

# Public expenditure: definitions and trends

Valerie Imber and Philippa Todd, HM Treasury\*

## DEFINITIONS

There is no unique definition of public expenditure. In recent years the term has been applied to the aggregate of expenditure by central and local government and other public bodies covered by the public expenditure White Papers. These White Papers, beginning with *Cmnd 4234* published in December 1969, describe the government's plans for expenditure in the coming three or four financial years. The presentation of these plans is closely related to the way in which control is exercised over the expenditure incurred in the implementation of government policy. This inevitably means that the presentation has changed as policy has developed and at times there have been significant changes in the definition and coverage of expenditure.

Each public expenditure White Paper has included a section giving explanatory and technical notes (eg, *Cmnd 8789*, Volume Two, part 5, p. 124-131.) Inter alia this section of the public expenditure White Paper explains that the definitions are generally based on the concepts of the national income accounts, which are used to describe the economy as a whole. In this way, the role of the public sector in the national economy can be examined and public expenditure planning integrated into the whole budgetary process and the Treasury's economic forecast. Although the national accounts provide the basic conceptual framework for the measurement of public expenditure for control purposes, the definition has been modified over time to reflect changing methods of control. The main differences between the latest definition used for public expenditure and general government expenditure in the national accounts are listed in each White Paper (eg, *Cmnd 8789*, Volume Two, p. 128). *Financial Statistics*, Table 2.4 shows the transition between the two definitions on a quarterly basis.

The definition of public expenditure can change in one of two ways: transactions can be reclassified within a total, or the coverage can be extended or reduced. The changes between a public expenditure White Paper and the previous one are set out in the explanatory and technical notes included in each White Paper (eg, *Cmnd 8789*, Volume Two, p. 129). In White Papers published before January 1977 (*Cmnd 6721*), public expenditure was virtually co-terminous with the expenditure of the public sector in the national accounts, viz:

- capital and current expenditure by central and local government
- plus
- capital expenditure by the public corporations
- plus
- debt interest paid by government and the public corporations.

Capital expenditure was defined to include net lending. To avoid double counting, central government grants and loans to local authorities and the public corporations were excluded. In January 1977 the coverage of public expenditure for control purposes was changed substantially to:

- exclude the capital expenditure of the nationalised industries

and

include central and local government grants and loans to them.

Additionally,

debt interest was measured on a net basis.<sup>1</sup>

A full account of these changes can be found in 'Evidence to the Expenditure Committee' in the *Thirteenth Report from the Expenditure Committee Session 1975-76 (HC718)*. In 1978, a further change was introduced when the market and overseas borrowing (including certain leasing transactions) of the nationalised industries was included as a memorandum item. Such items are presented in the public expenditure White Papers but are not included in any totals given. Over the next few years the majority of the public corporations were given the same treatment as the nationalised industries. In January 1979 a new aggregate – the planning total – was introduced into the public expenditure White Paper. This total included the market and overseas borrowing of public corporations but excluded net debt interest. By March 1981, the planning total had become the only aggregate in the public expenditure White Paper. Annex 1 summarises the major changes made since the White Paper published in January 1977 (*Cmnd 6721*). The diagram below summarises the main changes in the coverage of public expenditure totals.

## TRENDS

### Total public expenditure 1963-64 to 1983-84

Although each public expenditure White Paper includes only five years of historical data, series for total public expenditure can be constructed back to 1963-64 using national accounts sources. Table 1a shows the cash figures for public expenditure measured on two definitions; that used prior to January 1977 (*Cmnd 6721*) and that in the latest White Paper (*Cmnd 8789*). The latter is shown both inclusive and exclusive of the market and overseas borrowing of the public corporations (including nationalised industries) for which figures are only available from 1973-74. Table 1b shows the figures for general (central and local) government expenditure recorded in the national accounts. The differences between general government expenditure and the public expenditure planning total are set out in the explanatory and technical notes to the public expenditure White Paper. The major differences are that the planning total includes:

- (i) the capital expenditure of certain public corporations<sup>2</sup> and passenger transport executives;
- (ii) the market and overseas borrowing of all other public corporations;

it excludes:

- (iii) VAT paid by local authorities but refunded to them;
- (iv) an imputed charge for the capital consumption of non-trading general government;
- (v) debt interest paid by general government.
- (vi) government capital grants and loans to certain public corporations and passenger transport executives.

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<sup>1</sup> See *Cmnd 8789* Volume Two part 5 paragraph 20.

<sup>2</sup> Certain public corporations are those public corporations detailed in list III *Cmnd 8789* Volume Two part 5 p126.

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## History of composition of public expenditure totals

Cmnd No	Date	General government expenditure <sup>1</sup>	Capital expenditure by certain public corporations <sup>2</sup>	Capital expenditure of nationalised industries and other public corporations <sup>3</sup>	Debt interest		General government finance to nationalised industries and other public corporations	PCMOB <sup>4</sup>		Special sales of assets	General allowance for short-fall <sup>6,7</sup>	Nomenclature for totals
					Gross	Net		Market borrowing	Capital value of leased assets and short-term borrowing			
6393	February 1976	●	●	●	●							Total programmes Total
6721	January 1977	●	●			●	●					Total expenditure on programmes Total public expenditure
7049	January 1978	●	●			●	●	●				Total expenditure on programmes Total public expenditure Total programmes, contingency reserve and net overseas and market borrowing of nationalised industries
7439	January 1979	●	●			●	●	●			●	Total expenditure on programmes Total public expenditure Planning Total Projected outturn
7841	March 1980	●	●			●	●	●	●	●	●	Total public expenditure Planning Total Planning Total after shortfall
8175	March 1981	●	●				●	●	●	●	●	Planning Total
8494 <sup>7</sup>	March 1982	●	●				●	●	●	●	●	Planning Total
8789	February 1983	●	●				●	●	●	●	●	Planning Total

<sup>1</sup> Excluding general government finance to nationalised industries and other public corporations.

<sup>2</sup> Currently, certain public corporations are those public corporations detailed in list III of Cmnd 8789, Volume Two, part 5, p 126.

<sup>3</sup> Currently, other public corporations are those public corporations detailed in lists I and II of Cmnd 8789, Volume Two, part 5, p 126.

<sup>4</sup> The market and overseas borrowing of nationalised industries and some other public corporations.

<sup>5</sup> The contingency reserve and allowance for shortfall are planning concepts which are absorbed in the measurement of outturn after the year is finished.

<sup>6</sup> The general allowance for shortfall was introduced in Cmnd 7439. Prior to that estimates of shortfall for specific purposes were occasionally included.

<sup>7</sup> This public expenditure White Paper introduced cash planning. Previous public expenditure White Papers expressed plans in volume.

General government expenditure, excluding net lending, is most often used as the basis for international comparisons.

The cash figures for public expenditure are usually viewed in the context of general economic trends in two ways:—

- (i) converted to cost terms
- (ii) expressed as a percentage of the gross domestic product (GDP).

#### Cost terms

Public expenditure in cost terms<sup>3</sup> takes account of the effect of general inflation as measured by the GDP deflator and is defined as cash expenditure divided by that deflator<sup>4</sup>. Changes from year to year to the cost terms series show the combined effects of:—

- (i) changes in the quantity of goods and services bought, and in the case of transfer payments numbers of beneficiaries and levels of support
- (ii) changes in their relative prices: that is, in the extent to which relevant prices have differed from average price movements as measured by the GDP deflator.

The cost terms series, based on prices in 1981–82, for the public expenditure and general government expenditure figures defined above are shown in tables 1a, 1b and Chart

1. Over the period there is a general upward movement; oscillations around the trend in part reflect the economic cycle. Public expenditure on each definition in cost terms reached a peak in the mid 1970s then dipped until 1977 when it picked up again.

#### Public Expenditure as a Percentage of GDP

The relative size of public expenditure can also be measured by setting it against the gross domestic product (GDP). In doing so it must be remembered that not all public expenditure is part of GDP; the former includes transfer payments whereas GDP does not. This measure of public expenditure as a percentage of GDP is intended to indicate the proportion of nominal GDP to be financed through government taxation and borrowing. It does not indicate the proportion of GDP spent by the government; that measure is provided by expressing public expenditure on goods and services as a percentage of GDP, and is discussed later in this article. Other components are added to the planning total before it is set against GDP. Public expenditure is measured at market prices but excludes the VAT paid by local authorities and refunded to them. VAT is included in GDP measured at market prices and so is added to the public expenditure planning total when it is measured as a percentage of GDP. An allowance for the consumption of capital assets by non-trading government services is included in GDP and is also added to the planning total when calculating the percentage. Finally, recent public expenditure White Papers have included net debt interest in the numerator of the percentage of public expenditure to GDP,

<sup>3</sup> See *Statistical News No. 18 "The Relative Price Effect in Expenditure: its nature and method of calculation"* P M Rees and P Thompson.

<sup>4</sup> The GDP deflator is calculated as  $\frac{GDP(E)}{GDP(E)_{1981-82}}$  at market prices divided by GDP(E) at constant prices and indexed to 1981–82 = 100.

CHART 1  
Public expenditure in cost terms<sup>1</sup>

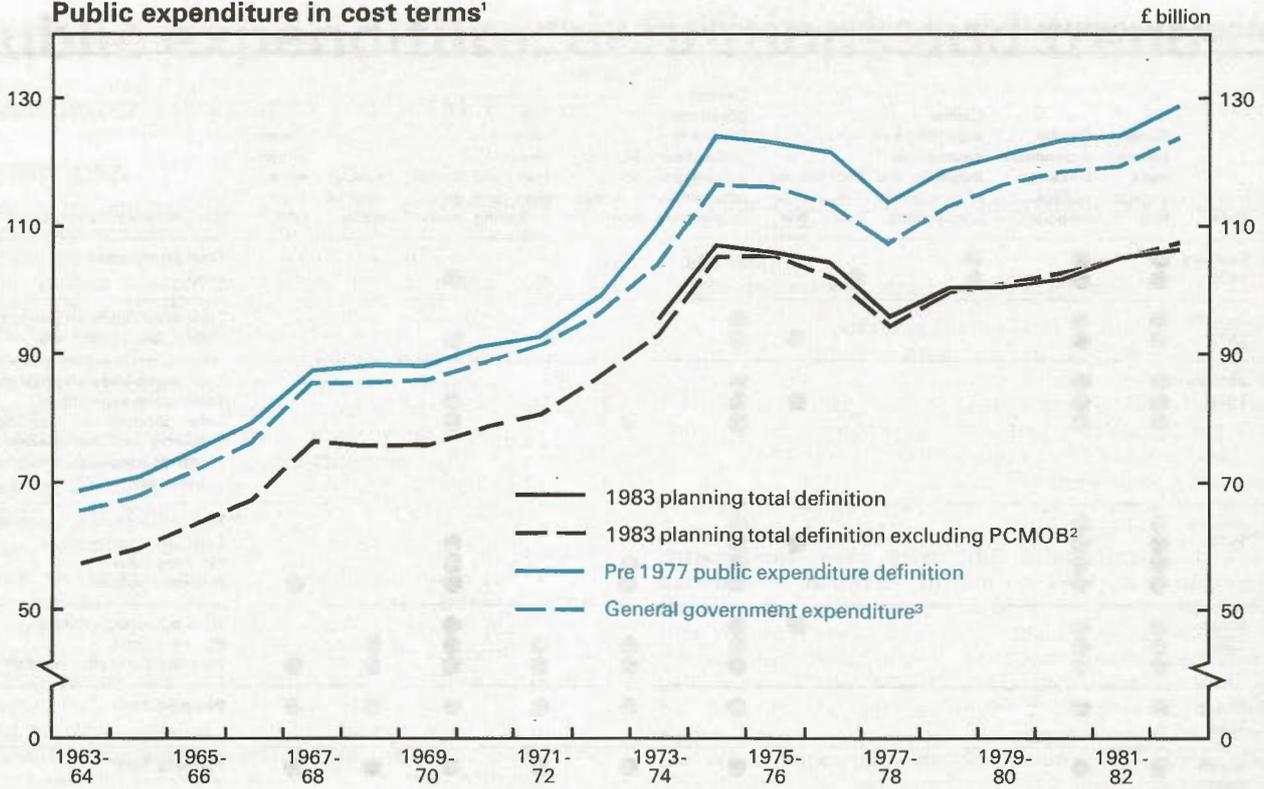
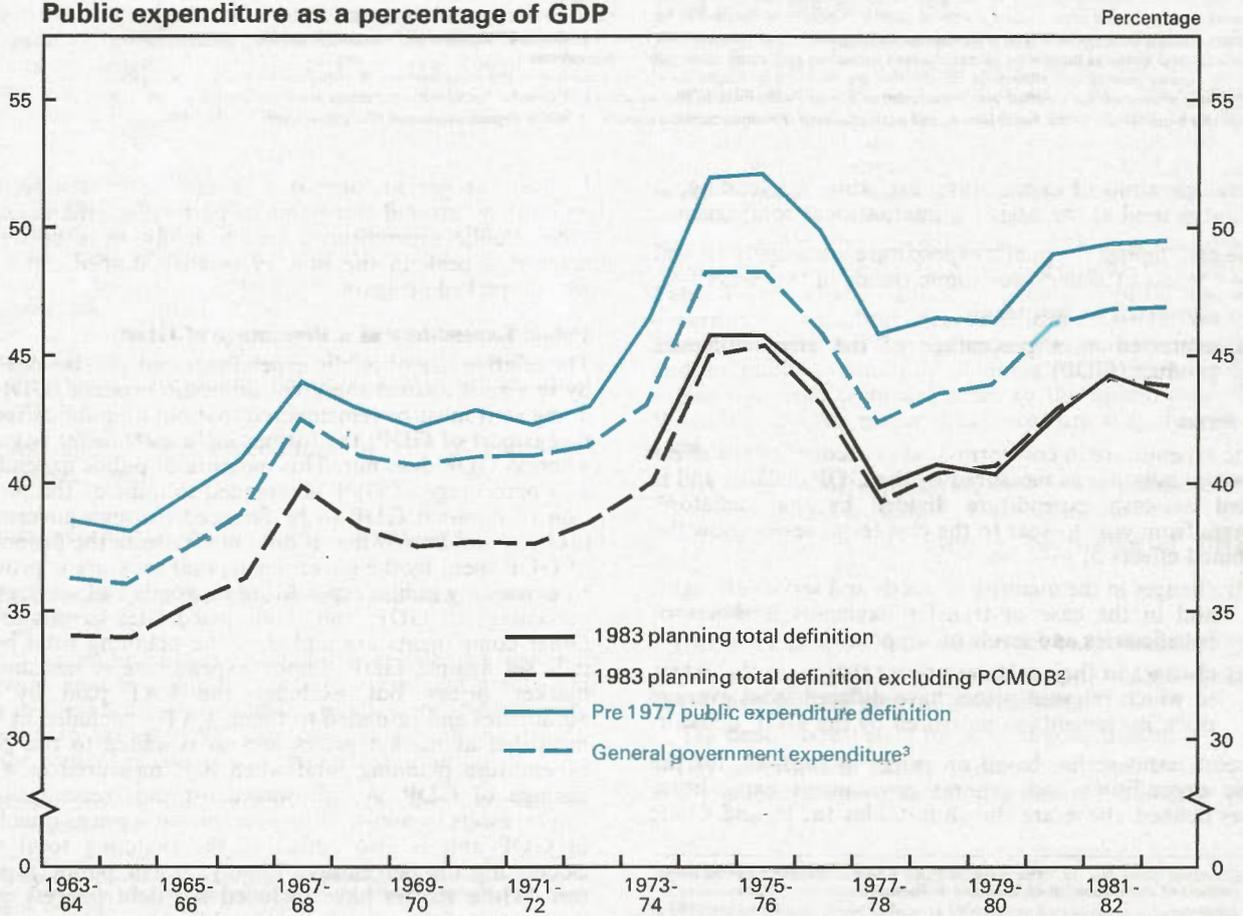


CHART 2  
Public expenditure as a percentage of GDP



<sup>1</sup>Cash figures deflated using GDP deflator, 1981-82=100  
<sup>2</sup>Public corporations' market and overseas borrowing  
<sup>3</sup>National accounts source

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because such interest is a call on the finances of government. Chart 2 shows that public expenditure as a percentage of GDP follows a similar path to public expenditure in cost terms, peaking in the late sixties and mid seventies.

### Components of Public Expenditure

It is possible to produce a twenty-year series for trends in the public expenditure planning total from the national accounts sources because major changes in coverage have occurred relatively infrequently and then in a relatively simple way. However, the coverage of specific components of public expenditure changes every year in a way which cannot be tracked easily through the national accounts.

For example, on the introduction of housing benefit in November 1982, historical expenditure on rent rebates was reclassified from central to local government and from housing to social security. But series for different spending authorities, major services and economic categories can be derived by linking the computer files used to record the information for each public expenditure White Paper; that is, by extrapolating the net effect of classification changes in later White Papers to the outturn figures given in earlier White Papers. This gives approximate figures for earlier years on the latest classifications and can be used to identify broad trends by removing the distortions introduced by major classification changes. This kind of analysis is not only relatively time-consuming and expensive but also cannot be taken back over a long period because the errors of estimation become too significant. The analyses given in the rest of this paper are based on the historical figures covered by the White Papers published between January 1979 and January 1983 brought onto the classifications used in the latest of the series (*Cmnd 8789*).

### Spending authorities

Chart 3 shows the relative proportions of expenditure by central and local government included in the public expenditure planning total over the period 1973-74 to 1982-83. As a proportion of the general government expenditure included in the planning total, central government expenditure increased from 68 per cent in 1973-74 to 75 per cent in 1982-83. Local government capital expenditure fell from 12 to 3 per cent. To a certain extent this reflects the effect of the sale of council houses, which scores negatively. These sales rose from around £0.1 billion in 1973-74 to £2.1 billion in 1982-83. The different rates of growth of central government and local government expenditure reflect the different functions that they perform. Central government has responsibility for social security which has risen in recent years as the result of the recession and for national services such as defence on which there have been specific commitments to growth.

### Economic category

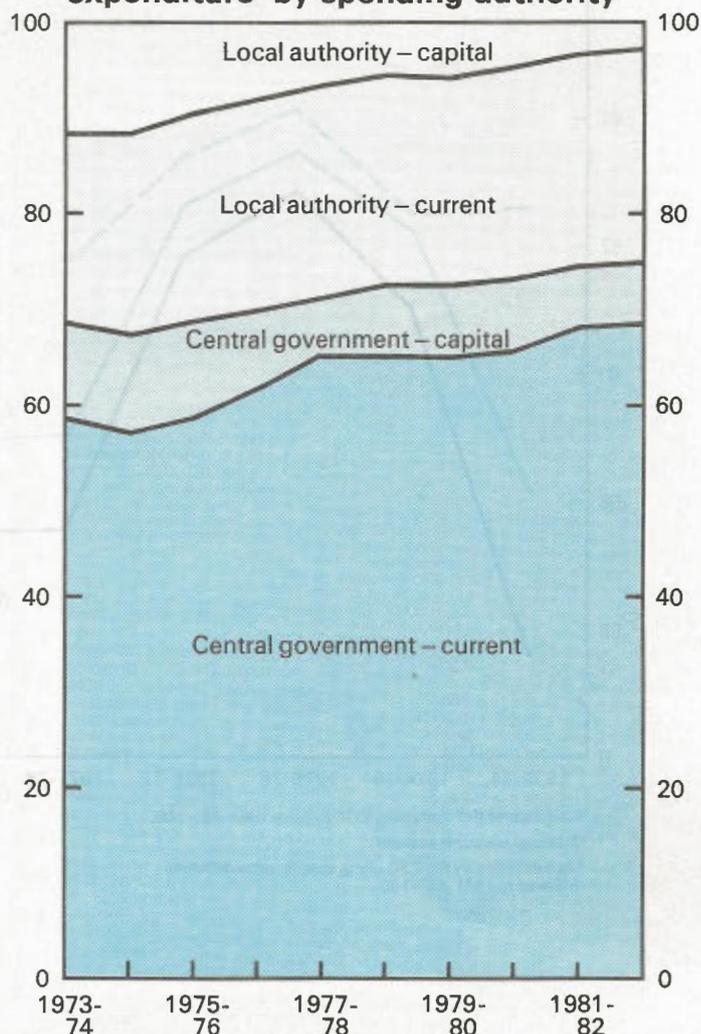
There are two main forms of public expenditure – direct expenditure on goods and services and transfer payments (including net lending as well as grants) to other sectors of the economy. As mentioned above, only the former is part of the expenditure measure of GDP. Table 2 compares the goods and services element of the public expenditure planning total with general government expenditure on goods and services included in the national accounts. The table shows cash, cost terms and the proportion of GDP<sup>5</sup> on both definitions.

Both public expenditure and general government expenditure on goods and services account for about one quarter

<sup>5</sup> Local authority VAT and general government capital consumption have been included in the numerator for the goods and services element of the public expenditure planning total as a percentage of GDP.

CHART 3

### Percentage of general government expenditure<sup>1</sup> by spending authority



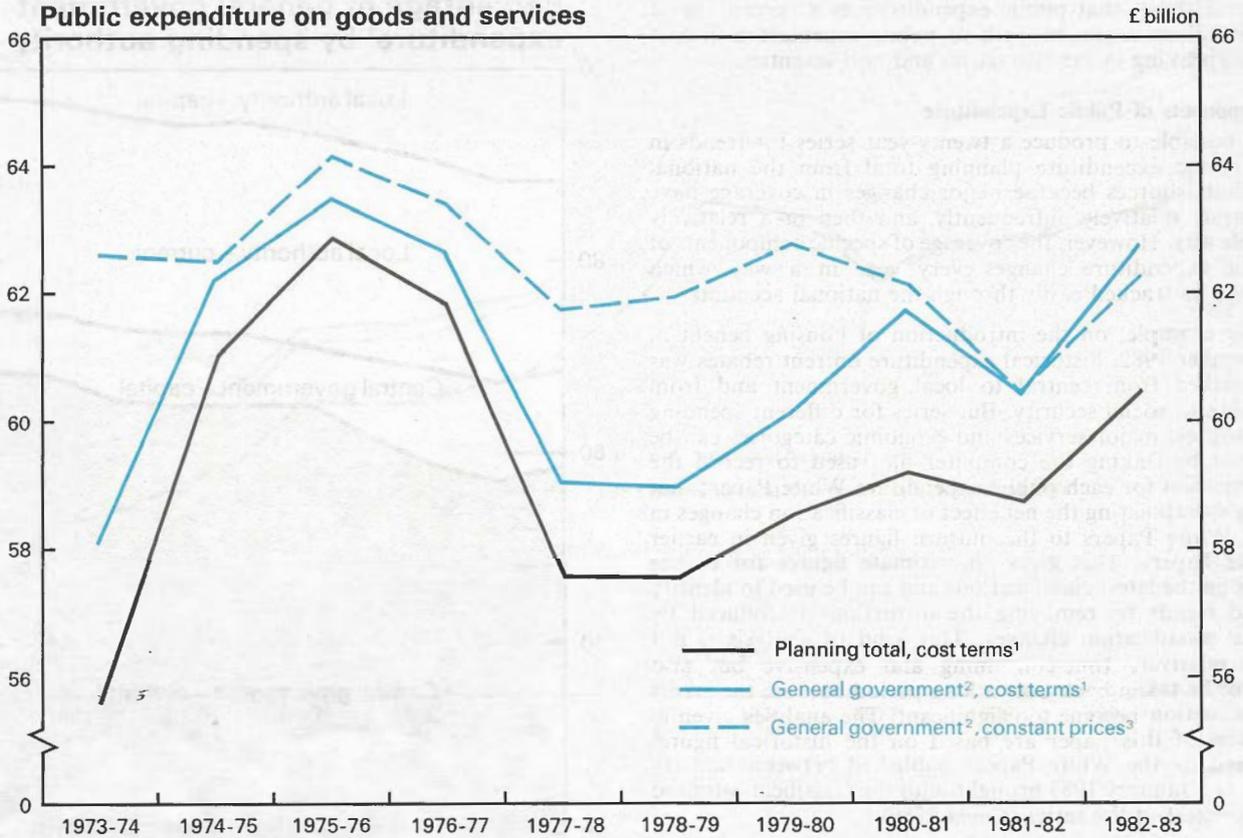
<sup>1</sup> General government expenditure as measured in the Public Expenditure Survey

of GDP. Both reached a peak of around 27 per cent in 1975-76 and fell to around 23 per cent in 1978-79 and 1979-80.

Table 2 additionally shows the figures for general government expenditure included in the constant price definition of GDP. These figures are calculated by the Central Statistical Office as the cash sum adjusted for price changes in the specific goods and services concerned. Chart 4 compares the two constant prices series for general government expenditure on goods and services with that for the goods and services component of public expenditure. General Government expenditure on goods and services deflated by specific deflators is smoother than either cost terms series. This is because the specific deflators takes account of the exact incidence of such factors as public sector pay awards which cause steps in the cash figures. Such pay awards are averaged out with those in the private sector in the construction of the GDP deflator.

Chart 5 shows the relative economic composition of the planning total over the period 1973-74 to 1982-83. Current expenditure increased from 77 per cent of the expenditure on programmes in the planning total in 1973-74 to 90 per

CHART 4  
Public expenditure on goods and services



<sup>1</sup> Cash figures deflated using GDP deflator 1981-82=100  
<sup>2</sup> National accounts sources  
<sup>3</sup> As calculated by the CSO using specific price deflators indexed to 1981-82=100

cent in 1982-83. Current transfer payments – largely social security – accounted for over half of the increase over the same period. The fall in capital expenditure from 23 to 10 per cent was greater on fixed assets which fell from 14 per cent to 5 per cent than on capital grants and net lending which fell from 9 to 5 per cent of the expenditure on programmes in the planning total between 1973-74 to 1982-83. As mentioned above, the trend in local government capital expenditure has been markedly affected by the sale of council houses.<sup>6</sup>

**Functional Analysis**

Table 3 shows the percentage of the planning total accounted for by each functional programme in each of the years 1973-74 to 1982-83. The trend between 1973-74 and 1982-83 has varied for different programmes reflecting a mixture of different government priorities and economic conditions. Some programmes, such as social security and

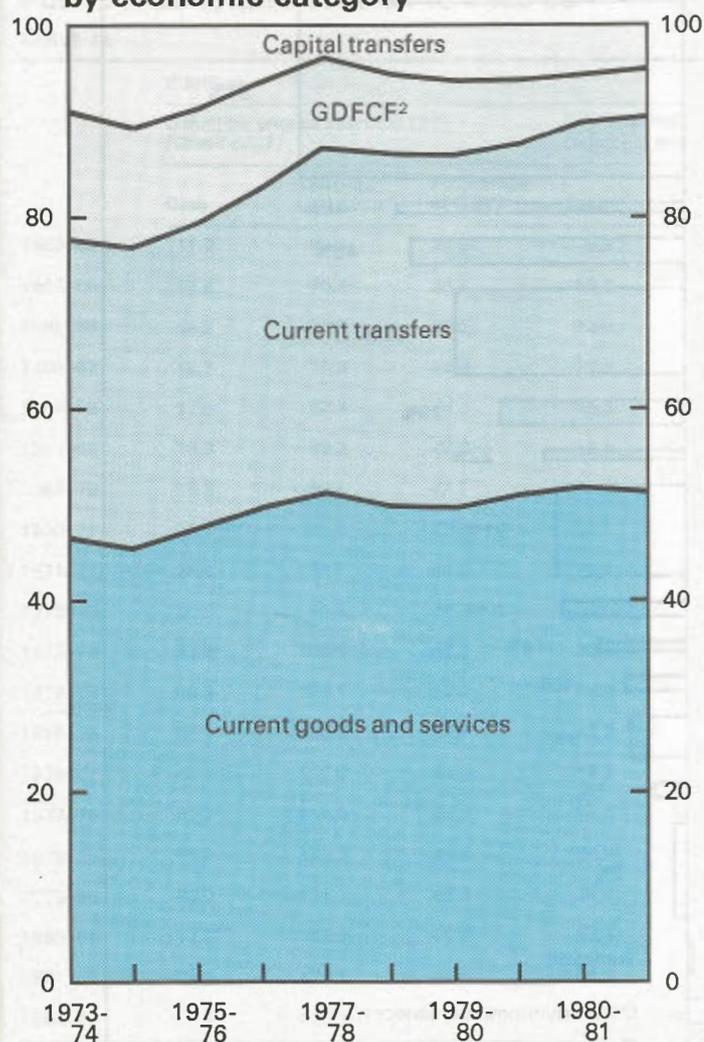
housing respectively, show a generally rising or falling trend, others, eg agriculture, oscillate around a fairly flat trend.

Chart 6 shows the overall annual percentage change in cost terms between 1973-74 and 1982-83 for each functional programme included in the latest public expenditure White Paper (*Cmnd 8789*). There is a marked contrast between the functional programmes. This chart shows the change over the ten-year period as a whole and is not necessarily an indication of trend, particularly on such programmes as net lending to nationalised industries which tend to vary considerably with no observable trend. Trends in individual programmes reflect a mixture of influences, for example, earlier investment in social capital such as schools has reduced the need for such expenditure. In other cases there is a trend towards privatisation, for example, the sale of council houses which reduces net expenditure. Aid to industry is now often reflected in tax rather than expenditure policies, whereas the economic recession has increased the demand for social security.

<sup>6</sup> For some purposes the planning total does not provide a suitable framework for analysing public sector capital spending trends. A full account of recent trends was given in Economic Progress Report No. 152 published in December 1982.

CHART 5

### Percentage of expenditure<sup>1</sup> by economic category



<sup>1</sup> Expenditure refers to the planning total excluding special sales of assets and the market and overseas borrowing of nationalised industries and some other public corporations

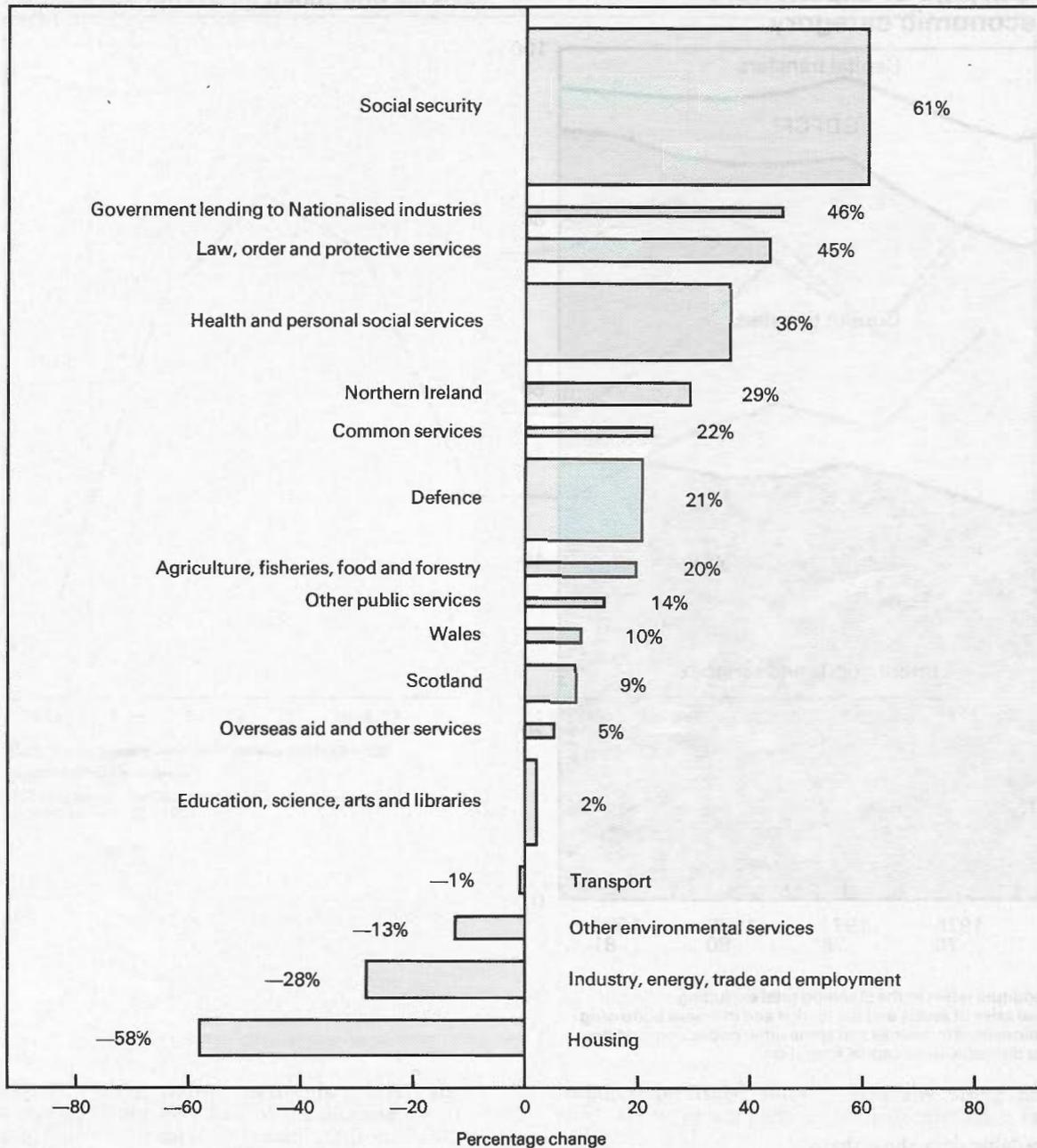
<sup>2</sup> Gross domestic fixed capital formation

#### Summary

The available data show that:—

- (a) Broad trends over a long period are not significantly affected by the definition of public expenditure adopted.
- (b) Apart from the oscillations following the oil crisis in the mid seventies public expenditure, both in constant prices and as a percentage of GDP, has risen fairly steadily since 1963-64.
- (c) Public expenditure on goods and services, both in constant prices and as a percentage of GDP, has been relatively stable in the last ten years.

CHART 6  
**Total percentage change in programmes between 1973-74 and 1982-83 (cost terms)**



Note  
 The width of each bar on the vertical axis is proportionate to expenditure on the programme concerned over the period

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## APPENDIX

## Public expenditure 1963-64 to 1982-83

TABLE 1a

	£ billion								
	Definition prior to February 1977 ( <i>Cmnd 6721</i> )			February 1983 ( <i>Cmnd 8789</i> ) Definition excluding PCMOB <sup>4</sup>			February 1983 ( <i>Cmnd 8789</i> ) Definition		
	Cash	1981-82 cost terms <sup>1</sup>	Percentage of GDP <sup>2</sup>	Cash	1981-82 cost terms <sup>1</sup>	Percentage of GDP <sup>3</sup>	Cash	1981-82 cost terms <sup>1</sup>	Percentage of GDP <sup>3</sup>
1963-64	11.9	68.5	38.5	9.9	57.1	34.0			
1964-65	12.8	70.7	38.1	10.8	59.6	33.9			
1965-66	14.2	74.9	39.5	12.0	63.4	35.1			
1966-67	15.7	79.3	41.0	13.3	67.3	36.3			
1967-68	17.9	87.7	44.0	15.5	76.3	39.9			
1968-69	18.8	88.2	42.9	16.1	75.6	38.2			
1969-70	19.8	88.1	42.1	17.0	75.8	37.5			
1970-71	22.2	91.5	42.8	19.1	78.4	37.7			
1971-72	24.6	92.7	42.2	21.4	80.7	37.6			
1972-73	28.3	98.4	43.0	24.8	86.4	38.5			
1973-74	33.8	109.8	46.2	28.6	92.7	39.9	29.3	95.0	40.9
1974-75	45.6	124.1	52.0	38.6	105.1	45.0	39.3	107.0	45.8
1975-76	57.1	123.7	52.1	48.5	105.1	45.4	48.9	106.0	45.8
1976-77	63.7	122.0	49.9	53.2	101.9	43.0	54.4	104.1	43.9
1977-78	67.7	114.0	45.8	56.0	94.2	39.3	56.8	95.6	39.8
1978-79	78.2	119.2	46.5	65.3	99.6	40.4	65.8	100.2	40.7
1979-80	93.0	121.3	46.3	77.4	101.0	40.6	76.9	100.4	40.3
1980-81	112.7	123.9	49.0	93.4	102.6	42.9	92.8	102.0	42.6
1981-82	124.1	124.1	49.4	104.4	104.4	44.1	104.7	104.7	44.2
1982-83	137.4	128.9	49.5	114.7	107.5	43.8	113.4	106.4	43.4

<sup>1</sup> Cash deflated using GDP deflator, base year 1981-82 = 100.

<sup>2</sup> Defined as total public expenditure plus general government consumption of non-trading capital divided by GDP (expenditure estimate) at market prices. The definition of total public expenditure prior to *Cmnd 6721* included payments of VAT by local authorities and gross debt interest.

<sup>3</sup> Defined as the planning total plus general government consumption of non-trading capital plus payments of VAT by local authorities plus net debt interest divided by GDP (expenditure estimate) at market prices.

<sup>4</sup> Public corporations market and overseas borrowing.

## General government expenditure

TABLE 1b

	£ billion		
	Cash	1981-82 cost terms <sup>1</sup>	As percentage of GDP
1963-64	11.3	65.3	36.2
1964-65	12.2	67.6	36.0
1965-66	13.6	71.7	37.4
1966-67	15.1	76.0	38.8
1967-68	17.4	85.7	42.5
1968-69	18.2	85.4	41.0
1969-70	19.3	86.0	40.6
1970-71	21.6	88.8	41.0
1971-72	24.3	91.5	41.0
1972-73	27.6	96.1	41.4
1973-74	32.0	103.8	43.0
1974-75	42.8	116.7	48.3
1975-76	53.7	116.4	48.3
1976-77	59.5	113.8	45.9
1977-78	63.6	107.1	42.3
1978-79	74.4	113.4	43.5
1979-80	89.5	116.7	43.8
1980-81	108.0	118.7	46.2
1981-82	119.5	119.5	46.8
1982-83	132.1	123.9	46.9

<sup>1</sup> Cash deflated using GDP deflator, base year 1981-82 = 100.

## Public expenditure on goods and services

TABLE 2

	£ billion						
	Goods and services included in the public expenditure planning total			General government expenditure on goods and services in the national accounts			
	Cash	1981-82 cost terms <sup>1</sup>	Percentage of GDP	Cash	1981-82 cost terms <sup>1</sup>	Volume <sup>2</sup>	Percentage of GDP
1973-74	17.1	55.6	23.7	17.9	58.1	62.6	24.1
1974-75	22.4	61.1	26.0	22.8	62.2	62.5	25.7
1975-76	29.0	62.9	26.8	29.3	63.5	64.1	26.3
1976-77	32.3	61.8	25.6	32.7	62.6	63.4	25.2
1977-78	34.2	57.6	23.5	35.1	59.0	61.7	23.3
1978-79	37.8	57.5	22.8	38.7	59.0	61.9	22.6
1979-80	44.9	58.5	22.7	46.1	60.1	62.8	22.6
1980-81	53.9	59.2	23.8	56.2	61.7	62.2	24.0
1981-82	58.8	58.8	23.8	60.4	60.4	60.4	23.7
1982-83	64.5	60.5	23.7	66.9	62.7	62.2	23.8

<sup>1</sup> Cash deflated using GDP deflator, base year 1981-82 = 100.

<sup>2</sup> Cash deflated using the general government deflator, base year 1981-82 = 100.



## ANNEX 1

**Main classification changes between February 1977 (Cmnd 6721) and February 1983 (Cmnd 8789)****Changes between February 1977 (Cmnd 6721) and January 1978 (Cmnd 7049)****Changes in the scope of public expenditure**

- (a) For the first time Cmnd 7049 included specific figures for the interest support costs of the export and ship-building fixed rate credit schemes. This cost comprised (1) the amount payable by government to the banks on their lending (net of the lending refinanced by government) to make up the difference between the fixed rates paid by the borrowers and the current market rate, and (2) the difference between the cost to government of borrowing to refinance credit given by the banks and the fixed rate interest receivable on this credit. The interest costs were included as subsidies. The estimate of debt interest receipts used in arriving at net debt interest had in the past been reduced by the amount of interest support costs payable to the banks, and the interest receipts on refinanced credits were included at the fixed rate only, so the whole of the support cost was in effect included in net debt interest payments. When the support costs were recorded specifically, interest receipts were recorded at market rates, so that the net basis debt interest figures were reduced by the amount of the total support costs.
- (b) Revenue from fees and fines in magistrates' and Scottish courts were taken into account and treated as an offset to public expenditure under law, order and protective services.
- (c) Certain expenditure by local authorities in Northern Ireland was included in the measurement of public expenditure.

**Transfers between programmes**

- (a) Sewerage charges on defence establishments were transferred from common services to defence.
- (b) Certain expenditure on accommodation services provided to employment, etc, services was transferred from common services to trade, industry and employment.
- (c) The allocations of expenditure between the Department of the Environment and the Department of Transport on setting up the latter were reassessed and a further transfer made from other environmental services to roads and transport.

**Changes between January 1978 (Cmnd 7049) and January 1979 (Cmnd 7439)****Changes in the scope of public expenditure**

- (a) In the defence programme, the national accounts adjustments shown separately in previous White Papers became included in the Defence Budget.
- (b) In the overseas aid and other overseas services programme, the recovery of initial excess payments to the 1978 and 1979 European Community budgets was treated on a cash and not an accruals basis.

- (c) Previously the Forestry Commission was required to show in the notes to its accounts a notional forestry subsidy defined as the difference between the 3 per cent rate of interest charged in the accounts on its capital (which at that time was revalued quinquennially) and the charge which would have arisen if interest had been charged at the current Treasury rates. The subsidy formed part of public expenditure. With effect from the start of the financial year 1977-78 the Commission's capital became approximately revalued each year, and revalued in detail every five years, and a 3 per cent (real) return became required on the revalued capital. The notional forestry subsidy, then redefined as the difference between the Commission's 3 per cent interest charge and a charge corresponding to the required rate of return for public sector trading (then 5 per cent in real terms) was still shown in the notes to the Commission's accounts. However, this was not treated as a subsidy in the national income accounts, and became excluded from public expenditure as defined in Cmnd 7439. The effect of this change was to reduce the subsidies to the agriculture, fisheries, food and forestry programme by varying amounts up to nearly £30 million.

- (d) The three government trading funds were classified (for planning and statistical purposes) as public corporations and not as central government.
- (e) In the trade, industry, energy and employment programme, an apparent reduction in expenditure on land purchase and factory building in the assisted areas reflected a change in the treatment of notional charges for interest on capital.
- (f) The figures for expenditure on the community ownership of development land in the other environmental services programme no longer included interest on loans to finance the scheme. This became included in the figures for debt interest.

**Transfers between spending authorities and economic categories**

- (a) Capital expenditure on roads in new towns, previously classified as local authority expenditure, became classified as expenditure by New Town Development Corporations.
- (b) Expenditure by Passenger Transport Executives on certain rail schemes, previously classified as capital contributions to British Rail, became classified as fixed capital formation by the Passenger Transport Executives.
- (c) Expenditure on the salaries of teachers on induction and in-service training courses, previously classified as student support (current grants to persons) in higher and further education, became classified as teachers' salaries within primary and secondary schools' current expenditure.

**Transfers between programmes**

- (a) Local authority spending on consumer protection was transferred from other environmental services to trade, industry, energy and employment.

- (b) Responsibility for research into radioactive waste management was transferred from trade, industry, energy and employment to other environmental services.
- (c) The rate rebate and rent allowance element of supplementary benefit expenditure in Scotland was no longer reclaimed by the Department of Health and Social Security from Scottish local authorities. This resulted in a transfer of expenditure from housing to social security.
- (d) VAT payments imputed to local authority expenditure, previously allocated to various programmes, became included in other environmental services.
- (e) Expenditure on structural adaptations to public sector housing for the disabled was transferred from health and personal social services to housing.

#### Changes between January 1979 (*Cmnd 7439*) and March 1980 (*Cmnd 7841*)

##### Changes in the scope of public expenditure and the planning total

- (a) *Family benefits.* The change from child tax allowances and family allowances (including child interim benefit payable during 1976-77) to child benefit was spread over a period of years. During the transitional period the total for the social security programme included only the net Exchequer cost of the change; this treatment was reflected in public expenditure totals. The gross cost of child benefit was shown in the main table for the social security programme together with tax revenue flowing from reductions in child tax allowances. Now that the transition to child benefit had been completed by the general withdrawal of child tax allowances, the social security programme and public expenditure totals included the gross cost of child benefit (up to 1976-77 family allowance including child interim benefit).
- (b) The definition of the net overseas and market borrowing of nationalised industries was broadened to include short-term borrowing and the capital value of leased assets. Net short-term borrowing was defined to include the industries' transactions in other public sector debt. The definition of the industries' external financial requirement used in the public expenditure planning total (including borrowing and grants) was thus now aligned with that used for their external financing limits.
- (c) Certain local authority capital expenditure on administration, corporation estates and miscellaneous local services was taken into account for the first time.

##### Changes in spending authority and economic category

- (a) The operating costs of industrial training boards, previously classified as grants to private bodies, became treated as current expenditure on goods and services.
- (b) The Crown Agents Act 1979 established two new incorporated bodies - the Crown Agents and the Crown Agents Holding and Realisation Board. Special assistance to the former Crown Agents became included in the overseas aid and other overseas services programme. Financing transactions between the government and the new bodies were also included in this programme.

##### Transfers between programmes:

- (a) Expenditure on computer requirements supplied to central government departments by the Central Computer Agency and formerly included in the common services programme was distributed to the appropriate functional programmes, reflecting the change to provision against repayment by the user department from 1 April 1980. The other programmes principally affected were defence; industry, energy, trade and employment; roads and transport; other environmental services; law, order and protective services; health and personal social services; and other public services.
- (b) To improve functional control it was decided to confine the programme for Northern Ireland to expenditure within the responsibility of the Secretary of State for Northern Ireland. Thus expenditure by the Ministry of Agriculture in that area was classified to agriculture, fisheries, food and forestry; and expenditure on the court service to law, order and protective services.
- (c) Some expenditure by the Central Office of Information on the overseas information services, previously recorded under overseas aid and other overseas services, was classified to common services.

#### Changes between March 1980 (*Cmnd 7841*) and March 1981 (*Cmnd 8175*)

##### Changes in the scope of public expenditure and the planning total

- (a) The definition of local authority capital expenditure was revised to include:—
  - (i) the freehold value of property leased for a period of more than 20 years; and the freehold value of any lease over one year where a permanent building was erected at the request of the authority (eg, sale/leaseback or lease/leaseback schemes);
  - (ii) the capital value of vehicles leased for more than one year; and
  - (iii) the capital value of plant and machinery acquired by finance leases, ie, for this purpose those where the lease term covered the major part of the anticipated useful life and where the lessee accepted responsibility for maintenance.

The lease payments on such assets were no longer scored as current expenditure. This change was implicit in the planned figures for 1981-82 to 1983-84, but could not be incorporated into the historical figure until the next White Paper because of lack of information.

- (b) The definition of the Forestry Commission was changed so that it reflected more closely estimated cash requirements. Government finance to the Forestry Enterprise was now included instead of the capital expenditure by the Forestry Enterprise. The 3 per cent notional interest charge was dropped from the definition of public expenditure.

##### Transfers between spending authority and economic category

- (a) The two roles of the Forestry Commission, namely, the Forestry Authority and the Forestry Enterprise, were presented separately. The Forestry Authority was concerned with the administration of Government policy on forestry (including the payment of grants

to the private sector) and the Forestry Enterprise (a Government trading service) with the development, management and exploitation of the forestry and other assets owned by or placed at the disposal of the Commission.

- (b) Her Majesty's Stationery Office (HMSO) became a government trading fund. Expenditure programmes included departments' payments to HMSO with the exception of supplies to Parliament which remained on an allied service basis. The other public services programme included Government lending to HMSO and its expenditure on supplies to Parliament, etc.
- (c) Consequential on the change between programmes of some rent rebates and rent allowance, the corresponding expenditure was classified to central government rather than to local authorities.
- (d) Some transport spending by local authorities on depots, vehicles, plant and machinery previously shown as maintenance (current expenditure) was classified as capital spending on roads.

#### Transfers between programmes:

- (a) Rent rebates and rent allowances paid to recipients of supplementary benefits and supplementary pensions became included in the social security programme and were excluded from the housing programme.
- (b) A variety of transfers occurred between programmes in order to bring the functional classification into closer correspondence with departmental responsibilities.
- (c) Programmes were created for expenditure within the responsibility of the Secretaries of State for Scotland and for Wales.

#### Changes between March 1981 (*Cmnd 8175*) and March 1982 (*Cmnd 8494*)

##### Changes in the scope of public expenditure and the planning total

- (a) Local authorities are refunded the VAT payments they have made in the course of providing non-trading services. Expenditure on such services became measured net of VAT payments. Previously an allowance for VAT had been added (most recently as a single sum in the other environmental services programme) to public expenditure. This adjustment was removed.
- (b) The figures for local authority capital expenditure now included provision for expenditure financed by such bodies as the Sports Council and the Welsh Development Agency.
- (c) The expenditure incurred on the administration of the National Savings Bank ordinary account was included in this White Paper as expenditure on goods and services. In previous White Papers this expenditure had been treated as in the national income accounts as a trading expense met by the income from investments held by the National Debt Commissioners.
- (d) Local authority expenditure on school milk, financed by the European Communities was included for the first time in this White Paper in the agriculture, fisheries, food and forestry programme.

(e) Net capital expenditure financed by the Commonwealth Development Corporation from its own resources (including commercial borrowing) was included and shown separately. Through an oversight, this information had not been included in preceding public expenditure White Papers. The numbers were relatively small and the public expenditure planning totals were not affected.

- (f) Since the 1980 Housing Act local authorities were allowed to make a surplus on their Housing Revenue Account. The plans in *Cmnd 8175* assumed that such surpluses would partially offset local authority rate fund contributions to the housing revenue account within the housing programme. In *Cmnd 8494* only the gross central government and local authority subsidies to the Housing Revenue Account were shown.
- (g) The planning total now included the market and overseas borrowing of the public corporations shown in List I of *Cmnd 8494*, Volume Two, part 5, p 105.
- (h) Capital expenditure on transport construction schemes now included interest capitalised up to the date on which the asset came into use.
- (i) Interest receipts on the balances of police authorities were no longer subtracted from current expenditure on law and order.
- (j) The rents from certain property managed by the Property Services Agency were deducted from current expenditure in the common services programme.

#### Transfers between spending authority and economic category

- (a) Expenditure by local authorities on the construction of roads due to become part of the trunk road network was reclassified as spending by central government rather than by local government.
- (b) As a result of the implementation of Part VIII of the Local Government Planning and Land Act 1980, certain administrative expenditure by local authorities was reclassified from current expenditure to capital expenditure on roads.

#### Transfers between functional programmes

- (a) Under the new scheme for unifying housing benefits, responsibility for housing benefit lay with the Department of Health and Social Security. In anticipation of the introduction of the scheme (which would absorb rent rebates and allowances) all provision for the payment of rent rebates and allowances became shown in the social security programme.
- (b) Expenditure on court building under the responsibility of the Secretary of State for Scotland was transferred from the law, order and protective services programme to the programme for expenditure under the responsibility of the Secretary of State for Scotland.

#### Changes between March 1982 (*Cmnd 8494*) and February 1983 (*Cmnd 8789*)

##### Changes in the scope of public expenditure and the planning total

- (a) The full cost of land drainage precepts in Wales was included for the first time.

- (b) The income from fees and fines in district courts in Scotland was treated as negative expenditure for the first time.

#### Transfers between spending authority and economic category

- (a) Water Authorities and the Commonwealth Development Corporation were reclassified from list III to list I: public corporations<sup>1</sup>. Consequent upon this, their capital expenditure was no longer included as public expenditure by these corporations. Net lending to the Water Authorities became included in the other environmental services programme and the programme for expenditure under the responsibility of the Secretary of State for Wales whilst central government grants to Water Authorities and the Commonwealth Development Corporation became included in the agriculture, fisheries, food and forestry programme, the other environmental services programme, and the programme for expenditure under the Secretary of State for Wales. The market and overseas borrowing and leasing transactions of both Water Authorities and the Commonwealth Development Corporation were included in the total for public corporations' net overseas and market borrowing.
- (b) The Crown Agents and Crown Agents Holding and Realisation Board were transferred from list II to list I: public corporations<sup>1</sup> because their market and overseas borrowing had become included in the planning total.
- (c) The Ordnance Survey was now shown as a central government trading body included in list I: public

corporations<sup>1</sup>. Consequent upon this, the cost of running the Ordnance Survey was no longer included in the other public services programme but was met from revenue arising from trading with government departments and others, and from payments included in other environment services for activities essential in the national interest which are not commercially self-supporting.

- (d) Following a Rayner scrutiny in 1981, government departments changed to using public postal methods. The repayments to departments by the Post Office, previously treated as refunds of expenditure on goods and services, were reclassified as financial transactions.
- (e) Expenditure by central government on major structural works on motorways and trunk roads was reclassified from maintenance – current expenditure on goods and services to capital expenditure – gross domestic fixed capital formation.
- (f) Following the introduction of the new scheme for deducting mortgage interest relief at source, expenditure under the option mortgage scheme over the period 1977–78 to 1982–83 was reclassified from the housing programme to the other public services programme where expenditure under the new scheme was recorded for the period 1983–84 to 1985–86.

#### Transfers between functional programmes

The Civil Aviation Authority became regarded as a nationalised industry, consequently central government lending was transferred from the industry, energy, trade and employment programme to the government lending to nationalised industries programme.

<sup>1</sup> See Cmnd 8797, Volume Two, Part 5, p 126.