IFS analysis of last week’s public finance figures

Two weeks ago the Office for National Statistics and HM Treasury published *Public Sector Finances February 2004*; last week they published *Public Sector Accounts 4th Quarter 2003*. We now have revised details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first eleven months of financial year 2003–04.

**Headline Comparisons**

- **Central government current receipts** in February were 10.6% higher than in the same month last year. To achieve the forecast for 2003–04 in last week’s Budget, which was made just before the February 2004 public finance figures were published, would require an 8.2% increase over last year during February and March 2004. The Budget 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 5.9% for the year to date.

- **Central government current spending** in February was 9.1% higher than in the same month last year. To achieve the forecast for 2003–04 in last week’s Budget would require a 7.8% increase over last year during February and March 2004. The Budget forecast for 2003–04 implies an increase over last year’s levels of 8.2% 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.

- **Public sector net investment** in February was 56.4% higher than in the same month last year. To achieve the forecast for 2003–04 in last week’s Budget would require a 37.0% increase over last year during February and March 2004. The Budget forecast for 2003–04 implies an increase over last year’s levels of 65.9% for the year as a whole; the latest figures show an increase over last year’s levels of 83.2% for the year to date.

**Further Analysis**

Information is now available for eleven months of the present financial year. The figures for receipts and spending in February 2004 show:

**Central government current receipts**

Income and Capital Gains tax receipts in February 2004 were 12.1% higher than in the same month of last year. Last week’s Budget implies that over the whole year, these receipts will be 7.2% higher than last year. Figures from the eleven months to date show that these receipts have been 3.8% higher than over the same period last year. Because the growth in receipts during the first ten months has been lower than that implied for the year as a whole, to meet the Budget forecast would require a 27.4% increase in Income and Capital Gains tax receipts over last year’s levels during February and March 2004. The fact that this level was not reached in February indicates that Income and Capital Gains tax receipts are running below the Budget forecasts.
VAT receipts in February 2004 were 7.6% higher than the same month last year. Last week’s Budget implies that over the whole year, these receipts will be 9.8% higher than last year. Figures from the eleven months to date show that these receipts have been 8.9% higher than over the same period last year. Because the growth in receipts during the first ten months has been lower than that implied for the year as a whole, to meet the Budget forecast would require a 14.4% increase in VAT receipts over last year’s levels during February and March 2004. The fact that this level was not reached in February indicates that VAT is running below the Budget forecasts.

In February 2004 there was growth of 21.1% in cash receipts of National Insurance contributions. By contrast, growth in accrued social security contributions was 26.8%. The discrepancy between the cash and accrued figures is because payments are taking longer to be recorded than they were last year. Last week’s Budget implies that over the whole year, cash National Insurance receipts will be 11.8% higher than last year. Figures from the eleven months to date show that these receipts have been 11.5% and 17.3% higher than over the same period last year for cash and accruals measures respectively. Because the growth in cash receipts of National Insurance contributions during the first ten months has been lower than that implied for the year as a whole, to meet the Budget forecast would require an 18.2% and 3.6% increase in cash and accrued receipts respectively, over last year’s levels during February and March 2004. This level was exceeded in February 2004, indicating that growth in contributions on a cash basis is running above the Budget forecasts.

Central government current spending

Expenditure on net social benefits was 6.7% higher in February 2004 compared to the same month last year. The Budget forecast that over the whole year, central government net social benefit expenditure would be 6.0% higher than last year. Over the first eleven months of this current financial year, expenditure on net social benefits has been 6.6% higher than over the same period last year. Because the growth in expenditure during the first ten months has been higher than that implied for the year as a whole, to meet the Budget forecast would require expenditure on net social benefits to increase by just 2.9% over last year’s levels during February and March 2004. The increase in February was larger, indicating that spending on net social benefits is running slightly above the Budget forecasts.

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

Other current spending by central government, including spending on the delivery of public services, was 10.8% higher in February 2004 than in February 2003. The Budget forecast that over the year as a whole, this component of spending would be 9.5% higher than last year. Over the first eleven months of the current financial year, this spending has been 9.5% higher than over the same period last year. The growth in expenditure during the first ten months has been similar to that implied for the year as a whole, so to meet the Budget forecast would require expenditure by most departments to increase by 10.0 over last year’s levels during February and March 2004. The slightly higher increase in February indicates that most departmental spending is running just above that implied in the Budget.

Public sector net investment was £2.2bn in February 2004, compared to £1.4bn in the same month in 2003. Cumulatively, in the first eleven months of this financial year £12.3bn of public sector net investment has been undertaken, compared with £6.7bn in the same eleven months last year. The Budget is forecasting investment spending of £16.2bn for the year as whole (compared to a prediction of £18.0bn in December’s Pre-Budget Report). This is expected to result from a 37.0% increase on last year’s spending in February and March 2004. The figures for February indicate an increase of 56.4% over February 2003. The fact that this is above the growth rate required to meet the Budget forecast indicates that public sector net investment is running above the Budget forecast.

Christine Frayne, a senior research economist at the IFS said:
“Cash receipts of individual taxes look weak compared to the Budget projections. However, accrued receipts are holding up indicating that the Budget receipts forecasts should be met. It is looking likely that spending might well come in higher than that forecast in the Budget as spending on net social benefits and central government spending on public services might both exceed the Treasury’s expectations. This would indicate a likelihood of higher than expected borrowing for 2003–04. There is no reason to believe that any increase in borrowing due to spending growing fast will persist into the medium term. Nevertheless we remain concerned that receipts might not grow as quickly as the Chancellor expects over the next few years”.

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, February 2004:

Office for National Statistics & HM Treasury, Public Sector Accounts, 4th Quarter 2004:

The IFS Green Budget, January 2004:

HM Treasury, Budget 2004:
http://www.hm-treasury.gov.uk/budget/bud_bud04/bud_bud04_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.