Press Release

IFS analysis of today’s public finance figures

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

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

“Today’s figures contain an upwards revision to public sector net borrowing in the last financial year from £139.4 billion to £143.2 billion. This brings it closer to, but still below, the £145.9 forecast by the Office for Budget Responsibility at the time of the March Budget. Much – but by no means all – of the increase in estimated borrowing is due to upwards revisions to borrowing by public corporations and to central government spending on public services.

Overall growth in receipts and spending over the first two months of this year is broadly in line with the OBR’s forecast for the year as a whole. The figures suggest that while spending on welfare payments has grown more quickly than implied by the OBR forecast this has been roughly offset by lower growth in central government spending on public services. But as these data only relate to two months of the financial year they do not provide much guide as to how the public finances will evolve over the whole year.”

Headline Comparisons

- **Central government current receipts** in May were 8.2% higher than in the same month last year. Receipts in April and May were 3.0% 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. Excluding these receipts from the April 2010 figures suggests that underlying receipts grew by 7.8% in April and May 2011 compared to the same two months a year ago. The OBR’s forecast at the time of the March 2011 Budget implied that central government current receipts for the whole of 2011–12 would be 7.3% above 2010–11 levels.

- **Central government current spending** in May was 2.3% higher than in the same month last year. Spending in April and May was 4.1% 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 May was £2.1bn compared to £2.0bn in the same month last year. Together, public sector net investment during April and May 2010 has been £3.4bn, which is 5% lower than in the same two 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 two months of the financial year. Bearing this in mind, the figures for receipts and spending in May 2011 show:

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for May 2011 were 3.6% higher than in the same month last year. Together the receipts for these taxes during the first two months of 2011–12 were 3.8% higher than those for the first two months of 2010–11. The forecasts from the March 2011 Budget imply that these taxes’ receipts will grow by 4.0% over the whole of 2011–12.

VAT receipts in May 2011 were 16.7% 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 two months of 2011–12 were 15.3% 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.

Cash receipts of Corporation Tax in May 2011 were 47.8% higher than the same month last year. However, only a small fraction of annual payments of Corporation Tax are received in May. Corporation Tax receipts for April and May 2011 were 12.5% 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 5.2% higher in May 2011 than in May 2010. Expenditure during April and May 2011 was 6.9% 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 May 2011, £0.4bn higher than in May 2010. Spending on debt interest in April and May 2011 was £9.1bn. 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 0.3% higher in May 2011 than in May 2010. Comparing the first two months of 2011–12 with the first two months of 2010–11, the figure is 1.3%. 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 or Carl Emmerson on 020 7291 4800, or email rowena_c@ifs.org.uk or cemmerson@ifs.org.uk.

Next month’s public finances release is due to be published on Thursday 21st July. Before then, the OBR is due to publish its first Fiscal Sustainability Report on Wednesday 13th July.

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.