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Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG  
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R 12/5

11 May 1981

T Lankester Esq  
No. 10 Downing Street

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Dear Tim,

MONTHLY NOTE TO THE PRIME MINISTER ON THE BORROWING REQUIREMENT

... I am enclosing this month's note for the Prime Minister. The main points are summarised on the first page.

The borrowing requirement in April was large - £2,410 million - mainly because of the effect of the strike. Most commentators are expecting a figure of about that size, since we announced in a recent written answer that the strike had added £1½ to 1½ billion to the borrowing requirement. We also briefed the press when the provisional money supply figures were published last Wednesday.

The note gives "underlying" forecasts and also estimates of the possible effects on the CGBR if the strikes continue. The key numbers are in the summary.

The Civil Service dispute, through its effect on the CGBR and its effects on other aspects of the money supply, especially bank lending, will continue to dominate the monetary prospect. If we continue to do as well as we have up to now in getting revenue in, and the dispute continues until the end of next month, £M3 could be cumulatively over 4% higher than forecast as a result of the dispute. Because these are in any case heavy months for the CGBR we shall have some difficult presentational problems - especially next month. The effort we mounted to get over the April figures shows that these can be overcome. But the Chancellor will be letting the Prime Minister have a full appraisal of the effects of the strike on monetary and economic management early this week.

Yours ever,  
Richard Tomlin

, for,

A.J. Wiggins

MONTHLY NOTE ON THE BORROWING REQUIREMENT

May 1981

Summary

- the provisional estimate of the CGBR in April is £ 2,412 million, including effects of the civil service strike.
  
- probably £1 $\frac{1}{4}$ -1 $\frac{1}{2}$  billion reflects the delays in tax and national insurance collections. That aside, the CGBR would have been much the same as a year ago; and less than forecast a month ago because lending to local authorities and public corporations was much less than expected.
  
- the latest forecast puts the CGBR in the four months April-July at £5 $\frac{1}{2}$ -5 $\frac{3}{4}$  billion excluding all strike effects. This is consistent with the Budget forecasts.
  
- adding the April strike effect raises this to about £7 billion and more than £1 billion needs adding for each future month of delay through the strike.

The CGBR in April

1. The provisional estimate of the CGBR in April is £2,412 million. This will be published in the regular press notice on Tuesday 12 May.
2. The civil service pay dispute is estimated to have delayed some £1¼ to £1½ billion of tax and national insurance receipts in the month. That aside, the outturn was better than the strike-free forecast of £1,530 million made a month ago. Lower lending to local authorities and public corporations accounts for most of this. The detail is as follows:-

|  | <u>Effect on</u><br><u>the CGBR</u> | (- means<br>adverse) |
|--|-------------------------------------|----------------------|
|  | <u>£ million</u>                    |                      |
| <u>Strike Effect</u>                             |                                     |                      |
| Inland Revenue taxes (mainly PAYE)               | -700 (approx)                       |                      |
| National insurance contributions                 | )                                   |                      |
| (included in "other funds and accounts")         | )                                   |                      |
| (in table 1 )                                    | ) -400 (approx)                     |                      |
| National insurance surcharge                     | )                                   |                      |
| (included in "other consolidated fund receipts") | )                                   |                      |
| Customs and Excise (mainly VAT)                  | -100 to -300                        |                      |
|  | <hr/>                               |                      |
|  | -1,200 to -1,400                    |                      |
| <u>Other factors</u>                             |                                     |                      |
| Other Customs and Excise                         | -80 to +120                         |                      |
| Lower net lending to local authorities           | +170                                |                      |
| public corporations                              | +340                                |                      |
| Other  | -110                                |                      |
|  | <hr/>                               |                      |
| Net effect on CGBR                               | -880                                |                      |
|  | <hr/>                               |                      |

3. Civil service pay dispute: As far as the CGBR is concerned, the main impacts of the dispute continue to be the loss of revenue due to the strike of Customs and Excise staff at the VAT centre at Southend, which started on 9 March, and the strike of Inland Revenue staff at the PAYE centres at Shipley and Cumbernauld which started on 16 March. In the case of VAT, the effect of the strike is reduced by the inability to make refunds of VAT to traders. Strikes at various departmental computer centres, including the Paymaster General's Office, are so far having little effect on the level of payments but continue to create accounting problems.

4. Whilst it is not possible to give a precise estimate of the effect of the dispute on Government income, actual receipts into the Exchequer accounts can be compared with a forecast of what might have happened if there had been no strike. The difference reflects forecasting errors as well as the effects of the dispute and these will become more important over time because of the lack of facts.
5. The best estimate is that between £1¼ and £1½ billion of tax and national insurance receipts due in April have been delayed, bringing the cumulative backlog of revenue since the strike started to £2 to £2½ billion. These estimates were given in answer to a written Parliamentary Question on 30 April.
6. Overall, since the strike started, probably 80 per cent of the revenue due has been paid into the Exchequer accounts. In April the proportion was probably slightly less.
7. Table 1, attached, presents a detailed comparison of the forecast for April and the outturn.
8. Inland Revenue Taxes: Virtually all the difference of £700 million between the forecast and outturn is attributed to PAYE receipts delayed by the strike. This forms part of the total effect in the month of the strike at Inland Revenue of some £1,100 million; the remainder is attributed to lower national insurance revenue. However, the strike has made it impossible to distinguish between tax and national insurance receipts and so the split is somewhat arbitrary.
9. In April, Inland Revenue were successful in banking just under three quarters of the revenue believed to be due. Of the 25 per cent of revenue outstanding at the end of April, something around a fifth (or 5 per cent of revenue) was in hand as unbanked cheques in tax offices and the rest money not yet received.
10. Customs and Excise: Receipts in April were £180 million below the forecast. The estimate of the effect of the strike on net receipts of VAT is more uncertain and is put in the range £100 to £300 million. The signs are that the other major taxes were much as forecast.
11. Net Lending to local authorities and public corporations in April was well below forecast but this may have been accompanied by higher borrowing from the market.

12. Supply Services and Contingencies Fund: Because of the strike at the Paymaster General's Office, no breakdown is available of net Supply issued in April.

Forecast for the next three months

13. Forecasts for May, June and July can only be speculative. How long the dispute continues, the rate of future losses, and the rate of recovery when the dispute is settled are additional unknowns.

14. Table 3 gives forecasts which, as in last month's note, exclude all effects of the strike. This provides a base against which the effects of the strike can be measured. This forecast is subject to an even wider margin of error than usual; certain information normally used in the preparation of the three month forward look has not been available since the strike started.

15. Table 2 shows that the latest forecast to the end of July would bring the cumulative CGBR, excluding the effects of the strike, to between £5.6 and £5.8 billion, slightly above the £5.4 billion for the same period last year but consistent with a preliminary look at the monthly profile of the Budget forecast. "Front-end loading" this year is influenced by Supplementary Petroleum Duty and the Special tax on banking deposits which are to bring in £2 $\frac{1}{4}$  billion in 1981-82 but not before September since collection must await the Finance Act.

16. Further effects of the strike: If there is no significant escalation in the dispute and revenue losses continue at about the same rate, the present backlog of £2 to £2 $\frac{1}{2}$  billion of delayed revenue will grow to £3 $\frac{1}{4}$  to £3 $\frac{3}{4}$  billion by the end of May and £4 $\frac{1}{2}$  to £5 billion by the end of June and so on. Apart from the eventual recovery of them, the CGBR will also benefit from the revenue delayed from March, put at £ $\frac{3}{4}$ -1 billion.

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TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT - APRIL

£ million

|   | <u>Forecast</u><br>(excluding<br>strike effects) | <u>Outturn</u><br>(including<br>strike effects) | <u>Difference on CGBR</u> |
|---|--|---|---------------------------|
| <u>RECEIPTS</u>                           |  |   |                           |
| <u>Consolidated Fund</u>                  |  |   |                           |
| Inland Revenue                            | 2,600  | 1,987   | -703                      |
| Customs and Excise                        | 2,240  | 2,060   | -180                      |
| Other                                     | 480  | 175   | -305                      |
| <u>National Loans Fund</u>                |  |   |                           |
| Interest etc receipts                     | 270  | 356   | + 86                      |
| <b>Total receipts</b>                     | <b>5,590</b>                                     | <b>4,488</b>                                    | <b>-1,102</b>             |
| <u>EXPENDITURE</u>                        |  |   |                           |
| <u>Consolidated Fund</u>                  |  |   |                           |
| Supply services and Contingencies<br>Fund | 5,800  | 5,690   | +110                      |
| Other                                     | 300  | 307   | - 7                       |
| <u>National Loans Fund</u>                |  |   |                           |
| Service of the national debt              | 380  | 408   | -- 28                     |
| Net lending                               | 490  | - 17  | +507                      |
| <b>Total expenditure</b>                  | <b>6,970</b>                                     | <b>6,388</b>                                    | <b>+582</b>               |
| Other funds and accounts                  | -150   | -512  | -362                      |
| <b>CGBR</b>                               | <b>-1,530</b>                                    | <b>-2,412</b>                                   | <b>-882</b>               |
| of which: estimated strike effect         | -  | -1,200 to - 1,400                               | -1,200 to -1,400          |
| excluding strike effect<br>(say)          | -1,530   | -1,000 to - 1,200                               | +350 to + 550             |

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TABLE 2

CENTRAL GOVERNMENT BORROWING REQUIREMENT

|           | 1980-81  |            | 1981-82  |            |   |
|-----------|----------|------------|--|------------|---|
|           | In Month | Cumulative | Outturn/Forecast excluding estimated strike effect |            | Outturn/Forecast if strike continues at same rate |
|           |          |            | In Month   | Cumulative |   |
| April     | 0.9      | 0.9        | 1.0-1.2  | 2.4        | 2.4   |
| May       | 2.4      | 3.3        | (2.3)  | (3.5-3.7)  | (5.9-6.1)   |
| June      | 1.3      | 4.6        | (1.5)  | (2.7-2.9)  | (8.6-9.0)   |
| July      | 0.8      | 5.4        | (0.8)  | (2.0-2.2)  | (10.6-11.2)                                       |
| August    | 1.6      | 7.0        |  |            |   |
| September | 0.8      | 7.9        |  |            |   |
| October   | 0.2      | 8.0        |  |            |   |
| November  | 2.8      | 10.9       |  |            |   |
| December  | 2.2      | 13.1       |  |            |   |
| January   | -1.8     | 11.3       |  |            |   |
| February  | 0.7      | 12.0       |  |            |   |
| March     | 0.9      | 12.9       |  |            |   |

Notes: - Forecast for 1981-82 in Financial Statement and Budget Report is £11,497 million

- Some rows may not add across because of rounding.

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TABLE 3

CENTRAL GOVERNMENT BORROWING REQUIREMENT

|                              | Latest Forecast (excluding effect of strike) |        |       |
|------------------------------|--|--------|-------|
|                              | May  | June   | July  |
| <u>RECEIPTS</u>              |  |        |       |
| <u>Consolidated Fund</u>     |  |        |       |
| Inland Revenue               | 2,450  | 2,300  | 3,470 |
| Customs and Excise           | 1,780  | 1,840  | 2,600 |
| Other                        | 730  | 720    | 610   |
| <u>National Loans Fund</u>   |  |        |       |
| Interest, etc, receipts      | 210  | 380    | 210   |
| Total receipts               | 5,170  | 5,240  | 6,890 |
| <u>EXPENDITURE</u>           |  |        |       |
| <u>Consolidated Fund</u>     |  |        |       |
| Supply services              | 5,600  | 5,650  | 5,600 |
| Other                        | 270  | 270    | 300   |
| <u>National Loans Fund</u>   |  |        |       |
| Service of the national debt | 1,270  | 450    | 1,400 |
| Net Lending                  | 390  | 280    | 450   |
| Total expenditure            | 7,530  | 6,650  | 7,650 |
| Other Funds and Accounts     | +100   | -70    | +30   |
| CGBR excluding strike effect | -2,260                                       | -1,480 | -830  |