

Commentary on the Public Sector Finances release: September 2011

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

September 2011 outturn

2. Public sector net borrowing (PSNB) totalled £14.1 billion in September 2011, around £1.3 billion lower than in September 2010 and about £0.9 billion below market expectations.
3. A fall in central government spending of £0.3 billion compared with September last year, coupled with a £1.6 billion rise in receipts are the key reasons for the drop in PSNB from a year ago. Borrowing by local authorities and public corporations was £0.6 billion higher than last year, although this chiefly reflects that last year saw a repayment of earlier borrowing from local authorities.
4. Central government current expenditure was just 0.5 per cent higher than in September last year, compared with our forecast of a 3.6 per cent full year increase. Within the low growth in September, debt interest was 17.5 per cent higher than in September 2010, reflecting the impact of the monthly path of RPI inflation on accrued interest on index-linked gilts. Spending on net social benefits also grew strongly and was 7.9 per cent up on last year. However this growth was almost all offset by a fall of 3.7 per cent in other current spending, primarily government departments' spending. Coupled with a drop in central government net investment, this left overall central government spending down by £0.3 billion on a year earlier. However, the monthly profile of departmental spending can change significantly from year to year and initial estimates are usually revised.
5. Receipts were 4.2 per cent higher in September than a year earlier, below the growth rate of 6.9 per cent required for 2011-12 as a whole to match our March EFO forecast. As in previous months, growth in VAT receipts was particularly strong reflecting the rise in the standard rate of VAT to 20 per cent in January this year. The rise in VAT receipts accounted for all of the rise in total receipts compared with last September. Income tax receipts were lower than in September last year, although this is largely due to timing effects.

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

Outturn for April to September 2011

6. The PSNB for the first half of 2011-12 was £7.5 billion lower than in the equivalent period last year. The comparison has been helped by a downward revision to the August PSNB of £2.2 billion reflecting lower spending and higher income tax receipts. To meet the March EFO forecast of £121.8 billion, borrowing would have to be £7.8 billion lower than last year in the second half of 2011-12.
7. Receipts growth for the first half of 2011-12 is 4.9 per cent, compared to the 6.9 per cent growth rate implied for the year as a whole by our March forecast. Adjusting for the different timings during the year of the bank payroll tax and bank levy, receipts growth for the first six months of 2011-12 would be 6.0 per cent. There has also been some unexpected weakness in corporation tax payments from the financial and oil sectors, related to the poor bank results and lower than expected offshore production.
8. In the March EFO, we expected stronger revenue growth in the second half of 2011-12, because of the higher rate of supplementary charge on oil and gas firms announced in the Budget affecting the public finances from October and the delayed impact on self assessment receipts from the introduction of the additional 50p income tax rate on incomes above £150,000. However, the outlook for receipts over the rest of the year is very dependent on developments in the wider economy. Our forecast of this will be updated in our upcoming *Economic and fiscal outlook* on November 29.
9. Weak growth in spending in September and downward revisions to August spending have left growth in central government current expenditure up just 2.9 per cent in the first half of 2011-12, slightly below our March EFO forecast for growth of 3.6 per cent over the whole of 2011-12.

Provisional outturn for 2010-11

10. In contrast to recent months, the revision to the 2010-11 estimate of PSNB was small. The PSNB was revised up by £0.3 billion to £137.1 billion. This is £8.8 billion lower than the March EFO forecast.

Issues for the next PSF release

11. October will be an important month for corporation tax. Many medium and large onshore firms will pay the second of four instalment payments on their 2011 profits, while oil and gas firms will pay the second of three instalment payments on their 2011 profits.

Public sector receipts, expenditure and net borrowing

£ billion	September				April to September				Implied October 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	17.7	15.7	2.0	13.0	102.4	95.6	6.8	7.1	105.5	94.9	10.5	11.1	207.8	190.5	17.3	9.1
<i>Of which: VAT (accrued)</i>	9.9	8.2	1.7	20.6	56.1	47.1	9.0	19.0	57.0	50.1	6.9	13.8	113.1	97.2	15.8	16.3
Taxes on income and wealth	11.7	12.4	-0.7	-5.6	87.7	86.6	1.0	1.2	119.9	109.9	10.0	9.1	207.5	196.5	11.0	5.6
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	9.2	10.0	-0.8	-7.5	66.9	66.6	0.3	0.4	89.2	84.7	4.5	5.4	156.1	151.3	4.8	3.2
<i>Corporation tax</i>	1.8	1.7	0.0	2.7	19.0	18.5	0.5	2.6	29.2	23.7	5.5	23.3	48.1	42.1	6.0	14.2
Other taxes	1.4	1.2	0.2	16.4	8.0	6.6	1.4	20.6	7.0	6.2	0.7	11.9	14.9	12.8	2.1	16.4
Compulsory social contributions	7.9	7.7	0.3	3.3	48.8	46.1	2.7	5.8	51.9	51.7	0.3	0.5	100.7	97.7	2.9	3.0
Interest & dividends	0.5	0.7	-0.2	-26.8	2.6	2.7	-0.1	-2.7	4.5	2.8	1.7	61.4	7.1	5.5	1.6	29.9
Other receipts	0.8	0.7	0.0	3.5	4.6	4.4	0.2	4.4	4.7	4.5	0.3	6.6	9.3	8.8	0.5	5.5
Total CG current receipts	40.0	38.4	1.6	4.2	253.9	242.0	11.9	4.9	293.4	269.9	23.5	8.7	547.3	511.8	35.5	6.9
CG Current expenditure																
Interest payments	2.7	2.3	0.4	17.5	24.1	21.3	2.8	13.3	24.5	21.5	3.0	14.1	48.6	42.8	5.9	13.7
Net social benefits	15.7	14.5	1.1	7.9	90.3	85.5	4.8	5.6	90.2	87.6	2.6	3.0	180.5	173.1	7.4	4.3
Other	32.9	34.2	-1.3	-3.7	194.7	193.6	1.1	0.6	202.7	195.3	7.4	3.8	397.4	388.9	8.5	2.2
Total current expenditure	51.2	50.9	0.3	0.5	309.1	300.4	8.7	2.9	317.4	304.3	13.0	4.3	626.5	604.7	21.7	3.6
Depreciation	0.6	0.6	0.0	5.5	3.8	3.6	0.2	6.7	3.8	3.6	0.2	5.8	7.6	7.2	0.4	6.2
CG Surplus on current budget	-11.8	-13.1	1.3	-10.0	-59.0	-62.0	3.0	-4.8	-27.8	-38.1	10.3	-27.0	-86.8	-100.1	13.3	-13.3
CG Net investment	2.9	3.5	-0.6	-17.8	12.0	15.0	-3.0	-19.9	11.5	22.7	-11.2	-49.5	23.4	37.7	-14.2	-37.7
CG Net borrowing	14.7	16.6	-1.9	-11.6	71.0	76.9	-6.0	-7.7	39.3	60.8	-21.6	-35.4	110.2	137.8	-27.5	-20.0
Local Authorities net borrowing	-0.3	-1.2	0.8		-6.5	-4.3	-2.3		18.0	5.8	12.2		11.5	1.6	9.9	
Public Corporations net borrowing	-0.2	0.0	-0.2		-0.9	-1.7	0.8		1.0	-0.6	1.6		0.0	-2.3	2.3	
Public sector net borrowing	14.1	15.4	-1.3	-8.3	63.5	71.0	-7.5	-10.5	58.3	66.1	-7.8	-11.8	121.8	137.1	-15.3	-11.2
Public sector net investment	2.2	2.6	-0.4	-14.9	9.4	13.5	-4.1	-30.4	22.5	25.2	-2.7	-10.7	31.8	38.6	-6.8	-17.6
Public sector current budget	-11.9	-12.8	0.9	-6.9	-54.1	-57.5	3.4		-35.8	-40.9	5.1		-89.9	-98.4	8.5	-8.6

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