IFS analysis of today’s public finance figures

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

Headline Comparisons

- **Central government current receipts** are 1.0% up on the first 7 months of last year. The Budget 2002 forecast for 2002–03 implies an increase of 4.1% for the year as a whole.

- **Central government current spending** is 7.0% up on the first 7 months of last year. The Budget 2002 forecast for 2002–03 implies an increase of 5.8% for the year as a whole.

- **Public sector net investment** is 21.6% up on the first 7 months of last year. The Budget 2002 forecast for 2002–03 implies an increase of 63.1% for the year as a whole.

Further Analysis

So far this year **central government current receipts** have grown much less quickly than the Chancellor forecast for the year as a whole in his April Budget. Revenues from income tax and corporation tax were both forecast to rise this year (at a rate of 4.7% and 1.5% respectively). In the seven months to date, income tax receipts have been marginally higher than for the corresponding months last year (by 0.3%). Although there has been improvement in income tax receipts in the last three months, this is still considerably lower than needed to reach the budget forecast. Corporation tax receipts for the first seven months are 14.0% lower than for the same months last year.

**Central government current spending** was (1.0%) higher in October than in the same month last year. Despite this low increase, growth in current spending to date is above that implied by the Budget forecast due to much faster growth in the previous two months. Interest payments on government debt have been lower than anticipated, while net social benefit payments have grown more, compared with last year, than the Budget predicted. The remainder of central government current spending has grown at 10.6%, which is greater than the 8.4% implied by the Budget forecast for the year as a whole. In part this is an encouraging sign that the government’s planned increases in spending on public services will be delivered, following a number of years in which it has underspent its targets.

The Chancellor’s plans to bring about a sharp increase in **public sector net investment** this year are so far proving difficult to deliver. With seven months of the financial year already passed, net public investment totals only £3.3bn (£2.7bn at the same time last year), compared to the Budget forecast of £14.4bn 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 Budget forecast.

Christine Frayne, research economist at the IFS said: “Tax revenues have been coming in well below the Chancellor’s Budget forecast, while spending has been modestly higher. Today’s corporation tax figures only serve to reinforce that trend. This suggests that the Chancellor will have to significantly downgrade his forecasts for the public finances in next week’s Pre-Budget Report.”

Due to the transition to a system of Corporation Tax payments in quarterly instalments, the timing of Corporation Tax revenues is different to last year. The timing effect partially explains the weakness of the latest month’s figures, but these effects have now worked through and the published figures are a more reliable guide to the underlying position.

Alexander Klemm, research economist at the IFS added: “Corporation tax receipts are likely to be much lower this year than forecast in April’s Budget. In addition, the Chancellor’s long-term forecasts for corporation tax revenues now look overly ambitious and we would expect the Treasury to review them in the Pre-Budget Report.”

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. New HM Treasury forecasts will be published in the Pre-Budget Report on the 27th of November.

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Relevant links:


HM Treasury, Budget 2002: [http://www.hm-treasury.gov.uk/Budget/bud_bud02/bud_bud02_index.cfm?](http://www.hm-treasury.gov.uk/Budget/bud_bud02/bud_bud02_index.cfm?)

HM Treasury, Databank October 2002: [http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm](http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm)


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