

IFS analysis of today's public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances February 2007*. 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 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.

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

“Today’s figures suggest that in tomorrow’s Budget Mr Brown should be able to announce lower borrowing figures for the current year than he forecast in last year’s Pre-Budget Report. Rather than being a result of an improved current budget, this is due to lower than expected investment in public services. The current budget – the measure of borrowing that excludes capital spending and is used to measure compliance with the golden rule – is running in line with the Chancellor’s Pre-Budget Report projection. With the current economic cycle expected by the Treasury to run from 1997–98 to 2006–07, next month’s data should confirm that the Golden Rule has been met over this period. More important for the strength of the public finances is the medium term outlook for receipts and spending. Tomorrow’s Budget is likely to continue to project a reduction in government borrowing brought about a combination of further rises in the tax burden and cuts to public spending as a share of national income. If delivered, the Golden Rule would continue to be met into the next cycle.”

Headline Comparisons

- **Central government current receipts** in February were 8.3% 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 6.6% for the year to date and a 6.4% increase in November 2006 to February 2007 over the same four months last year. In order for the PBR projection to be met, central government current receipts in March 2007 would need to be 6.8% higher than in the same month last year.
- **Central government current spending** in February was 0.9% 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 4.8% for the year as a whole and of 1.9% for the period from November 2006 to March 2007. The latest figures show an increase over last year’s levels of 5.6% for the year to date and a 3.1% increase in November 2006 to February 2007 over the same four months last year. In order for the PBR projection to be met, central government current spending in March 2007 would need to be 3.1% lower than in the same month last year.

- **Public sector net investment** in February was £0.3bn lower (9.4%) than in the same month last year. The December 2006 Pre-Budget Report forecast for 2006–07 implies an increase of 27.1% for the year as a whole and an increase of 31.8% for the period from November 2006 to March 2007. The latest figures show an increase over last year’s levels of 7.1% for the year to date and a 3.5% decrease in November 2006 to February 2007 over the same four months last year. In order for the PBR projection to be met, public sector net investment in March 2007 would need to be more than double its level in the same month 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 £19.8bn, so the golden rule would be met if the deficit on the current budget is no more than £19.8bn 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 £11.9bn to spare over a ten year cycle. So far this financial year the cumulative current budget deficit is running at 54% of the level that it was at this point last year. Should this trend continue over the last month of the financial year the current budget deficit for the whole of 2006–07 would be £8.2bn. This would be slightly above the Pre-Budget Report projection (£7.9bn) and below the January 2007 IFS Green Budget projection (£9.2bn). A current budget deficit of £8.2bn in 2006–07 would mean the Chancellor would meet the golden rule over the current cycle with a margin of £11.6bn.

Further Analysis

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

Central government current receipts

Receipts of Income Tax, Capital Gains Tax and National Insurance Contributions in February were 11.7% 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 eleven months of 2006–07 were 6.9% higher than those for the same months in 2005–06, while receipts for November 2006 to February 2007 were 9.1% higher than the same four months last year. In order for the PBR projection to be met, receipts of Income Tax, Capital Gains Tax and National Insurance Contributions in March 2007 would need to be 5.9% higher than in the same month last year.

Cash receipts of VAT in February were 2.7% 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 eleven months of 2006–07 these

receipts were 5.8% higher than those for the same months in 2005–06, while receipts for November 2006 to February 2007 were 7.6% higher than the same three months last year. In order for the PBR projection to be met, cash receipts of VAT in March 2007 would need to be 15.0% lower than in the same month last year.

Corporation tax receipts in February 2007 were 3.9% higher than in the same month last year. The December 2006 Pre-Budget Report forecast implies that these receipts will be 13.3% up on last year's levels over the whole year, and 6.4% up over the period from November 2006 to March 2007. During the first eleven months of 2006–07 these receipts were 7.1% higher than those for the same months in 2005–06, while receipts for November 2006 to February 2007 were 11.2% lower than the same four months last year. In order for the PBR projection to be met, corporation tax receipts in March 2007 would need to be three times their level in the same month last year.

Central government current spending

Expenditure on net social benefits was 1.0% higher in February 2007 than in February 2006. The December 2006 Pre-Budget Report forecast implies that this spending will be 3.8% up on last year's levels over the whole year, and 3.2% up over the period from November 2006 to March 2007. During the first eleven months of 2006–07 this spending was 2.9% higher than in the same months in 2005–06, while spending for November 2006 to February 2007 were 0.8% higher than the same three months last year. In order for the PBR projection to be met, expenditure on net social benefits in March 2007 would need to be 13.6% higher than in the same month last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.2bn in February 2007, which is £0.5bn higher than spending in February 2006.

Other current spending by central government, including spending on the delivery of public services, was 0.9% lower in February 2007 than in February 2006. The December 2006 Pre-Budget Report forecast implies that this spending will be 5.2% up on last year's levels over the whole year, and 0.5% up over the period from November 2006 to March 2007. During the first eleven months of 2006–07 this spending was 6.6% higher than in the same months in 2005–06, while spending for November 2006 to February 2007 were 3.2% higher than the same three months last year. In order for the PBR projection to be met, other central government current spending in March 2007 would need to be 8.9% lower than in the same month last year.

In February 2007, **public sector net investment** was £3.0bn compared to £3.3bn in the same month in 2006. So far in 2006–07, a total amount of £20.6bn has been spent on public sector net investment, compared to the £19.2bn 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 27.1% above last year's level. In order for the PBR projection to be met, public sector net investment in March 2007 would need to be more than double its level in the same month last year.

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, cemerson@ifs.org.uk or cfrayne@ifs.org.uk

The Budget will be tomorrow, on Wednesday 21st of March at 12.30pm. An IFS briefing will be held at on Thursday 22nd 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 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, March 2007:
<http://www.statistics.gov.uk/pfdir/psf0307.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.