

Press Release

IFS analysis of today's public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances September 2011*. 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 2011-12.

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

"Today's figures suggest that, if trends for the year to date were to continue, borrowing this year would come in around the official forecast of £122 billion. This is a somewhat rosier picture than was painted by last month's figures, largely due to a downwards revision of £2.2bn to estimated borrowing in August.

This relatively positive picture overall masks two trends. The bad news is that tax receipts are down compared to forecasts, likely reflecting underlying economic weakness. On the other hand spending is also coming in below forecast – which is perhaps surprising given the scale of cuts to departmental budgets already factored into the forecast. The risk of course is that spending will recover as departments spend up to their budgeted limits. If that were to happen, and tax revenues didn't bounce back, then borrowing targets would be missed."

Headline Comparisons

- **Central government current receipts** in September were 4.2% higher than in the same month last year. Receipts over the six months April to September 2011 were 4.9% 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 6.9% 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 only started to come in from 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 September was 0.6% higher than in the same month last year. Spending between April and September was 2.9% 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 September was £2.2bn, £0.4bn lower than in September 2010. Together, public sector net investment between April and September 2011 has been £9.4bn, which is 30% lower than in the same six months of 2010. The OBR's forecast at the time of the March

Embargo

For immediate release,
Friday 21 October 2011

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IFS public finance
bulletins are generously
supported by the
Economic and Social
Research Council.

The analysis is based on IFS
calculations and does not
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2011 Budget predicted that net investment in 2011–12 would be £31.8bn, which is 18% below last year's level.

What would happen if these trends continued?

- Public sector net borrowing during the first half of 2011–12 was £63.5bn, which is 10.5% lower than the amount borrowed during the same period last year. If this level of growth in borrowing were to continue for the remaining six months of this financial year, borrowing for the whole of financial year 2011–12 would come in approximately in line with the OBR's March forecast of £122bn.
- Adjusting separately for trends in central government receipts and spending and for differences in the timing of tax receipts on the financial sector between this year and last year, whilst assuming that the OBR is correct in its forecasts for borrowing by local authorities and public corporations and the amount of public sector net investment this year, the latest figures suggest that borrowing for the year as a whole could come in at around £124bn.

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. Some factors are likely to affect the profile of receipts and spending differently in 2011–12 than in 2010–11, and the significant revisions to earlier data that were contained in today's release serve to highlight the degree of uncertainty surrounding any initial estimates of tax receipts and spending. Bearing this in mind, the figures for receipts and spending in September 2011 show:

Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for September 2011 were 2.8% lower than in September 2010. Together the receipts for these taxes during the first half of 2011–12 were 2.6% higher than those for the first half of 2010–11. The forecasts from the March 2011 Budget imply that receipts from these taxes will grow by 3.2% over the whole of 2011–12.

VAT receipts in September 2011 were 20.6% 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 half of 2011–12 were 19.0% higher than in the first half 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 main rate of VAT 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 September 2011 were 2.7% higher than the same month last year. Corporation Tax receipts between April and September 2011 were 2.6% 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.

Central government current spending

Expenditure on net social benefits was 7.9% higher in September 2011 than in September 2010. Expenditure over the six months April to September 2011

was 5.6% higher than in the same months of 2010. The OBR's Budget forecast implies that central government net social benefit expenditure will grow by 4.3% over 2011-12.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.7bn in September 2011, compared to £2.3bn in September 2010. Spending on debt interest between April and September 2011 was £24.1bn. 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 3.5% lower in September 2011 than in September 2010. Over the first six months of this financial year this component of spending has been 0.7% higher than over the same months last year. The OBR's Budget forecast implies that this component of spending will grow by 2.3% over the year as a whole.

Further information and contacts

For further information on today's public finance release please contact: Rowena Crawford, or Gemma Tetlow on 020 7291 4800, or email rowena_c@ifs.org.uk, or gemma_t@ifs.org.uk.

Next month's public finances release is due to be published on Tuesday 22nd November.

Relevant links:

This, and previous editions of this press release, can be downloaded from <http://www.ifs.org.uk/publications/browse?type=pf>

Office for National Statistics & HM Treasury, Public Sector Finances, September 2011: <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/september-2011/stb---september-2011.html>

Office for Budget Responsibility analysis of monthly Public Sector Finances, September 2011: <http://budgetresponsibility.independent.gov.uk/category/topics/monthly-public-finance-data/>

Useful links and background information on Budget 2011 can be found at: <http://www.ifs.org.uk/projects/347>

Office for Budget Responsibility, Economic and Fiscal Outlook, March 2011: <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2011/>

HM Treasury Budget 2011: <http://www.hm-treasury.gov.uk/2011budget.htm>

IFS Green Budget, February 2011, containing in-depth public finance analysis, can be found at: <http://www.ifs.org.uk/publications/5460>

HM Treasury, Public Finance Statistics Index: http://hm-treasury.gov.uk/psf_statistics.htm

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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.