

Press Release

IFS analysis of today's public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances May 2010*. 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 2010–11.

Gemma Tetlow, a Senior Research Economist at the IFS, said:

“As George Osborne prepares for his first Budget he may be reassured by today's figures which show tax receipts growing more strongly so far this year than was forecast by the Office for Budget Responsibility last week for the year as a whole. Income tax and VAT receipts have been growing particularly strongly. However, with the OBR last week forecasting that borrowing this year will be £155 billion, the challenge for next week's Budget will be to set out how the new government plans to reduce borrowing over the next few years in order to meet their chosen fiscal targets.”

Headline Comparisons

- **Central government current receipts** in May were 7.6% higher than in the same month last year. Receipts in April and May 2010 were 8.7% higher than in the same months of 2009. The March 2010 Budget implied that central government current receipts for the whole of 2010–11 would be 4.8% higher than 2009–10 levels.
- **Central government current spending** in May was 7.2% higher than in the same month last year. Spending in April and May 2010 was 5.9% higher than in the same months of 2009. The March 2010 Budget implied that central government current spending for the whole of 2010–11 would be 6.6% above 2009–10 levels.
- **Public sector net investment** in May was £1.9bn compared to £1.7bn in the same month last year. Together, public sector net investment during April and May 2009 has been £3.4bn, which is 12% higher than in the same two months of 2009. The March Budget predicted that net investment in 2010–11 would be £39.5bn, which is 11% below last year's level. The Office for Budget Responsibility (OBR) last week forecast that net investment this year would be £40.7bn, 9% below last year's level.

Further Analysis

Last Monday, the OBR published its forecasts for the public finances, assuming no further policy changes since the General Election. They forecast public sector current receipts to be £5.6bn higher in 2010–11 than had been forecast in the March Budget, public sector current spending to be £4.1bn lower and public sector net investment to be £1.2bn higher. Taken together,

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these result in the OBR's forecast for public sector net borrowing being £155bn in 2010–11 (£8.4bn lower than had been forecast in the March Budget) and the current budget deficit being £114bn (£9.7bn lower than previously forecast).

Where possible, the following analysis compares the receipts and spending outturn data with both the March Budget forecasts and the OBR forecasts. However, the OBR document did not contain forecasts for central government total receipts and total spending – it only contains figures for public sector total receipts and total spending (although it does contain figures for a number of components of central government receipts and spending). Where comparable figures are not available from the OBR report, we have provided comparisons only with the March Budget figures.

Little can be inferred or extrapolated about the public finances in 2010–11 from information about only the first two months of the financial year. Bearing this in mind, the figures for receipts and spending in May 2010 show:

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for May 2010 were 7.3% higher than in the same month last year. Together, the receipts for these taxes during the first two months of 2010–11 were 9.5% higher than those for the first two months of 2009–10. The March Budget forecasts imply that these taxes' receipts will increase by 1.1% over the whole of 2010–11. The OBR's forecast last week implied that these taxes' receipts will increase by 3.6% over the whole of 2010–11.

VAT receipts in May 2010 were 11.9% higher than the same month last year. Together, the VAT receipts during the first two months of 2010–11 were 25.0% higher than those for the first two months of 2009–10. The March Budget forecast implies that VAT receipts will increase by 11.2% over the whole of 2010–11. The OBR's forecast last week implied that VAT receipts will increase by 15.0% over the whole of 2010–11.

Corporation Tax receipts for May 2010 were 15.7% higher than the same month last year. Corporation Tax receipts for April and May 2010 were 13.2% higher than in the same months of 2009. The March Budget forecast implies that Corporation Tax receipts will increase by 15.7% over the whole of 2010–11. The OBR's forecast last week implied that Corporation Tax receipts will increase by 18.7% over the whole of 2010–11.

Central government current spending

Expenditure on net social benefits was 3.7% higher in May 2010 than in May 2009. Expenditure during April and May 2010 was 2.9% higher than in the same months of 2009. The March Budget forecast implies that central government net social benefit expenditure will grow by 3.4% over 2010–11.

Spending on debt interest (which is relatively small as a share of spending overall) was £4.3bn in May 2010, £1.3bn higher than in May 2009. The March Budget forecast that total debt interest spending by central government in 2010–11 would be £41.6bn; the OBR forecast was that it would total £42.1bn.

Other current spending by central government, including spending on the delivery of public services, was 5.2% higher in May 2010 than in May 2009. Comparing the first two months of 2010–11 with the first two months of 2009–10, the figure is 4.1%. The March Budget forecast implies that this component of spending will grow by 5.7% over the year as a whole.

In May 2010, public sector net investment was £1.9bn compared to £1.7bn in the same month in 2009. So far in 2010–11, a total of £3.4bn has been spent on public sector net investment, compared to the £3.1bn that had been spent by the same point in 2009–10. The March Budget predicted that net investment in 2010–11 would be £39.5bn, which is 11% below last year's level. The OBR last week forecast that net investment this year would be £40.7bn, 9% below last year's level.

Further information and contacts

For further information on today's public finance release please contact: Robert Chote, Rowena Crawford, or Gemma Tetlow on 020 7291 4800, or email rchote@ifs.org.uk, rowena_c@ifs.org.uk, or gtetlow@ifs.org.uk.

Next month's public finances release is due to be published on Tuesday 20th July.

Relevant links:

This, and previous editions of this press release, can be downloaded from <http://www.ifs.org.uk/publications/browse?type=pf>

Office for National Statistics & HM Treasury, Public Sector Finances, June 2010: <http://www.statistics.gov.uk/pdfdir/psf0610.pdf>

HM Treasury, March 2010 Budget:
<http://www.hm-treasury.gov.uk/budget2010.htm>

Useful links and analysis of Budget 2010 can be found at:
<http://www.ifs.org.uk/projects/322>

Office for Budget Responsibility, Pre-budget forecast, June 2010:
http://budgetresponsibility.independent.gov.uk/d/pre_budget_forecast_1406_10.pdf

Analysis of the Office for Budget Responsibility's Pre-Budget forecast can be found at: <http://www.ifs.org.uk/publications/5034>

Analysis of the Conservatives' and Liberal Democrats' manifesto pledges can be found at: <http://www.ifs.org.uk/projects/323>

HM Treasury, Public Finance Statistics Index:
http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm

IFS Green Budget, February 2010, containing in-depth public finance analysis, can be found at:
<http://www.ifs.org.uk/publications/4732>

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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.