IFS analysis of today’s public finance figures

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

**Headline Comparisons**

- **Central government current receipts** in the first six months of the financial year are 5.9% 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 six months of the financial year is 9.8% 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 six months of the financial year is 102.1% 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**

With information available for only the first half of the current financial year, it is important to be cautious in extrapolating over whole year. Bearing this in mind the figures for receipts and spending in September 2003 show:

**Central government current receipts** came in 5.3% higher in September 2003 than in September 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 September 2003 were 15.2% lower than in the same month last year. Over the first six months of 2003–04 the increase in Corporation Tax receipts is just 1.4%, which is lower than the Budget 2003 forecast for the year as a whole. VAT receipts continued to grow strongly in September 2003 – growth over the first half of 2002–03 has been 8.8%. This is higher than the 5.0% implied by the Budget 2003 forecast for the year as a whole. The weak growth in cash receipts of social security contributions seen so far this year continued in September 2003. This is due to timing issues, with payments taking longer to be formally credited to the National Insurance fund then they did last year. As a result higher growth in cash receipts is expected over the coming months.

**Central government current spending** in September 2003 was 4.2% up on September 2002. This is lower than the increase implied by the Budget forecast for the whole year.

Expenditure on net social benefits was just 3.1% higher in September 2003 compared to the same month last year. This brings the growth in the year to date into line with that implied by the Budget 2003 forecast for the year as a
whole. The introduction of the Pension Credit on Monday October 6th is expected to add around £1bn to expenditure on net social benefits over the second half of this financial year.

Spending on debt interest (which is relatively small as a share of spending overall) was lower in September 2003 than in September 2002, but growth over the six 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 5.3% higher in September 2003 than in September 2002. Cumulative growth in the first half of this year has increased to 11.2%, which is considerably higher than the 7.3% for the year as a whole implied by the Budget forecast. (This increase is due to revisions to previous data.)

In September 2003, public sector net investment was £1.4bn compared to £0.7bn in the same month in 2002. Cumulatively, in the first six months of this financial year £6.3bn of public sector net investment has been undertaken, compared with £3.1bn in the same six months last year.

What would happen if these trends continued?

Under the assumption that borrowing in the first half 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 £37bn. This is compared to the Budget 2003 forecast of £27.3bn. It should be remembered that the average absolute error in forecasting one year ahead has been £13.3bn. So an error of the magnitude implied by extrapolating from the trends would not be large compared to historical standards.

- **Current Budget** would be in deficit by around £18bn. This is compared to the Budget 2003 forecast of a deficit of £8.4bn.

Carl Emmerson, a programme director at the IFS said:

“Gordon Brown will be pleased to see that borrowing was lower in September than in the same month last year. But, taking the first half of the financial year as a whole, the public finances still look in much weaker shape than he projected at the time of the Budget. In April Mr Brown predicted that the current budget deficit would shrink by almost 30% this year, but so far it is running almost 60% higher. The ‘golden rule’ states that the current budget – revenue minus non-investment spending – should be in balance or surplus on average over the ups and downs of the economic cycle.

The government is having to borrow more, both because receipts are growing more slowly than expected and because spending is growing more quickly. The golden rule sensibly allows him to borrow more if weak economic activity depresses tax revenue and raises social security spending. But recent revisions suggest that the economy has in fact been performing more strongly so far this year than we thought. This makes it harder to blame a subdued economy for all the red ink in the Treasury’s figures.
We are only half way through the financial year. But if current trends persist Mr Brown will have a tough job explaining in the Pre-Budget Report later this year how he can maintain his spending plans and comfortably meet the golden rule looking forward without soon raising taxes again.”

Further information and contacts
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Relevant links:
This, and previous editions of this press release, can be downloaded from http://www.ifso.org.uk/press/pub_fin.shtml
Useful links and background information on the Budget can be found at http://www.ifso.org.uk/budgetindex.shtml
Office for National Statistics & HM Treasury, Public Sector Finances, September 2003:
HM Treasury, Budget 2003:
http://www.hm-treasury.gov.uk/budget/bud_bud03/bud_bud03_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.