Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances February 2010. 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 2009–10.

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

“As the Chancellor, Alistair Darling, prepares for next week’s Budget he will doubtless be pleased by today’s figures. Tax receipts were higher than the same month last year - with growth in receipts of income tax, national insurance and capital gains tax being particularly strong relative to his December 2009 Pre-Budget Report forecast – and there have been downward revisions to figures for borrowing in earlier months of this financial year. The stronger growth in tax receipts last month will reduce borrowing, but offsetting this is the fact that non-investment spending by central government on the delivery of public services was almost one-sixth higher last month than in the same month last year.

Overall the figures from the first eleven months this year suggest that borrowing is on course to come in at £166 billion, which would be £12 billion lower than Mr Darling forecast in the Pre-Budget Report. Despite these figures the overall state of the public finances – and the fact that lower borrowing this year might not translate into lower borrowing going forwards – means the Chancellor should not announce a significant permanent net giveaway in next week's Budget.”

Headline Comparisons

- **Central government current receipts** in February were 3.6% higher than in the same month last year; there has been a fall relative to last year's levels of 6.2% for the year to date, and a 0.3% fall between November 2009 and February 2010 compared to the same four months 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 4.1% for the period from November 2009 to March 2010. A slightly less severe fall in receipts seen over the year to date than forecast by the PBR for the year as a whole may not be surprising given that the PBR forecast excludes the direct impact of financial interventions (which on the receipts side have been growing in magnitude), whereas the monthly ONS data do not.

- **Central government current spending** in February was 14.8% higher than in the same month last year, with an increase relative to last year's levels of 6.7% for the year to date, and a 7.3% increase between November 2009 and February 2010 compared to the same four months 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 8.8% for the period from November 2009 to March 2010.

- **Public sector net investment** in February was £6.3bn, the same as in February last year. Together, public sector net investment over the first eleven months of this financial year has been £37.2bn, which is 27.9% 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 28.3% above last year's level for the year as a whole.

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

- Public sector net borrowing, including the impact of financial interventions, has totalled £132bn over the first eleven months of this year which is an increase of 98% on the same months last year. If borrowing in March 2010 is the same percentage above borrowing in March last year then public sector net borrowing in 2009–10 would total £172bn.

- This extrapolation does not allow for the timing effect of fiscal policy measures implemented in parts of 2008–09 and 2009–10, most notably the temporary cut to the main rate of VAT that ran for thirteen months from 1 December 2008. Adjusting for the estimated impact of these measures brings the extrapolation for public sector net borrowing, including the impact of financial interventions, for the whole of 2009–10 to £159bn.

- The Pre-Budget Report forecast that the impact of financial interventions in 2009–10 would reduce borrowing by £7.2bn. Therefore if the extrapolation set out above proves correct, and if the Treasury’s estimate of the direct impact of financial interventions is right, then public sector net borrowing excluding the impact of financial interventions would be £166bn. This compares to the December 2009 PBR forecast for borrowing of £177.6 billion and the February 2010 IFS Green Budget forecast of £167.2 billion. It may be more likely than not that March 2010 will be better relative to the year-to-date than was the case in March 2009; to the extent to which this is true borrowing will come in further below that forecast by the PBR or the Green Budget.

**Further Analysis**

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

**Central government current receipts**

Cash receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for February 2010 were 4.5% 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 10.3% down over the period from November 2009 to March 2010. Together, the receipts for these taxes during the first eleven months of 2009–10 were 6.9% lower than those for the same months of 2008–09, while receipts for November 2009 to February 2010 were 7.1% lower than the same four months last year.

VAT receipts in February 2010 were 17.0% 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 eleven months of 2009–10 were 11.5% lower than those for the same months of 2008–09, while receipts for November 2009 to February 2010 were 6.3% higher than the same four 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.

Corporation Tax receipts in February 2010 were 39.4% higher 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 eleven months of 2009–10 were 18.4% lower than those for the same months of 2008–09, while receipts for November 2009 to February 2010 were 13.1% higher than the same four months last year.

Central government current spending

Expenditure on net social benefits was 4.2% higher in February 2010 than in February 2009. December’s Pre-Budget Report forecast implies that this spending will be 8.7% up on last year’s levels over the whole year and 7.1% up over the period from November 2009 to March 2010. Expenditure during the first eleven months of 2009–10 was 8.5% higher than in the same months of 2008–09, while spending in November 2009 to February 2010 was 6.2% higher than the same months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £3.6bn in February 2010, £1.4bn higher than in February 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 36.1% 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 15.6% higher in February 2010 than in February 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 7.5% up over the period from November 2009 to March 2010. Comparing the first eleven months of 2009–10 with the same months in 2008–09, the figure is 6.9% while spending in November 2009 to February 2010 was 6.1% higher than the same four months last year.

In February 2010, public sector net investment was £6.3bn, the same as in the same month in 2009. So far in 2009–10, a total of £37.2bn has been spent on public sector net investment; this is 27.9% higher than the £29.1bn 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 28.3% 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: Rowena Crawford, Carl Emmerson or Gemma Tetlow on 020 7291 4800, or email rowena_c@ifs.org.uk, cemmerson@ifs.org.uk or gemma_t@ifs.org.uk
Next month's public finances release is due to be published on April 21st 2010.

The Budget will take place on Wednesday 24th March. IFS will hold a briefing the following day to present our analysis of the Budget. This briefing will be held at 12:30pm on Thursday 25th March (http://www.ifis.org.uk/events/546). If you would like to attend this event, please contact our conference organiser Bonnie Brimstone (bbrimstone@ifs.org.uk). Slides and Robert Chote's opening remarks will be available after the event from the IFS website.

**Relevant links:**

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

Useful links and background information on Budget 2010 can be found at: http://www.ifis.org.uk/projects/322

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


**ENDS**

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.