IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances May 2006. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first two months of financial year 2006–07.

Headline Comparisons

- **Central government current receipts** in May were 5.8% higher than in the same month last year. Receipts in April and May 2006 were 3.8% higher than in the same months of 2005. The 2006 Budget implied that central government current receipts for the whole of 2006–07 would be 6.4% above 2005–06 levels.

- **Central government current spending** in May was 3.1% higher than in the same month last year. Spending in April and May 2006 was 7.1% higher than in the same months of 2005. The 2006 Budget implied that central government current spending for the whole of 2006–07 would be 5.3% above 2005–06 levels.

- **Public sector net investment** in May was £1.4bn, or 22.4% lower, than in the same month last year. Together, public sector net investment during April and May 2006 has been £3.1bn, which is 18.6% higher than in the same two months of 2005. The Budget predicted that net investment in 2006–07 would be £28.8bn, which is 4.6% above last year’s level.

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

“Over the first two months of this financial year the cumulative public sector current budget is £1.2bn more in deficit than over the same two months in 2005–06. Today’s figures show that the deficit in May 2006 was £7.2bn compared with a deficit of £6.0bn in May 2005. In addition, the figure for April 2006 has been revised down compared with what was estimated last month, from a surplus of £3.0bn to a surplus of £1.5bn, due to central government current spending on the delivery of public services being revised up. In order for the Chancellor to meet his 2006 Budget forecast for the current budget for 2006–07, he needs the deficit to be 40.1% lower than in 2005–06, or £7.0bn compared with £11.7bn. It is important to remember that we only have data for two months of the current financial year. However, with little room for manoeuvre left to meet the golden rule, the Chancellor will not want to be far from his forecast for 2006–07.”

Further Analysis

Little can be inferred or extrapolated about the public finances in 2006–07 from information about only the first two months of the financial year. Bearing this in mind, the figures for receipts and spending in May 2006 show:
**Central government current receipts**

Income Tax and Capital Gains Tax receipts for May 2006 were 6.8% higher than in the same month last year. Together, the receipts for these taxes during the first two months of 2006–07 were 7.6% higher than those for the first two months of 2005–06. The Budget forecasts imply that these taxes’ receipts will grow by 7.0% over the whole of 2006–07.

In May 2006, receipts of National Insurance Contributions fell by 0.1% over last May’s level. Receipts of National Insurance Contributions for April and May 2006 were 3.0% higher than those for the same two months last year. The Budget forecast implies that National Insurance Contributions will grow by 4.6% over the whole of 2006–07.

Cash receipts of VAT in May 2006 were 0.4% lower than the same month last year. VAT receipts for April and May 2006 were 2.5% higher than those for the same two months in 2005. The Budget forecast implies that VAT receipts will grow by 5.0% over the whole of 2006–07.

Corporation tax receipts for May 2006 were 63.8% higher than in the same month last year. Corporation tax receipts for April and May 2006 were 1.8% higher than those for the same two months last year. The Budget forecast implies that Corporation tax receipts will grow by 15.3% over the whole of 2006–07.

**Central government current spending**

Expenditure on net social benefits was 8.9% higher in May 2006 than in May 2005. Expenditure during April and May 2006 was 3.8% higher than in the same months of 2005. The Budget forecast implies that central government net social benefit expenditure will grow by 3.0% over 2006–07.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.2bn in May 2006, the same as in May 2005.

Other current spending by central government, including spending on the delivery of public services, was 1.2% higher in May 2006 than in May 2005. Comparing the first two months of 2006–07 with the first two months of 2005–06, the figure is 9.0%. The Budget forecast implies that this component of spending will grow by 6.5% over the year as a whole.

In May 2006, **public sector net investment** was £1.4bn compared to £1.8bn in the same month in 2005. So far in 2006–07, a total amount of £3.1bn has been spent on public sector net investment, compared to the £2.6bn that had been spent by the same point in 2005–06. The Budget predicted that net investment in 2006–07 would be £28.8bn, which is 4.6% 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 cemmerson@ifs.org.uk, 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

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, May 2006:

The IFS Green Budget, January 2006:

HM Treasury, Budget 2006:
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

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.