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17 December 1984

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14/12

Dear Andrew

MONTHLY NOTE ON PUBLIC SECTOR BORROWING

... I enclose this month's note on the PSBR. As usual the main points are summarised on the first page.

The press notice giving the outturn figures for November will be published at 2.30 p.m. on 18 December.

Yours ever
David

D L C PERETZ
Principal Private Secretary

PUBLIC SECTOR BORROWING

Summary

- The PSBR for November is provisionally estimated at £1.8 billion - about £0.4 billion higher than forecast a month ago. Borrowing on central government's own account and borrowing by local authorities were both about £0.2 billion higher than forecast.

- Borrowing in the first eight months of 1984-85 (£9.8 billion) was about £2.0 billion higher than the Budget profile. In April-November 1983 the PSBR was £8.5 billion.

- Over the period December-February, with the change in VAT on imports, the receipts from the BT issue, and the main revenue season, the public sector is expected to be in surplus. A net repayment of public sector debt of £2 billion is forecast. This would make a PSBR of about £7¾ billion in the first eleven months of 1984-85 - about £2½ billion above the Budget profile.

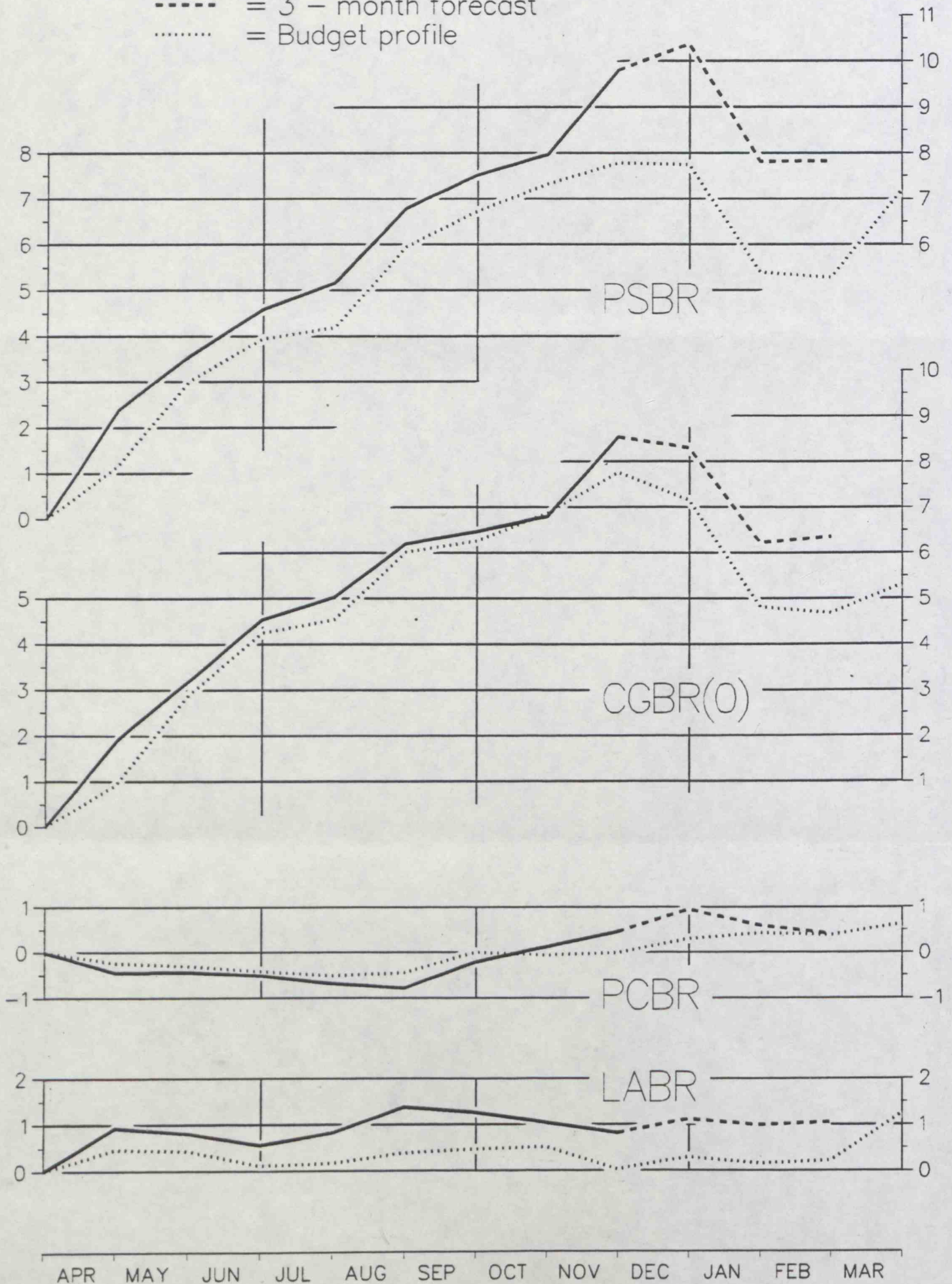
- The PSBR for 1984-85 will be reassessed in January, but latest indications are that it is likely to exceed the £8½ billion published in the Autumn Statement, although there are still very large uncertainties.

Figures in this report are not seasonally adjusted. The figures may not sum precisely because of rounding.

Chart 1: PSBR 3-month forecasts and Budget profiles

£ billion – cumulative

- = Outturn
- - - = 3 – month forecast
- = Budget profile

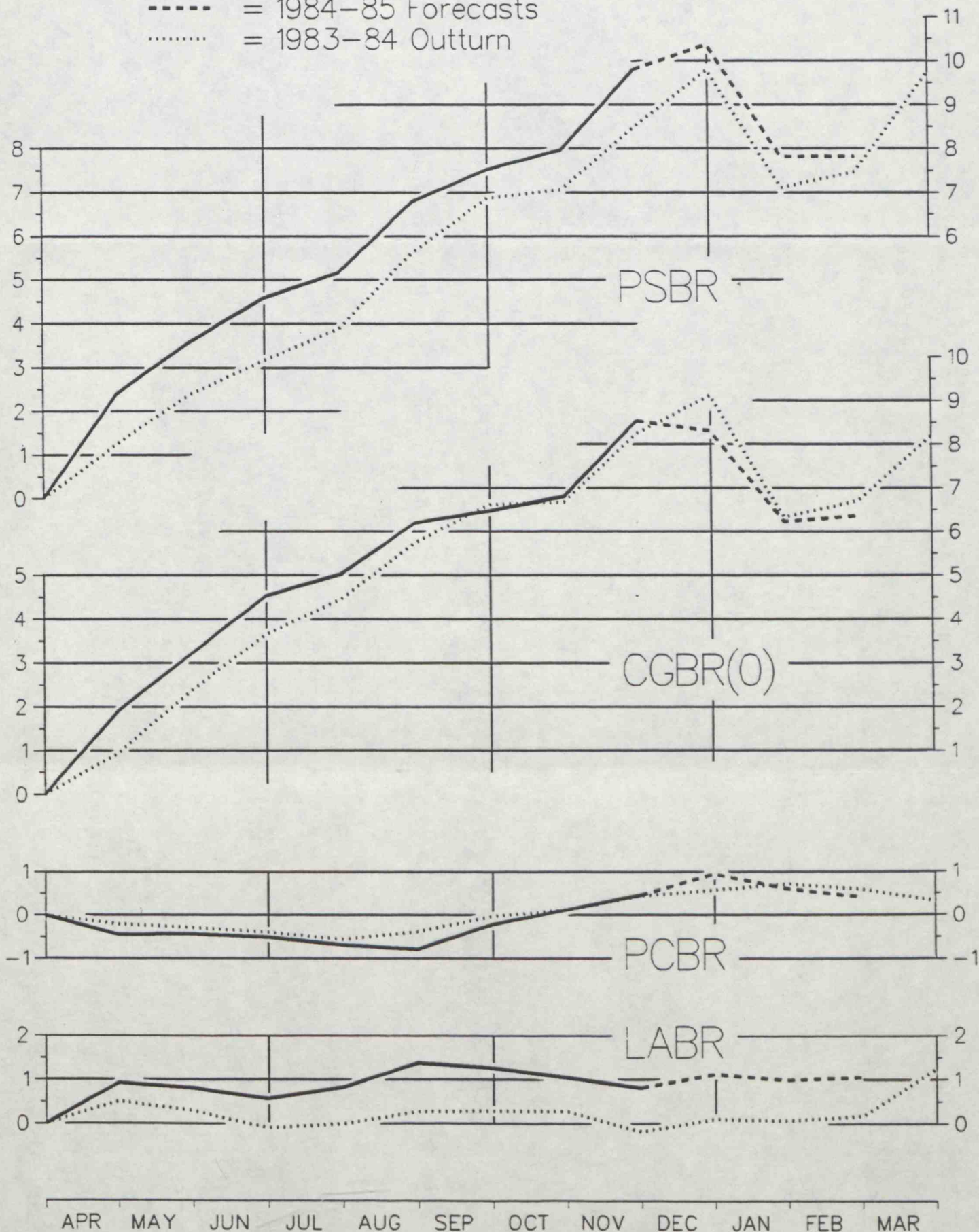


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Chart 2: PSBR 3-month forecasts against 1983-84

£ billion – cumulative

- = 1984-85 Outturns
- - - = 1984-85 Forecasts
- = 1983-84 Outturn



1984-85

Borrowing in November

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

The provisional estimate of the PSBR in November is £1.8 billion, £0.4 billion higher than the forecast made a month ago. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

Table 1: November 1984 borrowing requirements

£ billion

| | PSBR | Comprising | | |
|------------|------|------------|------|------|
| | | CGBR(O) | LABR | PCBR |
| Forecast* | 1.5 | 1.5 | -0.4 | 0.4 |
| Outturn | 1.8 | 1.7 | -0.2 | 0.3 |
| Difference | 0.4 | 0.2 | 0.2 | - |

*made on 15 November

3. The borrowing on central government's own account - CGBR(O) - was around £0.2 billion higher than forecast. The table overleaf shows our present view of where the differences occurred.

£ billion (-indicates lower borrowing)

| | |
|-------------------------|-------------|
| Inland Revenue receipts | +0.4 |
| National Insurance Fund | -0.1 |
| Other | <u>-0.1</u> |
| Net effect on CGBR(O) | +0.2 |

3. The shortfall in Inland Revenue receipts in November appears to be attributable to two main factors: higher income tax repayments (e.g. to exempt individuals and institutions such as pension and insurance funds) and lower Corporation Tax receipts. The latter probably reflects timing and should be recovered in later months. Although Inland Revenue receipts were unexpectedly low in November, there is no clear evidence of delays in tax payments to finance BT applications. A small surplus was recorded on the National Insurance Fund instead of the small deficit forecast; this confirms the unwinding of distortions in October. Supply Expenditure was close to forecast.

4. Local authorities made a net repayment of £0.2 billion in the month, compared with last month's forecast of a net repayment of £0.4 billion and an average net repayment of about £0.5 billion in November in previous years. This is a small difference relative to the rather erratic pattern of local authority borrowing.

5. Public corporations borrowed £0.3 billion in November, very close to last month's forecast. Borrowing was relatively high in the month, apparently due mainly to the continuing effects of the coal strike, particularly in respect of high oil burn in the power stations.

April to November outturn

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

6. The cumulative PSBR for the first eight months of 1984-85 was £9.8 billion. This is about £2.0 billion above the Budget profile (see Chart 1 and Table 2) and about £1.3 billion above the same period last year (Chart 2).

Table 2: Total April-November borrowing requirements

£ billion

| | PSBR | Comprising | | |
|-----------------|------|------------|------|------|
| | | CGBR(O) | LABR | PCBR |
| Budget forecast | 7.8 | 7.8 | - | - |
| Outturn | 9.8 | 8.5 | 0.8 | 0.5 |
| Difference | 2.0 | 0.8 | 0.8 | 0.5 |

7. Cumulative borrowing in April-November on central government's own account was £0.8 billion higher than the Budget profile. Higher asset sales (by £0.3 billion) and oil royalties (by £0.2 billion) were more than offset by lower Inland Revenue receipts (by £0.5 billion - see paragraph 8), lower Customs and Excise receipts (by £0.5 billion, due to the delay in introducing the new arrangements for VAT on imports), and higher Supply expenditure (by £0.2 billion, excluding on-lending, more than accounted for by the advance EC contributions paid in October and November).

8. Most of the Inland Revenue shortfall is attributable to Corporation Tax (both Mainstream and ACT) and income tax (mainly Schedule D from the self-employed, and repayments, including those made under the MIRAS scheme.) These shortfalls have been partly offset by increased PRT resulting from higher oil production and higher sterling prices.

9. Local authorities borrowed about £¾ billion in the period April - November, compared with zero borrowing forecast in the Budget profile. The high level of borrowing probably reflects both likely capital overspend in the current year and high home improvement grant expenditure at the end of March, which affected borrowing in April.

10. Public corporations borrowed about £0.5 billion to end-November, compared with zero borrowing forecast in the Budget profile. Borrowing was below the Budget profile over the first half of 1984-85, but borrowing has been heavy in the last two months, reflecting the effects of the coal strike. Outturns for earlier months have been revised upwards by about £¼ billion, following quarterly returns from banks.

December to February

11. Forecasts of the PSBR in December, January and February are shown in Tables 3 and 4. Over the three-month period the PSBR is forecast to be in surplus by £2 billion, compared with a surplus of £2½ billion in the Budget profile.

12. Table 5 shows the latest detailed profile of borrowing on central government own account for December to February. The forecast is £1 billion higher than the Budget profile, the main factors being payments to the National Coal Board in December and January (nearly £¾ billion), higher debt interest (by £¼ billion) and a lower surplus on the National Insurance Fund (by £¼ billion), partly offset by higher VAT receipts on imports because of the slippage from November, resulting from the change in date.

13. December 1984 - February 1985 are three favourable months, when seasonal and special factors are expected to boost receipts. The split of tax receipts in the forecast between December and January is however very uncertain and the pattern of grant and loan to the nationalised industries, affecting both the CGBR(O) and the PCBR (see below), depends heavily on the assumption that the coal strike will end at Christmas.

- In December, the forecast CGBR(O) is for a surplus of about £¼ billion. Customs and Excise receipts are boosted by the first extra receipts from the changed arrangements for VAT on imports (worth over £½ billion - the signs are that the

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expected level has been exceeded), and the first instalment from the sale of British Telecom has raised nearly £1½ billion. These receipts are expected to be partly offset by a large seasonal deficit on the National Insurance Fund (of over £¼ billion) and Supply expenditure above average, including payments to British Steel (worth over £¼ billion). The forecast for December is, of course, particularly uncertain because Christmas and the New Year can significantly affect the timing of tax receipts.

- In January, the forecast CGBR(O) is a surplus of £2 billion. This reflects the seasonal peaking of Inland Revenue receipts. January is the main month for the receipt of Schedule D income tax (totalling £2 billion) and Mainstream Corporation Tax (totalling £2 billion); receipts of Advanced Corporation Tax (totalling £1 billion) are also seasonally high. In addition, Customs and Excise receipts will again benefit (by around £½ billion) from the change in VAT on imports; and, finally, a large surplus (of over £¼ billion), balancing the deficit in December, is expected for the National Insurance Fund. These high receipts are expected to be partially offset by high Supply Expenditure, including payments to the National Coal Board (£½ billion) and high RSG payments, and seasonally high debt interest payments (of £1¾ billion).

- In February, the forecast CGBR(O) is for small net borrowing. Inland Revenue receipts are expected to be a little above average (including around £1 billion of Schedule D income tax receipts) though nothing like January's level. The final benefit (of around £¼ billion) is expected from the change in VAT on imports; in addition, VAT receipts generally are expected to be high (by an extra £½ billion) reflecting the three-monthly cycle. A further surplus (of £¼ billion) is forecast for the National Insurance Fund. Supply expenditure is expected to be about average, before the expected March surge.

14. Local authorities are expected to borrow about £¼ billion over the next three months, mainly in December.

15. Public corporations are expected to make a small net repayment of debt in the next three months. Heavy borrowing (about £½ billion) in December is expected to be more

than offset by repayments in January and February. This forecast is based on the assumption that the miners' strike ends at Christmas and additional oil purchases then cease almost immediately. It also takes account of expected repayments of about £½ billion by the National Coal Board, following receipt of their additional grant (see paragraph 13). With the uncertainties surrounding the timing of the end of the strike, and the short-term fluctuations following immediately afterwards, these forecasts are subject to an unusually wide margin of error.

April to February

16. Combining the above three-month forecasts with outturns for the first eight months produces a PSBR for the first eleven months of 1984-85 of about £7¾ billion, some £2½ billion above the Budget profile and about £¼ billion higher than the outturn in the same period last year. The CGBR(O) is now forecast to be about £1¾ billion above the Budget profile in April-February, the LABR £¾ billion higher, and the PCBR close to the Budget profile.

1984-85

17. The PSBR for 1984-85 will be reassessed in January, but latest indications are that it is likely to exceed the £8½ billion published in the Autumn Statement, although there are very large uncertainties. The estimates of the cost of the coal strike have increased recently, even on the continued assumption that it ends this month; and the likelihood now is that it will continue into the New Year, which will add further to the costs. Also, Inland Revenue have increased their forecast of income tax repayments by £¼ billion.

Table 3: April-February: Outturns and latest forecasts

£ billion

| | PSBR | Comprising | | |
|------------|------|------------|------|------|
| | | CGBR(O) | LABR | PCBR |
| 1984-85 | | | | |
| Apr | 2.4 | 1.9 | 0.9 | -0.4 |
| May | 1.2 | 1.3 | -0.1 | - |
| Jun | 1.0 | 1.3 | -0.3 | -0.1 |
| Jul | 0.6 | 0.5 | 0.3 | -0.2 |
| Aug | 1.6 | 1.2 | 0.6 | -0.1 |
| Sep | 0.7 | 0.3 | -0.1 | 0.6 |
| Oct | 0.4 | 0.3 | -0.2 | 0.3 |
| Nov | 1.8 | 1.7 | -0.2 | 0.3 |
| Dec | 0.6 | -0.2 | 0.3 | 0.5 |
| Jan | -2.6 | -2.1 | -0.1 | -0.3 |
| Feb | - | 0.1 | 0.1 | -0.2 |
| Cumulative | | | | |
| Apr | 2.4 | 1.9 | 0.9 | -0.4 |
| May | 3.6 | 3.2 | 0.8 | -0.4 |
| Jun | 4.6 | 4.5 | 0.6 | -0.5 |
| Jul | 5.2 | 5.0 | 0.8 | -0.7 |
| Aug | 6.8 | 6.2 | 1.4 | -0.8 |
| Sep | 7.5 | 6.5 | 1.3 | -0.2 |
| Oct | 8.0 | 6.8 | 1.0 | 0.1 |
| Nov | 9.8 | 8.5 | 0.8 | 0.5 |
| Dec | 10.4 | 8.3 | 1.1 | 0.9 |
| Jan | 7.8 | 6.2 | 1.0 | 0.6 |
| Feb | 7.8 | 6.4 | 1.1 | 0.4 |

Figures for April to November are outturns

Table 4: PSBR for 1984-85 - Comparisons with 1983-84 and Budget profile

£ billion

| | 1983-84 | | 1984-85 | | Differences from | |
|-------------------|---------|----------------|------------------------------|-----------------|------------------|--|
| | Outturn | Budget profile | Latest update ⁽¹⁾ | 1983-84 outturn | Budget profile | |
| | 1 | 2 | 3 | 3-1 | 3-2 | |
| Apr | 1.2 | 1.2 | 2.4 | 1.1 | 1.2 | |
| May | 1.1 | 1.9 | 1.2 | - | -0.7 | |
| Jun | 0.8 | 0.9 | 1.0 | 0.2 | 0.1 | |
| Q2 | 3.2 | 3.9 | 4.6 | 1.4 | 0.6 | |
| Jul | 0.7 | 0.3 | 0.6 | -0.1 | 0.3 | |
| Aug | 1.7 | 1.8 | 1.6 | -0.1 | -0.1 | |
| Sep | 1.2 | 0.8 | 0.7 | -0.5 | - | |
| Q3 | 3.7 | 2.8 | 2.9 | -0.8 | 0.1 | |
| Oct | 0.2 | 0.6 | 0.4 | 0.3 | -0.1 | |
| Nov | 1.4 | 0.5 | 1.8 | 0.4 | 1.4 | |
| Dec | 1.3 | - | 0.6 | -0.7 | 0.6 | |
| Q4 | 2.9 | 1.0 | 2.9 | -0.1 | 1.8 | |
| Jan | -2.7 | -2.3 | -2.6 | 0.1 | -0.2 | |
| Feb | 0.4 | -0.1 | - | -0.4 | 0.1 | |
| Mar | 2.3 | 1.9 | | | | |
| Q1 | -0.1 | -0.5 | | | | |
| Cumulative | | | | | | |
| Apr | 1.2 | 1.2 | 2.4 | 1.1 | 1.2 | |
| May | 2.4 | 3.0 | 3.6 | 1.2 | 0.5 | |
| Jun | 3.2 | 3.9 | 4.6 | 1.4 | 0.6 | |
| Jul | 3.9 | 4.2 | 5.2 | 1.3 | 1.0 | |
| Aug | 5.6 | 6.0 | 6.8 | 1.2 | 0.8 | |
| Sep | 6.9 | 6.7 | 7.5 | 0.6 | 0.8 | |
| Oct | 7.1 | 7.3 | 8.0 | 0.9 | 0.6 | |
| Nov | 8.5 | 7.8 | 9.8 | 1.3 | 2.0 | |
| Dec | 9.8 | 7.7 | 10.4 | 0.6 | 2.6 | |
| Jan | 7.1 | 5.4 | 7.8 | 0.7 | 2.4 | |
| Feb | 7.5 | 5.3 | 7.8 | 0.4 | 2.5 | |
| Mar | 9.7 | 7.2 | | | | |

⁽¹⁾Figures for April to November are outturns

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

£ billion

| | November | | Latest forecasts | | |
|---|------------|------------------------|------------------|-------------|------------|
| | forecast | outturn ⁽¹⁾ | Dec | Jan | Feb |
| Receipts | | | | | |
| <i>Consolidated Fund</i> | | | | | |
| Inland Revenue | 3.6 | 3.2 | 3.5 | 8.6 | 4.3 |
| Customs and Excise | 3.4 | 3.4 | 3.4 | 3.3 | 3.4 |
| Other ⁽²⁾ | 1.0 | 0.7 | 2.2 | 1.0 | 1.0 |
| <i>National Loans Fund</i> | | | | | |
| Interest etc. receipts | 0.3 | 0.4 | 0.4 | 0.2 | 0.3 |
| Total Receipts | 8.3 | 7.7 | 9.5 | 13.1 | 9.1 |
| Expenditure | | | | | |
| <i>Consolidated Fund</i> | | | | | |
| Supply expenditure ⁽³⁾ | 7.7 | 7.7 | 8.1 | 8.8 | 7.8 |
| Adjustment to Supply Services basis ⁽⁴⁾ | – | 0.5 | – | – | – |
| Other | 0.3 | 0.3 | 0.3 | 0.6 | 0.4 |
| <i>National Loans Fund</i> | | | | | |
| Service of the national debt | 1.5 | 1.5 | 0.6 | 1.8 | 1.0 |
| Net lending | 0.2 | 0.8 | –0.1 | –0.2 | 0.2 |
| Total Expenditure | 9.7 | 10.7 | 8.9 | 11.1 | 9.4 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | 0.3 | –0.7 | 0.6 | –0.2 | – |
| CGBR | 1.7 | 2.4 | – | –2.2 | 0.3 |
| On-lending | 0.2 | 0.7 | 0.2 | –0.1 | 0.1 |
| CGBR(O) | 1.5 | 1.7 | –0.2 | –2.1 | 0.1 |

⁽¹⁾Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.

⁽²⁾Includes National Insurance Surcharge and receipts from sales of assets

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

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

Table 6: Central government transactions⁽¹⁾ – comparisons for April–February

£ billion

| | 1983 | 1984 | |
|---|-------------|-----------------|---------------|
| | Apr–Feb | Apr–Feb | |
| | Outturn | Budget forecast | Latest update |
| Receipts | | | |
| <i>Consolidated Fund</i> | | | |
| Inland Revenue | 41.5 | 45.9 | 45.6 |
| Customs and Excise | 28.7 | 32.2 | 32.3 |
| Other ⁽²⁾ | 9.9 | 11.4 | 12.0 |
| <i>National Loans Fund</i> | | | |
| Interest etc. receipts | 4.5 | 4.8 | 4.5 |
| Total Receipts | 84.5 | 94.4 | 94.4 |
| Expenditure | | | |
| <i>Consolidated Fund</i> | | | |
| Supply expenditure ⁽³⁾ | 77.6 | 82.8 | 84.0 |
| Adjustment to Supply Services basis ⁽⁴⁾ | – | – | 0.2 |
| Other | 3.9 | 4.5 | 4.6 |
| <i>National Loans Fund</i> | | | |
| Service of the national debt | 10.8 | 11.7 | 12.0 |
| Net lending | 3.5 | 3.9 | 1.5 |
| Total Expenditure | 95.8 | 102.9 | 102.3 |
| Other funds and accounts (+ increases borrowing) (– reduces borrowing) | –0.8 | 0.8 | 0.5 |
| CGBR | 10.4 | 9.4 | 8.4 |
| On-lending | 3.7 | 4.7 | 2.1 |
| CGBR(O) | 6.7 | 4.7 | 6.4 |

⁽¹⁾Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.

⁽²⁾Includes National Insurance Surcharge and receipts from sales of assets.

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

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".