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MF

PRIME MINISTERPUBLIC EXPENDITURE

You may like to know the proposed timetable towards Cabinet next Thursday.

You should receive tomorrow night a draft report from MISC 120 to Cabinet about the results of their discussions. The Chancellor intends to send you a minute with proposals about how the public expenditure totals are to be handled in the Autumn Statement. There is a real risk that the public expenditure planning totals presently set will be exceeded, even allowing for the extra asset sales and reductions in the reserve which the Treasury felt able to offer at the start of MISC 120.

The Treasury may still have a little room for manoeuvre, though I have no firm grounds for this being so. But none of the options, whether a further reduction in the reserve, another increase in asset sales, fudging the figures, or increasing the planning total, is at all attractive. The markets will study these figures closely and, as you will know, their confidence is always fragile: the difficulties with the markets last year started from scepticism about the Autumn Statement.

I have accordingly pencilled in a meeting for you with the Chancellor and the Chief Secretary on Monday morning to discuss the handling of this area in the light of the Chancellor's minute.

Mr Unwin will aim to let you have the brief for Cabinet on Tuesday evening, with a view to a discussion of handling on Wednesday evening or Thursday morning. This task will of course be eased if Mr Heseltine does not go to Cabinet.

Lord Whitelaw told the Chief Secretary this evening that he would be willing to recommend acceptance of base line for defence if that seems necessary after further discussion with Mr Heseltine. The Chief Secretary took that reasonably well. The Star Chamber will however at least start by proposing to Mr Heseltine that the third year should be held flat in cash terms, with the Falklands addition on top. (My suggestion about the Royal Ordnance Factories, as it turns out, may help to avoid a later dispute, but it amounts more to avoiding an additional bid than to finding money to finance other expenditure, I am afraid.)

If Mr Heseltine settles, the Chief Whip will then see Mr Baker early next week to try to persuade him also to settle outside Cabinet. If the Chief Whip fails, Lord Whitelaw will then see Mr Baker.

One final point. You mentioned today the idea that there might be no uprating for the unpledged benefits next July. This has apparantly been discussed in the Star Chamber but all except the Chief Secretary thought it politically not on. It may nevertheless at least be worth mentioning when MISC 111 comes to discuss savings under the review. (One of the measures already agreed is of course that Child Benefit should not be uprated next July.)

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