IFS analysis of today’s public finance figures

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

**Headline Comparisons**

- **Central government current receipts** in June were 8.2% higher than in the same month last year. Receipts in the first three months of this financial year were 6.5% higher than in the same months of 2003–04. The 2004 Budget implied that central government current receipts for the whole of 2004–05 would be 7.6% above 2003–04 levels.

- **Central government current spending** in June was 4.6% higher than in the same month last year. Spending in the first three months of this financial year was 5.8% higher than in the same months 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 June was £0.8bn, or 56.6% higher than in the same month last year. Together, public sector net investment during the first three months of this financial year has been £1.9bn, which is 21.1% lower than in the same three months of 2003–04. The Budget predicted that net investment in 2004–05 would be £22.4bn, which is 64.0% above last year’s level.

**Further Analysis**

Little can be inferred or extrapolated about the public finances in 2004–05 from information about only the first three months of the financial year. Bearing this in mind, the figures for receipts and spending in June 2004 show:

**Central government current receipts**

Income tax and Capital Gains Tax receipts for June 2004 were 2.7% higher than in the same month last year. Together, the receipts for these taxes during the first three months of 2004–05 were 0.4% lower than those for the first three months of 2003–04. The Budget forecasts imply that these taxes’ receipts will grow by 7.2% over the whole of 2004–05.

Corporation tax receipts for June 2004 were 83.0% higher than in the same month last year (although this represents an increase of just £482 million as June is not an important month for these receipts). Corporation tax receipts for the
first three months of this financial year were 20.2% higher than those for the same three months last year. The Budget forecast implies that Corporation tax receipts will grow by 21.4% over the whole of 2004–05.

VAT receipts in June 2004 were 2.1% higher than the same month last year. VAT receipts for the first three months of this financial year were 9.3% higher than those for the same three months in 2003. The Budget forecast implies that VAT receipts will grow by 5.8% over the whole of 2004–05.

In June 2004, accrued receipts of social security contributions grew by 4.3% over last June’s level; for the first three months of this financial year they were 4.1% higher than those for the same three months in 2003. The Budget forecast implies that social security contributions will grow by 7.4% over the whole of 2004–05.

**Central government current spending**

Expenditure on net social benefits was 9.9% higher in June 2004 than in June 2003. Expenditure during the first three months of this financial year was 8.7% higher than in the same months 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 5.6% higher in June 2004 than in June 2003.

Other current spending by central government, including spending on the delivery of public services, was 2.3% higher in June 2004 than in June 2003. Comparing the first three months of 2004–05 with the first three months of 2003–04, the figure is 5.2%. The Budget forecast implies that this component of spending will grow by 4.5% over the year as a whole.

In June 2004, public sector net investment was £0.8bn compared to £0.5bn in the same month in 2003. So far in 2004–05, a total amount of £1.9bn has been spent on public sector net investment, compared to the £2.4bn that had been spent by the same point in 2003–04. The total value of public sector net investment expected in 2004–05 according to Budget 2004 forecasts is £22.4bn, which is 64.0% higher than the total for 2003–04.

**Revisions to data**

Revisions presented in the June 30th Public Sector Accounts press release suggested a lower cumulative surplus on the public sector’s current budget since April 1998 compared to the estimates published in the March 2004 Budget. Today’s press release contains further revisions which largely offset the previous changes. These are largely due to reductions in estimates of public sector depreciation and bring the cumulative surpluses on the current budget back in line with the estimates published in the March 2004 Budget.

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

“Today’s figures indicate a strengthening of the public finances. Central government receipts in June 2004 grew more quickly than the Treasury forecast for the whole financial year. Equivalently, central government spending grew less quickly than forecast. These fiscal improvements follow relatively weak figures in the first two months of the year to date, so we are now more in line with the Treasury’s forecast for the current budget surplus in 2004–05.
rather than being on track to exceed it. While today’s tax figures are good news for the Treasury, we remain less optimistic than the Chancellor over growth in tax receipts over the medium-term.”

Further information and contacts
For further information on today’s public finance release please contact: Carl Emmerson or Christine Frayne on 020 7291 4800, or email 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, June 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

ENDS

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.