IFS analysis of today’s public finance figures

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

Headline Comparisons

- **Central government current receipts** in February were 5.3% 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 7.4% 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 7.4% for both the year to date and the four month period from November 2005 to February 2006.

- **Central government current spending** in February was 8.3% 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 4.9% for the year as a whole and of 3.4% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 5.6% for the year to date and a 5.0% increase in November 2005 to February 2006 over the same four months last year.

- **Public sector net investment** in February was £0.2bn higher (6.8%) than in the same month last year. The December 2005 Pre-Budget Report forecast for 2005–06 implies an increase of 27.2% for the year as a whole and an increase of 3.3% for the period from November 2005 to March 2006. The latest figures show an increase over last year’s levels of 41.7% for the year to date and a 23.9% increase in November 2005 to February 2006 over the same four months last year.

Carl Emmerson, deputy director, said “Since the December Pre-Budget Report the current budget has evolved in line with the Chancellor’s forecast. Within this, strong government receipts should be more than sufficient to outweigh higher current spending by government departments. As a result, this year’s current budget is on track to come in around £9bn in deficit – slightly lower than the £10.6bn deficit forecast in the Pre-Budget Report but higher than the £5.7bn deficit forecast in last year’s Budget.

A smaller deficit would be good news for the Chancellor in the run up to Wednesday’s Budget with regards to his progress in meeting the golden rule. The golden rule states that over the economic cycle, the government will run a cumulative surplus on the current budget. Under the estimates of the Pre-Budget Report for the remaining years of
the current cycle, the cumulative surplus would be around £15bn. With 3 years of the current economic cycle still to go, such an expected surplus is extremely small relative to the uncertainties inherent in any public finance forecast.

In contrast public sector net borrowing is on track to exceed the £37.0bn forecast in the Pre-Budget Report. This is mainly due to last month’s ONS decision to reclassify London and Continental Railways from the private sector to the public sector. This increases the level of net investment recorded by the public sector and brings public sector net debt closer to, but still below, the sustainable investment rule’s 40% of national income ceiling.”

Further Analysis

Information is now available for eleven months of the current financial year. The figures for receipts and spending in February 2006 show:

Central government current receipts

Receipts of Income Tax, Capital Gains Tax and National Insurance Contributions in February were 6.0% 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 eleven months of 2005–06 were 7.9% higher than those for the same months in 2004–05, while receipts for November 2005 to February 2006 were 6.0% higher than the same four months last year.

Cash receipts of VAT in February were 4.6% 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 4.5% up over the period from November 2005 to March 2006. During the first eleven months of 2005–06 these receipts were 0.8% higher than those for the same months in 2004–05, while receipts for November 2005 to February 2006 were 2.0% higher than the same four months last year.

Corporation tax receipts in February 2006 were 2.4% higher than in the same month last year. 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 eleven months of 2005–06 these receipts were 24.4% higher than those for the same months in 2004–05, while receipts for November 2005 to February 2005 were 36.7% higher than the same four months last year.

Central government current spending

Expenditure on net social benefits was 1.5% higher in February 2006 than in February 2005. The December 2005 Pre-Budget Report forecast implies that this spending will be 5.6% up on last year’s levels over the whole year, and 8.8% up over the period from November 2005 to March 2006. During the first eleven months of 2005–06 this spending was 4.0% higher than in the same months in 2004–05, while spending November 2005 to February 2006 were 5.3% higher than the same four months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.2bn in February 2006 which was in line with spending in February 2005.
Other current spending by central government, including spending on the delivery of public services, was 11.4% higher in February 2006 than in February 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 1.5% up over the period from November 2005 to March 2006. During the first eleven months of 2005–06 this spending was 6.1% higher than in the same months in 2004–05, while spending for November 2005 to February 2006 were 5.0% higher than the same four months last year.

In February 2006, **public sector net investment** was £3.1bn compared to £2.9bn in the same month in 2005. So far in 2005–06, a total amount of £25.5bn has been spent on public sector net investment, compared to the £18.0bn 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 27.2% 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, 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


The HM Treasury Budget 2006 will be published on the 22nd of March and will appear here: http://www.hm-treasury.gov.uk/budget/budget_06/bud_bud06_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.