

SECRET

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

MISC 11(79) 2nd Meeting

COPY NO

22

CABINET

MINISTERIAL GROUP ON PUBLIC EXPENDITURE

MINUTES of a Meeting held in Conference
Room A, Cabinet Office on
FRIDAY 13 JULY 1979 at 9.30 am

PRESENT

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

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

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

The Rt Hon John Biffen MP
Chief Secretary
Treasury

Baroness Young
Minister of State
Department of Education and Science

SECRETARIAT

Mr P Le Cheminant
Mr P Mountfield
Mr T J Burr

SUBJECT

PUBLIC EXPENDITURE 1980-81

SECRET

SECRET

SECRET

PUBLIC EXPENDITURE 1980-81

The Committee considered the proposed additions and reductions set out in Annex B to C(79) 26, and in C(79) 28, on expenditure within the responsibilities of the Secretary of State for Education, the Secretary of State for Defence, and the Secretary of State for Energy.

i. Education and Science

The Secretary of State for Education said that he had considered his programme further in the light of the Cabinet discussion on 12 July, and was prepared to table larger reductions than he had originally offered. He was prepared to accept the reductions on nursery education and school transport which the Chief Secretary had proposed if the Cabinet decided that they were politically tolerable. Legislation would be needed in both cases, and would give local authorities freedom to decide either to curtail the service or to charge for it (and the latter was politically the more attractive option). The intended reductions would then be taken into account in the rate support grant settlement, though this would not itself ensure that local authorities reduced expenditure accordingly. On school meals and milk he was prepared to go further than the Chief Secretary had proposed by halving expenditure by a cut of £200 million. He was doubtful whether the full saving would in practice be achieved in 1980-81, but was prepared to see it included for that year. On school standards he was prepared to offer £60 million; on school building £20 million; on higher and non-advanced further education current expenditure £35 million and £10 million respectively; on fees for overseas students £20 million; on increased parental contributions £30 million, though the Cabinet's attention would have to be drawn to the severe effect of this saving on those most affected; on adult education and administration £10 million; and £10 million on research councils.

In discussion, there was general agreement with the Secretary of State's proposals. However, the saving on fees for overseas students assumed that higher fees were applied only to new students. While there were objections to making an increase for existing students on the scale proposed, there could be scope for some real increase in their fees also, and this should be examined. The Secretary of State was also not prepared to accept the Chief Secretary's proposed saving on the Youth Service, and this should be recorded as disagreed, as should the extra 3 per cent reduction on the programme as a whole. But a further £5 million cut could be found on adult education and administration.

SECRET

SECRET

The Chancellor of the Exchequer, summing up this part of the discussion, said that the Committee were agreed on a reduction of £525 million in this programme, on the basis agreed in discussion, subject to the possibility of additional savings on fees for overseas students, which would be further considered by the Secretary of State for Education.

The Committee -

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

ii. Defence

The Chief Secretary, Treasury, said that it was necessary to settle figures for the defence budget not only for 1980-81 but also for the current year. Before the Budget the volume of expenditure in the current year was expected to be squeezed by £250 million through the operation of cash limits. This was partly offset by an agreed increase in the programme of £100 million for procurement. The prospect for prices following the Budget entailed a further squeeze of £180 million on the defence programme, which it had been agreed to offset by further increasing the cash limit. If the £180 million were rounded down to £150, the total increase in the defence cash limit for the current year could be set at a round figure of £250 million. For 1980-81, he proposed that the defence budget should be calculated by applying a 3 per cent increase to the inherited plans for 1979-80 as reduced by the pre-Budget £250 million squeeze, and increased by the £100 million addition and an extra £50 million for exchange rate appreciation. This would give a saving of £115 million on the inherited plans for 1980-81. This figure replaced the figure of £300 million in C(79) 26, which had been calculated before the decision not to impose the further £180 million squeeze.

The Secretary of State for Defence said that the NATO allies were expecting a 3 per cent increase, and that to carry conviction this had to be based on the inherited plans for the current year, not on a forecast of the volume out-turn. Otherwise the defence budget for 1980-81 would be lower than planned by the previous Government, which was more than embarrassing in view of the Government's commitment to give priority to defence.

SECRET

SECRET

In discussion it was argued that what mattered for the purpose of achieving the 3 per cent target was not the plans but the level of expenditure in successive years. The previous Government's White Paper (Cmd 7439) gave an unreal picture. The difficulty of explaining the difference between outturn and plan as a basis for the 3 per cent growth was minimal compared with the political problems posed by reductions on some other programmes. The Chief Secretary's proposal would still mean a total real increase of $7\frac{1}{2}$ per cent between 1978-79 and 1980-81.

The Chancellor of the Exchequer, summing up the discussion, said that there was a clear disagreement about the baseline for calculating the 3 per cent increase for 1980-81. The Secretary of State for Defence, while reserving his position, had agreed to consider whether a basis could be found for accepting the starting point proposed by the Chief Secretary, in the light of the points made in discussion.

The Committee -

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

iii. Energy.

The Secretary of State for Energy said that he was anxious to help so far as possible in the search for savings, but he could not agree to all the options put forward by the Chief Secretary to Cabinet. At a time when it was more than ever essential that Britain should reduce its energy consumption and its dependence on imported fuel, he could not offer significant reductions in research and development, and would have a substantial additional bid to make in respect of energy conservation programmes. He could not therefore accept cuts of £5 million in non-nuclear and £7 million in nuclear R & D, nor the general overall 3 per cent reduction which would have yielded a further £5 million. It would however be important to make sure that the nuclear programme remained under control. He was prepared to recommend a steep increase in gas prices, equivalent to option 3(b) in the Chief Secretary's paper to Cabinet, but he wished to remind his colleagues of the implications for industrial costs and the retail price index. He would accept a similar

SECRET

SECRET

increase in electricity prices, but wished to retain some room to shift the proposed savings between electricity and gas in the light of developments. On gas prices, his own preference would be to remove the BGC monopsony position, and let market forces determine the price paid for gas, removing the excess profits from the oil companies by way of additional taxation. This would avoid the presentational difficulty of very high profits accruing to BGC. On the British National Oil Corporation, he would be prepared to accept the cut of £75 million on ENOC investment, if indeed the Corporation survived the current review in its present form. He could not however accept the proposed reduction of £55 million on finance for the coal industry, and had tabled an additional bid of £33 million instead. This had already been given preliminary discussion in the Ministerial Committee on Economic Strategy, Sub-Committee on Economic Affairs. A large cut at this stage would prejudice the very delicate balance of the strategy he hoped to adopt with the Coal Industry.

THE CHIEF SECRETARY, TREASURY, summing up this part of the discussion, said that in his report to Cabinet, he would set out the choices opened to Government on the energy programmes, taking full account of the points made by the Secretary of State for Energy. It would not be possible to reach any further agreement at the present meeting.

The Sub-Committee -

3. Took note, with approval, of the Chief Secretary's summing up of their discussion, and invited the Ministers concerned to be guided accordingly.

Cabinet Office

16 July 1979

SECRET