

## Press Release

# IFS analysis of today's public finance figures

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

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

“Today's figures will be the last before Alistair Darling delivers his Pre Budget Report on 9 December. They show that tax revenues remain weak and that government spending continues to grow strongly. But the trends are still broadly in line with Mr Darling's Budget forecast for borrowing of £175 billion for the year as a whole. However, with five months of the financial year left to run, there remains considerable uncertainty about the final outcome.

In most years the government is a net lender, rather than a borrower, in October. This is because October is one of the four months when a significant proportion of Corporation Tax revenues are received. But in October 2009 cash receipts of Corporation Tax were 25% lower than a year earlier, contributing to the government's need to borrow £11 billion last month.”

### Headline Comparisons

- **Central government current receipts** in October were 9.1% lower than in the same month last year. Receipts in the first seven months of this financial year have been 10.0% lower than in the same months of 2008–09. The 2009 Budget implied that central government current receipts for the whole of 2009–10 would be 7.8% below 2008–09 levels.
- **Central government current spending** in October was 10.2% higher than in the same month last year. Spending in the first seven months of this financial year has been 6.0% higher than in the same months of 2008–09. The 2009 Budget implied that central government current spending for the whole of 2009–10 would be 7.5% above 2008–09 levels.
- **Public sector net investment** in October was £3.7bn compared to £2.3bn in the same month last year. Together, public sector net investment over the first seven months of this financial year has been £18.7bn, which is 61% higher than in the same months of 2008–09. The Budget predicted that net investment in 2009–10 would be £43.8bn, which is 24% above last year's level.

### What would happen if these trends continued?

### Embargo

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- Public sector net borrowing during the first seven months on 2009–10 was £86.9bn, which is 2.6 times the level borrowed during the same period last year. If this level of growth in borrowing were to continue for the remaining five months of this financial year, borrowing for the whole of financial year 2009–10 would be about £217bn (or £42bn higher than was forecast in April’s Budget).
- However, various factors, including the fiscal stimulus measures announced in the Pre-Budget Report 2008 and Budget 2009<sup>3</sup>, mean the timing of receipts and spending (and hence borrowing) in 2009–10 will be slightly different from that seen in 2008–09. Taking these other factors into account suggests that borrowing is currently broadly on course to meet the Treasury’s Budget 2009 forecast for borrowing for the year as a whole of £175bn.

### Further Analysis

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

#### Central government current receipts

Cash receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for October 2009 were 3.4% lower than in the same month last year. Together, the receipts for these taxes during the first seven months of 2009–10 were 7.0% lower than those for the first seven months of 2008–09. The Budget forecasts imply that these taxes’ receipts will fall by 7.3% over the whole of 2009–10. We would expect cash receipts of income tax to have grown less quickly during the first five months of 2009–10 than during the other 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.

October is one of four months in the year (the others being April, July and January) when a substantial proportion of total Corporation Tax receipts are paid and therefore the figures for revenues from this tax in October are of particular interest. Corporation Tax receipts for October 2009 were 24.9% lower than the same month last year. Corporation Tax receipts for the first seven months of 2009–10 were 30.1% lower than in the same months of 2008–09. The Budget forecast implies that Corporation Tax receipts will fall by 21.1% over the whole of 2009–10.

VAT receipts in October 2009 were 17.4% lower than the same month last year. Together, the VAT receipts during the first seven months of 2009–10 were 19.7% lower than those for the first seven 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.

### Central government current spending

Expenditure on net social benefits was 10.4% higher in October 2009 than in October 2008. Expenditure during the first seven months of this financial year was 10.1% higher than in the same months of 2008–09. The Budget forecast implies that central government net social benefit expenditure will grow by 8.2% over 2009–10 as a whole.

Spending on debt interest (which is relatively small as a share of spending overall) was £3.9bn in October 2009, £0.4bn higher than in October 2008. This low growth in accrued net debt interest payments by central government reflects the fact that the Government is benefiting from reduced payments to holders of eight month lagged RPI-linked gilts (which are the majority of index linked gilts by value). This is because monthly RPI inflation towards the end of 2008 was lower than the corresponding figure for a year earlier. This factor has also depressed debt interest payments over the last four months and will continue to depress interest payments through the remaining months of 2009–10. 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 10.9% 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 10.1% higher in October 2009 than in October 2008. Comparing the first seven months of 2009–10 with the first seven months of 2008–09, the figure is 7.1%. The Budget forecast implies that this component of spending will grow by 8.7% over the year as a whole.

In October 2009, public sector net investment was £3.7bn compared to £2.3bn in the same month in 2008. So far in 2009–10, a total of £18.7bn has been spent on public sector net investment; this is 61% higher than the £11.6bn 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 24% 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](mailto:rchote@ifs.org.uk), [rowena\\_c@ifs.org.uk](mailto:rowena_c@ifs.org.uk), [cemerson@ifs.org.uk](mailto:cemerson@ifs.org.uk) or [gtetlow@ifs.org.uk](mailto:gtetlow@ifs.org.uk).

Next month's public finances release is due to be published on Friday 18<sup>th</sup> December.

The Chancellor will make his Pre-Budget Report statement at 12.30pm on Wednesday 9<sup>th</sup> December. IFS will hold a briefing to present our analysis of this report at 1pm on Thursday 10<sup>th</sup> December. The briefing is free of charge and will take place at University of London Union. If you would like to attend this event, please contact our conference organiser Bonnie Brimstone ([bbrimstone@ifs.org.uk](mailto:bbrimstone@ifs.org.uk)). Slides and Robert Chote's opening remarks will be available after the event from the IFS website (<http://www.ifs.org.uk/projects/314>).

### Relevant links:

IFS analysis of some of the issues underlying the forthcoming 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>

Office for National Statistics & HM Treasury, Public Sector Finances,  
November 2009: <http://www.statistics.gov.uk/pfdir/psf1109.pdf>

HM Treasury, Pre Budget Report 2009:  
[http://www.hm-treasury.gov.uk/prebud\\_pbr09\\_index.htm](http://www.hm-treasury.gov.uk/prebud_pbr09_index.htm)

Useful links and analysis of Budget 2009 can be found at:  
<http://www.ifs.org.uk/projects/304>

HM Treasury, Public Finance Statistics Index:  
[http://www.hm-treasury.gov.uk/psf\\_statistics.htm](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>

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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.
3. These policy changes include: cutting the main rate of VAT from 17.5% to 15%; increasing the stamp duty threshold for residential properties from £125,000 to £175,000; the 3 month suspension of the increase in fuel duties between October and November 2008; increasing benefit payments to families with children and pensioners in the first quarter of 2009; car scrappage scheme from April 2009 (which we assume will run until the end of February 2010); bringing forward public sector investment spending.