Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances December 2013*. 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 2013–14.

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

“On the face of it today’s figures continue to suggest that borrowing in 2013–14 is on course to come in at around the £111 billion forecast by the Office for Budget Responsibility in December. Receipts so far this year have grown in line with the OBR’s forecast for the year as a whole, while central government current spending has actually grown less quickly over the first nine months than is forecast for the year. However, a considerable amount of uncertainty remains. In particular, there is a risk that central government spending could accelerate towards the end of the year. Central government spending was depressed in the final months of 2012–13, as government departments were under pressure from the Chancellor to underspend against their allocated budgets. Unless departments can achieve a similar feat again, spending growth may increase over the next three months.”

Headline Comparisons

- **Central government current receipts** in December were 3.0% higher than in the same month last year. 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 3.6% for the year as a whole and a fall of 1.3% for the period from November 2013 to March 2014 (excluding the impact of transfers related to the Asset Purchase Facility). The latest figures show an increase relative to last year’s level of 4.1% for the year to date, with an increase of 4.0% in November and December compared to the same two months in 2012.

- **Central government current spending** in December was 2.6% lower than in the same month last year. The OBR’s latest forecast implies an increase relative to last year’s level of 1.9% for the year as a whole and of 1.2% for the period from November 2013 to March 2014. The latest figures show an increase relative to last year’s level of 1.4% for the year to date, with a decrease of 2.2% in November and December compared to the same two months in 2012.

- **Public sector net investment** in December was £2.5bn, £0.2 billion more than was spent in December 2012. Public sector net investment between April 2013 and December 2013 was £15.5bn, which is 6.6% higher than in the same nine months of 2012 (excluding the impact of the transfer of assets from the Royal Mail Pension Plan to the public sector). The OBR’s latest forecast was that net investment in 2013–14 would be £24.9bn, which is 9.6% above last year’s level (excluding the impact of the transfer of the Royal Mail Pension Plan).
What would happen if these trends continued?

- Public sector net borrowing during the first nine months of 2013–14 was £96.2 billion (excluding the impact of transfers related to the Asset Purchase Facility), which is 4.8% below the amount borrowed during the same months in 2012–13. If this trend were to continue for the remaining three months of the financial year, borrowing for the whole of 2013–14 would come in at £109.5bn. This is around £2bn lower than forecast by the OBR in its December 2013 Economic and Fiscal Outlook forecast.

- Extrapolating the trend in central government receipts seen over the first nine months to the year as a whole suggests that receipts would come in broadly in line with the OBR’s December forecast. Extrapolating the trend in central government current spending seen over the year to date suggests spending could come in around £3 billion lower than the OBR’s December forecast. Assuming that the OBR is correct in its forecasts for public sector net investment and borrowing by local authorities and public corporations this year, this suggests borrowing in 2013–14 could come in around £3 billion lower than the OBR forecast.

- However, it is important to note that some of the low growth in spending observed so far this year may not be expected to persist for the rest of the financial year. The timing of central government grants to local authorities in 2013–14 differs from that seen in 2012–13, with a greater proportion of payments expected to be made in the final quarter this year. In addition, spending by central government departments was particularly depressed towards the end of 2012–13 – a profile that might not be replicated if departments spend all of their allocated budgets in 2013–14.

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 2013–14 than in 2012–13. However, bearing this in mind, the figures for receipts and spending in December 2013 show:

Central government current receipts

Accrued receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for December 2013 were 0.8% lower than in the same month last year. The latest OBR forecasts imply that the receipts from these taxes will be 3.8% up on last year’s levels over the whole year and 3.5% up over the period from November 2013 to March 2014. Together, the receipts for these taxes during the first nine months of 2013–14 were 3.8% higher than those for the same months of 2012–13, while the receipts for November and December 2013 were 3.2% higher than the same two months of 2012.

Accrued receipts of VAT in November 2013 were 5.4% higher than the same month last year. The OBR’s Autumn Statement forecasts imply that the receipts from this tax will be 4.9% up on last year’s levels over the whole year and 5.7% up over the period from November 2013 to March 2014. Together, accrued VAT receipts during the first nine months of 2013–14 were 4.2% higher than those for the first nine months of 2011–12, while receipts for November and December 2013 were 3.5% higher than the same two months of 2012.
Cash Corporation Tax receipts for December 2013 were 8.7% higher than the same month last year. However, only a small fraction of annual Corporation Tax payments are received in December. The OBR’s Autumn Statement forecasts imply that the receipts from this tax will be 2.4% down on last year’s levels over the whole year and 5.2% down over the period from November 2013 to March 2014. Corporation Tax receipts between April and December 2013 were 0.1% lower than in the same months of 2012, while receipts for November and December 2013 were 4.3% higher than the same two months of 2012. A clearer picture for Corporation Tax receipts this year will emerge next month when figures for receipts in January 2014, which is normally a significant month for these receipts, are published.

**Central government current spending**

Expenditure on net social benefits was 2.6% lower in December 2013 than in December 2012. Expenditure between April and December 2013 was 1.4% higher than in the same months of 2012, while spending in November and December 2013 was 2.2% lower than in the same two months of 2012. The latest OBR forecast implies that this spending will be 1.9% up on last year’s levels over the whole year and 1.2% up over the period from November 2013 to March 2014.

Spending on debt interest was £3.5bn in December 2013, £1.4bn lower than in December 2012. Total spending on debt interest between April and December 2013 was £37.0bn. Last month the OBR forecast that total debt interest spending by central government in 2013–14 would be £49.5bn.

Other current spending by central government, including spending on the delivery of public services, was 1.4% lower in December 2013 than in December 2012. The OBR’s Autumn Statement forecast implies that this spending will be 2.1% up on last year’s levels over the whole year and 1.1% up over the period from November 2013 to March 2014. Expenditure between April and December 2013 was 1.8% higher than in the same months of 2012, while spending in November and December 2013 was 1.9% lower than in the same two months of 2012. However, these comparisons should be treated with caution as the timing for payments of central government current grants to local authorities is different in 2013–14 to 2012–13. More grants are expected to be paid in the final quarter of this year compared to last year, which suggests the growth in spending relative to last year could be greater for the whole of 2013–14 than is the case for the year to date.

**Further information and contacts**

For further information on today’s public finance release please contact: Rowena Crawford, Soumaya Keynes or Gemma Tetlow on 020 7291 4800, or email rowena_c@ifs.org.uk, soumaya_k@ifs.org.uk or g.tetlow@ifs.org.uk.

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

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 5th February 2014. The 2013 Green Budget is funded by the Nuffield Foundation and will incorporate analysis of global and UK economies produced by analysts from Oxford Economics. For more details see http://www.ifs.org.uk/events/986.
Relevant links:

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


Useful links and background information on Autumn Statement 2013 can be found at: http://www.ifs.org.uk/projects/423

Office for Budget Responsibility, Economic and Fiscal Outlook, December 2013: http://budgetresponsibility.org.uk/economic-fiscal-outlook-december-2013/


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.

IFS hosts two ESRC Research Centres.