Press Release

IFS analysis of today’s public finance figures

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

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

“July 2009 saw receipts of Corporation Tax and VAT collapse to just two-thirds of their July 2008 level – falls of £3.8 billion and £3.6 billion, respectively. This means that receipts overall are shrinking more quickly so far this year than the Treasury predicted they would do in the Budget over the year as a whole. Meanwhile spending is growing broadly as forecast. As a result borrowing since April has been three times higher than over the same period last year, whereas the Treasury expects borrowing over the whole of this financial year to be twice last year’s level. There are some good reasons, however, to expect that revenues will perform more strongly over the coming months, not least the reversal of the VAT cut scheduled for the end of 2009.”

Headline Comparisons

- **Central government current receipts** in July were 15.3% lower than in the same month last year. Receipts between April and July 2009 were 11.9% 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 7.5% below 2008–09 levels.

- **Central government current spending** in July was 7.5% higher than in the same month last year. Spending between April and July 2009 was 6.2% 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 July was £2.9bn compared to £2.6bn in the same month last year. Together, public sector net investment between April and July 2009 has been £9.7bn, which is 39% higher than in the same three months of 2008. The Budget predicted that net investment in 2009–10 would be £43.8bn, which is 14.5% 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 four months of the financial year. Bearing this in mind, the figures for receipts and spending in July 2009 show:
Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for July 2009 were 10.1% lower than in the same month last year. Together, the receipts for these taxes during the first four months of 2009–10 were 8.2% lower than those for the first four 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 July 2009 were 33.8% lower than the same month last year. Together, the VAT receipts during the first four months of 2009–10 were 24.6% lower than those for the first four 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 July 2009 were 37.9% lower than the same month last year. Because of the way in which Corporation Tax payments are made, July is one of four months in the year when a substantial proportion of Corporation Tax receipts are received by the Exchequer (the others being April, October and January). Corporation Tax receipts for the first four months of 2009–10 were 32.2% 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 10.4% higher in July 2009 than in July 2008. Expenditure between April and July 2009 was 9.4% 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 £2.7bn in July 2009, £0.6bn lower than in July 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 last month 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 9.2% higher in June 2009 than in June 2008. Comparing the first four months of 2009–10 with the first four months of
2008–09, the figure is 7.3%. The Budget forecast implies that this component of spending will grow by 8.7% over the year as a whole.

In June 2009, public sector net investment was £2.9bn compared to £2.6bn in the same month in 2008. So far in 2009–10, a total of £9.7bn has been spent on public sector net investment, compared to the £7.0bn 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 14.5% 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 Friday 18th September.

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


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