Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances October 2012. 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 2012–13.

Rowena Crawford, a senior research economist at the IFS, said:

“Today’s figures will likely result in an unpleasant feeling of déjà vu for the Chancellor as he prepares for next month’s Autumn Statement. As was the case last year, a worse-than-expected decline in corporation tax receipts in October has contributed to an overall picture of lower-than-expected growth in revenues so far this year. Spending on the administration and delivery of public services has also again grown more slowly so far than forecast for the year as a whole.

Last year the level of underspending was sufficient to offset the lower than forecast growth in revenues at this point in the year, leaving borrowing looking broadly on course to meet the previous forecast. However, this year the potential spending undershoot looks to be able to offset only partially the weaker-than-expected receipts. If the trends in central government receipts and non-investment spending were to continue for the remainder of 2012–13, borrowing would come in £13 billion higher than forecast by the Office for Budget Responsibility in March.”

Headline Comparisons

- **Central government current receipts** in October were 1.8% higher than in the same month last year. Receipts over the seven months April to October were 0.4% 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 3.7% above 2011–12 levels.

- **Central government current spending** in October was 7.3% higher than in the same month last year. Spending over the first seven months of 2012–13 was 2.3% higher than over the first seven months of 2011–12. 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 3.0% above 2011–12 levels.

- **Public sector net investment** in October was £1.9 billion, £0.4 billion more than was spent in October last year. Together, public sector net investment during the first seven months of 2012–13 has been £10.4 billion (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 4.5% higher (£0.5 billion more) than was spent over the same period in 2011–12. 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 0.8% above last year’s level.

What would happen if these trends continued?

- Public sector net borrowing during the first seven months of 2012–13 was £75.6 billion (excluding the impact of Royal Mail and the SLS), which is 10.8% higher 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 2012–13 would be about £134 billion, some £12 billion higher than the OBR forecast in March for borrowing (excluding the impact of Royal Mail and the SLS) in 2012–13.

- Adjusting separately for trends in central government receipts and spending, 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, suggests a similar figure of £135 billion. This is £13 billion higher than the £122 billion forecast by the OBR in March for borrowing (excluding the impact of Royal Mail and the SLS) in 2012–13.

- However, this figure assumes that central government departments fail to spend around £4 billion of their budgets this year. Were they instead to spend their budgets fully, borrowing this year would overshoot the OBR’s March 2012 forecast by £17 billion.

Further Analysis

We should be cautious about inferring or extrapolating likely outcomes over the financial year as a whole from information on only the first seven months of the financial year. Bearing this in mind, the figures for receipts and spending in October 2012 show:

Central government current receipts

Cash receipts of Corporation Tax in October 2012 were 9.9% lower than the same month last year. October is one of four months in the year when a large fraction of Corporation Tax revenues are received. Corporation Tax receipts between April and October 2012 were 9.8% 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.

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for October 2012 were 6.4% higher than in the same month last year. Together the receipts for these taxes during the first seven months of 2012–13 were 2.0% higher than those for the first seven 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 October 2012 were 3.6% higher than the same month last year. Together the VAT receipts during the seven months April to October 2012 were 1.9% higher than over the same period in 2011. The forecast from the March 2012 Budget implies that VAT receipts will grow by 4.4% over the whole of 2012–13.

Central government current spending

Expenditure on net social benefits was 7.7% higher in October 2012 than in October 2011, while expenditure between April and October 2012 was 5.9% higher than in the same seven months of 2011. The OBR’s Budget forecast implies that central government net social benefit expenditure will grow by 5.7% over 2012–13.
Spending on debt interest (which is relatively small as a share of spending overall) was £4.5 billion in October 2012, £0.4 billion less than was spent in October 2011. Spending on debt interest between April and October 2012 was £27.1 billion. The OBR forecast at the time of the March 2012 Budget that total debt interest spending by central government in 2012–13 would be £44.8 billion.

Other current spending by central government, including spending on the delivery of public services, was 9.5% higher in October 2012 than in October 2011. Comparing the first seven months of 2012–13 with the first seven months of 2011–12, spending was 1.8% higher. The OBR's Budget forecast implies that this component of spending will grow by 2.7% 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.

The Autumn Statement and the OBR’s updated forecasts for the UK economy and public finances are due to be published on Wednesday 5th December. The following day, IFS researchers will present their analysis at a press briefing, and slides will be made available after the event (http://www.ifs.org.uk/projects/401).

Next month's public finances release is due to be published on Friday 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


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**ENDS**

**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.