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

Michael Scholar, Esq
10 Downing Street
LONDON SW1

17 February 1983

Dear Michael,

BUDGET

I promised last night to let you see some material showing where we now are on Budget work. I accordingly ... enclose a set of records of the weekly "stock-taking" meetings, together with a copy of the score card which was discussed at this week's one. Budget B on the score card shows where we are now heading, though much of course depends on what surprises the forecasters have for us next week.

We plan to send you a minute on 22 February, for discussion on 23 February. And we are priming our incendiary device on Mortgages.

Yours ever,

John K.

J O KERR
Principal Private Secretary

:T PROGRESS REPORT

BUDGET SECRET

DATE: 11 FEBRUARY 1983

TABLE A

.R COSTS (indexed base) £m

		Firm or Open	BUDGET A 1983-84	BUDGET A 1984-85	BUDGET B 1983-84	BUDGET B 1984-85	BUDGET C 1983-84	BUDGET C 1984-85	Comment
Specific Duties	Overall	F	10	10	10	10	10	10	Cigarettes and Cider
	Petrol	O	-	-	-	-	50	50	Possible petrol
Industry	NIS	F	200	300	200	300	200	300	½% NIS from August, private sector only
	Oil	F	90	140	90	140	90	140	Oil - Package B) Note: Mr Lawson looking
	Oil	O	-	-	-	-	15	(30)	Oil - PRT reliefs) for £200m in total) 1983-84
	CT	O	-	-	130	180	130	180	Cockfield on CT or Reduce CT rate by 2% etc
	CT	O	-	-	-	-	-	100	ACT/DTR options
Persons	R/W	O	700	730	990	1040	1140	1200	R/W + 6-8½-10%
	CB	O	[90]	[250]	[90]	[250]	[90]	[250]	CB (P/Ex charged to the Reserve)
	IIS	O	-	-	-	-	5	35	Reduce IIS to 10%
Packages/Risks	Misc	O	400	550	400	550	400	550	(say) see separate notes
			1400	1730	1820	2220	2040	2535	
Fiscal Adjustments		O	2000	3000	2000	3000	2000	3000	Depending on forecast.
PSBR		O	8000	7500	8000	7500	8000	7500	Depending on decisions.

REVENUE COSTS OF BUDGETS £m

	BUDGET A 1983-84	BUDGET A 1984-85	BUDGET B 1983-84	BUDGET B 1984-85	BUDGET C 1983-84	BUDGET C 1984-85	Comment
Indexed	1530	2130	2015	2805	2255	3290	) These might appear in Table 1 of the FSBR
Non-indexed	1760	2585	2345	3260	2485	3745	)
Direct Split - Revenue costs							
Budget							
Persons	1020	1315	1360	1735	1570	2085	
Businesses	510	815	655	1070	685	1205	
As above	1530	2130	2015	2805	2255	3290	Indexed revenue costs as above
Budget plus Autumn							
Persons	1020	1315	1360	1735	1570	2085	
Businesses	1210	1615	1455	1870	1485	2005	
As above plus Autumn	2230	2930	2815	3605	3055	4090	Indexed revenue costs as above plus 1% NIS from April (£700m 1983-84, £800m 1984-85)

C/EX REF NO B (83) 8

COPY NO 34 OF 34 COPIES

RECORD OF THE FOURTH BUDGET OVERVIEW MEETING AT 11AM ON 15 FEBRUARY

Present:

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Sir Lawrence Airey (IR)

Mr Burns
Professor Walters (No 10)
Mr Middleton
Mr Moore
Mr Kemp
Mr Cassell
Mr Ridley
Mr Kerr
Mr Robson

Mr Fraser (C&E), Mr Bailey (C) Items 1-3 only

Mr Freedman (C&E) Item 3
Mr Howard (C&E) only

Mr Isaac (IR))
Mr Blythe (IR)) Item 4
Mr Spence (IR)) only

Papers:

i. Progress Report (Mr Kemp's minute of 14 February)

ii. Budget Packages (Sir D Wass's minute of 14 February)

iii. Indirect Taxes, Petrol and Derv (Mr Fraser's minutes of 11 February)

iv. Income Tax Options (Minutes of 7 and 11 February from Mr Spence, Mr Blythe and Mr Isaac)

v. Budget Speech (minute of 14 February by Mr Kemp)

ITEM 1: Progress Report

Budget Balance

The meeting considered whether Budget B (£2 billion fiscal adjustment, half on income tax thresholds) in Table A to Mr Kemp's minute was the best "central case" for planning purposes. It was suggested that, if in the light of the forecast which would be available in the week of 21 February a larger fiscal adjustment seemed possible, the increased relief should be tilted more to industry than in the present Budget C. Cabinet and backbench opinion favoured action to benefit industry, and such public opinion poll evidence as was available suggested that this preference was widely shared. It was also argued, however, that the likely future oil price movement might justify some caution about the fiscal adjustment, and that business and industry would benefit substantially, although indirectly, from increases in the income tax thresholds.

2. It was agreed that Budget B should remain the "central case"; but the Chancellor asked that the next progress report should incorporate variants to Budget C which would tilt it further towards direct help to industry. (Action: Central Unit)

3. The meeting briefly considered the extent to which it would be possible at Budget time to take credit for the Autumn NIS reductions. It was suggested that only one of the two (half point) NIS reductions announced in the Autumn Statement could fairly be taken into the Budget arithmetic for presentational purposes. The Chancellor asked that the matter be further considered in the next progress report. (Action: Central Unit)

ITEM 2: Packages

Construction

4. The Financial Secretary expressed concern that small operators were excluded from the extension of the Allowances envisaged for self-catering accommodation. He thought it important that some relief for the small operators should be found, particularly if the larger operators were to benefit. The Chancellor asked that the matter be considered further. (Action: FST/MST(R))

West Midlands

5. The Chancellor and the Chief Secretary noted a reference, in Sir Douglas Wass's minute, to the possibility of giving the West Midlands development area status. It was noted that this should be seen as a warning, rather than a recommendation, and that the case against it had been put in a minute by Mr Chivers. It was agreed that the possibility should not be considered for the Budget: decisions on the designation of future development areas should await the consideration of the Quinlan regional policy study.

Fairness in Taxation

6. The Chancellor agreed that it would probably be wrong to envisage a specific package on "fairness in taxation" at Budget time. But some of the measures now being considered under this heading might well be appropriate to the Budget, and to presentation seriatim in the Budget Speech. (Action: FST/MST(R))

Review of Packages

7. It was noted that the overview meeting on 22 February would review progress on packages, and the balance between them, following individual meetings on each in the current week. The Chancellor asked that the packages should be presented, for that meeting, in a collated form, listing and costing firm decisions, and remaining options, on each. The options should be set out in the order of preference of the Minister coordinating each package. (Action: Central Unit)

ITEM 3: Excise Duties

Tobacco

8. The Economic Secretary reported on the position reached on the residual tobacco duties, which had been referred to him following the decision already taken on cigarettes. He suggested, and the Chancellor agreed, that the duty on cigars should be increased in line with that on cigarettes. As for pipe tobacco, he was attracted by the case - made, among others, by the Secretary of State for Northern Ireland - for no increase this year. The cost would be only some £2.5 million. The Chancellor agreed that there should be no increase in the duty on pipe tobacco.

VED/Petrol/Derv

9. Although this would be slightly above revalorisation, it was agreed that VED should rise by £5.

10. The Chancellor was inclined to think that straight revalorisation would be right for petrol, and probably also for derv, though there might

be a case for increasing the differential in favour of derv. It was noted that some rural interests would be offended by a duty increase on either petrol or derv (though real farm incomes rose by some 32 per cent in 1982) and the chances of a substantial revolt in the House were probably lower this year than last year, and could be further reduced if briefing material were available promptly on Budget Day. The Chancellor asked for the preparation of a short analysis of the Secretary of State for Transport's arguments for increasing petrol duty over and above revalorisation. (Action: Mr Moore) Meanwhile the options could be narrowed to full revalorisation of both petrol and derv, and increases of 4p a gallon (petrol) and 3p a gallon (derv). The cost of the latter would be £25 million. (Action: Customs & Excise)

Paraffin

11. It was decided not to pursue the Secretary of State for Energy's proposal to abolish the 1p a gallon duty on domestic paraffin.

ITEM 4: Personal Taxation

Income Tax Thresholds

12. The meeting considered the impact of an 8½ per cent increase in income tax thresholds. The inter-action with NIC was noted: figures including NIC would have to be included in the tables published on Budget Day. It was suggested that the tables, when converted from a static to a dynamic basis, would be less disturbing, but that to convert using a 6½ per cent factor could have a damaging impact on pay expectations.

13. The Chancellor agreed that planning should proceed on the basis of an 8½ per cent increase in thresholds. Tables should be prepared using the assumption of a 6½ per cent increase in average incomes, and also that of a 4½ per cent increase in average incomes. A final decision on the incomes increase(s) to be shown would be taken later.

Higher Rate Bands

14. It was suggested that the higher rate bands should be raised only by revalorisation, or at least by less than revalorisation plus 8½ per cent. Indexation plus 8½ per cent could provoke criticism. It was also suggested that such criticism could best be defused if the higher rate bands were raised only sufficiently to compensate for non-indexation since 1979, with a view to returning to the position reached in the 1979 Budget. It was however argued, particularly by Sir L Airey and Mr Isaac, that there were no obvious stopping-places short of 8½ per cent, that picking 1979 as an ideal year could be counter-productive, and that it was not unreasonable that those paying tax at the higher rates, who suffered most when the thresholds were not raised, should gain most when they were. The Financial Secretary agreed, and thought that an 8½ per cent increase across the board would give elbow-room for action against the more dubious reliefs, and defuse criticism of non-revalorisation of the mortgage interest relief ceiling.

15. It was agreed that the higher rate thresholds and bands should increase in line with the main personal tax allowances.

Investment Income Surcharge

16. The meeting considered the options of indexation, indexation plus 8½ per cent, indexation plus a reduction in the rate from 15 to 10 per cent, and an increase in the threshold to £11,000. It was noted that the Revenue cost of the last two options would be some £85 million, though the PSBR costs would be negligible in 1983/84, and only some £35 million in 1984/85.

17. The Financial Secretary and the Economic Secretary were attracted by the third option (ie a reduction in the rate): it would signal the Government's intention to abolish IIS in due course, whereas raising the thresholds would paradoxically make abolition more difficult. It was however noted that reducing the rate would create no staff saving. The Chief Secretary, Sir Lawrence Airey, and the Minister of State (C) argued for the second option; and the Chancellor decided that the IIS threshold should rise in line with the income tax threshold.

Age Allowance

18. It was also agreed that the age allowance should rise by the same percentage as the main tax thresholds.

ITEM 5: Budget Speech

19. The Chancellor commended the "building blocks" for the Budget Speech circulated with Mr Kemp's minute of 14 February. He had been encouraged by the progress so far made on the Speech. He asked that any general comments on the shape, scope, and structure of the draft should be forwarded to the Central Unit by close of play on 16 February.

JOK.

J O KERR

Distribution:

Those present

Mr Littler
Mr Evans
Mr Hall
Mr French
Mr Harris
Mr Norgrove

C/EX REF NO 3/83/7

COPY NO 27 OF 27 COPIES

RECORD OF THE THIRD BUDGET OVERVIEW MEETING AT 11AM ON 8 FEBRUARY

Present:

Chancellor	Mr Burns	Sir L Airey (IR))	Item 1 only
Chief Secretary	Professor Walters (No 10)	Mr Fraser (C&E))	
Economic Secretary	Mr Middleton	Mr Moore)	
Minister of State (C)	Mr Kemp		
Minister of State (R)	Mr Cassell	Mr Evans)	Item 2 only
Sir Douglas Wass	Mr Ridley	Mr Monck)	
Sir Anthony Rawlinson	Mr Kerr	Mr Odling-Smee)	
		Mrs Lomax)	

Papers:

i. Budget: Public Expenditure (Sir A Rawlinson's minute of 7 February)

ii. Economic Effects of Lower Oil Prices (Mr Kerr's minute of 7 February)

iii. Budget Packages (Sir D Wass's minute of 7 February)

iv. Progress Report (Mr Kemp's minute of 7 February)

v. Medium Term Financial Strategy (Mr Burns' minute of 3 February)

vi. Monetary Targets in 1983/84: M1 (Mr Monck's minute of 26 January)

ITEM 1: Progress Report

Public Expenditure

The Chancellor noted that the Chief Secretary and Sir A Rawlinson envisaged that Budgetary proposals for public expenditure could be charged to the Contingency Reserve up to a maximum of £350 million. It was also noted that any excess over £100 million should reduce the fiscal adjustment pro tanto.

Oil

2. Noting that the uncertainties about the future oil price were if anything greater than in the run up to the 1982 Budget, the Chancellor asked that consideration be given to the case for not only making clear at Budget time the oil price assumption underlying fiscal plans, but also taking powers to adjust these plans in mid year if the assumption proved unfounded. A sophisticated version of the regulator might be appropriate. If the

oil price fell more sharply than anticipated, excise duties on petrol and derv might rise. Alternatively, if the price stayed higher than expected, some fiscal relaxation - eg a further move on NIS - might be feasible. It was suggested that action to raise the duty on petrol and derv would be readily understood, but that action to lower NIS would be harder to explain. It was also noted that the effect on inflation and on monetary growth of a sharp decline in the oil price would be fairly small. A short study on what form of regulator would be most appropriate, and whether and how it should be announced, was nevertheless commissioned. (Action: Mr Middleton).

Packages

3. It was agreed that Lord Cockfield should be asked to put forward, by 14 February, any proposals he might have for a tourism package. (Action: Chief Secretary). The "fairness in taxation" package should be ready - with the other packages - for meetings in the week of 14 February. (Action: FST/MST(R)).

Budget balance

4. The Chancellor reported that the balance of opinion in Cabinet on 3 February had been in favour of a Budget along the lines so far emerging, ie weighted more towards tax reliefs for persons than for industry. He nevertheless wished to test the arguments once again. In a tour de table, it was pointed out that the proposed balance of the 1983 Budget would only partially offset that of recent Budgets, which had been tilted heavily in favour of industry; that business was pressing for action on the income tax thresholds; and that the balance was in fact pretty even, if the Autumn Statement measures were taken into account. It was also noted that action on thresholds would be beneficial to industries' costs, in that it should encourage further pay moderation. On the other hand, it was argued that public opinion would be surprised if tax thresholds were raised by as much as 8½ percentage points above revalorisation.

5. It was agreed that the balance of Budgets A and B in Table A of Mr Kemp's minute of 7 February was probably about right: that of Budget C

was however perhaps tilted too heavily in favour of the personal sector. The Chancellor asked that for the overview meeting on 15 February the progress report should present an assessment of the balance of the alternatives then on offer. (Action: Mr Kemp).

ITEM II: MTFS

MTFS: objectives

6. It was agreed that the MTFS should again open with a general statement of the Government's medium term objectives. It should be along the lines of the formula in paragraph 5 of the MP paper attached to Mr Burns' minute, though the second sentence should be revised to read: "The objective over the medium term is to continue reducing inflation, so providing the foundation for the sustainable growth of output and employment".

MTFS: treatment of the exchange rate

7. It was agreed that the MTFS text should be prepared on the basis of no major change in the 1982 exchange rate formula.

MTFS: monetary ranges

8. It was suggested that a reduction in the monetary ranges - to 6/10, 5/9, and 4/8 - for the three years 1983-84 to 1985-86 might be appropriate, taking account of the progress already made, and as an encouragement to more. It was also noted that such a reduction would be helpful as a way of increasing the credibility of the inflation forecast, should an optimistic variant of it be chosen. On the other hand, it was argued that the best course would be to hold to the 7/11, 6/10, 5/9 ranges, both on the grounds of prudence, and because further reductions might create new fears. The Chancellor, noting that a final decision was not an immediate requirement, asked that text should be prepared on the basis of last year's guidelines for 1983-84 and 1984-85 (ie 7/11 and 6/10) and a further 1 per cent deceleration in 1985-86 (ie to 5/9). (Action: MP).

1983-84 PSBR

9. It was argued that the options for the 1983-84 PSBR were not only £8 billion or £7.5 billion: there was a case, particularly in terms of output,

for considering £8.5 billion. It was however noted that this would probably mean a substantial increase on the 1982/83 outturn; and that recent exchange rate movements had both provided a boost to output and increased the arguments for caution over the 1983-84 PSBR. The Chancellor concluded that a 1983-84 PSBR of above £8 billion need not be excluded. He however regarded £8 billion as the central case. If in the end it became clear that £8 billion would permit a fiscal adjustment of only £1 billion or less, he would wish to look again at £8.5 billion: conversely, if it became clear that it would permit a fiscal adjustment of £2 billion or more, he would wish to look again at £7.5 billion. For the moment, the MTFS drafts should be prepared on the basis of £8 billion. (Action: MP).

PSBR: 1984/5 and 1985/6

10. The Chief Secretary suggested that, given a 1983-84 PSBR of £8 billion, the MTFS should show £7 billion in 1984-85 and £6 billion in 1985-86. This would demonstrate downward pressure rather more convincingly than did variant A in Table 5 of the MP paper, but would be less harsh than variant B. Mr Burns and Mr Cassell saw advantage in variant A - £8 billion again in 1984-85, and £7 billion in 1985-86. The Chancellor asked that MP work to a path showing 2¾ per cent of GDP in 1983-84, 2¼ per cent in 1984-85, and 1¾ per cent in 1985-86. The final choice would probably be between this path, and that at variant A. (Action: MP).

MTFS: economic assumptions

11. It was agreed that work should proceed on the basis of the assumptions set out at column A in Table 9 of the MP paper (Action: MP).

12. It was agreed that texts of the key MTFS passages should be available for consideration by the Chancellor early in the week of 14 February. A meeting with the Governor would then be arranged, either later that week, or early in the following week.

Jim Ruth

PP J O KERR

Mr Kerr

CH/EX REF NO B(83)5

COPY NO 21 OF 33 COPIES

RECORD OF THE SECOND BUDGET OVERVIEW MEETING AT 11.45AM ON 1 FEBRUARY

Present:-

All Ministers	Mr Middleton	Mr Green IR (CT/N Sea only)
Sir Douglas Wass	Mr Bailey	Mr Battishill IR (")
Sir Anthony Rawlinson	Mr Cassell	Mr Crawley IR (")
Sir Lawrence Airey (IR)	Mr Kemp	Mr Wicks (")
Mr Burns	Mr Moore	Mr Robson (")
Mr Fraser (C&E)	Mr Howard (C&E)	Mr Kerr
Professor Walters (No 10)	Mr Ridley	Mr Hall

Papers:-

i. Budget Packages (Sir Douglas Wass's minute of 31 January)

ii. Progress Report (Mr Kemp's minute of 28 January)

iii. NIS/Corporation Tax (minutes of 26 January from Mr Battishill, and of 27 and 31 January from Mr Moore).

iv. North Sea Fiscal Regime (minute of 28 January from the Minister of State (Revenue).

Budget Security

The Chancellor expressed concern at press speculation about the Budget. Some of the weekend (29/30 January) stories had been disconcertingly precise. Contacts with the press should be minimised until after the Budget, and Treasury Ministers and officials should decline to be drawn into discussion of its likely contents.

Budget Packages

2. Sir Douglas Wass drew attention to the references in various packages to possible changes in CTT. It was agreed that a meeting specifically on CTT would be arranged for 8 February. DHSS should also be asked to forward their Budget proposals very quickly. (Action: Private Office)

3. The Chancellor said that he would also wish to hold meetings on each of the main packages immediately after his return from Washington. Ministers were asked to ensure that submissions on individual packages presented a range of options, in the recommended priority order, rather than a single, take it or leave it, proposal.

Capital Expenditure

4. The Chancellor said that he thought it would be presentationally important to draw attention, at Budget-time, not only to the additional capital expenditure element in particular packages (eg. the construction package) but also to the allowance made in the public expenditure plans for increased overall capital expenditure. Ideally, the presentation should specify particular projects which the increase would buy. The danger of appearing to revert to volume planning was noted; but it was agreed that the public expenditure section of the Budget speech should be made as project-specific as possible. (Action: Sir A Rawlinson)

PSBR Cost of Budget Options

5. The Chancellor noted the references in minutes of 28 January from Mr Kemp and Mr Blythe (IR) to changes in the personal tax options, apparently resulting in part from a re-estimate of PSBR costs following a decision to revert to the assumption of fixed exchange rates, rather than a fixed money supply. He has not been aware of this decision, and was inclined to query it, though noting that the PSBR costs of 1982 Budget measures had been prepared on a fixed interest rate assumption; and that the Inland Revenue thought this the correct assumption to use again. It was agreed that a note should be prepared describing the options, and the case for each; assessing the significance of the choice; and making recommendations. (Action: Mr Middleton)

6. It was noted that the personal tax options, together with the options on child benefit, and on investment income surcharge, would

be considered at a separate meeting on 3 February; and that the main subject for discussion at the third overview meeting on 8 February would be the MTFS.

Corporation Tax

7. Four options for CT changes were identified:-

(a) assistance to small companies, by increasing the lower profits limit to £120,000, raising the upper limit to £360,000 and reducing the marginal rate to 55 per cent. (Para 10 (d) of Mr Battishill's paper).

(b) (a) plus a cut in the CT rate from 52 per cent to 50 per cent.

(c) Lord Cockfield's proposal for a slice system, with the rate on the first slice reduced from 40 per cent to 35 per cent; and

(d) a cheaper move to a simpler slice system, on the basis of the present 40 per cent rate and the first £100,000 of profits (para 13 of Mr Battishill's paper).

8. Sir Lawrence Airey argued for (c) - and against the alternative of a cut in NIS. The Chief Secretary, though strongly preferring a cut in NIS to action on CT, agreed that a move to a slice system would make better sense than a cut in the top rate from 52 per cent to 50 per cent. It was noted that both (c) and (d) were cheaper than reducing the rate to 50 per cent. The Minister of State (Revenue) pointed out that both (c) and (d) would reduce future scope for further measures specifically to benefit small business; and the Financial Secretary thought that the adoption of (d) would cause the small

business lobby to drop their campaign for the introduction of a slice system, and argue against the measure.

9. It was agreed that option (d) should be discarded. Further work should be done only on the other three options, though the Chancellor thought that (b) might in the end prove too expensive. (Action: IR)

NIS

10. Noting that the abolition of NIS would be too costly for this Budget, and that a cut of a full point would leave NIS at the absurdly low rate of ½ per cent, the Chancellor thought that the only realistic options this year were a ½ point cut, or no change. The analysis in Mr Moore's minute of 27 January had suggested that the economic effects, and the benefit to manufacturing industry, of a cut in NIS would exceed those of a comparable reduction in CT. Some scepticism was expressed about the MP table annexed to Mr Moore's paper, but the Financial Secretary pointed out that cuts in CT would benefit only profitable companies, while cuts in NIS would help all, including those now hard pressed, and fighting import penetration. The Minister of State (C) thought it important to show once again that the Government were making progress towards the abolition of the NIS "tax on jobs".

11. It was decided that the Budget should include a ½ point cut in NIS. (Action: FP)

North Sea Fiscal Regime

12. The Minister of State (Revenue) described the three options set out in his paper of 28 January: all included the agreed measure of appraisal relief, and the difference in their costs arose from different methods of phasing out APRT. His own recommendation was for option (b), but he had envisaged that this would be combined with some CT relief. The Chancellor agreed that option (b) by itself would not be sufficient, and Mr Wicks pointed out that the Energy Secretary might press for the

(costly) phasing out of royalties on existing fields, but could perhaps instead be offered a doubling of the oil allowance on new fields - a concession which would be cost-free in the short term.

13. The Chief Secretary thought that there was little public sympathy for the oil companies. Concessions designed to encourage future development would be understood: concessions which merely improved current cash flow would not. Mr Crawley added that UKOA in fact appeared to be pressing more for incentives to future development than for assistance with current cash flow.

14. The Chancellor agreed that the proposition which he should put to the Energy Secretary on 2 February was option (b) plus the doubling of the oil allowance for future fields. He would not mention the possibility of a 2 per cent reduction in the CT rate.

J O KERR

Distribution:

Those present
Mr Littler
Mr Mountfield
Mr Evans
Mr French
Mr Harris
Mr Norgrove

CH/EX. REF. No. B(83)2
COPY No 35 OF 35 COPIES

1. Mott
2. JR.
3. FER again JG

RECORD OF THE FIRST BUDGET OVERVIEW MEETING AT 11.AM ON 25 JANUARY

Present:

All Ministers	Mr Middleton	Mr Cassell
Sir Anthony Rawlinson	Mr Bailey	Mr Evans
Sir Douglas Lovelock	Mr Kemp	Mr Kerr
Sir Lawrence Airey	Mr Moore	Mr Hall
Mr Burns	Mr Howard (C&E)	Mr Norgrove
Mr Littler	Mr Ridley	

Papers:

i. The Forecast (Mr Evans' minute of 21 January)

ii. The 1983-84 PSBR, and Fiscal Options (Mr Kemp's minute of 21 January)

iii. Packages (Sir D Wass's minute of 24 January)

iv. Draft Cabinet Paper (Mr Kerr's minute of 24 January).

Item 1: The Forecast

Introducing the January forecast, Mr Burns drew attention to the prospect of significant growth in both demand and output, with the latter forecast to revive at a rate faster than the average of the 1970s. Real interest rates were however expected to remain high. It was noted that the prospect for the balance of payments was rather better than in the Autumn Statement: surpluses of £1 billion in 1983 and £2 billion in 1984 were now foreseen. The long term inflation forecast caused concern, and would be further discussed in the light of further advice. /Action: Mr Burns/

1983-84 PSBR

2. The Chancellor said that the forecast suggested that a PSBR of £8 billion (2¾ per cent of GDP) would permit a fiscal adjustment of £2 billion. But this, on top of the measures announced in the Autumn Statement, might strike the markets as excessive. Mr Burns agreed that any move away from £8 billion should be downward. Mr Middleton thought that there was in fact a good case for a PSBR of £7.5 billion,

argued that full revalorisation across the board would be right. The Chancellor agreed, though warning that pressure for a concession could build up. It was agreed that the possibility of a concession of some £150 million (£2 billion module)/£100 million (£1.5 billion module) should in future be shown under the "fiscal risks" category, rather than as a desirable fiscal option. It was noted that a separate and smaller meeting on the specific duties was being arranged for 28 January.

7. On assistance to industry, it was suggested that no reduction in NIS could be accommodated within the £1.5 billion module. The Chief Secretary and the Minister of State (C) however expressed a preference for reducing NIS rather than corporation tax. The Minister of State (R), Financial Secretary and Economic Secretary expressed the opposite view. The Chancellor asked for the preparation of a separate submission comparing the relative merits of NIS and CT reductions. /Action: Mr Moore/MST(R)/.

8. On assistance to persons the Chancellor agreed that it would be sensible at this stage to envisage that the largest single component in both modules should be a substantial rise, over Rooker-Wise, in income tax thresholds. One might plan on 8 percentage points in the £2 billion module, and 6 points in the £1.5 billion module. Whether child benefit should be increased pro tanto should be further considered: the increase in the 1982 Budget had been in line with other benefits, not prices. A full submission was required. /Action: Mr Monger/Mr Moore/.

9. On North Sea Oil taxation, the Chancellor asked for a very early submission, with a view to his opening discussions with the Secretary of State for Energy before the Cabinet on 3 February. /Action: Mr Middleton/MST(R)/.

Packages

10. The meeting reviewed the work described in Sir Douglas Wass's minute of 24 January, and agreed on the allocation of responsibilities

Fiscal risks

16. The meeting then considered note (c) attached to Sir D Wass's minute of 24 January.

17. It was agreed that the Treasury at all levels should resist the idea of new subsidies to bring coal prices down. Pressure for early action on industrial rates ought to be easy to resist, on purely practical grounds. It should also be possible to resist the suggestion that the car tax should be reduced or abolished, since the case for such action was extremely weak. (A submission from FP was promised.) The case for abolition of the investment income surcharge was rather stronger: a note on it, and on the case for further changes in stamp duty, was also promised. /And the Chancellor asked for the preparation of a note to inform Cabinet colleagues about the introduction of MIRAS. Action: FP/.

Budget Speech

18. It was noted that the Central Unit would circulate a first provisional outline of the Budget Speech, incorporating some initial suggestions from the Chancellor. Ministers were invited to suggest alternative themes and frameworks. /Action: Mr Kemp/.

JOK

J O KERR

26 January 1983

Distribution:

Those present
Sir Douglas Wass
Mr Lovell
Mr Monger
Mr Mountfield
Mr Robson
Mr Griffiths
Mr French
Mr Harris

1c

C/EX REF NO B83I1

COPY NO 33 OF 35 COPIES

RECORD OF THE FIFTH BUDGET OVERVIEW MEETING AT 11 AM ON 22 FEBRUARY

Present:

Chancellor	Mr Burns	Mr Kemp
Chief Secretary	Sir Lawrence Airey (IR)	Mr Cassell
Financial Secretary	Mr Fraser (C&E)	Mr Ridley
Economic Secretary	Mr Littler	Mr Hall
Minister of State (C)	Professor Walters (No 10)	Mr Evans: Item 1 only
Minister of State (R)	Mr Bailey	Mr Green: (IR) Items 3&4
Sir Douglas Wass	Mr Middleton	Mr Kerr only
Sir Anthony Rawlinson	Mr Moore	

Papers:

i. Post-Budget Forecast and Draft IAF (Mr Evans' minute of 21 February)

ii. Petrol, Derv and VED (Minutes of 18 February from Mr Moore and Mr Freedman, and of 21 February from Mr Bone)

iii. Corporation Tax (Mr Battishill's minute of 17 February)

iv. Progress Report (Mr Kemp's minute of 21 February)

v. Budget Speech (Mr Norgrove's minute of 18 February)

ITEM 1: Post-Budget Forecast

It was noted that the provisional post-Budget forecast appeared to imply that the fiscal adjustment in 1983-84 might be some £0.5/1 billion lower than in the January forecast. But it was still subject to a number of uncertainties, for example the oil price assumption, and further work was in hand. The forecast for inflation was rather better than before. The 1982-83 outturn PSBR might now be only some £7.5 billion, though further work too was in hand on it.

2. The Chancellor noted that further discussion of the post-Budget forecast would be required. But Mr Evans' submission illustrated the need to keep close to the lower end of the cost-bracket for Budget B in the annex to Mr Kemp's minute. A separate meeting on the draft industry act forecast (and the MFTS) had been arranged for 24 February.

/ITEM 2: Petrol

ITEM 2: Petrol and Derv

3. It was agreed that increases of 4p and 3p in the excise duties on petrol and derv should be the preferred option. The alternative option of increases of 4½p and 3½p should however be kept alive, pending discussions with the Secretaries of State for Transport, Energy, Scotland, and Wales, and with the Chief Whip and the Prime Minister.

ITEM 3: Corporation Tax

4. It was agreed that, in the light of the provisional post-Budget forecast, corporation tax options involving a reduction in the main rate from 52 per cent to 50 per cent should now be dropped. Cutting the small companies rate from 40 per cent to 38 per cent was regarded as a higher priority, and it was agreed that option 6b in Mr Battishill's minute should be included in the Budget. The lower profit limit would remain at £0.1 million, but the upper limit would rise to £0.5 million. The new marginal rate would be 55½ per cent, and the cost some £40 million in 1983-84, and £70 million in 1984185.

ITEM 4: Progress Report

Budget Balance

5. It was suggested that some might see the proposed NIS reduction as the marginal item, and the proposed 8½ per cent increase (above Rooker Wise) in income tax thresholds as the essential element, if the fiscal adjustment were squeezed. Others, including the Chief Secretary, however suggested that the increase in thresholds and the NIS cut should be regarded as central to the Budget. Given the forecast, it was agreed that it would be important not to exceed "Package B" on oil taxation, now under discussion with the Secretary of State for Energy: the Minister of State (R) would indicate to the Energy Secretary on 23 February that the Chancellor could not go beyond the position described in his letter of 21 February. The ACT and DTR

/options should

options should remain under consideration, though both might suffer in the event of a serious squeeze. It was noted that the risk of pressure for assistance for petrochemicals, or on energy prices, appeared to have receded. Discussions on the mortgage interest relief ceiling were proceeding: a concession must be strongly resisted. And on employment measures, it appeared that the sum now at risk was /now/ only of the order of £25 million, since the Employment Secretary was not pressing for the temporary short time working scheme. (No provision need be made in the Budget arithmetic for tax reliefs on NIC for the self-employed.) The Chancellor would talk to the Employment Secretary (on 23 February)

Public Expenditure

6. Apart from the separate question of the adjustment of the social security uprating, it was noted that the public expenditure position was reasonably satisfactory, given the reduction from £120 million to £25 million in the amount at risk on employment measures.

Packages

7. The Chancellor thought the technology and innovation package - as described in the note of 18 February - satisfactory, though it must of course remain subject to review in the event of a squeeze. In the construction package, as described in the note of 21 February, only items 4 and 7 were contentious. Urgent advice from the Inland Revenue was required on item 7 (stock relief: householder's part exchange); while the Chief Secretary should consult Lord Cockfield about item 4 (extension of hotel allowance to self-catering). Final decisions on the caring package should await other decisions on social security matters, and a meeting with the Secretary of State for Social Services (subsequently arranged for 28 February). It was noted that the most costly item - the extension of widow's bereavement allowance - was also probably the most attractive: the Chancellor thought that it should if possible be retained. In the miscellaneous package, the Chancellor asked

Chancellor asked for early submissions on items 10 and 12 to 17 in the list of 21 February. It was noted that item 11 could now be dropped.

8. The Central Unit were asked to provide revised and condensed tables, covering the overall Budget and the packages, for further discussion, perhaps before the next overview meeting.

BUDGET SPEECH

9. The Chancellor commended the draft Budget speech circulated by Mr Norgrove on 18 February. Drafting suggestions should be submitted to the Central Unit by close of play on 23 February, bearing in mind the desirability of shortening, rather than lengthening, the present text.

JOK.

J O KERR
22 February 1983

Distribution:

Those present

Mr Freedman - Customs and Excise
Mr Howard - Customs and Excise
Mr Isaac - Inland Revenue
Mr Battishill - Inland Revenue
Mr Mountfield
Mr Robson
Mr Griffiths
Mr French
Mr Harris
Mr Norgrove

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RECORD OF THE SIXTH BUDGET OVERVIEW MEETING AT 4PM ON 2 MARCH

Present:

Chancellor	Mr Burns	Mr Cassell	
Chief Secretary	Sir Lawrence Airey (IR)	Mr Ridley	
Financial Secretary	Mr Fraser (C&E)	Mr Kerr	
Economic Secretary	Professor Walters (No 10)	Mr Hall	
Minister of State (C)	Mr Bailey	Mr Green (IR))	
Minister of State (R)	Mr Middleton	Mr Monger)	Item 2
Sir Douglas Wass	Mr Moore	Mr Mountfield)	only
Sir Anthony Rawlinson	Mr Kemp	Mr Pestell)	

Papers:

i. PSBR Forecast (Mr Burns' minute of 2 March)

ii. Progress Report (Mr Kemp's minute of 1 March)

ITEM 1: PSBR Forecast

Mr Burns recommended that, in the absence of further changes in oil prices, the PSBR for 1983-84 should be shown as 2¾ per cent of GDP (£8.2 billion),which would be consistent with Budget measures along the lines of those in Annex A to Mr Kemp's minute. For 1984-85, a PSBR of £8 billion, with a fiscal adjustment of £0.5 billion, could be shown. The latest estimate for the 1982-83 outturn was between £7.5 and £8 billion: to show £8 billion for each of the 3 years would produce a GDP percentage path of 3 per cent, 2¾ per cent, and 2½ per cent.

2. It was suggested that the 1983-84 PSBR could be raised to £8.5 billion (or £8.7 billion, rounded to £9 billion). It was however noted that a 1984-85 figure of £8 billion would be unattainable if additional Budget measures, whose impact would carry forward, were allowed for 1983-84. It was also noted that a 1983-84 PSBR of £8 billion had been suggested in the Autumn Forecast, and that developments on the exchange rate and the oil price since the autumn could point to greater caution. The 1982 MTFS had suggested a 1984-85 PSBR of 2 per cent of GDP: to go up to 2½ per cent of GDP for that year might be seen as

a significant relaxation, even if the 1983-84 PSBR remained at 2¾ per cent of GDP, as indicated in the 1982 MTFS. To compound this by going above 2¾ per cent in 1983-84 would give the wrong signal.

3. It was agreed that, in the absence of any further dramatic oil price fall before Budget Day, the MTFS would show PSBR figures of £8 billion for the 3 years 1982-83 to 1984-85. A further meeting would be held - on 4 March - to consider what action would be appropriate in the event of a major fall in the oil price before 15 March, and how the risk of such a fall after 15 March should be handled in the Budget Speech.

ITEM 2: Progress Report

Specific Duties

4. It was noted that decisions had been taken on all the specific duties. Those on petrol and derv might however be at risk in the event of an early and major oil price fall: they could be reopened without undue difficulty up to 7 March, though changes thereafter would create difficulty.

Oil Taxation

5. It was agreed that the Secretary of State for Energy should be offered the additional concessions noted in paragraphs 6 and 8(c) of the Minister of State (R)'s minute of 28 February, but not that in its paragraph 5. The Revenue cost of the total oil package would then be £120 million in 1983-84 and £100 million in 1984-85, the PSBR costs some £105 and £85 million. The Chancellor would write immediately to the Energy Secretary: if a further meeting with him proved necessary, it would take place on 3 March.

Budget Core

6. It was agreed that the NIS ½ point reduction from August, the Rooker-Wise plus 8½ per cent increase in income tax allowances, and

the additional rounding of the married man's allowance, and package 6(b) on corporation tax should remain the core of the Budget.

Child Benefit

7. The Chief Secretary proposed that the increase in child benefit should be to £6.50 a week. The extra costs above those already allowed for would be £20 million in 1983-84 and £50 million in 1984-85. To cover the 1983-84 costs he proposed to drop the proposed extension of the home improvement scheme to inter-war houses, and to deduct £5 million from the innovation package. How to handle the additional costs in 1984-85 would need further study.

8. The Chancellor agreed. Child benefit should be raised to £6.50. The handling of the 1984-85 extra costs would be discussed at a separate meeting on 3 March, which would also consider the public expenditure implications of the decisions taken at the Prime Minister's meeting on unemployment measures on 2 March.

Capital Transfer Tax

9. It was agreed that no major CTT relaxation, on top of indexation, could be afforded, but that it would be in order to round up the indexed scale at a cost not exceeding £5 million in 1983-84. [The Chancellor subsequently agreed to the rounded scale proposed in Mr Beighton's minute of 3 March.] Three minor CTT reliefs were also agreed, viz a 2 year increase in the period for payment by instalments (1983-84 cost £2.5 million), the removal of the £0.25 million limit on gifts to charities (1983-84 cost negligible), and the removal of the special deemed domicile rule for the offshore islands (1983-84 cost £0.5 million). [The Chancellor subsequently agreed to the inclusion of the two further reliefs - the extension of the business relief for minority holdings in unquoted companies, and of the agricultural relief for let land, from 20 per cent to 30 per cent, mentioned in Mr Beighton's minute of 3 March (1983-84 cost £0.5 million)].

<u>Tourism Package</u>

10. The meeting discussed the Chief Secretary's minute of 24 February, and subsequent comments from the Financial and Economic Secretaries. It was <u>agreed</u> to drop both the proposed increase in the hotel allowance and its extension to self-catering.

<u>Caring Package</u>

11. It was <u>agreed</u> that the proposed increase in the mobility allowance should be dropped. The proposed extension of the widows' bereavement allowance, and the possible removal of the invalidity trap, would be discussed further on 3 March, when the public expenditure implications of the child benefit and unemployment measures decisions were clear.

<u>Taxation of International Business/Advance Corporation Tax</u>

12. The Minister of State (R) proposed legislation in 1983, for implementation from 1984, on tax havens and the reversal of the ACT/DTR set-off. As explained in his minute of 2 March, the package would be Revenue-neutral throughout.

13. It was suggested that, if implementation were to be deferred, legislation this year on tax havens might court unpopularity to no good purpose. The <u>Minister of State</u>, and <u>Professor Walters</u>, disagreed: the Minister of State thought that every reasonable objection to the tax haven proposals had now been met, and Professor Walters thought that the package, including the reversal of ACT/DTR set-off, was well worth while, and would be well received.

14. It was <u>agreed</u> that the package, as proposed in paragraph 5 of the Minister of State's minute, should be included in the Budget.

15. On the separate issue of the extension to six years of ACT carry back, a decision was deferred. It would be taken in the light of

the decision reached on the mortgage interest relief ceiling.

J O KERR

Distribution:

Those present
Mr Littler
Mr Battishill - Inland Revenue
Mr Crawley - Inland Revenue
Mr Evans
Mr Robson
Mr French
Mr Harris
Mr Norgrove