

Commentary on the Public Sector Finances release: October 2012

1. The Office for National Statistics and HM Treasury published their October 2012 Public Sector Finances bulletin this morning¹. 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). Updated receipts and spending forecasts taking account of the provisional outturns for the first seven months of 2012-13 will be published in our upcoming *Economic and Fiscal Outlook* on December 5.

Summary

2. Public sector net borrowing (PSNB) totalled £8.6 billion in October, around £2.7 billion higher than in October last year and £2.6 billion above average market expectations.
3. October is a key month for corporation tax receipts, with large firms paying a further instalment payment on their 2012 profits. These fell by almost 10 per cent in October on a year earlier, primarily because of a sharp drop in receipts from oil and gas producers. This was related to weaker-than-expected production and high levels of capital expenditure in the industry. Growth in accrued PAYE, national insurance contributions and VAT receipts meant that total accrued receipts in October recorded a small rise of 1.8 on a year ago. However, cash receipts of VAT in October were significantly lower than a year ago.
4. The PSNB in October was also pushed up by strong growth in central government current expenditure of 7.4 per cent from a year ago. Year-on-year spending growth rates can be volatile on a monthly basis, partly reflecting the timing of grants to local authorities.
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. Following modest revisions to the data for earlier months, our March forecast now implies a £1.5 billion decrease in PSNB between 2011-12 and 2012-13. PSNB (excluding the Royal Mail effect) in the seven months of the financial year is £5.0 billion higher than last year.
6. Looking at the year-to-date data for the main components of PSNB:

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

- central government current expenditure growth of 2.3 per cent for the first seven months of 2012-13 lies below the full year forecast in the March EFO of 3.0 per cent. While October spending was strong, there were further downward revisions of £1.8 billion in spending in the first six months of the financial year;
 - growth in central government receipts of 0.4 per cent in the first seven 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 considerably short of our March EFO forecast, given the lower than expected instalment payments on 2012 profits in both July and October. Growth in VAT and excise duties is now materially weaker than their full year forecast so far this year, although national insurance contributions and the PAYE element of income tax remain closer to their full year forecasts; and
 - at this 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 receipts growth will fall short of our March EFO forecast, much will depend on the performance of the real economy and inflation over the remainder of the fiscal year. We will update our full-year economic and revenue forecasts in our next EFO on December 5th. Central government expenditure growth is currently below the EFO forecast and we will have to consider in the December EFO whether this points to a full-year underspend as we saw in the previous fiscal year.

October 2012 outturn

8. A £4.2 billion rise in central government spending was the main driver behind the higher PSNB in October. Around £1.5 billion of this rise in spending reflected a change in timing of grants to local authorities, where grants which were paid out earlier last year have been paid out in October this year. This change in the timing of local authority grants is also reflected in lower local authority borrowing. Central government receipts rose by £0.8 billion on a year ago.
9. Central government receipts grew by 1.8 per cent in October from a year earlier. A 9.9 per cent fall in corporation tax was offset by growth in income tax, national insurance contributions and VAT receipts. The strong 7.5 per cent growth in income tax is mainly due to temporary effects from non-PAYE elements of income tax. As in July, the weakness in corporation tax receipts was primarily from the instalment payments made by oil and gas companies on their 2012 profits.
10. Revenues from the offshore industry are likely to show a sharp decline in 2012-13 despite oil prices very close to last year's levels. Oil prices have averaged \$112 a barrel so far this year, compared with \$111 a barrel in 2011. A key reason is lower than expected production. In the first nine months of 2012, oil and gas production was down 12.7 per cent from a year ago with production particularly affected by the Elgin gas leak and high levels of maintenance (e.g. the closure of the large Buzzard field for the whole of September and October). This compares with DECC

projections for 2012 (based on a survey of operators) of flat gas production and a 7 per cent fall in oil production that were included in the March EFO forecast. In addition, capital expenditure in the industry is likely to have risen by £4-5 billion in 2012. With 100 per cent first year capital allowances, rising investment has a significant downward effect on receipts.

Outturn for April to October 2012

11. Revisions in this month's release have reduced PSNB for the first six months of 2012-13 by £0.4 billion (and for 2011-12 by £0.2bn). Estimates of central government spending have been revised down by £1.9 billion, but were partly offset by a £1.6 billion downward revision to receipts.
12. Central government receipts growth of 0.4 per cent for the first seven 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. So far this financial year, corporation tax is down 9.8 per cent on a year earlier, compared with a forecast for the full year of 4 per cent growth.
13. Accrued VAT receipts in the first seven months of the financial year are now estimated to have grown by 1.9 per cent on a year earlier, compared with the 4.4 per cent full year forecast in the March EFO. Cash receipts of VAT in October were down 3 per cent on a year ago. These will largely relate to spending over the previous three months and are accrued back to those months in the public finances numbers. This is the main reason for the widening gap between the year-to-date number and the full year forecast.
14. Growth in other key receipts streams are closer to their full year forecasts from the March EFO. The resilience of the labour market relative to the weaker GDP outturns has helped maintain yield from taxes on labour. NICs are growing more strongly than their full year forecast, while growth in PAYE receipts is close to its full year forecast. 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. The combination of strong October spending and downward revisions to previous months leaves growth in central government current spending so far this year of 2.3 per cent, compared with a full year forecast of 3.0 per cent. Growth in debt interest and net social benefits are both fairly close to their full year forecast. Growth in other current spending (primarily spending on public services) is now lower than the full year forecast: 1.7 per cent growth to date over the first half of the year, compared to the 2.7 growth forecast for the whole year. Our March forecast assumed that departments would spend in line with their plans. We will review whether departments are likely to underspend against these plans in 2012-13 as a whole in our December EFO forecast.

Publication of December *Economic and Fiscal Outlook*

16. Our December *EFO* will also incorporate our own estimates of the effects of the following announcements on the fiscal forecasts:
- the 9 November announcement that the excess cash held at the Bank of England's Asset Purchase Facility will be transferred to the Exchequer²; and
 - the 28 September decision by the ONS to reclassify Northern Rock Asset management and Bradford and Bingley as central government bodies³.
17. The ONS have included further detail on these announcements in today's Statistical Bulletin⁴.

² <http://budgetresponsibility.independent.gov.uk/wordpress/docs/APFpn.pdf>

³ <http://www.ons.gov.uk/ons/rel/mro/news-release/northern-rock-and-bradford---bingley-reclassified-as-central-government-bodies/northernrockbradfordbingleynr2012.html>

⁴ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/october-2012/stb---october-2012.html#tab-Recent-events-and-methodological-changes>

Public sector receipts, expenditure and net borrowing

£ billion	October				April to October				Implied November 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	%
Central Government (CG) current receipts																
Taxes on production	17.8	17.6	0.3	1.6	119.8	118.6	1.2	1.0	94.2	84.3	10.0	11.8	214.0	202.9	11.2	5.5
<i>Of which: VAT (accrued)</i>	9.7	9.4	0.3	3.6	65.5	64.3	1.3	1.9	49.1	45.5	3.6	7.9	114.6	109.8	4.8	4.4
Taxes on income and wealth	18.5	18.6	-0.1	-0.7	104.9	107.6	-2.7	-2.5	96.3	90.5	5.8	6.4	201.2	198.1	3.1	1.6
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	10.4	9.7	0.7	7.5	77.9	77.9	0.0	0.0	76.5	74.5	2.0	2.8	154.4	152.4	2.0	1.3
<i>Corporation tax</i>	7.8	8.7	-0.9	-9.9	24.9	27.6	-2.7	-9.8	18.9	14.5	4.4	30.0	43.8	42.2	1.7	4.0
Other taxes	1.4	1.3	0.1	9.5	9.0	9.1	-0.1	-1.2	6.7	6.2	0.5	8.4	15.7	15.3	0.4	2.7
Compulsory social contributions	8.5	8.1	0.4	5.1	59.5	56.9	2.6	4.6	46.1	44.7	1.4	3.1	105.6	101.6	4.0	3.9
Interest & dividends	0.6	0.4	0.1	29.1	3.3	3.3	-0.1	-1.8	4.3	4.0	0.3	6.3	7.6	7.3	0.3	3.5
Other receipts	0.7	0.7	0.0	4.5	4.9	4.6	0.2	5.0	3.7	3.3	0.4	11.9	8.6	7.9	0.7	8.8
Total CG current receipts	47.5	46.6	0.8	1.8	301.4	300.1	1.2	0.4	251.2	233.0	18.3	7.8	552.6	533.1	19.6	3.7
CG Current expenditure																
Interest payments	4.5	4.9	-0.4	-7.4	27.1	28.9	-1.8	-6.2	17.7	18.2	-0.5	-3.0	44.8	47.1	-2.3	-5.0
Net social benefits	16.0	14.9	1.1	7.7	111.4	105.1	6.2	5.9	80.5	76.4	4.1	5.4	191.9	181.5	10.4	5.7
Other	32.3	29.4	2.8	9.7	226.0	222.2	3.8	1.7	173.2	166.6	6.6	4.0	399.2	388.8	10.4	2.7
Total current expenditure	52.8	49.2	3.6	7.4	364.5	356.2	8.3	2.3	271.4	261.2	10.2	3.9	635.9	617.4	18.5	3.0
Depreciation	0.7	0.6	0.0	3.8	4.6	4.4	0.2	4.7	3.3	3.1	0.2	6.9	7.9	7.5	0.4	5.5
CG Surplus on current budget	-6.0	-3.2	-2.8	-88.2	-67.7	-60.5	-7.2	-12.0	-23.5	-31.3	7.9	-25.1	-91.2	-91.8	0.7	-0.7
CG Net investment	2.3	1.8	0.5	30.8	-15.8	13.4	-29.1		16.5	9.0	7.5	83.5	0.7	22.4	-21.7	-96.9
CG Net borrowing	8.3	4.9	3.3	67.7	52.0	73.9	-21.9	-29.6	39.9	40.3	-0.4	-1.1	91.9	114.2	-22.3	-19.6
Local Authorities net borrowing	0.4	1.2	-0.9	-71.4	-4.9	-5.0	0.0	0.5	5.5	12.4	-6.9	-55.7	0.6	7.4	-6.8	-91.9
Public Corporations net borrowing	0.0	-0.2	0.2	87.0	-1.7	-0.6	-1.1		1.1	0.4	0.7	210.0	-0.6	-0.2	-0.4	144.1
Public sector net borrowing	8.6	5.9	2.7	44.9	45.3	68.3	-23.0	-33.6	46.6	53.1	-6.5	-12.2	91.9	121.4	-29.5	-24.3
PSNB (ex Royal Mail)	8.6	5.9	2.7	44.9	73.3	68.3	5.0	7.3	46.6	53.1	-6.5	-12.2	119.9	121.4	-1.5	-1.2
Public sector net investment	1.9	1.5	0.4	25.2	-19.9	10.0	-29.9	-299.7	16.5	16.7	-0.2	-1.1	-3.4	26.7	-30.1	-112.7
Public sector current budget	-6.7	-4.4	-2.3	-51.7	-65.2	-58.3	-6.9	-11.8	-30.1	-36.4	6.3	-17.3	-95.3	-94.7	-0.6	0.6

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