

cc B/UP
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PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Subjects for discussion with the Chancellor are as follows:

(i) Civil List Provision for Prince Andrew
(Note by Nigel at Flag A; Treasury letter at Flag B);

(ii) Proposed Taxpayers Charter
(Note by Peter Warry at Flag C; Treasury letter at Flag D. I have sent Peter's note, with his agreement, to the Treasury. I have no doubt that the Chancellor would prefer to stick with the Treasury's version of the Charter without Peter's amendments, but strongly suspect that he will come prepared to compromise if necessary);

On ECON POL
Taxation + Savings
Pt. 3

(iii) The Economic Prospects Paper for Cabinet on Thursday
(Flag E). The Chancellor also wants to mention to you some preliminary thinking about handling of Cabinet in the autumn. He may suggest that you should indicate in your summing up on Thursday that a Star Chamber is likely to be set up in the autumn. If this was done there would be no need to have a public expenditure Cabinet in October, though one could be held if that seemed right at the time. I am also including the final version of the Chief Secretary's paper (Flag F).

On ECON POL
Public Expenditure
Pt. 35

(iv) The Markets
The Americans have today made an approach which looks for the UK to join in another concerted round of reductions in interest rates. The Americans themselves are likely to reduce their interest rates during the course of their trading day today, and the French may well follow suit. In response to the Americans, the Treasury were somewhat encouraging but non-committal. The Chancellor will be thinking about

a reduction in interest rates during the next few days and wants your first reactions. (Sterling today closed at fractionally under 75 on the effective index. This is weaker than it has been over the past few weeks - when it has touched 76½ - but it is still quite firm. On the other hand, the money figures remain on the worrying side. Other factors to take into account are the risk of effects on the markets from the public expenditure Cabinet on Thursday and from the announcement of the very high local authority spending figures and RSG).

DN

David Norgrove

10 July 1986

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