IFS analysis of today’s public finance figures

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

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

“December saw receipts of taxes on income, earnings, profits and spending all fall in cash terms, relative to the same month a year earlier. The decline was steeper than that which the Treasury projected over the remainder of the fiscal year in November’s Pre-Budget Report, which suggests that on current trends it will not get as much revenue as it hoped over the year as a whole. We will get a clearer picture next month, when the figures will include the usual January spike in Corporation Tax payments and more evidence of the impact on VAT receipts of the lower 15% VAT rate implemented from 1 December 2008.

Slightly off-setting this lower than forecast growth in receipts since the PBR is the fact that spending on social benefits grew slightly less quickly in the last two months of 2008 that the Pre-Budget Report forecast for the period from November 2008 to March 2009 as a whole. But overall, on current trends for receipts and spending, the Treasury is on course to modestly overshoot its November forecast for borrowing.

Today’s figures also incorporate the impact on net debt of £22 billion of government intervention in the financial sector – predominantly reflecting the recapitalisation of RBS. Though the ONS has confirmed that the Government’s share holding in RBS is ‘sufficient to move RBS into the public sector’, the precise effect of this on the public finances is still under review. So the £22 billion can be considered as a down payment on the eventual much larger impact of taking RBS onto the Government’s balance sheet. The ONS also confirmed that the potential impact on the public finances of other measures announced by the Government and the Bank of England to support the banking industry remains under consultation.”

**Headline Comparisons**

- **Central government current receipts** in December were 5.5% 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 2.7% for the period from November 2008 to March 2009. The latest figures show a fall relative to last year’s levels of 0.5% for the year to date, with a 6.2% fall in November and December 2008 compared to the same two months last year.
• **Central government current spending** in December was 5.9% 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 5.9% for the period from November 2008 to March 2009. The latest figures show an increase over last year’s levels of 5.8% for the year to date, and a 5.8% increase in November and December 2008 over the same two months last year.

• **Public sector net investment** in December was £3.5bn, the same as in December 2007. So far in 2008–09, a total amount of £20.9bn has been spent on public sector net investment, which is 42.3% 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 22.5% above last year’s level and implies an increase of 3.9% for the period from November 2008 to March 2009.

**Further Analysis**

We should be cautious in inferring or extrapolating likely outcomes over the financial year as a whole from information on only the first nine months. Bearing this in mind, the figures for receipts and spending in December 2008 show:

**Central government current receipts**

Receipts of Income Tax, Capital Gains Tax and (net cash) National Insurance Contributions in December 2008 were 2.5% 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 2.0% down over the period from November 2008 to March 2009. Together, the receipts for these taxes during the first nine months of 2008–09 were 1.2% higher than those for the same months of 2007–08, while receipts for November and December 2008 were 3.3% lower than the same two months last year.

Cash receipts of VAT in December 2008 were 19.6% 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 nine months of 2008–09 were 0.1% higher than those for the same months of 2007–08, while receipts for November and December 2008 were 17.2% lower than in the same two months last year.

Corporation Tax receipts in December 2008 were 0.5% 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 nine months of 2008–09 were slightly (0.3%) lower than those for the same months last year, while receipts for November and December 2008 were 21.0% lower than the same two months last year. However, neither November nor December are important months for payments of Corporation Tax. A clearer picture for the outlook for Corporation Tax receipts this year will emerge next month when figures for receipts in January 2009 are published.

**Central government current spending**
Expenditure on net social benefits was 9.8% higher in December 2008 than in December 2007. 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 7.9% up over the period from November 2008 to March 2009. Expenditure during the first nine months of 2008–09 was 6.7% higher than in the same months of 2007–08, while spending in November and December 2008 was 6.6% higher than the same two months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £1.8bn in December 2008 compared to £2.4bn in December 2007.

Other current spending by central government, including spending on the delivery of public services, was 7.1% higher in December 2008 than in December 2007. 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 6.7% up over the period from November 2008 to March 2009. Comparing the first nine months of 2008–09 with the same months in 2007–08, the figure is 5.2% while spending in November and December 2008 was 6.9% higher than the same two months last year.

In December 2008 **public sector net investment** was £3.5bn, the same as in December 2007. So far in 2008–09, a total amount of £20.9bn has been spent on public sector net investment, which is 42.3% 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 22.5% above last year’s level and implies an increase of 3.9% 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 or Gemma Tetlow on 020 7291 4800, or email rchote@ifs.org.uk or gtetlow@ifs.org.uk

The IFS Green Budget, which will again be in collaboration with Morgan Stanley, will be on Wednesday 28th January 2009. For more details please email bbrimstone@ifs.org.uk.

Relevant links:
This, and previous editions of this press release, can be downloaded from http://www.ifs.org.uk/press/pub_fin.shtml

Useful links and background information on Pre-Budget Report 2008 can be found at:

Office for National Statistics & HM Treasury, Public Sector Finances, December 2008:

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

HM Treasury, Public Finance Statistics Index:
http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm

Royal Bank of Scotland financial information:
http://www.investors.rbs.com/investor_relations/financial_info/results.cfm
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.