

Commentary on the Public Sector Finances release: July 2011

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

July 2011 outturn

2. Public sector net borrowing (PSNB) was close to balance in July with borrowing of just £20 million in July 2011, around £3.5 billion lower than in July 2010 and about £2.4 billion below market expectations.
3. July is usually one of the most fruitful months of the year for receipts, as the government receives corporation tax instalment payments from both onshore and offshore firms on their 2011 profits as well as the second payment on account for self assessed income tax liabilities for 2010-11. Borrowing this July was lower than in 2009 and 2010, but in each of the preceding twelve years the public sector repaid debt in July rather than borrowing.
4. The public sector borrowed less last month than it did a year ago in part because central government receipts increased by £2.8 billion, while central government spending increased by only £1.0 billion. However, around half of the improvement is from local authorities and public corporations borrowing £1.8 billion less than last year, although figures for these sectors can be volatile from month to month and are more prone to revision than those for central government.
5. Receipts were 5.6 per cent higher in July than a year earlier, thanks primarily to a 22.4 per cent rise in VAT receipts that largely reflected the rise in the standard rate of VAT to 20 per cent in January this year. The rise in VAT receipts accounts for around £1.7 billion of the £2.8 billion rise in total receipts compared with last July. The strength in VAT receipts was partly offset by weak corporation tax and income tax receipts. While PAYE receipts growth has held up, income tax receipts were affected by a decline in self assessment receipts relative to last year. With a due date for self assessment of 31 July, payments will be collected in both July and August. Some of the weakness in July relative to last year could be a timing effect and unwind in August.

¹ <http://www.statistics.gov.uk/pdfdir/psf0811>.

6. Corporation tax receipts in July were up just 1 per cent on a year ago, compared with our *March Economic and fiscal outlook (EFO)* forecast of a 14.5 per cent increase for the year as a whole. Many medium and large onshore firms paid the first of four quarterly corporation tax instalment payments on their 2011 profits in July. Growth in corporation tax in 2011-12 was expected in the March EFO to be driven by the financial and offshore sectors. Receipts from financial sector firms were down on a year earlier. This is consistent with the recent results announcements for the first half of 2011, in which profits were hit by weaker investment banking activity, write-downs on Euro area sovereign debt and provisions for the mis-selling of payment protection insurance. Oil and gas firms paid the first of their three instalment payments on their 2011 profits in July but were boosted by a payment relating to previous year's liabilities. Receipts relating to 2011 profits were up only modestly on a year earlier. Oil and gas production has fallen by 13.6 per cent in the first half of 2011 compared to a year earlier, due to maintenance and temporary shutdowns of fields, compared to the 6 per cent fall we assumed in March for the whole of 2011. Oil prices have so far averaged close to the \$113 a barrel we assumed in March for the whole of 2011.
7. It is worth emphasising that while corporation tax receipts were weaker than the full year forecast in the March EFO, the weakness is largely explained by the oil and financial sectors, rather than the wider economy. Receipts from industrial and commercial companies were broadly in line with their full year forecast in the March EFO. Some of the sector specific weakness (such as the payment protection insurance provisions and some of the fall in oil and gas production) could be one-off or temporary factors affecting 2011 profits only.
8. Central government current expenditure was just 1.9 per cent higher than in July last year, compared with our forecast of a 3.6 per cent full year increase. Spending other than on debt interest and social benefits (primarily on public services) fell marginally from a year earlier, mainly because of changes in the timing of grant payments. Some of these timing effects are expected to unwind in August, increasing this component of current spending.

Outturn for April to July 2011

9. Looking at the first four months of 2011-12 in aggregate, PSNB was £2.9 billion lower than in the equivalent period last year. This is a smaller proportionate decline than the £20.9 billion fall in PSNB over the year as a whole that we forecast in the March EFO.
10. Receipts growth for the first four months of the year is 4.3 per cent, compared to our full year forecast of 7.2 per cent. The slower growth so far this year partly reflects the fact that the bank payroll tax was not repeated this year, suppressing receipts growth in the early part of 2011-12. Bank levy receipts have only started to score in the National Accounts from this month. If the bank payroll tax and bank levy were excluded, receipts growth for the first four months of 2010-11 would be 6.1 per cent.

11. As noted in previous *Commentaries*, receipts growth should be stronger over the remainder of 2011-12. For example, we should expect stronger growth in offshore corporation tax receipts as the higher rate of supplementary charge announced in the Budget will only affect the public finances from October. The delayed impact of the introduction of the additional 50p income tax rate on incomes above £150,000 should also boost self assessment receipts later in the year. However, weaker financial sector profitability and lower oil and gas production could depress corporation tax instalment payments in October 2011 and January 2012. If this was to be the case, growth in corporation tax receipts could be less than the 14.5 per cent growth assumed in the March EFO forecast for the whole financial year.
12. In contrast, total central government current expenditure was 3.2 per cent higher in the first four months of 2011-12 than in the same period last year, slightly below our full year forecast of 3.6 per cent. At this stage of the year, this is not necessarily a reliable guide to the trend over the year as a whole, as the profile of departmental spending over changes every year, and previous outturns to date are also revised each month.

Provisional outturn for 2010-11

13. The latest estimated outturn for PSNB in 2010-11 is £142.7 billion, around £0.6 billion higher than last month's estimate, but around £3.2 billion lower than the March EFO forecast of £145.9 billion.
14. 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 takes longer to emerge than that for central government – the first data for local authorities' current expenditure in 2010-11 will only become available at the end of August.

Issues for next PSF release: August 2011

15. No specific issues for next month's release, with August one of the quieter months for receipts. However, the release will provide an extra month of data to assess whether the March EFO forecast is on track.

Public sector receipts, expenditure and net borrowing

£ billion	July				April to July				Implied August 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	17.4	15.4	1.9	12.6	67.8	64.6	3.2	4.9	141.9	126.0	15.9	12.6	209.7	190.6	19.1	10.0
<i>Of which: VAT (accrued)</i>	9.5	7.8	1.7	22.4	37.0	31.2	5.9	18.8	76.0	66.0	10.0	15.1	113.1	97.2	15.8	16.3
Taxes on income and wealth	24.1	24.2	-0.1	-0.5	62.3	61.2	1.0	1.7	145.3	134.0	11.3	8.4	207.5	195.2	12.4	6.3
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	15.3	15.5	-0.2	-1.5	45.4	44.9	0.5	1.2	110.7	105.1	5.6	5.3	156.1	150.0	6.1	4.1
<i>Corporation tax</i>	8.6	8.5	0.1	1.0	15.9	15.7	0.2	1.6	32.2	26.3	5.9	22.2	48.1	42.0	6.1	14.5
Other taxes	1.7	1.1	0.6	51.3	5.1	4.4	0.7	16.6	8.0	8.4	-0.5	-5.6	13.0	12.8	0.3	2.0
Compulsory social contributions	7.9	7.6	0.2	3.1	32.3	30.7	1.6	5.2	68.4	66.8	1.6	2.4	100.7	97.5	3.2	3.2
Interest & dividends	0.5	0.4	0.1	28.2	1.9	1.6	0.3	18.8	5.2	4.1	1.1	27.4	7.1	5.7	1.4	25.0
Other receipts	0.8	0.7	0.0	4.8	3.1	2.9	0.2	6.6	6.2	5.9	0.4	6.2	9.3	8.7	0.6	6.4
Total CG current receipts	52.3	49.5	2.8	5.6	172.3	165.3	7.0	4.3	375.0	345.2	29.8	8.6	547.3	510.5	36.8	7.2
CG Current expenditure																
Interest payments	4.4	4.0	0.4	11.1	17.6	15.5	2.2	14.0	31.0	28.2	2.8	9.9	48.6	43.7	5.0	11.3
Net social benefits	15.1	14.7	0.5	3.4	59.2	56.8	2.5	4.3	121.2	116.1	5.2	4.5	180.5	172.9	7.6	4.4
Other	30.4	30.5	0.0	-0.1	130.3	128.4	1.9	1.5	267.0	259.9	7.2	2.8	397.4	388.3	9.1	2.3
Total current expenditure	50.0	49.1	0.9	1.9	207.2	200.7	6.5	3.2	419.3	404.1	15.1	3.7	626.5	604.8	21.6	3.6
Depreciation	0.6	0.6	0.0	6.6	2.5	2.3	0.2	8.2	5.1	4.8	0.3	6.8	7.6	7.1	0.5	7.3
CG Surplus on current budget	1.6	-0.2	1.8		-37.4	-37.8	0.3	-0.9	-49.4	-63.7	14.3	-22.5	-86.8	-101.5	14.7	-14.4
CG Net investment	2.5	2.3	0.1	5.3	8.1	9.6	-1.6	-16.2	15.4	27.6	-12.2	-44.3	23.4	37.2	-13.8	-37.0
CG Net borrowing	0.8	2.5	-1.7	-67.3	45.5	47.4	-1.9	-4.0	64.7	91.3	-26.5	-29.1	110.2	138.7	-28.4	-20.5
Local Authorities net borrowing	-1.1	1.0	-2.1		-4.7	-3.7	-1.0		16.2	9.4	6.8		11.5	5.7	5.8	
Public Corporations net borrowing	0.3	0.0	0.3		-0.7	-0.7	0.0		0.7	-1.1	1.8		0.0	-1.7	1.8	
Public sector net borrowing	0.0	3.5	-3.5		40.1	43.1	-2.9	-6.8	81.6	99.6	-18.0	-18.0	121.8	142.7	-20.9	-14.6
Public sector net investment	2.1	2.9	-0.8	-27.4	7.0	8.7	-1.7	-19.1	24.8	31.0	-6.2	-20.0	31.8	39.7	-7.9	-19.8
Public sector current budget	2.1	-0.6	2.7	-	-33.1	-34.4	1.3	-	-56.8	-68.6	11.7	-	-89.9	-102.9	13.0	-12.6

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