IFS analysis of today’s public finance figures

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

Headline Comparisons

- **Central government current receipts** in January were 14.4% higher than in the same month last year. The December 2005 Pre-Budget Report forecast for 2005–06 implies an increase over last year’s levels of 6.9% for the year as a whole and of 6.2% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 7.8% for the year to date and an 8.5% increase in November 2005 to January 2006 over the same three months last year.

- **Central government current spending** in January was 7.4% higher than in the same month last year. The December 2005 Pre-Budget Report forecast for 2005–06 implies an increase over last year’s levels of 4.8% for the year as a whole and of 3.5% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 5.8% for the year to date and a 5.6% increase in November 2005 to January 2006 over the same three months last year.

- **Public sector net investment** in January was £0.7bn lower (21.2%) than in the same month last year. The December 2005 Pre-Budget Report forecast for 2005–06 implies an increase of 26.9% for the year as a whole and an increase of 2.7% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 46.7% for the year to date and a 24.7% increase in November 2005 to January 2006 over the same two months last year.

Christine Frayne, a senior research economist, said “This month’s figures show strong growth in central government receipts, in part due to high corporation tax receipts. While the increase in underlying receipts was sizeable, the overall level was boosted by a change in timing in the collection of North Sea corporation tax receipts announced in the March 2005 Budget. On current trends, current receipts would overshoot the December 2005 Pre-Budget Report forecasts for the year as a whole. Central government current spending was also stronger in January 2006 than in the same year last year, slightly offsetting the overall effect on the current budget.

So far this year, the public sector current budget deficit is running 48% lower than last year. The Chancellor predicted in the Pre-Budget Report over the year as a whole it will have shrunk by 45%. On current trends, the public sector current budget surplus for 2005–06 will come in at –£10.1bn which is slightly stronger than both the –£10.6bn
expected in the Pre-Budget Report and the –£10.5bn forecast in last month’s IFS Green Budget. A current budget outturn of this magnitude would still be significantly weaker than the –£5.7bn surplus the Chancellor forecast at the time of the Budget in March 2005.

There have been substantial revisions to public sector net investment both for this year and previous years. These largely arise from the ONS’s decision to reclassify London and Continental Railways from the private sector to the public sector. Due to significant investment on the Channel Tunnel Rail Link, this reclassification increases public sector net investment and means that the government is now on track to exceed the Pre-Budget Report forecasts for net investment this year. This will also increase pressure on the sustainable investment rule (which states that the government will keep public sector net debt at below 40% of national income over the years of this economic cycle) since the ONS estimates that public sector net debt is £5bn (0.4% of national income) higher as a result of the reclassification.”

**Further Analysis**

Even with information available for ten months of the current financial year, it is still important to be cautious in extrapolating over the whole year. Bearing this in mind the figures for January 2006 show:

**Central government current receipts**

Receipts of Income Tax, Capital Gains Tax and National Insurance Contributions in January were 8.0% higher than in the same month last year. The December 2005 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 5.2% up over the period from November 2005 to March 2006. The receipts for these taxes during the first ten months of 2005–06 were 8.2% higher than those for the same months in 2004–05, while receipts for November 2005 to January 2006 were 6.2% higher than the same three months last year.

Cash receipts of VAT in January were 3.7% higher than in the same month last year. The December 2005 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 ten months of 2005–06 these receipts were 0.6% higher than those for the same months in 2004–05, while receipts for November 2005 to January 2005 were 1.4% higher than the same three months last year.

Corporation tax receipts in January 2006 were 51.7% higher than in the same month last year. Due to the pattern of these receipts over the year, January is an important month for corporation tax receipts. Revenues in January 2006 were boosted by a change in timing for North Sea corporation tax receipts introduced in the March 2005 Budget, although they would still have been strong in the absence of this tax increase. The December 2005 Pre-Budget Report forecast implies that these receipts will be 22.8% up on last year’s levels over the whole year, and 31.1% up over the period from November 2005 to March 2006. During the first ten months of 2005–06 these receipts were 25.2% higher than those for the same months in 2004–05, while receipts for November 2005 to January 2005 were 41.0% higher than the same three months last year.

**Central government current spending**
Expenditure on net social benefits was 8.7% higher in January 2006 than in January 2005. The December 2005 Pre-Budget Report forecast implies that this spending will be 5.5% up on last year’s levels over the whole year, and 8.5% up over the period from November 2005 to March 2006. During the first ten months of 2005–06 this spending was 4.6% higher than in the same months in 2004–05, while spending November 2005 to January 2006 were 7.7% higher than the same three months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.6bn in January 2006 which was in line with spending in January 2005.

Other current spending by central government, including spending on the delivery of public services, was 7.5% higher in January 2006 than in January 2005. The December 2005 Pre-Budget Report forecast implies that this spending will be 4.4% up on last year’s levels over the whole year, and 1.7% up over the period from November 2005 to March 2006. During the first ten months of 2005–06 this spending was 6.0% higher than in the same months in 2004–05, while spending for November 2005 to January 2006 were 4.9% higher than the same three months last year.

In January 2006, public sector net investment was £2.7bn compared to £3.5bn in the same month in 2005. So far in 2005–06, a total amount of £21.9bn has been spent on public sector net investment, compared to the £15.0bn that had been spent by the same point in 2004–05. The December 2005 Pre-Budget Report predicted that net investment in 2005–06 would be £26.3bn, which is 27.4% above last year’s level.

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.

The Budget will be on Wednesday the 22nd of March at 12.30pm. An IFS briefing will be held at on Thursday 23rd March. The briefing is free of charge and will take place at 1pm at our offices in Ridgmount Street. If you wish to attend please contact our conference organiser Bonnie Brimstone (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
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
For more details on the ONS’s decision over London & Continental Railways: http://www.statistics.gov.uk/about/methodology_by_theme/LCR_classifications/default.asp
HM Treasury, Pre-Budget Report 2005: http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/prebud_pbr05_index.cfm
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.