

Covering Confidential

Ami Minists 2

cc Letters



Note that the forecast for April-June shows v. heavy 'front-end loading'

Treasury Chambers, Parliament Street, SW1P 3AG (para 16). If the civil service dispute continues, it will be even worse.

9 April 1981
9/4

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

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 CGBR for March and for 1980-81 as a whole will be published at 2.30 this afternoon. The main interest will be what the Press Notice reveals about the effect of the Civil Service pay dispute. Last month, we published the outturn up to end of February on the same day that the Financial Statement and Budget Report gave totals for the year. Simple arithmetic gives the forecast for March. However, we have already made known, in answer to a Parliamentary Question on Tuesday, that an estimated $\frac{1}{2}$ to $\frac{1}{2}$ billion of revenue has been delayed into the new financial year. Offsetting factors have left the CGBR just $\frac{1}{2}$ billion above the forecast in the Financial Statement and Budget Report.

The note gives an estimate of the possible effect on the CGBR if the strikes continue through April and into May. There is no need to change our public stance that these figures present no risk to economic management. But we are keeping the financial position including the effect on the monetary numbers under close scrutiny and will keep you informed of the position. The key numbers are in the summary.

yours
John

A.J. WIGGINS

MONTHLY NOTE ON THE BORROWING REQUIREMENT

April 1981

Summary

- The provisional estimate of the CGBR in March is £901 million. This gives a cumulative total for 1980-81 as a whole of £13,030 million, £270 million more than the forecast of £12,760 million published in the Financial Statement and Budget Report on 10 March.

(paragraph 1 to 2)

- £ $\frac{3}{4}$ to 1 billion of tax and national insurance receipts were delayed into the new financial year by the civil service pay dispute. Partly offsetting this, supply services were £400 million below the forecast in the Financial Statement and Budget Report. Interest payments and receipts provide a further £140 million gain.

(paragraph 3 to 14)

- Forecasts for the CGBR in the next three months can only be speculative. The note gives a base forecast, excluding all effects of the dispute, of over £5 billion, and an assessment of the possible impact on the CGBR if the dispute continues. At present, three quarters or more of the revenue due is being paid into the Exchequer accounts. At that rate the cumulative backlog would be £2 $\frac{1}{2}$ billion by the end of April, £4 billion by the end of May. If only half the revenue due could be banked, the backlog would reach £4 billion by the end of April, £7 billion by the end of May.

(paragraph 15 to 18)

THE CGBR IN MARCH

1. The provisional estimate of the CGBR in March is £901 million giving a cumulative total for the year as a whole of £13,030 million, compared with the forecast of £12,760 million published in the Financial Statement and Budget Report on 10 March. The outturn will be published in the regular Press Notice on Thursday 9 April.
2. The difference between the outturn and forecast for the year as a whole is £270 million. This can be explained as £ $\frac{3}{4}$ to 1 billion of tax and national insurance receipts delayed into the new financial year by the Civil Service pay dispute, partly offset by other items, mainly lower Supply services, unrelated to the dispute.
3. Effect of the Strike: As far as the CGBR is concerned, the main impact has been from 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. The strike at the Paymaster General's Office is creating some accounting problems, but does not seem to have had any effect on the level of payments.
4. It is difficult to give a precise estimate of the effect of the dispute on Government income. Actual payments into the Exchequer accounts can be compared with the forecast made before the strikes started; but the difference will reflect the normal forecasting errors as well as the effect of the dispute. In the case of VAT there is the added complication that the effect of the strike is reduced by the inability to make refunds of VAT to traders entitled to them.
5. However, the best estimate is that between £750 to 900 million of tax and national insurance contributions due in March have been delayed into the new financial year. This estimate includes tax which has simply not been paid to the revenue Departments, unbanked cheques held up in the tax offices, and money which was due in March but was not paid into the Exchequer accounts until after the 31st. The estimate includes the effect of failing to make the normal VAT repayments.
6. Overall, however, more than 80 per cent of the revenue due in March was paid into the Exchequer accounts. Total revenue in March includes £1,300 million or so of Petroleum Revenue Tax and other revenue received before the strike started. If this is excluded from the calculations the proportion is still over three quarters.

7. Table 1 attached presents a detailed comparison of the forecast for March and the outturn, in a format which is a summary of the regular Press Notice. The Press Notice giving the outturn up to the end of February was published on the same day that the Financial Statement and Budget Report gave totals for the year as a whole, so commentators will be able to deduce details of the forecast for March and compare it with the outturn. The effect of the strike is not immediately identifiable in that format. As the table below shows, the effect is spread between the figures for Inland Revenue taxes, national insurance contributions which Inland Revenue collect but which affect the National Insurance Fund component of "Other Funds and Accounts", and Customs and Excise duties.

8. The net deterioration in the CGBR of £270 million can be explained as follows:-

	<u>Effect on the CGBR</u> <u>£ million</u>
<u>Strike effect</u>	
Inland Revenue taxes (mainly PAYE)	-400 (approx)
National insurance contributions (collected by Inland Revenue but included in "other funds and accounts")	-200 (approx)
Customs and Excise (VAT)	-150 to 300
Total strike effect	<u>-750 to 900</u>
<u>Other Factors</u>	
Other Customs and Excise duties	+110 to +260
Lower Supply Services	+400
Lower interest payments and higher interest receipts	+140
Higher net lending to local authorities and public corporations	-180
Other, including revisions to earlier figures	-130
Net effect on CGBR in March	<u><u>-270</u></u>

9. Inland Revenue taxes. Almost all the difference between the forecast and outturn can be attributed to PAYE receipts delayed by the strike. The split of the strike effect between Inland Revenue taxes and National Insurance contributions is largely notional. The strike has made it impossible to identify receipts of Inland Revenue duties separately from national insurance contributions and payments into the National Insurance Fund are being made on the basis of an assumed split. Total Inland Revenue receipts for March include some £1,300 million of Petroleum Revenue Tax paid in on 2 March and incorporated in the forecast.

10. Customs and Excise: The estimate of the effect of the strike on Customs and Excise receipts is particularly uncertain. VAT has been difficult to forecast recently and it is not easy to distinguish the effect of the strike from the normal forecasting error. If the effect of the strike is £150 to 300 million as separate information now suggests, then other duties in March were £110 to 260 million above forecast. The usual detailed analysis of tax has not been compiled because of the Civil Service pay dispute so the position is far from clear. Tobacco duties are known to have been £60 million above forecast, however, oil duties were more than expected even allowing for the duty increase on 10 March, and some beer duty due in February failed to clear the banking system before the last day of the month and has been credited to March.

11. Supply services in March were £400 million below forecast. About half of this related to lower defence expenditure than had been assumed for internal purposes - the overspending against the revised cash limit is around £200 million, some £60 million lower than the Spring supplementary estimate, and £200 million less than included in the forecast a month ago. The remainder of the underspending was mainly on expenditure not subject to cash limits.

12. Interest payments were about £100 million below forecast, mainly because of the difficulty of forecasting when certificates of tax deposit will be cashed and therefore the interest due on them. Interest receipts were £40 million higher than forecast, giving a net improvement in the CGBR of £140 million.

13. Net lending to local authorities was about £110 million above forecast. It is not yet clear whether this simply reflects a switch from market borrowing. Net lending to public corporations was about £70 million above forecast. This is more than explained by net lending to New Town Development Corporations.

14. During the course of the month, £276 million was received from the EEC under the 30 May agreement.

Forecast for the Next Three Months

15. At this stage, forecasts for April to June can only be speculative. It all depends how long the present dispute continues, whether the revenue losses continue at their present rate, and how fast the money comes through when the dispute is settled. Table 3 gives a base forecast which excludes both the effect of a continuing dispute and of the unwinding of the existing backlog of receipts; it is consistent with the Financial Statement and Budget Report, as if the strike had

never happened. It provides a benchmark against which to measure the effect of the strike.

16. The base forecast shows the familiar "front-end-loading". It implies that if the strike had never happened the borrowing requirement would be £1.5 billion in April, £2.1 billion in May and £1.6 billion in June, a total of £5.2 billion, or almost 45 per cent of the total for the year. This is a higher percentage than in 1980-81, but much the same as in 1979-80, and is consistent with the Budget forecast of £11,479 million. The base forecast is, however, subject to a wider margin of error than usual. The normal departmental profiles are not available yet; and the pay dispute has meant that some information normally used in the preparation of the three month forward look has not been available.

17. Borrowing in the early months of the year will, however, be reduced by the backlog of £ $\frac{3}{4}$ to 1 billion of tax and national insurance receipts which has been carried forward from 1980-81 and which will be paid in as soon as the pay dispute is settled. Until that time, the backlog will grow.

18. At present, some three quarters of the revenue due is being paid in to the Exchequer Accounts. If that rate could be maintained, the backlog of revenue would be £2 $\frac{1}{2}$ billion if the dispute continued until the end of April, and £4 billion by the end of May. However, any escalation in the action will reduce the amount of money coming through. If only a half of the revenue due could be paid into the Exchequer accounts, the backlog would be £4 billion by the end of April. £7 billion by the end of May. The money will eventually be paid in, but the interest costs would start to become significant. As a rough rule of thumb, the interest cost of £1 billion is £10 million a month. Moreover, the longer the dispute continues, and the larger the backlog, the greater will be the difficulty of managing the money market when the revenue eventually floods in.

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TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT - MARCH

	£ million		
	<u>Forecast</u>	<u>Outturn</u>	<u>Effect on CGBR</u>
<u>RECEIPTS</u>			
<u>Consolidated Fund</u>			
Inland Revenue	3,620	3,202	-418
Customs and Excise	1,623	1,583	- 40
Other	3,246	3,103	-143
<u>National Loans Fund</u>			
Interest etc receipts	689	729	+ 40
Total receipts	9,178	8,617	-561
<u>EXPENDITURE</u>			
<u>Consolidated Fund</u>			
Supply services and Contingencies Fund	7,896	7,497	+399
Other	330	307	+ 23
<u>National Loans Fund</u>			
Service of the national debt	1,033	937	+ 96
Net lending	323	509	-186
Total expenditure	9,582	9,250	+332
Other funds and accounts	-157	-268	-111
CGBR	-561	-901	-340

Note: The difference between the outturn and forecast for March is not the same as the difference between the outturn and forecast for the year as a whole because of revisions to the figures for earlier months.

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TABLE 2

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ billion

	In month		Cumulative		
	1979-80	1980-81	1979-80	1980-81	Difference
April	1.3	0.9	1.3	0.9	-0.4
May	1.5	2.4	2.8	3.3	+0.5
June	1.0	1.3	3.8	4.6	+0.8
July	-	0.8	3.8	5.4	+1.6
August	1.1	1.6	4.9	7.0	+2.1
September	1.7	0.8	6.6	7.9	+1.2
October	0.1	0.2	6.8	8.0	+1.3
November	1.8	2.8	8.6	10.9	+2.3
December	1.6	2.2	10.2	13.1	+2.9
January	-2.5	-1.7	7.7	11.4	+3.7
February	0.3	0.7	8.1	12.1	+4.1
March	0.2	0.9	8.2	13.0	+4.8

	1980-81	1981-82	1980-81	1981-82	Difference
April	0.9	(1.5)	0.9	(1.5)	+0.6
May	2.4	(2.1)	3.3	(3.7)	+0.4
June	1.3	(1.6)	4.6	(5.2)	+0.6

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

Note: Some rows may not add across because of rounding.

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ million

	1980-81		1981-82				1981 FSBR forecast for whole year
	Estimated outturn for whole year	1981 FSBR forecast for whole year	Base forecast for April	Base forecast for May	Base forecast for June	1981 FSBR forecast for whole year	
<u>RECEIPTS</u>							
<u>Consolidated Fund</u>							
Inland Revenue	32,982	33,400	2,600	2,450	2,300	39,100	
Customs and Excise	22,095	22,135	2,240	1,780	1,840	26,000	
Other	11,136	11,279	480	630	630	10,424	
<u>National Loans Fund</u>							
Interest etc receipts	4,810	4,770	270	230	370	4,900	
Total receipts	71,023	71,584	5,590	5,090	5,140	80,424	
<u>EXPENDITURE</u>							
<u>Consolidated Fund</u>							
Supply services	67,959	68,358	5,800	5,600	5,650	73,741	
Other	3,167	3,190	300	280	280	3,756	
<u>National Loans Fund</u>							
Service of the national debt	9,854	9,950	380	1,270	450	11,100	
Net lending	3,557	3,371	490	270	260	4,034	
Total expenditure	84,537	84,869	6,970	7,420	6,640	92,631	
Other Funds and Accounts	+484	+525	-150	+200	-60	+710	
CGBR	-13,030	-12,760	-1,530	-2,130	-1,560	11,497	

*The base forecast excludes any effect of continuing industrial action or the unwinding of the existing backlog of tax receipts.

Note: Some columns and rows do not add because of rounding.