Press Release

IFS analysis of today’s public finance figures

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

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

“Today’s public finance figures may hold some modest encouragement for Alistair Darling. It is a measure of the bleakness of the public finances that he may draw some comfort from tax receipts falling by only 5.7% in June 2009 relative to June 2008. This is a smaller rate of decline than forecast by the Treasury for the year as a whole and smaller than we have seen in the first two months of the financial year.

The figures also suggest lower spending growth than the Budget anticipated. This reflects debt interest payments being substantially lower than in the same month last year. Looking at other areas the social security budget continues to grow strongly, which is consistent with the recent sharp increase in unemployment.

One concern expressed about the Government’s plan to use public sector investment to stimulate the economy this year was that planned spending would not materialise quickly enough. The figures for investment spending so far do not bear out this concern – investment spending over the last three months has been £2.6 billion higher than over the same period last year.”

Headline Comparisons

- **Central government current receipts** in June were 5.7% lower than in the same month last year. Receipts between April and June 2009 were 9.4% 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 7.4% below 2008–09 levels.

- **Central government current spending** in June was 2.8% higher than in the same month last year. Spending between April and June 2009 was 5.5% 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 7.3% above 2008–09 levels.

- **Public sector net investment** in June was £3.1bn compared to £1.7bn in the same month last year. Together, public sector net investment between April and June 2009 has been £7.1bn, which is 59% higher than in the same three months.
The Budget predicted that net investment in 2009–10 would be £43.8bn, which is 21.0% above last year’s level.

Further Analysis

Little can be inferred or extrapolated about the public finances in 2009–10 from information about only the first three months of the financial year. Bearing this in mind, the figures for receipts and spending in June 2009 show:

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for June 2009 were 3.8% lower than in the same month last year. Together, the receipts for these taxes during the first three months of 2009–10 were 7.3% lower than those for the first three months of 2008–09. The Budget forecasts imply that these taxes’ receipts will fall by 7.2% 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 June 2009 were 15.9% lower than the same month last year. Together, the VAT receipts during the first three months of 2009–10 were 19.8% lower than those for the first three 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 June 2009 were 14.1% lower than the same month last year. Corporation Tax receipts for April, May and June 2009 were 24.8% lower than in the same months of 2008. The Budget forecast implies that Corporation Tax receipts will fall by 20.5% over the whole of 2009–10.

Central government current spending

Expenditure on net social benefits was 9.7% higher in June 2009 than in June 2008. Expenditure between April and June 2009 was 8.8% higher than in the same months of 2008. The Budget forecast implies that central government net social benefit expenditure will grow by 8.1% over 2009–10.

Spending on debt interest (which is relatively small as a share of spending overall) was £0.6bn in June 2009, £1.9bn lower than in June 2008. This low level of net debt interest payments by central government in June 2008 reflects lower amounts being owed on eight month lagged RPI-linked gilts (which are the majority of index linked gilts by value). This is because monthly RPI inflation in October 2008 (i.e. 8 months before June 2009) was lower than the corresponding figure for a year earlier. This factor will depress debt interest payments through the remaining months of 2009–10, and particularly so in the next couple of months. 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 10.8% 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 6.8% higher in June 2009 than in June 2008.
Comparing the first three months of 2009–10 with the first three months of
2008–09, the figure is 6.5%. The Budget forecast implies that this component
of spending will grow by 8.4% over the year as a whole.

In June 2009, public sector net investment was £3.1bn compared to £1.7bn in
the same month in 2008. So far in 2009–10, a total of £7.1bn has been spent
on public sector net investment, compared to the £4.4bn 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 21.0% 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 20th
August.

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

Office for National Statistics & HM Treasury, Public Sector Finances, June

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

HM Treasury, Public Finance Statistics Index:
http://www.hm-treasury.gov.uk/psf_statistics.htm

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

ENDS

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.