

PRIME MINISTERPUBLIC EXPENDITURE

As the attached note makes clear a substantial shortfall has emerged from MISC 106. Total B of the table shows the gap as

972	874	1,482
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even if Agriculture, FCO and Defence accept the MISC 106 recommendations. Mr. Walker is investigating savings, mainly on costs, of £2,000 million in the gas and electricity industries which would contribute relative to baseline

-147	-200	-176
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The result is that

825	674	1,306
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remains to be found from housing, urban programme and higher energy prices.

We do not expect Mr. Jopling or Mr. Heseltine to accept the recommendation - the latter is seeking an extra £100 million in year two ^{and three}. The Foreign Secretary may seek some further small concessions. Thus the gap could be even greater than set out above.

The prospect is that the Cabinet on 8 November will be faced with four non-agreed programmes, agriculture, defence, housing and energy prices. In the view of the Treasury this is too much to settle in one go, but if the Autumn

Statement is to be put out the following Monday everything needs to be settled by the afternoon of 8 November. The alternatives are:

- (i) a big effort, involving yourself, to settle at least two of the programmes before the Cabinet.
- (ii) a Cabinet on Wednesday as well as Thursday.
- (iii) postponement of discussion of public expenditure on 8 November to allow more time to narrow the gap.

I think the Treasury regard the worst outcome as an attempt to settle on 8 November which fails, leaving the wrong atmosphere for the BT launch which, in all other respects, is going well. If there is any discussion of an alternative timetable Mr. Pattie would like to be involved. I have arranged for him to be on call should this prove necessary.

£1.6 b.

AT
£1.9 bi.

2200

30 October, 1984