

PRIME MINISTER.

CONFIDENTIAL
BUDGET - SECRET

Nigel needs encouragement to carry on with the strategy of Public Expenditure control and cutting taxes on incomes.

There are 3 key issues:

How tight should the budget be? - Stick to a £7bn PSBR and make it credible

Should thresholds increase more than inflation? - Yes.
It is important to sustain a programme for this Parliament of lifting the lower paid out of tax. Increase them by at least 10%.

Should Public Expenditure totals be relaxed? - No.
We do not want budget headlines saying "Chancellor gives up battle to control Spending"
New spending has to be discouraged & old spending reviewed again.

And one idea - why not raise the VAT threshold for small business significantly? Sam Brittan set out the case well yesterday & Nigel is thinking about it.

A. Rowland



10 DOWNING STREET

Prince Menesie

I don't think you saw

John Redwood's note which was
in last night's box. AT

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