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MISC 11(79) 4th Meeting

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CABINET

MINISTERIAL GROUP ON PUBLIC EXPENDITURE

MINUTES of a Meeting held in
Conference Room A, Cabinet Office
on TUESDAY 17 JULY 1979 at 8.45 am

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 George Younger MP
Secretary of State for Scotland

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon John Biffen MP
Chief Secretary
Treasury

Sir Anthony Rawlinson
Treasury

SECRETARIAT

Mr P Le Cheminant
Mr P Mountfield
Mr D R Instone
Mr T J Burr

SUBJECT

PUBLIC EXPENDITURE 1980-81

Revised 20.7.79

PUBLIC EXPENDITURE 1980-81

a. Scottish Office

THE SECRETARY OF STATE FOR SCOTLAND said he was assuming that under the Chief Secretary's proposals on the basis set out in his memorandum (C(79) 26) he would be expected to find savings of £326 million for reductions in comparable programmes to those in England and Wales, together with a reduction of about £30 million in Scottish trade and industry programmes; these were revised estimates compared with those given in Annex B of C(79) 26. The proposed reductions would present great difficulties. First, there would be considerable problems in persuading the local authorities to accept the reductions, particularly if a further 3 per cent reduction was included. It was possible instead they would attempt to carry out programmes on a greater scale than implied by the reductions, but pay for them through increases in rates or through drawing on their reserves. Second, the proposed reductions implied a high proportion of cuts in specific areas of Scottish Office expenditure, since a high proportion of the total expenditure was in areas such as health, which was largely protected from reductions. Third the proposed reductions in expenditure and industrial assistance implied that this might not be possible to meet all likely commitments for regional selective assistance under Section 7 of the 1972 Industry Act. He hoped at least that it would be possible to draw on the contingencies fund if necessary to provide Section 7 assistance on desirable industrial projects. On this basis, he was prepared to accept the reductions proposed by the Chief Secretary except that he could not accept the further 3 per cent reduction proposed by the Chief Secretary. He noted that expenditure by the Department of Agriculture and Fisheries for Scotland (DAFS) had already been discussed by the Group when they had considered expenditure by the Ministry of Agriculture, Fisheries and Food (MAFF). He accepted the Chief Secretary's proposals in this area, except that he had doubts about whether it would be practicable to obtain savings through the abolition of sheep and potato price guarantees, since the prospect of agreement being reached on common European Community-based regimes did not appear high. He was also sceptical about the chances of producing savings in Scotland through their disposal of land owned by the Forestry Commission and his own Departments.

In discussion it was argued that under the Chief Secretary's proposals reductions in expenditure on comparable Scottish programmes were intended to be proportionate to reductions in the same programmes in England and Wales; there was therefore no question of the Scottish Office having to suffer disproportionate cuts in "non-protected" expenditure. As for expenditure on trade and industry, even with the proposed reductions, the Scottish Office would have sufficient resources to meet existing commitments. If additional expenditure was proposed on regional selective assistance beyond the proposed Scottish Office allocation, the scope for the provision of such assistance from the contingencies fund could always be considered on a case by case basis, as had been the practice in the past - although there should be no presumption of especially favourable treatment.

THE CHANCELLOR OF THE EXCHEQUER, summing up the discussion, said that the Group noted that the Secretary of State for Scotland was prepared to accept the reductions proposed by the Chief Secretary other than the further 3 per cent reduction. Officials should consider further whether the reduction proposed by the Chief Secretary in expenditure by the DAFS needed to be examined in the light of the prospects for the abolition of sheep and potato price guarantees.

The Group -

1. Took note, with approval, of the summing up of their discussion by the Chancellor of the Exchequer.

b. Draft Report

The Committee considered a draft of their report to Cabinet which had been prepared by officials and circulated at the meeting.

Sir Anthony Rawlinson, introducing the draft report, said that its recommendations had been suggested by officials in the light of the Committee's discussion of individual programmes, but were not all based on specific decisions by the Committee. The Committee would therefore now need to decide what it wished to recommend, bearing in mind that the recommendations in the draft totalled some £ $\frac{3}{4}$ billion less than the proposals in C(79)26, and therefore already represented a fallback position. The draft also contained a recommendation

that the reductions in local authority current expenditure should be announced as a single figure. This reflected the proposal which had emerged in the Committee's discussions, but it was unlikely to be acceptable to all Departments.

In discussion, it was argued that the proposed recommendations represented the most that was likely to be practicable in respect of the programmes to which the full options for reductions applied. If more was to be found, it would probably be necessary to look again at the protected programmes, such as defence, law and order, and health. In particular, the definition of defence expenditure to which the commitment to 3 per cent growth applied should be re-examined. The reductions proposed for housing were particularly large, and it might be better to include them in the proposed global reduction in local authority expenditure. However this global reduction was already large, and posed a threat of major increases in rates, given the probable unwillingness of many local authorities to cut expenditure. Some relief might be provided for housing by not pressing the further 3 per cent reduction for this programme. More generally, little had been done to prepare the public for action on the scale proposed, though this was not a reason for not attempting to achieve the necessary reductions.

The Chancellor of the Exchequer, summing up the discussion, said that the Committee generally endorsed the draft as a report to Cabinet on their discussions. Together with the Chief Secretary, Treasury, he would consider it further in the light of the points made in discussion and would circulate the final report to Cabinet in the course of the day.

The Committee -

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

Cabinet Office
19 July 1979