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CM(76) 30th
Conclusions

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CABINET

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

THURSDAY 4 NOVEMBER 1976

at 10.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Merlyn Rees MP
Secretary of State for the Home
Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science
and Paymaster General

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Energy

The Rt Hon Eric Varley MP
Secretary of State for Industry

The Rt Hon Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Northern Ireland

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Fred Mulley MP
Secretary of State for Defence

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon David Ennals MP
Secretary of State for Social Services

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

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The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and
Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury
(Items 1-4)

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Items 2-5)

SECRETARIAT

Sir John Hunt
Mr W I McIndoe (Item 1)
Mr D le B Jones (Items 2-5)
Mr J A Marshall (Items 3-5)
Mr A D Gordon-Brown (Item 1)
Mr C J Farrow (Item 2)

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PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

THE LORD PRESIDENT OF THE COUNCIL said that on 20 July timetable motions had been passed for the remaining Commons stages of the Education and Rent (Agriculture) Bills, the Dockwork Regulation and Health Services Bills, and the Aircraft and Shipbuilding Industries Bill. The three supplementary motions on 8 November, each of which could be debated for up to one hour, would allot six hours for the first consideration of Lords amendments on each Bill and three hours for any other messages from the Lords. There would be protests from the Opposition, but each of these Bills, and particularly the Aircraft and Shipbuilding Industries Bill, had already taken far more time in the Commons than was usual even for major legislation.

THE LORD PRIVY SEAL said that it would not be possible adequately to discuss all the Lords amendments to these Bills in the course of six hours for each Bill; there were 58 amendments to the Aircraft and Shipbuilding Industries Bill alone. When the Bills were returned from the Commons, the Lords would be likely to argue that the Commons had rejected some of their amendments without discussion, or without proper discussion, and that some important provisions had been gullotined twice and never properly discussed on the Floor of the Commons at all. It would be of some presentational value, and might help to reduce the number of further exchanges of messages between the two Houses, if eight hours could be allowed rather than six.

In discussion it was pointed out that the Opposition in the Commons had not so far pressed for more time, and the three supplementary motions had now been placed on the Order Paper. It might nevertheless be worth offering extra time on the Bill, or the two Bills, which had attracted the greatest number of Lords amendments. In countering Conservative protests it might be useful to cite the example of the last Conservative Government in forcing their Industrial Relations Act through Parliament.

THE PRIME MINISTER, summing up a brief discussion, said that the Government should not volunteer any alteration in the three supplementary motions. If, however, the Opposition were to press for more time, it might be worth conceding a further two hours on one or two of the Bills if that would ease the position when these Bills were returned to the Lords and reduce the likely number of subsequent exchanges between the two Houses.

The Cabinet -

Took note.

RECOVERY
OF ROAD
ACCIDENT
TREATMENT
COSTS

Previous
Reference:
CM(76) 17th
Conclusions

2. The Cabinet considered a memorandum by the Secretary of State for Social Services (CP(76) 97) on the proposed Bill to recover from motorists through insurance companies the full costs to the National Health Service (NHS) of treating road accident cases.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that when the Cabinet had considered public expenditure on 19 July he had proposed to save £20 million in 1977-78 and £40 million in a full year by legislation to recover, mainly from insurance companies, the full costs to the NHS of treating road accident cases. If this proposal which had not at that stage been worked out in detail did not prove practicable he had undertaken to find alternative savings in 1977-78. He was still ready to proceed with legislation if the Cabinet so wished; a detailed scheme had been agreed in Home Affairs Committee, there had been extensive consultation with interested parties and the Bill was nearly ready. There were, however, changes in circumstances since July which led him to feel that there were better alternatives. The pressure on the legislative programme in 1977-78 had become more acute and there would be great advantage in eliminating the need for one Bill. From the consultations which had taken place it was evident that the Bill would be controversial. The Bill would also be more difficult to defend to the House than he had anticipated because it had been decided in recent Public Expenditure Survey Committee discussions that the revenue it generated in the years after 1977-78 could not be used to sustain additional expenditure for the NHS but should, for all practical purposes, be merged with the general revenue from taxation. Finally the public expenditure position had become graver since July and there would be a corresponding attraction in alternative ways of raising revenue which could be made effective for the whole of 1977-78 rather than for the half year which was the most that could be achieved with his legislation. He therefore considered that it would be preferable to collect an amount equivalent to the relevant NHS treatment costs by an increase in Vehicle Excise Duty (VED). The charge for this purpose could be a distinct element which could be accounted for separately and adjusted periodically as these costs changed. The charge could be made by a provision in the 1977 Finance Bill, thus eliminating the need for specific legislation and raising a full year's revenue.

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In discussion it was pointed out that there had been a clear commitment in July either to introduce the Bill or to make alternative savings. To raise additional taxation by means of an increase in VED was not a satisfactory alternative and would not enable the Government to keep within the agreed limits for public expenditure. There were well-established objections of principle to hypothecating tax revenue as was involved in this proposal. The alternative possibility of increasing the NHS component of the national insurance contribution was equally unacceptable. It would mean that the costs were met by the population at large whereas the principle behind the legislation was that motorists should pay for the costs they brought about. An additional provision in the Finance Bill to increase the VED would also be controversial. While a review of all transport taxes was needed, and was indeed already under way, this could not give results in the short term. The alternatives were therefore to continue with the Bill or to cut public expenditure either in the health service or on other programmes.

In further discussion it was argued strongly that although the Home Affairs Committee had approved the detailed scheme for recovery of accident costs further work suggested that it was open to serious objections. These were so serious that they cast doubt whether the legislation could be carried in Parliament in the form proposed, and whether if carried it would yield the expected revenue.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet appreciated that the possibility of increasing VED had been put forward as a constructive alternative to the legislative pressures which would arise from a Bill to permit recovery of road accident treatment costs. Nevertheless the Cabinet reaffirmed the decision which they had taken in July that either a Bill should be introduced which would permit charges of £20 million to be levied in 1977-78 or alternative savings should be found by the Secretary of State for Social Services. If the Secretary of State for Social Services felt in the light of the criticisms which had been made of the proposed Bill that he should seek alternative expenditure savings he should bring the matter before Home and Social Affairs Committee.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Social Services to be guided accordingly.

INDUSTRIAL
SUPPORT
AND POST
OFFICE
INVESTMENT

3. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 98) to which was attached a note by the Chief Secretary, Treasury, about the possibility of using savings on Post Office investment to cover increased expenditure on selective assistance to industry.

THE CHIEF SECRETARY, TREASURY, said that the Government had recently agreed upon, and persuaded the Select Committee on Expenditure to agree to, a changed treatment of the figures for nationalised industry capital investment. As a result, the definition of public expenditure would in future exclude that part of that capital investment which was not financed from public funds. This was a very desirable improvement, but inevitably it meant, in the year in which the change was made, that there was no baseline (in terms of what the figures on the new basis would have been had that basis been in use when the last White Paper was compiled) against which to measure alleged savings; and that made it very difficult to use such savings as an offset to excess expenditure elsewhere. In any case, even if such baseline figures could be constructed in a way which would not arouse suspicions of book-cooking among outside commentators, it would not be defensible to do it for the Post Office alone, and it would have to be done for all nationalised industries. When the needs of the British National Oil Corporation and of the new nationalised industries - British Aerospace and British Shipbuilders - were taken into account, there might well be no saving to use. More important still, any attempt to operate in this way was liable to jeopardise the credibility of the important new presentational change which was now winning acceptance. In his view, therefore, the savings derived from the Post Office investment programme could not be used as an offset to additional expenditure on industrial support.

THE PRIME MINISTER, summing up a brief discussion, said that it was generally agreed that it was important to do nothing which would upset the success of the new form of presentation. To have got that new presentation generally accepted was a considerable achievement by the Treasury, who should be congratulated. It would be helpful if the Chancellor of the Exchequer were to circulate a note which Ministers could have by them for reference setting out the new definition of public expenditure and the proportion this revised total bore to the Gross Domestic Product compared with the old definition. On the immediate problem before Cabinet, it was recognised that there was a real reduction in Post Office investment, which would no doubt be reflected in a lower call on the Government for financing; but it was less clear whether, given the difficulty of making the necessary assumptions about prices and private sector financing, the figures for nationalised industries as a whole on the new basis would be higher or lower than they would have been in the last White Paper, and this was an exercise which should be done. However, it was

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clear that there could be no question of using such a hypothetical base-line in the White Paper to be published in January, although the situation would be different in subsequent White Papers.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Agreed that savings arising from the reduction in Post Office investment could not be offset against increases in expenditure on industrial support.
3. Invited the Chancellor of the Exchequer to circulate a note about the new definition of public expenditure.

REGIONAL AND
INDUSTRIAL
POLICY

4. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (CP(76) 99) reporting on a discussion in the Ministerial Committee on Economic and Industrial Policy (EI) about additional expenditure on selective assistance to industry.

THE CHANCELLOR OF THE EXCHEQUER said that in his statement of 22 July last he had said that the Government planned to increase significantly the resources available for selective assistance to industry through the National Enterprise Board (NEB) and the Scottish and Welsh Development Agencies, as well as through discretionary assistance in support of the industrial strategy. The Secretary of State for Industry had put forward proposals to implement this, estimated to cost £90 million in 1977-78, £142 million in 1978-79, £195 million in 1979-80 and £216 million in 1980-81. EI had considered ways in which this additional expenditure might be offset by savings on non-selective assistance, but they had been unable to reach any agreement. The majority of the Committee did not favour making savings by ending Regional Employment Premium (REP) in the Development Areas (DA); and some members of the Committee had favoured making Regional Development Grants (RDG) more selective (eg by limiting payments in respect of very large projects which had little flexibility in location), by reducing the level of RDG in Intermediate and Development Areas (IA and DA), and by reviewing the boundaries of the Assisted Areas (AA) as a whole to reduce their coverage. These were, however, important matters of policy, and they could not be settled in a day or so. More time was needed for their consideration. Some members of the Committee had favoured making free depreciation through the tax system more selective, but in his view this would be damaging to industrial confidence. The problem for Cabinet was to decide how the extra expenditure should be offset.

THE SECRETARY OF STATE FOR INDUSTRY said that the Government's commitment to give priority to industrial development over consumption and their social objectives had not been carried out; and aid to industry had in fact gone down as a proportion of public expenditure. Industrial confidence was being eroded by such things as the surcharge on the employers' national insurance contribution and the 15 per cent Minimum Lending Rate (MLR). The industrial strategy had not been given priority. In the cuts of last July £114 million had been taken off the expenditure of his Department, and £50 million off his nationalised industries; and in his view this represented his contribution to making more resources available to the NEB. Even so, in view of the deterioration in the position since then, he was prepared to find further savings from industrial support. The REP was regarded as the least important of all the regional incentives, being equal to only 2 per cent of labour costs - far

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less effective than Temporary Employment Subsidy which was worth 10 per cent. By dropping REP in the DA (but not in the Special Development Areas) £31 million could be saved in the next year, and £65 million in a full year. If changes were to be made in RDG, careful study would be required. They had already been reduced by making the mining and construction industries no longer eligible for them, and further erosion could affect confidence. They were regarded as probably the most important of the forms of regional assistance, although it might well be that the Government had been mistaken to allow them to go to large projects which could not be sited otherwise than where they were. A ceiling on individual projects should be looked at, but it would hit the British Steel Corporation, who would then want more financing from the Government in other ways. There was much to be said for ceasing to pay RDG in the IA, but this was politically very difficult. The boundaries of the AA needed revision with a view to reducing their size, since 65 per cent of the land in the country, and 45 per cent of the population, were in AA. He pointed out that of the figure of £225 million for the NEB at present entered for every year through to 1980-81, British Leyland and Rolls Royce alone would next year need more than that total, so the NEB was left with no flexibility to carry out the interventionist role which the Government had envisaged for it. It was at present nothing more than a glorified state holding company, unable to fulfil its role in the Government's industrial strategy. Lord Ryder, Chairman of the NEB, had indicated that he could probably spend another £70-£90 million next year to strengthen and assist industries. In his view the Government must find some way of making these resources available.

In discussion it was argued that if the package which had been proposed in EI by the Secretary of State for Industry were adopted, both Wales and Scotland would fare badly, and show a net reduction in support for industry. REP was the only labour-intensive subsidy there was, and it was important to the Government's supporters. There were signs that the gap between the AA and the rest of the country, which had narrowed for some time past, was beginning to widen again. This made it a bad time to reduce regional support. Indeed, it could be shown that the Special Development Areas got less than their fair share of RDG and REP was the only redress for this. The Government had already decided to reduce the male rate of REP from £3 to £2, in spite of the Manifesto commitment to maintain it, and there should be no further reduction in this assistance.

In further discussion it was argued that it would be wrong to reduce regional support which was the Government's way of guiding investment into the areas where it was needed. Indeed, the fact that private investment generally was not taking place in spite of the cut-back in the demand on resources made by the public sector suggested that market economics were not working and that there was therefore

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all the more need for stepping up the activity of the NEB and the Agencies. Against this it was argued that the Government's expenditure on industrial assistance was of much less importance than such factors as 100 per cent free depreciation, the introduction of the fiscal stock appreciation provisions, and getting the MLR down to a lower level. It was easy to overestimate the capacity of Government to make selective decisions in industry. Within employment-making expenditure, it would be wrong to cut expenditure on regional policy such as RDG and REP in order to increase selective industrial assistance.

THE PRIME MINISTER, summing up the discussion, said that the Government had committed itself in July to making more resources available to the NEB and the Scottish and Welsh Development Agencies. The problem was to find the offsetting savings which would make the necessary resources available. He was not personally wedded to all the expenditure in aid of regional policy, and was prepared to believe that over time its value reduced. Nevertheless it would be very difficult simply to abolish it; the need was to wean the public gradually away from it, and the equalisation of the male and female rates of REP had been a step in this direction. What was needed was time to look at expenditure on assistance to industry to see what shifts could be agreed on within it. In preparing the White Paper, therefore, the present figures for finance for the NEB and the Scottish and Welsh Development Agencies should be entered but with a footnote to the effect that the whole field of public expenditure on aid to industry was being examined to see what resources could be shifted to the NEB and the Agencies. In accepting this line, the Cabinet also clearly accepted that, by the time the White Paper was published, they must have put themselves into a position to announce the changes which would be made. This gave them about two months to review the position, although it was recognised that the exercise could conceivably be subsumed in any wider expenditure exercise which might be necessary following the forthcoming negotiations with the International Monetary Fund. On the question of a successor to the Accelerated Projects Scheme, for which the Secretary of State for Industry was also bidding for additional money, and which was generally regarded as desirable, this should be treated as a potential charge on the Contingency Reserve on a basis to be agreed between the Secretary of State for Industry and the Chief Secretary, Treasury.

The Cabinet -

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

5. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 96) covering a memorandum by the Chief Secretary, Treasury, about public expenditure in 1978-79 and later years.

THE PRIME MINISTER said that the position following their discussion on 26 October on this subject was as follows. It was agreed that the figures in the next White Paper must show no increase over those in Cmnd 6393 as modified by the statement of 22 July last. Agreement had been reached on all items except:

i. Major programmes where the outturn was "relatively uncontrollable" - viz Social Security and Export Credit Refinance, on both of which the Chief Secretary, Treasury, would report separately at a later meeting.

ii. Housing, on which the Cabinet had agreed an increase in rents saving £30 million a year, but on which all further issues remained to be settled.

iii. Expenditure by the Ministry of Agriculture, Fisheries and Food, which had not been dealt with at their last meeting.

THE PRIME MINISTER, summing up a brief discussion, said that it was agreed that the additional bids in respect of the Thames Barrier and investment in pig enterprises listed in the last part of Table 6 of the Treasury report annexed to CP(76)91 were accepted, while the bid for strategic and emergency food stockpiles was, at any rate for the present, withdrawn.

The Cabinet -

i. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he had offered to reduce local authority mortgage lending by £150 million a year gross in 1978-79 and later years if it could be agreed that the presentation of public expenditure figures could be amended so as to exclude lending by the building societies to local authorities. He was concerned that the funds which the building societies were now making available, with local authority assistance, to down-market borrowers on a case-by-case basis should be expanded through an arrangement

PUBLIC
EXPENDITURE
SURVEY

1978-79 and
later

Previous
Reference:
CM(76) 28th
Conclusions,
Paragraph 2

Expenditure
by the
Ministry of
Agriculture,
Fisheries
and Food

Housing

Lending by
Building
Societies
to Local
Authorities

with the building societies whereby his Department would make block allocations to individual local authorities; but to do this it was essential to get round the present convention whereby this would then count as public expenditure (whereas the case-by-case arrangements, in which the money went direct from the building societies to the individual borrowers, did not). He now had reason to believe that the money would be forthcoming from the building societies for such a scheme to fill the gap which would be made by the reduction in local authority lending he was now offering. However, he accepted that the present year was not a good one for making a further change in the public expenditure conventions in the forthcoming White Paper, and he was therefore content to see the change made in the following White Paper. He needed to discuss urgently with the Chief Secretary, Treasury, how this should be handled so that he could clinch the arrangements with the building societies.

THE PRIME MINISTER, summing up a brief discussion, said that it was agreed that the figures for local authority mortgage lending should be reduced by £150 million a year gross, on the understanding that before the next White Paper but one came to be published consideration would be given to a change in the accounting conventions whereby lending by the building societies to local authorities to enable the authorities to on-lend to individual mortgagors would not score as public expenditure.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.
3. Invited the Chief Secretary, Treasury, in consultation with the Secretary of State for the Environment, the Secretary of State for Scotland and the Secretary of State for Wales, to consider further the possibility of amending the public expenditure conventions in the manner envisaged.

THE CHIEF SECRETARY, TREASURY, said that he had been asked at the previous discussion to consider what proposals might be made for offsetting the excess housing expenditure, and he had set out the possibilities in CP(76) 96. Annex A to that paper showed how the additional expenditure might be offset within the housing programme, and Annex C set out possible options on other programmes. In his view, given that a further public expenditure exercise was possible following the negotiations with the International Monetary Fund (IMF),

Housing
General

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it would be better not to touch the items in Annex C but to find the savings within the housing block. The Cabinet had already agreed to an increase in rents of 80p from April 1978, and he would now propose some further increase above that, together with reductions in expenditure on municipalisation and on improvements to broadly the level of 1977-78, while holding new house building also to the level of that year.

THE SECRETARY OF STATE FOR THE ENVIRONMENT reminded the Cabinet that the additional expenditure on housing was the consequence of the increase in interest rates, and that they had not yet heard how the Treasury proposed to deal with the additional burden this imposed outside the housing programme. In his view it would be quite unrealistic to take a hurried decision about the housing programme at a time when the broader exercise might well have to be started in the next two or three weeks. Annex A to the Chief Secretary, Treasury's paper would mean a collapse of the housing programme, and would cut new house building outside the stress areas (which represented half of the housing programme) to one-third of its present level. He did not regard this as a sensible way of proceeding. It was true that some Conservative-controlled councils would not undertake house building on the scale the present figures allowed; but it would be wrong to provide them with the excuse by cutting figures back. The construction industry had lost 250,000 jobs since the Government took office, and more losses were in the pipeline.

In the course of discussion the following points were made -

- a. If a major cut in public expenditure had to be made, it would be preferable to make a few major policy excisions rather than to erode programmes all round. It would therefore be best to wait until it became clear what would be the upshot of the IMF negotiations.
- b. Even if large cuts became necessary following the IMF talks, it was virtually inconceivable that more should be taken out of housing than was now proposed. Given that the possible cuts in Annex C were politically no easier to accept than those in Annex A, there was much to be said for accepting those in Annex A.
- c. It was of very great importance that the Treasury, in talking to the IMF mission, should be able to demonstrate that public expenditure was firmly under control, and that the Government were sticking to their declared limits. For this reason it was essential to agree on ways of offsetting the increase in housing expenditure.

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d. The requirement to publish a White Paper looking four to five years ahead was irksome in a situation in which the immediate future was by no means clear. Nevertheless, while it might, in calmer times, be possible to abandon the annual publication, to do so in the present situation would have a seriously adverse effect on confidence. Against this it was argued that, at a time when the economic prospects were changing rapidly, the Government would be wrong to commit themselves to particular figures for a period of years ahead. It was particularly important to avoid a situation in which the White Paper was published after it had been overtaken by events.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had not yet reached final agreement on how to offset the additional expenditure on the housing programme. Expressed in terms of figures for England only, the additional bids totalled about £450 million. The Cabinet had agreed already on a rent increase from April 1978 which would save £30 million a year; and they had accepted the offer of the Secretary of State for the Environment to save a further £150 million a year gross on mortgage lending by local authorities. This left a further £270 million to find. The Secretary of State for the Environment had indicated his willingness to find a further £100 million from the housing programme, which meant that £170 million had to be found from other programmes, since the general view was that it was essential to be able to demonstrate to the IMF in what way the announced limits were being kept. A number of Ministers had indicated a willingness to make a contribution. The timetable would just allow the Cabinet to have one further discussion of this subject. In the ensuing week, therefore, all spending Ministers would consider to what extent they were able to contribute towards the required outstanding savings of £170 million. There was no reason why such contributions should be confined to the suggestions listed in Annex C to CP(76) 96. It would facilitate the Cabinet's next discussion if Treasury officials were to discuss possibilities bilaterally with the officials in the spending Departments. Proportionate reductions would also be needed either in the Scottish and Welsh housing programmes or in other expenditure.

The Cabinet -

4. Took note, with approval, of the Prime Minister's summing up of their discussion.

5. Agreed that, through increases in rents and cuts in housing expenditure, a total of £280 million a year should be saved in 1978-79 and later years, and that proportionate cuts would need to be made in Scottish and Welsh expenditure.

6. Agreed that at their next meeting they should consider in what way a further £170 million (plus proportionate sums in respect of Scotland and Wales) might be saved on other programmes; and invited the Chief Secretary, Treasury, to arrange for officials to discuss the possibilities in the meantime.

Cabinet Office

4 November 1976