

PRIME MINISTER

1989 PUBLIC EXPENDITURE SURVEY

You are seeing the Chancellor and Chief Secretary tomorrow morning (after the regular bilateral with the Chancellor) to discuss the remit for next Wednesday's Cabinet discussion on Public Expenditure.

You saw some papers over the weekend, including a letter from the Chancellor's office proposing a remit that Cabinet might be invited to endorse (Flag A). During today, the Chancellor and Chief Secretary have discussed this further. They now feel the original proposal was a bit too weak and may have given rise to speculation of substantial increases in the existing plans. They have now therefore suggested an alternative approach, set out at Flag B. This continues to place the main emphasis on maintaining a downward trend in the Public Expenditure/national income ratio, but also includes a reference to keeping as close as possible to existing plans.

You may also like to have to hand the Chief Secretary's earlier minute of 23 June (Flag C) in which he sets out the latest assessment of the pressures in this year's Survey.

PRG.

PAUL GRAY
3 July 1989

DASAWC