Press Release

IFS analysis of today’s public finance figures

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

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

“Weak growth in receipts in July, particularly from corporation tax, should increase concern that borrowing this year will overshoot the OBR’s forecast. The headline numbers are probably gloomier than the true picture, due to changes in the expected timing of tax receipts this year relative to last year, but the government will still need receipts from many of the major taxes to grow more rapidly over the remainder of the year if they are to meet the OBR’s forecast for receipts. The risk to borrowing at the moment appears to be mainly from the receipts side – central government spending so far this year has grown broadly in line with what was forecast in the Budget for the year as a whole.”

Headline Comparisons

- **Central government current receipts** in July were 5.6% higher than in the same month last year. Receipts over the four months April to July 2011 were 4.3% 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 7.2% 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 have only started to come in in 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 July was 1.9% higher than in the same month last year. Spending between April and July was 3.3% 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 July was £2.1bn, £0.8bn lower than in July 2010. Together, public sector net investment between April and July 2011 has been £7.0bn, which is 19% lower than in the same four 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 20% below last year’s level.

Further Analysis
Little can be inferred or extrapolated about the public finances in 2011–12 from information about only the first four months of the financial year. Bearing this in mind, the figures for receipts and spending in July 2011 show:

**Central government current receipts**

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for July 2011 were the same as in July 2010. Together the receipts for these taxes during the first four months of 2011–12 were 2.8% higher than those for the first four months of 2010–11. The forecasts from the March 2011 Budget imply that receipts from these taxes will grow by 3.8% over the whole of 2011–12.

Cash receipts of Corporation Tax in July 2011 were 1.0% higher than the same month last year. Corporation Tax receipts between April and July 2011 were 1.6% higher 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 July is particularly significant given that July is one of the four months in the year when a large fraction of Corporation Tax revenues are received (the others being April, October and January).

VAT receipts in July 2011 were 22.4% 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 four months of 2011–12 were 18.8% higher than in the same 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 VAT rate 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 3.4% higher in July 2011 than in July 2010. Expenditure over the four months April to July 2011 was 4.3% higher than in the same months of 2010. The OBR's Budget forecast implies that central government net social benefit expenditure will grow by 4.4% over 2011–12.

Spending on debt interest (which is relatively small as a share of spending overall) was £4.4bn in July 2011, £0.4bn higher than in July 2010. Spending on debt interest between April and July 2011 was £17.6bn. 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 0.1% higher in July 2011 than in July 2010. Comparing the first four months of 2011–12 with the first four months of 2010–11, the figure is 1.6%. The OBR's Budget forecast implies that this component of spending will grow by 2.4% 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 Wednesday 21st September.
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.