

Press Release

IFS analysis of today's public finance figures

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

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

“The Treasury forecasts that borrowing this year will be about twice as large as it was last year. Today's figures reveal that borrowing over the first five months of this financial year has been two-and-a-half times as large as over the same months last year. So, if the Treasury is to hit its forecast for the year as a whole, growth in borrowing will have to slow. There are some good reasons to expect that this will in fact be the case, with additional revenue to be brought in from this month's increase in fuel duties and the planned increases in stamp duty on residential property and VAT, due to happen on New Year's Day. But it remains to be seen whether this rebound will be sufficient to prevent borrowing from overshooting the Treasury's Budget forecast for the year as a whole.”

Headline Comparisons

- **Central government current receipts** in August were 9.2% lower than in the same month last year. Receipts between April and August 2009 were 11.4% lower than in the same months of 2008. The 2009 Budget implied that central government current receipts for the whole of 2009–10 would be 7.6% below 2008–09 levels.
- **Central government current spending** in August was 3.0% higher than in the same month last year. Spending between April and August 2009 was 5.3% higher than in the same months of 2008. The 2009 Budget implied that central government current spending for the whole of 2009–10 would be 7.4% above 2008–09 levels.
- **Public sector net investment** in August was £3.3bn compared to £2.1bn in the same month last year. Together, public sector net investment between April and August 2009 has been £12.4bn, which is 37% higher than in the same three months of 2008. The Budget predicted that net investment in 2009–10 would be £43.8bn, which is 16% above last year's level.

Further Analysis

Little can be inferred or extrapolated with confidence about the public finances in 2009–10 from information about only the first five months of the

Embargo

For immediate release

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The analysis is based on IFS calculations and does not reflect the views of the ESRC.



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financial year. Bearing this in mind, the figures for receipts and spending in August 2009 show:

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for August 2009 were 9.1% lower than in the same month last year. Together, the receipts for these taxes during the first five months of 2009–10 were 8.4% lower than those for the first five months of 2008–09. The Budget forecasts imply that these taxes' receipts will fall by 7.3% over the whole of 2009–10. We would expect cash receipts of income tax to grow less quickly during the first five months of 2009–10 than during the remaining seven months. This is because the £600 increase in the personal allowance for basic rate income tax payers for the 2008–09 financial year was implemented from September 2008, which reduced the income tax paid by these individuals between September 2008 and March 2009 relative to that paid between April and August 2008. This distortion to the timing of cash income tax payments will not occur in 2009–10.

VAT receipts in August 2009 were 13.1% lower than the same month last year. Together, the VAT receipts during the first five months of 2009–10 were 22.7% lower than those for the first five months of 2008–09. The Budget forecast implies that VAT receipts will fall by 18.8% over the whole of 2009–10. Given that the temporary cut in the main rate of VAT is scheduled to end 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 for August 2009 were 48.7% lower than the same month last year. Corporation Tax receipts for the first five months of 2009–10 were 33.0% lower than in the same months of 2008–09. The Budget forecast implies that Corporation Tax receipts will fall by 21.1% over the whole of 2009–10.

Central government current spending

Expenditure on net social benefits was 7.4% higher in August 2009 than in August 2008. Expenditure between April and August 2009 was 9.5% higher than in the same months of 2008. The Budget forecast implies that central government net social benefit expenditure will grow by 8.2% over 2009–10.

Spending on debt interest (which is relatively small as a share of spending overall) was £1.5bn in August 2009, £1.9bn lower than in August 2008. This low level of net debt interest payments by central government reflects the fact that the Government is benefiting from, reduced payments to holders of eight month lagged RPI-linked gilts (which are the majority of index linked gilts by value). This is because monthly RPI inflation towards the end of 2008 was lower than the corresponding figure for a year earlier. This factor also depressed debt interest payments over the last two months and will continue to depress interest payments through the remaining months of 2009–10. These figures for lagged inflation were known at the time of the publication of Budget 2009 – the forecast at that time was that debt interest payments would be 10.9% lower in cash terms in 2009–10 than they were in 2008–09.

Other current spending by central government, including spending on the delivery of public services, was 7.9% higher in August 2009 than in August

2008. Comparing the first five months of 2009–10 with the first four months of 2008–09, the figure is 6.8%. The Budget forecast implies that this component of spending will grow by 8.7% over the year as a whole.

In August 2009, public sector net investment was £3.3bn compared to £2.1bn in the same month in 2008. So far in 2009–10, a total of £12.4bn has been spent on public sector net investment, compared to the £9.0bn that had been spent by the same point in 2008–09. The Budget predicted that net investment in 2009–10 would be £43.8bn, which is 16% above last year's level.

Further information and contacts

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

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 Budget 2009 can be found at: <http://www.ifs.org.uk/projects/304>

Office for National Statistics & HM Treasury, Public Sector Finances, August 2009: <http://www.statistics.gov.uk/pfdir/psf0909.pdf>

HM Treasury, Budget 2009: http://www.hm-treasury.gov.uk/bud_bud09_index.htm

HM Treasury, Public Finance Statistics Index: http://www.hm-treasury.gov.uk/psf_statistics.htm

IFS Green Budget, January 2009, containing in-depth public finance analysis, can be found at: <http://www.ifs.org.uk/publications/4417>

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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.