IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances February 2005*. 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 2004–05. This release comes two days after the 2005 Budget and its contents would have been taken into account by the Treasury when estimating the Budget outturns for this financial year, 2004–05.

**Headline Comparisons**

- **Central government current receipts** in February were 3.4% higher than in the same month last year. To achieve the forecast for 2004–05 in this week’s Budget, which was made taking the February 2005 public finance figures into account, would require a 7.4% increase in March 2005 over the same month last year. The Budget forecast for 2004–05 implies an increase over last year’s levels of 7.2% for the year as a whole; the latest figures show an increase over last year’s levels of 7.2% for the year to date.

- **Central government current spending** in February was 6.1% higher than in the same month last year. To achieve the forecast for 2004–05 in this week’s Budget would require a 4.7% increase in March 2005 over the same month last year. The Budget forecast for 2004–05 implies an increase over last year’s levels of 6.0% for the year as a whole; the latest figures show an increase over last year’s levels of 6.1% for the year to date.

- **Public sector net investment** in February was 132.8% higher than in the same month last year. To achieve the forecast for 2004–05 in this week’s Budget would require a 21.5% increase in March 2005 over the same month last year. The Budget forecast for 2004–05 implies an increase over last year’s levels of 25.3% for the year as a whole; the latest figures show an increase over last year’s levels of 26.1% for the year to date.

Commenting on today’s figures, Christine Frayne, a senior research economist at the IFS said:

“Today’s public finance figures come just two days after the 2005 Budget and they would have been known by the Treasury in their Budget preparations. For this reason the figures are broadly consistent with the Budget forecasts for this current financial year, due to end next month.

The Budget contained a downward revision to the expected outturn on this year’s current budget (which must be at least in balance over the economic cycle for the Chancellor’s Golden Rule to be met) compared with the December 2004 Pre-Budget Report. This is now forecast by the Treasury to be in deficit of £16.1bn rather than £12.5bn. This is...
due to both lower receipts and higher spending expectations, and is near the IFS forecast made in the January 2005 Green Budget of a £15.9bn deficit.

It should be borne in mind that even with only a month of the financial year to go, and despite the Treasury’s privileged information on the short-term outlook for departmental spending and tax payments, the Budget is not an infallible guide to the outturn for the public finances in the financial year just ending. This in part reflects the fact that the figures may be revised after the end of the year. For example, the latest estimate of public sector net borrowing in 2003-04 is £2.1bn lower than the forecast made shortly before the end of that year in the 2004 Budget.

Revisions to past outturn data and the resetting of the contingency reserve for next year mean that the Chancellor now expects to meet the Golden Rule by a similar margin to that in last year’s Pre-Budget Report over the economic cycle ending in 2005-06. Taking into account the considerable uncertainty that surrounds forecasts of government borrowing even just a year ahead, it is impossible to predict confidently whether the rule will be met or missed over the current economic cycle – but the margin is likely to be small in either direction.

Looking further ahead, we believe that the Treasury’s forecasts for tax revenue over the next few years may be overoptimistic. In our January Green Budget we estimated that the Chancellor would need to announce fresh tax increases worth £11bn to put the public finances back on the path he was hoping for a year ago. There was nothing in this week’s broadly neutral Budget to change that view.”

Further Analysis

Information is now available for eleven months of the present financial year. The figures for receipts and spending in February 2005 show:

Central government current receipts

**Income and Capital Gains tax** receipts in February 2005 were 0.1% lower than in the same month of last year. This week’s Budget implies that over the whole year, these receipts will be 7.6% higher than last year. Figures from the eleven months to date show that these receipts have been 7.8% higher than over the same period last year. Because the growth in receipts during the first eleven months has been higher than that implied for the year as a whole, to meet the Budget forecast would require a 6.4% increase in Income and Capital Gains tax receipts in March 2005 over the same month last year.

**VAT receipts** in February 2005 were 7.0% lower than the same month last year. This week’s Budget implies that over the whole year, these receipts will be 4.7% higher than last year. Figures from the eleven months to date show that these receipts have been 3.9% higher than over the same period last year. Because the growth in receipts during the first eleven months has been lower than that implied for the year as a whole, to meet the Budget forecast would require a 18.8% increase in VAT receipts in March 2005 over the same month last year.

In February 2005 **National Insurance contributions** were 5.5% higher than the same month last year. This week’s Budget implies that over the whole year, National Insurance receipts will be 7.5% higher than last year. Figures from
the eleven months to date show that these receipts have been 8.0% higher than over the same period last year.

Because the growth in receipts of National Insurance contributions during the first eleven months has been higher than that implied for the year as a whole, to meet the Budget forecast would require a 1.9% increase in receipts in March 2005 over the same month last year.

**Central government current spending**

Expenditure on net social benefits was 5.5% higher in February 2005 compared to the same month last year. The Budget forecast that over the whole year, central government net social benefit expenditure would be 4.7% higher than last year. Over the first eleven months of this current financial year, expenditure on net social benefits has been 5.0% higher than over the same period last year. Because this is been higher than the growth implied for the year as a whole, to meet the Budget forecast would require expenditure on net social benefits to increase by just 2.4% over the same month last year in March 2005.

Spending on debt interest (which is relatively small as a share of spending overall) was higher in February 2005 to that in February 2004.

**Other current spending** by central government, including spending on the delivery of public services, was 5.2% higher in February 2005 than in February 2004. The Budget forecast that over the year as a whole, this component of spending would be 6.5% higher than last year. Over the first eleven months of the current financial year, this spending has been 6.5% higher than over the same period last year. To meet the Budget forecast would require expenditure by most departments to increase by 6.5% over the same month last year in March 2005.

**Public sector net investment** was £3.0bn in February 2005, compared to £1.3bn in the same month in 2004. Cumulatively, in the first eleven months of this financial year £15.0bn of public sector net investment has been undertaken, compared with £11.9bn in the same eleven months last year. The Budget is forecasting investment spending of £18.3bn for the year as whole (compared to a prediction of £21.7bn in December’s Pre-Budget Report). To meet the Budget forecast would require public sector net investment to be 21.5% higher in March 2005 than the same month last year

**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 [http://www.ifs.org.uk/press/pub_fin.shtml](http://www.ifs.org.uk/press/pub_fin.shtml)  


Office for National Statistics & HM Treasury, Public Sector Finances, February 2005:  

The IFS Green Budget, January 2005:

HM Treasury, Budget 2005:
http://www.hm-treasury.gov.uk/budget/budget_05/bud_bud05_index.cfm

HM Treasury, Pre-Budget Report 2004 is available at:
http://www.hm-treasury.gov.uk/pre_budget_report/prebud_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.