





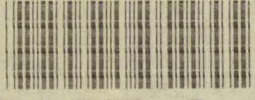
Chel  
hanson

PART A

**CONFIDENTIAL**  
(Circulate under cover and  
notify REGISTRY of movement)



PO -CH /NL/0144



PART A

CHANCELLOR'S 1986 PAPERS  
ON THE PUBLIC SECTOR  
BORROWING REQUIREMENT  
(PSBR) AND THE PUBLIC  
EXPENDITURE SURVEY (PES)

(PES)

PO -CH /NL/0144  
PART A

Begin: ~~2/1/86~~ 3/1/86

Ends: 8/7/86 (CONTINUED)

DD: 25 years

*[Signature]* 5/9/95



FROM: R DEVEREUX  
DATE: 3 January 1986

MISS PEIRSON  
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(O) & CGBR IN DECEMBER

1. The provisional outturn for the CGBR(O) in December is £1.2 billion. This is £0.4 billion lower than last month's forecast, reflecting higher Customs & Excise receipts (by £0.3 billion, probably VAT) and higher Inland Revenue receipts (by £0.1 billion, probably anticipation of the seasonal peak in January). The estimate of the outturn is subject to revision before publication on Friday 17 January.
2. In the first 9 months of 1985-86 the CGBR(O) was £7.3 billion, £0.6 billion below the Budget profile. Lower Inland Revenue receipts (mainly PRT) and lower oil royalties have been more than offset by higher Customs and Excise receipts (mainly VAT), higher interest receipts and lower supply expenditure.
3. On-lending to local authorities and public corporations totalled £0.3 billion in December. The CGBR in December was therefore £1.5 billion, bringing the total since 1 April 1985 to £11.7 billion. On-lending to the Electricity Council in December was £0.4 billion lower than forecast. As usual this carries no implications for the PCBR; the Council probably found a more attractive rate in the market.
4. Further analysis of the outturn in December will be given in the next Ministerial note on the PSBR in two weeks' time.

R J DEVEREUX



CONFIDENTIAL

## CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	December 1985			April-December 1985			April-December 1984
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Inland Revenue	+ 3.8	+ 3.7	+ 0.1	+ 36.0	+ 37.2	- 1.2	+ 32.5
Customs and Excise	+ 3.1	+ 2.8	+ 0.3	+ 27.9	+ 27.0	+ 0.9	+ 25.6
Other own account	- 8.1	- 8.1	-	- 71.2	- 72.1	+ 0.9	- 66.0
CGBR(O)	- 1.2	- 1.7	+ 0.4	- 7.3	- 7.9	+ 0.6	- 7.8
On-lending:							
- LAs	- 0.3	- 0.3	-	- 3.5	- 1.4	- 2.1	- 1.9
- PCs	-	- 0.4	+ 0.4	- 1.0	- 0.8	- 0.2	- 0.4
CGBR	- 1.5	- 2.3	+ 0.8	- 11.7	- 10.1	- 1.6	- 10.1

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

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

CONFIDENTIAL



CONFIDENTIAL AND PERSONAL

FROM: MISS M E PEIRSON  
DATE: 10 January 1986

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

**PSBR IN DECEMBER**

1. The first provisional outturn for the PSBR in December is £1.7 billion; this is £0.8 billion lower than last month's forecast (see table attached). Available market forecasts show wide variation (£1-2½ billion) with an average close to the provisional outturn. Our estimate is subject to revision before publication at 2.30 pm on Friday 17 January.
2. The main reason for the shortfall compared with forecast is higher Customs and Excise receipts, as reported in Mr Devereux's minute of 3 January. Overall the CGBR(O) was £0.5 billion lower than forecast last month; small undershoots are also recorded on the LABR and PCBR.
3. In the first 9 months of 1985-86 the PSBR was provisionally £7.8 billion, £1.1 billion below the Budget profile, and just below the Autumn Statement forecast for the year as a whole (£8 billion).
4. The monthly note, presenting updated estimates for December, will be circulated next Thursday. (A forecast for the remainder of the year will be circulated with the economic forecast on 31 January.)

*MEP*  
MISS M E PEIRSON



## CONFIDENTIAL &amp; PERSONAL

£ billion

	December 1985			April-December 1985			April-December 1984
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
CGBR(O)	1.1	1.7	- 0.5	7.1	7.9	- 0.7	7.8
LABR	0.3	0.3	- 0.1	0.4	0.7	- 0.3	1.2
PCBR	0.3	0.5	- 0.1	0.2	0.3	- 0.1	1.2
PSBR	1.7	2.5	- 0.8	7.8	8.9	- 1.1	10.2

CONFIDENTIAL &amp; PERSONAL



C.  
Content with  
press briefing?  
OK  
Res 16/1

FROM: MISS M E PEIRSON  
DATE: 16 January 1986

PPS/CHANCELLOR

cc Mr Cassell

**DRAFT PRESS BRIEFING ON PSBR IN DECEMBER**

1. I attach the draft press briefing on the PSBR in December, 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



CONFIDENTIAL AND PERSONAL  
(DRAFT)

From: JOHN CLARK  
17 January 1986

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 January)

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

**BRIEFING FOR 17 JANUARY PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for December will be published at 2.30pm on 17 January. The provisional outturns, together with figures for the first nine 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-Dec 1984	Apr-Dec 1985	December 1985
Central government on own account	7.8	7.1	1.1
Local authorities	1.2	0.4	0.3
Public corporations	1.2	0.2	0.3
PSBR	10.2	7.8	1.7
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	10.1	11.7	1.5

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	<b>1.1</b>	0.5	0.9	<b>0.8</b>	-0.2	-0.4	<b>-0.2</b>	1.2	2.4	<b>1.8</b>
May	2.4	3.2	<b>2.4</b>	0.3	0.8	<b>0.8</b>	-0.3	-0.4	<b>-0.4</b>	2.4	3.6	<b>2.7</b>
Jun	3.7	4.5	<b>2.7</b>	-0.1	0.6	<b>0.5</b>	-0.4	-0.5	<b>-0.6</b>	3.2	4.6	<b>2.6</b>
Jul	4.5	5.0	<b>3.6</b>	-0.0	0.8	<b>0.8</b>	-0.6	-0.7	<b>-1.2</b>	3.9	5.1	<b>3.2</b>
Aug	5.8	6.2	<b>4.6</b>	0.3	1.4	<b>0.9</b>	-0.4	-0.7	<b>-1.1</b>	5.6	6.8	<b>4.4</b>
Sep	6.6	6.4	<b>5.1</b>	0.3	1.2	<b>1.1</b>	-0.0	-0.3	<b>-0.5</b>	6.9	7.4	<b>5.6</b>
Oct	6.7	6.7	<b>4.9</b>	0.3	1.0	<b>0.7</b>	0.1	0.2	<b>-0.3</b>	7.1	8.0	<b>5.4</b>
Nov	8.3	8.5	<b>6.0</b>	-0.2	0.8	<b>0.1</b>	0.5	0.4	<b>-0.1</b>	8.5	9.6	<b>6.1</b>
Dec	9.1	7.8	<b>7.1</b>	0.1	1.2	<b>0.4</b>	0.6	1.2	<b>0.2</b>	9.8	10.2	<b>7.8</b>
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)

CONFIDENTIAL AND PERSONAL  
(DRAFT)



2. The (provisional) PSBR for December is £1.7 billion. The forecasts of City analysts show wide variation (£1-2½ billion), with an average close to the provisional outturn.

### POSITIVE

1. Borrowing in first nine months of 1985-86 was £7.8 billion, i.e. £2.4 billion lower than in first nine months of 1984-85.

2. Outturn for first nine months is consistent with Autumn Statement forecast for whole year (£8 billion). (Last three months of 1984-85 and 1983-84 showed small (£0.1 billion) repayments of debt; Autumn Statement forecast implies small net borrowing (less than £¼ billion) in last three months of 1985-86. Margin of error on Autumn Statement forecast is £2½ billion either way.)

### 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. Recent fall in oil price too late to have much effect in 1985-86 (see Q4). 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. Borrowing in December 1985**

### Background

Borrowing in December 1984 was only £0.6 billion, but that was affected by British Telecom first receipts of £1.5 billion (included in Consolidated Fund receipts, columns 1 and 4 of table 3). Borrowing in December 1983 was £1.3 billion, much closer to last month's £1.7 billion.

### Line to take

Comparisons of single months with a year earlier are misleading because of changes in the seasonal pattern of borrowing and erratic influences. In particular, December 1984 was affected by first receipts of British Telecom, of £1.5 billion.

## **3. Effect of higher interest rates**

### Line to take

This will increase some costs but also some receipts. Probably only small net effect in current year.

## **4. 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 in March 1986 determined largely by what happened in July–December 1985. Fall in dollar price following OPEC meeting in early December affects deliveries in January 1986 onwards 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.

## **5. Supply Expenditure**

### Background

For the first nine months of 1985-86, Supply expenditure (the amount spent by departments), shown in table 4 of press notice, was about 7½ per cent higher than in April-December 1984. After adjusting for changes in method of paying EC contributions, the increase is 6½ per cent. PEWP forecast is that planning total in 1985-86 will be fully spent, representing 3½ per cent increase on 1984-85, but Supply has different coverage from planning total (eg the latter includes privatisation proceeds, LA expenditure other than CG grants to LAs, and PCs' market borrowing), and other elements in planning total move differently.

(The comparable year-on-year rise for Supply services in the period April to December was about 8½ per cent. Supply services, shown in table 3 column 6, represent issues to departments from the Consolidated Fund. The difference between Supply expenditure and Supply services is explained in paragraph 4 of Notes to Editors. Table 4, which gives the Supply expenditure figures, was first published last month.)

### Line to take

Increase in supply expenditure in April-December (after adjustment for change in method of paying EC contributions) is 6½ per cent above same period of 1984-85. December outturn is consistent with PEWP forecast for planning total in 1985-86 as a whole: supply has different coverage from planning total.

## **6. Privatisation proceeds**

### Background

Budget forecast for total receipts from central privatisation proceeds in 1985-86 was £2.5 billion - increased to £2.6 billion in PEWP. 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 delay in sale has no effect on the PSBR, or privatisation proceeds.

Line to take

Total net receipts for first nine months of 1985-86 almost £2¼ billion, some £¼ billion more than over the same period last year. Sale of residual shareholding in Cable and Wireless realised net receipts of £300 million in December.

## **7. EC refunds and abatements**

Line to take

1984 rebate of 1000m ecus (£605 million) received by 6 January 1986: of this, £166 million was received in December (included as switch between EC no. 1 account in OCGFA (table 3 column 12) and Consolidated Fund (column 4)). Arrangements in respect of 1985 and subsequent years are different, and reduce UK monthly contributions, starting in January 1986. First monthly abatement (about £70 million), based on 1986 budget figure of 1400m ecus, affected contribution made on 2 January. [If pressed: Inter-governmental Agreement payment of £250 million, to finance inescapable Community obligations in 1985 budget, paid in December.]

## **8. Inland Revenue receipts**

[See also Q4 on oil revenues]

Background

Total Inland Revenue receipts in December were £3.8 billion. Total for April-December 1985-86 was £36 billion, 10¼ 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

Receipts in first nine months £36 billion. Monthly pattern of receipts varies from year to year. As noted in Autumn Statement, 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 December were £3.1 billion. Total for April–December 1985–86 (£28 billion) was 8¾ 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 nine months £28 billion. Increase over corresponding period last year greater than Budget forecast of increase for year as a whole, partly because full effect of change in VAT on imports had not occurred by the end of 1984. Also, as noted in Autumn Statement, receipts in 1985–86 as a whole now expected to be greater than in Budget forecast, because of higher expenditure taxes.

## **10. Local authorities**

### Background

Preliminary estimate is that local authorities borrowed £0.3 billion in December, bringing total net borrowing to £0.4 billion in April–December 1985–86, about £¾ 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 borrow this sort of amount in December. Cumulative borrowing April–December 1985 (£0.4 billion) well within range of outturns in same period of previous three years. (Average LABR for whole year in previous three years was £1¼ billion.)



## **11. Public corporations**

### Background

Public corporations (provisionally) borrowed £0.3 billion in December, giving net borrowing of £0.2 billion for first nine 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. (The later months of 1984-85, eg December 1984, were affected by the miners' strike).

John Clark (ext 3093)

PSF Division, HM Treasury



FROM: MISS M E PEIRSON  
DATE: 16 January 1986

- 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 January)

Sir P Middleton  
 Sir T Burns  
 Mr H Evans  
 Mr Peretz  
 Mr Scholar  
 Mr L Watts  
 Mr Devereux  
 Dr Webb

Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Mr F E R Butler  
 Mr Moore  
 Mr Odling-Smee  
 Mr Turnbull  
 Mrs Butler  
 Mr Mowl

Miss O'Mara  
 Mr Walsh  
 Mr Williams  
 Mr Powell  
 Mr Cropper  
 Mr H Davies  
 Mr Lord  
 Mr Wells - CSO  
 Mr Calder - IR  
 Mr Wilmott - C & E

**MONTHLY NOTE ON THE PSBR**

- 1. I attach a report on the PSBR outturn for December. This outturn will be published by press notice at 2.30 pm tomorrow, 17 January.
- 2. Forecasts for the final three months of the financial year are not included in the attached report; they are being constructed as part of the current forecasting round.

MISS M E PEIRSON



## PUBLIC SECTOR BORROWING

### Summary

- The PSBR for December is provisionally estimated at £1.7 billion, £0.8 billion lower than last month's forecast. Central government own-account borrowing was £0.5 billion less than forecast, owing mainly to higher Customs and Excise receipts. In addition there were small undershoots on local authorities' and public corporations' borrowing.
- Borrowing in the first nine months of 1985-86 (£7.8 billion) was £1.1 billion lower than the Budget profile (Chart 1) and £2.4 billion lower than over the same period last year (Chart 2).
- The usual forecasts for the PSBR in the next three months are not presented in this note; revised monthly profiles to the end of the financial year are being constructed as part of the current forecasting round.

---

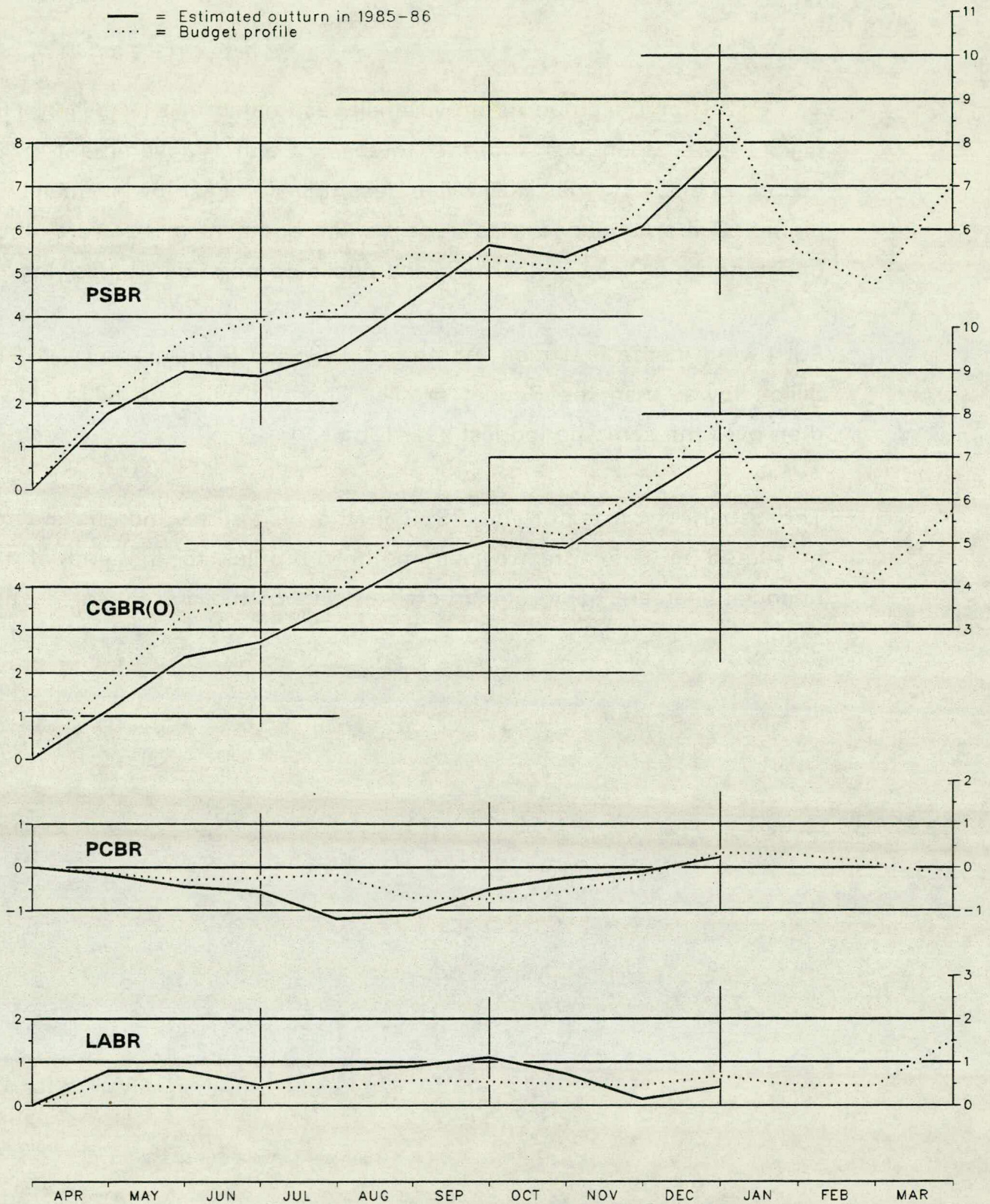
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.



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

£ billion cumulative

— = Estimated outturn in 1985-86  
 ..... = Budget profile

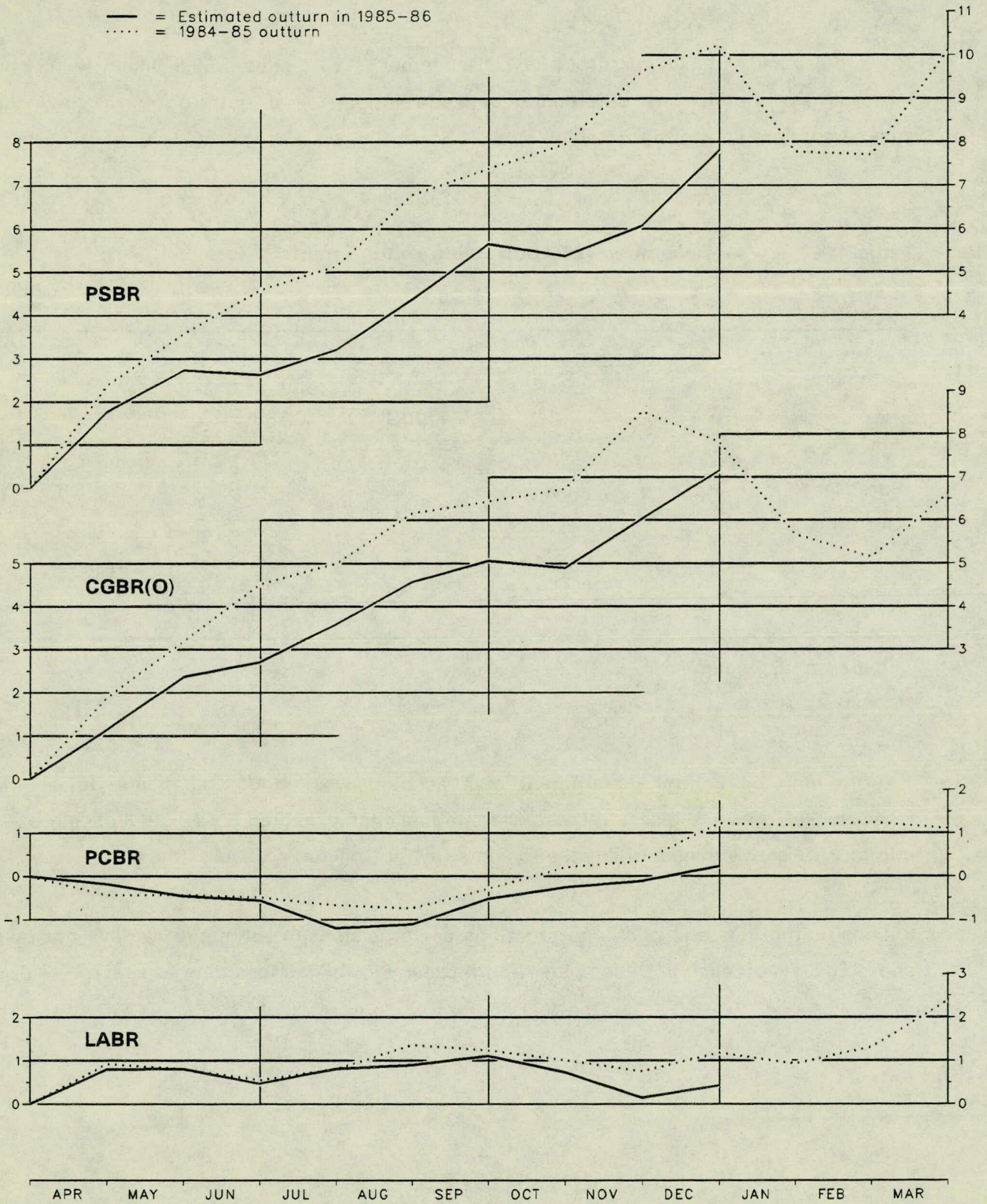




**Chart 2 : Comparisons with last year's outturns**

£ billion cumulative

— = Estimated outturn in 1985-86  
 ..... = 1984-85 outturn





**Borrowing in December**

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

The provisional estimate of the PSBR in December is £1.7 billion, £0.8 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: December 1985 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	2.5	1.7	0.3	0.5
Outturn	1.7	1.1	0.3	0.3
Difference	-0.8	-0.5	-0.1	-0.1

\*made on 16 December

2. Borrowing on central government own account was about £0.5 billion lower than forecast. Customs and Excise receipts were higher than expected (by £0.3 billion, almost all due to VAT) as were Inland Revenue receipts (by £0.1 billion, probably timing).

3. Local authorities and public corporations are provisionally estimated to have borrowed about £0.3 billion each in December, in both cases £0.1 billion less than forecast.



**April to December**

(Comparisons in this section are with the Budget profile)

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

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	8.9	7.9	0.7	0.3
Outturn	7.8	7.1	0.4	0.2
Difference	-1.1	-0.7	-0.3	-0.1

4. The cumulative PSBR for the first nine months of 1985-86 was £7.8 billion, about £1.1 billion below the Budget profile (see Chart 1 and Table 2). It is about £2.4 billion below the same period last year (Chart 2), which was affected by the coal strike, and by higher LA capital expenditure.

5. Cumulative borrowing in April-December on central government own account was £0.7 billion lower than the Budget profile. Higher Customs and Excise receipts (by £0.9 billion, mainly VAT), higher interest receipts (by £0.5 billion) and lower supply expenditure (by £0.8 billion) were only partly offset by lower Inland Revenue receipts (by £1.2 billion, more than accounted for by PRT) and lower oil royalties (£0.3 billion). The higher VAT receipts were apparently due to increases both in total consumers' expenditure and in the proportion spent on goods attracting VAT. The lower supply expenditure is mainly due to lower grants to the NCB and lower ECGD payments, and is offset within the planning total by higher expenditure on LA capital (affecting the LABR), coal stock rebuilding (affecting the PCBR), and other items.

6. Local authorities borrowed £0.4 billion in the first nine months of 1985-86, about £0.3 billion less than in the Budget profile. This shortfall can be explained partly by timing (contrary to the assumption made in the Budget profile, the pattern of rate payments does



not seem to have changed this year) and partly by the delay in the teachers' pay settlement.

7. Public corporations borrowed £0.2 billion in April–December, about £0.1 billion less than in the Budget profile. Net borrowing by the British Steel Corporation is lower than expected, partly offset by higher borrowing by the National Coal Board matching the reduction in grant (see paragraph 6 above) and higher borrowing by the Electricity Council for coal stock rebuilding.



CONFIDENTIAL AND PERSONAL

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

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1985-86								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>1.0</b>	<i>1.4</i>	<b>1.2</b>	<i>1.6</i>	-	<i>-0.1</i>	<b>-0.3</b>	<i>-0.2</i>
Jun	<b>-0.1</b>	<i>0.4</i>	<b>0.3</b>	<i>0.4</i>	<b>-0.3</b>	-	<b>-0.1</b>	<i>0.1</i>
Jul	<b>0.6</b>	<i>0.3</i>	<b>0.9</b>	<i>0.2</i>	<b>0.3</b>	-	<b>-0.6</b>	<i>0.1</i>
Aug	<b>1.2</b>	<i>1.3</i>	<b>1.0</b>	<i>1.6</i>	<b>0.1</b>	<i>0.2</i>	<b>0.1</b>	<i>-0.5</i>
Sep	<b>1.3</b>	<i>-0.1</i>	<b>0.5</b>	-	<b>0.2</b>	-	<b>0.6</b>	-
Oct	<b>-0.3</b>	<i>-0.2</i>	<b>-0.2</b>	<i>-0.3</i>	<b>-0.4</b>	<i>-0.1</i>	<b>0.3</b>	<i>0.2</i>
Nov	<b>0.7</b>	<i>1.4</i>	<b>1.1</b>	<i>1.1</i>	<b>-0.6</b>	-	<b>0.1</b>	<i>0.4</i>
Dec	<b>1.7</b>	<i>2.4</i>	<b>1.1</b>	<i>1.6</i>	<b>0.3</b>	<i>0.2</i>	<b>0.3</b>	<i>0.5</i>
Cumulative								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>2.7</b>	<i>3.5</i>	<b>2.4</b>	<i>3.4</i>	<b>0.8</b>	<i>0.4</i>	<b>-0.4</b>	<i>-0.3</i>
Jun	<b>2.6</b>	<i>3.9</i>	<b>2.7</b>	<i>3.8</i>	<b>0.5</b>	<i>0.4</i>	<b>-0.6</b>	<i>-0.2</i>
Jul	<b>3.2</b>	<i>4.2</i>	<b>3.6</b>	<i>3.9</i>	<b>0.8</b>	<i>0.4</i>	<b>-1.2</b>	<i>-0.2</i>
Aug	<b>4.4</b>	<i>5.4</i>	<b>4.6</b>	<i>5.6</i>	<b>0.9</b>	<i>0.6</i>	<b>-1.1</b>	<i>-0.7</i>
Sep	<b>5.6</b>	<i>5.3</i>	<b>5.1</b>	<i>5.5</i>	<b>1.1</b>	<i>0.5</i>	<b>-0.5</b>	<i>-0.7</i>
Oct	<b>5.4</b>	<i>5.1</i>	<b>4.9</b>	<i>5.2</i>	<b>0.7</b>	<i>0.5</i>	<b>-0.3</b>	<i>-0.6</i>
Nov	<b>6.1</b>	<i>6.5</i>	<b>6.0</b>	<i>6.3</i>	<b>0.1</b>	<i>0.5</i>	<b>-0.1</b>	<i>-0.2</i>
Dec	<b>7.8</b>	<i>8.9</i>	<b>7.1</b>	<i>7.9</i>	<b>0.4</b>	<i>0.7</i>	<b>0.2</b>	<i>0.3</i>



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

£ billion

	1984-85	1985-86	Differences from		
	Outturn	Budget profile	Outturn	1984-85 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	2.4	2.1	<b>1.8</b>	-0.6	-0.3
May	1.2	1.4	<b>1.0</b>	-0.2	-0.4
Jun	1.0	0.4	<b>-0.1</b>	-1.1	-0.5
Q2	4.6	3.9	<b>2.6</b>	-2.0	-1.3
Jul	0.6	0.3	<b>0.6</b>	-	0.3
Aug	1.6	1.3	<b>1.2</b>	-0.5	-0.1
Sep	0.6	-0.1	<b>1.3</b>	0.7	1.4
Q3	2.8	1.4	<b>3.0</b>	0.2	1.6
Oct	0.6	-0.2	<b>-0.3</b>	-0.8	-0.1
Nov	1.7	1.4	<b>0.7</b>	-1.0	-0.7
Dec	0.6	2.4	<b>1.7</b>	1.1	-0.7
Q4	2.8	3.6	<b>2.2</b>	-0.7	-1.4
Cumulative					
Apr	2.4	2.1	<b>1.8</b>	-0.6	-0.3
May	3.6	3.5	<b>2.7</b>	-0.8	-0.8
Jun	4.6	3.9	<b>2.6</b>	-2.0	-1.3
Jul	5.1	4.2	<b>3.2</b>	-2.0	-1.0
Aug	6.8	5.4	<b>4.4</b>	-2.4	-1.1
Sep	7.4	5.3	<b>5.6</b>	-1.7	0.3
Oct	8.0	5.1	<b>5.4</b>	-2.6	0.2
Nov	9.6	6.5	<b>6.1</b>	-3.6	-0.5
Dec	10.2	8.9	<b>7.8</b>	-2.4	-1.1



CONFIDENTIAL AND PERSONAL

**Table 5: Central government transactions - December**

£ billion

	forecast	outturn <sup>(1)</sup>
Receipts		
<i>Consolidated Fund</i>		
Inland Revenue	3.7	3.8
Customs and Excise	2.8	3.1
Other <sup>(2)</sup>	0.9	1.4
<i>National Loans Fund</i>		
Interest etc. receipts	0.5	0.6
Total Receipts	7.8	8.9
Expenditure		
<i>Consolidated Fund</i>		
Supply expenditure <sup>(3)</sup>	8.5	8.6
Adjustment to Supply		
Services basis <sup>(4)</sup>	-	0.3
Other	0.6	0.6
<i>National Loans Fund</i>		
Service of the national debt	0.6	0.6
Net lending	0.1	-0.2
Total Expenditure	9.8	10.0
Other funds and accounts		
(+ increases borrowing)	0.3	0.4
(- reduces borrowing)		
<b>CGBR</b>	<b>2.3</b>	<b>1.5</b>
On-lending	0.7	0.4
<b>CGBR(O)</b>	<b>1.7</b>	<b>1.1</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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".





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

COVERING CONFIDENTIAL & PERSONAL

David Norgrove Esq  
10 Downing Street.

16 January 1986

*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 December will be published at 2.30 pm tomorrow, 17 January.

Yours sincerely

*Rachel Lomax*

RACHEL LOMAX  
PRINCIPAL PRIVATE SECRETARY



## PUBLIC SECTOR BORROWING

### Summary

- The PSBR for December is provisionally estimated at £1.7 billion, £0.8 billion lower than last month's forecast. Central government own-account borrowing was £0.5 billion less than forecast, owing mainly to higher Customs and Excise receipts. In addition there were small undershoots on local authorities' and public corporations' borrowing.
- Borrowing in the first nine months of 1985-86 (£7.8 billion) was £1.1 billion lower than the Budget profile (Chart 1) and £2.4 billion lower than over the same period last year (Chart 2).
- The usual forecasts for the PSBR in the next three months are not presented in this note; revised monthly profiles to the end of the financial year are being constructed as part of the current forecasting round.

---

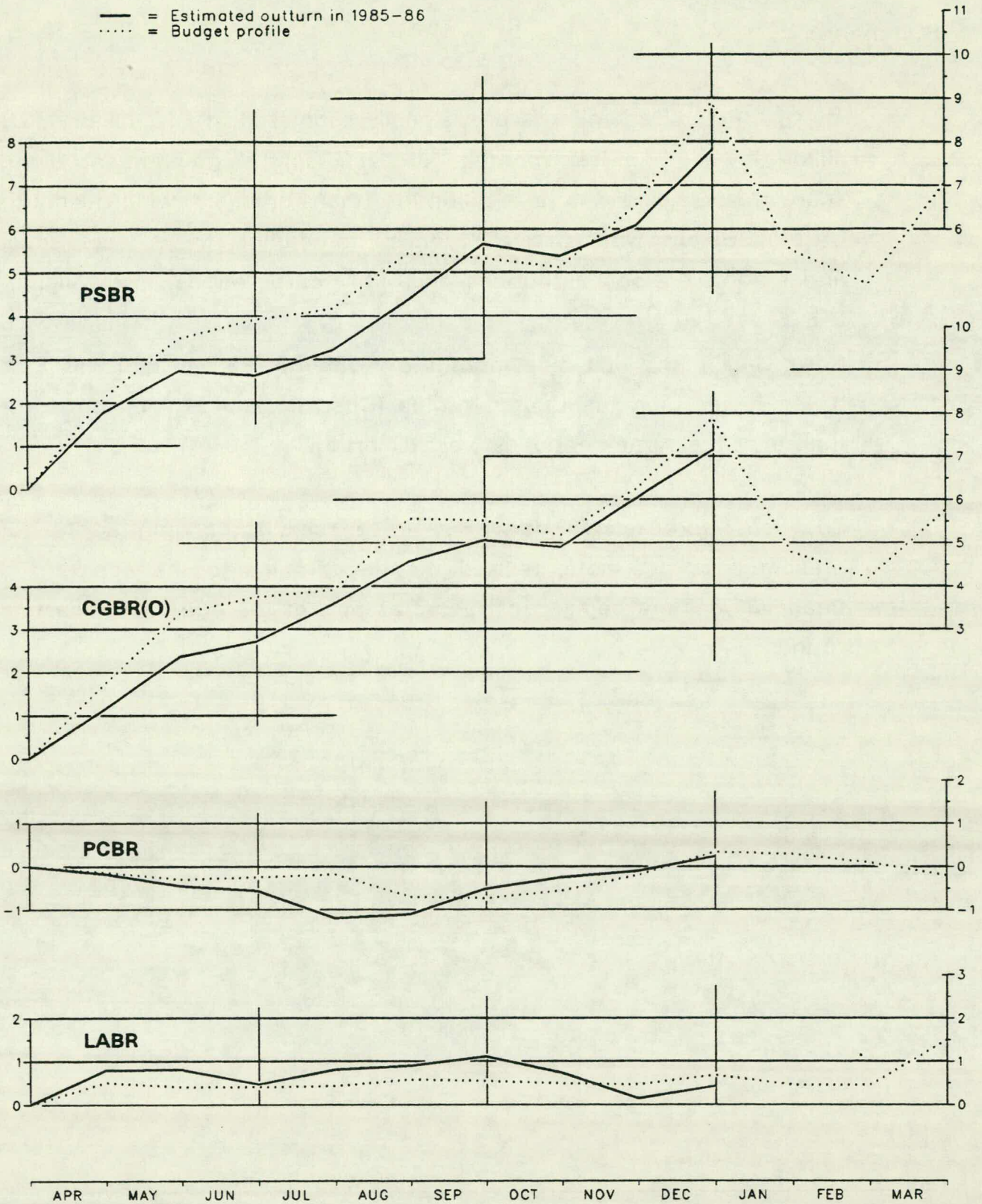
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.



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

£ billion cumulative

— = Estimated outturn in 1985-86  
 ..... = Budget profile

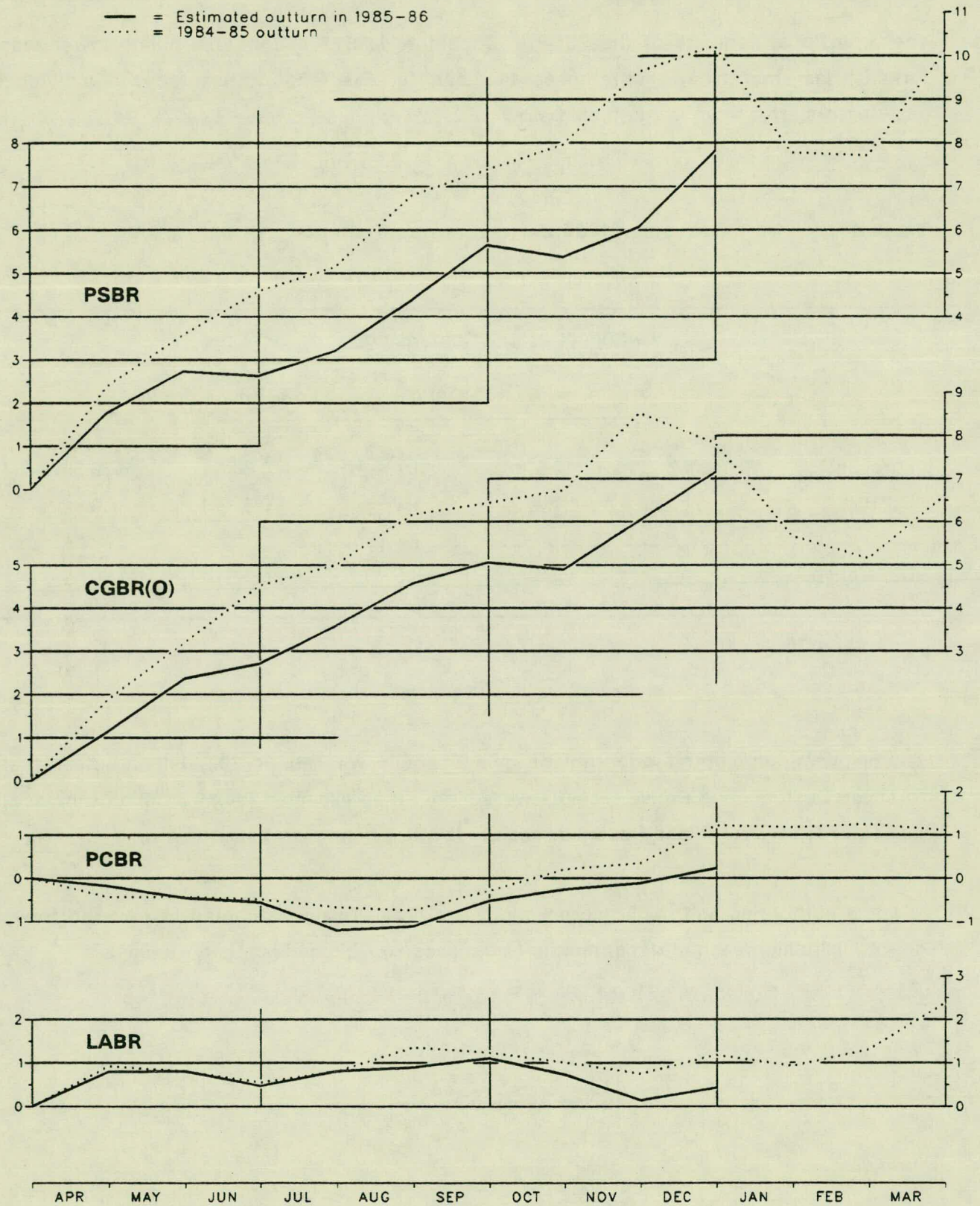




**Chart 2 : Comparisons with last year's outturns**

£ billion cumulative

— = Estimated outturn in 1985-86  
 ..... = 1984-85 outturn





**Borrowing in December**

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

The provisional estimate of the PSBR in December is £1.7 billion, £0.8 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: December 1985 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	2.5	1.7	0.3	0.5
Outturn	1.7	1.1	0.3	0.3
Difference	-0.8	-0.5	-0.1	-0.1

\*made on 16 December

2. Borrowing on central government own account was about £0.5 billion lower than forecast. Customs and Excise receipts were higher than expected (by £0.3 billion, almost all due to VAT) as were Inland Revenue receipts (by £0.1 billion, probably timing).

3. Local authorities and public corporations are provisionally estimated to have borrowed about £0.3 billion each in December, in both cases £0.1 billion less than forecast.



CONFIDENTIAL AND PERSONAL

**April to December**

(Comparisons in this section are with the Budget profile)

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

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	8.9	7.9	0.7	0.3
Outturn	7.8	7.1	0.4	0.2
Difference	-1.1	-0.7	-0.3	-0.1

4. The cumulative PSBR for the first nine months of 1985-86 was £7.8 billion, about £1.1 billion below the Budget profile (see Chart 1 and Table 2). It is about £2.4 billion below the same period last year (Chart 2), which was affected by the coal strike, and by higher LA capital expenditure.

5. Cumulative borrowing in April-December on central government own account was £0.7 billion lower than the Budget profile. Higher Customs and Excise receipts (by £0.9 billion, mainly VAT), higher interest receipts (by £0.5 billion) and lower supply expenditure (by £0.8 billion) were only partly offset by lower Inland Revenue receipts (by £1.2 billion, more than accounted for by PRT) and lower oil royalties (£0.3 billion). The higher VAT receipts were apparently due to increases both in total consumers' expenditure and in the proportion spent on goods attracting VAT. The lower supply expenditure is mainly due to lower grants to the NCB and lower ECGD payments, and is offset within the planning total by higher expenditure on LA capital (affecting the LABR), coal stock rebuilding (affecting the PCBR), and other items.

6. Local authorities borrowed £0.4 billion in the first nine months of 1985-86, about £0.3 billion less than in the Budget profile. This shortfall can be explained partly by timing (contrary to the assumption made in the Budget profile, the pattern of rate payments does



not seem to have changed this year) and partly by the delay in the teachers' pay settlement.

7. Public corporations borrowed £0.2 billion in April-December, about £0.1 billion less than in the Budget profile. Net borrowing by the British Steel Corporation is lower than expected, partly offset by higher borrowing by the National Coal Board matching the reduction in grant (see paragraph 6 above) and higher borrowing by the Electricity Council for coal stock rebuilding.



CONFIDENTIAL AND PERSONAL

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

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1985-86								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>1.0</b>	<i>1.4</i>	<b>1.2</b>	<i>1.6</i>	-	<i>-0.1</i>	<b>-0.3</b>	<i>-0.2</i>
Jun	<b>-0.1</b>	<i>0.4</i>	<b>0.3</b>	<i>0.4</i>	<b>-0.3</b>	-	<b>-0.1</b>	<i>0.1</i>
Jul	<b>0.6</b>	<i>0.3</i>	<b>0.9</b>	<i>0.2</i>	<b>0.3</b>	-	<b>-0.6</b>	<i>0.1</i>
Aug	<b>1.2</b>	<i>1.3</i>	<b>1.0</b>	<i>1.6</i>	<b>0.1</b>	<i>0.2</i>	<b>0.1</b>	<i>-0.5</i>
Sep	<b>1.3</b>	<i>-0.1</i>	<b>0.5</b>	-	<b>0.2</b>	-	<b>0.6</b>	-
Oct	<b>-0.3</b>	<i>-0.2</i>	<b>-0.2</b>	<i>-0.3</i>	<b>-0.4</b>	<i>-0.1</i>	<b>0.3</b>	<i>0.2</i>
Nov	<b>0.7</b>	<i>1.4</i>	<b>1.1</b>	<i>1.1</i>	<b>-0.6</b>	-	<b>0.1</b>	<i>0.4</i>
Dec	<b>1.7</b>	<i>2.4</i>	<b>1.1</b>	<i>1.6</i>	<b>0.3</b>	<i>0.2</i>	<b>0.3</b>	<i>0.5</i>
Cumulative								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>2.7</b>	<i>3.5</i>	<b>2.4</b>	<i>3.4</i>	<b>0.8</b>	<i>0.4</i>	<b>-0.4</b>	<i>-0.3</i>
Jun	<b>2.6</b>	<i>3.9</i>	<b>2.7</b>	<i>3.8</i>	<b>0.5</b>	<i>0.4</i>	<b>-0.6</b>	<i>-0.2</i>
Jul	<b>3.2</b>	<i>4.2</i>	<b>3.6</b>	<i>3.9</i>	<b>0.8</b>	<i>0.4</i>	<b>-1.2</b>	<i>-0.2</i>
Aug	<b>4.4</b>	<i>5.4</i>	<b>4.6</b>	<i>5.6</i>	<b>0.9</b>	<i>0.6</i>	<b>-1.1</b>	<i>-0.7</i>
Sep	<b>5.6</b>	<i>5.3</i>	<b>5.1</b>	<i>5.5</i>	<b>1.1</b>	<i>0.5</i>	<b>-0.5</b>	<i>-0.7</i>
Oct	<b>5.4</b>	<i>5.1</i>	<b>4.9</b>	<i>5.2</i>	<b>0.7</b>	<i>0.5</i>	<b>-0.3</b>	<i>-0.6</i>
Nov	<b>6.1</b>	<i>6.5</i>	<b>6.0</b>	<i>6.3</i>	<b>0.1</b>	<i>0.5</i>	<b>-0.1</b>	<i>-0.2</i>
Dec	<b>7.8</b>	<i>8.9</i>	<b>7.1</b>	<i>7.9</i>	<b>0.4</b>	<i>0.7</i>	<b>0.2</b>	<i>0.3</i>



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

£ billion

	1984-85		1985-86		Differences from	
	Outturn	Budget profile	Outturn	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	1.7	1.1	-0.7	
Q4	2.8	3.6	2.2	-0.7	-1.4	
<b>Cumulative</b>						
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	-2.0	-1.0	
Aug	6.8	5.4	4.4	-2.4	-1.1	
Sep	7.4	5.3	5.6	-1.7	0.3	
Oct	8.0	5.1	5.4	-2.6	0.2	
Nov	9.6	6.5	6.1	-3.6	-0.5	
Dec	10.2	8.9	7.8	-2.4	-1.1	



CONFIDENTIAL AND PERSONAL

Table 5: Central government transactions - December

£ billion

	forecast	outturn <sup>(1)</sup>
<b>Receipts</b>		
<i>Consolidated Fund</i>		
Inland Revenue	3.7	3.8
Customs and Excise	2.8	3.1
Other <sup>(2)</sup>	0.9	1.4
<i>National Loans Fund</i>		
Interest etc. receipts	0.5	0.6
<b>Total Receipts</b>	<b>7.8</b>	<b>8.9</b>
<b>Expenditure</b>		
<i>Consolidated Fund</i>		
Supply expenditure <sup>(3)</sup>	8.5	8.6
Adjustment to Supply Services basis <sup>(4)</sup>	-	0.3
Other	0.6	0.6
<i>National Loans Fund</i>		
Service of the national debt	0.6	0.6
Net lending	0.1	-0.2
<b>Total Expenditure</b>	<b>9.8</b>	<b>10.0</b>
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	0.3	0.4
<b>CGBR</b>	<b>2.3</b>	<b>1.5</b>
<b>On-lending</b>	<b>0.7</b>	<b>0.4</b>
<b>CGBR(O)</b>	<b>1.7</b>	<b>1.1</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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".



RESTRICTED

FROM: SIR T BURNS

DATE: 30 JANUARY 1986

CHANCELLOR OF THE EXCHEQUER

cc Sir Peter Middleton  
Mr Cassell  
Mr Evans  
Mr Odling-Smee  
Miss Pierson  
Mr Riley  
Mr Powell

*The main point (apart from the inclusion of  
No ~~an~~ anomalous 1981-82 PSFD on the accounts  
basis) is that people are measuring  
to compare the PSFDs from with the PSBR  
figures. But this can only be done if we  
are comparing like with like  
- it has been the same (cash)*

PUBLIC SECTOR FINANCIAL DEFICIT

*The alternative of course, is to  
stick to the PSBR & have with it  
with the PSFD. In the light of  
Sir TB's advice, that  
is the  
common way should  
have to adopt.  
M.*

You asked my views about the use of the public sector financial deficit on a cash rather than an accruals basis.

2. The first question to consider is where, when and why the PSFD might be presented on a cash rather than an accruals basis. At the moment the PSFD hardly appears at all in Treasury publications. It is not shown in the MTF5 tables, and it appears only for the outturn and the forthcoming year in FSBR table 6.5 (and it could be included as a memo item in the new summary table showing current and capital transactions separately). It does, however, appear in all the main CSO publications. In all these places it is measured on an accruals basis.

3. I would advise against seeking to change the definition of the PSFD in government publications. All company accounts, including those of the private sector, are typically drawn up on an accruals basis. This basis is reckoned to provide a more helpful picture of underlying movements in the accounts. It is the basis that is internationally agreed amongst statisticians, and the CSO would no doubt resist the change. This argument need not, of course, prevent us from changing the definition in the Treasury's publications. But given that the PSFD in the FSBR attracts virtually no attention, I see little to be gained from doing that alone.



RESTRICTED

4. However, even without changing the definition in government publications, one could contemplate making more use of the alternative definition in briefing. The main advantage of doing this as I see it is that it suggests that the PSFD has come down faster in recent years than the accrued definition does:

	% of GDP		
	PSBR	PSFD (accrued)	PSFD (cash)
1979-80 to 1980-81	5.1	4.5	5.4
1981-82 to 1984-85	3.2	3.2	3.3
1985-86*	2.2	3.1	3.1
1986-87**	2.0	[3.2]	[3.3]

\* Autumn Statement forecast

\*\* Rough forecast based on Autumn Statement projections and assuming PSBR at 2% of GDP.

It does this mainly by raising the PSFD in the early years, which reflects the fact that taxes were increased (VAT in 1979 and income tax in 1981) with the associated increase in revenue accruing before it was received by the government. (The table at the end shows the annual figures in both £ billion and as a percentage of GDP).

5. However, against this advantage must be set a number of disadvantages from giving the PSFD on a cash basis the higher profile:

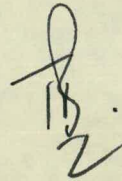
- It would strengthen the case of those who argue that there is a "correct" measure of fiscal stance and correspondingly undermine our efforts to deny this and to rely on the statement that we take into account all the relevant factors;
- It would not stop commentators from continuing to make their own special adjustments to the PSBR or one of the definitions of the PSFD, eg for North Sea oil and council house sales;



RESTRICTED

- It might convey the impression that the Government was playing loose and fast with definitions in order to make a point;
- It appears on the basis of our present forecast that the PSFD on a cash basis will actually go in a less favourable direction next year than that on an accrued basis.

6. For all these reasons, therefore, I advise against redefining the PSFD on a cash basis.



T BURNS



**CONFIDENTIAL**

FROM: MRS R LOMAX  
 DATE: 11 DECEMBER 1985

SIR TERENCE BURNS

cc Sir Peter Middleton  
 Mr Cassell  
 Mr Evans  
 Mr Odling-Smee  
 Miss Peirson  
 Mr Powell

**PUBLIC SECTOR FINANCIAL DEFICIT**

The Chancellor is interested in the idea of redefining the public sector financial deficit to include the accruals adjustment, thus effectively putting it on a cash basis. He thinks this would make it more useful for expositional purposes, in part by producing a smoother series. Miss Peirson produced the attached note in very short order yesterday which the Chancellor has seen. He finds the PSFD (cash) table of considerable interest, though he is not convinced by the arguments in Miss Peirson's covering minute. He has commented that we also need to consider what we are measuring these concepts for.

2. The Chancellor would like to discuss these ideas with you at some stage, preferably before Christmas. He would therefore be grateful if you would take a look at Miss Peirson's note.

*R.L.*

RACHEL LOMAX

5/12/03



31/2080

CONFIDENTIAL

FROM: MISS M E PEIRSON  
DATE: 10 December 1985

MRS LOMAX

cc Sir P Middleton  
Mr Cassell  
Mr Evans  
Mr Odling-Smee  
Mr Powell

#### PUBLIC SECTOR FINANCIAL DEFICIT

1. You said that the Chancellor was wondering whether to adopt, in partial replacement of the PSBR, the PSFD on a cash basis, ie the PSFD plus the "accruals adjustment" in line 28 of table 6.5 of the PSBR.

2. The PSFD, whether cash or accrued, could not be measured quickly and accurately, but you said the idea was not to use it for monitoring purposes but merely as a good alternative definition of the "financial balance". Attempts to meet criticism of the PSBR by adjusting it for special asset sales have simply led commentators to adjust it for other asset sales, North Sea revenues, Old Uncle Tom Cobbleigh and all. But if a well-established definition like the PSFD, which already excludes special asset sales, were used, there would not be the same temptation to adjust it further.

3. You added that the Chancellor had suggested that the PSFD should be in cash because then it might show less of an erratic path in recent years: he was thinking particularly of the civil service strike effects.

4. My immediate comments are as follows. First, I attach the figures requested, showing the PSFD, both accrued and cash, as % GDP and in cash. The PSBR is given for comparison.

5. Secondly, if there is to be a move to give more prominence to the PSFD, I recommend that it should be on the usual accrued basis, for the following reasons:-



(i) That is the internationally agreed basis, and the national accounts definition. We stand more chance of its being accepted without adjustment if we do not start adjusting it ourselves.

(ii) The "underlying" path of the PSFD, ie abstracting from the effects of the civil service strike, is shown more accurately by the accrued basis than cash, for on the (estimated) accrued basis there has been an attempt to remove the effects of the strike. The success of the attempt depends on the estimates of the strike effects, which cannot be said to be perfect, but the result is better than if the deficit is translated back to cash.

6. Against those two points, it is true that keeping the PSFD on an accrued basis means losing the benefit to 1984-85 of the acceleration of VAT on imports. But such measures to affect the timing (only) of improvements in the PSBR are, I believe, fairly rare. And now that 1984-85 is well over, and was anyway distorted by the miners' strike, we can afford to lose that particular benefit.

7. Thirdly, however, I do not recommend giving more prominence to the PSFD, for the following reasons:-

(a) It would not stop the adjustments, in particular for North Sea oil. For instance, I attach table 24 of the current draft of the IMF report on the UK (which officials are studying), which starts with the general government financial deficit (described as the "financial balance") and then adjusts it for sales of council houses, special sales of assets and North Sea oil (plus inflation and certain other changes described as "cyclical").

(b) The PSFD is likely to rise after 1985-86 in relation to the PSBR, because of the effect on the latter of the substantially higher special asset sales. A rough forecast for 1986-87, assuming an unchanged PSBR, is shown in the first table attached.

*MEP*

MISS M E PEIRSON



## CONFIDENTIAL

PSBR and PSFD

	<u>PSBR</u>		<u>PSFD (accrued)</u>		<u>PSFD (cash)</u>	
	£bn	% GDP	£bn	%GDP	£bn	%GDP
1971-72	1.0	1.6	0.7	1.1	0.6	1.1
72-73	2.4	3.6	2.0	3.0	2.0	3.0
73-74	4.3	5.8	3.5	4.6	4.1	5.5
74-75	8.0	8.9	6.0	6.7	6.9	7.7
75-76	10.3	9.3	8.1	7.4	8.7	7.9
76-77	8.3	6.4	7.4	5.8	7.8	6.1
77-78	5.4	3.6	6.6	4.4	7.2	4.8
78-79	9.3	5.4	8.5	4.9	9.5	5.5
79-80	10.0	4.8	8.2	3.9	10.6	5.1
1980-81	12.7	5.4	12.0	5.1	13.3	5.7
81-82	8.6	3.3	5.8	2.2	7.5	2.9
82-83	8.9	3.1	8.5	3.0	8.3	2.9
83-84	9.7	3.2	12.0	3.9	11.9	3.9
84-85	10.2	3.1	12.5	3.8	12.1	3.7
1985-86*	8.0	2.2	11.1	3.1	11.1	3.1
1986-87**	7.7	2.0	[12.3]	[3.2]	[12.8]	[3.3]

\* Autumn Statement forecast.

\*\* Rough forecast based on Autumn Statement projections and assuming PSBR at 2% of GDP.



Table 24. United Kingdom: Cyclical Effect of Fiscal Policy

(In percent of GDP)

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85		1985/86	
							Budget	Actual	Budget	Revised 1/
Actual fiscal data 2/										
Financial balance	-4.0	-3.0	-4.0	-1.9	-2.7	-3.9	-2.6	-3.6	-2.8	-3.2
Financial balance, adjusted for sales of council houses 3/	-4.2	-3.2	-4.3	-2.4	-3.4	-4.4	-3.0	-4.1	-3.2	-3.6
Financial balance, adjusted for sales of council houses and special sales of assets 3/	-4.2	-3.7	-4.5	-2.4	-3.6	-4.8	-3.6	-4.7	-3.9	-4.3
Cyclically neutral financial balance										
Unadjusted 4/	-4.0	-3.8	-6.6	-7.9	-8.1	-7.6	-7.5	-7.4	-7.0	-6.7
Adjusted for sales of public sector assets	-4.2	-4.0	-6.8	-8.1	-8.3	-7.8	-7.8	-7.6	-7.2	-7.0
Adjusted for sales of public sector assets and oil 5/	-4.2	-3.2	-5.5	-6.0	-5.9	-5.3	-5.1	-4.3	-3.8	-4.0
Change in cyclical effect 6/ (expansionary +)										
Unadjusted	...	-0.8	-1.8	-3.5	0.7	1.7	-1.3	-0.1	-0.4	0.3
Adjusted for sales of public sector assets	...	-0.8	-1.8	-3.5	0.7	1.7	-1.3	-0.1	-0.4	0.3
Adjusted for sales of public sector assets and oil	...	—	-1.3	-2.6	0.9	1.8	-1.1	0.7	-0.3	-0.1
Memorandum items (expansionary +)										
Change in inflation adjusted financial balance 7/	...	-3.6	-0.2	2.1	2.4	2.4	-1.5	-0.3	-1.0	-0.6
Change in inflation-adjusted PSBR 7/		-3.1	-0.6	2.1	1.4	1.2	-1.2	-0.1	-1.4	-1.1

Sources: CSO, Financial Statistics; MMSO, Financial Statement and Budget Report, The Government's Expenditure Plans; and staff calculations.

1/ Based on Autumn Statement, November 1985.

2/ General government.

3/ Treats sales of assets as financing rather than negative expenditure.

4/ Revenue is cyclically neutral if its ratio to actual GDP is the same as in the base year (1978/79). Cyclically neutral expenditure (net of unemployment benefits) maintains the same ratio to potential GDP as base year, and adds actual (or projected) unemployment benefit. Potential GDP equals actual GDP in 1978/79 and grows thereafter at a rate derived by adding 2 percent to the actual increase in the GDP deflator.

5/ Treats oil and gas revenue as cyclically neutral.

6/ Cyclical effect is the difference between the cyclically neutral balance and the actual fiscal balance. Change (from previous year) in the cyclical effect indicates the net (expansionary or contractionary) impulse of fiscal policy.

7/ Adjusted for the impact of price increases on outstanding government debt.

DRAFT IMF REPORT





FROM Chris Allen

DATE 31 January 1986

PS/Chancellor

cc Sir Peter Middleton  
Mr Cassell  
Mr Evans  
Mr Odling-Smee  
Miss Pierson  
Mr Riley  
Mr Powell

PUBLIC SECTOR FINANCIAL DEFICIT

I enclose an updated table to be attached to Sir Terence Burns' note circulated today. The figures have been updated on the basis of the latest forecast. A revised text table is also attached.

Chris Allen

PS/Chief Economic Adviser



## CONFIDENTIAL

PSBR and PSFD

	<u>PSBR</u>		<u>PSFD (accrued)</u>		<u>PSFD cash)</u>	
	£bn	%GDP	£bn	%GDP	£bn	%GDP
1971-72	1.0	1.6	0.7	1.1	0.6	1.1
72-73	2.4	3.6	2.0	3.0	2.0	3.0
73-74	4.3	5.8	3.5	4.6	4.0	5.3
74-75	8.0	9.0	6.0	6.7	6.7	7.6
75-76	10.3	9.3	8.1	7.4	8.6	7.8
76-77	8.3	6.4	7.4	5.8	7.8	6.0
77-78	5.4	3.6	6.6	4.4	7.2	4.7
78-79	9.2	5.3	8.5	4.9	9.3	5.4
79-80	10.0	4.8	8.2	3.9	10.3	5.0
1980-81	12.7	5.4	11.9	5.1	12.9	5.5
81-82	8.6	3.3	5.9	2.3	7.3	2.8
82-83	8.9	3.1	8.6	3.0	8.4	3.0
83-84	9.7	3.2	12.3	4.0	12.2	4.0
84-85	10.1	3.1	14.4	4.4	14.0	4.3
1985-86	6.8	1.9	9.8	2.7	9.8	2.8
1986-87	7.6	2.0	11.7	3.1	12.1	3.2
87-88	7.1	1.75	11.3	2.8	11.8	2.9
88-89	7.6	1.75	12.2	2.8	12.2	2.8

## REVISED TEXT TABLE

	PSBR	PSFD (accrued)	PSFD (cash)	% of GDP
1979-80 to 1980-81	5.1	4.5	5.2	
1981-82 to 1984-85	3.2	3.2	3.5	
1985-86 to 1988-89	1.9	2.9	2.9	



*Blaming on me  
no substantial margins of  
error, I do not want to  
estimate PSBR  
1985-86  
figures as turning out  
what the original 1985 Budget  
figures we know  
really is.*

CONFIDENTIAL & PERSONAL

FROM: MISS M E PEIRSON  
DATE: 31 January 1986

CHANCELLOR

*Ch*  
*In these over easy,*

*understood can cause  
trouble too, especially if people  
are worried about life and the  
economy showing down. (There was also a curious argument  
last time that happened to the effect that we  
should reduce the very year's PSBR - to  
change a declining profile!) Ke. 31/1*

cc Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Evans  
Mr Peretz  
Mr Scholar  
Mr Devereux  
Mr Powell  
Dr Webb

PSBR: MONTHLY PROFILE IN 1985-86

1. I attach a chart (chart 1) showing the latest forecast monthly profile of the PSBR in 1985-86. It is consistent both with the outturn profile to December put forward two weeks ago and with the annual forecast circulated yesterday.
2. For comparison the Budget profile is shown as well.
3. Chart 2 attached compares the latest forecast profile for 1985-86 with the 1984-85 outturn.
4. The new forecast CGBR(0) for January is based on near-outturn figures.

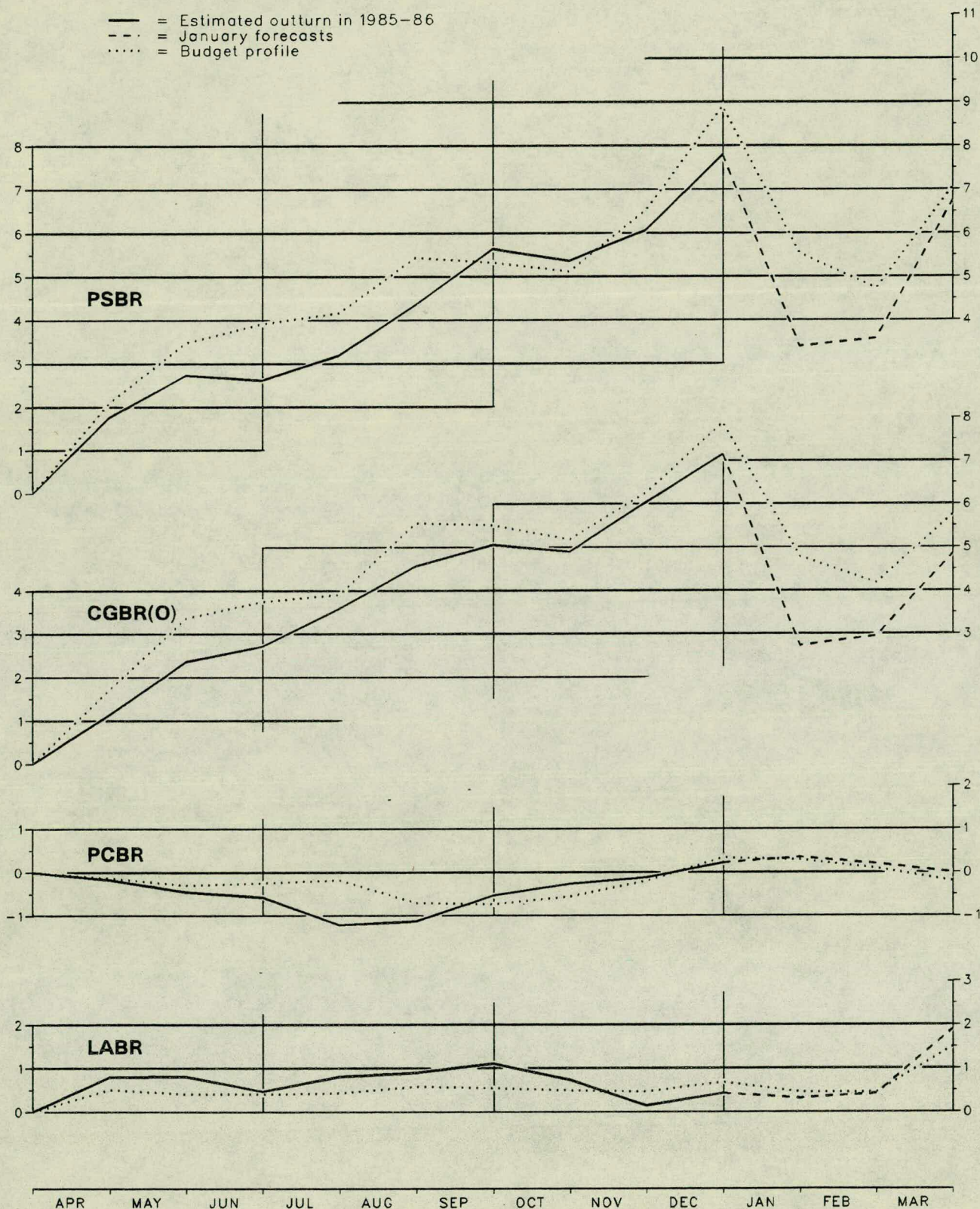
*M E P*

MISS M E PEIRSON



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

£ billion cumulative





CONFIDENTIAL AND PERSONAL

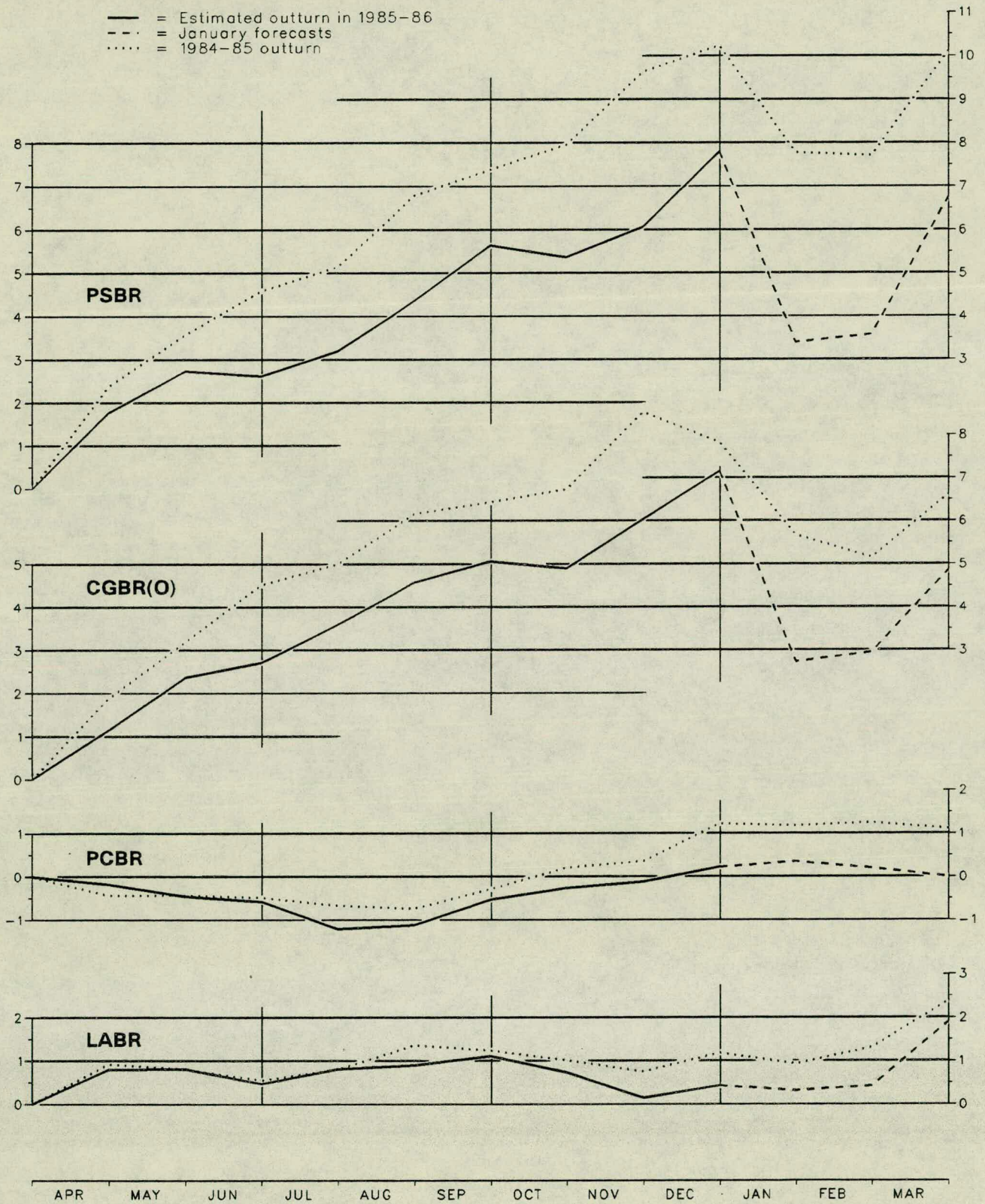
CONFIDENTIAL AND PERSONAL



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

£ billion cumulative

- = Estimated outturn in 1985-86
- - - = January forecasts
- ..... = 1984-85 outturn





CONFIDENTIAL AND PERSONAL

CONFIDENTIAL AND PERSONAL



CONFIDENTIAL

From: K F MURPHY  
Date: 3 February 1986

ywp

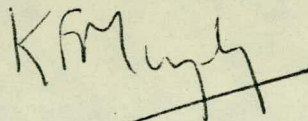
MISS PEIRSON

cc PPS  
Sir T Burns  
Mr Cassell  
Mr H Evans  
Mr Scholar  
Mr Peretz  
Mr Devereux  
Mr Powell  
Dr Webb

PSBR: MONTHLY PROFILE IN 1985-86

Sir Peter Middleton has seen a copy of your note of 31 January.

2. He would be grateful if you could let him have similar charts for each of the last 3 years including, in each case, not just the Budget profile but also the summer forecast.



K F MURPHY  
Private Secretary



CONFIDENTIAL

*X of Summary  
Analysis. Don on 1986/87?  
affair forecast for 1986/87?  
3326 9) ?  
When will  
Fes PSBR (forecast)  
Impacted for Budget.*

FROM: R DEVEREUX  
DATE: 4 February 1986

MISS PEIRSON  
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(O) & CGBR IN JANUARY**

1. The provisional outturn for the CGBR(O) in January is a surplus of £4.7 billion. This is broadly consistent with the forecast for 1985/6 as a whole which was circulated last week (the January surplus is £0.3 billion higher than that shown in the charts sent to you on 31 January, but this is thought to be largely due to timing). The estimate of the outturn is subject to revision before publication on Tuesday 18 February.

2. In the first 10 months of 1985/6 the CGBR(O) was £2.5 billion, £2.3 billion below the Budget profile and much lower than in the first ten months of 1984/5 (£5.7 billion), 1983/4 (£6.3 billion), and 1982/3 (£5.2 billion). The difference from the Budget profile reflects higher Customs and Excise receipts (mainly VAT), higher interest receipts and lower supply expenditure, all of which are only partly offset by lower oil royalties and somewhat lower Inland Revenue receipts. (The latter is mainly PRT, but is offset by a surge in other Revenue taxes in January which were £¾ billion higher than the Budget profile.)

3. On-lending to local authorities and public corporations totalled £0.6 billion in January. The CGBR in January was therefore a surplus of £4.1 billion, bringing the total borrowing since 1 April 1985 to £7.6 billion.

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

R J DEVEREUX



CONFIDENTIAL

## CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	January 1985	April 1985-January 1986			April 1984 - January 1985
	Provisional outturn	Provisional outturn	Budget profile	Difference	Outturn
Inland Revenue	+ 10.5	+ 46.5	+ 46.9	- 0.4	+ 40.7
Customs and Excise	+ 3.1	+ 31.0	+ 30.0	+ 1.0	+ 28.9
Other own account	- 8.8	- 80.0	- 81.7	+ 1.7	- 75.3
CGBR(O)	+ 4.7	- 2.5	- 4.8	+ 2.3	- 5.7
On-lending:					
- LAs	- 0.3	- 3.8	- 1.6	- 2.2	- 2.2
- PCs	- 0.3	- 1.3	- 0.9	- 0.5	- 0.2
CGBR	+ 4.1	- 7.6	- 7.3	- 0.4	- 8.0

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

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

CONFIDENTIAL



FROM MISS M E PEIRSON  
DATE 6 February 1986

SIR P MIDDLETON

*psr let me know  
when the work  
is done*

cc PPS ✓  
Sir T Burns  
Mr Cassell  
Mr H Evans  
Mr Scholar  
Mr Peretz  
Mr Devereux  
Mr Powell  
Dr Webb

*Please -  
(I have already asked)*

**PSBR: MONTHLY PROFILES**

You asked to see charts for each of the last 3 years showing the Budget profile and summer forecast as well as outturn.

2. Since monthly profiles for the PSBR only began in November 1982, there is nothing for 1982-83. I attach for the subsequent 3 years charts showing Budget profile, June forecast, January forecast and outturn.

M E PEIRSON

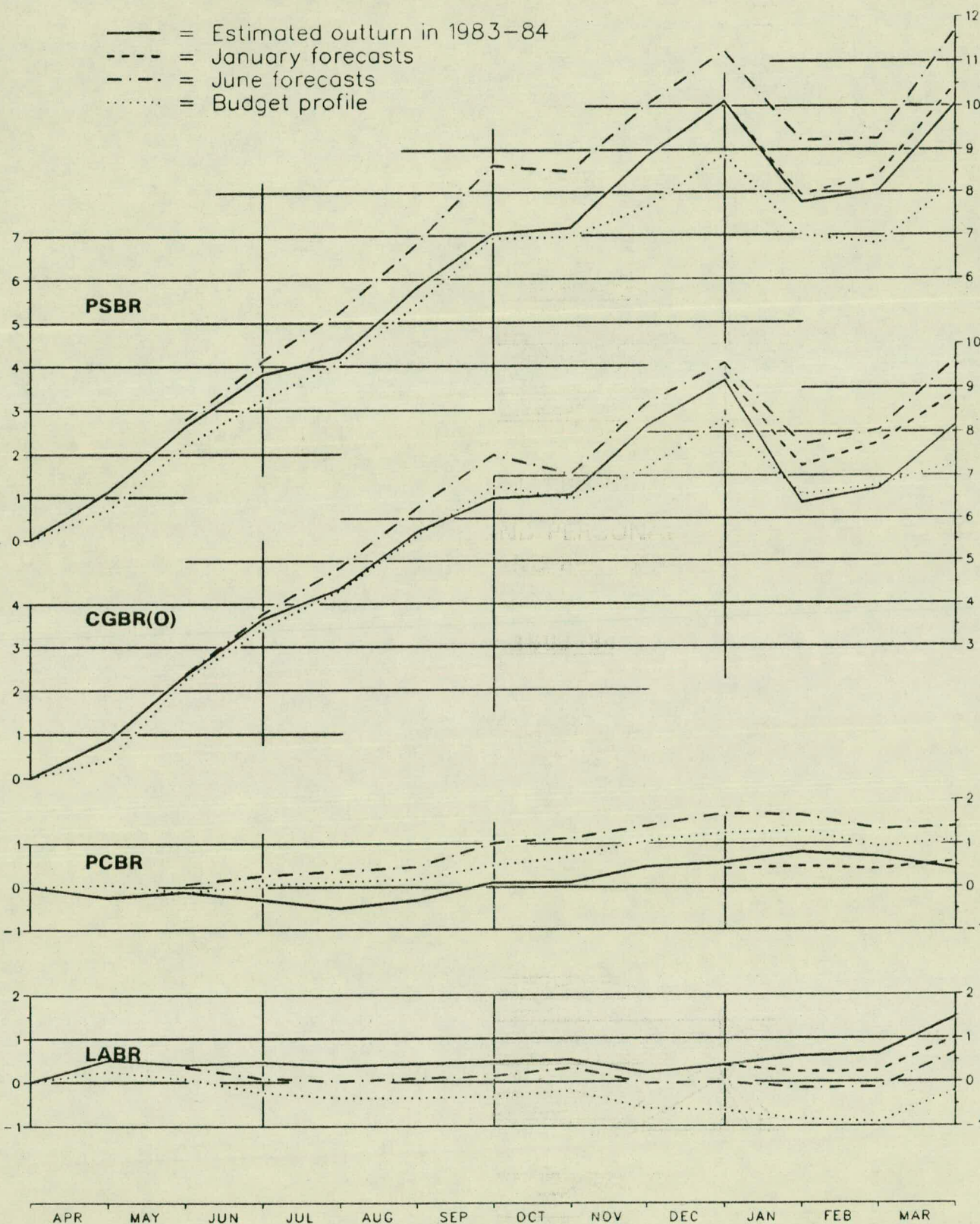
*Copy -  
Gordon Peirson  
Carter -  
Lima*



**Chart 1 : Outturn and profiles for 1983-84**

£ billion cumulative

- = Estimated outturn in 1983-84
- - - = January forecasts
- · - · = June forecasts
- = Budget profile



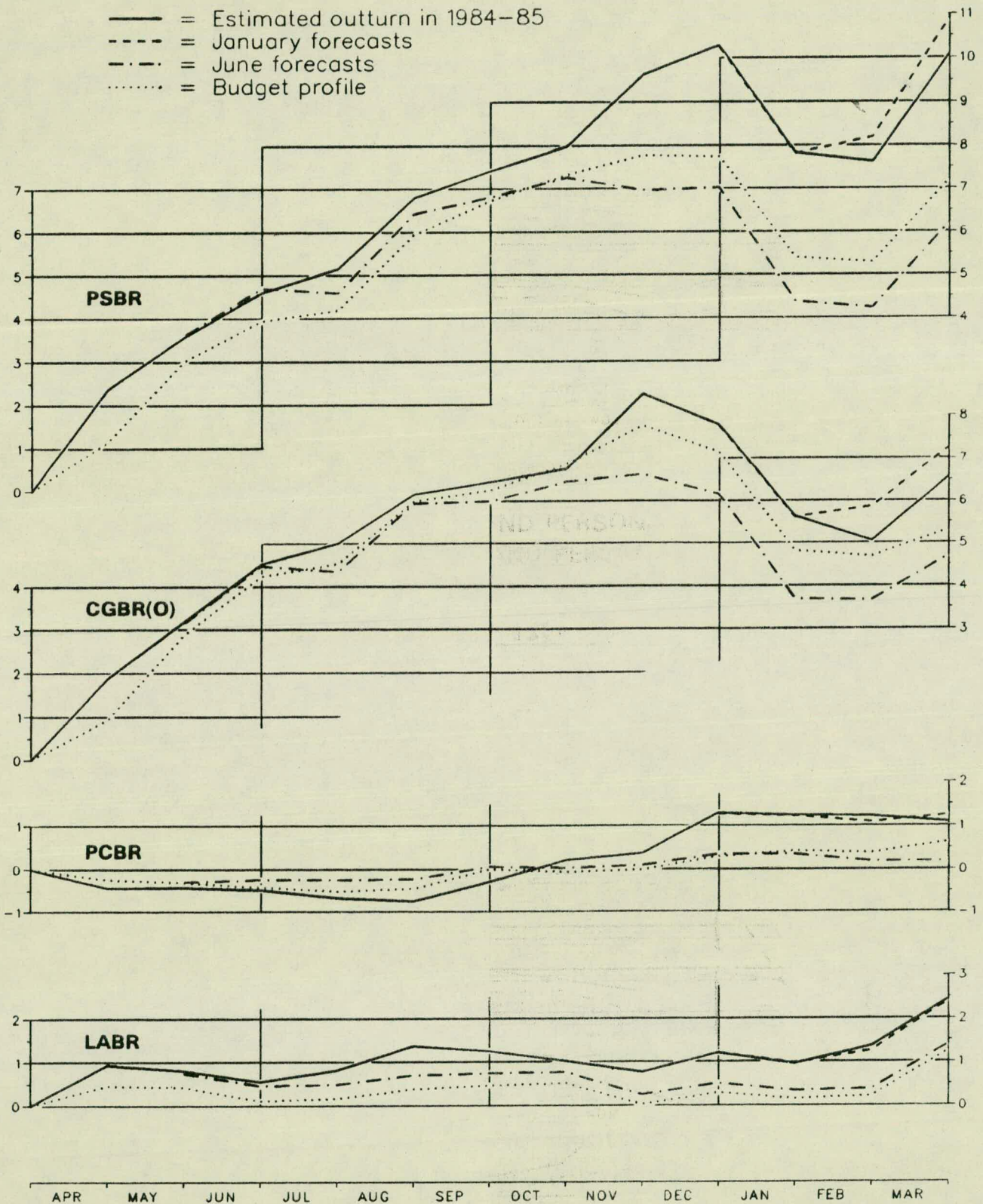
*PSBR in 1983-84 is an old definition.*



**Chart 2 : Outturn and profiles for 1984-85**

£ billion cumulative

- = Estimated outturn in 1984-85
- - - = January forecasts
- · - · = June forecasts
- = Budget profile

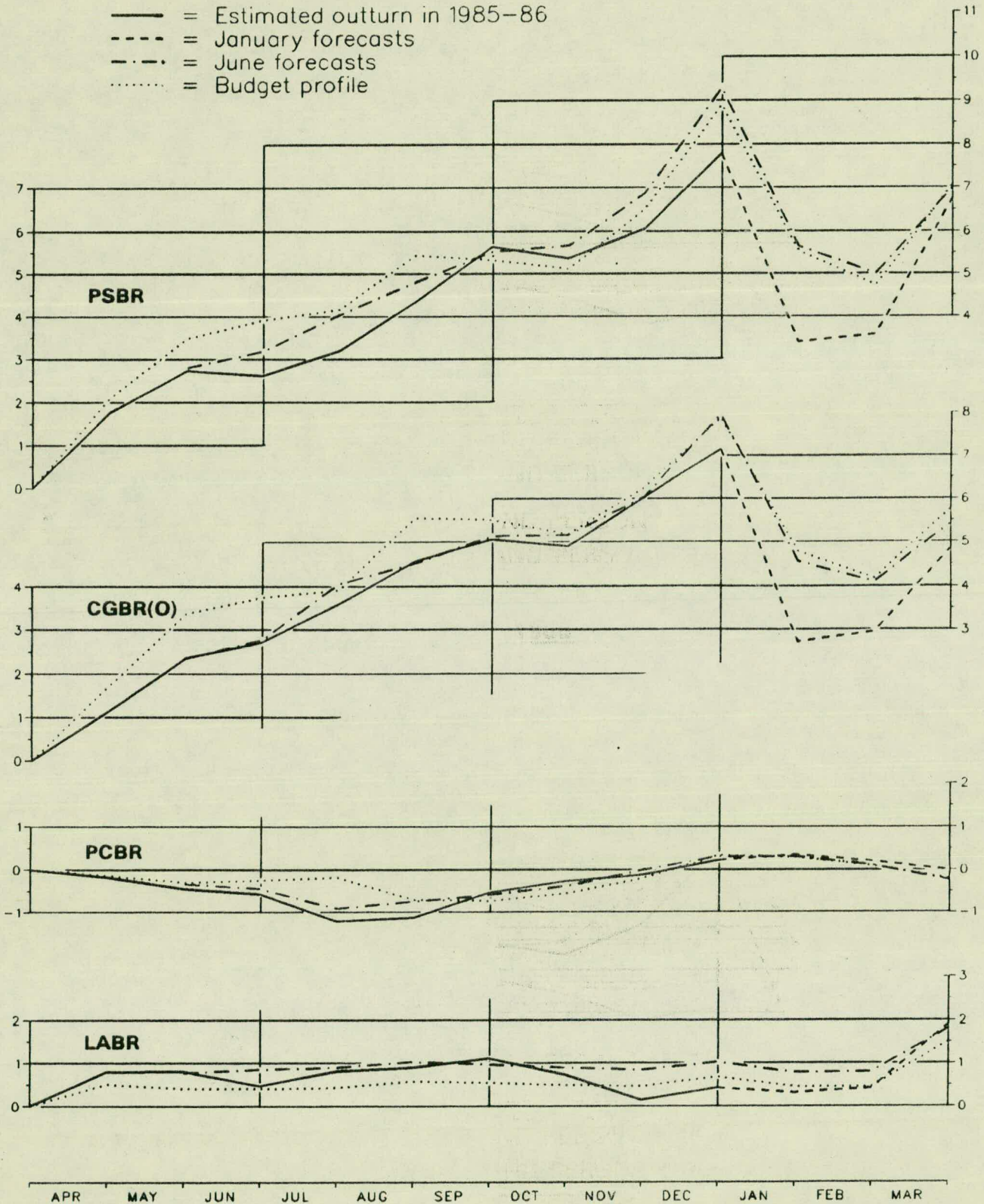




**Chart 3 : Outturn and profiles for 1985-86**

£ billion cumulative

- = Estimated outturn in 1985-86
- - - = January forecasts
- · - · = June forecasts
- = Budget profile





CONFIDENTIAL

FROM: MISS M E PEIRSON  
DATE: 10 February 1986

CHANCELLOR

cc Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr H P Evans  
Mr Peretz  
Mr Scholar  
Mrs R Butler  
Mr Devereux  
Mr Macafee  
Mr Powell  
Dr Webb

**CGBR(O) IN 1985-86, AND FEBRUARY PSBR**

1. You enquired about the difference between the Budget profile for the CGBR(O) up to January and the provisional outturn, and whether it affected the forecast for 1986-87. You also asked when you would first see the February PSBR. (Mrs Lomax' minute of 5 February to Mr Devereux.)

**CGBR(O)**

2. The difference in the CGBR(O) is accounted for as follows:-

**April 1985-January 1986, £bn**

	1985 FSBR	Outturn	Difference	Comment
Oil revenues	11.3	9.8	- 1.4	
Other IR receipts	37.6	38.4	+ 0.8	Partly onshore company taxes, capital taxes, stamp duty.
C & E receipts	30.0	31.0	+ 1.0	Mainly VAT.
EC refund	-	0.6	+ 0.6	Earlier timing.
Supply expenditure (excl. onlending) (incr-)	-80.8	-79.7	+ 1.1	Offset within planning total by increase in other expenditure, eg affecting LABR and PCBR.
Other	- 2.9	- 2.6	+ 0.3	More than accounted for by higher interest receipts.
<b>CGBR(O)</b>	<b>- 4.8</b>	<b>- 2.5</b>	<b>+ 2.3</b>	



CONFIDENTIAL

3. Some of this difference is expected to reverse in February and March. The EC refund was originally forecast for March, and has simply come in earlier; some of the very high Inland Revenue receipts in January is thought to be similarly due to earlier timing; and a further £0.4 bn worsening of oil revenues compared with the Budget is expected in the last two months of the year.

4. However, the CGBR(0) for the whole year is still expected to be substantially lower than the Budget forecast: by at least the £0.9 bn quoted in the January forecast and quite probably rather more.

5. The lower CGBR(0) in 1985-86 does affect the forecast for 1986-87. But most of the effect was included in the January forecast, which specifically allowed for the carrying-through into 1986-87 of the increases in expenditure taxes and capital taxes in 1985-86 (see report on public sector finances, page 50). The outturn for January is expected to have only a small further effect on the latest forecast for 1986-87.

February PSBR

6. We would normally get the provisional outturn of the February PSBR on Tuesday 11 March, but we shall ask CSO, Bank and DOE to make a special effort. Then, if nothing goes wrong (eg with LAs' returns), we hope to let you have a preliminary estimate in the evening of **Monday 10 March**. The CGBR will of course be available earlier (4 March).

7. However, the February PSBR will as you know only go some of the way towards reducing the uncertainty over the PSBR for the year, since the PSBR in March is such a very uncertain figure.

*MEP*

MISS M E PEIRSON



FROM: MISS M E PEIRSON  
DATE: 11 February 1986

- 1. MR CASSELL
- 2. CHANCELLOR

*Not seen*

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

*This will cause  
Smart  
stimulation when  
published. I will  
not ~~publish~~ need  
to B see the  
program  
Ged A, etc - in  
my work box.*

**PSBR IN JANUARY**

1. The first provisional outturn for the PSBR in January is a repayment of £4.5 billion; ie about the same as in the charts produced following last month's Economic Forecast (see table attached). It is much larger than available market forecasts, which are for repayments of £1¼-2½ billion. Our estimate is subject to revision before publication at 2.30 pm on Tuesday 18 February.
2. The CGBR(0) was a surplus of £4.6 billion, much as reported in Mr Devereux's minute of 4 February. The PCBR also showed a very small repayment; the undershoot of £0.2 billion compared with last month's forecast was due mainly to a larger than expected repayment by Electricity. The LABR, however, showed small net borrowing, instead of the forecast small repayment.
3. In the first 10 months of 1985-86 the PSBR was provisionally £3.2 billion, £2.4 billion below the Budget profile. The undershoot of £2.1 billion on the CGBR(0) was explained in my submission of yesterday (using slightly earlier figures). The undershoot on the PCBR (by £0.3 billion) is due to Steel. The LABR, however, has crept back just above the Budget profile.
4. For comparison, the PSBR in the first 10 months of 1984-85, 1983-84 and 1982-83 was £7.8 billion, £7.1 billion and £5.1 billion, respectively.
5. The monthly note, presenting updated estimates for January and forecasts for the rest of 1985-86, will be circulated next Monday.

*M.E.P.*

MISS M E PEIRSON



## CONFIDENTIAL &amp; PERSONAL

£ billion

	January 1986			April-January 1985-86			April- January 1984-85
	Provisional outturn	Last month's forecast *	Difference	Provisional outturn	Budget profile	Difference	Outturn
CGBR(O)	- 4.6	- 4.4	- 0.2	2.7	4.8	- 2.1	5.7
LABR	0.1	- 0.1	+ 0.2	0.5	0.5	0.1	0.9
PCBR	-	0.1	- 0.2	-	0.3	- 0.3	1.2
PSBR	- 4.5	- 4.4	- 0.1	3.2	5.5	- 2.4	7.8

\* Forecast used in chart following January Economic Forecast.

CONFIDENTIAL &amp; PERSONAL



COVERING CONFIDENTIAL & PERSONAL

*I have done so - significant -  
of all changes and controlled.*

*Clay*  
The main message  
could come across more  
strongly

FROM: MISS M E PEIRSON  
DATE: 14 February 1986

PPS/CHANCELLOR

*Re. 14/2*

cc Mr Cassell  
Mr Clark

**DRAFT PRESS BRIEFING ON PSBR IN JANUARY**

1. As requested in your minute of 12 February, I attach the draft press briefing on the PSBR in January, for the Chancellor to see over the weekend.

2. The press notice will be published on Tuesday, at 2.30 pm as usual. Given the impact the January outturn will most probably make, and the fact of PM's questions that afternoon, the Chancellor may wish No 10 to have a copy of the final press briefing the evening before (Monday 17th) rather than on the morning of publication as usual. If so, we would need to have the Chancellor's comments in the course of Monday please.

*MEP*

MISS M E PEIRSON



CONFIDENTIAL AND PERSONAL  
(DRAFT)

From: JOHN CLARK  
18 February 1986

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 February)

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

**DRAFT BRIEFING FOR 18 FEBRUARY PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for January will be published at 2.30pm on 18 February. The provisional outturns, together with figures for the first ten 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-Jan 1984-85	Apr-Jan 1985-86	January 1986
Central government on own account	5.7	2.7	-4.6
Local authorities	0.9	0.5	0.1
Public corporations	1.2	-	-
PSBR	7.8	3.2	-4.5
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	8.0	7.7	-4.1

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	-0.5	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	4.4
Sep	6.6	6.4	5.1	0.3	1.2	1.1	-0.0	-0.3	-0.6	6.9	7.4	5.6
Oct	6.7	6.7	4.9	0.3	1.0	0.7	0.1	0.2	-0.4	7.1	8.0	5.3
Nov	8.3	8.5	6.1	-0.2	0.8	0.1	0.5	0.4	-0.3	8.5	9.6	6.0
Dec	9.1	7.8	7.3	0.1	1.2	0.4	0.6	1.2	-0.0	9.8	10.2	7.7
Jan	6.3	5.7	2.7	0.0	0.9	0.5	0.7	1.2	-0.0	7.1	7.8	3.2
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)

CONFIDENTIAL AND PERSONAL  
(DRAFT)



2. The (provisional) PSBR for January is a net repayment of debt of £4.5 billion. This is a far higher repayment than forecast by City analysts (£1¼-2½ billion, with an average of about £2¼ billion).

POSITIVE

Line to take

1. Borrowing in first ten months of 1985-86 was £3.2 billion. That is £4.6 billion lower than in first ten months of 1984-85. But comparisons between these two periods are distorted by several factors, e.g. timing of EC receipts, effects of coal strike.

2. Autumn Statement forecast for whole year was £8 billion, with margin of error of £2½ billion either way, giving range of £5½ - 10½ billion. There are always high tax receipts in

January and high borrowing at the end of the year, *and this year March ~~revenue~~ borrowing will be further increased by first effects of loan on revenues.*  
*No call at this stage to amend Autumn Statement forecast.*

3. Wrong to draw conclusions for outcome for full year at this stage. Further forecast will be given in Budget.

*Failure to  
reference  
since Dec  
down-rates  
85-86.  
with enough  
revenue as would  
be felt under  
branch*

DEFENSIVE/FACTUAL

1. Borrowing in 1985-86

Line to take

Non-oil revenues are buoyant. VAT receipts have been particularly buoyant, along with onshore company taxes and other receipts. However, some of high January tax receipts result merely from payments made earlier than usual. Little effect on oil revenues in

1985-86 from drop in oil prices since December, *but carbon tax referred to in Autumn Statement will be reflected in reduced receipts in March.*

Always high borrowing at end of year; ~~in last 2 months of 1984-85, 1983-84 and 1982-83 PSBR was £2.3, £2.6 and £3.8 billion respectively.~~ *but this year likely to be exacerbated by lower March oil revenues.*

*1985/86*  
*1985/86*



## 2. Borrowing in January

### Background

The PSBR in January normally shows a large net repayment of debt, owing to seasonally high tax receipts. January 1986 surplus of £4½ billion unusually favourable – repayment in January of previous 6 years has been £2 – 2¾ billion.

### Line to take

Comparisons of single months are misleading because of changes in the seasonal pattern of borrowing and erratic influences. For example, more of seasonal Inland Revenue flow seems to have come in January this year rather than later (see Q3), and January this year benefitted from EC rebate (see Q6). Lower oil revenues (compared with Budget forecast) will not be felt in full until March (see Q4).

## 3. Inland Revenue receipts

### Background

Total Inland Revenue receipts in January were £10½ billion, compared with £8.2 billion in January 1985 and £7.9 billion in January 1984. Total for April–January 1985–86 was £46½ billion, 14¼ per cent higher than over the same period last year. 1985 Budget forecast for 1985–86 was for receipts of £56.2 billion, up 11½ per cent on 1984–85.

### Line to take

Receipts in January very high compared with January of previous years, owing mainly to higher corporation tax receipts. Composite rate tax receipts from building societies also high.

Comparisons of single months are misleading: some receipts in January were earlier than in previous years (last year in particular some assessments were delayed, and interest penalty for late payment is now 11 per cent compared with 8 per cent last year).

Higher corporation tax receipts in first ten months (by £2¾ billion compared with same period last year) partly reflects higher company profits in 1984, and partly earlier payments.

Revised forecast for 1985–86 will be given in Budget.



#### 4. Oil Revenues : effect of fall in dollar price

##### 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 1985 Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined largely by prices and production up to June 1985. Revenues in March 1986 determined largely by what happened in July-December 1985. Fall in dollar price since December affects deliveries in January 1986 onwards and hence will have little effect on revenues in 1985-86.

##### Line to take

*reverse order?*  
*+ explanation*

~~Lower oil revenues (than Budget forecast) have been affecting Inland Revenue receipts, though full effect of Autumn Statement revision will not be felt until March. Fall in oil price since December has little effect in 1985-86, because revenues up to end-March depend largely on average prices and production up to end-December.~~

*sharp*  
*But earlier fall reported to in Autumn Statement will be reflected in reduced receipts in March.*

#### 5. Customs and Excise receipts

##### Background

Customs and Excise receipts in January were £3.1 billion. Total for April-January 1985-86 (£31 billion) was 7 per cent higher than over the same period last year. 1985 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 tax receipts expected higher than in Budget forecast.

##### Line to take

As noted in Autumn Statement, receipts in 1985-86 as a whole now expected to be greater than in 1985 Budget forecast, because of higher expenditure tax receipts. Increase in first ten months (compared with same period last year) is significantly distorted by change in VAT on imports in 1984-85.

Revised forecast for 1985-86 will be given in Budget.



## 6. EC refunds and abatements

### Line to take

1984 rebate of 1000m ecus (about £600 million) received by 6 January 1986: of this, £439 million was received in January (the rest was in December). (All the money received in January was new, i.e. it was not already sitting in the EC No. 1 account. So it all benefitted the PSBR in that month.)

Arrangements in respect of 1985 and subsequent years are different, and from January 1986 are reducing UK monthly contributions; abatements in January and February each about £70 million (based on 1986 budget figure of 1400m ecus).

Total reduction in PSBR in January was therefore about £½ billion.

## 7. Effect of higher interest rates

### Line to take

This will increase some costs but also some receipts. Only small net effect in current year.

## 8. Supply Expenditure

### Background

For the first ten months of 1985-86, Supply expenditure (the amount spent by departments), shown in table 4 of press notice, was about 6½ per cent higher than in first ten months last year. After adjusting for changes in method of paying EC contributions, the increase is 6 per cent. PEWP forecast is that planning total in 1985-86 will be fully spent, representing 3½ per cent increase on 1984-85, but Supply has different coverage from planning total (eg the latter includes privatisation proceeds, LA expenditure other than CG grants to LAs, and PCs' market borrowing), and other elements in planning total move differently.

(The comparable year-on-year rise for Supply services in the period April to January was about 7 per cent. Supply services, shown in table 3 column 6, represent issues to



departments from the Consolidated Fund. The difference between Supply expenditure and Supply services is explained in paragraph 4 of Notes to Editors.)

Line to take

Increase in supply expenditure in April-January (after adjustment for change in method of paying EC contributions) is 6 per cent above same period of 1984-85. The April-January outturn is consistent with PEWP forecast for planning total in 1985-86 as a whole: Supply has different coverage from planning total.

## **9. Privatisation proceeds**

Background

Budget forecast for total receipts from central privatisation proceeds in 1985-86 was £2.5 billion - increased to £2.6 billion in PEWP. 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 delay in sale has no effect on the PSBR, or privatisation proceeds.

Line to take

No receipts in January. Total net receipts for first ten months of 1985-86 about £2¼ billion, some £¼ billion more than over the same period last year. Second call on sale of residual shareholding in Cable and Wireless will realise net receipts of about £300 million in March.

## **10. Local authorities**

Background

Preliminary estimate is that local authorities borrowed £0.1 billion in January, bringing total net borrowing to £0.5 billion in April-January 1985-86, about £0.4 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

January outturn somewhat higher than the amount local authorities normally borrow in January. But it follows three months when they borrowed significantly less than in the past. Cumulative borrowing April-January 1985-86 (£0.5 billion) well within range of outturns in same period of previous three years. (Average LABR for whole year in previous three years was £1¼ billion.) Borrowing probably reduced somewhat so far this year by delay in teachers' pay settlement.

**11. Public corporations**

Background

Public corporations (provisionally) showed a small net repayment of debt in January, giving net borrowing close to zero for first ten 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. (The later months of 1984-85 were affected by the miners' strike). Quarterly data from banks has reduced estimated outturn for first 3 quarters of 1985-86 by £¼ billion. (Net effect of revisions on PSBR only half that amount.)

John Clark (ext 3093)  
PSF Division, HM Treasury



FROM: MISS M E PEIRSON  
DATE: 17 February 1986

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 February)

Sir P Middleton  
Sir T Burns  
Mr H Evans  
Mr Peretz  
Mr Scholar  
Mr L Watts  
Mr Devereux  
Dr Webb

Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr F E R Butler  
Mr Moore  
Mr Odling-Smee  
Mr Turnbull  
Mrs Butler  
Mr Mowl

Miss O'Mara  
Mr Walsh  
Mr Williams  
Mr Powell  
Mr Cropper  
Mr H Davies  
Mr Lord  
Mr Wells - CSO  
Mr Calder - IR  
Mr Wilmott - C & E

*copy*  
*copy to Norgrove*  
*above the headline news -*  
*16-6/2 on expectation*  
*for 1985-86. Rh. 17/2*

#### MONTHLY NOTE ON THE PSBR

1. I attach a report on the PSBR outturn for January. This outturn will be published by press notice at 2.30 pm tomorrow, 18 February. I also attach the press briefing, amended in the light of the Chancellor's comments.

2. The internal report includes forecasts for February and March. The forecast PSBR for the whole year 1985-86 is now lower than in the January forecast, because:-

(a) Inland Revenue non-oil receipts are £0.3 bn higher, as a result of the high January receipts (the effect is spread thinly over several taxes);

(b) supply expenditure is £0.1 bn lower, because an advance in March to the EC seems unlikely;

(c) local authority borrowing is £0.1 bn lower: a high forecast from the Borrowing Intentions Survey is more than offset by the revised assumption that teachers' back pay will be paid in 1986-87;

(d) public corporations' borrowing is £0.1 bn lower, because of improved performance by Steel.

*M E P*

MISS M E PEIRSON



## PUBLIC SECTOR BORROWING

### Summary

- The PSBR for January is provisionally estimated as a net repayment of debt of £4.5 billion, compared with the December forecast of a net repayment of £2.6 billion. About half the difference is, however, expected to be reversed by the end of 1985-86.
- The £2 billion higher surplus on central government own-account in January was mainly due to higher Inland Revenue receipts, earlier receipt of the 1984 EC refund and lower supply expenditure. Much of the difference was due to timing.
- Borrowing in the first ten months of 1985-86 (£3.2 billion) was £2.4 billion lower than the Budget profile (Chart 1) and £4.6 billion lower than over the same period last year (Chart 2).
- The PSBR in 1985-86 now looks like being in the area £6-6½ billion, compared with the Budget forecast of £7.1 billion, but there is still a wide margin of error in this estimate. Central government own-account borrowing is forecast £1¼ billion lower, partly offset by higher local authority borrowing.

---

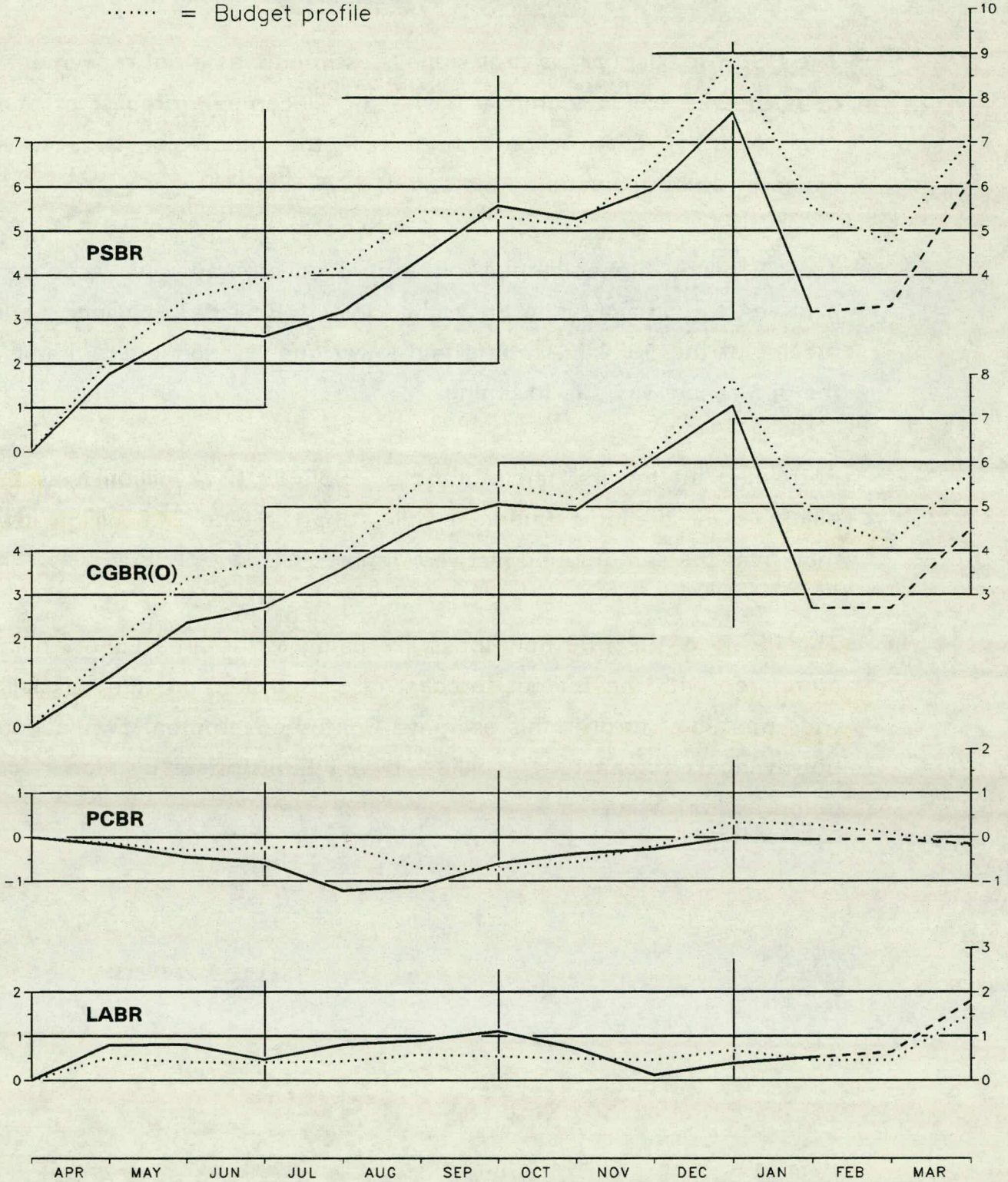
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.



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

£ billion cumulative

- = Estimated outturn in 1985-86
- - - = Latest forecasts
- ..... = Budget profile

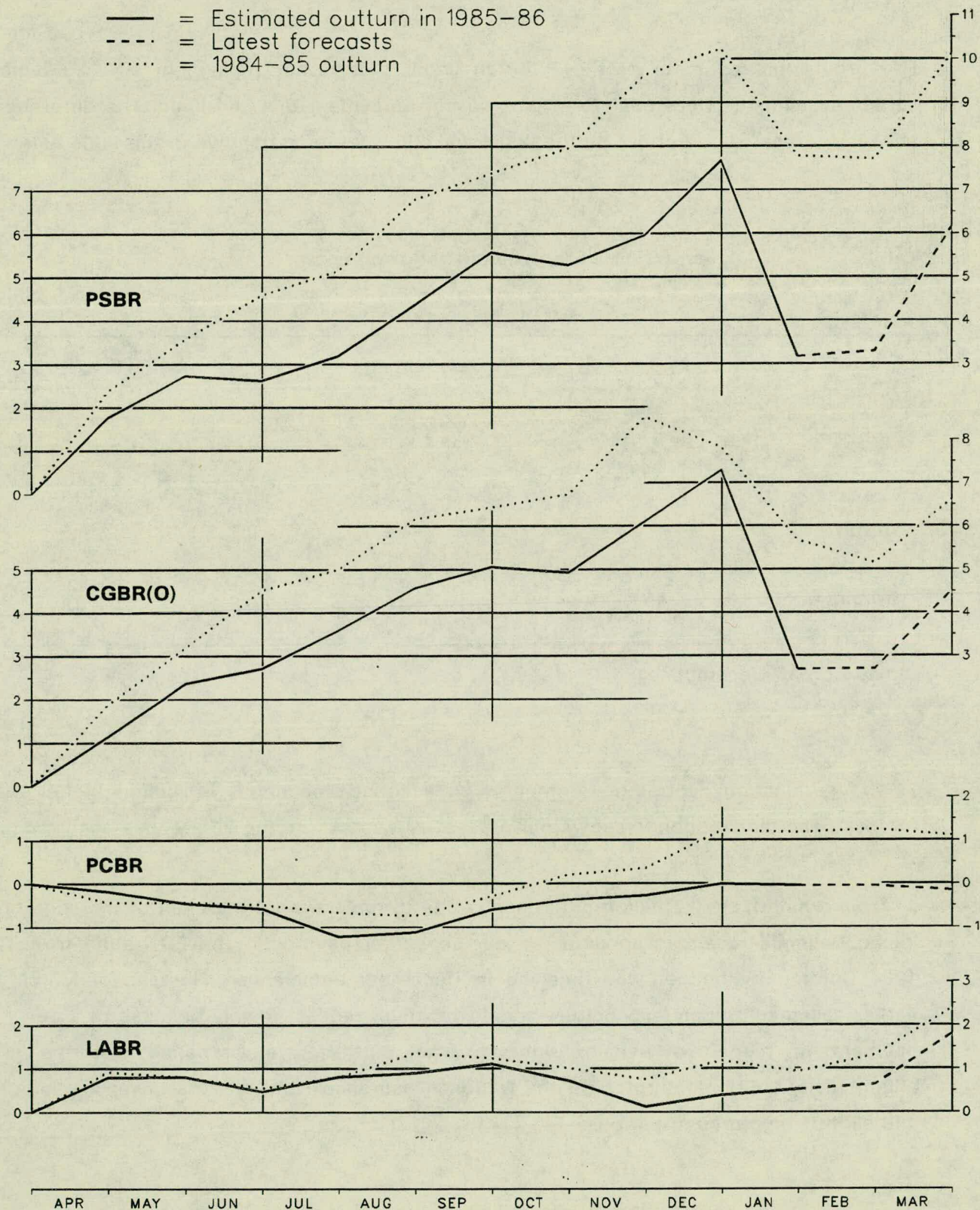




**Chart 2 : Comparisons with last year's outturns**

£ billion cumulative

- = Estimated outturn in 1985-86
- - - = Latest forecasts
- ..... = 1984-85 outturn





**Borrowing in January**

(Comparisons in this section are with December's forecast)

The provisional estimate of the PSBR in January is a net repayment of £4.5 billion, compared with the December forecast of a net repayment of £2.6 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: January 1986 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	-2.6	-2.6	-0.1	0.1
Outturn	-4.5	-4.6	0.1	-
Difference	-1.9	-2.0	0.2	-0.1

\*made on 16 December

2. The surplus on central government own account was about £2 billion higher than forecast. The table opposite shows our present view of where the differences occurred.

3. Around half of the £2 billion difference is due to timing. More than half of the additional Inland Revenue receipts appear to be due to earlier payments. The EC refund from the 1984 Community budget was received in December and January, instead of March as earlier assumed. Supply expenditure was lower than forecast mainly because of a delay in payments in respect of pension rights of staff of the Royal Ordnance Factories (£0.2 billion). The additional surplus on the National Insurance Fund reflects lower expenditure and slightly higher contributions.



CONFIDENTIAL AND PERSONAL

£ billion ( - indicates lower borrowing)

---

Inland Revenue receipts	-0.9
of which:	
earlier payments of Corporation Tax	-0.3
earlier payments by Building Societies	-0.2
higher PAYE	-0.1
higher composite rate tax by banks	-0.1
lower income tax repayments	-0.1
higher capital gains tax	-0.1
EC refund	-0.4
Supply expenditure	-0.3
NIF surplus	-0.2
Other	-0.2
Net effect on CGBR(0)	-2.0

---

4. Local authorities are provisionally estimated to have borrowed about £0.1 billion in January, compared with a forecast repayment of £0.1 billion and an average repayment in January over the past 5 years of £0.2 billion. The monthly pattern of borrowing so far this year has been unusually erratic; in five of the ten months so far in 1985-86, the LABR has fallen outside the range of borrowing for the equivalent month over the previous four years. This month's underestimation also follows three months of overprediction. However, over the year as a whole so far, the bias in the forecasts has been small.

5. Public corporations made a small net repayment in January, compared with forecast borrowing of £0.1 billion; most of the difference is accounted for by a higher than expected repayment by the Electricity Supply Industry, probably due to earlier timing.



**April to January**

(Comparisons in this section are with the Budget profile)

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

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	5.5	4.8	0.5	0.3
Outturn	3.2	2.7	0.5	-
Difference	-2.4	-2.1	0.1	-0.3

6. The cumulative PSBR for the first ten months of 1985-86 was £3.2 billion, about £2.4 billion below the Budget profile (see Chart 1 and Table 2). It is about £4.6 billion below the same period last year (Chart 2), which was affected by the coal strike and by higher LA capital expenditure.

7. Cumulative borrowing in April-January on central government own account was £2.1 billion lower than the Budget profile. Higher Customs and Excise receipts (by £1.0 billion, mainly VAT), lower supply expenditure (by £1.1 billion), higher non-oil Inland Revenue receipts (by £0.8 billion), and the earlier than expected receipt of the EC refund (£0.6 billion) were only partly offset by lower oil revenues (by £1.4 billion). The lower supply expenditure is mainly due to lower grants to the NCB and lower ECGD payments; the reduction is offset within the planning total by higher expenditure on LA capital (affecting the LABR), coal stock rebuilding (affecting the PCBR), and other items.

8. Local authorities borrowed £0.5 billion in the first ten months of 1985-86, in line with the Budget profile. The higher capital spending appears to have been offset so far by the delay in the teachers' pay settlement.



9. Public corporations made a small net repayment in April-January, compared with net borrowing of about £0.3 billion in the Budget profile. This is due mainly to lower net borrowing by the British Steel Corporation, which is expected to undershoot its EFL for the year. (The Electricity Industry made a smaller net repayment in April-January than in the Budget profile, because of higher coal stock rebuilding.)

### February and March

10. Borrowing in the final two months of 1985-86 is expected to total £3 billion. This is £1½ billion more than in the Budget profile, principally because of higher borrowing on central government own account (see paragraph 13).

11. Table 5 shows the latest detailed profile of borrowing on central government own account for February and March. A comparison with the Budget forecast for the whole of 1985-86 and with the 1984-85 outturn is presented in Table 6.

12. The forecast of the CGBR(0) for February-March is over £¾ billion higher than the Budget profile, only partly offsetting the lower borrowing in April-January. Inland Revenue receipts in February and March are expected to be £0.4 billion lower than in the Budget profile, despite a generally higher level of non-oil receipts, partly because of lower oil revenues and partly because of the advance of receipts into January (see paragraph 3). The EC refund (£0.6 billion) received in December/January was assumed in the Budget profile to come in March.

13. The monthly path of the CGBR(0) is as follows;

- In February, the CGBR(0) is expected to be about zero. Inland Revenue receipts are still seasonally high, though much lower than January.
- In March, the CGBR(0) is forecast to be £1¾ billion. The surge in supply expenditure is forecast to be rather lower than in previous years, because of lower expected grant to the Coal Board, and is partly offset by the second call on Cable and Wireless (£¼ billion) and seasonally high oil revenues (£1¼ billion, despite the reduction compared with the Budget forecast).



14. Local authorities are forecast to borrow £1¼ billion over the next two months, almost all of it in March. This broadly follows the pattern of the past few years, when authorities have typically borrowed heavily, particularly in March, when virtually no rate income is received and expenditure is high. The March surge in borrowing has been remarkably stable in recent years at just over £1 billion. The DOE/CIPFA borrowing intentions survey, on the same assumption (now seeming most likely, that the teachers' back pay is not paid until 1986-87), suggests borrowing of about £1¼ billion in February and March, but in recent years the survey has consistently overestimated borrowing in these months, though the overestimation has been slowly diminishing and is assumed this year to be only about £½ billion.

15. Public corporations are forecast to repay less than £¼ billion in the next two months, compared with the Budget forecast repayment of £½ billion. The main difference is on the Electricity Supply Industry, which is now expected to make a smaller repayment, following the higher repayment in January.

#### 1985-86

16. For 1985-86 as a whole, the PSBR now looks like being in the area £6-6½ billion, compared with the Budget forecast of £7.1 billion.

17. The CGBR(O) is put £1¼ billion lower: the main factors are lower supply expenditure (by about £1¼ billion, excluding on-lending) and higher Customs and Excise receipts (mainly VAT), partly offset by lower Inland Revenue receipts (more than accounted for by lower oil revenues). The shortfall on supply, as it affects the planning total, is largely offset by higher local authority expenditure and other changes.

18. The LABR seems likely to be £¼ billion higher (on the still uncertain assumption that teachers' back pay is not paid until 1986-87), owing to higher capital expenditure. The PCBR is about the same, higher coal stock rebuilding by the Electricity Council being offset by better performance by the Steel Corporation.



CONFIDENTIAL AND PERSONAL

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

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1985-86								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>1.0</b>	<i>1.4</i>	<b>1.2</b>	<i>1.6</i>	-	<i>-0.1</i>	<b>-0.3</b>	<i>-0.2</i>
Jun	<b>-0.1</b>	<i>0.4</i>	<b>0.3</b>	<i>0.4</i>	<b>-0.3</b>	-	<b>-0.1</b>	<i>0.1</i>
Jul	<b>0.6</b>	<i>0.3</i>	<b>0.9</b>	<i>0.2</i>	<b>0.3</b>	-	<b>-0.6</b>	<i>0.1</i>
Aug	<b>1.2</b>	<i>1.3</i>	<b>1.0</b>	<i>1.6</i>	<b>0.1</b>	<i>0.2</i>	<b>0.1</b>	<i>-0.5</i>
Sep	<b>1.2</b>	<i>-0.1</i>	<b>0.5</b>	-	<b>0.2</b>	-	<b>0.5</b>	-
Oct	<b>-0.3</b>	<i>-0.2</i>	<b>-0.1</b>	<i>-0.3</i>	<b>-0.4</b>	<i>-0.1</i>	<b>0.2</b>	<i>0.2</i>
Nov	<b>0.7</b>	<i>1.4</i>	<b>1.2</b>	<i>1.1</i>	<b>-0.6</b>	-	<b>0.1</b>	<i>0.4</i>
Dec	<b>1.7</b>	<i>2.4</i>	<b>1.2</b>	<i>1.6</i>	<b>0.3</b>	<i>0.2</i>	<b>0.3</b>	<i>0.5</i>
Jan	<b>-4.5</b>	<i>-3.4</i>	<b>-4.6</b>	<i>-3.1</i>	<b>0.1</b>	<i>-0.2</i>	-	-
Feb	<b>0.1</b>	<i>-0.8</i>	-	<i>-0.6</i>	<b>0.1</b>	-	-	<i>-0.2</i>
Mar	<b>2.9</b>	<i>2.3</i>	<b>1.8</b>	<i>1.6</i>	<b>1.2</b>	<i>1.0</i>	<b>-0.1</b>	<i>-0.3</i>
Cumulative								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>2.7</b>	<i>3.5</i>	<b>2.4</b>	<i>3.4</i>	<b>0.8</b>	<i>0.4</i>	<b>-0.5</b>	<i>-0.3</i>
Jun	<b>2.6</b>	<i>3.9</i>	<b>2.7</b>	<i>3.8</i>	<b>0.5</b>	<i>0.4</i>	<b>-0.6</b>	<i>-0.2</i>
Jul	<b>3.2</b>	<i>4.2</i>	<b>3.6</b>	<i>3.9</i>	<b>0.8</b>	<i>0.4</i>	<b>-1.2</b>	<i>-0.2</i>
Aug	<b>4.4</b>	<i>5.4</i>	<b>4.6</b>	<i>5.6</i>	<b>0.9</b>	<i>0.6</i>	<b>-1.1</b>	<i>-0.7</i>
Sep	<b>5.6</b>	<i>5.3</i>	<b>5.1</b>	<i>5.5</i>	<b>1.1</b>	<i>0.5</i>	<b>-0.6</b>	<i>-0.7</i>
Oct	<b>5.3</b>	<i>5.1</i>	<b>4.9</b>	<i>5.2</i>	<b>0.7</b>	<i>0.5</i>	<b>-0.4</b>	<i>-0.6</i>
Nov	<b>6.0</b>	<i>6.5</i>	<b>6.1</b>	<i>6.3</i>	<b>0.1</b>	<i>0.5</i>	<b>-0.3</b>	<i>-0.2</i>
Dec	<b>7.7</b>	<i>8.9</i>	<b>7.3</b>	<i>7.9</i>	<b>0.4</b>	<i>0.7</i>	-	<i>0.3</i>
Jan	<b>3.2</b>	<i>5.5</i>	<b>2.7</b>	<i>4.8</i>	<b>0.5</b>	<i>0.5</i>	-	<i>0.3</i>
Feb	<b>3.3</b>	<i>4.7</i>	<b>2.7</b>	<i>4.2</i>	<b>0.6</b>	<i>0.5</i>	-	<i>0.1</i>
Mar	<b>6.2</b>	<i>7.1</i>	<b>4.5</b>	<i>5.8</i>	<b>1.8</b>	<i>1.5</i>	<b>-0.2</b>	<i>-0.2</i>

Figures for April to January 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 <sup>(1)</sup>	1984-85 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	2.4	2.1	<b>1.8</b>	-0.6	-0.3
May	1.2	1.4	<b>1.0</b>	-0.2	-0.4
Jun	1.0	0.4	<b>-0.1</b>	-1.1	-0.5
Q2	4.6	3.9	<b>2.6</b>	-2.0	-1.3
Jul	0.6	0.3	<b>0.6</b>	-	0.3
Aug	1.6	1.3	<b>1.2</b>	-0.5	-0.1
Sep	0.6	-0.1	<b>1.2</b>	0.6	1.3
Q3	2.8	1.4	<b>3.0</b>	0.2	1.5
Oct	0.6	-0.2	<b>-0.3</b>	-0.9	-0.1
Nov	1.7	1.4	<b>0.7</b>	-1.0	-0.7
Dec	0.6	2.4	<b>1.7</b>	1.1	-0.7
Q4	2.8	3.6	<b>2.1</b>	-0.8	-1.5
Jan	-2.4	-3.4	<b>-4.5</b>	-2.1	-1.1
Feb	-0.1	-0.8	<b>0.1</b>	0.2	0.9
Mar	2.4	2.3	<b>2.9</b>	0.5	0.5
Q1	-0.1	-1.8	<b>-1.5</b>	-1.4	0.3
Cumulative					
Apr	2.4	2.1	<b>1.8</b>	-0.6	-0.3
May	3.6	3.5	<b>2.7</b>	-0.8	-0.8
Jun	4.6	3.9	<b>2.6</b>	-2.0	-1.3
Jul	5.1	4.2	<b>3.2</b>	-2.0	-1.0
Aug	6.8	5.4	<b>4.4</b>	-2.4	-1.1
Sep	7.4	5.3	<b>5.6</b>	-1.8	0.2
Oct	8.0	5.1	<b>5.3</b>	-2.7	0.2
Nov	9.6	6.5	<b>6.0</b>	-3.7	-0.6
Dec	10.2	8.9	<b>7.7</b>	-2.6	-1.2
Jan	7.8	5.5	<b>3.2</b>	-4.6	-2.4
Feb	7.7	4.7	<b>3.3</b>	-4.4	-1.4
Mar	10.1	7.1	<b>6.2</b>	-4.0	-0.9

<sup>(1)</sup>Figures for April to January are outturns



CONFIDENTIAL AND PERSONAL

**Table 5: Central government transactions – January  
outturn and latest forecasts for February–March**

£ billion

	January		Latest forecasts	
	forecast <sup>(*)</sup>	outturn <sup>(1)</sup>	Feb	Mar
<b>Receipts</b>				
<i>Consolidated Fund</i>				
Inland Revenue	9.6	10.5	4.6	4.4
Customs and Excise	3.0	3.1	3.6	2.9
Other <sup>(2)</sup>	0.9	1.4	1.0	1.2
<i>National Loans Fund</i>				
Interest etc. receipts	0.4	0.2	0.4	0.9
<b>Total Receipts</b>	<b>13.8</b>	<b>15.2</b>	<b>9.6</b>	<b>9.4</b>
<b>Expenditure</b>				
<i>Consolidated Fund</i>				
Supply expenditure <sup>(3)</sup>	9.0	8.7	7.9	9.8
Adjustment to Supply Services basis <sup>(4)</sup>	0.1	–	–	–0.8
Other	0.5	0.4	0.4	0.4
<i>National Loans Fund</i>				
Service of the national debt	1.9	1.9	1.1	1.0
Net lending	–	0.1	–0.1	0.4
<b>Total Expenditure</b>	<b>11.5</b>	<b>11.1</b>	<b>9.3</b>	<b>10.8</b>
<b>Other funds and accounts</b> (+ increases borrowing) (– reduces borrowing)	<b>–0.2</b>	<b>–</b>	<b>0.1</b>	<b>1.1</b>
<b>CGBR</b>	<b>–2.6</b>	<b>–4.1</b>	<b>–0.1</b>	<b>2.5</b>
<b>On-lending</b>	<b>–</b>	<b>0.5</b>	<b>–0.1</b>	<b>0.7</b>
<b>CGBR(O)</b>	<b>–2.6</b>	<b>–4.6</b>	<b>–</b>	<b>1.8</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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".

<sup>(\*)</sup>made on 16 December

CONFIDENTIAL AND PERSONAL



**Table 6: Central government transactions<sup>(1)</sup> – comparisons with 1984–85 and Budget profile**

£ billion

	1984–85	1985–86	
	Outturn	Budget forecast	Latest update
<b>Receipts</b>			
<i>Consolidated Fund</i>			
Inland Revenue	50.4	56.2	55.5
Customs and Excise	35.5	36.4	37.4
Other <sup>(2)</sup>	12.4	13.9	13.3
<i>National Loans Fund</i>			
Interest etc. receipts	5.4	6.4	6.7
<b>Total Receipts</b>	<b>103.7</b>	<b>112.9</b>	<b>112.8</b>
<b>Expenditure</b>			
<i>Consolidated Fund</i>			
Supply expenditure <sup>(3)</sup>	93.6	99.6	98.2
Adjustment to Supply Services basis <sup>(4)</sup>	-0.1	-	0.2
Other	4.6	4.4	4.5
<i>National Loans Fund</i>			
Service of the national debt	12.9	14.1	14.3
Net lending	2.5	2.4	4.8
<b>Total Expenditure</b>	<b>113.5</b>	<b>120.5</b>	<b>122.0</b>
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	0.2	1.5	0.9
<b>CGBR</b>	<b>10.1</b>	<b>9.0</b>	<b>10.1</b>
<b>On-lending</b>	<b>3.5</b>	<b>3.3</b>	<b>5.6</b>
<b>CGBR(O)</b>	<b>6.6</b>	<b>5.8</b>	<b>4.5</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets.

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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".



CONFIDENTIAL

FROM: MISS M E PEIRSON  
DATE: 17 February 1986

MRS LOMAX

cc Mr Cassell  
Mr Clark

*Philip*  
*R. telephone*  
*In Review with these*  
*changes, various*  
*in writing*

**DRAFT PRESS BRIEFING ON PSBR IN JANUARY**

1. Many thanks for your note of today conveying the Chancellor's comments. There is however one misunderstanding underlying three of them, which I ought to clear up.

2. Most of the Autumn Statement reduction in oil revenues has already come through. The bulk of it was in the form of reduced PRT in September. Since then oil revenues have continued to be lower than the Budget profile, but by much smaller amounts. There are some further effects expected in February and March, but only around £0.4 bn out of an overall reduction of £1.8 bn in oil revenues for the whole year. And the effect in March is expected to be no bigger than in February, because there were no further big changes in price or exchange rate (until December) requiring large settling-up changes.

3. Therefore we have to be careful how much we make of the effect on borrowing in March of reduced oil revenues. I propose the following changes to the Chancellor's suggestions:-

- (i) Page 3 positive 2: keep addition, but delete "first".
- (iii) Page 3 defensive 1: First indent: keep expansion, but redraft as "...but earlier fall referred to in Autumn Statement, ~~has already been reflected in reduced receipts and~~ will have some further effect in February and March".

Second indent: keep addition but delete "March".

- (iv) Page 5 defensive 4, line to take: redraft second sentence as "But earlier fall referred to in Autumn Statement ~~has been affecting Inland Revenue receipts and~~ is expected to have some further effect in February and March".

*MJP*

MISS M E PEIRSON





FROM: MRS R LOMAX  
DATE: 17 FEBRUARY 1986

MISS M E PEIRSON

cc Mr Cassell  
Mr Clark

**DRAFT PRESS BRIEFING ON PSBR IN JANUARY**

The Chancellor was grateful for your minute of 14 February, attaching draft press briefing on the PSBR in January.

2. He would like to see the following changes: -

i. page 3 positive 2: Add the following to the end of the last sentence "and this year March borrowing will be further increased by first effects of lower oil revenues".

ii. Page 3 positive 3: re-draft as follows " no need at this stage to amend Autumn Statement forecast. Further forecast will be given in the Budget".

iii. Page 3 Defensive 1. First indent: expand final sentence as follows "little effect on oil revenue in 1985/86 from drop in oil prices since December, but earlier fall referred to in Autumn Statement will be reflected in reduced receipts in March". Redraft second indent as follows: "Always high borrowing at end of year, but this year likely to be exacerbated by lower March oil revenues".

iv. Page 5 Defensive 4, line to take: redraft as follows: "Sharp fall in oil prices since December has little effect in 1985/86, because revenues up to end March depend largely on average prices and production up to end December. But earlier fall referred to in Autumn Statement will be reflected in reduced receipts in March".

*Rh.*

RACHEL LOMAX



CONFIDENTIAL AND PERSONAL

(Until 2.30pm 18 February 1986)

From: JOHN CLARK  
18 February 1986

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 February)

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

**BRIEFING FOR 18 FEBRUARY PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for January will be published at 2.30pm on 18 February. The provisional outturns, together with figures for the first ten 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-Jan 1984-85	Apr-Jan 1985-86	January 1986
Central government on own account	5.7	2.7	-4.6
Local authorities	0.9	0.5	0.1
Public corporations	1.2	-	-
<b>PSBR</b>	<b>7.8</b>	<b>3.2</b>	<b>-4.5</b>
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	8.0	7.7	-4.1

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	<b>1.1</b>	0.5	0.9	<b>0.8</b>	-0.2	-0.4	<b>-0.2</b>	1.2	2.4
May	2.4	3.2	<b>2.4</b>	0.3	0.8	<b>0.8</b>	-0.3	-0.4	<b>-0.5</b>	2.4	3.6	<b>2.7</b>
Jun	3.7	4.5	<b>2.7</b>	-0.1	0.6	<b>0.5</b>	-0.4	-0.5	<b>-0.6</b>	3.2	4.6	<b>2.6</b>
Jul	4.5	5.0	<b>3.6</b>	-0.0	0.8	<b>0.8</b>	-0.6	-0.7	<b>-1.2</b>	3.9	5.1	<b>3.2</b>
Aug	5.8	6.2	<b>4.6</b>	0.3	1.4	<b>0.9</b>	-0.4	-0.7	<b>-1.1</b>	5.6	6.8	<b>4.4</b>
Sep	6.6	6.4	<b>5.1</b>	0.3	1.2	<b>1.1</b>	-0.0	-0.3	<b>-0.6</b>	6.9	7.4	<b>5.6</b>
Oct	6.7	6.7	<b>4.9</b>	0.3	1.0	<b>0.7</b>	0.1	0.2	<b>-0.4</b>	7.1	8.0	<b>5.3</b>
Nov	8.3	8.5	<b>6.1</b>	-0.2	0.8	<b>0.1</b>	0.5	0.4	<b>-0.3</b>	8.5	9.6	<b>6.0</b>
Dec	9.1	7.8	<b>7.3</b>	0.1	1.2	<b>0.4</b>	0.6	1.2	<b>-0.0</b>	9.8	10.2	<b>7.7</b>
Jan	6.3	5.7	<b>2.7</b>	0.0	0.9	<b>0.5</b>	0.7	1.2	<b>-0.0</b>	7.1	7.8	<b>3.2</b>
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.



2. The (provisional) PSBR for January is a net repayment of debt of £4.5 billion. This is a far higher repayment than forecast by City analysts (£1¼-2½ billion, with an average of about £2¼ billion).

### POSITIVE

#### Line to take

1. Borrowing in first ten months of 1985-86 was £3.2 billion. That is £4.6 billion lower than in first ten months of 1984-85. But comparisons between these two periods are distorted by several factors, e.g. effects of coal strike.

2. Autumn Statement forecast for whole year was £8 billion, with margin of error of £2½ billion either way, giving range of £5½ - 10½ billion. There are always high tax receipts in January and high borrowing at the end of the year, and this year March borrowing will be further increased by effects of lower oil revenues.

3. No need at this stage to amend Autumn Statement forecast. Further forecast will be given in Budget.

### DEFENSIVE/FACTUAL

#### 1. Borrowing in 1985-86

##### Line to take

Non-oil revenues are higher than in Budget forecast (e.g. VAT and onshore company taxes). However, some of high January tax receipts result merely from payments made earlier than usual. Little effect on oil revenues in 1985-86 from drop in oil prices since December, but earlier fall referred to in Autumn Statement will have some further effect in February and March.



Always high borrowing at end of year, but this year likely to be exacerbated by lower oil revenues. In last 2 months of 1984-85, 1983-84 and 1982-83 PSBR was £2.3 billion, £2.6 billion and £3.8 billion respectively.

## **2. Borrowing in January**

### Background

The PSBR in January normally shows a large net repayment of debt, owing to seasonally high tax receipts. January 1986 surplus of £4½ billion unusually favourable - repayment in January of previous 6 years has been £2 - 2¾ billion.

### Line to take

Comparisons of single months are misleading because of changes in the seasonal pattern of borrowing and erratic influences. For example, more of seasonal Inland Revenue flow seems to have come in January this year rather than later (see Q3), and January this year benefitted from EC rebate (see Q6). Lower oil revenues (compared with Budget forecast) will not be felt in full until March (see Q4).

## **3. Inland Revenue receipts**

### Background

Total Inland Revenue receipts in January were £10½ billion, compared with £8.2 billion in January 1985 and £7.9 billion in January 1984. Total for April-January 1985-86 was £46½ billion, 14¼ per cent higher than over the same period last year. 1985 Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85.

### Line to take

Receipts in January very high compared with January of previous years, owing mainly to higher corporation tax receipts. Composite rate tax receipts from building societies also high.

Comparisons of single months are misleading: some receipts in January were earlier than in previous years (last year in particular some assessments were delayed, and interest penalty for late payment is now 11 per cent compared with 8 per cent last year).



Higher corporation tax receipts in first ten months (by £2¾ billion compared with same period last year) partly reflects higher company profits in 1984, and partly earlier payments.

Revised forecast for 1985-86 will be given in Budget.

#### **4. Oil Revenues : effect of fall in dollar price**

##### 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 1985 Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined largely by prices and production up to June 1985. Revenues in March 1986 determined largely by what happened in July-December 1985. Fall in dollar price since December affects deliveries in January 1986 onwards and hence will have little effect on revenues in 1985-86.

##### Line to take

Sharp fall in oil price since December has little effect in 1985-86, because revenues up to end-March depend largely on average prices and production up to end-December. But earlier fall referred to in Autumn Statement is expected to have some further effect in February and March.

#### **5. Customs and Excise receipts**

##### Background

Customs and Excise receipts in January were £3.1 billion. Total for April-January 1985-86 (£31 billion) was 7 per cent higher than over the same period last year. 1985 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 tax receipts expected higher than in Budget forecast.



Line to take

As noted in Autumn Statement, receipts in 1985-86 as a whole now expected to be greater than in 1985 Budget forecast, because of higher expenditure tax receipts. Increase in first ten months (compared with same period last year) is significantly distorted by change in VAT on imports in 1984-85.

Revised forecast for 1985-86 will be given in Budget.

**6. EC refunds and abatements**

Line to take

1984 rebate of 1000m ecus (about £600 million) received by 6 January 1986: of this, £439 million was received in January (the rest was in December). (All the money received in January was new, i.e. it was not already sitting in the EC No. 1 account. So it all benefitted the PSBR in that month.)

Arrangements in respect of 1985 and subsequent years are different, and from January 1986 are reducing UK monthly contributions; abatements in January and February each about £70 million (based on 1986 budget figure of 1400m ecus).

Total reduction in PSBR in January was therefore about £½ billion.

**7. Effect of higher interest rates**

Line to take

This will increase some costs but also some receipts. Only small net effect in current year.

**8. Supply Expenditure**

Background

For the first ten months of 1985-86, Supply expenditure (the amount spent by departments), shown in table 4 of press notice, was about 6½ per cent higher than in first ten



months last year. After adjusting for changes in method of paying EC contributions, the increase is 6 per cent. PEWP forecast is that planning total in 1985-86 will be fully spent, representing 3½ per cent increase on 1984-85, but Supply has different coverage from planning total (eg the latter includes privatisation proceeds, LA expenditure other than CG grants to LAs, and PCs' market borrowing), and other elements in planning total move differently.

(The comparable year-on-year rise for Supply services in the period April to January was about 7 per cent. Supply services, shown in table 3 column 6, represent issues to departments from the Consolidated Fund. The difference between Supply expenditure and Supply services is explained in paragraph 4 of Notes to Editors.)

Line to take

Increase in supply expenditure in April-January (after adjustment for change in method of paying EC contributions) is 6 per cent above same period of 1984-85. The April-January outturn is consistent with PEWP forecast for planning total in 1985-86 as a whole: Supply has different coverage from planning total.

## **9. Privatisation proceeds**

Background

Budget forecast for total receipts from central privatisation proceeds in 1985-86 was £2.5 billion - increased to £2.6 billion in PEWP. 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 delay in sale has no effect on the PSBR, or privatisation proceeds.

Line to take

No receipts in January. Total net receipts for first ten months of 1985-86 about £2¼ billion, some £¼ billion more than over the same period last year. Second call on sale of residual shareholding in Cable and Wireless will realise net receipts of about £300 million in March.



## **10. Local authorities**

### Background

Preliminary estimate is that local authorities borrowed £0.1 billion in January, bringing total net borrowing to £0.5 billion in April-January 1985-86, about £0.4 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

January outturn somewhat higher than the amount local authorities normally borrow in January. But it follows three months when they borrowed significantly less than in the past. Cumulative borrowing April-January 1985-86 (£0.5 billion) well within range of outturns in same period of previous three years. (Average LABR for whole year in previous three years was £1¼ billion.) Borrowing probably reduced somewhat so far this year by delay in teachers' pay settlement.

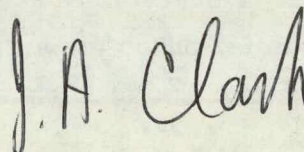
## **11. Public corporations**

### Background

Public corporations (provisionally) showed a small net repayment of debt in January, giving net borrowing close to zero for first ten 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. (The later months of 1984-85 were affected by the miners' strike). Quarterly data from banks has reduced estimated outturn for first 3 quarters of 1985-86 by £¼ billion. (Net effect of revisions on PSBR only half that amount.)



John Clark (ext 3093)  
PSF Division, HM Treasury



*JWP*

FROM: R DEVEREUX  
DATE: 4 March 1986

*Med*  
MISS PEARSON  
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

*Ch. Two second  
be part of  
the reason  
(for the change of view)  
(mentioned). There is  
some carry through  
to next year eg. supply  
with to come from the pension*

*1 so much  
below this.  
What can this mean  
last yr?  
to do you  
before?  
[as mm]*

**CGBR(O) & CGBR IN FEBRUARY**

*a 86/87. tonight*

*Ri 4/3.*

1. The provisional outturn for the CGBR(O) in February is £0.2 billion. This is slightly <sup>higher</sup> lower than last month's forecast due to shortfalls on both Inland Revenue (£0.1 billion) and Customs and Excise (£0.1 billion). The estimate of the outturn is subject to revision before publication on Tuesday 18 March (Budget day) in the PSBR press notice.

2. In the first 11 months of 1985/6 the CGBR(O) was £2.9 billion, and the CGBR(O) forecast for 1985/6 as a whole now stands at almost £5 billion. Together with the current forecasts of the LABR and PCBR, this gives a PSBR for 1985/6 of £6½-7 billion. The increase since the earlier forecast of £6-6½ billion arises from higher supply expenditure, lower revenue in February and apparently lower PRT receipts at the beginning of March. However the forecast will continue to change.

3. The implied PSBR for February and March taken together is around £3½ billion, which is high in relation to recent years. The range in the last 6 years is £0.2 billion (1981-82) to £3.8 billion (1982-83), with an average of £2 billion (on higher PSBRs for the whole year).

4. The provisional outturn for the PSBR in February will be available early next week (hopefully Monday).

*[Signature]*  
R J DEVEREUX



CONFIDENTIAL

## CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	February 1986	April 1985-February 1986			April 1984 February 1985
	Provisional outturn	Provisional outturn	Budget profile	Difference	Outturn
Inland Revenue	+ 4.4	+ 50.9	+ 51.8	- 0.9	+ 45.3
Customs and Excise	+ 3.5	+ 34.5	+ 33.5	+ 1.0	+ 32.6
Other own account	- 8.1	- 88.3	- 89.5	+ 1.2	- 83.0
CGBR(O)	- 0.2	- 2.9	- 4.2	+ 1.3	- 5.1
On-lending:					
- LAs	- 0.1	- 3.9	- 1.8	- 2.0	- 2.6
- PCs	+ 0.2	- 1.0	- 0.8	- 0.2	- 0.2
CGBR	- 0.1	- 7.8	- 6.8	- 0.9	- 7.9

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

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

CONFIDENTIAL



COVERING CONFIDENTIAL & PERSONAL

*C.*  
Draft press briefing  
and press notice below for  
2.30pm on Budget day.  
Contact with briefing?  
Any views on X?

FROM: MISS M E PEIRSON  
DATE: 14 March 1986

PPS/CHANCELLOR

cc Mr Cassell  
Mr Clark

*Ro 14/3*

**DRAFT PRESS BRIEFING ON PSBR IN FEBRUARY**

1. I attach the draft press briefing on the PSBR in February, for the Chancellor to see over the weekend. It would be appreciated if we could receive the Chancellor's comments as early as possible on Monday.

2. The press notice will be published on Budget Day, at 2.30 pm, ie an hour before the Budget Speech begins. Given this timing and the impact the February outturn will most probably make, the Chancellor may wish No 10 to have a copy of the final press briefing on Monday evening.

X

*I have made  
a small number  
of essential  
changes  
to the  
press notice.  
I agree with X.*

*M E Peirson*

MISS M E PEIRSON

COVERING CONFIDENTIAL & PERSONAL



From: JOHN CLARK  
18 March 1986

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

List B

(distributed at 2.30pm, 18 March)

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 Devereux  
Mr Pickford  
Mr Ward - CSO  
Mr Wright - B/E  
Mr Norgrove - No. 10

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

**BRIEFING FOR 18 MARCH PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for February will be published at 2.30pm on Budget Day. The provisional outturns, together with figures for the first eleven months of 1984-85 and 1985-86, are shown in Table 1. Cumulative figures for the PSBR and its components for the last three years are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns** £ billion

	Apr-Feb 1984-85	Apr-Feb 1985-86	February 1986
Central government on own account	5.2	2.7	-0.1
Local authorities	1.3	0.5	-
Public corporations	1.3	-0.5	-0.3
<b>PSBR</b>	<b>7.7</b>	<b>2.8</b>	<b>-0.4</b>
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	7.9	7.6	-0.2

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	<b>1.1</b>	0.5	0.9	<b>0.8</b>	-0.2	-0.4	<b>-0.2</b>	1.2	2.4
May	2.4	3.2	<b>2.4</b>	0.3	0.8	<b>0.8</b>	-0.3	-0.4	<b>-0.5</b>	2.4	3.6	<b>2.7</b>
Jun	3.7	4.5	<b>2.7</b>	-0.1	0.6	<b>0.5</b>	-0.4	-0.5	<b>-0.6</b>	3.2	4.6	<b>2.6</b>
Jul	4.5	5.0	<b>3.6</b>	-0.0	0.8	<b>0.8</b>	-0.6	-0.7	<b>-1.3</b>	3.9	5.1	<b>3.2</b>
Aug	5.8	6.2	<b>4.6</b>	0.3	1.4	<b>0.9</b>	-0.4	-0.7	<b>-1.2</b>	5.6	6.8	<b>4.3</b>
Sep	6.6	6.4	<b>5.1</b>	0.3	1.2	<b>1.1</b>	-0.0	-0.3	<b>-0.6</b>	6.9	7.4	<b>5.6</b>
Oct	6.7	6.7	<b>5.0</b>	0.3	1.0	<b>0.7</b>	0.1	0.2	<b>-0.5</b>	7.1	8.0	<b>5.2</b>
Nov	8.3	8.5	<b>6.2</b>	-0.2	0.8	<b>0.1</b>	0.5	0.4	<b>-0.4</b>	8.5	9.6	<b>5.9</b>
Dec	9.1	7.8	<b>7.4</b>	0.1	1.2	<b>0.4</b>	0.6	1.2	<b>-0.1</b>	9.8	10.2	<b>7.6</b>
Jan	6.3	5.7	<b>2.8</b>	0.0	0.9	<b>0.5</b>	0.7	1.2	<b>-0.2</b>	7.1	7.8	<b>3.1</b>
Feb	6.7	5.2	<b>2.7</b>	0.1	1.3	<b>0.5</b>	0.6	1.3	<b>-0.5</b>	7.5	7.7	<b>2.8</b>
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)

CONFIDENTIAL AND PERSONAL  
(DRAFT)



2. The (provisional) PSBR for February is a net repayment of debt of £0.4 billion. City analysts are expecting substantial net borrowing (£½-1¼ billion, with an average of nearly £1 billion).

POSITIVE

Line to take

1. Borrowing in first eleven months of 1985-86 was £2.8 billion. That is nearly £5 billion lower than in first eleven months of previous two years. But comparisons between these periods are distorted by several factors, e.g. effects of coal strike in 1984-85.

2. Non-oil revenues are higher than in last year's Budget forecast (e.g. VAT ~~on~~ capital taxes), partly offsetting reduction in oil revenues. *and*

3. Further forecast for year as a whole will be given in today's Budget.

DEFENSIVE/FACTUAL

1. Was outturn known when Budget judgment formed?

Line to take

~~Only in part. And had not got full revenue and expenditure details which would help to explain borrowing.~~

*This won't do at all. Implication that, had I known, Budget judge might have been different.*

*Answer de [unclear] [unclear]:*

*"[unclear] Forecast PSBR outturn for 1985-86 has not changed since [unclear] Budget judge made"*



## **2. Borrowing in 1985-86**

### Background

Autumn Statement forecast was £8 billion, with margin of error of £2½ billion, giving range of £5½ - 10½ billion. Further forecast in today's Budget.

### Line to take

Borrowing in April - February exceptionally low. However, there is always high borrowing in March, and this year it will be further increased by effects of lower oil revenues and other factors (see Defensive 4).

## **3. Borrowing in February**

### Background

Net borrowing in February normally low; average PSBR of £0.3 billion in month over last six years, with small repayments in 1982 and 1985.

### Line to take

Net repayment somewhat unusual for February, but always get erratic fluctuations. Net repayment by public corporations in particular may easily be reversed, at least in part, in March.

## **4. Borrowing in March**

### Line to take

Always high borrowing at end of year. In March of last 3 years PSBR was £2¼-3 billion. This year likely to be exacerbated by various factors:

- lower oil revenues (March peak not nearly as high as in previous years)
- timing of Easter (may delay some tax receipts normally paid in March)
- teachers' pay settlement (some local authorities may pay backpay this month)
- possible reversal of some of public corporations' net repayment in February.



## 5. Oil Revenues : effect of fall in dollar price

### 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 1985 Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined largely by prices and production up to June 1985. Revenues in March 1986 determined largely by what happened in July-December 1985. Fall in dollar price since December affects deliveries in January 1986 onwards and hence will have little effect on revenues in 1985-86.

### Line to take

Sharp fall in oil price since December has little effect in 1985-86, because revenues up to end-March depend largely on average prices and production up to end-December. But ~~some~~ of £2 billion fall referred to in Autumn Statement (reflecting appreciation of sterling against dollar) is expected to occur in March.

Today's Budget contains revised forecast for 1985-86.

## 6. Inland Revenue receipts

### Background

Total Inland Revenue receipts in February were £4.4 billion. Total for April-February 1985-86 was £50.9 billion, 12½ per cent higher than over the same period last year. 1985 Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85.

### Line to take

Receipts to February up 12½ per cent on last year. Higher corporation tax receipts in first eleven months (by £2.4 billion compared with same period last year) ~~partly~~ reflects higher company profits in 1984.

(Comparisons of single months are misleading: last year in particular some payments due

*Much*

*(obvious) some of it will: point is that a significant proportion of it - @ least 40% - will)*

*I will make note, otherwise it will be attributed to 1984 CT reforms*



in January were delayed. So this year, January receipts higher and February receipts slightly lower.)

Today's Budget contains revised forecast for 1985-86.

## **7. Customs and Excise receipts**

### Background

Customs and Excise receipts in February were £3.5 billion. Total for April-February 1985-86 (£34½ billion) was 5½ per cent higher than over the same period last year. 1985 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

As noted in Autumn Statement, expenditure tax receipts in 1985-86 now expected to be greater than in 1985 Budget forecast (particularly VAT).

Today's Budget contains revised forecast for 1985-86.

## **8. EC refunds and abatements**

### Line to take

1984 rebate of 1000m ecus (about £600 million) received by 6 January 1986.

Arrangements in respect of 1985 and subsequent years are different, and from January 1986 are reducing UK monthly contributions; abatements in February benefitted PSBR by about £70 million (based on 1986 budget figure of 1400m ecus).

## **9. Supply Expenditure**

### Background

For the first eleven months of 1985-86, Supply expenditure (the amount spent by



departments), shown in table 4 of press notice, was about 6¾ per cent higher than in first eleven months last year. After adjusting for changes in method of paying EC contributions, the increase is 6½ per cent. Supply has different coverage from planning total (eg the planning total includes privatisation proceeds, LA expenditure rather than CG grants to LAs, and PCs' market borrowing).

Line to take

Increase in supply expenditure in April-February (after adjustment for change in method of paying EC contributions) is 6½ per cent above same period of 1984-85. Supply has different coverage from planning total, and movements in Supply do not give a guide to movements in the planning total. Estimated outturns for supply and planning total in 1985-86 given in FSBR (Tables 5.1 and 5.2).

## **10. Privatisation proceeds**

Background

1985 Budget forecast for total receipts from privatisation proceeds in 1985-86 was £2.5 billion - increased to £2.6 billion in PEWP. 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 delay in sale has no effect on the PSBR, or privatisation proceeds.

Line to take

No receipts in February. Total net receipts for first eleven months of 1985-86 about £2¼ billion, some £¼ billion more than over the same period last year. Second call on sale of residual shareholding in Cable and Wireless will realise net receipts of about £300 million in March.

## **11. Local authorities**

Background

Preliminary estimate is that local authorities had small net borrowing in February bringing total net borrowing to £0.5 billion in April-February 1985-86, about £¾ billion lower than over corresponding period last year. 1985 Budget did not contain forecast for 1985-86 as a whole (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. But today's Budget contains 1985-86 forecast. Outturn for 1984-85 was £2.4 billion.

Line to take

February outturn not very different from usual. Cumulative borrowing April-February 1985-86 (£0.5 billion) well within range of outturns in same period of previous three years. Borrowing probably reduced somewhat so far this year by delay in teachers' pay settlement. Some effects from payment of back pay may be felt in March, when LA borrowing always high anyway.

Today's Budget will contain forecast for 1985-86.

## **12. Public corporations**

Background

Public corporations (provisionally) showed a net repayment of debt of £0.3 billion in February, giving a net repayment of nearly £½ billion for first eleven months of 1985-86. No Budget or Autumn Statement forecasts of PCBR for 1985-86 as a whole - see Q11.

Line to take

Borrowing in 1985-86 is running much lower than in 1984-85. (The later months of 1984-85 were affected by the miners' strike).

Today's Budget will contain forecast for 1985-86.

John Clark (ext 3093)  
PSF Division, HM Treasury





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

COVERING CONFIDENTIAL & PERSONAL

David Norgrove Esq  
10 Downing Street.

17 March 1986

*Dear David*

**MONTHLY NOTE ON PUBLIC SECTOR BORROWING**

I enclose this month's note on the PSBR, and also the press briefing. The February outturn will be published tomorrow (Budget Day) at 2.30 pm.

*Yours ever  
Rachel*

RACHEL LOMAX  
PRINCIPAL PRIVATE SECRETARY



## PUBLIC SECTOR BORROWING

### Summary

- The PSBR for February is provisionally estimated as a net repayment of debt of £0.4 billion, compared with last month's forecast of net borrowing of £0.1 billion. Most of the difference was due to lower net borrowing by public corporations, which is mainly expected to be reversed in March.
- Borrowing in the first eleven months of 1985-86 (£2.8 billion) was £2 billion lower than the Budget profile (Chart 1) and nearly £5 billion lower than over the same period last year (Chart 2).
- Borrowing in March is forecast to total £4 billion, £1½ billion more than the March average in the last three years - mainly due to low oil revenues and expected high local authority borrowing.
- The forecast for the PSBR in 1985-86 is thus £6.8 billion, close to the 1985 Budget forecast of £7.1 billion, but the average error at this stage is around £1 billion.

---

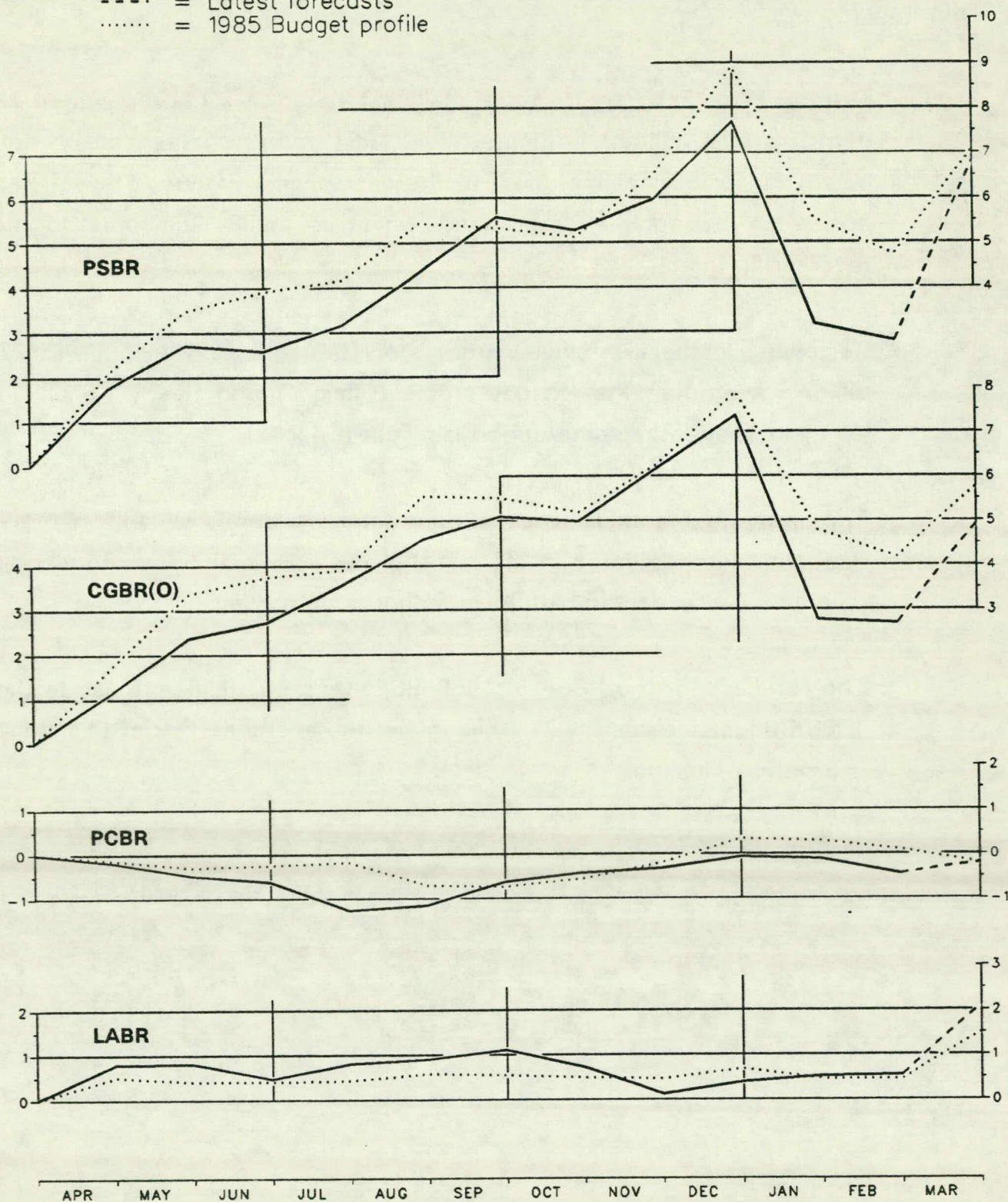
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.



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

£ billion cumulative

- = Estimated outturn in 1985-86
- - - = Latest forecasts
- ..... = 1985 Budget profile

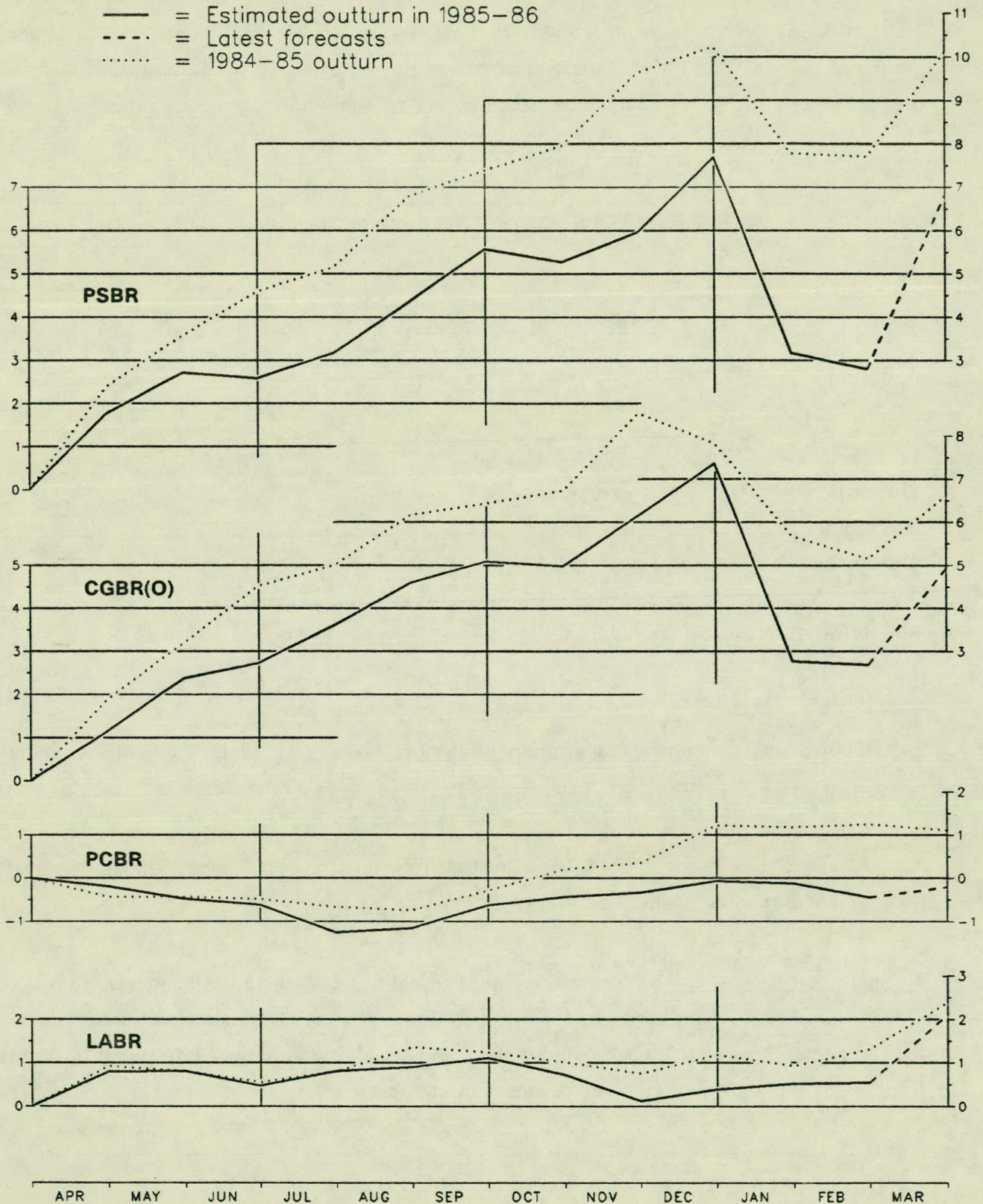




**Chart 2 : Comparisons with last year's outturns**

£ billion cumulative

- = Estimated outturn in 1985-86
- - - = Latest forecasts
- ..... = 1984-85 outturn





**Borrowing in February**

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

The provisional estimate of the PSBR in February is a net repayment of £0.4 billion, compared with last month's forecast of borrowing of £0.1 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: February 1986 borrowing requirements**

	£ billion			
	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	0.1	-	0.1	-
Outturn	-0.4	-0.1	-	-0.3
Difference	-0.5	-0.1	-0.1	-0.3

\*made on 17 February

2. Net borrowing on central government own account was about £0.1 billion lower than forecast, with slightly lower tax revenues more than offset by other changes.

3. Local authorities' net borrowing is provisionally estimated to have been close to zero in February, less than £0.1 billion different from last month's forecast.

4. Public corporations made a net repayment of debt of £0.3 billion in February, compared with forecast repayment close to zero. The difference is mainly accounted for by a higher than expected repayment by the Electricity Supply Industry and lower borrowing by British Gas, and is mostly expected to be reversed in March.



April to February

(Comparisons in this section are with the 1985 Budget profile)

Table 2: Total April-February borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	4.7	4.2	0.5	0.1
Outturn	2.8	2.7	0.5	-0.4
Difference	-1.9	-1.5	0.1	-0.5

5. The cumulative PSBR for the first eleven months of 1985-86 was £2.8 billion, nearly £2 billion below the 1985 Budget profile (see Chart 1 and Table 2). It is almost £5 billion below the same period last year (Chart 2), which was affected by the coal strike in particular.

6. Cumulative borrowing in April-February on central government own account was £1½ billion lower than the 1985 Budget profile. Higher Customs and Excise receipts (by £1.0 billion, mainly VAT), lower supply expenditure (by £0.6 billion), higher non-oil Inland Revenue receipts (by £0.7 billion), and the earlier than expected receipt of the EC refund (£0.6 billion) were only partly offset by lower oil revenues (by £1.4 billion). The lower supply expenditure is mainly due to lower grants to the NCB and lower ECGD payments; the reduction is partly offset within the planning total by higher expenditure on LA capital (affecting the LABR) and other items.

7. Local authorities borrowed £0.5 billion in the first eleven months of 1985-86, in line with the 1985 Budget profile. The higher capital spending appears to have been offset so far by the delay in the teachers' pay settlement.

8. Public corporations made a net repayment of nearly £½ billion in April-February,



compared with small net borrowing in the 1985 Budget profile. This is due mainly to lower net borrowing by the British Steel Corporation, which is expected to undershoot its EFL for the year.

### March

9. Borrowing in March is forecast to total £4 billion. This is £1¾ billion more than in the 1985 Budget profile, the higher borrowing being spread between central government own account, local authorities and public corporations (see below).

10. Table 5 shows the latest detailed forecast of borrowing on central government own account for March.

11. The forecast of the CGBR(O) for March is for net borrowing of about £2¼ billion, nearly £¾ billion higher than the 1985 Budget forecast. The main factors increasing the CGBR(O) are the EC refund/abatements (worth £¾ billion, and forecast for March in the 1985 Budget profile but almost all received by the end of February) and a larger deficit on the National Insurance Fund (by nearly £½ billion, partly offsetting the very high surplus in April-February). Partly offsetting these items, supply expenditure in March is £¾ billion lower than in the Budget profile (widely spread over several programmes). Inland Revenue and Customs and Excise receipts in March are only slightly lower than the forecast in the Budget profile, a £¼ billion shortfall on PRT being partly offset by higher non-oil revenues.

12. Compared with the average March CGBR(O) in the last 3 years, the forecast represents a £¾ billion increase, which is accounted for by:

- The absence of the usual March peak in PRT. (The Budget profile already assumed a low March peak in PRT this year, but it has disappeared altogether.)
- The timing of Easter (expected to delay nearly £½ billion of tax receipts due by 31 March).
- A high expected deficit on the National Insurance Fund.



## CONFIDENTIAL AND PERSONAL

An offset is a lower than usual end-year surge in supply expenditure. The supply forecast for March represents an increase of only about 14 per cent on the average in October-February, compared with corresponding increases of 21-36 per cent in 1982-1985.

13. Local authorities are forecast to borrow over £1½ billion in March. Authorities typically borrow heavily in March, when virtually no rate income is received and expenditure is high. The surge in borrowing this March is expected to be about £½ billion higher than usual, for the following reasons:

- The DOE/CIPFA borrowing intentions survey for the final quarter of 1985-86 implied, given the January and February outturns, borrowing of £1¾ billion in March (on the assumption that the teachers' back pay would not be paid in 1985-86). In recent years the survey has consistently overestimated borrowing, but the overestimation has been slowly diminishing and is assumed this year to be no greater than last year (£½ billion).
- On the basis of a sample survey by DOE, half the teachers' back pay (about £¼ billion) is now assumed to be paid in 1985-86.
- The GLC's "tombstone funding" is expected to increase their borrowing slightly.

14. Public corporations are forecast to borrow £¼ billion in March. This is in contrast with the usual net repayment in March, and is partly attributable to the expected partial reversal of the repayment in February.

### 1985-86

15. For 1985-86 as a whole, the PSBR is forecast at £6.8 billion, compared with the 1985 Budget forecast of £7.1 billion.

16. The CGBR(O) is put £¾ billion lower (see Table 6). The main factors are lower supply expenditure (by about £1¼ billion, excluding on-lending) and higher Customs and Excise receipts (mainly VAT), partly offset by lower Inland Revenue receipts (more than accounted

CONFIDENTIAL AND PERSONAL



for by lower oil revenues). The shortfall on supply, as it affects the planning total, is largely offset by higher local authority expenditure and other changes.

17. The LABR seems likely to be £½ billion higher (on the still uncertain assumption that around half of the teachers' back pay is paid in 1985-86), owing to higher capital expenditure. The PCBR is about the same, higher coal stock rebuilding by the Electricity Council being offset by better performance by the Steel Corporation.



CONFIDENTIAL AND PERSONAL

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

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
<b>1985-86</b>								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>1.0</b>	<i>1.4</i>	<b>1.2</b>	<i>1.6</i>	-	<i>-0.1</i>	<b>-0.3</b>	<i>-0.2</i>
Jun	<b>-0.1</b>	<i>0.4</i>	<b>0.4</b>	<i>0.4</i>	<b>-0.3</b>	-	<b>-0.1</b>	<i>0.1</i>
Jul	<b>0.6</b>	<i>0.3</i>	<b>0.9</b>	<i>0.2</i>	<b>0.3</b>	-	<b>-0.6</b>	<i>0.1</i>
Aug	<b>1.2</b>	<i>1.3</i>	<b>1.0</b>	<i>1.6</i>	<b>0.1</b>	<i>0.2</i>	<b>0.1</b>	<i>-0.5</i>
Sep	<b>1.2</b>	<i>-0.1</i>	<b>0.5</b>	-	<b>0.2</b>	-	<b>0.5</b>	-
Oct	<b>-0.3</b>	<i>-0.2</i>	<b>-0.1</b>	<i>-0.3</i>	<b>-0.4</b>	<i>-0.1</i>	<b>0.2</b>	<i>0.2</i>
Nov	<b>0.7</b>	<i>1.4</i>	<b>1.2</b>	<i>1.1</i>	<b>-0.6</b>	-	<b>0.1</b>	<i>0.4</i>
Dec	<b>1.7</b>	<i>2.4</i>	<b>1.2</b>	<i>1.6</i>	<b>0.3</b>	<i>0.2</i>	<b>0.3</b>	<i>0.5</i>
Jan	<b>-4.5</b>	<i>-3.4</i>	<b>-4.6</b>	<i>-3.1</i>	<b>0.1</b>	<i>-0.2</i>	<b>-0.1</b>	-
Feb	<b>-0.4</b>	<i>-0.8</i>	<b>-0.1</b>	<i>-0.6</i>	-	-	<b>-0.3</b>	<i>-0.2</i>
Mar	<b>4.0</b>	<i>2.3</i>	<b>2.2</b>	<i>1.6</i>	<b>1.6</b>	<i>1.0</i>	<b>0.2</b>	<i>-0.3</i>
<b>Cumulative</b>								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>2.7</b>	<i>3.5</i>	<b>2.4</b>	<i>3.4</i>	<b>0.8</b>	<i>0.4</i>	<b>-0.5</b>	<i>-0.3</i>
Jun	<b>2.6</b>	<i>3.9</i>	<b>2.7</b>	<i>3.8</i>	<b>0.5</b>	<i>0.4</i>	<b>-0.6</b>	<i>-0.2</i>
Jul	<b>3.2</b>	<i>4.2</i>	<b>3.6</b>	<i>3.9</i>	<b>0.8</b>	<i>0.4</i>	<b>-1.3</b>	<i>-0.2</i>
Aug	<b>4.3</b>	<i>5.4</i>	<b>4.6</b>	<i>5.6</i>	<b>0.9</b>	<i>0.6</i>	<b>-1.1</b>	<i>-0.7</i>
Sep	<b>5.6</b>	<i>5.3</i>	<b>5.1</b>	<i>5.5</i>	<b>1.1</b>	<i>0.5</i>	<b>-0.6</b>	<i>-0.7</i>
Oct	<b>5.3</b>	<i>5.1</i>	<b>5.0</b>	<i>5.2</i>	<b>0.7</b>	<i>0.5</i>	<b>-0.4</b>	<i>-0.6</i>
Nov	<b>6.0</b>	<i>6.5</i>	<b>6.2</b>	<i>6.3</i>	<b>0.1</b>	<i>0.5</i>	<b>-0.3</b>	<i>-0.2</i>
Dec	<b>7.7</b>	<i>8.9</i>	<b>7.4</b>	<i>7.9</i>	<b>0.4</b>	<i>0.7</i>	<b>-0.1</b>	<i>0.3</i>
Jan	<b>3.2</b>	<i>5.5</i>	<b>2.8</b>	<i>4.8</i>	<b>0.5</b>	<i>0.5</i>	<b>-0.1</b>	<i>0.3</i>
Feb	<b>2.8</b>	<i>4.7</i>	<b>2.7</b>	<i>4.2</i>	<b>0.5</b>	<i>0.5</i>	<b>-0.4</b>	<i>0.1</i>
Mar	<b>6.8</b>	<i>7.1</i>	<b>4.9</b>	<i>5.8</i>	<b>2.1</b>	<i>1.5</i>	<b>-0.2</b>	<i>-0.2</i>

Figures for April to February 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 <sup>(1)</sup>	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	-0.6	
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	1.2	0.6	1.3	
Q3	2.8	1.4	3.0	0.2	1.6	
Oct	0.6	-0.2	-0.3	-0.9	-0.1	
Nov	1.7	1.4	0.7	-1.0	-0.7	
Dec	0.6	2.4	1.7	1.1	-0.7	
Q4	2.8	3.6	2.1	-0.7	-1.5	
Jan	-2.4	-3.4	-4.5	-2.1	-1.1	
Feb	-0.1	-0.8	-0.4	-0.3	0.4	
Mar	2.4	2.3	4.0	1.6	1.7	
Q1	-0.1	-1.8	-0.9	-0.7	1.0	
<b>Cumulative</b>						
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	0.2	
Oct	8.0	5.1	5.3	-2.7	0.2	
Nov	9.6	6.5	6.0	-3.7	-0.6	
Dec	10.2	8.9	7.7	-2.5	-1.2	
Jan	7.8	5.5	3.2	-4.6	-2.4	
Feb	7.7	4.7	2.8	-4.9	-1.9	
Mar	10.1	7.1	6.8	-3.3	-0.2	

<sup>(1)</sup>Figures for April to February are outturns



CONFIDENTIAL AND PERSONAL

**Table 5: Central government transactions – February  
outturn and latest forecasts for March**

£ billion

	February		Latest forecasts
	forecast	outturn <sup>(1)</sup>	March
<b>Receipts</b>			
<i>Consolidated Fund</i>			
Inland Revenue	4.6	4.4	4.4
Customs and Excise	3.6	3.5	2.8
Other <sup>(2)</sup>	1.0	0.7	1.5
<i>National Loans Fund</i>			
Interest etc. receipts	0.4	0.4	0.8
<b>Total Receipts</b>	<b>9.6</b>	<b>9.0</b>	<b>9.5</b>
<b>Expenditure</b>			
<i>Consolidated Fund</i>			
Supply expenditure <sup>(3)</sup>	7.9	8.0	9.4
Adjustment to Supply Services basis <sup>(4)</sup>	-	-0.3	-0.6
Other	0.4	0.4	0.4
<i>National Loans Fund</i>			
Service of the national debt	1.1	1.1	1.0
Net lending	-0.1	-0.2	0.9
<b>Total Expenditure</b>	<b>9.3</b>	<b>9.0</b>	<b>11.1</b>
<b>Other funds and accounts</b> (+ increases borrowing) (- reduces borrowing)	<b>0.1</b>	<b>-0.2</b>	<b>1.5</b>
<b>CGBR</b>	<b>-0.1</b>	<b>-0.2</b>	<b>3.2</b>
<b>On-lending</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.9</b>
<b>CGBR(O)</b>	<b>-</b>	<b>-0.1</b>	<b>2.2</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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".

CONFIDENTIAL AND PERSONAL



**Table 6: Central government transactions<sup>(1)</sup> – comparisons with 1984–85 and 1985 Budget profile**

£ billion

	1984–85	1985–86	
	Outturn	1985 Budget forecast	Latest update
<b>Receipts</b>			
<i>Consolidated Fund</i>			
Inland Revenue	50.4	56.2	55.3
Customs and Excise	35.5	36.4	37.3
Other <sup>(2)</sup>	12.4	13.9	13.2
<i>National Loans Fund</i>			
Interest etc. receipts	5.4	6.4	6.6
<b>Total Receipts</b>	<b>103.7</b>	<b>112.9</b>	<b>112.4</b>
<b>Expenditure</b>			
<i>Consolidated Fund</i>			
Supply expenditure <sup>(3)</sup>	93.6	99.6	98.1
Adjustment to Supply Services basis <sup>(4)</sup>	-0.1	-	-
Other	4.6	4.4	4.5
<i>National Loans Fund</i>			
Service of the national debt	12.9	14.1	14.3
Net lending	2.5	2.4	5.2
<b>Total Expenditure</b>	<b>113.5</b>	<b>120.5</b>	<b>122.0</b>
<b>Other funds and accounts</b> (+ increases borrowing) (- reduces borrowing)	<b>0.2</b>	<b>1.5</b>	<b>1.1</b>
<b>CGBR</b>	<b>10.1</b>	<b>9.0</b>	<b>10.7</b>
<b>On-lending</b>	<b>3.5</b>	<b>3.3</b>	<b>5.8</b>
<b>CGBR(O)</b>	<b>6.6</b>	<b>5.8</b>	<b>4.9</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets.

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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  
18 March 1986

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 Devereux  
Mr Pickford  
Mr Ward - CSO  
Mr Wright - B/E  
Mr Norgrove - No. 10

List B

(distributed at 2.30pm, 18 March)

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

**BRIEFING FOR 18 MARCH PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for February will be published at 2.30pm on Budget Day. The provisional outturns, together with figures for the first eleven months of 1984-85 and 1985-86, are shown in Table 1. Cumulative figures for the PSBR and its components for the last three years are shown in Table 2 overleaf.

**Table 1:**

**Borrowing requirement outturns**

£ billion

	Apr-Feb 1984-85	Apr-Feb 1985-86	February 1986
Central government on own account	5.2	2.7	-0.1
Local authorities	1.3	0.5	-
Public corporations	1.3	-0.4	-0.3
PSBR	7.7	2.8	-0.4
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	7.9	7.6	-0.2

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	-0.5	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	-1.3	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	5.1	0.3	1.2	1.1	-0.0	-0.3	-0.6	6.9	7.4	5.6
Oct	6.7	6.7	5.0	0.3	1.0	0.7	0.1	0.2	-0.4	7.1	8.0	5.3
Nov	8.3	8.5	6.2	-0.2	0.8	0.1	0.5	0.4	-0.3	8.5	9.6	6.0
Dec	9.1	7.8	7.4	0.1	1.2	0.4	0.6	1.2	-0.1	9.8	10.2	7.7
Jan	6.3	5.7	2.8	0.0	0.9	0.5	0.7	1.2	-0.1	7.1	7.8	3.2
Feb	6.7	5.2	2.7	0.1	1.3	0.5	0.6	1.3	-0.4	7.5	7.7	2.8
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.



2. The (provisional) PSBR for February is a net repayment of debt of £0.4 billion. City analysts are expecting substantial net borrowing (£½-1¼ billion, with an average of nearly £1 billion).

### POSITIVE

#### Line to take

1. Borrowing in first eleven months of 1985-86 was £2.8 billion. That is nearly £5 billion lower than in first eleven months of previous two years. But comparisons between these periods are distorted by several factors, e.g. effects of coal strike in 1984-85.
2. Non-oil revenues are higher than in last year's Budget forecast (e.g. VAT on capital taxes), partly offsetting reduction in oil revenues.
3. Further forecast for year as a whole will be given in today's Budget.

### DEFENSIVE/FACTUAL

#### 1. Was outturn known when Budget judgment formed?

##### Line to take

Forecast PSBR outturn for 1985-86 has not changed since final Budget judgment made.



## **2. Borrowing in 1985-86**

### Background

Autumn Statement forecast was £8 billion, with margin of error of £2½ billion, giving range of £5½ - 10½ billion. Further forecast in today's Budget.

### Line to take

Borrowing in April - February exceptionally low. However, there is always high borrowing in March, and this year it will be further increased by effects of lower oil revenues and other factors (see Defensive 4).

## **3. Borrowing in February**

### Background

Net borrowing in February normally low; average PSBR of £0.3 billion in month over last six years, with small repayments in 1982 and 1985.

### Line to take

Net repayment somewhat unusual for February, but always get erratic fluctuations. Net repayment by public corporations in particular may easily be reversed, at least in part, in March.

## **4. Borrowing in March**

### Line to take

Always high borrowing at end of year. In March of last 3 years PSBR was £2¼-3 billion. This year likely to be exacerbated by various factors:

- lower oil revenues (March peak not nearly as high as in previous years)
- timing of Easter (may delay some tax receipts normally paid in March)
- teachers' pay settlement (some local authorities may pay backpay this month)
- possible reversal of some of public corporations' net repayment in February.



## **5. Oil Revenues : effect of fall in dollar price**

### **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 1985 Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined largely by prices and production up to June 1985. Revenues in March 1986 determined largely by what happened in July-December 1985. Fall in dollar price since December affects deliveries in January 1986 onwards and hence will have little effect on revenues in 1985-86.

### **Line to take**

Sharp fall in oil price since December has little effect in 1985-86, because revenues up to end-March depend largely on average prices and production up to end-December. But much of £2 billion fall referred to in Autumn Statement (reflecting appreciation of sterling against dollar) is expected to occur in March.

Today's Budget contains revised forecast for 1985-86.

## **6. Inland Revenue receipts**

### **Background**

Total Inland Revenue receipts in February were £4.4 billion. Total for April-February 1985-86 was £50.9 billion, 12½ per cent higher than over the same period last year. 1985 Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85.

### **Line to take**

Receipts to February up 12½ per cent on last year. Higher corporation tax receipts in first eleven months (by £2.4 billion compared with same period last year) reflects higher company profits in 1984 and dividend payments in 1985.

(Comparisons of single months are misleading: last year in particular some payments due



in January were delayed. So this year, January receipts higher and February receipts slightly lower.)

Today's Budget contains revised forecast for 1985-86.

## **7. Customs and Excise receipts**

### **Background**

Customs and Excise receipts in February were £3.5 billion. Total for April-February 1985-86 (£34½ billion) was 5½ per cent higher than over the same period last year. 1985 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**

As noted in Autumn Statement, expenditure tax receipts in 1985-86 now expected to be greater than in 1985 Budget forecast (particularly VAT).

Today's Budget contains revised forecast for 1985-86.

## **8. EC refunds and abatements**

### **Line to take**

1984 rebate of 1000m ecus (about £600 million) received by 6 January 1986.

Arrangements in respect of 1985 and subsequent years are different, and from January 1986 are reducing UK monthly contributions; abatements in February benefitted PSBR by about £70 million (based on 1986 budget figure of 1400m ecus).

## **9. Supply Expenditure**

### **Background**

For the first eleven months of 1985-86, Supply expenditure (the amount spent by



departments), shown in table 4 of press notice, was about 6¼ per cent higher than in first eleven months last year. After adjusting for changes in method of paying EC contributions, the increase is 6½ per cent. Supply has different coverage from planning total (eg the planning total includes privatisation proceeds, LA expenditure rather than CG grants to LAs, and PCs' market borrowing).

#### Line to take

Increase in supply expenditure in April-February (after adjustment for change in method of paying EC contributions) is 6½ per cent above same period of 1984-85. Supply has different coverage from planning total, and movements in Supply do not give a guide to movements in the planning total. Estimated outturns for supply and planning total in 1985-86 given in FSBR (Tables 5.1 and 5.2).

## **10. Privatisation proceeds**

### Background

1985 Budget forecast for total receipts from privatisation proceeds in 1985-86 was £2.5 billion - increased to £2.6 billion in PEWP. 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 delay in sale has no effect on the PSBR, or privatisation proceeds.

### Line to take

No receipts in February. Total net receipts for first eleven months of 1985-86 about £2¼ billion, some £¼ billion more than over the same period last year. Second call on sale of residual shareholding in Cable and Wireless will realise net receipts of about £300 million in March.

## **11. Local authorities**

### Background

Preliminary estimate is that local authorities had small net borrowing in February bringing total net borrowing to £0.5 billion in April-February 1985-86, about £¾ billion lower than over corresponding period last year. 1985 Budget did not contain forecast for 1985-86 as a whole (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. But today's Budget contains 1985-86 forecast. Outturn for 1984-85 was £2.4 billion.

Line to take

February outturn not very different from usual. Cumulative borrowing April-February 1985-86 (£0.5 billion) well within range of outturns in same period of previous three years. Borrowing probably reduced somewhat so far this year by delay in teachers' pay settlement. Some effects from payment of back pay may be felt in March, when LA borrowing always high anyway.

Today's Budget will contain forecast for 1985-86.

## **12. Public corporations**

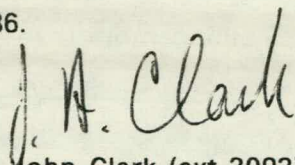
Background

Public corporations (provisionally) showed a net repayment of debt of £0.3 billion in February, giving a net repayment of nearly £½ billion for first eleven months of 1985-86. No Budget or Autumn Statement forecasts of PCBR for 1985-86 as a whole - see Q11.

Line to take

Borrowing in 1985-86 is running much lower than in 1984-85. (The later months of 1984-85 were affected by the miners' strike).

Today's Budget will contain forecast for 1985-86.



John Clark (ext 3093)

PSF Division, HM Treasury





FROM: P WYNN OWEN  
DATE: 17 March 1986

MISS PEIRSON

cc Mr Cassell  
Mr Clark

**DRAFT PRESS BRIEFING ON PSBR IN FEBRUARY**

The Chancellor has seen and was grateful for your minute of 14 March.

2. He has made the following small number of essential changes:

(i) Defensive line to take no. 1 - the Chancellor has commented that the present answer will not do, since it implies that, had he known, the Budget judgement might have been different. He would like the answer to be along the following lines:

"Forecast PSBR outturn for 1985/86 has not changed since final Budget judgement made."

(ii) Defensive line to take no. 5 - in line 3 replace "some" by "much". The Chancellor has noted that obviously some of it will: the point is that a significant proportion of it - at least 40 per cent - will.

(iii) Defensive line to take no. 6 - the Chancellor would rather delete "partly" in line 2, otherwise it will be attributed to 1984 CT reforms.

R.

P WYNN OWEN



Prof

Note.

Passed C's  
comments on to  
Dr Clark.



C

R017/3

Margaret Peirson and IR were  
not entirely happy with your deletion  
of "partly" in Dejenine answer 6.

After much toing and froing they  
should settle for the addition of "and  
dividend payments in 1985", just so no one  
thinks its all down to higher company profits  
in 1984 (of £2.45, c. £1.76 is 1984  
profits and £0.76 is 1985 dividends).

The higher in  
D.N.'s  
Remission of  
consequence of  
higher profits. R017/3  
OK. ✓

OK?



## 5. Oil Revenues : effect of fall in dollar price

### 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 1985 Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined largely by prices and production up to June 1985. Revenues in March 1986 determined largely by what happened in July-December 1985. Fall in dollar price since December affects deliveries in January 1986 onwards and hence will have little effect on revenues in 1985-86.

### Line to take

Sharp fall in oil price since December has little effect in 1985-86, because revenues up to end-March depend largely on average prices and production up to end-December. But ~~some~~ <sup>much</sup> of £2 billion fall referred to in Autumn Statement (reflecting appreciation of sterling against dollar) is expected to occur in March.

Today's Budget contains revised forecast for 1985-86.

## 6. Inland Revenue receipts

### Background

Total Inland Revenue receipts in February were £4.4 billion. Total for April-February 1985-86 was £50.9 billion, 12½ per cent higher than over the same period last year. 1985 Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85.

### Line to take

Receipts to February up 12½ per cent on last year. Higher corporation tax receipts in first eleven months (by £2.4 billion compared with same period last year) ~~partly~~ <sup>partly</sup> reflects higher company profits in 1984 <sup>and dividend payments in 1985.</sup> ~~and partly higher dividend payments.~~

(Comparisons of single months are misleading: last year in particular some payments due



COVERING CONFIDENTIAL &amp; PERSONAL

FROM: MISS M E PEIRSON  
DATE: 17 March 1986

- J.P.*
1. MR CASSELL
  2. CHANCELLOR OF THE EXCHEQUER

*Charles*Copy with PPS letter, attached, for:

Mr Norgrove - No 10

cc List A

Sir P Middleton  
Sir T Burns  
Mr H Evans  
Mr Peretz  
Mr Scholar  
Mr L Watts  
Mr Devereux  
Dr Webb

List B (distributed at 2.30 pm, 18 March)

Chief Secretary	Miss O'Mara
Financial Secretary	Mr Walsh
Economic Secretary	Mr Williams
Minister of State	Mr Powell
Mr F E R Butler	Mr Cropper
Mr Moore	Mr H Davies
Mr Odling-Smee	Mr Lord
Mr Turnbull	Mr Wells - CSO
Mrs Butler	Mr Calder - IR
Mr Mowl	Mr Wilmott - C & E

*C/10 note**Ro 17/3***MONTHLY NOTE ON THE PSBR**

I attach a report on the PSBR outturn for February. This outturn will be published by press notice at 2.30 pm tomorrow, Budget Day. I also attach the press briefing, amended in the light of the Chancellor's comments.

*MEP*

MISS M E PEIRSON

COVERING CONFIDENTIAL &amp; PERSONAL



## PUBLIC SECTOR BORROWING

### Summary

- The PSBR for February is provisionally estimated as a net repayment of debt of £0.4 billion, compared with last month's forecast of net borrowing of £0.1 billion. Most of the difference was due to lower net borrowing by public corporations, which is mainly expected to be reversed in March.
- Borrowing in the first eleven months of 1985-86 (£2.8 billion) was £2 billion lower than the Budget profile (Chart 1) and nearly £5 billion lower than over the same period last year (Chart 2).
- Borrowing in March is forecast to total £4 billion, £1½ billion more than the March average in the last three years - mainly due to low oil revenues and expected high local authority borrowing.
- The forecast for the PSBR in 1985-86 is thus £6.8 billion, close to the 1985 Budget forecast of £7.1 billion, but the average error at this stage is around £1 billion.

---

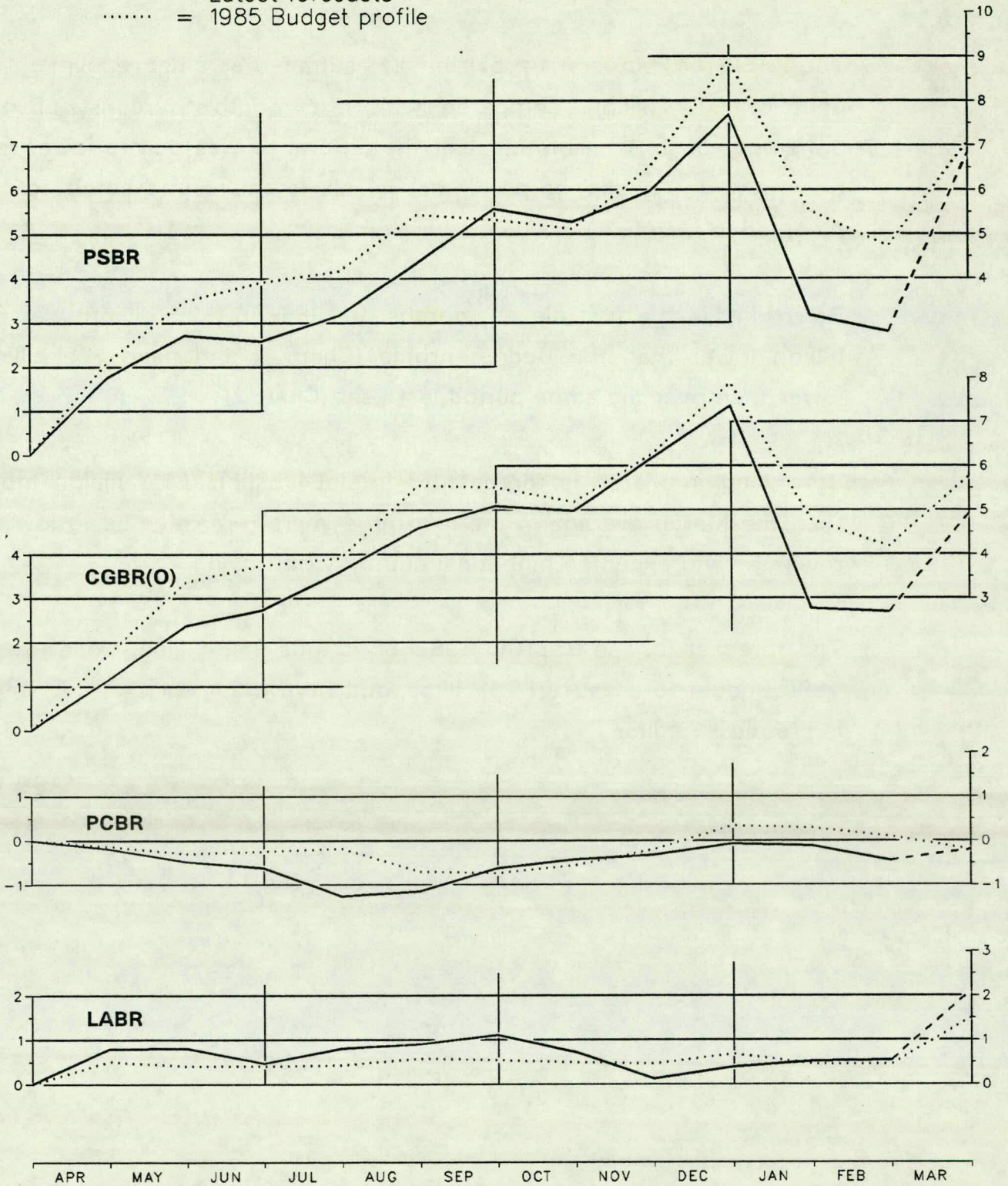
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.



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

£ billion cumulative

- = Estimated outturn in 1985-86
- - - = Latest forecasts
- ..... = 1985 Budget profile

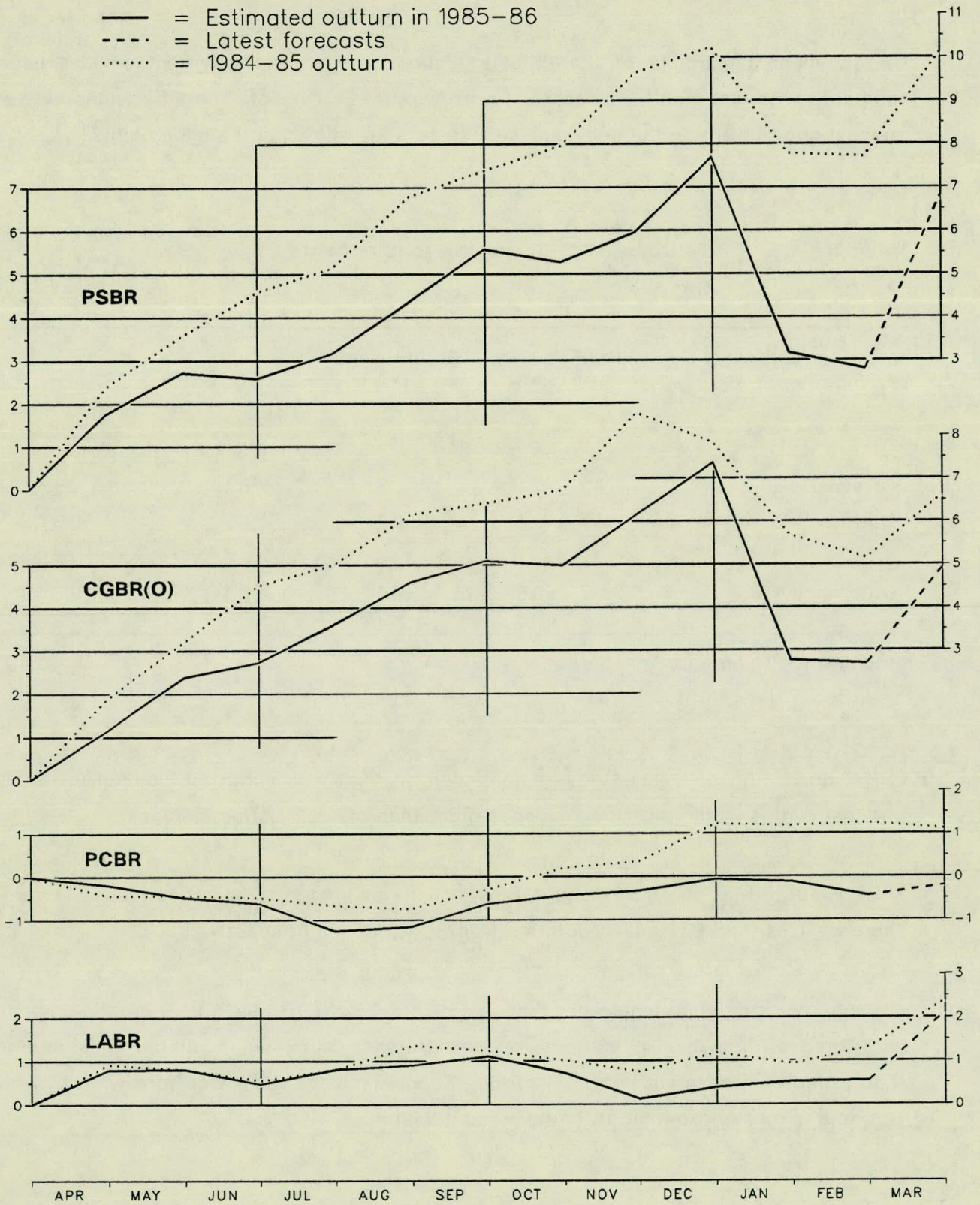




**Chart 2 : Comparisons with last year's outturns**

£ billion cumulative

- = Estimated outturn in 1985-86
- - - = Latest forecasts
- ..... = 1984-85 outturn





**Borrowing in February**

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

The provisional estimate of the PSBR in February is a net repayment of £0.4 billion, compared with last month's forecast of borrowing of £0.1 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: February 1986 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	0.1	-	0.1	-
Outturn	-0.4	-0.1	-	-0.3
Difference	-0.5	-0.1	-0.1	-0.3

\*made on 17 February

2. Net borrowing on central government own account was about £0.1 billion lower than forecast, with slightly lower tax revenues more than offset by other changes.

3. Local authorities' net borrowing is provisionally estimated to have been close to zero in February, less than £0.1 billion different from last month's forecast.

4. Public corporations made a net repayment of debt of £0.3 billion in February, compared with forecast repayment close to zero. The difference is mainly accounted for by a higher than expected repayment by the Electricity Supply Industry and lower borrowing by British Gas, and is mostly expected to be reversed in March.



**April to February**

(Comparisons in this section are with the 1985 Budget profile)

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

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	4.7	4.2	0.5	0.1
Outturn	2.8	2.7	0.5	-0.4
Difference	-1.9	-1.5	0.1	-0.5

5. The cumulative PSBR for the first eleven months of 1985-86 was £2.8 billion, nearly £2 billion below the 1985 Budget profile (see Chart 1 and Table 2). It is almost £5 billion below the same period last year (Chart 2), which was affected by the coal strike in particular.

6. Cumulative borrowing in April-February on central government own account was £1½ billion lower than the 1985 Budget profile. Higher Customs and Excise receipts (by £1.0 billion, mainly VAT), lower supply expenditure (by £0.6 billion), higher non-oil Inland Revenue receipts (by £0.7 billion), and the earlier than expected receipt of the EC refund (£0.6 billion) were only partly offset by lower oil revenues (by £1.4 billion). The lower supply expenditure is mainly due to lower grants to the NCB and lower ECGD payments; the reduction is partly offset within the planning total by higher expenditure on LA capital (affecting the LABR) and other items.

7. Local authorities borrowed £0.5 billion in the first eleven months of 1985-86, in line with the 1985 Budget profile. The higher capital spending appears to have been offset so far by the delay in the teachers' pay settlement.

8. Public corporations made a net repayment of nearly £½ billion in April-February,



compared with small net borrowing in the 1985 Budget profile. This is due mainly to lower net borrowing by the British Steel Corporation, which is expected to undershoot its EFL for the year.

**March**

9. Borrowing in March is forecast to total £4 billion. This is £1¾ billion more than in the 1985 Budget profile, the higher borrowing being spread between central government own account, local authorities and public corporations (see below).

10. Table 5 shows the latest detailed forecast of borrowing on central government own account for March.

11. The forecast of the CGBR(O) for March is for net borrowing of about £2¼ billion, nearly £¾ billion higher than the 1985 Budget forecast. The main factors increasing the CGBR(O) are the EC refund/abatements (worth £¾ billion, and forecast for March in the 1985 Budget profile but almost all received by the end of February) and a larger deficit on the National Insurance Fund (by nearly £½ billion, partly offsetting the very high surplus in April-February). Partly offsetting these items, supply expenditure in March is £¾ billion lower than in the Budget profile (widely spread over several programmes). Inland Revenue and Customs and Excise receipts in March are only slightly lower than the forecast in the Budget profile, a £¼ billion shortfall on PRT being partly offset by higher non-oil revenues.

12. Compared with the average March CGBR(O) in the last 3 years, the forecast represents a £¾ billion increase, which is accounted for by:

- The absence of the usual March peak in PRT. (The Budget profile already assumed a low March peak in PRT this year, but it has disappeared altogether.)
- The timing of Easter (expected to delay nearly £½ billion of tax receipts due by 31 March).
- A high expected deficit on the National Insurance Fund.



An offset is a lower than usual end-year surge in supply expenditure. The supply forecast for March represents an increase of only about 14 per cent on the average in October-February, compared with corresponding increases of 21-36 per cent in 1982-1985.

13. Local authorities are forecast to borrow over £1½ billion in March. Authorities typically borrow heavily in March, when virtually no rate income is received and expenditure is high. The surge in borrowing this March is expected to be about £½ billion higher than usual, for the following reasons:

- The DOE/CIPFA borrowing intentions survey for the final quarter of 1985-86 implied, given the January and February outturns, borrowing of £1¾ billion in March (on the assumption that the teachers' back pay would not be paid in 1985-86). In recent years the survey has consistently overestimated borrowing, but the overestimation has been slowly diminishing and is assumed this year to be no greater than last year (£½ billion).
- On the basis of a sample survey by DOE, half the teachers' back pay (about £¼ billion) is now assumed to be paid in 1985-86.
- The GLC's "tombstone funding" is expected to increase their borrowing slightly.

14. Public corporations are forecast to borrow £¼ billion in March. This is in contrast with the usual net repayment in March, and is partly attributable to the expected partial reversal of the repayment in February.

#### 1985-86

15. For 1985-86 as a whole, the PSBR is forecast at £6.8 billion, compared with the 1985 Budget forecast of £7.1 billion.

16. The CGBR(O) is put £¾ billion lower (see Table 6). The main factors are lower supply expenditure (by about £1¼ billion, excluding on-lending) and higher Customs and Excise receipts (mainly VAT), partly offset by lower Inland Revenue receipts (more than accounted



for by lower oil revenues). The shortfall on supply, as it affects the planning total, is largely offset by higher local authority expenditure and other changes.

17. The LABR seems likely to be £½ billion higher (on the still uncertain assumption that around half of the teachers' back pay is paid in 1985-86), owing to higher capital expenditure. The PCBR is about the same, higher coal stock rebuilding by the Electricity Council being offset by better performance by the Steel Corporation.



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

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1985-86								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>1.0</b>	<i>1.4</i>	<b>1.2</b>	<i>1.6</i>	-	<i>-0.1</i>	<b>-0.3</b>	<i>-0.2</i>
Jun	<b>-0.1</b>	<i>0.4</i>	<b>0.4</b>	<i>0.4</i>	<b>-0.3</b>	-	<b>-0.1</b>	<i>0.1</i>
Jul	<b>0.6</b>	<i>0.3</i>	<b>0.9</b>	<i>0.2</i>	<b>0.3</b>	-	<b>-0.6</b>	<i>0.1</i>
Aug	<b>1.2</b>	<i>1.3</i>	<b>1.0</b>	<i>1.6</i>	<b>0.1</b>	<i>0.2</i>	<b>0.1</b>	<i>-0.5</i>
Sep	<b>1.2</b>	<i>-0.1</i>	<b>0.5</b>	-	<b>0.2</b>	-	<b>0.5</b>	-
Oct	<b>-0.3</b>	<i>-0.2</i>	<b>-0.1</b>	<i>-0.3</i>	<b>-0.4</b>	<i>-0.1</i>	<b>0.2</b>	<i>0.2</i>
Nov	<b>0.7</b>	<i>1.4</i>	<b>1.2</b>	<i>1.1</i>	<b>-0.6</b>	-	<b>0.1</b>	<i>0.4</i>
Dec	<b>1.7</b>	<i>2.4</i>	<b>1.2</b>	<i>1.6</i>	<b>0.3</b>	<i>0.2</i>	<b>0.3</b>	<i>0.5</i>
Jan	<b>-4.5</b>	<i>-3.4</i>	<b>-4.6</b>	<i>-3.1</i>	<b>0.1</b>	<i>-0.2</i>	<b>-0.1</b>	-
Feb	<b>-0.4</b>	<i>-0.8</i>	<b>-0.1</b>	<i>-0.6</i>	-	-	<b>-0.3</b>	<i>-0.2</i>
Mar	<b>4.0</b>	<i>2.3</i>	<b>2.2</b>	<i>1.6</i>	<b>1.6</b>	<i>1.0</i>	<b>0.2</b>	<i>-0.3</i>
Cumulative								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>2.7</b>	<i>3.5</i>	<b>2.4</b>	<i>3.4</i>	<b>0.8</b>	<i>0.4</i>	<b>-0.5</b>	<i>-0.3</i>
Jun	<b>2.6</b>	<i>3.9</i>	<b>2.7</b>	<i>3.8</i>	<b>0.5</b>	<i>0.4</i>	<b>-0.6</b>	<i>-0.2</i>
Jul	<b>3.2</b>	<i>4.2</i>	<b>3.6</b>	<i>3.9</i>	<b>0.8</b>	<i>0.4</i>	<b>-1.3</b>	<i>-0.2</i>
Aug	<b>4.3</b>	<i>5.4</i>	<b>4.6</b>	<i>5.6</i>	<b>0.9</b>	<i>0.6</i>	<b>-1.1</b>	<i>-0.7</i>
Sep	<b>5.6</b>	<i>5.3</i>	<b>5.1</b>	<i>5.5</i>	<b>1.1</b>	<i>0.5</i>	<b>-0.6</b>	<i>-0.7</i>
Oct	<b>5.3</b>	<i>5.1</i>	<b>5.0</b>	<i>5.2</i>	<b>0.7</b>	<i>0.5</i>	<b>-0.4</b>	<i>-0.6</i>
Nov	<b>6.0</b>	<i>6.5</i>	<b>6.2</b>	<i>6.3</i>	<b>0.1</b>	<i>0.5</i>	<b>-0.3</b>	<i>-0.2</i>
Dec	<b>7.7</b>	<i>8.9</i>	<b>7.4</b>	<i>7.9</i>	<b>0.4</b>	<i>0.7</i>	<b>-0.1</b>	<i>0.3</i>
Jan	<b>3.2</b>	<i>5.5</i>	<b>2.8</b>	<i>4.8</i>	<b>0.5</b>	<i>0.5</i>	<b>-0.1</b>	<i>0.3</i>
Feb	<b>2.8</b>	<i>4.7</i>	<b>2.7</b>	<i>4.2</i>	<b>0.5</b>	<i>0.5</i>	<b>-0.4</b>	<i>0.1</i>
Mar	<b>6.8</b>	<i>7.1</i>	<b>4.9</b>	<i>5.8</i>	<b>2.1</b>	<i>1.5</i>	<b>-0.2</b>	<i>-0.2</i>

Figures for April to February 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 <sup>(1)</sup>	1984-85 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	2.4	2.1	<b>1.8</b>	-0.6	-0.4
May	1.2	1.4	<b>1.0</b>	-0.2	-0.4
Jun	1.0	0.4	<b>-0.1</b>	-1.1	-0.6
Q2	4.6	3.9	<b>2.6</b>	-2.0	-1.3
Jul	0.6	0.3	<b>0.6</b>	-	0.3
Aug	1.6	1.3	<b>1.2</b>	-0.5	-0.1
Sep	0.6	-0.1	<b>1.2</b>	0.6	1.3
Q3	2.8	1.4	<b>3.0</b>	0.2	1.6
Oct	0.6	-0.2	<b>-0.3</b>	-0.9	-0.1
Nov	1.7	1.4	<b>0.7</b>	-1.0	-0.7
Dec	0.6	2.4	<b>1.7</b>	1.1	-0.7
Q4	2.8	3.6	<b>2.1</b>	-0.7	-1.5
Jan	-2.4	-3.4	<b>-4.5</b>	-2.1	-1.1
Feb	-0.1	-0.8	<b>-0.4</b>	-0.3	0.4
Mar	2.4	2.3	<b>4.0</b>	1.6	1.7
Q1	-0.1	-1.8	<b>-0.9</b>	-0.7	1.0
Cumulative					
Apr	2.4	2.1	<b>1.8</b>	-0.6	-0.4
May	3.6	3.5	<b>2.7</b>	-0.9	-0.8
Jun	4.6	3.9	<b>2.6</b>	-2.0	-1.3
Jul	5.1	4.2	<b>3.2</b>	-2.0	-1.0
Aug	6.8	5.4	<b>4.3</b>	-2.4	-1.1
Sep	7.4	5.3	<b>5.6</b>	-1.8	0.2
Oct	8.0	5.1	<b>5.3</b>	-2.7	0.2
Nov	9.6	6.5	<b>6.0</b>	-3.7	-0.6
Dec	10.2	8.9	<b>7.7</b>	-2.5	-1.2
Jan	7.8	5.5	<b>3.2</b>	-4.6	-2.4
Feb	7.7	4.7	<b>2.8</b>	-4.9	-1.9
Mar	10.1	7.1	<b>6.8</b>	-3.3	-0.2

<sup>(1)</sup>Figures for April to February are outturns



**Table 5: Central government transactions – February  
outturn and latest forecasts for March**

£ billion

	February		Latest forecasts
	forecast	outturn <sup>(1)</sup>	March
<b>Receipts</b>			
<i>Consolidated Fund</i>			
Inland Revenue	4.6	4.4	4.4
Customs and Excise	3.6	3.5	2.8
Other <sup>(2)</sup>	1.0	0.7	1.5
<i>National Loans Fund</i>			
Interest etc. receipts	0.4	0.4	0.8
<b>Total Receipts</b>	<b>9.6</b>	<b>9.0</b>	<b>9.5</b>
<b>Expenditure</b>			
<i>Consolidated Fund</i>			
Supply expenditure <sup>(3)</sup>	7.9	8.0	9.4
Adjustment to Supply Services basis <sup>(4)</sup>	-	-0.3	-0.6
Other	0.4	0.4	0.4
<i>National Loans Fund</i>			
Service of the national debt	1.1	1.1	1.0
Net lending	-0.1	-0.2	0.9
<b>Total Expenditure</b>	<b>9.3</b>	<b>9.0</b>	<b>11.1</b>
<b>Other funds and accounts</b> (+ increases borrowing) (- reduces borrowing)	<b>0.1</b>	<b>-0.2</b>	<b>1.5</b>
<b>CGBR</b>	<b>-0.1</b>	<b>-0.2</b>	<b>3.2</b>
<b>On-lending</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.9</b>
<b>CGBR(O)</b>	<b>-</b>	<b>-0.1</b>	<b>2.2</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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<sup>(1)</sup> – comparisons with 1984–85 and 1985 Budget profile**

£ billion

	1984–85	1985–86	
	Outturn	1985 Budget forecast	Latest update
<b>Receipts</b>			
<i>Consolidated Fund</i>			
Inland Revenue	50.4	56.2	55.3
Customs and Excise	35.5	36.4	37.3
Other <sup>(2)</sup>	12.4	13.9	13.2
<i>National Loans Fund</i>			
Interest etc. receipts	5.4	6.4	6.6
<b>Total Receipts</b>	<b>103.7</b>	<b>112.9</b>	<b>112.4</b>
<b>Expenditure</b>			
<i>Consolidated Fund</i>			
Supply expenditure <sup>(3)</sup>	93.6	99.6	98.1
Adjustment to Supply Services basis <sup>(4)</sup>	-0.1	-	-
Other	4.6	4.4	4.5
<i>National Loans Fund</i>			
Service of the national debt	12.9	14.1	14.3
Net lending	2.5	2.4	5.2
<b>Total Expenditure</b>	<b>113.5</b>	<b>120.5</b>	<b>122.0</b>
<b>Other funds and accounts</b> (+ increases borrowing) (- reduces borrowing)	<b>0.2</b>	<b>1.5</b>	<b>1.1</b>
<b>CGBR</b>	<b>10.1</b>	<b>9.0</b>	<b>10.7</b>
<b>On-lending</b>	<b>3.5</b>	<b>3.3</b>	<b>5.8</b>
<b>CGBR(O)</b>	<b>6.6</b>	<b>5.8</b>	<b>4.9</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets.

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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  
18 March 1986

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 Devereux  
Mr Pickford  
Mr Ward - CSO  
Mr Wright - B/E  
Mr Norgrove - No. 10

List B

(distributed at 2.30pm, 18 March)

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

**BRIEFING FOR 18 MARCH PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for February will be published at 2.30pm on Budget Day. The provisional outturns, together with figures for the first eleven months of 1984-85 and 1985-86, are shown in Table 1. Cumulative figures for the PSBR and its components for the last three years are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns** £ billion

	Apr-Feb 1984-85	Apr-Feb 1985-86	February 1986
Central government on own account	5.2	2.7	-0.1
Local authorities	1.3	0.5	-
Public corporations	1.3	-0.4	-0.3
PSBR	7.7	2.8	-0.4
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	7.9	7.6	-0.2

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	<b>1.1</b>	0.5	0.9	<b>0.8</b>	-0.2	-0.4	<b>-0.2</b>	1.2	2.4
May	2.4	3.2	<b>2.4</b>	0.3	0.8	<b>0.8</b>	-0.3	-0.4	<b>-0.5</b>	2.4	3.6	<b>2.7</b>
Jun	3.7	4.5	<b>2.7</b>	-0.1	0.6	<b>0.5</b>	-0.4	-0.5	<b>-0.6</b>	3.2	4.6	<b>2.6</b>
Jul	4.5	5.0	<b>3.6</b>	-0.0	0.8	<b>0.8</b>	-0.6	-0.7	<b>-1.3</b>	3.9	5.1	<b>3.2</b>
Aug	5.8	6.2	<b>4.6</b>	0.3	1.4	<b>0.9</b>	-0.4	-0.7	<b>-1.1</b>	5.6	6.8	<b>4.3</b>
Sep	6.6	6.4	<b>5.1</b>	0.3	1.2	<b>1.1</b>	-0.0	-0.3	<b>-0.6</b>	6.9	7.4	<b>5.6</b>
Oct	6.7	6.7	<b>5.0</b>	0.3	1.0	<b>0.7</b>	0.1	0.2	<b>-0.4</b>	7.1	8.0	<b>5.3</b>
Nov	8.3	8.5	<b>6.2</b>	-0.2	0.8	<b>0.1</b>	0.5	0.4	<b>-0.3</b>	8.5	9.6	<b>6.0</b>
Dec	9.1	7.8	<b>7.4</b>	0.1	1.2	<b>0.4</b>	0.6	1.2	<b>-0.1</b>	9.8	10.2	<b>7.7</b>
Jan	6.3	5.7	<b>2.8</b>	0.0	0.9	<b>0.5</b>	0.7	1.2	<b>-0.1</b>	7.1	7.8	<b>3.2</b>
Feb	6.7	5.2	<b>2.7</b>	0.1	1.3	<b>0.5</b>	0.6	1.3	<b>-0.4</b>	7.5	7.7	<b>2.8</b>
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.



2. The (provisional) PSBR for February is a net repayment of debt of £0.4 billion. City analysts are expecting substantial net borrowing (£½-1¼ billion, with an average of nearly £1 billion).

### POSITIVE

#### Line to take

1. Borrowing in first eleven months of 1985-86 was £2.8 billion. That is nearly £5 billion lower than in first eleven months of previous two years. But comparisons between these periods are distorted by several factors, e.g. effects of coal strike in 1984-85.
2. Non-oil revenues are higher than in last year's Budget forecast (e.g. VAT on capital taxes), partly offsetting reduction in oil revenues.
3. Further forecast for year as a whole will be given in today's Budget.

### DEFENSIVE/FACTUAL

#### 1. Was outturn known when Budget judgment formed?

##### Line to take

Forecast PSBR outturn for 1985-86 has not changed since final Budget judgment made.



## **2. Borrowing in 1985-86**

### Background

Autumn Statement forecast was £8 billion, with margin of error of £2½ billion, giving range of £5½ - 10½ billion. Further forecast in today's Budget.

### Line to take

Borrowing in April - February exceptionally low. However, there is always high borrowing in March, and this year it will be further increased by effects of lower oil revenues and other factors (see Defensive 4).

## **3. Borrowing in February**

### Background

Net borrowing in February normally low; average PSBR of £0.3 billion in month over last six years, with small repayments in 1982 and 1985.

### Line to take

Net repayment somewhat unusual for February, but always get erratic fluctuations. Net repayment by public corporations in particular may easily be reversed, at least in part, in March.

## **4. Borrowing in March**

### Line to take

Always high borrowing at end of year. In March of last 3 years PSBR was £2¼-3 billion. This year likely to be exacerbated by various factors:

- lower oil revenues (March peak not nearly as high as in previous years)
- timing of Easter (may delay some tax receipts normally paid in March)
- teachers' pay settlement (some local authorities may pay backpay this month)
- possible reversal of some of public corporations' net repayment in February.



## **5. Oil Revenues : effect of fall in dollar price**

### 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 1985 Budget. Revenues in first eleven months of year (April 1985 - February 1986) determined largely by prices and production up to June 1985. Revenues in March 1986 determined largely by what happened in July-December 1985. Fall in dollar price since December affects deliveries in January 1986 onwards and hence will have little effect on revenues in 1985-86.

### Line to take

Sharp fall in oil price since December has little effect in 1985-86, because revenues up to end-March depend largely on average prices and production up to end-December. But much of £2 billion fall referred to in Autumn Statement (reflecting appreciation of sterling against dollar) is expected to occur in March.

Today's Budget contains revised forecast for 1985-86.

## **6. Inland Revenue receipts**

### Background

Total Inland Revenue receipts in February were £4.4 billion. Total for April-February 1985-86 was £50.9 billion, 12½ per cent higher than over the same period last year. 1985 Budget forecast for 1985-86 was for receipts of £56.2 billion, up 11½ per cent on 1984-85.

### Line to take

Receipts to February up 12½ per cent on last year. Higher corporation tax receipts in first eleven months (by £2.4 billion compared with same period last year) reflects higher company profits in 1984 and dividend payments in 1985.

(Comparisons of single months are misleading: last year in particular some payments due



in January were delayed. So this year, January receipts higher and February receipts slightly lower.)

Today's Budget contains revised forecast for 1985-86.

## **7. Customs and Excise receipts**

### Background

Customs and Excise receipts in February were £3.5 billion. Total for April-February 1985-86 (£34½ billion) was 5½ per cent higher than over the same period last year. 1985 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

As noted in Autumn Statement, expenditure tax receipts in 1985-86 now expected to be greater than in 1985 Budget forecast (particularly VAT).

Today's Budget contains revised forecast for 1985-86.

## **8. EC refunds and abatements**

### Line to take

1984 rebate of 1000m ecus (about £600 million) received by 6 January 1986.

Arrangements in respect of 1985 and subsequent years are different, and from January 1986 are reducing UK monthly contributions; abatements in February benefitted PSBR by about £70 million (based on 1986 budget figure of 1400m ecus).

## **9. Supply Expenditure**

### Background

For the first eleven months of 1985-86, Supply expenditure (the amount spent by



departments), shown in table 4 of press notice, was about 6¾ per cent higher than in first eleven months last year. After adjusting for changes in method of paying EC contributions, the increase is 6½ per cent. Supply has different coverage from planning total (eg the planning total includes privatisation proceeds, LA expenditure rather than CG grants to LAs, and PCs' market borrowing).

#### Line to take

Increase in supply expenditure in April-February (after adjustment for change in method of paying EC contributions) is 6½ per cent above same period of 1984-85. Supply has different coverage from planning total, and movements in Supply do not give a guide to movements in the planning total. Estimated outturns for supply and planning total in 1985-86 given in FSBR (Tables 5.1 and 5.2).

## **10. Privatisation proceeds**

### Background

1985 Budget forecast for total receipts from privatisation proceeds in 1985-86 was £2.5 billion - increased to £2.6 billion in PEWP. 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 delay in sale has no effect on the PSBR, or privatisation proceeds.

### Line to take

No receipts in February. Total net receipts for first eleven months of 1985-86 about £2¼ billion, some £¼ billion more than over the same period last year. Second call on sale of residual shareholding in Cable and Wireless will realise net receipts of about £300 million in March.

## **11. Local authorities**

### Background

Preliminary estimate is that local authorities had small net borrowing in February bringing total net borrowing to £0.5 billion in April-February 1985-86, about £¾ billion lower than over corresponding period last year. 1985 Budget did not contain forecast for 1985-86 as a whole (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. But today's Budget contains 1985-86 forecast. Outturn for 1984-85 was £2.4 billion.

Line to take

February outturn not very different from usual. Cumulative borrowing April-February 1985-86 (£0.5 billion) well within range of outturns in same period of previous three years. Borrowing probably reduced somewhat so far this year by delay in teachers' pay settlement. Some effects from payment of back pay may be felt in March, when LA borrowing always high anyway.

Today's Budget will contain forecast for 1985-86.

## **12. Public corporations**

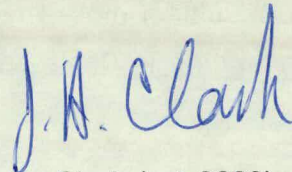
Background

Public corporations (provisionally) showed a net repayment of debt of £0.3 billion in February, giving a net repayment of nearly £½ billion for first eleven months of 1985-86. No Budget or Autumn Statement forecasts of PCBR for 1985-86 as a whole - see Q11.

Line to take

Borrowing in 1985-86 is running much lower than in 1984-85. (The later months of 1984-85 were affected by the miners' strike).

Today's Budget will contain forecast for 1985-86.



John Clark (ext 3093)

PSF Division, HM Treasury



Rachel

Have you  
already seen  
this?



Meena  
17/4

ppp

Mrs Pearson

Could you please revise

update as necessary,

taking account of the

figures for 1985-86 + 1986-87

in the book.

Rh

7/4

Ms Lomas

Budget brief EA (copy of relevant  
page attached) gives required figures.

Next week, if you like, we'll supply  
revised figures using 1985-86 provisional  
on them.

MEP 7.4



**E4 PUBLIC SECTOR BORROWING: HISTORICAL STATISTICS AND INTERNATIONAL COMPARISONS**

[See also World economy: recent developments (Brief B1), MTFs: fiscal projections (D2), Fiscal policy (E2) and PSBR: 1985-86 and 1986-87 (E3)]

**A HISTORICAL STATISTICS**

**Factual**

PSBR in cash and as percentage of GDP:

	PSBR			PSBR excluding privatisa- tion proceeds	PSFD(1)	
	Cash (£ billion)	In 1984-85 prices	Ratio to GDP per cent)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)
1971-72	1.0	4.3	1 $\frac{3}{4}$	1 $\frac{3}{4}$	0.7	1 $\frac{1}{4}$
1972-73	2.4	9.9	3 $\frac{1}{2}$	3 $\frac{1}{2}$	2.0	3
1973-74	4.3	16.5	5 $\frac{3}{4}$	5 $\frac{3}{4}$	3.5	4 $\frac{3}{4}$
1974-75	8.0	25.5	9	9	6.0	6 $\frac{3}{4}$
1975-76	10.3 (2)	26.0	9 $\frac{1}{4}$	9 $\frac{1}{4}$	8.1	7 $\frac{1}{2}$
1976-77	8.3	18.6	6 $\frac{1}{2}$	6 $\frac{1}{2}$	7.4	5 $\frac{3}{4}$
1977-78	5.4	10.6	3 $\frac{1}{2}$	4	6.6	4 $\frac{1}{2}$
1978-79	9.2	16.4	5 $\frac{1}{4}$	5 $\frac{1}{4}$	8.5	5
Average 1974-75 to 1978-79	8.2	19.4	6 $\frac{3}{4}$	6 $\frac{3}{4}$	7.3	5 $\frac{3}{4}$
1979-80	10.0	15.3	4 $\frac{3}{4}$	5	8.2	4
1980-81	12.7	16.3	5 $\frac{1}{2}$	5 $\frac{1}{2}$	11.9	5
1981-82	8.6	10.1	3 $\frac{1}{4}$	3 $\frac{1}{2}$	5.9	2 $\frac{1}{4}$
1982-83	8.9	9.7	3 $\frac{1}{4}$	3 $\frac{1}{4}$	8.6	3
1983-84	9.7	10.1	3 $\frac{1}{4}$	3 $\frac{1}{2}$	12.3	4
1984-85	10.1	10.1	3	3 $\frac{1}{4}$	14.4	4 $\frac{1}{2}$
1985-86 (Budget forecast)(3)	6.8	6.4	2	2 $\frac{1}{4}$	10.2	2 $\frac{1}{4}$
Average 1979-80 to 1985-86	9.5	11.1	3 $\frac{1}{2}$	4	10.2	3 $\frac{1}{4}$
1986-87 (Budget forecast)	7.1	6.5	1 $\frac{3}{4}$	3	12.2	3 $\frac{1}{4}$

(1) Public sector financial deficit.

(2) If calculated as same proportion (9  $\frac{1}{4}$  per cent) of 1985-86 GDP, would be £33 billion (see below).

(3) Outturn to February £2.8 billion.



CONFIDENTIAL

*jc*  
 MR CASSELL  
 CHANCELLOR OF THE EXCHEQUER

*Meena*  
 FROM: R DEVEREUX  
 DATE: 2 April 1986

cc Sir P Middleton  
 Sir T Burns  
 Mr H P Evans  
 Mr Peretz  
 Mr Scholar  
 Miss Peirson o/r  
 Mr Watts  
 Dr I Webb

**CGBR(O) & CGBR: FIRST ESTIMATES OF OUTTURN IN 1985-86**

1. The provisional outturn for the CGBR(O) in 1985-86 is £4.0 billion. This is £0.9 billion lower than forecast in the Financial Statement and Budget Report on 18 March (see below). The estimate of the outturn is subject to revision before publication on Wednesday 16 April in the PSBR press notice. (The provisional outturn for the PSBR will be available next Wednesday.)

2. Several central government receipts were higher than forecast: Inland Revenue (by £0.2 billion), Customs and Excise (by £0.1 billion), National Insurance Contributions (by £0.1 billion) and interest receipts from local authorities (by £0.1 billion). In addition £0.1 billion was received for the third call on BT shares which is not due until 9 April.

3. Information on the remaining difference is still to come, but funding for National Insurance Fund benefits appears to have been lower than forecast. Supply expenditure seems to be close to forecast.

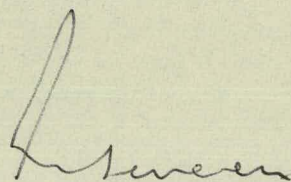
4. On-lending to local authorities and public corporations totalled £6.9 billion in 1985-86, giving a CGBR for the year of £10.9 billion. On-lending to local authorities was £1 billion higher than forecast in the FSR, but this does not necessarily carry any implications for the LABR as it may be offset by repayments of market debt.

5. Further analysis of the CGBR outturn in March will be



CONFIDENTIAL

given in the next Ministerial note on the PSBR in two weeks' time.

A handwritten signature in dark ink, appearing to read 'R J Devereux', written in a cursive style.

R J DEVEREUX



CONFIDENTIAL

## CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	March 1986	April 1985-March 1986			April 1984 March 1985
	Provisional outturn	Provisional outturn	1986 Budget forecast	Difference	Outturn
Inland Revenue	+ 4.5	+ 55.4	+ 55.3	+ 0.2	+ 50.4
Customs and Excise	+ 2.9	+ 37.4	+ 37.3	+ 0.1	+ 35.5
Other own account	- 8.8	- 96.9	- 97.5	+ 0.6	- 92.5
CGBR(O)	- 1.3	- 4.0	- 4.9	+ 0.9	- 6.6
On-lending:					
- LAs	- 1.9	- 5.8	- 4.8	- 1.0	- 3.3
- PCs	- 0.1	- 1.1	- 1.1	-	- 0.1
CGBR	- 3.3	- 10.9	- 10.7	- 0.2	- 10.1

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

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

CONFIDENTIAL



*mp*

FROM: MISS M E PEIRSON  
DATE: 9 April 1986

- 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

*By Inwright*  
*KL*  
*9/4*

*althis!*  
*but marginally*  
*to from me*  
*dead.*  
*26*

PSBR IN MARCH AND IN 1985-86

1. The first provisional outturn for the PSBR in the whole of 1985-86 is £5.9 billion, £0.9 billion lower than the Budget forecast of £6.8 billion (see table attached) and £½-1 billion lower than available market forecasts. This estimate is subject to revision before publication on Wednesday 16 April.
2. The difference from the Budget forecast is largely accounted for by the CGBR(O). Small differences in the LABR and PCBR are nearly offsetting.
3. The CGBR(O) in 1985-86 is provisionally £4.1 billion, £0.8 billion lower than forecast. As reported in Mr Devereux's minute of 2 April, several central government receipts were higher than forecast.
4. The LABR in 1985-86 is provisionally £1.8 billion, £0.3 billion lower than forecast. The PCBR is provisionally a very small net repayment of debt, smaller than forecast. (Apart from any revisions before publication next Wednesday, the PCBR in particular is subject to further revision when the banks' quarterly returns come in: this could affect the outturn by up to £¼ billion either way.)
5. The monthly note, presenting updated estimates of outturn for 1985-86 and a forecast monthly profile for 1986-87, will be circulated next Tuesday. As usual we shall send you a copy of the draft press briefing at the same time.

*MEP*

MISS M E PEIRSON



## CONFIDENTIAL &amp; PERSONAL

£ billion

	March 1986			1985-86			1984-85
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget forecast	Difference	Outturn
CGBR(O)	1.4	2.2	- 0.9	4.1	4.9	- 0.8	6.6
LABR	1.3	1.6	- 0.3	1.8	2.1	- 0.3	2.4
PCBR	0.4	0.2	0.1	-	- 0.2	0.2	1.2
PSBR	3.0	4.0	- 1.0	5.9	6.8	- 0.9	10.2

CONFIDENTIAL &amp; PERSONAL



Note.  
Ian Webb  
has rest.  
Ro 10/4.

*mp*

FROM: MISS M E PEIRSON  
DATE: 15 April 1986

*Approved in  
draft. M.E.P.*

- 1. MR CASSELL
- 2. CHANCELLOR OF THE EXCHEQUER

*Ch*  
*contact with*  
*press briefing?*  
*(This one will see Jeff!)*

Copy with PPS letter, attached, for:

Mr Norgrove - No 10

cc List A

List B (distributed at 2.30 pm, 16 April)

*RL*  
*15/4*

Sir P Middleton  
 Sir T Burns  
 Mr H Evans  
 Mr Peretz  
 Mr Scholar  
 Mr L Watts  
 Mr Devereux  
 Dr Clark

Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Mr F E R Butler  
 Mr Moore  
 Mr Odling-Smee  
 Mr Turnbull  
 Mrs Butler  
 Mr Mowl

Miss O'Mara  
 Mr Walsh  
 Mr Williams  
 Mr Ritchie  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Lord  
 Mr Wells - CSO  
 Mr Calder - IR  
 Mr Wilmott - C & E

**MONTHLY NOTE ON THE PSBR**

- 1. I attach a report on the PSBR outturn for 1985-86. This outturn will be published by press notice at 2.30 pm tomorrow.
- 2. This note also contains monthly borrowing profiles for 1986-87, with detailed forecasts of borrowing in the next three months.

*M.E.P.*

MISS M E PEIRSON



## PUBLIC SECTOR BORROWING

### Summary

- The PSBR for 1985-86 is provisionally estimated at £5.9 billion, 1.6 per cent of the 1986 Budget estimate of GDP.
- This is about £0.9 billion lower than last month's Budget forecast, mainly because several central government receipts were a little higher than forecast.
- The outturn is £1.2 billion lower than the 1985 Budget forecast and £4.3 billion lower than the 1984-85 outturn (Charts 1 and 2).
- Monthly borrowing profiles for 1986-87 are presented in this note (Chart 2 and Table 4), together with more detailed forecasts of borrowing in the period April-June (Table 5).
- There is again heavy front-end loading. Borrowing over the next three months is likely to be about the same as in the corresponding period last year (around £2½ billion). Borrowing in the first six months is forecast to be approaching 90 per cent of the year's total, but this is dominated by the assumed timing of the sale of British Gas. Excluding privatisation proceeds, borrowing in the first half year is closer to 60 per cent of the year's total, slightly below the recent average.

---

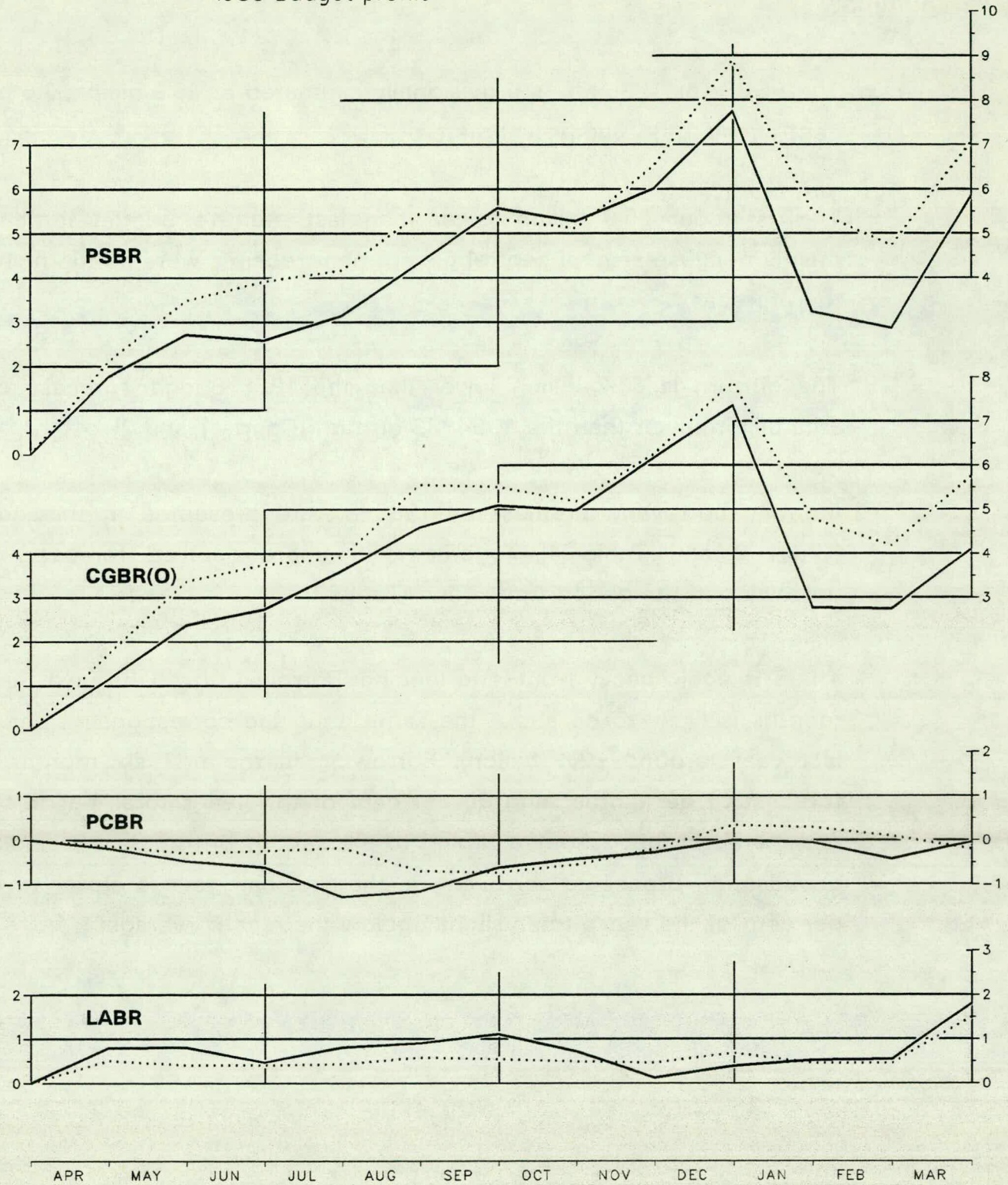
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.



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

£ billion cumulative

— = Estimated outturn in 1985-86  
 ..... = 1985 Budget profile

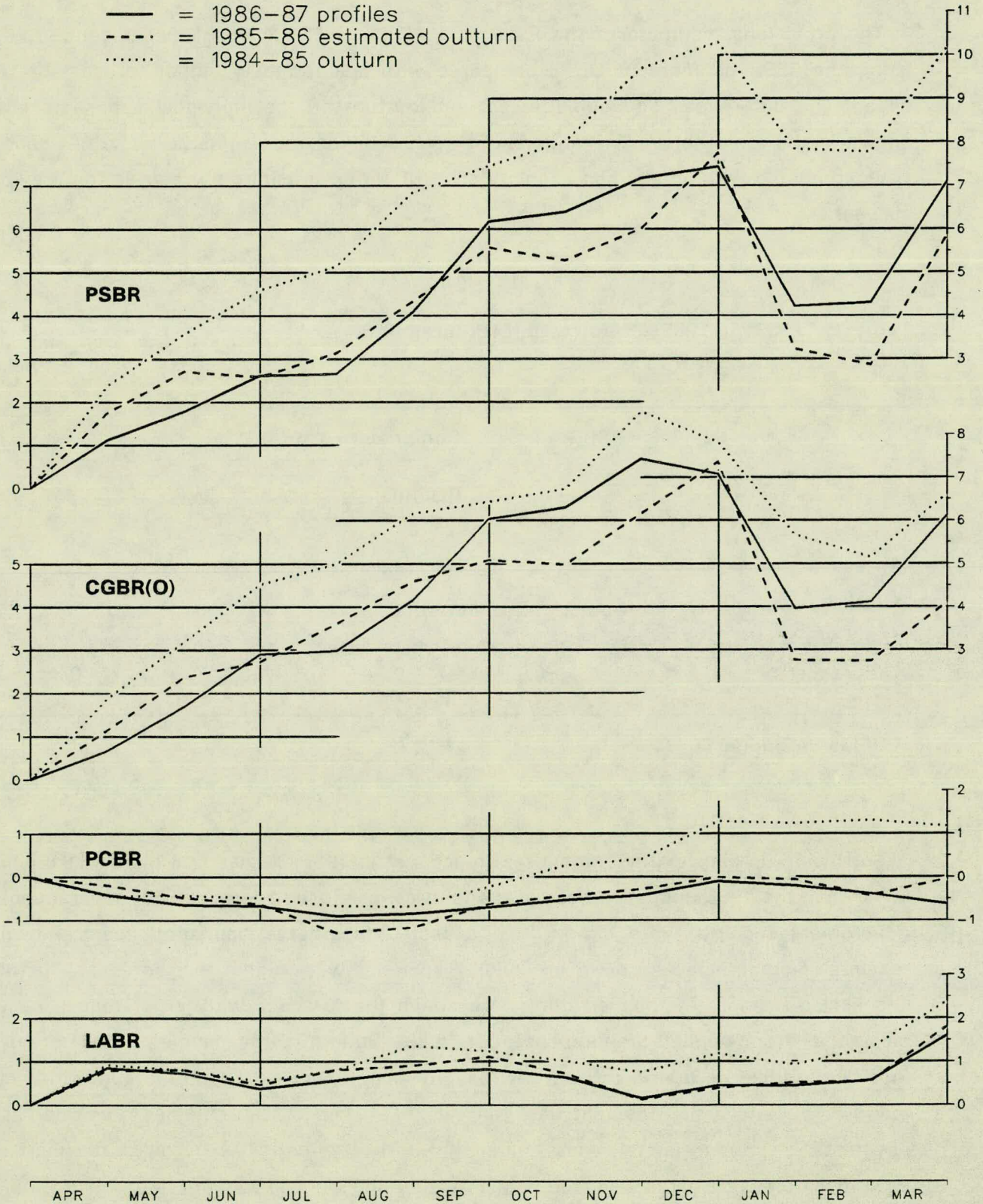




**Chart 2 : 1986-87: Comparisons with outturns for 1984-85 and 1985-86**

£ billion cumulative

- = 1986-87 profiles
- - - = 1985-86 estimated outturn
- ..... = 1984-85 outturn





**Borrowing in 1985-86**

(Outturn compared with last month's Budget forecast)

1. The provisional estimate of the PSBR in 1985-86 is £5.9 billion (1.6 per cent of GDP, using the FSBR estimate of GDP), compared with last month's Budget forecast of £6.8 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below. The undershoot of £0.9 billion represents about ¼ per cent of GDP, compared with an average absolute error of about one-third per cent in the previous six years.

**Table 1: 1985-86 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	6.8	4.9	2.1	-0.2
Outturn	5.9	4.1	1.8	-
Difference	-0.9	-0.8	-0.3	0.2

\*18 March Budget

2. Borrowing on central government's own account in 1985-86 was £4.1 billion, £0.8 billion lower than the 1986 Budget forecast. Expenditure was close to forecast, but several central government receipts were higher than expected (see table opposite). Inland Revenue receipts of composite rate tax from building societies were higher than forecast. Customs and Excise receipts of tobacco duty were above the forecast, with larger than expected clearances from bonded warehouses prior to the Budget. Large payments of interest by local authorities are due in the last few days of March each year, and the authorities may pay early or late if the payment date falls at a weekend or bank holiday; this year early payments (ie prior to Easter) were higher than forecast. Also, £0.1 billion of the third call on British Telecom shares was paid in March, although the call was not due until 9 April.



CONFIDENTIAL AND PERSONAL

£billion ( - indicates lower borrowing)

---

Inland Revenue	-0.2
Customs and Excise	-0.1
National Insurance Contributions	-0.1
Interest Receipts	-0.1
British Telecom Receipts	-0.1
Supply expenditure	-0.1
Other	<u>-0.1</u>
Net effect on CGBR(0)	-0.8

---

3. Local authorities' borrowing in 1985-86 was £1.8 billion, somewhat lower than the Budget forecast. March is traditionally a month of high borrowing, with little rate income received, and borrowing this year was further increased by backpay to teachers of perhaps half the £0.4 billion due (the remainder will be paid in April). On the other hand, Easter may have increased the usual spillover of borrowing from March into April.

4. Public corporations made a small net repayment of debt in 1985-86, compared with forecast repayment of £0.2 billion. The difference partly reflects an upward revision of the estimated outturn for April-February. The estimate for the year is subject to revision when the banks' quarterly returns come in: this could affect the outturn by up to £¼ billion either way.

**Borrowing in first quarter of 1986**

5. The outturn in 1985-86 included a surplus of nearly £2 billion on the PSBR in January-March 1986, compared with very small surpluses in the corresponding quarters of 1984 and 1985, and a forecast surplus of about £¼ billion for January-March 1987 (see below). The large surplus in 1986 Q1 resulted from:-

- the increase of £1½ billion in corporation tax between January 1985 and January 1986, reflecting the increase in profits in 1984: only a small further increase is



forecast in January 1987, and is much more than offset by the forecast fall (of £1½ billion) in PRT between 1986 Q1 and 1987 Q1;

- the relatively low end-year surge in supply, which reduced supply substantially in March 1986 (compared with the proportion in March 1985) but is expected to be rather higher again in March 1987;
- the £½ billion 1984 EC rebate, received mainly in January 1986 (no such rebate is expected in 1987 Q1 - see below);
- the £½ billion privatisation proceeds in March 1986: however, the forecast for 1987 Q1 is nearly £2 billion - see below - and this difference partly offsets the other differences above.



**Borrowing in 1986-87 : Monthly Profile**

6. The PSBR for 1986-87 was forecast in the 1986 Budget to be £7.1 billion. The monthly profile in this note is consistent with the Budget forecast for the year as a whole: in particular, no allowance has been made for the fact that some non-oil revenues turned out a little higher in 1985-86 than expected, and that this might carry through to 1986-87, nor for the fact that the average oil price in 1986 might be less than 15 dollars/barrel.

7. As in previous years, most of the borrowing is expected in the first half-year (details are shown in Chart 2 and Table 4). For 1986-87, the forecast proportion is 87 per cent, though excluding privatisation proceeds (totalling £4¾ billion), three-quarters of which are expected in the second half-year (see paragraph 16), the proportion becomes 63 per cent. That compares with an average of 68 per cent (excluding privatisation proceeds) in the 8 years up to and including 1985-86 and 86 per cent in 1985-86 itself. Borrowing is not however forecast to rise much above the total for the year by end-December, as it did in 1985-86, though again that depends heavily on the timing of privatisation proceeds.

8. The concentration of Inland Revenue receipts in the second half of the year is expected to be only 55 per cent of the annual total, compared with 57½ per cent in 1985-86. The reduction is largely because of the smoothing of building societies' composite rate tax in 1986-87. The remaining concentration is as usual accounted for mainly by corporation tax receipts (see paragraph 12). Slightly higher Customs and Excise receipts are also expected in the second half-year. These higher receipts are partly offset by higher supply expenditure in the second half-year.

9. The major differences in particular months between the profiles for 1985-86 and 1986-87 shown in Chart 2 arise for the following main reasons:

- (i) lower borrowing in April 1986 than in April 1985 and higher borrowing in June 1986 than in June 1985 because of the BT sale: second call receipts were received in June 1985 and final call receipts in April 1986;
- (ii) higher borrowing in September 1986 than in September 1985 because of an



expected net repayment of PRT this year (see paragraph 12);

- (iii) lower borrowing in December 1986 than in December 1985 because of the expected sale of British Gas (see paragraph 16);
- (iv) a lower net repayment in January 1987 than in January 1986: Inland Revenue receipts are expected to fall back slightly from the very high level in January 1986 (owing to changed timing of composite rate tax payments and lower oil revenues), the 1984 EC rebate was largely received in January 1986, and supply expenditure is expected to be relatively high in January 1987 (see paragraph 15).

#### **Sectoral split of PSBR in 1986-87**

10. The forecast split of the PSBR between central government, local authorities and public corporations is significantly different from the outturn in 1985-86. A breakdown was not published in the 1986 Budget but the underlying forecast comprised borrowing of £6.1 billion on central government's own account, £1.6 billion by local authorities and a surplus of £0.6 billion by public corporations. In 1985-86 the CGBR(O) was £2 billion lower (see paragraph 11) but the PCBR and LABR were a little higher.

#### **Central Government borrowing in 1986-87**

11. The Budget forecast of borrowing on central government own account in 1986-87 is £6.1 billion, compared with the provisional outturn of £4.1 billion in 1985-86. The increase is due to the fall in oil revenues, which partly offsets the rise in other revenues (itself moderated by the Budget measures). The main feature of the borrowing profile during 1986-87 is the high level of borrowing forecast for the first six months of the year (virtually all of the £6.1 billion forecast for the whole of 1986-87), repeating the significant front-end-loading of each of the last two years. (Excluding privatisation proceeds, the proportion would be only some 80 per cent.) In the next three months central government borrowing is forecast to rise to about £7 billion before the usual surplus in the final quarter. Notes on the profiles for the main items are as follows.



a) Inland Revenue

12. In general, the main categories of tax receipts are expected to follow a similar pattern to that in 1985-86. Both Income tax and Corporation tax receipts will peak in January (totalling some £9½ billion), and smaller peaks will occur in July (high advance corporation tax and Schedule D receipts from the self employed), and October (high mainstream and advance corporation tax). Some special factors affecting receipts in 1986-87 have also been taken into account:

- The normal seasonal peaks of Petroleum Revenue tax in September and March are not expected to occur. Indeed, it is expected that there will be a net repayment in both months. Part of the PRT payment in September 1986 makes good the difference between liabilities for January-June 1986 and earlier instalments based on liability for the period July-December 1985, when the £ oil price was much higher. So companies will have paid too much PRT in advance instalments and will be due a repayment. A similar pattern is expected in the second half year, when the average oil price is forecast to be lower than in the first half year.
- Only three instalments of the new banks' composite rate tax occurred in 1985-86. The fourth instalment for the year is due in April 1986. So 1986-87 is the first full year of receipts, which are expected to peak in April, July, October and January.
- There are new arrangements for the payment of Building Society composite rate tax and tax on interest paid by local authorities this year. It will be paid quarterly instead of annually as before. The arrangements are similar to the banks', but the payment dates have been staggered, so that peaks are expected in June, September, December and March. Previously, nearly all the composite rate tax was paid in the January-March period.
- The effect of Easter falling at the start of 1986-87 (but not at the end, being a month later) increases receipts slightly in April 1986.



b) Customs and Excise

13. The profile is similar to last year after removing the one-off effect of the introduction in October 1985 of duty deferment on hydro-carbon oil. The implementation of certain recommendations of the Keith committee is bringing forward VAT revenue as a result of improved compliance, and will also raise a small amount of additional VAT revenue (from penalty payments) in the second half of the year. The effect that the date of the Budget has on the receipts of tobacco, wine and spirits in March and April 1987 is assumed to be similar to the effect in 1986. Easter is expected to increase receipts slightly in April 1986.

c) Supply expenditure

14. Supply expenditure (excluding on-lending) is forecast to be slightly lower (47½ per cent) in the first half of 1986-87 than in the second. This proportion is lower than in 1985-86 (48¾ per cent), when higher advance EC payments and grants to the National Coal Board increased expenditure in the first half-year.

15. Particular features of the forecast profile for 1986-87 are as follows:

- Expenditure on the PSA administration vote will be negative in June, September and December. This is because Property Repayment Services (PRS) receipts will be included on the vote in 1986-87 and no longer treated as CFERs. This effect is offset within the Consolidated Fund.
- The relatively high October, November and January figures are because of various small differences, for example a changed expected pattern of grants to the National Coal Board.
- The end-year surge in March 1987 is closer to the historical average than it was in March 1986 (which was affected by lower than usual end-year payments to the NCB).



d) Privatisation proceeds

16. The Budget forecast of privatisation proceeds is £4¾ billion. Of this, £1.1 billion has already been received in April from the third and final call on British Telecom shares. The sale of British Gas is assumed to raise receipts of the order of £2½ billion in 1986-87; the timing is uncertain but the assumption for the profile is that the major part will come in December and the rest in March 1987. The balance of the £4¾ billion is assumed to come mostly from another major privatisation, the receipts from which are assumed in February 1987. This profile differs markedly from the outturn in 1985-86, when privatisation proceeds totalled £2.7 billion, of which £1.1 billion came in June 1985 (from the second call on BT).

e) National Insurance Fund

17. Because social security benefits are being uprated by 1 per cent in July 1986, compared with 7 per cent in November 1985, the pattern of surpluses and deficits on the National Insurance Fund is expected to be a little more strongly weighted towards surpluses at the end of the year (compared with 1985-86, when March contributions were also affected by Easter).

f) Interest and dividend receipts

18. The profile for interest and dividend receipts is similar to 1985-86 and reflects the timing of dividend payments by British Petroleum and British Telecom. Total receipts are slightly lower than in 1985-86 following the sale last year of the remaining shares in Britoil and Cable and Wireless.



g) EEC

19. Net payments to the EEC are assumed to be relatively flat this year, due in part to the new system of abatements (introduced in January 1986) which spreads the UK 'refunds' evenly throughout the year. The profile takes account of an increase in the level of the VAT abatement in the third quarter.

h) Interest payments

20. The profile of interest payments on the National Debt is similar to 1985-86 with large payments in May, July, November and January.

**Local Authority borrowing in 1986-87**

21. Local authorities borrowing in 1986-87 is forecast at £1.6 billion, close to the outturn in 1985-86 (£1.8 billion). The monthly profile in 1986-87 (Chart 2 and Table 4) is based on seasonal factors derived from borrowing patterns of previous years. In addition, allowance has been made for payment in April 1986 of the remainder of backpay due to teachers (assumed to be about £0.2 billion). The main feature of the profile is the usual high net borrowing in April 1986 and in March 1987, the months of little rate income. (The profile also allows for spillover from March into April each year.) However, during 1985-86, there was a very large erratic element in addition to the seasonal fluctuations, and this may be repeated in 1986-87.

**Public Corporations' borrowing in 1986-87**

22. Public corporations are forecast to be net repayers of debt in 1986-87 (-£0.6 billion), despite the fall in oil prices. This is an improvement of £½ billion compared with 1985-86 (which was affected by post-strike costs). The forecast profile is however similar to that in 1985-86 until the end of the year, with a net repayment of debt in the first half of 1986-87, net borrowing in the December quarter and repayments again in 1987 Q1. (The difference



between 1986 Q1 and 1987 Q1 is partly because of changed timing of NCB grants.) The profile is derived mainly from the limited information currently available from individual industries.

**April to June 1986**

23. Borrowing is likely to total about £2½ billion over the next three months, similar to borrowing in the same months of 1985-86. Relatively low borrowing in April is largely offset by relatively higher borrowing in June.

24. Borrowing on central government's own account in April to June is forecast to be around £3 billion, low borrowing in April reflecting receipts of about £1 billion from the final call on British Telecom.

24. Local authorities' borrowing is expected to total around £½ billion. Their borrowing in April is usually high, and is expected to be further increased this year by backpay to teachers. On the basis of previous years' seasonal pattern, small net repayments of debt in May and June are expected.

25. Public corporations are likely to be in surplus by £½-¾ billion over the first quarter of 1986-87, with the Electricity Supply Industry and British Gas Council showing large repayments of debt.



**Table 2: 1985-86: Outturns**  
(1985 Budget profiles in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1985-86								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>1.0</b>	<i>1.4</i>	<b>1.2</b>	<i>1.6</i>	-	<i>-0.1</i>	<b>-0.3</b>	<i>-0.2</i>
Jun	<b>-0.1</b>	<i>0.4</i>	<b>0.4</b>	<i>0.4</i>	<b>-0.3</b>	-	<b>-0.1</b>	<i>0.1</i>
Jul	<b>0.5</b>	<i>0.3</i>	<b>0.9</b>	<i>0.2</i>	<b>0.3</b>	-	<b>-0.7</b>	<i>0.1</i>
Aug	<b>1.2</b>	<i>1.3</i>	<b>1.0</b>	<i>1.6</i>	<b>0.1</b>	<i>0.2</i>	<b>0.1</b>	<i>-0.5</i>
Sep	<b>1.2</b>	<i>-0.1</i>	<b>0.5</b>	-	<b>0.2</b>	-	<b>0.5</b>	-
Oct	<b>-0.3</b>	<i>-0.2</i>	<b>-0.1</b>	<i>-0.3</i>	<b>-0.4</b>	<i>-0.1</i>	<b>0.2</b>	<i>0.2</i>
Nov	<b>0.7</b>	<i>1.4</i>	<b>1.2</b>	<i>1.1</i>	<b>-0.6</b>	-	<b>0.1</b>	<i>0.4</i>
Dec	<b>1.7</b>	<i>2.4</i>	<b>1.2</b>	<i>1.6</i>	<b>0.3</b>	<i>0.2</i>	<b>0.3</b>	<i>0.5</i>
Jan	<b>-4.5</b>	<i>-3.4</i>	<b>-4.6</b>	<i>-3.1</i>	<b>0.1</b>	<i>-0.2</i>	<b>-0.1</b>	-
Feb	<b>-0.4</b>	<i>-0.8</i>	-	<i>-0.6</i>	-	-	<b>-0.4</b>	<i>-0.2</i>
Mar	<b>3.0</b>	<i>2.3</i>	<b>1.4</b>	<i>1.6</i>	<b>1.3</b>	<i>1.0</i>	<b>0.4</b>	<i>-0.3</i>
Cumulative								
Apr	<b>1.8</b>	<i>2.1</i>	<b>1.1</b>	<i>1.7</i>	<b>0.8</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
May	<b>2.7</b>	<i>3.5</i>	<b>2.4</b>	<i>3.4</i>	<b>0.8</b>	<i>0.4</i>	<b>-0.5</b>	<i>-0.3</i>
Jun	<b>2.6</b>	<i>3.9</i>	<b>2.7</b>	<i>3.8</i>	<b>0.5</b>	<i>0.4</i>	<b>-0.6</b>	<i>-0.2</i>
Jul	<b>3.1</b>	<i>4.2</i>	<b>3.6</b>	<i>3.9</i>	<b>0.8</b>	<i>0.4</i>	<b>-1.3</b>	<i>-0.2</i>
Aug	<b>4.3</b>	<i>5.4</i>	<b>4.6</b>	<i>5.6</i>	<b>0.9</b>	<i>0.6</i>	<b>-1.2</b>	<i>-0.7</i>
Sep	<b>5.6</b>	<i>5.3</i>	<b>5.1</b>	<i>5.5</i>	<b>1.1</b>	<i>0.5</i>	<b>-0.6</b>	<i>-0.7</i>
Oct	<b>5.3</b>	<i>5.1</i>	<b>5.0</b>	<i>5.2</i>	<b>0.7</b>	<i>0.5</i>	<b>-0.4</b>	<i>-0.6</i>
Nov	<b>6.0</b>	<i>6.5</i>	<b>6.2</b>	<i>6.3</i>	<b>0.1</b>	<i>0.5</i>	<b>-0.3</b>	<i>-0.2</i>
Dec	<b>7.7</b>	<i>8.9</i>	<b>7.4</b>	<i>7.9</i>	<b>0.4</b>	<i>0.7</i>	-	<i>0.3</i>
Jan	<b>3.2</b>	<i>5.5</i>	<b>2.8</b>	<i>4.8</i>	<b>0.5</b>	<i>0.5</i>	<b>-0.1</b>	<i>0.3</i>
Feb	<b>2.9</b>	<i>4.7</i>	<b>2.7</b>	<i>4.2</i>	<b>0.5</b>	<i>0.5</i>	<b>-0.4</b>	<i>0.1</i>
Mar	<b>5.9</b>	<i>7.1</i>	<b>4.1</b>	<i>5.8</i>	<b>1.8</b>	<i>1.5</i>	-	<i>-0.2</i>



CONFIDENTIAL AND PERSONAL

**Table 3: PSBR for 1985-86 - comparisons with 1984-85 and 1985 Budget profile**

£ billion

	1984-85	1985-86		Differences from	
	Outturn	1985 Budget profile	Latest update <sup>(1)</sup>	1984-85 outturn	1985 Budget profile
	1	2	3	3-1	3-2
Apr	2.4	2.1	<b>1.8</b>	-0.6	-0.4
May	1.2	1.4	<b>1.0</b>	-0.2	-0.4
Jun	1.0	0.4	<b>-0.1</b>	-1.1	-0.6
Q2	4.6	3.9	<b>2.6</b>	-2.0	-1.3
Jul	0.6	0.3	<b>0.5</b>	-	0.3
Aug	1.7	1.3	<b>1.2</b>	-0.5	-0.1
Sep	0.6	-0.1	<b>1.2</b>	0.6	1.4
Q3	2.9	1.4	<b>3.0</b>	0.1	1.6
Oct	0.6	-0.2	<b>-0.3</b>	-0.9	-0.1
Nov	1.7	1.4	<b>0.7</b>	-0.9	-0.7
Dec	0.6	2.4	<b>1.7</b>	1.1	-0.6
Q4	2.8	3.6	<b>2.2</b>	-0.7	-1.4
Jan	-2.4	-3.4	<b>-4.5</b>	-2.1	-1.1
Feb	-0.1	-0.8	<b>-0.4</b>	-0.3	0.4
Mar	2.4	2.3	<b>3.0</b>	0.6	0.7
Q1	-0.1	-1.8	<b>-1.9</b>	-1.8	-
<b>Cumulative</b>					
Apr	2.4	2.1	<b>1.8</b>	-0.6	-0.4
May	3.6	3.5	<b>2.7</b>	-0.9	-0.8
Jun	4.6	3.9	<b>2.6</b>	-2.0	-1.3
Jul	5.1	4.2	<b>3.1</b>	-2.0	-1.0
Aug	6.9	5.4	<b>4.3</b>	-2.5	-1.1
Sep	7.5	5.3	<b>5.6</b>	-1.9	0.2
Oct	8.0	5.1	<b>5.3</b>	-2.7	0.2
Nov	9.7	6.5	<b>6.0</b>	-3.7	-0.5
Dec	10.3	8.9	<b>7.7</b>	-2.5	-1.2
Jan	7.8	5.5	<b>3.2</b>	-4.6	-2.3
Feb	7.8	4.7	<b>2.9</b>	-4.9	-1.9
Mar	10.2	7.1	<b>5.9</b>	-4.3	-1.2



**Table 4: Borrowing requirement monthly profiles 1986-87**  
(1985-86 outturns in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1986-87								
Apr	<b>1.1</b>	<i>1.8</i>	<b>0.7</b>	<i>1.1</i>	<b>0.9</b>	<i>0.8</i>	<b>-0.4</b>	<i>-0.2</i>
May	<b>0.7</b>	<i>1.0</i>	<b>1.0</b>	<i>1.2</i>	<b>-0.1</b>	<i>-</i>	<b>-0.2</b>	<i>-0.3</i>
Jun	<b>0.8</b>	<i>-0.1</i>	<b>1.2</b>	<i>0.4</i>	<b>-0.3</b>	<i>-0.3</i>	<b>-</b>	<i>-0.1</i>
Jul	<b>-</b>	<i>0.5</i>	<b>0.1</b>	<i>0.9</i>	<b>0.2</b>	<i>0.3</i>	<b>-0.2</b>	<i>-0.7</i>
Aug	<b>1.4</b>	<i>1.2</i>	<b>1.2</b>	<i>1.0</i>	<b>0.2</b>	<i>0.1</i>	<b>0.1</b>	<i>0.1</i>
Sep	<b>2.1</b>	<i>1.2</i>	<b>1.9</b>	<i>0.5</i>	<b>0.1</b>	<i>0.2</i>	<b>0.2</b>	<i>0.5</i>
Oct	<b>0.2</b>	<i>-0.3</i>	<b>0.3</b>	<i>-0.1</i>	<b>-0.2</b>	<i>-0.4</i>	<b>0.2</b>	<i>0.2</i>
Nov	<b>0.8</b>	<i>0.7</i>	<b>1.1</b>	<i>1.2</i>	<b>-0.5</b>	<i>-0.6</i>	<b>0.1</b>	<i>0.1</i>
Dec	<b>0.3</b>	<i>1.7</i>	<b>-0.4</b>	<i>1.2</i>	<b>0.3</b>	<i>0.3</i>	<b>0.3</b>	<i>0.3</i>
Jan	<b>-3.2</b>	<i>-4.5</i>	<b>-3.1</b>	<i>-4.6</i>	<b>-</b>	<i>0.1</i>	<b>-0.1</b>	<i>-0.1</i>
Feb	<b>0.1</b>	<i>-0.4</i>	<b>0.1</b>	<i>-</i>	<b>0.1</b>	<i>-</i>	<b>-0.2</b>	<i>-0.4</i>
Mar	<b>2.8</b>	<i>3.0</i>	<b>2.0</b>	<i>1.4</i>	<b>1.0</b>	<i>1.3</i>	<b>-0.2</b>	<i>0.4</i>
Cumulative								
Apr	<b>1.1</b>	<i>1.8</i>	<b>0.7</b>	<i>1.1</i>	<b>0.9</b>	<i>0.8</i>	<b>-0.4</b>	<i>-0.2</i>
May	<b>1.8</b>	<i>2.7</i>	<b>1.7</b>	<i>2.4</i>	<b>0.7</b>	<i>0.8</i>	<b>-0.6</b>	<i>-0.5</i>
Jun	<b>2.6</b>	<i>2.6</i>	<b>2.9</b>	<i>2.7</i>	<b>0.4</b>	<i>0.5</i>	<b>-0.7</b>	<i>-0.6</i>
Jul	<b>2.7</b>	<i>3.1</i>	<b>3.0</b>	<i>3.6</i>	<b>0.6</b>	<i>0.8</i>	<b>-0.9</b>	<i>-1.3</i>
Aug	<b>4.1</b>	<i>4.3</i>	<b>4.2</b>	<i>4.6</i>	<b>0.8</b>	<i>0.9</i>	<b>-0.8</b>	<i>-1.2</i>
Sep	<b>6.2</b>	<i>5.6</i>	<b>6.0</b>	<i>5.1</i>	<b>0.8</b>	<i>1.1</i>	<b>-0.7</b>	<i>-0.6</i>
Oct	<b>6.4</b>	<i>5.3</i>	<b>6.3</b>	<i>5.0</i>	<b>0.6</b>	<i>0.7</i>	<b>-0.5</b>	<i>-0.4</i>
Nov	<b>7.2</b>	<i>6.0</i>	<b>7.4</b>	<i>6.2</i>	<b>0.2</b>	<i>0.1</i>	<b>-0.4</b>	<i>-0.3</i>
Dec	<b>7.4</b>	<i>7.7</i>	<b>7.1</b>	<i>7.4</i>	<b>0.5</b>	<i>0.4</i>	<b>-0.1</b>	<i>-</i>
Jan	<b>4.2</b>	<i>3.2</i>	<b>4.0</b>	<i>2.8</i>	<b>0.4</b>	<i>0.5</i>	<b>-0.2</b>	<i>-0.1</i>
Feb	<b>4.3</b>	<i>2.9</i>	<b>4.1</b>	<i>2.7</i>	<b>0.6</b>	<i>0.5</i>	<b>-0.4</b>	<i>-0.4</i>
Mar	<b>7.1</b>	<i>5.9</i>	<b>6.1</b>	<i>4.1</i>	<b>1.6</b>	<i>1.8</i>	<b>-0.6</b>	<i>-</i>



CONFIDENTIAL AND PERSONAL

**Table 5: Central government transactions – March outturn and latest forecasts for April–June**

£ billion

	March		Latest forecasts		
	forecast	outturn <sup>(1)</sup>	Apr	May	Jun
<b>Receipts</b>					
<i>Consolidated Fund</i>					
Inland Revenue	4.4	4.5	3.8	4.2	3.6
Customs and Excise	2.8	2.9	3.5	3.3	2.8
Other <sup>(2)</sup>	1.5	1.5	1.6	0.9	0.5
<i>National Loans Fund</i>					
Interest etc. receipts	0.8	0.9	0.7	0.5	0.6
<b>Total Receipts</b>	<b>9.5</b>	<b>9.9</b>	<b>9.7</b>	<b>8.8</b>	<b>7.5</b>
<b>Expenditure</b>					
<i>Consolidated Fund</i>					
Supply expenditure <sup>(3)</sup>	9.4	9.2	8.7	7.8	7.5
Adjustment to Supply Services basis <sup>(4)</sup>	-0.6	-0.3	-	-	-
Other	0.4	0.4	0.4	0.4	0.4
<i>National Loans Fund</i>					
Service of the national debt	1.0	1.0	1.2	1.6	0.6
Net lending	0.9	2.1	1.7	0.2	0.3
<b>Total Expenditure</b>	<b>11.1</b>	<b>12.3</b>	<b>12.1</b>	<b>10.0</b>	<b>8.8</b>
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	1.5	1.0	-	0.2	0.2
<b>CGBR</b>	<b>3.2</b>	<b>3.4</b>	<b>2.4</b>	<b>1.3</b>	<b>1.5</b>
<b>On-lending</b>	<b>0.9</b>	<b>2.0</b>	<b>1.8</b>	<b>0.3</b>	<b>0.3</b>
<b>CGBR(O)</b>	<b>2.2</b>	<b>1.4</b>	<b>0.7</b>	<b>1.0</b>	<b>1.2</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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<sup>(1)</sup> – comparisons for the full financial year**

	1985-86		1986-87
	1986 Budget forecast	Outturn	1986 Budget forecast
£ billion			
<b>Receipts</b>			
<i>Consolidated Fund</i>			
Inland Revenue	55.3	55.4	56.0
Customs and Excise	37.3	37.4	40.4
Other <sup>(2)</sup>	13.2	13.3	12.5
<i>National Loans Fund</i>			
Interest etc. receipts	6.6	6.6	6.9
<b>Total Receipts</b>	<b>112.4</b>	<b>112.8</b>	<b>115.8</b>
<b>Expenditure</b>			
<i>Consolidated Fund</i>			
Supply expenditure <sup>(3)</sup>	98.1	98.0	101.0
Adjustment to Supply Services basis <sup>(4)</sup>	-	0.1	-
Other	4.5	4.5	5.1
<i>National Loans Fund</i>			
Service of the national debt	14.3	14.2	15.4
Net lending	5.2	6.4	5.7
<b>Total Expenditure</b>	<b>122.0</b>	<b>123.2</b>	<b>127.2</b>
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	1.1	0.6	0.5
<b>CGBR</b>	<b>10.7</b>	<b>10.9</b>	<b>11.9</b>
<b>On-lending</b>	<b>5.8</b>	<b>6.8</b>	<b>5.8</b>
<b>CGBR(O)</b>	<b>4.9</b>	<b>4.1</b>	<b>6.1</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes receipts from sales of assets.

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

<sup>(4)</sup>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: MISS M E PEIRSON  
DATE: 15 April 1986

PPS/CHANCELLOR

cc Mr Cassell  
Mr Clark

**DRAFT PRESS BRIEFING ON PSBR IN 1985-86**

1. I attach the draft press briefing on the PSBR in 1985-86. The press notice will be published at 2.30 pm tomorrow. It would be appreciated if we could receive the Chancellor's comments by 9.30 am tomorrow.

*OK. Mr King a cross:*  
*Older to get a cross:*  
*Don't know reason for PSBR*  
*Vij Raj*  
*Sharma*  
*is quite busy*  
*Mr-on*  
*health*  
*reflected*

*MEP*

MISS M E PEIRSON



CONFIDENTIAL AND PERSONAL  
(DRAFT)

From: JOHN CLARK  
16 April 1986

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 Devereux  
Mr Pickford  
Mr Mansell - CSO  
Mr Wright - B/E  
Mr Norgrove - No. 10

List B

(distributed at 2.30pm, 16 April)

Mrs Butler  
Mr Spencer  
Mr Cropper  
Mr Ross-Goobey  
Mr Lord  
Mrs Hillier - IR  
Mr B Sexton - C and E

**BRIEFING FOR 16 APRIL PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for March and for 1985-86 as a whole will be published at 2.30pm on 16 April. The provisional outturns are shown in Table 1. Cumulative figures for the PSBR and its components for the last three years are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns**

£ billion

	1984-85	1985-86	March 1986
Central government on own account	6.6	4.1	1.4
Local authorities	2.4	1.8	1.3
Public corporations	1.2	-	0.4
PSBR	10.2	5.9	3.0
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	10.1	10.9	3.4

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	<b>1.1</b>	0.5	0.9	<b>0.8</b>	-0.2	-0.4	<b>-0.2</b>	1.2	2.4	<b>1.8</b>
May	2.4	3.2	<b>2.4</b>	0.3	0.8	<b>0.8</b>	-0.3	-0.4	<b>-0.5</b>	2.4	3.6	<b>2.7</b>
Jun	3.7	4.5	<b>2.7</b>	-0.1	0.6	<b>0.5</b>	-0.4	-0.5	<b>-0.6</b>	3.2	4.6	<b>2.6</b>
Jul	4.5	5.0	<b>3.6</b>	-0.0	0.8	<b>0.8</b>	-0.6	-0.7	<b>-1.3</b>	3.9	5.1	<b>3.1</b>
Aug	5.8	6.2	<b>4.6</b>	0.3	1.4	<b>0.9</b>	-0.4	-0.7	<b>-1.2</b>	5.6	6.9	<b>4.3</b>
Sep	6.6	6.4	<b>5.1</b>	0.3	1.2	<b>1.1</b>	-0.0	-0.2	<b>-0.6</b>	6.9	7.5	<b>5.6</b>
Oct	6.7	6.7	<b>5.0</b>	0.3	1.0	<b>0.7</b>	0.1	0.3	<b>-0.4</b>	7.1	8.0	<b>5.3</b>
Nov	8.3	8.5	<b>6.2</b>	-0.2	0.8	<b>0.1</b>	0.5	0.4	<b>-0.3</b>	8.5	9.7	<b>6.0</b>
Dec	9.1	7.8	<b>7.4</b>	0.1	1.2	<b>0.4</b>	0.6	1.3	<b>-0.0</b>	9.8	10.3	<b>7.7</b>
Jan	6.3	5.7	<b>2.8</b>	0.0	0.9	<b>0.5</b>	0.7	1.2	<b>-0.1</b>	7.1	7.8	<b>3.2</b>
Feb	6.7	5.2	<b>2.7</b>	0.1	1.3	<b>0.5</b>	0.6	1.3	<b>-0.4</b>	7.5	7.8	<b>2.9</b>
Mar	8.2	6.6	<b>4.1</b>	1.2	2.4	<b>1.8</b>	0.3	1.2	<b>-0.0</b>	9.7	10.2	<b>5.9</b>

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL  
(DRAFT)

CONFIDENTIAL AND PERSONAL  
(DRAFT)



2. The (provisional) PSBR for March is £3.0 billion, bringing the total for 1985-86 to £5.9 billion. City analysts are expecting a higher outturn (£6.4-6.8 billion, with an average of about £6½ billion). The Budget forecast was £6.8 billion.

## POSITIVE

### Line to take

1. Borrowing in the whole of 1985-86 was provisionally £5.9 billion. That is the lowest since 1977-78 and, as a proportion of the Budget estimate of GDP (1.6 per cent), the lowest since 1971-72 (when it was also 1.6 per cent).

2. Non-oil revenues were even higher than in last month's Budget forecast.

3. 1985 Budget forecast was for 1985-86 PSBR of £7.1 billion. Error on that forecast is about one-third per cent of GDP, compared with average error in last 5 years of about 1 per cent for year ahead.

## DEFENSIVE/FACTUAL

### 1. 1985-86 outturn lower than expected in March 1986

#### Background

PSBR in 1985-86 was forecast at £6.8 billion in last month's Budget, but provisional outturn is £5.9 billion. Difference was mainly on CGBR (own account) : see table below. Estimated outturn is only provisional.

#### Line to take

The error is no larger (in cash terms) than the absolute average of the previous six years, and is smaller as a per cent of GDP (¼ per cent, compared with one-third per cent recent average). Main cause of undershoot was that several central government receipts were higher than estimated (see table below). Expenditure was close to forecast.



**1985-86 : Differences from 1986 Budget forecast**

£billion ( - indicates lower borrowing)

---

Inland Revenue	-0.2
Customs and Excise	-0.1
National Insurance Contributions	-0.1
Interest Receipts	-0.1
British Telecom Receipts	-0.1
Supply expenditure	-0.1
Other	<u>-0.1</u>
CGBR(0)	-0.8
LABR	-0.3
PCBR	<u>0.2</u>
PSBR	-0.9

---

**2. 1985-86 outturn lower than Autumn Statement forecast**

Line to take

As stated in FSBR, non-oil revenues higher than expected and planning total expected to show slight shortfall.

**3. Effect of 1985-86 undershoot on 1986-87**

Line to take

Some of the factors causing difference between forecast and outturn may tend to carry through to 1986-87, others may not. In any case 1985-86 undershoot only one of many factors affecting PSBR in 1986-87. No reason to change Budget forecast for current year.



#### **4. Easter effects**

##### Line to take

Difficult to estimate effects of Easter falling at end of financial year. Some tax receipts likely to have been delayed : some allowance was made for that in Budget forecast.

#### **5. Funding in 1985-86**

##### Background

Chancellor announced in October 1985 that sales of debt outside the banking system in any one year would be limited to the amount needed to fund the PSBR.

##### Line to take

In the 12 months to banking March, the PSBR was almost exactly funded. (Outturn for 12 months to calendar March will be published in June Bank of England Quarterly Bulletin).

#### **6. Oil Revenues : effect of fall in dollar price**

##### Background

Revenues in March 1986 were determined largely by what happened in July-December 1985. Fall in dollar price since December affects deliveries in January 1986 onwards and hence had little effect on revenues in 1985-86.

Budget forecast of oil revenues in 1986-87 (around £6 billion) assumed average price of 15 dollars/barrel for North Sea crude for the rest of 1986. If prices were 1 dollar/barrel lower on average in 1986, but other things - including exchange rate - were unchanged, oil revenues would be around £½ billion lower in 1986-87.

##### Line to take

Sharp fall in oil price since December had little effect in 1985-86, because revenues up to end-March depended largely on average prices and production up to end-December.

Much too early to say what pattern of oil prices and production will be in 1986-87. Uncertain outlook for prices was reflected in Budget caution.



## **7. Inland Revenue receipts**

### Background

Total Inland Revenue receipts in March were £4.5 billion, bringing total for 1985-86 to £55.4 billion, £0.2 billion more than 1986 Budget forecast and 10 per cent up on 1984-85.

### Line to take

Receipts in 1985-86 up 10 per cent on 1984-85. Higher corporation tax receipts (by £2½ billion compared with 1984-85) reflects higher company profits in 1984 (than 1983) and higher dividend payments in 1985 (than 1984).

Overshoot on Budget forecast mainly reflects higher payments of composite rate tax by building societies.

## **8. Customs and Excise receipts**

### Background

Customs and Excise receipts in March were £2.9 billion, bringing total for 1985-86 to £37.4 billion, £0.1 billion higher than 1986 Budget forecast and 5¼ per cent up on 1984-85.

### Line to take

As forecast in 1986 Budget, expenditure tax receipts in 1985-86 were greater than in 1985 Budget forecast (particularly VAT). Small difference from 1986 Budget forecast due mainly to extra tobacco duty.

## **9. EC refunds and abatements**

### Line to take

Total refunds and abatements received in 1985-86 about £800 million. 1984 rebate of 1000m ecus (about £600 million) received by 6 January 1986.

Arrangements in respect of 1985 and subsequent years are different, and from January 1986 are reducing UK monthly contributions; abatements in March benefitted PSBR by about £75 million (based on 1986 budget figure of 1400m ecus).



## **10. Public spending in 1985-86**

### Background

1986 FSBR estimate of public expenditure planning total for 1985-86 was £133.9 billion, 3¼ per cent up on 1984-85.

### Line to take

First indications of outturn from Supply Expenditure data (see Q11) suggest public expenditure was close to FSBR estimate, but there are still substantial uncertainties which could go either way - e.g. it will be some time before reasonably firm local authority figures are available. The first provisional outturn for the planning total as a whole will appear in the June issue of Financial Statistics.

## **11. Supply Expenditure**

### Background

Provisional outturn for supply expenditure in 1985-86 is £98.0 billion, close to Budget forecast (£98.1 billion). After adjusting for changes in method of paying EC contributions, the increase on 1984-85 is 4½ per cent. Supply has different coverage from planning total (eg the planning total includes privatisation proceeds, LA expenditure rather than CG grants to LAs, and PCs' market borrowing).

### Line to take

Provisional outturn close to 1986 Budget forecast.

## **12. Privatisation proceeds**

### Background

Total receipts from privatisation proceeds in 1985-86 was £2.7 billion, compared with £2.6 billion forecast in PEWP and FSBR. Difference of £0.1 billion was due to early receipt of final call on British Telecom, due on 9 April.

### Line to take

Total March receipts just over £400 million, bringing total for year to about £2.7 billion. This is about £100 million higher than PEWP/FSBR forecast owing to early receipt of part



of final call on BT. March also benefitted (by about £300 million) from second call on sale of residual shareholding in Cable and Wireless.

Early receipt of part of British Telecom money will reduce receipts in 1986-87, but £0.1 billion is well within margin of error on forecast total of £4¾ billion for whole year.

Remaining receipts of BT money (over £1 billion) now received in April.

### **13. Local authorities**

#### Background

Preliminary estimate is that local authorities borrowed £1.3 billion (net) in March, bringing total net borrowing in 1985-86 to £1.8 billion, about £0.3 billion lower than last month's Budget forecast of £2.1 billion. Outturn for 1984-85 was £2.4 billion.

Very high borrowing (of £1.9 billion) from PWLB in March was used in part to repay market debt.

#### Line to take

Borrowing by local authorities is always high in March, when little rate income is received. Error in Budget forecast not large in view of uncertainties involved (compounded in March by the timing of Easter and uncertainty regarding timing of payment of teachers' back pay).

### **14. Public corporations**

#### Background

Public corporations (provisionally) borrowed £0.4 billion in March, giving a very small net repayment of debt for 1985-86 as a whole. Budget forecast was for a net repayment of £0.2 billion in 1985-86. (Difference was partly due to revisions to statistical outturns for April - February.) There was net borrowing of £1.1 billion in 1984-85 (affected by coal strike).

#### Line to take

Provisional estimate of public corporations' net repayment in 1985-86 is lower than



CONFIDENTIAL AND PERSONAL  
(DRAFT)

forecast in last month's Budget, but error not large given inevitable uncertainties. Also outturn subject to revision (up to £¼ billion either way) when quarterly returns of bank borrowing are received.

John Clark (ext 3093)  
PSF Division, HM Treasury



CONFIDENTIAL

*The matter. Then. expected stand out. here certainly seems not to have been at the expense of April.*

FROM: R J DEVEREUX  
DATE: 2 May 1986

- 1. MR CASSELL
- 2. CHANCELLOR OF THE EXCHEQUER ←

- cc Sir P Middleton
- Sir T Burns
- Mr H P Evans
- Mr Peretz
- Mr Scholar
- Miss Peirson o/r
- Mr Watts
- Mr Briscoe

*Do we know which IR taxes are up or down?*

**CGBR(O) AND CGBR IN APRIL**

The preliminary estimate of the CGBR(O) in April is £0.1 billion. This is £0.5 billion lower than last month's forecast, reflecting higher Inland Revenue receipts (by £0.8 billion, see paragraph 2) and lower Customs & Excise receipts (by £0.2 billion - a number of items slightly lower than forecast). The estimate of the outturn is subject to revision before publication on Monday 19 May.

2. Information about the nature of the increase in Inland Revenue receipts is still to come; it may be partly due to earlier payments of Advance Corporation Tax and higher PAYE receipts. We shall be looking into this as part of the normal monthly analysis.

3. On-lending to local authorities and public corporations totalled £2.1 billion, £0.4 billion higher than last month's forecast with local authorities borrowing very heavily from the PWLB. The CGBR in April was therefore £2.3 billion.

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

*[Signature]*  
R J DEVEREUX



CONFIDENTIAL

## CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	April 1986			April 1985
	Provisional outturn	Last month's forecast	Difference	Outturn
Inland Revenue	+ 4.7	+ 3.8	+ 0.8	+ 3.8
Customs and Excise	+ 3.4	+ 3.5	- 0.2	+ 3.3
Other own account	- 8.2	- 8.0	- 0.1	- 8.2
CGBR(O)	- 0.1	- 0.7	+ 0.5	- 1.1
On- lending:				
- LAs	- 2.4	- 2.0	- 0.4	-
- PCs	+ 0.3	+ 0.2	-	+ 0.2
CGBR	- 2.3	- 2.4	+ 0.1	- 0.9

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

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

CONFIDENTIAL



PWP



FROM: CATHY RYDING

DATE: 6 May 1986

MR DEVEREUX

cc Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr H P Evans  
Mr Peretz  
Mr Scholar  
Miss Peirson  
Mr Watts  
Mr Briscoe

**CGBR(O) AND CGBR IN APRIL**

The Chancellor was grateful for your minute of 2 May on this subject. He has asked whether we know which Inland Revenue taxes are up on forecast.

CR

CATHY RYDING



CONFIDENTIAL

*Meena Thank please  
CR 915*

FROM: R J DEVEREUX

DATE: 8 May 1986

cc: Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr H P Evans  
Mr Peretz  
Mr Scholar  
Mr Watts  
Mr Briscoe  
Mr Ko (IR)

1. MISS PEIRSON

2. CHANCELLOR OF THE EXCHEQUER

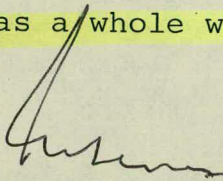
*of the information  
you asked for**Thanks: CR  
815.*

CGBR(O) AND CGBR IN APRIL

You asked whether we knew which taxes had contributed to the large April outturn for Inland Revenue receipts, which were £0.8 billion higher than forecast.

2. Our information is still provisional, but the biggest increase appears to be around £400 million in Advance Corporation Tax, probably more because of earlier receipts than permanent additional revenue, but it is too early to be certain. Earlier receipts may be due to the current high rate of interest on delayed payments. Other increases include around £200 million for PAYE, believed to be earlier payments of arrears; and around £50 million of stamp duty.

3. It seems likely therefore that most of the additional revenue is due to timing, although there may be a small element of permanent additional revenue. The forecast of Inland Revenue receipts over the next three months will be reduced to allow for the high receipts in April. The prospects for 1986-87 as a whole will be reassessed as part of the June forecast.

  
R J DEVEREUX



*mp*

FROM: MISS M E PEIRSON  
DATE: 12 May 1986

- 1. MR CASSELL
- 2. CHANCELLOR

*NOT seen by  
the  
conversations in CST,  
y things carry on  
has this. But help on  
to wait for*

- cc Sir P Middleton
- Sir T Burns
- Mr H P Evans
- Mr Peretz
- Mr Scholar
- Mr Briscoe
- Mr Devereux
- Mr Wells - CSO

*[I can live with the  
have the... of...  
for... it...  
...]*

PSBR IN APRIL

*RE 12/5*

1. The first provisional outturn for the PSBR in April is £0.9 billion, compared with last month's forecast of £1.1 billion (see table attached). Available market forecasts are for net borrowing of £½-2 billion, with an average of about £1¼ billion. Our estimate is subject to revision before publication at 2.30 pm on Monday 19 May.
2. The CGBR(O) in April was provisionally £0.2 billion, £0.5 billion lower than last month's forecast. As explained in Mr Devereux's notes of 2 and 8 May, the difference is more than accounted for by higher Inland Revenue receipts, thought to be due mainly to timing.
3. The PCBR provisionally showed net borrowing of £0.1 billion, compared with last month's forecast of a net repayment of £0.4 billion; as yet we have no information to explain the difference. The LABR showed an undershoot of £0.2 billion.
4. The monthly note, presenting updated estimates for April and detailed forecasts for May-July, will be circulated next Friday.

*MEP*

MISS M E PEIRSON



CONFIDENTIAL & PERSONAL

£billion

	April 1986			April 1985
	Provisional outturn	Last month's forecast	Difference	Outturn
CGBR(O)	0.2	0.7	- 0.5	1.1
LABR	0.6	0.9	- 0.2	0.8
PCBR	0.1	- 0.4	0.5	- 0.2
PSBR	0.9	1.1	- 0.2	1.8

CONFIDENTIAL & PERSONAL



PERSONAL AND CONFIDENTIAL

FROM: P J CROPPER

DATE 16 May 1986

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of StateHEALTH SPENDING

The discussion at Prayers last Wednesday was shot through with perplexity - how was it that the electorate was so unwilling to be convinced about the Government's health spending record? If real spending on health was up 24 per cent since 1978/79, why was so much of the anecdotal evidence so unsatisfactory? I submit that we must beware of our own propaganda.

2. The actual fact is that if money spending on health is deflated by the rate of NHS inflation, the increase since 1978/79 comes down to 9 per cent. If from that one deducts 1 per cent per annum for the effect of an ageing population and  $\frac{1}{2}$  per cent per annum for the cost of "medical advance" one comes out with a figure for the increase in the real value of inputs to the NHS of almost precisely nil since 1978/79.

3. Meanwhile yesterday's report from the Office of Health Economics says that whereas in 1960 the UK had been one of the largest health spenders, the UK is now the smallest spender on health care amongst the Western developed countries (as a percentage of GNP). The United States, Sweden and West Germany spend nearly half as much again as the UK, while the Netherlands, France and Denmark spend about a third more of their GNP on health.

4. In the private health sector, where British people actually have a chance to register their spending preferences, spending has risen twice as fast in the past decade as in the NHS.



5. Of course, one can prove anything with price indexes, and we can legitimately claim that a lot of new investment is taking place, that many lives are being saved by wonderful new techniques, and that (here and there) management is getting on top of its problems. But none of these magnitudes can be demonstrated with simple statistics.

6. Thus we are at the mercy of anecdote. All I hear from my wife, who does a lot with elderly people in West Kent, is of a hospital service characterised by something mid way between cheerful incompetence and wicked neglect. Just about what one would expect from an organisation staffed by the raw output of the British State education system.

7. The truth is that in some parts of the country, and in some aspects of health care, there have been marked improvements in the past seven years; that the facts have to be carefully researched, verified and published; and that a constant battle must be fought against the opposition parties' and the medical pressure groups' natural urge to paint the blackest picture.

8. Between now the the General Election this represents a big task for the Party at both central and local level. And here I come to the real point of this note, which is to record the two facts that I unearthed in my brief probe of this subject:

1. Christina Dykes, the honest and hard working DHSS desk officer whom I appointed to the CRD, is leaving because she has had enough. She follows the very knowledgeable local government and transport desk officers, whom I also appointed, and who have also recently left. And who would be followed by several more if there were not now a strict ban on anybody moving from the CRD to be a special adviser.
2. Nicholas True, the sole special adviser at DHSS, has just been elected one of three Tories on the Richmond council, opposing 43 members of the Alliance,



which will leave him a fat lot of time and energy  
for the presentation of our achievements in health  
and security.

A handwritten signature in dark ink, appearing to be 'P J Cropper', written in a cursive style.

P J CROPPER



Ruf

FROM: MISS M E PEIRSON  
 DATE: 16 May 1986

- Approved in dept. MJP
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, 19 May)

Sir P Middleton  
 Sir T Burns  
 Mr H Evans  
 Mr Peretz  
 Mr Scholar  
 Mr L Watts  
 Mr Devereux  
 Dr Clark

Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Mr F E R Butler  
 Mr Moore  
 Mr Odling-Smee  
 Mr Turnbull  
 Mrs Butler  
 Mr Mowl

Miss O'Mara  
 Mr Walsh  
 Mr Williams  
 Mr Ritchie  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Tyrie  
 Mr Wells - CSO  
 Mr Calder - IR  
 Mr Wilmott - C & E

**MONTHLY NOTE ON THE PSBR**

1. I attach a report on the PSBR outturn for April. This outturn will be published by press notice at 2.30 pm on Monday 19 May.

2. In this note, the outturn for April is compared with the forecast made a month ago. Revised forecasts for May-July are also included.

MJP

MISS M E PEIRSON



## PUBLIC SECTOR BORROWING

### Summary

- The PSBR for April is provisionally estimated at £0.9 billion, about £0.3 billion lower than last month's Budget forecast (Chart 1). It is £0.9 billion lower than in April 1985 (Chart 2), because of the British Telecom receipts in April 1986.
- Borrowing on central government's own account was about £0.5 billion lower than forecast. That is more than accounted for by higher Inland Revenue receipts, thought to be principally due to timing differences.
- The PSBR is forecast at almost £2 billion over the next three months, to bring the total for the first four months of 1986-87 to £2¾ billion, about the same as in the Budget profile. The shortfall in April is offset by higher expected borrowing in May, principally because of lower receipts (particularly Inland Revenue, partly unwinding the increase in April).

---

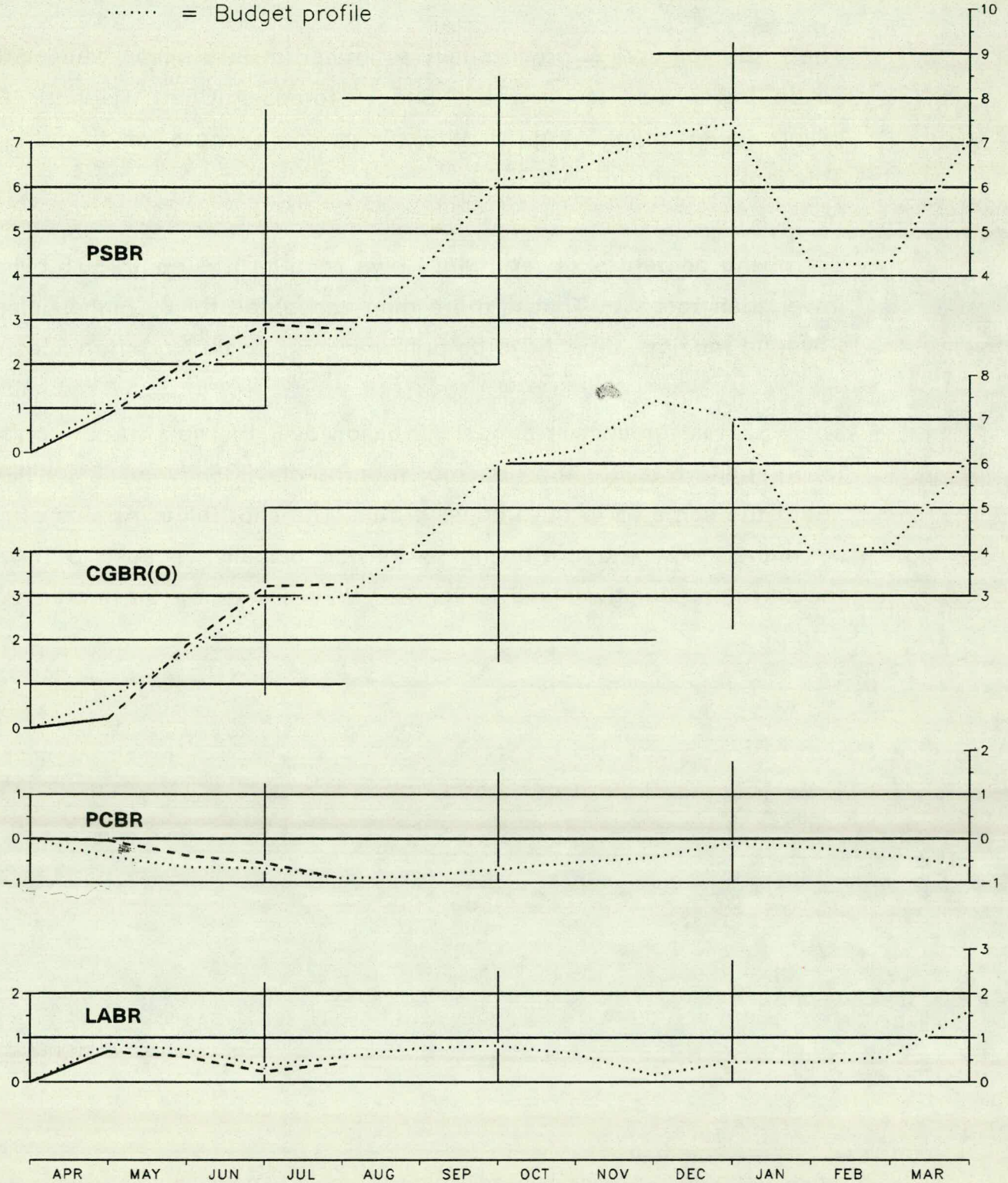
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.



**Chart 1 : Comparisons with Budget profiles for 1986-87**

£ billion cumulative

- = Estimated outturn in 1986-87
- - - = Latest forecasts
- ..... = Budget profile

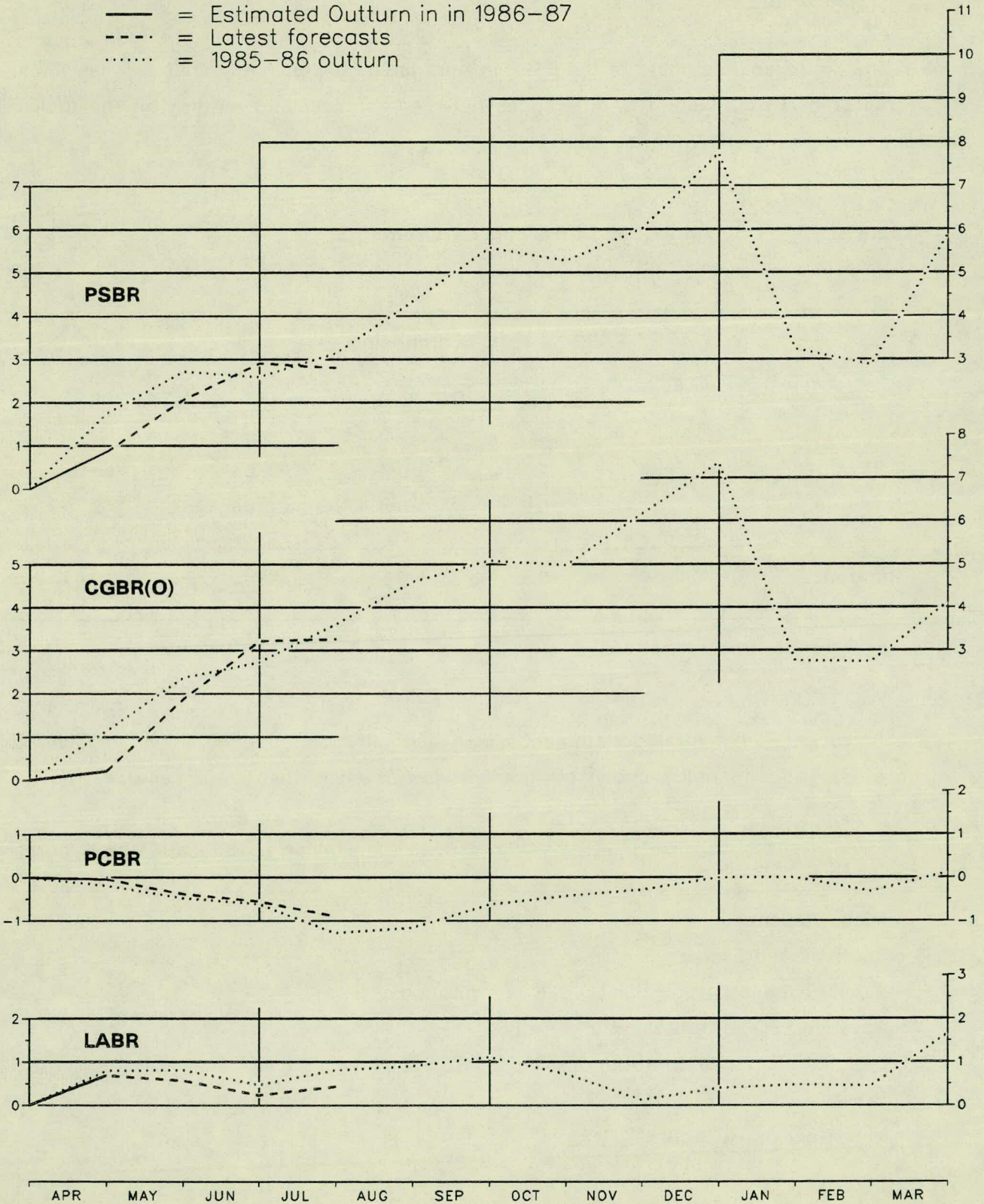




**Chart 2 : Comparisons with last year's outturns**

£ billion cumulative

- = Estimated Outturn in in 1986-87
- - - = Latest forecasts
- ..... = 1985-86 outturn





**Borrowing in April**

(Outturn compared with last month's Budget forecast)

1. The provisional estimate of the PSBR in April is £0.9 billion, compared with last month's forecast of £1.1 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: April 1986 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	1.1	0.7	0.9	-0.4
Outturn	0.9	0.2	0.7	-
Difference	-0.3	-0.5	-0.2	0.4

\*made on 15 April

2. Borrowing on central government's own account was about £0.5 billion lower than forecast. The table below shows our present view of where the differences occurred.

£billion ( - indicates lower borrowing)

Inland Revenue	-0.8
Customs and Excise	+0.2
Supply expenditure (excluding EEC contributions)	+0.2
Advance EEC contributions	+0.1
National Insurance contributions	-0.1
Other	-0.1
Net effect on CGBR(0)	-0.5



3. Higher Inland Revenue receipts were primarily due to Advance Corporation Tax (£0.4 billion), mainly because of earlier receipts (possibly due to the current high rate of interest on delayed payments) but possibly also including some permanent additional revenue. Other increases include PAYE (£0.2 billion), probably due to earlier payment of arrears, and stamp duty (£50 million). Lower Customs and Excise receipts were mainly on tobacco duty (where the effect of restrictions on pre-Budget clearances from bonded warehouses seems to have been greater than expected) and VAT on imports. The increase in supply expenditure was mainly because of higher advances to the health authorities.

4. Local authorities borrowed £0.7 billion in April, £0.2 billion less than forecast last month. April is traditionally a month of high borrowing, and the difference from forecast is well within the margin of error.

5. Public corporations made a small net repayment of debt in April, compared with a forecast repayment of £0.4 billion. No explanation of the difference is currently available; several nationalised industries are known to have made large repayments (as expected), but no information has yet been received on industries undertaking significant borrowing in the month.

#### April to July

6. The PSBR in the period May to July is forecast to be almost £2 billion, bringing the total for the first four months of 1986-87 to £2¾ billion, about the same as in the Budget profile. The £¼ billion shortfall in April is offset by an increase in May. The CGBR(O) for the four months is forecast to be £¼ billion above the Budget profile, and the LABR nearly £¼ billion below.

7. Table 4 shows the latest detailed profile of borrowing on central government own account for April to July; a comparison with the Budget forecast for those months and with the outturn in April-July 1985 is provided in Table 5.

8. The higher Inland Revenue receipts in April are expected to unwind in part during May - July. On the other hand, some of the items which contributed increases to central government borrowing in April (above the Budget forecast) are not expected to unwind in



May - July: e.g. lower Customs and Excise receipts, advance payments to the EC and higher other supply expenditure. Consequently central government borrowing in April - July is forecast in total to be some £¼ billion higher than in the Budget profile.

9. In May - July, forecast supply expenditure is as usual below the expected average for the year; but tax receipts are also lower than average (with the exception of Inland Revenue receipts in July).

- In May, the CGBR(O) is forecast to be £1¼ billion. Cyclically high VAT receipts are offset by relatively low receipts of tobacco duty.
- In June, the CGBR(O) is forecast to be rather over £1¼ billion. Inland Revenue receipts include the first payment of building societies' composite rate tax (£¼ billion). Debt interest payments are relatively low. Supply expenditure is also relatively low.
- In July, the CGBR(O) is forecast to be about flat. Inland Revenue receipts are high, including the second instalment of Schedule D tax from the self-employed (£1 billion), quarterly advance corporation tax (£1 billion) and the second instalment of banks' composite rate tax (£¼ billion). Privatisation proceeds are assumed to raise £¼ billion. These factors are partly offset by high debt interest payments.

10. Local authorities are expected to make a small net repayment of debt over the next three months, as in the Budget profile. Therefore in April - July the LABR is forecast slightly below the Budget profile.

11. Public corporations are also expected to make a net repayment (of over £¾ billion) over the next three months, accounted for partly by the Electricity Supply and Gas Industries and partly by the assumed reversal of the unexplained borrowing in April. Therefore in April - July the PCBR is forecast about the same as the Budget profile.



1985-86

12. The estimate for the PSBR outturn for 1985-86 remains £5.9 billion, or 1.6 per cent of GDP. The estimate of the LABR has been reduced by £0.2 billion (to £1.7 billion) and the PCBR raised by £0.2 billion (to £0.1 billion). These revisions follow receipt of further information on borrowing in the final quarter of 1985-86.



**Table 2: Borrowing Requirement monthly profiles May-July**  
(Budget profiles in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1985-86								
Apr	<i>0.9</i>	<i>1.1</i>	<i>0.2</i>	<i>0.7</i>	<i>0.7</i>	<i>0.9</i>	<i>-</i>	<i>-0.4</i>
May	<i>1.2</i>	<i>0.7</i>	<i>1.7</i>	<i>1.0</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.3</i>	<i>-0.2</i>
Jun	<i>0.8</i>	<i>0.8</i>	<i>1.3</i>	<i>1.2</i>	<i>-0.3</i>	<i>-0.3</i>	<i>-0.2</i>	<i>-</i>
Jul	<i>-0.1</i>	<i>-</i>	<i>-</i>	<i>0.1</i>	<i>0.2</i>	<i>0.2</i>	<i>-0.3</i>	<i>-0.2</i>
Cumulative								
Apr	<i>0.9</i>	<i>1.1</i>	<i>0.2</i>	<i>0.7</i>	<i>0.7</i>	<i>0.9</i>	<i>-</i>	<i>-0.4</i>
May	<i>2.1</i>	<i>1.8</i>	<i>1.9</i>	<i>1.7</i>	<i>0.6</i>	<i>0.7</i>	<i>-0.4</i>	<i>-0.6</i>
Jun	<i>2.9</i>	<i>2.6</i>	<i>3.2</i>	<i>2.9</i>	<i>0.2</i>	<i>0.4</i>	<i>-0.5</i>	<i>-0.7</i>
Jul	<i>2.8</i>	<i>2.7</i>	<i>3.3</i>	<i>3.0</i>	<i>0.4</i>	<i>0.6</i>	<i>-0.9</i>	<i>-0.9</i>

Figures for April are outturns



**Table 3: PSBR for 1986-87 - comparisons with 1985-86 and 1986 Budget profile**

£ billion

	1985-86	1986-87	Differences from		
	Outturn	Budget profile	Latest update <sup>(1)</sup>	1985-86 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	1.8	1.1	0.9	-0.9	-0.3
May	1.0	0.7	1.2	0.2	0.5
Jun	-0.1	0.8	0.8	1.0	-
Q2	2.6	2.6	2.9	0.3	0.3
Jul	0.5	-	-0.1	-0.7	-0.1
Aug	1.2	1.4			
Sep	1.2	2.1			
Q3	3.0	3.6			
Oct	-0.3	0.2			
Nov	0.7	0.8			
Dec	1.7	0.3			
Q4	2.2	1.3			
Jan	-4.5	-3.2			
Feb	-0.4	0.1			
Mar	3.0	2.8			
Q1	-1.9	-0.3			
<b>Cumulative</b>					
Apr	1.8	1.1	0.9	-0.9	-0.3
May	2.7	1.8	2.1	-0.6	0.3
Jun	2.6	2.6	2.9	0.3	0.3
Jul	3.1	2.7	2.8	-0.3	0.1
Aug	4.3	4.1			
Sep	5.6	6.2			
Oct	5.3	6.4			
Nov	6.0	7.2			
Dec	7.7	7.4			
Jan	3.2	4.2			
Feb	2.9	4.3			
Mar	5.9	7.1			

<sup>(1)</sup>Figures for April are outturns



**Table 4: Central government transactions – April  
outturn and latest forecasts for May–July**

£ billion

	April		Latest forecasts		
	forecast	outturn <sup>(1)</sup>	May	Jun	Jul
<b>Receipts</b>					
<i>Consolidated Fund</i>					
Inland Revenue	3.8	4.7	3.9	3.5	5.9
Customs and Excise	3.5	3.4	3.2	2.8	3.2
Other <sup>(2)</sup>	1.6	0.3	0.9	0.5	1.8
<i>National Loans Fund</i>					
Interest etc. receipts	0.7	0.6	0.4	0.6	0.3
<b>Total Receipts</b>	<b>9.7</b>	<b>9.0</b>	<b>8.4</b>	<b>7.4</b>	<b>11.2</b>
<b>Expenditure</b>					
<i>Consolidated Fund</i>					
Supply expenditure <sup>(3)</sup>	8.7	9.0	7.8	7.6	8.2
Adjustment to Supply Services basis <sup>(4)</sup>	–	0.2	–	–	–
Other	0.4	0.4	0.3	0.3	0.3
<i>National Loans Fund</i>					
Service of the national debt	1.2	1.3	1.6	0.6	1.9
Net lending	1.7	2.2	1.0	0.3	0.3
<b>Total Expenditure</b>	<b>12.1</b>	<b>13.0</b>	<b>10.6</b>	<b>8.8</b>	<b>10.7</b>
<b>Other funds and accounts</b> (+ increases borrowing) (– reduces borrowing)	<b>–</b>	<b>–1.7</b>	<b>0.5</b>	<b>0.2</b>	<b>0.9</b>
<b>CGBR</b>	<b>2.4</b>	<b>2.3</b>	<b>2.7</b>	<b>1.7</b>	<b>0.4</b>
<b>On-lending</b>	<b>1.8</b>	<b>2.1</b>	<b>1.0</b>	<b>0.3</b>	<b>0.4</b>
<b>CGBR(O)</b>	<b>0.7</b>	<b>0.2</b>	<b>1.7</b>	<b>1.3</b>	<b>–</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes privatisation proceeds, except where these are temporarily lodged in "other funds and accounts."

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

<sup>(4)</sup>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 5: Central government transactions<sup>(1)</sup> – comparisons for April–July**

£ billion

	1985	1986	
	Outturn	Budget forecast	Latest update
<b>Receipts</b>			
<i>Consolidated Fund</i>			
Inland Revenue	15.9	17.7	18.0
Customs and Excise	11.6	12.8	12.5
Other <sup>(2)</sup>	4.0	3.7	3.4
<i>National Loans Fund</i>			
Interest etc. receipts	2.1	2.2	2.0
<b>Total Receipts</b>	<b>33.7</b>	<b>36.2</b>	<b>35.9</b>
<b>Expenditure</b>			
<i>Consolidated Fund</i>			
Supply expenditure <sup>(3)</sup>	31.5	32.0	32.6
Adjustment to Supply Services basis <sup>(4)</sup>	0.3	–	0.2
Other	1.3	1.7	1.3
<i>National Loans Fund</i>			
Service of the national debt	4.9	5.3	5.3
Net lending	0.3	2.6	3.9
<b>Total Expenditure</b>	<b>38.3</b>	<b>41.5</b>	<b>43.2</b>
<b>Other funds and accounts</b> (+ increases borrowing) (– reduces borrowing)	<b>-1.2</b>	<b>0.4</b>	<b>-0.2</b>
<b>CGBR</b>	<b>3.5</b>	<b>5.7</b>	<b>7.1</b>
<b>On-lending</b>	<b>-0.1</b>	<b>2.7</b>	<b>3.9</b>
<b>CGBR(O)</b>	<b>3.6</b>	<b>3.0</b>	<b>3.3</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes privatisation proceeds, except where these are temporarily lodged in "other funds and accounts."

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

<sup>(4)</sup>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".



3093

9/581

COVERING CONFIDENTIAL & PERSONAL

C/ Draft bress briefing  
for you to approve  
if content. It would be  
helpful to have any  
comments first thing  
on Monday

FROM: MISS M E PEIRSON  
DATE: 16 May 1986

PPS/CHANCELLOR

cc Mr Cassell  
Mr Clark

CR 16/5

**DRAFT PRESS BRIEFING ON PSBR IN APRIL**

1. I attach the draft press briefing on the PSBR in April.  
The press notice will be published at 2.30 pm on Monday.  
It would be appreciated if we could receive the Chancellor's  
comments by 9.30 am on Monday.

*Clark*

*MEP*

MISS M E PEIRSON

COVERING CONFIDENTIAL & PERSONAL



CONFIDENTIAL AND PERSONAL  
(DRAFT)

From: JOHN CLARK  
19 May 1986

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 Devereux  
Mr Pickford  
Mr Mansell - CSO  
Mr Wright - B/E  
Mr Norgrove - No. 10

List B

(distributed at 2.30pm, 19 May)

Mrs Butler  
Mr Spencer  
Mr Cropper  
Mr Ross-Goobey  
Mr Tyrie  
Mr Ko - IR  
Mr B Sexton - C and E

**BRIEFING FOR 19 MAY PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for April will be published at 2.30pm on 19 May. The provisional outturns, together with figures for the first four months of 1985 and 1986, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1985-86 are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns** £ billion

	Jan-Apr 1985	Jan-Apr 1986	April 1986
Central government on own account	-0.1	-3.0	0.2
Local authorities	2.0	1.9	0.7
Public corporations	-0.3	0.1	-
PSBR	1.6	-1.0	0.9
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	0.9	1.5	2.3

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		
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87
Apr	1.9	1.1	<b>0.2</b>	0.9	0.8	<b>0.7</b>	-0.4	-0.2	<b>-0.0</b>	2.4	1.8	<b>0.9</b>
May	3.2	2.4		0.8	0.8		-0.4	-0.5		3.6	2.7	
Jun	4.5	2.7		0.6	0.5		-0.5	-0.6		4.6	2.6	
Jul	5.0	3.6		0.8	0.8		-0.7	-1.3		5.1	3.1	
Aug	6.2	4.6		1.4	0.9		-0.7	-1.2		6.9	4.3	
Sep	6.4	5.1		1.2	1.1		-0.2	-0.6		7.5	5.6	
Oct	6.7	5.0		1.0	0.7		0.3	-0.4		8.0	5.3	
Nov	8.5	6.2		0.8	0.1		0.4	-0.3		9.7	6.0	
Dec	7.8	7.4		1.2	0.4		1.3	-0.0		10.3	7.7	
Jan	5.7	2.8		0.9	0.5		1.2	-0.0		7.8	3.2	
Feb	5.2	2.7		1.3	0.5		1.3	-0.3		7.8	2.9	
Mar	6.6	4.1		2.4	1.7		1.2	0.1		10.2	5.9	

Note: Figures may not sum precisely because of rounding.



2. The (provisional) PSBR for April is £0.9 billion. This is lower than the average expectation of City analysts (about £1¼ billion), although the range of their forecasts is wide (£½ - 2 billion).

## **POSITIVE**

### Line to take

1. PSBR for first four months of 1986 shows a net repayment of debt of £1.0 billion, compared with net borrowing of £2.3 billion in January-April 1984 and £1.6 billion in January-April 1985.

2. Non-oil revenues continue to be buoyant, reflecting healthy and vigorous economy.

## **DEFENSIVE/FACTUAL**

### **1. Factors affecting April PSBR**

#### Line to take

Should not look at one month's figures. But

- Receipts of over £1 billion from third call on BT (see Q9).
- Inland Revenue receipts buoyant (see Q5).
- Local authorities' borrowing seasonally high in the month (see Q10).
- Easter effects; some receipts likely to have been delayed from March into April.



## **2. Borrowing in 1986-87**

### Line to take

No reason to change Budget forecast of £7.1 billion.

## **3. Proportion of borrowing in first half-year**

### Background

On average around two-thirds of borrowing occurs in first half of financial year. Pattern of borrowing in 1986-87 particularly uncertain - depends heavily on timing of privatisation proceeds. As usual, most Inland Revenue receipts likely to come in second half-year.

### Line to take

Proportion of borrowing in first half year very uncertain at this stage, partly owing to dependence on timing of privatisation proceeds. Probable that, as usual, most borrowing will occur in first half-year.

## **4. Oil revenues : effect of fall in dollar price**

### Background

Budget forecast of oil revenues in 1986-87 (around £6 billion) assumed average price of 15 dollars/barrel for North Sea crude for the rest of 1986. If prices were 1 dollar/barrel lower on average in 1986, but other things - including exchange rate - were unchanged, oil revenues would be around £½ billion lower in 1986-87.

### Line to take

Revenues in April (PRT instalment payment) based largely on prices and production in second half of 1985. Drop in dollar price since December will not affect PRT receipts until September.

Much too early to say what pattern of oil prices and production will be in whole of 1986-87. Uncertain outlook for prices was reflected in Budget caution.



## **5. Inland Revenue receipts**

### Background

Total Inland Revenue receipts in April were £4.7 billion. Total for first four months of 1986 (£24.1 billion) up 11½ per cent on same period last year.

### Line to take

Receipts in first four months of 1986 up 11½ per cent on January–April 1985. Rise mainly due to higher corporation tax receipts and higher income tax (including building societies' composite rate tax). The higher corporation tax receipts reflect higher company profits in 1984 (than 1983) and higher dividend payments in six months up to end–March 1986 (compared with same period in previous year).

## **6. Customs and Excise receipts**

### Background

Customs and Excise receipts in April were £3.4 billion. Total for first four months of 1986 (£12.9 billion) down by £0.3 billion on same period last year, which was affected by changed arrangements for VAT on imports (accounting for about £¾ billion). If remove that effect, four-month total was 3½ per cent up.

### Line to take

Receipts in January–April 1986 were £12.9 billion, about 3½ per cent up on the same period last year after allowing for the effects in 1985 of withdrawal of postponed accounting for VAT on imports.

## **7. EC refunds and abatements**

### Line to take

At present, UK contributions in 1986 are being reduced by a total of 1400m ecus in equal monthly instalments (this is likely to be increased in a supplementary Budget, but the net effect of Budget decisions uncertain). Benefit to PSBR in April about £75 million.



## **8. Supply Expenditure**

### Background

Provisional outturn for supply expenditure in April is £9.0 billion, up by over £¾ billion on April 1985; over £¼ billion of this increase is accounted for by extra rate support grant (repayment of excess holdback in respect of 1984-85). Total January - April 1986 (provisionally £34.9 billion) very close to total for same period last year (£34.8 billion).

### Line to take

Provisional estimate £9.0 billion in April, but little can be read into one month's figures. Better to look over a longer period - expenditure in first four months of 1986 almost the same as over same period last year.

## **9. Privatisation proceeds**

### Background

Receipts in April were £1.1 billion, from final call on British Telecom. Budget forecast for total receipts in 1986-87 £4¾ billion.

### Line to take

Final call on British Telecom realised £1.1 billion in April (and £0.1 billion in March).

## **10. Local authorities**

### Background

Preliminary estimate is that local authorities borrowed £0.7 billion (net) in April. Very high borrowing (of £2.4 billion) from PWLB in April was used in part to repay market debt.

### Line to take

Borrowing by local authorities is always high in April, when little rate income is received. Borrowing in first four months of 1986 very close to borrowing in same period of 1985.



## **11. Public corporations**

### Line to take

Public corporations (provisionally) made a small net repayment of debt in April. There is usually a net repayment of debt in the month. Borrowing in first four months of 1986 is a little higher than in same period of 1985, despite the coal strike (the chief effect of the strike on borrowing in 1984-85 occurred earlier, in late 1984): one reason is that the NCB received substantially less in grants in early 1986 than in early 1985, owing to improved trading performance.

## **12. Revisions to 1985-86 outturns**

### Line to take

The estimate of the PSBR for 1985-86 is still £5.9 billion, but there are small (approximately offsetting) changes to the LABR and PCBR. Local authorities' borrowing in 1985-86 has been revised down a little since last month following receipt of fuller quarterly returns on authorities' borrowing in January-March; while the estimate of public corporations' borrowing in 1985-86 has been revised up slightly, with fuller information now available on corporations' transactions with banks.

John Clark (ext 3093)  
PSF Division, HM Treasury



PERSONAL AND CONFIDENTIAL



FROM: Minister of State

DATE: 19 May 1986

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Mr Cropper

*A note from Peter Cropper  
re: report re: ...*

HEALTH SPENDING

I have seen Peter Cropper's note of 16 May. One of my closest friends is Robert Maxwell, who until the mid-70s, was a colleague of John Banham's at McKinsey on public health provision issues. He left to be Secretary of the Special Trustees at St Thomas's (with 30 per cent of his time available for international consulting) and latterly has been Secretary of the King's Fund. He is not, I suspect, an automatic supporter of our Party but he is a man of wisdom, great goodwill and sound reason. If agreeable to colleagues, I would be happy to take him out for a long meal to discuss the whole of this issue, the basis being personal friendship and confidentiality therefrom.

P.B.

PETER BROOKE



CONFIDENTIAL

Tan

Please thank

CR 4/6

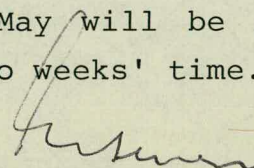
FROM: R DEVEREUX  
DATE: 3 June 1986MISS PEIBSON  
CHANCELLOR OF THE EXCHEQUERcc Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr H P Evans  
Mr Peretz  
Mr Scholar  
Mr Watts  
Mr Briscoe**CGBR(O) & CGBR IN MAY**

1. The provisional outturn for the CGBR(O) in May is £1.6 billion. This is £0.1 billion lower than last month's forecast, reflecting higher Customs & Excise receipts (by £0.1 billion, mainly VAT) and higher national insurance contributions (by £0.2 billion), partly offset by lower Inland Revenue receipts (by £0.2 billion, probably income tax). The estimate of the outturn is subject to revision before publication on Tuesday 17 June.

2. In the first 2 months of 1986-87 the CGBR(O) was £1.8 billion, £0.1 billion above the Budget profile. Higher Inland Revenue receipts (£0.3 billion, mainly corporation tax) and higher national insurance contributions (£0.3 billion) have been more than offset by a number of small changes to other items (including slightly lower Customs receipts and slightly higher supply expenditure).

3. On-lending to local authorities and public corporations totalled £0.9 billion in May. The CGBR in May was therefore £2.4 billion, bringing the total since 1 April 1986 to £4.8 billion.

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

  
R J DEVEREUX

CONFIDENTIAL



CONFIDENTIAL

## CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	May 1986			April-May 1986			April-May 1985
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Inland Revenue	+ 3.7	+ 3.9	- 0.2	+ 8.3	+ 8.0	+ 0.3	+ 7.3
Customs and Excise	+ 3.4	+ 3.2	+ 0.1	+ 6.7	+ 6.8	- 0.1	+ 6.4
Other own account	- 8.6	- 8.8	+ 0.2	- 17.0	- 16.6	- 0.3	- 16.1
CGBR(O)	- 1.6	- 1.7	+ 0.1	- 1.8	- 1.7	- 0.1	- 2.4
On- lending:							
- IAs	- 0.8	- 1.0	+ 0.2	- 3.2	- 2.3	- 0.9	- 0.1
- PCs	- 0.1	-	-	+ 0.2	+ 0.2	-	0.2
CGBR	- 2.4	- 2.7	+ 0.3	- 4.8	- 3.8	- 1.8	- 2.3

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

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



1. ~~Tom~~ to be aware.

2. C/ large increase over  
PEWP in 1986-7,  
although recouped  
in later years

FROM: J E MORTIMER

DATE: 9 JUNE 1986

CHIEF SECRETARY

cc: **Chancellor**  
Minister of State  
Economic Secretary  
Sir P Middleton  
Sir G Littler  
Mr F E R Butler  
Mr Lavelle  
Mr Edwards  
Mr Scholar  
Mr Turnbull  
Mr Gray  
Mr Crabbie  
Mr Addison  
Mr Cropper

CR 9/6

(AM written in water)

1986 SURVEY: PROGRAMME 2.7: NET PAYMENTS TO COMMUNITY INSTITUTIONS

We would be grateful to know whether you are content for the changes (as compared with the PEWP) in our projection of net payments to Community institutions to be included in the summary of departmental bids you will be circulating later this month.

2. Our latest projection, and the changes compared with the PEWP, are:

Net payments to Community institutions

	1986-87	1987-88	1988-89	1989-90
PES projection	850	1100	600	1100
PEWP projection	650	1150	950	
Changes since PEWP	+200	-50	-350	+125*

£m

\* increase above baseline

3. The year-by-year profile of net payments is very uneven since



the combined effect of making abatements (under the Fontainebleau system) a year in arrears coupled with the detailed arrangements for paying VAT is to produce oscillations in the path of our budget contributions. Recent developments - particularly the depreciation of sterling - have led us to alter the amplitude of these oscillations with the result that, while over the 1986/87 to 1989/90 period as a whole our net payments to the Community are little changed from what was projected in the PEWP, considerable changes are expected in particular years.

4. The rest of this note discusses the projection in a little more detail.

#### Main assumptions

5. The latest projection represents a complete reworking of the figures. It has been discussed with other departments in PESC(EC).

6. The main assumptions are:

- (i) the Community budget will be at the 1.4 per cent VAT ceiling in 1986 and later years (whereas the PEWP projection assumed there would be headroom beneath the ceiling of 2.5 becu this year and between 1.7 and 2.5 becu in later years). Despite mounting pressures within the Community, the VAT ceiling is not increased on 1 January 1988 or at any other time in the survey period;
- (ii) in 1987 and later years, agricultural expenditure on market support grows in line with the financial guideline. Other types of spending are constrained by the availability of resources within the VAT ceiling. In some years at least, the VAT ceiling is likely to be a tighter constraint than the maximum rate provisions of the Treaty of Rome;
- (iii) we receive a 500 mecu (£325 million) uprating to our 1986 abatement (ie. our abatement payable in 1986) this autumn. In 1987, we shall receive an abatement of 1640 mecu (£1065 million), corrected to 1980 mecu (£1290m) in the autumn of 1988. Otherwise, in 1988 and later years we receive our full abatement entitlement under the Fontainebleau system.



The changes

7. 1986/87. The projection is £200m more than in the PEWP. The main reasons for this are:

(i) we have revised upwards by £110 million the estimate of the VAT adjustment we have to pay the Community on 1 August. (The VAT adjustment is a payment in respect of underpayments in earlier years.) The reasons for this upward revision were explained in my submission to the Minister of State of 25 March;

attached. —  
(ii) the PEWP projection took account of the £325 million correction in our abatement contained in this year's supplementary budget, but not the £1.2 billion increase in Community spending also contained in the Commission's supplementary budget proposals, including 915 mecu for agricultural market support. In fact, our net contribution to this additional expenditure could be some £50 million;

(iii) we have assumed a sterling ecu exchange rate which is some 10 per cent lower than that used for the PEWP. Since our VAT liability in the 1986 budget is fixed in ecu terms, we shall have to pay around £150 million more in sterling in 1986 to meet this liability.

These changes more than compensate for a significant reduction in our forecast of customs duty payments to the Community.

8. 1987/88. The projection shows a slight improvement on the PEWP. One of the main reasons for this is that we have revised down our estimate of the VAT adjustment we shall have to pay in August 1987.

9. 1988/89. The improvement is £350 million. The magnitude of this improvement depends critically on the assumption that the correction (estimated at £225 million) to our 1987 abatement will not be received until the autumn of 1988. In principle, this correction could be made in 1987, but we have assumed the Council will be reluctant to make it then because of the difficult financial situation.

10. The other main reason for the striking improvement in 1988/89



relates to the relatively high sterling ecu budget exchange rate that has now been fixed for the 1987 budget. The use of this relatively high exchange rate both pushes up our abatement entitlement in 1988 and means we should be entitled to a sizeable VAT adjustment in our favour (ie. paid to us) in August 1988.

11. 1989/90. No projection for this year was included in the PEWP, so a comparison cannot be made.

### The uncertainties

12. These are considerable. The main ones are:

- (i) the VAT ceiling. If the ceiling is increased to 1.6 per cent in 1988 or later, or if the UK agrees to provide supplementary financing by way of an IGA, our net payments to the Community will almost certainly be pushed up. An increase in the ceiling from 1.4 per cent to 1.6 per cent would raise some £2.5 billion. If the money was all spent, and the expenditure was divided between agriculture and other items in the same proportions as now, the UK's net contribution after abatement might rise by some £65 to £70 million a year. However, the total increase in public expenditure would be substantially greater than this - of the order of £240 million a year - since account would also need to be taken of the additional expenditure on agricultural market support, which falls on Programme 3 (agriculture);
- (ii) the possibility that the Parliament might tamper with our abatement. They might for example seek to reduce the £325 million correction contained in this year's supplementary budget. Similarly, there is considerable doubt about the timing of the correction to our 1987 abatement. We have assumed the correction will be in autumn 1988, but the Parliament might attempt to defer it till 1989 or later;
- (iii) our agricultural receipts. We have delayed putting in this submission until the last moment in the hope that IAE division could agree with MAFF a forecast of agricultural receipts from the Community. They have not



been able to do so, however. Although our own projection assumes slightly higher sterling receipts than forecast in the PEWP (as well as by IBAP in the current exercise), our assumed receipts share (9 per cent in 1987 onwards) is significantly lower than in 1984 (11½ per cent) and 1985 (9½ per cent). Each one percentage point change in our share of agricultural receipts is worth about £150 million (before abatement).

*Jm.*

J E MORTIMER



5/838 J/S 25 MAR 1986 -43

This is very clear; if Sombre - I think it  
would be prudent for me to have a  
brief teach-in (perhaps from M?) on  
our VAT contribution to EC.

FROM: J E MORTIMER

DATE: 25 MARCH 1986

PB 25/iii

MINISTER OF STATE

cc: PS/Chancellor  
Sir G Littler  
Mr Lavelle  
Mr Edwards  
Mr Crabbie  
Mr Williams  
Mr Gray  
Miss Simpson  
Mr Donnelly  
Mr Addison  
Mr Aitchison (C&E)

THIS YEAR'S VAT ADJUSTMENT AND NEXT YEAR'S ABATEMENT

This note:

- (i) informs you that we are likely to make a large VAT payment - what is known as a "VAT adjustment" - to the Community on 1 August of this year;
- (ii) explains what we are doing to get the VAT adjustment taken into account by the Commission in the provision for our 1987 abatement.

This year's VAT adjustment

2. On 1 August, it is likely that we will have to make a VAT adjustment of 330 mecu (£215 million) or so. The precise amount is still uncertain.

3. VAT adjustments are a normal part of the Community's financial arrangements. They arise because the amount of VAT paid by any member state in past years may have exceeded or fallen short of its true liability calculated on the basis of outturn information. If there is indeed a discrepancy, then an adjustment - in the form of a payment either from the member state concerned to the Community or vice versa - has to be made.



The main reasons why the UK will have to make a large VAT adjustment this year are:

- (i) the estimate (agreed early in 1984) of our VAT liability in the 1985 Community budget did not take account of the ending of postponed accounting for VAT on imports announced in the 1984 UK budget. The ending of postponed accounting inflated our VAT take. Since, for EEC purposes, our VAT base is estimated on the basis of VAT receipts, the increase in our VAT take pushes up the estimate of our 1985 VAT base (by £7.5 billion). Because of this, we will have to make an additional VAT payment to the Community of £75 million (1 per cent of £7.5 billion);
- (ii) even leaving aside the effect of the ending of postponed accounting, VAT revenues in 1985 were higher than expected. For example, last year's FSBR estimated VAT receipts in 1985-86 at £18.3 billion, whereas this year's FSBR puts the figure at £19.3 billion, an increase of £1 billion. Although this gave the Chancellor more room for manoeuvre in the budget, it also feeds through to the estimate of our 1985 EEC VAT base. The result is that we will have to make a further payment of around £75 million (115 mecu);
- (iii) the Commission's audit examination of our 1984 VAT base took place in December. As a consequence of this examination, Customs say that an additional VAT payment of possibly £65 million (100 mecu) will have to be made (though negotiations with the Commission on the exact amount have not yet commenced). The payment results from agreed adjustments in respect of past errors and changes in the methodology for calculating VAT liability. The two most important adjustments relate to the calculation of our VAT liability in respect of consumers' expenditure on second-hand cars, and the private use of business cars.

5. The public expenditure plans take account of point (i), but not points (ii) and (iii). We have known for some time that the estimate of our 1985 VAT base agreed with the Commission and contained in the 1985 budget was on the low side (point (ii)), but it is only now that hard information on our VAT receipts in 1985 is available that we



are able to say how large the shortfall is. Point (iii) has come to light since the Commission's audit visit in December.

#### Our 1987 abatement

6. It is one of the attractive features of the Fontainebleau abatement system that it specifically provides that VAT adjustments should be taken into account in the calculation of our VAT expenditure gap, and hence in our abatement (a point for which the Prime Minister fought hard at the Fontainebleau Council). Because of the way the VAT expenditure gap is defined, our abatement entitlement increases by about the same amount as the VAT adjustment itself\*. Thus the whole of this year's VAT adjustment will be repayable to us in due course in the form of higher abatement.

7. According to the detailed implementing provisions for the Fontainebleau abatement system, our abatement "could" be uprated to take account of this year's VAT adjustment in a supplementary budget in September 1987, but, if it is not uprated then, it definitely will be uprated in a supplementary budget in September 1988.

8. In our view, however, it would be much better to get the abatement uprated at the very first opportunity - ie. by having our VAT adjustment taken into account in the provision for our abatement in the 1987 Preliminary Draft Budget (PDB) to be published this June. This will not be easy. But we have made strong representations to the Commission on this point. In particular, there have been a number of meetings at working level, and Sir David Hannay has both written and spoken to Christophersen about it.

9. Failure to get full provision for our abatement in the 1987 budget could create difficulties. There may not be enough headroom within the 1.4 per cent VAT ceiling for an uprating to be made in September 1987, and we could well have to wait until September 1988 for the return of our money. Moreover, the Parliament may be more inclined to meddle with our abatement in a supplementary budget than they would in the main 1987 budget.


---

\* The VAT/expenditure gap assumes our share of levies and duties is the same as our share of VAT. Hence a VAT adjustment which pushes up our VAT share increases our assumed share of levies and duties as well. We then get back 66 per cent of the extra VAT and notional levy and duty payment. A mathematical explanation of this point is attached.



10. If we cannot get the Commission to make full provision for our abatement in the 1987 PDB, we may ask them to issue a rectifying letter to the draft budget to uprate the abatement as soon as possible after all VAT adjustments have been made this August. You should be aware, however, that, even if the Commission agreed to do this, we may well be unable to get other member states to agree to adopt the rectifying letter. Last year, we faced a similar problem after we paid a VAT adjustment of 253 mecu in August. The Commission issued a rectifying letter in September to uprate (by 264 mecu) the figure for our abatement in the 1986 draft budget, but the Council rejected it in October, though they did promise to uprate our abatement in a supplementary budget this year.

11. This submission does not seek any specific action. But you will want to be aware of what is happening.

  
J E MORTIMER



WHEN THE INCREASE IN THE UK ABATEMENT IS ABOUT THE SAME SIZE AS OUR VAT ADJUSTMENT

The Fontainebleau system provides that the UK abatement is calculated as follows:

$$A = .66 \cdot B \cdot \frac{V}{(TV)} - R \quad (1)$$

where

- A is the UK's abatement
- B is the allocated budget
- V is the amount of VAT paid by the UK
- (TV) is the total amount of VAT paid by all member states
- R is the amount of the UK's allocated receipts

The size of the increase in the UK's abatement resulting from an additional VAT payment (eg a VAT adjustment) by the UK can be determined by differentiating the equation at (1) with respect to V:

$$\frac{dA}{dV} = \frac{.66 \cdot B}{(TV)} \quad (2)$$

Since roughly 66 per cent of the budget is financed by VAT, then  $(TV) = .66 B$ , and, by substitution in (2)

$$\frac{dA}{dV} = 1 \quad (3)$$

Thus, so long as some 66 per cent of the budget is financed by VAT, our abatement will increase by about the same amount as our VAT adjustment. In fact, at present, slightly under 66 per cent of the budget is financed by VAT. This means that our abatement increases by slightly more than the VAT adjustment.

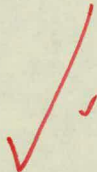




FROM: JILL RUTTER  
DATE: 10 June 1986

MR MORTIMER

*c/ To note  
CR 11/6.*



cc: Chancellor  
Minister of State  
Economic Secretary  
Sir P Middleton  
Sir G Littler  
Mr F E R Butler  
Mr Lavelle  
Mr Edwards  
Mr Scholar  
Mr Turnbull  
Mr P Gray  
Mr Crabbie  
Mr Addison  
Mr Cropper

**1986 SURVEY: PROGRAMME 2.7: NET PAYMENTS TO  
COMMUNITY INSTITUTIONS**

The Chief Secretary has seen your minute of 9 June.

2 In view of the uncertainties attached to the projections the Chief Secretary might have been inclined to leave the projections as in the Public Expenditure White Paper. But since paragraph 5 of your minute reports that the revised projections have already been discussed within PES(EC) the Chief Secretary thinks that we should include the revised projections as you propose.

*Jill Rutter*

JILL RUTTER  
Private Secretary



CONFIDENTIAL AND PERSONAL

FROM: MISS M E PEIRSON  
 DATE: 10 June 1986

1. MR CASSELL  
 2. CHANCELLOR

cc Sir P Middleton  
 Sir T Burns  
 Mr H P Evans  
 Mr Peretz  
 Mr Scholar  
 Mr Briscoe  
 Mr Devereux  
 Mr Wells - CSO

**PSBR IN MAY**

1. The first provisional outturn for the PSBR in May is £1.1 billion, just below last month's forecast (see table attached). It is in line with available market forecasts, which are between £1 billion and £1½ billion. Our estimate is subject to revision before publication at 2.30 pm on Tuesday 17 June.
2. The CGBR(O) in May was provisionally £1.7 billion, the same as last month's forecast. There was an undershoot of £0.2 billion on the LABR, whilst the PCBR was as forecast.
3. In the first two months of 1986-87 the PSBR was provisionally £1.9 billion, £0.1 billion above the Budget profile. The CGBR(O) was £0.2 billion higher, owing to small differences on various items. An overshoot on the PCBR was more than offset by an undershoot on the LABR.
4. The monthly note, presenting updated estimates for May and detailed forecasts for June-August, will be circulated next Monday.

*MEP*  
 MISS M E PEIRSON



## CONFIDENTIAL &amp; PERSONAL

£ billion

	May 1986			April-May 1986			April-May 1985
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget forecast	Difference	Outturn
CGBR(O)	1.7	1.7	-	1.9	1.7	0.2	2.4
LABR	- 0.3	- 0.1	- 0.2	0.4	0.7	- 0.3	0.8
PCBR	- 0.4	- 0.3	-	- 0.4	- 0.6	0.2	- 0.5
PSBR	1.1	1.2	- 0.1	1.9	1.8	0.1	2.7

CONFIDENTIAL &amp; PERSONAL



*yp*

FROM: MISS M E PEIRSON  
DATE: 16 June 1986

- 1. MR CASSELL *Approved in draft.*
- 2. CHANCELLOR OF THE EXCHEQUER

*C/ No great surprises - all more or less on track compared to Budget profile*  
*CR 16/6*

Copy with PPS letter, attached, for:

Mr Norgrove - No 10

cc List A

List B (distributed at 2.30 pm, 17 June)

Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr H Evans  
Mr Peretz  
Mr Scholar  
Mr L Watts  
Mr Devereux  
Dr Clark

Chief Secretary  
Financial Secretary  
Minister of State  
Mr F E R Butler  
Mr Moore  
Mr Odling-Smee  
Mr Turnbull  
Mrs Butler  
Mr Mowl

Miss O'Mara  
Mr Walsh  
Mr Williams  
Mr Ritchie  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie  
Mr Wells - CSO  
Mr Calder - IR  
Mr Wilmott - C & E

**MONTHLY NOTE ON THE PSBR**

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

2. In this note, the outturn for May is compared with the forecast made a month ago. Revised forecasts for June-August are also included.

MISS M E PEIRSON



## PUBLIC SECTOR BORROWING

### Summary

- The PSBR for May is provisionally estimated at £1.1 billion. This is just below last month's forecast, with higher net repayments by local authorities.
- Borrowing in the first two months of 1986-87 (£1.9 billion) was in line with the Budget profile (Chart 1). It is £0.8 billion lower than in April-May 1985 (Chart 2), because of the British Telecom receipts in April 1986.
- The PSBR is forecast at nearly £2½ billion over the next three months, to bring the total for the first five months of 1986-87 to nearly £4½ billion, just above the Budget profile.

---

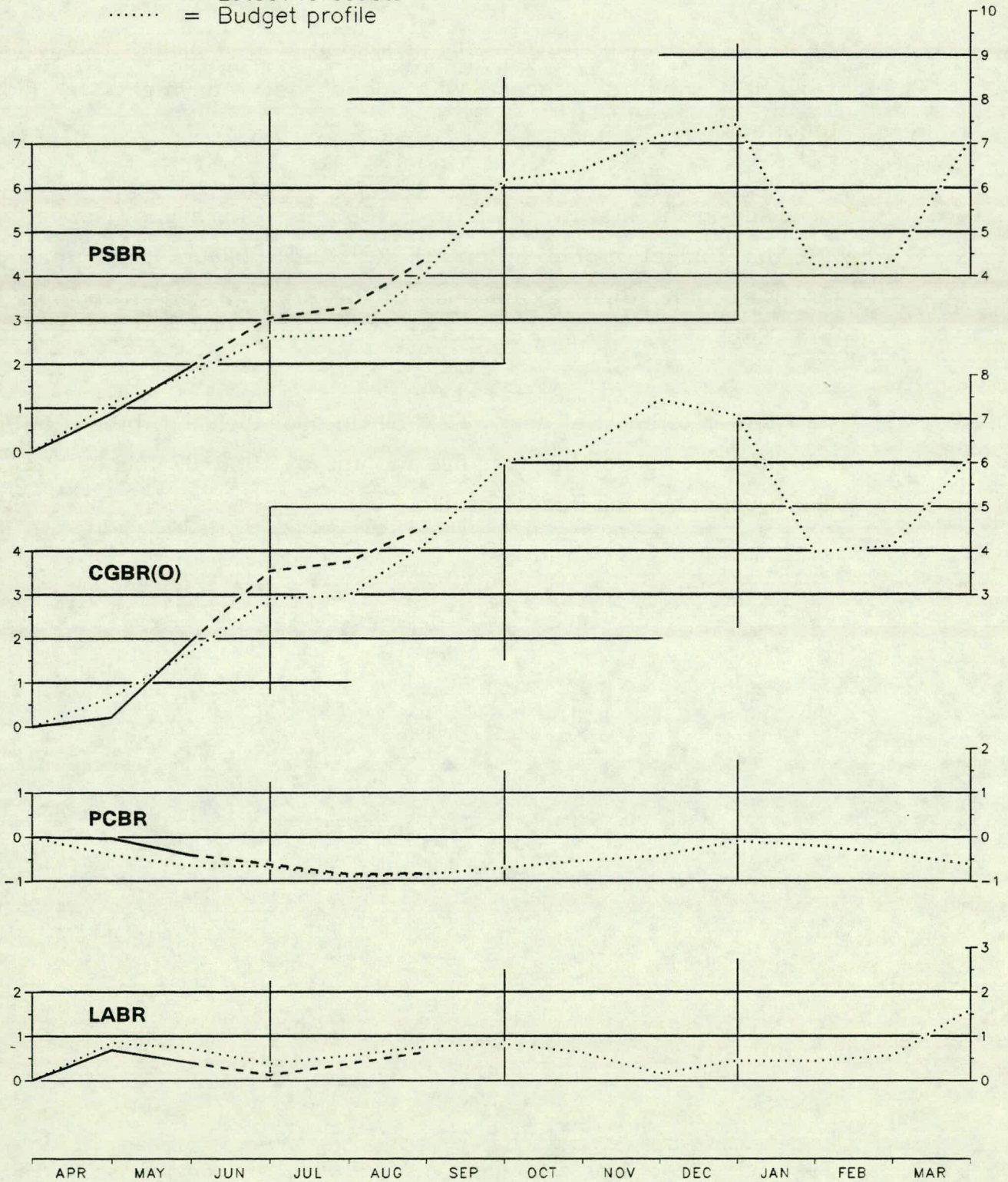
Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.



**Chart 1 : Comparisons with Budget profiles for 1986-87**

£ billion cumulative

- = Estimated outturn in 1986-87
- - - = Latest forecasts
- ..... = Budget profile

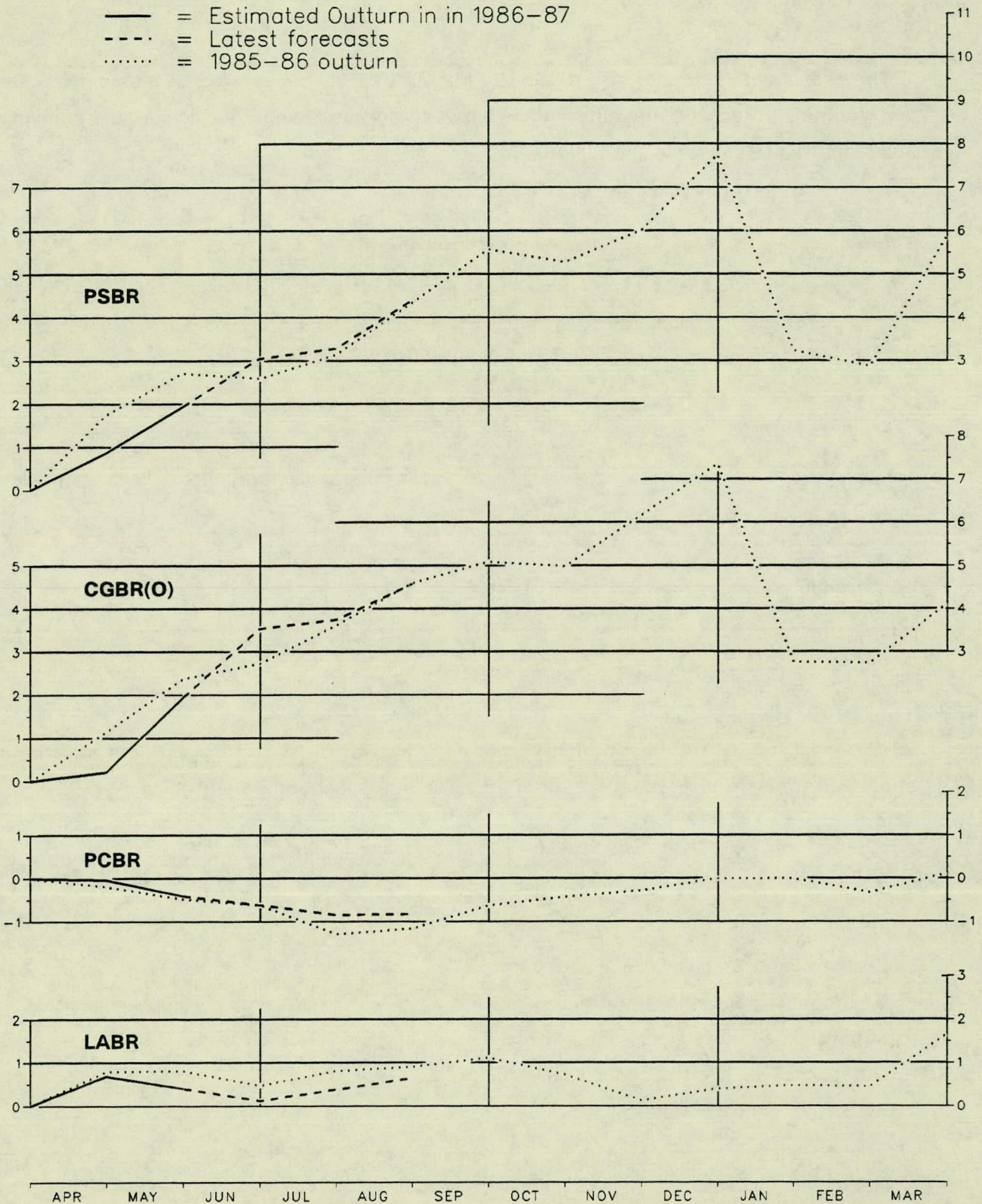




**Chart 2 : Comparisons with last year's outturns**

£ billion cumulative

- = Estimated Outturn in in 1986-87
- - - = Latest forecasts
- ..... = 1985-86 outturn





**Borrowing in May**

(Outturn compared with last month's forecast)

1. The provisional estimate of the PSBR in May is £1.1 billion, about £0.1 billion lower than last month's forecast. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

**Table 1: May 1986 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	1.2	1.7	-0.1	-0.3
Outturn	1.1	1.7	-0.3	-0.4
Difference	-0.1	0.1	-0.2	-

\*made on 16 May

2. **Borrowing on central government's own account** was close to forecast. The table below shows our present view of where differences on individual components occurred.

£billion ( - indicates lower borrowing)

Inland Revenue	+0.2
Customs and Excise	-0.1
National Insurance contributions	-0.2
Supply expenditure	+0.1
Other	+0.1
Net effect on CGBR(0)	+0.1

3. **The very high Inland Revenue receipts in April** were offset by lowering the forecast for



May and June. In the event, the outturn for May was lower still (by £0.2 billion), probably due to a shortfall on income tax. Industrial action by Post Office staff in the Bradford area had little effect on Inland Revenue receipts in May – the first serious effects started on 2 June and should unwind before the end of June. The additional Customs and Excise receipts were due to VAT. Supply expenditure was slightly above forecast, because of higher social security.

4. Local authorities made a net repayment of about £0.3 billion in May, compared with last month's forecast repayment of £0.1 billion.

5. Public corporations made a net repayment of £0.4 billion in May, very close to last month's forecast.

**April and May**

(Outturn compared with Budget forecast)

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

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	1.8	1.7	0.7	-0.6
Outturn	1.9	1.9	0.4	-0.4
Difference	0.2	0.2	-0.3	0.2

6. The cumulative PSBR for the first two months of 1986–87 was £1.9 billion. This is about £0.2 billion above the Budget profile (see Chart 1 and Table 2) and about 0.8 billion below the same period last year (Chart 2), owing mainly to higher privatisation proceeds.

7. Cumulative borrowing in April and May on central government's own account was £0.2



billion higher than the Budget profile. Higher supply expenditure (by £0.2 billion, excluding advance payments to the EEC, mainly due to earlier payments to health authorities) and lower Customs and Excise receipts (by £0.1 billion, mainly tobacco), and some other smaller shortfalls were only partly offset by higher Inland Revenue receipts (by £0.3 billion, partly Advance Corporation Tax and partly income tax) and higher National Insurance contributions.

8. Local authorities borrowed £0.4 billion in April and May, some £0.3 billion less than in the Budget profile. This is probably a matter of timing: the Budget profile did not allow adequately for a refund in April of RSG holdback.

9. Public corporations made a net repayment of debt of £0.4 billion in April and May, compared with a repayment of £0.6 billion forecast in the Budget profile.

#### June to August

(Forecast compared with Budget profile)

10. The PSBR in the period June to August is forecast to be nearly £2½ billion, slightly higher than the Budget profile. See Table 3.

11. Table 5 shows the latest detailed profile of borrowing on central government own account for June to August; a comparison with the Budget forecast for the first five months and the outturn in April–August 1985 is provided in Table 6.

12. The forecast CGBR(O) for June–August is slightly higher than the Budget profile, mainly due to lower Inland Revenue receipts reflecting further unwinding of the high receipts in April. Lower interest receipts are offset by other changes.

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

- In June, the CGBR(O) is forecast to be £1½ billion. Inland Revenue receipts include the first instalment of building societies' composite rate tax (£¼ billion). Debt interest payments and supply expenditure are both relatively low.



- In July, the CGBR(O) is forecast to be £¼ billion. Inland Revenue receipts will be high, including a large instalment of schedule D tax from the self-employed (£1 billion), quarterly advance corporation tax (£1 billion) and the second instalment of banks' composite rate tax (£¼ billion). This is partly offset by high debt interest payments.
- In August, the CGBR(O) is forecast to be £¾ billion. VAT receipts will be high (as in February, May, and November).

14. Local authorities are expected to borrow about £¼ billion over the next three months, slightly more than in the Budget profile, reflecting a partial unwinding of the lower borrowing in April and May.

15. Public corporations are expected to show a net repayment of nearly £½ billion over this period, a slightly higher repayment than in the Budget profile, unwinding the lower repayments in the first two months.

#### April-August

(Forecast compared with Budget profile)

16. The PSBR for the first five months of 1986-87 is thus forecast at nearly £4½ billion, just above the Budget profile. Higher borrowing on central government own account is partly offset by slightly lower borrowing by local authorities.

17. Within the CGBR(O), higher Inland Revenue receipts and National Insurance contributions are more than offset by higher supply expenditure and lower interest receipts. Higher supply (excluding advance EC contributions) is largely because of higher social security expenditure. Interest receipts have been affected by lower interest rates and lower central government deposits with the Bank of England (following exceptionally high on-lending to local authorities: this on-lending will generate extra central government receipts later in the year to offset, broadly, the current shortfall).



**Table 3: Borrowing Requirement monthly profiles April–August**  
(Budget profiles in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1986–87								
Apr	<b>0.9</b>	<i>1.1</i>	<b>0.2</b>	<i>0.7</i>	<b>0.7</b>	<i>0.9</i>	-	<i>-0.4</i>
May	<b>1.1</b>	<i>0.7</i>	<b>1.7</b>	<i>1.0</i>	<b>-0.3</b>	<i>-0.1</i>	<b>-0.4</b>	<i>-0.2</i>
Jun	<b>1.1</b>	<i>0.8</i>	<b>1.6</b>	<i>1.2</i>	<b>-0.3</b>	<i>-0.3</i>	<b>-0.2</b>	<i>-</i>
Jul	<b>0.2</b>	<i>-</i>	<b>0.2</b>	<i>0.1</i>	<b>0.3</b>	<i>0.2</i>	<b>-0.2</b>	<i>-0.2</i>
Aug	<b>1.1</b>	<i>1.4</i>	<b>0.8</b>	<i>1.2</i>	<b>0.3</b>	<i>0.2</i>	-	<i>0.1</i>
Cumulative								
Apr	<b>0.9</b>	<i>1.1</i>	<b>0.2</b>	<i>0.7</i>	<b>0.7</b>	<i>0.9</i>	-	<i>-0.4</i>
May	<b>1.9</b>	<i>1.8</i>	<b>1.9</b>	<i>1.7</i>	<b>0.4</b>	<i>0.7</i>	<b>-0.4</b>	<i>-0.6</i>
Jun	<b>3.1</b>	<i>2.6</i>	<b>3.5</b>	<i>2.9</i>	<b>0.1</b>	<i>0.4</i>	<b>-0.6</b>	<i>-0.7</i>
Jul	<b>3.3</b>	<i>2.7</i>	<b>3.7</b>	<i>3.0</i>	<b>0.4</b>	<i>0.6</i>	<b>-0.8</b>	<i>-0.9</i>
Aug	<b>4.4</b>	<i>4.1</i>	<b>4.6</b>	<i>4.2</i>	<b>0.6</b>	<i>0.8</i>	<b>-0.8</b>	<i>-0.8</i>

Figures for April and May are outturns



**Table 4: PSBR for 1986-87 - comparisons with 1985-86 and 1986 Budget profile**

£ billion

	1985-86		1986-87		Differences from	
	Outturn	Budget profile	Latest update <sup>(1)</sup>	1985-86 outturn	Budget profile	
	1	2	3	3-1	3-2	
Apr	1.8	1.1	<b>0.9</b>	-0.9	-0.3	
May	1.0	0.7	<b>1.1</b>	0.1	0.4	
Jun	-0.1	0.8	<b>1.1</b>	1.2	0.3	
Q2	2.6	2.6	<b>3.1</b>	0.5	0.4	
Jul	0.5	-	<b>0.2</b>	-0.3	0.2	
Aug	1.2	1.4	<b>1.1</b>	-0.1	-0.3	
Sep	1.2	2.1				
Q3	3.0	3.6				
Oct	-0.3	0.2				
Nov	0.7	0.8				
Dec	1.7	0.3				
Q4	2.2	1.3				
Jan	-4.5	-3.2				
Feb	-0.4	0.1				
Mar	3.0	2.8				
Q1	-1.9	-0.3				
<b>Cumulative</b>						
Apr	1.8	1.1	<b>0.9</b>	-0.9	-0.3	
May	2.7	1.8	<b>1.9</b>	-0.8	0.2	
Jun	2.6	2.6	<b>3.1</b>	0.5	0.4	
Jul	3.1	2.7	<b>3.3</b>	0.1	0.6	
Aug	4.3	4.1	<b>4.4</b>	0.1	0.3	
Sep	5.6	6.2				
Oct	5.3	6.4				
Nov	6.0	7.2				
Dec	7.8	7.4				
Jan	3.2	4.2				
Feb	2.9	4.3				
Mar	5.9	7.1				

<sup>(1)</sup>Figures for April and May are outturns



**Table 5: Central government transactions – May  
outturn and latest forecasts for June–August**

£ billion

	May		Latest forecasts		
	forecast	outturn <sup>(1)</sup>	Jun	Jul	Aug
<b>Receipts</b>					
<i>Consolidated Fund</i>					
Inland Revenue	3.9	3.7	3.5	5.9	3.6
Customs and Excise	3.2	3.4	2.7	3.2	3.6
Other <sup>(2)</sup>	0.9	0.5	0.4	0.6	2.0
<i>National Loans Fund</i>					
Interest etc. receipts	0.4	0.5	0.6	0.3	0.4
<b>Total Receipts</b>	<b>8.4</b>	<b>8.0</b>	<b>7.2</b>	<b>9.9</b>	<b>9.6</b>
<b>Expenditure</b>					
<i>Consolidated Fund</i>					
Supply expenditure <sup>(3)</sup>	7.8	7.9	7.7	8.1	8.0
Adjustment to Supply Services basis <sup>(4)</sup>	–	–	–	–	–
Other	0.3	0.3	0.3	0.3	0.4
<i>National Loans Fund</i>					
Service of the national debt	1.6	1.6	0.6	1.9	1.2
Net lending	1.0	0.8	0.3	0.3	0.3
<b>Total Expenditure</b>	<b>10.6</b>	<b>10.6</b>	<b>8.9</b>	<b>10.7</b>	<b>9.8</b>
<b>Other funds and accounts</b> (+ increases borrowing) (– reduces borrowing)	<b>0.5</b>	<b>0.1</b>	<b>0.3</b>	<b>–0.2</b>	<b>0.9</b>
<b>CGBR</b>	<b>2.7</b>	<b>2.6</b>	<b>2.0</b>	<b>0.6</b>	<b>1.2</b>
<b>On-lending</b>	<b>1.0</b>	<b>0.9</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>
<b>CGBR(O)</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>	<b>0.2</b>	<b>0.8</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes privatisation proceeds except where these are temporarily lodged in "other funds and accounts".

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

<sup>(4)</sup>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<sup>(1)</sup> – comparisons for April–August**

£ billion

	1985	1986	
	Outturn	Budget forecast	Latest update
<b>Receipts</b>			
<i>Consolidated Fund</i>			
Inland Revenue	19.2	21.2	21.3
Customs and Excise	15.1	16.3	16.2
Other <sup>(2)</sup>	5.3	4.5	3.8
<i>National Loans Fund</i>			
Interest etc. receipts	2.6	2.6	2.4
<b>Total Receipts</b>	<b>42.1</b>	<b>44.7</b>	<b>43.7</b>
<b>Expenditure</b>			
<i>Consolidated Fund</i>			
Supply expenditure <sup>(3)</sup>	39.4	39.8	40.7
Adjustment to Supply Services basis <sup>(4)</sup>	0.2	–	0.2
Other	1.8	2.1	1.6
<i>National Loans Fund</i>			
Service of the national debt	5.9	6.4	6.4
Net lending	2.2	2.9	4.0
<b>Total Expenditure</b>	<b>49.4</b>	<b>51.2</b>	<b>53.0</b>
<b>Other funds and accounts</b> (+ increases borrowing) (– reduces borrowing)	<b>-1.4</b>	<b>0.7</b>	<b>-0.6</b>
<b>CGBR</b>	<b>5.9</b>	<b>7.2</b>	<b>8.7</b>
<b>On-lending</b>	<b>1.3</b>	<b>3.0</b>	<b>4.1</b>
<b>CGBR(O)</b>	<b>4.6</b>	<b>4.2</b>	<b>4.6</b>

<sup>(1)</sup>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.

<sup>(2)</sup>Includes privatisation proceeds except where these are temporarily lodged in "other funds and accounts".

<sup>(3)</sup>On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

<sup>(4)</sup>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: MISS M E PEIRSON  
DATE: 16 June 1986

→ PPS/CHANCELLOR

cc Mr Cassell  
Mr Clark

**DRAFT PRESS BRIEFING ON PSBR IN MAY**

1. I attach the draft press briefing on the PSBR in May. The press notice will be published at 2.30 pm on Monday. It would be appreciated if we could receive the Chancellor's comments by 9.30 am on Monday.

*Tuesday*

*You submit ✓  
out date time  
on p 3.*

*C/ content with press briefing?  
Monthly note on PSBR enclosed  
in folder below.*

*CR 16/6 Map*

MISS M E PEIRSON



From: JOHN CLARK  
17 June 1986

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

List B

(distributed at 2.30pm, 17 June)

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 Devereux  
Mr R Evans  
Mr Pickford  
Mr Mansell - CSO  
Mr Wright -B/E  
Mr Norgrove - No. 10

Mrs Butler  
Mr Spencer  
Mr Cropper  
Mr Ross-Goobey  
Mr Tyrie  
Mr Ko - IR  
Mr B Sexton - C and E

**BRIEFING FOR 17 JUNE PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for May will be published at 2.30pm on 17 June. The provisional outturns, together with figures for the first five months of 1985 and 1986, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1985-86 are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns**

£ billion

	Jan-May 1985	Jan-May 1986	May 1986
Central government on own account	1.2	-1.3	1.7
Local authorities	2.0	1.7	-0.3
Public corporations	-0.6	-0.3	-0.4
PSBR	2.6	0.1	1.1
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	2.3	4.1	2.6

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		
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87
	Apr	1.9	1.1	<b>0.2</b>	0.9	0.8	<b>0.7</b>	-0.4	-0.2	<b>-0.0</b>	2.4	1.8
May	3.2	2.4	<b>1.9</b>	0.8	0.8	<b>0.4</b>	-0.4	-0.5	<b>-0.4</b>	3.6	2.7	<b>1.9</b>
Jun	4.5	2.7		0.6	0.5		-0.5	-0.6		4.6	2.6	
Jul	5.0	3.6		0.8	0.8		-0.7	-1.3		5.1	3.1	
Aug	6.2	4.6		1.4	0.9		-0.7	-1.2		6.9	4.3	
Sep	6.4	5.1		1.2	1.1		-0.2	-0.6		7.5	5.6	
Oct	6.7	5.0		1.0	0.7		0.3	-0.4		8.0	5.3	
Nov	8.5	6.2		0.8	0.1		0.4	-0.3		9.7	6.0	
Dec	7.8	7.4		1.2	0.4		1.3	-0.0		10.3	7.8	
Jan	5.7	2.8		0.9	0.5		1.2	-0.0		7.8	3.2	
Feb	5.2	2.8		1.3	0.5		1.3	-0.3		7.8	2.9	
Mar	6.6	4.1		2.4	1.7		1.2	0.1		10.2	5.9	

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL  
(DRAFT)

CONFIDENTIAL AND PERSONAL  
(DRAFT)



2. The (provisional) PSBR for May is £1.1 billion. This is slightly below the average of City forecasts, which range between £1-1½ billion.

### POSITIVE

#### Line to take

1. PSBR for first five months of 1986 shows net borrowing of about £0.1 billion, compared with £3.5 billion in January-May 1984 and £2.6 billion in January-May 1985.

2. Non-oil revenues continue to be buoyant, ~~reflecting healthy and vigorous economy.~~

### DEFENSIVE/FACTUAL

#### 1. Factors reducing PSBR in January-May 1986

##### Line to take

(a) Big surplus (nearly £2 billion) in PSBR in January-March 1986, owing to:

- relatively high corporation tax receipts
- relatively low expenditure
- £½ billion 1984 EC rebate received mainly in January
- £½ billion privatisation proceeds in March;

(b) £1.1 billion receipts from third call on British Telecom in April.



## **2. Borrowing in 1986-87**

### Line to take

Budget forecast is £7.1 billion.

## **3. Proportion of borrowing in first half-year**

### Background

On average around two-thirds of borrowing occurs in first half of financial year. Pattern of borrowing in 1986-87 particularly uncertain - depends heavily on timing of privatisation proceeds. As usual, most Inland Revenue receipts likely to come in second half-year.

### Line to take

Proportion of borrowing in first half year very uncertain at this stage, partly owing to dependence on timing of privatisation proceeds. Probable that, as usual, most borrowing will occur in first half-year.

## **4. Interest rates**

### Line to take

Recent fall in interest rates will affect both expenditure and receipts. Net effect probably very small.

## **5. Oil revenues : effect of fall in dollar price**

### Background

Budget forecast of oil revenues in 1986-87 (around £6 billion) assumed average price of 15 dollars/barrel for North Sea crude for the rest of 1986. If prices were 1 dollar/barrel lower on average in 1986, but other things - including exchange rate - were unchanged, oil revenues would be around £½ billion lower in 1986-87.

### Line to take

Revenues in April and May (PRT instalment payments) based largely on prices and



production in second half of 1985. Drop in dollar price since December and recent appreciation of sterling against dollar will not affect PRT receipts until September.

Much too early to say what pattern of oil prices and production will be in whole of 1986-87. Uncertain outlook for prices was reflected in Budget caution.

## **6. Inland Revenue receipts**

### **Background**

Total Inland Revenue receipts in May were £3.7 billion. Total for first five months of 1986 (£27.7 billion) up 10¼ per cent on same period last year. Budget forecast for 1986-87 growth on 1985-86 was 12¾ per cent.

### **Line to take**

Receipts in first five months of 1986 up 10¼ per cent on January-May 1985. Rise mainly due to higher corporation tax receipts and higher income tax (including building societies' composite rate tax). The higher corporation tax receipts reflect higher company profits in 1984 (than 1983) and higher dividend payments in six months up to end-March 1986 (compared with same period in previous year).

## **7. Customs and Excise receipts**

### **Background**

Customs and Excise receipts in May were £3.4 billion. Total for first five months of 1986 (£16.3 billion) same as in January-May 1985, when receipts were affected by changed arrangements for VAT on imports (accounting for about £¾ billion). If remove that effect, five-month total was 4½ per cent up. Budget forecast for 1986-87 growth on 1985-86 was 8¼ per cent.

### **Line to take**

Receipts in January-May 1986 were £16.3 billion, about 4½ per cent up on the same period last year after allowing for the effects in 1985 of withdrawal of postponed accounting for VAT on imports. Low increase compared with Budget forecast for 1986-87 growth on 1985-86 is because of erratically high receipts in early part of 1985.



## **8. Effect of postal dispute on tax revenues**

### Background

Postal dispute in May in Bradford area did not affect May receipts. It delayed receipt of some tax revenues in early June, but these are now being recovered.

### Line to take

No serious effect until after end of May. Receipts delayed in early June are now being received, so should be no significant effect on PSBR in either month.

## **9. EC refunds and abatements**

### Line to take

At present, UK contributions in 1986 are being reduced by a total of 1400m ecu in equal monthly instalments. Benefit to PSBR in May about £75 million.

## **10. Supply Expenditure**

### Background

Provisional outturn for supply expenditure in May is £7.9 billion. Total January - May 1986 (provisionally £42.8 billion) only a little higher than total for same period last year (£42.5 billion).

### Line to take

Provisional estimate £7.9 billion in May. Little can be read into one month's figures. Better to look over a longer period - expenditure in first five months of 1986 about 1 per cent higher than over same period last year.

## **11. Privatisation proceeds**

### Line to take

Negligible receipts in May. Receipts so far in 1986-87 £1.1 billion, from final call on British Telecom in April. Budget forecast for total receipts in 1986-87 £4¾ billion.



## **12. Local authorities**

### Line to take

Local authorities (provisionally) made a net repayment of debt of £0.3 billion in May. They normally show small borrowing or a net repayment in May. Borrowing in first five months of 1986 (£1.7 billion) just over £¼ billion lower than in the same period last year. Borrowing of £0.8 billion from PWLB in May was used in part to repay market debt.

## **13. Public corporations**

### Line to take

Public corporations (provisionally) made a net repayment of debt of £0.4 billion in May. There is usually low borrowing or a net repayment of debt in the month. The net repayment in first five months of 1986 (£0.3 billion) is a little lower than in same period of 1985, despite the coal strike (the chief effect of the strike on borrowing in 1984-85 occurred earlier, in late 1984): one reason is that the NCB received substantially less in grants in early 1986 than in early 1985, owing to improved trading performance.

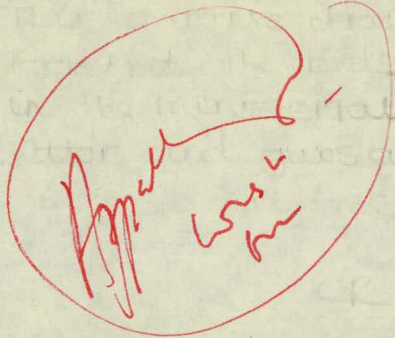
John Clark (ext 3093)  
PSF Division, HM Treasury



Copy No 2 of 14 Copies

FROM: P R C Gray  
DATE: 20 June 1986

CHIEF SECRETARY

cc Chancellor  
Sir P Middleton  
Sir T Burns  
Mr F E R Butler  
Mr Anson  
Mr Monck  
Mr Scholar  
Mr Turnbull  
Miss Peirson  
Mrs Dunn  
Mr Tyrrie**1986 SURVEY: ASSESSMENT OF POSSIBLE OUTCOME**

This note provides our first full assessment of the prospective additions to spending programmes in the 1986 Survey. It has been put together following an initial look at all the Ministerial letters proposing programme increases. We are submitting<sup>in</sup> parallel draft papers for you to circulate to Cabinet, first detailing the additional bids and second your proposals to the July Cabinet.

2. Figures for each department are spelled out in the attached summary scorecard table. This is the format which, if you are content, we will regularly update as the negotiations proceed. For each of the Survey years there are three columns showing, respectively, Departments' bids, forecast outcome and the Treasury position. At this stage the Treasury position is rather artificial - it reflects securing all the options and other reductions now on the table and only those bids so far formally conceded.

3. For the present, the main focus is on the forecast outcome. You will see that in some cases this includes higher figures than departments have currently bid for. This reflects cases where we either know or suspect further bids are likely to surface as the Survey proceeds - eg higher estimates of agricultural support, legal aid and social security costs; and, a particular problem discussed below, the position on local authority capital spending.



4. The summary position is:

*Thurs gets worse & worse.*

*Why so much lower than 1987-88? Why not 1988-89? Why not 1989-90?*

	<u>£ billion</u>		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total bids now on the table	9.0	10.0	13.3
Forecast required addition to programmes	7.2	7.9	10.7

5. The forecast programme additions breakdown as follows:

LA current	3.5	4.5	5.5
LA capital	1.0	1.0	1.0
Social security	1.1	1.0	2.1
Nationalised industries	0.5	0.4	0.1
Health	0.3	0.3	0.5
Other law and order	0.2	0.2	0.2
Chancellor's depts	0.2	0.2	0.3
Other education	0.1	0.1	0.2
EC contributions	-0.1	-0.4	+0.1
IBAP	0.2	0.2	0.2
Other	0.2	0.4	0.5
Total	<u>7.2</u>	<u>7.9</u>	<u>10.7</u>

*Handwritten notes:*  
 LA 87/88 4 1/2, 88/89 5 1/2, 89/90 6 1/2  
 Social Sec 1, 1 1/2  
 Other 2, 2  
 Total 7, 8, 10 1/2

The following paragraphs summarise the prospects under these headings. We have not separately identified running costs in this breakdown, and are submitting separate advice on this aspect. But the Social Security and some of the other figures above include sums it is assumed will have to be conceded on running costs.

LA current 3.5 3.5 5.5

6. These figures are £100-200 million a year higher than suggested in earlier broadbrush assessments. This partly reflects



the assumed need to add to provision for rate fund contributions. That apart, the underlying assumption is for provision to be set at a real terms freeze compared with 1986-87 budgets, with less than full territorial formula additions and little, if any, concession for additional teachers' pay costs. (Mr Allan's note of 20 June supplementing your briefing for E(LA) gave a real terms freeze figure, without addition for teachers' pay, in England of £3,027 million for 1987-88; and the range of argument for territorial add-ons will be some £300-£500 million.)

LA capital 1.0 1.0 1.0

7. Earlier assessments have assumed it would be possible to get away with a substantially lower net addition. But this was before we had the latest figures for the implications of honouring the 80 per cent allocations commitment. Departments themselves are not yet aware of those effects, and their bids currently total a little under £1 billion in 1987-88. But we have built in a global adjustment to bring the total forecast outcome to £1 billion in each year, which is broadly in line with what we now think the 80 per cent commitment would require - made up of £850 million <sup>for England</sup> and £150 million for territorial formula consequentials.

8. But the key issue is whether we are bound by the 80 per cent commitment. LG are doing further urgent work on this in conjunction with DOE, and you are due to discuss it with Mr Ridley shortly. If we could escape the commitment, and then "on merits" secure lower additions in particular to the housing programme, the forecast outcome assessment would be improved.

Social security 1.1 1.0 2.1

9. These figures are closely in line with the earlier broadbrush assessment - a little higher in 1987-88 and 1989-90 and lower in 1988-89. Although the departmental bids figures in the attached table reflect what Mr Fowler has currently proposed, we have tried in the forecast outcome to anticipate how things will look in September - by which time we will have the latest DHSS take-up estimates, almost certainly implying sizeable



additions, and the impact of the revised economic assumptions coming out of the June Treasury forecast, which may imply lower assumed upratings. The two effects may very largely offset one another. An allowance is built into the figures for the extent to which we think policy bids might be trimmed back and other options secured.

Nationalised industries 0.5 0.4 0.1

10. Earlier assessments have explicitly assumed that, with the possible exception of the RMPS, nationalised industries could be held to the baseline. Mr Moore's separate submission sets out the first detailed assessment, showing that significant net additions are in prospect, chiefly on coal and electricity.

Health 0.3 0.3 0.5

11. These figures result from a line by line assessment of Mr Fowler's bids, implying the need to concede significantly over half the total bids.

Other law and order 0.2 0.2 0.2

12. Sizeable irresistible pressures are in prospect on prisons, criminal injuries compensation, legal aid and the Crown Prosecution Service.

Chancellor's departments 0.2 0.2 0.3

13. The assessment chiefly comprises the administrative bids from the Revenue Departments, and a sizeable estimating increase in the public expenditure component of MIRAS and LAPRAS.

Other education 0.1 0.1 0.2

14. This assumes that a little under half the bids for universities and science are conceded.

EC contributions -0.1 -0.4 +0.1

15. These are the estimating changes on which EC Group have already made a submission. They are subject to revision as the Survey proceeds, and there is at least a risk the net reductions in the first two years will evaporate.

*Handwritten notes:*  
 PMS  
 1/18  
 1/18



IBAP

0.2

0.2

0.2

16. These figures are linked to the EC contributions estimates. But some allowance has been built in for anticipated higher bids as the Survey proceeds.

Other

0.2

0.4

0.5

17. It is assumed that all other programmes individually will involve changes of less than £100 million a year. But allowance is made for significant additions for PSA, aid, and the other central government DOE programmes. Employment is assumed to be held to the baseline. Territorial formula consequentials of other programmes (excluding LA spending) add £100-200 million a year, on the assumption that it will not be possible to secure savings for Scotland.

Implications for the planning totals

18. How these prospective additions to programme spending feed into revised planning totals depends on the adjustments made to privatisation proceeds and the Reserves.

19. Early next week the results of the June Treasury forecast will be available. This will incorporate assumed Survey decisions broadly in line with the assumptions set out above, but then go on to assess the likely **outturn** for spending in 1987-88 and 1988-89. The resulting outturn planning totals will give an indication of the required level of Reserves if the assumed Survey decisions were implemented.

20. So we will be in a better position to assess the planning total implications in a few days time. But the broad message of this assessment is that unless it was possible to reach more favourable Survey decisions, eg in the area of local authority capital, it is hard to see how the addition to the 1987-88 planning total could be less than £4 billion.

PRC G.



## SECRET

## 1986 SURVEY SCORECARD

	BASELINE	DEPT	1987-88 FORECAST OUTCOME	HMT	BASELINE	DEPT	1988-89 FORECAST OUTCOME	HMT	BASELINE	DEPT	1989-90 FORECAST OUTCOME	HMT
Defence	18,817	134.0	0	-350.0	18,990	154.0	12.0	-500.0	19,268	462.0	24.0	-600.0
FCO-ODA	1,350	30.4	30.4	-0.1	1,391	66.6	31.6	-0.1	1,426	110.9	30.9	-0.6
FCO-Other	660	9.0	7.7	-5.7	693	8.9	7.8	-6.5	711	10.4	8.6	-7.3
EC	1,149	-50.0	-50.0	-50.0	951	-350.0	-350.0	-350.0	975	125.0	125.0	125.0
IBAPland CAP prefunded)	1,629	100.7	150.0	-134.0	1,661	105.8	205.0	-134.0	1,702	98.6	240.0	-134.0
Domestic Agriculture	720	18.5	20.0	-10.9	734	18.8	20.0	-17.7	752	20.9	20.0	-39.2
Forestry	54	-0.1	-4.1	-4.2	56	-1.1	-5.9	-6.0	57	-1.5	-8.2	-8.2
DTI	953	73.6	6.5	-16.5	940	92.8	11.0	-20.0	964	102.8	0	-29.0
EGGD	220	-14.0	-14.0	-16.0	128	-9.3	-9.3	-11.3	131	-67.0	-67.0	-69.0
Energy	313	15.0	12.5	-16.0	323	9.0	6.8	-27.7	331	-2.0	-2.3	-34.4
Employment	3,947	74.7	0	-126.0	4,132	79.1	0	-190.1	4,235	83.9	0	-238.7
Transport(CG LA Capital	2,057 0	67.5 5.0	27.0 -2.0	0 -12.0	2,087 0	85.5 33.0	34.0 8.0	0 -12.0	2,154 0	100.0 53.0	35.0 18.0	0 -12.0
DOE-Hsg(CG LA Capital	2,368 0	101.0 650.0	41.0 495.0	-10.0 -5.0	2,412 0	62.0 685.0	27.0 505.0	-42.0 -5.0	2,473 0	85.0 660.0	30.0 510.0	0 -5.0
DOE-Other(CG LA Capital	880 0	81.0 140.0	36.9 55.0	-2.1 0	907 0	101.1 142.0	28.9 5.0	-17.1 0	930 0	99.0 137.0	15.9 5.0	-30.1 0
DOE-PSA	-109	95.8	64.0	-10.0	-112	101.1	69.5	-12.0	-115	103.4	70.0	-12.0
Home Off(CG LA Capital	1,148 0	97.7 25.0	49.9 20.0	-59.9 0	1,185 0	99.3 24.0	54.9 20.0	-68.1 0	1,215 0	136.6 23.0	78.9 20.0	-64.2 0
LCD	603	30.0	48.8	-12.8	646	53.8	67.0	-9.3	662	69.7	104.1	-9.7
DES(CG LA Capital	3,588 0	197.4 150.0	100.0 100.0	-16.3 0	3,658 0	271.0 150.0	140.0 100.0	-19.2 0	3,750 0	347.0 150.0	180.0 100.0	-22.2 0
OAL	348	18.0	5.5	0	360	26.5	8.5	0	369	29.5	9.5	0
DHSS-Health	15,937	446.5	270.0	-101.0	16,617	523.0	280.0	-264.0	17,032	805.0	545.0	-329.0
DHSS-Social Security	44,197	1,168.0	1,100.0	-5.0	45,617	1,215.0	1,000.0	-27.0	46,758	2,061.0	2,100.0	-9.0
Civil Super- annuation	1,314	0	0	0	1,405	0	0	0	1,440	0	0	0
Scotland	4,435	20.1	16.3	-8.2	4,580	-4.5	-4.5	-12.8	4,694	40.5	30.0	0
Wales	1,759	5.9	-1.1	-1.1	1,819	-2.1	-2.1	-2.1	1,864	0	0	0
Northern Ireland	4,691	-53.6	-62.4	-62.4	4,819	-35.5	-43.1	-43.1	4,939	-17.7	-25.4	-25.4
Territorial Consequences	0	195.0	101.0	-34.0	0	228.0	110.0	-78.0	0	311.0	170.0	-90.0
Chancellor's Depts	2,046	220.2	151.2	0	2,073	283.5	193.3	0	2,125	375.7	266.2	0
Other Departments	492	92.1	80.2	0	505	112.9	100.5	0	518	141.7	124.9	0
Nat Indust IFR Memo Items	22 277	850.0 4.0	0 525.0	0 0	-37 276	754.0 -48.0	0 385.0	0 0	-57 283	578.0 -100.0	0 60.0	0 0
LA current plus RFCs to HRAs)	27,031	4,000.0	3,500.0	3,000.0	27,043	5,000.0	4,500.0	3,800.0	27,043	6,200.0	5,500.0	4,400.0
Privatise Proceeds	-4,750	0	0	0	-4,750	0	0	0	-4,750	0	0	0
Reserve	6,016	0	0	0	7,858	0	0	0	9,600	0	0	0
LA Cap-bids	0	970.0	668.0	-17.0	0	1,034.0	638.0	-17.0	0	1,023.0	653.0	-17.0
-LG adj	0	0	332.0	0	0	0	362.0	0	0	0	347.0	0
Adjustment	-262	0	0	0	-267	0	0	0	-279	0	0	0
IMPLIED ADDITIONS TO PROGRAMMES	143,900	8,998.4	7,212.3	1,930.8	148,700	10,035.2	7,877.9	1,934.9	153,200	13,332.4	10,665.1	2,756.0
Memo Item LA Capital	0	970.0	1,000.0	-17.0	0	1,034.0	1,000.0	-17.0	0	1,023.0	1,000.0	-17.0

Adjustment excludes double counting of DAFS and WOAD expenditure



58  
bFrom: B T GILMORE  
Date: 20 June 1986cc  
Chancellor  
Mr F E R Butler  
Mr Anson  
Mr Jameson

CHIEF SECRETARY

✓

## SPECIFIC GRANTS

Since Mr Baker in his letter of 19 June on this subject says nothing about how he proposes to proceed, I have reminded his Principal Finance Officer of the rules that papers for Ministerial committees must be agreed with the Treasury or contain a statement of the Treasury view, and that policy proposals must set out what would be achieved by the change proposed and how we would know when it had happened. I shall be meeting officials from DES and other departments concerned on Monday to try to get some better definition of the proposal and how it would be used in practice, and will submit further advice immediately thereafter.

2. There is, of course, a good deal more to this than the reservations you know we have about the expenditure effects of specific grants (upward pressure), and their use to get better value for money (no real sanction). The proposal is simply to take a wide-open power to pay specific grant whenever, to whatever extent and for whatever reason the Secretary of State may decide. It would substantially affect the whole structure of local government finance (certainly the Green Paper regime, quite possibly this year's settlement). It would also preempt consideration (in the "radical options" context) of the merits of different relationships with local authorities (where Mr Tebbit prefers the contractual approach). It also seems to me to be heading into a jungle of judicial review which may need to involve the Law Officers.



B T GILMORE



FROM: A ROSS GOOBEY  
DATE: 23 JUNE 1986

CHANCELLOR

cc CST  
FST  
MST  
EST  
Sir T Burns  
Mr Scholar  
Mr Odling-Smee  
Miss O'Mara  
Mr S Matthews  
Mr Culpin  
Mr Cropper  
Mr Tyrie

LETTER TO SIR PETER TAPSELL MP

I happened to see Peter Tapsell in the street the other day and wediscussed our disagreement over true PSBR comparisons.

2. As a result he has sent the attached letter and attachments to me, and has copied it to Mr Wakeham, who has asked for a copy of my reply.

3. After consulting Messrs Odling-Smee and Matthews, I have concocted the attached draft. Are you content that it should be sent?

*C/ content for ARG  
to send letter  
as drafted ?*

*Arg*

A ROSS GOOBEY

*CR*

*24/6*



Sir Peter Tapsell MP  
House of Commons  
London SW1

Thank you for your letter of 12 June.

I agree with you that comparative statistics are a minefield, but the OECD figures are a useful guide to the truth. In fact they calculate General Government Financial Deficits (ie the combined deficits of central government, local authorities and the social security systems), not simply PSBRs, so that their figure for the UK is correct.

The Japanese figure of 4.9% of GDP is not, of course, the PSBR. Since it excludes social security funds it is in fact a less comprehensive measure than the GGFs reported by the OECD. The Japanese Government likes to use it because it is argued that the social security surplus is needed to meet the heavy pension commitments of the 21st century.

A similar argument could be made about the UK. I would refer you to the recent articles by Anatole Kaletsky in the Financial Times and The Economist (last week p.67), which shows the state pension commitments in the UK, under the old SERPS arrangements, are also expected to rise sharply in the next century. Although modification of SERPS is in train, there will still be a rise in future liabilities. It could therefore be argued that, on the Japanese argument, we should also be building up a surplus in our National Insurance Fund to meet these, which would imply a lower not a higher PSBR.



The Germans are using a similar argument as the reason why they dare not increase their deficit. How much less sensible then would it be for us to increase our already higher deficit, even though we have our private sector occupational pension schemes which will continue to give additional help in the next century.





HOUSE OF COMMONS  
LONDON SW1A 0AA

Alastair Ross-Goobey, Esq.,  
Special Adviser to the Financial Secretary,  
H. M. Treasury,  
Great George Street,  
London, S.W.1.

12th June 1986

*Dear Alastair,*

You were kind enough to express an interest in the off-the-cuff reply I gave to the Chancellor when he intervened in my speech in the House last week to query the point I was making about the Japanese and German budget deficits.

Japan

I have checked on the latest available figures which confirm the accuracy of my argument. Indeed, it appears that I understated the Japanese PSBR. In Tokyo, the Bank of Japan and the Ministry of Finance state that their PSBR is 4.9% of their GDP. As I mentioned in my remarks, this is a complex calculation because each country calculates its budget deficits in a different way. Consequently the OECD, in an attempt to standardise these figures, include social welfare governmental funds and therefore claim that the Japanese budgetary deficit is at present 1.3%. The Japanese Authorities dismiss this OECD calculation as a nonsense and are adamant that 4.9% is the correct figure.

They argue that they are accumulating a surplus on their social welfare fund "today" which will be dispersed "tomorrow" and that it is very misleading to deduct this figure from their borrowing requirement and that if they attempted to do so themselves the reaction in Japan would be one of derision.





The December OECD Economic Report (attached) quotes a figure of 1.7%. The May OECD Economic Report (attached) reduces this to 1.3%. Knowing of this statistical dispute between the two figures of 1.3% and 4.9% I quoted a middle figure of 2% in response to the Chancellor's intervention since the argument was too complicated for me to try to explain it to the House in a short speech. The Authorities in Japan regard the 2% figure I used as a great understatement of their actual borrowing requirement which they state as being 4.9%.

### Germany

I now come to the German budget deficit. Various Parliamentary colleagues have put it to me that I was wrong on this because they claim that the Länder are required by law to balance their borrowings and expenditure each year so that they cannot run a deficit or contribute to an understatement of the true German borrowing requirement. But this is not the case. You will see from the attached table from the Bundesbank's Monthly Report (April 1986) that the Länder Governments run a large deficit which in 1985 amounted to 16 billion Deutschemarks (£4.2 billion - which is more than half of our £5.9 billion PSBR last year).

### Britain

You will see, incidentally, that the OECD figure for the U.K. PSBR based on the calendar year 1985 overestimates the U.K. borrowing requirement which is as stated in my speech. In my belief, all attempts to standardise international statistics should be treated with some scepticism because they inevitably take insufficient account of local institutional arrangements. I made this point several times in 1980 and 1981 when disputing the then widely held belief that the Money Supply could be measured or controlled with any degree of accuracy. We face enough problems without crucifying ourselves on the cross of bogus statistics.

Yours ever,

Peter



2. Finances of the Federal Government, Länder Governments and local authorities \*

Period	Federal Government			Länder Governments 1, 2			Local authorities 2		
	Receipts	Expenditure	Balance of receipts and expenditure	Receipts	Expenditure	Balance of receipts and expenditure	Receipts	Expenditure	Balance of receipts and expenditure
1970	88.6	87.6	+ 1.0	74.0	77.1	- 3.1	50.8	56.5	- 5.7
1975	125.0	160.0	- 35.0	126.4	146.3	- 19.9	92.0	101.2	- 9.2
1977	151.4	174.1	- 22.7	153.5	161.6	- 8.1	107.1	108.4	- 1.4
1978	164.3	190.8	- 26.5	164.1	176.5	- 12.4	116.6	118.2	- 1.6
1979	179.2	205.1	- 25.9	177.2	191.8	- 14.6	125.1	130.4	- 5.3
1980	189.9	217.6	- 27.6	186.2	208.6	- 22.4	139.9	145.6	- 5.7
1981	196.9	234.9	- 38.0	190.6	216.6	- 26.0	142.0	152.1	- 10.1
1982	208.9	246.6	- 37.7	199.6	224.2	- 24.6	145.8	153.0	- 7.3
1983	216.8	248.7	- 31.9	206.9	228.3	- 21.4	150.3	151.7	- 1.3
1984 pe	225.2	253.9	- 28.6	216.7	234.9	- 18.2	155.2	153.8	+ 1.5
1985 pe	236.0	259.0	- 23.0	227.5	243.5	- 16.0	163.0	162.5	+ 1.0
1984 1st qtr	50.0	62.7	- 12.7	50.6	52.3	- 1.7	29.6	29.8	- 0.2
2nd qtr	55.9	61.0	- 5.1	49.1	52.5	- 3.5	32.2	31.4	+ 0.7
3rd qtr	56.5	60.6	- 4.0	51.2	54.0	- 2.8	33.7	32.6	+ 1.1
4th qtr	62.3	69.2	- 6.8	57.8	67.9	- 10.1	41.8	42.0	- 0.2
1985 1st qtr	50.6	66.5	- 16.0	51.0	53.2	- 2.2	30.1	30.8	- 0.7
2nd qtr	58.7	62.2	- 3.4	51.7	54.3	- 2.6	33.8	33.0	+ 0.9
3rd qtr	61.9	61.4	+ 0.4	54.2	56.3	- 2.1	36.0	35.4	+ 0.7
4th qtr pe	64.8	68.6	- 3.8	60.8	70.2	- 9.4	44.4	44.3	+ 0.1

\* See corresponding footnote to Table VII, 1. — 1 Including Berlin, Bremen, Hamburg. — 2 The quarterly figures, unlike the annual figures based on the annual accounts statistics of the Federal

Statistical Office, do not include hospitals keeping commercial accounts and various special accounts. In 1985 additional hospitals which started to keep commercial accounts left the range of those

reporting for the quarterly statistics. — pe Partly estimated. Discrepancies in the totals are due to rounding.

OECD Economic Report - May 1986.

Table 24

General government financial balances<sup>a</sup>

Surplus (+) or deficit (-) as a percentage of nominal GNP/GDP

	1980	1981	1982	1983	1984	1985	1986 <sup>b</sup>	1987 <sup>b</sup>
United States	-1.3	-1.0	-3.5	-3.8	-2.9	-3.5	-3.4	-2.5
Japan	-4.4	-3.9	-3.6	-3.7	-2.2	-1.3	-0.8	-0.4
Germany	-2.9	-3.7	-3.3	-2.5	-1.9	-1.1	-0.8	-0.4
France	+0.2	-1.8	-2.7	-3.1	-2.9	-2.6	-2.6	-2.5
United Kingdom	-3.5	-2.8	-2.3	-3.7	-3.9	-3.1	-3.2	-3.1
Italy	-8.0	-11.9	-12.6	-11.7	-13.0	-14.0	-12.9	-12.8
Canada	-2.7	-1.6	-5.0	-6.2	-6.3	-6.1	-5.0	-4.6
Total of above countries <sup>c</sup>	-2.4	-2.6	-3.9	-4.1	-3.4	-3.5	-3.2	-2.6
Australia	-1.4	-0.5	-0.2	-3.7	-3.4	-3.0	-2.2	-2.0
Austria	-1.7	-1.7	-3.2	-3.8	-2.3	-2.2	-2.1	-2.1
Belgium	-8.4	-14.2	-12.5	-12.3	-10.4	-10.3	-9.7	-8.9
Denmark	-3.3	-6.9	-9.1	-7.3	-4.3	-1.5	+2.9	+2.3
Finland	+0.5	+1.3	-0.4	-1.5	+0.3	+0.5	-0.3	-0.7
Greece	-2.7	-11.9	-7.3	-9.4	-10.3	-13.4	-10.4	-6.8
Ireland	-11.7	-12.7	-14.3	-12.6	-10.5	-12.1	-10.6	-9.6
Netherlands	-4.0	-5.5	-7.0	-6.5	-6.2	-5.0	-6.9	-6.9
Norway	+5.7	+4.7	+4.4	+3.8	+6.1	+6.0	-1.7	-3.2
Spain	-2.1	-3.0	-5.8	-5.4	-4.9	-6.1	-5.3	-4.9
Sweden	-3.7	-4.9	-6.3	-5.0	-2.3	-2.3	-1.2	-1.4
Total of smaller countries <sup>c</sup>	-2.6	-4.1	-5.0	-5.4	-4.2	-4.2	-4.0	-3.9
Total of above countries <sup>c</sup>	-2.4	-2.8	-4.0	-4.3	-3.5	-3.6	-3.3	-2.8

a) On a SNA basis except for the United States, the United Kingdom, Greece and the Netherlands which are on a national income account basis.

b) OECD estimates and forecasts.

c) 1982 GNP/GDP weights and exchange rates.



25/2073

CONFIDENTIAL & PERSONAL

FROM: MISS M E PEIRSON

DATE: 26 June 1986

SIR P MIDDLETON

cc PPS

Sir T Burns

Mr Cassell

Mr H Evans

Mr Peretz

Mr Scholar

Mr Devereux

Mr Ritchie

Dr Clark

PSBR: MONTHLY PROFILE IN 1986-87

I attach charts showing revised monthly profiles consistent with the June forecast, and compared with the Budget profiles.



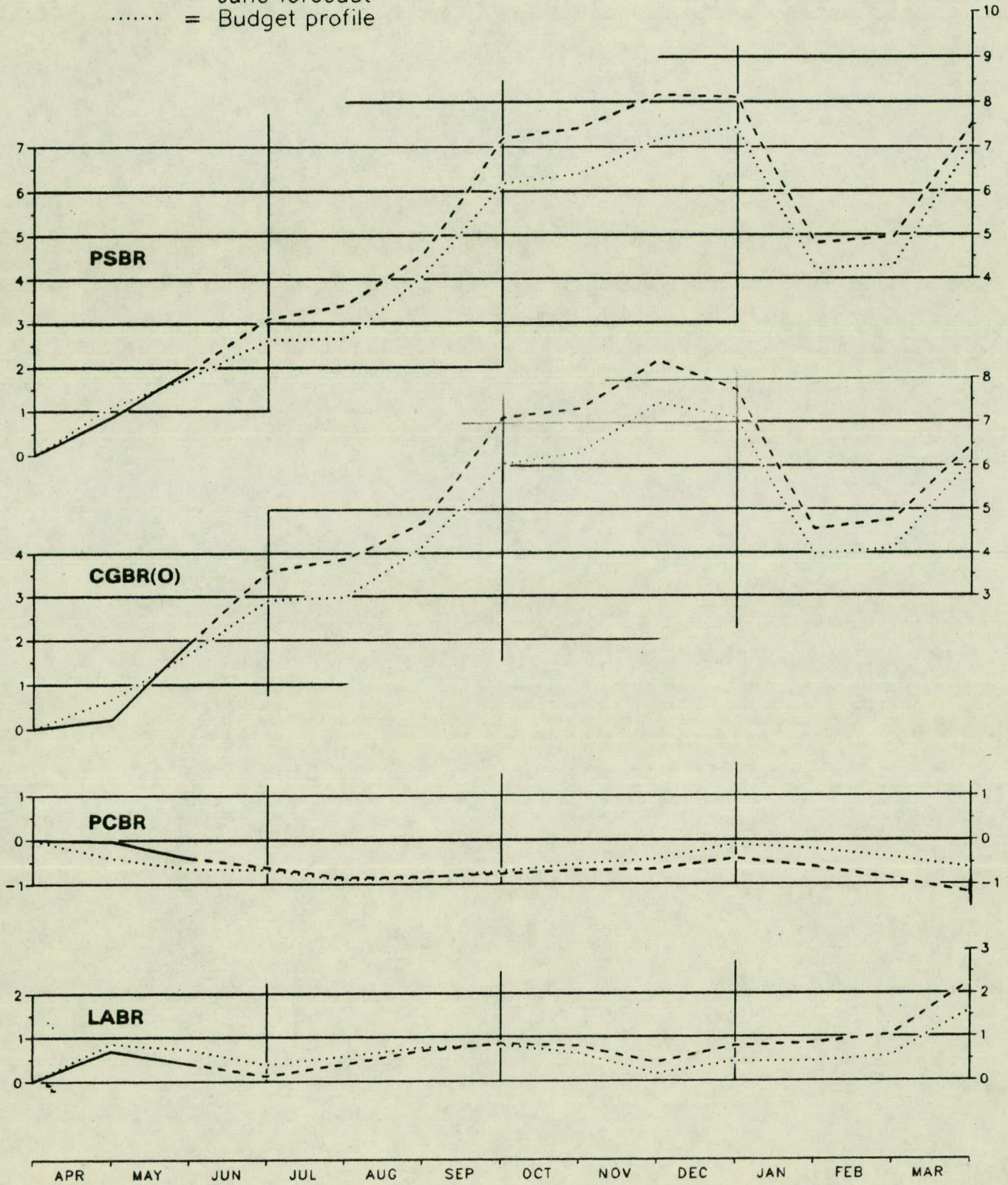
MISS M E PEIRSON



**1986-87 : June forecast compared with Budget profile**

£ billion cumulative

- = Estimated outturn in 1986-87
- - - = June forecast
- ..... = Budget profile





FROM: MISS M E PEIRSON  
DATE: 26 June 1986

Copy No( 1 ) of 16 Copies

CHANCELLOR

- cc Chief Secretary
- Sir P Middleton
- Sir T Burns
- Mr F E R Butler
- Mr Anson
- Mr Monck
- Mr H Evans
- Mr Scholar
- Mr Turnbull
- Mr Gray
- Mr Darlington
- Mr Tyrie

*Mr Rankin*  
*It is to be made in*  
*1987-88 by 24 m. But to*  
*with the 1988-89*

*157e 276?*  
*FBM 624e*  
*as well as*  
*a report*  
*from P.*

**PUBLIC EXPENDITURE: COMPARISON OF JUNE FORECAST WITH POSSIBLE SURVEY OUTCOME**

1. I append a table comparing the forecast of public expenditure in the PSF report of 24 June with the assessment of the Survey outcome in the GEP note of 20 June.
2. The table covers 1987-88 and 1988-89 only, since the forecast did not go further.
3. The essential difference is that the GEP note assesses the likely net additions to published programmes in the 1986 Survey, whilst the forecast includes also the further net additions to programmes likely to be made at the end of the day. The latter include both claims on the Reserve during the year and (for 1988-89 only) net additions made during the 1987 Survey, which constitute claims on the Reserve before the year begins.
4. The resulting total difference between GEP's assessment and the PSF forecast for each year thus gives an idea of the Reserve which would be required in the 1987 PEWP to accommodate the forecast overspends. As shown it is around £3 bn in 1987-88 and £7 bn in 1988-89 (implying additions to the 1986 PEWP planning totals of £4 bn and £7 bn). But there is a very wide margin of error in the PSF forecast of eventual outturn.



5. The main forecast claims on the Reserve in 1987-88, producing the total of around £3 bn, are (as indicated in the table) about £ $\frac{3}{4}$  bn overspend on social security benefits, £1 bn overspend on local authority relevant current expenditure, and £ $\frac{1}{2}$  bn overspend on local authority capital (beyond the assumed additions to plans). The remainder is accounted for by the assumed £ $\frac{3}{4}$  bn or so of discretionary claims on the Reserve during the year. In 1988-89 the forecast overspends are similar but larger, plus an assumed £ $\frac{1}{2}$  bn of discretionary additions in the 1987 Survey.

6. Clearly, if more (or less) were added in the 1986 Survey to published programmes than predicted in GEP's note, the Reserves required would tend to be lower (or higher). But the degree of the trade-off depends whether the increase (or decrease) were of an "estimating" nature (such as social security) or of a "discretionary" nature (such as central government cash limits).

7. The size of the Reserves to be published in the 1987 PEWP is of course a matter for separate decision. But if, for example, in 1987-88 the Reserve chosen were closer to the £ $4\frac{1}{2}$  bn published for 1986-87, the planning total would need to be correspondingly larger.

*M E P*

MISS M E PEIRSON



## SECRET &amp; PERSONAL

## ADDITIONS TO PROGRAMMES

£ billion

	1987-88			1988-89		
	Likely Survey Outcome (GEP)	Forecast Out-turn (PSF)	Difference (Claims on Reserve)	Likely Survey Outcome (GEP)	Forecast Out-turn (PSF)	Difference (Claims on Reserve)
1. Social Security (UK, excl. admin.)	0.6	1.4	0.7	0.6	2.0	1.4
2. Other non-cash- limited	0.5	0.7	0.2	0.5	1.4	0.9
3. Cash-limited	1.4	1.6	0.2	1.5	3.3	1.8
4. LA relevant current	3.4	4.4	1.0	4.4	6.4	2.0
5. LA capital	1.0	1.5	0.5	1.0	1.5	0.5
6. Nat. Industries	0.5	0.4	-0.1	0.4	0.4	-
7. Other programmes	-0.1	0.2	0.3	-0.4	-0.2	0.1
8. Total additions to programmes	7.4*	10.3	2.8	8.0*	14.8	6.8
9. Reserve required			3.0			7.0

\* Including amounts (eg. Budget SEMs) already charged to Reserve.



CHIEF SECRETARY	
REC.	26 JUN 1986
TO	Mr Paine
TO	CX Mr Butler
	Mr Jameson
	Mr A. Allan
	Mr Turnbull

*Handwritten notes in red ink:*  
 H...  
 to put x on  
 little later  
 26 June 1986  
 no amount of...  
 of...  
 ...

PRIVY COUNCIL OFFICE  
 WHITEHALL, LONDON SW1A 2AT

26 June 1986

Your Secretary of State and the Chief Secretary came to discuss with the Lord President the work of E(LA) against the background of the emerging public expenditure situation, and in particular the handling and timing of announcements on local authority expenditure decisions. Chris Brearley, Alex Allan from the Treasury, and Anthony Langdon from the Cabinet Office were also present.

The Lord President said that he hoped the meeting would clarify whether the Government were still on course to make an announcement in July on levels of provision and AEG; service breakdowns; and rate-capping criteria and local authorities. They would also need to consider the case for not making a July announcement in the conventional way on all of these points; and to examine carefully the possible consequences of such a decision. The Lord President stressed however that it would not be right for this meeting, in the absence of the service Ministers concerned, to take any decisions which might affect their interests.

The Secretary of State for the Environment said that the Government were publicly committed to bringing forward the timetable for their announcements and consultations. It was not at all clear to him how matters could be made any easier by delay; possibly the reverse. The Chief Secretary then explained that he was very concerned about the juxtaposition of a full July announcement and the envisaged Cabinet discussions of overall public expenditure. The projected announcement of local authority capital expenditure outturn for the last financial year also militated against a full July announcement. For these reasons, he would not want to run the risk of potentially adverse reaction in the money markets. He believed that the abolition of targets and holdback left the way open for not having a full announcement. Obviously the levels of provision and AEG had to be settled. But, while he also accepted the need for consultations with the local authorities, he thought it might be met by dint of giving a range of illustrative figures.

R U Young Esq



As against this, it was argued that the management of the announcement might be easier the earlier it was; as the decision on provision would have to be taken, even if not announced, it might leak anyway. The Lord President wondered if there were any risk of damaging speculation if there were a departure from normal practice either on timing or content of the announcement: it might be suggested that the Cabinet were split; or that the figures were worse than, in fact, they were. A further point was that in taking the preliminary decision to abolish grant recycling, E(LA) Committee had recognised the need for realistic levels of provision and grant to avert a strong reaction against the decision. For that decision to be announced as planned in July, therefore, it would be necessary to have the figures for provision and grant to put it in proper context.

The discussion also covered the range of provision which might be acceptable to the Secretary of State for the Environment and the Chief Secretary. If it were assumed that grant recycling would be abolished, it was agreed that provision at GDP deflator minus 1 per cent (or GDP deflator incorporating a component for teachers' pay) would meet the need for realism and be of about the right order. However, this would have to be discussed with colleagues, and the Chief Secretary thought he ought just to reserve his approach to the tactics of wider discussions. X The Lord President further said, and no-one disagreed, that the level of AEG could not be reduced in percentage terms compared with last year: and that it probably could not go up either. The Chief Secretary pointed out that on the proposed level of provision this implied a substantial increase in the amount of AEG.

It was agreed that, in the light of the discussion, officials should continue work on the details of the settlement. The distribution of RSG needed particularly careful assessment. The Secretary of State for the Environment and the Chief Secretary both further agreed that every effort should be made to avoid increases in specific grants, which ultimately limited the room for manoeuvre in allocation among individual services. The Secretary of State for the Environment said that, subject to any views expressed at E(LA), he would be inclined not to have an unallocated reserve this year: it seemed intrinsically incompatible with the emphasis on realism.

The Lord President, summing up a further brief discussion, said that at the next E(LA) meeting it should be possible to secure agreement on provision and AEG; and on proposals by the Secretary of State for the Environment on rate-capping (probably of 22 authorities). Two further meetings would be needed to determine specific grants and service allocations. Subject to those discussions, there seemed no practical difficulty over proceeding



to a full July announcement if it were agreed that that would be right.

I am sending a copy of this letter only to Jill Rutter in the Chief Secretary's office, and to Anthony Langdon in the Cabinet Office.

JOAN MACNAUGHTON  
Private Secretary



CONFIDENTIAL

FROM: R DEVEREUX  
DATE: 2 JULY 1986

*MEP*  
MISS M E PEIRSON  
CHANCELLOR OF THE EXCHEQUER

*hugel*  
cc: Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr H P Evans  
Mr Peretz  
Mr Scholar  
Mr Watts  
Mr Briscoe

*Thank!*

**CGBR(O) & CGBR IN JUNE**

1. The provisional outturn for the CGBR(O) in June is 1.3 billion. This is £0.3 billion lower than last month's forecast, mainly because of a larger than expected surplus (by £0.2 billion) on the National Insurance Fund due to higher contributions and slightly lower benefit funding. The estimate of the outturn is subject to revision before publication on Wednesday 16 July.

2. In the first 3 months of 1986-87 the CGBR(O) was £3.3 billion, £0.4 billion above the Budget profile. A larger surplus on the National Insurance Fund (nearly all due to higher contributions) has been more than offset by higher supply expenditure (by £0.3 billion), and a number of other small changes. Inland Revenue and Customs and Excise receipts in the June quarter were almost as forecast in the Budget profile, although the pattern within the quarter was different.

3. On-lending to local authorities and public corporations totalled £0.3 billion in June. The CGBR in June was therefore £1.7 billion, bringing the total since 1 April 1986 to £6.6 billion. This includes £3.4 billion of net PWLB lending which has recently slowed sharply.

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

*R J Devereux*  
R J DEVEREUX

CONFIDENTIAL



CONFIDENTIAL

## CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	June 1986			April-June 1985			April-June 1985
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Inland Revenue	+ 3.5	+ 3.5	-	+ 11.8	+ 11.7	+ 0.1	+ 10.5
Customs and Excise	+ 2.7	+ 2.7	-	+ 9.5	+ 9.6	- 0.1	+ 8.8
Other own account	- 7.5	- 7.8	+ 0.2	- 24.6	- 24.2	- 0.4	- 22.1
CGBA(O)	- 1.3	- 1.6	+ 0.3	- 3.3	- 2.9	- 0.4	- 2.7
On-lending:							
- LAs	- 0.2	- 0.3	+ 0.1	- 3.4	- 2.6	- 0.8	- 0.5
- PCs	- 0.1	- 0.1	-	+ 0.1	+ 0.2	- 0.1	0.3
CGBR	- 1.7	- 2.0	+ 0.3	- 6.6	- 5.3	- 1.3	- 22.9

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

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





9/7

CH/EXCHEQUER	
REC.	09 JUL 1986
ACTION	MR A ALLAN
COPIES TO	MR FER BUTLER
	MR JAMESON

PRIME MINISTER

As you know, E(LA) have been considering the main elements of the Rate Support Grant (RSG) settlement in England for 1987/88, which will need to be announced before the Summer Recess. This requires in practice an announcement in the week beginning 21 July.

2. We are all agreed that we need a more realistic settlement in 1987/88 than in 1986/87. For 1986/87 we set provision for local authority spending at close to a cash freeze on authorities' budgets for 1985/86; and we set Aggregate Exchequer Grant (AEG) at a cash freeze on its 1985/86 level. In the event, local authorities increased their current spending by around 8 per cent, resulting in an overspend of £2 billion and average rate rises of over 11 per cent.

3. For 1987/88 we set provision in the last Public Expenditure White Paper at the same cash figure as 1986/87. The agreed aim is to produce a settlement that will allow local authorities who budget responsibly to have low rate rises. But we are equally agreed that we must continue to use grant pressures to discourage local authorities from increasing spending sharply: local authority current spending amounts to a fifth of the planning total.

4. At the last E(LA) meeting the Chief Secretary reserved his position, but there was a general consensus among the rest of the Committee that we should set provision for 1987/88 at a real-terms freeze on local authorities' budgets for 1986/87 (ie a cash increase of 3.75 per cent, equal to the GDP deflator). This means increasing provision by £2.9 billion to £25.2 billion, excluding any extra provision in respect of the conditional offer on teachers' pay. (The increase is so large because of the way we set provision in the White Paper.) There was





also a consensus view - which I myself strongly endorse - that the grant 'percentage' (the level of AEG as a percentage of the settlement provision for relevant expenditure) should be held at its 1986/87 level of 46.4 per cent. This means increasing grant at settlement by £1.1 billion to £12.9 billion: in recent years we have been holding AEG constant in cash.

5. The Chief Secretary and the Secretary of State for the Environment have now agreed to commend these figures to E(LA) next week. They need to be seen alongside the decision already reached by E(LA), to increase the number of rate-capped authorities from 12 to 20, and the following two changes to sharpen block grant pressures on authorities' spending. First, the Local Government Bill early next Session would contain provisions to abolish the recycling of grant, so that authorities would know from the outset exactly how the grant discipline would affect them and would not benefit from overspending. Second, not all the provision should be allocated to service Grant Related Expenditures (GRES) but instead there should be an "unallocated margin" of 5 per cent. The other members of E(LA), who will be primarily concerned about the breakdown of provision for their services, have provisionally agreed to the abolition of grant recycling. The "unallocated margin", however, will be new to them and their agreement will need to be obtained. The alternative would be to steepen the slopes of the poundage schedule by 0.1 p.

6. E(LA) will also be asked next week to agree to a new system of capital controls.

7. I attach for convenience a note of the elements of the package which includes an allowance of £350 m in the calculations for the use of special funds. (This does not affect the AEG percentage mentioned above, but it does have a relatively small effect on the AEG quantum, which it reduces by about £70 m.)





Conclusion

8. I am pleased that the Chief Secretary and the Environment Secretary have been able to reach agreement on this package. It has my full support, and meets our objective of realism agreed last year. It would mean average rate rises, so I understand, of perhaps 5 per cent for responsible authorities. Given the importance of the issue, I should very much like to run over this with you and the colleagues most closely concerned before I commend it to E(LA) next week.

9. I am sending a copy of this minute to the Chancellor of the Exchequer, the Chief Secretary to the Treasury, and the Secretary of State for the Environment, and the Chief Whip, Commons, who should, I think, join us at our meeting. I am also sending a copy to Sir Robert Armstrong.

*WOLW*

Privy Council Office  
9 July 1986



MAIN ELEMENTS OF RSG SETTLEMENT

Provision		£25.2 billion
AEG at settlement	about	£12.8 billion
AEG percentage	46.4	
"Unallocated margin"	5%	

Abolition of grant recycling in Local Government Bill next Session.

RATE LIMITATION

Increase in rate-capped authorities from 12 to 20.

CAPITAL

New regime, details under discussion.



SECRET

Aps - ?



FROM: JILL RUTTER

DATE: 9 July 1986

MR TURNBULL

CC:

Chancellor  
Mr F E R Butler  
Mr Scholar  
Mr P Gray

*gms*

**OCTOBER CABINET**

The Chief Secretary spoke to Lord Whitelaw today along the lines of your minute (7 July).

2 The Lord President agreed that there should not be a formal report back in October from the Chief Secretary in order to set up the Star Chamber. He thought that the Prime Minister might mention at an October Cabinet that the Star Chamber was being set up. This could be trailed in a very low key way in the Prime Minister's remarks in the July Cabinet.

3 Mr Butler has told Mr Unwin of this decision and will arrange for this to be reflected in the Prime Minister's speaking note.

*Jill Rutter*

JILL RUTTER  
Private Secretary

SECRET



FROM: MISS M E PEIRSON

DATE: 9 July 1986

→ CHANCELLOR

cc Sir P Middleton  
 Sir T Burns  
 Mr Cassell o/r  
 Mr H P Evans  
 Mr Peretz  
 Mr Scholar  
 Mr Devereux  
 Dr Clark  
 Mr Wells - CSO

**PSBR IN JUNE**

1. The first provisional outturn for the PSBR in June is £0.7 billion, £0.4 billion below last month's forecast (see table attached). Available market forecasts are between £½ billion and £1¼ billion. Our estimate is subject to revision before publication at 2.30 pm on Wednesday 16 July.
2. The CGBR(0) in June was provisionally £1.2 billion, £0.4 billion below last month's forecast (as reported in Mr Devereux's note of 2 July, the main reason is <sup>a</sup> larger surplus on the National Insurance Fund). There was an undershoot of £0.2 billion on the LABR, offset by an overshoot on the PCBR.
3. In the first three months of 1986-87 the PSBR was provisionally £2.6 billion, the same as the Budget profile. The CGBR(0) and PCBR were higher, by £0.2 billion and £0.3 billion respectively, but the LABR was £0.5 billion lower.
4. The monthly note, presenting updated estimates for June and detailed forecasts for July-September, will be circulated next Tuesday.

MEP

MISS M E PEIRSON



## CONFIDENTIAL &amp; PERSONAL

£ billion

	June 1986			April-June 1986			April- June 1985
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget forecast	Difference	Outturn
CGBR(O)	1.2	1.6	- 0.4	3.1	2.9	0.2	2.7
LABR	- 0.5	- 0.3	- 0.2	- 0.1	0.4	- 0.5	0.5
PCBR	-	- 0.2	0.2	- 0.4	- 0.7	0.3	- 0.6
PSBR	0.7	1.1	- 0.4	2.6	2.6	-	2.6

CONFIDENTIAL &amp; PERSONAL



COVERING CONFIDENTIAL & PERSONAL

*Be v 2 Samuel  
Changin*

FROM: MISS M E PEIRSON  
DATE: 15 July 1986

PPS/CHANCELLOR

cc Mr Cassell  
Mr Clark

**DRAFT PRESS BRIEFING ON PSBR IN JUNE**

I attach the draft press briefing on the PSBR in June. The press notice will be published at 2.30 pm tomorrow. It would be appreciated if we could receive the Chancellor's comments by 9.30 am tomorrow.

*MEP*

MISS M E PEIRSON

COVERING CONFIDENTIAL & PERSONAL



From: JOHN CLARK  
16 July 1986

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 Devereux  
Mr R Evans  
Mr Pickford  
Mr Mansell - CSO  
Mr Wright -B/E  
Mr Norgrove - No. 10

List B

(distributed at 2.30pm, 16 July)

Mrs Butler  
Mr Spencer  
Mr Cropper  
Mr Ross-Goobey  
Mr Tyrie  
Mr Ko - IR  
Mr B Sexton - C and E

**BRIEFING FOR 16 JULY PSBR PRESS NOTICE**

**FACTUAL**

The PSBR figures for June will be published at 2.30pm on 16 July. The provisional outturns, together with figures for the first three months of 1985-86 and 1986-87, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1985-86 are shown in Table 2 overleaf.

**Table 1: Borrowing requirement outturns** £ billion

	Apr-Jun 1985	Apr-Jun 1986	June 1986
Central government on own account	2.7	3.1	1.2
Local authorities	0.5	-0.1	-0.5
Public corporations	-0.6	-0.5	-0.1
PSBR	2.6	2.5	0.6
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	2.9	6.4	1.5

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		
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87
	Apr	1.9	1.1	<b>0.2</b>	0.9	0.8	<b>0.7</b>	-0.4	-0.2	<b>-0.0</b>	2.4	1.8
May	3.2	2.4	<b>1.9</b>	0.8	0.8	<b>0.4</b>	-0.4	-0.5	<b>-0.4</b>	3.6	2.7	<b>1.9</b>
Jun	4.5	2.7	<b>3.1</b>	0.6	0.5	<b>-0.1</b>	-0.5	-0.6	<b>-0.5</b>	4.6	2.6	<b>2.5</b>
Jul	5.0	3.6		0.8	0.8		-0.7	-1.3		5.1	3.1	
Aug	6.2	4.6		1.4	0.9		-0.7	-1.2		6.9	4.3	
Sep	6.4	5.1		1.2	1.1		-0.2	-0.6		7.5	5.6	
Oct	6.7	5.0		1.0	0.7		0.3	-0.4		8.0	5.3	
Nov	8.5	6.2		0.8	0.1		0.4	-0.3		9.7	6.0	
Dec	7.8	7.4		1.2	0.4		1.3	-0.0		10.3	7.8	
Jan	5.7	2.8		0.9	0.5		1.2	-0.0		7.8	3.2	
Feb	5.2	2.8		1.3	0.5		1.3	-0.3		7.8	2.9	
Mar	6.6	4.1		2.4	1.7		1.2	0.1		10.2	5.9	

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL  
(DRAFT)

CONFIDENTIAL AND PERSONAL  
(DRAFT)



2. The (provisional) PSBR for June is £0.6 billion. City forecasts range between £½-1¼ billion.

## POSITIVE

### Line to take

1. Provisional PSBR for first three months of 1986-87 shows net borrowing of about £2.5 billion, very close to outturn in April-June 1985 and £2 billion lower than in April-June 1984.

2. Non-oil revenues continue to be buoyant.

## DEFENSIVE/FACTUAL

### 1. PSBR in April-June 1986

#### Line to take

Outturn similar to that in April-June 1985. £1.1 billion receipts from third call on British Telecom reduced PSBR in April 1986, but £1.1 billion receipts from second call reduced PSBR in June 1985.

### 2. Borrowing in 1986-87

#### Line to take

Budget forecast is £7.1 billion.



### **3. Proportion of borrowing in first half-year**

#### Background

On average around two-thirds of borrowing occurs in first half of financial year. Pattern of borrowing in 1986-87 particularly uncertain - depends heavily on timing of privatisation proceeds. As usual, most Inland Revenue receipts likely to come in second half-year.

#### Line to take

Proportion of borrowing in first half year very uncertain at this stage, partly owing to dependence on timing of privatisation proceeds. Probable that, as usual, most borrowing will occur in first half-year.

### **4. Effect of postponement of sale of Water Authorities/Royal Ordnance**

#### Background

Secretary of State for Environment stated on 3 July that water privatisation legislation would ~~not~~ be introduced in next session of Parliament. Secretary of State for Defence announced on 17 June postponement of Royal Ordnance privatisation, previously expected in 1986-87.

#### Line to take

Should be no difficulty in meeting published targets for total privatisation proceeds.

*postponed, ~ not*  
*British Gas still to come.*

### **5. Privatisation proceeds in 1986-87**

#### Line to take

No receipts in June. Receipts so far in 1986-87 £1.1 billion, from final call on British Telecom in April. Budget forecast for total receipts in 1986-87 £4¾ billion.

### **6. Oil revenues : effect of fall in dollar price**

#### Background

Budget forecast of oil revenues in 1986-87 (around £6 billion) assumed average price of 15



dollars/barrel for North Sea crude for the rest of 1986. If prices were 1 dollar/barrel lower on average in 1986, but other things - including exchange rate - were unchanged, oil revenues would be around £½ billion lower in 1986-87.

Line to take

Revenues in April to June (mainly PRT instalment payments) based largely on prices and production in second half of 1985. Drop in dollar price since December and appreciation of sterling against dollar since early in year will not affect PRT receipts until September.

Much too early to say what pattern of oil prices and production will be in whole of 1986-87. Uncertain outlook for prices was reflected in Budget caution.

**7. Inland Revenue receipts**

Background

Total Inland Revenue receipts in June were £3.5 billion. Total for first three months of 1986-87 (£11.8 billion) up 12 per cent on same period last year. Budget forecast for 1986-87 growth on 1985-86 was 12¾ per cent.

Line to take

Receipts in first three months of 1986-87 up 12 per cent on April-June 1985. June receipts included the first quarterly payment of composite rate tax on Building Society deposits (less than £¼ billion).

**8. Customs and Excise receipts**

Background

Customs and Excise receipts in June were £2.7 billion. Total for first three months of 1986-87 (£9.5 billion) 7¾ per cent up on same period last year. Budget forecast for 1986-87 growth on 1985-86 was 8¾ per cent.

Line to take

Receipts in first three months of 1986-87 were £9.5 billion, about 7¾ per cent up on the same period last year.



## 9. EC refunds and abatements

### Line to take

At present, UK contributions in 1986 are being reduced by a total of 1400m ecu in equal monthly instalments. Benefit to PSBR in June about £75 million. (Effect on PSBR of recent agreement on EC Budget is uncertain).

## 10. Supply Expenditure

### Background

Provisional outturn for supply expenditure in June is £8.0 billion. Total April - June 1986 (provisionally £24.7 billion) about 6½ per cent up on same period last year (£23.2 billion).

### Line to take

Provisional estimate £8.0 billion in June. Expenditure in first three months of 1986-87 about 6½ per cent higher than over same period last year, but too early to draw conclusions for year as a whole.

## 11. Local authorities

### Line to take

Local authorities (provisionally) made a net repayment of debt of £0.5 billion in June - a substantial repayment is normally made in the month, owing to seasonally high rate income. The first three months of 1986-87 showed a net repayment of £0.1 billion, compared with net borrowing of £0.5 billion over the same period last year.

Local authorities borrowed £0.2 billion from central government in June, much less than in the previous three months.



## 12. Public corporations

### Line to take

Public corporations (provisionally) showed a net repayment of £0.1 billion in June, and a net repayment of £0.5 billion in first three months of 1986-87. There is usually a net repayment in the first quarter of the financial year, when receipts from consumers exceed expenditure.

John Clark (ext 3093)  
PSF Division, HM Treasury