

PRIME MINISTER

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Public Expenditure: MISC 62

I have been taking some informal soundings from contacts in the Treasury about how the public expenditure exercise is going.

I understand that both the Chief Secretary's bilaterals and the MISC 62 exercise are usefully narrowing down the area of controversy and generating some worthwhile savings. But there are some very large upward pressures: I gather that local authority current expenditure is likely to be £½ billion higher than the Chief Secretary's paper took account of, because the 1981/82 out-turn is beginning to look worse than expected. An extra £½ billion on housing is also a prospect, given that colleagues are doubting that the rent increases envisaged by the Chief Secretary are practicable. You are aware of the difficulties with defence. On the health and social services side, too, there are great difficulties, centring on the political difficulty of abatating the uprating of the non-pledged benefits.

All this is likely to mean that that the base line will be £1 billion or so higher than the £113.5 billion in the Treasury's papers.

This is all informal at the moment. If you wish to keep up to date with the progress of the review more formally the Duty Clerk has a folder of MISC 62 papers and minutes. But I am not troubling you with this mass of paper, since the important issues will be put to you when the Home Secretary minutes you on the upshot of his discussions next week.

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6 November, 1981