

Commentary on the Public Sector Finances release: July 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the July 2015 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, currently the July 2015 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) recorded a surplus of £1.3 billion in July, a £1.4 billion improvement on last year. The surplus was £0.2 billion higher than market expectations. July is usually the second highest month for receipts during the financial year, reflecting the timing of corporation tax and self-assessment (SA) payments.
3. The main reason for the improvement was 4.2 per cent growth in central government accrued receipts (excluding APF transfers). Changes to the timing of central government grants to local authorities pushed up central government spending relative to last July but reduced local authority borrowing.
4. Meeting our July *EFO* forecast for PSNB in 2015-16 would require an £18.6 billion reduction in borrowing over the full financial year. Over the first four months of the year, PSNB was £7.3 billion lower than last year. Income tax, NICs and corporation tax receipts have all recorded stronger growth so far this year than the full-year forecasts we published in July.

Detailed commentary

5. PSNB recorded a surplus of £1.3 billion in July, an improvement of £1.4 billion on a year earlier. A £2.1 billion rise in central government spending was more than offset by a £2.2 billion rise in total central government receipts. Borrowing by local authorities was £1.3 billion lower than a year ago and borrowing by public corporations was unchanged from last year.
6. Revisions in this month's release have increased PSNB in the first three months of 2015-16 by £0.2 billion. Central government receipts were revised down by £1.1 billion, more than offsetting a downward revision of £0.9 billion to central government spending. The downward revision to receipts mainly reflects weaker-

¹<http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/july-2015/stb-july-2015.html>

than-expected cash receipts of VAT in July, which are accrued back to earlier months.

7. Central government accrued receipts (excluding APF transfers) were up 4.2 per cent on a year earlier in July, largely reflecting rises in corporation tax and SA receipts. These rises offset lower receipts from the oil and gas sector.
8. Many firms made their first corporation tax instalment payment on their 2015 profits in July. Corporation tax was up 5.2 per cent on a year earlier, reflecting strong growth in receipts from the financial sector and larger industrial and commercial companies. This was despite the cut in the main rate of corporation tax from 21 to 20 per cent in April 2015. Instalment payments from companies in the oil and gas sector fell sharply compared to last July, reflecting the steep fall in oil and gas prices since last year. The effects of much lower oil and gas prices are also evident in receipts of petroleum revenue tax. With repayments exceeding gross receipts, these were negative in July and negative (at -£0.2 billion) for the year-to-date.
9. In July, HMRC made an interim payment of £0.7 billion with regard to the Franked Investment Income Group Litigation Order (FIIGLO) court case that relates to disputed corporation tax payments. In line with ESA10 National Accounting guidance, such payments will be treated as spending rather than a negative corporation tax receipt. But until a final court decision has been made (determining the timing of the spending recorded in the National Accounts), the payment will score as a financial transaction, raising the CGNCR and PSND but not affecting PSNB.
10. The second payment on account for 2014-15 SA liabilities was due on 31 July. SA income tax receipts were up 17.3 per cent on a year earlier. With the due date at the end of the month, payments are collected in both July and August, so the full picture will be clearer once we have August receipts. But even the total for July and August will not provide any information about prospects for the year as a whole as these payments on account are based on last year's tax liabilities. The July *EFO* forecast for SA income tax assumes a 7.2 per cent rise in receipts in 2015-16 as a whole, including the balancing payments due on 2014-15 liabilities at the end of January 2016. That reflects the strong growth in self-employment in 2014, rising profits and previously announced measures on partnerships and accelerated payments.
11. For the first four months of 2015-16, central government receipts (excluding APF transfers) increased by 4.7 per cent on a year earlier – higher than the 4.3 per cent we expected for the full year in our recent *EFO*. While growth in VAT receipts is lower than our full-year forecast, this has been more than offset by stronger growth in several receipts streams so far in 2015-16. This reflects:
 - strong receipts growth of PAYE and NICs in the business services, financial and construction sectors, as well as strong growth in July SA receipts;
 - strong growth in corporation tax receipts from the industrial, commercial and financial sectors, which more than offset lower receipts from oil and gas companies; and

- receipts in April and May were boosted by £0.5 billion of Financial Conduct Authority fines. We did not include further fines in our forecast for 2015-16.

12. Total central government spending in July was £2.1 billion higher than a year earlier. Debt interest spending was up £0.4 billion, reflecting the monthly path of RPI inflation that affects accrued payments on index-linked gilts. Spending on net social benefits was up by £0.1 billion, while other current spending was £1.3 billion higher. The latter was mainly driven by the timing of central government grants to local authorities – in particular, the revenue support grant (discussed in more detail in May’s commentary) – and higher EFA spending on the learner support grant and academies. Central government net investment rose by £0.2 billion on a year earlier, principally as a result of an increase in capital grants paid to TfL by DfT and the timing of the DH social care grant moving from August to July. Central government spending over April to July was £0.5 billion higher than a year earlier, mainly reflecting the timing of central government grants to local authorities.
13. In the July EFO, we forecast that PSND would fall from 80.8 per cent of GDP at the end of 2014-15 to 80.3 per cent by the end of 2015-16, but PSND in July was still up by 1.1 per cent of GDP from a year earlier. The main reason that we expect PSND to fall as a share of GDP this year is the Government’s announced programme of financial asset sales. We expect this to raise £32 billion in 2015-16, but with the proceeds back-loaded towards the end of the year. So far in 2015-16, major asset sales have included the ongoing sales of Lloyds shares (that have totalled around £5 billion so far this year) and sales of shares in Royal Mail and Eurostar (each raising around £¾ billion). This helps to explain why the public sector net cash requirement in the 12 months to July 2015 is currently down by only around £7 billion relative to the preceding 12 months, while we expect it to fall by £22 billion in 2015-16 as a whole.

Table 1: Accrued and cash borrowing measures, and public sector net debt

	July			Full year		
	£ billion			£ billion		
	2015	2014	change	2015-16 forecast	2014-15 outturn	change
Public sector net borrowing ¹	80.7	98.7	-17.9	69.5	88.0	-18.6
CG net cash requirement ex ^{1,2}	90.7	91.2	-0.5	71.6	92.3	-20.7
Public sector net cash requirement ¹	69.4	76.5	-7.1	50.8	72.7	-21.9
Public sector net debt (PSND)						
Public sector net debt	1505	1432	73	1532	1486	46
Public sector net debt (per cent of GDP)	80.8	79.7	1.1	80.3	80.7	-0.4

¹ 12 month rolling total.

² CGNCR excluding NRAM, B&B and Network Rail.

July 2015 EFO forecast published 8 July 2015 excluding public sector banks on a National Accounts basis.

Issues for next month’s release

14. The £2.1 billion sale of RBS shares at the start of August and the ongoing sales of Lloyds shares will affect public sector net debt in next month’s release.

Table 2: Public sector receipts, expenditure and net borrowing

£ billion	July		April to July				Implied August to March				July forecast					
	2015	2014	change		2015-16	2014-15	change		2015-16	2014-15	change		2015-16 July EFO	2014-15 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts																
Taxes on production	20.3	19.5	0.8	4.2	78.1	76.1	2.0	2.7	164.3	155.3	9.0	5.8	242.4	231.4	11.0	4.8
<i>Of which: VAT (accrued)</i>	10.5	10.2	0.3	3.3	41.8	40.8	1.0	2.5	87.7	84.0	3.7	4.4	129.5	124.8	4.7	3.8
Taxes on income and wealth	25.4	24.2	1.2	5.0	69.6	65.9	3.8	5.7	150.8	146.9	3.9	2.7	220.4	212.7	7.7	3.6
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	18.5	17.6	0.9	5.3	53.2	50.5	2.6	5.2	123.5	118.7	4.8	4.1	176.7	169.2	7.5	4.4
<i>Corporation tax</i>	6.9	6.6	0.3	5.2	16.4	15.0	1.4	9.5	26.8	28.0	-1.3	-4.6	43.1	43.0	0.1	0.3
Other taxes	1.7	1.5	0.2	14.1	6.3	5.8	0.5	9.0	12.5	11.6	0.9	7.6	18.8	17.4	1.4	8.0
Compulsory social contributions	8.9	8.8	0.2	1.9	36.9	35.2	1.7	4.8	77.9	75.1	2.9	3.8	114.8	110.3	4.6	4.1
Interest & dividends	1.1	1.3	-0.2	-13.3	7.0	7.2	-0.2	-2.6	10.4	11.9	-1.5	-12.8	17.4	19.1	-1.7	-8.9
Other receipts	1.8	1.7	0.0	1.7	7.6	6.8	0.8	12.4	14.4	14.9	-0.5	-3.6	22.0	21.7	0.3	1.4
Total CG current receipts	59.1	56.9	2.2	3.9	205.5	196.9	8.6	4.4	430.2	415.6	14.6	3.5	635.8	612.5	23.2	3.8
CG current expenditure																
Interest payments	4.2	3.7	0.4	11.5	17.9	17.7	0.2	1.0	28.8	27.7	1.1	3.9	46.7	45.4	1.3	2.8
Net social benefits	17.4	17.2	0.1	0.7	67.9	67.0	0.9	1.3	136.3	134.7	1.6	1.2	204.2	201.7	2.5	1.2
Other	33.5	32.3	1.3	3.9	136.5	137.6	-1.2	-0.8	267.0	264.2	2.8	1.1	403.5	401.8	1.7	0.4
Total current expenditure	55.0	53.2	1.8	3.4	222.2	222.3	-0.1	0.0	432.1	426.6	5.5	1.3	654.3	648.9	5.4	0.8
Depreciation	1.5	1.4	0.1	4.9	6.0	5.7	0.3	5.0	12.5	11.5	1.0	8.6	18.5	17.3	1.3	7.4
CG current budget deficit	-2.6	-2.2	-0.4	16.5	22.7	31.1	-8.4	-27.1	14.4	22.5	-8.1	-36.0	37.1	53.7	-16.6	-30.9
CG net investment	3.2	3.0	0.2	6.7	10.2	9.8	0.3	3.4	25.3	26.7	-1.4	-5.2	35.5	36.5	-1.1	-2.9
CG net borrowing	0.6	0.8	-0.2	-21.4	32.8	41.0	-8.1	-19.8	39.7	49.2	-9.5	-19.3	72.5	90.2	-17.6	-19.5
Local authorities net borrowing	-1.0	0.2	-1.3		-8.6	-9.3	0.8		11.4	11.9	-0.5		2.8	2.6	0.2	
Public corporations net borrowing	-0.9	-0.9	0.0		-0.2	-0.3	0.0		-5.6	-4.4	-1.2		-5.9	-4.7	-1.2	
Public sector net borrowing	-1.3	0.1	-1.4		24.0	31.4	-7.3	-23.3	45.4	56.7	-11.2	-19.8	69.5	88.0	-18.6	-21.1
Public sector net investment	1.9	1.8	0.1	3.2	4.9	5.3	-0.4	-8.1	23.7	25.2	-1.4	-5.7	28.6	30.5	-1.9	-6.1
Public sector current budget	-3.2	-1.7	-1.4	82.9	19.1	26.0	-6.9	-26.5	21.7	31.5	-9.8	-31.1	40.8	57.5	-16.7	-29.0

July 2015 EFO forecast published 8 July 2015 excluding public sector banks on a National Accounts basis.

¹ Data and forecasts contained in this table can be found from the following sources:

ONS public sector finances: <http://ons.gov.uk/ons/taxonomy/index.html?nscl=Public+Sector+Finance>

HMRC tax receipts and national insurance contributions: <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk>

OBR Economic and fiscal outlook: <http://cdn.budgetresponsibility.independent.gov.uk/July-2015-EFO-234224.pdf>

OBR supplementary fiscal tables: http://budgetresponsibility.org.uk/pubs/Fiscal_Supplementary_Tables-20151.xls