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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
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 Mr Fforde  
 Chief Cashier

BARNARD  
 LEVER  
 HEALEY / view

## THURSDAY ANNOUNCEMENTS

For discussion at your meeting tomorrow morning I attach the following further papers:-

*NB*  
*Also the Home*  
*letter (flag E)*  
*just*  
*annul*  
*OB*  
Flag A: A note by PE on the PRT and other oil sale/disposal proposals (£100 m extra BNOC forward oil sales and sale to BP of Wytch field); and a further note from OF (Mr. Barnard) on the international implications; and a note on practicalities from Revenue.

Flag B: A note by Customs on the possibilities of accelerating VAT payments by charging interest on deferred payments;

Flag C: A note by HF on National Savings and the implications for the building societies;

Flag D: A draft statement which assumes that the PRT proposal goes ahead.

2. I suggest that it might be helpful to tackle the main questions in the following sequence:-

(1) PRT: Are the disadvantages of advancing payments (legal risks etc, implications for BP, narrowing of options for 1980-81, etc) outweighed by the risks to confidence (and therefore prospects of adequate gilt sales) of not including a substantial fiscal component in the package? The markets have so far reacted favourably in anticipation

of Thursday's statement (assumed at least to increase MLR and announce the roll-forward). But there is further bad news (PSBR and trade figures) not yet discounted and which the announcement must take account of.

(2) If the PRT proposal is ruled out, what further action needs to be taken to reassure the markets? The other "fiscal" components mentioned below would certainly not in themselves be enough. One possibility would be to announce now tough measures in next Spring's Budget in the hope that this, although not directly affecting this year's PSBR, would hold confidence until the Budget. The only alternative to this may prove to be to increase MLR by more than at present proposed.

(3) Timing of VAT etc payments: Do the arguments in the Customs note rule this out entirely? A separate possibility - which Inland Revenue have accepted - is to increase the interest rate (now 9%) on those taxes for which there is a due date for payment. If this is done, we need to decide the new rate and form of the announcement.

(4) National Savings: Are Ministers prepared to secure about  $\frac{1}{2}\%$  reduction in the money supply, and so reduce risk of further general interest rate increase, by extra National Savings sales? These would affect flow of funds to housing market in New Year and possibly hasten timing of further mortgage rate increase. If so, when should Mr Heseltine be informed?

(5) Gilts: Decisions will need to be taken on new gilt issues before the end of the week. HF and the Bank will advise orally in the light of the latest market developments.

(6) Statement: In the light of discussion of the above, any revisions to the draft statement?

3. You will need to clear your lines with the Prime Minister as quickly as possible. You will be seeing her on Thursday morning but there would be advantage in reaching decisions before then if this is at all possible - ie at a meeting with the Prime Minister later



tomorrow. We should aim, therefore, to prepare a minute for you to send to the Prime Minister, together with a revised draft statement, as soon as possible after tomorrow morning's discussion. Among the matters you will also want to clear with the Prime Minister is how you should present your proposals at Cabinet on Thursday morning (and a fortiori how Mr Heseltine should be handled in relation to the implications of the proposals for the building societies).



J B UNWIN

13 November 1979