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PART E

BUDGET BRIEFING 1983

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PART E

Covering BUDGET SECRET until Speech
15 March 1983 then CONFIDENTIAL

Copy No 3 of 125

FROM: R I G ALLEN
DATE: 14 March 1983

BUDGET BRIEF: 15 MARCH 1983

I attach a copy of the Budget Brief. It is classified BUDGET SECRET until the Speech. Thereafter it is unclassified with the exception of those passages marked "Confidential" or "Not for use".

RA

R I G ALLEN
EB

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A1

OIL UNCERTAINTY: ASSUMPTION = PRUDENT
∴ NEED for CAUTION

A1 SUMMARY OF MAIN PROPOSALS

Financial Framework

OUTTURN - 8-12

(i) Monetary target for both narrow (M1) and broad (£M3 and PSL2) aggregates is 7-11 per cent at an annual rate over the fourteen months beginning mid-February 1983. LOWER = HIGHER INT. RATES

82/83 - £7.5 (∵ OIL = £1.5bn >)

(ii) PSBR for 1983-84 is about £8 billion (2¾ per cent of GDP - as suggested in 1982 FSBR, and Autumn Statement).

(iii) Declining path for PSBR as per cent GDP, and for monetary growth for years up to 1985-86 shown in Part 2 of FSBR.

Individual Measures

(i) Personal Tax allowances and all thresholds (including higher rates and IIS thresholds) to increase by 14 per cent, ie about 8½ percentage points more than statutory indexation.

(ii) Specific duties to be increased broadly in line with inflation. (Small real decreases in cigarettes, petrol and derv, largely due to rounding; small real increases in beer, wine, cider and VED).

SPIRITS 25

(iii) Social security

- Child Benefit to increase to £6.50 a week from November (11.1 per cent). Parallel increase in one parent benefit.
- Unemployment Benefit: 5 per cent abatement, effected in 1980, to be restored.
- General social security uprating: return to historic basis for calculating uprating factor. Increases from November will be in line with RPI increase in year to May 1983 likely to be in region of 4 per cent.
- other measures include elimination of invalidity trap.

(iv) National Insurance Surcharge to be cut by ½ per cent for private sector only, from August 1983, (in addition to 1 per cent cut from April announced in Autumn Statement). Rate will be 1 per cent, compared with 3½ per cent before 1982 Budget.

(v) Corporation tax: "Small companies rate" to be cut by 2 points to 38 per cent, and limits altered to reduce marginal rate experienced between limits from 60 per cent to 55½ per cent.

(vi) Housing and home ownership

- Increase in mortgage interest relief ceiling from £25,000 to £30,000.
- More money for Home Improvement grants and 'enveloping schemes'.

(vii) Small Firms, Enterprise and Wider Share Ownership 10%/£50m

- Business Expansion Scheme. A major extension of Business Start-up Scheme.
- Further measures to encourage wider share ownership, improvements in CTT regime, extension of Loan Guarantee Scheme, increase in VAT registration threshold.

5 YR SPREAD

(viii) Technology and Innovation: Main item is reopening of Small Firms Engineering Investment Scheme (SEFIS).

EN. SEC.

(ix) North Sea taxation: Advance PRT to be phased out; new PRT relief on new exploration and appraisal expenditure; reliefs for future fields.

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A1 Cont.

(x) Employment measures include:

- nationwide extension of Enterprise Allowance scheme
- making Job Release Scheme available to part-timers from age 62
- proposals in respect of early retirement.

(xi) Fringe Benefit measures: changes include

- 15 per cent increase in car and fuel benefit scales for company cars
- tax to be charged on benefit where expensive accommodation provided by companies.

(xii) Anti-avoidance measures include

- measures to counter avoidance through group relief
- legislation on tax havens But DTR/ACT offset

Autumn Measures

(i) National Insurance Surcharge cut by 1 per cent, from April 1983. (Additional relief equivalent to ½ per cent reduction for the year 1982-83, deducted from payments of NIS in respect of Jan-March 1983).

(ii) National Insurance Contributions. Class 1 contribution rates for the employers and employees increased by ¼ per cent (ie less than the 0.4 per cent increase needed to balance the Fund).

(iii) Public expenditure planning total for 1983-84 held within 1982 White Paper figure, as modified by 1982 Budget changes (ie £120.7 billion). Further modifications to planning total figures in 1983 White Paper and this Budget: now £119.3 billion.

Effect of Budget Measures

(i) Budget will add £1.6 billion to PSBR in 1983-84 compared with what it would have been on an indexed base (compared with implied fiscal adjustment of £1 billion in Autumn Statement, consistent with same ratio of PSBR to GDP).

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A1 Cont.

(ii) Direct effects of tax measures:
(For details see Part 4 of FSBR)

£ million	1983-84 Change from:-		Full Year Change from:	
	indexed base	non-indexed base	indexed base	non-indexed base
Income tax allowances and thresholds	-1,170	-2,000	-1,490	-2,545
Other income tax and other direct taxes	-295	-310	-365	-410
NIS (private sector cost only)	-215	-215	-390	-390
Excise duties	10	595	10	605
Other indirect taxes	-	-5	-	-5
Total	-1,670	-1,935	-2,235	-2,745

Cost of Full Indexation:

	1983-84	Full Year
Personal tax allowances and thresholds	-830	-1,055
Excise duties	585	595

(iii) Expenditure Measures. Measures total £238 million in 1983-84 (over and above amounts provided for in White Paper):

	1983-84
Technology and innovation	
(including SEFIS; total cost over 3 years £185 million)	39
Housing Improvement	60
Child Benefit	75
Other Social Security (incl. 5 per cent abatement)	26
Employment measures	38
Total	238

- All additional expenditure will be met from Contingency Reserve. It is excluded from table 1.1 of FSBR because there is no direct effect on planned spending. But Budget expenditure measures are taken into account in calculation of PSBR effect of Budget, and revised planning total for 1983-84 shown in table 5.7 of FSBR.

- Planned public expenditure will be reduced by £81 million in 1983-84 (£215 million in a full year) to recover cut in NIS from Central Government and nationalised industries (Local Authorities will continue to pay 2½ per cent for 1983-84 only).
- Revised planning total for 1983-84 is £119.3 billion (compared with £119.6 billion in Cmnd 8789).

(iv) Industry and Persons: Bulk of measures benefit persons - £2 billion of £2¾ billion of full year revenue cost - but industry and business benefit by about £¾ billion in a full year, on top of benefits announced in Autumn Statement, which are worth a further £½ billion in 1983-84. Lower exchange rate and oil prices also help industry.

(v) Prices (direct effect on RPI and TPI)

[per cent]	Indexed Basis		Non-Indexed Basis	
	RPI	TPI	RPI	TPI
Excise duties	-	-	0.4	0.4
Tax allowances	-	-1.3	-	-2.3
Total Budget	-	-1.3	0.4	-1.9
Other measures				
Increase on NIC rates*	n.a.	n.a.	-	0.4
(Autumn Statement)				
Budget and Autumn measures			0.4	-1.5

*Distinction between indexed and non indexed base does not apply; compared with the conventional assumption that NIC rates rise to balance the Fund, the effect on the TPI is -0.2 percentage points. Higher prescription/dental charges (not part of Budget) will have negligible effect on RPI.

(v) Percentage of income paid in income tax and NIC will be unchanged or lower in 1983-84, compared with 1982-83, for all those paying contracted-in NIC. Some contracted-out may pay slightly more. Changes in real disposable incomes between two years will also depend on earnings and prices.

(vi) Effects on real GDP and employment have not been given in any of last four Budgets. Size depends on arbitrary choice of projected base-line. (In the MTFS "unchanged policies" does not mean unchanged tax rates (either indexed or unindexed) but sticking to fiscal stance already announced). Autumn Statement forecast allowed for some tax cuts, to bring PSBR up to 2¾ per cent of GDP in 1983-84, a figure which has been confirmed.

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A2: KEY POINTS AND RESPONSES

This brief is divided into sections.

A The Budget in context
B Economic prospects
C Monetary policy
D Public sector borrowing
E The Budget and persons
F Social security
G The Budget and business
H Look back to 1979: Tax

[NB The various sections include defensive responses to the main criticisms of the Budget which may be put by Opposition Parties, TUC, CBI, etc. Further details of the various "alternative Budgets" are provided in EB's Checklist, the latest version of which was circulated on 4 March (a supplement covering the Shore Budget was circulated on 11 March).]

A BUDGET IN CONTEXT

Positive

(i) This Budget should not been seen as an isolated event. It is part of a continuing programme which is being maintained over a period of years. The macro-economic context is set out in the MTFS. The wider context is the intention to achieve enduring changes in attitudes and expectations.

(ii) Budget combines, as last year, tax cuts within continuing responsible policies for money and borrowing. Relief for persons and business to improve incentives and help restore base for economic growth, higher output and increased employment. Tax cuts within responsible policies consistent with Government's objectives.

Defensive

(i) Reflationary/deflationary/effects on demand? Not sensible questions. The Government is sticking to the framework set out in the MTFS. No Budget boosts or giveaways. Question in any case outmoded. First, cannot see fiscal policy in isolation from monetary policy and, secondly, government does not think it sensible (or, in the longer term even feasible) to try to manage demand and output.

(ii) Budget will not help recovery? Recovery does not depend on tax handouts or higher public spending but on lower inflation, better competitiveness and improved incentives, as well as on world recovery. Budget is directed at improving the performance of the economy.

(iii) Strategy itself deflationary? No. People said sticking to strategy in 1981 - and raising taxes - would kill off recovery. Proved wrong then. This time sticking to strategy and cutting taxes. But anyway no shortage of money demand, or, indeed, real demand.

(iv) Election giveaway? Tax reductions and other measures adding some £1½ billion to PSBR in 1983-84 (cf Alliance proposals for £5 billion, Labour Party £6 billion) within continuing firm policies for money and borrowing can hardly be accused of that. Compare with Shore shadow Budget to see a real attempt at electoral bribery.

(v) Nothing for unemployment? The whole economic strategy is aimed at recovery and the Budget is part of that. Budget also includes measures aimed specifically at employment (see Briefs G7 and H7) and many of the other proposls will be of immediate help eg housing and construction measures and NIS. Also remember full range of employment and training programmes on which Government will be spending over £2 billion in 1983-84, bringing direct help to 650,000 people.

B **ECONOMIC PROSPECTS** (See Brief B6)
[NB FSBR assumes effective exchange rate remaining around February 1983 level and North Sea prices at about currently proposed levels ($30.50)]

(a) Output

	1982 on 1981	1983 on 1982	1984 1st half 1983 1st half
GDP (% change)			
- 1982 Budget IAF	1½	Not forecast	Not forecast
- Autumn IAF	½	1½	Not forecast
- 1983 Budget IAF	½	2	2½

Manufacturing output (levels, 1975=100)	1981 H1	1981 H2	1982 H1	1982 H2	1983 H1	1983 H2	1984 H1
- 1982 Budget IAF	88	90	91	92	93	-	-
- Autumn IAF	88	89½	89	88½	89	-	
- 1983 Budget IAF	-	-	89½	87½	89½	90½	91½

Points to make

(i) 1982 pause in recovery largely a result of depressed world economy; prospects for latter now improved.

(ii) IAF now sees rather faster recovery in 1983 than at the time of the Autumn Statement, (2 per cent growth of GDP and manufacturing output).

(iii) At 2½% in 1982 and 3½% in 1983 real domestic demand is growing quite rapidly and faster than in most other industrial countries.

(b) Inflation

[% change]	1982 Q4 on 1981 Q4	1983 Q2 on 1982 Q2	1983 Q4 on 1982 Q4	1984 Q2 on 1983 Q2
RPI				
- 1982 Budget IAF	9	7½	Not forecast	Not forecast
- Autumn IAF	6	*	5	Not forecast
- 1983 Budget IAF	6	Not forecast	6	6

*Said 5% "early in 1983".
+In context of SS uprating, Budget Speech said "in region of 4 per cent" for May RPI.

	1982-83 on 1981-82	1983-84 on 1982-83	1984-85 on 1983-84
GDP Deflator			
- 1982 Budget MTFS	[8*]	[7+]	Not stated
- Autumn IAF	7½	5	Not stated
-1983 Budget	7	5½	5½

* Not stated explicitly.
+ "assumed to fall to around 7 per cent in 1983-84".

Points to make

(i) Dramatic fall in retail price inflation over the past year, some 3 percentage points faster than expected.

(ii) Path of inflation as measured by GDP deflator (a broader measure of prices) less erratic than RPI, which has been affected particularly by movement of housing costs and seasonal food prices, and still on downward trend.

(iii) RPI inflation likely to show some increase this year, but as in 1981, upward pressures will be contained by responsible policies.

Unemployment

No forecasts given, as customary. But provided no major shifts in financial pressures on employers, growth of 2-2½ per cent pa if sustained for a period (FSBR para 3.39) is probably consistent with no great change in unemployment.

C **MONETARY POLICY** (See Briefs C3 and C4)

Positive

(i) Monetary aggregates for 1982-83 comfortably within target range.

(ii) 1982 MTFS range of 7-11 per cent for 1983-84 confirmed.

(iii) Full discussion of monetary policy in its context set out in MTFS.

(iv) Monetary policies are consistent with continuing downward pressure on inflation.

(v) Interest rates much lower than a year ago. 3 month rates over 5 per cent down from peaks in 1981.

(v) Interest rates are influenced by many factors but no doubt that prudent monetary policies combined with responsible borrowing give best prospect for further falls.

Defensive

(i) Monetary policy too tight? Rapidly falling inflation has happened with real domestic demand rising at 2½-3 per cent per annum. No evidence of excessive stringency there.

(ii) Policy too loose? Policy appears to have been appropriately restrictive and inflation has fallen fast. No compelling reason to lower the target range.

D **PUBLIC SECTOR BORROWING** (See Briefs C1 and C3)

Positive

(i) PSBR figure of £8 billion, 2¾ per cent of GDP, indicated in Autumn Statement, confirmed for 1983-84.

(ii) Maintains prudent policies for borrowing. One of the lowest public deficits among industrial countries in relation to GDP.

(iii) Room for further substantial tax cuts on top of 1982 Budget and Autumn Statement.

Defensive

(i) Increase in PSBR from 1982-83 (£7½ billion) to 1983-84 (£8 billion)? No increase in relation to size of the economy (GDP). Maintaining downward trend over the medium term.

(ii) Have raised the PSBR path for later years simply in order to show positive fiscal adjustment? Changes were made in context of overall assessment of the position.

(iii) Fiscal policy should be based on real PSBR? Some merit in inflation adjusted measure as indicator of fiscal stance in some circumstances. But there are dangers here: it would be quite wrong to expand PSBR in cash terms in response to an upsurge in inflation merely to keep inflation adjusted measure constant. Policies intended to eradicate inflation, not to adjust to it.

(iv) Fiscal policy should be based on cyclically adjusted PSBR? Actual not hypothetical PSBR has to be financed. Real test is pressure on interest rates. Adjusted PSBR calculations provide only limited and partial help in assessing direction of policy.

(v) Others have used Treasury model to show larger PSBR would be beneficial (eg Shore, TUC). Using Treasury model does not endow such claims with respectability. Results depend on judgements and assumptions rather than pressing buttons. Often key factors such as interest rates and exchange rates are assumed fixed at some "desired" level. Interest rates cannot simply just be lowered at will. Effects on confidence very real and important but difficult to allow for.

(vi) Falling oil prices? Forecast assumes oil prices remain on average at about currently proposed levels. If oil prices were to fall further, as Chancellor said in his Budget speech, he remains ready to take appropriate action. Position would need to be reviewed in light of circumstances at the time. But lower oil prices are on balance a positive factor in relation to world, and UK, recovery.

E BUDGET AND PERSONS (See F Briefs and social security below)

Positive

(i) Personal allowances increased by about 14 per cent - some 8½ points above last year's inflation. Thresholds and bands increased by same percentage.

(ii) Excise duties revalorised generally in line with inflation.

Defensive

(i) More money should have gone to business? The balance of tax reductions is clearly a matter for judgement. But bearing in mind the action taken in the 1982 Budget, the autumn measures, and the falls in interest rates, the exchange rate, and oil prices it seemed right that the bulk of relief should go to persons on this occasion, though business too is being given substantial help (see below). And tax relief to persons should help pay prospects and improve incentives - both of benefit to business.

(ii) Effect on imports? Should not be alarmist on this - many of the figures quoted are greatly exaggerated. Certain categories of consumers' expenditure certainly have high import contents - particularly durables - but

(a) other categories of consumption have smaller import propensities

(b) part of consumers' expenditure - even on imported goods - goes on retailers' and distributors' margins and indirect taxes. (Most durables, for example, bear VAT at 15 per cent);

(c) recent growth in consumption has not, so far, led to an upsurge in imports, but seems to have been met from stocks.

On the other hand, some elements of company expenditure have a high import content (stockbuilding for example).

So as long as there is room for making tax cuts without raising interest rates

- at least half of the total increase in expenditure is likely to benefit domestic production, both for NIS cuts and for income tax reductions;

- the extra demand generated by cuts in NIS or income taxes is likely to have much the same import content.

(iii) Some people will still be worse off when NIC included? Everyone contracted in will be better off or no worse off. Some of the contracted out will be worse off, but extra increase in NIC for them reflects reduced cost of providing for earnings related occupational pensions.

(iv) Main benefits go to better off people? Increases in allowances etc are bound to help better off more in absolute terms. In percentage terms the greatest gains are for the low paid and the high paid. Thus the people who suffered most from 1981 Budget are gaining most from 1983 Budget.

(v) Allowances and higher rate thresholds raised 14 per cent, child benefit 11 per cent, pensions only 4 per cent?

Cannot consider one year in isolation. In 1981 allowances didn't rise at all, while CB went up 10½ per cent and other benefits 9 per cent. Between 1978-79 and 1983-84 rises will have been as follows:

Allowances and thresholds higher rate tax	Child Support (under 11)	Pension	Short-term Supplementary Benefit	RPI
+82%	+90%	+83%	+75%	+71%

(NOTE: All figures are financial year averages. November to November comparison shows pensions up only 76 per cent and SB 72 per cent.)

(vi) Effects of MIRAS etc? Changes affecting mortgagors' tax payments include MIRAS and recoding for fall in mortgage rates last year. MIRAS is an administrative change without major effects on people's net positions. Recoding simply means people will be paying the extra tax they should have started to pay last year when mortgage rates came down. People got too much tax relief last year. This is being recouped. (See Brief F6)

F SOCIAL SECURITY (See E Briefs)

(i) Government has decided to revert to the historic method for determining price movements relevant to the social security uprating. Will need primary legislation to be introduced shortly (probably on Wednesday 16 March). Most

benefits will be uprated next November by historic movement in prices between May 1982 and May 1983. Final decisions will not therefore be taken until May RPI outturn is known in June. Chancellor said in Budget speech that this likely to be in the region of 4 per cent.

(ii) 5 per cent abatement of unemployment benefit to be restored. Uprating of UB and certain other short term benefits in 1980 5 per cent less than general uprating; partly as proxy for taxation. UB (but not other benefits) brought into tax from July 1982. 5 per cent abatement now therefore restored for UB (but not other benefits).

(iii) Child benefit increased to £6.50. Assuming 6 per cent inflation to November that will make it the highest level ever in real terms. Costs £211 million in a full year over and above what has been provided for.

(iv) "Invalidity trap" removed. Trap arises because those in receipt of invalidity benefit cannot now ever qualify for the long-term rate of Supplementary Benefit. Over 60s taken out of trap by (v) below. But under 60s will also be able to qualify for long term rate after November.

(v) Other changes include extension of higher rate SB to unemployed men over 60 from June.

G **BUDGET AND BUSINESS** (See G Briefs; G1 for summary)

Positive

(i) Measures announced in 1983 Budget alone help by £¾ billion in a full year. Come on top of help given in Autumn announcements (£½ billion cash reduction in NIC and NIS payments by private business in 1983-84 even after allowing for increased rate of employer NIC) and over £1 billion in 1982 Budget.

(ii) Aside from totalling the figures in this way, further changes to legislation and other arrangements (eg share options) to strengthen business performance.

(iii) Measures include imaginative Business Expansion Scheme and continued emphasis on enterprise.

(iv) Note that NIS was 3½ per cent up to April 1982. Will be 1 per cent from August.

(v) Excise duties revalorised generally in line with inflation. But heavy fuel oil again exempted. 20 per cent real reduction in duty since 1980.

(vi) Measures which help people help business and vice versa. Wrong to draw a sharp distinction between them.

(vii) Above all don't ignore overall benefit of government policy: maintaining the monetary and borrowing framework brings benefits on inflation, interest rates, pay expectations and generally helps restrain costs and improve the climate for business.

Defensive

(i) More for business? (See E defensive (i) above). Always wish could have done more. Difficult balance to strike, but have not ignored business. Substantial help too.

(ii) Business can do far more for itself than Government can by tax relief. Pay and productivity are keys to better competitiveness.

H LOOK BACK TO 1979: TAX (See also Briefs C2 and F3)

Factual

(i) Total taxation as percent of GDP still higher than in 1978-79, but down from 1981-82 peak.

(ii) Income tax now a much smaller proportion of total taxation, and marginal rates have fallen for most taxpayers.

(iii) Taxes on business have fallen in real terms, but those on persons have risen.

(iv) Percentage of income paid in income tax and NICs higher in 1983-84 for everyone up to 2¾ times average earnings, but real disposable income projected to increase at all earnings levels (on illustrative assumption that earnings and retail prices rise by 6½ per cent and 6 per cent respectively in 1983-84).

(v) Most specific duties now higher in real terms than 1978-79.

Positive

(i) Real take-home pay higher in 1983-84 than 1978-79 at all earnings levels. (On above assumptions about earnings and prices).

(ii) Basic rate down 3p to 30p. Penal higher rates inherited from last Government abolished. Good for work incentives.

(iii) 2½ per cent points cut in NIS has benefited businesses, as did changes in stock relief.

Defensive

(i) Rise in tax burden has been necessary to achieve PSBR levels compatible with continued reduction in inflation.

(ii) Increases in NIC necessary to pay for higher benefits.

(iii) Squeeze on profits and company finances due to high levels of wage increases in 1979 and 1980, strength of exchange rate for much of period, and world recession meant it was right to help business through a difficult period of economic adjustment. Objective is further reductions in personal - and overall - tax burden in the years ahead.

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B1 RECENT WORLD ECONOMIC DEVELOPMENTS

Factual

(i) World output and trade fell in 1982. This year there are signs that both will recover although evidence is still patchy.

(ii) Unemployment. On standardised definitions unemployment averaged 8.6 per cent in seven major industrialised countries in Q4. Unemployment has risen particularly sharply in past year in Canada and Germany.

(iii) Annual rate of consumer price inflation in the major countries fell from 8.7 per cent in January 1982 to 5.5 per cent in January 1983. In past year consumer prices have risen by 2.0 per cent in Japan, 3.9 per cent in Germany, 4.5 per cent (new definition) in the US, 9.6 per cent in France and 16.4 per cent in Italy. Commodity prices (excluding oil) at end of 1982 were at their lowest level in real terms for thirty years. Oil prices have fallen in recent weeks and are likely to remain weak in near future.

(iv) 3 month interest rates have fallen particularly steeply in US from 14½ per cent in June 1982 to around 8-8½ per cent currently. Rates have also fallen in other countries but not generally by as much.

(v) Most forecasters have revised down their forecasts for 1983 and now expect modest growth for the major industrial countries. US growth is expected to accelerate during year. FSBR forecast (see below) is that GDP in the major 6 industrial countries will rise 1½ per cent and world trade on manufactures (UK weights) will rise 1 per cent during 1983.

Per cent changes on a year ealier

	1975-80	1980	1981	1982	1983	1984 first half
GDP*	3½	1	1½	-½	1½	3½
Consumer prices*	8½	12	10	7	5	5½
Trade in manufactures (UK weighted)	6	4½	3	-3½	1	6

*Major 6: US, Germany, Japan, France, Italy, Canada.

(vi) OPEC and Non-oil developing countries (NODC's) are estimated to have cut back their imports sharply during the course of 1982 reflecting high interest rates, weak export earnings and stricter credit restrictions on borrowing.

(vii) Current account position of industrialised countries is dominated by large prospective US deficit. Growing surpluses during 1983 are expected in Germany and Japan. NODC's are estimated to have reduced their deficit from around $100 billion in 1981 to $90 billion in 1982, this may fall to $70 billion in 1983. Oil exporting countries surplus virtually disappeared during 1982 after falling from $115 billion in 1980 to $65 billion in 1981.

(viii) Exchange rates remain volatile. Dollar's effective rate has weakened since its November peak although it has strengthened somewhat in recent weeks. Yen remains firm after appreciating significantly at end of last year. The deutschemark has risen sharply following the recent elections. This has increased the pressure on the French franc and strengthened speculation that there will have to be an EMS realignment in the near future.

(ix) UK comparisons are in Briefs B2 and B3.

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B1 Cont.

Positive

(i) Inflation and interest rates have fallen in most major countries in the past year and this should help to create conditions for sustainable growth.

(ii) There has been widespread agreement at successive international meetings and most recently at the IMF Interim Committee on the need to continue with firm fiscal and monetary policies to lay the basis for a prolonged non-inflationary recovery.

(iii) Most forecasters except modest recovery this year. There are encouraging signs in US (including rises in industrial production, leading indicators and upward trend in the number of housing starts) and in Germany (industrial production has risen, construction activity has been recovering and orders have improved).

Defensive

(i) Why don't low inflation countries increase demand? Excessively expansionary policies would only rekindle inflation.

(ii) World debt crisis still serious? Most major debtors now undertaking adjustment programmes - often with IMF assistance. They may of course remain convalescent for some time, but we now have the measure of the problem. There have also been moves to improve banking supervision, and the banks themselves are improving their information flows.

(iii) World recovery doubtful? Welcome early but still tentative signs that are beginning to emerge of the recovery in prospect now that inflation and interest rates have been brought down. Forecasts point to recovery in output for the industrialised countries of around 1-2 per cent this year. Progress on inflation should ensure that recovery is soundly based and sustainable.

(iv) US monetary policy too tight/too loose? Monetary indicators in US are being interpreted flexibly in light of financial innovations. Federal Reserve Chairman Volcker has stressed that revised higher monetary targets take account of distortions affecting monetary aggregates. Federal Reserve remains committed to reducing inflation.

(v) US budget deficit too big? Share Administration's concern over size of potential budget deficits. Glad to see Administration's proposals to reduce deficit over medium term. Essential that deficits are put on a declining path if inflation and interest rates are not to rise again as economy recovers.

(vi) Gloomy prospects for Europe? True that prospects for recovery in Europe weaker than in US or Japan. But budget deficits higher and inflation more rapid in many European countries.

(vii) Non-oil commodity price boom in prospect? Although prices are likely to rise gradually a rapid rise is unlikely if rise in world trade and output is moderate and steady.

(viii) Effects of lower oil prices? Difficult to forecast exactly lower oil prices should help reduce inflation and promote world recovery, although large fall would place greater strains upon world financial system and involve difficult short term adjustments for some sovereign borrowers.

(ix) Agreement on IMF quota increase by US Congress dependent on restrictions on US bank lending overseas? Important that developing countries have access to adequate funds to finance adjustment. IMF quota increase an essential part of promoting world recovery. Secretary of State Schultz has rejected idea of tying agreement on quota increase to restriction on US bank lending abroad.

(xi) US interest rates: welcome recent falls in US interest rates partly reflecting falls in inflation. Important that budget deficit be reduced over medium run if rates are to be reduced further.

(xii) IMF Quota Increase: International Keynesianism?

(Michael Beenstock in FT 2 March accuses Chancellor of being monetarist at home and Keynesian abroad because he argues large quotas will swell world liquidity).
Increases in IMF resources are necessary contingency measure in present circumstances. IMF has vital role in helping economies to adjust while lessening the risk of excessive disruption which could damage both individual economies and the international system. Important also to note that use of resources will be spread over a number of years and will be accompanied by firm adjustment programmes.

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B2 UK ECONOMY: RECENT DEVELOPMENTS

Factual

(i) Comparison of economic indicators for UK and OECD Major 7 up to 1982 Q4 (using OECD data):

	Industrial Production (ex construction)	Consumer Prices	Unemployment in 1982 Q4 % of total labour force (s.a.)
	% change 1982 Q4 on 1981 Q4	% change in 12 months to January	
UK	-1	+4.9	13
OECD 7	-6*	+5.5**	8½

*3 months to November
**OECD6

- In year to January UK (RPI) inflation - at 4.9 per cent - now lower than weighted average consumer price inflation for "major 6" (5.5 per cent). (US, 4.5 per cent (new definition), Japan 2.0 per cent, Germany 3.9 per cent, France 9.6 per cent, Italy 16.4 per cent).
- Industrial production (ex construction) in latest three months on previous three months, fell 1 per cent in OECD 7(Nov), 1 per cent in Germany (Nov), 2 per cent in US (Dec), ½ per cent in Italy (Nov), but unchanged in UK (for 3 months to both Dec and Jan).
- On latest available monthly data, some percentage increases in unemployment in the latest 12 months are as follows (absolute increases in percentage points - which may give a fairer comparison - are given in brackets): US (Feb) 20 per cent (1.6), Germany (Feb) 34 per cent (2.3), Netherlands (Dec) 37 per cent (3.8) against 12 per cent (1.4) in the UK (Feb). On both bases, UK unemployment has risen less. (See Brief B1 for world economy, B4 for UK inflation and B3 for UK unemployment).

(ii) UK balance of payments: in 1982 current account remained in strong (£3.9 billion) surplus (£6 billion in 1981); non-oil trade deteriorated sharply (deficit of £2.3 billion) but was more than offset by surpluses on oil (£4.6 billion) and invisibles (£1.7 billion). Invisibles were sharply down in the final quarter of 1982. Though import volumes were broadly flat from spring 1982, import penetration remained high. Manufactured export volumes held up well against 3½ per cent fall in world trade.

(iii) Sterling effective exchange rate has fallen around 14 per cent since October 1982. Market weakness reflected many factors including reaction to prospect of falling oil prices, uncertainties about future policy (eg associated with Mr Shore's November proposal for devaluation) and worries about prospect for current account (see Brief C6).

(iv) UK demand and output: from 1981 trough to third quarter of 1982 total domestic demand rose 3½ per cent while total output increased only 1¼ per cent, largely reflecting weakness of world markets.

(v) Consumer spending: in 1982 1¼ per cent higher than 1981 and rose 3½ per cent during year. Gross fixed investment 3 per cent up in first three quarters of 1982 on same period last year but manufacturing investment fell 3 per cent between the two halves of year. In 1982 as a whole stocks fell by £715 million (1975 prices). Government consumption virtually flat.

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(vi) GDP and manufacturing output: recent movements in output are shown below:

			Per cent
	1979 H1-1981 Q2	1979 H1-1982 Q4	1981 Q2-1982 Q4
GDP(O)	-6	-4	+1 ½
GDP(O) (ex North Sea)	-6 ½	-6	+ ½
Manufacturing output	-16	-17 ½	-1 ¾

* 1979 H1 is estimated as last cyclical peak; 1981 Q2 cyclical trough.

(vii) January manufacturing output figures show a rise of about 2¾ per cent on December (and the December figure was itself revised upward by some 1 per cent). But in the three months to January, compared with previous three, rise was only about ½ per cent. Still not significantly above the spring 1981 trough.

(viii) Manufacturing productivity (output per head) increased 12½ per cent between 1980 Q4 and 1982 Q4 manufacturers' unit wage and salary costs up (only) 6¾ per cent in year to 1982 Q4. "Cost competitiveness" improved 25 per cent since early 1981 (see Brief C7).

(ix) Company sector pre-tax real rates of return (ex stock appreciation; ex North Sea) very low in 1981 (3 per cent); but 14 per cent improvement in gross trading profits in first three quarters of 1982 compared with 1981 probably (on Bank estimates) increased real return to 4 per cent. Industrial and commercial companies (ICC's) net borrowing fell in six months to September and small financial surplus emerged.

(x) Unemployment. Unemployment has risen steadily - average some 27,000 a month - in twelve months to February (UK total including school leavers nsa total 3.2 million) (see Brief B3).

(xi) Monetary developments and policy. Main monetary aggregates all within target range (see Brief C4).

(xii) Retail price inflation, wage rates and earnings (see Brief B4).

(xiii) PSBR. No increase in PSBR between 1982-83 and 1983-84 in relation to size of economy (GDP). Maintaining downward trend over medium term (see Brief C1).

(xiv) CBI February Trends Enquiry shows biggest positive swing in net balance of firms expecting an increase in manufacturing output since early 1981 (-5 January, +8 February). Order books (notably exports) also improved substantially and firms no longer consider themselves overstocked. Proportion of firms expecting to raise average domestic selling prices increased slightly.

(xv) CSO's index of leading cyclical indicators: suggest economy should continue in upswing phase in 1983. Shorter leading and coincident indicators continued rising over recent months while longer leader rose to November then unchanged to January.

Positive

(i) GDP recovered 1½ per cent and industrial output 1½-2 per cent since spring of 1981. Budget Forecast sees prospects of renewed, if modest recovery this year both for GDP and manufacturing output.

(ii) Total domestic demand, by third quarter of 1982, recovered 3½ per cent from 1981 trough; consumers' expenditure rise of 3 per cent during 1982.

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(iii) Manufacturing output increases in December and (particularly) January are more encouraging (2½ per cent in January, 3½ per cent since November). Average for December and January now ½ per cent above 1981 Q1 manufacturing trough and confirm sharp turn-round in output optimism in February CBI Survey. But further information required to confirm whether up-turn will be sustained.

(iv) Bank base rates are 5 points below autumn 1981 peak; short-term interest rates are 5½ per cent lower.

(v) Whole economy labour costs per unit output increased only 3.3 per cent between third quarters of 1981 and 1982; wages and salaries per unit output (excluding NIC/NIS) up 4.2 per cent.

(vi) Manufacturing productivity (output per head) improved 12½ per cent since end 1980. Output per head and output per hour now 5 and 9 per cent higher than cyclical peak in 1979 H1.

(vii) Cost competitiveness (manufacturing) improved 25 per cent since early 1981, reflecting improved productivity, lower wage settlements and fall in exchange rate.

(viii) Profits of ICC's (net of stock appreciation, excluding North Sea) up 14 per cent in first three quarters of 1982 on average for 1981.

Defensive

(i) Recovery over/activity flat?

GDP(O) up 1½ per cent since spring 1981 trough. True non-North Sea output relatively flat but largely reflects unexpected fall in world trade volume. Growth in overseas markets (where signs are now more encouraging), further increases in domestic demand as effects of lower inflation and lower interest rates work through, together with improved profitability, should lead to modest recovery in output this year.

(ii) Manufacturing output 2 per cent below 1981 Q2 level?

Manufacturing output levels disappointing, but December/January figures more encouraging, output of consumer goods industries holding up well and latest CBI Trends Enquiry shows biggest swing in balances of firms expecting manufacturing output to increase since January 1981 - order books also improving.

(iii) Manufacturing production back at 1967 levels?

Sectoral composition of GDP changing. Pattern of output responds to changes in consumer preferences and balance of comparative advantage. GDP is 26 per cent above its level in 1967.

(vi) Prospects for UK economy?

See Brief B6.

(v) Deficiency of demand?

No. Since recessionary trough in spring 1981 total domestic demand and total output have increased by 3½ per cent and 1½ per cent respectively. Essential problem lack of "competitive supply".

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(vi) Where will growth come from?

Already experiencing higher consumer expenditure, which is benefitting consumer goods' industries. North Sea output has been on a rising trend. Also signs that output is picking up in some other areas (eg distribution and construction) and more immediate indicators -manufacturing order books, optimism on output - all more encouraging. Company profitability improving and lower inflation and interest rates should encourage more expenditure by companies on fixed investment and positive stock building.

(vii) CSO index of longer leading cyclical indicators flat?

All four cyclical indicators taken together suggest the economy should continue in upswing phase through 1983.

(viii) Growth in manufacturing productivity falling off?

Gains in last two years impressive (10 per cent rise in output per head during 1981, 2-3 per cent during 1982) and bigger than might have been expected on past experience (particularly when set against fall in manufacturing output). Slowdown in 1982 must be seen against background of some fall in manufacturing output - after slight recovery in 1981 - and in any case probably inevitable since best opportunities for plant closures and improved efficiency are taken first.

(ix) Trade performance poor/import penetration high? (See Brief C7)

(x) Disappointing invisibles in 1982 Q4?

Recent data for invisibles is subject to considerable revision. Weakness in the world economy last year has undoubtedly hit our overseas earnings, but with recovery in prospect they are likely to improve. In addition, usually low oil tax payments increased IPD debits.

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B3 UNEMPLOYMENT

Factual

(i) Labour market indications generally showed little change during 1982:

Labour market indicators (seasonally adjusted)

	Employees in Employment: Manufacturing GB	Employees in Employment: Total(1)	Unemployment UK, excl. school leavers	Vacancies UK	Total(2) Overtime Hours Worked	Total(2) Hours lost on short-time Working(3)
	(Monthly average change 000s)			(Monthly average levels 000s)	(Monthly average millions)	
1980	-56	-74	66	143	11.5	3.9
1981	-40	-72	51	97	9.1	4.2
1982 H1	-23	-41	24	109	9.9	1.7
H2	-32	n.a.	29	113	9.8	1.5
1983 Jan/Feb	n.a.	n.a.	27	123	n.a	n .a.

(1) Monthly average of quarterly change

(2) Hours data refer to operatives in manufacturing

(3) Not seasonally adjusted.

(ii) Unemployment increased steadily in the twelve months to February:

	Thousands	Increase on year earlier (thousands)
Total UK including school leavers	3199	317
UK excluding school leavers	3000	321

(iii) Unemployment increase under present and previous administration

	UK Total 000's	UK Total per cent	UK excluding school leavers (s.a) 000's	UK excluding school leavers (s.a) per cent
Conservative: (May 1979-Feb 1983)	1980	162	1747	139
Labour (Feb 1974-May 1979)	606	99	642	105

(iv) Outside forecasters see continued rise in registered unemployment during 1983 reaching around 3.2-3.3 million (adult s.a.) by the end of this year. Most major independent forecastors project a similar level by end-1984 though a few (eg LBS) forecast a modest fall.

(v) The Government does not publish a forecast of unemployment, nor have previous Governments. Unemployment working assumptions were published in 1983 PEWP as follows (figures are GB, excluding school leavers, millions):

1982-83	1983-84	February 1983
2.74	3.02	2.89

However, FSBR means that "growth of total output in the range 2-2½ per cent, if sustained for a period and accompanied by no major shifts in financial pressures on employers, is probably consistent with no great change in unemployment.

(vi) On standarised definitions unemployment in OECD countries averaged 8.9 per cent in December 1982, the latest date for which comprehensive estimates are available. This compares with 12.7 per cent for the UK. On latest available monthly data, unemployment increases in the latest twelve monthly period are much greater in Germany 34 per cent (1.8 points), 37 per cent Holland (3.8 points), and US 20 per cent (1.6 points) than in the UK 12 per cent (1.4 points).

(vii) Level of registered vacancies has been increasing slowly, but is still only about half level in 1978 and 1979.

Positive

(i) Government committed to achieving sustainable economic growth and secure employment prospects. Depends on maintaining progress on inflation, improving productivity and competitiveness, making wage bargaining more responsible and establishing a more flexible and efficient labour market. Good start made on all these counts but much remains to be done. Had this improvement emerged earlier unemployment situation would not now be so acute.

(ii) Government deeply concerned at level of unemployment. Policies tackling roots of problem and will provide secure prospects for sustained growth and real jobs. Expansion of special employment measures shows Government concern to help those groups worst affected, especially young people.

(iii) Reflation not way to help unemployed. Would fuel further inflation to detriment of employment prospects.

Defensive

(i) Publish unemployment forecasts? No. Following well established precedent of previous administration in not publishing. Public Expenditure White Paper figures are planning assumptions not forecasts.

(ii) Unemployment will continue rising? Unemployment forecasts uncertain. But would not quarrel with proposition that unemployment may flatten out in course of MTFS period, if assumptions underlying MTFS are realised (see factual (v) above).

(iii) Higher productivity will raise unemployment? Probably true in short run. But - as experience in Japan and elsewhere clearly demonstrates - higher productivity essential for longer term growth and employment opportunities.

(iv) Unemployment higher than official figures? Grossly exaggerated claims from TUC (4 million) and SDP (5¼ million) incorporate dated statistics which showed one million fall in size of labour force between 1979 and 1981 and include those currently benefitting from special employment measures. Latter "adjustment" clearly inappropriate and former no longer supported by recent statistics. Labour force actually grew between 1979 and 1981 by ¼ million.

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(v) Unemployment increased by more than under Labour? Unemployment has been on rising trend for long time. Regrettably increase has accelerated since 1970. Nothing to be gained by throwing these sad figures around.

(vi) Unemployment risen less in other countries? Whole world affected by rising unemployment. In our case we have additional self inflicted wounds of high pay awards and low productivity. Unemployment now rising very fast in some countries eg, Germany, US and Canada.

(vii) What is Government doing to provide more jobs? Illusion to think Government can switch employment off and on like a tap. Government pursuing sensible fiscal and monetary policies to curb inflation and creating conditions for enterprise. These are only measures that will ensure sustainable increase in employment. Nevertheless Government expanding schemes to meet special difficulties and improve training - eg planning to spend over £2 billion in cash on special employment and training measures in 1983-84; this includes proposals set out in this Budget (see Brief G7).

(viii) Government has manipulated official unemployment statistics? No. Change from "registration" to "claimants" basis for count of the unemployed is cheaper and more accurate. Also frees Job Centres to spend more time helping those seeking work (see also Briefs G7 and H7 for measures in Budget).

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B4 INFLATION: PRICES AND PAY

PRICES

Factual and Positive

(i) In the last 12 months price inflation as indicated by the RPI has more than halved (12 per cent in January 1982, 5 per cent in January 1983). On other measures progress has also been good:

	RPI	GDP deflator	TFE deflator	Wholesale output prices
Annual (%) increase to:				
1982 Q1	11	9	8½	10½
Q2	9½	8½	8	8½
Q3	8	6½	6	8
Q4	6	7½*	6½*	7½

* estimate

(ii) During the last year many prices have either risen by very little or fallen:

[per cent]	Food	Housing (incl mortgages)	Clothing and footwear	Household durables	Nationalised Industry prices	Overall RPI
Price increases to						
January 1982	11	23	0	4	10	12
January 1983	2	-1	2	3	14	5

(iii) Direct effect of Budget measures on inflation? Increase in excise duties will add 0.4 per cent to RPI but, since duties are to be revised broadly in line with inflation, there will be very little effect on an indexed comparison. Taking into account NIC changes as well as Budget measures, TPI will be reduced by about 1.5 percentage points. (See also Brief A1.)

(iv) Inflation under the present administration; comparison with previous Government. When previous Government left office (May 1979) RPI inflation was 10.3 per cent and rising, now (January 1983) down to 4.9 per cent. Average rate of inflation in previous administration (1974-1979) 15½ per cent, present administration (1979 - present) 12 per cent.

(v) Why has RPI inflation come down faster than expected? Comparison with last year's forecast. Most of over prediction is attributable to: good harvest allowing unexpectedly large falls in seasonal food prices; domestic interest rates falling unexpectedly rapidly leading to cuts in mortgage rate; weaker than expected commodity prices. 1982 FSBR forecast 9 per cent RPI inflation in year to 1982Q4; actual outturn 6¾ per cent. This more rapid than expected progress on inflation has been consistent with some improvement in profits.

Defensive

(i) Higher RPI inflation expected in February? (RPI figure to be announced on 18 March). As a matter of simple arithmetic February figure likely to show higher 12 month increase than January figure because RPI scarcely rose at all between January and February last year. [Index moved from 310.6 in January 1982 to 310.7 in February 1982].

(ii) Inflation increasing in second half of year? As we predicted, 5 per cent RPI inflation has been achieved early in 1983. Progress in recent months has been faster than expected at the time of the Budget last year. In months ahead progress may, as a consequence, be

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rather slower. Periods of stable prices in 1982 will be one cause of some uneveness in 12 month change later this year. We expect inflation rate as measured by the RPI to be about 6 per cent in fourth quarter of 1983.

(iii) RPI inflation to be at low point of 4 per cent in May? The annual rate of inflation in May is expected to be in the region of 4 per cent [if pressed: working assumption - purely illustrative - incorporated in Budget arithmetic is 4¼ per cent]. At the end of 1983 the inflation rate is expected to be about 6 per cent but it is impossible to be precise about the path within the year or particular low or high points.

(iv) No further decline in inflation in future years? Forecast of RPI inflation only extends to 1984 Q2. But MTFS calculations are based on assumption of general inflation (GDP deflator) falling from 7 per cent in 1982-83 to 5½ per cent in 1983-84 and 5 per cent in 1984-85.

(v) End 1983 inflation prospect revised up since Autumn Statement - why? Effect of recent fall in sterling on rate of inflation? Exchange rate is one factor amongst many that affect inflation, but it is admittedly an adverse one. Offsetting factors include weak commodity prices (including oil), likely cuts in profit margins by exporters to UK, Government's commitment to sound financial policies. Path of inflation may be more bumpy later this year than expected at time of Autumn Statement. We expect inflation rate as measured by RPI to be about 6 per cent in fourth quarter of 1983.

(vi) Profit margins in UK industry still unsatisfactorily low? True that margins are still low and the rate of return in UK industry unsatisfactory but latest figures suggest that profits of UK companies have been recovering slowly since the beginning of 1982.

(vii) Inflation still not as low as competitors? [NB: US revised CPI index gives less weight to housing] UK inflation now lower than average of "major 6" [NB but February figure could be back above major 6]:

[per cent]	UK	US	Japan	W.Germany	France	Italy	Canada	Weighted average
Price increases to January 1983	4.9	4.5	2.0	3.9	9.6	16.4	8.3	5.5

(viii) NI prices rising too fast? Gap between nationalised industry price increases and RPI increases largely due to cumulative effect of years of artificial price restraint, costly to taxpayer. NI prices expected to rise broadly in line with other prices in 1983-84. This substantial improvement is sustainable as long as industries contain their current costs in same way as private sector companies must.

(ix) Rate increases unjustified and unfair? [Not part of Budget. Decided by individual LAs] On average there should be little need for rate increases in 1983-84. For authorities which spend in line with expenditure targets increases should be low; some councils have already announced intention to reduce rates. Where rate increases are high because of overspending it will be LA's own fault.

(x) Council house rent increases unjustified and unfair? [Not part of Budget. Decided by individual LAs] The Government sees no reason for LAs to increase rents in real terms in 1983-84, but decision is taken at local level. Government decision is about provision of housing subsidy. Environment Secretary will be consulting LA associations on basis of 85p per week per dwelling. This figure, if confirmed, would allow a real increase in capital investment in housing in 1983-84.

PAY

Factual

(i) Settlement levels [Unpublished, not to be quoted: DE monitored settlements average 5½ per cent (cumulated) so far over 1982-83 pay round, 25 per cent of employees expected to be covered have settled, FSBR assumes outcome on settlements approx 5-5½ per cent this round.] CBI data bank of manufacturing settlements shows average of about 6 per cent so far this round.

(ii) Progressively lower wage settlements have contributed to continuing fall in annual increase in whole economy average earnings:

	1979	1980	1981	1982
% increase over year to December	20	19	11	8

(ii) Public service pay bill 1982-83:

£ billion

Civil Service	Armed Forces	NHS	Other CG	Local Authorities
5	3	7½	1½	16½

(iii) Central government pay in 1983-84. Expenditure plans provide for average increases in wage and salaries bills of 3½ per cent from due settlement dates, after taking account of planned manpower changes. NHS provision reflects 4½ per cent settlements already reached. Local authorities and nationalised industries are constrained by RSG and EFLs respectively. In 1982-83 central government groups accommodated pay settlements within cash limits in all but a handful of cases.

(iv) Public sector settlements so far this round:

per cent

UK AEA	Most NHS groups	LA manuals	Police	Firemen	Water Workers
4¼	4½	4.9	10.3*	7.5	10.4**

* 5.6 per cent after taking account of increased pensions contributions
** 16 months; employers say equal to 7.8 per cent over 12 months
Note: Electricity manuals 4½-6 per cent on basic rates [Confidential not for use: worth 5.7 per cent on earnings.]

Defensive

(i) Water Workers? If water industry pay settlement were widely repeated, result would be major setback to prospects for economic recovery, and thus for jobs and ultimately living standards. But no reason to expect this: pay settlements have on average been lower with no sign of settlements following water workers.

(ii) Current level of settlements? CBI data bank of manufacturing settlements shows average of about 6 per cent in round so far. But inflation is, of course, well below that level. Most settlements in the economy have yet to be concluded; important that settlements are kept as low as possible. Government wants settlements low enough to be consistent with improved job prospects. Lower the better. Certainly lower than last year.

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(xi) Increased charges for spectacles and dental treatment? Not part of Budget. Announcement 11 March not news; already foreshadowed in 1983 PEWP (CMND 8789 - II page 54). Increase in prescription charges? Not part of Budget. Announcement already made in 1983 PEWP. Effect of these changes on RPI? Negligible.

PAY

Factual

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level. Most settlements in the economy have yet to be concluded; important that settlements are kept as low as possible. Government wants settlements low enough to be consistent with improved job prospects. Lower the better. Certainly lower than last year.

(iii) Real personal disposable income on the decline? Small fall in real disposable income in 1981 and early 1982 followed growth of 17½ per cent in 3 years 1977-80. Increase expected in 1983. Real take-home pay per head rose 11½ per cent in 1977-80 and, after a small slip, is estimated to have returned to around the 1980 level by end 1982.

(iv) Public sector incomes policy? 3½ per cent is not a norm nor an incomes policy. It is consistent with a range of settlements.

(v) What if 3½ per cent exceeded? There is a strong presumption against changes in cash limits once set. But if pay increases are decided which cannot be financed within cash limits, or by savings elsewhere, access to the Contingency Reserve is possible. Ministers would have to take decisions at the appropriate time.

(vi) Cuts in living standards? No. Average earnings increased by 7.9 per cent over the year to last December compared with 5.4 per cent for the RPI. [Note: average earnings figures for January to be published on 16 March.]

(vii) 1983-84 earnings assumptions underlying IR tax tables? Assumption about earnings growth between 1982-83 and 1983-84 is 6½ per cent; same as was assumed for Government Actuary at time of Autumn Statement.

(viii) Assumed 6½ per cent average earnings increase to 1983-84 reasonable? Progress on reducing earnings increases has been fairly good. CBI data bank of manufacturing settlements shows average of about 6 per cent so far this round and suggests some downward movement in average settlements so far during current round. Against background of falling price inflation, most settlements in economy yet to be concluded.

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B5 NORTH SEA OIL AND NORTH SEA REVENUES

Factual

		1978	1979	1980	1981	1982	1983
(i)	Oil output (m. tonnes)	54	78	81	89	103	95-115
	Oil consumption (m. tonnes)	94	94	81	75	75	74-78
	Balance of Oil Trade (£bn)	-2.0	-0.8	+0.3	+3.1	+4.6	-

(ii) New future ranges for output announced by Minister of State for Energy on 11 March 1983. Ranges broadly unchanged from last year.

(iii) Direct contribution of oil and gas to GNP (at factor cost) estimated at about 4¾ per cent in 1982, compared with 4½ per cent in 1981. Projected to stay in range 4½-4¾ per cent to 1985.

(iv) Government revenues from North Sea (Royalties, Supplementary Petroleum Duty (up to 1982-83), Petroleum Revenue Tax, including advance payments, and Corporation Tax) expected to total £7810 million in 1982-83 compared with £6450 million in 1981-82. Total revenues projected to be £7850 million in 1983-84.

(v) Figures for later years (after Budget changes) and comparison with last year's projection, shown below:

£ billion, current prices

	1982-83	1983-84	1984-85	1985-86
FSBR (1982 Budget)	6.2	6.1	8.0	-
FSBR (1983 Budget)	8	8	8	9½

(vi) Tax changes expected to cost about £115 million in 1983-84 and over £200 million a year on average over period to 1986-87.

(vii) Projections are based on latest Department of Energy production range forecasts. Oil prices (in $) assumed to remain at about present proposed levels (eg $30.50 for Forties crude) until end-1984, then to rise in line with world inflation.

(viii) Employment directly associated with oil and gas production was estimated at 22,000 in 1982, compared with 20,000 in 1981.

(ix) Investment in North Sea accounted for about 7 per cent of total fixed investment in 1982. Projected to fall slightly in 1983 and 1984. Budget changes could be expected to encourage more investment. See Brief J1.

Positive

(i) A modest and gradual fall in oil prices will help Government's economic strategy. It reduces inflation and boosts activity, both here and abroad. But it also reduces North Sea revenues and raises the PSBR, compared with what would otherwise have happened. However because it reduces the price level and improves the financial position of non-North Sea companies it does not in short run exert any upward pressure on money supply or interest rates.

(ii) Revenues from North Sea ease task of controlling public borrowing and hence reduce interest rates. Leave more room in capital markets for industry and commerce to borrow at

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lower rates of interest. Without North Sea revenues, taxes would be higher, or public expenditure lower, to maintain same fiscal policy stance.

Defensive

(i) Treasury underestimating adverse effect of lower oil prices? Size of North Sea must be kept in perspective. Only a relatively small proportion of GNP (4½-4¾ per cent). Revenues only 6 per cent of total General Government receipts. And net oil exports only 10 per cent of non-oil exports. So we stand to gain more from lower world and domestic inflation, better world output and so on than we lose directly. North Sea revenues would be lower but some offset to PSBR impact from lower prices, higher output.

(ii) Outlook for Oil Prices? North Sea crude prices set by market and reflect other crude prices. Matter for negotiation between BNOC and its customers. So North Sea prices will move with world prices. Difficult to know whether current oil market weakness will persist. Much depends on cohesiveness of OPEC, recovery in world oil demand etc.

(iii) Higher production forecast for 1983? Centre of forecast production ranges recently announced by S/S Energy a fair guide to central estimate. Consistent with little or no increase in forecast production in 1983 compared with last year.

(iv) If oil prices fall, should we not cut production? Might only be in national interest if prices were to fall markedly in the short term and then recover strongly. Companies in better position than Government to judge whether this is likely. In any case, Government committed not to use powers to cut production until at least end-1984. [Reply by Energy Secretary to written PQ, 8 June 1982.]

(v) Why such a large error in last year's revenues projection? Projecting North Sea revenues hazardous. Always admitted large margins of error. £1½ billion discrepancy in projection of 1982-83 revenues due to higher-than-expected sterling oil prices and production.

(vi) Why have revenue projections in 1983-84 been revised upwards? Press Notice issued 15 March 1983 points out that, while $ oil prices in 1983 are expected to be lower than in last year's FSBR, £/$ exchange rate also lower. So £ oil prices expected to be higher. Also production, especially, in tax-paying fields, higher.

(vii) Are revenue projections too high given present state of world oil market? Projections allow for the recent fall in prices, particularly BNOC prices. Also incorporate considerable fall in oil prices in real terms in 1983. But must admit that outlook for oil prices very uncertain. Press Notice issued 15 March gives some estimates of effect of changes in oil prices on Government revenues: 1 per cent reduction in sterling oil price reduces Government revenues by £90 million in 1983-84.

(viii) Why are revenue projections usually below those of other forecasters? Others tend to be more optimistic about production and to forecast lower capital spending. Some also assume higher prices than the Treasury. We are not deliberately underestimating revenues. Latest are central estimates.

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B6 FSBR SHORT-TERM FORECAST AND INDEPENDENT FORECASTS

Factual

(i) Short term economic forecast described primarily in Part 3 of FSBR (see Table 1 attached) meets requirement of 1975 Industry Act for Government to publish two forecasts a year. Forecast covers period to mid-1984. MTFS in Part 2 embodies assumptions about prices and output for 1984-85 to 1985-86.

(ii) Main points of FSBR Forecasts (see also table 1 attached):

(a) Inflation to stabilise after recent large reductions: year on year increase in RPI 6 per cent at end of 1983 and in mid-1984

(b) Total output (GDP) to grow by 2 per cent between 1982 and 1983.

(c) Manufacturing output also forecast to rise by approaching 2 per cent between 1982 and 1983.

(d) Current account of balance of payments surplus of nearly £4 billion in 1982 forecast to be followed by smaller surplus of £1½ billion in 1983.

(e) All components of demand forecast to be higher in 1983 than in 1982 but largest contribution to growth expected to come from personal spending. Total domestic demand increases by 3½ per cent between 1982 and 1983.

(f) PSBR in 1983-84 forecast to be £8 billion (2¾ per cent of GDP) compared with £7½ billion (2¾ per cent of GDP) in 1982-83 (see Briefs C1 and C3).

(g) GDP in major 6 countries forecast to rise 1½ per cent in 1983 after fall of ½ per cent in 1982, against background of fall in inflation from 7 per cent in 1982 to forecast 5 per cent in 1983.

(h) World trade in manufactures (UK weighted) estimated to have fallen 3½ per cent in 1982 and forecast to rise 1 per cent in 1983 and 6 per cent in year to 1984 H1.

(i) Forecast of GDP growth in 1983 now slightly higher than in Autumn Statement, 2 per cent compared with 1½ per cent. Inflation forecast for end-1983 also revised up from 5 to 6 per cent.

(j) FSBR states that the effective exchange rate is assumed to remain around the Feb 1983 level and that oil prices "remain around their current levels [world price $29 per barrel N. Sea price $30.50] for the next two years and then rise broadly in line with world inflation".

(iii) 1983 FSBR sees rather faster growth (2 per cent 1983 on 1982) than Autumn Statement IAF (1½ per cent) and reflecting factors including exchange rate, also sees slightly higher annual RPI inflation (6 per cent 1982 Q4 to 1983 Q4 compared with 5 per cent). See Brief A2(b).

(iv) Comparison of FSBR and main independent forecasts contained in table 2 attached.

Positive

(i) Total output forecast to grow significantly in 1983 (2 per cent) and to be growing faster (2½ per cent) in first half of 1984.

(ii) Nearly every independent forecast has growth in 1983 in the range 1½-2 per cent, broadly same as FSBR forecast.

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(iii) 1982 pause in recovery largely a result of depressed world economy; prospects for latter now improved with (tentative) signs of upturns in UK, Germany and Japan. (See Brief B1.)

(iv) Given fall in world trade, exports did well in 1982 and are forecast to rise at an annual rate of 5 per cent from the first half of 1983.

(v) Profit margins have risen and should continue to rise in 1983, thereby improving companies' finances and encouraging firms to increase output.

(vi) Continuing modest inflation forecast.

Defensive

(i) Inflation to rise? Likely to be a pause in progress on inflation as effects of recent fall in exchange rate are absorbed, but domestic costs are under control and progress on inflation should resume in 1984. (See Brief B4).

(ii) Unemployment to continue rising? Following practice of all previous governments, no forecast of unemployment given - only working assumptions for public expenditure planning. But sustained growth of output in range of 2-2½ per cent, if accompanied by no major shifts in financial position on companies, is probably consistent with no great change in unemployment (see Brief B3).

(iii) No signs yet of recovery, particularly in manufacturing? Consumer demand has been increasing strongly. Non-oil exports have held up well against background of falling volume of world trade. Private housing starts rose significantly in 1982. Although manufacturing output was weak in late 1982, initial signs of marked improvement in December and January.

(iv) Last year's Budget forecast over-optimistic on output, why not this forecast? True, but mainly due to an unexpectedly depressed world economy which took most forecasters by surprise. This year there are already signs of a world economy recovery and consumer demand at home has risen sharply.

(v) Real interest rates still high and will choke off recovery? Other things being equal higher real inerest rates have adverse effects on output but other factors, such as a world recovery, improving company profitability, and low inflation, are expected to dominate.

(vi) Manufacturing output still depressed? Share of manufacturing industry in total output has been falling since early 1970's. But there are recent signs of marked improvement in output (2½ per cent in January, 3½ per cent since November). Further recovery is likely to be aided by improvement in cost competitiveness so that manufacturing output may be expected to grow throughout 1983 and early 1984 at about the same rate as the rest of the economy.

(vii) Fixed investment forecast over-optimistic given gloomy intentions survey's for manufacturing? The FSBR does not include a forecast of manufacturing investment. In any case latter is only one component of total fixed investment. The latest DOI Survey points to a continuation of recent increases in investment in the distribution and services sectors; private housing investment is clearly rising strongly and further increases are planned in investment by the Nationalised Industries.

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B6 table

TABLE 1 SHORT-TERM ECONOMIC PROSPECTS: TABLE 3.7 IN MARCH 1983 FSBR

	Forecast	Average errors from past forecasts*
A. Output and expenditure at constant 1975 prices		
Per cent changes between 1982 and 1983:		
Gross domestic product (at factor cost)	2	1
Consumers' expenditure	2 ½	1
General Government consumption	½	1 ½
Fixed investment	3 ½	2 ½
Exports of goods and services	1	2 ½
Imports of goods and services	5	2 ½
Changes in stockbuilding (as per cent of level of GDP)	1	¾
B. Balance of Payments on current account		
£ billion:		
1982	4 ¼	-
1983	1 ½	2
1984 1st half (at an annual rate)	2	3 ½
C. Public Sector Borrowing Requirement		
£ billion; in brackets per cent of GDP at market prices:		
Financial year 1982-83	7 ½ (2 ¾)	-
Financial year 1983-84	8 (2 ¾)	4 (1 ½)
D. Retail Prices Index		
Per cent change:		
Fourth quarter 1982 to fourth quarter 1983	6	2
Second quarter 1983 to second quarter 1984	6	4

*The errors relate to the average differences (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications on government forecasts (see Economic Progress Report June 1981). The calculations for the constant price variables are derived from internal forecasts made during the period June 1965 to October 1980. For the current balance and the retail prices index, forecasts made between June 1970 and October 1980 are used. For the PSBR, Budget forecasts since 1967 are used. The errors are after adjustment for the effects of major changes in fiscal policy where excluded from the forecasts.

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TABLE 2: SUMMARY COMPARISONS

	IAF (March '83)	Consensus of outside forecasts[(a)]	LBS (Feb '83)	NIESR (Feb '83)
GDP - Growth				
Percentage change between				
1982 and 1983	2	1½	2 [b]	1½ [b]
1983H1 and 1984H1	2½	2	2 [b]	2 [b]
Current Account				
£ billion: 1983	1½	1½	1½	2
1984(H1) - at annual rate	2	1½	-	4
PSBR				
£ billion (assumed fiscal adjustment in brackets) 1982-83	7½	7½	7½	7½
1983-84	8 (1½)	8 (2)	8 (1½)	7½ (0)
Retail Prices Index				
Percentage changes between				
1982Q4 and 1983Q4	6	6½	6 [c]	8 [c]
1983Q2 and 1984Q2	6	7	7 [c]	7 [c]
Consumers Expenditure - growth				
Percentage changes between				
1982 and 1983	2½	2	2½	- ½
1983H1 and 1984H1	(2½)	1	1½	- ½
Fixed Investment - growth				
Percentage change between				
1982 and 1983	3½	2½	3½	2
1983H1 and 1984H1	(3½)	3½	5	1
Exports of Goods and Services - growth				
Percentage changes between				
1982 and 1983	1	2	1½	3
1983H1 and 1984H1	5	3½	1	4

(a) Consensus is a simple average of major independent forecasts: NIESR, LBS, Phillips & Drew, Simon & Coates, OECD, Cambridge Econometric, St James and CBI.

(b) These forecasts are based explicitly on the "output" rather than the "compromise" measure of GDP.

(c) Some forecasts - particularly LBS and NIESR - use consumer prices rather than the RPI.

C1 PSBR AND PUBLIC EXPENDITURE

Factual

(i) Latest PSBR estimate for 1982-83 around £7½ billion (£9 billion in AS). Still subject to sizeable margin of error.

(ii) 1983-84 forecast of PSBR is just over £8 billion

(iii) PSBR/GDP ratio in recent years and next year:-

1979-80	1980-81	1981-82	1982-83	1983-84
4.9	5.7	3.4	2¾	2¾

(iv) Changes in public expenditure planning total (PEPT) since last Budget:-

	1982-83	1983-84
		£ billion
Cmnd 8494 with 1982 Budget changes+	114.7	120.7
Autumn Statement	114.7	120.1
Cmnd 8789	113.0*	119.6
1983 Budget	112.5*	119.3

+converted to Cmnd 8789 definition of planning total

*estimated outturn

(v) Public sector gross debt interest payments in Cmnd 8789 (<u>not</u> part of PEPT) compared with FSBR:-

	1982-83	1983-84	1984-85	£ billion 1985-86
Cmnd 8789	14.8	14.8	14.8	14.8
FSBR	15.0	14.8	15.0*	15.0*

*Not published as such in FSBR but general government gross interest payments shown as £14 billion in both years in Table 2.3.

(vi) Public expenditure as percentage of GDP:-

1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
40½*	43*	44½*	44*/	43½*/	42	41½/

*Published in Cmnd 8789 (Chart 1.6, paragraph 33 part 1)
/ Published in FSBR [Paragraph 5.17] (Figure for 1984-85 not published but almost derivable from Table 2.3)

Positive

(i) PSBR on declining path as percentage of GDP (see also Brief C3)

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C1 Cont.

(ii) Government borrowing now amongst lowest in industrialised world. Firm control of borrowing one of the factors responsibile for recent fall in short term interest rates.

(iii) Public expenditure outturn for 1982-83 even more comfortably within planned total than thought in Cmnd 8789.

(iv) PEPT slightly reduced for 1983-84 reflecting effect of NIS reduction and estimating changes. Programme totals reduced by change in BT's EFL.

(v) PE/GDP ratio for 1982-83 and 1983-84 same (when rounded) as in Cmnd 8789.

Defensive

(i) PSBR undershot in 1982-83, as in 1981-82? Probably, but latest estimate of £7½ billion within acknowledged margin of error surrounding AS forecast of £9 billion and last Budget forecast of £9½ billion.

(ii) Reasons for PSBR undershoot? Cannot say precisely for some time. Have to wait for PSBR outturn information on 21 April to know extent of undershoot. Full details of public sector accounts in 1982-83 not known for some months. Higher than expected North Sea revenues of £1 billion and underspending of £1½ billion are reasons for difference between AS forecast and FSBR estimate of 1982-83 outturn.

(iii) PSBR increasing between 1982-83 and 1983-84? Not in relation to GDP. Maintaining downward path. (See Brief C3).

(iv) CGBR high compared with PSBR in 1982-83 and 1983-84? Reflects borrowing for on-lending to LAs and PCs, who are repaying their borrowing from the private sector and overseas.

(v) Reasons for more PEPT shortfall in 1982-83? (General allowance for shortfall in Cmnd 8789 was £1.0 billion - now put at £1.5 billion.) Additional £0.5 billion due to later information on a variety of factors - greater net underspending by CG and LAs and borrowing by PCs than assumed in Cmnd 8789. Will know more about extent of undershoot and reasons when first estimate of PEPT outturn compiled in July.

(vi) More shortfall in 1983-84 PEPT? No. General allowance for shortfall of £1.2 billion is same as in Cmnd 8789 after allowing for the effect of reducing BT's EFL.

(vii) Local authority current spending in 1983-84 £¾ billion more than Cmnd 8789? Was allowed for in the net shortfall in Cmnd 8789. Later information confirms this overspend as highly probable and has to be taken into account in the FSBR arithmetic. FSBR also shows government response to this overspending in the form of smaller than otherwise grants to LAs.

(viii) Capital spending too low? - See Brief D2.

(ix) Public expenditure in cost terms using the new GDP deflators? Public expenditure is expressed in cash and 'cost' figures not used in planning process. However we recognise Parliamentary interest and will supply a revised Cmnd 8789 Table 1.14 using the FSBR GDP deflators, also giving the planning totals for 1982-83 and 1983-84 amended by Budget measures and other changes (see Factual (iv)) [Information to be given in PQ Answer on Wednesday.]

(x) Redefinition of PSBR? Some small definitional changes may be introduced in the course of 1983-84. The most important is that changes in public sector deposits with banks will be treated as financing the PSBR rather than as affecting its size. Corresponding changes may be made to definition of M3. [NOT FOR USE: The revised definition was to be used for 1983-84 figures in the FSBR and adopted for outturns from May onwards, but this has now been postponed.]

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C2 BALANCE AND BURDEN OF TAXATION

Factual

(i) The Government's fiscal policy is designed, in combination with its monetary policy, to bring down inflation and create the conditions necessary for sustainable growth in output and employment. Within the limits set by this policy, the Government wishes to see lower levels of taxation, and improved incentives.

(ii) Following changes in previous Budgets, the position in 1982-83 compared to 1978-79 was:

- (a) total taxation as a proportion of GDP has fallen since 1981-82, (but note still over 5 per cent above 1978-79 level);
- (b) income tax as a proportion of personal taxable income had increased;
- (c) percentage of total taxation raised by income tax has fallen markedly and marginal rates of tax for most taxpayers were lower; and
- (d) Taxes on persons have increased in real terms, but taxes on business have fallen;
- (e) 1979 Budget made a significant shift away from direct tax and towards taxes on expenditure.

(iii) These points are illustrated in following tables, which also illustrate effect of tax proposals in 1983 Budget.

1. Total taxation(*) as a percentage of GDP at market prices

1969-70	37.7	1978-79	34.4	1981-82	40.4
1973-74	33.4	1979-80	36.0	1982-83 (est)	40.2
1975-76	36.6	1980-81	37.3	[1983-84 (forecast)	39.6]**

(*) including National Insurance Contributions and LA rates.

2. Income tax as a proportion of personal taxable income(+)

1975-76	19.2	1980-81	15.5
1978-79	16.4	1981-82	16.9
1979-80	15.0	1982-83 (est)	16.9
		[1983-84 (forecast)	16.2]**

(+)Includes wages, salaries, self-employment income, rents, dividends and interest

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C2 Cont.

3. Individual taxes as a percentage of total taxation

	1978-79	1979-80	1980-81	1981-82	1982-83 (estimate)	[1983-84 (forecast)**
Income tax	32.7	28.7	28.9	28.3	27.5	27.0
Employees' NICs	7.0	6.5	6.7	7.2	8.1	8.8
	39.6	35.2	35.7	35.5	35.8	35.8
Corporation tax (non-North Sea)	6.3	5.8	4.8	4.2	4.4	4.5
North Sea taxes (and royalties)	0.9	3.1	4.5	6.1	6.9	6.3
Employers' NICs and NIS	14.1	14.1	14.1	12.6	11.0	10.7
Capital taxes and stamp duties	2.4	2.4	2.2	2.5	2.1	2.1
LA Rates	9.9	9.4	10.1	10.7	11.1	11.1
Taxes on final expenditure(*)	26.9	30.1	28.7	28.4	28.8	29.5
	100.0	100.0	100.0	100.0	100.0	100.0]

(*) VAT, car tax, VED, specific duties and miscellaneous expenditure taxes, and gas levy

4. Direct/Indirect* taxes as a percentage of total taxation

	Direct Taxes	Indirect Taxes
1978-79	48.4	51.6
1979-80	45.6	54.4
1980-81	46.4	53.6
1981-82	47.5	52.5
1982-83 (est)	48.3	51.7
[1983-84 (forecast)	47.9	52.1]**

*Direct taxes include income tax, corporation tax, PRT, SPD, North Sea royalties, capital taxes and employees' NICs. Indirect taxes include VAT, car tax, VED, specific duties, stamp duties, NIS, miscellaneous expenditure taxes, gas levy, LA rates and employers' NICs.

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Positive

(i) With 1983 Budget proposals, total taxation as a percentage of GDP is reduced, (but note still over 5 per cent above 1978-79 level).

(ii) Income tax will fall as proportion of total taxation and is lower than in 1978-79.

(iii) Taxes on business have fallen in real terms since 1978-79 (but note those on persons have risen significantly). (See also Brief G2).

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C2 Cont.

Defensive

(i) Part of past increase in total taxation as proportion of GDP has been due to increased oil revenues. (eg PRT £183 million in 1978-79: PRT and SPD estimated 1982-83 £5.7 billion).

(ii) Past increase in total taxation had been necessary to achieve PSBR levels compatible with continued reduction in inflation.

(iii) Greater reductions in either personal or business taxes not possible within acceptable PSBR for this and subsequent years.

(iv) Businesses will have benefitted from the 2½ percentage points reduction in NIS since 1978-79, but this has been partly offset by the increase in employers' NIC and in LA rates.

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C3 MEDIUM TERM FINANCIAL STRATEGY

Factual

Fourth MTFS, updated and extended to 1985-86, provides:-

(i) Statement of Government's objectives:- "to continue reducing inflation and to secure a lasting improvement in the performance of the UK economy, so providing the foundations for sustainable growth in output and employment."

(ii) Description of financial framework Control of money supply is central part of the strategy, but in judging appropriate rate of monetary growth, Government will continue to take account of all the available evidence, including the exchange rate.

Ranges for monetary growth apply to narrow (M1) and broad (£M3 and PSL2) aggregates, though more rapid growth in M1 could be appropriate for a time (as interest rates come down).

% Change	1983-84	1984-85	1985-86
1983 MTFS	7-11	6-10	5-9
1982 MTFS	7-11	6-10	n.a.
1981 MTFS	4-8	n.a.	n.a.

Target for 1983 applies to 14 months between mid February 1983 and mid April 1984, at an annual rate. Ranges for later years are illustrative.

As last year, ranges are constructed on the assumption of "no major change in the exchange rate from year to year".

(iii) Fiscal projections illustrating how fiscal policy can be made consistent with financial framework, given public expenditure plans.

PSBR		1982-83	1983-84	1984-85	1985-86
		Estimate	MTFS Projections		
1983 MTFS*					
	£ bn	8	8	8 (½)	7 (4)
as %	GDP	2¾	2¾	2½	2
Autumn Statement					
	£bn	9	8	n.a.	n.a.
as %	GDP	3¼	2¾	n.a.	n.a.
1982 MTFS					
	£bn	9½	8½	6½	n.a.
as %	GDP	3½	2¾	2	n.a.

*Figures in brackets show implied fiscal adjustment.

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C3 Cont

Detailed revenue and expenditure assumptions based on following assumptions:-

% Change	1983-84	1984-85	1985-86
Real GDP	←	$2\frac{1}{2}$% p.a.	→
GDP deflator	$5\frac{1}{2}$	$5\frac{1}{2}$	5
Money GDP	←	8% p.a.	→

Positive

(i) Continuity of stable financial framework. Monetary guidelines and PSBR projections virtually the same as in the 1982 MTFS.

(ii) MTFS has made important contribution to reducing inflation well into single figures.

(iii) Continued decline in monetary ranges consistent with keeping inflation on a downward trend.

(iv) Lower inflation means monetary ranges leave plenty of room for recovery in real activity.

(v) Success in reducing PSBR has contributed to reduction in interest rates, while keeping within 1982-83 target for monetary growth. PSBR fallen from 5 per cent GDP in 1979-80 to less than 3 per cent in 1982-83 (estimated).

(vi) Tax cuts in Budget possible without raising PSBR above figure suggested in last year's MTFS.

(vii) Declining path of PSBR over medium term should leave room for lower interest rates, as monetary growth comes down.

Defensive

(i) Monetary targets too high? Raised monetary targets last year to reflect apparent shift between broad monetary aggregates and inflation, caused by structural changes to financial markets and effect of high real interest rates on saving behaviour. Nothing has happened to change that view. Inflation has come down fast, and monetary growth within higher target range was consistent with appropriately restrictive monetary conditions last year. (Money GDP grew more slowly than expected.)

(ii) Has there been a change of view on velocity? Not for M1. Last year's MTFS warned that M1 velocity could fall as inflation and interest rates come down. This year's MTFS says fall could go further. £M3 is a bit different. Velocity of £M3 fell last year (whereas MTFS projections last year implied velocity would be stable with growth in the middle of the range); but change is relatively small. Forces that led us to revise targets up have continued, and seem likely to continue a little longer. New MTFS projections assume restoration of broad money velocity after recent fall starts in 1984-85 instead of 1983-84. Uncertainty about velocity is key reason why other indicators are used to interpret monetary conditions, and why ranges for later years are provisional. No intention of allowing velocity to return to trend via a rise in inflation.

(iii) Why not set a separate target for M1? Could be a lasting fall in M1 velocity as we move to lower inflation and interest rates (was a shift in the opposite direction when inflation rose in early '70s); if so, faster M1 growth, for a time, would not damage inflation prospects. But scale and timing very uncertain. Faster growth in M1 only appropriate if other indicators suggest this is consistent with maintaining moderately restrictive conditions.

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C3 Cont

(iv) Why has inflation prospect improved (despite unchanged monetary ranges)?

	1982-83	1983-84	1984-85
GDP deflator (% change)			
1983 MTFS	7½	7	6½
1982 MTFS	7	5½	5½
Money GDP (% change)			
1983 MTFS	←	9½	→
1982 MTFS	←	8	→

- Changes are fairly small, especially relative to width of target ranges. Never claimed a very precise relationship between inflation, money GDP and monetary growth over 2-3 years.

- Prospects for inflation have improved because world prices (especially oil) and domestic costs may grow more slowly. Fall in exchange rate will affect RPI path (as noted in FSBR) but, providing monetary conditions are kept moderately restrictive, effect on inflation should be temporary (and may be less pronounced on GDP deflator).

- Outside forecasts of inflation have come down a lot since last year too.

(v) Lower money GDP (actual and forecast) suggests policy is unduly restrictive. Money GDP is not a target. Slower growth not primarily due to domestic pressures but depth of world recession. Monetary ranges leave room for recovery.

(vi) Role of exchange rate? Response to exchange rate movements depends on overall assessment of domestic monetary conditions. Recent fall not interpreted as symptom of policy laxity. But exchange rate will continue to be one of the financial indicators taken into account in interpreting monetary conditions.

(vii) MTFS says that "monetary ranges are constructed on the assumption of no major change in the exchange rate." What does this mean?

- difficult to define a major change precisely. But assumption applies to year to year movements in the effective exchange rate

- even if there is a major change (as last year) correct response depends on overall assessment of domestic monetary conditions

- as Chancellor has made clear, no reason to expect domestic policy stance to cause large change in the exchange rate in foreseeable future. (Short term forecast in FSBR assumes rate will remain at around present levels over the period of forecast.)

(viii) Shift of emphasis from monetary targets to PSBR? No. MTFS always emphasised the need for consistent fiscal and monetary policies.

(ix) Fiscal policy far too restrictive (eg OECD etc) Lower PSBR makes room for lower interest rates; PSBR alone not a measure of overall stance of policy. Lower inflation eases fiscal stance, for any given nominal PSBR (ie raises inflation adjusted or 'real' PSBR).

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(x) Cyclically adjusted PSBR?

- no single correct way of calculating cyclical adjustment (not enough just to take out direct "cost of unemployment" - cyclical effects on PSBR depend on why employment and output are low)

- acid test is pressure on interest rates. Actual not hypothetical PSBR that has to be financed (and affects spending)

- objective is to secure trend reduction in PSBR relative to GDP

- PSBR was adjusted in 1981 to take account of recession though principle that path should be on declining trend was adhered to. Estimated PSBR outturn in 1982-83 likely to be about ½ per cent of GDP higher than envisaged in 1980 FSBR.

(xi) Real PSBR?

- may be a useful indicator of stance of policy. But not sensible to fine-tune nominal PSBR to achieve targets for real PSBR, (could involve raising nominal PSBR when inflation rises, effectively accommodating higher inflation).

- lower inflation has meant some easing in fiscal stance in 1982-83, despite low outturn for nominal PSBR; real PSBR has risen slightly, compared with 1981-82, (one way in which lower inflation helps to raise real demand, within given nominal framework).

(xii) PSBR interest rate link discredited? PSBR not only influence on interest rates. But we cannot do much about world interest rates. Responsible fiscal policy has helped to keep our interest rates towards bottom of the international range.

(xiii) Fiscal adjustment in 1984-85 depends on undershooting PEWP planning total?

[Table 2.3 shows underspending £1½ billion - described as differences due to economic assumptions; table 2.5 shows fiscal adjustment of only £½ billion.]

Fiscal adjustment subject to very large margin of error (same as PSBR). But scope for tax cuts always depends critically on success in controlling public expenditure. Planning total for 1984-85 will be reviewed nearer the time, in the normal way.

(xiv) Balanced Budget? Government aims to reduce PSBR as share of money GDP over medium term. Illustrative profile in 1982 MTFS shows figure of 2 per cent in 1984-85. Nothing has been said about later years.

(xv) Why is the 1984-85 PSBR higher than in 1982 MTFS?

PSBR projections are illustrative and are reviewed every year. Current level of PSBR (ie 2¾ per cent of GDP) close to averages in 1950s and 1960s, and not surprising that progress from now on is slower than that in recent years. But we are looking for some further trend decline. [Not for use: oil prices are not a good excuse: oil revenues in 1984-85 are unchanged from last year's MTFS.]

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C4 MONETARY POLICY

Factual

(i) M1, £M3, and PSL2 grew in year to mid-February 1983 by 11 per cent, 10 per cent, and 9 per cent respectively. (See Annex for further information.)

(ii) Interest rates (3-month inter-bank) stood at almost 17 per cent in October 1981 (their peak), at about 13½ per cent last Budget, fell almost as low as 9 per cent in November and now stand at about 11¼ per cent. (See Annex.)

(iii) Target range of 7-11 per cent for growth of M1, £M3 and PSL2 in 14 banking months from mid-February 1983 to mid-April 1984, as foreshadowed in last year's MTFS.

(iv) MTFS sets out illustrative ranges for monetary growth of 6-10 per cent in 1984-85 and 5-9 per cent in 1985-86 (see Brief C3). Actual targets will be decided nearer the time.

Positive

(i) All three target aggregates comfortably within 8-12 per cent target range for 1982-83.

(ii) Other indicators also point to moderately restrictive monetary conditions - real interest rates, low inflation, and the non-target aggregates.

(iii) The benefits of the Government's firm monetary policy have now come through in lower inflation.

(iv) Changes in target ranges in last year's MTFS vindicated. Higher range has indeed proved consistent with reduction in inflation.

(v) Interest rates much lower than a year ago. 3 month interbank rate fell by over 7 per cent in the year from October 81 to October 82 and by almost 5 per cent just in period from April to November last year; picked up by just over 2 per cent since then but still a fall of almost 3 per cent from last April. Long rate down by very nearly as much as short rates.

(vi) Overall conduct of financial policy has been proved right and will not be changed. Firmness in maintaining monetary conditions conducive to further reduction in inflation. Flexibility in operation of policy; interpretation of monetary conditions and policy decisions take account of all available evidence.

(vii) Given the prospect for continued low inflation the monetary target range gives scope for the rise in output which we expect.

Defensive

(i) Exchange rate dominant force in monetary policy? Exchange rate is one of several important factors taken into account in judging domestic monetary conditions. But there is a natural tendency for the market to raise interest rates when the exchange rate is weak. Recent rise in interest rates generated by market response to fall in sterling. Government has no intention of allowing lax financial conditions to jeopardise progress in defeating inflation.

(ii) Rise in interest rates will stifle recovery? Interest rate reductions over past year still substantial - about 3 per cent down from their peak last April. The fall in exchange rate will benefit companies if they maintain control over domestic costs.

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C4 Cont.

(iii) Why have one target range for 3 aggregates? What matters for inflation is underlying trend in money supply. Individual aggregates may temporarily go outside the range, in response to sharp changes in interest rates and various special factors. Not feasible to anticipate these in setting targets, but taken into account in interpreting monetary conditions. Thus, this year's MTFS again draws attention to possibility of M1 growing more rapidly than broader measures of money if interest rates maintain their downward trend.

(iv) Velocity fallen more than expected - danger of future inflation. Has fallen - £M3 grew by 10 per cent; money GDP by about 8 per cent. But last year's MTFS raised targets precisely because we thought higher growth of broad aggregates was consistent with reducing inflation - as has proved to be the case.

(v) Policy too tight? Failure to allow for fall in velocity. No. Behaviour of inflation and money supply suggest financial conditions moderately restrictive, as intended. Interest rate reductions have cut companies' costs and should promote climate for investment. And MTFS points out that real monetary balances are growing: they are an important mechanism by which lower inflation can help to raise the level of activity.

(vi) Policy too lax? Targets should have been lowered. Monetary growth within the target range set for 1982-83 has been consistent with maintaining a reasonably restrictive stance, and inflation has fallen fast. To tighten targets further would not leave room for the expected recovery.

(vii) Prospect for falls in interest rates? Interest rates have to adjust to play their part in mantaining sound monetary conditions. Route to lower interest rates is ultimately through lower inflation. MTFS observes that projected further falls in PSBR as proportion of GDP should leave room for a fall in interest rates within monetary guidelines.

(viii) Real interest rates too high? Government does not of course have a target for real interest rates. UK real rates have not been particularly high by international standards. And one would expect some fall in real interest rates in developed countries from their present high levels as inflation is brought firmly under control.

(ix) Bank lending growing too fast. Bank lending to companies growing much more slowly than last summer. Rate of growth of lending to persons for house purchase has also fallen off though other lending to persons growing strongly.

(x) Monetary targets discredited? Monetary targets have important role in defining medium term direction of policy. But short term movements in monetary indicators not always reliable guide to monetary conditions. Policy decisions based on assessment of all available evidence.

(xi) Prospects for mortgage rates. Mortgage rates have fallen 5 per cent from peak of 15 per cent last March. It is for building societies to decide their interest rates, but their liquidity position is reasonably healthy by historical standards.

(xii) Effect of US developments. US interest rates influence monetary conditions abroad, but are by no means the most important determinants of UK rates. UK rates are determined in the light of domestic monetary conditions generally, taking account of the exchange rate.

(xiii) Aren't the monetary control arrangements reverting to an MLR-type system? No. Market forces do now have a greater role in setting interest rates than before. The two recent increases in base rates were both responses to market pressures.

(xiv) What about real monetary growth? Isn't it evidence that policy is lax? No. Real monetary balances have been increasing. In early stages of reducing inflation real balances

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C4 Cont.

grow more slowly or even fall, but rise as inflation falls, thereby permitting output to increase. This is part of the normal adjustment to a new low inflation rate.

(xv) Isn't the Government's financial policy just a matter of muddling through? It isn't. In a world subject to inflationary shocks and technological change no single financial indicator encapsulates all relevant information on financial conditions. That is why the Government needs to look at all relevant indicators. It is not muddling through. It is common sense.

(xvi) What about asset prices? They used to be one of the indicators House prices have not increased significantly between 1981-82 and 1982-83 as a whole, though the evidence from many measures of house prices is distorted as they exclude purchases financed by banks. The DOE's mix-adjusted index which aims to remove these distortions shows an annual increase in house prices of only 6 per cent to the last quarter of 1982 - about the rate of inflation. House prices are still very low in relation to incomes.

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C4
ANNEX

INTEREST RATES (end-month figures)

	5-year gilts	20-year gilts	Bank dealing rates Band 1*	Clearing bank base rates	UK 3-month Interbank rates	3 month eurodollar rates	uncovered differential
June 79⁻	12.34	12.80	14	14	14.06	10.59	+3.47
Dec 79⁻	15.10	14.67	17	17	17.06	14.50	+2.56
June 80⁻	13.09	13.75	17	17	16.88	9.75	+7.13
Dec 80⁻	13.30	13.80	15	14	14.88	17.75	-2.87
June 81⁻	14.13	14.66	12	12	12.53	17.69	-5.16
Oct 81 (interest rate peak)	17.00	16.12	15¼ -½	16	16.94	17.75	-0.81
9 Mar 82 (last Budget)	14.26	14.00	13 5/8	13½	13.25	14.44	-1.25
10 June 82 (after fall in base rates: end of Falklands war)	13.48	13.49	12 5/8	12½	12.88	14.94	-2.06
4 Nov 82 (Before weakness of £)	9.34	10.21	9 1/8	9	9.06	9.69	-0.63
26 Nov 82 (Base rates rise 1%)	10.98	11.44	10-10 1/8	10-10¼	10.25	9.75	+0.5
13 Jan 83 (Base rates rise 1%)	11.91	11.80	11-11¼	11	11.75	8.81	+2.94
7 Mar 83	11.10	10.94	11	11	11.06	8.94	+2.13

*Minimum lending rate prior to August 1981

⁻Figures for last working day of month.

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C4 ANNEX

ANNEX (contd)

[NOTE: FIGURES IN THIS TABLE WILL BE PUBLISHED AT 2.30pm ON 17.03.83 UNTIL THEN PLEASE ROUND FIGURES FOR M1, £M3, & PSL2 TO NEAREST ¼ PER CENT. FOR OTHER AGGS. USE ONLY ANNUALISED FIGURES, ROUNDED TO NEAREST 1 PER CENT.]

Monetary growth to mid-February

percentages, seasonally adjusted (except M2)

	Banking February	3 month annual rate	6 month annual rate	last 12 months
Mo	0.5	7.2	11.0	3.5
M1	0.4	10.1	13.6	11.0
M2 (see note below)	0.3	9.2	2.9	6.3
£M3	0.3	5.1	8.5	9.8
M3	1.0	8.8	10.7	12.3
PSL2	0.8	7.8	9.5	8.8

Counterparts to growth in £M3 over past 12 banking months (mid-Feb 82 to mid-Feb 83)

[NOTE: THESE FIGURES NOT FOR USE UNTIL 2.30pm ON 17.03.83.]

£ million, seasonally adjusted

CGBR		+8,600 (deficit)
Net purchases of CG debt by non-bank private sector		-10,200
of which Gilts	-5,900	
Treasury Bills	-200	
National Savings	-3,500	
CTDs, etc	-600	
Other public sector contributions to PSBR		-1,700
Sterling bank lending to private sector		+16,800
[of which very approx		
Persons (housing)	+4,500	
Persons (other)	+2,500]	
Externals		-2,800
Non-deposit liabilities		-2,400
Total growth in £M3		+8,300

Note on M2

The new monetary aggregate - M2 - was introduced in June 1982, having been foreshadowed in the 1981 Budget. It includes notes and coin, all non-interest bearing sight deposits, all other chequable deposits, and all other deposits of less than £100,000 and with a residual maturity of less than one month. It was introduced because it can be expected to be more directly related than £M3 to transactions in goods and services, and to be somewhat less sensitive to interest rates than M1. But it is too early to say whether the demand for M2 is predictable and whether it is a useful indicator of monetary conditions. More data will be needed before we can answer these questions, and before seasonal adjustment factors can be calculated. [NOT FOR USE: M2 will be widened from March BEQB - published 30 March - to include retail building society deposits and NSB Ordinary Account Deposits].

C5 GOVERNMENT FUNDING

Factual

(i) Net sales of Government debt (gilts, National Savings, Certificates of Tax Deposit, and Treasury Bills) to non-bank private sector in the 12 months from mid-February 1982 to mid-February 1983 totalled about £10 billion. Gilts contributed about £6 billion of this and National Savings about £3½ billion.

(ii) Five indexed gilts totalling about £2 billion have been issued so far in 1982-83, compared with £2½ billion in 4 issues in 1981-82.

(iii) National Savings target for the financial year 1982-83 is £3 billion (compare with 1981-82 outturn of £4.2 billion). So far this financial year about £2¾ billion of funding through National Savings has been achieved and outturn should be close to target. The target for 1983-84 will also be £3 billion.

Positive

(i) Government has successfully maintained momentum of its funding programme and will continue with its diversified funding policy - using gilts and National Savings, both offering conventional and indexed instruments. The PSBR has been financed without monetary creation. (On Chancellor's announcement of new tax regime for deep discount stock issued by companies, see Brief H9.)

(ii) No full-scale long conventional tap stock issue for over two years. By keeping out of the long end of the market long rates come down in line with short rates helping to create favourable conditions for the revival of the corporate bond markets.

(iii) The Bank have displayed considerable flexibility in their gilt sales programme. Innovations introduced over the past few years proving their worth. IGs de-restricted in the last Budget and five subsequently issued. Convertible and low coupon conventionals have also been issued as well as normal shorts and mediums. Use made of the 'tranche' and 'tranchette' techniques enabling us to issue further amounts of existing stock.

(iv) Well on our way to achieving the £3 billion National Savings target for 1982-83. The new Income Bond has been a particular success, raising £0.8 billion in its first 6 months.

(v) The £3 billion National Savings target for 1983-84 reflects Government's policy of not putting undue pressure on one sector of the market borrowers. Excessive reliance on gilts could threaten revival of long-term corporate bond market. Similarly, must not starve building societies of finance in the personal savings market. This balance achieved in 1982-83 and will be in 1983-84.

(vi) Policy of encouraging other parts of public sector to borrow from NLF/PWLB rather than banks successful. Since July around £2 billion of bank borrowing by local authorities and public corporations has been repaid.

Defensive

(i) What is overfunding? Challenge concept. We fund (ie sell debt to non-bank private sector) to influence monetary growth. If this level of funding happens to be greater than the PSBR it can be called 'over-funding'. But this implies - wrongly - that the PSBR is our benchmark in deciding level of funding. It is wider monetary conditions which we look at.

(ii) How much overfunding this year? Overfunding in 1981-82 was £2.3 billion. In the 11 banking months since mid-March 1982 overfunding stands at £1.6 billion.

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(iii) Why relieve the money market shortages caused by overfunding? There is no alternative to relieving shortages in the money markets because the public sector/private sector flows of short term funds need to balance. The cash we put in offsets shortages; doesn't add to monetary creation.

(iv) High Government funding and money market assistance keeps long rates up and shorts down - increasing companies' dependence on banks. By reducing PSBR in total and funding it at short end, have allowed long rates to fall. Short rates are set at levels required so that monetary conditions generally exert downward pressure on inflation.

(v) Indexed National Savings Certificates unpopular. True that there was an outflow in the autumn but this has been stemmed by 2.4 per cent supplement. And there is a wide variety of conventional savings instruments so the achievement of the target has not been jeopardised.

(vii) National Savings hurting building societies? There has been no overall shortage of funds for house purchase. Total net mortgage advances - banks plus building societies - are estimated at about £13½ billion for 1982-83. Building societies have withstood competition from National Savings by introducing a number of new schemes for investors.

(viii) Tax privileges for gilts. Recognise there are objections. But it would not be worthwhile to withdraw privilege because it would increase the interest rate required for the Government to sell gilts it needed to sell anyway. The Government has taken steps to increase choice of bonds companies may issue (see Brief H9).

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C6 EXCHANGE RATE

Factual

(i) Course of the exchange rate:

	$/£	DM/£	£ effective	
9 March 1982	1.81	4.29	90.2	Budget day 1982
20 May	1.78	4.13	88.6	Falklands low
12 November	1.65	4.28	91.3	Before the fall
26 November	1.60	4.03	86.4	Base rates rose 1%
14 March pre-OPEC statement	1.51	3.59	79.0	Pre-1983 Budget level
14 March post-OPEC statement	1.52	3.61	80.0	

The pound was steady in effective terms at around 90 during most of 1982, though it suffered a temporary dip during the Falklands crisis. But from mid-November the pound has suffered repeated bouts of downward pressure. This reflected a variety of short-term causes, including perception of falling world oil prices and uncertainties on future policy (eg Mr Shore's November package and worries on current account prospect).

(ii) Exchange rate policy. There is no exchange rate target. Exchange market intervention is undertaken for the purpose of seeking to smooth undue fluctuations in the rate and maintain orderly markets. Movements in the rate have implications for the future course of inflation and may be a guide in interpreting domestic monetary conditions. Therefore the exchange rate has to be one of the factors taken into account in taking policy decisions on monetary policy.

(iii) Official reserves and foreign current debt

	Official Reserves	Official debt	$bn
End May 1979	21.53	21.90	
End March 1982	18.97	13.30	
End February 1983	16.58	11.98	

Positive

(i) Exchange rate fall will enable the economy to adjust to changed world situation, and in particular to lower world oil prices. Will help industry face foreign competitors, but only if costs are rigorously contained and inflation kept firmly under control.

(ii) So far as the UK's financial position is concerned there is no obvious reason for the exchange rate to fall further. The nation's finances are in good order and the Government intend to keeps it that way.

Defensive

(i) The Government did not trigger the base rate increase of November and January - there were natural market reactions to the falling exchange rate.

(ii) The fall reflects developments in the global economy over which the Government has no control, eg oil prices, the operation of US monetary policies, etc. The best support for the pound that the government can provide is the contribution of firm counter-inflationary monetary and fiscal policies.

(iii) Any inflationary impact of the falling exchange rate will be mitigated to the extent that oil prices fall, and industry maintains firm control over its costs.

(iv) EMS. It remains our intention to join when conditions are right. But oil market developments tend to affect sterling in the opposite way to currencies like the deutschemark, reflecting the UK's role as an oil producer. Exchange market developments of last four months show how difficult EMS membership would have been both for UK and for system itself.

(v) Exchange rate and competitiveness - see Brief C7.

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C7 COMPETITIVENESS

Factual

The term competitiveness is used in a technical sense to refer to the costs or prices of British goods relative to those abroad and table below shows some of the indicators often quoted. But these do not describe competitiveness in the sense commonly used - the ability to compete successfully at home and abroad. They do not cover aspects of non-price competitiveness (design, quality, after sales service, ability to meet delivery dates); nor do they cover sectors of the economy other than manufacturing; such as North Sea oil, our internationally successful services industries, etc. The test of competitiveness as it is commonly understood is success in markets at home and abroad - ultimately as it shows up in our exports and imports.

	Relative unit labour costs in manufacturing (IMF series) (i) before allowing for exchange rate movements	(ii) after allowing for exchange rate movements	Relative export prices
1975	100	100	100
1979 Q2	127	108	115
1981 Q1	154	155	136
end Feb 83*	146	116	110
% change			
1975 - end Feb 83	+46	+16	+10
1979 Q2 - end Feb 83	+15	+7	-4
1981 Q1 - end Feb 83	-5	-25	-19

*Treasury projection (based on effective exchange rate of 80 at end Feb)
+ sign indicates rise in relative costs and prices and so loss of "competitiveness".

Positive

(i) It is important to distinguish between different ways of improving so-called "competitiveness". A fall in exchange rate improves cost competitiveness only so long as people accept the lower real wages and lower living standards that result from the higher cost of imports and the greater amounts we have to export to pay for them. Lower cost increases and inflation, and higher productivity and non-price competitiveness, on the other hand, open the way to faster growth and higher living standards.

(ii) Productivity improvements and wage restraint means unit labour costs have been rising more slowly than those of our main competitors since end 1980. This, together with the easing in the exchange rate means that industry is now about 25 per cent more 'cost competitive' than in 1981 Q1.

(iii) Government has helped improve industry's ability to compete by reducing inflation, reducing administrative burdens on industry, taking action against rigidities in the labour market, restoring incentives, encouraging small firms and encouraging quality by raising the status of British standards.

(iv) Improvements in design, quality, ability to meet delivery dates and improved after-sales service cannot be easily measured but are at least as important as cost competitiveness. [Jaguar cars are a striking example of the improvements in performance

that British industry is capable of. Jaguar's drive for higher quality secured them an increase in overseas sales last year of 56 per cent over 1981.]

(v) The final test of real competitiveness is success in competing in world markets. In 1982 British exporters appear to have slightly increased their share of declining world markets, even excluding oil exports. [NB. We do not yet have recorded data for world trade in 1982.] That was before the recent fall in the exchange rate.

(vi) Our performance on wages has been the weakest element in the improvement in competitiveness that has taken place since 1981. Industry has raised productivity faster than its competitors abroad: but wage increases have been roughly the same as the average of our competitors and well above some.

Defensive

(i) The figures above do not mean sterling is "overvalued" by 20 per cent, 16 per cent or any other figure. (See positive (v) above, and (ii) - (v) below).

(ii) There is no magic about the conventional 1975 base date currently used for statistical series, and no absolute level of relative costs that is "correct". The figure for relative unit labour costs in 1965 (column 2 above) was 114, roughly the same as now.

(iii) Other countries' experience shows there is no simple relationship between "competitiveness" and success in export markets. West Germany's so-called "competitiveness" deteriorated 20 per cent between 1970 and 1980 but she maintained her 20 per cent share of main manufacturing countries' exports. Her good performance - probably resulting from non-price factors - meant she could maintain a strong financial position abroad despite a loss of measured "competitiveness" resulting from a rising exchange rate - with benefits to domestic living standards.

(iv) The widely quoted measures cover only manufacturing industry. No account is taken of the earnings of North Sea oil and the effects this has had on the economy.

(v) If British industry were only to move about a tenth of the way towards the productivity levels of its major competitors, it would gain about 10 per cent relative costs.

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D1 PUBLIC EXPENDITURE MEASURES IN THE BUDGET

Factual

(i) Measures total £238 million in 1983-84, made up as follows:

- Technology and innovation. New measures to encourage investment and innovation including revival of Small Engineering Firms Investment Scheme (SEFIS) involving expenditure of £185 million over next few years. Cost in 1983-84 is £39 million.
- Housing improvement. Local authorities will be given additional capital spending allocations for use in 1983-84 on improvement of run-down private sector housing through approved "enveloping" schemes. In addition, eligible expenses limits for improvement grants are to be increased by 20 per cent. Cost of both in 1982-83 is about £60 million.
- Employment. New part-time Job Release Scheme and extension of Enterprise Allowance. Net cost in 1983-84 is £15 million.
- Child benefit. To be increased to £6.50 and one parent benefit to £4.05. Cost in 1983-84 £122 million (£75 million in 1983-84 over and above what had already been provided for).
- Other social security. 5 per cent abatement of unemployment benefit to be restored; invalidity trap to be removed; unemployed men over 60 will qualify immediately for higher rate of Supplmentary Benefit, some other small measures. Cost of all those measures in 1983-84 about £50 million.

(ii) Additional cost of all these measures will be charged to Contingency Reserve in 1983-84, and so will not add to planned total of expenditure.

(iii) Other changes to public expenditure. There will be a reduction in planned public expenditure of £80 million in 1983-84 as a result of further reduction in NIS announced in Budget, which will be recovered from central government and nationalised industries. A revised forecast of planning total which takes account of this, of Budget measures, and of changes in economic and other assumptions is given in table 5.5 of FSBR as [£119.3 million], a little below public expenditure White Paper figure.

(iv) Effect on later years. The Budget measures will also affect later years. These changes will be taken into account in course of 1983 public expenditure survey.

(v) [Not part of the budget but to be announced 15 March]: Civil List to be increased by 4.4 per cent (from £4.70 million) to £4.91 million in 1983-84. (Decisions to reduce NIS from August will be reflected in an appropriate adjustment to Civil List figures.)

Positive

(i) No increase in planned public expenditure as a result of Budget.

Defensive

(i) Why NIS clawback? NIS reduction intended to help private sector, not public sector.

(ii) Changes to public expenditure so soon after White Paper imply weak control? Not at all. All new measures are to be charged to Contingency Reserve.

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D2 PUBLIC SECTOR CAPITAL EXPENDITURE

Factual

Planned public sector capital expenditure in 1983-84, as shown in the White Paper, amounts to about £11¼ billion, an increase of 12 per cent over the estimated outturn for 1982-83. Expenditure on fixed assets by nationalised industries in 1983-84 is planned to amount to £6.8 billion.

[CONFIDENTIAL NOTE. These figures should be referred to with caution. The corresponding figure in the FSBR, based on more recent estimates by the forecasters, is that the increase in capital expenditure will not be more than half the expected rate (ie around 5 per cent)]

Positive

(i) There is no point in making more money available when spending authorities are not using what they already have. The important thing is to ensure that the provision already made is fully but sensibly spent.

(ii) The Government has taken action to avoid further shortfalls in capital expenditure:

i. local authorities have been told they can spend without limit on house improvement grants. If necessary, additional allocations will be given retrospectively;

ii. 50% of forecast levels of capital receipts by local authorities will be included in their basic allocations. Authorities have, so far, tended to spend up to their allocations but not to use receipts above that. Building a higher level of gross expenditure provision into the basic allocations should result in proportionately higher spending;

iii. authorities have been given clearer guidance on the level of allocations they can expect for 1984-85 to enable them to plan ahead with greater confidence.

(iii) Because of the reduction in inflation, more work has been possible within the cash plans, which have not been reduced on that account. Chief Secretary has warmly welcomed this development.

Defensive

(i) Why not a crash programme to boost spending up to the planned level?

a) Government cannot dictate to LAs and nationalised industries. They take their own decisions. Has already taken those measures to avoid underspending which can reasonably be taken centrally.

b) Not all public capital expenditure is automatically a "good thing". Plenty of candidates; authorities must identify them. Must also be capital projects which are appropriate to the public rather than the private sector.

(ii) Why are the figures in the FSBR different from the White Paper - and worse? White Paper figures were based on decisions taken last November. Revisions reflect later information and latest economic forecast, in particular a more recent view of the effects of the recession on the nationalised industries.

(iii) But why have you still included such a large sum for underspending in 1983-84: doesn't this imply failure of the corrective measures?

No. There is always likely to be some shortfall in a cash limited system as managers seek to keep just within their cash limits. It may also take time for the corrective measures to have their full effect. We have, therefore continued to make some provision for shortfall.

(iv) Would not increased public investment create more jobs sooner?

Only in the short term. To meet the cost of such jobs, we should have to tax more or push up interest rates by borrowing more. That could only hinder the recovery of private industry and so prevent the emergence of new jobs there. Want jobs that will last, not short-term window-dressing.

(v) Aren't you spending too much on current account - particularly social security?

Right in principle, but easier to say than do. Those who want to cut current expenditure should state their priorities. Parliament has not so far shown any willingness to make significant cuts in the £34 billion social security budget.

(vi) Why not cut defence?

By international convention, almost all defence expenditure is classified as current. In reality, a high proportion of it is more in the nature of capital and would be counted as capital if it were in the accounts of a private company. This expenditure brings major benefits to British industry.

(vii) What about the long-term decline in capital's share of the total?

Partly the continuing effects of the recession on nationalised industries' and local authorities' investment plans. But remember: a) growing defence budget by convention counts as current and this affects the ratio; b) sales of council houses and land (nearly £2 billion in 1982-83) count as negative capital expenditure; c) some major programmes (eg motorways) nearing completion. Programme is still very substantial (£11¾ billion planned for 1983-84). Just as an example, 47 new hospitals now under construction or about to start.

(viii) Won't the intended reduction in British Telecom's EFL lead to further cuts in capital?

The important thing is that the industry's plans should be realistic. The scale of its investment will of course depend not only on its EFL but also on its own internal resources.

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D3 CIVIL SERVICE MANPOWER AND EFFICIENCY

(References to other public services should be referred to Department or Minister concerned. For impact of Budget on Inland Revenue and Customs, See Brief M4)

Factual/Positive

(i) Civil Service manpower numbers are on course to meet the 630,000 target by 1.4.84, smallest since World War II. Already down 11 per cent since 1.4.79. By 1.4.84. reduction will be 14 per cent. Figures are:-

	1.4.79	1.4.82	1.4.83	1.4.84
Number	732,300	666,400	651,000(estimate)	628,300(estimate)
% change	-	-9	-2	-3½

(ii) Since 1979, staff reductions in departments have saved some £600m on Civil Service salary bill;

(iii) Centrally organised efficiency programme 1979-82 has yielded potential savings of £317m a year, plus £44.5m once-and-for-all savings. This is in addition to efficiency improvements made by departments wholly on their own account;

(iv) Central efficiency programme for 1983 provides for up to 30 scrutinies and three multi-departmental reviews.

(v) In May 1982 Government launched major initiative on improving Financial Management. Government will publish a White Paper on the initiative by July.

Defensive

(i) The Civil Service has been run down regardless of efficiency or effectiveness. Great savings have been made with very little effect on the provision of services.

(ii) Efficiency programme just a "cover" for manpower reductions? The programme of scrutinies challenges the status quo. They ask whether work needs to be done at all. But they also make government work better - for example, by improving service to public.

(iii) Departments lukewarm about the FMI? No evidence for this. Departments' programmes of work show evidence of much hard work and down-to-earth thinking about principles of financial management.

CONTRACTING OUT

Factual

(i) The Government's policy is to encourage further use of private sector contractors by public bodies where this will increase their economy, efficiency and effectiveness.

(ii) Government departments and health authorities will be allowed to recover VAT paid on services contracted out to the private sector. This will remove a possible disincentive to the use of outside contractors.

Defensive

(i) Effect on Public Sector Borrowing Requirement? In themselves these changes will have neutral effect, reducing VAT revenue and public expenditure by equal amounts.

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E1 NATIONAL INSURANCE CONTRIBUTIONS

Factual

(i) Decisions on national insurance contributions not part of the Budget, but changes come into effect in April.

(ii) Main changes arise from last November's annual review of contributions, announced at time of Autumn Statement. Employees' and employers' contribution rates will increase by 0.25 per cent each; lower earnings limit (which determines level at which contributions become payable on all earnings) to increase from £29.50 to £32.50. Upper earnings limit (which sets ceiling up to which contributions are levied) rises from £220 to £235.

(iii) Other change, announced in March 1982, relates solely to contracted-out contributions (ie contributions paid by those with occupational pension schemes which are contracted-out from the State earnings related scheme). This change reduces rebate on contracted-out contributions from 7 per cent to 6¼ per cent overall, by 0.35 per cent for employees and 0.4 per cent for employers.

(iv) **National Insurance Contribution rate after changes at (ii) and (iii)**

	1982-83	1983-84	%
Contracted-in			
Employees	8.75	9.0	
Employers	10.2	10.45	
Contracted-out			
Employees	6.25	6.85	
Employers	5.7	6.35	

(v) Balance in the National Insurance Fund after these changes falls by £262 million, giving balance of £3261 million at end 1983-84 - or 16 per cent of benefit expenditure. [Figures from Government Actuary's (GA's) report published last November]. The assumptions used are:-

(a) unemployment (GB, excluding school leavers, etc) averages 2,740,000 in 1982-83, 3,020,000 thereafter; school leavers and others 170,000 in 1982-83; 110,000 thereafter. [Note: figures in GA's report are on old registrations basis, figures here are on new claimants basis - the two sets of figures are consistent];

(b) average earnings in 1983-84 6½ per cent higher than in 1982-83;

(c) retail prices rise by 5 per cent between November, 1982 and November 1983.

Differences between these assumptions and those used for the Budget will be taken into account, along with Budget decisions on benefit uprating, in GA's next report, published later this year.

(v) For impact of these changes on personal incomes, see Brief F2. For comparisons with 1978-79 see Brief F3.

Positive

(i) Contributors protected from full burden of increased expenditure - to balance Fund would have required rate increase of 0.4 per cent for employers and employees.

(ii) Reduction in balance in Fund helps meet PAC criticism of size of balance [If pressed: DHSS with advice of GAD considering right size of balance but likely to conclude that present level of about 16 per cent of benefit expenditure broadly right.]

(iii) Upper Earnings Limit set at less than allowed by Statute (7.5 times LEL). It will be 7.23 times LEL as against 7.45 times in 1982-83.

Defensive

(i) Burden on employers. Employers largely protected from increased contribution rates in recent years. Had these increases been shared equally employers' burden could now be around £1 billion higher. Employers also benefited from substantial reductions in NIS.

(ii) Burden on employees. Recognise that employees have been hard hit (increases of 2.5 per cent since this Government took office). But some increase in contributions necessary to avoid a greater fall in Fund balance. Impact on employees in 1983-84 should be seen in light of income tax changes (see brief F2).

(iii) Contracting-out rebates? Reduction in the rebate simply reflects reduced cost to occupational pension schemes of providing Guaranteed Minimum Pension.

Contact point: A J White (ST1) 233-4653

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E2 SOCIAL SECURITY UPRATING

Factual

(i) Government has decided to revert to historic method for determining price increases relevant to uprating of social security benefits. Legislation will be introduced at earliest opportunity (First reading probably on Wednesday 16 March).

(ii) This means that most benefits will be uprated by reference to historic movement in prices between May 1982 and May 1983, rather than forecast movement in prices between November 1982 and November 1983 - the old system.

(iii) Benefits will still be uprated in November. But level of uprating will not be decided until June, when the May figure is known. June is last possible month for decision to ensure uprating in November.

(iv) If pressed: obviously May outturn not yet known. Chancellor said 'in region of 4 per cent'.

(v) Some benefits, notably Child Benefit and Unemployment Benefit receive specially large increases or other improvements - see Briefs E3, 4 and 5 and G7.

(vi) If asked: Saving to social security programme from reversion to historic method broadly same as the 'reduction' of £180 million announced in Autumn Statement to take account of overshoot. Other social security measures (see Briefs E3-5 and G7 and estimating charges increase overall size of social security programme by around £200 million. Cost in 1983-84 of policy changes (around £120 million) met from Contingency Reserve. [If pressed: uprating of 4.25 per cent - working assumption in Budget arithmetic - would save around £180 million in comparison with an uprating of 6 per cent (post Budget forecast movement in prices between fourth quarter 1982 and fourth quarter 1983 -Autumn Statement forecast was 5 per cent). This equates to saving of £180 million included in Autumn Statement arithmetic as an adjustment to have regard to overshoot in November 1982 uprating.]

(viii) Social Security Estimates published on Budget day provide for expenditure on the purely conventional assumption that benefits will be uprated in line with the price assumptions used in the public expenditure White Paper, that is 5 per cent. The Estimates will be revised in due course when the actual uprating has been decided.

Positive

(i) Reversion to historic method will remove uncertainties inherent in forecasting method. Forecast was 2.7 per cent too high in 1982, 2 per cent too low in 1981 and 1 per cent too high in 1980.

(ii) Beneficiaries are likely to retain significant part of real improvement in benefit accidentally achieved in November 1982 uprating. [(If assume 4.25 per cent uprating as against 6 per cent forecast inflation to fourth quarter 1983 - difference is 1.75 per cent -full recovery of overshoot would have entailed 2.7 per cent reduction - net gain about 1 per cent; if uprating about 4 per cent, net gain about ¾ per cent.]

(iii) Government has done opposite of what Labour Government did in 1976 when they changed from historic to forecast method of uprating. They then gave an uprating of 15 per cent (long term) and 16 per cent (short term) when the uprating should have been 22½ per cent. This change cost beneficiaries £500 million in cash, around £1 billion in today's prices.

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E2 Cont.

(iv) In Debate on Social Security and Housing Benefits Bill on 22 December 1981 (when discussing uprating of statutory sick pay) Mr Rooker described the historic basis as "very sensible considering the trouble that Government have had over past few years".

Defensive

(i) Government still clawing back overshoot? As compared with a continuation of the previous method it seems likely, depending on the precise figures for inflation in May, that benefits wil be increased by significantly more than would have been the case had an adjustment been made to take account of the full amount of the over provision in November 1982. It also means for future that we shall never again have problems with undershoots and overshoots, clawback and compensation.

(ii) Way of reducing cost of uprating when inflation is rising? No, had we stayed with forecast method we would have recovered overshoot. Pensioners have lost nothing from this change but have gained accuracy of historic method.

(iii) Saving from 'adjustment' for overshoot not achieved? Taken by itself the move to the historic basis is likely to achieve broadly the same saving as the reduction of £180 million announced in its Autumn Statement. But together with the other changes made to benefits the social security programme will increase by around £200 million in 1983-84, of which £120 million will be met from the Contingency Reserve.

(iv) If pressed on uprating of Supplementary Benefit? [Note: Supplementary Benefit was uprated in November 1982 by RPI with a broad adjustment reflecting the fact that housing costs of Supplementary Benefit recipients are met in full. Uprating was, therefore, 10.5 per cent rather than 11 per cent for other benefits. Outturn for RPI less housing costs shows that overshoot on Supplementary Benefit, measured in this way was 2 per cent, rather than 2.7 per cent for most other benefits.] Supplementary Benefit is not, of course, one of the benefits statutorily uprated and will not, therefore be covered by the proposed legislation. But it too will be uprated by the historic method.

(v) If pressed: will SB uprating by the "Rossi" price index (ie RPI less housing costs)? Government has no proposals for changing the factors taken into account in uprating Supplementary Benefit.

Contact point: A White (ST1) 233-4653

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E3 CHILD BENEFIT

Factual

(i) Child Benefit to increase from £5.85 to £6.50 next November - an increase of 11.1 per cent.

(ii) One Parent Benefit (payable to single parents, on top of Child Benefit for first child only) to be increased from £3.65 to £4.05 - an increase of 11 per cent.

(iii) These increases will cost £122 million in 1983-84, £340 million in 1984-85.

(iv) Cost of real increase - above general provision for uprating benefits - will be met from Contingency Reserve. [On the assumption (purely illustrative) that general uprating will be 4.25 per cent, charge to Contingency Reserve will be £75 million, if 4 per cent would be £71 million].

(v) For average levels of Child Benefit over financial years since 1978-79 - see Brief F3.

Positive

(i) On the assumption that the annual rate of inflation at the time of the uprating in the last quarter of 1983 is around 6 per cent, benefit will be at its highest ever level in real terms. (Previous highest real level was £4.00 set in April 1979. Equivalent is £6.45 on a 6 per cent price assumption).

(ii) Real increase in Child Benefit on same (6 per cent) price assumption will be around 5 per cent.

(iii) One Parent Benefit already at its highest ever real value. The rate has already increased by 83 per cent since Government took office, from £2.00 to £3.85. Increasing it to £4.05 brings total increase to over 100 per cent - a real increase of around 30 per cent.

(iv) Taken together real CB increases in 1982 and 1983 broadly match real increases in tax allowances. (Comparisons are over different time periods but real increase in CB = 10 per cent, real increase in married allowance = 10.3 per cent.) See also Brief F3.

(v) Part of strategy to reduce impact of unemployment trap.

Defensive

(i) Increase only a pre-election manoeuvre? No. The Government was able to make some additional money available without threatening its public expenditure targets and decided that a real increase in Child Benefit, helping the family, and in particular low income working families, was an appropriate way of using some part of this.

(ii) Why increase only 11 per cent compared with 14 per cent increase in personal tax allowances/thresholds? Cannot consider one year in isolation. In 1981 allowances didn't rise at all but CB went up 10½ per cent. Between 1978-79 and 1983-84 CB will have risen 90 per cent (child under 11) against rise in allowances of 82 per cent and an RPI increase of 71 per cent.

Contact point: A J White (ST1) 233-4653

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E4 UNEMPLOYMENT BENEFIT

Factual

(i) 5 per cent abatement of unemployment benefit will be restored from November 1983.

(ii) Restoration of abatement will cost £22 million in 1983-84, £60 million in full year. To be met from Contingency Reserve.

(iii) Benefit was abated in November 1980. Government had announced its intention of bringing this benefit into tax, but this was not immediately possible. So partly as a proxy for taxation and partly to reduce public expenditure and improve work incentives, benefit was abated. This gave an uprating of 11.5 per cent rather than 16.5 per cent applied to most benefits. [Note: not for use unless specifically asked: the method will be to calculate the value the benefit would have had in November 1982 (including the overshoot) had it not been abated. That notional rate will then be increased by the same percentage as other benefits. It will not, therefore, be a simple 5 per cent addition.]

(iv) Unemployment benefit has now been brought into tax - from July 1982. Government had accepted the case for restoration in principle but had not decided when this should be.

(v) Other short-term benefits were also abated in November 1980 - sickness benefit, invalidity benefit, maternity allowance and injury benefit. These have not yet been brought into tax. (Injury benefit is to be abolished - from April 1983, except for transitional cases.)

Positive

(i) Government has abided by the commitment given last year to restore the value of the benefit, at a cost of £60 million in a full year.

Defensive

(i) <u>Abatement should have been restored last November</u>? This was a question of priorities. Government decided last year to restore for all benefits the 2 per cent shortfall that had occurred at the benefit uprating in November 1981 - this cost £183 million in the past year 1982-83, £513 million in 1983-84 and we could not afford to do more.

(ii) <u>5 per cent abatement of other benefits should be restored</u>? These benefits have not yet been brought into tax. We are committed to restoring the abatement of Invalidity Benefit when it is eventually brought into tax - and as a token of that commitment the Government restored the abatement of invalidity allowance (which is an age related addition to the basic invalidity pension) in November 1981. No similar commitment has been given for sickness benefit or maternity allowance, but the position will be reviewed when they are brought into tax.

(iii) <u>Abatement should never have been made</u>? Less than two-fifths of unemployed beneficiaries receive unemployment benefit alone, and have been fully affected by the abatement. These are generally single people without dependants and those whose other income or capital resources prevent them from qualifying for supplementary benefit. The remainder are either on supplementary benefit alone or receive it on top of their UB - they will not generally have lost through the abatement.

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E4 Cont.

(iv) Restoration of abatement will discourage the unemployed from taking work? Even with this change the level of unemployment benefit for a single person will represent only about 15 per cent and for a married couple around 25 per cent of average wages. It is not so much unemployment benefit but means tested supplementary benefit that contributes towards the unemployment trap.

Contact point: A J White (ST1) 233-4653

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E5 OTHER SOCIAL SECURITY MEASURES

Factual

Apart from the measures covered in E2-4 and G7 (unemployment measures), the Government has decided to make the following changes:

(i) For the sick and disabled:

(a) real increase in therapeutic earnings limit;
public expenditure cost: £0.1 million in 1983-84, £0.3 million in a full year.

(b) removal of invalidity trap;
public expenditure cost £3 million in 1983-84, £10 million in 1984-85 for under 60s; Cost for over 60s included in cost of extending higher supplementary benefit rate to over 60s - see Brief G7.

(ii) For war pensioners: New mobility supplement to replace existing vehicle scheme.
public expenditure costs: £1 million in 1984-85 rising to nearly £3 million in 1985-86.

(iii) For the less well off:

(a) increase from £2,500 to £3,000 in capital disregard for entitlement to supplementary benefit and increase from £300 to £500 for entitlement to SB single payments. In addition there will be a new, separate disregard for Life Assurance policies - of £1,500.
public expenditure cost: £3 million in 1983-84, £10 million in a full year.

The net public expenditure cost of about £4 million in 1983-84 will be met from Contingency Reserve.

Detail of the measures

(i) Therapeutic Earnings Limit. This measure increases from £20.00 to £22.50 amount which disabled and chronically sick people in receipt of benefit are allowed to earn before their benefit is reduced.

(ii) Removal of invalidity trap. The invalidity trap arises because the level of invalidity benefit (IVB) is higher than short term rate of supplementary benefit. Those in receipt of IVB cannot normally, therefore, qualify for short term SB. Since no-one below pension age can qualify for higher long term rate of SB until they have been in receipt of the short term rate for a year, recipients of IVB are generally unable to qualify. This measure will allow IVB recipients under 60 to qualify for long-term rate of SB after a year in receipt of incapacity benefits. The sick and disabled over 60 will, like the unemployed over 60, now be able to qualify for the long term rate immediately (for concession to unemployed see Brief G7) 70,000 sick and disabled gain from the removal of the 'invalidity trap'.

(iii) New mobility supplement for war pensioners. This measure replaces the present scheme for war pensioners, which aims to provide help for the purchase and running costs of a car. The proposed new scheme equates broadly to Mobility Allowance, but with a small cash preference of an extra £2.10. This continues the practice of generally providing benefits for war pensioners rather more generous than the normal benefits - the traditional war pensioners preference. A more equitable and efficient way of helping over 11,000 immobile war pensioners.

(viii) Increase in Supplementary Benefit capital disregards. At present capital up to £2,500 is ignored in assessing entitlement to Supplementary Benefit, but once this sum is exceeded a claimant is not entitled to any supplementary benefit. The amount was increased by

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E5 Cont.

25 per cent from £2,000 in 1982 Budget. This present measure further increases the disregard by 20 per cent to £3,000 and provides a real increase in its value. There is a separate disregard, of £300, for supplementary benefit single payments (for such things as extra bedding, essential items of furniture, exceptional heating costs, etc). This is also being increased to £500. In addition there will now be a separate disregard of £1,500 for capital held in the form of life assurance policies - so total disregard for those with such policies will be £4,500 before they do not have entitlement to supplementary benefit. Encourages thrift.

Contact point: A White (ST1) 233-4653

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E6 TAX MEASURES TO ASSIST CHARITIES

A. EMPLOYEES SECONDED TO CHARITIES

Factual

The cost of employees seconded to charities will in future be a tax deductible expense. Cost: negligible, both in 1983-84 and full year.

Positive

(i) A small change which removes a discouragement in the tax rules to companies seconding staff to charities.

(ii) Charities can benefit greatly from the expertise of suitably experienced seconded personnel; sometimes of more value than a cash donation.

(iii) Assists self help in the community - will encourage business to support the voluntary sector.

(iv) Meets representations from NCVO.

Defensive

(i) More difficult now to resist claims to tax relief for other non-business expenditures? No: this is a relief for a special kind of expenditure to help charities only.

(ii) Why not relief for other business contributions to charities - eg one-off cash donations? New relief is a recognition of the particular value to charities of obtaining experienced people. Relief for cash donations is quite another matter - unacceptable on grounds of principle and cost.

Contact point: R G Lusk (Inland Revenue) 2541-6412

B. CAPITAL TRANSFER TAX: CHARITABLE BEQUESTS

Factual

(i) Exemption limit for gifts to charities (currently £250,000) within one year of death removed.

(ii) Negligible cost in 1983-84, £1 million in full year.

(iii) Change to take effect from Budget Day.

Positive

Removal of exemption limit means that no outright gifts to charities will now be taxed. A further step to encourage charitable giving.

Contact point: F I Robertson (Inland Revenue) 438-6459

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E6 Cont.

C. DEEDS OF COVENANT

Factual

Tax relief at higher and additional (investment income surcharge) rates is allowed to individuals for payments under deed of covenant in favour of charities. The higher rate relief is limited to annual payments of £3,000. It is proposed to raise this to £5,000.

Positive

Reflects Government's belief in the value of deeds of covenant for charities. The relief was given for the first time in 1980 and increasing the 1980 limit of £3,000 to £5,000 more than revalorises it.

Defensive

(i) Right to have some limit to the amount of Exchequer contribution for any one individual donating to charities. £5,000 a reasonable limit at the present time.

(ii) Relief at basic rate is available without limit.

Contact point: P W Fawcett (Inland Revenue) 2541-7414

F1 INCOME TAX - MAIN CHANGES

Factual

(i) Rates of tax unchanged - basic rate 30 per cent; higher rates 40, 45, 50, 55 and 60; investment income surcharge (IIS) rate 15 per cent.

(ii) All main allowances and thresholds increased by about 14 per cent - about 8½ percentage points more than indexation requirement.

(a) **Allowances**

	1983-84 £	1982-83 £	Increase over 1982-83 £(%)	Increase over indexation* £
Married allowance	2,795	2,445	350(14.3)	210
Single and wife's earned income allowance	1,785	1,565	220(14.1)	130
Additional personal allowance (APA) and widow's bereavement allowance	1,010	880	130(14.8)	80
Age married allowance	3,755	3,295	460(14.0)	280
Age single allowance	2,360	2,070	290(14.0)	170
Age income limit	7,600	6,700	900(13.4)	500

*ie compared with the rounded increases required by Section 24 Finance Act 1980. The indexation amounts are set out in a Treasury Order laid on Budget day.

(b) **Higher rate thresholds and bands**

Band %	1983-84 £	1982-83 £	Increase in threshold £	Increase over indexation £
40	14,601-17,200	12,801-15,100	1,800	1,100
45	17,201-21,800	15,101-19,100	2,100	1,200
50	21,801-28,900	19,101-25,300	2,700	1,500
55	28,901-36,000	25,301-31,500	3,600	2,000
60	over 36,000	over 31,500	4,500	2,500

(c) Investment income surcharge threshold increased to £7,100 (from £6,250 in 1982-83) £850 increase - £500 over indexation.

(d) Widow's bereavement allowance extended to year following bereavement - see Brief F5.

(e) Tax changes will be made in pay packets on first pay day after 10 May.

(iii) Cost: £2 billion in 1983-84 and £2½ billion in a full year: this is some £1.2 billion in 1983-84 and £1½ billion in a full year above the cost of statutory indexation.

(iv) Number of taxpayers

(a) 1,250,000 fewer taxpayers than if allowances had remained at 1982-83 level; this is 750,000 fewer than if allowances had only been indexed.

(b) 350,000 fewer higher rate taxpayers than if threshold had remained at 1982-83 levels; this is 200,000 fewer than if threshold had only been indexed.

(c) 45,000 fewer IIS payers than if IIS threshold had remained at 1982-83 levels; this is 25,000 fewer than if threshold had only been indexed.

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F1 Cont.

Positive

(i) Real increase in thresholds for second successive year will reduce average rates of income tax for all taxpayers. Threshold increase is well above both statutory indexation (ie 8½ points over the historic 5½ per cent price increase in 1982) and the forecast increase in prices (6 per cent in 1983-84 FSBR forecast).

(ii) Average rates of income tax are lower than 1981-82 or 1982-83 throughout the income range -for further specimen income and 'track record' points see Brief F2, F3.

(iii) Weekly income tax reduction in cash terms for a basic rate taxpayer will be £2.02 per week married and £1.27 a week single. Weekly tax threshold will be £34.33 single and £53.75 married.

(iv) Low paid benefit because:-

(a) 750,000 fewer low paid (and pensioner) taxpayers (counting earning wives separately), compared with indexation only (about 500,000 fewer "tax units", counting husband and wife as one).

(b) Real terms increase in threshold gives greater proportionate benefit to those on low incomes than rest of basic rate payers - more effective for the lowest paid than a reduced rate band.

(v) Single parents: APA for single parents up by £130 to £1,010 (75p a week in cash terms - £2.02 including increase in single allowance).

(vi) Work incentives - see Brief F4 for this and poverty trap etc.

(vii) Widows; Single Women Aged 60-64; Elderly - see Brief F5.

Defensive

(i) Income Tax

(a) Greatest benefits go to highest paid? (see also Brief F2)

- comparison of cash increases for low paid and high paid is misleading - fails to take account of progressive nature of income tax which takes more from highest paid.

- in terms of percentage of income taken in tax (eg average tax rate), lowest and highest paid gain most - just as they lost most from failure to index in 1981-82.

- all main allowances and thresholds increased by the same percentage (apart from minor variations due to rounding). No slant in favour of the higher-paid.

(b) Thresholds still down in real terms on 1980-81, 1979-80?

- no apology for failure to index in 1981-82: success against inflation shows how right that was. Real increases in 1982-83 and now 1983-84 have pegged back most of the lost ground (about 5 per cent below indexed 1980-81, compared with 15.1 per cent below in 1981-82).

- equally relevant that thresholds now 5 per cent up in real terms on 1978-79 levels.

- other 'track record' points - see Brief F3.

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F1 Cont.

(ii) Income tax and NIC

(a) At 1983-84 earnings levels - taking for illustrative purposes the 6½ per cent earnings increase for 1983-84 used by the Government Actuary - combined rate of tax and NIC is down compared with the rate on corresponding 1982-83 earnings for all contracted-in; almost all married contracted-out except around 1½ average earnings; and for single contracted-out except between about ¾-1¾ average earnings.

(b) In cash terms (at Budget day) increases in tax allowances will more than compensate for NIC increases for all married contracted-in contributors and for almost all married contracted out contributors (except around 1½ average earnings) and most single (except around 1¼-1½ average earnings). (NB - care needed in handling pay packet position because of MIRAS etc effects. See Brief F6)

(iii) Green Paper on Husband and Wife

- Why no announcement? Ministers are considering the wide range of views expressed.

- What next? Premature to take action in this Budget. When full consideration completed, a statement will be made.

- Will the married man's allowance be abolished? A complicated and controversial issue with potential far-reaching distributional effects. Not an area for rushed decisions.

Contact point: I Spence (Inland Revenue) 2541-6497

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F2 EFFECTS OF TAX, NIC AND OTHER CHANGES ON PERSONAL INCOME

Factual

Various measures announced in Budget will affect disposable incomes in 1983-84, including:

(a) 14 per cent increase in income tax allowances and higher rate bands (see Brief F1).

(b) 11 per cent increase in child benefit from November (see Brief E3).

(c) Increase in region of 4 per cent for most other benefits from November (see Brief E2).

But disposable incomes will also be affected by:-

(d) 0.25 per cent increase in NIC rate announced last November and further 0.35 per cent increase in contracted-out rate of NIC, announced last March (see Brief E1).

Whether people are better or worse off in 1983-84 than in 1982-83 cannot be predicted precisely. Depends also on what happens to earnings and prices. For illustration, following paragraphs assume that earnings rise by 6½ per cent, as assumed by Government Actuary, and prices by 6 per cent as in 1983-84 FSBR forecast. They also assume taxpayers entitled to personal allowances only: for those with mortgages, tax payments may also be affected by MIRAS and effect of tax underpayment in 1982-83 - see Brief F6.

1. Income tax effects

(i) Higher allowances will benefit all taxpayers. Basic rate taxpayers gain £1.27 a week (single), £2.02 a week (married). 95 per cent of taxpayers are on basic rate. Elderly will gain more: £1.67 a week for a single person, £2.65 for a married couple over 65 entitled to full age allowance (see also Brief F5).

(ii) Saving will be proportionately higher at lower end of basic rate band, and for higher rate taxpayers. For married man saving is 2.3 per cent of gross income at half average earnings, 1.2 per cent at average, 0.8 per cent at one-and-a-half times average and 2.3 per cent at five times average earnings.

(iii) The above represent static effects of Budget - ie assuming income is unchanged. But most incomes increase from one year to the next. So dynamic comparison - allowing for rising income - also relevant. Dynamic comparison also shows all taxpayers gaining, since allowances are rising more than expected growth in earnings. **Income tax will take a lower proportion of income in 1983-84 than in 1982-83 at all income levels. Greatest benefit for highest and lowest incomes,** who lost most in 1981.

(iv) For comparisons with 1978-79 see Brief F3.

2. NIC effects

(i) Contracted-out face bigger increases than contracted-in because statutory review of earnings-related pension scheme recommended they should pay more relative to contracted-in (see Brief E1). About half are contracted-out.

(ii) **Contracted-in** will pay an extra 0.25 per cent of earnings if they are below the upper earnings limit (UEL) (the majority). **On 1983-84 average earnings, this is 43 pence per week.** Above UEL, increase is more on static basis (up to £1.90 a week). On dynamic basis increase in UEL does not penalise high earners, because UEL is rising no faster than expected growth in earnings.

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F2 Cont.

(iii) **Contracted-out** will pay an extra 0.6 per cent on most of their earnings: **98 pence a week on average earnings**, and maximum static loss is £2.31 a week.

3. The combined effects of tax and NIC

(i) Immediate effect of tax reduction will be greater than effect of NIC increases for all but a minority of taxpayers (900,000).

(ii) **Percentage of income paid in income tax and NIC combined will be unchanged or lower in 1983-84 than in 1982-83 for all those paying contracted-in NIC.** It will rise slightly for some of contracted-out (singles between ¾ and 1¾ times average earnings and married men between 1¼ and 1¾ times average.) (NOT FOR USE: There are about 3 million people in this position).

The following table gives examples:

Percentage of income paid in income tax and NIC

	Single				Married			
x average earnings	½	1	1½	5	½	1	1½	5
Contracted-in								
1982-83	27.6	33.2	34.2	46.3	21.3	30.0	32.1	45.1
1983-84	27.0	33.0	34.2	45.2	20.3	29.6	31.9	43.9
Contracted-out								
1982-83	26.0	31.1	32.3	45.7	19.7	28.0	30.2	44.4
1983-84	25.7	31.3	32.5	44.7	18.9	27.9	30.3	43.4

(For further details see Treasury press notice on income tax measures)

4. Real disposable incomes

(i) Impossible to predict accurately how real disposable incomes will change in 1983-84. Depends on earnings and prices.

(ii) On illustrative 6½ per cent earnings rise and 6 per cent price rise **everyone will have higher real net income than in 1982-83. Low paid will be among those gaining most.** Examples in following table. (NOTE: 6½ per cent earnings rise is figure used by Government Actuary last November. No suggestion that people are entitled to such rises - pay awards must reflect employers' ability to pay).

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Projected increase in real after-tax income between 1982-83 and 1983-84 (per cent)

	Single				Married			
x average earnings	½	1	1½	5	½	1	1½	5
contracted-in	1.2	0.7	0.5	2.5	1.8	1.0	0.7	2.6
contracted-out	0.9	0.2	0.1	2.3	1.4	0.6	0.3	2.4

(iii) Families with children will have additional gain from 11 per cent increase in child benefit from November: **bigger increases in real net income than for childless couples**. In proportionate terms, most benefit to lower paid.

(iv) Pensioners, the unemployed and others dependent on supplementary benefit will see their benefits rise in November by slightly less than rate of inflation. **But real value of benefits in 1983-84 as a whole (averaged over the financial year) will be higher than in 1982-83.**

5. Indirect Taxes

(i) VAT rate is unchanged. Specific duties are being increased broadly in line with inflation.

(ii) Impact effect of duty changes is to add 0.4 per cent to RPI. Duty payments of course depend on the individual's spending pattern. But a couple with two children on average earnings and with average spending patterns can expect to pay about 50p a week more in duties, single person about 35p a week.

(iii) On dynamic basis, proportion of income paid in indirect tax roughly unchanged between 1982-83 and 1983-84.

Positive

(i) Real increase in income tax allowances benefits all taxpayers.

(ii) Most people will pay a smaller proportion of their income in tax and NIC in 1983-84 than in 1982-83.

(iii) Child benefit increased in real terms. Highest real level since introduction.

(iv) On GAD's earnings assumption (6½ per cent) and FSBR price forecast (6 per cent) **real take-home pay will be higher next year at all earnings levels.**

(v) Low paid are among greatest gainers.

Defensive

(i) NIC rise wipes out gains from income tax changes? Not true for most people. Some of those paying contracted-out NIC will have higher tax-and-NIC burden. But, if earnings grow by 6½% even they will have higher real take-home pay.

(ii) MIRAS and mortgage relief coding changes cancel out gains? Some people paid too little tax in 1982-83 because of the mortgage interest rate fall and they will be paying it

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back in 1983-84. This is not a tax increase in any sense. As for MIRAS, everyone has the right to continue making the same net repayments as before. See Brief F6.

(iii) Highest paid do best? Gains are proportionately just as great for lowest paid taxpayers. All main allowances and thresholds increased by same percentage.

(iv) Allowances and higher rate thresholds raised 14 per cent, child benefit 11 per cent, pensions only 4 per cent? Cannot consider one year in isolation. In 1981 allowances didn't rise at all, while CB went up 10½ per cent and other benefits 9 per cent. Between 1978-79 and 1983-84 rises will have been as follows:

Allowances and threshold for higher rate tax	Child Support (under 11)	Pension	Short-term Supplementary Benefit	RPI
+82%	+90%	+83%	+75%	+71%

(NOTE: All figures are financial year averages. November to November comparison shows pensions up only 76 per cent and SB 72 per cent. Budget Statement uses rounded figures of 75 per cent for pensions and 70 per cent for RPI.)

(v) Real value of thresholds still less than 1979-80 and 1980-81? Decision not to raise thresholds in 1981 now seen to be right - as success against inflation shows. **Thresholds now higher in real terms than when Government came to office** (see Brief F3).

(vi) Indirect tax increases add to inflation? RPI impact effect is about 0.4 per cent. Increases much smaller than in recent years, reflecting Government's success in reducing inflation.

(vii) Those on benefits will lose? Benefits increasing less than forecast growth in prices. But only compensates for last November's overshoot. Over life of Government benefits have kept pace with inflation (see Brief E2).

Contact point: R H Aaronson (DEU3) 233-5692

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F3 COMPARISONS WITH 1978-79 AND 1979-80

Factual

1. Income tax and NIC

Main changes since 1978-79 which reduce tax:

(a) Basic rate down from 33p to 30p.

(b) Personal allowances now 5 per cent higher in real terms but 1 per cent lower as a proportion of average earnings. Compared to 1979-80, 4 per cent lower in real terms, 1 per cent lower in relation to earnings. Changes in individual years were as follows:-

	(Indexation Percentage)	Actual change in allowances
1979	(8½%)	18%
1980	(17%)	18%
1981	(15%)	0
1982	(12%)	14%
1983	(5½%)	14%

(c) First higher rate threshold also 5 per cent higher.

(d) Threshold for 60 per cent tax over 60 per cent higher in real terms.

(e) 60 per cent highest marginal rate instead of 83 per cent.

But also the following (which increase tax):

(f) 25 per cent reduced rate band abolished

(g) NIC rate (contracted-in) up from 6½ per cent to 9 per cent. (Contracted-out up from 4 per cent to 6.85 per cent)

Net effect of all these changes is that percentage paid in income tax and NIC will be higher in 1983-84 than in 1978-79 for everyone up to 2½ times average earnings. Following table shows income tax and contracted-in NIC's (less child benefit where appropriate) as % of gross earnings. The bracketed figures are income tax alone:

x average earnings	½		1		1½		2	
			Single					
1978-79	23.8	(17.3)	31.7	(25.2)	33.3	(27.8)	33.8	(29.7)
1979-80	23.1	(16.6)	29.8	(23.3)	30.8	(25.5)	30.9	(27.0)
1982-83	27.6	(18.8)	33.2	(24.4)	34.2	(26.3)	34.7	(28.7)
1983-84	27.0	(18.0)	33.0	(24.0)	34.2	(26.0)	34.0	(27.9)
			Married					
1978-79	16.4	(9.9)	28.0	(21.5)	30.8	(25.3)	31.6	(27.4)
1979-80	16.4	(9.9)	26.4	(19.9)	28.6	(23.3)	28.9	(25.0)
1982-83	21.3	(12.6)	30.0	(21.3)	32.1	(24.2)	32.5	(26.6)
1983-84	20.3	(11.3)	29.6	(20.6)	31.9	(23.8)	31.8	(25.6)

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x average earnings	½		1		1½		2	
			Married + 2 Children					
1978-79	2.9	(-3.6)	21.2	(14.7)	26.3	(20.8)	28.0	(23.9)
1979-80	2.0	(-4.5)	19.2	(12.7)	23.8	(18.5)	25.3	(21.4)
1982-83	7.8	(-1.0)	23.3	(14.5)	27.6	(19.7)	29.2	(23.2)
1983-84	6.1	(-2.8)	22.6	(13.6)	27.2	(19.1)	28.2	(22.1)

Figures show greatest increases in tax burden for lowest incomes. For highest incomes (not shown here) burden has actually fallen. One reason why Budget raises allowances rather than cutting basic rate: helps low paid more. Moreover, at all earnings levels real take-home pay will be higher next year than in 1978-79. NOTE: Only true of those who have had average earnings increases and faced average price rises. Not true of specific groups such as manual workers.

Projected increases in real disposable income between 1978-79 and 1983-84

(per cent)

SINGLE					MARRIED				
½	1	1½	2	5	½	1	1½	2	5
2.4	4.8	5.5	6.6	23.6	2.0	4.5	5.2	6.7	22.3

Married couple + two children

½	1	1½	2	5
3.4	5.0	5.6	6.7	21.2

2. **Child Benefit**

Following table shows child benefit averaged over financial year (usually changes in November).

	At current prices	At constant (1978-79) prices
1978-79	£2.57	£2.57
1979-80	£4.00	£3.45
1982-83	£5.47	£3.40
1983-84	£6.09	£3.57

Child benefit at highest real level since introduction. Value of child support for child under 11 (child benefit and the former child tax allowances) will have risen 90 per cent since 1978-79 - a real rise of 12 per cent - compared to 82 per cent for the income tax allowances. (For child between 11-15 only up 78 per cent - real rise of 4½ per cent).

3. **Indirect Taxes**

Only petrol and derv duties were increased in June 1979 Budget. Thereafter most duties have been uprated in each of three following years approximately in line with inflation except in 1981, when most duties were uprated by twice the rate of inflation. Thus most specific duties now higher in real terms than in 1978-79, the exceptions being wines

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and spirits. Petrol (38 per cent real increase) and beer duty (12½ per cent real rise) have risen most over period.

Positive

(i) Allowances have been increased by 5 per cent in real terms since 1978-79 and are about same proportion of average earnings as then.

(ii) Basic rate has been reduced from 33p to 30p. Penal higher rates inherited from last Government reduced.

(iii) Compared to 1978-79 income tax will take smaller proportion of income in 1983-84 for all above about ¾ average earnings.

(iv) Real take-home pay higher on average in 1983-84 than in 1978-79 at all earnings levels. (On Government Actuary's assumptions about earnings.)

(v) Child benefit at highest level since introduction. Balance has shifted slightly in favour of families with children since 1978-79.

Defensive

(i) Allowances not increased enough to restore 1978-79 burden of tax and NIC? Would have required increase too great to be consistent with responsible Government finance. Not prepared to throw away enormous progress made against inflation.

(ii) For lowest paid even burden of income tax alone higher than 1978-79? Last two Budgets have concentrated on low-paid by real increases in tax allowances.

(iii) Rich have done best under this Government? No-one seriously disputes that it was right to cut the absurdly high rates of tax on high incomes that we inherited.

Contact point: R J Smith (DEU3) 233-8010

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F4 EFFECTS OF BUDGET ON INCENTIVES, POVERTY AND UNEMPLOYMENT TRAPS

(For definitions and historical record see Annex)

Factual

(i) Increase in income tax allowances will take many people out of tax (1¼ million compared to no increase in allowances, ¾ million compared to indexation). But increases in NIC rates will raise marginal rate of tax-plus-NIC for most earners. No change in income tax rates.

(ii) Rise in allowances will also improve poverty trap.

(iii) With 14 per cent rise in allowances, assumed 6½ per cent growth in earnings and rise in region of 4 per cent for supplementary benefit, income in-work likely to increase faster than income out-of-work for those on supplementary benefit. The unemployment trap will improve for those dependant on supplementary benefit. But increase of around 9 per cent in unemployment benefit - restoring 5 per cent abatement - will worsen trap for those dependent on unemployment benefit.

(iv) Real increase in child benefit will help unemployment trap (goes mainly to those in work because those on supplementary benefit receive less SB when CB goes up).

Positive

(i) Increasing allowances by more than indexation takes ¾ million people out of tax. Their marginal rate drops 30 per cent.

(ii) 200,000 people taken out of higher tax rate. Their marginal rate drops 10 per cent. Others will move down from one higher rate to a lower one.

(iii) Increase in allowances in excess of indexation will mean 7,000 fewer families in the poverty trap.

(iv) Supplementary Benefit will increase in November by less than the likely increase in net income in work, increasing the incentive to take a job.

(v) Big increase in child benefit will further improve incentive to work for families with children.

(vi) Increase in tax allowances brings greatest benefit in percentage terms to low paid. Should encourage pay restraint.

Defensive

(i) Higher NIC rate worsens incentives? Only if people view NICs as a tax. Since contributions bring entitlement to a range of benefits they cannot be regarded in the same light as income tax. In any case, the increases are small.

(ii) Tax give-aways will make people work less? The Government have always emphasised the importance of marginal rates of tax. The Budget leaves many people with a lower marginal rate of income tax, which is good for work incentives.

(iii) Restoring 5 per cent abatement of UB worsens unemployment trap? The Government promised to make good the abatement once benefits were taxed. Taxation of benefits has itself increased the incentive to work. Less than two-fifths of unemployed are affected.

Contact point: R H Aaronson (DEU3) 233-5692

F4 Cont.

ANNEX

POVERTY AND UNEMPLOYMENT TRAPS: DEFINITIONS AND HISTORICAL RECORD

1. The poverty trap affects low-paid workers with children. Because of tax, national insurance and the gradual withdrawal of means-tested benefits (especially family income supplement - FIS) a worker who receives an increase in gross pay may enjoy little or no increase in net income - ie he may suffer a marginal "tax" rate close to, or above, 100 per cent. The range of the trap is narrowed when the overlap between paying tax and receiving means-tested benefits is reduced, widened when it is increased.

2. The unemployment trap concerns the rewards from working relative to those from unemployment. The higher the benefits obtainable out-of-work, and the lower the after-tax income in work, the less the financial incentive to employment. Thus increases in unemployment benefit and supplementary benefit (which includes addition for dependent children and for housing costs) worsen the trap, while increases in tax thresholds and other direct tax reductions improve it. Raising child benefit (CB) also improves the trap because most of the unemployed with children receive supplementary benefit (SB): higher CB is netted off against their SB, whereas those in work get the full increase.

3. Since the Government came to office the poverty trap has worsened, largely because of generous increases in FIS designed to help poor families. The following table summarises:

Pre-November	highest "tax" rate in trap (%)	Range of trap:- married man's tax threshold -FIS run-out (£ per week)	range at 1978-79 prices (£ per week)	range as % of average earnings
1978-79	98	33.40 - 47.80	33.40 - 47.80	35 - 51
1979-80	103	34.90 - 50.00	30.14 - 43.18	31 - 45
1982-83	105 ¼	47.00 - 82.00	29.20 - 50.94	29 - 51
1983-84	105 ½	53.75 - 91.50	31.65 - 53.63	31 - 53

The marginal rate in the trap has generally risen because of the abolition of the reduced rate band and NIC increases. At the same time the range has widened, bringing more people into the trap. (NOT FOR USE: The latest estimate of the numbers affected is about 170,000).

4. Unemployment trap has changed differently for different groups. Broadly, for those on unemployment benefit, trap has improved because of abolition of earnings-related supplement; for those on supplementary benefit it has worsened. Taxation of benefits has improved incentive to go back to work.

5. NOTE: The traps are expected to feature prominently in the report of the TCSC "Meacher" Sub-Committee, which will be published sometime after the Budget.

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F5 WIDOWS AND ELDERLY

A THE ELDERLY

Factual

Age allowance increase for 65s and over gives weekly tax reduction of £1.67 (single) and £2.65 (married).

Positive

(i) Elderly get more advantage than most taxpayers for second year running - because they gain from increases in tax threshold but do not pay NIC. With pension increase in November 1983 of around 4 per cent:-

(a) pensioners with basic state pension only will pay no tax;

(b) single pensioners could have up to about £12 income per week over basic pension without paying tax (£3.04 more than 1982-83); married pensioners could have up to about £19 income per week over basic pension without paying tax (about £3 more than 1982-83);

(c) there will be about 250,000 fewer elderly taxpayers than in 1982-83. (Under statutory indexation there would have been about 50,000 more elderly taxpayers than in 1982-83.)

(ii) For those who pay tax, increase in 'clear water' between tax threshold and pension level means proportion of their other income going in tax will be reduced. Thus with a pension increase of about 4 per cent a single pensioner with earned income of £1,500 in addition to basic pension will pay 8 per cent of his income in tax compared with 10 per cent in 1982-83.

(iii) Income limits for age allowance increased by £900 to £7,600: a married pensioner will be able to have income up to £9,040 a year before benefit from age allowance disappears (£7,975 for 1982-83); a single pensioner can have income up to £8,463 a year before benefit from age allowance disappears (£7,457 for 1982-83).

(iv) Investment income surcharge increase - half of IIS payers are over 65 (ie about 115,000), and will benefit from £850 increase in threshold to £7,100.

Defensive

Increase in age allowance better way of helping elderly than eg tax relief for BUPA premiums paid by over 65s (which would only help small number of better-off pensioners).

Contact point: I R Spence (Inland Revenue) 2541-6497

B WIDOWS' BEREAVEMENT ALLOWANCE

Factual

(i) Amount of allowance increased by £130 to £1,010 (14½ per cent increase over 1982-83, 9 per cent increase over indexation (see Brief F1).

(ii) Allowance extended to cover year after husband's death, as well as actual year of bereavement.

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(iii) Cost of extension £25 million in 1983-84 and £30 million in a full year.

(iv) Numbers benefitting: over 100,000.

See also Inland Revenue press notice.

Positive

Extension of WBA gives:

(i) Substantial extra help to widows to help with readjustment after husband's death.

(ii) Big increase in numbers benefitting from allowance. Only 45,000 widows benefit from WBA at present (and only 20,000 benefit in full) because their income is fully covered by other allowances. Extension will more than double numbers benefitting: over 100,000 will benefit (about half the number of newly-widowed).

(iii) Effective remedy to defects of present relief - ie that few widows benefit, and that amount of benefit depends on date of husband's death. This could have been remedied by just allowing unused allowance to be carried over to year after husband's death. But Government have decided on full extension, because it is simpler and more generous.

Defensive

Further tax reliefs for widows? (eg exemption of widows' pensions, tax reliefs throughout widowhood etc):-

(i) WBA (as extended) gives relief to widows at time when their position is exceptional, compared with other single women and pensioners - ie when they are facing financial (and emotional) difficulties of adjusting to widowhood;

(ii) Exemption for widows' pensions would not be justified - it is income in same way as other pensions and exemption for widows would be unfair on other pensioners (including other single women) - view of successive Governments.

(iii) Special tax relief for widows (apart from WBA) would discriminate unfairly against other taxpayers (particularly other single women) - view of successive Governments.

(iv) Widows with children? - get additional personal allowance for single parents (increased from £880 to £1,010 by Budget proposals).

Contact point: I R Spence (Inland Revenue) 2541-6497

C WIDOWS, SINGLE WOMEN AGED 60-64

Factual

(i) With a November 1983 pension increase of about 4 per cent, women on basic pension alone will not have to pay tax. Single allowance £1,785, about £50 greater than basic pension of £1,737 received in 1983-84.

(ii) About 250,000 women in this group will not have to pay tax (nearly half of the 550,000) in this group.

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F5 Cont.

Positive

Women in this group will be better off from 14½ per cent threshold increase (£1.72 per week cash reduction). About 150,000 fewer will pay tax than in 1982-83; lower tax burden for rest (smaller proportion of their pension taken in tax).

Defensive

Age allowance (or special tax relief) for single women and widows 60-64?

(a) No justification in principle (view of all past Chancellors);

(b) Unfair to married women and men of same age and to younger widows (who get same pension);

(c) Right course to raise thresholds generally, not introduce a special relief. Aim of raising thresholds above pension level achieved. "Clear water" of about £50. This, plus assessing tolerance of £100 means that great majority of women with graduated additions to state pension will not have to pay tax unless they have other income as well.

Contact point: I R Spence (Inland Revenue) 2541-6497

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F6 MORTGAGE INTEREST RELIEF

A. MORTGAGE INTEREST RELIEF LIMIT FOR 1983-84

Factual

(i) Limit on mortgages qualifying for mortgage interest relief increased to £30,000 for 1983-84 (£25,000 for 1982-83). One of measures to assist housing and construction industries (see Brief G4).

(ii) For someone with a mortgage of £30,000 and over, and assuming an interest rate of 10 per cent, the increase is worth about £3 per week to a basic rate taxpayer and about £14 per week to a 60 per cent rate taxpayer.

(iii) Cost £50 million in 1983-84 and £60 million in a full year.

Positive

(i) Limit set in 1974. Increase justified this year because previous £25,000 limit beginning to hinder growing number of families who want to buy their first home. [If pressed: Almost one-third of first-time buyers in London and South-East have mortgages over £25,000.]

(ii) The increase in the limit will help to prevent erosion over time of the staff savings from new arrangements for mortgage interest relief at source (around 1,000 by 1984 and more subsequently, see part C below).

(iii) The revised limit will cover the great majority of mortgages.

Defensive

(i) Raising limit is expensive; increase to £30,000 will cost £50 million in 1983-84 and more in subsequent years. As stated by Chief Secretary in Finance Bill Committee last year, it has never been the Government's policy "for ever and a day to keep £25,000 ceiling in all circumstances". But indexation is not policy either - £25,000 limit originally set in 1974 and this is first increase. [NOTE: If 1974 limit revalorised by RPI, 1983-84 limit would be a little over £80,000.]

(ii) Increasing subsidies to home owners while reducing them to council tenants? True that subsidies to local authorities have dropped. But direct help to tenants (ie, including Housing Benefits) has more than doubled since 1979 - an increase of over £1 billion.

(iii) Increase greater than movement in house prices over last twelve months; average building society advance for country generally is £17,000 - even in South East only £20,000.

(iv) Greater increase could have harmful monetary consequences by stimulating additional personal borrowing. Would lead either to increase in rate of growth of money supply or, if interest rates were raised to counteract this, increase cost of funds to other borrowers, eg industry.

Contact point: C Stewart (Inland Revenue) 2541-6218

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F6 Cont.

B. SELF-EMPLOYED IN JOB-RELATED ACCOMMODATION

Factual

Relief to be extended to self-employed taxpayers who are under a contractual requirement to live in accommodation provided for them as part of the terms of their trade (eg pub tenants) but are buying their own house elsewhere. CGT exemption to be similarly extended.

Positive

Proposal will remove discrimination against self-employed.

Defensive

(i) Employees living in job-related accommodation can already get relief. Proposal brings self-employed into line.

(ii) No justification for extending relief further to cover second or holiday homes.

Contact point: A C Gray (Inland Revenue) 2541-6785

C. NEW ARRANGEMENTS FOR MORTGAGE INTEREST RELIEF

Factual

(i) Finance Act 1982 introduced new arrangements for giving mortgage interest relief at source (MIRAS). Not part of this Budget, but scheme comes into effect April 1983 and will affect mortgage and tax payments (and hence pay packets) from that month.

(ii) Most borrowers will be within new scheme. Tax relief for interest will be given at source in calculating payment and not through PAYE. **Mortgage payments will go down, tax payments will go up.**

(iii) 1982 legislation permits some lenders to propose a change in existing borrower's repayments so that future net payments remain level unless tax or interest rates change ("constant net"). The effect is to raise net payments in 1983-84. But the borrower is not obliged to accept this; can ask instead for payment to be fixed at level it would have been at start of 1983-84 if lender had not proposed switch to "constant net", so that there is no increase in net payment. This may extend term of mortgage, but borrower can make additional repayments of capital at any time.

(iv) The Option Mortgage Scheme will be wound up and option borrowers brought into the new tax relief scheme.

Positive

(i) New scheme is simpler for borrower and will in future give correct relief quickly without need for PAYE adjustments (and resulting over or under payments of tax) when interest rates change (see part D).

(ii) New scheme will save 1,000 Revenue staff by 1984 and more later.

(iii) Borrowers below tax threshold will get equivalent of tax relief; this makes the Option Mortgage Scheme redundant.

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Defensive

(i) Change does not reduce the amount of borrower's tax relief. It is essentially an administrative change in the way relief is given.

(ii) Borrowers are not obliged to accept increase in payments by switch to "constant net" pattern. If they do accept the increase, it goes towards paying off their mortgage more quickly; their payments will be a bit more in early years of mortgage, but less later on. In any case, falls in interest rates over last year have reduced mortgage payments sharply.

(iii) Borrowers with endowment mortgages or whose repayment patterns are not changed will pay the same net amount as now.

Contact point: C Stewart (Inland Revenue) 2541-6218

D. RECOVERY OF EXCESS 1982-83 MORTGAGE INTEREST RELIEF

Factual

(i) Relief for building society interest in 1982-83 PAYE codes is generally too high, because the calculation of the relief does not take full account of interest rate reductions in the year. The excess relief is being recovered through a relief reduction in 1983-84 PAYE codes.

(ii) In other words, too little tax was paid in 1982-83. This will be repaid in 1983-84. For a £10,000 mortgage, the effect of switching to the correct amount of relief, and repaying the underpayment, is to add about £12.60 a month to income tax payments.

Positive

(i) This sort of difficulty with mortgage interest relief under PAYE is one important reason for the switch to MIRAS: from 1983-84 most mortgagors will get exactly the right relief straightaway even when interest rates change during the year.

(ii) Excess interest relief only given (and now to be recovered) because mortgage interest payments came down sharply in 1982-83: after tax and mortgage payments, mortgagors are ahead.

(iii) In effect, the excess relief was an interest-free loan for borrowers in 1982-83, to be repaid in 1983-84.

Defensive

(i) The recovery of excess relief will increase tax deductions from mortgagors' pay. But this is only because they are paying back - by "easy payments" - tax relief they have already had which they were not entitled to, because of the fall in interest rates.

(ii) Why no adjustments to PAYE codes in 1982-83 when interest rates went down? Difficult to reduce codes substantially during the course of the year without major inconvenience and confusion to taxpayers (and staff costs for the Revenue). Could not in any case have recovered all the excess relief during the year except by imposing heavy deductions on first pay day for new code which would not have been fair to taxpayers.

Contact point: J O'Hare (Inland Revenue) 2541-6300

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F7 FRINGE BENEFITS: CARS AND PETROL

Factual

(i) Scales for **1984-85** will be about 15 per cent higher than those applying for 1983-84. Yield in 1984-85 £30 million and £35 million in a full year.

(ii) Treasury Order will be laid during summer 1983. No legislation needed in Finance Bill.

(iii) The main scales proposed for **1984-85** are (1983-84 in brackets):

			£	
(a)	Cars	Up to 1300cc	375	(325)
		1301-1800cc	480	(425)
		over 1800cc	750	(650)
		Original market value £16,001-£24,000 (£14,001-£21,000)	1,100	(950)
		Over £24,000 (£21,000)	1,725	(1,500)
(b)	Car fuel	Up to 1300cc	375	(325)
		1301-1800cc	480	(425)
		ovr 1800cc	750	(650)

(iv) No other changes in relation to cars and car fuel. Inland Revenue press notice gives details of how scales work.

Positive

(i) Increases represent a further considered step towards taxing these benefits on a realistic basis.

(ii) Increase of less than 20 per cent (the increase in each of last three years) shows Ministers' concern not to move too far too fast.

Defensive

(i) Car scales still fall far short of cost to individual of providing a car for his own private use. No particular target figures, but aim is gradually to arrive at realistic levels.

(ii) Increase in tax for basic rate taxpayer with average car is only about 50 pence a week.

(iii) Tax for average company car driver in 1984-85 still well below £3 per week - double that if he gets free petrol too. Scales are halved for those who drive 18,000 business miles a year.

(iv) Ministers are aware of anxiety expressed by UK motor industry but satisfied that current proposals will not damage the industry.

Contact point: P J A Driscoll (Inland Revenue) 2541-6303

F8 OTHER FRINGE BENEFITS

Factual

(i) Action is proposed to remove special tax advantage for directors and higher-paid employees where their employer:-

- pays for cost of children's education (reversing Court decision in ICI scholarship case). Legislation effective from Budget day, except for those with existing scholarship awards.
- provides a house rent-free or at a peppercorn rent. Legislation effective from 1984-85.
- fails to deduct PAYE at proper time and accounts for too little tax.

(ii) To stop avoidance device involving interest free loans to employees which circumvents ceiling for mortgage interest relief (so-called "double £25,000" device).

(iii) Yield about £10 million in a full year. Tax at risk very much greater if no action taken.

Details in Inland Revenue press notice.

Positive

(i) Evidence of Government's determination to ensure that 'perks' are taxed in same way as cash wages and salaries. Perks are unfair and divisive.

(ii) By protecting tax base these measures contribute to overall objective of raising thresholds and cutting rates of tax. Tax cuts (in 1979 and this year) make payment by perk less justifiable.

Defensive

(i) Educational scholarships

(a) ICI scholarship scheme and others like it available only to very small minority of employees. Turning 'blind eye' to tax loophole not the best way to encourage private funding of education.

(b) Does not affect
- scholarship income in hands of scholar.
- genuinely charitable scholarships won in open competition.
- school fees paid while parent is working abroad for a year or more.

All these remain exempt

(c) Boarding school allowances paid by employers while parent is working in UK already taxable in both private and public sectors. (Grossing-up happens in both sectors.)

(d) Transitional exemption protects from charge parents of existing scholarship holders for as long as scholarship is available at school or university the student is currently attending.

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(ii) Accommodation

(a) Existing rule for measuring 'annual value' of directors' houses clearly inadequate in relation to expensive properties. Proposal is to ensure that the charge more closely reflects the true value.

(b) Deferred introduction of new rule to 1984-85 will give those affected time to reorganise their affairs.

(iii) Directors PAYE

Tax-free payment of directors' salaries with employer accounting for tax rapidly spreading. Need to act now to stem loss of tax.

(iv) Loans to employees

Exploitation of this loophole could have allowed individual to have (with increase in mortgage interest relief ceiling, see Brief F6) £30,000 interest-free loan and pay no tax on benefit, while getting tax relief on £30,000 Building Society etc. loan.

Contact point: P J A Driscoll (Inland Revenue) 2541-6303

F9 SECONDHAND BONDS

Factual

(i) Legislation in Finance Bill on 'secondhand' bonds as announced by Financial Secretary on 24 June 1982.

(ii) Device manipulated whereby bonds (ie. life insurance policies and life annuity contracts) sold to third party go out of income tax into capital gains tax net, thereby securing lower tax charge.

(iii) Further, clarifying, announcements on 23 August and 1 October 1982. Legislation published in advance 2 March 1983.

(vi) Gains on such bonds will be within income tax net if -

- bond first sold after 25 June 1982; or
- bond sold again or loan taken or further capital injected after 23 August 1982.

Positive

(i) Stops highly artificial avoidance device whereby higher rate taxpayers could escape income tax on investment proceeds.

(ii) Increasingly exploited in recent years (ie 1978-1982, 4,000 sold, £70 million invested).

(iii) Closes off potentially substantial loss of tax (though immediate yield negligible).

Defensive

(i) Element of retrospection (because options under existing policies etc affected). But justified: large amounts of tax at risk.

(ii) Ministers followed spirit of 'Rees rules': specific announcements; legislation published in advance.

(iii) Reasonable that loans should be caught: otherwise easy to continue tax-free exit for the investment proceeds.

(iv) No penalty on investors: secondhand bonds bought before 26 June 1982 remain within CGT unless further transactions carried out.

Contact point: N C Munro (Inland Revenue) 2541-6487

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G1 THE BUDGET AND BUSINESS

Factual

(i) Main tax measures benefiting business and industry are as follows:

£ million	1983-84	Full year
NIS	215	390
Corporation tax	40	70
Small firms and enterprise	70	205
North Sea oil regime	115	200*
	440	865

*Average over 4 years.

(ii) In addition there are public expenditure measures totalling over £100 million in 1983-84, including measures to assist industrial investment and innovation, housing and employment.

(iii) National Insurance Surcharge to be cut by ½ per cent - to 1 per cent - for private sector employers, from August 1983. This is in addition to 1 per cent cut from April announced in Autumn Statement. From August 1983 rate will be 1 per cent compared with 3½ per cent in 1981-82 and an effective average rate of 2 per cent in 1982-83. (See Brief G2).

(iv) "Small companies" rate of corporation tax to be cut by 2 percentage points to 38 per cent, and limits substantially increased - reduces marginal rate experienced between limits from 60 per cent to 55½ per cent. (See Brief H5).

(v) The various measures to help small firms, enterprise and wider share ownership include major extension of the Business Start-up Scheme, to be renamed the Business Expansion Scheme, extension of Loan Guarantee Scheme and further improvements in profit sharing and share option schemes. (see Brief H1).

(vi) Measures to help the North Sea oil industry - including phasing out of advance PRT, new PRT relief on new exploration and appraisal expenditure, reliefs for future fields. Oil industry will benefit from changes by more than £800 million over the next four years (£115 million in 1983-84). (See Brief J1 and J2).

(vii) The public expenditure elements of the technology and innovation package, will cost £185 million over 3 years. The main measure is the reopening of the Small Engineering Firms Investment Scheme (SEFIS), at a cost of £100 million over 3 years. In addition, the 100 per cent first year allowances for rental teletext sets and British films are to be extended at a full year cost of £40 million. (See Brief G5).

(viii) The measures to help housing and construction are also part tax and part expenditure - including an increase in the mortgage interest relief limit, and money for "enveloping" schemes. (See Brief G4).

(ix) Other proposals affecting business are as follows:

(a) The employment measures, including an extension of the Enterprise Allowances scheme, making the JRS available to part-timers from age 62 and proposals in

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respect of early retirement have net cost of £38 million in 1983-84 (see Briefs G7 and H7).

(b) Proposals on tax havens and the proposed changes on ACT and double taxation relief have to be seen together. Between then they will not involve any increase in the total burden of tax on international business. (see Brief G8).

(c) No change in the tax regime for banks.

(x) Only increases in business costs stem from increases in excise duties (derv, VED, petrol) - likely to add £170 million in 1983-84 to business costs overall - but much lower increase than in recent years, reflecting Government's success in reducing inflation.

(xi) CBI Budget representations "Costs are Crucial", 26 January 1983 called for £3 billion net fiscal injection in Budget weighted towards industry, including: abolition of NIS (gross cost £1.3 billion in 1983-84); lower business rates (£1 billion); further measures to reduce energy costs (£0.2 billion); increased public sector capital spending on infrastructure, etc (£0.5 billion) and no change in excise duties. ABCC and BIM have broadly similar recommendations - with emphasis on abolition of NIS and lower industrial rates. IOD's first priority is for personal tax reductions though also want NIS abolition.

Positive

(i) Budget measures help business by £¾ billion in a full year. Come on top of £½ billion net benefit of NIS/NIC changes announced last autumn: total help worth around £1¼ billion in a full year.

(ii) Aside from totalling the Budget figures in this way, proposed changes in legislation and other arrangements (eg share options) will strengthen business performance.

(iii) Further reduction in NIS for private sector employers to 1 per cent from August 1983 compared with 3½ per cent rate effective up to April 1982. These reductions worth some £2 billion to private sector employers in a full year.

(iv) Reflecting responses to Green Paper, no change in broad structure of present arrangements for corporation tax.

(v) Reopening of SEFIS will be of particular benefit to West Midlands.

(vi) Excise duties revalorised generally in line with inflation. But heavy fuel oil duty again exempted: 20 per cent real reduction in this duty since 1980.

(vii) Measures which help people help business, and vice versa. Wrong to draw sharp distinction between them.

(viii) Above all must remember overall benefit of Government policy: maintaining the monetary and borrowing framework brings benefits of lower inflation, interest rates, pay expectations and generally helps restrain costs and improve climate for business.

Defensive

(i) More money should have gone to business? Balance of tax reductions is clearly a matter for judgement. But bearing in mind the action taken in the 1982 Budget, the Autumn measures, and the falls in interest rates, the exchange rate and oil prices, it seemed right

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that the bulk of relief should go to persons on this occasion. Tax reliefs to persons will help incentives, and help moderate wage increases, and these are an important part of business success.

(ii) Chancellor's claim in Budget Speech that business tax burden £3 billion below that in 1978-79? Revenue from taxes (NIS, NIC, corporation tax and rates) paid by non-North Sea business will be £3 billion lower in 1983-84 than it would have been had these businesses paid the same share of total taxes as in 1978-79. This reduction reflects both changes in business income and measures taken.

(iii) Increased NIC burden on employers? Employers have been largely protected from increased contribution rates in recent years (total increase in rates 0.45 per cent plus 0.4 per cent reduction in contracted-out rebate since this Government took office). Had the increase in rates been shared equally between employers and employees former would be paying £1¼ billion more in 1983-84 than they will. Right that industry should make some contribution.

(iv) What about burden of higher derv, VED and petrol duties on business? Increase in business costs is £170 million in 1983-84 - far outweighed by other measures. Even taking higher excise duties into account, net benefit of Budget measures (tax and expenditure) will be some £¾ billion in full year. [IF PRESSED. Net benefit in 1983-84, about £400 million.]

(v) Effect of Budget on imports? Should not be alarmist about this - many of the figures quoted are greatly exaggerated. Certain categories of consumers' expenditure certainly have a high import content - particularly durables - but so do some elements of company expenditure (eg stocks); and a substantial part of consumer spending consists of distributors' margins and indirect taxes. Overall, the extra demand generated by cuts in, say, NIS or income tax is likely to have much the same import content.

(vi) Business can do far more for itself than Government can by tax reliefs. Lower pay settlements and improved productivity are the keys to better competitiveness.

(vii) Why has Government not moved on industrial derating? Preferred reduction in NIS to industrial derating. Derating is expensive - for industry alone a 10 per cent derating would have cost £140 million in 1982-83 - and legislation would be required.

(viii) Why no further assistance on energy costs? Vast majority of UK industrial energy users pay comparable prices to their European competitors. Some disadvantage remains for small number of intensive users of electricity. Over £250 million of help given in last two budgets. This year on average there will be no increase in electricity prices and the freeze on price of contract gas extended to 1 October 1983. And no change in duty on heavy fuel oil.

(ix) Why not tax the banks? See Brief G6.

Contact Point: R I G Allen (EB) 233-8850

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G2 NATIONAL INSURANCE SURCHARGE

Factual

(i) Rate reduced by ½ percentage point to 1 per cent with effect from 1 August 1983. The rates since the Government came to office are:

Rate up to 1981-82	3½ per cent
Effective average rate during 1982-83	2 per cent
Rate from April to July 1983	1½ per cent
Rate from August1983	1 per cent

(ii) Levied and collected as a percentage surcharge on earnings liable to employer's national insurance contributions. Lower and upper earnings limits increase from £29.50 and £200 to £32.50 and £235 on 6 April 1983, consequential on increases in identical limits for employee's and employer's NI contributions (announced in Autumn Statement see Brief E1).

(iii) 1982-1983 revenue yield: £2.5 billion (accruals), £2.8 billion (receipts).
1983-84 revenue cost of cut in rate is £295 million. Of this about £215 million goes to private sector. Balance goes to public sector but will be clawed back through reductions in central government cash limits and nationalised industries' external financing limits (as happened after the 1982 Budget and Autumn Statement).
Full year revenue cost is £605 million (£390 million to private sector).

(iv) Local authorities will pay at 2½ per cent in 1983-84 only: subsequently at 1 per cent. They did not benefit from the reduction to 1½ per cent announced in the Autumn Statement because it was not practicable to claw-back the benefit through the rate support grant. For the same reason they will not benefit in 1983-84 from the ½ per cent cut.

(v) NIS not applicable to self-employed or charities.

(vi) Burden on employers also affected by NIC changes (see Brief E1). Employers "contracted-in" NIC rates increase by 0.25 per cent from April. "Contracted-out" employers rate increases by a further 0.35 per cent (0.6 per cent overall), reflecting the reduction in the contracted-out rebate announced in March 1982.

Positive

(i) Rate was cut from 3½ per cent to 2½ per cent in last Finance Act and to 1½ per cent in National Insurance Surcharge Act 1982. The present cut is worth £215 million to private sector employers in 1983-84 and £390 million in a full year. The overall 2½ per cent cut is worth nearly £2 billion to private sector employers in a full year.

(ii) Even taking account of NIC increases since 1978-79, the overall effect of NIC and NIS changes is worth about £1.4 billion to private sector employers in a full year.

(iii) Overall NIC/NIS rate on contracted-in employers increased from 8½ per cent to 13½ per cent under previous Government. Now down to 11.45 per cent. Contracted-out rate down from 9 per cent to 7.35 per cent.

(iv) Beneficial economic effects from cost reductions. Reduces cost of employing labour.

Defensive

(i) Outright abolition too expensive - full year revenue cost of about £1.8 billion.

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(ii) As with earlier NIS reductions public sector denied the benefit. Best to target assistance on the private sector.

(iii) Change necessitates printing and implementation of complex new NI tables. Implementation on 1 August allows employers time to make preparations. Furthermore NIS not covered by Provisional Collection of Taxes Act so cut cannot be implemented until legislation enacted.

(iv) Local authority direct labour organisations will pay NIS at 2½ per cent for 1983-84 while their private sector competitors will pay at 1 per cent from August. This competitive disadvantage is only temporary. Local authorities can take account of this disadvantage in judging the acceptability of tenders.

(v) NIC increases reduce benefit of NIS cuts but employers still better off. The bigger NIC increase of "contracted-out" employers reflects the reduced cost to employers of providing earnings related pensions. But even the full 0.65 per cent increase in their NIC rate is outweighed by 1½ per cent cut in NIS in Autumn Statement and Budget combined.

Contact Point: J H Reed (FP1) Tel: 233-5757

G3 CORPORATION TAX

A. CHARGE AND RATE FOR FINANCIAL YEAR 1982

Factual

Rate of corporation tax for financial year 1982 (ending 31 March 1983) remains at 52 per cent. (See Brief H5 for "small companies" rate and profits limits).

Defensive

(i) Reduction in rate would not help those companies (a majority) who are not currently liable to corporation tax because of the low level of profitability and the generous tax allowances for investment and stock relief.

(ii) Better to use such money as available on reducing NIS (See Brief G2) and on changes to ACT carry back and ACT/DTR order of set off (see C and D below).

(iii) Substantial widening of small companies' profits limits helps medium sized companies making up to £500,000 profits.

B. ADVANCE CORPORATION TAX RATE FOR FINANCIAL YEAR 1983

Factual

(i) No change.

(ii) Rate of advance corporation tax (ACT) for financial year 1983 to be three-sevenths of qualifying distributions made by companies.

(iii) When companies pay dividends, they make advance payment of corporation tax of three-sevenths x the dividends. A tax credit of equivalent amount attaches to these dividends - to benefit of shareholders.

Positive

Rate of ACT and so of tax credit kept in line with that of basic rate of income tax. Thus shareholders liable at basic rate only in respect of their dividends have liability covered by tax credit attaching to those dividends.

Contact point: R I McConnachie (Inland Revenue) 2541-6252

C. ORDER OF SET-OFF OF ACT AND DOUBLE TAXATION RELIEF (DTR)

Factual

(i) Unlike ACT, DTR cannot be set against CT in earlier years or carried forward.

(ii) Credit for tax paid on foreign income now to be available against UK corporation tax before relief given for ACT paid (previously, ACT relief given first).

(iii) Change applies to accounting periods ending on or after 1 April 1984.

(iv) Cost: nil in 1983-84, negligible in 1984-85, £25 million in 1985-86 and in the long term could be up to £100 million.

Positive

(i) Of some benefit to companies with overseas income and is a positive response to CT Green Paper representations about interaction of DTR and ACT.

(ii) Ensures relief for foreign tax paid by UK companies paying dividends not lost because of low UK profitability. Unlike DTR, ACT becoming surplus as a result of the change can be carried forward indefinitely or back 2 years (at present) for relief against corporation tax on other profits (see below for extension of this 2 year period.)

Defensive

(i) More radical - and expensive - changes in DTR would unduly favour companies operating overseas.

Contact point: R I McConnachie (Inland Revenue) 2541-6252
or M A Keith (Inland Revenue) 2541-7195

D. CARRY-BACK OF ADVANCE CORPORATION TAX

Factual

(i) At present surplus ACT (which cannot be set against current year CT liability) may be carried back and set against CT paid on two previous years' profits.

(ii) The carry-back period is being progressively extended from two to six years, starting from accounting periods ending on or after 1 April 1984. The carry-back period will be three years for accounting periods ending between 1 April 1984 and 31 March 1985, four years for periods ending between 1 April 1985 and 31 March 1986, five years for accounting periods ending between 1 April 1986 and 31 March 1987 and six years for accounting periods ending on or after 1 April 1987.

(iii) Cost: Nil in 1983-84, £1 million in 1984-85, and gradually increasing thereafter to eg £30 million in 1986-87.

Positive

(i) Helps companies who have to maintain their dividends in times of low profitability.

(ii) Positive response to Corporation Tax Green Paper representations on ACT.

Defensive

(i) Some limit on carry-back period needed for practical reasons. Six years is a normal limit.

(ii) Quicker phasing-in would be too costly.

Contact point: R I McConnachie (Inland Revenue) 2541-6252

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G4 HOUSING AND CONSTRUCTION

Factual

(i) Eight measures to assist housing and construction industries:-

(1) mortgage interest relief ceiling increased to £30,000 (see Brief F6);

(2) mortgage interest relief will be extended to certain self-employed who did not previously qualify (see Brief F6);

(3) stock relief extended to houses taken in part exchange by builders (see below);

(4) local authorities are to be given additional capital spending allocations for 1983-84 for approved "enveloping" schemes (see below);

(5) the eligible expense limits for home improvement grants will be increased by 20 per cent (see below);

(6) there will be a change in the industrial buildings allowance to allow a greater proportion of non-industrial space to qualify (see below);

(7) there will be a change in the small workshops scheme with respect to converted premises (see below);

(8) deferment of development land tax liability for own use development will be extended for two years to April 1986 (see below).

(ii) Items (4) and (5) are likely to lead to additional public expenditure of £60 million in 1983-84. For the revenue costs of the other measures, see below.

Positive

Successive Budgets have contained measures to assist this sector; indications are that prospects for sector are improving, and measures support this trend.

Defensive

Substantial increase above planned totals in public sector expenditure on construction not justified (see Brief D2).

A. STOCK RELIEF: HOUSES TAKEN IN PART-EXCHANGE BY BUILDERS

Factual

(i) Houses taken in part-exchange by housebuilders on the sale of newly built or rebuilt dwellings on or after Budget day will in general qualify for stock relief.

(ii) Relief will apply only where the new house is for personal use of an individual purchaser or his family. Property dealers' stocks will thus continue to be excluded from stock relief.

(iii) Cost: negligible in 1983-84, £5 million in a full year. For further details see Inland Revenue press notice.

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Positive

(i) Gives a useful boost to private house builders. Meets representation from industry.

(ii) Responds to recent increase in number of house builders operating part-exchange schemes: majority of large building firms and a substantial number of small ones operate such schemes.

Defensive

(i) Some restriction on kind of arrangements which qualify necessary to prevent abuse.

(ii) Still necessary to exclude property dealers from stock relief - can generally finance stocks through borrowing secured on those stocks, so further relief not needed.

Contact point: R I McConnachie (Inland Revenue) 2541-6252

B. ENVELOPING

Factual

Local authorities to be given additional capital spending allocations for 1983-84 for any approved 'enveloping' schemes. Enveloping involves the upgrading of the external fabric of whole terraces or streets of run-down houses, often in inner city areas; local authorities undertake the work on behalf of, and at no cost to, the owners. Enveloping was launched on a national basis through the housing programme in December 1982; it had previously been undertaken only through the Urban Programme, mainly in Birmingham.

Positive

(i) Should lead to additional capital spending by local authorities of up to £50 million; but all approved schemes will be funded.

(ii) Schemes usually cover 100-200 houses; should benefit medium to large size construction firms.

(iii) Aimed at areas - particularly in inner cities - where housing is worst.

Defensive

Just another give-away to owner occupiers? Aim is to save housing which would otherwise decay and have to be knocked down. More cost effective than using improvement grants.

Contact point: S A Godber (LG2) 233-7587

C. HOME IMPROVEMENT GRANTS

Factual

Eligible expense limits for home improvement grants will be increased by 20 per cent.

Positive

(i) Continues boost for home improvement grants announced in the last Budget.

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(ii) Local authorities will be able to spend without limit on improvement grants in 1983-84, including the cost of higher eligible expense limits - probably about £10 million.

Defensive

(i) Increase is in line with movement in housing repair costs since limits were last changed in 1980.

(ii) Why not include inter-war houses in eligibility for repairs grants? Local authorities already heavily loaded with applications because of last year's initiative. Need for changes to improvement grant system under review with local authorities. Better to wait until after the end of 1983-84.

Note

Details of both schemes will be announced by DOE, Welsh Office and Scottish Office. (Enveloping does not happen in Scotland but similar schemes will be supported.)

Contact point: S A Godber (LG2) 233-7587.

D. INDUSTRIAL BUILDINGS ALLOWANCE: INCREASE IN NON-INDUSTRIAL SPACE

Factual

(i) Proportion of expenditure on an industrial building which may relate to parts of the building used for non-industrial purposes, without restricting the industrial buildings allowance for the building as a whole, is increased from 10 per cent to 25 per cent.

(ii) Applies to parts used for commercial purposes, such as offices or shops. (So for a building where 75 per cent is for industrial use and 25 per cent is for commercial use, the whole of the expenditure qualifies for IBA.)

(iii) Cost: nil in 1983-84; £10 million in 1984-85 and £25 million in a full year.

(iv) Industrial buildings allowance is currently 75 per cent; increased from 50 per cent in 1981 Budget.

(v) Applies to expenditure after Budget day.

Positive

(i) Provides builders and developers with more flexibility when erecting industrial buildings.

(ii) Provides special help to computer/advance technology industries, where considerable office space often required immediately adjacent to the industrial/processing premises.

Defensive

(i) Why 25 per cent? More realistic in modern conditions. Industrial buildings used by advanced technology industries call for more than just a small office in one corner.

(ii) Why not capital allowances for commercial buildings generally? Mainly cost - up to £1.5 billion a year eventually. A matter which must be considered in context of the Corporation Tax Green Paper.

Contact point: C W Corlett (Inland Revenue) 2541-6287

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E. SMALL INDUSTRIAL WORKSHOP SCHEME: CONVERSION OF OLD BUILDINGS: AVERAGING OF SIZE OF UNITS

Factual

(i) Where an existing building is converted for use as small industrial workshops, and the average size of the units does not exceed 1,250 square feet, then those units which exceed 1,250 square feet will also qualify for first year allowance of 100 per cent (instead of 75 per cent) until the small workshop scheme ends in March 1985. Change applies from 27 March.

(ii) Cost: negligible in 1983-84 and full year.

Positive

(i) Further evidence of Government concern to encourage provision of premises suitable for small businesses.

(ii) Will help developers and architects involved in conversion of old buildings etc. Often difficult in conversion jobs to ensure all units keep within prescribed size limit.

(iii) Will encourage conversion of derelict factories, warehouses etc, especially in inner city areas.

Defensive

(i) Why not new builds also? No difficulty in newly-constructed units to keeping within required limit.

(ii) Why is limit of 2,500 square feet being reduced to 1,250 square feet from 27 March? Last year's Budget extended small workshop scheme for two years, from 27 March 1983 to 26 March 1985. But concentrated effort on very small workshops - those up to 1,250 square feet. DOI survey had found that original scheme had largely met the demand for larger units up to 2,500 square feet.

Contact point: C W Corlett (Inland Revenue) 2541-6287

F. DEVELOPMENT LAND TAX: DEFERMENT OF LIABILITY

Factual

(i) Tax on development for own use to be deferred, if development started before 1.4.86.

(ii) Any deferred liability not becoming chargeable within 12 years of the start of development will be extinguished.

(iii) First year cost nil, full year cost £4 million.

Positive

(i) Present deferment for own use provision applies only for development started before 1.4.84. Proposal is a two-year extension.

(ii) Will provide greater stability and certainty for construction industry. Writing off deferred tax after a period will ensure that taxpayers do not have unliquidated debts hanging over their heads indefinitely.

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Defensive

Why not abolish DLT altogether? Right that windfall profits from development gains should be taxed more heavily than other gains. DLT regime simplified and made less oppressive since 1979.

Contact point: F I Robertson 2451-6459

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G5 INNOVATION AND TECHNOLOGY

Chancellor announced package including both public expenditure and tax measures:-

(i) the public expenditure measures will cost £185 million over next three years and include the reintroduction of the Small Engineering Firms Investment Scheme (SEFIS);

(ii) the tax measures are the extension of the 100 per cent first year allowances for rented teletext receivers and for British films, which will have a cost of £48 million over the next three years (full year costs £10 million and £30 million respectively).

The package will thus have a total cost of some £230 million over the next three years. Details are below: see also Treasury and Inland Revenue press notices.

(iii) technology-based industries will also benefit from the proposed increase from 10 per cent to 25 per cent in the permissible office space in buildings which qualify for the industrial buildings allowance (see Brief G4).

A SEFIS AND OTHER PUBLIC EXPENDITURE MEASURES

Factual

(i) Package of additional expenditure on innovation costing £185 million over 3 years (£39 million in 1983-84, £69 million in 1984-85 and £77 million in 1985-86). This is in addition to existing DOI assistance towards industrial research and development of over £300 million per year.

(ii) Details to be announced by Secretary of State for Industry. Main item is the reintroduction of the Small Engineering Firms Investment Scheme at a cost of £100 million over three years. Package also includes additional assistance towards computer software, advisory services and a new scheme to plug the gap between development and commercial production (eg tooling, initial marketing).

Positive

(i) Will help British industry invest in new technologies and bring new products and processes to market.

(ii) SEFIS extremely successful when introduced in 1982; allocation very quickly taken up and reintroduction will be widely welcomed. High proportion of first SEFIS allocation went to West Midlands; reintroduction will be of substantial help to region.

(iii) With measures in previous Budgets, assistance for new technology and innovation doubled since Government took office.

Defensive

(i) High proportion of previous SEFIS scheme spent on imported tools? Object of the scheme is the modernisation and re-equipment of Britain's small engineering firms, not assistance to UK suppliers of equipment.

(ii) Future of the British Technology Group? Government is still considering plans for the future of BTG, but believes that it will have a continuing important role in encouraging technology transfer.

Contact points: SEFIS - Mr R Brazier (IA2) 233-4051 Rest - Mr J Halligan (IA2) 233-4658

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B RENTED TELETEXT SETS

Factual

(i) 100 per cent first year allowance for expenditure by trade on teletext sets intended for renting out to consumers to continue for a further year - until May 1984.

(ii) Under 1980 leasing changes, 100 per cent first year allowance for rented television sets ran out in May 1982. For teletext sets, period was extended in 1982 Finance Act to May 1983. Will now continue until May 1984 for teletext sets.

(iii) Phased reduction in first year allowances for teletext sets will now be:

June 1984: reduction to 75 per cent
June 1985: reduction to 50 per cent
June 1986: reduction to 25 per cent.

(iv) Cost: Nil in 1983-84, £8 million in 1984-85 and £10 million in 1985-86 and in a full year.

Positive

(i) Will encourage information technology - particularly use of home terminal applications.

(ii) Helps UK electronics industry:

(a) teletext a UK invention

(b) rented television sets tend to be primarily British-made.

(iii) Further evidence of Government's intention to put Britain in forefront of development of information technology.

Defensive

(i) Why no help for television sets generally? Ordinary television sets were helped by 1980 transitional provisions, under which 100 per cent first year allowances ran on until May 1982, and their transitional period does not run out entirely until June 1984.

(ii) Why put teletext on a par with viewdata? True, technologies are different: viewdata more advanced. But teletext is way to get ordinary consumer interested in and committed to information technology.

Contact point: C W Corlett (Inland Revenue) 438-6287

C EXTENSION OF TRANSITIONAL RELIEF FOR BRITISH FILMS

Factual

(i) 100 per cent first year capital allowances for British (Eady) films to be extended for a further three years from 31 March 1984 to 31 March 1987.

(ii) This builds on special transitional treatment for British films introduced in Budget last year, when capital allowances were withdrawn from all other films.

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(iii) An Eady film for this purpose is one which is eligible for Eady levy, or would be if it were not a television film.

(iv) This change was announced by Financial Secretary in House of Commons on 19 January.

(v) Cost: nil in 1983-84 and 1984-85; £30 million in 1985-86; £25 million in 1986-87 and £10 million in 1987-88, the last year of relief: full year cost £30 million.

Positive

(i) By extending transitional period to five years in all, will provide very substantial incentive for British film industry.

(ii) Will help film and television industries through a crucial period of change, and as they adapt to coming cable/satellite revolution.

(iii) Announcement in January was widely welcomed.

Defensive

(i) Why were 100 per cent first year allowances withdrawn at all? As was made clear last year, leasing of foreign films through UK, stripping out our investment incentives for benefit of overseas producers, was threatening to lose the Exchequer very large amounts of money.

(ii) Why not make relief for British films permanent? Not appropriate. This a transitional relief, allowing the industry to adjust to new regime - under which, instead of capital allowances, expenditure is written off broadly speaking over income-producing life of asset.

Contact point: C W Corlett (Inland Revenue) 438-6287

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G6 BANKS

A. TAXATION OF BANKS

Factual

(i) No additional taxation of banks this year.

(ii) Last Budget, Chancellor said he would give further thought over following year about how to ensure a sufficient tax contribution by banks.

(iii) Bank profits tending downwards this year (Lloyds 18 per cent, Barclays 13 per cent, though Midland up 8 per cent). Significant increase in bad debt provisions (Lloyds 155 per cent, Barclays 127 per cent, Midland 73 per cent). Lloyds tax payments down 40 per cent, Barclays up 25 per cent, Midland up 108 per cent. (National Westminster reporting on Budget day.)

(iv) International banking climate less healthy than last year though nevertheless no immediate grounds for serious concern about UK banks.

Positive

(i) Given difficulties with some overseas (including sovereign) and domestic borrowers, not appropriate to take action on the banks' tax position this year, although British banks are better placed to handle difficulties than banks in most other countries. In international context, special tax could be unhelpful.

Defensive

(i) Falling interest rates are reducing endowment profits (though increased charges compensate, they are more obvious to customers). Increase in dividends by Lloyds (15 per cent), Barclays (20 per cent) and Midland (6 per cent) are a matter for the banks to decide. [If pressed: banks can increase capital by transferring profits to reserves, but also by attracting new equity, for which dividend record is important.]

(ii) Like other successful companies, banks are able to shelter profits by leasing but this has advantages for industry, especially at present when more companies than usual are tax-exhausted. Action taken in last Budget to prevent abuse of leasing.

(iii) Level of bank profitability and tax burden will be kept under review. Not altogether convinced that present tax regime on banks produces adequate revenue, but wider difficulties this year tip balance towards stability. Banking very important sector of economy and essential to ensure tax treatment encourages efficiency.

(iv) Banks' pay settlements? Clearly, Government would like to see determined effort to control costs, here as elsewhere.

Contact points: J H Reed (FP1) 233-5757
N J Ilett (HF1) 233-5061

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B TRUSTEE SAVINGS BANKS: TREATMENT AS BODIES CORPORATE

Factual

(i) Trustee Savings Banks (TSBs) to be treated as bodies corporate for the purpose of corporation tax and capital gains tax provisions relating to corporate groups.

(ii) TSBs at present unincorporated associations - so cannot benefit from group relief provisions which are available to groups of companies only.

(iii) Cost: £3 million in 1983-84, £10 million in a full year.

Positive

(i) As already announced, TSBs are expected to adopt Companies Act structure in next few years. The TSBs are not companies at present but compete with the clearing banks which are. The change will enable them to compete on fairer terms.

Defensive

(i) Why give special treatment to TSBs - what about other unincorporated associations? TSBs in special position. Compete with banks in the High Street. Are in process of becoming fully-fledged commercial banks. Change puts end to competitive disadvantage.

(ii) Why so costly? Assumed that new provisions will be used by the TSBs to lease to industry, for which generous investment incentives available, thereby reducing current liabilities.

Contact point: G A A Elmer (Inland Revenue) 2541-7507

G7 EMPLOYMENT: EARLY RETIREMENT

Factual

(i) Three new measures:-

(a) from April men aged 60-65 will no longer have to register solely to get contribution credits;

(b) from June unemployed men over 60 on supplementary benefit will qualify for higher scale rate and will not be expected to be available for work;

(c) from October (till March 1985) men over 62 and women over 59 will be able to retire early under new part-time Job Release Scheme (JRS).

(ii) Gross and net public expenditure cost:

£m	1983-84		1984-85		1985-86	
	Gross	Net	Gross	Net	Gross	Net
Automatic credits	(Loss of £2m a year in contributions)					
Higher scale rate	23	-	27	-	27	-
Part-time JRS	4	-2	39	4	58	12

(iii) Also in employment context, nationwide extension of Enterprise Allowance scheme, with gross cost of £25 million on 1983-84 and £29 million in 1984-85; net cost about two-thirds of gross. See Brief H7.

Positive

(i) Coherant early retirement package for employed and unemployed men over 60.

(ii) Measures will take around 150,000 people out of unemployment by March 1984, and are highly cost-effective. In particular, part-time JRS has no net expenditure cost in 1983-84 (because of savings in benefit payments).

(iii) Nothing compulsory. Simply new pre-retirement opportunities.

Defensive

(i) Manipulating the register? No. Social security measures will help poorest section of unemployed over 60s and remove a needless obligation. Part-time JRS will mean jobs for the unemployed because a part-time replacement must be recruited.

(ii) Expand full-time JRS instead? Full-time scheme will continue as planned. Part-time variant will give people the option of easing their way into retirement.

(iii) Reduce retirement age for all? Prohibitively expensive; eg cutting male retirement age to 60 would cost £2½ billion a year net.

(iv) Measures are derisory response to 3 million unemployed? No. The whole economic strategy is aimed at recovery - Budget part of that strategy. On full range of employment and training schemes Government is spending over £2 billion in 1983-84, bringing direct help to 650,000 people.

Contact points: Social Security - Ms D J Seammen (ST1) - 233 3932
JRS - M C Mercer (E1) - 233-3690

G8 OTHER COMPANY TAXATION

A. GROUP RELIEF AVOIDANCE

Factual

(i) Prevents manipulation of group and consortium relief by one group arranging for profits or losses to be available for group relief purposes in another group.

(ii) Yield perhaps £10 million a year (but very uncertain).

Postive

Considerable amount of tax already lost by this device. If no action, likely to be used again.

Defensive

Action here justified because of potential tax lost. Financial Secretary warned of possible legislation last Summer (Hansard 28 July). Further consideration promised of whole area of group and consortium relief in light of responses to CT Green Paper.

Contact point: J P Battersby (Inland Revenue) 2541-6390

B. TAXATION OF INTERNATIONAL BUSINESS

Factual

(i) Revised draft clauses issued last December on proposals for a new charge on UK companies in respect of certain UK-controlled companies in low tax countries (tax havens). Consultative document also announced:

- no statutory definition of company residence and retention of Section 482 (which makes company emigration dependent upon Treasury consent);
- further study on profit/loss importation devices with a view to bringing forward specific proposals; and
- no legislation in 1983 on upstream loans, but futher consideration and in due course further consultation.

(ii) Chancellor announced legislation this year on UK-controlled companies in tax havens. Measures to apply from 6 April 1984.

(iii) To be seen alongside proposal to allow double taxation relief (DTR) to be set against corporation tax in priority to ACT (see Brief G3C). Between them, two measures will not involve any increase in total burden of tax on international business.

(iv) No legislation this year on company residence (including profit/loss importation) or upstream loans.

Further details in Inland Revenue press notice.

Positive

(i) Taken as a whole, measures represent reasonable response to business community's criticisms of earlier proposals. Government to go ahead this year on controlled foreign companies; drop statutory definition of company residence in favour of specific proposals on profit/loss importation; to think further about upstream loans.

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(ii) General acceptance of case in principle for action on controlled foreign companies, although still much criticism that scope of draft legislation too wide and exclusions too tightly drawn.

(iii) Needed to stop a significant loss of UK tax, currently estimated at £100 million per annum for UK controlled companies in low tax countries.

(iv) Proposals follow three rounds of consultations lasting over 2 years.

(v) Although no statutory clearance procedure, Inland Revenue will give informal advice on application of legislation.

Defensive

(i) No reason to defer legislation until 1984 or later as some critics suggest. Legislation inevitably controversial, but case for fundamental change to it not made out. Legislation will not prejudice any further structural changes to corporation tax or DTR.

(ii) Changes of substance and detail to the draft clauses in response to representations will be made at Committee Stage. Details to be announced when Finance Bill published.

(iii) Provisional list of non-haven countries published in Inland Revenue press notice. This and the 1984 start date will enable companies to gauge the likely impact on their overseas operations.

(iv) Measures directed at arrangements to avoid UK tax - diversion of income from the UK and retention abroad of profits earned overseas and not reinvested in overseas trading operations. Overseas trading operations (including recycling of profits overseas by holding companies to generate further trading profits abroad) protected.

(v) Outward investment unlikely to be discouraged and the effect on UK economy, balance of payments and exports very slight. (Any additional tax for some UK companies roughly balanced by further relief provided generally by DTR/ACT concession).

(vi) No case in principle for moving from the present "source" to "pooling" basis of DTR. (Reversing order of set off of DTR and ACT and extending from 2 to 6 years the period of carry back of surplus ACT are significant concessions.)

(vii) Company residence/Section 482: response to earlier proposals suggested widespread uncertainty and upheaval would result from statutory definition. Statement of practice on company residence to be issued shortly. In absence of statutory definition Section 482 is retained.

(viii) profit/loss importation: although devices estimated to be costing £50 million, essential to get the right solution which does not damage genuine British business activity.

(ix) Upstream loans: need to ensure that any proposals clearly distinguish between "disguised dividends" and loans made in the ordinary course of business.

Contact point: M A Keith (Inland Revenue) 2541-7195

H1 ENTERPRISE PACKAGE - MAIN POINTS

(i) Some fifteen or so items announced which will assist enterprise and small firms:-

(1) a new Business Expansion Scheme, extending and improving the existing Business Start-Up Scheme (see Brief H2);

(2) a reduction in the "small companies" rate of corporation tax from 40 per cent to 38 per cent, coupled with substantial increases in the profits limits (see Brief H5);

(3) the nationwide extension of the Enterprise Allowance scheme (see Brief H7);

(4) an increase in the VAT registration and de-registration thresholds (see Brief H5);

(5) improvements in the tax reliefs for profit sharing and share option schemes (see Brief H3);

(6) extension of interest relief on borrowing for employee buy-outs (see Brief H3);

(7) changes in the capital transfer tax regime, including improved business reliefs (see Brief H4);

(8) changes also in the capital gains tax regime, including an increase in retirement relief (see Brief H4);

(9) new rules for the tax treatment of deep-discounted stock (see Brief H9);

(10) new tax rules to help companies raising finance through acceptance credits (see Brief H9);

(11) new tax rules to help companies raising finance through Eurobonds (see Brief H9);

(12) the ceiling for lending under the Loan Guarantee Scheme will be increased by £300 million (see Brief H6);

(13) an increase in the limit below which the investment income of close companies apportioned to individuals is not assessed for tax (see Brief H9);

(14) changes in the small workshop scheme (see Brief G4);

(15) the introduction of freeports at two or three locations on an experimental basis (see Brief H8).

(ii) Estimated revenue cost of package is £110 million in 1983-84 and £275 million in a full year. In addition the Enterprise Allowance will have a gross cost of £25 million in 1983-84, and £29 million in 1984-85.

(iii) On 3 March Government announced major campaign to publicise assistance available to small businesses. Commences 18 March; will involve television and press advertising and cost £2.5 million, which will be met from existing publicity allocations.

Positive

Fourth successive year in which Budget has included such a package. Demonstrates continuing Government commitment to assist small firms' sector.

Defensive

These sort of measures do not help small firms when economy depressed? Small firms are helped by NIS, income tax cuts - the measures in the package are additional help, specifically targetted to meet their particular needs.

Contact point: F Martin (FP1) 233-6047

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H2 BUSINESS EXPANSION SCHEME

Factual

(i) A major extension of the Business Start-up Scheme, introduced in 1981 Finance Act.

(ii) Scheme will apply not just to new companies carrying on new trades (as at present) but also to a large number of existing unquoted trading companies as well.

(iii) Relief is for new full - risk equity investment in qualifying companies by individuals. Relief available at full income tax rates (including investment income surcharge) on up to £40,000 (£20,000 at present) per individual in any one year.

(iv) Changes effective from 6 April 1983, and life of scheme being extended by 3 years to 5 April 1987.

(iv) Cost depends on take-up: estimated at £25 million in 1983-84 and £75 million in a full year.

Positive

(i) Builds on Business Start-Up Scheme to further encourage provision of equity finance for small businesses.

(ii) Scheme will now help existing companies wanting to expand as well as start-ups. Hence name: Business Expansion Scheme.

(iii) Annual limit on eligible investment per individual will be doubled.

(iv) Other changes being made to improve and simplify the scheme. In particular, the previous 50 per cent limit on company's shares able to quality for relief will be dropped.

Defensive

(i) Relief is uniquely generous and precisely targeted for outsiders only. There are other incentives and tax reliefs for proprietors and employees to invest in their own business.

(ii) Definition of outsiders (up to 30 per cent interest) already generous - no grounds for change.

(iii) Why not introduce Small Firms Investment Companies (SFICs) as CBI advocated? The aim is to encourage individuals to invest directly in companies and the approved investment funds allowed under the scheme already provide a means for individuals to obtain a spread of investment in small companies. There is an increasing amount of investment in small/unquoted companies by pension funds and other institutions [and there are no tax barriers to the growth of investment of this kind].

(iv) Investments of this type inevitably risky - investors probably need to seek professional advice.

Contact point: J P Battersby (Inland Revenue) 2541-6390

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H3 WIDER SHARE OWNERSHIP

A. PROFIT SHARING AND SHARE OPTIONS

Factual

(i) Profit sharing limit. From 6 April the current annual £1,250 limit on allocation of shares per employee under 1978 approved profit sharing schemes to include an alternative earnings limit of 10 per cent of earnings, subject to an overall annual maximum of £5,000. Cost: up to £20 million in 1983-84; up to £25 million in a full year.

(ii) SAYE share option limit. The £50 upper limit for monthly contributions under approved savings-related share option schemes to be increased to £75 after the enactment of the 1983 Finance Bill (August). Starting date to be fixed by the Treasury, probably in the autumn. Cost: nil in 1983-84 and for next 4 years, cost then largely notional.

(iii) Other share options. The current 3 year instalment period over which income tax can be spread, when a share option is exercised outside a 1980 approved scheme, will be extended to 5 years. To apply for options exercised on or after 6 April. Cost: nil in 1983-84, £10-15 million in a full year.

Positive

(i) All three measures further encourage employee share ownership. Share ownership gives employees greater sense of involvement in their firm, stimulates productivity.

(ii) Alternative profit sharing limit provides greater flexibility for companies to encourage talented and enterprising managers while retaining present all-employee base. Should encourage more companies to introduce profit sharing schemes, to the benefit of employees at all levels.

(iii) Share option instalment relief. Existing three-year instalment relief was introduced last year. Simple way of giving help to employee or director exercising a share option who does not have ready cash to pay tax involved without selling some of the shares. Will encourage companies to give options to managers, and managers to take them up.

(iv) General. Approved profit sharing and share option schemes flourishing. Over 550 schemes have now been set up, by comparison with under 30 when the Government took office. In each of the last two years, about 250,000 employees have been allocated shares under profit sharing schemes, and over 100,000 employees are now involved in approved share option schemes.

Defensive

(i) Profit sharing limit. Take-up of schemes encouraging but present £1,250 limit restrictive in providing incentive and reward to more senior management? Stipulation that schemes must be open to all employees of over a certain length of service retained.

(ii) Timing of increase in SAYE share option limit. Must await enactment of 1983 Finance Bill.

(iii) Share option instalment relief: not generous enough? Government does not think it right to exempt share options generally from tax; 1979 reductions in higher rates of tax have been a considerable help in this direction already, by mitigating the tax charge on exercise of an option. Executive share option schemes now flourishing in the larger firms.

Contact point: Mrs S P Ayling (Inland Revenue) 2541-6457

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B. INTEREST RELIEF: EMPLOYEE BUY-OUTS

Factual

Relief for interest to be extended to purchases by employees of shares in an employee-controlled company as part of an employee buy-out.

Positive

Proposal should help to facilitate employee buy-outs where employees need to borrow to buy their shares.

Defensive

Too narrow? Relief for borrowing for share purchases in general not justified. Existing interest relief rules aimed primarily at people setting up their own business. Employee buy-outs are a logical extension of that.

Contact point: C Stewart (Inland Revenue) 2541-6218

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H4 CAPITAL TAX MEASURES

A. CAPITAL GAINS TAX

A1. ANNUAL EXEMPT AMOUNT

Factual

Increased in line with RPI (5.4 per cent) to £5,300 for individuals and £2,650 for most trusts. Meets new statutory indexation requirement introduced by Section 80 of Finance Act 1982. Cost: nil in 1983-84, £3 million in 1984-85 and £10 million in a full year.

Positive

(i) More than five times the level when Government took office and three times the 1978-79 level in real terms. Evidence of commitment to reduce burden of capital tax.

(ii) Removes taxpayers from liability and produces staff saving of 30 units.

Defensive

Accept that, in calculating capital gains, indexation provisions in Finance Act 1982 do not apply to gains resulting from past inflation. Too expensive to do that.

A2. INCREASE IN RETIREMENT RELIEF

Factual

Maximum relief for those aged 65 or over increased from £50,000 to £100,000; proportionate increases in reduced measure of relief for those retiring between 60 and 65. Cost: nil in 1983-84, £1.5 million in 1984-85 and £4 million in a full year.

Positive

(i) Increase more than required to revalorise (last increased in 1978).

(ii) Will provide encouragement to business owners to reinvest profits in business rather than put them into eg pension schemes.

Defensive

More radical overhaul of the relief to be undertaken in future.

A3. CHANGES IN OTHER MONETARY LIMITS/RELIEFS

Factual

(i) Limit on relief for small part disposals of land increased from £10,000 to £20,000; limit on residential letting relief increased from £10,000 to £20,000; abolition of payment by instalment facilities; abolition of small gifts exemption; relaxation of treatment of gains on an overseas bank account held by a resident but non-UK domiciled individual. Details in Inland Revenue press notice.

(ii) Cost: nil in 1983-84 and £1 million in a full year.

Positive and defensive

Small but useful measures which will save work for taxpayers and the Revenue. Simplification by abolition of reliefs which are now of little practical effect. With annual exempt amount at its present level the small gifts exemption is of little, if any, value. Similarly, the occasions on which the payment by instalments facility can apply are now generally covered by a form of CGT rollover relief.

A4. INDEXATION: PARALLEL POOLING

Factual

(i) Companies will be able to "pool" certain securities for purposes of calculating indexation allowance; intention to legislate announced 23 December 1982.

(ii) Administrative measure with nil cost over period of years.

Positive

Response to representations from large institutional investors relying on computers eg life offices, insurance companies; will save computer storage costs.

Defensive

Individuals not faced with same problems of keeping records etc.

Note: for other CGT changes see Brief L1

Contact point: J P B Bryce (Inland Revenue) 2541-7427

B. CAPITAL TRANSFER TAX

B1. RATE BANDS AND EXEMPTIONS

Factual

(i) Increase in threshold and rate bands for transfers both on death and during life; minimum rate to apply at threshold of £60,000 in place of present £55,000. Rates of tax are unchanged.

(ii) Changes to take effect from Budget day.

(iii) Cost £20 million in 1983-84, £40 million in 1984-85 and £50 million in a full year.

Change illustrated in tables at end of Brief H4. Details in Inland Revenue press notice.

Positive

(i) Section 91 of Finance Act 1982 introduced indexation of CTT threshold and rate bands. Increase in 1983 Budget broadly in line with indexation with some rounding up. Threshold now 40 per cent higher in real terms than in 1978-79.

(ii) Rounding up produces simpler rate schedule.

(iii) Real burden of tax slightly decreased.

(iv) The slight increase in rate bands over indexation will mainly benefit estates at lower end of chargeable range.

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Defensive

Burden still higher in real terms than when capital transfer tax introduced (1975). Cannot afford any further reductions in CTT burden in this Budget.

B2. RELIEFS FOR BUSINESS AND AGRICULTURE

Factual

(i) Rate of business relief for minority holdings in unquoted companies and of agriculture relief for tenanted land each to be increased from 20 per cent to 30 per cent.

(ii) Cost negligible in 1983-84, £5 million in full year.

(iii) Increases take effect from Budget day.

Details in Inland Revenue press notice.

ositive

(i) Increase in business relief helps orderly transmission of business from one generation to next.

(ii) Increase in agriculture relief is a further measure to help reduce the decline in tenanted farm land.

(iii) Increase in agriculture relief should make it easier for new entrants to come into the industry.

Defensive

As a result of the relief for tenanted agricultural land introduced in 1981, the tax burden on such land broadly equates that on owner-occupied land. The increase to 30 per cent will introduce a fiscal bias in favour of tenanted land to further encourage owners to let it rather than take it in hand.

Note: for other CTT changes see Brief L2.

Contact point: F I Robertson (Inland Revenue) 2541-6459

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H4 table

RATES OF CAPITAL TRANSFER TAX

Death rate	Life rate	Range (£'000) to which tax rate applies: Pre-Budget Scale	Indexed Scale	Post-Budget Scale
%	%	£'000	£'000	£'000
Nil	Nil	0- 55	0- 58	0- 60
30	15	55- 75	58- 80	60- 80
35	17½	75- 100	80- 106	80- 110
40	20	100- 130	106- 138	110- 140
45	22½	130- 165	138- 174	140- 175
50	25	165- 200	174- 211	175- 220
55	30	200- 250	211- 264	220- 270
60	35	250- 650	264- 686	270- 700
65	40	650- 1,250	686- 1,318	700- 1,325
70	45	1,250- 2,500	1,318- 2,636	1,325- 2,650
75	50	2,500 upwards	2,636 upwards	2,650 upwards

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H4 table

CAPITAL TRANSFER TAX: EFFECT OF PROPOSED CHANGES

Death Rates

Size of Estate	Pre-Budget Liability	Liability if Indexed	Reduction		Post-Budget Liability	Reduction (a)	
£	£	£	£	%	£	£	%
100,000	14,750	13,600	1,150	7.8	13,000	600	4.4
150,000	35,750	33,900	1,850	5.2	33,000	900	2.7
250,000	87,500	84,650	2,850	3.3	83,250	1,400	1.7
500,000	237,500	233,950	3,550	1.5	232,250	1,700	0.7
1,000,000	555,000	549,650	5,350	1.0	547,250	2,400	0.4
2,500,000	1,592,500	1,583,750	8,750	0.5	1,581,000	2,750	0.2
5,000,000	3,467,500	3,451,950	15,550	0.4	3,448,500	3,450	0.1

(a) Over indexed reduction

Lifetime Rates

Size of Estate	Pre-Budget Liability	Liability if Indexed	Reduction		Post-Budget Liability	Reduction (a)	
£	£	£	£	%	£	£	%
100,000	7,375	6,800	575	7.8	6,500	300	4.4
150,000	17,875	16,950	925	5.2	16,500	450	2.7
250,000	45,000	43,300	1,700	3.8	42,375	925	2.1
500,000	132,500	130,100	2,400	1.8	128,875	1,225	0.9
1,000,000	325,000	320,800	4,200	1.3	318,875	1,925	0.6
2,500,000	987,500	979,900	7,600	0.8	977,625	2,275	0.2
5,000,000	2,237,500	2,223,100	14,400	0.6	2,220,125	2,975	0.1

(a) Over indexed reduction

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H5 "SMALL COMPANIES TAX"

A. CORPORATION TAX RATE AND PROFITS LIMITS

Factual

(i) "Small companies" corporation tax rate reduced from 40 per cent to 38 per cent.

(ii) "Small companies" profits limits (below which 38 per cent tax rate applies) raised from £90,000 to £100,000 with increase in upper limit (above which 52 per cent tax rate applies) from £225,000 to £500,000.

(iii) Cost: £40 million in 1983-84, £70 million in full year.

Positive

(i) Reduction in rate helps small companies. Government has now reduced the rate by 4 percentage points.

(ii) Lower limit more than revalorised this year. Limit doubled since Government took office.

(iii) Big increase in upper limit helps companies with profits of up to £500,000. Limit was only £85,000 when Government came into office: increased almost six fold.

(iv) Marginal rate applying between lower and upper limits reduced from 60 per cent to 55½ per cent.

Contact point: R I McConnachie (Inland Revenue) 2541-6252

B. VAT REGISTRATION AND DEREGISTRATION THRESHOLDS

Factual

(i) Changes in the VAT registration and deregistration thresholds as follows:

(a) Registration threshold (below which small traders are not obliged to register) raised from £17,000 to £18,000 taxable turnover a year.

(b) Deregistration threshold for voluntary deregistration of small traders, raised from £17,000 to £18,000 (where past turnover is concerned) and from £16,000 to £17,000 (where estimated future turnover is concerned).

(ii) Registration limits change effective midnight Budget day. Deregistration limits change effective 1 June. Changes made by Treasury Order (under powers given by section 13, Finance Act 1982).

(iii) Overall revenue cost: about £5 million in 1983-84 and a full year.

Positive

(i) Increases helpful to small businesses. Provides about 24,000 traders with opportunity to deregister if they wish. Keeps new businesses out of the VAT net as long as possible, and helps those businesses which would otherwise be forced onto the register simply because of price increases.

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H9 Cont.

(ii) Discourages use of UK paying agents? Payment gross intended primarily for non esidents, who can obtain it from a UK agent with a certificate of non-residence.

(iii) Tax evasion by UK residents? Complete protection against evasion impossible. But requirement that UK paying agents should deduct tax except where paying to non-residents provides reasonable safeguard without nullifying benefits of change.

Contact point: C Stewart (Inland Revenue) 2541-6218.

E. CLOSE COMPANY: DE MINIMIS LIMIT FOR ASSESSMENT OF APPORTIONED INCOME ON AN INDIVIDUAL

Factual

(i) Limit for not making income tax assessment on investment income apportioned to an individual is being raised from £200 to £1,000.

(ii) Cost: Negligible in 1983-84 and in full year.

Positive

Increase to £1,000 is significantly better than revalorisation of previous limit (£200 set in 1973 would be £750 today): sets limit at realistic level.

Defensive

(i) Apportionment of the trading income of close companies was abolished in 1980.

(ii) To abolish investment income apportionment altogether would give rise to significant tax avoidance - estimated at a minimum of £60 million 1983-84.

Contact point: M J Jarrett (Inland Revenue) 2541-6257

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J1 NORTH SEA FISCAL REGIME: MAIN STRUCTURAL CHANGES

Factual

(i) Advance Petroleum Revenue Tax (APRT) is to be phased out by reducing the rate at which it is charged (currently 20 per cent) as follows:

1 January 1983-30 June 1983	20%
1 July 1983-31 December 1984	15%
1 January 1985-31 December 1985	10%
1 January 1986-31 December 1986	5%
1 January 1987 onwards	nil

(ii) A new PRT relief is to be introduced for expenditure incurred after Budget day on exploration and appraisal outside the area of an existing oil field or development.

(iii) New fields for which development consent was given after 1 April 1982 - except onshore fields and fields in the Southern Basin of the North Sea - will get double existing oil allowance ie ½ million tonnes per six months chargeable period, subject to a cumulative limit of 10 million tonnes. The same new fields will not pay any royalties.

(iv) Cost: (including shared asset proposals see Brief J2)
£800 million 1983-84 to 1986-87, of which £115 million in 1983-84

	1983-84	Average cost 1983-84 to 1986-87
APRT	£ 50m	£ 165m
Appraisal relief	£ 40m	£ 45m
Shared assets	£ 15m	£ 5m yield
Technical PRT changes	£ 10m	neg
Total	**£ 115m**	**around £ 200m**

The reliefs for future fields have no cost in the short term and may produce a yield in the longer term if they generate new developments. They give a substantial benefit on such developments when they start production from late 1980s.

See also Inland Revenue press notice and D Energy press notice on royalties. Brief B5 covers North Sea oil revenues generally.

Positive

(i) Oil industry will benefit from changes by more than £800 million over the next four years.

(ii) Phasing out APRT removes a charge which is disliked by industry because it is not related to profit and is payable early in field life. It will simplify regime and mean an improvement in current cash flow which should help finance extra activity.

(iii) The new PRT relief should encourage exploration and appraisal activity for oil and gas and increase knowledge of UK reserves.

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(iv) Future fields will pay no special tax or royalties at all before costs recovered from income; all taxes will be profit related, and doubled PRT oil allowance means substantial slice of income free of special taxes. Marginal rate for such fields down from 89.5 per cent to 8[illegible] per cent.

(v) The changes reflect extensive discussions with the industry. They take account of the fact that future fields will be smaller and more complex and also uncertainty about oil prices. They go a long way towards the industry's representations.

Defensive

(i) Reliefs are concentrated on future fields? The new regime is designed for future fields because these are likely to be less profitable than existing fields.

(ii) Government bears nearly 90 per cent of cost of oil price reduction for most fields.

(iii) Immediate outright abolition of APRT is ruled out by the cost and it is reasonable that large first generation fields should contribute some early revenue.

(iv) True that the new PRT relief for exploration and appraisal can only benefit companies paying PRT but this is inherent in any tax relief and is the most cost-effective method.

(v) Future field reliefs are not extended to onshore fields or Southern Basin fields? No evidence produced by industry to show that these shallow water or onshore fields are other than relatively cheap and highly profitable. Government happy to consider case for extending relief if figures given.

Contact point: M A Johns (Inland Revenue) 2541-6018

PRT: MINOR CHANGES

A number of minor PRT changes are mentioned in the FSBR:-

(i) The PRT charge on oil and gas which a producer wins in one field and uses for production purposes in another is being removed.

(ii) A defect is being remedied in the 'succession' rules where an interest in a field is transferred to allow to the new participator an unused loss of the old participator in the period of transfer itself.

(iii) A defect is being corrected in the PRT provisions for putting matters right where expenditure has been incorrectly allowed.

(iv) It is being put beyond doubt that the PRT valuation rules require normal commercial credit terms to be assumed for market valuation.

Any press enquiries should be referred to Inland Revenue.

Contact point: D Y Pitts (Inland Revenue) 2541-6576

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J2 PETROLEUM REVENUE TAX: EXPENDITURE RELIEFS AND ASSET RELATED RECEIPTS

Factual

(i) Abolition of restriction on PRT relief for expenditure on assets where oil (including gas) producer shares assets with other fields (eg pipelines and related facilities).

(ii) Corresponding receipts - eg pipeline tariffs - brought into charge, but income on 500,000 tonnes of oil (or gas equivalent) a year from each user field exempt.

(iii) New rules apply from 1 July 1982 (backdating was proposed in May 1982 Consultative Document).

(iv) Pre-May 1982 agreements only: abatement increased to 750,000 tonnes for 5 years.

(v) Cost: See Factual (iv) of Brief J1.

See also Inland Revenue press notice.

Positive

(i) Provides substantial additional PRT relief on expenditure.

(ii) Much of (i) (potentially running into £100 millions over a period of years) is unquantifiable and not reflected in FSBR figures.

(iii) Proposals discussed in Consultative Document published last May. Full discussions have been held with oil industry representatives who unreservedly welcomed expenditure relief proposals.

(iv) Generous abatement of charge on receipts.

(v) Abatement angled to encourage sharing of assets with future fields.

(vi) For pre-May 1982 agreements, relief already restricted on account of shared use will be restored (with interest). Higher level of abatement on temporary - 5 year - basis.

Defensive

(i) Charging PRT on receipts corollary to giving full front end relief for expenditure.

(ii) Receipts part of benefit from exploiting natural resources.

(iii) Present law relieves payer of tariffs but does not tax recipients.

(iv) Charging future income on agreements made before consultative document published (7 May 1982) not 'retrospective'. Document announced clear intention to tax. Reasons for charging ((i) to (iii) above) apply to all post-30 June 1982 income.

(v) (iv) apart, the broad framework of the Consultative Document proposals accepted by most of oil industry.

Contact point: D Y Pitts (Inland Revenue) 2541-6576

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K1 INDIRECT TAXES - MAIN POINTS

Factual

(i) Package reflects need broadly to maintain real value of excise duties and to raise revenue as a contribution to the 1983-84 PSBR objective.

(ii) No change in VAT rate. VAT registration limit increased to £18,000 and deregistration limits also increased: helps small traders (see Brief H5).

(iii) Main excise duty increases as follows (approximate price effect, including VAT):

- **beer** 1p a typical pint (5.9 per cent duty increase)
- **table wine** 5p a bottle (5.8 per cent)
- **sherry** 7p a bottle (5.8 per cent)
- **spirits** 25p a bottle (5 per cent)
- **cider** 1p a pint (18¾ per cent)
- **cigarettes** 3p a packet of 20 (4.8 per cent)
- **petrol** 4p a gallon (4.9 per cent)
- **derv** 3p a gallon (4.3 per cent)
- **car licence** up £5 a year (6¼ per cent, see Brief K3)
- **VED rates** up on selected groups of lorries, but reduced on many lighter lorries (see Brief K3)

(iv) No change in car tax, in betting and gaming duties or in duty on heavy fuel oil or other rebated oils. Duties on aviation gasoline (AVGAS) and road fuel gas (LPG) remain at one half of that on petrol.

(v) Overall revenue effect of excise duty changes is an increase of £605 million in full year, £595 million in 1983-84. (For effect of change in VAT registration limits - see Brief H5).

(vi) RPI impact effect of about 0.4 per cent - included in RPI forecast published in FSBR.

(vii) Package likely to add about £170 million to business costs overall (see Brief G1).

Positive

(i) Additional revenue: helpful to PSBR objective.

(ii) Increases broadly maintain duty levels at post-1982 Budget levels in real terms.

(iii) Tobacco duty increases desirable on health grounds.

(iv) Road fuel increases balance revenue need against effects on motorists living in isolated rural areas. Small widening of tax differential in favour of derv from 12p to 13p a gallon helps limit impact on business costs.

(v) Fuel oil duty rate left unchanged for third successive year. Present rate equivalent to about £8 a tonne to continue to apply. Real value of the duty now about 20 per cent below that of 1980, thus assisting industry with its energy costs.

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K1 Cont.

(vi) Derv and VED increases balanced so that tax burden on different classes of lorry reflects relative share of road track costs more closely.

(vii) VAT registration limit will keep small traders out of VAT net.

Defensive

(i) Essential revenue need to increase duties. Sensible presumption of adjusting duties broadly in line with general movement of prices over year prevents significant erosion of their real value.

(ii) Chancellor has carefully weighed revenue needs against price effects (Factual (vi) above). Larger increases not appropriate this year.

(iii) Duties not all regressive. For example, those on wines and spirits tend to be progressive measured against expenditure, while analysis of FES data suggests petrol duty broadly neutral and beer duty mildly regressive. (Tobacco and VED are regressive. See Brief F2 for distributional effects.)

(iv) Increases in business costs resulting from increases in derv, VED and petrol widely spread.

(v) Budget not hard on Scotland. Increase in petrol duty held to 4p; decision took into account concern about motorists in isolated rural areas. Increase in duty on spirits held to 25p. Scotch whisky industry benefited from introduction of duty deferment on 15 February (worth £130 million once-and-for-all to the wines and spirits industry).

(vi) Government is not "anti-motorist". Smokers and drinkers bear equal burden. Increase in road fuel duties takes account of essential nature of transport in rural areas (petrol) and business and distribution costs (derv). (See Brief K2). Rounded £5 increase in VED on cars only marginally more than revalorisation.

(vii) Apart from special case of pipe tobacco, standstill on duties on certain alcoholic drinks and tobacco, as requested by some trade interests, not justified. Increases carefully differentiated between products to reflect range of policy considerations (see Briefs K4 and K5).

(viii) Reduction in betting duties not appropriate. Representations from trade carefully considered, but no conclusive evidence that current problems do not result mainly from general economic situation or that present rate of general betting duty is unduly onerous. Similarly unproven that last year's increase in pool betting duty, from 40 per cent to 42½ per cent, has left duty too high.

(ix) Reduction in car tax not appropriate this year. Industry representations carefully considered, but cost of abolition about £650 million and they will have benefited from removal of hire purchase controls last year, successive reductions in NIS and improved competitiveness. Income tax reductions also improve prospects for consumer demand for cars.

(x) No proposals to meet representations from charities for refund of VAT on their purchases (see Brief K6).

Contact point: D J Howard (Customs and Excise) 2913-2106

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K2 PETROL, DERV AND OTHER HYDROCARBON OILS

(See also Customs and Excise Press Notice, particularly for details of new duty rates.)

Factual

(i) Taxation (duty plus 15 per cent VAT) increased as follows:

- **Petrol:** up by about 4p a gallon (0.9p a litre)
- **Derv:** up by about 3p a gallon (under 0.7p a litre)
- **AVGAS** (aviation gasoline) and LPG (road fuel gas): up by about 2p a gallon (under 0.5p a litre); duty remains half rate on petrol.
- **Heavy Fuel Oil:** unchanged (remains 3½p a gallon or slightly less than 0.8p a litre, equivalent to about £8 a tonne)
- **Other rebated oils:** unchanged (Gas oil and AVTUR (aviation turbine fuel) remain at 3½p a gallon and other kerosene at 1p a gallon).

(ii) Duty increases in percentage terms about 4.9 per cent (petrol) and 4.3 per cent (derv).

(iii) All changes apply to fuel delivered from refineries and bonded warehouses from 1800 hours on 15 March.

(iv) Duty differential (incuding VAT) favouring derv over petrol (introduced July 1981) widened slightly from 12p to 13p: a small increase in real terms.

(v) Annual petrol bill of typical private motorist (driving 7,500 miles a year and averaging 30 mpg in a small car) will increase by about £10. For typical rural motorist (driving 9,500 miles a year at an average 35 mpg) petrol bill up nearly £11. (Also £5 increase in VED in each case: see Brief K3.)

(vi) Effective increase for business users (who can deduct VAT) will be 3½p a gallon on petrol, about 2½p a gallon on derv. (About one third of petrol and virtually all derv is used by businesses.)

(vii) Overall increase in revenue yield: £230 million in 1983-84 and same in a full year, of which petrol etc yields £190 million and derv £40 million.

(viii) RPI impact effect: about 0.1 per cent, all from petrol increase (Derv effect nil as not bought by households).

Positive

(i) Increase in revenue. But balances need for revenue against effect on petrol prices in isolated rural areas and on costs of distribution.

(ii) Small widening of duty differential in favour of derv helps to limit impact on business and distribution costs.

(iii) Effect of petrol duty change is not regressive.

(iv) Absence of duty increase for heavy fuel oil means continuing fall in real duty burden on industrial users which assists with their energy costs. Real duty burden now about 20 per cent less than after 1980 Budget, when last increased.

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K2 Cont.

Defensive

(i) Not sensible to do less than 4p on petrol and 3p on derv given presumption of revalorisation and fall in oil prices. Continuing need for energy conservation also taken into account.

(ii) Real value of petrol and derv duties slightly below the 1982 post Budget level. Total tax burden (duty plus VAT) of petrol remains in real terms below both January 1975 Labour Government peak and June 1970 level. Real value of derv duty well below June 1970 level.

(iii) Budget increase will still leave UK petrol price lowest in EC after Luxembourg (see attached table).

(iv) Increase in business costs thinly spread over wide range of commercial activities. Careful balance achieved between minimising effect on business costs and movement towards transport policy objective where each class of lorry covers its road costs through its tax contribution.

(v) Rural motorists. Concern for special position of motorists in isolated rural areas an important factor. Rural motorists average higher annual mileage than urban but independent studies show they are likely to enjoy better fuel consumption because of less congested motoring conditions. Higher prices in remote rural areas reflect market conditions (low volume turnover etc). No practical means of giving relief from duty to rural motorists only. Rural areas will benefit from effect of widened derv differential on distribution costs.

(vi) Small widening of differential in favour of derv should not harm UK motor manufacturing industry (which makes few diesel cars). Differential remains small by international standards.

(vii) RAC 'Ease the Squeeze' campaign asked:

(a) (on motoring taxation) 'Will the Chancellor get £10,000 million in 1983?'

(b) (on petrol taxes) 'Will the Chancellor take more than £1 per gallon in 1983?'

(c) (on VED) 'Will the Chancellor take £90 in 1983?'

The answer to (a) is "yes" (about £10,100 million in 1983-84) mainly due to growth in petrol consumption. Answer to (b) is "no", unless prices were to increase dramatically (tax about 96.5p in a gallon of petrol priced at 172.5p). Answer to (c) is "no" (car licence is £85).

(viii) Abolition or reduction of duty on heavy fuel oil would add more to PSBR than industry would receive in benefit because of effects on price of certain gas supply contracts. More cost effective therefore to give industry direct help by other means. (Questions about the gas supply contracts: refer to Department of Energy.)

(ix) Duty on AVGAS (aviation gasoline) reduced to half rate for petrol in 1982 Budget thus ensuring stability of future tax regime. This is a final compromise solution balancing arguments for relief against duty rates on other fuels (especially essential road transport).

(x) Grant to operators of stage bus services remains at 100 per cent. Should be no increase in bus fares as a result of duty increases (queries re bus grant to C Farrington HE1 233-8410). Questions about effects on taxi fares: refer to Home Office (or Scottish Office, as appropriate).

Contact point: D J Howard (Customs and Excise) 2913-2106.

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K2 Cont.

Excise Duty and VAT on Premium Petrol and Derv in Europe[(a)] at 8 March 1983

Country	Factor Cost	Duty	VAT[(b)(c)]	RSP	Tax as % of RSP	Effective price to business users
Premium Petrol						
Belgium	93	65	40	198	53	178
Denmark	93	79	38	210	56	210
France	96	74	32	202	52	202
Germany	91	64	20	175	48	155
Ireland	118	90	48	256	54	256
Italy	86	108	39	233	63	213
Luxembourg	91	54	15	160	43	145
Netherlands	92	67	29	188	51	158
UK Pre-Budget	75.50	71	22	168.50	55	146.5
Post-Budget	75.50	74.50	22.50	172.50	56	150.
Derv						
Belgium	87	27	29	143	39	128
Denmark	97	14	24	135	28	135
France	95	39	25	159	40	154
Germany	91	55	19	165	45	146
Ireland	112	64	40	216	48	216
Italy	91	12	15	118	23	110
Luxembourg	82	18	11	116	25	105
Netherlands	83	23	19	125	34	106
UK Pre-Budget	89	60	22	171	48	149 (d)
Post Budget	89	62.50	22.50	174	49	151.50

(a) Excluding Greece, for which insufficient information is available.

(b) VAT on petrol deductible by most business users, but fully blocked in Denmark, France and Ireland and 50 per cent blocked in Belgium and Italy.

(c) VAT on derv fully blocked in Denmark and Ireland, 80 per cent blocked in France, 50 per cent in Belgium and Italy.

(d) Pump prices. Most UK business users buy DERV under contract at up to 15p a gallon less. Information on similar practices on the Continent is not available.

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K3 VEHICLE EXCISE DUTY
(See also Department of Transport Press Notice)

Factual

(i) With effect for licences taken out on or after 16 March:

- annual rate on cars and light vans (not exceeding 1½ tons) up £5 to £85 (6.25 per cent);
- about 10 per cent reduction in rates on lighter, less damaging lorries; (about 315,000);
- increases in duty of between 5 per cent and 26 per cent for selected groups of lorries (about 190,000 vehicles affected); duty on heaviest, most damaging lorries (32.5 tonne articulated lorries) increased by 26 per cent;
- 33 to 38 tonne lorries will cover their road costs in full from the outset (they are not allowed on the road before 1 May 1983).

(ii) RPI impact effect of Budget changes: about 0.05 per cent.

(iii) Overall increase in duty yield: £130 million in 1983-84 and in full year (£93 million cars/light vans; £37 million heavy lorries).

(iv) Ratio of taxation (derv duty and VED) to allocated road costs for lorries overall broadly maintained. Ratio improved for heaviest, most damaging lorries.

Positive

(i) VED burden on lighter, less damaging lorries reduced by 10 per cent (about 60 per cent of lorry population will benefit).

(ii) Impact of VED increases greatest on heaviest, most damaging lorries reflecting Government policy towards these vehicles.

(iii) Changes in lorry rates reflect new duty structure introduced last October with the aim of better matching taxation levels of different types of lorries to their road costs to encourage operators to use less damaging lorries.

(iv) Existing exemptions for disabled drivers and electric vehicles maintained.

(v) Farmers', showmens' vehicles etc continue to be given concessionary rates.

Defensive

(i) Allowing for rounding £5 (6.25 per cent) increase on cars/light vans only broadly compensates for past year's inflation: duty still lower in real terms than level set by previous Government; if duty had been increased in line with inflation since 1977 (the last time the Labour Government increased the rate (to £50)), it would now stand at about £92.

(ii) Only about 40 per cent of lorries (190,000 vehicles) suffer increases in duty; largest increases for the heaviest, most damaging lorries.

(iii) Careful balance achieved in deciding overall additional revenue from petrol, derv (see Brief K2) and VED between (a) need to take account of business costs and essential nature of road transport in rural areas, and (b) need to obtain revenue and balance tax contribution of each type of goods vehicle against their road costs.

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K3 Cont.

(iv) Increases in VED add about £65 million to business costs in 1983-84 (a minimal addition to total costs). Increases in motoring taxes add about 0.4 per cent to total road freight operating costs.

(v) 32.5 tonne lorries still fall short of meeting full road costs but further large step has been taken towards Government's objective. 38 tonne lorries will cover their road costs from the outset.

(vi) Evasion of duty being countered by increased enforcement effort and "blitz" campaigns in selected areas.

Contact point: I Walton (FP2) 233-5237

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K4 ALCOHOLIC DRINKS DUTIES

(See also Customs and Excise Press Notice, particularly for details of new duty rates).

Factual

(i) Taxation of alcoholic drinks (duty plus 15 per cent VAT) increased as follows:

- **Beer:** by about 1p per pint on average strength
- **Spirits:** by about 25p a bottle of whisky
- **Wine:** by about 5p on a bottle of table wine, about 7p on vermouth and sherry, about 8p on port. (Consequential increases in duty on made-wine)
- **Cider:** by 1p per pint.

(ii) All duty increases effective on clearances from midnight Budget Day.

(iii) Total revenue yield from duty increases on all alcoholic drinks: £140 million in 1983-84 and £145 million in full year.

(iv) RPI impact effect: between 0.1 and 0.2 per cent.

(v) Duty increases in percentage terms: 5.9 per cent on beer, 5.8 per cent on wine: 5 per cent on spirits: 18¾ per cent on cider (see Defensive (iv)).

Positive

(i) Additional revenue.

(ii) Package carefully balances revenue needs against effects on prices.

(iii) Increases on beer, wine and spirits broadly maintain duty burden in real terms at 1982 post-Budget level. (Spirits increase shaded down to 5 per cent; beer up to 5.9 per cent in order to apply beer increase of 1 whole penny to a pint of average strength).

Defensive

(i) Increases on spirits have been relatively low in each of the last three years. Government continues to recognise problem of low activity in whisky industry, but not appropriate to allow duty to fall in real terms. Duty still 28 per cent lower in real terms than in 1975. Increase raises £25 million: law of diminishing returns does not apply. Industry recently benefited from the introduction of duty deferment on 15 February.

(ii) Increase on beer broadly maintains duty at about 1975-76 (Labour Government peak) level in real terms. Lower rate of tax in price than other drinks and only drinks candidate for producing significant additional revenue. (Fall in consumption in last three years probably mainly due to effect of recession on consumers' expenditure on alcoholic drinks rather than duty increases).

(iii) Similar increases on table wine and beer justified; wine/beer ratio remains virtually the same. (Infraction proceedings on wine/beer duty relationship are currently before European Court).

(iv) Larger percentage increase on cider justified in context of increased consumption (in contrast to beer). Cider duty set at 50 per cent of duty on weakest beer on introduction in 1976, but fell to 40 per cent of beer duty. 1p increase on both cider and beer leaves cider duty at still only 45 per cent of that on weakest beer. Increase provides reasonable balance between revenue needs and the interests of industry. (Note: alcoholic strength of cider roughly equivalent to that of average beer).

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K4 Cont.

(v) Increases not all regressive. Family Expenditure Survey data suggests beer mildly regressive, but wine and spirits duties tend to be mildly progressive.

(vi) Increases for beer, wine and spirits in addition to revalorisation (eg as a suggested counter to alcohol misuse) would have involved excessive price increases.

(vii) Comparison of 1982-83 estimated outturn (£3,025 million) with 1983-84 Budget forecast (£3,900 million) misleading. No question of a 25 per cent growth in revenue. Most (about £600 million) of difference accounted for by technical factors associated with introduction of duty deferment for wines and spirits from 15 February 1983, which have transferred revenue from 1982-83 to 1983-84.

(viii) Home beer and wine kits not significant in terms of overall beer and wine consumption; any attempt to impose duty might be avoided by buying ingredients separately. Taxing ingredients would mean taxing goods which are used for purposes other than beer-making. Kits are liable to VAT.

Contact point: D J Howard (Customs and Excise) 2913-2106

EXCISE DUTIES ON BEER, WINE AND WHISKY IN EC COUNTRIES AT 8 MARCH 1983

	BEER at 4% alcohol by volume (pence per pint)	**TABLE WINE** not exceeding 12% alcohol by volume (pence per 70 cl bottle)	**FORTIFIED WINE** at 18% alcohol by volume (pence per 75 cl bottle)	**WHISKY** at 40% alcohol by volume (pence per 75 cl bottle)
BELGIUM	3	12	25	232
DENMARK	15	44	107	476
FRANCE	½	1½	87	219
GERMANY	2	0	93	206
IRELAND	43	118	182	630
ITALY	5	0	9	59
LUXEMBOURG	1	6	18	99
NETHERLANDS	7	14	28	201
UK Pre-Budget	15½	75	103	434
Post-Budget	16½	79	109	456

Notes: Some figures for beer are approximate.
Information about Greece is not available.

until a

K5 TOBACCO PRODUCTS DUT

(See also Customs and Excise Press

Factual

(i) Taxation of cigarettes (duty
Specific rate of duty on cigarett
cigarettes increased since post-Bu

(ii) Increase (duty plus 15 per ce
on 5 whiffs and 5p on a 25 gram pa
Increase in duty on minor produc
tobacco 5.2 per cent.

(iii) All duty increases effecti
Increase in revenue yield: £95
impact effect: about 0.1 per cent.

Positive

(i) Increase in revenue.
post-Budget 1982 level.

(ii) Strong health arguments for

(iii) No increase in duty on pipe
elderly.

Defensive

(i) 3p increase represents se
revalorisation. Fall in employme
round down rather than up (see (vi

(ii) Maintains real value of tax
peak of 1975).

(iii) Impact on less well-off (du
their share of increases to mainta
case reduced by nil increase for pi

(iv) Increases in duty in real te
risks first made public, or any
increases, unjustified after double
year.

(v) Tobacco consumption is de
demand for tobacco products has

(vi) Employment in tobacco indu
and increased automation. Now
about 3500 jobs announced over la
and other assisted areas.

(vii) Some delay in implementati
"ad valorem" component of the dut
retail price, and time is needed to

Contact point: P Smith (Customs a

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K5 Cont.

DUTY AND VAT ON CIGARETTES IN THE EC AT 8 MARCH 1983

	SPECIFIC DUTY (£ PER 1,000)	AD VALOREM DUTY (%)	VAT (%)	TOTAL TAX AS % of RSP (1)
BELGIUM	0.99	61.39	6	70
DENMARK	35.99	21.71	22	87
FRANCE	0.45 (2)	49.20 (2)	33 1/3	74
GERMANY	15.56	31.50	13 (3)	73
IRELAND	22.93	14.55	23	70
ITALY	0.24 (4)	54.79 (4)	20	72
LUXEMBOURG	0.67	55.55	5	63
NETHERLANDS	2.36	50.72	17.25 (5)	73
UK Pre-Budget	20.68	21.0	15	73
Post-Budget	21.67	21.0	15	74

(1) Prices used are those of the most popular brands.

(2) 49.20 per cent (50.50 per cent from 1 June 1983) is the legal rate of excise duty for cigarettes in the most popular price category. This is deemed to include a specific element of 5 percent of the tax - which amount then remains fixed for all cigarettes - and an ad valorem element, which expressed as a percentage of RSP, then applies to all other categories of cigarettes.

(3) 14 per cent from 1 July 1983.

(4) See (2) above for explanation of the system.

(5) Rate shown is for ease of comparison with other countries. In the Netherlands, VAT is in fact levied at the manufacturing stage along with the excise duty. The legal rate is 14.70 per cent of the retail selling price inclusive of the tax.

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K6 VAT

Factual

(i) No change in 15 per cent standard rate of VAT.

(ii) Changes in VAT registration and deregistration thresholds (see Brief H5).

(iii) Standard conditions imposed on the registration of certain businesses ("intending traders" not yet making taxable supplies) to be incorporated in Regulations rather than imposed individually.

(iv) No changes in coverage of VAT.

Positive

(i) Change in registration and deregistration thresholds helpful to small businesses.

(ii) "Intending trader" change responds to recommendation of Rayner review. Reduces administrative burden for businesses as well as for Customs and Excise.

Defensive

(i) 15 per cent rate of VAT a major revenue raiser (about £15,500 million in 1983-84). Reduction - eg to 12½ per cent as proposed by SDP/Liberal Alliance - not appropriate. Would lead to once-and-for-all reduction in RPI, but at high revenue cost. This would either have pre-empted scope for income tax reductions or would have added to PSBR and to pressure on interest rates in future years after short-term benefits had evaporated.

(ii) Registration and deregistration threshold increases maximum possible within constraints of EC Sixth Directive.

(iii) "Intending trader" changes do not increase Customs and Excise powers: merely apply them in a different way.

(iv) No proposals for recovery by charities of VAT on their purchases. A scheme of relief would probably involve at least 100,000 charities. It would be indiscriminate in its effects, necessitate a substantial addition to Customs and Excise manpower, would involve a high revenue cost (£40 million - £100 million for total relief) and could have undesirable repercussive effects. Reliefs for disabled and charities serving them extended in previous Budgets.

(v) Recently announced (17 February) proposals to allow health authorities and others to recover VAT on contracted out services not a precedent for allowing recovery by charities. This is a value-for-money change made at net nil cost with no extra manpower requirements. No genuine parallel with charities' claim.

(vi) Changes in treatment of VAT on construction not appropriate this year. (Full implementation of last year's Budget changes delayed by litigation, which has yet to be completed.) Relief for repairs and maintenance difficult to justify in the context of a broad-based tax. In any case, relief too costly in revenue terms (up to £475 million in 1983-84).

(vii) No action in Budget on relief for disposals of work of art, eg by owners of historic houses. Chancellor is continuing to review the position.

Contact point: P Smith (Customs and Excise) 2913-2321

L1 CAPITAL GAINS TAX

A. ANNUAL EXEMPT AMOUNTS

For details see Brief H4.

B. INCREASE IN RETIREMENT RELIEF

For details see Brief H4.

C. CHANGES IN OTHER MONETARY LIMITS/RELIEFS

For details see Brief H4.

D. INDEXATION: PARALLEL POOLING

For details see Brief H4.

Contact point: J P B Bryce (Inland Revenue) 2541-7427

E. SETTLED PROPERTY

Factual

Two points to be covered:-

(i) Restatement of rules relating to value at which UK resident beneficiaries of certain foreign trusts acquire assets from such trusts for CGT purposes.

(ii) Definition of certain terms for purposes of CGT foreign trust provisions.

(iii) Yield: nil in first year, negligible in full year.

Full details in Inland Revenue press notice.

Positive and defensive

Intended to clarify position in complicated area of law following introduction of new market value rules in 1981. Filling a gap left when new legislation introduced in 1981.

Contact point: M J G Elliott (Inland Revenue) 2541-6334

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L2 CAPITAL TRANSFER TAX

A. RATE BANDS AND EXEMPTIONS

For details see Brief H4.

B. RELIEFS FOR BUSINESS AND AGRICULTURE

For details see Brief H4.

C. DEEMED DOMICILE

Factual

(i) Emigrants from UK to Channel Islands and Isle of Man to be deemed to remain domiciled in UK for 3 years, not indefinitely, as at present.

(ii) Applies to events on or after Budget Day.

(iii) Cost negligible in 1983-84, £2 million in full year.

Details in Inland Revenue press notice.

Positive

Removes discrimination against those who emigrate to Channel Islands or Isle of Man as compared with those who emigrate elsewhere. As with emigrants elsewhere, they will still be deemed to be domiciled in the United Kingdom if they were domiciled there within three years of making the transfer.

D. PAYMENT OF TAX BY INSTALMENTS

Factual

(i) Tax qualifying for payment by instalments to become payable in 10 annual instalments instead of 8.

(ii) Alternative option of paying in half-yearly instalments dropped.

(iii) Cost £2½ million in 1983-84, declining thereafter.

Details in Inland Revenue press notice.

Positive

Assists in meeting tax bills when property transferred is illiquid eg land or businesses. Renders it less likely that tax liabilities will lead to break-up of businesses.

Defensive

Half-yearly instalment facility comparatively little used and would be less so with a 10-year period. Produces a minor staff saving to set against the staff cost of extending the instalment period to 10 years.

E. CHARITIES EXEMPTION

For details see Brief E6.

Contact point: (for all the above): F I Robertson (Inland Revenue) 2541-6459

F. SETTLED PROPERTY

Factual

Three technical points which could not be dealt with in last year's recasting of CTT discretionary trust provisions for lack of time. Details in Inland Revenue Press Notice.

Positive and Defensive

Provisions intended to complete the work of recasting discretionary trust provisions introduced last year. All minor - two relieving, one filling a gap in mechanism for collecting tax when information comes to light late. Fuller details in Press Notice.

Cost/yield: Negligible

Contact point: M J G Elliott (Inland Revenue) 2541-6334

L3 STAMP DUTY

A. THRESHOLD

Factual

(i) Stamp duty thresholds and rates remain the same.

(ii) For transfers of land and buildings the rate scale is:-

£	%
0-25,000	nil
25,001-30,000	½
30,001-35,000	1
35,001-40,000	1½
40,001-	2

(iii) For stocks and shares the rate is 2 per cent.

Defensive

(i) Thresholds were increased by £5,000 last year and by £5,000 in 1980.

(ii) Threshold for lowest (½ per cent) rate now marginally higher in real terms than in 1978-79 but other thresholds have fallen in real terms.

(iii) Only modest movement in house prices over the last year. Not practice to change the threshold every year.

(iv) Only one in three of all house purchasers and about one in six of first time buyers have to pay stamp duty. This is more than in the period 1974-77 but about the same as in 1973. In 1979 58 per cent of house buyers paid stamp duty.

(v) An increase would not have much effect on the construction industry. Most of benefit would go to buyers of existing houses.

B. CONSULTATIVE DOCUMENT

Factual

(i) There has been an internal review of stamp duties.

(ii) Chancellor announced that a consultative document on the possibilities for reforming the stamp duties will be issued on 21 March. Publication will be accompanied by an Inland Revenue press notice.

Contact point: D G Draper (Inland Revenue) 2541-6646

L4 DEVELOPMENT LAND TAX

A. DEFERMENT OF LIABILITY

For details see Brief G4. See also Inland Revenue press notice on this and other items.

B. DISPOSALS BY NON-RESIDENTS

Factual

(i) A purchaser of 'development' land from a non-resident vendor is required to withhold a proportion of the consideration on account of the vendors DLT. Deduction requirement is to be extended to purchases of any land.

(ii) Maximum proportion of consideration required to be withheld is reduced from 50 per cent to 40 per cent.

(iii) New arrangements to apply from 6 August 1983.

(iv) Yield £1 million in 1983-84 and £2 million in a full year.

Positive

(i) Improves efficiency of machinery for collecting tax from non-residents.

(ii) Easier for practitioners to operate (since they no longer have to distinguish between 'development' and other land).

(iii) Lower maximum deduction rate recognises changes made by present government to reduce the DLT burden.

Defensive

Purely a machinery provision; no effect on vendor's ultimate DLT liability.

C. PAYMENT OF TAX BY INSTALMENTS

Factual

(i) Tax to be payable in 10 rather than 8 annual instalments.

(ii) Facility for payment by half-yearly instalments to be withdrawn.

(iii) Cost negligible in 1983-84 and nil thereafter.

Positive

(i) Longer period for payment by instalments will ease cash-flow problems.

(ii) Provisions altered in line with changes to CTT provisions (see Brief L2).

Defensive

Half yearly instalment facility comparatively little used.

Contact point: F I Robertson (Inland Revenue) 2541-6459

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M1 BUDGET RESOLUTIONS

Finance Bill is introduced by being ordered to be brought in on resolutions, and these resolutions have effect of limiting scope of Bill, and of debate on it. A specific Ways and Means Resolution is required for each provision imposing a charge and for each provision reducing taxation when it is to be given statutory effect before Royal Assent. Amendment of Law resolution covers all other provisions within normal scope of Finance Bill.

1. Amendment of Law

This covers all provisions not requiring separate Resolutions. The scope for amendments on VAT is restricted in accordance with precedents followed by Governments of both main parties, designed to prevent piecemeal changes on individual items; in particular the question of VAT relief for charities. The scope for amendments to the rate of National Insurance Surcharge (reduced in Budget - see Brief G2) is restricted to those which apply equally to all those liable to it; amendments relating specifically to local authorities and the Commission for National Monuments will not be possible.

2-6. Alcoholic Drinks (see Brief K4)

Most duties on spirits, beer, wine, made-wine, cider and perry increased from midnight 15-16 March 1983.

7. Tobacco Products (see Brief K5)

Most duty rates on tobacco products increased from midnight 17-18 March 1983.

8. Bingo duty

Rules for exemption of small-scale bingo to be modified.

9. Hydrocarbon Oils (see Brief K2)

Rate of duty on petrol and derv increased from 6pm on 15 March 1983.

10. Vehicle Excise Duty (see Brief K3)

Rates of duty on vehicles increased overall by about 6 per cent for licences taken out after 15 March. Rates of duty on heavy goods vehicles at the lower end of the duty scales will be reduced by about 10 per cent, but on the most damaging heavy goods vehicles duty will be increased by up to 26 per cent.

11. VAT (discretionary registration) (See Brief K6)

Allows standard conditions of discretionary registration to be included in regulations rather than imposed individually.

12-13. Income tax (see Brief F1)

Provides for unchanged basic rate of income tax and increased personal allowances and higher rate thresholds and bands. Overrides indexation provision in Section 24(4) and (5) FA 1980.

14. Widows Bereavement Allowance (see Brief F5)

Extends the Widows bereavement allowance to cover the year after the husband's death.

15. Relief for Interest (see Brief F6)

Fixes the mortgage interest relief limit at £30,000 for 1983-84.

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16-18. Corporation tax and Advance Corporation Tax (see Briefs G3 and H5)

Unchanged corporation tax rate of 52 per cent; unchanged advance corporation tax rate of three-sevenths of qualifying distributions made by companies. "Small companies" rate for 1982 reduced from 40 per cent to 38 per cent and "small companies" profit limit increased from £90,000 to £100,000 with an increase in the upper limit from £225,000 to £500,000

19. Assigned life policies and annuity contracts (see Brief F9)

Imposes an income tax charge on the gains from certain 'secondhand' life policies and annuity contracts.

20. Benefits in Kind (see Brief F8)

Brings into charge benefits for higher paid employees and directors from scholarships and certain interest-free loans.

21. Pay as you earn (non-deducted sums) (see Brief F8)

Creates a new charge to tax where employers pay remuneration tax free and account for PAYE rate.

22. Profit Sharing Schemes (increase of maximum share appropriation) (see Brief H3)

Provides for an increase in the present £1,250 limit on the value of shares that can be allocated annually to an employee under an approved profit sharing scheme, to take effect from 6 April 1983.

23. Profit Sharing Schemes and share option schemes (see Brief H3)

Makes provision for some minor changes to the terms on which profit sharing and share option schemes may be approved under the Finance Acts 1978 and 1980 respectively.

24. Relief for investment in corporate trades (see Brief H2)

Extends the Business Start-Up Scheme in time and widens its coverage.

25. Group Relief (see Brief G8)

Provides for legislation to restrict group and consortium relief in certain cases.

26. Capital allowances: assured tenancies (not mentioned in speech or FSBR)

Provides for technical amendments to last year's legislation, which was introduced on Report.

27. Capital Gains (see Briefs H4 and L1)

Authorises (a) the repeal of the small gifts exemption and payment by instalments facility, (b) and (c) the making of changes in the settled property rules and (d) any incidental charges arising from the introduction of "parallel pooling" rules for calculating the indexation allowance.

28. Capital Transfer Tax (Burden of tax and payment by instalments) (see Briefs H4 and L2)

Authorises an increased charge in the amount of CTT on death which can arise in certain circumstances as a result of the change being made in the rules for allocating the burden of CTT where the deceased has left no directions in his will, and authorises an increase in the de minimis limit on the value of unquoted shares, the CTT on which may be paid by instalments.

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M1 Cont.

29. Oil Taxation (receipts derived from and expenditure in connection with, certain assets) (see Brief J2)

As foreshadowed in the 1982 Budget statement, full front-end relief from PRT is usually being given where long-term assets are used by more than one oil-field, and, as a corollary, receipts for the use of these assets are being brought into charge.

30. Oil taxation (abortive exploration expenditure) (see Brief J2)

Covers incidental charges that can arise from the replacement of the existing PRT abortive expenditure relief by more generous exploration and appraisal relief.

31. Relief from tax (incidental and consequential changes)

Authorises any incidental or consequential charges to tax which may arise from relieving provisions. Inclusion follows normal practice.

Procedure Resolutions

Interest Rates for National Loan Fund

To enable an amendment to section 5 of the National Loans Act 1968 to remove an impediment to practical operation introduced inadvertantly by the amendment made to this section in the Finance Act 1982.

New Town Development Loans

To enable provisions to be made to suspend temporarily appropriate amounts of debt owed by English and Welsh new towns to the National Loans Fund.

Future Taxation

(a) Benefits in kind: provided accommodation (see Brief F8)

Strengthens the law in relation to expensive houses provided for directors and others.

(b) International Business (see Brief G8)
Covers a new charge to corporation tax on UK resident companies with interests in certain non-resident companies.

(c) ACT: carry-back and set off (see Brief G3)

Provides for changes in tax liabilities consequent on the extension of the carry-back period for "surplus" ACT and the change in order of set-off of ACT and double taxation relief against corporation tax.

(d) Films, tapes and discs (see Brief G5)
Authorises extension, until 31 March 1987, of the 100 per cent first year allowance for expenditure on British films.

(e) Teletext (see Brief G5)
Authorises extension, for one year, of the 100 per cent first year allowance on rented teletext sets.

(f) Development Land Tax (see Brief L4)
Authorises provision for allowing the development land tax liability on development for the developer's own use to be deferred if that development is started before1 April 1986 instead of 1 April 1984 as law stands at present.

(g) National Insurance Surcharge (see Brief G2)
Authorises the postponement for local authorities until 1984-85 of the reduction in the rate of surcharge.

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Finance (Money) Resolutions

Supplement to SAYE and National Savings Certificates

Required to create powers to pay supplements on Index Linked SAYE contracts and Index Linked National Savings Certificates, which are not covered by the prospectus for these particular forms of National Savings.

New Town Development Loans

See above.

Contact point: K F Murphy (FP1) 233-8974

M2 IMPLICATIONS FOR FINANCE BILL OF EARLY GENERAL ELECTION

1. Income tax and corporation tax are "annual" taxes and must be reimposed each year. VAT and other indirect taxes are not annual taxes - they continue without fresh legislation.

2. Provisional Collection of Taxes Act (PCTA) gives statutory effect until 5 August to Resolutions renewing certain taxes in force the previous year or increasing excise duties - ie a Finance Bill must be enacted by 5 August otherwise power to collect taxes will cease and tax already collected under the Resolutions would have to be refunded.

3. A PCTA resolution falls if Finance Bill has not had its Second Reading within 25 sitting days of being passed (with 15 March Budget assuming one-week Easter recess, deadline for Second Reading is 27 April).

4. A PCTA resolution also falls in Parliament is prorogued or dissolved. Therefore essential to enact at least a "Caretaker" Finance Bill before prorogation or dissolution.

5. Minimum provision required on direct taxes side is imposition of rates of income tax (including higher rates and IIS), corporation tax (including "small companies" rate of CT and marginal fraction) and advance corporation tax. (PRT and CGT continue at existing rate unless changed.) Changes in stamp duty threshold or rate scale announced in Budget must also be legislated for - otherwise Instruments would have to be restamped. On indirect tax side it would be essential that Caretaker Bill covered any increases on excise duties - otherwise additional revenue collected would have to be paid back.

6. Desirable that Caretaker Bill should also cover:

(a) personal allowances and higher rate thresholds - these would be automatically indexed if no other provision were made;

(b) mortgage interest relief ceiling - this is fixed each year; relief otherwise unlimited;

(c) small profits limits for CT - these continue at current level if no provision made.

(d) capital gains tax annual exempt amount and capital transfer tax rates scales - these also automatically indexed if no provision made;

7. Most recent (but partial) precedent (Finance Act 1979) covered most of items in paragraphs 5 and 6 (a)-(c) in less than 2 pages.

8. Subject to administrative considerations (eg can be difficult to reduce personal allowances or increase tax rates part way through year) items in paragraphs 5 and 6 could be revised in post-election Bill, as in 1979.

9. If election called during passage of Finance Bill - the minimum provisions would have to be enacted. The fate of rest of Bill would depend on Government's priorities and legislative time available.

Contact point: Miss M Hay (Inland Revenue) 2541-6803:
D J Howard (Customs and Excise) 2913-2106

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M3: INTERNATIONAL TAX COMPARISONS M3

General

International comparisons are not always particularly illuminating because (a) statistics hide different underlying tax systems (and size of public sector) and economic conditions in different countries, (b) countries can be selected to support virtually any argument. Tables below give general comparisons between UK and a selection of main competitors.

A BALANCE AND BURDEN OF TAXATION

A(i) BURDEN OF TAXATION 1981 (latest available year)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
Total tax as % of GDP at market prices	36.8	42.9	37.2	45.8	51.5	(1980) 26.1	(1980) 30.7

A(ii) BALANCE OF TAXATION 1980 (latest available year)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
Direct taxes	45.3	32.7	52.7	54.5	45.1	56.5	58.9
Indirect taxes	54.7	67.3	46.3	45.5	54.9	43.5	41.1

Source: OECD Revenue Statistics (1981 figures are provisional).

Note: Employees' and self employed social security contributions are included in direct taxation: employers' in indirect. Taxes on mixed tax-bases are included in indirect taxes.

[For UK data for later years, see Brief C2]

Points to make

(i) UK burden as % of GDP low compared with EC countries; but higher than US and Japan.

(ii) UK's tax burden a little below unweighted average of 16 of OECD countries.

(iii) Balance between direct and indirect taxation in UK about average for countries shown.

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M3 Contd

B DIFFERENT TAXES AS PERCENTAGE OF TOTAL TAXATION 1980 (latest available figures)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
% of total taxation							
Household income & profits	30.0	12.9	29.9	26.3	41.0	24.2	36.8
Corporation income & profits	7.7	5.0	5.5	6.6	2.5	17.3	10.1
Employees' social security contributions (& self-employed)	7.0	14.1	16.0	20.3	1.2	14.3	10.9
Employer's social security & payroll tax	14.1	31.2	18.2	17.8	30.1	14.8	15.6
Taxes on property (exc. rates)	1.4	1.8	1.6	2.4	0.9	2.9	1.2
Taxes on consumption (goods & services)	28.8	30.0	27.0	24.8	24.3	16.4	16.6
Rates, and other	11.1	4.9	1.7	1.7	-	10.3	8.8

Source: OECD Revenue Statistics

Points to make

(i) Taxes on household income about average for EC countries, higher than Japan but lower than US and Sweden. Employees social secuirty contributions low.

(ii) Taxes on corporate income higher than most EC countries, lower than US and Japan. But employer's social security and payroll taxes low in UK and combined take of taxes, contributions and payroll lowest even before NIS reductions starting last year.

(iii) Taxes on expenditure higher than in Sweden, Japan and US but about average in EC.

C INCOME TAX AND SOCIAL SECURITY CONTRIBUTIONS

In general, the UK shows up better in the following comparisons where:-

(a) The "average production worker" earnings (APW) basis is used (Tables C(i) and (ii)) rather than foreign currency equivalents of UK average earnings (Tables C(iii) and (iv)) since APW earnings in most countries are higher than in UK.

(b) Combined tax and social security rates are given, since contributions in UK are low.

C (i) STARTING TAX RATE ON EMPLOYMENT INCOME AND THRESHOLDS IN £

	Single person				Married without children			
	Rate	Including SSC	Threshold	Threshold as % of APW earnings	Rate	Including SSC	Threshold	Threshold as % of APW earnings
France	18	27	3,250	50	7	18	4,290	66
Germany	18	35	2,000	20	18	35	3,340	34
Italy	13	20	1,935	27	16	22	2,110	29
Japan	14	23	2,440	19	14	23	3,340	27
Netherlands	16	37	3,190	32	16	37	4,000	41
Sweden	32	32	750	10	32	32	1,235	16
USA (Federal)	11	18	2,130	18	11	18	3,480	30
UK 1982/83	30	38.75	1,565	23	30	38.75	2,445	35
1983/84	30	39	1,785	24	30	39	2,795	37

MAXIMUM MARGINAL TAX RATE ON EMPLOYMENT INCOME AND THRESHOLDS IN £

	Single person				Married without children			
	Rate	Including SSC	Threshold	Threshold as % of APW earnings	Rate	Including SSC	Threshold	Threshold as % of APW earnings
France	70	71	52,700	820	70	71	54,900	855
Germany	56	56	36,555	360	56	56	72,775	715
Italy	72	74	279,000	3,845	72	74	279,000	3,845
Japan	88	88	242,170	1,920	88	88	243,020	1,930
Netherlands	72	72	58,650	600	72	72	59,330	605
Sweden	83	83	28,905	375	83	83	28,905	375
USA	56	56	38,000	325	56	56	76,000	650
UK 1982/83	60	60	33,065	445	60	60	33,945	460
1983/84	60	60	37,785	501	60	60	38,795	515

NOTES

1. Income of married couple wholly that of husband, and UK employees contracted-in to State pension scheme.
2. All thresholds take account of minimum deductions for expenses and other flat rate reliefs etc.
3. Local income tax, at typical rates, included for Japan, and Sweden. For USA, maximum rate and threshold includes California tax, but starting rate and threshold is Federal tax only as Californian threshold much higher.
4. Conversions at exchange rates 18 February 1983.
5. 1982 thresholds and rates for France and Japan; 1983 for Germany, Italy, Netherlands, Sweden and USA.
6. See Table C(ii) for sterling equivalent of APW earnings.

Points to make

(i) Following 1979 Budget, top rates of tax reduced from previous absurd levels to about the average of main competitors.

(ii) Large threshold and rate band rises this year improve our showing in these comparisons.

Defensive

(iii) Starting thresholds still low by international standards, but related to APW earnings (to reflect differences in national income levels) UK position about average.

(iv) UK starting rate high, but continues over a very wide income band and differences less marked when SSC also taken into account. A reduced rate band not much help until thresholds themselves can be raised considerably. It would be the marginal rate for relatively few people - mainly part-time working wives and juveniles - and has high administrative cost.

C (ii) Average rates of Income Tax and Social Security Contributions for Average Production Worker (APW)

	Sterling equivalent of APW earnings (forecast 1.4.83)	Combined Rate
France	6,420	15
Germany	10,190	29
Italy	7,260	24
Japan	12,600	20
Netherlands	9,820	39
Sweden	7,670	33
USA	11,685	18
UK	7,537	27.9 (1983/84)

Notes

1. Average production worker assumed married with non-earning wife and no children.

2. Notes to Table C(i) also apply.

C (iii) Average rates of tax and tax plus social security contributions on employment income of £9,000 (rounded estimate of UK average earnings in 1983)

	income tax			income tax with social security contributions		
	Single	Married	Married + 2 children	Single	Married	Married + 2 children
France	13	6	0	24	16	10
Germany	17	11	5	35	28	22
Italy	20	20	16	27	27	24
Japan	9	7	3	19	17	13
Netherlands	12	9	2	40	37	30
Sweden	38	36	30	38	36	30
USA	14	9	5	21	16	12
UK 1982/83	24.8	21.8	15.5	33.5	30.6	24.3
1983/84	24	20.7	13.6	33	29.7	22.6

Notes

1. For M + 2 children child benefits, where payable, taken into account, as well as any child tax allowances.

2. For other notes see Table C(i).

C (iv) Marginal rates of tax and tax plus social security contributions on employment income of £9,000 (rounded estimate of UK average earnings in 1983)

	income tax			income tax with social security contributions		
	Single	Married	Married + 2 children	Single	Married	Married + 2 children
France	29	14	11	33	20	16
Germany	34	22	22	51	36	36
Italy	33	33	33	38	38	38
Japan	20	18	14	28	27	22
Netherlands	32	32	32	57	57	57
Sweden	58	58	58	58	58	58
USA	26	19	17	33	26	24
UK 1982/83	30	30	30	38.75	38.75	38.75
1983/84	30	30	30	39	39	39

Notes

1. For M+ 2 children, this table takes account of child tax allowances where given, but not child benefits which cannot be shown in marginal rate tables.

2. For other notes, see Table C(i).

Points to make

(i) UK's position is broadly average for both average and marginal rates when social security contributions and local income tax are taken into account. This applies to all three comparisons - S, M, and M + 2.

(ii) Long basic rate band and upper earnings ceiling on NIC make UK position much more favourable at roughly 1½ to 2 times average UK earnings.

(iii) Substantial threshold increases this year a step in the right direction towards lower average rates at all income levels. Will particularly help low paid - those most affected by UK's relatively low thresholds and high starting rate.

Defensive

(i) Straight comparison with foreign counterpart with same pre-tax income misleading because UK earner likely to be higher in UK income distribution than foreigner is in his country's income distribution.

(ii) On comparisons including children - regard should also be had to social security contributions (low in UK) and child benefits (high in UK) when UK's position becomes average (Table C(iii)).

Contact Point: Brenda Holman (DEU3) 233 4188 (Tables A, B and C(ii)
Peter Lewis (IR) 438 6768 (Tables C).

M4 EFFECTS OF TAX MEASURES ON CIVIL SERVICE NUMBERS

INLAND REVENUE

Factual

(i) The staffing implications of the Budget are as follows:-

			1983-84	1984-85 (and later years)
1. Income tax - indexation + 8½% on all rates and allowances and raising of investment income surcharge threshold	(a)	Compared to no change	-290	-945
	(b)	compared to statutory indexation	-175	-560
2. Increase in mortgage interest relief limit			* -	-120
3. Widow's bereavement allowance			+40	+40
4. Business Expansion Scheme			+30	+45
5. Raising CGT threshold			-	-30
6. Raising CTT threshold			-15	-15
7. Other minor changes which can be costed			+18	+18

*No impact in 1983-84 because lenders are committed to existing arrangements, which generally leave mortgages above the old limit outside MIRAS.

(ii) Net saving from total package:

(a) Compared to status quo; 217 staff in 1983-84 and 1007 staff in 1984-85;

(b) Compared to income tax and capital gains tax statutory indexation; 102 staff in 1983-84 and 592 staff in 1984-85.

(iii) Statutory indexation alone would not have been sufficient, with the growth in incomes, to stop taxpayer numbers increasing.

(iv) Net reduction in Inland Revenue staff as result of Budget is 102 in 1983-84 and 592 in 1984-85. Will be taken into account in fixing future manpower and financial provisions.

Positive

(i) Inland Revenue numbers (73,281 at 1 March 1983) show a reduction of 11,000 (or 13 per cent) since Government took office, and are due to be reduced by a further 3,400 by April 1984, a fall since 1979 of over 17 per cent.

(ii) This Budget makes a further valuable contribution to the process of reducing staff.

Contact point: A Pinder (Inland Revenue) 2541-7155

CUSTOMS AND EXCISE

Factual

(i) Freeports: It is estimated that these will require an additional 40 staff during the experimental phase, but final numbers will be decided in the light of experience.

(ii) VAT: 1983-84 staffing effect expected to be neutral. Increase in registration limits may lead to an initial small decrease in numbers registered, but this is likely to be offset by continuing growth in size of VAT register.

Positive

Customs and Excise permanent staff have already been reduced by some 3,200 (approximately 11 per cent) since the Government took office. Number will be reduced further over the next year giving a total reduction of about 3,600 (12½ per cent) as part of the Government's continuing programme to reduce the size of the civil service.

Contact point: W D Whitmore (Customs and Excise) 2913-2834

FROM: JOHN GIEVE
DATE: 14 March 1983 PMP

MR NORGROVE

cc PPS
Mr Kemp
Mr Cassell
Mr Moore
Mr Mountfield
Mr Monger
Mr R I G Allen
Mr M A Hall
Mr Monaghan
Ms Seammen
Mr Harris
Mr Robson

Following the meeting this afternoon, I attach a revised draft outline for the Chief Secretary's speech on Wednesday. You have agreed to provide by lunch tomorrow revised blocks for Parts B, C, and D. Ms Seammen is providing material for Block E and Mr Harris is reworking his material on Block F. In each case, what is required is speaking notes giving the main points to make with supporting facts and figures. Wherever possible the material for the blocks should be subdivided into sub-sections and the material presented on different sheets of paper. It would be very helpful also, if each sheet could refer to the relevant Budget brief setting out defensive material.

JG

JOHN GIEVE

A. Introduction

1. Main purpose of Budget: foster sound recovery.

2. [Generally favourable reaction but inevitable attacks from..] Opposition. No clear priorities: just more spending and tax cuts for working and non-working population and for industry. Hasn't worked in past, wouldn't work now.

B. The PSBR

1. Chancellor's judgement of right PSBR crucial to Budget stance. But not just this year's PSBR but path of PSBR over years.

2. Vital to provide a consistent and sound forecast for industry and economy part of a strategy not just one year; not looking to Government but people (compare below) to provide more growth and jobs.

3. MTFS in 1980 set out declining path as share of GDP: continued in this Budget: no pre-election easing up. In itself important for confidence, exchange rate and therefore interest rates and inflation.

4. Link from PSBR to interest rates and inflation is vital. [Certainly no doubt of the consequences of massive extra borrowing is proposed by Labour/SDP]

5. Shown by fall in inflation and fall in interest rates: prospects for both.

6. Low inflation and interest rates are already creating conditions for growth (compare other countries' record); explain how; look ahead in Budget forecast; favourable indicators [latest GDP figures]; CBI Trends etc. [Unemployment not to rise further?]

C. <u>Help for Industry</u>

1. Within PSBR, the main Budget decisions are on <u>taxes</u>. Balance right between business and persons. Less important than overall Budget stance. For tax cuts for people (like lower inflation) <u>do</u> help industry [say how]. And NIS reductions help employment.

2. We have given great help to industry in 1981 Budget and Autumn measures.

3. New NIS cut and latest enterprise measures will help business: explain how. So will construction and innovation packages.

D. <u>Personal Taxes</u>

1. Industry will also benefit from higher thresholds.

2. Concentration on persons right also because of: poverty/unemployment trap, developing for 30 years; also 1981 inability to index and incentives necessary throughout society.

3. Taxes still higher than we would want but
   a) necessary to constrain PSBR
   b) necessary to help industry (figures) in earlier Budgets

4. With PES under control and recovery starting possible to progress [spell out best comparisons]
   NB. thresholds CB and pensions have all been increased more than RPI since 1979.

[5. Rich vs poor – defensive piece]

E. <u>Public expenditure and social security</u>

1. The other half of the picture is public spending. Discussed last week. Bringing together main changes gives £238 million all charged to C. Reserve.

2. Mr Fowler will speak tomorrow on social security. Clearly an important change in method. But make ~~three~~ two points

a) Child Benefit higher in real terms than ever before. Meets All Party Committee's wish in full.

b) Social Security

- pensioners have done well: pensions higher than ever before; no "clawing back" of what given - rather rise brought forward; [£180 million piece defensive] [Choice of - defensive bit]

- honest approach of protecting pensioners but limiting burden on wealth creating working population.

16. ~~Success in public spending control (and fall as share of GDP) mean that today's and last year's tax reductions possible.~~

(F) Opposition programmes

1 Alternative programmes from Labour and Alliance: not now very different: Alliance is Shore less nationalisation and less overt devaluation pledge - though even Shore now reticent about that.

2 . Both programmes flawed: belief that Governments spend and borrow way to growth and jobs and that devaluation offers a way out of need to control costs; that Governments can control exchange rates.

3 . Labour have no credible policy for incomes; and neither do Alliance, for rigid incomes policies never work. Yet less control (in Labour's case virtually no control) on monetary growth and much more borrowing must bring back vicious circle of inflation, interest rates rising, high wage claims, lost competitiveness and lost jobs. All of Opposition now committed to policies which would destroy confidence of markets and precipitate collapse of economy.

4 . Contrast Government - no election bribes, contrary to some expectations. Credible, balanced instalment on way to sustainable recovery.

(RWP)

FROM: E P KEMP
14 March 1983

MR R EVANS

cc Principal Private Secretary
PS/Chief Secretary
Mr Mountfield
Mr Monger
Mr Allen
Mr Norgrove

BUDGET SNAPSHOT

One or two quick points on your draft of Friday.

2. At the top of page 3 you say "Additional public expenditure on technology and innovation, housing improvements, social security and employment measures will cost £238 million, all charged to the Contingency Reserve; thus will not add to total of planned expenditure". I think you should add after "will cost £238 million" the words "over and above what is already provided". This point arises on child benefit and we carefully make it in the FSBR - the total cost of the increases compared with doing nothing are rather larger than merely the addition to the plans (see my further point below).

3. Second, in the second paragraph on the third page I think that instead of "£1½ billion" you should say "£1.6 billion". It was agreed on Saturday with Mr Kerr that although the Speech would stick to "about £1½ billion" as the PSBR cost of the Budget over and above indexation, we should for the purpose of the FSBR and elsewhere go for the more precise figure of £1.6 billion (cf what we did last year where we agonised as between £1¼ billion or £1.3 billion, and decided to go for £1.3 billion.)

4. In Section G, second paragraph, I think you should delete the 11.1 per cent which you say is the uprating of child benefit. The figure is precise, but let others do it for themselves - it has been deleted from the Speech already as rather too stark a contrast with the thresholds increase.

5. In the same paragraph I think that instead of quoting £75 million as the cost of this increase for 1983-84 and £211 million in 1984-85 you should quote the full cash cost, as will probably be quoted in the Speech; we are looking into what this is precisely but I think the words in brackets here should read

"(cost £130 million in 1983-84 and £325 million in 1984-85)". There is no need to mention the Contingency Reserve in this context, it seems to me, you will already made the general point at the top of page 3.

6. In the first paragraph in Section H, I think it might be worth adding the cost - £30 million in a full year.

7. In Section I where we talk about tobacco, could you include the plus point that there is no increase in duty on pipe tobacco.

8. In the first paragraph of Section N, I suggest you delete the words in brackets at the end. Reference to the West Midlands is a quasi political point and it seems to me out of place in the Snapshot.

9. At the end of Section R could we put some costs in. I suggest a new little paragraph "Revenue costs in 1983-84 of NIS cut and hold back on NIC some £1 billion

10. You may like to show the draft to Messrs Monger and Mountfield.

EPK

E P KEMP

CMP

FROM: JILL RUTTER
DATE: 14 March 1983

MR HARRIS

CENTRAL COUNCIL ON 26 MARCH

The Chancellor would be grateful if you could provide him with an early shot at his speech to the Central Council - which should be not more than 15 minutes - in time for him to discuss it with you before the week-end.

JKR

JILL RUTTER

2.45

FROM: JILL RUTTER
DATE: 14 March 1983

PMP

cc Mr Monaghan
Mr Page
Mr Hall

MR MACKELLAR

COI 'LONDON LINE' INTERVIEW: 15 MARCH

The Chancellor has seen your minute. He has also seen Mr Hall's comment that perhaps the Chancellor could offer 6.30. The Chancellor would offer 6.15.

JKR

JILL RUTTER

(JMP)

MINISTER OF STATE TREASURY

FROM : A P HUDSON

DATE : 14 March 1983

MR R I G ALLAN

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Sir Douglas Wass
Mr Middleton
Mr Cassel
Mr Kemp
Mr Moore
Mr Norgrove
Mr Ridley
Sir Lawrence Airey - IR

BUDGET SNAPSHOT

1. The Minister of State (R) suggests a couple of additions to the Snapshot, in line with his comments on the Briefing.

2. Block Q : add a sentence at the end of the paragraph on "Tax Havens" to say "No measures on company residence or upstream loans".

3. Block O - North Sea Oil : The Minister would like to add a sentence, which might fit well as the second sentence in the first paragraph, to read "A package of reliefs totalling £800 million over 4 years for existing fields, together with a substantially more favourable regime for future fields".

APH

A P HUDSON
Private Secretary

FROM: JOHN GIEVE
DATE: 14 March 1983

MR MOUNTFIELD

cc Chancellor
Sir A Rawlinson
Mr Wilding
Mr Kemp
Mr Ridley
Mr Hart

PUBLIC SPENDING ASPECTS OF THE FORWARD LOOK:
DRAFT LETTER TO THE PM

The Chief Secretary has read Mr Ridley's minute of 11 March. He thinks this raises a point of substance on which he would appreciate your views.

JG

JOHN GIEVE

CHIEF SECRETARY TO THE TREASURY

FROM: MISS J M SWIFT

DATE: 14 March 1983

pwp

MR STUBBINGTON

cc PPS
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Kemp
Mr French
Mr T Burns
Mr Harris
Mr Allen
Mr Hall
Mr Williams
Miss Dyes

PARLIAMENTARY QUESTIONS: FIRST ORDER, THURSDAY 24 MARCH 1983

The Chief Secretary has seen the provisional allocation of Treasury First Order Questions.

2. I have agreed with the Minister of State (R)'s office that the Chief Secretary should take on No.7, the Minister of State (R) taking on No.2. Otherwise, the Chief Secretary is content with the allocation.

MISS J M SWIFT

CONFIDENTIAL

df 17/3

Ref. No: GEC(83)2

14.3.83

Members may find the attached helpful for the Budget Debate on Tuesday, 15th March, 1983.

Contents

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
Dominic Hobson
(extension 2511)

OPPOSITION ECONOMIC POLICIES

The pursuit of balanced fiscal and monetary policies is an essential precondition for economic growth and a sustainable increase in employment. The Labour Party and the SDP/Liberal Alliance now seem to have arrived at a common approach to the economy – to abandon these prudent policies. But both must answer three fundamental questions:

1. How will they simultaneously increase public spending and borrowing and keep interest rates and inflation down?

2. Do they think that the abandonment of monetary and fiscal restraint will have no effect on confidence in the markets, interest rates and inflation?

3. Could either of them deliver a workable policy on pay restraint?

Neither party said much about the economic background to the Budget. There is no recognition of the improved international environment or improving business confidence at home. Above all, low inflation is the basis for economic expansion. It brings lower interest rates, more investment and more economic activity for the same amount of resources. It brings greater confidence to employers and employees and thus moderation to pay bargaining, which is an essential precondition for any improvement in Britain's competitiveness.

LABOUR'S PRE-BUDGET STATEMENT

On March 10th 1983 Mr. Peter Shore, the Shadow Chancellor, published his Pre-Budget Statement.

The Proposals. These are for an £11 billion package (PSBR cost £6 billion) to create half a million jobs within a year:

(a) £4 billion on cost-cutting measures to offset the inflationary effects of devaluation, including cuts in VAT and/or the National Insurance Surcharge, and perhaps council house rents;

(b) £5 billion on increased public spending on capital investment like housing and social services;

(c) £2 billion* on higher social benefits eg a £2 a week increase in child benefit, long-term supplementary benefit rate for those out of work over a year, doubling the Christmas bonus to £20, increasing the death grant to £200;

(d) A "self-financing" tax redistribution package, including a 10 per cent real increase in personal allowances, lower thresholds for the higher rate bands, tighter rules on Capital Transfer Tax, restriction of mortgage interest relief to the standard rate. The ceiling on earnings liable to National Insurance contributions would also be abolished, and a drive against tax evasion undertaken;

(e) An immediate cut in interest rates, though the size is not specified;

(f) The recent fall in the exchange rate is welcomed, but it is unclear whether Mr. Shore would welcome a further fall.

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* The timing of upratings means the cost would be only £1 billion in 1983-84

The package adds up to the usual jumble of contradictory aims, of which the most notable is a vast increase in public borrowing, which would inevitably drive up interest rates, being accompanied instead by a cut in interest rates.

The package is broadly similar to the Programme for Recovery unveiled by Mr. Shore on November 23rd 1982, but some embarrassing aspects of these proposals have this time been deliberately suppressed:

- There is no mention of the package being run through the Treasury Model

  Programme for Recovery admitted that the Treasury model had shown the proposals would not work beyond the first two years without wage and price agreements. This time they are not mentioned. Are they taken for granted or is it because

  > "the bonus fall in inflation makes it even easier to absorb any modest rise in inflation that might flow from our reflationary stimulus"? (Pre-Budget Economic Statement p. 7)

- No mention of pay restraint or price controls

  The November package showed that, if highly optimistic assumptions were made about pay restraint, the Treasury model yielded growth in jobs, and relatively low inflation. The extra borrowing needed to pay for the proposals could also only be funded if the markets had confidence in the ability of Labour to secure pay restraint. Yet the "National Economic Assessment", designed to secure these objectives is barely mentioned in the March package. This reflects the continuing failure within the Labour Party to resolve the question of pay:

  > "Incomes policy is a sterile, dead debate"
  > (David Basnett, Sunday Times, 12th December 1982)

  > "We are the only party that can shape our economic policy for the nation in association with the trade unions.......That does not mean that the national economic assessment is a code-name for an incomes policy - because it is not. I am opposed to any statutory policy..... And I do not think any such policy would ever work"
  > (Michael Foot, Labour Party Conference, 28th September 1982)

  > ".....without an agreement with the trades unions about income levels which the expanding economy can contain, growth will turn into inflation".
  > (Roy Hattersley, New Socialist, March/April 1983).

  > "The TUC and Labour Party conferences last year clearly rejected the the policies that have failed, which one normally described as a pay policy"
  > (Tony Benn, Hansard, 28th January 1982, Col 1035)

  > "We have also made clear our opposition to any policies of wage restraint".
  > (Labour's Programme 1982)

In a recent article in Labour Weekly (October 22nd, 1982) Mr. Sam McCluskie, Labour Party Chairman, acknowledged the importance of pay but said Labour did not want an incomes policy and instead offered the unions a battery of new privileges and instruments (the return of Schedule 11, a new Clegg Commission etc) which will enable them to overturn any attempt at pay restraint.

Yet the London Business School which recently ran through its forecasting model policies in "the spirit of Labour Party policies" concluded:

> "If unions and financial markets act to support these policies, then unemployment falls by about a third of a million and inflation reaches only (sic) 11 to 12 per cent. If not, then unemployment rises slightly as inflation accelerates to around 17 per cent"
> (Economic Outlook 1982-86, LBS Centre for Economic Forecasting, Vol 7, No 5, February 1983).

- No exchange rate devaluation target

Last November's Programme for Recovery proposed a 30 per cent fall in the value of the pound over two years. The fall in the exchange rate since October 1982 - encouraged by Labour's irresponsible pronouncements - has still not satisfied Mr. Shore, who is nevertheless very coy about how much further he would like it to fall. He now says devaluation must be accompanied by cost cutting measures to prevent costs wiping out the gains in competitiveness. But the cuts in NIS and VAT would only have a "one-off" effect on prices, and would only bottle up further rises for the future.

Mr. Shore did not mention the fact that the world's most successful industrial centres, Germany and Japan, won their markets with strong not weak currencies.

The LBS forecast assumed, in its "successful" scenario for Labour policies that the exchange rate remained the same as it would under a continuation of current Conservative policies. In the "less successful" scenario the pound falls by 20 per cent, interest rates rise and government expenditure is cut in a bid to stem the fall.

The package has one new feature: international reflation

Labour actually believe they could induce the rest of the international community to abandon monetary and fiscal prudence as well, and join them in reflating their economies. With assumptions like that it was prudent not to run the package through the Treasury model.

A recipe for collapse.

The proposals are a recipe for economic collapse. If the prospect of a Labour Government did not lead to an immediate and total collapse collapse would surely follow very quickly as

* Monetary and fiscal laxity drove up inflation and interest rates;

* Wage demands, fuelled by inflationary expectations, began to rise;

* Exchange and import controls proved ineffective in insulating Britain from a loss of confidence by financial markets;

* British goods were priced out of world markets and unemployment began to soar.

THE SDP/LIBERAL ALLIANCE'S BUDGET FOR JOBS AND INDUSTRY

The "Budget for Jobs and Industry" launched by the Alliance on February 28th was summarised by the Financial Times as "sad work for an ex-Chancellor"(March 1st 1983). It added that the package "cannot be taken seriously".

The Proposals. These are for an increase in the PSBR above an "indexed Budget"* of £5.2 billion, to relieve unemployment by 465,000 in 1983-84 and over 1 million by the end of 1984-85.

(a) Abolition of the National Insurance Surcharge and 2½ points off VAT, and no revalorisation of petrol and drink to cut back inflation;

(b) £1 billion (gross) on public investment;

(c) £1.4 billion(net) on special employment measures;

(d) The rest of expenditure on a tax package for small businesses, the poor and the unemployed.

Misleading Costings. The Financial Times described the Alliance arithmetic as a case of "sleight-of-hand". In fact, it represents an arithmetical error of some £4 billion.

The projected increase of only £5.2 billion is achieved by starting from a lower base line PSBR in 1983-84 and by counting only the first year effects of reductions in NIS and VAT when these would in fact be reduced in October. The full year cost of the NIS/VAT changes would be an additional £1-1½ billion. Allowing for a build up of public sector investment the programme might be fairly described as having a net PSBR cost of about £7 billion a year and probably more - which is twice the £3-4 billion the Alliance had been proferring since last Autumn, but -magically-for the same result.

The figure of £5.7 billion for an "indexed Budget" is probably an underestimate. The Autumn Statement suggested a base line level of about £7 billion. Therefore the Alliance's proposed total PSBR for 1983-84 of £10.9 billion is likely to be nearer £14 billion, which is £6 billion more than the Government's budgeted £8 billion, and not the £3 billion more that they claim.

The package represents a significant reversal of prudent fiscal and monetary policies and would have an extremely damaging effect on confidence in the financial markets.

Comparison with Labour

The SDP objectives (reducing unemployment, cost-cutting measures, help for the poor and unemployed) are remarkably similar to those of Labour, and yet they describe Labour's proposals as a recipe for "catastrophe". No wonder, then, at the verdict of the Financial Times:

> "It is sad to see Mr. Roy Jenkins, who was a distinguished and imaginative Chancellor, lending his prestige to the idea that a new middle way can be found by combining Socialist objectives with Conservative costing"
> (March 1st 1983)

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* The PSBR on current policies after indexing tax yields for inflation, estimated by the SDP at £5.7 billion, leading to a total PSBR of £10.9 billion

There are, however, a number of significant differences with Labour:

- No interest rate cut

  Unlike Mr. Shore, the SDP would retain monetary targets as an essential discipline and a useful guide for markets, but do not regard them as binding constraints, whereas SDP Green Paper No.1 emphasised the importance of money GDP targets. In setting interest rates, the SDP would have regard to all the variables - monetary aggregates, the exchange rate, the state of the real economy and inflation. The Government, they claim, should have no difficulties in funding a larger PSBR at unchanged interest rates since over the last two years it has over funded the PSBR, but as they point out this was to reduce the growth of Sterling M3.

- No devaluation

  "Government policy with regard to the exchange rate must balance the need for competitiveness against the importance of containing inflationary pressures". (A Budget for Jobs and Industry p 19), whereas Green Paper No 1 emphasised the overwhelming need to recoup lost competitiveness. The effect of the package on the exchange rate is expected to be "slightly depressing" because the devaluation over the last few months would have been sufficient to keep the balance of payments in surplus, unless there was a dramatic fall in the price of oil.

No Wage and price controls

The package aims to contain inflation by its cost-cutting measures but it is recognised that if the exchange rate weakened and inflation rose, feeding inflationary expectations and thereafter pay rises "additional measures would be needed for the maintenance of financial stability". (P 12). Since the cost-cutting effects of VAT/NIS charges would be only "one-off" the need for an incomes policy would be quickly apparent. It is understandable that the Alliance, which is still confused over what kind of incomes policy it wants, should avoid answering this fundamental question just yet.

Tested on the Treasury Model

Unlike Labour, the Alliance say their proposals have been "rigorously tested against the Treasury forecasting model". This is deceitful. 330,800 out of the 465,000 cut in unemployment they expect to effect in the first year of the programme is attributable to Special Employment Measures, which they admit "cannot be estimated in terms of the model". The output of any simulations on the model are only as sensible as the assumptions which are fed in, and it is not designed to cope with the response of the markets or of wage bargainers, which can have substantial effects on confidence.

FROM: LIZA MCKINNEY

14 March 1983

1. MR HALL MAH
2. CHANCELLOR

c c Mr Page
Mr Monaghan
Mr Johnson

CHANCELLOR'S WALK

This is to confirm that press photographers and television cameras will be present to film a walkabout in St James's Park by the Chancellor accompanied by Lady Howe and Budget, departing No 11 8.50 am.

To date some four TV crews and seven newspaper photographers have intimated they will be covering the event. More will probably turn up.

Royal Parks police have been informed.

Mr Monaghan and Mrs McKinney will arrive at No 11 at 8.30 am to help look after the press.

LIZA MCKINNEY

SECRET

No problems JR 11/3

On MONDAY, 14th March, 1983, the House will meet at 2.30 p.m.

For three hours, consideration of the Supplementary Estimates.

Motion relating to Class XIII Vote 23 (Stationery and Printing Supplies to the Houses of Parliament etc.) for 1½ hours.

Followed by Motion relating to Class II Vote 10 (Overseas Aid: Subhead C3 (6)) (Budgetary Aid: Turks and Caicos) for 1½ hours.

Afterwards, Ports (Reduction of Debt) Bill: 2nd Reading and Money Resolution.

At 10.00 p.m. the Questions will be put on the Motions followed by all outstanding Votes and Supplementary Estimates.

Mental Health (Amendment) (Scotland) Bill (Lords): Money Resolution.
(EXEMPTED BUSINESS for 45 minutes)

Divisions may take place, and your attendance at 9.30 p.m. for 10.00 p.m. and until the business is concluded is particularly requested unless you have registered a pair.

OK - Paired

NOTE: A Motion to suspend the ten o'clock rule for the Ports (Reduction of Debt) Bill will be moved at 10.00 p.m.

On TUESDAY, 15th March, the House will meet at 2.30 p.m.

10 Minute Rule Bill: Broadcasting of Parliament (Annual Review)
(Dr. Edmund Marshall) Dispensing Murdo

The Chancellor of the Exchequer will open his Budget.

When the Chancellor sits down the Question will be put forthwith on a Motion to give provisional effect to any changes in taxation and duty levels, if required.

A division could take place, and your attendance from 4.30 p.m. until the Budget Debate has begun is particularly requested unless you have registered a pair.

OK - Paired

Budget Debate (1st day)

See note at end of whip for European Community Documents which will be relevant.

At 7.00 p.m., OPPOSED PRIVATE BUSINESS

British Railways Bill: 2nd Reading.

Your attendance is requested.

On WEDNESDAY, 16th March, the House will meet at 2.30 p.m.

10 Minute Rule Bill: Housing Association Tenants' Rights.
(Lord James Douglas-Hamilton)

Budget Debate (2nd day)

Your attendance is requested.

PLEASE TURN OVER

On THURSDAY, 17th March, the House will meet at 2.30 p.m.
Budget Debate (3rd day)

Your attendance is requested.

On FRIDAY, 18th March, the House will meet at 9.30 a.m.

PRIVATE MEMBERS' MOTIONS

1. Mr. Arthur Bottomley - Low Pay
2. Mr. Dick Douglas - Youth Unemployment in Scotland.
3. Sir John Eden - Economic and Industrial Situation.

Your attendance is requested.

....

On Monday, 21st March, the House will meet at 2.30 p.m.
Conclusion of the Budget Debate.
There will be a 3-line whip at 9.30 p.m. for 10.00 p.m.

10. 3. 83 MICHAEL JOPLING

NOTES:

SUPPLEMENTARY ESTIMATES 14TH MARCH

This new procedure is in accordance with the Resolution passed on 19th July, 1982.

EUROPEAN COMMUNITY DOCUMENTS RELEVANT TO THE BUDGET DEBATE

10337/82 Annual Economic Report 1982-83

10480/82 Annual Economic Review 1982-83

Unnumbered Annual Report on the Economic Situation in the Community 1982, and Economic Policy Guidelines for 1983.

STANDING COMMITTEES ON STATUTORY INSTRUMENTS

The following Orders will be considered in Standing Committees on Statutory Instruments at 10.30 a.m. on Wednesday, 16th March:

Representation of the People Regulations 1983 and Representation of the People (Northern Ireland) Regulations.

Motion relating to Industrial Development Standing on the Order Paper.

COMMITTEES

Members are reminded that arrangements of Party Committees and the proceedings which take place in these Committees are secret.

MONDAY, 14th MARCH

5.15 p.m. Room 9	LEGAL The Rt. Hon Sir Ian Percival,Q.C.M.P.will attend.	(Mr. Richard Alexander)
6 p.m. Room 12	HOME AFFAIRS	(Hon. Alan Clark) (Mr. John Wheeler)

TUESDAY, 15th MARCH

NO MEETING	FOREIGN & COMMONWEALTH AFFAIRS	(Sir John Biggs-Davison) (Mr. Vivian Bendall)
NO MEETING	HEALTH & SOCIAL SERVICES	(Mrs. Sheila Faith) (Mr. Tim Smith)
NO MEETING	INDUSTRY	(Mr. John Ward) (Mr. Neville Trotter)
NO MEETING	AGRICULTURE, FISHERIES & FOOD No meeting will be held this week. Next meeting will be on Tuesday, 22nd March.	(Mr. David Myles) (Mr. John Spence)
NO MEETING	URBAN & NEW TOWN AFFAIRS	(Mr. Den Dover) (Mr. David Gilroy Bevan)
NO MEETING	AVIATION The Election of a Vice-Chairman is postponed until Tuesday, 22nd March. See also Aviation visit at end of this notice.	(Lord James Douglas-Hamilton) (Mr. Bill Walker)
Room 14	FINANCE The Chancellor of the Exchequer will attend 10 minutes after the Leader of the Opposition sits down.	(Mr. John Browne) (Mr.A.Beaumont-Dark)

WEDNESDAY, 16th MARCH

4 p.m. Room 10	DEFENCE	(Mr. John Browne) (Mr. Cyril Townsend)
4.15 p.m. Room 21	SPORTS Mr. Paul Zetter, Chairman of the Sports Aid Foundation, will attend.	(Mr. Matthew Parris)
5 p.m. Room 5	EUROPEAN AFFAIRS Sir Henry Plumb,M.E.P., will attend.	(Mr. David Myles)
5 p.m. Room 7 ELECTION	SPACE SUB-CTTEE Election of a Vice-Chairman and a Secretary.Nominations to Mr.Austen's Office by 12 noon on Tuesday, 15th March. Mr. Kenneth Baker,M.P.,Minister for Information Technology, will attend.	(Mr. Graham Bright)
5 p.m. Room 9	EDUCATION Officers of the National Advisory Cttee on Education will attend.	(Mr.Harry Greenway)
NO MEETING	MEDIA	(Mr. John Heddle)
5.30 p.m. Room 12	TRADE AND CONSUMER AFFAIRS	(Mr.Tony Marlow) (Mr. Stephen Dorrell)

WEDNESDAY'S MEETINGS CONTINUED OVERLEAF

COMMITTEES (Continued)

WEDNESDAY, 16th MARCH (Continued)

NO MEETING	CONSTITUTIONAL	(Sir Nicholas Bonsor) (Lord James Douglas-Hamilton)
6 p.m. Room 6	EMPLOYMENT Mr. J. Waites, Associate Adviser to the Industrial Society, will speak on the Green Paper.	(Mr. Mark Wolfson) (Mr. Vivian Bendall)
6 p.m. Room 9 ELECTION	SMALLER BUSINESSES Election of a Vice-Chairman. Nominations to Mr. Austen's Office by noon on Wednesday, 16th March.	(Mr. Tim Smith)
6 p.m. Room 13	ARTS & HERITAGE Mrs. Margaret Rule of the Mary Rose Trust will attend.	(Mr. John Blackburn) (Mr. Richard Alexander)
6 p.m. Room 17	SCOTTISH CONSERVATIVE & UNIONIST MEMBERS	
6.30 p.m. Room W4	WELSH MEMBERS	(Mr. Albert McQuarrie) (Mr. Delwyn Williams)

THURSDAY, 17th MARCH

NO MEETING	ENERGY	(Mr. Tony Speller)
4.15 p.m. Room 16	NORTHERN IRELAND	(Mr. Michael Brown) (Mr. Stephen Dorrell)
4.15 p.m. Room 18	TRANSPORT Four rival Channel Tunnel Consortia will argue their competing claims before the Committee.	(Mr. Matthew Parris)
4.30 p.m. Room 7	TOURISM SUB-CTTEE	(Mr. Delwyn Williams)
NO MEETING	ENVIRONMENT	(Mr. John Heddle) (Mr. Den Dover)
6 p.m. Room 14	CONSERVATIVE & UNIONIST MEMBERS	(Sir Victor Goodhew) (Mr. John Osborn)

PARTY NOTICES

SELECT COMMITTEE ON HEALTH AND SOCIAL SERVICES. A vacancy will shortly occur on this Committee. Any Member wishing to be considered for this Committee, please contact Mr. Philip Holland as soon as possible.

AVIATION COMMITTEE VISIT. A visit to Dowty on 25th March. Anyone interested in attending please contact either of the two Secretaries of the Committee.

(Lord James Douglas-Hamilton and Mr. Bill Walker)

ALL PARTY NOTICES

MONDAY, 14th MARCH

6 p.m. IPU Rooms — BRITISH-LEBANESE PARLIAMENTARY GROUP (Mr.P.Temple-Morris) (Mr.D.Watkins)
Reception with wine for departing Lebanese Ambassador, H.E.Khalil Makkawi.

6.30 p.m. Rooms 3A and 4B — PARLIAMENTARY LIAISON GROUP FOR ALTERNATIVE ENERGY STRATEGIES (Mr.J.Watson) (Mr.F.Hooley)
Dr. T.N.Marsham and Mr. Walter Patterson will speak on 'The Fast Breeder Reactor; the future for nuclear power'.

TUESDAY, 15th MARCH

12.15 p.m. Dining Room D — BRITISH-GERMAN PARLIAMENTARY GROUP (Mr.N.Formen) (Mr.D.Anderson)
There will be a luncheon for the West German Ambassador and some of his colleagues. Members interested in attending on a self-financing basis should apply in writing to Mr.Nigel Forman M.P.

6.30 p.m. Visit — ALL PARTY HERITAGE GROUP (Mr.P.Cormack) (Mr.A.Faulds)
The 'Van Dyck in England' Exhibition
We will be welcomed and shown round by Dr.M.Rogers, the Deputy Director of the National Portrait Gallery. We will meet at the National Portrait Gallery, 2 St.Martin's Place, WC2 at 6.30 p.m. Please send a written reply by Friday, 11th March to the Secretary, Lord Crathorne, at the House of Lords if you and your spouse can attend.

7 p.m. Room 10 — UNITED NATIONS PARLIAMENTARY GROUP (Mr.B.Wells) (Mr.F.Hooley)
Mr. Shridath S. Ramphal, Q.C. Commonwealth Secretary General, will speak on "The Brandt Report Updated"

WEDNESDAY, 16th MARCH

1 p.m. Room 17 — PARLIAMENTARY HUMAN RIGHTS GROUP (Mr.J.Hunt) (Mr.P.Whitehead)
Dr. Elliott Abrams, the U.S. Assistant Secretary of State for Human Rights and Humanitarian Affairs will speak on U.S. policy towards Central and Latin America.

4 p.m. Room H — ANZAC GROUP C.P.A. (Mr.R.Body) (Mr.A.Morris)
To elect a Treasurer.

5 p.m. Room 4B — ALL PARTY DEFENCE STUDY GROUP (Earl of Kimberley)
The Rt. Hon. Michael Heseltine MP. will address the Group. All Peers and MPs welcome.

6 p.m. Room 5 — ALL PARTY HERITAGE GROUP (Mr.P.Cormack) (Mr.A.Faulds)
Mrs. Margaret Rule, Archaeological Director of the Mary Rose Trust, will give an illustrated lecture of the Mary Rose. Spouses are invited to this lecture.

THURSDAY, 17th MARCH

12 noon IPU Rooms — INTER-PARLIAMENTARY UNION BRITISH GROUP
There will be a drinks reception for the Spanish Foreign Affairs Committee. All Members welcome.

4-6 Room W5 — FRENCH LANGUAGE CLASS (Lord Moyne) (Mr.D.Watkins)

ADVANCE NOTICES

MONDAY, 21st MARCH

6.30 p.m. Dining Room C — PARLIAMENTARY SCOUT ASSOCIATION (Mr.K.Best) (Mr.B.Walker)
Reception and Presentation of New Tie.
A.G.M. at 7 p.m. Nominations for Officers to Mr. K. Best MP by Friday, 18th March.

WEDNESDAY, 23rd MARCH

5 p.m. Conference Room Norman Shaw North — BRITISH-ZIMBABWE PARLIAMENTARY GROUP (Mr.J.Farr) (Dr.E.Marshall)
The Rt. Hon. Timothy Raison will attend.

PLEASE TURN OVER

ALL PARTY NOTICES (Continued)

WEDNESDAY, 23rd MARCH

5.30 p.m. Room W3	PARLIAMENTARY COMMITTEE FOR SOVIET JEWRY	(Mr.I.Lawrence) (Rt.Hon.P.Archer)

THURSDAY, 24th MARCH

9.30 a.m. Visit	ALL PARTY HERITAGE GROUP The President of the Royal Academy has invited Members and their spouses to a special viewing of the Murrillo Exhibition. Meet at the Royal Academy. Names please to Lord Crathorne by March 21st.	(Mr.P.Cormack) (Mr.A.Faulds)
12.30 p.m. Visit	INDO-BRITISH PARLIAMENTARY GROUP CURRY CLUB The High Commissioner of India has invited the Curry Club to meet at India House, Aldwych. 12.30 p.m. for 1 p.m. on this occasion members are requested to reply to Mr.Lewis Carter-Jones.	(Mr.T.Jessel) (Mr.L.Carter-Jones)

INTER-PARLIAMENTARY UNION BRITISH GROUP At the invitation of the President of the National Assembly, a Parliamentary Delegation of four Members, representing both Houses, will visit Togo from 23 - 29 May 1983. Members wishing to be considered for the visit are invited to apply in writing to the Secretary, British Group, I.P.U. Palace of Westminster, by no later than Noon, Tuesday, 22nd March. Successful candidates will be notified after the Speaker's Selection Committee on Wednesday, 23rd March.

THE BRITISH-GIBRALTAR PARLIAMENTARY GROUP has been invited by the Government of Gibraltar to arrange for two parties of four Members of the House of Commons to pay a short four day visit to Gibraltar. These visits are intended for Members who have not visited Gibraltar before. The visit will take place in May and June. Members who wish their names to be placed upon the list from which the composition of the Delegations will be made up should be sent to Mr. Albert McQuarrie M.P. by Monday, 21st March. Air and Hotel expenses will be paid by the Gibraltar Government.

LIBRARY NOTICE The Library Sub-Committee are concerned at the number of Members' personal papers left lying on library tables. They would be grateful if, in the general interest of those using these tables, Members would remove their papers after use, particularly prior to a weekend or a recess.

ADJOURNMENTS

MONDAY, 14th MARCH	Mr. D. Winnick.	The discovering and prosecution of war criminals.
TUESDAY, 15th MARCH	Mr. D. Myles.	Disincentives affecting small businesses and private employers in the employment of staff.
WEDNESDAY, 16th MARCH	Mr. A. Bennett.	The Laurel Way housing association and the Housing Corporation.
THURSDAY, 17th MARCH	Mr. I. Stanbrook.	The case for appointing a second orthopaedic surgeon at Orpington and Sevenoaks hospitals.
FRIDAY, 18th MARCH	Mr. A. Mitchell.	Redundancy arrangements in the Fishing Industry.
MONDAY, 21st MARCH	Mr. R. Prentice.	The proposed M1 - A1 link road.

10.3.83

CORRIGENDUM

DEPARTMENT OF TRANSPORT PRESS NOTICE NO 76

BUDGET - VEHICLE EXCISE DUTY

The references to motorcycles should read as follows:

	Present	Proposed	% Change
Motorcycles, up to 150 cc	£8	£8.50	6.25 up
150 cc-250 cc	£16	£17	6.25 up
over 250 cc	£32	£34	6.25 up

15 March 1983

BUDGET SECRET UNTIL CHANCELLOR SITS DOWN :
THEN UNCLASSIFIED

– LAB. RECORD ON THRESHOLDS

– TOTAL INCRS. IN N.I.CS
SINCE '79: %AGE | ABSLT

FROM: M A HALL
15 March 1983

CHANCELLOR

– COY LIQUIDATIONS: JAP. FIGURES

– AGG ALLCE HIGHEST EVER?
OR HIGHER SINCE '81

c c Mr Ridley
Mr Harris
Mr Middleton
Mr Kemp

LOBBY BRIEFING

I attach some speaking notes for the Lobby briefing scheduled for 5.30 pm. You will want to take account of reactions in the House and from backbenchers : I shall by the time you have finished seeing the latter know the initial reactions from the media.

– BARNETT BOOK on ADJSTMNS

M A HALL

SPEAKING NOTES FOR THE LOBBY

1. My briefest Budget speech - so far at any rate. Won't be time for questions. Perhaps my briefest briefing as well. Won't go into detail on measures, as you're already buried in a mountain of documents.

2. Budget consistent with previous four Budgets. Demonstrates this Government's resolve, purpose and continuity.

3. Because of that resolve and continuity I have been able to announce "further significant cuts in taxes paid by businesses and individuals." And this without in any way putting at risk our "medium term financial strategy for effective control of the money supply for lower public borrowing and for further progress on inflation. We stick to the policy that "finance must determine expenditure, not expenditure finance." "Downward pressure on inflation will be maintained." But I truly believe that "the trend of rising inflation that appeared irresistible has been decisively broken."

And I do mean significant tax cuts:-

On the personal side, thresholds and allowances have been raised by 14 per cent, 8½ per cent more than inflation. 1¼ million taken out of tax, thresholds 5 per cent up in real terms on 1978-79.

For business and industry there are measures worth £¾ million over a full year. Together with measures in Autumn Statement benefit to business over a full year of £1¼ billion.

Briefly remind you of other measures:-

Restoration of 5 per cent UB abatement : employment measures.

CB at highest level in real terms ever.

Substantial package to encourage construction and house ownership.

Help for enterprise and innovation.

No "clawback" from pensioners: reversion to rational, predictable system for future upratings.

Help for widows.

Action on fringe benefits etc.

I stressed the need for "steadiness and resolve." All the more necessary because of highly uncertain international climate. As I said "The lesson for today is that it is prudent to keep planned borrowing down". This is what we have done. But reasonable caution is a far cry from mini-Budgets and panic reappraisals. No doubt that the fall in the general level of world oil prices is to be welcomed. Lower inflation : more output. And what I did say was that "if any further reduction in oil prices seemed likely to compromise the success of our economic strategy I would be ready to take appropriate corrective action." It obviously makes no sense at all for a Chancellor to tie his hands behind his back in a rapidly changing world.

Certainly the, as measures testify, a Budget for the family and for enterprise. But above all it is "a Budget for Britain's continuing recovery." Today's industrial production figures, the announcement by the clearing banks of a half per cent cut in interest rates, encouraging developments in the construction industry and business opinion surveys - plus undoubted signs of recovery in the United States, Japan about to expand its economy - make me confident that we are now after much understandable frustration - on the way to steady recovery. This Budget underpins it.

BUDGET CONFIDENTIAL
until after BUDGET SPEECH 15 March 1983

BUDGET BRIEF 1983: CORRIGENDA

North Sea oil and North Sea revenues (Brief B5)

Some amendments have been made to this reflecting yesterday's OPEC agreement. A revised version of the brief is attached.

Medum-term Financial Strategy (Brief C3)

In the table at defensive (iv) the references to 1982 and 1983 should have been reversed, and one or two other figures were incorrect. A revision is attached.

Freeports (Brief H8)

A late change was made to the wording of the Budget Speech concerning the number of locations for freeports that are envisaged being set up. A note by Mr Griffiths setting out the position, and a revised version of H8 is attached. (NB The wording in the Snapshot has been changed from "2 or 3 experimental locations to be authorised" to "a few experimental locations to be authorised".)

Please would copy recipients ensure that these revised briefs are inserted in their folders.

A couple of other minor alterations have come to light:

B2, Positive (i) should read "GDP recovered 1½ per cent and underlying industrial output 2-2½ per cent..."

B4, Defensive (viii). The second sentence should read: "NI prices expected to rise at a slightly lower rate than other prices in 1983-84."

C2, Table 4. The figures in the 1982-83 column should be changed from 48.3 and 51.7 to 48.4 and 51.6 respectively.

RIGA

R I G ALLEN
EB
15 March 1983

B5 NORTH SEA OIL AND NORTH SEA REVENUES

Factual

		1978	1979	1980	1981	1982	1983
(i)	Oil output (m. tonnes)	54	78	81	89	103	95-115
	Oil consumption (m. tonnes)	94	94	81	75	75	74-78
	Balance of Oil Trade (£bn)	-2.0	-0.8	+0.3	+3.1	+4.6	-

(ii) New future ranges for output announced by Minister of State for Energy on 11 March 1983. Ranges broadly unchanged from last year.

(iii) Direct contribution of oil and gas to GNP (at factor cost) estimated at about 4¾ per cent in 1982, compared with 4½ per cent in 1981. Projected to stay in range 4½-4¾ per cent to 1985.

(iv) Government revenues from North Sea (Royalties, Supplementary Petroleum Duty (up to 1982-83), Petroleum Revenue Tax, including advance payments, and Corporation Tax) expected to total £7810 million in 1982-83 compared with £6450 million in 1981-82. Total revenues projected to be £7850 million in 1983-84.

(v) Figures for later years (after Budget changes) and comparison with last year's projection, shown below:

£ billion, current prices

	1982-83	1983-84	1984-85	1985-86
FSBR (1982 Budget)	6.2	6.1	8.0	-
FSBR (1983 Budget)	8	8	8	9½

(vi) Tax changes expected to cost about £115 million in 1983-84 and over £200 million a year on average over period to 1986-87.

(vii) Projections are based on latest Department of Energy production range forecasts. Oil prices (in $) assumed to remain at about present proposed levels (eg $30.50 for Forties crude) until end-1984, then to rise in line with world inflation.

(viii) Employment directly associated with oil and gas production was estimated at 22,000 in 1982, compared with 20,000 in 1981.

(ix) Investment in North Sea accounted for about 7 per cent of total fixed investment in 1982. Projected to fall slightly in 1983 and 1984. Budget changes could be expected to encourage more investment. See Brief J1.

Positive

(i) A modest and gradual fall in oil prices will help Government's economic strategy. It reduces inflation and boosts activity, both here and abroad. But it also reduces North Sea revenues and raises the PSBR, compared with what would otherwise have happened. However because it reduces the price level and improves the financial position of non-North Sea companies it does not in short run exert any upward pressure on money supply or interest rates.

(ii) Revenues from North Sea ease task of controlling public borrowing and hence reduce interest rates. Leave more room in capital markets for industry and commerce to borrow at

lower rates of interest. Without North Sea revenues, taxes would be higher, or public expenditure lower, to maintain same fiscal policy stance.

Defensive

(i) Treasury underestimating adverse effect of lower oil prices? Size of North Sea must be kept in perspective. Only a relatively small proportion of GNP ($4\frac{1}{2}$-$4\frac{3}{4}$ per cent). Revenues only 6 per cent of total General Government receipts. And net oil exports only 10 per cent of non-oil exports. So we stand to gain more from lower world and domestic inflation, better world output and so on than we lose directly. North Sea revenues would be lower but some offset to PSBR impact from lower prices, higher output.

(ii) Outlook for Oil Prices? North Sea crude prices set by market and reflect other crude prices. Matter for negotiation between BNOC and its customers. So North Sea prices will move with world prices. Difficult to know whether current oil market weakness will persist. Much will depend on the success of the new OPEC agreements, recovery in world oil demand etc.

(iii) Higher production forecast for 1983? Centre of forecast production ranges recently announced by S/S Energy a fair guide to central estimate. Consistent with production being broadly flat between last year and this.

(iv) If oil prices fall, should we not cut production? Might only be in national interest if prices were to fall markedly in the short term and then recover strongly. Companies in better position than Government to judge whether this is likely. In any case, Government committed not to use powers to cut production until at least end-1984. [Reply by Energy Secretary to written PQ, 8 June 1982, confirmed by Minister of State for Energy on 3 March.]

(v) Why such a large error in last year's revenues projection? Projecting North Sea revenues hazardous. Always admitted large margins of error. £$1\frac{1}{2}$ billion discrepancy in projection of 1982-83 revenues due to higher-than-expected sterling oil prices and production.

(vi) Why have revenue projections in 1983-84 been revised upwards? Press Notice issued 15 March 1983 points out that, while $ oil prices in 1983 are expected to be lower than in last year's FSBR, £ exchange rate also lower and $ exchange rate higher. So £ oil prices expected to be higher. Also production, especially, in tax-paying fields, higher and capital spending lower.

(vii) Are revenue projections too high given present state of world oil market? Projections assume that North Sea oil prices remain around the level proposed by BNOC on 18 February. Also incorporate considerable fall in oil prices in real terms in 1983. But must admit that outlook for oil prices very uncertain. Press Notice issued 15 March gives some estimates of effect of changes in oil prices on Government revenues: 1 per cent reduction in sterling oil price reduces Government revenues by £90 million in 1983-84.

(viii) Why are revenue projections usually below those of other forecasters? Others tend to be more optimistic about production and to forecast lower capital spending. Some also assume higher prices than the Treasury. We are not deliberately underestimating revenues. Latest are central estimates.

Contact point: S F D Powell (MP) 233-7734

C3 MEDIUM TERM FINANCIAL STRATEGY

Factual

Fourth MTFS, updated and extended to 1985-86 provides:-

(i) Statement of Government's objectives:- "to continue reducing inflation and to secure a lasting improvement in the performance of the UK economy, so providing the foundations for sustainable growth in output and employment."

(ii) Description of financial framework Control of money supply is central part of the strategy, but in judging appropriate rate of monetary growth, Government will continue to take account of all the available evidence, including the exchange rate.

Ranges for monetary growth apply to narrow (M1) and broad (£M3 and PSL2) aggregates, though more rapid growth in M1 could be appropriate for a time (as interest rates come down).

% Change	1983-84	1984-85	1985-86
1983 MTFS	7-11	6-10	5-9
1982 MTFS	7-11	6-10	n.a.
1981 MTFS	4-8	n.a.	n.a.

Target for 1983 applies to 14 months between mid February 1983 and mid April 1984, at an annual rate. Ranges for later years are illustrative.

As last year, ranges are constructed on the assumption of "no major change in the exchange rate from year to year".

(iii) Fiscal projections illustrating how fiscal policy can be made consistent with financial framework, given public expenditure plans.

PSBR		1982-83	1983-84	1984-85	1985-86
		Estimate	MTFS Projections		
1983 MTFS*					
	£ bn	7¼	8	8 (½)	7 (4)
as %	GDP	2¾	2¾	2½	2
Autumn Statement					
	£bn	9	8	n.a.	n.a.
as %	GDP	3¼	2¾	n.a.	n.a.
1982 MTFS					
	£bn	9½	8½	6½	n.a.
as %	GDP	3½	2¾	2	n.a.

*Figures in brackets show implied fiscal adjustment.

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C3 Cont

Detailed revenue and expenditure assumptions based on following assumptions:-

% Change	1983-84	1984-85	1985-86
Real GDP	←	2½ % p.a.	→
GDP deflator	5½	5½	5
Money GDP	←	8 % p.a.	→

Positive

(i) Continuity of stable financial framework. Monetary guidelines and PSBR projections virtually the same as in the 1982 MTFS.

(ii) MTFS has made important contribution to reducing inflation well into single figures.

(iii) Continued decline in monetary ranges consistent with keeping inflation on a downward trend.

(iv) Lower inflation means monetary ranges leave plenty of room for recovery in real activity.

(v) Success in reducing PSBR has contributed to reduction in interest rates, while keeping within 1982-83 target for monetary growth. PSBR fallen from 5 per cent GDP in 1979-80 to less than 3 per cent in 1982-83 (estimated).

(vi) Tax cuts in Budget possible without raising PSBR above figure suggested in last year's MTFS.

(vii) Declining path of PSBR over medium term should leave room for lower interest rates, as monetary growth comes down.

Defensive

(i) Monetary targets too high? Raised monetary targets last year to reflect apparent shift between broad monetary aggregates and inflation, caused by structural changes to financial markets and effect of high real interest rates on saving behaviour. Nothing has happened to change that view. Inflation has come down fast, and monetary growth within higher target range was consistent with appropriately restrictive monetary conditions last year. (Money GDP grew more slowly than expected.)

(ii) Has there been a change of view on velocity? Not for M1. Last year's MTFS warned that M1 velocity could fall as inflation and interest rates come down. This year's MTFS says fall could go further. £M3 is a bit different. Velocity of £M3 fell last year (whereas MTFS projections last year implied velocity would be stable with growth in the middle of the range); but change is relatively small. Forces that led us to revise targets up have continued, and seem likely to continue a little longer. New MTFS projections assume restoration of broad money velocity after recent fall starts in 1984-85 instead of 1983-84. Uncertainty about velocity is key reason why other indicators are used to interpret monetary conditions, and why ranges for later years are provisional. No intention of allowing velocity to return to trend via a rise in inflation.

(iii) Why not set a separate target for M1? Could be a lasting fall in M1 velocity as we move to lower inflation and interest rates (was a shift in the opposite direction when inflation rose in early '70s); if so, faster M1 growth, for a time, would not damage inflation prospects. But scale and timing very uncertain. Faster growth in M1 only appropriate if other indicators suggest this is consistent with maintaining moderately restrictive conditions.

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C3 Cont

(iv) Why has inflation prospect improved (despite unchanged monetary ranges)?

	1982-83	1983-84	1984-85
GDP deflator (% change)			
1982 MTFS	7½	7	6½
1983 MTFS	7	5½	5½
Money GDP (% change)			
1982 MTFS	←	9½	→
1983 MTFS	←	8	→

- Changes are fairly small, especially relative to width of target ranges. Never claimed a very precise relationship between inflation, money GDP and monetary growth over 2-3 years.

- Prospects for inflation have improved because world prices (especially oil) and domestic costs may grow more slowly. Fall in exchange rate will affect RPI path (as noted in FSBR) but, providing monetary conditions are kept moderately restrictive, effect on inflation should be temporary (and may be less pronounced on GDP deflator).

- Outside forecasts of inflation have come down a lot since last year too.

(v) Lower money GDP (actual and forecast) suggests policy is unduly restrictive. Money GDP is not a target. Slower growth not primarily due to domestic pressures but depth of world recession. Monetary ranges leave room for recovery.

(vi) Role of exchange rate? Response to exchange rate movements depends on overall assessment of domestic monetary conditions. Recent fall not interpreted as symptom of policy laxity. But exchange rate will continue to be one of the financial indicators taken into account in interpreting monetary conditions.

(vii) MTFS says that "monetary ranges are constructed on the assumption of no major change in the exchange rate." What does this mean?

- difficult to define a major change precisely. But assumption applies to year to year movements in the effective exchange rate

- even if there is a major change (as last year) correct response depends on overall assessment of domestic monetary conditions

- as Chancellor has made clear, no reason to expect domestic policy stance to cause large change in the exchange rate in foreseeable future. (Short term forecast in FSBR assumes rate will remain at around present levels over the period of forecast.)

(viii) Shift of emphasis from monetary targets to PSBR? No. MTFS always emphasised the need for consistent fiscal and monetary policies.

(ix) Fiscal policy far too restrictive (eg OECD etc) Lower PSBR makes room for lower interest rates; PSBR alone not a measure of overall stance of policy. Lower inflation eases fiscal stance, for any given nominal PSBR (ie raises inflation adjusted or 'real' PSBR).

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C3 Cont

(x) Cyclically adjusted PSBR?

- no single correct way of calculating cyclical adjustment (not enough just to take out direct "cost of unemployment" - cyclical effects on PSBR depend on why employment and output are low)

- acid test is pressure on interest rates. Actual not hypothetical PSBR that has to be financed (and affects spending)

- objective is to secure trend reduction in PSBR relative to GDP

- PSBR was adjusted in 1981 to take account of recession though principle that path should be on declining trend was adhered to. Estimated PSBR outturn in 1982-83 likely to be about ½ per cent of GDP higher than envisaged in 1980 FSBR.

(xi) Real PSBR?

- may be a useful indicator of stance of policy. But not sensible to fine-tune nominal PSBR to achieve targets for real PSBR, (could involve raising nominal PSBR when inflation rises, effectively accommodating higher inflation).

- lower inflation has meant some easing in fiscal stance in 1982-83, despite low outturn for nominal PSBR; real PSBR has risen slightly, compared with 1981-82, (one way in which lower inflation helps to raise real demand, within given nominal framework).

(xii) PSBR interest rate link discredited? PSBR not only influence on interest rates. But we cannot do much about world interest rates. Responsible fiscal policy has helped to keep our interest rates towards bottom of the international range.

(xiii) Fiscal adjustment in 1984-85 depends on undershooting PEWP planning total?

[Table 2.3 shows underspending £1½ billion - described as differences due to economic assumptions; table 2.5 shows fiscal adjustment of only £½ billion.]

Fiscal adjustment subject to very large margin of error (same as PSBR). But scope for tax cuts always depends critically on success in controlling public expenditure. Planning total for 1984-85 will be reviewed nearer the time, in the normal way.

(xiv) Balanced Budget? Government aims to reduce PSBR as share of money GDP over medium term. Illustrative profile in 1982 MTFS shows figure of 2 per cent in 1984-85. Nothing has been said about later years.

(xv) Why is the 1984-85 PSBR higher than in 1982 MTFS?

PSBR projections are illustrative and are reviewed every year. Current level of PSBR (ie 2¾ per cent of GDP) close to averages in 1950s and 1960s, and not surprising that progress from now on is slower than that in recent years. But we are looking for some further trend decline. [Not for use: oil prices are not a good excuse: oil revenues in 1984-85 are unchanged from last year's MTFS.]

Contact point: Mrs R Lomax (MP1) 233-7901

BUDGET BRIEF H8: FREEPORTS

Attached is a revised brief H8 (Freeports). This reflects the wording of the Budget Speech in which the Chancellor says that "the first step is to establish Freeports on an experimental basis in a limited number of locations".

Please note that the Treasury Press Notice (Enterprise and Small Firms) in paragraphs 2 and 23 uses a different form of words -"in two or three locations". If questioned on this discrepancy, the line to take is as follows:

i. The report of the Working Party on Freeports recommended that Freeports should be established but that authorisation should be restricted in the first instance to 2 or 3 locations.

ii. The Chancellor said that the Government has accepted the report and will implement its recommendations.

iii. The reference in the Budget Speech to "a limited number" leaves open the decision on the number of experimental locations.

H M GRIFFITHS
FP

BUDGET SECRET
until after Budget Speech on 15.3.83
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H8 FREEPORTS

Factual

(i) Legislation to be introduced in Finance Bill permitting introduction of freeports in the UK. (A freeport is a secure area treated as being outside the customs territory where goods can be manufactured, processed and stored without payment of customs duty and subsequently exported to other countries.)

(ii) Freeports to be established, on an experimental basis, **in a limited number of locations.**

(iii) Locations to be selected solely on the basis of demonstrated user demand and economic viability; responsibility for investment, development and promotion costs will rest with the operator.

(iv) Revenue effect: neutral.

Positive

(i) Implements recommendation of Working Party on Freeports (published 3 March). Although the Working Party was unable to identify any tariff benefits specific to freeports, it recognised that marketing and presentational advantages could be significant and also took into account the possibilities of achieving economies of scale and of reducing bureaucracy.

(ii) Legislation necessary to permit freeports to be designated and to provide an appropriate system of customs control.

Defensive

(i) Widespread consultation necessary before decision can be taken on locations.

(ii) Limited number of sites in view of uncertainty about real scale of user demand and of risk of blunting promotional appeal.

(iii) No evidence that freeports would assist industrially depressed areas. Locations to be selected on basis of viability, not on regional policy grounds.

(iv) Prohibitions and restrictions applying to eg drugs, pornography and animal and plant health will continue to be enforced.

(v) Under EC legislation, manufacturers setting up within a freeport would not be permitted to process goods duty-free for the home or the Community market.

Contact point: R W MacLachlan (Customs and Excise) 2516-306

COVERING CONFIDENTIAL

FROM: ROBIN HARRIS
DATE: 15 March 1983

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Kemp
Mr Ridley (w/o attachment)

ADVISERS' BUDGET BRIEF

... The attached brief is being made available in the Whips' Office. It has been prepared by Adam Ridley and me incorporating official advice.

RH

ROBIN HARRIS

CONFIDENTIAL

1983 BUDGET

A. INTRODUCTION

The two basic goals of the Government's economic policies, as stated clearly in the 1979 Election Manifesto, were to reverse our relative economic decline, and to re-establish sustainable economic growth. The main means to those ends have been to master inflation through monetary discipline, to reduce the burdens on private enterprise by reducing public spending, borrowing and taxes, and to create real incentives for both entrepreneurs and ordinary citizens by reducing direct taxes in particular. Although progress has been less than it was reasonable to expect at the time of the last election, it has been striking both when judged against the unexpectedly difficult conditions which have prevailed and, recently, when contrasted with the progress of our competitors.

2. This Budget proposes measures and policies which reinforce those taken in the past. In giving particular assistance to the income taxpayer it balances the massive assistance given to industry in the 1982 Budget and the Autumn Statement, and by the recent fall in the pound. But it contains as well an exceptional range of smaller proposals which will be of great benefit not only to industry generally, but to entrepreneurs and small companies, construction, charities, the needy (widows, the disabled, the lower paid, the unemployed), hard-hit regions (such as the West Midlands), and families with young children.

3. It deals with two important social security issues. The 2¼% overshoot of benefits arising in the last up-rating will not be fully recovered, and a substantial part of the over-payment should remain in beneficiaries hands hereafter. Recent problems with uprating in 1980, 1981 and 1982 having demonstrated conclusively the inherently controversial and uncertain nature of the "forecast" method of uprating, the Government is proposing to return to the reliable "historic" method based on actual inflation.

4. This Budget is being announced in conditions of unusual uncertainty above all because of the state of the oil market. It has therefore to be recognised that changing conditions in coming months may necessitate further policy changes. There is no way of telling now whether these might be favourable, as last autumn, or less so, as in the autumn of 1979 and 1980.

5. However it is already clear that the economy is in so much stronger a position than it was when we inherited it that it will be far better placed to ride through any difficulties than most of our competitors. Public spending and monetary policy are now under firm control which is admired rather than questioned by the markets. Though there is further to go in mastering inflation, the risks of its resurgence become steadily more remote and there should be few difficulties in passing through the slight and transient increase in retail price inflation in prospect later this year. The balance of payments is strong, and the pound has ridden through three periods of major turbulence and several sharp falls - during the Falklands crisis, when the oil prospects weakened in late 1982, and the current OPEC crisis - without the crises of confidence and need for "measures" from the Government which would have been inevitable in the past. Internationally the UK is now viewed a "strong" economy, which is leading the world recovery.

B. PROGRESS IN THE YEAR TO MARCH 1983

6. The prospect at the time of the 1982 Budget was for continued recovery, following the modest rise in the previous year. The measures taken both then and in the autumn were designed to strengthen it. With an expanding world economy, falling inflation and interest rates, strong growth of real domestic demand (including investment) and lower oil prices than previously foreseen, a GDP growth of 1½% was projected for 1981-82. In the event GDP only grew by ½%. But this disappointing performance was, in fact, rather creditable when the circumstances are taken into account. Looking at the home economy:

- Total domestic demand grew by 2½% in real terms, fixed investment by 3½%.
- Inflation fell to 6% (RPI) rather than 9% projected for 1982 QIV, and nominal interest rates fell very sharply too, by 7% from a Clearing Bank rate peak of 16% in early 1982, which dwarfs the subsequent 2% increase to 11% since November.

7. The shortfall in GDP growth arose first because of a sudden and unpredicted weakening in world activity. In December 1981 OECD were projecting world trade in manufactures to grow by 5% in 1982. In the event it fell by around 3%. This meant that UK markets were some 8% below what was recently foreseen, the equivalent of about 2% off GDP. This is sufficient to explain the unforeseen setback to the recovery in 1982, though of course other factors were at work in both directions. Despite the contraction in world trade, UK exports of manufactures nonetheless grew by ½% in 1982 and so our share of world trade probably rose from (roughly) 7¼% to over 7½%. This increase in market share was well above that generally forecast. That, and a growth in imports which was modest given the fast expansion in home demand, makes judgements that the £ is "uncompetitive" rather questionable.

8. The second major reason was resumed stock reduction, which set in as industrial sentiment worsened here and in other countries from the summer onwards along with world trade prospects.

9. Over this period trends in GDP, industrial production, investment and the state of business sentiment were all markedly better in the UK than in other major industrial countries:

Real changes 1982/1 in	UK	Major industrial countries
GDP	+½	-½
Industrial production	-1	-4½
Fixed Investment	+3½	nil

Source: OECD

Industrial Sentiment: Changes in balances in Standard EC survey of attitudes of Enterprises

ALL INDUSTRIES	UK	EC of 10
Production	-4.6	-10.7
Order Books	+7.8	- 4.1

Source EC: Eurostatistics. "Data for Short Term Economic Analysis" 1983 No 1 pp.37-40.

C. INDUSTRY ACT PROJECTIONS FOR 1983/4

10. These are described in Section 3 of the Red Book. Key points are

- GDP to grow by 2% 1983/2, 2½% p.a. by early 1984; and manufacturing output by broadly similar rates.
- Real demand to grow by 2½% in 1983/2, 3% by early 1984.
- Real investment to continue to grow by 3½% p.a., with the fall in manufacturing halting before the end of the year.
- Exports to rise by 1% this year, 5% by 1984 H1.
- Retail price inflation to rise slightly to about 6% p.a. either side of the year end; but the general underlying trend of inflation, as indicated by the "GDP deflator", to carry on downwards.

11. Unemployment trends can never be projected with confidence, even less so after a period in which output per head in manufacturing has improved dramatically, and far faster than forecast (12½% up since end 1980). Thus, while productivity in periods of low capacity utilisation is normally lower than in previous periods of high output, output per man hour is now 9% higher than at its previous peak in 1979 H1. Output growth at the 2-2½% p.a. rates of the MTFS would, as §3.39 of the Red Brook suggests, be consistent with no great change in unemployment hereafter.

12. However distressing and undesirable, it should be noted that today's high unemployment levels have in part to be viewed as the tragic by-product of the highly desirable process of raising competitiveness in a world recession. Higher employment today at the expense of competitiveness and orders tomorrow would not be a sensible goal, even in the short term, let alone any serious time horizon.

13. These Industry Act projections obviously depend particularly on a view of the world recovery; on oil markets; and on progress in solving the problems of the world financial system.

- World Economy. the forecast assumes 1¾% GDP growth in '83 in the 'major 6' industrial countries, and 1% growth in world trade.

- Oil revenues, which depend on both the $ oil price and the £/$ exchange rate, are expected to run at about £8bn in '83$ and '84/5, over £1½ bn higher than foreseen last year. They then ran £1.8 bn above the Budget forecast, one of the main reasons for the low PSBR outturn for '82/3.
- World Financial System. With the recent agreement to enlarge IMF resources in place [thanks very largely to the UK's initiative in greatly advancing the timetable], with progress being made in the affairs of debtor countries in difficulties, and lower real oil prices, there is justification for cautious optimism over world recovery.

D. MEDIUM TERM FINANCIAL STRATEGY (MTFS)

14. The MTFS this year is, in essentials, little changed from last year's:

- the monetary ranges for the next two years remain 7-11% and 5-10%, and 5-9% has been added for 1985/6;
- the aggregates targeted remain M_1, £M_3 and PSL_2, which have grown within the 8-12% range for '82/3;
- the inflation prospect over the period to 1985/6, which is measured by the GDP price index (or "deflator") falls from an increase of 7% in 1982/3 to 5½% in 1984/5;
- with the inflation and money growth assumed there is room for sustained, prudent growth of real demand and GDP over the three years 1983/4, 1984/5 and 1985/6, at a rate of around 2½% p.a. sufficient, probably, to stabilise unemployment;
- the public spending plans and course of tax revenues on this basis indicate a path for the PSBR which continues to fall as a percentage of GDP from 2¾% in 1983/4 to 2% in 1985/6, and which should make for further reductions in interest rates;
- within that framework monetary policy will continue to be managed "taking account of all the available evidence, including the exchange rate, structural changes in financial markets, swing behaviour and the level and

structure of interest rates, to maintain "monetary conditions that will maintain inflation on a downward trend". [Red Book §2.13].

- given the proposals in the Budget, positive fiscal adjustments of £½ bn in 1984/5 and £4 bn in 1985/6 indicate scope for further reductions in taxation in due course, on the assumptions above.

E. THE BUDGET JUDGEMENT

15. The 1982 MTFS and Budget proposed a PSBR for 1982/3 of £9½ bn. The latest outturn is put at £7.5 bn. This estimate is unavoidably tentative, with much revenue and spending still to be accounted for at a phase in the financial year when prediction is at its most difficult. The reasons for the substantial PSBR undershoot in prospect are complex, as section 5 of the Red Book explains; and it is not obvious that they will be repeated another year. They include:

- Local Authorities. £2bn overspending on current account, £1½bn underspending on capital - mainly a definitional phenomenon, as (higher-than-expected) receipts from land and council home sales are deducted from the total of their gross investment. LA borrowing down by about £¾bn below forecast.
- Public Corporations. Borrowing over £½bn less than projected, mainly because of substantial underspending on capital, and stock reductions.
- Oil revenues £1¾bn higher than projected, due both to higher average oil prices than foreseen, and a lower pound. They thus account, alone, for over three-quarters of the net undershoot.

16. Given that over-estimation of oil revenues is less likely in 1983/4, major efforts have been made to reduce underspending in LAs and Nationalised Industries and that the recent estimates for 1982/3 and their lessons have been taken into account in the projections for later years, the £8bn PSBR proposed for 1983/4 is, on present information and assumptions, a reasonable central estimate.

Within that PSBR measures are proposed with a PSBR cost of around £1½bn in 1983/4 and £2bn in 1984/5 after indexation. In revenue terms the tax and spending measures will cost (£6m):

	1983/4	Full year
from indexed base	1.7	2.2
from un-indexed base	1.9	2.7
extra spending above PEWP programmes; (met from contingency reserve)	¼	(1984/5) ½

F. THE BUDGET'S MAIN COMPONENTS

17. The tax measures can be broken down into the following elements [£ bns, to nearest £50m]

	1983/4		Full Year	
Base	Indexed	Unindexed	Indexed	Unindexed
Income Tax allowances and thresholds	-1.2	-2.0	-1.5	-2.5
Corporation, Capital and other income and direct taxes	-0.3	-0.3	-0.35	-0.4
NIS	-0.2	-0.2	-0.4	-0.4
Excise duties	-	+0.6	-	+0.6
Total	-1.7	-1.9	-2.2	-2.7

18. A second approach is to divide the measures between persons and industry. On this basis, as against income tax, excise duties and other changes worth on an indexed basis some £1¼bn in 1983/4, and £1.4bn in a full year, the Budget announcements directly favouring business include:

DIRECT TAX AND SPENDING CHANGES FOR OIL AND NON-OIL BUSINESS £m

	'83/4	Full Year
Corporation Tax	40	70
NIS cut	215	390
Small firms & Enterprise	60	190
Technology & Innovation	40	120
Sub-total	330	715
Plus North Sea Oil tax reliefs	115	200*
TOTAL	470	970

* Average rate for next four years.

However these figures understate the full benefit to industry, since they do not allow for the unquantifiable impact on the construction industry of a higher mortgage interest relief ceiling, and some £60m of extra spending in 1983/4 on improvement grants, enveloping etc., or a number of other smaller measures.

19. Moreover, in assessing the impact of these and other recent proposals on industry and persons, other recent policy changes need to be borne in mind:

(1) The overall cut in NIS from 3½% to 1% will be worth £2bn alone to industry in a full year.

(2) The Autumn measures and this Budget will together be worth £1¼ bn to industry on a conservative estimate, as much as the 1982 Budget.

(3) Employers have been very largely exempted from financing the substantial increases in national insurance contribution rates which have taken place since the election. Had the overall NIC increase been shared equally, as was once normal, between employers and employees, employers would now be paying £1bn or so more.

(4) Were employers to carry the same share of total taxes as in 1978/9, they would be paying £3bn more than now proposed. That is only a partial measure of the assistance derived from Government policies, which have also helped by decisions on public spending, energy prices etc.

(5) Industrial borrowers gain, it is generally reckoned, some £300m for each 1% reduction in interest paid on their overdrafts, which fell sharply last year.

(6) The recent fall in the exchange rate of around 14% will greatly help exporters and those competing against importers.

Section J below gives further details of the help given to industry recently and in the Budget.

20. These are not the only reasons why it is misleading to analyse narrowly the precise allocation of the Budget proposals between industry and persons. For

(1) Income tax reliefs relieve the pressure for higher wages, and assist industry substantially at one remove.

(2) Over the lifetime of this Government, the pressures on industry have been so great that the most immediate priority has been to increase the personal tax burden, through both income tax and national insurance in order to shelter industry from tax increases.

Now that the pressures on industry are abating, it is clearly right to take the first substantial step to lighten the burden on individuals, at a time when it is possible to accompany this by still further and significant help to business and enterprise.

G. PERSONAL TAXATION AND CHILD BENEFIT

21. Chancellor's concentration of available resources on raising personal tax thresholds appropriate now given that the 1979 Budget dealt with the worst features of tax rates, and thresholds were not indexed at all in 1981 at a time when inflation was much higher than today. And

- need to tackle 30 year growing problem of poverty and unemployment traps and incentives generally;

- non-indexation of thresholds in 1981, so as to cut borrowing and beat inflation while allowing interest rates to fall, makes important to restore ground lost by personal taxpayers then.

Main Changes

22. Income tax rates unchanged. But:

- all main allowances and thresholds raised by about 14 per cent, about 8½ per cent more than indexation requires;

- investment income surcharge threshold raised to £7,100 (£850 increase - £500 more than indexation);

- widow's bereavement allowance extended to year following bereavement (see below: 6).

Cost (£m) 1983-84	Full Year
1,170	2,000

Effects

1. Change in Allowances and Thresholds

23. Thresholds 5 per cent higher in real terms than the levels inherited from Labour in 1979, 8½ per cent up on 1982-83.

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- Real increase in thresholds for second successive year reduces average rates of income tax for all taxpayers.

- Weekly income tax cut in cash for basic rate taxpayers will be £2.02 per week (married) and £1.27 a week (single), **£1.67 and £2.65 respectively for the retired.**

Best way of helping low paid: 750,000 fewer low paid (and pensioner) taxpayers, compared with if indexed only, and 1.25 million less than if tax thresholds not altered; although cash benefits obviously greater to highest paid, percentage of income taken in tax drops more for, and so proportionately helps most, the lowest (and highest) paid, who lost most from failure to index thresholds in 1981-82.

2. Tax and NIC Changes on Incomes (see 7 for mortgageinterest relief)

24. Cannot predict precisely whether people better or worse off in 1983-84, after tax and NIC, than 1982-83: depends on prices and earnings movements. Also for those with mortgages, tax payments may be affected by MIRAS and effect of tax underpayment in 1982-83. But if earnings rise by 6½ per cent (assumption given by Government Actuary) and prices by 6 per cent (FSBR 1983-84 forecast) then joint effects of higher allowances and thresholds for income tax, on one hand, and increase in NIC (0.25 per cent of earnings increase for contracted-in if below upper earnings limit) on the other will give:

- immediate effect of cut in income tax greater than effect of NIC increases for all but a minority (900,000);

- percentage of income paid in income tax and NIC combined will be unchanged or lower in 1983-84 than in 1982-83 for all paying contracted-in NIC. Will rise slightly for some contracted-out;

- on above illustrative (GAD and FSBR) assumptions, everyone will have higher real net earnings than in 1982-83 and low paid among those gaining most.

NB Changes in National Insurance Contributions not part of the budget, though coming into force at same time as budget tax proposals. It is wrong to lump together their effect and that of the budget, as Labour and other critics tend to do.

25. But NB two special groups gain more:

- families with children get additional gain from increase in child benefit from November (see 10 below) and so get bigger increases in real net income than childless couples;

- elderly get more advantage than most taxpayers for second year running because they gain from increase in tax threshold but do not pay NIC.

3. Comparisons with 1978-89

26a. Basic rate down from 33p to 30p since 1978-79; top rate down from 83 per cent to 60 per cent; threshold for 60 per cent tax more than 60 per cent higher in real terms - but 25 per cent reduced rate band abolished and NIC rate (contracted-in) up from 6½ per cent to 9 per cent (contracted-out up from 4 per cent to 6.85 per cent), needed to pay for higher SS costs.

26b. Allowances have been increased by 5 per cent in real terms since 1978-79 and are about same proportion of average earnings as then. Real take-home pay (on GAD assumptions on earnings) higher on average in 1983-84 than in 1978-79 at all earnings levels. NB Allowances could not be increased enough to restore the 1978-79 burden of tax and NIC as a proportion of income.

4. Incentives, Poverty and Unemployment Traps

27. Budget helps incentives by:

- taking 1¼ million people out of tax (¾ million if just indexed);

- raising allowances to improve 'poverty trap' (ie where workers through tax, NIC and withdrawal of means-tested benefits enjoys little or no net reward from higher gross income);

- taking 200,000 people out of higher tax rate;

- supplementary benefit increase in November by less than likely increase in net income in work and big increase in child benefit (see below) helps incentives.

5. The Elderly

28. Because of increase in tax thresholds and not paying any NIC, pensioners do better than most taxpayers from budget; age allowance increase for 65s and over gives weekly tax cut of £1.67 (single) and £2.65 (married. Pensioners with basic state pension only will pay no income tax. Single pensioners can have £12 income per week above basic pension without paying tax and married pensioners £19 per week above; this increasein 'clear water' between tax threshold and pension level means percentage of their other income going in tax will be cut.

29. Half of Investment Income Surcharge payers are over 65: they benefit from £850 increase in thresholds, £500 over indexation. There will be about 250,000 fewer elderly taxpayers than in 1982-83 (under statutory indexation, would have been about 50,000 more than in 1982-83).

6. Widows

30. Earlier action to help widows:

- 1979 budget exempted war widows' pensions and widows' child dependancy allowances from tax;

- 1981 budget introduced a bereavement allowance to benefit widows in tax year of husband's death.

31. Now:

- allowance increased to £1,010 (14 per cent up on 1982-83, 9 per cent more than indexation); and extended to cover year after husband's death, as well as actual year of bereavement, because many widows' income is fully covered by other allowances in the year of death. Cost of extenstion £25million in 1983-84, £30 million full year;

- will help more than 100,000 widows compared with only 45,000 benefiting from WBA at present.

7. Mortgage Interest Relief

32. Mortgage interest relief is from April 1983 to be given at source (MIRAS) rather than through PAYE. This change is not part of this

budget. But because of the date at which it takes effect and because it affects mortgage and tax payments (reducing the former and increasing the latter) it will affect pay packets from April.

33. The new scheme for net of tax interest payments is simpler for the borrower. It will in future give correct relief quickly and without need for PAYE adjustments when interest rates change since they will no longer need to be reflected in tax codes. The new scheme will also save a massive 1,000 Inland Revenue staff by 1984.

34. The introduction of MIRAS will not reduce the amount of the borrower's tax relief. But for a limited number of borrowers it can mean higher initial repayments if they so choose. It also coincides, and its effects may become confused with, with a recovery of excess mortgage interest relief for 1982-83. For administrative reasons the calculation of PAYE codes for 1982-83 could not take into account the substantial fall in interest rates which occurred last year. Indeed, this is just the sort of difficulty which a switch to the new MIRAS system is meant to avoid. Neither MIRAS nor the adjustment of the 1983-84 PAYE codes to recover excess relief paid last year means a reduction of the amount of mortgage interest relief over the duration of the repayment of a mortgage.

8. Fringe Benefits

35. Increase in scales for taxation of car and petrol fringe benefits represents a further step towards taxing such benefits on a realistic basis. However, increases of about 15 per cent in scales rather than the 20 per cent increase of the last three years show the Government's awareness of need not to move too fast at expense either of recipients of benefits or of UK motor industry. Yield of £35 million in a full year.

36. Action also proposed on: payment of cost of children's education by employers (reversing decision on ICI scholarship case); provision by employer of house rent free or at peppercorn rent; employer failing to deduct PAYE at proper time and accounting for too little tax. NB change in law affecting ICI Scholarship Scheme (and others like it) does not affect Scholarship income in hands of scholar, genuine charitable scholarships won in open competition or school fees paid while parent is working abroad.

9. Secondhand Bonds

37. Legislation in Finance Bill was announced by Financial Secretary on 24 June 1982, to tackle device whereby bonds (ie life insurance policies and life annuity contracts) are sold to third party to go out of income tax into capital gains tax net, thereby avoiding proper charge.

10. Child Benefit and One-Parent Benefit

38. The increase of 65p a week from £5.85 to £6.50 in November - by some 11 per cent - will put it at its highest level ever, at above the level set by Labour in April 1979 when the normal November increase was specially advanced for electoral reasons. Allowing for the phasing-out of child tax allowances, the value of support for children under 11 will have risen 90 per cent since 1978-79 in money terms (or 11 per cent in real terms) while income tax allowances will have risen by 82 per cent. One-parent benefit will be increased by 11 per cent from £3.65 to £4.05. It will then also have been more than doubled in money terms by this Government, giving a real increase of over 30 per cent.

H. INDIRECT TAXES

39. Changes proposed this year are straightforward and should be uncontroversial:

- No change in VAT rate.

- "Sensible presumption" (budget statement) established in successive budgets that excise duties rise broadly in line with prices.

- Overall revenue effects of excise duty changes is £595 million in 1983-84 and £605 million in full year - half the 1980 or 1982 figures, and only a quarter of 1981.

- RPI effect of only about 0.4 per cent, smallest for many years, one of the benefits of low inflation. Included in the forecast.

40. Again, as last budget, regard had to needs of business:

- duties on aviation gasoline (AVGAS) and road fuel gas (LPG) remain at half that on petrol;

- small widening of tax differential in favour of Derv from 12p to 13p a gallon helps limit impact on business costs;

- the duty rate on fuel oil is unchanged for the third successive year. This means that the real value of the duty on it is about 20 per cent below level of 1980, so helping industry with energy costs;

- VED rates up on selected heavy vehicles (about 195,000) which do most damage, to cover those costs; down about 10 per cent on about 315,000 lighter, less damaging lorries; duty rates still lower in real terms than under Labour;

- increases on petrol (4.9 per cent) and Derv (4 per cent) below inflation. Will only add about £10 a year to typical private motorist's bill. Duty differential in favour of Derv widened slightly. UK petrol prices will remain, with Germany and Luxembourg, markedly below those in other European countries.

I. SOCIAL SECURITY UPRATING, CHARITIES AND DELAYED DECISIONS

Benefit Increase

41. As the Budget Speech makes clear, it is not now proposed to recover the full overshoot which arose in last autumn's benefit uprating, when inflation was some 2.7 per cent less than assumed when the increase was announced in the 1982 budget. At a time when the main budget proposals provide for significant tax relief to those in work as well as to businesses, it is clearly right to be generous and leave some of this "windfall" overpayment in the hands of social security recipients. With the exception of beneficiaries with children, who will receive substantial help from the increase in Child Benefit, the bulk of social security recipients are neither in work, nor pay significant income tax, and so will not benefit as much or as directly from the budget as the bulk of the population.

42. What is now proposed will, on the assumption of year-on-year RPI increases of around 4 per cent in May 1983, be worth substantiall more

in a full year than if the overpayment was recovered. Between the November upratings of 1978 and 1983 prices are likely to have risen some 70 per cent and pensions by some 75 per cent. Thus the Government's pledge to maintain the value of the pensions will have been more than fulfilled.

43. To have left the full overpayment in place in years to come would have required accepting yet more increases in National Insurance Contributions at a time when the rates in force now are recognised as being so high as to be damaging to employment, incentives and the will to work; and every further increase in them is the cause of widespread concern both in Parliament and the country at large. In addition, it would have pre-empted resources needed to finance a number of other important reforms in social security which are needed now.

Other Important Social Security Measures

44. These include, as well as the substantial improvement in child benefit (see §38 above):

- restoration of the 5 per cent abatement of unemployment benefit;

- 12 per cent increase to £22.50 in the Therapeutic Earnings Limit, the amount the disabled and chronically sick are allowed to earn before their benefit is reduced;

- Complete removal of the "Invalidity Trap". At present those receiving Invalidity Benefit (IVB) cannot qualify for short-term SB, one year's receipt of which is the passport to long-term SB. What is now proposed is that IVB recipients over 60 will qualify immediately for the long-term rate instead of waiting a year. Some 70,000 people will gain. Those under 60 not previously eligible at all, will become eligible after a year of incapacity benefits. This is how the "trap" is being eliminated.

- Disabled War Pensioners. A new mobility supplement to replace the present vehicle scheme with the equivalent of the Mobility Allowance plus a special premium of £2.10 a week in recognition of their special status. 11,000 war pensioners should be helped by this.

- Substantial increases in Supplementary Benefit "Disregards". The capital disregard - £2,000 in 1981, £2,500 last year, will now be £3,000 - 50 per cent up in two years. The extra £300 disregard for single payments (eg bedding, heating costs) goes up by 60 per cent to £500. A new £1,500 disregard introduced for capital held as life insurance policies, over and above the £3,000 normal capital disregard.

Charities

45. The budget proposes further important assistance:

- the cost of employees seconded to charities to be a tax deductible expense; as requested by the NCVO;

- CTT exemption limit abolished (raised from £50,000 to £250,000 in 1982-83), thus ensuring that no outright bequests to charities will now be taxed;

- limit for higher rates and IIS income tax relief on covenants raised by two-thirds from £3,000 to £5,000.

46. Despite intensive investigations, it is not possible to propose recovery by charities of VAT on their purchases. A scheme of relief would probably involve at least 100,000 charities, which would necessitate a disproportionate increase in administrative manpower. Moreover it would, unavoidably, be indiscriminate, and have undesirable repercussive effects.

Change in the System of Up-rating

47. Labour's switch from the "actual" or "historic" method of up-rating to one based on the forecast RPI has an unfortunate origin and has been a source of constant trouble. It was introduced in 1976 only to excise from the uprating the worst months of inflation between March and November 1975. This reduced the benefit increases by 6-7½ per cent, worth £500 million in the prices of the day, or some £1 billion at current prices. This was clearly in breach of the commitment given by Brian O'Malley, Minister of State at DHSS, as to the purpose of what was to be the Social Security Benefits Act 1975:

"…. I believe that I have demonstrated to the Hon. Gentleman that the historic method is in the end, the fairest method. It means that there is a consistent link between the movement of earnings on the one hand and the movement of retirement pensions and long-term benefits on the other. There are no assumptions. Once one starts to make assumptions, it is easy to make one which results in pensioners doing worse than they otherwise would." (OR Standing Committee B. 12.12.74. Col. 191).

Prophetic words indeed.

48. Forecasting inflation is always difficult. As Table 3.7 of the Budget Red Book makes clear, a Budget-time forecast of the RPI increase in the fourth quarter of the same year is liable to average errors of plus or minus 2 per cent. This is amply borne out by recent experience; the projections were 1 per cent too high in 1980, 2 per cent too low in 1981 and 2.7 per cent too high in 1982. Such errors create both needless uncertainty for beneficiaries, avoidable controversy for Governments and are impossible to correct for 12 months.

49. A return to the historic basis has been advocated by Pensioners' organisations. It has even been commended by the Opposition: Jeff Rooker described it as "very sensible considering the trouble that the Government have had over past few years" in the debate on the Social Security and Housing Benefits Bill on 22 December 1981.

50. Moving back to the old system is not only a switch back to certainty and commonsense, but it reverses the 1976 Barbara Castle decision in another important respect. While she made it in such a way as to leave beneficiaries with £1 billion less at today's prices than the indexation commitments of the Social Security Act required, the change now proposed should leave a substantial sum in their hands over and above the indexed increase required by law, even if not all the over-payment windfall. There will be no "missing months" - the period between May and November 1982 is included in the uprating formula now proposed.

J. BUSINESS AND EMPLOYMENT

51. General: Chancellor stressed in budget statement that tax cuts for people themselves help business and jobs. Direct effect of main tax and spending measures benefiting business in this budget are summarised in Section ~~E~~ para 18 above.

52. The Main Measures

- 'Small Companies' Corporation tax rate cut by 2% to 38%, profit limits substantially increased; significantly reduces marginal rate between limits: NIS to be cut by ½% to 1%, for private sector only, from August 1983.

- Measures to help small firms, enterprise and wider share ownership (see para 63 below)

- Technology and innovation package, costing £185m over 3 years for public spending measures and £48m over 3 years for tax measures, other measures: help for housing and construction, including increase in Mortgage interest relief ceiling and money for "enveloping" schemes (total cost together of £115m in 1983/84); help for North Sea Oil industry, through tax reductions (cost £115m in 1983-4); proposals on tax havens and proposed changes on ACT and double taxation relief do not between them involve any increase in total tax burden on international business;

- Employment and Early Retirement Measures (See para 60 below);

53. Para 19 sets out some of the benefits to industry attributable to this Government's policies. Other points to note are that:

- Budget measures alone help business by £¾bn in a full year. The reflects assistance worth about £1½bn, as set out in 18, less the effects of increases in petrol duty, DERV, & VED. On top of £½bn help in Autumn announcements.

- the real burden of tax and NIC on (non-oil) industry and commerce in 1983-84 will be some £2bn less than in 1978-9.

54. There is no assistance in this budget with industry's energy costs. But particularly since exchange rate fell, vast majority of UK industry pays prices comparable to EC competitors; and over £250m of help given in last two budgets. In addition this year there is to be no increase (on average) in electricity prices and the freeze on price of contract gas is extended to 1 October 1983;

Main individual measures

1 NIS

55. Labour introduced and increased NIS. Liberals, during Lib-Lab pact, pressed for increase too. Government has slashed it:

- Rate inherited in 1979, and up to 1981-82: 3½%
  Effective Average Rate in 1982-83: 2%
  Rate from April to July 1983: 1½%
  Rate from August 1983: 1%

- present cut is worth £215m to private employers - 1983-84, £390m in a full year, will be clawed back as before from Government and NI cash limits:

- even taking account of NIC increases since 1978-9, the over all effect of NIC and NIS changes worth some £1.4bn to private sector employers in full year;

- overall NIC/NIS rate on contracted-in employers up from 8½% to 13½% under previous government. Now down to 11.45%. Contracted-out rate down from 9% to 7.35%.

2 Housing and Construction

56. Government recognises importance of healthy construction industry for employment. Within public spending plans, provision made for spending on construction in 1983-84 of over £10bn, 10% increase on previous year's outturn.

Measures to help construction introduced in last three budgets provided help worth some £350m

57. 1983 Budget introduces 8 measures:

- mortgage interest relief ceiling increased to £30,000; £50m in 1983-4;

- mortgage interest relief extended to some self-employed who did not previously qualify;

- stock relief extended to houses taken in part exchange by builders, helps private housebuilders;

- local authorities to be given additional spending allocations for 1983-4 for approved 'enveloping' schemes ie repair of external fabric of terraces and streets, often in inner city areas: helps builders and socially deprived areas; and elegible expense limits for home improvement grants increased by 20%;local authorities able to spend without limit on improvement grants in 1983-4 including (about £10m)cost of these higher limits;

- change in industrial buildings allowance to allow greater proportion of non industrial space to qualify, accords more flexibility to builders:

- important rule change in small industrial workshop to help conversion of old buildings into small units;

- two year extension of deferment of DLT liability on development for "own use".

3. Innovation and Techology

58. As in last budget, Chancellor announced major package to help technologies and industries of future: Total cost of £230m over next three years. Of this,£185m (over 3 years) is a package of additional spending on innovation, in addition to existing DoI help with industrial R and D of over £300m per year. Main item is reintroduction of Small Engineering Firms Investment Scheme at £100m over three years. Also, extra aid for computer software, advisory services, and new schemes to plug gap between development and commercial production (Details to be announced by S of S for Industry). This will cover:

- help to industry to invest in new technologies for tomorrow's jobs and bring new products and processes to market;

- SEFIS, very successful in 1982, and of special help in West Midlands.

- Teletext: 100% first year allowances for spending by trade on teletext sets for renting out to consumers extended for further year, till May 1984.

  - helps information technology growth;
  - helps UK electronics; teletext a UK invention and rented TV sets mostly British made.

Technology-based industries also benefit from increase from 10% to 25% in permissible office space in buildings which qualifies for industrial buildings allowance.

59. Films: extension of 100% first year capital allowances for British firms for further 3 years to 31 March 1987.

4. Employment and Early Retirement

60. Government recognises need to reduce labour force where practical and prudent to do so, so as to help tackle unemployment. Budget contains three new measures of this sort to help employment:

- from April unemployed men aged 60-65 will no longer have to register first to get contributions credits so as to protect their pension rights (affects 90,000).

- from June unemployed men over 60 on Supplementary benefit will qualify for higher long-term rate of benefit without having to wait a year or until they reach 65 (affects 42,000);

- from October (till March 1985) men over 62 and women over 59 able to retire under new part-time Job Release Scheme, allowances paid at half full-time rate, should provide part-time jobs for up to 40,000 unemployed people. Has no net expenditure cost in 1983-4, because of savings in benefit payments.

And - Enterprise Allowance extended to whole country Allowance, which encourages unemployed to set up in business by paying £40 a week for first year to offset loss of unemployment benefit if then start a business. Nationwide extension (cash limit for 1983-4 of £25 m enough for 25,000 places) builds on experience of 5 pilots set up in January 1982: attracted 2000 successful applications.

5. Other Company Taxation

61. Budget also proposes action to deal with group relief avoidance, whereby a goup arrange for profits/loss to be available for group relief proposes in another group; necessary to take action because of actual and potential revenue loss.

62. Taxation of international businesses

Revised draft clauses issued last December on proposals for new charge on some UK controlled companies in tax haven countries. Measures to apply from 6 April 1984. Represent sensitive response, after 3 rounds of consultation, to business community's criticism of earlier proposals. But real need to stop significant loss of UK tax, currently estimated at £100 million p.a. This move will be accompanied by a change in the Set-Off of ACT and Double Tax Relief. These proposals are of benefit generally to companies with overseas income for allowing double taxation relief to be set against corporation tax in priority to ACT. Credit for tax paid on foreign income now to be available against UK corporation tax before relief given for ACT paid (previously, ACT relief given first).

Cost: nil 1983-4, in long term up to £100 million.

Overall these two measures offset one another in revenue terms, lower taxes on companies which should send profits home onto those who accumulate them in taxhavens. There are No measures this year on company residence and up stream loans.

K. ENTERPRISE AND SMALL FIRMS

63. Fifteen measures in budget to help enterprise and small firms. Fourth successive year in which Budget has included such a package. Demonstrates continued commitment to small and medium sized businesses as source of new jobs.

- Business Expansion Scheme, extending Business Start-Up Scheme.
- Changes in Corporation tax to help small and medium firms.
- Nationwide extension of Enterprise Allowance.
- Increase in VAT registration and de-registration thresholds.
- Tax encouragement of profit sharing and share option schemes.
- Extension of interest relief on borrowing for employee buy-outs.
- CTT changes, improving business and agriculture reliefs.
- CGT changes, increasing retirement relief.
- new rules for tax treatment of deep-discounted stock.
- new tax rules for raising finance through acceptance credits.
- new non-tax rules to help raising finance through Eurobonds.
- raising ceiling for loan guarantee scheme.
- increasing limit below which investment income of close companies apportioned to individuals not assessed for tax.
- changes in small workshop scheme.
- introduction of free ports at two or three places as experiment.

100
Estimated revenue cost of package is £1/1m in 1983-84 and £275m in full year. In addition, Enterprise Allowance has gross cost of £25m in 1983-84. Brings total cost of package up to £135m in that year.

Main points:

64. Business Expansion Scheme major initiative, building on BSUS, introduced in 1981. Now scheme will apply not just to new companies but also to many existing unquoted trading companies too. Also relief available at full income tax rates (including IIS) doubled to £40,000 per person per year. Previous 50% limit on proportion of company's shares qualifying for relief now dropped. Life of scheme extended by 3 years to 5 April 1987. Full year cost, perhaps £75m.

65. Profit Sharing and Share Option Schemes. Government's commitment to wider ownership and to giving employees incentives again demonstrated. Over 550 profit sharing and share option schemes now set up cf 30 when we took office. Over 100,000 employees now involved in approved share option schemes. Now,

- in addition to current limit on allocation of shares per employee of £1,250 pa a new alternative limit of 10% of earnings up to £5,000 pa;
- upper limit for monthly contributions under 1980 SAYE share option schemes raised from £50 to £75;
- extension from 3 to 5 years of instalment period over which income tax paid on share options exercised outside 1980 approved schemes.

66. Buy-Outs. Government commitment to helping NFC-style management/ employee buyouts shown by relief to be extended on borrowing by employees to buy shares in employee -controlled company as part of employee buyouts.

67. Capital Taxes. Government recognises capital taxation, if too heavy, can suffocate enterprise and discourage investment.

- CGT: This budget builds on major reforms in last Budget, above all indexation of capital gains; so annual exempt amount raised in line with RPI. Now more than five times level when government took office and three times 1978-79 level in real terms. Maximum retirement relief for those aged 65 or more doubled from £50,000 to £100,000 and proportionate increase for those retiring between 60 and 65: will encourage business owners to reinvest profits in business, rather than in pension schemes.
- CTT: Again, builds on 1982 budget reforms. Last budget introduced indexation of CTT threshold and rate bands; so raised in line with inflation now. Threshold now 40% higher in real terms than 1978-79.
- Also, rate of business relief for minority holdings in unquoted companies and of agriculture relief for tenanted land each increased from 20% to 30%.

68. Small Companies Corporation Tax Rate

- Lower limit more than re-valorised this year and limit doubled since Government took office;
- big increase in upper limit helps medium-sized companies with profits up to £500,000; increased almost six fold since we took office;
- marginal rate applying between lower and upper limits reduced from 60% to 55½%.

All show Government's commitment to small and medium sized businesses.

69. VAT Registration and Deregistration. Thresholds raised from £17,000 to £18,000.

70. Loan Guarantee Scheme. The total sum for loans to be doubled from £300m to £600m. So far some 9,000 loans have been made, over half to new businesses.

71. Measures to encourage Industrial Finance. Reductions in the PSBR, judicious recourse to index-linked gilt-edged borrowing and a high target for national savings have all been vital in allowing long term interest rates to fall. Indeed in 1982-83 it was possible to dispense with long term fixed interest gilt-edged stocks almost entirely. As a result, long term interest rates (eg on 20 year gilts) have fallen by as much as short term rates (5% or so in each case), whereas in normal circumstances they would have been expected to fall much less. This is a major factor favouring revival of the corporate bond market. This is receiving further direct encouragement in severals ways:

- Deep discount stock. New tax regime following removal of embargo in June 1982, and consultative document from Inland Revenue. Borrowers will get relief against income annually for accrued discount; investor to be taxed on disposal or redemption, income tax on accrued income, CGT on balance of gain or loss.

- Convertible Loan Stock. Incidental fees to be allowed against tax.
- Acceptance credits. To encourage companies to use bills of exchange, discounts and incidental costs to be allowed against tax.
- Interest on Eurobonds for non-residents to be payable "gross".
- Close company investment income limit for not making tax assessment for an individual to be raised from 1973 figure of £200 a year to £1,000; £250 more than revalorisation.

L. NORTH SEA OIL

72. Chancellor recognises importance of further development of North Sea off-shore industry to Britain, source of wealth and jobs. Major, well-judged changes in fiscal regime intended to maintain balance between interests of Exchequer (and taxpayer) and health of the industry and employment it provides, as oil market becomes more difficult.

- Advance Petroleum Revenue TAX (APRT) to be phased out by 1 January 1987 by reducing rate at which charged (currently 20%).
- New PRT relief for spending incurred after budget on exploration appraisal outside area of existing oil field or development.
- New fields for which development consent given after 1 April 1982 - except onshore fields and fields in Sourthern Basin of North Sea - to get double existing oil allowance. And same new fields will not pay any royalties.
- Other changes in PRT, including abolition of restriction on PRT relief for expenditure on assets where oil (including gas) producer shares assets with other field (eg pipe lines).

Cost of whole package of measures: 1983-84 £115m. Average cost 1983-84 to 1986-87: about £200m.

73. Measures: - through phasing out APRT, removes a charge which is not related to profit and payable early in field life, so creating cash flow problems;

- new PRT relief should encourage exploration and appraisal of UK reserves;

- help for future fields espcecially, will pay no special tax or royalties till costs recovered from income and marginal rate for such field significantly improved.

M. PUBLIC SPENDING

74. Main points are:

- public spending under firm control; held within levels of earlier plans; ratio to GDP down from 44½% in 1981-82 to planned 43½% in 1983-84;

- meausres in budget total £238m in 1983-84 but all charged to Contingency Reserve in 1983-84 so will not add to planning total;

- public sector capital spending in 1983-84 as shown in White Paper amounts to £11¼bn, increase of 12% over estimated outturn for 1982-83, local authorities told they can spend without limit on home improvement grants, if necessary additional allocations will be given retrospectively; 50% of forecast levels of capital receipts by local authorities will be included in basic allocations; because of reduction in inflation more real output possible with giving cash plan for capital spending. All show that Government determined to achieve right balance of capital and current spending, without jeopardising objective of curbing total spending.

- Civil Service manpower under control: on course for 630,000 target by 1 April 1984 and down 11% since 1 April 1979; since 1979 staff reductions in civil service have saved £600m on Civil Service salary bill, centrally organised efficiency programme 1979-82 has yielded potential savings of £317m a year, and £44.5m once-for-all savings.

BUDGET BRIEF H8: FREEPORTS

Attached is a revised brief H8 (Freeports). This reflects the wording of the Budget Speech in which the Chancellor says that "the first step is to establish Freeports on an experimental basis a limited number of locations".

Please note that the Treasury Press Notice (Enterprise and Small Firms) in paragraphs 2 and 23 uses a different form of words -"in two or three locations". If questioned on this discrepancy, the line to take is as follows:

i. The report of the Working Party on Freeports recommended that Freeports should be established but that authorisation should be restricted in the first instance in 2 or 3 locations.

ii. The Chancellor said that the Government has accepted the report and will implement its recommendations.

iii. The reference in the Budget Speech to "a limited number" leaves open the decision on the number of experimental locations.

H M GRIFFITHS
FP

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

H8 FREEPORTS

Factual

(i) Legislation to be introduced in Finance Bill permitting introduction of freeports in the UK. (A freeport is a secure area treated as being outside the customs territory where goods can be manufactured, processed and stored without payment of customs duty and subsequently exported to other countries.)

(ii) Freeports to be established, on an experimental basis, **in a limited number of locations.**

(iii) Locations to be selected solely on the basis of demonstrated user demand and economic viability; responsibility for investment, development and promotion costs will rest with the operator.

(iv) Revenue effect: neutral.

Positive

(i) Implements recommendation of Working Party on Freeports (published 3 March). Although the Working Party was unable to identify any tariff benefits specific to freeports, it recognised that marketing and presentational advantages could be significant and also took into account the possibilities of achieving economies of scale and of reducing bureaucracy.

(ii) Legislation necessary to permit freeports to be designated and to provide an appropriate system of customs control.

Defensive

(i) Widespread consultation necessary before decision can be taken on locations.

(ii) Limited number of sites in view of uncertainty about real scale of user demand and of risk of blunting promotional appeal.

(iii) No evidence that freeports would assist industrially depressed areas. Locations to be selected on basis of viability, not on regional policy grounds.

(iv) Prohibitions and restrictions applying to eg drugs, pornography and animal and plant health will continue to be enforced.

(v) Under EC legislation, manufacturers setting up within a freeport would not be permitted to process goods duty-free for the home or the Community market.

Contact point: R W MacLachlan (Customs and Excise) 2516-306

bf 24/iii

FROM: E P KEMP
16 March 1983

MR KERR

cc Mr Allen
Mr Norgrove

(PWP)

BUDGET - FURTHER BRIEFING FOR THE CHANCELLOR

This is to confirm what we propose by way of action on further briefing.

2. We are not proposing spontaneously to produce any further material against the weekend (I am not sure whether or not the Chancellor is going to be on the Walden programme) or the last day of the Budget debate on Monday, save only (a) if you specifically ask for something and/or (b) something so obviously unexpected and unbriefed-for comes up that it is clear that further material is needed. (In practice one would expect (a) and (b) to coincide!).

3. We will however be producing further material as necessary against the Chancellor's appearance in front of the TCSC on Monday 28 March. This material will be submitted towards the end of next week, in the light of how our appearance on the 23rd goes and the indications we get from the Clerk as to the questions that might be put to the Chancellor. You may think it worthwhile starting provisionally to book a place in the Chancellor's Diary for a briefing meeting on Monday 28th against the TCSC hearing, in case this is needed.

Dymna.
Could you try for a briefing meeting on Friday ~~21st~~ 25th ?

JK

E P KEMP

John
25th at 11.00 am

Good

x Middleton
x Burns
x Moore
x Robson
x Kemp
x Norgrove
x Allen x Ridley

PERSONAL

cc: Sir D Wass
Mr B Gilmore

MR KEMP

You advised me last week that elephants are not often seen in Parliament Street. As usual, I had no difficulty in agreeing with your advice. But the load which you, and the Central Unit generally, have carried in recent weeks would have tested an elephant, and your memory for key points throughout the Budget exercise was certainly elephantine. I really am most grateful.

GEOFFREY HOWE
16 March 1983

PERSONAL

MR NORGROVE

I write to thank you, and Mr Corcoran, for the massive effort devoted to the Budget exercise. The preparation of the Budget speech was - for me - an easier exercise this year than in the past largely because you contrived to get the draft in pretty good order, and usable prose, at a remarkably early stage. And the FSBR is undoubtedly an improvement on its predecessors. Thank you very much.

GEOFFREY HOWE
16 March 1983

PERSONAL

MRS MAYTOM
Central Unit

The Budget season must be your busiest, and OPEC must this year have made it busier than ever.

I would like you to know how impressed I was by the speed with which new advice, and new score-cards, emerged from the Central Unit in response to every development. I suspect that you must have worked appallingly long hours under extreme pressure. Thank you very much.

GEOFFREY HOWE
16 March 1983

PERSONAL

MRS CRANE

Central Unit

I know how busy you must be throughout the Budget season, and I therefore want to thank you very warmly for taking on the additional task this year of producing new versions of the draft Budget speech throughout the course of last week. The speed and skill with which clean and complete new drafts emerged as the week went on was most impressive: some of the credit is of course due to your cunning word processor, but most of it is due to you.

GEOFFREY HOWE

16 March 1983

PERSONAL

MR FRAY

Central Unit

Many thanks for your researches on the length of previous Budget speeches. As you will have seen, I made full use of them - and my false start yesterday afternoon was absolutely not your fault!

GEOFFREY HOWE

16 March 1983

Briefing Note

PNP

No. 10

THE 1983 BUDGET

17.3.83

Sir Geoffrey Howe presented his fifth Budget on March 15th. Like its four predecessors it is designed to maintain the drive for lower inflation and interest rates, which are essential if economic growth is to be revived and sustained. Within this framework it offers tax cuts to people and business, and generous measures to help families, the poor, the disabled and charities. The Chancellor characterised it as "a Budget for the family, a Budget for enterprise and, most of all, a Budget for Britain's continuing economic recovery" (Hansard, 15th March 1983, Col. 157).

A Stronger Economy

The British economy is now in far better condition than it was four years ago; it has weathered the world recession better than many, and is in good shape to benefit from the recovery in the major world economies which the Chancellor sees gathering pace in 1983.

* The money supply, borrowing and public spending are all under control;
* Inflation is at its lowest level for 13 years;
* The domestic economy is picking up: industrial and manufacturing production rose 2 per cent in January;
* Competitiveness has improved by a quarter since 1981;
* UK exports rose in 1982 despite a 3 per cent fall in world trade.

The prospects are for a slight rise in inflation to around 6 per cent at the end of 1983, but the economy is set to grow by 2 per cent in 1982-83 and 2½ per cent in later years. The Chancellor welcomed the recent fall in oil prices because it would boost trade and hence create jobs for Britain; nevertheless in the light of the possibility of further talks, and the effect of falls on revenue, it was necessary to keep a close control over borrowing.

A Budget for People

Previous Budgets gave priority to industry; this year's Budget gives priority to people.

* Income tax allowances have been raised by 14 per cent, 8½ per cent more than inflation. The real value of these allowances is now 5 per cent above the levels inherited from Labour;
* The new allowances add to the weekly income of the average basic rate taxpayer by £1.27 if single; £2.02 if married; and even more to the retired - £1.67 for single; £2.65 for married;
* 1¼ million people will cease to pay income tax at all, so helping the problem of the poverty and unemployment traps.

The Budget also raises the mortgage interest relief limit to £30,000. Increases in duties on alcohol and tobacco are very much smaller than in recent years (1p on a pint of beer, 3p on 20 cigarettes). This is one of the benefits of bringing inflation under control. Further help is given to employees buying shares in their own companies.

A Budget for Business

Personal tax cuts in themselves help business, but the Budget contains further measures worth another £¾ billion. On top of the £½ billion benefit to industry announced last Autumn, total help is now worth £1¼ billion in a full year.

* The ½ per cent cut in the National Insurance Surcharge means it has now been cut three times, from 3½ per cent to only 1 per cent, and is on course for abolition;
* Corporation Tax has been cut for small businesses;
* Extra spending on improvement grants and "enveloping" (the external repair of whole rows of houses), will help the construction industry;
* A technology and innovation package will be worth £185 million to industry over three years;
* The reintroduction of the Small Engineering Firms Investment Scheme will help firms especially in the West Midlands;
* The Business Expansion Scheme extends and improves the Business Start-up Scheme;
* Tax cuts averaging £200 million a year will encourage North Sea exploration and development;
* The Enterprise Allowance Scheme, which helps unemployed people set up in business, is now extended to the whole country.

A Budget for Those in Need

The Budget gives help to those most in need: widows, the disabled, the lower paid, the unemployed and families with young children.

* Child Benefit will rise by 65p a week to £6.50 in November, its highest real value ever. One-parent benefit will rise to £4.50;
* Widow's Bereavement Allowance has been extended to the year after bereavement and will now help twice as many;
* Restrictions eased for many in receipt of Invalidity Benefit;
* The extension of the Job Release Scheme and other measures to encourage early retirement will help 150,000 people;
* The 5 per cent abatement of Unemployment Benefit, introduced in 1980, is being restored now that the Benefit is being brought into tax.

For the general uprating of Social Security benefits, due in November, the Government is returning to the arrangements which operated before 1976, whereby the increase was based on an actual rather than a forecast inflation figure. The figure to be used now is that for twelve months to May 1983; the Chancellor expected it to be in the region of 4 per cent.

Pensioners will be left with the full amount of last year's overpayment of benefits, and if the four per cent figure this year turns out to be correct, then benefits for the two years will continue to be ahead of prices.

In the course of the five upratings made by this Government (November 1979-83 inclusive) prices are likely to have risen by some 70 per cent and pensions by some 75 per cent.

Conservative Research Department,
32 Smith Square, S.W.1.

DH/AS

C/

On Ian MacGregor, D/Energy advise that you can only stone wall — no decision taken & no appointment yet made.

Hansard references below show how the PM has handled it so far.

On Siddall, you can, if necessary, say he has done an outstanding job but has made clear that he is unwilling to serve a further term on health grounds.

On the NCB itself, the Govt. is providing a grant of £520m in 1982-83 and £540m in 1983-84. The industry does face problems of overproduction and loss making capacity but they are for the industry itself to solve and they won't go away.

MOM
17/3

an announcement in due course. I accept that consideration of rating reform must include an examination of the functions of the several local authorities.

Mrs. Renée Short: Has the Prime Minister had an opportunity to see the report just released by the British Medical Association—[*Interruption.*]—What are hon. Members laughing at? The report is the result of an inquiry chaired by Professsor Sir John Stallworthy into the negative effects of nuclear war. Is the right hon. Lady aware that if one nuclear weapon were exploded over London, more casualties would be created than could be cared for by all the acute beds in the country, of which there are 136,000? Will she examine the report, act upon it and get in touch with President Reagan and Mr. Andropov—[*Interruption.*]—Tory Members are hooligans. This is a serious matter that affects the lives of all the people of this country and of many other countries. Will the Prime Minister use whatever influence she has with President Reagan and any one else who is prepared to listen to ensure that a meeting can take place to remove the threat of nuclear war from the entire world?

The Prime Minister: I have not seen the report to which the hon. Lady refers in full, but I have seen a summary of it. The purpose of possessing nuclear weapons is to deter the Soviets from making any attack, either nuclear or conventional, on the countries of the Western alliance. That strategy has been successful for 37 years, and the Soviets are as aware of the dangers of nuclear war as we are. As long as they face a credible nuclear deterrent as part of our defences, they will never risk either a conventional or a nuclear attack.

The best possible course is for Mr. Andropov to accept President Reagan's proposals to reduce intermediate nuclear forces to zero, to reduce strategic weapons by one-third as a first step and to reduce conventional forces. The initiative has been taken by the entire NATO alliance and by President Reagan, but the Soviets are not responding.

Mrs. Renée Short: I am asking you to do it.

Mr. Alton: Is the Prime Minister in favour of fixed-term Parliaments? If not, why not?

The Prime Minister: I see no reason to change the present system. The onus is on those who propose any change to prove the case for it.

Mr. Neil Thorne: Is my right hon. Friend aware that Mr. Livingstone and his Labour colleagues on the GLC have cancelled the Territorial Army banner rededication ceremony that was to take place this month at county hall on the grounds that it would offend their friends in the peace movement? Will she take time to consider the grave offence that this has caused to the many thousands of men and women who have participated in maintaining the peace of this country through the Territorial Army for the past 35 years?

The Prime Minister: The Territorial Army is a wonderful service, and I hope that its members will realise that the vast majority of British people are firmly behind them. We believe in a strong defence that among other things, enables people such as Mr. Livingstone and others to express their views—a freedom that would be denied to them if they lived under the Soviets.

4. **Mr. Lofthouse** asked the Prime Minister if she will list her official engagements for 3 March.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Lofthouse: Does the Prime Minister recollect my question to her on 8 February, when I informed her of the reaction of the mining industry to the rumoured appointment of Mr. Ian MacGregor? Is the Government's announcement during the past two hours, directly after the decision of the national executive of the National Union of Mineworkers, that great democratic union—[*Interruption.*]—Yes, that great democratic union, to ballot its members, a deliberate act of provocation on her part to make sure that the miners vote for a strike, which is something she has wanted for many months? Can she tell the House whether Mr. MacGregor has accepted the offer?

The Prime Minister: As the hon. Gentleman probably heard me say earlier, I have no announcement to make about the future chairmanship of the National Coal Board.

Mr. Lofthouse: It has been on television.

The Prime Minister: The hon. Gentleman should not always believe as gospel what he sees on television. I have no announcement to make about the future chairmanship of the National Coal Board. As the hon. Gentleman knows, Mr. Siddall's appointment comes to an end, I believe, at the end of July, and he cannot carry on. There is no secret about the fact that Mr. MacGregor is being considered for the chairmanship. There are good reasons why his name should be considered. When he was chairman of AMAX, in his first year——

An Hon. Member: Reading.

The Prime Minister: Yes, because I want to be accurate in what I say. When he was chairman of AMAX, Mr. MacGregor took it into coal production, and coal operations expanded by 75 per cent. between 1971 and 1976 making AMAX the third largest producer of bituminous coal in the United States. In 1976, after the worst year for United States mineral consumption since the depression of the 1930s, AMAX, unlike other United States mineral companies——

Mr. Lofthouse: This means that the Prime Minister has appointed him.

The Prime Minister: —embarked on a \$2 billion expansion programme. That is the background. I have no announcement to make. May I make it clear that no one has yet been appointed to the job.

Mr. Latham: On a point of order, Mr. Speaker. May I ask you to consider the convenience of hon. Members? There is serious overcrowding on the Opposition Front Bench below the Gangway, which I believe should have your immediate attention.

Mr. Cryer: On a point of order, Mr. Speaker. I wonder whether you have received a request from the Minister of State, Home Office to make a statement retracting his explicit and clear endorsement of police violence towards the women at Greenham Common when replying at Question Time to my hon. Friend the Member for Workington (Mr. Campbell-Savours).

Mr. Speaker: Order.

year, and that many local authorities in the area would be happy to help with those minimal costs to see that a service of job finding is still available to people in places such as Amble?

Mr. Gummer: I am sure that the hon. Gentleman will accept that we are seeking to make the system as efficient as possible, and it is only sensible to look at some of the jobcentres that are of small use and to which a small number of people go, and make them as economic as possible. If the hon. Gentleman has a particular case in mind we shall look at it carefully. In the end, it is not the jobcentres, that find the work, but the work that we want to get.

Mr. Radice: Has the Minister noted that despite the Prime Minister's commitment to real jobs, made in Darlington during the 1979 general election campaign, unemployment in the Darlington travel-to-work area has risen from 6 per cent. then to over 15 per cent. now?

Mr. Gummer: The hon. Gentleman must accept that, had we continued with the policies of the Labour Government, unemployment would be much higher. For the first time a Government are taking the steps that will bring back to this country the economic basis that has been frittered away by years of under-productivity.

Trade Union Democracy (Green Paper)

12. **Mr. Renton** asked the Secretary of State for Employment how many representations he has so far received from trade unions in response to his Green Paper on trade union democracy.

Mr. Tebbit: I have so far received no representations from trade unions on our Green Paper 'Democracy in Trade Unions'. The period for consultations will continue until 8 April.

Mr. Renton: Is that not a very depressing reply? Are trade union leaders not interested in democracy in their unions? If there continues to be no response from those who are fearful that more balance will lead to loss of office and of power for them, will my right hon. Friend make a strong appeal in the remaining weeks for ordinary trade unionists to write in to him with their views on obtaining more balance and on opting out of the political levy in their union?

Mr. Tebbit: My hon. Friend is slightly unfair to some of the trade union leaders because many of them have a deep commitment to democracy in their unions and have been taking steps to achieve that. What is regrettable is that some have not and are seeking to thwart progress in this regard. I hope that more and more ordinary trade unionists, as well as those leaders such as Mr. Gavin Laird, who has said that these matters should be discussed with the Government will come forward and give me their views.

Engagements

Q1. **Mr. Foulkes** asked the Prime Minister if she will list her official engagements for Tuesday 8 March.

The Prime Minister (Mrs. Margaret Thatcher): This morning I had meetings with ministerial colleagues and others, including one with the deputy Prime Minister of Hungary. I also unveiled a sculpture of my noble Friend the Lord Home in another place. In addition to my duties in the House I shall be having further meetings later today.

Mr. Foulkes: Will the Prime Minister confirm that her vacillation over the appointment of a new chairman for the coal board is because Lazard Frere is demanding yet another transfer fee of £1·8 million, a sum it would take a miner 250 years to earn? What a reflection on British management that the Government think that the only person capable of running the coal board is this superannuated superman from the United States.

The Prime Minister: I have nothing further to add to what I said last week about the chairmanship of the National Coal Board. I remind the hon. Gentleman that the gentleman of whom he is speaking is a distinguished Scotsman, who has done well for the coal industry.

Sir Neil Marten: Has the Prime Minister read, and I see no reason why she should have, the speech of Mr. Gaston Thorn, president of the European Commission, on 8 February, in which he said that it was time to shelve the Luxembourg compromise? While I do not necessarily expect my right hon. Friend to reply straight away, could she study the speech and let me know what she thinks?

The Prime Minister: My right hon. Friend's surmise that I have not read that speech by Mr. Thorn, is correct although I seem to have read quite a number. I do not believe that the Luxembourg compromise should be shelved.

Mr. David Steel: Is the Prime Minister aware that we all hope that the miners will not be provoked into voting for strike action? Is she also aware that despite the Gentleman's considerable ability, what the coal board needs is not a temporary chairman but somebody who has a long-term commitment to the future of the industry and is involved in it?

The Prime Minister: The Gentleman to whom I believe the right hon. Member refers has an excellent record in the coal industry——

Mr. George Foulkes: Rubbish.

The Prime Minister: --which I described last week. One is not thinking in terms of a short-term chairman.

Mr. James Callaghan: I ask the Prime Minister a simple statistical question. Will she confirm that the Chancellor of the Exchequer will need to reduce the standard rate of income tax by 9p in the pound in the Budget next week if the real level of total taxation on the average family is to be reduced to the point at which it stood when I left office?

The Prime Minister: That figure, which I understand has been given in a parliamentary answer, takes no account whatsoever of increases in earnings over the period. If those are taken into account, even for those at lower income levels, real take-home pay is now higher than it was in 1978-79.

Mr. Myles: Is my right hon. Friend aware that the distilleries in my constituency could substantially cut their energy costs by 25 per cent. and get a 25 per cent. grant for doing so, but they do not do it because of Scargillism?

Mr. Foot: The right hon. Lady will find that her memory is at fault. She will also find that under no previous Government has the destruction of jobs been on anything like the scale that has occurred under this Government. Can she give any comparable figure at all? How many of those 2 million extra jobs lost were in Darlington? *[Interruption.]* The right hon. Lady made a speech about real jobs in Darlington. Since then, 7,500 people have lost their jobs in the travel-to-work area of Darlington and south-west Durham.

The Prime Minister: The right hon. Gentleman must know that, even in nationalised industries, more modern methods have resulted in fewer people being able to produce a bigger output. The right hon. Gentleman knows that when he and I first came into politics, there were 700,000 people employed in mining. Today, there are just under 200,000. The right hon. Gentleman knows that he had to go to his constituents in Ebbw Vale and explain why the number of jobs in the steel industry was reduced. It is ridiculous to try to turn the clock back. We must have maximum efficiency and production, the latest equipment and the latest productivity to keep some of the industries in this country.

Mr. Foot: Why, in that case, did the right hon. Lady promise more jobs in Darlington? What will she promise this time?

The Prime Minister: More jobs will come from small businesses and new industries developing. It is no use the Opposition yowling about it. It is a fact. Other countries that have gradually got more jobs have a higher proportion of small businesses and self-employed than we do. It happens that under this Government we now have a record number of people who are self-employed. That is good news for the future.

Mr. Nicholas Winterton: Will my right hon. Friend join me in congratulating the miners on the decision that they have just taken against a national coal strike? Will she go further and, in welcoming their decision and associating herself with their good sense and responsibi lity, seek to appoint as the new chairman of the National Coal Board a person who is acceptable to all sections of the coal industry, to ensure that this industry, which I have had the pleasure to represent, can continue to play its vital part in the energy policy and future of this country?

The Prime Minister: I have already given my view that the result of the ballot is good news for the future of the coal industry. There is an extremely good future for the coal industry, as the Government have demonstrated by the amount that we have put into investment in coal. It is about £3 billion during the lifetime of this Government—twice as much as during the lifetime of the Labour Government. My concern for the coal industry, with an excellent future before it, is to secure the best management possible for the NCB.

Mr. Stoddart: Has the right hon. Lady considered this morning what *The Guardian* today described as a stinging rebuff to her by the European assembly in deciding to confirm that it will go ahead with an investigation of affairs in Northern Ireland? Does she realise the implication of what this mischievous and insolent assembly is doing for the future? For example, when Spain comes into the Common Market—[HON. MEMBERS: Speech.]—Just be quiet. When Spain comes into the Common Market, will the assembly interfere in affairs between Britain and Spain over Gibraltar? Does she not realise that the warnings we have given from the Labour side of the House to the effect that this assembly would seek to extend its powers at the expense of this Parliament and, indeed, the British Government, were well justified?

The Prime Minister: We have already made our view clear, which is that the European assembly has no business discussing the internal political affairs of a member state. I believe that the decision to produce a report on Northern Ireland will be widely resented throughout the United Kingdom. May I make clear that all six Conservative members of the political committee voted solidly against that proposal. I believe that one Labour member voted for it. We are absolutely against it. I make that clear.

Q3. **Mr. Race** asked the Prime Minister if she will list her official engagements for Thursday 10 March.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Race: Does not the Prime Minister realise that the creation of mass unemployment implies the creation of mass poverty? Does she not know that this year her Government have cut £610 million from benefits to retired people, £300 million from benefits to the sick and the disabled, £300 million from the benefits to the unemployed, £50 million from the benefits to widows and orphans and £150 million from benefits to families? When will the Prime Minister stop hiding behind the phrase "Don't blame me, I'm only the Prime Minister".

The Prime Minister: It is not a phrase I have ever used. May I add to what the hon. Gentleman stated that in the four pension upratings since this Government took office, the pension has increased—*[Interruption.]* Pensions are benefits. The pension has increased by 68·5 per cent. During that period, the retail price index rose by 64 per cent. and the pensioners' price index by less. We have put up pensions by more than the cost of living. I also remind the hon. Gentleman that, in addition to putting up each pension by that amount, there are now about 600,000 more pensioners than at the time when the Labour Government left office. Their pensions have also had to be funded by payments in national insurance contributions.

Sir Bernard Braine: Will my right hon. Friend ensure that President Reagan is made aware of the astonishment of most people in this country and, I think, in the House, at the proposal of the Americans to resume the shipment of arms to Argentina before that country has declared an end to hostilities with Great Britain, before there has been an accounting for the abduction, torture and killing of vast numbers of people, including British Subjects and Community citizens, and before there is a restoration of democratic Government in Argentina?

The Prime Minister: I am grateful to my hon. Friend. We have already made our views known and hope that those shipments will not be resumed until Argentina has declared a permanent cessation of hostilities, which it has not yet done.

Q4. **Mr. Alton** asked the Prime Minister if she will list her official engagements for 10 March.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

Director: PETER CROPPER

TCS/CMB

17th March, 1983

The Rt. Hon. Sir Geoffrey Howe, QC, MP
H.M. Treasury,
Parliament Street,
LONDON SW1

Dear Sir Geoffrey

Following a request from Mr Robin Harris for some assistance I have gathered together information on some topics which may arise in to-nights programme. The information focuses on the Greenham Common Women and Unilateral Disarmament. I also include some information on Mrs Shirley Williams, and Mr Gerald Kaufman.

I hope that this may proove to be of some use to you.

Yours sincerely

T.C. Sargeant.

T.C. Sargeant

ENCS

THE GREENHAM COMMON WOMEN

The 'Greenham Common Women' first gained public attention in the winter of 1981 when they set up their 'peace camp' outside the perimeter fences of the airbase. It has been claimed, especially after the demonstration of 30,000 women and children at Greenham that they are not politically motivated. However, the main caucus of activists are radical feminists who are politically motivated.

The chronology of events is as follows:

(1) November 1982; 28 women went to prison for refusing to be bound over.

(2) December 1982; 30,000 demonstrated against the siting of cruise missiles at Greenham. The demonstration marked the first anniversary of the protest.

(3) December 1982; the women's leader, Mrs. Helen John, advocated breaking the law in order to stop the missiles.

(4) December 1982; In a Local Government election, in the Isle of Wight on 2nd December 1982, a 'Peace Campaign' candidate won just 53 votes (3.9% of the poll).

(5) New Year's Day 1983; 44 women demonstrators invaded the airbase itself. In the ensuing court action in February, they were bound over to keep the peace under a Justice's of the Peace act drawn up in 1361! Three hours after the hearing commenced, 45 women climbed under and over the perimeter fence at the airbase. They were ejected an hour later.

(6) January 1983; 36 women were sent to prison for 14 days for refusing to be bound over to keep the peace. 6 others agreed to be bound over for a year.

(7) 7th February 1983; 34 women charged with obstruction. They were bailed to appear before Newbury magistrates on April 18th.

(8) 11th February 1983; 9 women at the camp were granted the right to vote in local and national elections at Greenham.

(9) 9th March 1983; Mr. Justice Croom-Johnson ruled that the women be restrained from re-entering the area of the base or conspiring to tresspass on the land. As the judgement was given the women's leader, Mrs. Helen John, refused to listen and attempted to shout down the judge.

SHIRLEY WILLIAMS - QUOTES

"Speaking for myself, I do not want a new Centre Party, I want a Labour Party refreshed by new thinking....." (Sunday Times, 3rd February 1980).

"We believe that a centre party would have no roots, no principles, no philosophy and no values" (Guardian, 9th June 1980).

"Yes we are the inheritors of the old Labour Party" (Daily Telegraph, 25th November 1981).

"I've re-read all the Labour manifestoes of this decade, 1970, two in 1974, 1979.....Generally speaking, these were the aims and policies I believed in" (Guardian, 29th November 1980).

"The Liberals aren't a serious alternative" (Guardian, 29th November 1980).

"Hold the pound steady to encourage exports without forcing inflation up" (Crosby by-election leaflet Octover 1981).
(SDP generally favours a mild devaluation before joining the EMS).

"Statutory prices and incomes, policies are too rigid to last for long.....Typically they are modified by permitting qualifications ....the qualifications then arouse feelings of injustice and the policies become discredited" (Politics is for People p.133).
(SDP is looking to a Statutory Incomes Policy).

"There is much to be said for a wealth tax" (Sunday Telegraph, 27th September 1981).
(In 1974 she had said):
"We are committed to legislation in this Parliament, which will go far to remove our most pervasive inequality - inequality of wealth. Public ownership of development land, the new Gifts Tax and the proposed Wealth Tax will all alter the balance of wealth in our society" (Political Broadcast for Labour).

"It is with reluctance that I for one conclude that the freedom to send one's child to an independent school is bought at too high a price for the rest of society" (Politics is for People p. 158).

"The social case for the comprehensive school has always been unanswerable" (Politics is for People, p. 156).

"....police authorities need not consist only of councillors and magistrates. They could include representatives of voluntary bodies including youth and ethnic minority organisations" (Speech: Preston, 16th April 1982).

"For the first time, the basis of government's policies will be positive non discriminatory action. Central to this programme will be the requirement on public contractors, local authorities and other employers to submit, within a two year period, equal opportunity policies demonstrating that they have used their best endeavours in eliminating unlawful discrimination and promoting racial balance through positive action. To achieve Equal Opportunity Employer status, an organisation would have to show that providing sufficient opportunities in recruitment promotion and training for members of minorities and that it was monitoring such action by keeping ethnic records" (SDP Policy Conference, 24th July 1982).

"I have never seen any reason at all why schools which give nothing to the community should, in some cases for ancient reasons, have charitable status" (Alliance Magazine, October 1982).

"The Liberal tradition and Socialist tradition are very different despite the fact that many of the objectives and some of the methods were common to both in the post war period" (Politics Is For People, p.21).

"Socialists need to recognise force of the antipathy that now exists towards 'big government'"(Politics Is For People, p. 29).

"The Social Democratic consensus was based above all on constant economic growth" (Politics Is For People, p.52).

"If I got fed up with the Labour Party, I should simply leave politics altogether" (Daily Telegraph, 13th June 1979).

"Use of government and local government power to encourage the recruitment, promotion and training of black men and women in the public service and the public sector. Public purchasing and government contracts should be conditional on firm having clear and positive non discriminatory employment policies" (Lambeth SDP, 19th January 1982).

"We've had three years of a Incomes Policy that has worked surprisingly effectively" (On The Record, BBC, 13th January 1979).

"...We've got to try to discourage excessive settlements and that may have to be done by, for example, removing the historic safe-guards in the Price Commission's present powers, so that the Price Commission can look at a demand for a price increase unrelated to historic safeguards, but in terms of whether the employers were in fact paying for a reasonable productivity increase or in a situation of shortages of skills, or whether they're paying for something which is over and above what they need to pay" (On The Record, BBC, 13th January 1979).

"....obviously, at a certain point, if we felt that we had to show that we had the confidence of the people we'd have to have an election" (On The Record, BBC, 13th January 1979).

Jeremy Moody

17th March 1983

Mr. Gerald Kaufman

1. At Labour's Local Government conference in Portsmouth on 11th February 1983 he said

   "We shall legislate to prevent auditors or the courts from making political judgements on councillor's policies or the way they carry them out" (reported in The Guardian, 12th February 1983).

   The other reforms in a wide-ranging package of proposals for local government are

   (i) Abolition of spending targets;

   (ii) Halt the creation of more urban development corporations and enterprise zones;

   (iii) Repeal the ban on supplementary rates;

   (iv) Free councillors from the threat of personal surcharge;

   (v) Scrap the Government's proposed new structure for the water industry;

   (vi) Rearrange the British Local Government map into unitary district authorities to create all-purpose councils in a single tier of local government.

   The implication in his speech was that the shire counties would be abolished; so too will the 6 metropolitan councils, but not the GLC.

2. Whilst not using such abusive language about Government Ministers as some of his colleagues he does seem to be obsessed with criticising the Secretary of State for Employment. For example during the water dispute he accused the Prime Minister of "reckless intervention", of causing negotiations to break down, and of supporting "Mr. Norman Tebbit, the swaggering bully-boy" who "falsely and maliciously made provocative statements about the roles of the GMBATU in relation to the dispute" (Morning Star, 31st January 1983).

3. Quotations

(i) 22nd November 1982 (Daily Mirror)

Gerald Kaufman made a savage attack on the "Political Con-men" surrounding Thatcher

e.g. David Howell, who "while the nation's public transport system collapses, will this week force BR to sell off its hotels";
Norman Tebbit who "will not lift a finger to deal with the catastrophic mass unemployment".

(ii) 19th November 1982

"Instead of helping our inner cities, the government is bleeding money away from them."

(iii) 13th October 1982

"The Tory cover-up has failed. Council house tenants in the by-election constituencies and throughout the country now know the price of a vote for Mrs. Thatcher."

(iv) 9th July 1982

"The brave new world that Mrs. Thatcher dreams of is a world for landlords to get rich in. The jobs she intends to create will be jobs for bailiffs. The true name of what she plans is not de-regulation but 'Rachmannism'".

(v) 14th May 1982

"Mr. Heseltine has failed to control local authority spending. But he has succeeded in creating a system of discriminatory penalties which are entirely lacking in logic and justice, and can only be explained by the motivation of political malice."

(vi) 21 February 1982

"This government have repeatedly shown that they are contemptuous of the rule of law."

(vii) 23rd January 1982

Heseltine "is now demanding powers over locil councils of a kind which would have been welcome to Stalin or any of his commissars in Soviet Russia."

(viii) Local Government Conference, 27th November 1981

"Three quarters of all expenditure cuts made by this government have been borne by housing alone."

(ix) Labour Conference, Brighton, 28th September 1981

"The next Labour government will liberate our local councils and give them greater scope than ever before to promote the municipal socialism in our towns, cities and villages."

(x) 31st May 1981

"This week Heseltine ... will launch his latest, most unjustified and most vicious witch-hunt against local councils."

(xi) 7th March 1981

"What a flop the government's policy of compulsory council house sales is turning out to be."

(xii) 1st March 1981

"Mrs. Thatcher's vendetta against housing ... is ensuring that the worst housing crisis for generations ... will continue into the 21st century."

(xiii) Heseltine "is turning his Secretary of State's office at the DoE into a Star Chamber for the persecution of local government."

TS/JLS

PWP

From: C W Kelly
Date: 21 March 1983

PS/CHIEF SECRETARY

cc: Principal Private Secretary
Sir Anthony Rawlinson
Mr Kemp
Mr Mountfield
Miss Seammen
Mr St Clair
Mr Stibbard
Miss King

ESTIMATES AND THE BUDGET

The Chief Secretary asked Sir Anthony Rawlinson whether the Estimates were made available before the actual Budget Speech.

2. The answer is that they were, by a few minutes. They were formally presented at 3.30 on Tuesday, 15 March and were available from the Vote Office from that time. This follows the practice of the last few years.

3. Mr St Clair has separately provided a paragraph for the Chancellor's winding up speech tonight about the superannuation Estimates. This covers the timetable point. But I thought it might be helpful to set the timetable out rather more schematically as below:

1 December	All Estimates to be submitted to Treasury
December/January	Treasury scrutiny
Mid-Jan/early Feb	Estimates approved and sent to printer
4 Feb	Corrected proofs sent to printers
2 March	Read at press (last date for amendments)
3.30 p.m. 15 March	Estimates presented and available from Vote Office

4. This timetable is, of course, highly simplified. In practice more than a few Estimates were not submitted to the Treasury by 1 December, which delayed both subsequent scrutiny and approval. But the date of 2 March for reading at press was a fixed one.

5. Main Estimates are not sent in proof form to the Select Committees. Proof copies are sent to the committees for Supplementaries because of the short timetable. This has always been felt to be unnecessary for main Estimates, since the committees have from Budget day to the beginning of August for their scrutiny.

C W KELLY

FROM: W L ST CLAIR
Date: 21 March 1983

PS/CHIEF SECRETARY

cc Principal Private Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Le Cheminant
Mr Monger
Mr Kelly
Ms Seammen

THE BUDGET AND ESTIMATES

You asked for a draft paragraph which could be used in the winding up speech explaining why the assumptions on which Estimates were based were overtaken by the Budget statement.

2 A suggested piece is attached which has been agreed with Mr Kelly and Ms Seammen.

WLStC

W L ST CLAIR

See other version

DRAFT PASSAGE FOR WINDING UP SPEECH

A number of Hon. Members have asked how it came about that the Supply Estimates, published on Budget Day, were based on assumptions which were overtaken by the ~~Chancellor's~~ Budget statement.

The preparation of Estimates is a lengthy process. Departments began work on them in the autumn ~~of last year~~, ~~and a Treasury instruction of 5 November required that~~ All ~~Estimates should~~ had as be submitted in ordinary way ~~to the~~ Treasury by 1 December ~~1982~~. In order to meet the printing timetable, they were ~~considered within the Treasury and~~ approved by the end of January. ~~Further changes can be introduced at the proof stage, and some were, but~~ corrected proofs were sent to the printer on 4 February, and after that only very small changes could be made. The Estimates are not printed under conditions of Budget security.

As always

With such a timetable, it is obviously impossible to await every Budget decision which may have an effect, and the Estimates were therefore quite properly drawn up on assumptions which were reasonable at the time. ~~As far as~~ the Civil Superannuation Estimate i~~s concerned, this~~ was based on the assumption of a continuation of the existing forecast arrangements with an adjustment of 2½ per cent. This followed the assumptions of the Public Expenditure White Paper. During every year when the forecast has been used, it has been made clear that the actual uprating would depend upon decisions to be announced later. As far as the Social Security Estimates are concerned, a conventional assumption

of 5 per cent was taken. In previous years, the Social Security Estimates have incorporated the Government's proposal for uprating as set out in the uprating statement at Budget time, but this year, in the absence of an uprating statement, this was not possible, so that the conventional assumption used in the White Paper was carried over into the Estimates.

When the actual figure for the uprating to be applied in November becomes available on 17 June, the Government will submit revised Estimates, taking into account any other more up-to-date information which is available by that time.

F[illegible]

31st March, 1982.

CONFIDENTIAL

CHANCELLOR OF THE EXCHEQUER

c.c. Chief Secretary
Economic Secretary
Financial Secretary
Minister of State (L)
Minister of State (C)
PCC
Mr. Byatt
Mr. Monck
Mr. Lavelle
Mr. Cassell
Mr. Evans
Mr. Kemp
Mr. Wicks
Mr. Bottrill
Mr. Robson
Mr. Barber
Mr. Powell
Mr. McIntyre
Mr. Ridley
Mr. Harris
Mr. French

C.

Rather worrying / No answers
V. likely [illegible]
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Ham:
I attach a letter [illegible]
[illegible] qualifications. [illegible];
effect. *

POLICY IMPLICATIONS OF LOWER OIL PRICES

Mr. Middleton submitted to you a paper by MP2 Division (Oil Prices ,19th March 1982) whicn examined the effects on the UK economy if the nominal world price of oil falls to $25 per barrel and remains there until the end of 1983. The assumptions involved a reduction of both the nominal and real world price of oil, compared with the levels assumed in the MTFS, by around 13 per cent by the end of 1982 and by about one quarter from the end of 1983 onwards. This minute looks at the implications of a change of this kind for a number of areas of policy; monetary policy; fiscal policy; the implications for the balance between the personal and company sectors; policy on the pricing and production of North Sea Oil. It has been discussed at PCC as the basis for a preliminary discussion on the issues. Over the next few weeks we are planning to look at some of these issues in more detail.

2. The policy implications of a fall in oil prices will depend crucially on whether it is expected to be temporary, ie it is reversed within, say, two to three years, or permanent. It may also depend on how far the fall is the product of developments within the oil market itself, and how far it is the result of wider economic developments such as the world recession or high US interest rates. A fall in the world price of oil that was due to the break-up of OPEC would have quite different results from one which represented an early move in the direction of lower world inflation brought about by tight US monetary policies. /THE

THE EFFECTS OF LOWER OIL PRICES

3. The effects of lower world oil prices on the UK economy will depend on the stance of monetary and fiscal policies not only abroad, but also in the UK. The simulation carried out by MP2 Division assumes that UK nominal short term interest rates remain unchanged at the levels assumed in the MTFS projections. On this assumption the changes which the lower level of world oil prices would imply to the MTFS projections are as follows:-

	1982	1983	1984	1985
		Per Cent Per Annum		
Change in annual growth rate of real GDP over previous year	-	+0.5	+0.8	+1.0
Annual rate of inflation from fourth quarter to fourth quarter	-0.4	-0.7	-0.2	+0.5
Annual growth rate of £M3 from fourth quarter to fourth quarter	-0.2	nc	+1.2	+2.1
		Per Cent		
Effective exchange rate in fourth quarter	-1.0	-2.8	-4.4	-5.3
		£ billion		
	1982-83	1983-84	1984-85	1985-86
PSBR (as % of GDP)	+0.5 (+0.2)	+1.1 (+0.3)	+1.3 (+0.4)	+1.6 (+0.4)

Thus the fall in oil prices increases the rate of growth of real GDP throughout the period. It reduces the nominal effective exchange rate but despite this the rate of inflation is also reduced except in the last year. However, the lower rate of inflation would imply slightly higher real interest rates during the first three years. The rate of growth of £M3 shows little change during the first two years and is only significantly increased in the last year; this indicates that a further simulation based on the alternative policy assumption of maintaining the growth of £M3 at the rates assumed in the MTFS would give very similar results. The PSBR is increased by an amount which rises to £1½ billion by 1985-86. These estimates are, as always, subject to a margin of error.

4. Overall these effects seem quite acceptable. The changes in activity and inflation are in the right direction and the fall in the exchange rate appears tolerable. Any possible implications for the achievement of the monetary targets appear several years away. The only possible problem occurs in respect of the increase in the PSBR and perhaps the increase in real interest rates.

MONETARY AND EXCHANGE RATE POLICY

5. The results of the simulations show that, given unchanged nominal interest rates, the reduction in world oil prices should not carry the growth of the money supply outside of published ranges. The increase in the growth of the money supply during 1985 is more marked but this is someway off in time. Given that the effect on inflation is generally favourable, then the fall in the exchange rate can be regarded as tolerable.

The effect of oil price changes on the exchange rate is, however, somewhat uncertain. Of course, if their effect were to destabilise the rate, action on interest rates would become inevitable. That apart, if the exchange rate were to depreciate to the point where the favourable effects on inflation were likely to disappear, there would be a case for tightening monetary policy. If on the other hand it appeared that a reduction in the oil price to $25 had only a modest effect on the exchange rate (or none at all), then it might be right to consider some easing of monetary policy. That would depend on the balance we wished to strike within the monetary target between benefits to output and benefits to inflation.

FISCAL POLICY

8. It is difficult to make out a case why the PSBR should be allowed to increase unless the reduction in oil price changes is expected to be temporary. Indeed the higher level of output and the lower rate of inflation point towards a reduction in the (cyclically unadjusted nominal) PSBR.

9. As in the case of monetary policy the implications of lower oil prices for fiscal policy will depend on their effect on the exchange rate. If the exchange rate falls significantly so that the rate of inflation is increased, then the case for some action to offset the increase in the PSBR as part of the process of tightening policy becomes stronger. Without such action interest rates may have to bear too much of the burden. Of course if the exchange rate fell by more than the simulation suggests this would, after the first year or so, reduce the effect which lower dollar world oil prices would have on increasing the PSBR.

10. Action to offset the effect of lower oil prices on the PSBR would require some tax increases or lower public expenditure. It might be appropriate, for example, to reduce cash-limited expenditure to take direct account of the reduction in the costs of some programmes eg defence; and to reduce the external financing limits for some nationalised industries - electricity supply is the obvious example. However, the EFLs of the other energy nationalised industries might be expected to come under pressure as the demand for their products falls in response to the fall in oil prices.

11. If taxes have to be increased, what form should such tax increases take? The simulation shows that lower oil prices increase the income of the personal sector partly through increased employment and partly through higher <u>real</u> earnings. However, the disposable incomes of companies operating outside the North Sea sector increase proportionately more as a result of lower costs, lower pay settlements and because of the lower exchange rate. In addition company income benefits more than proportionately in the initial stages from a rise in activity. If the exchange rate depreciates by more than expected, then the gain in disposable income is likely to be more in favour of the company as opposed to the personal sector - and vice versa if the depreciation is less than expected. This is something which we may need to explore by carrying out a series of simulations involving different combinations of oil price changes and exchange rate responses.

/12.

12. A reduction in oil prices reduces inflation but at the expense of lower Government revenues. In this respect it is like a reduction in indirect taxes. If the fall in oil prices reduced the rate of inflation there would be a greater presumption that some of the offsetting tax changes could take the form of directly raising prices.

13. Further work is required into the appropriate fiscal response and this is an area that will receive some attention in the further work we have in hand.

NORTH SEA OIL POLICY

14. In a balanced world oil market, the UK can still be expected to be a price taker and to sell all its output at roughly the going world price. In such circumstances existing policy on the pricing and production of North Sea Oil is probably largely satisfactory. However when, as at present, there is a marked excess supply of oil we find ourselves leading the market down and for a while at least having to concede bigger price reductions than many other oil producers. In these circumstances it may well pay us to restrict North Sea oil production at least in the short run. This might be particularly so if the present fall in oil prices proves to be very temporary.

15. Work will, of course, be required into the effects of oil price reductions on the rates of return earned by companies operating in the North Sea to see whether this has any implications for the fiscal regime.

PRESENTATION OF BENEFITS FROM LOWER OIL PRICES

16. We need to be cautious in our interpretation of the significance of a reduction in world oil prices. There are three reasons why a reduction in oil prices may benefit the world economy. Firstly, because it reduces inflation. For a given monetary policy and inflation objective this puts less pressure on output and should permit faster growth. It is the

/easing

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easing of pressure from counter inflation policy which provides the stimulus rather than the reduction in inflation itself. Secondly, the increases in oil prices which occurred in 1973-74 and 1979-80 rendered some industrial capacity uneconomic. Not all of this capacity has been scrapped or renovated and the prospective reductions in oil prices will render some of it economic again. Thirdly, it is often argued that reductions in oil prices will transfer purchasing power from oil producing countries which cannot use it to oil importing countries which will. This argument clearly had some weight in the immediate aftermath of the 1979-80 oil price hike but its force diminishes with time. Given the present circumstances of most of the OPEC countries reductions in their income will perforce require reductions in their expenditures. Clearly, therefore, the size of the benefits of an oil price reduction depends very much on the precise circumstances in which it occurs.

(TERRY BURNS)

'MOONIES'

When will the Charity Commissioners reach a decision about the Unification Church?

I understand that the Commissioners have today replied to the Attorney General's application for the removal of the two charitable trusts from the Register of Charities.

They have concluded that in law the two trusts are charitable and that therefore they have no power to remove the two charities from the register.

The Charity Commissioners' decision reflects their interpretation of the law on charitable trusts. It is not (they say) a question of whether they approve of the Unification Church, nor do they have any power to ban the movement as a whole.

~~Their decision could be the subject of an appeal in the High Court by the Attorney General, by the Inland Revenue, or both and it is up to them to decide whether to appeal.~~

Now overtaken: the Attorney General, not persuaded by the reasons which the Charity Commissioners have given for their refusal, will be instituting proceedings in the near future to have the issue determined by the High Court. It cannot be estimated how long the proceedings will last but they will be begun as soon as possible.

BACKGROUND NOTE

1. In April 1981, following the Moonies' unsuccessful attempt to sue the Daily Mail for libel, the Charity Commission announced that there was no reason for the removal from the register of charities of the 2 organisations associated with the Unification Church.

2. It then said it would reconsider its decision and the Attorney General subsequently made a formal application under section 5(2) of the Charities Act, 1960 for the 2 charities de-registration in June 1981.

3. The Attorney General was asked in October 1981 by the Charity Commissioners to furnish further particulars in support of the request. His response was postponed as the whole matter was placed sub-judice pending, the Moonies appeal against the libel judgement.

4. The appeal was eventually heard in November 1982 and disallowed. Leave to appeal against this decision was refused by the Law Lords on 10 February 1983.

5. The detailed statement of grounds supporting his application was sent by the Attorney General to the Charity Commissioners on 7 March.

6. The Commissioners have today sent the Attorney General a detailed reply. They have concluded that, as a matter of law they have no power to remove from the register of charities two religious trusts connected with the Unification Church.

7. Press statement to be issued at 2.30 pm 17 March and accompanying notes by the Charity Commissioners are attached.

HOME SECRETARY

WITH

THE COMPLIMENTS OF THE

PRIVATE SECRETARY

HOME OFFICE
50 QUEEN ANNE'S GATE
LONDON SW1H 9AT

THURSDAY 17 ... 1983

ISSUED ON BEHALF OF THE CHARITY COMMISSIONERS

The Commissioners have today sent the Attorney General a detailed reply in response to his letter of 7 March and his further submission of 9 March. They have concluded that, as a matter of law, they have no power to remove from the register of charities two religious trusts connected with the Unification Church.

Their decision reflects no question of moral approval, but simply the law as they understand it. The Commissioners have no power to remove from the register of charities an institution whose governing instrument embodies purposes which are currently charitable in law.

The Commissioners are in effect an extension of the High Court; they act in a quasi judicial capacity and must apply charity law as interpreted by the Courts.

The Commissioners' decision could be the subject of appeal to the High Court by the Attorney General or the Inland Revenue or both.

There is no question of the Commissioners being able to "ban" the Moonies as some people appear to assume. There are about 90 organisations connected with the Unification Church. The Commissioners are concerned only with two religious trusts registered as charities and with the question whether the objects of the two trusts are charitable in law.

The Commissioners have suggested on four occasions to the Attorney General that the real issue underlying public disquiet in this case is whether the Unification Church as a whole is contrary to public benefit and public policy; and indeed whether the Church should be banned. These are much wider and more fundamental issues, which raise the question of religious toleration. They are for the Government and Parliament, not for the Commissioners.

Notes on the history of the matter and the considerations involved are attached.

Press Enquiries: 01 214 8770 or 6213

1. A suit for defamation against the Daily Mail (Orme v Associated Newspapers Group Limited) ended on 31 March 1981. The jury added a rider to their verdict (for the Daily Mail) saying that the tax free status of the Unification Church should be investigated by the Inland Revenue Department on the ground that it was a political organisation.

2. On 3 April 1981 the Charity Commissioners issued a Press Notice explaining that the title Unification Church appeared to be an umbrella name for many organisations, most of which were outside the jurisdiction of the Commissioners because they were either established outside England and Wales or were non-charitable commercial enterprises. Two institutions associated with the Unification Church (The Holy Spirit Association for the Unification of World Christianity and the Sun Myung Moon Foundation) had been registered as charities under the Charities Act 1960, on the basis that they were charities for the advancement of religion. The Commissioners explained in the Press Notice that if either of the two Charities had indeed been engaged in impermissible political activities this might constitute a breach of trust, but was not a ground for loss of charitable status. The Commissioners' statement also referred to the allegations that the Unification Church engaged in certain undesirable activities, and explained that it was for the Court or for Parliament to decide whether these were contrary to public policy so as to affect charitable status.

3. A representative group of Members of Parliament urged the Commissioners on 7 April to consider the case again, on wider grounds than that of the jury's rider; the Commissioners agreed to do so. The next day the Attorney General announced that he was considering applying to the Commissioners for the removal of the two institutions from the register, and he did this formally on 23 June. On Counsel's advice the Commissioners asked the Attorney General for further and better particulars relating to his application.

4. In answer to a written Parliamentary Question on 21 July 1982 the Attorney General indicated that it would be inappropriate for him to comment further at that time, in order to avoid any suggestion of pre-judging or interfering in the appeal in the libel action.

5. The Court of Appeal dismissed the appeal in the libel case on 20 December 1982 and in answer to a written Parliamentary Question the Attorney General explained on 17 January that it would still not be appropriate for him to make any comment about the application for removal of charitable status because the time limit for a petition for leave to appeal to the House of Lords had not yet expired.

6. On 5 January 1983 the Attorney General wrote to the Commissioners asking them to consider taking action in several ways, including holding a formal inquiry into the two institutions. One of the objects suggested by the Attorney General was the establishment of a scheme to create an independent body of controlling trustees to ensure that the two registered charities were used for the public benefit. The reference to an independent body of controlling trustees presumably meant trustees unconnected with the Unification Church. But the law is that persons appointed to be trustees of a denominational charity must be persons who hold the beliefs of that denomination. In any event, the Commissioners had no power to make a scheme without an application from the trustees (which was unlikely), or in special circumstances from the Home Secretary.

7. The Commissioners could not find in the Court of Appeal judgment any reference to prima facie evidence of breaches of trust. If they were to institute an inquiry it would have to be a full fact-finding exercise in respect of the two Charities but not in respect of the Unification Church. The issues were different from those in the libel action. The Commissioners accordingly came to the conclusion that it would be an oppressive and unjustifiable use of their powers to institute a formal inquiry into the two Charities. They replied in detail to the Attorney General on 20 January.

8. On the 7 February the Attorney General wrote to the Commissioners inviting them to reconsider the position. The Commissioners considered the matter again but had to tell the Attorney General on 10 February that they remained of the conscientious view that on the information before them there was insufficient justification to use their powers under the Charities Act to subject the two Charities to formal inquiry or to take the other steps suggested; it would be an oppressive and unjustifiable use of the Commissioners' powers to do so.

9. On 7 March the Attorney General formally renewed his request that the Commissioners remove the two institutions from the register of charities and two days later supplied details of his grounds for removal.

10. The Commissioners have carefully considered the Attorney General's application and have now informed him that they have decided that, in law, they have no power to remove the two institutions from the register.

11. Inclusion in the register of charities carries with it no moral or social approval of the purpose of an institution or of the manner in which it is administered: it is simply a recognition that the institution has objects which are charitable in law.

12. It seemed to the Commissioners that as a matter of law the teaching and practices of Divine Principle which is referred to in the objects of the two institutions do not go beyond the very wide bounds which have been applied by the

Court for the purposes of ascertaining whether or not the propagation and practice of any particular religious creed is charitable in law. It seemed to the Commissioners that this view was also supported by passages in the judgment of the Court of Appeal. Passages in that judgment indicate that the evidence showed that many well-educated people all over the world believed the tenets of Divine Principle and that those tenets, however unorthodox, were arguably within the scope of Christianity in the broadest sense.

13. In a Press Notice of 11 May 1976 relating to the Exclusive Brethren (reproduced in paragraph 131 of their Annual Report for 1976) the Commissioners said that, in the absence of a judicial decision in point, it would not be right for them to conclude that the particular doctrines and practices (of the pro-Taylorite section of the Exclusive Brethren) which might be contrary to public policy were such as to negate the presumption of public benefit, and that it was for the Courts or for Parliament to decide the matter. The Commissioners added at that time that other sects might have particular doctrines or practices which, taken in isolation led in some instances to harmful consequences. In a statement dated 21 March 1977 the then Attorney General expressed the view that the Commissioners had taken a correct line, and the Commissioners' decision on that aspect attracted no criticism, at the time or since, in Parliament or elsewhere. In the case of the Unification Church, the Commissioners consider that it is not appropriate for them to determine whether the presumption of public benefit has been negatived, but that this is a function which more properly falls to the High Court or to Parliament.

---oooOoooo--

NAPIERS WORK

~~Mr Unwin~~ pwp

1. On X, Mr Middleton took the lead in preparing successive versions of the monetary section & clearing them with the Bank. Given the nature of the material, I doubt whether we c^d have done much better: and those with the operational responsibility were fully consulted at every stage. As to the circulation of the special advisers' comments, this w^d hardly be possible to the extent that they were offered in the course of drafting sessions with the Chancellor. The office did have a full opportunity to comment on them at each relevant stage.

RESTRICTED

MACRO-ECONOMIC GROUP

A meeting of the Macro-Economic Group was held on Thursday, 26 March with the following present:

2. On Y, the Chancellor "felt his way" as Budget preparations went forward — & various Ministerial colleagues sent in a series of bright ideas in a rather random way. The Chancellor is now considering arrangements for discussing economic policy regularly with Cab. colleagues, & this will affect how we handle the issue in future. One approach would be for the Chancellor to write to selected colleagues in early Jan. asking for any suggestions by the end of the month, with an indication that any received thereafter c^d be too late for consideration.

3. On Z, you produced, with my encouragement, a note explaining that further measures to reduce the PSBR were likely to reduce both activity & company profits. But Ministers (others) have a view of the message they are willing to receive, and it's hard to see what else c^d be done.

Mr Unwin (in the chair)
Mr Battishill
Mr Bridgeman
Mr Britton
Mr Cassell
Mr Dixon
Mr Evans
Mrs Hedley-Miller
Mr Monck
Mrs Gilmore
Mr Folger
Mr Bush

Also present Mr Allen

Mr Wiggins

Thanks. Comments noted. On Y, we need to write into the plans something on the lines you suggest. This is in hand. On Z, I have myself made comments similar to yours — & more. There will still be problems on X — I don't think it was as plain sailing as you suggest. But, again, I'm not sure much can be done about it.

[initials] 1/4/83

BUDGET ARRANGEMENTS

1. Mr Unwin said that he did not want to launch a post-mortem on Budget arrangements this year but he intended to minute Sir Douglas Wass and would be grateful for the views of MEG members on subjects he should raise.

Budget Speech

2. It was generally agreed that arrangements for the Budget Speech had gone rather better this year than last though there had still been problems eg on the monetary section. In future it would facilitate matters if drafting amendments sent forward by the special advisers were given as wide a circulation as those put up by officials. Otherwise, it was impossible to identify the source of changes to the Budget Speech.

X

Given the eventual decision on the PSBR objective (and the PM's commitment on the basic rate of income tax) what does Mr Dixon think we sh^d have done about tax thresholds? W^d it really have been better for pay bargaining to have put the burden instead on the basic rate?

Meetings with colleagues

3. The arrangements for dealing with correspondence and meetings with colleagues had been rather shambolic. The Chancellor's private office had not co-ordinated as well as they might. Mr Battishill suggested that there were two particular sources of difficulty. First, there was no real idea in the rest of

Y

JW 31/3

Whitehall of the timetable for Budget decision-making which meant that letters from colleagues might arrive after the relevant decision had been taken. Secondly, the Chancellor was increasingly taking some of the colleagues into his confidence but it was difficult to find out who, and what they had been told: meetings were held without a note being taken. Mr Unwin concluded that the private office would have to organise these meetings more effectively. There was also a case for reserving time for consultations with Ministers and officials in other Departments on the Budget timetable drawn up by CU. The question of Budget security might need to be reviewed the wider the process of consultation went.

4. Mr Unwin said that the question of consultation with colleagues had been brought into focus by the pressure for wider Cabinet discussions on the economic strategy. Sir Douglas Wass intended making a submission to the Chancellor which would outline the possibility of three Cabinet discussions on economic strategy each year - in mid-May, mid-September and January. Another idea was to have a monthly state of play paper for Cabinet (though with no presumption that it would always lead to a discussion). Such a paper would provide an opportunity for warnings eg about the PSBR prospects.

FSBR

5. Mr Unwin's impression was that the logistics of producing the FSBR had gone fairly well but there had still been some problems in editing and ensuring consistency between sections. One possibility was that there should be an early meeting (say after Ministers' comments on first drafts) between contributors. Mr Cassell doubted whether overlap between contributions was anything like as great a problem as ensuring consistency: the FSBR was not, after all, intended to be read as a whole. Mr Bridgeman raised the problems posed by the differing price bases of figures used in different parts of the FSBR. This would be looked at in Mr Evans' Public Sector Research and Development Group. Mr Battishill said that FP would in future check the consistency of the FSBR tax tables and list of measures with the Budget Speech. To this end, FP would have to receive drafts of relevant parts of the FSBR.

Budget briefs

6. Mr Unwin said that the main question was whether this exercise should be curtailed somewhat. This year there had been 20% more briefing than last. Not only were there more briefs but they were, on average, longer. Mr Dixon felt that while the Budget briefs had been more wide-ranging than last year, they were also more succinctly written. There was also a good deal of useful cross-referencing. One improvement would be to arrange a better integration of the briefing on the overall economic effects of the Budget and that on the direct effects on industry. Mrs Gilmore opined that the Budget briefing is invaluable for the Press Office, particularly in Budget week when there are an enormous number of factual enquiries. Mr Allen asked whether Mrs Gilmore could give an indication of which briefs she found most useful. Mr Unwin concluded that if there was to be any reduction in the briefing, it might well be achieved by reducing the number of briefs rather than their scope. He was, for example, sceptical of the value of all the briefs on the Budget background.

7. Mr Battishill wondered whether briefs instead of covering the more mechanical aspects of the Budget, might not be directed more to likely responses to the Budget. Perhaps there ought to be a 'key issues' brief. Mr Evans argued that this was not just a question of briefing. Issues (such as the impact on economic activity implied by the Budget) were not properly put to the Chancellor. This was one problem in the decision-making process. Another, instanced by Mr Dixon, was the haphazardness of the key decision on non-revalorisation of thresholds. This, as far as he knew, had been taken without mature consideration of its impact on pay bargaining. Part of the problem was, of course, the way the PSBR forecast rose at a late stage which put a premium on quick decisions.

Z

8. Returning to the briefing it was agreed that Mr Allen should have a rigorous look at the coverage and length of the Budget brief if only to prevent its growing again next year. A note would be sent to the Chancellor asking him how useful he and other Ministers had found the Budget brief. Mr Unwin thought we needed a key issues brief. Mr Bridgeman suggested, in the light of the

difficulties there had been this year over the Chief Secretary's opening speech in the Budget debate, that the Chancellor might depute the Chief Secretary to oversee the preparation of briefing material on possible reactions to the Budget. He would therefore be on top of this material and more prepared for his speech. In any case it would be advantageous to write into the Budget arrangements a slot for consideration of the Chief Secretary's speech.

Forecasts

9. Mr Evans said that one factor behind the changing PSBR forecast up to the Budget was the greater availability of public expenditure information in February than earlier. The new cash planning system may well provide more reliable figures earlier. But this was, anyway, only one element in the changing forecast and did not account for the greater part of the change. On the question of how useful an early forecast was, Mr Folger said that it played a crucial role in focussing the Chancellor's mind.

Miscellaneous

10. Various further points on the Budget arrangements were raised:

(i) Despite attempts to corral the Governor, his views on the general monetary and fiscal stance werestill not received early enough.

(ii) Mr Evans asked whether more might be done to move in the direction suggested by the Armstrong report. At present we had the appearance of Armstrongery but not the substance. It was felt, however, that little could be added to the PCC paper on this and to the material submitted to the Treasury Select Committee.

(iii) Mr Bridgeman asked that the Chancellor's preferences on briefing format be clarified. He seemed to prefer a 'headings and key facts' presentation rather than a speaking text.

11. Mr Unwin undertook to take the points raised by MEG members into account in preparing both his submission for Sir Douglas Wass and instructions for Budget arrangements next year.

PCC AGENDA

12. Mr Unwin said that Sir Douglas Wass was keen to arrange a programme of non-conjunctural issues for discussion at PCC. One firm possibility was a discussion on public expenditure in the coming round which stemmed from the need for the Chancellor to condition colleagues to the choices that will have to be made. Sir Douglas Wass had already commissioned two pieces of work in this area:

(i) an analysis of public expenditure over the last ten years (Mr Burns)

(ii) the tax implications of the MTFS projections (Mr Unwin would be in touch with Messrs Bridgeman, Battishill and others).

Sir Douglas wanted to take both these papers in PCC. Mr Bridgeman argued that there should be work on what he called the 'political' problem of public expenditure - the fact that the 'pledged' programmes of social security, health, defence and law and order accounted for 60% of public expenditure, greatly reducing the scope for achieving savings. Mr Dixon agreed that there was need for discussion of priorities in public expenditure, particularly as they seemed to be weighted against expenditures conducive to improved economic performance.

13. During subsequent discussion the following suggestions were made (or rebutted):

(i) Mrs Hedley-Miller was not in favour of an early discussion of the European issue: there was unlikely to be much movement until May/June

(ii) There was scope for a paper on the complex of issues raised by the capital/current spending controversy, financing of nationalised industries' investment, sale and leaseback etc

(iii) Pay was an issue worthy of discussion, particularly an examination of recent behaviour. Mr Evans and Mr Britton said work was going on in this area which might be ready by the summer

(iv) Policy issues raised by North Sea: Mr Byatt was reported to be working on this and producing a report to which a discussion could be harnessed.

(v) The source of growth in the upturn. A paper was being prepared but was a long way from completion

(vi) Mr Britton broached a possible discussion of papers on money and prices and the PSBR and money. The former paper already existed. He would be prepared to write the latter if PCC were interested in discussing it.

(vii) Mobility of capital. This was rather an 'intellectural' subject but it would touch on exchange rate intervention, crowding out etc.

(viii) Prudential supervision of financial institutions.

14. Mr Dixon was keen to have subjects discussed in MEG prior to their going to PCC. Otherwise there was a risk of PCC discussions losing contact with the rest of the office. Mr Unwin undertook to bear this in mind. He would consult bilaterally on the topics that had been suggested for PCC.

Harry Bush

H J BUSH

30 March 1981

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IDT DRAFT BUDGET ARRANGEMENTS 1983

I attach IDT's draft Budget Day programme for 15 March. I would be grateful if non IDT recipients could comment to me on any problems or proposals for improvement by 4 February.

J. Page

J PAGE

27 January 1983

DISTRIBUTION

IDT
Mr Hall
Miss Collins
Mr Monaghan
Mr Macrae
Mr Page
Mr Towers
Mr Evans
Mrs McKinney
Miss Edwards
Mr MacKellar
Mr Segal
Mr Haydon
Mr Johnson
Mrs Gambling
Miss Wilding
Miss Vasili
Mrs Wilkins
Mrs Stirton
Miss Brown

EB
Mr R I G Allen

CU
Mr Norgrove
Mr Corcoran

COI
Mr C Skinner
Mr J Barrows
Mr T C Hogsden
Mr M McConnell
Mrs A Atkins
Mr R Holden
Mr H Williams
Mr T Blakiston NDS

PRIVATE OFFICES
Mr Kerr
Miss O'Mara
Miss Rutter
Miss Young
Mr Gieve
Miss Swift
Mr Donnally
Mr Kwiecinsky
Mr Harrison
Miss Pollock
Mr Bush
Mr Hudson

Mr Milner

Mr Williams
Mr Slaughter

Mr Salveson

EOG
Mr Chambers
Mr Carpenter
Mr Uden
Mr Batchelor
Mr Bobsin
Mrs Mills
Mr C Ludlow
Mrs McGill
Mrs Bugden
Mr A Robertson

GEP
Mr Mountfield
Mr Hart
Mr Rayner

Mr B Ingham, No 10 (two copies)
FCO
Mr P Lewis, Inland Revenue
Mr J Dahn, Customs and Excise
Mr D Davey, No 11

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MAIN ALLOCATION OF IDT RESPONSIBILITIES

Private Office: House: Lobby Liaison	Mr Hall
Budget Broadcast (assisted by Mr MacKellar)	Mr Hall
Administrative control of IDT's preparations for and performance on Budget Day including:	Mr Monaghan (JM) Mr Page (JP)
1) March 5 Chancellor's Photocall (assisted by Mrs McKinney)	JM
2) March 15 Chancellor's Photocall (assisted by Mrs McKinney)	JM
3) Ministerial Broadcasts on March 15 (prior collation of bids TV/Radio for Ministers: Mr MacKellar)	JM
4) Monitoring of TV/Radio Budget transmissions; and advice to Mr Hall on TV/Radio reaction to Budget. (assisted by Mrs McKinney with preparations before March 15 ie installation of equipment, organisation of monitoring teams)[1]	JM
5) Sectional release of Speech in external TV/Radio Studios and at Financial Times.	JM/JP
6) Release of documents in the Gallery, to the Lobby & to the Press at HMT. R/29. (assisted by Mr Haydon, Miss Young & Miss Vasili in the Gallery) and by Mr Johnson in HMT 2/29.	JM/JP

Footnote 1) Names of monitors to be circulated separately.

(3)

Re 5 Sectional speech release in external studios

Treasury representatives outside the office: (with full sectional texts of speech for simultaneous release in Studios and Newsrooms)

		[1982 Team]
1	BBC Television Studio	Mr Eric Kwiecinsky
2	BBC Radio Studio	Miss Jane Swift
3	ITN Studio	Mr Jim Milner
4	IRN Studio	Miss Theresa Pollock
5	Press Association Newsroom	Mr Duncan Slaughter
6	Financial Times Newsroom	

Final vetting of document distribution list	Mr Page Mr Johnson
Collation/Distribution of Documents in CRU	Mr Johnson Mrs Wilkins Mrs Stirton Miss Brown (plus two CAs)
Supervision of callers at front door	Mr Johnson Mrs Mills + Security Officers
Distribution of documents to press and others	Mr Johnson Mrs Wilkins Mrs Stirton Miss Brown Miss Wilding
Arrangement of COI facilities (teleprinter, car park permit, passes, etc)	Mr Johnson Mr Uden
Duty Press Officer (Budget evening)	Miss Edwards
Press Office: Telephones	Mrs Gambling
Press Office: Typing	Miss Wilding

BEFORE THE BUDGET

Saturday 5 March — Mr Monaghan
Weekend photographs of the Chancellor — Mrs McKinney

BUDGET MORNING

1 11 am onwards: Mr MacKellar to liaise with BBC team preparing for the Chancellor's Budget Broadcast from No. 11. Mr Johnson to supply list of BBC names to Mr Bobsin. Mr Bobsin to supply a Security Guard throughout day at No. 11.

2. By 10.30 am bulk copies of all Press Notices for IDT use to be sent by Divisions and other Departments to Mr Batchelor, in CRU.

3. Mr Monaghan and Mr Johnson to check arrangements at the House of Commons and to make contact with the Security Officials and messengers who will work with them later in the day to make certain that they know where and when they are needed.

4. Mr Johnson to liaise with Mr Batchelor on document production/collation and to visit CRU and Committee Section and check that all facilities are available.

5. Mr Johnson to confirm with Mr Batchelor that the planned numbers of documents including Command Papers are available.

6. Mrs McKinney to check television and radio sets and direct lines to Studios and PA in the respective monitoring rooms.

7. [Mr MacKellar to liaise with Mr Monaghan and arrange informal photocall at No. 11 for evening papers. (If Chancellor is available).]

8. Mr Page and Mr Johnson to finalise document distribution lists. No requests for documents will be accepted after 12 noon.

9. Mr Uden to deliver 2 radio sets to Mr Johnson for use in IDT.

10. Mr Collins, EB, to ensure that headlines and sidelines are provided for the nine unstapled copies of the Speech which go to PA, Reuters and the main Broadcasting studios. He will bring two copies to Mr Hall for the House (Reuters and PA). Mr Barton will give six copies to Mrs Willis for the

studio packages and one copy to Mrs Gambling for the Press Association Newsroom. Mr Slaughter will collect the PA copy from Mrs Gambling at 3 pm to take to the House of Commons Press Gallery.

11. At noon, Mr Hall to collect 18 copies of the Budget Speech, Snapshot, Financial Statement and Budget Report (FSBR), Command Papers, and all press notices from Mr Barton in the Chancellor's Office.

12. Mr Williams to bring 18 copies of the Brief on return to IDT from EB.

13. Mr Johnson and Mrs Wilkins to collate documents in Mr Hall's room (93/2) and address complete sets in folders as follows:-

Mr Hall (2 sets, in separate folders; one without Briefs to be given to Mr Samuel Brittan in the Press Gallery at the end of the Speech).

Mr Monaghan
Mr Macrae
Mr Page
Mr Towers
Mr Segal
Mr Evans
Miss Edwards
Mr MacKellar
Mrs McKinney
Mr Johnson

Mr Barrows (COI) (Three sets, in separate folders, but no copy of Briefing).

Mr MacKellar (Two sets for monitoring team to be returned to Mr Page at end of monitoring operation).

14. At 1.00 p.m. or soon after, Mr Hall to brief IDT and the COI writers, to hand them their personal Budget documents and to advise them of any material that might be expected later.

15. Mr Hall to check that the "page-by-page" copies of the Speech, which he hands out to PA and Reuters in the Press Gallery, are marked with numbered red "ears" denoting the end of each section. (Mr Haydon to arrange this).

16. Mr Norgrove to bring final text of Guidance telegram to Mr Monaghan in Rm 92/2.

17. Following Mr Hall's briefing, the Press Officers and COI writers take their copies of the Budget papers and remain without telephone contact in Rooms 88, 89 and 90/2 until the end of the Speech.

18. The COI team, under Mr Barrows, will assemble in Room 107/2.

19. At 1.30 p.m. two clerical assistants to be nominated by Mr Robertson to report to Mrs Wilkins in Room 109/2.

20. At 1.30 p.m. Mr Page will take up duty as "Anchor Man" in 88/2. At the same time Mrs Gambling will switch the three main Press Office telephone lines to the answering machine. The message on the tape should say:-

> "The Press Office is closed until the end of the Chancellor's Speech in the House of Commons. If your enquiry is urgent, please call Mr Page on 233-3318.

21. Normal telephone service will be restored immediately the Chancellor sits down.

22. The photocopying machine in Room 91/2 is to be left switched on all afternoon.

23. At 2.30 p.m., Mr Haydon meets four messengers in R75G to collect documents for the Lobby. They will take these to the Chancellor's room at the House of Commons where they will leave them in the care of a Security Officer until they are collected by Mr Haydon and his assistants at the end of the Chancellor's speech.

24. At about 2.45 p.m., Mr MacKellar to go to Number 11 to control photographers at Chancellor's departure and to supervise the Financial Times photographer and the TV camera crews.

25. The Chancellor to be reminded to time his departure from Number 11 to meet the TV timings agreed earlier in the day.

26. At 3 p.m., Mr Monaghan takes the prepared documents for the Monitoring teams to Rooms 110/2 and 112/2 to meet the media representatives and to introduce the monitoring officials.

27. [At 3.05 p.m. Mr Haydon to be in the Chancellor's room at the House of Commons to meet FT photographer and to remain with him for the brief photo-session when the Chancellor arrives.]

28. When photo-session is over, Mr Haydon will move next door to the Chancellor's waiting room to join Miss Young and Miss Vasili. Assisted by Security Staff, they will take 30 copies of the speech in sections, 50 copies of the complete speech and 60 copies of the "Snapshot" in a separate package, to the Press Gallery. They will also have a separate package of 10 copies of the Speech and 10 copies of the Snapshot for the Overseas Press.

29. Miss Vasili will remain behind the barrier in the Gallery throughout the Speech and release the sections of the Speech to the Secretary of the Gallery, Mr William Russell, on instructions from Mr Hall (signalled by the pages with red "ears"). At the conclusion of the Speech he will release the final packages of the complete speech before leaving for the Lobby Room, to distribute documents there.

30. [Mr (COI 'London Line') will join the ITN team in Room 110/2.]

31. Mr Monaghan will ask monitors to take notes of any significant comment by media presenters or commentators so that he may prepare a short brief for Mr Hall to present to the Chancellor before he sees the Lobby. Mr MacKellar to provide notes, based on monitors' assessments, to Mr Monaghan.

Officials in the monitoring teams are reminded that they can give guidance only on those sections of the Speech which have been completed.

32. Mr Barrows and his assistants (COI) will assemble in 107/2 with three sets of documents and a radio set. Mr Barrows will remain in Room 107/2 until the Speech is finished. As the Speech progresses, he will mark up the completed sections and have them sent to the COI as follows:-

    a) One section of the edited version of the speech to the COI telex operator in Room 30/5.

    b) One section of the Speech to the COI driver in the Centre Courtyard.

33. At about 2 p.m. Mrs Wilkins and her assistants will go to Committee Section (Room 75/G) to supervise the packaging of copies of documents according to the prepared lists.

34. Mrs Wilkins will immediately package <u>one</u> copy of the Speech to hand to Mr Colin Rowley for the Financial Times. Mr Rowley will then go straight to the courtyard where a car will be waiting to take him to Bracken House.

35. At 4.30 p.m., two messengers report to Mrs Wilkins in Room 75/G to await instructions to take prepared envelopes to Room 29/2 in readiness for distribution at end of Speech. Mr Uden will provide four trolleys for this operation.

<u>AT END OF SPEECH</u>

a) <u>House of Commons</u>

36. At end of the Chancellor's speech, after releasing the final packets of documents to the Secretary of the Press Gallery, Mr Haydon and Miss Vasili will take the packaged papers from the Chancellor's room to the Lobby Room (without waiting for Mr Hall) and distribute them to correspondents in advance of the Chancellor's arrival.

37. Mr Hall will hand over the standard package of documents to Mr Samuel Brittan before leaving the Press Gallery at the end of the Speech to join the Chancellor in his room at the House. He will await a telephone call from Mr Monaghan informing him of Radio and TV reaction to the Speech.

38. Later, Mr Hall will rejoin the Chancellor after he has spoken to the Conservative Finance Group and escort him to the Lobby meeting.

b) Distribution of Documents at Treasury

39. Callers have been invited for "about 4.30 p.m.". Security staff will register names of callers and provide escorts.

40. Non-Press callers will be asked to present their order forms to Mr Johnson.

41. Press and non-Press callers will be escorted to 29/2 to await release of documents. They should be seated in the areas clearly marked "Press" and "Non-Press".

42. Official callers (Whitehall departments, embassies etc.) will be directed to the Enquiry Room.

43. When Mr Johnson gets the "release signal" from Private Office, he and Mrs Wilkins will take the prepared Press and non-Press envelopes to Room 29/2 where they will supervise distribution.

44. Envelopes for "official" and departmental callers will have been delivered earlier by Mr Johnson to Mrs Mills for distribution from the Enquiry Room.

45. Any "difficult" callers who have not ordered copies should be referred to Mr Page.

c) Press Office

46. Full telephone service will be restored to all IDT numbers. All Budget queries to be directed to Press Office extensions previously disconnected.

47. At 5 p.m., Mr   (FCO) and Mr Barrows (COI) will collect their copies of the Guidance Telegram from Mr Monaghan.

48. [Mr Johnson will send by hand a clear copy of the snapshot to Mr Monaghan who will place it with the top copy of the Ministerial Speaking Note in an envelope addressed to The Private Secretary in the Paymaster General's Office, and send it by hand to the Enquiry Office for collection.]

49. Mr will leave the monitoring team and make his way to 11 Downing Street to join Mr MacKellar for the Chancellor's "London Line" recording for COI.

<u>LATER</u>

50. Mr MacKellar will check with Mr that the text of the Chancellor's TV broadcast has been taken to No. 11 to be set up as the "first draft" on the Autocue.

51. Mr Hall will return to No. 11 with the Chancellor after the Lobby meeting for last minute alterations, if any, to the Budget broadcast text.

<u>THE NEXT MORNING</u>

52. Mrs Maddock will arrive as early as she is able to start work on preparing transcripts of the previous evening's Ministerial broadcasts. Press Officers who have noticed points of special interest should guide her in her selection.

53. All Treasury Press notices issued on Budget day to be sent to those on the mailing lists.

54. Four Press Summaries to be prepared, as listed earlier.

Snapshot	Total required		
	Vote Office	1,000	
	Printed Paper Office	150	
	Chancellor's Office		
	IDT	775	
	Cabinet Office	185	
Treasury PNs	Total required	1,810	(AB will check)
	Vote Office	1,000	
	Printed Paper Office	150	
	Chancellor's Office	73	
	IDT and Treasury Mailing lists	737	
Other Departments PNs			
	Total required		
	Printed Paper Office	150	
	Chancellor's Office		
	Vote Office	1,000	
	IDT	360	
	Ch's Office	73	

(13) On 7 March reserve cars on a stand-by basis to take staff home on the night before the Budget, grouping staff by areas but ensuring that extra cars are available if necessary; also car to take MOM, JR and DY with Speech sections to House at 3.00 p.m. on Budget Day. RC

(14) Prepare addressed envelopes or labels for those listed below under Items 15,47,50,53,57 and 71 LW

(15) Make arrangements for those entitled to collect copies of Speech, Snapshot, FSBR, Resolution and other Command papers from Enquiry Room after the Chancellor has sat down, viz:- MV

(a) NEDO (211 3000))Each to have 3 copies of Speech,
CBI (379 7400))Snapshot, FSBR, Command Papers and
TUC (636 4030))any Press Notices
Conservative Research
Dept (222 9000)

(b) MV to arrange with AT in EF2 Division (M.H.) to collect for issue to Australian and New Zealand High Commissions, EEC Diplomatic Missions, and Mr Newman, US Embassy, Canadian High Commission and Japanese Embassy set of 1 copy of each of the above documents (14 sets in all)

(c) MV to arrange with Mr Corcoran for him to pick up 1 copy each of Speech, Snapshot, FSBR, other Command Papers and Press Notices for Mr Limon, Clerk to the Treasury and Civil Service Committee

(16) Arrange with Parliamentary Counsel's Office, IR, C&E, Treasury Divisions and other Departments for correct number of copies of Resolutions, Command Papers and any Press Notices to be delivered to KB and AB in CRU as appropriate (see Annex) by close of play on Friday 11 March at the latest. Also arrange with Central Unit for correct number of copies of FSBR to be delivered by 10.00 a.m. on Tuesday 15 March. KB/AB

(17)	**Thursday 10 March**	
	Inform IDT of likely length of Speech.	JK/JP
(18)	**Friday 11 March**	
	Send copy of latest draft of Speech to PM if Chancellor wishes.	JK
(19)	Submit draft Snapshot to Chancellor's Office	EB/IDT
(20)	EB to receive Chancellor's comments on first draft of Brief. Chancellor's Office to receive 2 copies of latest version for weekend box.	BC/JR
(21)	Prepare summary for The Queen (may also be used at Budget Cabinet). Submit to Chancellor's Office.	PK/CU
(22)	Submit final draft of TV speech if available.	Mr French/ MH
(23)	Check with JK whether any other Ministers or Officials are to receive advance copies of Budget documents other than those at Annex.	KB

SATURDAY-MONDAY

Saturday 12 March

(24)	Second book proofs of FSBR received by Treasury Accountant, 10.00 a.m.	TH
(25)	Work as necessary to produce final version of Speech.	JK
(26)	Chancellor: photo-call in Surrey.	JP
(27)	Type Snapshot on A4 paper.	EB
(28)	Check and make corrections in Chancellor's speaking copy, section by section	Chancellor's Office
(29)	Roll off and collate 37 copies of speech for: - Private Secretaries (3) - EB (3 copies) - to check Brief, Snapshot and Guidance telegrams - Mr Lavelle - to prepare a telegram to selected overseas Finance Ministers etc. for issue later in the week. - Governor, Treasury Ministers (6) - Permanent Secretaries (4), Deputy Secretaries (6), Mr Kemp, Mr Moore, Mr Hall, Mr Salveson, Mr Ridley, Mr French, Mr Harris, Mr Norgrove, Mr Mountfield, Mr Monger, PS/IR, PS/C&E.	PT
	Arrange with BC for EB's copies to be delivered on Saturday	KB/BC
(30)	Send speaking copy and spare to Chancellor.	JK

Monday 14 March

(31)	9.00 a.m. Ensure that copies circulated by hand as in item 28	KB
(32)	Chancellor's Office to receive from EB 2 copies of near-final draft of Brief and Snapshot during course of day.	BC
(33)	Confirm likely length of speech with IDT to guide radio/TV.	JK/MH

(34) By 2 p.m. start amending speech as necessary. LW

(35) Check any corrections section by section. Chancellor's Office

(36) Chancellor due at Buckingham Palace, 6.00 p.m.

(37) Receive Snapshot from EB(BC) for checking. MOM/BC

(38) Evening - either obtain confirmation from Chancellor that Speech can be regarded as final or amend speaking copy in accordance with his instructions. Text must be finalised. JK/LW

(39) Final check of Snapshot before collating MOM

(40) Photocopy 33 copies of final text, section by section, for PT

- Chancellor
- Prime Minister
- Other Treasury Ministers (5)
- Officials and Advisers (21 - listed in annex)
- Private Secretaries (4)

(41) Roll off 219 copies of speaking copy, section by section and 2026 copies of snapshot (White Paper) PT/CRU

BUDGET DAY:

(42) Ensure Chancellor stays away from Treasury (Photocall at No.11 or "walkabout" in park with Lady Howe for evening papers) JP

(43) 10 a.m.: Budget Cabinet.

(44) By 11 a.m. the master copy of Speech is to be given to AB in the CRU for 420 copies to be rolled off for distribution to the Lobby and Press Gallery in House of Commons and to IDT (see Items 50 and 62). From Private Office production of Speech (219) copies) send 2 copies by hand to BC (EB Room 99/2) as soon as possible to be marked up for PA/Reuters/radio/TV). When master copy of "marked up" speech is returned to the private office, 9 copies to be made for BBC TV, (2 copies), BBC Radio, IRN, ITN, Channel 4, PA, Reuters and PA Newsroom. AB/BC/MV

(45) Check arrival of press notices against numbers expected (see item 12). Issue required numbers to LW and AB in accordance with list in Annex. KB

(46) Prepare packages as follows: NL/LW

(a) Press Gallery via DY (see also item 65)

- 30 copies of sectioned version of Speech, in separate envelopes each marked with number of section.
- 1 copy of Snapshot, with each final section (ie 30 snapshots)

(b) ITN, Wells Street

- 15 copies of sectioned version of Speech, in separate envelopes each marked with number of section.

- 1 unstapled Speech with sidelines and headlines for page-by-page distribution*

- 2 envelopes, each containing 1 copy of Speech, Snapshot, FSBR, Command papers and all press notices addressed to:-

  1. Sue Tinson, ITN Budget Programme
  2. Peter Hall, Editor 'Oracle' News services
  to be handed over at end of speech.

(c) BBC, TV White City

- 10 copies of sectioned version of Speech, in separate envelopes each marked with number of section

- 2 unstapled Speech with sidelines and headlines for page-by-page distribution*

- 2 separate envelopes, containing 1 copy of Speech, snapshot, FSBR, Command Papers and Press Notices, addressed to:-

  1. Producer, BBC Budget Programme
  2. James Long: BBC Economics Editor.
  and to be handed over at end of Speech.

(d) BBC Radio, Broadcasting House

- 10 copies of sectioned version of Speech, in separate envelopes each marked with number of section

- 1 unstapled copy of speech with sidelines and headlines for page-by-page distribution*

- 2 envelopes each containing a copy of the Speech, snapshot, FSBR, Command Papers and all press notices addressed to:-

  1. Dominick Harrod
  BBC Economics Correspondent
  2. Producer, PM Budget Special
  NB: These envelopes to be handed over at end of Chancellor's speech

(e) Independent Radio News

- 4 copies of sectioned version of speech, in separate envelopes and marked with number of section

- 1 unstapled speech with sidelines and headlines for page-by-page distribution*

- 1 envelope enclosing a copy of the Speech, Snapshot, FSBR, Command papers and all press notices, addressed to:-

  Mr Douglas Moffit,
  Economic Editor, LBC

  NB: This envelope to be handed over at end of Chancellor's speech

(f) Channel 4

- 1 unstapled Speech with sidelines and headlines for page-by-page distribution.

- 1 envelope enclosing a copy of the speech snapshot, FSBR, Command Papers and all press notices addressed to: Miss Sarah Hogg, Economics Editor.

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* 7 'marked-up' copies of Speech (unstapled) are to be provided by Mr Lawrence to Mrs L Willis by 2.30 p.m. (Mr Lawrence will also supply 2 copies to MH for P.A. and Reuters) NL/KB/MH

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(47) Check arrival in Chancellor's Office of 41 copies of Resolutions from Parliamentary Counsel's Office, 123 copies of FSBR from Treasury Accountant, 124 copies of Command papers and 8 Briefs (From EB - first 3 to JK, JR and MOM) KB/NL/MV/BC

(48) Issue 123 copies of FSBR, 124 copies of Command papers, 41 copies of Resolutions and 5 (as soon as available) copies of Brief to LW for distribution as in Annex. (Other 3 Briefs to JK, MOM and JR) KB/LW

(49) CRU pack up documents indicated in parcels addressed as below. (Speeches, etc. should be packed separately in bulk. Copies of Speech are not provided by Chancellor's Office):- RC/MH

50 copies of Speech and 60 copies of Snapshot to Home Press Gallery, House of Commons

45 copies of Speech, 60 copies of FSBR and Command Papers and 60 copies of snapshot and Press Notices to MH (for Lobby Conference)

10 copies of speech and 10 copies of snapshot in separate envelope to "the Secretary, Press Gallery", marked "for OVERSEAS CORRESPONDENTS".

The above parcels should then be packed for transmission to the House (see item 63)

(50) Start collation of full text of Speech with index and checklist Clerks and Typists

(51) Before 12.00: Copy of speech to AJS who will let Speaker's Private Secretary know roughly how long Speech will last. AJS

(52) By 12.30 p.m.: Make up and despatch SECRET envelopes containing

1 copy each of Speech, FSBR, Resolutions, Command Papers to:- LW

Prime Minister
Chief Secretary
Financial Secretary
Economic Secretary
Ministers of State
Officials, etc. (See Annex for list)

RC to provide extra messenger

Speaker (via Mr Salveson)
1 Set of above to Mr Corcoran (for Northern Ireland Office)
Plus any other Ministers or officials to whom the issue of advance copies may be authorised by JK (N.B. This would mean a commensurate increase in the number of copies needed)

(53) At 12.30 p.m.: SECRET envelopes containing Speech, Snapshot and FSBR, to be given to messengers from:-

- Customs & Excise (6 copies of each) - including 1 to Isle of Man
- Inland Revenue (6 copies of each)
- Bank of England (6 copies of each plus 6 copies of press notices)

(KB to arrange that these messengers come to the Chancellor's messengers' lobby) KB

(54) At 12.30 p.m.: 18 copies of Speech, Snapshot, FSBR, Command Papers and Press Notices to be issued to MH for allocation to members of IDT NL/BC
(Copies of Brief will be send direct to MH by EB and monitoring teams.)

(55) 1 set each of Speech, Snapshot, FSBR, Resolutions, Command Papers and Press Notices to be given to JK, MOM and JR, and of speech only to DY LW

(56) 1 set each of Speech, FSBR, and Command Papers in sealed envelopes addressed to: LW

Leader of the House of Commons
Mr Biffen

Leader of the House of Lords
Lady Young

Leader of the Opposition (Mr Foot)
Shadow Chancellor (Mr Shore)
Chancellor's PPS (Mr Renton)
Mr Christopher (IRSF) - plus Press Notices
Sir William Clark (Chairman of Conservative Finance Committee)
Mr Joel Barnett, Chairman PAC
Mr Edward Du Cann, Chairman TCSC
Mr A Goodlad (Treasury Whip)

to be given to DY to take to Mr Renton's room, House of Commons (to be given out after Speech) (JR to collect after Chancellor has sat down).

(57) Make up Budget Box using Gladstone Box for Chancellor with speaking copy of Speech, and copies of FSBR, Resolutions, Snapshot, Command Papers and Press Notices. JK

Budget Day: After lunch

(58) Envelope copies of Speeches for distribution to Members of the Cabinet (other than PM, Chancellor of the Duchy, Chief Secretary and Lord President) to be despatched after the Chancellor has sat down. (For named Ministers etc. see Item 54) — Chancellor's Office

(59) DY takes 30 copies of sectioned versions of Speech and snapshot to Chancellor's room at the House for IDT (for release during Speech). (See also item 46(a)) — DY

(60) Arrange with Cabinet Office collection of 185 copies of the Snapshot. — AJS/AB

(61) AJS arranges for copy of Speech to be taken to Speaker's Office JR to arrange for copy to reach official reporters. — AJS/JR

(62) After Speech has started Security Guard and Messengers take labelled parcels containing copies of full text of Speech and other documents as listed in Item 47 to Mr Renton's Room at House. They will guard them until end of Speech and then take them under IDT guidance to Press Gallery, Lobby and Overseas Press Conferences. — RC

(63) After Speech has started allow access to Committee Section to representatives of IDT who will pack:

- 320 copies of Speech (supplied by CRU)
- 300 copies of FSBR and 270 of other Command Papers.
- 290 copies of other Depts'. Budget Press Notices
- 460 copies of Snapshot
- 440 copies of Tsy Press Notices

in envelopes for Press and other callers to collect — RC

(64) Ensure all officials covering the Official Box have copies of the brief. — DY/BC

(65) During the Budget Speech: The sections will be released to the Press Gallery, TV, radio and IDT monitoring teams by the following drill:

(a) In the Press Gallery, Mr Hall will release on a page-by-page basis to the Press Association and Reuters the specially side-lined copies of the Speech (provided direct by Mr Lawrence). Mr Hall will also authorise the release of the 30 sectioned copies of the Speech by the member of IDT on duty outside the Press Gallery.

(b) In the 5 broadcasting studios (ITN, BBC-TV, BBC radio, PA Newsroom and IRN) the page-by-page unstapled copy of the Speech and the sectioned copies of the Speech will be released when the Treasury official hears (from the Radio 4 live speech broadcast) that the page/section has been completed.

(66) During Speech: Note changes from typed version. — JR

At end of Speech

(67) Give 7 sets of Speech, etc. to Mr Renton from official box and arrange for set to go to Leader or Deputy Leader of the House of Lords (see Item 56) — JR

(6[illegible]) Despatch by hand copies of Speech to other members of Cabinet (see Item 58) KB

(69) On instructions from DY, Security Guard (in PPS's Room) will hand over complete copies of Speech, etc. to IDT (see Items 48 and 61) DY

(70) Release copies of Speech and Budget Report for Cabinet Ministers, NEDO, CBI, TUC and Conservative Research Department to Messengers to take to Enquiry Room; also release copies for Australian and New Zealand High Commissions etc. as at Item 15 to EF2 Division. MV/JG

(71) Send copies as follows:- MV

	Speech and Brief	Snapshot Resolution, Press Notices	FSBR	Cmd Papers
Mr J Anson British Embassy Washington	1	3	3	3
Mr R Butt UKREP Brussels	1	3	4	4

Send 1 copy of each of above papers to:
Director of British Information Services, NY

Mr M C S Weston, British Embassy, Paris. BY 6.00 p.m. Bag

(Copies obtained from LW: See Item 44)

(72) Give 8 copies of Speech to TS for the Libraries of the House of Commons and the House of Lords. TS

CHANCELLOR'S OFFICE

RESTRICTED

FROM: MISS M O'MARA

DATE: ~~18 January~~ February 1983

Mr Kerr
Miss O'Mara
Miss Rutter
Miss Young
Mr Brazier
Mr Lawrence
Mr Visconti
Mrs Willis
Miss Taylor
Mr Gieve
Miss Swift
Mr Donnelly
Mr Kwiecinski
Mr Harrison
Miss Pollock
Mr J Williams
Mr Bush
Mrs Dunn
Mr Hudson
Mr Milner
Mr Ridley
Mr French
Mr Harris

Mr Kemp
Mr Allen
Mr Norgrove
Mr Corcoran
Mr Collins
Mr Hall
Mr Monaghan
Mr Page
Mr Macrae
Miss Edwards
Mr Haydon
Mr TAA Hart
Mr Moore
Mr Martin
Mr Lavelle
Mr Graham
Mr Salveson
Mr Stubbington
Mr Collinson
Mr Hunter

Mr Chambers
Mr Batchelor
Mr Bobsin
Mr Carpenter
~~[Parliamentary Private Secretary]~~ Mr Renton
PS/Inland Revenue
PS/Customs & Excise

BUDGET AIDE MEMOIRE

CHANCELLOR'S OFFICE TIMETABLE

I attach a second draft of this year's Budget Aide Memoire.

2. I should be grateful if copy recipients would check through this and let me know of any errors or omissions by close of play on Monday 7 February please. Any suggestions for improvements on the practice of earlier years would be welcome. ~~Could Mr Hall in particular consider whether we need to alter our press arrangements to cover Channel 4/Breakfast TV interests.~~

~~3. We hope to arrange a meeting during the course of next week to discuss nuts and bolts in more detail.~~

MOM

MISS M O'MARA

BUDGET 1983: CHANCELLOR'S OFFICE TIMETABLE

Total number of papers distributed under these arrangements (See Annex)

	Private Office	CRU	Parliamentary Section
Speech	219	360	Mr Salveson will make his own arrangements
Snapshot	94	460	
Resolutions	41	-	
FSBR	123	310	
Command Papers	124	290	
Press Notices	73	475 (Tsy) 355 (Non Tsy)	
Brief	8	235	

Code

JK	John Kerr	(5728)
MOM	Margaret O'Mara	(5418)
JR	Jill Rutter	(5457)
KB	Ken Brazier	(5597)
NL	Nigel Lawrence	(5512)
MV	Marco Visconti	(3910)
DY	Donna Young	(5487)
LW	Lesley Willis	(4262)
PT	Pat Taylor	(3836)
RC	Ron Carpenter	(3327)
AB	Tony Batchelor	(7278)
PK	Peter Kemp	(3016)
MH	Martin Hall	(3443)
JP	John Page	(7616)
FM	Frank Martin	(7393)
BC	Barry Collins	~~(7426)~~ (5514)
AJS	John Salveson	(4749)
TS	Tim Stubbington	(5532)
JG	John Graham	(6160)
CU	Central Unit	(3942)
GH	George Haydon	(7565)

Distribution: (Further copies are available from Ken Brazier)

Chancellor's Office

Mr J Kerr
Miss M O'Mara
Miss J Rutter
Mr K Brazier
Mr N Lawrence
Mr M Visconti
Miss D Young
Mrs L Willis
Miss P Taylor

Other Private Offices, &c.

Mr J Gieve
Miss J Swift
Mr M Donnelly
Mr C D Harrison
Mr E Kwiecinski
Mr J Williams Miss T Pollock
Mrs R Dunn Mr H Bush
Mr A Hudson
Mr A Ridley Mr J Milner
Mr D French
Mr R Harris
PS/Customs & Excise
PS/Inland Revenue
Mr T. Renton MP (HOC)

Central Unit/EB

Mr Kemp
Mr Allen
Mr Norgrove
Mr Corcoran
Mr Collins
~~(Parliamentary Private Secretary)~~
~~Mr Mountfield~~

Parliamentary Section

Mr Salveson
Mr Stubbington

OF

Mr Lavelle (Item 26)
Mr Graham (Items 15 & 67)

GE

Mr Mountfield

FP

Mr Moore
Mr Martin

EO

Mr Chambers
Mr Batchelor
Mr Bobsin

IDT

Mr Hall
Mr Monaghan
Mr Page
Mr Macrae
Miss Edwards
Mr Haydon

Accounts

Mr Collinson
Mr Hunter

CHANCELLOR'S OFFICE
~~January~~ 1983
February

4

PRELIMINARY

Preparation in weeks before the Budget

(1)	Arrange audience of The Queen with her Private Secretary	JR
(2)	Arrange for sufficient 5 ~~3~~600 machines, stocks of paper and a mechanic on call to be available from Sunday.	KB/AB
(3)	Arrange for TV Broadcast, in conjunction with Chief Whip's Office.	~~JP~~ MH
(4)	Arrange for members of FP Division (and other Private Offices as necessary) to be available to collate papers on ~~[day before Budget]~~ 14 March and on Budget Day. (For Private Office and IDT as well)	JR/FM
(5)	Submit publicity arrangements to Chancellor	MH
(6)	Make arrangements for providing Press Gallery, P.A., P.A. Newsroom and Reuters with Speech section by section.	JP
(7)	Send off letters establishing arrangements for release of Resolutions, FSBR and Command papers to MPs at end of speech. (Drafts provided by AJS.)	AJS/KB
(8)	CU in consultation with AJS circulate note commissioning press notices from Treasury and Revenue Departments. JR writes to Private Offices in other Departments asking whether they intend to issue any press notices on Budget Day. (EB to get advance copies of PNs) Confirm all numbers with AB.	CU/JR/AJS AB
(9)	Arrange for laying of White Papers, etc.	AJS
(10)	Seek Chancellor's wishes as to speakers in Debate; inform them and the Whips. Take into account Ministers' TV and Radio engagements.	JK / MH
(11)	Circulate roster of Ministers covering Treasury Bench and officials covering official box (or available on the 'phone) for Budget Statement and Debate. (Note that Ministers are required on T.V. Broadcasts.)	JR
(12)	Two weeks before Budget Day, KB writes to Vote Office about Resolutions and FSBR arrangements and GEP 1 write to Departments about detailed arrangements for production of Press Notices. CU send similar note to Treasury Divisions and Revenue Departments. KB to arrange for Cabinet Office to collect Snapsh Inter alia, these notes will specify that the numbers of Press Notices required will be as follows:-	KB/CU

Budget Day: After lunch

~~(56)~~ (58) Envelope copies of Speeches for distribution to Members of the Cabinet (other than PM, Chancellor of the Duchy, Chief Secretary and Lord President) to be despatched after the Chancellor has sat down. (For named Ministers etc. see Item 54) — Chancellor's Office

~~(57)~~ (59) DY takes 30 copies of sectioned versions of Speech and snapshot to Chancellor's room at the House for IDT (for release during Speech). (See also item ~~43~~ 46(a)) — DY

(60) Arrange with Cabinet Office collection of 185 copies of the snapshot. — AJS/AB

~~(58)~~ (61) AJS arranges for copy of Speech to be taken to Speaker's Office — AJS/JR

(62) JR to arrange for copy to each official reporters.

~~(59)~~ (65) During the Budget Speech: The sections will be released to the Press Gallery, TV, radio and IDT monitoring teams by the following drill:

(a) In the Press Gallery, Mr Hall will release on a page-by-page basis to the Press Association and Reuters the specially side-lined copies of the Speech (provided direct by Mr Lawrence). Mr Hall will also authorise the release of the 30 sectioned copies of the Speech by the member of IDT on duty outside the Press Gallery.

(b) In the 5 broadcasting studios (ITN, BBC-TV, BBC radio, PA Newsroom and IRN) the page-by-page unstapled copy of the Speech and the sectioned copies of the Speech will be released when the Treasury official hears (from the Radio 4 live speech broadcast) that the page/section has been completed.

(64) Ensure all officia[ls] covering the Official Box have copies of the brief. DY/BC

~~(60)~~ (62) After Speech has started Security Guard and Messengers take labelled parcels containing copies of full text of Speech and other documents as listed in Item 47 to ~~PPS's~~ Mr Renton's Room at House. They will guard them until end of Speech and then take them under IDT guidance to Press Gallery, Lobby and Overseas Press Conferences. — RC

~~(61)~~ (63) After Speech has started allow access to Committee Section to representatives of IDT who will pack:

- ~~305~~ 320 copies of Speech (supplied by CRU)
- ~~275~~ 300 copies of FSBR and ~~255~~ 270 of other Command Papers.
- ~~300~~ 290 copies of other Depts'. Budget Press Notices
- ~~415~~ 460 copies of Snapshot
- ~~430~~ 440 copies of Tsy Press Notices

in envelopes for Press and other callers to collect — RC

~~(62)~~ (66) During Speech: Note changes from typed version — JR

At end of Speech

~~(63)~~ (67) Give 7 sets of Speech, etc. to ~~Chancellor's PPS~~ Mr Renton from official box and arrange for set to go to Leader or Deputy Leader of the House of Lords (see Item ~~54~~ 56) — JR

~~(64)~~ (68) Despatch by hand copies of Speech to other members of Cabinet (see Item ~~56~~ 58) — KB

(69a) On instructions from DY, Security Guard (in PPS's Room) will hand over complete copies of Speech, etc. to IDT (see Items 48 and 61) DY

~~(66) Take 1 copy to Official Reporters~~ ~~DY/TS~~

~~(67)~~ (70) Release copies of Speech and Budget Report for Cabinet Ministers, NEDO, CBI, TUC and Conservative Research Department to Messengers to take to Enquiry Room; also release copies for Australian and New Zealand High Commissions etc as at Item 15 to EF2 Division MV ~~KB~~/JG

(71) ~~(68)~~ Send copies as follows:- ~~KB~~ MV

	Speech and Brief	Snapshot Resolution, Press Notices	FSBR	Cmd Papers
Mr J Anson British Embassy Washington	1	3	3	3
Mr R Butt UKREP Brussels	1	3	4	4

Send 1 copy of each of above papers to:
Director of British Information Services, NY

Mr M C S Weston, British Embassy, Paris. BY 6.00 p.m. Bag

(Copies obtained from LW: See Item 44)

(72) ~~(69)~~ Give 8 copies of Speech to TS for the Libraries of the House of Commons and the House of Lords TS

~~(70) Ensure all officials covering the Official Box have copies of the Brief.~~ ~~DY/BC~~

CHANCELLOR'S OFFICE

Treasury PNs	Total required	~~1,713~~ 1,810	(AB will check)
Printed Paper Office* 150	Vote Office	~~900~~ 1,000	
	Chancellor's Office	73	
	IDT and Treasury Mailing lists	~~740~~ 737	

Other Departments PNs		
Printed Paper Office* 150	Total required	~~1,333~~ ~~1,000~~
Chancellor's Office	Vote Office	~~900~~ 1,000
	IDT	360
	Ch's Office	73

Snapshot
Total required
Vote Office 1,000
Printed Paper Office 150
Chancellor's Office
IDT 775
Cabinet Office 185

(13) On 7 March ~~(A week before Budget Day)~~ Reserve cars on a stand-by basis to take staff home on the night before the Budget, grouping staff by areas but ensuring that extra cars are available if necessary; also car to take MOM, JR and DY with Speech sections to House at 3.00 p.m. on Budget Day — RC

(14) Prepare addressed envelopes or labels for those listed below under Items 15,~~44~~,~~48~~,~~51~~,~~56~~ and ~~69~~ 47,50,53,57 71 — LW

(15) Make arrangements for those entitled to collect copies of Speech, Snapshot, FSBR, Resolution and other Command papers from Enquiry Room after the Chancellor has sat down, viz:- — ~~NL~~ MV

(a) NEDO (211 3000)
CBI (379 7400)
TUC (636 4030)
Conservative Research Dept (222 9000)

)Each to have 3 copies of Speech,)Snapshot, FSBR, Command Papers and)any Press Notices

(b) MV to arrange with AT in EF2 Division (M.H.) to collect for issue to Australian and New Zealand High Commissions, EEC Diplomatic Missions, and Mr Newman, US Embassy, Canadian High Commission and Japanese Embassy set of 1 copy of each of the above documents (~~12~~ 14 sets in all)

(c) MV to arrange with Mr Corcoran for him to pick up 1 copy each of Speech, Snapshot, FSBR, other Command Papers and Press Notices for Mr Limon, Clerk to the Treasury and Civil Service Committee

(16) Arrange with ~~Treasury Accountant,~~ Parliamentary Counsel's Office, IR, C&E, Treasury Divisions and other Departments for correct number of copies of ~~FSBR,~~ Resolutions, Command~~s~~ Papers and any Press Notices to be delivered to KB and AB in CRU as appropriate (see Annex) by close of play on ~~[Friday before Budget]~~ Friday 11 March at the latest. — KB/AB

Also arrange with ~~Treasury Accountant~~ Central Unit for correct number of copies of FSBR to be delivered by 10 a.m. on Tuesday 15 March.

(17) Thursday ~~before Budget~~ 10 March

Inform IDT of likely length of Speech. — JK/JP

(18) Friday ~~before Budget~~ 11 March

Send copy of latest draft of Speech to PM if Chancellor wishes ~~and to AJS~~ — JK

(19) Submit draft Snapshot to Chancellor's Office — EB/IDT

( ) EB to receive Chancellor's comments on first draft of Brief. Chancellor's Office to receive 2 copies of latest version for weekend box — BC/JR

(21) Prepare summary for The Queen (may also be used at Budget Cabinet). Submit to Chancellor's Office — PK/CU

(22) Submit final draft of TV speech if available — Mr French/MH

(23) Check with JK whether any other Ministers or Officials are to receive advance copies of Budget documents other than those at Annex. — KB

SATURDAY-MONDAY

Saturday ~~before Budget~~ 12 March

(24) ~~(23)~~ Second book proofs of FSBR received by Treasury Accountant, 10.00 a.m. — TH

(25) ~~(24)~~ Work as necessary to produce final version of Speech — JK

(26) ~~(25)~~ Chancellor: photo-call in Surrey — JP

~~(NB IDT to be informed of any interesting pre-Budget weekend invitations)~~

27 ~~(24)~~ Type Snapshot on A4 paper — EB

28 ~~(25)~~ Check and make corrections in Chancellor's speaking copy, section by section — Chancellor's Office

29 ~~(26)~~ Roll off and collate 37 copies of speech for: — PT

- Private Secretaries (3)
- EB (3 copies) - to check Brief, Snapshot and Guidance telegrams
- Mr Lavelle - to prepare ~~telegrams~~ a telegram to ~~overseas Governments:~~ selected overseas Finance Ministers etc for issue later in the week

~~(a) Chancellor to EEC Finance Ministers~~

~~EEC Commissioner for Financial and Monetary Affairs~~

~~MD of IMF~~

~~Finance Ministers in US, Japan and Canada~~

~~(b) Sir Douglas Wass to Members of Co-ordinating Committee~~

- Governor, Treasury Ministers ~~(6)~~ (6) (4)
- Permanent Secretaries, PS/IR, PS/C&E, Deputy Secretaries (6) Mr Kemp, Mr Moore, Mr Hall, Mr Salveson, Mr Ridley, Mr French, Mr Harris, Mr Norgrove, Mr Mountfield, Mr Monger,

~~(24)~~ Arrange with BC for EB's copies to be delivered on Saturday — KB/BC

30 ~~(27)~~ Send speaking copy and spare to Chancellor — JK

~~Day before Budget~~ Monday 14 March

(31) ~~(28)~~ 9.00 a.m. Ensure that copies circulated by hand as in item ~~26~~ 28 — KB

(32)	Chancellor's Office to receive from EB 2 copies of near-final draft of Brief and Snapshot during course of day.	BC
(33) ~~(30)~~	Confirm likely length of speech with IDT to guide radio/TV.	JK/MH
(34) ~~(31)~~	By 2 p.m. start amending speech as necessary	LW
(35) ~~(32)~~	Check any corrections section by section	Chancellor's Office
(36) ~~(33)~~	Chancellor due at Buckingham Palace, 6.00 p.m.	
(37) ~~(34)~~	Receive Snapshot from EB(BC) for checking	MOM/BC
(38) ~~(35)~~	Evening - either obtain confirmation from Chancellor that Speech can be regarded as final or amend speaking copy in accordance with his instructions. Text must be finalised.	JK/LW
(39) ~~(36)~~	Final check of Snapshot before collating	MOM
(40) ~~(37)~~	Photocopy 33 copies of final text, section by section, for	PT

- Chancellor
- ~~Prime Minister~~ stet
- Treasury Ministers (5)
- Officials and Advisers (~~22~~ 21 - listed in annex)
- Private Secretaries (4)

(41) ~~(38)~~	Roll off ~~225~~ 219 copies of speaking copy, section by section and ~~737~~ 2026 copies of snapshot (White Paper)	PT/CRU

BUDGET DAY:

(42) ~~(39)~~	Ensure Chancellor stays away from Treasury (Photocall at No.11 or "walkabout" in park with Lady Howe for evening papers)	JP
(43) ~~(40)~~	10 a.m.: Budget Cabinet	
(44) ~~(41)~~	By 11 a.m. the master copy of Speech is to be given to AB in the CRU for ~~360~~ 420 copies to be rolled off for distribution to the Lobby and Press Gallery in House of Commons and to IDT (see Items ~~26~~ 50 and ~~54~~ 62). From Private Office production of Speech (~~225~~ 219 copies) send 2 copies by hand to BC (EB Room ~~17/1~~ 99/13) as soon as possible to be marked up for PA/Reuters/radio/TV. When master copy of "marked up" speech is returned to the private office, ~~[~~9~~]~~ copies to be made for BBC TV, BBC Radio (2 copies), IRN, ITN ~~(2 copies)~~, Channel 4, PA, Reuters and PA Newsroom ~~[Breakfast TV?]~~	AB/BC/MV
(45) ~~(42)~~	Check arrival of press notices against numbers expected (see item 12). Issue required numbers to ~~CS~~ LW and ~~PC~~ AB in accordance with list in Annex	KB
(46) ~~(43)~~	Prepare packages as follows:	NL/LW

(a) Press Gallery via DY (see also item ~~59~~ 64)

- 30 copies of sectioned version of Speech, in separate envelopes each marked with number of section

- 1 copy of Snapshot, with each final section (ie 30 snapshots)

(b) ITN, Wells Street

- 15 copies of sectioned version of Speech, in separate envelopes each marked with number of section

- 1 unstapled Speech with sidelines and headlines for page-by-page distribution*

- 2 envelopes, each containing 1 copy of Speech, Snapshot, FSBR, Command papers and all press notices addressed to:-

  1. Sue Tinson, ITN Budget Programme
  2. Peter Hall, Editor 'Oracle' News services

  to be handed over at end of speech.

(c) BBC, TV White City

- 10 copies of sectioned version of Speech, in separate envelopes each marked with number of section

- 2 unstapled Speech with sidelines and headlines for page-by-page distribution*

- ~~3~~ 2 separate envelopes, containing 1 copy of Speech, snapshot, FSBR, Command Papers and Press Notices, addressed to:-

  1. Producer, BBC Budget Programme

  2. James Long BBC Economics Editor.

  and to be handed over at end of Speech.

(d) BBC Radio, Broadcasting House

- 10 copies of sectioned version of Speech, in separate envelopes each marked with number of section

- 1 unstapled copy of speech with sidelines and headlines for page-by-page distribution*

- 2 envelopes each containing a copy of the Speech, snapshot, FSBR, Command Papers and all press notices addressed to:-

  1. Dominick Harrod
  BBC Economics Correspondent
  2. Producer, PM Budget Special

  NB: These envelopes to be handed over at end of Chancellor's speech

(e) Independent Radio News

- 4 copies of sectioned version of speech, in separate envelopes and marked with number of section

- 1 unstapled speech with sidelines and headlines for page-by-page distribution*

- 1 envelope enclosing a copy of the Speech, Snapshot, FSBR, Command papers and all press notices, addressed to:-

  Mr Douglas Moffit,
  Economic Editor, LBC

  NB: This envelope to be handed over at end of Chancellor's speech

(f) Channel 4
~~1 unstapled Speech with sidelines and headlines for page-by-page distribution~~
~~1 envelope enclosing a copy of the speech, Snapshot, FSBR, Command Papers~~

* ~~5~~ 7 'marked-up' copies of Speech (unstapled) are to be provided by Mr Lawrence to Mrs L Willis by 2.30 p.m. (Mr Lawrence will also supply 2 copies to MH for P.A. and Reuters) — NL/KB/MH ~~KB~~

and all press notices addressed to: Miss Sarah Hogg Economics Editor

~~(44)~~ (47) Check arrival in Chancellor's Office of 41 copies of Resolutions from Parliamentary Counsel's Office, 123 copies of FSBR from Treasury Accountant, 124 copies of Command papers and 8 Briefs (From EB - first 3 to JK, JR and ~~PSJ~~ MOM) — KB/NL/MV BC

~~(45)~~ (48) Issue 123 copies of FSBR, 124 copies of Command papers, 41 copies of Resolutions and 5 (as soon as available) copies of Brief to LW for distribution as in Annex. (Other 3 Briefs to JK, MOM and JR) — KB/LW

~~(46) 645 copies of snapshot to be taken to AB in the CRU to be packed in parcels as in Items 48 and 61. (see also item 40)~~ — ~~NL/KB~~

~~(47)~~ (49) CRU pack up documents indicated in parcels addressed as below. (Speeches, etc. should be packed separately in bulk. Copies of Speech are not provided by Chancellor's Office):- — RC /MH

~~30~~ 50 copies of Speech and ~~50~~ 60 copies of Snapshot to Home Press Gallery, House of Commons

45 copies of Speech, ~~45~~ 60 copies of FSBR and Command Papers and 60 copies of snapshot and Press Notices to MH (for Lobby Conference)

10 copies of speech and 10 copies of snapshot in separate envelope to "the Secretary, Press Gallery", marked "for OVERSEAS CORRESPONDENTS".

The above parcels should then be packed for transmission to the House (see item ~~61~~ 62)

~~(48)~~ (50) Start collation of full text of Speech with index and checklist — Clerks and Typists

~~(49)~~ (51) Before 12.00: Copy of speech to AJS who will Let Speaker's Private Secretary know roughly how long Speech will last — AJS

~~(50)~~ (52) By 12.30 p.m.: Make up and despatch SECRET envelopes containing

1 copy each of Speech, FSBR, Resolutions, Command Papers to:- LW

Prime Minister
Chief Secretary
Financial Secretary
Economic Secretary
Ministers of State
Officials, etc. (See Annex for list) ~~20~~

RC to provide extra messenger ~~26~~

Speaker (via Mr Salveson)
1 Set of above to Mr Corcoran (for Northern Ireland Office)
Plus any other Ministers or officials to whom the issue of advance copies may be authorised by JK (N.B. This would mean a commensurate increase in the number of copies needed)

(53) ~~(51)~~ At 12.30 p.m.: SECRET envelopes containing Speech, Snapshot ~~and~~ FSBR, to be given to messengers from:-

- Customs & Excise (6 copies of each) - including 1 to Isle of Man
- Inland Revenue (6 copies of each)
- Bank of England (6 copies of each plus 6 copies of press notices)

(KB to arrange that these messengers come to the Chancellor's messengers' lobby) KB

(54) ~~(52)~~ At 12.30 p.m.: 18 copies of Speech, Snapshot, FSBR, Command Papers and Press Notices to be issued to MH for allocation to members of IDT
(Copies of Brief will be send direct to MH by EB and monitoring teams.) NL ~~MV~~/BC

(55) ~~(53)~~ 1 set each of Speech, Snapshot, FSBR, Resolutions, Command Papers and Press Notices to be given to JK, MOM and JR, and of speech only to DY LW

(56) ~~(54)~~ 1 set each of Speech, FSBR, and Command Papers in sealed envelopes addressed to: LW

Leader of the House of Commons
Mr ~~John~~ Biffen
Leader of the House of Lords
Lady Young
Leader of the Opposition (Mr Foot)
Shadow Chancellor (Mr Shore)
Chancellor's PPS (Mr Renton)
Mr Christopher (IRSF) - plus Press Notices
Sir William Clark (Chairman of Conservative Finance Committee)
Mr Joel Barnett, Chairman PAC
Mr Edward Du Cann, Chairman ~~Treasury and CSD~~ TCSC
Mr A Goodlad (Treasury Whip)

to be given to DY to take to Mr Renton's ~~[Parliamentary Private Secretary's]~~ room, House of Commons (to be given out after Speech) (JR to collect after Chancellor has sat down).

(57) ~~(55)~~ Make up Budget Box using Gladstone Box for Chancellor with speaking copy of Speech, and copies of FSBR, Resolutions, Snapshot, Command Papers and Press Notices. JK

BUDGET PAPERS : COPIES HANDLED ON BUDGET DAY

BY CHANCELLOR'S OFFICE

Item No.	Speech	Snapshot	Resolutions	FSBR	Other Command Papers	Press Notices	
m. 42	2						Mr Collins, EB Room ~~10/3~~ 99/2 (via ~~DB~~ KB)
2 .30 p.m. 38/51	29		29	29	29	-	

Single copies as indicated to be sent by hand to:

PM (No.10)
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State ~~(L)~~ (R)

Sir Douglas Wass

Mr Burns
Mr Littler
Sir Anthony Rawlinson
~~Sir Douglas Lovelock~~ Angus Fraser
Sir Lawrence Airey

[Dep Sec of]

Mr Byatt
Mr Bailey
Mr Norgrove
Mr Le Cheminant

Mr Wilding
Mr Middleton
Mr Kemp
Mr Hall
Mr Moore
Mr Ridley
Mr French
Mr Harris

Mr Mountfiel
Mr Monger

Item No.	Speech	Snapshot	Resolutions	FSBR	Other Command Papers	Press Notices	
52	6	6	-	6	6	-	Customs & Excise
	6	6	-	6	6	-	Inland Revenue
	6	6	-	6	6	6	Bank of England
53 (a)	10	10	-	10	10	10	~~RG~~ MH (via KB)
(b)	1	1	1	1	1	1	Mr Corcoran (for N.I.O.)
54	1	1	1	1	1	1	JK
	1	1	1	1	1	1	MQM
	1	1	1	1	1	1	JR
	1	-	-	-	-	-	DY
After Lunch 57	Speaking copy		1	1	1	1	Chancellor (with Brief)
60	1	-	-	-	-	-	Speaker's Office (via AJS)

To send messenger to Ch/Ex. messengers' lobby

em No.	Speech	Snapshot (with checklist incorporated)	Resolutions	FSBR	~~PEWP~~	Other Command	Press Notices	
ring Speech								
~~[illegible]~~ 44/48	30	30ø	-	-	-	-	-	Press Gallery (via DY)
~~[illegible]~~ 44/60	16*+	-	-	-	-	-	-	ITN
	2*	2ø		2ø	2	2ø	2ø	Personal copies
	12‡+	-	-	-	-	-	-	BBC
	2*	2ø	-	2ø	3	2ø	3ø	Personal copies
	11 ~~10~~*+	-	-	-	-	-	-	BBC Radio
	2*	2ø	-	2ø		2ø	2ø	Personal copies
	5*+	-	-	-	-	-	-	IRN
	1*	1ø	-	1ø	1ø	1ø	1ø	LBC
	1*+	-	-	-		-	-	Channel 4
	1*	1ø	-	1ø		1ø	1ø	Personal copies
t end of Speech								
~~[illegible]~~ 15/68	3	3	-	3	-	3	3	NEDO
	3	3	1	3	2	3	3	CBI
	3	3	-	3	2	3	3	TUC
	3	3	-	3	2	3	3	Conservative Research Dept. De
	14	14	-	14	-	14	14	Diplomatic Missions (via JG)
	1	-	-	1	1	1	1	Mr Limon (via Mr Corcoran
5/64	9	-	-	9	7	10		Single copies as indicated via vi DY to:- Mr A Goodlad Speaker Mr Shore Sir W Clark Mr Pym Parliamentary Lady Young Private Secretary Mr Foot Mr Du Cann Mr Joel Barne Press Notices
	1	1	-	1	-	1	1	(Mr Christopher (IRSF)

\+ Includes 1 marked up and unstapled copy
* Sectioned
ø With final section/at end of speech
‡ Includes 2 marked up and unstapled copies

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Permanent Secretaries
Deputy Secretaries
Mrs. Gilmore
Mr. Folger
Mr. Ridley
Mr. Cropper
Mr. Cardona

MR. BATTISHILL
MR. BRIDGEMAN
MR. BRITTON
MISS M.P. BROWN
MR. F.E.R. BUTLER
MR. CAREY
MR. CASSELL
MR. CHRISTIE
MR. DIXON
MR. HANSFORD
MRS. HEDLEY-MILLER
MR. KEMP
MR. KITCATT
MR. LAVELLE
MR. LOVELL
MR. MONCK
MR. UNWIN
MR. MOUNTFIELD
MR. EVANS
MR. BURGNER

BUDGET SPEECH: ADMINISTRATIVE ARRANGEMENTS

This minute sets out the arrangements for the handling of drafts of the Budget Speech.

2. This Office will assume responsibility for the Speech as from Monday, 2 March, with Mr. Wiggins acting as Editor.

3. We will endeavour to allow more time between the circulation of successive drafts than was achieved last year. New figures will be highlighted by being placed in square brackets until they have received specific clearance by divisions. New material will be sidelined wherever practicable.

4. In the interests of economy and speed, we will be aiming at a shorter distribution list than was the norm last year. In general, drafts will be circulated only to heads of groups and upwards, on a need to see basis, and Under Secretaries are asked to take responsibility for any further distribution within their groups. If Under Secretaries judge that copies of the draft should be sent direct to members of their groups, please contact me. The special advisers will receive copies of all drafts, as will Mr. R. Allen.

5. Each draft will be circulated under cover of a note indicating a deadline for comments.

R.I.T.

(R.I. TOLKIEN)
4 February 1981

FROM: M M DEYES
DATE: 28 MARCH 1983

TO ALL RECIPIENTS OF THE 1983 BUDGET BRIEF

BUDGET BRIEF: FURTHER CORRIGENDA

A number of further corrections to the Budget Brief have been received in EB Division since we circulated several amendments on Budget Day 15 March. These further corrections are contained in the following paragraphs - which have been set out in full - as amended - so that you can, if you wish, simply stick or staple the revised paragraph into your Brief at the appropriate point. The altered words or figures are underlined each time, in case you prefer to make the alteration by hand.

A1 SUMMARY OF MAIN PROPOSALS

Effect of Budget measures para (v)

[to be found on final page of this Brief]

(v) Percentage of income paid in income tax and NIC will be unchanged or lower in 1983-84, compared with 1982-83, for all those paying contracted-in NIC whose earnings increase by the illustrative 6½ per cent used by the Government Actuary. Some contracted-out will pay slightly more. Changes in real disposable income between the two years will also depend on earnings and prices.

B4 INFLATION: PRICES AND PAY PRICES SECTION

Defensive (iv)

(iv) No further decline in inflation in future years? Forecast of RPI inflation only extends to 1984Q2. But MTFS calculations are based on assumption of general inflation (GDP deflator) falling from 7 per cent in 1982-83 to 5½ per cent in 1983-84 and 5½ per cent in 1984-85.

C PSBR AND PUBLIC EXPENDITURE

Defensive (ii)

(ii) Reasons for PSBR undershoot? Cannot say precisely for some time. Have to wait for PSBR outturn information on 21 April to know extent of undershoot. Full details of public sector accounts in 1982-83 not known for some months. Higher than expected North Sea revenues of £1 billion and underspending of £½ billion are reasons for difference between AS forecast and FSBR estimate of 1982-83 outturn.

E3 CHILD BENEFIT

Positive (iii)

(iii) One Parent Benefit already at its highest ever real value. The rate has already increased by 83 per cent since Government took office from £2.00 to £3.65. Increasing it to £4.05 brings total increase to over 100 per cent - a real increase of around 20 per cent.

F6 MORTGAGE INTEREST RELIEF. A MORTGAGE INTEREST RELIEF LIMIT FOR 1983-84

Factual (ii)

(ii) For someone with a mortgage of £30,000 and over, and assuming an interest rate of 10 per cent, the increase is worth about £3 per week to a basic rate taxpayer and about £6 per week to a 60 per cent rate taxpayer.

M M Deyes

M M DEYES