Press Release

IFS analysis of today’s public finance figures

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

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

“Figures published today by the Office for National Statistics contain a significant, £6.7 billion, downward revision to estimated borrowing over the first five months of this financial year. While this improves the outlook for borrowing this year, growth in central government tax receipts is still running well below the forecast for the year as a whole and, while spending on public services by central government departments is also growing less quickly than forecast, it is too early to conclude that these departments will underspend their allocations. If the disappointing trend in central government receipts were to continue, but spending and other revenues turn out as forecast, borrowing would still overshoot the official forecast for this year by £15 billion.”

Headline Comparisons

- **Central government current receipts** in September were 3.7% higher than in the same month last year. Receipts over the six months April to September were 0.8% 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 September was 3.8% higher than in the same month last year. Spending over the first half of 2012–13 was 2.1% higher than over the first half 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 September was £1.6 billion, £0.3 billion less than was spent in September last year. Together, public sector net investment during the first six months of 2012–13 has been £7.8 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 £0.6 billion less than was spent in the first half of 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.
Public sector net borrowing

- The OBR forecast at the time of the March Budget that, after adjusting for one-off impacts from transactions involving the Royal Mail Pension Scheme and the SLS, borrowing would fall from £126.0 billion in 2011–12 to £122.3 billion in 2012–13. The latest estimate of last year’s outturn now stands £121.6 billion.

- Public sector net borrowing during the first half of 2012–13 has been 4.2% higher than the amount borrowed over the first half of 2011–12, after adjusting for the impact of Royal Mail. If this trend were to continue for the rest of the year, borrowing in 2012–13 would come in around £7 billion higher than the OBR forecast in March. If borrowing so far this year is also adjusted for the impact of the SLS, that figure would be around £9 billion.

- Investment spending and borrowing by local government and public corporations can be very volatile. Extrapolating the trends in central government receipts and current spending seen over the first six months to the year as a whole, whilst assuming that the OBR was correct in its March forecasts for central government net investment and borrowing by local government and public corporations, suggests that borrowing for the year could come in around £10 billion higher than forecast.

- However, this figure assumes that central government departments fail to spend around £5 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 £15 billion. This is slightly lower than the £18 billion suggested by last month’s figures, due to tax receipts in September 2012 being someone stronger than they had been earlier in the year.

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 half of the financial year. Bearing this in mind, the figures for receipts and spending in September 2012 show:

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for September 2012 were 4.4% higher than in the same month last year. Together the receipts for these taxes during the first six months of 2012–13 were 1.4% higher than those for the first six 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 September 2012 were 5.1% higher than the same month last year. Together the VAT receipts during the first half of 2012–13 were 3.4% higher than in the first half of 2011–12. The forecast from the March 2012 Budget implies that VAT receipts will grow by 4.4% over the whole of 2012–13.

Cash receipts of Corporation Tax in September 2012 were 0.7% higher than the same month last year. However, only a small fraction of annual payments of Corporation Tax are received in September. Corporation Tax receipts for the half of this financial year together were 9.7% lower than in the same months of 2011–12. 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 1.6% higher in September 2012 than in September 2011, while expenditure between April and September 2012 was 5.7% higher than in the same six 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 £2.6 billion in September 2012, £0.2 billion less than was spent in September 2011. Spending on debt interest between April and September 2012 was £22.7 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 5.8% higher in September 2012 than in September 2011. Comparing the first half of 2012–13 with the first half of 2011–12, spending was 1.5% 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.

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

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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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.