IFS analysis of today’s public finance figures

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

**Headline Comparisons**

- **Central government current receipts** in August were 8.0% higher than in the same month last year. Receipts in the first five 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 August was 5.7% higher than in the same month last year. Spending in the first five months of this financial year was 6.6% 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 August was £1.7bn, or 99.2% higher than in the same month last year. Together, public sector net investment during the first five months of this financial year has been £5.3bn, which is 29.0% higher than in the same five 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**

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

**Central government current receipts**

Income tax and Capital Gains Tax receipts for August 2004 were 13.7% higher than in the same month last year. Together, the receipts for these taxes during the first five months of 2004–05 were 4.0% higher than those for the first five months of 2003–04. The Budget forecasts imply that these taxes’ receipts will grow by 8.3% over the whole of 2004–05.

VAT receipts in August 2004 were 7.1% higher than the same month last year. VAT receipts for the first five months of this financial year were 7.8% higher than those for the same five months in 2003. The Budget forecast implies that VAT receipts will grow by 5.9% over the whole of 2004–05.
In August 2004, accrued receipts of social security contributions grew by 2.7% over last August’s level; for the first five months of this financial year they were 2.2% higher than in the same five months in 2003. The Budget forecast implies that social security contributions will grow by 3.2% over the whole of 2004–05.

Central government current spending

Expenditure on net social benefits was 8.5% higher in August 2004 than in August 2003. Expenditure during the first five months of this financial year was 7.1% 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 19.3% higher in August 2004 than in August 2003. However, in the year to date it has grown by 3.4% over the first five months 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 3.3% higher in August 2004 than in August 2003. Comparing the first five months of 2004–05 with the first five months of 2003–04, the figure is 6.6%. The Budget forecast implies that this component of spending will grow by 4.5% over the year as a whole.

In August 2004, public sector net investment was £1.7bn compared to £0.8bn in the same month in 2003. So far in 2004–05, a total amount of £5.3bn has been spent on public sector net investment, compared to the £4.1bn 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.

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

“The March 2004 Budget forecast that the public sector current budget (the difference between total receipts and spending on current items such as public sector wages and social security) would be in deficit of £10.5bn. This compares to a deficit of £20.3bn in 2003–04. In the first five months of this financial year there has been almost no improvement over the same period last year. For the Chancellor’s ‘golden rule’ to be met the public sector current budget needs to be in balance or surplus over the economic cycle – which the Treasury expects to run until March 2006. Should the trends in spending and receipts seen in the five months so far continue for the rest of this financial year, then under the Treasury’s forecasts there will be no room for slippage in meeting the golden rule with 12 months of the current economic cycle still to go.”

Further information and contacts

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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, August 2004:
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.