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# Financial Statement and Budget Report 1981-82

RETURN to an Order of the House of Commons dated 10 March 1981: for

COPY of FINANCIAL STATEMENT AND BUDGET REPORT 1981-82 as laid before  
the House by the CHANCELLOR OF THE EXCHEQUER when opening the BUDGET

Treasury Chambers,  
10 March 1981 } NIGEL LAWSON

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## PART I

### THE BUDGET PROPOSALS

#### THE BUDGET AND THE ECONOMIC CONTEXT

The Budget represents a further step towards the achievement of the Government's medium-term objectives of bringing down inflation and creating the conditions for sustainable growth of output and employment. In order to permit its monetary objectives to be met at tolerable interest rates, the Government's aim is to contain public sector borrowing to a real level well below that of 1980-81. Within this overriding requirement, the Budget is designed to give some more direct relief to particularly hard-pressed sectors of industry and to provide more opportunities for enterprise, particularly for new and small businesses.

2. The main tax and expenditure proposals are summarised in Table 1 below and described in detail in the remainder of Part I. These figures and all those presented in this part are estimates of the direct effects of the Budget on public sector transactions; they are not estimates of the net effects of all the changes in public sector transactions, both direct and indirect, brought about by the Budget<sup>(1)</sup>. The Budget is defined to include the tax changes announced in the

Budget speech, together with the supplementary petroleum duty, changes in petroleum revenue tax reliefs and the new stock relief scheme foreshadowed in November for which legislation will be included in the Finance Bill. It also includes policy changes in expenditure plans compared with the White Paper on the Government's Expenditure Plans 1981-82 to 1983-84 (Cmnd. 8175) which is published today. The tax decisions in the Budget are measured from the tax rates which ruled in 1980-81.

3. The net effect of the tax proposals in the Budget will be to raise an extra £3,610 million revenue in 1981-82 and £2,650 million in a full year. In 1981-82, the increase in excise duties is estimated to yield £2,420 million, supplementary petroleum duty and changes in petroleum revenue tax relief £1,020 million and the once-for-all 2½ per cent special tax on banking deposits £400 million. The scheme for stock relief together with changes in capital taxation and measures to encourage enterprise, etc., are estimated to cost some £200 million in 1981-82.

TABLE 1. DIRECT EFFECTS ON PUBLIC SECTOR TRANSACTIONS<sup>(2)</sup>

£ million at current prices

Tax Proposals	Effect in 1981-82	Effect in a full year	Expenditure Measures	Effect in 1981-82
Income tax ... ..	-5	+40	Programmes ... ..	+120
Other direct taxes ... ..	+1,220	+190	Contingency reserve ... ..	+200
Excise duties ... ..	+2,420	+2,445		
Other indirect taxes ... ..	-25	-25		
Total tax proposals ... ..	+3,610	+2,650	Total expenditure measures ... ..	+320

The total net direct effect of the Budget is to reduce the public sector borrowing requirement in 1981-82 by £3,290 million, the increase in revenue less the increase in expenditure. The PSBR is forecast to be £10½ million in 1981-82 (4½ per cent of GDP).

<sup>(1)</sup> The value of expenditure decisions is taken to measure their direct effect. The direct effects of tax changes are the differences between the yields estimated by applying the new and the old tax rates and allowances to the taxable income and expenditure projected in the post-Budget forecast. A further adjustment is made to the estimates of the Customs and Excise taxes to allow for the changes in taxation resulting from both substitution by consumers between goods and the change in real incomes. Estimates of both direct and indirect effects together would also allow for second round changes in tax receipts and some items of expenditure, especially unemployment benefits. These changes occur because of induced movements in some or all of incomes, prices, interest rates, the exchange rate and unemployment and hence taxable income and expenditure. Further details of the definition of the effects of tax changes are provided in the methodological note to Table 2 (on page 9).

<sup>(2)</sup> +/— indicates an increase/decrease in revenue or expenditure.

#### THE BUDGET AND THE ECONOMIC CONTEXT—continued

4. It is also possible to measure the change in revenue from taxation in relation to a base in which the 1980-81 excise duty rates and main income tax allowances and thresholds are fully indexed to allow for inflation in the year to December 1980. On this basis the Budget is estimated to increase revenue by over £4,310 million in 1981-82, of which £1,900 million is accounted for by the decision not to revalorise the income tax allowances and thresholds this year and £1,220 million by the increase in excise duties over and above revalorisation.

5. Expenditure decisions included in the Budget are expected to produce a direct increase in public expenditure of £320 million at 1981-82 prices. These are described in the following section. They comprise the effect of the decision to increase the contingency reserve for 1981-82 as a precaution and increases in certain external financing limits.

6. Taking tax and expenditure proposals together the direct effect of the Budget on the public sector borrowing requirement (PSBR) is expected to be a reduction of £3,290 million. The resulting PSBR in 1981-82 is forecast to be £10½ billion or 4½ per cent of market price GDP compared with 6 per cent in 1980-81.

7. The public sector financial deficit (PSFD) is expected to decline from 5½ per cent of GDP in 1980-81 to 2½ per cent of GDP in 1981-82. The detailed forecast is shown in Tables 14 and 15 of Part IV.

8. The increase in excise duties is estimated to have an immediate impact on the retail prices index of 2 per cent. Otherwise the Budget will not alter the RPI in the short term. Over time, given control of the money supply, its indirect effects on the RPI will tend to offset the short run effect.

#### EXPENDITURE MEASURES

##### Nationalised industries' external financing limits

The external financing limits of the electricity supply and gas industries announced on 24 November 1980 will be raised by £118 million to accommodate action proposed by the industries to meet concern about industrial energy prices compared with those in Europe.

##### Boiler conversion scheme

2. Expenditure likely under this scheme in 1981-82 cannot be estimated reliably at this stage and no specific provision for it is made in Table 1. As expenditure arises it will be met from the contingency reserve with no addition to the planned total for public expenditure.

##### The contingency reserve

3. There are changes in both the operation and the size of the contingency reserve provided in the public expenditure planning total. The change in its use as a control is that in 1981-82 decisions to increase cash limits, whether in respect of pay and prices or volume, will be charged to the reserve. (Previously, only decisions which increased the volume of public expenditure during the year were charged.) To reflect this broadening of control and also recent developments, including those in the coal industry, it has been decided to set the contingency reserve in 1981-82 at £2,500 million, cash, compared with the £2,000 million shown in Cmnd. 8175. This increase in the reserve will imply extra spending of no more than £200 million; the broadening of control should exert downward pressure on the level of expenditure.

## PROPOSED CHANGES IN TAXATION

### INLAND REVENUE

#### Income tax

It is proposed—

to increase the allowance for blind persons from £180 to £360.

to alter with effect from 1982-83 the scales which measure the taxable benefit of company cars and with effect from 1981-82 the provisions which modify them where there is little business use and to amend the law governing the provision of petrol by an employer for the employee's private use.

to make other changes with effect from 1982-83 in the taxation of fringe benefits, in particular in relation to the benefit derived from the provision by employers of credit cards, season tickets and medical insurance premiums.

to increase to £25,000 the threshold above which tax is chargeable on payments made on termination of employment and to revise the system of reliefs available to individuals receiving payments above £25,000.

to tax with effect from 1982-83 sums paid to employees under certain sick pay schemes.

to introduce a relief for investment by "outsiders" in certain new corporate trades ("Business Start-up Scheme").

to allow relief for interest paid on money borrowed for investment in a partnership to borrowers who do not personally act in the conduct of the business.

to allow relief for interest paid on money borrowed for investment in an industrial co-operative to borrowers who are members of the co-operative.

to allow for 1982-83 onwards interest relief to be claimed without a break where the borrower is obliged to switch from claiming relief against his general income to claiming relief by deduction as a business expense.

to amend and supplement the provisions against avoidance of tax by virtue or in consequence of transfers of assets abroad.

to amend the rules governing the payment of capital sums by trusts.

#### Income tax and corporation tax

It is proposed—

to introduce a revised system of stock relief.

to increase the initial allowance for industrial buildings to 75 per cent for expenditure incurred after Budget Day.

#### Corporation tax

It is proposed—

for the financial year 1980 to increase the limit for the "small companies" rate of corporation tax from £70,000 to £80,000 and the limit for marginal relief from £130,000 to £200,000.

to extend group relief to allow certain losses of a consortium member to be surrendered to a consortium company.

to allow relief for interest paid which is charged to capital in a company's accounts.

to allow relief against investment companies' corporation tax profits on certain capital losses on equity investment in unquoted trading companies.

#### Corporation tax and capital gains tax

It is proposed—

to prevent avoidance through the use of the market value rule.

#### Oil taxation

It is proposed, for chargeable periods ending after 31 December 1980—

to introduce a Supplementary Petroleum Duty (SPD) at a rate of 20 per cent of gross revenues less an oil allowance of half a million tonnes per chargeable period.

to restrict the Petroleum Revenue Tax (PRT) uplift to qualifying expenditure incurred before payback; to restrict PRT safeguard to a limited period following payback.

to clarify the PRT treatment of conveying and treating costs where royalty is taken in kind; to restrict PRT uplift where assets are paid for under certain financing arrangements.

#### Capital gains tax

It is proposed—

to extend the rollover relief for lifetime gifts between individuals to gifts into settlement.

to revise the rules for gains arising to non-resident trusts and to trusts for the disabled and to strengthen the existing rules on certain other occasions of charge.

#### Development land tax

It is proposed—

to increase the limit for extensions to original buildings from one-tenth to one-third of the cubic content.

## PROPOSED CHANGES IN TAXATION—continued

### INLAND REVENUE—continued

to defer the charge on a deemed disposal where the development is started before 1 April 1983 and is for the owner's use.

to provide a special relief for residential developments where land is held as stock in trade.

#### Capital transfer tax

It is proposed—

to introduce a new rate schedule for lifetime transfers other than those made within three years of death. The maximum rate is to be 50 per cent.

to limit to 10 years the period over which the amount of transfers is totalled in order to determine the rate chargeable.

to increase the annual exemption for lifetime transfers to £3,000.

to remove the ceiling of £250,000 on the total value of chargeable transfers the tax on which may be paid by interest-free instalments and to extend the facility to tax on all property qualifying for agricultural relief.

to restructure the relief for agricultural property; in particular relief is to be allowed at 20 per cent for let agricultural land.

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

to amalgamate the separate reliefs for successive charges which at present apply to absolute gifts and transfers within settlements, and to extend the period over which the relief is available from 4 to 5 years.

to make changes in relation to settled property, related property and free loans.

#### Stamp duties

It is proposed to ensure that stamp duty on purchases of public sector dwellings at a discount is charged by reference to the actual post-discount price paid.

#### Special tax on banking deposits

It is proposed to introduce a special tax, for one year only, on certain deposits held by banking businesses.

## CUSTOMS AND EXCISE

#### Value added tax

It is proposed to amend Section 20(1) and Schedule 1 to the Finance Act 1972 so as to increase the registration and deregistration limits. From 11 March 1981 the registration limits will become £15,000 per annum and £5,000 per quarter. From 1 June 1981 the deregistration limits will become £14,000 per annum where estimated future turnover is concerned, and £15,000 per annum where past turnover is concerned.

#### Car tax

It is proposed to amend Section 52 of the Finance Act 1972 relating to car tax so as from 1 April 1981 to apply the tax, at its existing rate of 10 per cent of the wholesale value of the vehicle, to any two-wheeled vehicle of a kind normally used on the public roads which is propelled by an internal combustion engine and which is capable of carrying one or more persons.

#### Alcoholic drinks

It is proposed, from midnight 10-11 March 1981, to increase:

- the rate of duty on spirits from £11.87 to £13.60 per litre of alcohol in the spirits;
- the rate of duty on beer from £13.05 to £18.00 per hectolitre and the charge for each additional degree of original gravity above 1030° per hectolitre from £0.435 to £0.60;
- the rates of duty on wine by the following amounts per hectolitre:

Wine of an alcoholic strength:

- not exceeding 15 per cent: from £81.42 to £95.20
- exceeding 15 per cent but not exceeding 18 per cent: from £93.93 to £122.90

CUSTOMS AND EXCISE—continued

exceeding 18 per cent but not exceeding 22 per cent: from £110.59 to £144.70

exceeding 22 per cent: as above plus £13.60 (instead of £11.87) for every 1 per cent, or part of 1 per cent, in excess of 22 per cent;

surcharge on sparkling wine: from £17.90 to £20.90;

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

Made-wine of an alcoholic strength:

not exceeding 10 per cent: from £52.85 to £61.80

exceeding 10 per cent but not exceeding 15 per cent: from £79.16 to £92.50

exceeding 15 per cent but not exceeding 18 per cent: from £87.04 to £113.90

exceeding 18 per cent: as above plus £13.60 (instead of £11.87) for every 1 per cent, or part of 1 per cent, in excess of 18 per cent;

surcharge on sparkling made-wine from £8.25 to £9.60;

(e) the rate of duty on cider and perry from £6.05 to £7.20 per hectolitre.

Hydrocarbon oil

It is proposed, from 6 p.m. on 10 March 1981, to increase:

(a) the rate of duty on light hydrocarbon oil, petrol substitutes and spirits used for power methylated spirits from 10 pence to 13.82 pence per litre;

(b) the rate of duty on heavy hydrocarbon oil for use as road fuel from 10 pence to 13.82 pence per litre;

(c) the rate of duty on gas for use as road fuel from 5 pence to 6.91 pence per litre.

Tobacco

It is proposed, from midnight 13–14 March 1981, to increase:

(a) the specific element in the duty on cigarettes from £13.42 to £18.04 per 1,000 cigarettes (the *ad valorem* element remaining unchanged);

(b) the duty on cigars from £25.60 to £34.29 per kilogram;

(c) the duty on hand-rolling tobacco from £22.60 to £29.56 per kilogram;

(d) the duty on other smoking and chewing tobacco from £17.40 to £21.92 per kilogram.

It is proposed to abolish from midnight 13–14 March 1981 the duty surcharge on higher tar cigarettes.

Matches and mechanical lighters

It is proposed, from midnight 10–11 March 1981, to increase:

(a) the duty on matches from 49 pence to 115 pence per short standard (7,200 matches);

(b) the duty on mechanical lighters from 20 pence to 50 pence per lighter.

VEHICLE EXCISE DUTY

It is proposed to increase the excise duty on mechanically-propelled vehicles which is chargeable under Section 1 of the Vehicles (Excise) Act 1971 and under Section 1 of the Vehicles (Excise) Act (Northern Ireland) 1972 by about 15 per cent. This figure is broadly descriptive and there will be some variations within particular vehicle categories. The increases

have effect in relation to licences taken out after 10 March 1981.

It is also proposed to increase the weight threshold in relation to vehicles licensed under Schedule 1 of the 1971 and 1972 Acts from 8½ cwt to 425 kg (8.37 cwt) in respect of licences taken out after 10 March 1981.

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

(All except VED inclusive of 15 per cent VAT)

Spirits duty	...	60 pence on a bottle of spirits	Derv duty	...	20 pence on a gallon of derv
Beer duty	...	4 pence on a pint of beer of average strength	Tobacco duty	...	14 pence on a packet of 20 cigarettes
Wine duty	...	12 pence on a bottle of table wine	Match duty	...	½ a penny on a typical box of matches
Fortified wine duty	...	25 pence on a bottle of sherry	Mechanical lighter duty	...	35 pence on a lighter
Petrol duty	...	20 pence on a gallon of petrol	Vehicle excise duty	...	£10 on a car licence

METHOD OF ESTIMATION OF DIRECT EFFECTS OF A TAX CHANGE

(See Table 2 on pages 10 and 11)

1. The direct effect of a tax change for a full year is the difference between the yield of the tax on the basis of the law prevailing before the Budget and the yield on the basis of the law after the changes proposed in the Budget, calculated on certain conventional assumptions as indicated below.

2. For a change to an Inland Revenue tax, both yields are calculated on the same tax base. This is the level of taxable income, profits, etc., which is forecast for the first year to which the change fully applies, assuming that all the changes proposed in the Budget take effect. For a change in capital gains tax, capital transfer tax and development land tax, the proportionate change in yield for the first year to which the change applies is estimated and is applied to the forecast of receipts of the tax (before the change) in 1981–82.

3. For expenditure taxes, the post-Budget yield is based on the same forecast as the yields for the main Inland Revenue taxes. For Stamp Duties and Vehicle Excise Duties the same base is used for the pre-Budget change yield. But for other expenditure taxes the base for calculating the pre-Budget measures yield is derived from this by assuming that total consumers' expenditure

at current market prices is unchanged. However, since consumers might be expected to alter their spending patterns in response to the change in relative prices resulting from the tax change (the substitution effect), and the general volume of their consumption in response to the change in real income (the income effect), the tax base also changes. The estimated direct effects of changes in an expenditure tax, other than Stamp Duties and Vehicle Excise Duties, take account of changes in revenue from other expenditure taxes affected by these substitution and income effects. A fuller description of the estimation of the direct effects of expenditure tax changes is provided in an article in *Economic Trends*, March 1980.

4. The direct effect for 1981–82 is that part of the full year effect expected to come through into tax receipts during that financial year.

5. The estimates of the direct effects in this table do not allow for changes in the tax base resulting from changes in money incomes, the general level of prices and other economic variables which may be induced by the tax change under consideration. Such indirect effects would of course have to be taken into account in estimating the impact of the tax change on the PSBR.



TABLE 2. DIRECT EFFECTS OF CHANGES IN TAXATION

£ million

	Forecast for 1981-82	Forecast for a full year
<b>INLAND REVENUE</b>		
<i>Income tax</i>		
Retention of 1980-81 main personal allowances and thresholds ...	Nil(a)	Nil(a)
Increase in blind allowance ...	-1	-1
Changes in taxation of fringe benefits ...	Negligible	+45
Changes in taxation of termination payments ...	-5	-5
Taxation of sums received under sick pay schemes ...	Nil	+50
Relief for investment in new corporate trades ...	Negligible	-50(b)
Extension of interest relief for borrowing to invest in partnerships ...	Negligible	Negligible
Interest relief for borrowing to invest in industrial co-operatives ...	Negligible	Negligible
Interest relief: switching to a deduction as a business expense ...	Nil	Negligible
Changes in anti-avoidance rules: transfer of assets abroad ...	Negligible	+4
<i>Income tax and corporation tax</i>		
New system of stock relief: additional cost ...	-180	-450(c)
Industrial buildings: 75 per cent initial allowances ...	Negligible	-25(d)
<i>Corporation tax</i>		
Increase in limits for small companies' rate ...	-12	-21
Extension of group relief ...	Negligible(b)	-25(b)
Relief for capital losses against investment companies' profits ...	Negligible	-10
<i>Corporation tax and capital gains tax</i>		
Prevention of avoidance through market value rule ...	Negligible	+50
<i>Supplementary petroleum duty and petroleum revenue tax</i> ...	+930(e)	+265(f)
<i>Petroleum revenue tax</i>		
Changes to PRT reliefs ...	+90	+40(g)
<i>Capital gains tax</i>		
Settled property rules, including rollover relief ...	Negligible	-15
<i>Development land tax</i> ...	Negligible	-2(h)
<i>Capital transfer tax</i>		
Changes in rates on lifetime transfers ...	-2	-4
Limitation of cumulation period to 10 years ...	Nil	(i)
Increase in annual exemption for lifetime gifts ...	Negligible	-1
Extension of interest-free instalment facilities ...	-1	-5
Relief for let agricultural land ...	-1	-7
Extension of transitional period for discretionary trusts ...	Negligible	Nil(j)
Extension and amalgamation of quick succession reliefs ...	-1	-3
Other changes ...	Negligible	Negligible
<i>Stamp duties</i>		
Duty on purchases of public sector dwellings at a discount ...	Negligible	Negligible
<i>Special tax on banking deposits</i> ...	+400	+400(k)
<b>TOTAL INLAND REVENUE</b> ...	<b>+1,217</b>	<b>+230</b>

TABLE 2—continued. DIRECT EFFECTS OF CHANGES IN TAXATION

£ million

	Forecast for 1981-82	Forecast for a full year
<b>CUSTOMS AND EXCISE</b>		
<i>Value added tax</i>		
Increase in registration limits ...	-5	-10
<i>Excise duties</i>		
Increase in rate of duty on light oil, etc. ...	+910	+910
Increase in rate of duty on heavy oil for use in road vehicles ...	+270	+270
Increase in rates of tobacco products duty ...	+500	+510
Increase in rates of spirits duties ...	+60	+60
Increase in rates of beer duty ...	+370	+385
Increase in rates of wine and made-wine duties ...	+67	+67
Increase in rate of duty on cider and perry ...	+3	+3
Increase in rates of duties on matches and mechanical lighters ...	+15	+15
<i>Car tax</i>		
Extension to motor cycles ...	+10	+15
<b>TOTAL CUSTOMS AND EXCISE</b> ...	<b>+2,200</b>	<b>+2,225</b>
<b>VEHICLE EXCISE DUTY</b>		
Increase in rates of duty ...	+225	+225
<b>OTHER</b>		
<i>Bus Fuel Grants (l)</i> ...	-31	-31
<b>Total Changes in Taxation</b> ...	<b>+3,611</b>	<b>+2,649</b>

(a) If these had been increased by 15.1 per cent as specified under the provisions of Section 24 of the Finance Act 1980, the revenue cost would have been £1,900 million in 1981-82, and £2,510 million in a full year.

(b) This estimate is highly uncertain.

(c) The additional cost in 1982-83 will be £400 million, with further substantial costs in later years. Amounts will depend on the level of inflation and other factors.

(d) The cost in 1982-83 will be £10 million.

(e) Supplementary petroleum duty +£1,850 million; petroleum revenue tax -£920 million.

(f) The full year forecast takes into account the consequential reductions in petroleum revenue tax and corporation tax irrespective of when they occur. Supplementary petroleum duty +£1,850 million; petroleum revenue tax -£1,295 million; corporation tax -£290 million.

(g) Petroleum revenue tax +£80 million, corporation tax -£40 million.

(h) Estimated on a receipts basis; on the basis of the tax accruing in 1981-82, the cost is likely to be higher.

(i) Cannot be estimated.

(j) The cost in 1982-83 will be £20 million.

(k) Applicable to 1981-82 only.

(l) This is a consequence of the increase in road fuel duties. These grants are treated as tax refunds in Tables 14, 15, and 22.

# DIRECT EFFECTS OF THE BUDGET ON PUBLIC SECTOR TRANSACTIONS

The estimated direct effects of the tax and expenditure measures are brought together and classified in Table 3 according to the economic categories used in the national income accounts. The final line shows the direct effect of the Budget on the public sector borrowing requirement.

TABLE 3. DIRECT EFFECTS ON PUBLIC SECTOR TRANSACTIONS

£ million

	1981-82		
	Tax proposals	Expenditure measures	Total
<b>GENERAL GOVERNMENT</b>			
<b>CURRENT RECEIPTS</b>			
Taxes on income ...	+822		+822
Taxes on expenditure ...	+2,394		+2,394
National insurance, etc., contributions ...			
Gross trading surplus ...			
Rent ...			
Capital consumption ...			
Interest and dividends from—			
Public corporations ...			
Other ...			
<b>TOTAL</b> ...	<b>+3,216</b>		<b>+3,216</b>
<b>CURRENT EXPENDITURE</b>			
Current expenditure on goods and services ...			
Capital consumption ...			
Subsidies ...			
Debt interest ...			
Current grants to personal sector ...			
Current grants abroad ...			
<b>TOTAL</b> ...			
<b>CURRENT BALANCE</b>			
Central government ...	+3,216		+3,216
Local authorities ...			
<b>General government</b> ...	<b>+3,216</b>		<b>+3,216</b>
<b>CAPITAL RECEIPTS</b>			
Current balance ...	+3,216		+3,216
Taxes on capital and other capital receipts ...	+395		+395
<b>TOTAL</b> ...	<b>+3,611</b>		<b>+3,611</b>
<b>CAPITAL EXPENDITURE</b>			
Gross domestic fixed capital formation ...			
Increase in stocks ...			
Capital grants to—			
Public corporations ...			
Private sector ...			
<b>TOTAL</b> ...			
<b>FINANCIAL DEFICIT (on current and capital transactions)</b>			
Central government ...	+3,611		+3,611
Local authorities ...			
<b>General government</b> ...	<b>+3,611</b>		<b>+3,611</b>

TABLE 3. DIRECT EFFECTS ON PUBLIC SECTOR TRANSACTIONS<sup>(1)</sup>—continued

£ million

	1981-82		
	Tax proposals	Expenditure measures	Total
<b>PUBLIC CORPORATIONS</b>			
<b>CAPITAL EXPENDITURE</b>			
Gross domestic fixed capital formation ...			
Increase in stocks ...			
<b>TOTAL</b> ...			
<b>INTERNALLY ARISING FUNDS</b>			
Gross trading surplus ...			
Rent and other non-trading income ...			
Interest and dividend payments to—General government ...			
Other ...			
Taxes on income ...			
<b>TOTAL</b> ...			
<b>CAPITAL RECEIPTS</b>			
Capital receipts from—General government ...			
Other ...			
<b>TOTAL INTERNAL FUNDS AND CAPITAL RECEIPTS</b> ...			
<b>EXCESS OF CAPITAL EXPENDITURE OVER INTERNAL FUNDS AND CAPITAL RECEIPTS</b> ...			
<b>FINANCIAL DEFICIT</b> ...	<b>+3,611</b>	<b>−118</b>	<b>+3,493</b>
<b>FINANCIAL AND OTHER TRANSACTIONS OF THE PUBLIC SECTOR</b>			
Transactions concerning certain public sector pension schemes ...			
Accruals adjustments ...			
Miscellaneous capital transactions (net) ...			
Net lending to the private sector ...			
Net lending, etc., abroad ...			
Cash expenditure on company securities (net) ...			
Unallocated items—Contingencies (net) ...			
Special sales of assets ...			
<b>PUBLIC SECTOR BORROWING REQUIREMENT</b> ...	<b>+3,611</b>	<b>−318</b>	<b>+3,293</b>
<b>NET BORROWING FROM THE PRIVATE SECTOR AND OVERSEAS BY:</b>			
Central government ...	−3,611	+45	−3,566
Unallocated items ...		+200	+200
Local authorities ...			
<b>General government</b> ...	<b>−3,611</b>	<b>+245</b>	<b>−3,366</b>
<b>Public corporations</b> ...		<b>+73</b>	<b>+73</b>
<b>PUBLIC SECTOR BORROWING REQUIREMENT</b> ...	<b>−3,611</b>	<b>+318</b>	<b>+3,293</b>

(<sup>1</sup>) For general government +/− indicates an increase/decrease in revenue or expenditure. For balances and financial transactions +/− indicates a change in revenue or expenditure which reduces/increases the public sector borrowing requirement.

## PART II

### MEDIUM-TERM FINANCIAL STRATEGY

1. The Government's objectives for the medium-term are to bring down the rate of inflation and to create conditions for a sustainable growth of output and employment. It is committed to a progressive reduction in the growth of the money stock and to pursuing the fiscal policies necessary to achieve this without excessive reliance on interest rates. The past year has seen greater monetary growth and public borrowing than was intended, but the Government is determined to ensure that the essential thrust of its financial strategy for the medium-term is maintained. The main proposals in the Budget are directed to that end.

2. The fiscal projections set out below are consistent with the Government's aims to reduce monetary growth and inflation. But the projected level of public expenditure implies a tax burden significantly higher than the Government would wish. For this reason the Government regards the level of public expenditure as requiring the most serious attention during the 1981 Survey.

#### Financial Developments in 1980-81

3. As explained in more detail in Part III, the recession has been worse than was expected a year ago, and in particular manufacturing output and employment have fallen sharply. Inflation, however, came down faster than was forecast and the prospects are for a further decline in the coming year.

4. With output and inflation both falling, the growth of nominal GDP slowed down considerably in the course of 1980-81. This helped to ease the upward pressures on interest rates. The year, however, was marked by major imbalances within the economy and these were a major factor behind the rapid growth of the broad measures of the money stock.

5. High pay settlements in the 1979-80 round coupled with the high exchange rate substantially increased the real disposable income of persons. A high proportion of this income was saved. This rise in personal

incomes, however, was largely at the expense of companies, whose profits were severely squeezed. Companies reacted to the pressures on them by reducing stocks and employment. The company sector thereby contained its financial deficit within reasonable bounds. Its actions helped to produce a large surplus in the current account of the balance of payments. They also increased the public sector's deficit. The fall in employment in the private sector and the high pay increases in the public sector, partly reflecting the staging of earlier awards, meant that the pay bill of the public sector rose twice as fast in 1980-81 as that of the private sector. This divergence contributed to the over-run of the PSBR.

6. The increase in the public sector's borrowing was not, however, as in previous recessions, accompanied by much fall in the private sector's demand for credit. Bank lending remained high for most of the year, partly reflecting the desire by companies to preserve their liquidity.

7. High personal saving and the limitation of the company sector deficit were reflected in a substantial increase in the net financial assets of the private sector as a whole. This rise in the private sector's financial wealth was probably an important influence on the growth of the wider measures of money supply, since the public's demand for liquid balances is, over time, related to the movement of its total holdings of financial assets. Real financial wealth had been depressed in 1979 by the effects of high inflation and high interest rates. The past year has seen it restored to a more normal level.

8. The difficulties of interpreting recent monetary developments are increased by the wide divergence between the various monetary indicators. All the measures of money stock fell in real terms during the winter of 1979-80; all showed some real increase from the spring onwards, but the increase was considerably greater for £M3 than for the other aggregates. Over the year to mid-February £M3 grew by 20 per cent.

TABLE 4  
GROWTH OF MONETARY AGGREGATES

	M1	£M3	PSL1	PSL2
Percentage growth February 1980-February 1981 ... ..	9	20	17	15



A better guide to the true growth of broad money through this period is probably given by PSL1, which includes private holdings of bills as well as money, and so should have been less affected than £M3 by the corset and other distortions. This rose by 17 per cent during the year. The still wider measure of private sector liquidity, PSL2, which includes savings deposits and securities, rose by 15 per cent. Among the

narrower measures of money supply, M1 rose by only 9 per cent. This and other narrower measures of the money stock in fact fell in real terms over the year as a whole. Other indicators also suggest that financial conditions in 1980-81 were tight: the high exchange rate; high interest rates; the absence of any marked upward movement in the prices of houses or other real assets.

TABLE 5

## RANGES FOR GROWTH OF THE MONEY STOCK (£M3)\*

	1981-82	1982-83	1983-84
Percentage change during year ... ..	6-10	5-9	4-8

\* As the Green Paper on Monetary Control (Cmd. 7858) explained, the way in which money supply is defined for target purposes may need to be adjusted from time to time as circumstances change.

9. Taken on its own, therefore, £M3 has not been a good indicator of monetary conditions in the past year. However, over the medium-term its velocity of circulation has been broadly stable, and for such a period the growth of £M3 can be more readily related to the growth of nominal income and overall fiscal stance. It can, therefore, provide a guide to the levels of public expenditure, revenues and borrowing likely to be consistent, over the medium-term, with the objective of bringing down monetary growth and interest rates. £M3 is accordingly being retained as the main target variable in the medium-term financial strategy, though as in the past year, the significance of short-run movements for interest rate policy will be interpreted in the light of other financial developments as well.

## The path for monetary deceleration

10. Some of the factors that have been identified as contributing to the rapid growth of £M3 in 1980-81 mean that it should not have the implications for future inflation which generally follow an increase in money supply. At the same time the high exchange rate and high real interest rates have ensured that monetary conditions remained tight and that progress in reducing inflation was maintained.

11. Nonetheless, it is important not to disregard the past year's rapid rise in setting targets for monetary growth for the later years of the medium-term financial strategy. As explained in the Budget Speech, the target range for £M3 in 1981-82 is to be set at the 6-10 per cent indicated in last year's FSB. The precise target ranges for the following years will be decided nearer the time. Meanwhile it is the Government's intention to consider clawing back some of the past year's rapid growth of £M3 by permitting an

undershoot as and when the opportunity arises. In the present review of the medium-term financial strategy no allowance has been made for such clawing back in the later years of the MTF period. The ranges for 1982-83 and 1983-84 shown last year have therefore been retained. They are set out in Table 5 above.

## Fiscal policy

12. The Government intend that fiscal policy should be consistent with this declining path for monetary growth. The PSBR as a proportion of GDP will be brought down substantially over the medium-term, so as to create conditions in which interest rates can fall.

13. The illustrative tables in last year's Financial Statement and Budget Report were based on the public expenditure plans as they stood at that time and revenue projections that assumed that GDP grew by 1 per cent on average in the years 1980-83. Since those projections were made there have been some substantial changes:

First, the prospects for growth over the next two or three years, both in this country and in the rest of the world, have deteriorated: this both reduces projected revenue and increases projected expenditure.

Second, partly as a result of the lower activity, public expenditure plans in the new White Paper (Cmd. 8175) are considerably higher than those published a year ago.

Third, the build-up of North Sea revenues looks like being slower than expected earlier, in spite of changes to the North Sea fiscal regime.

Fourth, the increases in other taxes and contributions announced last November and in the Budget will increase future revenues.

14. The first three of these changes all worsen the fiscal prospect. They have entailed substantial increases in the tax burden. The illustrative tables published last year showing the evolution of government expenditure, revenue and borrowing over the period to 1983-84 have been re-worked to take account of these changes.

15. For this purpose it has been assumed that GDP growth over the three years 1980-83 averages  $\frac{1}{2}$  per cent a year. Such a rate is broadly representative of the current range of outside forecasts. The reduction from the 1 per cent average for this period assumed a year ago mainly reflects the lower output now expected in 1981. If the economy develops in the coming year as now forecast, the assumption made for the three years would imply growth averaging about  $1\frac{1}{2}$  per cent in the last two years of the period.

## Public expenditure

16. The plans announced in the Public Expenditure White Paper (Cmd. 8175) show a reduction of 4 per

cent in the volume of public expenditure between 1980-81 and 1983-84, about the same as in the plans published last year, but starting from a substantially higher level.

17. In assessing the implications for fiscal policy, it is helpful to look at expenditure in cost terms (*i.e.* including the assumed relative price effect, RPE), since this gives a clearer idea of their tax and financing implications. In the past year the relative cost of public expenditure has risen sharply, reflecting both the growth of earnings in the public services and the fact that the goods and services bought for the public services have not experienced the same downward pressures on their prices as those bought by consumers or private businesses. In cost terms (at 1979-80 prices) general government expenditure is projected to decline over the next four years—from £91½ billion in 1980-81 to £87½ billion in 1983-84. This is a bigger reduction than shown in the volume figures, and reflects some fall in the relative cost of government expenditure.

TABLE 6

## GENERAL GOVERNMENT EXPENDITURE

	(£ billion)				
	1979-80	1980-81	1981-82	1982-83	1983-84
General government expenditure at 1980 survey prices <sup>(1)</sup> ... ..	77.9	79	79½	78	76½
At 1979-80 prices					
General government expenditure in cost terms <sup>(2)</sup> ...	77.3	79½	79½	78	76
Special sale of assets <sup>(3)</sup> ... ..	-1.0	—	—	—	—
Shortfall, etc. <sup>(4)</sup> ... ..	—	—	—½	—½	—½
National Accounts Adjustment <sup>(5)</sup> ... ..	2.9	2½	2	2	2
Interest payments <sup>(6)</sup> ... ..	9.6	10	10	10	10
Total expenditure in national accounts terms <sup>(7)</sup> ...	88.8	91½	91½	90	87½

<sup>(1)</sup> Expenditure on programmes by central and local authorities and the contingency reserve. See Cmd. 8175, Table 1.1, lines 1, 2 and 6. Debt interest payments are shown separately below. Since most plans are not decided in detail yet for the years after 1981-82 broad assumptions have been made about the share of general government in the total of expenditure on programmes shown in Cmd. 8175, Table 1.1. for 1982-83 and 1983-84. For convenience, the whole of the contingency reserve is allocated to general government in all years in this table.

<sup>(2)</sup> Line 1 revalued to 1979-80 prices in cost terms, *i.e.* including projected relative price changes. For each category of public expenditure its relative price is the ratio of its deflator to the deflator for GDP at market prices. The figure for 1979-80 is equal to the sum of the lines for central government and local authorities in Cmd. 8175 Table 4.6.

<sup>(3)</sup> Cmd. 8175, Table 1.1, line 5 revalued to 1979-80 prices. Includes revenue offsets to planned expenditure and a small element attributable to public corporations.

<sup>(4)</sup> Cmd. 8175, Table 1.1, line 7, revalued to 1979-80 prices with Budget measures added. Certain adjustments have been made in respect of public corporations. Includes the net effects of different economic assumptions from those used in Cmd. 8175.

<sup>(5)</sup> Adjustment to convert line 2 to the definition used in national accounts statistics. Revenue offsets to planned expenditure and a small element attributable to public corporations are offset here. This differs from last year's treatment in which they were included on the expenditure side. For 1979-80 includes residual measurement differences.

<sup>(6)</sup> For 1979-80 as in Financial Statistics, February 1981. For 1980-81 and 1981-82, revalued figures for general government in line 13 of Table 14 of this report.

<sup>(7)</sup> For 1979-80 equal to line 4 of Table 2.4, Financial Statistics, February 1981. This base year is chosen because it is the latest complete year for which outturn figures, and full details of relative prices, are available.

TABLE 7  
GENERAL GOVERNMENT RECEIPTS

	1979-80	1980-81	1981-82	1982-83	1983-84
<i>General Government Receipts at 1979-80 prices<sup>(1)</sup></i> (£ billion)					
Taxes on income, expenditure and capital ...	60.9	61	64	65	66
National insurance, etc. ...	12.0	12½	12½	13	13
Interest and other receipts ...	5.5	6	6	6	6
<b>Total Receipts</b> ...	<b>78.4</b>	<b>79½</b>	<b>82½</b>	<b>84</b>	<b>85</b>
of which:					
North Sea tax revenues <sup>(2)</sup> ...	2.3	3½	4½	4½	5½

<sup>(1)</sup> Converted to 1979-80 prices using the deflator for GDP at market prices, so that these projections are directly comparable with the expenditure projections in Table 6.

<sup>(2)</sup> Royalties, Supplementary Petroleum Duty (from 1981-82), Petroleum Revenue Tax and Corporation Tax from North Sea oil and gas production (before Advance Corporation Tax set-off).

18. Table 8 below sets these expenditure projections against an illustrative projection of government revenue. The assumptions made about GDP growth would imply a fall in public expenditure as a proportion of GDP from 44½ per cent in 1980-81 and 45 per cent in 1981-82 to 41 per cent in 1983-84.

#### Revenue

19. The growth of government revenue over the medium-term will be strongly affected by the growth of output. Table 7 shows the estimates growth of real revenues (on the same price basis as that used for general government expenditure in Table 6) on the assumption that GDP grows by ½ per cent a year on average over the three years 1980 to 1983.

20. Revenue is projected on the conventional assumption of constant indexed tax rates and allowances at the proposed 1981-82 levels. National insurance

contributions in future years are assumed to be adjusted to maintain the balance of income and expenditure in the fund. It is assumed that the supplementary petroleum duty continues throughout the period. On these assumptions, total general government revenues are projected to rise by about 7 per cent in real terms between 1980-81 to 1983-84.

21. About a third of this increase is accounted for by rising revenues from the North Sea. With the proposed changes in the North Sea fiscal regime these are expected to rise by about 60 per cent in real terms over the three years. But even so the build-up of North Sea revenue is slower than was expected a year ago. This reflects, among other things, the further substantial scaling down of the projected output ranges and higher estimates of capital spending at tax-paying fields. The projections assume some modest increase in the world oil price in real terms after 1981.

TABLE 8  
PUBLIC SECTOR BORROWING

	1979-80 prices (£ billion)				
	1979-80	1980-81	1981-82	1982-83	1983-84
Total general government expenditure ...	88.8	91½	91½	90	87½
Total general government receipts...	-78.4	-79½	-82½	-84	-85
Implied fiscal adjustment ...	—	—	—	1	2
General Government Borrowing Requirement (GGBR)	10.4	12	9	7	4½
PSBR <sup>(1)</sup>	9.9	11½	8	6½	4
(as percentage of GDP at market prices) ...	5.0	6	4½	3½	2

<sup>(1)</sup> The difference between the GGBR and the PSBR—public corporation borrowing from the private sector and overseas—is consistent with Table 14 of this report for 1980-81 and 1981-82, and with Cmnd. 8175, Table 1.1, line 4 for subsequent years.

22. Receipts of non-North Sea taxes are projected to rise by about 5 per cent in real terms through the period. The projected yield of these taxes is, of course, highly sensitive to the particular growth rate assumed for the economy.

#### Money Supply and Public Sector Borrowing

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

24. The PSBR for 1980-81 is now estimated at £13½ billion, compared with the forecast of £8½ billion in the Budget (see Part IV). The PSBR of £10½ billion forecast for 1981-82 is about £3 billion higher than that implied in last year's medium-term projections. General government expenditure in that year is now put about £6 billion higher in cash than was then projected, and revenue about £3 billion higher. A substantial part of the increase in the forecast of expenditure in both 1980-81 and 1981-82 is attributable to the recession being worse than expected, with spending on social security benefits, special employment measures, redundancy fund payments and, in 1981-82, external finance for nationalised industries especially affected. In addition, debt interest payments and some expenditure on goods and services are also higher than forecast a year ago. The main influence on the revenue forecast is the real increase in taxes in the Budget.

25. These changes carry through into the projections for later years. Moreover, the increase in expenditure over the levels projected a year ago is greater when expressed in cost terms than in cash or volume—mainly because the general price level is now lower than was expected a year ago (which has the effect of increasing the RPE). The figures at 1978-79 prices in Tables 6, 8 and 9 of last year's Financial Statement and Budget Report can be approximately translated to the price base used this year by inflating them by 16½ per cent (which was the rise in the GDP deflator between the two years as estimated at the time of the 1980 Budget).

26. As was stressed when the projections were introduced last year, the particular course shown for the

PSBR should not be interpreted as a target path. It is a projection of the course of the PSBR based on the assumed growth of GDP and present public expenditure plans that should be broadly compatible with the monetary objectives. Fiscal policy in any particular year will be operated so that the PSBR for that year will be consistent with declining monetary growth in the particular circumstances of the time. Because the level of activity in the economy is below that assumed in last year's projections, the path for the PSBR shown in these projections is rather higher than that shown last year. By 1983-84 the PSBR is assumed to be about 2 per cent of GDP at market prices (compared with 1½ per cent assumed last year).

27. The PSBR path shown requires, on the assumptions made, a "fiscal adjustment". As in last year's projections, this implies that—given all the assumptions—on present tax rates and expenditure plans the PSBR ratio could be met with some margin to spare for fiscal relief. However, the higher levels of public expenditure now projected inevitably mean that the margin is substantially smaller, and occurs later, than in last year's projections. Moreover, it is also starting from a higher tax base, reflecting the real tax increases proposed for 1981-82. In broad terms the fiscal adjustment implied for the later years would do no more than offset the rise in the personal tax burden in the coming year. Although this does not prejudice the achievement of the Government's monetary policy and financial strategy, it is clearly unsatisfactory in the context of the Government's wider economic objectives.

28. The projections shown above fall within a very wide range of possible outcomes. They should be taken as no more than illustrative of one particular evolution of the economy. If the economy were to evolve in a different way, the projections of public finances could be substantially affected. The policy response to such changes would depend on their nature, but although the revenue and expenditure figures could change substantially, the intention would be to hold firmly to the main thrust of the financial strategy—which is to bring about a progressive reduction in the growth of money supply and inflation over the medium-term.

## THE ECONOMY: RECENT DEVELOPMENTS AND PROSPECTS TO MID-1982

### RECENT DEVELOPMENTS IN THE UNITED KINGDOM ECONOMY

#### Summary

1. The past year has been difficult as the economy has had to adjust, against a background of world recession, to a higher exchange rate and lower inflation. The immediate costs of this adjustment are falling output and sharply rising unemployment. However, part of the loss of output and employment could have been avoided had wage increases been lower; only since the Autumn has there been evidence of greater realism in pay settlements. Profit margins have been squeezed by a combination of high pay settlements and the strengthening exchange rate, which in part has reflected the rising value of North Sea oil. The rise in the exchange rate and the excessive wage settlements have led to a marked contrast between the financial position of the personal and company sectors. In the first three quarters of 1980 compared with the same period in 1979, total personal disposable income rose by 20 per cent while industrial and commercial companies' undistributed income fell by over 20 per cent. To preserve their liquidity, companies have responded by cutting back on stocks and employment, and cutting out unprofitable activities. Manufacturing companies, in particular, have suffered severe pressure.

2. Public expenditure and the PSBR in 1980-81 were both well above expectations. About half of the £5 billion overrun of the PSBR resulted from the recession being worse than expected, particularly in its impact on unemployment and short-time working. The recorded increase in £M3 was well above the top of the target range, partly because of the size of the PSBR, but partly for other reasons including the ending of the "corset" scheme. However, taken with other indicators, the high growth of £M3 does not suggest any weakening in counter-inflationary pressure; and inflation has continued to fall, rather more rapidly than forecast a year ago.

#### World economic developments

3. The rise in dollar crude oil prices of some 150 per cent over the past two years has imposed a transfer of real income to the OPEC countries equivalent to about 2 per cent of OECD area GNP, roughly the same as that brought about by the first oil price explosion in 1973-74. On this occasion, however, the general OECD policy response has not been accommodating. Countries have attempted to contain the

potentially inflationary consequences of the oil price rise. GNP in the OECD area as a whole grew by around 1 per cent in 1980, compared with 3½ per cent growth in 1979.

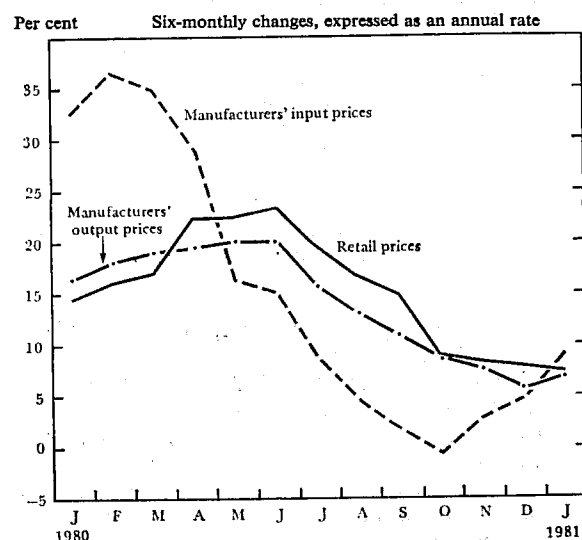
4. For the OECD area as a whole, the bottom of the recession may now have been reached. Unemployment in OECD countries rose by about 3 million during 1980. The year-on-year increase in consumer prices in the major economies declined from an average of 13 per cent last April to about 11½ per cent by the end of 1980. There was some improvement in OECD's current account during 1980 as activity declined and commodity prices apart from oil stabilised. Non-oil developing countries, however, experienced widening deficits during 1980, and the current account surplus of OPEC almost doubled in nominal terms between 1979 and 1980, to \$115 billion. World trade in manufactures (United Kingdom trade-weighted), after rising rapidly in the early part of 1980, fell back from the middle of the year. The rise for the year as a whole is estimated to have been about 5 per cent.

#### Inflation

5. 1980 saw a rapid slowing down in the rate of increase of prices and costs. In the second quarter of the year, manufacturers' output prices were 18½ per cent higher than a year earlier while their unit labour costs were nearly 25 per cent higher. By January 1981 the six-monthly annualised rate of increase in the price of manufactures, which provides a useful indication of the underlying trend, had fallen from 20 per cent in mid-1980 to about 7 per cent (see Figure 1). This reflected the intense competitive pressures of the recession, destocking and the strength of sterling. While manufacturing industry benefited in the second half of 1980 from almost stable prices of materials and fuels, labour costs—which are the major component of total costs—were increasing much faster than selling prices. Since the autumn of 1980, however, the average level of pay settlements has moderated sharply, with a high proportion of manufacturing settlements being in single figures.

6. Retail price inflation has also moderated substantially. The year-on-year increase in retail prices

Figure 1  
The slowdown of inflation during 1980



declined from a peak of 21.9 per cent in May 1980 to 13.0 per cent in January. The underlying six-monthly annualised rate is estimated to be in the range 10–11 per cent and the United Kingdom's inflation rate is now broadly in line with the OECD average, compared with an excess of 7–8 per cent last spring.

#### Monetary developments

7. Publication of the Government's Medium Term Financial Strategy was the major innovation in the 1980 Budget. This provided for a progressive reduction in monetary growth over a period of years, and set out a complementary path of declining public expenditure and public sector borrowing as a proportion of GDP. A target range of 7–11 per cent annual growth of £M3 was set for the period February 1980 to April 1981. The growth in £M3 and other monetary aggregates during the year has been discussed in Part II above, which drew attention to the major financial imbalances within the economy.

8. Following the increase in MLR to 17 per cent in November 1979, short term interest rates varied little until mid-summer but following reductions in MLR in July and November they fell to around 13 per cent. In the light of other indicators such as the growth of the narrow aggregates and the emergence of strongly positive real interest rates—brought about by the rapid progress in reducing inflation—it became clear that, even with some reduction in nominal interest rates, monetary conditions would still be tight. For much of

the year the yield on long term gilts was below short term rates. It remained at around 13 per cent until April and fell slightly thereafter to just under 12 per cent, before rising again in December to around 13½ per cent.

9. The volatility of US interest rates led to sharp fluctuations in interest rate differentials. Three month inter-bank rates, for example, were about 4 per cent in sterling's favour in early 1980, rose to 7–9 per cent during May to August of last year, but by early 1981 the differential was reversed to 3 per cent in favour of the dollar. Against German rates the differential was more stable, declining from about 8 to 5 per cent in sterling's favour during 1980.

#### Public expenditure and borrowing

10. Public expenditure in 1980–81 is now expected to be some 2 per cent higher in volume terms than projected a year ago, and also about 2 per cent higher than the volume of expenditure in 1979–80. Spending on programmes generally has been closer to plan than expected, so that the shortfall provision in last year's White Paper has proved to be an overestimate. Some of the higher spending results from effects of the recession not foreseen at Budget time. In cash terms, expenditure in 1980–81 is likely to turn out some 22 per cent higher than a year earlier. Although cash limits have generally held, defence expenditure is expected to exceed even the revised cash limit set last August (and this has contributed to the extra volume of public expenditure). Adjustments during the year to the external financing limits of nationalised industries were met from the contingency reserve and thus within the total of planned expenditure. Local authority expenditure appears to have been running above the provisions of last year's White Paper.

11. As a percentage of GDP, public expenditure as a whole is estimated to be 44½ per cent in 1980–81 compared with 41½ per cent in each of the previous two years. The higher ratio for 1980–81 reflects the increase in both the volume and relative cost of public expenditure at a time when the real level of GDP fell.

12. The PSBR for 1980–81 is estimated to be about £13½ billion, or about 6 per cent of GDP. This is some £5 billion higher than the central estimate in last year's Budget forecast and reflects both increased expenditure and lower revenue from indirect taxes than originally forecast. A detailed analysis of public expenditure and borrowing is given in Part IV.

13. The impact of the recession on the PSBR was larger than expected. This directly added some £1½ billion to expenditure and reduced income by some £1 billion. There were indirect effects which added

further to expenditure. Very approximately about half of the £5 billion increase in the PSBR in 1980–81 is accounted for by these factors.

#### Exchange rates

14. Between December 1979 and December 1980 sterling appreciated as follows:

	Per cent
Effective rate ...	12
US \$ ...	7
EMS currencies ...	20

The change in the effective rate reflects movements of sterling against a trade-weighted basket of major currencies. The larger appreciation against currencies in the EMS exchange rate arrangements reflects the weakening of the DM. Sterling appreciation against the US dollar was limited by the general recovery of the dollar itself.

15. United Kingdom industrial competitiveness as measured by relative normalised unit labour costs continued to decline. In the year to the third quarter of 1980, relative normalised unit labour costs rose by some 20 per cent, while sterling's effective rate appreciated by 6 per cent. Thus, less than one third of this deterioration in competitiveness was attributable to sterling appreciation. The major factor was high pay settlements relative to those in competitor countries. The strong exchange rate helped to stabilise the cost of industry's imported raw materials: over most of 1980, the index of wholesale input prices was flat.

#### Gross domestic product

16. Overall, the recession in 1980 was in line with the forecast made at Budget time. Table 9 below shows that the decline in output was heavily concentrated in the manufacturing sector.

TABLE 9. SECTORAL CONTRIBUTION TO DECLINE IN OUTPUT IN 1980

	Proportion of GDP in 1979	% change in output 1980 on 1979	Contribution to total GDP change
Manufacturing ...	·27	–9	–2.5
Construction ...	·07	–6	–0.5
North Sea oil & gas ...	·03	+2	+0.1
Other Sectors <sup>(1)</sup> ...	·63	–0	–0.1
GDP ...	1.00	–3	–3

<sup>(1)</sup> Includes agriculture, mining and quarrying (excluding oil and gas extraction), gas, water and electricity, transport and communications, distributive trades and services.

17. In contrast to the 3 per cent decline in output in 1980, the level of total domestic demand excluding stockbuilding, and its main components, remained relatively stable. Both consumers' expenditure and general Government final consumption are estimated to have been marginally higher in 1980 than in 1979, while total fixed investment declined slightly. The fall in output, and much of the sharp fall in the volume of imports (see below), were associated with widespread destocking of finished goods and raw materials. Destocking is estimated to have exceeded £2 billion (at 1975 prices) in 1980, mostly concentrated in the second half of the year. Following over £1½ billion (1975 prices) stockbuilding in 1979, the turnaround amounts to about 3½ per cent of GDP.

#### Company sector

18. The character of the recession, namely stable final domestic demand, substantial destocking and a

severe decline in manufacturing output, reflects the nature of the pressures on the company sector. Companies' labour costs rose by well over 20 per cent in the last pay round, following increases of about 15 per cent in each of the two preceding years. This, combined with sterling's appreciation, threatened a financial deterioration that led to sharp cuts in stocks and employment.

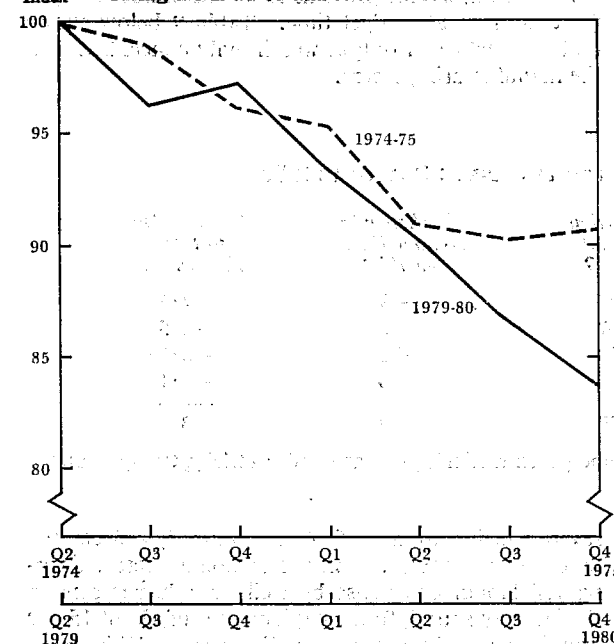
19. The income and profit position of industrial and commercial companies was subject to severe pressures during 1980. The net rate of return on assets at current replacement cost is estimated to have declined to under 5 per cent in 1980; excluding companies engaged in the North Sea the estimated rate of return is under 3 per cent, compared with nearly 4½ per cent in 1979, and about 11 per cent in the 1960s. The net borrowing requirement of companies improved after the first quarter of the year, though borrowing from banks continued at a high level, and this helped to



improve the liquidity position of industry. Thus the vigorous action taken by companies to reduce stocks and shed labour prevented their financial position from deteriorating as had been widely expected, but profitability remains very low.

20. The pressures have been most acute on manufacturing industry. In addition to the factors already mentioned, there has been continued structural adjustment in industries such as steel and textiles. As Figure 2 shows, the fall in manufacturing output, more than 15 per cent from the spring 1979 level, exceeded that during the 1974-75 downturn.

Figure 2  
Decline in manufacturing output  
during the 1974-75 and 1979-80 downturns



#### Labour market

21. Between June 1979 and December 1980, employment in Great Britain is estimated to have fallen by over 1 million. The bulk of this occurred in manufacturing industry where the fall of 800,000, or 11½ per cent, over the same period compares with a loss of 600,000 jobs in the two years to mid-1976. Employment in service industries has been on a rising trend in recent years, but fell by 200,000 in the second half of 1980. Unemployment rose through 1980, with a monthly rate of increase of over 100,000 in the final quarter. By February 1981 registered unemployment (United Kingdom, excluding school leavers, seasonally adjusted) had risen to 2.3 million or 9.6 per cent, some

1 million up on the level of mid-1979, about the same as the fall in employment. Notified vacancies fell to around 100,000 in early 1981, significantly below the levels recorded during the last recession, but appear to have stabilised in recent months. By December 1980 the number of hours overtime worked by operatives in manufacturing was just over half mid-1979 levels, while the number of operatives on short-time working had increased over the same period from 30,000 to about half a million.

#### Personal sector

22. Average earnings rose faster than prices in 1980, reflecting both high pay settlements and the high exchange rate. Personal disposable income rose by 16½ per cent in the first three quarters of 1980 compared with the average for 1979. Real personal disposable income (RPDI) rose by some 2 per cent over the same period, and has risen more than 15 per cent in the past three years. The growth in RPDI during 1980 was one factor in the sharp increase during the year of the savings ratio, which reached 17 per cent in the third quarter compared with 13 per cent in 1979 as a whole.

#### Balance of payments

23. Visible trade moved into surplus in 1980 following the large deficit in 1979. This was largely because of an improvement in non-oil trade. The oil account moved for the first time into surplus. Export volume of goods (excluding oil and erratics) rose 1 per cent in 1980 as a whole but generally showed a downward trend during the year. Import volume of goods (excluding oil and erratics) fell 5 per cent between 1979 and 1980, due in large measure to the sharp reduction in domestic stock levels. In terms of value, exports of goods (excluding oil and erratics) rose by 12 per cent while imports rose by 2 per cent. The terms of trade (excluding oil) rose by some 3½ per cent, reflecting in part sterling's appreciation. The invisible balance, again in strong surplus in 1980, contributed to a turnaround of £4½ billion in the current account between 1979 and 1980.

#### COMPONENTS OF CURRENT ACCOUNT BALANCE (£ billion, rounded to nearest ½ billion)

	Visible balance excluding oil	Oil balance	Invisible balance	Current Account balance
1979	-2½	-½	+1½	-1½
1980	+1	+½	+1½	+2½

Reflecting the sharp turnaround from deficit to surplus in the current account, the capital account showed

a net outflow approaching £3 billion in the second half of 1980, after a net inflow of about £1½ billion in the first half of the year.

24. The foreign exchange reserves stood at \$22.7 billion on 31 December 1979 and rose to \$27.5 billion at the end of 1980 after net debt repayments of \$3.0 billion. \$2.8 billion of the increase was due to the revaluation of gold and non-dollar currencies in the reserves on 31 March 1980, and a further \$1.4 billion to valuation changes arising from swapping gold and dollars for ECUs with the European Monetary Co-operation fund. Official external debt has been reduced over the lifetime of this Parliament from \$22 to \$18 billion.

#### Forecast and outturn

25. The table immediately below compares the main elements of the forecast for 1980 published in the 1980 FSB, with current estimates for the same period. The figures for GDP, the current account of the balance of payments and the PSBR are partly provisional outturns, subject to revision, and partly forecasts. Thus no final comparison of forecasts and outturn can be made at this stage.

	Forecast	Provisional outturn
GDP at 1975 prices (compromise measure): growth between 1979 and 1980 ...	-2½%	-2½%
PSBR (1980-81) ...	£8½ bn	£13½ bn

#### Forecast Provisional outturn

Retail Prices Index: percentage increase between fourth quarter 1979 and fourth quarter 1980 ...	16½%	15½% <sup>(1)</sup>
Current account of the balance of payments in 1980 ...	-£2½ bn	+£2½ bn

<sup>(1)</sup> Actual outturn.

26. The compromise measure of GDP is estimated to have fallen by 2½ per cent between 1979 and 1980, the same as the 1980 Budget forecast (though the forecast level of output in the first half of 1980 seems likely to have been somewhat overstated). While the output measure of GDP fell rather more than expected, the fall in the expenditure measure is estimated to have been somewhat smaller than forecast. Of the main expenditure components of GDP, there were large and broadly offsetting errors in the forecasts of destocking and imports of goods and services. General government expenditure on goods and services also fell by about 1½ per cent less than forecast. The current account of the balance of payments is estimated to have been in substantial surplus compared with a forecast large deficit. One reason is the lower than expected volume of imports, but exports, too, have held up better than expected. Retail price inflation fell more than forecast.



**Summary**

This section sets out the Government's economic forecasts for the period to mid-1982. Against the background of a depressed world economy and a strong exchange rate, the move to a much lower rate of inflation of domestic costs and prices—already under way during 1980—is expected to be maintained. With a lower PSBR and lower inflation, growth of the money supply in the target range of 6–10 per cent should be compatible with lower interest rates than have been necessary over the past year. The lower rate of inflation and some easing of cost pressures on industry are expected to permit the start of a recovery in output, but recovery is unlikely to be rapid.

**Policy assumptions**

2. This forecast assumes the monetary and fiscal policies set out in the Budget speech and in this report. The growth of £M3 during 1981–82 is assumed to be at the centre of the 6–10 per cent range. Public expenditure is consistent with the public expenditure White Paper except where the underlying assumptions, e.g. on the rate of child benefit, are now different. The exchange rate, which will be determined by market forces, is assumed for the purposes of this forecast to remain unchanged.

**Government borrowing and monetary developments**

3. The PSBR in 1980–81 is estimated to be about £13½ billion. In 1981–82 the PSBR is forecast to decline to £10½ billion, a fall from 6 per cent to 4½ per cent of market price GDP, on the basis of developments in the economy as now foreseen. The experience of 1980–81 shows that the precise composition of demand and output, and developments in the labour market, are at least as important as the total change in output in determining the PSBR.

4. Public expenditure in volume terms in 1981–82 is expected to be much the same as in 1980–81. The main factors leading to a fall in the PSBR, as a percentage of GDP, in 1981–82, despite the increasing costs of recession, are:—

- (i) An increase in North Sea tax revenues, partly because of the changes to the fiscal regime, from an estimated £3½ billion in 1980–81 to about £6 billion in 1981–82, both measured in current prices.
- (ii) The increase in National Insurance Contribution rates, announced in November along with other changes.
- (iii) The Budget increases in indirect taxation, the non-revalorisation of personal taxes and the special tax on banking deposits.
- (iv) Lower pay settlements assumed for the public services by comparison with the private sector.

5. With a PSBR in 1981–82 forecast at £10½ billion, a fall in the financial surplus of the private sector, and a lower rate of increase of bank lending expected, the growth in the private sector's holding of financial assets should be considerably less than in 1980–81 (see paragraphs 5–7 in Part II). A £3 billion inflow into national savings is planned, compared with around £2 billion in 1980–81, contributing to the reduction in the share of money in the private sector's portfolio of financial assets and a moderate rise in velocity implied by the monetary target set for £M3.

**Inflation**

6. The fall in the inflation rate began early last summer under the impact of strong competitive pressures, and initially took the form of a squeeze on profit margins. While there are no signs that these pressures on margins are letting up, the downward trend in price inflation has been reinforced in recent months by a much lower rate of pay settlements.

7. In 1981, the year on year increase in manufacturers' output prices is expected to fall to single figures, with a rise in domestic costs much less than in 1980. Retail prices will also benefit from these favourable trends in costs, but increases in rents and rates, further moves by some of the nationalised industries towards economic pricing, and the increases in specific duties announced in the Budget will contribute to an increase in retail prices which is forecast to be 10 per cent over the year to the fourth quarter of 1981.

8. For the reasons set out in Part II of this report, the growth in £M3 well in excess of the target range in 1980–81 should not be reflected in a rise in inflation. Indeed, a further fall in the inflation rate is in prospect for 1982, as a result of the continuing slowdown forecast for domestic costs, and lower increases in administered prices. By mid-1982, the retail prices index may be 8 per cent higher than in mid-1981. As always, a forecast of prices for more than a year ahead is subject to a wide margin of error.

**The world economy and United Kingdom trade**

9. The prospect for 1981 is for only a slow resumption of growth in output in the world economy. The increase in United Kingdom-weighted world trade in manufactures for 1981 as a whole may be some 2–3 per cent. Growth in the first half of 1982 could be rather stronger as cyclical recovery gathers way in the industrial countries.

10. The United Kingdom share of world trade in manufactures is thought to have fallen in volume terms in 1980, but risen in terms of value. By early 1981, the volume of exports of manufactures appeared to be on a declining trend, probably reflecting worsening

competitiveness over the past three years and weak world demand. Past evidence suggests that the United Kingdom's share of world trade in manufactures, in volume, is significantly affected by changes in competitiveness with a lag which extends over several years. But it is impossible to predict with any confidence the consequences of the large change in competitiveness in recent years (whether defined in terms of relative unit labour costs or relative export prices). Surveys conducted by the CBI and the trend in engineering export orders suggest a fall in the volume of export deliveries over the forecast period. Non-manufactured exports of goods, especially of oil, are likely to continue rising and so provide some offset to the trends in manufacturing exports.

11. Import volumes fell sharply in the course of 1980, the turnaround in imports of manufactures being particularly marked. Much of this fall was associated with the sharp turnaround in stocks, and as moves to cut stocks peter out over the next year, so imports are liable to increase, perhaps quite strongly, from recent low levels. But forecasts of imports in recent years have often gone seriously astray, and there is a wide margin of uncertainty about future trends in import propensities. The ratio of imports to total final expenditure, which has been rising slowly over the last decade, fell back last year, as it did in 1975. Over the forecast period, the ratio is liable to rise again.

12. The current account of the balance of payments, which swung rapidly into large surplus in the course of 1980, may return to near balance over the forecast period. An adverse trend in the volume of net trade in goods and services should be partly offset by a further improvement in the terms of trade, on the basis of the path assumed for the exchange rate.

**Domestic demand and activity**

13. As a result of wage settlements falling sharply, declining employment, and the Budget increases in taxation and the increase in National Insurance Contribution rates, the personal sector's real disposable income in aggregate is likely to decline over the forecast

period. The rate of personal savings, which is estimated to have been at the exceptionally high level of 16 per cent of disposable income in the middle two quarters of 1980, is likely to fall, partly because of the usual reaction to a fall in real income, partly because the recent and forecast declines in inflation reduce the amount of saving necessary to maintain intact the real value of financial assets. Consumers' expenditure, in total, may decline a little, in real terms, in 1981.

14. Spending by companies on stocks fell sharply in 1980, partly in response to the fall in disposable incomes. However, by the end of 1980, the stock-output ratio in manufacturing was at a high level, as normally happens to some extent in a period of falling output. Further destocking may, therefore, occur over the forecast period, though at a progressively lower rate, leading to a more normal stock-output ratio by early 1982. Spending on fixed investment by private companies had not fallen much by the end of 1980, though manufacturing investment was clearly on a downward trend. Survey and other evidence points to a further decline in manufacturing, but little change elsewhere. A decline in interest rates and improved availability of finance should allow investment in private dwellings to pick up from current low levels.

15. General government expenditure on goods and services, in volume terms, probably declined a little in 1980, with a particularly sharp fall in local authority investment (including the effects of council house sales). This pattern may continue over the forecast period. Fixed investment by public corporations is broadly flat in real terms.

16. Domestic demand, in total, which declined 3 per cent in 1980, mainly reflecting the extent of destocking, should recover over the forecast period. But with the volume of exports tending to fall, and the import propensity to recover, the prospect for domestic output is one of only gentle recovery over the next year. The table below sets out half yearly paths for total output and for manufacturing output:—

		1975=100				
		1980		1981		1982
		I	II	I	II	I
GDP ...	...	109	106	105	105½	106
Manufacturing output*	...	98½ (98½)	90½ (91½)	88	89	89½

\* Based on the implied quarterly level of output after adjusting for stock changes. The published monthly production figures are given in brackets.

17. For 1981 as a whole, total output may be 2 per cent lower than in 1980, and manufacturing output 6 per cent lower. But by the first half of 1982, total output could be 1 per cent higher than a year earlier,

with manufacturing output also recovering. This recovery in output will help to limit the rise in unemployment, which is beginning to show signs of easing off.

## Risks and uncertainties

18. At best, forecasts are capable of narrowing the range of uncertainty over economic prospects. Forecasts attempt to establish stable patterns of past behaviour—as summarised for instance in relationships between spending and income—and to use these patterns, taking account of special features of the current economic situation, to predict future behaviour. The forecasts are, of course, subject to wide margins of error, but there is no objective way of measuring these margins. The only practicable approach is to examine the record of past forecasts—made under different circumstances with somewhat different methods—over a run of years; this provides some quantitative indication of the size of possible errors.

19. The approach developed in official forecasts stresses the average absolute margin of error (which is

one of a number of possible measures). Table 10 shows the errors from past forecasts calculated in this way. It is convenient to refer to "margins of error" but it should be clear that these are averages which, by definition, have been frequently exceeded.

20. In the case of the PSBR, experience of forecasts made at budget time over the period 1967-79 points to an average absolute error of 1½ per cent of GDP. For 1981-82, this is equivalent to £3½ billion. For retail prices, past forecasts looking ahead about seven or eight months have been—on average through the 1970s—out by about 2 percentage points, though the average error on forecasts published at budget time over the period 1977-80 looking ahead to the end of the year was about half a percentage point.

TABLE 10 SHORT-TERM ECONOMIC PROSPECTS

	Forecasts	Average error from past forecasts*
<b>A. Output and expenditure at constant 1975 prices</b>		
Per cent changes between 1980 and 1981:		
Gross domestic product (at factor cost) ...	-2	1
Consumers' expenditure ...	-1	1½†
General Government expenditure on goods and services ...	-1½	3
Other fixed investment ...	-1½	2½
Exports of goods and services ...	-5½	2
Imports of goods and services ...	-2½	2
Change in stockbuilding (as per cent of level of GDP) ...	+½	½
<b>B. Balance of Payments on current account</b>		
£ billion:		
1981 First half ...	2	½
1981 Second half ...	1	1½
1982 First half ...	0	
<b>C. Public Sector Borrowing Requirement</b>		
£ billion; in brackets per cent of GDP at market prices:		
Financial Year 1980-81 ...	13½ (6)	3½ (1½)
Financial Year 1981-82 ...	10½ (4½)	
<b>D. Retail Price Index</b>		
Per cent change:		
Fourth quarter 1980 to fourth quarter 1981 ...	10	2
Second quarter 1981 to second quarter 1982 ...	8	4
<b>E. Money Supply (Sterling M3)</b>		
Per cent change at annual rate:		
Mid-February 1981 to mid-April 1982 ...	8	

\* The errors relate to the average differences (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications on government forecasts notably in November 1978 (see Economic Progress Report Supplement or Economic Trends No. 301, November 1978). The calculations for the constant price variables are derived from internal forecasts made during the period June 1965 to October 1978. For the current balance and the retail price index, forecasts made between June 1970 and October 1978 are used. For the PSBR Budget time forecasts since 1967 are used. For PSBR forecasts since 1973, the average error has been 2 per cent of GDP, equivalent to £4½ billion in 1981-82. The status of £M3 as a target variable, and the absence of a reasonable run of years over which to average forecast errors, make it inappropriate to quote average errors. The errors are after adjustment for the effects of major changes in fiscal policy where excluded from the forecasts. Quarterly forecasts are grouped so as to be comparable with the changes between periods as shown. For example, the margins for the forecasts of percentage changes between 1980 and 1981 given in Section A above are derived from errors of past year on year forecasts made over the same forecast horizon.

† This margin applies to General Government consumption.

TABLE 11. CONSTANT PRICE FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT<sup>(1)</sup>

£ million at 1975 prices, seasonally adjusted														
	Con- sumers' expendi- ture	General Government expenditure on goods and services			Other fixed invest- ment	Exports of goods and services	Change in stocks	Total final expendi- ture	Less imports of goods and services	Less adjust- ment to factor cost	Plus Statistical Adjust- ment	Gross domestic product at factor cost	GDP index 1975 =100	
		Final con- sumption	Fixed invest- ment	Total										
1979	...	71,300	24,300	3,400	27,700	17,150	32,900	1,600	150,650	35,250	12,400	300	103,300	110.1
1980	...	71,700	24,750	2,850	27,600	17,200	33,200	-2,200	147,500	34,200	12,450	0	100,850	107.4
1981	...	71,100	24,950	2,150	27,100	17,000	31,450	-2,100	144,550	33,350	12,400	0	98,800	105.3
1979 First half	...	35,850	12,100	1,650	13,750	8,400	16,050	1,000	75,050	17,250	6,300	150	51,650	110.0
Second half	...	35,450	12,200	1,750	13,950	8,750	16,850	600	75,600	18,000	6,100	150	51,650	110.1
1980 First half	...	36,050	12,300	1,500	13,800	8,750	16,900	-400	75,100	17,800	6,250	150	51,200	109.1
Second half	...	35,650	12,450	1,350	13,800	8,450	16,300	-1,800	72,400	16,400	6,200	-150	49,650	105.8
1981 First half	...	35,750	12,500	1,100	13,600	8,350	15,800	-1,700	71,800	16,300	6,250	0	49,250	104.9
Second half	...	35,350	12,450	1,050	13,500	8,650	15,650	-400	72,750	17,050	6,150	0	49,550	105.6
1982 First half	...	36,150	12,400	1,000	13,400	8,400	15,550	150	73,650	17,600	6,250	0	49,800	106.1
Percentage changes on year earlier														
1980	...	1½		-16	-1½	½	1	-3	-2	-3	0		-2½	
1981	...	-1	1	-23	-1½	-1½	-5½	-2½	-2	-2½	0		-2	
1982 First half	...	1	-1	-7½	-1½	½	-1½	2½	2½	8	1		1	

(1) GDP figures in the table are based on "compromise" estimates of gross domestic product. Note: Figures in £ million are rounded to £50 million. Percentage changes are calculated from unrounded levels and then rounded to 0.5 per cent. The GDP index in the final column is calculated from unrounded numbers.

## PART IV

### PUBLIC SECTOR TRANSACTIONS

#### INTRODUCTION

Tables 14 and 15 show the transactions of the authorities in the public sector and how they contribute to public sector financial balances and the public sector borrowing requirement (PSBR). The tables are based on the principles and methods used in compiling the national income accounts<sup>(1)</sup>. Table 16 shows how the figures can be related to the estimates of public expenditure in cash included in the public expenditure White Paper (Cmd. 8175). Table 17 shows the financing of the capital requirements of the nationalised industries.

#### Description of Tables 14 and 15

2. The estimates for 1980-81 use partial information. For central government the figures are based on receipts and expenditure in the first 10 months of the financial year. For local authorities and public corporations, the most up-to-date information relates only to borrowing. This is known for the first 10 months for local authorities and for nine months for public corporations as a whole. The forecasts for 1981-82 are consistent with the economic forecasts in Part III.

3. The public sector is made up of general government (central government and local authorities) and the nationalised industries and other public corporations. The general government account covers receipts and payments on the Consolidated Fund, the National Loans Fund, the National Insurance Fund and other central government funds and accounts together with those of local authorities. Central government and local authorities engage to some extent in trading activities; in this respect the accounts for them include only trading surpluses and rent, capital expenditure and other items relevant to the appropriation and capital accounts. The value of their trading transactions is excluded. Transactions between bodies within the same sub-sector are not included in the account of the sub-sector, unless the economic category of the payment by one part of the sub-sector differs from that of the receipt by the other part; examples are VAT on goods and services purchased by government and national insurance contributions paid by the government in respect of its employees, which are included in both expenditure and revenue. Similarly, transactions between sub-sectors are generally eliminated on consolidation.

<sup>(1)</sup> A full description of the principles on which the national income accounts are based and the methods used in their compilation was given in "National Accounts Statistics: Sources and Methods", HMSO, 1968.

4. Table 14 shows first the current and capital transactions of general government in the concepts of national income accounts, ending with the financial deficit. A summary account for public corporations follows showing capital expenditure and internally arising funds (including subsidies) and capital receipts. The third section shows the financial transactions of the public sector as a whole from the financial deficit to the borrowing requirement. This final section is consolidated so that transactions between general government and public corporations are generally excluded. The public sector borrowing requirement is shown as the sum of net borrowing from the private sector and overseas by each of the sub-sectors. Unallocated items are assigned to the central government borrowing requirement (CGBR) as well as to the total PSBR. This is explained in paras 16-18 below.

5. The figures shown for taxes on income and expenditure in Table 14 are mainly on an accruals basis, reflecting the approach of the national income accounts. A net adjustment from accruals to cash is shown in the final part of the table. Also in the same section are miscellaneous capital transactions (net); for 1980-81 these are the residual between the largely known borrowing figures and the less reliable estimates of receipts and expenditures. This item thus includes errors and omissions elsewhere (some of which will eventually be corrected by new information) as well as known miscellaneous items. Later estimates of all categories in Table 14 are recorded as they become available in Financial Statistics Table 2.7.

6. Table 15 shows the transactions of the sub-sectors of the public sector with the private sector and overseas and with one another. The transactions are arranged to lead to the current balance, the financial deficit (balance of current and capital accounts) and the sectoral borrowing requirements. Consolidated totals for the public sector as a whole are shown.

#### Estimated outturn of 1980-81

7. The PSBR in 1980-81 is now estimated at £13½ billion, some 6 per cent of GDP. This is some £5 billion above the forecast in the Budget of a year ago (£8½ billion, or 3½ per cent of GDP). By November, in the Industry Act forecast, the figure had been raised to £11½ billion. The effect of the recession being deeper—and somewhat different in character—from that expected contributed to the higher PSBR (see Part III).

#### PUBLIC SECTOR TRANSACTIONS—continued

8. The three main sub-sectors of the public sector all contributed to the extra PSBR. The Budget forecasts for the sectoral borrowing requirements<sup>(1)</sup> are compared with the latest estimates of outturn in Table 12. The Budget forecasts in this table are adjusted for the use that has been made of the contingency reserve and for the special sales of

assets. They are also adjusted for the transfer of BL Limited from the National Enterprise Board (a public corporation) to the Department of Industry (central government) which increases the CGBR (own account) and reduces the PCBR, each by some £1.3 billion<sup>(2)</sup>, without affecting the PSBR.

TABLE 12. COMPONENTS OF THE PSBR: BUDGET FORECAST AND ESTIMATED OUTTURN, 1980-81

					£ million
Borrowing requirement of	1980 Budget forecast				Estimated outturn
	As published	Adjustments		Adjusted	
		Actual special sales of assets and use of contingency reserve	Transfer of BL Ltd.		
Central government ... ..	9,313	+628		9,821	12,760
Central government less on-lending to local authorities and public corporations (central government own account)	5,651	-100	+1,284	6,835	9,335
Local authorities ... ..	1,440	—		1,440	2,500
Public corporations ... ..	1,425	+728	-1,284	869	1,620
Unallocated†					
Special sales of assets ... ..	-580	+442		-138	..
Contingency reserve ... ..	+1,300	-1,070		+230	..
Cash underspending ... ..	-700	—		-700	..
Public sector ... ..	8,536	—	—	8,536	13,455

† Shown as a net sum of £20 million FSBR 1980-81 (HC 500).

9. The following notes supplement the comparisons of borrowing requirements shown in Table 12 and the comparisons by type of transactions shown in Tables 14-16.

10. For *central government*, current receipts were only about £1 billion below forecast. A shortfall of taxes on expenditure of about £2 billion was partly offset by taxes on income and other receipts. Current expenditure exceeded forecast by about £3 billion on (and this was fairly evenly divided between) expenditure on goods and services (including defence procurement), subsidies, grants to persons (mainly social security benefits and employment measures), and debt interest. Current grants abroad (which include net contributions

to the European Communities) were, however, about £1½ billion below the forecast in last year's FSBR, partly on account of the reduction in the contribution to the European Communities' budget negotiated in May.

11. The worsening of £3 billion in the central government's current balance accounts for the increase in the central government financial deficit.

12. For *local authorities*, information about their income and expenditure is still relatively sparse. In the 10 months to the end of January they had borrowed some £1½ billion. Heavy borrowing is usual in March and it is allowed for in the assumption that the local

<sup>(1)</sup> Sectoral borrowing requirements are shown as memorandum items at the foot of Table 15. They differ from sectoral contributions to the PSBR, shown in Tables 14 and 15, by attributing to local authorities and public corporations money borrowed by central government for on-lending to them.

<sup>(2)</sup> The similar transfer of Rolls-Royce Limited had been allowed for in the 1980 Budget forecasts.

authority borrowing requirement will be £2½ billion for the whole year. It is believed that, if anything, local authorities' income exceeded that forecast a year ago, especially income from rates. If so, the extra borrowing points to a higher level of expenditure than had been allowed for in last year's FSBR (or, in volume terms, in last year's public expenditure White Paper—see also Cmnd. 8175, para 38). The figures in Tables 15–16 (and included in Table 14) reflect a judgement drawing on, for example, evidence of the rate of fall of manpower employed by local authorities. The excess on expenditure including debt interest payments is put at about £1 billion. The uncertainties are also reflected in the relatively large negative balancing item used in Table 15 (line 31, miscellaneous capital transactions, (net)).

13. During 1980–81 the bulk of the contingency reserve (the unallocated reserve in the Government's expenditure plans (see Cmnd. 7841) was allocated to public corporations, reflecting decisions to increase the external financing limits of, in particular, the British Steel Corporation, British Shipbuilders, British Airways and British Rail. The gross trading surpluses of nationalised industries, and also those of other public corporations, are now estimated to have been well below the forecasts shown in last year's FSBR, while interest payments and capital expenditures together have been a little higher than forecast.

14. The increase in public corporations' borrowing beyond that matched by reductions in the contingency reserve reflects, at least in part, a misjudgement at the time of last year's Budget of the prevailing rate of borrowing by corporations other than nationalised industries, which generally are subject to control other than external financing limits.

#### Forecasts for 1981–82

15. The PSBR in 1981–82 is forecast at £10½ billion or 4½ per cent of GDP. The expenditure forecasts for the public sector as a whole reflect the published cash limits and external financing limits. The major reasons for the fall in the PSBR in 1981–82 are set out in Part III. The proposed gas levy is ignored on both

sides of the accounts. Within the total the general government borrowing requirement is forecast at about £11½ billion, including government finance for nationalised industries and other public corporations. The public corporations continue to repay their market and overseas debt. Table 14 shows that general government revenue is forecast to exceed expenditure allocated to current account.

#### Unallocated items

16. The handling of unallocated items has been modified in Parts IV and V of this year's FSBR. They correspond to the three unallocated items in the public expenditure White Paper (Cmnd. 8175). The contingency reserve in the White Paper provides for future additions to specific programmes within the announced expenditure totals. For 1981–82 this reserve will be operated as a cash control (see Part I).

17. *Cash underspending* corresponds to the White Paper's general allowance for shortfall. These two items are shown as a net provision for contingencies in Tables 14–16. Experience suggests that the bulk of the contingency reserve, at least, tends to affect the central government borrowing requirement, either directly or on account of extra borrowing for on-lending within the public sector. In these tables, therefore, and in Part V, the provision for net contingencies is arbitrarily attached to the CGBR and, within that, to Supply Services (see Part V, Table 20). This presentation may provide a more useful base against which to monitor the development of the CGBR during 1981–82 than one which ignores these elements.

18. The eventual location of the third unallocated item—the proceeds of *special sales of assets*—is more uncertain. Largely for convenience, this relatively small item has also been attributed to central government (and is included in Part V, Table 19).

19. The following table shows how the special sales of assets in 1980–81 have been included in Tables 14 and 15. The figures are more up to date than the total of the special sales of assets shown in Cmnd. 8175, Table 1.1 (at 1980 Survey prices).

TABLE 13. SPECIAL SALES OF ASSETS

Economic category	£ million	Transaction
<b>CENTRAL GOVERNMENT</b>		
<i>Receipts</i>		
Taxes on expenditure ... ..	210	Receipt of premiums levied on the seventh round of North Sea oil licences
Miscellaneous capital transactions (net) ...	–49	Change in level of receipts of advance payments for oil
<i>Expenditure</i>		
Gross domestic fixed capital formation (net of sales)	42	Sale of leases of certain motorway service areas—sales of land and buildings
Cash expenditure on company securities (net)	43	Property Services Agency—sale of land and buildings Sale of shares in British Aerospace Ltd.
<b>PUBLIC CORPORATIONS</b>		
<i>Receipts</i>		
Gross trading surplus ... ..	–15	Payment of premiums levied on the seventh round of North Sea oil licences granted to British National Oil Corporation
<i>Expenditure</i>		
Gross domestic fixed capital formation (net of sales)	125	New Town Development Corporations and the Commission for New Towns—sales of land and buildings
Cash expenditure on company securities (net)	82	National Enterprise Board—sales of certain shares
Total ... ..	442	



TABLE 14. PUBLIC SECTOR TRANSACTIONS

	1980-81		1981-82
	Budget forecast	Estimated outturn	Forecast
<b>GENERAL GOVERNMENT</b>			
<b>CURRENT RECEIPTS</b>			
Taxes on income ...	31,482	32,172	37,017
Taxes on expenditure ...	40,160	38,614 <sup>(1)</sup>	44,609
National insurance, etc., contributions ...	14,254	14,385	16,743
Gross trading surplus <sup>(2)</sup> ...	136	56	-2
Rent <sup>(2)</sup> ...	2,978	3,149	3,278
Capital consumption <sup>(3)</sup> ...	1,439	1,647	1,850
Interest and dividends from—			
Public corporations ...	2,023	2,104	2,319
Other ...	1,643	1,618	1,687
<b>TOTAL</b> ...	<b>94,115</b>	<b>93,745</b>	<b>107,501</b>
<b>CURRENT EXPENDITURE</b>			
Current expenditure on goods and services ...	47,215	48,399	52,535
Capital consumption <sup>(3)</sup> ...	1,439	1,647	1,850
Subsidies ...	4,610	5,529	4,438
Debt interest ...	10,977	11,901	13,257
Current grants to personal sector ...	26,255	27,099	32,058
Current grants abroad ...	2,601	1,403	1,639
<b>TOTAL</b> ...	<b>93,097</b>	<b>95,978</b>	<b>105,777</b>
<b>CURRENT BALANCE<sup>(2)</sup></b>			
Central government ...	-1,016	-3,950	-1,605
Local authorities ...	2,034	1,717	3,329
<b>General government</b> ...	<b>1,018</b>	<b>-2,233</b>	<b>1,724</b>
<b>CAPITAL RECEIPTS</b>			
Current balance <sup>(2)</sup> ...	1,018	-2,233	1,724
Taxes on capital and other capital receipts ...	1,187	1,195	1,685
<b>TOTAL</b> ...	<b>2,205</b>	<b>-1,038</b>	<b>3,409</b>
<b>CAPITAL EXPENDITURE</b>			
Gross domestic fixed capital formation ...	5,257	5,135 <sup>(1)</sup>	4,720
Increase in stocks <sup>(4)</sup> ...	203	314	173
Capital grants to—			
Public corporations ...	411	391	569
Private sector ...	1,800	1,919	1,755
<b>TOTAL</b> ...	<b>7,671</b>	<b>7,759</b>	<b>7,217</b>
<b>FINANCIAL DEFICIT (on current and capital transactions)</b>			
Central government ...	-4,338	-7,276	-4,732
Local authorities ...	-1,128	-1,521	924
<b>General government</b> ...	<b>-5,466</b>	<b>-8,797</b>	<b>-3,808</b>

(1) For allocation of special sales of assets in 1980-81 see introduction to Part IV.

(2) Before allowing for depreciation and stock appreciation.

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

(4) Includes stock appreciation.

(5) Further details for the nationalised industries are shown in Table 17, which is presented in terms closer to those of commercial accounts.

(6) Includes revenue grants and subsidies.

(7) Comprises general government financial deficit and excess of public corporations capital expenditure over internal funds and capital receipts.

(8) For financial transactions — indicates a transaction which increases the public sector borrowing requirement.

(9) Includes unidentified transactions.

(10) For the treatment of unallocated items see introduction to Part IV.

(11) Includes offset for changes to nationalised industry's tax payments resulting from changes to North Sea taxation.

BY ECONOMIC CATEGORY

	1980-81		1981-82
	Budget forecast	Estimated outturn	Forecast
<b>PUBLIC CORPORATIONS<sup>(5)</sup></b>			
<b>CAPITAL EXPENDITURE</b>			
Gross domestic fixed capital formation ...	6,729	6,784 <sup>(1)</sup>	8,402
Increase in stocks <sup>(4)</sup> ...	615	667	587
<b>TOTAL</b> ...	<b>7,344</b>	<b>7,451</b>	<b>8,989</b>
<b>INTERNALLY ARISING FUNDS</b>			
Gross trading surplus <sup>(2)(5)</sup> ...	7,089	5,905 <sup>(1)</sup>	8,090
Rent and other non-trading income ...	1,016	943	969
Interest and dividend payments to—			
General government ...	-2,023	-2,104	-2,319
Other ...	-580	-788	-653
Taxes on income ...	-90	-70	-320
<b>TOTAL</b> ...	<b>5,412</b>	<b>3,886</b>	<b>5,767</b>
<b>CAPITAL RECEIPTS</b>			
Capital receipts from—			
General government ...	411	391	569
Other ...	92	148	184
<b>TOTAL INTERNAL FUNDS AND CAPITAL RECEIPTS</b> ...	<b>5,915</b>	<b>4,425</b>	<b>6,520</b>
<b>EXCESS OF CAPITAL EXPENDITURE OVER INTERNAL FUNDS AND CAPITAL RECEIPTS</b> ...	<b>1,429</b>	<b>3,026</b>	<b>2,469</b>
<b>PUBLIC SECTOR</b>			
<b>Financial Deficit<sup>(7)</sup></b> ...	<b>-6,895</b>	<b>-11,823</b>	<b>-6,277</b>
<b>FINANCIAL AND OTHER TRANSACTIONS OF THE PUBLIC SECTOR<sup>(8)</sup></b>			
Transactions concerning certain public sector pension schemes ...	210	165	145
Accruals adjustments ...	-1,180	-1,058	-773
Miscellaneous capital transactions (net) <sup>(9)</sup> ...	24	10 <sup>(1)</sup>	-80
Net lending to the private sector ...	-522	-789	-2,265
Net lending, etc., abroad ...	147	358	131
Cash expenditure on company securities (net) ...	-300	-318 <sup>(1)</sup>	-80
Unallocated items <sup>(10)</sup> —Contingencies (net) <sup>(11)</sup> ...	-600	—	-1,600
Special sales of assets ...	580	— <sup>(1)</sup>	233
<b>PUBLIC SECTOR BORROWING REQUIREMENT</b> ...	<b>-8,536</b>	<b>-13,455</b>	<b>-10,566</b>
<b>NET BORROWING FROM THE PRIVATE SECTOR AND OVERSEAS BY:</b>			
Central government ...	9,313	12,760	10,130
Unallocated items <sup>(10)</sup> ...	20	— <sup>(1)</sup>	1,367
Local authorities ...	540	1,345	100
<b>General government</b> ...	<b>9,873</b>	<b>14,105</b>	<b>11,597</b>
<b>Public corporations</b> ...	<b>-1,337</b>	<b>-650</b>	<b>-1,031</b>
<b>Public Sector Borrowing Requirement</b> ...	<b>8,536</b>	<b>13,455</b>	<b>10,566</b>



TABLE 15. SUB-SECTOR TRANSACTIONS

		1980-81 Estimated outturn						
		General government			Nationalised industries ( <sup>1</sup> )	Other public corporations( <sup>1</sup> )	Public sector	
		Central government	Local authorities	Total				
<b>CURRENT RECEIPTS</b>								
Taxes on income	...	1	32,172	—	32,172	-60	-10	32,102
Taxes on expenditure	...	2	29,909( <sup>2</sup> )	8,705( <sup>3</sup> )	38,614	—	—	38,614
National insurance, etc., contributions	...	3	14,385	—	14,385	—	—	14,385
Gross trading surplus( <sup>4</sup> )	...	4	10	46	56	5,186( <sup>2</sup> )	719	5,961
Gross rental income( <sup>4</sup> )	...	5	69	3,080	3,149	27	331	3,507
Capital consumption( <sup>5</sup> )	...	6	619	1,028	1,647	—	—	1,647
Interest—private sector and overseas	...	7	993	520	1,513	162	413	2,088
Dividends—private sector and overseas	...	8	105	—	105	5	5	115
TOTAL...	...	9	78,262	13,379	91,641	5,320	1,458	98,419
<b>CURRENT EXPENDITURE</b>								
Current expenditure on goods and services	...	10	29,890	18,509	48,399	—	—	48,399
Capital consumption( <sup>5</sup> )	...	11	619	1,028	1,647	—	—	1,647
Subsidies	...	12	4,601	928	5,529	—	—	5,529
Interest—private sector and overseas	...	13	9,095	2,806	11,901	596	192	12,689
Current grants to personal sector	...	14	25,955	1,144	27,099	—	—	27,099
Current grants abroad...	...	15	1,403	—	1,403	—	—	1,403
TOTAL...	...	16	71,563	24,415	95,978	596	192	96,766
<b>TRANSACTIONS WITHIN PUBLIC SECTOR(<sup>6</sup>)</b>								
Current grants	...	17	-14,250	14,250	—	—	—	—
Interest payments	...	18	3,509	-1,497	2,012	-1,151	-861	—
Dividends	...	19	92	—	92	-63	-29	—
CURRENT BALANCE( <sup>4</sup> )	...	20	-3,950	1,717	-2,233	3,510	376	1,653
<b>CAPITAL RECEIPTS</b>								
Current balance	...	21	-3,950	1,717	-2,233	3,510	376	1,653
Taxes on capital and other capital receipts	...	22	1,195	—	1,195	—	—	1,195
Capital transfers from private sector	...	23	—	—	—	142	6	148
<b>CAPITAL EXPENDITURE</b>								
Gross domestic fixed capital formation	...	24	1,772( <sup>2</sup> )	3,363	5,135	5,370	1,414( <sup>2</sup> )	11,919
Increase in stocks( <sup>7</sup> )	...	25	314	—	314	667	—	981
Capital grants to private sector	...	26	1,754	165	1,919	—	—	1,919
CAPITAL GRANTS WITHIN PUBLIC SECTOR( <sup>6</sup> )	...	27	-681	290	-391	72	319	—
<b>Financial Deficit</b>								
(balance of current and capital accounts)	...	28	-7,276	-1,521	-8,797	-2,313	-713	-11,823
<b>FINANCIAL AND OTHER TRANSACTIONS(<sup>6</sup>)</b>								
Transactions concerning certain public sector pension schemes	...	29	165	—	165	—	—	165
Accruals adjustments	...	30	-1,141	60	-1,081	-6	29	-1,058
Miscellaneous capital transactions (net)( <sup>8</sup> )	...	31	-7( <sup>2</sup> )	-456	-463	776	-303	10
Net lending to private sector	...	32	-99	-583	-682	—	-107	-789
Net lending, etc., abroad	...	33	500	—	500	-127	-15	358
Cash expenditure on company securities (net)	...	34	-1,477( <sup>2</sup> )( <sup>9</sup> )	—	-1,477	—	1,159( <sup>2</sup> )( <sup>9</sup> )	-318
TOTAL...	...	35	-2,059	-979	-3,038	643	763	-1,632
Loans within public sector	...	38	-3,425( <sup>9</sup> )	1,155	-2,270	2,170	-100( <sup>9</sup> )	—
Contribution to: Public Sector Borrowing Requirement	...	39	12,760	1,345	14,105	-500	-150	13,455
Sectoral borrowing requirements (lines 28 plus 35)	...		9,335	2,500	11,835	1,670	-50	

(<sup>1</sup>) Excludes transactions on operating account, i.e., receipts from sales and subsidies, and payments for current goods and services.(<sup>2</sup>) For allocation of special sales of assets see introduction to Part IV.(<sup>3</sup>) Local rates.(<sup>4</sup>) Before allowing for depreciation and stock appreciation.(<sup>5</sup>) Imputed charge for consumption of non-trading capital.(<sup>6</sup>) For financial transactions — indicates a transaction which increases the public sector borrowing requirement.

BY ECONOMIC CATEGORY

£ million

		1981-82 Forecast					
		General government			Nationalised industries ( <sup>1</sup> )	Other public corporations( <sup>1</sup> )	Public sector
		Central government	Local authorities	Total			
<b>CURRENT RECEIPTS</b>							
Taxes on income ... ..	1	37,017	—	37,017	-308	-12	36,697
Taxes on expenditure ... ..	2	34,324	10,285( <sup>2</sup> )	44,609	—	—	44,609
National insurance, etc., contributions	3	16,743	—	16,743	—	—	16,743
Gross trading surplus( <sup>4</sup> ) ... ..	4	-12	10	-2	7,184	906	8,088
Gross rental income( <sup>4</sup> )... ..	5	55	3,223	3,278	27	333	3,638
Capital consumption( <sup>5</sup> ) ... ..	6	698	1,152	1,850	—	—	1,850
Interest—private sector and overseas	7	954	613	1,567	186	413	2,166
Dividends—private sector and overseas	8	120	—	120	5	5	130
TOTAL... ..	9	89,899	15,283	105,182	7,094	1,645	113,921
<b>CURRENT EXPENDITURE</b>							
Current expenditure on goods and services	10	33,083	19,452	52,535	—	—	52,535
Capital consumption( <sup>5</sup> ) ... ..	11	698	1,152	1,850	—	—	1,850
Subsidies ... ..	12	3,716	722	4,438	—	—	4,438
Interest—private sector and overseas	13	10,437	2,820	13,257	480	173	13,910
Current grants to personal sector ...	14	30,961	1,097	32,058	—	—	32,058
Current grants abroad... ..	15	1,639	—	1,639	—	—	1,639
TOTAL... ..	16	80,534	25,243	105,777	480	173	106,430
<b>TRANSACTIONS WITHIN PUBLIC SECTOR(<sup>6</sup>)</b>							
Current grants ... ..	17	-14,900	14,900	—	—	—	—
Interest payments ... ..	18	3,850	-1,611	2,239	-1,256	-983	—
Dividends ... ..	19	80	—	80	-56	-24	—
CURRENT BALANCE( <sup>4</sup> ) ... ..	20	-1,605	3,329	1,724	5,302	465	7,491
<b>CAPITAL RECEIPTS</b>							
Current balance ... ..	21	-1,605	3,329	1,724	5,302	465	7,491
Taxes on capital and other capital receipts	22	1,685	—	1,685	—	—	1,685
Capital transfers from private sector	23	—	—	—	171	13	184
<b>CAPITAL EXPENDITURE</b>							
Gross domestic fixed capital formation	24	2,193	2,527	4,720	6,829	1,573	13,122
Increase in stocks( <sup>7</sup> ) ... ..	25	173	—	173	587	—	760
Capital grants to private sector ...	26	1,552	203	1,755	—	—	1,755
CAPITAL GRANTS WITHIN PUBLIC SECTOR( <sup>6</sup> )	27	-894	325	-569	366	203	—
<b>Financial Deficit</b>							
(balance of current and capital accounts)	28	-4,732	924	-3,808	-1,577	-892	-6,277
<b>FINANCIAL AND OTHER TRANSACTIONS(<sup>8</sup>)</b>							
Transactions concerning certain public sector pension schemes ... ..	29	145	—	145	—	—	145
Accruals adjustments ... ..	30	-883	37	-846	57	16	-773
Miscellaneous capital transactions (net)( <sup>8</sup> )	31	171	-801	-630	629	-79	-80
Net lending to private sector ... ..	32	-783	-1,160	-1,943	—	-322	-2,265
Net lending, etc., abroad ... ..	33	283	—	283	-146	-6	131
Cash expenditure on company securities (net) ... ..	34	—	—	—	—	-80	-80
TOTAL... ..	35	-1,067	-1,924	-2,991	540	-471	-2,922
Unallocated items( <sup>10</sup> )—Contingencies (net)( <sup>11</sup> )	36	-1,600	—	-1,600	—	—	-1,600
Special sales of assets	37	233	—	233	—	—	233
Loans within public sector ... ..	38	-4,331	900	-3,431	1,818	1,613	—
Contribution to: Public Sector Borrowing Requirement ...	39	11,497	100	11,597	-781	-250	10,566
<b>Sectoral borrowing requirements(<sup>12</sup>)</b>							
(lines 28 plus 35)		5,799	1,000	6,799	1,037	1,363	

(<sup>1</sup>) Includes stock appreciation.(<sup>2</sup>) Includes unidentified transactions.(<sup>3</sup>) Includes transfer of BL Ltd. to the Secretary of State for Industry from the National Enterprise Board.(<sup>4</sup>) For the treatment of unallocated items see introduction to Part IV.(<sup>5</sup>) See footnote 11, Table 14.(<sup>10</sup>) Excludes unallocated items.

# PUBLIC EXPENDITURE: RECONCILIATION WITH PUBLIC EXPENDITURE WHITE PAPER

Table 16 has two purposes. It translates the estimates and forecasts of expenditure in Tables 14 and 15 from the definitions of the national income accounts to those of the public expenditure White Paper. The numbers of the relevant rows of Table 15 are given, to help explain the translation. The table also provides a direct comparison with the public expenditure White Paper, with the inclusion in the latter, for the first time, of cash totals as well as the usual totals in 1980 survey prices (late 1979 or 1979-80 prices) for the years

1979-80 to 1981-82. The cash totals for 1979-80 and 1980-81 are similar in the two publications. Differences in the cash figures for 1981-82 between the two publications reflect decisions and judgements made after the White Paper was completed.

2. Later estimates of the figures in Table 16, and estimates of actual expenditures, quarter by quarter during 1981-82, are recorded as they become available in Table 2.4 of Financial Statistics.

TABLE 16. RECONCILIATION WITH PUBLIC EXPENDITURE WHITE PAPER

£ million

	References to rows in Table 15	1979-80 Outturn	1980-81 Budget forecast	1980-81 Estimated outturn	1981-82 forecast
Central government expenditure—national accounts basis (excluding transactions with local authorities)	16, 24-27, 32-34, 38		76,408	79,070	88,871
Adjustments to public expenditure White Paper basis:					
Non-trading capital consumption ...	11		-453	-619	-698
Debt interest ...	13		-8,374	-9,095	-10,437
Grants and lending to certain public corporations ...	27 and 38 (part)		-1,196	-1,404	-1,580
Other <sup>(1)</sup> ...			308	289	300
Central government expenditure White Paper basis ...		55,824	66,693	68,241	76,456
Local authority expenditure—national accounts basis (excluding transactions with central government)	16, 24-27, 32-34, 38		27,558	28,596	29,214
Adjustments to public expenditure White Paper basis:					
Non-trading capital consumption ...	11		-986	-1,028	-1,152
Debt interest ...	13		-2,603	-2,806	-2,820
Other <sup>(2)</sup> ...			210	245	270
Local authority expenditure—White Paper basis ...		21,470	24,179	25,007	25,512
Certain public corporations <sup>(3)</sup> capital expenditure ...	24 (part)	1,126	1,192	1,298	1,490
Adjustments:					
Nationalised industries net overseas and market borrowing <sup>(4)</sup> ...	39 (part)	-322	-495	-385	-637
Special sales of assets ...	37	-998	-580	-442	-233
Contingencies (net) <sup>(5)</sup> ...	36	—	600	—	1,600
Public expenditure planning total ...		77,100	91,589	93,719	104,188

(<sup>1</sup>) Includes — removal of stock appreciation.  
— addition of proceeds of special sales of assets offset in central government expenditure in 1979-80 and 1980-81 (for details for 1980-81 see Table 13).

— addition of interest support for certain export and shipbuilding refinance.  
— deduction of receipts from fees and fines in magistrates' and Scottish courts.  
— differences between the accounting conventions used in the White Paper and the national accounts.

(<sup>2</sup>) Includes — addition of Passenger Transport Executives capital expenditure.

— addition for local authorities special funds.  
— difference between the accounting conventions used in the White Paper and the national accounts.

(<sup>3</sup>) Full list of these public corporations is shown in Cmnd. 8175 Part 5.

(<sup>4</sup>) Includes — short term borrowing and capital value of leased assets.  
— Civil Aviation Authority.

(<sup>5</sup>) See footnote 11, Table 14.

# FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

TABLE 17. FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

A. 1980-81 Estimated Outturn<sup>(1)</sup>

£ million

	Capital requirements <sup>(2)</sup>			Financed by <sup>(2)</sup>							
	Fixed assets in the UK	Other	Total	Internal resources <sup>(3)</sup>					External finance		
				Current cost operating profit	Interest, dividends and tax <sup>(4)</sup>	Depreciation etc. <sup>(5)</sup>	Other receipts and payments	Total	Government grants <sup>(6)</sup>	Net borrowing, issues of PDC <sup>(7)</sup> and leasing	Total <sup>(8)</sup>
National Coal Board ...	800	-45	755	-268	-257	433	15	-77	251	581	832
Electricity (England and Wales)	963	339	1,302	233	-568	1,234	228	1,127	5	170	175
North of Scotland Hydro-Electric Board ...	41	30	71	39	-61	47	4	29	16	26	42
South of Scotland Electricity Board ...	134	15	149	-18	-79	157	31	91	—	58	58
British Gas Corporation ...	523	141	664	436	8	444	176	1,064	—	-400	-400
British National Oil Corporation	278	-23	255	298	-14	168	8	460 <sup>(9)</sup>	—	-205 <sup>(10)</sup>	-205
British Steel Corporation	175	53	228	-712	-179	298	-300	-893	—	1,121	1,121
Post Office ...	1,613	-220	1,393	807	-529	1,237	15	1,530	—	-137	-137
British Airways Board ...	270	6	276	-128	-76	160	16	-28	—	304	304
British Airports Authority	85	6	91	14	-13	68	4	73	—	18 <sup>(11)</sup>	18
British Railways Board...	342	-130	212	-818	-74	197	117	-578	673	117	790
British Transport Docks Board	10	1	11	7	-9	19	4	21	—	-10	-10
British Waterways Board	7	—	7	-24	-2	1	2	-23	26	4	30
National Freight Company Ltd.	36	-1	35	-5	-11	23	17	24	6	5	11
National Bus Company	64	-1	63	-55	-18	41	10	-22	66	19	85
Scottish Transport Group	16	-1	15	-10	-1	13	1	3	21	-9	12
British Shipbuilders	13	16	29	(12)	-5	(12)	(12)	-136	42	123	165
TOTAL ...	5,370	186	5,556		-1,888			2,665	1,106	1,785 <sup>(13)</sup>	2,891

(1) No figures are included for British Aerospace. The sale to the public of shares in a successor company took place in February 1981, leaving the Government holding 48.4 per cent.

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

(3) The current cost breakdown of internal resources in general reflects broad adjustments to historic cost data.

(4) The total figure for interest alone is -£1,856 million.

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

(6) Shows subsidies and capital grants received during the year.

(7) Including issues under Section 18 of the Iron and Steel Act 1975.

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

(9) Excludes the proceeds of advance payments for oil.

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

(11) Includes £19 million from the redemption of local authority bonds.

(12) Current cost figures not available.

(13) Of which: Government loans ... 780

Issues of PDC (including issues under Section 18 of the Iron and Steel Act 1975) ... 1,390

Overseas borrowing ... -139

Market borrowing ... -246

Short-term borrowing and leasing ... —

TABLE 17—(continued). FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

B. 1981-82 Forecast<sup>(1)</sup>

£ million

	Capital requirements <sup>(2)</sup>			Financed by <sup>(2)</sup>							
	Fixed assets in the UK	Other	Total	Internal resources <sup>(3)</sup>					External finance		
				Current cost operating profit	Interest, dividends and tax <sup>(4)</sup>	Depreciation etc. <sup>(5)</sup>	Other receipts and payments	Total	Government grants <sup>(6)</sup>	Net borrowing, issues of PDC <sup>(7)</sup> and leasing	Total <sup>(8)</sup>
National Coal Board ...	888	-29	859	-269	-294	525	11	-27	267	619	886
Electricity (England and Wales)	1,221	6	1,227	412	-594	1,386	188	1,392	9	-174	-165
North of Scotland Hydro-Electric Board ...	44	35	79	47	-64	60	4	47	14	18	32
South of Scotland Electricity Board ...	239	-66	173	-34	-87	180	37	96	—	77	77
British Gas Corporation <sup>(9)</sup> ...	733	136	869	627	-111	489	181	1,186	—	-317	-317
British National Oil Corporation <sup>(9)</sup> ...	370	19	389	438	-14	288	37	749	—	-360 <sup>(10)</sup>	-360
British Steel Corporation	198	149	347	-399	-152	281	-113	-383	—	730	730
Post Office: Telecommunications	2,148	38	2,186	1,100	-545	1,440	11	2,006	—	180	180
Posts and Giro ...	146	-4	142	59	-7	69	5	126	—	16	16
British Airways Board ...	203	5	208	18	-113	193	9	107	—	101	101
British Airports Authority	95	2	97	25	-17	71	4	83	1	13	14
British Railways Board...	382	-97	285	-885	-81	233	98	-635	780	140	920 <sup>(11)</sup>
British Transport Docks Board	13	2	15	4	-7	22	1	20	—	-5	-5
British Waterways Board	6	—	6	-26	-3	1	2	-26	29	3	32
National Freight Company Ltd.	45	3	48	3	-7	27	18	41	2	5	7 <sup>(11)</sup>
National Bus Company	52	7	59	-46	-22	49	3	-16	60	15	75
Scottish Transport Group	16	-1	15	-12	-5	15	—	-2	22	-5	17
British Shipbuilders	30	50	80	(12)	-3	(12)	(12)	-70	43	107	150
TOTAL ...	6,829	255	7,084		-2,126			4,694	1,227	1,163 <sup>(13)</sup>	2,390

(1) No figures are included for British Aerospace. The sale to the public of shares in a successor company took place in February 1981, leaving the Government holding 48.4 per cent.

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

(3) The current cost breakdown of internal resources in general reflects broad adjustments to historic cost data.

(4) The total figure for interest alone is -£1,933 million.

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

(6) Shows subsidies and capital grants received during the year.

(7) Including issues under Section 18 of the Iron and Steel Act 1975.

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

(9) In the case of BGC and BNOC the figures exclude the impact of the proposed gas levy and of changes to North Sea taxation.

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

(11) Includes £53 million in the case of BR and £13 million in the case of NFC available solely to finance costs arising as a result of BR's decision to withdraw from its Collect and Deliver parcels business.

(12) Current cost figures not available.

(13) Of which: Government loans ... 891

Issues of PDC (including issues under Section 18 of the Iron and Steel Act 1975) ... 927

Overseas borrowing ... -544

Market borrowing ... -311

Short-term borrowing and leasing ... 200

# PART V

## CENTRAL GOVERNMENT TRANSACTIONS

The tables in this Part present the transactions of the central government in more detail both by reference to the activities of the relevant funds and accounts and in accordance with the national income accounts classification. All figures for receipts and expenditure both in 1980-81 and in 1981-82 are at the estimated prices of each year. Estimates for 1981-82 of the direct effects of Budget changes on expenditure and taxation are shown in Part I.

TABLE 18. SUMMARY OF CENTRAL GOVERNMENT TRANSACTIONS

	£ million		
	1980-81 Budget forecast	1980-81 Estimated outturn	1981-82 Forecast
<b>CONSOLIDATED FUND</b>			
Revenue (Table 19) ...	65,415	66,814	75,524
Expenditure (Table 20) ...	73,175	76,728	83,697
Deficit ...	7,760	9,914	8,173
<b>NATIONAL LOANS FUND</b>			
Consolidated Fund deficit (as above) ...	-7,760	-9,914	-8,173
Other transactions:			
Receipts (Table 21) ...	10,000	9,950	11,100
Payments (Table 21) ...	-12,905	-13,321	-15,134
Total net borrowing by the National Loans Fund ...	-10,665	-13,285	-12,207
Other funds and accounts (net) (Table 24)(1) ...	+1,352	+525	+710
<b>CENTRAL GOVERNMENT BORROWING REQUIREMENT</b> ...	<b>-9,313</b>	<b>-12,760</b>	<b>-11,497</b>

(1) See footnote (1) to Table 19.

TABLE 19. TAXATION AND MISCELLANEOUS RECEIPTS

£ million

							1980-81		1981-82 forecast
							Budget forecast	Estimated outturn	
TAXATION									
<i>Inland Revenue—</i>									
Income tax	...	...	...	...	...	...	23,830	24,704	28,202
Surtax	...	...	...	...	...	...	8	5	3
Corporation tax <sup>(1)</sup> ( <sup>2</sup> )	...	...	...	...	...	...	4,860	4,650	4,600
Petroleum revenue tax	...	...	...	...	...	...	2,560	2,420	2,210
Supplementary petroleum duty	...	...	...	...	...	...	—	—	1,850
Capital gains tax	...	...	...	...	...	...	490	520	575
Development land tax	...	...	...	...	...	...	25	24	25
Estate duty	...	...	...	...	...	...	17	27	15
Capital transfer tax	...	...	...	...	...	...	400	415	445
Stamp duties	...	...	...	...	...	...	670	635	775
Special tax on banking deposits	...	...	...	...	...	...	—	—	400
<i>Total Inland Revenue</i>							<i>32,860</i>	<i>33,400</i>	<i>39,100</i>
<i>Customs and Excise—</i>									
Value added tax	...	...	...	...	...	...	12,450	11,300	12,650
Oil	...	...	...	...	...	...	3,650	3,550	4,800
Tobacco	...	...	...	...	...	...	2,775	2,750	3,220
Spirits, beer, wine, cider and perry	...	...	...	...	...	...	2,825	2,600	3,200
Betting and gaming	...	...	...	...	...	...	475	465	510
Car tax	...	...	...	...	...	...	575	455	550
Other excise duties	...	...	...	...	...	...	10	10	25
EC own resources <sup>(2)</sup>									
Customs duties, etc.	...	...	...	...	...	...	950	800	835
Agricultural levies	...	...	...	...	...	...	290	205	210
<i>Total Customs and Excise</i>							<i>24,000</i>	<i>22,135</i>	<i>26,000</i>
Vehicle excise duties							1,411	1,403	1,628
National insurance surcharge							3,509	3,585	3,809
TOTAL TAXATION							61,780	60,523	70,537
MISCELLANEOUS RECEIPTS									
Broadcast receiving licences							535	529	552
Interest and dividends							300	246	222
Other <sup>(3)</sup> ( <sup>4</sup> )							2,800	5,516	4,213
Total							65,415	66,814	75,524

(1) Corporation tax receipts include advance corporation tax: net of repayments ... 1,700 1,810 1,760

(2) Customs duties and agricultural levies are accountable to the European Communities as "own resources"; actual payments to the Communities are recorded in Table 20.

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

(4) Including estimated receipts of £940 million in 1980-81 and £1,200 million in 1981-82 in respect of oil royalties. These are reflected in the accounts as a change in the balance on the National Oil Account (included in other funds and accounts in Table 18) and also as part of the transfer of the NOA surplus into the Consolidated Fund (included in this line).

(5) The estimated proportion attributed to North Sea oil and gas production is £240 million in 1980-81 and £340 million in 1981-82. In addition an estimated £240 million in 1980-81 and £280 million in 1981-82 of corporation tax will be satisfied by setting off advance corporation tax (ACT). Thus total revenues from the North Sea, inclusive of royalties, supplementary petroleum duty, petroleum revenue tax and corporation tax, before any ACT set off, are estimated to be £3,840 million in 1980-81 and £5,880 million in 1981-82.

TABLE 20. SUPPLY SERVICES AND CONSOLIDATED FUND STANDING SERVICES

£ million

								1980-81		1981-82 Forecast
								Budget <sup>(1)</sup> forecast	Estimated Outturn	
SUPPLY SERVICES										
I.	Defence	...	...	...	...	...	...	10,832	11,300	12,138
II.	Overseas Services	...	...	...	...	...	...	1,409	1,397	1,581
III.	Agriculture, Fisheries and Forestry	...	...	...	...	...	...	604	709	652
IV.	Trade, Industry, Energy and Employment	...	...	...	...	...	...	3,945	5,741	4,906
V.	Government Investment in Nationalised Industries	...	...	...	...	...	...	648	1,390	926
VI.	Roads and Transport	...	...	...	...	...	...	1,510	1,516	1,733
VII.	Housing	...	...	...	...	...	...	2,914	3,030	2,360
VIII.	Other Environmental Services	...	...	...	...	...	...	429	423	520
IX.	Law, Order and Protective Services	...	...	...	...	...	...	1,889	1,945	2,229
X.	Education and Libraries, Science and Arts	...	...	...	...	...	...	2,472	2,463	2,632
XI.	Health and Personal Social Services	...	...	...	...	...	...	8,766	8,823	9,572
XII.	Social Security	...	...	...	...	...	...	7,311	7,311	9,438
XIII.	Other Public Services	...	...	...	...	...	...	1,091	1,070	1,216
XIIIA.	House of Commons Administration	...	...	...	...	...	...	11	13	14
XIV.	Common Services	...	...	...	...	...	...	1,548	1,592	1,922
XV.	Scotland	...	...	...	...	...	...	2,505	2,606	2,737
XVI.	Wales	...	...	...	...	...	...	995	1,014	1,101
XVII.	Northern Ireland	...	...	...	...	...	...	990	959	1,118
XVIII.	Rate Support Grant, Financial Transactions, etc.	...	...	...	...	...	...	14,743	15,056	15,315
Total								64,612	68,358	72,110
Supplementary provision								153	—	31 <sup>(2)</sup>
Contingencies (net)								—	—	1,600 <sup>(2)</sup>
TOTAL SUPPLY SERVICES								64,765	68,358	73,741
CONSOLIDATED FUND STANDING SERVICES										
Payment to the National Loans Fund in respect of service of the national debt								4,950	5,180	6,200
Northern Ireland—share of taxes, etc.								1,136	1,236	1,279
Payments to the European Communities, etc.								2,301	1,930	2,450
Other Services								23	24	27
TOTAL CONSOLIDATED FUND STANDING SERVICES								8,410	8,370	9,956
Total								73,175	76,728	83,697

(<sup>1</sup>) The Budget forecast for 1980-81 has been adjusted for the allocation to individual Votes of the provision taken in the Civil Service, etc. Increase in Remuneration Vote (Class XIII, Vote 31 of 1980-81). The 1980-81 Budget forecast has also been put into the 1981-82 structure of Estimates.

(<sup>2</sup>) Bus fuel grants: see Table 2.

(<sup>3</sup>) See Table 14, footnotes 10 and 11.

TABLE 21. NATIONAL LOANS FUND RECEIPTS AND PAYMENTS

£ million

	1980-81		1981-82 forecast
	Budget forecast	Estimated outturn	
RECEIPTS			
Interest on loans, profits of the Issue Department of the Bank of England, etc. ... ..	5,050	4,770	4,900
Service of the National Debt—balance met from the Consolidated Fund ... ..	4,950	5,180	6,200
TOTAL RECEIPTS ... ..	10,000	9,950	11,100
PAYMENTS			
SERVICE OF THE NATIONAL DEBT			
Interest ... ..	9,885	9,820	10,970
Management and expenses ... ..	115	130	130
TOTAL ... ..	10,000	9,950	11,100
LOANS TO NATIONALISED INDUSTRIES (see Table 17)			
British Aerospace ... ..	600	780	891
Other National Oil Account transactions ... ..	200	205	360
TOTAL ... ..	800	982	1,251
LOANS TO OTHER PUBLIC CORPORATIONS:			
New Towns—Development Corporations and Commission ...	296	335	470
Scottish Special Housing Association ... ..	41	43	48
Housing Corporation ... ..	220	347	466
Covent Garden Market Authority ... ..	—	—	—17
Civil Aviation Authority ... ..	10	7	9
Regional Water Authorities ... ..	470	467	655
National Enterprise Board ... ..	4	—39	2
Scottish Development Agency ... ..	5	2	3
Welsh Development Agency ... ..	3	—	1
Land Authority for Wales ... ..	—	1	—
Development Board for Rural Wales ... ..	3	3	5
Royal Mint ... ..	—1	—1	—1
Royal Ordnance Factories ... ..	—4	—4	—4
Property Services Agency Supplies Division ... ..	—3	—3	—1
Her Majesty's Stationery Office Trading Fund ... ..	20	30	—2
TOTAL ... ..	1,064	1,188	1,634
LOANS TO LOCAL AND HARBOUR AUTHORITIES:			
Local Authorities ... ..	900	1,150	900
Harbour Authorities ... ..	15	4	6
TOTAL ... ..	915	1,154	906
LOANS TO PRIVATE SECTOR:			
Building Societies ... ..	—3	—3	—2
TOTAL ... ..	—3	—3	—2
LOANS WITHIN CENTRAL GOVERNMENT:			
Northern Ireland ... ..	130	50	80
Married quarters for armed forces ... ..	—1	—	—
Redundancy Fund ... ..	—	—	165
TOTAL ... ..	129	50	245
TOTAL—NET LENDING ... ..	2,905	3,371	4,034
TOTAL PAYMENTS ... ..	12,905	13,321	15,134



TABLE 22. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

## A. Analysis and reconciliation by fund—1980-81 estimated outturn

£ million

Receipts positive/payments negative	Consolidated Fund			National Loans Fund		Other central government funds and accounts <sup>(1)</sup>	Total central government
	Taxation and other receipts	Supply services	Standing services and deficit	Receipts	Payments		
<b>A. RECEIPTS</b>							
(i) Items entering into public sector receipts (see Table 15)							
Taxes on income ...	31,579	-4	—	—	—	557	32,172
National insurance contributions, etc. ...	—	1,035	—	—	—	13,350	14,385
Taxes on expenditure ...	27,913	-29	—	—	—	2,025	29,909
Other current receipts ...	159	-76	—	2	—	1,711	1,796
Taxes on capital and other capital transactions (net) ...	1,555	-69	-2	—	—	-1,272	212
Borrowing requirement <sup>(2)</sup> ...	—	—	—	13,285	—	-525	12,760
<b>TOTAL</b> ...	<b>61,206</b>	<b>857</b>	<b>-2</b>	<b>13,287</b>	<b>—</b>	<b>15,886</b>	<b>91,234</b>
(ii) Interest and dividends received from local authorities and public corporations ...	80	—	—	3,247	—	274	3,601
<b>TOTAL RECEIPTS</b> ...	<b>61,286</b>	<b>857</b>	<b>-2</b>	<b>16,534</b>	<b>—</b>	<b>16,160</b>	<b>94,835</b>
<b>B. EXPENDITURE</b>							
(i) Items entering into public sector expenditure (see Table 15)							
Current expenditure on goods and services ...	358	-28,677	-21	—	-30	-2,139	-30,509
Debt interest ...	—	-19	—	—	-7,947	-1,129	-9,095
Current grants to personal sector ...	20	-9,908	-1	—	—	-16,066	-25,955
Other current expenditure ...	785	-4,854	-1,930	—	—	-5	-6,004
Gross domestic fixed capital formation ...	73	-1,721	—	—	—	-124	-1,772
Other capital expenditure ...	820	-3,603 <sup>(3)</sup>	—	—	3	-364	-3,144
<b>TOTAL</b> ...	<b>2,056</b>	<b>-48,782</b>	<b>-1,952</b>	<b>—</b>	<b>-7,974</b>	<b>-19,827</b>	<b>-76,479</b>
(ii) Grants and net lending to local authorities and public corporations ...	1,619	-16,333	—	—	-3,324	-318	-18,356
<b>TOTAL EXPENDITURE</b> ...	<b>3,675</b>	<b>-65,115</b>	<b>-1,952<sup>(4)</sup></b>	<b>—</b>	<b>-11,298</b>	<b>-20,145</b>	<b>-94,835</b>
<b>C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT</b>							
Grant to National Insurance Fund ...	—	-2,848	—	—	—	2,848	—
Northern Ireland central government: transfers and loans ...	—	-709	-1,236	66	-50	1,929	—
Other loans and advances ...	—	-1	—	—	—	1	—
Debt interest (including profits of Issue Department) ...	25	-5	-5,180	6,635	-1,973	498	—
B.B.C. licence revenue ...	529	-529	—	—	—	—	—
Surplus receipts for surrender, etc. ...	1,299	-8	—	—	—	-1,291	—
Deficit on Consolidated Fund ...	—	—	9,914 <sup>(5)</sup>	-9,914 <sup>(6)</sup>	—	—	—
<b>TOTAL INTERNAL TRANSACTIONS</b> ...	<b>1,853</b>	<b>-4,100</b>	<b>3,498</b>	<b>-3,213</b>	<b>-2,023</b>	<b>3,985</b>	<b>—</b>
<b>Grand Total (A, B and C)</b> ...	<b>66,814<sup>(7)</sup></b>	<b>-68,358<sup>(8)</sup></b>	<b>1,544</b>	<b>13,321<sup>(9)</sup></b>	<b>-13,321<sup>(9)</sup></b>	<b>—</b>	<b>—</b>

<sup>(1)</sup> Includes National Insurance Fund and the Northern Ireland central government: also includes imputed charge for consumption of non-trading capital and sundry adjustments (timing, etc.).<sup>(2)</sup> The borrowing requirement of the central government comprises the borrowing of the National Loans Fund (i.e. the Fund's net borrowing together with changes in Exchange Equalisation Account sterling capital) less any surplus (or plus any deficit) on the National Insurance Fund and changes in departmental balances invested in government debt, etc.<sup>(3)</sup> Includes transfer of B.L. Ltd. to Department of Industry from National Enterprise Board. In the Chief Secretary's Memorandum on the Supply Estimates (Cmd. 8184) Table 4 this transfer was included as a capital grant.<sup>(4)</sup> As included in Table 19.<sup>(5)</sup> As included in Table 20.<sup>(6)</sup> As included in Table 18.<sup>(7)</sup> As included in Table 21.

TABLE 22—(continued). CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

## B. Analysis and reconciliation by fund—1981-82 forecast

£ million

Receipts positive/payments negative	Consolidated Fund			National Loans Fund		Other central government funds and accounts <sup>(1)</sup>	Total central government
	Taxation and other receipts	Supply services	Standing services and deficit	Receipts	Payments		
<b>A. RECEIPTS</b>							
(i) Items entering into public sector receipts (see Table 15)							
Taxes on income ...	36,645	-5	—	—	—	377	37,017
National insurance contributions, etc. ...	—	1,366	—	—	—	15,377	16,743
Taxes on expenditure ...	32,399	-60 <sup>(2)</sup>	—	—	—	1,985	34,324
Other current receipts ...	187	14	—	1	—	1,613	1,815
Taxes on capital and other capital transactions (net) ...	2,022	-86	-3	—	—	-815	1,118
Borrowing requirement (net balance) <sup>(3)</sup> ...	—	—	—	12,207	—	-710	11,497
<b>TOTAL</b> ...	<b>71,253</b>	<b>1,229</b>	<b>-3</b>	<b>12,208</b>	<b>—</b>	<b>17,827</b>	<b>102,514</b>
(ii) Interest and dividends received from local authorities and public corporations ...	48	—	—	3,518	—	364	3,930
<b>TOTAL RECEIPTS</b> ...	<b>71,301</b>	<b>1,229</b>	<b>-3</b>	<b>15,726</b>	<b>—</b>	<b>18,191</b>	<b>106,444</b>
<b>B. EXPENDITURE</b>							
(i) Items entering into public sector expenditure (see Table 15)							
Current expenditure on goods and services ...	373	-31,696	-23	—	-30	-2,405	-33,781
Debt interest ...	—	-16	—	—	-8,869	-1,552	-10,437
Current grants to personal sector ...	20	-12,217	-1	—	—	-18,763	-30,961
Other current expenditure ...	1,120	-4,204	-2,450	—	—	179	-5,355
Gross domestic fixed capital formation ...	37	-2,113	—	—	—	-117	-2,193
Other capital expenditure ...	589	-2,675	—	—	2	-141	-2,225
<b>TOTAL</b> ...	<b>2,139</b>	<b>-52,921</b>	<b>-2,474<sup>(4)</sup></b>	<b>—</b>	<b>-8,897</b>	<b>-22,799</b>	<b>-84,952</b>
(ii) Grants and net lending to local authorities and public corporations ...	10	-16,444	—	—	-3,791	100	-20,125
(iii) Contingencies (net) <sup>(5)</sup> ...	233	-1,600	—	—	—	—	-1,367
<b>TOTAL EXPENDITURE</b> ...	<b>2,382</b>	<b>-70,965</b>	<b>-2,474</b>	<b>—</b>	<b>-12,688</b>	<b>-22,699</b>	<b>-106,444</b>
<b>C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT</b>							
Grant to National Insurance Fund ...	—	-2,588	—	—	—	2,588	—
Northern Ireland central government: transfers and loans ...	—	-860	-1,279	—	-80	2,219	—
Other loans and advances ...	—	-5	—	—	-165	165	—
Debt interest (including profits of Issue Department) ...	25	-5	-6,200	7,581	-2,201	800	—
B.B.C. licence revenue ...	552	-552	—	—	—	—	—
Surplus receipts for surrender, etc. ...	1,264	—	—	—	—	-1,264	—
Deficit on Consolidated Fund ...	—	—	8,173 <sup>(6)</sup>	-8,173 <sup>(6)</sup>	—	—	—
<b>TOTAL INTERNAL TRANSACTIONS</b> ...	<b>1,841</b>	<b>-4,005</b>	<b>694</b>	<b>-592</b>	<b>-2,446</b>	<b>4,508</b>	<b>—</b>
<b>Grand Total (A, B and C)</b> ...	<b>75,524<sup>(7)</sup></b>	<b>-73,741<sup>(8)</sup></b>	<b>-1,783</b>	<b>15,134<sup>(9)</sup></b>	<b>-15,134<sup>(9)</sup></b>	<b>—</b>	<b>—</b>

<sup>(1)</sup> Includes National Insurance Fund and the Northern Ireland central government: also includes imputed charge for consumption of non-trading capital and sundry adjustments (timing, etc.).<sup>(2)</sup> The borrowing requirement of the central government comprises the borrowing of the National Loans Fund (i.e. the Fund's net borrowing together with changes in Exchange Equalisation Account sterling capital) less any surplus (or plus any deficit) on the National Insurance Fund and changes in departmental balances invested in government debt, etc.<sup>(3)</sup> Includes special sales of assets.<sup>(4)</sup> As included in Table 19.<sup>(5)</sup> As included in Table 20.<sup>(6)</sup> As included in Table 18.<sup>(7)</sup> As included in Table 21.<sup>(8)</sup> Includes supplementary provision for bus fuel grants (£31 million).

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# Financial Statement and Budget Report 1982-83

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