

21 December 2011

# Commentary on the Public Sector Finances release: November 2011

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the November 2011 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. Public sector net borrowing (PSNB) was £18.1 billion in November 2011, around £2.3 billion lower than in November 2010 and below market expectations of £19.7 billion. Lower borrowing this month reflects strong growth in receipts compared to last year and low growth in spending (mainly due to the receipt of a significant one-off repayment from the EU which counts as negative expenditure).
3. PSNB for the first eight months of 2011-12 was £10.5 billion lower than in the equivalent period last year. To meet the November *Economic and fiscal outlook* (EFO) full year forecast of £127.1 billion, borrowing would have to be £1.3 billion higher than last year in the final four months of 2011-12. We expect receipts growth in the final four months of the year to be similar to the first eight months of the year. Central government spending growth would have to be higher than during the year to date to match the EFO forecast. This is plausible as departments expect to back-load their spending on public services and administration more this year than last year.

## November 2011 outturn

4. PSNB is normally relatively high in November, reflecting the relatively modest proportion of annual tax receipts typically received during the month. The fall in PSNB compared with November last year reflects the fact that central government receipts rose by £2.6 billion compared to last year, while central government spending rose by just £0.2 billion. Borrowing by local authorities and public corporations was £0.1 billion higher than last year.
5. Receipts were 7.1 per cent higher in November than a year earlier. As in previous months, year-on-year growth in VAT receipts was strong reflecting the rise in the standard rate of VAT to 20 per cent in January this year. Income tax in November also showed buoyant growth on a year earlier. Some of this is due to growth in PAYE

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<sup>1</sup> <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/november-2011/stb---november-2011.html>

receipts, but some of the rise reflects temporary effects from other elements of income tax.

6. Central government current expenditure was just 0.8 per cent higher than in November last year, compared with our recent EFO forecast of a 3.1 per cent full year increase. In particular spending other than on debt interest and net social benefits fell by 1.6 per cent on a year ago. This mainly reflects a one-off repayment from the EU to adjust for the UK's EU abatement for 2010, which was allowed for in the November EFO spending forecast. By contrast in November 2010 the Government made a small net payment to the EU.
7. The flat growth in net social benefits in November is largely caused by lower spending on winter fuel payments, which are less generous than last year as the current Government did not repeat the additional age-related payment that the previous Government had announced for winter 2010 in the March 2010 Budget. If these payments had been maintained at last year's levels, then overall net social benefits in November would have increased by 3.5 per cent on last year.

## Outturn for April to November 2011

8. Revisions in this month's release raised PSNB for the first seven months of 2011-12 by £1.9 billion. This reflected lower central government receipts and higher borrowing by local authorities than previously assumed, partly offset by lower central government expenditure. The 2010-11 outturn for PSNB was revised down by £0.9 billion to £136.1 billion, largely because of lower local authority spending.
9. Central government receipts growth for the first eight months of 2011-12 is 4.8 per cent, similar to the 4.9 per cent growth rate implied for the year as a whole by our November forecast. We expect slower growth in VAT receipts in the final three months of the year (as the rise in the standard rate of VAT drops out of the annual comparison and consumer spending slows). Sharply lower PAYE from financial sector bonuses is also expected in the final two months of the financial year, when the majority of City bonuses are paid. These effects should be offset by increases in other taxes including the expected rise in self assessment income tax and capital gains tax in January, which relates to activity in 2010-11.
10. A third consecutive month of low spending has left growth in central government current expenditure up just 1.9 per cent in the first eight months of 2011-12, below our November EFO forecast for growth of 3.1 per cent over the whole of 2011-12. However much of this reflects the different timing of departmental payments, and these effects are expected to unwind over the rest of the year, which is also a period when departments usually increase their rate of spending.

## Public sector receipts, expenditure and net borrowing

£ billion	November				April to November				Implied December to March				Full Year			
			change				change				change		2011-12	2010-11	change	
	2011	2010	£bn	%	2011-12	2010-11	£bn	%	2011-12	2010-11	£bn	%	Nov EFO*	outturn	£bn	%
<b>Central Government (CG) current receipts</b>																
Taxes on production	16.7	15.9	0.8	5.1	135.1	126.8	8.2	6.5	68.0	63.7	4.4	6.9	203.1	190.5	12.6	6.6
<i>Of which: VAT (accrued)</i>	8.8	8.0	0.8	9.8	73.1	62.8	10.3	16.5	35.7	34.5	1.2	3.5	108.8	97.3	11.5	11.9
Taxes on income and wealth	11.9	10.9	1.0	9.6	118.7	117.1	1.6	1.4	83.1	79.4	3.7	4.6	201.8	196.5	5.3	2.7
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	10.6	9.4	1.2	13.0	87.7	86.1	1.7	2.0	67.5	65.3	2.2	3.4	155.2	151.3	3.9	2.6
<i>Corporation tax</i>	1.1	1.3	-0.2	-15.2	28.6	29.0	-0.4	-1.3	14.5	13.1	1.4	10.8	43.2	42.1	1.0	2.5
Other taxes	1.2	1.0	0.2	22.1	10.3	8.7	1.6	18.6	4.9	4.2	0.7	17.6	15.2	12.8	2.4	18.3
Compulsory social contributions	8.1	7.7	0.4	5.7	65.4	61.4	4.0	6.5	37.0	36.3	0.7	1.8	102.4	97.8	4.6	4.8
Interest & dividends	0.5	0.4	0.1	15.4	3.5	3.6	-0.1	-1.8	2.5	2.0	0.5	27.8	6.0	5.5	0.5	8.7
Other receipts	0.8	0.8	0.0	1.7	6.0	5.9	0.2	2.8	2.4	3.0	-0.6	-19.6	8.4	8.8	-0.4	-4.7
<b>Total CG current receipts</b>	<b>39.2</b>	<b>36.6</b>	<b>2.6</b>	<b>7.1</b>	<b>339.0</b>	<b>323.4</b>	<b>15.6</b>	<b>4.8</b>	<b>197.9</b>	<b>188.5</b>	<b>9.4</b>	<b>5.0</b>	<b>536.9</b>	<b>511.9</b>	<b>25.0</b>	<b>4.9</b>
<b>CG Current expenditure</b>																
Interest payments	5.2	4.2	0.9	22.0	33.9	29.3	4.6	15.6	13.7	13.5	0.3	2.0	47.6	42.8	4.8	11.3
Net social benefits	16.8	16.8	0.0	0.0	121.7	116.7	5.1	4.3	60.4	56.4	3.9	7.0	182.1	173.1	9.0	5.2
Other	31.5	32.0	-0.5	-1.6	254.2	256.3	-2.1	-0.8	139.5	132.6	6.9	5.2	393.7	388.9	4.8	1.2
<b>Total current expenditure</b>	<b>53.4</b>	<b>53.0</b>	<b>0.4</b>	<b>0.8</b>	<b>409.8</b>	<b>402.3</b>	<b>7.5</b>	<b>1.9</b>	<b>213.7</b>	<b>202.5</b>	<b>11.2</b>	<b>5.5</b>	<b>623.5</b>	<b>604.7</b>	<b>18.8</b>	<b>3.1</b>
Depreciation	0.6	0.6	0.0	2.6	5.0	4.8	0.2	5.1	2.8	2.4	0.4	15.2	7.8	7.2	0.6	8.4
<b>CG Surplus on current budget</b>	<b>-14.8</b>	<b>-17.0</b>	<b>1.3</b>	<b>-12.8</b>	<b>-75.8</b>	<b>-83.6</b>	<b>7.8</b>	<b>-9.3</b>	<b>-18.6</b>	<b>-16.4</b>	<b>-2.2</b>	<b>13.3</b>	<b>-94.4</b>	<b>-100.0</b>	<b>5.6</b>	<b>-5.6</b>
CG Net investment	2.2	2.4	-0.3	-10.4	16.0	19.9	-3.9	-19.4	8.2	17.7	-9.5	-53.7	24.2	37.6	-13.4	-35.6
<b>CG Net borrowing</b>	<b>17.0</b>	<b>19.4</b>	<b>-2.4</b>	<b>-12.5</b>	<b>91.9</b>	<b>103.5</b>	<b>-11.7</b>	<b>-11.3</b>	<b>26.6</b>	<b>34.1</b>	<b>-7.4</b>	<b>-21.8</b>	<b>118.5</b>	<b>137.6</b>	<b>-19.1</b>	<b>-13.9</b>
Local Authorities net borrowing	1.4	1.1	0.2		-1.6	-3.0	1.4		10.4	3.5	7.0		8.8	0.5	8.3	
Public Corporations net borrowing	-0.2	-0.2	-0.1		-1.9	-1.8	-0.1		1.8	-0.1	1.9		-0.1	-1.9	1.8	
<b>Public sector net borrowing</b>	<b>18.1</b>	<b>20.4</b>	<b>-2.3</b>	<b>-11.1</b>	<b>88.3</b>	<b>98.7</b>	<b>-10.4</b>	<b>-10.5</b>	<b>38.8</b>	<b>37.4</b>	<b>1.3</b>	<b>3.6</b>	<b>127.1</b>	<b>136.1</b>	<b>-9.0</b>	<b>-6.6</b>
<b>Public sector net investment</b>	<b>2.4</b>	<b>2.9</b>	<b>-0.6</b>	<b>-19.5</b>	<b>14.8</b>	<b>19.3</b>	<b>-4.5</b>	<b>-23.1</b>	<b>13.8</b>	<b>19.0</b>	<b>-5.2</b>	<b>-27.5</b>	<b>28.6</b>	<b>38.3</b>	<b>-9.7</b>	<b>-25.3</b>
<b>Public sector current budget</b>	<b>-15.7</b>	<b>-17.4</b>	<b>1.7</b>	<b>-9.7</b>	<b>-73.5</b>	<b>-79.4</b>	<b>5.9</b>		<b>-25.0</b>	<b>-18.4</b>	<b>-6.6</b>		<b>-98.5</b>	<b>-97.8</b>	<b>-0.7</b>	<b>0.7</b>

\* November 2011 EFO forecast published 29 November 2011 excluding temporary effects of financial interventions on a National Accounts basis