Press Release

IFS analysis of today’s public finance figures

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

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

“Today’s figures add to a complicated picture. Since the Budget was produced the estimated outturn for economic growth in the first quarter of 2011 turned out to be weaker than the OBR anticipated and many independent forecasters have revised down their expectations for economic growth this year. Government receipts in June were weak, in particular there was a fall in combined receipts from taxes on income and profits. But over the first three months of this financial year they appear to have held up.

This suggests borrowing this year could still fall relative to last year as the OBR forecast, even if economic growth does disappoint. But much uncertainty remains, in particular over the outlook for corporation tax receipts, which have so far underperformed relative to the OBR’s forecast for the year as a whole. Next month’s figures will be important since a large slice of annual corporation tax revenues is usually received in July.”

Headline Comparisons

- **Central government current receipts** in June were 5.6% higher than in the same month last year. Receipts over the three months April to June 2011 were 4.6% higher than in the same months of 2010. However, April 2010 figures were flattered by £3.5bn of receipts from the temporary Bank Payroll Tax. Once these have been taken into account today’s figures suggest that receipts between April and June 2011 grew broadly in line with the 7.2% growth that the OBR forecast for the year as a whole at the time of the March 2011 Budget.

- **Central government current spending** in June was 4.9% higher than in the same month last year. Spending between April and June was 3.5% 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 June was £2.2bn, the same as was spent in June 2010. Together, public sector net investment between April and June 2011 has been £5.3bn, which is 9.4% lower than in the same three 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 19.9% 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 quarter of the financial year. Bearing this in mind, the figures for receipts and spending in June 2011 show:

**Central government current receipts**

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for June 2011 were 0.2% lower than in the same month last year. Together the receipts for these taxes during the first three months of 2011–12 were 3.1% higher than those for the first three 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.

VAT receipts in June 2011 were 16.6% 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 three months of 2011–12 were 16.9% 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.

Cash receipts of Corporation Tax in June 2011 were 46.3% lower than the same month last year. However, only a small fraction of annual payments of Corporation Tax are received in June. Corporation Tax receipts between April and June 2011 were 2.5% higher than in the same months of 2010. The forecast from the March 2011 Budget implies that Corporation Tax receipts will grow by 14.5% over the whole of 2011–12.

**Central government current spending**

Expenditure on net social benefits was 4.0% higher in June 2011 than in June 2010. Expenditure over the three months April to June 2011 was 4.6% 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 £4.1bn in June 2011, £0.2bn higher than in June 2010. Spending on debt interest between April and June 2011 was £13.2bn. 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 5.2% higher in June 2011 than in June 2010. Comparing the first three months of 2011–12 with the first three months of 2010–11, the figure is 1.7%. 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, Carl Emmerson or Gemma Tetlow on 020 7291 4800, or email rowena_c@ifs.org.uk, cemmerson@ifs.org.uk or gemma_t@ifs.org.uk.
Next month's public finances release is due to be published on Friday 19th August.

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.