Henry

Financial Statement and Budget Report 1983-84

HM TREASURY
MARCH, 1983

Financial Statement and Budget Report 1983–84

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Treasury Chambers, 15 March 1983 } NICHOLAS RIDLEY

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Contents

1. The Budget Proposals

The Budget

1.01 The main proposals in the Budget are summarised in Table 1.1 below and described in detail in Part 4. These figures and those presented in Part 4 are estimates of the direct effects of the measures 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 tax and expenditure decisions. 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 Public Expenditure White Paper (Cmnd. 8789).

Summary table

Table 1.1 Budget measures: Direct Effects(¹) on Public Sector Transactions(²)

£ million at current prices

	Effect in 1983–84		Effect in a full year	
	Change from indexed base	Change from non-indexed base	Change from indexed base	Change from non-indexed base
Income tax allowances and thresholds	−1 170	−2 000	−1 490	−2 545
Other income tax and other direct taxes	−295	−310	−365	−410
National Insurance Surcharge(³)	−215	−215	−390	−390
Excise duties	10	595	10	605
Other indirect taxes	—	−5	—	−5
Total	**−1 670**	**−1 935**	**−2 235**	**−2 745**

(¹) 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) +/− indicates an increase/decrease in revenue.

(³) Figures exclude public sector payments of £80 million in 1983–84 and £215 million in a full year. Public expenditure will be reduced accordingly.

Tax proposals

1.02 The net effect of the tax proposals in the Budget is shown on two alternative bases. The first, conventionally used in the preparation of economic forecasts, allows for the full indexation of 1982–83 excise duty rates and main income tax allowances and thresholds in line with inflation in the year to December 1982. On this basis the net effect of the tax proposals in the Budget is to reduce revenue by £1,670 million in 1983–84 and by £2,235 million in a full year. The cost in 1983–84 of the increase in the main income tax allowances and thresholds over and above full revalorisation is estimated to be £1,170 million. The second basis, which corresponds with the actual changes in tax rates and allowances to be included in the Finance Bill, measures the effects 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 £2,000 million and the increase in excise duties to yield an additional £595 million in 1983–84.

Public expenditure measures

1.03 Public expenditure measures announced in the Budget total £238 million in 1983–84. They are listed in Part 4 and in Table 5.7. Their cost will be met entirely from the Contingency Reserve. They will not therefore lead to any increase in the public expenditure planning total for 1983–84 announced in the

White Paper. There will however be a reduction in planned public expenditure as a result of the further cut in the National Insurance Surcharge announced in the Budget, which will be recovered from central government and nationalised industries. In Table 1.1, the reduction in public expenditure is offset against the gross cost of the change in the Surcharge.

The effect on the PSBR

1.04 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 £1·6 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 1983–84 is expected to be around £8 billion, or 2¾ per cent of GDP (at market prices).

The Autumn measures

1.05 Other changes affecting 1983–84 are set out in the Autumn Statement, published in November. They include the 1 percentage point reduction in the National Insurance Surcharge from 2½ per cent to 1½ per cent; changes to public expenditure plans which kept the planning total for 1983–84 within the figure given in the 1982 White Paper as modified by the 1982 Budget (£120.7 billion); and limited increases in employees' and employers' National Insurance Contributions. The reduction in the National Insurance Surcharge and the effect of holding the increase in National Insurance Contributions below the amount needed to balance the Fund were estimated to cost nearly £1 billion in 1983–84.

2. Medium-term Financial Strategy

Objectives

2.01 Government policies have helped to bring about a rate of inflation that is already well into single figures. The objective over the medium term is to continue reducing inflation, and to secure a lasting improvement in the performance of the UK economy, so providing the foundations for sustainable growth in output and employment. Firm financial policies are an essential means to this end. The medium-term financial strategy sets out the framework within which policy is operated.

The financial framework

2.02 Control of the money supply is a central part of this strategy. In judging the rate of monetary growth needed to reduce inflation, the Government will continue to take account of structural influences on the different monetary aggregates, as well as the behaviour of other financial indicators. Fiscal policy is designed to be consistent with this monetary framework and with the overall objective of reducing inflation. Over a period of years, a reduction in public sector borrowing, as a proportion of GDP, has a key part to play in securing a fall in interest rates, in both real and nominal terms.

2.03 The extent of the recovery in real activity over the next few years depends critically on bringing down cost increases, in all sectors of the economy. Lower domestic costs will enable British industry to compete more effectively, at home and abroad, without adding to inflationary pressures. Despite recent gains, UK productivity is still low in comparison with other major industrial countries. The long term health of the economy depends on further efforts to close this gap. Moderation in pay will help to ensure that improved efficiency is reflected in higher output and employment.

2.04 The Government will continue to pursue policies to strengthen the supply performance of the economy, by providing greater incentives for work and enterprise, and by improving the working of markets. A low rate of inflation will provide the right macro-economic environment in which these policies can succeed.

Recent financial conditions

Monetary growth in 1982–83

2.05 Monetary conditions have developed broadly as intended over the past year; in the year to February, the growth of the key monetary aggregates was within the target range of 8–12 per cent. Combined with the rapid fall in inflation, this contributed to a significant fall in interest rates. By mid-November, short term rates had come down to 9 per cent but, as the exchange rate weakened, market rates, and with them base rates, rose to around 11 per cent. This compares with a peak of 16 per cent in November 1981.

Table 2.1 Monetary Growth 1982-83

	Percentage growth					
	M_0(1)	M1	M2	£M3	PSL1	PSL2
February 1982–February 1983	$3\frac{1}{2}$	11	$6\frac{1}{2}$	10	$8\frac{1}{2}$	9

(1) Monetary base, wide definition.

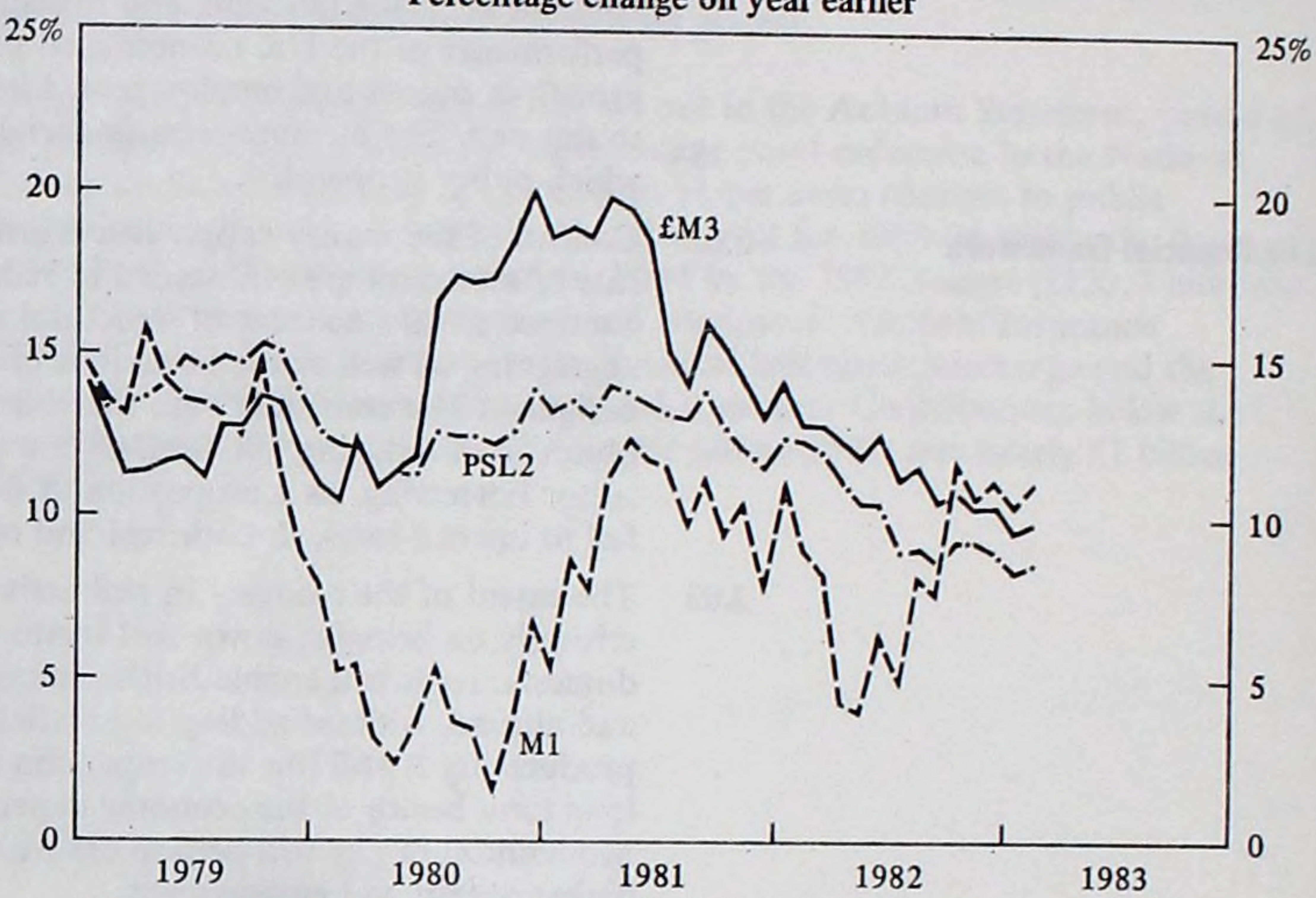
Broad money

2.06 £M3 grew by 10 per cent over the first twelve months of the target period. During the spring and early summer the rate of growth was close to the bottom of the range. There was some rise in the late summer and autumn, but since then growth has again slowed down. PSL2 grew by less than £M3—9 per cent in the year to February. The growth of bank lending followed much the same profile as that of £M3. This in-year variation was attributable largely to borrowing by companies, borrowing by persons remaining high throughout the year.

Narrow money 2.07 M1 grew more slowly than £M3 over the period 1980–81. Last year, as expected, the growth of M1 rose—to 11 per cent over the twelve months to February. Narrower measures of money continued to grow comparatively slowly. The monetary base grew by only 3½ per cent, despite lower interest rates, possibly reflecting a faster decline in the importance of notes and coin relative to other means of payment. Transactions balances, as measured by M2, grew by 6½ per cent, though lack of past data still makes this series difficult to interpret.

CHART 2.1

Monetary growth
Percentage change on year earlier



Notes: (1) Based on banking months
(2) Adjusted to take account of the introduction of the new monetary sector in November 1981 in place of the former banking sector

Other indicators 2.08 Other financial indicators pointed to moderately restrictive monetary conditions. As in other industrial countries real short term interest rates remained high. For most of the year the exchange rate was strong. The fall after October seems to have owed much to external factors, such as concern about oil prices and sharp movements in other currencies and, possibly, to political uncertainties. Against this background, the recent growth in real money balances, on most measures of money, largely reflects the fall in inflation and points to a recovery in real activity. For a given growth in the nominal money supply, higher real money balances are one route through which lower inflation can help to raise the level of activity.

Monetary policy

Money ranges 2.09 In recent years the economic significance of the wider aggregates has been affected by changes in saving behaviour and by structural changes to the financial system, associated in part with the ending of direct controls. Inflation has fallen fast despite the overrun in previous years' monetary targets. These developments led to last year's decision to raise the monetary ranges. Monetary growth within the new target range set for 1982–83 has been consistent with maintaining a reasonably restrictive stance.

Target for 1983–84 2.10 As announced in the Budget Speech, the target range for 1983–84 is to be set at the 7–11 per cent indicated in last year's Financial Statement. As usual, this range applies to the annual rate over the fourteen months beginning in February 1983. A sustained reduction in monetary growth over a period of years will be needed to keep inflation on a downward trend. Illustrative ranges for the next few years are shown in table 2.2. Precise targets for 1984–85 and 1985–86 will be decided nearer the time.

Table 2.2 Ranges for Monetary Growth

	1983–84	1984–85	1985–86
Percentage change during year	7–11	6–10	5–9

Interpretation of monetary conditions

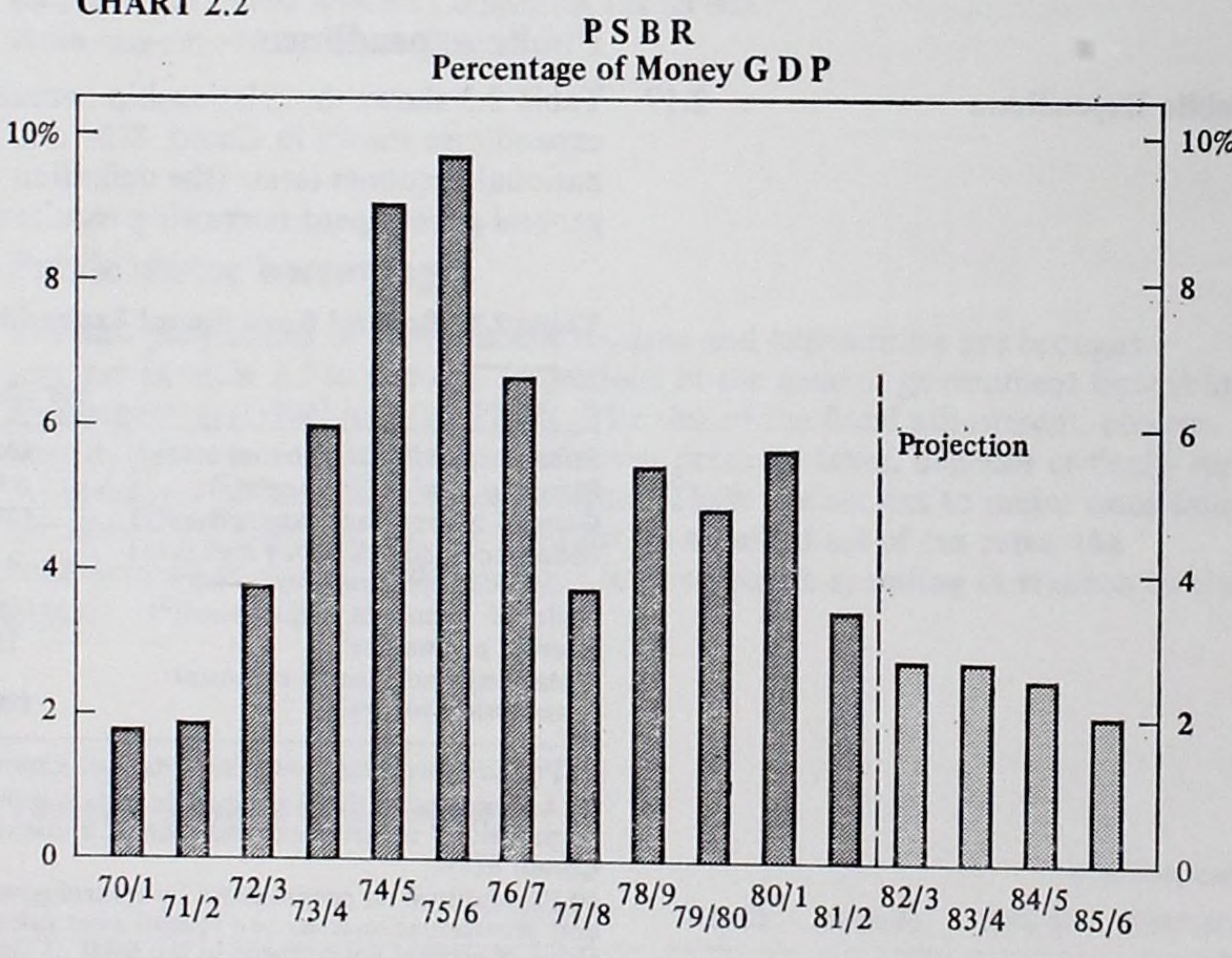
2.11 The path shown in table 2.2 applies to both narrow and broad measures of money: M1 and £M3 (and PSL2). However, as noted in last year's FSBR, the combination of lower interest rates and lower inflation may lead to a period of more rapid growth in M1 than in broader measures of money. As explained in last year's Financial Statement, the interpretation of monetary conditions will continue to take account of all the available evidence, including the exchange rate, structural changes in financial markets, saving behaviour, and the level and structure of interest rates. Policy decisions will be aimed at maintaining monetary conditions that will keep inflation on a downward trend. The ranges shown in Table 2.2 have once again been constructed on the assumption that there is no major change in the exchange rate from year to year.

Fiscal policy

The PSBR path

2.12 Sustained progress on both inflation and interest rates requires continued fiscal restraint. During the 1950's and 1960's the PSBR averaged about $2\frac{3}{4}$ per cent of GDP. As Chart 2.2 shows, there was a strong rise in this ratio during the first half of the 1970's, peaking in 1975–76, when the PSBR reached nearly 10 per cent of GDP. High fiscal deficits over this period were associated with high inflation and interest rates.

CHART 2.2



2.13 Government policies have been directed at achieving a progressive reduction in public sector borrowing over the medium term. The path that has been followed has also taken account of the depth of the recession. Two years ago the PSBR path was raised substantially for this reason, though the generally declining profile was retained. The PSBR was reduced from 5 per cent of GDP in 1979–80 to $3\frac{1}{2}$ per cent (£8·7 billion) in 1981–82.

The PSBR in 1982–83

2.14 The latest estimate for 1982–83 is £7½ billion equivalent to about 2¾ per cent of GDP. This is some £1½ billion lower than the Autumn Statement forecast, and about £2 billion lower than expected at the time of the 1982 Budget, though still some way above the 2¼ per cent of GDP envisaged for the year now ending in the 1980 FSBR. Identifiable factors contributing to the lower outturn this year include unexpectedly high receipts from North Sea oil taxes, reflecting a higher sterling oil price, and underspending in some areas of public expenditure, notably local authority capital.

PSBR projections

2.15 The PSBR for 1983–84 is forecast to be £8 billion, equivalent to about 2¾ per cent of GDP, as suggested a year ago and in the Autumn Statement. The fiscal projections summarised in table 2.5 show a further reduction in the PSBR as a proportion of GDP, to around 2½ per cent in 1984–85, and 2 per cent in 1985–86. This path should leave room within the monetary guidelines for a fall in interest rates over the next few years. The figures for 1984–85 and 1985–86 are illustrative. Decisions about the appropriate size of the PSBR in any particular year will be taken nearer the time.

Assumptions

2.16 The fiscal projections in tables 2.3–2.5 are based on the public expenditure plans shown in the Public Expenditure White Paper (Cmnd 8789), updated where necessary to take account of Budget changes and estimating changes. Further details for 1982–83 and 1983–84 are given in Part 5. Real output is assumed to grow by 2½ per cent a year on average over the three years. The general rate of inflation, as measured by the GDP deflator, was 7 per cent in 1982–83. It is forecast to fall to 5½ per cent in 1983–84. (The forecasts for the GDP deflator and the more widely known Retail Prices Index are discussed in para 3.29. There are many reasons why the two indices may move differently over relatively short periods of time including, for example, the differing impact of changes in mortgage interest rates, seasonal food prices, oil prices and import costs.) In the later years, the GDP deflator is assumed to rise by 5½ per cent in 1984–85, and by 5 per cent in 1985–86. These assumptions imply an average growth in money GDP of about 8 per cent over the period as a whole.

Public expenditure

Public Expenditure

2.17 Table 2.3 shows the relationship between the planning total for public expenditure shown in Cmnd. 8789 and general government expenditure in national accounts terms (the definition of public expenditure lying behind the general government borrowing requirement).

Table 2.3 General Government Expenditure

£ billion, cash

	1981–82	1982–83	1983–84	1984–85	1985–86
Public expenditure planning total(¹)	104·7	113	119½	126½	132½
Planning total adjustments(²)	−1·0	1½	1	—	—
General government expenditure(³)	103·7	114½	120½	126½	132½
Differences due to policy measures and economic assumptions(⁴)	—	−1½	−1	−1	−½
National accounts adjustment(⁵)	2·7	3	4	5½	5
Interest payments(⁶)	13·8	14	14	14	14
Total expenditure in national accounts terms(⁷)	**120·2**	**130**	**137½**	**145**	**151**

(1) Public expenditure planning total, see Cmnd. 8789, table 1.1, line 9.

(2) Adjustment to line 1 to exclude certain public corporations' capital expenditure, public corporations' net overseas and market borrowing and general allowance for shortfall as in Cmnd. 8789.

(3) Expenditure on programmes by central government and local authorities plus the contingency and provisional reserves and special asset sales. Broad assumptions have been made about the share of general government in the total of expenditure on programmes shown in Cmnd. 8789, table 1.1 for 1984–85 and 1985–86.

(4) Incorporates later information for 1982–83 than in Cmnd. 8789. For 1983–84 onwards includes Budget measures and estimating changes, shortfall and the net effects of different economic assumptions from those in Cmnd. 8789. Revised planning totals for 1982–83 and 1983–84 are shown in table 5.5.

(5) Adjustments to line 3 to the definitions used in National Accounts Statistics.

(6) For 1981–82 see table 2.1, Financial Statistics, February 1983. For 1982–83 and 1983–84 see table 5.8.

(7) For 1981–82 see table 2.4, Financial Statistics, February 1983. For 1982–83 and 1983–84 see table 5.8.

Revenue

Revenue

2.18 The growth of Government revenues in cash terms over the medium term will depend on the growth of incomes, spending and prices, as well as policy decisions. Revenue is projected on the conventional assumption of constant tax rates and indexed allowances and thresholds at the proposed 1983–84 levels. National Insurance contribution rates in future years are assumed to be adjusted to maintain an adequate balance in the Fund. Projections of North Sea tax revenues assume that the North Sea fiscal regime is changed as proposed in the Budget and that oil prices remain around their current levels for the next two years and then rise broadly in line with world inflation.

2.19 On these assumptions, general government receipts are projected to rise by nearly 22 per cent between 1982–83 and 1985–86, a little less than the growth in total money income. Government revenue from the North Sea is expected to account for about 6 per cent of total receipts throughout the period.

Table 2.4 General Government Receipts

£ billion, cash

	1981–82	1982–83	1983–84	1984–85	1985–86
Taxes on incomes expenditure and capital	85·9	92	96	103½	113
National Insurance and other contributions	16·5	18½	21	22½	23½
Interest and other receipts	10·7	11	11	11½	11½
Accruals adjustment	−1·4	−½	—	−½	−½
Total	**111·7**	**121½**	**128½**	**137**	**147½**
of which North Sea tax(¹)	6·5	8	8	8	9½

(¹) Royalties, Supplementary Petroleum Duty (in 1981–1982 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).

Totals may not add due to rounding.

Public sector borrowing

Public sector borrowing

2.20 The new projections of Government receipts and expenditure are brought together in table 2.5 to provide projections of the general government borrowing requirement (GGBR) and the PSBR. The size of the fiscal adjustment, conventionally assumed to take the form of lower personal taxes, depends critically on the estimates of revenues and expenditure. These are subject to major uncertainties about, for example, the tax yield for an assumed set of tax rates, the behaviour of oil prices, and the actual level of public spending in relation to the plans.

Table 2.5 Public Sector Borrowing

£ billion, cash

	1981–82	1982–83	1983–84	1984–85	1985–86
General government expenditure	120·2	130	137½	145	151
General government receipts	−111·7	−121½	−128½	−137	−147½
Implied fiscal adjustment(¹)	—	—	—	½	4
GGBR	8·5	9	9½	8½	7½
PSBR	8·7	7½	8	8	7
as % GDP	3½	2¾	2¾	2½	2
Money GDP at market prices	254	275	296	322	346

(¹) Means lower taxes or higher expenditure than assumed in lines 1 and 2.

Totals may not add due to rounding.

Comparison with the 1982 Revenue and Expenditure Projections

2.21 Table 2.6 shows changes in the fiscal projections since the 1982 FSBR.

Table 2.6 Revenue and Expenditure: Comparison with the 1982 projections

£ billion, cash

Changes	1982–83	1983–84	1984–85
General government expenditure	$-1\frac{1}{2}$	$-\frac{1}{2}$	-3
General government receipts	—	$-1\frac{1}{2}$	-6
Implied fiscal adjustment(1)	—	$-\frac{1}{2}$	$-1\frac{1}{2}$
GGBR	-1	1	$1\frac{1}{2}$
PSBR	-2	$-\frac{1}{2}$	$1\frac{1}{2}$
Change in PSBR ratio (%)	$-\frac{3}{4}$	—	$\frac{1}{2}$

(1) By definition the fiscal adjustment for 1983–84, in this year's projections, is eliminated by the 1983 Budget measures.

Changes in assumptions

2.22 The level of money GDP in 1982–83 is estimated to have been nearly 2 per cent lower than expected a year ago, reflecting both lower output and lower prices. The average growth in real output from now on is much the same as in last year's projections, while inflation is rather lower, implying a slower growth in money GDP than assumed a year ago. This year's Budget measures have the usual effect of taking up some of the fiscal adjustment in 1984–85. The projected PSBR is unchanged, as a percentage of money GDP, in 1983–84, and $\frac{1}{2}$ per cent higher in 1984–85, compared with last year's projections.

Changes in receipts and expenditure

2.23 The main factors affecting the estimated outturn for 1982–83 are discussed in Part 5. Changes to expenditure in 1983–84 and 1984–85 reflect the decisions set out in Cmnd. 8789 and in the Budget Speech and revised economic assumptions. General government receipts are now projected at the proposed 1983–84 tax rates, which are lower than those used last year. The lower level of receipts also reflects the lower level of money GDP now assumed. In 1983–84, revenues from the North Sea are expected to be £2 billion higher than projected a year ago, the net effect of a higher assumed level of production, particularly in tax-paying fields, a lower dollar oil price, and the fall in the sterling/dollar exchange rate that has already taken place. Projected revenues for 1984–85 are unchanged, with higher production from tax-paying fields helping to offset the effect of a lower sterling oil price than previously assumed.

Conclusions

2.24 The projections shown in tables 2.3–2.5 are no more than illustrative of one particular evolution of the economy. If the domestic and world economies develop in a different way, the projections for 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 strategy, by maintaining monetary conditions consistent with a continued trend to lower inflation. The key to sustained recovery lies in reducing 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.

2.25 Progress in reducing inflation over the next couple of years will be influenced to some extent, by the strength of the cyclical recovery in output, both domestically and in the rest of the world. The strategy outlined here presupposes a slow recovery in output and trade in other industrial countries. As explained in Part 3, the path of the Retail Prices Index over the next year or so may be affected by special factors, including the recent decline in the exchange rate, and the effect of the fall in mortgage interest rates last Autumn. It is not to be expected, therefore, that the path of inflation will be smooth. But the Government's policies will continue to be directed towards achieving a progressive reduction in its underlying trend.

3. The Economy: Recent Developments and Prospects to mid-1984

Summary

World Economy

3.01 By the end of 1982 lower interest rates and lower inflation, particularly in the United States, were pointing towards some increase in world activity in 1983. The fall in oil prices in recent weeks improves the prospects for both recovery and low inflation.

The United Kingdom Economy

3.02 In the United Kingdom, the effects of lower world activity in 1982 were to a considerable extent offset by a good performance by exporters in world markets and by a rise in final domestic demand, led by consumer spending. But with some further fall in stocks, the growth in total output was probably not much more than ½ per cent, most of which was accounted for by higher oil production, and there were further rises in unemployment.

3.03 The forecasts for 1983 and the first half of 1984 are based on the fiscal and monetary policies set out in the Budget speech and in the Medium Term Financial Strategy. Recent developments and future prospects for monetary growth are described in Part 2 of this Report; details of the PSBR and public sector transactions will be found in Part 5.

Trade and the Current Account

3.04 The recovery in world trade should lead to a renewed rise in exports, helped by better cost competitiveness, from the first half of this year. With imports likely to increase rather faster as domestic demand continues to rise and as the rundown in stocks comes to an end, the surplus on the current account of the balance of payments is forecast to be sizeable, but smaller than in 1982.

Inflation

3.05 After the major reduction in inflation over the past year, there is likely to be a pause in 1983 as the effects of the recent fall in the exchange rate are absorbed. With increases in costs likely to continue below the rate of increase in prices, the gradual recovery in profits should continue.

Output

3.06 Growth in overseas markets, further increases in domestic demand as the effects of lower inflation and lower interest rates work through, together with gradually improving profitability, should lead to total output rising, by perhaps 2½ per cent between the first half of 1983 and the first half of 1984.

The world economy

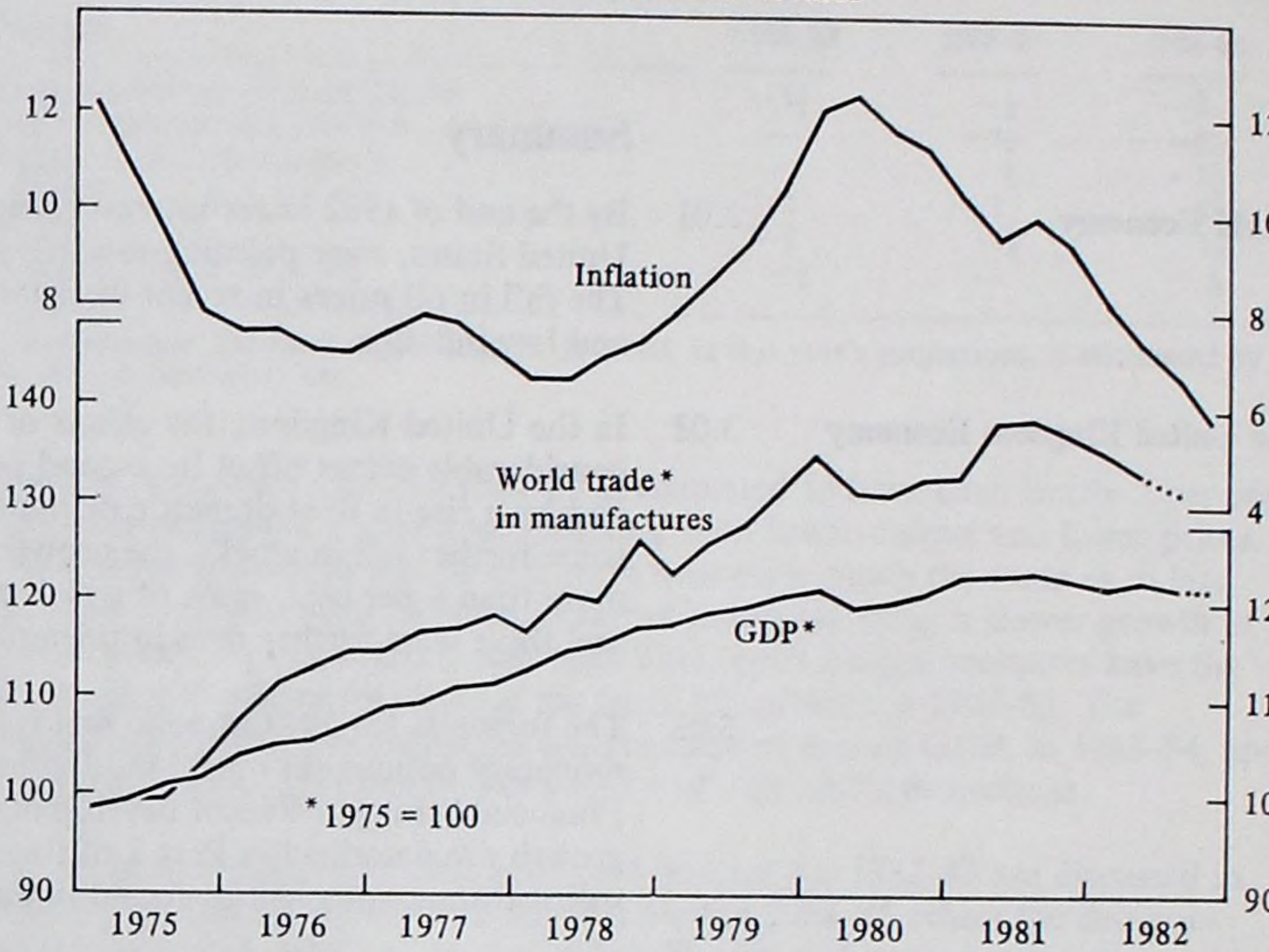
Recent Developments

3.07 Two years of slow growth in 1980 and 1981 reflected the 140 per cent rise in oil prices in 1979–80 against the background of policies designed to contain the impact on inflation. By early 1982 there was a widespread expectation that a lower rate of inflation—already falling significantly and expected to contribute to lower interest rates—would lead to a recovery in demand and output in the industrialised world. Instead there were declines in industrial demand and activity, partly reflecting the continuing effects of high real interest rates, particularly in the USA; while lower export earnings (as commodity prices fell), high interest rates and a strong dollar combined to raise doubts about credit-worthiness of heavily indebted countries.

3.08 In the course of 1982 inflation fell further, helped by continuing weakness in commodity prices (except oil). The reduction in inflation and the delay in economic recovery, combined with easier monetary policy in the United States, led to substantially lower interest rates (at least in nominal terms). In the Western economies stocks were run down further until by the end of the year the level of stocks was if anything below normal. The developing countries were reducing their imports, while their overall debt position was benefiting from lower interest rates.

CHART 3.1

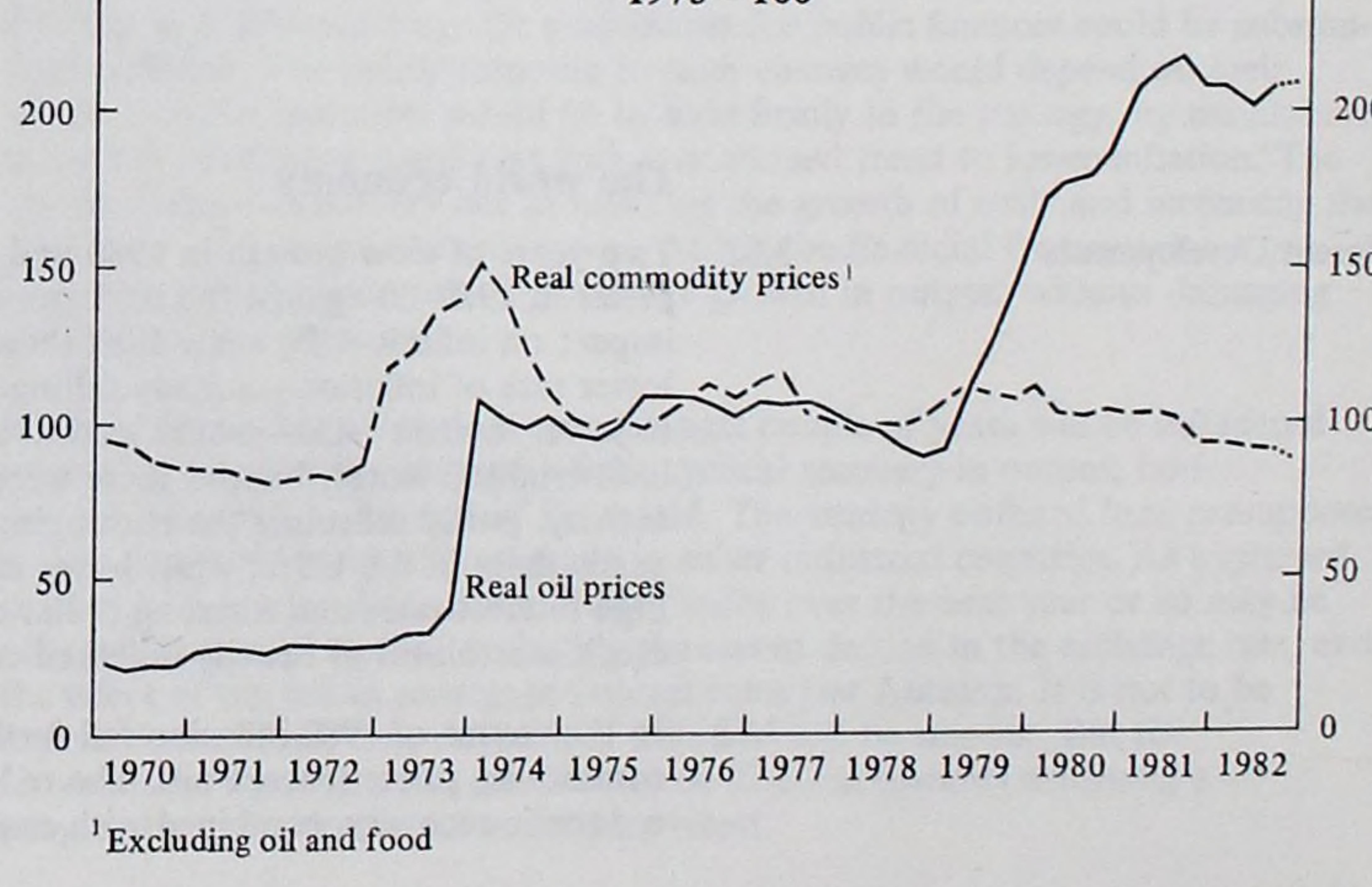
Major six countries' GDP, inflation and UK weighted world trade in manufactures



3.09 At the beginning of 1983, there is again a widespread expectation of a moderate recovery in activity, some evidence for which is provided by increases in industrial production and housing starts (in the US) and domestic industrial orders (in Germany). Both interest rates and inflation rates have come down sharply since early 1982 (Eurodollar rates for example fell from 15 per cent to under 9½ per cent), with fiscal and monetary conditions becoming less tight. Partly as a result the stock rundown may now be largely over and final demand should rise further. There is also some prospect of an end to the decline in imports into developing countries although further reductions can be expected for oil producers.

CHART 3.2

World oil and non-oil commodity prices (relative to manufactured export prices)



[1] Excluding oil and food

3.10 In most of the economic cycles in the post-war years, the recovery of output has been followed by a rise in commodity prices. In the case of oil, prices are expected to be lower in 1983 not only because of the recession but also because of the lagged effects of earlier price rises. But other commodity prices are already at a low level in relation to world prices generally and rising demand from the industrialised countries will probably induce some increases by the first half of next year, allowing some recovery in the export earnings of developing countries. Indeed some commodities, particularly non-ferrous metals, may see a recovery in prices this year; there have already been scattered indications of this. The position up to the end of 1982 is set out in Chart 3.2.

Prospects

3.11 The forecast points to a rise in activity from the first half of 1983: this can be expected to result in only a small increase in output between the average levels of 1982 and 1983, but a rather faster rate of growth by the first half of 1984. UK export markets should share in the recovery, though the fall in oil revenues will reduce the OPEC market in which the UK has a well above average share. The forecast is summarised in the table below:

Table 3.1 World Economic Prospects

	Per cent changes on a year earlier					
	1975–80	1980	1981	1982	1983	1984 First half
GDP*	3½	1	1½	−½	1½	3½
Consumer prices*	8½	12	10	7	5	5½
Trade in manufactures (UK weighted)	6	4½	3	−3½	1	6

* Major 6: US, Germany, Japan, France, Italy, Canada.

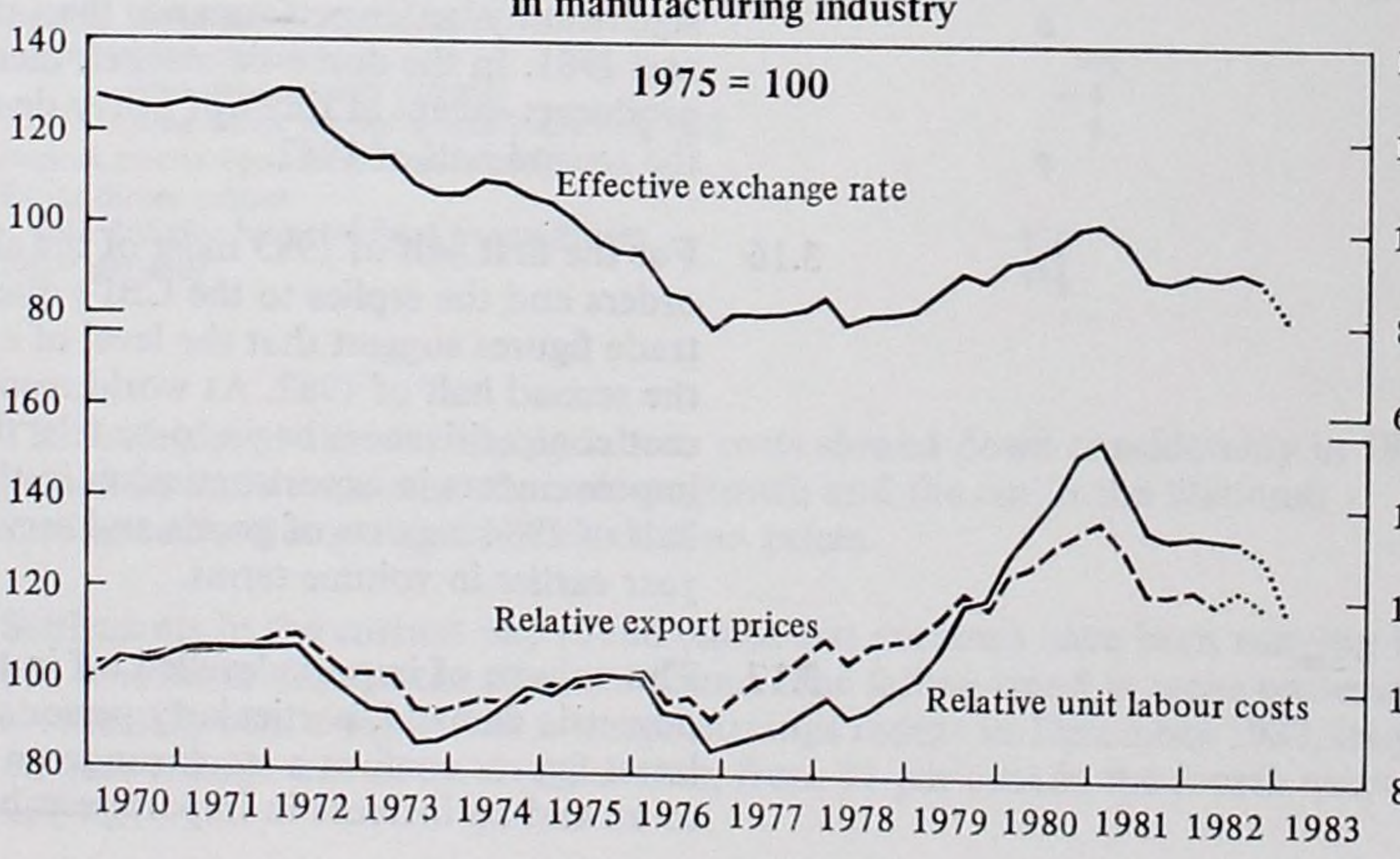
Exchange rate, trade, relative prices and costs

Sterling

3.12 The value of sterling, measured against a basket of other currencies, fell more than 10 per cent in late 1982 and early 1983, after a period of little change lasting over a year. The exchange rate will continue to be determined by market forces; for the purposes of this forecast, it is assumed that the effective exchange rate will remain around the level in February 1983. The prospect for inflation, which takes account of this assumption about the exchange rate, suggests that from now on there will be no substantial difference between inflation rates in the UK and in the average of our major competitors. On this basis the level of cost competitiveness in the UK over the forecast period should be appreciably better than in 1980, 1981 or 1982. Chart 3.3 shows the position of UK costs and prices, relative to those of our competitors, up until early this year.

CHART 3.3

The exchange rate; relative prices and costs in manufacturing industry



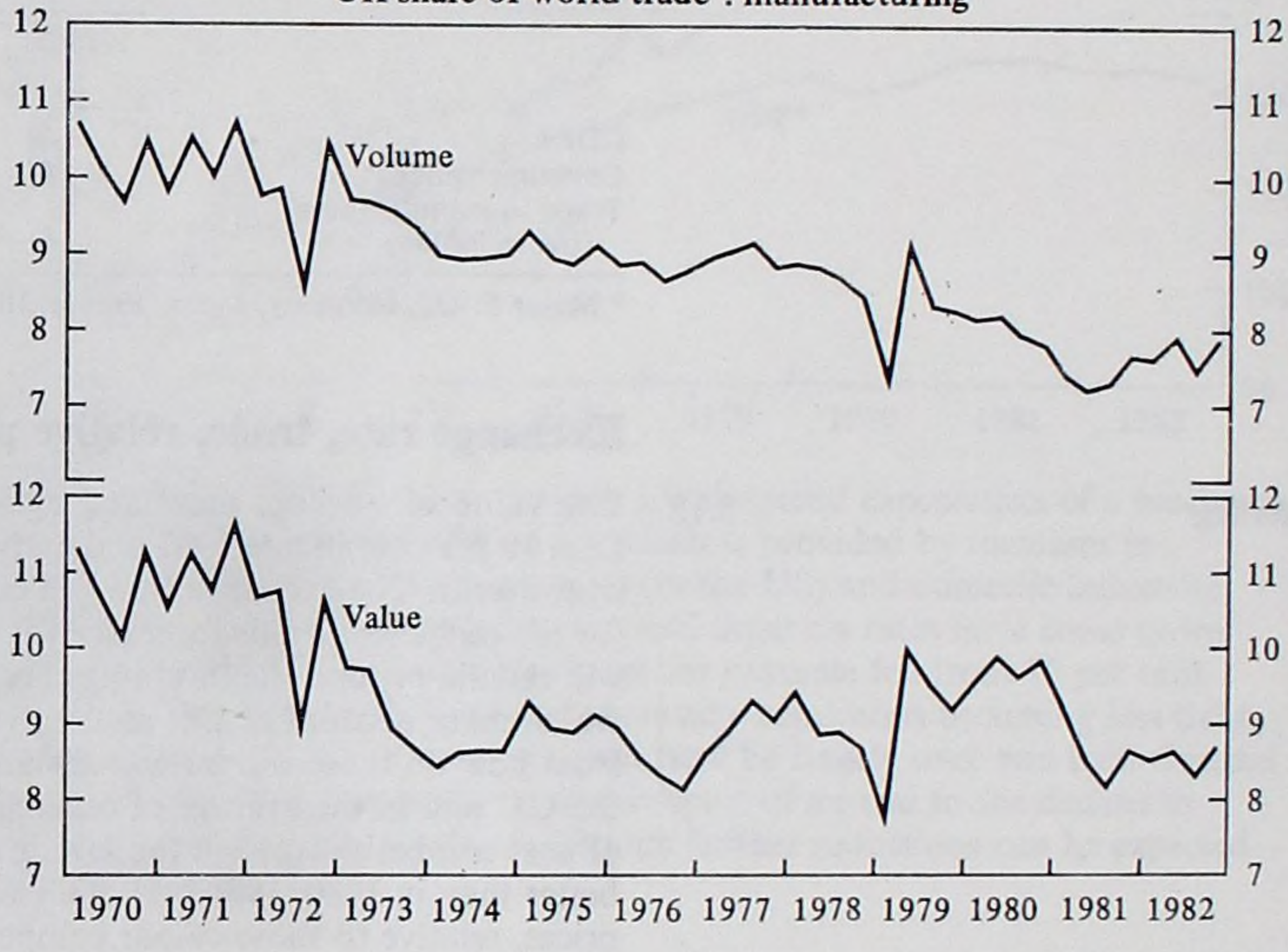
Trade prices

3.13 The effect of the recent change in the value of sterling on price competitiveness is not yet clear. The fall in sterling in 1981, from the exceptional level at the beginning of that year, was reflected in a substantial improvement in relative export prices, as exporters took most of the benefits on prices rather than on profit margins; but in a rather small improvement in import price competitiveness as importers cut their margins to a greater extent than usual. By the end of 1982, profit margins on goods supplied to the UK seemed, on average, to be little higher than elsewhere and hence the scope for further reductions in importers' margins may be more limited than in 1981. With low inflation in most other industrialised countries, a fall in oil prices and at least for a time no major recovery in other commodity prices, import prices (as measured by the average value index for total goods) by the second half of 1983 may be under 10 per cent higher than a year earlier.

3.14 In manufacturing, the UK has lost share by volume in most years, but value shares have been roughly constant in recent years:

CHART 3.4

UK share of world trade : manufacturing



Trade volumes

3.15 In 1982, when world trade in manufactures is estimated to have fallen over 3 per cent, there was a small rise in manufactured exports. This represented a significantly better performance than the substantial loss of share between 1977 and 1981. In the domestic market, there has been a fall in the share of domestic producers except at times of heavy de-stocking in late 1980, early 1981, and the second half of 1982.

3.16 For the first half of 1983 most of the short-term indicators, including engineering orders and the replies to the CBI's questions on orders, as well as the January trade figures suggest that the level of exports may well be little changed from the second half of 1982. As world recovery gets under way, and as the gains in cost competitiveness begin to be felt, then export growth should pick up, as the improvements in export optimism in the CBI survey also suggest. By the first half of 1984 exports of goods and services could be 5 per cent higher than a year earlier in volume terms.

3.17 The volume of imports levelled off in the course of 1982, despite the rise in final domestic demand, particularly personal consumption. That suggests and the latest figures confirm a stock rundown in the second half of 1982. As that comes to an end an increase in imports can be expected.

Balance of payments

3.18 The current account of the balance of payments was again in large surplus in 1982, of about £4 billion. The high surplus in the second half of the year was partly a result of an exceptionally large surplus on oil.

3.19 With growth of demand in the UK forecast to be a little more than in other countries, and perhaps some worsening in the terms of trade, there seems likely to be a further increase in the deficit on non-oil trade. But this may be partly offset by a growing surplus in invisibles—reflecting rising world activity and profitability, as well as the rising stock of overseas assets. The recent depreciation of sterling may not have much net impact on the current account in 1983 but should make for a higher surplus by 1984. In total, the current account is forecast to be in surplus of some £1½ billion in 1983.

Inflation

3.20 The reduction in inflation in the UK over the past year has been greater than in most other industrialised economies so that by early 1983 the UK inflation rate was well below the European average, though still rather above that of the United States, Germany and Japan.

Retail prices

3.21 In January 1983 the Retail Prices Index in the UK was only 5 per cent higher than a year earlier. The corresponding figure for January 1982 was 12 per cent. The 1 per cent fall in the housing component of the index since January 1982 resulted from the 5 point cut in mortgage rates; and there were falls in the prices of fresh vegetables and other seasonal items. Other indices, for example, wholesale prices and the GDP deflator (a price index for the whole of national output), also indicate a substantial fall in inflation though less marked. This is partly because of the greater weight in the RPI of housing costs and of seasonal foods. The index of wholesale output prices, on a definition excluding food, drink, tobacco and oil products (the latter omitted because extensive discounting has been causing bias in the list prices quoted in the index), was 7½ per cent higher than a year earlier in January 1982; by January 1983 the index was no more than 5½ per cent up on a year earlier.

Costs

3.22 1982 was a year in which inflation fell sharply but not at the expense of profit margins where in the non-oil sector there was some recovery from the low point in the second half of 1981. Figures for 1982 are not yet complete, but whole economy costs changed as follows:

Table 3.2 Whole Economy Costs

Per cent changes on a year earlier

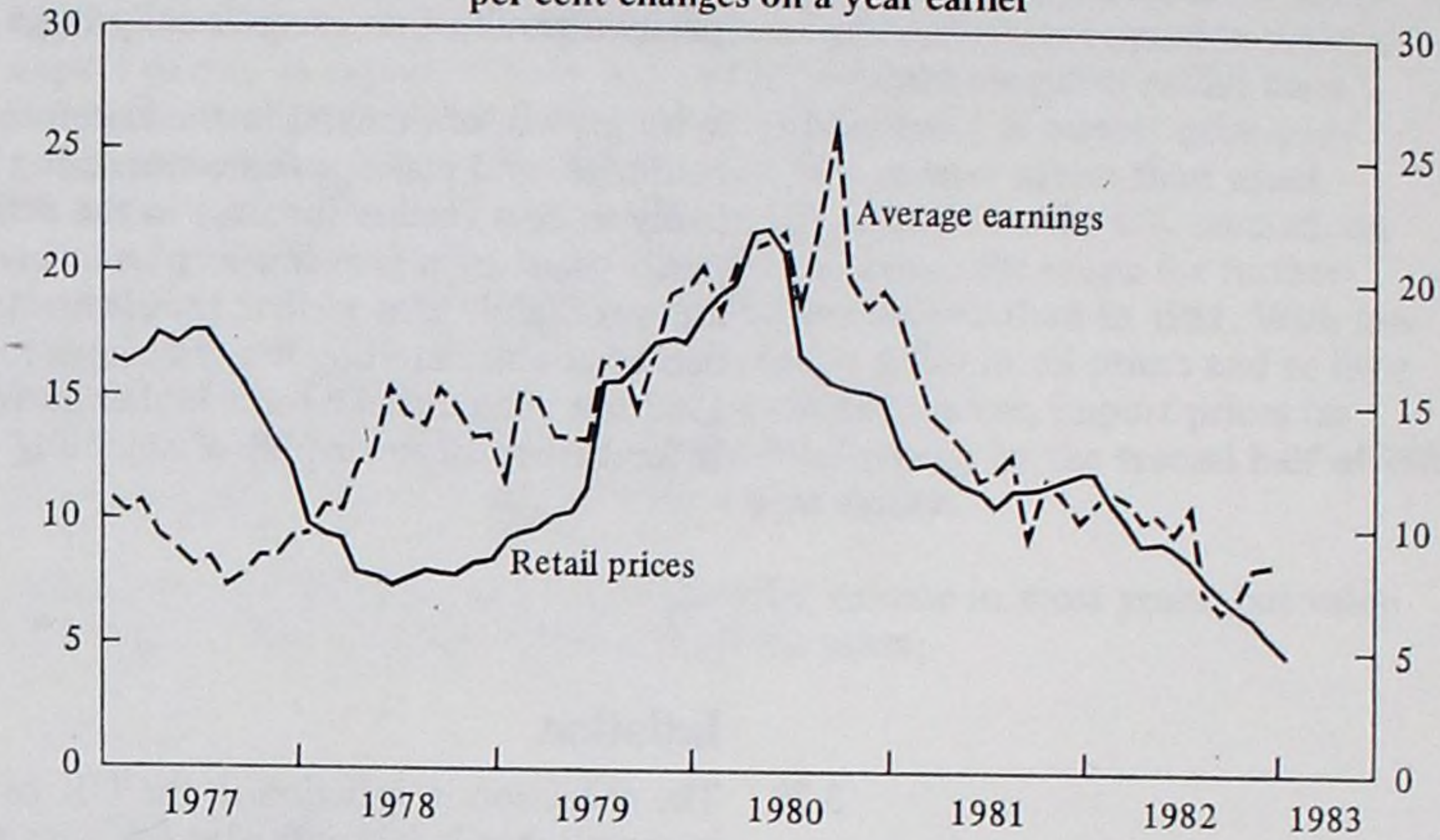
	1981 Q3	1982 Q3
Labour costs per unit of output	8	3½
of which earnings	10½	8½
less productivity growth	−4	−4
plus other labour costs including NIS	1	−1
Import prices (goods and services)	9	3½
Expenditure prices (the deflator for total final expenditure)	10½	6
GDP deflator	11½	6½

3.23 The table shows that the rise in labour costs slowed down considerably in 1982, helped by the slower rate of earnings growth and the cut in the National Insurance Surcharge. Costs rose less than prices.

3.24 Settlements in the current pay round (since last autumn) have been running 1–2 per cent lower than in the previous round. The falling trend in wage settlements is reflected, with a lag, in the average earnings index: in December 1982, its year on year change was down to 8 per cent, from 11 per cent in the fourth quarter of 1981.

CHART 3.5

Retail prices and average earnings: per cent changes on a year earlier

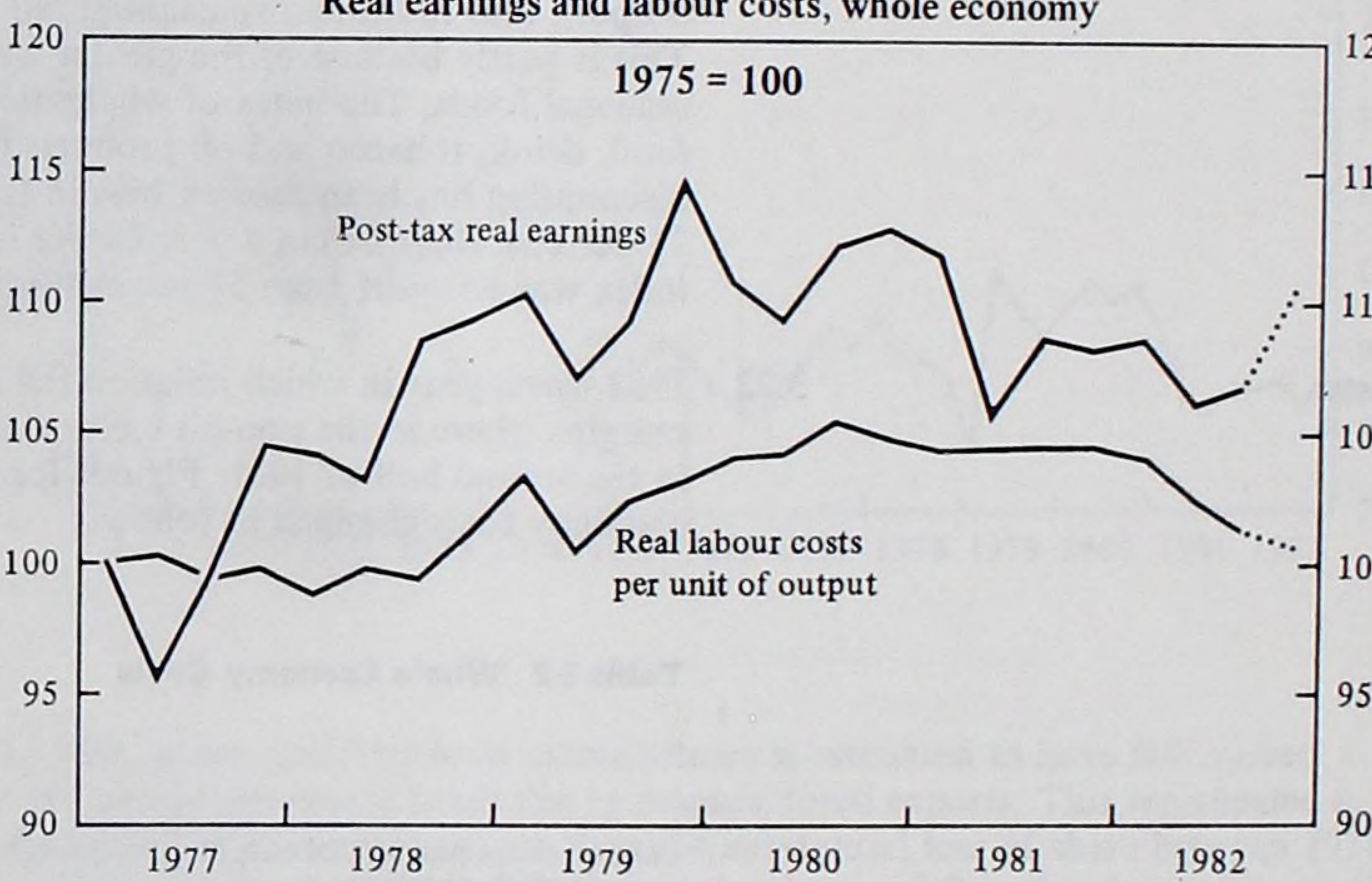


Real wages

3.25 In 1982 the rate of price inflation came down faster than the growth of earnings. In consequence real after-tax take-home pay, as it affected the average employee, began to rise from about the middle of 1982. But employers take account in addition of the selling prices of their goods and services, of productivity gains, and of taxes on employment. Continuing productivity gains in 1982, together with reductions in the National Insurance Surcharge, contributed to a fall in the average real wage, per unit of output, paid by employers.

CHART 3.6

Real earnings and labour costs, whole economy



3.26 Thus by the end of 1982, the real wage received by employees was rising; the real wage paid by employers was edging down and was near the 1979 level. But over the period 1979–82, taken as a whole, both wages and prices rose faster in the UK than in other countries, on average, and this is reflected in measures of price and cost competitiveness.

Prospects

3.27 The fall in the exchange rate since October 1982 is already making for higher import prices. While the extent to which this will affect other prices and costs is very uncertain, it is likely that on average import prices will rise somewhat faster than domestic costs or prices.

3.28 Profit margins in the UK have begun to recover, from a low level, but moderate wage settlements and the limited extent of recovery forecast for the world economy will continue to restrain prices. The general rate of inflation, as measured by the rise in the GDP deflator, is forecast to be about $5\frac{1}{2}$ per cent in 1983, rather below the rate last summer. Price indices which include a substantial direct import component are liable to show a slightly bigger increase for a time.

The prices charged by the nationalised industries are expected to rise, in aggregate, somewhat more slowly than the average of other prices, following a period of above average increases.

3.29 By the fourth quarter of 1983 the inflation rate as measured by the RPI may be about 6 per cent, much the same as in the fourth quarter of 1982. Noticeably lower figures will continue to be experienced for much of this year because of the factors referred to in paragraph 3.21. By mid 1984 the world and UK recoveries should be well under way, with perhaps more pressure on commodity prices and firms better placed to improve profit margins; but on the other hand there should be benefits from a greater stability of the exchange rate. The RPI by mid 1984 could be rising at an annual rate of 6 per cent—close to the assumed rise in the GDP deflator of $5\frac{1}{2}$ per cent in financial year 1984–85 (see paragraph 2.16). Although a wide margin of error surrounds these forecasts, the rate of inflation over the forecast period should be below the rates seen at any time since the early 1970s. This change reflects in large part the influence of the monetary and fiscal policies pursued in recent years.

Demand and activity

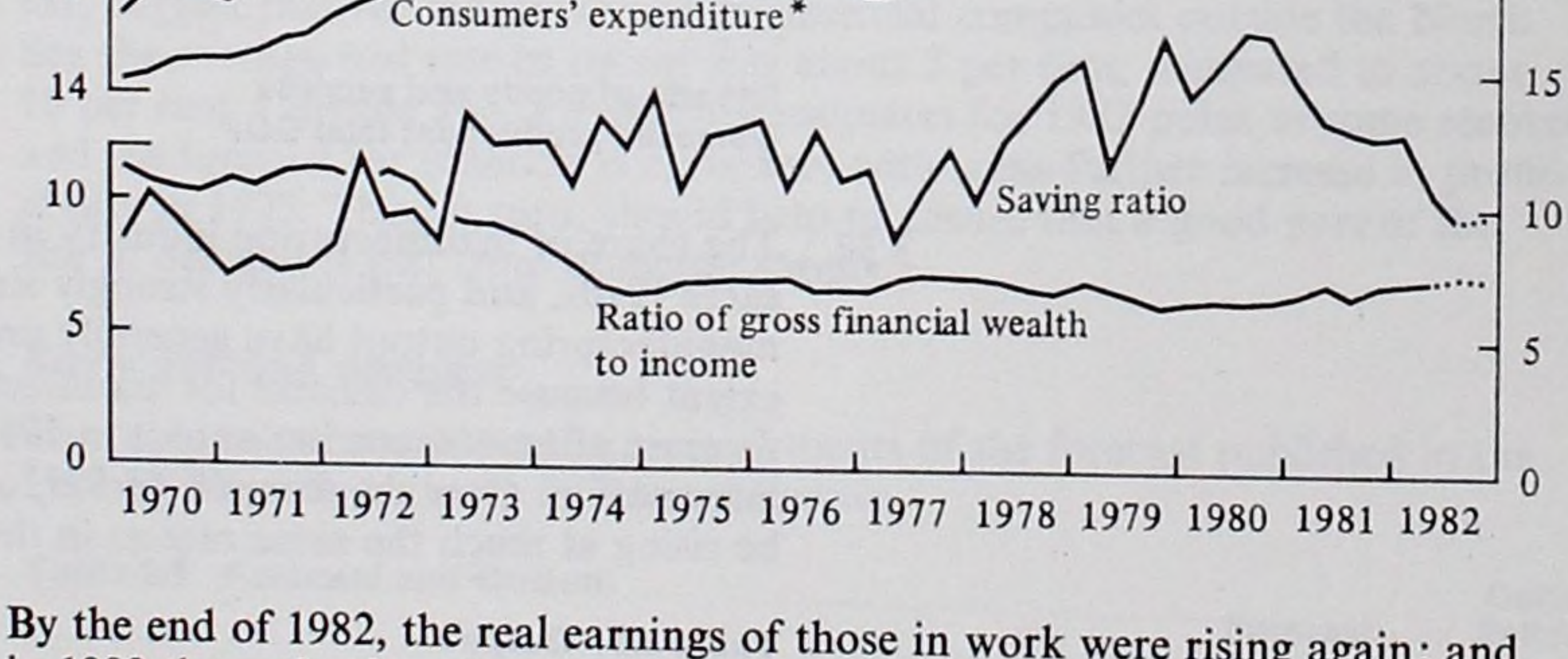
Personal spending

3.30 After little change for about three years, personal spending rose sharply in the second half of 1982. Expenditure on durables in particular rose rapidly, reflecting mainly the beginning of an upturn in real take-home pay, lower interest rates, the abolition of HP controls in July and continued easy availability of bank credit. In addition, low purchases of durables during the previous two years had left stocks of durables held by consumers rather depleted.

3.31 The fall in real personal disposable incomes—estimated at about 4 per cent between 1980 and 1982—was more than offset by a fall in the saving ratio. This went beyond the usual tendency for savings to act as a cushion for fluctuations in incomes and helps to confirm that the need for saving was becoming less as the rate of inflation and interest rates moved down substantially. The chart also shows how the personal sector has been able to begin to rebuild its financial asset holdings: the ratio of gross financial wealth to income has risen since 1980, with capital gains, reflecting lower nominal interest rates, and high borrowing more than offsetting the fall in the flow of saving.

CHART 3.7

Consumption, income, saving and wealth



3.32 By the end of 1982, the real earnings of those in work were rising again; and in 1983 the real value of personal disposable income, taking account of the tax changes proposed in the budget, is forecast to rise about 2 per cent. The saving ratio having already fallen sharply in the course of 1982 may remain a little below the 1982 average and consumer spending could rise $2\frac{1}{2}$ per cent in 1983.

Stocks

3.33 With the rise in consumer spending in the second half of 1982 manufacturers and distributors ran down their stocks, and by the end of 1982 the ratio of stocks to sales had fallen by comparison with a year earlier. Over the forecast period, it seems likely that distributors will want to rebuild their stocks of consumer goods. Manufacturers' stocks, however, could still be above desired levels, judging by the results of the recent CBI surveys; and with only moderate prospects of recovery in their output, the level of stocks in this sector may not change much. In aggregate, the destocking in 1982, now put at about £$\frac{3}{4}$ billion at 1975 prices, could be followed by a small rise in stock levels in 1983.

Investment

3.34 Fixed investment in total in 1982 is estimated to have been $3\frac{1}{2}$ per cent higher by volume than the previous year. In the private sector investment in new dwellings rose about 8 per cent, in response to the readily available supply of mortgage finance and successive reductions in interest rates. In the distributive and service sectors of the economy investment (excluding leased assets) rose 7 per cent. Prospects for demand and profitability have been stronger here than in the manufacturing sector, where investment (including leased assets) fell a further 8 per cent. In the public sector, there were increases in the volume of fixed investment by central government and the nationalised industries. Investment by local authorities, excluding council house sales (which count as negative investment), was little changed.

3.35 The surveys carried out by the Department of Industry and by the CBI are consistent with a further rise in industrial investment in total, in 1983; within the total the fall in manufacturing investment may come to an end in the course of the year. Taking investment and consumption together, the volume of expenditure by the public sector on goods and services is forecast to rise slowly, consistently with the proportion of total public expenditure in the economy falling slowly.

Demand and Activity

3.36 In total, domestic demand is expected to rise further in 1983 and the first half of 1984. The prospect of world recovery and the effects of recent gains in competitiveness point to a strong rise in UK exports by the first half of 1984:

Table 3.3 Domestic Demand and Exports

Per cent changes on a year earlier

	1982	1983	1984 First half
Domestic demand	$2\frac{1}{2}$	$3\frac{1}{2}$	3
Exports of goods and services	$\frac{1}{2}$	1	5

The absence of any further rundown in stocks and the faster growth of total demand points to further rises in imports, together with a growth of domestic output:

Table 3.4 Supply

Per cent changes on a year earlier

	1982	1983	1984 First half
Imports of goods and services	5	5	5
Domestic production: total GDP	$\frac{1}{2}$	2	$2\frac{1}{2}$

3.37 The share of manufacturing industry in total output has been falling since the early 1970s, and particularly strongly since 1979. Treasury forecasts of manufacturing output have generally proved over-optimistic, to a considerable extent because the demand for manufactures in total was overstated. The forecast of manufacturing output in 1983 takes account of recent survey information. Over the forecast period, output in the manufacturing sector could be rising at much the same rate as in the rest of the economy.

Table 3.5 Output

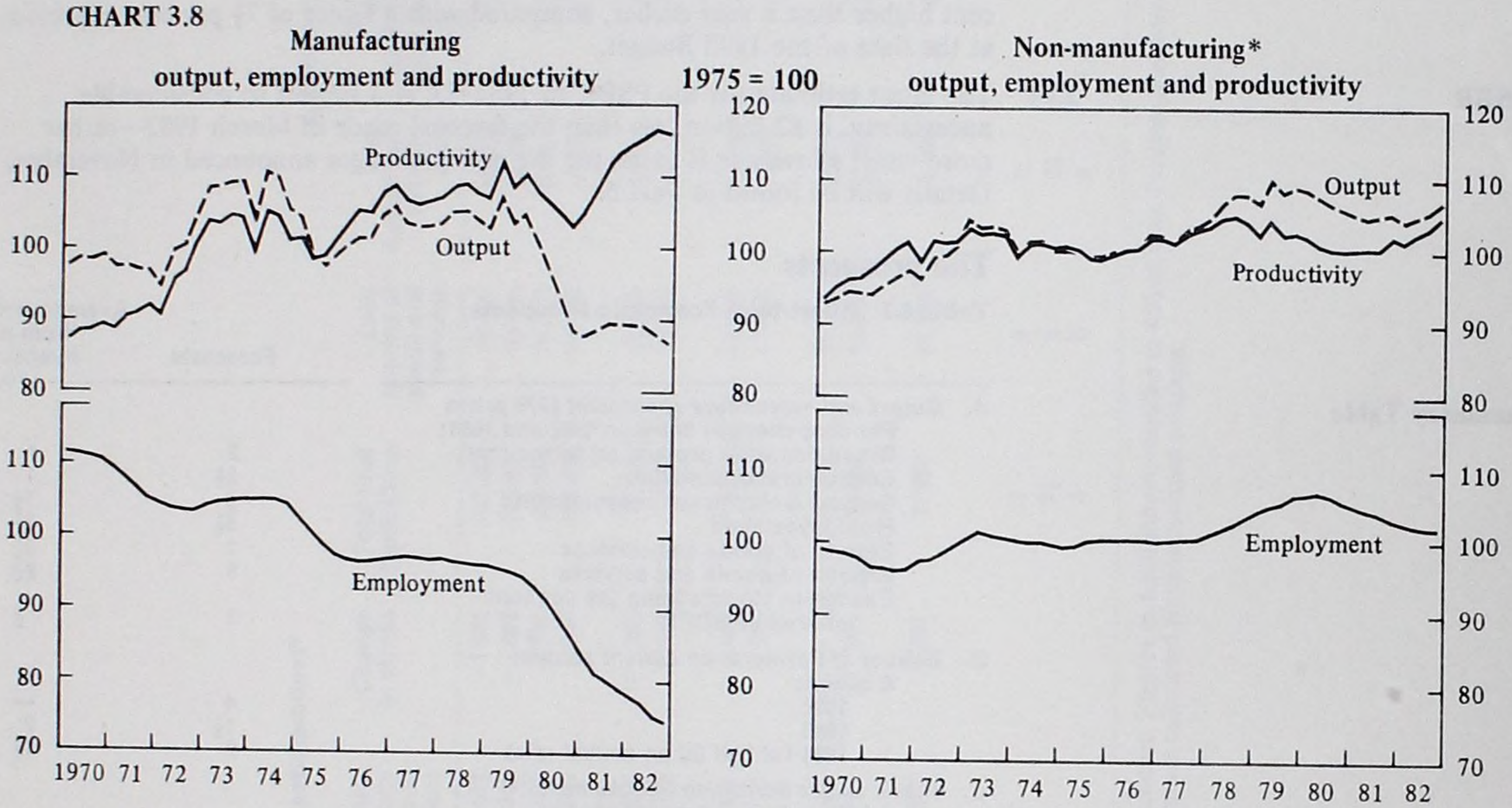
1975=100	1982 I	1982 II	1983 I	1983 II	1984 I
Gross domestic product	106	$106\frac{1}{2}$	$107\frac{1}{2}$	109	110
Manufacturing output	$89\frac{1}{2}$	$87\frac{1}{2}$	$89\frac{1}{2}$	$90\frac{1}{2}$	$91\frac{1}{2}$

Employment, productivity and profitability

Employment

3.38 Total employment fell by some $1\frac{3}{4}$ million between 1979 and 1982, with a fall of nearly $1\frac{1}{2}$ million in manufacturing, where the problems of profitability and competitiveness have been greatest. The further fall of employment in 1982 was accompanied by a rise in unemployment from 10.7 per cent in 1981 to 12.5 per cent in 1982, a slower rise than in the previous year. In manufacturing, there is convincing evidence of an above average gain in productivity since 1980, though the extent of the fall in output makes the precise size of this gain difficult to assess. Outside manufacturing, the revised employment data up to mid 1981, and the less reliable indications available for 1982, do not suggest any marked improvement in productivity growth since 1979. Chart 3.8 shows the main features:

CHART 3.8



* Excludes non-trading public sector and oil

Productivity

3.39 In 1982 there was evidence that the period of exceptionally rapid productivity gains in manufacturing was giving way, as had been expected, to more moderate gains. Growth of total output in the range 2–$2\frac{1}{2}$ per cent, if sustained for a period and accompanied by no major shifts in financial pressures on employers, is probably consistent with no great change in unemployment.

Profitability

3.40 Company profitability reached a low point in 1981: DOI estimates, based on necessarily very uncertain assumptions about obsolescence of capital and about tax, suggest that for industrial and commercial companies outside the North Sea the average real rate of return was about 3 per cent, compared to about 10 per cent a decade ago. Preliminary estimates for 1982 point to some recovery; and the forecast for inflation is consistent with some further increase in profitability in 1983. This, in turn, should help to ensure that a good part of the rise in demand is met from domestic supply.

Forecast and outturn

Main Elements

3.41 The table below compares the main elements of the forecast published in the 1982 FSBR with outturns or latest estimates.

Table 3.6 Forecast and Outturn

	Forecast	Outturn/ Estimate
Total output, per cent change between 1981 and 1982	$1\frac{1}{2}$	$\frac{1}{2}$
Retail Prices Index: per cent increase between the fourth quarters of 1981 and 1982	9	6
Current account of the balance of payments in 1982, £ billion	4	4
PSBR, 1982–83, £ billion	$9\frac{1}{2}$	$7\frac{1}{2}$

Output and Trade

3.42 GDP increased rather less than forecast in 1982. World demand and trade were substantially less than forecast, accounting for more than all the difference of 3 per cent on exports of goods and services: consumer demand (helped by lower prices) was a little higher than expected. But much of this was met out of stocks and with manufacturers keen to get stock levels down further there was another substantial fall in stocks in 1982. Much of this was reflected in lower imports. The current account surplus in 1982 turned out very close to the Budget estimate: both exports and imports were lower than forecast.

Prices

3.43 Retail prices in the fourth quarter of 1982 were nearly 3 per cent lower than forecast. Major contributing factors were the much lower increases than expected in housing costs (including the mortgage rate) and in seasonal foods. The general level of prices, as measured by the GDP deflator, was subject to a much smaller margin of error: the GDP deflator in 1982–83 is estimated to have been 7 per cent higher than a year earlier, compared with a figure of 7½ per cent expected at the time of the 1982 Budget.

PSBR

3.44 The latest estimate for the PSBR in 1982–83, still subject to considerable uncertainty, is £2 billion less than the forecast made in March 1982—rather more when allowance is made for the policy changes announced in November. Details will be found in Part 5.

The prospects

Summary Table

Table 3.7 Short-term Economic Prospects

	Forecasts	Average errors from past forecasts*
A. *Output and expenditure at constant 1975 prices*		
Per cent changes between 1982 and 1983:		
Gross domestic product (at factor cost)	2	1
Consumers' expenditure	2½	1
General Government consumption	½	1½
Fixed investment	3½	2½
Exports of goods and services	1	2½
Imports of goods and services	5	2½
Change in stockbuilding (as per cent of level of GDP)	1	¾
B. *Balance of Payments on current account*		
£ billion:		
1982	4	—
1983	1½	2
1984 1st half (at an annual rate)	2	3½
C. *Public Sector Borrowing Requirement*		
£ billion; in brackets per cent of GDP at market prices:		
Financial year 1982–83	7½ (2¾)	—
Financial year 1983–84	8 (2¾)	4 (1½)
D. *Retail Prices Index*		
Per cent change:		
Fourth quarter 1982 to fourth quarter 1983	6	2
Second quarter 1983 to second quarter 1984	6	4

* 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 October 1980. For the current balance and the retail prices index, forecasts made between June 1970 and October 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.

Risks and uncertainties

3.45 No forecast is complete without some indication of error margins. Table 3.7 sets out the average errors from past forecasts, alongside the forecasts themselves. These average errors provide the best indication of possible errors in the current forecasts: while the size of errors will change over time as the economy fluctuates more or less, and as forecasting techniques change, in most cases the averages have not shifted very much since they were first published in 1976.

3.46 The forecasts of those items which represent the relatively small balance between large flows in either direction are particularly subject to error. For example, the flows on either side of the PSBR approach £200 billion; and for the current account of the balance of payments approach £100 billion. For the RPI, average errors are derived from a period of high inflation, averaging 14 per cent and subject to large fluctuations.

Table 3.8 Constant price forecasts of expenditure, imports and gross domestic product*

£ million at 1975 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total 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
1980	71 550	24 300	20 450	33 050	−1 550	147 800	34 100	12 200	200	101 700	108·0
1981	71 850	24 300	18 600	32 300	−1 850	145 200	33 900	12 100	0	99 200	105·4
1982	72 750	24 550	19 250	32 500	−700	148 350	35 550	12 350	−550	99 900	106·1
1983	74 650	24 700	19 950	32 800	300	152 400	37 400	12 650	−500	101 850	108·2
1981 H1	35 950	12 100	9 300	15 900	−1 400	71 850	15 950	6 100	−200	49 600	105·3
H2	35 900	12 200	9 300	16 400	−450	73 350	17 950	6 000	200	49 600	105·4
1982 H1	35 950	12 250	9 500	16 400	−50	74 050	18 050	6 050	−150	49 800	105·8
H2	36 800	12 300	9 750	16 100	−650	74 300	17 500	6 300	−400	50 100	106·4
1983 H1	37 100	12 300	9 900	16 200	0	75 500	18 450	6 300	−250	50 500	107·3
H2	37 550	12 400	10 050	16 600	300	76 900	18 950	6 350	−250	51 350	109·1
1984 H1	38 000	12 450	10 250	17 000	250	77 950	19 400	6 450	−250	51 850	110·2
% changes:											
1981 to 1982	1	1	3½	½		2	5	2		½	
1982 to 1983	2½	½	3½	1		2½	5	2½		2	
1983 H1 to 1984 H1	2½	1	3½	5		3	5	2		2½	

*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.

4. The Budget Proposals in Detail

4.01 The Budget proposals are described in detail in this part. The description of the Inland Revenue proposals is followed by those for Customs and Excise, Vehicle Excise Duty and the National Insurance Surcharge and by the expenditure measures in the Budget. The direct effects of changes in taxation are shown in Table 4.2 at the end of this part.

Inland Revenue

Income tax

4.02 It is proposed—

to increase the single person's allowance and the wife's maximum earned income relief from £1,565 to £1,785 and the married allowance from £2,445 to £2,795.

to increase the additional personal allowance and widows' bereavement allowance from £880 to £1,010.

to increase the age allowance for the single person from £2,070 to £2,360, for the married from £3,295 to £3,755 and the age allowance income limit from £6,700 to £7,600.

to increase the basic rate limit to £14,600.

to increase the width of the 40 per cent band to £2,600, of the 45 per cent band to £4,600 and of the 50 per cent and 55 per cent bands to £7,100.

As a consequence of these changes, the structure of personal tax rates in operation in 1983–84 will be:—

Bands of Taxable Income

£	Per cent
0 — 14 600	30
14 601 — 17 200	40
17 201 — 21 800	45
21 801 — 28 900	50
28 901 — 36 000	55
over 36 000	60

4.03 It is also proposed—

to raise the threshold for the investment income surcharge for 1983–84 from £6,250 to £7,100.

to extend the widows' bereavement allowance to cover the year after the husband's death.

to increase with effect from 1984–85 the scales which determine the cash equivalents of car and car fuel benefits of directors and higher-paid employees.

to alter the law in relation to benefits in kind of directors and employees from scholarships, loans, PAYE tax payments, and, from 1984–85, provided accommodation.

to increase the limit on loans qualifying for mortgage interest relief from £25,000 to £30,000.

to extend mortgage interest relief to interest paid on certain loans for the purchase of a house by a borrower who is under a contractual obligation to live in other accommodation.

to extend the "Business Start-up Scheme" to investment in a wider range of companies and to make other changes ("Business Expansion Scheme").

to increase the maximum annual value for appropriations of shares to an employee under an approved profit-sharing scheme by adding to the present limit of £1,250 an alternative limit of 10 per cent of the employee's earnings subject to a maximum of £5,000.

to raise from £50 to £75 the upper limit on monthly contributions by an employee under an approved savings-related share option scheme.

to extend from three to five years the period over which the income tax payable on the exercise of a share option by a director or employee may be paid by instalments.

to extend relief for interest paid on money borrowed to buy shares in an employee-controlled company as part of an employee buy-out.

to increase the limit on tax relief allowed to individuals for covenants in favour of charities at the higher and additional rates.

to make gains on certain "secondhand bonds" liable to income tax.

to increase to £1,000 the limit for not assessing income tax on an individual under the close companies' apportionment provisions.

Income tax and corporation tax

4.04 It is proposed—

to extend, until 31 March 1987, the 100 per cent first year allowance for expenditure on British films.

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

to increase from 10 per cent to 25 per cent, for the industrial buildings allowance, the permissible cost relating to non-industrial purposes.

to allow expenditure on the conversion of existing premises to small industrial workshops to qualify for the 100 per cent allowance where the average size of all the converted units is within the prescribed limit.

to extend stock relief to houses taken in part exchange by housebuilders in certain circumstances.

to allow payment of interest on Eurobonds in certain circumstances without deduction of tax.

Income tax, corporation tax and capital gains tax

4.05 It is proposed to provide new rules for the tax treatment of stock issued by companies at a discount.

Corporation tax

4.06 It is proposed—

for the financial year 1982 to fix the "small companies" rate of corporation tax at 38 per cent (previously 40 per cent), to increase the limit for that rate from £90,000 to £100,000 and to increase the limit for marginal relief from £225,000 to £500,000.

to extend progressively from two to six years the period for which "surplus" advance corporation tax may be carried back and set against corporation tax.

to allow credit for foreign tax against corporation tax before it is reduced by advance corporation tax.

to enable Trustee Savings Banks to be treated for tax purposes as bodies corporate.

to enable a charge to corporation tax to be imposed with effect from 6 April 1984 on United Kingdom resident companies which have an interest of 10 per cent or more in certain United Kingdom controlled companies resident in low tax territories, the charge being proportionate to their interest.

to extend relief to companies for discount on bills of exchange accepted by banks carrying on business in the United Kingdom, and for the incidental costs of raising such finance.

to extend the relief for the incidental costs of obtaining loan finance.

to allow relief for the costs of employees seconded to charities.

to make provision against the avoidance of tax through group and consortium relief.

to introduce, for certain securities, an alternative method for calculating the indexation allowance applying to capital gains.

Oil taxation

4.07 It is proposed—

to reduce the rate of advance petroleum revenue tax from 20 per cent to 15 per cent from 1 July 1983; to 10 per cent from 1 January 1985; to 5 per cent from 1 January 1986; and to abolish it from 1 January 1987.

to allow relief against petroleum revenue tax (PRT) on any field for expenditure incurred after 15 March 1983 in searching for oil and appraising discovered reserves anywhere in the United Kingdom, and the United Kingdom Continental Shelf.

to increase the PRT oil allowance to 500,000 tonnes of oil per chargeable period subject to a cumulative limit of 10 million tonnes per field for offshore fields outside the Southern basin where development consent is given after 1 April 1982. (In addition the Secretary of State for Energy proposes to abolish royalties for such fields.)

to revise the PRT rules for relief for expenditure on shared assets and to charge related receipts.

to exclude from charge oil won which the participator uses for production purposes in another field.

to correct certain technical defects in the PRT provisions.

Capital gains tax

4.08 It is proposed—

to increase the annual exempt amount in line with the increase in the retail prices index so that for 1983–84 an individual will be exempt on the first £5,300, and most trusts on the first £2,650, of capital gains.

to increase the limit on reliefs relating to the transfer of a business on retirement.

to increase the limit on reliefs relating to the letting of residential accommodation and small part disposals of land.

to extend the private residence relief to gains arising to a person required by the terms of his trade or profession to live in other accommodation.

to abolish the small gifts exemption and the payment by instalment facilities.

to amend the rules relating to the value at which assets are deemed to be acquired from certain non-resident trusts.

Development land tax

4.09 It is proposed—

to defer the charge on a deemed disposal which is started before 1 April 1986 (instead of 1 April 1984 as at present) and is for the owner's use, and to extinguish *any* deferred liability which has not become chargeable within 12 years of the start of development.

to improve the machinery for deducting tax from consideration when there is a disposal by a non-resident.

to extend the period over which tax can be paid by instalments from 8 to 10 years and remove the facility to pay by half-yearly instalments.

Capital transfer tax

4.10 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 – 60	Nil	Nil
60 – 80	30	15
80 – 110	35	17½
110 – 140	40	20
140 – 175	45	22½
175 – 220	50	25
220 – 270	55	30
270 – 700	60	35
700 – 1 325	65	40
1 325 – 2 650	70	45
over 2 650	75	50

4.11 It is also proposed—

to increase the rate of relief for transfers of minority holdings in unquoted companies from 20 per cent to 30 per cent.

to increase the rate of relief for transfers of tenanted agricultural land from 20 per cent to 30 per cent.

to extend the period over which tax may be paid by instalments from 8 to 10 years and remove the facility to pay by half-yearly instalments.

to remove the ceiling of £250,000 on the total value of transfers within one year of death to charities which is exempt.

to remove the special rule under which persons becoming domiciled in the Channel Islands or the Isle of Man may be regarded as remaining domiciled in the United Kingdom for tax purposes.

to clarify the rules about the incidence of tax on death when the Will contains no directions.

to amend the provisions relating to settled property.

Customs and Excise

Value added tax

4.12 It is proposed to increase the registration and deregistration limits by Order made under Section 13(3) of the Finance Act 1982. From 16 March 1983 the registration limits will become £18,000 per annum and £6,000 per quarter. From 1 June 1983 the deregistration limits will become £17,000 per annum where estimated future turnover is concerned, and £18,000 per annum where past turnover is concerned.

Alcoholic drinks

4.13 It is proposed, from midnight 15–16 March 1983, to increase:

—the rates of duty on spirits from £14·47 to £15·19 per litre of alcohol;

—the rate of duty on beer from £20·40 to £21·60 per hectolitre and the charge for each additional degree of original gravity above 1030° per hectolitre from £0·68 to £0·72;

—the rates of duty on wine by the following amounts per hectolitre:

Wine of an alcoholic strength:

not exceeding 15 per cent: from £106·80 to £113·00;

exceeding 15 per cent but not exceeding 18 per cent: from £137·90 to £145·90;

exceeding 18 per cent but not exceeding 22 per cent: £162·30 to £171·70;

exceeding 22 per cent: £171·70 plus £15·19 (instead of £14·47) for every 1 per cent, or part of 1 per cent, in excess of 22 per cent;

surcharge on sparkling wine: from £23·45 to £24·80;

—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 £73·10 to £79·30;

exceeding 10 per cent but not exceeding 15 per cent: from £103·80 to £109·80;

exceeding 15 per cent but not exceeding 18 per cent: from £127·80 to £135·20;

exceeding 18 per cent: £135·20 plus £15·19 (instead of £14·47) for every 1 per cent, or part of 1 per cent, in excess of 18 per cent;

surcharge on sparkling made-wine: from £10·75 to £11·35;

—the rate of duty on cider and perry from £8·16 to £9·69 per hectolitre.

Hydrocarbon oil

4.14 It is proposed from 6 pm on 15 March 1983, to increase:

—the rate of duty on light hydrocarbon oil from 15·54p to 16·30p per litre;

—the rate of duty on heavy hydrocarbon oil for use as road fuel from 13·25p to 13·82p per litre.

The duty on petrol substitutes and spirits used for making power methylated spirits is charged at the same rate as on light hydrocarbon oil, and aviation gasoline and gas for use as road fuel are charged at half the rate on light hydrocarbon oil.

Tobacco

4.15 It is proposed, from midnight 17–18 March 1983, to increase:

—the specific element in the duty on cigarettes from £20·68 to £21·67 per 1,000 cigarettes (the *ad valorem* element remaining unchanged);

—the duty on cigars from £39·00 to £40·85 per kilogram;

—the duty on hand-rolling tobacco from £33·65 to £35·40 per kilogram.

Table 4.1 Approximate direct effects of changes in Duty Rates on certain product prices

(All except VED inclusive of 15 per cent VAT)

Spirits duty	25p on a bottle of spirits
Beer duty	1p on a pint of beer of average strength
Wine duty	5p on a bottle of table wine
Fortified wine duty	7p on a bottle of sherry
Petrol duty	4p on a gallon of petrol
Derv duty	3p on a gallon of derv
Tobacco duty	3p on a packet of 20 cigarettes
Vehicle excise duty	£5 on a car licence

Vehicle Excise Duty

4.16 It is proposed to increase the excise duty on mechanically-propelled vehicles, other than goods 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 6 per cent. This figure is broadly descriptive. There will be some variations within particular vehicle categories.

4.17 The duty on most cars and light commercial vehicles will rise by £5 to £85. The rates of duty on heavy goods vehicles at the lower end of the duty scales will be reduced by about 10 per cent but on the most damaging heavy goods vehicles duty will be increased by up to 26 per cent. The duty on a 32½ tonne lorry will rise by £470 to £2,290 and the duty on a 38 tonne lorry will be set at £2,940. These changes have effect in relation to licences taken out after 15 March.

National Insurance Surcharge

4.18 It is proposed to reduce by ½ percentage point to 1 per cent the surcharge paid in respect of employees by secondary Class 1 contributors under the provisions of the National Insurance Surcharge Act 1976. This reduction will take effect from 1 August 1983. Expenditure programmes (excluding local authorities) will be reduced accordingly (see Table 5·6).

Expenditure Measures

Industrial innovation

4.19 New measures to encourage industrial investment and promote industrial innovation, including the revival of the Small Engineering Firms Investment Scheme, will involve additional expenditure of £185 million over the next three years. The cost is £39 million in 1983–84.

Housing improvement

4.20 Local authorities will be given additional capital spending allocations for use in 1983–84 on the improvement of run-down private sector housing through approved "enveloping" schemes. In addition, eligible expenses limits for improvement grants are to be increased by 20 per cent and local authorities will be permitted to increase expenditure on these grants as necessary. The two measures are likely to lead to additional expenditure by local authorities of around £60 million in 1983–84.

Employment

4.21 A new part-time Job Release Scheme will be introduced, the gross cost of which will be more than offset by lower benefit payments in 1983–84. Over the two following years, net additional expenditure will be around £16 million. The Enterprise Allowance will be extended with a net expenditure cost of some £27 million over the next two years. The net cost in 1983–84 is £17 million.

Social security

4.22 The 5 per cent abatement of unemployment benefit will be restored and a number of new measures introduced to help the sick, the disabled and the less well off. The net cost is £26 million in 1983–84. Men over 60 on supplementary benefit will qualify for the long-term rate immediately, no longer having to wait a year. In addition, unemployed men over 60 will not need to register for work to protect their entitlement to basic pension. These measures cost £23 million in 1983–84. It is also proposed to change the basis for calculating the uprating of benefits.

Child benefit

4.23 Child benefit will be increased to £6.50 and One Parent Benefit to £4.05, both from November 1983. The cost is £75 million in 1983–84 over and above what is already provided for.

Cost of measures

4.24 The cost of these measures, totalling £238 million, will be charged to the Contingency Reserve.

Inland Revenue

Table 4.2 Direct effects (a) of changes in taxation

£ million

	Forecast for 1983–84	Forecast for a full year
INLAND REVENUE		
Income tax		
Increase in single allowance by £220 and married allowance by £350	−1 630 (*b*)	−1 995 (*b*)
Increase in additional personal allowance and widows' bereavement allowance by £130	−10 (*b*)	−10 (*b*)
Increase in age allowance by £290 (single) and by £460 (married) and in income limit by £900	−210 (*b*)	−260 (*b*)
Increase in basic rate limit by £1 800 to £14 600	−90 (*b*)	−140 (*b*)
Increase in further higher rate thresholds	−60 (*b*)	−115 (*b*)
Increase in investment income surcharge threshold	Negligible (*b*)	−25 (*b*)
Extension of widows' bereavement allowance	−25	−30
Fringe benefits—increases in car and car fuel scales for 1984–85	Nil	+35 (*c*)
Fringe benefits—changes in relation to scholarships, loans, PAYE tax payments and (from 1984–85) to provided accommodation	Nil	+10
Increase in mortgage interest relief limit	−50	−60
Extension of mortgage interest relief to certain borrowers	−2	−5
Extending the "Business Start-up Scheme"	−25 (*d*)	−75 (*d*)
Increases in employee shareholding reliefs	−20	−35 (*d*)
Interest relief for borrowing to buy shares in employee-controlled companies	−1	−2
Change in relief on covenanted gifts to charities	Negligible	−3
Secondhand bonds	Negligible	Negligible
Limit for assessments of apportioned income	Negligible	Negligible
Income tax and corporation tax		
Extension of capital allowances on British films	Nil	−30 (*e*)
Extension of capital allowances on teletext sets	Nil	−10 (*f*)
Industrial buildings allowance: increase in non-industrial space	Nil	−25 (*g*)
Conversions to small industrial workshops	Negligible	Negligible
Extension of stock relief for housebuilders	Negligible	−5
Payment of Eurobond interest without deduction of tax	Negligible	−2
Income tax, corporation tax and capital gains tax		
Provisions relating to stock issued at a discount	Negligible	−15 (*d*)(*h*)
Corporation tax		
Reduction in "small companies" rate and increase in limits	−40	−70
Extension of carry back period for advance corporation tax	Nil	(*i*)
Change in arrangements for setting off advance corporation tax and double taxation relief	Nil	(*j*)
Treatment of TSBs as bodies corporate	−3	−10
Charge to tax in respect of controlled foreign companies	Nil	(*k*)
Relief for discounts etc. on bills of exchange	Negligible	−1
Incidental costs of obtaining loan finance	Negligible	Negligible
Employees seconded to charities	Negligible	Negligible
Provision against avoidance through group etc. relief	Negligible	+10 (*d*)
Alternative method for calculating indexation allowance applying to capital gains	Nil	Nil
Petroleum revenue tax		
Phasing out of advance petroleum revenue tax	−50	(*l*)
Appraisal and exploration relief	−40	(*m*)
Increase in PRT oil allowance for future fields	Nil	(*n*)
PRT expenditure relief for shared assets and charge on related receipts	−15	(*o*)
Minor PRT changes	−10	−5
Capital gains tax		
Indexation of annual exempt amount	Nil (*b*)	−10 (*b*)(*p*)
Increase in limit for retirement relief	Nil	−4
Increase in other monetary limits	Nil	−1
Other changes	Nil	Negligible
Development land tax		
Charge on a deemed disposal	Nil	−4
Disposals by non-residents	+1	+2
Extension of instalment period	Negligible	Nil
Capital transfer tax		
Increase in thresholds and changes in bands	−20 (*b*)	−50 (*b*)(*q*)
Increase in rates of business and agricultural relief	Negligible	−5
Extension of instalment period	−2	Nil (*r*)
Removal of ceiling in charity exemption	Negligible	−1
Other changes	−1	−2
TOTAL INLAND REVENUE	**−2 303**	**−2 948 (*s*)**

Table 4.2 Direct effects (a) of changes in taxation *(continued)*

£ million

Customs and Excise

	Forecast for 1983–84	Forecast for a full year
CUSTOMS AND EXCISE		
Value added tax		
Increase in registration limits	−5	−5
Excise duties		
Increases in rates of duty on light oil, etc.	+190	+190
Increase in rate of duty on heavy oil for use in road vehicles	+40	+40
Increases in rates of tobacco products duty	+95	+100
Increase in rate of spirits duty	+25	+25
Increases in rates of beer duty	+85	+90
Increases in rates of wine and made-wine duties	+25	+25
Increase in rate of duty on cider and perry	+5	+5
TOTAL CUSTOMS AND EXCISE	**+460**	**+470**
Vehicle excise duty		
Increase in rates of duty	+130	+130
National Insurance surcharge		
Reduction in surcharge	−215	−390 (*t*)
Other		
Bus Fuel Grants	−5	−5 (*u*)
TOTAL CHANGES IN TAXATION	**−1 933**	**−2 743**

(*a*) 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.

(*b*) *Taxes subject to statutory indexation.* The table below shows the direct revenue costs of indexing the income tax main allowances and thresholds, the capital gains tax exempt amount and the capital transfer tax threshold and bands by reference to the increase in the general index of retail prices between December 1981 and December 1982 (5·4 per cent), rounded in accordance with the statutory provisions, together with the costs of the proposed changes on top of indexation:—

Direct Revenue Costs (£ million)

	Indexation		Proposed changes on top of indexation	
	1983–84	Full Year	1983–84	Full Year
Income Tax				
Main allowances	−760	−930	−1 090	−1 335
Basic rate limit	−40	−60	−50	−80
Further higher rate thresholds	−30	−55	−30	−60
Investment income surcharge threshold	Negligible	−10	Negligible	−15
Total income tax	−830	−1 055	−1 170	−1 490
Capital gains tax				
Exempt amount	Nil	−10	Nil	Nil
Capital transfer tax				
Thresholds and bands	−15	−35	−5	−15

(*c*) Effective from 1984–85; the yield in 1984–85 will be £30 million.

(*d*) These estimates are highly uncertain.

(*e*) The change takes effect from 1 April 1984, but the effect on tax receipts in 1984–85 will be negligible.

(*f*) The cost in 1984–85 will be £8 million.

(*g*) The cost in 1984–85 will be £10 million.

(*h*) Effect on tax liabilities for 1983–84; over a period of years there will be some deferment of tax liabilities.

(*i*) Tax liabilities for accounting periods ending in 1981–82 and later will be reduced. The costs in 1984–85 and 1985–86 are tentatively estimated at £1 million and £15 million respectively, and there will be some continuing costs thereafter.

(*j*) The cost will be negligible in 1984–85 and some £25 million in 1985–86; in the long term it could be up to £100 million.

(*k*) The yield will be negligible in 1984–85 and some £25 million in 1985–86, building up to £100 million.

(*l*) The main medium term effect of phasing out advance petroleum revenue tax is to defer payment of petroleum revenue tax; over the years the amount payable would be unchanged apart from a secondary effect on reliefs against petroleum revenue tax which may give some net yield in later years. In discounted terms the effect of this deferment is generally beneficial to the industry.

(*m*) The immediate cost will be offset by reductions in reliefs in future years but there will be a net benefit to the industry in discounted terms.

(*n*) The eventual cost depends on how many fields are developed in future; it could be a yield if additional fields are developed as a result of the proposal.

(*o*) The net cost in 1983–84 arises because the adjustments to be made in restrictions to relief already made, or due to be made, under existing law exceed the estimated yield from receipts. In subsequent years there is an estimated net yield (around £15 million a year on average for the years 1984–85 to 1986–87), but the industry will also be relieved from further substantial relief restrictions applicable under existing law. (These cannot be precisely quantified but the cost could run to some hundreds of million pounds over a period of years.)

(*p*) The effect on receipts in respect of tax liabilities for 1983–84; the effect on receipts in 1984–85 will be £3 million.

(*q*) The effect on receipts in respect of tax liabilities for 1983–84; the effect on receipts in 1984–85 will be £40 million.

(*r*) The cost in 1984–85 will be £5 million.

(*s*) No figures are included for the changes covered by footnotes (*i*) and (*l*) to (*o*) above; and any figures covered by footnotes (*j*) and (*k*) are broadly offsetting.

(*t*) Figures exclude public sector payments of £80 million in 1983–84 and £215 million in a full year. Public expenditure will be reduced accordingly. See Part 5, Table 5.6.

(*u*) This is consequential on the increase in road fuel duties.

5. Public sector transactions

5.01 The tables in Part 5 provide further information on transactions of the public sector in 1982–83 and 1983–84. They elaborate the rounded and summary figures for those years shown in Parts 2 and 3. The forecasts incorporate the effects of Budget measures. The basis of the tables and the relationship between them is outlined in paragraphs 5.19–5.22.

The Public Sector Borrowing Requirement

5.02 Table 5.1 shows the composition of the Public Sector Borrowing Requirement (PSBR) in 1982–83 and 1983–84.

Table 5.1 Public Sector Borrowing Requirement

£ billion

Borrowing requirement of	1982–83 Budget forecast	1982–83 Latest estimate	1983–84 Forecast
Central government	9·3	11·3	11·5
Central government own account(1)	5·4	6·2	8·5
Local authorities	0·6	−0·1	−0·2
Public corporations	1·9	1·5	1·1
Unallocated(2)	1·7	—	−1·3
Public sector	**9·5**	**7·5**	**8·2**

(1) Central government borrowing less on-lending to local authorities and public corporations.
(2) Includes unallocated Contingency Reserve, special sales of assets and general allowance for shortfall. See paragraph 5.21.

5.03 The scale of borrowing towards the end of the financial year is always difficult to predict. Outturn information on the 1982–83 PSBR will not become available until late April although the CGBR will be available rather earlier. Based on outturns to end February and a forecast for March, the current estimate of outturn is about £7½ billion. The forecast for 1982–83 a year ago was £9½ billion, reduced to £9 billion in the Autumn Statement.

5.04 The PSBR in 1983–84 is forecast to be just over £8 billion. The high CGBR reflects borrowing for on-lending to local authorities and public corporations. As in 1982–83, they are expected to repay a considerable amount of market debt.

Central government

5.05 Table 5.2 shows forecasts for central government receipts and expenditure in 1982–83 and 1983–84.

5.06 Total receipts in 1982–83 are currently expected to be slightly higher than forecast a year ago. North Sea oil taxes in 1982–83 are over £1½ billion higher than expected, but this is offset by lower than expected receipts from VAT and national insurance contributions. Expenditure is expected to be over £2 billion more than forecast, more than accounted for by higher lending to local authorities but offset to some extent by underspending on cash limited votes. The CGBR is therefore expected to be about £2 billion more than forecast, although this is very uncertain given the difficulty of forecasting receipts and expenditure in March.

Table 5.2 Central Government Transactions

	1982–83		1983–84
£ billion	Budget forecast	Latest estimate	Forecast
Receipts			
Taxes	77·0	78·1	81·5
National insurance contributions, etc.	19·5	18·6	21·2
Other	9·1	9·3	9·4
Total	**105·7**	**106·0**	**112·1**
Expenditure			
Current expenditure on goods and services	36·2	35·8	39·5
Capital consumption	0·8	0·8	0·8
Interest	11·4	11·4	11·8
Subsidies	4·2	4·5	4·3
Grants	55·3	57·1	61·0
Net lending and capital expenditure	5·4	7·7	7·4
Unallocated(¹)	1·7	—	−1·3
Total	**115·0**	**117·2**	**123·6**
Central Government Borrowing Requirement	9·3	11·3	11·5
of which:			
for on lending to local authorities and public corporations	2·2	5·1	4·2
Own account	5·4	6·2	8·5
Unallocated(¹)	1·7	—	−1·3

(¹) Includes unallocated Contingency Reserve, special sales of assets and general allowance for shortfall.

5.07 In 1983–84 central government expenditure is forecast to be about £6½ billion more than the 1982–83 outturn currently expected. Receipts are expected to increase by almost the same amount—nearly half of which is accounted for by extra receipts from national insurance contributions. The CGBR is therefore expected to be about the same as in 1982–83. This again reflects a high level of on-lending to other parts of the public sector, which are repaying their other debt.

Local authorities

5.08 Table 5.3 shows local authority receipts and expenditure and borrowing requirements for 1982–83 and 1983–84.

Table 5.3 Local Authorities' Transactions

	1982–83		1983–84
£ billion	Budget forecast	Latest estimate	Forecast
Receipts			
Rates	12·2	12·3	13·0
Rate support grant	11·5	11·2	11·6
Other grants from central government	4·4	6·1	8·2
Other	5·1	4·8	5·0
Total	**33·2**	**34·4**	**37·9**
Expenditure			
Current expenditure on goods and services	21·5	22·7	24·3
Capital consumption	1·6	1·3	1·4
Grants and subsidies	2·6	3·7	5·2
Interest payments	4·7	4·4	4·1
Gross domestic fixed capital formation	2·5	1·6	2·4
Net lending to private sector	1·1	0·5	0·4
Total	**33·8**	**34·3**	**37·7**
Local Authority Borrowing Requirement	0·6	−0·1	−0·2
of which:			
Borrowing from central government	−0·3	2·2	2·0
Other borrowing	0·9	−2·4	−2·2

5.09 Local authority receipts in 1982–83 are currently expected to be over £1 billion more than forecast a year ago, reflecting higher current grants from central government. Expenditure is expected to be £½ billion more than forecast but this masks an overspend of about £2 billion on current expenditure on goods and services, grants and subsidies, and capital underspending of nearly £1½ billion on fixed assets and net lending. Much of the capital underspending reflects higher receipts than expected from sales of council houses and land.

5.10 The LABR is expected to be close to zero in 1982–83. This estimate is particularly uncertain as local authorities have borrowed heavily in the final weeks of the year in recent years and the figure for 1982–83 is heavily dependent on the forecast made for those weeks. The pattern of borrowing has been very different from the last Budget forecast with heavy borrowing from central government more than matched by repayment of market debt.

5.11 Current expenditure on goods and services for 1983–84 is forecast to rise by 7 per cent or £1½ billion on 1982–83, with a greater proportionate rise forecast for current grants to persons(1). Local authority net capital spending is expected to recover by over £½ billion from the 1982–83 level. Expenditure in total is forecast to increase by over £3 billion, less than £1 billion of which will be met from rates and the remainder from central government grants. With receipts and expenditure virtually in balance the LABR is expected to be close to zero, again with high borrowing from central government approximately matched by repayment of market debt.

Public corporations

5.12 Expenditure and receipts for public corporations are shown in Table 5.4.

Table 5.4 Public Corporations' Transactions

£ billion

	1982–83 Budget forecast	1982–83 Latest estimate	1983–84 Forecast
Capital expenditure			
Gross domestic capital formation	9·0	7·6	8·1
Increase in stocks	0·3	1·0	0·7
Total	**9·3**	**8·5**	**8·8**
Internally arising funds			
Gross trading surplus(1)	9·5	9·2	9·6
Rent and other non-trading income	1·0	1·3	1·4
Interest and dividend payments	−3·5	−3·7	−3·4
Taxes on income	−0·3	−0·4	−0·2
Total	**6·6**	**6·3**	**7·3**
Capital receipts	0·6	0·6	0·6
Excess of capital expenditure over internal funds and capital receipts	2·1	1·6	0·9
Less Net financial receipts	−0·2	−0·1	0·2
Public Corporations' Borrowing Requirement	1·9	1·5	1·1
of which:			
Borrowing from central government	2·4	2·7	2·2
Other borrowing	−0·6	−1·3	−1·1

(1) Including subsidies.

5.13 Lower borrowing in 1982–83 of about £½ billion less than forecast a year ago reflects nearly £1½ billion underspending on fixed assets, partly offset by an increase in the value of stocks held.

5.14 In 1983–84 public corporations collectively are expected to finance a slightly higher proportion of their capital expenditure than in 1982–83 from internally arising funds, leading to a borrowing requirement rather less than the latest estimate for 1982–83.

Public expenditure and the PSBR

5.15 Table 5.5 shows how the public expenditure plans and debt interest are expected to be financed. The expenditure side of the account repeats information from Cmnd 8789 but incorporates revisions to the planning total and debt interest

(1) Both sides of the local authority account in 1983–84 reflect the first full year of the complete transfer of the administration of housing benefits from central government to local authorities.

Table 5.5 Public expenditure, receipts and the PSBR

£ billion

	1982–83 Budget forecast	1982–83 Latest estimate	1983–84 Forecast
Income[1]			
Central government taxation			
Income tax	30·8	30·2	31·4
Value added tax	14·7	13·9	15·5
Oil duties	5·1	5·2	5·7
Corporation tax	4·8	5·5	6·2
Tobacco	3·5	3·5	3·7
National insurance surcharge	3·4	2·8	1·7
Spirits, beer, wine and perry	3·3	3·0	3·9
Petroleum revenue tax	2·3	3·3	5·2
Supplementary petroleum duty	2·0	2·4	—
Vehicle excise duty	1·8	1·8	1·9
Taxes on capital	1·4	1·6	1·5
European Community duties	1·3	1·2	1·4
Other (including accruals)	2·6	3·6	3·3
Total	**77·0**	**78·1**	**81·5**
National insurance, etc. contributions	19·5	18·6	21·2
Local authorities rates	12·2	12·3	13·0
North Sea oil royalties, etc.	1·5	1·7	1·6
General government trading surplus and rent	3·4	3·5	3·3
General government interest and dividend receipts	2·4	2·4	2·3
Adjustments			
Accruals	0·5	−0·2	—
Public corporations transactions[2]	3·8	3·6	3·4
Other[3]	0·3	—	−0·5
Total receipts	**120·6**	**120·0**	**125·9**
Public sector borrowing requirement	9·5	7·5	8·2
Total receipts and borrowing	**130·1**	**127·5**	**134·1**

	1982–83 Budget forecast	1982–83 Latest estimate	1983–84 Forecast
Expenditure			
Social security	32·0	32·5	34·4
Defence	14·1	14·4	16·0
Health and personal social services	13·6	13·9	14·6
Education and science	12·2	12·6	12·6
Scotland	6·1	6·3	6·4
Industry, energy, trade and employment	5·8	5·9	5·6
Transport	4·2	4·3	4·3
Order and protective services	4·1	4·3	4·6
Other environmental services	3·6	3·4	3·6
Northern Ireland	3·5	3·6	3·8
Housing	3·1	2·6	2·8
Wales	2·4	2·4	2·5
Overseas services	2·1	2·2	2·2
Other public services	1·7	1·7	1·7
Common services	1·6	1·6	1·0
Agriculture, fisheries, food and forestry	1·5	1·8	1·7
Government lending to nationalised industries	1·1	1·4	1·1
Arts and libraries	0·5	0·6	0·6
Local authority current expenditure not allocated to programmes (England)	—	—	0·9
Adjustments to programmes—			
PC market and overseas borrowing	−0·3	−1·1	−0·3
Special sales of assets	−0·6	−0·6	−0·8
Contingency Reserve	2·4	0·3	1·5[4]
General allowance for shortfall	—	−1·0	−1·2
Planning total in Cmnd 8789[5]	**114·7**	**113·0**	**119·6**
Revisions since Cmnd 8789	—	−0·5	−0·3[6]
Revised planning total	**114·7**	**112·5**	**119·3**
Gross debt interest	15·4	15·0	14·8
Planning total plus gross debt interest	**130·1**	**127·5**	**134·1**
MEMO ITEM			
Numerator[7] for public expenditure/GDP ratio.	*123·9*	*121·2*	*128·7*

(1) See Table 5.11 for taxation and Table 5.8 for other items.

(2) Comprises total interest payments by nationalised industries (and other public corporations treated similarly for public expenditure planning) and the trading income of the remaining corporations.

(3) Comprises other miscellaneous receipts and adjustments from the definition of public expenditure used in the national income accounts to that used in Cmnd. 8789.

(4) See Table 5.7.

(5) Figures in the first column are from Table 19 in the *Financial Statement and Budget Report 1982–83* translated from Cmnd. 8494 to Cmnd. 8789 definitions.

(6) See Table 5.6.

(7) Planning total plus net debt interest, non-trading capital consumption and payments of VAT by local authorities (see paragraph 5.17). For the definition of net and gross debt interest see Cmnd. 8789—II, p 126.

since its preparation. In 1982–83 expenditure including gross debt interest is £2½ billion less than forecast a year ago. Tax receipts in total are expected to be about £1 billion more than predicted, offset by lower national insurance contributions. Much of the lower expenditure is reflected in the PSBR, which is currently estimated to be about £2 billion lower than forecast a year ago.

5.16 In 1983–84 expenditure is expected to increase by about £6½ billion over the previous year. Taxation receipts and national insurance contributions are expected to increase by about £6 billion.

Public expenditure and GDP

5.17 The revised planning totals shown in Table 5.5, together with the latest forecasts for money GDP in Table 2.5, imply a ratio of public expenditure to GDP of 44 per cent in 1982–83 and 43½ per cent in 1983–84, as given in Cmnd. 8789. The figures shown in Tables 2.3 and 2.5 imply a fall in this ratio to 41½ per cent in 1985–86.

Planning total and Contingency Reserve

5.18 The latest position on the public expenditure planning total and on the Contingency Reserve in 1983–84 is shown in the following tables.

Table 5.6 Public Expenditure Planning Total: 1983–84

	£ million
As shown in the Autumn Statement	120 065
Changes between Autumn Statement and Cmnd. 8789	−497([1])
As shown in Cmnd. 8789	119 568
Reduction in national insurance surcharge	−81
Other changes ([2])	−171
Planning Total after Budget measures and other changes	**119 316**

([1]) See Table 4.5 of Cmnd. 8789.

([2]) Reflects a reduction in British Telecom's EFL and estimating changes.

Table 5.7 Contingency Reserve 1983–84

		£ million
Amount of Reserve shown in Planning Total in the Autumn Statement and in Cmnd. 8789		1 500
Budget measures charged to Reserve([1])		
Construction	60	
Industrial innovation	39	
Employment	38	
Child benefit	75	
Social security	26	238
Other expenditure charged to Reserve		
BL equity([2])	150	
Increase in British Shipbuilders EFL	10	
Additional support for overseas students	5	165
Uncommitted balance of Contingency Reserve		**1 097**

([1]) See paragraphs 4.19 to 4.24.

([2]) This comprises £100 million originally planned for the previous financial year which has been carried forward and £50 million out of the final allocation of £100 million that the Government has agreed to make available to finance the 1983 Corporate Plan.

Explanatory notes on Part 5 tables

5.19 The 1982–83 figures are latest forecasts based on published outturn data on the complete public sector accounts for the first half of the year, supplemented by less complete information for the third quarter and the first part of the final quarter. Because of rounding, constituent items in the tables do not necessarily sum exactly to totals.

5.20 Table 5.8 is based on the definitions used to compile the national income accounts(2) and is the most detailed presentation. Other tables are related to Table 5.8 and in addition include the 1982 Budget forecast for 1982–83. Tables 5.2, 5.3 and 5.4 are derived from Table 5.8 and summarise respectively the central government, local authority and public corporations accounts. These tables show how the sub-sector borrowing requirements are determined; they are brought together as the public sector borrowing requirement (PSBR) in Table 5.1. Tables 5.10, 5.11 and 5.12 present details of central government receipts and payments; these are totalled and shown in the summary table on the central government borrowing requirement (CGBR) in Table 5.9(3). Tables on the financing requirements of nationalised industries in 1982–83 and 1983–84 can be found in Cmnd. 8789, Tables 3.4B and 3.5.

Unallocated items

5.21 The unallocated items shown in Tables 5.1, 5.2 and 5.8 take account of factors that by their nature cannot be attributed to a spending authority or economic category at the time of a Budget forecast. In 1983–84 they relate to £1,097 million representing the unallocated portion of the Contingency Reserve (see Table 5.7), receipts of £750 million from special sales of assets and a general allowance for shortfall of £1,600 million (not all of this relates to the public expenditure planning total, for which the general allowance for shortfall remains at £1,200 million). The figure for shortfall shown in Table 5.10 includes an amount for holdback of rate support grant which has been allocated to current grants to local authorities in other tables. Special sales of assets are included in other miscellaneous receipts in Table 5.11.

5.22 Table 5.7 shows the allocation of the Contingency Reserve, the whole of which is allocated to supply expenditure in Table 5.10. On past experience it seems likely that use of the Contingency Reserve will make for a higher financial deficit than shown in Table 5.8 as well as adding to identified financial transactions. The central government own account borrowing figures in Tables 5.1, 5.2 and 5.8 exclude the unallocated Contingency Reserve and the other unallocated items.

(2) See *Financial Statistics Explanatory Handbook* 1982. The sector accounts are compiled quarterly and published in *Financial Statistics*. Key figures are published by press notice.

(3) Tables 5.9 to 5.12, unlike Tables 5.2 and 5.8 which are based on the national income accounts, follow the accounting principles of the central funds and accounts. These are monitored monthly in a Treasury press notice. The definition of the CGBR is identical in both accounting systems.

Table 5.8 Public Sector transactions by sub-sector and economic category

£ million

		1982–83 Latest estimate				
		General Government			Public corporations	Public Sector
		Central government	Local authorities	Total		
Current receipts						
Taxes on income	1	41 186	—	41 186	−441	40 745
Taxes on expenditure	2	35 295	12 300	47 595	—	47 595
National insurance, etc. contributions	3	18 644	—	18 644	—	18 644
Gross trading surplus	4	−151	253	102	9 230	9 332
Rent and oil royalties, etc.	5	1 743	3 292	5 035	476	5 511
Interest and dividends from private sector and abroad	6	1 839	554	2 393	784	3 177
Non-trading capital consumption	7	785	1 295	2 080	—	2 080
Total	8	**99 341**	**17 694**	**117 035**	**10 049**	**127 084**
Current expenditure						
Final consumption	9	−36 548	−24 025	−60 573	—	−60 573
Subsidies	10	−4 469	−1 144	−5 613	—	−5 613
Debt interest to private sector and abroad	11	−11 468	−2 696	−14 164	−800	−14 964
Current grants to personal sector	12	−35 492	−1 929	−37 421	—	−37 421
Current grants paid abroad	13	−1 894	—	−1 894	—	−1 894
Total	14	**−89 871**	**−29 794**	**−119 665**	**−800**	**−120 465**
Current transfers within public sector						
Current grants	15	−16 891	16 891	—	—	—
Interest and dividends	16	4 472	−1 551	2 921	−2 921	—
Balance: current surplus/deficit	17	**−2 949**	**3 240**	**291**	**6 328**	**6 619**
Capital receipts						
Current surplus	18	−2 949	3 240	291	6 328	6 619
Taxes on capital	19	1 598	—	1 598	—	1 598
Capital transfers from private sector	20	—	—	—	148	148
Total	21	**−1 351**	**3 240**	**1 889**	**6 476**	**8 365**
Capital expenditure						
Gross domestic fixed capital formation	22	−2 224	−1 642	−3 866	−7 590	−11 456
Increase in stocks	23	−429	—	−429	−953	−1 382
Capital grants to private sector	24	−1 974	−537	−2 511	−47	−2 558
Total	25	**−4 627**	**−2 179**	**−6 806**	**−8 590**	**−15 396**
Capital transfers within public sector	26	**−895**	**355**	**−540**	**540**	—
Financial surplus/deficit (balance of current and capital accounts)	27	**−6 873**	**1 416**	**−5 457**	**−1 574**	**−7 031**
Financial transactions—(net)						
Transactions concerning certain public sector pension schemes	28	205	—	205	—	205
Accruals adjustments	29	−331	16	−315	88	−227
Miscellaneous financial transactions	30	755	−785	−30	523	493
Lending to private sector	31	−401	−507	−908	−366	−1 274
Lending, etc. abroad	32	162	—	162	−101	61
Cash expenditure on company securities	33	301	—	301	−40	261
Total	34	**691**	**−1 276**	**−585**	**104**	**−481**
Lending within public sector	35	**−5 075**	**2 326**	**−2 749**	**2 749**	—
Contribution to Public sector borrowing requirement	39	**11 257**	**−2 466**	**8 791**	**−1 279**	**7 512**
Sectoral borrowing requirement		6 182	−140	6 042	1 470	7 512

Sign convention: receipts and borrowing positive, payments negative.

Relationships between lines: *17 = 8 + 14 + 15 + 16*
27 = 21 + 25 + 26
39 = −27 −34 −35 −36 −37 −38

£ million

		1983–84 Forecast				
		General Government			Public corpora-tions	Public sector
		Central govern-ment	Local authori-ties	Total		
Current receipts						
Taxes on income	1	42 892	—	42 892	−246	42 646
Taxes on expenditure	2	37 020	13 030	50 050	—	50 050
National insurance, etc. contributions	3	21 241	—	21 241	—	21 241
Gross trading surplus	4	−160	288	128	9 624	9 752
Rent and oil royalties etc.	5	1 674	3 106	4 780	506	5 286
Interest and dividends from private sector and abroad	6	1 761	518	2 279	852	3 131
Non-trading capital consumption	7	846	1 396	2 242	—	2 242
Total	8	**105 274**	**18 338**	**123 612**	**10 736**	**134 348**
Current expenditure						
Final consumption	9	−40 368	−25 648	−66 016	—	−66 016
Subsidies	10	−4 259	−1 232	−5 491	—	−5 491
Debt interest to private sector and abroad	11	−11 881	−2 218	−14 099	−669	−14 768
Current grants to personal sector	12	−36 724	−3 103	−39 827	—	−39 827
Current grants paid abroad	13	−2 013	—	−2 013	—	−2 013
Total	14	**−95 245**	**−32 201**	**−127 446**	**−669**	**−128 115**
Current transfers within public sector						
Current grants	15	−19 362	19 362	—	—	—
Interest and dividends	16	4 527	−1 752	2 775	−2 775	—
Balance: current surplus/deficit	17	**−4 806**	**3 747**	**−1 059**	**7 292**	**6 233**
Capital receipts						
Current surplus	18	−4 806	3 747	−1 059	7 292	6 233
Taxes on capital	19	1 550	—	1 550	—	1 550
Capital transfers from private sector	20	—	—	—	153	153
Total	21	**−3 256**	**3 747**	**491**	**7 445**	**7 936**
Capital expenditure						
Gross domestic fixed capital formation	22	−2 551	−2 404	−4 955	−8 096	−13 051
Increase in stocks	23	−298	—	−298	−661	−959
Capital grants to private sector	24	−2 020	−740	−2 760	−63	−2 823
Total	25	**−4 869**	**−3 144**	**−8 013**	**−8 820**	**−16 833**
Capital transfers within public sector	26	**−866**	**346**	**−520**	**520**	—
Financial surplus/deficit (balance of current and capital accounts)	27	−8 991	949	−8 042	−855	−8 897
Financial transactions—(net)						
Transactions concerning certain public sector pension schemes	28	160	—	160	—	160
Accruals adjustments	29	−57	78	21	27	48
Miscellaneous financial transactions	30	715	−419	296	117	413
Lending to private sector	31	−221	−408	−629	−239	−868
Lending, etc. abroad	32	−3	—	−3	−101	−104
Cash expenditure on company securities	33	−150	—	−150	−43	−193
Total	34	**444**	**−749**	**−305**	**−239**	**−544**
Lending within public sector	35	−4 186	1 991	−2 195	2 195	—
Unallocated items:						
Special sales of assets	36	750	—	750	—	750
Contingency reserve (1)	37	−1 097	—	−1 097	—	−1 097
General allowance for shortfall (2)	38	1 600	—	1 600	—	1 600
Contribution to Public sector borrowing requirement	39	**11 480**	**−2 191**	**9 289**	**−1 101**	**8 188**
Sectoral borrowing requirement		8 547(3)	−200	8 347(3)	1 094	

(1) See table 5.7 for allocation of Contingency Reserve.
(2) Differs from table 5.10 because of holdback on local authorities' grants.
(3) Excludes unallocated items. See paragraphs 5.21 and 5.22.

Table 5.9 Summary of Central Government Transactions

£ million

	1982–83 Budget forecast	1982–83 Latest estimate	1983–84 Forecast
Consolidated Fund			
Revenue (Table 5.11)	82 895	83 350	87 822
Expenditure (Table 5.10)	90 891	89 041	95 557
Deficit	7 996	5 691	7 735
National Loans Fund			
Consolidated Fund deficit (as above)	−7 996	−5 691	−7 735
Other transactions:			
Receipts (Table 5.12)	11 600	10 830	11 350
Payments (Table 5.12)	−13 236	−14 790	−14 977
Total net borrowing by the National Loans Fund	**−9 632**	**−9 651**	**−11 362**
Other funds and accounts (net)	**+339**	**−1 606**	**−118**
Central Government Borrowing Requirement	**−9 293**	**−11 257**	**−11 480**

Table 5.10 Supply and Consolidated Fund Standing Services

£ million

	1982–83 Budget forecast	1982–83 Latest estimate	1983–84 Forecast
Supply			
Main Supply Estimates	79 225	80 775(1)	85 373
Adjustment to Supply Issues(2)	—	−334	—
Supplementary provision	109	—	5(3)
Contingency reserve	2 400	—	1 500(4)
Reduction in national insurance surcharge	−360	—	−81(5)
General allowance for underspending	—	−1 300	−2 000(4)
Total Supply Issues	**81 374**	**79 141**	**84 797**
Consolidated Fund Standing Services			
Payment to the National Loans Fund in respect of service of the national debt	5 175	5 450	5 983
Northern Ireland—share of taxes, etc.	1 493	1 594	1 650
Payments to the European Communities	2 820	2 812	3 092
Other services	29	44	35
Total Consolidated Fund Standing Services	**9 517**	**9 900**	**10 760**
Total	**90 891**	**89 041**	**95 557**

(1) Taking into account supplementary provision granted during the year and departments' forecasts of excesses or shortfalls. See Table 1a of *Memorandum by the Chief Secretary to the Treasury* Cmnd. 8817 for an analysis by Class and Vote.

(2) The adjustment relates to Supply issued the previous year and placed in departmental balances but not spent and to Supply issued in 1982–83 in respect of expenditure the previous year.

(3) Bus fuel grants (see Table 4.2).

(4) See paragraphs 5.21 and 5.22.

(5) The figure represents forecast savings on Supply provision and public corporations' external financing as a consequence of the reduction in the national insurance surcharge. This item has not been allocated between Supply expenditure and lending from the National Loans Fund.

Table 5.11 Taxation and Miscellaneous Receipts

£ million

	1982–83 Budget forecast	1982–83 Latest estimate	1983–84 Forecast
Taxation			
Inland Revenue—			
Income tax (1)	30 775	30 222	31 400
Corporation tax(2)(3)	4 850	5 480	6 200
Petroleum revenue tax	2 290	3 280	5 250(4)
Supplementary petroleum duty	2 040	2 400	—
Capital gains tax	600	630	600
Development land tax	40	65	55
Estate duty	10	13	10
Capital transfer tax	465	500	540
Stamp duties	810	850	975
Total Inland Revenue	*41 880*	*43 440*	*45 030*
Customs and Excise—			
Value added tax	14 750	13 900	15 500
Oil	5 100	5 250	5 675
Tobacco	3 525	3 500	3 700
Spirits, beer, wine, cider and perry	3 275(5)	3 025	3 900
Betting and gaming	550	580	610
Car tax	600	575	615
Other excise duties	20	20	20
EC own resources(6)			
Customs duties, etc.	1 060	1 000	1 130
Agricultural levies	270	250	250
Total Customs and Excise	*29 150(5)*	*28 100*	*31 400*
Vehicle excise duties	*1 854*	*1 792*	*1 944*
National insurance surcharge	*3 443(7)*	*2 830*	*1 697*
Total Taxation	**76 327**	**76 162**	**80 071**
Miscellaneous Receipts			
Broadcast receiving licences	754	736	766
Interest and dividends	321	382	370
Gas levy	512	470	555
Other(8)	4 981	5 600	6 060
Total	**82 895**	**83 350**	**87 822**

(1) Income tax receipts include surtax	2	2	1
(2) Corporation tax receipts include advance corporation tax: net of repayments	2 170	2 200	2 270

(3) The estimated proportion attributed to North Sea oil and gas production is £250 million in 1982–83 and £550 million in 1983–84. In addition an estimated £250 million in 1982–83 and £450 million in 1983–84 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 £7,810 million in 1982–83 and £7,850 million in 1983–84.

(4) Petroleum revenue tax includes advance payments of petroleum revenue tax.

(5) Deferment of duties on spirits and wine, announced on 15 November 1982, reduced the Budget forecast of the duties on spirits, beer, wine, cider and perry to £2,975 million and the Budget forecast of total Customs and Excise duties to £28,850 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 5.10.

(7) A reduction in the National Insurance Surcharge, announced on 8 November 1982, reduced the Budget forecast of receipts of National Insurance Surcharge into the Consolidated Fund to £2,953 million (the net effect on the forecast of the PSBR and CGBR was a smaller reduction because expenditure by public corporations and central government departments was correspondingly reduced).

(8) Includes the 10 per cent of "own resources" refunded by the Communities to meet the costs of collection, proceeds from the special sales of assets, and estimated receipts of £1,630 million in 1982–83 and £1,600 million in 1983–84 in respect of oil royalties.

Table 5.12 National Loans Fund Receipts and Payments

£ million

	1982–83 Budget forecast	1982–83 Latest estimate	1983–84 Forecast
Receipts			
Interest on loans, profits of the Issue Department of the Bank of England, etc.	6 425	5 380	5 367
Service of the National Debt—balance met from the Consolidated Fund	5 175	5 450	5 983
Total Receipts	**11 600**	**10 830**	**11 350**
Payments			
Service of the National Debt			
Interest	11 467	10 694	11 214
Management and expenses	133	136	136
Total	**11 600**	**10 830**	**11 350**
Loans to Nationalised Industries:			
National Coal Board	318	300	604
Electricity (England, Wales and Scotland)	80	182	185
British Telecom	286	−113	−154
Other	37	−6	37
Total	**721**	**363**	**672**
Loans to other Public Corporations:			
New Towns—Development Corporations and Commission	360	357	314
Housing Corporations	330	502	230
Scottish Special Housing Association	42	39	32
Regional Water Authorities	503	450	410
Other	7	2	19
Total	**1 242**	**1 350**	**1 005**
Loans to Local Authorities	**−300**	**2 240**	**2 000**
Loans to Private Sector:			
Building Societies	−1	—	—
British Aerospace	−4	−4	−4
British Nuclear Fuels Ltd.	−1	−1	−1
Housing Associations	—	−2	—
Total	**−6**	**−7**	**−5**
Loans within Central Government:			
Northern Ireland	94	74	83
Redundancy Fund	−115	−59	−127
Married quarters for armed forces	—	−1	−1
Total	**−21**	**14**	**−45**
Total—Net Lending	**1 636**	**3 960**	**3 627**
Total Payments	**13 236**	**14 790**	**14 977**

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