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Prime Minister
Econ Ed

Treasury Chambers, Parliament Street, SW1P 3AG
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8 June 1981

T.P. Lankester, Esq.,
Private Secretary,
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 May was large - £2,827 million - because of the effect of the strike. We have already stated implicitly in a recent written answer that the strike effect in May was about £1 billion so commentators should be prepared for a fairly high figure.

The note gives "underlying" forecasts which exclude effects of the strike. It has not been possible to include sensible estimates of the future effects of the strike with, as yet, many uncertainties over the level of extended industrial action. Slow-down of payments such as pensions and unemployment benefit would of course reduce the CGBR temporarily.

The provisional estimate of the growth of £M3 in banking May will be released tomorrow. It will show growth of 1½ per cent in the month, of which the Bank of England's Press Release will attribute "perhaps ¾ per cent to 1 per cent" to the Civil Service dispute. The implied underlying growth of £M3 - at ½ per cent to ¾ per cent - will therefore be similar to that of March and April and will mean that £M3 in "underlying" terms is remaining well within the current target range. Although this development is likely to be received quite favourably by domestic markets, there could be some residual concern about the high recorded figures themselves and the fact that the cumulative effect of the dispute is now put at over 2 per cent of £M3.

Consideration is now being given to problems of recovery after the strike comes to an end. We hope to report on this in the near future.

yours
John

A.J. WIGGINS

MONTHLY NOTE ON THE CENTRAL GOVERNMENT BORROWING REQUIREMENT

Outturn for May 1981 and Forecast to End-August 1981

Summary

~~The~~ ~~provisional~~ estimate of the CGBR in May is £2,827 million, including ~~the~~ effects of the civil service strike.

- just over £1 billion reflects delays in tax and national insurance collected. Otherwise, CGBR would have been £1 $\frac{1}{4}$ billion, £ $\frac{1}{2}$ billion better than forecast a month ago because there was hardly any lending to the rest of the public sector.
- for the five months to end-August the underlying CGBR excluding effects of the strike is forecast to be around £7 billion, the same as last year. The actual CGBR seems bound to be higher, even if the strike stops quickly.

CGBR IN MAY

1. The provisional estimate of the CGBR in May is £2,827 million and the cumulative total since 1 April is £5,244 million. The figures will be published in the regular press notice on Tuesday 9 June.
2. It is estimated that just over £1 billion of tax and national insurance receipts were delayed by the civil service pay dispute in May. Apart from this, the outturn in May would have been around £1 $\frac{3}{4}$ million, that is, £ $\frac{1}{2}$ billion better than forecast a month ago. Lower lending to local authorities and public corporations accounts for most of the difference.
3. Table 1, attached, presents a detailed comparison of the forecast and outturn for May. The presentation below explains the principal differences, distinguishing between effects of the strike and other factors.

Outturn: May

	<u>Effect on CGBR</u>	
	<u>£ million</u>	(- means adverse)
<u>Strike Effect</u>		
Inland Revenue taxes (Mainly PAYE)	-450	(approx)
National insurance contributions (included in "other funds and accounts" in table 1)))
National insurance surcharge (included in Consolidated Fund "other" receipts))	-650 (approx)
))
Customs & Excise taxes (net of blocked VAT refunds)	0 to +100	
	<hr/>	
	-1,000	to -1,100
<u>Other factors</u>		
Other Customs and Excise receipts	0 to -100	
Lower net lending to local authorities and public corporations	+210	
	+230	
Other (net)	+ 90	
	<hr/>	
	+430	to +530
	<hr/>	
Net effect on CGBR	-570	

Strike effects in May

4. The main impact of the dispute has continued to be on revenue delayed through the strikes at the Customs and Excise VAT centre and Inland Revenue PAYE centres, which began in March. In the case of VAT, the effect of the strike on revenue is reduced by the inability to make repayments of VAT due to traders. Strikes at various departmental computer centres, including the Paymaster General's Office, have so far been having little effect on the level of payments, but are creating accounting problems. However it is estimated that selective industrial action at the joint Ministry of Agriculture Intervention Board (IBAP) computer centre is now halting payments by MAFF/IBAP of about £17 million a week.
5. The effects of the dispute on Government revenue have been measured by comparing actual receipts into Exchequer accounts with what might have happened had there been no strike. The differences reflect forecasting errors as well as the effects of the dispute, so published estimates are presented as ranges. As time goes on, forecasting errors may grow and make estimates of the strike effects more and more approximate.
6. About £1 billion of Inland Revenue receipts were delayed by the strike in May. Slightly under three-quarters of the revenue thought to be due was banked. This is thought to be slightly higher than the underlying proportion because a backlog of cheques were processed in May which helped to keep receipts up. The proportion may be reducing slightly as small payers give up making remittances.
7. For Customs and Excise the strike may even have added to net receipts in May: most of the VAT receipts were due from large payers, whose payments are all being called in successfully by hand, and in addition, May benefitted from some payments delayed from March and April; meanwhile the regular VAT repayments were still not being made.

Strike effects to date

8. Our best estimate of the cumulative backlog of revenue since the strike began is £3 to 3½ billion, given in reply to a written Parliamentary Question on 4 June (Mr Marlow (C) - Northampton North). Over three quarters of the revenue believed due since the start of the strike has been paid in. The civil service unions' estimate of the backlog is rather higher at just under £5 billion, partly because they ignore VAT repayments, and partly because they have underestimated the amount of revenue getting through.

9. Other strike effects on the CGBR such as interest payable on additional borrowing (only £40 million so far) and, in the opposite direction, the small saving on wages not paid to striking civil servants, are not itemized in our analysis.

Other effects in May

10. Much of the usual detail continues to be lacking because of the strike.

11. Customs and Excise duties were lower than forecast mainly because of the effect of the Budget on tobacco sales.

12. Net lending to local authorities and public corporations in May was about £450 million below forecast. Local authorities may have been borrowing in the market at short-term rates, which have been very low. The evidence so far is that public corporations have not been borrowing from the UK market or overseas.

FORECAST FOR THE NEXT THREE MONTHS

13. Forecasts for June, July and August presented in Table 2 are largely formal, in line with the Budget forecast, and will serve mainly as a base against which to measure effects of the strike. The forecasts are subject to a wider margin of error than usual because the strike has halted some information upon which our estimates would normally be based.

14. Table 3 shows the outturn forecast month by month and cumulatively to the end of August, compared with last year's outturn. The underlying 'strike free' forecast to the end of August would bring the cumulative CGBR to between £6.8 and £7.1 billion, about the same as last year.

15. Escalation of the strike following the break-down of talks last week means that at present we are unable to make sensible forecasts of future strike effects. If payments of benefits and pensions are slowed down the effect will be to reduce the CGBR. On the revenue side, if the level of industrial action remains much the same at Inland Revenue and Customs and Excise we would expect about £1 $\frac{1}{2}$ -1 $\frac{1}{2}$ billion of receipts to be delayed each month. This includes a larger proportion than up to now of delayed VAT payments because computerised returns calling in payments from June onwards have been halted by the strike (as many as possible are being dealt with by hand). However, by the end of August, whether the strike escalates or comes to an end quickly, the CGBR is almost certain to be larger than the strike free forecast.

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TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT - MAY

£ million

	<u>Forecast</u> (excluding strike effects)	<u>Outturn</u> (including strike effects)	<u>Difference</u> on CGBR
<u>RECEIPTS</u>			
<u>Consolidated Fund</u>			
Inland Revenue	2,450	2,010	-440
Customs and Excise	1,780	1,782	+ 2
Other	730	273	-457
<u>National Loans Fund</u>			
Interest etc receipts	210	190	- 20
Total receipts	5,170	4,255	-915
<u>EXPENDITURE</u>			
<u>Consolidated Fund</u>			
Supply services and Contingencies Fund	5,600	5,620	- 20
Other	270	275	- 5
<u>National Loans Fund</u>			
Service of the national debt	1,270	1,308	- 38
Net lending	390	29	+361
Total expenditure	7,530	7,232	+298
Other funds and accounts	+100	+150	+ 50
CGBR	-2,260	-2,827	-567
of which: estimated strike effect	-	-1,000 to -1,100	-1,000 to -1,100
excluding strike effect (say)	-2,260	-1,800 to -1,900	+ 450 to + 550

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TABLE 2

CENTRAL GOVERNMENT BORROWING REQUIREMENT

	Latest Forecast (excluding effect of strike)		
	June	July	August
<u>RECEIPTS</u>			
<u>Consolidated Fund</u>			
Inland Revenue	2,300	3,470	2,340
Customs and Excise	1,840	2,600	1,880
Other	820	700	570
<u>National Loans Fund</u>			
Interest, etc, receipts	270	210	310
Total receipts	5,230	6,980	5,100
<u>EXPENDITURE</u>			
<u>Consolidated Fund</u>			
Supply services	5,600	5,700	5,900
Other	270	300	270
<u>National Loans Fund</u>			
Service of the national debt	450	1,400	760
Net Lending	230	570	380
Total expenditure	6,550	7,970	7,310
Other Funds and Accounts	-	+150	+400
CGBR excluding strike effect	-1,320	-840	-1,810

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TABLE 3

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ billion

	1980-81		1981-82	
	Outturn/Forecast excluding estimated strike effect		Outturn including strike effect	
	In Month	Cumulative	In Month	Cumulative
April	0.9	0.9	1.0-1.2	1.0-1.2
May	2.4	3.3	1.8-1.9	2.8-3.1
June	1.3	4.6	(1.3)	(4.1-4.4)
July	0.8	5.4	(0.8)	(5.0-5.3)
August	1.6	7.0	(1.8)	(6.8-7.1)
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		
			2.4	2.4
			2.8	5.2

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

- Some rows may not add across because of rounding.