

Commentary on the Public Sector Finances release: June 2011

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 2011 Public Sector Finances this morning¹. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast.

June 2011 outturn

2. Public sector net borrowing (PSNB) totalled £14.0 billion in June 2011, around £0.3 billion higher than in June 2010 and about £1.5 billion above market expectations.
3. The rise in PSNB compared with June last year primarily reflects the fact that central government spending was £2.3 billion up on last year, while receipts were only £2.1 billion higher. Borrowing by local authorities and public corporations was also £0.1 billion higher than last year.
4. Receipts were 5.6 per cent higher in June than a year earlier. Growth of 16.6 per cent in VAT receipts related to the rise in the standard rate of VAT to 20 per cent was offset by weak growth in income tax and national insurance contributions and a fall in corporation tax receipts, partly due to a large repayment. Corporation tax payments are partly based on firms' expectations of future profits and they receive repayments if these turn out to be overoptimistic.

Outturn for April to June 2011

5. The release of the June data means that we now have figures for the first quarter of the 2011-12 financial year. Over the first quarter as a whole, PSNB was £0.4 billion lower than in the equivalent period last year. This compares with the £20.3 billion fall in PSNB over the year as a whole that we forecast in the March EFO.
6. The relatively small annual fall in PSNB over the first quarter reflects the fact that receipts are 4.6 per cent up on the same period last year, compared to the full year receipts growth forecast of 7.2 per cent. However, for a number of reasons we would expect stronger year-on-year receipts growth in the remainder of 2011-12:
 - last year the government received £3.5 billion from the bank payroll tax in April 2010. The tax was not repeated this year, so this has suppressed receipts growth in the early part of 2011-12. If the bank payroll tax was excluded, growth in

¹ <http://www.statistics.gov.uk/pdfdir/psf0711.pdf>

receipts for the year-to-date would be close to our full year forecast. Bank levy receipts will only score in the National Accounts from July;

- offshore corporation tax receipts are expected to be up strongly later in 2011-12, reflecting high oil prices and the Budget decision to raise the supplementary charge;
 - self assessment receipts will be boosted later in the year by the delayed impact of the introduction of the additional 50p tax rate on incomes over £150,000;
7. Overall we expect these factors to more than offset the impact of the VAT rise, which should boost VAT receipts in each of the first nine months of this financial year, but not in the last three.
 8. In contrast to the appearance of weak growth in receipts, total central government current expenditure was 3.4 per cent higher in the first three months of 2011-12 than in the same period last year, close to our full year forecast of 3.6 per cent.

Provisional outturn for 2010-11

9. The latest outturn for PSNB in 2010-11 is £142.1 billion, £1.1 billion lower than in last month's release, due to upward revisions to receipts and lower borrowing by public corporations. The outturn is £3.8 billion lower than the March EFO forecast of £145.9 billion.
10. The estimate for 2010-11 remains provisional and subject to change. We expect ONS estimates for central government current expenditure and investment to be revised in September to reflect departments' provisional outturns, and also some methodological changes in accounting adjustments. Firm data for local authorities and public corporations is only available with a longer lag than for central government and the first data for local authorities' current expenditure in 2010-11 will only become available at the end of August.

Issues for the next PSF Release: July 2011

11. In this section, we highlight issues that are likely to affect next month's release. July is an important month for receipts:
 - Many medium and large onshore firms will pay the first of four corporation tax instalment payments in July on their 2011 profits;
 - Oil and gas firms will pay the first of three instalment payments on their 2011 profits in July. So far this year, oil prices have averaged close to the \$113 a barrel assumed in our March EFO forecast for the whole of 2011. However, oil and gas production has fallen by around 13 per cent in the first five months of 2011² compared to a year earlier, due to maintenance and

² <http://www.statistics.gov.uk/pdfdir/iop0711.pdf>

temporary shutdowns of fields, against a 6 per cent fall in production assumed in the March EFO for the whole of 2011. The higher rate of supplementary charge announced in the Budget will affect the public finances from October; and

- The second payment on account for self assessment liabilities for 2010-11 is due on July 31.

Public sector receipts, expenditure and net borrowing

£ billion	June				April to June				Implied July to March				Full Year				
	change				change				change				2011-12 Budget 2011*	2010-11 outturn	change		
	2011	2010	£bn	%	2011-12	2010 -11	£bn	%	2011-12	2010-11	£bn	%			£bn	%	
Central Government (CG) current receipts																	
Taxes on production	17.3	15.6	1.6	10.5	50.6	49.2	1.4	2.9	159.1	141.5	17.6	12.4	209.7	190.7	19.0	10.0	
<i>Of which: VAT (accrued)</i>	9.5	8.1	1.4	16.6	27.4	23.4	4.0	16.9	85.7	73.8	11.9	16.1	113.1	97.2	15.8	16.3	
Taxes on income and wealth	10.9	11.6	-0.7	-5.9	38.0	37.0	0.9	2.6	169.5	158.1	11.5	7.3	207.5	195.1	12.4	6.4	
Other taxes	2.0	1.1	0.9	83.9	4.7	3.2	1.5	46.7	8.3	9.6	-1.3	-13.1	13.0	12.8	0.2	2.0	
Compulsory social contributions	8.2	8.0	0.2	1.9	24.2	23.1	1.1	4.7	76.5	74.7	1.9	2.5	100.7	97.7	2.9	3.0	
Interest & dividends	0.5	0.4	0.0	8.7	1.4	1.2	0.2	15.7	5.7	4.5	1.2	27.0	7.1	5.7	1.4	24.6	
Other receipts	0.8	0.7	0.1	7.3	2.3	2.1	0.2	7.2	7.0	6.6	0.4	6.1	9.3	8.7	0.6	6.4	
Total CG current receipts	39.6	37.5	2.1	5.6	121.1	115.8	5.3	4.6	426.2	394.9	31.3	7.9	547.3	510.7	36.6	7.2	
CG Current expenditure																	
Interest payments	4.1	3.8	0.2	6.0	13.2	11.5	1.6	14.3	35.5	32.2	3.3	10.3	48.6	43.7	5.0	11.3	
Net social benefits	14.7	14.2	0.6	4.0	44.1	42.1	1.9	4.6	136.4	130.7	5.7	4.3	180.5	172.9	7.6	4.4	
Other	33.2	31.5	1.6	5.2	99.6	98.0	1.6	1.6	297.8	290.3	7.5	2.6	397.4	388.3	9.1	2.3	
Total current expenditure	52.0	49.5	2.4	4.9	156.8	151.6	5.2	3.4	469.7	453.2	16.5	3.6	626.5	604.9	21.6	3.6	
Depreciation	0.6	0.6	0.1	8.8	1.9	1.7	0.2	8.8	5.7	5.4	0.4	6.8	7.6	7.1	0.5	7.3	
CG Surplus on current budget	-13.0	-12.6	-0.4	2.8	-37.6	-37.6	0.0	0.1	-49.2	-63.7	14.5	-22.7	-86.8	-101.2	14.4	-14.3	
CG Net investment	2.4	2.5	-0.2	-6.1	6.0	7.3	-1.3	-17.6	17.4	29.9	-12.5	-41.7	23.4	37.2	-13.8	-37.0	
CG Net borrowing	15.3	15.1	0.2	1.4	43.6	44.8	-1.3	-2.8	66.7	93.6	-26.9	-28.8	110.2	138.4	-28.2	-20.4	
Local Authorities net borrowing	-0.7	-1.3	0.6		-3.5	-4.6	1.1		15.0	10.4	4.6		11.5	5.8	5.7		
Public Corporations net borrowing	-0.7	-0.2	-0.5		-0.9	-0.7	-0.2		1.0	-1.5	2.5		0.0	-2.2	2.2		
Public sector net borrowing	14.0	13.6	0.3	2.6	39.2	39.5	-0.4	-0.9	82.6	102.5	-19.9	-19.4	121.8	142.1	-20.3	-14.3	
Public sector net investment	2.2	2.2	0.0	-1.7	5.3	5.8	-0.5	-9.4	26.6	33.9	-7.3	-21.6	31.8	39.7	-7.9	-19.8	
Public sector current budget	-11.8	-11.4	-0.4	3.4	-33.9	-33.7	-0.2		-56.0	-68.6	12.6		-89.9	-102.3	12.4	-12.1	

* March 2011 Budget forecast published 23 March 2011 excluding temporary effects of financial interventions on a National Accounts basis