



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

20 April 1983

Michael Scholar Esq.  
10 Downing Street  
LONDON  
SW1

Dear Michael,

PSBR

Last week the outturn for the Central Government Borrowing Requirement in 1982-83 was published, showing an excess of £1½ billion over the estimate published at Budget time. The Chancellor warned the Prime Minister that this had implications for the PSBR as a whole.

On Thursday, the provisional outturn for the PSBR for 1982-83 will be published. This will show a figure of £9.2 billion or £1.7 billion higher than the Budget estimate of £7.5 billion. The two main sources of the difference are as follows:

- (i) higher supply expenditure by Central Government (£0.9 billion), reflecting a misjudgement of the extent to which cash totals would be underspent;
- (ii) higher borrowing by local authorities (£0.5 billion); we have as yet no information on whether this represents higher spending or lower income.

Work is in hand on assessing the full reasons for the overshoot of the 1983 Red Book estimate; and in particular on the problem of monitoring and estimating supply expenditure in the closing weeks of the year. (The Chancellor has of course already discussed this problem with the Prime Minister.)

I attach a copy of the press briefing. While the difference from the 1983 Red Book estimate will cause comment, the outturn for 1982-83, £9.2 billion, remains below the estimate published in the 1982 Red Book (£9½ billion), even allowing for the tax reductions and other changes announced last November. And, particularly as we shall not be revising our forecast of borrowing in 1983-84, this week's figure will in no way invalidate the general downward trend in the PSBR as a percentage of GDP: it has fallen from 5½ per cent in 1980-81 to 3½ per cent in 1981-82, 3½ per cent in 1982-83 and a forecast of 2½ per cent this year.

Yours sincerely,  
John Kerr

J O KERR  
Principal Private Secretary

Prime Minister

I am getting a

list of examples

eg Sullivan Voe

MOD 1 April payday

3 and looking for some

Healey quotes.

MUS 20/4

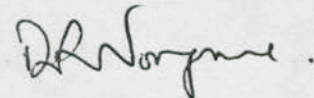
FROM: D R NORRGROVE  
DATE: 20 APRIL 1983

MR HALL

cc Principal Private Secretary (+ copy  
for No 10)  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Mr Middleton  
Sir Anthony Rawlinson  
Mr Burns  
Mr Littler  
Mr Cassell  
Mr Monck  
Mr Evans  
Mr Mountfield  
Mr Shields  
Mr Stibbard  
Mr Collinson  
Mr Turnbull  
Mr Webb  
Mr Allen  
Mr R Evans  
Mr Ridley  
Mr Lumsden - CSO  
Mr Wells - CSO  
Mr Ward - CSO  
Mr Alexander - CSO  
Mr Luke - CSO  
Mr Wright - Bank of England

**PRESS BRIEFING ON PSBR OUTTURN FOR 1982-83**

The outturn for the PSBR in 1982-83, together with the figures for the March quarter, is to be published at 2.30 pm tomorrow, Thursday 21 April. I attach briefing, as approved by the Chancellor.



D R NORRGROVE

PSBR MARCH QUARTER AND 1982-83: PRESS BRIEFING 21 APRIL 1983

The main figures, rounded, are set out below:-

	January-March		1982-83 provisional outturn	1982-83 FSBR estimate published on 15 March
	Unadjusted	Seasonally adjusted		
CGBR (including borrowing for on-lending to LAs and PCs)	2.1	4.4	12.6	11.3
CG less on-lending to LAs and PCs (CG own account)	-	2.2	7.2	6.2
LABR	0.9	0.4	0.3	-0.1
PCBR	0.9	1.3	1.7	1.5
PSBR	1.7	4.0	9.2	7.5

Figures do not necessarily add because of rounding.

General

2. The PSBR outturn in 1982-83 is estimated at £9.2 billion. The forecast for the 1982-83 PSBR made at the time of the March 1982 Budget was £9.5 billion. This was revised downwards to £9.0 billion in the Autumn Statement, and to £7.5 billion at the time of the 1983 Budget.

3. The PSBR for the last quarter of the financial year was £1.7 billion (unadjusted). This compares with a large repayment of £2.1 billion for the last quarter of 1981-82 and smaller repayments in 1980-81 and 1979-80.

4. The question and answer briefing below sets out the line to take on particular aspects.

Q1. Why was the 1982-83 PSBR so much higher than shown in the 1983-84 FSBR?

A. The main reasons are:

- (i) a CGBR £1.3 billion higher than in the FSBR resulting mainly from higher Supply expenditure (0.9 billion) and higher than expected net lending by the National Loans Fund to local authorities (£0.5 billion). (These figures were published on 13 April.) Central government own account borrowing is put at some £1 billion higher than the FSBR estimate. On Supply expenditure,

Table 5.10 in the FSBR showed an estimate of £1.3 billion for underspending by Departments. A detailed breakdown of information on the outturn is not yet available but preliminary indications are that some Departments actually spent much of this in an end of year surge of expenditure larger than expected at the time of the Budget.

- (ii) LABR higher by about £½ billion, which is largely reflected in the increased borrowing from the National Loans Fund. It is too early to say what caused this extra local authority borrowing, and to what extent it represents borrowing brought forward from 1983-84. (The FSBR forecast of course already took account so far as possible of the new arrangements for LA borrowing from the NLF.) [CSO will publish 1982-83 outturns for the full LA account in July Financial Statistics, to be published end July/early August.]
- (iii) PCBR higher by about £0.2 billion. This is fairly close to the FSBR estimate. [The outturn for the full PC account will be published in July Financial Statistics.]

The Budget estimate for the PSBR was based on the information available at the time. The Budget speech and the FSBR (paragraphs 5.03, 5.06 and 5.10) drew attention to the great uncertainties about PSBR estimates. As the Chief Secretary said on 14 April, because spending and borrowing looked likely to fall short of planned levels, action was taken to encourage spending to come closer to the amount provided for it. The effect of that action now looks if it has been greater than we thought probable at the time of the Budget.

[For use only if pressed: Announcements in autumn, for example introduction of spirits duty deferment and extra cut in NIS in 1982-83 raised PSBR above what would have been. Government does not control PSBR out of a wish to wear a hair shirt. Chancellor said in his Mansion House speech that PSBR in 1982-83 seemed to be undershooting. In light of this Government found room for further worthwhile measures to help businesses and others.]

Q2. Do the CGBR/PSBR outturns mean a higher CGBR/PSBR for 1983-84?

A. That does not follow. Too early to speculate on possible implications for 1983-84. Some of the additional Supply expenditure may have implications for the underlying CGBR. The figures have to be analysed and discussed with spending Departments before we can take a view. CGBR and PSBR in 1983-84 also determined by other items of expenditure and revenue.

Q3. What does the higher PSBR outturn mean for the Budget judgement/MTFS?

A. Differences between forecast and outturn for the PSBR in one year do not mean that a forecast made for the next year is necessarily wrong. As FSBR says, there are very wide margins of error either way in estimating the PSBR (see Paras 5.03, 5.06 and 5.10). Chancellor also referred in Budget Speech to the uncertainties. [Average errors in forecasting the PSBR in past Budgets are  $\pm$ £1 billion for the outturn year and  $\pm$ £4 billion for the year ahead.] For 1981-82 the 1982 Budget forecast turned out to be excessive; for 1982-83 the Budget forecast turned out to be an understatement. The forecast for the 1983-84 CGBR and PSBR set out in the FSBR are our best estimates. They reflect the overall policy to continue bringing down borrowing as a percentage of GDP (see table below); and the Budget decisions were taken accordingly. Note that the estimated outturn produces a smoother downward path in the ratio than on the basis of the figures shown in table 2.5 of the FSBR with the forecast for 1982-83 at 2½% of GDP. No new forecasts due to be published until the Autumn.

PSBR/GDP Ratios

	1981-82 (outturn)	1982-83 (estimated outturn)	1983-84 (MTFS)	1984-85 (MTFS)	1985-86 (MTFS)
PSBR £ billion	8.7	9.2	8	8	7
as % GDP	3½	3½	2½	2½	2

Q4. Is the Chancellor still satisfied with the Budget judgement?

A. Yes.

Q5. Is public spending out of control? Has there been an over-run on public spending plans?

A. As the Chief Secretary said in the House on 14 April, there is no question of any failure of the public expenditure control system. There has been only one very minor breach of cash limits and we ended the year with a large part of the contingency reserve unspent. On total plans, there has been simply less underspending than was assumed in the FSBR.

Q6. It looks as though expenditure was accelerating at the end of the financial year. Does that mean that expenditure will be higher than forecast in 1983-84?

A. It is not clear that expenditure was accelerating in any on-going sense in the last

weeks of 1982-83. There were one or two items of expenditure that could have fallen either side of 31 March, but in the event fell on the earlier side. It would therefore be wrong to draw conclusions about the likely level of expenditure in 1983-84.

Q7. Are the Treasury still content with the figures for public expenditure shortfall and the Contingency Reserve for 1983-84 shown in the FSBR (The "all done by mirrors" question)?

A. Yes. 1982-83 figures still need to be analysed for relevance to 1983-84. But in any case 1982-83 outturn no necessary guide to conclusions about 1983-84 expenditure (see Answer to Question 6 above)

Q8. What are the implications for the higher CGBR and PSBR outturns for monetary policy?

A. Monetary conditions widely judged have been developing satisfactorily. The monetary aggregates are comfortably within the target range. Too early to say what the outturns imply for monetary growth. Depends on the extent to which higher PSBR is offset by other factors. Provisional banking-April figures are due to be published on 10 May.

Q9. Why is borrowing so difficult to forecast even with only a fortnight of the financial year left?

A. The borrowing requirement is the residual between massive flows of revenue and expenditure [approaching £200 billion for the public sector as a whole for the year] and the margins of error in forecasting are inevitably very large (see answer to Q3 above). As a proportion of GDP the error this time is not unusually large. The closing weeks of the financial year see large movements on both sides of the account and there is always a high degree of uncertainty as to whether particular payments or receipts will occur before or after the books are closed on 31 March. A year ago the PSBR was over-estimated by almost £2 billion in the FSBR; this year it was under-estimated by nearly the same amount..

Q10. What steps are you taking to prevent this happening next year?

A. Will be examining carefully how arose, and whether there are any further steps that can be taken to try to minimise the risk of over and undershoots for future years.

Q11. TCSC misled?

A. TCSC aware of necessary uncertainties in 1982-83 outturn, also publication of CGBR on 13 April.