

Commentary on the Public Sector Finances release: May 2011

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the May 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.

May 2011 outturn

2. Public sector net borrowing (PSNB) totalled £17.4 billion in May 2011, around £1.1 billion lower than in May 2010. PSNB is normally high in May reflecting the relatively low levels of tax typically received during the month.
3. The fall in PSNB compared with May last year primarily reflects £2.9 billion higher receipts than last year. This more than offsets the £0.7 billion rise in central government spending and £1.1 billion more borrowing by local authorities and public corporations.
4. Growth in receipts of 8.2 per cent in May on a year earlier is modestly stronger than the OBR's March EFO full year forecast of 7.3 per cent. This was fuelled by a 16.7 per cent rise in VAT receipts related to the rise in the standard rate of VAT to 20 per cent.
5. For the first two months of 2011-12, receipts are 3 per cent up on the same period last year. This is below our full year receipts growth forecast of 7.3 per cent. However, we would expect to see stronger year-on-year receipts growth in the remainder of 2011-12:
 - last year included £3.5 billion of receipts from the bank payroll tax in April 2010 which were not repeated this year, so suppressing receipts growth in the early part of 2011-12;
 - offshore corporation tax received in July 2011, October 2011 and January 2012 is expected to be up by around 50 per cent on last year, reflecting high oil prices and the Budget decision to raise the supplementary charge;
 - self assessment receipts received in January and February 2012 will be boosted by the delayed impact from the introduction of the additional 50p tax rate on incomes over £150,000; and

¹ <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=805>

- overall we expect these three factors to more than offset the impact of the VAT rise to 20 per cent which should boost VAT receipts in each of the first nine months of this financial year.
6. For the year-to-date, total central government current expenditure is 4.1 per cent higher than the same period last year, slightly more than our full year forecast for growth of 3.6 per cent. This stronger growth is because of higher debt interest payments. Debt interest payments were expected to show strong growth in the first two months of the financial year, reflecting the impact of changes in the monthly path of RPI inflation on index-linked gilts. The other figures for central government spending are very provisional: in the early months of the financial year, central government spending figures taken from departmental monitoring data sometimes includes estimates derived from full year plans and so they are often revised considerably in future months.

Provisional outturn for 2010-11

7. The latest outturn for PSNB in 2010-11 is £143.2 billion, an upward revision of £3.8 billion since last month's release, but still £2.7 billion lower than the March EFO forecast of £145.9 billion.
8. The rise in the outturn estimate for 2010-11 mainly reflects:
 - Central government expenditure revised up by £1.7 billion. This leaves central government spending £1.4 billion lower than in the March EFO forecast. A large amount of this difference from the March EFO forecast is in accounting adjustments, where the official public finances release currently scores some of these in a different way to the EFO;
 - Borrowing from public corporations revised up by £1.2 billion. This brings the outturn closer to the March EFO forecast. Relative to our forecast, borrowing by public corporations is now £2.7 billion lower, while local authority borrowing is £2.4 billion higher; and
 - Central government current receipts were down £0.8 billion from their previous estimate, mainly due to lower interest receipts. Relative to the March EFO forecast, receipts were up by £0.9 billion, the result of stronger than expected receipts of PAYE, NICs and VAT.
9. 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 outturn, 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. The first data for local authorities current expenditure in 2010-11 will only become available at the end of August.

Public sector receipts, expenditure and net borrowing

| £ billion | May | | | | April to May | | | | Implied June 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 | 16.3 | 15.0 | 1.4 | 9.0 | 33.0 | 33.6 | -0.5 | -1.6 | 176.7 | 157.1 | 19.6 | 12.4 | 209.7 | 190.7 | 19.0 | 10.0 |
| <i>Of which VAT (accrued)</i> | 8.8 | 7.5 | 1.3 | 16.7 | 17.7 | 15.3 | 2.3 | 15.3 | 95.4 | 81.9 | 13.5 | 16.5 | 113.1 | 97.2 | 15.8 | 16.3 |
| Taxes on income and wealth | 11.1 | 10.5 | 0.7 | 6.5 | 26.8 | 25.4 | 1.4 | 5.5 | 180.7 | 169.0 | 11.7 | 6.9 | 207.5 | 194.4 | 13.1 | 6.8 |
| Other taxes | 1.4 | 1.0 | 0.4 | 33.6 | 2.6 | 2.1 | 0.5 | 22.3 | 10.4 | 10.7 | -0.2 | -2.2 | 13.0 | 12.8 | 0.2 | 1.9 |
| Compulsory social contributions | 7.8 | 7.5 | 0.3 | 4.1 | 15.8 | 15.0 | 0.8 | 5.1 | 84.9 | 82.7 | 2.2 | 2.7 | 100.7 | 97.7 | 3.0 | 3.0 |
| Interest & dividends | 0.5 | 0.4 | 0.1 | 37.9 | 0.9 | 0.8 | 0.2 | 19.8 | 6.2 | 4.9 | 1.2 | 25.4 | 7.1 | 5.7 | 1.4 | 24.6 |
| Other receipts | 0.8 | 0.7 | 0.1 | 7.1 | 1.5 | 1.4 | 0.1 | 7.2 | 7.8 | 7.3 | 0.5 | 6.2 | 9.3 | 8.7 | 0.6 | 6.4 |
| Total CG current receipts | 38.0 | 35.1 | 2.9 | 8.2 | 80.7 | 78.3 | 2.3 | 3.0 | 466.7 | 431.7 | 35.0 | 8.1 | 547.3 | 510.0 | 37.3 | 7.3 |
| CG Current expenditure | | | | | | | | | | | | | | | | |
| Interest payments | 4.4 | 4.0 | 0.4 | 8.9 | 9.1 | 7.7 | 1.4 | 18.5 | 39.5 | 36.0 | 3.5 | 9.8 | 48.6 | 43.7 | 5.0 | 11.3 |
| Net social benefits | 14.8 | 14.0 | 0.7 | 5.2 | 29.9 | 28.0 | 1.9 | 6.9 | 150.6 | 144.9 | 5.7 | 3.9 | 180.5 | 172.9 | 7.6 | 4.4 |
| Other | 32.6 | 32.5 | 0.0 | 0.1 | 67.3 | 66.5 | 0.8 | 1.2 | 330.1 | 321.9 | 8.3 | 2.6 | 397.4 | 388.3 | 9.1 | 2.3 |
| Total current expenditure | 51.7 | 50.6 | 1.1 | 2.2 | 106.2 | 102.1 | 4.1 | 4.1 | 520.2 | 502.8 | 17.5 | 3.5 | 626.5 | 604.9 | 21.6 | 3.6 |
| Depreciation | 0.6 | 0.6 | 0.1 | 8.8 | 1.3 | 1.2 | 0.1 | 8.8 | 6.4 | 6.0 | 0.4 | 7.0 | 7.6 | 7.1 | 0.5 | 7.3 |
| CG Surplus on current budget | -14.4 | -16.1 | 1.7 | -10.6 | -26.8 | -24.9 | -1.9 | 7.6 | -60.0 | -77.0 | 17.1 | -22.2 | -86.8 | -102.0 | 15.2 | |
| CG Net investment | 2.7 | 3.2 | -0.5 | -14.8 | 4.0 | 4.8 | -0.8 | -16.2 | 19.4 | 32.4 | -13.0 | -40.1 | 23.4 | 37.2 | -13.8 | -37.0 |
| CG Net borrowing | 17.1 | 19.3 | -2.2 | -11.3 | 30.9 | 29.7 | 1.1 | 3.8 | 79.4 | 109.5 | -30.1 | -27.5 | 110.2 | 139.2 | -28.9 | -20.8 |
| Local Authorities net borrowing | 0.4 | -0.8 | 1.2 | | -2.8 | -3.3 | 0.5 | | 14.3 | 9.1 | 5.2 | | 11.5 | 5.8 | 5.7 | |
| Public Corporations net borrowing | 0.0 | 0.0 | -0.1 | | -0.6 | -0.5 | -0.1 | | 0.7 | -1.3 | 2.0 | | 0.0 | -1.8 | 1.8 | |
| Public sector net borrowing | 17.4 | 18.5 | -1.1 | -5.8 | 27.4 | 25.9 | 1.5 | 5.8 | 94.4 | 117.3 | -22.9 | -19.5 | 121.8 | 143.2 | -21.4 | -14.9 |
| Public sector net investment | 2.1 | 2.0 | 0.1 | 4.1 | 3.4 | 3.6 | -0.2 | -5.0 | 28.4 | 36.1 | -7.7 | -21.3 | 31.8 | 39.7 | -7.9 | -19.8 |
| Public sector current budget | -15.3 | -16.5 | 1.1 | -6.9 | -24.0 | -22.3 | -1.7 | | -65.9 | -81.1 | 15.2 | | -89.9 | -103.5 | 13.5 | |

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