Office for
Budget
Responsibility

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Commentary on the Public Sector Finances release: September 2014

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the September 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 that is 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 will focus 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.

Summary

3. Public sector net borrowing (PSNB) was £11.8 billion in September, £1.8 billion higher than market expectations and £1.6 billion higher than a year ago. Central government current spending and investment both grew more strongly in the year to September than central government accrued receipts. Borrowing has been higher than a year earlier in each of the first six months of 2014-15, leaving borrowing £5.4 billion higher than last year for the year-to-date.

4. 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 receipts growth of 2.4 per cent in the first half of 2014-15 is much weaker than our March EFO forecast of a little under 5 per cent growth for the full year (excluding receipts from the Asset Purchase Facility). As noted in previous 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-expected wage growth, lower-than-expected residential property transactions and lower oil and gas revenues mean it is looking less likely that the full year receipts growth forecast will be met.

[1] http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/september-2014/index.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*.

September 2014 outturn

5. The £1.6 billion rise in PSNB compared with last September mainly reflects rises of £1.9 billion in central government current spending and £1.0 billion in central government investment. This was only partly offset by a rise in central government accrued receipts of £1.4 billion.

6. Central government current spending increased by 3.7 per cent in September, compared to September 2013. This mainly reflected higher net social benefit payments, which increased by £0.9 billion (5.4 per cent higher than last year), and departmental spending on public services, which increased by £1.0 billion (3.1 per cent higher than last year). These increases were partly offset by a lower rise in debt interest payments, reflecting differences in the monthly path of the RPI. The higher departmental spending also reflects an additional £0.4 billion spending on current government grants to local authorities, which continues to unwind the timing effect seen at the start of the year, when payments of these grants were much lower than a year earlier.

7. Receipts growth was 3.1 per cent in September, reflecting moderate growth in each of the main tax streams such as PAYE, NICs, VAT and corporation tax. However, receipts for petroleum revenue tax in September were just £0.1 billion, compared with £0.4 billion last year. Oil and gas firms made a balancing payment on their liabilities for the first half of 2014 in September and these were lower, in part due to weaker-than-expected gas prices.

Outturn for April to September 2014

8. Receipts growth of 2.4 per cent for the first half of 2014-15 (excluding APF) 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 a sizeable boost to self-assessment (SA) receipts 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.

9. There are however a number of factors that mean that receipts growth for the whole of 2014-15 may be lower than forecast in the March *EFO*:

   - weaker-than-expected wage growth so far in 2014-15 appears to be depressing PAYE and NIC receipts. Unexpectedly weak earnings growth and strong employment growth also mean that a greater proportion of wages and salaries will be subject to the £10,000 personal allowance, reducing the effective tax rate on labour income. Accrued PAYE and NIC were up 2.0 per cent and 1.0 per cent for the year-to-date, compared with full-year forecasts of 3.5 per cent and 2.5 per cent respectively;

   - stamp duty land tax is still growing strongly, but growth is a little less than our full-year forecast of 35 per cent. Residential property transactions in the first half of 2014-15 were 10 per cent lower than we had forecast, possibly because we under-estimated the effect of the Mortgage Market Review; and

- the fall in oil and gas revenues may be greater than we anticipated in our March *EFO* forecast. Lower gas prices have already depressed petroleum revenue tax receipts and, if sustained, the recent sharp drop in dollar oil prices would be likely to reduce receipts further over the rest of 2014-15.

10. Total central government current spending has increased by 2.1 per cent over the first six months of 2014-15, compared with our full-year forecast of 1.6 per cent. (However these two 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.) The increase in spending to date can be a poor guide to the final outturn because departments' monthly spending data are prone to large revisions and the timing of payments can also vary considerably from year to year.

Revisions

11. The latest position for the year to date also reflects revisions, which have increased central government spending for the first five months of the year by £1.5 billion. Of this, current spending was revised up by £1.2 billion, and capital spending by £0.2 billion. The largest departmental revisions underlying these changes related to the Department of Health. An upward revision to current receipts of £0.5 billion partly offsets this spending revision.

12. The ONS has revised the 2013-14 PSNB down by £1.3 billion. This largely reflects the latest provisional outturn data for local authority spending. Local authority spending is lower by £1.2 billion, with local authority current and capital spending both revised down by £0.6 billion.

Issues for next month's release

13. October is an important month for corporation tax. Many medium and large onshore firms will pay the second of four instalment payments on their 2014 profits, while oil and gas firms will pay the second of three instalment payments on their 2014 profits.