IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances July 2008. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first four months of financial year 2008–09.

Carl Emmerson, Deputy Director of the IFS, said:

“The Government has had to borrow more than twice as much during the first four months of the financial year than in the same period last year to meet the gap between what it spends and what it raises in tax revenue. This increase in borrowing is due both to weaker than expected receipts and higher than expected spending. The increase in borrowing over the first four months is much bigger than the 22 per cent rise implied by what the Treasury was expecting for the year as a whole at Budget time.

On the receipts side recent years have seen corporation tax receipts grow less quickly than the Treasury has forecast and this trend appears set to continue. Overall receipts of corporation tax in the first four months of this financial year were just 3.2 per cent higher than the same months last year, whereas meeting the Budget forecast would require growth over the year as a whole of 10.6 per cent. July is usually an important month for corporation tax receipts, and receipts from North Sea oil companies have more than doubled from the same month a year ago – bringing in an extra £2 billion to the Treasury. But receipts of corporation tax from other companies fell by a quarter, costing the Treasury a similar £2 billion. In part this is likely to be due to the impact of relatively high energy prices and the credit crunch on the fortunes of non-North Sea oil companies in the UK.

Spending by central Government – on both benefits and the delivery of public services – has also been growing more quickly over the last four months than that forecast in the Budget for the year as a whole.”

Headline Comparisons

- **Central government current receipts** in July were 2.7% higher than in the same month last year. Receipts in the first four months of 2008–09 were 2.9% higher than in the same months of 2007. The 2008 Budget implied that central government current receipts for the whole of 2008–09 would be 4.8% above 2007–08 levels.

- **Central government current spending** in July was 6.9% higher than in the same month last year. Spending in the first four months of 2008–09 was 7.0% higher than in the same months of 2007. The 2008 Budget implied that central government current spending for the whole of 2008–09 would be 5.3% above 2007–08 levels.
• **Public sector net investment** in July was £1.8bn, compared to £2.1bn in the same month last year. Together, public sector net investment during the first four months of 2008–09 has been £5.8bn, which is 33.0% higher than in the same months of 2007. The Budget predicted that net investment in 2008–09 would be £33.8bn, which is 20.6% above last year’s level.

**Assessing compliance with the fiscal rules**

Since coming to power, the Labour government has operated two fiscal rules – the sustainable investment rule and the golden rule. The Treasury forecasts for the public finances published in March’s Budget implied that looking forwards there was little 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. Given that the impact of Northern Rock on measures of the public finances is expected to be temporary, the Treasury sensibly announced at the time of the Budget that it would operate a modified sustainable investment rule over this period – aiming to keep public sector net debt excluding Northern Rock’s liabilities below 40% of national income.

Since 1998–99 public sector net debt has been kept below 40% of national income excluding Northern Rock. The forecasts from Budget 2008, combined with Mr Darling’s May 13th mini-Budget announcement of a £2.7bn giveaway to basic-rate income tax payers this year1 and his September 16th announcement of a postponement in the increase in fuel duties planned for 1st October 2008 costing £550m this year, suggest that he has virtually no room left to manoeuvre against the sustainable investment rule over the next few years (even assuming that Mr Darling makes these giveaways purely one-off). Mr Darling may get some help from a change to the treatment of financial intermediation services in the national accounts, however. This change will increase the level of measured national income and so reduce the apparent level of public sector net debt when expressed as a share of national income.

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 now in 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 either on whether there is a surplus over the years from 2006–07 to when the new economic cycle closes, or on whether the cumulative current budget remains in surplus over the years from 1997–98 to when the current economic cycle ends.
Further Analysis

We must be wary of assuming that the trends over the first four months of the financial year will persist over the remaining eight. Bearing this in mind, the figures for receipts and spending in July 2008 show:

Central government current receipts

Cash receipts of Income Tax, Capital Gains Tax and National Insurance Contributions for July 2008 were 5.0% higher than in the same month last year. Together, receipts of these taxes during the first four months of 2008–09 were also 5.0% higher than those for the first four months of 2007–08. The Budget forecasts imply that receipts of these taxes will grow by 4.5% over the whole of 2008–09.

Cash receipts of VAT in July 2008 were 20.9% higher than the same month last year. Overall VAT receipts over the first four months of 2008–09 were 5.1% higher than those for the same months in 2007. The Budget forecast implies that VAT receipts will grow by 4.0% over the whole of 2008–09.

Corporation tax receipts for July 2008 were 1.5% higher than in the same month last year. Corporation tax receipts over the first four months of 2008–09 were 3.2% higher than those for the same months last year. The Budget forecast implies that corporation tax receipts will grow by 10.6% over the whole of 2008–09.

Central government current spending

Expenditure on net social benefits was 6.2% higher in July 2008 than in the same month last year. Expenditure over the first four months of 2008–09 was 6.9% higher than in the same months of 2007. The Budget forecast implies that central government net social benefit expenditure will grow by 6.3% over 2008–09.

Spending on debt interest (which is relatively small as a share of spending overall) was £3.2bn in July 2008, which is 10.6% higher than in July 2007.

Other current spending by central government, including spending on the delivery of public services, was 6.9% higher in July 2008 than in the same month last year. Comparing the first four months of 2008–09 with the first four months of 2007–08, the figure is also 6.9%. The Budget forecast implies that this component of spending will grow by 5.3% over the year as a whole.

In July 2008, public sector net investment was £1.8bn compared to £2.1bn in the same month in 2007. So far in 2008–09, a total of £5.8bn has been spent on public sector net investment, compared to the £4.0bn that had been spent by the same point in 2007–08. The Budget predicted that net investment in 2008–09 would be £33.8bn, which is 20.6% above last year’s level.

Further information and contacts

For further information on today’s public finance release please contact: Carl Emmerson on 020 7291 4800, or email cemmerson@ifs.org.uk. 

The next Public Sector Finances is due to be published by the Office for National Statistics on 18th September 2008.
Relevant links:

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

IFS Green Budget, January 2008, containing in-depth public finance analysis, can be found at:

Useful links and background information on Budget 2008 can be found at

Office for National Statistics & HM Treasury, Public Sector Finances, July 2008:

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

HM Treasury, Public Finance Statistics Index:
http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm

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Notes to editors:


2. Central government current spending includes depreciation.

3. Where possible we compare figures on an accruals basis with the HM Treasury forecast.