

24 January 2012

Commentary on the Public Sector Finances release: December 2011

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

Summary

2. Public sector net borrowing (PSNB) was £13.7 billion in December 2011, around £2.2 billion lower than in December 2010 and below market expectations of £14.9 billion. Lower borrowing this month reflects both strong growth in receipts and a drop in central government spending compared with last year.
3. PSNB for the first three-quarters of 2011-12 was £11.3 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 £2.3 billion higher than last year in the final three months of 2011-12:
 - our EFO forecast expected receipts growth to slow in the latter part of the year. The final three months of the year are typically very important for receipts, and there are particular uncertainties this year around the level of self-assessment and PAYE receipts; and
 - central government expenditure growth would have to increase sharply in the next three months to match the EFO forecast. This is possible as departments expect to back-load their spending more this year than last year, though it now looks likely that departments will underspend on their current expenditure by more than the £0.25 billion allowed for in the EFO.

December 2011 outturn

4. The £1.3 billion drop in central government spending compared with December last year, coupled with a £2.9 billion rise in receipts more than explain the fall in PSNB from a year ago. Borrowing by local authorities and public corporations was £1.9 billion higher than last year, but this partly reflects changes to ONS methods for estimating local authority borrowing.

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

5. Receipts were 7.3 per cent higher in December than a year earlier, helped by strong growth in VAT receipts. December is the last month that year-on-year growth in accrued receipts will benefit from the rise in the standard rate of VAT to 20 per cent at the start of 2011. Receipts growth in December also benefited from growth in income tax and corporation tax. However accrued income tax for December is largely an estimate at this stage and could be revised next month once January cash receipts are available.
6. Central government current expenditure fell by 0.9 per cent in December, compared with a year earlier. This was mostly due to spending other than on debt interest and net social benefits, which fell by 4.4 per cent on a year ago. The fall in departments' spending in December was mainly due to changes in the timing of payments from the Department of Education and the Department for Business, Innovation and Skills. Most other departments had modest year-on-year spending increases in December.
7. Growth in net social benefits in December was lower than the full year forecast. This was largely because DWP have not yet had to pay out any cold weather payments this winter, whereas there were £0.4 billion such payments in December 2010.

Outturn for April to December 2011

8. Revisions in this month's release increased PSNB for the first eight months of 2011-12 by £1.3 billion. Reductions in central government spending were more than offset by revisions which reduced central government receipts and increased estimates of local government borrowing, net of central government grants. The local government revisions reflect an improvement in ONS methods for estimating local government data for the latest months, which was announced in the background notes to last month's PSF release.
9. Central government receipts growth for the first eight months of 2011-12 is 5.0 per cent, close 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 financial sector bonuses are paid, though this has been difficult to forecast in recent years given the volatility in the financial sector. These effects should be offset by increases in other taxes including the expected rise in self assessment (SA) income tax and capital gains tax in January, which relates to activity in 2010-11.
10. A fourth consecutive month of low spending has left growth in central government current expenditure up just 1.5 per cent in the first nine months of 2011-12, well below our November *EFO* forecast for growth of 3.1 per cent over the whole of 2011-12. Central government capital spending has also fallen by 23.0 per cent over

the first nine months of 2011-12, which is below our November *EFO* full year forecast of a reduction of 13.3 per cent ² in 2011-12.

11. Spending to date is therefore running well below our November *EFO* full year forecasts on both central government current and capital spending. Much of this lower spending reflects the different timing of departmental payments and these effects are still expected to unwind over the rest of the year. Departments also usually increase their rate of spending over the final months of the year and this effect is expected to be more pronounced this year. However, it now looks likely that departments will under-spend on their current expenditure by more than the £0.25 billion allowed for in the *EFO*. As we explained in the November *EFO* there is always uncertainty over the degree to which departments might under-spend against plans. There are particular uncertainties this year as it is the first year that the Treasury has adopted the Budget Exchange system, which is the new system which allows departments some flexibility in carrying forward any under-spends to subsequent years.

Issues for the next PSF release

12. January is generally the highest month of the year for receipts. Last year, central government accrued receipts in January were almost £20 billion higher than in the preceding month. In particular, this reflects:
 - corporation tax: many medium and large onshore firms will pay the third of four instalment payments on their 2011 profits, while oil and gas firms will pay their third and final instalment payment on their 2011 profits; and
 - self assessment and capital gains tax: this is due at the end of the month. Although most of these receipts will be included in the January outturn, some will score in February. These receipts are typically very difficult to forecast. On the basis of the January outturn data, the in-year estimates of SA income tax have been revised in the last three Budgets by plus or minus around £2 billion compared to the previous Autumn's forecast. There is added uncertainty this year because SA will be affected by the effect of the additional 50p rate on incomes above £150,000 for the first time.

² For comparison with the first nine months, this excludes the one-off £8.5 billion central government receipt from local authorities for HRA reform that is scheduled for March 2012.

Public sector receipts, expenditure and net borrowing

£ billion	December				April to December				Implied January to March				Full Year			
	2011	2010	change		2011-12	2010 -11	change		2011-12	2010-11	change		2011-12 Nov EFO*	2010-11 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central Government (CG) current receipts																
Taxes on production	16.7	15.5	1.2	7.7	152.0	142.3	9.7	6.8	51.1	48.2	2.9	6.1	203.1	190.5	12.6	6.6
<i>Of which: VAT (accrued)</i>	9.0	7.9	1.1	13.9	82.2	70.7	11.5	16.3	26.7	26.6	0.0	0.2	108.8	97.3	11.5	11.9
Taxes on income and wealth	14.4	13.4	1.0	7.3	132.6	130.5	2.1	1.6	69.2	66.0	3.2	4.8	201.8	196.5	5.3	2.7
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	11.4	10.9	0.5	4.6	98.6	96.9	1.7	1.7	56.6	54.4	2.2	4.1	155.2	151.3	3.9	2.6
<i>Corporation tax</i>	2.8	2.3	0.5	21.5	31.4	31.3	0.1	0.4	11.7	10.8	0.9	8.5	43.2	42.1	1.0	2.5
Other taxes	1.2	1.0	0.2	14.6	11.6	9.7	1.9	19.6	3.7	3.2	0.5	15.8	15.3	12.8	2.4	18.7
Compulsory social contributions	8.7	8.2	0.5	5.7	73.8	69.6	4.2	6.0	28.6	28.1	0.5	1.7	102.4	97.7	4.7	4.8
Interest & dividends	0.5	0.4	0.1	15.7	4.1	4.0	0.1	2.9	1.9	1.5	0.4	23.7	6.0	5.5	0.5	8.6
Other receipts	0.8	0.8	0.0	1.1	6.8	6.6	0.2	2.6	1.6	2.2	-0.6	-26.7	8.4	8.8	-0.4	-4.7
Total CG current receipts	42.2	39.3	2.9	7.3	380.9	362.8	18.1	5.0	156.0	149.1	6.8	4.6	536.9	511.9	25.0	4.9
CG Current expenditure																
Interest payments	3.5	3.0	0.5	17.8	37.8	32.3	5.5	17.0	9.8	10.5	-0.7	-6.4	47.6	42.8	4.8	11.3
Net social benefits	15.5	15.0	0.5	3.3	137.3	131.7	5.6	4.2	44.8	41.4	3.4	8.3	182.1	173.1	9.0	5.2
Other	32.4	33.9	-1.5	-4.4	285.8	290.2	-4.4	-1.5	107.9	98.7	9.2	9.4	393.7	388.9	4.8	1.2
Total current expenditure	51.5	51.9	-0.5	-0.9	460.9	454.2	6.7	1.5	162.6	150.6	12.1	8.0	623.5	604.8	18.7	3.1
Depreciation	0.6	0.6	0.0	2.3	5.7	5.4	0.3	4.7	2.1	1.8	0.4	19.7	7.8	7.2	0.6	8.4
CG Surplus on current budget	-9.9	-13.2	3.3	-25.1	-85.6	-96.8	11.2	-11.6	-8.7	-3.2	-5.5	172.4	-94.3	-100.0	5.7	-5.7
CG Net investment	2.9	3.7	-0.8	-22.4	18.2	23.6	-5.4	-23.0	6.0	14.0	-8.0	-56.9	24.2	37.6	-13.4	-35.6
CG Net borrowing	12.8	16.9	-4.1	-24.5	103.8	120.4	-16.6	-13.8	14.7	17.2	-2.5	-14.4	118.5	137.6	-19.1	-13.9
Local Authorities net borrowing	1.3	-0.9	2.2		1.8	-3.9	5.7		7.0	4.4	2.6		8.8	0.5	8.3	
Public Corporations net borrowing	-0.4	-0.1	-0.3		-2.3	-1.9	-0.4		2.2	0.0	2.3		-0.1	-1.9	1.8	
Public sector net borrowing	13.7	15.9	-2.2	-13.9	103.3	114.6	-11.3	-9.9	23.8	21.5	2.3	10.6	127.1	136.1	-9.0	-6.6
Public sector net investment	2.9	2.6	0.3	10.5	17.6	21.9	-4.2	-19.4	11.0	16.4	-5.5	-33.2	28.6	38.3	-9.7	-25.3
Public sector current budget	-10.8	-13.3	2.5	-18.6	-85.7	-92.7	7.1		-12.8	-5.1	-7.7		-98.5	-97.8	-0.7	0.7

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

The November 2011 EFO forecast included a one-off payment of £8.5 billion from local authorities to central government for Housing Revenue Account reform. This is due to be paid in March 2012, and so will not affect the figures until the end of the year. This is expected to reduce CG net investment and CG net borrowing and increase LA net investment and LA net borrowing, but with no effect on PSNB.