

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor will not raise the EMS with you. I have reported your views to him, and he does I think recognise the overriding need to avoid a split between you and him of the kind which occurred in autumn 1985. He may raise the question with you at the bilateral after this one but may well be prepared to accept that there should be no further discussion until after the Recess.

The matters for discussion at your bilateral tomorrow are primarily questions of the timetable until the Recess.

The business managers would like the House to rise if possible on 17 July. This would mean either a severely truncated Finance Bill or carrying the Finance Bill through into the autumn. The Chancellor objects strenuously to either course, and particularly the second which would mean this year's Finance Bill overlapping with preparations for next year's Budget.

The Chancellor would therefore like the House to sit for another week or so after 17 July. This would also allow an announcement to be made to the House on 24 July that the public expenditure planning totals had been increased. No decision has yet been taken of course on whether the planning totals should be increased at this stage and if they are, whether that should be announced to the House. But an increase and an announcement both seem increasingly likely to be needed. (The Treasury's own internal very provisional estimate is that the planning total might need to be increased by as much as £3-4 billion in 1988-89.)

You can give no commitments to the Chancellor. But you can tell him he will be fully consulted before any decision is taken. You could also ask when he intends to let you have a

note about the prospects for public expenditure and the tactics for handling it over the next few weeks.

The other matter is the question whether the main Water Privatisation Bill should be introduced in the first session following a paving Bill. The Chancellor thinks this essential to maintain the momentum of the privatisation programme later in the Parliament. Mr. Ridley does not think it practical (letter below).

You will want to have the advice of QL on this.

Finally, you might ask the Chancellor the position on the Civil Service dispute. (I understand the unions will be told again this evening that there is no more money available).

*JLR*

(D.R. NORGROVE)

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