Office for
Budget
Responsibility
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Commentary on the Public Sector Finances release: January 2013

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 2013 Public Sector Finances this morning. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast. The next ONS bulletin is released on March 21, the day after publication of the Budget and our next *Economic and fiscal outlook (EFO),* so we will not publish a public finances commentary on that day.

Summary

2. Public sector net borrowing (PSNB) recorded a surplus of £11.4 billion in January 2013, around £5.0 billion larger than in January 2012 and above market expectations of a surplus of £9.5 billion. January is generally the highest month of the year for tax receipts so typically sees a surplus.

3. The surplus in January was boosted by the receipt of the first payment of £3.8 billion from the Asset Purchase Facility at the Bank of England. Excluding this transfer, central government receipts growth was just 1.1 per cent in January compared with a year ago, which is significantly lower than the receipts growth rate we forecast for the remainder of the year in our December *EFO*. Central government current spending was 4.1 per cent higher than January last year, but this mainly reflects differences in timing in payments to the EU, and payments of grants to local authorities. Local authority borrowing was £3 billion less than in January last year, partly reflecting the higher grant payments, but also reflecting a seasonally strong cash position.

4. The ONS has announced today how it will treat transfers between the Treasury and the Asset Purchase Facility (APF) and also reclassified proceeds from the Special Liquidity Scheme. The effect of these decisions is to reduce borrowing by £6.4 billion in 2012-13. This compares to our Autumn forecast assumption of £11.5 billion. In our December forecast we noted this was an area of particular uncertainty because the ONS and Eurostat had yet to take final classification decisions. Further details are included in paragraph 22.

[1] http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/january-2013/stb---january-2012.html

5. To meet the *EFO* full year PSNB forecast of £119.9 billion (on a basis which excludes the effects of the Royal Mail and APF asset transfers), borrowing would have to be £6.4 billion lower than last year in the final two months of 2012-13.

6. The proceeds from the 4G spectrum auction will reduce borrowing by £2.3 billion in the remainder of the year. Nonetheless, to meet our Autumn forecast would now require much stronger growth in tax receipts in the last two months of the year than we have seen since December or much lower-than-forecast expenditure by central or local government.

7. The Treasury set out in its Supplementary Estimates 2012-13 published on 13 February that they have agreed that departments will move £4.2 billion of expenditure from 2012-13 to the following two years under the Budget Exchange programme. In the Autumn Statement we estimated that departments would underspend by £7.5 billion in 2012-13 against budget plans at that time, including carry-forward under Budget Exchange. The final Budget Exchange reductions are more than we had implicitly assumed in the Autumn forecast, but the extent to which departments will underspend against final plans is still uncertain.

January 2013 outturn

8. Following the Chancellor's announcement on 9 November 2012, the first payment of cash from the Bank of England's Asset Purchase Facility (APF) was received by the Exchequer in January. The payment has reduced net borrowing by £3.8 billion. Excluding this transfer public sector borrowing would have been a surplus of £7.6 billion, compared to a £6.4 billion surplus a year earlier.

9. Local authority borrowing was £3 billion less than in January last year, partly reflecting higher receipts of grants from central government, because of differences in the profile of payments of these grants, and partly reflecting a seasonally strong cash position.

10. Underlying tax receipts were just 1.1 per cent higher in January than a year earlier. The low growth rate is mostly as a result of lower corporation tax receipts, particularly from oil and gas companies. This has partially offset year-on-year increases in income tax, NICs and accrued VAT receipts.

11. Payments of self assessment (SA) and CGT relating to 2011-12 liabilities were due at the end of January.[2] These receipts were up 4.3 per cent on a year earlier, compared with our full year forecast in the December *EFO* of around 7.0 per cent growth. It is typically the case that large amounts of SA are received by HMRC after the payment deadline in the early part of February. Therefore it is not possible to make a full assessment until both January and February receipts data are available.

12. The ONS's estimate of accrued PAYE in January is as usual an estimate at this stage and is subject to revision next month depending on February cash receipts. The revision could be particularly large because February cash receipts should include

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[2] http://www.hmrc.gov.uk/statistics/receipts/receipts-stats.pdf HMRC have not yet allocated January's SA receipts between income tax, NIC4 and CGT

tax from financial sector bonuses which is highly uncertain. We assumed in our December forecast that this would fall by 10 per cent in 2012-13 but there is significant uncertainty around this estimate. Another area of uncertainty is the extent to which taxpayers will delay income until the start of the new financial year to take advantage of the new 45 per cent rate of income tax.

13. January is also an important month for corporation tax receipts which fell 13.5 per cent on a year earlier. Many medium and large onshore firms paid the third of four instalment payments on their 2012 profits, while oil and gas firms paid their third and final instalment on their 2012 profits. Corporation tax receipts from oil and gas companies were around 50 per cent lower than in January 2012, due to a 13 per cent drop in production and a sharp rise in capital expenditure in the industry. With 100 per cent capital allowances, increased investment has a significant negative effect on receipts. This more than offset a rise in receipts from onshore companies.

14. Central government current expenditure was 4.1 per cent higher overall than in January a year ago. Within this, debt interest payments were 22 per cent lower, net social benefits were 8.4 per cent higher and departmental and other current spending was 5.3 per cent higher. The monthly growth profiles of debt interest payments and net social benefits are normally volatile, with the differences in debt interest payments reflecting differences in the monthly path of the RPI. The high growth in other current spending reflects different timings in the payments of net transactions with the EU, and in the payments of grants to local authorities. These higher payments increased spending by over £1 billion in January this year, compared to a year ago, and these are payments which have been brought forward, so that spending is likely to be correspondingly lower in the next two months.

Outturn for April 2012 to January 2013

15. The reclassification of Bradford and Bingley and Northern Rock (Asset Management) into the public sector has now been included in the public finances data by the ONS. As a result, PSNB in 2011-12 has been revised down by £0.7 billion to £121.0 billion. Our December forecast for PSNB in 2012-13 excluding the effect of the Royal Mail and APF transfers was £119.9 billion. On this basis this now implies a fall in PSNB of £1.0 billion between 2011-12 and 2012-13.

16. Public sector net borrowing in the first ten months of 2012-13 was £97.6 billion, (excluding the Royal Mail and APF transfers). To meet our December forecast, borrowing would need to be £6.4 billion lower than last year in the remaining two months of the year.

17. Central government current expenditure in the first ten months of the 2012-13 is 2.7 per cent higher than the same period last year, which is higher than our December EFO forecast of 2.4 per cent growth for the full year (reflecting the latest 2011-12 outturns). However the higher spending growth to date is more than accounted for by timing differences on spending on EU payments and grants to local authorities, where payments have been made earlier than last year and so spending on these transfers is expected to be lower over the next two months.

18. The £2.3 billion proceeds of the 4G spectrum auction will also reduce expenditure growth in the final months of the year (it is classified as negative capital expenditure), though by less than the Government's estimate of £3.5 billion that we certified for the Autumn forecast.

19. A particular uncertainty is the degree to which central government departments and local government will underspend against their original budget plans. In the Autumn Statement we estimated that departments would underspend by £7.5 billion in 2012-13 against budget plans at that time, including both underspends carried forward into the next two years under Budget Exchange, and the further underspends against final plans, where the final plans include Budget Exchange. The Treasury announced in the Supplementary Estimates 2012-13 published on 13 February that they have agreed that central government departments will move £4.2 billion of expenditure from 2012-13 to the following two years under the Budget Exchange programme. These final Budget Exchange reductions are more than we had implicitly assumed in the Autumn forecast, but the extent to which departments will underspend against final plans is still uncertain.

20. Central government receipts growth for the first ten months of 2012-13 is 1.8 per cent, significantly below the 3.3 per cent growth rate implied for the year as a whole by our December forecast. In the December forecast we expected receipts in the final months of 2012-13 to be boosted by the APF transfers and strong growth in receipts from self-assessment income tax and VAT. To meet our Autumn receipts growth forecast would now require stronger growth in receipts in the last two months of the year than we have seen since the December *EFO*. As set out above there remains particular uncertainly around the level of receipts from financial sector bonuses over the next few months.

21. Local authority net borrowing for the first ten months of 2012-13 is £4.5 billion lower than a year ago. However a large part of this reduction is expected to unwind over the next two months. This is because more grants to local authorities have been paid in the first ten months of 2012-13, compared to a year ago. The January local authority borrowing figure is also heavily weighted by the strong cash position. This is likely to reflect council tax receipts which are mostly received in the first ten months of the year, however the final borrowing figures for the year will accrue the receipts over the whole year.

ONS classification of the Asset Purchase Facility and the Special Liquidity Scheme

22. The ONS has announced today how it will treat transfers between the Treasury and the Asset Purchase Facility (APF) and also reclassified proceeds from the Special Liquidity Scheme. They estimate that cash transfers between the Bank and the Treasury will reduce net borrowing by £6.4 billion in 2012-13. This compares with the forecast we made in December of £11.5 billion. The differences with the forecasts of PSNB that we made in December are as follows:

- the ONS base their calculation of the impact on borrowing of the APF transfers on the Bank's accrued income in 2011-12 which is £9.1 billion. We based the estimate we made in December of £11.5 billion on the APF's accrued income in 2012-13. This means the reduction in the measure of PSNB including the APF transfers in 2012-13 will be around £2.4 billion less than we estimated; and

- the reclassification of the Special Liquidity Scheme (SLS) and the treatment of other smaller flows from the Bank to the Treasury means the reduction in the measure of PSNB including the APF transfers in 2012-13 will be a further £2.7 billion less than we estimated. We will need to look at these classification decisions in greater detail for our March forecast, but this reclassification could increase our measure of PSNB excluding the APF transfers in 2012-13 by around £2 billion compared to our December forecast.

23. We will provide fully updated estimates of the effects of the APF transfers on borrowing in the March *Economic and fiscal outlook*.

Public sector receipts, expenditure and net borrowing

£ billion	January				April to January				Implied February to March				Full Year			
			change				change				change		2012-13	2011-12	change	
	2013	2012	£bn	%	2012-13	2011-12	£bn	%	2012-13	2011-12	£bn	%	Dec EFO*	outturn	£bn	%
<u>Central Government (CG) current receipts</u>																
Taxes on production	16.5	16.0	0.5	3.1	171.7	168.7	3.0	1.7	37.0	34.4	2.6	7.6	208.7	203.1	5.6	2.8
Of which: VAT (accrued)	9.4	9.1	0.4	4.1	93.8	91.7	2.0	2.2	19.0	18.1	0.9	4.8	112.8	109.8	3.0	2.7
Taxes on income and wealth	34.0	34.2	-0.2	-0.6	164.0	167.9	-3.9	-2.3	32.3	30.2	2.1	7.1	196.3	198.1	-1.8	-0.9
Of which:																
Income tax and CGT (accrued)	25.9	24.9	1.0	4.0	124.4	124.7	-0.3	-0.2	29.4	27.6	1.8	6.5	153.8	152.3	1.5	1.0
Corporation tax	*7.8*	*9.0*	*-1.2*	*-13.5*	*36.8*	*40.5*	*-3.7*	*-9.1*	*2.1*	*1.7*	*0.5*	*28.7*	*38.9*	*42.2*	*-3.2*	*-7.6*
Other taxes	*1.2*	*1.2*	*0.0*	*2.5*	*12.7*	*12.8*	*-0.1*	*-0.4*	*3.1*	*2.5*	*0.6*	*23.3*	*15.8*	*15.3*	*0.5*	*3.2*
Compulsory social contributions	8.9	8.7	0.2	2.5	84.8	82.0	2.8	3.4	19.3	19.6	-0.3	-1.5	104.1	101.6	2.5	2.5
Interest & dividends	4.5	0.6	3.9	641.6	12.9	6.9	6.1	88.5	7.1	3.2	3.9	123.8	20.0	10.1	9.9	98.6
Other receipts	0.7	0.6	0.1	8.8	6.9	6.6	0.3	4.8	1.7	1.3	0.4	30.5	8.6	7.9	0.7	8.8
Total CG current receipts	**65.8**	**61.3**	**4.5**	**7.3**	**453.0**	**444.9**	**8.1**	**1.8**	**100.5**	**91.1**	**9.4**	**10.3**	**553.5**	**536.0**	**17.5**	**3.3**
<u>CG Current expenditure</u>																
Interest payments	3.0	3.9	-0.9	-22.0	39.2	42.3	-3.2	-7.5	7.9	5.6	2.3	39.9	47.1	47.9	-0.8	-1.8
Net social benefits	16.0	14.7	1.2	8.4	161.2	152.2	9.0	5.9	30.4	29.3	1.1	3.9	191.6	181.5	10.1	5.6
Other	33.3	31.7	1.7	5.3	325.4	317.3	8.1	2.6	69.2	72.1	-2.9	-4.0	394.6	389.4	5.2	1.3
Total current expenditure	**52.3**	**50.3**	**2.1**	**4.1**	**525.7**	**511.8**	**13.9**	**2.7**	**107.7**	**107.0**	**0.7**	**0.7**	**633.4**	**618.8**	**14.6**	**2.4**
Depreciation	0.7	0.6	0.0	7.8	6.6	6.3	0.3	4.8	1.4	1.2	0.2	17.9	8.0	7.5	0.5	6.9
CG Surplus on current budget	**12.8**	**10.5**	**2.4**	**22.5**	**-79.3**	**-73.2**	**-6.1**	**-8.3**	**-8.6**	**-17.0**	**8.4**	**-49.5**	**-87.9**	**-90.2**	**2.3**	**-2.6**
CG Net investment	2.8	2.4	0.4	18.3	-6.4	21.3	-27.7	-130.1	0.8	1.8	-1.0	-54.4	-5.6	23.1	-28.7	-124.3
CG Net borrowing	**-10.0**	**-8.1**	**-1.9**	**-23.7**	**72.8**	**94.4**	**-21.6**	**-22.9**	**9.5**	**18.9**	**-9.4**	**-49.7**	**82.3**	**113.3**	**-31.0**	**-27.3**
Local Authorities net borrowing	-1.0	2.0	-3.0	-148.7	-6.1	-1.6	-4.5	-280.7	5.8	9.3	-3.5	-37.9	-0.3	7.7	-8.0	-103.9
Public Corporations net borrowing	-0.5	-0.4	-0.1	-24.5	-0.9	-0.5	-0.4	-73.3	-0.6	0.4	-1.0	-233.6	-1.5	-0.1	-1.4	-
Public sector net borrowing	**-11.4**	**-6.4**	**-5.0**	**78.1**	**65.8**	**92.3**	**-26.5**	**-28.7**	**14.7**	**28.7**	**-14.0**	**-48.8**	**80.5**	**121.0**	**-40.5**	**-33.5**
PSNB (ex. Royal Mail)	**-11.4**	**-6.4**	**-5.0**	**78.1**	**93.8**	**92.3**	**1.5**	**1.6**	**14.7**	**28.7**	**-14.0**	**-48.8**	**108.5**	**121.0**	**-12.5**	**-10.3**
PSNB (ex. Royal Mail and APF)	**-7.6**	**-6.4**	**-1.2**	**18.8**	**97.6**	**92.3**	**5.3**	**5.7**	**22.3**	**28.7**	**-6.4**	**-22.3**	**119.9**	**121.0**	**-1.1**	**-0.9**
Public sector net investment	3.5	3.4	0.1	3.8	-10.2	18.0	-28.2	-156.5	1.7	10.7	-9.0	-84.1	-8.5	28.7	-37.2	-129.7
Public sector current budget	14.9	9.8	5.1	52.0	-76.0	-74.3	-1.7	-2.2	-13.0	-18.0	5.0	-27.8	-89.0	-92.3	3.3	-3.6

December 2012 *EFO* forecast published 5 December 2012 excluding temporary effects of financial interventions on a National Accounts basis