

Commentary on the Public Sector Finances release: November 2013

1. The Office for National Statistics and HM Treasury published their November 2013 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 2013 *Economic and fiscal outlook (EFO)*. The OBR did not have information on November receipts or expenditure before the December *EFO* forecast was finalised.

Summary

2. Public sector net borrowing (PSNB) totalled £16.5 billion in November, £0.9 billion higher than in November last year and above market expectations of £15.0 billion. Central government receipts came in £1.8 billion higher than in November last year, whilst spending was £0.2 billion lower. Local Authority borrowing was £3.1 billion higher.
3. The December 2013 *EFO* forecast for PSNB (excluding Asset Purchase Facility transfers) in 2013-14 was £111.2 billion. This implies a £3.7 billion fall in PSNB from 2012-13, also excluding the Royal Mail pension plan transfer in that year. This release suggests PSNB for the first eight months of the financial year was £1.9 billion lower than the same period last year. Last month's data release showed year-to-date borrowing to October 2013 down £5.8 billion on the previous year, illustrating the caution that should be taken when interpreting early estimates of data that are subject to considerable uncertainty.
4. Our December forecast implies that PSNB in the remaining four months of the year will be £1.8 billion lower than in the same period last year. VAT and stamp taxes are expected to continue to grow strongly, but we expect lower receipts growth from self-assessment income tax (SA) and corporation tax. We also expect continued underspends in central government departments in the later months of the financial year, but on a slightly smaller scale than in 2012-13.
5. However, even at this point in the year the 2013-14 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.

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/november-2013/stb---november-2013.html>

November 2013 outturn

6. 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 higher borrowing by local authorities more than offset lower borrowing by central government. This is related to the different timing of grants to local authorities compared with a year earlier.
7. Central government accrued receipts rose by £1.8 billion or 4.6 per cent in November compared to a year earlier. Receipts growth was broad-based, with growth recorded in income tax and NICs, VAT and stamp duties. Receipts of stamp duty land tax were particularly strong, up 28 per cent on a year earlier.
8. Central government current expenditure was £1.0 billion less than in November last year, mainly because of falls in net social benefits and other current spending. The £0.8 billion reduction in other current spending includes an overall £2.3 billion fall in grants from central government to local authorities, as a result of the large timing differences in the payment of these grants this year, which is partly offset by increases in overseas grant payments made by DfID, and other spending. Central government capital spending was £0.7 billion higher than a year ago.

Outturn for April to November 2013

9. Revisions in this month's release have raised PSNB for the first seven months of 2013-14 by £2.6 billion. Estimates of central government spending were increased by £0.1 billion, and receipts were revised down by £2.0 billion. This was mainly due to downward revisions to income tax and interest and dividend receipts.
10. Central government receipts growth of 6.9 per cent for the first eight months of the financial year is much higher than the 4.6 per cent growth implied by our December forecast for 2013-14 as a whole. However, once the boost to receipts in the first half of 2013-14 from APF transfers and the Swiss capital tax is removed, receipts growth has been around 3.2 per cent.
11. The assumed underlying growth in receipts in our December *EFO*, excluding APF transfers and Swiss capital tax receipts, is broadly in line with the current year-to-date growth rate. To meet our forecast we expect slower growth in corporation tax (particularly from the North Sea) and SA receipts. The final payments on 2012-13 SA liabilities are due at the end of January 2014. We expect SA receipts to be depressed by additional rate taxpayers moving some of their 2012-13 liabilities into 2013-14 (which will be paid in 2014-15) in order to take advantage of the reduction in the additional rate to 45p. We also expect strength in stamp taxes and VAT in the remaining four months of the year.
12. The fall in central government current spending in November has reduced growth in the first eight months of the year to 1.8 per cent, slightly below our full year forecast of 1.9 per cent. Within this total, net social benefits are showing an increase for the year to date of only 0.7 per cent, which is below our *EFO* forecast of an increase of 1.1 per cent for the full year. Debt interest payments are up 5.0 per cent, above our

EFO forecast of 4.1 per cent for the full year, which is largely as a result of the monthly RPI inflation profile. Other central government current spending is up by 1.9 per cent, in line with our *EFO* forecast of 2.0 per cent for the full year. This includes offsetting timing effects related to local authority grants and transfers to EU institutions this year. We expect central government to underspend against their current and capital plans through the remainder of the year.

Future changes to public finance data

13. In Box 4.2 of the December *EFO* we highlighted a series of possible changes to the public finances data that will come into effect in the coming months. On 17 December, the ONS published detailed information on these potential changes, which include the implementation of ESA10 and a consultation on the findings of the PSF review.
14. The key changes from the adoption of ESA10² are likely to be:
 - an increase in public sector net debt of around £30 billion, and an increase in net borrowing of around £5 billion in 2012-13, as a result of the reclassification of Network Rail from the private to the public sector; and
 - the way the one-off transfer of the Royal Mail Pension Plan in 2012-13 is treated in the public finances, where the ONS are still in discussion with Eurostat on the final treatment.
15. In addition, the ONS are consulting on a number of changes to improve the consistency and presentation of the public sector finances data.³ We will provide an update on the possible effects of the conclusions from that consultation, including any future decisions and guidance, in our next *EFO*, which will be published alongside the Budget on 19 March.

² <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-statistics/index.html>

³ <http://www.ons.gov.uk/ons/about-ons/get-involved/consultations/consultations/consultation-on-proposals-from-the-review-of-public-sector-finance-statistics/index.html>

Public sector receipts, expenditure and net borrowing

£ billion	November		April to November				Implied December to March				Full year					
	2013	2012	change		2013-14	2012-13	change		2013-14	2012-13	change		2013-14 Dec EFO*	2012-13 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central Government (CG) current receipts																
Taxes on production	18.7	17.8	0.9	4.9	146.9	139.2	7.7	5.5	74.3	69.7	4.6	6.7	221.2	208.9	12.3	5.9
<i>Of which: VAT (accrued)</i>	10.1	9.6	0.5	5.2	78.6	74.6	4.1	5.5	39.0	37.5	1.5	4.0	117.6	112.1	5.5	4.9
Taxes on income and wealth	11.4	10.8	0.5	4.8	119.6	116.2	3.4	2.9	79.5	79.8	-0.3	-0.4	199.1	196.0	3.1	1.6
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	9.9	9.3	0.6	6.8	91.7	87.6	4.0	4.6	66.1	65.6	0.4	0.6	157.8	153.2	4.5	3.0
<i>Corporation tax</i>	1.2	1.3	-0.1	-5.1	26.0	26.2	-0.3	-1.0	12.6	13.2	-0.7	-5.0	38.5	39.5	-0.9	-2.3
Other taxes	1.3	1.2	0.1	6.7	11.8	10.3	1.5	14.4	5.4	5.1	0.4	7.5	17.2	15.4	1.9	12.2
Compulsory social contributions	8.4	8.1	0.2	2.7	68.4	67.1	1.2	1.9	38.5	37.4	1.1	3.0	106.9	104.5	2.4	2.3
Interest & dividends	0.7	0.6	0.1	20.5	17.8	7.9	9.9	125.5	4.1	9.0	-5.0	-54.9	21.9	16.9	4.9	29.3
Other receipts	0.7	0.7	0.0	0.0	6.0	5.8	0.2	2.6	3.4	3.0	0.4	13.7	9.4	8.8	0.6	7.0
Total CG current receipts	41.2	39.3	1.8	4.6	370.5	346.6	23.9	6.9	205.3	203.9	1.4	0.7	575.8	550.5	25.3	4.6
CG Current expenditure																
Interest payments	4.5	4.3	0.1	2.6	33.5	31.9	1.6	5.0	16.0	15.7	0.4	2.4	49.5	47.6	2.0	4.1
Net social benefits	17.4	17.7	-0.3	-1.8	130.5	129.6	0.9	0.7	63.0	61.9	1.2	1.9	193.5	191.5	2.1	1.1
Other	31.1	31.8	-0.8	-2.4	263.1	258.2	4.9	1.9	136.5	133.6	3.0	2.2	399.6	391.8	7.9	2.0
Total current expenditure	52.9	53.9	-1.0	-1.8	427.0	419.6	7.4	1.8	215.7	211.2	4.5	2.1	642.7	630.8	11.9	1.9
Depreciation	0.7	0.7	0.0	0.0	5.7	5.5	0.2	2.8	3.1	2.8	0.3	11.5	8.8	8.3	0.5	6.3
CG Surplus on current budget	-12.5	-15.2	2.8	18.3	-62.2	-78.5	16.4	20.8	-13.6	-10.2	-3.4	33.7	-75.8	-88.7	12.9	-14.5
CG Net investment	2.2	1.5	0.7	49.2	17.2	-12.2	29.3	241.4	9.5	8.7	0.8	9.7	26.7	-3.5	30.2	-
CG Net borrowing	14.7	16.7	-2.1	-12.3	79.4	66.4	13.0	19.6	23.1	18.7	4.4	23.3	102.5	85.1	17.4	20.4
Local Authorities net borrowing	2.4	-0.7	3.1	461.0	-5.6	-6.3	0.7	11.3	4.4	4.9	-0.5	-10.3	-1.2	-1.4	0.2	-13.7
Public Corporations net borrowing	-0.6	-0.5	-0.1	-23.8	-2.0	-2.2	0.2	8.9	-0.2	-1.0	0.8	-80.1	-2.2	-3.2	1.0	-31.5
Public sector net borrowing	16.5	15.6	0.9	5.9	71.8	57.9	13.9	24.0	27.2	22.6	4.7	20.7	99.0	80.5	18.6	23.1
PSNB (ex. Royal Mail)	16.5	15.6	0.9	5.9	71.8	85.9	-14.1	-16.4	27.3	22.6	4.7	20.7	99.0	108.5	-9.5	-8.7
PSNB (ex. Royal Mail and APF)	16.5	15.6	0.9	5.9	84.0	85.9	-1.9	-2.3	27.3	29.0	-1.8	-6.1	111.2	114.9	-3.7	-3.2
Public sector net investment	2.3	1.8	0.6	31.7	13.1	-15.8	28.9	183.2	11.8	10.5	1.3	12.6	24.9	-5.3	30.2	-
Public sector current budget	-14.2	-13.8	-0.4	-2.6	-58.7	-73.7	15.0	20.3	-15.5	-12.1	-3.4	28.1	-74.2	-85.8	11.6	-13.5

*December 2013 EFO forecast published 5 December 2013. Excluding temporary effects of financial interventions on a National Accounts basis.