

IFS analysis of today's public finance figures

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

IFS public finance bulletins are generously supported by the Economic and Social Research Council.



The analysis is based on IFS calculations and does not reflect the views of the ESRC.

Gemma Tetlow, a senior research economist at the IFS, said:

“November saw receipts of taxes on income, earnings, profits and spending all fall in cash terms. Extrapolating from the pattern of borrowing over the year to date, and adding in the Treasury’s costing of those new measures that will have a disproportionate impact on borrowing in the remainder of the year, would suggest that borrowing will be around £73 billion this year. Last month’s Pre-Budget Report forecast borrowing would be £77.6bn this year, which was a sharp upwards revision compared to the £42.5bn forecast in the March 2008 Budget. The fact that the Treasury’s projection is for higher borrowing than is implied by a simple extrapolation of borrowing over the year to date highlights the fact that it expects receipts to be weaker over the remainder of the current financial year than they have been over the year to date. This was certainly the case in November, and is also likely over the rest of the financial year, in particular in January when a large proportion of receipts are normally accounted for by taxes on company profits and employee bonuses.

Today’s ONS press release also acknowledges that the Treasury’s purchase of 57.9 per cent of Royal Bank of Scotland’s ordinary share capital ‘is sufficient to move RBS into the public sector’. A precise ONS analysis of the relevant documentation is not yet complete. But since the gross liabilities of RBS at 30th June 2008 were around 125 per cent of national income, including RBS as a public corporation will have a significant impact on the public sector balance sheet. The headline measure of public sector net debt would increase by 125 per cent of national income less any short-term financial assets that RBS holds. But most, or conceivably all, of this effect would be likely to be temporary. Therefore the Government would be correct to continue its policy of focussing on net debt figures that exclude the impact of this, and other similar, interventions. Whether or not tax and spending plans will need to change should depend only on the long-term impact of the RBS share purchase on public sector net debt, which remains uncertain.”

Headline Comparisons

- **Central government current receipts** in November were 5.2% lower than in the same month last year. Receipts in the first eight months of 2008–09 were 0.5% higher than in the same months of 2007–08. Last month’s Pre-Budget Report forecast for 2008–09 implies a fall relative to last year’s levels of 0.6% for the year as a whole and of 3.0% for the period from November 2008 to March 2009.

- **Central government current spending** in November was 6.2% higher than in the same month last year. Spending in the first eight months of 2008–09 was 6.1% higher than in the same months of 2007–08. Last month's Pre-Budget Report forecast for 2008–09 implies an increase over last year's levels of 5.6% for the year as a whole and of 5.0% for the period from November 2008 to March 2009.
- **Public sector net investment** in November was £3.0bn, compared to £2.5bn in the same month last year. Together, public sector net investment during the first eight months of 2008–09 has been £16.7bn, which is 50% higher than in the same months of 2007–08. Last month's Pre-Budget Report forecast for 2008–09 implies an increase of 24% for the year as a whole and an increase of 9% for the period from November 2008 to March 2009.
- **Public sector net borrowing** during the first eight months of 2008–09 was £56.1bn, which is 92.1% higher than the same period last year. The next four months is also set to see a further increase in borrowing of around £5bn as a direct impact of measures announced by Alistair Darling that are yet to be fully reflected in the monthly figures for borrowing. For example the thirteen month 2.5 percentage point reduction in the main rate of VAT, which came into force from 1st December 2008, is costed by the Treasury at £3.8bn in 2008–09, while extra support for all pensioners and all families with children from January is costed at £1.1bn. Taking the expected cost of all these measures into account and assuming that the underlying trend in borrowing were to continue for the remaining four months of this financial year, then Public Sector Net Borrowing for the year as a whole would be around £73bn. This is compared to the £77.6bn forecast in last month's Pre-Budget Report and the £42.5bn forecast in the March 2008 Budget.

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 eight months. Bearing this in mind, the figures for receipts and spending in November 2008 show:

Central government current receipts

Receipts of Income Tax, Capital Gains Tax and (net cash) National Insurance Contributions for November 2008 were 2.6% lower than in the same month last year. Together, the receipts for these taxes during the first eight months of 2008–09 were 1.7% higher than those for the same months of 2007–08. Last month's Pre-Budget Report forecast 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.

Cash receipts of VAT in November 2008 were 15.2% lower than the same month last year. VAT receipts for the first eight months of 2008–09 were 2.1% higher than those for the same months in 2007–08. Last month's Pre-Budget Report forecast 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.

Corporation tax receipts for November 2008 were 59.7% lower than in the same month last year, although due the pattern of these receipts over the year, November is not usually a significant month. Corporation tax receipts over the

first eight months of 2008–09 were 0.2% lower than those for the same months last year. Last month's Pre-Budget Report forecast implies that these receipts will be 3.2% down on last year's levels over the whole year, and 12.9% down over the period from November 2008 to March 2009.

Central government current spending

Expenditure on net social benefits was 7.1% higher in November 2008 than in the same month last year. Expenditure over the first eight months of 2008–09 was 7.0% higher than in the same months of 2007. Last month's Pre-Budget Report forecast implies that this spending will be 7.7% up on last year's levels over the whole year, and 8.6% up over the period from November 2008 to March 2009.

Spending on debt interest (which is relatively small as a share of spending overall) was £3.1bn in November 2008, which is 4.1% higher than in November 2007.

Other current spending by central government, including spending on the delivery of public services, was 5.9% higher in November 2008 than in the same month last year. Comparing the first eight months of 2008–09 with the first eight months of 2007–08, the figure is 5.1%. Last month's Pre-Budget Report forecast implies that this spending will be 5.1% up on last year's levels over the whole year, and 5.1% up over the period from November 2008 to March 2009.

In November 2008, **public sector net investment** was £3.0bn compared to £2.5bn in the same month in 2007. So far in 2008–09, a total of £16.7bn has been spent on public sector net investment, compared to the £13.7bn that had been spent by the same point in 2007–08. Last month's Pre-Budget Report predicted that net investment in 2008–09 would be £36.5bn, which is 23.7% above last year's level.

Further information and contacts

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The next *Public Sector Finances* is due to be published by the Office for National Statistics on 21st January 2009.

The IFS Green Budget – analysing the issues and challenges facing Alistair Darling as he prepares for his second Budget as Chancellor – which will again be produced in collaboration with Morgan Stanley, will be launched on Wednesday 28th January 2009. For more details see http://www.ifs.org.uk/events.php?event_id=412

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: <http://www.ifs.org.uk/budgets/pbr2008/index.php>

Office for National Statistics & HM Treasury, Public Sector Finances, November 2008: <http://www.statistics.gov.uk/pdfdir/psf1108.pdf>

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

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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.