

Public Sector Finances July 2011



Coverage: **UK**

Date: **19 August 2011**

Geographical Area: **UK and GB**

Theme: **Economy**

Provisional estimates for current month and financial year to date

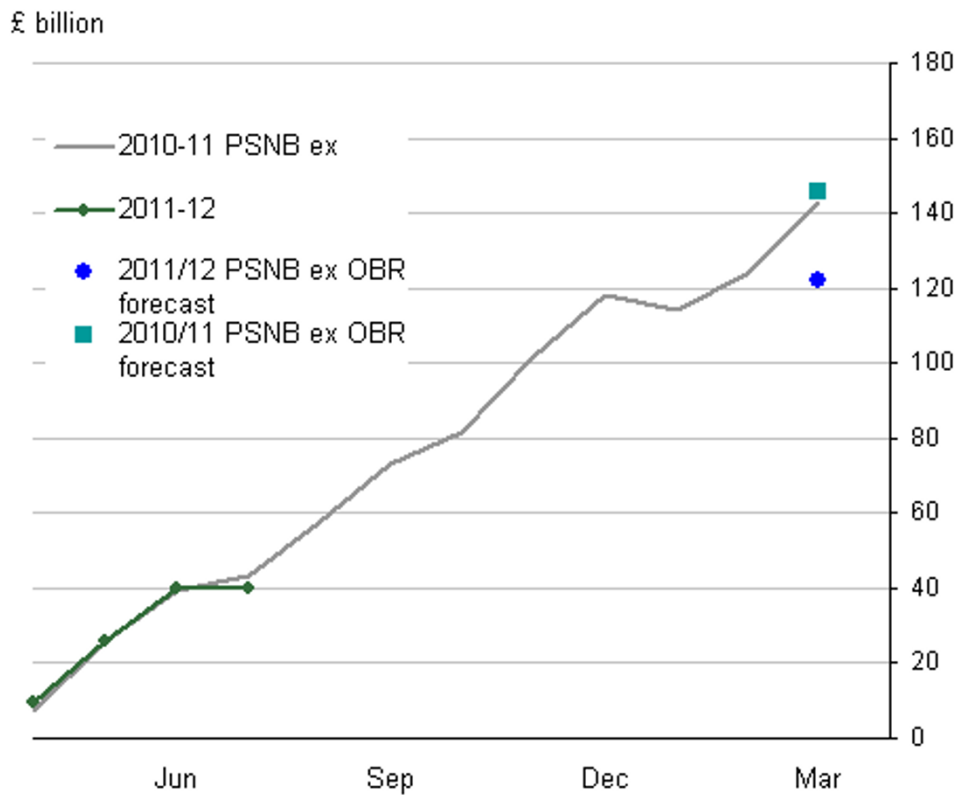
- a current budget surplus excluding the temporary effects of financial interventions of £2.1 billion in July 2011
- net borrowing excluding the temporary effects of financial interventions of £20 million in July 2011
- net debt excluding the temporary effects of financial interventions was £940.1 billion, equivalent to 61.4 per cent of GDP

Background

The PSF Statistical Bulletin, is published jointly by ONS and HM Treasury on a monthly basis, and provides the latest available measures for key public sector financial statistics such as Public Sector Current Budget (PSCB), Net Borrowing (PSNB), Net Debt (PSND) and PSND as a percentage of GDP. These key indicators are provided on two bases. One set includes the temporary effects of financial interventions made in response to the financial crisis that began in 2007, such as the establishment of public ownership/control of several major banking groups. An alternative set of indicators, the so-called 'ex-measures', excludes the temporary effects of financial interventions.

Main Statistics

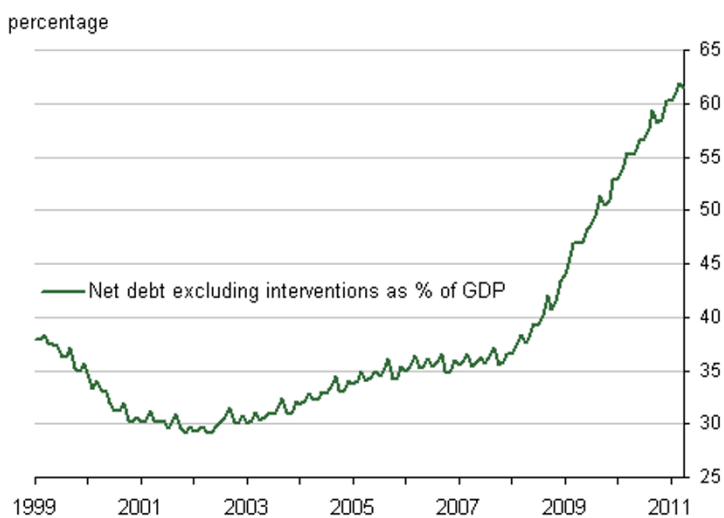
Cumulative public sector net borrowing (ex measure)



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Net debt as a percentage of GDP excluding financial interventions

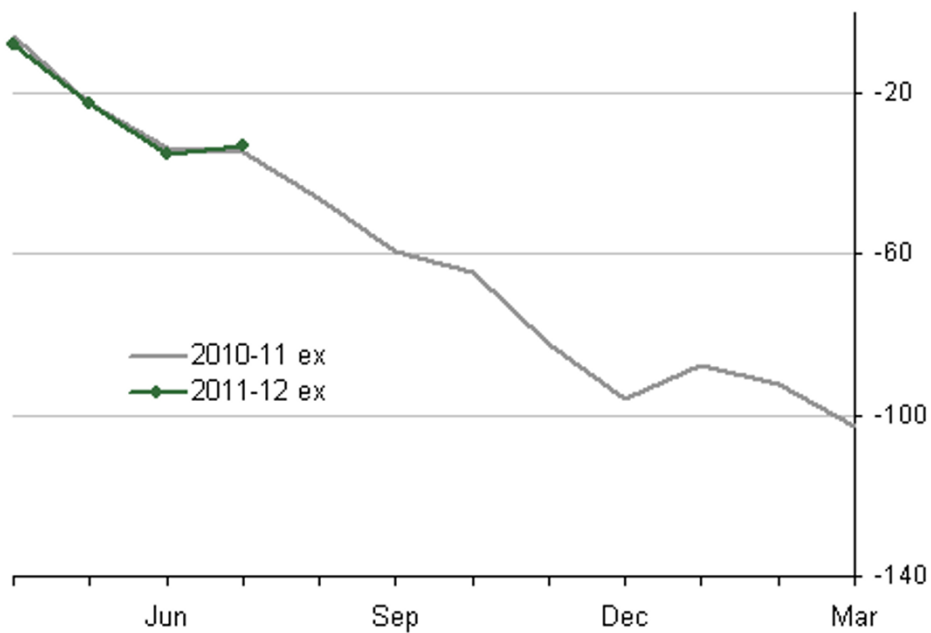


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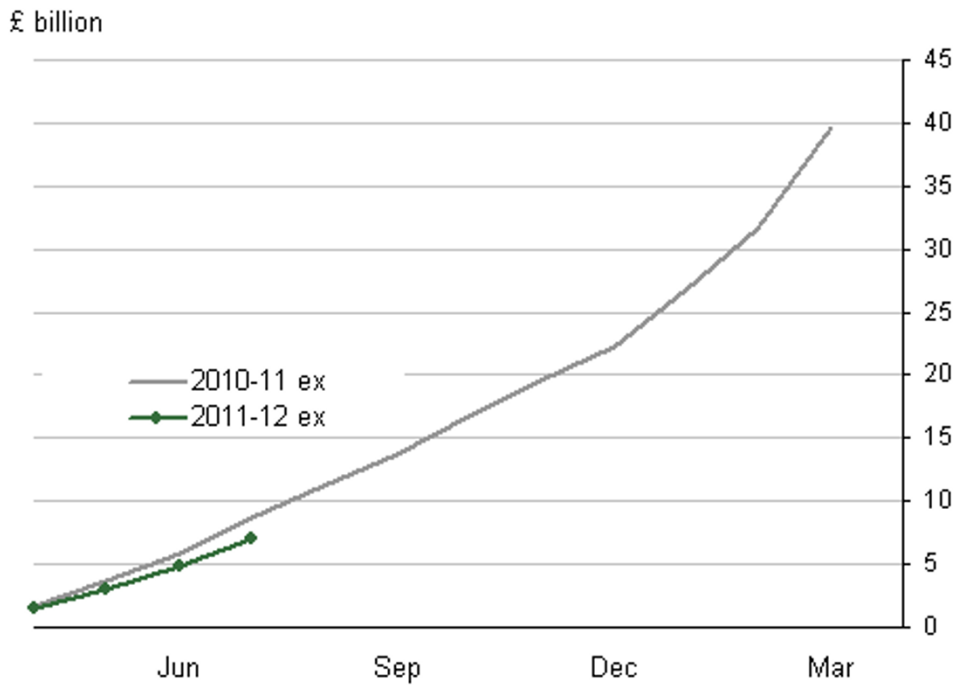
Cumulative public sector current budget

£ billion

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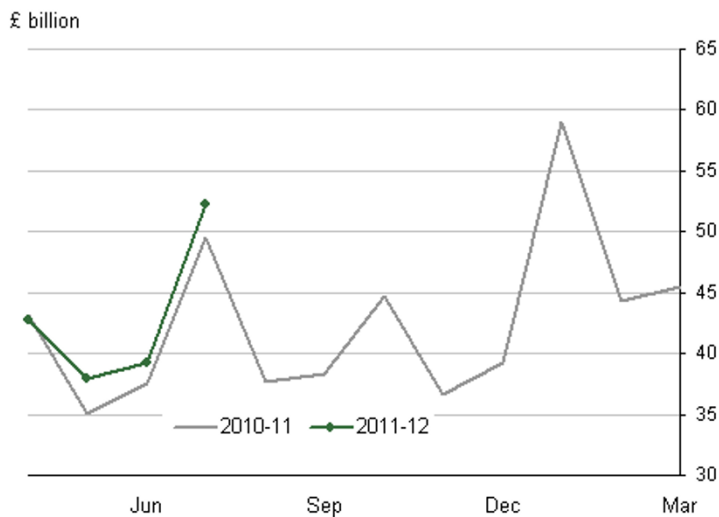
Cumulative public sector net investment (ex measure)



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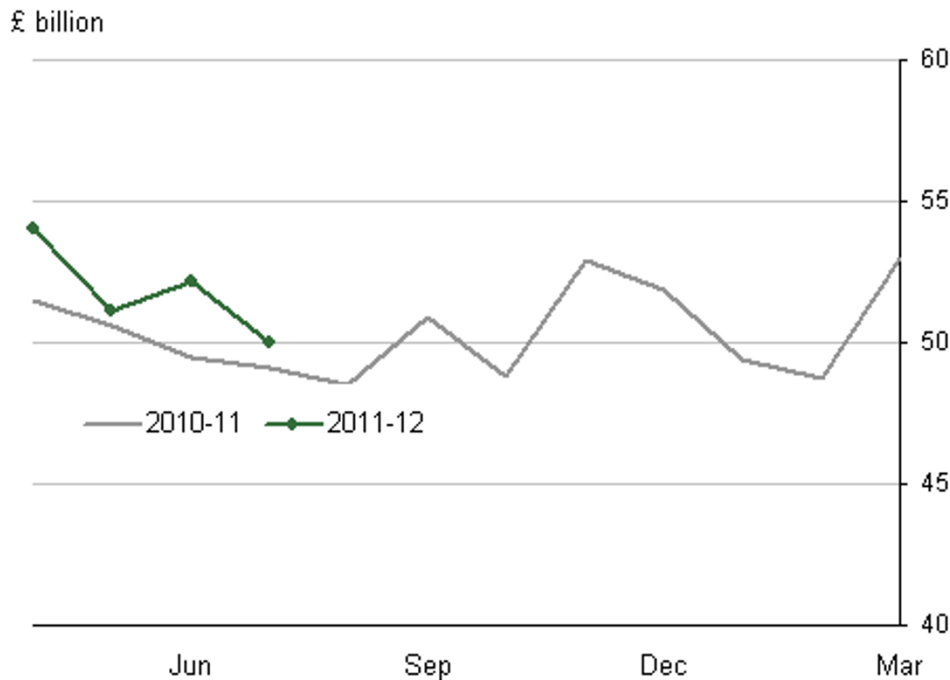
Central government current receipts



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Central Government current expenditure



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The main statistics released show, that in July 2011:

For measures excluding financial interventions:

the public sector current budget was in surplus by £2.1 billion; this is a £2.7 billion higher surplus than in July 2010, when there was a deficit of £0.6 billion;

public sector net borrowing was £20 million; this is £3.5 billion lower net borrowing than in July 2010, when net borrowing was £3.5 billion;

public sector net debt at the end of July 2011 was £940.1 billion (61.4 per cent of GDP). This compares to £805.5 billion (55.2 per cent of GDP) at the end of July 2010.

The central government net cash requirement was -£4.4 billion, a £1.4 billion lower net cash requirement than in July 2010, when there was a net cash requirement of -£3.0 billion.

For measures including interventions:

the public sector current budget was in surplus by £4.1 billion; this is £2.6 billion higher surplus than in July 2010, when there was a surplus of £1.5 billion;

public sector net borrowing was -£2.0 billion; this is £3.4 billion lower net borrowing than in July 2010, when net borrowing was £1.4 billion;

public sector net debt at the end of July 2011 was £2266.3 billion (148.0 per cent of GDP). This compares to £2175.6 billion (149.1 per cent of GDP) as at the end of July 2010.

Financial year to date (April 2011 – July 2011)

Monthly data can be volatile, so it can be misleading to read too much into one month's data. The following paragraphs give information on the financial year to date and comparisons with the corresponding period of the previous financial year.

For measures excluding financial interventions:

the public sector current budget was in deficit by £33.1 billion; this is £1.3 billion lower than in the same period of 2010/11, when there was a deficit of £34.4 billion;

public sector net borrowing was £40.1 billion; this is £2.9 billion lower net borrowing than in the same period of 2010/11, when net borrowing was £43.1 billion;

The central government net cash requirement was £37.4 billion, a £11.3 billion lower net cash requirement than in the same period of 2010/11, when there was a net cash requirement of £48.7 billion ;

For measures including interventions:

the public sector current budget was in deficit by £25.3 billion; this is a £1.4 billion lower deficit than in the same period of 2010/11, when there was a deficit of £26.7 billion;

public sector net borrowing was £32.3 billion; this is £2.9 billion lower net borrowing than in the same period of 2010/11, when net borrowing was £35.2 billion;

Special Factors

The one-off Bank Payroll Tax boosted accrued receipts of taxes on production by £3.5 billion in April 2010. This should be taken into account when making comparisons between the first four months of 2011/12 and 2010/11, for central government receipts and for key indicators such as current budget and net borrowing.

The new Bank Levy is expected to boost accrued receipts of 'other taxes' by £2.4 billion in the 2011-12 financial year and £660 million of this has been accrued to receipts in July 2011. The balance will be accrued to subsequent months. As for the Bank Payroll Tax the Bank Levy should be considered when making comparisons between 2010/11 and 2011/12.

Self Assessment receipts, which relate to income tax and capital gains tax, were around £6.4 billion in July 2011. This is £1.2 billion less than the corresponding receipts from self assessment in July 2010. However, it is anticipated that this reduction is primarily attributable to timing effects and will largely unwind in the August data.

Revisions

Public sector net borrowing excluding financial interventions (PSNBex) has been revised upwards by £0.4 billion for June 2011, and by £1.0 billion for the first quarter of 2011/12. These revisions are primarily driven by downward revisions to central government receipts. There are also upward revisions to central government current expenditure offset by downward revisions to net investment. The revisions to central government expenditure reflect improvements to the profiles of spending supplied by government departments.

PSNBex for 2010/11 has been revised upwards by £0.6 billion, from £142.1 bn to £142.7 bn, driven primarily by an upward revision to net borrowing by non-financial public corporations of £0.4 billion.

There have been minor revisions to public sector net debt excluding financial interventions (PSNDex) in 2011. PSNDex at end June 2011 has been revised downwards by £0.2 billion.

Factors that contribute to the revision of the 'ex-measures' also affect the measures that include the temporary effects of financial interventions. Updated data and revisions to data for the public sector banking groups and the Asset Purchase Facility Fund also contribute to revisions to the inclusive measures, which have been made back to the first quarter of 2009. Public sector net borrowing including interventions was revised upwards by £0.4 billion for June 2011 and by £1.1 billion for the first quarter of 2011/12. Public sector net debt including interventions at end June 2011 was revised downwards by £5.3 billion, equivalent to 0.3% of GDP.

Background notes

1. Data Quality

A [summary quality report](#) for the public sector finances. This report describes in detail the intended uses of the statistics presented in this publication, their general quality and the methods used to produce them.

2. Publication of data for all public sector banking groups and the Bank of England

Data for the Royal Bank of Scotland and Lloyds Banking Group were fully incorporated into the public sector finances for the first time in the statistical bulletin published on 25 January 2011. Prior to this data for public sector banking groups related only to Northern Rock plc, Northern Rock (Asset Management) plc, and Bradford and Bingley plc. An article providing commentary on inputs to the public sector banks series, the sources of the data, processing methodologies, and the impacts on key aggregates is available from the ONS website.

3. The Bank of England is also classified to the public sector. Data for the Bank have been presented separately in the PSF statistical bulletin (see tables PSF2 and PSF4) commencing with the publication dated 25 January 2011. The data are ONS estimates derived from the Bank's published accounts. Prior to the January 2011 publication data for the Bank were included within series for public corporations in the public sector finances.

4. **Classification issues concerning financial interventions**

There have been numerous financial interventions in recent years. These are described in an article that was published on 6 November 2009.

The article also explains the classification of the institutions and transactions associated with these measures in the UK's National Accounts and Public Sector Finances. This follows consultation with Eurostat, the Statistical Office of the European Union, to ensure consistent interpretation of the international guidance.

5. **Impact of financial interventions**

A measure of public sector borrowing that excludes the effect of temporary financial interventions, PSNB ex, was announced in the 2009 Pre Budget Report. The definition of the parallel measure of net debt, PSND ex, was also aligned. The impact of financial interventions on public sector net borrowing (PSNB) and public sector net debt (PSND) over quarterly periods is summarised in the following tables. Monthly series for PSNB ex and PSND ex and the public sector current budget on an excluding basis are also provided in this bulletin (see Table PSF1). As part of the process of full inclusion of data for the public sector banking groups the methodology for accounting for depositor compensation was reassessed in January 2011. The convention on the treatment of the HM Treasury component of the compensation for Bradford and Bingley depositors as discussed on page 3 of the methodology article was changed, so that this compensation no longer adds to PSNDex.

6. **Definitions**

A guide to monthly public sector finance statistics is available from <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-statistics/index.html>. It explains the concepts and measurement of the monthly data, plus those previously published, and gives some long runs of historical data. The following background notes explain the monthly data.

7. The current budget is defined as net saving plus receipts of capital taxes, using National Accounts concepts as set out in the European System of Accounts 1995 (ESA95). For central government, monthly estimates of the current budget are obtained directly from data on transactions in current receipts and expenditures. For local government and public corporations, the current budget is obtained by subtracting net borrowing from an estimate of net investment. Net borrowing is consistent with the definitions in ESA95; procedures for calculating it are discussed in the methodological guide. Net investment is defined as investment less depreciation. Investment is capital formation (acquisition of fixed assets, stocks and valuables net of any sales) plus net payments of capital grants.
8. Public sector net debt (PSND) is calculated as financial liabilities less liquid assets with both scored at face value. Liquid assets mainly comprise foreign exchange reserves and bank deposits. Public sector holdings of public sector debt are consolidated out. The public sector net cash requirement is, approximately, the flows equivalent of PSND.

9. The GDP figure used in the denominator for the calculation of fiscal aggregates as a percentage of GDP is the 'not seasonally adjusted' current price version. For the net debt ratio, the GDP denominator covers the 12 months centred around the observation, e.g. six months before and six months after it. For the current budget and net borrowing financial year ratios, the GDP denominator covers the financial year. These calculations require estimates or forecasts of GDP to be available for up to six months in the future. This estimation procedure is explained in detail in an article, The use of GDP in fiscal ratio statistics, available at: www.statistics.gov.uk/about/methodology_by_theme/public_sector_accounts/downloads/Use_of_GDP.pdf As a result of this estimation procedure the debt ratio is provisional when first published and subject to later revision when outturn GDP first becomes available, and again when more refined estimates of GDP are published.

10. Relevance to users

The Office for Budget Responsibility (OBR) was established in May 2010, and placed on a permanent, statutory footing in March 2011. As set out in the Budget Responsibility and National Audit Act 2011, the OBR has a duty to prepare fiscal and economic forecasts twice each year. The Government has adopted the OBR's forecasts as official forecasts used to inform policy decisions. The Charter for Budget Responsibility sets out the Government's intention to continue this practice.

11. The OBR's Economic and Fiscal Outlook (March 2011) gave the following forecasts (excluding temporary effects of financial sector interventions) for the financial year 2010/11:

- public sector current budget: a deficit of £104.8 billion;
- public sector net borrowing of £145.9 billion; and
- public sector net debt: 60.3 per cent of GDP at end March

And the following forecasts for 2011/12:

- public sector current budget: a deficit of £90 billion;
- public sector net borrowing of £122 billion; and
- public sector net debt: 66.1 per cent of GDP at end March

12. The UK Statistics Authority (UKSA) is currently in the process of assessing the Public Sector Finances Statistical Bulletin to ensure that the Bulletin and its compilation methods fully comply with all the requirements of the National Statistics Code of Practice. As part of this assessment the UKSA is looking to engage with users as to their perception of the publications. If you wish to contact the UKSA and provide feedback for the assessment then please go to www.statisticsauthority.gov.uk or email authority.enquiries@statistics.gsi.gov.uk.

13. ONS is grateful to users who provided views on the structure, content and format of this statistical bulletin in a recent survey. A summary of the responses will be published on 21 September 2011.

14. Coherence

The Public Sector Finances differ from other National Accounts data in that they have a more flexible revisions policy. This means that the PSF data may be inconsistent with the published GDP data and sector and financial accounts, as a revision may not be incorporated into the main National Accounts data set until a later date due to the more restrictive revisions policy.

General government net borrowing reported in this bulletin forms the basis of the reports of Government Deficit under the Maastricht Treaty. This was most recently reported on in March 2011.

The definition of general government net borrowing to be reported for the EDP is different to that used for National Accounts. A regulation requires that payments on swaps are treated as interest payments; for all other purposes, including the national accounts and the Public Sector Finances Statistical Bulletin, such payments are shown as financing items, consistent with ESA95. The definitions of the deficit also differ in the treatment of the government's receipts for allowing the use of spectrum by third generation mobile phone companies. UK interpretation of ESA95 is to treat these receipts as rental payments for use of an asset. ONS are currently reviewing the UK treatment in the context of the Eurostat decision of 2000 that the government is actually selling an asset and should record the receipts as negative capital in the year of sale. An article will be published on 31 August 2011 detailing the outcome of this review.

In its April 2011 presentation of data, Eurostat has for the first time amended the UK estimates of EDP deficit and debt to reflect an alternative treatment of data for Northern Rock Asset Management plc and Bradford and Bingley plc. ONS classifies these as financial corporations within the public sector, but Eurostat's view is that they are defeasance structures and should be classified to the central government sector.

15. Tax receipts data published in this bulletin are presented in terms of broad tax categories (e.g. Income Tax, VAT). For more detail on individual taxes users can go to the HM Revenue & Customs website at www.hmrc.gov.uk/stats/tax_receipts/menu.htm and access a monthly publication which provides cash tax receipts data which are entirely consistent with the data published in Table PSF6 of the bulletin.
16. The Office for National Statistics published on 21 June 2011 two articles that describe work recently done to reconcile measures of public sector debt and capital depreciation from the National Accounts (NA) with measures that are available from the new Whole of Government Accounts (WGA). The WGA Unaudited Summary Report published on 13 July 2011 at http://www.hm-treasury.gov.uk/d/wga_unaudited_summary_report_2009-10.pdf has made available figures on the public sector debt and deficit that can be compared to the figures published in Public Sector Finances Statistical Bulletins.

17. Accuracy

Central Government departmental expenditure data are subject to various validation processes and improve over time. They go through four main stages:

stage 1 – initially, they are estimated using in-year reported data;

stage 2 – in the July following the completion of the financial year the Public Expenditure Outturn White Paper is published, which gives department's updates of full financial year estimates, but no in-year profile;

stage 3 – following the autumn publication of OBR's Economic and Fiscal Outlook these financial year estimates are updated;

stage 4 – at the time of the Budget Report the following year the Public Expenditure Statistical Analyses are published and the financial year estimates are further improved. The departmental accounts will have been audited by this stage.

Data for 2008/09 are at stage 4

Data for 2009/10 are at stage 3, while data for 2010/11 and 2011/12 are at stage 1.

18. The local government data for 2009/10 for local authorities are based on final outturns for receipts and expenditure. Data for 2010/11 and 2011/12 are based on either provisional estimates or forecasts and are subject to revisions when final outturn data become available.

19. Revisions

Table PSF10R presents the latest revisions to key aggregates. The largest revisions normally occur in the month following first release, when estimated and provisional data are replaced with firmer information. The initial incorporation of data for Royal Bank of Scotland and Lloyds Banking Group led to major revisions to series that include the effects of financial interventions. These series are largely based on data reported to the Bank of England and ONS for periods up to December 2010. Consequently, values for months from January 2011 onwards are imputed ONS estimates, and these may be revised substantially when new data become available in September.

One indication of the reliability of the key indicators in this bulletin can be obtained by monitoring the size of revisions. Previously, analyses of revisions to the wider measures of public sector current budget, net borrowing, and net debt that include the impacts of financial interventions were presented in this bulletin. The sizeable revisions resulting from the replacement of imputed data by hard data for the public sector banking groups has meant that these revisions have become more prone to be statistically significant when tested. Given that the primary focus of users is on the 'ex-measures' it would be preferable to analyse and present revisions of these in the bulletin. As yet sufficiently long monthly time series are not available for the

ex-measures to enable standard revisions analysis to be conducted on them. As general government net borrowing is quite close in terms of coverage to PSNB ex, it will in the interim be the subject of revisions analysis. The table below shows summary information on the size and direction of revisions from first publication to one year later. The average of five years worth of such revisions is shown (for example – from those first published in July 2005 (for June 2005 to June 2010 first estimates). Please note that these indicators only report summary measures for revisions, the revised data may still be subject to measurement error.

Summary table of revision indicators

	Revisions between first publication and estimate twelve months later		
	Latest monthly value	Average over the last five years	Average over the last five years (average absolute revision)
General Government Net borrowing, £m (-NNBK)	-265	-402	1410

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20. A statistical test is applied to the average revision to determine whether it is statistically significantly different from zero. An asterisk (*) is used to indicate if a mean revision has been found to be statistically significant. A spreadsheet giving these estimates and the calculations behind the averages in the tables is available on the ONS website. More information about the revisions material in this Bulletin can be found on the ONS website.

21. Publication policy

Complete runs of series in this Bulletin are available to download free of charge at www.statistics.gov.uk/timeseries. Alternatively, for low-cost tailored data call Online Services on 01329 444366 or email statbase@statistics.gov.uk. Data underlying the graphs in the Statistical Bulletin are available on request.

An electronic dataset is normally made available three working days after publication of the Public Sector Finances Statistical Bulletin. The dataset contains quarterly data consistent with the latest Public Sector Finances Statistical Bulletin, analysed by economic category and sub-sector.

22. Details of the policy governing the release of new data are available from the Media Relations Office. National Statistics are produced to high professional standards set out in the Code of

Practice for Official Statistics. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.

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23. Special arrangements apply to the Public Sector Finances, which is produced jointly with HM Treasury. A list of ministers and officials with pre publication access to the contents of this bulletin is available on request. In addition some members of the Treasury's Fiscal Statistics and Policy (FSP) team will have access to them at all stages, because they are involved in the compilation or quality assurance of the data, and some members of the Treasury's Communications team will see the bulletin, but only within the 24 hour pre-release period, because they place the data on the website.
24. The launch of the new ONS website on 28 August 2011 will bring changes to the design and format of statistical bulletins. The bulletin main body will be in html and pdf format but detailed data tables will be available as Excel spreadsheets only. Time Series datasets will continue to be made available in their current format. The new website will improve the way users can access our statistics but many existing bookmarks and links will no longer work and users will need to update them. Find out more at <http://www.ons.gov.uk/about/what-we-do/programmes---projects/web-development/index.html>
25. Public sector finances data which supplement and extend the data provided in this bulletin have been available via the ONS Financial Statistics publication. However, publication of the Financial Statistics recently ceased, with the last edition published on 12 July 2011.

Some public sector finance data series previously published in Financial Statistics are not available elsewhere. Data series in this category are found in the Financial Statistics tables 1.1D, 1.2A, 1.3A, 1.3B, 1.3C, 1.3D and 1.4A. Therefore, these tables will continue to be made available for download on the Public Sector Finances web page.

Tables 1.1D, 1.2A, 1.3A and 1.4A which are updated monthly will continue to be available monthly, published concurrently with the PSF Supplementary data, whilst Tables 1.3B, 1.3C and 1.3D will be available quarterly, on the publication day for National Accounts.

26. Following ONS

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