

Commentary on the Public Sector Finances release: May 2012

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the May 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 £17.9 billion in May, around £2.7 billion higher than in May last year and above average market expectations of £14.8 billion.
3. The higher PSNB this May is a combination of strong growth in central government current expenditure and weak receipts growth. Outturn data for spending can be volatile on a monthly basis and is particularly uncertain in the early stages of the year, as several departments will still be reporting estimates based on plans rather than detailed outturn data.
4. The PSNB for the whole of 2012-13 will benefit from the one-off reduction of £28 billion related to the transfer of the Royal Mail's historical pension deficit, plus a share of its pension fund's assets into the public sector at the start of April. Excluding the impact from the Royal Mail, the *March Economic and fiscal outlook* (EFO) forecast assumed a £7.7 billion improvement in PSNB in 2012-13 as a whole. After two months of the year, PSNB (excluding Royal Mail) is £3.9 billion higher than last year. However two 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 borrowing figures are prone to revisions.
5. The estimate of PSNB for 2011-12 was revised up by £3.2 billion to £127.6 billion, which is £1.6 billion above our forecast in the March EFO. This mainly reflected revisions to local authority and public corporations borrowing, which related to changes in methodology and classifications. Past experience shows that this outturn remains provisional and subject to substantial change.

May 2012 outturn

6. PSNB is normally high in May reflecting the relatively low levels of tax typically received during the month. The rise in PSNB compared with last May primarily

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

reflects the fact that central government expenditure rose by £4.0 billion, while central government receipts rose by just £0.6 billion. Borrowing by local authorities and public corporations was £0.6 billion lower than last year.

7. Central government receipts grew by only 1.6 per cent in May, compared with our March EFO forecast of 4.0 per cent growth in receipts for 2012-13 as a whole. Growth in accrued VAT receipts in May of 5.1 per cent was a little above its full year forecast. However, income tax receipts were down on a year earlier, although this was mainly due to temporary effects from non-PAYE elements of income tax. For the first two months of 2012-13, central government receipts were up 2.1 per cent on a year earlier.
8. Central government current expenditure rose by 7.9 per cent in May, and rose by 3.7 per cent for the first two months, compared with a year earlier. This compares with our March EFO forecast of a 3.1 per cent full year increase. As noted above, spending data can be volatile on a monthly basis and is particularly uncertain in the early months of the financial year. The spending data for the first two months may also be revised more this year, because this latest PSF release includes the first data to be produced from OSCAR, which is the Treasury's new Online System for Central Accounting and Reporting.
9. Net social benefit payments for the first two months of the year are currently reported as 10 per cent higher than in the same period last year. This partly reflects £0.5 billion of tax credits spending brought forward from June to May this year, because of the additional bank holiday for the Queen's Jubilee. Results for the other social security spending may prove volatile because data from the Department for Work and Pensions remains provisional at this stage. Movements in other current spending – down on last year in April and up on last year in May – reflect large differences in the timing of payments of central government grants to local authorities. Debt interest payments are up on last year, 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.

Provisional 2011-12 outturn

10. The provisional PSNB outturn for 2011-12 was revised up by £3.2 billion to £127.6 billion. Half of the upward revision reflected higher central government borrowing. Receipts were revised down, in part reflecting cash receipts of VAT in May. These were accrued back to 2011-12 since they largely reflect activity that took place at the end of the financial year. The rest of the revision affected borrowing by local authorities and public corporations. These revisions reflected changes in methodology and classifications on local authority interest payments, the inclusion of Transport for London subsidiaries (Transport Trading Ltd, other than London Underground, which was already included) and the exclusion of British Energy from the public sector. These methodological and classification changes were already included in the March EFO estimate.
11. PSNB is currently £1.6 billion higher than we assumed. Central government borrowing is down £0.9 billion, more than explained by £1.9 billion lower current

expenditure. Borrowing by local authorities and public corporations were £2.6 billion higher and £0.1 billion lower respectively than assumed in the March EFO forecast.

12. 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 spending 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		2012-13	2011-12	change	
	2012	2011	£bn	%	2012-13	2011-12	£bn	%	2012-13	2011-12	£bn	%	Mar EFO*	outturn	£bn	%
Central Government (CG) current receipts																
Taxes on production	16.7	16.2	0.5	3.2	33.5	33.0	0.6	1.8	180.5	168.5	12.0	7.1	214.0	201.4	12.6	6.2
<i>Of which: VAT (accrued)</i>	9.2	8.8	0.4	5.1	18.5	17.8	0.8	4.5	96.0	91.7	4.3	4.7	114.6	109.4	5.1	4.7
Taxes on income and wealth	11.1	11.7	-0.6	-4.8	26.5	27.1	-0.6	-2.1	174.7	170.3	4.4	2.6	201.2	197.4	3.8	1.9
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	9.6	10.4	-0.8	-7.3	19.8	19.9	-0.1	-0.5	134.6	131.8	2.8	2.1	154.4	151.7	2.7	1.8
<i>Corporation tax</i>	1.2	1.1	0.2	13.8	6.1	6.7	-0.6	-8.2	37.7	35.4	2.3	6.4	43.8	42.1	1.7	4.1
Other taxes	1.3	1.0	0.4	38.2	2.5	2.2	0.3	15.5	13.2	13.1	0.1	0.9	15.7	15.3	0.4	3.0
Compulsory social contributions	8.4	8.1	0.3	4.1	17.1	16.0	1.1	6.7	88.5	86.1	2.4	2.8	105.6	102.1	3.5	3.4
Interest & dividends	0.5	0.5	0.0	2.7	1.2	0.9	0.3	34.9	6.4	6.4	0.0	0.0	7.6	7.3	0.3	4.1
Other receipts	0.6	0.7	0.0	-7.4	1.2	1.3	-0.1	-7.4	7.4	6.6	0.8	12.0	8.6	7.9	0.7	8.8
Total CG current receipts	38.7	38.1	0.6	1.6	82.1	80.4	1.7	2.1	470.5	451.0	19.6	4.3	552.6	531.4	21.2	4.0
CG Current expenditure																
Interest payments	4.5	4.4	0.1	1.6	9.7	9.2	0.5	5.2	35.1	37.8	-2.7	-7.0	44.8	47.0	-2.2	-4.6
Net social benefits	16.3	14.6	1.7	11.7	32.4	29.4	3.0	10.2	159.5	151.9	7.6	5.0	191.9	181.3	10.6	5.8
Other	34.2	32.0	2.2	7.0	67.1	66.7	0.4	0.6	332.1	322.0	10.1	3.1	399.2	388.7	10.5	2.7
Total current expenditure	55.1	51.0	4.0	7.9	109.1	105.3	3.9	3.7	526.8	511.8	15.0	2.9	635.9	617.0	18.9	3.1
Depreciation	0.7	0.6	0.0	4.7	1.3	1.3	0.1	4.7	6.6	6.2	0.4	5.7	7.9	7.5	0.4	5.5
CG Surplus on current budget	-17.0	-13.6	-3.4	25.1	-28.4	-26.1	-2.3	8.8	-62.8	-67.0	4.2	-6.3	-91.2	-93.1	1.9	-2.1
CG Net investment	1.8	1.9	-0.1	-2.7	-26.1	3.5	-29.6		26.8	19.2	7.6	39.7	0.7	22.7	-22.0	-96.9
CG Net borrowing	18.9	15.5	3.4	21.7	2.3	29.6	-27.3	-92.4	89.6	86.2	3.4	4.0	91.9	115.8	-23.9	-20.6
Local Authorities net borrowing	-0.5	-0.8	0.3		-1.7	-5.2	3.5		2.3	17.9	-15.6		0.6	12.7	-12.1	
Public Corporations net borrowing	-0.4	0.5	-0.9		-0.2	0.1	-0.3		-0.4	-0.1	-0.3		-0.6	0.0	-0.6	
Public sector net borrowing	17.9	15.2	2.7	18.1	0.4	24.5	-24.1	-98.5	91.5	103.1	-11.6	-11.2	91.9	127.6	-35.7	-28.0
PSNB (ex Royal Mail)	17.9	15.2	2.7	18.1	28.4	24.5	3.9	15.9	91.5	103.1	-11.6	-11.2	119.9	127.6	-7.7	-6.0
Public sector net investment	1.0	1.0	0.1	6.9	-28.7	2.0	-30.6		25.3	26.1	-0.8	-3.2	-3.4	28.1	-31.5	-112.1
Public sector current budget	-16.9	-14.2	-2.7	18.9	-29.0	-22.5	-6.5		-66.3	-77.0	10.7		-95.3	-99.5	4.2	-4.2

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