IFS analysis of today’s public finance figures

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

**Headline Comparisons**

- **Central government current receipts** in the first five months of the financial year are 5.8% 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.

- **Central government current spending** in the first five months of the financial year is 10.0% up on the same period last year. The Budget 2003 forecast for 2003–04 implies an increase of 6.5% for the year as a whole.

- **Public sector net investment** in the first five months of the financial year is 138.8% up on the same period last year. The Budget 2003 forecast for 2003–04 implies an increase of 67.2% for the year as a whole.

**Further Analysis**

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

**Central government current receipts** came in 5.6% higher in August 2003 than in August 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 August 2003 were 43.2% higher than in the same month last year. However, as the share of corporation tax paid in August is a small part of the annual total due to the timing of payments, the increase in total corporation tax receipts for the first five months of 2003-04 is still lower than the 4.1% implied by the Budget 2003 forecast.

VAT receipts in August 2003 came in higher than implied by the Budget forecast for the year as a whole.

Social security receipts in August 2003 were 8.0% lower than in August 2002, but this weakness partly reflects the fact that national insurance rebates for employees opting out of the State Earnings-Related Pensions Scheme (SERPS) have been reflected in the figures at a different time this year than last. Total social security receipts for the
first five months of 2003–04 are 7.3% higher than for the same months last year; lower than the 17.1% increase required to reach the Budget forecast for the year.

**Central government current spending** in August was 15.4% up on August 2002. This is higher than the increase implied by the Budget forecast for the whole year.

Expenditure on net social benefits in August 2003 was roughly in line with the year on year increase implied in Budget 2003. However, revisions to back data mean that the cumulative total for the first five months of 2003–04 is currently running above the Budget forecast for the whole year. This reflects the fact that spending on child benefit has been shifted to the “net social benefits” category from “other central government current spending”, so the revisions have no impact on estimates of central government spending overall. With the introduction of the new Pension Credit in October we can expect a further increase in spending on net social benefits.

Spending on debt interest is currently running above the Budget forecast for the whole year.

Other current spending by central government, including spending on the delivery of public services, was 19.8% higher in August 2003 than in August 2002. This, and revisions to previous data, bring cumulative growth in the first five months this year to 10.8%, higher than the 7.4% for the year as a whole implied by the Budget forecast.

In August 2003, **public sector net investment** was £1.2bn compared to just £0.7bn in the same month in 2002. Cumulatively, in the first five months of this financial year £5.4bn of public sector net investment has been undertaken, compared with £2.2bn in the same five months last year.

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

“There is more disappointing news for the Chancellor on both sides of the public accounts. Growth in tax receipts is falling further behind the Budget forecast, while central government current spending is running further ahead. So the current deficit continues to widen rather than shrinking as the Chancellor had hoped.”

Net investment and all the main components of central government current spending have grown faster in the first five months of this year than implied by the Budget forecast for the year as a whole. This is contributing to higher-than-expected public borrowing, but if used efficiently it should also help deliver the improvements in public services the Government is looking for.

It is unclear to what extent higher-than-expected borrowing so far this year simply reflects weaker economic growth than the Chancellor anticipated at Budget time. His fiscal rules sensibly allow him to borrow more when the economy is weak. The medium-term outlook is more important for future levels of tax and spending, and here we remain concerned that revenues are likely to continue coming in lower than the Chancellor predicts, even if his macroeconomic assumptions prove to be correct. If so, the Chancellor may have to raise taxes or reduce his spending plans if he is to continue to expect to meet his fiscal rules with the comfort he has sought in the past.”
Further information and contacts
For further information on today’s public finance release please contact: Christine Frayne or Robert Chote on 020 7291 4800, or email cfrayne@ifs.org.uk or rchote@ifs.org.uk.

Relevant links:
This, and previous editions of this press release, can be downloaded from http://www.ifs.org.uk/press/pub_fin.shtml

Useful links and background information on the Budget can be found at http://www.ifs.org.uk/budgetindex.shtml.

Office for National Statistics & HM Treasury, Public Sector Finances, August 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.