

Commentary on the Public Sector Finances release: August 2012

1. The Office for National Statistics and HM Treasury published their August 2012 Public Sector Finances bulletin this morning¹. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast in the March *Economic and fiscal outlook* (EFO).

Summary

2. Public sector net borrowing (PSNB) totalled £14.4 billion in August, unchanged from August last year and slightly below average market expectations of £15.0 billion.
3. Central government borrowing was higher in August than last year, as growth in current expenditure of 2.5 per cent outpaced growth in receipts of 1.8 per cent. This was offset by lower borrowing by local authorities than a year ago.
4. The outturn estimate of PSNB for 2011-12 has been revised down by £5.7 billion in this release, chiefly reflecting a £4.3 billion reduction in local authority (LA) borrowing. This is from the first provisional outturn information on LA expenditure. Local authorities added to their reserves last year, rather than beginning to draw them down as we thought they would have done in March. The latest estimate for PSNB in 2011-12 is £119.3 billion, £6.7 billion less than we forecast in March.
5. The March EFO forecast for PSNB in 2012-13 was £119.9 billion if the impact of moving the Royal Mail's historic pension fund deficit and associated assets into the public sector is excluded. Thanks to the substantial downward revision to PSNB last year, our March forecast now implies a £0.6 billion increase in PSNB between 2011-12 and 2012-13. However, after the first five months of the financial year, PSNB (excluding the Royal Mail effect) is £10.6 billion higher than last year.
6. Looking at the year-to-date data for the main components of PSNB:
 - central government current expenditure growth of 3.0 per cent in the first five months of 2012-13 is exactly in line with the full year forecast in the March EFO;
 - growth in central government receipts of 0.4 per cent in the first five months of the financial year is well below the full year forecast in the March EFO of 3.7 per cent. Corporation tax receipts are likely to fall short of our March EFO forecast

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

given the lower than expected instalment payments on 2012 profits made by both onshore and offshore firms in July. Given that instalment payments are based on a view of full year profits, instalment payments in October 2012 and January 2013 are also likely to be weaker than assumed in the March EFO. In contrast, national insurance contributions and the PAYE element of income tax remain closer to their full year forecasts; and

- at this relatively early stage of the financial year, there is very significant uncertainty around the local authority and public corporations borrowing figures. These are prone to substantial revisions, as today's figures graphically demonstrate.
7. Overall, there continues to be significant uncertainty around the prospects for full year borrowing. While it looks likely that corporation tax receipts will fall short of our March *EFO* forecast, the other main receipts streams remain closer to forecast. Clearly much will depend on the performance of the real economy and inflation over the remainder of the fiscal year. Central government expenditure growth is currently close to the *EFO* forecast but these figures are volatile from month to month and are prone to revision.

August 2012 outturn

8. Borrowing by central government in August was £0.7 billion higher than last year. Spending rose by £1.4 billion while receipts grew by £0.7 billion. Offsetting this, borrowing by local authorities was £1.0 billion lower than last August.
9. Central government receipts grew by 1.8 per cent in August from a year earlier, pushed down by a drop in income tax receipts. This fall is more than explained by a 42 per cent drop in self assessment receipts. These relate to the second payment on account for self assessment (SA) liabilities for 2011-12 which was due on July 31. With the due date at the end of the month, payments are collected in both July and August. SA receipts in July had recorded growth of over 20 per cent, so the sharp fall in August is primarily a timing effect. Over the two months combined, SA receipts grew by 7.6 per cent against a full year forecast of 9.8 per cent growth.
10. Receipts for the other main taxes showed stronger growth in August than overall receipts growth. National Insurance contributions rose 6.5 per cent on a year earlier, above their full year forecast, while accrued VAT receipts rose by 2.0 per cent, below their full year forecast of 4.5 per cent.
11. Central government current expenditure increased by 2.5 per cent in August. In particular, debt interest payments in August were down by 22.2 per cent on levels seen in August 2011. This reflects the monthly RPI profile compared with a year earlier, which affects debt interest on index-linked gilts. Spending on net social benefits was 4.9 per cent higher than in August 2011, below the growth of 5.7 per cent forecast for the year as a whole.

Outturn for April to August 2012

12. Revisions in this month's release to the data for the first four months of 2012-13 have lowered PSNB by £0.3 billion.
13. Central government receipts growth of 0.4 per cent for the first five months of the financial year was well below the 3.7 per cent required to meet the March EFO forecast for 2012-13 as a whole. As noted earlier, corporation tax is already weaker than the full year forecast and subsequent instalment payments are likely to be weaker than anticipated as well.
14. Growth in other key receipts streams are closer to their full year forecasts from the March EFO. National insurance contributions are growing more strongly than their full year forecast, while growth in accrued VAT receipts is around 1.5 percentage points below the full year forecast of 4.5 per cent growth. It is too soon to be certain that this undershoot will persist, but it may reflect weaker cash spending than we forecast in March. In addition, the PAYE element of income tax is also recording growth close to its full year forecast. Other elements of income tax are weaker relative to the full year EFO forecast, but this in part reflects the change in the timing of income tax repayments compared with last year.
15. Central government current expenditure grew by 3.0 per cent in the first five months of the financial year, exactly in line with the full year forecast assumed in the March EFO forecast. Growth in debt interest, net social benefits and other current spending are all fairly close to their full year forecasts. However the underlying position has been volatile from month to month, because of differences in the profile of the monthly RPI and the timing of particular payments, and this volatility may continue to affect the overall position.

2011-12 Outturn

16. The latest estimated outturn for PSNB in 2011-12 is £119.3 billion, around £5.7 billion lower than last month's release. The main downward revision is in local authority (LA) borrowing, which has been reduced by £4.3 billion. ONS have reduced their previous estimates of LA spending, reflecting the first provisional outturn information for LAs' current and capital spending in England. The Department of Communities and Local Government (DCLG) statistics released on 30 August showed that English LAs' current expenditure on services was £4.1 billion below their budgets, as collected by DCLG at the start of 2011-12. It also showed that local authorities added £2.6 billion to their reserves, which reduced their overall level of spending. ONS's downward revisions for LA spending are partly offset by their revised treatment of police and fire pension top up grants which increased borrowing by around £1.4 billion.
17. These revisions mean that the 2011-12 PSNB is around £6.7 billion lower than the March EFO forecast. The main contributions to lower borrowing relative to the March forecast are £2.0 billion lower central government spending and £3.6 billion lower local authority borrowing. Our forecasts had already included the police and fire pension top up grants.

Public sector receipts, expenditure and net borrowing

£ billion	August				April to August				Implied September to March				Full Year			
	2012	2011	change		2012-13	2011 -12	change		2012-13	2011-12	change		2012-13 Mar EFO*	2011-12 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central Government (CG) current receipts																
Taxes on production	17.4	17.2	0.3	1.7	84.9	83.5	1.5	1.8	129.1	119.2	9.9	8.3	214.0	202.7	11.3	5.6
<i>Of which: VAT (accrued)</i>	9.5	9.3	0.2	2.0	46.8	45.4	1.4	3.0	67.8	64.2	3.5	5.5	114.6	109.6	4.9	4.5
Taxes on income and wealth	13.0	13.1	-0.1	-1.1	74.2	76.9	-2.7	-3.5	127.0	121.4	5.6	4.6	201.2	198.3	2.9	1.5
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	11.5	11.6	-0.1	-1.0	57.7	58.7	-0.9	-1.6	96.7	93.8	2.9	3.1	154.4	152.5	1.9	1.2
<i>Corporation tax</i>	1.2	1.3	-0.1	-4.5	15.3	17.2	-1.9	-10.8	28.4	25.0	3.5	14.1	43.8	42.2	1.7	4.0
Other taxes	1.4	1.4	0.0	-1.2	6.5	6.5	0.0	0.3	9.2	8.8	0.4	4.8	15.7	15.3	0.4	2.7
Compulsory social contributions	8.4	7.9	0.5	6.5	42.6	40.6	2.0	5.0	63.0	60.7	2.3	3.7	105.6	101.3	4.3	4.2
Interest & dividends	0.5	0.4	0.0	8.8	2.0	2.2	-0.2	-9.1	5.6	5.1	0.5	8.9	7.6	7.3	0.3	3.5
Other receipts	0.7	0.7	0.1	8.1	3.5	3.3	0.2	5.4	5.1	4.6	0.5	10.7	8.6	7.9	0.7	8.8
Total CG current receipts	41.4	40.7	0.7	1.8	213.8	213.0	0.8	0.4	338.8	319.8	19.0	5.9	552.6	532.8	19.8	3.7
CG Current expenditure																
Interest payments	2.9	3.7	-0.8	-22.2	20.2	21.2	-1.0	-4.7	24.6	25.9	-1.3	-5.2	44.8	47.1	-2.3	-5.0
Net social benefits	16.1	15.3	0.7	4.9	79.6	74.7	4.9	6.5	112.3	106.8	5.5	5.2	191.9	181.5	10.4	5.7
Other	33.6	32.2	1.4	4.2	164.5	160.6	3.8	2.4	234.7	228.2	6.5	2.8	399.2	388.8	10.4	2.7
Total current expenditure	52.5	51.2	1.3	2.5	264.2	256.5	7.7	3.0	371.7	360.9	10.8	3.0	635.9	617.4	18.5	3.0
Depreciation	0.7	0.6	0.0	7.5	3.3	3.1	0.2	5.3	4.6	4.4	0.2	4.9	7.9	7.5	0.4	5.5
CG Surplus on current budget	-11.7	-11.1	-0.6	-5.4	-53.8	-46.7	-7.1	-15.2	-37.4	-45.4	8.0	-17.7	-91.2	-92.1	0.9	-1.0
CG Net investment	1.7	1.7	0.1	5.1	-20.0	9.1	-29.1		20.7	13.3	7.4	55.7	0.7	22.4	-21.7	-96.9
CG Net borrowing	13.5	12.8	0.7	5.3	33.8	55.8	-22.0	-39.5	58.1	58.7	-0.6	-1.0	91.9	114.5	-22.6	-19.7
Local Authorities net borrowing	0.9	1.9	-1.0	-53.0	-5.0	-6.7	1.7	25.7	5.6	13.2	-7.6	-57.6	0.6	6.5	-5.9	-90.8
Public Corporations net borrowing	0.1	-0.3	0.4	117.7	2.2	-0.6	2.9	454.5	-2.8	-1.1	-1.7	159.8	-0.6	-1.7	1.1	-64.6
Public sector net borrowing	14.4	14.4	0.0	0.3	31.0	48.4	-17.4	-36.0	60.9	70.9	-10.0	-14.1	91.9	119.3	-27.4	-23.0
PSNB (ex Royal Mail)	14.4	14.4	0.0	0.3	59.0	48.4	10.6	21.8	60.9	70.9	-10.0	-14.1	119.9	119.3	0.6	0.5
Public sector net investment	1.2	1.6	-0.4	-25.0	-24.1	6.2	-30.3		20.7	18.1	2.6	14.1	-3.4	24.3	-27.7	-114.0
Public sector current budget	-13.2	-12.8	-0.4	-3.5	-55.1	-42.3	-12.9	-30.4	-40.2	-52.7	12.5	-23.7	-95.3	-95.0	-0.3	0.4

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