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B/F with Treasury response in two weeks AT 3/9

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30 August 1984

Prime Minister
The public expenditure costs of the coal strike are calculated at £12½m a week for the first 17 weeks and £25m a week more recently
AT 30/8.

Dear David,

PSBR COSTS OF THE COAL STRIKE

In his letter to Michael Reidy of 25 July, Andrew Turnbull asked us to review the figures of weekly costs of the coal strike and agree the results with you.

I now attach revised figures produced by our review. Table A shows the costs of the first 17 weeks of the coal strike in 1984/5 ie to end July. Table B shows continuing weekly costs for the period after end-July. They are best regarded as average costs for August/September. There could be some modest changes in them later in the year, even if the present pattern of the strike continued unchanged. Table C is a breakdown of the figures of NCB savings on wages and materials.

In these tables we are dealing with cash flow impact on the public sector ie effects on the PSBR. We are not dealing with "accounting" costs as understood in the private sector. The Greenwells table on the sheet attached to Andrew Turnbull's letter was headed "Weekly Accounting Losses", and the text says that "the impact on the PSBR will be different from the accounting losses shown above". However their attempt at converting to a PSBR effect seems to be a great muddle. Among other things, they heavily overstate NCB loss of revenue from lower sales, where only sales to the private sector are relevant; and they understate substantially total NCB expenditure savings on wages, redundancy and investment.

There are many second or third round effects of the strike (eg the effect of the large extra CEGB oil purchases on the oil market and the benefit of that to the Exchequer in extra petroleum revenue tax and other taxes). It is a question how far one should attempt to bring any of these into the figures. However, the Treasury thought it right to bring into the figures one direct and readily measurable tax effect in the shape of the loss of income tax and national insurance contributions on miners' pay. Parallel with that, it seems to us right to bring in the direct gain of Heavy Fuel Oil Duty to the Exchequer from the additional sales of fuel oil to the CEGB (about £8 per ton), but we have not included more remote or less quantifiable effects.

As Table A shows, we calculate the public expenditure cost in the first 17 weeks as £208m, or £12½m a week; and the cost including income tax and heavy fuel oil duty effects as £258m or £15m a week. These are lower figures than the £300/350m and £400m quoted by the Chancellor in the House on 31 July and 1 August. In those 17 weeks the cost of extra oil-burn averaged £37m a week.

For August/September the continuing weekly costs in Table B are higher at £25m a week for public expenditure and £27m a week for the PSBR. The difference is fully accounted for by the higher cost of additional oil-burn, which is now running well above the levels of the early weeks of the strike; and in a peak summer and holiday period when oil-burn is normally very low indeed.

We have examined carefully with the NCB the figures of savings of wages and wage related costs, especially as in some cases the cash position differs from the treatment they are at present applying in their accounts. They estimate a saving of £70m on holiday pay in the first 17 weeks, with a further saving of about £40m to come in August and September if the strike lasts that long. These savings are scored under "wages" in Tables A and B. After September the savings would be negligible.

The figures for British Steel losses, policing and social security costs were supplied to us by the Treasury.

I hope these figures can now be agreed. There are some difficulties about feeding these figures into the public consciousness in the near future, as suggested by Andrew Turnbull. For the earlier period they are lower than the figures used on 31 July/1 August. For August/September they are at a higher level but advertising the difference draws attention to the oil-burn.

I am copying this letter to Andrew Turnbull and to Peter Gregson (Cabinet Office).

Yours
John

J S NEILSON
Private Secretary

COSTS TO THE PUBLIC SECTOR OF THE COAL STRIKE IN 1984/5

TABLE A: Costs to end-July (17 weeks)

	£m
Higher oil-burn	+ 630
Savings on NCB wages, materials and investment net of lost sales to private sector and exports	- 546
British Steel cash losses	+ 50
Policing	+ 95
Social Security/housing benefit	+ 25
Lower RMPS payments	- 46
Total Public Expenditure	+ 208
Loss of Income Tax/NI employee contributions	+ 90
Extra Heavy Fuel Oil Duty	- 40
Total PSBR	+ 258

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TABLE B: Continuing Weekly Costs (August/September)

	£m
CEGB Higher oil-burn	+ 50
NCB savings on wages/materials	- 39
NCB Reduced Investment	- 7
NCB Loss of Sales (private sector and exports)	+ 13
British Steel cash losses	+ 3
Police/Social Security	+ 8
Lower RMPS Payments	- 3
Total Public Expenditure	+ 25
Loss of income tax and N.Insurance revenues etc	+ 5
Extra Heavy Fuel Oil Duty	- 3
Total PSBR	+ 27

TABLE C: Continuing weekly costs: analysis of NCB Savings

	£m
Wages	19
Wages charges (including holiday pay £5m)	8
Sub Total	27
Materials	8
Other	4
Total	39
Investment	7

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