

Press Release

IFS analysis of today's public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances June 2012*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first three months of financial year 2012–13.

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

“On the face of it today's figures continue to be disappointing, with public sector net borrowing so far this year being £6.8 billion higher than over the same period in 2011. This has largely arisen from local authorities running a substantially smaller surplus this year than last, while central government has borrowed about the same amount as it did last year to fund its own current consumption.

For central government, tax receipts have grown less quickly to date than forecast by the Office for Budget Responsibility for the year as a whole, primarily due to weak growth in receipts from taxes on personal and corporate incomes. But this has been largely offset by lower-than-forecast growth in central government current spending. However, to some extent, central government current spending so far this year has been artificially depressed relative to last year by some grants to local authorities not having been paid as early in the year. Once these grants are paid by central to local government, the position for central government is likely to weaken and that for local government to improve.”

Headline Comparisons

- **Central government current receipts** in June were 3.6% higher than in the same month last year. Receipts over the three months April to June were 2.5% higher than in the same months of 2011. The Office for Budget Responsibility's (OBR's) forecast at the time of the March 2012 Budget implied that central government current receipts for the whole of 2012–13 would be 3.9% above 2011–12 levels.
- **Central government current spending** in June was 0.8% lower than in the same month last year. Spending over the three months April to June was 2.2% higher than in the same months of 2011. The OBR's forecast at the time of the March 2012 Budget implied that central government current spending for the whole of 2012–13 would be 3.1% above 2011–12 levels.
- **Public sector net investment** in June was £1.4bn, £0.1 billion less than was spent in June last year. Together, public sector net investment during the first three months of 2012–13 has been £3.7bn (excluding the impact of the transfer of assets from the Royal Mail Pension Plan to the public sector and the closure of the Special Liquidity Scheme (SLS)). This is 8.4% more than was spent between April and June in 2011. The OBR's forecast at the time of the March 2012 Budget predicted that net investment over the whole of 2012–13 would be £26.9 billion (excluding the impact of Royal Mail and the SLS), which is 1.0% above last year's level.

Public sector net borrowing

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- Public sector net borrowing has been £6.8 billion higher over the last three months than it was over the same months of 2011, despite the OBR's forecast suggesting that it would fall by £4.1 billion over the year as a whole (excluding the impact of Royal Mail and the SLS).
- This has largely arisen from local government and public corporations borrowing £0.9 billion to fund current consumption so far this year, compared to being in surplus by £5.2 billion over the same three months of 2011. Their current budget balance has therefore been £6.1 billion worse over April to June 2012 than over April to June 2011, despite OBR forecasts from the March Budget suggesting that it should be £0.2 billion better over the whole of 2012–13 than over 2011–12.
- Central government borrowed just £0.4 billion more to fund current consumption over the first three months of 2012–13 than over the same period in 2011–12, although the OBR forecast that the central government current budget balance would improve by £2.6 billion over the year as a whole.
- The level of borrowing by local government in a given month is affected by the timing of payments received from central government, which can vary from year to year. Therefore, while the picture for local government borrowing so far this year appears much weaker than over the same period last year, some of this may unwind later in the year. However, this would also have the effect of weakening the budget position of central government.

Further Analysis

Little can be inferred or extrapolated about the public finances in 2012–13 from information about only the first quarter of the financial year. Bearing this in mind, the figures for receipts and spending in June 2012 show:

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for June 2012 were 1.5% higher than in the same month last year. Together the receipts for these taxes during the first three months of 2012–13 were 1.3% higher than those for the first three months of 2011–12. The forecasts from the March 2012 Budget imply that these taxes' receipts will grow by 2.4% over the whole of 2012–13.

VAT receipts in June 2012 were 4.3% higher than the same month last year. Together the VAT receipts during the first three months of 2012–13 were 5.8% higher than in the same months of 2011–12. The forecast from the March 2012 Budget implies that VAT receipts will grow by 4.5% over the whole of 2012–13.

Cash receipts of Corporation Tax in June 2012 were 72.9% higher than the same month last year. However, only a small fraction of annual payments of Corporation Tax are received in June. Corporation Tax receipts for the three months April to June 2012 together were 1.1% lower than in the same months of 2011. The forecast from the March 2012 Budget implies that Corporation Tax receipts will grow by 3.9% over the whole of 2012–13.

Central government current spending

Expenditure on net social benefits was 3.2% higher in June 2012 than in June 2011, while expenditure between April and June 2012 was 7.5% higher than

in the same months of 2011. The OBR's Budget forecast implies that central government net social benefit expenditure will grow by 5.8% over 2012–13.

Spending on debt interest (which is relatively small as a share of spending overall) was £4.6bn in June 2012, £0.2bn less than was spent in June 2011. Spending on debt interest between April and June 2012 was £14.3bn. The OBR forecast at the time of the March 2012 Budget that total debt interest spending by central government in 2012–13 would be £44.8bn.

Other current spending by central government, including spending on the delivery of public services, was 2.1% lower in June 2012 than in June 2011. Comparing the first three months of 2012–13 with the first three months of 2011–12, spending was 0.7% lower. The OBR's Budget forecast implies that this component of spending will grow by 2.8% over the year as a whole.

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, carl_e@ifs.org.uk or gemma_t@ifs.org.uk.

Next month's public finances release is due to be published on Tuesday 21st August.

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 National Statistics & HM Treasury, Public Sector Finances, June 2012: <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/public-sector-finances---june-2012/index.html>

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

Useful links and background information on Budget 2012 can be found at: <http://www.ifs.org.uk/projects/375>

Office for Budget Responsibility, Economic and Fiscal Outlook, March 2012: <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/>

HM Treasury Budget 2012: <http://www.hm-treasury.gov.uk/budget2012.htm>

IFS Green Budget, February 2012, containing in-depth public finance analysis, can be found at: <http://www.ifs.org.uk/publications/6003>

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

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Notes to Editors:

1. All figures are on a basis that excludes the impact of temporary financial sector interventions.
2. Central government current spending includes depreciation.
3. Where possible we compare figures on an accruals basis with the Office for Budget Responsibility forecast.