

Commentary on the Public Sector Finances release: January 2012

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 2012 Public Sector Finances this morning¹. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast. The next ONS bulletin is released on March 21, coinciding with the publication of the Budget and our next *Economic and fiscal outlook (EFO)*, so we will not publish an additional commentary that day.

Summary

2. Public sector net borrowing (PSNB) recorded a surplus of £7.8 billion in January 2012, around £2.5 billion bigger than in January 2011 and above market expectations of a surplus of £6.3 billion. January is generally the highest month of the year for receipts so typically sees a surplus.
3. The larger surplus recorded this January is entirely due to less borrowing by local authorities and public corporations. This masked year-on-year growth in central government receipts of just 2.8 per cent in January, significantly lower than the growth rate we forecast for the remainder of the year in our November EFO. VAT receipts fell on a year ago, as the rise in the standard rate of VAT dropped out of the annual comparison. Self assessment receipts and capital gains tax (CGT) received in January were up 1.5 per cent on a year earlier, compared with a full year forecast in the November EFO of 10 per cent growth.
4. PSNB for the first ten months of 2011-12 was £15.7 billion lower than in the equivalent period last year. To meet the EFO full year forecast of £127.1 billion, borrowing would have to be £7.0 billion higher than last year in the final two months of 2011-12. However:
 - growth in receipts in the remaining two months is expected to be constrained by weak growth in VAT receipts and lower PAYE from financial sector bonuses; and
 - central government expenditure growth could increase sharply in the next two months. Departments are expected to back-load their spending more this year than last year, though it does now look likely that departments will underspend

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

on their current expenditure by more than the £0.25 billion allowed for in the EFO.

January 2012 outturn

5. The public sector has recorded a surplus in January in every year but one since monthly borrowing numbers started in 1993. Borrowing by local authorities and public corporations was £2.5 billion lower than last year. However, monthly borrowing in these sectors is typically very volatile through the year.
6. The surplus for central government was unchanged from a year earlier reflecting similar £1.6 billion increases in both central government receipts and spending. Receipts were just 2.8 per cent higher in January than a year earlier due to a fall in accrued VAT receipts and weak self assessment receipts. These were only partially offset by a 9.3 per cent year-on-year rise in corporation tax. The rise in the standard rate of VAT to 20 per cent at the start of 2011 has now fallen out of the annual comparison. As noted in the November EFO, growth in VAT receipts is now likely to be constrained by the slow growth in the consumer and government elements of the VAT tax base.
7. As usual, January was an important month for corporation tax receipts. Many medium and large onshore firms paid the third of four instalment payments on their 2011 profits, while oil and gas firms paid their third and final instalment on their 2011 profits. The strongest growth in corporation tax was from oil and gas firms, where the effect from higher oil prices and the increase in the supplementary charge announced in Budget 2011 offset the effect from the sharp fall in oil and gas production during 2011. Corporation tax from the financial sector continued to be well below a year earlier, consistent with announcements on bank profits.
8. Payments of self assessment(SA) and CGT relating to 2010-11 liabilities were due at the end of January. These receipts were up 1.5 per cent on a year earlier in January², compared with a full year forecast in the November EFO of around 10 per cent growth. However, it is typically the case that large amounts of SA are received by HMRC after the payment deadline in the early part of February. Therefore it is not possible to make a full assessment until both January and February receipts data are available. However, both SA and CGT have been very difficult to forecast in recent years. On the basis of the outturn data, the in-year estimates of SA income tax have been revised in the last three Budgets by plus or minus £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.
9. The PAYE data for January is an estimate at this stage and is subject to revision next month depending on February cash receipts. The revisions could be particularly large next month because February cash receipts should include tax on financial sector bonuses.

² http://www.hmrc.gov.uk/stats/tax_receipts/tax-receipts-and-taxpayers.pdf HMRC has not yet allocated January's SA receipts between income tax, NIC4 and CGT.

10. Central government current expenditure rose by 3.0 per cent in December, compared with a year earlier. Spending other than on debt interest and net social benefits (primarily spending on public services) was up on a year earlier, after four consecutive months of falls over the year.

Outturn for April 2011 to January 2012

11. Revisions in this month's release lowered PSNB for the first nine months of 2011-12 by £2.1 billion. This is more than accounted for by downward revisions to local authority borrowing.
12. Central government receipts growth for the first ten months of 2011-12 is 4.7 per cent, a little below the 4.8 per cent growth rate implied for the year as a whole by our November forecast. In the November forecast we expected receipts growth in the final two months of 2011-12 to be constrained by slow growth in VAT receipts and sharply lower PAYE from financial sector bonuses, when the majority of financial sector bonuses are paid. This has been difficult to forecast in recent years given the volatility in the financial sector.
13. The latest monthly data shows central government current expenditure up just 1.6 per cent in the first ten 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 17.9 per cent over the first ten months of 2011-12, which is below our November EFO full year forecast of a reduction of 13.3 per cent³ in 2011-12.
14. Spending to date continues to run well below our November EFO full year forecasts on both central government current and capital spending. Some 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. Nonetheless, 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 allows departments some flexibility in carrying forward any under-spends to subsequent years.

³ For comparison with the first ten 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	January				April to January				Implied February 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	%
Central Government (CG) current receipts																
Taxes on production	15.6	15.6	0.0	-0.2	167.9	157.9	10.0	6.4	35.2	32.6	2.6	8.0	203.1	190.5	12.6	6.6
<i>Of which: VAT (accrued)</i>	8.6	8.8	-0.2	-1.9	90.9	79.4	11.5	14.5	17.9	17.8	0.1	0.3	108.8	97.3	11.5	11.9
Taxes on income and wealth	34.1	33.1	1.0	2.9	166.3	163.6	2.7	1.6	35.5	32.9	2.6	7.9	201.8	196.5	5.3	2.7
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	24.8	24.6	0.2	0.9	123.1	121.5	1.6	1.3	32.1	29.8	2.4	7.9	155.2	151.3	3.9	2.6
<i>Corporation tax</i>	9.0	8.3	0.8	9.3	40.5	39.6	0.9	2.2	2.7	2.5	0.2	6.0	43.2	42.1	1.0	2.5
Other taxes	1.2	1.0	0.3	28.7	12.8	10.6	2.2	20.4	2.4	2.2	0.2	10.2	15.3	12.8	2.4	18.7
Compulsory social contributions	8.7	8.5	0.2	2.5	82.4	78.2	4.3	5.5	20.0	19.6	0.4	1.9	102.4	97.7	4.7	4.8
Interest & dividends	0.5	0.3	0.2	55.2	5.1	4.6	0.5	10.4	0.9	1.3	-0.4	-28.2	6.0	5.9	0.1	2.2
Other receipts	0.8	0.7	0.0	4.2	7.6	7.4	0.2	2.7	0.8	1.5	-0.6	-42.1	8.4	8.8	-0.4	-4.7
Total CG current receipts	60.9	59.2	1.6	2.8	442.2	422.3	19.9	4.7	94.7	90.0	4.8	5.3	536.9	512.3	24.6	4.8
CG Current expenditure																
Interest payments	4.2	4.0	0.2	5.0	41.9	36.3	5.6	15.5	5.7	6.5	-0.8	-12.4	47.6	42.8	4.8	11.3
Net social benefits	14.8	14.1	0.7	4.9	152.0	145.8	6.2	4.3	30.1	27.3	2.8	10.3	182.1	173.1	9.0	5.2
Other	31.7	31.1	0.6	1.8	317.4	321.3	-3.9	-1.2	76.3	67.6	8.7	12.9	393.7	388.9	4.8	1.2
Total current expenditure	50.7	49.3	1.5	3.0	511.4	503.5	8.0	1.6	112.1	101.3	10.8	10.7	623.5	604.8	18.7	3.1
Depreciation	0.6	0.6	0.0	6.6	6.3	6.0	0.3	4.9	1.5	1.2	0.3	26.2	7.8	7.2	0.6	8.4
CG Surplus on current budget	9.5	9.4	0.1	1.6	-75.5	-87.2	11.6	-13.3	-18.8	-12.5	-6.3	50.2	-94.3	-99.7	5.3	-5.4
CG Net investment	2.6	2.5	0.1	5.2	21.4	26.1	-4.7	-17.9	2.8	11.5	-8.7	-76.0	24.2	37.6	-13.4	-35.6
CG Net borrowing	-6.9	-6.9	0.0	0.2	97.0	113.3	-16.3	-14.4	21.5	24.0	-2.5	-10.3	118.5	137.3	-18.8	-13.7
Local Authorities net borrowing	-0.4	1.9	-2.3		-0.8	-2.0	1.2		9.6	2.5	7.1		8.8	0.5	8.3	
Public Corporations net borrowing	-0.4	-0.2	-0.2		-2.8	-2.1	-0.6		2.7	0.2	2.5		-0.1	-1.9	1.8	
Public sector net borrowing	-7.8	-5.2	-2.5	48.9	93.5	109.1	-15.7	-14.4	33.6	26.7	7.0	26.2	127.1	135.8	-8.7	-6.4
Public sector net investment	4.0	4.0	0.0	-0.2	18.6	25.9	-7.3	-28.2	10.0	12.2	-2.2	-18.1	28.6	38.1	-9.5	-25.0
Public sector current budget	11.8	9.2	2.5	27.4	-74.9	-83.2	8.4		-23.6	-14.4	-9.2		-98.5	-97.7	-0.8	0.8

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.