IFS analysis of today’s public finance figures

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

**Headline Comparisons**

- **Central government current receipts** in September were 7.4% higher than in the same month last year. Receipts in the first half of this financial year were 6.8% higher than in the same period of 2003–04. The 2004 Budget implied that central government current receipts for the whole of 2004–05 would be 7.8% above 2003–04 levels.

- **Central government current spending** in September was 11.2% higher than in the same month last year. Spending in the first half of this financial year was 6.6% higher than in the period of 2003–04. The 2004 Budget implied that central government current spending for the whole of 2004–05 would be 5.2% above 2003–04 levels.

- **Public sector net investment** in September was £0.9bn, or 5.4% higher than in the same month last year. Together, public sector net investment during the first half of this financial year has been £5.3bn, which is 1.9% higher than in the same period of 2003–04. The Budget predicted that net investment in 2004–05 would be £22.4bn, which is 63.3% above last year’s level.

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

“September’s figures are unlikely to make pleasant reading for the Chancellor. He predicted in March that the current budget deficit would halve during this financial year, but over the first six months it has not shrunk at all. If this trend continues, he is on course to break his self-imposed Golden Rule over the current economic cycle – even if none of this year’s overshoot in borrowing persists into 2005–06. (The Golden Rule states that the current budget – tax revenues minus non-investment spending – should be in balance or surplus over the ups and downs of the economic cycle, which the Treasury regards as running from 1999–2000 to 2005–06. In the Budget in March the Treasury predicted a cumulative surplus over the cycle of 0.7% of one year’s national income. On current trends, and assuming that none of this year’s overshoot in borrowing persists, there would be a cumulative deficit of around 0.3%.) The Chancellor could argue, like many independent commentators, that the spare capacity in the economy has been used up more quickly than he expected and that we are already in the last year of the current cycle. This would put him back on course to meet the Golden Rule in the short term, but would increase the need for tax increases or spending cuts to ensure that the rule is met over the next economic cycle.”
Further Analysis

With information available for only the first half of the current financial year, it is important to be cautious in extrapolating over the year. Bearing this in mind the figures for receipts and spending in September 2004 show:

Central government current receipts

Income tax and Capital Gains Tax receipts for September 2004 were 9.6% higher than in the same month last year. Together, the receipts for these taxes during the first half of 2004–05 were 4.7% higher than those for the first half of 2003–04. The Budget forecasts imply that these taxes’ receipts will grow by 7.4% over the whole of 2004–05.

VAT receipts in September 2004 were 1.8% lower than the same month last year. VAT receipts for the first half of this financial year were 6.6% higher than those for the same period in 2003–04. The Budget forecast implies that VAT receipts will grow by 5.9% over the whole of 2004–05.

In September 2004, accrued receipts of social security contributions grew by 2.7% over last September’s level; for the first half of this financial year they were 2.5% higher than in the same period in 2003. The Budget forecast implies that social security contributions will grow by 3.5% over the whole of 2004–05.

Central government current spending

Expenditure on net social benefits was 7.6% higher in September 2004 than in September 2003. Expenditure during the first half of this financial year was 7.4% higher than in the same period of 2003–04. The Budget forecast implies that central government net social benefit expenditure will grow by 6.5% over 2004–05.

Spending on debt interest (which is relatively small as a share of spending overall) was 1.8% lower in September 2004 than in September 2003. However, in the year to date it has grown by 2.8% over the first half of last year, whereas the Budget forecast implies a 7.6% increase for the year as a whole.

Other current spending by central government, including spending on the delivery of public services, was 13.8% higher in September 2004 than in September 2003. Comparing the first half of 2004–05 with the first half of 2003–04, the figure is 6.6%. The Budget forecast implies that this component of spending will grow by 4.4% over the year as a whole.

What would happen if these trends continued?

Under the assumption that borrowing in the first half of 2004–05 as a proportion of the year’s total is the same as it was in 2003–04 then:

- **Public Sector Net Borrowing** would be around £36bn. This is compared to the Budget 2004 forecast of £32.9bn.

- **Current Budget** would be in deficit by around £22bn. This is compared to the Budget 2003 forecast of a deficit of £10.5bn.
It should be remembered that the average absolute error in forecasting one year ahead has been £12.1bn. So an error of the magnitude implied by extrapolating from these trends would not be particularly large compared to historical standards.

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, 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, September 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.