IFS analysis of today’s public finance figures

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

Headline Comparisons

- **Central government current receipts** in January were just 3.5% higher than in the same month last year. Last month’s Pre-Budget Report forecast for 2003–04 implies an increase over last year’s levels of 5.9% for the year as a whole; the latest figures show an increase over last year’s levels of 5.5% for the year to date. The Pre-Budget Report forecast also implies a 6.8% increase over last year for the period from November 2003 to March 2004; the month’s figures show a cumulative increase of 6.1% over last year for the three months since the Pre-Budget Report.

- **Central government current spending** in January was just 2.8% higher than in the same month last year. Last month’s Pre-Budget Report forecast for 2003–04 implies an increase over last year’s levels of 8.3% for the year as a whole; the latest figures show an increase over last year’s levels of 8.4% for the year to date. The Pre-Budget Report forecast also implies a 6.7% increase over last year for the period from November 2003 to March 2004; the month’s figures show a cumulative increase of 6.1% over last year for the three months since the Pre-Budget Report.

- **Public sector net investment** in January was 109.1% higher than in the same month last year. Last month’s Pre-Budget Report forecast for 2003–04 implies an increase over last year’s levels of 69.3% for the year as a whole; the latest figures show an increase over last year’s levels of 75.2% for the year to date. The Pre-Budget Report forecast also implies a 68.0% increase over last year for the period from November 2003 to March 2004; the month’s figures show a cumulative increase of 80.7% over last year for the three months since the Pre-Budget Report.

Further Analysis

Information is now available for ten months of the present financial year. The figures for receipts and spending in January 2004 show:
Central government current receipts

Income and Capital Gains tax receipts in January 2004 were 2.5% lower than in the same month of last year. January is usually the most significant month for these tax receipts due to the fact that ‘self assessment’ receipts arrive in this month. Last month’s Pre-Budget Report implies that over the whole year, these receipts will be 4.1% higher than last year. Figures from the ten months to date show that these receipts have been 2.9% higher than over the same period last year. The Pre-Budget Report forecast also implies an increase of 4.4% over last year’s levels over the period from November 2003 to March 2004. The three months’ figures received since the Pre-Budget Report show a cumulative increase of 0.8% over the same months last year, indicating that Income and Capital Gains tax receipts are running below with the Pre-Budget Report forecasts.

Corporation tax receipts in January 2004 were 4.0% lower than in the same month of last year. Last month’s Pre-Budget Report implies that over the whole year, these receipts will be 1.4% lower than last year. Figures from the ten months to date show that these receipts have been 3.6% lower than over the same period last year. The Pre-Budget Report forecast also implies an increase of 3.1% over last year’s levels over the period from November 2003 to March 2004. The three months’ figures received since the Pre-Budget Report show a cumulative decrease of 4.3% over the same months last year, indicating that Corporation tax receipts are running below the Pre-Budget Report forecasts. The remaining two months of the financial year are typically unimportant for Corporation tax receipts: in 2002–03, 95.0% of total Corporation tax receipts had been received by January 2003.

VAT receipts in January 2004 were 11.1% higher than the same month last year. Last month’s Pre-Budget Report implies that over the whole year, VAT receipts will be 8.7% higher than last year. Figures from the ten months to date show that these receipts have been 9.1% higher than over the same period last year. The Pre-Budget Report forecast also implies an increase of 9.7% over last year’s levels over the period from November 2003 to March 2004. The three months’ figures received since the Pre-Budget Report show a cumulative increase of 11.0% over the same months last year, indicating that VAT is coming in above the Pre-Budget Report forecasts.

In January 2004 there was growth of 14.1% in cash receipts of National Insurance contributions. By contrast, growth in accrued social security contributions was 23.9%. The discrepancy between the cash and accrued figures is because payments are taking longer to be recorded than they were last year. Last month’s Pre-Budget Report implies that over the whole year, cash National Insurance receipts will be 12.5% higher than last year. Figures from the ten months to date show that these receipts have been 10.5% and 16.8% higher than over the same period last year for cash and accruals measures respectively. The Pre-Budget Report forecast also implies a cash increase of 17.0% over last year’s levels over the period from November 2003 to March 2004. The three months’ figures received since the Pre-Budget Report show a cumulative increase of 13.8% and 17.1% over the same months last year. Growth in contributions on a cash basis is still running below the Pre-Budget Report forecasts, although the accruals measure continues to show faster growth.

Central government current spending

Expenditure on net social benefits was 1.6% higher in January 2004 compared to the same month last year. This is a moderate increase considering the additional expenditure incurred this year on the Pension Credit and the new credits
for families, both of which were introduced in this financial year. The Pre-Budget Report forecast that over the whole year, central government net social benefit expenditure would be 7.0% higher than last year. Over the first ten months of this current financial year, expenditure on net social benefits has been 6.4% higher than over the same period last year. The Pre-Budget Report forecasts also imply an increase of 6.2% on last year’s levels over the period from November 2003 to March 2004. Figures from the months since the Pre-Budget Report indicate a cumulative increase of 3.7% over November, December and January last year, indicating that spending on net social benefits is running below the Pre-Budget Report forecasts.

Spending on debt interest (which is relatively small as a share of spending overall) was approximately equal in January 2004 to that in January 2003.

Other current spending by central government, including spending on the delivery of public services, was 3.8% higher in January 2004 than in January 2003. The Pre-Budget Report forecast that over the year as a whole, this component of spending would be 8.9% higher than last year. Over the first ten months of this current financial year, this spending has been 9.5% higher than over the same period last year. The Pre-Budget Report forecasts also imply an increase of 7.5% on last year’s levels over the period from November 2003 to March 2004. Figures from the months since the Pre-Budget Report indicate a cumulative increase of 8.2% over November, December and January last year, indicating that most departmental spending is running slightly higher than implied in the Pre-Budget Report.

In January 2004, public sector net investment was £2.3bn compared to £1.1bn in the same month in 2003. Cumulatively, in the first ten months of this financial year £10.4bn of public sector net investment has been undertaken, compared with £5.9bn in the same ten months last year. The Pre-Budget Report is forecasting investment spending of £18.0bn for the year as whole. This is expected to result from a 68.0% increase on last year’s spending for the period between November 2003 and March 2004. The figures for the last three months indicate a cumulative increase of 80.7% compared to the same three months of 2002–03. This indicates that public sector net investment is running above the Pre-Budget Report forecasts.

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

“Both current receipts and current spending in January 2004 ran below the increases implied in the Pre-Budget Report. This leaves the overall position roughly unchanged from last month, in that the Pre-Budget Report’s forecast for this year’s borrowing still looks reasonable. On the receipts side, both Income and Corporation tax receipts came in lower than in January 2003. January is typically an important month for both of these taxes, and the last two months of the financial year are unlikely to compensate for these shortfalls. Given the doubts about Corporation tax revenues in the medium term, which we reiterated in the January 2004 IFS Green Budget, it is unlikely that the government will draw comfort from the seemingly persistent weakness of Corporation tax receipts in the current financial year.”

The February 2004 Public Sector Finances will be released on 18th March 2004. As this is the day after the Budget, which will be on Wednesday the 17th of March, the IFS will not be issuing a separate press release about the public finances. However, the IFS will be issuing a press release on the contents of the Budget on Budget Day and an IFS
briefing will be held on Thursday 18th March. 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). For more details please see http://www.ifs.org.uk/gbfiles/budget2004.shtml or email mailbox@ifs.org.uk

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 Pre-Budget Report can be found at http://www.ifs.org.uk/budgetindex.shtml

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

The IFS Green Budget, January 2004:

HM Treasury, Budget 2003:
http://www.hm-treasury.gov.uk/budget/bud_bud03/bud_bud03_index.cfm

HM Treasury, Pre-Budget Report 2003 is 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.