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Financial Statement and Budget Report 1982-83

LONDON
HER MAJESTY'S STATIONERY OFFICE £4·30 net

Financial Statement and Budget Report 1982–83

RETURN to an Order of the House of Commons dated 9 March 1982: for

COPY of FINANCIAL STATEMENT AND BUDGET REPORT 1982-83 as laid before the House by the CHANCELLOR OF THE EXCHEQUER when opening the BUDGET

Treasury Chambers,
9 March 1982 } NICHOLAS RIDLEY

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CONTENTS

PART 1

THE BUDGET PROPOSALS

1.1. The main tax and expenditure proposals in the Budget are summarised in Table 1 below and described in detail in the remainder of Part 1. These figures and those presented in Table 2 are estimates of the direct effects of the Budget on public sector transactions; they are not estimates of the net effects of all the changes in public sector transactions, both direct and indirect, brought about by the Budget. The Budget is defined to include the tax changes announced in the Budget Speech, and policy changes to the expenditure plans set out in the White Paper. (Cmnd. 8494.)

1.2. The net effect of the tax proposals in the Budget is shown on two alternative assumptions about the tax rates and allowances that constitute unchanged policy. One approach, conventionally used in the preparation of economic forecasts, is to allow for the full indexation of 1981–82 excise duty rates and main income tax allowances and thresholds in line with inflation to the year to December 1981. On this basis the net effect of the tax proposals in the Budget is to reduce revenue by £1,555 million in 1982–83 and by £2,520 million in a full year. The cost in 1982–83 of the increases in the main income tax allowances and thresholds over and above full revalorisation is estimated to be £200 million, and that of less than full indexation of excise duties to be £60 million.

1.3. The alternative presentation, which corresponds with the actual changes in tax rates and allowances to be included in the Finance Bill, measures the effect of those changes as compared with existing rates and allowances. On this basis the increase in income tax allowances and thresholds is estimated to cost £1,840 million and the increase in excise duties to yield an additional £1,150 million in 1982–83.

TABLE 1. DIRECT EFFECTS(1) ON PUBLIC SECTOR TRANSACTIONS(4)

£ million at current prices

	Effect in 1982–83		Effect in full year	
	Change from indexed base	Change from non-indexed base	Change from indexed base	Change from non-indexed base
1. *Tax Proposals*				
Income tax allowances and thresholds	−200	−1,840	−260	−2,445
Other income tax and other direct taxes	−210	−210	−920	−920
National Insurance Surcharge(2)	−1,000	−1,000	−1,195	−1,195
Excise duties	−60	1,150	−55	1,165
Other indirect taxes	−85	−85	−90	−90
Total ...	−1,555	−1,985	−2,520	−3,485
2. *Expenditure Measures*				
Programmes	200	200		
Contingency Reserve	150	150		
Total(3) ...	350	350		

(1) The value of expenditure decisions is taken to measure their direct effect. The direct effects of tax changes are the differences between the yields estimated by applying the new and the old tax rates and allowances to the taxable income and expenditure projected in the post-Budget forecast. A further adjustment is made to the estimates of the Customs and Excise taxes to allow for the changes in taxation resulting both from substitution by consumers between goods and the change in real incomes.

(2) The full year effect is for a one point reduction in the rate. Estimates include public sector payments of £360 million in 1982–83 and £430 million in a full year. Public expenditure will be reduced accordingly. See Part 4, paragraph 4.14.

(3) Effect on planning total offset by savings of some £600 million in 1982–83 resulting from expenditure consequences of tax proposals and estimating changes. See Table 19.

(4) +/− indicates an increase/decrease in revenue or expenditure.

1.4. Expenditure decisions in the Budget include direct increases in public expenditure of some £350 million in 1982–83. These measures are described in the following section. They are more than offset by reductions in other expenditure. In addition, the cost of the freeze in industrial gas prices is estimated to be about £60 million in 1982–83(¹).

1.5. Taking the tax and expenditure changes together, and allowing for indirect, as well as direct, effects on public sector transactions, the Budget measures are expected to add about £1·3 billion to the PSBR, compared with what it would have been on conventional assumptions about the indexation of tax rates and allowances. The level of the PSBR in 1982–83 is expected to be around £9½ billion, or 3½ per cent of GDP (at market prices).

(¹) As a result of consequential changes in the gas levy, this is reflected in a reduction in gas levy receipts and a reduction in the British Gas Corporation's external financing limit for 1982–83. See Table 2 (other direct taxes) and Table 21 of Part 4.

EXPENDITURE MEASURES

Housing improvement

An additional £100 million will be made available to local authorities in 1982–83 for the improvement and insulation of private houses. Rates of intermediate and repairs grant will be increased for one year only.

Industrial innovation

New measures to promote research and innovation in industry will involve additional expenditure of £20 million in 1982–83, £35 million in 1983–84 and £45 million in 1984–85. No provision is made for this in Table 1: it will be met from the contingency reserve.

Energy

The external financing limits of the electricity supply industry for 1982–83 announced on 2 December 1981 will be raised by some £100 million, to accommodate special arrangements to benefit certain large industrial users of electricity, in addition to the arrangements on electricity prices announced in the 1981 Budget Statement.

The external financing limit of the National Coal Board for 1982–83 will be increased to accommodate the renewal of the measures first announced in June 1981 to avoid further increases in foundry coke prices until the winter. No provision is made for this in Table 1: the expenditure will be met from the contingency reserve.

Social security

The Budget includes the extension of the restoration of the 2 per cent shortfall to unemployment benefit, supplementary allowances, and certain other benefits. These additions to expenditure are not provided for in Table 1. They will be met from the contingency reserve.

Employment

No provision for any new measure is made in Table 1. As expenditure arises it will be met from the contingency reserve.

Contingency reserve

The contingency reserve for 1982–83 is increased from £2,250 million (as in Cmnd. 8494) to £2,400 million to accommodate these Budget measures.

PROPOSED CHANGES IN TAXATION

INLAND REVENUE

Income tax

It is proposed—

to increase the single person's allowance and the maximum wife's earned income relief from £1,375 to £1,565 and the married allowance from £2,145 to £2,445.

to increase the additional personal allowance and widows' bereavement allowance from £770 to £880.

to increase the age allowance for the single person from £1,820 to £2,070, for the married from £2,895 to £3,295 and the age allowance income limit from £5,900 to £6,700.

to increase the basic rate limit to £12,800.

to increase the width of the 40 per cent band to £2,300, the 45 per cent band to £4,000 and the widths of the 50 per cent and 55 per cent bands to £6,200.

As a consequence of these changes, the structure of personal tax rates in operation in 1982–83 will be:

Bands of Taxable Income

£	*Per cent*
0–12,800	30
12,801–15,100	40
15,101–19,100	45
19,101–25,300	50
25,301–31,500	55
Over 31,500	60

It is proposed—

to raise the threshold for the investment income surcharge for 1982–83 from £5,500 to £6,250.

to revise the system of reliefs available to individuals receiving payments above £25,000 on termination of employment.

to exempt mobility allowance from tax.

to raise from £1,000 to £1,250 the maximum annual value for appropriations of shares to an employee under an approved profit sharing scheme.

to alter the basis for the exemption limit for capital receipts arising from shares held under approved profit sharing schemes.

to allow the income tax payable on the exercise of a share option by a director or employee to be paid by instalments over three years.

with effect from 1983–84, to change the arrangements for giving mortgage interest relief.

to increase the percentage limit on retirement annuity relief from $17\frac{1}{2}$ per cent to 20 per cent for individuals born between 1916 and 1933, from $20\frac{1}{2}$ per cent to 21 per cent for those born in 1914 or 1915 and from $23\frac{1}{2}$ per cent to 24 per cent for those born in 1912 or 1913, and to remove the existing ban on the provision of these higher rates of relief for individuals with pensions or pension rights under sponsored superannuation schemes in respect of any previous full-time employment.

to extend relief for interest paid on money borrowed for investment in a close company to borrowers who own 5 per cent or less of its ordinary share capital, provided that they act for the greater part of their time in the management or conduct of the business.

in respect of the relief for investment by outsiders in certain new corporate trades ("Business Start-up Scheme") to increase the limit for each of 1982–83 and 1983–84 by £10,000 and for 1982–83 by any unused balance of the limit for 1981–82.

Income tax and corporation tax

It is proposed—

to extend the definition of an industrial building for industrial buildings allowance purposes to include buildings used for certain repairing and servicing activities.

to extend the small industrial workshop scheme for a further 2 years, for industrial buildings not exceeding 1,250 sq ft.

to allow relief for contributions to certain enterprise agencies.

to extend, for one year, the 100 per cent first year allowance for expenditure on rented television sets incorporating a teletext facility.

to introduce a first year capital allowance, at the rate of 75 per cent, for expenditure in the construction of certain buildings for letting as private residential accommodation, under the assured tenancies scheme.

to extend the relief for pre-trading expenditure.

to exempt dealers in Eurobonds from the provisions designed to prevent loss of tax through bond-washing.

to bring certain securities issued by building societies within the provisions designed to prevent loss of tax through the manufacturing of interest.

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Income tax, corporation tax and capital gains tax

It is proposed in appropriate cases to change the tax treatment of distributions made by companies in purchasing their own shares.

Corporation tax

It is proposed—

for the financial year 1981 to increase the limit for the "small companies" rate of corporation tax from £80,000 to £90,000 and the limit for marginal relief from £200,000 to £225,000.

to amend the definition of "distribution" as it affects borrowing in the form of "equity loans".

Corporation tax and capital gains tax

It is proposed—

to adjust expenditure allowable in calculating gains on disposals having regard to future increases in the retail prices index.

to increase the level of exemption for gains on chattels.

to introduce a rollover relief for compensation paid on compulsory purchase.

Oil taxation

It is proposed—

to extend Supplementary Petroleum Duty (SPD) for the chargeable period ending on 31 December 1982 only.

to increase the rate of Petroleum Revenue Tax (PRT) from 70 to 75 per cent for chargeable periods ending after 31 December 1982 and to spread its collection in monthly instalments after 30 June 1983.

to introduce a system of advance payments of PRT for chargeable periods ending after 31 December 1982 at a rate of 20 per cent of gross profits less an oil allowance of ½ million tonnes per chargeable period, the advance payments to be set off against current or later liability to PRT or, failing set-off, repaid at the end of field life.

to amend the point of charge for PRT and SPD for certain arm's length sales of gas and to provide alternative rules for determining the market value of ethane used for petrochemical purposes.

to allow Corporation Tax relief for certain losses and charges outside the oil production "ring fence".

to disallow for the purpose of PRT and ring fence Corporation Tax expenditure incurred after Budget day to the extent that it is met by Regional Development Grants.

Capital gains tax

It is proposed—

to increase the threshold from 1982–83 so as to exempt individuals on the first £5,000 of capital gains in a year and most trusts on the first £2,500.

to require for the future an annual revision of the thresholds for individuals and trusts in the light of changes in the retail prices index.

to extend the rollover relief for lifetime gifts to transfers out of settlement.

to revise the rules for gains arising on the termination of a life interest in settled property.

Capital transfer tax

It is proposed to introduce new rate schedules for both death and lifetime transfers as follows:

Band of chargeable value £'000	*Rate on death per cent*	*Lifetime rate per cent*
0– 55	Nil	Nil
55– 75	30	15
75– 100	35	17½
100– 130	40	20
135– 165	45	22½
165– 200	50	25
200– 250	55	30
250– 650	60	35
650–1,250	65	40
1,250–2,500	70	45
Over 2,500	75	50

It is proposed—

to require for the future an annual revision of the rate bands in the light of changes in the retail prices index.

to increase the exemption limits for transfers within one year of death to charities to £250,000 and for transfers to non-domiciled spouses to £55,000.

to restructure the charge to tax on discretionary trusts.

to exempt from the charge on death non-sterling bank accounts of depositors who are not domiciled, resident or ordinarily resident in the United Kingdom at the time of their death.

INLAND REVENUE—*continued*

Capital transfer tax and income tax

It is proposed—

to alter the conditions on which the Treasury may designate trusts as maintenance funds for heritage purposes and to amend the charges to tax which may arise following the setting up of these funds.

Stamp duties

It is proposed—

to raise with effect from 22 March 1982 the level below which transfers of property (other than stocks and shares) are not liable to stamp duty from £20,000 to £25,000, to adjust the associated bands of reduced rates of stamp duty correspondingly and to alter certain limits affecting stamp duty on new leases.

to exempt transfers of assets to charities.

CUSTOMS AND EXCISE

Value added tax

It is proposed to amend Section 20(1) and Schedule 1 to the Finance Act 1972 so as to increase the registration and deregistration limits. From 10 March 1982 the registration limits will become £17,000 per annum and £6,000 per quarter. From 1 June 1982 the deregistration limits will become £16,000 per annum where estimated future turnover is concerned, and £17,000 per annum where past turnover is concerned.

It is proposed to amend paragraph 11 of Schedule 1 to the Finance Act 1972 in order to restrict the Commissioners' powers to grant discretionary registration to certain traders.

It is proposed to apply, by Order, the zero-rate of VAT to supplies of building alterations by way of the most commonly recognised kinds of double glazing, loft and cavity-wall insulation, and damp-proof coursing.

Alcoholic drinks

It is proposed, from midnight 9–10 March 1982, to increase:

(*a*) the rates of duty on spirits from £13·60 (for mature spirits) and £13·63 (for immature spirits) to a uniform rate of £14·47 per litre of alcohol in the spirits;

(*b*) the rate of duty on beer from £18·00 to £20·40 per hectolitre and the charge for each additional degree of original gravity above 1030° per hectolitre from £0·60 to £0·68;

(*c*) the rates of duty on wine by the following amounts per hectolitre:

Wine of an alcoholic strength:

not exceeding 15 per cent: from £95·20 to £106·80.

exceeding 15 per cent but not exceeding 18 per cent: from £122·90 to £137·90.

exceeding 18 per cent but not exceeding 22 per cent: from £144·70 to £162·30.

exceeding 22 per cent: £162·30 plus £14·47 (instead of £13·60) for every 1 per cent, or part of 1 per cent, in excess of 22 per cent;

surcharge on sparkling wine: from £20·90 to £23·45;

(*d*) the rates of duty on made-wine by the following amounts per hectolitre:

Made-wine of an alcoholic strength:

not exceeding 10 per cent: from £61·80 to £73·10.

exceeding 10 per cent but not exceeding 15 per cent: from £92·50 to £103·80.

exceeding 15 per cent but not exceeding 18 per cent: from £113·90 to £127·80.

exceeding 18 per cent: £127·80 plus £14·47 (instead of £13·60) for every 1 per cent, or part of 1 per cent, in excess of 18 per cent;

surcharge on sparkling made-wine: from £9·60 to £10·75;

(*e*) the rate of duty on cider and perry from £7·20 to £8·16 per hectolitre.

Hydrocarbon oil

It is proposed, from 6 p.m. on 9 March 1982, to alter:

(*a*) the rate of duty on light hydrocarbon oil (other than aviation gasoline), petrol substitutes and spirits used for power methylated spirits from 13·82p to 15·54p per litre;

CUSTOMS AND EXCISE—*continued*

(*b*) the rate of duty on heavy hydrocarbon oil for use as road fuel from 11·91p to 13·25p per litre;

(*c*) the rate of duty on aviation gasoline from 13·82p to 7·77p per litre;

(*d*) the rate of duty on gas for use as road fuel from 6·91p to 7·77p per litre.

Tobacco

It is proposed, from midnight 11–12 March 1982, to increase:

(*a*) the specific element in the duty on cigarettes from £19·03 to £20·68 per 1,000 cigarettes (the *ad valorem* element remaining unchanged);

(*b*) the duty on cigars from £35·91 to £39·00 per kilogram;

(*c*) the duty on hand-rolling tobacco from £30·96 to £33·65 per kilogram;

(*d*) the duty on other smoking and chewing tobacco from £22·96 to £24·95 per kilogram.

Pool betting duty

It is proposed to increase the rate of pool betting duty from 40 per cent to 42½ per cent on events on and after 1 April 1982.

Gaming licence duty

It is proposed, from 1 April 1982, to increase the rates of gaming licence duty. The advance payment will remain at £250, but the second payment, to be made up to five months after the licensing period, will be a proportion of the gross gaming yield (stakes less winnings) in each six-monthly period as follows:

5 per cent of the first £500,000, plus

12½ per cent of the next £1,750,000, plus

25 per cent of the remainder of the gross gaming yield.

Bingo duty

It is proposed, from 27 September 1982, to restrict the existing exemptions from bingo duty so that all large-scale bingo (where the value of prizes has exceeded £300 in any one day or £1,000 in any one week) is made liable to duty.

Gaming machine licence duty

It is proposed, from 1 October 1982, to abolish the existing duties on all "2p per play" machines and to increase the annual rates of licence duty on other machines as follows:

(*a*) Premises with local authority approval: from £60 for the first machine and £120 for subsequent machines to £120 for each "5p per play" machine and £300 for each "10p per play" machine;

(*b*) Premises without local authority approval: from £200 to £300 for each "5p per play" machine and from £400 to £750 for each "10p per play" machine.

It is proposed to amend the comparable provisions in the Miscellaneous Transferred Excise Duties Act (Northern Ireland) 1972 so that the abolition of duty on "2p per play" machines and the new rates at (*b*) above will also apply in Northern Ireland.

Surcharges and rebates in respect of excise duties

It is proposed to amend the Excise Duties (Surcharges or Rebates) Act 1979 to allow surcharges or rebates to be applied to individual rates of the duties to which that Act applies.

VEHICLE EXCISE DUTY

It is proposed to increase the excise duty on most mechanically-propelled vehicles chargeable under Section 1 of the Vehicles (Excise) Act 1971 and under Section 1 of the Vehicles (Excise) Act (Northern Ireland) 1972 by about 12 per cent. This figure is broadly descriptive. There will be some variations within particular vehicle categories. The duty on most cars will rise by £10 to £80. The rates of duty on certain groups of light commercial vehicles will be marginally reduced and a larger selective increase of 25 per cent will be applied to all duty levels on goods vehicles over 9 tons unladen weight. These changes have effect in relation to licences taken out after 9 March.

It is additionally proposed to include provision in the Finance Bill for the restructuring of vehicle excise duty on heavy goods vehicles from an unladen weight to a gross weight basis of assessment and to introduce a new taxation regime for light commercial vehicles. These changes, which were foreshadowed in the 1981 Transport Act, will take effect from 1 October 1982.

NATIONAL INSURANCE SURCHARGE

It is proposed to reduce by 1 percentage point to 2½ per cent the surcharge paid in respect of employees by secondary Class I contributors under the provisions of the National Insurance Surcharge Act 1976. This reduction will take effect from 2 August 1982. It is also proposed to reduce the rate of surcharge payable in respect of earnings between 2 August 1982 and 5 April 1983 by a further ½ percentage point.

APPROXIMATE DIRECT EFFECTS OF CHANGES IN DUTY RATES ON CERTAIN PRODUCT PRICES

(All except VED inclusive of 15 per cent VAT)

Spirits duty ...	... 30p on a bottle of spirits	Petrol duty ...	... 9p on a gallon of petrol
Beer duty ...	... 2p on a pint of beer of average strength	Derv duty ...	... 7p on a gallon of derv
Wine duty ...	... 10p on a bottle of table wine	Tobacco duty...	... 5p on a packet of 20 cigarettes
Fortified wine duty ...	13p on a bottle of sherry	Vehicle excise duty ...	£10 on a car licence

TABLE 2. DIRECT EFFECTS* OF CHANGES IN TAXATION

£ million

	Forecast for 1982–83	Forecast for a full year
INLAND REVENUE		
Income tax		
Increase in single allowance by £190 and married allowance by £300 ...	−1,475(*a*)	−1,815(*a*)
Increase in additional personal allowance etc. by £110	−10(*a*)	−15(*a*)
Increase in age allowance by £250 (single) and by £400 (married) and in income limit by £800	−170(*a*)	−220(*a*)
Increase in basic rate limit to £12,800	−105(*a*)	−185(*a*)
Increase in further higher rate thresholds	−78(*a*)	−160(*a*)
Increase in investment income threshold	−2(*a*)	−50(*a*)
Changes in taxation of termination payments...	Negligible	Negligible
Exemption of mobility allowance	−7	−10
Increase of profit sharing limit and changed basis for capital receipts exemption limit...	−1	−2
Share options: payments by instalments	Nil	(*b*)
Mortgage interest arrangements	Nil	−5(*c*)
Changes in retirement annuity relief	−12	−25
Interest relief for borrowing to invest in close companies	−2	−5
Increase in limit for relief for investment in new corporate trades	Nil	−20(*d*)
Income tax and corporation tax		
Extension of industrial buildings allowance	Negligible	−10
Extension of small industrial buildings scheme	Nil	−10
Relief for contributions to enterprise agencies	Negligible	Negligible
Rented television sets (Teletext)...	Nil	−15
Capital allowances for new property for renting	Negligible	−5(*d*)
Relief for pre-trading expenditure	Negligible	Negligible
Income tax, corporation tax and capital gains tax		
Change in tax treatment when companies purchase their own shares ...	−2(*d&e*)	−5(*d&e*)
Corporation tax		
Increase in limits for " small companies " rate	−6	−11
Provisions relating to borrowing in the form of " equity loans "	Nil	+25(*f*)
Changes to ring fence corporation tax	Nil	−10
Corporation tax and capital gains tax		
Indexation of capital gains	Nil	−150(*g*)
Increase in chattels exemption	Nil	−2
Relief for compensation on compulsory purchase	Nil	−3
Supplementary petroleum duty and petroleum revenue tax		
Abolition of SPD, increase in PRT, introduction of advance payments of PRT	Nil	−240(*h*)
Minor PRT changes	−5	+2
Capital gains tax		
Increase in thresholds for individuals and trusts	Nil	−60(*i*)
Future indexation of thresholds...	(*j*)	(*k*)
Relief for transfers out of settlement	Nil	−45(*l*)
Capital transfer tax		
Increase in threshold and changes in bands	−35	−85(*m*)
Future indexation of threshold and limits for bands	(*j*)	(*k*)
Increase in exemption for charitable gifts	Negligible	−1
Discretionary trusts	Negligible	−5
Other minor items	Negligible	Negligible
Capital transfer tax and income tax		
Maintenance funds	Negligible	Negligible
Stamp duty		
Raising of thresholds by £5,000	−70	−75
Exemption of transfers to charities	−5	−5
TOTAL INLAND REVENUE	−1,985	−3,222

* Indirect effects are excluded. The expenditure tax figures do, however, allow for the effects of relative price changes on the composition of consumers' expenditure. This is explained in the note on page 9 of the Financial Statement and Budget Report 1981–82. A fuller description of the estimation of the direct effects of expenditure tax changes is provided in an article in Economic Trends, March 1980.

TABLE 2—*continued*. DIRECT EFFECTS* OF CHANGES IN TAXATION

£ million

	Forecast for 1982–83	Forecast for a full year
CUSTOMS AND EXCISE		
Value added tax		
Increase in registration limits	−5	−10
Zero rating of certain building alterations	−70	−70
Excise duties		
Changes in rates of duty on light oil, etc.	+410	+410
Increase in rate of duty on heavy oil for use in road vehicles	+85	+85
Increase in rates of tobacco products duty	+165	+170
Increase in rates of spirits duty	+30	+30
Increase in rates of beer duty	+170	+175
Increase in rates of wine and made-wine duties	+38	+38
Increase in rate of duty on cider and perry	+2	+2
Increase in rate of pool betting duty	+5	+5
Changes in rates of gaming machine licence duty	+18	+20
Increase in rates of gaming licence duty	+2	+5
TOTAL CUSTOMS AND EXCISE	+850	+860
VEHICLE EXCISE DUTY		
Increase in rates of duty	+225	+225
NATIONAL INSURANCE SURCHARGE		
Reduction in surcharge	−1,000	−1,195
OTHER		
Gas Levy	−67	−142
Bus Fuel Grants	−9(*n*)	−9(*n*)
Total Changes in Taxation	**−1,986**	**−3,483**

* Indirect effects are excluded. The expenditure tax figures do, however, allow for the effects of relative price changes on the composition of consumers' expenditure. This is explained in the note on page 9 of the Financial Statement and Budget Report 1981–82. A fuller description of the estimation of the direct effects of expenditure tax changes is provided in an article in Economic Trends, March 1980.

(*a*) If the main personal allowances and thresholds had been increased under the provisions of Section 24 of the Finance Act 1980 by the increase in the general index of retail prices between December 1980 and December 1981 (12 per cent), the revenue cost would have been £1,640 million in 1982–83 and £2,185 million in a full year, that is £200 million less in 1982–83 and £260 million less in a full year than the overall cost of the proposed changes listed above.

(*b*) The total cost spread over several years is estimated at some £10 million.

(*c*) The cost in 1983–84 is estimated at £260 million.

(*d*) These estimates are highly uncertain.

(*e*) This figure is confined to the loss of tax on *e.g.* dividends which might have been paid in the absence of the proposal.

(*f*) The yield in 1983–84 will be £15 million.

(*g*) Effect in respect of disposals in the first full year to which the change applies (Corporation Tax —£25 million, Capital Gains Tax —£125 million); the eventual effect is likely to be substantial. The cost in 1983–84 will be £40 million.

(*h*) For the first full year to which the changes apply. The estimate takes account of consequential changes to Petroleum Revenue Tax and Corporation Tax whenever they occur (Supplementary Petroleum Duty −£2,150 million; Petroleum Revenue Tax +£1,650 million; Corporation Tax +£260 million). The direct cost in 1983–84 will be £80 million. There is a partial off-set to the direct costs through a gain to the Public Sector Borrowing Requirement from lower interest charges owing to the instalment payments of Petroleum Revenue Tax, amounting to £10 million in 1983–84 and £40 million in a full year.

(*i*) The cost in 1983–84 will be £15 million.

(*j*) Effective from 1983–84.

(*k*) The cost will depend on increases in prices; and implementation will be subject to review by Parliament.

(*l*) The cost in 1983–84 will be £10 million.

(*m*) The cost in 1983–84 will be £75 million.

(*n*) This is consequential on the increase in road fuel duties. These grants are treated as tax refunds in Tables 19 and 20.

PART 2

MEDIUM-TERM FINANCIAL STRATEGY

2.1. The Government's objective is to continue reducing the rate of inflation, thereby promoting a sustainable growth of output and employment. The purpose of the Medium-Term Financial Strategy is to set out the financial framework within which policy is being operated.

2.2. Government policies are directed at achieving a rate of inflation that is well into single figures. This is expected to be consistent over the next few years with a growth in real output at least in line with the rise in the supply potential of the economy. But the implications for output and employment of Government policy will continue to depend critically on the behaviour of labour costs in all sectors of the economy. The more rapidly costs adjust, the more room there will be for a sustained growth in real activity. In particular, pay increases which are excessive relative to productivity would put the recovery in jeopardy and intensify unemployment.

2.3. The strategy outlined below presupposes a slow recovery in output and trade in other industrial countries and a growth of domestic productivity broadly in line with past experience. Events both at home and abroad could develop very differently. A sustained increase in the growth of productivity would raise the growth in monetary variables that went with any given rate of inflation. Equally, significant changes in the world economy would have important repercussions on the UK. The Government will take account of changes in the world environment and in the supply performance of the domestic economy in framing its financial policies.

2.4. The Government is taking steps to increase the efficiency of the public sector and to improve the longer-term supply performance of the economy. Policies have been introduced to improve the working of markets and to give greater incentives to saving and enterprise. A lower rate of inflation will provide the right macroeconomic environment in which these policies can succeed. The responsibility for consolidating and extending recent gains in productivity must continue to lie largely with management and employees in both public and private sectors.

The financial framework

2.5. The Government's policy is to maintain monetary conditions that will bring about a further reduction in inflation. Over a period of years there has been a reasonably stable relationship between the monetary aggregates and money GDP and prices. In the short run, however, the relationship between any one measure of money and money incomes may be influenced by a range of factors including the behaviour of the exchange rate, the level and structure of interest rates, changes in savings behaviour and the balance between interest rates and fiscal policy, as well as institutional changes.

2.6. Both broad and narrow measures of money convey useful information about financial conditions. Different measures of money have tended to grow at comparable rates in the longer term, though there have been sharp differences in the year-to-year growth rates. Table 3 summarises experience since the mid-1970's. In the first part of the period, narrow measures of money grew more rapidly than wider measures. This pattern has been reversed in the last three years. Changes in the pattern of monetary growth have reflected changes in the level and structure of interest rates and the effect of changes in savings behaviour on total financial asset holdings.

TABLE 3

MONETARY GROWTH 1975–1981

annual average percentage growth(1)

	M1	£M3	PSL2
end 1974—end 1981	13	12½	12
end 1974—end 1978	16½	10½	11½
end 1978—end 1981	8	15½	13

(1) Banking months, mid December to mid December; cumulative flows as a percentage of beginning period stock, not adjusted for change in definition of the banking sector in November 1981.

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2.7. The case for looking at a range of measures is especially strong when the financial system is undergoing rapid change. The relationship between the different aggregates has recently been affected by innovations and structural change in financial markets, as well as temporary distortions. For example, £M3 and total M3 have been affected by the abolition of exchange controls and the ending of the SSD Scheme, while Mo and the non-interest bearing component of M1 may have been influenced by changes in payments mechanisms.

2.8. The behaviour of the exchange rate can help in the interpretation of monetary conditions, particularly when the different aggregates are known to be distorted. The exchange rate is a route through which changes in the money supply affect inflation. It can also be an important influence on financial conditions. External or domestic developments that change the relationship between the domestic money supply and the exchange rate may therefore disturb the link between money and prices, at least for a time. Such changes cannot readily be taken into account in setting monetary targets. But they are a reason why the Government considers it appropriate to look at the exchange rate in monitoring domestic monetary conditions and in taking decisions about policy.

Recent financial conditions

2.9. The growth in £M3 over the year to February 1982 is now put at 14½ per cent compared with a target of 6–10 per cent and an estimated growth in money GDP of around 10½ per cent in 1981–82. The growth of the principal monetary aggregates is shown in Table 4. The civil service dispute made interpretation of all the aggregates difficult throughout the year. During the first half of the financial year the effective exchange rate fell back from the exceptionally high levels reached in early 1981. Since the autumn it has remained relatively stable in effective terms.

TABLE 4

MONETARY GROWTH 1981–82

Percentage growth

	Mo(1)	Non-interest bearing M1	M1	£M3	PSL1	PSL2
February 1981—February 1982 ..	3½	4	8½	14½	13½	12

(1) Monetary base, wide definition.

2.10. In the last year all the broad measures of money have continued to grow more strongly, relative to money GDP, than might have been expected, given the high level of interest rates and the past upward trend in velocity. The demand for liquid balances as a medium for saving, rather than spending, seems to have increased significantly in the last three years, implying a shift in velocity. The growth in the wider monetary aggregates has been part of a marked rise in the private sector's total holdings of financial assets relative to income. This may reflect in part the expanding role of the banks as financial intermediaries. It may also be the result of the private sector's attempt to restore the real value of financial assets eroded by past inflation.

2.11. Some of the recent growth in £M3 certainly reflects institutional changes. The removal of artificial constraints on money and credit markets is having far-reaching effects on bank behaviour. The most obvious example is in the area of mortgage lending. To the extent that this lending is not additional, but reflects a transfer of business from other financial institutions, it will raise the growth of £M3 relative to other measures of money. While financial markets are still in the process of adjusting to these structural changes, wider aggregates, which include deposits with other financial institutions as well as banks, may be a valuable guide to the growth of broad money, though these aggregates may also at times be affected by institutional changes.

2.12. Despite the relatively rapid growth in broad money, the balance of the evidence suggests that, as intended, financial conditions have been moderately restrictive during the past year. This is supported by the growth in narrow money and the performance of money GDP. Real interest rates have been high, as in other major countries. Asset prices have been relatively weak. Notwithstanding the previously excessive growth of domestic wages, relative to other countries, the exchange rate has stayed at or above its May 1979 level, and this has ensured that pressure on costs and prices has been maintained.

Monetary policy

2.13. As explained in the Budget Speech, the Government considers that against this background a rate of growth of the principal monetary aggregates during the next year in a range of 8–12 per cent will constitute realistic progress towards meeting its medium-term objectives. In judging the rate of monetary growth now appropriate, it has taken account of the sharp deceleration in money GDP that has already occurred, and the behaviour of a range of indicators, including the exchange rate.

2.14. Sustained progress against inflation will require a further deceleration in the underlying rate of monetary growth in later years. The path shown in Table 5 applies to both broad and narrow measures of money: £M3 (and PSL2), and M1. The target for 1982–83 implies a significant reduction in recent rates of growth of the wide aggregates. It has been set above the illustrative range for £M3 shown last year, to reflect the changes to savings behaviour and the institutional developments discussed above. The ranges for 1983–84 and 1984–85 will be reconsidered nearer the time, and will take account of structural and institutional changes which may affect the economic significance of the different aggregates.

TABLE 5

RANGES FOR MONETARY GROWTH

	1982–83	*1983–84*	*1984–85*
Percentage change during year	8–12	7–11	6–10

2.15. The wider aggregates may be affected by further financial innovations and structural changes in addition to those discussed above. Equally, some temporary acceleration in the growth of narrow measures of money would be a normal response to falling interest rates. During the past three years, the relatively slow growth in the narrow aggregates has largely been the consequence of high nominal interest rates. Sustained progress in reducing inflation and interest rates may lead to some shift back into non-interest bearing forms of money. In such circumstances a more rapid growth in M1 than indicated by the ranges shown above might, for a time, be acceptable. On the other hand further changes in the terms offered on transactions and savings deposits could affect the relative size and significance of different measures of money. The size and timing of these effects is inevitably uncertain, but they will be taken into account in assessing the performance of the monetary aggregates, and in setting the ranges for later years.

2.16. Interpretation of monetary conditions will continue to take account of all the available evidence, including the behaviour of the exchange rate. Policy decisions will be aimed at keeping monetary conditions directed at the objective of reducing inflation. The ranges shown in Table 5 have been constructed on the assumption that there are no major changes in the exchange rate from year to year.

Fiscal policy

2.17. The Government intends to pursue a fiscal policy that will leave room for a fall in interest rates within the overall financial discipline needed to reduce inflation. This requires a reduction in the PSBR as a proportion of GDP over the medium term. Year to year fluctuations about this trend may be consistent with the objectives for monetary growth, if there are cyclical variations in the private sector's demand for credit or the ease with which government borrowing can be financed. But the main criterion for judging the appropriate size of the PSBR is the scope for financing it without undue strain on interest rates.

2.18. In the last Budget, the PSBR for 1981–82 was set at £10½ billion. This figure was £3 billion higher than originally indicated to take account of the unexpected severity of the recession and the associated rise in private sector saving. The estimated outturn, at £10½ billion, is closely in line with the projection made a year ago and about £2½ billion lower than the outturn for 1980–81. As a proportion of GDP the PSBR has fallen from 5¾ per cent in 1980–81 to an estimated 4¼ per cent in 1981–82.

2.19. The PSBR for 1982–83 is expected to be £9½ billion equivalent to about 3½ per cent of GDP, much as suggested in last year's MTFS. The fiscal projections summarised in Table 8 show a further reduction in the PSBR as a proportion of GDP to around 2¾ per cent in 1983–84 and 2 per cent in 1984–85, close to the average ratio recorded in the 1960s. This path is slightly higher than the one suggested last year, but it is expected to be consistent with a significant reduction in both interest rates and inflation over the next few years. The figures for 1983–84 and 1984–85 are illustrative. Decisions about the appropriate size of the PSBR in any particular year will be taken in the normal way at Budget time.

2.20. The fiscal projections in Tables 6–8 are shown in cash rather than, as in previous years, in constant prices. This is in line with the switch to cash planning of public expenditure. They are based on the public expenditure plans shown in the Public Expenditure White Paper (Cmnd. 8494). The key economic assumptions—for the three financial years—are that real output will grow by 1¾ per cent in 1982–83 and by an average 2½ per cent a year in the last two years. The general rate of inflation, as measured by the GDP deflator, is assumed to fall to around 7 per cent in 1983–84 and 6½ per cent in 1984–85. These assumptions imply an average rate of growth of money GDP of about 9½ per cent a year.

Public expenditure

2.21. The plans announced in the Public Expenditure White Paper imply an increase in general government expenditure of about 9½ per cent in 1982–83 and about 5 and 6½ per cent a year in each of the two later years respectively, and a fall in public expenditure as a proportion of GDP from 45 per cent in 1981–82 to 44½ per cent in 1982–83 and 41 per cent in 1984–85, given the assumed growth in money GDP. Table 6 shows the connection between general government expenditure in national accounts terms (the definition of public expenditure lying behind the general government borrowing requirement) and the definition used for public expenditure planning (shown in Cmnd. 8494).

TABLE 6

GENERAL GOVERNMENT EXPENDITURE

£ billion, cash

	1980–81	1981–82	1982–83	1983–84	1984–85
General government expenditure(1)	92·8	104½	114½	120	128
Special asset sales(2)	−0·4	—	−½	−½	−½
Differences due to policy measures and economic assumptions etc.(3)...	—	−1	−½	−½	−½
National accounts adjustment(4)	3·7	2½	3½	3½	5
Interest payments(5)	11·8	13½	14½	15½	16
Total expenditure in national accounts terms(6)...	107·9	119½	131½	138	148

(1) Expenditure on programmes by central government and local authorities and the contingency reserve. See Cmnd. 8494, Table 1.1, lines 1, 2 and 6. Debt interest payments are shown separately below. Since most plans are not decided in detail for the years after 1982–83, broad assumptions have been made about the share of general government in the total of expenditure on programmes shown in Cmnd. 8494, Table 1.1, for 1983–84 and 1984–85. For convenience, the whole of the contingency reserve is allocated to general government in all years in this table.

(2) Cmnd. 8494, Table 1.1, line 5. Includes revenue offsets to planned expenditure and a small element attributable to public corporations.

(3) Incorporates later information for 1981–82 than in Cmnd. 8494. For 1982–83 and thereafter, includes Budget measures and estimating changes, including the net effects of different economic assumptions from those used in Cmnd. 8494. See also Table 19.

(4) Adjustments to lines 1 and 2 to the definition used in National Accounts Statistics. Revenue offsets to planned expenditure and a small element attributable to public corporations are offset here. Also included are classification changes. For 1980–81 includes residual measurement differences.

(5) For 1980–81 as in Table 2.1, Financial Statistics, February 1982. For 1981–82 and 1982–83 see also Table 20.

(6) For 1980–81 as in Table 2.4, Financial Statistics, February 1982. For 1981–82 and 1982–83 see also Table 20.

Revenue

2.22. The growth of Government revenue in cash terms over the medium term will be strongly affected by the growth of incomes, spending and prices. Figures for North Sea oil tax revenues rest on the assumption that, on average, North Sea oil prices will be broadly maintained for the rest of 1982 at the levels set for March; thereafter oil prices are assumed to rise roughly in line with world inflation.

2.23. Revenue is projected on the conventional assumption of constant indexed tax rates and allowances at the proposed 1982–83 levels. National insurance contributions in future years are assumed to be adjusted to maintain the balance of income and expenditure in the fund. It is assumed that Supplementary Petroleum Duty is replaced by a system of advance payment of Petroleum Revenue Tax from the beginning of 1983 and that the rate of PRT is increased from 70 to 75 per cent from the same date.

TABLE 7

GENERAL GOVERNMENT RECEIPTS

£ billion, cash

	1980–81	*1981–82*	*1982–83*	*1983–84*	*1984–85*
Taxes on income expenditure and capital... ...	71·8	85	91	98½	109
National Insurance contributions	14·5	17	19½	21½	23
Interest and other receipts	8·9	8½	10½	11	11½
Accruals adjustment(¹)	−1·2	−1½	+½	−1	−½
Total	94·0	109	121½	130	143
of which North Sea tax revenues(²)	3·9	6½	6	6	8

(¹) Includes the effects of the civil service dispute.

(²) Royalties, Supplementary Petroleum Duty (in 1981–82 and 1982–83). Petroleum Revenue Tax (including advance payments from 1983–84) and Corporation Tax from North Sea oil and gas production (before Advance Corporation Tax set off).

2.24. On these assumptions, the growth in total general government receipts is projected to rise by nearly one-third between 1981–82 and 1984–85, closely in line with the growth in total money incomes. Government revenues from the North Sea may fall from 5¾ per cent of general government receipts in 1981–82 to around 4½ per cent in 1983–84 recovering to around 5½ per cent by the end of the period. The projected yield of non-North Sea tax revenues is sensitive to the balance of income between companies and persons, as well as between different parts of the company sector. The growth of North Sea oil tax revenues will depend *inter alia* on the behaviour of oil prices.

Public sector borrowing

2.25. The new projections of Government receipts and expenditure are brought together in Table 8 to provide projections of the general government borrowing requirement and the PSBR.

TABLE 8

PUBLIC SECTOR BORROWING

£ billion, cash

	1980–81	*1981–82*	*1982–83*	*1983–84*	*1984–85*
General government expenditure	107·9	119½	131½	138	148
General government receipts	−94·0	−109	−121½	−130	−143
Implied fiscal adjustment(¹)	—	—	—	+½	+2
GGBR...	13·9	10½	10	8½	7
PSBR	13·2	10½	9½	8½	6½
as % GDP	5·7	4¼	3½	2¾	2
Money GDP at market prices	231·0	255	280	307	336

(¹) + means lower taxes or higher public expenditure than assumed in lines 1 and 2.

Comparison with 1981 revenue and expenditure projections

2.26. Table 9 shows changes in the fiscal projections since the 1981 Report. For this comparison, last year's figures have been converted into cash terms, using the projections of the GDP deflator which were made at that time. Both expenditure and receipts are higher than a year ago, with the expenditure increases

TABLE 9

REVENUE AND EXPENDITURE: COMPARISON WITH THE 1981 PROJECTIONS

£ billion, cash

Changes (increase +)	*1981–82*	*1982–83*	*1983–84*
General government expenditure (in national accounts terms) ...	—	4½	5½
General government receipts	1½	2½	1½
Implied fiscal adjustment (1)	—	−1½	−2½
General government borrowing requirement	−1½	½	1½
Public sector borrowing requirement	—	½	2½

(1) By definition, the fiscal adjustment in 1982–83 is eliminated by the 1982 Budget measures.

exceeding the addition to receipts. The projected PSBR is now higher, especially in 1983–84. This year's Budget measures have the usual effect of taking up some of the fiscal adjustment (the scope for fiscal relaxation) in 1983–84.

2.27. The level of money GDP in 1981–82 is estimated to have been 2 per cent higher than expected a year ago but this largely reflects revisions to past data. The growth in prices from now on is much the same in both sets of projections, while the average growth in real output is now put slightly higher. The likely outturn for North Sea tax receipts in 1981–82 is higher than expected, the net effect of a lower sterling exchange rate and a lower dollar oil price than assumed in last year's projections. The world oil market has been much weaker than assumed a year ago, and the oil price is now assumed to remain substantially below the level incorporated in last year's projections of North Sea tax revenues.

2.28. Changes to expenditure in 1982–83 and 1983–84 follow the decisions for 1982–83 announced by the Prime Minister on 27 July 1981 and by the Chancellor on 2 December 1981 and in the Budget Speech. Compared with previous plans, there has been increased provision for expenditure on special employment measures, defence, local authority current expenditure and nationalised industries net external finance, offset in part by a general cut of at least 2 per cent in all cash limited expenditure. Expenditure provision for social security, housing and export credits has been increased to reflect revised economic assumptions.

2.29. In 1981–82 the higher level of receipts reflects higher revenues from the North Sea, the gas levy, higher local authority rates and higher national insurance contributions. Higher North Sea tax revenues were largely due to a higher than expected sterling oil price; higher national insurance contributions were the result of higher wages and salaries. The time profile of tax receipts from 1980–81 to 1982–83 is affected by the civil service dispute, the effects of which were not reflected in last year's projections(1).

2.30. General government receipts are now projected at the proposed 1982–83 tax rates, which are effectively lower than those used in last year's projections, as a result of the Budget measures. Despite this, and the fact that North Sea oil tax revenues are expected to be lower, general government receipts are now higher in total in both 1982–83 and 1983–84. This is partly due to tax receipts delayed by the civil service dispute and partly the consequence of a higher starting level in 1981–82. Projected receipts of national insurance contributions in 1982–83 are affected by the higher contribution rates announced last December.

Conclusion

2.31. The projections shown in Tables 6–8 fall within a very wide range of possible outcomes. They should be taken as no more than illustrative of one particular evolution of the economy. As noted above, if the domestic and world economies develop in a different way, the projections of public finances could be substantially affected. The policy response to such changes would depend on their nature. But the intention would be to hold firmly to the central purpose of the strategy by steady, but not excessive, downward pressure on the monetary variables. The key to sustained recovery lies in moderating the growth of costs and increasing the returns to investment and enterprise. Within the financial framework set out here, this would make room for a faster growth in output, without damaging the outlook for inflation. The longer term prospects for higher growth and employment would thus be much improved.

(1) See Part 4 para 4.1

PART 3

THE ECONOMY: RECENT DEVELOPMENTS AND PROSPECTS TO MID-1983

Summary

3.1. The UK economy made further major adjustments in the course of 1981: there were strong internal and external pressures making for lower inflation even though the fall in the inflation rate was temporarily halted as a result of the decline in sterling up to September. In the world economy, there was little increase in output. By early 1982 the prices of many commodities, and in particular oil, had weakened, and the rate of inflation in the industrialised countries had fallen.

3.2. In the UK, while there were conflicting indications from the various monetary aggregates, policy maintained its counter inflationary stance, which was signalled better by the moderate growth of M1 and by a level of interest rates well above the inflation rate, than by the growth in broad monetary aggregates. For the next year, the announced monetary ranges, with which the forecast is consistent, envisage slower growth in the aggregates on average than over the past year. World interest rates look like remaining above inflation rates.

3.3 1981 saw substantial progress in the UK in reducing the growth of costs and in improving competitiveness, and the beginnings of a recovery in profitability. Against a background of weak world demand and a level of competitiveness 30–40 per cent less favourable than in 1975, UK exporters halted, and then reversed, the decline in export volumes that had begun in early 1980. The transition to a much lower rate of increase in costs owed much, above all in manufacturing, to a better productivity performance which, in the short run, has been accompanied by a higher level of unemployment.

3.4. The growth rates envisaged for the monetary aggregates, and for public sector debt, leave room for further recovery in both output and profitability provided that there is, as forecast, no more than a moderate rise in costs and a fall in the inflation rate. Total output is forecast to rise $1\frac{1}{2}$ per cent in 1982.

The world economy

3.5. Most industrialised economies moved into recession in 1980, in the wake of the large rises in oil prices and the fiscal and monetary policies needed to restrain inflation. 1981 saw a fall in the average rate of inflation from 12 per cent to about 10 per cent. Apart from Japan, nominal interest rates were higher in 1981 than in 1980, and real interest rates were clearly positive, and historically high, in early 1982.

3.6. Output rose only very slowly in 1981, with the US economy moving downwards in the last quarter of the year, and unemployment continuing to increase in many countries. The rate of inflation fell because oil prices steadied after the sharp increases in 1979 and 1980, and because other commodity prices weakened. Total trade hardly grew at all in 1980 or 1981; but trade in manufactures has been a little more buoyant, and the importance of the OPEC market for UK trade has helped sustain the potential demand for UK goods.

3.7. The speed of recovery over the next year or so will depend in part on the stance of policy in the US and other countries and on success in reducing the inflation rate further. High real interest rates are liable to persist for some time, affecting both the level and composition of output. It seems likely that there will be no more than a modest recovery in 1982, with output in the main industrialised economies rising little more than 1 per cent for the third year in succession. Growth may speed up a little by the end of the year, and into 1983. World trade in manufactures (weighted by UK trade) is forecast to rise about 4 per cent in 1982, much the same as in 1981, as some recovery in industrialised economies' trade compensates for slower growth in OPEC imports.

Inflation

3.8. Pressures on the domestic inflation rate from the high real exchange rate and from the low level of demand were clearly downward from at least the middle of 1980, although for a period in 1981 the downward path of inflation was interrupted by the fall in sterling. The average monthly increase in wholesale output prices over the period July 1980 to January 1982 was $\frac{3}{4}$ per cent, half that of the previous 12 months: a similar picture is shown by the contribution of the private sector to the retail prices index. Those parts of the RPI which are determined mainly by the public sector—nationalised industries and housing—have also risen more slowly since 1980, though still above the rate of increase in prices charged by the private sector.

3.9. Initially, the reduction in inflation was largely at the expense of profit margins: the share of company profits (excluding North Sea oil) in domestic incomes fell from $8\frac{1}{2}$ per cent in 1979 to about 4 per cent in early 1981. But starting in the second half of 1980 and extending through 1981, wage increases were lower, and productivity gains (particularly in manufacturing) were substantial. Thus in the fourth quarter of 1981 unit wage costs in manufacturing were less than 3 per cent higher than a year earlier. The corresponding increase to the fourth quarter of 1980 had been 23 per cent.

3.10. By the end of 1981, with input prices to manufacturing also stabilising, profit margins had begun to recoup some of the earlier sharp falls. In January 1982, wholesale prices (excluding food, drink and tobacco) were about 10 per cent higher than a year earlier, with a similar rate of increase at an annual rate over the last 6 months. The increase in the RPI between January 1981 and January 1982 was slightly faster, at 12 per cent. Within the total RPI, some items, particularly consumer durables, clothing and footwear subject to intense foreign competition, have risen very little, and in a few instances not at all.

3.11. For the economy as a whole the year to the autumn of 1981 saw nearly a halving of the growth of earnings to some 12 per cent, much more nearly in line with the UK's main competitors. The sharp rise in manufacturing productivity (which, by the fourth quarter of 1981, was up some 10 per cent on a year earlier) ensured that the rise in UK unit labour costs in manufacturing was significantly less than the rise in most other countries. Recent months have seen a further reduction in the general level of wage settlements.

3.12. Over the next year or so, moderation in unit labour costs should continue to exert downward pressure on the rate of inflation; so too should weak commodity prices. Competitive pressures on firms to limit price rises, though not as intense as in late 1980 and early 1981 (when the exchange rate was higher and the level of demand lower), are likely to remain strong. These factors, in addition to specific influences on the RPI from a slower rate of increase in housing costs and the effect of Budget measures, should result in a further substantial fall in the rate of inflation. By the fourth quarter of 1982, the RPI may be 9 per cent higher than a year earlier; and by mid 1983 $7\frac{1}{2}$ per cent.

3.13. This fall in the rate of inflation should be compatible, given the trend in costs and the Budget measures, with a further improvement in profit margins. The rate of return on companies' assets (at current replacement cost, and excluding companies engaged in the North Sea) which fell from 5 per cent in 1979 to about $2\frac{1}{2}$ per cent in 1981 should show some recovery in 1982, though it is unlikely to reach the 1979 level.

Demand and activity

3.14. In the second half of 1981, total output in the economy was about 4 per cent lower than two years earlier. The fall was steepest in the second half of 1980; by mid 1981 the fall had come to an end; and in the second half of 1981 output had begun to rise again. The fall in output was heavily concentrated on manufacturing, where output was 14 per cent lower in the second half of 1981, compared with the second half of 1979, and on construction where the fall was 18 per cent. Over the same period, the output of North Sea oil and gas rose 13 per cent, while there were small falls in other sectors.

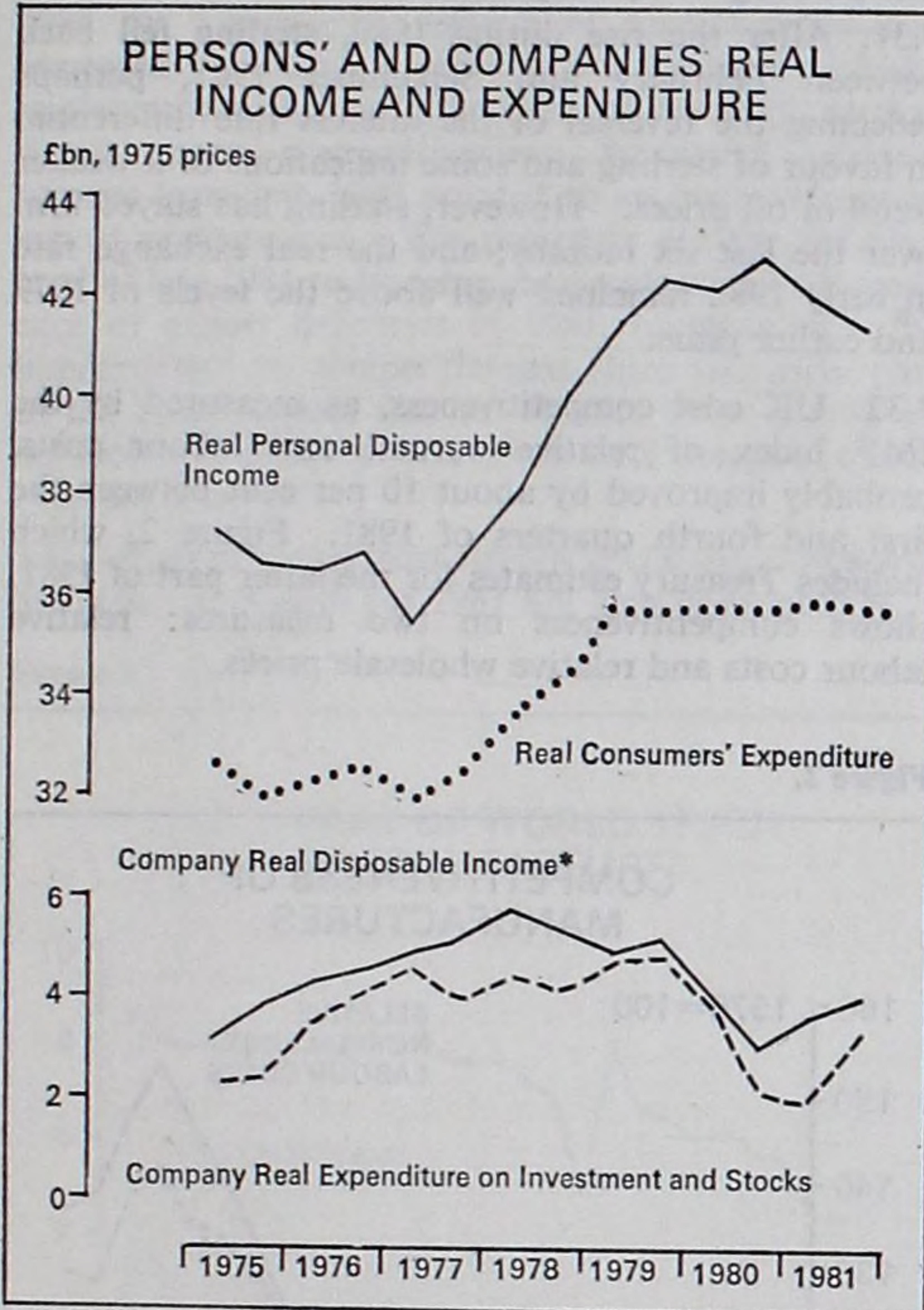
3.15. The effects of the civil service dispute, causing a loss of trade statistics for much of 1981, together with the usual measurement problems, make it difficult to form an accurate assessment of the course of demand as the economy began to recover from the recession. The second half of 1980 and the first half of 1981 were dominated by stock movements, as companies cut output and liquidated stocks under intense financial pressure. But the stock rundown was coming to an end by late 1981, with other factors contributing to the lower level of sales and output. Fixed investment, both private and public, declined by some 9 per cent in real terms over the two years to the second half of 1981, mainly due to lower investment in housing and other new building and works.

3.16. There was also a slight fall over the two years to the second half of 1981 in total exports of goods and services: some increase in oil, little change in exports of other goods; and some decline in the volume of services. In addition importers of manufactures captured a larger share of the UK market. Consumers' expenditure, and the volume of general government current expenditure on goods and services, held up over this period. The falls in stocks and in fixed investment helped explain why output in manufacturing and construction fell much more than output elsewhere.

3.17. Consumers' real incomes rose strongly up to 1980, but the fall in the rate of wage increases, the fall in employment and the increase in taxes and in national insurance contributions led to a fall of perhaps 2 per cent in 1981. With the help of large bank borrowing, the impact of these changes was very largely on savings, with consumers' expenditure little changed in either 1980 or 1981.

3.18. By contrast, over the same period companies experienced a major fall in their real income; and cut their expenditure by even more, against a difficult financial background of falling profitability and high interest rates. By the second half of 1981, however, companies' real incomes had begun to rise and so too had their expenditure, mainly reflecting a much reduced rate of destocking.

Figure 1.



* Undistributed income plus ordinary share payments, divided by the TFE deflator.

3.19. A further small fall in the real incomes of consumers is expected in 1982, levelling out in the first half of 1983. Some fall in the saving ratio is again likely mainly in response to the fall in real income, but also because the decline in the inflation rate reduces the amount of saving necessary to maintain intact the real value of assets fixed in money terms. Consumers' expenditure over the forecast period may well continue at least at the level reached by the end of 1981. Together with some recovery in private housing, this points to a further decline in the financial surplus of the personal sector.

3.20. The shake out of stocks has brought their level relative to output back towards the ratios ruling before the current recession.

TABLE 10

STOCK/OUTPUT RATIO, MANUFACTURING, end 1974 = 100

1975–79	101
end 1979...	103
end 1980...	114
end 1981 (estimate)	106
end 1982 (forecast)	103

3.21. Over the 1970s, the rise in stocks, particularly that of finished goods, more than kept pace with the rise in output. With positive real interest rates, with the changed tax position on stock relief and with the move by companies into financial surplus which occurred in 1981 liable to be only temporary, any build-up of stock levels may not proceed far over the next year.

3.22. Private investment in total has fallen in this recession; though less than would have been expected simply on the basis of the contraction in demand. However, the volume of investment in plant and machinery by the private sector was 50 per cent up in 1981 on 1975, and did not decline in the 1979–81 period. Indications from surveys of investment intentions, together with the usual cyclical lagged response of investment to a recovery in output, suggest an increase in the volume of fixed investment in the private sector and in public corporations together over the next year or so, with 1982 perhaps $4\frac{1}{2}$ per cent higher than 1981.

3.23. Current expenditure by central and local government at constant prices has tended to rise a little over the past two years, but fixed investment has fallen (partly because sales of council houses count as reductions in investment). A slight rise in general government expenditure on goods and services at constant prices is forecast from now on.

3.24. Total domestic demand, which is estimated to have recovered by 3 per cent between the first and second halves of 1981, should increase further in 1982, perhaps by 3 per cent. The rise in UK output will depend also on the extent of the rise in import penetration, and on the performance of UK exports. The forecast is for a moderate rise in total output and in manufacturing output:

TABLE 11

1975=100

	1981 I	II	*1982* I	II	*1983* I
GDP ...	105	$105\frac{1}{2}$	106	107	108
Manufacturing output* ...	88	90	91	92	93

* Stock adjusted.

For 1982 as a whole, there may be a rise of 1½ per cent in total output with a 3 per cent increase for the manufacturing sector. The rise in total output between the first halves of 1982 and 1983 is forecast at 2 per cent.

Employment and productivity

3.25. While output stabilised and began to recover slowly in the course of 1981, the level of employment continued to fall, though not as fast as during 1980. The rise in productivity can be seen most clearly in the case of manufacturing industry:

TABLE 12

MANUFACTURING OUTPUT AND PRODUCTIVITY

(per cent change on a year earlier)

	1980 second half	*1981 second half*
Output...	−12½	−1
Employment	−8	−9½
Average hours	−3	+1
Output per person	−5	+8½
Output per person hour ...	−1½	+7½

3.26. The rise in productivity during 1981 was substantially more than would have been expected at this stage in the cycle. Outside manufacturing, the same tendencies have been observed, though to a lesser degree. Over the forecast period, further gains in productivity are in prospect, though in manufacturing they are unlikely to be on the scale of 1981.

3.27. By the end of 1981, the fall in employment had slowed down: in manufacturing, employment fell by an average of 30 thousand a month in the final quarter, compared to 50 thousand in the first quarter.

3.28. Unemployment rose by over half a million in the 12 months to February 1982. But the rate of increase in unemployment has slowed down substantially, from over 100 thousand a month (adult, seasonally adjusted) in the second half of 1980 to 40 thousand a month in the second half of 1981, and to 30 thousand a month in January and February 1982.

3.29. As the recovery in demand and output gathers momentum, and as profitability recovers, so there are better prospects for employment. Already, many labour market indicators, including average hours worked and unfilled vacancies, have strengthened in recent months.

Monetary and public sector developments

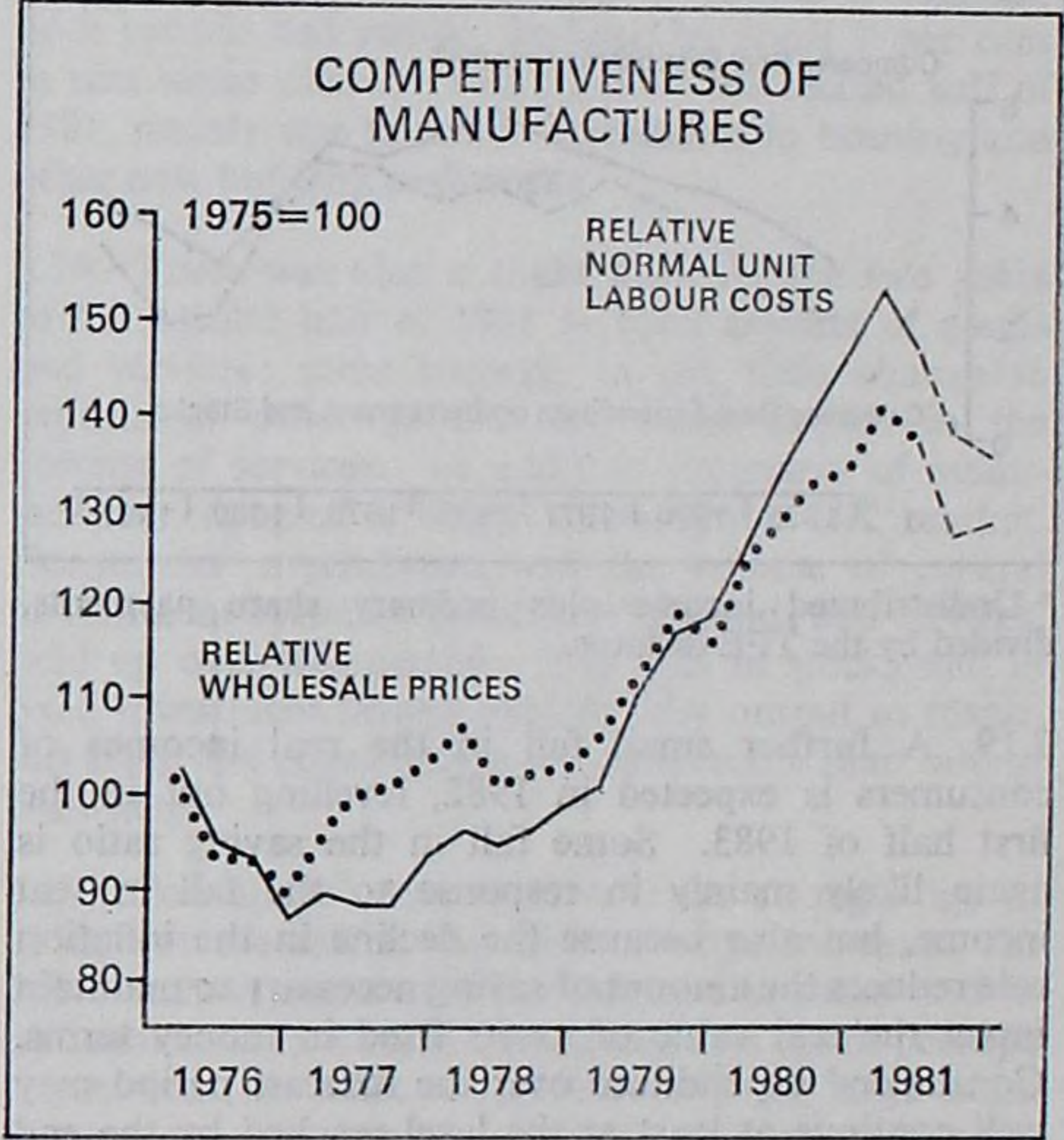
3.30. Monetary policy is described in Part 2. Public expenditure and borrowing developments are described in Part 4.

The exchange rate, competitiveness and trade

3.31. After the rise during 1980, sterling fell back between February and September 1981, perhaps reflecting the reversal of the interest rate differential in favour of sterling and some indications of a weaker trend in oil prices. However, sterling has stayed firm over the last six months; and the real exchange rate in early 1982 remained well above the levels of 1979 and earlier years.

3.32. UK cost competitiveness, as measured by the IMF index of relative normal unit labour costs, probably improved by about 10 per cent between the first and fourth quarters of 1981. Figure 2, which includes Treasury estimates for the latter part of 1981, shows competitiveness on two measures: relative labour costs and relative wholesale prices.

Figure 2.

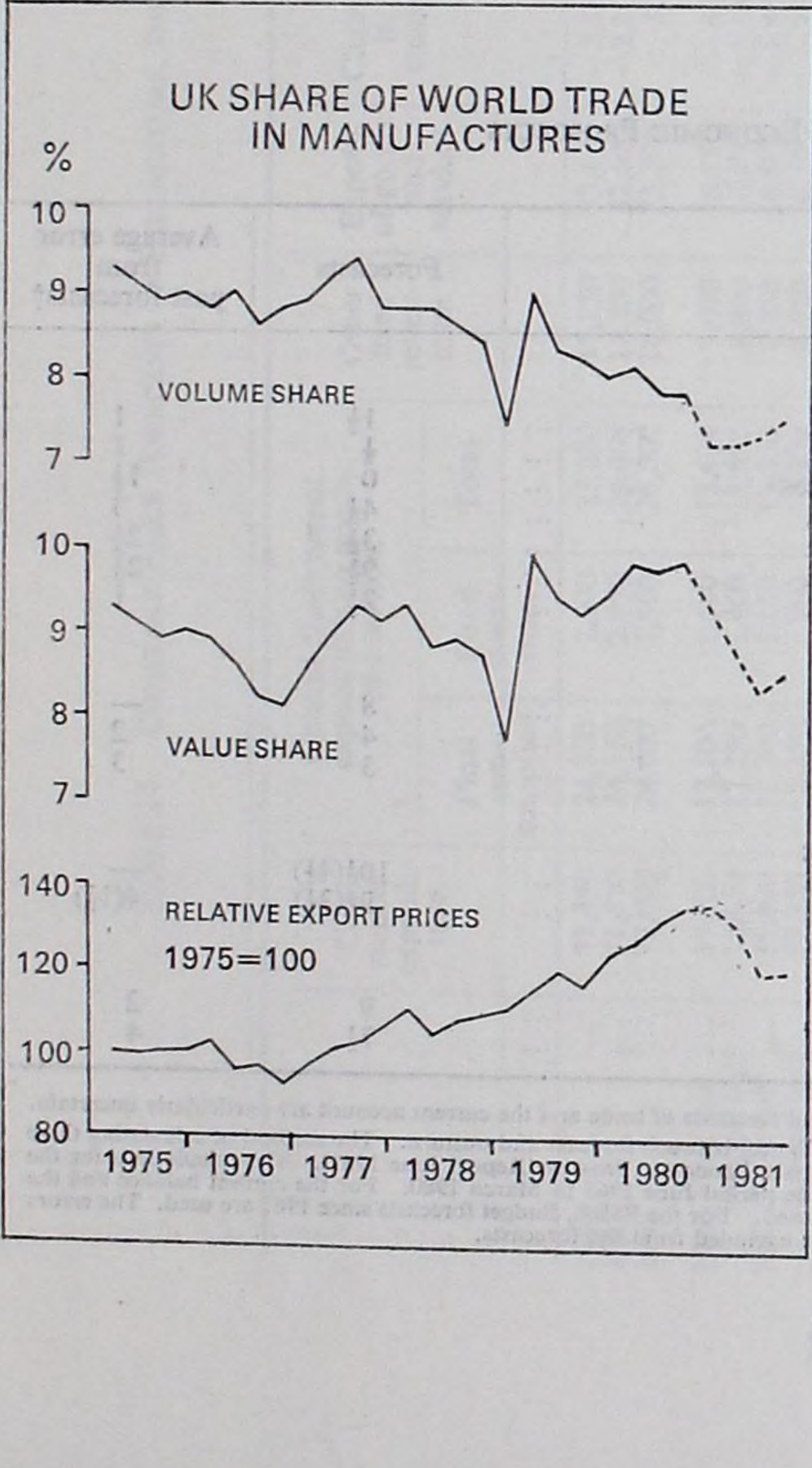


3.33. For the purposes of the economic forecast to mid 1983, it is assumed that the average level of the effective exchange rate will not be very different from the levels of the last six months. Together with a slowdown in the growth of earnings, this implies some further reversal in the earlier loss of competitiveness.

3.34. Visible trade moved into large surplus in 1981, though the extent of this is obscured by the absence of statistics for much of the year. Oil exports continued to rise, while the volume of non-oil exports (85 per cent of which are manufactures) fell perhaps 3 per cent in the year as a whole. But by the end of 1981 the volume of exports of manufactures had increased by about 3 per cent on the end of 1980, implying little change in the share of the world market despite poor competitiveness. Successive business surveys from late 1980 pointed to an improvement in export performance. The prospects are for the high level of late 1981 to be more than maintained. Experience of export deliveries in 1981, together with the improvement in competitiveness since the early part of the year, suggest that on balance there should be no further adverse effects from cost competitiveness over the next year.

3.35. Figure 3 shows recent trends in UK shares of world markets. Estimates for 1981 are very approximate.

Figure 3.



3.36. Import volumes fell very sharply up to early 1981 but have since recovered to the levels at the beginning of 1980, a path that reflects in part the course of stockbuilding over the cycle. Import penetration in manufactures (measured by the ratio of imports to an estimate of total UK demand for manufactures) rose further between the end of 1979 and the end of 1981. The rise was about the same rate as the average of the previous five years, although the influence of the recession could have been expected to result in a smaller rise. Further rises in import penetration are to be expected, though less rapidly than over the past two years. The UK terms of trade, which had improved strongly during 1980 as the exchange rate rose, maintained a high level in 1981 with weaker commodity prices offsetting some fall in sterling. By the end of 1981, the terms of trade for goods were 7½ per cent above the average of 1979. 1 per cent on the terms of trade was equivalent, arithmetically, to around £½ billion on the visible balance in 1981. Little change is foreseen for the next year or so, with commodity prices worldwide remaining weak.

3.37. After a surplus on the current account of the balance of payments estimated at £8 billion in 1981 as a whole, a smaller but still substantial surplus is in prospect for 1982. These surpluses on current account are being reflected in a build up of overseas assets and an increase in the flow of credits in the invisibles account.

Forecast and outturn

3.38. The table below compares the main elements of the forecast for 1981 published in the 1981 FSBR with current estimates for the same period. Except for the Retail Prices Index, the outturns are estimated on the basis of incomplete information:

	Forecast	*Provisional outturn*
GDP at constant prices, per cent change between 1980 and 1981… … …	−2	−2
PSBR (1981–82), £billion…	10½	10½
RPI: per cent increase between fourth quarters of 1980 and 1981 … …	10	12
Current account of the balance of payments, £billion … … …	3	8*

* See first footnote, Table 13.

3.39. Retail prices rose 2 per cent more than forecast. The biggest single factor was the fall in the exchange rate, and a higher than expected level of mortgage rates. The balance of payments—though the figures are still incomplete—showed a much larger surplus than had been forecast: the volume of exports, especially in the second half of the year, was higher; and the terms of trade (despite the lower exchange rate) were better than forecast.

Risks and uncertainties

3.40. The previous section illustrates the dangers of over-reliance on point forecasts, particularly on those elements of the forecast which represent the difference between very large magnitudes. Errors from past forecasts provide the best, though far from reliable, indication of possible errors in current forecasts. In the case of the PSBR, where flows on either side of the account now exceed £150 billion, past forecasts suggest an average error of 1½ per cent of GDP, equivalent to £4 billion in 1982–83. In the case of the balance of payments on current account, where the flows on each side approach £100 billion a year, forecasting errors have been substantially larger in recent years than the averages calculated over longer periods. On the other hand, the quoted margins of error on the RPI were derived from forecasts made over the period 1970–79, when inflation averaged over 13 per cent. Since 1976, forecasts published at Budget time have generally been subject to smaller errors.

3.41. The short-term forecast, together with average errors from past forecasts, is summarised in Table 13 below; and more detail on the constant price forecasts of demand and output is given in Table 14.

TABLE 13. SHORT-TERM ECONOMIC PROSPECTS

	Forecasts	Average error from past forecasts†
A. Output and expenditure at constant 1975 prices		
Per cent changes between 1981 and 1982:		
Gross domestic product (at factor cost)	1½	1
Consumers' expenditure	½	1
General Government expenditure on goods and services	0	1½
Other fixed investment	4½	3
Exports of goods and services*	3½	2½
Imports of goods and services*	9½	2½
Change in stockbuilding (as per cent of level of GDP)	2½	1
*B. Balance of Payments on current account**		
£ billion:		
1981	8	—
1982	4	2
1983 First half (at an annual rate)	3	3
C. Public Sector Borrowing Requirement		
£ billion; in brackets per cent of GDP at market prices:		
Financial Year 1981–82	10½(4¼)	—
Financial Year 1982–83	9½(3½)	4(1½)
D. Retail Prices Index		
Per cent change:		
Fourth quarter 1981 to fourth quarter 1982	9	2
Second quarter 1982 to second quarter 1983	7½	4

* The absence of trade statistics for part of 1981 mean that the estimates and forecasts of trade and the current account are particularly uncertain.

† The errors relate to the average differences (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications on government forecasts (see Economic Progress Report June 1981). The calculations for the constant price variables are derived from internal forecasts made during the period June 1965 to March 1980. For the current balance and the retail prices index, forecasts made between June 1970 and March 1980 are used. For the PSBR, Budget forecasts since 1967 are used. The errors are after adjustment for the effects of major changes in fiscal policy where excluded from the forecasts.

TABLE 14. CONSTANT PRICE FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT*

£ million at 1975 prices, seasonally adjusted

	Consumers' expenditure	General Government expenditure on goods and services			Other fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	*Less* imports of goods and services	*Less* adjustment to factor cost	*Plus* Statistical Adjustment	Gross domestic product at factor cost	GDP index 1975 =100
		Final consumption	Fixed investment	Total									
1980	71,450	24,350	2,900	27,250	17,850	33,150	−2,150	147,550	34,150	12,450	100	101,050	107·3
1981	71,550	24,550	2,050	26,600	17,200	32,600	−2,100	145,850	33,300	12,300	−1,200	99,050	105·1
1982	72,000	24,600	1,900	26,500	18,000	33,700	300	150,500	36,450	12,700	−900	100,450	106·6
1980 First half ...	35,800	12,100	1,500	13,600	9,050	16,850	−500	74,800	17,800	6,200	300	51,100	108·5
Second half...	35,650	12,250	1,400	13,650	8,800	16,300	−1,650	72,750	16,350	6,250	−200	49,950	106·0
1981 First half ...	35,800	12,200	1,150	13,350	8,450	15,900	−1,850	71,650	15,750	6,100	−450	49,350	104·8
Second half...	35,750	12,350	900	13,250	8,750	16,700	−250	74,200	17,550	6,200	−750	49,700	105·5
1982 First half ...	36,000	12,250	950	13,200	8,900	16,800	100	75,000	18,100	6,350	−550	50,000	106·1
Second half...	36,000	12,350	950	13,300	9,100	16,900	200	75,500	18,350	6,350	−350	50,450	107·1
1983 First half ...	36,150	12,400	950	13,350	9,300	17,300	200	76,300	18,750	6,400	−150	51,000	108·2
Percentage changes													
1980 to 1981 ...	0	½	−31	−2½	−3½	−1½		−1	−2½	−1		−2	
1981 to 1982 ...	½	½	−6½	0	4½	3½		3	9½	3		1½	
Percentage changes First half 1982 to First half 1983 ...	½	1	2	1	5	3		2	3½	½		2	

* GDP figures in the table are based on "compromise" estimates of gross domestic product. Figures in £ million are rounded to £50 million. Percentage changes are calculated from unrounded levels and then rounded to half per cent. The GDP index in the final column is calculated from unrounded numbers.

PART 4

PUBLIC SECTOR TRANSACTIONS

PSBR in 1981–82

4.1 The public sector borrowing requirement (PSBR) in 1981–82 is expected to be around £10½ billion, or some 4¼ per cent of gross domestic product. It had been forecast at £10½ billion a year ago. This did not allow for the effects of the civil service dispute which may have added about £¾ billion to the PSBR, mostly through higher interest costs. Tax receipts of some £¾ billion, delayed in March 1981 when the dispute began, were collected in 1981–82. But perhaps £1 billion due in 1981–82 will be outstanding at the end of the year: most of this is assumed to be received in 1982–83. Local authorities, whose current expenditure is exceeding the Budget estimate, nevertheless may borrow some £¾ billion less than forecast. The nationalised industries are borrowing more than forecast but the extra has been covered by allocations of the contingency reserve and so does not make for a higher PSBR.

4.2 The actual outturn for the PSBR in 1981–82 will not be known until May. The scale of borrowing towards the end of the financial year is always difficult to predict, and will also be affected by the uncertain speed of the recovery from the dispute.

TABLE 15. PUBLIC SECTOR BORROWING REQUIREMENT

£ billion

Borrowing requirement of	1981–82		1982–83 Forecast
	Budget forecast	Estimated outturn	
Central government	11·5	8·8	9·3
Central government own account([1])	5·8	7·5	5·4
Local authorities	1·0	0·3	0·6
Public corporations	2·4	2·8	1·9
Unallocated:			
Contingency reserve and cash underspending ...	1·6	—	2·4
Special sales of assets	−0·2	—	−0·7
Public sector	10·6	10·6	9·5

([1]) Central government borrowing less on lending to local authorities and public corporations.

PSBR 1982–83

4.3. The PSBR in 1982–83 is forecast at around £9½ billion or 3½ per cent of gross domestic product. After taking account of the Budget measures in 1981–82 and 1982–83 and economic growth, the major factors affecting the reduction in the ratio are continued restraint on public service pay, the increase in national insurance contribution rates announced in December, lower interest payments resulting from the issue of index-linked Government securities, and the recovery of tax receipts delayed by the civil service dispute.

Central government

4.4. Table 16 shows central government receipts and expenditure and borrowing requirement for 1981–82 and 1982–83. In addition to the dispute effect indicated in paragraph 4.1, expenditure in 1981–82 on social security and interest was higher than forecast. Offsetting these increases was a lower than expected uptake of government loans by local authorities who repaid a net £1¼ billion of outstanding loans compared with borrowing of nearly £1 billion assumed a year ago. The main increases in expenditure in 1982–83 are on social security, employment services and defence.

TABLE 16. CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	1981–82 Budget forecast	1981–82 Estimated outturn	1982–83 Forecast
Receipts			
Taxes	73·0	74·0	78·5
National insurance contributions, etc.	16·7	17·0	19·5
Other	5·2	4·3	7·6
Total	94·9	95·2	105·7
Expenditure			
Current expenditure on goods and services	33·1	33·3	36·2
Capital consumption	0·7	0·7	0·8
Interest	10·4	11·0	11·4
Subsidies	3·7	4·5	4·2
Grants	49·9	51·2	55·3
Net lending and capital expenditure	7·2	3·2	5·4
Contingencies net(1)	1·4	—	1·7
Total	106·4	104·0	115·0
CENTRAL GOVERNMENT BORROWING REQUIREMENT	11·5	8·8	9·3
of which: for on lending to local authorities and public corporations	4·3	1·2	2·2

(1) Includes contingency reserve, special sales of assets and for 1981–82 Budget forecast, general allowance for underspending.

Local authorities

4.5. Table 17 shows local authority receipts, expenditure and borrowing requirement for 1981–82 and 1982–83. In recent years local authorities have borrowed heavily in the last months of the financial year. The estimated outturn for 1981–82 is therefore very uncertain.

4.6 Local authorities' budgets for 1981–82 showed an overspend on the cash equivalent of the plans in Cmnd. 8175 of £1¾ billion on current expenditure. Offsetting this in part has been a shortfall in expenditure on fixed capital formation and lending to private sector of some £¾ billion. In addition, receipts from rates were some £½ billion higher than in last year's Budget forecast—with supplementary rates imposed by some authorities. In 1982–83 local authorities are expected to borrow around £½ billion net. The expenditure figures in the table are those in Cmnd. 8494 translated onto a national income accounts basis and adjusted for Budget measures.

Public corporations

4.7 Expenditure and receipts for public corporations are shown in Table 18. The outturn figures for nationalised industries' external financing are particularly uncertain for 1981–82. However higher borrowing in 1981–82 than forecast reflects the changes in the external financing limits of British Telecom, National Coal Board, Post Office and National Giro Bank and British Airways. The increases in these external financing limits were met from the contingency reserve and therefore had been allowed for in the PSBR forecast last year.

Public expenditure

4.8. Latest estimates suggest that the cash outturn for public expenditure in 1981–82 will be around £105 billion or 45 per cent of GDP. These estimates are lower than in Cmnd. 8494 and reflect later information on central government and public corporations. The planning total for 1982–83 is now put at under £115 billion or 44½ per cent of GDP. This is lower than in Cmnd. 8494 which does not incorporate the Budget measures and other changes.

Table 19

4.9 The expenditure side of this table shows a reconciliation of the planning total now expected with that in Cmnd. 8494. It further provides adjustments

TABLE 17. LOCAL AUTHORITIES TRANSACTIONS

£ billion

	1981–82		1982–83
	Budget forecast	Estimated outturn	Forecast
Receipts			
Rates	10·3	10·9	12·2
Rate support grant	11·4	11·5	11·5
Other grants from central government	3·9	4·6	4·4
Other	4·4	4·6	5·1
Total	29·9	31·6	33·2
Expenditure			
Current expenditure on goods and services	19·5	20·6	21·5
Capital consumption	1·2	1·4	1·6
Grants and subsidies	2·1	2·6	2·6
Interest payments	4·5	4·3	4·7
Gross domestic fixed capital formation	2·5	2·2	2·5
Net lending to private sector	1·2	0·7	1·1
Total	30·9	31·8	33·8
LOCAL AUTHORITY BORROWING REQUIREMENT	1·0	0·3	0·6
of which:			
Borrowing from central government	0·9	−1·2	−0·3
Other borrowing	0·1	1·5	0·9

TABLE 18. PUBLIC CORPORATIONS TRANSACTIONS

£ billion

	1981–82		1982–83
	Budget forecast	Estimated outturn	Forecast
Capital expenditure			
Gross domestic fixed capital formation	8·4	7·3	9·0
Increase in stocks	0·6	0·4	0·3
Total	9·0	7·7	9·3
Internally arising funds			
Gross trading surplus(1)	8·1	7·2	9·5
Rent and other non-trading income	1·0	1·0	1·0
Interest and dividend payments	−3·0	−3·3	−3·5
Taxes on income	−0·3	−0·4	−0·3
Total	5·8	4·6	6·6
Capital receipts	0·8	0·6	0·6
Excess of capital expenditure over internal funds and capital receipts ...	2·3	2·5	2·1
Less Net financial receipts	0·1	0·3	−0·2
PUBLIC CORPORATIONS BORROWING REQUIREMENT	2·4	2·8	1·9
of which:			
Borrowing from central government	3·4	2·4	2·4
Other borrowing	−1·0	0·4	−0·6

(1) Including subsidies.

to convert from the planning total to expenditure by general government (i.e. central and local government) on a national accounts basis. This basis is used in the presentation of the medium term financial strategy and the consolidated public sector account (Table 20). The receipts side of the account lists the main sources of income that finance general government expenditure and also the general government borrowing requirement.

Other tables

4.10 Table 20 provides the consolidated account of the public sector in 1981–82 and 1982–83. The transactions have been grouped to lead to the current balance, the financial deficit (balance of current and capital account) and the public sector borrowing requirement. The table is based on the principles and methods used in compiling the national income accounts. The forecasts for 1982–83 are consistent with the economic forecast in Parts 2 and 3.

4.11 Table 21A shows the estimated outturn of the individual external financing limits for nationalised industries in 1981–82. They contain later information than is shown in Table 3.4 of Cmnd. 8494. The external financing limits for 1982–83 in Table 21B are different from those in Cmnd. 8494. They incorporate the Budget measures except the reduction in the national insurance surcharge.

4.12 Tables 22–25 present the transactions of central government in more detail by reference to the relevant funds and accounts.

Unallocated Items

4.13 The unallocated items for 1982–83 shown in Tables 15 and 20 take account of two factors that by their nature cannot at this stage be attributed to a spending authority or economic category. They relate to the contingency reserve of £2½ billion and receipts of just under £¾ billion from special sales of assets. The figure for special sales of assets takes account of a number of changes since Cmnd. 8494. The unallocated items are arbitrarily attached to central government and within that the contingency reserve is allocated to supply expenditure in Table 24 and special sales of assets to miscellaneous receipts in Table 23. On past practice it seems likely that use of the contingency reserve will make for a higher financial deficit than shown in Table 20 as well as adding to identified financial transactions.

4.14 Included in Table 24 is an entry of £360 million for savings on supply provisions and public corporations' external financing as a consequence of the reduction in the rate of national insurance surcharge. This item has not been allocated between supply expenditure and lending from the National Loans Fund, therefore Table 25 does not take account of the reduction.

Table 19. Income, Expenditure and General Government Borrowing Requirement

£ billion

Income	Source table reference numbers	1981–82 Budget forecast	1981–82 Estimated outturn	1982–83 Forecast
Central government taxation				
Income tax	23	28·2	28·5	30·8
Value added tax	23	12·6	12·3	14·7
Oil duties	23	4·8	4·6	5·1
Corporation tax	23	4·6	4·8	4·8
National insurance surcharge ...	23	3·8	3·6	3·4
Tobacco	23	3·2	3·3	3·5
Spirits, beer, wine, cider and perry	23	3·2	3·0	3·3
Petroleum revenue tax	23	2·2	2·4	2·3
Supplementary petroleum duty ...	23	1·9	2·1	2·0
Vehicle excise duty	23	1·6	1·6	1·8
North sea oil royalties	23	1·2	1·3	1·5
European Communities duties(3) ...	23	1·0	1·1	1·3
Other (including accruals)	part 23	4·7	5·4	4·0
Total	20 rows 1, 2, 22	73·0	74·0	78·5
National insurance, etc., contributions...	20 row 3	16·7	17·0	19·5
Local authorities rates	20 row 2	10·3	10·9	12·2
Local authorities rents(4)	20 row 5	3·2	3·2	3·3
General government				
Interest and dividend receipts ...	20 rows 7, 8, 18 and 19	4·0	4·1	4·9
Capital consumption	20 row 6	1·9	2·2	2·4
Accruals adjustment	20 row 30	−0·8	−1·6	0·5
Other		−0·4	−0·5	—
Total general government receipts(7) ...		107·9	109·2	121·3
General government borrowing requirement	20 row 39	11·6	10·4	10·1
General government receipts and borrowing		119·5	119·5	131·4

Expenditure(1)	1981–82 Budget forecast	1981–82 Estimated outturn	1982–83 forecast
Social security	28·2	29·5	33·0
Health and personal social services	15·5	15·9	17·0
Education and science, arts and libraries ...	14·1	14·9	15·4
Defence	12·3	12·6	14·1
Housing	5·5	4·5	4·7
Other environmental services(2)	4·9	4·4	4·7
Law, order and protective services	4·4	4·4	4·9
Transport(2)	3·7	3·8	4·0
Industry, energy, trade(2)	3·1	3·4	3·1
Employment	2·4	2·5	2·7
Nationalised industries' total net external finance	2·4	3·4	2·7
Overseas aid and other overseas services ...	2·0	1·6	2·1
Agriculture, fisheries, food and forestry ...	1·5	1·8	1·8
Other public services	3·0	3·2	3·2
Contingency reserve, etc.(5)	1·6	0·3	2·3
Special sales of assets	−0·2	−0·1	−0·6
Planning total in Cmnd. 8494	104·2	106·1	115·2
Budget measures (see table 1)	—	—	0·3
Other changes(6)	—	−0·9	−0·6
Planning total after Budget and other changes...	104·2	105·2	114·9
Adjustments to general government expenditure			
—capital consumption	1·9	2·2	2·4
—general government debt interest	13·3	13·7	14·4
—other(8)	0·1	−1·6	−0·3
General government expenditure(9)	119·5	119·5	131·4

(1) See table 4.2 of Cmnd. 8494. Arranged in descending order of size.

(2) Excludes support for nationalised industries.

(3) Customs duties and agricultural levies accountable to the Communities as " own resources ".

(4) After deducting maintenance costs, after addition of subsidies but before deducting depreciation or interest.

(5) Including cash underspending in 1981–82 Budget forecast.

(6) Includes later information for 1981–82. For 1982–83 see footnote 3, Table 1.

(7) Table 20 rows 9, 18–19, 22, 29–31. See also Table 7.

(8) *Add* stock appreciation.
Add receipt from fees and fines in magistrates' and Scottish courts.
Deduct capital expenditure of certain public corporations (see list III in table 5·1 of Part 5 of Cmnd. 8494).
Add grants and lending to certain public corporations (see list III in table 5·1 of Part 5 of Cmnd. 8494).
Deduct net overseas and market borrowing and capital value of leased assets of nationalised industries, Civil Aviation Authority, Scottish Development Agency and Welsh Development Agency.
Add those special sales of assets treated as revenue items in the national income accounts.
Add those special sales of assets relating to public corporations.
Adjust for the difference in accounting conventions used in Cmnd. 8494 and the national accounts.
Deduct interest support costs for certain export and shipbuilding refinance.
Deduct capital expenditure of passenger transport executives.
Add grants and lending to passenger transport executives.
Add payments of VAT by local authorities.

(9) Table 20 rows 16, 24–27, 32–34, 36–38. See also Table 6.

		1981–82 Estimated outturn					
		General government			Nationalised industries (1)	Other public corporations(1)	Public sector
		Central government	Local authorities	Total			
CURRENT RECEIPTS							
Taxes on income	1	37,854	—	37,854	−336	−30	37,488
Taxes on expenditure	2	34,489	10,900(2)	45,389	—	—	45,389
National insurance, etc., contributions	3	16,954	—	16,954	—	—	16,954
Gross trading surplus(3)	4	26	126	152	6,500	730	7,382
Gross rental income(3)	5	62	3,200	3,262	53	354	3,669
Capital consumption(4)	6	749	1,409	2,158	—	—	2,158
Interest—private sector and overseas	7	1,119	590	1,709	213	351	2,273
Dividends—private sector and overseas	8	133	—	133	5	5	143
TOTAL	9	91,386	16,225	107,611	6,435	1,410	115,456
CURRENT EXPENDITURE							
Current expenditure on goods and services	10	33,341	20,582	53,923	—	—	53,923
Capital consumption(4)	11	749	1,409	2,158	—	—	2,158
Subsidies	12	4,468	1,041	5,509	—	—	5,509
Interest—private sector and overseas	13	11,001	2,739	13,740	780	236	14,756
Current grants to personal sector	14	31,571	1,224	32,795	—	—	32,795
Current grants abroad	15	1,319	—	1,319	—	—	1,319
TOTAL	16	82,449	26,995	109,444	780	236	110,460
TRANSACTIONS WITHIN PUBLIC SECTOR(5)							
Current grants	17	−15,651	15,651	—	—	—	—
Interest payments	18	3,817	−1,560	2,257	−1,205	−1,052	—
Dividends	19	13	—	13	—	−13	—
CURRENT BALANCE(3)	20	−2,884	3,321	437	4,450	109	4,996
CAPITAL RECEIPTS							
Current balance	21	−2,884	3,321	437	4,450	109	4,996
Taxes on capital	22	1,656	—	1,656	—	—	1,656
Capital transfers from private sector	23	—	—	—	122	9	131
CAPITAL EXPENDITURE							
Gross domestic fixed capital formation	24	2,040	2,233	4,273	5,703	1,566	11,542
Increase in stocks(6)	25	144	—	144	401	34	579
Capital grants to private sector	26	1,835	244	2,079	—	4	2,083
CAPITAL GRANTS WITHIN PUBLIC SECTOR(5)	27	−850	355	−495	—	495	—
Financial Deficit (balance of current and capital accounts)	28	**−6,097**	**1,199**	**−4,898**	**−1,532**	**−991**	**−7,421**
FINANCIAL AND OTHER TRANSACTIONS(5)							
Transactions concerning certain public sector pension schemes	29	34	—	34	—	—	34
Accruals adjustments	30	−1,641	12	−1,629	85	4	−1,540
Miscellaneous capital transactions (net)(7)	31	−16	−770	−786	−164	120	−830
Net lending to private sector	32	−650	−691	−1,341	−3	−193	−1,537
Net lending, etc., abroad	33	334	—	334	−23	−39	272
Cash expenditure on company securities (net)	34	489	—	489	—	−53	436
TOTAL	35	**−1,450**	**−1,449**	**−2,899**	**−105**	**−161**	**−3,165**
Loans within public sector	38	−1,206	−1,361	−2,567	1,332	1,235	—
Contribution to: **Public Sector Borrowing Requirement**	39	**8,753**	**1,611**	**10,364**	**305**	**−83**	**10,586**
Sectoral borrowing requirements (lines 28 plus 35)		*7,547*	*250*	*7,797*	*1,637*	*1,152*	*10,586*

(1) Excludes transactions on operating account, i.e., receipts from sales and subsidies, and payments for current goods and services. £1500bn
(2) Local rates.
(3) Before allowing for depreciation and stock appreciation.
(4) Imputed charge for consumption of non-trading capital.
(5) For financial transactions — indicates a transaction which increases the public sector borrowing requirement.

BY ECONOMIC CATEGORY £ million

		1982–83 Forecast					
		General government			Nation-alised industries (1)	Other public corpora-tions(1)	Public sector
		Central govern-ment	Local authorities	Total			
CURRENT RECEIPTS							
Taxes on income	1	39,864	—	39,864	−259	−36	39,569
Taxes on expenditure	2	37,305	12,200(2)	49,505	—	—	49,505
National insurance, etc., contributions	3	19,545	—	19,545	—	—	19,545
Gross trading surplus(3)	4	−42	157	115	8,440	1,015	9,570
Gross rental income(3)...	5	24	3,306	3,330	52	348	3,730
Capital consumption(4)	6	778	1,582	2,360	—	—	2,360
Interest—private sector and overseas	7	1,418	755	2,173	223	370	2,766
Dividends—private sector and overseas	8	220	—	220	5	5	230
TOTAL...	9	99,112	18,000	117,112	8,461	1,702	127,275
CURRENT EXPENDITURE							
Current expenditure on goods and services	10	36,164	21,459	57,623	—	—	57,623
Capital consumption(4)	11	778	1,582	2,360	—	—	2,360
Subsidies	12	4,222	896	5,118	—	—	5,118
Interest—private sector and overseas	13	11,417	2,982	14,399	753	259	15,411
Current grants to personal sector ...	14	35,751	1,131	36,882	—	—	36,882
Current grants abroad...	15	1,522	—	1,522	—	—	1,522
TOTAL...	16	89,854	28,050	117,904	753	259	118,916
TRANSACTIONS WITHIN PUBLIC SECTOR(5)							
Current grants	17	−15,450	15,450	—	—	—	—
Interest payments	18	4,185	−1,680	2,505	−1,352	−1,153	—
Dividends	19	12	—	12	—	−12	—
CURRENT BALANCE(3)	20	−1,995	3,720	1,725	6,356	278	8,359
CAPITAL RECEIPTS							
Current balance	21	−1,995	3,720	1,725	6,356	278	8,359
Taxes on capital	22	1,375	—	1,375	—	—	1,375
Capital transfers from private sector	23	—	—	—	138	10	148
CAPITAL EXPENDITURE							
Gross domestic fixed capital formation	24	2,317	2,455	4,772	7,303	1,701	13,776
Increase in stocks(6)	25	220	—	220	318	6	544
Capital grants to private sector ...	26	1,657	484	2,141	—	22	2,163
CAPITAL GRANTS WITHIN PUBLIC SECTOR(5)...	27	−956	459	−497	—	497	—
Financial Deficit (balance of current and capital accounts)	28	**−5,770**	**1,240**	**−4,530**	**−1,127**	**−944**	**−6,601** 9bn.
FINANCIAL AND OTHER TRANSACTIONS(5)							
Transactions concerning certain public sector pension schemes	29	−14	—	−14	—	—	−14
Accruals adjustments	30	443	16	459	44	15	518
Miscellaneous capital transactions (net)(7)	31	620	−750	−130	494	111	475
Net lending to private sector	32	−439	−1,106	−1,545	−10	−345	−1,900
Net lending, etc., abroad	33	−204	—	−204	−27	−47	−278
Cash expenditure on company securities (net)	34	—	—	—	—	−33	−33
TOTAL...	35	**406**	**−1,840**	**−1,434**	**501**	**−299**	**−1,232**
Unallocated items:							
Contingency reserve	36	−2,400	—	−2,400	—	—	−2,400
Special sales of assets	37	700	—	700	—	—	700
Loans within public sector	38	−2,229	−211	−2,440	1,092(8)	1,348(8)	—
Contribution to: **Public Sector Borrowing Requirement** ...	39	**9,293**	**811**	**10,104**	**−466**	**−105**	**9,533**
Sectoral borrowing requirements(9) (lines 28 plus 35)		*5,364*	*600*	*5,964*	*626*	*1,243*	*9,533*

(6) Includes stock appreciation.

(7) Includes unidentified transactions.

(8) Includes saving arising from the reduction in national insurance surcharge payments by the industries: this saving has not been accounted for in Tables 21B and 25.

(9) Excludes unallocated items.

TABLE 21. FINANCING REQUIREMENTS OF THE NATIONALISED INDUSTRIES

PART A. 1981–82 (ESTIMATED OUTTURN)(1)

£ million

	Capital requirements			Internally generated funds					External finance			
										Net borrowing from		
	Fixed assets in the UK (2)	Other (3)	Total	Current cost operating profit (4)	Interest, dividends and tax(5)	Deprecia-ation etc.(6)	Other receipts and payments (7)	Total	Government grants for revenue and capital purposes	Government (NLF and PDC)	Market overseas and leasing	Total external financing estimated outturn (8)
National Coal Board	805	2	807	−466	−365	516	5	−310	340	818	−41	1,117
Electricity (England and Wales) ...	1,184	−60	1,124	376	−609	1,454	83	1,304	9	−449	260	−180
North of Scotland Hydro-Electric Board	39	−37	2	70	−61	35	7	51	—	−52	3	−49
South of Scotland Electricity Board ...	333	−100	233	91	−90	75	7	83	—	207	−57	150
British Gas Corporation	574	320	894	301	−115	618	41	845	—	—	49	49(9)
British National Oil Corporation ...	335	−40	295	481	−161	219	—	539	—	−221(10)	−23	−244
British Steel Corporation	154	235	389	−53	−88	−2	64	−379	—	809	−41	768
British Telecom	1,785	441	2,226	1,076	−551	1,441	10	1,976	—	112	138	250
Post Office and Girobank	127	15	142	57	7	66	2	132	—	−9	19	10
British Airways Board	171	−42	129	−171	−108	203	51	−25	—	17	137	154
British Airports Authority	88	−14	74	23	−17	65	1	72	1	1	—	2
British Railways Board	312	−133	179	−1,052	−77	231	117	−781	879	−7	88	960
British Transport Docks Board ...	19	—	9	−8	−7	14	2	1	—	—	8	8
British Waterways Board	6	—	6	−26	−2	1	1	−26	29	2	1	32
National Bus Company	50	4	54	−53	−23	52	3	−21	65	3	7	75
Scottish Transport Group	13	—	13	−7	−3	13	—	3	21	−2	−9	10
British Shipbuilders	34	35	69	−60	4	−10	5	−61	51	103	−24	130
TOTAL	6,019	626	6,645	279	−2,266	4,991	399	3,403	1,395	1,332(11)	515(11)	3,242

(1) No figures are included for the National Freight Company Limited. Sale of shares to a management led consortium was completed in February 1982.

(2) The capital value of leased assets is included.

(3) Includes fixed assets abroad, net investment in UK companies, net investment in long and medium-term financial assets and changes in working capital (including stocks and work in progress).

(4) Some industries use historic cost as the basis of their main accounts. Because of this, and the exclusion of Government grants for revenue purposes, the figures in this column may differ from those for operating profit in those accounts.

(5) The total figure for interest alone is −£1,943 million. That for taxation is −£323 million including BGC (−£154 million) and BNOC (−£136 million).

(6) Includes cost of sales adjustment, monetary working capital adjustment and other items not involving the movement of funds.

(7) Includes proceeds from sales of fixed assets (where not credited to the special disposals programme) and other capital receipts.

(8) Except in case of the BNOC, the figure shown against each industry is the estimated outturn against its external financing limit for the year.

(9) Includes effect of gas levy.

(10) Includes BNOC's net payments into the National Oil Account.

(11) Of which:

Government loans	405
Issues of PDC (including issues under Section 18 of the Iron and Steel Act 1975) ...	927
Overseas borrowing	−252
Market borrowing	—
Short-term borrowing and leasing	767

TABLE 21—(*continued*). FINANCING REQUIREMENTS OF THE NATIONALISED INDUSTRIES

PART B. 1982–83 (FORECAST)(1)

£ million

	Capital requirements			Internally generated funds					External finance			
									Government grants for revenue and capital purposes	Net borrowing from		External financing limit (8)
	Fixed assets in the UK(2)	Other (3)	Total	Current cost operating profit (4)	Interest, dividends and tax(5)	Depreciation etc.(6)	Other receipts and payments (7)	Total		Government (NLF and PDC)	Market overseas and leasing	
National Coal Board	886	−29	857	−344	−429	599	5	−169	703	318	5	1,026
Electricity (England and Wales) ...	1,370	−38	1,332	482	−652	1,639	95	1,564	12	−213	−31	−232
North of Scotland Hydro-Electric Board	54	7	61	71	−62	35	6	50	—	80	−69	11(9)
South of Scotland Electricity Board ...	421	−117	304	116	−121	91	4	90	—	213	1	214(9)
British Gas Corporation	918	163	1,081	615	−220	717	44	1,156	—	—	−75	−75
British National Oil Corporation ...	407	−4	403	—(10)	—(10)	—(10)	—(10)	488	—	−81(11)	−4	−85
British Steel Corporation	194	137	331	−78	−84	95	48	−19	—	483	−133	350
British Telecom	2,380	97	2,477	1,146	−617	1,602	6	2,137	—	286	54	340
Post Office and Girobank	124	−11	113	54	—	78	6	138	—	−12	−13	−25
British Airways Board	254	3	257	70	−121	236	81	266	—	12	−21	−9
British Airports Authority	172	−24	148	45	−19	73	1	100	—	47	1	48
British Railways Board	302	−109	193	−1,089	−83	257	158	−757	946	—	4	950
British Transport Docks Board ...	13	2	15	—(10)	—(10)	—(10)	—(10)	22	—	—	−7	−7
British Waterways Board	3	2	5	−34	−3	1	1	−35	38	2	—	40
National Bus Company	50	5	55	−58	−25	65	2	−16	58	1	12	71
Scottish Transport Group	14	—	14	−15	−5	13	—	−7	22	−2	1	21
British Shipbuilders	49	45	94	−67	—	32	4	−31	47	78	—	125
TOTAL	7,611	129	7,740					4,977	1,826	1,212(12)	−275(12)	2,763

(1) These figures do not take account of the reduction in the rate of national insurance surcharge.

(2) The capital value of leased assets is included.

(3) Includes fixed assets abroad, net investment in UK companies, net investment in long and medium-term financial assets and changes in working capital (including stocks and work in progress).

(4) Some industries use historic costs as the basis of their main accounts. Because of this, and the exclusion of Government grants for revenue purposes, the figures in this column may differ from those for operating profit in those accounts. For BGC the operating profit is after charging £562 million for the gas levy.

(5) The total figure for interest alone is —£2,179 million excluding BNOC and BTDB. That for taxation is —£259 million (including BGC —£237 million).

(6) Includes cost of sales adjustment, monetary working capital adjustment and other items not involving the movement of funds.

(7) Includes proceeds from sales of fixed assets (where not credited to the special disposals programme) and other capital receipts.

(8) The figure for BNOC is a forecast external financing requirement and does not represent a formal limit.

(9) Provisional pending full assessment of the effects of closure of the aluminium smelter at Invergordon and the new pricing arrangements for large industrial consumers announced in the Budget.

(10) Details of internally generated funds are not given on the assumption that shares in BNOC's upstream business, and in a successor company to the BTDB, are sold to the public in 1982–83 with control of both bodies passing to the private sector.

(11) Includes BNOC's net payments into the National Oil Account.

(12) Of which:

Government loans	640
Issues of PDC (including issues under Section 18 of the Iron and Steel Act 1975) ...	572
Overseas borrowing	−260
Market borrowing	—
Short-term borrowing and leasing	−15

TABLE 22. SUMMARY OF CENTRAL GOVERNMENT TRANSACTIONS[1]

£ million

	1981–82		1982–83 Forecast
	Budget forecast	Estimated outturn	
CONSOLIDATED FUND			
Revenue (Table 23)	75,524	76,288	82,895
Expenditure (Table 24)	83,697	85,425	90,891
Deficit	8,173	9,137	7,996
NATIONAL LOANS FUND			
Consolidated Fund deficit (as above)	−8,173	−9,137	−7,996
Other transactions:			
Receipts (Table 25)...	11,100	11,230	11,600
Payments (Table 25)	−15,134	−11,834	−13,236
Total net borrowing by the National Loans Fund	−12,207	−9,741	−9,632
Other funds and accounts (net)[2]	+710	+988	+339
CENTRAL GOVERNMENT BORROWING REQUIREMENT	−11,497	−8,753	−9,293

(1) Central government transactions by economic category are not shown in this document but are available on request from GEA Division, H.M. Treasury.

(2) See footnotes (1) and (9) to Table 23.

Table 23. Taxation and Miscellaneous Receipts

£ million

	1981–82 Budget forecast	1981–82 Estimated([1]) outturn	1982–83([1]) forecast
Taxation			
Inland Revenue—			
Income tax([2]) ...	28,205	28,504	30,775
Corporation tax([3])([4]) ...	4,600	4,800	4,850
Petroleum revenue tax ...	2,210	2,380	2,290
Supplementary petroleum duty ...	1,850	2,050	2,040
Capital gains tax ...	575	540	600
Development land tax ...	25	35	40
Estate duty ...	15	16	10
Capital transfer tax ...	445	470	465
Stamp duties ...	775	800	810
Special tax on banking deposits	400	355	—
Total Inland Revenue ...	*39,100*	*39,950*	*41,880*
Customs and Excise—			
Value added tax ...	12,650	12,300	14,750
Oil ...	4,800([5])	4,550	5,100
Tobacco ...	3,220([5])	3,325	3,525
Spirits, beer, wine, cider and perry	3,200	3,000	3,275
Betting and gaming ...	510([5])	500	550
Car tax ...	550	525	600
Other excise duties ...	25	20	20
EC own resources([6])			
Customs duties, etc. ...	835	920	1,060
Agricultural levies ...	210	210	270
Total Customs and Excise ...	*26,000([5])*	*25,350*	*29,150*
Vehicle excise duties ...	1,628	1,629	1,854
National insurance surcharge ...	3,809	3,594	3,443
Total Taxation ...	70,537	70,523	76,327
Miscellaneous Receipts			
Broadcast receiving licences ...	552	603	754
Interest and dividends ...	222	260	321
Gas levy([7]) ...	—	383	512
Other([8])([9]) ...	4,213	4,519	4,981
Total ...	**75,524**	**76,288**	**82,895**

([1]) Receipts of Inland Revenue and Customs and Excise taxes and duties and national insurance contributions have been affected by the civil service dispute (see paragraphs 4.1 and 4.2). The estimated outturns for 1981–82 and in consequence the forecasts for 1982–83 are therefore subject to considerably more error than normal. The effect of the dispute on receipts of national insurance contributions is reflected in the estimates of national insurance surcharge above and the National Insurance Fund (included in other funds and accounts in Table 22).

([2]) Income tax receipts include surtax ...	3	4	2
([3]) Corporation tax receipts include advance corporation tax: net of repayments	1,760	2,000	2,170

([4]) The estimated proportion attributed to North Sea oil and gas production is £430 million in 1981–82 and £270 million in 1982–83. In addition an estimated £220 million in 1981–82 and £230 million in 1982–83 of corporation tax will be satisfied by setting off advance corporation tax (ACT). Thus total revenues from the North Sea, inclusive of royalties, supplementary petroleum duty, petroleum revenue tax and corporation tax before any ACT set-off, are estimated to be £6,430 million in 1981–82 and £6,160 million in 1982–83.

([5]) Changes in the Finance Act, 1981, reduced the Budget forecast of the duties on oil to £4,705 million; the forecasts of the duties on tobacco and on betting and gaming were increased to £3,285 million and £530 million respectively. The overall effect was to reduce the Budget forecast of total Customs and Excise duties to £25,990 million.

([6]) Customs duties and agricultural levies are accountable to the European Communities as " own resources "; actual payments to the Communities are recorded in Table 24.

([7]) No forecast for gas levy receipts was made in the 1981–82 Budget forecast since the 1981 Gas Levy Act had not received the Royal Assent at the time of the Budget.

([8]) Includes the 10 per cent of " own resources " refunded by the Communities to meet the costs of collection and the proceeds from the special sales of assets.

([9]) Includes estimated receipts of £1,350 million in 1981–82 and £1,330 million in 1982–83 in respect of oil royalties. These are reflected in the accounts as a change in the balance on the National Oil Account (included in other funds and accounts in Table 22) and also as part of the transfer of the NOA surplus into the Consolidated Fund (included in this line).

TABLE 24. SUPPLY SERVICES AND CONSOLIDATED FUND STANDING SERVICES

£ million

	1981–82		1982–83 Forecast
	Budget[1] forecast	Estimated outturn	
SUPPLY SERVICES			
I. Defence	12,138	12,483	13,945
II. Overseas Services	1,581	1,536	1,605
III. Agriculture, Fisheries and Forestry	652	652	664
IV. Trade, Industry, Energy and Employment	4,906	6,322	5,424
V. Government Investment in Nationalised Industries	926	927	572
VI. Roads and Transport	1,733	1,880	2,019
VII. Housing	2,360	2,492	2,318
VIII. Other Environmental Services	520	501	568
IX. Law, Order and Protective Services	2,232	2,269	2,475
X. Education and Libraries, Science and Arts	2,632	2,714	2,850
XI. Health and Personal Social Services	9,572	9,790	10,260
XII. Social Security	9,438	10,031	11,768
XIII. Other Public Services	1,216	1,182	1,297
XIIIA. House of Commons Administration	14	14	16
XIV. Common Services	1,919	1,968	2,098
XV. Scotland	2,737	2,805	2,988
XVI. Wales	1,101	1,095	1,168
XVII. Northern Ireland	1,118	882	1,103
XVIII. Rate Support Grant, Financial Transactions, etc.	15,315	15,634	16,087
Total	*72,110*	*75,177*	*79,225*
Supplementary provision	31	—	109[2]
Contingency reserve	2,500	—	2,400[3]
Reduction in national insurance surcharge[4]	—	—	−360
General allowance for underspending	−900	−450	—
TOTAL SUPPLY SERVICES	73,741	74,727	81,374
CONSOLIDATED FUND STANDING SERVICES			
Payment to the National Loans Fund in respect of service of the national debt	6,200	6,566	5,175
Northern Ireland—share of taxes, etc.	1,279	1,440	1,493
Payments to the European Communities, etc.	2,450	2,664	2,820
Other Services	27	28	29
TOTAL CONSOLIDATED FUND STANDING SERVICES	9,956	10,698	9,517
Total	**83,697**	**85,425**	**90,891**

(1) The 1981–82 Budget forecast has been put onto the 1982–83 structure of Estimates.

(2) Includes housing improvement grants (see Part 1, Expenditure Measures) and bus fuel grants (see Table 2).

(3) See paragraph 4.13.

(4) See paragraph 4.14 and footnote (8) to Table 20.

Table 25. National Loans Fund Receipts and Payments

£ million

	1981–82 Budget forecast	1981–82 Estimated outturn	1982–83 forecast
Receipts			
Interest on loans, profits of the Issue Department of the Bank of England, etc.	4,900	4,664	6,425
Service of the National Debt—balance met from the Consolidated Fund	6,200	6,566	5,175
Total Receipts	11,100	11,230	11,600
Payments			
Service of the National Debt			
Interest	10,970	11,100	11,467
Management and expenses	130	130	133
Total	11,100	11,230	11,600
Loans to Nationalised Industries (see Table 21)	891	405	640(1)
Other National Oil Account transactions	360	221	81
Total	1,251	626	721(1)
Loans to other Public Corporations:			
New Towns—Development Corporations and Commission...	470	350	360(1)
Housing Corporations	466	192	330(1)
Scottish Special Housing Association	48	30	42(1)
Regional Water Authorities	655	328	503(1)
Other	1	−10	7(1)
Total	1,640	890	1,242(1)
Loans to Local Authorities	900	−1,215	−300
Total	900	−1,215	−300
Loans to Private Sector:			
Building Societies	−2	−2	−1
British Aerospace	—	−4	−4
British Nuclear Fuels Ltd.	—	—	−1
Total	−2	−6	−6
Loans within Central Government:			
Northern Ireland...	−80	45	94
Redundancy Fund	165	264	−115
Married quarters for armed forces	—	—	—
Total	245	309	−21
Total—Net Lending	4,034	604	1,636
Total Payments	**15,134**	**11,834**	**13,236**

(1) See paragraph 4.14 and footnote (8) to Table 20.

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