Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances January 2009. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first ten months of financial year 2008–09.

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

“Today’s figures suggest that on current trends the Government is on course to have to borrow £87 billion in 2008–09, around £9 billion more than the Treasury expected in November’s Pre-Budget Report. As a share of national income, this would be the highest level of public sector net borrowing for 14 years. The deterioration in the outlook for borrowing since the PBR is entirely down to weaker-than-anticipated tax receipts, in particular VAT. While receipts of corporation tax in January were almost a quarter down on the same month last year, this was only slightly worse than implied by the Pre-Budget Report.

Today’s figures now include, for the first time, the impact of the nationalisation of the Bradford & Bingley. This increases the public sector’s net debt by £50bn bringing headline debt up to 47.8% of national income, the highest level since 1977–78. The ONS also today confirmed that that Royal Bank of Scotland will taken onto the public sector’s balance sheet and announced for the first time that the same will be true of Lloyds Banking Group. This will add an estimated £1 to £1½ trillion to public sector net debt in the short term, between 70 and 100% of national income. But this overstates the deterioration in the public sector balance sheet, because the Government is not credited with the long-term assets of the banks. What matters for tax and spending decisions is the long-term impact on debt of the Government’s various financial sector interventions, which is highly uncertain. Goldman Sachs estimates that the eventual direct cost could be around 8% of national income (£120bn).”

Headline Comparisons

- **Central government current receipts** in January were 11.0% lower than in the same month last year. The Pre-Budget Report forecast for 2008–09 published in November implies a fall relative to last year’s levels of 0.6% for the year as a whole and a fall of 2.6% for the period from November 2008 to March 2009. The latest figures show a fall relative to last year’s levels of 2.4% for the year to date, with a 9.4% fall between November 2008 and January 2009 compared to the same three months last year.

- **Central government current spending** in January was 6.7% higher than in the same month last year. The Pre-Budget Report forecast for 2008–09 published in November implies an increase over last year’s levels of 5.8% for the year as a whole and of 6.2%
for the period from November 2008 to March 2009. The latest figures show an increase over last year’s levels of 5.5% for the year to date, and a 5.3% increase between November 2008 and January 2009 compared to the same three months last year.

- **Public sector net investment** in January was £5.0bn, compared to £1.4bn in January 2008. So far in 2008–09, a total amount of £24.7bn has been spent on public sector net investment, which is 54% higher than had been spent by the same point in 2007–08. The Pre-Budget Report forecast for 2008–09 published in November predicted that net investment in 2008–09 as a whole would be £36.5bn, which is 23% above last year’s level and implies an increase of 5% for the period from November 2008 to March 2009.

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

- Under the assumption that receipts for the next two months grow at the same rate as seen over the last ten months, receipts for the whole of financial year 2008–09 will be about £9bn lower than was forecast in November’s Pre-Budget Report.

- Given the outturns for spending over the year to date, it seems reasonable to assume that spending will be in line with the PBR’s forecast. With current spending this is true once the impact of the one-off payments to pensioners and other benefit recipients in January 2009 is taken into account. While investment spending has grown quickly over the year to date, these figures are notoriously volatile so the PBR forecast may still be accurate.

- If these extrapolations for receipts and spending prove correct, public sector net borrowing for the whole of 2008–09 would be £87bn, compared to the £77.6bn forecast in the PBR and the £84.3bn forecast in the January 2009 IFS Green Budget. Borrowing of £87bn equates to 5.9% of national income, which would be the highest level since 1994–95.

- Similarly, the current budget deficit for the whole of 2008–09 would be £50bn, again £9bn higher than the £41.2bn forecast in the PBR. A current budget surplus of £50bn equates to 3.4% of national income, which would also be the highest level since 1994–95.

**Financial sector interventions and public sector net debt**

Today the ONS, for the first time, included the liabilities (net of the short-term financial assets) of Bradford and Bingley in its measure of public sector net debt. This has had the effect of increasing public sector net debt by around £50bn, raising total public sector net debt to 47.8% of national income. The ONS judges that Bradford and Bingley has been part of the public sector since 26th September 2008.

The ONS also announced for the first time that the Lloyds Banking Group (comprising Lloyds TSB and HBOS) will be classified as part of the public sector from 13th October 2008 and confirmed that this would also be the case for the Royal Bank of Scotland. The ONS is still assessing the assets and liabilities of these institutions and has yet to incorporate them into the official figures. The ONS’s indicative analysis suggests that the impact of including these institutions will be to increase public sector net debt by somewhere between £1 trillion and £1.5 trillion – or about 70–100% of national income. This figure will dwarf the existing stock of net debt.
These figures are large because national accounting rules require that all liabilities are included in net debt but only short-term financial assets can be netted off. All of the institutions now classified as public corporations have substantial long-term financial assets which do not, therefore, appear as assets in the national accounts measure of public sector net debt. The important thing for the sustainability of the public finances is what the long-term impact on the public finances of the Government’s various interventions in the financial sector is once the taxpayers’ exposure has been unwound. This long-term impact will be substantially less than the short-term impact mentioned above, but could still be significant. Goldman Sachs estimates that the direct cost will be around 8% of national income (£120bn).

Further Analysis

Information is now available for the first ten months of financial year 2008–09. Figures for receipts and spending in January 2009 show:

Central government current receipts

Receipts of Income Tax, Capital Gains Tax and (net cash) National Insurance Contributions in January 2009 were 3.4% lower than in the same month last year. The Pre-Budget Report forecast published in November implies that the receipts from these taxes will be 0.3% up on last year’s levels over the whole year, and 2.1% down over the period from November 2008 to March 2009. Together, the receipts for these taxes during the first ten months of 2008–09 were 0.4% higher than those for the same months of 2007–08, while receipts for November 2008 to January 2009 were 3.4% lower than the same three months last year.

Cash receipts of VAT in January 2009 were 10.7% lower than the same month last year. The Pre-Budget Report forecast published in November implies that these receipts will be 2.5% up on last year’s levels over the whole year, and 0.4% down over the period from November 2008 to March 2009. VAT receipts for the first ten months of 2008–09 were 1.3% lower than those for the same months of 2007–08, while receipts for November 2008 to January 2009 were 14.5% lower than in the same three months last year.

Corporation Tax receipts in January 2009 were 24.1% lower than in the same month last year. The Pre-Budget Report forecast published in November implies that these receipts will be 3.2% lower than last year’s levels over the whole year and 12.9% lower over the period from November 2008 to March 2009. Corporation Tax receipts for the first ten months of 2008–09 were 5.8% lower than those for the same months last year, while receipts for November 2008 to January 2009 were 23.3% lower than the same three months last year.

Central government current spending

Expenditure on net social benefits was 15.3% higher in January 2009 than in January 2008. The Pre-Budget Report forecast published in November implies that this spending will be 7.2% up on last year’s levels over the whole year, and 7.8% up over the period from November 2008 to March 2009. Expenditure during the first ten months of 2008–09 was 7.6% higher than in the same months of 2007–08, while spending between November 2008 and January 2009 was 9.4% higher than the same three months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.8bn in January 2009 compared to £3.1bn in January 2008.
Other current spending by central government, including spending on the delivery of public services, was 4.9% higher in January 2009 than in January 2008. The Pre-Budget Report forecast published in November implies that this spending will be 5.5% up on last year's levels over the whole year, and 7.2% up over the period from November 2008 to March 2009. Comparing the first ten months of 2008–09 with the same months in 2007–08, the figure is 4.5% while spending between November 2008 and January 2009 was 4.9% higher than the same three months last year.

In January 2009 public sector net investment was £5.0bn, compared to £1.4bn in January 2008. So far in 2008–09, a total amount of £24.7bn has been spent on public sector net investment, which is 54% higher than had been spent by the same point in 2007–08. The Pre-Budget Report forecast published in November predicted that net investment in 2008–09 as a whole would be £36.5bn, which is 23% above last year's level and implies an increase of 5% for the period from November 2008 to March 2009.

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, cemmerison@ifs.org.uk or gtetlow@ifs.org.uk.

Relevant links:

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

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

Useful links and background information on Pre-Budget Report 2008 can be found at: http://www.ifs.org.uk/budgets/pbr2008/index.php


HM Treasury, Pre-Budget Report 2008: http://www.hm-treasury.gov.uk/prebud_pbr08_index.htm


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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.