Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances January 2013*. 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 2012–13.

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

“As the Chancellor prepares for his Budget next month, he will likely be disappointed by today’s public finance figures. January is an important month for receipts but, although growth in income tax receipts was strong, this was partially offset by very weak growth in corporation tax receipts. Together this leaves tax receipts running below the growth forecast for the year as a whole. Spending continues to run higher than forecast, due to strong growth in spending on both welfare benefits and on the delivery and administration of public services. As a result borrowing is now on course to be almost £7 billion higher this year than the OBR forecast in December. Therefore borrowing is more likely to be slightly higher rather than slightly lower than last year’s level, although much uncertainty remains and things could still change in the final two months of the year.

What matters more than the level of borrowing this year is the outlook for revenues and spending in the medium term. Some of the extra borrowing so far this year is due to Whitehall departments underspending by less than assumed. This may not persist and therefore might not concern the Chancellor – in particular if the money is being spent well. Potentially more concerning is the low growth in tax receipts and the high growth in spending on welfare benefits: were these to persist into future years then the large planned fiscal tightening might need to be increased.”

Headline Comparisons

- **Central government current receipts** in January were 1.1% higher than in the same month last year. The Office for Budget Responsibility’s (OBR) latest Economic and Fiscal Outlook forecast an increase in receipts relative to last year’s levels of 1.1% for the year as a whole and of 2.4% for the period from November 2012 to March 2013 (excluding the impact of financial transactions relating to the Asset Purchase Facility). The latest figures show an increase relative to last year’s level of 0.5% for the year to date, with an increase of 1.2% when November 2012 to January 2013 are compared to the same three months last year.

- **Central government current spending** in January was 4.1% higher than in the same month last year. The OBR’s latest forecast implies an increase relative to last year’s level of 2.4% for the year as a whole and of 2.7% for the period from November 2012 to March 2013. The latest figures show an increase relative to last year’s level of 2.7% for the year to date, with an increase of 4.0% in November 2012 to January 2013 compared to the same three months in 2011–12.
Public sector net investment in January was £3.5bn, £0.1 billion more than was spent in January 2012. Public sector net investment between April 2012 and January 2013 has been £17.8bn (excluding the impact of the transfer of assets from the Royal Mail Pension Plan to the public sector), which is 0.9% lower than in the same ten months of 2011–12. The OBR’s latest forecast was that net investment in 2012–13 would be £21.0bn (adjusting for the impact of financial transactions relating to the Asset Purchase Facility and Royal Mail, and the reclassification of the SLS payment as a current receipt), which is 24.0% below last year’s level.

What would happen if these trends continued?

Public sector net borrowing during the first ten months of 2012–13 was £97.6bn (excluding the impact of Royal Mail and financial transactions relating to the Asset Purchase Facility), which is 5.8% higher than the amount borrowed during the same period last year. If this trend were to continue for the remaining two months of this financial year, borrowing for the whole of financial year 2012–13 would be about £127.9bn. This is around £7.9bn higher than forecast by the OBR in its December 2012 Economic and Fiscal Outlook (excluding the impact of financial transactions relating to the Asset Purchase Facility and Royal Mail, as estimated by the OBR at that time).

Adjusting separately for trends in central government receipts and spending, assuming that PSNI overshoots the OBR forecast by £1.16bn entirely as a result of the lower than expect receipts from the 4G spectrum auction, and assuming that the OBR is correct in its forecasts for borrowing by local authorities and public corporations this year suggests borrowing in 2012–13 could come in at £126.7bn. This would be £6.7bn greater than forecast by the OBR (excluding the impact of financial transactions relating to the Asset Purchase Facility and Royal Mail), and £1.8bn greater than forecast in the IFS Green Budget published earlier this month. It would also be higher than the £121.0bn borrowed in 2011–12.

Further Analysis

Information is now available for the first ten months of financial year 2012–13. Figures for receipts and spending in January 2013 show:

Central government current receipts

Accrued receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for January 2013 were 3.6% higher than in the same month last year. The latest OBR forecasts imply that the receipts from these taxes will be 1.6% up on last year’s levels over the whole year and 1.6% up over the period from November 2012 to March 2013. Together, the receipts for these taxes during the first ten months of 2012–13 were 1.2% higher than those for the same months of 2011–12, while the receipts for November 2012 to January 2013 were 0.5% higher than the same three months of 2011–12.

Cash Corporation Tax receipts for January 2013 were 13.5% lower than the same month last year. The latest OBR forecasts imply that the receipts from this tax will be 7.7% down on last year’s levels over the whole year and 3.8% down over the period from November 2012 to March 2013. Corporation Tax receipts during the first ten months of 2012–13 were 9.1% lower than in the same months of 2011–12, while receipts for November 2012 to January 2013 were 7.6% lower than the same three months of 2011–12.
Accrued receipts of VAT in January 2013 were 4.1% higher than the same month last year. The OBR’s Autumn Statement forecasts imply that the receipts from this tax will be 2.7% up on last year’s levels over the whole year and 5.1% up over the period from November 2012 to March 2013. Together, accrued VAT receipts during the first ten months of 2012–13 were 2.2% higher than those for the first ten months of 2010–11, while receipts for November 2012 to January 2013 were 4.9% higher than the same three months of 2011–12.

Central government current spending

Expenditure on net social benefits was 8.4% higher in January 2013 than in January 2012. Expenditure during the first ten months of 2012–13 was 5.9% higher than in the same months of 2011–12, while spending in November 2012 to January 2013 was 5.4% higher than in the same three months of 2011–12. The latest OBR forecast implies that this spending will be 5.6% up on last year’s levels over the whole year and 4.8% up over the period from November 2012 to March 2013.

Spending on debt interest was £3.0bn in January 2013, £0.9bn lower than in January 2012. Total spending on debt interest over the first ten months of 2012–13 was £39.2bn. In December the OBR forecast that total debt interest spending by central government in 2012–13 would be £47.1bn.

Other current spending by central government, including spending on the delivery of public services, was 5.4% higher in January 2013 than in January 2012. The OBR’s Autumn Statement forecast implies that this spending will be 1.2% up on last year’s levels over the whole year and 0.7% up over the period from November 2012 to March 2013 (excluding the impact of financial transactions relating to Bradford and Bingley and Northern Rock Asset Management). Expenditure over the first ten months of 2012–13 was 2.6% higher than in the same months of 2011–2, while spending in November 2012 to January 2013 was 5.0% higher than in the same three months of 2011–12.

In January 2013 public sector net investment was £3.5bn, £0.1bn higher than was spent in January 2012. So far in 2012–13, a total of £17.8bn has been spent on public sector net investment (excluding the impact of the transfer of assets from the Royal Mail Pension Plan to the public sector), compared to the £18.0bn that had been spent by the same point in 2011–12. However, receipts from the 4G spectrum auction will reduce public sector net investment by £2.34bn by the end of 2012–13. The OBR’s Autumn Statement forecast was that net investment in 2012–13 would be £21.8bn (adjusting for the impact of financial transactions relating to the Asset Purchase Facility and Royal Mail, and the reclassification), which is 24.0% below last year’s level.

Further information and contacts

For further information on today’s public finance release please contact: Rowena Crawford, Carl Emmerson or Gemma Tetlow on 020 7291 4800, or email rowena.c@ifs.org.uk, c.emmerson@ifs.org.uk or g.tetlow@ifs.org.uk.

Next month’s public finances release is due to be published on Thursday 21st March 2013.

The Budget will take place on Wednesday 20th March. IFS will hold a briefing the following day to present our analysis of the Budget. This briefing will be held at 13:00pm on Thursday 21st March (http://www.ifs.org.uk/events/866). If you would like to attend this event,
please contact events@ifs.org.uk. Slides will be available after the event from the IFS website.

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 – December 2012 can be found at http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-december-2012/


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.