IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances March 2008*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the whole of financial year 2007–08.

Gemma Tetlow, a senior research economist at the IFS, said:

“Not surprisingly, borrowing and debt in the last financial year have turned out in line with Mr Darling’s Budget forecast made just last month. Of greater importance is the outlook for the economy and its impact on the public finances. The Treasury’s forecasts for the public finances are based on economic growth of 1¾% this year and 2¼% next year. However, many other forecasters are more pessimistic. The IMF is forecasting economic growth of just 1.6% this year and next. If the IMF’s forecasts are correct, then this could add around £10 billion per year to borrowing. A revision of this magnitude would not be large by historical standards or relative to the size of the economy. But it would be problematic for the Chancellor, as his forecasts give him virtually no room to manoeuvre against either of his two self-imposed fiscal rules.”

**Headline Comparisons**

- **Public sector current budget** in 2007–08 was in deficit by £7.6bn compared to the March 2008 Budget projection of a deficit of £7.9bn (and the March 2007 Budget projection for a deficit of £4.3bn).

- **Public sector net borrowing** in 2007–08 was £35.6bn compared to the March 2008 Budget projection of £36.4bn (and the March 2007 Budget projection of £33.7bn).

- **Public sector net debt** at the end of 2007–08 was £527.7bn, or 36.7% of national income compared to the March 2008 Budget projection of 37.1% (and the March 2007 Budget projection of 38.2%).

- **Central government current receipts** in March were 7.6% higher than in the same month last year and over the whole of 2007–08 were 5.7% above the outturn for 2006–07. Overall, current receipts in 2007–08 are thought to have been £510.8bn, compared to the March 2008 Budget projection of £511.5bn (and the March 2007 Budget projection of £515.7bn).

- **Central government current spending** in March was 7.6% higher than in the same month last year and over the whole of 2007–08 was 6.1% above the outturn for 2006–07. Overall, current spending in 2007–08 is now thought to have been £518.6bn compared to the March 2008 Budget projection of £519.1bn (and the March 2007 Budget projection of £515.7bn).

- **Public sector net investment** in March was 6.5% higher than in the same month last year and over the whole of 2007–08 was 8.6% above the outturn for 2006–07. Overall, net investment in 2007–08 is now thought to have been £28.0bn compared to the March 2008 Budget projection of £28.5bn (and the March 2007 Budget projection of £29.4bn).

**Assessing compliance with the fiscal rules**
Gordon Brown operated two fiscal rules during his period as Chancellor and Alistair Darling has continued to operate these since he took over. These are the sustainable investment rule and the golden rule. The latest Treasury forecasts for the public finances published in last month’s Budget imply that looking forwards there is virtually no room to manoeuvre against either fiscal rule.

Gordon Brown said in 1998 that in order to stick to his “Sustainable Investment Rule” public sector net debt should be kept below 40% of national income in each year of the economic cycle that the Treasury believes began in 1997–98. On the reasonable assumption that the 40% ceiling continues to apply, the reclassification of Northern Rock’s liabilities onto the public sector balance sheet on 7th February 2008 (and its subsequent nationalisation) meant that the sustainable investment rule, as judged at that time, would have been broken by a significant margin. However, sensibly the Code for Fiscal Stability allows the Government to depart from its stated fiscal rules temporarily and indeed the Treasury confirmed in last month’s Budget that they would operate a modified sustainable investment rule for the period over which Northern Rock has an impact on measures of the public finances. They stated that during this period compliance with the sustainable investment rule would be judged as keeping public sector net debt excluding Northern Rock’s liabilities below 40% of national income. This redefinition of the rule is sensible as it retains the spirit of the sustainable investment rule without requiring structural changes to the public finances in response to the material but temporary impact of Northern Rock on the public finances.

The Treasury’s ‘golden rule’ requires public sector current spending to be met entirely out of public sector receipts over the course of an economic cycle – in other words, that the public sector current budget should be in balance or surplus on average over the cycle. The government should only borrow to finance capital spending. The Treasury estimates that an economic cycle began during 1997–98 but is currently unsure whether this cycle ended (and a new cycle began) in 2006–07, or whether we are about to enter the twelfth year of the same economic cycle. Over the years 1997–98 to 2006–07 there was a small cumulative current budget surplus. Looking forwards, meeting the golden rule will depend on either whether there is a surplus over the years from 2006–07 to when the new economic cycle closes, or whether the cumulative current budget remains in surplus over the years from 1997–98 to when the current economic cycle ends.

Further Analysis

Information is now available for the whole of 2007–08. The figures for receipts and spending in March 2007 show:

Central government current receipts

Overall, central government current receipts in 2007–08 came in £0.7bn lower than the projection in the March 2008 Budget (and £4.9bn lower than the forecast made in the March 2007 Budget).

Receipts of Income Tax, Capital Gains Tax and National Insurance Contributions are now thought to have been £252.9bn, compared to the March 2008 Budget forecast of £253.1bn (and the March 2007 Budget forecast of £252.2bn).

Cash receipts of Value Added Tax are now thought to have been £80.6bn, compared to the March 2008 Budget forecast of £80.5bn (and the March 2007 Budget forecast of £80.0bn).

Corporation tax receipts (net of company tax credits) are now thought to have been £46.7bn, compared to the March 2008 Budget forecast of £46.4bn (and the March 2007 Budget forecast of £49.5bn).

Central government current spending

Overall, central government current spending (including depreciation) in 2007–08 came in at £518.6bn, which is £0.5bn lower than the projection made in the March 2008 Budget (and the same as the forecast made in the March 2007 Budget).
Spending on net social benefits is now thought to have been £139.9bn, compared to the March 2008 Budget forecast of £139.9bn (and the March 2007 Budget forecast of £139.7bn).

Spending on debt interest payments is now thought to have been £29.9bn, compared to the March 2008 Budget forecast of £29.9bn (and the March 2007 Budget forecast of £29.1bn).

Other current spending by central government, including spending on the delivery of public services, is now thought to have been £348.8bn, compared to the March 2008 Budget forecast of £349.3bn (and the March 2007 Budget forecast of £349.8bn).

Further information and contacts
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Relevant links:
This, and previous editions of this press release, can be downloaded from http://www.ifs.org.uk/press/pub_fin.shtml


Useful links and background information on Budget 2008 can be found at http://www.ifs.org.uk/budgets/budget2008/index.php


HM Treasury, Budget 2008: http://www.hm-treasury.gov.uk/budget/budget_08/bud_bud08_index.cfm


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Notes to editors:
1. Central government current spending includes depreciation.
2. Where possible we compare figures on an accruals basis with the HM Treasury forecast.