

Commentary on the Public Sector Finances release: June 2012

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 2012 Public Sector Finances this morning¹. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast.

Summary

2. Public sector net borrowing (PSNB) totalled £14.4 billion in June, around £0.5 billion higher than in June last year and above average market expectations of £13.4 billion.
3. The higher PSNB this June compared with a year earlier is more than explained by higher borrowing by local authorities and public corporations. Higher borrowing by local authorities reflects the timing of grants between central and local government. In contrast, central government borrowing in June fell on a year earlier, reflecting a drop in expenditure (again partly the result of the timing of grants to local authorities) and growth in receipts close to our full year forecast.
4. Excluding the impact from the pension transfers related to the Royal Mail, the March *Economic and fiscal outlook* (EFO) forecast assumed a £5.8 billion improvement in PSNB in 2012-13 as a whole. After the first quarter of the financial year, PSNB (excluding Royal Mail) is £4.5 billion higher than last year. However three months' data provides only a very limited guide to likely trends over the rest of the year, especially given the uncertainty on spending outturns and the fact that local authority and public corporations borrowing figures are prone to revisions.

June 2012 outturn

5. Borrowing by local authorities and public corporations in June were £1.5 billion and £0.8 billion higher respectively than a year earlier. This more than offset a £1.7 billion reduction in central government borrowing, resulting from a £0.3 billion reduction in expenditure and a £1.4 billion rise in receipts.
6. Central government receipts grew by 3.6 per cent in June and by 2.5 per cent in the first three months of 2012-13 on a year earlier. This compares with our March EFO forecast of 3.9 per cent growth in receipts for 2012-13 as a whole. Growth in accrued VAT receipts remains close to its full year forecast. Income tax receipts for

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/june-2012/stb---june-2012.html>

the first three months of 2012-13 are lower than last year, with modest growth in PAYE more than offset by falls in other elements. Growth in NIC receipts is above the full year forecast. Corporation tax receipts showed a strong year-on-year increase in June, but this primarily reflects the fact that a large repayment depressed receipts last June.

7. Central government current expenditure fell by 0.8 per cent in June but rose by 2.1 per cent for the first three months of 2012-13, compared with a year earlier. This compares with our March EFO forecast of a 3.0 per cent full year increase. Spending data has been volatile on a monthly basis and is particularly uncertain in the early months of the financial year:
 - debt interest payments for the first three months of 2012-13 are up on last year by 6 per cent, with the monthly profile as usual partly reflecting changes in the monthly profile of the Retail Prices Index (RPI), which affects debt interest on index-linked gilts. With RPI inflation falling, we expect growth in debt interest payments to slow further over the remainder of 2012-13;
 - net social benefit payments in June were only 3.2 per cent higher than in the same period last year. This is largely due to a fall in year-on-year tax credit spending because some payments were brought forward to May as a result of the additional bank holiday for the Queen's Jubilee; and
 - spending other than on debt interest and net social benefits (primarily spending on public services) shows a fall of 0.8 per cent in the first three months of 2012-13 from a year earlier. This compares with our March EFO forecast of a 2.7 per cent increase over the full year. Differences in the timing of payments of central government grants to local authorities compared with last year are a key reason for the weakness in central government spending. This timing effect should unwind over the rest of the financial year.

Provisional 2011-12 outturn

8. The provisional PSNB outturn for 2011-12 was revised down by £1.9 billion to £125.7 billion, largely because preliminary outturn data suggests local authority capital spending was £1.4 billion lower than previously estimated. The latest outturn is £0.3 billion lower than the March EFO forecast of £126.0 billion.
9. The estimate for 2011-12 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 outturn. In addition, the first firm data for local authority current spending will only become available at the end of August.

Issues for next month's release

10. July is usually the second highest month for receipts during the financial year. This reflects:

- many medium and large onshore firms paying their first of four corporation tax instalment payments on their 2012 profits;
- oil and gas firms paying their first of three instalment payments on their 2012 profits; and
- the second payment on account for self assessment liabilities for 2011-12 due on July 31.

Public sector receipts, expenditure and net borrowing

£ billion	June				April to June				Implied July to March				Full Year			
	2012	2011	change		2012-13	2011 -12	change		2012-13	2011-12	change		2012-13 Mar EFO*	2011-12 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central Government (CG) current receipts																
Taxes on production	17.5	16.9	0.6	3.6	50.8	49.1	1.7	3.5	163.2	152.9	10.3	6.7	214.0	202.0	12.0	5.9
<i>Of which: VAT (accrued)</i>	9.7	9.3	0.4	4.3	28.6	27.0	1.6	5.8	86.0	82.7	3.3	4.0	114.6	109.7	4.9	4.4
Taxes on income and wealth	12.1	11.7	0.4	3.6	38.3	38.8	-0.5	-1.2	162.9	158.8	4.1	2.6	201.2	197.6	3.6	1.8
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	10.8	10.8	0.0	-0.1	30.3	30.7	-0.4	-1.4	124.1	121.1	3.0	2.5	154.4	151.8	2.6	1.7
<i>Corporation tax</i>	1.1	0.7	0.5	72.9	7.3	7.3	-0.1	-1.1	36.6	34.8	1.7	5.0	43.8	42.2	1.7	4.0
Other taxes	1.3	1.2	0.1	10.5	3.8	3.4	0.5	13.7	11.9	11.9	0.0	0.4	15.7	15.3	0.4	2.9
Compulsory social contributions	8.9	8.6	0.3	3.5	25.8	24.6	1.2	4.7	79.8	77.4	2.4	3.0	105.6	102.0	3.6	3.5
Interest & dividends	0.5	0.5	0.0	3.3	1.7	1.3	0.3	25.1	5.9	6.0	-0.1	-1.6	7.6	7.3	0.3	4.1
Other receipts	0.6	0.7	0.0	-7.0	1.9	2.0	-0.1	-7.3	6.7	5.9	0.8	13.4	8.6	7.9	0.7	8.8
Total CG current receipts	40.9	39.5	1.4	3.6	122.2	119.1	3.0	2.5	430.4	412.9	17.5	4.2	552.6	532.0	20.6	3.9
CG Current expenditure																
Interest payments	4.6	4.7	-0.2	-3.2	14.3	13.5	0.8	6.0	30.5	33.7	-3.2	-9.4	44.8	47.2	-2.4	-5.0
Net social benefits	15.4	14.9	0.5	3.2	47.6	44.3	3.3	7.5	144.3	137.0	7.3	5.3	191.9	181.3	10.6	5.8
Other	32.5	33.2	-0.8	-2.3	98.9	99.7	-0.8	-0.8	300.3	289.0	11.3	3.9	399.2	388.7	10.5	2.7
Total current expenditure	52.4	52.8	-0.4	-0.8	160.8	157.5	3.4	2.1	475.1	459.7	15.4	3.3	635.9	617.2	18.7	3.0
Depreciation	0.7	0.6	0.0	4.6	2.0	1.9	0.1	4.7	5.9	5.6	0.3	5.6	7.9	7.5	0.4	5.5
CG Surplus on current budget	-12.2	-14.0	1.8	-13.0	-40.6	-40.2	-0.4	1.0	-50.6	-52.5	1.9	-3.6	-91.2	-92.7	1.5	-1.6
CG Net investment	2.3	2.2	0.1	4.8	-23.7	5.7	-29.4		24.4	17.0	7.4	43.5	0.7	22.7	-22.0	-96.9
CG Net borrowing	14.4	16.2	-1.7	-10.6	16.9	45.9	-29.0	-63.1	75.0	69.5	5.5	7.9	91.9	115.4	-23.5	-20.4
Local Authorities net borrowing	-0.2	-1.7	1.5		-2.7	-7.0	4.3		3.3	18.2	-14.9		0.6	11.2	-10.6	
Public Corporations net borrowing	0.2	-0.6	0.8		0.7	-0.4	1.2		-1.3	-0.5	-0.8		-0.6	-0.9	0.3	
Public sector net borrowing	14.4	13.9	0.5	3.8	14.9	38.4	-23.5	-61.2	77.0	87.3	-10.3	-11.8	91.9	125.7	-33.8	-26.9
PSNB (ex Royal Mail)	14.4	13.9	0.5	3.8	42.9	38.4	4.5	11.7	77.0	87.3	-10.3	-11.8	119.9	125.7	-5.8	-4.6
Public sector net investment	1.4	1.5	-0.1	-5.6	-26.6	3.4	-30.0		23.2	23.2	0.0	-0.1	-3.4	26.6	-30.0	-112.8
Public sector current budget	-13.0	-12.4	-0.6	4.9	-41.6	-35.1	-6.5	18.6	-53.7	-64.0	10.3	-16.1	-95.3	-99.1	3.8	-3.8

March 2012 EFO forecast published 21 March 2012 excluding temporary effects of financial interventions on a National Accounts basis