Office for
Budget
Responsibility

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Commentary on the Public Sector Finances release: October 2014

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the October 2014 Public Sector Finances this morning.[1] Public finances data are now presented on a basis that reflects the updated 2010 European System of Accounts (ESA10) and the conclusions of the ONS review of the public finances statistics.[2]

2. These changes mean that the detailed public finances data are no longer presented on a basis consistent with our March 2014 *Economic and fiscal outlook* (*EFO*), which were consistent with the 1995 European System of Accounts (ESA95). This makes it more difficult to draw inferences from the latest data for performance against our March forecast. Our forthcoming December 2014 *EFO* will present forecasts on the new basis. In the intervening period, our monthly commentary has focused on year-on-year developments in the outturn data and a high level summary of where meaningful messages can be drawn on performance against forecast.

3. We do not plan to publish a commentary on next month's public finances data release given its proximity to our December forecast. From January, we will reinstate our full commentary, including a table comparing outturns to forecast.

Summary

4. Public sector net borrowing (PSNB) was £7.7 billion in October, in line with market expectations and £0.2 billion lower than a year ago. However borrowing had been higher than a year earlier in each of the first six months of 2014-15, leaving borrowing up £3.7 billion in the year-to-date.

5. Our March *EFO* forecast had assumed a fall in borrowing (on the old basis) of just over £12 billion between 2013-14 and 2014-15. Higher borrowing so far this year primarily reflects the fact that that growth in central government receipts (excluding receipts from the Asset Purchase Facility) of 2.2 per cent in the first seven months of 2014-15 is much weaker than our March *EFO* forecast of a little under 5 per cent growth for the full year. As noted in recent commentaries, we expect receipts growth to be end-loaded in 2014-15 because of the shifting of liabilities due to the reduction in the additional rate to 45p. However, factors such as weaker-than-

[1] http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/october-2014/stb-oct-2014.html
[2] The main changes and their illustrative effects on our forecasts were described in Annex B of our March 2014 *Economic and fiscal outlook*.

expected wage growth, lower-than-expected residential property transactions and lower oil and gas revenues make it unlikely that the full-year receipts growth forecast from March will be met.

October 2014 outturn

6. A £4.1 billion decline in central government borrowing in October was offset by a similar rise in borrowing by the Bank of England element of public corporations. However, this largely reflects the revised treatment of APF transfers following the ONS review. The £4.1billion APF transfer in October boosted central government receipts, but an equal and offsetting reduction in public corporation receipts leaves public sector receipts unchanged. The effect on PSNB from quantitative easing now scores as lower debt interest payments – which are reduced because the APF's liabilities are financed at Bank Rate rather than gilt rates. This effect is much more stable through the year. (Payments of gilt coupons to the APF by the Exchequer and associated cash surpluses transferred from the APF to the Exchequer are now effectively consolidated out of the public sector finances data.)

7. Abstracting from APF transfers, central government borrowing in October would have been £0.1 billion lower than last year. Central government spending was up by £1.7 billion, compared with a rise of £1.8 billion in receipts.

8. Central government receipts (excluding APF transfers) were up 3.6 per cent on a year earlier in October. Of the main tax streams, accrued VAT receipts recorded the strongest growth in October of around 4.9 per cent. Income tax, NICs and corporation tax were all up by between 1 and 2 per cent on a year ago. Many firms paid their second corporation tax instalment payment on their 2014 profits in October. A rise in receipts from onshore companies, particularly in the financial sector, helped offset a drop in receipts from oil and gas firms. We had allowed for a drop in offshore corporation tax in our March *EFO* forecast, primarily because of a sharp rise in capital investment in the industry. However, lower gas prices throughout the year and the recent sharp drop in oil prices has added to downward pressure on receipts from the sector.

Outturn for April to October 2014

9. Revisions in this month's release have reduced PSNB for the first six months of the year by £1.7 billion, more than explained by downward revisions of £2.6 billion in central government spending. Despite these downward revisions, borrowing for the April to October period is still £3.7 billion higher than a year earlier.

10. Year-to-date growth in receipts (excluding APF transfers) of 2.2 per cent is well below the full-year forecast of a little under 5 per cent. Some of this reflects the timing of receipts through the financial year. Last year's shifting of PAYE liabilities in response to the reduction in the additional rate of income tax depressed receipts growth in the early part of 2014-15. We also expect self-assessment (SA) receipts to be boosted at the end of January 2015 when the balancing payment for 2013-14 liabilities is made, again reflecting the shifting of liabilities related to the additional rate.

11. As noted earlier, there are a number of factors that mean that receipts growth for the whole of 2014-15 is likely to be lower than forecast in the March *EFO*. These include evidence that the effective tax rate on labour income has been lower-than-expected this year; stamp duty land tax receipts have been reduced by lower-than-expected property transactions; and lower oil and gas prices weighing on North Sea corporation tax and petroleum revenue tax receipts.

12. Total central government current spending has increased by 1.9 per cent over the first seven months of 2014-15, compared with our full-year forecast of 1.6 per cent. (These figures are not strictly comparable as the latest data are presented on an ESA10 basis, whereas our March *EFO* forecast was produced on an ESA95 basis.) Trends in spending in the year-to-date can be a poor guide to the full-year outturn because departments' monthly spending data are prone to large revisions as seen this month and the timing of payments can also vary considerably from year to year.

Revisions

13. The ONS has revised down its estimate of 2013-14 PSNB by £0.5 billion.

Issues for next month's release

14. Given the proximity to our December *EFO*, we do not plan to publish a commentary on next month's release.