

Financial Statement and Budget Report 1979–80

RETURN to an Order of the House of Commons dated 12 June 1979: for

COPY of FINANCIAL STATEMENT AND BUDGET REPORT 1979-80 as laid before
the House by the CHANCELLOR OF THE EXCHEQUER when opening the BUDGET

Treasury Chambers,
12 June 1979 } NIGEL LAWSON

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PART I

THE ECONOMIC BACKGROUND TO THE BUDGET

REVIEW OF THE PAST YEAR

World Economic Developments

Economic growth in the industrialised countries continued to be modest in 1978. GNP growth in the OECD countries as a whole was probably slightly less than 4 per cent. Unemployment remained high by post-war standards for most countries. Inflation continued to be a constraint on domestic policies for many. World trade in manufactures appears to have grown by slightly more than 3 per cent, compared with a historical trend of about 9 per cent.

The 1978 Budget and fiscal policy

2. The Budget proposals introduced by the previous Administration in April 1978 amounted to a net reduction in taxation of £2½ billion in a full year. This stimulus consisted almost entirely of reductions in personal income taxation. Amendments to the Finance Bill during its passage through Parliament included a reduction in the standard rate of income tax from 34 per cent to 33 per cent. The then Government introduced a new clause to offset the effect on tax revenues by raising the National Insurance Surcharge (on employers' contributions) from 2 per cent to 3½ per cent. The Budget proposals were estimated at the time to be consistent with a Public Sector Borrowing Requirement for 1978-79 of £8½ billion. The provisional estimate of the outturn for the year is now £9¼ billion.

Monetary policy in 1978-79

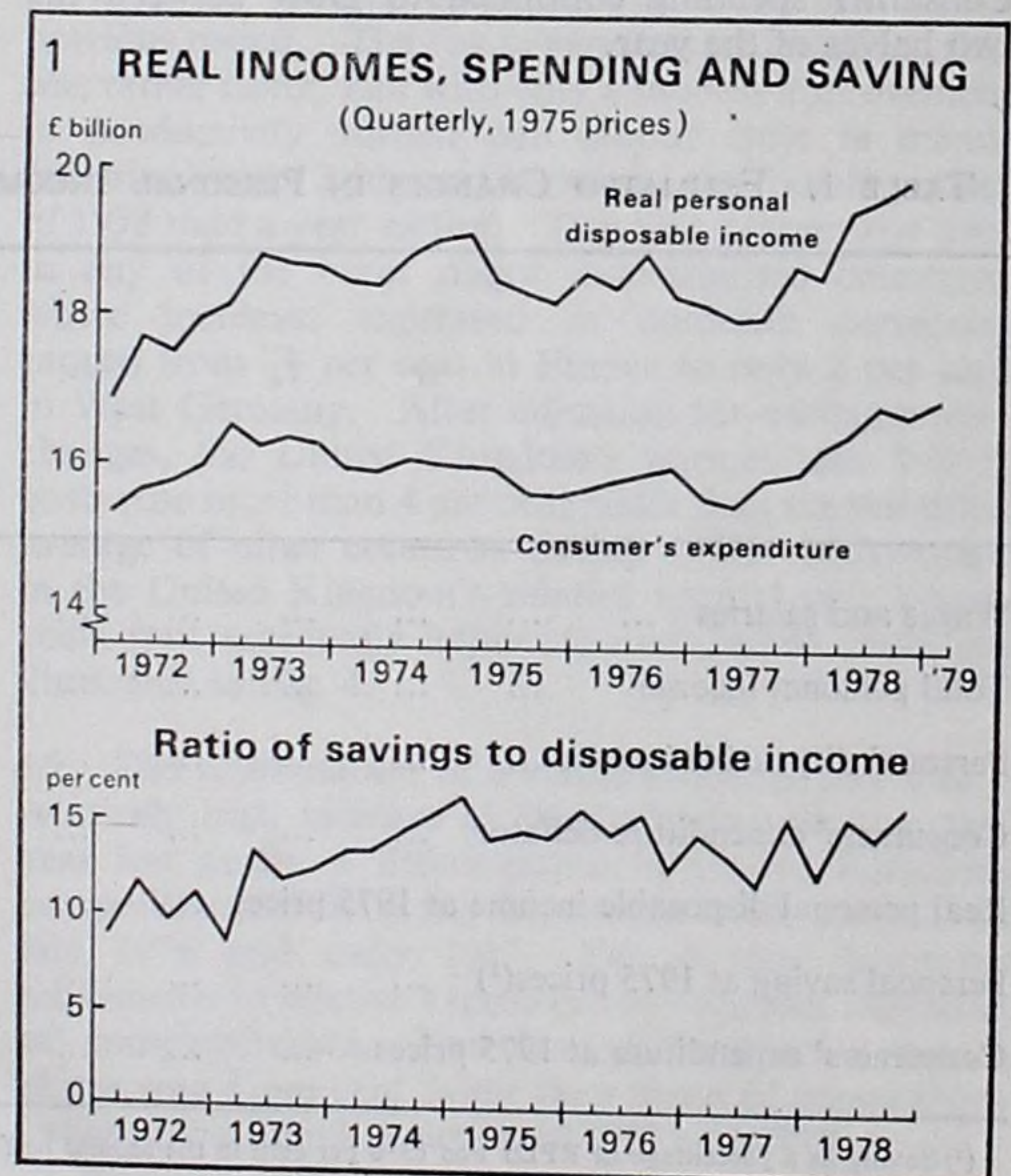
3. The then Chancellor also announced in his Budget speech a target rate of increase in sterling M3 of 8-12 per cent for the year to mid-April 1979. This target was rolled forward in November by six months. Short-term interest rates rose sharply in the spring of last year mainly reflecting increased public and private demand for credit. MLR was up to 9 per cent by mid-May. In the autumn it was raised again to 12½ per cent partly in response to rising interest rates abroad. It was further increased to 14 per cent this February, largely in response to market fears about domestic inflation. Large gilt sales and inflows into sterling were accompanied by a reduction in MLR to 12 per cent by April. In the year to mid-April, sterling M3 is now estimated to have risen by 11½ per cent, seasonally adjusted. The increase in the latest six months to mid-April at an annual rate was 12¾ per cent.

The Economy in 1978-79

4. Domestic output rose relatively rapidly in the early part of 1978 but there were signs of a slowdown in the latter part of the year. GDP for the year as a whole was 3 per cent higher in 1978 than in 1977. The most rapid growth was around mid-year. GDP in the fourth quarter, however, showed a slight fall. The preliminary output-based estimate for the first quarter of 1979 shows a further fall reflecting largely the effects of both industrial disputes and the abnormally severe weather.

Real incomes and domestic demand

5. Real incomes increased very substantially last year, with gross earnings rising faster than prices, further boosted by income tax reductions. Real personal disposable income (RPDI) was 7½ per cent higher in the second half of 1978 than in the second half of 1977 as a result, and consumer spending 5¾ per cent up over the same period. The high rate of spending in the second half of 1978 was maintained in the first quarter of 1979. The ratio of savings to disposable income in



1978 remained high by historical standards at 14½ per cent. Recent movements in RPDI, consumer spending and the savings ratio are illustrated in Fig. 1.

6. Total fixed investment was around 2¾ per cent higher in 1978 as a whole than in 1977, but there was a 1 per cent fall between the first and second halves of the year—mainly reflecting a fall in investment in dwellings in the fourth quarter, and erratically low shipping investment. Investment by manufacturing industry was almost 8 per cent higher in 1978 than in 1977 following a rise of 6¾ per cent in the previous year, bringing it back to the level last reached in 1974. Total investment for use by manufacturing industry, including capital expenditure by non-manufacturing companies on assets for leasing to manufacturers, probably rose by about 9 per cent last year. Stockbuilding was high in the first three quarters of last year, but lower in the fourth quarter.

7. General Government final consumption has been on a slow upward trend, and was 1½ per cent higher in 1978 than in 1977. Altogether, public expenditure on goods and services, transfers and lending, as defined in the Government's expenditure plans, was probably around 6 per cent higher in the financial year 1978–79 than in 1977–78.

8. The slower growth of demand after the middle of 1978 reflected a lower level of stockbuilding in the second half of the year and a fall in total investment. Consumer spending continued to grow between the two halves of the year.

Trade volumes and GDP

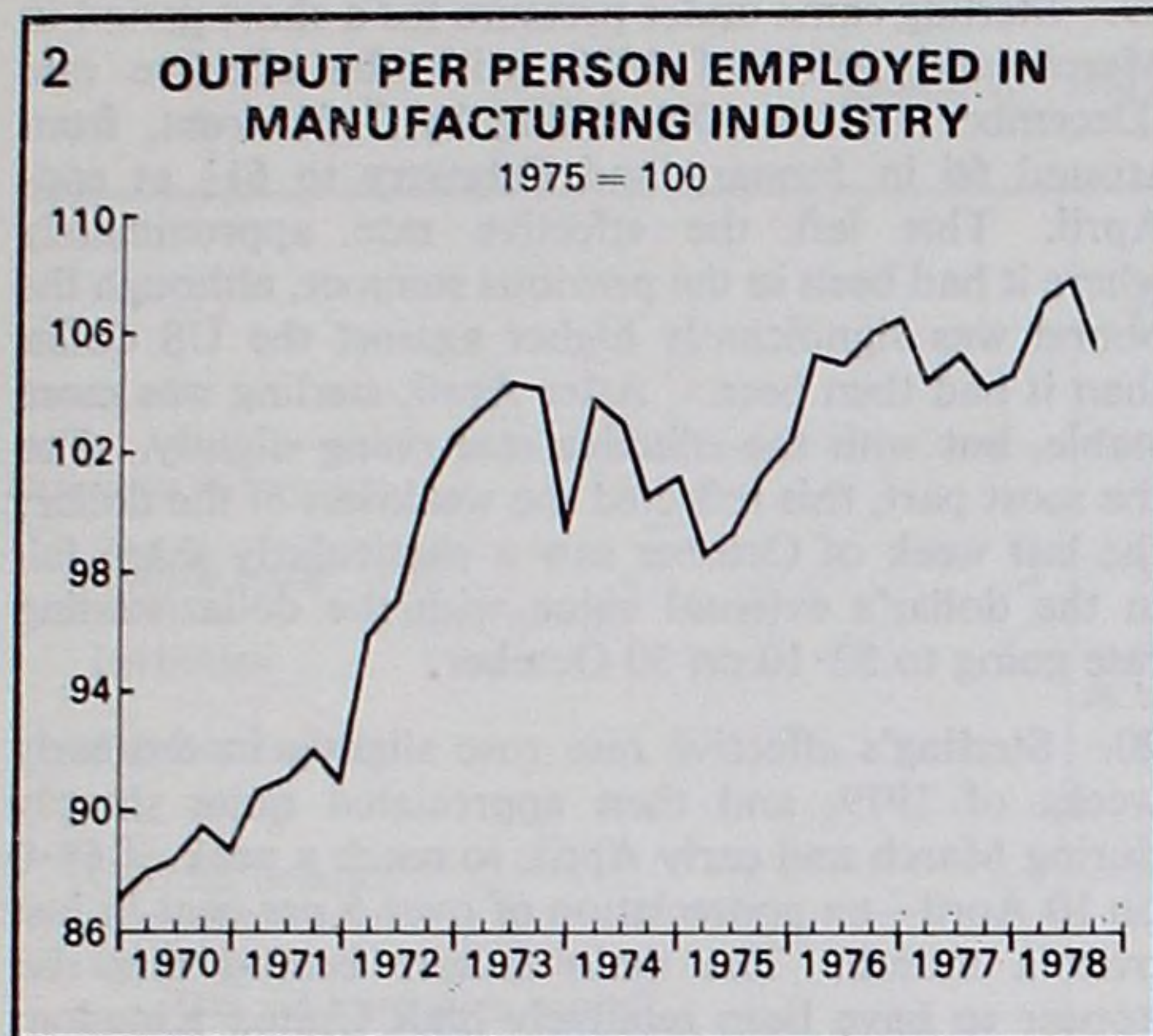
9. Growth in exports was slower last year than in 1977. For the year as a whole, the volume of exports of goods increased by 3½ per cent, as compared with 8 per cent in 1977. Within this total, exports of fuels increased by 26½ per cent—reflecting growing North Sea oil production. Exports of manufactures increased by 2 per cent. At the same time, much of the sharp increase in domestic demand was met by higher imports. Imports of goods were 5 per cent higher in volume than in 1977. There was a particularly large increase in imports of manufactures, which were 13½ per cent higher in 1978 than in 1977.

10. The faster increase in imports than in exports in 1978 meant that the rise in domestic demand was not fully matched by growth in output. All the main sectors of the economy registered some increase in output, but the rise in manufacturing output was less than 1 per cent. The level for the year as a whole was 4 per cent below its 1973 level. Higher home demand for manufactures in 1978 appears to have been met primarily from imports. There was a modest improvement in manufacturing productivity, however, partly achieved by a reduction in employment. The increase in output per head between the second halves of 1977 and 1978 was around 2 per cent. Productivity growth last year, however, was still well below the 1960s average. Changes in output per head in manufacturing are shown in Fig. 2.

TABLE 1. ESTIMATED CHANGES IN PERSONAL INCOME, CONSUMER PRICES AND CONSUMERS' EXPENDITURE

	1977 to 1978		2nd half 1977 to 2nd half 1978 Seasonally adjusted	
	£ million	Per cent	£ million	Per cent
Wages and salaries	9,800	13.4	5,430	14.5
Total personal income	17,200	13.8	9,340	14.6
Personal disposable income	15,000	15.5	8,100	16.2
Consumers' expenditure deflator		8.6		8.0
Real personal disposable income at 1975 prices	4,640	6.4	2,790	7.6
Personal saving at 1975 prices ⁽¹⁾	1,200	21.6	960	28.5
Consumers' expenditure at 1975 prices	3,440	5.5	1,830	5.8

⁽¹⁾ Saving as a percentage of RPDI was 13.6 per cent in the second half of 1977 and 15.0 per cent in the second half of 1978.



The labour market

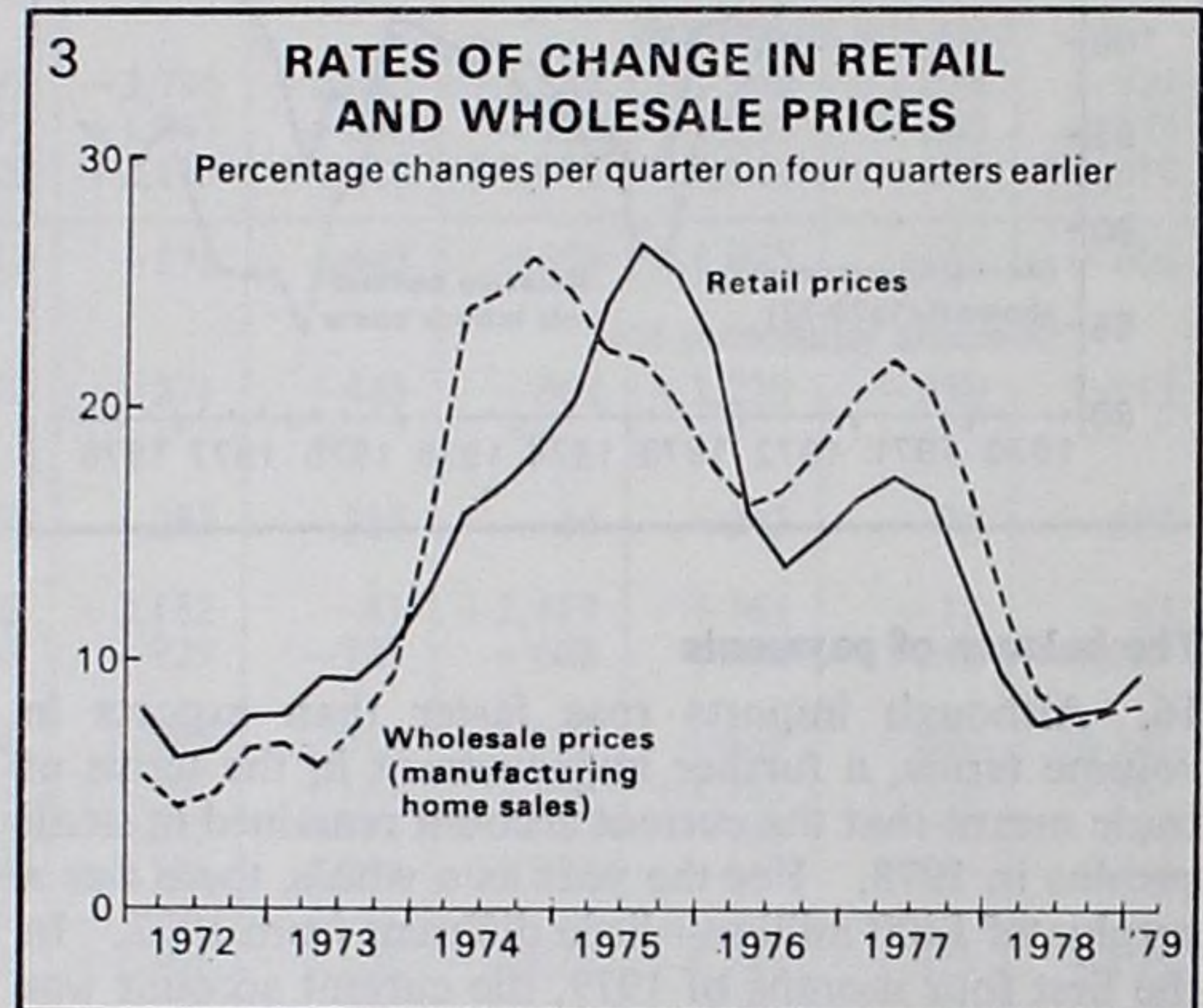
11. Unemployment fell slowly but steadily during the course of 1978. In December, United Kingdom unemployment (excluding school leavers under 18) was about 100,000 below the peak level of September 1977. Unemployment increased in the early months of 1979, but the rise seems to have been due to a combination of severe winter weather and industrial disruptions. By May, unemployment had fallen back to a level about 10,000 lower than in December.

12. In the 12 months to December 1978, United Kingdom employment increased by around 190,000, a rise of just over $\frac{3}{4}$ per cent. The increase was more than accounted for by higher employment in the distribution and service industries (excluding public administration, where employment remained virtually flat). Employment in manufacturing in Great Britain fell by 65,000 to about 600,000 below its 1974 level. The "working population" which includes employees in employment, Her Majesty's Forces, the registered unemployed and the self-employed, is estimated to have increased by about 60,000 in the course of 1978. This is a smaller increase than in the previous two years, when it rose by an average 150,000 a year.

Prices and costs

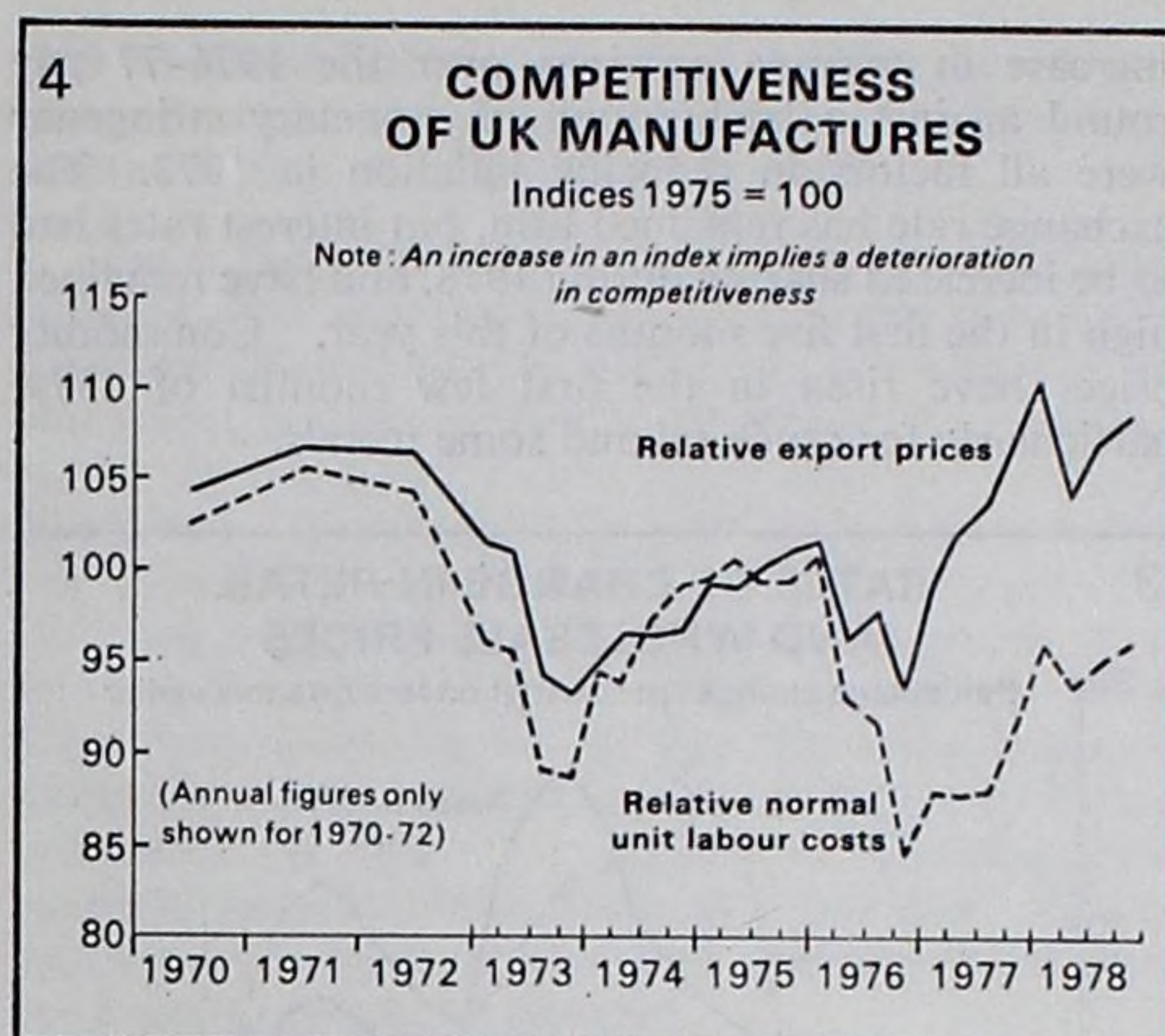
13. Fig. 3 shows the course of price changes over recent years. The rate of price inflation fell to $7\frac{1}{2}$ per cent by mid-1978, but began rising again before the end of the year, reaching 10.1 per cent by April 1979. The annualised rate in the six months to April was 12.3 per cent. A higher exchange rate, lower interest rates, weak commodity prices and a relatively small

increase in average earnings over the 1976-77 pay round against a background of monetary stringency were all factors in reducing inflation in 1978. The exchange rate has remained firm, but interest rates had to be increased sharply during 1978, and have remained high in the first five months of this year. Commodity prices have risen in the first few months of 1979, particularly for crude oil and some metals.



14. Average earnings increased by 14 per cent in the 1977-78 pay round, compared with 8 per cent in the previous round. The rise in earnings in manufacturing was rather faster, and with only a modest improvement in productivity normal unit labour costs in manufacturing were 12 per cent higher by the fourth quarter of 1978 than a year earlier. This was a larger rise than in any of the other major industrialised countries, where increases expressed in domestic currencies ranged from $7\frac{1}{2}$ per cent in France to only 2 per cent in West Germany. After adjusting for exchange rate changes, the United Kingdom's normal unit labour costs rose more than 4 per cent faster than the weighted average of other countries during 1978. Movements in the United Kingdom's relative normal unit labour costs (not seasonally adjusted) over recent years are illustrated in Fig. 4.

15. The combination of a stable exchange rate and a relatively high increase in labour costs over the past year has meant a deterioration in United Kingdom competitiveness from the favourable levels attained in late 1976 and early 1977. Fig. 4 also illustrates movements in relative export prices—another indicator of competitiveness. The United Kingdom's export prices rose 1 per cent faster than those of competitors between the fourth quarters of 1977 and 1978.



The balance of payments

16. Although imports rose faster than exports in volume terms, a further improvement in the terms of trade meant that the current account remained in small surplus in 1978. For the year as a whole, there was a surplus of £400 million—little different from 1977. In the first four months of 1979, the current account was in deficit by £1 billion. The figures, however, were distorted by industrial disputes and were erratically bad. North Sea oil continued to make a rising contribution to the current account last year. The deficit on trade in petroleum and petroleum products was reduced by nearly £800 million in 1978, to around £2 billion. The surplus on non-oil goods was a little lower than in the previous year around £850 million.

17. The surplus on invisible earnings deteriorated significantly last year. For the year as a whole, there was a surplus of £1.6 billion, as compared with £2.1 billion in 1977. The major factor behind the deterioration was an increase in Government transfers abroad, mainly due to higher EEC contributions. The deficit on Government transfers rose from £1.1 billion to £1.7 billion. There was also some deterioration in the balances on shipping services and on travel abroad, but this was offset by higher net earnings from other services.

18. The capital account of the balance of payments (including the unidentified "balancing item") showed a deficit of £1.6 billion in 1978, following a record £7 billion surplus in 1977. Taking the current and capital accounts together, there was a deficit of £1.1 billion for official financing but, because of debt repayment, the reduction in the reserves over the year was considerably greater than this.

19. Sterling came under pressure for a short period in March and April of 1978, with the effective rate (December 1971 = 100) falling by 7 per cent, from around 66 in January and February to 61½ at end-April. This left the effective rate approximately where it had been in the previous summer, although the pound was significantly higher against the US dollar than it had then been. After April, sterling was more stable, but with the effective rate rising slightly. For the most part, this reflected the weakness of the dollar; the last week of October saw a particularly sharp fall in the dollar's external value with the dollar/sterling rate going to \$2.10 on 30 October.

20. Sterling's effective rate rose slightly in the early weeks of 1979, and then appreciated quite sharply during March and early April, to reach a peak of 68.0 on 10 April—an appreciation of over 5 per cent in just over a month. The main factors behind this rise appear to have been relatively high United Kingdom interest rates, and a recognition that, because of North Sea oil, the United Kingdom was better placed than other industrialised countries to cope with a substantial increase in oil prices during 1979. In May sterling's effective rate was around 67 and the dollar/sterling rate around \$2.05.

21. The official reserves fell in 1978 by about \$5 billion from the record levels at the beginning of the year. During the course of the year, the United Kingdom Government and public sector repaid \$4.6 billion of overseas debt (\$3.6 billion ahead of schedule, including \$2 billion to the IMF), as against new borrowing of \$1.8 billion.

22. At end-March 1979, the reserves were officially revalued; the revaluation, which will now take place annually, brings the published value of the reserves more closely into line with their market value by valuing the non-dollar reserves on a market-related basis. The effect of the revaluation was to increase the dollar value of the reserves by \$4½ billion, bringing the end-March figure to \$22 billion. At end-May, the reserves stood at \$21½ billion. Net repayment of United Kingdom Government and other public sector debt over the first five months of 1979 totalled over \$1 billion.

The impact of North Sea oil

23. North Sea oil continues to become of increasing importance to the United Kingdom economy. Output in 1978 was 54 million tonnes, around 16 million tonnes higher than 1977. By the fourth quarter of 1978, North Sea oil and gas production was accounting for 6 per cent of industrial production (at 1975 prices), as compared with 4 per cent a year earlier.

TABLE 2. BALANCE OF PAYMENTS

£ million

	1976	1977	1978	1977		1978	
				1st half	2nd half	1st half	2nd half
CURRENT ACCOUNT							
				Seasonally adjusted			
Visible trade: Oil	-3,973	-2,791	-2,015	-1,542	-1,249	-1,034	-981
Other goods	+372	+1,047	+840	-183	+1,230	+265	+575
Invisibles	+2,529	+2,115	+1,618	+1,071	+1,044	+608	+1,010
Current balance	-1,072	+371	+443	-654	+1,025	-161	+604
				Not seasonally adjusted			
Current balance	-1,072	+371	+443	-868	+1,239	-370	+813
Capital transfers	—	—	—	—	—	—	—
Investment and capital flows:							
Official long-term capital	-154	-287	-315	-44	-243	-35	-280
Overseas investment in United Kingdom public sector... ..	+203	+2,182	-81	+1,419	+763	-18	-63
Private investment (net)	-93	+929	-723	+468	+461	+340	-1,063
Overseas currency borrowing or lending (net) by United Kingdom banks	-106	+384	-519	-285	+669	-840	+321
Changes in external sterling liabilities	-1,152	+1,462	+182	+341	+1,121	-285	+467
Trade credit and other short-term flows	-1,619	-205	-914	-67	-138	-780	-134
Balancing item	+364	+2,525	+801	+1,857	+668	+667	+134
Balance for official financing	-3,629	+7,361	-1,126	+2,821	+4,540	-1,321	+195
Financed as follows:							
Drawings on IMF	+1,018	+1,113	-1,016	+899	+214	-505	-511
Drawings on other monetary authorities	-34	—	—	—	—	—	—
Foreign currency borrowing:							
By Her Majesty's Government	—	+871	+191	+584	+287	+191	—
By United Kingdom public sector under the exchange cover scheme	+1,792	+243	-378	+51	+192	-437	+59
Drawings on (+)/additions to (-) official reserves	+853	-9,588	+2,329	-4,355	-5,233	+2,072	+257

24. In 1978, the net direct and identifiable contribution of the North Sea programme to the current account of the balance of payments is estimated to have been some £3½ billion, as compared with just under £3 billion in 1977. These estimates are obtained by valuing oil and gas production at equivalent import value, and then deducting imports of goods and services for the North Sea programme and interest, profits and dividends associated with the programme due overseas.

25. The first receipts from Petroleum Revenue Tax (PRT) arrived in 1978, and payments in the financial year 1978-79 amounted to £180 million. No PRT had been paid in earlier years, because of the structure of the tax system for North Sea oil production, which allows companies to recover their heavy capital costs early in the productive life of the oil fields. Much larger receipts are expected for future years, as oil

production rises. Since offshore oil was first produced in 1975, royalties have risen steadily to £290 million in 1978-79. It is estimated that Corporation Tax receipts of about £50 million are attributable to North Sea oil and gas, giving total government revenue from the North Sea in 1978-79 of about £520 million.

Forecast and outturn

26. The forecasts of expenditure, imports and GDP presented in Table 5 of the 1978-79 FSR were on the basis of constant 1970 prices. The CSO's 1978 Blue Book on National Income and Expenditure, and later publications, presented estimates at 1975 prices, and in addition incorporated substantial revisions to the data. Thus it is not easy to make precise comparisons between the forecasts made last year and the provisional outturn. Furthermore the level of GDP in the second half of 1977 and the first half of 1978 was understated at the time of the 1978-79 FSR.

27. Last year's forecast for GDP was for a growth of 3 per cent at 1970 prices between the second halves of 1977 and 1978. At 1975 prices the forecast would have been 3½ per cent, a little more than the provisional outturn. The revisions to data and to the price basis make it difficult to compare components of expenditure, but it is clear that the amount of stockbuilding was significantly under-estimated while the rise in the volume of general government expenditure on goods and services was significantly over-estimated.

28. The table below sets out the main elements of last year's forecast, together with the provisional outturn.

	Forecast	Outturn
GDP growth between second halves of 1977 and 1978 (per cent):		
1975 prices ...	3½	3
1970 prices ...	3	2½

	Forecast	Outturn
Current account of the balance of payments £bn 1978 ...	+¾	+½
Retail price index: percentage increase between fourth quarters of 1977 and 1978 ...	7	8
PSBR: £bn 1978-79 ...	8½	9½

29. The forecasts covered the period to mid-1979 but comparisons can only be made for forecast periods up to the end of 1978. In all cases the forecasts and outturns were close, well within the usual margins of error—examples of which were set out in the November 1978 Industry Act forecasts published in the November Economic Progress Report Supplement. The current balance in 1978 is now estimated to have been in small surplus, a slightly better outturn than estimated in the November Industry Act forecast, but a little worse than in the 1978 Budget forecast mainly because of the big fall in invisible earnings. The forecasts of retail prices and the PSBR were also reasonably close to outturn.

ECONOMIC OUTLOOK TO 1980

Introduction and summary

The prospect is for economic activity to decline slightly over the next year or so. Retail price inflation increases during 1979 and falls again during 1980. The current account of the balance of payments is forecast to remain close to balance. Public sector borrowing, as a percentage of GDP, is cut sharply from the 1978-79 level.

2. Tables 3 and 4 set out the forecasts and give some indication of the orders of magnitude of the errors which could be involved. These forecasts are used in preparing the projections for the public sector in Parts II and III of this report.

Policy assumptions

3. Monetary and fiscal policy assumptions for 1979-80 are determined by the Budget proposals. Growth of the money supply is assumed to be in the centre of the target range. In April 1980 all specific duties and income tax allowances and bands are assumed for forecasting purposes to be adjusted in line with price increases during 1979. Firm control of the money supply is assumed to continue during 1980-81. The Government has not yet reviewed public expenditure plans for 1980-81 and there is therefore no firm basis for a forecast. For present purposes the level of

planned expenditure now decided for 1979-80 is simply extrapolated into 1980-81. The exchange rate is taken as determined primarily by market forces.

Domestic demand

4. The prospect is for rather little change in real personal disposable incomes over the next year. This reflects the lack of buoyancy in economic activity, and a number of specific factors tending to raise prices. The upward step in prices following the indirect tax changes reduces the real value of existing savings in money-denominated assets; there is evidence that this encourages consumers to save in order to re-establish the real value of existing savings. For this reason the fall in the personal savings ratio after the Budget is likely to be small and the impact on personal consumption to be correspondingly large. The savings ratio is forecast to stay close to the historically high figure of 15 per cent. The ratio of wealth to income will also remain low compared with earlier years. The forecast path of personal consumption is fairly flat over the next year. The variant in Table 3 shows the possible consequences of a lower outcome for savings. The savings ratio is assumed (before allowing for multiplier effects) to be 2 per cent lower than in the main forecast. This lower ratio would still be

very high compared to any year prior to 1974. The variant shows that this development alone could add some 1½ per cent to GDP by the first half of 1980, converting a small fall into a small rise.

5. The forecasts of private investment are largely based on intentions surveys, though it is likely that respondents did not allow for as sharp a check to activity as is now forecast. While there is some (highly fallible) econometric evidence about the scale and pace at which investment responds to changes in output it may also be true that monetary and fiscal policy will have relatively favourable effects on industry's confidence in the prospect for non-inflationary growth in the longer term. The recent high level of interest rates cannot, however, be favourable to investment. On balance total private sector investment is forecast to be roughly constant over the period of the forecast.

6. Stockbuilding, however, is forecast to decline and may become negative by the first half of 1980 since the starting point is one of high stocks in relation to output, particularly for manufacturing.

7. The forecasts of public expenditure provide for a full allocation of the (reduced) contingency reserve as well as for a likely level of shortfall. As a result of the cuts in programmes and the squeeze imposed by the Government's policy on cash limits there may be a small fall in general government expenditure on goods and services (both consumption and investment) over the next year.

Output

8. The prospect is for a small fall in the level of total output over the next year although the forecast change is well within the known margin of error. Domestic demand is weak because of the effects of the Budget and because private sector investment—both in fixed assets and stocks—is passing a peak. Moreover, export volumes—apart from oil—are held back by poor competitiveness, and the upward trend in the share of demand met by imports may continue. Within a total picture of slightly falling output, North Sea oil production will expand quite rapidly, while manufacturing output is likely to be weaker than output in total, reflecting adverse overseas trade movements.

Inflation

9. The outturn for earnings growth in this pay round, based on the latest earnings and settlements figures, looks like being close to the 14 per cent experienced in the previous pay round. The forecast of earnings from this autumn onwards takes account of the impact of rising prices, the increases in disposable income

arising from the Budget reductions in income tax, tight monetary policy and the ability of employers to pay, as well as the commitment to comparability payments in parts of the public sector. Past relationships are not a strong guide in this area and so the forecast is subject to a very wide margin of uncertainty. Subject to this important proviso the forecast shows earnings in the private sector rising at much the same rate as in the last year or two, with rather larger increases in the public services.

10. Even without the Budget the prospect was for some further increase in the rate of inflation this year, partly because of a number of favourable factors affecting last year: notably roughly stable import prices for food and basic materials, reflecting the strength of sterling and the weakness of commodity prices. This year oil prices are up sharply and there are firmer trends in other commodity prices. Moreover there are some domestic factors (*e.g.* the National Insurance Surcharge, local authority rates) tending to raise prices faster this year; and it is likely that some producers will be keen to improve their margins, though the scope for this will be limited by the tightness of monetary and fiscal policies. The Budget itself is estimated to add about 4 per cent to the RPI in the third quarter of this year, leading to a total increase of about 16 per cent. The late date of the Budget means that the impact of indirect tax increases will come entirely in the third quarter of 1979 rather than in the second quarter. Once this effect has taken place retail price inflation in the following year—despite some price effects of the public expenditure measures—is forecast to fall back to around 13½ per cent.

World economic prospects

11. 1978 saw a growth of about 3½ per cent in GNP in the OECD area, with some slowdown in the United States being compensated by faster growth in Canada, Germany, Italy and some smaller countries. A further, more substantial, slowdown in the growth of United States activity seems probable in 1979 and the first half of 1980 and as a result GNP growth in the OECD area may be around 3½ per cent in 1979 falling to below 3 per cent in 1980. But because the United States is contributing less to total growth and some smaller countries, with higher import propensities, may be growing faster the prospects for trade may be rather more favourable than the GNP aggregates suggest. Weighted appropriately for United Kingdom exports the volume of trade in manufactures is forecast to recover from a very slow increase of about 3 per cent in 1978 (itself an unusually low figure in relation to activity) to an annual rate of some 5–6 per cent from now on.

Trade volumes

12. In 1978, United Kingdom exports of manufactures (less erratics) fully matched the estimated increase in world trade in manufactures, despite the past tendency for United Kingdom exports to lose share in world markets. The figures for the first four months of 1979 are very difficult to interpret, owing to distortions resulting from industrial action. But the indications are of a less favourable performance. The forecasting judgment is that the trend loss of United Kingdom share is unlikely to have disappeared and during the forecast period it is likely to be reinforced by the growing impact of unfavourable competitiveness. As a result of a strong exchange rate and substantial pay settlements, United Kingdom labour costs rose sharply in the first half of 1979 relative to our main competitors. The implication of the forecasts for costs and the exchange rate is that competitiveness over the next year remains close to its level in the first half of 1979, having worsened by some 8 per cent compared with 1978 and 13 per cent compared with 1977. The evidence strongly suggests that, particularly on exports, trade volumes are adversely affected with a considerable lag and so the consequences of the recent changes in relative costs continue to affect the economy through and beyond the period of this forecast. Thus despite a slightly better prospect for world trade over the next year the prospect is for a fairly flat path of exports of manufactures at a level well above the first half of 1979 but a little below the second half of 1978.

13. The volume of imports of manufactures rose by 13½ per cent in 1978, some of the increase reflecting the strong rise in United Kingdom demand. Total imports of goods and services went up 4½ per cent. Over the next year, with domestic demand tending to fall, the rise in imports, particularly of manufactures, should tail off, though the tendency for domestic producers to lose share in the domestic market for manufactures seems likely to continue, partly because of the poor level of competitiveness. Imports of goods and services are forecast to rise 1 per cent over the coming year from the rather high level in the first half of 1979.

14. Including the effects of increasing oil production the visible balance in volume terms is likely to have deteriorated substantially in the first half of 1979 but is forecast to recover to about its 1978 level by the end of the forecast period.

15. The United Kingdom current account benefited in 1978 from a significant improvement in the terms of trade originating in particular, from weak commodity prices. Although there will probably be some further improvement in the overall terms of trade this year this is more a reflection of changes in relative prices

of UK and overseas manufactures. While the increase in oil prices has comparatively little effect on the United Kingdom's terms of trade, world prices of industrial materials may at least keep pace with those of manufactures.

16. The surplus on invisibles declined in 1978, mainly reflecting increasing transfer debits—notably payments to the EEC. Some further decline in the invisible surplus seems likely during the period of the forecast. Although the surplus on the services account may begin to rise again transfer debits will continue to increase and the balance on interest, profits and dividends is also likely to worsen, particularly for oil, where North Sea oil profits accruing to foreign-owned companies are increasing rapidly.

17. The net effect of these various trends is to suggest a fairly stable picture with the current account remaining in approximate balance.

PSBR

18. Last year saw a PSBR of £9¼ billion (5½ per cent of GDP at market prices), after £5½ billion (4 per cent) in the previous year. The forecast for 1979–80 is £8¼ billion (4½ per cent): this is about £2¼ billions less than the figure implied by a continuation of the 5½ per cent reached last year. In 1979–80 the effects of the Budget are partly offset by the cost of comparability wage payments in the public sector.

Margins of error

19. The inevitably large margins of error associated with economic forecasts have been regularly emphasised in Government publications and estimates of average errors in past forecasts have been shown. On this occasion these estimates are presented adjacent to most of the key components of the forecast in Table 3. These estimates are in no sense the maximum errors that are likely to occur. For one thing they are based on the average not the largest size of errors recorded in the past. Secondly, for Part A of the table the errors relate to comparisons of the forecast with a relatively long and firm base; errors relating to changes from a six-month period which is itself a forecast will tend to be higher, because the initial period as well as the final period of the comparison is subject to substantial error. This is particularly important for the first half of 1979 which was substantially affected by industrial disputes. Thirdly, there is no clear presumption that past errors are a good guide to future errors. Both the way forecasts are made and the factors influencing economic fluctuations tend to change over time. On the present occasion the large

changes in the Budget itself may tend to increase margins of error. The forecasts are largely based on economic relationships fitted to the historical data of the last 10 or 15 years. Although the economy is modelled in such a way as to take account insofar as possible of the effects of policy changes, it remains a

possibility that large changes in policy will affect the economy in ways which are not foreseen. It is particularly difficult to take account of possible changes in confidence and expectations or, for the slightly longer term, of the effect of incentives on supply side relationships.

TABLE 3. ECONOMIC PROSPECTS TO 1980

	Main forecast	Lower savings variant	Margin of error ⁽¹⁾ (plus or minus)
A. Output and expenditure at constant 1975 prices			
First half 1979 to first half 1980; per cent change:			
Gross domestic product (at factor cost)	-1	+ $\frac{1}{2}$	2
Consumers' expenditure	-1	+1	2
General Government expenditure on goods and services ...	-2 $\frac{1}{2}$	-2 $\frac{1}{2}$	2 ⁽²⁾
Public corporations' fixed investment	-4 $\frac{1}{2}$	-4 $\frac{1}{2}$	8
Private sector investment	- $\frac{1}{2}$	+1	5
Exports of goods and services	5 $\frac{1}{2}$	6 $\frac{1}{2}$	4
Stockbuilding (as per cent of GDP)	- $\frac{1}{2}$	0	1
Imports of goods and services	1	3	3 $\frac{1}{2}$
Manufacturing production	-2 $\frac{1}{2}$	- $\frac{1}{2}$	5
B. Balance of Payments on current account			
£ billion:			
1979 First half	- $\frac{3}{4}$	- $\frac{3}{4}$	..
Second half	0	- $\frac{1}{2}$	$\frac{1}{2}$
1980 First half	0	- $\frac{3}{4}$	1 $\frac{1}{4}$
C. Public Sector Borrowing Requirement			
£ billion; in brackets percentage of GDP at market prices:			
Financial year 1978-79	9 $\frac{1}{4}$ (5 $\frac{1}{2}$ %)	9 $\frac{1}{4}$ (5 $\frac{1}{2}$ %)	..
Financial year 1979-80	8 $\frac{1}{4}$ (4 $\frac{1}{2}$ %)	7 $\frac{1}{2}$ (4%)	2 $\frac{3}{4}$
D. Retail Price Index			
Per cent change:			
Third quarter 1978 to third quarter 1979	16	16	1
Third quarter 1979 to third quarter 1980	13 $\frac{1}{2}$	14	5
E. Money Supply (Sterling M3)			
Per cent change:			
Mid-June 1979 to mid-April 1980 (at annual rate) ...	9	9	..

⁽¹⁾ The errors relate to average and not maximum errors (on either side of the central figure) experienced in the past. They have been calculated in much the same way (and in many cases are identically the same figures) as those published in the previous Industry Act forecast (Treasury Economic Progress Report Supplement, November 1978, Table 3). The figures for the current account and PSBR were standardised as percentages of GDP and the figures quoted in £ billion therefore reflect the general increase in current price magnitudes. In Section A, however, the errors are likely to be under-estimates of the true margin of uncertainty in the forecast changes shown. This is because the errors relate to changes between the relevant forecast period and a "base period" spanning the four quarters prior to the completion of the forecast. Errors in forecast changes over a period starting with a relatively short "base" (in this case the first half of 1979) which is itself highly uncertain are liable to be greater. The errors in Section A (apart from manufacturing output) are based on forecasts between June 1965 and November 1976. Sections B and D plus manufacturing output use forecasts between June 1970 and November 1976. Section C uses PSBR forecasts made at the time of the Budget in the years 1967-76. Apart from manufacturing output the errors have been adjusted for subsequent major changes in fiscal policy.

⁽²⁾ Margin applies to General Government Consumption.

ECONOMIC OUTLOOK TO 1980—continued

TABLE 4. FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT

£ million at 1975 prices, seasonally adjusted

	Con- sumers' expendi- ture	General Government expenditure on goods and services			Other fixed invest- ment	Exports of goods and services	Stock- building	Total final expendi- ture	Less imports of goods and services	Less adjust- ment to factor cost	Plus Statistical Adjust- ment ⁽¹⁾	Gross domestic product at factor cost ⁽¹⁾	GDP index 1975 =100
		Final con- sumption	Fixed invest- ment	Total									
1977	62,950	23,300	3,850	27,150	16,100	31,500	1,000	138,700	30,350	10,800	100	97,650	105.0
1978	66,400	23,650	3,350	27,000	17,100	32,250	950	143,700	31,750	11,450	0	100,500	108.1
1979	68,350	24,000	3,300	27,300	17,000	32,100	450	145,200	33,100	11,600	350	100,850	108.5
1978 first half ...	32,800	11,800	1,750	13,550	8,550	15,900	550	71,350	15,800	5,700	0	49,850	107.2
second half ...	33,600	11,850	1,600	13,450	8,550	16,350	400	72,350	15,950	5,750	0	50,650	109.0
1979 first half ...	34,350	12,000	1,700	13,700	8,500	15,700	250	72,500	16,500	5,800	250	50,450	108.5
second half ...	34,000	12,000	1,600	13,600	8,500	16,400	200	72,700	16,600	5,800	100	50,400	108.5
1980 first half ...	34,050	11,900	1,500	13,400	8,400	16,600	-150	72,300	16,650	5,800	100	49,950	107.4
<i>Percentage changes</i>													
First half 1978 to first half 1979 ...	4½	2	-2	1½	-1	-1		1½	4½	1		1	
Second half 1978 to second half 1979	1	1½	-3	1	-½	½		½	4	1		-½	
First half 1979 to first half 1980 ...	-1	-1	-12	-2½	-1½	5½		-½	1	0		-1	
<i>Percentage changes at annual rate</i>													
First half 1978 to second half 1979	2½	1	-6	0	0	2		1½	3½	1		1	
Second half 1978 to first half 1980 ...	1	½	-6	-½	-1½	1		0	3	½		-1	

⁽¹⁾ All figures in Table 4 are based on "compromise" estimates of gross domestic product. The statistical adjustment reflects the different movement of expenditure and compromise series.
 Note: Figures in £ million are rounded to £50 million. Percentage changes are calculated from unrounded levels in £ million and then rounded to ½ per cent. The GDP index in the final column is calculated from unrounded numbers.

PART II

PUBLIC SECTOR TRANSACTIONS

INTRODUCTION

Tables 5 and 6 present the transactions of the public sector in terms of the concepts used in the national income accounts⁽¹⁾. Table 7 draws on them to show figures for public expenditure (at outturn prices), as defined in the most recent public expenditure White Paper (Cmnd. 7439 of January 1979).

Public expenditure

The estimated value of public expenditure in 1978-79 shown in Table 7 is close to the forecast made in April 1978. The estimated volume implied by the estimated outturn figure is $\frac{1}{2}$ -1 per cent lower than the projection included in Cmnd. 7439. Total shortfall at survey prices in the year now appears to have been around £2½-3 billion.

The expenditure policies described in the Budget Statement are expected to reduce the volume of public expenditure in 1979-80 by at least 3 per cent below the outturn projected in Cmnd. 7439, probably to a level similar to that now estimated for 1978-79.

⁽¹⁾ A full description of the principles on which the national income accounts are based and of the methods used in their compilation is given in "National Accounts Statistics: Sources and Methods", H.M.S.O., 1968.

Public sector transactions by economic category (Tables 5 and 6)

These tables show how the transactions of general government and public corporations contribute to the public sector borrowing requirement. In Part C of Table 5 the financial transactions of the public sector are consolidated to exclude transactions between general government and public corporations. The PSBR is analysed to show the net borrowing from the private sector and abroad by each sub-sector within the public sector.

The estimated outturn figures for 1978-79 are based on partial information. Revised estimates will appear in Table 2.7 of Financial Statistics from July onwards⁽²⁾. The forecasts for 1979-80 are consistent with Table 3. The figures "before Budget changes" shown in Table 5 differ from those "after Budget changes" only by the direct effect of changes in taxation and in expenditure policies; they do not remove the effects of changes in the level of economic activity or prices resulting from the Budget measures.

⁽²⁾ Issued monthly by the Central Statistical Office.

TABLE 5. PUBLIC SECTOR TRANSACTIONS

	1978-79		1979-80 Forecast	
	Budget forecast ⁽¹⁾	Estimated outturn	Before Budget changes	After Budget changes
A. GENERAL GOVERNMENT				
CURRENT RECEIPTS				
Taxes on income	23,690	22,882	29,154	25,089
Taxes on expenditure	23,507	24,690	28,765	32,427
National insurance, etc., contributions	10,117	10,119	11,630	11,630
Gross trading surplus ⁽²⁾	165	206	238	238
Rent ⁽²⁾	2,233	2,349	2,624	2,624
Capital consumption ⁽³⁾	1,145	1,023	1,153	1,153
Interest and dividends from—				
Public corporations	1,719	1,734	2,008	2,008
Other	1,369	1,303	1,439	1,439
TOTAL	63,945	64,306	77,011	76,608
CAPITAL RECEIPTS				
Current surplus ⁽²⁾	40	—595	—819	—10
Taxes on capital	935	963	1,017	1,014
Financial deficit (on current and capital transactions)—				
Central government	4,327	5,136	6,378	5,054
Local authorities	1,901	1,033	1,417	906
General government	6,228	6,169	7,795	5,960
TOTAL	7,203	6,537	7,993	6,964
B. PUBLIC CORPORATIONS				
APPROPRIATION ACCOUNT: INCOME				
Gross trading surplus ⁽²⁾	5,568	5,446	5,896	6,052
Rent and other non-trading income	729	708	813	813
TOTAL	6,297	6,154	6,709	6,865
CAPITAL RECEIPTS				
Undistributed income ⁽²⁾	3,698	3,539	3,780	3,936
Capital transfers from—General government	431	378	464	445
Other	60	105	70	70
Financial deficit (balance of appropriation and capital accounts)—Nationalised industries	601	792	871	479
Other public corporations	555	527	820	736
TOTAL	5,345	5,341	6,005	5,666
C. FINANCIAL TRANSACTIONS OF THE PUBLIC SECTOR				
RECEIPTS				
Receipts from certain pension schemes (net)	79	223	200	200
Accruals adjustment	—496	—835	—890	—1,549
Miscellaneous capital transactions (net) ⁽⁴⁾	43	—453	—75	—75
Net borrowing from the private sector and overseas by—				
Central government	7,937	8,043	10,902	9,564
Local authorities	668	955	771	260
General government	8,605	8,998	11,673	9,824
Nationalised industries	—73	312	—450	—582
Other public corporations	5	—83	63	63
Proceeds from sale of assets	—	—	—	—1,000
Total (public sector borrowing requirement)	8,537	9,227	11,286	8,305
TOTAL	8,163	8,162	10,521	6,881

⁽¹⁾ Differences from the figures given in Table 6 of the Financial Statement and Budget Report 1978-79 (H.C. 310) reflect changes of classification.

⁽²⁾ Before allowing for depreciation and stock appreciation.

⁽³⁾ Imputed charge for consumption of non-trading capital.

⁽⁴⁾ Includes unidentified transactions.

⁽⁵⁾ Counterpart assigned to central government borrowing requirement.

	1978-79		1979-80 Forecast	
	Budget forecast ⁽¹⁾	Estimated outturn	Before Budget changes	After Budget changes
A. GENERAL GOVERNMENT				
CURRENT EXPENDITURE				
Current expenditure on goods and services	32,876	33,446	40,248	39,489
Subsidies	3,329	3,633	4,157	4,047
Debt interest	7,541	7,555	8,898	8,898
Current grants to personal sector	18,730	18,631	22,526	22,273
Current grants abroad	1,429	1,636	2,001	1,911
Total	63,905	64,901	77,830	76,618
Current surplus ⁽²⁾ —Central government	—1,806	—2,784	—3,508	—2,560
Local authorities	1,846	2,189	2,689	2,550
TOTAL	63,945	64,306	77,011	76,608
CAPITAL EXPENDITURE				
Gross domestic fixed capital formation	5,131	4,544	5,748	4,938
Increase in value of stocks	110	131	95	95
Capital grants to—				
Public corporations	431	378	464	445
Private sector	1,531	1,484	1,686	1,486
TOTAL	7,203	6,537	7,993	6,964
B. PUBLIC CORPORATIONS				
APPROPRIATION ACCOUNT: PAYMENTS				
Interest and dividends to—				
General government	1,719	1,734	2,008	2,008
Other	870	851	857	857
Taxes on income	10	30	64	64
Total	2,599	2,615	2,929	2,929
Undistributed income ⁽²⁾	3,698	3,539	3,780	3,936
TOTAL	6,297	6,154	6,709	6,865
CAPITAL EXPENDITURE				
Gross domestic fixed capital formation	4,963	4,874	5,458	5,119
Increase in value of stocks	382	467	547	547
TOTAL	5,345	5,341	6,005	5,666
C. FINANCIAL TRANSACTIONS OF THE PUBLIC SECTOR				
EXPENDITURE				
Financial deficit—				
General government	6,228	6,169	7,795	5,960
Public corporations	1,156	1,319	1,691	1,215
Total	7,384	7,488	9,486	7,175
Net lending to private sector	—140	—273	410	410
Net lending, etc., abroad	303	492	110	85
Cash expenditure on company securities	616	455	240	211
Unallocated contingency reserve ⁽⁵⁾	—	—	275	—
Proceeds from sale of assets	—	—	—	—1,000
TOTAL	8,163	8,162	10,521	6,881

TABLE 6. SUB-SECTOR TRANSACTIONS

Receipts positive/payments negative	1978-79 Estimated outturn					
	General government			Nationalised industries ⁽¹⁾	Other public corporations ⁽¹⁾	Total
	Central government	Local authorities	Total			
CURRENT ACCOUNT:						
Taxes on income	22,882	—	22,882	-19	-11	22,852
Taxes on expenditure	18,694	5,996 ⁽²⁾	24,690	—	—	24,690
National insurance, etc., contributions ...	10,119	—	10,119	—	—	10,119
Gross trading surplus ⁽³⁾	40	166	206	4,679	767	5,652
Gross rental income ⁽³⁾	54	2,295	2,349	35	253	2,637
Capital consumption ⁽⁴⁾	323	700	1,023	—	—	1,023
Interest receipts—private sector and overseas	734	526	1,260	135	277	1,672
Interest payments—private sector and overseas	-5,790	-1,765	-7,555	-707	-144	-8,406
Interest payments—within public sector	2,928	-1,237	1,691	-1,004	-687	—
Dividends	86	—	86	-15	-20	51
Current expenditure on goods and services	-20,039	-13,407	-33,446	—	—	-33,446
Subsidies	-3,026	-607	-3,633	—	—	-3,633
Current grants to personal sector	-17,744	-887	-18,631	—	—	-18,631
Current grants to local authorities	-10,409	10,409	—	—	—	—
Current grants abroad	-1,636	—	-1,636	—	—	-1,636
CURRENT BALANCE⁽³⁾	-2,784	2,189	-595	3,104	435	2,944
CAPITAL RECEIPTS AND EXPENDITURE:						
Taxes on capital	963	—	963	—	—	963
Capital transfers from private sector ...	—	—	—	90	15	105
Gross domestic fixed capital formation ...	-1,237	-3,307	-4,544	-3,710	-1,164	-9,418
Increase in value of stocks	-131	—	-131	-427	-40	-598
Capital grants to private sector	-1,370	-114	-1,484	—	—	-1,484
Capital grants within public sector	-577	199	-378	151	227	—
FINANCIAL DEFICIT (balance of current and capital accounts) ...	-5,136	-1,033	-6,169	-792	-527	-7,488
FINANCIAL TRANSACTIONS:						
Net lending to private sector	-40	15	-25	—	298	273
Net lending to overseas governments, etc.	-163	—	-163	—	—	-163
Other net lending and transactions abroad	-197	—	-197	-33	-99	-329
Cash expenditure on company securities	1	—	1	-12	-444	-455
Receipts from certain pension schemes (net)	223	—	223	—	—	223
Accruals adjustment	-829	-14	-843	4	4	-835
Miscellaneous capital transactions (net) ⁽⁵⁾	165	-262	-97	-91	-265	-453
Loans within public sector	-2,067	339	-1,728	612	1,116	—
Borrowing from private sector and overseas (public sector borrowing requirement)	8,043	955	8,998	312	-83	9,227
TOTAL	5,136	1,033	6,169	792	527	7,488

(1) Excludes transactions on operating account, i.e., receipts from sales and subsidies, and payments for current goods and services.

(2) Local rates.

(3) Before allowing for depreciation and stock appreciation.

(4) Imputed charge for consumption of non-trading capital.

(5) Includes unidentified transactions.

(6) As sales of assets are unallocated, no breakdown of the public sector borrowing requirement by spending authority is given.

Receipts positive/payments negative	1979-80 Forecast after Budget changes					
	General government			Nationalised industries ⁽¹⁾	Other public corporations ⁽¹⁾	Total
	Central government	Local authorities	Total			
CURRENT ACCOUNT:						
Taxes on income	25,089	—	25,089	—52	—12	25,025
Taxes on expenditure	25,351	7,076 ⁽²⁾	32,427	—	—	32,427
National insurance, etc., contributions ...	11,630	—	11,630	—	—	11,630
Gross trading surplus ⁽³⁾	54	184	238	5,213	839	6,290
Gross rental income ⁽³⁾	61	2,563	2,624	41	275	2,940
Capital consumption ⁽⁴⁾	383	770	1,153	—	—	1,153
Interest receipts—private sector and overseas	848	535	1,383	196	293	1,872
Interest payments—private sector and overseas	—6,862	—2,036	—8,898	—706	—151	—9,755
Interest payments—within public sector	3,290	—1,335	1,955	—1,077	—878	—
Dividends	109	—	109	—21	—24	64
Current expenditure on goods and services	—23,833	—15,656	—39,489	—	—	—39,489
Subsidies	—3,457	—590	—4,047	—	—	—4,047
Current grants to personal sector ...	—21,337	—936	—22,273	—	—	—22,273
Current grants to local authorities ...	—11,975	11,975	—	—	—	—
Current grants abroad	—1,911	—	—1,911	—	—	—1,911
CURRENT BALANCE⁽³⁾	—2,560	2,550	—10	3,594	342	3,926
CAPITAL RECEIPTS AND EXPENDITURE:						
Taxes on capital	1,014	—	1,014	—	—	1,014
Capital transfers from private sector ...	—	—	—	65	5	70
Gross domestic fixed capital formation ...	—1,426	—3,512	—4,938	—3,810	—1,309	—10,057
Increase in value of stocks	—95	—	—95	—517	—30	—642
Capital grants to private sector	—1,303	—183	—1,486	—	—	—1,486
Capital grants within public sector ...	—684	239	—445	189	256	—
FINANCIAL DEFICIT (balance of current and capital accounts) ...	—5,054	—906	—5,960	—479	—736	—7,175
FINANCIAL TRANSACTIONS:						
Net lending to private sector	—20	—234	—254	—	—156	—410
Net lending to overseas governments, etc.	—170	—	—170	—	—	—170
Other net lending and transactions abroad	249	—	249	—52	—112	85
Cash expenditure on company securities	—	—	—	—14	—197	—211
Receipts from certain pension schemes (net)	200	—	200	—	—	200
Accruals adjustment	—1,565	9	—1,556	5	2	—1,549
Miscellaneous capital transactions (net) ⁽⁵⁾	74	—98	—24	—136	85	—75
Proceeds from sale of assets	—	—	—	—	—	1,000
Loans within public sector	—3,278	969	—2,309	1,258	1,051	—
Borrowing from private sector and overseas	9,564	260	9,824	—582	63	9,305
Proceeds from sale of assets	—	—	—	—	—	—1,000
Public sector borrowing requirement	(⁽⁶⁾)	(⁽⁶⁾)	(⁽⁶⁾)	(⁽⁶⁾)	(⁽⁶⁾)	8,305
TOTAL... ..	5,054	906	5,960	479	736	7,175

TABLE 7. PUBLIC EXPENDITURE

£ million

	1978-79 Budget forecast ⁽¹⁾	1978-79 Estimated outturn	1979-80 Forecast after Budget changes
General government expenditure:			
Current	63,905	64,901	76,618
Capital	7,203	6,537	6,964
Net lending, etc.	2,328	2,112	2,484
Total	73,436	73,550	86,066
Net adjustments ⁽²⁾ :			
Certain public corporations ⁽³⁾	517	205	398
Debt interest ⁽⁴⁾	-4,962	-5,203	-5,886
Other, including capital consumption ⁽⁵⁾	-1,681	-1,300	-1,948
Total public expenditure, White Paper coverage ⁽⁵⁾	67,310	67,252	78,630
Add net overseas and market borrowing (other than short term) of nationalised industries	-10	99	-361
Subtract adjusted debt interest	-2,579	-2,352	-3,012
Estimated outturn of White Paper planning total ⁽⁵⁾	64,721	64,999	75,257

⁽¹⁾ Differences from the figures given in the table in the introduction to Part II of the Financial Statement and Budget Report 1978-79 (H.C. 310) reflect changes of classification.

⁽²⁾ These adjustments are described in Part 6 of Cmnd. 7439 and evaluated for past periods in Table 2.4 of Financial Statistics.

⁽³⁾ Add their capital expenditure and subtract government grants and lending to them. Full list of these public corporations is shown in Cmnd. 7439 Part 6.

⁽⁴⁾ Subtract internally financed payments.

⁽⁵⁾ Column 1 includes an allowance for the minor changes in definition of public expenditure between Cmnd. 7049 and Cmnd. 7439.

PART III

CENTRAL GOVERNMENT TRANSACTIONS

The tables in this Part present the transactions of the central government in more detail both by reference to the activities of the relevant funds and accounts and in accordance with the national income accounts classification. All figures for receipts and expenditure both in 1978-79 and in 1979-80 are at the estimated prices of each year. The estimates for 1979-80 "before Budget changes" remove from the forecast the direct effect of changes in expenditure and in taxation as set out in Table 16. They do not remove indirect effects of changes in the level of economic activity and prices resulting from the Budget measures.

TABLE 8. SUMMARY OF CENTRAL GOVERNMENT TRANSACTIONS

£ million

	1978-79		1979-80 Forecast	
	Budget forecast	Outturn ⁽¹⁾	Before Budget changes	After Budget changes
CONSOLIDATED FUND				
Revenue (Table 9)	42,746	43,088	52,168	51,013
Expenditure (Table 10)	51,378	51,469	61,096	59,371
Deficit	-8,632	-8,381	-8,928	-8,358
NATIONAL LOANS FUND				
Consolidated Fund deficit (as above)	-8,632	-8,381	-8,928	-8,358
Other transactions:				
Receipts (Table 11)	6,400	6,458	8,150	8,150
Payments (Table 11)	-7,640	-6,674	-10,413	-10,119
Total net borrowing by the National Loans Fund	-9,872	-8,597	-11,191	-10,327
Other funds and accounts (net) (Table 15)	+1,935	+554	+289	+763
CENTRAL GOVERNMENT BORROWING REQUIREMENT	-7,937	-8,043	-10,902	-9,564⁽²⁾

⁽¹⁾ As a result of Civil Service industrial action, payments and receipts in 1978-79 may each have been reduced by about £150 million, the net effect on the central government borrowing requirement being negligible.

⁽²⁾ This figure does not take account of the proceeds from the sale of assets (see Tables 5 and 6).

TABLE 9. TAXATION AND MISCELLANEOUS RECEIPTS

£ million

	1978-79		1979-80 Forecast	
	Budget forecast	Outturn	Before Budget changes	After Budget changes
TAXATION				
<i>Inland Revenue—</i>				
Income tax	19,310 ⁽²⁾	18,776	23,157	19,655
Surtax	15	15	10	10
Corporation tax ⁽¹⁾	4,170 ⁽²⁾	3,938	5,046	4,850
Petroleum revenue tax	170	183	620	730
Capital gains tax	375	353	390	390
Development land tax	10	13	22	20
Estate duty	50	46	25	25
Capital transfer tax	320	323	360	360
Stamp duties	440	433	550	550
<i>Total Inland Revenue</i>	<i>24,860⁽²⁾</i>	<i>24,080</i>	<i>30,180</i>	<i>26,590</i>
<i>Customs and Excise—</i>				
Value added tax	4,775	4,900	6,175	8,325
Oil	2,500	2,460	2,535	2,900
Tobacco	2,450	2,445	2,520	2,550
Spirits, beer, wine, cider and perry	2,400	2,335	2,500	2,400
Betting and gaming	350	345	410	410
Car tax	325	380	520	510
Other excise duties	10	10	10	10
<i>EEC own resources⁽³⁾—</i>				
Customs duties, etc.	765	740	860	860
Agricultural levies	175	220	285	285
<i>Total Customs and Excise</i>	<i>13,750</i>	<i>13,835</i>	<i>15,815</i>	<i>18,250</i>
Vehicle excise duties	1,120	1,113	1,148	1,148
National insurance surcharge	1,475 ⁽²⁾	1,914	2,952	2,952
TOTAL TAXATION	41,205	40,942	50,095	48,940
MISCELLANEOUS RECEIPTS				
Broadcast receiving licences	317	337	383	383
Interest and dividends	264	267	310	310
Other ⁽⁴⁾	960	1,542	1,380	1,380
Total	42,746	43,088	52,168	51,013

⁽¹⁾ Corporation tax receipts include gross payments of advance corporation tax 1,500

1,422 1,820 1,630

⁽²⁾ Changes in the Finance Act, 1978 reduced the Budget forecast of income tax to £18,865 million, of corporation tax to £4,137 million (including advance corporation tax of £1,467 million) and of total Inland Revenue duties to £24,382 million; the forecast of the national insurance surcharge was increased to £1,940 million.

⁽³⁾ Customs duties and agricultural levies are accountable to the European Communities as "own resources"; actual payments to the Communities are recorded in Table 10.

⁽⁴⁾ Includes the 10 per cent of "own resources" refunded by the Communities to meet the costs of collection.

**TABLE 10. SUPPLY SERVICES AND CONSOLIDATED FUND
STANDING SERVICES**

£ million

	1978-79		1979-80 Forecast	
	Budget forecast	Outturn	Before Budget changes	After Budget changes
SUPPLY SERVICES⁽¹⁾				
I. Defence	6,886	7,419	8,463	8,463
II. Overseas Services	1,062	1,106	1,291	1,291
III. Agriculture, Fisheries and Forestry	535	545	644	644
IV. Trade, Industry, Energy and Employment	2,568	3,047	3,078	3,078
V. Government Investment in Nationalised Industries	481	928	1,044	1,044
VI. Roads and Transport	1,256	1,263	1,491	1,491
VII. Housing	2,618	2,674	3,020	3,020
VIII. Other Environmental Services	299	308	411	411
IX. Law, Order and Protective Services	1,249	1,297	1,562	1,562
X. Education and Libraries, Science and Arts	1,740	1,796	2,105	2,105
XI. Health and Personal Social Services	6,163	6,807	7,681	7,681
XII. Social Security	6,683	6,892	6,011	6,011
XIII. Other Public Services	1,071	1,130	1,311	1,311
XIV. Common Services	1,157	1,166	1,489	1,489
XV. Northern Ireland	592	792	924	924
XVII. Rate Support Grant, Financial Transactions, etc.	7,968	8,593	11,633	11,633
Total	42,328⁽²⁾	45,763	52,158	52,158
Allowance for price changes (rounded)	2,400	—	—	—
Revised and supplementary provision (net)	1,450	—	2,225 ⁽³⁾	500 ⁽³⁾
TOTAL SUPPLY SERVICES	46,178	45,763	54,383	52,658
CONSOLIDATED FUND STANDING SERVICES				
Payment to the National Loans Fund in respect of service of the national debt	3,160	3,222	3,850	3,850
Northern Ireland—share of taxes, etc.	786	765	883	883
Payments to the European Communities, etc.	1,237	1,669	1,937	1,937
Contingencies Fund	—	32	—	—
Other services	17	18	43	43
TOTAL CONSOLIDATED FUND STANDING SERVICES	5,200	5,706	6,713	6,713
Total	51,378	51,469	61,096	59,371

⁽¹⁾ As a consequence of the re-introduction of Class V in 1979-80, the 1978-79 Budget forecasts and estimated outturns for Classes IV and VI have been revised to the new classifications.

⁽²⁾ At 1978-79 Estimate prices.

⁽³⁾ The main elements in the net provision after Budget changes are additions in respect of agreed pay awards and revised provision for services affected by the changes to specific programmes and transfers announced in the Budget Statement.

TABLE 11. SUMMARY OF NATIONAL LOANS FUND RECEIPTS AND PAYMENTS

£ million

	1978-79		1979-80 Forecast	
	Budget forecast	Outturn	Before Budget changes	After Budget changes
RECEIPTS				
Interest on loans, profits of the Issue Department of the Bank of England, etc.	3,240	3,236	4,300	4,300
Service of the National Debt—balance met from the Consolidated Fund	3,160	3,222	3,850	3,850
TOTAL RECEIPTS	6,400	6,458	8,150	8,150
PAYMENTS				
SERVICE OF THE NATIONAL DEBT				
Interest	6,300	6,369	8,040	8,040
Management and expenses	100	89	110	110
TOTAL	6,400	6,458	8,150	8,150
LOANS (NET)⁽¹⁾				
To nationalised industries	—273	—562	485	275
To other public corporations	294	382	707	623
To local and harbour authorities	1,123	313	974	974
To private sector	—4	—3	—3	—3
Within central government	100	86	100	100
TOTAL	1,240	216	2,263	1,969
TOTAL PAYMENTS	7,640	6,674	10,413	10,119

⁽¹⁾ Details in Tables 12 and 13.

TABLE 12. LOANS FROM THE NATIONAL LOANS FUND
(Net issues)

£ million

	1978-79		1979-80 Forecast	
	Budget Forecast	Outturn	Before Budget changes	After Budget changes
LOANS TO NATIONALISED INDUSTRIES (see Table 13)	-19	-252	650	390
Other National Oil Account transactions	-254	-310	-165	-115
TOTAL	-273	-562	485	275
LOANS TO OTHER PUBLIC CORPORATIONS:				
New Towns—Development Corporations and Commission	420	344	428	406
Scottish Special Housing Association	47	32	46	46
Housing Corporation	42	38	118	118
Covent Garden Market Authority	1	-1	-1	-1
Civil Aviation Authority	14	12	7	7
Regional Water Authorities	110	268	312	250
National Enterprise Board	-204	-306	30	30
Scottish Development Agency	8	2	9	9
Welsh Development Agency	5	1	4	4
Land Authority for Wales	4	1	4	4
Development Board for Rural Wales	4	4	4	4
Royal Mint	-3	—	—	—
Royal Ordnance Factories	-4	-11	-4	-4
Property Services Agency Supplies Division	—	-2	—	—
Less shortfall and borrowing from other sources	-150	—	-250	-250
TOTAL	294	382	707	623
LOANS TO LOCAL AND HARBOUR AUTHORITIES:				
Local Authorities	1,100	304	950	950
Harbour Authorities	23	9	24	24
TOTAL	1,123	313	974	974
LOANS TO PRIVATE SECTOR:				
Shipbuilding Industry Board	-1	—	—	—
Building Societies	-3	-3	-3	-3
TOTAL	-4	-3	-3	-3
LOANS WITHIN CENTRAL GOVERNMENT:				
Northern Ireland	100	87	100	100
Married quarters for armed forces	—	-1	—	—
TOTAL	100	86	100	100
Total—Net Lending	1,240	216	2,263	1,969

TABLE 13. FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

A. 1978-79 Estimated Outturn

£ million

Nationalised Industries	Capital requirements ⁽¹⁾			Financed by ⁽¹⁾							
	Fixed assets in the U.K.	Other	Total	Total internal resources ⁽²⁾	External finance						
					Government grants ⁽³⁾	Issues of public dividend capital (PDC)	Net borrowing from the NLF	Net overseas borrowing	Other domestic borrowing/lending	Leasing	Total ⁽⁴⁾
National Coal Board	494	49	543	-64	174	—	223	170	23	17	607
Electricity (England and Wales) ...	716	111	827	931	5	—	-7	115	-238	21	-104
North of Scotland Hydro-Electric Board	48	27	75	23	7	—	32	24	-12	1	52
South of Scotland Electricity Board ...	53	12	65	75	—	—	-38	-5	33	—	-10
British Gas Corporation	280	60	340	769	—	—	-666	-3	213	27	-429
British National Oil Corporation ...	245	42	287	17	—	—	310 ⁽⁵⁾	-41 ⁽⁶⁾	1	—	270
British Steel Corporation	328	201	529	-223	—	850	-161	-2	48	17	752
Post Office	995	99	1,094	1,180	—	4	18	-200	68	24	-86
British Airways Board	221	1	222	150	—	10	-14	30	-3	49	72 ⁽⁷⁾
British Airports Authority	33	9	42	46	1	—	-1	—	-4	—	-4
British Railways Board	349	-186	163	-456	541	—	16	4	25	33	619
British Transport Docks Board	9	2	11	24	—	—	-21	—	8	—	-13
British Waterways Board	2	-1	1	-18	20	—	-1	—	—	—	19
National Freight Corporation	36	-4	32	3	13	—	—	—	4	12	29
National Bus Company	54	3	57	-2	48	—	5	—	-1	7	59
Scottish Transport Group	17	1	18	3	13	—	—	—	2	—	15
British Aerospace	29	75	104	56	50	—	-2	—	—	—	48
British Shipbuilders	27	27	54	-64	10	—	55	—	53 ⁽⁸⁾	—	118 ⁽⁸⁾
TOTAL	3,936	528	4,464	2,450	882	864	-252	92	220	208	2,014

⁽¹⁾ The capital value of leased assets is included.⁽²⁾ Comprising balance of revenue, depreciation and provisions, sales of fixed assets and other capital receipts (including Regional Development Grants).⁽³⁾ Shows subsidies and capital grants received in the year.⁽⁴⁾ Except in the case of BNOC, the figure shown against each industry is the provisional cash limit outturn for the year.⁽⁵⁾ Finance from royalty and licence fee revenues in the National Oil Account.⁽⁶⁾ Forward oil sale proceeds and obligations.⁽⁷⁾ Includes dividend on public dividend capital (£16 million) excluded by convention from the cash limit.⁽⁸⁾ Includes £74 million that British Shipbuilders was lending short-term on 31 March 1978. Use of these funds during 1978-79 was not included in the cash limit.

TABLE 13—(continued). FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

B. 1979-80 Forecast

£ million

Nationalised industries	Capital requirements ⁽¹⁾			Financed by ⁽¹⁾			
	Fixed assets in the U.K.	Other	Total	Total internal resources ⁽²⁾	External finance		
					Government grants ⁽³⁾	Net borrowing issues of PDC and leasing	Total ⁽⁴⁾
National Coal Board	579	-60	519	-190	175	534	709
Electricity (England and Wales)	822	-60	762	830	8	-76	-68
North of Scotland Hydro-Electric Board	49	28	77	25	14	38	52
South of Scotland Electricity Board	90	33	123	76	—	47	47
British Gas Corporation	294	18	312	761	—	-449	-449
British National Oil Corporation	283	-18	265	150	—	115 ⁽⁵⁾	115
British Steel Corporation	325	148	473	-227	—	700	700
Post Office	1,128	8	1,136	1,246	—	-110	-110
British Airways Board	332	16	348	176	—	172	172
British Airports Authority	44	6	50	50	1	-1	—
British Railways Board	370	-149	221	-494	663 ⁽⁶⁾	52	715 ⁽⁶⁾
British Transport Docks Board	17	1	18	25	—	-7	-7
British Waterways Board	5	—	5	-21	23	3	26
National Freight Corporation	37	6	43	15	11	17	28
National Bus Company	63	4	67	-15	58 ⁽⁶⁾	24	82 ⁽⁶⁾
Scottish Transport Group	16	—	16	3	13 ⁽⁶⁾	—	13 ⁽⁶⁾
British Aerospace	45	78	123	70	—	53	53
British Shipbuilders	42	66	108	-142	50	200	250
Deduction for shortfall	-500	—	-500	—	—	-500	-500
TOTAL	4,041	125	4,166	2,338	1,016	812 ⁽⁷⁾⁽⁸⁾	1,828 ⁽⁸⁾

⁽¹⁾ The capital value of leased assets is included.⁽²⁾ Comprising balance of revenue, depreciation and provisions, sales of fixed assets and other capital receipts (including Regional Development Grants).⁽³⁾ Shows subsidies and capital grants to be received in the year.⁽⁴⁾ Except in the case of BNOC, the figure shown against each industry is its cash limit for the year.⁽⁵⁾ Includes finance from royalty and licence fee revenues in the National Oil Account.⁽⁶⁾ Includes local government grants.⁽⁷⁾ Of which: Government loans 390

Overseas borrowing 150

Other domestic borrowing/lending -732

PDC issues and other issues under Section 18 of the Iron and Steel Act 1975 849

Leasing 155

⁽⁸⁾ The convention of nil dividend on public dividend capital which was applied to these tables in the past has been dropped and these figures include a provision of £34 million for such dividend payments with a corresponding adjustment to total internal resources.

TABLE 14. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

£ million

	1978-79		1979-80 Forecast			1978-79		1979-80 Forecast	
	Budget forecast ⁽¹⁾	Estimated outturn	Before Budget changes	After Budget changes		Budget forecast ⁽¹⁾	Estimated outturn	Before Budget changes	After Budget changes
CURRENT RECEIPTS					CURRENT EXPENDITURE				
Taxes on income	23,690	22,882	29,154	25,089	Current expenditure on goods and services	19,498	20,039	24,469	23,833
National insurance contributions ...	9,165	9,152	10,526	10,526	Subsidies	2,852	3,026	3,532	3,457
National health contributions ...	766	779	890	890	Debt interest	5,706	5,790	6,862	6,862
Redundancy fund contributions ...	186	188	214	214	Current grants to—				
Taxes on expenditure	17,830	18,694	21,689	25,351	Local authorities	10,347	10,409	12,315	11,975
Gross trading surplus ⁽²⁾	—7	40	54	54	Personal sector	17,850	17,744	21,547	21,337
Rent ⁽²⁾	44	54	61	61	Abroad	1,429	1,636	2,001	1,911
Capital consumption ⁽³⁾	359	323	383	383	Total current expenditure ...	57,682	58,644	70,726	69,375
Interest, dividends from—					Current deficit ⁽²⁾	—1,806	—2,784	—3,508	—2,560
Local authorities	1,371	1,347	1,467	1,467					
Public corporations	1,595	1,624	1,876	1,876					
Other	877	777	904	904					
TOTAL	55,876	55,860	67,218	66,815	TOTAL	55,876	55,860	67,218	66,815
CAPITAL RECEIPTS					CAPITAL EXPENDITURE				
Current deficit ⁽²⁾	—1,806	—2,784	—3,508	—2,560	Gross domestic fixed capital formation	1,409	1,237	1,585	1,426
Taxes on capital	935	963	1,017	1,014	Increase in value of stocks ...	110	131	95	95
					Capital grants to—				
TOTAL	—871	—1,821	—2,491	—1,546	Local authorities	292	259	315	314
Financial deficit	4,327	5,136	6,378	5,054	Public corporations	307	318	389	370
					Private sector	1,338	1,370	1,503	1,303
TOTAL	3,456	3,315	3,887	3,508	TOTAL	3,456	3,315	3,887	3,508
FINANCIAL TRANSACTIONS: RECEIPTS					FINANCIAL TRANSACTIONS: EXPENDITURE				
Receipts from certain pension schemes (net)	79	223	200	200	Financial deficit	4,327	5,136	6,378	5,054
Accruals adjustment	—550	—829	—906	—1,565	Net lending to—				
Miscellaneous capital transactions (net)	308	165	74	74	Local authorities	1,122	339	969	969
Borrowing requirement (net balance)—					Public corporations	2,043	1,728	2,682	2,309
Increase in net indebtedness to Bank of England Banking Department		—1,568			Private sector	64	40	20	20
Increase in notes and coins in circulation		1,030			Net lending to overseas governments	—14	29	41	41
Increase in non-marketable debt		2,704			Drawings from United Kingdom subscriptions to international lending bodies	179	134	129	129
Net receipts from domestic market transactions		5,301			Other net lending and transactions abroad	54	197	—224	—249
Other domestic transactions		—188			Cash expenditure on company securities (net)	—1	—1	—	—
Direct borrowing (net) from overseas governments and institutions (including IMF) ...		—876			Unallocated contingency reserve ⁽⁵⁾ ...	—	—	275	—
Net change in gold and foreign currency reserves (increase—) ⁽⁴⁾		1,525							
Overseas transactions in marketable debt		115							
Total borrowing requirement ...	7,937	8,043	10,902	9,564					
TOTAL	7,774	7,602	10,270	8,273	TOTAL	7,774	7,602	10,270	8,273

(1) Differences from the figures given in Table 14 of the Financial Statement and Budget Report 1978-79 (H.C. 310) reflect changes in classification.

(2) Before allowing for depreciation and stock appreciation.

(3) Imputed charge for consumption of non-trading capital.

(4) Net change other than the increase arising from the allocation of I.M.F. Special Drawing Rights.

(5) Counterpart assigned to borrowing requirement.

TABLE 15. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

A. Analysis and reconciliation by fund—1978-79 estimated outturn

£ million

Receipts positive/payments negative	Consolidated Fund			National Loans Fund		Other central government funds and accounts ⁽¹⁾	Total central government
	Taxation and other receipts	Supply services	Standing services and deficit	Receipts	Payments		
A. RECEIPTS							
(i) Items entering into public sector receipts (see Table 6)							
Taxes on income ...	22,692	-2	—	—	—	192	22,882
National insurance contributions, etc. ...	—	745	—	—	—	9,374	10,119
Taxes on expenditure ...	17,445	-17	—	—	—	1,266	18,694
Other current receipts ...	213	70	—	4	—	907	1,194
Taxes on capital and other capital transactions (net) ...	1,232	17	—	—	—	-727	522
Borrowing requirement ⁽²⁾ ...	—	—	—	8,597	—	-554	8,043
TOTAL ...	41,582	813	—	8,601	—	10,458	61,454
(ii) Interest and dividends received from local authorities and public corporations ...	60	—	—	2,628	—	283	2,971
TOTAL RECEIPTS ...	41,642	813	—	11,229	—	10,741	64,425⁽³⁾
B. EXPENDITURE							
(i) Items entering into public sector expenditure (see Table 6)							
Current expenditure on goods and services ...	214	-18,745	-14	—	-30	-1,464	-20,039
Debt interest ...	—	-25	—	—	-5,075	-690	-5,790
Current grants to personal sector ...	17	-6,626	-2	—	—	-11,133	-17,744
Other current expenditure ...	413	-3,152	-1,652	—	—	-271	-4,662
Gross domestic fixed capital formation ...	11	-1,183	—	—	—	-65	-1,237
Other capital expenditure ...	86	-2,009	-19	—	3	39	-1,900
TOTAL ...	741	-31,740	-1,687	—	-5,102	-13,584	-51,372
(ii) Grants and net lending to local authorities and public corporations ...	12	-11,925	—	—	-133	-1,007	-13,053
TOTAL EXPENDITURE ...	753	-43,665	-1,687⁽⁵⁾	—	-5,235	-14,591	-64,425⁽³⁾
C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT							
Grant to National Insurance Fund ...	—	-1,976	—	—	—	1,976	—
Northern Ireland central government: transfers and loans ...	—	-560	-765	—	-87	1,412	—
Other loans and advances ...	—	31	-32	—	1	—	—
Debt interest (including profits of Issue Department) ...	12	-5	-3,222	3,826	-1,353	742	—
B.B.C. licence revenue ...	337	-337	—	—	—	—	—
Surplus receipts for surrender, etc. ...	344	-64	—	—	—	-280	—
Deficit on Consolidated Fund ...	—	—	8,381 ⁽⁶⁾	-8,381	—	—	—
TOTAL INTERNAL TRANSACTIONS ...	693	-2,911	4,362	-4,555	-1,439	3,850	—
Grand Total (A, B and C) ...	43,088⁽⁴⁾	-45,763⁽⁵⁾	2,675	6,674⁽⁷⁾	-6,674⁽⁷⁾	—	—

⁽¹⁾ Includes National Insurance Fund and the Northern Ireland central government: also includes imputed charge for consumption of non-trading capital and sundry adjustments (timing, etc.)

⁽²⁾ The borrowing requirement of the central government comprises the borrowing of the National Loans Fund (i.e. the Fund's net borrowing together with changes in Exchange Equalisation Account sterling capital) less any surplus (or plus any deficit) on the National Insurance Fund and changes in departmental balances invested in government debt, etc.

⁽³⁾ As included within Table 14.

⁽⁴⁾ As included in Table 9.

⁽⁵⁾ As included in Table 10.

⁽⁶⁾ As included in Table 8.

⁽⁷⁾ As included in Table 11.

TABLE 15—continued. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

B. Analysis and reconciliation by fund—1979–80 forecast after Budget changes

£ million

Receipts positive/payments negative	Consolidated Fund			National Loans Fund		Other central government funds and accounts ⁽¹⁾	Total central government
	Taxation and other receipts	Supply services	Standing services and deficit	Receipts	Payments		
A. RECEIPTS							
(i) Items entering into public sector receipts (<i>see</i> Table 6)							
Taxes on income ...	25,035	—6	—	—	—	60	25,089
National insurance contributions, etc. ...	—	840	—	—	—	10,790	11,630
Taxes on expenditure ...	23,066	—27	—	—	—	2,312	25,351
Other current receipts ...	250	97	—	2	—	1,053	1,402
Taxes on capital and other capital transactions (net) ...	1,078	79	—	—	—	—1,434	—277
Borrowing requirement (net balance) ⁽²⁾ ...	—	—	—	10,327	—	—763	9,564
TOTAL...	49,429	983	—	10,329	—	12,018	72,759
(ii) Interest and dividends received from local authorities and public corporations ...	72	—	—	2,938	—	333	3,343
TOTAL RECEIPTS	49,501	983	—	13,267	—	12,351	76,102⁽³⁾
B. EXPENDITURE							
(i) Items entering into public sector expenditure (<i>see</i> Table 6)							
Current expenditure on goods and services ...	304	—21,988	—40	—	—25	—2,084	—23,833
Debt interest ...	—	—37	—	—	—6,163	—662	—6,862
Current grants to personal sector ...	18	—8,104	—1	—	—	—13,250	—21,337
Other current expenditure ...	353	—3,573	—1,920	—	—	—228	—5,368
Gross domestic fixed capital formation ...	5	—1,540	—	—	—	109	—1,426
Other capital expenditure ...	195	—1,426	—19	—	3	—92	—1,339
TOTAL...	875	—36,668	—1,980	—	—6,185	—16,207	—60,165
(ii) Grants and net lending to local authorities and public corporations ...	9	—13,498	—	—	—1,872	—576	—15,937
TOTAL EXPENDITURE	884	—50,166	—1,980⁽⁴⁾	—	—8,057	—16,783	—76,102⁽³⁾
C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT							
Grant to National Insurance Fund ...	—	—2,276	—	—	—	2,276	—
Northern Ireland central government: transfers and loans ...	—	—691	—883	—	—	1,674	—
Debt interest (including profits of Issue Department) ...	12	—5	—3,850	5,210	—100	595	—
B.B.C. licence revenue ...	383	—383	—	—	—	—	—
Surplus receipts for surrender, etc. ...	233	—120	—	—	—	—	—
Deficit on Consolidated Fund ...	—	—	8,358 ⁽⁶⁾	—8,358	—	—113	—
TOTAL INTERNAL TRANSACTIONS	628	—3,475	3,625	—3,148	—2,062	4,432	—
Grand Total (A, B and C)	51,013⁽⁴⁾	—52,658⁽⁵⁾	1,645	10,119⁽⁷⁾	—10,119⁽⁷⁾	—	—

⁽¹⁾ Includes National Insurance Fund and the Northern Ireland central government: also includes imputed charge for consumption of non-trading capital and sundry adjustments (timing, prices and shortfall).

⁽²⁾ The borrowing requirement of the central government comprises the borrowing of the National Loans Fund, less any surplus (or plus any deficit) on the National Insurance Fund and changes in departmental balances invested in government debt, etc.

⁽³⁾ As included within Table 14.

⁽⁴⁾ As included in Table 9.

⁽⁵⁾ As included in Table 10.

⁽⁶⁾ As included in Table 8.

⁽⁷⁾ As included in Table 11.

ANNEX

PROPOSED CHANGES IN TAXATION

INLAND REVENUE

Income tax

The Finance Act 1979 increased the single person's allowance and the maximum wife's earned income relief from £985 to £1,075 and the married allowance from £1,535 to £1,675. It is now proposed that these allowances be further increased to £1,165 and £1,815, respectively.

The Finance Act 1979 increased the additional personal allowance from £550 to £600. It is now proposed to increase it further to £650.

The Finance Act 1979 also increased the age allowance for the single person from £1,300 to £1,420, for the married from £2,075 to £2,265, and the age allowance income limit from £4,000 to £4,400. It is now proposed that these levels be further increased to £1,540, £2,455 and £5,000, respectively.

It is proposed to extend the basic rate band by £2,000 to £9,250 (reduced, as appropriate, by any wife's earnings charged at the lower rate), and to reduce the basic rate of tax from 33 per cent to 30 per cent.

It is proposed to abolish the higher rates of tax above 60 per cent and to increase the width of the remaining higher rate bands. As a consequence of these changes, the structure of personal tax rates in operation in 1979-80 will be:

BANDS OF TAXABLE INCOME					
£					Per cent
0- 750	...	...	...	...	25
751-10,000	...	...	...	...	30
10,001-12,000	...	...	...	...	40
12,001-15,000	...	...	...	...	45
15,001-20,000	...	...	...	...	50
20,001-25,000	...	...	...	...	55
over 25,000	...	...	...	...	60

It is proposed that the investment income surcharge for 1979-80 should be charged at the single rate of 15 per cent, and that the threshold should be £5,000 for all taxpayers.

Following the withdrawal of child tax allowances in the Finance Act 1979 it is proposed to re-define the qualifying conditions for additional personal allowance and to repeal Section 13, Income and Corporation

Taxes Act 1970 (child-minder relief). It is also proposed that the child dependency allowance received by widows and certain other social security beneficiaries should be wholly exempt from income tax.

It is proposed that war widows' pensions should be wholly exempt from income tax.

It is proposed to reduce the profit restriction in calculating the amount of stock relief from 15 per cent to 10 per cent.

Income tax and corporation tax

It is proposed to write off the balance of stock relief still outstanding for 1973-74 and 1974-75 and to introduce provisions to write off so much of the relief for each subsequent year as has not been recovered after a period of six years.

It is proposed to allow businesses to claim less than the full amount of stock relief due.

It is proposed to introduce provisions under which expenditure incurred after 12 June 1979 on cars acquired for long-term leasing will generally cease to qualify for the 100 per cent first year allowance.

Corporation tax

It is proposed that advance corporation tax for 1979-80 should be payable at the rate of 3/7ths of the amount of the distribution.

It is proposed for the financial year 1978 to increase the lower and upper limits for the "small companies" rate of corporation tax from £50,000 and £85,000 to £60,000 and £100,000 respectively.

Petroleum revenue tax

It is proposed to increase the rate of petroleum revenue tax (PRT) from 45 per cent to 60 per cent for chargeable periods ending after 31 December 1978. It is also proposed to reduce the uplift in respect of certain qualifying expenditure from 75 per cent to 35 per cent, subject to transitional provisions for expenditure under contracts entered into before 1 January 1979.

It is proposed to reduce the oil allowance for PRT from 1 million long tons to ½ million metric tonnes a year, and to reduce the cumulative limit of 10 million tons per field to 5 million metric tonnes.

INLAND REVENUE—continued

It is proposed to extend relief for expenditure to allow relief for expenditure incurred beyond the point at which oil is first landed in the United Kingdom and up to the point at which oil is valued for the purposes of PRT. It is proposed to remove the British National Oil Corporation's exemption from PRT for chargeable periods ending after 30 June 1979.

Development land tax

It is proposed that development value realised from the disposal of an interest in land on or after 12 June 1979 should be charged at 60 per cent and that the

amount of development value realised in a financial year which is exempt from development land tax should be increased from £10,000 to £50,000 as respects disposals from the same date.

Capital transfer tax

It is proposed to extend for a further two years the period during which transitional relief is available for distributions from discretionary trusts, and to postpone for two years the introduction of the periodic charge on discretionary trusts.

CUSTOMS AND EXCISE

Surcharges and rebates in respect of excise duties

It is proposed to extend for a further year the existing powers under Section 1 of the Excise Duties (Surcharges or Rebates) Act 1979 which enable the Treasury by Order to impose a surcharge or allow a rebate in respect of those excise duties to which the Section applies.

Value added tax

It is proposed that from 18 June 1979 the 8 per cent rate of value added tax should be increased to 15 per cent.

It is proposed that from 18 June 1979 the 12½ per cent rate of value added tax should cease to have effect and that the goods and services subject to it should be chargeable at the 15 per cent rate.

It is proposed to amend the law so that the 15 per cent rate of value added tax will not apply in respect of charges to telephone subscribers on computer-produced tax invoices which include a rental charge for a rental quarter commencing before 1 November 1979.

It is proposed to amend the law so that goods and services supplied before the date of the increase in the

rate of value added tax will not attract the increased rate of tax solely because the time of supply for VAT purposes is after the new rate of tax has come into effect.

Hydrocarbon oil duties

It is proposed, from 6 p.m. on 12 June 1979, to increase:

- (a) the rate of duty on light hydrocarbon oil, petrol substitutes and spirits used for power methylated spirits by 1·5p a litre;
- (b) the rate of duty on heavy hydrocarbon oil for use as road fuel by 1·5p a litre;
- (c) the effective rate of duty borne by rebatable oils (except kerosene used other than as aviation fuel) by 0·11p a litre;
- (d) the rate of duty on gas used as road fuel by 0·75p a litre.

Tobacco

It is proposed as from 13 August 1979 to vary the rates of tobacco products duty on cigarettes as follows:

- (a) to increase the specific element in the duty by £2·77 per 1,000 cigarettes, and
- (b) to reduce the *ad valorem* element from 30 per cent to 21 per cent of the retail price.

TABLE 16. FORECAST EFFECTS OF CHANGES IN TAXATION

The effects shown are direct effects: *i.e.* the difference between the yields of pre-Budget and post-Budget tax rates at the same levels of income and activity. The expenditure tax figures do, however, allow for the effects of relative price changes on the composition of consumers' expenditure.

		£ million	
		Forecast for 1979-80	Forecast for a full year
INLAND REVENUE			
<i>Income tax</i>			
Increase in single allowance by £180 and married allowance by £280 ...		-1,541 (a)	-1,845 (a)
Increase in additional personal allowance by £100 ...		-11 (a)	-13 (a)
Increase in age allowance by £240 (single) and £380 (married) and in income limit ...		-168 (a)	-210 (a)
Reduction of 3p in basic rate ...		-1,288	-1,395
Extension of basic rate band by £2,000 ...		-158	-200
Changes in higher rate thresholds and rates ...		-305	-662
Increase in investment income surcharge thresholds ...		-22	-201
Exemption of child dependency allowance ...		-5	-6
Exemption of war widows' pensions ...		-4	-6
Stock relief: reduction in profit restriction ...		Nil	-30 (b)
<i>Income tax and corporation tax</i>			
Stock relief: write-off ...		Nil	-25 (c)
Stock relief: partial claims ...		Nil	Negligible
Capital allowances: leased cars ...		Nil	+200 (d)
<i>Corporation tax</i>			
Decrease in rate of ACT to 3/7ths of the amount of the dividend ...		-190	(e)
Increase in limits for small company relief ...		-6	-11
<i>Petroleum revenue tax</i>			
Increase in rate and reduction of uplift ...		+110	+130 (f)
Reduction of oil allowance ...		+20	+20 (g)
Relief for certain expenditure incurred after the oil is landed ...		-20	-11 (h)
Removal of exemption of British National Oil Corporation ...		Nil	Nil
<i>Development land tax</i>			
Reduction in rate and increase in exempt amount ...		-2	-10 (i)
<i>Capital transfer tax</i>			
Extension of transitional period for discretionary trusts ...		Negligible	Nil (j)
TOTAL INLAND REVENUE ...		-3,590	-4,275
CUSTOMS AND EXCISE			
<i>Value added tax</i>			
Unification of rates at 15 per cent ...		+2,035(k)	+4,175(k)
<i>Excise duties</i>			
Increase in rate of duty on light oil, etc. ...		+280(l)	+375(l)
Increase in rate of duty on heavy oil for use in road vehicles ...		+80	+100
Increase in effective rate of rebatable oil duty ...		+40	+50
Variations in rates of duty on cigarettes ...		Negligible	Negligible
TOTAL CUSTOMS AND EXCISE ...		+2,435	+4,700
Total Changes in Taxation ...		-1,155	+425

- (a) Costs include the cost of revaluation of allowances in the Finance Act 1979 (£866 million in 1979-80 and £1,042 million in a full year).
 (b) The cost in 1980-81 will be £10 million.
 (c) The cost in 1980-81 will be £20 million.
 (d) The yield in 1980-81 will be £175 million.
 (e) Increases subsequent liabilities to mainstream corporation tax.
 (f) Petroleum revenue tax +£270 million; corporation tax -£140 million.
 (g) Petroleum revenue tax +£40 million; corporation tax -£20 million.
 (h) Petroleum revenue tax -£22 million; corporation tax +£11 million.
 (i) DLT -£13 million; capital gains tax and corporation tax +£3 million; in addition, there will be a loss of benefit to net of tax bodies amounting to £1 million in 1979-80 and £6 million in a full year.
 (j) The cost in 1980-81 will be £20 million.
 (k) VAT +£2,135 million in 1979-80 and +£4,305 million in a full year; excise duties and car tax -£100 million in 1979-80 and -£130 million in a full year.
 (l) Oil duty +£265 million in 1979-80 and +£345 million in a full year; VAT +£15 million in 1979-80 and +£30 million in a full year.

