

PRIME MINISTER <sup>2</sup>  

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## 1989 PUBLIC EXPENDITURE SURVEY

You will wish to see the attached update report from the Chief Secretary on the emerging position in the 1989 PES. He reports that the bids are turning out even higher than expected, and suggests an even tougher Survey than in the recent past. I am sure this is right.

You will recall the Chancellor mentioned to you a couple of weeks back the possibility of the Chief Secretary writing back to a few colleagues urging them to re-examine their priorities. You will see from paragraph 10 that John Major has now done this in the case of Paul Channon and Ken Baker; he has also alerted Norman Fowler to the need to seek savings in his programme.

The minute touches on the handling of the Cabinet discussion on Public Expenditure on 12 July, but does not make any specific proposals. I have asked John Major's office to ensure that they send you a further note in a week's time setting out specific proposals on the sort of remit that Cabinet might set the Chief Secretary for his bilateral discussions. It might then be sensible for you to have a talk to the Chancellor and Chief Secretary early in the week beginning 3 July so that you have an agreed approach before papers are circulated for the 12 July discussion.

PCCG.

PAUL GRAY

23 June 1989