

Financial Statement and Budget Report 1980-81

RETURN to an Order of the House of Commons dated 26 March 1980: for

COPY of FINANCIAL STATEMENT AND BUDGET REPORT 1980-81 as laid before
the House by the CHANCELLOR OF THE EXCHEQUER when opening the BUDGET

Treasury Chambers,
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PREFACE

This Financial Statement and Budget Report differs from those of previous years. Tax proposals and expenditure measures are described in Part I, which also includes a new table (Table 4) showing the direct effects of the Budget on public sector transactions by economic category. Part II sets out the government's medium-term financial strategy. Part III contains the review of recent economic developments and of economic prospects to mid-1981. The presentation of public sector transactions in Part IV (formerly Part II) has been redesigned. The changes are explained in the introduction to Part IV. The related changes made in the presentation of central government transactions are explained in the introductory note to Part V. External financing limits of nationalised industries are included in Part IV.

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PART I

THE BUDGET PROPOSALS

THE BUDGET AND THE ECONOMIC CONTEXT

The Budget is a further stage in the Government's medium-term policy of reducing inflation and improving the supply side of the economy. The central feature of the anti-inflation policy is the gradual reduction of monetary growth. To achieve this reduction without intolerably high interest rates public sector borrowing will be reduced over the medium term. The Budget is intended to achieve a real level of public sector borrowing in 1980-81 significantly lower than in 1979-80.

2. The medium-term plans for monetary growth are discussed in Part II. The Budget 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.⁽¹⁾ The Budget is defined to include all the expenditure decisions since the November White Paper⁽²⁾ and the tax changes

announced in the Budget Speech. The changes in the Budget are measured from the expenditure plans for 1980-81 in that White Paper and the tax rates and allowances which ruled in 1979-80.

3. The tax proposals in the Budget are broadly neutral in their revenue effects. The main proposals are for a reduction in income tax worth just under £1.2 billion in 1980-81, and an increase in specific duties yielding a little over £1.2 billion. Taking into account a number of other tax changes including those relating to petroleum revenue tax (Table 2), there is expected to be a net increase in revenue of £½ billion in 1980-81. The corresponding figures for a full year represent a small reduction in revenue.

4. It is also possible to measure the change in revenue from taxation in relation to a base in which the 1979-80 specific duty rates and main income tax allowances and thresholds are fully indexed to allow for inflation. On this basis the Budget is estimated to increase revenue by over £1 billion in a full year.

TABLE 1. DIRECT EFFECTS ON PUBLIC SECTOR TRANSACTIONS⁽³⁾

£ millions					
Tax Proposals	1980-81 Current prices	Full Year 1980-81 prices	Expenditure Measures	1980-81 Current prices	1980-81 1979 Survey prices ⁽⁴⁾
Income tax	-1,190	(-1685)	Programmes	-900	(-670)
Other direct taxes	+245	(+90)	Contingency reserve	+325	+(250)
Specific duties	+1,245	(+1,275)			
Other indirect taxes	-65	(-60)			
Total tax proposals	+235	-(380)	Total expenditure measures...	-575	(-420)

The total net direct effect of the Budget is to reduce the borrowing requirement in 1980-81 by £810 million, the sum of the increase in revenue and the reduction in expenditure. The PSBR is forecast to be £8,536 million in 1980-81.

⁽¹⁾ The value of expenditure decisions is taken to measure their direct effect. The direct effects of tax changes are the differences between the yields estimated by applying the new and the old tax rates and allowances to the taxable income and expenditure projected in the post-Budget forecast. A further adjustment is made to the estimates of the Customs and Excise taxes to allow for the changes in taxation resulting 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 11).

⁽²⁾ The Government's Expenditure Plans 1980-81, Cmnd. 7746.

⁽³⁾ +/— indicates an increase/decrease in revenue or expenditure.

⁽⁴⁾ See also Table 3.

5. The expenditure decisions included in the Budget measures are for a direct reduction in public expenditure programmes of about £900 million at 1980-81 prices. The Government have increased the contingency reserve for 1980-81 by £325 million, at 1980-81 prices, as a precaution. The Government will aim to keep as much as possible of the reserve unspent. Table 3 also shows for convenience the other revisions to expenditure programmes since the November White Paper. The full White Paper on the Government's Expenditure Plans 1980-81 to 1983-84 (Cmnd. 7841) is published today.

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 £810 million. The resulting PSBR in 1980-81 is forecast to be £8½ billion, or 3½ per cent of market price GDP, compared with 4½ per cent in 1979-80. The public sector financial deficit (PSFD) is expected to decline from 3½ per cent of GDP in 1979-80 to 3 per cent in 1980-81. The detailed forecast is shown in Tables 14 and 15 in Part IV.

7. In the short-term the reduction in public expenditure is likely to reduce economic activity slightly. This is probably also true of the net effect of reducing direct and raising indirect taxes. But these measures are a necessary step in the medium-term strategy of reducing the burden of public sector borrowing and improving incentives. They will therefore be beneficial to sustainable economic growth.

8. The average increase in specific duties does not go beyond what is necessary to prevent the erosion in their real value by inflation over the past year. It is estimated to have an immediate impact on the retail prices index (RPI) of 1.1 per cent. Otherwise the Budget will not alter the RPI in the short term, except for the effects of increases in prescription charges and council rents in the autumn which will add about 0.2 per cent. Over time, given control of the money supply, its indirect effects on the RPI will tend to offset the short run effect. The Budget is estimated to reduce the tax and price index (TPI) slightly, with the increase in the RPI being more than offset by the effects of the income tax reduction.

PROPOSED CHANGES IN TAXATION

INLAND REVENUE

Income tax

It is proposed—

to increase the single person's allowance and the maximum wife's earned income relief from £1,165 to £1,375 and the married allowance from £1,815 to £2,145.

to increase the additional personal allowance from £650 to £770.

to increase the age allowance for the single person from £1,540 to £1,820, for the married from £2,455 to £2,895, and the age allowance income limit from £5,000 to £5,900.

to abolish the lower rate of 25 per cent on the first £750 of taxable income.

to extend the basic rate band to £11,250.

to increase the width of the 45 per cent band to £3,500 and the widths of the 50 per cent and 55 per cent bands to £5,500.

As a consequence of these changes, the structure of personal tax rates in operation in 1980-81 will be:

BANDS OF TAXABLE INCOME

£					Per cent
0-11,250	...	...	...	...	30
11,251-13,250	...	...	...	...	40
13,251-16,750	...	...	...	...	45
16,751-22,250	...	...	...	...	50
22,251-27,750	...	...	...	...	55
Over 27,750	...	...	...	...	60

It is proposed—

to raise the threshold for the investment income surcharge for 1980-81 from £5,000 to £5,500.

to extend to the income tax rate bands and the investment income surcharge threshold the provisions requiring an annual revision in the light of changes in the prices index.

to exempt wholly from tax the pensions and annuities from certain gallantry awards.

to introduce a relief for widows in the year of the husband's death.

to reduce tax allowances for children overseas in 1981-82 and withdraw them in 1982-83.

to make certain changes in the measurement of the taxable benefit from beneficial loans and the provision of assets for employees, and, with effect from 1981-82,

to alter the scales which measure the taxable benefit of company cars and the provisions which modify them by reference to the extent of business use.

to amend the law so as to provide tax reliefs for savings-linked share option schemes and to improve the reliefs for profit sharing schemes.

to reduce the rate of tax relief for life assurance premiums from 17½ per cent to 15 per cent with effect from the year 1981-82, and to withdraw relief for premiums on insurance policies taken out from today in connection with certain short-term bonds.

to increase the normal percentage limit on retirement annuity relief from 15 per cent to 17½ per cent, to increase correspondingly the limits for individuals born before 1916, to abolish the premium limit and to introduce a carry-forward of unused relief.

to extend from 1981-82 onwards, the tax relief allowed to individuals for covenants in favour of charities, to the higher and additional rates; to reduce from "over 6 years" to "over 3 years" the minimum period for which a covenant in favour of a charity must run to be effective for tax purposes.

to allow income tax relief on certain capital losses on equity investment in unquoted trading companies.

to allow relief for interest paid on money borrowed for investment in a close company to borrowers having a material interest, but who do not work for the greater part of their time in the company's business.

Income tax and corporation tax

It is proposed—

to allow certain stock relief recovery charges to be deferred for one year.

to replace the 100 per cent first year allowance by 25 per cent writing down allowances for expenditure on certain plant and machinery for leasing; and that certain income tax losses arising from leasing should not be available against non-leasing income.

that expenditure on the construction of industrial or commercial buildings in enterprise zones should qualify for 100 per cent capital allowances.

that expenditure in the next three years on the construction of small industrial buildings should qualify for 100 per cent capital allowances.

to end the apportionment of the trading income of close trading companies.

to end the close company restrictions on interest paid to directors.

INLAND REVENUE—continued

to tax as trading receipts certain grants made under the Industry Act 1972 to the extent, if any, that this is not achieved under existing law.

to allow certain costs of raising business loan finance and expenditure incurred prior to the commencement of a trade.

to allow certain voluntary redundancy payments made on the cessation of a business.

to reduce the tax charge on certain demergers.

to revise the rules of the sub-contractors' tax deduction scheme.

Corporation tax

It is proposed for the financial year 1979 to fix the "small companies" rate of corporation tax at 40 per cent (previously 42 per cent) and to increase the limit for that rate from £60,000 to £70,000 and the limit for marginal relief from £100,000 to £130,000.

Corporation tax and capital gains tax

It is proposed—

to exempt authorised unit and approved investment trusts from tax on their capital gains, and end the present credit system for their investors.

to end the treatment of trading options as wasting assets.

Petroleum revenue tax (PRT)

It is proposed—

to increase the rate of PRT from 60 per cent to 70 per cent for chargeable periods ending after 31 December 1979.

to advance payments of PRT for the chargeable period to 30 June 1981 and succeeding chargeable periods.

Special provisions are proposed: for gas fractionation and valuation; for gas banking arrangements; for unrelieved expenditures on the transfer of an interest in an oil or gas field; and for fields spanning the median line between the Continental Shelf of the United Kingdom and that of another country.

Capital gains tax

It is proposed—

to increase the threshold from 1980–81 so as to exempt individuals on the first £3,000 of capital gains in a year and most trusts on the first £1,500.

to introduce a rollover relief for lifetime gifts between individuals and to allow the capital transfer tax paid as a deduction against any subsequent gain on the transferee.

to provide relief for private residences used for residential lettings.

Development land tax

It is proposed—

to introduce measures allowing a taxpayer to elect to have the tax on a deemed disposal fixed earlier than at present.

to exempt charities from the tax in respect of disposals of an interest in land made on or after 26 March 1980.

to exempt from the tax disposals of an interest in land within an enterprise zone within 10 years of the zone being so designated.

Capital transfer tax

It is proposed—

to increase the upper limit of the nil rate band for both death and lifetime transfers from £25,000 to £50,000 and to increase the exemption limit for transfers to non-domiciled spouses correspondingly.

to increase the small gifts exemption to £250, and the exemption for transfers on death or within a year of death to charities to £200,000.

Capital transfer tax and income tax

It is proposed to widen the scope of the provisions under which tax reliefs are available for trusts set up for the maintenance of certain kinds of heritage property, so as to embrace a wider range of property and to permit withdrawals from such trusts for purposes unconnected with the heritage.

Stamp duties

It is proposed—

to raise with effect from 6 April 1980 the level below which transfers of property (other than stocks and shares) are not liable to stamp duty from £15,000 to £20,000, to adjust the associated bands of reduced rates of duty correspondingly and to alter certain limits affecting stamp duty on new leases.

to apply an existing special stamp duty treatment affecting stock exchange jobbers to dealings in unlisted stocks and shares by licensed dealers.

to free certain charitable deeds of covenant from stamp duty.

CUSTOMS AND EXCISE

Surcharges and rebates in respect of excise duties

It is proposed to amend the Excise Duties (Surcharges or Rebates) Act 1979 to abolish the annual statutory renewal of the Treasury's power to make orders under the Act, to remove the restrictions on the purposes for which such Orders may be made, and to alter the provisions of the Act relating to Parliamentary control.

Value added tax

It is proposed that from 1 May 1980 the zero rate of VAT shall cease to apply to lubricating oils. Schedule 4, Group 7 of the Finance Act 1972 will be amended accordingly.

It is proposed to amend Section 20(1) and Schedule 1 to the Finance Act 1972 relating to VAT so as from 27 March 1980 to increase the registration limit to £13,500 per annum and to introduce a single quarterly registration limit of £4,000. From 1 June 1980 the deregistration limit, where future turnover is concerned, will become £12,500 per annum and, where past turnover is concerned, £13,500. It is also proposed from the same date to grant additional relief on stocks and assets at deregistration.

Alcoholic drinks

It is proposed, from midnight 26–27 March 1980, to increase:

(a) the rate of duty on spirits by £1.43 per litre of alcohol in the spirits;

(b) the rate of duty on beer by £2.40 per hectolitre and the charge for each additional degree of original gravity above 1030° by £0.08 per hectolitre;

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

Wine of an alcoholic strength:			
not exceeding 15 per cent	...	...	£9.93
exceeding 15 per cent but not exceeding 18 per cent	...	...	£11.45
exceeding 18 per cent but not exceeding 22 per cent	...	...	£13.48
exceeding 22 per cent	...	...	£13.48
plus £1.43 for every 1 per cent, or part of 1 per cent, in excess of 22 per cent;			
surcharge on sparkling wine	...	...	£2.18

(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	...	...	£6.44
exceeding 10 per cent but not exceeding 15 per cent	...	...	£9.65
exceeding 15 per cent but not exceeding 18 per cent	...	...	£10.61
exceeding 18 per cent	...	...	£10.61
plus £1.43 for every 1 per cent, or part of 1 per cent, in excess of 18 per cent;			
surcharge on sparkling made-wine	...	...	£1.00

(e) the rate of duty on cider and perry by £0.73 per hectolitre.

Hydrocarbon oil duties

It is proposed, from 6 p.m. on 26 March 1980, to increase:

(a) the rate of duty on light hydrocarbon oil, petrol substitutes and spirits used for power methylated spirits by 1.9p per litre;

(b) the rate of duty on heavy hydrocarbon oil for use as road fuel by 0.8p per litre;

(c) the effective rate of duty borne by rebatable oils (except kerosene used other than as aviation fuel) by 0.11p per litre;

(d) the rate of duty on gas for use as road fuel by 0.95p per litre.

Tobacco

It is proposed, from midnight 28–29 March 1980, to increase:

(a) the specific element in the duty on cigarettes by £1.65 per 1,000 cigarettes (the *ad valorem* element remaining unchanged);

(b) the duty on cigars by £4.66 per kilogram;

(c) the duty on hand-rolling tobacco by £2.32 per kilogram;

(d) the duty on other smoking and chewing tobacco by £1.31 per kilogram.

Gaming licence duty

It is proposed to amend the Betting and Gaming Duties Act 1972 to provide, with effect from 1 October 1980, for a two-part gaming licence duty. For the two 6-month licensing periods up to 30 September 1981, the first tranche will be a payment equal to that payable

CUSTOMS AND EXCISE—continued

under the current duty arrangements. The second tranche, payable up to five months after the licensing period, will be a proportion of the gross gaming yield (stakes less winnings) as follows:

- 2½ per cent of the first £250,000, plus
- 5 per cent of the next £500,000, plus
- 10 per cent of the next £1,750,000, plus
- 20 per cent of the remainder of gross gaming yield; less the initial payment under the first part.

For licensing periods starting on 1 October 1981 or later the first part will be £250. The second will be:

- 2½ per cent of the first £250,000, plus
- 5 per cent of the next £500,000, plus
- 10 per cent of the next £1,750,000, plus
- 20 per cent of the remainder of gross gaming yield.

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. The increases have effect in relation to licences taken out after 26 March 1980. The annual rates of duty on cars will be increased by 20 per cent with the exception of goods vehicles over 9 tons

unladen weight whose rates of duty will be increased by approximately 30 per cent. These percentage increases are broadly descriptive and there will be some variations within particular vehicle categories.

It is also proposed to exempt electrically-propelled vehicles from duty and such exemptions will take effect after 26 March 1980.

Bingo duty

It is proposed to increase, with effect from 29 September 1980, the rate of bingo duty to 7½ per cent of stakes plus 3/37ths of any amount by which the total value of the prizes won in each week exceeds stakes after deduction of the duty payable.

Gaming machine licence duty

It is proposed to amend the Betting and Gaming Duties Act 1972, with effect from 1 October 1980, to restructure the rates of duty on ordinary gaming machine licences.

It is proposed to abolish the duty on penny machines and, with it, the holiday season licence for such machines.

It is proposed to amend in a similar manner the comparable Gaming Machine Licence provisions in the Miscellaneous Transferred Excise Duties Act (Northern Ireland) 1972.

TABLE 2. DIRECT EFFECTS OF CHANGES IN TAXATION

This table presents the information previously shown in the Annex to the Financial Statement and Budget Report. The equivalent table of Financial Statement and Budget Report 1979-80 (H.C. 98) was Table 16 "Forecast effects of changes in taxation".

	£ million	
	Forecast for 1980-81	Forecast for a full year
INLAND REVENUE		
<i>Income tax</i>		
Increase in single allowance by £210 and married allowance by £330 ...	-1,630	-1,994
Increase in additional personal allowance by £120 ...	-10	-12
Increase in age allowance by £280 (single) and by £440 (married) and in income limit by £900 ...	-169	-211
Abolition of lower rate band ...	+748	+901
Increase in higher rate threshold to £11,250 ...	-58	-106
Changes in further higher rate thresholds ...	-40	-86
Increase in investment income surcharge threshold ...	-2	-31
Extension of indexation provision ...	(a)	(b)
Exemption from tax of pensions and annuities from certain gallantry awards	Negligible	Negligible
Widows' bereavement allowance ...	-2	-2
Withdrawal of child tax allowance for non-resident children ...	Nil	+7
Changes in taxation of fringe benefits ...	Nil	+15
Relief for savings-linked share option schemes ...	Nil	(c)
Further relief for profit sharing schemes ...	Negligible	-150(d)
Reduction in relief on life assurance premiums ...	Nil	+77
Withdrawal of life assurance relief on certain policies ...	+7	+15
Changes in retirement annuity relief ...	-32	-65
Changes in relief on covenanted gifts to charities ...	Negligible	-25
Income tax relief for capital losses ...	Negligible	-20
Extension of interest relief for borrowing to invest in close companies ...	Negligible	Negligible
<i>Income tax and corporation tax</i>		
Stock relief: deferral of recovery charges ...	-210	Negligible(e)
Capital allowances: leasing ...	Negligible	+225(f)
Capital allowances: enterprise zones ...	Negligible	-20
Capital allowances: small industrial buildings ...	Negligible	-20
Ending apportionment of trading income of close trading companies ...	Negligible	-5
Relief for cost of raising loan finance ...	Negligible	-5
Relief for demergers ...	(g)	(g)
<i>Corporation tax</i>		
Reduction in small companies' rate and increase in limits ...	-20	-35
<i>Corporation tax and capital gains tax</i>		
Exemption for unit and investment trusts (and removal of credit for investors) ...	Negligible	-10
<i>Petroleum revenue tax</i>		
Increase in rate ...	+350	+170(h)
Advance petroleum revenue tax ...	+200	Nil
Gas fractionation; valuation; and gas banking ...	-15	-7(i)
<i>Capital gains tax</i>		
£3,000 exempt slice for individuals and £1,500 for trustees ...	Negligible	-65(j)
Rollover relief for lifetime gifts ...	Negligible	-5
<i>Development land tax</i>		
Option to have liability on a deemed disposal fixed in advance ...	Nil	-1
Other minor items ...	Nil	Negligible
<i>Capital transfer tax</i>		
Increase in threshold ...	-60	-125(k)
Increase in exemption limit for charitable gifts ...	-2	-5
Other minor items ...	Negligible	Negligible

TABLE 2—continued. DIRECT EFFECTS OF CHANGES IN TAXATION

	£ million	
	Forecast for 1980-81	Forecast for a full year
INLAND REVENUE—continued		
<i>Capital transfer tax and income tax</i>		
Maintenance funds for historic buildings, etc.	Nil	(1)
<i>Stamp duties</i>		
Raising of thresholds by £5,000	-75	-85
Other minor items	Negligible	Negligible
TOTAL INLAND REVENUE	-1,020	-1,680
CUSTOMS AND EXCISE		
<i>Value added tax</i>		
Increase in registration limits	-5	-10
Increase in rate of VAT on lubricating oils	+12	+17
<i>Excise duties</i>		
Increase in rate of duty on light oil, etc.	+450	+450
Increase in rate of duty on heavy oil for use in road vehicles	+55	+55
Increase in effective rate of rebatable oil duty	+50	+50
Increase in rates of tobacco products duty	+180	+195
Increase in rates of spirits duties	+40	+40
Increase in rates of beer duty	+190	+205
Increase in rates of wine and made-wine duties	+40	+40
Increase in rate of duty on cider and perry	+3	+3
Replacement of gaming licence duty	Nil	+9(m)
Restructuring of gaming machine licence duty	Negligible	+1
Increase in rates of bingo duty	+5	+10
TOTAL CUSTOMS AND EXCISE	+1,020	+1,065
VEHICLE EXCISE DUTY		
Increase in rates of duty	+240	+240
Abolition of Vehicle Excise Duty on electrically-propelled vehicles	-2	-2
OTHER		
Bus Fuel Grants(n)	-3	-3
Total Changes in Taxation	+235	-380

(a) Effective from 1981-82.

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

(c) The yield from new option schemes, if they were subject to taxation, might eventually reach a figure of the order of £100 million. No cost is shown however since new schemes would be unlikely to be introduced without the proposed relief and the yield of income tax is therefore unaffected.

(d) The estimate of the cost is highly tentative since it will depend on the extent to which the reliefs are used.

(e) The cost in 1981-82 will be £125 million.

(f) The yield in 1981-82 will be £90 million.

(g) Large sums could be involved but no cost is shown since the demergers are unlikely to occur without the new relief.

(h) Petroleum revenue tax +£350 million; corporation tax -£180 million.

(i) Petroleum revenue tax -£15 million; corporation tax +£8 million.

(j) The cost in 1981-82 will be £25 million.

(k) The cost in 1981-82 will be £115 million.

(l) There could be a long-term cost but its extent cannot be quantified.

(m) The yield in 1981-82 will be £5 million.

(n) This is a consequence of the increases in road fuel duties. These grants are treated as tax refunds in Tables 14, 15, 23 and 24.

METHOD OF ESTIMATION OF DIRECT EFFECTS OF A TAX CHANGE

(See Table 2 on pages 9 and 10)

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 and capital transfer 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 1980-81.

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 1980-81 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.

EXPENDITURE MEASURES

The public expenditure decisions included in the Budget in this Report are those made between the interim White Paper (Cmnd. 7746) published in November 1979, and the main White Paper on the Government's expenditure plans 1980-81 to 1983-84 (Cmnd. 7841), published today. Earlier decisions shown in the interim White Paper (and incorporated in the main White Paper) are excluded from the Budget.

Table 3 shows the changes from Cmnd. 7746 analysed by Department and main programme. The figures are in 1979 survey prices.

Notes on the main Budget changes

Ministry of Defence

The reduction of £62 million in the defence programme includes £31 million on the previously planned works programme.

Export Credit Guarantee Department

The reduction of £182 million results from more re-financing by the Trustee Savings Banks of fixed rate export credit.

Department of Employment

The reduction of £26 million represents mainly economies in administration and savings on the programme of the Manpower Services Commission.

Department of the Environment

As a result of decisions announced on 21 February the Department's housing programme is reduced by

£392 million. The reduction of £57 million in the programme of the Property Services Agency includes £31 million shown in the defence programme.

Department of Health and Social Security

The prescription charge will be increased to £1 on 1 December 1980, with an estimated increase of £5 million in income from charges. The net effect of changes on the social security programme is an increase of £31 million. This includes reductions in expenditure stemming from the uprating proposals for November 1980. The rate of child benefit will be increased by 75p per week in November.

Department of Industry

There is increased provision of £116 million for British Leyland. This follows the announcement in December 1979 that the Government would provide British Leyland with a total of up to £300 million cash in 1980-81.

Other differences in expenditure programmes in Cmnd. 7841 from Cmnd. 7746

The bottom line of Table 3 shows for convenience estimating and other changes to programmes since Cmnd. 7746. They include a reduction in forecast Common Agricultural Policy expenditure in the United Kingdom and changes reflecting revisions to inflation and other assumptions from those used in Cmnd. 7746. Table 5.10 of Cmnd. 7841 summarises all differences between the White Papers, including revisions to debt interest costs.

TABLE 3. EXPENDITURE MEASURES—1980-81

		£ million 1979 survey prices												
Department/Programme	Defence	Overseas aid and other overseas services	Agriculture, fisheries, food and forestry	Industry, energy, trade and employment	Nationalised industries ⁽¹⁾	Roads and transport	Housing	Other environmental services	Law, order and protective services	Education and science, arts and libraries	Health and personal social services	Social security	Other public services	Common services
Budget changes														
Defence	-31													-31
Education and Science										-17				-17
Energy				-15										-15
Export Credit Guarantee Department				-182										-182
Employment				-26										-26
Environment (including Public Services Agency)	-31						-392							-449
Health and Social Security											-6	+31		+25
Industry				+113										+113
Scottish Office and Departments			+2			-5	-32	-8		-4	-1			-48
Welsh Office and Departments			+1	+17			-19	-6						-7
Northern Ireland Office and Departments													-14	-14
Other departments		-3	-4										-10	-17
Total programmes	-62	-3	-1	-93	-	-5	-443	-14	-	-21	-7	+31	-10	-26
Contingency reserve														+250
Total Budget changes⁽²⁾	-62	-3	-1	-93	-	-5	-443	-14	-	-21	-7	+31	-10	-26
Other differences in Cmnd. 7841 from Cmnd. 7746⁽²⁾	-3	+21	-115	+215	-100	+1	+65	-7	-12	-	-1	+34	-11	+4

⁽¹⁾ The changes in this column cover both government lending to nationalised industries and the market and overseas borrowing of the industries.

⁽²⁾ These two lines sum to the change in the planning total shown in Table 5.10 of Cmnd. 7841.

DIRECT EFFECTS OF THE BUDGET ON PUBLIC SECTOR TRANSACTIONS

The estimated direct effects of the tax and expenditure measures at current prices are brought together and classified in Table 4 according to the economic categories used in the national income accounts. The final line shows the direct effects of the Budget on the public sector borrowing requirement.

2. This table can be used with the tables in Parts IV and V, to obtain estimates of public sector and central government transactions on the conventional definition of "before Budget changes" used in previous editions of the Financial Statement and Budget Report.

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

£ million

	1980-81		
	Tax proposals	Expenditure measures	Total
GENERAL GOVERNMENT			
CURRENT RECEIPTS			
Taxes on income ...	-1,026		-1,026
Taxes on expenditure ...	+1,180		+1,180
National insurance, etc., contributions			
Gross trading surplus			
Rent			
Capital consumption			
Interest and dividends from—			
Public corporations			
Other ...			
TOTAL ...	+154	—	+154
CURRENT EXPENDITURE			
Final consumption		-168	-168
Subsidies ...		-92	-92
Debt interest			
Current grants to personal sector		+11	+11
Current grants abroad		-7	-7
TOTAL ...	—	-256	-256
CURRENT SURPLUS			
Central government	+154	+202	+356
Local authorities ...		+54	+54
General government ...	+154	+256	+410
CAPITAL RECEIPTS			
Current surplus	+154	+256	+410
Taxes on capital	-62		-62
TOTAL ...	+92	+256	+348
CAPITAL EXPENDITURE			
Gross domestic fixed capital formation		-336	-336
Increase in stocks			
Capital grants to—			
Public corporations		+23	+23
Private sector		-116	-116
TOTAL ...	—	-429	-429

⁽¹⁾ For general government +/— indicates an increase/decrease in revenue or expenditure, for the current surplus a + in the column headed Expenditure measures indicates a reduction in expenditure. For financial transactions +/— indicates a change in revenue or expenditure which increases/reduces the public sector borrowing requirement.

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

£ million

	1980-81		
	Tax proposals	Expenditure measures	Total
FINANCIAL TRANSACTIONS OF THE PUBLIC SECTOR			
Financial deficit—			
Central government	-92	-272	-364
Local authorities ...		-413	-413
Public corporations		-71 ⁽²⁾	-71
PUBLIC SECTOR FINANCIAL DEFICIT ...	-92	-756	-848
FINANCIAL TRANSACTIONS			
Receipts from certain pension schemes (net) ...			
Accruals adjustment	-143		-143
Miscellaneous capital receipts (net)			
Net lending to private sector		+54	+54
Net lending, etc., abroad		-200	-200
Cash expenditure on company securities			
Contingency reserve		+325	+325
TOTAL ...	-235	-577	-812
NET BORROWING FROM THE PRIVATE SECTOR AND OVERSEAS BY:			
Central government	-235	-322 ⁽³⁾	-557
Local authorities ...		-431	-431
Public corporations		-149	-149
Contingency reserve		+325	+325
PUBLIC SECTOR BORROWING REQUIREMENT ...	-235	-577	-812

⁽¹⁾ For general government +/— indicates an increase/decrease in revenue or expenditure, for the current surplus a + in the column headed Expenditure measures indicates a reduction in expenditure. For financial transactions +/— indicates a change in revenue or expenditure which increases/reduces the public sector borrowing requirement.

⁽²⁾ Reduction in expenditure on gross domestic fixed capital formation.

⁽³⁾ Includes a net increase in Supply Services of about £20 million and a reduction in other central government funds and accounts of about £342 million.

PART II

MEDIUM-TERM FINANCIAL STRATEGY

Objectives and Instruments

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.

2. To reduce inflation it will progressively reduce the growth of the money stock and will pursue the policies necessary to achieve this aim. After 1980-81, for which a target range of 7-11 per cent has been

announced for £M3, the Government intend to set a target range consistent with the annual growth of money supply being reduced to about 6 per cent in 1983-84. The Government intend that there should be a progressive deceleration over the period, broadly along the lines shown in Table 5, though the precise target rate of growth in the intervening years will be decided at the time.

TABLE 5

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

	1980-81	1981-82	1982-83	1983-84
Percentage change during year ...	7-11	6-10	5-9	4-8

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

3. Control of the money supply will over a period of years reduce the rate of inflation. The speed with which inflation falls will depend crucially on expectations both within the United Kingdom and overseas. It is to provide a firm basis for those expectations that the Government has announced its firm commitment to a progressive reduction in money supply growth. Public expenditure plans and tax policies and interest rates will be adjusted as necessary in order to achieve the objective. At the same time the Government will continue to pursue policies to strengthen the supply side of the economy, by tax and other incentives and by improving the working of the market mechanism.

4. It is not the intention to achieve this reduction in monetary growth by excessive reliance on interest rates. The Government is therefore planning for a substantial reduction over the medium-term in the Public Sector Borrowing Requirement (PSBR) as a percentage of Gross Domestic Product (GDP). The relationship between the PSBR and the growth of money supply is important but is not a simple one; it is affected by the economic cycle, the rate of inflation and the structure of the tax and public expenditure flows generating the borrowing requirement. But although the relationship between the PSBR and £M3 is erratic from year to year, there is no doubt that public sector borrowing has made a major contribution to the

excessive growth of the money supply in recent years. The consequence of the high level of public sector borrowing has been high nominal interest rates and greater financing problems for the private sector. Even in the context of rapid inflation, high nominal interest rates are a deterrent to investment. If interest rates are to be brought down to acceptable levels the PSBR must be substantially reduced as a proportion of GDP over the next few years. The projections summarised in Table 9 below show how, given the Government's plans for public expenditure, the PSBR could be reduced progressively to 1-2 per cent of GDP, which would be a little below the average ratio recorded in the 1960s. On the cautious assumption made about GDP growth, fiscal and monetary objectives are fully consistent with such a path for the PSBR.

Public Expenditure

5. A key element in this strategy is a reduction in public expenditure. The plans announced in the public expenditure White Paper (Cmnd. 7841) show a reduction of 4 per cent in the volume of public expenditure between 1979-80 and 1983-84 and the assumptions about GDP growth described below imply a fall in expenditure as a proportion to GDP from 42 per cent to under 40 per cent over the period. Table 6 below shows the expenditure plans in cost

MEDIUM-TERM FINANCIAL STRATEGY—continued

TABLE 6

GENERAL GOVERNMENT EXPENDITURE

(£ billion)

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
General government expenditure at 1979 survey prices ⁽¹⁾ ...	68.1	71	70	68½	67½	67½
At 1978-79 prices						
General government expenditure in cost terms ⁽²⁾	64.6	66½	66	64½	63	63
Special sales of assets ⁽³⁾ ...	—	—1	—½	—	—	—
Shortfall ⁽⁴⁾ ...	—	—½	—½	—½	—½	—½
Interest payments ⁽⁵⁾ ...	7.6	8	8	7½	7½	7
National accounts adjustment ⁽⁶⁾ ...	1.8	1½	1½	1½	1½	1½
Total expenditure in national accounts terms ⁽⁷⁾	74.0	74½	74½	73	71	70½

(1) Expenditure on programmes by central government and local authorities and the contingency reserve. See Cmnd. 7841, Table 1.1, lines 1, 2 and 5. Debt interest payments are shown separately below. Since most plans are not decided in detail yet for the years after 1980-81 broad assumptions have been made about the share of general government in the total of expenditure on programmes shown in Cmnd. 7841, Table 1.1 for 1981-82 to 1983-84. For convenience, the whole of the contingency reserve is allocated to general government in all years in this table. It is not allocated by sector in the columns for 1980-81 in Part IV of this Report.

(2) Line 1 revalued to 1978-79 prices in cost terms, i.e. including the relative price effect. 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 1978-79 is equal to the sum of the lines for central government and local authorities in Cmnd. 7841, Table 5.3.

(3) Cmnd. 7841, Table 1.1, line 10, revalued to 1978-79 prices. For 1979-80 includes revenue offsets to planned expenditure and a small element attributable to public corporations.

(4) Cmnd. 7841, Table 1.1, line 12 revalued to 1978-79 prices with certain adjustments in respect of public corporations. Includes the net effect of different economic assumptions from those used in Cmnd. 7841.

(5) For 1978-79 as in Financial Statistics, March 1980. For 1979-80 and 1980-81, revalued figures for general government in line 12 of Table 14 of this report.

(6) Adjustment to convert line 2 to the definitions used in national accounts statistics. For 1978-79 includes residual measurement differences.

(7) For 1978-79 equal to line 4 of Financial Statistics, March 1980, Table 2.4. This base year is chosen because it is the latest complete year for which outturn figures, and full details of relative prices, are available.

terms (i.e. including the relative price effect) at 1978-79 prices and allowing for shortfall. General Government expenditure in cost terms is gradually reduced over the next four years—from £74½ billion in 1979-80 to £70½ billion in 1983-84. The financial framework described below sets these expenditure projections against an illustrative projection of government revenue.

Revenue in the Medium-Term

6. The growth of government revenue over the medium-term will be dependent upon the growth of output. This is heavily conditioned by the underlying

growth of productivity, the growth of the world economy, and the speed of reduction of the recent high rate of inflation.

7. Since 1973 growth in output has fallen both in the United Kingdom and in the rest of OECD (see Table 7). Over this period growth in OECD output and in world trade in manufactures has roughly halved. It is very possible that, given the recent rise in oil prices, world output and trade will not grow faster over the next few years than in the past five years. In most industrial countries there is strong evidence of a slowdown in productivity growth in recent years. In Britain, recorded productivity growth (for the whole

TABLE 7

WORLD AND UNITED KINGDOM GROWTH RATES

(Annual average per cent)

	1964-73	1973-78	1978-80
Growth of Output			
OECD* ...	5.2	2.6	2
United Kingdom† ...	3.0	1.0	-1

* Weighted average of Gross National Product (GNP) of OECD countries, excluding United Kingdom.

† GDP.

economy excluding the North Sea sector) over the period 1973–79 averaged only $\frac{1}{2}$ per cent a year—compared with an average of $2\frac{1}{2}$ per cent in the preceding decade. The consequence of the slower growth in productivity in the 1970's is that there has been less excess capacity in the economy than might have been expected, on earlier experience, given the slow growth of output.

8. The process of reducing inflation almost inevitably entails some losses of output initially, though it promises a better growth of output in the longer-term. The United Kingdom is unlikely to be an exception to this rule. The size and duration of these initial effects, however, will depend in large measure on how quickly behaviour, particularly in pay bargaining, takes account of the new monetary environment. As inflation subsides, the basis will be laid for sound, sustainable growth. The sooner inflation comes down the faster the rate of economic growth that can be accommodated within the monetary guidelines set out in Table 5.

TABLE 8

GENERAL GOVERNMENT RECEIPTS

	1978–79	1979–80	1980–81	1981–82	1982–83	1983–84
<i>General Government Receipts at 1978–79 prices*</i> (£ billion)						
Taxes on income, expenditure and capital	48.3	52	52½	52	54	55½
National Insurance, etc. ...	10.2	10	10	10½	10½	10½
Interest and other receipts ...	6.5	4	5	5	5	5
<i>Total Receipts ...</i>	<i>65.0</i>	<i>66</i>	<i>67½</i>	<i>67½</i>	<i>69½</i>	<i>71</i>

* Converted to 1978–79 prices by using the deflator for GDP at market prices, so that these projections are directly comparable with the expenditure projections in Table 6.

Money Supply and Public Sector Borrowing

11. The revenue profile in Table 8, in conjunction with the declining profile of public expenditure, would permit a progressive reduction in the PSBR after 1980–81. This is shown in Table 9.

12. This particular course for the PSBR is not to 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 will be operated so that the PSBR for any particular year will be consistent with declining monetary growth in the particular circumstances of the time. The PSBR path shown requires, on the

9. Since the growth of the economy strongly affects the growth of government revenue at unchanged tax rates the illustrative projections in Tables 8 and 9 make the deliberately cautious assumption of an average growth rate of 1 per cent a year for the years after 1980, that is at about the same rate as recorded between 1973 and 1979. The economy should be capable of growing faster than this, but for the purposes of these projections it is prudent to assume a low growth rate.

10. The implications for government revenues of this illustrative growth rate are shown in Table 8. Revenue is projected on the conventional assumption of constant indexed tax rates and allowances at current, 1980–81, levels. Between 1979–80 and 1983–84 total government receipts are projected to rise by £5 billion, with the contribution from North Sea oil revenues accounting for about half of the increase. If the average growth rate were higher than assumed here, the rise in non-North Sea receipts could be expected to be greater.

TABLE 9

PUBLIC SECTOR BORROWING

1978–79 Prices (£ billion)

	1978–79	1979–80	1980–81	1981–82	1982–83	1983–84
Total expenditure ...	74.0	74½	74½	73	71	70½
Total receipts ...	–65.0	–66	–67½	–67½	–69½	–71
Implied fiscal adjustment ...	—	—	—	—	2½	3½
General Government Borrowing Requirement (GGBR) ...	9.0	8½	7	5½	4	3
PSBR ⁽¹⁾ ...	9.3	8	6	5	3½	2½
(as percentage of GDP at market prices) ...	5½	4½	3½	3	2½	1½

⁽¹⁾ 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 1979–80 and 1980–81, and with Cmnd. 7841, Table 1.1, line 9 for subsequent years.

their limitations are borne in mind the projections described above suggest that if GDP growth after 1980 were at about the same rate as in 1973–79 there should be scope for tax reductions in the later years.

14. The path for the PSBR set out in Table 9 is consistent with achieving the planned reduction in the growth of money supply over the medium-term with lower interest rates. It is not possible to predict the path of interest rates year by year, but the strategy set out above implies that though financial conditions must remain quite tight in the immediate future while inflation remains high relative to the monetary target, there should over the period as a whole be a significant reduction in nominal rates and a steadily improving environment for investment.

Responses to alternative outcomes

15. The projections shown in Tables 8–9 fall within a wide range of possible outcomes. Events at home or

abroad could develop so as to produce a very different situation. World trade could grow faster or more slowly than assumed; the supply response of the United Kingdom economy could be very different, with consequences for productivity and trade performance; oil and other commodity prices could show different movements; and the behaviour of earnings is always difficult to predict. Any of these outcomes, and many others, could significantly change the growth rate of the economy over the next few years, and hence the finances of the public sector.

16. To maintain a progressive reduction in monetary growth in these circumstances it may be necessary to change policy in ways not reflected in the above projections. The Government would face a number of options for policy changes to achieve this aim, including changes in interest rates, taxes and public expenditure. But there would be no question of departing from the money supply policy, which is essential to the success of any anti-inflationary strategy.

THE ECONOMY: RECENT DEVELOPMENTS AND PROSPECTS TO MID-1981

RECENT DEVELOPMENTS IN THE UNITED KINGDOM ECONOMY

World economic developments

1. The rate of price inflation accelerated in almost all countries reaching 11 per cent in the major economies by the end of 1979, compared with 7½ per cent during 1978. Wages, however, accelerated relatively little. Crude oil prices almost doubled between the end of 1978 and the end of 1979. Most countries moved towards restrictive monetary and fiscal policies accompanied by rising interest rates. Output in the industrial countries was relatively buoyant, given the sharp rise in oil prices. Unemployment, however, began to rise again. World trade in manufactures (on a United Kingdom trade weighted basis) grew by around 6 per cent in 1979, somewhat faster than in 1978 but a long way below the pre-1973 trend of 10 per cent. There was a major swing in the pattern of the world's current balances with the re-emergence of a large OPEC surplus. The industrial countries as a whole moved into deficit, and the current account deficit of less developed countries continued to deteriorate.

Strategy of the 1979 Budget

2. The Budget of June 1979 was the first step in a campaign to overcome long-term weaknesses of the United Kingdom economy. The Chancellor in his Budget speech identified these as high inflation, slow growth and poor industrial performance. He drew attention to the long-term nature of the problems and to the time that would be needed to reverse the decline. The Budget strategy was to curb inflation by firm fiscal and monetary policies and to improve the supply side of the economy by removing obstacles and allowing market forces to work. To strengthen incentives the burden of taxation was shifted from direct to indirect taxation. Income tax was reduced at an estimated cost of £4½ billion in a full year and VAT and some duties raised to yield an estimated £4½ billion.

Monetary developments

3. Underlying monetary growth accelerated in the early part of 1979 largely because of a strong demand for bank credit and high government borrowing. In the six months to mid-April 1979 £M3 grew at an annual rate of nearly 12 per cent. This was at the top end of the previous administration's 8-12 per cent target range, which had been rolled forward to the 12 months to mid-October 1979. In his Budget speech the Chancellor made clear his intention to

reduce progressively money supply growth in future years. He accordingly announced a money supply target of 7-11 per cent at an annual rate for the 10 months to mid-April 1980. Measures were taken to reduce public spending and borrowing, and Minimum Lending Rate (MLR) was raised by 2 percentage points to 14 per cent.

4. In the months following the Budget the rate of growth of bank lending remained persistently high. This, coupled with the higher than expected PSBR as a result of strikes and other industrial action and the modest net public sector debt sales in the autumn, meant that £M3 grew at an annual rate of over 14 per cent in the four months to mid-October, significantly above the target range. There had also been, particularly since May, a substantial increase in the volume of acceptances held by the non-bank private sector (such acceptances are not included in money supply or Domestic Credit Expansion (DCE)); by mid-October the volume had risen to £1.9 billion, compared with £0.8 billion in May 1979 and October 1978 and £0.2 billion in May 1978. This take-up reflected the pressure exerted on the banks by the Supplementary Special Deposits Scheme (the "corset").

5. Money market rates, which had remained stable since the Budget at about 14 per cent, began to rise at the end of October, partly as a belated response to rises in overseas rates—US rates rose sharply in early October—and partly as a result of market uncertainties. The market reacted nervously to the eligible liabilities' figures for banking October which suggested an acceleration in the trend of monetary growth. By 14 November three month rates stood at 16 per cent; yields on Government stock had risen by more than money market rates, although they remained below them.

6. On 15 November the Government announced a series of measures which underlined its determination to secure monetary control. MLR was increased to 17 per cent, its highest ever level, and somewhat beyond the rise in market rates. At the same time the target of 7-11 per cent for £M3 was extended to mid-October 1980. Payments of petroleum revenue tax were advanced by two months in order to bring the estimate of the PSBR for 1979-80 back into line with

the £8½ billion Budget forecast. The SSD scheme was continued for six months and it was announced that the Bank and Treasury were conducting a review of methods of monetary control and would publish a consultative document*. Following these measures there were substantial sales of gilt-edged stock (£3.5 billion to non-banks in the three months to mid-January). However, bank lending remained buoyant, the monthly increase continuing to average some £0.7 billion. Thus although the rate of growth of £M3 fell back somewhat in the eight months from mid-June to mid-February by comparison with the eight months to mid-June, growth at an annual rate of 12.1 per cent was still above the upper end of the target range.

7. Monetary aggregates other than £M3 moved somewhat differently over the year. In the eight months to mid-February, domestic credit expanded by £6.6 billion, compared with £M3 growth of £4.2 billion, the difference in part reflecting successive relaxations of exchange control which will have contributed to an outflow from the non-bank private sector. M1 rose at an annual rate of less than 4 per cent over the same eight-month period. There was, in particular a substantial decline in M1 over the four months to mid-February, a reflection of the rise in interest rates in the summer and autumn of 1979. Among the wider aggregates, M3 moved roughly in line with, although in later months slightly slower than, £M3. The various measures of private sector liquidity moved in a broadly similar fashion, in spite of a secular tendency for such measures to grow somewhat faster than £M3.

8. Following the November increase in MLR, three-month interest rates remained steady at around 17 per cent until mid-January, but later increased slightly, largely in response to money market pressures. Three-month interest rates stood at about 18 per cent in mid-March; one-year rates remained below three-month rates, as they had throughout 1979. The yield on gilts also remained below money market rates, with the yield on 20-year stocks at about 14½ per cent in mid-March.

Public expenditure and borrowing

9. The ratio of public expenditure to GDP, which had risen to a peak of 46½ per cent in 1975-76, fell back in 1976-77 and 1977-78 but with a 6 per cent increase in public expenditure in 1978-79 rose to 42½ per cent. In the 1960s the ratio ranged between 34 and 39 per cent. The previous administration planned, in its White Paper (Cmnd. 7439), for public expenditure in 1979-80 to rise by 2 per cent. Had

* Now published as Cmnd. 7858.

these plans been maintained the ratio of public expenditure to GDP would have risen. Firm action was necessary to contain the PSBR and to reduce spending plans so as to restore the balance of the economy and provide scope for reducing the burden of taxation.

10. A reduction in public spending was thus an integral part of the Budget strategy. The plans of the previous Government for public expenditure in 1979-80 were cut by £1.6 billion. The Government announced that cash limits for 1979-80—which had been set by the previous Government—would not be raised to accommodate price rises higher than those allowed for at the time the limits were set and would only be raised to a limited extent to provide for pay rises higher than allowed for at that time. This policy was expected to reduce the previously planned volume of public expenditure by a further £1 billion in 1979-80. Special sales of public sector assets were also announced. These yielded close to £1 billion in 1979-80.

11. In the nine months to December 1979, the PSBR (seasonally adjusted) was £10.0 billion. The estimated outturn for the financial year is close to £9 billion, slightly higher than expected earlier.

Market economy

12. The Government has taken steps to free the workings of market forces. Exchange control was relaxed in the Budget and in one further stage before its abolition in October (controls on Rhodesia lasting until mid-December). Dividend controls were allowed to lapse and price controls removed. Responsibility for pay bargaining has been restored to management and union negotiators. The Government has also put forward proposals for reforming certain parts of industrial relations legislation.

Output and expenditure

13. The economy grew slowly in 1979. GDP on the output measure rose by 1½ per cent; of this about half was contributed by North Sea oil. This follows an average rate of growth of 1 per cent a year for the economy as a whole in the period 1973-78, compared with 3 per cent a year from 1963 to 1973. Output of manufacturing industry in 1979 was almost 4 per cent lower than 1973. Output of North Sea oil and gas rose by over 40 per cent in 1979 following a four-fold increase over the period 1976-78.

14. Consumers' expenditure in 1979 was 4 per cent higher than in 1978 thus continuing the recovery begun in the second half of 1977, from the substantial falls experienced in 1974 and 1975. Over the period 1973-79, however, consumers' expenditure grew at an average rate of about ¾ per cent a year compared with more than 2½ per cent a year between 1963-73.

15. Present estimates suggest that gross domestic fixed capital formation reached a peak in the first half of 1978 and fell back slowly during the second half of 1978 and in 1979. Public sector investment in total fell by about 3½ per cent in 1979. Private investment in manufacturing industry (including the capital value of leased assets) appears to have levelled off during 1979 after two years of relatively rapid growth. Investment by distributive and service industries (after adjusting for leasing) rose by about 9 per cent in 1979, the fourth successive year of growth. Recorded stockbuilding in 1979 was higher than in 1978.

16. Total domestic demand rose by 6 per cent between the second half of 1977 and the second half of 1979, an increase met mainly by imports. The volume of goods imported in 1979 was 11½ per cent higher than in 1978 with import of manufactures up by nearly 15 per cent. The volume of goods exported in 1979 was about 3½ per cent higher than in 1978. The volume of fuel exported rose by 33 per cent. Exports of manufactured goods were at much the same level as in 1978, despite the growth in world trade.

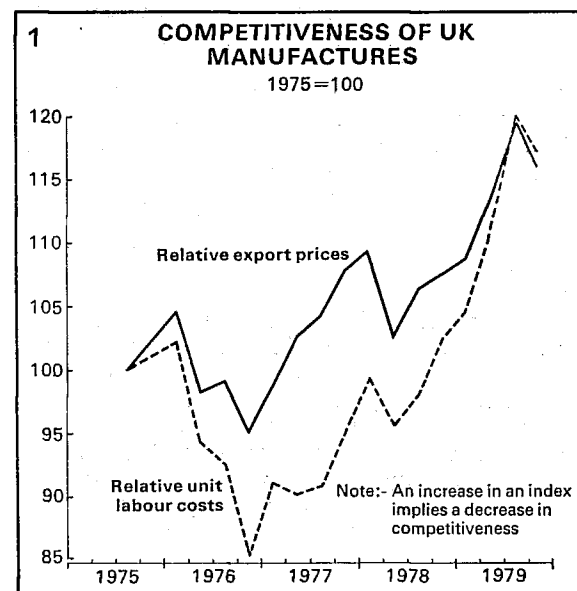
17. The slow rise in the number of employees in employment since the end of 1977 appears to have ended in mid-1979, reflecting slow growth of output. Since then unemployment has risen and the number of notified vacancies unfilled has fallen.

18. In the period 1973–74 to 1978–79 average earnings rose by 17 per cent a year, almost twice as fast as during the previous ten years. Average earnings rose similarly by around 16 per cent in the twelve months to July 1979 in part reflecting the effects of delayed wage increases and distortions to differentials. By January 1980 average earnings were 20 per cent higher than in January 1979. Some of this further rise was due to staged Clegg Commission and other comparability awards negotiated as part of settlements prior to July 1979.

19. Retail prices rose by an average of 16 per cent a year between 1973 and 1978. The rate of increase, which dipped temporarily in 1977 and early 1978 began to accelerate toward the end of 1978 as the previous year's favourable movement in commodity prices came to an end and accelerating wage costs were reflected in prices. By February of this year, the retail prices index was 19.1 per cent higher than a year earlier, partly reflecting the once-for-all effect of indirect tax increases in the June 1979 Budget. The underlying rate, however, has been lower. The GDP deflator, for example, in the fourth quarter of 1979 was about 14 per cent higher than in the fourth quarter of 1978. The tax and price index in February was 16.9 per cent higher than a year ago.

Company sector

20. With output flat and costs rising rapidly company profits have been squeezed. The index of the prices of materials and fuels purchased by manufacturing industry rose by 28½ per cent in the year to February. Higher crude oil prices accounted for about three-quarters of the increase. The slow growth in productivity has also meant that most of the increase in average earnings has been reflected in unit labour costs. Manufacturers' wholesale prices, however, rose by 18½ per cent in the year to February well below the rise in costs of inputs. Export prices have risen more slowly than both costs and domestic wholesale prices, so that the absolute profitability of exports and the profitability of exporting relative to supplying the domestic market have fallen. The rapid rise in unit labour costs in the United Kingdom, coupled with sterling's firmness has led to a deterioration in competitiveness—in terms of relative unit labour costs—of over 20 per cent between the end of 1977 and the end of 1979; see figure 1.



21. Gross trading profits (excluding stock appreciation) of non-oil industrial and commercial companies fell substantially in 1979. Average real pre-tax rates of return on trading assets—which had recovered slightly in the mid-1970s—fell again. During the 1970s these rates of return were substantially below those of the 1960s, when rates averaged 11 per cent.

22. In spite of disappointing results, companies' interest payments, dividend payments, profits due

abroad and tax payments were higher in 1979 than in 1978. As investment and stockbuilding remained at relatively high levels companies' liquidity deteriorated. In 1979 companies appear to have acquired net new financial liabilities totalling about £5 billion equivalent to approximately 2½ per cent of GDP.

Personal sector

23. Average earnings rose faster than prices during most of 1979 and with the changes in income tax introduced in the Budget real personal disposable income rose by 6 per cent compared with 1978. The savings ratio fluctuated during the year but its average underlying level was significantly higher than the 14 per cent recorded in 1978.

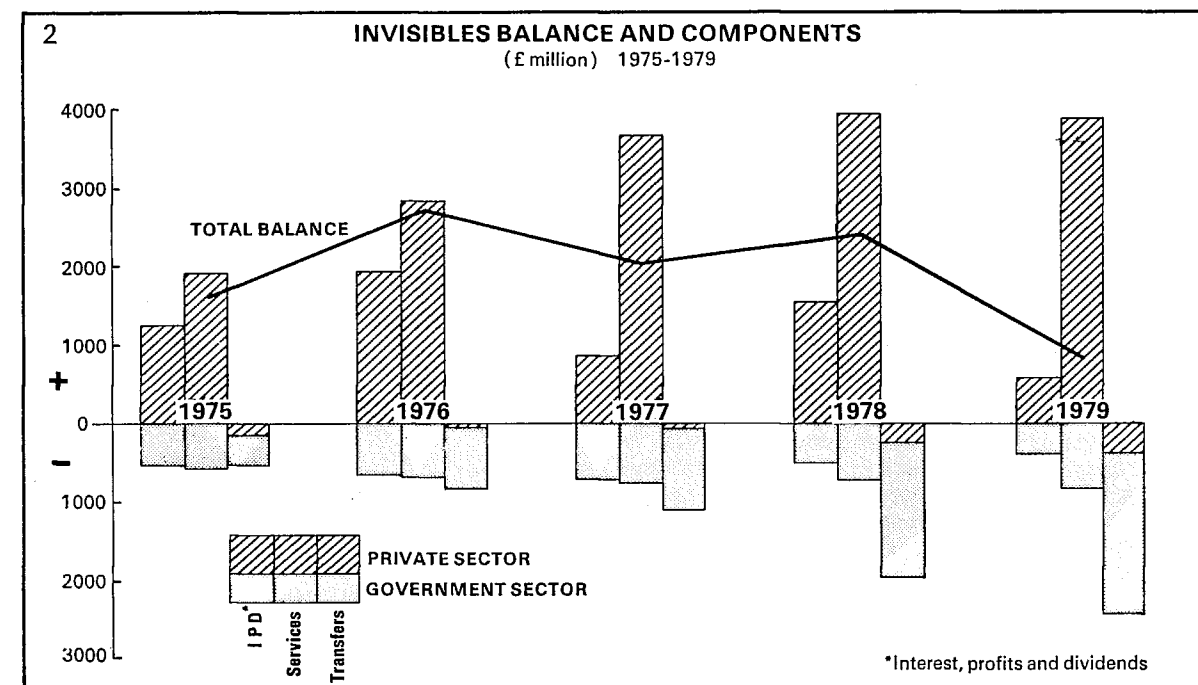
Balance of payments

24. The visible trade deficit in 1979 was about £3.3 billion, compared with £1.5 billion for 1978. This deterioration reflects mainly the adverse volume movements in imports and exports which more than offset the increased contribution from North Sea oil. The balance of trade in oil improved from a deficit of £2.0 billion in 1978 to a deficit of £0.8 billion in 1979. The terms of trade (excluding oil) improved largely as a result of the strength of sterling.

25. The surplus on invisibles in 1979 was £0.9 billion, compared with a surplus of about £2.4 billion in 1978. The surplus for the private sector and public corporations (excluding transfers) fell from £5.5 billion in 1978 to £4.5 billion in 1979 primarily because the profits of overseas oil companies in the United Kingdom increased sharply and United Kingdom residents spent more on travel abroad. With higher contributions to the European Community and higher grants abroad, the deficit on government transfers increased by £0.3 billion to £2.0 billion. Movements in components of the invisible balance are shown in figure 2. The deficit on the current account in 1979 was £2.4 billion compared with a surplus of £0.9 billion in 1978.

26. The deficit on current account in 1979 was more than offset by capital inflows. Within the capital account there was an outflow of around £2 billion in the second half of the year as a result of the relaxation and subsequent abolition of exchange control. This was more than matched by increases of over £4 billion in overseas holdings of gilts, Treasury bills and bank deposits.

27. Sterling opened 1979 around £1 = \$2.04 and about 64 in effective terms, but rose in the course of the year, reflecting the market's favourable assessment of the United Kingdom's position as an oil producer at a time of rising oil prices, tight monetary policies which required relatively high United Kingdom interest rates



and market confidence in the Government's commitment to firm fiscal and monetary policies. Intervention by the authorities in the foreign exchange market was limited to that necessary to smooth fluctuations in the rate and preserve orderly market conditions.

28. The foreign exchange reserves stood at \$15.7 billion on 31 December 1978 and rose to \$22.7 billion at the end of 1979 after net debt repayments of \$2.1 billion. \$4.5 billion of this increase was due to the revaluation of gold and non-dollar currencies in the reserves on 31 March 1979 and a further \$0.5 billion to valuation changes arising from swapping gold and ECUs with the European Monetary Co-operation Fund. The reserves rose further in the early part of 1980.

Forecast and outturn

29. The figures below compare the main elements of the forecast for 1979 published in the 1979-80 FSB, with currently estimated outturns. Although the forecast covered the period to the first half of 1980 the comparison is to the end of 1979. The National Accounts data for the second half of 1979 are provisional and there are significant differences between the various estimates of GDP.

	Forecast	Outturn
GDP percentage growth between second halves of 1978 and 1979	-½%	+1%
Current account of the balance of payments in 1979	-£½ bn	-£2½ bn
Retail Price Index: percentage increase third quarter 1978 to third quarter 1979	16%	16%
PSBR 1979-80	£8½ bn	£9 bn

The forecast failed to predict the growth of GDP in 1979. It is not easy to pinpoint the reasons for this because the divergence in movements between the expenditure and compromise measures of GDP is greater than the forecasting error. The provisional outturns for consumers' expenditure and stockbuilding are higher than forecast. The unexpectedly strong growth in imports was only partly offset by an outturn for exports more favourable than expected; these were the main sources of error in the forecast of the current balance. A detailed comparison of forecast and outturn for the components of the PSBR is given in Table 14.

Summary

As in the autumn Industry Act forecast a significant decline in economic activity is projected for 1980. This is partly the consequence of a poor projected real trade balance, reflecting both weak world demand and the effects of a rate of inflation in the United Kingdom in excess of the money supply target. The second major factor is a likely swing from positive to negative stockbuilding. Very tentatively a GDP fall of 2½ per cent between 1979 and 1980 has been projected. In recent months there have been further increases in oil prices and a disappointingly high average rate of pay settlement. The rate of inflation this year is likely to be higher than expected in the autumn, though a considerable slowing down in both pay and price increases should be visible before the end of the year. The Retail Price Index (RPI) increase on 12 months earlier is forecast to be 16½ per cent in the fourth quarter of 1980 falling to 13-14 per cent in the second quarter of 1981. Both the timing of the reduction in inflation and the pace of the subsequent recovery in personal consumption, investment and output depend critically on the development of pay settlements. Conditions of declining output and profit margins squeezed by international competition should be favourable to a comparatively rapid adjustment of pay expectations. A higher than expected PSBR of just over £9 billion is expected for 1979-80 in part because some payments—notably receipts of VAT—have been delayed beyond the end of the financial year. In 1980-81 the PSBR is forecast to decline to £8½ billion; a fall from 4½ per cent to 3½ per cent of market price GDP.

Policy assumptions

2. The forecast is based on the public expenditure and taxation policies set out in the Budget speech and public expenditure White Paper (Cmnd. 7841) and in this report. The growth of the money supply is assumed to be at the centre of the 7-11 per cent range. The exchange rate is assumed to be determined by market forces. No credit is taken for changes to be negotiated in the present arrangements determining United Kingdom contributions to the EEC.

Inflation

3. The fall in inflation during 1980, which seemed likely in the autumn, will have been delayed by a disappointingly high average rate of pay settlement during the winter and by further large increases in the prices of materials and fuel used by industry and by the increase in mortgage rates. Pay settlements so far indicate that the 1979 rate of earnings increase of around 19 per cent may continue into the early months of 1980, though there is evidence of a wide dispersion

of settlements reflecting the differing economic circumstances of the negotiating groups involved. Prices of inputs into non-food manufacturing rose by 41 per cent in the 12 months to February. Although nearly three-quarters of this increase reflects crude oil prices, there have been significant increases in some other commodity prices, notably metals. The strength of sterling has helped to moderate these increases.

4. With a weak prospect for output and employment and with the financial pressures on many companies enhanced by strong international competition the prospect is still for the pace of inflation to slow down fairly quickly, though the increase in retail prices during 1980 may be only slightly below that of 1979. A 12 month increase of 16½ per cent is forecast for the fourth quarter of 1980 falling to 13½ per cent by the second quarter of 1981. In the second quarter of 1980 the 12 month increase is likely to peak at slightly over 20 per cent, largely because the index will reflect the short-term effects of both the 1979 and 1980 Budgets. Over the same period the Tax and Price Index (TPI), which takes account also of changes in the burden of direct taxation is likely to increase by 3-4 per cent less than the RPI.

External trade

5. Any assessment of trade prospects must take into account the large deterioration since 1978 in the United Kingdom's cost and price competitiveness and also the effect of recession or weak growth in much of the rest of the world. For the main industrial countries in total a low rate of real output growth of less than 1 per cent is projected for 1980 although, taking into account the pattern of United Kingdom exports, including the OPEC countries, the growth in potential markets may be of the order of 4 or 5 per cent. The current level of United Kingdom manufacturing labour costs relative to our competitors is estimated at around 30 per cent above that for 1978, and on the assumption that the effective exchange rate remains constant an early improvement cannot be expected. With such a large change in competitiveness, the forecast is greatly affected by the view that is taken of the elasticities and time lags involved. In addition, there is scope for different assessments of the effects of the recession, notably on import propensities. Large increases in import penetration for manufactures have occurred mainly when domestic output has failed to keep pace with substantial increases in demand; apart from the effects of competitiveness it seems likely that the import propensity would drop back in the recession, as it did in 1975. Although a reduced level of home demand is likely to benefit exports this will probably have more effect in later years than in 1980. The

forecast also takes account of longer term trends in import penetration and in export shares and allows for a better relative performance of exports since 1975. Given all these factors, and allowing also for a further rise in net exports of oil, changes in both exports and imports of goods and services are forecast to be small this year; an increase of less than 1 per cent in exports and of about 2 per cent in imports. Since this occurs in conjunction with a drop in United Kingdom demand the trade balance is an important factor contributing to the projected recession.

Domestic demand and output

6. While both measurement and prediction of stock-building movements are hazardous there are reasons for expecting a substantial contractionary effect from this source. Stock-output ratios were probably high by normal standards at the end of 1979 and financial pressures on manufacturing companies, as well as declining sales, will encourage stock reductions. This is one of the more important reasons for the forecast recession. A significant cyclical decline in manufacturing investment is also likely, though a small rise is forecast for total private sector investment.

7. General Government expenditure on goods and services is also forecast to fall in 1980—by about 2 per cent—after taking account of the reduced programmes reflected in the current White Paper (Cmnd. 7841).

8. Personal consumption, however, may rise slightly in 1980, though this forecast depends on the savings ratio falling in response to a small decline in real personal disposable incomes; since real incomes had been rising quickly until 1979 some significant change in savings behaviour is likely. The check to real incomes is partly an effect of the recession and partly reflects the substantial non-wage element in inflation already referred to. By the end of 1980 and in 1981 a declining rate of pay increase may also have adverse short-term effects on real incomes, but the associated decline in actual and expected inflation should be a further factor tending to bring down the savings ratio.

9. The forecasts for domestic demand and external trade point inevitably to an output recession this year. In view of the large changes involved and given the uncertainties of a period of adaptation to a change in policy, the extent of recession must be exceptionally uncertain and the true margin of error is substantially greater than the average figures of 1 per cent quoted in Table 10 on the basis of previous forecasting experience. For the first half of 1981 a small further decline has been forecast though the rate of fall is less than in the two previous half years; the emphasis on uncertainty must be even greater.

10. The implication of this forecast is for a further decline in employment and an increase in unemployment. The duration and scale of the rise in unemployment depends a great deal on how quickly the rate of inflation comes down. This will affect both the recovery in output and the severity of the financial pressures on employers in both public and private sectors who will be influenced in their employment policies by the level of their total labour costs.

The current account

11. To offset against the marginal worsening of the trade balance in volume terms there may be an improvement in the United Kingdom's terms of trade in 1980, largely reflecting the strength of sterling. Unless world conditions produce a sharp reaction in commodity prices, however, the improvement is likely to be modest, though perhaps sufficient to produce a significant improvement in the goods and services component of the current account. A further worsening in the balance of interest, profits and dividends and transfers is likely, however; increases in North Sea oil profits due abroad and in United Kingdom contributions to the EEC (taking no credit for reductions to be negotiated) are among the major factors.

12. For the current account as a whole a deficit of the same order as for 1979 is forecast for 1980. By the first half of 1981, however, the trend in the current account is likely to be favourable.

The PSBR

13. The PSBR for 1979–80 is likely to be just over £9 billion. The upward revision since the autumn reflects some delays in tax payments—notably for VAT—and rather higher borrowing by local authorities and public corporations, reflecting both higher fixed investment and lower trading surpluses.

14. For 1980–81 a fall is projected even in nominal terms to about £8½ billion. As a share of GDP the forecast falls from 5½ per cent in 1978–79 to 4½ per cent in 1979–80 and 3½ per cent in 1980–81. A PSBR forecast reflects a large number of diverse transactions and the reasons for a particular year to year movement are complex. The forecast fall can, however, be accounted for in broad terms by a small number of major developments; of these the most important is the receipt of a complete year's VAT at the increased rate in 1980–81, whereas this applied to only about half of 1979–80. The other factors involved are summarised in Part IV of this report.

Margins of error

15. Table 10 shows alongside the forecast the customary estimates of margins of error based on past forecasting experience. Apart from being average rather than maximum margins, past forecasting errors may

not be a good indicator of present uncertainties. For one thing, uncertainty is almost certainly greater when large fluctuations in economic activity are expected both for the United Kingdom and for the world as a whole. Secondly, the period of adjustment to a large

reduction in inflation and a different approach to policy inevitably introduces major uncertainties. For example, the margin of error of 1 per cent attaching to the GDP volume forecast looks unrealistically low in present circumstances.

TABLE 10 SHORT-TERM ECONOMIC PROSPECTS

	1979 to 1980	Margins of error*
A. Output and expenditure at constant 1975 prices		
Per cent changes:		
Gross domestic product (at factor cost)	-2½	1
Consumers' expenditure	1	1
General Government expenditure on goods and services	-2	1½†
Other fixed investment	1	3
Exports of goods and services	½	2½
Stockbuilding (as per cent of GDP)	-2	¼
Imports of goods and services	2½	2
B. Balance of Payments on current account		
£ billion:		
1980 First half	-1½	½
1980 Second half	-1½	¼
1981 First half	-1	1½
C. Public Sector Borrowing Requirement		
£ billion; in brackets per cent of GDP at market prices:		
Financial Year 1979–80	9 (4½)	..
Financial Year 1980–81	8½ (3½)	3
D. Retail Price Index		
Per cent change:		
Fourth quarter 1979 to fourth quarter 1980	16½	2½
Second quarter 1980 to second quarter 1981	13½	5½
E. Money Supply (Sterling M3)		
Per cent change at annual rate:		
Mid-February 1980 to mid-April 1981	9	..

* 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 now derived from forecasts made during the period June 1965 to November 1977. For the current balance and the retail price index forecasts made between June 1970 and November 1977 are used. For the PSBR in 1980–81 the error is based on the mean absolute error of PSBR forecasts (measured as a percentage of GDP) published at Budget time. The errors are after adjustment for the effects of major changes, where excluded from the forecasts, in fiscal policy and hire purchase terms controls. Quarterly forecasts are grouped so as to be comparable with the forecasts for calendar years and half years as shown. Thus, for a constant price variable forecast made in quarter 0 the errors relate to the forecast period (quarters 0 to 3) compared with the "base year" (quarters -4 to -1). For retail price index the margin relates to the absolute error applicable to quarters 3 and 5.

† This margin applies to General Government consumption.

TABLE 11. FORECAST OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT⁽¹⁾

£ million at 1975 prices, seasonally adjusted

	Consumers' expenditure	General Government expenditure on goods and services			Other fixed investment	Exports of goods and services	Stock-building	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Plus Statistical Adjustment ⁽¹⁾	Gross domestic product at factor cost ⁽¹⁾	GDP index 1975 = 100
		Final consumption	Fixed investment	Total									
1977	63,200	23,250	3,950	27,200	16,200	31,400	1,250	139,250	30,500	10,800	-450	97,500	104.7
1978	66,650	23,700	3,550	27,250	16,950	32,050	800	143,700	31,650	11,850	0	100,200	107.7
1979	69,400	23,950	3,400	27,350	16,450	32,650	1,450	147,300	35,150	12,300	2,000	101,850	109.5
1980	70,000	23,950	2,800	26,750	16,600	32,850	-450	145,750	35,950	12,300	1,800	99,300	106.7
1978 First half	32,850	11,800	1,800	13,600	8,600	15,850	400	71,300	15,700	5,900	0	49,700	106.8
1978 second half	33,800	11,900	1,750	13,650	8,350	16,200	400	72,400	15,950	5,950	0	50,500	108.5
1979 First half	34,900	11,950	1,650	13,600	8,150	16,750	1,050	73,600	17,200	6,250	750	50,900	109.4
1979 second half	34,500	12,000	1,750	13,750	8,300	16,750	400	73,700	17,950	6,050	1,250	50,950	109.5
1980 First half	35,150	12,000	1,450	13,450	8,400	16,500	-250	73,250	18,050	6,200	900	49,900	107.3
1980 second half	34,850	11,950	1,350	13,300	8,200	16,350	-200	72,500	17,900	6,100	900	49,400	106.1
1981 First half	35,100	12,000	1,300	13,300	8,050	16,200	-200	72,450	17,950	6,150	900	49,250	105.9
Percentage changes													
1977 to 1978	5½	2	-10	0	4½	2		3	4	9½			3
1978 to 1979	4	1	-4	½	-3	2		2½	11	4			1½
1979 to 1980	1	0	-17½	-2	1	½		-1	2½	0			-2½
First half 1979 to first half 1980	½	½	-11½	-1	2½	3½		-½	5	-1			-2
First half 1980 to first half 1981	0	0	-12½	-1½	-4	-1½		-1	-½	-1			-1½
Percentage changes at annual rate													
Second half 1979 to first half 1981	1	0	-19	-2½	-2	-2		-1½	0	1			-2

(1) All figures in Table 11 are based on "compromise" estimates of gross domestic product. The statistical adjustment reflects the different movement of expenditure and compromise series. Note: Figures in £ million are rounded to £50 million. Percentage changes are calculated from unrounded levels in £ million and then rounded to ½ per cent. The GDP index in the final column is calculated from unrounded numbers.

PART IV

PUBLIC SECTOR TRANSACTIONS

INTRODUCTION

Tables 14 and 15 show how the transactions of the authorities comprising the public sector contribute to its accounts, and in particular to the 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⁽¹⁾. Table 16 shows the estimated outturn and forecast of public expenditure in outturn prices. The external financing limits of nationalised industries are shown in Table 17.

Description of Tables 14 and 15

2. The estimates of outturn in 1979-80 are based on partial information for the year. For central government the figures are based on receipts and issues in the first 11 months of the year. For local authorities and public corporations the figures are based on less complete information: the most up-to-date information relates to borrowing, estimates of which are available for the first nine months. Estimates of expenditure and receipts of local authorities and public corporations are available only for the first half of the year. The forecasts for 1980-81 are consistent with the economic forecasts in Part III. Estimates on the conventional definition of "before Budget changes" used in previous editions of the Financial Statement and Budget Report can be obtained if required, by applying to the columns headed "1980-81 forecast after Budget changes" the estimated direct effects of the Budget set out in Part I, Table 4.

3. The public sector consists of general government, comprising central government and local authorities, and the nationalised industries and other public corporations. The general government accounts cover receipts and payments on the Consolidated Fund and the National Loans Fund, the National Insurance Fund and other central government funds and accounts together with those of local authorities. Both central government and local authorities engage to some extent in trading activities, and in this respect their accounts, like those in the public corporations' sector, include only trading surpluses and rents, capital expenditure and other items in the appropriation and capital accounts. They exclude the value of trading transactions. Transactions between bodies within the same

(1) 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", H.M.S.O., 1968.

sub-sector are not included in the accounts for the sub-sector, except in cases where 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.

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. Summary appropriation and capital accounts of public corporations are then shown. The third section shows the financial transactions of the public sector as a whole including both the financial deficits and the borrowing requirements. 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 sub-sector and unallocated items. These unallocated items are explained in paragraph 13 below.

5. As the figures for taxes on income and expenditure in Table 14 are defined as in the national accounts they are mainly on an accruals basis. A net adjustment from accruals to cash is shown in the final part of the table. Also in the same section are miscellaneous capital receipts. For past periods these are the residual between the largely known borrowing figures and the less reliably based estimates of receipts and expenditure. This item therefore includes errors and omissions in other parts of the account (some of which will eventually be corrected) as well as known miscellaneous items. Estimates are thus volatile and forecasts are largely conventional. An exceptional item in 1979-80 is the receipt of advance payment for oil sales in the programme of special sales of assets—see paragraph 14 below. Later estimates of all the 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 have been grouped so that they lead up to the current balance, the financial deficit (balance of current and capital

accounts) and the public sector borrowing requirement. Consolidated totals are shown for the public sector as a whole.

Estimated outturn for 1979-80

7. Tables 14 and 15 show the PSBR in 1979-80 is estimated at just over £9 billion compared with £8.3 billion in the Budget forecast, despite the measures announced on 15 November 1979 to speed up the

collection of Petroleum Revenue Tax which brought in an extra £700 million in March. Factors in the higher PSBR include higher local authority borrowing, some delay in receipts from the Post Office billing dispute and a shortfall in the receipts of Value Added Tax. The estimates of the components of the PSBR are as in the following table. The Budget forecast of these components has been adjusted to take account of the outturn of the special sales of assets.

TABLE 12. OUTTURN OF COMPONENTS OF PUBLIC SECTOR BORROWING REQUIREMENT

								£ million	
Borrowing requirement of								Budget forecast	Estimated outturn
Central government								9,564	8,264
Central government less on-lending to local authorities and public corporations								6,286	4,635
Local authorities								1,229	2,250
Public corporations								1,790	2,235
Special sales of assets								-1,000	—
Public sector								8,305	9,120

* Outturn for special sales of assets is now put at £3 million less than the Budget forecast.

8. General government current receipts are estimated at £1½ billion higher than forecast mainly reflecting higher receipts of Petroleum Revenue Tax and income tax. The increase in income tax receipts of just under £1 billion reflects higher earnings than were anticipated a year ago. Receipts from corporation tax are lower than expected. Receipts of taxes on expenditure on a cash basis are some £½ billion lower than expected, thus affecting the PSBR. Income from local authority rates is less than forecast by £350 million.

9. Current expenditure by general government is estimated to have been about £1 billion higher than forecast a year ago. More than half of this increase is extra debt interest payments reflecting higher interest rates. Subsidies, which were also affected by higher interest rates, also contributed to the increase. The present estimate of expenditure on final consumption is close to the Budget forecast in total with a higher estimate for local authorities and a slightly reduced estimate for central government.

10. On current account, general government as a whole is estimated to have been close to balance. But the current surplus of local authorities is now estimated at £1½ billion less than in last year's Budget forecast while the central government account has

benefited from the extra tax receipts. The gross trading surplus of public corporations which depends on economic developments and on the relative movements of the industries costs and prices, is estimated at around £½ billion less than forecast.

11. On capital account, the value of gross domestic fixed capital formation by the public sector is estimated to have been over £½ billion higher than expected. More expenditure by public corporations largely contributed. This together with lower trading surpluses and the Post Office billing dispute accounted for the higher net borrowing of public corporations.

Forecast for 1980-81

12. The PSBR is forecast in 1980-81 at £8½ billion, or 3½ per cent of GDP. The expenditure forecast reflects the published cash limits. Major reasons for the projected real fall in the PSBR in 1980-81 are:—

- In 1980-81 there will be a full year's receipts of VAT at the increased rate, whereas this applied to about half of 1979-80. This effect much more than offsets the increased loss of revenue arising from last year's income tax reductions.
- the "tax base" is likely to be more buoyant than GDP in total. In particular personal consumption rises as a share of GDP and receipts from

oil taxation rise significantly. Corporation tax, reflecting profits and allowances in earlier years should also be fairly buoyant.

(c) Much of the temporary losses of receipts in 1979-80, notably Post Office receipts and VAT, should be recovered in 1980-81, and this outweighs the delay in payments by British Steel Corporation (Table 17, footnotes 7 and 8).

(d) On the other hand, the increase in expenditure includes the full year cost of staged Clegg Commission and other comparability awards; and special sales of assets will be smaller than in 1979-80.

and increasing it slightly in 1980-81. The first consists of that planned for receipts of special sales of assets. The second comprises the net sum of the cash equivalents of the contingency reserve and special sales of assets in Cmnd. 7841, together with an assumed cash underspending relating to the general allowance for shortfall in that White Paper. The White Paper allowance, which is expressed in volume terms, provides for the possibility of some downward pressure on the volume of expenditure from cash limits.

14. The following table shows how the results of the government's programme for raising £1 billion from special sales of assets have been included in Tables 14 and 15. Details are also provided in Cmnd. 7841, Part 6, paragraph 23. The figure of proceeds of sales by new towns has been reduced from that in Cmnd. 7841.

Special items

13. Tables 14 and 15 show an unallocated item reducing the PSBR in the Budget forecast for 1979-80

TABLE 13. SPECIAL SALES OF ASSETS

Economic category	£ million	Transaction
CENTRAL GOVERNMENT		
<i>Receipts</i>		
Taxes on expenditure	7	Stamp duty and VAT on selling BP shares
Miscellaneous capital transactions (net) ...	610	Receipt of advance payments for oil
<i>Expenditure</i>		
Current expenditure on goods and services ...	-14	Administrative costs, commission and stamp duty incurred in selling BP shares
Gross domestic fixed capital formation (net of sales)	5	Property Services Agency—sale of land and buildings
Cash expenditure on company securities (net)	290	Sale of shares in BP Company Ltd.
	22	Sale of shares in Suez Finance Co.
	1	Sale of shares in Drake and Scull Holding Ltd.
PUBLIC CORPORATIONS		
<i>Expenditure</i>		
Gross domestic fixed capital formation (net of sales)	36	New Town Development Corporations and the Commission for New Towns—sales of land and buildings
Cash expenditure on company securities (net)	3	Regional Water Authorities—sales of land
	37	National Enterprise Board—sales of certain shares
Total	997	

A minus sign indicates additional expenditure.

TABLE 14. PUBLIC SECTOR TRANSACTIONS

	1979-80		1980-81
	Budget forecast	Estimated outturn	Forecast
GENERAL GOVERNMENT			
CURRENT RECEIPTS			
Taxes on income ...	25,089	26,541	31,482
Taxes on expenditure ...	32,427	32,610 ⁽¹⁾	40,160
National insurance, etc., contributions ...	11,630	11,865	14,254
Gross trading surplus ⁽²⁾ ...	238	107	136
Rent ⁽²⁾ ...	2,624	2,610	2,978
Capital consumption ⁽³⁾ ...	1,153	1,255	1,439
Interest and dividends from—			
Public corporations ...	2,008	1,739	2,023
Other ...	1,439	1,379	1,643
TOTAL ...	76,608	78,106	94,115
CURRENT EXPENDITURE			
Final consumption ...	39,489	39,667 ⁽¹⁾	48,654
Subsidies ...	4,047	4,218	4,610
Debt interest ...	8,898	9,573	10,977
Current grants to personal sector ...	22,273	22,155	26,255
Current grants abroad ...	1,911	1,970	2,601
TOTAL ...	76,618	77,583	93,097
CURRENT SURPLUS⁽²⁾			
Central government ...	-2,560	-801	-1,016
Local authorities ...	2,550	1,324	2,034
General government ...	-10	523	1,018
CAPITAL RECEIPTS			
Current surplus ...	-10	523	1,018
Taxes on capital ...	1,014	1,087	1,187
TOTAL ...	1,004	1,610	2,205
CAPITAL EXPENDITURE			
Gross domestic fixed capital formation ...	4,938	5,135 ⁽¹⁾	5,257
Increase in stocks ⁽⁴⁾ ...	95	55	203
Capital grants to—			
Public corporations ...	445	404	411
Private sector ...	1,486	1,527	1,800
TOTAL ...	6,964	7,121	7,671
FINANCIAL DEFICIT (on current and capital transactions)			
Central government ...	-5,054	-3,319	-4,338
Local authorities ...	-906	-2,192	-1,128
General government ...	-5,960	-5,511	-5,466

(1) For allocation of special sales of assets in 1979-80 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) Includes unidentified transactions.

(6) Includes contingency reserve, cash underspending and special sales of assets see paragraph 13 of Introduction to Part IV.

(7) £8,643 million including actual special sales of assets.

(8) -£595 million including actual special sales of assets.

BY ECONOMIC CATEGORY

£ million

	1979-80		1980-81
	Budget forecast	Estimated outturn	Forecast
PUBLIC CORPORATIONS			
APPROPRIATION ACCOUNT: INCOME			
Gross trading surplus ⁽²⁾ ...	6,052	5,627	7,089
Rent and other non-trading income ...	813	897	1,016
TOTAL ...	6,865	6,524	8,105
APPROPRIATION ACCOUNT: PAYMENTS			
Interest and dividends to—General government ...	2,008	1,739	2,023
Other ...	857	790	580
Taxes on income ...	64	68	90
TOTAL ...	2,929	2,597	2,693
UNDISTRIBUTED INCOME⁽²⁾ ...	3,936	3,927	5,412
CAPITAL RECEIPTS			
Undistributed income ⁽²⁾ ...	3,936	3,927	5,412
Capital transfer from—General government ...	445	404	411
Other ...	70	101	92
TOTAL ...	4,451	4,432	5,915
CAPITAL EXPENDITURE			
Gross domestic fixed capital formation ...	5,119	5,567 ⁽¹⁾	6,729
Increase in stocks ⁽⁴⁾ ...	547	311	615
TOTAL ...	5,666	5,878	7,344
FINANCIAL DEFICIT (balance of appropriation and capital account) ...	-1,215	-1,446	-1,429
FINANCIAL TRANSACTIONS OF THE PUBLIC SECTOR			
Financial deficit—General government ...	5,960	5,511	5,466
Public corporations ...	1,215	1,446	1,429
Public Sector Financial Deficit ...	7,175	6,957	6,895
Receipts from certain pension schemes (net) ...	200	266	210
Accruals adjustment ...	-1,549	-2,262	-1,180
Miscellaneous capital receipts (net) ⁽⁵⁾ ...	-75	105 ⁽¹⁾	24
Net lending to private sector ...	410	550	522
Net lending, etc., abroad ...	85	-165	-147
Cash expenditure on company securities ...	211	-113 ⁽¹⁾	300
Unallocated items ⁽⁶⁾ ...	-1,000	— ⁽¹⁾	20
TOTAL ...	-8,305	-9,120	-8,536
NET BORROWING FROM THE PRIVATE SECTOR AND OVERSEAS BY—			
Central government ...	9,564 ⁽⁷⁾	8,264	9,313
Local authorities ...	260	1,723	540
General government ...	9,824	9,987	9,853
Public corporations ...	-519⁽⁸⁾	-867	-1,337
Unallocated items⁽⁶⁾ ...	-1,000	—⁽¹⁾	20
Public Sector Borrowing Requirement ...	8,305	9,120	8,536

TABLE 15. SUB-SECTOR TRANSACTIONS

Receipts positive/payments negative	1979-80 Estimated outturn					
	General government			Nationalised industries ⁽¹⁾	Other public corporations ⁽¹⁾	Total
	Central government	Local authorities	Total			
CURRENT RECEIPTS						
Taxes on income ...	26,541	—	26,541	-56	-12	26,473
Taxes on expenditure ...	25,908 ⁽²⁾	6,702 ⁽³⁾	32,610	—	—	32,610
National insurance, etc., contributions ...	11,865	—	11,865	—	—	11,865
Gross trading surplus ⁽⁴⁾ ...	-28	135	107	4,631	996	5,734
Gross rental income ⁽⁴⁾ ...	62	2,548	2,610	46	311	2,967
Capital consumption ⁽⁵⁾ ...	404	851	1,255	—	—	1,255
Interest—private sector and overseas ...	873	408	1,281	186	346	1,813
Dividends—private sector and overseas ...	98	—	98	4	4	106
TOTAL ...	65,723	10,644	76,367	4,811	1,645	82,823
CURRENT EXPENDITURE						
Final consumption ...	-23,716 ⁽²⁾	-15,951	-39,667	—	—	-39,667
Subsidies ...	-3,521	-697	-4,218	—	—	-4,218
Interest—private sector and overseas ...	-7,356	-2,217	-9,573	-619	-171	-10,363
Current grants to personal sector ...	-21,224	-931	-22,155	—	—	-22,155
Current grants abroad ...	-1,970	—	-1,970	—	—	-1,970
TOTAL ...	-57,787	-19,796	-77,583	-619	-171	-78,373
TRANSACTIONS WITHIN PUBLIC SECTOR:						
Current grants ...	-11,871	11,871	—	—	—	—
Interest payments ...	3,077	-1,395	1,682	-947	-735	—
Dividends ...	57	—	57	-34	-23	—
CURRENT BALANCE⁽⁴⁾ ...	-801	1,324	523	3,211	716	4,450
CAPITAL RECEIPTS:						
Taxes on capital ...	1,087	—	1,087	—	—	1,087
Capital transfers from private sector ...	—	—	—	94	7	101
CAPITAL EXPENDITURE						
Gross domestic fixed capital formation ...	-1,529 ⁽²⁾	-3,606	-5,135	-4,340	-1,227 ⁽²⁾	-10,702
Increase in stocks ⁽⁶⁾ ...	-55	—	-55	-311	—	-366
Capital grants to private sector ...	-1,393	-134	-1,527	—	—	-1,527
TOTAL ...	-2,977	-3,740	-6,717	-4,651	-1,227	-12,595
Capital grants within public sector ...	-628	224	-404	101	303	—
Financial Deficit (balance of current and capital accounts) ...	-3,319	-2,192	-5,511	-1,245	-201	-6,957
FINANCIAL TRANSACTIONS:						
Receipts from certain pension schemes (net) ...	266	—	266	—	—	266
Accruals adjustment ...	-2,336	41	-2,295	25	8	-2,262
Miscellaneous capital receipts (net) ⁽⁷⁾ ...	163 ⁽²⁾	336	499	-77	-317	105
Net lending to—private sector ...	-23	-435	-458	—	-92	-550
—overseas governments, etc. ...	-24	—	-24	—	—	-24
Other net lending and investments abroad ...	326	—	326	-13	-124	189
Cash expenditure on company securities ...	312 ⁽²⁾	—	312	-18	-181 ⁽²⁾	113
TOTAL ...	-1,316	-58	-1,374	-83	-706	-2,163
Loans within public sector ...	-3,629	527	-3,102	1,700	1,402	—
Borrowing from private sector and overseas ...	8,264	1,723	9,987	-372	-495	9,120
Sectoral borrowing requirements ...	4,635	2,250	6,885	1,328	907	9,120
Contribution to:						
Public Sector Borrowing Requirement ...	8,264	1,723	9,987	-372	-495	9,120

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

(2) For allocation of special sales of assets see introduction to Part IV.

(3) Local rates.

(4) Before allowing for depreciation and stock appreciation.

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

(6) Includes stock appreciation.

(7) Includes unidentified transactions.

(8) Includes contingency reserve, cash underspending and special sales of assets see paragraph 13 of Introduction to Part IV.

BY ECONOMIC CATEGORY

£ million

Receipts positive/payments negative	1980-81 Forecast					
	General government			Nationalised industries ⁽¹⁾	Other public corporations ⁽¹⁾	Total
	Central government	Local authorities	Total			
CURRENT RECEIPTS						
Taxes on income ...	31,482	—	31,482	-75	-15	31,392
Taxes on expenditure ...	31,860	8,300 ⁽³⁾	40,160	—	—	40,160
National insurance, etc., contributions ...	14,254	—	14,254	—	—	14,254
Gross trading surplus ⁽⁴⁾ ...	-32	168	136	5,969	1,120	7,225
Gross rental income ⁽⁴⁾ ...	60	2,918	2,978	54	364	3,396
Capital consumption ⁽⁵⁾ ...	453	986	1,439	—	—	1,439
Interest—private sector and overseas ...	1,064	486	1,550	224	366	2,140
Dividends—private sector and overseas ...	93	—	93	4	4	101
TOTAL ...	79,234	12,858	92,092	6,176	1,839	100,107
CURRENT EXPENDITURE:						
Final consumption ...	-29,669	-18,985	-48,654	—	—	-48,654
Subsidies ...	-3,873	-737	-4,610	—	—	-4,610
Interest—private sector and overseas ...	-8,374	-2,603	-10,977	-407	-173	-11,557
Current grants to personal sector ...	-25,076	-1,179	-26,255	—	—	-26,255
Current grants abroad ...	-2,601	—	-2,601	—	—	-2,601
TOTAL ...	-69,593	-23,504	-93,097	-407	-173	-93,677
TRANSACTIONS WITHIN PUBLIC SECTOR:						
Current grants ...	-14,271	14,271	—	—	—	—
Interest payments ...	3,565	-1,591	1,974	-1,021	-953	—
Dividends ...	49	—	49	-26	-23	—
CURRENT BALANCE⁽⁴⁾ ...	-1,016	2,034	1,018	4,722	690	6,430
CAPITAL RECEIPTS:						
Taxes on capital ...	1,187	—	1,187	—	—	1,187
Capital transfers from private sector ...	—	—	—	86	6	92
CAPITAL EXPENDITURE						
Gross domestic fixed capital formation ...	-1,965	-3,292	-5,257	-5,281	-1,448	-11,986
Increase in stocks ⁽⁶⁾ ...	-203	—	-203	-615	—	-818
Capital grants to private sector ...	-1,610	-190	-1,800	—	—	-1,800
TOTAL ...	-3,778	-3,482	-7,260	-5,896	-1,448	-14,604
Capital grants within public sector ...	-731	320	-411	105	306	—
Financial Deficit (balance of current and capital accounts) ...	-4,338	-1,128	-5,466	-983	-446	-6,895
FINANCIAL TRANSACTIONS:						
Receipts from certain pension schemes (net) ...	210	—	210	—	—	210
Accruals adjustment ...	-1,315	90	-1,225	28	17	-1,180
Miscellaneous capital receipts (net) ⁽⁷⁾ ...	-274	100	-174	285	-87	24
Net lending to—private sector ...	-17	-502	-519	—	-3	-522
—overseas governments, etc. ...	-4	—	-4	—	—	-4
Other net lending and investments abroad ...	321	—	321	-40	-130	151
Cash expenditure on company securities ...	-234	—	-234	-15	-51	-300
Unallocated items ⁽⁸⁾	-20
TOTAL ...	..	..	..	..	..	-1,641
Loans within public sector ...	-3,662	900	-2,762	1,400	1,362	—
Borrowing from private sector and overseas ...	9,313	540	9,853	-675	-662	8,516
Unallocated items ⁽⁸⁾ ...	5,651	1,440	7,091	725	700	20
Sectoral borrowing requirements ...	..	..	..	..	..	..
Public Sector Borrowing Requirement ...	..	..	..	..	..	8,536

PUBLIC EXPENDITURE: COMPARISON WITH PUBLIC EXPENDITURE WHITE PAPER

Table 16 shows the estimated outturn and the forecast for public expenditure in outturn prices. It translates the forecasts of expenditure in Tables 14 and 15 onto the definition of public expenditure used in the White Paper (Cmnd. 7841).

2. The outturn of the planning total in 1979-80 is estimated at £1½ billion higher than forecast a year ago. Of this, higher external financing of nationalised industries and some public corporations was some £½ million. Higher subsidies and interest support costs in respect of fixed rate export credit, accounted for £400 million of the increase; this expenditure is not covered by cash limits. On the alternative definition of "total public expenditure" (corresponding to Cmnd. 7841, Table 1.1, line 7), higher debt interest contributed.

3. For 1980-81 the planning total in volume terms, as in Cmnd. 7841, is estimated to decline by ½ per cent from that now estimated for 1979-80. The expenditure plans and the GDP forecast in Part III suggest a ratio⁽¹⁾ of 42½ per cent in 1980-81.

Coverage of public expenditure

4. Public expenditure as defined in Cmnd. 7841 is equivalent to general government capital and current

⁽¹⁾ As defined in paragraph 36 in Part 1 of the Government's Expenditure Plans 1980-81 to 1983-84 (Cmnd. 7841).

expenditure shown in Table 14 and general government net lending and expenditure on company securities as shown in Table 15, together with certain adjustments. These adjustments are:

(a) The capital expenditure of certain public corporations is added and government lending and grants to them are deducted from general government expenditure.

(b) Debt interest payments are omitted to the extent they are matched by interest receipts or provision for interest in trading surpluses or rent.

(c) Other differences of definition and valuation. In particular, the figure for public expenditure excludes the value of capital consumption.

These adjustments are described more fully in Cmnd. 7841, Part 6, and evaluated for past periods in Financial Statistics, Table 2.4. The planning total used in Cmnd. 7841 and referred to in these notes includes the contingency reserve for forward years and also borrowing by the nationalised industries from the domestic market and from overseas (including short-term borrowing and the capital value of leased assets). It excludes debt interest which is not susceptible to the same controls as other expenditure.

TABLE 16. PUBLIC EXPENDITURE

£ million

	1978-79 Outturn	1979-80 Budget forecast ⁽¹⁾	1979-80 Estimated outturn	1980-81 Forecast
General government expenditure:				
Current	65,178	76,618	77,583	93,097
Capital	6,691	6,964	7,121	7,671
Net lending, etc.	2,145	2,484	2,946	3,198
Total	74,014	86,066	87,650	103,966
Contingency reserve	—	—	—	1,300
Net adjustments ⁽²⁾ :				
Certain public corporations ⁽³⁾	262	398	87	206
Debt interest ⁽⁴⁾	-5,166	-5,886	-5,960	-6,887
Other, including capital consumption	-936	-1,134	-1,008	-1,131
Total public expenditure, White Paper coverage ⁽⁵⁾ ...	68,174	79,444	80,769	97,454
Add net overseas and market borrowing of nationalised industries	446	-427	-183	-495
Subtract unallocated sales of assets and cash under-spending	—	1,000 ⁽⁶⁾	654 ⁽⁷⁾	1,280
Subtract adjusted debt interest	2,520	3,012	3,613	4,090
Estimated outturn of White Paper planning total ⁽⁵⁾ ...	66,100	75,005	76,319	91,589

⁽¹⁾ Differences from the figures given in Table 7 of the Financial Statement and Budget Report 1979-80 (H.C. 98) reflect changes of classification.

⁽²⁾ These adjustments are described in Part 6 of Cmnd. 7841 and evaluated for past periods in Table 2.4 of Financial Statistics.

⁽³⁾ Add their capital expenditure and subtract government grants and lending to them. Full list of these public corporations is shown in Cmnd. 7841 Part 6.

⁽⁴⁾ Subtract internally financed payments.

⁽⁵⁾ Column 2 includes an allowance for the minor changes in definition of public expenditure between Cmnd. 7439 and Cmnd. 7841.

⁽⁶⁾ Special sales of assets.

⁽⁷⁾ Special sales of assets: revenue offsets to expenditure and cash expenditure on company securities of public corporations. See Table 13.

FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

TABLE 17. FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

A. 1979-80 Estimated Outturn

£ million

Nationalised Industries	Capital requirements ⁽¹⁾			Financed by ⁽¹⁾							
	Fixed assets in the U.K.	Other	Total	Total internal resources ⁽²⁾	External finance						Total ⁽⁴⁾
					Government grants ⁽³⁾	Issues of public dividend capital (PDC)	Net borrowing from the NLF	Net overseas borrowing	Other domestic borrowing/lending	Leasing	
National Coal Board	636	-89	547	-107	255	—	185	185	14	15	654
Electricity (England and Wales) ...	804	115	919	687	5	—	837	-340	-280	10	232 ⁽⁵⁾
North of Scotland Hydro-Electric Board	47	33	80	25	11	—	14	8	20	2	55 ⁽⁶⁾
South of Scotland Electricity Board ...	69	52	121	70	—	—	67	48	-65	1	51 ⁽⁶⁾
British Gas Corporation	324	84	408	858	—	—	-109	-89	-276	24	-450
British National Oil Corporation ...	230	-5	225	254 ⁽⁷⁾	—	—	-23 ⁽⁸⁾	-6	—	—	-29
British Steel Corporation	313	168 ⁽⁹⁾	481	-219	—	977	-209	-32	-49	13	700 ⁽⁹⁾
Post Office	1,207	-40 ⁽¹⁰⁾	1,167	1,277	—	—	-184	-63	89	48	-110 ⁽¹⁰⁾
British Airways Board	287	-44	243	71	—	10	-6	150	-8	26	172
British Airports Authority	52	-8	44	44	1	—	-1	—	—	—	—
British Railways Board	377	-173	204	-509	706	—	41	-6	-52	24	713
British Transport Docks Board ...	14	1	15	22	—	—	—	—	-7	—	-7
British Waterways Board	5	—	5	-21	23	—	3	—	—	—	26
National Freight Corporation ...	39	7	46	18	11	—	—	—	-1	18	28
National Bus Company	63	3	66	-15	57	—	12	—	4	8	81
Scottish Transport Group	16	—	16	3	13	—	2	—	-2	—	13
British Aerospace	62	43	105	52	—	33	20	—	—	—	53
British Shipbuilders	19	56	75	-166	34	236	-55	—	26	—	241
TOTAL	4,564	203	4,767	2,344	1,116	1,256	594	-145	-587	189	2,423

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

(2) Comprising balance of revenue, depreciation and provisions, sales of fixed assets and other capital receipts (including Regional Development Grants).

(3) Shows subsidies and capital grants received in the year.

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

(5) An increase in the Electricity (E & W) external financing limit has been announced.

(6) Increases in the two Scottish Electricity Boards 1979-80 external financing limits were announced on 20 December 1979.

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

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

(9) Includes an amount to be carried forward into 1980-81 in respect of liabilities which the BSC have been unable to meet during the steel strike, currently estimated at £150 million.

(10) The PO figure will be adjusted when the final figure for the effect of the billing dispute is known. The latest estimated effect is £360 million.

TABLE 17—(continued). FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES⁽¹⁾

B. 1980-81 Forecast

£ million

Nationalised industries	Capital requirements ⁽²⁾			Financed by ⁽²⁾			
	Fixed assets in the U.K.	Other	Total	Total internal resources ⁽³⁾	External finance		
					Government grants ⁽⁴⁾	Net borrowing issues of PDC and leasing	Total ⁽⁵⁾
National Coal Board	812	-18	794	-40	253	581	834
Electricity (England and Wales) ...	961	335	1,296	1,109	6	181	187
North of Scotland Hydro-Electric Board ...	52	39	91	32	16	43	59
South of Scotland Electricity Board ...	131	17	148	75	—	73	73
British Gas Corporation	589	155	744	1,144	—	-400	-400
British National Oil Corporation ...	300	28	328	528	—	-200 ⁽⁶⁾	-200
British Steel Corporation	250	70 ⁽⁷⁾	320	-130	—	450 ⁽⁷⁾	450 ⁽⁷⁾
Post Office	1,541	139 ⁽⁸⁾	1,680	1,615	—	65 ⁽⁸⁾	65 ⁽⁸⁾
British Airways Board	390	3	393	163	—	230	230
British Airports Authority	99	—	99	79	1	19	20
British Railways Board	366	-110	256	-494	661	89	750
British Transport Docks Board ...	20	2	22	32	—	-10	-10
British Waterways Board	7	—	7	-23	26	4	30
National Freight Corporation ...	48	4	52	28	4	20	24
National Bus Company	71	2	73	-12	64	21	85
Scottish Transport Group	15	—	15	6	13	-4	9
British Shipbuilders	30	21	51	-69	38	82	120
Deduction for shortfall	-130	—	-130	—	—	-130	-130
TOTAL	5,552	687	6,239	4,043	1,082	1,114 ⁽⁹⁾	2,196

(1) No figures are included for British Aerospace in view of the assumption, subject to the passage of the British Aerospace Bill, of a sale of shares in a successor company in 1980-81.

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

(3) Comprising balance of revenue, depreciation and provisions, sales of fixed assets and other capital receipts (including Regional Development Grants).

(4) Shows subsidies and capital grants to be received in the year.

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

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

(7) Excludes an amount to be brought forward from 1979-80 in respect of liabilities which the BSC have been unable to settle during the steel strike, currently estimated at £150 million.

(8) The PO figure will be adjusted when the final figure for the effect of the billing dispute is known. The latest estimated effect is -£360 million.

(9) Of which: Government loans 600

Overseas borrowing -55

Other domestic borrowing/lending -260

PDC issues and other issues under Section 18 of the Iron and Steel Act 1975 ... 650

Leasing 180

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 1979-80 and in 1980-81 are at the estimated prices of each year. Estimates for 1980-81 of the direct effects of Budget changes on expenditure and taxation are shown in Part I.

TABLE 18. SUMMARY OF CENTRAL GOVERNMENT TRANSACTIONS

£ million

	1979-80 Budget forecast	1979-80 Estimated outturn	1980-81 Forecast
CONSOLIDATED FUND			
Revenue (Table 19)	51,013	53,369	65,415
Expenditure (Table 20)	59,371	60,753	73,175
Deficit	8,358	7,384	7,760
NATIONAL LOANS FUND			
Consolidated Fund deficit (as above)	-8,358	-7,384	-7,760
Other transactions:			
Receipts (Table 21)	8,150	8,460	10,000
Payments (Table 21)	-10,119	-10,505	-12,905
Total net borrowing by the National Loans Fund	-10,327	-9,429	-10,665
Other funds and accounts (net) (Table 24)	+763	+1,165	+1,352
CENTRAL GOVERNMENT BORROWING REQUIREMENT	-9,564⁽¹⁾	-8,264	-9,313

⁽¹⁾ £8,643 million including the actual receipts from the special sales of assets.

TABLE 19. TAXATION AND MISCELLANEOUS RECEIPTS

£ million

										1979-80		1980-81 forecast
										Budget forecast	Estimated outturn	
TAXATION												
<i>Inland Revenue—</i>												
Income tax	...	...	...	...	...	...	...	...	...	19,655	20,500	23,830
Surtax	...	...	...	...	...	...	...	...	...	10	11	8
Corporation tax ⁽¹⁾	4,850	4,650	4,860
Petroleum revenue tax	...	...	...	...	...	...	...	...	...	730	1,435 ⁽²⁾	2,560
Capital gains tax	...	...	...	...	...	...	...	...	...	390	410	490
Development land tax	...	...	...	...	...	...	...	...	...	20	25	25
Estate duty	...	...	...	...	...	...	...	...	...	25	30	17
Capital transfer tax	...	...	...	...	...	...	...	...	...	360	400	400
Stamp duties	...	...	...	...	...	...	...	...	...	550	610	670
<i>Total Inland Revenue</i>										<i>26,590</i>	<i>28,071</i>	<i>32,860</i>
<i>Customs and Excise—</i>												
Value added tax	...	...	...	...	...	...	...	...	...	8,325	8,000	12,450
Spirits, beer, wine, cider and perry	...	...	...	...	...	...	...	...	...	2,400	2,395	2,825
Oil	...	...	...	...	...	...	...	...	...	2,900	2,925	3,650
Tobacco	...	...	...	...	...	...	...	...	...	2,550	2,580	2,775
Betting and gaming	...	...	...	...	...	...	...	...	...	410	400	475
Car tax	...	...	...	...	...	...	...	...	...	510	515	575
Other excise duties	...	...	...	...	...	...	...	...	...	10	10	10
EEC own resources ⁽³⁾												
Customs duties, etc.	...	...	...	...	...	...	...	...	...	860	935	950
Agricultural levies	...	...	...	...	...	...	...	...	...	285	240	290
<i>Total Customs and Excise</i>										<i>18,250</i>	<i>18,000</i>	<i>24,000</i>
Vehicle excise duties										1,148	1,137	1,411
National insurance surcharge										2,952	2,964	3,509
TOTAL TAXATION										48,940	50,172	61,780
MISCELLANEOUS RECEIPTS												
Broadcast receiving licences										383	427	535
Interest and dividends										310	270	300
Other ⁽⁴⁾										1,380	2,500	2,800
Total										51,013	53,369	65,415

⁽¹⁾ Corporation tax receipts include advance corporation tax:

Gross	1,630	1,925	1,800
Net of repayments	1,580	1,815	1,700

⁽²⁾ The Budget forecast did not include the receipts amounting to £709 million under the Petroleum Revenue Tax Act 1980.

⁽³⁾ Customs duties and agricultural levies are accountable to the European Communities as "own resources"; actual payments to the Communities are recorded in Table 20.

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

TABLE 20. SUPPLY SERVICES AND CONSOLIDATED FUND STANDING SERVICES

£ million

	1979-80		1980-81 Forecast
	Budget forecast	Estimated Outturn	
SUPPLY SERVICES			
I. Defence	8,463	9,008	10,668
II. Overseas Services	1,291	1,246	1,391
III. Agriculture, Fisheries and Forestry	644	663	725
IV. Trade, Industry, Energy and Employment	3,078	3,142	4,150
V. Government Investment in Nationalised Industries	1,044	1,232	648
VI. Roads and Transport	1,491	1,529	1,700
VII. Housing	3,020	3,018	3,422
VIII. Other Environmental Services	411	394	465
IX. Law, Order and Protective Services	1,562	1,579	1,988
X. Education and Libraries, Science and Arts	2,105	2,124	2,656
XI. Health and Personal Social Services	7,681	8,009	10,582
XII. Social Security	6,011	6,105	7,276
XIII. Other Public Services	1,311	1,379	1,676
XIII A. House of Commons Administration	—	11	11
XIV. Common Services	1,489	1,446	1,530
XV. Northern Ireland	924	862	982
XVII. Rate Support Grant, Financial Transactions, etc.	11,633	11,853	14,742
Total	52,158	53,600	64,612
Revised and supplementary provision (net)	500	—	153 ⁽¹⁾
TOTAL SUPPLY SERVICES	52,658	53,600	64,765
CONSOLIDATED FUND STANDING SERVICES			
Payment to the National Loans Fund in respect of service of the national debt	3,850	4,105	4,950
Northern Ireland—share of taxes, etc.	883	987	1,136
Payments to the European Communities, etc.	1,937	2,014	2,301
Other Services	43	47	23
TOTAL CONSOLIDATED FUND STANDING SERVICES	6,713	7,153	8,410
Total	59,371	60,753	73,175

⁽¹⁾ See Table 17B, footnote 7 and bus fuel grants in Table 2.

TABLE 21. SUMMARY OF NATIONAL LOANS FUND RECEIPTS AND PAYMENTS

£ million

	1979-80		1980-81 forecast
	Budget forecast	Estimated outturn	
RECEIPTS			
Interest on loans, profits of the Issue Department of the Bank of England, etc.	4,300	4,355	5,050
Service of the National Debt—balance met from the Consolidated Fund	3,850	4,105	4,950
TOTAL RECEIPTS	8,150	8,460	10,000
PAYMENTS			
SERVICE OF THE NATIONAL DEBT			
Interest	8,040	8,350	9,885
Management and expenses	110	110	115
TOTAL	8,150	8,460	10,000
LOANS (NET) ⁽¹⁾			
To nationalised industries	275	617	800
To other public corporations	623	864	1,044
To local and harbour authorities	974	502	915
To private sector	—3	—3	—3
Within central government	100	65	149
TOTAL	1,969	2,045	2,905
TOTAL PAYMENTS	10,119	10,505	12,905

⁽¹⁾ Details in Tables 23 and 24.

TABLE 22. LOANS FROM THE NATIONAL LOANS FUND
(Net issues)

	1979-80		1980-81 forecast
	Budget forecast	Forecast outturn	
LOANS TO NATIONALISED INDUSTRIES (see Table 17)	390	594	600
Other National Oil Account transactions	-115	23	200
TOTAL	275	617	800
LOANS TO OTHER PUBLIC CORPORATIONS:			
New Towns—Development Corporations and Commission	406	431	296
Scottish Special Housing Association	46	37	41
Housing Corporation	118	86	220
Covent Garden Market Authority	-1	-2	-
Civil Aviation Authority	7	5	10
Regional Water Authorities	250	404	470
National Enterprise Board	30	-112	4
Scottish Development Agency	9	3	5
Welsh Development Agency	4	1	3
Land Authority for Wales	4	4	-
Development Board for Rural Wales	4	1	3
Royal Mint	-4	-7	-1
Royal Ordnance Factories	-250	9	-4
Property Services Agency Supplies Division			-3
Less shortfall and borrowing from other sources			
TOTAL	623	864	1,044
LOANS TO LOCAL AND HARBOUR AUTHORITIES:			
Local Authorities	950	500	900
Harbour Authorities	24	2	15
TOTAL	974	502	915
LOANS TO PRIVATE SECTOR:			
Building Societies	-3	-3	-3
TOTAL	-3	-3	-3
LOANS WITHIN CENTRAL GOVERNMENT:			
Northern Ireland	100	65	130
Stationery Office	-	-	20
Married quarters for armed forces	-	-	-1
TOTAL	100	65	149
Total—Net Lending	1,969	2,045	2,905

TABLE 23. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

	1979-80		1980-81 Forecast	1979-80		1980-81 Forecast
	Budget forecast	Estimated outturn		Budget forecast	Estimated outturn	
CURRENT RECEIPTS						
Taxes on income	25,089	26,541	31,482			
National insurance contributions	10,526	10,735	13,019			
National health contributions	890	913	1,033			
Redundancy fund contributions	214	217	202			
Taxes on expenditure	25,351	25,908	31,860			
Gross trading surplus ⁽¹⁾	54	-28	-32			
Rent ⁽¹⁾	61	62	60			
Capital consumption ⁽²⁾	383	404	453			
Interest, dividends from—						
Local authorities	1,467	1,495	1,697			
Public corporations	1,876	1,639	1,917			
Other	904	971	1,157			
TOTAL	66,815	68,857	82,848			
CAPITAL RECEIPTS						
Current deficit ⁽¹⁾	-2,560	-801	-1,016			
Taxes on capital	1,014	1,087	1,187			
TOTAL	-1,546	286	171			
Financial deficit	5,054	3,319	4,338			
TOTAL	3,508	3,605	4,509			
FINANCIAL TRANSACTIONS: RECEIPTS						
Receipts from certain pension schemes (net)	200	266	210			
Accruals adjustment	-1,565	-2,336	-1,315			
Miscellaneous capital receipts (net)	74	163	-274			
Borrowing requirement	9,564 ⁽³⁾	8,264	9,313			
TOTAL	8,273	6,357	7,934			
CURRENT EXPENDITURE						
Current expenditure on goods and services	23,833	23,716	29,669			
Subsidies	3,457	3,521	3,873			
Debt interest	6,862	7,356	8,374			
Current grants to—						
Local authorities	11,975	11,871	14,271			
Personal sector	21,337	21,224	25,076			
Abroad	1,911	1,970	2,601			
Total current expenditure	69,375	69,658	83,864			
Current deficit ⁽¹⁾	-2,560	-801	-1,016			
TOTAL	66,815	68,857	82,848			
CAPITAL EXPENDITURE						
Gross domestic fixed capital formation	1,426	1,529	1,965			
Increase in value of stocks	95	55	203			
Capital grants to—						
Local authorities	314	322	368			
Public corporations	370	306	363			
Private sector	1,303	1,393	1,610			
TOTAL	3,508	3,605	4,509			
FINANCIAL TRANSACTIONS: EXPENDITURE						
Financial deficit	5,054	3,319	4,338			
Net lending to—						
Local authorities	969	527	900			
Public corporations	2,309	3,102	2,762			
Private sector	20	23	17			
Net lending to overseas governments	41	24	4			
Drawings from United Kingdom subscriptions to international lending bodies	129	90	86			
Other net lending and transactions abroad	-249	-416	-407			
Cash expenditure on company securities (net)	-	-312	234			
TOTAL	8,273	6,357	7,934			

(1) Before allowing for depreciation and stock appreciation.

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

(3) £8,643 million including actual special sales of assets.

TABLE 24. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

A. Analysis and reconciliation by fund—1979–80 estimated outturn

£ million

Receipts positive/payments negative	Consolidated Fund			National Loans Fund		Other central government funds and accounts ⁽¹⁾	Total central government
	Taxation and other receipts	Supply services	Standing services and deficit	Receipts	Payments		
A. RECEIPTS							
(i) Items entering into public sector receipts (see Table 15)							
Taxes on income ...	26,386	—22	—	—	—	177	26,541
National insurance contributions, etc. ...	—	874	—	—	—	10,991	11,865
Taxes on expenditure ...	22,844	—24	—	—	—	3,088	25,908
Other current receipts ...	212	—35	—	2	—	1,230	1,409
Taxes on capital and other capital transactions (net) ...	1,351	85	—	—	—	—2,256	—820
Borrowing requirement ⁽²⁾ ...	—	—	—	9,429	—	—1,165	8,264
TOTAL...	50,793	878	—	9,431	—	12,065	73,167
(ii) Interest and dividends received from local authorities and public corporations ...	80	—	—	2,892	—	162	3,134
TOTAL RECEIPTS	50,873	878	—	12,323	—	12,227	76,301⁽³⁾
B. EXPENDITURE							
(i) Items entering into public sector expenditure (see Table 15)							
Current expenditure on goods and services ...	316	—22,335	—44	—	—25	—1,628	—23,716
Debt interest ...	—18	—37	—1	—	—6,621	—698	—7,356
Current grants to personal sector ...	—	—8,223	—	—	—	—13,018	—21,224
Other current expenditure ...	447	—3,688	—2,008	—	—	—242	—5,491
Gross domestic fixed capital formation ...	29	—1,477	—	—	—	—81	—1,529
Other capital expenditure ...	879	—1,564	—8	—	3	—167	—857
TOTAL...	1,689	—37,324	—2,061	—	—6,643	—15,834	—60,173
(ii) Grants and net lending to local authorities and public corporations...	10	—13,493	—	—	—1,983	—662	—16,128
TOTAL EXPENDITURE	1,699	—50,817	—2,061⁽⁴⁾	—	—8,626	—16,496	—76,301⁽³⁾
C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT							
Grant to National Insurance Fund ...	—	—2,304	—	—	—	2,304	—
Northern Ireland central government: transfers and loans ...	—	—612	—987	—	—65	1,664	—
Other loans and advances ...	—	—	—	—	—	—	—
Debt interest (including profits of Issue Department) ...	15	—5	—4,105	5,566	—1,814	343	—
B.B.C. licence revenue ...	427	—427	—	—	—	—	—
Surplus receipts for surrender, etc. ...	355	—313	—	—	—	—42	—
Deficit on Consolidated Fund ...	—	—	7,384 ⁽⁵⁾	—7,384 ⁽⁶⁾	—	—	—
TOTAL INTERNAL TRANSACTIONS	797	—3,661	2,292	—1,818	—1,879	4,269	—
Grand Total (A, B and C)	53,369⁽⁴⁾	—53,600⁽⁵⁾	231	10,505⁽⁷⁾	—10,505⁽⁷⁾	—	—

⁽¹⁾ Includes National Insurance Fund and the Northern Ireland central government: also includes imputed charge for consumption of non-trading capital and sundry adjustments (timing, etc.)⁽²⁾ The borrowing requirement of the central government comprises the borrowing of the National Loans Fund (i.e. the Fund's net borrowing together with changes in Exchange Equalisation Account sterling capital) less any surplus (or plus any deficit) on the National Insurance Fund and changes in departmental balances invested in government debt, etc.⁽³⁾ As included within Table 23.⁽⁴⁾ As included in Table 19.⁽⁵⁾ As included in Table 20.⁽⁶⁾ As included in Table 18.⁽⁷⁾ As included in Table 21.

TABLE 24—(continued). CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

B. Analysis and reconciliation by fund—1980–81 forecast

£ million

Receipts positive/payments negative	Consolidated Fund			National Loans Fund		Other central government funds and accounts ⁽¹⁾	Total central government
	Taxation and other receipts	Supply services	Standing services and deficit	Receipts	Payments		
A. RECEIPTS							
(i) Items entering into public sector receipts (see Table 15)							
Taxes on income ...	31,008	—6	—	—	—	480	31,482
National insurance contributions, etc. ...	—	991	—	—	—	13,263	14,254
Taxes on expenditure ...	29,750	—30	—	—	—	2,140	31,860
Other current receipts ...	177	—28	—	2	—	1,487	1,638
Taxes on capital and other capital transactions (net) ...	1,514	—21	—	—	—	—1,685	—192
Borrowing requirement (net balance) ⁽²⁾ ...	—	—	—	10,665	—	—1,352	9,313
TOTAL...	62,449	906	—	10,667	—	14,333	88,355
(ii) Interest and dividends received from local authorities and public corporations ...	70	—	—	3,260	—	284	3,614
TOTAL RECEIPTS	62,519	906	—	13,927	—	14,617	91,969⁽³⁾
B. EXPENDITURE							
(i) Items entering into public sector expenditure (see Table 15)							
Current expenditure on goods and services ...	352	—28,077	—22	—	—25	—1,897	—29,669
Debt interest ...	—	—41	—	—	—7,661	—672	—8,374
Current grants to personal sector ...	18	—9,863	—1	—	—	—15,230	—25,076
Other current expenditure ...	253	—4,229	—2,299	—	—	—199	—6,474
Gross domestic fixed capital formation ...	14	—1,782	—	—	—	—197	—1,965
Other capital expenditure ...	551	—2,099	—2	—	3	—200	—1,747
TOTAL...	1,188	—46,091	—2,324	—	—7,683	—18,395	—73,305
(ii) Grants and net lending to local authorities and public corporations ...	244	—15,566	—	—	—2,759	—583	—18,664
TOTAL EXPENDITURE	1,432	—61,657	—2,324⁽⁴⁾	—	—10,442	—18,978	—91,969⁽³⁾
C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT							
Grant to National Insurance Fund ...	—	—2,723	—	—	—	2,723	—
Northern Ireland central government: transfers and loans ...	—	—750	—1,136	—	—130	2,016	—
Other loans and advances ...	—	—1	—	—	—19	20	—
Debt interest (including profits of Issue Department) ...	15	—5	—4,950	6,738	—2,314	516	—
B.B.C. licence revenue ...	535	—535	—	—	—	—	—
Surplus receipts for surrender, etc. ...	914	—	—	—	—	—914	—
Deficit on Consolidated Fund ...	—	—	7,760 ⁽⁵⁾	—7,760 ⁽⁶⁾	—	—	—
TOTAL INTERNAL TRANSACTIONS	1,464	—4,014	1,674	—1,022	—2,463	4,361	—
Grand Total (A, B and C)	65,415⁽⁴⁾	—64,765⁽⁵⁾	—650	12,905⁽⁷⁾	—12,905⁽⁷⁾	—	—

⁽¹⁾ Includes National Insurance Fund and the Northern Ireland central government: also includes imputed charge for consumption of non-trading capital and sundry adjustments (timing, etc.)⁽²⁾ The borrowing requirement of the central government comprises the borrowing of the National Loans Fund (i.e. the Fund's net borrowing together with changes in Exchange Equalisation Account sterling capital) less any surplus (or plus any deficit) on the National Insurance Fund and changes in departmental balances invested in government debt, etc.⁽³⁾ As included within Table 23.⁽⁴⁾ As included in Table 19.⁽⁵⁾ As included in Table 20.⁽⁶⁾ As included in Table 18.⁽⁷⁾ As included in Table 21.

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Financial Statement and Budget Report 1981-82

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