

Financial Statement and Budget Report 1977-78

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COPY of FINANCIAL STATEMENT AND BUDGET REPORT 1977-78 as laid before
the House by the CHANCELLOR OF THE EXCHEQUER when opening the BUDGET

Treasury Chambers,
29 March 1977 } ROBERT SHELDON

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PART I

THE ECONOMIC BACKGROUND TO THE BUDGET

REVIEW OF THE PAST YEAR

Introduction

1. At the time of the 1976 Budget the worst of the recession was known to be past. The industrialised countries including the United Kingdom were clearly recovering. World trade was reviving fast. In the United Kingdom exports were making very good progress while the volume of imports showed no growth. The sterling exchange rate had remained steady between November 1975 and early March 1976, although inflation in this country was high by world standards. The external deficit on current account was therefore very small in the first quarter of the year. Unemployment, which had been rising throughout 1975 at about 40,000 a month, was increasing at about half this rate early in 1976.

2. Policies gave priority to bringing down the rate of inflation. The Budget measures were therefore designed to add little to total demand but to facilitate agreement on an extension of the voluntary incomes policy for the 1976-77 wage round. The Budget offered income tax concessions contingent upon a satisfactory agreement on pay limits. The aim was to limit the rise in wage costs without unnecessarily reducing real take-home pay and so to create favourable conditions for economic growth. The second round pay agreement was overwhelmingly endorsed by a special TUC conference in May and came into operation in August 1976. Like the previous £6 agreement it has been universally observed.

3. In the second and third quarters of 1976, it gradually became evident that events were taking a less hopeful turn. The exchange rate fell sharply in March. In the second quarter imports rose, and thereafter stayed at the higher level. Further pressure developed on the exchange rate, and the second quarter saw a substantial withdrawal of officially-held sterling balances. In June overseas countries provided a temporary \$5.3 billion facility to stabilise the exchange market. In July measures were announced designed to reduce the expected level of public sector borrowing by £1½ billion in 1977-78, to avoid potential conflict between public and private financing needs, and thus strengthen confidence.

4. It became clear that the second quarter had seen a slowing of the growth of United Kingdom production, which turned to a fall in production and

in exports in the third quarter. A similar, though less severe, slowing of growth in other industrial countries accompanied these developments. With the summer drought and the passing through of the effects of sterling depreciation, the rise in retail prices began to re-accelerate.

5. All these factors affected confidence in the financial markets. The flow of sales of Government securities diminished sharply. Consequent fears of inflationary monetary expansion inter-acted with the exchange market to produce a further sharp fall in the foreign exchange value of sterling in September. To restore confidence and re-activate sales of Government debt Minimum Lending Rate (MLR) was raised in two stages to 15 per cent and an application to the IMF to draw upon our main credit tranche of \$3.9 billion was announced. In November the Supplementary Special Deposit scheme to restrain the expansion of banks' interest-bearing eligible liabilities ("the corset") was re-introduced. Output and exports ceased to deteriorate, and financial confidence steadied somewhat as discussion with the IMF staff proceeded.

6. On December 15th the Government announced further measures to reduce public expenditure programmes in 1977-78 and 1978-79 and their intention to keep within specified limits for public sector borrowing and domestic credit expansion. These measures, together with an additional package to encourage investment and support employment, looked forward to a renewed building of the conditions for sustainable growth.

7. These measures were endorsed by the IMF, and led to a rapid return of confidence in the financial markets. Very large amounts of Government stock were sold, and interest rates began to fall. The US \$ exchange rate for the £ rose to \$1.70 by the end of December, and has remained between \$1.70 and \$1.72 up to the time of writing. Foreign exchange reserves were rebuilt in January and further increased in February. Confidence was reinforced by the agreement with the Bank for International Settlements on a facility to minimise the de-stabilising effect of reductions in officially-held sterling balances, and by the negotiation of a \$1.5 billion medium-term loan on favourable terms from a group of commercial banks.

8. Simultaneously, net exports and industrial production began to show a slow but perceptible renewed rise. Manufacturing investment, which had shown a small rise through most of the year, continued to expand and showed promise of accelerating in 1977. Seasonally adjusted unemployment in March 1977 was 90,000 higher than 12 months earlier. Though the rise was temporarily checked it seemed likely to rise further during the year. The rise in retail prices seemed likely to remain rapid for some months. The success of the pay agreements and the greater stability in the exchange rate imply that it should then fall, but whether that fall is sustainable will depend upon agreement for the 1977-78 pay round.

The World Economy

9. The total gross national product of the main industrial countries rose by about 6 per cent in 1976 from the depressed level of 1975. The most rapid growth occurred in the first quarter when there was an unusually high replenishment of stocks; in the remaining quarters growth was sluggish, but it appears to have picked up in some countries in recent months. The increase in output has been insufficient to reduce significantly the level of unemployment which in many countries was higher in December 1976 than twelve months earlier.

10. There was a marked recovery in world trade in 1976 after the fall in 1975. The volume of world trade is believed to have been about 10 per cent greater in 1976 than in 1975. Total exports of goods from OECD countries increased by about the same amount, with growth slackening in the third but beginning to recover in the final quarter. The imports of the oil exporting countries appear to have been about 15 per cent greater by volume in 1976 than in 1975, but even this was insufficient to prevent their running a current balance surplus of about £37 billion. The offsetting deficits were shared unequally between other countries, exacerbating the persistent problems of current balance adjustment.

11. Some progress was made in 1976 in bringing down the average rate of inflation for OECD members; but the rate remains much higher than at the corresponding stage of recovery from previous recessions. There are wide divergences between countries, with the rise in consumer prices over the twelve months to December 1976 around 4 to 5 per cent in Germany and the United States, around 15 per cent in the United Kingdom and around 20 per cent in Italy.

12. Commodity prices rose more quickly in 1976 than the prices of manufactured exports, especially metals and agricultural products other than food. The less-developed countries without oil resources seem also to

have restricted the volume of their imports. These trends have enabled them as a group to rebuild their reserves.

The United Kingdom

13. For the United Kingdom economy, the year falls into three parts; the early months, the check in mid-year and the final months.

The Early Months

14. The recovery from recession started in autumn 1975 and by the spring of 1976 had been under way for about six months. Gross domestic product (GDP) had risen at about 4 per cent per annum, and exports were moving ahead of imports. Together with an exchange rate which was stable between November and March at just over US \$2 to the £, this led to an unexpectedly rapid improvement in the current balance of payments in the first quarter. The rise in unemployment was also decelerating more swiftly than appeared sustainable. The rise in retail prices was decelerating on more expected lines, under the influence of the successful £6 pay agreement concluded in August 1975.

15. The volume of consumers' expenditure was fairly stable at a level slightly above that of late 1975. Public expenditure on goods and services was still rising, but the public expenditure plans announced in February for five years ahead looked forward to total public spending levelling off at the level to be reached in the coming financial year. Total gross fixed investment was still falling, but investment intentions surveys showed that a rise in manufacturing investment was on the way. Stockbuilding figures continued fairly erratic, but the major fall in stocks in 1975 had been checked.

16. Market conditions led interest rates to fall about 2 per cent in the first quarter. Meanwhile, M3, the broader measure of money stock, was showing small increases on the quarterly figures, and some actual decreases on the monthly figures. The public sector borrowing requirement (PSBR) for 1976-77 was forecast to be just under £12 billion, a high figure but one which, in the context of the Government's medium term plans, was expected to represent a peak.

17. The April 1976 Budget therefore looked forward to a period of steady recovery. However, it was recognised that there were a number of major uncertainties present, and that a continuing watch would have to be kept on the balance between the calls on the economy made by industry and by the public services. The major focus of the Budget was upon income tax reliefs contingent upon the conclusion of

a second satisfactory pay agreement. In the event such an agreement was negotiated, and the net effect of the Budget was slightly expansionary.

The Mid-Year Check

18. In March, the foreign exchange value of the £ fell below US \$2. By the end of April the value was 9 per cent less than at the end of February. From the March low point, short-term interest rates rose by 1½ per cent during April to around 10½ per cent. At this stage longer-term interest rates did not rise. Import volume rose sharply in April and continued high. The foreign exchange value of the £ slipped further with large withdrawals of officially-held sterling balances, until it was checked by the announcement in early June of a \$5.3 billion credit facility offered to the United Kingdom by a group of 10 countries. This credit was initially for three months, renewable for a maximum of another three months.

19. By late June and early July, a prospective conflict was emerging between public and private borrowing. To guard against an excessive growth in the money supply, to contain interest rates and to maintain confidence at home and abroad it was judged that there was a need to reduce the PSBR to £9 billion in 1977-78. This was £1.5 billion less than the forecast for that year as it then stood. The main features of the measures announced for this purpose were a reduction of £1 billion in plans for public expenditure, and a surcharge on employers' national insurance contributions to yield a further gross £1 billion in a full year. Both would take effect in 1977-78.

20. The measures announced on July 22nd assisted confidence, but their impact was offset by the worsening statistics for output and external trade. After rising more than 1½ per cent in the first quarter of 1976, the index of industrial production rose less than ½ per cent in the second quarter. The volume of imports rose fast in the second quarter outstripping the rise in the volume of exports.

21. The figures for other components of demand were mixed. Over the first six months of 1976 the volume of consumer expenditure had risen by 1½ per cent. The tax rebates payable under the contingent provisions of the April Budget were supporting spending during the third quarter. Public authorities' current spending was levelling off. Gross domestic fixed capital formation was still falling in total; at its low point in the second quarter it was over 6 per cent under its level of the year before. Within this total, there was a small but encouraging rise in manufacturing investment. Stock levels fell by about £100 million in the second quarter, and again by a smaller amount in the third quarter.

22. The broad indicator of money supply (M3) rose at an annual rate of some 16 per cent in the second quarter. In his statement of July 22nd, the Chancellor announced his intention of limiting the growth of M3 to 12 per cent for the whole financial year. However, in the third quarter sales of Government securities stagnated, and both M3 and M1 rose at above 20 per cent annual rates in that quarter as demand for bank lending moved ahead.

TABLE 1. ESTIMATED CHANGES IN PERSONAL INCOME, CONSUMER PRICES AND CONSUMERS' EXPENDITURE

	1975 to 1976		2nd half 1975 to 2nd half 1976 Seasonally adjusted	
	£ million	Per cent	£ million	Per cent
Wages and salaries	7,500	12.7	3,300	10.7
Total personal income	14,950	15.5	6,500	12.9
Personal disposable income	10,900	14.7	5,100	13.2
Consumers' expenditure deflator		15.3		12.5
Real personal disposable income at 1970 prices	-200	-0.5	150	0.7
Personal saving at 1970 prices ⁽¹⁾	-300		-200	
Consumers' expenditure at 1970 prices	60	0.2	340	1.9

⁽¹⁾ Saving as a percentage of RPDI was 14.7 per cent in the second half of 1975 and 13.6 per cent in the second half of 1976.

23. In September, there was renewed growth in private sector demand for bank loans and sharp pressure developed in the foreign exchange market. Minimum Lending Rate rose to 13 per cent and other short-term rates moved up with it after remaining stable since May. Some substantial sales of Government securities followed as longer-term interest rates adjusted, but by early October further measures became necessary. The authorities therefore raised the Minimum Lending Rate to 15 per cent.

24. The \$5.3 billion credit facility agreed in June was renewed in September for a final three months. Drawings on the credit exceeded \$1 billion, and these fell to be repaid in December. Faced with the continuing pressure in the foreign exchange market, the Government applied to the International Monetary Fund to draw upon the United Kingdom's second, main, credit tranche of \$3.9 billion. Together, these moves stabilised the foreign exchange market, but with the £ near what proved to be its low point of US \$1.55.

25. As the third quarter statistics were assembled, it became clear that the volume of both output and exports had fallen. Import volume rose. The only clear signs of improvement in the economy were small increases in manufacturing employment and manufacturing investment.

The Final Months

26. Calls for the commercial banks to increase their special deposits with the Bank of England were made in the autumn. Cumulatively, they raised the call for special deposits to 6 per cent, but of this total the last 1 per cent call was repeatedly postponed and in the end cancelled. In addition the Supplementary Special Deposit scheme to restrain the growth of banks' interest bearing eligible liabilities ("the corset") was reintroduced. Although discussions with the IMF team had not been concluded, the opening of negotiations and the various monetary measures had already restored some confidence to the markets. In mid-November MLR came down ½ per cent from the peak rate of 15 per cent, and by the end of November the dollar exchange rate was 10 cents above its lowest point.

27. On December 15 the Government announced a further set of measures. Public spending plans were reduced by £1 billion in 1977-78 and £1.5 billion in 1978-79. Part of the Government's holding of shares in the British Petroleum Company were also to be sold in 1977-78 and a further, unspecified, fiscal adjustment of £500 million was to be made in 1978-79. The authorities' primary monetary objective was reformulated in terms of domestic credit expansion (DCE) in place of M3. Appropriate limits set for DCE were £9 billion in 1976-77 (year to mid-April); and subject

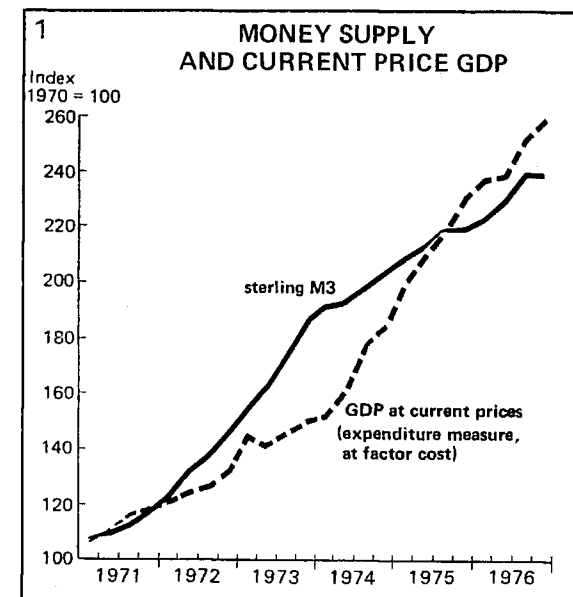
to review, £7.7 billion in 1977-78. The figure envisaged for 1978-79 was £6 billion. Limits were also set for the public sector borrowing requirement of £11.2 billion in the current financial year and £8.7 billion in 1977-78. The relevant figure for 1978-79 was £8.6 billion. Some additions to planned spending on investment and employment were to be financed by extra taxes on alcohol and tobacco. These measures were embodied in the Letter of Intent to the International Monetary Fund.

28. The effect of these measures on already reviving financial confidence was soon felt in sales of Government securities, in falling interest rates and in a rising exchange rate. Just as declining confidence had fed on itself, so did increasing confidence.

29. The agreement of the IMF to the credit facility applied for was followed by the successful negotiation of a "safety net" for the officially held sterling balances and the negotiation by the Bank of England for the Government of a \$1.5 billion medium-term euro-currency credit from a group of British and foreign commercial banks. The official reserves which had fallen to \$4.1 billion at the end of 1976, after repayment of drawings on the temporary credit agreed in June, rose to \$7.8 billion at the end of February 1977. This figure included a first drawing of \$1.2 billion from the IMF credit and a first instalment of the euro-currency loan. A major contribution to the inflow had resulted from the withdrawal, announced in November, of the facility for sterling finance of trade between third countries.

30. Sales of gilt-edged stock had begun to rise before the December 15th announcement. Thereafter they became very large. Total sales in the four months period from mid-September exceeded £6 billion. In the financial year as a whole, well over half the public sector's financial needs will have been met outside the banking system. Late in the year, bank lending to the private sector also ceased to rise at its earlier rapid rate. There may be little or no expansion of domestic credit in the second half of the financial year, and it is expected that sterling M3 growth will be around the bottom of the 9-13 per cent range thought likely in December. Fig. 1 shows the continuing restraint in the growth of monetary aggregates over the last three years, with a lower growth rate for sterling M3 than for gross domestic product at current prices.

31. Since the turn of the year it has become plain that the public sector's need to borrow (the PSBR) in 1976-77 has fallen substantially to below £9 billion (see Table 6). The central government was in massive surplus in January and extra revenues look likely in the year as a whole. Requests for supplementary



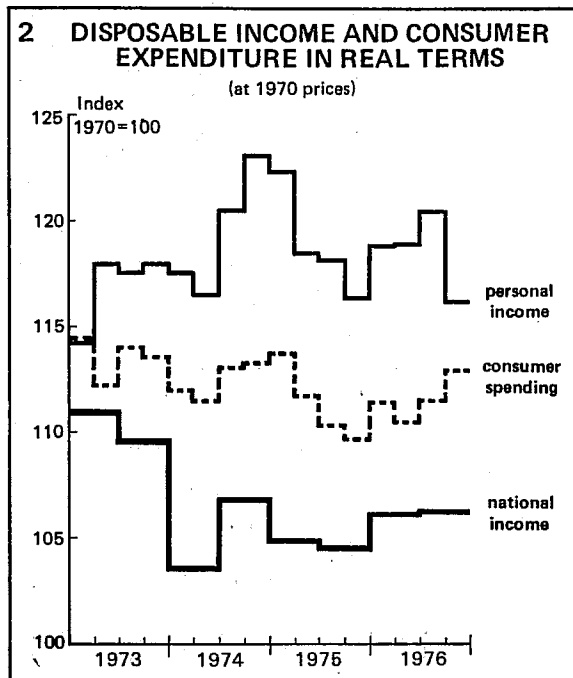
expenditure provisions were relatively small and by mid-March it was clear that cash expenditure by government departments in the last months of the financial year might be of the order of £500 million lower than had been expected in the autumn on the basis of past patterns of spending. The volume of expenditure incurred in the year will also have been lower. In addition, interest payments by central government made in 1976-77 now seem likely to be about £300 million less than expected three months ago. High sales of securities on which interest is paid twice yearly have transferred interest payments to the early part of 1977-78 and the fall in interest rates has reduced payments a little.

32. Borrowing by local authorities, the nationalised industries and other public corporations, all of which contribute to total public sector borrowing, has also diminished. Local authorities stopped taking new medium and long-term loans from the Public Works Loan Board (PWL) in October, when interest rates were at their peak. At the time, it was assumed that they had substituted short-term borrowing from other sources but it is now known that this did not happen: although they repaid debt to the government in the last quarter of 1976 they did not borrow any unusual amount from other sources. They resumed borrowing from the PWLB in January, on a fairly small scale. Little is yet known about how much they may have borrowed from other sources. Nor is information about their expenditure sufficiently up to date to explain the abrupt change in their borrowing. Public

corporations also cut their borrowing from the government very heavily from last October; but their total borrowing continued on a substantial scale in the fourth quarter, with a large amount borrowed in foreign currency. Since then some nationalised industries have reduced their estimates of cash required for the balance of the financial year; the estimates in Part III, Table 13 of financing from outside the industries are significantly below the figures included in the White Paper on the government's expenditure plans (Cmd. 6721) published in January and February.

33. As confidence strengthened in the financial markets, output and export volume began to move ahead once more in the fourth quarter. Industrial production, manufacturing production and export volume all exceeded the second quarter level. Import volume rose, but more slowly. The current account of the balance of payments strengthened because of these improving trends in visible trade and the continued high surplus on invisibles account. In the three months to February 1977 the current deficit was about £300 million, compared with £500 million in the previous three months. Unemployment appears to be on a slowly rising trend, although falls were recorded in February and March. The pay agreement continued to be observed. Up to the end of February settlements within this policy have been made by nearly five million employees.

34. However the rise in retail prices over twelve months continued to accelerate from 12.9 per cent in July 1976 to 16.2 per cent in February 1977. A major cause was the depreciation of the £ in 1976. Much of that depreciation reflected a lagged adjustment to the past rapid rate of inflation in the United Kingdom. The summer drought and wet autumn raised the prices of food both in the United Kingdom and elsewhere. Following the stabilisation of the sterling exchange rate since December 1976 the price index of materials and fuels purchased by industry has decelerated from an annual rate of 33 per cent in the six months to August 1976, to 25 per cent. Wholesale prices of manufactured goods for sale in the United Kingdom showed some acceleration over the past period from 16 per cent per annum in the earlier six months to 23 per cent per annum in the later six months, as the increase in import prices fed through. As Fig. 2 shows, by the fourth quarter of 1976 these price rises were working through to some fall in real personal disposable income. In the 12 months to December 1976 the increase in average earnings was 11.7 per cent; for the same period the retail prices index rose by 15.1 per cent. Disposable income was supported to some extent by the tax reliefs introduced in the April 1976 Budget.



The year as a whole

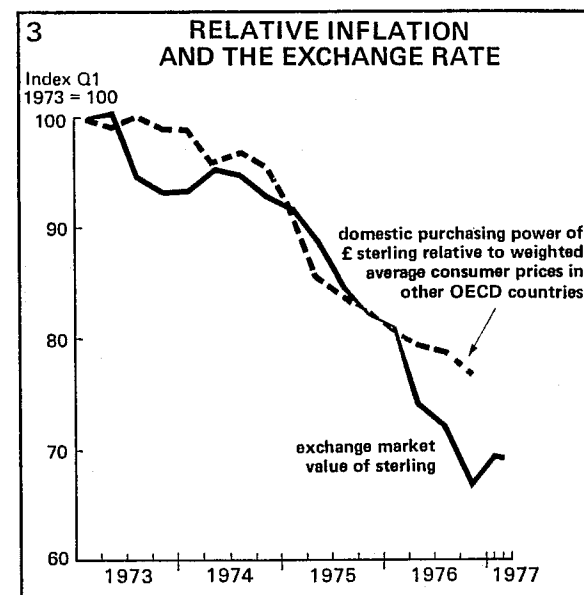
35. 1975 had been a year of falling gross domestic product combined with some improvement on the balance of payments. In 1976, although many of the hopes of the early part of the year were disappointed by the check to progress in the middle of the year, gross domestic product rose and the current account of the balance of payments improved by £200 million from £1.6 billion (1½ per cent of GDP) in 1975 to £1.4 billion (1½ per cent of GDP) in 1976. The deficit was £3.4 billion (4½ per cent of GDP) in 1974. In dollar terms the improvement was from \$3.7 billion in 1975 to \$2.5 billion in 1976. In 1976 the most marked improvement was in the invisible surplus; it rose from £1.6 billion to almost £2.2 billion; by the fourth quarter it was running at an annual rate of almost £2.5 billion.

36. North Sea oil and gas production made a significant and rising contribution in 1976. Total oil production for the year was 12 million tonnes, valued at £600-£700 million. By February 1977 production was at an annual rate of over 25 million tonnes, more than a quarter of last year's consumption in the United Kingdom.

37. The balance for official financing, including outflows on both current and capital account, amounted to £3.6 billion (\$6.6 billion) in 1976. This was more than had to be financed in the whole of both 1974 and

1975 together, despite the improvement on current account. The total net depreciation of sterling between February 1976 and February 1977 came to 15 per cent.

38. As Fig. 3 shows, the relative rate of inflation in the United Kingdom remained high by international standards. The diagram illustrates that the higher level of United Kingdom inflation was more than offset during 1976 by the decline in the exchange rate.



39. Fig. 2 shows that despite the lower level of national disposable income, consumers' expenditure has remained relatively stable, more so than personal disposable income which has fluctuated both up and down. The fall in the last quarter of 1976 in personal disposable income meant that it is now adjusting towards national disposable income. With no comparable fall in consumers' expenditure, there was a drop in the savings ratio.

40. The three figures illustrate aspects of progress being made towards balance in the economy. Figures 2 and 3 also illustrate major problems still remaining; the gap between trends of personal disposable income and real national disposable income and the relative rate of inflation. A further major problem is unemployment. During 1975 it was rising (seasonally adjusted, excluding school-leavers) at about 40,000 a month. In 1976, the rise was about 13,000 a month. Over the six months to March 1977 the total rise was about 2,000. However, total registered unemployed

stood in March 1977 at 1,384,000, or 5.9 per cent of the labour force, nearly 100,000 more than a year earlier. The various selective measures to alleviate unemployment are estimated to have reduced the total number on the register at the end of 1976 by over 150,000. Employment in the public services has broadly stabilised. An encouraging sign has been the small rise in employment in manufacturing industry month by month since May 1976.

41. The public sector deficit (the PSBR less net lending by the public sector to the private and overseas sectors) amounted to a little over £9 billion in 1976. This was matched by a continuing substantial surplus in the overseas sector of about £1½ billion (corresponding to the current account deficit), and the private

sector's financial surplus was about £1 billion higher than the previous year. The private sector surplus reflected both the better financial position of the company sector and a further sizeable increase in the personal sector's surplus to about £7½ billion.

42. By the end of the year, despite the problems of mid to late 1976, both financial confidence and some momentum in the expansion of net exports had been re-established. The growth of manufacturing investment and the development of the industrial strategy had both been maintained through the crises of confidence. The new procedures for public expenditure control appear to have had a considerable effect, and despite the difficulties inflation originating within the United Kingdom has been reduced.

TABLE 2. BALANCE OF PAYMENTS

£ million							
	1974	1975	1976	1975		1976	
				1st half	2nd half	1st half	2nd half
CURRENT ACCOUNT							
				Seasonally adjusted			
Visible trade: Oil	-3,422	-3,106	-3,964	-1,456	-1,650	-1,917	-2,047
Other goods	-1,799	-89	372	-146	57	460	-88
Invisibles	1,841	1,560	2,169	763	797	938	1,231
Current balance	-3,380	-1,635	-1,423	-839	-796	-519	-904
				Not seasonally adjusted			
Current balance	-3,380	-1,635	-1,423	-990	-645	-713	-710
Capital transfers	-75	—	—	—	—	—	—
Investment and capital flows:							
Official long term capital	-276	-288	-156	-112	-176	-62	-94
Overseas investment in United Kingdom public sector	250	43	203	66	-23	22	181
Private investment (net)	1,129	422	201	-367	789	105	96
Overseas currency borrowing or lending (net) by United Kingdom banks	-294	238	112	694	-456	153	-41
Changes in external sterling liabilities	1,558	-67	-1,152	230	-297	-1,007	-145
Trade credit and other short-term flows	-686	12	-1,146	-269	281	-937	-209
Balancing item	128	-190	-267	-150	-40	-194	-73
Balance for official financing	-1,646	-1,465	-3,628	-898	-567	-2,633	-995
Financed as follows:							
Drawings on IMF	—	—	1,018	—	—	1,018	—
Drawings on other monetary authorities	—	—	-34	—	—	581	-615
Foreign currency borrowing:							
By Her Majesty's Government	644	423	—	423	—	—	—
By United Kingdom public sector under the exchange cover scheme	1,107	387	1,791	207	180	858	933
Drawings on (+)/additions to (-) official reserves	-105	655	853	268	387	176	677

Forecasts in the 1976-77 financial statement and budget report, and estimated outcome

43. Table 3 shows the changes in gross domestic product and its main components forecast last April, together with the present provisional estimates of outcome. The past record of comparisons between forecast and outcome was summarised in the set of average errors published with the forecast released in

December 1976. These errors were not calculated on a basis strictly comparable with the changes shown here, but nevertheless provide a rough standard of comparison.

44. Last April's forecast was reasonably accurate by past standards, with most components within or close to the past average deviation from outcome. The main exception was the overestimate of fixed investment.

TABLE 3. 1976-77 FSBF FORECAST AND ESTIMATED OUTCOME
Percentage changes second half 1975 to second half 1976 (at constant prices)

	Forecast	Estimated outcome
	Per cent	Per cent
Consumers' expenditure ...	2	2
Public authorities' consumption ...	1½	2
Gross fixed investment ...	—	—5½
Stockbuilding (changes in £ million at 1970 prices)	(350)	(250)
Exports of goods and services ...	9½	10
Total final expenditure ...	4	3
Imports of goods and services ...	6½	6½
Adjustment to factor cost ...	2½	5
Gross domestic product at factor cost ⁽¹⁾ ...	4	2

⁽¹⁾ Gross domestic product figures in Tables 3 and 4 are "compromise" estimates. The compromise GDP index is close to the average of the three alternative measures of gross domestic product at 1970 prices, based upon expenditure, income and output respectively. It differs from that average in respect of minor timing and other adjustments to some component series. Differences between the compromise aggregate and components of the expenditure series have been allocated for convenience to investment in stocks.

ECONOMIC PROSPECTS TO MID-1978

In constructing the forecast it has been assumed that an agreement on pay increases after July 1977 holds the rate of increase of earnings close to that experienced under the present pay limit. It is further assumed that it proves possible to reduce the basic rate of income tax from 35 to 33 per cent. The competitive position of the United Kingdom relative to other industrial countries is assumed to be broadly maintained. Table 5 and the first column of Table 4 show the main forecast, which has been used in preparing the public sector tables in Part II. Essentially, it reflects an interpretation of economic relationships and trends based on past experience and statistics. The second column of the table reflects an assumed improvement in the United Kingdom's trading performance: this illustrates the possible effects of better non-price competitiveness. The cost and price assumptions are the same in both columns.

2. The prospect is for a continued modest increase in demand and output at a rate below the prospective growth of productive potential. The current account of the balance of payments is forecast to be in surplus by the first half of 1978 and a further reduction in public sector borrowing in relation to national income is foreseen. By mid-1978 the growth in the retail price index (by comparison with a year previously) is forecast to fall below 10 per cent. The main aspects of the forecast are discussed in the following paragraphs.

3. Most of the forecast increase in demand consists of exports and private sector fixed investment. Public investment is likely to fall and both personal and public consumption to show little change. With import volumes rising more slowly than exports, this demand prospect leads to a growth in GDP, in the main forecast, of about 1½ per cent during the next twelve months.

The pattern of demand favours a somewhat faster growth of manufacturing output: an increase of 2½ per cent is forecast for the same period. In the variant with higher net exports the growth of GDP is raised to 2½ per cent and of manufacturing to 4 per cent.

4. The forecasts of public sector demand for goods and services are based on the plans set out in the recent White Paper (Cmd. 6721). For two reasons, the forecasts shown here fall by less than is indicated for comparable categories in the White Paper. First, the forecasts assume that the contingency reserve is fully used and that part of it is allocated to expenditure on goods and services, whereas in the White Paper it is not allocated. Secondly, the latest information suggests that expenditure in 1976-77 will be below that shown in the White Paper. The forecasts show public consumption roughly constant at the level reached in the second half of 1976. Public sector investment, however, is likely to fall substantially, the most marked fall being in the local authority sector.

5. The development of private sector investment is likely to vary substantially between categories. Both recent trends and intentions data suggest a fast rise in manufacturing investment, but a much more modest increase for distribution and services: this is also consistent with the likely demand pattern. Following the recent fall in interest rates, private sector housing investment may be fairly stable. The total of private investment may well have fallen in the current half year but a fairly brisk rise of 7 per cent is forecast for the next twelve months.

6. Stock levels were probably falling slightly throughout most of 1976, though not at a rate comparable to 1975. A significant increase in stockbuilding as compared with 1976 is therefore to be expected as a part of normal cyclical adjustment; but the forecast shows most of this process having already happened in the first half of 1977 so that stockbuilding does not contribute to the demand increases shown in table 4.

7. Real personal disposable incomes have probably fallen significantly since the autumn as a result of large price increases (especially for food) which reflected rises in import prices and poor harvests and were not, therefore, accompanied by comparable increases in money incomes. In the final quarter of 1976 personal consumption nevertheless rose slightly and savings fell substantially. But consumption has probably fallen back in the first quarter of 1977 and, while the savings ratio will probably be well below the 1976 level, further substantial falls in savings are unlikely. Real incomes may fall a little further by mid-year, but slower price increases and the benefits of the Budget measures (on the assumption that the full tax relief proves possible),

should lead to modest recovery by the first half of 1978. Over the year from the first half of 1977 a small (½ per cent) rise in personal consumption is forecast.

8. After a strong recovery in late 1975 and early 1976 the rate of expansion in world activity and trade slowed down considerably. Some resurgence of growth seems likely this year and demand for manufactures, in markets important to the United Kingdom, may rise at a little below the longer-term trend rate. Survey evidence points to strong United Kingdom export performance, and exporting appears to be relatively profitable by historical standards. The main forecast shows a growth rate of 5½ per cent for the volume of exports of goods and services.

9. Imports of manufactures rose sharply in late 1976 and early 1977, and probably reflected speculative stockbuilding resulting from a period of low confidence in sterling. The extent to which this has distorted the figures is very uncertain. In the main forecast there is some continuing rise in the trend of import penetration for manufactures; but owing to increasing North Sea oil production and to some easing of food imports the total volume of imports of goods and services (at 1970 prices) rises roughly in line with GDP.

10. There must, as always, be major uncertainties about world prices but there is no reason to expect large changes in the United Kingdom's overall terms of trade (excluding oil). The balance on invisibles account is likely to improve further. The implication is for a considerable improvement in the current account, which is forecast to be roughly in balance in the second half of this year and moving into surplus during 1978. North Sea oil production is likely to contribute upwards of £2½ billion to the current balance during 1977, though there are, of course, significant offsets through imports of capital goods and profits and interest due abroad.

11. The fast rise in retail prices over recent months is unlikely to be sustained beyond the middle of the year, provided there are no major crop failures or commodity shortages. The rise in the exchange rate in the first quarter will be beginning to affect retail prices from now on. Compared with a year previously the forecast is of a 13 per cent increase in the fourth quarter of 1977 (still reflecting the rises of the past few months) falling to 9½ per cent in the second quarter of 1978.

12. The PSBR forecasts reflect the general shape of the economic forecasts as well as detailed assessment of public sector transactions. Allowing for the tax assumptions, the forecast of £8½ billion for 1977-78 involves a downward revision of just over £1 billion since December. Reasons for the revision include lower prices (partly reflecting a stronger exchange rate),

higher employment and lower interest payments. It was made clear, however, in paragraphs 31 and 32 of the preceding section, that the reasons for the unexpectedly low outcome in 1976-77 are not yet fully understood. This imparts additional uncertainty to the forecasts for 1977-78.

13. In judging the significance of all single-point economic forecasts it is essential to recognise that likely margins of error are high—often of the same order of magnitude as the movements in the series concerned. In conjunction with the December official forecast* a table was published indicating the average size of errors which had been experienced in the recent past for most of the variables concerned. It indicated, for example, that forecasts for the second half year of the forecast period (a horizon corresponding, very approximately, to the first half of 1978) average errors in the GDP forecast might be of the order of 2 per cent and average

errors in the forecast of the current balance some 1½ per cent of GDP (i.e. of rather over £2 billion at an annual rate).
14. Another way of expressing uncertainty in economic forecasts is to display variants based on alternative assumptions about economic behaviour. It is not, however, feasible to illustrate more than a very small fraction of the possible ways in which the economy may develop. The variant shown in the second column of Table 4 is on similar lines to that published last December. It illustrates the possible effects of a better external trading balance achieved by an improved industrial performance rather than by different assumptions about pay, exchange rates or world economic activity. This increases the share of United Kingdom exports in world markets and reduces the level of import penetration. The figures show that, without assuming extreme and implausible levels of exports and imports, a better trading performance could add usefully to demand whilst having a favourable effect on the balance of payments.

TABLE 4. ECONOMIC PROSPECTS TO MID-1978

A. Output and expenditure at constant prices Per cent changes, first half 1977 to first half 1978:	Main Forecast	Variant with stronger trade performance
Gross domestic product (at factor cost) ...	1½	2½
Consumers' expenditure ...	1½	2½
Public expenditure on goods and services ...	-2	-2
Exports of goods and services ...	5½	7
Private fixed investment ...	7	7½
of which		
Manufacturing investment ...	17½	18½
Stockbuilding (as per cent of GDP) ...	-2	1½
Imports of goods and services ...	2½	4
Manufacturing production ...		
B. Balance of Payments on current account £ billion:		
1977 First half ...	-½	-½
1977 Second half ...	-½	-½
1978 First half ...	½	1
C. Public Sector Borrowing Requirement £ billion (percentage of GDP at current market prices):		
Financial year 1976-77 ...	9 (7%)	9
Financial year 1977-78 ...	8½ (6½%)	8½
D. Retail Price Index: Per cent change:		
Fourth quarter 1976 to fourth quarter 1977 ...	13	13
Second quarter 1977 to second quarter 1978 ...	9½	9½

ECONOMIC PROSPECTS TO MID-1978—continued

TABLE 5. FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT

£ million at 1970 prices, seasonally adjusted

	Consumers' expenditure	Public expenditure on goods and services			Private fixed investment	Exports of goods and services	Stock-building ⁽¹⁾	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Gross domestic product at factor cost ⁽¹⁾	GDP index 1974 = 100
		Public authorities' consumption	Public investment	Total								
1974 ...	35,550	10,350	4,200	14,550	5,950	15,150	800	72,000	14,850	8,900	48,250	100.0
1975 ...	35,250	10,800	4,250	15,050	5,700	14,550	-800	69,750	13,900	8,800	47,050	97.6
1976 ...	35,300	11,100	4,050	15,150	5,500	15,550	-250	71,250	14,550	9,100	47,600	98.7
1977 ...	35,150	11,200	3,700	14,900	5,550	16,600	300	72,500	15,300	9,000	48,200	99.9
1975 first half ...	17,850	5,300	2,150	7,450	2,850	7,350	-450	35,050	6,900	4,450	23,700	98.3
1975 second half ...	17,400	5,500	2,100	7,600	2,850	7,200	-350	34,700	7,000	4,350	23,350	96.9
1976 first half ...	17,550	5,500	2,150	7,650	2,700	7,600	-150	35,350	7,100	4,500	23,750	98.5
1976 second half ...	17,750	5,600	1,900	7,500	2,800	7,950	-100	35,900	7,450	4,600	23,850	98.8
1977 first half ...	17,600	5,600	1,900	7,500	2,750	8,200	150	36,200	7,700	4,500	41,000	99.4
1977 second half ...	17,550	5,600	1,800	7,400	2,800	8,400	150	36,300	7,600	4,500	24,200	100.3
1978 first half ...	17,750	5,600	1,750	7,350	2,950	8,600	150	36,800	7,850	4,550	24,400	101.1
Percentage changes												
Second half 1975 to second half 1976	2	2	-9½	-1½	-2½	10		3	6½	5	2	2
Second half 1976 to second half 1977	-1	0	-7	-1½	1	5½		1	2	-1½	1½	1½
First half 1977 to first half 1978 ...	½	0	-8½	-2	7	5½		1½	2	1½	1½	1½
Percentage changes at annual rate												
First half 1976 to second half 1977	0	1	-11½	-2½	3	7		2	4½	½	1	1
Second half 1976 to first half 1978 ...	0	½	-6	-1½	3½	5½		1½	3½	-½	1½	1½

(1) All figures in Table 5 are based on "compromise" estimates of gross domestic product. Discrepancies between compromise and expenditure estimates have been added to stockbuilding. 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 II

PUBLIC SECTOR TRANSACTIONS

INTRODUCTION

The tables in this Part present the transactions of the public sector analysed in accordance with the principles and methods used in the compilation of the national income accounts statistics (a full description of the principles on which the national income accounts are based and of the methods used in their compilation is given in "National Accounts Statistics: Sources and Methods", H.M.S.O., 1968). The tables are designed to assist in a better understanding of the impact on the economy of the operations of the public sector and to show how the transactions of the various authorities comprising the public sector contribute to the financial account for the sector as a whole, and in particular to the public sector financial balance and borrowing requirement. The tables are different in form from those in recent financial statements. The changes are designed to give more weight to the distinction between Government with its mainly administrative and regulatory functions and the public corporations with their trading activities. Transactions between the various sub-sectors of the public sector are shown in more detail than previously, particularly in Table 7; the financial transactions of the public sector as a whole are consolidated in the final section of Table 6.

The public sector consists of general government, comprising central government and the local authorities, and the nationalised industries and other public corporations. The general government accounts cover the current and capital transactions of the Consolidated and National Loans Funds, the National Insurance Fund and all 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 the accounts, like those of the public corporations sector, include only trading surpluses and rents, capital expenditure and other items in the appropriation and capital accounts, and exclude trading transactions. Transactions between bodies in the same sub-sector are not included in the accounts for that sub-sector, and transactions between sub-sectors disappear when these are combined and consolidated.

All figures for receipts and expenditures both in 1976-77 and in 1977-78 are at the estimated prices of each year.

The forecasts for 1977-78 take account of the changes proposed in the Budget, and in particular assume that a satisfactory agreement on a new pay policy is reached such as to make possible the implementation of the full tax changes proposed. They are consistent with the economic forecasts shown in Part I. In addition estimates for 1977-78 "before Budget changes" are shown in Table 6. These remove from the forecast only the direct effect of changes in taxation as set out in Table 16. They do not remove indirect effects of changes in the level of economic activity resulting from the Budget measures.

In 1976-77 cash limits were widely applied across public sector expenditure. This system will be continued on similar lines in 1977-78. Details are given in the White Paper "Cash Limits 1977-78" (Cmnd. 6767). The limits are taken into account in the current price forecasts in all the relevant tables in Parts II and III. Cash control is also applied to the financing of nationalised industries from sources external to them. The estimates of their external capital requirements which will also serve as control figures are shown in Table 13.

Table 6 first analyses the current and capital transactions of general government in accordance with the national income accounts classification, finishing with the financial balance (Part A). An analysis of the appropriation and capital accounts of the public corporations sector is then shown, also leading to their financial balance (Part B). Finally (Part C) the financial transactions of the public sector as a whole are set out, starting with the combined financial balance, taking into account certain other financial transactions, and finishing with the borrowing requirement. Part C is a consolidated table so that transactions between general government and public corporations are excluded, and the total public sector borrowing requirement is analysed to show the net borrowing from the private sector and abroad by each sub-sector.

Table 7 shows the transactions of the various sub-sectors of the public sector with the private sector and overseas and with one another. Nationalised industries and the other public corporations are treated as separate sub-sectors. Consolidated totals are shown for general government and for the public sector as a whole.

1976-77 ESTIMATED OUTTURN

The estimated outturn figures for local authorities and public corporations are based on partial information for three quarters of the financial year only. The most up-to-date information relates to their borrowing only. For central government, the figures are based on the known totals of receipts and issues up to mid-March.

TABLE 6. PUBLIC SECTOR TRANSACTIONS

	1976-77		1977-78 Forecast	
	Budget ⁽¹⁾ forecast	Estimated outturn	Before Budget changes	After Budget changes
A. GENERAL GOVERNMENT⁽²⁾				
CURRENT RECEIPTS				
Taxes on income	19,543	19,556	22,310	20,480
Taxes on expenditure	16,512	17,101	20,498	21,270
National insurance, etc., contributions	8,574	8,810	9,415	9,415
Gross trading surplus ⁽³⁾	82	120	102	102
Rent ⁽³⁾	2,348	2,626	3,007	3,007
Interest and dividends from—				
Public corporations	1,549	1,613	1,809	1,809
Other	629	786	873	873
TOTAL	49,237	50,612	58,014	56,956
CAPITAL RECEIPTS				
Current surplus ⁽³⁾	—1,064	431	1,408	350
Taxes on capital	857	876	915	915
Financial deficit (on current and capital transactions)—				
Central government	5,093	3,126	2,452	3,510
Local authorities	2,334	2,153	1,770	1,770
General government	7,427	5,279	4,222	5,280
TOTAL	7,220	6,586	6,545	6,545
B. PUBLIC CORPORATIONS				
APPROPRIATION ACCOUNT: INCOME				
Gross trading surplus ⁽³⁾	3,692	4,201	4,740	4,740
Rent and other non-trading income	562	634	725	725
TOTAL	4,254	4,835	5,465	5,465
CAPITAL RECEIPTS				
Undistributed income ⁽³⁾	1,788	2,435	2,750	2,750
Capital transfers from—General government	247	292	292	292
Other	40	52	52	52
Financial deficit (balance of appropriation and capital accounts)—Nationalised industries	2,102	1,312	1,237	1,237
Other public corporations	1,057	1,075	1,060	1,060
TOTAL	5,234	5,166	5,391	5,391
C. FINANCIAL TRANSACTIONS OF THE PUBLIC SECTOR				
RECEIPTS				
Receipts from certain pension schemes (net)	204	230	168	168
Adjustment for accruals of taxes on expenditure	—26	—98	—439	—439
Miscellaneous capital transactions (net) ⁽⁴⁾	—258	25	78	78
Net borrowing from the private sector and overseas by—				
Central government	10,426	5,830	5,801	6,859
Local authorities	937	1,278	890	890
General government	11,363	7,108	6,691	7,749
Nationalised industries	400	1,302	625	625
Other public corporations	199	410	97	97
Total (public sector borrowing requirement)	11,962	8,820	7,413	8,471
TOTAL	11,882	8,977	7,220	8,278

⁽¹⁾ Differences from the figures given in Table 5 of the Financial Statement and Budget Report 1976-77 (H.C. 306) reflect changes of classification.

⁽²⁾ See Introduction to Part II.

⁽³⁾ Before allowing for depreciation and stock appreciation.

⁽⁴⁾ Includes unidentified transactions.

BY ECONOMIC CATEGORY

£ million

	1976-77		1977-78 Forecast	
	Budget forecast ⁽¹⁾	Estimated outturn	Before Budget changes	After Budget changes
A. GENERAL GOVERNMENT⁽²⁾				
CURRENT EXPENDITURE				
Current expenditure on goods and services	27,358	27,192	29,891	29,891
Subsidies	3,187	3,519	3,163	3,163
Debt interest	5,549	5,365	6,267	6,267
Current grants to personal sector	13,471	13,284	16,048	16,048
Current grants abroad	736	821	1,237	1,237
Total	50,301	50,181	56,606	56,606
Current surplus ⁽³⁾ —Central government	—2,723	—1,124	—265	—1,323
Local authorities	1,659	1,555	1,673	1,673
TOTAL	49,237	50,612	58,014	56,956
CAPITAL EXPENDITURE				
Gross domestic fixed capital formation	5,576	5,114	4,913	4,913
Increase in value of stocks	54	25	50	50
Capital grants to—				
Public corporations	247	292	292	292
Private sector	1,343	1,155	1,290	1,290
Overseas	—	—	—	—
TOTAL	7,220	6,586	6,545	6,545
B. PUBLIC CORPORATIONS				
APPROPRIATION ACCOUNT: PAYMENTS				
Interest and dividends to—				
General government	1,549	1,613	1,809	1,809
Other	912	778	896	896
Taxes on income	5	9	10	10
Total	2,466	2,400	2,715	2,715
Undistributed income ⁽³⁾	1,788	2,435	2,750	2,750
TOTAL	4,254	4,835	5,465	5,465
CAPITAL EXPENDITURE				
Gross domestic fixed capital formation	4,850	4,569	5,097	5,097
Increase in value of stocks	384	597	294	294
TOTAL	5,234	5,166	5,391	5,391
C. FINANCIAL TRANSACTIONS OF THE PUBLIC SECTOR				
EXPENDITURE				
Financial deficit—				
General government	7,427	5,279	4,222	5,280
Public corporations	3,159	2,387	2,297	2,297
Total	10,586	7,666	6,519	7,577
Net lending to private sector	517	357	370	370
Net lending, etc., abroad	654	761	802	802
Cash expenditure on company securities	125	193	—471	—471
TOTAL	11,882	8,977	7,220	8,278

TABLE 7. SUB-SECTOR TRANSACTIONS

Receipts positive/payments negative	1976-77 Estimated outturn				
	General government			Nationalised industries ⁽¹⁾	Other public corporations ⁽¹⁾
	Central government	Local authorities	Total		
CURRENT ACCOUNT:					
Taxes on income	19,556	—	19,556	-2	-7
Taxes on expenditure	12,507	4,594 ⁽²⁾	17,101	—	—
National insurance, etc., contributions ...	8,810	—	8,810	—	—
Gross trading surplus ⁽³⁾	40	80	120	3,876	325
Gross rental income ⁽³⁾	155	2,471	2,626	32	153
Interest receipts—private sector and overseas	271	460	731	94	348
Interest payments—private sector and overseas	-3,644	-1,721	-5,365	-496	-282
Interest payments—within public sector	2,580	-976	1,604	-1,059	-545
Dividends	64	—	64	3	-5
Current expenditure on goods and services	-15,912	-11,280	-27,192	—	—
Subsidies	-2,991	-528	-3,519	—	—
Current grants to personal sector	-12,457	-827	-13,284	—	—
Current grants to local authorities	-9,282	9,282	—	—	—
Current grants abroad	-821	—	-821	—	—
CURRENT BALANCE⁽³⁾	-1,124	1,555	431	2,448	-13
CAPITAL RECEIPTS AND EXPENDITURE:					
Taxes on capital	871	5	876	—	—
Capital transfers from private sector ...	—	—	—	51	1
Gross domestic fixed capital formation ...	-1,326	-3,788	-5,114	-3,425	-1,144
Increase in value of stocks	-25	—	-25	-597	—
Capital grants to private sector	-1,058	-97	-1,155	—	—
Capital grants within public sector	-464	172	-292	211	81
FINANCIAL DEFICIT (balance of current and capital accounts) ...	-3,126	-2,153	-5,279	-1,312	-1,075
FINANCIAL TRANSACTIONS:					
Net lending to private sector	-115	-101	-216	—	-141
Net lending to overseas governments, etc.	-147	—	-147	—	—
Other net lending and transactions abroad	-509	—	-509	-64	-41
Cash expenditure on company securities	-25	—	-25	-99	-69
Receipts from certain pension schemes (net)	230	—	230	—	—
Adjustments for accruals of—					
Taxes on expenditure	-98	—	-98	—	—
Subsidies	-89	58	-31	19	12
Miscellaneous capital transactions (net) ⁽⁴⁾	-202	300	98	-160	87
Loans within public sector	-1,749	618	-1,131	314	817
Borrowing from private sector and overseas (public sector borrowing requirement)	5,830	1,278	7,108	1,302	410
TOTAL	3,126	2,153	5,279	1,312	1,075

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

(2) Local rates.

(3) Before allowing for depreciation and stock appreciation.

(4) Includes unidentified transactions.

BY ECONOMIC CATEGORY

£ million

Receipts positive/payments negative	1977-78 Forecast after Budget changes				
	General government			Nationalised industries ⁽¹⁾	Other public corporations ⁽¹⁾
	Central government	Local authorities	Total		
CURRENT ACCOUNT:					
Taxes on income	20,480	—	20,480	-4	-6
Taxes on expenditure	16,018	5,252 ⁽²⁾	21,270	—	—
National insurance, etc., contributions ...	9,415	—	9,415	—	—
Gross trading surplus ⁽³⁾	14	88	102	4,310	430
Gross rental income ⁽³⁾	163	2,844	3,007	45	178
Interest receipts—private sector and overseas	369	443	812	96	399
Interest payments—private sector and overseas	-4,338	-1,929	-6,267	-592	-304
Interest payments—within public sector	2,898	-1,124	1,774	-1,105	-669
Dividends	96	—	96	-22	-6
Current expenditure on goods and services	-17,658	-12,233	-29,891	—	—
Subsidies	-2,699	-464	-3,163	—	—
Current grants to personal sector	-14,916	-1,132	-16,048	—	—
Current grants to local authorities	-9,928	9,928	—	—	—
Current grants abroad	-1,237	—	-1,237	—	—
CURRENT BALANCE⁽³⁾	-1,323	1,673	350	2,728	22
CAPITAL RECEIPTS AND EXPENDITURE:					
Taxes on capital	895	20	915	—	—
Capital transfers from private sector ...	—	—	—	51	1
Gross domestic fixed capital formation ...	-1,360	-3,553	-4,913	-3,919	-1,178
Increase in value of stocks	-50	—	-50	-294	—
Capital grants to private sector	-1,156	-134	-1,290	—	—
Capital grants within public sector	-516	224	-292	197	95
FINANCIAL DEFICIT (balance of current and capital accounts) ...	-3,510	-1,770	-5,280	-1,237	-1,060
FINANCIAL TRANSACTIONS:					
Net lending to private sector	-179	32	-147	—	-223
Net lending to overseas governments, etc.	-279	—	-279	—	—
Other net lending and transactions abroad	-406	—	-406	-51	-66
Cash expenditure on company securities	576	—	576	-11	-94
Receipts from certain pension schemes (net)	168	—	168	—	—
Adjustments for accruals of—					
Taxes on expenditure	-439	—	-439	—	—
Subsidies	—	—	—	—	—
Miscellaneous capital transactions (net) ⁽⁴⁾	-20	148	128	-70	20
Loans within public sector	-2,770	700	-2,070	744	1,326
Borrowing from private sector and overseas (public sector borrowing requirement)	6,859	890	7,749	625	97
TOTAL	3,510	1,770	5,280	1,237	1,060

PART III

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 expenditures both in 1976-77 and in 1977-78 are at the estimated prices of each year. The forecasts for 1977-78 take account of the changes proposed in the Budget, and in particular assume that a satisfactory agreement on a new pay policy is reached such as to make possible the implementation of the full tax changes proposed. The estimates for 1977-78 "before Budget changes" remove from the forecast the direct effect of changes in taxation and expenditure as set out in Table 16. They do not remove indirect effects of changes in the level of economic activity resulting from the Budget measures.

TABLE 8. SUMMARY OF CENTRAL GOVERNMENT TRANSACTIONS

	£ million			
	1976-77		1977-78 Forecast	
	Budget forecast	Estimated outturn	Before Budget changes	After Budget changes
CONSOLIDATED FUND				
Revenue (Table 9)	33,197	33,797	38,791	37,742
Expenditure (Table 10)	39,915	39,402	43,480	43,489
Deficit	-6,718	-5,605	-4,689	-5,747
NATIONAL LOANS FUND				
Consolidated Fund deficit (as above)	-6,718	-5,605	-4,689	-5,747
Other transactions:				
Receipts (Table 11)	4,900	4,490	5,300	5,300
Payments (Table 11)	-8,932	-5,525	-7,188	-7,188
Total net borrowing by the National Loans Fund ...	-10,750	-6,640	-6,577	-7,635
Other funds and accounts (net) (Table 15)	+324	+810	+776	+776
CENTRAL GOVERNMENT BORROWING REQUIREMENT ...	-10,426	-5,830	-5,801	-6,859

TABLE 9. TAXATION AND MISCELLANEOUS RECEIPTS

£ million

	1976-77		1977-78 Forecast	
	Budget forecast	Estimated outturn	Before Budget changes	After Budget changes*
TAXATION				
<i>Inland Revenue—</i>				
Income tax	17,045	17,030	19,830	18,065
Surtax	30	63	30	30
Corporation tax	2,650	2,650	2,625	2,560
Petroleum revenue tax	—	—	5	5
Capital gains tax	400	320	330	330
Development land tax	—	1	5	5
Estate duty	70	124	70	70
Capital transfer tax	212	260	320	320
Stamp duties	293	272	320	320
<i>Total Inland Revenue</i>	<i>20,700</i>	<i>20,720</i>	<i>23,535</i>	<i>21,705</i>
<i>Customs and Excise—</i>				
Value added tax	3,650	3,750	4,225	4,250
Oil	2,025	2,060	2,125	2,550
Tobacco	1,790	1,885	2,025	2,150
Spirits, beer, wine, cider and perry	1,850	1,955	2,050	2,050
Betting and gaming	295	285	315	315
Car tax	190	225	250	250
Other revenue duties	10	15	10	10
Protective duties, etc.	555	670	690	690
Agricultural levies	60	55	135	135
<i>Total Customs and Excise†</i>	<i>10,425†</i>	<i>10,900</i>	<i>11,825</i>	<i>12,400</i>
Vehicle excise duties	835	850	857	1,068
National insurance surcharge	—	—	1,164	1,159
TOTAL TAXATION	31,960	32,470	37,381	36,332
MISCELLANEOUS RECEIPTS				
Broadcast receiving licences	237	247	250	250
Interest and dividends	140	190	225	225
Other	860	890	935	935
Total	33,197	33,797	38,791	37,742

* After all changes, including those which will be implemented when a satisfactory agreement on a new pay policy is reached.

† Includes customs duties and agricultural levies accountable to the European Communities as "own resources"; actual payments to the Communities are recorded in Table 10.

‡ Increased to £10,475 million when the surcharge on alcoholic drinks and tobacco was imposed on 1 January 1977.

TABLE 10. SUPPLY SERVICES AND CONSOLIDATED FUND

STANDING SERVICES

£ million

	1976-77		1977-78 Forecast	
	Budget forecast	Estimated outturn	Before Budget changes	After Budget changes
SUPPLY SERVICES				
I. Defence	5,604	6,153	6,298	6,298
II. Overseas Aid and other Overseas Services	815	860	962	962
III. Agriculture, Fisheries, Food and Forestry	856	846	502	502
IV. Trade, Industry and Employment	2,860	3,082	2,945	2,945
VI. Roads and Transport	1,247	1,302	1,235	1,235
VII. Housing	2,089	2,138	2,449	2,449
VIII. Other Environmental Services	337	243	217	217
IX. Law, Order and Protective Services	991	1,082	1,145	1,145
X. Education and Libraries, Science and Arts	1,406	1,515	1,575	1,575
XI. Health and Personal Social Services	4,907	5,407	5,578	5,578
XII. Social Security	4,001	4,227	5,025	5,025
XIII. Other Public Services	915	965	982	982
XIV. Common Services	890	958	988	988
XV. Northern Ireland	526	554	528	528
XVII. Rate Support Grant, Financial Transactions, etc.	7,124	7,738	7,511	7,511
<i>Total</i>	<i>34,568*</i>	<i>37,070</i>	<i>37,940†</i>	<i>37,940†</i>
Allowance for price changes (rounded)	2,300	—	2,200	2,200
Supplementary provision	60	—	—	9‡
TOTAL SUPPLY SERVICES at estimated outturn prices	36,928	37,070	40,140	40,149
CONSOLIDATED FUND STANDING SERVICES				
Payment to the National Loans Fund in respect of service of the national debt	1,770	1,157	1,740	1,740
Northern Ireland—share of taxes, etc.	631	638	688	688
Payments to the European Communities, etc.	568	549	895	895
Contingencies Fund	—	—28	—	—
Other services	18	16	17	17
TOTAL CONSOLIDATED FUND STANDING SERVICES	2,987	2,332	3,340	3,340
Total	39,915	39,402	43,480	43,489

* At 1976-77 Estimate prices.

† At 1977-78 Estimate prices.

‡ This is the estimated net increase in Supply Votes in 1977-78 to take account of the increase in the Bus Fuel Grants which are treated in Tables 6, 7, 14 and 15 as tax refunds.

TABLE 11. SUMMARY OF NATIONAL LOANS FUND RECEIPTS AND PAYMENTS

£ million

	1976-77		1977-78 Forecast	
	Budget forecast	Estimated outturn	Before Budget changes	After Budget changes
RECEIPTS				
Interest on loans, profits of the Issue Department of the Bank of England, etc.	3,130	3,333	3,560	3,560
Service of the National Debt—balance met from the Consolidated Fund	1,770	1,157	1,740	1,740
TOTAL RECEIPTS	4,900	4,490	5,300	5,300
PAYMENTS				
SERVICE OF THE NATIONAL DEBT				
Interest... ..	4,810	4,400	5,200	5,200
Management and expenses	90	90	100	100
TOTAL	4,900	4,490	5,300	5,300
LOANS (NET)*				
To nationalised industries	1,286	-254	84	84
To other public corporations	1,023	597	999	999
To local and harbour authorities	1,566	635	730	730
To private sector	6	4	-6	-6
Within central government	151	53	81	81
TOTAL	4,032	1,035	1,888	1,888
TOTAL PAYMENTS	8,932	5,525	7,188	7,188

* Details in Tables 12 and 13.

TABLE 12. LOANS FROM THE NATIONAL LOANS FUND

(Net issues)

£ million

	1976-77		1977-78 Forecast
	Budget Forecast	Estimated outturn	
LOANS TO NATIONALISED INDUSTRIES (see Table 13)	1,380	—186	260
Other National Oil Account transactions	—94	—68	—176
TOTAL	1,286	—254	84
LOANS TO OTHER PUBLIC CORPORATIONS:			
New Towns—Development Corporations and Commission	366	379	403
Scottish Special Housing Association	42	32	43
Housing Corporation	96	49	39
Covent Garden Market Authority	5	4	6
Civil Aviation Authority	8	3	10
Regional Water Authorities*	587	447	455
National Enterprise Board	113	98	182
Scottish Development Agency	5	1	6
Welsh Development Agency	1	—	2
Land Authority for Wales	—	3	3
Less shortfall and borrowing from other sources	—200	—419	—150
TOTAL	1,023	597	999
LOANS TO LOCAL AND HARBOUR AUTHORITIES:			
Local Authorities	1,540	620	700
Harbour Authorities	26	15	30
TOTAL	1,566	635	730
LOANS TO PRIVATE SECTOR			
Shipbuilding Industry Board	—1	—1	—1
Building Societies	—3	—3	—3
British Nuclear Fuels Ltd.	10	8	—2
TOTAL	6	4	—6
LOANS WITHIN CENTRAL GOVERNMENT:			
Northern Ireland	148	50	86
Royal Mint	—	—	—1
Royal Ordnance Factories	—4	—4	—4
Property Services Agency Supplies	7	22	—
Purchase of United States military aircraft	—8	—9	—
Married quarters for armed forces	—	—1	—
Town and Country Planning compensation	—	—1	—
Redundancy Fund	8	—4	—
TOTAL	151	53	81
Total—Net Lending	4,032	1,035	1,888

* Includes borrowing from other sources.

TABLE 13. FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

1976-77 Estimated Outturn

£ million

Nationalised industries	Capital requirements ⁽¹⁾			Financed by ⁽¹⁾							
	Fixed assets in the U.K.	Other	Total	Total internal resources ⁽²⁾	Government grants ⁽³⁾	Issues of public dividend capital (PDC)	Net borrowing from the NLF	Other net borrowing		Leasing	Total grants, PDC, borrowing and leasing
								Foreign	U.K.		
National Coal Board	315	72	387	49	56	—	21	184	50	27	338
Electricity (England and Wales) ...	697	92	789	661	24	—	—320	530	—110	4	128
North of Scotland Hydro-Electric Board ...	82	25	107	14	57	—	—15	50	1	—	93
South of Scotland Electricity Board ...	56	13	69	66	—	—	—30	45	—13	1	3
British Gas Corporation	267	133	400	546	5	—	—136	20	—47	12	—146
British National Oil Corporation ...	127	88	215	5	—	—	210 ⁽⁴⁾	—	—	—	210
British Steel Corporation	592	420	1,012	62	—	490	160	215	63	22	950
Post Office	974	251	1,225	1,007	—6	—	—38	245	—	17	218
British Airways Board	161	18	179	158	—	10	—25	22	—2	16	21
British Airports Authority	41	—1	40	35	9	—	—1	—	—3	—	5
British Railways Board	264	—136	128	—422	496 ⁽⁵⁾	—	—9	44	15	4	550 ⁽⁵⁾
British Transport Docks Board	9	5	14	26	1	—	—6	—	—7	—	—12
British Waterways Board	2	—1	1	—12	12	—	1	—	—	—	13
National Freight Corporation	26	21	47	2	30	—	—	—	3	12	45
National Bus Company	40	7	47	9	34 ⁽⁵⁾	—	4	—	—6	6	38 ⁽⁵⁾
Scottish Transport Group	10	—1	9	—	11 ⁽⁵⁾	—	—2	—	—	—	9 ⁽⁵⁾
TOTAL	3,663	1,006	4,669	2,206	729	500	—186	1,355	—56	121	2,463

⁽¹⁾ The capital value of leased assets is included; a convention of nil dividends on PDC is adopted.⁽²⁾ Comprising balance of revenue, depreciation and provisions, sales of fixed assets, other capital receipts (including Regional Development Grants).⁽³⁾ Shows subsidies (including residual payments of price restraint compensation) and capital grants received in the year.⁽⁴⁾ Includes finance from royalty and licence fee revenues in the National Oil Account.⁽⁵⁾ Now includes local government grants (BRB £31m, NBC £20m, STG £5m), previously included in internal resources.

TABLE 13—continued. FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES

1977-78 Forecast

£ million

Nationalised industries ⁽⁴⁾	Capital requirements ⁽¹⁾			Financed by ⁽¹⁾			
	Fixed assets in the U.K.	Other	Total	Total internal resources ⁽²⁾	Government grants ⁽³⁾	Net borrowing, issues of PDC and leasing	Total grants, PDC, borrowing and leasing ⁽⁷⁾
National Coal Board	406	33	439	63	47	329	376
Electricity (England and Wales) ...	760	90	850	700	10	140	150
North of Scotland Hydro-Electric Board...	82	14	96	16	10	70	80
South of Scotland Electricity Board ...	57	17	74	74	—	—	—
British Gas Corporation	282	92	374	642	—	-268	-268
British National Oil Corporation ...	244	64	308	29	—	279 ⁽⁴⁾	279
British Steel Corporation	670	230	900	-50	—	950	950
Post Office	1,081	27	1,108	1,138	—	-30	-30
British Airways Board	226	11	237	166	—	71	71
British Airports Authority	43	-1	42	38	5	-1	4
British Railways Board	312	-111	201	-484	542 ⁽⁵⁾	143	685 ⁽⁵⁾
British Transport Docks Board	13	4	17	25	1	-9	-8
British Waterways Board	3	—	3	-14	15	2	17
National Freight Corporation	31	5	36	1	25	10	35
National Bus Company	46	4	50	-1	36 ⁽⁵⁾	15	51 ⁽⁵⁾
Scottish Transport Group	12	2	14	2	11 ⁽⁵⁾	1	12 ⁽⁵⁾
Deduction for shortfall	-200	—	-200	—	—	-200	-200
TOTAL	4,068	481	4,549	2,345	702	1,502 ⁽⁶⁾	2,204

⁽¹⁾ The capital value of leased assets is included; a convention of nil dividends on PDC is adopted.⁽²⁾ Comprising balance of revenue, depreciation and provisions, sales of fixed assets, other capital receipts (including Regional Development Grants).⁽³⁾ Shows subsidies and capital grants to be received in the year.⁽⁴⁾ Includes finance from royalty and licence fee revenues in the National Oil Account.⁽⁵⁾ Includes local government grants.

⁽⁶⁾ Of which: Government loans 260
 Foreign borrowing 500
 Other domestic borrowing 126
 PDC issues 490
 Leasing 126

⁽⁷⁾ Except in the case of BNOC, the figure shown against each industry is its cash limit for the year.⁽⁸⁾ No provision is included for British Aerospace and British Shipbuilders: it is too early to assess the amount and phasing of the financing requirements and capital expenditure of the two Corporations.

TABLE 14. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

£ million

	1976-77		1977-78 Forecast			1976-77		1977-78 Forecast	
	Budget forecast ⁽¹⁾	Estimated outturn	Before Budget changes	After Budget changes		Budget forecast ⁽¹⁾	Estimated outturn	Before Budget changes	After Budget changes
CURRENT RECEIPTS					CURRENT EXPENDITURE				
Taxes on income	19,543	19,556	22,310	20,480	Current expenditure on goods and services	16,124	15,912	17,658	17,658
National insurance contributions	7,887	8,084	8,640	8,640	Subsidies	2,910	2,991	2,699	2,699
National health contributions	576	606	655	655	Debt interest	4,061	3,644	4,338	4,338
Redundancy fund contributions	111	120	120	120	Current grants to—				
Taxes on expenditure	11,955	12,507	15,246	16,018	Local authorities	9,316	9,282	9,928	9,928
Gross trading surplus ⁽²⁾	18	40	14	14	Personal sector	12,670	12,457	14,916	14,916
Rent ⁽²⁾	134	155	163	163	Abroad	736	821	1,237	1,237
Interest, dividends from—					Total current expenditure	45,817	45,107	50,776	50,776
Local authorities	1,070	1,116	1,244	1,244	Current deficit ⁽³⁾	-2,723	-1,124	-265	-1,323
Public corporations	1,419	1,473	1,689	1,689					
Other	381	326	430	430	TOTAL	43,094	43,983	50,511	49,453
TOTAL	43,094	43,983	50,511	49,453					
CAPITAL RECEIPTS					CAPITAL EXPENDITURE				
Current deficit ⁽³⁾	-2,723	-1,124	-265	-1,323	Gross domestic fixed capital formation	1,478	1,326	1,360	1,360
Taxes on capital	837	871	895	895	Increase in value of stocks	54	25	50	50
TOTAL	-1,886	-253	630	-428	Capital grants to—				
Financial deficit	5,093	3,126	2,452	3,510	Local authorities	268	222	286	286
TOTAL	3,207	2,873	3,082	3,082	Public corporations	225	242	230	230
					Private sector	1,182	1,058	1,156	1,156
					TOTAL	3,207	2,873	3,082	3,082
FINANCIAL TRANSACTIONS: RECEIPTS					FINANCIAL TRANSACTIONS: EXPENDITURE				
Receipts from certain pension schemes (net)	204	230	168	168	Financial deficit	5,093	3,126	2,452	3,510
Adjustments for accruals of taxes on expenditure	-26	-98	-439	-439	Net lending to—				
Adjustments for accruals of subsidies	-87	-89	—	—	Local authorities	1,567	618	700	700
Miscellaneous capital transactions (net)	96	-202	-20	-20	Public corporations	3,171	1,131	2,070	2,070
Borrowing requirement	10,426	5,830	5,801	6,859	Private sector	195	115	179	179
TOTAL	10,613	5,671	5,510	6,568	Net lending to overseas governments	30	16	86	86
					Drawings from United Kingdom subscriptions to international lending bodies	146	131	193	193
					Other net lending and transactions abroad	406	509	406	406
					Cash expenditure on company securities (net)	5	25	-576	-576
					TOTAL	10,613	5,671	5,510	6,568

(1) Differences in figures given in Table 14 of the Financial Statement and Budget Report 1976-77 (H.C. 306) reflect changes in classification.

(2) Before allowing for depreciation and stock appreciation.

TABLE 15. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

Analysis and reconciliation by fund—1976-77 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 7)							
Taxes on income	19,580	-24	—	—	—	—	19,556
National insurance contributions, etc.	—	595	—	—	—	8,215	8,810
Taxes on expenditure	12,131	-16	—	—	—	392	12,507
Other current receipts	159	101	—	7	—	254	521
Taxes on capital and other capital transactions (net)	924	229	—	—	—	-441	712
Borrowing requirement ⁽²⁾	—	4	—	6,640	—	-814	5,830
TOTAL	32,794	889	—	6,647	—	7,606	47,936
(ii) Interest and dividends received from local authorities and public corporations	25	—	—	2,413	—	151	2,589
TOTAL RECEIPTS	32,819	889	—	9,060	—	7,757	50,525⁽³⁾
B. EXPENDITURE							
(i) Items entering into public sector expenditure (see Table 7)							
Current expenditure on goods and services	103	-15,000	-12	—	-25	-978	-15,912
Debt interest	—	-28	—	—	-3,380	-236	-3,644
Current grants to personal sector	15	-4,001	-1	—	—	-8,470	-12,457
Other current expenditure	76	-3,253	-544	—	—	-91	-3,812
Gross domestic fixed capital formation	1	-1,234	—	—	—	-93	-1,326
Other capital expenditure	109	-1,859	-8	—	-4	-117	-1,879
TOTAL	304	-25,375	-565	—	-3,409	-9,985	-39,030
(ii) Grants and net lending to local authorities and public corporations	4	-9,985	—	—	-978	-536	-11,495
TOTAL EXPENDITURE	308	-35,360	-565⁽⁴⁾	—	-4,387	-10,521	-50,525⁽⁵⁾
C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT							
Grant to National Insurance Fund	—	-1,387	—	—	—	1,387	—
Northern Ireland central government: transfers and loans	—	-414	-638	—	-50	1,102	—
Purchase of United States military aircraft	—	-9	—	—	9	—	—
Other loans and advances	—	-30	28	—	-12	14	—
Debt interest (including profits of Issue Department)	17	-5	-1,157	2,070	-1,085	160	—
B.B.C. licence revenue	247	-247	—	—	—	—	—
Surplus receipts for surrender, etc.	406	-507	—	—	—	101	—
Deficit on Consolidated Fund	—	—	5,605 ⁽⁶⁾	-5,605	—	—	—
TOTAL INTERNAL TRANSACTIONS	670	-2,599	3,838	-3,535	-1,138	2,764	—
Grand Total (A, B and C)	33,797⁽⁴⁾	-37,070⁽⁵⁾	3,273	5,525⁽⁷⁾	-5,525⁽⁷⁾	—	—

(1) Includes National Insurance Fund and the Northern Ireland central government: also includes receipts of and expenditure on imputed rent 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 14.

(4) As included in Table 9.

(5) As included in Table 10.

(6) As included in Table 8.

(7) As included in Table 11.

TABLE 15—continued. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY

Analysis and reconciliation by fund—1977-78 forecast after Budget changes

£ 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 7)							
Taxes on income	20,490	-10	—	—	—	—	20,480
National insurance contributions, etc.	—	649	—	—	—	8,766	9,415
Taxes on expenditure	15,047	-28	—	—	—	999	16,018
Other current receipts	163	71	—	7	—	366	607
Taxes on capital and other capital transactions (net)	964	152	—	—	—	-512	604
Borrowing requirement (net balance) ⁽²⁾	—	—	—	7,635	—	-776 ⁽³⁾	6,859
TOTAL	36,664	834	—	7,642	—	8,843	53,983
(ii) Interest and dividends received from local authorities and public corporations	54	—	—	2,723	—	156	2,933
TOTAL RECEIPTS	36,718	834	—	10,365	—	8,999	56,916⁽⁴⁾
B. EXPENDITURE							
(i) Items entering into public sector expenditure (see Table 7)							
Current expenditure on goods and services	138	-15,767	-13	—	-30	-1,986	-17,658
Debt interest	—	-30	—	—	-4,010	-298	-4,338
Current grants to personal sector	18	-4,775	-1	—	—	-10,158	-14,916
Other current expenditure	80	-2,860	-890	—	—	-266	-3,936
Gross domestic fixed capital formation	—	-1,210	—	—	—	-150	-1,360
Other capital expenditure	83	-1,785	-8	—	6	210 ⁽⁵⁾	-1,494
TOTAL	319	-26,427	-912	—	-4,034	-12,648	-43,702
(ii) Grants and net lending to local authorities and public corporations	6	-10,037	—	—	-1,813	-1,370	-13,214
TOTAL EXPENDITURE	325	-36,464	-912⁽⁶⁾	—	-5,847	-14,018	-56,916⁽⁴⁾
C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT							
Grant to National Insurance Fund	—	-1,507	—	—	—	1,507	—
Northern Ireland central government; transfers and loans	—	-348	-688	—	-86	1,122	—
Purchase of United States military aircraft	—	—	—	—	—	—	—
Other loans and advances	—	—	—	—	5	-5	—
Debt interest (including profits of Issue Department)	12	-5	-1,740	2,570	-1,260	423	—
B.B.C. licence revenue	250	-250	—	—	—	—	—
Surplus receipts for surrender, etc.	437	-209	—	—	—	-228	—
Deficit on Consolidated Fund	—	—	5,747 ⁽⁷⁾	-5,747	—	—	—
Allowance for price changes (rounded)	—	-2,200	—	—	—	2,200	—
TOTAL INTERNAL TRANSACTIONS	699	-4,519	3,319	-3,177	-1,341	5,019	—
Grand Total (A, B and C)	37,742⁽⁸⁾	-40,149⁽⁶⁾	2,407	7,188⁽⁹⁾	-7,188⁽⁹⁾	—	—

(1) Includes National Insurance Fund and the Northern Ireland central government; also includes receipts of and expenditure on imputed rent and sundry adjustments (timing, prices and shortfall).

(2) The borrowing requirement of the central government comprises the borrowing of the National Loans Fund, less any surplus (or plus any deficit) on the National Insurance Fund and changes in departmental balances invested in government debt, etc.

(3) Including all proceeds of sale of British Petroleum Limited stock. This may involve some Consolidated Fund and National Loans Fund transactions, but these will not affect the central government balance.

(4) As included within Table 14.

(5) As included in Table 9.

(6) As included in Table 10.

(7) As included in Table 8.

(8) As included in Table 11.

ANNEX

PROPOSED CHANGES IN TAXATION

INLAND REVENUE

Income tax

As part of the scheme to phase out child tax allowances and replace them by child benefit, it is proposed to reduce the child allowances by £104 for first or only children, and by £130 for subsequent children, from the 1976-77 levels of £300 for each child not over 11, £335 for each child over 11 but not over 16, and £365 for each child over 16. The resulting allowances will be £196, £205 and £235 respectively for first children, and £170, £205 and £235 respectively for subsequent children. Transitional measures are proposed for certain students and children living abroad. Child benefit will be exempt from tax and clawback.

It is proposed to increase the single person's allowance and the maximum wife's earned income relief from £735 to £805 and the married allowance from £1,085 to £1,225.

It is proposed to increase the additional personal allowance from £350 to £420.

It is proposed to increase the age allowance for the single person from £1,010 to £1,080 and for the married from £1,555 to £1,695.

It is proposed to extend the basic rate band by £1,000 to £6,000.

It is proposed to widen the first higher rate band by £500 so that the thresholds for higher rate bands from the 45 per cent to the 60 per cent bands are increased by £1,500. It is proposed that the width of the 60 per cent to 70 per cent bands should be £2,000 and that for the 75 per cent band £5,000.

As a consequence of these changes, the structure of personal tax rates in operation in 1977-78 will be:

BANDS OF TAXABLE INCOME			
£	Per cent	£	Per cent
0-6,000	Basic rate	10,000-12,000	60
6,000-7,000	40	12,000-14,000	65
7,000-8,000	45	14,000-16,000	70
8,000-9,000	50	16,000-21,000	75
9,000-10,000	55	Over 21,000	83

*It is proposed to reduce the basic rate of income tax by 2p to 33p.

It is proposed to raise the threshold for the investment income surcharge for 1977-78 from £1,000 to £1,500, but to reduce the 10 per cent band to £500, so that the 15 per cent rate is reached at £2,000. For persons over 65, however, the threshold will be raised from £1,500 to £2,000.

* These proposals will be implemented when a satisfactory agreement on a new pay policy is reached.

£2,000, again with a reduced rate band of £500. As a consequence the structure of the investment income surcharge for 1977-78 will be:

BANDS OF INVESTMENT INCOME			
Under 65	Per cent	65 and over	Per cent
£		£	
1,500-2,000	10	2,000-2,500	10
Over 2,000	15	Over 2,500	15

It is proposed to increase the limits for relief for retirement annuity premiums from £2,250 to £3,000 (with proportionate increases for individuals born before 1916). For contracts for dependants or life insurance the limit is increased from £750 to £1,000.

It is proposed to increase the exemption limit for savings bank interest from £40 to £50 with effect from 1977-78.

It is proposed to amend the law relating to the taxation of the earnings of employees living in this country and working abroad. It will no longer be necessary for an employee to have a separate employment for his overseas duties to become entitled to a deduction from his earnings for those duties. Instead any employee who works abroad for a total of 30 days or more will be eligible for a deduction. There will also be changes in the rules relating to the deductibility of expenses incurred by those working abroad.

It is proposed to make provision against the avoidance of tax by the sale of annuities for a consideration the whole or part of which is not taxable. This will apply to annuity payments made after Budget day.

Income tax and corporation tax
It is proposed to introduce provision for financial concerns to compute their trading profits without regard to exchanges of shares or securities made in the course of conversions, take-overs and similar transactions.

Corporation tax

*It is proposed that advance corporation tax for 1977-78 shall be payable at the rate of 33/6ths of the amount of the distribution.

It is proposed for the financial year 1976 to increase the lower and upper profit limits for the small companies rate of corporation tax from £30,000 and £50,000 to £40,000 and £65,000 respectively.

INLAND REVENUE—continued

It is proposed to defer a charge on capital gains arising where a company transfers an overseas branch to a non-resident company in exchange for shares until there is a disposal of those shares. Corresponding provisions are proposed for profits arising on a transfer of an overseas insurance business.

Corporation tax and capital gains tax

It is proposed to extend the capital gains rollover relief for share exchanges to cases where more than 25% of the shares is acquired and to counter avoidance by confining relief to bona fide commercial mergers, etc.

Capital gains tax

It is proposed to counter schemes for manufacturing artificial capital losses by shifting value from assets.

CUSTOMS AND EXCISE

Surcharges and rebates in respect of revenue duties (Section 9 of the Finance Act 1961)

It is proposed to withdraw with effect from 30 March 1977 the surcharge of 10 per cent on the customs and excise duties on tobacco and on the excise duties on spirits, beer, wine, made-wine, cider and perry, which was imposed by the Surcharge on Revenue Duties Order 1976, made on 15 December 1976.

It is also proposed to extend for a further year the existing powers under Section 9 of the Finance Act 1961 which enable the Treasury by Order to impose a surcharge or allow a rebate in respect of the main revenue duties of customs and excise.

Tobacco

It is proposed to increase from 30 March 1977, the substantive rates of customs and excise revenue duty and drawback by £0.585 per lb., so as broadly to maintain the existing surcharge-inclusive yield.

It is proposed that from 4 April 1977, the Tobacco Products Duty (Increase) Order 1976, made on 15 December 1976, shall cease to have effect, and the rates of the excise duty on tobacco products shall be as follows:

- (a) cigarettes ... an amount equal to 22 per cent of the retail price, plus £1.41 per 1,000 cigarettes
- (b) cigars... £3.0415 per lb.
- (c) handrolling tobacco £3.8250 per lb.
- (d) other smoking and chewing tobacco ... £1.7050 per lb.;

such rates incorporating increases, compared with the rates in force before 4 April 1977, of £1.41 per 1,000 cigarettes, and £1.1850 per lb. of handrolling tobacco.

It is also proposed that the period in which Orders may be made under Section 1 (4) of the Finance Act 1973 shall be extended to the end of 1977.

To complete the restructuring of the tobacco duties introduced in the Finance Act, 1976, it is proposed with effect from 1 January 1978, to abolish the customs and excise revenue duties on unmanufactured tobacco and to substitute revised rates of excise duty chargeable on tobacco products as follows:

- (a) cigarettes ... an amount equal to 30 per cent of the retail price, plus £9.00 per 1,000 cigarettes
- (b) cigars... £9.50 per lb.
- (c) handrolling tobacco £9.20 per lb.
- (d) other smoking and chewing tobacco ... £7.30 per lb.

Snuff will remain not liable to tobacco products duty.

Spirits, beer, wine, made-wine, cider and perry

It is proposed to increase from 30 March 1977 the substantive rates of duty on these commodities to approximately the surcharge-inclusive level, so as broadly to maintain the existing revenue yield. Accordingly the substantive rates are increased as follows:

- (a) the rates of duty on spirits, by £2.46 per proof gallon;
- (b) the rates of duty on beer, by £1.584 per 36 gallons and the charge for each additional degree of original gravity above 1,030° by £0.0528 per 36 gallons;

CUSTOMS AND EXCISE—continued

- (c) the rates of duty on wine, by the following amounts per gallon:

Wine of an alcoholic strength:

not exceeding 15 per cent ...	£0.295
exceeding 15 per cent but not exceeding 18 per cent ...	£0.340
exceeding 18 per cent but not exceeding 22 per cent ...	£0.400
exceeding 22 per cent ...	£0.400
plus £0.040 for every 1 per cent or part of 1 per cent in excess of 22 per cent;	
surcharge on sparkling wine ...	£0.065

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

Made-wine of an alcoholic strength:

not exceeding 10 per cent ...	£0.190
exceeding 10 per cent but not exceeding 15 per cent ...	£0.285
exceeding 15 per cent but not exceeding 18 per cent ...	£0.315
exceeding 18 per cent ...	£0.315
plus £0.040 for every 1 per cent or part of 1 per cent in excess of 18 per cent;	
surcharge on sparkling made-wine ...	£0.030

- (e) the rate of duty on cider and perry, by £0.022 per gallon.

Hydrocarbon oils

It is proposed, with effect from 6 p.m. on 29 March 1977, to increase:

- (a) the rate of duty on light hydrocarbon oils, heavy hydrocarbon oils used as road fuel, petrol substitutes and power methylated spirits, by 5p per gallon;
- (b) the rate of duty borne by other oils (except kerosene used other than as aviation fuel), after allowance of the rebate prescribed by Sections 9 and 12 of the Hydrocarbon Oil (Customs and Excise) Act 1971, by 1½p per gallon;
- (c) the rate of duty on gas for use as road fuel, by 2½p per gallon.

Units of measurement in customs and excise Acts

It is proposed that the Treasury shall be empowered to amend the customs and excise Acts by Order, so as to replace:

- (a) any unit of measurement by a metric unit, and
- (b) the proof system of ascertaining the alcoholic strength of spirits and other liquids by a system of measurement by reference to percentages of alcohol by volume,

but any such amendment shall not have the effect of altering significantly the incidence of any duty.

Value added tax

It is proposed to make amendments to the law relating to value added tax, in particular to enable the United Kingdom to comply with obligations resulting from Directives of the European Economic Community concerning this tax.

VEHICLE EXCISE DUTY

It is proposed to increase, from 30 March 1977, 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 duty for cars will increase by 25 per cent, i.e. to £50 for most cars.

The duty for goods and haulage vehicles will increase by approximately 25 per cent for vehicles up to a limit

of 4 tons unladen weight, approximately 30 per cent for vehicles between 4 tons and 6 tons and approximately 35 per cent for vehicles over 6 tons. These percentages are broadly descriptive of the increases in their respective weight bands; within the bands there will be some variations.

The duty for other vehicles will, in general, increase by 25 per cent.

NATIONAL INSURANCE SURCHARGE

By virtue of the provisions of the National Insurance Surcharge Act 1976, a surcharge of 2 percentage points will be levied along with the contributions paid in respect of employees by secondary Class I contributors. The tax base will be the same as for National Insurance contributions, i.e. earnings up to £105 per week, save

that earnings of less than £15 per week are excepted. The surcharge will take effect from 6 April 1977. It will not apply to the self-employed.

It is proposed that charities shall not be required to pay the surcharge.

TABLE 16. FORECAST EFFECTS OF CHANGES IN TAXATION

The effects shown are direct effects: *i.e.* the difference between the yields of pre-Budget and post-Budget tax rates at the same levels of income and activity. The expenditure tax figures do, however, allow for the effects of relative price changes on the composition of consumers' expenditure.

	£ million	
	Forecast for 1977-78	Forecast for a full year
INLAND REVENUE		
<i>Income tax</i>		
Increase in single allowance by £70 and in married allowance by £140 ...	-720	-901
Increase in additional personal allowance by £70 ...	-7	-9
Increase in age allowance by £70 (single) and £140 (married) ...	-49	-60
Extension of basic rate band to £6,000 ...	-71	-90
Changes in higher rate bands ...	-93	-185
*Reduction of 2p in basic rate ...	-797	-960
Increase in investment income surcharge thresholds ...	-5	-45
Increase in retirement annuity relief ceiling ...	-5	-12
Increase in exemption limit for savings bank interest ...	Negligible	-1
Change in treatment of foreign earnings ...	-20	-30
Change in treatment of annuities ...	+2	..
<i>Corporation tax</i>		
*Decrease in rate of ACT to 33/67ths of the amount of the dividend ...	-54	- (1)
Increase in limit for small company relief ...	-11	-20
TOTAL INLAND REVENUE ...	-1,830	-2,313
CUSTOMS AND EXCISE		
<i>Value added tax</i>		
Alterations in revenue duty rates ...	+25	+35
Amendments to value added tax legislation ...	Negligible	Negligible
<i>Revenue duties</i>		
Consolidation of surcharge on alcoholic drink and tobacco duties ...	Negligible	Negligible
Increase in rate of road fuel duty ...	+275	+275
Increase in effective rate of duty on rebatable oil ...	+150	+150
Increase in tobacco products duty ...	+125	+140
TOTAL CUSTOMS AND EXCISE ...	+575	+600
VEHICLE EXCISE DUTY		
Increases in rates ...	+211	+211
NATIONAL INSURANCE SURCHARGE		
Charities ...	-5	-5
Total ...	-1,049†	-1,507

(1) Increases subsequent liabilities to mainstream corporation tax.

* These proposals will be implemented when a satisfactory agreement on a new pay policy is reached.

† In addition, Bus Fuel Grants will be increased by £9 million—see footnote ‡ on page 23.

TABLE 17. RATES OF VEHICLE EXCISE DUTY

Motor cars, motor cycles, taxis, buses and certain types of agricultural machines pay duty at the same rate in both Great Britain and Northern Ireland. For other classes of vehicles, *e.g.* farmers' goods and general goods

the rates for Great Britain and Northern Ireland differ in some cases.

The following tables contain specimen rates of duty proposed for the main classes of vehicle.

GREAT BRITAIN AND NORTHERN IRELAND

Description of vehicle	Not exceeding	ANNUAL RATES	
		Present	Proposed
		£	£
MOTOR CARS— Three-wheeled ...	8½ cwt.	16.00	20.00
		40.00	50.00
MOTOR CYCLES ...	150 c.c. 250 c.c.	4.00	5.00
		8.00	10.00
Others ...	—	16.00	20.00
HACKNEY CARRIAGES For each additional seat ...	20 seats —	20.00	25.00
		50p	50p
AGRICULTURAL MACHINES ...	—	6.65	8.50

GREAT BRITAIN

Description of vehicle	Not exceeding	ANNUAL RATES	
		Present	Proposed
		£	£
FARMERS' GOODS ...	12 cwt.	23.35	30.00
	1 ton	28.00	35.00
	5 tons	71.10	91.00
	10 tons	101.40	135.00
GENERAL GOODS ...	1 ton	48.65	56.00
	2 tons	83.95	112.00
	3 tons	123.95	168.00
	4 tons	179.95	224.00
	5 tons	251.95	324.00
	6 tons	323.95	424.00
	7 tons	395.95	524.00
	8 tons	467.95	624.00
	9 tons	539.95	724.00
	10 tons	611.95	824.00

In both Great Britain and Northern Ireland an additional rate of duty is payable on goods vehicles used for drawing trailers. The proposed rates will range from £30.00 to £112.00.