

C(79) 13

COPY NO

76

29 May 1979

## CABINET

## PUBLIC EXPENDITURE REDUCTIONS 1979-80

Memorandum by the Chief Secretary, Treasury

1. At our meeting on 17 May (CC(79) 2nd Conclusions, Minute 4) I was asked to propose targets for reductions in Departmental programmes for 1979-80 and to report back to Cabinet, following discussions with the Ministers concerned. I attach the allocation which I circulated.
2. I can report that, subject to the unresolved issues mentioned below, the Ministers concerned have agreed to meet the targets proposed. I gratefully acknowledge the positive responses I have received from colleagues, notwithstanding the difficulties to which they have drawn attention.
3. Ministers' responses have confirmed that the savings will be achieved by measures broadly on the lines proposed in the attachment to my letter of 21 May, but I should bring the following points to the Cabinet's attention:-
  - i. The Secretary of State for Social Services proposed increasing prescription and dental charges to raise £51 million this year, including Scotland. To mitigate the overall effect of the Budget on prices, the Chancellor of the Exchequer and I now recommend against proceeding with this. I proposed that the target of the Secretary of State for Social Services should be reduced accordingly to £40 million, which he proposes to achieve by legislation in the Social Security Bill to increase waiting days for sickness and unemployment benefit. A corresponding adjustment should be made in the Secretary of State for Scotland's target.
  - ii. For similar reasons, we recommend against raising the proposed increase in the school meals charge from 5p to 10p, by which the Secretary of State for Education and Science proposed to raise £22 million this year. In this instance, it should be practicable to find this amount from the education, science and arts budget in other ways; and I recommend that we should do so.



- iii. A substantial portion (£140 million) of the Secretary of State for Industry's savings consists in a four months' moratorium in payment of regional development grant. I propose that we accept this, but it will impose an additional cost subsequently when it is reversed and will increase the savings we will need in the industry programme in later years.
- iv. The Foreign and Commonwealth Secretary has proposed savings of £40 million rather than the £50 million I suggested. I believe that it should be practicable to find the remaining £10 million from the aid programme and proposed that we ask him to make a further effort to achieve this.
- v. The Secretary of State for Northern Ireland is concerned that there may be insufficient funds in the Northern Ireland programme this year. He has agreed to meet his proposed share of these reductions, but expects to have to submit a claim on the Contingency Reserve during the year to finance the continuation of Northern Ireland's Meat Industry Employment Scheme.

#### THE OUTCOME OF THE EXERCISE

4. The savings identified by the Secretaries of State for Industry and for Employment exceeded their targets by £22 million in total; and the Co-operative Bank have agreed to refinance £25 million of outstanding export credit. These additional amounts come close to offsetting the loss of savings from health charges. Providing that the Secretary of State for Education and Science can make up in other ways the loss of revenue from the school meals charge, and the Foreign and Commonwealth Secretary can find another £10 million from the aid programme, the reductions will reach the overall target of £1,365 million this year proposed in my letter of 21 May.

#### DEFENCE

5. We agreed on 17 May that there was a case for increased expenditure on defence, and a figure of £100 million was proposed. I recommend accepting this addition to the defence programme this year: the Secretary of State for Defence proposes to reinforce it by a vigorous economy campaign.

#### DISPOSAL OF ASSETS

6. I was also asked by Cabinet on 17 May to review the scope for selling public sector assets with the aim of realising at least £1,000 million in 1979-80. After consulting colleagues, the Financial Secretary, Treasury, and I conclude that without special legislation it should be possible to realise £1,200 million.



7. Half would come from selling British Petroleum shares and £500 million from the oil assets of the British National Oil Corporation and British Gas, of which British Gas' share should amount to at least £200 million. The remaining £100 million would come from National Enterprise Board shareholdings. There are a number of minor possibilities which it may be possible to add to this total.

8. We are also examining the scope for selling off land and buildings owned by Government agencies; but this will take time, and may not realise any significant savings in this financial year.

CONCLUSIONS

9. I invite the Cabinet:-

i. To note that, provided other savings can be found to replace the higher increase in school meals charge and a further £10 million can be found from the aid programme, the overall target of £1,365 million (1979 Survey prices) proposed in my letter of 21 May has been achieved.

ii. To agree to increase the defence budget this year by £100 million.

iii. To note that it should be possible to realise £1,200 million this year from the sales of public sector assets proposed in paragraph 7.

W J B

Treasury Chambers

29 May 1979





Treasury Chambers, Parliament Street, SW1P 3AG

21 May 1979

The Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
London SW1

The Memorandum which I circulated to Cabinet on the scope for cuts in 1979/80 - C(79)4 - proposed reductions of £750-850 million (the proposals in the Annex plus proportionate cuts in the relevant services in Scotland and Northern Ireland). We agreed at Cabinet that the aim should be to find extra savings of £500-600 million and that I should formulate targets for reduction by each Department.

I attach an allocation. As pointed out in the Cabinet discussion we cannot tackle this by blanket percentage reductions: the need is to ensure that every Minister makes the maximum savings possible within his own programme. I have therefore started from the proposals in my Memorandum and in scaling them up I have taken account of our priorities and of what is likely to be practicable in the remainder of 1979-80. I indicate in the attachment some areas for reductions which I have had in mind but it will of course be acceptable if the Ministers concerned prefer to make equivalent or larger savings in other ways.

I hope that, in the light of Thursday's Cabinet decisions, you and our other colleagues will accept these reductions and, in consultation as necessary with the Secretaries of State for Scotland and Wales on the programmes covering Great Britain as a whole, let me know in broad terms how you propose to implement them in your respective areas of responsibility.

The measures proposed should be additional to those resulting from our agreed cash limits policy this year and, in the case of the nationalised industries and other bodies, to the proceeds of sales which are being discussed separately with the Ministers concerned. Similarly, the measures should be additional to the reductions in local authority current expenditure which we are seeking to get by reducing the cash limit on the Rate Support Grant.

CONFIDENTIAL

I should be grateful to hear from you and the other colleagues concerned by 24 May so that I can report back to Cabinet in the following week.

There are two further points to which I draw your attention. I recognise the limitations on cutting expenditure in 1979-80 but such reductions are to be preferred to capital expenditure and, in general, to increases in charges. Second, we must avoid choosing reductions in 1979-80 of a kind which will increase our problems in reducing expenditure in 1980-81 or later years. The importance of achieving sufficient reductions in the figures we have inherited for those years will be quite as great as for the current year.

If you or any other colleagues would like to discuss the means by which the reductions should be achieved, I would gladly arrange that.

I am copying this letter to the Prime Minister, to other members of the Cabinet, to the Minister of Transport and to Sir John Hunt.

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JOHN BIFFEN

PS. I will be replying separately to your letter to Geoffrey Howe of 18 May.



## PROPOSED REDUCTIONS IN EXPENDITURE 1979-80

£ million in 1979  
Survey prices

Secretary of State for the Environment	450
Very substantial reductions appear feasible through a combination of measures on the housing programme, plus halting further land purchases under the Community Land Scheme.	
Secretary of State for Industry	225
Action on NEB, regional support and the SDA and WDA as proposed in C(79)4: further action appears feasible on nationalised industries and/or assistance to industry.	
Secretary of State for Employment	160
Restriction of special employment measures as proposed in C(79)4 plus further reduction in MSC expenditure.	
Secretary of State for Energy	200
Restraint on BNOC and energy research plus further action on nationalised industries finance, mainly through pricing policies.	
Secretary of State for Education	60
Large proportion of programme is local authority current expenditure to be tackled through reduction in RSG cash limit, but savings should be possible on lines proposed in C(79)4 or by action on capital allocations or grants.	
Secretary of State for Social Services	80
Mainly prescription charges.	
Foreign and Commonwealth Secretary	50
Mainly aid.	
Minister of Transport	25
British Rail fares and possibly road construction.	

£ million in 1979  
Survey prices

Secretary of State for Trade 5  
Principally abolition of Price Commission

Secretary of State for Scotland 75  
Proportionate share of reductions in  
English programmes, plus parallel action  
on energy prices to that proposed in  
England.

Secretary of State for Northern Ireland 35  
Proportionate share of reductions in  
GB programmes

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1365

The reductions allocated to Scotland and Northern Ireland are calculated on the usual population proportion basis and assume:-

- (a) the amounts shown against Industry, Employment, Energy (apart from nationalised industries), Trade and Transport (apart from roads) cover Great Britain;
- (b) the remaining amounts (apart from the FCO) cover England and Wales only.