Today the Office for National Statistics and HM Treasury published *Public Sector Finances March 2004*. We now have revised details of central government receipts, central government spending, public sector net investment, borrowing and debt for the whole of financial year 2003–04.

### Headline Comparisons

- **Public sector surplus on the current budget** in 2003–04 was minus £18.9bn (i.e. in deficit) compared to the March 2004 Budget estimated outturn of minus £21.3bn.

- **Public sector net borrowing** in 2003–04 was £34.8bn compared to the March 2004 Budget estimated outturn of £37.5bn.

- **Central government current receipts** in March were 7.7% higher than in the same month last year. To achieve the forecast for 2003–04 in last month’s Budget, an increase of 7.5% over the March 2003 outturn was required. Overall, current receipts in 2003–04 were predicted in the Budget to be £392.6bn, corresponding to a 5.9% increase over receipts in 2002–03. The actual outturn for 2003–04 was £392.7bn, corresponding to a 5.9% increase over last year’s levels.

- **Central government current spending** in March was 3.2% higher than in the same month last year. To achieve the forecast for 2003–04 in last month’s Budget, an increase of 6.8% over the March 2003 outturn was required. Overall, current spending in 2003–04 were predicted in the Budget to be £411.3bn, corresponding to an 8.2% increase over current spending in 2002–03. The actual outturn for 2003–04 was £410.1bn, corresponding to a 7.9% increase over last year’s levels.

- **Public sector net investment** in March was 32.6% higher than in the same month last year. To achieve the forecast for 2003–04 in last month’s Budget, an increase of 43.5% over the March 2003 outturn was required. Overall, investment spending in 2003–04 was predicted in the Budget to be £16.2bn, corresponding to a 65.9% increase over investment spending in 2002–03. The actual outturn for 2003–04 was £15.9bn, corresponding to a 62.4% increase over last year’s levels.

### Further Analysis

Given that information is now available for the whole financial year, it is possible to compare the outturns for receipts and spending with the predictions made by HM Treasury in last month’s 2004 Budget. These comparisons show that:

**Central government current receipts**
Overall, central government current receipts in 2003–04 came in at £392.7bn – representing a £0.1bn or 0.0% increase over the provisional estimates in the March 2004 Budget. However, within this total, despite being very strong in March 2004, receipts for income tax and capital gains tax and VAT were disappointing over the year as a whole.

To meet the level predicted in the 2004 Budget, Income and Capital Gains Tax receipts in 2003–04 required a 5.3% increase over their level in 2002–03. Today’s figures show that these receipts have been 4.8% higher in 2003–04 than in 2002–03, with the receipts for March 2004 14.5% above those for March 2003. Therefore, Income and Capital Gains tax receipts for the financial year were below the Budget forecast.

To meet the level predicted in the 2004 Budget, VAT receipts in 2003–04 required a 9.8% increase over their level in 2002–03. Today’s figures show that these receipts have been 8.9% higher in 2003–04 than in 2002–03, with the receipts for March 2004 13.0% above those for March 2003. Therefore, VAT receipts for the financial year were below with the Budget forecast.

To meet the level predicted in the 2004 Budget, Corporation Tax receipts in 2003–04 required a 2.7% decrease on their level in 2002–03. Today’s figures show that these receipts have been 4.0% lower in 2003–04 than in 2002–03, with the receipts for March 2004 3.5% below those for March 2003. Therefore, Corporation Tax receipts for the financial year were below the Budget forecast.

To meet the level predicted in the 2004 Budget, National Insurance contributions in 2003–04 had to have grown by 11.8% higher relative to the 2002–03 levels. Today’s figures show that last month’s cash receipts were 17.3% up on their March 2003 levels. Overall, National Insurance contributions in 2003–04 were 11.9% above the 2002–03 levels for cash receipts. This means that cash receipts of Social Security Contributions are in line with the Budget forecast.

Central government current spending

Overall, central government current spending in 2003–04 was £410.1bn – representing a £1.2bn or 0.3% decrease relative to the provisional estimate published in the March 2004 Budget.

The Treasury expected expenditure on net social benefits to be 6.0% higher in 2003–04 than in 2002–03. The Budget forecast implied that the outturn for March 2004 would be 2.9% higher than that for March 2003. Today’s figures show that expenditure on net social benefits for the whole financial year was actually 5.5% higher than in 2002–03 with spending in March 2004 being 3.1% lower than in March 2003. This means that spending on net social benefits in 2003–04 was below the Budget forecast.

Spending on debt interest (which is relatively small as a share of spending overall) was expected to be 6.5% higher in 2003–04 than in 2002–03. The Budget forecast implied that the outturn for March 2004 would be 14.2% higher than that for March 2003. Today’s figures show that expenditure for the whole financial year was 6.6% higher than in 2002–03, with debt interest payments in March 2004 14.5% higher than were payments in March 2003. So debt interest payments by central government in 2003–04 were in line with the Budget forecast.
The Budget forecast that other current spending by central government, including spending on the delivery of public services, would be 9.5% higher this financial year than last year. The forecast implied that other current spending would be 7.9% higher in March 2004 than in March 2003. The actual level of other current spending during 2003–04 was 9.2% higher than in 2002–03, with spending in March 2004 being 5.2% higher than in March 2003. Therefore most departmental spending was in line with the level implied in the Budget.

Public sector net investment was £15.9bn in 2003–04, compared to £9.8bn in 2002–03. The Budget forecast that this year’s total would be £16.2bn, so public sector net investment was below the Budget forecast.

The 2003–04 outturns and the golden rule

The Chancellor is committed to planning fiscal policy in line with his two fiscal rules. The first of these, the golden rule, requires that public sector current spending be met entirely out of public sector receipts over the course of an economic cycle – in other words, that the public sector current budget be at least in balance. The present economic cycle, which began in 1999–2000, is expected by the Treasury to end in 2005–06. The average surplus over the seven years of the cycle was expected in Budget 2004 to be 0.1% of national income, while the current budget in 2003–04 was expected to be in deficit by £21.3bn, or 1.9% of national income. Today’s figures show that the actual current budget deficit was £18.9bn, or 1.7% of national income. If the Budget predictions for the 2004–05 and 2005–06 current budget outturns prove accurate, the average current budget surplus over this economic cycle will remain at 0.1% of national income. This corresponds to a total margin for error of £11.2bn in 2005–06 pounds which is approximately a £3bn increase on the margin that was expected in last month’s Budget.

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

“Today’s Public Finance numbers show a slight improvement in the outturns for 2003–04 compared with that published in last month’s Budget. Public sector borrowing and the deficit on the current budget have turned out slightly more favourable than the Treasury was expecting. Nevertheless, concerns remain about whether the Treasury’s medium term forecasts will be met, or whether they are overly optimistic – not least due to the weak performance of some key taxes.”

Further information and contacts

For further information on today’s public finance release please contact: Robert Chote, Carl Emmerson or Christine Frayne on 020 7291 4800, or email rchote@ifs.org.uk or cemmerson@ifs.org.uk or cfrayne@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, March 2004:

The IFS Green Budget, January 2004:
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.