Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances January 2012*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first ten months of financial year 2011–12.

Rowena Crawford, a Research Economist at the IFS, said:

“Today’s figures show that growth in central government current receipts was weak last month, due to a fall in VAT receipts and low growth in income tax and capital gains tax receipts that was only partially offset by strong growth in corporation tax receipts. Spending by central government on public services last month was higher relative to last year for the first time in five months, but an overall fall in this item of spending so far this year is still contributing to total central government current spending running below the forecast for the year.

A simple extrapolation of the data over the last ten months suggests that borrowing is on course to come in at around £116bn. This is lower than the £127.1 billion forecast by the OBR in the November 2011 Economic and Fiscal Outlook and lower than the £124.2bn forecast in our IFS Green Budget earlier this month. However it is important to bear in mind that borrowing over the next two months might not follow the pattern seen over the previous ten. In particular, VAT receipts may be expected to slow and spending may be expected to accelerate.

The Chancellor would no doubt be pleased if borrowing this year were to come in lower than the OBR forecast. However the composition of this lower borrowing suggests that it is unlikely to feed through into lower than currently forecast borrowing in future years. Despite this caveat, the worsening economic outlook seen over the last year has increased pressure for a temporary fiscal stimulus package in next month’s budget, and lower-than-expected borrowing this year may give the Chancellor scope for such a policy without damaging the credibility of the government’s commitment to deficit reduction.”

Headline Comparisons

- **Central government current receipts** in January were 2.8% higher than in the same month last year. The Office for Budget Responsibility’s (OBR) latest Economic and Fiscal Outlook, published in November 2011, forecast an increase in receipts relative to last year’s levels of 4.8% for the year as a whole and of 5.1% for the period from November 2011 to March 2012. The latest figures show an increase relative to last year’s level of 4.7% for the year to date, with a 5.0% increase between November 2011 and January 2012 compared to the same three months last year.
Central government current spending in January was 3.0% higher than in the same month last year. The latest figures show an increase relative to last year's level of 1.6% for the year to date, with an increase of 0.2% between November 2011 and January 2012 compared to the same three months of 2010–11. 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 4.4% for the period from November 2011 to March 2012.

Public sector net investment in January was £4.0bn, the same as was spent in January 2011. Public sector net investment between April 2011 and January 2012 was £18.6bn, which is 28.2% lower than in the same ten months of 2010–11. The OBR’s latest forecast was that net investment in 2011–12 would be £28.6bn, which is 25.0% below last year’s level.

What would happen if these trends continued?

Public sector net borrowing during the first 10 months of 2011–12 was £93.5bn, which is 14.4% lower than the amount borrowed during the same period last year. If this were to continue for the remainder of this financial year, borrowing for the whole of financial year 2011–12 would be about £116.3bn. Borrowing of this level would be lower than the £127.1bn forecast by the OBR in its November 2011 Economic and Fiscal Outlook, and lower than the £124.2bn forecast in the February 2012 IFS Green Budget.

In practice borrowing over the next two months might not follow the path implied by the last ten: for example, accrued VAT receipts are expected to slow in the last quarter of 2011–12 due to the timing effects of VAT rate changes in 2010–11 and 2011–12, and spending by government departments tends to pick up towards the end of a financial year. These would both tend to make the current extrapolation of borrowing an underestimate.

Further Analysis

Information is now available for the first ten months of financial year 2011–12. Figures for receipts and spending in January 2012 show:

Central government current receipts

Accrued receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for January 2012 were 1.3% higher than in the same month last year. The OBR’s November 2011 forecasts imply that the receipts from these taxes will be 3.5% up on last year’s levels over the whole year and 4.2% up over the period from November 2011 to March 2012. Together, the receipts for these taxes during the first ten months of 2011–12 were 2.9% higher than those for the same months of 2010–11, while receipts for the period November 2011 to January 2012 were 3.2% higher than over the same period in 2010–11.

Cash Corporation Tax receipts for January 2012 were 9.3% higher than the same month last year. The OBR’s November 2011 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. Corporation Tax receipts during the first 10 months of 2011–12 were 2.2% higher than in the same months of 2010–11, while receipts for November 2011 to January 2012 were 9.0% higher than the same three months of 2010–11.
Accrued receipts of VAT in January 2012 were 1.9% lower than the same month last year. Together, accrued VAT receipts during the first ten months of 2011–12 were 14.5% higher than those for the first nine months of 2010–11, while receipts for November 2011 to January 2012 were 7.2% higher than the same three months of 2010–11. The OBR's November 2011 forecasts imply that the receipts from this tax will be 11.8% up on last year’s levels over the whole year and 4.3% 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.

Central government current spending

Expenditure on net social benefits was 4.9% higher in January 2012 than in January 2011. Expenditure during the first ten months of 2011–12 was 4.3% higher than in the same months of 2010–11, while spending in November 2011 to January 2012 was 2.4% higher than in the same three months of 2010–11. The latest OBR forecast implies that this spending will be 5.2% up on last year’s levels over the whole year and 5.3% up over the period from November 2011 to March 2012.

Spending on debt interest was £4.2bn in January 2012, £0.2bn higher than in January 2011. Total spending on debt interest between April 2011 and January 2012 was £41.9bn. In November 2011, 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 1.9% higher in January 2012 than in January 2011. Expenditure between April 2011 and January 2012 was 1.1% lower than in the same months of 2010–11, while spending between November 2011 and January 2012 was 2.5% lower than the same months in 2010–11. The OBR's November 2011 forecast implies that this spending will be 1.4% up on last year’s levels over the whole year and 3.9% up over the period from November 2011 to March 2012.

In January 2012 public sector net investment was £4.0bn, the same as was spent in January 2011. So far in 2011–12, a total of £18.6bn has been spent on public sector net investment, compared to the £25.9bn that had been spent by the same point in 2010–11. The latest OBR forecast is that net investment in 2011–12 will be £28.6bn, which is 25.0% below last year’s level.

Further information and contacts

For further information on today’s public finance release please contact: Rowena Crawford on 020 7291 4800, or email rowena_c@ifs.org.uk.

Next month's public finances release is due to be published on Wednesday 21st March 2012.

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 http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-November-2011/


ENDS

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.