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My ref:

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20 July 1979

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Dear Tony

PUBLIC EXPENDITURE

Following the meeting of MISC 11 this morning my Secretary of State has been considering how best to find the agreed totals. The public expenditure reductions on the scale agreed will hit this Department's programme very hard. He believes that we have now reached the point where the presentation of reductions on this scale, and the impact they will have on different sectors of the community, require contributions from other areas.

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Therefore he believes that in making up the reductions needed on the housing programmes, Ministers should be prepared to accept the withdrawal of higher rate relief on mortgage interest payments. Our understanding is that in the current financial year higher rate relief will cost the Exchequer between £60m and £70m.

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My Secretary of State feels that withdrawal of such relief in 1980/81 could therefore provide a significant contribution towards the savings needed and would, at the same time, be of major presentational help in putting forward policies which are even-handed in approach to both council tenants and mortgagors.

As I understand the Chancellor will be reporting to the Prime Minister this afternoon on the outcome of MISC 11, my Secretary of State has asked me to copy this to the Private Secretaries to the Prime Minister, to all members of the Cabinet, to the Minister for Transport and to Sir John Hunt.

Yours sincerely  
D A Edmonds

D A EDMONDS  
Private Secretary

Tony Battishill Esq  
PS/The Rt Hon Sir Geoffrey Howe MP



20 JUL 1979

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