

Prime Minister (B) (1)



This seems a useful change, borrowing still

Treasury Chambers, Parliament Street, SW1P 3AG running at a high level - but not a

Michael Scholar Esq.
No. 10 Downing Street

8 September 1983

worsening

position.

Dear Michael,

Yes Mr

Agree the changed format?
MCS 9/9

I enclose this month's note on the Central Government Borrowing Requirement. The main points are summarised on the first page. The CGBR Press Notice will be published at 2.30 pm tomorrow.

2. The CGBR in August was £1.3 billion, £0.6 billion lower than forecast a month ago, and slightly lower than some commentators seem to be expecting. Half the difference from forecast was due to lower on-lending, the PSBR effect of which is not yet known.

3. The cumulative CGBR so far this year is £2½ billion higher than in the same period last year, of which £1 billion is due to higher CG own-account borrowing. The forecasts in the note show the CGBR rising to £10½ billion for the eight months to the end of November, £2½ billion higher than for the same period last year, with the increase accounted for by higher CG own-account borrowing.

4. I should like to take this opportunity to suggest some changes in the form of our future reporting to you on Government borrowing. The CSO now makes monthly estimates of the PSBR. Our experience with these estimates suggests that they are not subject to substantial revision, and Treasury Ministers have agreed that the regular reports they see should therefore focus in future on the PSBR rather than on the CGBR. This has two main advantages. The PSBR is the borrowing requirement most relevant for policy, and moving to it washes out the distortions (caused by on-lending by the central Government to other parts of the public sector) which make CGBR estimates sometimes misleading.

5. Treasury Ministers will in future see monthly forecasts covering three future months. These will cover separately borrowing by the central government on its own account, by local authorities and by public corporations, as well as the PSBR as a whole. They will thus provide all the material you get at the moment, as set out in the monthly note for the Prime Minister, together with additional material that should be helpful in interpreting the figures.



6. If the Prime Minister agrees, we would propose to send this note on the PSBR to No. 10 each month in place of the latter part of the note you now get; this would be about a week later than the present CGBR note, after the PSBR outturn has become available. We would, however, still send you a note along the lines of the first part of the present one - covering the outturn for the CGBR, prior to publication of the CGBR figures. (Monthly estimates of the PSBR are not published - we may well wish to move to publication, but first we need to gain a little more experience in using them ourselves.) As now, this CGBR note would explain what we know of any reasons for divergence of the outturn from our previous forecast, but it would not carry the present forecast section, which would be included in the PSBR note arriving one week later.

7. I hope that the Prime Minister will find the change an improvement. Although it will mean our bothering you with two pieces of paper each month instead of one, the coverage will be more comprehensive and, I believe, more useful. If you have any doubts about that, please let me know. But if you are content, we will go ahead with the change next month, and the enclosed text will be the last monthly CGBR note which you will receive in the old format.

Yours ever,

John Kerr.

J O KERR

MONTHLY NOTE ON THE CENTRAL GOVERNMENT BORROWING REQUIREMENT
OUTTURN FOR AUGUST 1983 AND FORECAST TO END-NOVEMBER 1983

Summary

- the provisional estimate of the CGBR in August is £1.3 billion, bringing the cumulative total since 1 April to £7.7 billion.

- the outturn for August is £0.6 billion lower than forecast a month ago, with £0.3 billion accounted for by lower on-lending to local authorities and public corporations and £0.3 billion in lower CG own-account borrowing, largely due to higher Inland Revenue receipts.

- the cumulative CGBR outturn of £7.7 billion from April to August is made up of an estimated £5.7 billion of CG own-account borrowing and £2 billion on-lending. Compared with the same period last year the CGBR is £2.4 billion higher, with CG own-account borrowing accounting for £1.0 billion of the increase.

- for the eight months April to November, the CGBR is forecast to be £10 $\frac{3}{4}$ billion, comprising £2 $\frac{1}{4}$ billion on-lending and £8 $\frac{1}{2}$ billion CG own-account borrowing. This compares with a CGBR of £8.4 billion over the same period in 1982-83, of which CG own-account borrowing was £5.8 billion. Thus the increase in own-account borrowing for the eight month period is put at £2 $\frac{1}{2}$ billion between the two years, due largely to higher Supply expenditure this year.

THE CGBR IN AUGUST

The provisional estimate of the CGBR in August is £1,303 million, bringing the cumulative total since 1 April to £7,689 million. The figures will be published in the monthly press notice on Friday 9 September.

2. The CGBR outturn for August was about £0.6 billion lower than forecast a month ago, with about £0.3 billion due to lower on-lending to local authorities and public corporations, and £0.3 billion to lower borrowing on own-account. On-lending is so far estimated to have been a small net repayment to central government, thus own-account borrowing, at £1.3 billion, wholly accounted for the CGBR. The main differences from forecast are shown below.

August outturn: differences from forecast

	<u>Effect on CGBR</u>
	'+ ' means lower borrowing
	£ million
<u>CG own-account</u>	
Inland Revenue receipts	+240
National Insurance Contributions	- 50
Other	+ 90
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Net effect on CG own-account borrowing	+280
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<u>On-lending</u>	
to local authorities	+100*
to public corporations	+200
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Net effect on on-lending	+300*
	<hr/>
NET EFFECT ON CGBR	+580

*preliminary estimate

3. Inland Revenue receipts were about £240 million higher than forecast, thought to be mostly PAYE. This is the second month in succession that receipts have been greater than forecast and it may indicate a slightly higher forecast for the year as a whole. However, the under-forecast in August was partially offset by slightly lower receipts of national insurance contributions than expected.

4. Supply expenditure in August is thought to have been much as forecast, at around £7.0 billion. Although Supply issued to departments totalled only £6.4 billion, a further £0.6 billion of expenditure was met from cash balances held by departments with the Paymaster General.

5. On-lending to local authorities through the Public Works Loan Board (PWLB) was about £100 million lower than forecast, with the level of gross borrowing, at £140 million, matched by repayments. Borrowing was steady through the month but at a much lower level than in recent months, with interest rates continuing to rise slowly.

6. On-lending to public corporations by central government was around £200 million lower than forecast, over half of it due to a change of timing in borrowing by the National Coal Board.

CGBR FOR SEPTEMBER, OCTOBER AND NOVEMBER

7. Detailed forecasts for September, October and November are shown in table 2 attached and table 3 shows the outturn and cumulative estimates of the CGBR to the end of November compared with last year.

8. The CGBR is forecast to total about £3 billion over the next three months, which would bring the total for the eight months April to November to £10 $\frac{3}{4}$ billion: £2 $\frac{1}{4}$ billion for on-lending and £8 $\frac{1}{2}$ billion CG own-account borrowing. Compared with the same period (April to November) last year, the CGBR is expected to be about £2 $\frac{1}{2}$ billion higher, all accounted for by increased CG own-account borrowing and due largely to higher Supply expenditure this year.

9. In September the CGBR is forecast to be £1 $\frac{1}{2}$ billion, including £150 million on-lending. CG own-account components include PRT receipts of well over £ $\frac{3}{4}$ billion and high scheduled receipts of interest on NLF loans due from local authorities and public corporations. The forecast also includes £200 million in expected receipts from the sale of BP shares. Expenditure includes high debt interest payments due, payment of student grants, rates on government property and scheduled superannuation payments to teachers.

10. In October a net repayment of £ $\frac{1}{4}$ billion is forecast. On-lending is forecast to be less than £100 million. CG own-account borrowing is expected to be reduced by high Inland Revenue receipts, including quarterly payments of Advance Corporation tax, some of the annual payments of Mainstream Corporation tax (including North Sea), and continued high receipts of PRT as a result of the interim smoothing arrangements

for this tax. Customs and Excise receipts of duty on wines, spirits and tobacco are expected to rise as traders stock up for Christmas sales. Expenditure includes a high quarterly grant to the National Coal Board, and scheduled high payments of police grant.

11. In November a CGBR of £2 billion is forecast, including on-lending at £200 million. Receipts again include monthly PRT, higher Customs and Excise receipts and a quarterly gas levy payment. Expenditure includes high debt interest payments, and a high scheduled payment of student grants.

TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT - AUGUST 1983

	<u>Forecast</u>	<u>Outturn</u>	<u>Difference</u> on CGBR ('+' means lower borrowing)
<u>RECEIPTS</u>			
<u>Consolidated Fund</u>			
Inland Revenue	2,570	2,813	+243
Customs and Excise	2,650	2,695	+ 45
Other	850	789	- 61
<u>National Loans Fund</u>			
Interest, etc receipts	320	320	-
Total Receipts	6,390	6,617	+227
<u>EXPENDITURE</u>			
<u>Consolidated Fund</u>			
Supply services and Contingencies Fund	7,000 ⁽¹⁾	6,383 ⁽¹⁾	+617 ⁽¹⁾
Other	280	284	- 4
<u>National Loans Fund</u>			
Service of the National Debt	750	783 ⁽²⁾	- 33 ⁽²⁾
Net Lending	250	-178 ⁽²⁾	+428 ⁽²⁾
Total Expenditure	8,280	7,272	+1,008
Other funds and accounts	+10 ⁽¹⁾	-648 ⁽¹⁾⁽²⁾	-658 ⁽¹⁾⁽²⁾
CGBR	-1,880	-1,303	+577

(1) The provisional estimate of Supply expenditure in August is close to the forecast of £7.0 billion. It was met through Supply Issues of £6.4 billion and running down departmental balances by £0.6 billion.

(2) Net lending included in 'Other funds and accounts' in the outturn reduces the difference between forecast and outturn to around +£300 million.

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TABLE 2

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ million

	Latest Forecast		
	SEPTEMBER	OCTOBER	NOVEMBER
<u>RECEIPTS</u>			
<u>Consolidated Fund</u>			
Inland Revenue	3,180	4,310	3,240
Customs and Excise	2,350	2,700	2,900
Other	1,030	780	850
<u>National Loans Fund</u>			
Interest etc, receipts	820	430	310
Total receipts	7,380	8,220	7,300
<u>EXPENDITURE</u>			
<u>Consolidated Fund</u>			
Supply services	7,200	7,100	7,200
Other	240	250	280
<u>National Loans Fund</u>			
Service of the national debt	1,030	620	1,460
Net Lending	130	90	200
Total expenditure	8,600	8,060	9,140
Other funds and accounts	-200	+150	-160
CGBR	-1,420	+310	-2,000

TABLE 3

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ billion

MONTH	1982-83 OUTTURN		1983-84 OUTTURN/FORECAST		CUMULATIVE DIFFERENCE BETWEEN 1982-83 AND 1983-84	
	IN MONTH	CUMULATIVE	IN MONTH	CUMULATIVE	ON CGBR	ON CG OWN ACCOUNT (1)
April	0.8	0.8	1.2	1.2	-0.4	-0.1
May	1.1	1.9	1.7	2.9	-1.0	-0.1
June	1.2	3.1	2.5	5.5	-2.4	-0.5
July	0.7	3.8	0.9	6.4	-2.6	-0.8
August	1.5	5.3	1.3	7.7	-2.4	-1.0
September	0.3	5.6	(1.4)	(9.1)	(-3.5)	(-2.7)
October	0.9	6.5	(-0.3)	(8.8)	(-2.3)	(-2.1)
November	1.9	8.4	(2.0)	(10.8)	(-2.4)	(-2.6)
December	2.1	10.4				
January	-1.8	8.7				
February	1.1	9.8				
March	2.8	12.6				

(1) The outturn of CG own-account borrowing is not available directly from the funds and accounts data from which the CGBR is compiled, but is estimated subsequently by the CSO when further information becomes available and published quarterly in the PSBR press notice. The cumulative difference shown for the latest outturn month is based on a first rough estimate by the Treasury.

Notes: - Forecast for 1983-84 in the Financial Statement and Budget Report is £11,480 million

- Some rows may not add across because of rounding

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10 DOWNING STREET

From the Private Secretary

12 September, 1983

Thank you for your letter of 8 September with which you enclosed this month's note on the Central Government Borrowing Requirement.

The Prime Minister is content with the changes in the form of the Treasury's future reporting on Government borrowing as set out in paragraphs 5 and 6 of your letter.

M. C. SCHOLAR

J. Kerr, Esq.,
HM Treasury

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