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PRIME MINISTER

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## 1989 PUBLIC EXPENDITURE SURVEY

You are seeing the Chancellor and Chief Secretary next Tuesday to discuss the handling of the annual public expenditure Cabinet on Wednesday week.

You saw last weekend the minute from the Chief Secretary at Flag A in which he warned of the increasing difficulty of this year's survey.

As you requested the Treasury have now come forward with a proposed remit that Cabinet might be invited to endorse: this is enclosed at Flag B. They suggest returning to a formula close to that adopted in 1987, which defines the objective of continuing "to take a declining share of national income". This might be interpreted as a weaker approach than that used in 1988 - "keeping as close as possible to the existing planning totals". But there is force in the point that this cannot be adopted this year given the move to a new definition of the planning total.

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GRC.

(PAUL GRAY)

30 June 1989