

21 November 2013

Commentary on the Public Sector Finances release: October 2013

1. The Office for National Statistics and HM Treasury published their October 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 March *Economic and fiscal outlook (EFO)*. Updated fiscal forecasts will be published in our upcoming *EFO* on 5 December.

Summary

2. Public sector net borrowing (PSNB) – excluding financial interventions – totalled £8.1 billion in October, around £0.2 billion lower than in October last year but £0.6 billion above market expectations.
3. October is a key month for corporation tax receipts, with large firms paying a further instalment payment on their expected 2013 profits. Corporation tax receipts were down from last year, partly because of a fall in receipts from the North Sea. Growth in income tax, National Insurance contributions (NICs), VAT and stamp duty meant that total receipts in October were 3.2 per cent higher than a year ago.
4. Central government current expenditure was also up slightly on a year ago – an increase of £0.6 billion or 1.2 per cent – reflecting lower payments of current grants to local authorities, which have been more front-loaded this year. Central government capital expenditure increased by £0.7 billion in October, with the capital grant associated with Royal Mail shares given to staff in October explaining £0.3 billion of the rise.
5. The March *EFO* forecast for PSNB (excluding Royal Mail and Asset Purchase Facility transfers) in 2013-14 was £119.8 billion. Following a further downward revision to £115.0 billion for borrowing in 2012-13, meeting our March forecast would now imply a £4.8 billion increase in borrowing between 2012-13 and 2013-14. However, borrowing on this measure in the first seven months of the financial year is £5.8 billion lower than the same period last year. Updated fiscal forecasts will be published in our forthcoming *EFO* on 5 December.
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/public-sector-finances---october-2013/stb---october-2013.html>

- year-on-year growth in central government current expenditure of 2.1 per cent is in line with the 2.1 per cent increase we forecast for 2013-14 as a whole.
Central government spending growth has been influenced by some significant timing effects this year, including the front-loading of central government grants to local authorities and transfers to EU institutions. The former has now largely unwound, while the latter continue to affect year-on-year comparisons.
 - growth in central government receipts of 7.9 per cent in the first seven months of the financial year is well above the full year forecast in the March *EFO* of 3.9 per cent. However, growth in the first four months of the year was boosted by transfers from the APF and Swiss capital tax receipts. Excluding these elements, growth in underlying central government receipts is around 3.7 per cent, higher than the 2.3 per cent growth implied by the March *EFO* on an equivalent basis.
 - at this stage of the financial year, there is considerable uncertainty around the local authority and public corporations borrowing figures. This is demonstrated by the £2.0 billion upward revision in this month's release for local authority borrowing in the first half of 2013-14.
7. Overall, borrowing so far this year is lower than implied by our March forecast, but the scale of any eventual undershoot for the year as a whole remains very uncertain. The latest month's data continue to suggest that the pick-up in the economy and the housing market is boosting VAT and stamp duty, partially offset by weaker North Sea receipts. As always, the outlook for the full year is clouded by the fact that data for central government spending and borrowing by local authorities and public corporations are volatile and prone to significant revision.

October 2013 outturn

8. PSNB was £0.2 billion lower in October than in the same month last year. Central government receipts were £1.5 billion higher, offset by £1.3 billion higher spending. Public corporations borrowed £0.4 billion more than in October last year, whilst local authorities borrowed £0.3 billion less.
9. Central government capital spending was £0.7 billion higher than a year ago, partly because ONS have included a £0.3 capital grant in October which records the value of the Royal Mail shares given to Royal Mail employees. Central government current expenditure was £0.6 billion higher than in October last year, mainly because of higher debt interest payments. This reflected the effect of the monthly RPI profile on accrued interest on index-linked gilts. Other central government current spending was £0.2 billion lower than a year ago, which reflects lower payments of central government current grants to local authorities. This continues to unwind the large timing differences in the payment of these grants this year, where the grant payments were front-loaded in April.
10. Central government receipts grew by 3.2 per cent in October from a year earlier. An 8.1 per cent fall in corporation tax was offset by growth in income tax, NICs and VAT. As in July, the weakness in corporation tax receipts was primarily from the instalment payments made by oil and gas companies on their expected 2013 profits.

Receipts from financial sector companies were also lower than in October last year, but receipts from industrial and commercial companies were higher. Stamp duty receipts continued to grow strongly, up 45.9 per cent on a year earlier.

Outturn for April to October 2013

11. Revisions in this month's release have increased PSNB for the first six months of 2013-14 by £0.1 billion. Central government borrowing was revised down £1.6 billion, as estimates of central government spending were revised down by £0.6 billion and central government receipts were revised up by £1.1 billion. But this was almost completely offset by a £2.0 billion upward revision to local authority borrowing.
12. Accrued VAT receipts in the first seven months of 2013-14 are now estimated to have grown by 5.8 per cent on a year earlier, compared with the 3.1 per cent full year forecast in the March *EFO*. Cash receipts of VAT in October were up 12.7 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 data. This explains much of the upward revision to central government receipts noted above.
13. Growth in both income tax and NICs for the year-to-date is above the full year forecasts, but this largely reflects the deferral of some income/bonuses to take advantage of the reduction of the additional rate of income tax to 45p early in the year. Prospects for PAYE and NICs receipts growth depend on the feed-through from continued low growth in average weekly earnings.
14. The combination of less strong spending in October and downward revisions to previous months has reduced growth in central government current spending for the first seven months of the year to 2.1 per cent, in line with the full year forecast. Within this total, net social benefits are showing an increase for the year to date of only 1.1 per cent, which is below our *EFO* forecast of an increase of 2.0 per cent for the whole year. However, debt interest payments and other central government current expenditure are showing increases for the year which are above our *EFO* forecasts for the whole year. Other current expenditure is being temporarily increased by the front loading of payments to EU institutions. The critical issue for our full-year forecast will be the extent of departmental underspending this year. We will look at this issue again, along with our other spending and receipts forecasts, in our forthcoming *EFO*.

Public sector receipts, expenditure and net borrowing

£ billion	October				April to October				Implied November to March				Full year			
			change				change				change		2013-14		2012-13	
	2013	2012	£bn	%	2013-14	2012-13	£bn	%	2013-14	2012-13	£bn	%	Mar EFO*	outturn	£bn	%
Central Government (CG) current receipts																
Taxes on production	19.3	17.9	1.5	8.2	128.4	121.4	7.0	5.8	87.6	87.5	0.1	0.1	216.0	208.9	7.1	3.4
Of which: VAT (accrued)	10.2	9.6	0.6	6.4	68.7	64.9	3.8	5.8	46.8	47.2	-0.3	-0.7	115.5	112.1	3.5	3.1
Taxes on income and wealth	17.7	18.2	-0.4	-2.4	109.1	105.4	3.7	3.5	89.7	90.6	-0.9	-1.0	198.8	196.0	2.8	1.4
Of which:																
Income tax and CGT (accrued)	10.3	10.1	0.2	2.3	82.6	78.4	4.3	5.4	74.4	74.8	-0.4	-0.5	157.0	153.2	3.8	2.5
Corporation tax	7.2	7.8	-0.6	-8.1	24.7	24.9	-0.2	-0.8	13.5	14.5	-1.0	-6.9	38.3	39.5	-1.2	-3.0
Other taxes	1.5	1.4	0.0	3.4	10.7	9.2	1.5	16.7	9.2	6.2	3.0	48.8	19.9	15.4	4.5	29.3
Compulsory social contributions	8.4	8.2	0.3	3.1	60.2	59.0	1.2	2.1	46.5	45.5	1.0	2.2	106.7	104.5	2.2	2.1
Interest & dividends	1.0	0.8	0.2	22.7	17.7	7.2	10.5	146.9	3.6	9.5	-5.9	-62.0	21.3	16.7	4.6	27.5
Other receipts	0.7	0.7	0.0	0.0	5.3	5.1	0.2	3.1	3.6	3.7	-0.1	-2.4	8.9	8.8	0.1	1.2
Total CG current receipts	48.7	47.2	1.5	3.2	331.3	307.2	24.1	7.9	240.2	243.1	-2.9	-1.2	571.5	550.3	21.2	3.9
CG Current expenditure																
Interest payments	5.0	4.4	0.7	15.0	29.0	27.5	1.5	5.4	20.5	20.1	0.5	2.4	49.5	47.6	2.0	4.2
Net social benefits	16.2	16.1	0.2	1.1	113.0	111.9	1.1	1.0	82.3	79.6	2.7	3.4	195.3	191.5	3.8	2.0
Other	31.7	31.9	-0.2	-0.7	231.8	226.6	5.3	2.3	167.5	165.5	2.0	1.2	399.3	392.1	7.2	1.8
Total current expenditure	53.0	52.4	0.6	1.2	373.8	366.0	7.9	2.1	270.3	265.1	5.2	1.9	644.1	631.1	13.0	2.1
Depreciation	0.7	0.7	0.0	0.0	5.0	4.8	0.2	3.2	3.3	3.5	-0.2	-5.9	8.3	8.3	0.0	-0.1
CG Surplus on current budget	-5.0	-5.9	0.9	15.5	-47.5	-63.6	16.1	25.3	-33.4	-25.6	-7.8	30.6	-80.9	-89.2	8.3	-9.3
CG Net investment	2.8	2.1	0.7	31.5	15.2	-13.6	28.8	211.5	13.7	10.1	3.6	35.9	28.9	-3.5	32.4	-
CG Net borrowing	7.7	8.0	-0.3	-3.1	62.7	50.0	12.7	25.4	47.1	35.7	11.5	32.1	109.8	85.7	24.2	28.2
Local Authorities net borrowing	0.5	0.8	-0.3	-43.3	-8.6	-5.7	-2.9	-50.0	7.3	3.9	3.4	86.6	-1.3	-1.8	0.5	-28.4
Public Corporations net borrowing	-0.1	-0.5	0.4	81.4	-1.4	-1.6	0.1	8.4	0.5	-1.7	2.2	-131.2	-0.9	-3.3	2.4	-73.5
Public sector net borrowing	8.1	8.2	-0.2	-2.0	52.7	42.7	10.0	23.4	55.0	37.9	17.1	45.0	107.7	80.6	27.1	33.6
PSNB (ex. Royal Mail)	8.1	8.2	-0.2	-2.0	52.7	70.6	-18.0	-25.5	55.0	37.9	17.1	45.1	107.7	108.6	-0.9	-0.8
PSNB (ex. Royal Mail and APF)	8.1	8.2	-0.2	-2.0	64.8	70.6	-5.8	-8.2	55.0	44.3	10.7	24.0	119.8	115.0	4.8	4.2
Public sector net investment	2.3	1.8	0.5	30.0	10.5	-17.7	28.3	159.4	13.7	11.9	1.7	14.6	24.2	-5.8	29.9	-
Public sector current budget	-5.7	-6.4	0.7	10.9	-42.1	-60.4	18.3	30.3	-41.4	-26.0	-15.4	59.4	-83.5	-86.4	2.9	-3.3

March 2013 EFO forecast published 20 March 2013 excluding temporary effects of financial interventions on a National Accounts basis