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MISC 11(79) 3rd Meeting

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CABINET

MINISTERIAL GROUP ON PUBLIC EXPENDITURE

MINUTES of a Meeting held in Conference Room A, Cabinet Office on MONDAY 16 JULY 1979 at 9.15 am (all day)

PRESENT

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

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

The Rt Hon Lord Carrington
Secretary of State for Foreign and Commonwealth Affairs and Minister of Overseas Development

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

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

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon John Biffen MP
Chief Secretary
Treasury

The Rt Hon Norman Fowler MP
Minister of Transport

Mr Nigel Lawson MP
Financial Secretary
Treasury

SECRETARIAT

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

SUBJECT

PUBLIC EXPENDITURE 1980-81

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 Agriculture, the Secretary of State for Industry, the Chancellor of the Duchy of Lancaster, the Secretary of State for Wales, the Secretary of State for Transport, and the Secretary of State for Trade.

i. Agriculture

THE SECRETARY OF STATE FOR AGRICULTURE said that, although they were unwelcome, he was prepared to accept the reductions proposed by the Chief Secretary, with the exception of the proposed £20 million saving on capital grants. These grants encouraged the expansion of food production, which was either import saving or export generating. The proposed reduction would mean a larger reduction in investment and a loss of jobs in areas where other employment was difficult to find. Moreover £2½ million of the £20 million was financed by the EEC, and would not represent a direct saving to the Exchequer. He had asked for a review of the capital grants scheme as part of Sir Derek Rayner's exercise, and it would not be right to cut this expenditure in advance of the conclusion of that review. As an alternative, he was prepared to examine the scope for bringing forward sales of land, with the aim of raising £11½ million in 1980-81. This was broadly equivalent to his Department's share of the £20 million, less the £2½ million financed by the EEC: he clearly could not commit the Secretaries of State for Scotland, and Wales, to finding their shares in this way. On the Forestry Commission, he was prepared to make the proposed saving, but suggested that the Commission might be given an incentive to dispose of surplus land by allowing it to retain half of the proceeds. This might permit the Commission to find the savings without reducing its planting programme. Finally, he drew attention to the fact that his bid for increased expenditure on drainage was not included in Annex B. In his view additional expenditure on flood defences and agricultural drainage was essential.

THE CHIEF SECRETARY, TREASURY, summing up a brief discussion, said that the Committee felt that there was scope for savings in the capital grants scheme, but noted the Secretary of State's view that it was difficult to make cuts in advance of the review of the scheme. The Committee noted the Secretary of State's offer on land sales, but this still fell some way short of the £20 million saving, which should therefore be recorded as disagreed.

The Committee -

1. Took note, with approval, of the summing up of their discussion by the Chief Secretary, Treasury.

ii. Industry

THE SECRETARY OF STATE FOR INDUSTRY said that the proposed savings on his programme entailed the cancellation of the HS 146 project. There were signs that British Aerospace were concerned about the viability of this project, which had been assessed as profitable only on the assumptions of a military application and a relatively favourable exchange rate. There was therefore a tactical issue as to whether the Government should take the inivitative in cancelling the project, or let British Aerospace take the decision. The Minister of State, Department of Industry, would have an opportunity to take Lord Beswick's mind on this at a meeting arranged for 20 July, but this would be too late for the Cabinet's next meeting on 19 July. Subject to this point he was prepared to accept all the reductions proposed by the Chief Secretary including the further 3 per cent reduction, which if necessary could be achieved by recalling loans by the Department early at a discount. On the nationalised industries, he assumed that the £105 million saving on British Steel and British Shipbuilders represented the effect of achieving a break-even position; but would let the Committee know if there was any other explanation.

THE CHIEF SECRETARY, TREASURY, summing up a brief discussion, said that the Committee agreed that the full savings should be made on the industry programme, and noted the tactics which the Secretary of State was adopting on the HS 146 project.

The Committee -

2. Took note, with approval, of the summing up of their discussion by the Chief Secretary, Treasury.

iii. Arts and Libraries

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that his programme was divided between local authority expenditure on libraries and museums; and national expenditure on the arts, museums and galleries, and the British Library. If local authority expenditure generally was being cut, he was prepared to see a proportionate cut applied to the former. As regards the latter element of the programme, he saw no scope for cutting expenditure on the arts in 1980-81. He wanted to secure more private support for the arts, but this required time to achieve a change in the climate of opinion, and appropriate action on charity and tax arrangements. On the British Library, he had put forward the £6 million reduction, but with no conviction that it was the right thing to do. On museums and galleries, the proposed cut would mean closures or abandoning acquisitions. The further 3 per cent reduction, on top of the other reductions, would destroy the goodwill which the Conservative Party had built up with the arts community. These reductions would save relatively little, and would be contrary to the Prime Minister's commitment in Opposition to avoid 'candle-ends' savings on the arts. Moreover, there was not room to shield arts expenditure within this programme in the way that, for example, heritage expenditure could be shielded within the Department of the Environment's programmes.

In discussion, it was agreed that some of the social services Departments would need to take drastic measures to achieve reductions on the scale required, and it would be difficult to recommend to the Ministers concerned that the arts should be spared any reduction. There had been big tax reductions for the wealthy in the Budget, which should already have increased the scope for private patronage. There were also elements of arts expenditure where cuts would be popular.

THE CHIEF SECRETARY, TREASURY, summing up the discussion, said that the Committee noted the arguments put by the Chancellor of the Duchy of Lancaster, but were not able to agree that expenditure on the arts and on museums and galleries should be exempt from reductions.

The Committee -

3. Took note, with approval, of the summing up of their discussion by the Chief Secretary, Treasury.

iv. Wales

THE SECRETARY OF STATE FOR WALES said that the proposed reductions would have a serious impact on Wales. On support to industry, there would be a big impact on the activities of the Welsh Development Agency. The Agency was not comparable to the National Enterprise Board, since much of its expenditure was on derelict land clearance and factory building. If the proposed cut was made he would not be able to accommodate within the reduced allocation the full costs of the Shotton closure, and of prospective coal closures, which were the result of national and not specifically Welsh policies. On housing, the interdepartmental needs assessment study, which had been undertaken in connection with the previous Government's devolution proposals, showed that the Welsh housing situation was worse than in England. The proposed cut would therefore fall on an under-provided service. On roads, there was a commitment in the Welsh Manifesto, which he was not prepared to breach, to press on with certain schemes. Subject to his reservation about Shotton, he was nevertheless prepared to make the specific cuts proposed in C(79) 26, including his share of the cuts in local authority expenditure. But any larger reduction would not be tolerable, and he did not accept the further 3 per cent cut proposed by the Chief Secretary.

THE CHIEF SECRETARY, TREASURY, summing up a brief discussion, said that the Committee were agreed on the £110 million of specific reductions in C(79) 26, but noted the Secretary of State's reservations on Shotton and on the further 3 per cent reduction.

The Committee -

4. Took note, with approval, of the summing up of their discussion by the Chief Secretary, Treasury.

v. Department of Transport

THE MINISTER OF TRANSPORT said the proposed reductions in expenditure on the transport programme as set out in the Chief Secretary's Memorandum (C(79) 26) amounted to an overall reduction of about $12\frac{1}{2}$ per cent in 1980-81. There were real difficulties in producing cuts from the transport programme, not least because it had been subject more than

programmes of most Departments to cuts under the previous Administration. He would, however, be prepared reluctantly to accept cuts of up to about $9\frac{1}{2}$ per cent, even though this went beyond what he had agreed in opposition. The actual implementation of such cuts would, however, depend largely upon the actions of local authorities, and in practice they might not reduce their programme to the extent proposed. He could not in any event accept a further 3 per cent reduction amounting to a further £70 million. However, he would be prepared to accept a cut of up to £20 million as a contribution towards the further 3 per cent cut.

In discussion, it was noted that the future of the Road Construction Unit (RCU) was under separate investigation by Sir Derek Rayner as part of the exercise into improving the Government's efficiency. It was argued that a reduction in the scope of the RCU might act as an incentive particularly in rural areas to reductions by local authorities in their own roads programme. However, the effect of the Rayner examination here as elsewhere might be partly to delay cuts until the examination was completed which might otherwise have taken place earlier. It was also noted that the proposed £4 million cut in expenditure at the Driver and Vehicle Licensing Centre (DVLC) was based on the assumption that Vehicle Excise Duty (VED) would be abolished, although a decision on this point was still under review. However, it was noted that even if VED were retained, a proportion of these savings might be obtained in any case through greater efficiency. It was also argued that the proposed production of £73 million in direct funding of British Rail and National Freight Corporation pensions might be an example which could be followed in the case of some other nationalised industry pension funds, where similar circumstances applied.

THE CHIEF SECRETARY, TREASURY, summing up the discussion, said the Group agreed to the proposed reductions in the transport programme as set out in C(79) 26, with the proviso that the Minister of Transport had accepted only £20 million of the proposed £70 million reduction representing the proposed further 3 per cent cut. The components of this further £20 million should be explored between officials in the Treasury and Department of Transport.

The Group -

Took note, with approval, of the summing up of their discussion by the Chief Secretary, Treasury.

vi. Department of Trade

THE SECRETARY OF STATE FOR TRADE said he was prepared to accept the reductions in the Department of Trade's programme for 1980-81 as set out in the Chief Secretary's memorandum (C(79) 26), subject to two reservations. First, he felt an additional £6 million was essential to the programme in order to reflect the consequence of Eurocontrol's decision not to move to full cost recovery in 1980-81 and the consequential effect of this decision on borrowing by the Civil Aviation Authority for investment. Second, he could not accept a further £5 million reduction in the Department of Trade's programme to reflect a further 3 per cent reduction in expenditure, as proposed by the Chief Secretary. There were comparatively few items in his Department's programme, and there was therefore a lack of flexibility in selecting candidates for further reductions. There was little scope for further reductions in the export programme, and although substantial reductions were proposed in the tourism programme, there was little further scope for bringing cuts forward which were otherwise likely to take place in later years, because of existing commitments. He would, however, be prepared to find a further £2 million out of the £5 million total, and would even be prepared to increase this to £3 million if there were any really practicable ways of finding this sum; at this stage, however, he did not want to be committed to a further reduction of more than £2 million. He was also prepared to accept the options for reducing nationalised industry costs as set out in table 3 of C(79) 28 - a reduction of £40 million in 1980-81 through investment reductions at British Airways and a further £16 million from the British Airports Authority's programme through increased landing charges. He would, however, shortly be seeking colleagues' views on proposals for a third London Airport; and this could require a substantial increase in expenditure.

THE CHIEF SECRETARY, TREASURY, summing up a brief discussion, said that the Group accepted the proposed reductions in the Department of Trade's programme as set out in C(79) 26. This was subject, however, to a further £6 million being available to the Department of Trade's programme to reflect the effect of the Eurocontrol decision on the Civil Aviation Authority, and to an

agreement that at this stage the further reduction reflecting the target additional 3 per cent cut would be limited to only £2 million rather than £5 million as proposed in C(79) 26. The components of this £2 million reduction should be explored by officials in the Department of Trade and the Treasury.

The Group -

Took note, with approval, of the summing up of their discussion by the Chief Secretary, Treasury.

vii. Home Office

THE HOME SECRETARY said he accepted in part the proposals for public expenditure reductions in 1980-81 as set out by the Chief Secretary in his memorandum (C(79) 26). However, he had a number of reservations. First, he proposed that instead of a target reduction of £2 million through abolition of the Equal Opportunities Commission (EOC) the same £2 million savings should be achieved through reduction in the combined expenditure of the EOC and Commission for Racial Equality. This might reduce the likely unpopularity from the abolition of the EOC and also avoid the need for legislation. Second, he proposed an increase in capital expenditure on magistrates courts in 1980-81 of £2.5 million, £1 million more than what was already provided for. This was necessary in order to reduce delays and prevent serious deterioration in the performance of magistrates courts. Third, he proposed an additional £4 million on prison education. This was necessary in order to increase the amount of work available for prisoners. Although the May Committee report, due in September, was likely to make recommendations pointing in the same direction, the additional expenditure would be needed in any case. However, additional output from prisoners increased revenue and he was willing to examine how far it might be possible for the additional expenditure to be put on a nil net cost basis, even though complete nil net cost funding was probably impracticable. Fourth, he proposed an additional £0.5 million on capital expenditure in the probation service. Fifth, he proposed a further £4 million on police capital expenditure. This was necessary to improve the decaying conditions on which many police offers were housed, and also to cope with the expected increases in police manpower. Sixth, he proposed an additional £4 million on police support services. Without this, the additional expenditure already allowed for in the Chief Secretary's memorandum would be partly abortive, since the additional police manpower would be deprived of adequate equipment and other forms of support. The total effect of his additional proposals was thus a further £15 million on the £10 million increase in expenditure allowed for in the Chief Secretary's memorandum. The May Committee, when it reported in September, was likely to recommend substantial increases in capital expenditure on prisons. These were not included in the existing proposals, and he was not making any firm requests at this stage; but he hoped colleagues would bear in mind that it might be necessary to consider proposals for further expenditure on prisons after the May Committee had reported.

In discussion, it was argued that while there might be a case for increased revenue expenditure as the Home Secretary had suggested, for example in police support services, there was not such a strong case for the Home Secretary's proposed increases in capital expenditure. There was after all already a substantial capital expenditure programme for police buildings that was already allowed for. As it was, the Home Office was one of the few Departments where a net increase in expenditure was proposed, and the substantial increased capital expenditure proposed by the Home Secretary presented a striking contrast to the virtual elimination of capital expenditure on major roads in the coming year. Against this was argued that police capital expenditure had been at unacceptably low levels for a number of years, a position which could not necessarily be said of the road programme. The Home Office's proposals were partly designed to put this situation right; a good proportion of the expenditure was in any case on replacement expenditure rather than representing an expansion in facilities.

THE CHIEF SECRETARY, TREASURY, summing up the discussion, said the Group agreed that the Home Secretary's proposals should be included in their report for reconciliation with conflicting interests at a later stage. The Home Secretary should, however, be invited to examine the scope for reducing levels of increases in capital expenditure on those items where he was seeking an increase beyond the levels already provided for in the programme. He should also examine the extent to which it would be possible to put his

proposed increase in the prison education programme on a nil net cost basis. The Group had also noted that a further provision in the Home Office's expenditure programme should be made to accommodate the cost of providing for Vietnamese refugees.

The Group -

Took note, with approval, of the summing up of their discussion by the Chief Secretary, Treasury.

viii. Foreign and Commonwealth Office

THE FOREIGN AND COMMONWEALTH SECRETARY said that he was particularly concerned about the reduction proposed by the Chief Secretary in his memorandum (C(79) 26) in 1980-81 of £8 million on overseas representation. Overseas representation could only be reduced by a reduction in manpower, and because of the saving in overheads, closure of complete posts would be necessary to have any appreciable effects. He could not accept a saving in overseas representation of more than £2½ million; this with difficulty could be achieved through the reduction of 120 jobs in the Foreign and Commonwealth Office (FCO) together with the complete closure of a number of posts. He accepted the Chief Secretary's proposal for a £4 million reduction in expenditure on British Broadcasting Corporation Overseas Services, to be achieved mainly through a reduction in overseas venacular broadcasts. But the proposals for a £10 million cut in expenditure on the British Council seems quite disproportionate; this represented a reduction in expenditure of 40 per cent, which could only be contemplated as part of a major policy review of the role of the British Council rather than as part of a savings exercise. He could not accept a reduction as part of the current exercise in expenditure on the British Council of more than £3 million. Nor could he accept a reduction of £1 million as proposed by the Chief Secretary on subscriptions to international organisations; but he would accept a reduction of £0.5 million. He could not accept either a further reduction of £5 million representing a further 3 per cent reduction as proposed by the Chief Secretary. He was therefore prepared to accept a reduction of £10 million in FCO expenditure as a whole other than on overseas aid (or £13 million if a reduction in expenditure on his Department by the Property Services Agency were included) rather than the £28 million proposed by the Chief Secretary. As for overseas aid, he was prepared to offer savings of £107 million as opposed to the £132 million proposed by the Chief Secretary. It had to be remembered that to a very large extent overseas aid brought direct benefits to this country, either through the promotion of exports or through its use as a means of achieving diplomatic objectives.

In discussion, it was argued that the proposed reduction in expenditure on overseas representation appeared to represent well under 2 per cent of total expenditure in that category. It was suggested that there was a strong case for examination of the scope for further reductions. Against this it was argued that the level of reduction proposed by the Chief Secretary was significantly more than that proposed by the recent report by the Central Policy Review Staff on overseas representation whose recommendations for reductions had been attacked as excessive by present Ministers when in Opposition. Expenditure on military personnel in posts did not in any case count as FCO expenditure. Moreover, to the extent that diplomacy could be seen as an alternative to expenditure on military preparedness, it was a very much cheaper alternative.

THE CHIEF SECRETARY, TREASURY, summing up the discussion, said the Group noted the proposal by the Foreign and Commonwealth Secretary for reductions in expenditure; and these would be taken into account in the Group's report.

The Group -

Took note, with approval, of the summing up of their discussion by the Chief Secretary, Treasury.

Cabinet Office
19 July 1979