IFS analysis of today’s public finance figures

Today, the Office for National Statistics and HM Treasury published Public Sector Finances November 2002. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first eight months of the financial year 2002–03.

Headline Comparisons

- **Central government current receipts** are 1.2% up on the first 8 months of last year. The November 2002 Pre-Budget Report (PBR) forecast for 2002–03 implies an increase of 2.2% for the year as a whole.

- **Central government current spending** is 7.6% up on the first 8 months of last year. The PBR forecast for 2002–03 implies an increase of 6.0% for the year as a whole.

- **Public sector net investment** is 16.5% up on the first 8 months of last year. The PBR forecast for 2002–03 implies an increase of 62.0% for the year as a whole.

Further Analysis

In the PBR the Chancellor revised down his growth forecast for **central government current receipts** considerably. Despite this, receipts continue to come in less quickly than the Chancellor is forecasting. Revenues from income tax are forecast to grow by 1.6%. Revenues to date have shown no increase over the same eight months last year. Corporation tax receipts are forecast by the Treasury to fall by 10.5%, which was a substantial downwards revision on the 1.5% growth forecast in the previous Budget. To date revenues have fallen by 13.6% on the same eight months last year.

**Central government current spending** was (11.3%) higher in November than in the same month last year. Central government current spending over the year so far is higher than forecast despite expenditure on net social benefits running in line with the PBR forecast, and spending on debt interest and dividends being lower than the PBR anticipates. Other current spending by central government, such as spending on the delivery of public services, has grown by 11.3% so far this year compared to the 8.1% implied by the PBR forecast.

The Chancellor’s plans to bring about a sharp increase in **public sector net investment** this year are proving difficult to deliver. With eight months of the financial year already passed, net public investment totals only £4.3bn (£3.7bn at the same time last year), compared to the PBR forecast of £14.3bn for the financial year as a whole. Net investment spending has in the past accelerated towards the end of the financial year. This year, this acceleration will have to be more marked than last year if the Chancellor is to hit his PBR forecast.
Carl Emmerson, programme director of research on public finances at the IFS said: “The Pre-Budget Report forecast that borrowing in 2002–03 would be £20.1bn compared to the £11.2bn forecast in the April Budget. Unless revenues grow more quickly, or spending more slowly, over the next four months borrowing this year will be even higher than the Pre-Budget Report predicted last month. Whether this will require further tax increases or cuts in spending depends on whether the extra borrowing is due to temporary weaknesses in the economy as the Chancellor’s fiscal rules are assessed over the ups and downs of the economic cycle. The PBR forecasts rely on virtually all of the increase in borrowing to date being down to temporary rather than permanent phenomena. But it remains to be seen whether corporation tax revenues, for example, bounce back as the Chancellor expects.”

When interpreting today’s figures, it should be noted that there is a large margin of error in forecasts of the public finances – even within a given financial year.

A more detailed audit of the public finances, along with new IFS forecasts will be published in the Green Budget, which will be published on January 29th 2003. For more details contact Emma Hyman on 020 7291 4800 or see www.ifs.org.uk/conferences/gb2003.shtml

Contacts
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Relevant links:
Office for National Statistics & HM Treasury, Public Sector Finances, December 2002:
www.statistics.gov.uk/pdfdir/psf1202.pdf

HM Treasury, Pre-Budget Report 2002:
www.hm-treasury.gov.uk/Pre_Budget_Report/prebud_pbr02/prebud_pbr02_index.cfm

HM Treasury, Databank November 2002:
www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm

Emmerson, C. and Frayne, C. (2002), The Government’s Fiscal Rules, IFS briefing note No.16:


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Notes:
Central government current spending includes depreciation.

Where possible we compare figures on an accruals basis with the HM Treasury forecast. However when looking at individual taxes comparisons are only possible on a cash basis since the Treasury only publishes forecasts for individual taxes in this way.