Today, the Office for National Statistics and HM Treasury published *Public Sector Finances January 2003*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first ten months of the financial year 2002–03.

**Headline Comparisons**

- **Central government current receipts** are 1.4% up on the first 10 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 7.0% up on the first 10 months of last year. The PBR forecast for 2002–03 implies an increase of 6.8% for the year as a whole.

- **Public sector net investment** is 2.8% up on the first 10 months of last year. The PBR forecast for 2002–03 implies an increase of 53.9% for the year as a whole.

**Further Analysis**

**Central government current receipts** came in (0.4%) lower in January 2003 than in the same month last year. Tax revenues over the year to date are still up on last year, but the growth rate has fallen from 1.6% to 1.4%, taking it further below the 2.2% increase for the year as a whole implied by the Chancellor’s PBR forecast. The main culprit last month was income tax, where receipts were 6.5% down on January last year. By contrast, corporation tax receipts were up on last January. Revenues from income tax are forecast to grow by 1.6% over the year as a whole; revenues to date are 0.9% down on the first ten months of last year. Corporation tax receipts are forecast by the Treasury to fall by 10.5%; to date revenues come in stronger than anticipated, having fallen by 9.3% on the same ten months last year.

**Central government current spending** was (11.3%) higher in January than in the same month last year. Central government current spending over the year so far is slightly higher than forecast. Expenditure on net social benefits is in line with the PBR forecast while spending on debt interest and dividends is lower than the PBR anticipates. Other current spending by central government, including spending on the delivery of public services, was 13.3% higher in January 2003 than in January 2002. This brings the total growth in the ten months so far this year up to 9.3%, higher than the 8.6% implied by the PBR.

The Chancellor’s plans to bring about a sharp increase in **public sector net investment** this year are proving increasingly difficult to deliver. Less public investment was delivered in January 2003 than in the same month last year, for the second month running. Cumulatively, in the first ten months of this financial year £6.1bn of public sector net investment has been undertaken (compared with £5.9bn in the same months last year). This is significantly below the target of £14.3bn for the year as a whole given in the PBR. For this to be met by the end of
the year public sector investment will need to have grown by 53.9% rather than the 2.8% seen so far. Net investment spending has in the past accelerated towards the end of the financial year, but the acceleration will have to be particularly dramatic to hit the PBR target this year. Indeed, public sector net investment would have to be 78.5% up on last year in February and March, compared to an increase of just 2.8% over the year to date.

Christine Frayne, a research economist at the IFS said: “January is the most important month of the year for tax collection. Corporation tax has come in more strongly than anticipated, but this has been more than offset by weak income tax and capital gains tax receipts. As a result, the Chancellor is further adrift of his Pre-Budget Report forecast for tax revenues than he was a month ago.

With current spending continuing to grow slightly more rapidly than the Pre-Budget Report predicted for the year as a whole, existing trends would produce a larger current budget deficit than the £5.7bn the Chancellor forecast in November. However, the continued weakness of public sector net investment - while unwelcome to the government in its own right - will probably offset the impact of the higher current budget deficit on public sector net borrowing as a whole.

Having said all this, the fiscal outturn for the current financial year is unlikely to have direct implications for tax and spending decisions over the medium term. The government remains on course to meet its fiscal rules over the current economic cycle. But tax increases or cuts in spending plans are likely to be necessary at some point to ensure the rules continue to be met looking forward.”

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.

Contacts
For more information of the medium term outlook, along with IFS forecasts see the IFS 2003 Green Budget at http://www.ifs.org.uk/gbfiles/gb2003.shtml or contact Emma Hyman on 020 7291 4800.
For further information on today’s public finance release please contact: Carl Emmerson or Christine Frayne on 020 7291 4800, or send an email to cemmerson@ifs.org.uk or cfrayne@ifs.org.uk.

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

*** Ends ***

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.