IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances October 2003. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first seven months of financial year 2003–04.

Headline Comparisons

- **Central government current receipts** in the first seven months of the financial year are 5.4% up on the same period last year. The Budget 2003 forecast for 2003–04 implies an increase of 7.3% for the year as a whole.

- **Central government current spending** in the first seven months of the financial year is 9.2% up on the same period last year. The Budget 2003 forecast for 2003–04 implies an increase of 7.0% for the year as a whole.

- **Public sector net investment** in the first seven months of the financial year is 94.2% up on the same period last year. The Budget 2003 forecast for 2003–04 implies an increase of 76.3% for the year as a whole.

Further Analysis

Even with information available now for the first seven months of the current financial year, it is still important to be cautious in extrapolating over the whole year. Bearing this in mind the figures for receipts and spending in October 2003 show:

**Central government current receipts** came in 2.3% higher in October 2003 than in October 2002. This is below the increase for the whole of 2003–04 implied by the April 2003 Budget.

Within this total, corporation tax receipts for October 2003 were 12.4% lower than in the same month last year. This headline figure is depressed by the impact of the transition from the annual Corporation Tax system to the new quarterly payments arrangements. Companies with calendar year accounting periods – about half the total – are expected to have paid 25% of their total annual Corporation Tax bill in October 2003 compared to 34% of their total annual bill in October 2002. Over the first seven months of 2003–04 there has been a decrease in Corporation Tax receipts of 3.4%, whereas the Budget 2003 forecast that these receipts would grow over the year as a whole.

VAT receipts continued to grow strongly in October 2003 – growth over the first seven months of 2002–03 has been 8.3%. This is higher than the 5.0% implied by the Budget 2003 forecast for the year as a whole. In October 2003 there was strong growth in cash receipts of social security contributions. Growth in **accrued** social security
contributions is in line with that implied by the April 2003 Budget for the year as a whole. This discrepancy is due to accounting practices, with the final social security payments in recent months taking longer to be recorded than they did last year.

Central government current spending in October 2003 was 6.8% up on October 2002. This is in line with the 7.0% increase implied by the Budget forecast for the whole year.

Expenditure on net social benefits was 8.4% higher in October 2003 compared to the same month last year. In part this growth will be due to expenditure on the Pension Credit, which was introduced on October 6th 2003. This keeps the growth in the year to date in line with that implied by the Budget 2003 forecast for the year as a whole.

Spending on debt interest (which is relatively small as a share of spending overall) was slightly higher in October 2003 than in October 2002, but growth over the seven months of 2002–03 is still running above that implied by the Budget 2003 forecast for the whole year.

Other current spending by central government, including spending on the delivery of public services, was just 5.8% higher in October 2003 than in October 2002. Cumulative growth in the first seven months of this year is now 10.1%, which is still considerably higher than the 7.3% for the year as a whole implied by the Budget forecast. If over the remainder of the current financial year growth in this component of spending were to be the same as in the latest month then the Chancellor would be significantly closer to his Budget forecast then previous trends suggest.

In October 2003, public sector net investment was £1.5bn compared to £0.8bn in the same month in 2002. Cumulatively, in the first seven months of this financial year £7.6bn of public sector net investment has been undertaken, compared with £3.9bn in the same seven months last year.

What would happen if these trends continued?

Under the assumption that borrowing in the first seven months of 2003–04 as a proportion of the year’s total is the same as it was in 2002–03 then:

- **Public Sector Net Borrowing** would be around £44bn. This is compared to the Budget 2003 forecast of £27.3bn.

- **Current Budget** would be in deficit by around £23bn. This is compared to the Budget 2003 forecast of a deficit of £8.4bn.

Christine Frayne, a senior research economist at the IFS said:

“October is usually a good month for the Treasury’s bank balance. This month’s figures have been depressed by the transition to the new Corporation Tax regime. But the public finances still look in much weaker shape than Gordon Brown projected at the time of the Budget. The current deficit is running at almost twice last year’s levels rather than falling by 30% as the Chancellor predicted. Central government receipts look increasingly likely to undershoot his projections.

Even if the golden rule is met over the current economic cycle it is not clear that the Chancellor can expect to continue to meet the rule looking forwards – let alone with the comfort that he has sought in the past. Certainly on
the basis of current trends Mr Brown will have a tough job explaining in next month’s Pre-Budget Report how he can maintain his tentative medium-term spending plans without raising taxes again soon.”

The Pre-Budget Report will be on Wednesday the 10th of December. An IFS briefing will be held at on Thursday 11th December. The briefing is free of charge and will take place at 1pm at our offices in Ridgmount Street. If you wish to attend please contact our conference organiser Bonnie Brimstone (bbrimstone@ifs.org.uk).

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

Relevant links:
This, and previous editions of this press release, can be downloaded from http://wwwifs.org.uk/press/pub_fin.shtml
Useful links and background information on the Budget can be found at http://wwwifs.org.uk/budgetindex.shtml
Office for National Statistics & HM Treasury, Public Sector Finances, October 2003:
HM Treasury, Budget 2003:
http://www.hm-treasury.gov.uk/budget/bud_bud03/bud_bud03_index.cfm
HM Treasury, Pre-Budget Report 2003 will be available at:
http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr03/prebud_pbr03_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:
1. Central government current spending includes depreciation.
2. Where possible we compare figures on an accruals basis with the HM Treasury forecast.