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B.

PRIME MINISTER

CGBR in December and Prospects for the rest of 1980-81

I am afraid that December's figure for the CGBR brings more bad news. The number which I have learned today and will be published on Monday is £2.3 billion. This follows £2.8 billion in November and is bound to be a shock. One implication is that the money figures for banking January - to be published in February and the last working figures before the Budget - are unlikely to show a reduction in the underlying rate of monetary growth.

We are pressing the revenue departments to get all the money they can to the Consolidated Fund, and the Bank to maximise gilt sales; we have till 21 January before the banking month ends (though Monday's figure will not make the Bank's task easier). There will also be some help from the raising of the ceiling on holdings of the 19th issue of national savings certificates on 14 January.

The enclosed note sets out the main reasons why the December CGBR has turned out so much worse than expected. It also gives a new appraisal of the PSBR as a whole for the year to end March - over £13 billion - in the light of it.

I went into this with officials on Friday afternoon and evening, probing the reliability of the latest assessment.

On the revenue side, the experts in both revenue departments hold to their present forecasts for the financial year, despite the shortfalls in December.

On departmental expenditure, the latest figures confirm the problems which we already know about defence and the costs of employment/unemployment. There do not appear to be any new problems.

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Finally, I am, of course, stepping up the effort that is already being made to rectify the deficiencies revealed by these forecasts.

RM

9 January 1981

THE PROFILE OF THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR) TO END MARCH AND THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) FOR 1980-81: NOTE OF JANUARY 1981

A. Outturn of the CGBR in December

The provisional outturn of the CGBR in December, at £2,311 million, is seriously above the forecast of £1,450 million made at the beginning of the month. The outturn will be published on 12 January. Table 1 compares the outturn in December with the forecast made in Table 3 of last month's note.

2. A shortfall in receipts by Inland Revenue and Customs and Excise accounted for £500 million of this difference. About £400 million of the shortfall of £497 million shown next in the table had no implication for the CGBR: various receipts had not been transferred by the end of the month to the Consolidated Fund from other funds and accounts masking a shortfall in that line, which is explained below.

3. On expenditure, Supply Issues were just over £100 million above forecast. Issues for the Ministry of Defence did not fall £50 million as assumed; and the surge in expenditure under the temporary short term working compensation scheme meant that issues to finance it were some £50 million more than had been assumed. This is part of the extra finance that it is now known will be needed for the rest of the year. Local authorities continued to borrow heavily from central government in December (an indication of their total borrowing will be available shortly). In the last section of the table - other funds and accounts - a shortfall of about £100 million is masked, as described in the previous paragraph, by receipts not yet transferred to the Consolidated Fund. Two factors account for much of this. Interest liabilities of national savings rose more than had been allowed for and interest receipts from the Exchange Equalisation Account were below the path interpolated from the forecast for the year.

4. The first instalment of the refunds from the EC under the 30 May agreement, amounting to £98 million, was received as expected. The money was drawn from the EC balance at the Paymaster General's office.

5. The outturn of the CGBR in the December banking month (20 November to 10 December) at £1,890 million (£610 million after seasonal adjustment), had been £120 million below forecast. Almost all of this gain had been due to high Inland Revenue receipts in the early days of December. Thus, all the deterioration in calendar December, compared with the forecast, came after 10 December.

B. Rolling forecast for CGBR in banking - January

6. Banking January runs from 11 December to 21 January. For the period up to 31 December the CGBR was £1,770 million and the current figure for the banking month as a whole is ^a net repayment of £160 million, in both cases before seasonal adjustment. Banking January contains the annual peaks of receipts of mainstream corporation tax and Schedule D income tax and the quarterly peak of VAT receipts. After seasonal adjustment, therefore, the small surplus becomes a large borrowing requirement of £1,850 million.

C. Rolling forecast for CGBR in January - March and the whole year

7. With two successive months when the outturn of the CGBR has been significantly over the forecast, the latest estimate for the year as a whole, at £12,850 million, is over £2 billion higher than the CGBR forecast implicit in the Industry Act forecast of the PSBR published on 24 November. Most, though not at all of this raises the PSBR now expected.

8. Since November, Inland Revenue and Customs and Excise have each reduced their forecast of receipts for the year by £0.4 billion. In the case of Inland Revenue the subsequent shortfall in December absorbed much of this. Customs have, in effect, taken account of

monthly shortfalls between forecast and actual so far but assumed their previous forecast will be valid in coming months. The question is how far the recent shortfalls reflect a misjudgement of the trend or (especially in the case of Inland Revenue) of the timing effects of the long Christmas break.

9. On the expenditure side, the forecast of Supply Issues has increased by £0.4 billion. This allows for defence expenditure to be about £500 million above the revised cash limit and reflects ~~the~~ extra provision for special employment measures. The unemployment situation has also led to a reappraisal of the speed of run down of the Redundancy Fund. The mis-forecast in respect of national savings interest in December is (pending further enquiry) assumed to have affected also previous forecasts for the remaining months of the year.

10. Extra net lending from the National Loans Fund of £0.5 billion is now expected to both local authorities and public corporations, but in both cases this is expected to be a switch in the sources of their finance and not an increase in their total borrowing or the PSBR.

11. Some of these excesses were allowed for in last month's note. The latest forecasts for January to March are as follows:

	£ million
January	- 850 (net repayment)
February	1,050
March	- 400 (net repayment)

12. Table 2 sets out the CGBR outturn since April 1979 together with the new forecasts to the end of the financial year. The cumulative excess over last year of the CGBR rose to £2.9 billion by the end of ~~the year~~ December and is now forecast to reach £4.6 billion by the end of March.

13. The net repayment in January is smaller than previously

forecast, as a direct consequence of the latest view of the outturn for the whole year. In particular, the important changes are a reduction in Inland Revenue receipts, an increase in Supply Issues and an increase in net lending. The January surplus is below that of a year ago; receipts are forecast to be a little higher than last January whereas expenditure is considerably higher, partly because of the large payments due under Rate Support Grant Increase Orders. The latter should have an effect on what local authorities borrow. The second instalment of the EC refunds under the 30 May agreement is expected in the month and it is assumed that this will necessitate a transfer of £100 million across the exchanges from the EC.

14. The figure for February shows a slightly smaller borrowing requirement than was previously thought likely. This is due to a reduction in the forecast of net lending.

15. The forecast for March is a repayment of £400 million. This is larger than last March's repayment primarily because of the growth in petroleum revenue tax. PRT receipts of nearly £1,500 million are expected this year compared with £700 million in March last year. As last year, receipts by BNOG of advance payments for oil will bring in around £600 million which would otherwise have been received in 1981-82. Further receipts from the EC under the 30 May agreement are expected in March bringing total receipts for the year of £680 million. Of this £120 million has been assumed to be funded by a reduction in the balance on the EC account with the Paymaster General's office.

D. Forecast of the PSBR for 1980-81

16. Most of the upward revisions to the CGBR carry through to the PSBR. The forecast outturn for 1980-81 is now put at around £13¼ billion. This is some £1¼ billion higher than published in the Industry Act forecast on 24 November. Since then there has been no change in the view of total borrowing by local authorities or by public corporations although (as noted in para 10) both are now

expected to borrow more from central government than previously thought likely.

17. The new forecast outturn of £13 $\frac{1}{4}$ billion is above the Winter economic forecast of £12 $\frac{3}{4}$ billion. The larger figure reflects the consequences of the higher than expected CGBR in December. The major components of the PSBR are now forecast as follows:

	<u>Industry Act</u> ¹⁾	<u>Latest Forecast</u>	<u>£ billion</u>
CGBR	10 $\frac{1}{2}$	12 $\frac{3}{4}$	
CG borrowing for own account	6	7 $\frac{3}{4}$	
Local authorities' borrowing requirement	2 $\frac{1}{4}$	2 $\frac{1}{4}$	
Public corporation's' borrowing requirement	3 $\frac{1}{4}$	3 $\frac{1}{4}$	
PSBR	11 $\frac{1}{2}$	13 $\frac{1}{4}$	

¹⁾ Only the total for the PSBR was published.

18. Even at this stage of the year, there is a substantial margin of error around these estimates. Further updating of the forecast outturn for 1980-81 will take place before the Budget estimates are published.

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TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT - DECEMBER

	£ million		
RECEIPTS	<u>Forecast</u>	<u>Outturn</u>	<u>Effect on CGBR</u>
<u>Consolidated Fund</u>			
Inland Revenue	2,350	2,047	-303
Customs and Excise	1,700	1,498	-202
Other	1,350	853	-497
<u>National Loans Fund</u>			
Interest etc receipts	350	349	- 1
Total receipts	5,750	4,747	-1,003
<u>EXPENDITURE</u>			
<u>Consolidated Fund</u>			
Supply services and Contingencies Fund	5,600	5,716	-116
Other	300	235	+ 65
<u>National Loans Fund</u>			
Service of the national debt	500	439	+ 61
Net lending	100	248	-148
Total expenditure	6,500	6,638	-138
Other funds and accounts	-700	-420	+280
(of which: changes in the European Community's balance at PGO)	(-76)	(-91)	
CGBR	-1,450	-2,311	-861

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TABLE 2
CENTRAL GOVERNMENT BORROWING REQUIREMENT

	£ billion				
	1979-80	1980-81	Cumulative		Difference
			1979-80	1980-81	
April	1.3	0.9	1.3	0.9	-0.4
May	1.5	2.4	2.8	3.3	+0.5
June	1.0	1.3	3.8	4.6	+0.8
July	-	0.8	3.8	5.4	+1.6
August	1.1	1.6	4.9	7.0	+2.1
September	1.7	0.8	6.6	7.8	+1.2
October	0.1	0.1	6.8	8.0	+1.2
November	1.8	2.8	8.6	10.7	+2.2
December	1.6	2.3	10.2	13.1	+2.9
January	-2.5	(-0.9)	7.7	(12.2)	(+4.4)
February	0.3	(1.1)	8.1	(13.2)	(+5.1)
March	0.2	(-0.4)	8.2	(12.8)	(+4.6)

Note: Some rows may not across add because of rounding. Each column is correctly rounded.

TABLE 3

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ million

	(1) April - December	(2) January Forecast	(3) February Forecast	(4) March Forecast	(5) Whole Year	(6) Budget Forecast for whole Year.
<u>Receipts</u>						
<u>Consolidated Fund</u>						
Inland Revenue	21,480	5,050	2,850	3,750	33,150	32,860
Customs and Excise	16,181	2,550	1,750	1,800	22,300	24,000
Other	6,003	1,250	1,000	1,950	10,200	8,555
<u>National Loans Fund</u>						
Interest etc receipts	3,552	200	300	900	4,950	5,050
<u>Total receipts</u>	47,216	9,050	5,950	8,400	70,600	70,465
<u>Expenditure</u>						
<u>Consolidated Fund</u>						
Supply services	48,458	6,250	5,950	6,650	67,300	64,765
Other	2,258	350	300	300	3,200	3,460
<u>National Loans Fund</u>						
Service of the national debt	6,858	1,450	650	1,050	10,000	10,000
Net lending	3,111	150	250	50	3,550	2,905
<u>Total expenditure</u>	60,685	8,200	7,150	8,000	84,050	81,130
Other funds and accounts (of which: changes in the European Community's balance at FGO)	+410 (-100)	- (+11)	+150 (+121)	- (-149)	+600 (-117)	+1,352
<u>CGBR</u>	-13,059	+850	-1,050	+400	-12,850	-9,313

Note: some rows and columns may not add due to rounding