Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances December 2010. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first nine months of financial year 2010–11.

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

“Today’s figures include, for the first time, the estimated impact of Royal Bank of Scotland and Lloyds Banking Group on the public sector balance sheet. This increases the public sector’s net debt by £1,300 billion, almost as much as the amount of income the UK generates in one year. But this vastly overstates the challenge facing the Government as it seeks to return the public finances to a sustainable footing since it includes all of the liabilities of these financial institutions but none of their long-term financial assets or physical assets. Sensibly the Government focuses on measures of debt and borrowing that exclude these effects as they will largely disappear when the Government sells our stake in these institutions. The Treasury has previously estimated that the true direct cost to the taxpayer from these interventions will be £2 billion.

Weak accrued receipts from VAT in December depressed growth in government receipts, but public sector net investment grew less quickly than the Office for Budget Responsibility has forecast for the year as a whole. Overall borrowing in the first nine months of this financial year remains broadly on track to meet the OBR’s forecast of £148.5 billion, although much uncertainty – in particular relating to the scale of January’s income tax receipts from financial sector bonuses – remains.”

Headline Comparisons

- **Central government current receipts** in December were 3.9% higher than in the same month last year. The Office for Budget Responsibility’s (OBR) Economic and Fiscal Outlook forecast an increase in receipts relative to last year’s levels of 8.9% for the year as a whole and of 9.2% for the period from November 2010 to March 2011. The latest figures show an increase relative to last year’s level of 7.5% for the year to date, with an increase of 3.3% in November and December 2010 compared to the same two months in 2009.

- **Central government current spending** in December was 5.2% higher than in the same month last year. The OBR’s latest forecast implies an increase relative to last year’s level of 5.4% for the year as a whole and of 4.8% for the period from November 2010 to March 2011. The latest figures show an increase relative to last year’s level of 6.0% for the year to date, with an increase of 6.7% in November and December 2010 compared to the same two months in 2009.
Public sector net investment in December was £3.2bn, compared to £8.1bn spent in December 2009. Together, public sector net investment over the first nine months of this financial year has been £24.1bn, which is 19.7% lower than in the same months of 2009. The OBR’s latest forecast was that net investment in 2010–11 would be £42.3bn, which is 9.2% below last year’s level.

What would happen if these trends continued?

Public sector net borrowing during the first nine months of 2010–11 was £118bn, which is 6.6% lower than the amount borrowed during the same period last year. If this were to continue for the remaining three months of this financial year, borrowing for the whole of financial year 2010–11 would be about £146bn. This is similar to the £148.5bn forecast by the OBR in its November 2010 Economic and Fiscal Outlook. In practice there are many reasons why borrowing over the next three months is unlikely to follow the path implied by the last nine: for example accrued receipts of the bank payroll tax are frontloaded, whereas the in-year public service cuts announced in May will be back loaded. The former will tend to make the extrapolation of borrowing an underestimate, whereas the latter will tend to make it an overestimate, of what we might expect.

Financial sector interventions and public sector net debt

Today the ONS, for the first time, included the estimated liabilities (net of short-term financial assets) of the Royal Bank of Scotland (RBS) and the Lloyds Banking Group (LBG, comprising Lloyds TSB and HBOS) in its measure of public sector net debt. This has had the effect of increasing public sector net debt by around £1,300bn (95.6% of national income), raising total public sector net debt to 154.9% of national income. The ONS judges that RBS and LBG have been effectively part of the public sector since 13th October 2008.

Figure. Public sector net debt including and excluding the estimated impact of financial sector interventions

These figures are so large because international standards for national accounting require that all liabilities are included in net debt but only short-term financial assets can be deducted (i.e. not long-term financial assets or physical assets). All of the institutions now classified as public corporations have substantial long-term financial assets – such as mortgage books – which
do not, therefore, appear as assets in the national accounts measure of public sector net debt. The latest financial statements of LBG and RBS suggest that as of the end of 2009 LBG had gross assets of £1,027bn and gross liabilities of £983bn while RBS had had assets of £1,697bn and liabilities of £1,602bn. Sensibly the Government, like its predecessor, has chosen to focus on the measures of the strength of the public finances that exclude the (largely temporary) estimated impact of financial sector interventions.

The important thing for the sustainability of the public finances is what the long-term impact on the public finances of the Government's various interventions in the financial sector is once the taxpayers' exposure has been unwound. This long-term impact will be substantially less than the short-term impact mentioned above, but could still be significant. In the June 2010 Budget the Treasury estimated this long-term cost of the financial sector interventions at £2bn (which was down from £8bn at the time of the December 2009 Pre-Budget Report), but the ultimate profit or cost will depend in part on the price the Government receives for its shareholdings.

Further Analysis

We should be cautious of inferring or extrapolating likely outcomes over the financial year as a whole from information on only the first nine months, particularly as some factors are likely to affect the profile of receipts and spending differently in 2010–11 than in 2009–10. However, bearing this in mind, the figures for receipts and spending in December 2010 show:

**Central government current receipts**

Accrued receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for December 2010 were 6.6% higher than in the same month last year. The latest OBR forecasts imply that the receipts from these taxes will be 2.4% up on last year's levels over the whole year and 2.8% up over the period from November 2010 to March 2011. Together, the receipts for these taxes during the first nine months of 2010–11 were 2.3% higher than those for the same months of 2009–10, while receipts for November and December 2010 were 3.2% higher than the same two months of 2009.

Accrued receipts of VAT in December 2010 were 8.8% higher than the same month last year. The latest OBR forecasts imply that the receipts from this tax will be 17.8% up on last year's levels over the whole year and 17.5% up over the period from November 2010 to March 2011. Today's figures show that accrued VAT receipts during the first nine months of 2010–11 were 14.7% higher than those for the first nine months of 2009–10, while receipts for November and December 2010 were 8.3% higher than the same two months of 2009.

Cash Corporation Tax receipts for December 2010 were 21.8% lower than the same month last year. However, only a small fraction of annual Corporation Tax payments are received in December. The latest OBR forecasts imply that the receipts from this tax will be 19.0% up on last year's levels over the whole year and 5.0% up over the period from November 2010 to March 2011. Corporation Tax receipts between April and December 2010 were 20.8% higher than in the same months of 2009, while receipts for November and December 2010 were 17% lower than the same two months of 2009. A clearer picture for Corporation Tax receipts this year will emerge next month when figures for receipts in January 2011, which is normally a significant month for these receipts, are published.

**Central government current spending**
Expenditure on net social benefits was 5.4% higher in December 2010 than in December 2009. Expenditure between April and December 2010 was 3.9% higher than in the same months of 2009, while spending in November and December 2010 was 4.7% higher than in the same two months of 2009. The latest OBR forecast implies that this spending will be 3.8% up on last year’s levels over the whole year and 3.9% up over the period from November 2010 to March 2011.

Spending on debt interest was £3.0bn in December 2010, £0.3bn higher than in December 2009. Total spending on debt interest between April and December 2010 was £32.7bn. The latest OBR forecast was that total debt interest spending by central government in 2010–11 would be £42.7bn.

Other current spending by central government, including spending on the delivery of public services, was 4.6% higher in December 2010 than in December 2009. The latest OBR forecast implied that this spending will be 3.4% up on last year’s levels over the whole year and 4.6% up over the period from November 2010 to March 2011. Expenditure between April and December 2010 was 3.3% higher than in the same months of 2009, while spending in November and December 2010 was 5.7% higher than in the same two months of 2009.

In December 2010 public sector net investment was £3.2bn, £4.9bn lower than was spent in December 2009. So far in 2010–11, a total of £24.1bn has been spent on public sector net investment, compared to the £30.0bn that had been spent by the same point in 2009–10. The latest OBR forecasts predicted that net investment in 2010–11 would be £42.3bn, which is 9.2% below last year’s level.

Further information and contacts

For further information on today’s public finance release please contact: Rowena Crawford, Carl Emmerson or Gemma Tetlow on 020 7291 4800, or email rowena_c@ifs.org.uk, carl_e@ifs.org.uk or g.tetlow@ifs.org.uk.

Next month’s public finances release is due to be published on Tuesday 22nd February 2011.

The IFS Green Budget – analysing the issues and challenges facing George Osborne as he prepares for the coalition government’s spring Budget – will be launched at the British Museum on Wednesday 2nd February 2011. The 2011 Green Budget will be produced in collaboration with Barclays Capital and Barclays Wealth. For more details see http://www.ifs.org.uk/events/637.

Relevant links:

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


The Office for Budget Responsibility’s Economic and Fiscal Outlook – November 2010 can be found at http://budgetresponsibility.independent.gov.uk/econ-fiscal-outlook.html
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.