

PRIME MINISTER

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BILATERAL WITH THE CHANCELLOR

The main subject of tomorrow's bilateral will be the handling of the Green Paper on long-term public expenditure. It was agreed at Cabinet that those members who wished to be consulted about the drafting of the document should inform the Chancellor. I understand about eight Ministers have done so - the Chancellor will bring the list tomorrow.

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You and the Chancellor will want to minimise the risk of leaks and counter briefing. There are two ways in which colleagues could be consulted:

- (i) The Chancellor could send the draft under a private letter to those who have requested it, plus the Foreign and Commonwealth Secretary and the Chancellor of the Duchy whose views would be of interest.
- (ii) It could be circulated to all Cabinet members, CMO, with instructions that it be shown only to their Permanent Secretaries.

On the text itself, the most controversial points are:

- (i) the hint in para. 31 that SERPS will be changed;
- (ii) the choice of growth rates in para. 52 - some observers might have preferred a greater spread;
- (iii) the borrowing requirement assumption in para. 53;

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- (iv) the alternative assumptions for the growth of public expenditure in Table 6. A number of colleagues suggested using a wider range of assumptions, though it was recognised that this could blur the message of the document. The Chancellor has taken the latter view.

You might also want to raise the handling of the announcement of the changed tax treatment of gilts held by building societies and the leak of the proposal to introduce a composite rate for banks. You will want to be sure that the Chancellor has the public relations aspects of these questions under control.

The Chancellor has not yet reached a final view on the PSBR though he is committed to discussing this with you before making a final decision. Advice on this is due later in the week.

You could ask the Chancellor when we will see a draft of the speech which will allow you to think about the presentation of the Budget. I attach a comment from Bernard on the need to put something eye-catching early on.

28 February 1984