

IFS analysis of today's public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances March 2006*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the whole of financial year 2005–06.

IFS public finance bulletins are generously supported by the Economic and Social Research Council.



The analysis is based on IFS calculations and does not reflect the views of the ESRC.

Headline Comparisons

- **Public sector surplus on the current budget** in 2005–06 was minus £10.8bn (i.e. in deficit) compared to the March 2006 Budget projection of minus £11.5bn (and the March 2005 Budget projection of minus £5.7bn).
- **Public sector net borrowing** in 2005–06 was £37.8bn compared to the March 2006 Budget projection of £37.1bn (and the March 2005 Budget projection of £31.9bn).
- **Public sector net debt** at the end of 2005–06 was £459.0bn, or 36.6% of national income compared to the March 2006 Budget projection of 36.4% (and the March 2005 Budget projection of 35.5%).
- **Central government current receipts** in March were 11.5% higher than in the same month last year. Overall, current receipts in 2005–06 are thought to have been £452.8bn, compared to the March 2006 Budget projection of £453.2bn (and the March 2005 Budget projection of £453.6 bn).
- **Central government current spending** in March was 4.0% higher than in the same month last year. Overall, current spending in 2005–06 is now thought to have been £461.8bn compared to the March 2006 Budget projection of £463.1bn (and the March 2005 Budget projection of £460.2bn).
- **Public sector net investment** in March was 27.6% higher than in the same month last year. Overall, net investment in 2005–06 is now thought to have been £27.1bn compared to the March 2006 Budget projection of £25.7bn (and the March 2005 Budget projection of £26.2bn).

The 2005–06 outturns and the golden rule

The Chancellor is committed to planning fiscal policy in line with his two fiscal rules. The first of these, the golden rule, requires that public sector current spending be met entirely out of public sector receipts over the course of an economic cycle – in other words, that the public sector current budget be at least in balance.

The Treasury's current estimate is that the economic cycle began in 1997–98 and will run until 2008–09. If this is correct then the golden rule would be met over the current economic cycle as long as the current budget is not in deficit by more than a cumulative 0.86% of national income (or £11bn in today's terms) over 2006–07, 2007–08 and

2008–09. The March 2006 Budget forecasts suggest that there will be a very small cumulative surplus over these three years (less than £½bn), but it is important to remember that the average forecasting error over just the next twelve months made by the Treasury in the past is £13bn. On the basis of previous Treasury forecasting errors we estimate that if the March 2006 Budget forecast is the best available forecast then the probability that the golden rule will be met over the economic cycle ending in 2008–09 would be 56%.

In the 2005 Budget the Treasury estimated that the current economic cycle began in 1999–2000 and would finish in 2005–06. Over this period the current budget was in a cumulative deficit of 0.2% of national income or £2½bn in today's terms. Were this estimate of the dating of the current economic cycle correct then the golden rule would have been breached, albeit by such a small amount that it would not have any direct economic significance. This is contrary to Gordon Brown's assertion to the Treasury Select Committee on the 19th July 2005 that "we would meet the Golden Rule irrespective [of the redating of the start of the cycle]"³

Carl Emmerson, a deputy director of the IFS, said "Today's borrowing figures are, unsurprisingly, in line with those forecast by the Treasury in last month's Budget. These confirm that had the economic cycle covered the seven years from 1999–2000 to 2005–06, which is what the Treasury estimated a year ago, then the golden rule would have been breached by a very small margin. This is contrary to Gordon Brown's assertion that the Golden Rule would be met even without the redating of the cycle. The Treasury now believes that the current economic cycle will cover the twelve year period from 1997–98 to 2008–09 over which period its forecasts imply that the rule will be met. However the margin of error available over the next three years is smaller than the average error that the Treasury has made in the past when forecasting borrowing just twelve months ahead. Risks include the underlying strength of the economy being weaker than the Treasury expects and, even if the economy does evolve as anticipated, receipts undershooting the Treasury's forecast. Over the medium term a potentially more significant risk to the public finances is that the cuts in public spending as a share of national income that the Treasury has pencilled in for the three year period from April 2008 to March 2011 prove incompatible with the Government's aspirations for improving public services and reducing poverty both in the UK and overseas."

Further Analysis

Information is now available for the whole of 2005–06. The figures for receipts and spending in March 2006 show:

Central government current receipts

Overall, central government current receipts in 2005–06 came in £0.4bn lower than the projection in the March 2006 Budget (and £0.8bn lower than the forecast made in the March 2005 Budget).

Receipts of Income Tax, Capital Gains Tax and National Insurance Contributions are now thought to have been £219.4bn, compared to the March 2006 Budget forecast of £216.7bn (and the March 2005 Budget forecast of £219.8bn).

Cash receipts of Value Added Tax are now thought to have been £72.9bn, compared to the March 2006 Budget forecast of £73.7bn (and the March 2005 Budget forecast of £76.3bn).

Corporation tax receipts (net of company tax credits) are now thought to have been £42.0bn, compared to the March 2006 Budget forecast of £42.2bn (and the March 2005 Budget forecast of £43.2bn).

Central government current spending

Overall, central government current spending (including depreciation) in 2005–06 came in £1.3bn lower than the projection in the March 2006 Budget (but £1.6bn higher than the forecast made in the March 2005 Budget).

Spending on net social benefits is now thought to have been £128.1bn, compared to the March 2006 Budget forecast of £128.1bn (and the March 2005 Budget forecast of £134.1bn).

Spending on debt interest payments is now thought to have been £25.8bn, compared to the March 2006 Budget forecast of £25.8bn (and the March 2005 Budget forecast of £25.6bn).

Other current spending by central government, including spending on the delivery of public services, is now thought to have been £308.0bn, compared to the March 2006 Budget forecast of £309.2bn (and the March 2005 Budget forecast of £300.5bn).

Further information and contacts

For further information on today's public finance release please contact: Carl Emmerson on 020 7291 4800, or email cemmeron@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

The annual IFS Green Budget, published on 25th January 2006 and containing in-depth public finance analysis, can be found at: <http://www.ifs.org.uk/budgets/gb2006/index.php>

Useful links and background information on the Budget can be found at <http://www.ifs.org.uk/budgets/budget2006/index.php>

Office for National Statistics & HM Treasury, Public Sector Finances, March 2006:
<http://www.statistics.gov.uk/pdfdir/psf0406.pdf>

The HM Treasury Budget 2006 is available at:
http://www.hm-treasury.gov.uk/budget/budget_06/bud_bud06_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.
3. Source: <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/399/5071902.htm>