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1985 PUBLIC EXPENDITURE SURVEY (PES): PARTICULAR PROGRAMMES

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PART E

COVERING CONFIDENTIAL & PERSONAL

OK

FROM: MISS M E PEIRSON
DATE: 16 September 1985

PPS/CHANCELLOR

cc Mr Cassell

**DRAFT PRESS BRIEFING ON PSBR IN AUGUST**

I attach the draft press briefing on the PSBR in August, for tomorrow's publication. The aim is to circulate the briefing to List A recipients by 10.30 am tomorrow. Any comments which the Chancellor might have can be taken on board provided you can let Mr Clark (ext 3093) have them before 9.30 am tomorrow, and earlier if possible.

MISS M E PEIRSON

From: JOHN CLARK
XX September 1985

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr H Evans

Mr Peretz
Miss O'Mara
Miss Peirson
Mr Watts
Mr R Evans
Mr Ward - CSO
Mr Wright - B/E
Mr Norgrove - No. 10

List B
(distributed at 2.30pm, 17 September)

Mrs Butler
Mr Spencer
Mr Cropper
Mr H Davies
Mr Lord
Mrs Hillier - IR
Mr B Sexton - C and E

**BRIEFING FOR 17 SEPTEMBER PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for August will be published at 2.30pm on 17 September. The provisional outturns, together with figures for the first five months of 1984-85 and 1985-86, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1983-84 are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns**

£ billion

| | Apr-Aug 1984 | Apr-Aug 1985 | August 1985 |
|---|---|---|---|
| Central government on own account | 6.2 | 4.5 | **0.9** |
| Local authorities | 1.4 | 1.0 | **0.1** |
| Public corporations | −0.7 | −1.1 | **0.1** |
| PSBR | 6.8 | 4.4 | **1.1** |
| Memo: CGBR (including borrowing for on-lending to LAs and PCs) | 6.3 | 6.0 | **2.5** |

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL
(DRAFT)

**Table 2:** **PUBLIC SECTOR BORROWING REQUIREMENT – Comparison with the last two years**

Cumulative £ billion

| | Central government on own account | | | Local authorities borrowing requirement | | | Public corporations borrowing requirement | | | Public sector borrowing requirement | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 |
| Apr | 0.9 | 1.9 | **1.1** | 0.5 | 0.9 | **0.8** | -0.2 | -0.4 | **-0.2** | 1.2 | 2.4 | **1.8** |
| May | 2.4 | 3.2 | **2.4** | 0.3 | 0.8 | **0.8** | -0.3 | -0.4 | **-0.4** | 2.4 | 3.6 | **2.7** |
| Jun | 3.7 | 4.5 | **2.7** | -0.1 | 0.6 | **0.5** | -0.4 | -0.5 | **-0.5** | 3.2 | 4.6 | **2.7** |
| Jul | 4.5 | 5.0 | **3.6** | -0.0 | 0.8 | **0.8** | -0.6 | -0.7 | **-1.2** | 3.9 | 5.2 | **3.2** |
| Aug | 5.8 | 6.2 | **4.5** | 0.3 | 1.4 | **1.0** | -0.4 | -0.7 | **-1.1** | 5.6 | 6.8 | **4.4** |
| Sep | 6.6 | 6.4 | | 0.3 | 1.2 | | -0.0 | -0.3 | | 6.9 | 7.4 | |
| Oct | 6.7 | 6.8 | | 0.3 | 1.0 | | 0.1 | 0.2 | | 7.1 | 8.0 | |
| Nov | 8.3 | 8.5 | | -0.2 | 0.8 | | 0.5 | 0.4 | | 8.5 | 9.7 | |
| Dec | 9.1 | 7.8 | | 0.1 | 1.2 | | 0.6 | 1.3 | | 9.8 | 10.3 | |
| Jan | 6.3 | 5.7 | | 0.0 | 0.9 | | 0.7 | 1.3 | | 7.1 | 7.9 | |
| Feb | 6.7 | 5.2 | | 0.1 | 1.3 | | 0.6 | 1.3 | | 7.5 | 7.8 | |
| Mar | 8.2 | 6.7 | | 1.2 | 2.4 | | 0.3 | 1.2 | | 9.7 | 10.2 | |

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

2. The (provisional) PSBR for August is £1.1 billion. This is below the forecasts of City analysts, which lie between £1½ billion and £2¼ billion.

3. The August outturn brings the cumulative PSBR for the first five months of 1985-86 to £4.4 billion, £2.4 billion lower than over the same period last year.

**POSITIVE**

Borrowing in first five months of 1985-86 was £4.4 billion, i.e. £2.4 billion lower than in first five months of 1984-85. Receipts from asset sales account for some but not all of reduction.

**DEFENSIVE/FACTUAL**

## 1. Front-end loading

Background

Last year Chancellor said "almost all" of PSBR in 1984-85 was expected in first half of year; such high front-end loading was expected because of special receipts in second half of year (VAT on imports and BT). But the prolongation of the coal strike added substantially to borrowing in the second half, so in the event no more than three-quarters of the PSBR was in the first half-year. In 1985-86, high receipts from asset sales are reducing borrowing in the first six months, but higher corporation tax receipts (than in earlier years) will reduce borrowing in the second half-year.

Line to take

British Telecom second call and other asset sale receipts are benefitting PSBR in first half of 1985-86, but higher corporation tax receipts (than in earlier years) will principally benefit second half.

## 2. Asset sales

Background

Budget forecast for total receipts from special sales of assets in 1985-86 £2.5 billion.

Line to take

About £225 million (net) from first instalment on Britoil received in August, bringing total receipts April-August to about £1½ billion. Around £160 million due in September from second instalment on British Aerospace. Government has also announced plans to sell remaining shares in Cable and Wireless before end of 1985-86, subject to market conditions.

## 3. Supply Expenditure

Background

For first five months of 1985-86, supply services (which represents issues to departments from the Consolidated Fund) were about 8½ per cent higher than in April-August 1984. The comparable increase in supply expenditure (which represents cheques issued by departments and differs from supply services because of changes in departmental balances with the Paymaster General) is 8 per cent. The latter increase is not published and is based on less firm information. No Budget forecast of supply in 1985-86 was included in the FSBR. Table 5.3 showed Main Estimates provision only, which is unsuitable for comparing against outturn.

Line to take

Supply services in April-August about 8½ per cent up on April-August 1984-85. Corresponding figure for expenditure about 8 per cent. Since Supply follows an erratic path, with expenditure particularly volatile in the latter part of the year, hazardous to draw conclusions from these figures for the year as a whole.

## 4. EC refunds

Line to take

Whole of 1983 refund received in 1984-85. 1984 refund of 1000m ecus (about £570 million at present) expected in late 1985-86. 1985 arrangements are different, and will reduce UK monthly contributions, starting in 1986.

## 5. Inland Revenue receipts

Background

Total Inland Revenue receipts in August were £3.2 billion. Total for April-August 1985-86 was £19.2 billion, 10 per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85.

Line to take

Inland Revenue receipts in August were £3.2 billion, and the total for April-August £19.2 billion. Monthly pattern of receipts varies from year to year.

## 6. Oil Revenues

Background

Pound:Dollar exchange rate now higher than 1.10-1.15 assumed in Budget for 1985 (TCSC minutes, 27 March 1985, p8). Revenues in first half of year (particularly September) largely determined by what happened up to June 1985. (September receipts will include the 'settling up' payment of PRT in respect of the chargeable period January-June 1985.) Revenues in second half determined largely by prices and production in July-December 1985.

Line to take

Lower sterling oil prices had no appreciable effect April-August, but will have affected oil revenues in September. Much too soon to draw conclusions for year as a whole - oil revenues depend on both sterling oil prices and production.

## 7. Customs and Excise revenues

Background

Customs and Excise revenues in August were £3.4 billion. Total for April-August 1985-86 (£15.1 billion) was 12 per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £36.3 billion, up 2¼ per cent on 1984-85 (low increase because 1984-85 receipts were boosted by change in VAT on imports).

Line to take

Receipts in first five months £15.1 billion. Increase over corresponding period last year greater than Budget forecast of increase for year as a whole, because receipts in second half of 1984-85 boosted by change in VAT on imports.

## 8. Local authorities

Background

Preliminary estimate is that local authorities borrowed £0.1 billion in August, bringing total net borrowing to £1.0 billion in April-August 1985-86, about £0.4 billion lower than over corresponding period last year. Budget forecast for 1985-86 as a whole was not given (purely notional breakdown of PSBR of £7.1 billion given in part 6 of the FSBR, including £1.5 billion for LABR) Outturn for 1984-85 was £2.4 billion.

In August, local authorities borrowed £1.1 billion from PWLB (see Q9), but used most of it to repay other debt.

Line to take

Low total net borrowing in August, despite high borrowing from PWLB, because local authorities repaid debt held by the market.

## 9. Technical change to encourage local authorities to borrow from PWLB

Background

Economic Secretary announced on 26 July improvements in terms on some forms of borrowing from the PWLB. FT (2 September) argued that purpose was to switch LA borrowing from banks to PWLB, and hence to reduce both size of 'bill mountain' and also cost of public sector borrowing (since CG can raise finance more cheaply than LAs).

Line to take

The main purpose of the change in NLF/PWLB terms and facilities was to reduce interest rates charged to borrowers and to increase the flexibility of the facilities offered. This also has the useful effect that if local authorities switch to the PWLB from banks, the need for money market assistance is reduced. But most of the increase in local authority borrowing from the PWLB in early August was in fixed rate lending, on which the basis for determining interest rates was not affected by the changes announced by the Economic Secretary on 26 July. And overall local authority borrowing in August was low compared with August of previous years.

## 10. Public corporations

Background

Public corporations (provisionally) borrowed £0.1 billion in August, giving net repayment of debt of £1.1 billion for first five months of 1985-86.

Line to take

Borrowing in 1985-86 is following a broadly similar pattern to that of 1984-85. Like the local authorities, public corporations borrowed quite heavily from central government in August and repaid market debt.

John Clark (ext 3093)
PSF Division, HM Treasury

48/581

COVERING CONFIDENTIAL & PERSONAL

FROM: MISS M E PEIRSON
DATE: 16 September 1985

1. MR CASSELL

2. CHANCELLOR OF THE EXCHEQUER

Ch
press briefing below, for your comments. All rather boring at the moment, which is how we like it. RC 16/9

Copy with PPS letter, attached, for:

Mr Norgrove - No 10

| cc List A | List B (distributed at 2.30 pm, 17 September) | |
|---|---|---|
| Sir P Middleton | Chief Secretary | Miss O'Mara |
| Sir T Burns | Financial Secretary | Mr M Williams |
| Mr H Evans | Economic Secretary | Mr Powell |
| Mr Peretz | Minister of State | Mr Cropper |
| Mr Scholar | Mr Bailey | Mr H Davies |
| Mr L Watts | Mr Moore | Mr Lord |
| Mr Devereux | Mr Odling-Smee | Mr Wells - CSO |
| Dr Webb | Mr Turnbull | Mr Walton - IR |
| | Mrs Butler | Mr Wilmott - C & E |
| | Mr Mowl | |

**MONTHLY NOTE ON THE PSBR**

1. I attach a report on the PSBR outturn for August. This outturn will be published by press notice at 2.30 pm tomorrow, 17 September.

2. In this note, as usual, outturn in the latest month (August) is compared with the forecast made a month ago. Outturns for April to August are compared with the Budget profile. Forecasts for September-November are also included.

3. The press notice is confined to comparisons between outturn in the first 5 months of 1985-86 and outturn in the same period last year.

MEP

MISS M E PEIRSON

COVERING CONFIDENTIAL & PERSONAL

## PUBLIC SECTOR BORROWING


### Summary

- The PSBR for August is provisionally estimated at £1.1 billion, £0.5 billion higher than last month's forecast. Borrowing on central government's own account was £0.4 billion higher than forecast. Public corporations borrowed £0.1 billion more than forecast, while local authorities borrowed £0.1 billion less than forecast.

- Borrowing in the first five months of 1985-86 (£4.4 billion) was £1.1 billion lower than the Budget profile (Chart 1) and £2.4 billion lower than in the first five months of 1984-85 (Chart 2).

- The PSBR is, however, forecast at £2¼ billion over the next three months, over £1 billion higher than in the Budget profile (mainly because of lower PRT receipts in September). The forecast for the first eight months of 1985-86 as a whole is therefore £6½ billion, very close to the Budget profile.


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Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

**Chart 1 : Comparisons with Budget profiles for 1985-86**

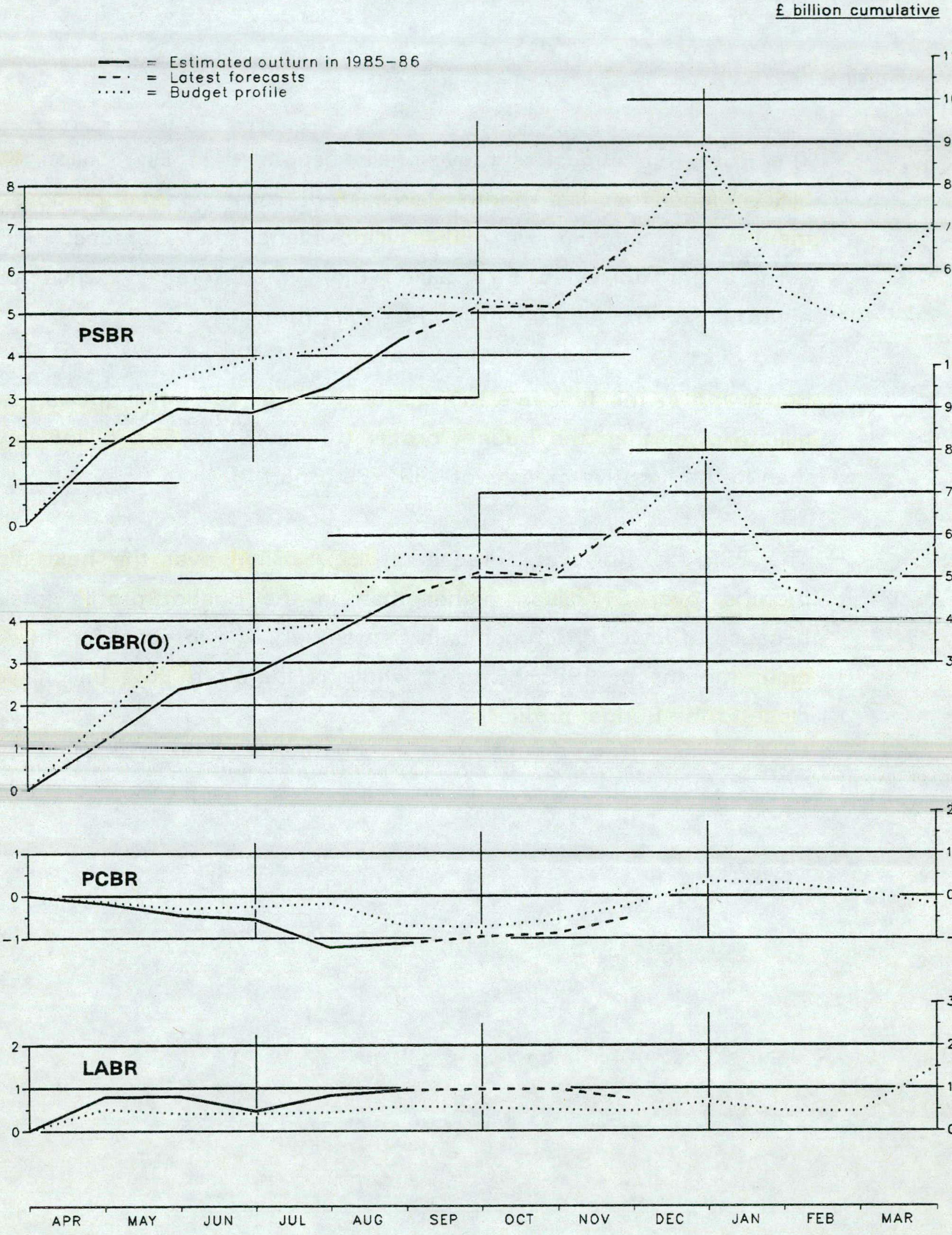
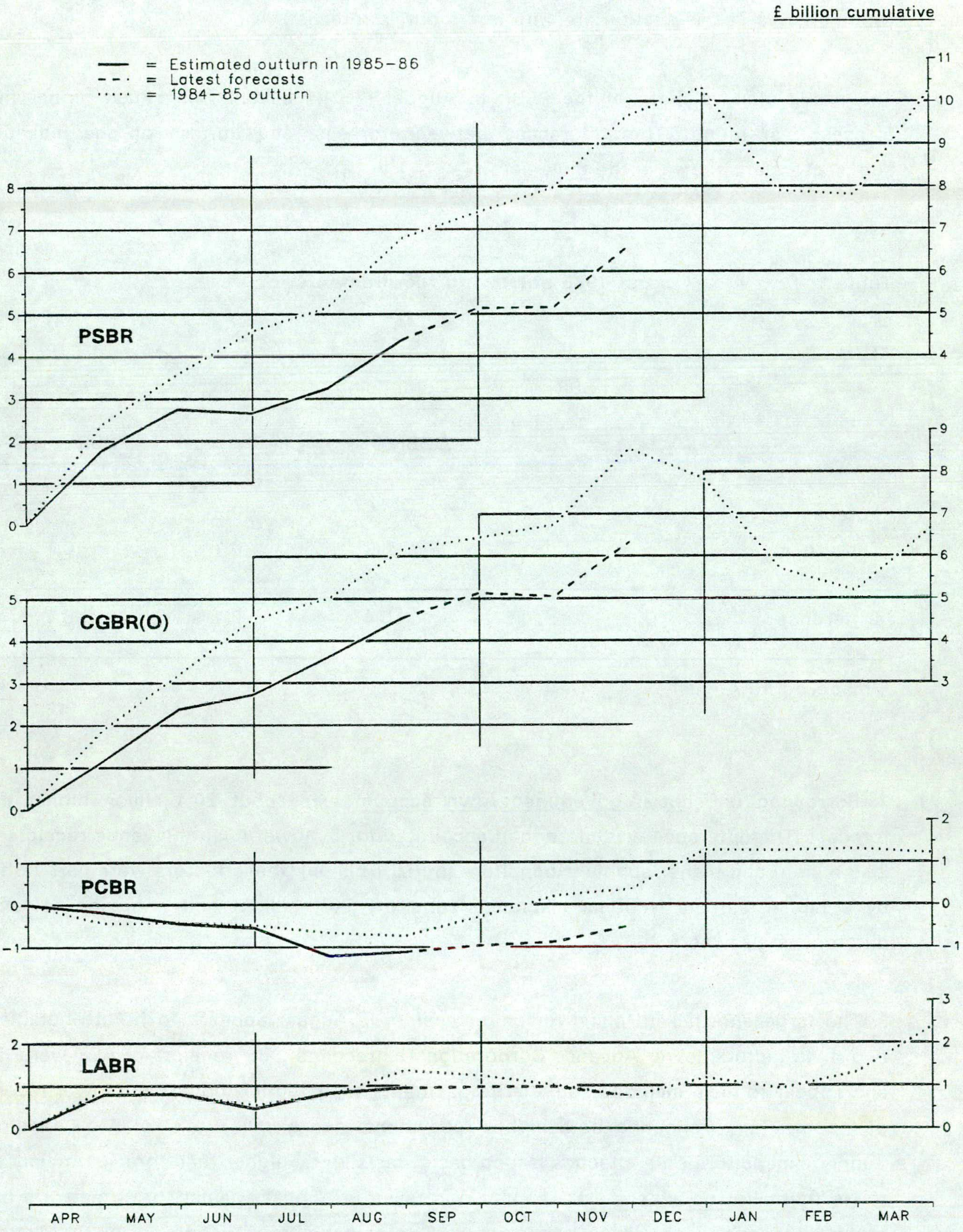


**Chart 2 : Comparisons with last year's outturns**



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**Borrowing in August**

(Comparisons in this section are with last month's forecast)

The provisional estimate of the PSBR in August is £1.1 billion, £0.5 billion higher than forecast last month. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1:** **August 1985 borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Forecast* | 0.7 | 0.5 | 0.2 | - |
| Outturn | 1.1 | 0.9 | 0.1 | 0.1 |
| Difference | 0.5 | 0.4 | -0.1 | 0.1 |

*made on 16 August

2. Borrowing on central government own account was about £0.4 billion higher than forecast. The difference was more than accounted for by lower Inland Revenue receipts (by £0.5 billion) and higher supply expenditure (by £0.1 billion): these factors were partly offset by a higher surplus National Insurance Fund (by £0.1 billion) and a number of small differences elsewhere.

3. The large shortfall in Inland Revenue receipts in August appears to be attributable to two main factors; lower Advance Corporation Tax receipts (July receipts of ACT were high and appear to have included some large payments expected in August) and lower receipts of Income Tax (reflecting both higher repayments and a lower level of PAYE receipts). Supply expenditure on a cheques issued basis was slightly higher than forecast mainly due to Northern Ireland, where extra supply was taken in August against the threat of a bank strike in the province, which was averted. The higher surplus recorded on the National

Insurance Fund was due to a higher level of contributions. As expected, the sale of Britoil shares realised £0.2 billion in the month.

4. Local authorities are provisionally estimated to have borrowed about £0.1 billion in August, about £0.1 billion less than forecast last month. As expected, the high borrowing from the PWLB (£1.1 billion) was mainly used to repay other debt.

5. Public corporations borrowed about £0.1 billion in August, compared with a forecast small repayment. The difference is more than accounted for by unexpected temporary borrowing (of £0.2 billion) from the NLF by British Steel, most of which is expected to be repaid in September.

**April to August**

(comparisons in this and following sections are with the Budget profile)

**Table 2: Total April-August borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Budget forecast | 5.4 | 5.6 | 0.6 | -0.7 |
| Outturn | 4.4 | 4.5 | 1.0 | -1.1 |
| Difference | -1.1 | -1.0 | 0.4 | -0.4 |

6. The cumulative PSBR for the first five months of 1985-86 was £4.4 billion. This is about £1.1 billion below the Budget profile (see Chart 1 and Table 2) reflecting a shortfall on the CGBR(O) - see next paragraph. It is also about £2.4 billion below the same period last year (Chart 2), partly because of the BT second call receipts in June.

7. Cumulative borrowing in April-August on central government own account was £1.0

billion lower than the Budget profile. Supply expenditure (excluding on-lending) was £0.7 billion lower, mainly due to lower grants to the National Coal Board and delays in payments to defence contractors. Other favourable factors included higher Customs and Excise receipts (by £0.4 billion), a higher surplus on the National Insurance Fund (by £0.3 billion), and higher interest receipts. These factors are partly offset by lower receipts from asset sales (by £0.3 billion, due to different assumptions about timing) and lower Inland Revenue receipts (by £0.2 billion, due to lower Income Tax receipts).

8. Local authorities borrowed almost £1 billion in April-August, £0.4 billion more than in the Budget profile. Possibly £0.1 billion of this excess can be attributed to temporary borrowing by authorities who were late in setting a rate (this should be repaid towards the end of the year); another £0.2 billion of the excess may be attributable to overspill from 1984-85.

9. Public corporations made a net repayment of debt of £1.1 billion in April-August, repaying about £0.4 billion more than in the Budget profile. From the limited information currently available from industries, it appears that the difference is widely spread.

**September to November**

10. The PSBR in the period September-November is forecast to be £2¼ billion, over £1 billion higher than in the Budget profile but over £½ billion lower than over the same period last year. The increase on the Budget profile is almost entirely accounted for by higher borrowing on central government own account (over £1 billion), partly due to timing but mainly to lower oil revenues.

11. Table 5 shows the latest detailed profile of borrowing on central government own account for September-November. A comparison with the Budget forecast for the first eight months and with the outturn in April-November 1984 is provided in Table 6.

12. The forecast of the CGBR(O) for September-November is over £1 billion higher than the Budget profile, unwinding fully the shortfall in April-August. The increase in September-November is more than accounted for by lower Inland Revenue receipts (by £1¼ billion), because of lower PRT receipts in September (by over £¾ billion) and lower

corporation tax in October (by over £¼ billion, now expected in January). There is a partial offset from higher receipts from asset sales (by £¼ billion due to different timing assumptions). The forecasts for supply expenditure (excluding on-lending and EC advance contributions) and for other major components show only minor differences.

13. The forecast monthly path of the CGBR(O) is as follows.

- In September, the CGBR(O) is forecast to be £½ billion. Inland Revenue receipts will be fairly high due to large receipts of PRT (£1½ billion, already received, over £¾ billion lower than forecast in the Budget profile). Supply expenditure includes £¼ billion of student awards plus teachers' superannuation. The second call on British Aerospace shares will raise £¼ billion.

- In October, the CGBR(O) is forecast to be roughly in balance. Inland Revenue receipts will be high due to receipts of North Sea Corporation Tax (£½ billion: this is over £¼ billion lower than in the Budget profile, the extra being now expected in January) and Advance Corporation Tax (£¾ billion). Banks' composite rate tax is now expected to be lower than in the Budget profile, having been lower in July. Supply expenditure is fairly high in October because of high cash-limited expenditure, particularly defence.

- In November, the CGBR(0) is forecast to be £1¼ billion. Cyclically high Customs and Excise (VAT) receipts and the second call on the sale of Britoil shares are more than offset by high debt interest payments and seasonally low Inland Revenue receipts. Supply expenditure includes £¼ billion student awards. EC contributions are high, with £¼ billion supplementary finance expected.

14. <u>Local authorities</u> are expected to repay nearly £¼ billion over the next three months, about as in the Budget profile.

14. <u>Public corporations</u> are expected to borrow £½ billion over the next three months, as in the Budget profile. Borrowing by the National Coal Board is expected to be £¼ billion higher than in the Budget profile, offset by lower borrowing by British Steel.

**April-November**

15. Cumulatively, the forecast PSBR for the first eight months of 1985-86 is £6½ billion, very close to the Budget profile despite the low outturn in the first five months. As explained above, the shortfall in April-August on the CGBR(O) is expected to unwind completely by November. The LABR is expected to remain about £¼ billion above the Budget profile, and the PCBR to remain about £¼ billion below it.

**Table 3:** **Latest monthly profiles**
(Budget profiles in italics for comparison)

£ billion

| | PSBR | | Comprising | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CGBR(O) | | LABR | | PCBR | |
| **1985-86** | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **1.0** | *1.4* | **1.2** | *1.6* | **-** | *-0.1* | **-0.3** | *-0.2* |
| Jun | **-0.1** | *0.4* | **0.4** | *0.4* | **-0.3** | *-* | **-0.1** | *0.1* |
| Jul | **0.6** | *0.3* | **0.9** | *0.2* | **0.4** | *-* | **-0.7** | *0.1* |
| Aug | **1.1** | *1.3* | **0.9** | *1.6* | **0.1** | *0.2* | **0.1** | *-0.5* |
| Sep | **0.8** | *-0.1* | **0.6** | *-* | **-** | *-* | **0.2** | *-* |
| Oct | **-** | *-0.2* | **-0.1** | *-0.3* | **-** | *-0.1* | **0.1** | *0.2* |
| Nov | **1.4** | *1.4* | **1.3** | *1.1* | **-0.2** | *-* | **0.4** | *0.4* |
| **Cumulative** | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **2.7** | *3.5* | **2.4** | *3.4* | **0.8** | *0.4* | **-0.4** | *-0.3* |
| Jun | **2.7** | *3.9* | **2.7** | *3.8* | **0.5** | *0.4* | **-0.5** | *-0.2* |
| Jul | **3.2** | *4.2* | **3.6** | *3.9* | **0.8** | *0.4* | **-1.2** | *-0.2* |
| Aug | **4.4** | *5.4* | **4.5** | *5.6* | **1.0** | *0.6* | **-1.1** | *-0.7* |
| Sep | **5.1** | *5.3* | **5.1** | *5.5* | **1.0** | *0.5* | **-1.0** | *-0.7* |
| Oct | **5.2** | *5.1* | **5.1** | *5.2* | **1.0** | *0.5* | **-0.9** | *-0.6* |
| Nov | **6.6** | *6.5* | **6.3** | *6.3* | **0.7** | *0.5* | **-0.5** | *-0.2* |

Figures for April to August are outturns



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**Table 4: PSBR for 1985-86 – comparisons with 1984-85 and Budget profile**

£ billion

| | 1984-85 | 1985-86 | | Differences from | |
|---|---|---|---|---|---|
| | Outturn | Budget profile | Latest update[1] | 1984-85 outturn | Budget profile |
| | 1 | 2 | 3 | 3-1 | 3-2 |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.3 |
| May | 1.2 | 1.4 | **1.0** | -0.2 | -0.4 |
| Jun | 1.0 | 0.4 | **-0.1** | -1.1 | -0.5 |
| Q2 | 4.6 | 3.9 | **2.7** | -1.9 | -1.3 |
| Jul | 0.6 | 0.3 | **0.6** | - | 0.3 |
| Aug | 1.6 | 1.3 | **1.1** | -0.5 | -0.1 |
| Sep | 0.6 | -0.1 | **0.8** | 0.1 | 0.9 |
| Q3 | 2.8 | 1.4 | **2.5** | -0.3 | 1.1 |
| Oct | 0.6 | -0.2 | **-** | -0.6 | 0.2 |
| Nov | 1.7 | 1.4 | **1.4** | -0.3 | - |
| Dec | 0.7 | 2.4 | | | |
| Q4 | 2.9 | 3.6 | | | |
| Jan | -2.4 | -3.4 | | | |
| Feb | -0.1 | -0.8 | | | |
| Mar | 2.4 | 2.3 | | | |
| Q1 | -0.1 | -1.8 | | | |
| **Cumulative** | | | | | |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.3 |
| May | 3.6 | 3.5 | **2.7** | -0.8 | -0.7 |
| Jun | 4.6 | 3.9 | **2.7** | -1.9 | -1.3 |
| Jul | 5.2 | 4.2 | **3.2** | -1.9 | -0.9 |
| Aug | 6.8 | 5.4 | **4.4** | -2.4 | -1.1 |
| Sep | 7.4 | 5.3 | **5.1** | -2.3 | -0.2 |
| Oct | 8.0 | 5.1 | **5.2** | -2.8 | - |
| Nov | 9.7 | 6.5 | **6.6** | -3.1 | 0.1 |
| Dec | 10.3 | 8.9 | | | |
| Jan | 7.9 | 5.5 | | | |
| Feb | 7.8 | 4.7 | | | |
| Mar | 10.2 | 7.1 | | | |

[1]Figures for April to August are outturns

**Table 5:** **Central government transactions – August outturn and latest forecasts for September–November**

£ billion

| | August | | Latest forecasts | | |
|---|---|---|---|---|---|
| | forecast | outturn[1] | Sep | Oct | Nov |
| Receipts | | | | | |
| *Consolidated Fund* | | | | | |
| Inland Revenue | 3.7 | 3.2 | 4.3 | 5.2 | 3.5 |
| Customs and Excise | 3.4 | 3.4 | 2.7 | 3.1 | 3.9 |
| Other[2] | 1.3 | 1.3 | 0.9 | 1.0 | 1.1 |
| *National Loans Fund* | | | | | |
| Interest etc. receipts | 0.5 | 0.5 | 0.9 | 0.6 | 0.4 |
| Total Receipts | 8.8 | 8.4 | 8.7 | 9.7 | 8.8 |
| Expenditure | | | | | |
| *Consolidated Fund* | | | | | |
| Supply expenditure[3] | 7.8 | 8.0 | 7.8 | 8.3 | 8.0 |
| Adjustment to Supply Services basis[4] | – | –0.1 | – | – | – |
| Other | 0.5 | 0.5 | 0.3 | 0.3 | 0.6 |
| *National Loans Fund* | | | | | |
| Service of the national debt | 1.0 | 1.0 | 1.2 | 0.9 | 1.6 |
| Net lending | 1.2 | 1.9 | 0.3 | 0.2 | 0.3 |
| Total Expenditure | 10.5 | 11.1 | 9.6 | 9.8 | 10.4 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | 0.1 | –0.3 | 0.3 | 0.1 | 0.1 |
| **CGBR** | **1.7** | **2.5** | **1.2** | **0.2** | **1.8** |
| On-lending | 1.2 | 1.5 | 0.6 | 0.2 | 0.5 |
| **CGBR(O)** | **0.5** | **0.9** | **0.6** | **–0.1** | **1.3** |

[1]Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.
[2]Includes receipts from sales of assets
[3]On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
[4]Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

**Table 6: Central government transactions[1] – comparisons for April–November**

£ billion

| | 1984 | 1985 | |
|---|---|---|---|
| | Outturn | Budget forecast | Latest update |
| Receipts | | | |
| *Consolidated Fund* | | | |
| Inland Revenue | 29.2 | 33.5 | 32.1 |
| Customs and Excise | 22.3 | 24.3 | 24.7 |
| Other[2] | 7.7 | 8.9 | 8.2 |
| *National Loans Fund* | | | |
| Interest etc. receipts | 3.5 | 4.1 | 4.3 |
| Total Receipts | 62.7 | 70.7 | 69.3 |
| Expenditure | | | |
| *Consolidated Fund* | | | |
| Supply expenditure[3] | 59.2 | 64.4 | 63.5 |
| Adjustment to Supply Services basis[4] | 0.3 | – | 0.2 |
| Other | 3.3 | 2.7 | 3.0 |
| *National Loans Fund* | | | |
| Service of the national debt | 8.6 | 9.4 | 9.6 |
| Net lending | 1.6 | 1.1 | 3.1 |
| Total Expenditure | 73.0 | 77.6 | 79.3 |
| Other funds and accounts (+ increases borrowing) (- reduces borrowing) | 0.1 | 1.0 | -0.9 |
| **CGBR** | **10.4** | **7.9** | **9.0** |
| On-lending | 1.8 | 1.6 | 2.7 |
| **CGBR(O)** | **8.5** | **6.3** | **6.3** |

(1)Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.
(2)Includes receipts from sales of assets.
(3)On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
(4)Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

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F ~~Fowler~~. Social security pensions share folder.

From: K F MURPHY
Date: 16 September 1985

NOTE OF A MEETING HELD ON THURSDAY 12 SEPTEMBER 1985, IN SIR PETER MIDDLETON'S ROOM, HM TREASURY

**Present:** Sir P Middleton
Mr Anson
Mr Kemp
Mr Watson
Mr Scholar
Mr Folger

**FOWLER REVIEW**

Sir Peter Middleton said that he was anxious that the Chancellor should be given an opportunity to consider his approach to the likely outcome of the Fowler Reviews at an early stage. The Chancellor had recently held a meeting on the local government finance proposals and Sir Peter wanted to follow the same model for the Fowler Reviews. He asked Mr Watson to prepare an annotated agenda for such a meeting, covering the Treasury's objectives for the Reviews, tactics and handling and a brief analysis of each of the major changes and options currently under discussion.

2. Mr Watson said it would be helpful to prepare the Chancellor for the Secretary of State's proposals; he would produce the note requested. Mr Anson added that the Secretary of State was likely to come to the Chancellor with his proposals very late in the day; this reinforced the need for the Chancellor to consider the issues at this stage. Mr Watson said his note would include not merely the pensions issues but also the other changes. He feared that the Green Paper decisions on housing benefit might now be becoming unravelled. Sir Peter Middleton said that this was particularly important, since not only was this the area where the greatest savings were to be had, but it also had a critical impact on the DOE's local government financing proposals.

3. Sir Peter Middleton said that the note would also need to cover the impact of the Fowler proposals on public service pensions. In discussion, it was agreed that there was no need to delay the Minister of State's letter to colleagues on this subject until after the Chancellor's meeting.

4. Mr Watson said that the present intention was to publish a White Paper early in November followed shortly thereafter by a draft Bill. (Mr Scholar said that the timing of this would need to be watched in connection with the Autumn Statement.) Continuing, Mr Watson said that it was quite likely that there would be little quantative information in the White Paper. In the light of the public reaction to the proposed abolition of Serps, he believed that DHSS were toying with the idea of postponing decisions on this subject. But this would be politically very difficult.

5. Mr Folger said that DHSS had still not supplied many of the figures required for a detailed analysis of gainers and losers. Sir Peter Middleton said that this was a point which should be covered in the agenda for the Chancellor's meeting; it was essential to keep up the pressure for the numbers which we needed to do a sensible analysis which could include the distributional effects not only of the Fowler proposals, but also of the Chancellor's own tax proposals, and the DOE's local government proposals.

KFMurphy

**K F MURPHY**
Private Secretary

1429/19

PERSONAL

FROM: H J DAVIES

DATE: 17 September 1985

CHANCELLOR

cc Mr Cropper
Mr Lord

**LOCAL GOVERNMENT FINANCE**

When we discussed revaluation at Prayers this morning I had not had the benefit of reading Mr Cropper's minute of 13 September.

2. I have now read it, and I must say that I agree with all the points he makes.

3. As you know, I favour the Modified Property Tax based on capital values as offering the possibility of a rational long-term solution. But I recognise that there are two apparently powerful arguments against:

- -it looks like a wealth tax (I understand this was the Prime Minister's argument)

- -there would be a wholesale revaluation exercise with lots of winners and losers. The losers would be vocal; the winners silent. And, though we cannot be sure, there may be more of our supporters amongst the losers.

4. I do not find the first point at all persuasive. Property is not the same as wealth. If you don't want to pay the tax you can hold wealth in other forms. It is not a proxy for services consumed, of course, but none of the taxes proposed will be based on any measure which closely approximates to that. Indeed the poll tax could be the worst - the more adults in a household the fewer children (on the whole) and the children consume the most expensive service.

5. The winners and losers point is clearly important. But there is a danger in allowing Scottish experience to weigh too heavily in the scales. Revaluation was painful, but in part because labour authorities used it as a smokescreen behind which to raise rates overall. Also, we might recall that even if we were to decide on MPT, there would be no revaluation this side of an election. Since no-one could accurately work out their new rates before it, we would be safe. And there will be so many complex redistributive packages on offer that the total impact of each party's manifesto on an individual will be far too difficult to assess.

6. One other tactical point, it would be unfortunate if there were to be another spate of 'Treasury blocks any reform' stories, as I suspect there would be if you now push strongly for the 'German' solution.

HJD

**H J DAVIES**

1881/053

CONFIDENTIAL

PnP

FROM: A M ELLIS
DATE: 17 September 1985

PS/CHANCELLOR

cc: PS/Financial Secretary
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Scholar
Miss Peirson
Miss Sinclair
Mr Cropper

Mr Battishill - IR
Mr Beighton - IR

SMOOTHING THE PSBR

The Economic Secretary read with interest the record of the Chancellor's meeting of the 13 September. He was particularly interested in the references to the possibility of conceding to the Building Societies on the timing of composite rate payments (paragraph 2) and in the possibility of abolishing the CTD's (paragraph 9).

2. He noted that none of the papers for the Chancellor's meeting had been copied to him and has asked that he should be kept closely in touch with progress on these issues.

AZ

A M ELLIS

462

031/71

SECRET AND PERSONAL

pwt

**SCORECARD**

COPY NO 4 OF 8

From: P R C GRAY

Date: 18 September 1985

CHIEF SECRETARY +1

cc Mr Bailey
Mr Scholar
Mr Turnbull
Mr Lord
Mr Barnes

**1985 SURVEY: SCORECARD 18 SEPTEMBER AND OVERVIEW**

Here are some rough notes that might serve as a basis for the discussion at your overview meeting tomorrow lunchtime.

Scorecard

2. Today's version is attached. The main change to the **"forecast outcome"** since yesterday is marginally better figures for DTI in 1986-87 and 1987-88, and a slight worsening in 1988-89. The overall **forecast overshoot** is unchanged from yesterday at:

| | | £ billion |
|---|---|---|
| 1.4 | 2.3 | 2.4 |
| (0.8) | (1.4) | (1.3) (July assessment) |

3. We have not changed the **forecast outcome** for either Defence or DOE following the first bilaterals. But the **Treasury position** for Housing has been toughened a bit in line with the latest briefing line, and the Treasury position for Defence in 1988-89 now shows acceptance of the Falklands bid.

**SECRET AND PERSONAL**

## Looking Ahead to the Star Chamber

4. There are a lot of inter-relating issues here.

(i) Departments to be taken to the Star Chamber

5. You had a first discussion with us about this at the beginning of the week. Experience from the last couple of years suggests that eight departments is the absolute maximum the procedure can cope with. Fairly definite candidates are:

(i) Defence why bother?
(ii) Housing
(iii) Education
(iv) Social Security
(v) Scotland

Less firm but still fairly strong candidates are:

(vi) DOE Other, if only as a negotiating lever linked to housing. maybe.
(vii) Home Office, perhaps accompanied by LCD. but you need Brittan
(viii) Energy Industries. yes.

Other possibilities are:

(ix) ODA ✓
(x) DTI about time.
(xi) Health ✓

6. There are various permutations. But, for the purposes of the illustrative arithmetic below, I assume the first two categories go to the Star Chamber, but that you settle those departments in the third.

7. On this basis, how might the overall Survey arithmetic look at the beginning of the Star Chamber negotiations? The table on the next page is an attempt to set it out.

## ASSUMED PROGRAMMES IN STAR CHAMBER

£ million

| | 1986-87 | | | 1987-88 | | | 1988-89 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Treasury | Forecast | Department | Treasury | Forecast | Department | Treasury | Forecast | Department |
| Defence | -198 | 0 | +200 | -402 | 0 | +400 | -396 | +204 | +600 |
| Housing | -81 | +243 | +744 | -312 | +257 | +1058 | -418 | +156 | +957 |
| DOE Other | -75 | -15 | +75 | -70 | 0 | +70 | -70 | 0 | +70 |
| Home Office | -20 | +25 | +50 | -35 | +25 | +40 | -30 | +25 | +60 |
| LCD | -40 | +20 | +40 | -65 | +40 | +60 | -85 | +60 | +80 |
| DES | +10 | +35 | +60 | +5 | +35 | +70 | -10 | +24 | +80 |
| Social Security | +1100 | +1250 | +1400 | +900 | +1250 | +1500 | +800 | +1200 | +1600 |
| Scotland | -90 | +7 | +13 | -140 | +12 | +23 | -220 | -18 | -3 |
| Electricity (E&W) | -100 | -85 | +169 | -350 | -280 | -124 | +150 | +250 | +568 |
| Coal | +408 | +458 | +508 | +233 | +283 | +333 | +97 | +147 | +198 |
| Sub-total | +914 | +1938 | +3259 | -236 | +1622 | +3430 | -182 | +2048 | +4210 |
| Assumed outcome on other programmes | +2685 | +2685 | +2685 | +2909 | +2909 | +2909 | +2727 | +2727 | +2727 |
| Asset Sales | -2250 | -2250 | -2250 | -1250 | -1250 | -1250 | -1250 | -1250 | -1250 |
| Reserve | -1000 | -1000 | -1000 | -1000 | -1000 | -1000 | - | - | - |
| 3% Uplift | - | - | - | - | - | - | -1127 | -1127 | -1127 |
| Net Change | +349 | +1373 | +2694 | +423 | +2281 | +4089 | +168 | +2408 | +4560 |

8. In the first part of the table are figures for the departments assumed to go to the Star Chamber. For each year there are three sets of figures:

(i) the Treasury positions; based on some arbitrary assumptions. In some cases, eg Defence and Housing, I assume you hold to your present position. For others, eg Home Office and LCD I have assumed some movement. Figures for coal are no more than the guesses made before the holidays.

(ii) the forecast entries are taken from the existing scorecard.

(iii) the Departmental positions are again arbitrary assumptions; in some cases no change from present positions but some movement in others.

9. The second half of the table sets out in turn the assumed outcome on all the other programmes settled during the bilaterals (on the basis of the present "forecast" entries in the main scorecard), and the present assumptions for asset sales and the Reserve.

10. The bottom line then shows the net change from the planning total targets. **The key point is that, even on the basis of your assumed opening Star Chamber positions for the disputed programmes, your aggregate proposals point to the targets being exceeded - by some £350 million in 1986-87, £400 million in 1987-88 and £150 million in 1988-89.** This raises major strategic issues for handling the rest of the Survey - see below.

Whitelaw
Tebbit
Brittan
Wakeham
Younger/Edwards/Young
Biffen?

(ii) Membership of Star Chamber

10. The selection of those departments to take to the Star Chamber is affected by the desired membership of the Group. Key Departments might be DTI - assumed above to be settled - and Scotland - assumed to go to the Star Chamber. A conscious effort to settle DTI quite

early might require a somewhat less favourable outcome than currently assumed.

(iii) Star Chamber Remit

11. The figuring above suggests **the existing planning total targets are untenable,** on the basis of existing asset sales and Reserve assumptions. Short of a much tougher stance on programmes, the options for a revised remit to Star Chamber are:

(i) higher asset sales - assuming all went well with the sales programme probably achievable, but obvious expenditure policy disadvantages.

(ii) Lower Reserves - problem of then defending plans as credible control totals.

(iii) higher planning totals - obvious problems for 1986-87and 1987-88, though less difficult for 1988-89. Could probably still be justified as "broadly constant in real terms".

12. It looks just about credible in negotiating terms to set the Star Chamber a remit £1 billion a year above the existing targets, eg by some combination of adjustments to asset sales and the Reserve. That would give some room for manoeuvre from the postulated Treasury positions at the start of the Star Chamber phase. But on the basis of our own "forecast" assessments, revised targets at that level look very difficult to achieve in 1986-87 and impossible in the two later years. And it would mean the Star Chamber having to adjudicate much closer to the Treasury than departments' position; a ratio of about 70/30 in 1986-87 and about 80/20 in 1988-89.

Timing

13. Given the timing of the Party Conference, the choice for a report back to Cabinet lies between 3 and 17 October. The original aim had been to go for 3 October, as part of a timetable leading

up to the Autumn Statement on 12 November.

14. 3 October now looks very tight. Short of dramatic break throughs next week there would be few departments on which you could report settlements - either on programme expenditure or, more particularly, running costs.

15. Delaying until 17 October would mean more information available, eg on coal, and permit time to attempt to come to more deals in bilaterals before the report back. But the potential problems are:

> (i) you might not in practice be able to make much more progress eg because the Party Conference would break up the momentum.
>
> (ii) in any event, the Star Chamber could not then start work until 21 October, possibly a day or two later, and the Autumn Statement would be put back at least a week and possibly 10 days (NB the problems of the timing of the Queen's Speech Debate). The timetable for the whole of the rest of the process would have little room for manoeuvre.

16. A possible middle course of a report back on 3 October seeking agreement to start the Star Chamber on 14 October, but without the Departments involved being identified until later, might ease the timing pressures later. But there is a risk of having an inconclusive Cabinet discussion, which could mean Cabinet discussion on **both** 3 and 17 October.

Paper for Cabinet

17. The shape of a paper for Cabinet depends on the timing. It is difficult **now** to see what a 17 October Cabinet paper might look like. A 3 October paper would inevitably be a progress report, which sought to categorise departments into those already settled, those where discussions were proceeding with the hope of settlement, and those which would have to go to the Star Chamber. There is

a tactical choice between aiming for a short discussion which simply sets up the Star Chamber, or a more detailed debate on the key emerging issues which might steer (and could well circumscribe) the Star Chamber's deliberations. Last year the first approach was adopted. Is it still right for this year?

18. On the assumption that the Star Chamber would need to be set a revised aggregate target, should that issue also be aired in the Cabinet paper? A minimalist way of doing it would be to say that, as well as considering the position on outstanding programmes, we would give further thought during the Star Chamber phase to the Reserve and asset sales figures. Even that could significantly weaken the pressure for tight settlements on programmes; and could be resented by those who had already settled. Not to mention it at all to Cabinet at this stage could cause problems later; but better to defer a possible problem than precipitate one?

19. In any event, the Cabinet paper will need a substantive passage on running costs/pay assumption etc.

PRCG.

P R C GRAY

[mark2 live]

[DATE:18 /09/85]

COMPOSITE SCORECARD: £million

| | 1986-87 Baseline | 1986-87 TSY | 1986-87 FORECAST | 1986-87 DEPT | 1987-88 Baseline | 1987-88 TSY | 1987-88 FORECAST | 1987-88 DEPT | 1988-89 Baseline | 1988-89 TSY | 1988-89 FORECAST | 1988-89 DEPT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EX | 999,999 | 999999 | 99999 | 999999 | 999,999 | 999999 | 99999 | 999999 | 999,999 | 999999 | 99999 | 999999 |
| Survey baseline and proposed changes | | | | | | | | | | | | |
| MOD | 18,558 | -198 | 0 | 424 | 18,861 | -402 | 0 | 593 | 19,033 | -396 | 204 | 909 |
| FCO-ODA | 1,296 | -20 | 13 | 80 | 1,317 | -20 | 24 | 124 | 1,350 | -20 | 33 | 155 |
| FCO-OTHER | 603 | 22 | 36 | 36 | 619 | 27 | 39 | 43 | 635 | 47 | 57 | 61 |
| EC | 640 | 60 | 60 | 60 | 830 | 220 | 220 | 220 | 850 | 150 | 150 | 150 |
| IBAP/AFF CAP | 1,277 | -40 | 339 | 359 | 1,304 | -40 | 347 | 367 | 1,337 | -40 | 348 | 368 |
| AFF domestic | 713 | -10 | 0 | 24 | 699 | -10 | 0 | 23 | 717 | -10 | 0 | 24 |
| FORESTRY | 53 | -2 | 0 | 2 | 54 | -2 | 0 | 2 | 56 | -3 | 0 | 2 |
| TRADE/INDUSTRY | 1,162 | -77 | -20 | 42 | 980 | -128 | -40 | 62 | 1,004 | -189 | -100 | 96 |
| ECGD | 78 | 202 | 207 | 214 | -43 | 213 | 220 | 230 | -44 | 121 | 129 | 146 |
| ENERGY | 294 | -8 | 8 | 16 | 293 | -16 | 18 | 28 | 300 | -24 | 20 | 30 |
| EMPLOYMENT (excl SEMPs) | 3,704 | -175 | -75 | 98 | 3,901 | -354 | -35 | 124 | 3,999 | -372 | 30 | 215 |
| TRANSPORT | 1,955 | -57 | 50 | 88 | 1,995 | -70 | 70 | 133 | 2,045 | -80 | 80 | 187 |
| DOE-HOUSING | 2,424 | -86 | 243 | 744 | 2,526 | -312 | 257 | 1058 | 2,589 | -418 | 156 | 957 |
| DOE-PSA | -120 | 0 | 5 | 24 | -128 | 0 | 0 | 24 | -131 | 0 | 0 | 34 |
| DOE-OTHER | 848 | -110 | -15 | 135 | 860 | -99 | 0 | 130 | 882 | -101 | 0 | 128 |
| HOME OFFICE | 1,061 | -42 | 25 | 76 | 1,104 | -70 | 25 | 66 | 1,131 | -65 | 25 | 83 |
| LCD | 574 | -84 | 20 | 60 | 610 | -128 | 40 | 81 | 625 | -171 | 60 | 118 |
| DES | 3,418 | -29 | 35 | 125 | 3,505 | -41 | 35 | 137 | 3,593 | -66 | 24 | 153 |
| OAL | 333 | -11 | 10 | 24 | 342 | -8 | 10 | 34 | 350 | -9 | 10 | 46 |
| HEALTH & PSS | 14,945 | -24 | 250 | 460 | 15,622 | -20 | 300 | 534 | 16,012 | -18 | 600 | 941 |
| SOCIAL SEC. | 41,547 | -590 | 1250 | 1273 | 43,553 | -1011 | 1250 | 1444 | 44,642 | -1449 | 1200 | 1546 |
| CIVIL SUPER. | 1,114 | -20 | 65 | 85 | 1,226 | 0 | 86 | 86 | 1,257 | 0 | 147 | 147 |
| SCOTLAND | 4,300 | -98 | 7 | 13 | 4,373 | -143 | 12 | 23 | 4,482 | -223 | -18 | -3 |
| WALES | 1,708 | -2 | 1 | 3 | 1,735 | -4 | 0 | 4 | 1,779 | -8 | -4 | 1 |
| N. IRELAND | 4,464 | 27 | 52 | 55 | 4,603 | 26 | 76 | 78 | 4,717 | 30 | 105 | 105 |
| Territorial conseq. | 0 | -110 | 130 | 380 | 0 | -160 | 150 | 460 | 0 | -190 | 220 | 560 |
| CHANCELLOR'S DEPT | 1,825 | -5 | 170 | 191 | 1,842 | -5 | 170 | 188 | 1,888 | -10 | 150 | 168 |
| OTHER DEPTS | 366 | -6 | 45 | 56 | 396 | -7 | 44 | 53 | 406 | -10 | 45 | 57 |
| LA REL CUR(UK)(ELA) | 26,032 | 601 | 601 | 601 | 26,301 | 600 | 600 | 600 | 26,959 | 500 | 500 | 500 |
| teachers pay | 0 | 228 | 228 | 228 | 0 | 300 | 300 | 300 | 0 | 400 | 400 | 400 |
| NAT IND : IFR | | | | | | | | | | | | |
| EFLs coal | 382 | 408 | 458 | 508 | 392 | 233 | 283 | 333 | 402 | 97 | 147 | 198 |
| non coal | 171 | -158 | -39 | 377 | -207 | -533 | -319 | 79 | -210 | -493 | -283 | 362 |
| RMPS & SRPS(1) | 309 | 194 | 194 | 194 | 318 | -41 | -41 | -41 | 326 | -50 | -50 | -50 |
| BGC,BAA,NBC | -470 | 180 | 270 | 270 | -390 | 390 | 390 | 390 | -400 | 400 | 400 | 400 |
| SPECIAL SALES OF ASSETS | -2,250 | -2250 | -2250 | -2250 | -2,250 | -1250 | -1250 | -1250 | -2,250 | -1250 | -1250 | -1250 |
| RESERVE | 6,000 | -1000 | -1000 | -1000 | 7,000 | -1000 | -1000 | -1000 | 7,000 | 0 | 0 | 0 |
| 3 per cent increase in 1988-89 total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,127 | -1127 | -1127 | -1127 |
| less double counting(2) | -252 | 0 | 0 | 0 | -249 | 0 | 0 | 0 | -258 | 0 | 0 | 0 |
| TOTALS | 139,062 | -3290 | 1373 | 4075 | 143,894 | -3865 | 2281 | 5760 | 148,200 | -5047 | 2408 | 6817 |

(1) The RMPS and SRPS are considered in the IFR.

(2) DAFS and WOAD baselines £251m,£253m and £260m are included in IBAP/AFF domesti and in Scotland/Wales. Rounding discrepancies of +£1m,+£4m and +£2m are also rectified here.

FROM: I SCOTTER
DATE: 18 SEPTEMBER 1985

MR ANSON

cc: Sir P Middleton
Mr Watson
Mr Folger
Mr G P Smith

**DUAL TAPER HOUSING BENEFIT AND FTAS**

As discussed this morning, I attach a diagram showing marginal tax rates taking account of the dual taper HB for a specimen two child family who are LA tenants. The diagram is superimposed on the one for a single 70% HB taper in Mr Byatt's paper of 19 July.

2. The diagram has become rather complicated without colour copying. The 'railway line' shows marginal tax rates with current tax allowances and dual taper, and the broken line shows FTAs with a dual taper. The diagrams also incorporate an increase in the Family Credit taper to 70% which we understand that DHSS are now proposing.

3. The increases in taper have narrowed the trap very little for this type of household because the net income basis of benefit withdrawal dilutes the effect. Although the Family Credit taper and combined HB taper have increased by 10% points each, the maximum overall marginal rate has only increased by 3% from 93% to 96%. The narrowing might be rather greater for households eligible for only one benefit, eg couples without dependent children.

4. The increased tapers do not change the impact of FTAs on the poverty trap for this type of household by very much. Those taxpayers deepest in the trap, on incomes up to about £105 pw will, as before, see only a small reduction in their overall

marginal tax rate (from 96% to 94%) when they are removed from tax by FTAs. Those earning between £105pw and £125pw will see a larger reduction in marginal tax rates than they would have with the 70% HB taper, but their marginal rates will still be 72% or more.

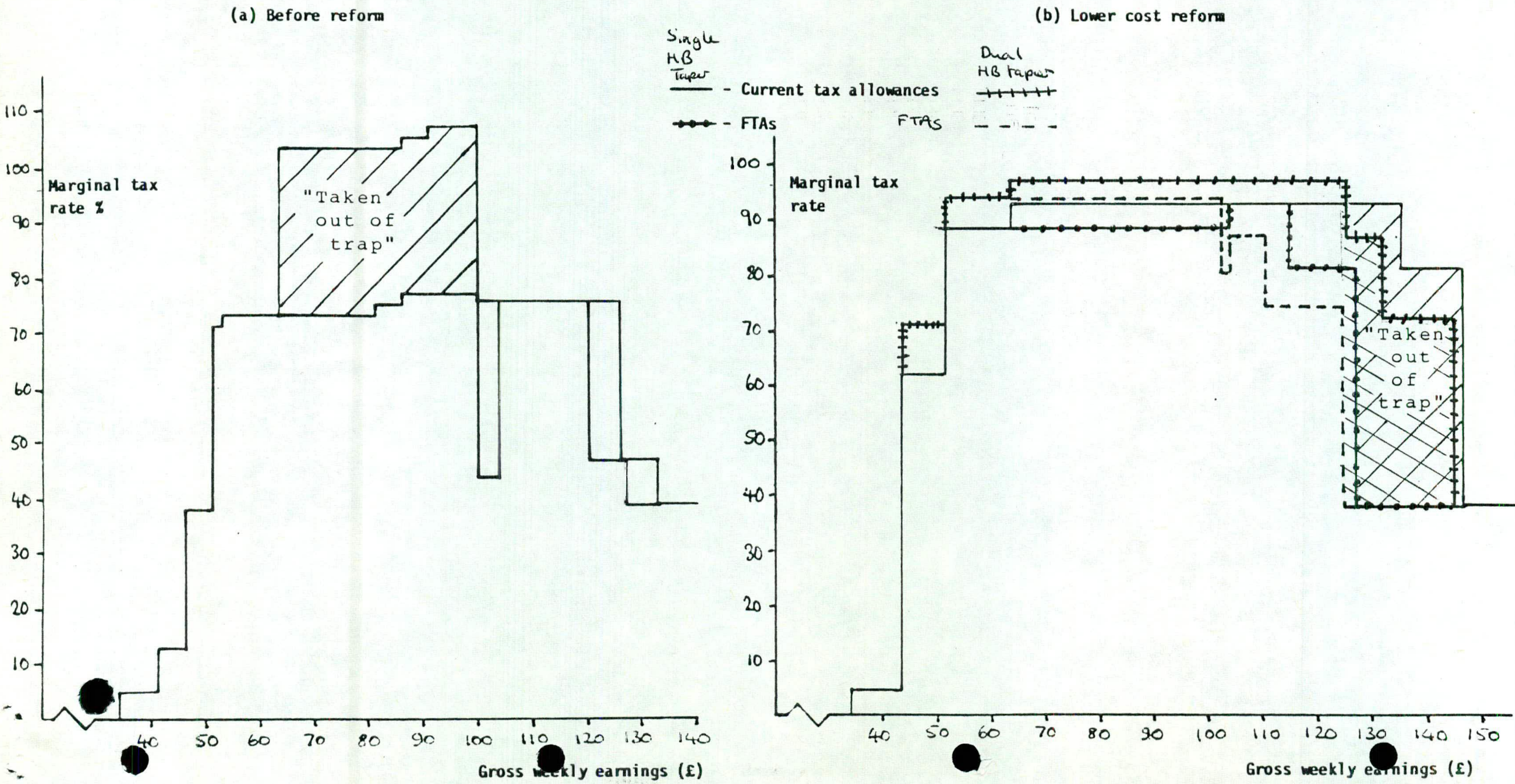
5. FTAs will continue to remove people from the trap by floating them off benefits. The range of incomes over which this will occur will be roughly the same and so we can expect FTAs to take almost as many of this type of household out of the trap as they would have with the 70% HB taper. Most of the people taken out of the trap by FTAs in the previous analysis were in fact one earner couples with children, so the effect of FTAs should not change much.

Ian Scotter

IAN SCOTTER

Effect of FTAs on marginal tax rates for a single earner couple

with two children aged 11-15, paying average LA rent and rates



For Survey Issues meeting 24/9

FROM: M C SCHOLAR
DATE: 20 September 1985

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Anson
Mr Kemp
Mr Monck
Mr H P Evans
Mr D J L Moore
Mr Odling-Smee
Mr Turnbull
Mr Watson
Mr Culpin
Mr Gray
Mr Folger

Ch/
26/27 November may also be better in relation to publication of our Green Paper & the Fowler White Paper (the latter - which may well slip - is now planned for the week beginning 11 Nov i.e. AS week, on our present plans)

KR 23/9

**CONSEQUENCES OF A SLIP IN THE AUTUMN STATEMENT TIMETABLE**

It may be helpful to set down at this stage the consequences of slippage from the present Autumn Statement timetable.

PRESENT TIMETABLE

2. The present planning assumption is that the Autumn Statement will be on Tuesday, 12 November. This is based on the following outline timetable:

| | |
|---|---|
| Thursday 3 October | : Cabinet sets up Star Chamber |
| Monday 14 October | : Star Chamber begins (after Party Conference) |
| Friday 25 October | : Star Chamber completes work |
| 28 October to 1 November | : Prime Minister's trilaterals and preparation of report to Cabinet |
| Thursday 7 November | : Final Cabinet |
| Tuesday 12 November | : Autumn Statement |
| Wednesday 13 November | : Economic Affairs Debate - final day of Queen's Speech debates (on past form - timing in Opposition's hands) |

SLIPPAGE TO 26/27 NOVEMBER

3. If the public expenditure Cabinet slips to 17 October the minimum slippage of the Autumn Statement would be one week - to 19/20 November. But this would be tight, and would anyway mean two big economic occasions in Parliament in two weeks. So it would more likely slip to 26/27 November.

4. We see no difficulties in this - except that it would postpone publication of the Public Expenditure White Paper into February (and the debate on it nearer to the Budget) and could affect the precise timing of the Cable and Wireless sale which is provisionally planned for either the last week of November or the first week of December. Our present view is that, with an Autumn Statement on 26/27 November, the Cable and Wireless sale could go ahead within that fortnight; but if the Autumn Statement were to slip to 3/4 December we would need to consider whether Cable and Wireless could be slipped to early January. You may at some stage think it prudent to authorise PE to have confidential discussions with Schroders about the implications for the prospectus and the timing of the sale (this happened last year with BT, though Cable and Wireless should be easier in that a pathfinder is not planned).

SLIPPAGE AFTER 26/27 NOVEMBER

5. Slippage of the Autumn Statement to the following week - 3/4 December - begins to run into problems on several fronts.

<u>Public Expenditure White Paper and Estimates</u>

6. The PEWP was published in the third week of January this year. This pleased the TCSC and failure to achieve the same timetable in 1986 might attract some criticism. The timetable for PEWP publication assumes that printers' proofs can be received in the Treasury before Christmas and checked in the

Christmas/New Year holiday period. The printers do not themselves work over that week, so if proofs are not received before Christmas, they will not be received until the New Year; proof-reading cannot be done in the holiday week; and an extra week is lost. Thus a three week slippage of the Autumn Statement would result in a four week delay to the PEWP timetable - taking publication into the third week of February. This would be very awkward: much too close to the Budget. It would also put pressure on the Estimates timetable, which assumes their publication on Budget Day.

National Insurance Contributions

7. The Autumn Statement usually includes the decisions which have been reached on employer and employee contibutions to apply from the following April. To meet printing and other deadlines DHSS will need Parliamentary time on or before 13 December, so that the Commons and preferably the Lords procedures may be completed before Christmas. This should be just about possible with an Autumn Statement on 3/4 December. If it were later than this it would be necessary to make the National Insurance announcement separately and ahead of the Autumn Statement.

THREE YEAR EXPENDITURE FIGURES

8. With the additional complication this year of three years' expenditure figures in the Autumn Statement (and the uncertainties associated with the new printing equipment at the Macauley press) we would prefer to have a full six days between the final Cabinet and publication day. On our present timetable we have compressed this to five days (publication on Tuesday 12 November) in order to ensure that the Autumn Statement is published before the Economic Affairs day or the Queen's Speech debate. But, if the date is to slip beyond 12 November we would recommend a Wednesday rather than a Tuesday publication, for safety's sake.

Conclusion

9. If the public expenditure Cabinet slips from 3 October the Autumn Statement is likely to slip to 26/27 November. Such slippage should create no insuperable problems: it could be explained by the Ministerial reshuffle and the inclusion of three years' expenditure figures (the TCSC have already accepted that this may bring about some delay). Slippage beyond this, to 3/4 December should also not be unmanageable. But 3/4 December might disrupt the privatisation programme, and further delay beyond 4 December would be very awkward in relation to the PEWP, and would require separate publication of the national insurance decisions.

10. Over and above all this, the later the Autumn Statement the greater the speculation there will be that the government is experiencing difficulty in agreeing its expenditure plans; and the more prolonged the season of press rumours and leaks.

MCS

M C SCHOLAR

SCORECARD

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CHIEF SECRETARY TO THE TREASURY

FROM: CHIEF SECRETARY
DATE: 23 September 1985

CHANCELLOR OF THE EXCHEQUER

cc: Sir P Middleton
Mr Bailey
Mr Anson
Mr Scholar
Mr Turnbull
Mr Gray
Mr Lord

**PUBLIC EXPENDITURE SURVEY**

There are a number of issues on the conduct of the Survey which I need to discuss with you, and which we in turn will need to discuss with the Prime Minister.

CST to come to your bilateral on Wednesday (part of)

(i) <u>State of Play</u>

2. I have now held bilaterals with most colleagues and have been through the briefing for the rest. I have to report that the position I find is extremely difficult. Attached at Annex A is a "scorecard" of the kind GEP are now producing regularly for me. It shows for each department the bids above baseline being sought; the reductions being sought by the Treasury; and in the middle column our best assessment of where, in the current climate, we might end up.

3. You will see that even after allowing for the increase in asset sales put to the Cabinet and the reduction which comes from rolling forward the Reserve each year, the "forecast outcome" is substantially in excess of the baseline/planning total for all three years. The figures are:

| | | £ billion |
|---|---|---|
| 1986-87 | 1987-88 | 1988-89 |
| 1.4 | 2.3 | 2.4 |

Star Chamber

4. I have had a preliminary discussion with Willie Whitelaw about handling Star Chamber. Two points he impressed on me were the desirability of keeping to a minimum the number of cases going to Star Chamber; and the importance of ensuring that the Star Chamber had the maximum room for manoeuvre - i.e. the Treasury's bids should have plenty in hand to allow them to be reduced in reaching a settlement.

5. In my view, we cannot satisfy both of these conditions. It will be difficult to satisfy either of them. There is a degree of trade-off between them - we can reduce the number of cases for Star Chamber by settling the (relatively) smaller cases; but in so doing we reduce the Star Chamber's room for manoeuvre - and visa versa. But from the limited progress I have so far made in the bilaterals, it is apparent that agreement will not be reached on several major departments. Fairly definite candidates for the Star Chamber are:

I. (i) Defence
(ii) Housing
(iii) DOE other
(iv) Education
(v) Social Security
(vi) ODA NO

II. Less firm but strong candidates are:
(vii) Scotland
(viii) Energy industries
(ix) Home Office

III. Other possibilities are: v. tough : ? PM
(x) DTI
(xi) Health
(xii) Lord Chancellor's Department

6. The table at Annex B regroups the scorecard as it might look at the end of the bilaterals. Departments in categories I and II above are assumed to be disagreed, with the expected opening positions shown separately. These differ slightly from the scorecard as we have assumed that on some programmes, both sides might pare down the bids they present to Star Chamber. Notes on each programme follow the Annex B table. The remaining programmes, including III above, are assumed to be settled during the bilaterals on the basis of the "forecast" entries in the scorecard. Fuller details are again attached to Annex B.

7. The disturbing feature this reveals is that, **even were Star Chamber to decide on the Treasury's opening position in every case, the aggregate so achieved points to the targets being exceeded, by some £415 million in 1986-87, £544 million in 1987-88, and £339 million in 1988-89.** As I understand it, this is a considerably worse position than that faced at this stage in earlier Surveys; last year we were at least able to show the Star Chamber how, with some margin for manoeuvre, the targets could be achieved. This raises major strategic issues for the handling of the rest of the Survey.

Means: MTS target?

See also for Scholar's minute below

Timetable

8. We have been attempting to make sufficient progress in the bilaterals to permit a report back to Cabinet on 3 October. This would permit a discussion on the position reached and produce a remit for Star Chamber. The interval created by the Party Conference would be used to prepare the papers for Star Chamber which could then start work on Monday 14 October. This would be consistent with an Autumn Statement on 12 November.

9. An alternative would be a report back on 17 October. Star Chamber would then not be able to start work until around 22 October. While it might be possible to catch up some of the lost time, it would not be possible to get back to the original date. This means the Autumn Statement would have to slip to 26 November as 19 November would come too soon after the Economic Day in the Queen's Speech Debate. This is just about acceptable, though the publication of the PEWP next year

would get pushed into February and rather close to the Budget. Mr Scholar 's minute of 20 September amplifies these questions of timing.

Report back to Cabinet

10. Which course is followed depends in part upon progress made in the bilaterals, but perhaps more crucially on the manner in which the public expenditure issue is handled in Cabinet. One course is to follow very much the pattern adopted last year. The paper to Cabinet would give a general account of the difficulties. It might show that on the programmes still not agreed excess bids totalled, say £3.3 billion, and that for the planning totals agreed in July by Cabinet to be achieved almost all these bids would need to be rejected. While the paper might list those programmes still not agreed, details on individual bids, and the issues raised by them would not be opened up, nor would the difficulties of the Treasury's position on its bids be displayed.

11. The aim would be to secure a remit to Star Chamber to seek the reductions necessary to get back to the agreed planning totals. Such a course would permit a report on 3 October but its disadvantage is that it could not in practice be expected to deliver the planning totals, for as shown in paragraph 6, there would be an overshoot even if Star Chamber settled all issues heavily in the Treasury's favour. At the end of the day, the most likely outcome would be an excess over the planning total which the Treasury might be able to reduce but not eliminate by offering further asset sales and a reduction in the Reserve. If, for example, the Star Chamber secured outcomes equal to those in the "forecast" column the overshoot would be:

| | | £ billion |
|---|---|---|
| 1986-87 | 1987-88 | 1988-89 |
| 1.4 | 2.3 | 2.4 |

more

An increase in asset sales of £½ billion in 1986-87 and 1987-88, £½ billion off the Reserve in each year and £½ billion on the so far unpublished planning total for 1988-89 would reduce the overruns to:

| | | |
|---|---|---|
| 0.4 | 1.3 | 1.4 |

12. A variant would be to bring the Star Chamber into our confidence from the outset and set them a target allowing for this £1 billion adjustment in each year. But in my judgement, even getting to the adjusted figures above would be a very tough target, as things are now - particularly in 1987-88, but also in the first year, where it would mean finding £0.4 billion more than the Treasury's forecast outcome.

13. This approach (in either version) would avoid a major political argument in Cabinet on 3 October. But to the extent that Star Chamber failed to achieve its target, there would be a significant retreat by the Treasury with, unlike recent years, the conclusion of the Survey being an obvious increase in the planning total (the second in a year), despite a great deal of help from extra asset sales. While it might still be possible to claim that we would be holding to the "broadly constant in real terms" doctrine, using 1985-86 as the base, the weakness of the Treasury position would be very apparent.

14. This is clearly an unsatisfactory prospect and I have considered therefore whether a different approach could produce a better outcome. An alternative would be to use the report back to Cabinet for a major discussion of political issues raised by the bids on the individual programmes:

i) has the time now come to reverse some of the huge real increases in the Defence budget?

ii) Is a major expansion of the housing renewal programme a top priority?

iii) Is Scotland over-provided?

iv) Should the programme to ease prison crowding be halted?

v) Is it politically acceptable to cut, or at least make no increase in, the aid budget?

15. There are a number of other major issues, but in order to avoid overloading the Cabinet discussion it may be best to leave them out. These include the urban programme, legal aid and possibly some nationalised industries (electricity and water).

16. The purpose of such a discussion would be partly to change the prevailing climate to enable the Treasury to be more ambitious in its bids, and partly to give Star Chamber a steer about which programmes could be sharply reduced. There is a risk, however, that such a discussion would open up in Cabinet the fundamental issue of the choice between tax reductions and expenditure increases. The priority being given to tax reductions would be set against political difficulties on 5 or 6 major programmes. It may not make sense to open up the debate in this way merely to reduce the size of the overshoot - a shifting target for expenditure would provide no firm ground on which to hold. But if the reductions required to hold firmly to the expenditure plans are to be achieved, Cabinet will have to agree to harsh measures in these major programme areas.

17. A paper leading to a Cabinet discussion of this kind would need to be rather fuller, setting out the position on the main disputed programmes. It would, however, be necessary to present the figures in a way which did not reveal that even if all the Treasury bids were achieved the totals would still be exceeded. This implies seeking large reductions, beyond those already bid for, in for example the defence, housing, social security and health programmes. In the absence of this sort of discussion in Cabinet Treasury officials have not felt able to recommend options for such reductions. Alternatively, it would be necessary to adopt some procedural tactic, such as taking coal out of the figures for the time being or leaving more programmes open, to ensure the figures did not show the planning totals to be unobtainable. On this approach, it would not be desirable to canvass in advance the various adjustments to asset sales and the Reserve which the Treasury might make. The emphasis would be directly on the imperative of getting back to the planning totals. In drawing up the remit for the Star Chamber, however, I think it would be right - indeed essential for our credibility - for some indication to be given of the Treasury's margin for manoeuvre.

How can you have a real priorities discussion without knowing what's involved.

18. If this second course were followed, the case for a 17 October Cabinet is rather stronger:

i) it would avoid a major confrontation in Cabinet before the Party Conference;

ii) it would allow more time to talk the issues through with the Prime Minister and to garner support among colleagues.

19. We need therefore to consider whether this approach would be likely to achieve a better or a worse outcome. I would welcome the opportunity to go over these issues with you. My view is that we should present the second option (paragraphs 14 - 16 above) to the Prime Minister - not only because the position this year is so serious, but in order to pave the way for next year's Survey which will be of crucial importance.

JM

JOHN MacGREGOR

**SECRET AND PERSONAL**

[mark2-live]

[DATE:20/09/85]

COMPOSITE SCORECARD· £million

EX
ac1
ac2
ac3

| | 1986-87 | | | | 1987-88 | | | | 1988-89 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Baseline | TSY | FORECAST | DEPT | Baseline | TSY | FORECAST | DEPT | Baseline | TSY | FORECAST | DEPT |
| | 999,999 | 999999 | 99999 | 999999 | 999,999 | 999999 | 99999 | 999999 | 999,999 | 999999 | 99999 | 999999 |
| Survey baseline and proposed changes | | | | | | | | | | | | |
| MOD | 18,558 | -198 | 0 | 424 | 18,861 | -402 | 0 | 593 | 19,033 | -396 | 204 | 909 |
| FCO-ODA | 1,296 | -20 | 13 | 80 | 1,317 | -20 | 24 | 124 | 1,350 | -20 | 33 | 155 |
| FCO-OTHER | 603 | 22 | 36 | 36 | 619 | 27 | 39 | 43 | 635 | 47 | 57 | 61 |
| EC | 640 | 60 | 60 | 60 | 830 | 220 | 220 | 220 | 850 | 150 | 150 | 150 |
| IBAP/AFF CAP | 1,277 | -40 | 339 | 359 | 1,304 | -40 | 347 | 367 | 1,337 | -40 | 348 | 368 |
| AFF domestic | 713 | -10 | 0 | 24 | 699 | -10 | 0 | 23 | 717 | -10 | 0 | 24 |
| FORESTRY | 53 | -2 | 0 | 2 | 54 | -2 | 0 | 2 | 56 | -3 | 0 | 2 |
| TRADE/INDUSTRY | 1,162 | -77 | -10 | 42 | 980 | -128 | -20 | 62 | 1,004 | -189 | -80 | 96 |
| ECGD | 78 | 202 | 207 | 214 | -43 | 213 | 220 | 230 | -44 | 121 | 129 | 146 |
| ENERGY | 294 | -8 | 8 | 16 | 293 | -16 | 18 | 28 | 300 | -24 | 20 | 30 |
| EMPLOYMENT (excl SEMPs) | 3,704 | -175 | -75 | 98 | 3,901 | -354 | -35 | 124 | 3,999 | -372 | 30 | 215 |
| TRANSPORT | 1,955 | -57 | 50 | 88 | 1,995 | -70 | 70 | 133 | 2,045 | 80 | 80 | 187 |
| DOE-HOUSING | 2,424 | -81 | 243 | 744 | 2,526 | -312 | 257 | 1058 | 2,589 | -418 | 156 | 957 |
| DOE-PSA | -120 | 0 | 5 | 24 | -128 | 0 | 0 | 24 | -131 | 0 | 0 | 34 |
| DOE-OTHER | 848 | -110 | -15 | 135 | 860 | -99 | 0 | 130 | 882 | -101 | 0 | 128 |
| HOME OFFICE | 1,061 | -40 | 25 | 76 | 1,104 | -68 | 25 | 66 | 1,131 | -63 | 25 | 83 |
| LCD | 574 | -84 | 40 | 60 | 610 | -128 | 60 | 81 | 625 | -171 | 80 | 118 |
| DES | 3,418 | -29 | 35 | 125 | 3,505 | -41 | 35 | 137 | 3,593 | -66 | 24 | 153 |
| OAL | 333 | -11 | 10 | 24 | 342 | -8 | 10 | 34 | 350 | -9 | 10 | 46 |
| HEALTH & PSS | 14,945 | -24 | 250 | 460 | 15,622 | -20 | 300 | 534 | 16,012 | -18 | 600 | 941 |
| SOCIAL SEC. | 41,547 | -590 | 1300 | 1098 | 43,553 | -1011 | 1260 | 1140 | 44,642 | -1449 | 1200 | 1222 |
| CIVIL SUPER. | 1,114 | -20 | 65 | 85 | 1,226 | 0 | 86 | 86 | 1,257 | 0 | 147 | 147 |
| SCOTLAND | 4,300 | -98 | 7 | 13 | 4,373 | -143 | 12 | 23 | 4,482 | -223 | -18 | -3 |
| WALES | 1,708 | -2 | 1 | 3 | 1,735 | -4 | 0 | 4 | 1,779 | -8 | -4 | 1 |
| N. IRELAND | 4,464 | 27 | 52 | 55 | 4,603 | 26 | 76 | 78 | 4,717 | 30 | 105 | 105 |
| Territorial conseq | 0 | 110 | 130 | 380 | 0 | -160 | 150 | 460 | 0 | -190 | 220 | 560 |
| CHANCELLOR'S DEPT | 1,825 | -5 | 170 | 191 | 1,842 | -5 | 170 | 188 | 1,888 | -10 | 150 | 168 |
| OTHER DEPTS | 366 | -6 | 45 | 56 | 396 | -7 | 44 | 53 | 406 | -10 | 45 | 57 |
| LA REL CUR(UK)(ELA) | 26,032 | 601 | 601 | 601 | 26,301 | 600 | 600 | 600 | 26,959 | 500 | 500 | 500 |
| teachers pay | 0 | 228 | 228 | 228 | 0 | 300 | 300 | 300 | 0 | 400 | 400 | 400 |
| NAT IND : IFR | | | | | | | | | | | | |
| EFLs coal | 382 | 408 | 458 | 508 | 392 | 233 | 283 | 333 | 402 | 97 | 147 | 198 |
| non coal | 171 | -158 | -39 | 377 | -207 | -533 | -319 | 79 | -210 | -493 | -283 | 362 |
| RMPS & SRPS(1) | 309 | 194 | 194 | 194 | 318 | -41 | -41 | -41 | 326 | -50 | -50 | -50 |
| BGC,BAA,NBC | -470 | 180 | 270 | 270 | -390 | 390 | 390 | 390 | -400 | 400 | 400 | 400 |
| SPECIAL SALES OF ASSETS | -2,250 | -2250 | -2250 | -2250 | -2,250 | -1250 | -1250 | -1250 | -2,250 | -1250 | -1250 | -1250 |
| RESERVE | 6,000 | -1000 | -1000 | -1000 | 7,000 | -1000 | -1000 | -1000 | 7,000 | 0 | 0 | 0 |
| 3 per cent increase in 1988-89 total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,127 | -1127 | -1127 | -1127 |
| less double counting(2) | -252 | 0 | 0 | 0 | -249 | 0 | 0 | 0 | -258 | 0 | 0 | 0 |
| TOTALS | 139,062 | -3283 | 1453 | 3900 | 143,894 | -3863 | 2321 | 5456 | 148,200 | -5045 | 2448 | 6493 |

jc4

ex
zv

(1) The RMPS and SRPS are considered in the IFR.

(2) DAFS and WOAD baselines £251m, £253m and £260m are included in IBAP/AFF domesti and in Scotland/Wales. Rounding discrepancies of +£1m, +£4m and +£2m are also rectified here.

ex
jc5
++
jc6/
jc7/

03

SECRET AND PERSONAL

**SCORECARD**
20/9/85

## ASSUMED PROGRAMMES IN STAR CHAMBER

£ million

| | 1986-87 | | | 1987-88 | | | 1988-89 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Treasury** | **Forecast** | **Department** | **Treasury** | **Forecast** | **Department** | **Treasury** | **Forecast** | **Department** |
| Defence | -198 | 0 | +200 | -402 | 0 | +400 | -396 | +204 | +600 |
| ODA (excl ATP) | -20 | +5 | +65 | -20 | +4 | +84 | -20 | +4 | +99 |
| Housing | -81 | +243 | +744 | -312 | +257 | +1058 | -418 | +156 | +957 |
| DOE Other | -75 | -15 | +75 | -70 | 0 | +70 | -70 | 0 | +70 |
| Home Office | -20 | +25 | +50 | -35 | +25 | +40 | -30 | +25 | +60 |
| DES | +10 | +35 | +60 | +5 | +35 | +70 | -10 | +24 | +80 |
| Social Security | +1100 | +1300 | +1400 | +900 | +1250 | +1500 | +800 | +1200 | +1600 |
| Scotland | -90 | +7 | +13 | -140 | +12 | +23 | -220 | -18 | -3 |
| Electricity (E&W) | -100 | -85 | +169 | -350 | -280 | -124 | +150 | +250 | +568 |
| Coal | +408 | +458 | +508 | +233 | +283 | +333 | +97 | +147 | +198 |
| Sub-total | +934 | +1973 | +3284 | -191 | +1586 | +3454 | -117 | +1992 | +4229 |
| Assumed outcome on other programmes | +2730 | +2730 | +2730 | +2985 | +2985 | +2985 | +2833 | +2833 | +2833 |
| Asset Sales | -2250 | -2250 | -2250 | -1250 | -1250 | -1250 | -1250 | -1250 | -1250 |
| Reserve | -1000 | -1000 | -1000 | -1000 | -1000 | -1000 | - | - | - |
| 3% Uplift | - | - | - | - | - | - | -1127 | -1127 | -1127 |
| Net Change | +414 | +1453 | +2764 | +544 | +2321 | +4189 | +339 | +2448 | +4685 |

034/71

SCORECARD

SECRET AND PERSONAL

PROGRAMMES ASSUMED TO BE SETTLED IN BILATERALS

| | | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|---|
| | | | | £ million |
| 1. | **ODA - ATP only** | +8 | +20 | +29 |

Assumed net addition equal to half the ATP bids.

| | | | | |
|---|---|---|---|---|
| 2. | **FCO - Other** | +36 | +39 | +57 |

Overseas risen costs plus minor concession on BBC External. Virtually now settled.

| | | | | |
|---|---|---|---|---|
| 3. | **EC Contribution** | +60 | +220 | +150 |

Revised forecast in early October; danger of further increase.

| | | | | |
|---|---|---|---|---|
| 4. | **IBAP** | +339 | +347 | +348 |

Demand-led increases offset by £20 million policy savings. Estimates subject to revision.

| | | | | |
|---|---|---|---|---|
| 5. | **Domestic Agriculture** | 0 | 0 | 0 |

Assumed package deal, but difficult issues still to resolve. Payments to hill farmers the most difficult issue.

| | | | | |
|---|---|---|---|---|
| 6. | **Forestry** | 0 | 0 | 0 |

Assumed baseline deal.

| | | | | |
|---|---|---|---|---|
| 7. | **DTI** | -10 | -20 | -80 |

Another assumed package deal which will require a contribution from industrial R&D. First bilateral still to take place.

**SECRET AND PERSONAL**

| | | | | |
|---|---|---|---|---|
| 8. | **ECGD** | +207 | +220 | +129 |

Demand-led increase from higher interest rates, with small assumed policy offsets.

| | | | | |
|---|---|---|---|---|
| 9. | **Energy** | +8 | +18 | +20 |

Unavoidable increase for AEA switch to Trading Fund (PSBR neutral) partly offset by assumed savings on fast reactor.

| | | | | |
|---|---|---|---|---|
| 10. | **Employment** | -75 | -35 | +30 |

Complex assumed package of reduced requirements, agreed additions - YTS in 1988-89, running costs etc - and option savings on maternity fund and full time JRS. Assumes **no** savings on redundancy fund; if achieved that would yield £200 million in 1987-88 and 1988-89.

| | | | | |
|---|---|---|---|---|
| 11. | **Transport** | +50 | +70 | +80 |

Assumed package involving conceding about 60% of roads bids. If legislative slot can be found prospect of extra £40 million pa savings from EFL treatment of LA transport undertakings.

| | | | | |
|---|---|---|---|---|
| 12. | **PSA** | +5 | 0 | 0 |

Small sweetener assumed for 1986-87.

| | | | | |
|---|---|---|---|---|
| 13. | **LCD** | +40 | +60 | +80 |

First bilateral yet to take place. Assumes small savings as partial offset to demand-led bids, but no prospect of major policy savings this year. Hope to get Cabinet endorsement for a review of legal aid controls/coverage.

| | | | | |
|---|---|---|---|---|
| 14. | **OAL** | +10 | +10 | +10 |

First bilateral yet to take place. Net increase assumed to reflect unavoidable bids on British Library and GLC abolition costs.

SECRET AND PERSONAL

| | | | | |
|---|---|---|---|---|
| 15. | **Health** | +250 | +300 | +600 |

First bilateral yet to take place. A possible Star Chamber candidate, but settlement assumed on the basis of up to £100 million pa extra (more in 1988-89) for HCHS and demand-led additions for FPS.

| | | | | |
|---|---|---|---|---|
| 16. | **Superannuation** | +65 | +86 | +147 |

Demand-led increase plus unwinding of last PEWP "adjustments".

| | | | | |
|---|---|---|---|---|
| 17. | **Wales** | +1 | 0 | -4 |

Small net adjustments on non-block.

| | | | | |
|---|---|---|---|---|
| 18. | **Northern Ireland** | +52 | +76 | +105 |

First bilateral yet to take place. Demand-led increases on social security and interest rates (housing). No block savings assumed.

| | | | | |
|---|---|---|---|---|
| 19. | **Territorial formula consequentials** | +130 | +150 | +220 |

Rough assessment of net impact of forecast outcome on all other programmes (including those going to Star Chamber).

| | | | | |
|---|---|---|---|---|
| 20. | **Chancellor's Departments** | +170 | +170 | +150 |

Assumed additions on IR and C&E, plus higher MIRAS/LAPR estimates and estimating increase on RGPD.

| | | | | |
|---|---|---|---|---|
| 21. | **Other Departments** | +45 | +44 | +45 |

Mainly Crown Prosecution Service plus assorted running cost additions.

| | | | | |
|---|---|---|---|---|
| 22. | **LA current** | +829 | +900 | +900 |

UK figures. Assumes additions for later years roughly in line with E(LA) settlement for 1986-87, plus provision for extra teachers' pay assumed to be agreed.

**SECRET AND PERSONAL**

| | | | | |
|---|---|---|---|---|
| 23. | **Nationalised industries (incl RMPS)** | +240 | -80 | -583 |

Coal and electricity assumed to go to Star Chamber. Transport industries now settled and others assumed to settle broadly consistent with achievement of E(A) target (assuming acceptable outcome on electricity).

| | | | | |
|---|---|---|---|---|
| 24. | **BGC, BAA, NBC** | +270 | +390 | +400 |

Loss of BGC negative EFL post-privatisation. Part year effect in 1986-87.

SCORECARD

**SECRET AND PERSONAL**

**PROGRAMMES ASSUMED IN STAR CHAMBER**

1. **Defence**

Treasury figures unchanged from opening position. Department bids assumed to be scaled down. Forecast outcome at baseline except for Falkland costs in 1988-89.

2. **ODA (excl ATP)**

No change in opposing opening positions. Basic aid argument forecast to be settled at baseline, with small additions for minor bids.

3. **Housing**

Opening positions assumed to be held (Treasury having conceded irresistible interest rate bid). Forecast outcome equals interest rate effect plus net addition of £100 million pa for LA renovation.

4. **DOE Other**

Opposing positions assumed to be scaled down a bit from opening bids. Forecast outcome assumes £15 million savings in 1986-87 from household survey, and baseline for later years.

5. **Home Office**

Opposing positions scaled down from opening positions. Forecast outcome of +£25 million pa on basis of package deal (includes £16 million for emergency telecommunications in effect transferred from DTI programme).

6. **DES**

Assumes opposing opening positions are scaled down. Forecast outcome provides for "switch", estimating increase on student awards and small increase for science.

SECRET AND PERSONAL

7. **Social Security**

Assumes Treasury position is acceptance of demand-led bids and concession on admin bids; but scoring in full of earlier "agreed" savings from Reviews, uprating cycle etc **plus** further options package rising to £600 million in 1988-89. DHSS position assumed to be resisting further options but accepting that uprating savings **additional** to Reviews package (so their figures could be higher). Forecast outcome assumes small further options but also includes allowance for small (about £150 million) further estimating increases.

8. **Scotland**

Key issues is visible savings on block. Forecast outcome assumes these are not achieved.

9. **Electricity (E&W)**

Both sides assumed to hold to opening positions. Forecast outcome assumes substantial Treasury success.

10. **Coal**

All figures are based on the "guesstimates" made before the holidays.

SEM

(P) Soc Sec Reviews
Survey folder

**CONFIDENTIAL**
Covering Secret

**FROM: M T FOLGER**
**DATE: 26 SEPTEMBER 1985**

**MR BROADBENT**

cc Mrs Lomax
Sir Peter Middleton
Mr Bailey
Mr Anson
Mr Scholar
Mr Turnbull
Mr Watson
Miss Noble
Mr P Hall
B38

**SOCIAL SECURITY REVIEWS AND THE SURVEY**

I attach, as you requested this morning, a factual background note to be sent to No 10 explaining the position as we see it. I have tried to keep it deadpan and not go too far over the top, for example, on the £118m at stake for 1986-87 where Mr Fowler's case may be less weak than it is on other points.

2. A draft covering letter for your signature is also attached.

MTF

**M T FOLGER**

DSSR.
Am losing track of ~~face~~ this.

JB

CONFIDENTIAL
Covering Secret

**DRAFT LETTER FOR PRIVATE SECRETARY SIGNATURE**

Write to:
D Norgrove Esq
10 Downing Street
LONDON SW1

**SOCIAL SECURITY REVIEWS AND THE SURVEY**

Following the Chief Secretary's talk last night with the Prime Minister, I attach as agreed a background note on the position as seen from here.

2. I apologise for its length, but it is intended to be self-contained. The picture is a complicated one and we have tried to report Mr Fowler's position fairly.

R BROADBENT

2087/25

# 1985 PESC: SOCIAL SECURITY

Commentary on key aspects as at 24 September 1985

(All figures are £m cash and based on DHSS estimates liable to adjustment)

## Review Savings

1. Following the spring meetings of MISC 111, and Cabinet discussions in early May of the Review conclusions, Mr Fowler agreed to deliver PSBR savings of 800 in 1987-88 and 1000 in 1988-89 through "structural" changes in social security. (A large slice of these savings would take the form of reduced help, through Housing Benefit, with claimants rates. This amounts to a lower rebate of a tax - ie less revenue foregone - rather than reduced government spending.)

2. Subsequently, in discussions concluded by a meeting chaired by the Prime Minister on 22 May, Mr Fowler was asked to deliver savings of at least 150 in 1986-87, by early implementation of Review measures from the July 1986 uprating date. (As the 150 was decided in the context of other public expenditure savings foregone (see para 6) it too was implicitly to be delivered in p.e. terms. But this was not specifically decided.)

3. So, noting the uncertainty over the definition of the 1986-87 figure, the PSBR savings to be secured from the Reviews, in the light of decisions since April are:

| 1986-87 | 1987-88 | 1988-89 |
|---|---|---|
| at least 150 | 800 | 1000 |

A 23 May letter from Mr Fowler's office explained the kind of measures he had in mind to deliver savings of at least 150 in 1986-87. No details were given of the measures to be taken to deliver the 800 and 1000.

## Savings from changing timing of upratings

4. The Prime Minister's meeting of 22 May agreed that, despite the big public expenditure savings available (£570m in 1986-87) if there were no uprating of benefits between November 1985 and April 1987, there should be an interim uprating effective in July 1986. This yields smaller savings (and it was in this context that Mr Fowler was asked to bring forward some Review measures to secure savings of at least £150m in 1986-87).

5. The public expenditure savings estimated to flow from breaking step to April upratings via a July 1986 interim uprating are highly uncertain. They depend crucially on the seasonal pattern of increases in the RPI, which cannot be

precisely predicted. They are currently estimated as follows:

| 1986-87 | 1987-88 | 1988-89 |
|---|---|---|
| 164 | 285 | 305 |

1984 PESC measures

6. In MISC 106 discussions in the autumn of 1984, Mr Fowler agreed to find a package of measures which would deliver total savings rising from 218 in 1985-86 to 735 in 1987-88. In a 25 October 1984 letter to the Lord President, he said one source of these savings would be:

> "...measures of which the details will have to be settled later in the light of the priorities which emerge from my programme of reviews. The precise amount to be found "on account" will depend on what I can get from [elsewhere]."

7. The package of measures eventually adopted to deliver the PESC 1984 targets was a wide ranging one, which included some measures (eg the June 1985 announcement of an uprating of Child Benefit to only £7 from November 1985) consistent with the priorities emerging from the Reviews. Except for a last minute (14 June) decision to announce that the Housing Benefit rates taper was to rise from 9 to 13 per cent, the measures were however quite different from those indicated in the 23 May letter from Mr Fowler's Office as the possibilities he had under consideration to secure, subsequently, the saving of at least 150 in 1986-87.

"Excess" savings emerging from 1984 PESC

8. The measures adopted to meet 1984 PESC decisions yielded "excess" savings in 1986-87 and later years. (The measures had to deliver the required 1985-86 savings but were implemented only part way through that year and so had a bigger effect in a full year.) The amounts concerned are:

| 1986-87 | 1987-88 | 1988-89 |
|---|---|---|
| 118 | 150 | 171 |

9. The figures for the later years reflect almost entirely savings flowing from the decision to hold the November 1985 Child Benefit uprating to only £7. Treasury and DHSS Ministers agreed that for those years the extra savings should be set against the expected extra cost of Family Credit (see para 11 below for current figuring on this).

10. As for the 118 in 1986-87, the then Chief Secretary wrote to Mr Fowler on 13 June explaining that he proposed to credit this sum against the big additional

bids already emerging on the social security programme for that year. (The Prime Minister's 22 May meeting had been told that these were already over £1 billion.)

**Financing the Family Credit scheme**

11. In the spring the additional cost of the Family Credit scheme (over and above FIS which it replaces) was costed at 135 in 1987-88 and 140 in 1988-89. But Mr Fowler now reportedly seeks 205 and 210. So, compared with the excess savings which arose from 1984 PESC, a net additional public expenditure cost arises in each year:

| | 1987-88 | 1988-89 |
|---|---|---|
| cost of Family Credit | 205 | 210 |
| 1984 excess savings | -150 | -171 |
| net additional cost arising | 55 | 39 |

**Mr Fowler's position**

12. Mr Fowler's position seems to be broadly as follows:

(i) the estimating savings arising from changing the timing of upratings should properly be regarded as structural changes in the system resulting from the Reviews. They should thus score, in 1987-88 and 1988-89 at least, as part of the Review savings of 800 and 1000 rather than as <u>additional</u> to those figures.

(ii) things done to achieve the 1984 PESC targets which he regards as having been within the spirit of the Reviews should similarly be reckoned towards his Review savings targets. Mr Fowler suggests that 184 and 190 of the due savings can be accounted for in this way.

(iii) for 1986-87, the 118 of "excess savings" from 1984 PESC should now be regarded as accounting for all but 32 of the further 150 which he was asked to find on 22 May through early implementation of Review measures.

**Treasury position**

13. The Treasury does not accept Mr Fowler's approach on any of these three issues:

(i) the 1987-88 and 1988-89 uprating timing savings reflect decisions taken well after Cabinet endorsed the 800 and 1000 savings to be secured through Review measures. (They are, moreover, highly uncertain, depending on the exact month by month profile of the RPI.) So they should be secured in addition to the Review savings. Mr Fowler has already accepted in correspondence that this is the position for the 1986-87 timing savings.

(ii) the effects of measures adopted to meet 1984 PESC targets were reflected in the Cmnd 9428 social security figures, published well before Ministerial discussion of the Reviews. And the reasonable commonsense interpretation is that the savings decisions apply from the Cmnd 9428 figures (ie the 1985 Survey baseline).

(iii) as Mr Rees made clear in June, the reasonable way to treat the 118 of 1986-87 excess savings from 1984 PESC is as a partial (but relatively very small) offset to the big demand-determined bids on social security. The 150 of additional savings agreed on 22 May is an entirely separate issue (as the 23 May letter from Mr Fowler's Office seemed to recognise).

In addition:

(iv) the Treasury believes that any significant additional net cost now sought on Family Credit (para 11 above) should be brought into the Review arithmetic.

14. There are several smaller issues on the Survey and Review figuring not yet settled. (For example, Mr Fowler seeks to score certain administrative savings, emerging from some individual Review measures, towards the 800 and 1000. But this is not acceptable when substantial bids for temporary additions to administrative costs are expected.)

15. Overall, the Treasury view is that the main adjustments necessary to remove overstatements from Mr Fowler's Review arithmetic are:

| | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|
| savings from changing uprating timing wrongly scored | | 285 | 305 |
| 1984 PESC measures already in Survey baseline | | 184 | 190 |
| 1986-87 excess savings to be set against demand determined bids | 118 | | |
| measures needed to offset cost of Family Credit | | 55 | 39 |
| totals | 118 | 524 | 534 |

16. On this basis, and taking account of some other adjustments, the Treasury assesses the true savings which Mr Fowler is offering under the Reviews as:

| (savings = -) | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|
| public spending | -32 | +135 | +29 |
| PSBR | -32 | -290 | -411 |
| compared with agreed targets for PSBR savings of: | -150 ("at least") | -800 | -1000 |

So, in round terms, the PSBR savings fall short of those due by over 100 in 1986-87, 500 in 1987-88 and nearly 600 in 1988-89.

19. The reasons for not delivering the full Review savings seem to lie largely in higher rates of benefit envisaged for income support (particularly for the elderly) and more generous arrangements for Family Credit.

## Survey position

20. The total bids for extra social security spending are currently estimated at:

| 1986-87 | 1987-88 | 1988-89 |
|---|---|---|
| 1525 | 1740 | 2060 |

These figures are net of expected benefit savings (rising to 30 a year) from deployment of extra anti-fraud staff. They allow for certain additional running costs bids, agreed by the Treasury.

21. Additional demand-determined estimating increases could emerge before the Autumn Statement. And substantial further bids on running costs, for a temporary increase to secure successful implementation of the Reviews from 1987, are expected.

22. On the basis of Mr Fowler's present position on Review and other savings, the net over-runs on the social security programme would be:

excess over baseline, £ billions

| 1986-87 | 1987-88 | 1988-89 |
|---|---|---|
| 1.2 | 1.6 | 1.8 |

23. Even after securing the Review and other agreed prior savings in full the over-runs would be:

| | | |
|---|---|---|
| 1.085 | 1.094 | 1.192 |

The Chief Secretary is seeking option cuts rising from .15 in 1986-87, to .35 in 1987-88, and to .55 in 1988-89.

ST1
233 3932
H M TREASURY
28 September 1985

1779/023

CONFIDENTIAL

From: R.B. SAUNDERS

Date: 2 October 1985

1. MR PERETZ
2. CHANCELLOR

cc
Financial Secretary
Economic Secretary
Sir P. Middleton
Mr Cassell
Mr Evans
Mr Peretz
Mr Scholar
Mr Hall
Miss Peirson
Miss Sinclair
Mr Cropper

Mr Battishill )
Mr Beighton ) Inland Revenue
Mr Corlett )
Mr Munro )

Mr Bridgeman ) RFS
Mr Devlin )

SMOOTHING THE PSBR : BUILDING SOCIETIES CT

At your meeting on 13 September, you asked for a note about the likelihood of our having to make a concession on the timing of CT payments by building societies, at a first year PSBR cost of some £½ billion.

2. This is not a point which has been much pressed by the BSA until recently. It follows the series of moves over the last couple of years that have brought the taxation of banks and building societies more closely into line: the treatment of the societies' gilts trading; the CT measures in the 1984 Budget; the introduction of composite rate tax for banks; and the moving of building society composite rate onto a quarterly payment basis. On the last, the BSA have been sent draft regulations, which it is hoped to lay in the autumn. Although this was part of a package which included

a number of changes welcomed by societies, the BSA have been unhappy about the transitional arrangements, which deal with the differing impact of the new system on societies with different accounting periods and may well seek to resist them. Mr Richard Wainwright MP has recently taken up their case with the Economic Secretary. The Revenue advice has been that Ministers should maintain their line that the transitional arrangements are already sufficiently generous.

3. The BSA may well however decide to press for a delay in their CT payment date, as a pretty obvious quid pro quo for their reservations on composite rate tax. This is the main outstanding difference between banks and building societies in tax terms. As Mr Beighton's minute of 18 July indicated, their case is a difficult one to meet. Moreover, we have been making a virtue in other contexts of greater parity between bank and building society taxation.

4. On the other hand, £½ billion is an awful lot of revenue. We have given building societies a great deal of what they want in the last couple of years - the package on quarterly payment of composite rate tax also contains measures enabling them to pay interest gross to non-residents and on Eurobonds, for instance. And the new Bill will give them a lot more. If we wanted to stand pat, we could try to argue that there remain differences in the CT treatment of different institutions for historical reasons, although the Revenue warn that this is not terribly convincing. The differences we could point to are those between pre- and post-1965 companies and between pre-1965 investment companies and trading companies. The continuing difference between pre-1965 building societies and companies could be presented as just another example. The decision not to change the payment dates of CT may make it easier to present this sort of argument.

5. On balance, therefore, we may be able to hold the present position for the moment. But our case is not an especially good one, and it remains to be seen how hard the BSA - who can be very effective lobbyists - decide to push it. If they do mount a strong campaign, we should need to respond vigorously, pointing out how

much the societies have gained from recent and planned legislation, and that the CT payment dates for companies are not uniform.

6. A small postscript on conversion to company status. To the extent that societies turn themselves into companies, the revenue loss will occur anyway. But the proposals put to you by the Economic Secretary will make conversion a relatively difficult option for any society. So there is unlikely to be significant revenue loss by this route, and certainly not in the early years after the new legislation.

R.B. SAUNDERS

16/2074

CONFIDENTIAL

FROM: R DEVEREUX
DATE: 2 October 1985

1. MISS PEIRSON
2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr H P Evans
Mr Peretz
Mr Scholar
Mr Watts
Dr I Webb

**CGBR IN SEPTEMBER**

The preliminary estimate of the CGBR in September is £1.6 billion, bringing the cumulative total since 1 April 1985 to £7.5 billion. Within this, the CGBR(O) is estimated to have been £0.7 billion in September and £5.3 billion since 1 April 1985. These figures are not yet firm and may change with later information before publication on 16 October in the monthly press notice on the PSBR.

2. The CGBR(O) outturn for September is £0.1 billion higher than forecast last month, due mainly to a lower surplus on the National Insurance Fund. Inland Revenue receipts and Customs and Excise receipts were as forecast.

3. The cumulative CGBR(O) since 1 April 1985 is £0.2 billion lower than forecast in the Budget profile. Lower Inland Revenue receipts (by £0.9 billion mainly because of lower oil revenue), are more than offset by lower supply expenditure (by around £0.7 billion, partly owing to differences of timing) and higher Customs and Excise receipts (by £0.3 billion).

4. Net on-lending to Local Authorities in September was £0.2 billion higher than forecast due to a fall in PWLB interest rates in the last few days of September.

5. Further analysis of the outturn in September, together with forecasts for the next three months, will be given in the next Ministerial note on the PSBR in two weeks' time.

R J DEVEREUX

CENTRAL GOVERNMENT TRANSACTIONS (2)

£ billion

| | Inland Revenue | Customs & Excise | Other own account | CGBR(O) | Net Lending LAs | Net Lending PCs | CGBR |
|---|---|---|---|---|---|---|---|
| 1st April 1985 - 30 September 1985 | | | | | | | |
| Outturn (1) | +23.5 | +17.7 | -46.6 | - 5.3 | - 2.0 | - 0.2 | - 7.5 |
| Budget profile | +24.4 | +17.4 | -47.3 | - 5.5 | - 0.7 | - 0.1 | - 6.4 |
| Difference | - 0.9 | + 0.3 | + 0.8 | + 0.2 | - 1.3 | - 0.1 | - 1.2 |
| 1st April 1984 - 30 September 1984 | +21.4 | +15.9 | -43.8 | - 6.4 | - 0.7 | - 0.1 | - 7.2 |
| Calendar September 1985 | | | | | | | |
| Outturn (1) | + 4.3 | + 2.6 | - 7.6 | - 0.7 | - 0.4 | - 0.5 | - 1.6 |
| Last month's forecast | + 4.3 | + 2.7 | - 7.6 | - 0.6 | - 0.1 | - 0.5 | - 1.2 |
| Difference | - | - | - 0.1 | - 0.1 | - 0.2 | - 0.1 | - 0.4 |

(1) Preliminary estimate, subject to revision

(2) + indicates a receipt, net receipt, or difference which reduces the CGBR

- indicates a payment, net payment, or difference which increases the CGBR

CONFIDENTIAL

From: D L C PERETZ

Date: 3 October 1985

CHANCELLOR

Good. Let us concentrate on para 3, & hope for the best. N.

C

This answers one of two requests made at your 13/9 mtg. X is encouraging on the other issue though the details may well be tricky.

R 11/10

c Financial Secretary
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Evans
Mr Scholar
Mr Hall
Mr Walsh
Miss Peirson
Miss Sinclair
Mr Saunders
Mr Wood
Mr Cropper
Mr Battishill ) IR
Mr Beighton )
Mr Corlett )
Mr Munro )
Mr Bridgeman ) RFS
Mr Devlin )

SMOOTHING THE PSBR

The attached note by Mr Saunders (which is agreed with the Inland Revenue) tries to answer the first question you asked at your meeting on 13 September: how confident are we of being able to resist pressure from Building Societies to have the timing of their CT payments brought into line with companies. The first year PSBR cost would be £½bn.

2. I think the answer is that we are not facing strong pressure at present, but that we could well do so in future. The societies are good lobbyists and have a good case. Even so I think we could hold out for some time - several years - even if pressure did begin to mount, so long as we do not give the Societies the extra handle of a more general change in timing of CT payments.

3. It is going to take a little while to come back on the other remit for the meeting of 13 September - the idea of replacing certificates of tax deposit with a scheme for discounts on early payment of tax. But we have now had a first look at the various issues, and I am not unhopeful that we will be able to come up with something that will both be more effective than CTDs at smoothing

financial flows; and (this is of course largely a definitional point) smooth the PSBR itself, rather than its financing . But there are quite a lot of problems to be tackled, and we cannot by any means yet see our way through all of them.

DLCP

D L C PERETZ

RR7.53

SECRET

PEM

Sir P

FROM: MRS R LOMAX
DATE: 7 October 1985

cc Sir P Middleton
Mr Bailey
Mr Anson
Mr Byatt
Mr Scholar
Mr Turnbull
Mr Watson
Mr Folger
Miss Noble
Mr P Hall

P

PS/CHIEF SECRETARY

**SOCIAL SECURITY REVIEWS AND 1985 SURVEY:**
**MR FOWLER'S 2 OCTOBER PACKAGE**

The Chancellor has seen Mr Folger's note of 4 October.

2. He has asked what is implied for future upratings of child benefit. The benefit will rise to £7 in November 1985; the Chancellor assumes it stays at £7 in July 1986 and he had hoped that it would still stay at £7 in April 1987, with the simultaneous introduction of family credit. Now that family credit is to be postponed until April 1988 the Chancellor foresees considerable pressure for a full scale child benefit uprating in April 1987. But he sees no need to concede this now.

RL.

RACHEL LOMAX

42

pmsp

29/581

CONFIDENTIAL AND PERSONAL

FROM: MISS M E PEIRSON
DATE: 9 October 1985

1. MR CASSELL ✓ Not a helpful out-turn. C. 9/10
2. CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Peretz
Mr Scholar
Mr Devereux
Dr I Webb
Mr Wells - CSO

**PSBR IN SEPTEMBER**

1. The first provisional outturn for the PSBR in September is £1.3 billion. This is £0.5 billion higher than last month's forecast (see table attached), and also about £½ billion above market expectations, which range between £¼ billion and just over £1 billion (average £¾ billion). Our estimate is subject to revision before publication on Wednesday 16 October.

2. The CGBR(O) in September was provisionally £0.5 billion, £0.2 billion lower than reported in Mr Devereux's minute of 2 October and £0.1 billion lower than last month's forecast. The LABR was provisionally £0.2 billion, £0.2 billion higher than forecast. The PCBR, at £0.6 billion, was £0.4 billion higher than forecast: £0.2 billion of the difference is accounted for by timing, ie delay in repayment of temporary NLF borrowing by the British Steel Corporation.

3. In the first 6 months of 1985-86 the PSBR was £5.6 billion, £0.3 billion above the Budget profile; the overshoot is more than accounted for by the LABR. We had anyway been expecting the undershoot in the first 5 months to be more or less wiped out in September, because of the shortfall in PRT.

4. The monthly note, presenting updated estimates for September and revised forecasts for October-December, will be circulated next Tuesday.

MEP

MISS M E PEIRSON

CONFIDENTIAL & PERSONAL

£ billion

| | September 1985 | | | April-September 1985 | | | April-September 1984 |
|---|---|---|---|---|---|---|---|
| | Provisional outturn | Last month's forecast | Difference | Provisional outturn | Budget profile | Difference | Outturn |
| CGBR(O) | 0.5 | 0.6 | - 0.1 | 5.1 | 5.5 | - 0.4 | 6.4 |
| LABR | 0.2 | - | 0.2 | 1.2 | 0.5 | 0.6 | 1.2 |
| PCBR | 0.6 | 0.2 | 0.4 | - 0.6 | - 0.7 | 0.1 | - 0.3 |
| PSBR | 1.3 | 0.8 | 0.5 | 5.6 | 5.3 | 0.3 | 7.4 |

CONFIDENTIAL & PERSONAL

13

SECRET

From: K F MURPHY

Date: 9 October 1985

MR FOLGER

cc Mr Bailey
Mr Anson
Mr Byatt
Mr Watson
Miss Noble
Mr P Hall

**OCTOBER FORECAST AND MR FOWLER'S PACKAGE**

Sir Peter Middleton has seen your minute to him of 7 October. He is content for you and Miss Noble to brief Miss Peirson as you suggested.

P See ku. blue folder.

KFM

K F MURPHY
Private Secretary

done

Note spoke Folger. He is copying PP on SERPS to King.

Mr Murphy

I think it would also be sensible if Mr Kemp is kept in touch in writing, and not just orally (see below). I assume this is all right?

A
9/10

34/38

SECRET

2087/37

I am sure this is right. Para 4 is now sufficiently in the papers to be harmless at the level of detail proposed. Para 3 will be safe if we deal in figures rather than words.

FROM: M T FOLGER
DATE: 7 October 1985

1. MR ~~WATSON~~
2. SIR PETER MIDDLETON

cc Mr Bailey
Mr Anson
Mr Byatt
Miss Noble
Mr P Hall
R44
B38

8/10.

OCTOBER FORECAST AND MR FOWLER'S PACKAGE

We have kept knowledge of Mr Fowler's changes of heart on SERPs and on income-related benefits to a tight circle on the public expenditure side, together with yourself, Mr Byatt and Mr Kemp (who has been kept in touch orally).

2. But circulation of the draft forecast report on public spending (Miss Peirson's note of 4 October, not to all) highlights the need now to put others in the picture to the extent necessary, on a "need to know" basis.

3. Miss Peirson of PSF needs to be apprised of our current best guess of the Survey outcome on income-related benefits, in the light of Mr Fowler's 2 October package. She will already have the broad picture via the latest GEP position report, from which the shift of savings between years is apparent. But we should like authority to provide her (but no others in PSF) with such other details as she may need (eg the split between national insurance and other benefits).

4. On SERPs, Miss Peirson is well aware from the newspapers that there is a large question mark over the Green Paper pension proposals and hence over the three year transitional changes to NICs planned to start in April 1987. PSF have been allowing for the PE and PSBR costs of the original proposals on the basis of the original costings DHSS provided in May (about £100m in 1987-88 and £300m in 1988-89 on both PE and the PSBR). These costings were always subject to revision, not least because a number of key decisions had still to be taken and Miss Peirson's report should say that. Depending on how SERPs is modified, there may still be some consequential changes to NICs, but we do not expect a significant impact on either PE or the PSBR within the period of the forecast. We cannot, however, reveal that generally at this stage. We think, therefore, that the simplest solution would be for Miss Peirson to leave the forecast as

296/36

173/176

it is, broadly consistent with the Green Paper but to note in her report what effect the assumptions on SERPs have made on the key variables.

5. We understand EA have not attempted to model the labour market consequences of the proposals, so there is no need to brief Mr Evans.

6. Are you content for me and Miss Noble to brief Miss Peirson as suggested at paragraphs 3 and 4, please?

Diane Smith

pp. M T FOLGER

CONFIDENTIAL

FROM: P WYNN OWEN
DATE: 14 October 1985

MR PERETZ

cc PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Evans
Mr Scholar
Mr Hall
Mr Walsh
Miss Peirson
Miss Sinclair
Mr Saunders
Mr Wood
Mr Cropper
PS/IR
Mr Bridgeman (RFS)

**SMOOTHING THE PSBR**

The Chancellor has seen and was most grateful for your minute of 3 October. He would now be grateful if you could concentrate on pursuing paragraph 3 of that minute, about which he is hopeful.

Rwo.

P WYNN OWEN

SECRET

CHIEF SECRETARY

FROM: P J CROPPER
DATE: 15 October 1985

cc Sir T Burns
Sir P Middleton
Mr Bailey
Mr Anson
Mr Byatt
Mr Kemp
Mr Scholar
Mr Watson
Mr Folger
Miss Noble

**MISC 111 : PENSIONS**

This is the note I did for the Chancellor ahead of yesterday's meeting. It was really written as an agenda note for him.

P J CROPPER

40

SECRET

CHANCELLOR

FROM: P J CROPPER
DATE: 14 October 1985

<u>MISC 111 BRIEFING MEETING</u>

Further reflecting over the weekend, and reading Miss Noble's brief of 11 October, I am even more convinced that we must hasten slowly on pension reform.

2. If you agree, the question is how to force a delay without appearing just to spoil.

3. The areas that seem to <u>me</u> to be highly controversial are:

1. <u>Allowing money purchase schemes to contract out, while imposing a 5% inflation proofing provision on schemes in general</u>.

   Surely a money purchase scheme is incapable of bearing an obligation of this sort: the value of its assets at any particular moment depends on the market, and by definition it will not have reserves to draw on if the market (or the fund's particular investments) go for a Burton.

2. <u>Allowing some employers to downgrade their pension funds to a money purchase basis while retaining the final salary basis in the public sector</u>. Surely calculated to cause aggro.

3. <u>Giving all employees the right to opt for a contracted out personal pension</u>. Apart from the "Heseltine" situation, we have the more general problem that

the right to opt out is hollow unless the terms are regulated. At present there is a conspiracy between employers and actuaries to load the dice against both early leavers and "opters out". The legislation would have to specify the terms of the option, and this would be highly complex. (NB. I note that the amount DHSS would pay into the personal pension would be age-related. This is a new departure.)

P J CROPPER

50/581

15/10/85

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

COVERING CONFIDENTIAL & PERSONAL

David Norgrove Esq
10 Downing Street.

Dear David

**MONTHLY NOTE ON PUBLIC SECTOR BORROWING**

I enclose this month's note on the PSBR.

The press notice giving the outturn figures for September will be published at 2.30 pm tomorrow, 16 October.

Yours sincerely

Rachel Lomax

RACHEL LOMAX
PRINCIPAL PRIVATE SECRETARY

**PUBLIC SECTOR BORROWING**


Summary

- The PSBR for September is provisionally estimated at £1.3 billion, £0.5 billion higher than last month's forecast. Public corporations borrowed £0.4 billion more than forecast, while local authorities borrowed £0.2 billion more than forecast.

- Borrowing in the first six months of 1985-86 (£5.6 billion) was £0.3 billion higher than the Budget profile (Chart 1). Higher local authority borrowing was partly offset by lower central government borrowing (mainly due to lower supply expenditure).

- The PSBR is forecast at £4 billion over the next three months, £½ billion higher than in the Budget profile (more than accounted for by lower Inland Revenue receipts).

- The forecast for the first nine months of 1985-86 as a whole is therefore £9¾ billion, £¾ billion above the Budget profile, mainly because of higher local authority borrowing. Central government own-account borrowing is forecast in line with the Budget profile, lower supply expenditure offsetting lower Inland Revenue receipts.


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Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

## Chart 1 : Comparisons with Budget profiles for 1985-86

£ billion cumulative

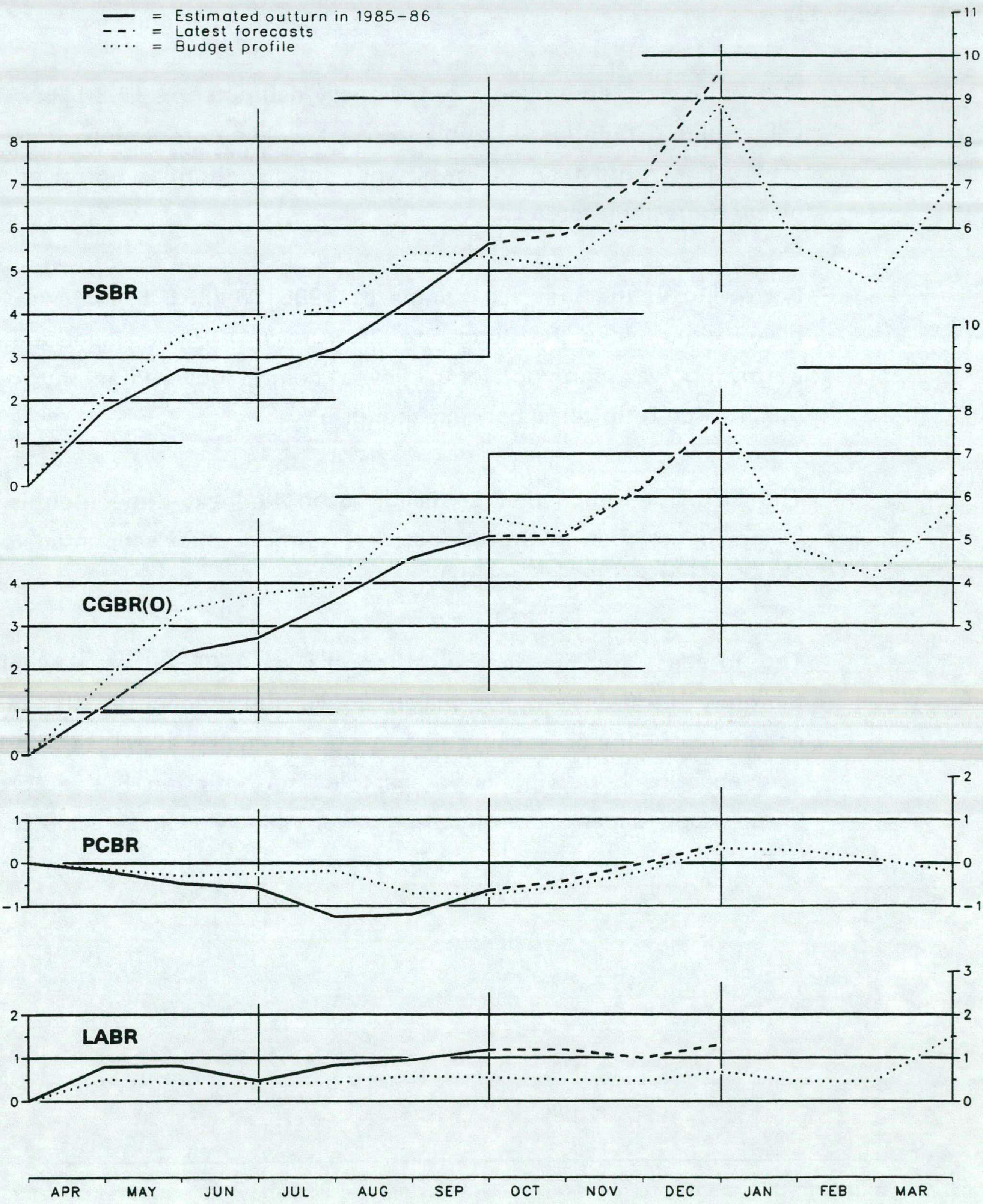
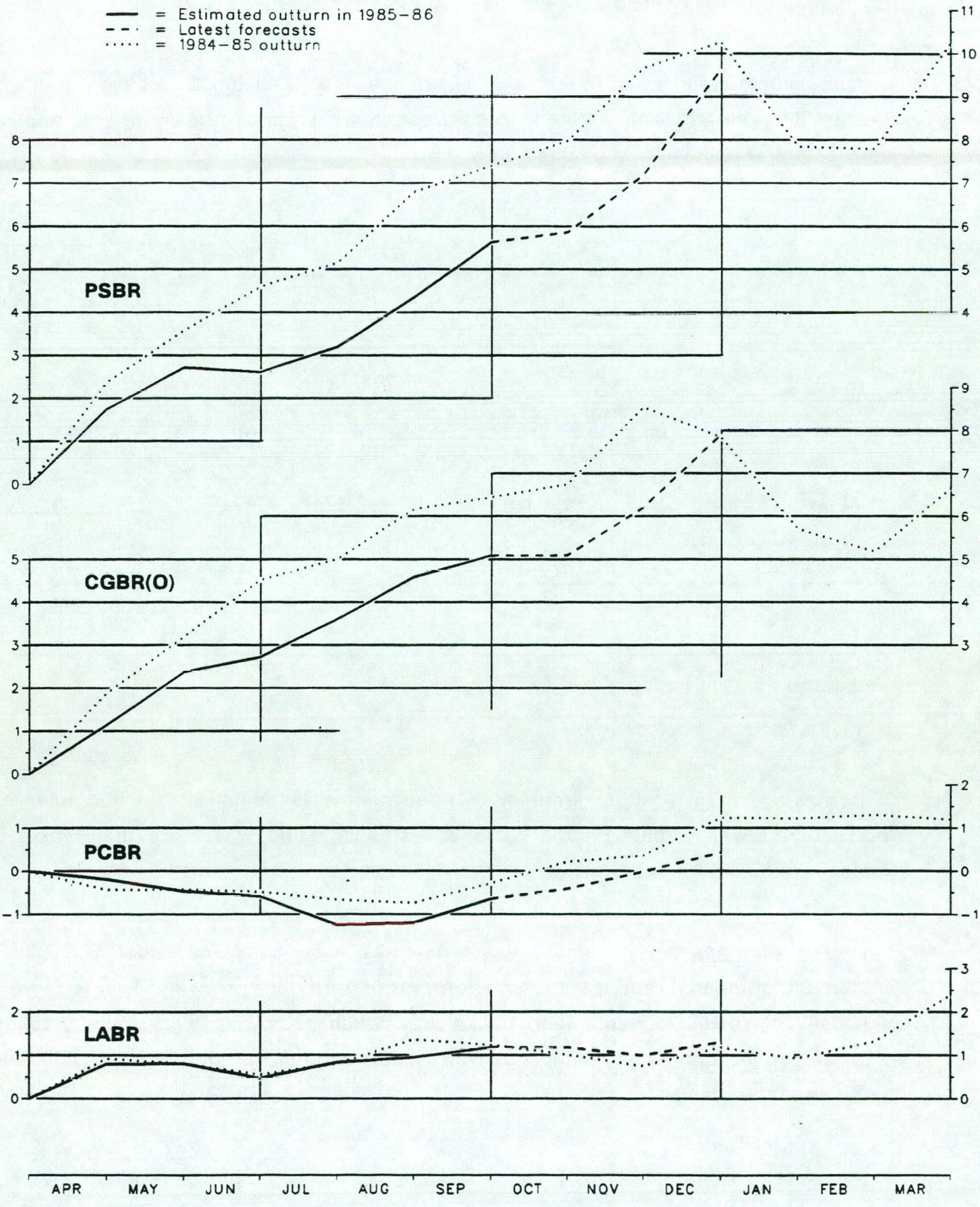


**Chart 2 : Comparisons with last year's outturns**

£ billion cumulative



**Borrowing in September**

(Comparisons in this section are with last month's forecast)

The provisional estimate of the PSBR in September is £1.3 billion, £0.5 billion higher than forecast last month. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: September 1985 borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Forecast* | 0.8 | 0.6 | – | 0.2 |
| Outturn | 1.3 | 0.5 | 0.2 | 0.6 |
| Difference | 0.5 | –0.1 | 0.2 | 0.4 |

*made on 16 September

2. Borrowing on central government own account was about £0.1 billion lower than forecast. A lower surplus on the National Insurance Fund was more than offset by a number of small differences elsewhere.

3. Local authorities are provisionally estimated to have borrowed about £0.2 billion in September, compared with last month's forecast of zero net borrowing. That is more than is usually borrowed in September. Unlike July, when borrowing was similarly relatively high, we cannot identify any influences which could account for an erratically high level of borrowing in September.

4. Public corporations borrowed about £0.6 billion in September, £0.4 billion more than forecast. Most of the difference is accounted for by timing; unexpected temporary

borrowing of £0.2 billion by the Post Office is expected to be repaid in October, and an expected repayment of £0.2 billion to the NLF by the British Steel Corporation is now expected later in the year.

**April to September**

(comparisons in this and following sections are with the Budget profile)

**Table 2: Total April–September borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Budget forecast | 5.3 | 5.5 | 0.5 | -0.7 |
| Outturn | 5.6 | 5.1 | 1.2 | -0.6 |
| Difference | 0.3 | -0.4 | 0.6 | 0.1 |

5. The cumulative PSBR for the first six months of 1985-86 was £5.6 billion. This is about £0.3 billion above the Budget profile (see Chart 1 and Table 2); and about £1.8 billion below the same period last year (Chart 2), partly because of the BT second call receipts in June this year.

6. Cumulative borrowing in April-September on <u>central government own account</u> was £0.4 billion lower than the Budget profile. Lower Inland Revenue receipts (by £0.9 billion, mainly PRT) were more than offset by lower supply expenditure (by £0.7 billion, due to lower grants to the National Coal Board and lower ECGD payments), higher Customs and Excise receipts (by £0.3 billion, mainly VAT) and a number of small changes including a higher surplus on the National Insurance Fund (by £0.1 billion).

7. <u>Local authorities</u> borrowed £1.2 billion in the first half of 1985-86, some £0.6 billion more than in the Budget profile. Of the excess, £0.1 billion can be attributed to temporary

borrowing by authorities who were late in setting a rate (this should be repaid towards the end of the year); and another £0.2 billion can be attributed to overspill from 1984-85. But the underlying trend now seems to be higher than previously assumed.

8. Public corporations made a net repayment of debt of £0.6 billion in April-September, repaying about £0.1 billion less than in the Budget profile.

**October to December**

9. The PSBR in the period October-December is forecast to be £4 billion, nearly £½ billion higher than in the Budget profile and £1 billion higher than over the same period last year. The increase on the Budget profile is accounted for by higher borrowing on central government own account, partly due to timing but mainly to lower oil revenues.

10. Table 5 shows the latest detailed profile of borrowing on central government own account for October-December. A comparison with the Budget forecast for the first nine months and with the outturn in April-December 1984 is provided in Table 6.

11. The forecast of the CGBR(O) for October-December is £½ billion higher than the Budget profile, unwinding fully the shortfall in April-September. The increased borrowing in October-December is more than accounted for by lower Inland Revenue receipts (by over £½ billion, due to lower PRT and a switch of some North Sea Corporation Tax receipts from October into January). The forecasts for supply expenditure and other major components are only slightly different from the Budget profile.

12. The forecast monthly path of the CGBR(O) is as follows.

- In October, the CGBR(O) is forecast to be roughly in balance. Inland Revenue receipts will be high due to receipts of North Sea Corporation Tax (£½ billion: this is over £¼ billion lower than in the Budget profile, the extra being now expected in January) and Advance Corporation Tax (£½ billion). Banks' composite rate tax is now expected to be lower than in the Budget profile, having been lower in July. Supply expenditure in October includes high cash-limited expenditure, particularly defence.

- In November, the CGBR(0) is forecast to be £1 billion. Cyclically high Customs and Excise (VAT) receipts and the second call on the sale of Britoil shares are more than offset by seasonally high debt interest payments and seasonally low Inland Revenue receipts. Supply expenditure includes £¼ billion student awards. EC contributions are high, with £¼ billion supplementary finance expected.

- In December, the CGBR(O) is forecast to be £1¾ billion. Receipts from asset sales are more than offset by seasonally low Inland Revenue receipts and a seasonally large deficit on the National Insurance Fund. Supply expenditure includes a biannual payment for interest support (ECGD).

13. Local authorities are expected to borrow about £0.1 billion over the next three months, about the same as in the Budget profile, despite allowance for the apparently somewhat higher trend.

14. Public corporations are expected to borrow £1 billion over the next three months, as in the Budget profile. Lower net borrowing by the Post Office and British Steel (see paragraph 4) is offset by higher borrowing by the Electricity Supply Industry and other small changes.

**April-December**

15. Cumulatively, the forecast PSBR for the first nine months of 1985-86 is £9¾ billion, £¾ billion above the Budget profile, mainly because of higher local authority borrowing. As explained above, the shortfall in April-September on the CGBR(O) is expected to disappear by December: the shortfall in supply in the first six months is offset by lower expected Inland Revenue receipts in October-December. The LABR is expected to remain over £½ billion above the Budget profile, and the PCBR to remain close to it.

**Table 3:** **Latest monthly profiles**
(Budget profiles in italics for comparison)

£ billion

| | PSBR | | Comprising | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CGBR(O) | | LABR | | PCBR | |
| 1985-86 | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **1.0** | *1.4* | **1.2** | *1.6* | **-** | *-0.1* | **-0.3** | *-0.2* |
| Jun | **-0.1** | *0.4* | **0.3** | *0.4* | **-0.3** | *-* | **-0.1** | *0.1* |
| Jul | **0.6** | *0.3* | **0.9** | *0.2* | **0.4** | *-* | **-0.7** | *0.1* |
| Aug | **1.1** | *1.3* | **1.0** | *1.6* | **0.1** | *0.2* | **0.1** | *-0.5* |
| Sep | **1.3** | *-0.1* | **0.5** | *-* | **0.2** | *-* | **0.6** | *-* |
| Oct | **0.2** | *-0.2* | **-** | *-0.3* | **-** | *-0.1* | **0.2** | *0.2* |
| Nov | **1.3** | *1.4* | **1.1** | *1.1* | **-0.2** | *-* | **0.4** | *0.4* |
| Dec | **2.5** | *2.4* | **1.7** | *1.6* | **0.3** | *0.2* | **0.4** | *0.5* |
| Cumulative | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **2.7** | *3.5* | **2.4** | *3.4* | **0.8** | *0.4* | **-0.5** | *-0.3* |
| Jun | **2.6** | *3.9* | **2.7** | *3.8* | **0.5** | *0.4* | **-0.6** | *-0.2* |
| Jul | **3.2** | *4.2* | **3.0** | *3.9* | **0.8** | *0.4* | **1.2** | *-0.2* |
| Aug | **4.3** | *5.4* | **4.6** | *5.6* | **0.9** | *0.6* | **-1.2** | *-0.7* |
| Sep | **5.6** | *5.3* | **5.1** | *5.5* | **1.2** | *0.5* | **-0.6** | *-0.7* |
| Oct | **5.9** | *5.1* | **5.1** | *5.2* | **1.2** | *0.5* | **-0.4** | *-0.6* |
| Nov | **7.2** | *6.5* | **6.2** | *6.3* | **1.0** | *0.5* | **-** | *-0.2* |
| Dec | **9.6** | *8.9* | **7.9** | *7.9* | **1.3** | *0.7* | **0.4** | *0.3* |

Figures for April to September are outturns

**Table 4: PSBR for 1985-86 – comparisons with 1984-85 and Budget profile**

£ billion

| | 1984-85 | 1985-86 | | Differences from | |
|---|---|---|---|---|---|
| | Outturn | Budget profile | Latest update[1] | 1984-85 outturn | Budget profile |
| | 1 | 2 | 3 | 3-1 | 3-2 |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.4 |
| May | 1.2 | 1.4 | **1.0** | -0.2 | -0.4 |
| Jun | 1.0 | 0.4 | **-0.1** | -1.1 | -0.5 |
| Q2 | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 0.6 | 0.3 | **0.6** | – | 0.3 |
| Aug | 1.6 | 1.3 | **1.1** | -0.5 | -0.1 |
| Sep | 0.6 | -0.1 | **1.3** | 0.7 | 1.4 |
| Q3 | 2.8 | 1.4 | **3.0** | 0.2 | 1.6 |
| Oct | 0.6 | -0.2 | **0.2** | -0.3 | 0.4 |
| Nov | 1.7 | 1.4 | **1.3** | -0.4 | -0.1 |
| Dec | 0.6 | 2.4 | **2.5** | 1.9 | 0.1 |
| Q4 | 2.9 | 3.6 | **4.0** | 1.2 | 0.4 |
| Jan | -2.4 | -3.4 | | | |
| Feb | -0.1 | -0.8 | | | |
| Mar | 2.4 | 2.3 | | | |
| Q1 | – | -1.8 | | | |
| Cumulative | | | | | |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.4 |
| May | 3.6 | 3.5 | **2.7** | -0.9 | -0.8 |
| Jun | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 5.2 | 4.2 | **3.2** | -2.0 | -1.0 |
| Aug | 6.8 | 5.4 | **4.3** | -2.5 | -1.1 |
| Sep | 7.4 | 5.3 | **5.6** | -1.8 | 0.3 |
| Oct | 8.0 | 5.1 | **5.9** | -2.1 | 0.7 |
| Nov | 9.7 | 6.5 | **7.2** | -2.5 | 0.7 |
| Dec | 10.3 | 8.9 | **9.6** | -0.6 | 0.7 |
| Jan | 7.9 | 5.5 | | | |
| Feb | 7.8 | 4.7 | | | |
| Mar | 10.2 | 7.1 | | | |

[1]Figures for April to September are outturns

**Table 5:** **Central government transactions - September outturn and latest forecasts for October-December**

£ billion

| | September | | Latest forecasts | | |
|---|---|---|---|---|---|
| | forecast | outturn[1] | Oct | Nov | Dec |
| Receipts | | | | | |
| *Consolidated Fund* | | | | | |
| Inland Revenue | 4.3 | 4.3 | 4.9 | 3.7 | 3.7 |
| Customs and Excise | 2.7 | 2.6 | 3.1 | 3.9 | 2.8 |
| Other[2] | 0.9 | 0.7 | 1.0 | 1.1 | 0.9 |
| *National Loans Fund* | | | | | |
| Interest etc. receipts | 0.9 | 0.9 | 0.6 | 0.4 | 0.5 |
| Total Receipts | 8.7 | 8.6 | 9.5 | 9.1 | 7.9 |
| Expenditure | | | | | |
| *Consolidated Fund* | | | | | |
| Supply expenditure[3] | 7.8 | 7.8 | 8.3 | 8.1 | 8.2 |
| Adjustment to Supply Services basis[4] | - | 0.3 | - | - | - |
| Other | 0.3 | 0.3 | 0.3 | 0.6 | 0.4 |
| *National Loans Fund* | | | | | |
| Service of the national debt | 1.2 | 1.2 | 0.9 | 1.6 | 0.6 |
| Net lending | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 |
| Total Expenditure | 9.6 | 9.9 | 9.8 | 10.5 | 9.4 |
| Other funds and accounts (+ increases borrowing) (- reduces borrowing) | 0.3 | 0.1 | 0.2 | 0.2 | 0.5 |
| **CGBR** | **1.2** | **1.4** | **0.5** | **1.6** | **2.0** |
| On-lending | 0.6 | 0.9 | 0.5 | 0.4 | 0.3 |
| **CGBR(O)** | **0.6** | **0.5** | **-** | **1.1** | **1.7** |

(1)Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.
(2)Includes receipts from sales of assets
(3)On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
(4)Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

**Table 6: Central government transactions[1] – comparisons for April–December**

£ billion

| | 1984 | 1985 | |
|---|---|---|---|
| | Outturn | Budget forecast | Latest update |
| Receipts | | | |
| *Consolidated Fund* | | | |
| Inland Revenue | 32.5 | 37.2 | 35.7 |
| Customs and Excise | 25.6 | 27.0 | 27.5 |
| Other[2] | 9.5 | 10.0 | 8.9 |
| *National Loans Fund* | | | |
| Interest etc. receipts | 4.1 | 4.7 | 5.0 |
| Total Receipts | 71.7 | 78.9 | 77.1 |
| Expenditure | | | |
| *Consolidated Fund* | | | |
| Supply expenditure[3] | 66.9 | 72.7 | 71.8 |
| Adjustment to Supply Services basis[4] | 0.8 | – | 0.5 |
| Other | 3.6 | 3.1 | 3.3 |
| *National Loans Fund* | | | |
| Service of the national debt | 9.2 | 10.1 | 10.1 |
| Net lending | 1.6 | 1.5 | 3.2 |
| Total Expenditure | 82.0 | 87.4 | 89.0 |
| Other funds and accounts (+ increases borrowing) (- reduces borrowing) | -0.2 | 1.6 | -0.5 |
| **CGBR** | **10.1** | **10.1** | **11.4** |
| On-lending | 2.3 | 2.2 | 3.5 |
| **CGBR(O)** | **7.8** | **7.9** | **7.9** |

[1]Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.
[2]Includes receipts from sales of assets.
[3]On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
[4]Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

49 581



C/ Content with press briefing below?

FROM: MISS M E PEIRSON
DATE: 15 October 1985

I have made changes @ X, Y & Z. R 15/10

PPS/CHANCELLOR

cc Mr Cassell

**DRAFT PRESS BRIEFING ON PSBR IN SEPTEMBER**

I attach the draft press briefing on the PSBR in September, for tomorrow's publication. The aim is to circulate the briefing to List A recipients by 10.30 am tomorrow. Any comments which the Chancellor might have can be taken on board provided you can let Mr Clark (ext 3093) have them before 9.30 am tomorrow, and earlier if possible.

MEP

MISS M E PEIRSON

FROM: MISS M E PEIRSON
DATE: 15 October 1985

1. MR CASSELL Approved in draft. MEP

2. CHANCELLOR OF THE EXCHEQUER

Copy with PPS letter, attached, for:

Mr Norgrove - No 10

| cc List A | List B (distributed at 2.30 pm, 16 October) | |
|---|---|---|
| Sir P Middleton | Chief Secretary | Miss O'Mara |
| Sir T Burns | Financial Secretary | Mr M Williams |
| Mr H Evans | Economic Secretary | Mr Powell |
| Mr Peretz | Minister of State | Mr Cropper |
| Mr Scholar | Mr Bailey | Mr H Davies |
| Mr L Watts | Mr Moore | Mr Lord |
| Mr Devereux | Mr Odling-Smee | Mr Wells - CSO |
| Dr Webb | Mr Turnbull | Mr Calder - IR |
| | Mrs Butler | Mr Wilmott - C & E |
| | Mr Mowl | |

**MONTHLY NOTE ON THE PSBR**

1. I attach a report on the PSBR outturn for September. This outturn will be published by press notice at 2.30 pm tomorrow, 16 October.

2. In this note, as usual, outturn in the latest month (September) is compared with the forecast made a month ago. Outturns for April to September are compared with the Budget profile. Forecasts for October-December are also included.

3. The press notice is confined to comparisons between outturn in the first 6 months of 1985-86 and outturn in the same period last year.

MEP

MISS M E PEIRSON

**PUBLIC SECTOR BORROWING**

Summary

- The PSBR for September is provisionally estimated at £1.3 billion, £0.5 billion higher than last month's forecast. Public corporations borrowed £0.4 billion more than forecast, while local authorities borrowed £0.2 billion more than forecast.

- Borrowing in the first six months of 1985-86 (£5.6 billion) was £0.3 billion higher than the Budget profile (Chart 1). Higher local authority borrowing was partly offset by lower central government borrowing (mainly due to lower supply expenditure).

- The PSBR is forecast at £4 billion over the next three months, £½ billion higher than in the Budget profile (more than accounted for by lower Inland Revenue receipts).

- The forecast for the first nine months of 1985-86 as a whole is therefore £9¾ billion, £¾ billion above the Budget profile, mainly because of higher local authority borrowing. Central government own-account borrowing is forecast in line with the Budget profile, lower supply expenditure offsetting lower Inland Revenue receipts.

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Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

## Chart 1 : Comparisons with Budget profiles for 1985-86

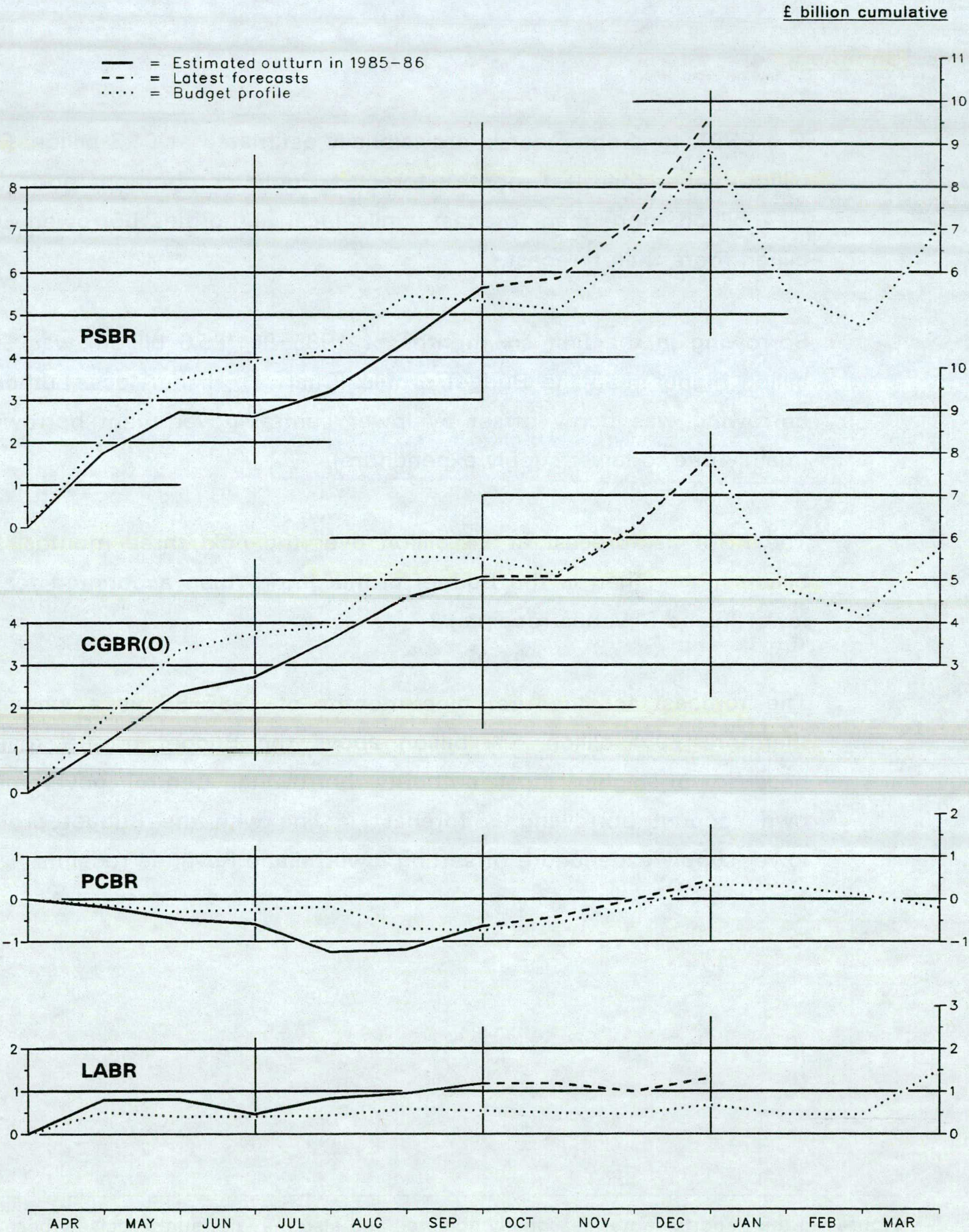
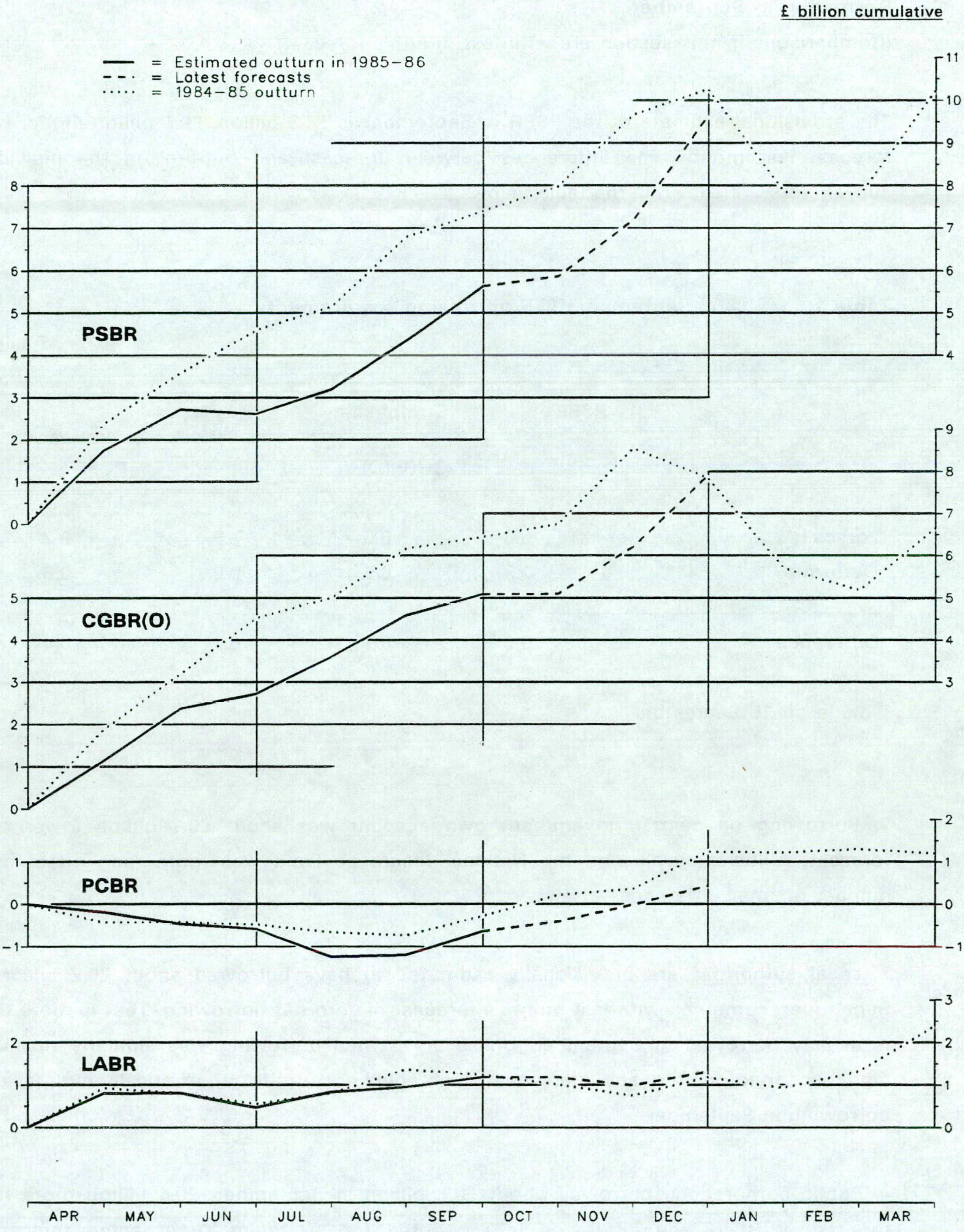


**Chart 2 : Comparisons with last year's outturns**



**Borrowing in September**

(Comparisons in this section are with last month's forecast)

The provisional estimate of the PSBR in September is £1.3 billion, £0.5 billion higher than forecast last month. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: September 1985 borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Forecast* | 0.8 | 0.6 | - | 0.2 |
| Outturn | 1.3 | 0.5 | 0.2 | 0.6 |
| Difference | 0.5 | -0.1 | 0.2 | 0.4 |

*made on 16 September

2. Borrowing on central government own account was about £0.1 billion lower than forecast. A lower surplus on the National Insurance Fund was more than offset by a number of small differences elsewhere.

3. Local authorities are provisionally estimated to have borrowed about £0.2 billion in September, compared with last month's forecast of zero net borrowing. That is more than is usually borrowed in September. Unlike July, when borrowing was similarly relatively high, we cannot identify any influences which could account for an erratically high level of borrowing in September.

4. Public corporations borrowed about £0.6 billion in September, £0.4 billion more than forecast. Most of the difference is accounted for by timing; unexpected temporary

borrowing of £0.2 billion by the Post Office is expected to be repaid in October, and an expected repayment of £0.2 billion to the NLF by the British Steel Corporation is now expected later in the year.

## April to September

(comparisons in this and following sections are with the Budget profile)

**Table 2: Total April-September borrowing requirements**

£ billion

| | PSBR | Comprising CGBR(O) | LABR | PCBR |
|---|---|---|---|---|
| Budget forecast | 5.3 | 5.5 | 0.5 | -0.7 |
| Outturn | 5.6 | 5.1 | 1.2 | -0.6 |
| Difference | 0.3 | -0.4 | 0.6 | 0.1 |

5. The cumulative PSBR for the first six months of 1985-86 was £5.6 billion. This is about £0.3 billion above the Budget profile (see Chart 1 and Table 2); and about £1.8 billion below the same period last year (Chart 2), partly because of the BT second call receipts in June this year.

6. Cumulative borrowing in April-September on central government own account was £0.4 billion lower than the Budget profile. Lower Inland Revenue receipts (by £0.9 billion, mainly PRT) were more than offset by lower supply expenditure (by £0.7 billion, due to lower grants to the National Coal Board and lower ECGD payments), higher Customs and Excise receipts (by £0.3 billion, mainly VAT) and a number of small changes including a higher surplus on the National Insurance Fund (by £0.1 billion).

7. Local authorities borrowed £1.2 billion in the first half of 1985-86, some £0.6 billion more than in the Budget profile. Of the excess, £0.1 billion can be attributed to temporary

borrowing by authorities who were late in setting a rate (this should be repaid towards the end of the year); and another £0.2 billion can be attributed to overspill from 1984-85. But the underlying trend now seems to be higher than previously assumed.

8. Public corporations made a net repayment of debt of £0.6 billion in April-September, repaying about £0.1 billion less than in the Budget profile.

**October to December**

9. The PSBR in the period October-December is forecast to be £4 billion, nearly £½ billion higher than in the Budget profile and £1 billion higher than over the same period last year. The increase on the Budget profile is accounted for by higher borrowing on central government own account, partly due to timing but mainly to lower oil revenues.

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11. The forecast of the CGBR(O) for October-December is £½ billion higher than the Budget profile, unwinding fully the shortfall in April-September. The increased borrowing in October-December is more than accounted for by lower Inland Revenue receipts (by over £½ billion, due to lower PRT and a switch of some North Sea Corporation Tax receipts from October into January). The forecasts for supply expenditure and other major components are only slightly different from the Budget profile.

12. The forecast monthly path of the CGBR(O) is as follows.

- In October, the CGBR(O) is forecast to be roughly in balance. Inland Revenue receipts will be high due to receipts of North Sea Corporation Tax (£½ billion: this is over £¼ billion lower than in the Budget profile, the extra being now expected in January) and Advance Corporation Tax (£½ billion). Banks' composite rate tax is now expected to be lower than in the Budget profile, having been lower in July. Supply expenditure in October includes high cash-limited expenditure, particularly defence.

- In November, the CGBR(0) is forecast to be £1 billion. Cyclically high Customs and Excise (VAT) receipts and the second call on the sale of Britoil shares are more than offset by seasonally high debt interest payments and seasonally low Inland Revenue receipts. Supply expenditure includes £¼ billion student awards. EC contributions are high, with £¼ billion supplementary finance expected.

- In December, the CGBR(O) is forecast to be £1¾ billion. Receipts from asset sales are more than offset by seasonally low Inland Revenue receipts and a seasonally large deficit on the National Insurance Fund. Supply expenditure includes a biannual payment for interest support (ECGD).

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14. Public corporations are expected to borrow £1 billion over the next three months, as in the Budget profile. Lower net borrowing by the Post Office and British Steel (see paragraph 4) is offset by higher borrowing by the Electricity Supply Industry and other small changes.

**April–December**

15. Cumulatively, the forecast PSBR for the first nine months of 1985-86 is £9¾ billion, £¾ billion above the Budget profile, mainly because of higher local authority borrowing. As explained above, the shortfall in April-September on the CGBR(O) is expected to disappear by December: the shortfall in supply in the first six months is offset by lower expected Inland Revenue receipts in October-December. The LABR is expected to remain over £½ billion above the Budget profile, and the PCBR to remain close to it.

**Table 3:** **Latest monthly profiles**
(Budget profiles in italics for comparison)

£ billion

| | PSBR | | Comprising | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CGBR(O) | | LABR | | PCBR | |
| **1985-86** | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **1.0** | *1.4* | **1.2** | *1.6* | **-** | *-0.1* | **-0.3** | *-0.2* |
| Jun | **-0.1** | *0.4* | **0.3** | *0.4* | **-0.3** | *-* | **-0.1** | *0.1* |
| Jul | **0.6** | *0.3* | **0.9** | *0.2* | **0.4** | *-* | **-0.7** | *0.1* |
| Aug | **1.1** | *1.3* | **1.0** | *1.6* | **0.1** | *0.2* | **0.1** | *-0.5* |
| Sep | **1.3** | *-0.1* | **0.5** | *-* | **0.2** | *-* | **0.6** | *-* |
| Oct | **0.2** | *-0.2* | **-** | *-0.3* | **-** | *-0.1* | **0.2** | *0.2* |
| Nov | **1.3** | *1.4* | **1.1** | *1.1* | **-0.2** | *-* | **0.4** | *0.4* |
| Dec | **2.5** | *2.4* | **1.7** | *1.6* | **0.3** | *0.2* | **0.4** | *0.5* |
| **Cumulative** | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **2.7** | *3.5* | **2.4** | *3.4* | **0.8** | *0.4* | **-0.5** | *-0.3* |
| Jun | **2.6** | *3.9* | **2.7** | *3.8* | **0.5** | *0.4* | **-0.6** | *-0.2* |
| Jul | **3.2** | *4.2* | **3.6** | *3.9* | **0.8** | *0.4* | **-1.2** | *-0.2* |
| Aug | **4.3** | *5.4* | **4.6** | *5.6* | **0.9** | *0.6* | **-1.2** | *-0.7* |
| Sep | **5.6** | *5.3* | **5.1** | *5.5* | **1.2** | *0.5* | **-0.6** | *-0.7* |
| Oct | **5.9** | *5.1* | **5.1** | *5.2* | **1.2** | *0.5* | **-0.4** | *-0.6* |
| Nov | **7.2** | *6.5* | **6.2** | *6.3* | **1.0** | *0.5* | **-** | *-0.2* |
| Dec | **9.6** | *8.9* | **7.9** | *7.9* | **1.3** | *0.7* | **0.4** | *0.3* |

Figures for April to September are outturns

## Table 4: PSBR for 1985-86 – comparisons with 1984-85 and Budget profile

£ billion

| | 1984-85 Outturn | 1985-86 Budget profile | 1985-86 Latest update(1) | Differences from 1984-85 outturn | Differences from Budget profile |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 3-1 | 3-2 |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.4 |
| May | 1.2 | 1.4 | **1.0** | -0.2 | -0.4 |
| Jun | 1.0 | 0.4 | **-0.1** | -1.1 | -0.5 |
| Q2 | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 0.6 | 0.3 | **0.6** | – | 0.3 |
| Aug | 1.6 | 1.3 | **1.1** | -0.5 | -0.1 |
| Sep | 0.6 | -0.1 | **1.3** | 0.7 | 1.4 |
| Q3 | 2.8 | 1.4 | **3.0** | 0.2 | 1.6 |
| Oct | 0.6 | -0.2 | **0.2** | -0.3 | 0.4 |
| Nov | 1.7 | 1.4 | **1.3** | -0.4 | -0.1 |
| Dec | 0.6 | 2.4 | **2.5** | 1.9 | 0.1 |
| Q4 | 2.9 | 3.6 | **4.0** | 1.2 | 0.4 |
| Jan | -2.4 | -3.4 | | | |
| Feb | -0.1 | -0.8 | | | |
| Mar | 2.4 | 2.3 | | | |
| Q1 | – | -1.8 | | | |
| **Cumulative** | | | | | |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.4 |
| May | 3.6 | 3.5 | **2.7** | -0.9 | -0.8 |
| Jun | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 5.2 | 4.2 | **3.2** | -2.0 | -1.0 |
| Aug | 6.8 | 5.4 | **4.3** | -2.5 | -1.1 |
| Sep | 7.4 | 5.3 | **5.6** | -1.8 | 0.3 |
| Oct | 8.0 | 5.1 | **5.9** | -2.1 | 0.7 |
| Nov | 9.7 | 6.5 | **7.2** | -2.5 | 0.7 |
| Dec | 10.3 | 8.9 | **9.6** | -0.6 | 0.7 |
| Jan | 7.9 | 5.5 | | | |
| Feb | 7.8 | 4.7 | | | |
| Mar | 10.2 | 7.1 | | | |

(1) Figures for April to September are outturns

**Table 5: Central government transactions – September outturn and latest forecasts for October–December**

£ billion

| | September | | Latest forecasts | | |
|---|---|---|---|---|---|
| | forecast | outturn[1] | Oct | Nov | Dec |
| Receipts | | | | | |
| *Consolidated Fund* | | | | | |
| Inland Revenue | 4.3 | 4.3 | 4.9 | 3.7 | 3.7 |
| Customs and Excise | 2.7 | 2.6 | 3.1 | 3.9 | 2.8 |
| Other[2] | 0.9 | 0.7 | 1.0 | 1.1 | 0.9 |
| *National Loans Fund* | | | | | |
| Interest etc. receipts | 0.9 | 0.9 | 0.6 | 0.4 | 0.5 |
| Total Receipts | 8.7 | 8.6 | 9.5 | 9.1 | 7.9 |
| Expenditure | | | | | |
| *Consolidated Fund* | | | | | |
| Supply expenditure[3] | 7.8 | 7.8 | 8.3 | 8.1 | 8.2 |
| Adjustment to Supply Services basis[4] | – | 0.3 | – | – | – |
| Other | 0.3 | 0.3 | 0.3 | 0.6 | 0.4 |
| *National Loans Fund* | | | | | |
| Service of the national debt | 1.2 | 1.2 | 0.9 | 1.6 | 0.6 |
| Net lending | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 |
| Total Expenditure | 9.6 | 9.9 | 9.8 | 10.5 | 9.4 |
| Other funds and accounts (+ increases borrowing) (- reduces borrowing) | 0.3 | 0.1 | 0.2 | 0.2 | 0.5 |
| **CGBR** | **1.2** | **1.4** | **0.5** | **1.6** | **2.0** |
| On-lending | 0.6 | 0.9 | 0.5 | 0.4 | 0.3 |
| **CGBR(O)** | **0.6** | **0.5** | **–** | **1.1** | **1.7** |

(1)Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.
(2)Includes receipts from sales of assets
(3)On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
(4)Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

**Table 6: Central government transactions[1] – comparisons for April–December**

£ billion

| | 1984 Outturn | 1985 Budget forecast | 1985 Latest update |
|---|---|---|---|
| Receipts | | | |
| *Consolidated Fund* | | | |
| Inland Revenue | 32.5 | 37.2 | 35.7 |
| Customs and Excise | 25.6 | 27.0 | 27.5 |
| Other[2] | 9.5 | 10.0 | 8.9 |
| *National Loans Fund* | | | |
| Interest etc. receipts | 4.1 | 4.7 | 5.0 |
| Total Receipts | 71.7 | 78.9 | 77.1 |
| Expenditure | | | |
| *Consolidated Fund* | | | |
| Supply expenditure[3] | 66.9 | 72.7 | 71.8 |
| Adjustment to Supply Services basis[4] | 0.8 | – | 0.5 |
| Other | 3.6 | 3.1 | 3.3 |
| *National Loans Fund* | | | |
| Service of the national debt | 9.2 | 10.1 | 10.1 |
| Net lending | 1.6 | 1.5 | 3.2 |
| Total Expenditure | 82.0 | 87.4 | 89.0 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | –0.2 | 1.6 | –0.5 |
| **CGBR** | **10.1** | **10.1** | **11.4** |
| On-lending | 2.3 | 2.2 | 3.5 |
| **CGBR(O)** | **7.8** | **7.9** | **7.9** |

(1)Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.
(2)Includes receipts from sales of assets.
(3)On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
(4)Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

From: JOHN CLARK
16 October 1985

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr H Evans

Mr Peretz
Miss O'Mara
Miss Peirson
Mr Watts
Mrs E McKinney
Mr Ward - CSO
Mr Wright - B/E
Mr Norgrove - No. 10

List B
(distributed at 2.30pm, 16 October)

Mrs Butler
Mr Spencer
Mr Cropper
Mr H Davies
Mr Lord
Mrs Hillier - IR
Mr B Sexton - C and E

**BRIEFING FOR 16 OCTOBER PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for September will be published at 2.30pm on 16 October. The provisional outturns, together with figures for the first six months of 1984-85 and 1985-86, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1983-84 are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns**

£ billion

| | Apr-Sep 1984 | Apr-Sep 1985 | September 1985 |
|---|---|---|---|
| Central government on own account | 6.4 | 5.1 | **0.5** |
| Local authorities | 1.2 | 1.2 | **0.2** |
| Public corporations | -0.3 | -0.6 | **0.6** |
| PSBR | 7.4 | 5.6 | **1.3** |
| Memo: CGBR (including borrowing for on-lending to LAs and PCs) | 7.2 | 7.4 | **1.4** |

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

**Table 2: PUBLIC SECTOR BORROWING REQUIREMENT - Comparison with the last two years**

Cumulative £ billion

| | Central government on own account | | | Local authorities borrowing requirement | | | Public corporations borrowing requirement | | | Public sector borrowing requirement | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 |
| Apr | 0.9 | 1.9 | **1.1** | 0.5 | 0.9 | **0.8** | -0.2 | -0.4 | **-0.2** | 1.2 | 2.4 | **1.8** |
| May | 2.4 | 3.2 | **2.4** | 0.3 | 0.8 | **0.8** | -0.3 | -0.4 | **-0.5** | 2.4 | 3.6 | **2.7** |
| Jun | 3.7 | 4.5 | **2.7** | -0.1 | 0.6 | **0.5** | -0.4 | -0.5 | **-0.6** | 3.2 | 4.6 | **2.6** |
| Jul | 4.5 | 5.0 | **3.6** | -0.0 | 0.8 | **0.8** | -0.6 | -0.7 | **-1.2** | 3.9 | 5.2 | **3.2** |
| Aug | 5.8 | 6.2 | **4.6** | 0.3 | 1.4 | **0.9** | -0.4 | -0.7 | **-1.2** | 5.6 | 6.8 | **4.3** |
| Sep | 6.6 | 6.4 | **5.1** | 0.3 | 1.2 | **1.2** | -0.0 | -0.3 | **-0.6** | 6.9 | 7.4 | **5.6** |
| Oct | 6.7 | 6.8 | | 0.3 | 1.0 | | 0.1 | 0.2 | | 7.1 | 8.0 | |
| Nov | 8.3 | 8.5 | | -0.2 | 0.8 | | 0.5 | 0.4 | | 8.5 | 9.7 | |
| Dec | 9.1 | 7.8 | | 0.1 | 1.2 | | 0.6 | 1.2 | | 9.8 | 10.3 | |
| Jan | 6.3 | 5.7 | | 0.0 | 0.9 | | 0.7 | 1.2 | | 7.1 | 7.9 | |
| Feb | 6.7 | 5.2 | | 0.1 | 1.3 | | 0.6 | 1.3 | | 7.5 | 7.8 | |
| Mar | 8.2 | 6.7 | | 1.2 | 2.4 | | 0.3 | 1.2 | | 9.7 | 10.2 | |

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

2. The (provisional) PSBR for September is £1.3 billion. This is above the forecasts of City analysts (made before the money supply figures for banking September became available), which lie between £¼ billion and just over £1 billion, with an average of £¾ billion.

3. The September outturn brings the cumulative PSBR for the first six months of 1985-86 to £5.6 billion, £1.8 billion lower than over the same period last year.

**POSITIVE**

Borrowing in first six months of 1985-86 was £5.6 billion, i.e. £1¾ billion lower than in first six months of 1984-85. Higher receipts from asset sales account for some - about £1¼ billion - but not all of reduction.

**DEFENSIVE/FACTUAL**

## 1. Borrowing in 1985-86

Background

Budget forecast was £7.1 billion. Oil revenues likely to be significantly reduced by fall in sterling oil price (see 7 below). But other revenues likely to be higher. Next forecast of PSBR in 1985-86 will be in Autumn Statement in November (date not yet announced). See also front-end-loading at 2 below.

Line to take

Very hazardous to draw conclusions for year as a whole from provisional half-year figures. Next forecast of PSBR in 1985-86 will be in Autumn Statement. Oil revenues likely to be significantly down for year as a whole, but other changes also likely, including higher non-oil revenues.

## 2. Front-end loading

Background

Borrowing in the first half of 1985-86 was (provisionally) about four-fifths of the Budget

Spoke to John Clark
- figures did not support
this. So agreed to delete "more".

X forecast of PSBR for 1985-86 as a whole. This proportion is higher than average outturn for recent years (about ~~two-thirds).~~ 70 per cent). But PSBR often more heavily front-end-loaded and ~~- in 1984-85, about three-quarters of PSBR occurred in the first half-year.~~ Proportion is highly variable.

In 1985-86, high receipts from asset sales have reduced borrowing in the first six months, but higher corporation tax receipts than in earlier years will reduce borrowing in the second half-year.

Line to take

Very hazardous to draw conclusions for 1985-86 as a whole from provisional half-year figures. While British Telecom second call and other asset sale receipts benefitted PSBR in first half of 1985-86, higher corporation tax receipts than in earlier years will principally benefit second half.

## 3. Asset sales

Background

Budget forecast for total receipts from special sales of assets in 1985-86 is £2.5 billion.

Line to take

About £170 million (net) received in September from second instalment on British Aerospace, bringing total receipts for first half of year to about £1¾ billion. The second Britoil instalment of about £200 million is due in November. Government has also announced plans to sell remaining shares in Cable and Wireless before end of 1985-86, subject to market conditions.

## 4. Supply Expenditure

Background

For first six months of 1985-86, supply services (which represents issues to departments from the Consolidated Fund) were about 9¼ per cent higher than in April-September 1984. The comparable increase in supply expenditure (which represents cheques issued by departments and differs from supply services because of changes in departmental balances with the Paymaster General) is 8½ per cent, but underlying increase is 7 per cent (see line to take). Supply expenditure figures are not published and are based on less firm information. No Budget forecast of supply in 1985-86 was included in the FSBR. Table 5.3 showed Main Estimates provision only, which is unsuitable for comparing against outturn.

Line to take

Supply services in April-September about 9¼ per cent up on April-September 1984-85. Corresponding figure for expenditure about 8½ per cent. But rise was inflated by payments of £0.7 billion in advance contributions to the EEC from supply in first half of 1985-86; all EC contributions met from standing services (column 7 of table 2 of press notice) in first half of 1984-85. Underlying increase in expenditure (excluding EC contributions) 7 per cent.

## 5. EC refunds

Line to take

Y

Whole of 1983 refund received in 1984-85. 1984 refund of 1000m ecus (about £590 million at present) expected in late 1985-86. 1985 and subsequent arrangements are different, and will reduce UK monthly contributions, starting in January 1986.

early. ← Spoke to Jamie Mortimer — he said EC, like GEP, preferred "early".

## 6. Inland Revenue receipts
[See also Q7 on oil revenues]

Background

Total Inland Revenue receipts in September were £4.3 billion. Total for April-September 1985-86 was £23.5 billion, 9½ per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85.

Line to take

Inland Revenue receipts in September were £4.3 billion, and the total for April-September £23.5 billion. Monthly pattern of receipts varies from year to year.

## 7. Oil Revenues

Background

Petroleum Revenue Tax receipts in first six months of 1985-86 about £3¾ billion, 10 per cent higher than over the same period last year. Budget forecast for 1985-86 as a whole £8.2 billion, up 14 per cent on 1984-85. September receipts included the 'settling up' payment of PRT in respect of the chargeable period January-June 1985.

Z

Pound:Dollar exchange rate now much higher than 1.10-1.15 assumed in Budget for 1985 (TCSC minutes, 27 March 1985, p8). Revenues in first half of year determined by what happened up to June 1985. Revenues in second half determined largely by prices and production in July-December 1985.

Line to take

PRT receipts April-September 10 per cent higher than over same period last year. Oil revenues for year as a whole likely to be significantly reduced (compared with Budget forecast) by fall in sterling oil price, but size of shortfall depends on price and production up to December.

## 8. Customs and Excise revenues

Background

Customs and Excise revenues in September were £2.6 billion. Total for April-September 1985-86 (£17.7 billion) was 11¼ per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £36.3 billion, up 2¼ per cent on 1984-85 (low increase because 1984-85 receipts were boosted by change in VAT on imports).

Line to take

Receipts in first six months £17.7 billion. Increase over corresponding period last year greater than Budget forecast of increase for year as a whole, because receipts in second half of 1984-85 boosted by change in VAT on imports.

## 9. Local authorities

Background

Preliminary estimate is that local authorities borrowed £0.2 billion in September, bringing total net borrowing to £1.2 billion in April-September 1985-86, about £0.1 billion lower than over corresponding period last year. Budget forecast for 1985-86 as a whole was not given (breakdown of PSBR of £7.1 billion given in part 6 of the FSBR, including £1.5 billion for LABR, was purely notional - based on an arbitrary allocation of the reserve). Outturn for 1984-85 was £2.4 billion.

Line to take

Local authority borrowing last month slightly higher than in September of previous years, but not surprising given erratic pattern of borrowing - for example, August 1985 outturn lower than usual for that month.

## 10. Technical change to encourage local authorities and public corporations to borrow from central government

Background

Economic Secretary announced on 26 July improvements in terms on some forms of borrowing from the NLF/PWLB. FT (2 September) argued that purpose was to switch LA borrowing from banks to PWLB, and hence to reduce both size of 'bill mountain' and also cost of public sector borrowing (since CG can raise finance more cheaply than LAs).

Line to take

The main purpose of the change in NLF/PWLB terms and facilities was to reduce interest rates charged to borrowers and to increase the flexibility of the facilities offered. This also has the useful effect that if local authorities and public corporations switch to central government from banks, the need for money market assistance is reduced. But local authority and public corporations' borrowing from central government in September was not significantly greater than in September of previous years.

## 11. Public corporations

Background

Public corporations (provisionally) borrowed £0.6 billion in September, giving net repayment of debt of £0.6 billion for first six months of 1985-86.

Line to take

Public corporations' borrowing is normally heavy in September. Borrowing in 1985-86 is running lower than in 1984-85 but is following a broadly similar pattern.

John Clark (ext 3093)
PSF Division, HM Treasury

SiPM

FROM: MRS R LOMAX
DATE: 22 October 1985

MISS NOBLE

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr Byatt
Mr Bailey
Mr Anson
Mr Kemp
Mr Watson
Mr Folger
Mr Pratt
Miss Walker
Mr Cropper

P

**MISC 111: PENSIONS**

At this morning's meeting the Chancellor said he thought it would be worth going for larger long term savings, by reverting to the original Lyons/Fowler proposals on the best 20 years rule and widows inheritance provisions. The new element in the latest proposals - moving from the present 25 per cent accrual rate to 20 per cent - was clearly critical; but it would require some explanation and justification. More analysis of the effects on total pensions at different levels of earnings was required. Subject to that, he accepted that the package met the Treasury's chief objective of modifying SERPS in ways that would not involve an increase in the contracted out rebate.

2. The Chancellor said that if there was some margin between the rebate consistent with Mr Fowler's latest proposals and the present 6.25 per cent, it was primarily a matter for Mr Fowler how it might be used to incorporate some new positive incentive for contracting out. The key point for the Treasury was to ensure that any scheme was fully worked out and would stand up to searching examination. He noted however that there could be important implications for public service schemes, on which Mr Kemp would be minuting separately. (His own preference at this stage is to go for the simplest possible scheme, to avoid legislative complications.)

3. In answer to the questions posed in your minute of 22 October the Chancellor confirmed that:-

- he was not interested in making the scheme cheaper in the medium term by eliminating or trimming down the protection for workers retiring before the end of the century.

- the main priority in devising incentive schemes should be to produce something simple and workable that would not require an increase in the main NIC rate (which he totally ruled out).

- he was content to let Mr Fowler try and work out a policy on present lines for a bill around Christmas. He regards the question of whether pensions should be taken out of the bill as essentially for the business managers; his own view is that a bill without SERPS is likely to be extremely difficult to get through the House.

4. Can I also remind you that you promised the Chancellor a note on the other options being considered by DHSS, in time for the meeting with Mr Fowler.

RL.

RACHEL LOMAX

FROM: MISS M E PEIRSON
DATE: 25 October 1985

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Evans o/r
Mr Odling-Smee
Dr Webb o/r

Thanks

C/ As requested.

Rwo 25/10

**PSBR AS % OF GDP**

I understand you asked for the PSBR as a ratio to GDP for the last 10 years, both on the current definition and adjusted to exclude special asset sales, ie treating such sales as financing items. The figures are as follows:-

| % GDP | PSBR | PSBR excluding special asset sales |
|---|---|---|
| 1975-76 | 9.3 | 9.3 |
| 1976-77 | 6.4 | 6.4 |
| 1977-78 | 3.6 | 3.9 |
| 1978-79 | 5.4 | 5.4 |
| 1979-80 | 4.8 | 5.3 |
| 1980-81 | 5.4 | 5.5 |
| 1981-82 | 3.3 | 3.3 |
| 1982-83 | 3.1 | 3.3 |
| 1983-84 | 3.2 | 3.6 |
| 1984-85 | 3.1 | 3.8 |

MEP

MISS M E PEIRSON

Pls demonstrate... sets of figs. 29/10

SECRET

FROM: MISS M E PEIRSON
DATE: 25 October 1985

CHANCELLOR

Please up date figs for 1985/6 & 1986/7 from Red Book.

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Evans o/r
Mr Odling-Smee
Dr Webb o/r

**PSBR AS % OF GDP**

I understand you asked for the PSBR as a ratio to GDP for the last 10 years, both on the current definition and adjusted to exclude special asset sales, ie treating such sales as financing items. The figures are as follows:-

| % GDP | PSBR | PSBR excluding special asset sales | PSFD | |
|---|---|---|---|---|
| 1971-72 | 1.6 | same | 1.1 | 1971-72 |
| 1972-73 | 3.6 | same | 3.0 | 1972-73 |
| 1973-74 | 5.8 | same | 4.6 | 1973-74 |
| 1974-75 | 8.9 | same | 6.7 | 1974-75 |
| 1975-76 | 9.3 | 9.3 | 7.4 | 1975-76 |
| 1976-77 | 6.4 | 6.4 | 5.8 | |
| 1977-78 | 3.6 | 3.9 | 4.4 | |
| 1978-79 | 5.4 | 5.4 | 4.9 | |
| 1979-80 | 4.8 | 5.3 | 3.9 | |
| 1980-81 | 5.4 | 5.5 | 5.1 | |
| 1981-82 | 3.3 | 3.3 | 2.2 | |
| 1982-83 | 3.1 | 3.3 | 3.0 | |
| 1983-84 | 3.2 | 3.6 | 3.9 | |
| 1984-85 | 3.1 | 3.8 | 3.8 | |
| 1985-86 | 2.2 | 2.9 | 3.1 | 1985-86 |

MEP

MISS M E PEIRSON

? fig

HS = 1 NOV 1985 -10

FROM THE MINISTER FOR HEALTH AND SOCIAL WORK

(P) Soc Sec Rev. G.P. Stewfield

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
TELEPHONE: 01-233 3000

CONFIDENTIAL

CHIEF SECRETARY
REC. 31 OCT 1985
MST to deal.

Mr Anson Mr Gilhooly
Mr Kemp Mr Pine
Mr Byatt Mr Rayner
Mr Cassell Mr Revolta
Mr Monck Mr Burr
Mr Scholar Mr Morris
Mr Cropper
Mr Turnbull Mr Lord
Mr Watson Mr Davies
Mr Folger Mr Isaac (IR)
MST

Rt Hon Norman Fowler MP
Secretary of State for Social Security
House of Commons
LONDON
SW1A 0AA

MINISTER OF STATE
REC. 35 OCT 1985
ACTION Miss Walker
PS/Chancellor
PS/CST
Sir P Middleton, Sir T Burns, Sir G Littler

31 October 1985

PERSONAL PENSIONS AND THE PUBLIC SERVICES

Ian Gow wrote to you on 12 September about how the personal pension proposals in the Social Security Green Paper should be applied in the public services.

I agree with Ian that there will be problems in maintaining a policy of holding personal pension contributions to the statutory minimum. I also recognise that this will give rise to particular difficulty with non-contributory schemes such as the Civil Service and the Armed Forces. If we were to set contribution rates for public service employers above the minimum we could find ourselves faced with an increase in costs. This would arise not only because of the increase in the per capita level of contribution but also from the increased uptake of private pensions which would result from personal pensions being made more attractive. Such developments would have serious effects on the PSBR and detrimental consequences for funded schemes.

I accept that we must make strong efforts to hold the line but we must also recognise that it might not be possible to do so. In particular there is the risk that local authorities will be attracted by the thought that, if they were to offer a rate just high enough to make private pensions attractive but still below occupational scheme rates, they might be able to make substantial savings not least in staff costs. This would also apply to a greater, or lesser extent, to the teachers' scheme.

In the local government scheme any sizeable move to personal pensions could have consequences for the funds, while for other schemes the result would be an increase in the PSBR.

I see very strong attractions from the point of view of the variety of schemes that the Scottish Office administers in Ian's suggestions that public service schemes or even all employers who run good occupational schemes could be exempted from the proposed arrangements. An exemption would mean not only that the PSBR implications would be avoided, but we would not need to accommodate the many changes in management arrangements that would become necessary. Such an

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exemption would also commend itself to the local government employers as you will already know. I recognise, however, the severe presentational and other difficulties that would arise from such a step, not least in light of our general commitment to personal pensions. Nevertheless I do feel that we should at least leave the door open on the option if that is at all possible.

I am copying this letter to Ian Gow , members of H Committee, Michael Heseltine, and Sir Robert Armstrong.

JOHN J MacKAY

FROM: R DEVEREUX
DATE: 1 November 1985

MISS PEIRSON MEP
CHANCELLOR OF THE EXCHEQUER

cc: Sir P Middleton
Sir T Burns
Mr Casell
Mr H P Evans
Mr Peretz
Mr Scholar
Mr Watts
Dr I Webb

**CGBR IN OCTOBER**

The preliminary estimate of the CGBR in October is £0.8 billion, bringing the cumulative total since 1 April 1985 to £8.2 billion. Within this, the CGBR(O) is estimated to have been a surplus of £0.2 billion in October and borrowing of £4.9 billion since 1 April 1985. These figures are not yet firm and may change with later information before publication of 18 November in the monthly press notice on the PSBR.

2. The CGBR(O) for October is £0.2 billiion lower (less borrowing) than forecast last month. Higher Inland Revenue receipts (by £0.6 billion) were partly offset by other changes, possibly representing higher supply expenditure. Information about the nature of the increase in tax receipts is still to come; it may be partly at least earlier than expected payments of corporation tax. We shall be looking into this as part of the normal monthly analysis.

3. On-lending to local authorities was £0.7 billion higher than forecast, largely due to their borrowing £0.5 billion on 31 October in anticipation of a ¼% rise in interest rates. As usual, this has no necessary implication for the LABR.

4. Further analysis of the outturn in October will be given in the next Ministerial monthly note on the PSBR in two weeks' time.

R DEVEREUX

## CENTRAL GOVERNMENT TRANSACTIONS (2)

£ billion

| | Inland Revenue | Customs & Excise | Other own account | CGBR(O) | Net Lending LAs | Net Lending PCs | CGBR |
|---|---|---|---|---|---|---|---|
| 1st April 1985 - 31 October 1985 | | | | | | | |
| Outturn (1) | +29.0 | +20.8 | -54.7 | -4.9 | -3.0 | -0.3 | -8.2 |
| Budget profile | +29.9 | +20.2 | -55.3 | -5.2 | -1.0 | -0.1 | -6.3 |
| Difference | -0.9 | +0.6 | +0.6 | +0.3 | -2.0 | -0.2 | -1.9 |
| 1st April 1984 - 31 October 1984 | +26.0 | +18.9 | -51.6 | -6.7 | -1.2 | — | -8.0 |
| Calendar October 1985 | | | | | | | |
| Outturn (1) | +5.5 | +3.1 | -8.4 | +0.2 | -0.9 | -0.1 | -0.8 |
| Last month's forecast | +4.9 | +3.1 | -7.9 | — | -0.3 | -0.2 | -0.5 |
| Difference | +0.6 | +0.1 | -0.5 | +0.2 | -0.7 | +0.1 | -0.4 |

(1) Preliminary estimate, subject to revision

(2) + indicates a receipt, net receipt, or difference which reduces the CGBR

- indicates a payment, net payment, or difference which increases the CGBR

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CONFIDENTIAL AND PERSONAL

FROM: MISS M E PEIRSON
DATE: 8 November 1985

Good! [initials].

1. MR CASSELL
2. CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Peretz
Mr Scholar
Mr Devereux
Dr I Webb
Mr Wells - CSO

Thanks. I note X.

**PSBR IN OCTOBER**

1. The first provisional outturn for the PSBR in October is -£0.3 billion (ie a net repayment). This is £0.5 billion lower than last month's forecast (see table attached), and well below available market forecasts, which are for net borrowing of £0.2-1.1 billion. Our estimate is subject to revision before publication at 2.30 pm on Monday 18 November.

2. In the first 7 months of 1985-86 the PSBR was £5.3 billion, £0.2 billion above the Budget profile. This is reassuring in relation to the proposed Autumn Statement forecast for the year as a whole, and its publication will be helpful at the Treasury's appearance before the Treasury Committee on the same day (18 November). X

3. The CGBR(O) and LABR in October were both forecast to be zero (net). But the CGBR(O) was provisionally a net repayment of £0.2 billion, as reported in Mr Devereux's minute of 1 November, and the LABR was provisionally a net repayment of £0.4 billion. (The high LA borrowing from the PWLB on 31 October, reported in Mr Devereux's note, was thus used to repay market borrowing, as expected.) The LABR undershoot offsets the unexpectedly high figure in September. The PCBR in October, at £0.3 billion, was very close to forecast.

4. The monthly note, presenting updated estimates for October and revised forecasts for November-January, will be circulated next Friday.

MEP

MISS M E PEIRSON

CONFIDENTIAL & PERSONAL

£ billion

| | October 1985 | | | April-October 1985 | | | April-October 1984 |
|---|---|---|---|---|---|---|---|
| | Provisional outturn | Last month's forecast | Difference | Provisional outturn | Budget profile | Difference | Outturn |
| CGBR(O) | - 0.2 | - | - 0.2 | 4.9 | 5.2 | - 0.3 | 6.7 |
| LABR | - 0.4 | - | - 0.4 | 0.7 | 0.5 | 0.2 | 1.0 |
| PCBR | 0.3 | 0.2 | - | - 0.3 | - 0.6 | 0.3 | 0.2 |
| PSBR | - 0.3 | 0.2 | - 0.5 | 5.3 | 5.1 | 0.2 | 7.9 |

**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG



13 November 1985

Dear Nigel.

We are meeting tomorrow and I thought it would be helpful if I enclosed for your own information a copy of a note I discussed with the Prime Minister today. There are obviously problems to be sorted out here and I would value your help.

I am copying this to the Chief Secretary.

Yours ever.

Norman

NORMAN FOWLER

PRIME MINISTER

SOCIAL SECURITY REFORM

I shall need to put to MISC 111 and Cabinet the figures which illustrate the effect on individuals of our reforms. The figures (which we are committed to publishing in the White Paper) will stand until we implement the reform in April 1988.

Before committing myself on what advice to give my colleagues, I would like to discuss with you informally the options open to us and their political consequences.

The central problems are basically these. One effect of the changes at present is to create some major losses for pensioners. A second problem is that the impact of the housing benefit changes could worsen incentives to work. I have therefore examined both the position of pensioners and family credit - while at the same time endeavouring to meet my commitment to a savings target for the review amounting to £1 billion for 1988/89.

NB

To illustrate the problem and possible options, I have shown in the table attached the number of gainers and losers arising under three possible options for reform:

Option A is based on the provision in the Autumn Statement (which is subject to adjustment in the light of decisions yet to be taken on the Review);

Option B provides for a higher rate of adult credit in the family credit scheme and adds £1 to the pensioner premium in income support. Pensioners are also exempt from paying 20 per cent of their rates, which greatly reduces the number of pensioner losers without increasing public expenditure. Fewer families than now have out-of-work

Why?

E.R.

incomes within 90 per cent of their work incomes; and the number of losers among FIS families is reduced by about 20,000. Pensioner losers are reduced to below 2 million and the number losing over £5 is halved;

Option C assumes the same level of family credit as Option B but adds a further £1 to the pensioner premium in income support. Pensioners would still have to pay 20 per cent of their rates; and about 2.3 million of them will lose.

? cnv

In the tables only significant gains and losses (more than 50p per week) are counted.

The political sensitivities of all this are obvious and I have not yet broadened the discussion outside a small circle of officials in my Department. I shall want to go through the issues with the Chancellor and then present them to MISC 111. But before doing so I wanted to be sure that you were fully seized of what is at stake.

12 November 1985

N F

## GAINS AND LOSSES: ALL INCOME-RELATED BENEFITS

000s

| Client Groups | Option A | | Option B | | Option C | |
|---|---|---|---|---|---|---|
| | Gainers | Losers | Gainers | Losers | Gainers | Losers |
| Pensioners | 300 | 3,460 | 1,100 | 1,900 | 870 | 2,300 |
| Sick/Disabled | 180 | 90 | 210 | 70 | 230 | 70 |
| Single Parents | 250 | 250 | 270 | 240 | 270 | 240 |
| Couples with children | 600 | 260 | 670 | 200 | 670 | 200 |
| (of whom: | | | | | | |
| In f/t work | 230 | 120 | 290 | 100 | 290 | 100 |
| Not in f/t work | 370 | 140 | 380 | 100 | 380 | 100) |
| Others | 240 | 980 | 540 | 1,040 | 540 | 1,040 |
| TOTAL | 1,570 | 5,040 | 2,790 | 3,450 | 2,580 | 3,850 |

Option A: based on the provision in the Autumn Statement;

Option B: adds £2 to adult credit in family credit;
adds £1 to pensioner premium in income support;
excludes pensioners from paying 20% rates;
same rate of income support for all couples aged 18+;

Option C: adds £2 to adult credit in family credit;
adds £2 to pensioner premium in income support;
pensioners pay 20% rates;
same rate of income support for all couples aged 18+.

COVERING CONFIDENTIAL & PERSONAL

FROM: MISS M E PEIRSON
DATE: 15 November 1985

1. MR CASSELL

2. CHANCELLOR OF THE EXCHEQUER

Copy with PPS letter, attached, for:

Mr Norgrove - No 10

| cc List A | List B (distributed at 2.30 pm, 18 November) | |
|---|---|---|
| Sir P Middleton | Chief Secretary | Miss O'Mara |
| Sir T Burns | Financial Secretary | Mr Walsh |
| Mr H Evans | Economic Secretary | Mr Williams |
| Mr Peretz | Minister of State | Mr Powell |
| Mr Scholar | Mr Bailey | Mr Cropper |
| Mr L Watts | Mr Moore | Mr H Davies |
| Mr Devereux | Mr Odling-Smee | Mr Lord |
| Dr Webb | Mr Turnbull | Mr Wells - CSO |
| | Mrs Butler | Mr Calder - IR |
| | Mr Mowl | Mr Wilmott - C & E |

**MONTHLY NOTE ON THE PSBR**

1. I attach a report on the PSBR outturn for October. This outturn will be published by press notice at 2.30 pm on Monday, 18 November.

2. In this note, as usual, outturn in the latest month (October) is compared with the forecast made a month ago. Outturns for April to October are compared with the Budget profile. Forecasts for November-January are also included.

3. The press notice is confined to comparisons between outturn in the first 7 months of 1985-86 and outturn in the same period last year.

MEP

MISS M E PEIRSON

COVERING CONFIDENTIAL & PERSONAL

**PUBLIC SECTOR BORROWING**


Summary

- The PSBR for October is provisionally estimated at a net repayment of debt of £0.3 billion, compared with last month's forecast of net borrowing of £0.2 billion. Local authorities borrowed £0.4 billion less than forecast.

- Borrowing in the first seven months of 1985-86 (£5.3 billion) was £0.2 billion higher than the Budget profile (Chart 1). Higher borrowing by local authorities and public corporations was partly offset by lower central government borrowing (despite smaller oil revenues).

- The PSBR is forecast at £1 billion over the next three months, £¾ billion higher than in the Budget profile, partly because of lower oil revenues.

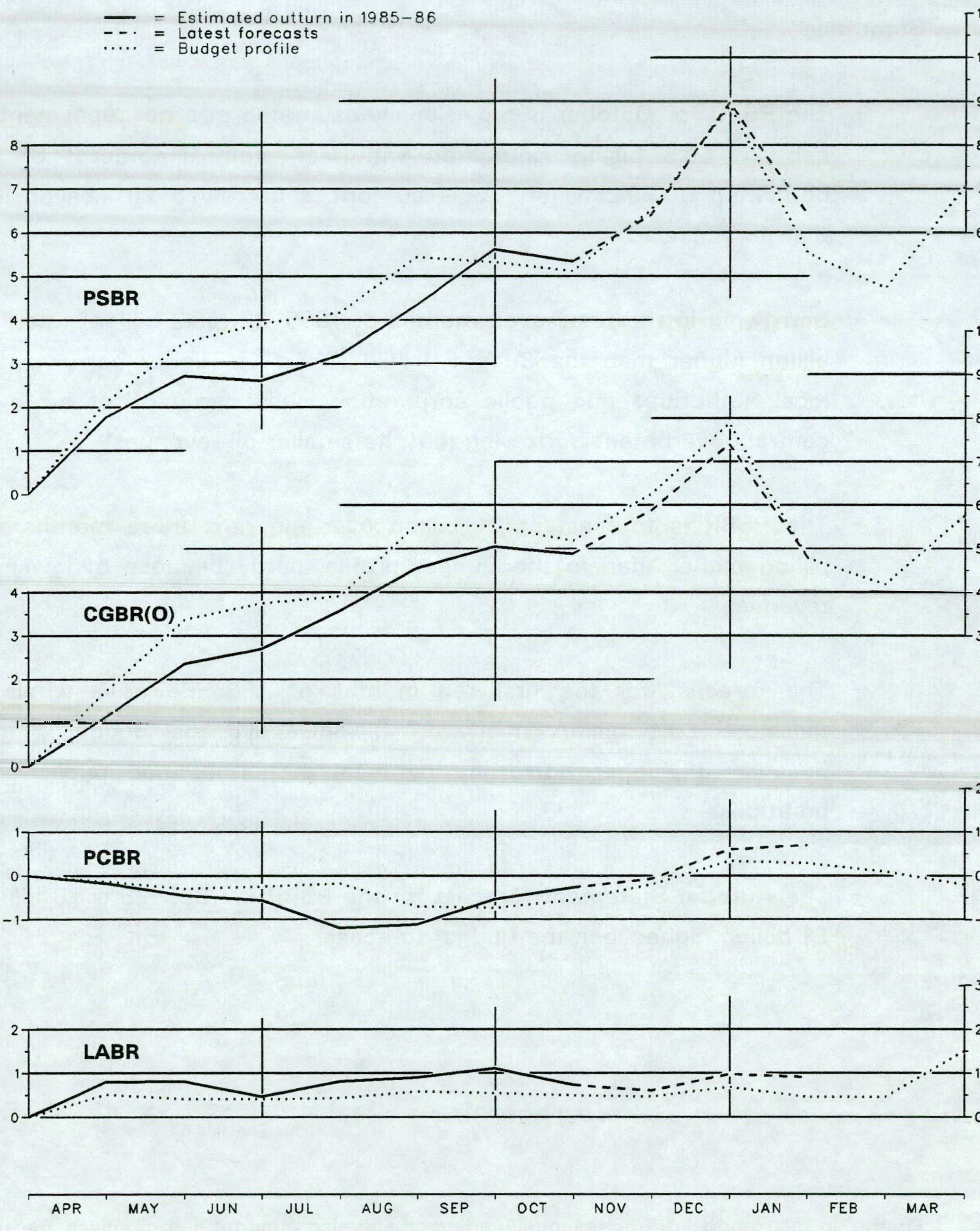
- The forecast for the first ten months of 1985-86 as a whole is therefore £6½ billion, nearly £1 billion above the Budget profile, because of higher borrowing by local authorities and public corporations.

- The Autumn Statement forecast for the PSBR in 1985-86 is £8 billion, £1 billion higher than the Budget forecast.


Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

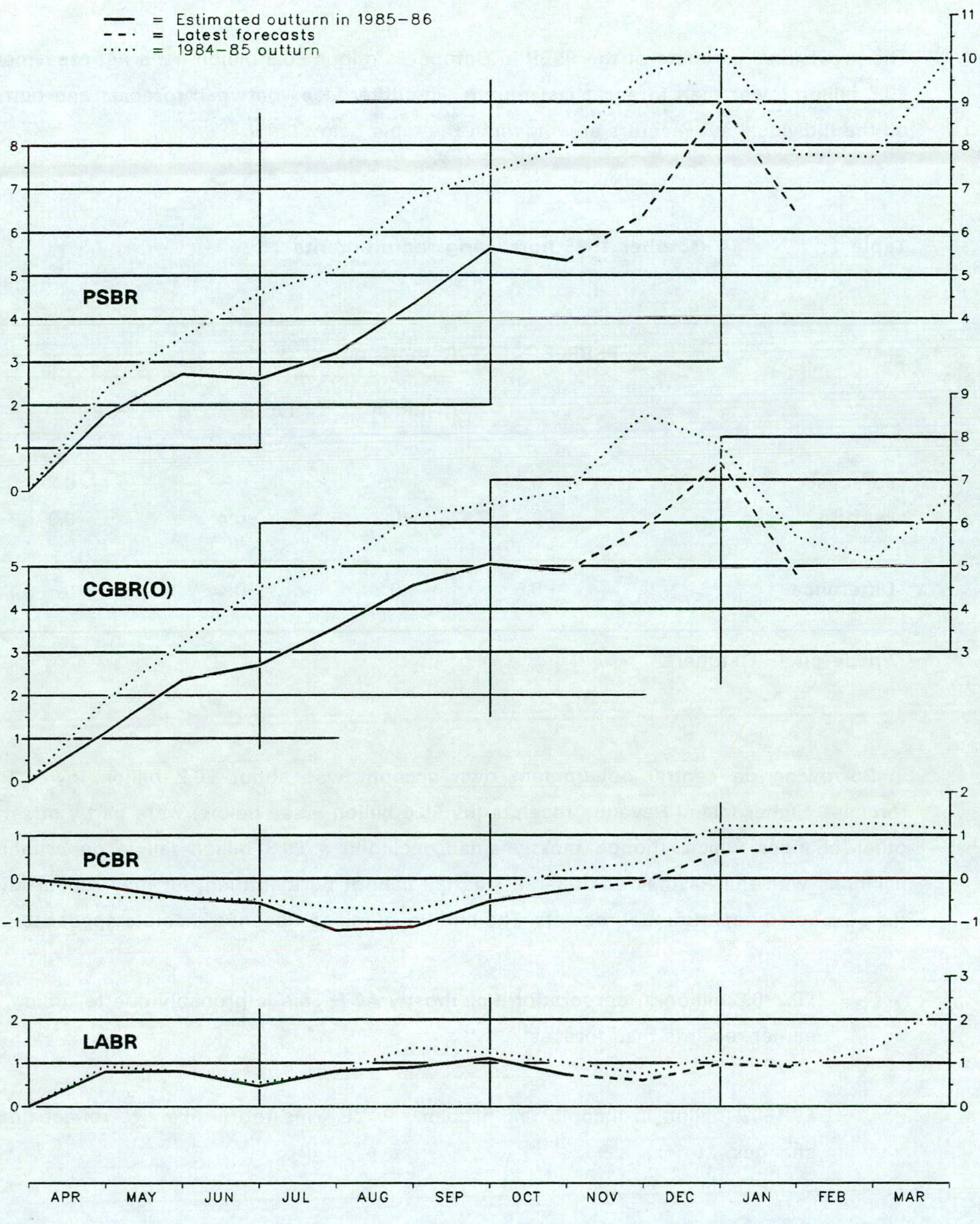
## Chart 1 : Comparisons with Budget profiles for 1985-86

£ billion cumulative



## Chart 2 : Comparisons with last year's outturns

£ billion cumulative



**Borrowing in October**

(Comparisons in this section are with last month's forecast)

The provisional estimate of the PSBR in October is minus £0.3 billion (ie. a net repayment), £0.5 billion lower than forecast last month. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: October 1985 borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Forecast* | 0.2 | - | - | 0.2 |
| Outturn | -0.3 | -0.2 | -0.4 | 0.3 |
| Difference | -0.5 | -0.2 | -0.4 | - |

*made on 15 October

2. Borrowing on central government own account was about £0.2 billion lower than forecast. Higher Inland Revenue receipts (by £0.6 billion - see below) were partly offset by other changes which, though mostly small, included a £0.3 billion fall in departmental balances with the Paymaster General. This fall cannot be identified but may reflect lower than expected departmental receipts. The additional Inland Revenue receipts appear to be:

- £0.2-0.3 billion in corporation tax, mostly ACT. This is probably due to timing, i.e. earlier receipts than forecast.

- £0.1-0.2 billion in income tax, probably PAYE. This too is likely to reflect timing changes.

- £0.2 billion of national insurance contributions not yet paid over to the National

Insurance Fund; which means that the surplus on the Fund in October was £0.2 billion higher than forecast.

3. Local authorities are provisionally estimated to have repaid about £0.4 billion of debt in October, compared with last month's forecast of zero net borrowing. Such a large net repayment of debt is unusual in October. We cannot identify any influences which could account for it; the repayment more than offsets the unexpectedly high borrowing in September.

4. Public corporations borrowed about £0.3 billion in October, close to last month's forecast.

## April to October

(comparisons in this and following sections are with the Budget profile)

**Table 2: Total April-October borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Budget forecast | 5.1 | 5.2 | 0.5 | -0.6 |
| Outturn | 5.3 | 4.9 | 0.7 | -0.3 |
| Difference | 0.2 | -0.3 | 0.2 | 0.3 |

5. The cumulative PSBR for the first seven months of 1985-86 was £5.3 billion. This is about £0.2 billion above the Budget profile (see Chart 1 and Table 2); and about £2.6 billion below the same period last year (Chart 2), partly because of the BT second call receipts in June this year.

6. Cumulative borrowing in April-October on central government own account was £0.3

billion lower than the Budget profile. Lower Inland Revenue receipts (by £0.9 billion, mainly PRT) were more than offset by higher Customs and Excise receipts (by £0.6 billion, mainly VAT) and lower supply expenditure (by £0.7 billion, due to lower grants to the National Coal Board and lower ECGD payments): see next paragraph.

7. Cumulative supply expenditure is expected to remain below the Budget profile for the rest of the year. The planning total is expected to be at least fully spent, but with less on supply and more on other items, such as local authority capital (affecting the LABR) and coal stock rebuilding (affecting the PCBR).

8. Local authorities borrowed £0.7 billion in the first seven months of 1985-86, about £0.2 billion more than in the Budget profile, probably because of higher capital expenditure.

9. Public corporations made a net repayment of debt of £0.3 billion in April-October, repaying about £0.3 billion less than in the Budget profile. The main reason for the increase on the Budget profile is higher borrowing by the National Coal Board, matching the reduction in grant (see paragraph 6 above); another reason is higher borrowing by the Electricity Council to meet post-coal-strike costs.

**November to January**

10. The PSBR in the period November-January is forecast to be £1 billion, nearly £¾ billion higher than in the Budget profile, partly because of lower oil revenues. (The comparison with the same period last year is vitiated by the effect on the latter of the BT sale and the acceleration of VAT on imports).

11. Table 5 shows the latest detailed profile of borrowing on central government own account for November-January. A comparison with the Budget forecast for the first ten months and with the outturn in April-January 1984-85 is provided in Table 6.

12. The forecast of the CGBR(O) for November-January is £¼ billion higher than the Budget profile, unwinding fully the shortfall in April-October. The increased borrowing in November-January is accounted for by lower Inland Revenue receipts, mainly due to lower PRT. The forecasts for supply expenditure and other major components are only slightly

different from the Budget profile.

13. The forecast monthly path of the CGBR(O) is as follows.

- In November, the CGBR(O) is forecast to be £1 billion. Cyclically high Customs and Excise (VAT) receipts and the second call on the sale of Britoil shares are more than offset by seasonally high debt interest payments and seasonally low Inland Revenue receipts. Supply expenditure includes £¼ billion student awards.

- In December, the CGBR(O) is forecast to be £1½ billion. Receipts from asset sales are more than offset by seasonally low Inland Revenue receipts and a seasonally large deficit on the National Insurance Fund. Supply expenditure includes a biannual payment for interest support (ECGD). EC contributions are high, with £¼ billion supplementary finance expected. The forecast for December is, as usual, particularly uncertain because Christmas and the New Year can significantly affect the timing of the tax receipts.

- In January, the CGBR(O) is forecast to be a surplus of £2½ billion. This reflects the seasonal peaking of Inland Revenue receipts. January is the main month for the receipts of schedule D income tax (totalling £1¾ billion) and Mainstream Corporation Tax (totalling £2 billion); receipts of Advance Corporation Tax (totalling £1½ billion) are also high. The forecast surplus is £½ billion lower than in the Budget profile, because of lower income tax and higher supply expenditure (both due to timing).

14. Local authorities are expected to borrow nearly £¼ billion over the next three months, about £¼ billion more than in the Budget profile. This reflects the judgement that part of the large debt repayment in October will be offset over the rest of the year (the rest offsetting the high borrowing in September).

15. Public corporations are expected to borrow £1 billion over the next three months, slightly above the Budget profile.

**April–January**

16. Cumulatively, the forecast PSBR for the first ten months of 1985-86 is £6½ billion, nearly £1 billion above the Budget profile, because of higher borrowing by local authorities and public corporations. As explained above, the shortfall in April–October on the CGBR(O) is expected to disappear by January: the shortfall in supply in the first seven months (see paragraph 7) is offset by lower expected Inland Revenue receipts in the next three months (mainly because of lower PRT). The LABR and PCBR are each expected to be nearly £½ billion above the Budget profile by January: the former principally because of higher capital expenditure, the latter principally because of higher borrowing by the National Coal Board (offsetting lower grant receipts) and partly because of higher post-coal-strike costs incurred by the Electricity Council.

**Table 3: Latest monthly profles**
(Budget profiles in italics for comparison)

£ billion

| | PSBR | | Comprising CGBR(O) | | LABR | | PCBR | |
|---|---|---|---|---|---|---|---|---|
| 1985-86 | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **1.0** | *1.4* | **1.2** | *1.6* | **-** | *-0.1* | **-0.3** | *-0.2* |
| Jun | **-0.1** | *0.4* | **0.3** | *0.4* | **-0.3** | *-* | **-0.1** | *0.1* |
| Jul | **0.6** | *0.3* | **0.9** | *0.2* | **0.3** | *-* | **-0.6** | *0.1* |
| Aug | **1.1** | *1.3* | **1.0** | *1.6* | **0.1** | *0.2* | **0.1** | *-0.5* |
| Sep | **1.3** | *-0.1* | **0.5** | *-* | **0.2** | *-* | **0.6** | *-* |
| Oct | **-0.3** | *-0.2* | **-0.2** | *-0.3* | **-0.4** | *-0.1* | **0.3** | *0.2* |
| Nov | **1.1** | *1.4* | **1.0** | *1.1* | **-0.1** | *-* | **0.2** | *0.4* |
| Dec | **2.6** | *2.4* | **1.5** | *1.6* | **0.4** | *0.2* | **0.7** | *0.5* |
| Jan | **-2.6** | *-3.4* | **-2.6** | *-3.1* | **-0.1** | *-0.2* | **0.1** | *-* |
| Cumulative | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **2.7** | *3.5* | **2.4** | *3.4* | **0.8** | *0.4* | **-0.5** | *-0.3* |
| Jun | **2.6** | *3.9* | **2.7** | *3.8* | **0.5** | *0.4* | **-0.6** | *-0.2* |
| Jul | **3.2** | *4.2* | **3.6** | *3.9* | **0.8** | *0.4* | **-1.2** | *-0.2* |
| Aug | **4.3** | *5.4* | **4.6** | *5.6* | **0.9** | *0.6* | **-1.1** | *-0.7* |
| Sep | **5.6** | *5.3* | **5.0** | *5.5* | **1.1** | *0.5* | **-0.5** | *-0.7* |
| Oct | **5.3** | *5.1* | **4.9** | *5.2* | **0.7** | *0.5* | **-0.3** | *-0.6* |
| Nov | **6.4** | *6.5* | **5.9** | *6.3* | **0.6** | *0.5* | **-0.1** | *-0.2* |
| Dec | **9.0** | *8.9* | **7.4** | *7.9* | **1.0** | *0.7* | **0.6** | *0.3* |
| Jan | **6.4** | *5.5* | **4.8** | *4.8* | **0.9** | *0.5* | **0.7** | *0.3* |

Figures for April to October are outturns

**Table 4: PSBR for 1985-86 – comparisons with 1984-85 and Budget profile**

£ billion

| | 1984-85 | 1985-86 | | Differences from | |
|---|---|---|---|---|---|
| | Outturn | Budget profile | Latest update[(1)] | 1984-85 outturn | Budget profile |
| | 1 | 2 | 3 | 3-1 | 3-2 |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.4 |
| May | 1.2 | 1.4 | **1.0** | -0.2 | -0.4 |
| Jun | 1.0 | 0.4 | **-0.1** | -1.1 | -0.5 |
| Q2 | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 0.6 | 0.3 | **0.6** | – | 0.3 |
| Aug | 1.6 | 1.3 | **1.1** | -0.5 | -0.1 |
| Sep | 0.6 | -0.1 | **1.3** | 0.7 | 1.4 |
| Q3 | 2.8 | 1.4 | **3.0** | 0.2 | 1.6 |
| Oct | 0.6 | -0.2 | **-0.3** | -0.8 | -0.1 |
| Nov | 1.7 | 1.4 | **1.1** | -0.6 | -0.3 |
| Dec | 0.6 | 2.4 | **2.6** | 2.0 | 0.2 |
| Q4 | 2.8 | 3.6 | **3.4** | 0.5 | -0.2 |
| Jan | -2.4 | -3.4 | **-2.6** | -0.1 | 0.8 |
| Feb | -0.1 | -0.8 | | | |
| Mar | 2.4 | 2.3 | | | |
| Q1 | -0.1 | -1.8 | | | |
| Cumulative | | | | | |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.4 |
| May | 3.6 | 3.5 | **2.7** | -0.9 | -0.8 |
| Jun | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 5.1 | 4.2 | **3.2** | -2.0 | -1.0 |
| Aug | 6.8 | 5.4 | **4.3** | -2.4 | -1.1 |
| Sep | 7.4 | 5.3 | **5.6** | -1.8 | 0.3 |
| Oct | 8.0 | 5.1 | **5.3** | -2.6 | 0.2 |
| Nov | 9.6 | 6.5 | **6.4** | -3.2 | -0.1 |
| Dec | 10.2 | 8.9 | **9.0** | -1.3 | 0.1 |
| Jan | 7.8 | 5.5 | **6.4** | -1.4 | 0.9 |
| Feb | 7.7 | 4.7 | | | |
| Mar | 10.2 | 7.1 | | | |

[(1)]Figures for April to October are outturns

**Table 5: Central government transactions - October outturn and latest forecasts for November-January**

£ billion

| | October | | Latest forecasts | | |
|---|---|---|---|---|---|
| | forecast | outturn[1] | Nov | Dec | Jan |
| Receipts | | | | | |
| *Consolidated Fund* | | | | | |
| Inland Revenue | 4.9 | 5.5 | 3.4 | 3.7 | 9.5 |
| Customs and Excise | 3.1 | 3.1 | 3.9 | 2.8 | 3.0 |
| Other[2] | 1.0 | 1.6 | 1.0 | 0.9 | 0.9 |
| *National Loans Fund* | | | | | |
| Interest etc. receipts | 0.6 | 0.6 | 0.4 | 0.5 | 0.4 |
| Total Receipts | 9.5 | 10.8 | 8.7 | 7.9 | 13.8 |
| Expenditure | | | | | |
| *Consolidated Fund* | | | | | |
| Supply expenditure[3] | 8.3 | 8.1 | 7.8 | 8.6 | 8.9 |
| Adjustment to Supply Services basis[4] | -0.1 | - | 0.1 | -0.1 | 0.1 |
| Other | 0.3 | 0.4 | 0.3 | 0.6 | 0.5 |
| *National Loans Fund* | | | | | |
| Service of the national debt | 0.9 | 0.9 | 1.6 | 0.6 | 1.9 |
| Net lending | 0.2 | 1.4 | 0.4 | - | 0.4 |
| Total Expenditure | 9.7 | 10.7 | 10.2 | 9.7 | 11.8 |
| Other funds and accounts (+ increases borrowing) (- reduces borrowing) | 0.3 | 0.9 | -0.1 | 0.3 | -0.2 |
| **CGBR** | **0.5** | **0.9** | **1.4** | **2.1** | **-2.2** |
| On-lending | 0.5 | 1.1 | 0.5 | 0.5 | 0.4 |
| **CGBR(O)** | **-** | **-0.2** | **1.0** | **1.5** | **-2.6** |

[1] Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.
[2] Includes receipts from sales of assets
[3] On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
[4] Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

**Table 6: Central government transactions[1] – comparisons for April–January**

£ billion

| | 1984–85 | 1985–86 | |
|---|---|---|---|
| | Outturn | Budget forecast | Latest update |
| Receipts | | | |
| *Consolidated Fund* | | | |
| Inland Revenue | 40.7 | 46.9 | 45.5 |
| Customs and Excise | 28.9 | 30.0 | 30.6 |
| Other[2] | 10.4 | 11.0 | 10.4 |
| *National Loans Fund* | | | |
| Interest etc. receipts | 4.3 | 5.0 | 5.3 |
| Total Receipts | 84.3 | 92.9 | 91.8 |
| Expenditure | | | |
| *Consolidated Fund* | | | |
| Supply expenditure[3] | 75.5 | 81.5 | 80.7 |
| Adjustment to Supply Services basis[4] | 0.7 | – | 0.5 |
| Other | 4.0 | 3.5 | 3.8 |
| *National Loans Fund* | | | |
| Service of the national debt | 10.9 | 12.0 | 12.0 |
| Net lending | 1.9 | 1.8 | 4.7 |
| Total Expenditure | 93.0 | 98.7 | 101.7 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | –0.7 | 1.5 | –0.4 |
| **CGBR** | **8.1** | **7.3** | **9.5** |
| On-lending | 2.4 | 2.5 | 4.7 |
| **CGBR(O)** | **5.7** | **4.8** | **4.8** |

(1)Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.
(2)Includes receipts from sales of assets.
(3)On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
(4)Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

4[illegible]/581

COVERING CONFIDENTIAL & PERSONAL

C.
Any comments on press brief? – needed for Monday 9:30am.

FROM: MISS M E PEIRSON
DATE: 15 November 1985

PPS/CHANCELLOR

cc Mr Cassell

Rno 15/11

No comments.

**DRAFT PRESS BRIEFING ON PSBR IN OCTOBER**

I attach the draft press briefing on the PSBR in October, for Monday's publication. The aim is to circulate the briefing to List A recipients by 10.30 am Monday. Any comments which the Chancellor might have can be taken on board provided you can let Mr Clark (ext 3093) have them before 9.30 am Monday, and earlier if possible.

MEP

MISS M E PEIRSON

COVERING CONFIDENTIAL & PERSONAL

From: JOHN CLARK
18 November 1985

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr H Evans
Mr Peretz
Miss O'Mara
Miss Peirson
Mr Walsh
Mr Watts
Mr R Evans
Mr Ward - CSO
Mr Wright - B/E
Mr Norgrove - No. 10

List B
(distributed at 2.30pm, 18 November)

Mrs Butler
Mr Spencer
Mr Cropper
Mr H Davies
Mr Lord
Mrs Hillier - IR
Mr B Sexton - C and E

**BRIEFING FOR 18 NOVEMBER PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for October will be published at 2.30pm on 18 November. The provisional outturns, together with figures for the first seven months of 1984-85 and 1985-86, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1983-84 are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns**

£ billion

| | Apr-Oct 1984 | Apr-Oct 1985 | October 1985 |
|---|---|---|---|
| Central government on own account | 6.7 | 4.9 | **-0.2** |
| Local authorities | 1.0 | 0.7 | **-0.4** |
| Public corporations | 0.2 | -0.3 | **0.3** |
| PSBR | 8.0 | 5.3 | **-0.3** |
| Memo: CGBR (including borrowing for on-lending to LAs and PCs) | 8.0 | 8.2 | **0.9** |

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

**Table 2: PUBLIC SECTOR BORROWING REQUIREMENT – Comparison with the last two years**

Cumulative £ billion

| | Central government on own account | | | Local authorities borrowing requirement | | | Public corporations borrowing requirement | | | Public sector borrowing requirement | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1983–84 | 1984–85 | 1985–86 | 1983–84 | 1984–85 | 1985–86 | 1983–84 | 1984–85 | 1985–86 | 1983–84 | 1984–85 | 1985–86 |
| Apr | 0.9 | 1.9 | **1.1** | 0.5 | 0.9 | **0.8** | –0.2 | –0.4 | **–0.2** | 1.2 | 2.4 | **1.8** |
| May | 2.4 | 3.2 | **2.4** | 0.3 | 0.8 | **0.8** | –0.3 | –0.4 | **–0.5** | 2.4 | 3.6 | **2.7** |
| Jun | 3.7 | 4.5 | **2.7** | –0.1 | 0.6 | **0.5** | –0.4 | –0.5 | **–0.6** | 3.2 | 4.6 | **2.6** |
| Jul | 4.5 | 5.0 | **3.6** | –0.0 | 0.8 | **0.8** | –0.6 | –0.7 | **–1.2** | 3.9 | 5.1 | **3.2** |
| Aug | 5.8 | 6.2 | **4.6** | 0.3 | 1.4 | **0.9** | –0.4 | –0.7 | **–1.1** | 5.6 | 6.8 | **4.3** |
| Sep | 6.6 | 6.4 | **5.0** | 0.3 | 1.2 | **1.1** | –0.0 | –0.3 | **–0.5** | 6.9 | 7.4 | **5.6** |
| Oct | 6.7 | 6.7 | **4.9** | 0.3 | 1.0 | **0.7** | 0.1 | 0.2 | **–0.3** | 7.1 | 8.0 | **5.3** |
| Nov | 8.3 | 8.5 | | –0.2 | 0.8 | | 0.5 | 0.4 | | 8.5 | 9.6 | |
| Dec | 9.1 | 7.8 | | 0.1 | 1.2 | | 0.6 | 1.2 | | 9.8 | 10.2 | |
| Jan | 6.3 | 5.7 | | 0.0 | 0.9 | | 0.7 | 1.2 | | 7.1 | 7.8 | |
| Feb | 6.7 | 5.1 | | 0.1 | 1.3 | | 0.6 | 1.3 | | 7.5 | 7.7 | |
| Mar | 8.2 | 6.6 | | 1.2 | 2.4 | | 0.3 | 1.1 | | 9.7 | 10.2 | |

Note: Figures may not sum precisely because of rounding

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(DRAFT)

2. The (provisional) PSBR for October is a net repayment of debt of £0.3 billion. This is well below the forecasts of City analysts which lie between £¼ billion and just over £1 billion, with an average of £¾ billion.

**POSITIVE**

1. Borrowing in first seven months of 1985-86 was £5.3 billion, i.e. £2.6 billion lower than in first seven months of 1984-85. Higher receipts from asset sales account for some - about £1¼ billion - but not all of reduction.

2. Outturn for first seven months is consistent with Autumn Statement forecast for whole year (£8 billion).

**DEFENSIVE/FACTUAL**

## 1. Borrowing in 1985-86

Background

Autumn Statement forecast for 1985-86 £8 billion. Budget forecast was £7.1 billion. Revised estimate due to reduction in expected North Sea revenues owing to fall in sterling oil price, partly offset by increase in non-North-Sea taxes (see Q5 and Q7 below). Margin of error on 1985-86 forecast was £4½ billion at Budget time and is still £2½ billion either way (see also Autumn Statement brief D1).

Line to take

Autumn Statement forecast for 1985-86 PSBR is £8 billion. Relatively small revision since Budget due to downward revision to forecast of North Sea revenues, partly offset by higher receipts of non-North-Sea taxes. (If asked: Borrowing in November-March is expected to be £2¾ billion.)

## 2. Asset sales

Background

Budget and Autumn Statement forecasts for total receipts from special sales of assets in 1985-86 were both £2.5 billion.

Line to take

No receipts from special asset sales in October. Total receipts for first seven months of 1985-86 about £1¾ billion. The second Britoil instalment of about £200 million has been received in November. Government has also announced plans to sell remaining shares in Cable and Wireless in December 1985, subject to market conditions.

## 3. Supply Expenditure

Background

For first seven months of 1985-86, supply services (which represents issues to departments from the Consolidated Fund) were about 9 per cent higher than in April-October 1984. The comparable increase in supply expenditure (which represents cheques issued by departments and differs from supply services because of changes in departmental balances with the Paymaster General), adjusted for changes in method of paying EC contributions, is 6¼ per cent. Supply expenditure figures are not published and are based on less firm information. Autumn Statement forecast was that planning total in 1985-86 would be fully spent, representing 3½ per cent increase on 1984-85, but supply has different coverage from planning total (e.g. the latter includes asset sales, LA expenditure rather than CG grants to LAs, and PCs' market borrowing).

Line to take

Underlying increase in supply expenditure in April-October is 6¼ per cent above same period of 1984-85. October outturn is consistent with Autumn Statement forecast for planning total in 1985-86 as a whole: supply has different coverage from planning total.

## 4. EC refunds

Line to take

Whole of 1983 refund received in 1984-85. 1984 refund of 1000m ecus (about £590 million at present) expected in late 1985-86. 1985 and subsequent arrangements are different, and will reduce UK monthly contributions, starting in early 1986. [If pressed: Inter-governmental Agreement payment, to finance inescapable Community obligations, got Royal assent in October but not paid yet.]

## 5. Tax revenues in 1985-86

Background

Total taxes on incomes, expenditure and capital in 1985-86 forecast at £112½ billion in Autumn Statement, compared with £113½ billion in Budget.

Line to take

Changes from Budget reflect reduction of £2 billion in North Sea revenues (owing to lower sterling oil price) partly offset by £1 billion increase in other tax receipts (mainly higher expenditure taxes and higher onshore company taxes - latter boosted by higher estimated profits in 1984).

## 6. Inland Revenue receipts

[See also Q7 on oil revenues]

Background

Total Inland Revenue receipts in October were £5.5 billion. Total for April-October 1985-86 was £29.0 billion, 11½ per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85. No Autumn Statement forecast of total Inland Revenue taxes only, but stated that oil revenues expected to be £2 billion lower, and onshore company taxes expected higher, than in Budget forecast.

Line to take

Inland Revenue receipts in October were £5.5 billion (relatively high because of seasonally high corporation tax receipts), and the total for April-October £29 billion. Monthly pattern of receipts varies from year to year. Receipts in 1985-86 expected to be lower than in Budget forecast, because of shortfall in oil revenues only partly offset by higher onshore company taxes.

## 7. Oil Revenues

Background

Autumn Statement forecast for total oil revenues (PRT, including advance payments, corporation tax before ACT set off attributable to North Sea Oil and gas production, and oil royalties) £11½ billion, £2 billion lower than Budget forecast. Downward revision mainly reflects higher sterling/dollar exchange rate than assumed in Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined by prices and production up to June 1985. Revenues next March determined largely by what happened in July-December 1985.

Line to take

Oil revenues for year as a whole expected to be reduced by around £2 billion (compared with Budget forecast) owing to fall in sterling oil price.

## 8. Customs and Excise revenues

Background

Customs and Excise revenues in October were £3.1 billion. Total for April-October 1985-86 (£20.8 billion) was 10½ per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £36.3 billion, up 2¼ per cent on 1984-85 (low increase because 1984-85 receipts were boosted by change in VAT on imports). No Autumn Statement forecast of Customs and Excise taxes only, but stated that expenditure taxes expected higher than in Budget forecast.

From October 15, duty deferment was introduced and the tax point changed for hydrocarbon oil. Net effect was to reduce receipts by about £100 million in October, which will be recouped in November.

Line to take

Receipts in first seven months £20.8 billion. Increase over corresponding period last year greater than Budget forecast of increase for year as a whole, because receipts in second half of 1984-85 boosted by change in VAT on imports. Increase in 1985-86 as a whole expected to be greater than in Budget forecast, because of higher expenditure taxes (Autumn Statement).

## 9. Local authorities

Background

Preliminary estimate is that local authorities made a net repayment of debt of £0.4 billion in October, bringing total net borrowing to £0.7 billion in April-October 1985-86, about £0.3 billion lower than over corresponding period last year. Budget forecast for 1985-86 as a whole was not given (breakdown of PSBR of £7.1 billion given in part 6 of the FSBR, including £1.5 billion for LABR, was purely notional - based on an arbitrary allocation of the reserve). No Autumn Statement forecast of LABR for 1985-86, either. Outturn for 1984-85 was £2.4 billion.

Line to take

Local authority borrowing last month lower than in October of previous years, but not surprising given erratic pattern of borrowing - for example, September 1985 outturn higher than usual for that month. Local authorities borrowed heavily from PWLB in October (see Q10) but used money to repay market debt.

## 10. Technical change to encourage local authorities and public corporations to borrow from central government

Background

Economic Secretary announced on 26 July improvements in terms on some forms of borrowing from the NLF/PWLB. FT (2 September) argued that purpose was to switch LA borrowing from banks to PWLB, and hence to reduce both size of 'bill mountain' and also cost of public sector borrowing (since CG can raise finance more cheaply than LAs). LAs borrowed £0.9 billion from PWLB in October (at fixed rate, in anticipation of increase in interest rates), but used money to repay market debt.

Line to take

The main purpose of the change in NLF/PWLB terms and facilities was to reduce interest rates charged to borrowers and to increase the flexibility of the facilities offered. This also has the useful effect that, if local authorities and public corporations switch to central government from banks, the need for money market assistance is reduced. But it is not this new facility which is causing the LAs' high borrowing from the PWLB, e.g. in October.

## 11. Public corporations

Background

Public corporations (provisionally) borrowed £0.3 billion in October, giving net repayment of debt of £0.3 billion for first seven months of 1985-86. No Budget or Autumn Statement forecasts of PCBR for 1985-86 as a whole - see Q9.

Line to take

Borrowing in 1985-86 is running lower than in 1984-85 but is following a broadly similar monthly pattern.

John Clark (ext 3093)
PSF Division, HM Treasury

01/27

CONFIDENTIAL

b/f 19/11 for Rachel.

FROM: ECONOMIC SECRETARY
DATE: 15 November 1985

CHANCELLOR OF THE EXCHEQUER

cc: Financial Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Sedgwick
Mr Walsh
Mr Wood
Mr Ridlington

RELATIVE COST OF FUNDING BY DIFFERENT INSTRUMENTS

You asked for calculations comparing the relative cost of funding through different debt instruments (Mrs Lomax's minute to me of 1 August).

2. I have had the attached note prepared by HF3 Division and, following a discussion with those directly concerned, have summarised the main results below. But I should point out from the outset that the results of the cost comparisons strictly apply only to marginal changes in funding policy. This is because any attempt to take advantage of an identified yield advantage in a wholesale way is likely to erode that yield advantage. With this major caveat, the paper shows that:-

(i) On the basis of actual experience, it would have been substantially cheaper (by as much as 3 per cent from 1985 onwards) to fund for five years in 1980 and refinance in 1985, rather than to issue longer dated stock in 1980. This is because interest rates have fallen significantly since 1980 (paragraphs 16 to 21). But there are two reasons for thinking the financial benefits would have been less than this. First, as noted, we would certainly have moved five year rates against us. Second, because five year gilts are more likely to be sold to the monetary sector or overseas, we would have been driven to higher total sales of gilts - and a larger increase in the bill mountain - to achieve the same rate of monetary growth, and there are financial costs attached to that (see para 4(a) below).

(ii) The simple calculation in (i) is (very probably) reinforced when tax considerations are taken into account, but the data are so poor that this is only a strong presumption. Further, the tax data we have are for <u>average</u> tax rates at 31 March 1984 (see Annex 2). We have little idea what the actual rates on <u>new issues</u> will be.

(iii) Whether it would be cheaper to fund shorter or longer depends on whether we agree with the market view of future yields as embodied in the current yield curve. If we believe future yields will be lower (higher) than the market expects, it would be better to fund short (long).

(iv) Valid comparisons between IGs and high coupon conventional stocks cannot easily be made, although it is clear that high coupon conventionals compare from the Government's point of view very unfavourably with IGs for holders with low tax rates, but very favourably for holders with high tax rates. However, such comparisions are largely hypothetical, since high rate taxpayers tend, for this very reason, not to buy high coupon conventionals. IGs are more expensive than short-term low coupon conventional stock at inflation rates above 3-4 per cent and than long-term low coupon stock at inflation rates above about 3¼-5¼ percent (paragraphs 21 to 27).

3. Notwithstanding 2(i) above, I believe that we have been right to accept the need for a reasonable mix of funding instruments, and that it would be wrong to concentrate overwhelmingly on any single type (such as short conventionals) for the following reasons:-

(i) We have to supply gilts that meet the needs of the market. If we tried to get pension funds to accept short gilts, for example, we could only do so by turning their price against ourselves. We have already come across acceptance limits in trying to market IGs;

(ii) The Bank, for debt management reasons, fairly attaches importance to avoiding the bunching of maturities in the future. There is already heavy bunching of maturities in the short and medium ranges (see chart I) and there are very few maturities at the long end, particularly over twenty years.

(iii) For some years we tried to keep out of the long end, partly because of cost, but partly also to leave space for companies and a revival of the long-term private market. More recently we have accepted that it is more likely that companies would be interested in borrowing at fixed interest for shorter periods. So there is now a corresponding argument for avoiding shorts and mediums. But, although companies may be more willing to issue fixed rate long bonds once the 10 per cent barrier is broken on gilts, they may also dip their toes in at the short end.

4. Finally, there are the arguments about quality of funding that point to issuing longer dated gilts (see paragraphs 11 to 13):-

(a) Sales of gilts to the monetary sector do not contribute to funding. The monetary sector holds 18 per cent of short gilts. It might be expected to buy a rather larger proportion of new sales of shorts. So we have to sell at least £120, and probably more, of shorts to achieve £100 of funding. The effects on bank liquidity of the sales of these extra gilts have to be counteracted by purchases of bills, adding to the bill mountain. That in itself is not desirable. But in addition, to the extent that the interest rate on short gilts exceeds that received on bills, there is thus an extra interest cost to issuing shorts. Over the illustrative period 1980-85 bill rates have on average been about 1 per cent lower than the yield on five year gilts issued in 1980. Obviously the greater the take up by the monetary sector and the greater the expected decline in money market interest rates, the more important a factor this becomes.

(b) Even where they contribute to funding, sales of shorts tend to have less of an impact on the monetary aggregates than sales of longs. Overseas holdings are concentrated in shorts and mediums; overseas sales are thought to have about a third less effect in reducing £M3 and other wider aggregates than home sales. And building societies' gilt holdings are concentrated at the short end. An increase in their holdings would not help to reduce the growth of wider aggregates.

X

**Conclusion**

From this I conclude:

(i) On choice of maturity, the cost arguments still point (although less strongly) to short dated stock, but other arguments, most importantly of quality of funding within the new level-fund regime, point to longer maturities. But since the cost argument becomes more important the longer the maturity involved, it would be sensible, while not altogether neglecting the short end, so far as possible to fund in the medium and medium-long area - the 1990's and turn of the century stocks; which is generally what we have been doing. Within obvious limits, this achieves good quality of funding at limited cost, although it has resulted in some pressure on the yield curve in this area.

(ii) On choice between indexed gilts and conventionals, the best time to sell indexed gilts is when the market's inflationary expectations are higher than our own and than the final outcome. When market inflationary expectations are high, indexed gilts can gain market acceptance in preference to conventionals. As actual inflation falls, they will then be cheaper to service than conventionals. But market inflationary expectations are now low. On the terms on which we can currently sell indexed gilts, for standard rate taxpayers we should have to achieve inflation rates of lower than 3-4½ per cent to make them cheaper to service than conventionals.

Yes, but . . .

IS

IAN STEWART

## RELATIVE COST OF FUNDING BY DIFFERENT INSTRUMENTS

1. This paper assesses the relative merits of different funding strategies. Section A considers the question of whether it is better to issue short, medium or long dated high coupon conventional gilts. The section considers the relative cost of different strategies, and goes on to assess other factors that might influence the choice of maturity, such as the quality of funding, and the current redemption profile. Section B assesses the case for issuing indexed gilts in preference to conventional gilts.

### A. High coupon conventionals: shorts, mediums or longs?

**Cost of funding**

2. Whilst the cost calculations below are of interest, it should be stressed that they will have only limited operational significance. Identifying the potential for relatively cheap funding is one thing, being able to exploit it is quite another. The process of exploiting such an opportunity is likely, through the operation of market forces, to erode the yield advantage identified. Further, there may be no price at which pension funds for example would be willing to be forced into shorts because they have long term liabilities to cover and they wish to minimise interest rate risk.

In a fierce market, funds might dabble in shorts to ginger up their performance.

3. A basic question is whether it is cheaper to:

(a) issue one long-dated, high-coupon stock (A) or,

(b) issue a shorter-dated, high-coupon stock (B) and then, when this matures, refinance by issuing another shorter-dated high coupon stock (C) for the balance of the period covered by the longer-dated stock (A).

4. The customary method of approaching this question is to calculate break-even re-investment rates (BERRs). The BERR is the yield on the refinancing issue (stock C) that equalises the cost of funding by the two funding methods outlined above. The table below shows the BERRs associated with various funding options. The BERRs on the refinancing issue are calculated using current market yields for the initial long or shorter-dated stocks.

**Table 1: Break-even Reinvestment Rates on Stock (C)* (%)**
**(Market Conditions : 24 October 1985)**

| | Maturity of initial shorter stock (B) | | |
|---|---|---|---|
| Maturity of long stock(A) | 5 yrs | 10 yrs | 15 yrs |
| 30 years | 9.8 | 9.5 | 9.4 |
| 20 years | 10.3 | 10.0 | 9.9 |
| 10 years | 11.0 | - | - |

* See Annex 1 for stocks and yields used in these calculations.

5. Table 1 shows that, if the choice were between issuing a 30-year gilt now or a 5-year stock now followed by a 25-year stock in 5 years time, the cost of funding of the two methods would be equal if the yield on a 25 year stock in 5 years time were 9.8 per cent (column 1, row 1). If the yield associated with the refinancing issue was below the BERR in five years' time, then it would be cheaper to cover the period in two stages; i.e. fund shorter rather than longer.

6. The figures in table 1 simply reflect the market view of future yields as embodied in the current yield curve. If the market view turned out to be correct, future yields would be exactly as set out in table 1, and there would be no cost advantage in funding short or long. Therefore, whilst table 1 quantifies the criterion for choice, it does not remove the need for judgement about future levels of interest rates to achieve a lower cost of funding. All that can be said is that if we believe that future yields will be lower than the market is currently expecting, it would be better to issue a shorter dated stock and refinance, rather than issue one longer dated stock.

7. The above simplistic analysis is based on a snapshot of market conditions at a given time. As conditions change, so does the BERR on stock C. But merely because the BERR changes, our view of future interest rates may not necesssarily change. A change in the BERR caused by a change in market rates therefore provides an occasion to review funding policy. Higher market rates that are not expected to last are clearly a justification for funding more at the short end.

## Tax considerations

8. The above BERR calculations ignore taxes, whereas the tax take is clearly relevant to the net cost of funding. Annex 2 contains broad estimates of tax rates for income derived from short, medium and longer-dated stocks. The method used was to calculate the weighted average tax rate on income derived from each of the three ranges of maturities, with the weights related to the share of the total of the maturity range held by each type of holder (monetary sector, pension funds, etc). No attempt was made to distinguish the type of stock within each maturity band (ie. high-coupon or low-coupon conventionals, or IGs).

9. These broad estimates of income tax rates need to be treated with caution. They are extremely crude for a number of reasons. It is impossible to get firm information about the actual income tax rate on coupons paid by some holders (e.g. individuals, insurance companies, ICCs). Further, the estimates are of first round tax rates only. Most domestic buyers of gilts are financial institutions of one sort or another that pass on their income, including the return on their gilt holdings to depositors, shareholders etc, who will be liable to tax on the funds they receive. These second round tax effects are highly relevant to a proper calculation of the net-of-tax cost of funding. However, the broad conclusions are:

(i) the income tax take on coupon payments falls as the maturity of the stock increases. (This reflects the fact that banks, for instance, are typical holders of shorts and largely tax-exempt pension funds are typical holders of longs);

(ii) illustrative estimates suggest an average income tax rate on shorts, mediums and longs of 25-40, 15-25 and 10-20 per cent respectively.

10. It is tempting to conclude that, as the average income tax rate on shorts appears to be higher than the tax rate on mediums and longs, there would be a cost advantage in funding short. Unfortunately this conclusion could well be misleading, since <u>marginal</u> tax rates are the crucial factor when assessing new funding strategies. It is impossible to tell who would purchase a new issue. Perhaps the most that can be said is that, if

consideration of the BERRs led one to believe that funding short was cheaper than funding long, then it is likely that consideration of the likely tax take would reinforce that conclusion.

**Quality of funding**

11. It is also important to consider the extent to which sales of stocks of different maturities contribute to reducing the growth of broad money. Table 2 below shows the share of the total stock of gilts outstanding by maturity held by various sectors of the economy.

**Table 2: Sectoral holdings of Gilts, end-March 1984[1]**

(% of total stock)

Gilt Maturity Bands

| | | less than 5 years (shorts) | 5 to 15 years (medium) | over 15 years (longs) | Total |
|---|---|---|---|---|---|
| Sectors | | | | | |
| Monetary Sector | | 18 | 3 | - | 7 |
| Overseas Sector | | 8 | 15 | 2 | 9 |
| Building Societies | | 26 | 4 | - | 9 |
| Other NBPS | | 48 | 78 | 98 | 75 |
| Shares contribution to reducing: | | | | | |
| (a) £M3 | range | 74-82 | 82-97 | 98-100 | 84-93 |
| | point estimate[2] | 79 | 92 | 99 | 90 |
| (b) PSL2 | range | 48-56 | 78-93 | 98-100 | 75-84 |
| | point estimate[2] | 53 | 88 | 99 | 81 |

[1] Total dated and undated gilt-edged and government backed securities, nominal values.

[2] This point estimate assumes that two-thirds of overseas purchases of gilts contribute to reducing £M3 and PSL2 whereas the ranges indicate overseas contributions of 0% and 100%.

12. Not surprisingly, the table indicates that longer dated and undated stocks represent the highest quality of funding, as insurance companies and pension funds dominate this end of the market. At the short end large holdings

by the monetary sector and building societies reduce the share of debt sales that contribute to reducing £M3 and PSL2. The exact market shares will change through time; and the overseas sector's holdings can be expected to vary as the exchange rate and UK/overseas interest rate differentials alter. It will also be interesting to see what effect "big-bang" has on total overseas holdings and the maturity of stock they hold. Table 3 below, which shows the share of net sales purchased by different sectors over successive banking quarters since March 1984, demonstrates this point.

**Table 3: Share of net sales purchased by sector**

(% of net sales)

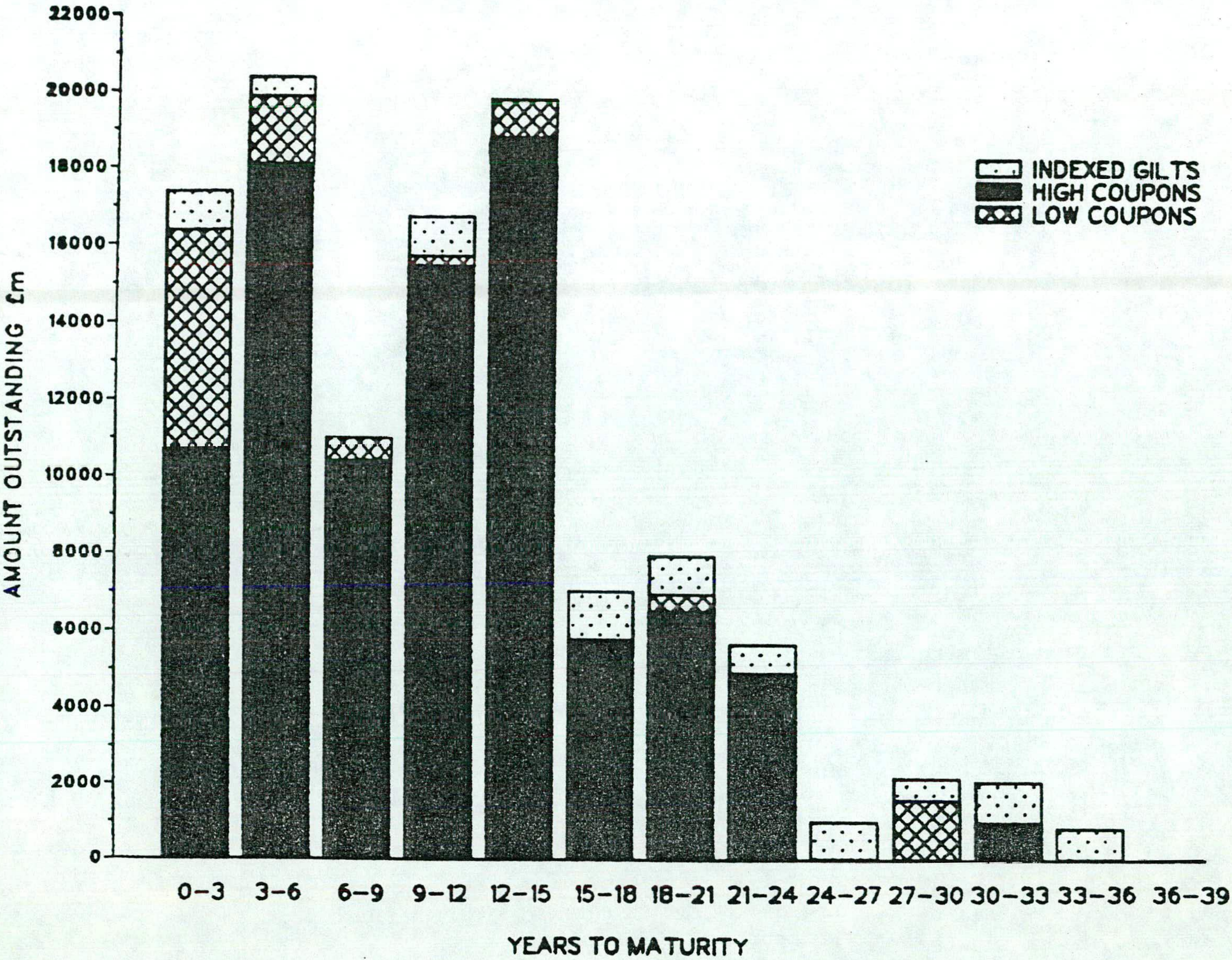
| | | Banking | | | | | |
|---|---|---|---|---|---|---|---|
| | Total over period | April-June 1984 | July-Sept 1984 | Oct-Dec 1984 | Jan-Mar 1985 | Apr-June 1985 | Jul-Sep 1985 |
| Monetary Sector | 4.8 | -9.5 | 13.2 | - | 4.6 | 8.0 | -5.5 |
| Overseas Sector | 17.4 | -3.3 | 13.1 | -0.4 | 21.2 | 44.6 | 59.0 |
| NBPS | 77.7 | 112.8 | 73.7 | 100.4 | 74.2 | 47.4 | 46.4 |

13. Notwithstanding volatility, it is probably safe to conclude that sales of long-dated stock reduces £M3 the most. For both £M3 and PSL2 the quality of funding rises as the maturity of stock rises. The conclusions are valid only on average; if customary holders of longs could be forced or encouraged to hold shorts these sales would be as high quality funding as sales of longs.

**Redemption profile**

14. It is also relevant to consider the redemption profile of existing stock when considering future funding strategy. Chart I below shows the existing maturity and duration profile of stock outstanding. The chart shows that maturities are heavily bunched at the short and medium end; particularly 0 to 6 years and 9-15 years. Redemptions in those years will be particularly heavy, and if it were thought to be important to smooth the profile for redemptions in future years to aid the Bank's management problems, and thus minimize the effect on the growth of broad money, there would be a case for issuing more longer dated stock (15 years and over) rather than shorter and medium dated stock.

## CHART I : MATURITY PROFILE OF GILTS



## Conclusion

15. If interest rates are expected to drop below the level currently expected by the market over a period of years, it is clearly cheaper to fund short than long. Break-even rates of return analysis is useful in helping make judgements, but minimising funding costs requires a judgement about whether the market view of future rates is right, and whether a yield advantage, once identified, can be exploited. If the BERRs suggested it were cheaper to fund short, tax considerations would probably reinforce this result. But factors such as the quality of funding and the bunching of redemptions point towards issuing longer dated conventional gilts.

## Break-even reinvestment rates in retrospect

16. Whilst comparing cost of finding ex-ante is rather inconclusive, ex-post comparisons are clearer. The Bank have calculated BERRs back to mid-1980 (without tax adjustment). The results are shown in table 4.

**Table 4: Maturity of longer dated stock is 21 years**

| Break-even reinvestment Rate (%) on stock (C) at: | Maturity of initial shorter date stock (B) 7 years | 14 years |
|---|---|---|
| mid 1980 | 14.4 | 13.3 |
| mid 1981 | 14.1 | 12.3 |
| mid 1982 | 12.9 | 11.8 |
| mid 1983 | 9.1 | 8.8 |
| mid 1984 | 9.9 | 9.7 |
| mid 1985 | 9.8 | 9.6 |

17. The table shows that BERRs declined between mid 1980 and mid 1983, since when they have risen slightly. It suggests that the case for issuing shorts was particularly strong in mid-1980. Table 5 below illustrates the point. In this table, mid-1980 BERRs associated with the choice between issuing a 30, 20 or 10 year stock or a 5-year stock follows by a 25, 15 or 5-year stock are shown. The BERRs relate to stock that would have been issued in mid-1985. By comparing these BERRs with known 1985 yields the conclusion is that it would have been cheaper to have adopted a shorter funding strategy in 1980 (even ignoring tax). Whether the lesson still applies to the present depends on whether there is a further fall in rates relative to market expectations:

**Table 5: Optimal maturity of issues in mid-1980**

| Maturity of longer dated stock (A) | BERR (%) associated with refinancing issue (C) following 5 year stock | Current yield (%) on stock (C) | |
|---|---|---|---|
| 30 years | 13 | 10.3 | (25 years) |
| 20 | 13.8 | 10.7 | (15 years) |
| 10 | 13.8 | 10.5 | (5 years) |

18. It is possible to carry the analysis of the 1980-85 period further by making very broad estimates of the orders of magnitude of the cash saving to maturity of two sets of alternative funding methods in 1980, based on actual outcomes in 1985. The cost saving, even when discounted at a rate of 10 per cent, can be large as is shown in table 6 below.

**Table 5: Possible Savings Per £100 issued of Alternative Methods of Funding in 1980**

| | Cash saving to maturity | Discounted cash savings to (DR 10%) |
|---|---|---|
| | £ | £ |
| Funding for Eleven Years | | |
| Instead of issuing Treasury 11¾%, 1991, issue a 5-year gilt in 1980 (Exchequer 12¼% 1985) followed by a 6-year gilt in 1985 (Exchequer 11%, 1991) | 14 | 5 |
| Funding for Twenty Years | | |
| Instead of issuing Treasury 13%, 2000, issue a 5-year gilt in 1980 (as above), followed by a 15-year gilt in 1985 (Treasury 11½%, 2001/2004) | 57 | 27 |

19. As argued in paragraph 2 above, these calculations do not suggest that significant savings would have been made if more shorts and less longs had been issued. Attempting to exploit the yield advantage may have eroded that advantage. Further, as the monetary sector typically hold a large proportion of short gilts, issuing more shorts and less longs would have led to higher growth of £M3 for the given volume of debt sales.

20. Looked at another way, we could have sold more short gilts and more gilts in total to achieve the same growth of £M3. The figures in table 2 suggest that for every £100 fewer long gilts sold, £118 extra shorts would

have had to be sold (because the monetary sector held 18 per cent of short gilts in March 1984). But that would have added to the bill mountain. Further, as the interest rate on short gilts has exceeded that on bills, there would have been an extra interest cost to issuing shorts that would have in part offset the original cost savings. Over the illustrative period 1980-85 we have calculated that this extra interest cost was small, about 17p per year on each £100 of short gilts issued in 1980.

## B. IGs versus conventional gilts

21. Whether conventional gilts are relatively cheap or expensive depends mainly on future inflation and interest rates. On the basis of existing market conditions, it is possible to calculate break-even inflation rates (BEIRs) which would equalise the cost of borrowing through index-linked and conventional stock. Tax considerations are relevant to this calculation, but on the basis of available data it is impossible to draw any conclusions about the differential tax characteristics of holders of IGs compared to holders of conventional gilts of similar maturity.

22. Table 9 belows shows BEIRs implied by the yields on conventional and index-linked stock of similar maturity on 24 October 1985 and compares these with similar calculations made in 1983 and 1984.

**Table 9: Break-even inflation rates implied by a comparison of conventional and index-linked gilts**

| Assumed tax rate (%) | Break-even inflation rates (%) High Coupon Conventionals | | | | | |
|---|---|---|---|---|---|---|
| | Shorts (3 years) | | | Longs (20 years) | | |
| | Sept 83 | July 84 | Oct 85 | 1983 | 1984 | 1985 |
| 0 | 6.2 | 8.4 | 6.8 | 7.3 | 7.9 | 6.8 |
| 30 | 3.4 | 4.4 | 4.6 | 4.9 | 5.1 | 4.5 |
| 60 | 0.5 | 0.9 | 2.4 | 2.5 | 2.4 | 2.1 |

| | Low Coupon Conventionals | | | | | |
|---|---|---|---|---|---|---|
| | Shorts | | | Longs | | |
| | 1983 | 1984 | 1985 | 1983 | 1984 | 1985 |
| 0 | 4.2 | 5.4 | 5.0 | 5.8 | 6.3 | 5.2 |
| 30 | 3.3 | 4.5 | 3.4 | 4.9 | 5.4 | 3.3 |
| 60 | 2.4 | 3.6 | 1.7 | 4.0 | 4.5 | 1.5 |

23. If inflation rates turn out to be higher than the BEIRs, IGs will represent a more costly form of funding than the alternative conventional stock. The table shows that BEIRs rose between 1983 and 1984, since when they have fallen back close to the levels calculated in 1983. This suggests that the case for issuing IGs was strongest in mid-1984.

24. If IGs are compared with low coupon conventional gilts, the table suggests that unless inflation were to average less than 3 to 4 per cent over the next 3 years, financing via IGs at the short end of the market is more expensive than financing via low coupon stocks. This view is based on the assumption that a tax rate of between 20 and 40 per cent is appropriate for short dated IG's and low coupon stocks. The BEIR is probably nearer 3 per cent than 4 per cent for short-dated stocks.

25. For long dated IGs and long low coupon stocks, the income tax rate applicable is probably lower. For example tax exempt pension funds and longer term insurance busineses hold £6 billion of the outstanding £9 billion stock of IGs. If it is assumed that the average tax rate on longer term IGs and low coupon gilts is in the range 0 to 30 per cent, the BEIR for longer term stock is in the range 3¼ to 5¼ per cent. Only if it were thought that the average inflation rate over the next 15 to 20 years would be lower than this range, would it be cheaper to fund the longer end with IGs.

26. The comparison of high coupon stocks with IGs is very sensitive to the assumed tax rate. This reflects the fact that a larger part of the return on a high coupon stock is realised during the course of the stock's life, rather than at the end of it, as is the case with the IG. Because realised returns are more front-end loaded on the high coupon stock than on the IG, it can be argued that such comparisons are not really valid.

**Conclusion**

27. The conclusion from this section would seem to be that there may be a slightly stronger case for issuing shorter-dated low coupon conventional stock than shorter dated IGs, but with longer-dated low coupon stock the relative advantages are evenly balanced. So far as comparisons are valid, high coupon conventionals compare very unfavourably with IGs for holders with low tax rates, but very favourably for holders with high tax rates.

ANNEX 1

## STOCKS USED IN COST OF FUNDING CALCULATIONS

### A. Break-even reinvestment rates

1. The illustrate stocks used in these calculations were:

| | | |
|---|---|---|
| 5 year stock: | Treasury 13 | 1990 |
| 10 year stock: | Treasury 12 | 1995 |
| 15 year stock: | Treasury 13 | 2000 |
| 20 year stock: | Treasury 12½ | 2003/05 |
| 30 year stock: | Exchequer 12 | 2013/17 |

Gross redemption yields and prices taken from Mullens sheet, 24 October 1985.

2. Illustrative stocks used for calculation of break-even reinvestment rates for mid 1980 were.

| | | |
|---|---|---|
| 5 year stock: | Exchequer 12¼ | 1985 |
| 30 year stock | Exchequer 12 | 2010 |
| 20 year stock | Treasury 13¼ | 1999 |
| 10 year stock | Treasury 12 | 1990 |

Gross redemption yeilds and prices from Mullens 27 August 1980.

### B. Break-even inflation rates

3. Illustrative stocks used in these calculations were:

| | | |
|---|---|---|
| 3 year high coupon | Exchequer 10½ | 1988 |
| 3 year low coupon | British Transport 3 | 1987/88 |
| 3 year IG | Treasury 2 | 1988 |
| 20 year high coupon | Treasury 12½ | 2003/2005 |
| 20 year low coupon | Funding 3½ | 1999/2004 |
| 20 year IG | Treasury 2 | 2006 |

Gross redemption yields and prices as for (A) above.

## THE TAX STATUS OF GILT HOLDERS

In calculating the cost of funding via a range of different gilts, a crucial question is of course, the tax status of the various gilt holders. This annex is designed to try and put a range on the average tax rate paid on shorts (less than 5 years), mediums (5 to 15 years) and longs (over 15 years). The work basically updates estimates provided by the Bank in 1982.

A2. It should be stressed at the outset that the most that can be hoped is to provide a fairly wide range of estimates of the average tax rate on each maturity band since we have little idea on the exact tax status of gilt holders. The basic aproach is to calculate the share of total gilts outstanding held by each sector and use those shares as weights to derive average tax rates for short, medium and long dated gilts from the knowledge we have about income tax rates applicable to each sector. No attempt is made to assess capital gains tax payments. In any event, capital gains tax only accrues on holdings of less than one year, and will not apply to capital gains on gilts at all from June 1986.

A3. Table A1 below shows, for each maturity band, the share of gilts held by several broad sectors within the economy. The data is drawn from the BEQB, December 1984, and Financial Statistics.

A4. Table A2 below tabulates what we know about the income tax rate applicable to the sectors shown in table A1. Greatest uncertainty surrounds estimates of the tax rate paid by Insurance companies' longer term funds (i.e. their pension and life assurance business), individuals and private trusts (where the tax rate could range from 0 to 60 per cent), and ICCs (where the tax rate depends on profitability) and the "other" category. A further problem arises because whilst pension funds do not pay income tax on coupon streams, a high return on gilt holdings may lead to lower contributions from employers to those pension schemes, thereby increasing employers' corporation tax payments. If that occurs pension funds' income from gilt holdings is effectively passed on to employers and is liable to corporation tax.

## Table A1: Sectoral Holdings of Gilts, end March 1984

(% of total stock)

| | Gilt Maturity Bands: less than 5 years "shorts" | 5 to 15 years "mediums" | Over 15 years "longs" | Total |
|---|---|---|---|---|
| **Sectors** | | | | |
| 1. Monetary Sector | 18 | 3 | - | 7 |
| 2. Building Societies | 26 | 4 | - | 9 |
| 3. Overseas Sector | 8 | 15 | 2 | 9 |
| 4. Non-bank non building society private sector | 48 | 78 | 98 | 75 |
| of which: | | | | |
| 5. Pension funds | 4 | 21 | 39 | 17 |
| 6. Insurance companies | | | | |
| - general funds | 5 | 7 | 1 | 4 |
| - longer term funds | 6 | 25 | 45 | 24 |
| 7. Unit and investment trusts | - | 1 | 1 | 1 |
| 8. Public trustee and other | - | 1 | - | - |
| 9. Individuals and private trusts | 13 | 13 | 9 | 10 |
| 10. ICCs (estimate) | 4 | 1 | - | 2 |
| 11. Other | 16 | 9 | 3 | 17 |
| 12. Total (5 to 11) = NBBPS | 48 | 78 | 98 | 75 |
| Total (1+2+3+4) | 100 | 100 | 100 | 100 |

**Table A2: Ranges of sectoral income tax rates**

| Sector | Tax Rate (% on income) | Comments |
|---|---|---|
| Monetary Sector | 40 | 35% from 1 April 1986 |
| Overseas Sector | 0 | |
| Building Societies | 40 | 35% from 1 April 1986 |
| Pension Funds | 0 | |
| Insurance Companies - general | 37.5 | |
| - longer term | 0-37.5 | 0% for pension business; 37.5% for other |
| Unit and investment trusts | 30 | |
| Public Trustee and other | 0 | |
| Individuals and private trusts | 0-60 | Depends on income tax rate paid on personal sector holdings |
| ICCs | 0-40 | Depends on whether ICCs liable for corporation tax. 35% from 1st April 1986 |
| Other | 0-40 | Unknown |

A5. Despite these problems, using tables A1 and A2 it is possible, using a set of herioc assumptions, to give a range of estimates of the tax rates paid on gilts in each of the specified maturity bands. In table A3 below calculations are made by weighting the tax rates shown in table A2 by the shares shown in table A1. In the table, two estimates of the average tax rate are shown for each maturity band. These are as follows:

Low: gives an estimate of the lowest tax rate payable in each maturity band. For these estimates it is assumed that the lowest tax rate paid by Insurance company longer term funds is 10% (i.e. pension fund business accounts for 74% of holdings). For individuals the lowest rate is 30% and for ICCs 0% (no ICCs paying corporation tax hold gilts), and 0% for "other".

High: gives an estimate of the highest average tax rate payable. For insurance companies' longer term funds 25% is used (pension fund business accounts for 37% of holdings); for individuals the high rate is 60% (all personal holdings are liable to maximum rate of income tax); for ICCs and "other" 40%.

**Table A3: Estimates of Average Income tax rates**

(% per annum)

| | Gilt Maturity Bands | | | | | |
|---|---|---|---|---|---|---|
| | Shorts | | Mediums | | Longs | |
| | Low | High | L | H | L | H |
| 'Effective' Tax Rate on income | 24 | 37 | 14 | 24 | 10 | 19 |

A6. As might be expected table A3 gives a wide range of estimates of the average tax rate on each maturity band. However the broad conclusions seem resonably plausible. As might be expected longs (on the evidence of table A3) are subject to the lowest tax rate, this because the market for longs is dominated by private sector pension funds and insurance companies' longer term funds (including pension business). Mediums appear to attract a higher rate than longs, though given the poor quality of the data, the difference is probably insignificant. At the shorter end of the market, almost 60% of holdings are held by the monetary sector, building societies and individuals who are all relatively high taxpayers.

35

bf 22/11

CONFIDENTIAL

From: K F MURPHY

Date: 19 November 1985

C.
Against the backcloth of rather less funding, I think the EST and HF3 pros below suggest that the optimist would begin to lean his spread of gilt sales a little more towards the short end and with rather more IGs.
(Chart 1 suggests that there is still time to issue a few billions worth of innovatory two year bonds!)
R 22/11

MR CASSELL cc PPS
PS/Financial Secretary
PS/Economic Secretary
Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Walsh
Mr Wood
Mr Ridlington

## RELATIVE COST OF FUNDING BY DIFFERENT INSTRUMENTS

Sir Peter Middleton has seen the Economic Secretary's note to the Chancellor of 15 November. He wonders whether it is not also possible to conclude that we should sell more national savings certificates.

Thanks.
Re the EST's conclusion (ii),
I do not find this v. convincing:
it is not standard rate taxpayers
to whom we sell most of the
stock — whether conventional or indexed, but
gross funds; & here the balance must surely
be in favour of IGs @ significantly
higher [illegible] rates than the 3-4½%? gains here (effectively an X take 6¾%? 9)
Re his conclusion (i), the gains [illegible] so [illegible] a gain [illegible] true
Re Sir PM's comment, it is not possible to conclude [illegible] Nat. Savings cuts, since the crucial [illegible] we [illegible] v. carefully the effect on Bldg Socs' margins (& thence mortgage rates) before embarking on such a course.
Re [illegible] this that SCS [illegible] admin. costs are v. much [illegible] by X.

P.S. A thought prompted by X.
As Bldg Socs become more like Banks, what is the justification for confining sales of gilts to Bldg Socs (but not to banks) on funding?

KFM

K F MURPHY
Private Secretary

PWP.

FROM: MRS R LOMAX
DATE: 25 November 1985

cc PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Sedgwick
Mr Walsh
Mr Wood
Mr Ridlington
Mr H Davies

PS/ECONOMIC SECRETARY

**RELATIVE COST OF FUNDING BY DIFFERENT INSTRUMENTS**

The Chancellor has seen the Economic Secretary's minute of 15 November, attaching a note by HF3 division. He has also seen Sir Peter Middleton's comment (Mr Murphy's minute of 19 November). He was grateful for all this work.

2. The Chancellor is not convinced by the second of the Economic Secretary's conclusions (about the choice between indexed gilts and conventionals). He has commented that it is not standard rate taxpayers to whom we are trying to sell most of the stock - whether conventional or indexed, but gross funds; and here the balance must surely be in favour of IGs at significantly higher inflation rates than the 3-4½ per cent quoted here (effectively 6¾ per cent according to table 9 of the HF3 note).

3. The Chancellor thinks that the Economic Secretary's first conclusion seems sensible as a general rule. Sir Peter Middleton wondered whether it was possible to conclude that we should sell more national savings certificates. The Chancellor doubts this, since the administrative costs are very much greater; and in any event we would need to consider very carefully the effect on

building society inflows and thus on mortgage rates before embarking on such a course.

4. Prompted by paragraph 4(b) of the Economic Secretary's note, the Chancellor has asked what is the justification for counting sales of gilts to building societies (but not banks), as funding - as building societies become more like banks?

RL

RACHEL LOMAX

SECRET AND PERSONAL

CH/EXCHEQUER

| | |
|---|---|
| REC. | 25 NOV 1985 |
| ACTION | CST |
| COPIES TO | |

Nigel

I [illegible] CST's [illegible] [illegible] [illegible] [illegible] [illegible]

PRIME MINISTER

SOCIAL SECURITY REVIEW

Since the last meeting of MISC 111 the Chief Secretary and I have discussed and agreed upon a number of savings measures which will together total about £200 million and have the effect of keeping my 1988/89 programme within the asterisked figures in the Autumn Statement. The details are annexed to this note. Our agreement is subject to the provisos that:

(i) the costing of individual measures has been undertaken hastily and may need refinement. We are, however, satisfied that the figures are all of the right broad order;

(ii) new measures may, by agreement, be substituted for any of those in the Annex which have not already been announced if, by so doing, we are able to save the same money in a more acceptable way;

(iii) if it remains necessary to score the lesser cost of transitional protection in order to reach the target for 1988/89, other measures will be identified to replace this saving as it runs out in later years.

On this basis we feel we can advise colleagues that we are agreed on the details of the scheme which I have put forward and, in particular, on the changes which I have made in order to minimise the number of pensioner losers. A further change which I am making to help pensioners is to alter the housing benefit tapers for rent and rates from 55%/25% to 60%/20% respectively. This has no PSBR cost, but transfers to Public Expenditure savings which were previously revenue forgone.

I am copying this to the Lord President of the Council, the Chancellor of the Exchequer, the Chief Secretary and the Chancellor of the Duchy of Lancaster.

25" November 1985

N F

SECRET AND PERSONAL

ANNEX

| Measures proposed | Public Expenditure Savings (£ million) in 1988/89 |
|---|---|
| 1. Reduction in the level of income support for single people under 25 and for childless couples | 20 |
| 2. No uprating of child benefit in April 1988 | 75 |
| 3. Modification of the industrial injuries scheme, mainly designed to switch help from the less to the more severely disabled | 40 |
| 4. Removal of title to reduced-rate short-term benefits for people who do not fully satisfy the contribution conditions | 30 |
| 5. Offset of unemployment benefit against occupational pension exceeding £35 a week (which applies at present to pensioners over 60) for those between 55 and 60 | 10 |
| 6. Increased effort to recover money from "liable relatives" (net of extra administrative cost) | 10 |
| 7. Reduction in the transitional protection needed for the new scheme | 20 |
| Total | 205 |

036/217

CONFIDENTIAL

FROM: M NEILSON

DATE: 29 NOVEMBER 1985

MRS R LOMAX

cc:
PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Sedgwick
Mr Walsh
Mr Wood
Mr Ridlington
Mr H Davies

I am not persuaded by ~~[illegible]~~ paras 2 & 3. 2. The issue emphasised in para 5 (and para 4) we shall be discussing in the context of monetary targets.

**RELATIVE COST OF FUNDING BY DIFFERENT INSTRUMENTS**

The Economic Secretary has seen your minute of 25 November and has the following comments.

2. On the Chancellor's comments about indexed gilts, certainly most of the market for long-dated indexed gilts is with gross funds, and the Government tries to sell as many of these IGs as the funds will absorb. But the amount that is sold is determined not so much by Government funding policy as by the demand of the institutions for this type of asset. This demand in turn is influenced by the extent to which the funds' future liabilities are affected by the future rate of inflation (as is noted in conclusion (ii) of the Economic Secretary's minute) by inflationary expectations. There is probably at any given time a limit on the desired holdings of long-dated IGs in institutional portfolios and therefore marginal demand may tend to come from the personal sector, hence the observation in the Economic Secretary's minute.

for long IGs.

But not an unchangeable one, since demand for portfolio shares will depend on expected relative returns etc. The point about the personal sector may be relevant to short IGs but hardly to longs.

3. Even if the break-even inflation rate for longer-dated IGs was in practice about 6¾ per cent, it is unlikely that this could successfully be exploited. The IG market has been particularly weak of late, and the Bank have had difficulty in moving the last two IG tranchettes issued at the end of September. The £100m tranchette of 2001 stock did not sell

for over six weeks, and the Issue Department is still holding most of the £150m tranchette of 2020 stock issued on 23 September. In fact, the Issue Department has been a net buyer rather than a net seller of IGs over the last two months in order to support the market. It seems clear that it would not, at the moment, be possible to take advantage of any cost benefit of IGs without turning yields significantly against us.

4. On paragraph 3, it will be necessary to look at the DNS contribution to funding (both the overall total and its component parts) in advance of considering the target for 1986-87.

cultural lag.

5. On paragraph 4, the answer would seem to be that funding is defined in relation to sterling M3, which in turn is defined in relation to the liabilities of the monetary sector. Any change in the definition of the monetary sector to include building societies would of course need to be reflected in that of funding.

M NEILSON

13/659

CONFIDENTIAL

past

FROM: R DEVEREUX
DATE: 3 December 1985

MEP

MISS PEIRSON
CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr H P Evans
Moore-Mearns Mr Peretz
Mr Scholar
Mr Watts
Dr I Webb

**CGBR(O) & CGBR IN NOVEMBER**

1. The provisional outturn for the CGBR(O) in November is £1.3 billion. This is £0.3 billion higher than last month's forecast, reflecting lower Inland Revenue receipts (by £0.1 billion), lower National Insurance Contributions (by £0.1 billion), and other changes. The estimate of the outturn is subject to revision before publication on Tuesday 17 December.

2. In the first 7 months of 1985-86 the CGBR(O) was £6.2 billion, £0.1 billion below the Budget profile. Lower Inland Revenue receipts (mainly PRT) have been more than offset by higher Customs and Excise receipts (mainly VAT) and lower supply expenditure.

3. On-lending to local authorities and public corporations totalled £0.9 billion in November. The CGBR in November was therefore £2.1 billion, bringing the total since 1 April 1985 to £10.3 billion.

4. Further analysis of the outturn in November will be given in the next Ministerial note on the PSBR in two weeks' time.

R J DEVEREUX

CONFIDENTIAL

CONFIDENTIAL

**CENTRAL GOVERNMENT TRANSACTIONS**

£ billion

| | November 1985 | | | April-November 1985 | | | April-November 1984 |
|---|---|---|---|---|---|---|---|
| | Provisional outturn | Last month's forecast | Difference | Provisional outturn | Budget profile | Difference | Outturn |
| Inland Revenue | + 3.3 | + 3.4 | - 0.1 | + 32.3 | + 33.5 | - 1.2 | + 29.2 |
| Customs and Excise | + 3.9 | + 3.9 | - | + 24.8 | + 24.3 | + 0.5 | + 22.3 |
| Other own account | - 8.5 | - 8.3 | - 0.2 | - 63.2 | - 64.0 | + 0.8 | - 60.0 |
| CGBR(O) | - 1.3 | - 1.0 | - 0.3 | - 6.2 | - 6.3 | + 0.1 | - 8.5 |
| On-lending: | | | | | | | |
| - LAs | - 0.2 | - 0.2 | + 0.1 | - 3.1 | - 1.2 | - 1.9 | - 1.5 |
| - PCs | - 0.6 | - 0.2 | - 0.4 | - 1.0 | - 0.4 | - 0.6 | - 0.3 |
| CGBR | - 2.1 | - 1.4 | - 0.7 | - 10.3 | - 7.9 | - 2.5 | - 10.4 |

+ indicates a net receipt, or difference which reduces the CGBR.

- indicates a net payment, or difference which increases the CGBR.

29/581

CONFIDENTIAL AND PERSONAL

FROM: MISS M E PEIRSON
DATE: 10 December 1985

1. MR CASSELL
2. CHANCELLOR

C/ To note. Good. RWO 10/12

cc Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Peretz
Mr Scholar
Mr Devereux
Dr I Webb
Mr Wells - CSO

**PSBR IN NOVEMBER**

1. The first provisional outturn for the PSBR in November is £0.7 billion. This is £0.4 billion lower than last month's forecast (see table attached), and below most available market forecasts, which are of net borrowing of £1-1¾ billion (though there is one of £½ billion). Our estimate is subject to revision before publication at 2.30 pm on Tuesday 17 December.

2. The reason for the shortfall compared with forecast is a higher net repayment by the local authorities, by £0.5 billion. The LABR is behaving most oddly: possibly the delay in the teachers' pay settlement accounts for the recent low figures.

3. The CGBR(O) in November was provisionally £1.1 billion, ie £0.1 billion higher than forecast last month (and a little lower than reported in Mr Devereux's minute of 3 December). The LABR was provisionally a net repayment of £0.6 billion, ie a larger repayment (by £0.5 billion) than forecast, as stated above; and the PCBR was provisionally £0.2 billion as forecast.

4. In the first 8 months of 1985-86 the PSBR was provisionally £6.0 billion, £0.5 billion below the Budget profile.

5. The monthly note, presenting updated estimates for November and revised forecasts for December-February, will be circulated next Monday.

MEP

MISS M E PEIRSON

19/135

28/581

CONFIDENTIAL & PERSONAL

£ billion

| | November 1985 | | | April-November 1985 | | | April-November 1984 |
|---|---|---|---|---|---|---|---|
| | Provisional outturn | Last month's forecast | Difference | Provisional outturn | Budget profile | Difference | Outturn |
| CGBR(O) | 1.1 | 1.0 | 0.1 | 6.0 | 6.3 | - 0.3 | 8.5 |
| LABR | - 0.6 | - 0.1 | - 0.5 | 0.1 | 0.5 | - 0.3 | 0.8 |
| PCBR | 0.2 | 0.2 | - | - 0.1 | - 0.2 | 0.1 | 0.4 |
| PSBR | 0.7 | 1.1 | - 0.4 | 6.0 | 6.5 | - 0.5 | 9.6 |

CONFIDENTIAL & PERSONAL

COVERING CONFIDENTIAL & PERSONAL

FROM: MISS M E PEIRSON
DATE: 16 December 1985

1. MR CASSELL

2. CHANCELLOR OF THE EXCHEQUER

Copy with PPS letter, attached, for:

Mr Norgrove - No 10

| cc List A | List B (distributed at 2.30 pm, 17 December) | |
|---|---|---|
| Sir P Middleton | Chief Secretary | Miss O'Mara |
| Sir T Burns | Financial Secretary | Mr Walsh |
| Mr H Evans | Economic Secretary | Mr Williams |
| Mr Peretz | Minister of State | Mr Powell |
| Mr Scholar | Mr F E R Butler | Mr Cropper |
| Mr L Watts | Mr Moore | Mr H Davies |
| Mr Devereux | Mr Odling-Smee | Mr Lord |
| Dr Webb | Mr Turnbull | Mr Wells - CSO |
| | Mrs Butler | Mr Calder - IR |
| | Mr Mowl | Mr Wilmott - C & E |

**MONTHLY NOTE ON THE PSBR**

1. I attach a report on the PSBR outturn for November. This outturn will be published by press notice at 2.30 pm tomorrow, 17 December.

2. The press notice will include for the first time the new table on supply expenditure, as agreed by the Chief Secretary. (An additional press notice has been issued today, drawing journalists' attention in advance to the new table.)

MEP

MISS M E PEIRSON

## PUBLIC SECTOR BORROWING

Summary


- The PSBR for November is provisionally estimated at £0.7 billion, £0.4 billion lower than last month's forecast. Local authorities borrowed £0.5 billion less than forecast.

- Borrowing in the first eight months of 1985-86 (£6.1 billion) was just £0.4 billion lower than the Budget profile (Chart 1).

- The PSBR is forecast to be in surplus over the next three months - a net repayment of debt of £¾ billion, lower (by £1 billion) than in the Budget profile. The recent fall in oil prices will have almost no effect in 1985-86.

- Heavy borrowing in December is expected to bring the cumulative PSBR to £8½ billion, £½ billion above the Autumn Statement forecast for the year, but this will be followed by seasonally large surpluses in January and February.

- The forecast for the first eleven months of 1985-86 as a whole is £5¼ billion, some £½ billion above the Budget profile.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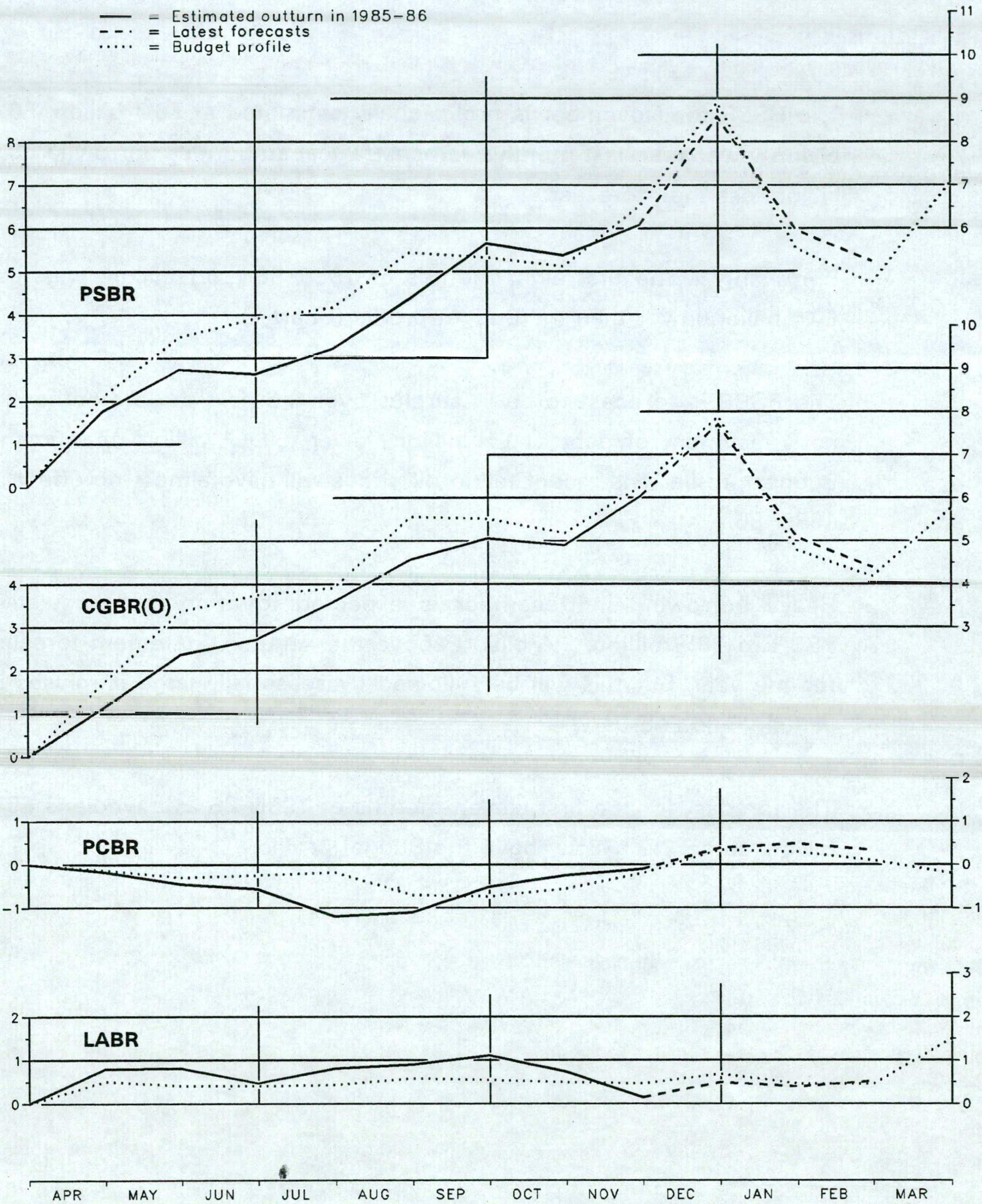
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

**Chart 1 : Comparisons with Budget profiles for 1985-86**

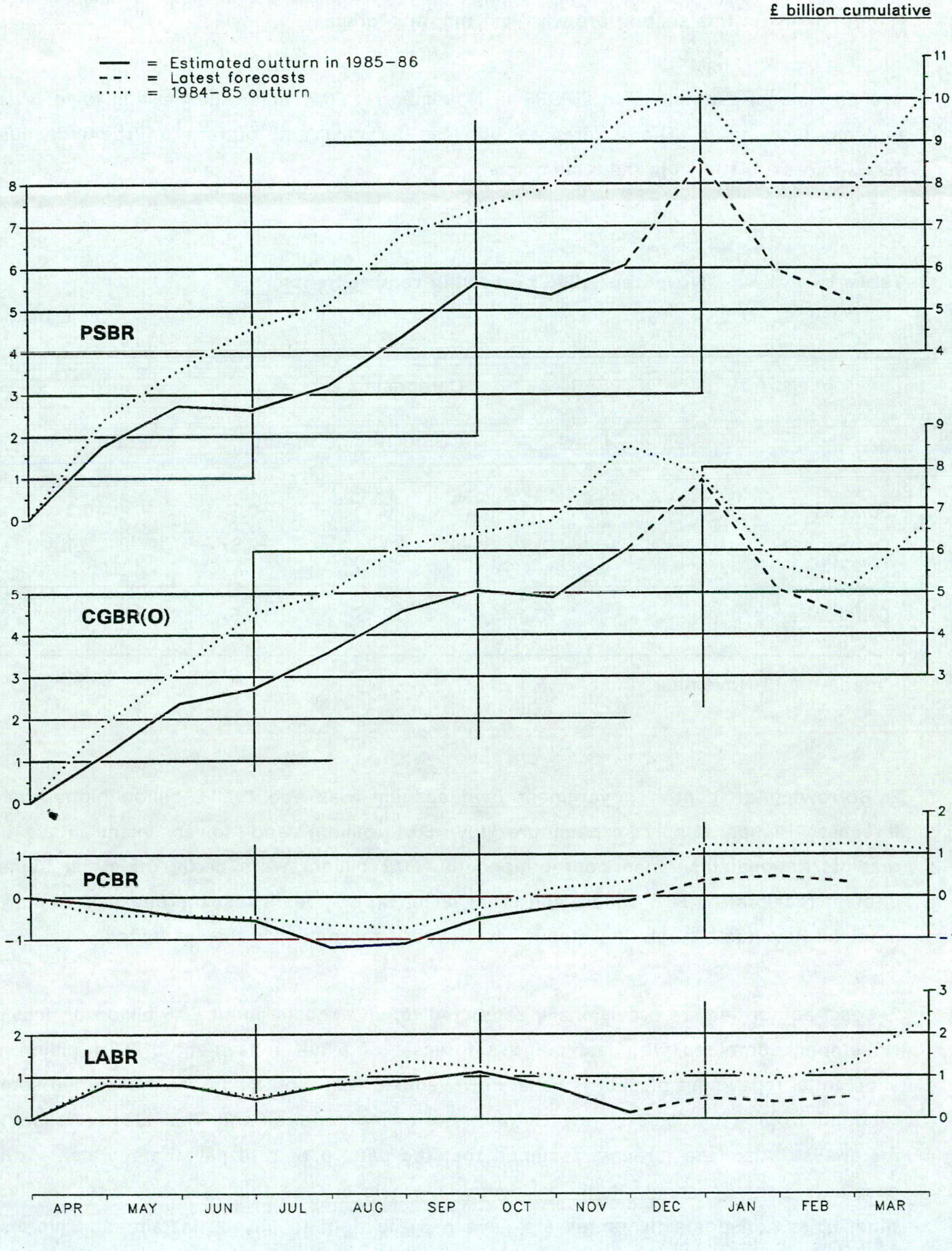
£ billion cumulative






12/16/85 16:47:26

**Chart 2 : Comparisons with last year's outturns**



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**Borrowing in November**

(Comparisons in this section are with last month's forecast)

The provisional estimate of the PSBR in November is £0.7 billion, £0.4 billion lower than forecast last month. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: November 1985 borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Forecast* | 1.1 | 1.0 | −0.1 | 0.2 |
| Outturn | 0.7 | 1.1 | −0.6 | 0.1 |
| Difference | −0.4 | 0.2 | −0.5 | −0.1 |

*made on 15 November

2. Borrowing on central government own account was about £0.2 billion higher than forecast. Higher supply expenditure (by £0.1 billion) and lower Inland Revenue receipts/National Insurance contributions (by £0.2 billion) were partly offset by higher interest receipts (by £0.1 billion) and other changes. It appears that the unexpected surge in Inland Revenue receipts in October has unwound more quickly than expected.

3. Local authorities are provisionally estimated to have repaid about £0.6 billion of debt in November, compared with last month's forecast of a net repayment of £0.1 billion. A substantial repayment of debt is usual in November. Last month's forecast assumed some rebound from a particularly low October borrowing requirement. This clearly failed to materialise. Also, the forecast assumed that the pattern of rate payments, which in the past have been seasonally high in November, would change this year when, for the first time, large non-domestic ratepayers have had the right to pay by instalment. This also

appears not to have happened. The teacher's pay dispute will have depressed local authorities' borrowing so far this year – perhaps by £0.2 billion up to the end of November. But it cannot account fully for the erratically low borrowing in the last two months, particularly October.

4. Public corporations borrowed about £0.2 billion in November, close to last month's forecast.

**April to November**

(comparisons in this and following sections are with the Budget profile)

**Table 2:** **Total April–November borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Budget forecast | 6.5 | 6.3 | 0.5 | –0.2 |
| Outturn | 6.1 | 6.0 | 0.1 | –0.1 |
| Difference | –0.4 | –0.2 | –0.3 | 0.1 |

5. The cumulative PSBR for the first eight months of 1985–86 was £6.1 billion. This is about £0.4 billion below the Budget profile (see Chart 1 and Table 2); and about £3.6 billion below the same period last year (Chart 2), partly because of last year's coal strike, the BT second call receipts in June this year, and the lower LA borrowing so far this year.

6. Cumulative borrowing in April–November on central government own account was £0.2 billion lower than the Budget profile. Lower Inland Revenue receipts (by £1.2 billion, mainly Petroleum Revenue Tax) and lower oil royalties (by £0.2 billion) were more than offset by higher Customs and Excise receipts (by £0.5 billion, mainly VAT), lower supply expenditure (by £0.6 billion, due to lower grants to the National Coal Board and lower ECGD payments:

see next paragraph), higher interest receipts (by £0.3 billion), and other changes.

7. Cumulative supply expenditure is expected to remain below the Budget profile for the rest of the year. The planning total is expected to be at least fully spent, but with less on supply and more on other items, such as local authority capital (affecting the LABR – though see next paragraph) and coal stock rebuilding (affecting the PCBR).

8. Local authorities borrowed £0.1 billion in the first eight months of 1985-86, about £0.3 billion lower than in the Budget profile. Much of this shortfall seems to be due to timing: contrary to the assumption made at the beginning of the year, the pattern of rate payments does not seem to have changed this year. The overspend on capital now expected (compared with the Budget forecast) for the year as a whole does not seem to be reflected in borrowing.

9. Public corporations made a net repayment of debt of £0.1 billion in April-November. This is about £0.1 billion less repayment than in the Budget profile, mainly because of higher borrowing by the National Coal Board, matching the reduction in grant (see paragraph 6 above); another reason is higher borrowing by the Electricity Council for coal stock rebuilding. These factors are partly offset by lower public dividend capital payments to the British Steel Corporation.

**December to February**

10. The PSBR in the period December-February is forecast to be a net repayment of debt of £¾ billion. This is about £1 billion less than in the Budget profile, partly because of lower oil revenues. This does not include any effect from the recent fall in oil prices which will mainly affect royalty payments (rather than PRT) in 1985-86 and only by very small amounts.

11. Table 5 shows the latest detailed profile of borrowing on central government own account for December-February. A comparison with the Budget forecast for the first eleven months and with the outturn in April-February 1984-85 is provided in Table 6.

12. The forecast of the CGBR(O) for December-February is nearly £½ billion higher than

the Budget profile, more than unwinding the shortfall in April-November. The increased borrowing in December-February is accounted for by lower Inland Revenue receipts (by £¼ billion - lower PRT and income tax are partly offset by higher corporation tax), lower receipts from asset sales (by £¼ billion due to different assumptions about timing) and lower oil royalties (by £¼ billion), partly offset by higher Customs and Excise receipts (by £¼ billion). No effect is expected in this period from the recent fall in oil prices following the OPEC meeting (see paragraph 10 above).

13. The forecast monthly path of the CGBR(O) is as follows.

- In December, the CGBR(O) is forecast to be £1¾ billion. Receipts from asset sales (£¼ billion for first call on Cable and Wireless) are more than offset by seasonally low Inland Revenue receipts and a seasonally large deficit on the National Insurance Fund. Supply expenditure includes a biannual payment for interest support (ECGD). EC contributions are high, with £¼ billion supplementary finance expected. The forecast for December is, as usual, particularly uncertain because Christmas and the New Year can significantly affect the timing of the tax receipts.

- In January, the CGBR(O) is forecast to be a surplus of £2½ billion. This reflects the seasonal peaking of Inland Revenue receipts. January is the main month for the receipts of Schedule D income tax (totalling £1¾ billion) and Mainstream Corporation Tax (totalling £2¼ billion); receipts of Advance Corporation Tax (totalling £1½ billion) are also high. The forecast surplus is £½ billion lower than in the Budget profile, because of lower income tax (due to timing), higher supply expenditure (including some payments in respect of pension rights of staff of Royal Ordnance Factories), and lower PRT.

- In February, the CGBR(O) is forecast to be a surplus of £¾ billion. Inland Revenue receipts are again seasonally high, with £1 billion of corporation tax expected.

14. <u>Local authorities</u> are expected to borrow over £¼ billion over the next three months, £¼ billion more than in the Budget profile. The difference is largely explained by the rate payment pattern assumption: see paragraph 3 above. It is assumed that the teachers' pay settlement is not reached in time to affect borrowing before March.

15. Public corporations are expected to borrow £½ billion over the next three months, slightly above the Budget profile. Electricity (England and Wales) and the South of Scotland Electricity Board are each expected to borrow slightly more than expected at Budget time, the former because of higher coal restocking and the latter because of higher capital expenditure.

**April–February**

16. Cumulatively, the forecast PSBR for the first eleven months of 1985-86 is £5¼ billion, £½ billion above the Budget profile. The difference is accounted for by higher borrowing on central government's own account and by public corporations. As explained above, the shortfall in April-October on the CGBR(O) is expected to more than unwind by February: the shortfall in supply in the first eight months (see paragraph 7) is offset by lower expected Inland Revenue receipts in the next three months (mainly because of lower PRT). The higher PCBR principally reflects higher borrowing by the National Coal Board (offsetting lower grant receipts) and higher post-coal-strike costs incurred by the Electricity Council.

17. The forecast assumes that the teachers' pay settlement is not reached in time to affect the LABR before March. Also, the post-OPEC oil price fall will have a minimal effect on revenues and the CGBR(O) in 1985-86.

**Table 3: Latest monthly profles**
(Budget profiles in italics for comparison)

£ billion

| | PSBR | | Comprising | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CGBR(O) | | LABR | | PCBR | |
| **1985-86** | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **1.0** | *1.4* | **1.2** | *1.6* | **-** | *-0.1* | **-0.3** | *-0.2* |
| Jun | **-0.1** | *0.4* | **0.3** | *0.4* | **-0.3** | *-* | **-0.1** | *0.1* |
| Jul | **0.6** | *0.3* | **0.9** | *0.2* | **0.3** | *-* | **-0.6** | *0.1* |
| Aug | **1.2** | *1.3* | **1.0** | *1.6* | **0.1** | *0.2* | **0.1** | *-0.5* |
| Sep | **1.3** | *-0.1* | **0.5** | *-* | **0.2** | *-* | **0.6** | *-* |
| Oct | **-0.3** | *-0.2* | **-0.2** | *-0.3* | **-0.4** | *-0.1* | **0.3** | *0.2* |
| Nov | **0.7** | *1.4* | **1.1** | *1.1* | **-0.6** | *-* | **0.1** | *0.4* |
| Dec | **2.5** | *2.4* | **1.7** | *1.6* | **0.3** | *0.2* | **0.5** | *0.5* |
| Jan | **-2.6** | *-3.4* | **-2.6** | *-3.1* | **-0.1** | *-0.2* | **0.1** | *-* |
| Feb | **-0.7** | *-0.8* | **-0.7** | *-0.6* | **0.1** | *-* | **-0.2** | *-0.2* |
| **Cumulative** | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **2.7** | *3.5* | **2.4** | *3.4* | **0.8** | *0.4* | **-0.4** | *-0.3* |
| Jun | **2.6** | *3.9* | **2.7** | *3.8* | **0.5** | *0.4* | **-0.6** | *-0.2* |
| Jul | **3.2** | *4.2* | **3.6** | *3.9* | **0.8** | *0.4* | **-1.2** | *-0.2* |
| Aug | **4.4** | *5.4* | **4.6** | *5.6* | **0.9** | *0.6* | **-1.1** | *-0.7* |
| Sep | **5.7** | *5.3* | **5.1** | *5.5* | **1.1** | *0.5* | **-0.5** | *-0.7* |
| Oct | **5.4** | *5.1* | **4.9** | *5.2* | **0.7** | *0.5* | **-0.3** | *-0.6* |
| Nov | **6.1** | *6.5* | **6.0** | *6.3* | **0.1** | *0.5* | **-0.1** | *-0.2* |
| Dec | **8.6** | *8.9* | **7.7** | *7.9* | **0.5** | *0.7* | **0.4** | *0.3* |
| Jan | **6.0** | *5.5* | **5.1** | *4.8* | **0.4** | *0.5* | **0.5** | *0.3* |
| Feb | **5.2** | *4.7* | **4.4** | *4.2* | **0.5** | *0.5* | **0.3** | *0.1* |

Figures for April to November are outturns

**Table 4:** **PSBR for 1985-86 – comparisons with 1984-85 and Budget profile**

£ billion

| | 1984-85 | 1985-86 | | Differences from | |
|---|---|---|---|---|---|
| | Outturn | Budget profile | Latest update[1] | 1984-85 outturn | Budget profile |
| | 1 | 2 | 3 | 3-1 | 3-2 |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.3 |
| May | 1.2 | 1.4 | **1.0** | -0.2 | -0.4 |
| Jun | 1.0 | 0.4 | **-0.1** | -1.1 | -0.5 |
| Q2 | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 0.6 | 0.3 | **0.6** | – | 0.3 |
| Aug | 1.6 | 1.3 | **1.2** | -0.5 | -0.1 |
| Sep | 0.6 | -0.1 | **1.3** | 0.7 | 1.4 |
| Q3 | 2.8 | 1.4 | **3.0** | 0.2 | 1.6 |
| Oct | 0.6 | -0.2 | **-0.3** | -0.8 | -0.1 |
| Nov | 1.7 | 1.4 | **0.7** | -1.0 | -0.7 |
| Dec | 0.6 | 2.4 | **2.5** | 1.9 | 0.1 |
| Q4 | 2.8 | 3.6 | **2.9** | 0.1 | -0.7 |
| Jan | -2.4 | -3.4 | **-2.6** | -0.2 | 0.8 |
| Feb | -0.1 | -0.8 | **-0.7** | -0.7 | 0.1 |
| Mar | 2.4 | 2.3 | | | |
| Q1 | -0.1 | -1.8 | | | |
| Cumulative | | | | | |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.3 |
| May | 3.6 | 3.5 | **2.7** | -0.8 | -0.8 |
| Jun | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 5.1 | 4.2 | **3.2** | -1.9 | -1.0 |
| Aug | 6.8 | 5.4 | **4.4** | -2.4 | -1.1 |
| Sep | 7.4 | 5.3 | **5.7** | -1.7 | 0.3 |
| Oct | 8.0 | 5.1 | **5.4** | -2.6 | 0.3 |
| Nov | 9.6 | 6.5 | **6.1** | -3.6 | -0.4 |
| Dec | 10.2 | 8.9 | **8.6** | -1.7 | -0.3 |
| Jan | 7.8 | 5.5 | **6.0** | -1.8 | 0.4 |
| Feb | 7.7 | 4.7 | **5.2** | -2.5 | 0.5 |
| Mar | 10.1 | 7.1 | | | |

[1]Figures for April to November are outturns

**Table 5: Central government transactions – November outturn and latest forecasts for December–February**

£ billion

| | November | | Latest forecasts | | |
|---|---|---|---|---|---|
| | forecast | outturn[1] | Dec | Jan | Feb |
| Receipts | | | | | |
| *Consolidated Fund* | | | | | |
| Inland Revenue | 3.4 | 3.3 | 3.7 | 9.6 | 5.1 |
| Customs and Excise | 3.9 | 3.9 | 2.8 | 3.0 | 3.6 |
| Other[2] | 1.0 | 0.7 | 0.9 | 0.9 | 1.1 |
| *National Loans Fund* | | | | | |
| Interest etc. receipts | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 |
| Total Receipts | 8.7 | 8.4 | 7.8 | 13.8 | 10.1 |
| Expenditure | | | | | |
| *Consolidated Fund* | | | | | |
| Supply expenditure[3] | 7.8 | 7.9 | 8.5 | 9.0 | 8.0 |
| Adjustment to Supply Services basis[4] | 0.1 | 0.2 | – | 0.1 | – |
| Other | 0.3 | 0.3 | 0.6 | 0.5 | 0.4 |
| *National Loans Fund* | | | | | |
| Service of the national debt | 1.6 | 1.6 | 0.6 | 1.9 | 1.1 |
| Net lending | 0.4 | 0.7 | 0.1 | – | – |
| Total Expenditure | 10.2 | 10.7 | 9.8 | 11.5 | 9.5 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | -0.1 | -0.3 | 0.3 | -0.2 | -0.1 |
| **CGBR** | **1.4** | **2.0** | **2.3** | **-2.6** | **-0.7** |
| On-lending | 0.5 | 0.8 | 0.7 | – | – |
| **CGBR(O)** | **1.0** | **1.1** | **1.7** | **-2.6** | **-0.7** |

(1) Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.
(2) Includes receipts from sales of assets
(3) On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
(4) Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

**Table 6: Central government transactions(1) – comparisons for April–February**

£ billion

| | 1984–85 | 1985–86 | |
|---|---|---|---|
| | Outturn | Budget forecast | Latest update |
| Receipts | | | |
| *Consolidated Fund* | | | |
| Inland Revenue | 45.3 | 51.8 | 50.5 |
| Customs and Excise | 32.6 | 33.5 | 34.1 |
| Other(2) | 10.9 | 12.3 | 11.1 |
| *National Loans Fund* | | | |
| Interest etc. receipts | 4.6 | 5.4 | 5.8 |
| Total Receipts | 93.4 | 103.0 | 101.5 |
| Expenditure | | | |
| *Consolidated Fund* | | | |
| Supply expenditure(3) | 83.1 | 89.3 | 88.9 |
| Adjustment to Supply Services basis(4) | 0.7 | – | 0.5 |
| Other | 4.3 | 3.8 | 4.2 |
| *National Loans Fund* | | | |
| Service of the national debt | 11.9 | 13.0 | 13.2 |
| Net lending | 2.4 | 1.9 | 4.7 |
| Total Expenditure | 102.3 | 108.2 | 111.5 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | –1.0 | 1.6 | –0.7 |
| **CGBR** | **7.9** | **6.8** | **9.2** |
| On-lending | 2.7 | 2.7 | 4.8 |
| **CGBR(O)** | **5.2** | **4.2** | **4.4** |

(1)Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.
(2)Includes receipts from sales of assets.
(3)On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
(4)Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

49/581



pwp

FROM: MISS M E PEIRSON
DATE: 16 December 1985

PPS/CHANCELLOR

cc Mr Cassell

**DRAFT PRESS BRIEFING ON PSBR IN NOVEMBER**

1. I attach the draft press briefing on the PSBR in November, for tomorrow's publication. The aim is to circulate the briefing to List A recipients by 10.30 am tomorrow. Any comments which the Chancellor might have can be taken on board provided you can let Mr Clark (ext 3093) have them before 9.30 am tomorrow, and earlier if possible.

2. The briefing includes a reference to the new table on supply expenditure in the press notice.

MEP

MISS M E PEIRSON

From: JOHN CLARK
17 December 1985

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr H Evans

Mr Peretz
Miss O'Mara
Miss Peirson
Mr Walsh
Mr Watts
Mr R Evans
Mr Ward - CSO
Mr Wright - B/E
Mr Norgrove - No. 10

List B
(distributed at 2.30pm, 17 December)

Mrs Butler
Mr Spencer
Mr Cropper
Mr H Davies
Mr Lord
Mrs Hillier - IR
Mr B Sexton - C and E

**BRIEFING FOR 17 DECEMBER PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for November will be published at 2.30pm on 17 December. The provisional outturns, together with figures for the first eight months of 1984-85 and 1985-86, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1983-84 are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns**

£ billion

| | Apr-Nov 1984 | Apr-Nov 1985 | November 1985 |
|---|---|---|---|
| Central government on own account | 8.5 | 6.0 | **1.1** |
| Local authorities | 0.8 | 0.1 | **-0.6** |
| Public corporations | 0.4 | -0.1 | **0.1** |
| PSBR | 9.6 | 6.1 | **0.7** |
| Memo: CGBR (including borrowing for on-lending to LAs and PCs) | 10.4 | 10.2 | **2.0** |

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

**Table 2: PUBLIC SECTOR BORROWING REQUIREMENT - Comparison with the last two years**

Cumulative £ billion

| | Central government on own account | | | Local authorities borrowing requirement | | | Public corporations borrowing requirement | | | Public sector borrowing requirement | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 |
| Apr | 0.9 | 1.9 | **1.1** | 0.5 | 0.9 | **0.8** | -0.2 | -0.4 | **-0.2** | 1.2 | 2.4 | **1.8** |
| May | 2.4 | 3.2 | **2.4** | 0.3 | 0.8 | **0.8** | -0.3 | -0.4 | **-0.4** | 2.4 | 3.6 | **2.7** |
| Jun | 3.7 | 4.5 | **2.7** | -0.1 | 0.6 | **0.5** | -0.4 | -0.5 | **-0.6** | 3.2 | 4.6 | **2.6** |
| Jul | 4.5 | 5.0 | **3.6** | -0.0 | 0.8 | **0.8** | -0.6 | -0.7 | **-1.2** | 3.9 | 5.1 | **3.2** |
| Aug | 5.8 | 6.2 | **4.6** | 0.3 | 1.4 | **0.9** | -0.4 | -0.7 | **-1.1** | 5.6 | 6.8 | **4.4** |
| Sep | 6.6 | 6.4 | **5.1** | 0.3 | 1.2 | **1.1** | -0.0 | -0.3 | **-0.5** | 6.9 | 7.4 | **5.7** |
| Oct | 6.7 | 6.7 | **4.9** | 0.3 | 1.0 | **0.7** | 0.1 | 0.2 | **-0.3** | 7.1 | 8.0 | **5.4** |
| Nov | 8.3 | 8.5 | **6.0** | -0.2 | 0.8 | **0.1** | 0.5 | 0.4 | **-0.1** | 8.5 | 9.6 | **6.1** |
| Dec | 9.1 | 7.8 | | 0.1 | 1.2 | | 0.6 | 1.2 | | 9.8 | 10.2 | |
| Jan | 6.3 | 5.7 | | 0.0 | 0.9 | | 0.7 | 1.2 | | 7.1 | 7.8 | |
| Feb | 6.7 | 5.1 | | 0.1 | 1.3 | | 0.6 | 1.3 | | 7.5 | 7.7 | |
| Mar | 8.2 | 6.6 | | 1.2 | 2.4 | | 0.3 | 1.1 | | 9.7 | 10.1 | |

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL
(DRAFT)

2. The (provisional) PSBR for November is £0.7 billion. This is below the forecasts of most City analysts, which lie between £1 billion and £1¾ billion (though there is one of £½ billion).

**POSITIVE**

1. Borrowing in first eight months of 1985-86 was £6.1 billion, i.e. £3.6 billion lower than in first eight months of 1984-85.

2. Outturn for first eight months is consistent with Autumn Statement forecast for whole year (£8 billion). (Borrowing in last four months of 1984-85 was £½ billion - affected by VAT on imports and BT sale - and in 1983-84 it was £1¼ billion. Autumn Statement forecast implies £2 billion in last four months of 1985-86.)

**DEFENSIVE/FACTUAL**

## 1. Borrowing in 1985-86

Background

Autumn Statement forecast for 1985-86 £8 billion. Budget forecast was £7.1 billion. Revised estimate due to reduction in expected North Sea revenues, partly offset by increase in other taxes (see Q7). Recent fall in oil price too late to have much effect in 1985-86 (see Q2). Margin of error on Autumn Statement forecast is £2½ billion either way.

Line to take

Autumn Statement forecast for 1985-86 PSBR is £8 billion. Recent fall in oil price too late to have much effect in 1985-86, because revenues up to March largely determined by prices and production up to end of December.

## 2. Oil Revenues : effect of OPEC decisions

Background

Autumn Statement forecast for total oil revenues (PRT, including advance payments, corporation tax before ACT set off attributable to North Sea Oil and gas production, and oil royalties) was £11½ billion, £2 billion lower than Budget forecast. Downward revision mainly reflects higher sterling/dollar exchange rate than assumed in Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined largely by prices and production up to June 1985. Revenues next March determined largely by what happened in July-December 1985. Fall in dollar price following recent OPEC meeting affects deliveries in January-March 1986 and hence will have little effect on revenues in 1985-86.

Line to take

As shown in Autumn Statement, oil revenues for year as a whole expected to be reduced by around £2 billion (compared with Budget forecast) owing to fall in sterling oil price. Since revenues up to end-March depend largely on average prices and production up to end-December, little effect in 1985-86 from recent fall in oil price.

## 3. New press notice table on supply expenditure

Background

As explained in separate press notice, a new table is being introduced this month in the PSBR press notice (Table 4) showing estimates of supply expenditure. Difference between supply expenditure and supply services (latter shown in Table 3 column 6) is explained in paragraph 4 of Notes to Editors in PSBR press notice. It is like difference between money paid into and out of a bank account (though supply expenditure still only represents cheques issued, not cheques cashed). Aim is to give clearer indication of monthly path of voted expenditure by Government Departments, less affected by changes in Departments' balances with the Paymaster General's Office. Does not give close indication of path of public expenditure planning total (see paragraph 6 of Notes to Editors). Treasury Select Committee were informed in August of proposed new table.

This month, cumulative growth in supply expenditure from start of 1985-86 is about the same as cumulative growth in supply services. That may not be true for every succeeding month because of changes in Departmental balances. By end of financial year, cumulative totals expected to be close.

Line to take

New table shows monthly path of Voted expenditure by Government Departments. These estimates are clearer indication of expenditure to date than are figures for supply services in table 3, because latter are distorted by changes in Departmental balances, ie timing differences. But cumulatively by end of financial year there is little difference between them. See separate press notice, and paragraphs 3-6 of Notes to Editors in PSBR press notice.

New table is introduced to help understanding of path of expenditure during the year. But still does not give close indication of path of public expenditure planning total.

## 4. Supply Expenditure

Background

For first eight months of 1985-86, supply services (which represents issues to departments from the Consolidated Fund) were about 7½ per cent higher than in April-November 1984. The comparable increase in supply expenditure (also now published in the press notice - see Q3) is also 7½ per cent; when adjusted for changes in method of paying EC contributions, the increase is 6 per cent. Autumn Statement forecast was that planning total in 1985-86 would be fully spent, representing 3½ per cent increase on 1984-85, but supply has different coverage from planning total (e.g. the latter includes asset sales, LA expenditure rather than CG grants to LAs, and PCs' market borrowing), and the other elements in planning total move differently.

Line to take

Underlying increase in supply expenditure in April-November is 6 per cent above same period of 1984-85. (New table shows 7½ per cent but this includes change in method of paying EC contributions.) November outturn is consistent with Autumn Statement forecast for planning total in 1985-86 as a whole: supply has different coverage from planning total.

## 5. Asset sales

Background

Budget forecast for total receipts from special sales of assets in 1985-86 was £2.5 billion - not changed in Autumn Statement. This does not include the Trustee Savings Banks (originally scheduled for sale in February 1986) because the proceeds will not accrue to HMG and so will not benefit the PSBR. Hence the recently announced delay in sale has no effect on the PSBR, or special sales of assets.

Line to take

Total net receipts for first eight months of 1985-86 almost £2 billion. Second Britoil instalment of £200 million received in November. Sale of residual shareholding in Cable and Wireless has taken place and will realise in December net receipts of about £300 million.

## 6. EC refunds

Line to take

Whole of 1983 refund received in 1984-85. 1984 refund of 1000m ecus (about £590 million at present) expected in late 1985-86. 1985 and subsequent arrangements are different, and will reduce UK monthly contributions, starting in early 1986. [If pressed: Inter-governmental Agreement payment, to finance inescapable Community obligations, got Royal assent in October but is being paid in December.]

## 7. Tax revenues in 1985-86
[See also Q2 on oil revenues]

Background

Total taxes on incomes, expenditure and capital in 1985-86 forecast at £112½ billion in Autumn Statement, compared with £113½ billion in Budget.

Line to take

Changes from Budget reflect reduction of £2 billion in North Sea revenues (owing to lower sterling oil price) partly offset by £1 billion increase in other tax receipts (mainly higher expenditure taxes and higher onshore company taxes - latter boosted by higher estimated profits in 1984).

## 8. Inland Revenue receipts
[See also Q2 on oil revenues]

Background

Total Inland Revenue receipts in November were £3.3 billion. Total for April-November 1985-86 was £32.3 billion, 10½ per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85. No Autumn Statement forecast of total Inland Revenue taxes only, but stated that oil revenues expected to be £2 billion lower, and onshore company taxes expected higher, than in Budget forecast.

Line to take

Inland Revenue receipts in November were £3.3 billion, and the total for April-November £32.3 billion. Monthly pattern of receipts varies from year to year. Receipts in 1985-86 expected to be lower than in Budget forecast, because of shortfall in oil revenues only partly offset by higher onshore company taxes.

## 9. Customs and Excise revenues

Background

Customs and Excise revenues in November were £3.9 billion. Total for April-November 1985-86 (£24.8 billion) was 11 per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £36.3 billion, up 2¼ per cent on 1984-85 (low increase because 1984-85 receipts were boosted by change in VAT on imports). No Autumn Statement forecast of Customs and Excise taxes only, but stated that expenditure taxes expected higher than in Budget forecast.

Line to take

Receipts in first eight months £24.8 billion. Increase over corresponding period last year greater than Budget forecast of increase for year as a whole, because receipts in second half of 1984-85 boosted by change in VAT on imports. Increase in 1985-86 as a whole expected to be greater than in Budget forecast, because of higher expenditure taxes (Autumn Statement).

## 10. Local authorities

Background

Preliminary estimate is that local authorities made a net repayment of debt of £0.6 billion in November, bringing total net borrowing to £0.1 billion in April-November 1985-86, about £0.6 billion lower than over corresponding period last year. Budget forecast for 1985-86 as a whole was not given (breakdown of PSBR of £7.1 billion given in part 6 of the FSBR, including £1.5 billion for LABR, was purely notional - based on an arbitrary allocation of the reserve). No Autumn Statement forecast of LABR for 1985-86, either. Outturn for 1984-85 was £2.4 billion.

Line to take

Local authorities normally show a heavy net repayment of debt in November, owing to seasonally high rate receipts. Cumulative borrowing April-November (£0.1 billion) close to average over same period for previous three years. (Average LABR for whole year in previous three years was £1¼ bilion.)

## 11. Public corporations

Background

Public corporations (provisionally) borrowed £0.1 billion in November, giving net re-payment of debt of £0.1 billion for first eight months of 1985-86. No Budget or Autumn Statement forecasts of PCBR for 1985-86 as a whole - see Q10.

Line to take

Borrowing in 1985-86 is running lower than in 1984-85 but is following a broadly similar monthly pattern.

John Clark (ext 3093)
PSF Division, HM Treasury

CC:- Mr Cassell
Miss Peirson

50/581

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

COVERING CONFIDENTIAL & PERSONAL

C/ Mysteriously the usual cover note for you has been mislaid - I'll chase it up first thing. But basic facts in attached note sent to No.10.
RS 16/12

PSC ASAP.

David Norgrove Esq
10 Downing Street.

16 December 1985

Dear David,

**MONTHLY NOTE ON PUBLIC SECTOR BORROWING**

I enclose this month's note on the PSBR.

The press notice giving the outturn figures for November will be published at 2.30 pm tomorrow, 17 December. The notice includes for the first time a new table on supply expenditure: there will be an explanation of the additional table in the press briefing, as well as in the press notice itself.

Yours sincerely

Rachel Lomax.

RACHEL LOMAX
PRINCIPAL PRIVATE SECRETARY

## PUBLIC SECTOR BORROWING


### Summary

- The PSBR for November is provisionally estimated at £0.7 billion, £0.4 billion lower than last month's forecast. Local authorities borrowed £0.5 billion less than forecast.

- Borrowing in the first eight months of 1985-86 (£6.1 billion) was just £0.4 billion lower than the Budget profile (Chart 1).

- The PSBR is forecast to be in surplus over the next three months - a net repayment of debt of £¾ billion, lower (by £1 billion) than in the Budget profile. The recent fall in oil prices will have almost no effect in 1985-86.

- Heavy borrowing in December is expected to bring the cumulative PSBR to £8½ billion, £½ billion above the Autumn Statement forecast for the year, but this will be followed by seasonally large surpluses in January and February.

- The forecast for the first eleven months of 1985-86 as a whole is £5¼ billion, some £½ billion above the Budget profile.


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Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

## Chart 1 : Comparisons with Budget profiles for 1985-86

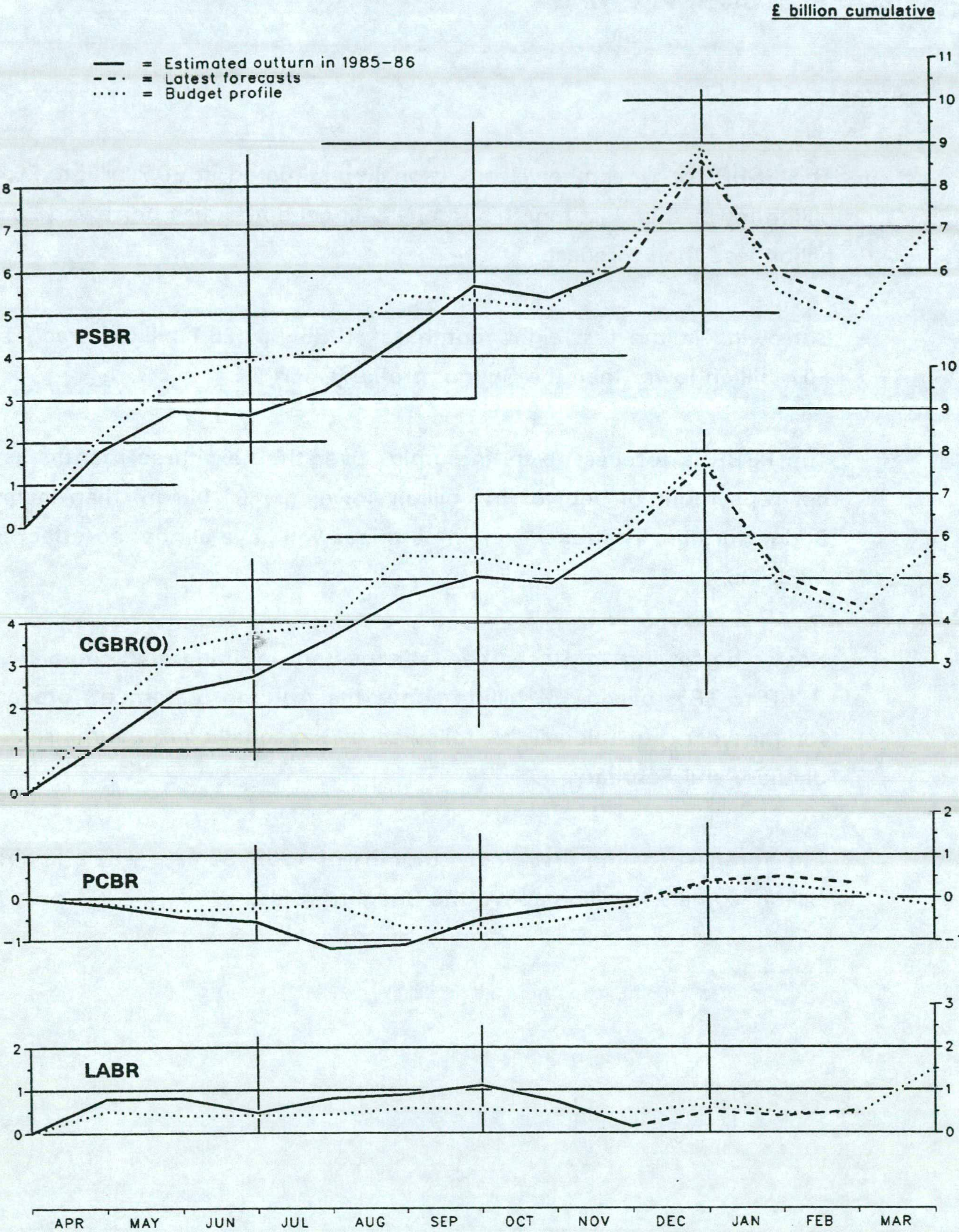
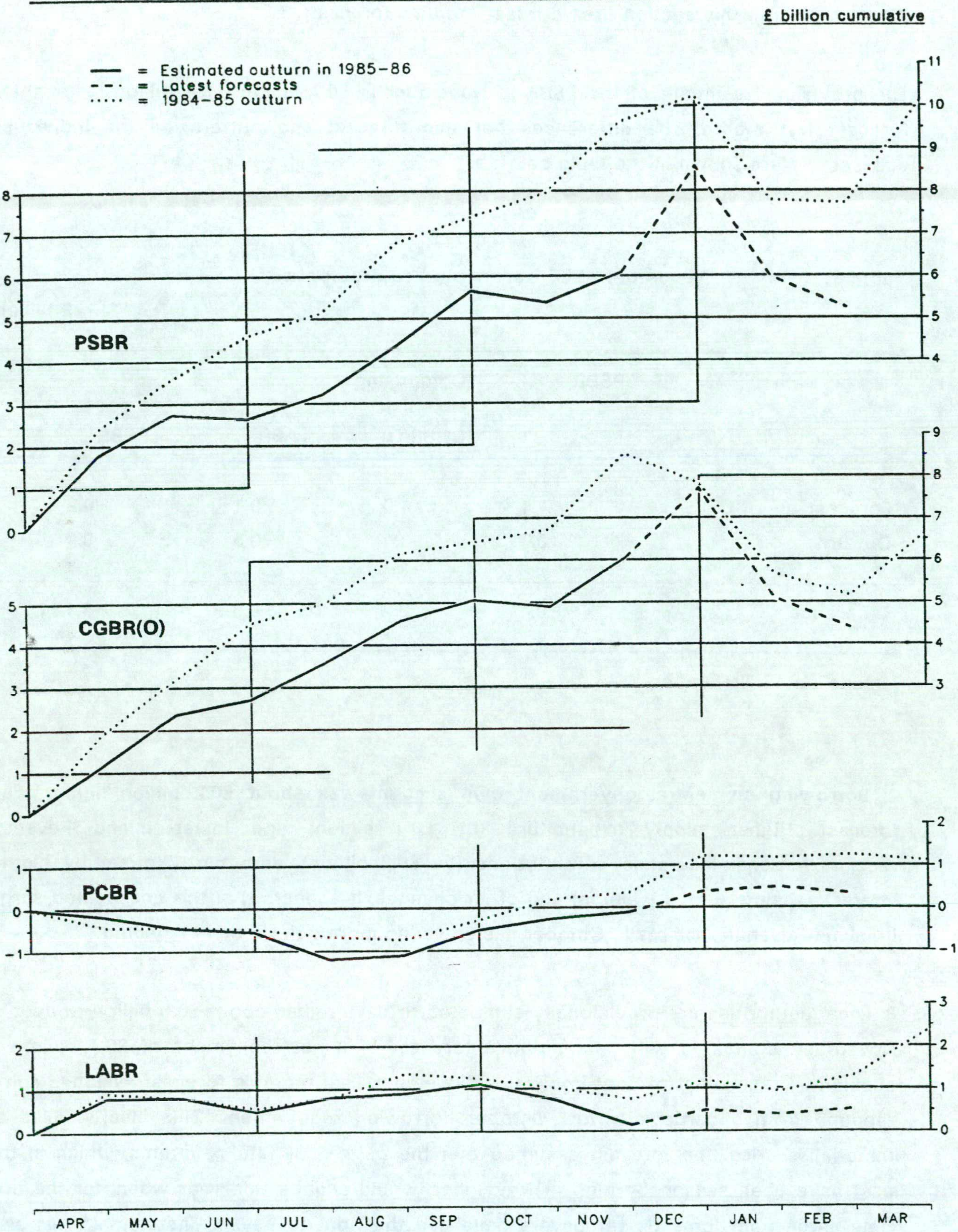


**Chart 2 : Comparisons with last year's outturns**



**Borrowing in November**

(Comparisons in this section are with last month's forecast)

The provisional estimate of the PSBR in November is £0.7 billion, £0.4 billion lower than forecast last month. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: November 1985 borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Forecast* | 1.1 | 1.0 | -0.1 | 0.2 |
| Outturn | 0.7 | 1.1 | -0.6 | 0.1 |
| Difference | -0.4 | 0.2 | -0.5 | -0.1 |

*made on 15 November

2. Borrowing on <u>central government own account</u> was about £0.2 billion higher than forecast. Higher supply expenditure (by £0.1 billion) and lower Inland Revenue receipts/National Insurance contributions (by £0.2 billion) were partly offset by higher interest receipts (by £0.1 billion) and other changes. It appears that the unexpected surge in Inland Revenue receipts in October has unwound more quickly than expected.

3. <u>Local authorities</u> are provisionally estimated to have repaid about £0.6 billion of debt in November, compared with last month's forecast of a net repayment of £0.1 billion. A substantial repayment of debt is usual in November. Last month's forecast assumed some rebound from a particularly low October borrowing requirement. This clearly failed to materialise. Also, the forecast assumed that the pattern of rate payments, which in the past have been seasonally high in November, would change this year when, for the first time, large non-domestic ratepayers have had the right to pay by instalment. This also

appears not to have happened. The teacher's pay dispute will have depressed local authorities' borrowing so far this year - perhaps by £0.2 billion up to the end of November. But it cannot account fully for the erratically low borrowing in the last two months, particularly October.

4. Public corporations borrowed about £0.2 billion in November, close to last month's forecast.

**April to November**

**(comparisons in this and following sections are with the Budget profile)**

**Table 2: Total April-November borrowing requirements**

£ billion

| | PSBR | Comprising | | |
|---|---|---|---|---|
| | | CGBR(O) | LABR | PCBR |
| Budget forecast | 6.5 | 6.3 | 0.5 | -0.2 |
| Outturn | 6.1 | 6.0 | 0.1 | -0.1 |
| Difference | -0.4 | -0.2 | -0.3 | 0.1 |

5. The cumulative PSBR for the first eight months of 1985-86 was £6.1 billion. This is about £0.4 billion below the Budget profile (see Chart 1 and Table 2); and about £3.6 billion below the same period last year (Chart 2), partly because of last year's coal strike, the BT second call receipts in June this year, and the lower LA borrowing so far this year.

6. Cumulative borrowing in April-November on central government own account was £0.2 billion lower than the Budget profile. Lower Inland Revenue receipts (by £1.2 billion, mainly Petroleum Revenue Tax) and lower oil royalties (by £0.2 billion) were more than offset by higher Customs and Excise receipts (by £0.5 billion, mainly VAT), lower supply expenditure (by £0.6 billion, due to lower grants to the National Coal Board and lower ECGD payments:

see next paragraph), higher interest receipts (by £0.3 billion), and other changes.

7. Cumulative supply expenditure is expected to remain below the Budget profile for the rest of the year. The planning total is expected to be at least fully spent, but with less on supply and more on other items, such as local authority capital (affecting the LABR – though see next paragraph) and coal stock rebuilding (affecting the PCBR).

8. Local authorities borrowed £0.1 billion in the first eight months of 1985-86, about £0.3 billion lower than in the Budget profile. Much of this shortfall seems to be due to timing: contrary to the assumption made at the beginning of the year, the pattern of rate payments does not seem to have changed this year. The overspend on capital now expected (compared with the Budget forecast) for the year as a whole does not seem to be reflected in borrowing.

9. Public corporations made a net repayment of debt of £0.1 billion in April-November. This is about £0.1 billion less repayment than in the Budget profile, mainly because of higher borrowing by the National Coal Board, matching the reduction in grant (see paragraph 6 above); another reason is higher borrowing by the Electricity Council for coal stock rebuilding. These factors are partly offset by lower public dividend capital payments to the British Steel Corporation.

**December to February**

10. The PSBR in the period December-February is forecast to be a net repayment of debt of £¾ billion. This is about £1 billion less than in the Budget profile, partly because of lower oil revenues. This does not include any effect from the recent fall in oil prices which will mainly affect royalty payments (rather than PRT) in 1985-86 and only by very small amounts.

11. Table 5 shows the latest detailed profile of borrowing on central government own account for December-February. A comparison with the Budget forecast for the first eleven months and with the outturn in April-February 1984-85 is provided in Table 6.

12. The forecast of the CGBR(O) for December-February is nearly £½ billion higher than

the Budget profile, more than unwinding the shortfall in April–November. The increased borrowing in December–February is accounted for by lower Inland Revenue receipts (by £¼ billion – lower PRT and income tax are partly offset by higher corporation tax), lower receipts from asset sales (by £¼ billion due to different assumptions about timing) and lower oil royalties (by £¼ billion), partly offset by higher Customs and Excise receipts (by £¼ billion). No effect is expected in this period from the recent fall in oil prices following the OPEC meeting (see paragraph 10 above).

13. The forecast monthly path of the CGBR(O) is as follows.

- In December, the CGBR(O) is forecast to be £1¾ billion. Receipts from asset sales (£¼ billion for first call on Cable and Wireless) are more than offset by seasonally low Inland Revenue receipts and a seasonally large deficit on the National Insurance Fund. Supply expenditure includes a biannual payment for interest support (ECGD). EC contributions are high, with £¼ billion supplementary finance expected. The forecast for December is, as usual, particularly uncertain because Christmas and the New Year can significantly affect the timing of the tax receipts.

- In January, the CGBR(O) is forecast to be a surplus of £2½ billion. This reflects the seasonal peaking of Inland Revenue receipts. January is the main month for the receipts of Schedule D income tax (totalling £1¾ billion) and Mainstream Corporation Tax (totalling £2¼ billion); receipts of Advance Corporation Tax (totalling £1½ billion) are also high. The forecast surplus is £½ billion lower than in the Budget profile, because of lower income tax (due to timing), higher supply expenditure (including some payments in respect of pension rights of staff of Royal Ordnance Factories), and lower PRT.

- In February, the CGBR(O) is forecast to be a surplus of £¾ billion. Inland Revenue receipts are again seasonally high, with £1 billion of corporation tax expected.

14. Local authorities are expected to borrow over £¼ billion over the next three months, £¼ billion more than in the Budget profile. The difference is largely explained by the rate payment pattern assumption: see paragraph 3 above. It is assumed that the teachers' pay settlement is not reached in time to affect borrowing before March.

15. Public corporations are expected to borrow £½ billion over the next three months, slightly above the Budget profile. Electricity (England and Wales) and the South of Scotland Electricity Board are each expected to borrow slightly more than expected at Budget time, the former because of higher coal restocking and the latter because of higher capital expenditure.

**April-February**

16. Cumulatively, the forecast PSBR for the first eleven months of 1985-86 is £5¼ billion, £½ billion above the Budget profile. The difference is accounted for by higher borrowing on central government's own account and by public corporations. As explained above, the shortfall in April-October on the CGBR(O) is expected to more than unwind by February: the shortfall in supply in the first eight months (see paragraph 7) is offset by lower expected Inland Revenue receipts in the next three months (mainly because of lower PRT). The higher PCBR principally reflects higher borrowing by the National Coal Board (offsetting lower grant receipts) and higher post-coal-strike costs incurred by the Electricity Council.

17. The forecast assumes that the teachers' pay settlement is not reached in time to affect the LABR before March. Also, the post-OPEC oil price fall will have a minimal effect on revenues and the CGBR(O) in 1985-86.

**Table 3:** **Latest monthly profiles**
(Budget profiles in italics for comparison)

£ billion

| | PSBR | | Comprising | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CGBR(O) | | LABR | | PCBR | |
| 1985-86 | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **1.0** | *1.4* | **1.2** | *1.6* | **-** | *-0.1* | **-0.3** | *-0.2* |
| Jun | **-0.1** | *0.4* | **0.3** | *0.4* | **-0.3** | *-* | **-0.1** | *0.1* |
| Jul | **0.6** | *0.3* | **0.9** | *0.2* | **0.3** | *-* | **-0.6** | *0.1* |
| Aug | **1.2** | *1.3* | **1.0** | *1.6* | **0.1** | *0.2* | **0.1** | *-0.5* |
| Sep | **1.3** | *-0.1* | **0.5** | *-* | **0.2** | *-* | **0.6** | *-* |
| Oct | **-0.3** | *-0.2* | **-0.2** | *-0.3* | **-0.4** | *-0.1* | **0.3** | *0.2* |
| Nov | **0.7** | *1.4* | **1.1** | *1.1* | **-0.6** | *-* | **0.1** | *0.4* |
| Dec | **2.5** | *2.4* | **1.7** | *1.6* | **0.3** | *0.2* | **0.5** | *0.5* |
| Jan | **-2.6** | *-3.4* | **-2.6** | *-3.1* | **-0.1** | *-0.2* | **0.1** | *-* |
| Feb | **-0.7** | *-0.8* | **-0.7** | *-0.6* | **0.1** | *-* | **-0.2** | *-0.2* |
| Cumulative | | | | | | | | |
| Apr | **1.8** | *2.1* | **1.1** | *1.7* | **0.8** | *0.5* | **-0.2** | *-0.1* |
| May | **2.7** | *3.5* | **2.4** | *3.4* | **0.8** | *0.4* | **-0.4** | *-0.3* |
| Jun | **2.6** | *3.9* | **2.7** | *3.8* | **0.5** | *0.4* | **-0.6** | *-0.2* |
| Jul | **3.2** | *4.2* | **3.6** | *3.9* | **0.8** | *0.4* | **-1.2** | *-0.2* |
| Aug | **4.4** | *5.4* | **4.6** | *5.6* | **0.9** | *0.6* | **-1.1** | *-0.7* |
| Sep | **5.7** | *5.3* | **5.1** | *5.5* | **1.1** | *0.5* | **-0.5** | *-0.7* |
| Oct | **5.4** | *5.1* | **4.9** | *5.2* | **0.7** | *0.5* | **-0.3** | *-0.6* |
| Nov | **6.1** | *6.5* | **6.0** | *6.3* | **0.1** | *0.5* | **-0.1** | *-0.2* |
| Dec | **8.6** | *8.9* | **7.7** | *7.9* | **0.5** | *0.7* | **0.4** | *0.3* |
| Jan | **6.0** | *5.5* | **5.1** | *4.8* | **0.4** | *0.5* | **0.5** | *0.3* |
| Feb | **5.2** | *4.7* | **4.4** | *4.2* | **0.5** | *0.5* | **0.3** | *0.1* |

Figures for April to November are outturns

**Table 4: PSBR for 1985-86 – comparisons with 1984-85 and Budget profile**

£ billion

| | 1984-85 | 1985-86 | | Differences from | |
|---|---|---|---|---|---|
| | Outturn | Budget profile | Latest update[1] | 1984-85 outturn | Budget profile |
| | 1 | 2 | 3 | 3-1 | 3-2 |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.3 |
| May | 1.2 | 1.4 | **1.0** | -0.2 | -0.4 |
| Jun | 1.0 | 0.4 | **-0.1** | -1.1 | -0.5 |
| Q2 | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 0.6 | 0.3 | **0.6** | - | 0.3 |
| Aug | 1.6 | 1.3 | **1.2** | -0.5 | -0.1 |
| Sep | 0.6 | -0.1 | **1.3** | 0.7 | 1.4 |
| Q3 | 2.8 | 1.4 | **3.0** | 0.2 | 1.6 |
| Oct | 0.6 | -0.2 | **-0.3** | -0.8 | -0.1 |
| Nov | 1.7 | 1.4 | **0.7** | -1.0 | -0.7 |
| Dec | 0.6 | 2.4 | **2.5** | 1.9 | 0.1 |
| Q4 | 2.8 | 3.6 | **2.9** | 0.1 | -0.7 |
| Jan | -2.4 | -3.4 | **-2.6** | -0.2 | 0.8 |
| Feb | -0.1 | -0.8 | **-0.7** | -0.7 | 0.1 |
| Mar | 2.4 | 2.3 | | | |
| Q1 | -0.1 | -1.8 | | | |
| Cumulative | | | | | |
| Apr | 2.4 | 2.1 | **1.8** | -0.6 | -0.3 |
| May | 3.6 | 3.5 | **2.7** | -0.8 | -0.8 |
| Jun | 4.6 | 3.9 | **2.6** | -2.0 | -1.3 |
| Jul | 5.1 | 4.2 | **3.2** | -1.9 | -1.0 |
| Aug | 6.8 | 5.4 | **4.4** | -2.4 | -1.1 |
| Sep | 7.4 | 5.3 | **5.7** | -1.7 | 0.3 |
| Oct | 8.0 | 5.1 | **5.4** | -2.6 | 0.3 |
| Nov | 9.6 | 6.5 | **6.1** | -3.6 | -0.4 |
| Dec | 10.2 | 8.9 | **8.6** | -1.7 | -0.3 |
| Jan | 7.8 | 5.5 | **6.0** | -1.8 | 0.4 |
| Feb | 7.7 | 4.7 | **5.2** | -2.5 | 0.5 |
| Mar | 10.1 | 7.1 | | | |

[1]Figures for April to November are outturns

**Table 5: Central government transactions - November outturn and latest forecasts for December-February**

£ billion

| | November | | Latest forecasts | | |
|---|---|---|---|---|---|
| | forecast | outturn[1] | Dec | Jan | Feb |
| **Receipts** | | | | | |
| *Consolidated Fund* | | | | | |
| Inland Revenue | 3.4 | 3.3 | 3.7 | 9.6 | 5.1 |
| Customs and Excise | 3.9 | 3.9 | 2.8 | 3.0 | 3.6 |
| Other[2] | 1.0 | 0.7 | 0.9 | 0.9 | 1.1 |
| *National Loans Fund* | | | | | |
| Interest etc. receipts | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 |
| Total Receipts | 8.7 | 8.4 | 7.8 | 13.8 | 10.1 |
| **Expenditure** | | | | | |
| *Consolidated Fund* | | | | | |
| Supply expenditure[3] | 7.8 | 7.9 | 8.5 | 9.0 | 8.0 |
| Adjustment to Supply Services basis[4] | 0.1 | 0.2 | – | 0.1 | – |
| Other | 0.3 | 0.3 | 0.6 | 0.5 | 0.4 |
| *National Loans Fund* | | | | | |
| Service of the national debt | 1.6 | 1.6 | 0.6 | 1.9 | 1.1 |
| Net lending | 0.4 | 0.7 | 0.1 | – | – |
| Total Expenditure | 10.2 | 10.7 | 9.8 | 11.5 | 9.5 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | -0.1 | -0.3 | 0.3 | -0.2 | -0.1 |
| **CGBR** | **1.4** | **2.0** | **2.3** | **-2.6** | **-0.7** |
| On-lending | 0.5 | 0.8 | 0.7 | – | – |
| **CGBR(O)** | **1.0** | **1.1** | **1.7** | **-2.6** | **-0.7** |

[1]Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.
[2]Includes receipts from sales of assets
[3]On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
[4]Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

**Table 6: Central government transactions[1] – comparisons for April–February**

£ billion

| | 1984-85 Outturn | 1985-86 Budget forecast | 1985-86 Latest update |
|---|---|---|---|
| **Receipts** | | | |
| *Consolidated Fund* | | | |
| Inland Revenue | 45.3 | 51.8 | 50.5 |
| Customs and Excise | 32.6 | 33.5 | 34.1 |
| Other[2] | 10.9 | 12.3 | 11.1 |
| *National Loans Fund* | | | |
| Interest etc. receipts | 4.6 | 5.4 | 5.8 |
| Total Receipts | 93.4 | 103.0 | 101.5 |
| Expenditure | | | |
| *Consolidated Fund* | | | |
| Supply expenditure[3] | 83.1 | 89.3 | 88.9 |
| Adjustment to Supply Services basis[4] | 0.7 | – | 0.5 |
| Other | 4.3 | 3.8 | 4.2 |
| *National Loans Fund* | | | |
| Service of the national debt | 11.9 | 13.0 | 13.2 |
| Net lending | 2.4 | 1.9 | 4.7 |
| Total Expenditure | 102.3 | 108.2 | 111.5 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | -1.0 | 1.6 | -0.7 |
| **CGBR** | **7.9** | **6.8** | **9.2** |
| On-lending | 2.7 | 2.7 | 4.8 |
| **CGBR(O)** | **5.2** | **4.2** | **4.4** |

[1]Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.
[2]Includes receipts from sales of assets.
[3]On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.
[4]Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

From: JOHN CLARK
17 December 1985

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr H Evans
Mr Peretz
Miss O'Mara
Miss Peirson
Mr Walsh
Mr Watts
Mr R Evans
Mr Ward - CSO
Mr Wright - B/E
Mr Norgrove - No. 10

List B
(distributed at 2.30pm, 17 December)

Mrs Butler
Mr Spencer
Mr Cropper
Mr H Davies
Mr Lord
Mrs Hillier - IR
Mr B Sexton - C and E

C/ Now received the copy. Publication today. OK?

OK

RO 17/12

**BRIEFING FOR 17 DECEMBER PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for November will be published at 2.30pm on 17 December. The provisional outturns, together with figures for the first eight months of 1984-85 and 1985-86, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1983-84 are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns**

£ billion

| | Apr-Nov 1984 | Apr-Nov 1985 | November 1985 |
|---|---|---|---|
| Central government on own account | 8.5 | 6.0 | **1.1** |
| Local authorities | 0.8 | 0.1 | **-0.6** |
| Public corporations | 0.4 | -0.1 | **0.1** |
| PSBR | 9.6 | 6.1 | **0.7** |
| Memo: CGBR (including borrowing for on-lending to LAs and PCs) | 10.4 | 10.2 | **2.0** |

Note: Figures may not sum precisely because of rounding.

**Table 2:** **PUBLIC SECTOR BORROWING REQUIREMENT – Comparison with the last two years**

Cumulative £ billion

| | Central government on own account | | | Local authorities borrowing requirement | | | Public corporations borrowing requirement | | | Public sector borrowing requirement | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 |
| Apr | 0.9 | 1.9 | **1.1** | 0.5 | 0.9 | **0.8** | -0.2 | -0.4 | **-0.2** | 1.2 | 2.4 | **1.8** |
| May | 2.4 | 3.2 | **2.4** | 0.3 | 0.8 | **0.8** | -0.3 | -0.4 | **-0.4** | 2.4 | 3.6 | **2.7** |
| Jun | 3.7 | 4.5 | **2.7** | -0.1 | 0.6 | **0.5** | -0.4 | -0.5 | **-0.6** | 3.2 | 4.6 | **2.6** |
| Jul | 4.5 | 5.0 | **3.6** | -0.0 | 0.8 | **0.8** | -0.6 | -0.7 | **-1.2** | 3.9 | 5.1 | **3.2** |
| Aug | 5.8 | 6.2 | **4.6** | 0.3 | 1.4 | **0.9** | -0.4 | -0.7 | **-1.1** | 5.6 | 6.8 | **4.4** |
| Sep | 6.6 | 6.4 | **5.1** | 0.3 | 1.2 | **1.1** | -0.0 | -0.3 | **-0.5** | 6.9 | 7.4 | **5.7** |
| Oct | 6.7 | 6.7 | **4.9** | 0.3 | 1.0 | **0.7** | 0.1 | 0.2 | **-0.3** | 7.1 | 8.0 | **5.4** |
| Nov | 8.3 | 8.5 | **6.0** | -0.2 | 0.8 | **0.1** | 0.5 | 0.4 | **-0.1** | 8.5 | 9.6 | **6.1** |
| Dec | 9.1 | 7.8 | | 0.1 | 1.2 | | 0.6 | 1.2 | | 9.8 | 10.2 | |
| Jan | 6.3 | 5.7 | | 0.0 | 0.9 | | 0.7 | 1.2 | | 7.1 | 7.8 | |
| Feb | 6.7 | 5.1 | | 0.1 | 1.3 | | 0.6 | 1.3 | | 7.5 | 7.7 | |
| Mar | 8.2 | 6.6 | | 1.2 | 2.4 | | 0.3 | 1.1 | | 9.7 | 10.1 | |

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL
(DRAFT)

2. The (provisional) PSBR for November is £0.7 billion. This is below the forecasts of most City analysts, which lie between £1 billion and £1¾ billion (though there is one of £½ billion).

**POSITIVE**

1. Borrowing in first eight months of 1985-86 was £6.1 billion, i.e. £3.6 billion lower than in first eight months of 1984-85.

2. Outturn for first eight months is consistent with Autumn Statement forecast for whole year (£8 billion). (Borrowing in last four months of 1984-85 was £½ billion - affected by VAT on imports and BT sale - and in 1983-84 it was £1¼ billion. Autumn Statement forecast implies £2 billion in last four months of 1985-86.)

**DEFENSIVE/FACTUAL**

## 1. Borrowing in 1985-86

Background

Autumn Statement forecast for 1985-86 £8 billion. Budget forecast was £7.1 billion. Revised estimate due to reduction in expected North Sea revenues, partly offset by increase in other taxes (see Q7). Recent fall in oil price too late to have much effect in 1985-86 (see Q2). Margin of error on Autumn Statement forecast is £2½ billion either way.

Line to take

Autumn Statement forecast for 1985-86 PSBR is £8 billion. Recent fall in oil price too late to have much effect in 1985-86, because revenues up to March largely determined by prices and production up to end of December.

## 2. Oil Revenues : effect of OPEC decisions

Background

Autumn Statement forecast for total oil revenues (PRT, including advance payments, corporation tax before ACT set off attributable to North Sea Oil and gas production, and oil royalties) was £11½ billion, £2 billion lower than Budget forecast. Downward revision mainly reflects higher sterling/dollar exchange rate than assumed in Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined largely by prices and production up to June 1985. Revenues next March determined largely by what happened in July-December 1985. Fall in dollar price following recent OPEC meeting affects deliveries in January-March 1986 and hence will have little effect on revenues in 1985-86.

Line to take

As shown in Autumn Statement, oil revenues for year as a whole expected to be reduced by around £2 billion (compared with Budget forecast) owing to fall in sterling oil price. Since revenues up to end-March depend largely on average prices and production up to end-December, little effect in 1985-86 from recent fall in oil price.

## 3. New press notice table on supply expenditure

Background

As explained in separate press notice, a new table is being introduced this month in the PSBR press notice (Table 4) showing estimates of supply expenditure. Difference between supply expenditure and supply services (latter shown in Table 3 column 6) is explained in paragraph 4 of Notes to Editors in PSBR press notice. It is like difference between money paid into and out of a bank account (though supply expenditure still only represents cheques issued, not cheques cashed). Aim is to give clearer indication of monthly path of voted expenditure by Government Departments, less affected by changes in Departments' balances with the Paymaster General's Office. Does not give close indication of path of public expenditure planning total (see paragraph 6 of Notes to Editors). Treasury Select Committee were informed in August of proposed new table.

This month, cumulative growth in supply expenditure from start of 1985-86 is about the same as cumulative growth in supply services. That may not be true for every succeeding month because of changes in Departmental balances. By end of financial year, cumulative totals expected to be close.

Line to take

New table shows monthly path of Voted expenditure by Government Departments. These estimates are clearer indication of expenditure to date than are figures for supply services in table 3, because latter are distorted by changes in Departmental balances, ie timing differences. But cumulatively by end of financial year there is little difference between them. See separate press notice, and paragraphs 3-6 of Notes to Editors in PSBR press notice.

New table is introduced to help understanding of path of expenditure during the year. But still does not give close indication of path of public expenditure planning total.

## 4. Supply Expenditure

Background

For first eight months of 1985-86, supply services (which represents issues to departments from the Consolidated Fund) were about 7½ per cent higher than in April-November 1984. The comparable increase in supply expenditure (also now published in the press notice - see Q3) is also 7½ per cent; when adjusted for changes in method of paying EC contributions, the increase is 6 per cent. Autumn Statement forecast was that planning total in 1985-86 would be fully spent, representing 3½ per cent increase on 1984-85, but supply has different coverage from planning total (e.g. the latter includes asset sales, LA expenditure rather than CG grants to LAs, and PCs' market borrowing), and the other elements in planning total move differently.

Line to take

Underlying increase in supply expenditure in April-November is 6 per cent above same period of 1984-85. (New table shows 7½ per cent but this includes change in method of paying EC contributions.) November outturn is consistent with Autumn Statement forecast for planning total in 1985-86 as a whole: supply has different coverage from planning total.

## 5. Asset sales

Background

Budget forecast for total receipts from special sales of assets in 1985-86 was £2.5 billion - not changed in Autumn Statement. This does not include the Trustee Savings Banks (originally scheduled for sale in February 1986) because the proceeds will not accrue to HMG and so will not benefit the PSBR. Hence the recently announced delay in sale has no effect on the PSBR, or special sales of assets.

Line to take

Total net receipts for first eight months of 1985-86 almost £2 billion. Second Britoil instalment of £200 million received in November. Sale of residual shareholding in Cable and Wireless has taken place and will realise in December net receipts of about £300 million.

## 6. EC refunds

Line to take

Whole of 1983 refund received in 1984-85. 1984 refund of 1000m ecus (about £590 million at present) expected in late 1985-86. 1985 and subsequent arrangements are different, and will reduce UK monthly contributions, starting in early 1986. [If pressed: Inter-governmental Agreement payment, to finance inescapable Community obligations, got Royal assent in October but is being paid in December.]

## 7. Tax revenues in 1985-86
[See also Q2 on oil revenues]

Background

Total taxes on incomes, expenditure and capital in 1985-86 forecast at £112½ billion in Autumn Statement, compared with £113½ billion in Budget.

Line to take

Changes from Budget reflect reduction of £2 billion in North Sea revenues (owing to lower sterling oil price) partly offset by £1 billion increase in other tax receipts (mainly higher expenditure taxes and higher onshore company taxes - latter boosted by higher estimated profits in 1984).

## 8. Inland Revenue receipts
[See also Q2 on oil revenues]

Background

Total Inland Revenue receipts in November were £3.3 billion. Total for April-November 1985-86 was £32.3 billion, 10½ per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85. No Autumn Statement forecast of total Inland Revenue taxes only, but stated that oil revenues expected to be £2 billion lower, and onshore company taxes expected higher, than in Budget forecast.

Line to take

Inland Revenue receipts in November were £3.3 billion, and the total for April-November £32.3 billion. Monthly pattern of receipts varies from year to year. Receipts in 1985-86 expected to be lower than in Budget forecast, because of shortfall in oil revenues only partly offset by higher onshore company taxes.

## 9. Customs and Excise revenues

Background

Customs and Excise revenues in November were £3.9 billion. Total for April-November 1985-86 (£24.8 billion) was 11 per cent higher than over the same period last year. Budget forecast for 1985-86 was for receipts of £36.3 billion, up 2¼ per cent on 1984-85 (low increase because 1984-85 receipts were boosted by change in VAT on imports). No Autumn Statement forecast of Customs and Excise taxes only, but stated that expenditure taxes expected higher than in Budget forecast.

Line to take

Receipts in first eight months £24.8 billion. Increase over corresponding period last year greater than Budget forecast of increase for year as a whole, because receipts in second half of 1984-85 boosted by change in VAT on imports. Increase in 1985-86 as a whole expected to be greater than in Budget forecast, because of higher expenditure taxes (Autumn Statement).

## 10. Local authorities

Background

Preliminary estimate is that local authorities made a net repayment of debt of £0.6 billion in November, bringing total net borrowing to £0.1 billion in April–November 1985–86, about £0.6 billion lower than over corresponding period last year. Budget forecast for 1985–86 as a whole was not given (breakdown of PSBR of £7.1 billion given in part 6 of the FSBR, including £1.5 billion for LABR, was purely notional - based on an arbitrary allocation of the reserve). No Autumn Statement forecast of LABR for 1985–86, either. Outturn for 1984–85 was £2.4 billion.

Line to take

Local authorities normally show a heavy net repayment of debt in November, owing to seasonally high rate receipts. Cumulative borrowing April–November (£0.1 billion) close to average over same period for previous three years. (Average LABR for whole year in previous three years was £1¼ bilion.)

## 11. Public corporations

Background

Public corporations (provisionally) borrowed £0.1 billion in November, giving net repayment of debt of £0.1 billion for first eight months of 1985–86. No Budget or Autumn Statement forecasts of PCBR for 1985–86 as a whole - see Q10.

Line to take

Borrowing in 1985–86 is running lower than in 1984–85 but is following a broadly similar monthly pattern.

John Clark (ext 3093)
PSF Division, HM Treasury

1 – Ror.

2 – [illegible]

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

C/

You asked (Flag X) if the PSBR plus overfunding really came to £15.1b in 1984/5.

See the table below from Accounts branch. If I read it correctly, the PSBR was 10.2b and the bill mountain growth 3.9b, so the answer to your question is "not quite, but almost".

The source for the FT article appears to have been the regular national debt article in the BEQB (copy attached). You'll see from the table on the first page that the journalist came to £15.1b by doing a simple calculation with the figures at the foot of Table A.

Ro 23/12

Thanks:- N

FINANCIAL TIMES

# National debt up by £15.1bn to £158.3bn

Surely PSBR + overfunding was as big as this? N.

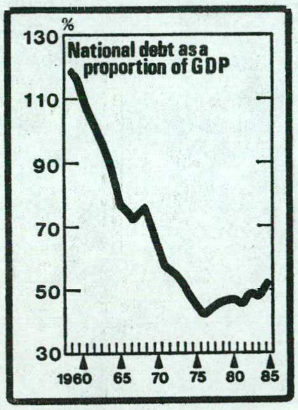
By Anatole Kaletsky

BRITAIN'S national debt has continued its slow rise as a proportion of gross national product, after declining steeply in the 1960s and early 1970s.

PSBR of £10bn

In the year to March 1985, market holdings of national debt, including non-marketable debt such as National Savings certificates, increased from 50.3 per cent to 52.5 per cent of GNP.

In cash terms, the total nominal value of the national debt rose by £15.1bn to £158.3bn. This represented an increase of 10.6 per cent on the level a year earlier. After adjustment for changes in official holdings, the market's national debt holdings rose £15.8bn, or 12 per cent, to £146.7bn. By both definitions, the national debt increased at a slower rate in 1984-85 than in the previous year.




Of the £146.7bn in market debt holdings, £143.8bn was denominated in sterling and £2.9bn in foreign currencies.

The average maturity of national debt continued its decline last year as the Exchequer continued to shift the burden of new stock issues away from the long end of the gilt-edged market.

Assuming no conversions of convertible stocks, the average life of gilts held by the market fell from 10.7 years in March 1984 to 10.4 years in March this year. Excluding index-linked gilts and conversion options, the average maturity of stock was 9.1 years.

As gilt-edged maturities have shortened, the amount of stock due for redemption each year has increased.

Insurance companies continue to be the biggest institutional holders of the national debt with £31.8bn or 22.1 per cent of the total sterling debt, excluding official holdings.

FINANCIAL TIMES

# Unlisted market 'firmly established after five years'

BY RICHARD TOMKINS

THE Unlisted Securities Market has firmly established itself as an active, relatively liquid market for the equity of small companies, the Bank of England says in a review of the USM's first five years.

The market has also played an important role as a stepping stone to fully listed status for a significant number of companies, the Bank says. Of the 406 companies which had come to the USM by last September, some 45 have graduated to the main market.

The review says the USM has been a success on most of the measures that can be applied. However, it points to the fact that share prices on the USM, as measured by the Datastream USM index, have performed poorly compared with those on the fully listed market.

This disparity is attributed in part to the problems of compiling a share price index whose constituents change frequently as new companies enter the market and others leave.

"A particular feature of the construction of the Datastream USM index is that it is regularly recalculated for its entire time span to exclude the past history of certain of the firms that have left the USM," the Bank says.

"Although it is clear that not all of these firms have been successful, it seems likely on balance that the exclusion of some of them will have imparted a downward bias to the USM index."

The Bank acknowledges, however, that two other factors may have affected the market's performance.

One is that companies often enter the USM with a high price/earnings ratio by comparison with fully-listed companies, and that USM prices are therefore likely to be especially vulnerable if the expectations of rapid profits growth on which these ratings are based are not fulfilled.

Of the 324 companies quoted on the USM at the end of September 1985, the shares of just over half were being traded above their issue price, and of these about 90 had risen by more than 50 per cent since flotation—some spectacularly so.

On the other hand the share prices of nearly 150 USM companies had fallen since issue, and of these about a third had fallen by 50 per cent or more.

"This diversity of experience is perhaps only to be expected in a sample of relatively immature firms, and underlines the need for caution when interpreting the index for the USM as a whole," the Bank says.

The second factor is that the market's composition by type of economic activity is also likely to have had a dampening effect.

In the early days of the USM, the largest group of companies, by market capitalisation at least, was involved in gas and oil related activities, and many of these companies entered the market following the oil price rises of 1978 and 1979. The subsequent weakening of the oil market had a more severe effect on small, specialised companies in the sector than on the widely diversified majors.

More recently the market has suffered from the crisis of confidence in the computing sector, again an area to which the USM has been strongly orientated.

However, the review concludes that although the published indices of USM companies may have risen significantly less than those of the fully listed market, they may understate the overall performance of USM companies.

Looking to the future, the survey says that fears have been expressed about the effects of the Big Bang and the possibility that larger financial groupings will put most of their resources into high volume, high turnover equities to the detriment of the USM.

However, it considers that the more likely outcome is that the relative profitability of trading in high and low volume stocks will ensure that market makers will be adequately represented in each sector, and that some houses may wish to become USM specialists.

**TRADING in American depositary receipts for British shares on US stock markets accounts for about 7 per cent of the total turnover of the FTSE 100 stocks, the Bank estimated in an article entitled Change in the Stock Exchange.**

**The Bank also confirmed its opposition to a gilt-edged "repo" market in London. "The Bank is not prepared at this stage, essentially for prudential reasons, to envisage the development of a broadly based market in repurchase agreements in government securities such as exists in the US," it said.**

£ billion

| | 1982/83 | 1983/84 | 1984/85 |
|---|---|---|---|
| PSBR | 8.9 | 9.7 | 10.2 |
| take out contributions by<br>Local authorities<br>and Public Corporations | + 2.7<br>+ 1.1 | + 2.3<br>+ 0.3 | + 0.9<br>- 1.0 |
| CGBR | 12.7 | 12.3 | 10.1 |
| add - acquisition of financial assets (1) not netted off the National Debt | - 2.7 | + 2.9 | + 3.9 |
| add - increase in the value of liabilities (2) excluded from the definition of GCBR | + 0.8 | + 1.6 | + 1.9 |
| subtract - increase in the value of liabilities excluded from the definition (3) of the National Debt | - 1.4 | - 0.8 | - 1.8 |
| Other adjustments (4) | + 0.5 | + 0.9 | + 1.5 |
| Change in official holdings of the National Debt | - 0.4 | - 1.9 | - 0.4 |
| Increase in National Debt | 9.5 | 15.0 | 15.2 |

(1) mainly Issue Department's holdings of commercial bills, local authority debt, export credit refinance, gold and foreign exchange reserves, the National Debt Commissioners holdings of other public sector debt and NLF deposits with the Banking Department.

(2) includes the capital uplift on index - linked gilts, changes in exchange rates and (particularly in 1983/84 following the increase in the UK's quota) holdings of interest free notes due to the International Monetary Fund

(3) includes accrued interest and index - linking on national savings instruments, and notes and coin in circulation.

(4) includes the net discount on new issues of gilts (the National Debt includes the full nominal value of debt issued whereas the CGBR includes only the cash raised thereby).

# Distribution of the national debt: end-March 1985

*This article, which continues an annual series, analyses the national debt by instrument and by holders.*

## The change in debt outstanding (Table A)

During the year ended 31 March 1985 the total nominal value of the national debt[1] rose by over £15.1 billion, only very slightly more than in the previous twelve months (the rate of increase fell by nearly one percentage point to 10.6%). Debt held by official funds,[2] when adjusted for gilt-edged stocks held by the Bank of England Issue Department under purchase and resale agreements with the monetary sector[3] (and therefore initially included in official holdings), showed an underlying fall of £0.6 billion over the year; market holdings thus adjusted rose by £15.8 billion (12.0%), compared with £16.9 billion (14.8%) in the previous year. The central government borrowing requirement (CGBR) was £10.1 billion in 1984/85, a reduction of £2.2 billion on a year earlier. The net increase in market holdings of debt was not trimmed back so much, primarily because it reflected greater acquisition of financial assets not contributing to the CGBR than in the previous financial year. In 1984/85 a net claim of £4.4 billion on the Bank of England Banking Department was established (arising mainly from a buildup of £4.9 billion in the National Loans Fund's balance with the Banking Department). In addition, while the Issue Department reduced its holdings of commercial bills by £2.7 billion, it acquired £3.4 billion of British government stocks and export and shipbuilding credit under purchase and resale agreements. A reconciliation of the CGBR and the national debt is set out on page 579.

Market holdings of national debt, when expressed as a proportion of annual gross domestic product, rose by 2.5 percentage points from last year, to 52.5% (Chart 1).

**Table A**
**Market and official holdings of national debt**
£ millions, nominal value
*Percentage of market holdings in italics*

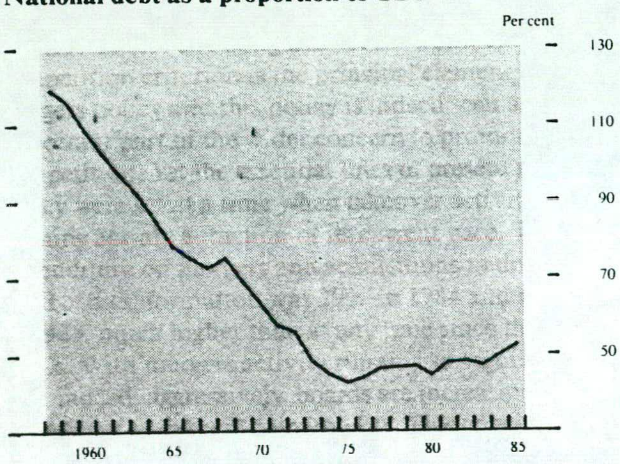
| | End-March 1984 | | End-March 1985 | |
|---|---|---|---|---|
| **Market holdings(a)** | | | | |
| Sterling marketable debt: | | | | |
| Government and government-guaranteed stocks: index-linked | 7,033 | *5.4* | 9,482 | *6.5* |
| other | 93,562 | *71.5* | 103,714 | *70.7* |
| Treasury bills | 1,426 | *1.1* | 1,241 | *0.8* |
| Sterling non-marketable debt: | | | | |
| National savings: index-linked | 4,043 | *3.1* | 3,592 | *2.4* |
| other | 16,175 | *12.3* | 18,820 | *12.8* |
| Interest-free notes due to the IMF | 2,937 | *2.2* | 3,190 | *2.2* |
| Certificates of tax deposit(b) | 2,465 | *1.9* | 3,186 | *2.2* |
| Other | 706 | *0.5* | 534 | *0.4* |
| Total | 128,347 | *98.0* | 143,759 | *98.0* |
| Foreign currency debt:(c) | | | | |
| North American government loans | 1,959 | | 2,172 | |
| New York bond issue | 243 | | 285 | |
| Other foreign currency bonds | 353 | | 452 | |
| Total | 2,555 | *2.0* | 2,909 | *2.0* |
| Total market holdings | 130,902 | *100.0* | 146,668 | *100.0* |
| **Official holdings(a)** | 12,206 | | 11,583 | |
| **Total** | **143,108** | | **158,251** | |
| *of which,* nationalised industries' stocks guaranteed by the government | 224 | | 224 | |

(a) Market and official holdings have been adjusted to include within market holdings gilt-edged stocks held temporarily by the Bank of England Issue Department under purchase and resale agreements with the monetary sector.
(b) Includes a negligible amount of tax reserve certificates.
(c) Sterling valuation rates:
End-March 1984
£1 = $1.4430, Can. $1.8420, DM 3.7425, Yen 324.50, Sw. Fcs. 3.1100.
End-March 1985
£1 = $1.2300, Can. $1.6847.

## Analysis by instrument

During the year the proportion of total national debt in market hands held in the form of non-index-linked

**Chart 1**
**National debt as a proportion of GDP(a)**




(a) National debt (including foreign currency debt but excluding official holdings) outstanding at end-March, as a percentage of GDP at current prices in the years ending 31 March.

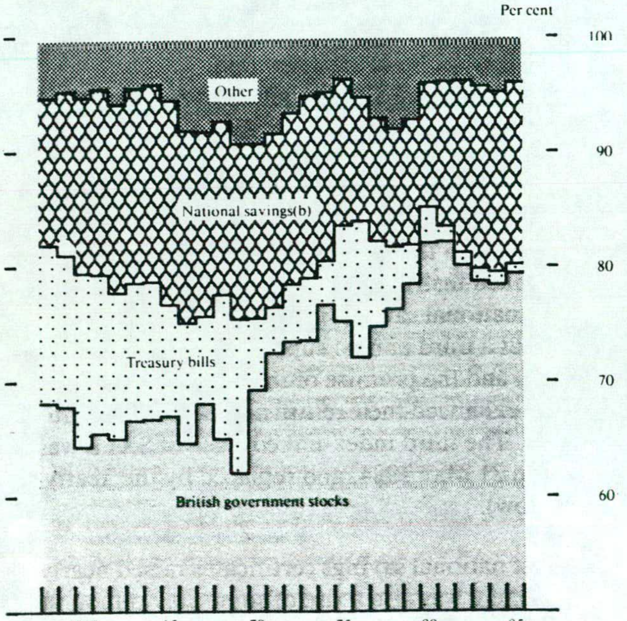
(1) All figures are at nominal value unless otherwise indicated. Provisional figures for the national debt, analysed by instrument, but excluding nationalised industries' stocks guaranteed by the government, were published in the June 1985 issue of *Financial Statistics* (pages 151–3). Further details of individual instruments, and changes in the amount of each outstanding, are shown in the *Consolidated Fund and National Loans Fund Accounts 1984–85 Supplementary Statements*, published by HM Stationery Office. For details of the composition of the sterling national debt, see the appendix to this article. The increase of £15 billion in the sterling debt includes £491 million representing the attributable capital uplift during the financial year on the index-linked issues of government stock; in 1983/84 the capital uplift was £300 million.
(2) Debt held by the National Debt Commissioners (other than for the national savings stock register), certain other central and Northern Ireland government funds and accounts, and the Bank of England.
(3) The nominal value of gilt-edged stocks held by the Issue Department of the Bank of England under sale and repurchase agreements outstanding at 31 March 1985 was £813 million. The levels, proportions and changes in national debt referred to in this article have been calculated on the basis that the underlying ownership of these securities rested with the monetary sector and therefore with the market.

government stock fell from 71.5% to 70.7%. Market holdings of non-index-linked national savings instruments rose from 12.4% to 12.8%. On the other hand, total holdings of index-linked debt[1] rose (from 8.5% to 8.9%), with the drop in indexed national savings instruments (from 3.1% to 2.4%) outweighed by the rise in index-linked government stock. At 31 March 1985 index-linked stocks accounted for 8.4% of government stocks in market hands; a year earlier the proportion was 7.0%.

### Gilt-edged stocks

During 1984/85 the authorities issued new stock with a nominal value of £15.6 billion. There was one new issue of index-linked stock totalling £0.4 billion,[2] three new issues of non-index-linked stock totalling £3.0 billion[3] and two new issues of convertible stock totalling £2.1 billion.[4] A further large tranche (£1.1 billion) of $9\frac{3}{4}$% Exchequer Stock 1998 was offered to the public in November 1984. Forty-four small additional tranches of existing stock totalling £8.3 billion were issued, fully paid, to the Bank of England; these included ten tranches of index-linked stock totalling £1.3 billion. Six tranches totalling £0.7 billion were issued (also fully paid) to the National Debt Commissioners. Details of individual issues may be found in the series of articles on the operation of monetary policy.[5]

**Chart 2**
**Composition of the sterling national debt[a]**




(a) Market holdings at 31 March of each year.
(b) NSB investment accounts are included within national savings from 1981.

**Table B**
**Average life of dated stock in market hands**

| | Years to maturity at end-March: | | | | |
|---|---|---|---|---|---|
| | 1981 | 1982 | 1983 | 1984 | 1985 |
| **Assumptions** | | | | | |
| Latest possible redemption: | | | | | |
| All dated stocks: (a) | | | | | |
| No conversions | 12.4 | 12.1 | 11.6 | 10.7 | 10.4 |
| Maximum conversions | 12.5 | 12.2 | 11.8 | 11.6 | 11.3 |
| Excluding index-linked stocks: | | | | | |
| No conversions | 12.4 | 11.8 | 11.0 | 10.1 | 9.5 |
| Maximum conversions | 12.5 | 11.9 | 11.2 | 11.0 | 10.5 |
| Earliest possible redemption date for stocks standing above par on 31 March: | | | | | |
| All dated stocks: (a) | | | | | |
| No conversions | 12.2 | 11.9 | 11.1 | 10.3 | 10.0 |
| Maximum conversions | 12.3 | 12.0 | 11.3 | 11.2 | 10.9 |
| Excluding index-linked stocks: | | | | | |
| No conversions | 12.2 | 11.6 | 10.6 | 9.6 | 9.1 |
| Maximum conversions | 12.3 | 11.7 | 10.8 | 10.5 | 10.0 |

(a) Index-linked stocks are given a weight reflecting the capital uplift accrued to 31 March.

During 1984/85 the nominal amount of gilt-edged stock in market hands increased by £12.6 billion. The cash value of net official sales amounted to £11.1 billion:[6] gross sales totalled £15.3 billion, but during the year some £3.0 billion matured while in market hands and the authorities bought in another £1.2 billion from the market prior to redemption. As a proportion of total market holdings of national debt, gilt-edged stocks rose very slightly from last year to 77.2%.

The average life of dated stocks in market hands fell from 10.7 years at end-March 1984 to 10.4 years at end-March 1985.[7] When index-linked stocks are excluded, the fall is from just under 10.1 years to 9.5 years (Table B). The fall in average maturity is matched by a rise in the average amount of stock to be redeemed annually in each of the next five years (Table C). When outstanding options on convertible stocks are ignored, the rise is from £6.4 billion at end-March 1984 to £7.9 billion at end-March 1985 (Charts 3 and 4).[8]

The market value of gilt-edged stocks in market hands rose by £10.3 billion. This is £2.3 billion less than the rise in their nominal value, the difference reflecting the fall

**Table C**
**Average amount of stock in market hands to be redeemed annually over the following five years**
£ billions, at end-March

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| With no conversions | 4.2 | 4.5 | 4.8 | 6.4 | 7.9 |
| Maximum conversions | 4.0 | 4.3 | 4.4 | 5.4 | 6.7 |

(1) Although this proportion includes the accrued liability from the index-linking of certain government stocks, it excludes accrued liabilities from index-linking on national savings certificates and SAYE contracts which, together with accrued interest, are normally excluded from the definition of national debt: if included, the proportion of index-linked debt would be 9.5% of total national debt in market hands, compared with 9.1% at end March 1984. As a proportion of market holdings of debt denominated in sterling, the comparable figures are 9.7% and 9.3% respectively.

(2) This was $2\frac{1}{2}$% Index-Linked Treasury Stock 2013.

(3) These were 11% Exchequer Stock 1989, 11% Exchequer Stock 1990 and $10\frac{1}{2}$% Exchequer Stock 2005.

(4) These were $10\frac{1}{2}$% Treasury Convertible Stock 1992 and $9\frac{1}{2}$% Treasury Convertible Stock 1989.

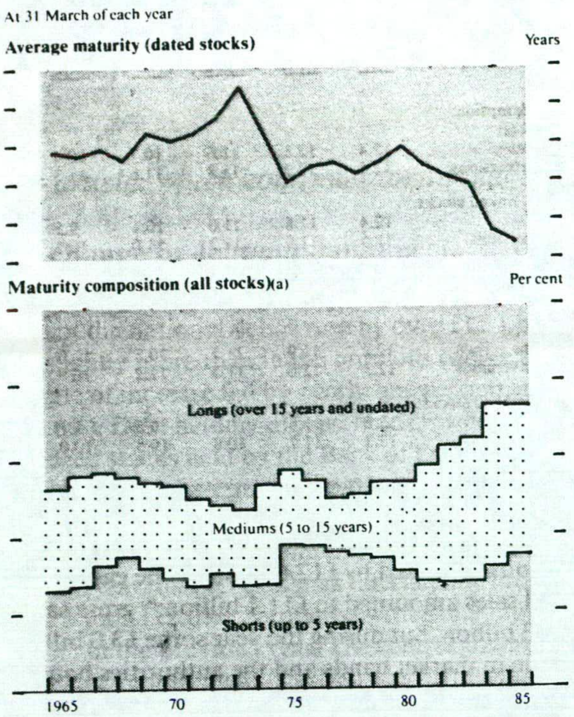
(5) See in particular the tables entitled 'Issues of gilt-edged stock' in the June 1984 *Bulletin*, page 177; September 1984, page 325; December 1984, page 457; March 1985, page 32; and June 1985 page 192.

(6) The difference between the increase in the nominal value of market holdings of gilt-edged stock and the cash proceeds of official sales in 1984/85 mainly reflects the net discount on the nominal value of new issues and the accrued uplift on index-linked stocks.

(7) The aggregation of indexed and non-index-linked stock for the purposes of measuring average maturity presents a conceptual difficulty (see the December 1982 *Bulletin*, page 540). This calculation, which gives index-linked stocks a weight reflecting the capital uplift accrued so far, assumes that stocks will mature on their latest possible redemption date and that holders of covertible stocks will not exercise their option to convert into stocks of a later maturity. Table B also illustrates alternatives to these assumptions, viz that stocks which stood above par on 31 March 1985 will be redeemed at the earliest possible date and that all convertible stocks will be converted into stocks of a later maturity.

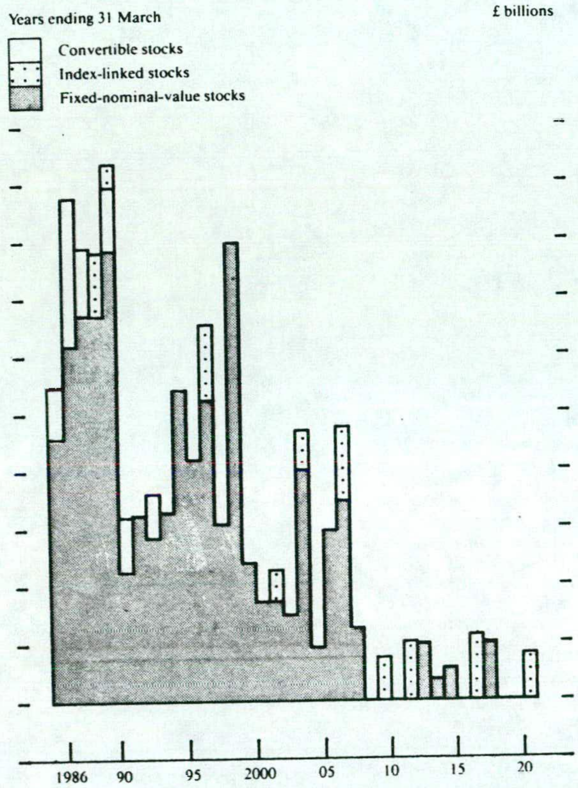
(8) If the calculation is made on the assumption that all options to convert will be exercised, the rise is from £5.4 billion to £6.7 billion.

**Chart 3**
**Residual maturity of market holdings of stocks**



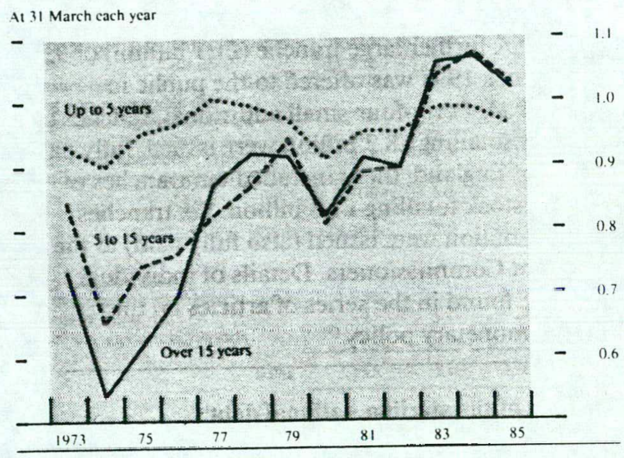

(a) Figures for 1965 and 1966 include official holdings.

**Chart 4**
**Maturities of dated stocks in market hands**




in gilt prices over the year. Yields rose during the year, on short-dated stocks by 1.2 percentage points, on medium-dated stocks by 0.6 percentage points, and on long-dated stocks by 0.5 percentage points. At end-March 1985 the total nominal value of fully-paid stocks in market hands exceeded their total market value, reversing the position in the two previous years. For long-dated stocks the ratio of market to nominal value fell from 1.07 to 1.02, for medium-dated stocks from 1.08 to 1.03, and only for short-dated stocks (and undated, for which it was 0.34) was it below 1, falling from 0.99 to 0.96 (Chart 5).

**Chart 5**
**Market value/nominal value ratios of fully-paid dated British government stocks in market hands**




### Other debt

The market's holdings of Treasury bills at 31 March 1985 were £1.2 billion, £0.2 billion lower than a year earlier.

National savings raised £2.2 billion during 1984/85 (though as a proportion of debt outstanding[1] they were little changed), with the net increase again confined to non-index-linked instruments. The popularity of index-linked national savings instruments continued to diminish,[2] but a third annual supplement (increased by 0.6% to 3.0%) and the promise of three further annual supplements enhanced their return and helped restrain encashments. The third index-linked issue of SAYE was withdrawn on 31 May 1984, and replaced by the Yearly Plan (see below).

Fixed-interest national savings certificates raised nearly £1.3 billion (there was also a rise of some £0.7 billion in accrued interest outstanding), with four new issues being introduced to match changes in interest rates.[3] General extension terms, which apply to fixed-interest certificates which have completed their fixed-period terms, were newly promoted during the year in order to highlight the enhanced competitiveness of their variable tax-free interest rates.

(1) Excluding accrued interest and index-linked increases. The net increase in these items (some £0.8 billion) and the change in ordinary accounts with the National Savings Bank are included in the national savings contribution to financing the CGBR, the 1984/85 target for which, £3 billion, was reached. Accrued interest, index-linked increments and bonuses outstanding on national savings certificates, Save as You Earn contracts and deposit bonds, and interest accrued but not yet credited to the National Savings Bank investment account totalled £4.6 billion compared with £3.8 billion a year earlier.

(2) The Second Issue of index-linked national savings certificates was replaced on 1 July 1985.

(3) The 26th Issue, which had been withdrawn on 19 March 1984 carried a tax-free yield of 8.26% if held for 5 years. The 27th Issue (5 April 1984 to 7 September 1984) offered 7.25%, the 28th Issue (8 September 1984 to 11 September 1984) 9.00%, the 29th Issue (15 October 1984 to 12 February 1985) 8.00% and the 30th Issue (13 February 1985 to 25 September 1985) 8.85%.

## Reconciliation of the CGBR and change in debt outstanding for 1984/85

A full reconciliation of the CGBR and the change in market holdings of national debt was contained in the December 1982 *Bulletin,* page 541. In 1984/85, as in 1983/84, the market's holdings of national debt rose by considerably more than the CGBR. In the year ended 31 March 1985 this difference largely reflected an increase in the National Loans Fund balance held with the Banking Department of the Bank of England which, while not adding to the CGBR, required to be financed. The components of the reconciliation for 1984/85 may be summarised as follows:

| | | £ billions |
|---|---|---|
| **Central government borrowing requirement** | | **+10.1** |
| *Add* | the net acquisition of certain financial assets which are not netted off from the national debt[(a)] | + 4.2 |
| *Add* | the increase in the value of certain liabilities, which are excluded from the definition of the CGBR[(b)] | + 1.1 |
| *Subtract* | the increase in certain liabilities excluded from the definition of market holdings of national debt[(c)] | – 0.5 |
| Other items[(d)] | | + 0.9 |
| *Equals* | **Increase in market holdings of national debt** | **+15.8** |

(a) The acquisition of such assets does not add to the CGBR; therefore, in the calculation of the financing of the CGBR, their acquisition is deducted from the increase in the proceeds of borrowing. They consist of a net claim on the Banking Department of the Bank of England (which first arose in the year) and also include Issue Department's holdings of commercial and local authority bills and of British government securities and export and shipbuilding credit acquired under purchase and resale agreements, the National Debt Commissioners' holdings of other public sector debt and the Exchange Equalisation Account's holdings of gold and foreign exchange reserves.

(b) Includes the increase in the valuation of certain liabilities, such as the capital uplift on index-linked stocks and the increase in the sterling value of liabilities in foreign currencies.

(c) Principally accrued interest and index-linking on national savings instruments, and notes and coin in circulation.

(d) Includes the net discount on new issues of stock.

A new fixed-interest national savings instrument, the Yearly Plan, was introduced on 2 July 1984 to replace index-linked SAYE. The new instrument allows the purchase, in twelve monthly instalments, of a variant of the fixed-interest national savings certificate that offers a tax-free return over five years from the date of the first payment.

Other developments during the year included a reduction in the period of notice required for the withdrawal of income bonds (from six to three months), reductions in the minimum holdings of, and contributions to, deposit bonds (to £250 and then to £100) and an increase from 7% to 7.75% in the implied interest rate on the premium savings bond Prize Fund. Holdings of certificates of tax deposit rose by £0.7 billion to £3.2 billion during 1984/85. Holdings by public corporations of temporary deposits with the NLF fell by £0.3 billion, but they lent £0.1 billion on ways and means advances.

**Table D**
**Distribution of the sterling national debt: summary**[(a)]
£ billions

| | Amounts outstanding at 31 March | | Change in 1984/85 |
|---|---|---|---|
| | 1984 | 1985 | |
| **Market holdings**[(b)] | | | |
| Public corporations and local authorities | 1.3 | 1.0 | – 0.3 |
| Monetary sector | 7.6 | 8.0 | + 0.4 |
| Other financial institutions: | | | |
| Insurance companies and pension funds | 51.0 | 57.5 | + 6.5 |
| Other | 11.8 | 13.8 | + 2.0 |
| Overseas residents | 12.7 | 13.2 | + 0.5 |
| Individuals and private trusts | 31.6 | 34.7 | + 3.1 |
| Other (including residual) | 12.4 | 15.6 | + 3.2 |
| Total market holdings | 128.4 | 143.8 | 15.4 |
| **Official holdings**[(b)] | 12.2 | 11.6 | – 0.6 |
| **Total sterling debt** | **140.6** | **155.4** | **+14.8** |

(a) A detailed table showing the distribution of the sterling debt at 31st March is included in the appendix to this article.

(b) Market and official holdings have been adjusted to include within market holdings gilt-edged stocks held temporarily by the Bank of England Issue Department under purchase and resale agreements with the monetary sector.

## Analysis by holder (Table D)

Holdings of national debt by the monetary sector rose by £0.4 billion, although holdings of British government stocks by the discount market fell by £0.3 billion. Other financial institutions increased their holdings of debt by some £8.5 billion (pension funds' holdings of British government stocks increased by £4.0 billion, insurance companies' by £2.4 billion and building societies' by £1.6 billion).

Holdings by individuals and private trusts rose by £3.1 billion, mainly reflecting increased holdings of national savings: their holdings of gilt-edged stocks are estimated to have risen by £1.2 billion; holdings of index-linked stocks accounted for £0.3 billion of this rise.[(1)]

Externally-held debt denominated in sterling rose by £0.5 billion: there was a £0.3 billion increase in the value of non-interest-bearing notes issued to the IMF, and overseas residents' holdings of gilt-edged stocks and Treasury bills rose by a total of £0.2 billion.

The upward revaluation of liabilities as sterling depreciated against other currencies, together with the assignment to the central government of other public sector debt, was sufficient to outweigh repayments of foreign currency loans and increase the amount of debt denominated in foreign currency.

(1) These are broad estimates derived from the stock registers and other information They do not include stock held through nominee companies as the beneficial ownership of these cannot be derived from the registers. There were some 1,871,600 identified accounts on the Bank of England stock register for individuals and private trusts at end-March 1985, a fall of over 10,000 on twelve months earlier.

# Appendix

## Estimated distribution of the sterling national debt: 31 March 1985

£ millions
Nominal values(a)
*Market values in italics*(b)

| | Total debt | Percentage of market holdings | Treasury bills | Stocks Total | | Up to 5 years to maturity | Over 5 years and up to 15 years | Over 15 years and undated | Non-marketable debt |
|---|---|---|---|---|---|---|---|---|---|
| **Market holdings** | | | | | | | | | |
| Other public sector: | | | | | | | | | |
| Public corporations | 896 | | 3 | 72 | | 35 | 37 | — | 821 |
| Local authorities | 96 | | 1 | 91 | | 23 | 22 | 46 | 4 |
| Total | 992 | 0.7 | 4 | 163 | *161* | 58 | 59 | 46 | 825 |
| Monetary sector:(c) | | | | | | | | | |
| Discount market | 373 | | 93 | 280 | | 278 | 2 | — | — |
| Other | 7,612 | | 196 | 7,272 | | 5,618 | 1,604 | 50 | 144 |
| Total | 7,985 | 5.6 | 289 | 7,552 | *7,556* | 5,896 | 1,606 | 50 | 144 |
| Other financial institutions: | | | | | | | | | |
| Insurance companies | 31,820 | | 20 | 31,800 | *32,482* | 3,852 | 16,189 | 11,759 | — |
| Building societies | 12,772 | | — | 12,429 | *12,060* | 11,434 | 993 | 2 | 343 |
| Local authority pension funds | 3,506 | | — | 3,506 | *3,615* | 96 | 1,368 | 2,042 | — |
| Other public sector pension funds | 6,797 | | — | 6,768 | *6,754* | 775 | 3,023 | 2,970 | 29 |
| Private sector pension funds | 15,330 | | 38 | 15,292 | *15,619* | 867 | 6,836 | 7,589 | — |
| Investment trusts | 334 | | — | 334 | *336* | 170 | 143 | 21 | — |
| Unit trusts | 600 | | — | 600 | *617* | 138 | 364 | 98 | — |
| Other | 63 | | — | 52 | *55* | 7 | 29 | 16 | 11 |
| Total | 71,222 | 49.5 | 58 | 70,781 | *71,538* | 17,339 | 28,945 | 24,497 | 383 |
| Overseas holders: | | | | | | | | | |
| International organisations | 4,232 | | 7 | 1,035 | | 952 | 83 | — | 3,190 |
| Central monetary institutions | 2,833 | | 484 | 2,349 | | 1,474 | 758 | 117 | — |
| Other | 6,182 | | 157 | 6,024 | | 1,513 | 4,138 | 373 | 1 |
| Total | 13,247 | 9.2 | 648 | 9,408 | *9,408* | 3,939 | 4,979 | 490 | 3,191 |
| Other holders: | | | | | | | | | |
| Public Trustee and various non-corporate bodies | 611 | | 109 | 501 | *499* | 104 | 315 | 82 | 1 |
| Individuals and private trusts(d) | 34,691 | | — | 14,390 | *13,709* | 5,598 | 6,333 | 2,459 | 20,301 |
| Industrial and commercial companies | 4,298 | | 133(e) | 1,880 } | *8,486* | 6,336 | 1,830 | 2,235 | { 2,285 |
| Other (residual) | 10,713 | | — | 8,521 } | | | | | 2,192 |
| Total | 50,313 | 35.0 | 242 | 25,292 | *22,694* | 12,038 | 8,478 | 4,776 | 24,779 |
| Total market holdings (c) | 143,759 | 100.00 | 1,241 | 113,196 | *111,357* | 39,270 | 44,067 | 29,859 | 29,322 |
| **Official holdings** (c) | 11,583 | | 609 | 6,861 | *6,922* | 2,483 | 3,581 | 797 | 4,113 |
| **Total sterling debt** | **155,342** | | **1,850** | **120,057** | ***118,279*** | **41,753** | **47,648** | **30,656**(f) | **33,435** |
| *of which,* nationalised industries' stocks guaranteed by the government | 224 | | | 224 | *143* | | 224 | | |

— nil or less than £1 million.

(a) With some exceptions, explained in the accompanying notes.

(b) Some of these estimates are based on reported market values at end-December 1984 and cash transactions in the first quarter of 1985; certain others rely on broad nominal/market value ratios.

(c) Official holders include the Bank of England Issue Department and, exceptionally, the Banking Department. Issue Department's holdings of stocks acquired under purchase and resale agreements, however, have been reclassified in this article to the monetary sector. Monetary sector holdings are at book value.

(d) Direct holdings only; explained in the accompanying notes.

(e) The residual after holders of Treasury bills have been identified; the total may thus include unidentified holdings, and differences in valuation, in other sectors.

(f) Of which, undated £3,242 million.

The data used to estimate the distribution of holdings of the sterling-denominated debt are gathered from various sources, principally the major investing institutions. The quality of individual estimates varies because they are based on statistics supplied primarily for other purposes. Figures shown for individual types of holder, therefore, indicate only broad orders of magnitude and should be used with caution. Some £10.7 billion (6.9%) of debt outstanding cannot be allocated in the breakdown shown here: the residual category includes holdings by unincorporated business, charities, individuals and companies not elsewhere identified, and any net inconsistencies of valuation or definition elsewhere in the table.

### National debt

Comprises the total liabilities of the National Loans Fund, together with nationalised industries' stocks guaranteed by the government (as contingent liabilities of the government, these are not strictly part of the national debt; but the markets, and the sources used for the estimates, do not generally distinguish them from government stocks, while the authorities carry out transactions in them in the same way as in government stocks). The total excludes accrued interest (including index-linked increases) on national savings, Consolidated Fund liabilities (including contingent liabilities, eg coin), liabilities of other central nment funds (notably the Issue Department's note liabilities, Northern Ireland government debt and stocks issued by certain government funds), and sundry other contingent liabilities and guaranteed debt. Provisional figures for the national debt as at 31 March 1985 (excluding nationalised industries' stocks) were given in the June issue of *Financial Statistics.* Firmer figures appear in the *Annual Abstract of Statistics* and full details are given in the *Consolidated Fund and National Loans Fund Accounts 1984–85 Supplementary Statements.*

Statistics covering the nominal amount of debt outstanding of central government as defined in the national accounts, local authorities and public corporations (ie the public sector as a whole) are published annually as a supplementary table in *Financial Statistics.* The table will next appear in the February 1986 issue, to include figures up to 31 March 1985.

## Stocks

Classified by final redemption date, eg $5\frac{3}{4}\%$ Funding Stock 1987–91, whose latest redemption is 5 April 1991, is classified in the over 5 years and up to 15 years band.

The nominal value of index-linked gilt-edged stocks has been raised by the amount of index-related capital uplift accrued to 31 March 1985.

## Non-marketable debt

Comprises national savings (see below), certificates of tax deposit, tax reserve certificates, the International Monetary Fund's holdings of interest-free notes drawn on the National Loans Fund, deposits with the National Loans Fund, life annuities, ways and means advances (through which government departments etc lend overnight to the National Loans Fund), debt to the Bank of England (see page 56 of the Bank's 1971 *Report and accounts),* non-marketable stocks issued to the National Debt Commissioners, and a sterling debt to an overseas government.

National savings comprise national savings certificates (excluding accrued interest and index-linked increases), income bonds, deposit bonds, premium savings bonds, gift tokens, the contractual savings scheme (Save as You Earn) of the Department for National Savings (excluding accrued interest and index-linked increases), the Yearly Plan and deposits with the National Savings Bank investment account (excluding interest not yet credited to accounts); the definition also includes outstanding holdings of British savings bonds and national savings stamps (these instruments are no longer issued). Ordinary deposits with the National Savings Bank and the trustee savings banks' claim on the Fund for Banks for Savings are only included in this analysis indirectly, to the extent that the funds are reinvested in government debt (see below under official holdings).

## Official holdings

The holdings of the Issue and Banking Departments of the Bank of England, government departments (including the Paymaster General), the Northern Ireland government, and the National Debt Commissioners.

In accordance with national accounting practice, the ordinary department of the National Savings Bank is included in the central government, and its holdings of government debt (invested through the National Debt Commissioners) are included in official holdings. Holdings of the trustee savings banks are regarded as 'market' holdings, as are those of local authorities and public corporations.

## Market holdings

**Public corporations**
As defined for national income statistics, but excluding the Bank of England.

**Local authorities**
As defined for national income statistics.

**Monetary sector**
Comprises the UK offices of institutions either recognised as banks or licensed to take deposits under the Banking Act 1979, together with the National Girobank, the trustee savings banks and those institutions (including branches of mainland banks) in the Channel Islands and the Isle of Man which opted to participate in the monetary control arrangements introduced in August 1981, but excludes the Bank of England Banking Department (which, in this article, is included among official holders). Market values are based on information reported by the banks at end-1984, using cash transactions in the quarter to end-March 1985. The maturity analysis of stock holdings is partly estimated from the principal government stock register, which is maintained by the Bank.

**Other financial institutions**
Estimates are based on figures reported by the institutions and published in *Financial Statistics.* Most stock holdings are estimates from market value holdings at end-1984 and using cash transactions in the quarter to end-March 1985. 'Non-marketable debt' now includes deposits with the National Savings Bank investment account, which are estimated from records of the Department for National Savings.

**Overseas holders**
The figures for Treasury bills held by overseas residents relate solely to holdings identified in returns provided by the UK banking system, but the coverage is thought to be reasonably complete. Any underrecording will be reflected in an overestimate for holdings by the residual category, industrial and commercial companies (see below). Holdings and maturities of stocks are each partly estimated from information extracted from the registers of government stocks and from returns from banks and the Crown Agents; in the case of stocks, the residual category is 'other (residual)' and any underrecording of overseas holdings will appear there (see below).

Non-marketable debt comprises interest-free notes held by the International Monetary Fund, and a sterling debt to an overseas government. Details are given in the table of National Loans Fund liabilities in the *Consolidated Fund and National Loans Fund Accounts 1984–85 Supplementary Statements.*

**Other holders**
*Public Trustee and various non-corporate bodies* comprises a few identified holders, in particular the Public Trustee, the Church Commissioners, and the Official Custodian for Charities.

*Individuals and private trusts* are derived chiefly from an analysis of the principal government stock register, which is maintained by the Bank. The accuracy of the analysis is impaired by the large number of nominee accounts, which conceal the identity of the beneficial owners. The figures shown in the table also include an estimate of private holdings on the national savings stock register. The bulk of national savings securities has been allotted to 'individuls and private trusts'. The remainder (about £2,190 million) is no more than a broad estimate covering other holders not identified elsewhere (for example, charities, friendly societies, registered companies and other corporate bodies trading for profit are allowed to place deposits with the National Savings Bank investment account; national savings certificates may also be held by charities, trustees and friendly societies).

*Industrial and commercial companies'* holdings of gilt-edged stocks are based on quarterly returns to the Department of Industry by about 250 large companies, grossed up roughly to give a broad estimate for all industrial and commercial companies. The holdings are at book values (generally purchase values) and no attempt has been made to convert them to nominal or market values. An estimate of holdings of certificates of tax deposit is shown under 'non-marketable debt'. Figures for Treasury bills held by all companies are obtained by residual, after other holders of market Treasury bills have been identified; these figures thus include unidentified holdings by other sectors.