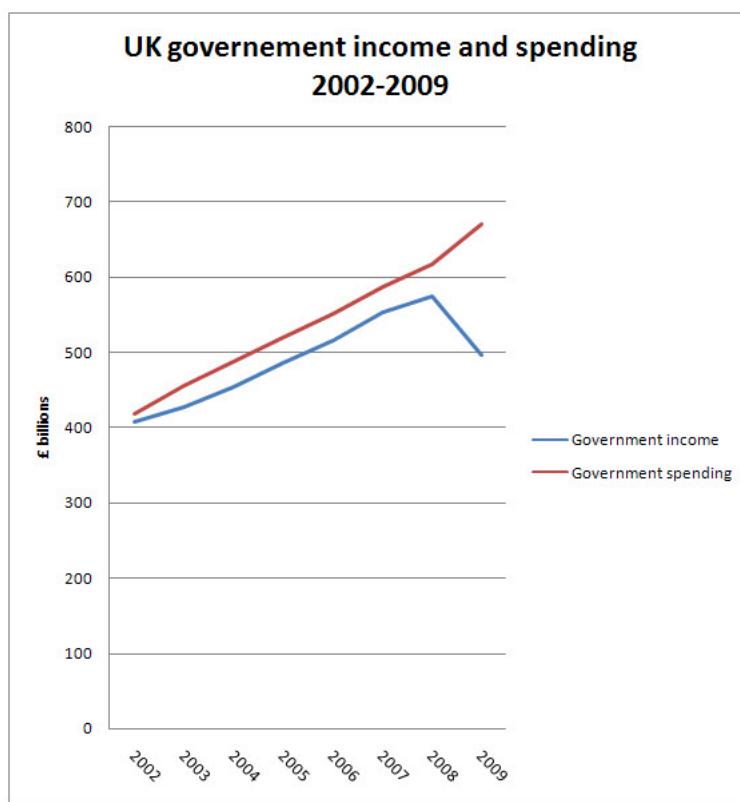


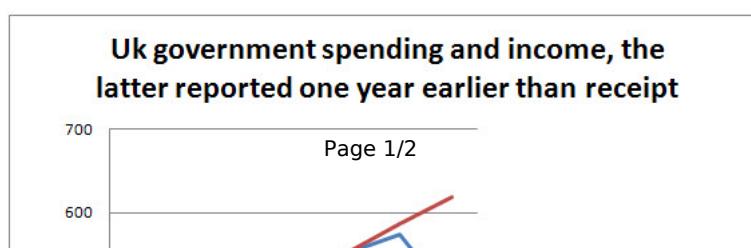
Government income – what's the problem?

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This graph shows the forecast totals for government income and spending from each of the last seven year's budgets (source HM Treasury web site):



When preparing it I noticed something peculiar, so I prepared a second version that showed the income of one year compared with income of the previous year. I did this because spend takes place in real time — taxable income is received after the economic events that give rise to it being due. OK, I accept not always one year later (but sometimes so) and so removing the time lag seemed credible to represent tax spend against income accrued. This resulted:



The data is remarkable: from 2002 to 2008 if the lag on receipts is removed then the difference between income and expenditure over the whole period is £6bn — or 0.2% of total income for the six year period.

In other words there was little or no borrowing problem — just an income timing problem.

Nor was there excessive spending — it was funded on an accruals basis — near enough. Until 2009 — when it is not spending that is excessive, but the fact that income falls off a cliff that is the problem.

So, look at this realistically. This says the problems in funding are:

- a) How to bring forward the timing of as many tax receipts as possible;
- b) How to restore tax income.

What has spending got to do with it?