

IFS analysis of today's public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances January 2007*. 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 2006–07.

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.

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

“Today’s figures show that the Chancellor is on track to meet his golden rule over a cycle starting in 1997–98 and ending in 2006–07. With just two months to go until the end of the Treasury’s estimate of the cycle, the public sector current budget figures from the year to date indicate that Mr Brown is likely to overshoot his deficit figures for this year slightly, but still meet the golden rule over this cycle.

While this month’s data show a reasonably strong position for the public sector, central government has not shown the increase in receipts or slowdown in current spending growth necessary for the Chancellor’s Pre-Budget Report forecasts in these areas to be met. This is due to a combination of weaker-than-expected corporation tax receipts and stronger-than-expected growth in current spending by central government departments on public services. Conversely revisions to estimated public sector net investment since June 2006 suggest that investment spending is likely to come in below the Treasury forecasts.”

Headline Comparisons

- **Central government current receipts** in January were 0.2% higher than in the same month last year. The December 2006 Pre-Budget Report forecast for 2006–07 implies an increase over last year’s levels of 6.8% for the year as a whole and of 7.0% for the period from November 2006 to March 2007. The latest figures show an increase over last year’s levels of 5.9% for the year to date and a 4.4% increase in November 2006 to January 2007 over the same three months last year.
- **Central government current spending** in January was 6.1% higher than in the same month last year. The December 2006 Pre-Budget Report forecast for 2006–07 implies an increase over last year’s levels of 4.9% for the year as a whole and of 2.4% for the period from November 2006 to March 2007. The latest figures show an increase over last year’s levels of 6.0% for the year to date and a 4.3% increase in November 2006 to January 2006 over the same three months last year.
- **Public sector net investment** in January was £0.9bn higher (31.0%) than in the same month last year. The December 2006 Pre-Budget Report forecast for 2006–07 implies an increase of 21.8% for the year as a whole and an increase of 24.3% for the period from November 2006 to March 2007. The latest figures show

an increase over last year's levels of 15.8% for the year to date and a 10.4% increase in November 2006 to January 2007 over the same two months last year.

Assessing compliance with the golden rule

The Chancellor's 'golden rule' requires public sector current spending to be met entirely out of public sector receipts over the course of an economic cycle – in other words, that the public sector current budget should be in balance or surplus on average over the cycle. The government should only borrow to finance capital spending.

The Pre-Budget Report states that “the Government's judgement is that the current cycle started in 1997–98. Based on assumptions used in these projections the economy will return to its trend level, ending the current cycle in early 2007”. This and other figures contained in the Pre-Budget Report imply that the Treasury now expects the cycle to run from 1997–98 to 2006–07. The cumulative surplus over the years from 1997–98 to 2005–06 is estimated to be £17.5bn, so the golden rule would be met if the deficit on the current budget is no more than £17.5bn in this financial year. December's Pre-Budget Report projected that the current budget would be in deficit by £7.9bn this year, which would mean that the golden rule would be met, albeit with just £9.6bn to spare over a ten year cycle. So far this financial year the cumulative current budget deficit is running at 56% of the level that it was at this point last year. Should this trend continue over the remaining 2 months of the financial year the current budget deficit for the whole of 2006–07 would be £8.5bn. This would be slightly above the Pre-Budget Report projection (£7.9bn) and slightly below the January 2007 IFS Green Budget projection (£9.2bn). A current budget deficit of £8.5bn in 2006–07 would mean the Chancellor would meet the golden rule over the current cycle with a margin of £9.0bn.

Further Analysis

Information is now available for ten months of the current financial year. The figures for January 2007 show:

Central government current receipts

Receipts of Income Tax, Capital Gains Tax and National Insurance Contributions in January were 9.9% higher than in the same month last year. The December 2006 Pre-Budget Report forecast implies that the receipts from these taxes will be 6.8% up on last year's levels over the whole year, and 8.5% up over the period from November 2006 to March 2007. The receipts for these taxes during the first ten months of 2006–07 were 6.3% higher than those for the same months in 2005–06, while receipts for November 2006 to January 2007 were 8.0% higher than the same three months last year.

Corporation tax receipts in January 2007 were 22.8% lower 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 2007 were depressed relative to receipts in January 2006 – the HMT/ONS press release indicates that at least in part this is due to the change in timing for North Sea corporation tax payments announced in the March 2005 Budget. The December 2006 Pre-Budget Report forecast implies that these receipts will be 13.2% up on last year's levels over the whole year, and 5.8% up over the period from November 2006 to March 2007. During the first ten months of 2006–07 these receipts were 7.2% higher than those for the same months in 2005–06, while receipts for November 2006 to January 2007 were 12.7% lower than the same three months last year. A shortfall on the PBR projection for

corporation tax receipts is very likely. For the Treasury's corporation tax forecast to be met, receipts in February and March would need to be twice that received in the same months last year. If receipts over the next two months follow the trend seen over the last ten then corporation tax receipts will be around £2½bn below the Pre-Budget Report forecast.

Cash receipts of VAT in January were 7.3% higher than in the same month last year. The December 2006 Pre-Budget Report forecast implies that these receipts will be 4.6% up on last year's levels over the whole year, and 4.4% up over the period from November 2006 to March 2007. During the first ten months of 2006–07 these receipts were 6.1% higher than those for the same months in 2005–06, while receipts for November 2006 to January 2007 were 9.2% higher than the same three months last year.

Central government current spending

Expenditure on net social benefits was 5.8% higher in January 2007 than in January 2006. The December 2006 Pre-Budget Report forecast implies that this spending will be 4.1% up on last year's levels over the whole year, and 2.7% up over the period from November 2006 to March 2007. During the first ten months of 2006–07 this spending was 3.7% higher than in the same months in 2005–06, while spending November 2006 to January 2007 were 0.4% higher than the same three months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.2bn in January 2007, which is £0.4bn higher than spending in January 2006.

Other current spending by central government, including spending on the delivery of public services, was 5.2% higher in January 2007 than in January 2006. The December 2006 Pre-Budget Report forecast implies that this spending will be 5.1% up on last year's levels over the whole year, and 1.6% up over the period from November 2006 to March 2007. During the first ten months of 2006–07 this spending was 7.0% higher than in the same months in 2005–06, while spending for November 2006 to January 2007 were 5.4% higher than the same three months last year.

In January 2007, **public sector net investment** was £3.8bn compared to £2.9bn in the same month in 2006. So far in 2006–07, a total amount of £19.4bn has been spent on public sector net investment, compared to the £16.8bn that had been spent by the same point in 2005–06. The December 2006 Pre-Budget Report predicted that net investment in 2006–07 would be £28.9bn, which is 21.8% above last year's level.

Further information and contacts

For further information on today's public finance release please contact: Carl Emmerson, Christine Frayne or Gemma Tetlow on 020 7291 4800, or email cemerson@ifs.org.uk or cfrayne@ifs.org.uk or gtetlow@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 31st January 2007 and containing in depth public finance analysis, can be found at: <http://www.ifs.org.uk/budgets/gb2007/index.php>

Office for National Statistics & HM Treasury, Public Sector Finances, February 2007:
<http://www.statistics.gov.uk/pdfdir/psf0207.pdf>

HM Treasury, Pre-Budget Report 2006:

http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/prebud_pbr06_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.