Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances December 2009. 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 2009–10.

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

“In December, receipts fell less and spending rose less than last month’s Pre-Budget Report forecast for the remainder of this financial year. Income tax and National Insurance Contributions receipts fell less sharply than the PBR forecast, while VAT revenues were actually up in cash terms. Meanwhile central government spending on public services has been growing slightly less quickly than the PBR forecast for the remainder of the financial year.

Taken on their own, these figures would suggest that the Government will not have to borrow as much as the £178 billion forecast in the PBR. However, considerable uncertainty remains. Next month’s receipts will be particularly important. They will include income tax self-assessment returns for 2008–09, income tax and NICs paid through PAYE on bonuses received this month and the final large tranche of Corporation Tax receipts for this year.”

Headline Comparisons

- **Central government current receipts** in December were 0.4% lower than in the same month last year. Last month’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. The latest figures show a fall relative to last year’s levels of 8.1% for the year to date, with a 1.0% fall in November and December 2009 compared to the same two months in 2008.

- **Central government current spending** in December was 7.5% higher than in the same month last year. Last month’s Pre-Budget Report forecast for 2009–10 implies an increase relative to last year’s levels of 7.4% for the year as a whole and of 9.7% for the period from November 2009 to March 2010. The latest figures show an increase relative to last year’s levels of 5.8% for the year to date, with a 6.1% increase in November and December 2009 compared to the same two months in 2008.

- **Public sector net investment** in December was £4.2bn compared to £2.7bn in the same month last year. Together, public sector net investment over the first nine months of this financial year has been £26.5bn, which is 53% higher than in the same months of 2008–09. Last month’s Pre-Budget Report suggested that net investment in 2009–10 would be about 30% above last year’s level for the year as a whole.
Further Analysis

We should be cautious of inferring or extrapolating likely outcomes over the financial year as a whole from information on the first nine 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 December 2009 show:

Central government current receipts

Cash receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for December 2009 were 4.3% lower than in the same month last year. Last month’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. Together, the receipts for these taxes during the first nine months of 2009–10 were 6.2% lower than those for the same months of 2008–09, while receipts for November and December 2009 were 3.1% lower than the same two months of 2008.

VAT receipts in December 2009 were 4.4% higher than the same month last year. Last month’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. VAT receipts during the first nine months of 2009–10 were 16.1% lower than those for the same months of 2008–09, while receipts for November and December 2009 were 2.6% higher than the same two months of 2008. Given that the temporary cut in the main rate of VAT ended 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 December 2009 were 31.6% higher than in the same month last year. Due the pattern of these receipts over the year, December is not usually a significant month. Last month’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. Corporation Tax receipts during the first nine months of 2009–10 were 23.1% lower than those for the same months of 2008–09, while receipts for November and December 2009 were 56.4% higher than the same two months of 2008. A clearer picture for the outlook for Corporation Tax receipts this year will emerge next month when figures for receipts in January 2010 are published.

Central government current spending

Expenditure on net social benefits was 8.8% higher in December 2009 than in December 2008. Last month’s Pre-Budget Report forecast implies that this spending will be 8.7% up on last year’s levels over the whole year and 7.1% up over the period from November 2009 to March 2010. Expenditure during the first nine months of 2009–10 was 9.8% higher than in the same months of 2008–09, while spending in November and December 2009 was 9.2% higher than the same two months of 2008.

Spending on debt interest (which is relatively small as a share of spending overall) was £1.8bn in December 2009, £0.1bn lower than in December 2008. Pre-Budget Report 2009 forecast that debt interest payments would be 0.6% higher in cash terms over the whole of 2009–10 than they were in 2008–09,
but 46.9% 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 7.8% higher in December 2009 than in December 2008. Last month’s Pre-Budget Report forecast implies that this spending will be 7.4% up on last year’s levels over the whole year and 8.3% up over the period from November 2009 to March 2010. Comparing the first nine months of 2009–10 with the same months in 2008–09, the figure is 6.3% while spending in November and December 2009 was 5.0% higher than the same two months of 2008.

In December 2009, public sector net investment was £4.2bn compared to £2.7bn in the same month in 2008. So far in 2009–10, a total of £26.5bn has been spent on public sector net investment; this is 53% higher than the £17.3bn that had been spent by the same point in 2008–09. Last month’s Pre-Budget Report suggested that net investment in 2009–10 would be 30% above last year’s level over the year as a whole.

Further information and contacts

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Next month’s public finances release is due to be published on Thursday 18th February 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 month'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.