussion of public expenditure in 1979-80... The Cabinet had before them a reference from the Chancellor of the Exchequer... regarding further discussion... on Public Expenditure (MHC 11) about the... and a letter dated 23 July from the... regarding reductions in the... programmes.

In relation to individual programmes, the following points were...

a. Development Programme: It was found that agreement... had been reached in MHC 11 on reductions of £1,000 million... of £55 million in the programmes... of the Property Services Agency, and of £225 million in... of the Department of the Environment's agencies. The Cabinet...

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23 July 1979

...to the proposed increases in council house rents... which relief was... had been set to £2,000 without adjustment for... inflation.

b. Education and Science: It was argued that... £10 million in the provision of school transport would... involve substantial increases in charges, particularly in... rural areas. On the other hand, there was a strong case... for rationalising the present arrangements for school... transport. Power urged Ministers to consider the... Bill to allow local authorities to charge for school transport... leaving it to them to decide the extent of provision. It would... be desirable to save £10 million in the... first year if this were done, without prejudicing the... consequences, which would be for individual authorities to...

CABINET

## LIMITED CIRCULATION ANNEX

CC(79) 11th Conclusions

Monday 23 July 1979 at 10.30 am

The Cabinet resumed its discussion of public expenditure in 1980-81. In addition to the papers considered at their earlier meeting, the Cabinet had before them a minute from the Chancellor of the Exchequer to the Prime Minister, dated 20 July, reporting further discussions in the Ministerial Group on Public Expenditure (MISC 11) about the Environment programmes; and a minute dated 20 July from the Secretary of State for Education about the proposed reductions in the Education programmes.

In discussion of individual programmes, the following points were made:-

a. Environment Programmes. It was noted that agreement had been reached in MISC 11 on reductions of £1,000 million in housing programmes; of £54 million in the programmes of the Property Services Agency; and of £225 million on other Department of the Environment services. The Cabinet did not favour a suggestion that higher rate relief on mortgage interest payments should be withdrawn as a counter-balance to the proposed increases in council house rents. The reduction in higher tax rates in the Budget had sharply raised the real cost of mortgages to those paying the higher tax rates and the maximum mortgage on which relief was granted had been held to £25,000 without adjustment for inflation.

b. Education and Science. It was argued that cuts of £40 million in the provision for school transport would involve substantial increases in charges, particularly in rural areas. On the other hand, there was a strong case for rationalising the present arrangements for school transport. Power might therefore be taken in the Education Bill to allow local authorities to charge for school transport, leaving it to them to decide the extent of provision. It would be reasonable to take credit for savings of £20 million in the first year if this were done, without specifying precisely the consequences, which would be for individual authorities to



work out. On student grants, it was pointed out that there would be considerable opposition to the changes in the minimum parental contribution which would be required to achieve the proposed reductions. These would bear particularly heavily on middle-income families. The £20 million savings on this score might be forgone, and a further £10 million found from other parts of the Higher Education Budget. £10 million should be taken from the allocation for science. The reduction in provision for under-fives should be confined to £20 million, which would leave provision in 1980-81 at about this year's level.

c. Arts and Libraries. Despite the considerable presentational difficulties, reductions of £28 million were agreed on this programme.

d. Health. A reduction of £85 million was agreed, noting that the health programmes had already had to absorb the additional £45 million cost of the Value Added Tax increase in the Budget.

e. Personal Social Services. Reductions of £118 million were agreed, noting that this involved a cut of almost 10 per cent in the services provided.

f. Social Security. The original proposals by the Chief Secretary, Treasury, involving abolition of death grant, an increase in the pension age for women, and other measures, were politically impracticable. As an alternative it had been suggested that the waiting days for sickness and unemployment benefit should be increased from 3 to 6. Another, and more attractive, way of finding most of the money forgone would be through additional anti-fraud measures, provided the Department were allowed to recruit additional staff for the purpose. It was noted that other Departments might be able to make comparable savings from the recruitment of additional staff, but there were strong political reasons for singling out Social Security fraud for special treatment. The Department of Health and Social Security should be allowed to employ an additional 600 staff on anti-fraud work aiming at a net saving of £30 million a year, and more if possible. Claims for additional staff by other Departments for similar work should be resisted. Savings totalling £222 million were agreed on this basis.

g. HMSO, CSD and COI. The cuts proposed by MISC 11 were agreed.

h. Scottish Office. A recalculation of the figures since the MISC 11 discussions suggested that the appropriate cut was £272 million subject to adjustment in the light of the Cabinet's decisions on individual programmes. Precise figures should be agreed in MISC 11 and reported back to the Cabinet on 26 July.



- i. Welsh Office. Although a pro-rata allocation of the cuts made for English programmes suggested a reduction of £110 million, there was a strong case for preferential treatment for Wales, based on manifesto commitments to maintain the road programme, which lagged behind that in England, and on the need to offset the effects of steel and coal closures. There was also evidence that the general provision of public services in Wales was below that in the rest of the country. As with Scotland precise figures should be agreed in MISC 11 and reported back to the Cabinet.
- j. Northern Ireland. A pro rata allocation suggested a reduction of £111 million, even though this would lead to increasing unemployment at a time when the security situation was still highly critical. A reduction of £90 million might be practicable. MISC 11 should look at this together with Scotland and Wales.
- k. Coal. The Secretary of State for Energy was in separate discussion with the Chief Secretary, Treasury, about the level of finance for the coal industry. The conclusions should be reported to Cabinet.
- l. Other nationalised industries. The reductions proposed in Table 3 of C(79) 26 were all agreed. It was noted that this involved an increase in gas prices in real terms in 1980. It was also noted that the continued strength of sterling might seriously damage the trading prospects of certain nationalised industries leading to increased calls on the Exchequer.
- m. Contingency Reserve. A reduction of £750 million in the Contingency Reserve for 1980-81 was agreed. It was noted that Ministers would have to exercise considerable discipline in bringing forward proposals for additional expenditure if this limit were to be held.
- n. Disposals. It was noted that the target for disposals in 1980-81 would be £500 million.
- o. Civil Service. It was noted that the Chief Secretary, Treasury's, proposals assumed that the further manpower savings to be considered by the Cabinet in September would yield at least a further £150 million.
- p. End-Year Flexibility. It was noted that the Chief Secretary, Treasury, proposed to arrange, without any commitment, for officials to consider possible ways of allowing some flexibility on the allocation of expenditure between financial years, and to report back to Ministers in the autumn.



In further discussion of presentation and tactics, it was argued that any Government announcement before the Recess would automatically lead to pressure for a debate. There was no possibility of the House sitting beyond 27 July. It was not normal practice to announce the decisions about the immediately following financial year at this early stage. In any case, decisions on subsequent years would have to wait until the autumn. However, the local authorities and nationalised industries would need some indication of the Government's intentions, in order to allow planning during the summer. Without this, there was some danger that the full reductions would not in practice be achieved in 1980-81. Ministers needed to give further thought to the precise form of any such guidance.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had now taken clear decisions on all Departmental expenditure programmes, except for the minor adjustments needed to the Scottish, Welsh and Northern Ireland programmes to take account of decisions taken that morning. The Ministerial Group on Public Expenditure should meet the next day to agree figures for these three programmes, and should report their recommendations to Cabinet for consideration on 26 July. The Cabinet had also approved the proposed borrowing figures for the nationalised industries set out in Table 3 of C(79) 28, with the exception of the coal industry, for which provision should be agreed between the Secretary of State for Energy and the Chief Secretary, Treasury, and reported to Cabinet. At their next meeting the Cabinet should also consider the precise terms of any guidance to be given to local authorities and nationalised industries, including the question of whether the reductions should be presented as a single global total, or should be itemised. Cabinet had taken a number of other related decisions. The Contingency Reserve for 1980-81 should be reduced by £750 million. The Cabinet would begin its discussions of Civil Service manpower in the autumn on the assumption that further savings of £150 million could be found in 1980-81. The Chief Secretary, Treasury, should arrange for officials to consider the question of end-year flexibility, and report to the Cabinet in due course. Any guidance given to the Press following the meeting, should make it clear that Ministers were considering public expenditure plans in the ordinary way, with a view to publishing a White Paper somewhat earlier than had been the practice in recent years; good progress had been made so far and there was general agreement about the Government's approach to the problems.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Ministers concerned to proceed accordingly.

Cabinet Office

24 July 1979



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\*Dup D of Mr Messman  
30/7/79 to Max Mellan

CABINET OFFICE
A 2957
20 JUL 1979
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FILE No. _____

cc Sir K Bennell  
 \* Mr Le Chennard  
 Mr Mountfield Dup D.  
 of Mr Messman  
 27/7/79  
 KL Parry

PRIME MINISTER

E63 D. of Mr Messman  
 27/7/79  
 KL Parry

PUBLIC EXPENDITURE 1980-81: EDUCATION AND SCIENCE

We are to resume discussion of my programme in Cabinet on Monday; and it may be helpful if I send you this note about some points which, as the minutes of yesterday's meeting (CC(79)10th Conclusions, Minute 4) bring out, caused particular concern.

I understood you to take the view that the unspecified additional cut of £30m proposed in para 35 of the MISC II report attached to C(79)31, coming on top of the £517m, went too far and should be omitted. Within the £517m there are three particularly difficult elements involving new or increased charges which might stimulate demands for excessive pay claims and have serious political consequences:-

Under 5's. Unless we are to make drastic cuts in nursery education, the proposed saving of £70m could be achieved only by amending the 1944 Act to allow local authorities to charge (perhaps £4 a week even for part-time attendance). Perhaps therefore we should stick to my original figure of £20m, which would enable us to keep provision in 1980-81 at about this year's level.

School transport. The proposed saving of £40m would require legislation to enable local authorities to charge children living more than the "statutory walking distances" (3 miles for secondary pupils, 2 miles for others) from school. The impact, especially in rural areas and on children attending denominational schools, would be severe: to save half the present subsidy the charges would have to average £2.50 to £3 a week. At the very least, the Cabinet may prefer to postpone action on this until 1981-82.

Student grants. Of the proposed saving of £30m, £20m would involve big increases in the parental contribution from those middle managers which the tax cuts in the Budget were particularly designed to help. It would also run counter to our long-term aim of abolishing the parental contribution when resources allow: and, since this might prove the most unacceptable of all the cuts in my programme, I think on reflection it should be

SECRET



dropped. It might instead be possible to find savings of £10m elsewhere in higher education (making a total of £45m in that sector).

I should perhaps also say a word about science. A cut of as much as £10m in the budget of the Research Councils would take it below this year's figure, even as reduced by the Budget cut. As you know, Britain still excels in science, and it is important that we should maintain support for our very able young scientists.

I am sending copies of this minute to the other members of the Cabinet, the Minister of Transport and Sir John Hunt.

*Penny Gage*

*Jc* MARK CARLISLE

30 July 1979

(Approved by the Secretary of State and signed in his absence)





*Handwritten notes:*  
\*Dep D Gubb Mossman  
30/7/79  
& Mac Millan  
cc Sir K Bernard  
\*Mr Lechominob  
Mr Mountfield Dup  
D. G. Mossman  
27/7/79  
K. Lawby

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2981  
23 JUL 1979  
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FILE No. 11514

PRIME MINISTER

PRESENTATION OF PUBLIC EXPENDITURE CUTS

After our discussion in Cabinet yesterday, I have been thinking further about the presentation of our decisions on public expenditure.

2. My minute of 18th July pointed to the operational arguments for announcement before the recess. But there are formidable difficulties about this course. If we set it aside, we shall, as we realize, need to find a way of giving sufficient early guidance to local authorities to enable the changes we want in their programmes to be implemented in an orderly way. But the point I want to raise in this minute is that, if our main announcement is delayed until the autumn, this gives a useful - crucial, indeed - opportunity to do more to prepare public opinion.

3. The fact is that the public in general are unprepared for the scale and nature of the public expenditure "cuts" which we are discussing. Many do not understand why such cuts are needed. On previous occasions large expenditure cuts have been understood as the response to a sterling crisis. This time there is no apparent crisis of this kind to explain the scale of the action proposed. On the contrary, sterling is strong, and the cuts will be thought by some to be an unnecessary attempt to impose extreme notions about economic management.

4. We should seek to prepare public opinion in advance. With the other Treasury Ministers I propose to underline, in speeches and

/ to .....



the media, the seriousness of the situation which we face, and its implications for expectations not only about living standards in general but about the standard of public services. It will clearly be most useful if all our Cabinet colleagues are willing to join in this campaign.

5. This could lead up to the publication in the autumn of a White Paper giving a full assessment of the economic prospects for the medium term, to set the context for a comprehensive announcement of our public expenditure plans, covering not only 1980-81 but also the later years of the survey, for which the Chief Secretary and I will be bringing forward proposals after the holidays. A comprehensive announcement of this kind could not of course be made until we have taken our decisions on the later years, but it ought to be possible to do it by the end of October, which would be satisfactory provided that we find a solution to the immediate problem of the local authorities.

6. The procedure we can discuss further at Cabinet on Monday. The point I want to emphasize now is the importance of the political task of presentation, and the possibility of using the coming weeks to build on what was said at the time of the Budget to prepare the ground for the strategy we are now implementing on public expenditure.

7. I am copying this minute to the Paymaster General, the Chief Whip and Sir John Hunt.

*G.H.*

(G.H.)

20 July, 1979