

Commentary on the Public Sector Finances release: July 2013

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the July 2013 Public Sector Finances this morning.¹ Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast.

Summary

2. July is usually the second highest month for receipts during the financial year, reflecting the timing of corporation tax and self assessment payments. As a result, the budget is usually in surplus during the month. However, public sector net borrowing (PSNB) – excluding financial interventions – came in at £0.1 billion this July, compared with a surplus of £0.8 billion in July last year. This was also worse than market expectations of a £2.9 billion surplus.
3. The deterioration in PSNB compared with last July chiefly reflects strong growth in central government spending which can be volatile on a monthly basis. The increase in spending was greater than the rise in central government receipts, which was itself boosted by £0.4 billion from the ongoing transfers from the Asset Purchase Facility (APF) to the Exchequer. It is, however, worth noting that the initial estimate of July 2012's public finances also showed a deficit - of £0.6 billion - with subsequent revisions delivering the current estimate of a £0.8 billion surplus.
4. After the first four months of the 2013-14 financial year, PSNB excluding Royal Mail and APF – the measure we highlighted in our March EFO – was £1.6 billion higher than last year. With the latest 2012-13 outturn lower than our March EFO estimate, meeting the 2013-14 full year forecast would imply an increase of £3.4 billion over the year as a whole. However, four months' data provides only a limited guide to likely trends over the rest of the year, since outturn data for central government spending, and local authority and public corporations borrowing can be volatile on a monthly basis and prone to revisions. Year-to-date developments have been driven by:
 - growth in central government receipts since last year of 10.3 per cent in the first four months of the financial year, which is well ahead of the 4.0 per cent growth we forecast for 2013-14 as a whole. However, much of this reflects the effect of APF transfers on receipts. This effect is front-loaded in 2013-14, but was back-loaded in 2012-13. As noted in last month's commentary, the yield from the Swiss

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

capital tax looks like it will be significantly lower than expected at the March 2013 EFO. Abstracting from both the APF transfers and the Swiss capital tax, growth in receipts for the year-to-date is 3.2 per cent, compared with a full year forecast of 2.4 per cent.

- growth in central government current expenditure of 4.3 per cent in the first third of the financial year, which is also well ahead of the 2.2 per cent increase expected for the whole of the financial year. However, this stronger growth reflects the earlier timing of grant payments to local authorities this year.

July 2013 outturn

5. The £0.9 billion rise in PSNB compared with last July chiefly reflects the £3.0 billion rise in central government spending. This was only partly offset by a £2.2 billion rise in central government accrued receipts. Borrowing by local authorities and public corporations was little changed from a year earlier.
6. Central government current expenditure increased by 3.7 per cent in July compared with last year. This reflects other current spending (primarily on public services) rising 4.5 per cent on a year earlier due to higher spending by several departments. Departmental payments are often volatile on a month-to-month basis and are subject to revision. There may be additional volatility and uncertainty this year because of the possible changes to the spending profile arising from the creation of new NHS bodies. Within the overall increase in other current spending, higher spending by departments was partly offset by lower current grants to local authorities. Payments of these grants are expected to be lower for most of the remaining months of the financial year, compared with last year, because the grant payments were front loaded in April this year. We provided a full explanation of the changes in payments of grants in our commentary on the Public sector finances release in June.
7. July is an important month for receipts since many firms pay the first corporation tax instalment payment on their 2013 profits during the month. The second payment on account for self assessment (SA) liabilities for 2012-13 was also due on 31 July. SA income tax receipts were up 8.0 per cent in July on a year earlier. With the due date at the end of the month, payments will be collected in both July and August. So some of the year-on-year strength in July could be a timing effect and may unwind in August.
8. Corporation tax receipts in July were up 0.6 per cent on a year earlier, compared with a full year forecast in the March EFO of a 3.1 per cent fall. The fall in the March forecast was expected to come primarily from receipts paid by industrial and commercial companies, reflecting the reduction in the main rate of corporation tax from 24 per cent to 23 per cent, the temporary increase in the annual investment allowance and the introduction of the Patent Box. However, receipts from the industrial and commercial sector were stronger than expected. That strength was partly offset by receipts from oil and gas firms, which were weaker than forecast.
9. Lower corporation tax receipts from oil and gas firms are likely primarily to reflect lower production and, to a lesser extent, lower oil prices. Oil prices have averaged

around \$108 a barrel so far in 2013, compared with a full year assumption of \$113 a barrel based on financial market prices at the time of the March EFO. Our forecasts for oil and gas production are based on the central projection published by the Department of Energy and Climate Change (DECC). Oil and gas production in 2013 was expected to remain at a similar level to 2012. However, a substantial recovery in production would be required over the remainder of 2013 to meet this forecast following weakness in the first half of the year, when production fell by 14.2 per cent on a year earlier. Today's Economic Report by UK Oil and Gas² notes that production continued to decline in early 2013 and if this rate were maintained for the rest of the year, production would be 8.5 per cent lower than in 2012.

Outturn for April to July 2013

10. Revisions in this month's release to the data for the first four months of 2012-13 raised PSNB by £0.3 billion, with downward revisions in central government spending offset by higher estimates of local authority borrowing.
11. Growth in central government current expenditure for the first four months of the financial year is 4.3 per cent, compared with a 2.2 per cent full year forecast. As noted earlier, this chiefly reflects the timing of grants to local authorities. Growth in net social benefits is close to the full year forecast, while debt interest spending is below its full year forecast. The latter will be affected by changes in the monthly profile of the Retail Prices Index (RPI), which affects payments on index-linked gilts.
12. The timing of APF transfers is the main explanation for central government receipts growth for the year-to-date of 10.3 per cent, compared with our full year forecast of 4.0 per cent. Capital tax receipts from the UK-Swiss tax agreement are likely to be less than the £3.2 billion estimate included in the March 2013 EFO. A further payment from the Swiss authorities has been received, bringing the total payment so far to £0.6 billion, which is accrued to May 2013. The ONS will update the current estimate in future Public Sector Finances releases as required. Last month's commentary provided more detail on the UK-Swiss tax agreement and noted that we would ask the Treasury and HM Revenue & Customs to re-estimate the revenues they expect from the Swiss deal and other tax disclosure schemes ahead of our Autumn forecast.
13. Abstracting from both APF transfers and the Swiss capital tax, receipts growth for the year-to-date is 3.2 per cent compared with a full year forecast of 2.4 per cent. This comparison has been helped by a year-on-year rise of over 25 per cent in stamp duty land tax receipts so far in 2013-14. This is well ahead of the 12.2 per cent full year forecast. Receipts have benefited from the strong rise in house prices in London, up 8.1 per cent in the year to June according to the ONS. London accounts for almost 40 per cent of overall stamp duty,³ due to the larger proportion of residential properties in London that are subject to the 3, 5 or 7 per cent rates.

² <http://www.oilandgasuk.co.uk/cmsfiles/modules/publications/pdfs/EC038.pdf>

³ London proportion based on 2011-12 data. Latest stamp duty land tax data is available at: <http://www.hmrc.gov.uk/statistics/receipts/receipts-stats.pdf>

Issues for next month's release

- 14. From August, the ongoing APF transfers will cease to reduce the 2013-14 PSNB, since the threshold of the Bank of England's entrepreneurial income from last year was reached in July. The APF transfers over the remainder of the financial year will be classified as financial transactions. They will continue to reduce the central government net cash requirement and net debt.*
- 15. Next month's release will include further revisions to the 2012-13 outturn for PSNB. These will include revisions to central government spending to reflect departments' provisional outturns, firmer data on local authority capital spending and the inclusion of receipts from the EU Emissions Trading Scheme and the Carbon Reduction Commitment. These receipts streams are already included in the OBR forecast.*

Public sector receipts, expenditure and net borrowing

£ billion	July		April to July				Implied August to March				Budget 2013 forecast					
	2013	2012	change		2013-14	2012-13	change		2013-14	2012-13	change		2013-14 Mar EFO*	2012-13 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central Government (CG) current receipts																
Taxes on production	18.1	17.7	0.4	2.4	70.2	68.1	2.1	3.0	145.8	140.0	5.8	4.1	216.0	208.1	7.9	3.8
Of which: VAT (accrued)	9.5	9.3	0.2	1.7	37.7	37.0	0.7	1.8	77.8	75.1	2.8	3.7	115.5	112.1	3.5	3.1
Taxes on income and wealth	24.3	23.4	0.9	3.8	65.7	62.1	3.6	5.8	133.1	133.9	-0.8	-0.6	198.8	196.0	2.8	1.4
Of which:																
Income tax and CGT (accrued)	17.2	16.3	1.0	5.8	50.8	47.0	3.8	8.0	106.2	106.2	0.0	0.0	157.0	153.2	3.8	2.5
Corporation tax	6.9	6.9	0.0	0.6	14.2	14.1	0.1	0.4	24.1	25.3	-1.3	-5.0	38.2	39.5	-1.2	-3.1
Other taxes	1.5	1.4	0.1	6.9	6.1	5.1	1.0	18.9	13.8	10.3	3.5	34.2	19.9	15.4	4.5	29.3
Compulsory social contributions	8.7	8.5	0.3	3.0	35.4	34.1	1.3	3.7	71.3	70.4	0.9	1.3	106.7	104.5	2.2	2.1
Interest & dividends	1.2	0.6	0.5	85.4	15.3	5.0	10.3	208.2	6.0	11.6	-5.6	-48.1	21.3	16.6	4.7	28.3
Other receipts	0.7	0.7	0.0	0.7	3.0	2.9	0.1	3.5	5.9	5.8	0.1	1.3	8.9	8.7	0.2	2.0
Total CG current receipts	54.5	52.3	2.2	4.2	195.6	177.2	18.3	10.3	375.9	372.1	3.8	1.0	571.5	549.3	22.2	4.0
CG Current expenditure																
Interest payments	3.5	3.5	0.0	1.1	17.5	17.2	0.3	1.6	32.0	29.8	2.3	7.6	49.5	47.0	2.6	5.5
Net social benefits	16.6	16.1	0.5	3.0	64.6	63.6	1.0	1.5	130.7	127.9	2.7	2.1	195.3	191.5	3.7	1.9
Other	31.1	29.7	1.3	4.5	135.3	127.5	7.7	6.1	264.0	264.3	-0.3	-0.1	399.3	391.8	7.5	1.9
Total current expenditure	51.2	49.4	1.8	3.7	217.3	208.4	9.0	4.3	426.8	421.9	4.9	1.2	644.1	630.3	13.8	2.2
Depreciation	0.7	0.7	0.0	0.0	2.8	2.7	0.1	2.8	5.5	5.6	-0.1	-1.9	8.3	8.3	0.0	-0.1
CG Surplus on current budget	2.7	2.3	0.4	16.4	-24.6	-33.9	9.3	27.4	-56.3	-55.5	-0.8	1.5	-80.9	-89.4	8.5	-9.5
CG Net investment	3.4	2.3	1.1	48.7	9.0	-19.5	28.5	146.3	19.9	16.0	3.9	24.4	28.9	-3.5	32.4	
CG Net borrowing	0.8	0.0	0.8		33.6	14.4	19.2	133.1	76.2	71.5	4.7	6.6	109.8	85.9	23.9	27.9
Local Authorities net borrowing	-0.9	-0.9	0.0	-0.2	-8.6	-7.1	-1.5	-21.1	7.3	7.6	-0.3	-3.9	-1.3	0.5	-1.8	
Public Corporations net borrowing	0.2	0.1	0.1	250.9	-0.3	-0.1	-0.2	-181.3	-0.6	-4.2	3.6	-86.4	-0.9	-4.3	3.4	-79.7
Public sector net borrowing	0.1	-0.8	0.9	-107.5	24.7	7.2	17.5	243.6	83.0	74.9	8.1	10.8	107.7	82.1	25.6	31.2
PSNB (ex. Royal Mail)	0.1	-0.8	0.9	-107.5	24.7	35.2	-10.4	-29.7	83.0	74.9	8.1	10.8	107.7	110.1	-2.4	-2.2
PSNB (ex. Royal Mail and APF)	0.5	-0.8	1.3	-159.3	36.8	35.2	1.6	4.7	83.1	81.3	1.7	2.1	119.8	116.5	3.4	2.9
Public sector net investment	1.8	1.6	0.2	13.5	5.6	-22.9	28.4	124.3	18.6	17.5	1.1	6.2	24.2	-5.4	29.6	
Public sector current budget	1.8	2.4	-0.7	-27.4	-19.2	-30.1	10.9	36.3	-64.3	-57.4	-6.9	12.0	-83.5	-87.5	4.0	-4.6

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