

21 September 2011

Commentary on the Public Sector Finances release: August 2011

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the August 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.

August 2011 outturn

2. Public sector net borrowing (PSNB) totalled £15.9 billion in August 2011, around £1.9 billion higher than in August 2010 and about £2.9 billion above market expectations.
3. The rise in PSNB compared with August last year reflects a larger increase in central government spending (up by £3.5 billion) than in receipts (up by £2.2 billion). Borrowing by local authorities (LA) and public corporations (PC) was £0.6 billion higher than last year.
4. Receipts were 5.9 per cent higher in August than a year earlier, a little below the growth rate of 6.9 per cent required for 2011-12 as a whole to match our March EFO forecast. As in previous months, growth in VAT receipts was particularly strong reflecting the rise in the standard rate of VAT to 20 per cent in January this year.
5. Central government current expenditure was 7.2 per cent higher than in August last year, compared with our forecast of a 3.6 per cent full year increase. Year-on-year growth can be volatile because the monthly profile of departmental spending changes from year to year. This year, education grants that were made in July last year were shifted to August, boosting the growth in spending in August and leaving July spending flat on last year. Such volatility means that looking at one month's figures in isolation is typically much less informative than the cumulative year to date position, which is discussed below.

Outturn for April to August 2011

6. The outturns for the PSNB for the April to July period have been revised down by £4.6 billion. Borrowing in July was revised down by £2.4 billion because of changes to central government receipts and spending. Borrowing from April to June was revised down by £2.2 billion, largely because of changes to local government borrowing. The estimates are now based on LA forecasts of their spending, but as

¹ http://www.ons.gov.uk/ons/dcp171778_232138.pdf

this month's revisions to 2010-11 show, are still subject to considerable uncertainties.

7. After taking account of these revisions, the PSNB for the first five months of 2011-12 was £3.9 billion lower than in the equivalent period last year. This is a smaller proportionate decline than the £15.0 billion fall in PSNB over the year as a whole that we would need to meet the March EFO forecast of £121.8 billion. Excluding the impact of the bank payroll tax (which added £3.4 billion to receipts in April 2010 and was not repeated this year) and the bank levy, the improvement in the PSNB so far this year has been £6.5 billion, broadly consistent with the expected decline for the whole year.
8. Receipts growth for the first five months of the year is 4.6 per cent, compared to the 6.9 per cent growth rate implied for the year as a whole by our March forecast. If the bank payroll tax and bank levy were excluded, receipts growth for the first five months of 2010-11 would be 5.9 per cent.
9. In the March EFO, we also expected other factors to lead to stronger revenue growth in the second half of 2011-12. For example, we expect stronger growth in offshore corporation tax receipts as the higher rate of supplementary charge announced in the Budget will only affect the public finances from October. Total self assessment income tax receipts for the year to date are £0.5 billion lower than last year but these receipts mainly reflect payments on account based on 2009-10 liabilities and do not really give any indication of the size of the main payments due in January 2012. These will be affected by the delayed impact of the introduction of the additional 50p income tax rate on incomes above £150,000.
10. However, the early part of this year has also seen some unexpected weakness in revenue growth due to developments in the financial and oil sectors. Weak corporation tax payments in July from the financial sector were consistent with the poor results reported by the banks for the first half of 2011. Oil and gas revenues were depressed by lower than expected production.
11. Despite the strong growth in spending in August, total central government current expenditure was 3.7 per cent higher in the first five months of 2011-12 than in the same period last year, only slightly above the growth rate implied by our March forecast of 3.6 per cent.

Provisional outturn for 2010-11

12. The latest estimated outturn for PSNB in 2010-11 is £136.7 billion, around £5.9 billion lower than last month's estimate. This reflects an upward revision of £1.7 billion in central government receipts, small revisions to central government expenditure and a substantial downward revision to LA net borrowing of £4.2 billion and PC net borrowing of £0.5 billion. The LA revisions reflect the first provisional outturn information on LAs' current and own capital expenditure in England.

13. These revisions mean that the 2010-11 PSNB is now £9.1 billion lower than the March EFO forecast. This reflects higher CG receipts of £3.1 billion, lower CG spending of £1.0 billion and reduced borrowing by LAs and PCs of £5.0 billion.

Public sector receipts, expenditure and net borrowing

£ billion	August				April to August				Implied September 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	17.1	15.3	1.8	12.0	84.6	80.0	4.6	5.8	123.6	110.6	13.0	11.7	208.2	190.6	17.6	9.2
<i>Of which: VAT (accrued)</i>	9.4	7.7	1.8	22.9	46.2	39.0	7.3	18.6	66.9	58.4	8.5	14.5	113.1	97.3	15.7	16.2
Taxes on income and wealth	12.1	12.7	-0.6	-4.8	75.7	74.4	1.2	1.6	131.9	122.3	9.6	7.8	207.5	196.7	10.8	5.5
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	10.6	11.5	-0.8	-7.2	57.3	56.8	0.5	0.9	98.7	94.7	4.1	4.3	156.1	151.5	4.6	3.0
Corporation tax	1.3	1.1	0.2	19.3	17.2	16.8	0.5	2.7	30.9	25.2	5.7	22.6	48.1	42.0	6.1	14.5
Other taxes	1.4	1.1	0.3	27.0	6.5	5.4	1.0	18.9	8.0	7.4	0.6	8.1	14.5	12.8	1.7	13.3
Compulsory social contributions	8.2	7.6	0.6	7.9	40.5	38.4	2.1	5.5	60.2	59.3	0.8	1.4	100.7	97.7	2.9	3.0
Interest & dividends	0.5	0.4	0.1	24.6	2.1	1.9	0.1	6.9	5.0	3.5	1.5	41.9	7.1	5.5	1.6	29.5
Other receipts	0.8	0.7	0.0	3.8	3.8	3.6	0.2	4.6	5.5	5.2	0.3	6.2	9.3	8.8	0.5	5.5
Total CG current receipts	40.0	37.8	2.2	5.9	213.1	203.8	9.3	4.6	334.2	308.4	25.9	8.4	547.3	512.2	35.1	6.9
CG Current expenditure																
Interest payments	3.8	3.8	0.0	0.3	21.5	19.0	2.4	12.8	27.2	23.7	3.4	14.4	48.6	42.8	5.9	13.7
Net social benefits	15.3	14.2	1.1	7.4	74.6	71.0	3.6	5.0	105.9	102.1	3.8	3.8	180.5	173.1	7.4	4.3
Other	33.0	30.6	2.4	7.9	162.8	159.4	3.3	2.1	234.6	229.5	5.1	2.2	397.4	388.9	8.5	2.2
Total current expenditure	52.1	48.6	3.5	7.2	258.8	249.5	9.3	3.7	367.7	355.3	12.4	3.5	626.5	604.8	21.7	3.6
Depreciation	0.6	0.6	0.0	5.5	3.2	3.0	0.2	6.9	4.5	4.2	0.2	5.8	7.6	7.2	0.4	6.2
CG Surplus on current budget	-12.6	-11.4	-1.3	11.4	-48.9	-48.6	-0.3	0.6	-37.9	-51.2	13.2	-25.9	-86.8	-99.8	13.0	-13.0
CG Net investment	2.0	2.0	0.0	0.0	9.6	11.5	-1.8	-16.1	13.8	26.2	-12.4	-47.2	23.4	37.7	-14.2	-37.7
CG Net borrowing	14.7	13.4	1.3	9.7	58.5	60.1	-1.6	-2.6	51.7	77.4	-25.6	-33.1	110.2	137.4	-27.2	-19.8
Local Authorities net borrowing	1.5	1.3	0.2		-6.3	-3.1	-3.2		17.8	4.6	13.1		11.5	1.6	9.9	
Public Corporations net borrowing	-0.3	-0.7	0.4		-0.7	-1.7	0.9		0.8	-0.6	1.4		0.0	-2.3	2.3	
Public sector net borrowing	15.9	14.0	1.9	13.8	51.5	55.3	-3.9	-7.0	70.3	81.4	-11.1	-13.6	121.8	136.7	-15.0	-10.9
Public sector net investment	2.1	2.4	-0.3	-13.4	8.0	10.9	-2.9	-26.6	23.9	27.8	-3.9	-14.1	31.8	38.6	-6.8	-17.6
Public sector current budget	-13.8	-11.6	-2.3	19.5	-43.5	-44.5	1.0		-46.4	-53.6	7.2		-89.9	-98.1	8.2	-8.3

* March 2011 Budget forecast published 23 March 2011 excluding temporary effects of financial interventions on a National Accounts basis