

The effects of the National Loans Act 1968 on central government accounts

Table 1 in the statistical annex includes figures from government accounts; this note introduces the changes which have been made as a result of the rearrangement of the government accounting system from 1st April under the terms of the National Loans Act 1968. Figures for the financial years 1966/67 and 1967/68 are also given in the new style for comparison.

Before 1st April all central government financing passed through the Consolidated Fund, whose transactions are handled in the Exchequer account at the Bank of England. In recent years the Government has been borrowing funds to a growing extent for the purpose of lending to local authorities, nationalised industries and other bodies. To separate these transactions from the Government's own finances, under the National Loans Act all the central government's borrowing and most of its domestic lending have been removed from the Consolidated Fund and provided for by a new National Loans Fund with a separate account at the Bank. The Consolidated Fund has thus been reduced to dealing in the main with ordinary revenue and expenditure.

These changes are reflected in Table 1 of the annex, where the new headings "Consolidated Fund (net)", "National Loans Fund loans (net)" and "other central government funds and accounts" have replaced the old "revenue and expenditure (net)", "Consolidated Fund loans (net)" and "extra-Exchequer funds etc.", respectively. The term 'Exchequer' has also generally been dropped and Table 1 has therefore been renamed "Central government: borrowing requirement", and Table 2 "Central government: current and capital accounts".

The new "Consolidated Fund (net)" is broadly equivalent to the old "revenue and expenditure (net)". It is primarily concerned with current revenue and expenditure, but also covers certain domestic loans (including any at subsidised rates of interest) and all overseas lending. The main change is that it does not now include all the service of the national debt, nor the bulk of interest receipts from government lending. These receipts, together with the profits of the Issue Department of the Bank of England (previously part of extra-Exchequer funds), are now paid into the National Loans Fund and set off against the cost of interest, management and expenses of the national debt. Any shortfall¹ is made good by a transfer from the Consolidated Fund. Receipts and payments relating to debt servicing in the National Loans Fund are thus self-balancing. The item "National Loans Fund loans (net)" therefore equates fairly closely to the previous "Consolidated Fund loans (net)", covering all new lending at market rates to local authorities, nationalised industries and most other domestic bodies, and the repayments of principal on such loans.

¹ The shortfall arises mainly because part of the national debt is the result of borrowing to meet the Government's wartime expenditure rather than to finance lending.

"Other central government funds and accounts" covers much the same ground as did "extra-Exchequer funds etc.", with the notable exceptions of the profits of the Issue Department of the Bank of England, mentioned above, and the financing of purchases of U.S. aircraft, which now pass through the National Loans Fund. The largest remaining components of this item are the balances of the National Insurance Funds and departmental balances held with the Paymaster General.

The concept of the "net balance" – now renamed "borrowing requirement (net balance)" – remains unchanged, as do all the financing items in Table 1. These were explained in some detail, along with the previous system of government accounting, in an article in the March 1966 *Bulletin*, page 29.¹

¹ Off-prints of this article, "Exchequer and central government finance", are available on request from the Bank's Economic Intelligence Department.