Press Release

IFS analysis of today’s public finance figures

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

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

“Today’s figures indicate that over the last two months central government current spending has grown more quickly than forecast for the year as a whole, mainly due to relatively rapid growth in welfare spending in both April and May. Receipts have grown less quickly than forecast by the Office for Budget Responsibility for the year as a whole, in part due to weak corporation tax receipts in April. Receipts of income tax, national insurance contributions and capital gains tax were weak in May but, taking April and May together, have so far this year grown more quickly than forecast for the year as a whole. However, since we are only two months into the financial year, these figures do not provide much guide as to how the public finances will evolve over the whole year.

Today’s figures also include a number of large revisions to data from earlier months. Borrowing in 2011–12 is now estimated to have been £127.6 billion, above the £124.4 billion estimated in last month’s figures and also above – although close to – the £126.0 billion forecast by the Office for Budget Responsibility at the time of the March Budget. The revision to borrowing is in part due to a £1.0 billion downwards revision to estimated revenues and a £0.5 billion upwards revision to central government current spending. The significant remainder is due to a number of methodological and classification changes, which were already taken into account in the March Budget forecast.”

Headline Comparisons

- **Central government current receipts** in May were 1.6% higher than in the same month last year. Receipts in April and May were 2.1% 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 4.0% above 2011–12 levels.

- **Central government current spending** in May was 7.8% higher than in the same month last year. Spending in April and May was 3.7% 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 May was £1.0bn, the same as was spent in May last year. Together, public sector net investment during April and May 2012 has been £1.6bn, 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 17.3% lower than in the same two months of 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 £27.3 billion, excluding the impact of Royal Mail and the SLS, which is 2.7% below last year’s level.

Today’s figures also include a number of large revisions to data from earlier months. In particular, borrowing has been revised upwards by £3.2 billion (to £127.6bn) in 2011−12, by £3.8 billion in 2010−11 and by £1.7 billion in 2009−10, and borrowing has been revised downwards by £1.5 billion in 2008−09. A large part of these revisions is due to the inclusion of Crossrail, Rail for London and parts of Transport Trading Ltd in public sector figures for the first time, along with a number of other classification changes. Of the borrowing revision in 2010−11, £1.6 billion is due to a correction in the calculation of central government debt interest payments. In 2011−12, £1.0 billion of the revision arises from a downward revision to estimated receipts, while £0.5 billion of the revision arises from an upwards revision to central government current expenditure.

Further Analysis

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

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for May 2012 were 2.3% lower than in the same month last year. Together the receipts for these taxes during the first two months of 2012–13 were 2.7% higher than those for the first two 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 May 2012 were 5.1% higher than the same month last year. Together the VAT receipts during the first two months of 2012–13 were 4.5% higher than in the same months of 2011–12. The forecast from the March 2012 Budget implies that VAT receipts will grow by 4.7% over the whole of 2012–13.

Cash receipts of Corporation Tax in May 2012 were 13.8% higher than the same month last year. However, only a small fraction of annual payments of Corporation Tax are received in May. Corporation Tax receipts for April and May 2012 together were 8.2% lower than in the same months of 2011. The forecast from the March 2012 Budget implies that Corporation Tax receipts will grow by 4.0% over the whole of 2012–13.

Central government current spending

Expenditure on net social benefits was 11.7% higher in May 2012 than in May 2011, while expenditure in April and May 2012 was 10.2% 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 £4.5bn in May 2012, a similar amount to that spent in May 2011. Spending on debt interest in April and May 2012 was £9.7bn. 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 6.9% higher in May 2012 than in May 2011. Comparing the first two months of 2012–13 with the first two months of 2011–12, the figure is 0.7%. 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 on 020 7291 4800, or email rowena_c@ifs.org.uk.

Next month’s public finances release is due to be published on Friday 20th July. Before then, the OBR is due to publish its Fiscal Sustainability Report on Thursday 12th July.

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 Budget 2012 can be found at: http://www.ifs.org.uk/projects/375


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


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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.