

cc: Pd 2.

PRIME MINISTER

c.c. Mr. Wolfson
Mr. Walters
Mr. Duguid

These papers suggest that we are likely to lose £150 m of receipts due to Civil Service industrial action in the March banking month, and £800 m by the end of the calendar month.

The banking figures for March are therefore likely to be little affected - particularly since the CGBR is in any case some £½ b lower for the month than was forecast only a month ago. However, I understand that bank lending to the private sector has been running at quite a high level - partly because of round tripping due to high short-term interest rates in the money markets; consequently, we cannot be certain that the banking figures for March will be good.

The estimated loss of £800 m by the end of calendar March, and presumably continuing losses in April, will put the April banking figures at risk. They will of course also mean that the PSBR for the financial year 1980/81 will be higher than would otherwise be the case. However, this has a brighter side: the delayed payment will make it easier to meet the £10½ b forecast for 1981/82.

Finally, the letter refers to large-scale assistance provided by the Bank to ease the clearers' liquidity (pressure arose because of the strong debt sales immediately after the Budget): the Governor mentioned this to you at the Mansion House.

T. P. LANKESTER

20 March, 1981.



Treasury Chambers, Parliament Street, SW1P 3AG
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20th March 1981

T.P. Lankester, Esq.,
Private Secretary,
No.10, Downing Street

Dear Tim,

.....
I enclose the report requested about the effects of the Civil Service industrial action on the central government borrowing requirement.

You will see that the sums at risk are significant and that, if the efforts of the Revenue Departments to maintain the flow of receipts are only partly successful, the effect on the 1980-81 central government borrowing requirement will be to increase it by a large sum.

Inevitably, a substantial proportion, though a good deal less than all of the loss of receipts, will be reflected in the monetary statistics. It is, however, necessary to put these developments in the context of the general monetary picture. In the absence of any disruptive action, we would have expected the rather moderate growth of £M3 seen in the last three months to have continued.

Banking March, which ended on Wednesday, 18 March may show a seasonally adjusted deficit for the CGBR of around £900 million, some £½ billion better than we had expected a month ago. This is despite a loss of receipts of around £150 million from industrial action. In addition to a good performance of the CGBR, gilt sales and National Savings inflows have been very strong. These indicate the possibility of a low growth rate for £M3 in the month, although there is some threat to this from bank lending, which could have been inflated by round-tripping, produced by high short term interest rates in the money markets.

In the absence of industrial action, we would have expected the April CGBR, seasonally adjusted, to have been small. At the same time substantial gilt sales (including the

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indexed gilt) have already been arranged and National Savings should continue to provide strong inflows. In addition the slower growth of bank lending seen in recent months would be expected to continue.

As you may be aware, the combination in March of a good CGBR and strong debt sales produced conditions of exceptional tightness in the money markets. In response to this the reserve asset ratio was put down again to 8 per cent and the Bank had to provide a large amount of assistance, mainly through purchases of bills. Underlying conditions are likely to remain tight for most of April, making it difficult to unwind the assistance before the end of the month. It is an ironic side effect of the industrial action that the more successful it is, the more it would contribute to normalising money market conditions.

Nevertheless, the action could produce a temporary resurgence in the recorded money supply and it will make it more difficult to interpret precisely what is happening in the monetary field, as we will never be entirely sure just how much revenue is being delayed. We have gone to considerable lengths to stress the dangers in assessing the underlying growth of the money supply in relation to movements in $\text{\pounds}M3$ over relatively short periods. We will keep the situation under very close review and we shall need to take great care in presenting the effects of this industrial action on the monetary position. But at present there is no reason to expect that the monetary effects will be such as to cause difficulties in a policy sense or to disrupt markets.

Yours

John

A.J. WIGGINS

EFFECT OF THE CIVIL SERVICE INDUSTRIAL ACTION ON THE CENTRAL
GOVERNMENT BORROWING REQUIREMENT

1. In those Departments where there was a high response to the one day strike call on 9 March, processing of receipts and payments was delayed. However, apart from the collection offices of the Inland Revenue and Customs and Excise which have been selected for longer term action, the arrears have now been processed and there are no lasting effects.
2. Inland Revenue. After 9 March, there was no significant effect on collection of Inland Revenue until Friday 13 March. From that date, however, selective strike action has been taken at the collection offices at Shipley and Cumbernauld, the main centres for the processing of PAYE receipts and the associated national insurance contributions and surcharge receipts. In terms of receipts into the Exchequer, there was no effect until Tuesday of this week, when receipts were about £20 million less than we would normally have expected.
3. PAYE etc deducted by employers in February is due to be paid to the Inland Revenue today, 19 March. We were expecting the two centres to have processed about £1 billion of receipts in the period 18-31 March inclusive. However, some months ago, contingency plans were made under which large payers were invited to remit PAYE etc via Inland Revenue, Bush House. These arrangements seem to be working despite the pressure of pickets at Bush House. The staff associations have sought the cooperation of the banking staff associations in preventing these arrangements from working. The arrangements involve using an alternative method of payment but of a sort which already exists. They are therefore unlikely to be seen as provocative. So although the situation is delicate, the Bank of England are hopeful that the Bush House receipts will continue to be processed. And there are no signs of interruption from the clearing banks. Revenue is coming in today from the contingency arrangements but it is too early to form a clear judgement about how much we shall get.
4. Customs and Excise. Strike action commenced at the VAT Centre at Southend on 9 March. We would normally expect to receive £400 million from here in the period 18-31 March, in Consolidated

Fund terms. From Thursday 12 March, daily receipts have been up to £30 million less than expected. Shortfalls in receipts are being offset by reducing weekly VAT repayments. And receipts are also being kept up by contingency plans made by Customs and Excise on similar lines to those of Inland Revenue.

5. Total Effects in 1980-81. Up to and including yesterday, total receipts appear to be about £150 million short of the figures expected. In the rest of March receipts through the three centres affected by the selective action would have amounted to about £1,400 million. We really cannot make any firm assessment of the effectiveness of the contingency plans at this stage. With luck about half the expected receipts might be obtained. This would leave a cumulative shortfall of £800 million by the end of the month and the central government borrowing requirement for 1980-81 would be higher by that sum. We should have better information and will report again, by the middle of next week when we can assess the effectiveness of the arrangements for getting in Inland Revenue receipts.

6. 1981-82. If the action continues into April, the VAT effects may be considerably more severe. Total VAT receipts in the first month of a quarter are normally about twice the total receipts in either the second or third month. April PAYE and related receipts are usually of the same order as March receipts, with similar peaking after the 19th of the month.

7. Once the dispute is settled, any shortfall as at 31 March will be recovered in 1981-82, reducing the CGBR for that year. The delay will, however, result in a minimally higher total for the two years taken together; because interest will have to be paid for the relevant period on any extra borrowings.

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