Press Release

IFS analysis of today’s public finance figures

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

Gemma Tetlow, a Programme Director at the IFS, said:

“Today’s figures continue to suggest that public sector borrowing is on course slightly to undershoot the latest official forecast this year. Although there was strong growth in tax revenues in December this is unlikely to persist for the remainder of the year. Despite this, borrowing is still more likely than not to undershoot the official forecast as central government spending on public services has, for the fourth month in a row, run below the level spent in 2010−11 rather than above as was planned by the Government for the year as a whole.

Receipts of income tax and corporation tax in January, on which we will get data next month, will be particularly informative. Large receipts of both these taxes are expected, coming from self-assessment payments, income tax on any bonuses paid in January and a large quarterly instalment of corporation tax. How large these receipts turn out to be is critical for borrowing this year but at this stage uncertain.”

Headline Comparisons

- **Central government current receipts** in December were 7.3% higher than in the same month last year. Receipts between April and December 2011 were 5.0% higher than in the same months of 2010. 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 4.9% 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 December was 0.8% lower than in the same month last year. Spending between April and December 2011 was 1.5% 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 4.4% 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 December was £2.9bn, £0.3bn higher than was spent in December 2010. Public sector net investment between April and December 2011 was £17.6bn, which is 19% lower than in the same nine months of 2010. The OBR’s latest forecast was that net
investment in 2011–12 would be £28.6bn, which is 25% below last year’s level.

What would happen if these trends continued?

- Public sector net borrowing during the first nine months of 2011–12 was £103.3bn, which is £11.3bn lower than the amount borrowed during the same period last year. If this were to continue for the remaining three months of this financial year, borrowing for the whole of financial year 2011–12 would be about £123bn. Borrowing of this level would be slightly lower than the £127.1bn forecast by the OBR in its November 2011 Economic and Fiscal Outlook.

- However, there are a number of factors – some of which are mentioned in this press release – 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 nine 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 December 2011 show:

Central government current receipts

Accrued receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for December 2011 were 5.1% higher than in the same month last year. Together, the receipts for these taxes during the first nine months of 2011–12 were 3.5% higher than those for the same months of 2010–11. 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 4.1% up over the period from November 2011 to March 2012.

Accrued receipts of VAT in December 2011 were 13.9% higher than the same month last year. Together, accrued VAT receipts during the first nine months of 2011–12 were 16.3% higher than those for the first nine 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 4.5% 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 December 2011 were 21.5% higher than the same month last year. However, only a small fraction of annual Corporation Tax payments are received in December. Corporation Tax receipts between April and December 2011 were 0.4% higher than in the same months of 2010. 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. 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 3.3% higher in December 2011 than in December 2010; growth in net social benefits spending was relatively low in December last year in part because the cold weather payments made in December 2010 were not repeated in December 2011. Expenditure between April and December 2011 was 4.2% 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 5.3% 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 £3.5bn in December 2011, £0.5bn higher than in December 2010. Total spending on debt interest between April and December 2011 was £37.8bn. 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 4.2% lower in December 2011 than in December 2010. Expenditure between April and December 2011 was 1.4% lower than in the same months of 2010. 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 4.0% up over the period from November 2011 to March 2012. This is somewhat lower than the 2.2% growth for the year as a whole previously forecast by the OBR at the time of the March 2011 Budget.

In December 2011 public sector net investment was £2.9bn, £0.3bn higher than was spent in December 2010. So far in 2011–12, a total of £17.6bn has been spent on public sector net investment, compared to the £21.9bn 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

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

Next month’s public finances release is due to be published on Tuesday 21st February 2012.

The IFS Green Budget – analysing the issues and challenges facing George Osborne as he prepares for the coalition government’s spring Budget – will be launched at the University of London’s Senate House on Wednesday 1st February 2012. The 2012 Green Budget will be produced in collaboration with Oxford Economics, with the support of the Economic and Social Research Council. For more details see http://www.ifs.org.uk/events/744.

Relevant links:

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

Office for Budget Responsibility analysis of monthly Public Sector Finances, December 2012:
http://budgetresponsibility.independent.gov.uk/category/topics/monthly-public-finance-data/

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.