Press Release

IFS analysis of today’s public finance figures

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

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

"Extrapolating borrowing over the first eight months of this financial year, but adjusting for the estimated impact of policies which are expected to affect the relative timing of receipts and spending over the course of the year, suggests that borrowing for the year as a whole is almost exactly on course to meet the Pre-Budget Report forecast published last week of £177.6 billion. This would still be the highest level of borrowing since the Second World War, but given the large uncertainties surrounding economic activity this year, the Treasury's Budget 2009 forecast, published back in April, looks on course to be remarkably accurate."

Headline Comparisons

- **Central government current receipts** in November were 3.0% lower than in the same month last year. Receipts in the first eight months of this financial year have been 9.1% lower than in the same months of 2008–09. Last week’s Pre-Budget Report forecast for 2009–10 implies a fall relative to last year’s levels of 7.3% for the year as a whole and of 3.7% for the period from November 2009 to March 2010.

- **Central government current spending** in November was 6.4% higher than in the same month last year. Spending in the first eight months of this financial year has been 5.9% higher than in the same months of 2008–09. Last week’s Pre-Budget Report forecast for 2009–10 implies an increase relative to last year’s levels of 7.5% for the year as a whole and of 9.7% for the period from November 2009 to March 2010.

- **Public sector net investment** in November was £4.1bn compared to £2.3bn in the same month last year. Together, public sector net investment over the first eight months of this financial year has been £23.2bn, which is 60% higher than in the same months of 2008–09. Last week’s Pre-Budget Report predicted that net investment in 2009–10 would be £49.5bn, which is 37% above last year’s level.

Further Analysis

We should be cautious of inferring or extrapolating likely outcomes over the financial year as a whole from information on the first eight months,
particularly given that a number of factors are likely to affect the profile of receipts and spending differently in 2009–10 than in 2008–09. However, bearing this in mind, the figures for receipts and spending in November 2009 show:

Central government current receipts

Cash receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for November 2009 were 1.7% lower than in the same month last year. Together, the receipts for these taxes during the first eight months of 2009–10 were 6.5% lower than those for the first eight months of 2008–09. Last week’s 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 10.0% down over the period from November 2009 to March 2010.

VAT receipts in November 2009 were 1.2% higher than the same month last year. Together, the VAT receipts during the first eight months of 2009–10 were 17.7% lower than those for the first eight months of 2008–09. Last week’s Pre-Budget Report forecast 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.

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 in November 2009 were £1.3bn, compared to £0.5bn in the same month last year. Due the pattern of these receipts over the year, November is not usually a significant month. Corporation Tax receipts for the first eight months of 2009–10 were 27.0% lower than in the same months of 2008–09. Last week’s Pre-Budget Report forecast 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.

Central government current spending

Expenditure on net social benefits was 9.7% higher in November 2009 than in November 2008. Expenditure during the first eight months of this financial year was 10.1% higher than in the same months of 2008–09. Last week’s Pre-Budget Report forecast implies that this spending will be 8.7% up on last year’s levels over the whole year and 6.9% up over the period from November 2009 to March 2010.

Spending on debt interest (which is relatively small as a share of spending overall) was £3.5bn in November 2009, £0.3bn higher than in November 2008. Pre-Budget Report 2009 forecast that debt interest payments would be 0.6% lower in cash terms over the whole of 2009–10 than they were in 2008–09, but 46.8% 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 4.5% higher in November 2009 than in November 2008. Comparing the first eight months of 2009–10 with the first eight months of 2008–09, the figure is 6.6%. Last week’s Pre-Budget Report forecast implies that this spending will be 7.5% up on last year’s levels over the whole year and 8.3% up over the period from November 2009 to March 2010.
In November 2009, public sector net investment was £4.1bn compared to £2.3bn in the same month in 2008. So far in 2009–10, a total of £23.2bn has been spent on public sector net investment; this is 60% higher than the £14.5bn that had been spent by the same point in 2008–09. Last week's Pre-Budget Report predicted that net investment in 2009–10 would be £49.5bn, which is 37% above last year's level.

Further information and contacts

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

Next month’s public finances release is due to be published on Thursday 21st January 2010.

The IFS Green Budget – analysing the issues and challenges facing Alistair Darling as he prepares for what is likely to be his last Budget before the General Election – will be launched at the British Museum on Wednesday 3rd February 2010. The 2010 Green Budget will this year be produced for the first time in collaboration with Barclays Capital and Barclays Wealth. For more details see http://www.ifs.org.uk/events/516.

Relevant links:

Useful links and analysis of last week’s Pre Budget Report can be found at: http://www.ifs.org.uk/projects/314

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

HM Treasury, Pre Budget Report 2009: http://www.hm-treasury.gov.uk/prebud_pbr09_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.