IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances April 2006*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first month of financial year 2006–07 and revised details for the whole of financial year 2005–06.

### Headline Comparisons

- **Public sector surplus on current budget** in 2005–06 is now estimated to have been minus £11.8bn (i.e. in deficit), compared to the March 2006 Budget estimate of minus £11.4bn.

- **Public sector net borrowing** in 2005–06 is now estimated to have been £38.9bn, compared to the £37.1bn estimate in the Budget.

- **Central government current receipts** in April were 2.8% higher than in the same month last year. The 2006 Budget implied that central government current receipts for the whole of 2006–07 would be 6.3% above 2005–06 levels.

- **Central government current spending** in April was 9.3% higher than in the same month last year. 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 April was £1.7bn compared to just £0.8bn in the same month last year. The Budget predicted that net investment in 2006–07 would be £28.8bn, which is 6.3% above last year’s level.

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

“Today’s figures show that the public sector current budget in April 2006 was £3.0bn in surplus, compared to a £1.7bn surplus in April 2005. As we are only one month into financial year 2006–07 it is important not to infer too much about the trajectory of the public finances over the whole year. This is particularly true this month, as there have been changes to the timing of education grants from central government to local authorities which affect the distribution of spending within the public sector, and changes to the timing of North Sea corporation tax which reduce the share of receipts taken in April. However, as the overall effect is to reduce the public sector current budget for April compared with the underlying trend, today’s numbers will be encouraging for the Chancellor.

The Budget 2006 forecast for the financial year 2006–07 is for a £7.0bn deficit on current budget, which is smaller than last year’s £11.8bn deficit. The Chancellor’s Golden Rule states that the current budget should be in surplus or balance over the years that constitute an economic cycle. According to the Treasury, the current economic cycle
started in 1997–98 and is expected to close 2008–09. With three years to go until the end of the cycle, the margin of error is just £10bn – less than the average error in forecasting the current budget balance one year in advance.”

**Further Analysis**

Little can be inferred or extrapolated about the public finances in 2006–07 from information about only the first month of the financial year. Bearing this in mind, the figures for receipts and spending in April 2006 show:

**Central government current receipts**

Receipts from Income tax, Capital Gains Tax and National Insurance Contributions for April 2006 were 7.2% higher than in the same month last year. The Budget forecasts imply that these taxes’ receipts will grow by 6.1% over the whole of 2006–07.

VAT receipts in April 2006 were 4.7% higher than the same month last year. The Budget forecast implies that VAT receipts will grow by 5.0% over the whole of 2006–07.

Corporation tax receipts for April 2006 were 5.6% lower than in the same month 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 5.7% higher in April 2006 than in April 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 £2.3bn in both April 2006 and April 2005.

Other current spending by central government, including spending on the delivery of public services, was 11.8% higher in April 2006 than in April 2005. The Budget forecast implies that this component of spending will grow by 6.5% over the year as a whole.

In April 2006, public sector net investment in April was £1.7bn compared to just £0.8bn in the same month last year. The Budget predicted that net investment in 2006–07 would be £28.8bn, which is 6.3% above last year’s level.

**Relevant links:**

This, and previous editions of this press release, can be downloaded from [http://www.ifs.org.uk/press/pub_fin.shtml](http://www.ifs.org.uk/press/pub_fin.shtml)


HM Treasury, Budget 2006:
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.
3. Estimates for the likelihood of meeting the golden rule over the current economic cycle take the Budget 2006 forecast for GDP in 2006-07 of £1,242bn.