IFS analysis of today’s public finance figures

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

### Headline Comparisons

- **Central government current receipts** in December were 7.5% higher than in the same month last year. Last 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 8.0% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 7.1% for the year to date and a 6.1% increase in November and December 2005 over the same two months last year.

- **Central government current spending** in December was 3.2% higher than in the same month last year. Last 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 3.8% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 5.7% for the year to date and a 2.6% increase in November and December 2005 over the same two months last year.

- **Public sector net investment** in December was £1.2bn higher (93.0%) than in the same month last year. Last 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 35.0% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 37.1% for the year to date and a 63.9% increase in November and December 2005 over the same two months last year.

IFS economists will be presenting their forecasts for the public finances for this year and the medium term next Wednesday in the Green Budget. This will enable us to predict whether the Chancellor is on course to meet the Golden Rule over the current economic cycle and what he needs to do to be on course to meet it over the next. Please contact Bonnie Brimstone on bbrimstone@ifs.org.uk for more details.

### Further Analysis

Even with information available for three quarters 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 December 2005 show:
Central government current receipts

Receipts of Income Tax, Capital Gains Tax and National Insurance Contributions for December were 5.7% higher than in the same month last year. Last 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 nine months of 2005–06 were 8.1% higher than those for the same months in 2004–05, while receipts for November and December 2005 were 4.5% higher than the same two months last year.

Cash receipts of VAT in December were 2.5% higher than in the same month last year. Last 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 nine months of 2005–06 these receipts were 0.2% higher than those for the same months in 2004–05, while receipts for November and December 2005 were 0.2% lower than the same two months last year.

Corporation tax receipts for December 2005 were 6.6% higher than in the same month last year, although due the pattern of these receipts over the year, December is not usually a significant month. Last month’s Pre-Budget Report forecast implies that these receipts will be 22.8% 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 nine months of 2005–06 these receipts were 17.6% higher than those for the same months in 2004–05, while receipts for November and December 2005 were 11.0% higher than the same two months last year.

Central government current spending

Expenditure on net social benefits was 2.0% higher in December 2005 than in December 2004. Last 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 nine months of 2005–06 this spending was 3.1% higher than in the same months in 2004–05, while spending November and December 2005 were 2.4% higher than the same two months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.1bn in December 2005 compared to £2.2bn in December 2004.

Other current spending by central government, including spending on the delivery of public services, was 4.1% higher in December 2005 than in December 2004. Last 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 2.5% up over the period from November 2005 to March 2006. During the first nine months of 2005–06 this spending was 6.6% higher than in the same months in 2004–05, while spending for November and December 2005 were 2.6% higher than the same two months last year.

In December 2005, public sector net investment was £2.5bn compared to £1.3bn in the same month in 2004. So far in 2005–06, a total amount of £15.1bn has been spent on public sector net investment, compared to the £11.0bn
that had been spent by the same point in 2004–05. Last 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
Useful links and background information on the Pre-Budget Report can be found at http://www.ifs.org.uk/budgets/pbr2005/index.php
HM Treasury, Pre-Budget Report 2005: http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/prebud_pbr05_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.