

Press Release

IFS analysis of today's public finance figures

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

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

“A simple extrapolation of borrowing over the first half of this financial year suggests that the Treasury’s forecast for borrowing this year of £175 billion is on course to be exceeded by about £20 billion. But this overshoot can be explained by temporary policies affecting the pattern of receipts and spending over last year and this year. Taking these into account, the trends suggest that the Treasury is currently on course to just meet its forecast. This would still be the highest level of borrowing since the Second World War, and with six months of the financial year left to run there is still great uncertainty about the final outcome.

Helping to keep the Treasury on course to meet its forecast for borrowing is the fact that central government current spending on the delivery of public services has been growing less quickly than was forecast by the Treasury for the year as a whole. If this lower growth rate continues for the second half of the financial year, then this element of spending would be about £10 billion lower than the Budget forecast.”

Headline Comparisons

- **Central government current receipts** in September were 6.3% lower than in the same month last year. Receipts in the first half of this financial year have been 10.3% 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 September was 4.9% higher than in the same month last year. Spending in the first half of this financial year has been 4.7% 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 September was £3.5bn compared to £1.2bn in the same month last year. Together, public sector net investment over the first half of this financial year has been £15.8bn, which is 67% higher than in the same months of 2008–09. The Budget predicted that net investment in 2009–10 would be £43.8bn, which is 23% above last year’s level.

What would happen if these trends continued?

Embargo

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- Public sector net borrowing during the first six months on 2009–10 was £77.3bn, which is 2.3 times the level borrowed during the same period last year. If this level of growth in borrowing were to continue for the second half of this financial year, borrowing for the whole of financial year 2009–10 would be about £194bn (or £19bn higher than was forecast in April's Budget).
- However, various policy changes mean that the timing of receipts and spending (and hence borrowing) in 2009–10 will be slightly different from that seen in 2008–09. Taking account of the Treasury's costing of these known policy changes³ suggests that, given figures for borrowing so far in 2009–10, borrowing for the year as a whole could be £177bn. This is almost exactly the same as the Budget 2009 forecast of £175bn.

Further Analysis

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

Central government current receipts

Cash receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for September 2009 were 4.8% lower than in the same month last year. Together, the receipts for these taxes during the first half of 2009–10 were 7.9% lower than those for the first half 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.

VAT receipts in September 2009 were 0.5% lower than the same month last year. Together, the VAT receipts during the first half of 2009–10 were 20.3% lower than those for the first half 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 September 2009 were 26.6% lower than the same month last year. Corporation Tax receipts for the first half of 2009–10 were 32.4% 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.

Central government current spending

Expenditure on net social benefits was 9.7% higher in September 2009 than in September 2008. Expenditure during the first half of this financial year was

9.9% 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 £0.2bn in September 2009, £1.1bn lower than in September 2008. This low level of 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 also depressed debt interest payments over the last three 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 6.8% higher in September 2009 than in September 2008. Comparing the first half of 2009–10 with the first half of 2008–09, the figure is 5.8%. The Budget forecast implies that this component of spending will grow by 8.7% over the year as a whole.

In September 2009, public sector net investment was £3.5bn compared to £1.2bn in the same month in 2008. So far in 2009–10, a total of £15.8bn has been spent on public sector net investment; this is 67% higher than the £9.5bn 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 23% above last year's level.

Further information and contacts

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Next month's public finances release is due to be published on Thursday 19th November.

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, September 2009: <http://www.statistics.gov.uk/pdfdir/psf1009.pdf>

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>

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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 September 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 October 2009). We assume that the Treasury's costing of these policy changes is shared equally across all months in which they are in force.