



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

PRIME MINISTER

*Handwritten:* Need

*Handwritten:* ? regarding grant -  
for equipment for  
small businesses?  
not

1982-83 BORROWING REQUIREMENT

I told you last week that I was looking into how we might reduce the shortfall we now expect on the 1982-83 PSBR. The forecast is necessarily uncertain at this stage, but it looks as though the outturn figure could be of the order of £8 billion, against the Budget forecast of £9½ billion. I would like to adopt measures which would add roughly £1 billion to this £8 billion.

2. I have identified the following steps which in my view we should decide to adopt forthwith:-

- (a) We should end the current deferment of Regional Development Grant payments. This would cost £150 million which will be charged to the Contingency Reserve. It will right a much criticised anomaly.
- (b) As you know from your meeting with the Group of Eight the local authorities are likely this year to underspend their capital allocation substantially. Within these allocations we should encourage them to spend more both on capital works in general and on Home Improvement Grants. The extra, within existing cash limits, might amount to £100 million. My officials are discussing with DOE how far we can reinforce the message in the letter you propose to send to the authorities.
- (c) As we discussed tonight, the Electricity Supply Industry (ESI) could bring forward bills from



suppliers which would otherwise fall due next year; Nigel Lawson thought this might amount to some £200 million.

- (d) We should take the opportunity, which the forecast PSBR shortfall affords us, to correct, as I repeatedly urged in Opposition, an anomaly by bringing the payment of excise duty on wine and spirits in line with the companies' receipts from their customers. The Scotch whisky and the wine trade have for years been pressing for this: they rightly argue that they should be treated in the same way as the beer and tobacco trade. But the reform has always had to be sacrificed at Budget time. The cost would be £200 million, all in 1982-83.
- (e) We should provide an additional £15 million for road maintenance, and spend some £5-10 million more than previously expected in certain other areas, notably the PSA programme.

These measures are estimated to add in total some £700 million to this year's PSBR. No legislation will be required immediately (though (d) would eventually have to be validated by a clause in the Finance Bill).

3. Following your meeting with the Group of Eight you plan to write to the Chairmen of the Nationalised Industries, urging them to speed up their capital allocations this year. It is impossible to quantify the financial impact of this, but it could be significant.

4. I am still examining certain other measures, e.g.:-

- (a) If the Department of Industry reach the view that the BP investment in their Sullom Voe terminal is eligible for Regional Development Grant, a payment



of about £100 million in 1982-83 would be in order.

- (b) A further possibility would be to inject up to £75 million Government equity into the balance sheet of British Nuclear Fuels Limited, which is heavily over-gearred, and worsening as their borrowing increases. This would help with eventual privatisation. I am exploring this urgently.
- (c) Conceivably we might provide some £10 million, to be charged to the Reserve, for additional maintenance of hospital buildings, on condition that it is used for that purpose and not added to what is available for pay. I should like to discuss with Norman Fowler whether this might be helpful: it could of course only be announced when the current dispute is settled.

5. The bulk of these measures would require announcements, but I envisage that these would be low key and fragmented. They would certainly not be associated with the clutch of Autumn announcements which, as usual, we shall have to make shortly - Public Expenditure, National Insurance Contributions, etc. for next year, and the Industry Act Forecast. (But the published forecast would show a PSBR figure closer to £9½ billion, since the new measures would have been taken into account.) I would propose so far as possible that the measures should be announced by the responsible Minister, e.g. Patrick Jenkin in respect of RDGs or Michael Heseltine in respect of local authority expenditure. There would of course be no question of any of these measures being justified by reference to a potential PSBR shortfall this year; rather the stance would be that these are worthwhile measures, angled in general to helping industry, which can be accommodated with our on-going fiscal and monetary policies. And this is indeed true.

6. If you agree, I shall proceed, consulting where necessary



with the responsible Minister, with the measures set out in paragraph 2 above, and arrange to get them announced - individually - and implemented as soon as possible.

7. I hope that we can have a word about this tomorrow. I also hope then to discuss how we should approach the National Insurance issues on which we have to take decisions very soon.

*John Kew.*

*(approved by the Chancellor,  
signed in his absence.)*

pp. G.H.

19 October 1982