



10 DOWNING STREET

From the Private Secretary

Prime Minister

In Lord Whitelaw's absence it would be best to concentrate on Items 1 and 2 of the agenda, and leave Item 3 for a later meeting.

You expressed interest in the suggestion put forward by RTA that expenditure should be divided into large blocks with adjustments to take place within them. This is a system known as "enveloping". It has been tried by Canada but they are abandoning it as unworkable. I suspect it will turn into three separate PESC's and prove just as difficult to solve. There is, however, merit in changing the rules of the game from time to time to keep Department guessing.

AT 21/1