

SECRET AND PERSONAL

Prime Minister (2)

AT 25/10

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

THE AUTUMN STATEMENT AND BT

When we spoke last week I explained the broad position I have reached on the timing of the Autumn Statement in relation to the BT Impact Day. I have discussed this with Geoffrey Pattie, and with Martin Jacomb of Kleinwort Benson. I am writing to confirm my conclusions.

2. As you know, my original concern about the time-table was based on Kleinworts' repeated view that the Autumn Statement should be published either before Impact Day (provisionally fixed for 16 November) or after the start of share dealings on 3 December, but not between those dates, and that if Impact Day had to be put back a week an early decision was preferable to the risk of a possible last-minute postponement.

3. When Geoffrey Pattie and I saw Martin Jacomb last week a rather different position emerged.

4. Kleinworts said that their room for manoeuvre had all but disappeared and the option of postponing Impact Day without damaging the whole BT operation was effectively closed. They would only contemplate last-minute postponement for unexpected market reasons. They are locked into a tight printing schedule; television and Press advertising has been reserved and could not be rearranged; and they say it is simply not now possible to rearrange a world-wide operation without damaging the sale.



5. If there is a delay in the Autumn Statement they would - given the choice - greatly prefer it to follow shortly after Impact Day rather than that Impact Day was put back a week. And they now argue that there would be no legal problems over the BT Prospectus so long as the Autumn Statement contains no unexpected bad news of significance to the markets. (Martin Jacomb identified as especially significant in this context this year's PSBR, next year's fiscal prospect and the inflation forecast). This means that any bad news would need to be in the market before the BT Impact Day.

6. If this could be achieved, it would then allow the final public expenditure Cabinet to be put back, if in the last resort it proves necessary, to 15 or 22 November, with the Autumn Statement following in either case a few days later. From the point of view of BT, the later date is much to be preferred so as to distance the Autumn Statement a little further from BT pricing decisions on 15 November.

7. Where does this leave us?

8. First, my further talks have reinforced the enormous advantage, from every point of view, of trying to secure an early and successful outcome on public spending by the 8 November Cabinet. With Willie Whitelaw's help, we need to do everything in our power to obtain that result.

9. I would then plan to make my Statement to the House, and simultaneously publish the Autumn Statement, on Monday 12 November, ahead of the probable debate on the economy the following day. The printing time-table



will be extremely tight, but with colleagues' co-operation in settling the detailed text and figures, that should just be manageable.

10. Second, we shall need to take stock of the situation in about a week's time, in the light of progress by then on public expenditure. If enough progress had been made to offer a reasonably good chance of settling public expenditure on 8 November, then the present time-table can stand. But if we were to judge that more time was needed, we should have urgently to choose between:

(a) putting back Impact Day by a week (if that still seemed feasible);

(b) putting back the Autumn Statement so that it came one or more, probably two, weeks after Impact Day.

11. Neither of these contingency plans would be at all easy or free from risk. It would, as I say, be far preferable to achieve a satisfactory public expenditure outcome by 8 November. But Michael Havers agrees that the fallback position in paragraph 11(b) is in principle viable, subject to the points set out in the Annex.

12. Geoffrey Pattie agrees with these conclusions.

13. I am sending a copy of this minute to Willie Whitelaw, Michael Havers and Geoffrey Pattie, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.', written in a cursive style.

[N.L.]

24 October 1984

Enc:

**REQUIREMENTS IF AUTUMN STATEMENT FOLLOWS IMPACT DAY
(FALLBACK POSITION)**

1. The legal advice, endorsed by the Attorney General, is that in addition to the duty to disclose any material information and also not to make any material omissions in the prospectus, HMG is under a duty to disclose any information which would falsify any conclusion or inference reasonably to be drawn from the prospectus.
2. If this condition is not met, the underwriters could argue that they were released from the agreement; and investors could argue that they had been misled into applying for BT shares and could sue. But if the condition is met, these actions are unlikely to be taken and if they were the Government would have a strong defence.
3. To ensure that the condition is met and that the fallback in paragraph 11(b) of the minute remains available:
 - (a) The Chancellor will need to make public the prospects in 1984-85 for the PSBR and perhaps also the RPI;
 - (b) officials will ensure by talking to BT that the Autumn Industry Act forecast will not invalidate the 1984-85 profit forecast in the BT Prospectus;
 - (c) officials will check that the Autumn Statement will neither contain unexpected bad news for the markets nor omit material facts if they are known to the Government.

The process at (c) could still reveal snags that would block off the fallback so that slippage on public expenditure decisions would mean postponement of BT.



SECRET AND PERSONAL

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PRIME MINISTER

To note AF 26/10

THE AUTUMN STATEMENT AND BT

I fully support the conclusions the Chancellor reaches in his minute to you of 24 October. Preparations for the BT flotation have been making good progress and the Pathfinder Prospectus is being published today as planned. The stock market's recovery since last week's sharp fall has been encouraging, but I think it would only be prudent to assume that market sentiment may continue to be fragile throughout the period leading up to the planned BT impact day on 16 November.

Against that background, it would be a serious setback to our BT plans if the Autumn Statement could not be made by 12 November as the Chancellor plans. I am sure we should not underestimate the severity of the problems we should face if we had to resort to either of the options he sets out in para 10 of his minute. Either would be liable to cause serious concern in the market and add greatly to the difficulty of carrying through the unprecedentedly big BT issue. It seems clear that Martin Jacomb's advice would be to accept that in those circumstances the Autumn Statement should follow Impact Day rather than that Impact Day should itself be deferred; We need not decide that now, but quite apart from the legal questions to which the Chancellor drew attention in the Annex to his minute, I would be very concerned at the political risks we should be running if we had encouraged large numbers of small investors to buy BT shares and the share price were then to move to a significant discount after a (delayed) Autumn Statement had been made.

I am not in a position to follow the progress of MISC 106. I strongly agree with the Chancellor, however, that we should need to review the options with you no later than 31 October, if by then there still seemed to be some risk that the Autumn Statement might not be able to be made by 12 November.

I am copying this to Nigel Lawson, Willie Whitelaw, Michael Havers and Sir Robert Armstrong.

JEP

GEOFFREY PATTIE

OC4 OC4AAP

26 October 1984



file No 3

10 DOWNING STREET

From the Private Secretary

SECRET AND PERSONAL

29 October 1984

AUTUMN STATEMENT AND BT

The Prime Minister has seen the Chancellor's minute of 24 October and Mr. Pattie's minute of 26 October. She has noted the conclusions reached about the timing of the Autumn Statement in relation to the BT Impact Day. In particular, she has noted that it will be necessary to review progress in the middle of the coming week.

I am copying this minute to Janet Lewis-Jones (Lord President's Office), Callum McCarthy (Department of Trade and Industry), Henry Steel (Law Officers' Department), Neil McMillan (Mr. Pattie's Office, DTI) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

David Peretz, Esq.,
H.M. Treasury.

SECRET AND PERSONAL



10 DOWNING STREET

From the Private Secretary

1 November 1984

THE AUTUMN STATEMENT AND BT

In his minute of 26 October, Mr. Pattie requested that the options for the Autumn Statement and BT be reviewed in the middle of this week. The Prime Minister has considered the position on public expenditure and it remains her wish that the outstanding issues on public expenditure be settled before or at the 8 November Cabinet meeting, so that the Autumn Statement can be made on 12 November, in order to clear the way for the BT launch on 16 November.

This cannot, however, be an absolute assurance as resolution of the outstanding issues will depend on agreement being reached with those colleagues whose programmes are still to be settled and on overall agreement being achieved at the Cabinet meeting.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury), Henry Steel (Law Officers' Department) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Neil McMillan, Esq.,
Department of Trade and Industry