

# Commentary on the Public Sector Finances release: March 2012

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

## Summary

2. Today's release provides the first provisional outturn estimate for 2011-12. Public sector net borrowing (PSNB) was £126.0 billion, in line with our estimate in the *March Economic and fiscal outlook (EFO)*.
3. Within the overall total, weaker than expected central government receipts and higher borrowing by local authorities were offset by lower central government current expenditure and lower borrowing by public corporations.
4. Past experience shows that this estimate could be subject to substantial revision over the coming months as more data comes in. The latest estimate of PSNB for 2010-11 is £4.3 billion lower than the initial estimate published this time last year.
5. PSNB was £18.2 billion in March 2012, around £0.2 billion higher than in March 2011 and above market expectations of £16.0 billion. This is primarily due to the weakness in central government receipts: PAYE receipts were down on a year earlier, reflecting the fall in financial sector bonuses; corporation tax receipts were depressed by unusually large repayments; and accrued VAT receipts were flat on a year ago.

## March 2012 outturn

6. The rise in PSNB in March from last year primarily reflects the fact that central government receipts rose by just £0.6 billion compared with last year, while central government current expenditure rose by £2.2 billion on a year ago.
7. The March figures include a large, one-off, net capital transfer by local authorities to central government arising from the reforms to council house financing (and in particular the Housing Revenue Account) that took place at the end of March. There is no impact on the public finances overall, with the £8.1 billion transfer pushing up local authority borrowing and reducing central government investment and

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<sup>1</sup> <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/public-sector-finances---march-2012/index.html>

borrowing by an equivalent amount. There is also a £1.6 billion intra-public sector interest and dividend receipts flow relating to these reforms that increases local authority borrowing further but improves central government receipts and borrowing. This flow was not included in the March EFO.

8. Central government receipts grew by only 1.4 per cent in March. In the absence of the £1.6 billion interest and dividends flow, receipts would have fallen on a year ago. This reflects the fact that PAYE receipts have been reduced by the drop in financial sector bonuses. The March EFO assumed that bonuses would be around 30 per cent lower than last year. In addition, there were unusually large corporation tax repayments in March and accrued VAT receipts were flat on a year earlier. With the rise in the standard rate of VAT to 20 per cent falling out of the annual comparison, growth in VAT receipts is expected to be modest through 2012-13.
9. Central government current expenditure rose by 4.4 per cent in March, compared with a year earlier. Current expenditure grew more strongly in the final three months of 2011-12 than over the year as a whole, with departments back-loading their spending more this year than last year.

## Provisional 2011-12 outturn

10. The provisional estimate for PSNB for 2011-12 was in line with the EFO forecast. Of the main components:
  - Central government receipts were £1.4 billion below their EFO estimate. This reflects weaker than expected receipts in March and the different scoring of some elements between the ONS and the EFO. This was partly offset by the £1.6 billion interest and dividend flow;
  - Central government current expenditure grew at 2.0 per cent in 2011-12, compared with a 2.3 per cent rise assumed in the EFO forecast. For 2011-12 as a whole, spending other than on debt interest and net social benefits (primarily spending on public services) was down on a year earlier. This was the first time that such spending fell on a financial year basis since 1955-56;
  - Local authority borrowing was £2.3 billion higher than assumed in the EFO. Around £1.6 billion of this was related to interest and dividend flow; and
  - Public corporations borrowing was £1.3 billion lower than assumed in the March EFO.
11. Even though we now have outturn data for all 12 months of the financial year, the initial estimate is still very provisional and subject to substantial change:
  - Some cash receipts (such as for PAYE, NICs and VAT) received in the early part of 2012-13 relate to economic activity in 2011-12 and will be accrued back to that year. For example, April PAYE and NIC cash receipts largely relate to March salaries and will be accrued back to 2011-12. If these are different to the current March estimate included in the latest release, this will alter the 2011-12 outturn;

- Estimates for central government current expenditure and investment will be revised as firmer information from departments becomes available;
- Firm data for local authorities and public corporations is only available with a longer lag; and
- The estimate could be affected by ONS methodological changes. The ONS intend to include a change in the way they score accrued interest on gilt coupons in the June release. This change was already incorporated into the EFO forecast.

## Issues for the next PSF release

12. The Royal Mail historical pension deficit, plus a share of its pension fund's assets were transferred into the public sector at the start of April. This will lead to a one-off reduction in PSNB of £28 billion in April.
13. Box 4.1 in the March EFO outlines the implications for the public finances of this transfer. As we note in the EFO, the immediate impact of the Royal Mail transfer appears very favourable for the public finances. However, the long-term impact is likely to be negative as the present value of the transferred liabilities (the future payments to pensioners) exceeds the value of the transferred assets. Our intention is to report PSNB both including and excluding the Royal Mail transfer basis over the next year.
14. The April PSNB is also expected to benefit from a £2.3 billion capital receipt following the closure of the Special Liquidity Scheme. This relates to fees received by the Bank of England that are being transferred to central government. This capital receipt was included in the March EFO forecast.

## Public sector receipts, expenditure and net borrowing

£ billion	March				April to March				Budget 2012 forecast			
	2012	2011	change		2011-12	2010 -11	change		2011-12 Mar EFO*	2010-11 outturn	change	
			£bn	%			£bn	%			£bn	%
<b>Central Government (CG) current receipts</b>												
Taxes on production	17.1	17.1	0.0	0.1	202.0	190.5	11.6	6.1	204.0	190.5	13.6	7.1
<i>Of which: VAT (accrued)</i>	9.4	9.5	-0.1	-1.0	110.0	97.3	12.7	13.1	109.8	97.3	12.5	12.9
Taxes on income and wealth	14.1	15.1	-1.1	-6.9	196.7	196.5	0.2	0.1	198.0	196.5	1.5	0.8
<i>Of which:</i>												
<i>Income tax and CGT (accrued)</i>	12.9	13.3	-0.5	-3.6	151.0	151.3	-0.3	-0.2	152.1	151.3	0.8	0.5
<i>Corporation tax</i>	0.6	1.4	-0.8	-57.8	42.1	42.1	0.0	0.0	42.5	42.1	0.4	0.9
Other taxes	1.1	1.2	-0.1	-4.3	15.3	12.8	2.4	18.8	15.0	12.8	2.1	16.5
Compulsory social contributions	10.3	10.4	-0.1	-0.6	101.9	97.7	4.1	4.2	102.0	97.7	4.3	4.3
Interest & dividends	2.7	0.9	1.7	188.9	8.0	5.9	2.1	35.6	5.6	5.9	-0.3	-4.9
Other receipts	0.7	0.6	0.0	5.4	7.6	7.8	-0.2	-2.8	8.1	7.8	0.4	4.5
<b>Total CG current receipts</b>	<b>46.0</b>	<b>45.3</b>	<b>0.6</b>	<b>1.4</b>	<b>531.3</b>	<b>511.2</b>	<b>20.1</b>	<b>3.9</b>	<b>532.7</b>	<b>511.2</b>	<b>21.5</b>	<b>4.2</b>
<b>CG Current expenditure</b>												
Interest payments	1.5	2.5	-1.0	-39.0	47.1	42.8	4.3	10.1	47.4	42.8	4.6	10.9
Net social benefits	15.4	14.2	1.1	7.9	181.6	173.1	8.5	4.9	182.3	173.1	9.2	5.3
Other	38.2	36.1	2.1	5.7	388.4	388.9	-0.5	-0.1	389.1	388.9	0.2	0.1
<b>Total current expenditure</b>	<b>55.0</b>	<b>52.8</b>	<b>2.2</b>	<b>4.2</b>	<b>617.0</b>	<b>604.8</b>	<b>12.3</b>	<b>2.0</b>	<b>618.9</b>	<b>604.8</b>	<b>14.1</b>	<b>2.3</b>
Depreciation	0.6	0.6	0.0	7.4	7.1	7.2	-0.1	-1.1	7.6	7.2	0.4	5.5
<b>CG Surplus on current budget</b>	<b>-9.7</b>	<b>-8.1</b>	<b>-1.6</b>	<b>20.4</b>	<b>-92.8</b>	<b>-100.7</b>	<b>7.9</b>	<b>-7.9</b>	<b>-93.7</b>	<b>-100.7</b>	<b>7.0</b>	<b>-6.9</b>
CG Net investment	-1.0	8.1	-9.1	-111.8	22.9	37.6	-14.7	-39.2	22.9	37.6	-14.7	-39.0
<b>CG Net borrowing</b>	<b>8.8</b>	<b>16.2</b>	<b>-7.4</b>	<b>-46.0</b>	<b>115.7</b>	<b>138.3</b>	<b>-22.6</b>	<b>-16.4</b>	<b>116.7</b>	<b>138.3</b>	<b>-21.6</b>	<b>-15.7</b>
Local Authorities net borrowing	8.8	0.9	7.9		12.3	0.5	11.9		10.0	0.5	9.6	
Public Corporations net borrowing	0.6	0.9	-0.2		-2.0	-1.9	-0.1		-0.7	-1.9	1.2	
<b>Public sector net borrowing</b>	<b>18.2</b>	<b>18.0</b>	<b>0.2</b>	<b>1.2</b>	<b>126.0</b>	<b>136.8</b>	<b>-10.9</b>	<b>-7.9</b>	<b>126.0</b>	<b>136.8</b>	<b>-10.8</b>	<b>-7.9</b>
<b>Public sector net investment</b>	<b>7.1</b>	<b>7.7</b>	<b>-0.6</b>	<b>-7.3</b>	<b>28.6</b>	<b>38.1</b>	<b>-9.5</b>	<b>-24.9</b>	<b>27.8</b>	<b>38.1</b>	<b>-10.3</b>	<b>-27.0</b>
<b>Public sector current budget</b>	<b>-11.1</b>	<b>-10.3</b>	<b>-0.8</b>	<b>7.6</b>	<b>-97.3</b>	<b>-98.7</b>	<b>1.4</b>		<b>-98.2</b>	<b>-98.7</b>	<b>0.5</b>	<b>-0.6</b>

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