Press Release

IFS analysis of today’s public finance figures

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

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

“Today’s figures persist in painting a gloomy picture with weaker-than-expected growth in receipts from taxes on income, spending and profits. In contrast spending by central government is growing broadly in line with the forecast for the year as a whole.

If the disappointing trend in central government receipts continues they would undershoot the official forecast for this year by £18 billion. If spending and other receipts turn out in line with the March forecast, this would bring public sector net borrowing in 2012–13, after excluding the one-off impact of specific transactions, up to £140 billion; this is more than was borrowed last year and around the same amount as was borrowed in 2010–11.”

Headline Comparisons

- **Central government current receipts** in August were 1.8% higher than in the same month last year. Receipts over the five months April to August 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 August was 2.6% higher than in the same month last year. Spending over the five months April to August was 3.0% 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 3.0% above 2011–12 levels.

- **Public sector net investment** in August was £1.2bn, £0.4 billion less than was spent in August last year. Together, public sector net investment during the first five months of 2012–13 has been £6.2bn (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 the same as was spent between April and August 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 10.5% 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 £119.3 billion.

- Public sector net borrowing during the first five months of 2012–13 has been 21.8% higher than the amount borrowed over the first five months 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 £25 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 £29 billion.

- Investment spending and borrowing by local government and public corporations can be very volatile. Extrapolating the trends in central government receipts seen over the first five months to the year as a whole, whilst assuming that the OBR was correct in its March forecasts for spending and other receipts, suggests that borrowing for the year could come in around £18 billion higher than forecast.

- If borrowing in 2012–13 were to turn out £18 billion higher than forecast it would be around £140 billion (after adjusting for the effects of the Royal Mail Pension Scheme and the SLS). This is more than was borrowed in 2011–12 and is around the same amount as was borrowed in 2010–11.

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 five months of the financial year. Bearing this in mind, the figures for receipts and spending in August 2012 show:

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for August 2012 were 2.1% higher than in the same month last year. Together the receipts for these taxes during the first five months of 2012–13 were 1.1% higher than those for the first five 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 August 2012 were 2.0% higher than the same month last year. Together the VAT receipts during the first five months of 2012–13 were 3.0% 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 4.5% lower than the same month last year. However, only a small fraction of annual payments of Corporation Tax are received in August. Corporation Tax receipts for the five months April to August 2012 together were 10.3% 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 4.9% higher in August 2012 than in August 2011, while expenditure between April and August 2012 was 6.5% higher than in the same months of 2011. The OBR’s Budget forecast implies that central government net social benefit expenditure will grow by 5.7% over 2012–13.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.9bn in August 2012, £0.8bn less than was spent in August 2011. Spending on debt interest between April and August 2012 was £20.2bn. 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 4.3% higher in August 2012 than in August 2011. Comparing the first five months of 2012–13 with the first five months of 2011–12, spending was 2.4% 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 Friday 19th October.

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.