IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances November 2004*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first eight months of financial year 2004–05.

**Headline Comparisons**

- **Central government current receipts** in November were 4.9% higher than in the same month last year. This month’s Pre-Budget Report forecast for 2004–05 implies an increase over last year’s levels of 7.2% for the year as a whole and of 7.5% for the period from November 2004 to March 2005. Although the latest month’s data appears disappointing in isolation, revisions to previous months have lifted the increase over the year to date from 6.3% in last month’s release to 6.8%. This brings it closer to the Pre-Budget Report forecast.

- **Central government current spending** in November were 9.2% higher than in the same month last year. This month’s Pre-Budget Report forecast for 2004–05 implies an increase over last year’s levels of 5.2% for the year as a whole and of 2.8% for the period from November 2004 to March 2005. The latest figures show an increase over last year’s levels of 7.3% for the year to date.

- **Public sector net investment** in November was £1.4bn, or 17.8% higher than in the same month last year. This month’s Pre-Budget Report forecast for 2004–05 implies an increase of 55.8% for the year as a whole and an increase of 91.3% for the period from November 2004 to March 2005. The latest figures show an increase over last year’s levels of 11.6% for the year to date.

Commenting on today’s numbers Christine Frayne, a Senior Research Economist at the IFS, said:

“Coming less than three weeks after the Pre-Budget Report, today’s figures should not come as much surprise to the Chancellor. Revisions to past data mean that revenues have been growing more strongly than previous releases suggested, but the Chancellor is still relying on the lagged effect of higher oil prices to deliver the acceleration in revenue he still needs over the next four months to meet his PBR forecasts.

Mr Brown also predicted that growth in current spending would decelerate sharply. There is no evidence of that yet in November – indeed the growth in central government current spending over the year to date has accelerated to 7.3%. To hit his PBR forecast, this growth will have to slow to just 1.2% over last year in the next four months. If the current rate of increase were to persist, central government current spending would overshoot the PBR forecast by around £9bn. This would more than exhaust the Chancellor’s room for manoeuvre in meeting the Golden Rule over the current economic cycle (which states that over the economic cycle non-investment spending should be paid for from receipts rather than borrowing).
Conversely, public sector net investment, which is not constrained by the Golden Rule, needs to more than double in the next four months over the same period last year in order for the Treasury’s Pre-Budget Report forecast to be met. So far this year, it has grown by just 11.6%. Were it to continue at this rate the outturn for the year would be £16.4bn compared to the Chancellor’s projection of £22.9bn.

So far this year, the current budget deficit is running 16% higher than last year. The Chancellor predicted in the Pre-Budget Report over the year as a whole it will have shrunk by 40%, implying that he will need a cumulative current budget surplus of £11.7bn over the last four months of this year compared to barely £100m in the same period last year. Spending departments will have to show – or be forced into – considerable restraint to bring this about.”

**Further Analysis**

Even with information available for two thirds 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 November 2004 show:

**Central government current receipts**

Income and Capital Gains tax receipts (net of tax credits) in November 2004 were 14.9% higher than in the same month of last year. This month’s Pre-Budget Report forecast implies that these receipts will be 10.8% up on last year’s levels over the period from November 2004 to March 2005.

VAT receipts in November 2004 were 11.9% higher than the same month last year. This month’s Pre-Budget Report forecast implies that these receipts will be 6.8% up on last year’s levels over the period from November 2004 to March 2005.

These increases in income tax, capital gains tax and VAT receipts show the cash flowing strongly into the Treasury’s coffers during November. But the increases on an accrued basis (which allocate revenue to the months when the money is due to the Treasury rather than when it arrives) were weaker. This helps explain why the overall increase in central government current receipts of 4.9% between November 2003 and November 2004 referred to above (which is also on an accrued basis) looks low relative to the PBR forecast while the (cash) increases in these components look high.

In November 2004, social security contributions grew by 4.5% over last November’s level. This month’s Pre-Budget Report forecast implies that these receipts will be 4.8% up on last year’s levels over the period from November 2004 to March 2005.

**Central government current spending**

Expenditure on net social benefits was 3.2% higher in November 2004 compared to the same month last year. This month’s Pre-Budget Report forecast implies central government net social benefit expenditure will be 9.7% up on last year’s levels over the period from November 2004 to March 2005.

Spending on debt interest which is relatively small as a share of spending overall was £0.2bn higher in November 2004 than in November 2003.
Other current spending by central government, including spending on the delivery of public services, was 12.3% higher in November 2004 than in November 2003. This month’s Pre-Budget Report forecast implies that this component of spending will increase from last year’s levels by 4.1% over the year as a whole. The latest figures show an increase over last year’s levels of 8.2% for the year to date.

In November 2004, public sector net investment was £1.4bn compared to £1.2bn in the same month in 2003. Cumulatively, in the first eight months of this financial year £8.5bn of public sector net investment has been undertaken, compared with £7.6bn in the same eight months last year.

The IFS Green Budget, which for the first time will be in collaboration with Morgan Stanley, will be on the 26th January 2005. For more details please email bbrimstone@ifs.org.uk

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

Relevant links:
This, and previous editions of this press release, can be downloaded from

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

Office for National Statistics & HM Treasury, Public Sector Finances, November 2004:

HM Treasury, Public Finance Statistics Index:
http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm

HM Treasury, Pre-Budget Report 2004:
http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr04/prebud_pbr04_index.cfm

HM Treasury, Budget 2004:
http://www.hm-treasury.gov.uk/budget/bud_bud04/bud_bud04_index.cfm

The IFS Green Budget, January 2004:

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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.