SAVAGE

Autumn Statement 1982

Forecast required under the Industry Act 1975

Outline public expenditure plans for 1983-84

Proposed changes to National Insurance Contributions

Proposed changes to the National Insurance Surcharge

Revenue effects of illustrative tax changes

HM TREASURY
NOVEMBER, 1982

With permission, Mr. Speaker, I should like to make a statement. As the House knows, it is customary at this time of year to publish outline public expenditure plans and proposed National Insurance changes for the year ahead, together with the economic forecast required under the Industry Act 1975. This year, as foreshadowed in the Government's reply to the Report of the Treasury and Civil Service Committee on Budgetary Reform, we are bringing these together, and publishing them in an Autumn Statement which I shall today be laying before the House. I am grateful to my rt. hon. Friend the Member for Taunton, and the Treasury Select Committee, for the initiative which has led to this development.

During the past year, monetary conditions have exerted downward pressure on price rises, and substantial progress has been made against inflation. In January the rate of inflation was 12 per cent; is now around 7 per cent; and we

/envisage a

envisage a 5 per cent rate early in 1983. Interest rates have fallen even more sharply, with bank base rates down a full 7 points from their peak of 16 per cent last year to 9 per cent today. The CBI have calculated that each percentage point fall benefits British industry by around £250 million in a full year. We shall continue to maintain downward pressure on the monetary aggregates, in order to achieve further success in the battle against inflation. Interest rates will continue to reflect the indicators of monetary conditions which I described in my Budget Speech.

As the Statement explains, the growth in output this year - in this country and throughout the Western world - has been lower than anticipated. For next year the Industry Act forecast now suggests a 1½ per cent increase in our GDP. That is close to what is expected for most other industrialised countries. Unemployment remains the nation's most distressing problem. As in other countries, further rises are expected to continue into next year,

/although they

although they should moderate as output picks up, in response to lower inflation and lower interest rates.

Public borrowing remains under firm control - which of course is one of the reasons for the fall in interest rates. We expect the PSBR this year to be within the figure of £9½ billion expected at the time of the Budget. Final decisions about the level of next year's borrowing requirement will not of course be taken until my 1983 Budget. The current forecast suggests that the scope for possible tax reductions in 1983-84 could be of the same order as was indicated at the time of the last Budget. This is on the basis of conventional assumptions as to the revalorisation of direct taxes and excise duties. It also assumes the same 1983-84 PSBR, as a percentage of GDP, as was assumed at the time of the last Budget, and takes account of the decisions which I am announcing today.

/The public expenditure

The public expenditure planning total for 1983-84 will be £120.06 billion. This is lower than the provisional figure for 1983-84 published on Budget Day this year. It is the first time since 1977 that a Government has been able to stop expenditure plans for a particular year rising with each annual review. Compared with the plans for the current year, the new total is a slight fall in cost terms (that is, in constant prices). The ratio of public expenditure to GDP will come down from 45 per cent to 44 per cent, reversing an upward trend which has continued since 1977.

Details of the changes in individual programmes are summarised in the Statement. Social Security Programmes have been adjusted to take account of the rapid reduction in inflation. This month's benefit uprating is 11 per cent. Even allowing for the 2 per cent extra to compensate for last year's shortfall, that is well over the current rate of inflation. We accordingly intend to make an adjustment to next year's uprating. Meanwhile,

/those in receipt

those in receipt of benefits will continue to receive payment at a rate above that needed to compensate for price rises in the last year. As is customary, the exact size of next year's uprating will not be decided before Budget time.

The House will be glad to hear that the resources we had planned to make available for a number of important programmes have been increased:-

- We plan additional gross expenditure of £260 million on two new special employment measures - the Community Programme and the Job Splitting Subsidy - which were announced earlier this year.

- For housing, the provision of an extra £49 million, and a continuing high level of receipts from council house sales, will allow gross capital spending to be at least 10 per cent higher than the expected level this year.

- More money will be

- More money will be made available for the urban capital programmes, to support the new Urban Development Grant programme and the Urban Development Corporations in London Docklands and Merseyside.

These two changes represent a significant new boost to the construction industry.

- £96 million more has been allocated to law and order programmes, mainly on police and prisons.

- In the Health Service we are providing an extra £80 million in England, which should continue the growth in the level of services which has already taken place under this Government.

Comparable increases will be made for the rest of the United Kingdom.

- Finally, provision

- Finally, provision for <u>defence</u> in 1983-84 has been increased by £622 million, because of extra costs following the Falkland Islands action. This increase is over and above our commitment to meet the NATO 3 per cent per annum real growth target. It will fund purchases of equipment to replace losses this year, and will ensure the future security of the Islands.

To find room for these increases within an unchanged total, we have been able to secure economies elsewhere. We have also transferred to programmes part of the provisional Contingency Reserve set aside in the 1982 White Paper. But we have left a substantial Contingency Reserve of £1.5 billion, which we shall review again nearer the Budget.

Full details of public spending plans for next year and for 1984-85 and 1985-86 will be set out in the Public Expenditure White Paper which we expect to publish early in the New Year.

/My rt. hon. Friend

My rt. hon. Friend the Secretary of State for Social Services is this afternoon announcing details of changes in National Insurance Contribution rates and limits for next year, and will be publishing the Report of the Government Actuary on the National Insurance Fund. If we were fully to balance the Fund for next year, increases in employers' and employees' contributions of nearly 0.4 per cent each would be required. But we are concerned both to minimise additional burdens on industry, and to diminish the effects of contribution increases for employees. So we have decided that the increases should be limited to 0.25 per cent each for employers and employees. The Upper Earnings Limit will go up only to £235, rather than £245 which would be the maximum permitted by Statute. Taken together these measures mean that contributors will pay a little over £200 million less next year than would have been required fully to balance the Fund. The cost to the PSBR has been taken into account in the forecast.

/I turn now to

I turn now to the National Insurance Surcharge, introduced, and then increased to 3½ per cent, by the previous Government. It has long been criticised, and rightly so, by commerce and industry. As I said in my last Budget, it raises production costs, it is not rebatable on exports, and it either puts up prices or cuts into profits. I was able in March to announce an effective reduction of 1 per cent in the rate for private sector employers, from 3½ per cent to 2½ per cent, for the year 1982-83. I am pleased to inform the House that we can now take another substantial step in the right direction, by reducing the rate for 1983-84 by a further 1 per cent, so bringing it down to 1½ per cent. The cost of this to the PSBR has been reflected in the forecast. The public sector will not gain from the change, but the benefit to private employers in 1983-84 will be around £700 million. Overall, this will more than offset the increase in their costs due to the new NIC rates and levels. (A table showing the overall effect for employers and employees of the NIC and NIS changes for next year has today been put in the Vote Office.)

/That is not all.

That is not all. I intend that for private sector employers ½ per cent of the NIS reduction from April 1983 should be brought forward and made effective for 1982-83 also. Hon. Members will know that to change the NIS rate at this time of year presents considerable administrative problems. But we have found a way of overcoming them. The equivalent of a ½ per cent reduction for the whole year will be given by reductions in employers' payments of National Insurance Surcharge and National Insurance Contributions for January, February and March next year. Details and guidance will be sent in due course to employers.

This further benefit will be worth £350 million in the current year. Legislation will be needed for the new arrangements both this year and next. A Bill will be introduced at an early date. I am sure it will commend itself warmly to the House as providing a substantial reduction in the costs faced by private sector commerce and industry.

/Mr. Speaker, the House will

Mr. Speaker, the House will want to study the Autumn Statement carefully. The format is new, and I hope helpful, and the scope rather wider than before. And it demonstrates that we are determined, within the framework of our monetary and fiscal policies, to continue to do what we can to relieve the burden of taxation so as so move towards renewed growth and more employment. I hope to be able to say rather more if I am fortunate enough to catch your eye later in the course of our current debate.

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TREASURY AND CIVIL SERVICE COMMITTEE

PRESS NOTICE

Autumn Review

Following its practice of the last two Sessions, the Committee, chaired by Rt Hon Edward du Cann, MP, will take evidence on the Government's Autumn Statement and Industry Act forecasts. The full programme of evidence will be announced in the near future. The first evidence session will be at 10.15 a.m. on Tuesday 16th November in Committee Room 15. The witnesses will be officials from H M Treasury.

11th November 1982 R.I.S. Phillips

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TREASURY AND CIVIL SERVICE COMMITTEE

Meeting to be held at 10 a.m. on Tuesday 16 November in Committee Room 15

AGENDA

10 a.m. Private

1. Autumn Review - Preparation for evidence from Treasury officials (TR 252 enclosed).

2. Any other Business.

10.15 a.m. Public

3. Evidence from Treasury officials.

11th November 1982 D.W. limon

Autumn Statement 1982

RETURN to an Order of the House of Commons dated 8 November 1982: for

COPY of the AUTUMN STATEMENT 1982 as laid before the House by the CHANCELLOR OF THE EXCHEQUER on 8 November 1982

Treasury Chambers, 8 November 1982 } GEOFFREY HOWE

Ordered by The House of Commons *to be printed*
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Earlier this year the Treasury and Civil Service Committee of the House of Commons published a report on budgetary reform. In its reply the Government said that it proposed each year to publish an Autumn Statement. In this first publication the Statement brings together, and in some cases expands, the economic and other announcements usually made at this time of year—the economic forecast required under the Industry Act 1975, outline public expenditure plans for the year ahead and a summary of National Insurance Contribution and National Insurance Surcharge changes proposed. The Statement also includes a section showing the revenue effects of illustrative changes in major taxes.

Contents

1. The Economy: Recent Developments and Prospects

Summary

World economy 1.01 After slow growth in the world economy in 1980 and 1981, a small fall in world economic activity seems likely this year. Recession in most industrialised countries has spread to many primary producers, through falling commodity prices and high real interest rates. But as inflation and interest rates come down, there is some prospect of recovery in 1983, though at a more moderate pace than in earlier cycles. If the recovery in world activity is further delayed, this will affect the prospects for recovery in the UK.

Output, demand and employment 1.02 In the UK, output in 1982 is turning out lower than earlier expected, particularly in the manufacturing sector. This seems to be partly the result of lower world activity, partly the result of lower UK shares in domestic and foreign markets. Domestic demand has been rising at about 3 per cent a year in real terms since early 1981. A continuing rise in domestic demand, especially personal consumption and fixed investment, and some improvement in overseas demand, should lead to a rise in UK output of about $1\frac{1}{2}$ per cent in 1983, accompanied by a fall in the current account surplus. Unemployment has been rising in the UK, and in most other countries, over the past two years. But some recovery in output and profitability in the course of 1983 should help to moderate further increases.

Inflation 1.03 Inflation in the final quarter of 1982 is running at about 6 per cent. This is about 3 per cent lower than the budget forecast and reflects sharp falls in interest rates, low import and food prices and generally strong competitive pressures. The precise pattern of inflation in 1983 will depend on the timing of changes of, for instance, interest rates and food prices. But the inflation rate, as measured by the Retail Prices Index, should fall to 5 per cent early in 1983 and be around that rate at the end of the year.

Borrowing, expenditure and revenue 1.04 In the first half of 1982–83 public sector borrowing has been running well within the budget estimate and for the year as a whole is expected to be a little below the budget estimate. In 1983–84, public expenditure plans and revenue projections suggest scope for a fiscal adjustment within the borrowing figure of $2\frac{3}{4}$ per cent of GDP indicated in the medium-term financial strategy.

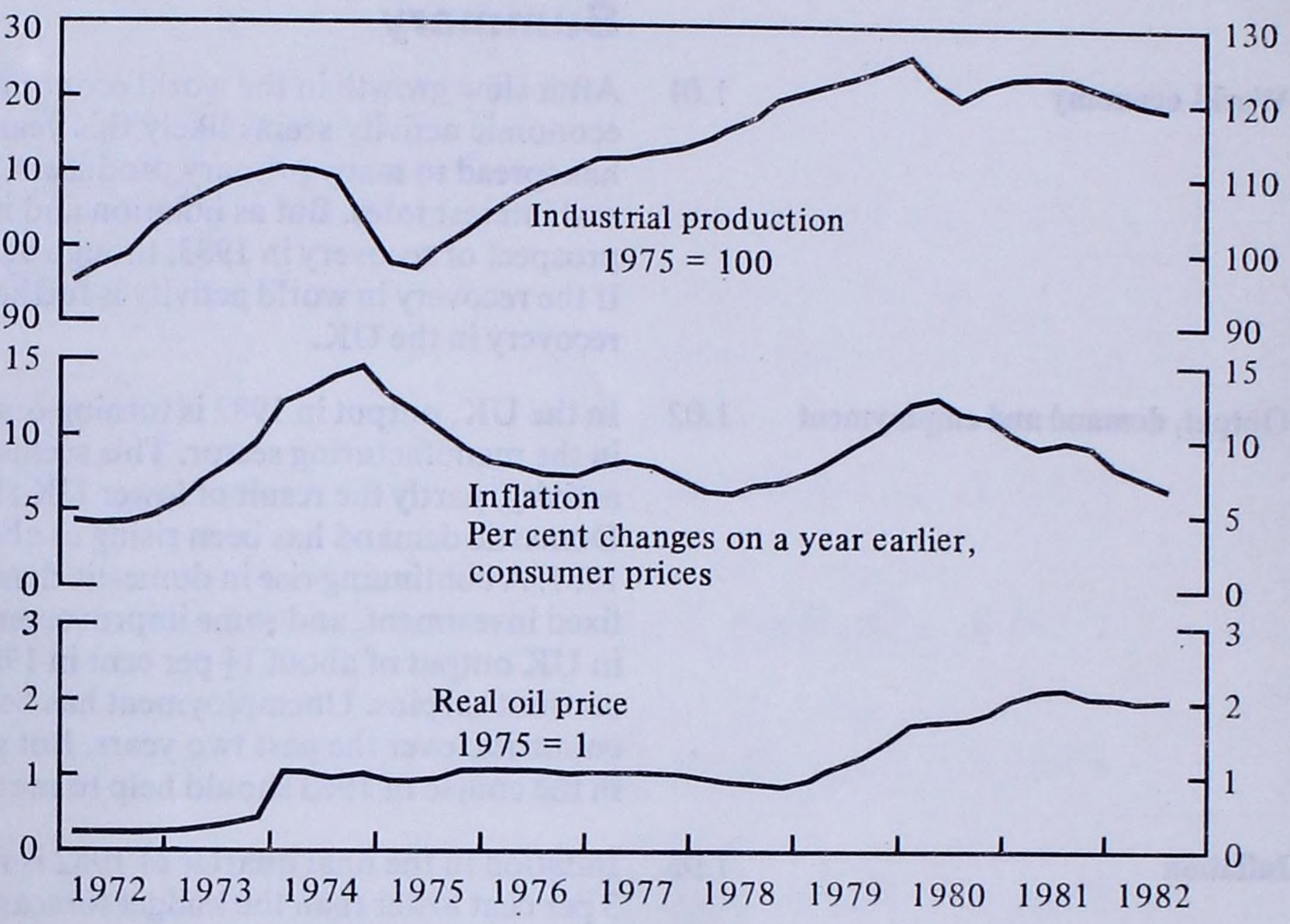
Monetary growth 1.05 Growth of £M3 and the other principal monetary aggregates in the first half of the current financial year has been within the target range. Though there has been some acceleration in monetary growth in recent months, monetary conditions as a whole continue to exert downward pressure on inflation. The main narrow aggregate, M1, is particularly sensitive to interest changes and is now rising strongly after a period of low growth last winter. Over the forecast period M1 is expected to rise more rapidly than other monetary aggregates.

The world economy

Recent developments 1.06 Early this year most forecasters were expecting a revival of activity in the course of 1982. Although the US economy has shown a small recovery in the second and third quarters of 1982, the extent of this has been very modest and industrial countries generally are now likely to show no growth in output this year. Unemployment has risen steeply. US interest rates remained very high indeed throughout the first half of 1982 and began to fall only in the second half. In Europe and Japan, interest rates have also fallen, but more slowly. Many developing countries have had to reduce imports because of a fall in earnings from their primary products or because of difficulties in meeting debt obligations and obtaining fresh bank credit. Oil prices have not eased much: a large reduction in oil supply has enabled OPEC to hold on to nearly all the large rise in real oil prices that occurred up to mid 1981.

1.07 In the aftermath of the 1979–80 oil price increase, and as a result of counter-inflationary policies in most industrial countries and of the recession, inflation in most industrial countries has fallen from 12 per cent in 1980 to about 7 per cent in 1982. Interest rates have fallen very broadly in line with inflation but remain positive in most countries.

CHART 1 World economy



Prospects

1.08 The precise timing and extent of the recovery is uncertain. Recovery in the OECD area in 1983 is not expected to be at all rapid. The fall in inflation and in interest rates, with some reversal of the stock cycle, is likely to contribute to growth. As usual in such a phase, industrial production and trade should recover a little more strongly than output in total. In the developing countries, after probably a sharp fall in imports in 1982, there could be some recovery in the course of 1983.

1.09 The forecast for the world economy is summarised in the table below:

Table 1.1

Per cent changes on a year earlier

	Average 1975–80	1981	1982	1983
GNP*	3½	1½	−½	2
Consumer prices*	8½	10	7	6
World trade in manufactures (weighted by UK markets)	6	4½	−2	2½

*Major 6 economies (US, Canada, France, Germany, Italy, Japan)

The exchange rate, competitiveness and trade

Competitiveness

1.10 Over the past year the rise in UK labour costs has slowed further and was about the same as the average of our competitors. Sterling has remained firm over the period. Price and cost competitiveness have not changed much and remain considerably worse than in the 1970s.

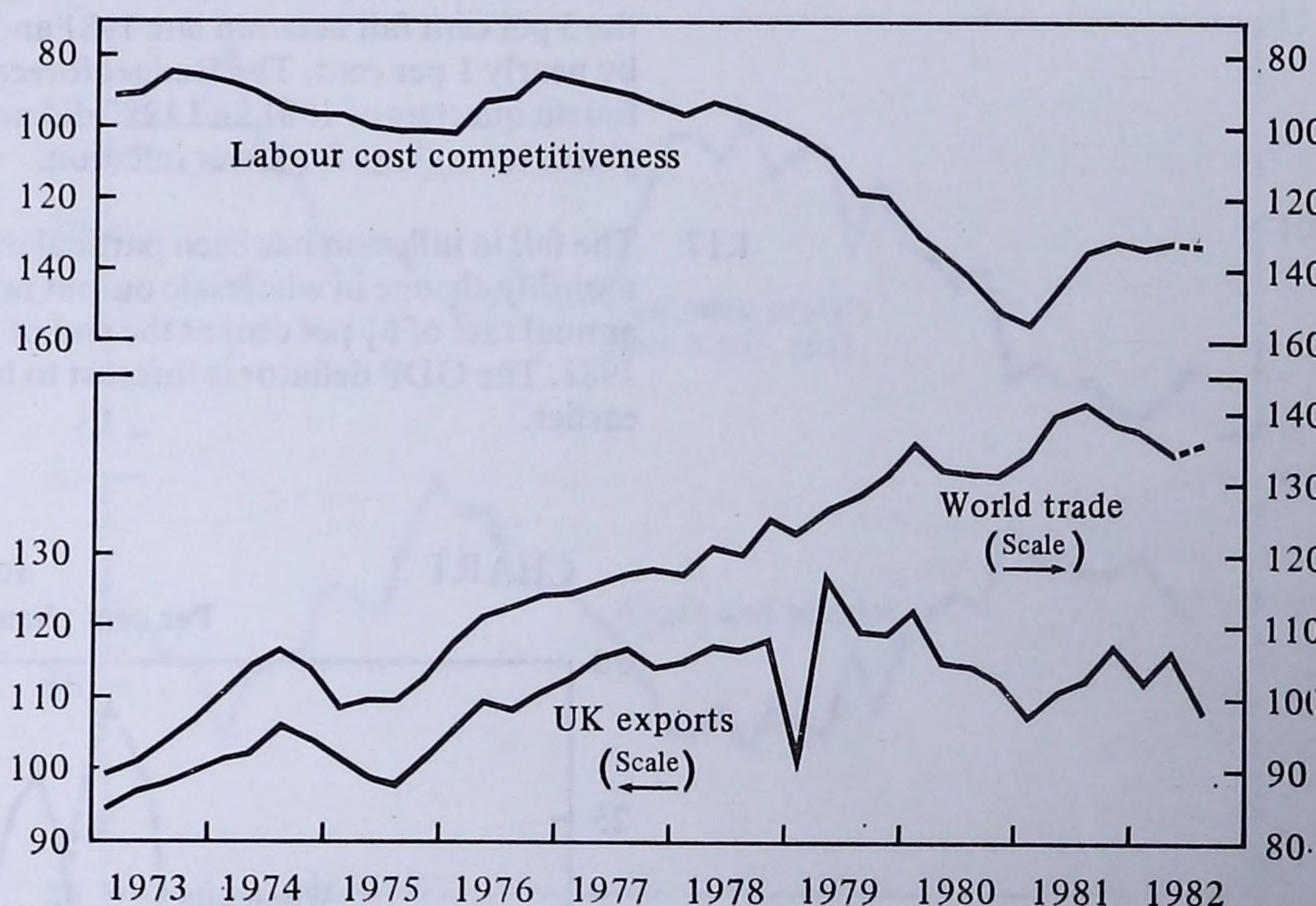
1.11 For the purposes of this forecast, it is assumed that there will not be any major change in the level of the exchange rate. An implication is that further gains in cost competitiveness in the UK depend on a continuing decline in wage settlements and hence in the rise in labour costs, at a time when wage settlements in other countries are also moderating.

UK performance

1.12 Over the past five years or so, and partly reflecting the poor level of competitiveness, UK industry has lost share in both overseas and domestic markets. Between 1977 and the first half of 1982, the volume of world trade rose by a total of about 18 per cent, while UK exports of manufactures were unchanged. In the domestic economy over the same period, the demand for manufactures changed very little; but import volumes rose 40 per cent, while output of the UK manufacturing sector fell 14 per cent.

CHART 2 **Export performance of manufactures**

1975 = 100



Trade prospects

1.13 So far this year, exports in total have been running about 4 per cent below the level forecast at budget time, the difference reflecting mainly lower world trade. Recent monthly data have continued to be very variable and it is not easy to discern the underlying trend. But the volume of exports is probably now some 4 per cent below the second half of 1981. There may be a very gradual recovery so that by the second half of 1983 exports could be 2 per cent higher than a year earlier. Import volumes this year have continued at close to the high levels reached in the second half of 1981. The continuing rise in domestic demand and the recovery forecast in exports is expected to lead to a renewed rise in imports in 1983.

Balance of payments

1.14 The current account of the balance of payments has moved from an exceptionally large surplus in 1981 to a smaller but still very substantial surplus so far in 1982. With the UK economy expanding in 1983 nearly in line with the world economy, and with the UK's tendency to lose share in domestic and overseas markets continuing, a further deterioration in the volume of net trade is forecast. Moreover, the gains on the terms of trade in the last few years will probably not be repeated and may even be partially reversed. These factors may outweigh some rise in the balance on invisibles (helped by increased earnings from overseas assets acquired as a result of recent current account surpluses), and leave the current account not far from balance in 1983.

Inflation

Recent developments

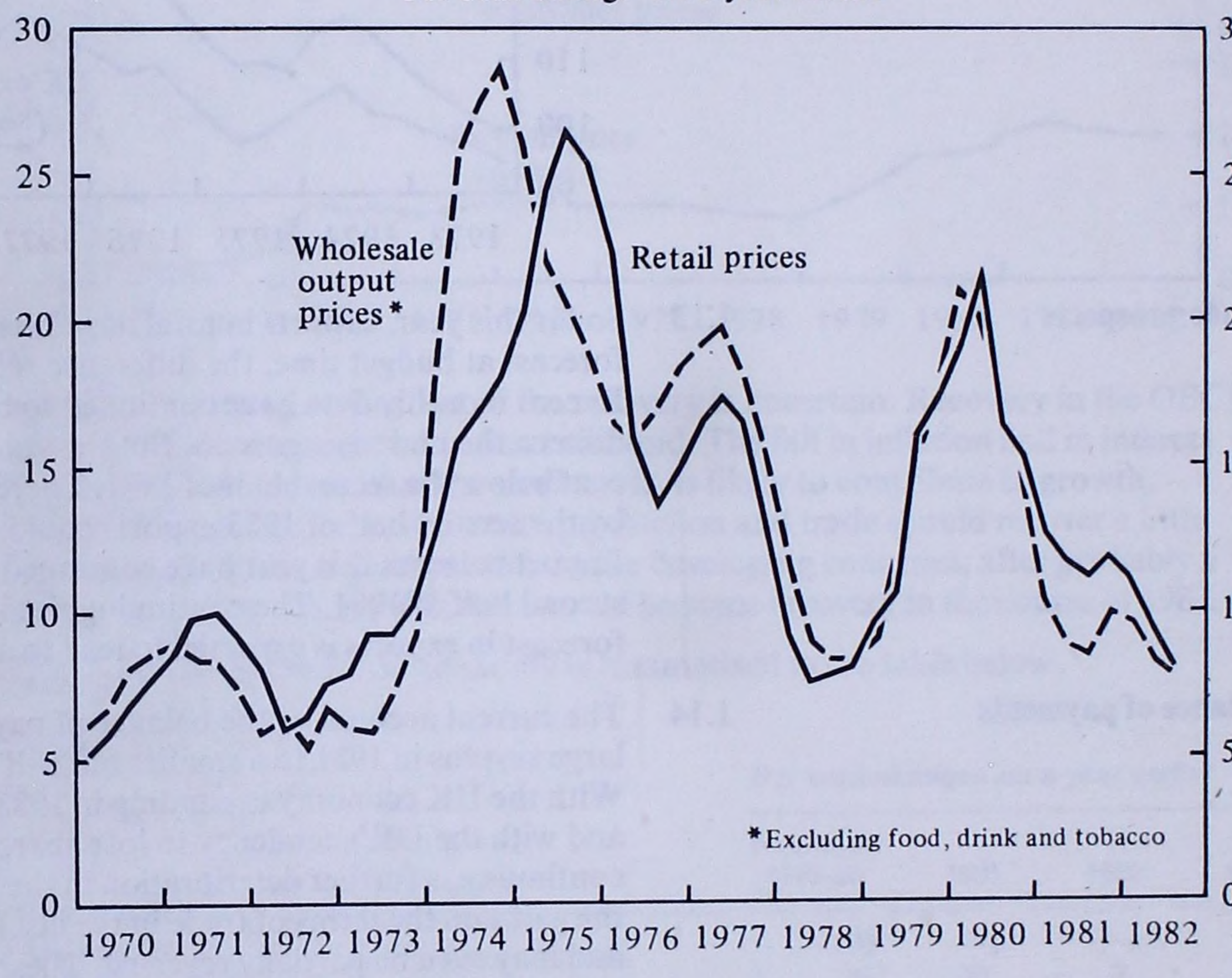
1.15 The strong downward trend in inflation resumed in 1982, having been interrupted in 1981 when the exchange rate fell. Inflation, as measured by the RPI increase over a year earlier, was 12 per cent at the end of 1981 and is expected to be about 6 per cent in the last quarter of 1982. This decline reflects both external and domestic factors. With world commodity prices falling and with sterling's effective exchange rate firm, import prices in the third quarter of 1982 were at about the same level as at the end of 1981. At home, labour costs per unit of output in the third quarter of 1982 were probably about 4 per cent higher than a year earlier, as a result of both lower wage settlements and a continued growth in productivity at well above the average rate of the 1970s. Competitive pressures—from imports as well as from a low pressure of demand—restricted firms' ability to raise prices. Even so, the fall in inflation in the course of 1982 proved to be compatible with some limited increase in profit margins (unlike the earlier period of falling inflation from mid 1980 to mid 1981, when profit margins were squeezed considerably).

1.16 The fall in inflation also reflected other factors: lower price rises in the public sector (particularly rents and rates, but also nationalised industries); larger than usual falls in seasonal food prices over the summer, as a result of a good harvest after the difficulties of the previous winter; and a major fall in mortgage interest rates, where the 3 per cent fall between late 1981 and the autumn of 1982 reduced the total RPI by nearly 1 per cent. The Budget forecast of a 9 per cent rise in the RPI between the fourth quarters of 1981 and 1982 did not fully anticipate the external and internal pressures making for lower inflation.

1.17 The fall in inflation has been particularly marked in retail prices, but the twelve-monthly change in wholesale output prices is also coming down, to perhaps an annual rate of $6\frac{1}{2}$ per cent at the end of 1982, compared to 10 per cent at the end of 1981. The GDP deflator is forecast to be $7\frac{1}{2}$ per cent higher in 1982–83 than a year earlier.

CHART 3 Inflation

Per cent change on a year earlier



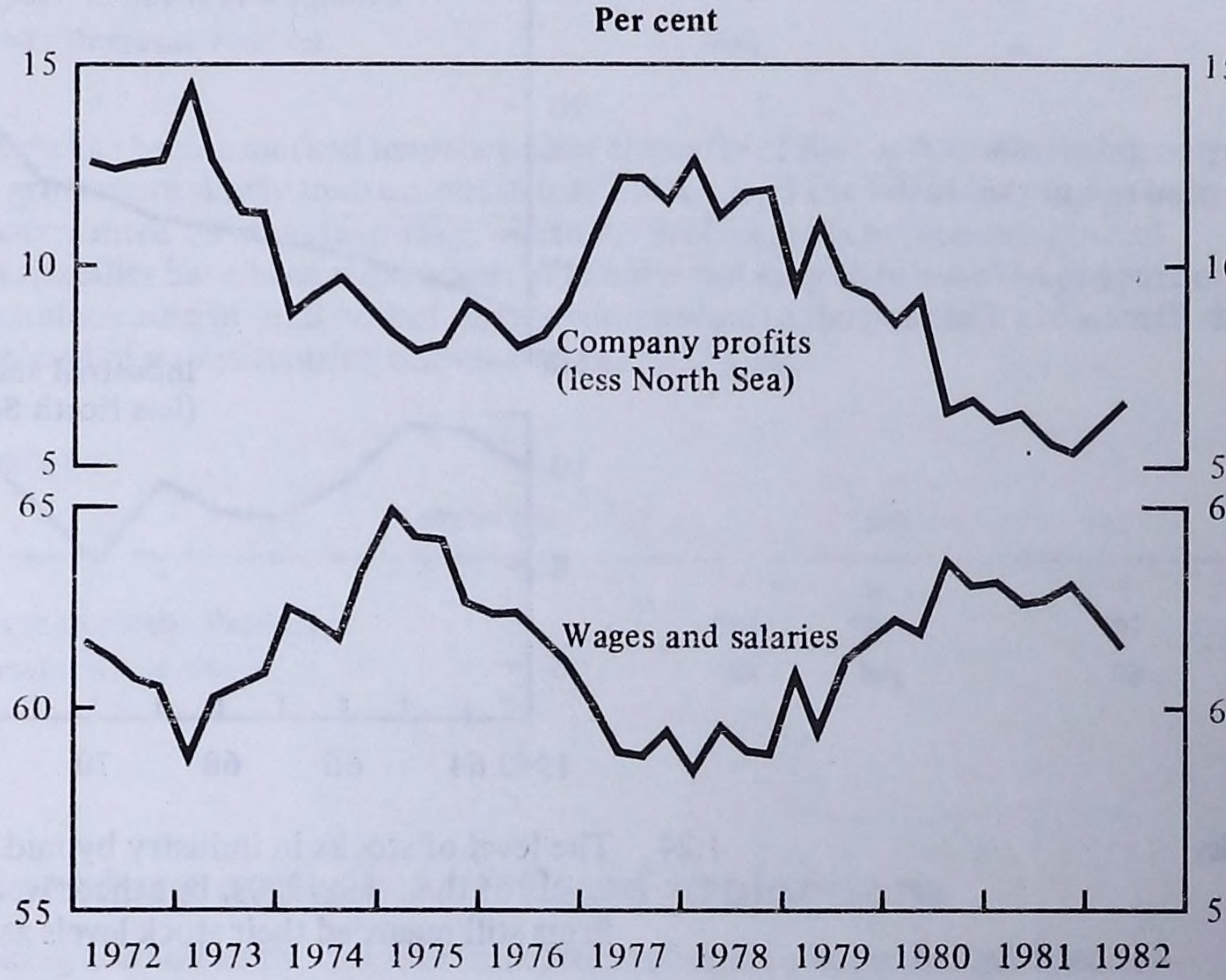
Prospects for Inflation

1.18 Over the next few months, the annual rate of increase of the RPI is expected to fall to about 5 per cent (the lowest rate since 1970), as a result of further falls in mortgage interest rates, continued low increases in private sector prices, and further falls in inflation in the public sector. Externally, the modest recovery forecast for world activity in 1983 seems unlikely to put much upward pressure on commodity prices, though it could be expected to lead to a firmer trend. At the end of 1983, the inflation rate may still be around 5 per cent.

Pay

1.19 In the 1981–82 pay round, wage settlements averaged about 7 per cent. Earnings growth was about 9 per cent, still a little above the average of our main competitors. While the last pay round took place against the background of inflation rates—looking backwards—mostly of 10 per cent or more, the level of wage settlements over the next twelve months will take place against a measured inflation rate that will soon be below 6 per cent. In these circumstances a further significant fall in the level of wage settlements is to be expected. The extent of that fall will depend on how quickly both employers and employees take account of the much lower prospective rates of inflation now becoming apparent. The adverse consequences for employment of a failure to keep costs under control, at a time of falling inflation, were clearly demonstrated in 1980–81. Chart 4 shows the fall in profit shares in recent years, together with the fluctuations in the wage shares.

CHART 4 **Shares in total non-North Sea income**



Demand and activity

1.20 Between the first halves of 1981 and 1982 domestic demand rose by about 3 per cent in real terms, all of the rise coming from the private sector. The main factor was the absence of further de-stocking. In addition, there was a small rise in private sector investment, even after allowing for the acquisition of assets, including council houses, from the public sector.

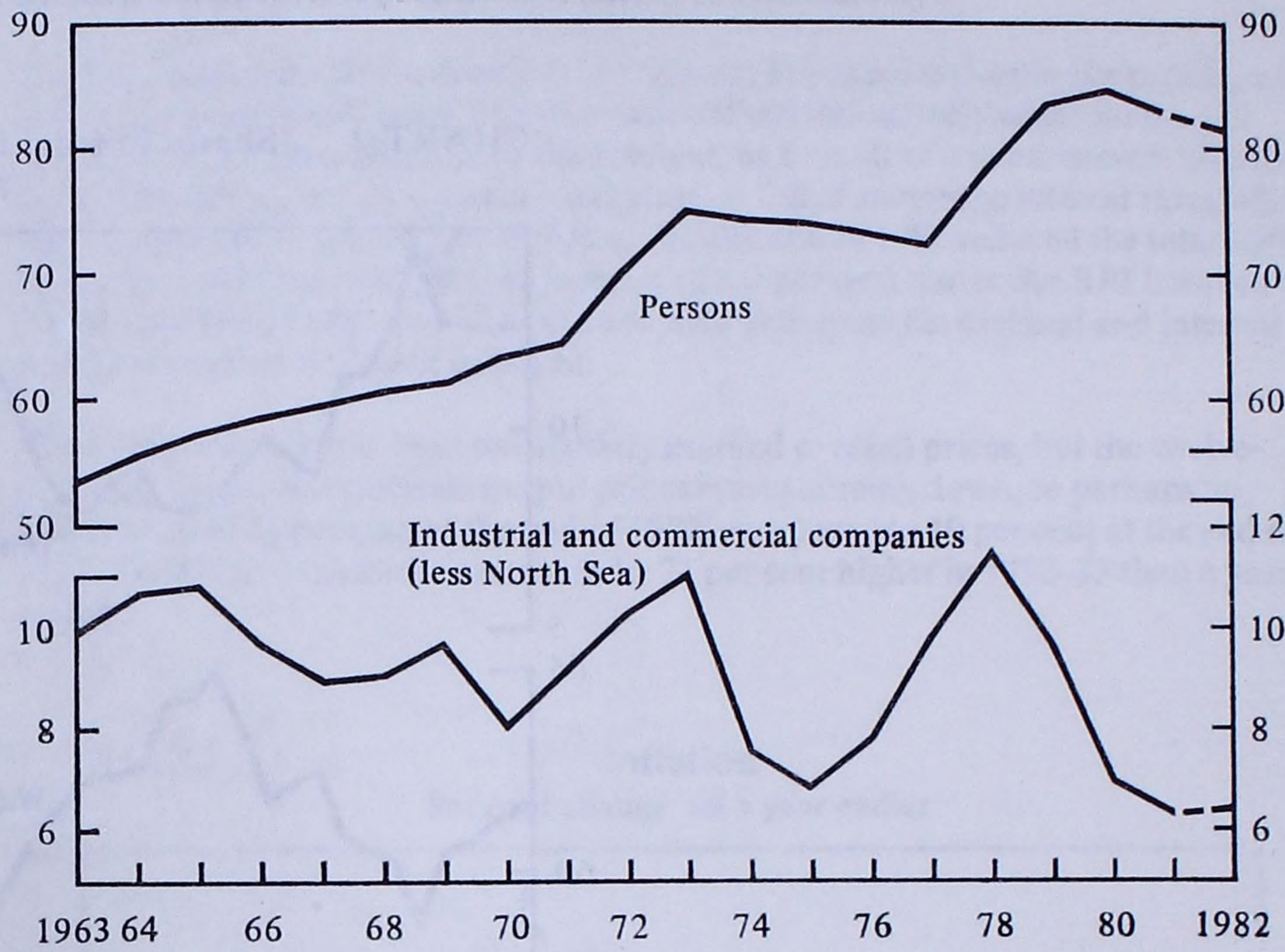
Personal consumption

1.21 Personal consumption changed little in the year to the first half of 1982, though within the total there was a further small fall in durables. The real income of the personal sector, after tax, reached a peak in 1980 and by the first half of 1982 had declined by over 3 per cent. But there has been some offsetting rise in borrowing, particularly from banks, and the savings ratio has fallen from 15½ per cent in 1980 to 12½ per cent in the first half of 1982: this reflects in large part the customary desire to protect spending habits in the face of fluctuations in incomes; but it may also reflect less desire to save as inflation comes down and the real value of monetary assets falls more slowly, helped in part by higher prices for gilts and equities. Latest indications are that personal consumption in the second half of 1982 will be rather above the level in the first half, partly because borrowing has become both easier and cheaper.

1.22 Over the forecast period personal consumption seems likely to be the main force behind the rise in domestic demand. Some increases in real disposable income, and further effects from falls in interest rates and inflation—implying some further, moderate, fall in the savings ratio—all point to consumers' expenditure rising in 1983, perhaps by 2½ per cent. The personal sector's investment in housing should continue to respond to lower rates of interest.

1.23 Chart 5 shows the developments in recent years in the real disposable incomes of companies and persons.

CHART 5 **Real disposable incomes**
£ billion, 1975 prices



Stocks

1.24 The level of stocks in industry by mid 1982 had fallen back a long way towards the levels of the later 1970s, but there were indications, from survey data, that many firms still regarded their stock levels as too high.

Table 1.2

	Manufacturing	
	Stock/output ratio end 1974=100	Percentage balance of CBI firms whose stocks of finished goods are more than adequate
1977–79	101	+7
end 1980	114	+33
end 1981	106½	+17
mid 1982	107½	+18
end 1982	106½ (forecast)	+19

1.25 In manufacturing, little further change in stock levels is forecast to the end of 1983, consistent with a small further decline in the stock/output ratio. In the distributive sector, a rising level of consumers' expenditure suggests some rise in stocks.

Investment

1.26 Investment in total in the first half of 1982 was 3 per cent higher than a year earlier, with a fall in the public sector and a rise in the private sector. Surveys suggest that the trough in manufacturing investment should be passed this year; and with some continuing rise in the large distributive and services sector, the forecast is for a slow rise in the total. Investment in dwellings, taking public and private sectors together, is expected to show a substantial recovery after the falls in 1980 and 1981.

Demand and activity

1.27 The prospects are summarised in the table below, taken from the more detailed projections in table 1.10:

Table 1.3

	Volumes, per cent changes on a year earlier		
	1981	1982	1983
Domestic demand	−1½	3	3
Exports of goods and services	−2	−1	0
Total final expenditure	−1½	2	2½

1.28 Poor levels of profitability and competitiveness seem likely to restrict the share of demand met by domestic producers.

Table 1.4

Volumes, per cent changes on a year earlier

	1981	1982	1983
Imports of goods and services	0	4½	5
Gross Domestic Product	−2½	½	1½

1.29 There has been a marked tendency since the early 1970s for manufacturing output to grow more slowly than output in total. Since 1979 the fall in output has been concentrated on manufacturing, where the problems of competitiveness and profitability have been most acute. While it is not easy to foresee the proportion of manufacturing in total output, the forecast points to the possibility of a small rise in the level of manufacturing output over the next year:

Table 1.5

1975=100	1982 I	1982 II	1983 I	1983 II
Gross Domestic Product	106	106	107	108
Manufacturing output	89	88½	89	89½

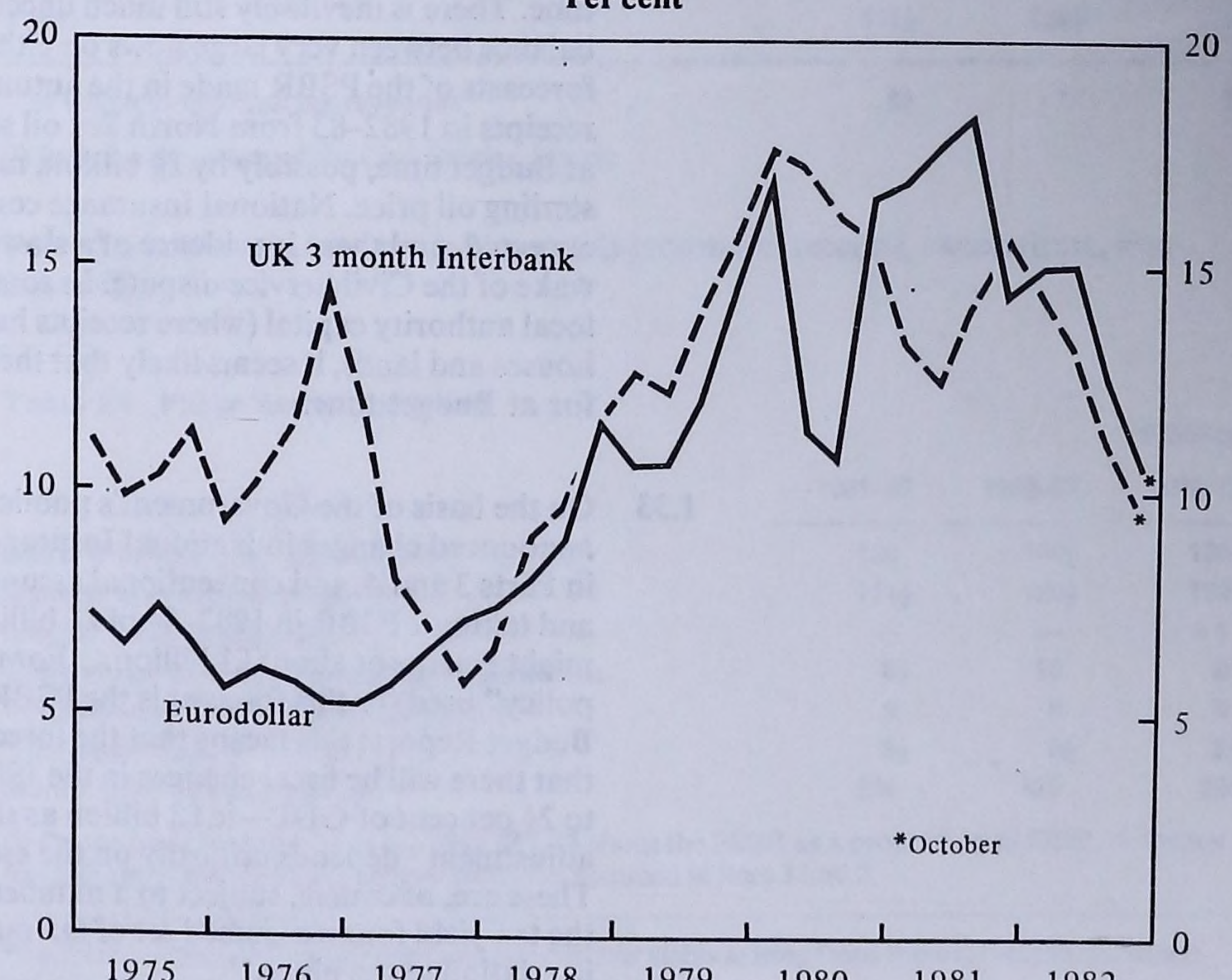
Monetary growth and fiscal projections

Money supply and interest rates

1.30 Taking account of the range of indicators referred to in the Budget Speech—including the broad and narrow aggregates, the exchange rate and real interest rates—monetary conditions have continued to exert downward pressure on inflation. Interest rates have moved sharply downwards over the last year in world and UK markets.

CHART 6 **Interest rates**

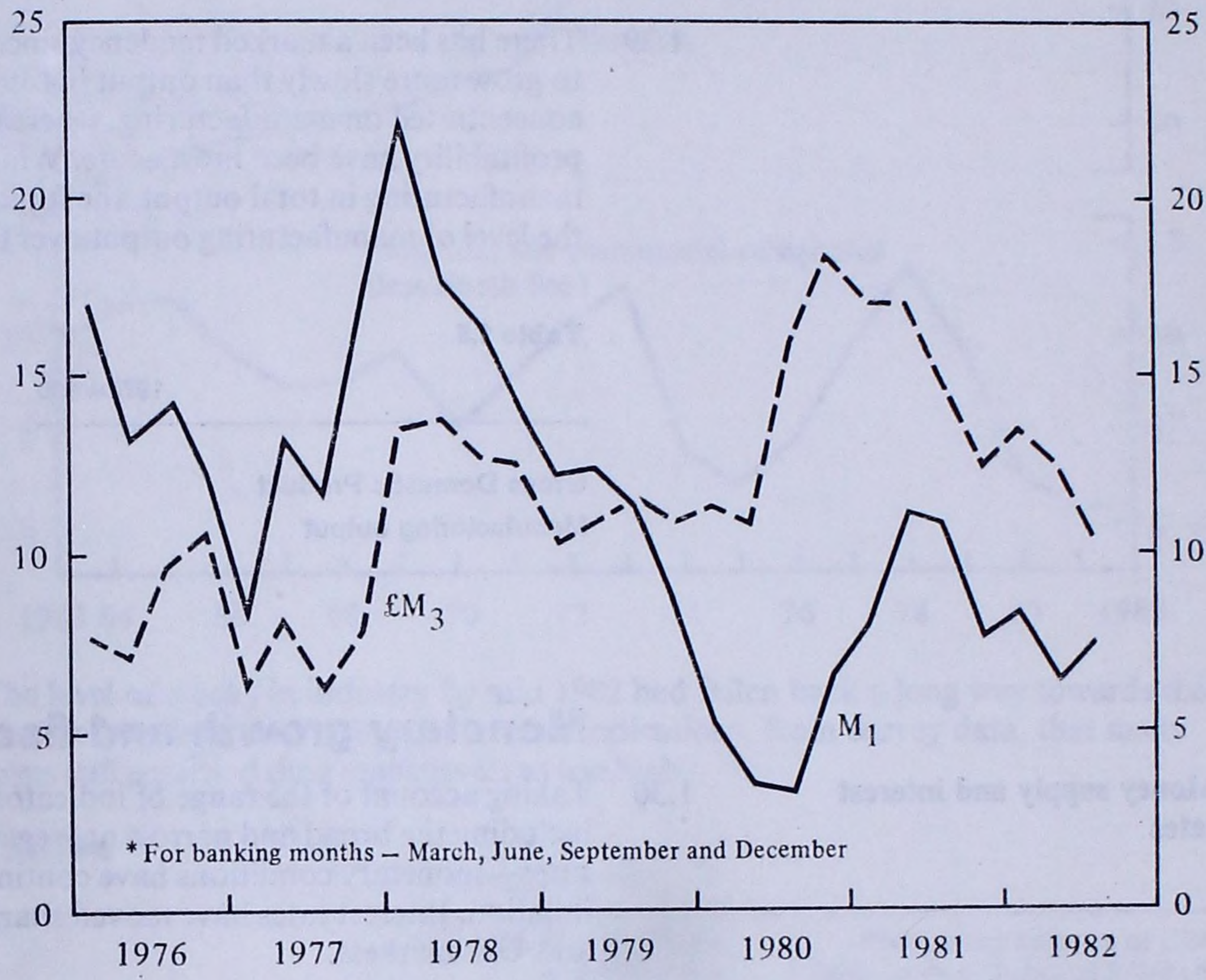
Per cent



1.31 Broad monetary aggregates, including £M3, are assumed to increase within the MTFS range in 1983–84. Recent months have seen a relatively more rapid growth in M1 (75 per cent of which does not bear interest) as a result of the decline in interest rates since last autumn. The lower level of interest rates will continue to add to the growth of M1 which may exceed the top end of the range.

CHART 7 **Money supply**

Per cent changes on a year earlier*



* For banking months – March, June, September and December

Public sector borrowing requirement

1.32 In the first half of 1982–83 the PSBR was £3 billion seasonally adjusted. The total for the year is put at £9 billion, or about £½ billion less than forecast at Budget time. There is inevitably still much uncertainty about this forecast. The PSBR is the balance between very large flows on either side: in recent years the average error, on forecasts of the PSBR made in the autumn, has been some £2 billion. On revenues, receipts in 1982–83 from North Sea oil seem likely to be higher than expected at Budget time, possibly by £¾ billion, mainly reflecting a higher than expected sterling oil price. National Insurance contributions have been lower than expected, and there is evidence of a slower recovery of some tax receipts in the wake of the Civil Service dispute. In some areas of public expenditure, notably local authority capital (where receipts have been increased through sales of council houses and land), it seems likely that there will be more underspending than allowed for at Budget time.

1.33 On the basis of the Government's public spending plans shown in Part 2, announced changes in National Insurance contribution rates and taxation shown in Parts 3 and 4, and conventional assumptions of indexed tax rates and allowances, and taking a PSBR in 1983–84 of £8 billion, the fiscal adjustment in that year might emerge at about £1 billion. For that year the definition of "unchanged policy" used for this forecast is the PSBR in table 8 of the Financial Statement and Budget Report: this means that the forecast. like the MTFS, makes the assumption that there will be fiscal changes in the 1983 Budget to bring the PSBR for 1983–84 to 2¾ per cent of GDP—ie £8 billion as shown in table 1.8. The size of the "fiscal adjustment" depends critically on the estimates of revenues and expenditure. These are, of course, subject to a number of major uncertainties about, for example, the tax yield for an assumed set of tax rates and the actual level of public spending in relation to the plans.

Government expenditure

1.34 General government expenditure in national accounts terms is forecast to rise 8½ per cent in 1982–83 and 4½ per cent in 1983–84. Table 1.6 below shows the basis of these figures.

Table 1.6 General Government Expenditure

£ billion

	1981–82	1982–83	1983–84
General government expenditure(1)	104	114	119
Special asset sales	0	−½	−½
National accounts adjustments	2	3	4
Interest payments	14	14	14
Total expenditure in national accounts terms	**120**	**130½**	**136½**

(1) The forecasts are derived from the public expenditure plans in part 2, allocating the contingency reserve to general government and making allowance for shortfall.

Revenue projections

1.35 Revenue estimates depend on incomes, spending and prices, as well as on policy decisions. Revenue in 1983–84 is projected on conventional assumptions of revalorisation of the main direct tax allowances and thresholds, and of excise duties, using a figure of 6 per cent,* and takes account of National Insurance contribution and National Insurance Surcharge proposals summarised in Parts 3 and 4 of this Statement. Estimates for oil revenues assume that North Sea oil prices do not change much from present levels.

1.36 The revenue projections are based on growth of real GDP of ¾ per cent in 1982–83 and 1¾ per cent in 1983–84. The general rate of inflation, as measured by the GDP deflator, is put at 7½ per cent in 1982–83 and 5 per cent in 1983–84.

Table 1.7 General Government Receipts

£ billion

	1981–82	1982–83	1983–84
Taxes on income, expenditure and capital	86	91	97
National Insurance and other contributions	16½	18½	21
Interest and other receipts	11	11	12
Accruals adjustments(1)	−2	0	−½
Total	**111½**	**120½**	**129½**
of which North Sea tax revenues	6½	7	7½

(1) Includes the effects of the Civil Service dispute.

Borrowing

1.37 Table 1.8 below provides projections of Government receipts, expenditure, and borrowing:

Table 1.8 Public Sector Borrowing

£ billion

	1981–82	1982–83	1983–84
General government expenditure	120	130½	136½
General government receipts	111½	120½	129½
Implied fiscal adjustment(1)	—	—	+1
General Government Borrowing Requirement	8½	10	8
Public Sector Borrowing Requirement	9	9	8
as percentage of GDP:	3½	3¼	2¾
Money GDP at market prices	254	275	294

(1) On the same assumption as the 1982 MTFS about the PSBR as a proportion of GDP. + means lower taxes or higher public expenditure than assumed in lines 1 and 2.

*Part 5 shows the additional direct revenue costs or yields arising from these assumptions, which are reflected in the forecast.

The Prospects: Summary

1.38 Table 1.9 below presents a summary of the economic prospects.

Table 1.9 Economic Prospects

	Percentage changes		
	1981 to 1982	1982 to 1983	Average errors from forecasts, relevant for 1983
A *Output and expenditure at constant 1975 prices*			per cent
Gross domestic product (at factor cost)	½	1½	1
Consumers' expenditure	½	2½	1½
General government current expenditure	2	1	1½
Fixed investment	3	5	2½
Exports of goods and services	−1	0	3
Change in rate of stock-building as a percentage of the level of GDP	2	½	1
Imports of goods and services	4½	5	3
	1982	1983	
B *Balance of payments on current account* (£ billion)	3½	0	3
C *Retail prices index* (4th quarter to 4th quarter)	6	5	3

The errors relate to the average differences (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications on Government forecasts, notably in Economic Progress Report, June 1981. The calculations for the constant price variables are now derived from internal forecasts made during the period June 1965 to October 1980. For the current balance and the retail prices index, forecasts made between June 1970 and October 1980 are used. The errors are after adjustment for the effects of major changes in fiscal policy, where excluded from the forecast. Quarterly forecasts are grouped so as to be comparable with changes between calendar years as shown. Thus for forecasts of constant price variables and the current account made in quarter 0 the errors relate to the forecast period (quarters 1 to 4) compared with the base year (quarters −3 to 0). For the retail prices index the margin relates to the percentage change between quarter 0 and quarter 4.

Table 1.10 Constant price forecasts of expenditure, imports and gross domestic product*

£ million at 1975 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Less Imports of goods and services	Less Adjustment to factor cost	Plus Statistical adjustment	Gross domestic product at factor cost	GDP index 1975=100
1980	71 550	24 300	20 450	33 100	−1 550	147 850	34 150	12 200	200	101 700	108·0
1981	71 750	24 450	18 750	32 400	−1 900	145 450	34 100	12 100	0	99 250	105·4
1982	72 150	24 900	19 350	32 150	−150	148 400	35 650	12 150	−600	100 000	106·2
1983	73 800	25 100	20 300	32 200	300	151 700	37 450	12 500	−500	101 250	107·6
1981 H1	35 900	12 150	9 350	15 850	−1 350	71 900	15 950	6 100	−250	49 600	105·4
H2	35 850	12 300	9 400	16 550	−550	73 550	18 150	6 000	250	49 650	105·5
1982 H1	35 750	12 400	9 650	16 300	0	74 100	17 750	6 000	−350	50 000	106·2
H2	36 400	12 500	9 700	15 850	−150	74 300	17 900	6 150	−250	50 000	106·2
1983 H1	36 650	12 500	10 050	15 950	100	75 250	18 500	6 200	−250	50 300	106·9
H2	37 150	12 600	10 250	16 250	200	76 450	18 950	6 300	−250	50 950	108·2
% changes:											
1980 to 1981	½	½	−8	−2		−1½	0	−½		−2½	
1981 to 1982	½	2	3	−1		2	4½	½		½	
1982 to 1983	2½	1	5	0		2½	5	3		1½	

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

2. Outline public expenditure plans for 1983-84

2.01 The Government have reviewed the public expenditure plans for 1983–84. These were published in the Public Expenditure White Paper (Cmnd 8494), and were modified by the changes announced by the Chancellor of the Exchequer in his Budget speech. Table 2.1 shows the revised public expenditure plans as now decided and compares them with the White Paper plans, as modified by the Budget changes and other minor changes of classification and allocation. It also shows, for the purposes of comparison, the 1982–83 plans as published in the White Paper, again modified to take account of the Budget and other minor changes. All figures are in cash unless otherwise stated.

The planning total

2.02 The outcome of the review is to keep the planning total for 1983–84 within the figure in the 1982 White Paper as modified (£120·7 billion). This is the first time since 1977 that the annual review has not led to an increase in planned expenditure. Table 2.2 shows the planning totals from 1977–78 to 1983–84 in cash and in cost terms; and public expenditure expressed as a ratio to GDP. Full details will be published in the annual Public Expenditure White Paper in due course.

Changes in plans

2.03 Major increases in plans, compared with the post-Budget plans are:

	£ million
(i) local authority current expenditure* (paragraphs 2.29–2.31)	1100
(ii) defence (paragraph 2.05)	622
(iii) social security (paragraph 2.25)	606
(iv) employment (paragraph 2.15)	168

*Some of this is included in the departmental figures, the remainder is shown unallocated.

2.04 Major reductions are:

	£ million
(i) European Community net contributions (paragraph 2.07)	150
(ii) National Insurance Surcharge (paragraph 2.34)	391
(iii) special sales of assets: higher estimated receipts (paragraph 2.35)	150
(iv) contingency reserve (paragraph 2.36)	2500

Details of the changes

Defence

2.05 The plans provide for real growth in accordance with the Government's commitment to plan to implement in full the NATO aim of 3 per cent growth per annum. The addition of £622 million in 1983–84 is to meet the defence costs associated with the Falkland Islands in that year.

FCO (including Overseas Development Administration)

2.06 The main item in the increase of £29 million is an addition of £21 million to the overseas aid programme.

European Community

2.07 Provision is reduced by £150 million to reflect revised estimates of net payments to European Community institutions.

Intervention Board for Agricultural Produce	2.08	The increase of £45 million reflects revised estimates of the cost of implementing European Community agricultural support measures.
Agriculture	2.09	The net increase of £11 million mainly reflects estimating changes on expenditure 100 per cent funded by the European Community.
Forestry Commission	2.10	The reduction of £3 million will be mainly achieved by reduced expenditure on vehicles and machinery.
Industry	2.11	The main causes of the increase of £47 million are estimating changes, principally in demand-determined expenditure, including assistance to the shipbuilding and steel industries.
Energy	2.12	The net increase of £33 million reflects increased support for the coal industry and changes in R & D expenditure.
Trade	2.13	Increases for civil hydrography and higher local authority current spending on consumer protection services have been offset by savings elsewhere. The Civil Aviation Authority has been set an External Financing Limit of £16·5 million for 1983–84. The net overall reduction is £3 million.
Export Credits Guarantee Department	2.14	The reduction of £85 million reflects lower estimates of interest support costs for fixed rate export credit.
Employment	2.15	The net increase of £168 million reflects increases of £311 million, partly offset by savings of £143 million. Of the increases, the bulk, some £260 million, is accounted for by two new special employment measures which were announced on 27 July. These measures, the Community Programme and the Job Splitting Subsidy, will lead to savings in the form of lower spending on social security benefits. Allowing for these flowbacks, the new measures will add about £110 million to overall public expenditure in 1983–84. The savings result mainly from new estimates of take-up of the job release scheme, the temporary short time working compensation scheme and the young workers scheme.
Transport	2.16	No significant changes have been made to the provision for transport which covers both central and local government spending. It will therefore be possible to maintain the momentum of the roads construction programme and finance the provision of further by-passes for communities suffering from heavy through traffic.
Environment—Housing	2.17	The programme total has been increased by £49 million. Subject to consultations for housing subsidy purposes, an increase of 85p per week in average council house rents will be assumed in setting the provision for capital expenditure. This, together with the continuing high level of receipts from sales of council houses, should allow an increase in gross capital spending (including the continuation of the higher improvement grant rates introduced in the last Budget) of at least 10 per cent above forecast outturn for 1982–83.
Environment—PSA	2.18	A net increase of £4 million has been agreed. This will help to increase Civil Service efficiency by allowing an improvement in substandard accommodation.
Environment—Other Environmental Services	2.19	Three-fifths of the total is local authority current expenditure. Additional receipts from the sale of local authority fixed assets will permit a substantial increase in gross capital expenditure on local environmental services of about a third over the forecast outturn for 1982–83. Substantially increased provision will be made for the urban capital programmes, to support the new urban development grant programme and the Urban Development Corporations in London Docklands and Merseyside. Provision for derelict land clearance will also be increased. A new presentation has been adopted for Water Authorities; the figures now represent Government finance to the Authorities, rather than their capital investment and the White Paper figures have been adjusted to be consistent with this. An expected increase in the level of internal finance will allow some increase in investment despite a reduction in the industry's external financing requirement. The overall result is a reduction of £107 million.

Home Office

2.20 The increase in provision of £96 million reflects the Government's continuing emphasis on the fight against crime. The main increase is for the police, but there is also a substantial increase for prisons, with smaller additions for the probation services and magistrates' courts.

Lord Chancellor's Department

2.21 The reduction in provision of £13 million mainly reflects increased receipts from fees.

Education and Science

2.22 Four-fifths of the total is local authority current expenditure. Changes in vote borne expenditure include increased provision for new technologies, including the recruitment of young researchers, and for increased costs in the universities, particularly superannuation; and savings on student awards. Overall provision is increased by some £64 million.

Office of Arts and Libraries

2.23 Total expenditure, which covers both central and local government, is planned to increase by £4 million to £561 million.

Health and Personal Social Services

2.24 For the National Health Service, the Government have already agreed to increase the provision in last year's plans to cover part of the cost in 1983–84 of the pay offers made this year to NHS staff. In addition provision is now increased by a further £80 million in England for health authority services, welfare milk and new central initiatives for service improvements. This should allow further real growth in the hospital and community health services. Local authority expenditure on personal social services is planned to increase by £62 million.

Social Security

2.25 The programme includes revised estimates of benefit provision reflecting the latest information on expenditure in the current year and changes in economic assumptions. It is assumed that the uprating of benefits in November 1983 will be based on an increase in prices over the preceding 12 months of 5 per cent, but an adjustment will be made to that figure to have regard to the fact that the provision in this year's uprating for the rise in prices since November 1981 will have exceeded the actual rise. The precise extent of next year's uprating for individual benefits will, as usual, be decided at Budget time, but the part-year effect on the programme will be a reduction of expenditure in 1983–84 of £180 million.

Scotland, Wales, Northern Ireland

2.26 The net changes in these programmes mainly reflect changes in comparable programmes in England. The Secretaries of State have discretion to make allocations of this comparable expenditure which take account of local factors.

Other departments

2.27 The net reduction of £8 million in 1983–84 represents a number of offsetting increases and decreases in the expenditure of the tax departments and a large number of small departments. The most significant of these is an increase of £6 million in respect of expenditure which Parliament expects to incur.

Nationalised Industries

2.28 External Financing Limits (EFLs) for nationalised and other industries in 1983–84 are set out in Table 2.3. The major changes arise from decreases in the likely requirements of British Telecom and British Airways offset by increased requirements in the energy industries. Overall, there is a small decrease in external financing requirements.

Local authorities

Current expenditure

2.29 Outturn exceeded the provision in public expenditure plans by £1¾ billion in 1981–82, and this year another substantial overspend of around £1½ billion, financed by high rate increases, is under way. The Government are obliged to recognise likely overspends in formulating plans for the future, however much they may regret them. Otherwise, the Government's spending plans would become unrealistic. Plans for the current component of expenditure relevant for Exchequer revenue support in 1983–84 therefore make provision for expenditure which is realistic in relation to this year's level of overspending, but also indicate the lower level of expenditure which the Government consider desirable.

2.30 The plans for local authority relevant current expenditure in 1983–84 accordingly make provision for £23·3 billion which will allow for an increase of 1·2 per cent in cash terms over local authority budgets for 1982–83. This is some £1,060 million above the figure implied by plans in Cmnd 8494. Only £270 million of this increase will be allocated amongst service programmes. The remainder is included but not allocated. It represents the anticipated spending by local authorities above the level that the Government considers desirable. Although this amount will not be allocated amongst service programmes it will be included in the calculation of expenditure targets.

2.31 The plans imply significant real savings or improvements in efficiency. Local authorities are nonetheless free to make their own decisions about the level and pattern of current spending, within their statutory obligations. But grant to those authorities exceeding their expenditure targets will be reduced.

Exchequer grants

2.32 In 1983–84 the Government are prepared to provide Exchequer grants to local authorities in Great Britain totalling some £14·7 billion, but that figure may be reduced if expenditure targets are exceeded. In 1982–83 aggregate Exchequer grant was abated by £350 million, to £13·9 million in response to overspending. RSG settlements for 1983–84 thus provide for £450 million more grant than the settlements for 1982–83, and for £800 million more than was paid in respect of that year.

Capital expenditure

2.33 The plans for local authority capital expenditure allow an increase in net expenditure of over a third from the disappointing levels likely to be achieved in 1982–83. Present indications are that the local authority capital cash limits for 1982–83 will be underspent by £1¼ to £1½ billion. The main reason seems to be authorities' continued reluctance to use the proceeds of sales of assets to supplement capital allocations. The method of allocation is therefore being modified to encourage local authorities to make fuller use of the provision available.

National Insurance Surcharge

2.34 As indicated in Part 4, the benefits of the reductions in National Insurance Surcharge announced there will not accrue to the public sector; public expenditure programmes will be adjusted downwards as necessary before the publication of the 1983 Public Expenditure White Paper.

Special sales of assets

2.35 Net proceeds from special sales of assets are forecast to increase by £150 million, reflecting a number of changes. There are considerable uncertainties attached to this figure which is dependent on market conditions at the time of sales.

Contingency Reserve

2.36 The White Paper included for 1983–84 a provisional reserve of £4 billion. A figure of this size was included at that stage because of the uncertainties inherent in planning in cash further than one year ahead. As part of the review of plans, some £2½ billion of this provisional reserve has now been allocated to programmes. The Contingency Reserve of £1½ billion now planned will be a control total in the usual way.

Public Expenditure Plans

Table 2.1 Public Expenditure Plans

£ million

	1982–83	1983–84	1983–84
	White Paper (Cmnd 8494) with Budget changes(1)	White Paper (Cmnd 8494) with Budget changes(1)	Revised plans(2)
Departments (excluding nationalised industries' external finance):—			
Ministry of Defence	14 073	15 278	15 900
Foreign & Commonwealth Office (including Overseas Development Administration)	1 558	1 660	1 689
European Community	500	580	430
Intervention Board for Agricultural Produce	691	695	740
Agriculture	988	958	969
Forestry Commission	61	63	60
Department of Industry	1 571	1 077	1 124
Department of Energy	384	404	437
Department of Trade	279	278	275
Export Credits Guarantee Department	367	187	102
Department of Employment	2 654	2 770	2 938
Department of Transport	3 181	3 318	3 314
DOE—Housing	3 561	2 751	2 800
DOE—Property Services Agency	410	455	459
DOE—Other Environmental Services	3 414	3 492	3 385
Home Office	3 649	3 918	4 014
Lord Chancellor's Department	392	450	437
Department of Education & Science	12 216	12 484	12 548
Office of Arts & Libraries	537	557	561
DHSS—Health and Personal Social Services	13 581	14 492	14 634
DHSS—Social Security	31 858	33 515	34 121
Civil Superannuation	862	975	970
Scotland(3)	5 850	6 022	6 020
Wales(3)	2 356	2 408	2 432
Northern Ireland	3 543	3 773	3 822
Other Departments	1 811	2 023	2 015
Nationalised industries	2 641	2 678	2 716
Local authority current expenditure not allocated to departments	—	—	794
Special sales of assets	−600	−600	−750
Adjustments for NIS changes	−117	—	−391
Contingency reserve	2 400	4 000	1 500
PLANNING TOTAL	114 671	120 661	120 065

Note:

(1) Including other minor changes of classification and allocation.

(2) Some figures may be subject to detailed technical amendment before publication of the 1983 Public Expenditure White Paper.

(3) Excluding agricultural expenditure, which is included in the agriculture line.

Public spending 1977–78 to 1983–84

Table 2.2 Planning Totals and Public Expenditure 1977–78 to 1983–84

£ million

	Planning total		
	Cash(1)	Cost Terms (1,2) base year 1981–82	Public expenditure(3) as % of GDP
1977–78	57 200(4)	96 800	40½
1978–79	65 900(4)	101 000	41
1979–80	77 200(4)	101 000	41
1980–81	93 500(4)	103 500	43½
1981–82	105 300(4)	105 300	44½
1982–83	114 700(5)	106 700	45
1983–84	120 100(5)	106 400	44

(1) Figures are rounded to the nearest £100 million.

(2) Cash plans adjusted for general inflation as measured by the GDP deflator at market prices. The GDP deflator is forecast to increase by some 7½ per cent in 1982–83 and some 5 per cent in 1983–84 as shown in paragraph 1.36.

(3) Includes planning total plus net debt interest, payments of VAT by local authorities and non-trading government capital consumption.

(4) Outturn/estimated outturn.

(5) Plans/revised plans.

External Financing Limits

Table 2.3 External Financing Limits for the Nationalised Industries (1983-84)

	£ million(1)
National Coal Board	1 130
Electricity (England and Wales)	−300
North of Scotland Hydro-Electric Board	7
South of Scotland Electricity Board	284
British Gas Corporation	0
British Steel Corporation(2)	200
British Telecom	120
Post Office	−20
National Girobank	0
British Airways Board	8
British Airports Authority	33½
British Railways Board	973
British Waterways Board	42
National Bus Company	69
Scottish Transport Group	19½
British Shipbuilders(3)	150
Total	2 716
Other	
Civil Aviation Authority (included in Dept. of Trade)	16½
Water Authorities (included in Other Environmental Services and Wales)	369
Total(4,5)	**3 101**

(1) Figures are shown rounded to the nearest £½ million.

(2) The prospects for the British Steel Corporation in 1983–84 are under review.

(3) The British Shipbuilders EFL is provisional pending decisions on the industry's corporate plan.

(4) The revised EFLs to take account of National Insurance Surcharge changes will be announced in due course.

(5) The corresponding total for 1983–84 in Cmnd 8494 adjusted for Budget and other changes is £3107 million.

3. Proposed changes to National Insurance Contributions

3.01 Full Class 1 National Insurance Contribution rates are currently 8·75 per cent for employees and 10·2 per cent for employers. Contributions are payable between the lower earnings limit of £29·50 a week and the upper earnings limit of £220 a week.

Proposed changes

3.02 It is proposed that from April 1983 these rates should increase for both employees and employers by 0·25 per cent to 9·0 per cent and 10·45 per cent respectively. The lower earnings limit will increase to £32·50 a week, in line with the single rate retirement pension, and the upper earnings limit to £235. There will be similar increases for the self-employed.

3.03 Full details are set out in the statement by the Secretary of State for Social Services made on 8 November 1982 in connection with the laying of the necessary re-rating order and the accompanying report by the Government Actuary. The estimated financial effects of the changes proposed here and in Part 4 are shown in a statistical table which is being made available to Parliament.

3.04 In accordance with normal practice, the Government Actuary has been provided with working assumptions for the purpose of preparing his report. These assumptions, which are not forecasts or predictions, are summarised in his report, and include the following: that the number unemployed, GB excluding school leavers etc., averages 2,900,000 in 1982–83 and 3,200,000 in 1983–84; that average earnings in the tax year 1983–84 will be 6½ per cent higher than in 1982–83; and that the expected movement in prices between November 1982 and November 1983 will be 5 per cent.

3 Proposed changes to National Insurance Contributions

3.01 [illegible] National Insurance [illegible] contributions are currently [illegible] per cent [illegible] per cent for employers. Contributions are [illegible] between the lower earnings limit [illegible] and the upper earnings limit [illegible].

3.02 [illegible] contribution rate [illegible] per cent [illegible]. The lower earnings limit [illegible]. [illegible]

3.03 Full details are set out in [illegible] statement by the Secretary of State for Social Services made on 8 November [illegible] in conjunction with the laying of the necessary draft order and the accompanying reports by the Government Actuary. [illegible] financial effects of the changes proposed here and in Part [illegible] are shown in the statistical table which is being made available to Parliament.

3.04 [illegible] the Government Actuary [illegible] with working assumptions for the purpose of [illegible]. These assumptions, which are not forecasts or predictions, are summarised in his report, and include the following: that the average [illegible] unemployed, GB excluding school leavers, [illegible]; that average earnings in [illegible] will be [illegible] per cent higher than in [illegible]; and that the expected movement in prices between November [illegible] and November [illegible] will be 5 per cent.

4. Proposed changes to the National Insurance Surcharge

4.01 The National Insurance Surcharge (NIS) was introduced in April 1977 at a rate of 2 per cent. It was increased to $3\frac{1}{2}$ per cent in October 1978. In the last Budget it was reduced by 1 percentage point to $2\frac{1}{2}$ per cent, to take effect from August 1982; a further $\frac{1}{2}$ percentage point reduction between August and April 1983 was also given. The effective reduction of 1 percentage point was therefore for the whole of 1982–83.

Proposed change, 1983–84

4.02 It is proposed to effect a further 1 percentage point reduction from April 1983. The rate of payment from then will be $1\frac{1}{2}$ per cent.

4.03 The direct revenue cost of this in 1983–84 will be about £1100 million. Of this about £400 million is being recovered through reductions in public expenditure programmes, leaving the benefit to private employers at about £700 million.

Proposed change, 1982–83

4.04 In addition it is proposed that part of this further reduction should be brought forward in such a way as to give approximately the effect of a further $\frac{1}{2}$ per cent reduction in the NIS for the year 1982–83. This will be effected by providing for those employers paying the NIS in respect of January to March 1983 to deduct 3 per cent from the total of their payments of National Insurance Contributions and of NIS for 1982–83. The benefit of this, for private sector employers, is expected to be around £350 million in 1982–83. Public sector employers will not benefit.

4.05 A Bill to provide for these changes will be introduced shortly.

4. Proposed changes to the National Insurance Surcharge

4.01 The National Insurance Surcharge (NIS) was introduced in April 1977 at a rate of 2 per cent. It was increased to 3½ per cent in October 1978. In the last Budget it was reduced by 1 percentage point to 2½ per cent, to take effect from August 1982; a further ½ percentage point reduction between August and April 1983 was also given. The effective reduction of 1 percentage point was therefore for the whole of 1982–83.

Proposed change, 1983-84

4.02 It is proposed to make a further 1 percentage point reduction from April 1983. The rate of payment from then will be 1½ per cent.

4.03 The added revenue cost of this in 1983-84 will be about £1100 million. Of this about £400 million is being recovered through reductions in public expenditure programmes, leaving the benefit to private employers at about £700 million.

Proposed change, 1982-83

4.04 In addition it is proposed that part of this further reduction should be brought forward in such a way as to give approximately the effect of a further ½ per cent reduction in the NIS for the year 1982–83. This will be effected by providing for those employers paying the NIS in respect of January to March 1983 to deduct ½ per cent from the total of their payments of National Insurance Contributions and of NIS for 1982–83. The benefit of this, for private sector employers is expected to be around £250 million in 1982–83. Public sector employers will not benefit.

4.05 A Bill to provide for these changes will be introduced shortly.

5. The revenue effects of illustrative tax changes

5.01 The tables below show various illustrative changes to the major taxes and estimates of their direct revenue effects at forecast 1983–84 price and income levels. Figures are given for full year effects and also the effect in the first year (1983–84)—that is, the part of the full year effect which would be expected to come through in tax receipts in that financial year.*

5.02 Estimates of the size of the direct effects of tax changes depend on economic variables, such as prices, earnings, consumer expenditure, etc, and thus may alter as the prospects change. The illustrative tables which follow are based on a view of the economy that is consistent with Part 1.

5.03 There are, in principle, a number of ways of measuring the direct effect on revenue of a tax change, depending on the assumptions made about changes in the tax base and whether revenue from other taxes is included. The definitions used here are explained in more detail on page 9 of the 1981–82 Financial Statement and Budget Report.

5.04 Where appropriate the figures set out below show the effect of indexation by an illustrative 6 per cent.

Indexation of allowances, thresholds and bands for 1983-84

5.05 With indexation by 6 per cent the 1983–84 levels of allowances, thresholds and bands would be as shown below. The rules for rounding up set out in the 1980 Finance Act (for income tax) and the 1982 Finance Act (for capital transfer tax and capital gains tax) have been followed. 1982–83 figures are shown for comparison:

Indexation: Income tax

Table 5.1 Income Tax

Allowances	1983–84 £	1982–83 £
Single and wife's earned income allowance	1665	1565
Married allowance	2595	2445
Additional personal and widows' bereavement allowance	930	880
Single age allowance	2200	2070
Married age allowance	3495	3295
Aged income limit	7200	6700

Income tax rates (per cent)	Bands of taxable income 1983–84 £	1982–83 £
30	1–13 600	0–12 800
40	13 601–16 100	12 801–15 100
45	16 101–20 400	15 101–19 100
50	20 401–27 000	19 101–25 300
55	27 001–33 600	25 301–31 500
60	over 33 600	over 31 500

	1983–84 £	1982–83 £
Investment income surcharge threshold	6700	6250

*Neither of these is the same as the effect on the public sector borrowing requirement (PSBR) because of the second round effects of tax changes on the economy.

Indexation: Capital Taxes

Table 5.2 Capital Transfer Tax

Rate on death	Lifetime rate	Bands of chargeable value 1983–84	Bands of chargeable value 1982–83
per cent	per cent	£'000	£'000
Nil	Nil	0– 59	0– 55
30	15	59– 80	55– 75
35	17½	80– 106	75– 100
40	20	106– 138	100– 130
45	22½	138– 175	130– 165
50	25	175– 212	165– 200
55	30	212– 265	200– 250
60	35	265– 689	250– 650
65	40	689–1325	650–1250
70	45	1325–2650	1250–2500
75	50	Over 2650	Over 2500

Table 5.3 Capital Gains Tax

	1983–84	1982–83
	£	£
Annual exempt amount		
Individuals	5300	5000
Trusts	2650	2500

Indexation: costs

5.06 Estimates of the costs of the changes shown above are as follows:

Table 5.4 £ million at forecast 1983–84 prices, incomes and capital values

	First year cost		Full year cost	
Indexation of income tax allowances and thresholds	910		1190	
of which:				
Increases in main personal allowances		835		1035
Increase in the basic rate limit(¹)		45		75
Increases in further higher rate thresholds(¹)		30		65
Increase in investment income surcharge threshold		neg		15
Indexation of capital transfer tax thresholds and bands	15		40	
Indexation of capital gains tax exempt amounts	Nil		10	

(¹) Additional costs after previous changes have been introduced.

Direct revenue effects of other illustrative changes in income tax and corporation tax

5.07 Table 5.5 below gives estimates of the direct effects (at forecast levels of 1983–84 prices and incomes) of changes in the main personal allowances, thresholds and rates of *income tax* from the indexed levels of allowances and thresholds set out in table 5.1 above. For *corporation tax* the table shows the effect of a 1 percentage point change in the rate of tax and in the small companies' rate.

Revenue Effects: Income tax

5.08 The income tax changes have been costed on the assumption that each is introduced in isolation. In practice there is little interaction between the personal allowances, so an estimate of the cost of more than one allowance change can be obtained by combining the individual costs or yields for each item. However, the effect of a change in the basic or higher rates of tax, or in the higher rate thresholds, would be smaller than the amounts shown in the table if those changes were introduced at the same time as an increase in one or more allowances (and larger if combined with a decrease in allowances).

5.09 The costs or yields resulting from allowance changes are shown for a £20 change from the indexed level. This is slightly over 1 per cent for the single allowance, slightly under 1 per cent for the married allowance. These costs or yields are linear over a fairly broad range of changes. Reasonably accurate estimates can be obtained by pro-rating the ready reckoner figures for increases in allowances of less than about 20 per cent and for reductions of less than about 5 per cent from the indexed values. The estimated revenue effects of each change are shown to the nearest £ million (to avoid undue magnification of rounding errors when using the ready reckoner to consider larger changes). However, the figures should not be assumed to be accurate to this degree.

5.10 The additional cost of an increase in the higher rate thresholds tends to fall as the total increase rises, so estimates have been given for two different amounts of change, £500 and £1000. Nor are the effects of changes in higher rate thresholds symmetrical between increases and decreases. The table indicates that decreases of £500 or £1000 would yield rather more than the costs of the corresponding increases.

5.11 Changes to the investment income surcharge are independent of the rest of the tax regime. As with the higher rate thresholds, the yield from reducing the investment income surcharge threshold is not the same as the cost of raising it by a corresponding amount. Changes in the threshold are broadly linear for increases of less than about 15 per cent and for decreases of less than about 5 per cent from the indexed values. The effect of a change in the rate of surcharge would be less if the threshold were increased at the same time (and greater if combined with a reduction in the threshold).

5.12 Estimates derived from this ready reckoner for a combination of more than one income tax change should be taken only as a general guide to the revenue effect of the package, particularly where a number of interacting changes are included.

Table 5.5 Direct effects of specimen changes in income tax and corporation tax

£ million at forecast 1983–84 income levels

Ready Reckoner: Income Tax

Income tax(1)	First year Cost(−)/Yield(+)	Full year Cost(−)/Yield(+)
Rates		
Change basic rate by 1p(2)	875	975
Change all higher rates by 1p	30	65
Allowances		
Change single and wife's earned income allowance by £20	63	78
Change married allowance by £20	54	67
Change single age allowance by £20	6	7
Change married age allowance by £20	5	6
Change aged income limit by £100	2	3
Higher Rate Bands		
Change (raise−/lower+) all higher rate thresholds by £500	−35/+40	−65/+70
Change (raise−/lower+) all higher rate thresholds by £1000	−70/+80	−125/+145
Investment Income Surcharge		
Change (raise−/lower+) threshold by £500	−1/+1	−16/+18
Change rate by 1p	1	16

Ready Reckoner: Corporation Tax

Corporation Tax(3)	£ million First year	Full year
Change rate by 1 percentage point(4)	65	125
Change small companies' rate by 1 percentage point	10	15

(1) Changes are from the indexed levels of allowances and thresholds shown in table 5.1.

(2) Including the effect of the change on receipts of Advance Corporation Tax and on consequent liability to Mainstream Corporation Tax.

(3) Assessment to Corporation Tax normally relates to the preceding year. These are, therefore, the changes to revenue that would occur if the changed rates were applied to forecast 1982–83 income levels.

(4) Assuming small companies' rate unchanged.

Indirect taxes

5.13 Figures for changes in the excise duties (table 5.6) are shown in two sections. The first shows the extra revenue from the individual duties if they were to be increased by exactly 6 per cent, together with the price increase that would result (after allowing for consequential VAT).

5.14 The second section shows for most duties the revenue yield from changing current levels of duty so that (after VAT) the price of a typical item is changed by one penny. For VED, a £1 change for cars and light vans, and a 1 per cent change for goods vehicles is shown.

5.15 Table 5.7 shows the revenue effects of a 1 percentage point change in the rates of VAT and NIS.

5.16 Within limits the illustrative changes for specific duties shown here can be extrapolated, either up or down, to give a reasonable guide to the revenue effects. For example, a unit change could be combined with a revalorisation change to show the effects of a different percentage movement in duty. However, with large changes the effect on sales and hence on revenue could become significant.

Table 5.6 Revenue effects of indirect tax changes (£ million 1983–84 prices and income levels)

	6% Revalorisation			Unit changes from present levels of duty		
	Current level of duty on typical item(1)	Price change inc. VAT (pence)	Full year yield(2) £m	Price change inc. VAT	Actual percentage change in duty %	Full year(2) yield/cost £m
Indirect Taxes						
Beer (pint)	14·3p	1·0	90	1p	6·1	90
Wine (bottle of table wine 75 cl)	80·1p	5·5	25	1p	1·1	5
Spirits (bottle)	£4·34	30	30	1p	0·2	1
Tobacco (20 kingsize cigarettes)	63·2p	3·8(3)	125	1p	1·6(3)	34
Petrol (gallon)	70·65p	4·9	225	1p	1·2	45
Derv (gallon)	60·24p	4·2	55	1p	1·4	12½
VED (cars and light vans)	£80 pa	£4·80	85	£1	1·25	17½
VED (goods vehicles)	£170–£1820pa	£10·20–£109·20	22	£1·70–£18·20	1	3·6

(1) VAT is payable in addition to the duty except in the case of VED.

(2) Assuming for illustrative purposes implementation on 1 April, the first and full year yield of changes in excise duties would be identical, except in the cases of beer and tobacco where the first-year yield would be approximately eleven twelfths of the full-year yield.

(3) The duty on cigarettes has *ad valorem* and specific elements; the percentage change relates only to the specific element, but the price change includes the subsequent increase in *ad valorem* duty and VAT.

Table 5.7 VAT and NIS

	First year(1) yield/cost		Full year yield/cost	
1% point change in rate of VAT	500		690	
1% point change in NIS	1080		1220	
assuming recovery from the public sector		680		820

(1) Assuming implementation on 1 April.

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