Press Release

IFS analysis of today’s public finance figures

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

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

“October is a big month for corporation tax receipts so today’s figures, which show that these were lower than in the same month last year, will be disappointing for Mr Osborne as he prepares for next week’s Autumn Statement. These weak corporation tax receipts have contributed to an overall picture of lower than expected growth in tax revenues so far this year. Despite this, borrowing has so far this year been broadly in line with the official forecasts for the year as a whole because spending on the administration and delivery of public services has been more subdued than forecast for the year as a whole.

A key judgement for the Office for Budget Responsibility in forming their forecasts next week will be deciding which, if any, of these trends are set to continue. A pickup in spending on public services this year would, if combined with continued weak growth in receipts, lead to borrowing in 2011–12 exceeding the OBR’s March 2011 Budget forecast. More importantly a clear risk for future years is that tax receipts continue to underperform while spending departments do manage to exhaust their extremely tight allocations. There is some flexibility to absorb this potential bad news while still meeting the Government’s fiscal mandate, which relates to the gap between receipts and non-investment spending expected at the end of the forecast horizon.

First, the Chancellor’s previous forecasts contained some margin for error. Second, additional borrowing caused by what is judged to be temporary weakness in the economy is allowed. Third, next week the forecast horizon will be automatically extended by one more year to 2016–17 so any additional fiscal tightening need not be implemented until after the next general election.”

Headline Comparisons

- **Central government current receipts** in October were 4.1% higher than in the same month last year. Receipts over the seven months April to October 2011 were 5.1% higher than in the same months of 2010.

The OBR forecast at the time of the March 2011 Budget implied that central government current receipts would grow by 6.9% over the whole of 2011–12. The growth in receipts so far this year looks artificially weak because of the different timing of two bank taxes – the temporary Bank Payroll Tax generated receipts in April 2010 while receipts from the new Bank Levy only started to come in from July 2011. Although taking these
into account improves the picture somewhat, underlying growth in receipts so far this year is still below what the OBR’s forecast suggests for the year as a whole.

- **Central government current spending** in October was 1.1% higher than in the same month last year. Spending between April and October was 2.5% higher than in the same months of 2010. The OBR's forecast at the time of the March 2011 Budget implied that central government current spending for the whole of 2011–12 would be 3.6% above 2010–11 levels.

- **Public sector net investment** in October was £2.0bn, £0.9bn lower than in October 2010. Together, public sector net investment between April and October 2011 has been £10.0bn, which is 39% lower than in the same seven months of 2010. The OBR’s forecast at the time of the March 2011 Budget predicted that net investment in 2011–12 would be £31.8bn, which is 17.7% below last year's level.

**What would happen if these trends continued?**

- Public sector net borrowing during the first seven months of 2011–12 was £68bn, which is 13.2% lower than the amount borrowed during the same period last year. If this level of growth in borrowing were to continue for the remaining five months of this financial year borrowing for the whole of financial year 2011–12 would come in at approximately £119bn.

- Adjusting separately for trends in central government receipts and spending and for differences in the timing of tax receipts on the financial sector between this year and last year, whilst assuming that the OBR is correct in its forecasts for borrowing by local authorities and public corporations and the amount of public sector net investment this year, the latest figures suggest that borrowing for the year as a whole could come in at around the £122bn forecast by the OBR in March.

**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 seven months. Some factors are likely to affect the profile of receipts and spending differently in 2011–12 than in 2010–11, and the significant revisions to earlier data seen in recent releases serve to highlight the degree of uncertainty surrounding any initial estimates of tax receipts and spending. Bearing this in mind, the figures for receipts and spending in October 2011 show:

**Central government current receipts**

Cash receipts of Corporation Tax in October 2011 were 6.9% lower than in the same month last year. Corporation Tax receipts between April and October 2011 were 0.7% lower than in the same months of 2010. This is substantially lower than the 14.2% growth forecast in March by the OBR for the year as a whole. The weak growth in October is particularly significant given that October is one of the four months in the year when a large fraction of Corporation Tax revenues are received (the others being April, July and January). Corporation Tax receipts over the remaining five months of this financial year would need to grow by 43% relative to the same five months of 2010–11 in order for the OBR's forecast for growth over the whole of 2011–12 to be met.
Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for October 2011 were 1.0% lower than in October 2010. Together the receipts for these taxes during the first seven months of 2011–12 were 3.6% higher than those for the first seven months of 2010–11. The forecasts from the March 2011 Budget imply that receipts from these taxes will grow by 3.2% over the whole of 2011–12.

VAT receipts in October 2011 were 25.0% higher than the same month last year (when the main rate of VAT was 17.5%, rather than 20% as it now is). Together the VAT receipts during the first seven months of 2011–12 were 18.2% higher than in the first seven months of 2010–11. The forecast from the March 2011 Budget implies that VAT receipts will grow by 16.3% over the whole of 2011–12. However, 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.

Central government current spending

Expenditure on net social benefits was 3.2% higher in October 2011 than in October 2010. Expenditure over the seven months April to October 2011 was 5.2% higher than in the same months of 2010. The OBR’s Budget forecast implies that central government net social benefit expenditure will grow by 4.3% over 2011–12.

Spending on debt interest (which is relatively small as a share of spending overall) was £4.8bn in October 2011, compared to £3.8bn in October 2010. Spending on debt interest between April and October 2011 was £28.9bn. The OBR forecast at the time of the March 2011 Budget that total debt interest spending by central government in 2011–12 would be £48.6bn.

Other current spending by central government, including spending on the delivery of public services, was 3.0% lower in October 2011 than in October 2010. Over the first seven months of this financial year this component of spending has been 0.1% lower than over the same months last year. The OBR’s Budget forecast implies that this component of spending will grow by 2.3% 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.

For further analysis of trends in corporation tax receipts see our latest Observation: http://www.ifs.org.uk/publications/browse/type/tw

The OBR will be publishing updated forecasts for the UK economy and public finances on Tuesday 29th November. The following day, IFS researchers will present their analysis at a press briefing, and slides will be made available here after the event (http://www.ifs.org.uk/projects/363).

Next month’s public finances release is due to be published on Wednesday 21st December.

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 2011 can be found at: http://www.ifs.org.uk/projects/347


IFS Green Budget, February 2011, containing in-depth public finance analysis, can be found at: http://www.ifs.org.uk/publications/5460


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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.