Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances January 2009. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first ten months of financial year 2009–10.

Rowena Crawford, a research economist at the IFS, said:

“Today’s figures show that last month’s tax receipts were sharply down on January 2009: for example the combined cash receipts from Income Tax, Capital Gains Tax and National Insurance Contributions (NICs) were 14% down on a year ago.

In the December 2009 Pre-Budget Report (PBR) Chancellor Alistair Darling forecast that borrowing over the whole of 2009–10 would be £177.6 billion, whereas earlier this month our IFS Green Budget forecast was that it would be £167.2 billion. While today’s figures are undoubtedly bad, the data for the year so far suggest that borrowing is still more likely to come in below the PBR forecast than above it. After adjusting for the estimated impact of temporary measures, a mechanical extrapolation of the data on receipts and spending over the last ten months suggest that borrowing is on course to come in at around £169 billion.

Our Green Budget analysis suggests that both receipts and spending will grow more quickly in the final two months of the financial year than over the last ten months. Growth in receipts so far has been on course to meet Mr Darling’s forecast, but the Green Budget forecast that it would pick up more strongly over the rest of the financial year. Non-investment spending by central government, which is currently growing less quickly than forecast by either Mr Darling or the Green Budget for the year as a whole, is likely to pick up in February and March.”

Headline Comparisons

- **Central government current receipts** in January were 7.7% lower than in the same month last year. The Pre-Budget Report forecast for 2009–10 published in December implies a fall relative to last year’s levels of 7.3% for the year as a whole and of 3.7% for the period from November 2009 to March 2010. The latest figures show a fall relative to last year’s levels of 7.8% for the year to date, with a 3.3% fall between November and January 2009 compared to the same three months last year.

- **Central government current spending** in January was 9.6% higher than in the same month last year. The Pre-Budget Report forecast for 2009–10 published in December implies an increase relative to last year’s levels of 7.4% for the year as a whole and of 9.8% for the period from November 2009 to March 2010. The latest figures show an increase relative to last year’s levels of 5.8%
for the year to date, with a 6.0% increase between November and January 2009 compared to the same three months last year.

- **Public sector net investment** in January was £5.5bn compared to £5.0bn in the same month last year. Together, public sector net investment over the first ten months of this financial year has been £31.7bn, which is 41.9% higher than in the same months of 2008–09. The Pre-Budget Report published in December suggested that net investment in 2009–10 would be about 29.8% above last year’s level for the year as a whole.

**What would happen if these trends continued?**

- Under the assumption that central government receipts for the next two months grow at the same rate as seen over the last ten months, receipts for the whole of financial year 2009–10 would be about £3bn lower than was forecast in December’s Pre-Budget Report. However adjusting this extrapolation to take account of the estimated impact of temporary measures – such as the cut to the main rate of VAT – on the timing of receipts over the financial year suggests that receipts are in fact broadly in line with the PBR forecast.

- Under the assumption that central government current spending for the next two months grows at the same rate as seen over the last ten months, this spending for the whole of financial year 2009–10 would be about £9bn lower than was forecast in December’s Pre-Budget Report. After adjusting for differences in the timing of spending this year compared to last – specifically due to the one-off extra payments paid to some benefit recipients in the first three months of 2009 – suggests that spending is in fact on course to undershoot the PBR forecast by £8bn.

- If these adjusted extrapolations for receipts and spending prove correct, and assuming that the PBR is correct in its forecasts for public sector net investment and other non-central government receipts and current spending, public sector net borrowing for the whole of 2009–10 would be £169bn, compared to the £177.6bn forecast in the PBR and the £167.2bn forecast in the February 2010 IFS Green Budget. However considerable uncertainty remains – for example it is possible that central government spending picks up over the next two months sufficiently to bring borrowing back up to the level forecast in the PBR.

**Further Analysis**

Information is now available for the first ten months of financial year 2009–10. Figures for receipts and spending in January 2010 show:

**Central government current receipts**

Cash receipts from Income Tax, Capital Gains Tax, National Insurance Contributions and the new Bank Payroll Tax for January 2010 were 14.4% lower than in the same month last year. The Pre-Budget Report forecast implies that the receipts from these taxes will be 8.3% down on last year’s levels over the whole year, and 10.0% down over the period from November 2009 to March 2010. Together, the receipts for these taxes during the first ten months of 2009–10 were 7.4% lower than those for the same months of
2008–09, while receipts for November 2009 to January 2010 were 8.2% lower than the same three months last year.

Corporation Tax receipts in January 2010 were 5.6% lower than in the same month last year. The Pre-Budget Report forecast published in December implies that these receipts will be 22.5% down on last year’s levels over the whole year, and 3.3% down over the period from November 2009 to March 2010. Corporation Tax receipts during the first ten months of 2009–10 were 19.8% lower than those for the same months of 2008–09, while receipts for November 2009 to January 2010 were 10.5% higher than the same three months last year.

VAT receipts in January 2010 were 3.3% higher than the same month last year. The Pre-Budget Report forecast published in December implies that these receipts will be 14.3% down on last year’s levels over the whole year, and 4.3% down over the period from November 2009 to March 2010. VAT receipts during the first ten months of 2009–10 were 13.9% lower than those for the same months of 2008–09, while receipts for November 2009 to January 2010 were 2.9% higher than the same three months last year. Given that the temporary cut in the main rate of VAT ended on 31 December 2009, growth in VAT receipts is likely to be stronger in the last three months of 2009–10 than in the first nine months. However, the impact of this will be mitigated by some purchases having been brought forward into 2009 to take advantage of the VAT window.

Central government current spending

Expenditure on net social benefits was 3.1% higher in January 2010 than in January 2009. Last month’s Pre-Budget Report forecast implies that this spending will be 8.7% up on last year’s levels over the whole year and 7.3% up over the period from November 2009 to March 2010. Expenditure during the first ten months of 2009–10 was 8.8% higher than in the same months of 2008–09, while spending in November 2009 to January 2010 was 6.6% higher than the same months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £43.3bn in January 2010, £2.8bn higher than in January 2009. Pre-Budget Report 2009 forecast that debt interest payments would be 0.6% higher in cash terms over the whole of 2009–10 than they were in 2008–09, but 47% higher over the months from November 2009 to March 2010. These sharp changes in debt interest costs over the year largely reflect changes in inflation over time, which affect interest paid on index-linked gilts.

Other current spending by central government, including spending on the delivery of public services, was 8.4% higher in January 2010 than in January 2009. December’s Pre-Budget Report forecast implies that this spending will be 7.4% up on last year’s levels over the whole year and 8.3% up over the period from November 2009 to March 2010. Comparing the first ten months of 2009–10 with the same months in 2008–09, the figure is 6.1% while spending in November 2009 to January 2010 was 4.5% higher than the same three months last year.

In January 2010, public sector net investment was £5.5bn compared to £5.0bn in the same month in 2009. So far in 2009–10, a total of £31.7bn has been spent on public sector net investment; this is 41.9% higher than the £22.3bn that had been spent by the same point in 2008–09. The Pre-Budget Report published in December suggested that net investment in 2009–10 would be 29.8% above last year’s level over the year as a whole.
Further information and contacts

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

Next month's public finances release is due to be published on Thursday 18th March 2010.

 Relevant links:

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

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

Useful links and background information on Pre-Budget Report 2009 can be found at: http://www.ifs.org.uk/projects/314

HM Treasury, Pre Budget Report 2009: http://www.hm-treasury.gov.uk/prebud_pbr09_index.htm


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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.