Press Release

IFS analysis of today’s public finance figures


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

“The good news in today’s figures is that borrowing in 2009–10 is now thought to have been £7.5 billion below last month’s initial estimate. This still leaves it at £156.1 billion, or 11.1% of national income, and the IMF forecasts published last week suggest that, of all the advanced and emerging economies, only Ireland and Latvia will have a higher level of borrowing in 2010.

The key input for the new coalition Government’s first Budget will be Sir Alan Budd and colleagues’ view on how much permanent damage has been done to the public finances by the financial crisis and recession. Alistair Darling’s judgement in March was that this amounted to £69 billion a year. The undershoot in borrowing last year in isolation might reduce this estimate, although many other factors such as their assessment of the amount of spare capacity in the economy will influence their final verdict. The Government will then have to decide how fiscal policy should respond in the Budget on 22nd June.”

Headline Comparisons

- **Public sector surplus on the current budget** in 2009–10 is now estimated to have been minus £100.1bn (i.e. in deficit) compared to the initial estimated outturn published last month of minus £107.6bn. Excluding the impact of temporary financial sector interventions, these numbers are £106.4bn and £113.7bn, respectively.

- **Public sector net borrowing** in 2009–10 is now estimated to have been £145.4bn compared to the initial estimated outturn published last month of £152.8bn. Excluding the impact of temporary financial sector interventions, these numbers are £156.1bn and £163.4bn, respectively.

- **Public sector net debt** at the end of 2009–10 is now estimated to have been £772.0bn, or 53.8% of national income, very fractionally higher than the initial estimated outturn published last month. This excludes the impact of temporary financial sector interventions.

- **Central government current receipts** in April were 7.2% higher than in the same month last year. However, the April
figures are flattered by £2.0bn of receipts from the one-off bank payroll tax; excluding this reduces the growth to 2.0%. The March 2010 Budget implied that central government current receipts for the whole of 2010–11 would be 4.8% above 2009–10 levels.

- **Central government current spending** in April was 6.5% higher than in the same month last year. The March 2010 Budget implied that central government current spending for the whole of 2010–11 would be 6.8% above 2009–10 levels.

- **Public sector net investment** in April was £0.7bn compared to £1.3bn in the same month last year. The March 2010 Budget predicted that net investment in 2010–11 would be £39.5bn, which is 12.7% below last year’s level.

**Further Analysis**

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

**Central government current receipts**

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for April 2010 were 11.4% higher than in the same month last year. The forecasts from the March 2010 Budget imply that these taxes’ receipts will grow by 1.1% over the whole of 2010–11.

Corporation Tax receipts for April 2010 were 12.7% higher than the same month last year. The forecast from the March 2010 Budget implies that Corporation Tax receipts will grow by 15.7% over the whole of 2010–11. April is one of the four months in the year when a substantial proportion of Corporation Tax payments are made.

VAT receipts in April 2010 were 34.0% higher than the same month last year (when the main rate of VAT was 15%, rather than 17.5% as it now is). The forecast from the March 2010 Budget implies that VAT receipts will grow by 11.2% over the whole of 2010–11.

**Central government current spending**

Expenditure on net social benefits was 3.8% higher in April 2010 than in April 2009. The Budget forecast implies that central government net social benefit expenditure will grow by 3.5% over 2010–11.

Spending on debt interest (which is relatively small as a share of spending overall) was £3.7bn in April 2010, £2.7bn higher than in April 2009.

Other current spending by central government, including spending on the delivery of public services, was 5.1% higher in April 2010 than in April 2009. The Budget forecast implies that this component of spending will grow by 6.0% over the year as a whole. There has been some recent speculation on the merits of spending decisions made by the recently departed Labour government ministers immediately prior to the General Election. This category of spending actually came in £1.4bn below the March 2010 Budget forecast of £383.4bn. Furthermore, spending in January, February and March 2010 as a share of the financial year total was fractionally below the average seen over the previous eleven years. While not conclusive, these facts provide
no evidence of a splurge in spending carried out in the pre-election period. However, this does not rule out the possibility that the previous government made commitments to future spending which may turn out to be poor value for money.

Further information and contacts

For further information on today’s public finance release please contact: Robert Chote, Carl Emmerson or Gemma Tetlow on 020 7291 4800, or email rchote@ifs.org.uk, cemmerson@ifs.org.uk or gtetlow@ifs.org.uk.

Next month’s public finances release is due to be published on Friday 18th June.

Relevant links:

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

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

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


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.