

# Commentary on the Public Sector Finances release: September 2012

1. The Office for National Statistics and HM Treasury published their September 2012 Public Sector Finances bulletin this morning<sup>1</sup>. 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 £12.8 billion in September, around £0.7 billion lower than in September last year and below average market expectations of £13.5 billion.
3. For September, central government receipts growth of 3.7 per cent on a year earlier was in line with our full year forecast in the March EFO, helped by growth in VAT receipts and national insurance contributions. Central government current expenditure also grew by 3.7 per cent over the year, slightly faster than the March full-year forecast. With spending higher than receipts, this meant a £0.3 billion rise in central government borrowing which was more than offset by lower borrowing by both local authorities and public corporations compared with last year.
4. More notable than the data for the latest month was that the outturn estimate of PSNB for the first five months of this year has been revised down by £6.7 billion in this release. This mainly reflects a £3.6 billion reduction in central government spending plus corrections and revisions to the data for public corporations that have reduced their borrowing by £3.1 billion.
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. Our March forecast now implies a £1.7 billion decrease in PSNB between 2011-12 and 2012-13. After these revisions to earlier months, PSNB (excluding the Royal Mail effect) in the first half of the financial year is £2.7 billion higher than last year.
6. Looking at the year-to-date data for the main components of PSNB:

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

- thanks to the downward revisions to the first five months of the financial year, central government current expenditure growth of 2.1 per cent for the first half of 2012-13 now lies below the full year forecast in the March EFO of 3.0 per cent;
  - growth in central government receipts of 0.8 per cent in the first six 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, given the lower than expected instalment payments on 2012 profits made by both onshore and offshore firms in July. Later instalment payments 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 considerable uncertainty around the local authority and public corporations borrowing figures.
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 below the EFO forecast but this view will keep changing as more outturn data becomes available. Local government and public corporations data are similarly liable to revision.

## September 2012 outturn

8. The fall in PSNB in September is more than explained by £0.7 billion and £0.3 billion falls from last year in local authority and public corporations borrowing respectively. Central government borrowing was up on the previous year reflecting a £1.8 billion increase in spending and a £1.5 billion rise in receipts.
9. Central government receipts grew by 3.7 per cent in September from a year earlier, helped by growth in VAT receipts, the PAYE element of income tax and National Insurance contributions (NICs). Accrued VAT receipts and NICs were up 5.1 per cent and 5.8 per cent respectively on a year earlier.
10. Central government current expenditure increased by 3.7 per cent in September. Within this, debt interest payments were down by 7.9 per cent on levels a year ago, reflecting changes to the monthly RPI profile compared with a year earlier, which affects debt interest on index-linked gilts. Spending on net social benefits was 1.6 per cent higher than in September 2011, but year-on-year growth rates have varied widely for each month this year. Other current spending is up by 5.8 per cent in September, compared with last year, which is the biggest increase in this spending in any month this year. But this increase has been outweighed by the reductions to previous months' spending as discussed further below.

## Outturn for April to September 2012

11. Revisions to central government spending and public corporations data for the first five months of 2012-13 have lowered PSNB by £6.7 billion.
12. Central government spending has been revised down by £3.1 billion because outturn data has now become available for NHS and some other large departments, where their spending was previously only estimated. Even after these revisions, some spending data for recent months is still estimated and could be revised further when actual data becomes available. Public corporations data has been revised down by £3.1 billion because of a combination of the correction of an error, which had incorrectly increased borrowing earlier in the year by £2.3 billion, and improvements in methodology.
13. Central government receipts growth of 0.8 per cent for the first six months of the financial year was well below the 3.7 per cent required to match 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. While real GDP so far in 2012-13 has clearly been weaker than anticipated in the March EFO, PAYE and NIC receipts will have been helped by the resilience of the labour market. NICs are growing more strongly than their full year forecast, while growth in PAYE receipts is close to its full year forecast. To meet the March EFO forecast, we would expect year-to-date PAYE and NIC receipts to be showing stronger year-on-year growth than for the full year since receipts at the end of the financial year are likely to be affected by some high earners shifting income into 2013-14 so it can be taxed at the 45p rate rather than the 50p rate. Overall income tax is weaker than its full year forecast, but this in part reflects a change in the scale and timing of income tax repayments compared with last year.
15. Accrued VAT receipts in the first half of the financial year grew by 3.4 per cent on a year earlier, compared with the 4.3 per cent full year forecast. The deterioration relative to the March EFO forecast in nominal consumer spending has been less than for nominal GDP as a whole. In the first half of 2012, nominal consumer spending rose by 3.3 per cent on a year earlier, against a March EFO forecast of 3.6 per cent.
16. After taking account of the revisions, central government current expenditure in the first six months of the financial year is now 2.1 per cent above the same period a year ago, compared with the growth of 3.0 per cent in the full year forecast in the March EFO forecast. Growth in debt interest and net social benefits are both fairly close to their full year forecasts. Growth in other current spending (primarily spending on public services) is now lower than the full year forecast: 1.4 per cent growth to date over the first half of the year, compared to the 2.7 growth forecast for the whole year in the March forecast. As we explained in the EFO, our forecast for 2.7 per cent growth did not include any overall assumption of net underspends by

departments against their spending plans, but we said that we would keep this under review.

## Revisions to 2011-12 borrowing

17. We commented in Annex A of our *Forecast evaluation report* (released earlier this week) that we expected ONS to put through corrections to increase public corporations and local authorities borrowing by some £1½ and £1 billion respectively in 2011-12. They have now put through corrections which have increased borrowing by £2.3 billion in total. PSNB for 2011-12 is now £121.6 billion, £4.4 billion lower than our March 2012 forecast.

## Issues for next month's release

18. 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 2012 profits, while oil and gas firms will pay the second of three instalment payments on their 2012 profits.

## Public sector receipts, expenditure and net borrowing

£ billion	September				April to September				Implied October 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	%
<b>Central Government (CG) current receipts</b>																
Taxes on production	18.1	17.5	0.6	3.3	103.0	101.0	2.0	2.0	111.0	101.9	9.1	9.0	214.0	202.9	11.1	5.5
<i>Of which: VAT (accrued)</i>	10.0	9.5	0.5	5.1	56.8	54.9	1.9	3.4	57.8	54.9	2.9	5.2	114.6	109.8	4.8	4.3
Taxes on income and wealth	12.4	12.1	0.3	2.2	86.6	89.0	-2.4	-2.7	114.6	109.0	5.6	5.1	201.2	198.0	3.2	1.6
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	10.0	9.7	0.3	3.1	67.6	68.2	-0.6	-0.9	86.8	84.1	2.7	3.3	154.4	152.3	2.1	1.4
<i>Corporation tax</i>	1.8	1.8	0.0	0.7	17.1	18.9	-1.8	-9.7	26.7	23.2	3.5	15.1	43.8	42.2	1.7	4.0
Other taxes	1.2	1.3	-0.1	-9.3	7.7	7.8	-0.1	-1.3	8.0	7.5	0.5	6.9	15.7	15.3	0.4	2.7
Compulsory social contributions	8.6	8.1	0.5	5.8	51.0	48.8	2.2	4.6	54.6	52.7	1.9	3.6	105.6	101.5	4.1	4.0
Interest & dividends	1.0	0.7	0.3	36.4	3.0	2.9	0.1	2.5	4.6	4.4	0.2	3.5	7.6	7.3	0.3	3.5
Other receipts	0.7	0.7	0.0	6.8	4.2	4.0	0.2	5.4	4.4	3.9	0.5	12.6	8.6	7.9	0.7	8.8
<b>Total CG current receipts</b>	<b>42.0</b>	<b>40.5</b>	<b>1.5</b>	<b>3.7</b>	<b>255.5</b>	<b>253.5</b>	<b>2.0</b>	<b>0.8</b>	<b>297.1</b>	<b>279.4</b>	<b>17.7</b>	<b>6.3</b>	<b>552.6</b>	<b>532.9</b>	<b>19.7</b>	<b>3.7</b>
<b>CG Current expenditure</b>																
Interest payments	2.6	2.8	-0.2	-7.9	22.7	24.0	-1.4	-5.6	22.1	23.1	-1.0	-4.5	44.8	47.1	-2.3	-5.0
Net social benefits	15.9	15.6	0.3	1.6	95.4	90.3	5.1	5.7	96.5	91.2	5.3	5.9	191.9	181.5	10.4	5.7
Other	34.0	32.2	1.9	5.8	195.5	192.8	2.7	1.4	203.7	196.0	7.7	3.9	399.2	388.8	10.4	2.7
<b>Total current expenditure</b>	<b>52.5</b>	<b>50.6</b>	<b>1.9</b>	<b>3.7</b>	<b>313.6</b>	<b>307.1</b>	<b>6.5</b>	<b>2.1</b>	<b>322.2</b>	<b>310.3</b>	<b>12.0</b>	<b>3.9</b>	<b>635.9</b>	<b>617.4</b>	<b>18.5</b>	<b>3.0</b>
Depreciation	0.7	0.6	0.0	6.2	4.0	3.8	0.2	5.2	3.9	3.7	0.2	5.8	7.9	7.5	0.4	5.5
<b>CG Surplus on current budget</b>	<b>-11.2</b>	<b>-10.7</b>	<b>-0.4</b>	<b>-4.0</b>	<b>-62.0</b>	<b>-57.4</b>	<b>-4.6</b>	<b>-8.1</b>	<b>-29.2</b>	<b>-34.6</b>	<b>5.4</b>	<b>-15.7</b>	<b>-91.2</b>	<b>-92.0</b>	<b>0.8</b>	<b>-0.9</b>
CG Net investment	2.4	2.5	-0.1	-4.5	-18.1	11.6	-29.7		18.8	10.8	8.0	74.2	0.7	22.4	-21.7	-96.9
<b>CG Net borrowing</b>	<b>13.6</b>	<b>13.2</b>	<b>0.3</b>	<b>2.4</b>	<b>43.9</b>	<b>69.0</b>	<b>-25.1</b>	<b>-36.3</b>	<b>48.0</b>	<b>45.4</b>	<b>2.6</b>	<b>5.7</b>	<b>91.9</b>	<b>114.4</b>	<b>-22.5</b>	<b>-19.7</b>
Local Authorities net borrowing	-0.2	0.5	-0.7	-131.2	-5.4	-6.2	0.8	13.6	6.0	13.6	-7.6	-55.9	0.6	7.4	-6.8	-91.9
Public Corporations net borrowing	-0.6	-0.2	-0.3	-141.3	-1.5	-0.4	-1.1		0.9	0.2	0.7	477.6	-0.6	-0.2	-0.4	144.1
<b>Public sector net borrowing</b>	<b>12.8</b>	<b>13.5</b>	<b>-0.7</b>	<b>-5.1</b>	<b>37.1</b>	<b>62.4</b>	<b>-25.4</b>	<b>-40.6</b>	<b>54.8</b>	<b>59.2</b>	<b>-4.4</b>	<b>-7.4</b>	<b>91.9</b>	<b>121.6</b>	<b>-29.7</b>	<b>-24.4</b>
<b>PSNB (ex Royal Mail)</b>	<b>12.8</b>	<b>13.5</b>	<b>-0.7</b>	<b>-5.1</b>	<b>65.1</b>	<b>62.4</b>	<b>2.7</b>	<b>4.3</b>	<b>54.8</b>	<b>59.2</b>	<b>-4.4</b>	<b>-7.4</b>	<b>119.9</b>	<b>121.6</b>	<b>-1.7</b>	<b>-1.4</b>
<b>Public sector net investment</b>	<b>1.6</b>	<b>1.9</b>	<b>-0.3</b>	<b>-13.5</b>	<b>-22.5</b>	<b>8.4</b>	<b>-30.9</b>		<b>19.1</b>	<b>18.3</b>	<b>0.8</b>	<b>4.5</b>	<b>-3.4</b>	<b>26.7</b>	<b>-30.1</b>	<b>-112.7</b>
<b>Public sector current budget</b>	<b>-11.2</b>	<b>-11.6</b>	<b>0.4</b>	<b>3.8</b>	<b>-59.5</b>	<b>-54.0</b>	<b>-5.6</b>	<b>-10.3</b>	<b>-35.8</b>	<b>-40.9</b>	<b>5.1</b>	<b>-12.4</b>	<b>-95.3</b>	<b>-94.9</b>	<b>-0.4</b>	<b>0.5</b>

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