

Table 5.12 National Loans Fund Receipts and Payments

	£ million		
	1982-83	1983-84	
	Budget forecast	Latest estimate	Forecast
<b>Receipts</b>			
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
<b>Total Receipts</b>	<b>11 600</b>	<b>10 830</b>	<b>11 350</b>
<b>Payments</b>			
<b>Service of the National Debt</b>			
Interest	11 467	10 694	11 214
Management and expenses	133	136	136
<b>Total</b>	<b>11 600</b>	<b>10 830</b>	<b>11 350</b>
<b>Loans to Nationalised Industries:</b>			
National Coal Board	318	300	604
Electricity (England, Wales and Scotland)	80	182	185
British Telecom	286	-113	-154
Other	37	-6	37
<b>Total</b>	<b>721</b>	<b>363</b>	<b>672</b>
<b>Loans to other Public Corporations:</b>			
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
<b>Total</b>	<b>1 242</b>	<b>1 350</b>	<b>1 005</b>
<b>Loans to Local Authorities</b>	<b>-300</b>	<b>2 240</b>	<b>2 000</b>
<b>Loans to Private Sector:</b>			
Building Societies	-1	—	—
British Aerospace	-4	-4	-4
British Nuclear Fuels Ltd.	-1	-1	-1
Housing Associations	—	-2	—
<b>Total</b>	<b>-6</b>	<b>-7</b>	<b>-5</b>
<b>Loans within Central Government:</b>			
Northern Ireland	94	74	83
Redundancy Fund	-115	-59	-127
Married quarters for armed forces	—	-1	-1
<b>Total</b>	<b>-21</b>	<b>14</b>	<b>-45</b>
<b>Total—Net Lending</b>	<b>1 636</b>	<b>3 960</b>	<b>3 627</b>
<b>Total Payments</b>	<b>13 236</b>	<b>14 790</b>	<b>14 977</b>

# Financial Statement and Budget Report 1984-85

RETURN to an Order of the House of Commons dated 13 March 1984: for

COPY of FINANCIAL STATEMENT AND BUDGET REPORT 1984-85 as laid before  
the House by the CHANCELLOR OF THE EXCHEQUER when opening the BUDGET

Treasury Chambers, } JOHN MOORE  
13 March 1984

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# Contents

<b>Part 1. The Budget Proposals</b>	<b>3</b>
<b>Part 2. Medium-term Financial Strategy</b>	<b>4</b>
<b>Part 3. The Economy: Recent Developments and Prospects to mid-1985</b>	<b>12</b>
<b>Part 4. The Budget Proposals in Detail</b>	<b>26</b>
<b>Part 5. Public Expenditure</b>	<b>36</b>
<b>Part 6. Public Sector Transactions</b>	<b>40</b>

## 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.

### Summary table

**Table 1.1 Budget measures: Direct Effects<sup>(1)</sup>(<sup>2</sup>) on Public Sector Transactions<sup>(3)</sup>**

	Effect in 1984-85		£ million at current prices 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	-940	-1 820	-1 470	-2 610
Corporation tax rates, stock relief and capital allowances	-280	-280	-250	-250
Other income tax and other direct taxes	+190	+175	+450	+395
Stamp duties	-450	-450	-460	-460
National Insurance surcharge <sup>(4)</sup>	-335	-335	-865	-865
Value added tax	+375	+375	+650	+650
Excise duties	+200	+835	+215	+860
VAT: withdrawal of postponed accounting for imports	+1 200	+1 200	0	0
<b>Total</b>	<b>-40</b>	<b>-300</b>	<b>-1 730</b>	<b>-2 280</b>

<sup>(1)</sup> The figures in the Table 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.

<sup>(2)</sup> The direct effects of tax changes are generally estimated by applying the new and old tax rates and allowances to the taxable income and expenditure in the economic forecast in Part 3, in certain cases including estimates of the immediate effects of the change on taxpayers' behaviour. For instance the estimates of the Customs and Excise taxes allow for the changes in taxation resulting both from substitution by consumers between goods and from the change in real incomes.

<sup>(3)</sup> +/— indicates an increase/decrease in revenue.

<sup>(4)</sup> Figures exclude public sector payments of £120 million in 1984-85 and £485 million in a full year. Public expenditure will be reduced accordingly. See Table 5.1.

### 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 1983-84 excise duty rates and main income tax allowances and thresholds in line with inflation in the year to December 1983. On this basis the tax proposals in the Budget are broadly revenue neutral in 1984-85. 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 £1,820 million and the increase in excise duties to yield an additional £835 million in 1984-85. The full year figures shown in Tables 1.1 and 4.2 are calculated on the conventional basis, referred to in Part 4. In 1985-86 the net revenue cost of the Budget measures from an indexed base is estimated at over £1.8 billion.

### The effect on the PSBR

- 1.03 Allowing for indirect, as well as direct, effects on public sector transactions, the Budget measures are expected to leave the PSBR in 1984-85 broadly as it would have been on conventional assumptions about the indexation of tax rates and allowances. The level of the PSBR is expected to be £7½ billion, or 2½ per cent of GDP (at market prices).

## 2. Medium-term Financial Strategy

### Objectives

- 2.01 Inflation has come down to levels not experienced in the UK since the 1960s. There has been a steady recovery in output for almost three years. The aim over the medium term is to continue reducing inflation and to build on recent improvements in the performance of the economy. The Government therefore intends to continue with present policies. The medium-term financial strategy sets out the framework within which policy operates.

### The financial framework

- 2.02 Firm financial policies are the essence of the strategy. This entails control of monetary growth and public sector borrowing. In order to reduce inflation further, the Government intends to continue reducing rates of monetary growth. The paths appropriate for different measures of money depend on the nature of the measures and the structural influences on them, as well as the behaviour of other financial indicators. Fiscal policy is designed to be consistent with the monetary framework and the Government's objectives for inflation. A congruence of monetary and fiscal policy is necessary to ensure balance in the economy, particularly between investment and consumption and between sectors which are more or less exposed to international competition. Falling monetary growth and inflation require a further reduction in the PSBR as a share of GDP, to permit interest rates to fall in nominal and real terms.
- 2.03 Lower cost and price inflation within a given financial framework makes room for faster growth of output and employment. The reduction in inflation achieved so far has been an important factor in the strong growth of output the UK is now experiencing, ahead of other European countries. The continuing low rate of inflation indicated by the MTFS will also provide the macro-economic environment for a sustained improvement in the supply side of the economy, towards which the Government's micro-economic policies are directed.
- 2.04 Further improvements in productivity and moderation in pay will lead to higher levels of output and employment. In spite of recent improvements, there is still a substantial gap between the level of productivity in the UK and that in other major industrial countries. The Government will continue to encourage enterprise, efficiency and flexibility by increasing incentives, promoting competition, improving the working of markets, and pressing ahead with privatisation.

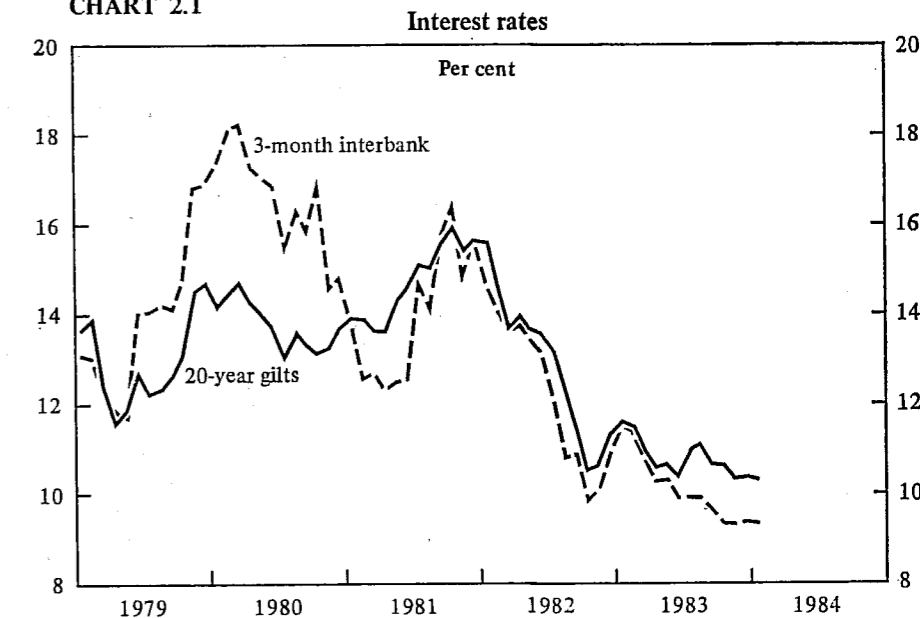
### Recent financial conditions

#### Monetary conditions in 1983-84

- 2.05 Monetary conditions have been broadly consistent with the objectives indicated last year. Of the three target aggregates, £M3 has grown well within the 7-11 per cent target range in the year to mid-February, and the growth of M1 has been at the top of the range. Although the growth of PSL2 has been above the top end, since the summer its growth too has been within the range. Other evidence, including the behaviour of narrower measures of money,

also supports the view that conditions have been satisfactory. The effective exchange rate has remained broadly flat. Nominal short and long term interest rates have continued to fall from their peak in 1980-81, after a short interruption at the end of 1982; but with inflation lower too, real rates remain fairly high.

CHART 2.1



Notes: (1) 3-month interbank, last Friday of month.  
(2) 20-year par gilts, average of observations within month.

Table 2.1 Monetary Growth in 1983-84

	Per cent change during year					
	M0 <sup>(1)</sup>	M1	M2 <sup>(2)</sup>	£M3 <sup>(3)</sup>	PSL1	PSL2
February 1983-February 1984	6½	11	9	9½	9½	12½

(<sup>1</sup>) Weekly averaged series.

(<sup>2</sup>) A change in the terms of certain building society accounts in December 1983 and January 1984, causing them to be classified within M2, has added 1½ per cent to growth over the year.

(<sup>3</sup>) Old definition: including public sector deposits.

#### Narrow money

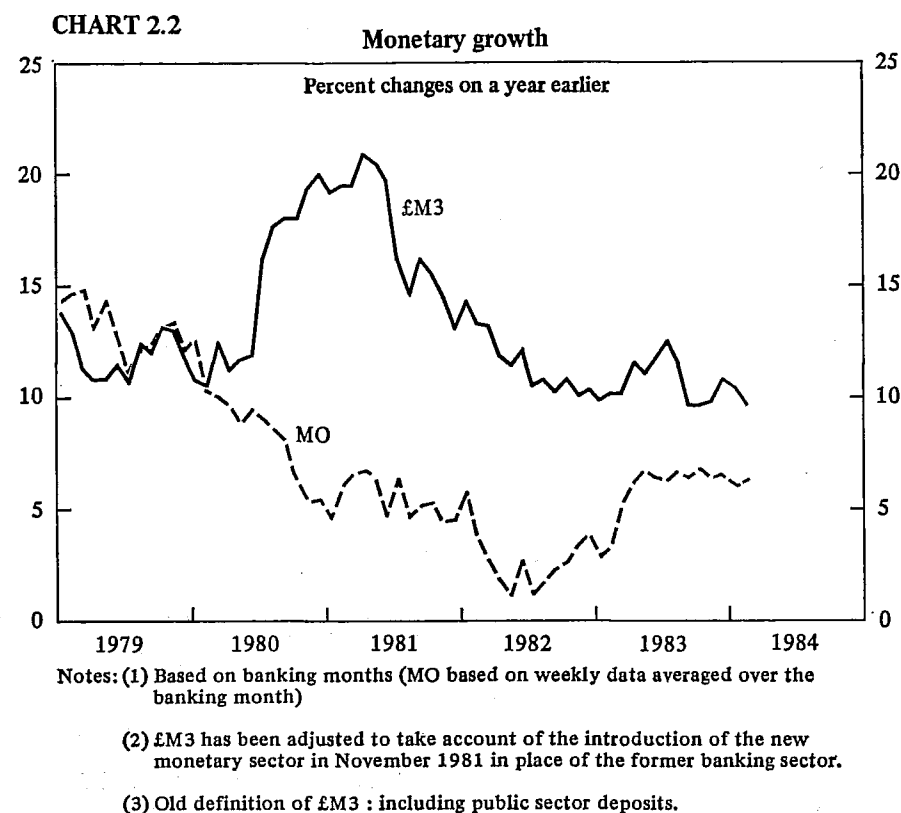
- 2.06 M1 grew by 11 per cent over the year to mid-February, the top of the target range. But the increasing share of interest bearing deposits within the total has complicated interpretation, and made M1 an increasingly inadequate measure of transactions balances.

- 2.07 Other measures of narrow money have continued to grow more slowly. M0 rose by 6½ per cent over the year to mid-February, and its principal component, notes and coin, by slightly less; M2 and the non-interest bearing component of M1 grew rather faster. There was some acceleration in all these aggregates over the winter of 1982-83, but since then growth rates have levelled off and, in some cases, eased slightly.

#### Broad money

- 2.08 In the year to mid-February £M3 grew by 9½ per cent, well within the target range. The growth rate rose sharply in the early months of the target period, but slackened again from the summer onwards. The main expansionary

influence during the spring was the public sector's demand for credit; bank lending to companies grew very slowly, reflecting a marked improvement in their financial position. More recently, there has been an increase in lending by banks to the private sector, offset by a contraction of their lending to the public sector. PSL2 has grown rather faster than £M3, by 12½ per cent, as highly competitive rates enabled building societies to attract record inflows in the second half of the year.



### Monetary policy

#### Money ranges

- 2.09 The Government will continue to pay attention to both broad and narrow measures of money. As explained above, the behaviour of M1, the measure of narrow money hitherto used for target purposes, is becoming increasingly more difficult to interpret. Other measures of narrow money, such as M0, are likely to be more satisfactory indicators of financial conditions. M2 should eventually be a better guide than M1, but it will need interpreting with particular care for some time since it is a relatively new aggregate and its recorded growth has recently been affected by changes in the terms of building society accounts.
- 2.10 Past experience suggests that, over time, narrower monetary aggregates tend to grow more slowly than the broad aggregates. In the last two years, differences in the behaviour of M1 and the broad aggregates were not expected to be very large, which is why in the last two versions of the MTFS they could be encompassed within the same target range. But in general, separate target ranges for broad and narrow money are more appropriate, particularly as the period of the MTFS is extended.
- 2.11 As in previous versions of the MTFS, the monetary ranges give a broad indication of the objectives of monetary policy for a number of years. But the ranges for 1984-85 are targets. The target for broad money is 6-10 per cent, the range indicated in last year's Financial Statement. The target for narrow money in 1984-85 will be 4-8 per cent. As in previous years, the 1984-85 targets apply to the annual rate of growth over the 14 months beginning in

mid-February 1984. Illustrative ranges for the following four years are shown in Table 2.2. Targets for the later years will be decided nearer the time, taking account of any changes in the financial structure that may alter the economic significance of different aggregates. The aim will be to maintain monetary conditions consistent with a continuing downward trend in inflation.

**Table 2.2 Ranges for Monetary Growth**

	Per cent change during year				
	1984-85	1985-86	1986-87	1987-88	1988-89
Narrow money—M0 <sup>(1)</sup>	4-8	3-7	2-6	1-5	0-4
Broad money—£M3 <sup>(2)</sup>	6-10	5-9	4-8	3-7	2-6

<sup>(1)</sup> Weekly averaged series.

<sup>(2)</sup> New definition: excluding public sector deposits.

- 2.12 The target for broad money remains £M3. In interpreting its behaviour the authorities will continue to take account of other indicators of broad money, in particular PSL2. The target for narrow money applies to M0. In interpreting its behaviour attention will also be paid to other indicators of narrow money, and in particular M2, though as noted above this aggregate will need careful assessment. Both PSL2 and M2 include building society liabilities, which are an important element in monetary conditions. These liabilities have in the past tended to grow slightly more rapidly than the equivalent liabilities of the monetary sector.
- 2.13 Broad and narrow money will have equal importance in the assessment of monetary conditions and interest rates. As in the past the authorities will take into account all the available evidence, including the exchange rate.

### Fiscal policy

- 2.14 In the last three years, the PSBR has been significantly lower than in 1979-80 and 1980-81. It has averaged less than 3½ per cent of money GDP, compared with over 5 per cent in the earlier years. This has been consistent with recovery in the real economy mainly because of the reduction in inflation and interest rates. Expenditure by both companies and households has risen as a result. In the case of households there has been an associated fall in the savings ratio.

**Table 2.3 Public Sector Finances**

% of GDP	1979-81 average	1981-82	1982-83	1983-84
PSBR	5.3	3.4	3.3	3½ (estimated)

- 2.15 The PSBR in 1983-84 is now forecast at £10 billion, equivalent to 3½ per cent of GDP. This is as forecast in the Autumn Statement, but nearly £2 billion higher than expected at the time of the 1983 Budget. Local authority borrowing seems to have been running much higher than expected, and central government expenditure, particularly on non-cash-limited programmes, has exceeded last year's forecasts.

## The PSBR path

2.16 Government policies have been directed to achieving a progressive reduction in public sector borrowing over the medium term. Fiscal restraint is essential to the achievement of lower inflation and interest rates. A further reduction in the PSBR over the medium term is required to be consistent with the monetary targets at acceptable interest rates.

2.17 The appropriate path of the PSBR from year to year reflects many considerations, including the cyclical position of the economy. The composition of public sector receipts and expenditure also has to be taken into account. The profile of public sector asset sales is an important aspect of this, since they are unlikely to make a large contribution to reducing interest rates. The higher level of asset sales over the next five years than in recent years points to an initial downward shift in the PSBR path. The pattern of North Sea oil revenues is also relevant: the likelihood that they may be near their peak in 1984-85 is a further reason for seeking to make rapid progress this year in reducing the PSBR.

## PSBR projections

2.18 The PSBR for 1984-85 is forecast to be £7½ billion, equivalent to 2½ per cent of GDP, slightly below the figure assumed a year ago and in the Autumn Statement. The fiscal projections summarised in Table 2.6 show further small reductions in the PSBR as a proportion of GDP in subsequent years, to 1½ per cent in 1987-88 and 1988-89. The figures after 1984-85 are illustrative, and decisions about the appropriate PSBR in particular years will be taken nearer the time. But the illustrative profile should be compatible with falling inflation and monetary growth, and interest rates declining in both nominal and real terms.

## Assumptions

2.19 For the period to 1986-87, the fiscal projections in Tables 2.4-2.6 are based on the public expenditure plans shown in the Public Expenditure White Paper (Cmnd. 9143), updated where necessary to take account of Budget measures. Further details for 1983-84 and 1984-85 are given in Part 5. For 1987-88 and 1988-89, no public expenditure decisions have yet been taken and the projections assume that the public expenditure planning total remains unchanged in real terms. Similarly, no decisions on asset sales in 1987-88 and 1988-89 have been taken; they are assumed to remain at the levels in the White Paper for the previous three years. Real output is assumed to grow by 2½ per cent a year on average over the five years. The general rate of inflation, as measured by the GDP deflator, which is put at about 5½ per cent in 1983-84, is projected to fall to under 5 per cent in 1984-85, and to 3 per cent by 1988-89. It is assumed that there is no major change in the effective exchange rate from year to year. These assumptions imply growth of money GDP falling from about 8 per cent in 1983-84 to 5 per cent by the end of the period.

## Public expenditure

## Public expenditure

2.20 Table 2.4 shows the relationship between the planning total for public expenditure and general government expenditure in national accounts terms (the definition of public expenditure lying behind the general government borrowing requirement).

2.21 Last month's Public Expenditure White Paper (Cmnd. 9143) set out in detail the government's plans on the level and make-up of public spending to 1986-87. On the assumptions on inflation in paragraph 2.19 above, these plans mean that public expenditure should remain broadly level in real terms for the next three years.

2.22 This stability is projected forward for a further two years, with the assumption that public expenditure in 1987-88 and 1988-89 will remain at its 1986-87 level in real terms. If the decisions which have still to be taken on the public expenditure totals for these years follow the assumed path, this should lead to a continuing fall in the share of the national product taken by public spending.

Table 2.4 General Government Expenditure

	£ billion, cash						
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Public expenditure planning total <sup>(1)</sup>	113.4	120½	126½	132	136½	141½	146
Interest payments <sup>(2)</sup>	14.5	15	15½	15½	16	16	16
Other adjustments <sup>(3)</sup>	4.5	4	4½	4½	5	4½	4½
<b>Total expenditure in national accounts terms</b>	<b>132.4</b>	<b>139</b>	<b>146</b>	<b>152</b>	<b>157½</b>	<b>161½</b>	<b>166</b>
of which special sales of assets <sup>(4)</sup>	0.5	1	2	2	2	2	2

<sup>(1)</sup> See Cmnd. 9143, Table 1.1 for 1982-83 to 1986-87. Assumed to be constant in real terms from 1986-87 to 1988-89.

<sup>(2)</sup> For 1982-83 see Table 2.4, *Financial Statistics*.

<sup>(3)</sup> See Table 5.3 for details. The main adjustment is to convert the definition of expenditure onto a national accounts basis.

<sup>(4)</sup> See Cmnd. 9143, Table 1.2 for 1982-83 to 1986-87. Assumed to be constant in cash terms from 1986-87 to 1988-89.

Constituent items may not sum to totals due to rounding to nearest £½ billion.

## Revenue

2.23 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 1984-85 levels, except where the Budget contains specific proposals for changes in the later years. All changes proposed in the Budget are taken into account. No change is assumed in National Insurance contribution rates. Projections of North Sea tax revenues assume that oil prices do not change much from current levels for the next two years and then rise broadly in line with world inflation.

2.24 On these assumptions, general government receipts are projected to rise by about 34 per cent between 1983-84 and 1988-89, a little less than the growth in total money GDP. Government revenue from the North Sea is expected to fall in both real and nominal terms after 1984-85 as North Sea output falls, but this is more than offset by rising revenues from the growing non-North Sea economy.

Table 2.5 General Government Receipts

	£ billion, cash						
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Taxes on incomes expenditure and capital	92.4	96½	104½	111½	119½	126	132
National Insurance and other contributions	18.7	21½	23	24½	26	27½	29
Interest and other receipts	11.1	10½	10	10½	11	11½	11½
Accruals adjustment	-0.1	—	+1	-½	-½	-½	-½
<b>Total</b>	<b>122.1</b>	<b>128½</b>	<b>138½</b>	<b>146½</b>	<b>156½</b>	<b>164½</b>	<b>172</b>
of which North Sea tax <sup>(1)</sup>	7.8	9	10	9½	9½	9½	9

<sup>(1)</sup> Royalties, petroleum revenue tax (including advance payments), corporation tax from North Sea oil and gas production (before advance corporation tax set off) and, in 1982-83, supplementary petroleum duty.

Constituent items may not sum to totals due to rounding to nearest £½ billion.

## Public sector borrowing

- 2.25 The projections of Government receipts and expenditure are brought together in Table 2.6 to provide projections of the general government borrowing requirement (GGBR) and the PSBR. The size of the fiscal adjustment 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 and the behaviour of oil prices—and of course for the final two years the level of expenditure has yet to be agreed.

Table 2.6 Public Sector Borrowing<sup>(1)</sup>

	£ billion, cash						
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
General government expenditure	132.4	139	146	152	157½	161½	166
General government receipts	122.1	128½	138½	146½	156½	164½	172
Fiscal adjustments from previous years <sup>(2)</sup>	—	—	—	—	2	6½	10
Annual fiscal adjustment <sup>(2)</sup>	—	—	—	2	4½	3½	3½
GGBR	10.3	10½	8	7½	8	7	7
Public corporations market and overseas borrowing	-1.1	-½	-½	-½	-1	—	—
PSBR <sup>(3)</sup>	9.2	10	7	7	7	7	7
as % of GDP	3.3	3¼	2¼	2	2	1½	1½
Money GDP at market prices <sup>(4)</sup>	281	304	328	350	371	392	412

<sup>(1)</sup> Further details for 1983-84 and 1984-85 are provided in Table 6.5.

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

<sup>(3)</sup> From 1984-85 onwards, the definition of the PSBR and its components exclude changes in public sector deposits and certain other short-term assets of a similar nature.

<sup>(4)</sup> Average measure.

Constituent items may not sum to totals due to rounding to nearest £½ billion.

## Comparison with the 1983 revenue and expenditure projections

- 2.26 Table 2.7 shows changes in the fiscal projections since the 1983 FSBR.

Table 2.7 Revenues and Expenditure

	£ billion, cash		
	Comparison with 1983 projections		
	1983-84	1984-85	1985-86
General government expenditure	1	1	1
General government receipts	—	1½	-1
Implied cumulative fiscal adjustment	—	-½	-2
GGBR	1	-½	—
PSBR	2	-1	—
as % of GDP	½	-¼	—

Constituent items may not sum to totals due to rounding to nearest £½ billion.

## Changes in assumptions

- 2.27 The level of nominal GDP in 1983-84 is estimated to have been about 2½ per cent higher than expected a year ago, mainly reflecting revisions to data for previous years. Growth of money GDP in 1984-85 and 1985-86 is now projected to be a little lower than assumed last year, reflecting lower inflation. The projected PSBR is ¼ per cent lower as a proportion of GDP in 1984-85, and unchanged in 1985-86.

## Changes in receipts and expenditures

- 2.28 The factors affecting the outturn for 1983-84 are discussed in Part 5. The higher expenditure in 1983-84, compared with estimates made a year ago, is due partly to a higher outturn for the planning total and partly to higher debt interest payments, resulting from estimating revisions and higher borrowing than expected. The higher outturn for the planning total reflects higher expenditure by central government on demand-led programmes, and overspending by local authorities, offset in part by an unspent balance in the Contingency Reserve and higher receipts from asset sales. In 1984-85 and 1985-86 no shortfall is now expected on the public expenditure planning total, which is virtually unchanged from last year. In both years debt interest payments are expected to be somewhat higher than previously estimated, and this is reflected in higher general government expenditure. The projection of general government receipts takes account of the Budget measures. In 1984-85 tax receipts are expected to be about £1½ billion higher. This is the result of the Budget measures, estimating changes and North Sea revenues, which are now projected to be £2 billion higher as a result of higher production and sterling oil prices. The projection of tax receipts in 1985-86 is about £1½ billion lower than a year ago, due mainly to budget measures. As a result of these changes, the fiscal adjustment in 1985-86 is lower than a year ago.

## Conclusions

- 2.29 The projections of expenditure, revenue and borrowing in Tables 2.4-2.6 are illustrative, and could be different in particular years if the domestic and world economies developed in a markedly different way. But whatever the response to short-term fluctuations, the trend will be maintained, bringing with it continued progress to lower inflation.
- 2.30 To achieve the ultimate objective of stable prices with lower interest rates, the declining trend in monetary growth and public borrowing will need to be maintained beyond the MTFS period. And to bring about progressive reductions in taxation at the same time, expenditure has to remain under tight control.
- 2.31 The Green Paper on Public Expenditure and Taxation into the 1990s which is published today provides an illustrative framework for a further five years showing projections of public spending alongside the implications for taxation.

### 3. The Economy: Recent Developments and Prospects to mid-1985

#### Summary

- Recent developments** 3.01 Activity in total has been rising since the first half of 1981. The 3 per cent growth rate estimated for 1983 was sufficient to bring about some recovery in employment but not so far a fall in unemployment. There was a further fall in inflation and rise in profitability in 1983, despite slightly faster growth in import prices.
- Assumptions** 3.02 This forecast of the UK economy to mid-1985 is based on the monetary and fiscal policies specified in the Medium Term Financial Strategy. The effective exchange rate is assumed not to change. These assumptions are consistent with a rise in money GDP of 8 per cent in 1984.
- Inflation** 3.03 Inflation rates have again fallen more quickly than generally expected. Competitive pressures at home and abroad have continued to exert a strong downward influence on prices and costs. A slow downward trend in UK inflation is expected, with RPI growth forecast at  $4\frac{1}{2}$  per cent at the end of 1984 and 4 per cent by mid-1985.
- Output** 3.04 The growth in GDP is forecast to continue at 3 per cent in 1984, with growth of exports and company spending, especially fixed investment, outpacing a further rise in consumer spending. The growth in domestic demand reflects mainly rises in real income for both persons and companies. Employment should continue to rise.
- World economy** 3.05 Output is now rising again in the main industrialised countries, led by the US. In many developing countries, rises in export volumes and commodity prices and earlier cutbacks in imports have helped to ease financing problems. For the world economy as a whole, a period of growth in activity combined with rising profits and no more than moderate inflation is in prospect.
- Balance of payments** 3.06 With the UK economy and other major economies expected to expand together, and with no major changes forecast for commodity prices, the balance of payments should remain in surplus. A growing contribution is expected from trade in services and from income accruing from the build-up of overseas assets.

#### The world economy

- Developed countries** 3.07 The rapid recovery of the US economy has slowed a little but there is increasing evidence of an upturn in Japan and Europe. Inflation remains low, above all in the US, Germany and Japan. A fall in OPEC imports depressed world trade last year in spite of large rises in imports into North America. But by the second half of 1983 total world imports may have been 4 per cent higher than a year earlier.
- 3.08 Output growth in the US at the end of 1983, though less than in the previous half-year, was sufficient to keep unemployment falling. In Europe output was increasing by the end of last year, after two years of stagnation, but unemployment is still rising. The US recovery is expected to moderate while the European recovery should strengthen. Growth in the developed world as a whole may average 3-4 per cent in 1984 and the first half of 1985.

#### Developing countries

#### World imports

- 3.09 Inflation in the major six economies has fallen further and now averages about  $4\frac{1}{2}$  per cent (compared with 10 per cent in 1981). With no major changes in fiscal or monetary policies assumed, and with high levels of spare capacity in many countries, little change is forecast in inflation: further falls in Europe may be offset by a slight rise in the US.

- 3.10 Reductions in imports by non-oil developing countries seem largely to have ended by early last year. Improvements in export revenues helped by higher prices of many commodities should allow some recovery in imports. In OPEC countries, however, the falls in both price and volume of oil exports reduced income further and led to a large drop in imports in 1983. With export revenues likely to remain low, import growth is likely to be slow over the next year or so.

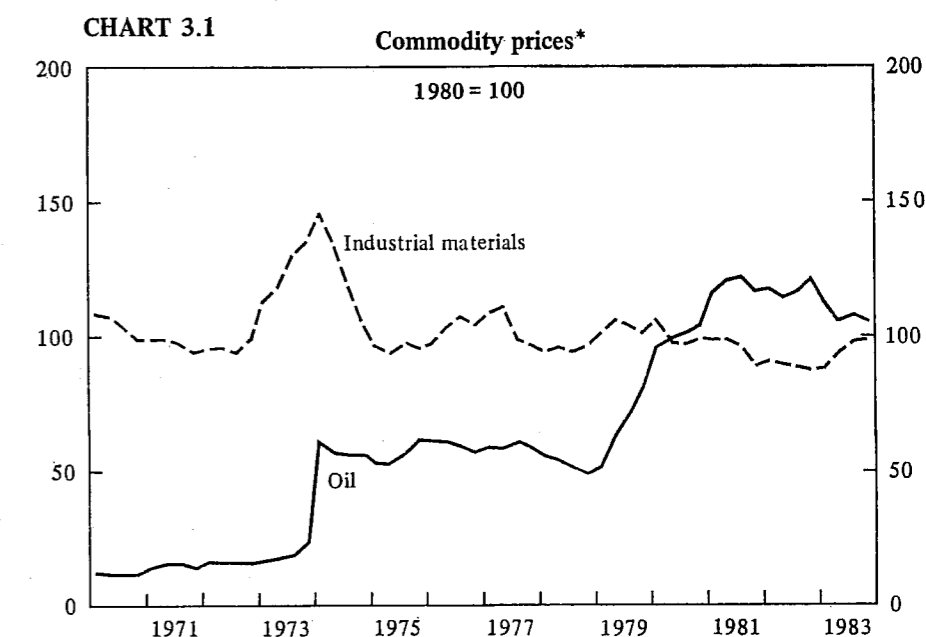
- 3.11 Table 3.1 shows how the strong rise in imports into the US in 1983 was offset by developments elsewhere. This table covers all goods: growth of UK markets in manufactures is shown in Table 3.2.

Table 3.1 World import volume growth (excluding UK)

	Share of UK exports in 1983	Annual per cent changes			
		1973-1979 average	1981	1982	1983 (estimated)
United States	14	7	$\frac{1}{2}$	-4	$9\frac{1}{2}$
Other industrialised countries	65	$3\frac{1}{2}$	$-1\frac{1}{2}$	0	2
OPEC	10	$14\frac{1}{2}$	19	2	-14
Non-oil developing countries	11	$6\frac{1}{2}$	7	$-6\frac{1}{2}$	-1
<b>Total imports</b>	<b>100</b>	<b><math>4\frac{1}{2}</math></b>	<b><math>1\frac{1}{2}</math></b>	<b>-1</b>	<b><math>1\frac{1}{2}</math></b>

#### Commodity prices

- 3.12 Movements in commodity prices, in relation to export prices, are shown in Chart 3.1.



\*In relation to prices of manufactured exports

- 3.13 Commodity prices (other than oil) rose 10 per cent more than the general rate of inflation between the end of 1982 and the third quarter of 1983. More recently there have been signs of levelling out. Industrial materials may continue to increase in price relative to other goods but if there is a normal harvest this year—following 1983's poor harvest—food price increases should be lower than the average inflation rate. The oil price may not change substantially in nominal terms, and could fall further in real terms.

## Summary

- 3.14 The forecast for the world economy is summarised in Table 3.2.

**Table 3.2 World Economy**

	Per cent changes on a year earlier				
	Average 1975-82	1982	1983	1984	1985 First half
GNP*	3	-½	2	4	3½
Prices* (consumers' expenditure deflator)	7½	6½	5	4½	4½
World trade in manufactures (weighted by UK markets)	4	-3	1	5	4½

\* Major 6 overseas countries (US, Japan, Germany, France, Italy, Canada).

## The exchange rate and the balance of payments

### Exchange Rate

- 3.15 For the purpose of this forecast it is assumed that the effective exchange rate will be near to its average last year. The prospect for inflation, which takes account of this assumption about the exchange rate, suggests that over the forecast period there will not be any substantial difference between inflation rates in the UK and in the average of our major competitors. On this basis cost and price measures of competitiveness may change little over the forecast period following the recovery that occurred in 1982 and 1983.

### Trade Prices

- 3.16 The UK's terms of trade have changed little since the end of 1980. The 17 per cent fall in the effective exchange rate over this period has been offset by UK importers cutting their margins from unusually high levels and, in 1981 and 1982, by low world commodity prices. The terms of trade are not expected to change much over the next year or so. By the last quarter of 1984 both import and export prices may be 4-5 per cent higher than a year earlier. This compares with increases of about 8 per cent in 1983.

### Trade Volumes

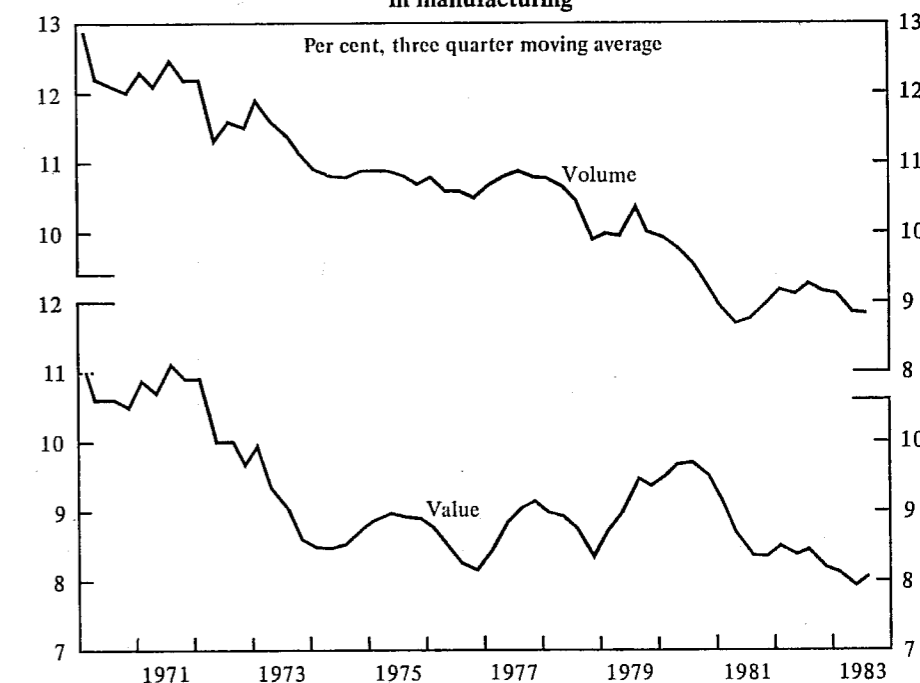
- 3.17 Total export volumes were little changed in 1983, after growing 1½ per cent in 1982. Over the last two years, exports of fuels have grown rapidly, while exports of goods and services other than fuels have not changed greatly. Exports of manufactures changed little between 1981 and 1983, when world trade fell by an estimated 1½ per cent and relative costs regained some of their earlier deterioration.

### Import Penetration

- 3.18 Chart 3.2 shows the trends in UK manufacturing exports as a share of world trade, measured in both volume and value terms.
- 3.19 Chart 3.3 shows that, for the non-oil economy as a whole, there have been large fluctuations, due in part to the commodity price boom of 1973-74 and fluctuations in the exchange rate, but no pronounced trend in import penetration measured in value terms. The rise in the volume share has been offset by gains from the terms of trade. For the non-oil economy as a whole, the rise in volume terms has been much less than for manufacturing, partly because of a shift in demand and output away from manufacturing, and partly because of unchanged or lower import propensities in some other sectors (including food and services).

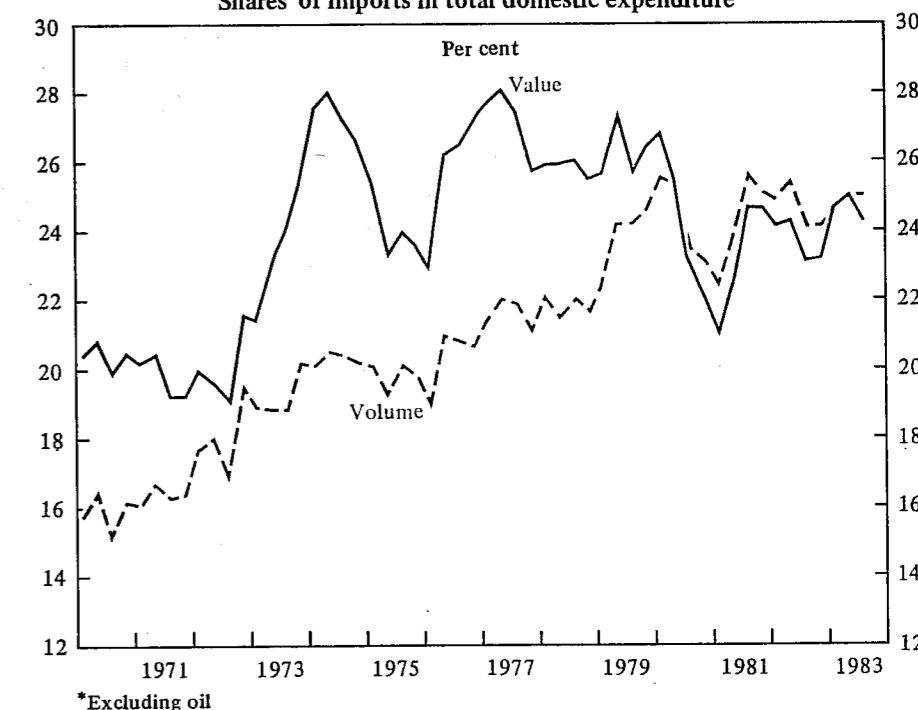
**CHART 3.2**

Shares of UK exports in world trade  
in manufacturing



**CHART 3.3**

Shares\* of imports in total domestic expenditure



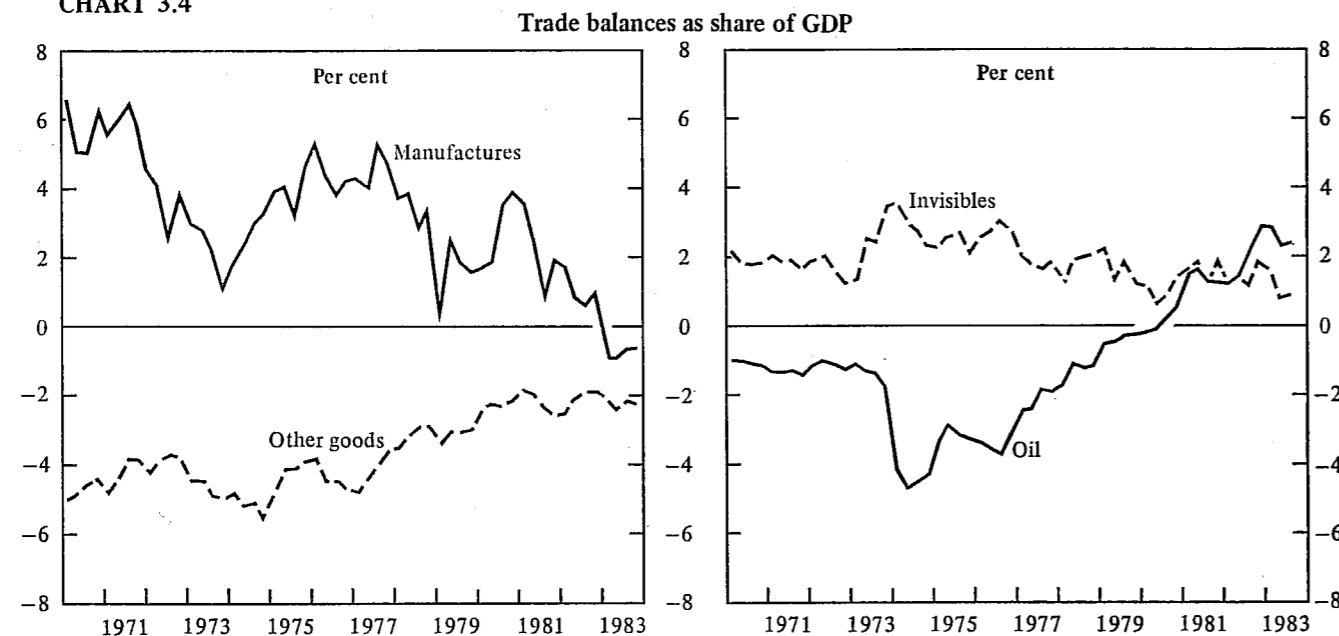
\*Excluding oil

- 3.20 Domestic demand for manufactures grew strongly in 1983 mainly reflecting a rise in consumer durables, a turnaround in stocks and a recovery in fixed investment. The volume of imports of manufactures grew by 12 per cent, UK producers continuing to lose share in the domestic market. In some areas such as cars, where home demand was buoyant, export deliveries fell for a period in 1983. Imports of fuels fell further.

- 3.21 Prospects for export growth depend mainly on continued growth in world trade in manufactures, which may be of the order of 5 per cent in 1984. In addition, the recovery in price and cost competitiveness in 1982 and 1983 may contribute a little to the growth in exports. Recent indicators of an improved

## Prospects for 1984

CHART 3.4



trend include recent trade figures—exports of goods in the three months to January were 5½ per cent higher by volume than in the preceding three months—and the CBI surveys indicating continuing optimism on export orders. Total exports of goods and services are expected to be about 5 per cent higher in 1984 than in 1983.

- 3.22 Domestic demand for manufactures is expected to grow strongly in 1984, though possibly by less than in 1983. There may be some fall in the growth of imports of manufactures. Total imports of goods and services may grow slightly faster than in 1983, given the unusually low levels of imports of fuels and services in 1983.
- 3.23 Domestic demand expanded faster in the UK than in most other countries in 1983 and so, despite a further rise in oil production, UK imports rose faster than exports and the surplus on the current account of the balance of payments fell from £5½ billion in 1982 to an estimated £2 billion in 1983.
- 3.24 With the strengthening of the world recovery, the balance of trade in manufactures can be expected to decline less in 1984 than in 1983. Part of this decline should be offset by upward trends in net trade in other goods and services. In addition there should be higher earnings from interest, profits and dividends helped by the growth in UK assets abroad and by the strengthening of the world recovery. Overall, the current account is expected to remain in moderate surplus in 1984 and the first half of 1985.
- 3.25 The current account surpluses recorded in the period 1980–83 have contributed, along with asset and currency revaluations, to a sharp rise in the value of the UK's net holdings of foreign assets: from about £15 billion (7 per cent of GDP) at end 1979 to perhaps £48 billion (16 per cent of GDP) at end 1983 (though the latter figures in particular are subject to a wide margin of error).

### Inflation

- 3.26 Inflation rates fell during 1983 to their lowest levels since the late 1960s. The 12-monthly increase in the Retail Prices Index dropped below 4 per cent in the Spring—partly reflecting factors such as good harvests and falls in the mortgage rate—and the average level of prices for the year as a whole was up only 4·6 per cent on 1982. In January 1984 the RPI was 5·1 per cent higher than a year earlier; the Tax and Price Index, which takes account of the direct tax reductions in the 1983 Budget, was 4·2 per cent up on a year earlier.
- 3.27 There were some upward pressures on inflation in 1983, notably from the fall in sterling in late 1982 and early 1983 and the recovery in world commodity prices. Nevertheless, the rise in prices continued to be limited by competitive pressures

### Balance of Payments

### Retail prices

both domestic and international. Substantial increases in labour productivity, reductions in the National Insurance Surcharge and a slight further slowdown in earnings growth enabled producers to widen profit margins while holding most domestic price increases at around the 5 per cent level. Table 3.3 shows changes in the main components of the RPI.

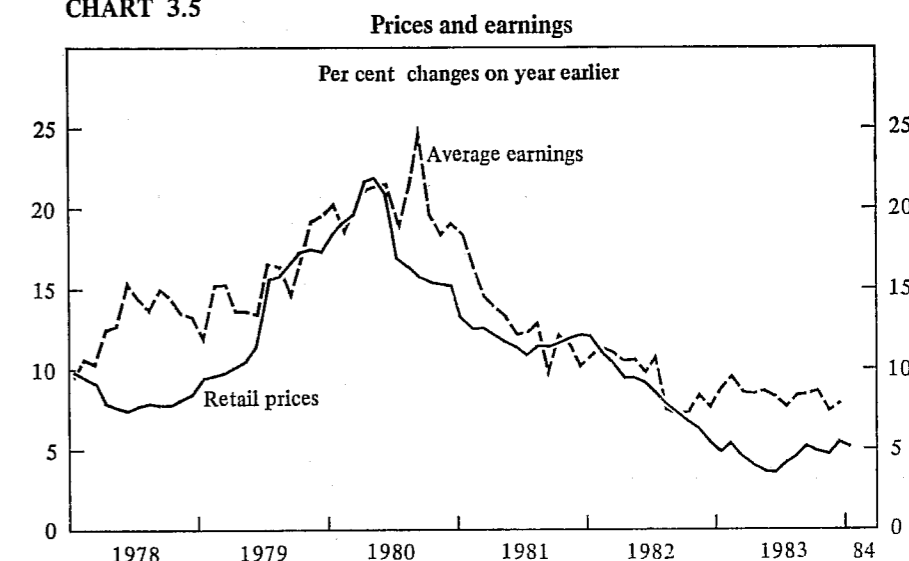
Table 3.3 Retail prices index

	Weight	Per cent changes on a year earlier		
		1982 Q4	1983 Q4	1984 Q4 Forecast
Food	20	4½	6	3
Nationalised industries*	10	15	1½	3½
Housing	14	4	6½	7
Other	56	6	5	4½
<b>Total</b>	<b>100</b>	<b>6</b>	<b>5</b>	<b>4½</b>

\* Including London Transport, excluding water.

- 3.28 By the end of 1983 there were clear signs of the rise in commodity prices easing, and with the effective exchange rate not changing much, UK import prices increased only 1 per cent between the second and fourth quarters. Labour costs were still rising slowly by the end of 1983, reflecting continued growth in productivity especially in manufacturing. Chart 3.5 shows how the growth in earnings (before tax) has generally kept ahead of the growth in prices since 1978.

CHART 3.5



### Real earnings

- 3.29 High rates of productivity growth contributed to the combination in 1983 of a low rate of increase in unit labour costs and an increase in real earnings. Wage settlements in the year to August 1983 generally averaged 5 to 6 per cent, giving rise to an increase in earnings in the whole economy of about 7 to 8 per cent, the difference reflecting changes in hours worked, productivity deals, bonus payments, and other factors including measurement errors. With price rises well below the increase in average earnings and tax reductions in the 1983 Budget, there was a rise of about 3 per cent in the average level of real take home pay.

## Prospects

- 3.30 Since 1982 real after-tax earnings of the average employee have been rising, while the real unit cost of labour to the employer has been falling, as a result of productivity growth and cuts in the National Insurance Surcharge. These trends should continue over the forecast period. But they follow a period in which real wages rose at the expense of profits (particularly in 1979 and 1980) and so contributed to the sharp rises in unemployment.
- 3.31 Most of the effect on UK prices of the 1982-83 fall in sterling and the rise in commodity prices has already been felt. As a result external cost pressures in 1984 are likely to be less than in 1983.
- 3.32 Increases in labour productivity and the abolition of the National Insurance Surcharge during the year will offset part of the rise in earnings and may hold the rise in unit labour costs to 4 per cent or less. Some further increase in profit margins is likely as demand remains buoyant both at home and overseas, but competitive pressures will continue to restrain prices. Price inflation as measured by the GDP deflator may be under 5 per cent in 1984-85 as a whole. After allowing for the budget measures, the annual rate of increase in the RPI may stay a little above 5 per cent for the first half of 1984, before falling to 4½ per cent by the fourth quarter. A slowdown during 1984 is expected in the rate of increase in food and most private sector prices; while the nationalised industries' component should continue to rise more slowly than prices in general (see Table 3.3). The slow downward trend in inflation is forecast to continue in 1985.

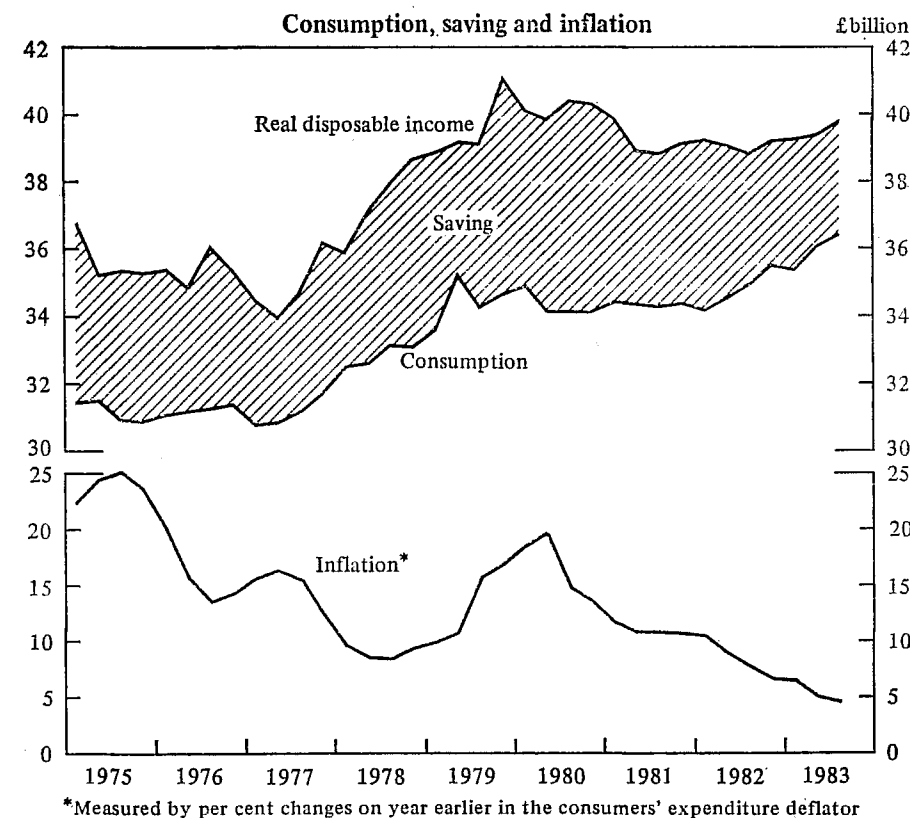
## Demand and activity

- 3.33 Latest estimates continue to point to a growth of about 3 per cent in activity between 1982 and 1983. The different GDP measures are currently telling rather different stories. The output measure is probably the most reliable indicator of quarter to quarter changes while a simple average of the three is used in the assessment of longer-term activity movements in this forecast. There is, however, evidence that initial estimates of all three measures of GDP (and hence the average measure) have tended to understate increases in activity.
- 3.34 The growth in GDP since the trough in 1981 has reflected a recovery in domestic demand. The rundown in stocks eased in the second half of 1981 and subsequently. The low point for fixed investment was in the second half of 1981: since then both public and private investment have risen at about 5 per cent a year in 1982 and 1983. Consumers' expenditure rose by 3½ per cent in 1983, continuing the recovery which started in mid-1982. Helped by lower than expected inflation, public spending on goods and services rose by over 3 per cent in volume terms in 1983.

## Personal Sector Expenditure

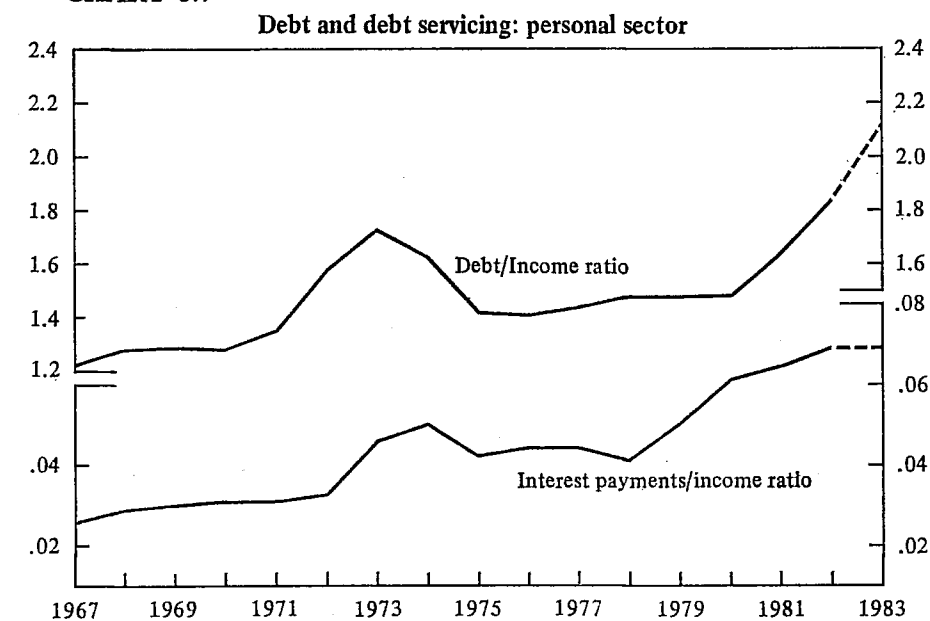
- 3.35 By the end of 1983 total real personal disposable income had regained its 1980 level, as real increases for those in work combined with a levelling out and then a rise in employment. Up to the first half of 1982, consumers reduced their rate of saving and maintained their level of current spending broadly flat. From mid-1982, with the first signs of real income recovering, and as falls in inflation and interest rates contributed to higher consumer confidence, consumer spending (particularly on durables) rose quite rapidly. Over the period as a whole the rise in expenditure was accompanied by a fall in the personal saving ratio from 14½ per cent in 1980 to about 9½ per cent in 1983. Chart 3.6 shows income and consumption.
- 3.36 A sharp increase in borrowing by the personal sector from banks, building societies and HP companies financed the reduction in the saving ratio. Lower inflation and the increased real value of capital assets have led to consumers saving less while maintaining the real value of their wealth.

CHART 3.6



- 3.37 Lending by banks to the personal sector, much of it on mortgage terms, has been growing by about 33 per cent per year and has become the major growth area in banks' portfolios. It could be some time before persons and financial institutions adjust fully to changes in the credit environment and persons' debt income ratios may continue to rise, though perhaps more slowly.

CHART 3.7

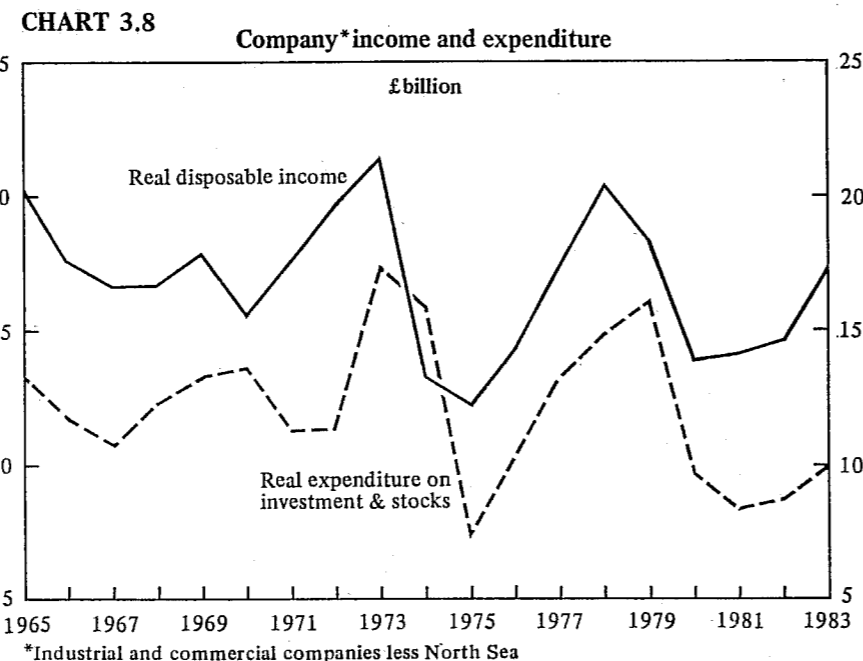


- 3.38 The top line of Chart 3.7 shows a strong rise since 1980 in the stock of personal sector borrowing. But with interest rates falling since 1981 the level of interest payments, shown as a proportion of income in the lower line of Chart 3.7, has probably levelled out.

### Company Incomes and Expenditure

3.39 On the basis of further increases in real take home pay and in employment and taking into account the effect of the budget measures, real personal disposable income may rise by up to 3 per cent in 1984. While further increases are expected in non-durable consumption, the very fast growth of durables expenditure is likely to moderate. The usual tendency of the saving ratio to rise when real incomes recover may be offset by the continuing effects of lower inflation. Personal sector investment in new housing is expected to continue to rise in 1984.

3.40 Company profits improved markedly last year reflecting increases in both profit margins and turnover. Trading profits of industrial and commercial companies (net of stock appreciation) were probably about a quarter higher in 1983 than in 1982. Tax payments lagged behind the rise in incomes, and interest payments fell slightly so that disposable incomes have risen strongly, as Chart 3.8 shows.



3.41 Provisional estimates suggest that retained profits, or savings, of industrial and commercial companies increased by nearly half last year. Company expenditure on stocks and investment remained relatively subdued in 1983 but is now expected to increase more strongly following this rise in company incomes.

### Stocks

3.42 Recent surveys suggest that the period of destocking in industry may now have ended, but that firms are not planning the sizeable increases in stocks often seen at this stage of the cycle. The forecast assumes little change in the stock-output ratio in manufacturing. In the distributive sector, some rebuilding of stocks seems likely given the sharp fall in stock-sales ratios following the recent strong recovery in retail demand.

### Investment

3.43 The growth in business fixed investment during 1983 was concentrated in the distribution and service sectors of the economy, reflecting the growth in output. In the North Sea, there was a (probably temporary) fall of about a quarter. Recent surveys point to a marked recovery in manufacturing investment in 1984, already beginning to turn round by the end of 1983, and a continuation of the growth of investment in distribution and services. The volume of fixed investment by non-North Sea industrial and commercial companies is forecast to increase by about 10 per cent in 1984 and to increase further in 1985. This forecast takes account of the budget measures, especially the proposed corporate tax changes, the net effect of which is expected to be an increase in investment for a time.

### Total demand and activity

3.44 This growth in expenditure, together with a further rise in dividends and a slower growth of profits, is expected to lead to a fall in the company sector's financial surplus from the apparently high levels in 1983. Because of the large balancing item in the company sector accounts, it is unclear what this implies for borrowing by companies, but some increase in bank lending to companies seems likely. By the end of 1983 the company sector's gross liquidity ratio was high by most past standards—partly for cyclical reasons—and may remain so. For the economy in total, fixed investment is forecast to rise over 6 per cent in 1984, with a substantially faster rise by private industry, especially manufacturing. Outside industry, growth of investment may not be fully maintained into the first half of 1985.

3.45 In total, domestic demand is expected to rise further through the forecast period. The prospect of continuing world recovery points to a further rise in UK exports in 1984 and in the first half of 1985. The slowdown in export growth into 1985 reflects partly a flattening in exports of oil, partly a slight slowdown forecast for the growth of world trade.

**Table 3.4** Domestic demand, exports and supply

	Per cent changes on a year earlier		
	1983	1984	1985 First half
Domestic demand	4½	3½	2½
Exports of goods and services	½	5	4
Imports of goods and services	5	7	5
Domestic production:			
Total GDP*	3	3	2½

\*Average measure.

3.46 The share of manufacturing industry in total output has been falling since the early 1970s, and particularly strongly since 1979. For 1984 as a whole, with substantial growth in the demand for manufactures, output in the manufacturing sector could be rising at much the same rate as in the rest of the economy.

**Table 3.5** Output

	1983		1984		1980=100 1985
	I	II	I	II	I
Gross domestic product*	103	104	105½	107½	108½
Manufacturing output	94	96	98	99	100

\*Average measure.

### Productivity and the labour market

3.47 The fall in total employment in the three years to the end of 1982 was concentrated in the manufacturing sector where there were well above average increases in productivity. Outside manufacturing the less reliable data do not suggest exceptional gains in productivity.

3.48 As recovery became more firmly established during 1983 there was a gradual strengthening of the labour market. In many service industries employment started to rise early in 1983, while in manufacturing the fall in employment slowed down. By September the total employed labour force is estimated to have been around 80,000 higher than in March 1983. Unemployment levelled out during the second half of the year while vacancies and overtime increased. The trend in unemployment was affected by the continued rise in the numbers covered by special employment and training measures. In January and February however there was a further rise in unemployment. The growth of the labour force appears to have resumed in 1983 and further increases are forecast, though the numbers are very uncertain.

3.49 There is evidence that the rapid productivity gains in manufacturing have been partly the result of improvements in manning practices and investment in more efficient plant. These factors are likely to continue to exert an influence over the next few years. However some of the gains were probably a one-off response to the severe cost pressures on manufacturers during 1980 and 1981, leading to the closure of some of the least efficient units. Given the progress already made on unit labour costs this pressure has now eased and the forecast assumes that, apart from normal cyclical effects, productivity growth will be slower than in the past three years. However both inside and outside manufacturing underlying productivity gains are expected to be well above the very low rates recorded in the 1973-79 period. These judgments on productivity growth, taken together with the forecast of output, are consistent with continued growth in total employment.

3.50 Longer-term movements in productivity have been as follows:

**Table 3.6 Output per head**

	Average annual per cent changes					
	1964-73 (peak to peak)	1973-79 (peak to peak)	1979-81	1981	1982	1983 (Estimates)
Manufacturing	4	1	0	3	6	6½
Non-manufacturing (excluding general government and oil)	3½	0	-1½	½	2½	2

### Forecast and outturn

3.51 The table below compares the main elements of the forecast published in the 1983 FSBR with outturn or latest estimate:

**Table 3.7 Forecast and outturn**

	Forecast	Outturn
RPI: per cent increase between the fourth quarters of 1982 and 1983	6	5
	Forecast	Latest estimate/forecast
Total output: per cent change between 1982 and 1983	2	3
Current account of the balance of payments, £ billion	1½	2
PSBR, financial year 1983-84, £ billion	8	10

3.52 Retail prices rose 1 per cent less than expected: the exchange rate was higher than had been assumed, and labour costs, mainly on account of higher productivity growth, rose more slowly than forecast.

3.53 Measurement of the three other items for 1983, or 1983-84, is still subject to some uncertainty. GDP growth (now measured at 1980 prices) was about 1 per cent stronger than expected; about ½ per cent was caused by higher oil production (reflected in net trade), and in addition there was higher domestic consumption, private and public, partly because inflation turned out lower than expected. Estimates of the current account surplus in 1983 varied considerably during the year, and outturns (especially on invisibles) are still provisional. The slightly stronger than expected surplus in 1983 reflected higher oil production and a definitional change in the treatment of gold. The latest estimate for the PSBR in 1983-84, still subject to considerable uncertainty, is £2 billion more than the forecast published in March 1983, or £3 billion more after allowing for the expenditure reductions announced on July 7.

### The prospects

**Table 3.8 Short-term Economic Prospects**

	Forecasts	Average errors from past forecasts*
<b>A. Output and expenditure at constant 1980 prices</b>		
Per cent changes between 1983 and 1984:		
Gross domestic product (at factor cost)	3	1
Consumers' expenditure	3	1
General Government consumption	—	1½
Fixed investment	6½	2½
Exports of goods and services	5	2½
Imports of goods and services	7	2½
Change in stockbuilding (as per cent of level of GDP)	½	¾
<b>B. Balance of Payments on current account</b>		
£ billion:		
1983	2	—
1984	2	2½
1985 first half (at an annual rate)	1	4
<b>C. Public Sector Borrowing Requirement</b>		
£ billion (in brackets per cent of GDP at market prices):		
Financial year 1983-84	10 (3½)	1 (½)
Financial year 1984-85	7½ (2½)	4½ (1½)
<b>D. Retail Prices Index</b>		
Per cent change:		
Fourth quarter 1983 to fourth quarter 1984	4½	2
Second quarter 1984 to second quarter 1985	4	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 and government forecasts (see Economic Progress Report June 1981). The calculations for the constant price variables are derived from forecasts made during the period between June 1965 and October 1981. For the current balance and the retail prices index, forecasts made between June 1970 and October 1981 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

3.54 No forecast is complete without an indication of error margins. Table 3.8 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. For the RPI, average errors are derived from a period of high inflation, averaging 14 per cent and subject to large fluctuations, and overstate likely errors at current rates of inflation.

3.55 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. An article on Forecasting the Public Sector Borrowing Requirement was published in the September 1983 issue of the Treasury's Economic Progress Report.

**Table 3.9 Constant price forecasts of expenditure, imports and gross domestic product\***

£ billion at 1980 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 1980 = 100
1979	138.0	47.6	41.4	63.3	2.5	292.8	59.9	31.5	1.3	202.7	102.6
1980	137.3	48.4	39.2	63.2	-3.2	284.9	57.4	30.9	1.0	197.6	100.0
1981	137.6	48.3	35.6	61.9	-2.7	280.7	55.5	30.0	-0.4	194.8	98.6
1982	139.6	48.9	37.6	62.8	-1.0	287.9	57.6	30.9	-1.0	198.5	100.5
1983	144.7	50.2	39.3	63.2	0.6	298.0	60.4	32.1	-1.4	204.2	103.3
1984	149.6	50.0	41.8	66.3	1.4	309.2	64.7	33.0	-1.0	210.5	106.5
1982 H1	68.8	24.3	18.5	31.7	0.3	143.7	29.1	15.4	-0.1	98.9	100.1
H2	70.7	24.6	19.1	31.1	-1.3	144.3	28.4	15.6	-0.7	99.6	100.9
1983 H1	71.5	25.2	19.5	31.4	0.5	148.2	29.6	15.9	-1.2	101.6	102.9
H2	73.2	25.0	19.8	31.8	0.1	149.8	30.8	16.2	-0.2	102.5	103.8
1984 H1	74.1	25.0	20.7	32.8	0.7	153.3	31.9	16.4	-0.6	104.4	105.7
H2	75.5	25.0	21.1	33.5	0.7	155.9	32.8	16.7	-0.4	106.1	107.4
1985 H1	76.1	25.1	21.6	34.2	0.8	157.8	33.6	16.8	-0.2	107.2	108.5
% changes:											
1981 to 1982	1½	1½	6	1½		2½	4	3			2
1982 to 1983	3½	2½	4½	½		3½	5	3½			3
1983 to 1984	3	0	6½	5		3½	7	3			3
1984 H1 to 1985 H1	2½	½	4	4		3	5	3			2½

\*GDP figures in the table are based on "compromise" estimates of gross domestic product, reflecting for the past average movements in constant price expenditure, output and income estimates of GDP. Percentage changes are calculated from unrounded levels and then rounded to half per cent. Totals in £ billion may not add due to rounding. Figures beyond 1983 are forecasts.

## 4. The Budget Proposals in Detail

- 4.01 The following paragraphs describe the Budget proposals in detail. The description of proposed changes in Inland Revenue taxes is followed by those for Customs and Excise, Vehicle Excise Duty and the National Insurance Surcharge. The direct effects of the proposed changes are shown in Table 4.2. This table also includes the direct effects of proposed changes in taxation which have been announced prior to the Budget for inclusion in the 1984 Finance Bill. Some of these were announced in the 1983 Budget but, because of the dissolution of Parliament for the General Election, were not enacted last year; others were announced subsequently. Of these proposed changes, those which have undergone significant modification since they were originally announced are included in the following paragraphs. Those which have undergone little or no modification are not included in the text. But they are marked with an asterisk in Table 4.2 and are described in a Treasury press notice issued on 13 March 1984.

### 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 £1,785 to £2,005 and the married allowance from £2,795 to £3,155.
  - to increase the additional personal allowance and widow's bereavement allowance from £1,010 to £1,150.
  - to increase the age allowance for the single person from £2,360 to £2,490, for the married from £3,755 to £3,955 and the age allowance income limit from £7,600 to £8,100.
  - to increase the basic rate limit to £15,400.
  - to increase the width of the 40 per cent band to £2,800, of the 45 per cent band to £4,900 and of the 50 per cent and 55 per cent bands to £7,500.

As a consequence of these changes, the structure of personal tax rates in operation in 1984-85 will be:

Bands of Taxable Income		
£		Per cent
0 — 15 400		30
15 401 — 18 200		40
18 201 — 23 100		45
23 101 — 30 600		50
30 601 — 38 100		55
over 38 100		60

- 4.03 It is also proposed—
- to abolish the surcharge on an individual's investment income.
  - to abolish life assurance premium relief in relation to insurance contracts made after 13 March 1984.

- to increase, with effect from 1985-86, the scales which determine the cash equivalent of car and car fuel benefits of directors and employees whose remuneration is £8,500 or more a year.
- to reduce the 25 per cent deduction from earnings and profits of employees and traders working and trading abroad to 12½ per cent for 1984-85, and to withdraw it altogether with effect from 1985-86.
- to withdraw the 50 and 25 per cent deductions from foreign emoluments for all new cases after 13 March 1984, to withdraw the 25 per cent deduction from existing cases from 6 April 1984 and to phase out the 50 per cent deduction over the five years to 1988-89.
- to introduce a composite rate scheme for bank interest paid after 5 April 1985 to United Kingdom resident individuals.
- to raise from £50 to £100 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 facility to pay income tax by instalments on unapproved share options granted before 6 April 1984 and exercised after 5 April 1983.
- to exclude farming from the trades which qualify for the "Business Expansion Scheme" for shares issued after 13 March 1984.
- to make gains from certain non-qualifying life assurance policies liable to income tax.
- to amend the mortgage interest relief rules to ensure that the tax relief limit applies in certain cases where the borrower is changing his main residence.
- to extend the relief for secondments to charities.
- to make changes in the tax treatment of certain expenses incurred by hon. Members of the House of Commons.

#### Income tax and corporation tax

- 4.04 It is proposed—
- to abolish stock relief in respect of periods of account commencing on or after 13 March 1984 with relief up to the end of March only for periods of account extending over 13 March 1984.
  - to reduce the rate of first year allowance for expenditure on machinery and plant to 75 per cent with effect from 14 March 1984, to 50 per cent with effect from 1 April 1985 and to nil with effect from 1 April 1986.
  - to reduce the rate of initial allowance for expenditure on industrial buildings and assured tenancies to 50 per cent with effect from 14 March 1984, to 25 per cent with effect from 1 April 1985 and to nil with effect from 1 April 1986.
  - to provide for the tax treatment of certain grants payable under Northern Ireland law.
  - to restrict the application of Schedule B where the land is used for certain purposes in connection with a trade.
  - to amend the limits relating to friendly society life assurance business.

#### Income tax, corporation tax and capital gains tax

- 4.05 It is proposed to extend reliefs to income and capital gains of certain housing associations in Northern Ireland.

#### Income tax and capital gains tax

- 4.06 It is proposed to bring within the charge to capital gains tax instead of income tax the benefits accruing to directors and employees from certain share options granted after 5 April 1984.

Corporation tax

- 4.07 It is proposed—  
to fix the main rate of corporation tax as follows:
- |                             | per cent |
|-----------------------------|----------|
| for the financial year 1983 | 50       |
| for the financial year 1984 | 45       |
| for the financial year 1985 | 40       |
| for the financial year 1986 | 35       |
- for the financial years 1983 to 1986 inclusive to fix the “small companies” rate of corporation tax at 30 per cent.  
to extend from two to six years the period for which “surplus” advance corporation tax may be carried back and set against corporation tax.  
to extend (subject to certain conditions) consortium relief to consortia with more than five members, and in which there are some non-resident members.

Corporation tax and capital gains tax

- 4.08 It is proposed—  
to exempt capital gains on certain issues of corporate fixed interest stock held for more than twelve months.  
to extend the present treatment of traded options in shares to other traded options.

Oil taxation

- 4.09 It is proposed—  
to abolish repayment of advance corporation tax where a deduction for petroleum revenue tax reduces the amount of corporation tax available for set off.  
to provide new rules for petroleum revenue tax appraisal and exploration reliefs, capital gains tax and capital allowances on transfers of licence interests (“farm-outs”); and to make other minor amendments.  
to introduce powers to obtain information about transactions in United Kingdom oil for the purposes of market valuations for petroleum revenue tax.

Capital gains tax

- 4.10 It is proposed—  
to increase the annual exempt amount in line with the increase in the retail prices index so that for 1984–85 an individual will be exempt on the first £5,600, and most trusts on the first £2,800, of capital gains.  
to abolish the former rollover relief for transfers of property into heritage maintenance funds.

Development land tax

- 4.11 It is proposed—  
to increase the annual exempt amount from £50,000 to £75,000.  
to defer the charge on a deemed disposal arising on a development for the owner’s use which is started at any time (instead of before 1 April 1984 as at present), and to extinguish any deferred liability which has not become chargeable within 12 years of the start of the development.  
to exclude from charge deemed disposals made by the Housing Corporation and registered housing associations.

Capital transfer tax

- 4.12 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 – 64	Nil	Nil
64 – 85	30	15
85 – 116	35	17½
116 – 148	40	20
148 – 185	45	22½
185 – 232	50	25
232 – 285	55	27½
over 285	60	30

It is also proposed to amend the provisions relating to settled property.

Stamp duties

- 4.13 It is proposed—  
to reduce, effectively from 13 March 1984, to 1 per cent the duty on conveyances and transfers on sale.  
to raise, also effectively from 13 March 1984, the level above which transfers of property (other than stocks and shares) are liable to stamp duty from £25,000 to £30,000, and to abolish the ½ per cent reduced rate band.  
to amend the law, also effectively from 13 March 1984, relating to the sale of houses at a discount under the “Right to Buy” scheme.  
to amend the law, with effect from 20 March 1984, so as to end certain devices for avoiding stamp duty on sales of land and houses.

Customs and Excise

Value added tax

- 4.14 It is proposed that from 1 May 1984 the standard rate of VAT will apply to hot take-away food and drink. Group 1 of Schedule 5 to the Value Added Tax Act 1983 will be amended accordingly.
- 4.15 It is proposed that from 1 June 1984 the standard rate of VAT will apply to all alterations to both buildings and civil engineering works. It is further proposed, also from 1 June 1984, that the erection of such buildings as sheds and greenhouses in private gardens will become liable at the standard rate as will the supply of certain goods as fixtures in new buildings. Group 8 of Schedule 5 to the Value Added Tax Act 1983 will be amended accordingly.
- 4.16 It is proposed to withdraw postponed accounting for VAT on imports and the similar arrangements for goods supplied in warehouses from 1 October 1984. Amending Regulations will be made under powers in the Value Added Tax Act 1983.
- 4.17 It is proposed to increase the registration and deregistration limits by Order made under Schedule 1, paragraph 12 of the Value Added Tax Act 1983. From 14 March 1984 the registration limits will become £18,700 per annum and £6,200 per quarter. From 1 June 1984 the deregistration limits will become £17,700 per annum where estimated future turnover is concerned and £18,700 per annum where past turnover is concerned.

Alcoholic drinks

- 4.18 It is proposed, from midnight 13–14 March 1984, to increase:
- the rate of duty on spirits from £15·19 to £15·48 per litre of alcohol;
  - the rate of duty on beer from £21·60 to £24·00 per hectolitre and the charge for each additional degree of original gravity above 1030° per hectolitre from £0·72 to £0·80;
  - the rate of duty on cider and perry from £9·69 to £14·28 per hectolitre. It is also proposed to reduce the maximum strength limit for cider and perry from “less than 8·7 per cent of alcohol by volume” to “less than 8·5 per cent”.

It is proposed, from midnight 13–14 March 1984, to change the rates of duty on wine by the following amounts per hectolitre:

- Still wine of an alcoholic strength:
- less than 15 per cent: from £113·00 to £90·50;
  - not less than 15 per cent but not exceeding 18 per cent: from £145·90 to £157·50;

exceeding 18 per cent but not exceeding 22 per cent from £171·70 to £183·30;  
 exceeding 22 per cent: £183·30 plus £15·48 (instead of £15·19) for every 1 per cent, or part of 1 per cent, in excess of 22 per cent.

Sparkling wine of an alcoholic strength of less than 15 per cent from £113·00 plus a surcharge of £24·80 to a single rate of £149·40.

Sparkling wine of an alcoholic strength of 15 per cent and above will bear the same rates of duty as still wine.

It is proposed, from midnight 13–14 March 1984, to align the rates of duty on made-wine to the rates of duty on wine.

#### Hydrocarbon oil

4.19 It is proposed from 6 pm on 13 March 1984 to increase:

- the rate of duty on light hydrocarbon oil from £0·1630 to £0·1716 per litre;
- the rate of duty on heavy hydrocarbon oil for use as road fuel from £0·1382 to £0·1448 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.

It is proposed, from 6 pm on 13 March 1984, to abolish the duty on rebated kerosene (including “paraffin”) other than aviation turbine fuel. The rate was £0·0022 a litre.

#### Tobacco

4.20 It is proposed, from midnight 15–16 March 1984, to increase:

- the specific element in the duty on cigarettes from £21·67 to £24·97 per 1,000 cigarettes (the ad valorem element remaining unchanged);
- the duty on cigars from £40·85 to £47·05 per kilogram;
- the duty on hand-rolling tobacco from £35·40 to £40·60 per kilogram.

#### Gaming licence duty

4.21 It is proposed to adjust the rates of gaming licence duty in respect of licence periods beginning on or after 1 April 1984. The advance payment will remain at £250, but the second payment, to be made up to five months after the licence period, will be a proportion of the gross gaming yield (stakes less winnings) in each six-monthly period as follows:

- 2½ per cent of the first £375,000, plus
- 12½ per cent of the next £1,875,000, plus
- 25 per cent of the next £2,250,000, plus
- 33½ per cent of the remainder of the gross gaming yield.

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

(All except VED inclusive of 15 per cent VAT)

Spirits duty	+ 10p on a bottle of whisky
Beer duty	+ 2p on a pint of beer of average strength
Wine duty	– 18p on a bottle of table wine
Fortified wine duty	+ 10p on a bottle of sherry
Cider duty	+ 3p on a pint of cider
Petrol duty	+ 4½p on a gallon of petrol
Derv duty	+ 3½p on a gallon of derv
Tobacco duty	+ 10p on a packet of 20 cigarettes
Vehicle excise duty	+ £5 on a car licence

#### Vehicle Excise Duty

4.22 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.

4.23 The duty on most cars and light commercial vehicles will rise by £5 to £90. The rates of duty on some 277,000 light goods vehicles at the lower end of the duty scales will be reduced by up to 13 per cent, but for some 150,000 heavier goods vehicles duty will be increased by 7 to 9 per cent. For a small number of goods vehicles there will be larger increases as a result of the change to broader tax bands.

#### National Insurance Surcharge

4.24 It is proposed to abolish from 1 October 1984 the surcharge paid in respect of employees by secondary Class I contributors under the provisions of the National Insurance Surcharge Act 1976. Expenditure programmes (excluding local authorities) will be reduced accordingly (see Table 5.1). For local authorities the surcharge will remain at 1 per cent until 5 April 1985, and will be abolished thereafter.

Table 4.2 Direct effects (a) of changes in taxation

	£ million	
	Forecast for 1984-85	Forecast for a full year (a)
<b>INLAND REVENUE</b>		
<b>Income tax</b>		
Increase in single allowance of £220 and married allowance of £360	-1 615 (b)	-1 990 (b)
Increase in additional personal allowance and widow's bereavement allowance of £140	-20 (b)	-20 (b)
Increase in age allowance of £130 (single) and £200 (married) and income limit of £500	-80 (b)	-100 (b)
Increase in basic rate limit of £800 to £15,400	-45 (b)	-75 (b)
Increase in further higher rate thresholds	-35 (b)	-65 (b)
Abolition of investment income surcharge	-25 (b)	-360 (b)
Abolition of life assurance premium relief for new policies	+90	+180 (c)
Fringe benefits—car and car fuel scales	Nil	+35 (d)
Withdrawal of relief from foreign earnings	+15	+60 (e)
Withdrawal of relief from foreign emoluments	+7	+15 (f)
Composite rate scheme for bank interest	Nil	(g)
Increase in limit on contributions to savings-related share option schemes	Nil	(h)
Extension of instalment period for unapproved share options granted before 6 April 1984	Negligible	-5
Exclusion of farming from the "Business Expansion Scheme"	Negligible	Negligible
Minor life assurance changes	Negligible	Negligible
Application of mortgage interest relief limit—bridging loans	Negligible	Negligible
Employee secondments to charities	Negligible	Negligible
Expenses of Members of Parliament	Negligible	Negligible
*Extension of mortgage interest relief to certain borrowers	-6 (i)	-5
*Limit for assessment of apportioned income	Negligible	Negligible
*Capital and income bonds	Nil	Nil
*Offshore life assurance	Nil	Nil
*Relaxation of interest relief for employee buy-outs	-1 (i)	-2
*Fringe benefits—scholarships	Negligible	Negligible
<b>Income tax and corporation tax</b>		
Abolition of stock relief	Nil	+900 (j)
Reduction in rate of first year allowance for machinery and plant	Nil (k)	+375 (j) (k)
Reduction in rate of initial allowance for industrial buildings and assured tenancies	Nil (k)	+15 (j) (k)
Further reductions in rates of first year and initial allowances	Nil	(l)
Northern Ireland corporation tax relief grant and other grants	Negligible	-2
Application of Schedule B	Negligible	-2
Limits relating to friendly society life assurance	Negligible	Negligible
*Extension of stock relief for housebuilders for 1983-84	Negligible	-1
*Payment of Eurobond interest without deduction of tax	Negligible	-2
*Offshore and overseas funds	Negligible	+60 (m)
*Allowances for cars leased to recipients of mobility supplements	Negligible	Negligible
<b>Income tax, corporation tax and capital gains tax</b>		
Relief for housing associations in Northern Ireland	Negligible	Negligible
*Reliefs for furnished holiday lettings	-2	-5
*Deep discount securities	Negligible	-15 (n)
<b>Income tax and capital gains tax</b>		
Changes in employee share option reliefs	Nil	(o)
<b>Corporation tax</b>		
Reduction in main rate for financial year 1983	-190	-330 (p)
Reduction in main rate for financial year 1984	Nil	-1050 (p)
Reduction in main rate for financial years 1985 and 1986	Nil	(r)
Reduction in "small companies" rate	-90	-160
Extension of carry back period for advance corporation tax	-1	-30 (q)
Extension of consortium relief	Negligible	-10 (r)
*Treatment of TSB's as bodies corporate	Nil	-5
*Relief for discounts etc on bills of exchange	Negligible (i)	-1
*Incidental costs of obtaining loan finance	Negligible	Negligible
*Change in arrangements for setting off advance corporation tax and double taxation relief	Negligible	-5
*Provision against avoidance through group etc relief	Negligible	+10 (r)
*Charge to tax in respect of controlled foreign companies	Nil	+25 (s)
<b>Corporation tax and capital gains tax</b>		
Exemption of certain corporate fixed interest stock	Negligible	Negligible
<b>Oil taxation</b>		
Abolition of ACT repayments	+100	+150 (t)
New rules for farm-outs and minor changes	Nil	+35 (u)

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

	£ million	
	Forecast for 1984-85	Forecast for a full year (a)
<b>INLAND REVENUE (continued)</b>		
<b>Capital gains tax</b>		
Indexation of annual exempt amount	Nil (b)	-15 (b)(v)
Abolition of roll-over relief for maintenance funds	Negligible	Negligible
*Increase in limit for retirement relief	-4	-10
*Increase in other monetary limits	Negligible	-1
*Relief for transactions through overseas bank accounts	Negligible	Negligible
*Deferment of payment of tax assessed on beneficiaries of non-resident trusts	-3	Negligible (w)
*Other changes	Negligible	Negligible
<b>Development land tax</b>		
Increase in annual exempt amount	-1	-9 (x)
Deferment of the charge on deemed disposals	-1	-4
Relief for housing associations etc	Negligible	Negligible
*Extension of instalment period	Negligible	Negligible
*Disposals by non-residents	+2	+2
<b>Capital transfer tax</b>		
Increase in thresholds and changes in bands	-19 (b)	-49 (b)
Other changes	Negligible	Negligible
<b>Stamp duties</b>		
Reduction in rates and increase in threshold	-450 (y)	-460 (y)
Sales of houses at a discount	Negligible	Negligible
<b>TOTAL INLAND REVENUE</b>	<b>-2 375 (z)</b>	<b>-2 925 (z)</b>
<b>CUSTOMS AND EXCISE</b>		
<b>Value added tax</b>		
Increase in registration limits	Negligible	Negligible
Withdrawal of certain zero-rates	+375	+650 (aa)
Withdrawal of postponed accounting for imports	+1 200	Nil (bb)
<b>Excise duties</b>		
Increases in rates of duty on light oil, etc.	+225	+225
Increase in rate of duty on heavy oil for use in road vehicles	+45	+45
Removal of duty on kerosene	-5	-5
Increases in rates of tobacco products duties	+330	+340
Increase in rate of spirits duty	+10	+10
Increases in rates of beer duties	+175	+180
Changes in rates of wine and made-wine duties	-60	-60
Increase in rate of duty on cider and perry	+15	+15
Changes in gaming licence and *gaming machine licence duties	-5	+5
<b>TOTAL CUSTOMS AND EXCISE</b>	<b>+2 305</b>	<b>+1 405</b>
<b>Vehicle excise duty</b>		
Changes in rates of duty	+110	+110
<b>National insurance surcharge</b>		
Abolition	-335 (cc)	-865 (cc)
<b>Other</b>		
Bus fuel grants	-5 (dd)	-5 (dd)
<b>TOTAL CHANGES IN TAXATION</b>	<b>-300 (z)</b>	<b>-2 280 (z)</b>

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

\* Items so marked were announced before Budget Day (see paragraph 4.01).

(a) The direct effects of tax changes are generally estimated by applying the new and old tax rates and allowances to the taxable income and expenditure expected in the economic forecast in Part 3, in certain cases including estimates of the immediate effects of the changes on taxpayers' behaviour. For example, the estimates for Customs and Excise duties allow for the effects of relative price changes on the composition of consumers' expenditure; those for taxes on profits now allow for changes in investment behaviour following from the changes in capital allowances and stock relief; and those for stamp duties now allow for changes in the volume of transactions following from changes in rates. For the meaning of a full year see 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 effects 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 1982 and December 1983 (5.3 per cent), rounded in accordance with the statutory provisions, together with the costs of the proposed changes on top of indexation:

	Direct Revenue Effects		(£ million)	
	Indexation		Proposed changes on top of indexation	
	1984-85	Full Year	1984-85	Full Year
<i>Income tax</i>				
Main allowances	-800	-980	-915	-1 130
Basic rate limit	-45	-75	0	0
Further higher rate thresholds	-35	-65	0	0
Investment income surcharge	Negligible	-20	-25	-340
<b>Total income tax</b>	<b>-880</b>	<b>-1 140</b>	<b>-940</b>	<b>-1 470</b>
<i>Capital gains tax</i>				
Exempt amount	Nil	-15	Nil	Nil
<i>Capital transfer tax</i>				
Thresholds and bands	-16	-40	-3	-9

(c) The full year yield is the amount of relief which would have been due on a full year's premiums for policies commencing in 1984-85. The eventual effect will be substantial (the cost of premium relief in 1983-84 was £700 million).

(d) Effective from 1985-86; the yield in 1985-86 will be £30 million.

(e) Withdrawal of the relief will be fully effective from 1985-86; the yield in 1985-86 will be some £55 million.

(f) Withdrawal of the relief will be completed by 1989-90; the eventual yield will be some £100 million.

(g) The composite rate scheme is designed to collect tax, which, taking one year with another, is equivalent to the normal basic rate tax liability of all depositors concerned. Deduction at source will however ensure that the full amount of tax due is collected, including tax which for one reason or another is not collected under present arrangements. This should mean some additional Exchequer yield, although this cannot be quantified. On the other hand, in 1985-86 there is the possibility of transitional net cash flow loss to the Exchequer mainly because banks will be able to get earlier set off of tax deducted from interest they receive.

(h) Costs will not arise until 1989-90. The yield from taxation of gains arising in respect of rates of contribution in 1984-85 above the previous limit might approach £5 million.

(i) Includes some delayed costs for 1983-84.

(j) Represents the difference, at the pre-Budget rates of corporation tax, between the effect of the relief or allowance on tax liability in 1984-85 before the change (that is, at the levels of stocks and fixed capital formation expected before the change) and the effects on tax liability after the change (that is, at the levels of stocks and fixed capital formation expected as a result of the change).

(k) Effect after taking into account the abolition of stock relief.

(l) The changes in tax liabilities in later years resulting from the proposed further reductions in the main rate of corporation tax will be affected by the proposed further reductions in capital allowances. The precise net effects of the combined changes will depend on the levels of profits and investment at the time.

(m) Based on the estimated holdings by United Kingdom taxpayers in the funds in September 1983.

(n) Effect on tax liabilities for 1984-85; over a period of years there will be some deferment of tax liabilities. This estimate is highly uncertain.

(o) Highly uncertain, since revenue effects depend upon exercise of options and their value. The cost in respect of 1989-90 (the first year in which qualifying options granted in 1984-85 could be exercised) might be some £35 million.

(p) Represents the difference between tax at the pre-Budget rates for financial year 1982 (52 per cent and 38 per cent) and tax at the rates proposed on the chargeable profits now expected in 1984-85. The amounts covered by this footnote and footnote (j) above broadly represent, in total, the difference between the tax liabilities in respect of 1984-85 (in both cases including the second-round effects on the level of profits) expected before and after the changes in rates of corporation tax, stock relief and capital allowances.

Table 4.2 Direct effects of changes in taxation (continued)

(q) Tax liabilities for accounting periods ending in 1978-79 and later will be reduced. The cost in 1985-86 is tentatively estimated at £30 million, and there will be some continuing costs thereafter.

(r) These estimates are highly uncertain.

(s) The yield will be some £25 million in 1985-86, building up to £100 million in later years.

(t) This figure is very uncertain as it depends on companies' future distribution policy.

(u) This figure is very uncertain, as it will depend on the level of future farm-outs. Protection against a possible substantial loss of PRT through acceleration of reliefs for past expenditure was also announced on 13 September 1983.

(v) The cost in 1985-86 will be £5 million.

(w) Payment of some £35 million due in 1983-84 will now be deferred.

(x) The cost in 1985-86 will be £4 million.

(y) The estimated duty on additional transactions expected to follow from the reduction of the rate is taken into account. It is subject to a wide margin of error.

(z) Components will not necessarily sum to the totals because of rounding. In the full year, no figures are included for the changes covered by footnotes (g), (h), (l) and (o) above.

(aa) The yield from withdrawing the zero rate from hot food and drink is £125 million in 1984-85 and £200 million in a full year; the yield from withdrawing the zero rate from building alterations is £250 million in 1984-85 and £450 million in a full year.

(bb) There will be a continuing reduction of Government debt interest.

(cc) Figures exclude public sector payments of £120 million in 1984-85 and £485 million in a full year. Public expenditure will be reduced accordingly. See Table 5.1.

(dd) Bus fuel grants are included in the figures for excise duties in Part 1.

## 5. Public Expenditure

- 5.01 The Government's expenditure plans for 1984-85 to 1986-87 were published in the White Paper (Cmnd. 9143) on 16 February. This section relates the Budget figures published elsewhere in this document to those plans.
- Budget measures affecting Public expenditure** 5.02 The measures announced in the Budget will directly affect public expenditure in two ways.
- National Insurance Surcharge** 5.03 Abolition of the National Insurance Surcharge (see paragraph 4.25) is estimated to yield savings of £120 million on expenditure programmes (excluding local authorities) in 1984-85. They are being reduced accordingly (see Table 5.1).
- Extension of VAT base** 5.04 The proposals to widen the VAT base (see Part 4) will involve some additional costs for the public sector. It is the government's intention that these be absorbed within existing programmes wherever possible.
- Planning total and the Reserve** 5.05 The latest position on the public expenditure planning total and the Reserve in 1984-85 is shown in the following tables.

**Table 5.1 Public Expenditure Planning Total: 1984-85**

	£ million
As shown in the Autumn Statement	126,385
Changes between Autumn Statement and Cmnd 9143	-32
As shown in Cmnd 9143	126,353
Abolition of NIS	-120
Other changes	—
Planning total after Budget and other changes	126,233

**Table 5.2 Reserve 1984-85**

	£ million
Reserve shown in Autumn Statement	3,000
Change between Autumn Statement and Cmnd 9143	-250
Reserve shown in Cmnd 9143	2,750
Budget measures charged to the Reserve	—
Uncommitted balance of Reserve	2,750

### General government

### Supply expenditure

- 5.06 Table 5.3 shows the relationship between the planning total for public expenditure shown in Cmnd. 9143 and general government expenditure in national accounts terms in more detail than Table 2.4.

**Table 5.3 General Government Expenditure**

	£ billion				
	1982-83	1983-84	1984-85	1985-86	1986-87
Public expenditure planning total <sup>(1)</sup>	113.4	120.3	126.4	132.1	136.7
Public corporations transactions <sup>(2)</sup>	0.6	-0.2	0.4	0.2	0.6
Other national accounts adjustments <sup>(3)</sup>	3.9	4	4½	4½	5
Differences due to policy measures and economic assumptions <sup>(4)</sup>	—	—	-½	-½	-½
Interest payments <sup>(5)</sup>	14.5	15	15½	15½	16
<b>Total expenditure in national accounts terms<sup>(5)</sup></b>	<b>132.4</b>	<b>139</b>	<b>146</b>	<b>152</b>	<b>157½</b>

<sup>(1)</sup> See Cmnd. 9143, Table 1.2, line 12.

<sup>(2)</sup> Adjustment to line 1 to exclude certain public corporations' capital expenditure and public corporations' net overseas and market borrowing as in Cmnd. 9143, Table 1.10.

<sup>(3)</sup> Other adjustments to line 1 to translate to the definitions used in National Accounts Statistics. These adjustments, together with those identified in <sup>(2)</sup>, are described in more detail in Cmnd. 9143, Volume II, Part 5, paragraph 32.

<sup>(4)</sup> Incorporates effects of abolition of NIS. Revised planning totals are shown in Table 5.5.

<sup>(5)</sup> For 1982-83 see Table 2.4, *Financial Statistics*, February 1984.

- 5.07 Table 5.4 shows the relationship between the Supply Estimates, Supply expenditure and the figures shown for Supply Issues in Table 6.7.

**Table 5.4 Supply Expenditure**

	£ billion		
	1983-84		1984-85
	Budget forecast	Latest estimate	Forecast
Main Supply Estimates	85.4	85.4	90.5 <sup>(1)</sup>
Reduction/abolition of National Insurance surcharge	-0.1	-0.1	-0.1
General allowance for Supplementaries and net underspending	-0.5	1.4	1.3
<b>Total Supply Expenditure<sup>(2)</sup></b>	<b>84.8</b>	<b>86.7<sup>(1)(3)</sup></b>	<b>91.7</b>

<sup>(1)</sup> See Table 1a of *Memorandum by the Chief Secretary to the Treasury*, Cmnd. 9161, for an analysis by Class and Vote.

<sup>(2)</sup> These figures are shown in Table 6.7 as "Supply Issues". Supply Issues are monies paid from the Consolidated Fund to Departments' cash accounts with the Paymaster General for spending on Supply. Supply Expenditure equates closely to total Supply Issues in most years, although there may sometimes be slight timing differences between the two. See also footnote <sup>(1)</sup> to Table 6.7.

<sup>(3)</sup> Taking into account supplementary provision granted during the year and departments' forecasts of excesses or shortfalls.

## Public expenditure and GDP

5.08

Not all of Supply expenditure directly contributes to the public expenditure planning total—about a quarter contributes to the financing of other parts of the public sector whose expenditure is included in the planning total.

5.09

The revised planning totals shown in Table 5.5, together with the latest forecasts for money GDP in Table 2.6, imply a percentage of public expenditure to GDP of 43 per cent in 1983-84 and 42 per cent in 1984-85, as given in Cmnd. 9143, and a further fall to 40 per cent in 1986-87.

**Table 5.5 Public expenditure in cash and cost terms and as a percentage of GDP**

	1982-83	1983-84	1984-85	1985-86	1986-87
Public expenditure planning total	113.4	120.3	126.2 <sup>(1)</sup>	131.6 <sup>(1)</sup>	136.2 <sup>(1)</sup>
GDP deflator	..	5½	4¾	4½	4
(% increase on previous year)					
Planning total in cost terms (base year = 1982-83)	113.4	114.1	114.2	114.3	113.7
Numerator for public expenditure as percentage of GDP <sup>(2)</sup>	122.2	130½	137½	143½	148½
Public expenditure as percentage of GDP	43½	43	42	41	40

<sup>(1)</sup> Cmnd. 9143 figures reduced by estimated savings on expenditure programmes due to abolition of National Insurance Surcharge.

<sup>(2)</sup> Planning total plus net debt interest, non-trading capital consumption and payments of VAT by local authorities.

## Public expenditure and the PSBR

5.10

Table 5.6 shows how the public expenditure plans and debt interest are expected to be financed. The expenditure side of the account repeats information from Cmnd. 9143 but incorporates revisions to the planning total and debt interest since its preparation: in 1983-84 expenditure including gross debt interest is nearly £2 billion more than predicted a year ago. Central government tax receipts in total are expected to be about £1 billion more than predicted but local authority rates are lower. The higher expenditure is reflected in the PSBR, which is also currently estimated to be nearly £2 billion higher than forecast a year ago.

5.11

In 1984-85 expenditure shows an increase of over £6 billion more than the previous year. Taxation receipts, national insurance contributions and other income are expected to increase by about £9 billion, thereby reducing the borrowing requirement by nearly £3 billion compared with the latest estimate for 1983-84.

**Table 5.6 Public expenditure, receipts and the PSBR**

	1983-84		1984-85	
	Budget forecast	Latest estimate	Forecast	
<b>Receipts<sup>(1)</sup></b>				
Central government taxation				
Income tax	31.4	31.3	33.8	
Value added tax	15.5	15.3	18.0	
Corporation tax	6.2	6.0	8.4	
Oil duties	5.7	5.6	6.1	
Petroleum revenue tax	5.2	6.1	6.0	
Spirits, beer, wine, cider and perry	3.9	3.9	4.0	
Tobacco	3.7	3.8	4.1	
Vehicle excise duty	1.9	2.0	2.1	
National Insurance surcharge	1.7	1.7	0.9	
Taxes on capital	1.5	1.6	1.7	
European Community duties	1.4	1.3	1.4	
Other (including accruals adjustments)	3.3	3.9	2.9	
<b>Total<sup>(2)</sup></b>	<b>81.5</b>	<b>82.5</b>	<b>89.4</b>	
National Insurance, etc. contributions	21.2	21.4	23.0	
Local authorities rates	13.0	12.1	12.9	
North Sea oil royalties, etc.	1.6	1.9	2.0	
General government trading surplus and rent	3.3	3.1	3.0	
General government interest and dividend receipts	2.3	2.2	2.4	
Adjustments				
Accruals	—	-0.2	0.6	
Public corporations transactions <sup>(3)</sup>	3.4	3.7	3.5	
Other <sup>(4)</sup>	-0.5	-0.8	-1.8	
<b>Total receipts</b>	<b>125.9</b>	<b>126.1</b>	<b>135.1</b>	
Public sector borrowing requirement	8.2	10.0	7.2	
<b>Total receipts and borrowing</b>	<b>134.1</b>	<b>136.0</b>	<b>142.3</b>	

	1983-84		1984-85	
	Budget forecast	Latest estimate	Forecast	
<b>Expenditure</b>				
Social security	34.6	35.3	37.2	
Defence	16.0	15.7	17.0	
Health and personal social services	14.6	14.7	15.4	
Education and science	12.6	13.4	13.1	
Scotland	6.7	6.8	6.9	
Industry, energy, trade and employment	6.2	6.1	5.6	
Law, order and protective services	4.6	4.7	4.9	
Transport	4.4	4.6	4.4	
Northern Ireland	3.8	3.8	4.0	
Other environmental services	3.5	3.8	3.5	
Housing	2.8	2.8	2.5	
Wales	2.5	2.6	2.6	
Overseas services	2.0	2.3	2.3	
Agriculture, fisheries, food and forestry	1.8	2.1	2.0	
Other public services	1.7	1.7	1.8	
Common services	1.0	1.0	1.1	
Arts and libraries	0.6	0.6	0.6	
Local authority current expenditure not allocated to programmes (England)	0.9	—	0.7	
<b>Adjustments</b>				
Special sales of assets	-0.8	-1.2	-1.9	
Reserve	1.1	0.1	2.8 <sup>(5)</sup>	
General allowance for shortfall	-1.2	-0.3	—	
<b>Planning total in Cmnd 9143<sup>(6)</sup></b>	<b>119.3</b>	<b>120.3</b>	<b>126.4</b>	
Revisions since Cmnd 9143	—	—	-0.1 <sup>(7)</sup>	
<b>Revised planning total</b>	<b>119.3</b>	<b>120.3</b>	<b>126.2</b>	
Gross debt interest	14.8	15.7	16.0	
<b>Planning total plus gross debt interest</b>	<b>134.1</b>	<b>136.0</b>	<b>142.3</b>	

<sup>(1)</sup> See Table 6.8 for taxation and Table 6.5 for other items.

<sup>(2)</sup> Total taxes on income, expenditure and capital on a national income accounts basis as in lines 1, 2 and 9 of Table 6.5.

<sup>(3)</sup> 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.

<sup>(4)</sup> Comprises other miscellaneous receipts and adjustments from the definition of public expenditure used in the national income accounts to that used in Cmnd. 9143.

<sup>(5)</sup> See Table 5.2.

<sup>(6)</sup> Figures in the first column are from Table 5.5 in the *Financial Statement and Budget Report 1983-84* translated from Cmnd. 8789 to Cmnd. 9143 definitions.

<sup>(7)</sup> See Table 5.1.

## 6. Public Sector Transactions

### The Public Sector Borrowing Requirement

6.01 The tables in Part 6 provide further information on transactions of the public sector in 1983–84 and 1984–85. They elaborate the rounded and summary figures for those years shown in Parts 2, 3 and 5. The forecasts incorporate the effects of Budget measures. The basis of the tables and the relationship between them is outlined in paragraphs 6.15 and 6.16.

6.02 Table 6.1 shows the composition of the Public Sector Borrowing Requirement (PSBR) in 1983–84 and 1984–85.

**Table 6.1 Public Sector Borrowing Requirement**

	£ billion		
	1983–84	1984–85	
Borrowing requirement of	Budget forecast	Latest estimate	Forecast
Central government	11.5	13.4	11.1
Central government own account <sup>(1)</sup>	8.5	8.0	5.3
Local authorities	–0.2	1.3	1.3
Public corporations	1.1	0.7	0.6
Unallocated <sup>(2)</sup>	–1.3	—	—
<b>Public sector</b>	<b>8.2</b>	<b>10.0</b>	<b>7.2</b>

<sup>(1)</sup> Central government borrowing less on-lending to local authorities and public corporations.

<sup>(2)</sup> Includes the Contingency Reserve, special sales of assets and general allowance for shortfall which were unallocated in last year's Budget forecast.

6.03 The scale of borrowing towards the end of the financial year is always difficult to predict. Outturn information on the 1983–84 PSBR will not become available until mid April. The forecast for 1983–84 a year ago was £8 billion, increased to £10 billion in the Autumn Statement. The latest estimate of outturn remains at £10 billion<sup>(1)</sup>.

6.04 The PSBR in 1984–85 is forecast to be £7½ billion<sup>(1)(2)</sup>. The CGBR includes high on-lending to local authorities and public corporations. As in 1982–83 and 1983–84, they are expected to repay a considerable amount of market debt.

<sup>(1)</sup> The average margins of error on PSBR forecasts made at this time are ±£1 billion for the current year and ±£4½ billion for the year ahead. See Table 3.8 and Economic Progress Report, September 1983.

<sup>(2)</sup> The PSBR forecast for 1984–85 and its sub-sector components incorporates certain minor definitional changes. Changes in public sector deposits with banks and certain other short-term assets of a similar nature are treated as items financing the PSBR rather than affecting its size (see *Economic Trends*, February 1984). The figures for 1983–84 are on the existing definition and will not be redefined until after the outturns are published in April.

### Central government

6.05 Table 6.2 shows forecasts for central government receipts and expenditure in 1983–84 and 1984–85.

6.06 Total receipts in 1983–84 are currently expected to be over £1 billion higher than forecast a year ago, mainly accounted for by higher North Sea oil revenues (see Table 6.8). Expenditure is expected to be about £3 billion more than forecast, mainly due to higher debt interest and other current expenditure—representing higher demand led expenditure and lower shortfall on cash limited expenditure. There was also higher on-lending to local authorities. These increases were partly offset by higher special asset sales and lower on-lending to public corporations. The CGBR is expected to be nearly £2 billion more than forecast, although this is very uncertain given the difficulty of forecasting receipts and expenditure in the last part of the year.

**Table 6.2 Central Government Transactions**

	£ billion		
	1983–84	1984–85	
	Budget forecast	Latest estimate	Forecast
<b>Receipts</b>			
Taxes	81.5	82.5	89.4
National insurance etc., contributions	21.2	21.4	23.0
Other	9.4	9.4	10.2
<b>Total</b>	<b>112.1</b>	<b>113.3</b>	<b>122.7</b>
<b>Expenditure</b>			
Current expenditure on goods and services <sup>(1)</sup>	40.4	40.6	43.5
Current grants and subsidies	62.4	63.4	66.1
Interest	11.8	12.8	13.9
Net lending and capital expenditure	10.3	9.8	10.2
Unallocated <sup>(2)</sup>	–1.3	—	—
<b>Total</b>	<b>123.6</b>	<b>126.7</b>	<b>133.7</b>
<b>Central Government Borrowing Requirement</b>	<b>11.5</b>	<b>13.4</b>	<b>11.1</b>
of which:			
for on lending to local authorities and public corporations	4.2	5.4	5.8
Own account	8.5	8.0	5.3
Unallocated <sup>(3)</sup>	–1.3	—	—

<sup>(1)</sup> Includes capital consumption.

<sup>(2)</sup> Includes the Contingency Reserve, special sales of assets and general allowance for shortfall which were unallocated in last year's Budget forecast.

6.07 In 1984–85 the central forecast of expenditure is about £7 billion more than the 1983–84 outturn currently expected. Receipts are expected to increase by almost £9½ billion and the CGBR is therefore forecast to fall by over £2 billion. Borrowing by central government on its own account is forecast to fall by over £2½ billion.

## Local authorities

- 6.08 Table 6.3 shows local authority receipts and expenditure and borrowing requirements for 1983-84 and 1984-85.

Table 6.3 Local Authorities' Transactions

	£ billion		
	1983-84	1984-85	
	Budget forecast	Latest estimate	Forecast
<b>Receipts</b>			
Rates	13.0	12.1	12.9
Rate support grant	11.6	11.7	11.3
Other grants from central government	8.2	8.2	8.5
Other	5.0	5.0	5.1
<b>Total</b>	<b>37.9</b>	<b>37.0</b>	<b>37.9</b>
<b>Expenditure</b>			
Current expenditure on goods and services <sup>(1)</sup>	25.6	25.5	26.8
Current grants and subsidies	4.3	4.9	4.9
Interest	4.1	4.0	3.8
Net lending and capital expenditure	3.6	3.8	3.6
<b>Total</b>	<b>37.7</b>	<b>38.2</b>	<b>39.2</b>
<b>Local Authority Borrowing Requirement</b>	<b>-0.2</b>	<b>1.3</b>	<b>1.3</b>
of which:			
Borrowing from central government	2.0	4.2	4.4
Other borrowing	-2.2	-2.9	-3.1

<sup>(1)</sup> Includes capital consumption.

- 6.09 Local authority receipts in 1983-84 are currently expected to be about £1 billion less than forecast a year ago, reflecting lower rate increases. Expenditure is expected to be £½ billion more than forecast, largely due to housing benefit payments.
- 6.10 The LABR is expected to be about £1½ billion in 1983-84. This estimate is particularly uncertain as local authorities have borrowed heavily in the final weeks of the year in recent years and the forecast for the year as a whole is very dependent on the forecast made for those weeks. Borrowing has been very different from the last Budget forecast with heavy borrowing from central government only partly offset by repayment of market debt.
- 6.11 Current expenditure on goods and services for 1984-85 is forecast to rise by 5 per cent or about £1¼ billion on 1983-84. Local authority net capital spending is expected to fall somewhat from the 1983-84 level. Rate poundages are forecast to grow by slightly more than the rate of inflation. The LABR is again expected to be of the order of £1½ billion, again with high borrowing from central government and repayment of market debt.

## Public corporations

- 6.12 Expenditure and receipts for public corporations are shown in Table 6.4.

Table 6.4 Public Corporations' Transactions

	£ billion		
	1983-84	1984-85	
	Budget forecast	Latest estimate	Forecast
<b>Receipts</b>			
Gross trading surplus <sup>(1)</sup>	9.6	10.1	9.4
Other	2.1	2.2	1.9
<b>Total</b>	<b>11.8</b>	<b>12.4</b>	<b>11.3</b>
<b>Expenditure</b>			
Interest, dividends and taxes on income	3.7	4.0	3.6
Net lending and capital expenditure	9.2	9.0	8.3
<b>Total</b>	<b>12.9</b>	<b>13.1</b>	<b>11.9</b>
<b>Public Corporations' Borrowing Requirement</b>	<b>1.1</b>	<b>0.7</b>	<b>0.6</b>
of which:			
Borrowing from central government	2.2	1.2	1.4
Other borrowing	-1.1	-0.5	-0.7

<sup>(1)</sup> Including subsidies.

## Explanatory notes on Part 6 tables

- 6.13 Lower borrowing in 1983-84, currently estimated to be nearly £½ billion less than forecast a year ago, mainly reflects higher trading profits.
- 6.14 In 1984-85 public corporations' collective borrowing is expected to be a little lower than the latest estimate for 1983-84. Within this, receipts and expenditure are both forecast to decline, reflecting the reduction in the size of the public corporations' sector as part of the special asset sales programme.
- 6.15 The 1983-84 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 in Parts 5 and 6 do not necessarily sum exactly to totals.**
- 6.16 Table 6.5 is based on the definitions used to compile the national income accounts<sup>(1)</sup> and is the most detailed presentation. Other tables are related to Table 6.5 and in addition include the 1983 Budget forecast for 1983-84. Tables 6.2, 6.3 and 6.4 are derived from Table 6.5 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 6.1. Tables 6.7, 6.8 and 6.9 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 6.6<sup>(2)</sup>.

<sup>(1)</sup> See *Financial Statistics Explanatory Handbook* 1984. The sector accounts are compiled quarterly and published in *Financial Statistics*. Key figures are published by press notice.

<sup>(2)</sup> Tables 6.6 to 6.9 follow the accounting principles of the central funds and accounts, unlike Tables 6.2 and 6.5 which are based on the national income accounts. The definition of the CGBR is identical in both accounting systems.

Table 6.5 Public Sector transactions <sup>(1)</sup> by sub-sector and economic category

1983-84 Latest estimate					£ billion	
Line <sup>(2)</sup>	General government			Public corporations	Public sector	
	Central government	Local authorities	Total			
<b>Current and capital receipts</b>						
Taxes on income	1	43.6	—	43.6	-0.3	43.4
Taxes on expenditure	2	37.3	12.1	49.4	—	49.4
National insurance, etc. contributions	3	21.4	—	21.4	—	21.4
Gross trading surplus	4	-0.3	0.2	-0.1	10.1	10.0
Rent and oil royalties etc.	5	2.0	3.2	5.1	0.5	5.7
Interest and dividends from private sector and abroad	6	1.6	0.6	2.2	0.8	3.0
Interest and dividends within public sector	7	4.4	-1.9	2.5	-2.5	—
Imputed charge for non-trading capital consumption	8	0.9	1.5	2.4	—	2.4
Taxes on capital	9	1.6	—	1.6	—	1.6
Capital transfers from private sector	10	—	—	—	0.2	0.2
<b>Total</b>	11	<b>112.5</b>	<b>15.8</b>	<b>128.2</b>	<b>8.8</b>	<b>137.1</b>
<b>Current and capital expenditure</b>						
Current expenditure on goods and services <sup>(3)</sup>	12	-40.6	-25.5	-66.2	—	-66.2
Subsidies	13	-4.7	-1.4	-6.0	—	-6.0
Current grants to personal sector	14	-37.3	-3.5	-40.8	—	-40.8
Current grants paid abroad	15	-1.9	—	-1.9	—	-1.9
Current grants within public sector	16	-19.5	19.5	—	—	—
Debt interest to private sector and abroad	17	-12.7	-1.9	-14.6	-1.1	-15.7
Gross domestic fixed capital formation	18	-2.2	-2.9	-5.2	-8.2	-13.4
Increase in stocks	19	-0.2	—	-0.2	-0.6	-0.8
Capital grants to private sector	20	-2.3	-1.0	-3.3	-0.1	-3.3
Capital grants within public sector	21	-0.7	0.2	-0.5	0.5	—
<b>Total</b>	22	<b>-122.1</b>	<b>-16.5</b>	<b>-138.6</b>	<b>-9.5</b>	<b>-148.1</b>
<b>Financial surplus/deficit<sup>(4)</sup></b>	23	<b>-9.6</b>	<b>-0.7</b>	<b>-10.4</b>	<b>-0.7</b>	<b>-11.1</b>
<b>Financing components (net)</b>						
Lending to private sector and abroad	24	—	0.2	0.1	-0.1	—
Lending within public sector	25	-5.4	4.2	-1.2	1.2	—
Cash expenditure on company securities	26	1.0	—	1.0	—	1.0
Transactions concerning certain public sector pension schemes	27	—	—	—	—	—
Accruals adjustments	28	-0.2	—	-0.2	0.1	-0.2
Miscellaneous financial transactions	29	0.9	-0.7	0.2	—	0.2
Contribution to public sector borrowing requirement	30	13.4	-2.9	10.5	-0.5	10.0
<b>Sectoral borrowing requirements<sup>(5)</sup></b>	31	<b>8.0</b>	<b>1.3</b>	<b>9.3</b>	<b>0.7</b>	<b>10.0</b>

<sup>(1)</sup> Sign convention: receipts positive, payments negative.<sup>(2)</sup> Relationship between lines: Current balance = sum of lines (1) to (8) and (12) to (17)

(23) = (11) + (22)

(24) + (25) + (26) + (27) + (28) + (29) + (30) = - (23)

(31) = (25) + (30).

1984-85 Forecast					£ billion	
Line <sup>(2)</sup>	General government			Public corporations	Public sector	
	Central government	Local authorities	Total			
<b>Current and capital receipts</b>						
Taxes on income	1	48.0	—	48.0	-0.2	47.8
Taxes on expenditure	2	39.6	12.9	52.5	—	52.5
National insurance, etc. contributions	3	23.0	—	23.0	—	23.0
Gross trading surplus	4	-0.3	0.2	-0.1	9.4	9.3
Rent and oil royalties etc.	5	2.1	3.0	5.1	0.6	5.6
Interest and dividends from private sector and abroad	6	1.8	0.6	2.4	0.8	3.2
Interest and dividends within public sector	7	4.8	-2.3	2.4	-2.4	—
Imputed charge for non-trading capital consumption	8	1.0	1.6	2.6	—	2.6
Taxes on capital	9	1.7	—	1.7	—	1.7
Capital transfers from private sector	10	—	—	—	0.2	0.2
<b>Total</b>	11	<b>121.8</b>	<b>16.0</b>	<b>137.8</b>	<b>8.3</b>	<b>146.1</b>
<b>Current and capital expenditure</b>						
Current expenditure on goods and services <sup>(3)</sup>	12	-43.5	-26.8	-70.3	—	-70.3
Subsidies	13	-4.9	-1.3	-6.3	—	-6.3
Current grants to personal sector	14	-39.8	-3.6	-43.3	—	-43.3
Current grants paid abroad	15	-1.9	—	-1.9	—	-1.9
Current grants within public sector	16	-19.5	19.5	—	—	—
Debt interest to private sector and abroad	17	-13.8	-1.4	-15.2	-0.8	-16.0
Gross domestic fixed capital formation	18	-2.8	-2.7	-5.4	-7.6	-13.1
Increase in stocks	19	-0.2	—	-0.2	-0.4	-0.6
Capital grants to private sector	20	-2.3	-0.7	-3.0	-0.1	-3.1
Capital grants within public sector	21	-0.8	0.3	-0.5	0.5	—
<b>Total</b>	22	<b>-129.4</b>	<b>-16.8</b>	<b>-146.2</b>	<b>-8.4</b>	<b>-154.6</b>
<b>Financial surplus/deficit<sup>(4)</sup></b>						
	23	<b>-7.6</b>	<b>-0.8</b>	<b>-8.4</b>	<b>—</b>	<b>-8.5</b>
<b>Financing components (net)</b>						
Lending to private sector and abroad	24	-0.3	-0.1	-0.4	-0.2	-0.6
Lending within public sector	25	-5.8	4.4	-1.4	1.4	—
Cash expenditure on company securities	26	1.9	—	1.9	—	1.9
Transactions concerning certain public sector pension schemes	27	-0.1	—	-0.1	—	-0.1
Accruals adjustments	28	0.9	-0.1	0.8	-0.1	0.6
Miscellaneous financial transactions	29	-0.1	-0.2	-0.3	-0.2	-0.5
Contribution to public sector borrowing requirement	30	11.1	-3.1	7.9	-0.7	7.2
<b>Sectoral borrowing requirements<sup>(5)</sup></b>	31	<b>5.3</b>	<b>1.3</b>	<b>6.6</b>	<b>0.6</b>	<b>7.2</b>

<sup>(3)</sup> Including non-trading capital consumption.<sup>(4)</sup> The balance of current and capital accounts, financed by net borrowing/lending. The financing components are shown in lines 24 to 30.<sup>(5)</sup> Line 30 adjusted for lending within public sector.

Table 6.6 Summary of Central Government Transactions

	£ billion		
	1983-84	1984-85	
	Budget forecast	Latest estimate	Forecast
<b>Consolidated Fund</b>			
Revenue (Table 6.8)	87.8	88.7	98.0
Expenditure (Table 6.7)	95.6	97.4	103.4
Deficit	7.7	8.7	5.4
<b>National Loans Fund</b>			
Consolidated Fund deficit (as above)	-7.7	-8.7	-5.4
Other transactions:			
Receipts (Table 6.9)	11.3	11.8	12.6
Payments (Table 6.9)	-15.0	-16.4	-17.5
<b>Total net borrowing by the National Loans Fund</b>	<b>-11.4</b>	<b>-13.3</b>	<b>-10.3</b>
<b>Other funds and accounts (net)</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.8</b>
<b>Central Government Borrowing Requirement</b>	<b>-11.5</b>	<b>-13.4</b>	<b>-11.1</b>

Table 6.7 Supply and Consolidated Fund Standing Services

	£ million		
	1983-84	1984-85	
	Budget forecast	Latest estimate	Forecast
<b>Supply Issues</b>	<b>84 800</b>	<b>86 700<sup>(1)</sup></b>	<b>91 700</b>
<b>Consolidated Fund Standing Services</b>			
Payment to the National Loans Fund in respect of service of the national debt	6 000	6 400	6 800
Northern Ireland—share of taxes, etc.	1 600	1 600	1 700
Payments to the European Communities	3 100	2 600 <sup>(1)</sup>	3 200
Other services	40	60	60
<b>Total Consolidated Fund Standing Services</b>	<b>10 800</b>	<b>10 700</b>	<b>11 700</b>
<b>Total</b>	<b>95 600</b>	<b>97 400</b>	<b>103 400</b>

<sup>(1)</sup> For technical reasons, £550 million in payments to the European Communities have been paid out of Supply Issues instead of Standing Services.

Table 6.8 Consolidated Fund Revenue

	£ million		
	1983-84	1984-85	
	Budget forecast	Latest estimate	Forecast
<b>Taxation</b>			
<i>Inland Revenue—</i>			
Income tax	31 400	31 300	33 800
Corporation tax <sup>(1)(2)</sup>	6 200	6 000	8 400
Petroleum revenue tax <sup>(3)</sup>	5 200	6 100	6 000
Capital gains tax	600	670	710
Development land tax	55	70	75
Capital transfer tax <sup>(4)</sup>	550	610	680
Stamp duties	980	1 100	860
<b>Total Inland Revenue</b>	<b>45 000</b>	<b>45 900</b>	<b>50 500</b>
<i>Customs and Excise—</i>			
Value added tax	15 500	15 300	18 000
Oil	5 700	5 600	6 100
Tobacco	3 700	3 800	4 100
Spirits, beer, wine, cider and perry	3 900	3 900	4 000
Betting and gaming	610	630	650
Car tax	610	700	700
Other excise duties	20	25	20
EC own resources <sup>(5)</sup>			
Customs duties, etc.	1 130	1 120	1 230
Agricultural levies	250	225	200
<b>Total Customs and Excise</b>	<b>31 400</b>	<b>31 300</b>	<b>35 000</b>
<i>Vehicle excise duties<sup>(6)</sup></i>	<b>1 850</b>	<b>2 020</b>	<b>2 140</b>
<i>National insurance surcharge</i>	<b>1 700</b>	<b>1 700</b>	<b>900</b>
<b>Total Tax Revenue</b>	<b>80 100</b>	<b>80 900</b>	<b>88 500</b>
<b>Miscellaneous Receipts</b>			
Broadcast receiving licences	770	750	770
Interest and dividends	370	430	400
Gas levy	550	520	510
Oil royalties	1 600	1 900	2 000
Other <sup>(7)</sup>	4 500	4 200	5 800
<b>Total</b>	<b>87 800</b>	<b>88 700</b>	<b>98 000</b>

<sup>(1)</sup> Corporation tax receipts include advance corporation tax: net of repayments 2 300 2 100 3 000

<sup>(2)</sup> The estimated amount attributed to North Sea oil and gas production is £400 million in 1983-84 and £1,200 million in 1984-85. In addition an estimated £500 million in 1983-84 and £1,000 million in 1984-85 of corporation tax will be satisfied by setting off advance corporation tax (ACT). Thus, total revenues from the North Sea, inclusive of royalties, petroleum revenue tax and corporation tax before any ACT set-off, are estimated to be £8,900 million in 1983-84 and £10,200 million in 1984-85.

<sup>(3)</sup> Petroleum revenue tax includes advance payments of petroleum revenue tax.

<sup>(4)</sup> Capital transfer tax receipts include estate duty 10 9 6

<sup>(5)</sup> Customs duties and agricultural levies are accountable to the European Communities as "own resources"; actual payments to the Communities are recorded in Table 6.7.

<sup>(6)</sup> Includes driving licence receipts.

<sup>(7)</sup> Includes the 10 per cent of "own resources" refunded by the European Communities to meet the costs of collection, other receipts from the European Communities and proceeds from the special sales of assets.

Table 6.9 National Loans Fund Receipts and Payments

	£ million		
	1983-84	1984-85	
	Budget forecast	Latest estimate	Forecast
<b>Receipts</b>			
Interest on loans, profits of the Issue Department of the Bank of England, etc.	5 400	5 400	5 800
Service of the National Debt—balance met from the Consolidated Fund	6 000	6 400	6 800
<b>Total Receipts</b>	<b>11 300</b>	<b>11 800</b>	<b>12 600</b>
<b>Payments</b>			
<b>Service of the National Debt</b>			
Interest	11 200	11 600	12 500
Management and expenses	140	140	140
<b>Total</b>	<b>11 300</b>	<b>11 800</b>	<b>12 600</b>
<b>Loans to Nationalised Industries:</b>			
National Coal Board	600	760	440
Electricity (England, Wales and Scotland)	180	- 630	- 420
Water (England and Wales)	410	300	330
Other	- 110	- 250	- 220
<b>Total</b>	<b>1 080</b>	<b>180</b>	<b>130</b>
<b>Loans to other Public Corporations:</b>			
New Towns—Development Corporations and Commission	310	210	280
Housing Corporations	230	- 20	100
Scottish Special Housing Association	30	30	30
Other	20	- 10	- 10
<b>Total</b>	<b>600</b>	<b>200</b>	<b>400</b>
<b>Loans to Local Authorities</b>	<b>2 000</b>	<b>4 200</b>	<b>4 400</b>
<b>Other Loans<sup>(1)</sup></b>	<b>- 50</b>	<b>40</b>	<b>- 10</b>
<b>Total—Net Lending</b>	<b>3 600</b>	<b>4 600</b>	<b>4 900</b>
<b>Total Payments</b>	<b>15 000</b>	<b>16 400</b>	<b>17 500</b>

<sup>(1)</sup> To private sector and within central government.

# Financial Statement and Budget Report 1985-86

RETURN to an Order of the House of Commons dated 19 March 1985: for

COPY of FINANCIAL STATEMENT AND BUDGET REPORT 1985-86 as laid before the House by the CHANCELLOR OF THE EXCHEQUER when opening the BUDGET

Treasury Chambers,  
19 March 1985 } JOHN MOORE

*Ordered by The House of Commons to be printed  
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