

Commentary on the Public Sector Finances release: November 2012

1. The Office for National Statistics and HM Treasury published their November 2012 Public Sector Finances bulletin this morning.¹ Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast in the December 2012 *Economic and fiscal outlook (EFO)*. The OBR did not have information on November receipts or expenditure before the December EFO forecast was closed.

Summary

2. Public sector net borrowing (PSNB) totalled £17.5 billion in November, around £1.2 billion higher than in November last year and above average market expectations of £16.0 billion. Higher net borrowing in November compared to last year mainly reflects stronger growth in central government spending than receipts.
3. The December 2012 *EFO* forecast for PSNB in 2012-13 was £108.5 billion if the impact of moving the Royal Mail's historic pension fund deficit and associated assets into the public sector is excluded. On this basis, this implies a £13.1 billion decrease in PSNB between 2011-12 and 2012-13. This release suggests PSNB for the first eight months of the financial year was £8.3 billion higher than the same period last year.
4. Two one-off items are expected to reduce borrowing in the remainder of the year: £11.5 billion from the transfer of the proceeds of the Asset Purchase Facility (APF) to the Exchequer in the final quarter; and an estimated £3.5 billion from the proceeds of the 4G spectrum auction before the end of the fiscal year.
5. Excluding these items, our forecast implies that PSNB in the remaining four months of the year will be £6.4 billion lower than last year. To meet the forecast we would need higher receipts growth and weaker spending growth than we have seen in the year-to-date. In particular, we expect stronger growth in receipts from self assessment income tax and VAT than have been seen so far this year. We also expect continued underspends in central government departments in the later months of the financial year.

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

6. However, even at this point in the year the 2012-13 forecast remains highly uncertain. Tax receipts are highly dependent on the performance of the economy over the remainder of the year. Central and local government expenditure outturns are prone to revision well after the end of the financial year. As we noted in the *EFO*, the proceeds from the spectrum auction are also highly uncertain.

November 2012 outturn

7. PSNB is usually high in November, as it is a month in which relatively small amounts of tax receipts are received. This year PSNB in November was higher than last year mainly because central government expenditure growth was much higher than receipts growth. This has been partly offset by £1.9bn lower local authority borrowing.
8. Central government accrued receipts rose by £0.2 billion or 0.6 per cent in November compared to a year earlier. Growth in NICs and accrued VAT offset a fall in income tax receipts. The latter mainly reflects some temporary effects from non-PAYE elements of income tax coming in much lower than last November.
9. However, central government current expenditure was 6.3 per cent higher than last November. The majority of the increase in spending in November is the result of higher other current spending, mainly on health and on grants to local government which were £1 billion higher than in November 2011. This is likely to reflect differences in the timing of these grants which will mean lower expenditure in later months. Monthly public sector expenditure is usually volatile from year-to-year and initial estimates are often revised.

Outturn for April to November 2012

10. Revisions in this month's release have raised PSNB for the first seven months of 2012-13 by £1.9 billion. Estimates of central government spending were reduced by £0.4 billion, but receipts were revised down by £1.5 billion as a result of lower than expected cash receipts in November accruing back to earlier months. Borrowing from public corporations has also been revised up, but this is partially offset by a downward revision to local government borrowing.
11. Year-to-date central government receipts are now 0.1 per cent lower than in the equivalent period last year. Our December *EFO* forecast implied growth of 3.8 per cent for 2012-13 as a whole. The full-year forecast is boosted by the inclusion of proceeds from the transfer of assets from the APF and reclassification of Bradford and Bingley and Northern Rock (Asset Management) into central government. We expect these to be incorporated into the data before the end of the financial year. The year-to-date position also partly reflects the ongoing weakness in corporation tax receipts, particularly from the North Sea.
12. The assumed underlying growth in receipts in our December *EFO*, excluding the one-off elements, is around 1.3 per cent which is above the current year-to-date growth rate of -0.1 per cent. To meet our forecast we expect faster growth in VAT and self-assessment income tax in the latter part of the year.

13. Accrued VAT receipts in the first eight months of the financial year grew by 1.6 per cent on a year earlier, compared with the 2.7 per cent full year forecast. However, cash receipts of VAT in November were down on a year ago. These largely relate to spending over the previous three months and are accrued back to those months in the ONS figures.
14. Central government current expenditure in the first eight months of 2012-13 is 2.7 per cent higher than the same period last year, which is close to our December EFO forecast of 2.6 per cent growth for the full year. However, the year-to-date growth rate has been volatile from month-to-month. So far this year monthly current spending growth on the previous year has varied between -1.8 and 6.4 per cent.
15. As set out in the December *EFO*, we expect departmental underspends to be higher this year than last year. Within total current expenditure, we expect strong growth in debt interest payments in the final part of the year, reflecting the monthly path of the RPI, but other current expenditure to fall slightly on last year, as the timing of the grant payments to local authorities unwinds and the higher underspends materialise.

Public sector receipts, expenditure and net borrowing

£ billion	November		April to November				Implied December to March				Full Year					
	2012	2011	change		2012-13	2011-12	change		2012-13	2011-12	change		2012-13 Dec EFO*	2011-12 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central Government (CG) current receipts																
Taxes on production	17.6	16.7	0.8	4.9	136.8	135.5	1.3	0.9	71.9	67.7	4.2	6.3	208.7	203.1	5.5	2.7
<i>Of which: VAT (accrued)</i>	9.5	9.0	0.5	5.8	74.4	73.3	1.1	1.6	38.4	36.5	1.9	5.1	112.8	109.8	3.0	2.7
Taxes on income and wealth	10.8	11.8	-1.1	-8.9	115.2	119.5	-4.3	-3.6	81.1	78.6	2.5	3.2	196.3	198.0	-1.8	-0.9
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	9.2	10.5	-1.3	-12.3	86.6	88.5	-1.9	-2.1	67.2	63.9	3.3	5.2	153.8	152.4	1.4	1.0
<i>Corporation tax</i>	1.3	1.1	0.2	21.6	26.2	28.7	-2.5	-8.6	12.7	13.5	-0.7	-5.5	38.9	42.2	-3.2	-7.6
Other taxes	1.2	1.3	-0.1	-9.3	10.3	10.4	-0.1	-0.9	5.5	4.9	0.6	12.7	15.8	15.3	0.5	3.4
Compulsory social contributions	8.3	7.9	0.4	5.0	67.5	64.8	2.7	4.1	36.6	36.8	-0.2	-0.5	104.1	101.6	2.5	2.5
Interest & dividends	0.6	0.4	0.2	37.0	3.7	3.8	-0.1	-2.7	16.3	3.6	12.8	359.2	20.0	7.4	12.7	172.1
Other receipts	0.7	0.7	0.0	4.0	5.6	5.3	0.3	4.8	3.0	2.6	0.4	15.3	8.6	7.9	0.7	8.8
Total CG current receipts	39.1	38.9	0.2	0.6	339.0	339.2	-0.3	-0.1	214.5	194.2	20.3	10.5	553.5	533.4	20.1	3.8
CG Current expenditure																
Interest payments	4.5	4.8	-0.3	-5.8	31.6	33.7	-2.1	-6.1	15.5	13.4	2.1	15.3	47.1	47.1	0.0	-0.1
Net social benefits	17.7	16.8	0.8	5.0	129.1	121.9	7.1	5.9	62.5	59.6	2.9	4.9	191.6	181.5	10.1	5.6
Other	32.9	30.2	2.7	9.0	258.5	252.4	6.1	2.4	136.1	136.4	-0.3	-0.2	394.6	388.8	5.8	1.5
Total current expenditure	55.0	51.8	3.3	6.3	419.2	408.0	11.2	2.7	214.2	209.4	4.8	2.3	633.4	617.4	16.0	2.6
Depreciation	0.7	0.6	0.0	3.0	5.3	5.0	0.2	4.6	2.7	2.5	0.2	8.6	8.0	7.5	0.5	6.9
CG Surplus on current budget	-16.6	-13.5	-3.1	-22.6	-85.5	-73.8	-11.7	-15.9	-2.4	-17.7	15.3	-86.5	-87.9	-91.5	3.6	-4.0
CG Net investment	1.7	1.3	0.4	29.6	-14.1	14.7	-28.9	-	8.5	7.7	0.8	10.5	-5.6	22.4	-28.0	-
CG Net borrowing	18.3	14.9	3.5	23.3	71.4	88.6	-17.2	-19.4	10.9	25.3	-14.4	-57.0	82.3	113.9	-31.6	-27.8
Local Authorities net borrowing	-0.7	1.2	-1.9	-	-6.4	-3.8	-2.7	-70.6	6.1	11.5	-5.4	-47.1	-0.3	7.7	-8.0	-
Public Corporations net borrowing	0.0	0.3	-0.3	-	-0.2	-0.4	0.2	43.8	-1.3	0.3	-1.6	-	-1.5	-0.1	-1.4	-
Public sector net borrowing	17.5	16.3	1.2	7.4	64.7	84.4	-19.7	-23.3	15.8	37.2	-21.4	-57.5	80.5	121.6	-41.1	-33.8
PSNB (ex Royal Mail)	17.5	16.3	1.2	7.4	92.7	84.4	8.3	9.8	15.8	37.2	-21.4	-57.5	108.5	121.6	-13.1	-10.8
Public sector net investment	1.7	1.5	0.2	14.4	-18.5	11.8	-30.2	-	10.0	16.2	-6.2	-38.3	-8.5	28.0	-36.5	-130.4
Public sector current budget	-15.8	-14.8	-1.0	-6.6	-83.2	-72.6	-10.6	-14.6	-5.8	-21.0	15.2	-72.4	-89.0	-93.6	4.6	-4.9

December 2012 EFO forecast published 5 December 2012 excluding temporary effects of financial interventions on a National Accounts basis