Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances November 2011. 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 2010–11.

Rowena Crawford, a research economist at the IFS, said:

“\textbf{A simple extrapolation from borrowing so far this year suggests that for the whole of 2011–12 it would come in below last month’s forecast by the Office for Budget Responsibility of £127 billion. However, if central government departments were to exhaust their allocated budgets by the end of the year – as the OBR expects – then borrowing would be much more likely to come in as forecast.}"

Furthermore, while so far overall tax receipts are in line with the OBR forecast, there are risks around this. For example, despite a large downwards revision to their expectations for corporation tax receipts this year in the Autumn forecast, meeting the OBR’s projection still depends on strong growth in these receipts over the next four months, which would be a turn-around from the fall in receipts seen so far this year.”

Headline Comparisons

- **Central government current receipts** in November were 7.1% higher than in the same month last year. Receipts between April and November 2011 were 4.8% higher than in the same months of 2010. The Office for Budget Responsibility’s (OBR) latest Economic and Fiscal Outlook, published last month, forecast an increase in receipts relative to last year’s levels of 4.9% for the year as a whole and of 5.3% for the period from November 2011 to March 2012. This is significantly lower than the 6.9% growth for the year as a whole previously forecast by the OBR at the time of the March 2011 Budget.

- **Central government current spending** in November was 0.8% higher than in the same month last year. Spending between April and November 2011 was 1.9% higher than in the same months of 2010. The OBR’s latest forecast implies an increase relative to last year’s level of 3.2% for the year as a whole and of 4.6% for the period from November 2011 to March 2012. This is slightly lower than the 3.6% growth for the year as a whole previously forecast by the OBR at the time of the March 2011 Budget.

- **Public sector net investment** in November was £2.4bn, £0.6bn lower than was spent in November 2010. Public sector net investment between April and November 2011 has been £14.8bn, which is 23.1% lower than in the same eight months of 2010. The OBR’s latest forecast was that net investment in 2011–12 would be £28.6bn, which is 25.3% below last year’s level.
What would happen if these trends continued?

- Public sector net borrowing during the first eight months of 2011–12 was £88.3bn, which is £10.4bn lower than the amount borrowed during the same period last year. If this were to continue for the remaining four months of this financial year, borrowing for the whole of financial year 2011–12 would be about £122bn. This is somewhat lower than the £127.1bn forecast by the OBR in its November 2011 Economic and Fiscal Outlook.

- Adjusting separately for trends in central government receipts and spending and for differences in the timing of tax receipts on the financial sector between this year and last year, whilst assuming that the OBR is correct in its forecasts for borrowing by local authorities and public corporations and the amount of public sector net investment this year, the latest figures suggest that borrowing for the year as a whole could come in even lower at around £118bn.

- There are a number of factors – some of which are mentioned above and below – affecting the timing of tax receipts and spending differently this year from last year, which mean that the trends seen over the year to date may not in fact continue.

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 eight months, particularly as some factors are likely to affect the profile of receipts and spending differently in 2011–12 than in 2010–11. However, bearing this in mind, the figures for receipts and spending in November 2011 show:

Central government current receipts

Accrued receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for November 2011 were 9.8% higher than in the same month last year. Together, the receipts for these taxes during the first eight months of 2011–12 were 3.8% higher than those for the same months of 2010–11. Last month’s OBR forecasts imply that the receipts from these taxes will be 3.5% up on last year’s levels over the whole year and 3.9% up over the period from November 2011 to March 2012.

Accrued receipts of VAT in November 2011 were 9.3% higher than the same month last year. Together, accrued VAT receipts during the first eight months of 2011–12 were 16.5% higher than those for the first eight months of 2010–11. Last month’s OBR forecasts imply that the receipts from this tax will be 11.8% up on last year’s levels over the whole year and 4.7% up over the period from November 2011 to March 2012. All other things being equal, growth in VAT receipts would be expected to slow in the last quarter of this financial year as the main rate of VAT is expected to be the same in January–March 2012 as it was in January–March 2011, rather than being 2.5 percentage points higher in each month of 2011 than it was in 2010.

Cash Corporation Tax receipts for November 2011 were 15.2% lower than the same month last year. However, only a small fraction of annual Corporation Tax payments are received in November. Corporation Tax receipts between April and November 2011 were 1.3% lower than in the same months of 2010. Last month’s OBR forecasts imply that the receipts from this tax will be 2.6% up on last year’s levels over the whole year and 8.8% up over the period from November 2011 to March 2012. This latest forecast for growth over the whole
year is significantly lower than the 14.2% growth for the year as a whole previously forecast by the OBR at the time of the March 2011 Budget.

Central government current spending

Expenditure on net social benefits was the same in November 2011 as in November 2010, largely because winter fuel payments (which are all paid in November) were lower this year than last year as the additional age-related payment made last year was not repeated. Expenditure between April and November 2011 was 4.3% higher than in the same months of 2010. Last month’s OBR forecast implies that this spending will be 5.2% up on last year’s levels over the whole year and 5.4% up over the period from November 2011 to March 2012. This is somewhat higher than the 4.3% growth for the year as a whole previously forecast by the OBR at the time of the March 2011 Budget.

Spending on debt interest was £5.2bn in November 2011, £0.9bn higher than in November 2010. Total spending on debt interest between April and November 2011 was £33.9bn. Last month the OBR forecast that total debt interest spending by central government in 2011–12 would be £47.6bn.

Other current spending by central government, including spending on the delivery of public services, was 1.5% lower in November 2011 than in November 2010. Expenditure between April and November 2011 was 0.7% lower than in the same months of 2010. Last month’s OBR forecast implies that this spending will be 1.4% up on last year’s levels over the whole year and 4.1% up over the period from November 2011 to March 2012. This is somewhat lower than the 2.3% growth for the year as a whole previously forecast by the OBR at the time of the March 2011 Budget.

In November 2011 public sector net investment was £2.4bn, £0.6bn lower than was spent in November 2010. So far in 2011–12, a total of £14.8bn has been spent on public sector net investment, compared to the £19.3bn that had been spent by the same point in 2010–11. Last month the OBR predicted that net investment in 2011–12 would be £28.6bn, which is 25% below last year’s level.

Further information and contacts

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Next month’s public finances release is due to be published on Tuesday 24th January 2011.

Relevant links:

This, and previous editions of this press release, can be downloaded from http://www.ifs.org.uk/publications/browse?type=pf


The Office for Budget Responsibility’s Economic and Fiscal Outlook – November 2011 can be found at

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

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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 Office for Budget Responsibility forecast.