

PRIME MINISTER

Public Expenditure

We have now received the Home Secretary's Report on the work of MISC 62 (attached).

He has made substantial progress in narrowing down the number of disagreed issues. The price of this has been that the base line is now £114.3 billion in 1982/83.

From conversations I have had with the Treasury and the Cabinet Office I am convinced that no further progress can be made on the remaining six issues except in meetings under your Chairmanship. The question is whether these should be meetings of the full Cabinet, or smaller meetings taking one item at a time.

It will be impossible to cover all these issues in the meeting of Cabinet on 26 November. There are just too many areas of disagreement. Equally, very great problems arise if the resolution of these difficulties is postponed much beyond 26 November. To meet a 9 March Budget Day departments need to get ahead with the compilation of their estimates. The later this process starts (and it cannot begin until the Cabinet has reached its conclusions) the less time there will be for Treasury scrutiny of the estimates. This will involve a real cost in savings foregone. Further, the Chancellor is arguing (in his minute of 12 November, also in this box) for an increase in National Insurance contributions. I understand that Norman Fowler is moving towards agreement, but that he attaches great importance to synchronising an announcement with his announcement of the public expenditure decisions. To get the new level of National Insurance contributions operative from the beginning of the financial year will mean a decision by the end of November. Quite apart from these practical problems, there are, it seems to me, overwhelming political and market reasons for reaching decisions on or very soon after 26 November: the House will expect the publication of the Industry Act forecast by the end of November,

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and the impression of dissension within the Government which will arise from delaying the announcement of these decisions will be unhelpful in the exchange and money markets as well as more widely.

I am, therefore, driven to the conclusion that you should hold a series of meetings next week on all six issues identified by the Home Secretary. The Chancellor of the Exchequer has indicated that if you are holding such meetings he would very much like to be involved. The Chief Secretary would need to be there as well as the spending Minister concerned. I am sure it would be helpful if the Home Secretary were also present.

Content for us to set up meetings on these lines? Content also for us to circulate the relevant attachments to the Home Secretary's minute to the Ministers concerned?

MCS

Yes no

P.S. We have provisionally fixed a meeting on defence and FCO/aid on Thursday at 1830.

MCS.

12 November 1981