

Commentary on the Public Sector Finances release: October 2011

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the October 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. Updated receipts and spending forecasts taking account of provisional outturns for the first seven months of 2011-12 will be included in our upcoming *Economic and fiscal outlook* on November 29.

Summary

2. Public sector net borrowing (PSNB) was £6.5 billion in October 2011, around £1.2 billion lower than in October 2010 and close to market expectations of £6.6 billion. October is an important month for corporation tax receipts which came in lower than last year and lower than we would have expected on the basis of our March forecast. This is mainly due to lower-than-expected payments from the financial sector and oil producers.
3. PSNB for the first seven months of 2011-12 was £10.4 billion lower than in the equivalent period last year. To meet the March EFO forecast of £121.8 billion, borrowing would have to be £4.9 billion lower than last year in the final five months of 2011-12. Central government expenditure has grown less strongly than we expected so far this year, but some of this reflects different timing of payments, and these effects may unwind over the rest of the year, which is a period when departments usually increase their spending. The outlook for government receipts over the rest of the year is very dependent on developments in the wider economy.

October 2011 outturn

4. The fall in PSNB compared with October last year reflects that central government receipts rose by £1.8 billion, while central government spending rose by just £0.5 billion. Borrowing by local authorities and public corporations was £0.2 billion higher than last year.
5. Receipts were 4.1 per cent higher in October than a year earlier. As in previous months, growth in VAT receipts was particularly strong reflecting the rise in the

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

standard rate of VAT to 20 per cent in January this year. VAT receipts were up 25 per cent on a year ago.

6. October is an important month for corporation tax receipts. Corporation tax receipts were down by 6.9 per cent on a year earlier in October, well below the 14.2 per cent growth assumed for 2011-12 as a whole in the *March Economic and fiscal outlook* (EFO) forecast. Receipts from financial sector firms fell sharply on a year earlier. This is consistent with bank profit announcements in recent months, with profits affected by weaker investment banking activity, writedowns on euro area sovereign debt and provisions for the mis-selling of payment protection insurance.
7. Receipts from oil and gas firms rose on a year earlier, but much less than the 50 per cent growth assumed for 2011-12 in the March EFO. The increase in the supplementary charge announced in Budget 2011 and higher oil prices have boosted receipts, but were offset by a much steeper fall in oil and gas production than envisaged in the March EFO. Maintenance and the temporary shutdown of fields has meant that oil and gas production so far in 2011 is 17.5 per cent lower than in the equivalent period last year, compared with a 6 per cent fall that we assumed in March for the whole of 2011.
8. Central government current expenditure was just 1.1 per cent higher than in October last year, compared with our March EFO forecast of a 3.6 per cent full year increase. The low growth in October primarily reflects spending other than on debt interest and net social benefits. This fell by 3.1 per cent on a year ago, but this fall only reflects changes in the timing of large payments of education grants. The monthly profile of departmental spending can change significantly from year to year and initial estimates are usually revised.

Outturn for April to October 2011

9. Revisions in this month's release, mainly to spending in September, reduced PSNB for the first six months of 2011-12 by £1.7billion.
10. Receipts growth for the first seven months of 2011-12 is 5.1 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 seven months of 2011-12 would be 6.0 per cent. The outlook for receipts over the rest of the year is very dependent on developments in the wider economy.
11. A second consecutive month of slow spending has left growth in central government current expenditure up just 2.4 per cent in the first seven months of 2011-12, below our March EFO forecast for growth of 3.6 per cent over the whole of 2011-12. However some of this reflects different timing of payments, and these effects may unwind over the rest of the year, which is a period when departments usually increase their rate of spending

Public sector receipts, expenditure and net borrowing

£ billion	October				April to October				Implied November 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	17.4	15.4	2.1	13.4	119.0	111.0	8.0	7.2	88.8	79.6	9.3	11.7	208.7	190.5	17.3	9.1
<i>Of which: VAT (accrued)</i>	9.5	7.6	1.9	25.0	64.7	54.7	10.0	18.2	48.4	42.5	5.9	13.8	113.1	97.2	15.8	16.3
Taxes on income and wealth	18.6	19.6	-0.9	-4.8	107.4	106.2	1.2	1.2	100.1	90.3	9.8	10.9	207.5	196.5	11.0	5.6
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	9.7	10.1	-0.3	-3.3	77.8	76.7	1.1	1.5	78.3	74.6	3.7	5.0	156.1	151.3	4.8	3.2
<i>Corporation tax</i>	8.7	9.3	-0.6	-6.9	27.6	27.8	-0.2	-0.7	20.5	14.4	6.2	43.1	48.1	42.1	6.0	14.2
Other taxes	1.2	1.0	0.2	17.3	9.1	7.6	1.4	18.5	5.9	5.2	0.7	13.3	14.9	12.8	2.1	16.4
Compulsory social contributions	8.2	7.7	0.5	6.6	57.3	53.8	3.6	6.6	43.3	44.0	-0.6	-1.5	100.7	97.7	2.9	3.0
Interest & dividends	0.5	0.4	0.0	6.2	3.3	3.1	0.2	5.9	3.8	2.3	1.4	61.9	7.1	5.5	1.6	29.9
Other receipts	0.8	0.8	0.0	1.9	5.3	5.1	0.2	4.0	4.0	3.7	0.3	7.6	9.3	8.8	0.5	5.5
Total CG current receipts	46.6	44.8	1.8	4.1	301.4	286.8	14.6	5.1	245.9	225.1	20.9	9.3	547.3	511.8	35.5	6.9
CG Current expenditure																
Interest payments	4.8	3.8	1.0	26.4	28.9	25.1	3.8	15.3	19.7	17.7	2.0	11.5	48.6	42.8	5.9	13.7
Net social benefits	14.8	14.4	0.5	3.2	105.0	99.9	5.2	5.2	75.4	73.2	2.2	3.1	180.5	173.1	7.4	4.3
Other	29.8	30.7	-0.9	-3.1	223.8	224.3	-0.5	-0.2	173.6	164.6	9.0	5.5	397.4	388.9	8.5	2.2
Total current expenditure	49.4	48.9	0.5	1.1	357.7	349.3	8.5	2.4	268.8	255.5	13.3	5.2	626.5	604.7	21.7	3.6
Depreciation	0.6	0.6	0.0	2.6	4.4	4.2	0.3	6.1	3.2	3.0	0.2	6.5	7.6	7.2	0.4	6.2
CG Surplus on current budget	-3.4	-4.7	1.3	-27.8	-60.8	-66.7	5.9	-8.8	-26.0	-33.4	7.4	-22.1	-86.8	-100.1	13.3	-13.3
CG Net investment	2.6	2.5	0.0	1.3	13.9	17.5	-3.6	-20.3	9.5	20.2	-10.7	-52.8	23.4	37.7	-14.2	-37.7
CG Net borrowing	6.0	7.2	-1.3	-17.6	74.7	84.2	-9.5	-11.2	35.5	53.6	-18.1	-33.7	110.2	137.8	-27.5	-20.0
Local Authorities net borrowing	1.3	0.7	0.6		-4.6	-3.5	-1.1		16.1	5.1	11.0		11.5	1.6	9.9	628.2
Public Corporations net borrowing	-0.8	-0.2	-0.5		-1.7	-1.9	0.2		1.8	-0.3	2.1		0.0	-2.3	2.3	-102.2
Public sector net borrowing	6.5	7.7	-1.2	-15.8	68.3	78.7	-10.4	-13.2	53.5	58.3	-4.9	-8.4	121.8	137.1	-15.3	-11.2
Public sector net investment	2.0	3.0	-0.9	-31.8	10.0	16.4	-6.4	-39.0	21.8	22.2	-0.4	-1.7	31.8	38.6	-6.8	-17.6
Public sector current budget	-4.5	-4.7	0.3	-5.8	-58.3	-62.3	4.0		-31.7	-36.2	4.5		-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