IFS analysis of today’s public finance figures

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

Headline Comparisons

- **Central government current receipts** are 1.6% up on the first 9 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 9 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 11.3% up on the first 9 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** continued to pick up for the second month running. Although the cumulative growth in receipts seen in the year to date is lower than that forecast in the PBR, the increase over last year has picked up from 1.0% in October to 1.6% this month. Revenues from income tax are forecast to grow by 1.6%; revenues to date are 0.7% higher than for the first nine months of last year. Corporation tax receipts are forecast by the Treasury to fall by 10.5%; to date revenues have fallen by 12.6% on the same nine months last year.

**Central government current spending** was (1.1%) lower in November 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 slightly higher than the PBR forecast while spending on debt interest and dividends is lower than the PBR anticipates. Other current spending by central government, such as spending on the delivery of public services, was 7.7% lower in December 2002 compared with December 2001. This brings the total growth in the nine months so far this year down to 9.0%, still slightly 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 still proving difficult to deliver. Less public investment was delivered in December 2002 than in the same month last year. Cumulatively, in the first nine months of this financial year £5.2bn of public sector net investment has been undertaken (compared with £4.7bn in the same months last year). This is considerably 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 11.3% seen so far. Net investment spending has in the past accelerated towards the end of the financial year. This year, the acceleration will have to be more marked than last year if the Chancellor is to hit his PBR forecast.
Christine Frayne, a research economist at the IFS said: “This month has shown a slight improvement in the government’s fiscal position compared with the last few months. Comparing December 2002 to December 2001, revenues have grown faster than the growth rate implied in the PBR, while central government expenditure has been lower. Although the totals over the nine months to date still imply that borrowing in 2002–03 is likely to be higher than the £20.1bn forecast in the PBR today’s figures bring the Treasury closer to target. Whether the Chancellor will have to raise taxes or cut spending to meet his fiscal rules going forward depends less on this year’s figures than on the medium term outlook. We will be assessing this in the IFS Green Budget next week.”

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.

Green Budget
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:

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


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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.