

## Press Release

Tel: +44 (0) 20 7291 4800  
Fax: +44 (0) 20 7323 4780

mailbox@ifs.org.uk  
www.ifs.org.uk

7 Ridgmount Street  
London WC1E 7AE

# IFS analysis of today's public finance figures

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

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

“The good news for the Treasury in today's figures is that the estimate for borrowing last year has been revised down by £6 billion, thanks in large part to £4 billion lower spending by local authorities than previously thought. The bad news is that, for a third consecutive month, tax receipts have been weak. The latter increasingly suggests that borrowing this year could overshoot the official forecast. That said, with only five months of data currently available, much uncertainty remains. A significant pick-up in tax receipts over the coming months or an undershoot on investment spending could lead to the OBR's forecast still proving correct, but it is also possible that the deficit this year could even exceed the deficit last year.”

Commenting on speculation today that government ministers are considering a boost of up to £5 billion to planned capital spending, Carl Emmerson, Deputy Director of the IFS, said:

“An extra £5 billion, if spent in one year, would be a large proportional increase in investment spending: Budget 2011 forecast around £30 billion of net investment both this year and next. The OBR's model suggests that the impact of this would be to boost national income in the first year by around 0.3%, assuming no offsetting monetary policy response. History suggests that a key challenge would be to ensure that the money was spent productively and in a timely manner. It would also be important to ensure that increasing spending in this way did not damage confidence in the UK's commitment to reducing the deficit to sustainable levels over the medium term.”

### Headline Comparisons

- **Central government current receipts** in August were 5.9% higher than in the same month last year. Receipts over the five months April to August 2011 were 4.6 % 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 have 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.

### Embargo

For immediate release  
Weds 21 September 2011

### Contact

Rowena Crawford, Carl  
Emmerson or Gemma  
Tetlow  
Institute for Fiscal Studies

020 7291 4800

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

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Director:  
Paul Johnson

Research Director:  
Richard Blundell

The Institute for Fiscal Studies  
Limited by Guarantee,  
Registered in England: 954616  
7 Ridgmount Street  
London  
WC1E 7AE

Registered Charity: 258815  
VAT no: GB 394 5830 17

- **Central government current spending** in August was 7.2% higher than in the same month last year. Spending between April and August was 3.8% 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 August was £2.1bn, £0.3bn lower than in August 2010. Together, public sector net investment between April and August 2011 has been £8.0bn, which is 27% lower than in the same five 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 18% below last year's level.

### What would happen if these trends continued?

- Public sector net borrowing during the first five months of 2011–12 was £55.3bn, which is 7.0% lower than the amount borrowed during the same period last year. If this level of growth in borrowing were to continue for the remaining seven months of this financial year, borrowing for the whole of financial year 2011–12 would be about £127bn. However, 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, suggests a slightly higher figure of £129bn.
- The OBR forecast that borrowing would be £121.8bn in 2011–12, which is lower than the trends to date might suggest. Borrowing could still come in in line with the OBR's forecast, for example because tax receipts from the North Sea are expected to grow more strongly over the rest of this financial year. But borrowing could also come in higher than our extrapolation of £129bn, and could exceed the £135bn borrowed last year: certainly the trend in borrowing has worsened in recent months and VAT receipts are likely to grow less quickly towards the end of the financial year.

### Further Analysis

We should be cautious of inferring or extrapolating likely outcomes over the financial year as a whole from information on only the five months, particularly as some factors are likely to affect the profile of receipts and spending differently in 2011–12 than in 2010–11. Bearing this in mind, the figures for receipts and spending in August 2011 show:

#### Central government current receipts

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for August 2011 were 1.2% lower than in August 2010. Together the receipts for these taxes during the first five months of 2011–12 were 2.8% higher than those for the first five months of 2010–11. The forecasts from the March 2011 Budget imply that receipts from these taxes will grow by 3.1% over the whole of 2011–12.

VAT receipts in August 2011 were 22.9% 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 five months of 2011–12 were 18.6% higher than in the same months of 2010–11. The forecast from the

March 2011 Budget implies that VAT receipts will grow by 16.2% 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 August 2011 were 17.9% higher than the same month last year. Corporation Tax receipts between April and August 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 7.4% higher in August 2011 than in August 2010. Expenditure over the five months April to August 2011 was 5.0% 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 £3.8bn in August 2011, the same as in August 2010. Spending on debt interest between April and August 2011 was £21.5bn. 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 7.9% higher in August 2011 than in August 2010. Comparing the first five months of 2011–12 with the first five months of 2010–11, the figure is 2.2%. The OBR's Budget forecast implies that this component of spending will grow by 2.2% 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](mailto:rowena_c@ifs.org.uk), [carl\\_e@ifs.org.uk](mailto:carl_e@ifs.org.uk) or [gemma\\_t@ifs.org.uk](mailto:gemma_t@ifs.org.uk).

Next month's public finances release is due to be published on Monday 17<sup>th</sup> October.

### 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, August 2011: <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/august-2011/stb---august-2011.html>

Office for Budget Responsibility analysis of monthly Public Sector Finances, August 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](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.
3. Speculation on the possible increase in capital spending can be found at <http://www.bbc.co.uk/news/uk-14985709>. The fiscal multipliers from the OBR's model are taken from Table C8, Page 95 of the June 2010 Budget forecast (<http://budgetresponsibility.independent.gov.uk/budget-2010/>)