IFS analysis of today’s public finance figures

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

**Headline Comparisons**

- **Central government current receipts** in November were 4.1% higher than in the same month last year. This month’s Pre-Budget Report forecast for 2005–06 implies an increase over last year’s levels of 7.6% for the year as a whole and of 7.8% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 7.0% for the year to date.

- **Central government current spending** in November was 6.4% higher than in the same month last year. This month’s Pre-Budget Report forecast for 2005–06 implies an increase over last year’s levels of 5.5% for the year as a whole and of 6.1% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 5.2% for the year to date.

- **Public sector net investment** in November was £0.6bn higher (31.3%) than in the same month last year. This month’s Pre-Budget Report forecast for 2005–06 implies an increase of 31.6% for the year as a whole and an increase of 36.9% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 24.9% for the year to date.

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

“Coming less than three weeks after the Pre-Budget Report, today’s figures should not come as much surprise to the Chancellor. Receipts in November came in less quickly than he has predicted for the remaining five months of this financial year, while current spending is broadly in line. This is in part due to weak growth in receipts of income and capital gains tax. As a result the current budget needs to show more improvement over the next four months to meet the Pre-Budget Report forecast of £10.6bn, but there are good reasons to expect that January 2006 will be an especially strong month for the Treasury.

So far this year, the current budget deficit is running 22% lower than last year. The Chancellor predicted in the Pre-Budget Report over the year as a whole it will have shrunk by 45%, implying that he will need a cumulative current budget surplus of £8.7bn over the last four months of this year compared to £5.4bn in the same period last year, and a deficit of £½bn over the same period in the previous year.
Part, but not all, of this improvement should come from the £1.1bn tax increase on oil companies that was announced in the last Budget and is expected to increase receipts over the next four months.”

**Further Analysis**

We should be cautious in inferring or extrapolating likely outcomes over the financial year as a whole from information on only the first eight months. Bearing this in mind, the figures for receipts and spending in November 2005 show:

**Central government current receipts**

Receipts of Income Tax, Capital Gains Tax and National Insurance Contributions for November were 3.2% higher than in the same month last year. This month’s Pre-Budget Report forecast implies that the receipts from these taxes will be 7.4% up on last year’s levels over the whole year, and 5.4% up over the period from November 2005 to March 2006. The receipts for these taxes during the first eight months of 2005–06 were 8.4% higher than those for the same months in 2004–05.

Cash receipts of VAT in November were 1.4% lower than in the same month last year. This month’s Pre-Budget Report forecast implies that these receipts will be 1.9% up on last year’s levels over the whole year, and 4.3% up over the period from November 2005 to March 2006. During the first eight months of 2005–06 these receipts were the same as those for the same months in 2004–05.

Corporation tax receipts for November 2005 were 21.5% higher than in the same month last year, although due the pattern of these receipts over the year, November is not usually a significant month. This month’s Pre-Budget Report forecast implies that these receipts will be 21.8% up on last year’s levels over the whole year, and 31.0% up over the period from November 2005 to March 2006. During the first eight months of 2005–06 these receipts were 18.4% higher than those for the same months in 2004–05.

**Central government current spending**

Expenditure on net social benefits was 6.8% higher in November 2005 than in November 2004. This month’s Pre-Budget Report forecast implies that this spending will be 5.1% up on last year’s levels over the whole year, and 7.5% up over the period from November 2005 to March 2006. During the first eight months of 2005–06 this spending was 3.8% higher than in the same months in 2004–05.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.4bn in November 2005 compared to £2.2bn in November 2004.

Other current spending by central government, including spending on the delivery of public services, was 5.9% higher in November 2005 than in November 2004. This month’s Pre-Budget Report forecast implies that this spending will be 5.5% up on last year’s levels over the whole year, and 5.9% up over the period from November 2005 to March 2006. During the first eight months of 2005–06 this spending was 5.3% higher than in the same months in 2004–05.
In November 2005, **public sector net investment** was £2.4bn compared to £1.8bn in the same month in 2004. So far in 2005–06, a total amount of £12.1bn has been spent on public sector net investment, compared to the £9.7bn that had been spent by the same point in 2004–05. This month’s Pre-Budget Report predicted that net investment in 2005–06 would be £26.3bn, which is 31.6% above last year’s level.

**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 or cemmerson@ifs.org.uk or cfrayne@ifs.org.uk.

The IFS Green Budget, which will again be in collaboration with Morgan Stanley, will be on Wednesday 25th January 2006. For more details please email bbrimstone@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)


HM Treasury, Pre-Budget Report 2005: [http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/prebud_pbr05_index.cfm](http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/prebud_pbr05_index.cfm)

HM Treasury, Public Finance Statistics Index: [http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm](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.