

Commentary on the Public Sector Finances release: August 2013

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the August 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. Public sector net borrowing (PSNB) – excluding financial interventions – was £13.2 billion in August, lower than the £14.4 billion borrowing recorded last August and close to market expectations of £13.3 billion.
3. Weak receipts growth of just 1.4 per cent in August was more than offset by a fall in central government spending. Central government spending fell in August, compared to last year, because of lower central government grants to local authorities. However, this has not knocked through into a large increase in local authority borrowing. Indeed it has been partly offset by other lower local authority borrowing pressures in August. The reduction in central government grants to local authorities in August is part of a big change in the profile for the payment of these grants – this year the profile is front-loaded, with much larger payments in April and lower payments in August.
4. After the first five months of the 2013-14 financial year, PSNB excluding Royal Mail and APF – the measure we highlighted in our March EFO – was £3.7 billion lower than last year, having been £1.6 billion up on last year in last month's release. This turnaround has been helped by data revisions, particularly downward revisions to local authority (LA) borrowing. The first quarterly returns from English local authorities in 2013-14 reduced estimated LA borrowing by £3.1 billion. Following further downward revisions to net borrowing in 2012-13, meeting the 2013-14 full year forecast in our March *EFO* would imply an increase of £4.2 billion over the year as a whole. Year-to-date developments for the central government sector have been driven by:
 - growth in central government receipts since last year of 8.4 per cent in the first five months of the financial year, which is well ahead of the 3.9 per cent growth we forecast for 2013-14 as a whole. However, much of this reflects the effect of APF transfers - this effect is front-loaded in 2013-14, but was back-loaded in

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

2012-13. Although the yield from the Swiss capital tax looks like it will be significantly lower than expected at the March 2013 EFO, it has still increased growth in the early part of the year. Abstracting from both the APF transfers and the Swiss capital tax, growth in receipts for the year-to-date is 2.5 per cent, close to the full year forecast of 2.3 per cent;

- growth in central government current expenditure of 2.6 per cent in the first five months of the financial year, which is also ahead of the 2.0 per cent increase expected for 2013-14 as a whole. However, this stronger growth reflects the earlier timing of grant payments to local authorities this year. These timing effects have not yet fully unwound: over the year to date, these payments have increased central government spending, and reduced local authority borrowing.
5. At this relatively early stage of the financial year, there is very significant uncertainty around the local authority and public corporations borrowing figures, both in respect of the annual totals and the path across the year. These are prone to substantial revisions, as today's figures graphically demonstrate.
 6. Overall, there continues to be significant uncertainty around the prospects for full year borrowing. This will depend partly on the extent to which recent developments in the economy feed through into stronger receipts growth. While corporation tax from industrial and commercial firms and stamp duty land tax have been stronger than expected so far this year, there is less evidence of stronger receipts growth from data on VAT, PAYE and NIC receipts. This could reflect lags between the economy and receipts or the fact that real GDP growth is picking up more strongly than nominal GDP growth, which is of more relevance to the public finances.

August 2013 outturn

7. The £1.3 billion fall in PSNB compared with last August was helped by the £0.7 billion fall in central government spending. Receipts were £0.6 billion higher than last year.
8. Central government current expenditure fell by 2.2 per cent in August compared with last year. This reflects a 4.8 per cent fall in 'other current spending' (primarily on public services), where higher departmental spending has been more than offset by a large fall in current grants to local authorities. Departmental spending is often volatile on a month-to-month basis and is subject to revision. The fall in grants reflects the change in the timing of payment of grants to local authorities. We provided a full explanation of this in our commentary on the *Public sector finances* release in June. Debt interest payments grew 16.7 per cent in the year to August, reflecting the monthly profile of RPI, which affects debt interest on index-linked gilts.
9. Central government accrued receipts grew by just 1.4 per cent in August from a year earlier. This was driven by a sharp fall in income tax receipts which primarily reflects temporary effects from non-PAYE elements of income tax and a drop in self assessment (SA) receipts. The second payment on account for SA liabilities for 2012-13 was due on 31 July. With the due date at the end of the month, payments were

collected in both July and August. Some of the year-on-year strength recorded in July was a timing effect that unwound in August.

Outturn for April to August 2013

10. Revisions in this month's release to the data for the first four months of 2013-14 lowered PSNB by £3.3 billion. This was mainly a result of the ONS taking in the local authority quarterly data returns, which reduced estimated local authority borrowing in the first quarter of 2013-14 by £3.1 billion.
11. Growth in central government current expenditure for the first five months of the financial year is 2.6 per cent, compared with a 2.0 per cent full year forecast. As noted earlier, this chiefly reflects the timing of grants to local authorities. Growth in net social benefits and debt interest spending are currently below their full year forecasts, but the time profile of these transactions can also vary from year to year.
12. Central government receipts have grown by 8.4 per cent in the year to date, well above our full-year forecast of 3.9 per cent. This is thanks mainly to the timing of APF transfers. 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 £0.7 billion, which is accrued to May 2013. The ONS will update the current estimate in future *Public Sector Finances* releases as required. Our commentary in July 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 close to its full year forecast of 2.3 per cent. A pick-up in profits of non-oil, non-financial firms and in house prices, particularly in London, has helped boost corporation tax and stamp duty land tax receipts. Instalment payments in July on 2013 profits from non-oil, non-financial firms were stronger than expected, although they were partly offset by weaker payments from oil and gas firms. London accounts for almost 40 per cent of overall stamp duty and the latest ONS data indicates a year-on-year rise in London house prices of 9.7 per cent. Stamp duty land tax receipts for the year-to-date were up around 24 per cent, nearly double the 12.2 per cent full year forecast.
14. There is less evidence that the unexpected strength of economic data over recent months has started to feed through to other key receipts streams. Growth in accrued VAT receipts for the first five months of 2013-14 of 2.5 per cent is below the full year forecast of 3.1 per cent. Growth in both income tax and NICs for the year-to-date is above the full year forecasts, but this largely reflects the fact that April and May receipts benefited from the deferral of some bonuses in the financial and business services sector into 2013-14 to take advantage of the introduction of the lower 45p additional rate of income tax. Prospects for PAYE and NIC receipts growth will depend on the feed-through from the low growth of around 1 per cent in average weekly earnings.

Revisions to 2012-13 outturn

15. The ONS have revised down their estimate for PSNB excluding Royal Mail and APF for 2012-13 by a further £0.8 billion to £115.7 billion. It is now £5.2 billion lower than our estimate in the March EFO, having been revised down in every month but one since March. PSNB excluding Royal Mail and APF is now estimated to have fallen by £2.8 billion between 2011-12 and 2012-13. PSNB in 2011-12 itself has been revised down by £7.5 billion since it was first reported by the ONS in April 2012, with local authority borrowing accounting for £4.2 billion of that downward revision.
16. This month's release has incorporated upward revisions to central government spending to reflect latest outturn data for debt interest payments, downward revisions to local authority spending from England, an upward revision to Scottish local authority spending and the inclusion of receipts from the EU Emissions Trading Scheme and the Carbon Reduction Commitment. The revision to Scottish local authority spending and the receipts streams were anticipated in our *EFO* forecast.
17. Our 2013 *Forecast evaluation report*, which we will publish on 9 October, will contain further details of our analysis of the latest outturn data for 2012-13.

Issues for next month's release

18. The recent sale of Lloyds shares will be reflected in the September 2013 data. However, the ONS has yet to say how it will score them and whether it will be able to do so when the first vintage of September 2013 data are published next month.

Public sector receipts, expenditure and net borrowing

£ billion	August		April to August				Implied September 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	17.9	17.1	0.7	4.4	88.8	85.5	3.3	3.8	127.2	123.4	3.8	3.0	216.0	208.9	7.1	3.4
<i>Of which: VAT (accrued)</i>	9.4	9.0	0.4	4.4	47.1	46.0	1.1	2.5	68.4	66.1	2.4	3.6	115.5	112.1	3.5	3.1
Taxes on income and wealth	12.0	12.6	-0.6	-4.7	77.1	74.6	2.5	3.3	121.7	121.4	0.3	0.2	198.8	196.0	2.8	1.4
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	10.5	11.1	-0.6	-5.8	60.7	58.1	2.6	4.4	96.3	95.1	1.2	1.3	157.0	153.2	3.8	2.5
<i>Corporation tax</i>	1.3	1.2	0.1	7.4	15.5	15.3	0.1	1.0	22.8	24.1	-1.3	-5.5	38.3	39.5	-1.2	-3.0
Other taxes	1.5	1.4	0.1	6.2	7.8	6.5	1.3	20.1	12.1	8.9	3.2	36.2	19.9	15.4	4.5	29.3
Compulsory social contributions	8.4	8.2	0.2	2.9	43.5	42.3	1.2	2.8	63.2	62.2	1.0	1.6	106.7	104.5	2.2	2.1
Interest & dividends	0.7	0.6	0.1	19.1	15.5	5.5	10.0	181.9	5.8	11.2	-5.4	-47.9	21.3	16.7	4.6	27.8
Other receipts	0.7	0.7	0.0	0.0	3.7	3.6	0.1	2.2	5.2	5.2	0.0	0.2	8.9	8.8	0.1	1.2
Total CG current receipts	41.2	40.6	0.6	1.4	236.5	218.1	18.4	8.4	335.0	332.1	2.9	0.9	571.5	550.2	21.3	3.9
CG Current expenditure																
Interest payments	3.3	2.8	0.5	16.7	20.8	20.4	0.4	2.1	28.7	27.6	1.2	4.2	49.5	48.0	1.6	3.3
Net social benefits	16.2	16.2	0.0	0.0	80.7	79.9	0.8	1.1	114.6	111.6	3.0	2.7	195.3	191.5	3.8	2.0
Other	31.8	33.4	-1.6	-4.8	167.0	161.6	5.4	3.4	232.3	230.5	1.8	0.8	399.3	392.1	7.2	1.8
Total current expenditure	51.3	52.4	-1.1	-2.2	268.6	261.8	6.7	2.6	375.5	369.8	5.7	1.6	644.1	631.6	12.5	2.0
Depreciation	0.7	0.7	0.0	0.0	3.5	3.4	0.1	2.3	4.8	4.9	-0.1	-2.2	8.3	8.3	0.0	-0.1
CG Surplus on current budget	-10.8	-12.5	1.7	13.7	-35.6	-47.2	11.6	24.5	-45.3	-42.4	-2.9	6.8	-80.9	-89.6	8.7	-9.7
CG Net investment	2.0	1.5	0.5	31.4	10.6	-17.9	28.5	159.6	18.3	14.4	3.9	27.2	28.9	-3.5	32.4	
CG Net borrowing	12.7	14.0	-1.2	-8.9	46.3	29.3	17.0	57.8	63.5	56.8	6.7	11.8	109.8	86.1	23.7	27.5
Local Authorities net borrowing	1.1	0.8	0.2	29.7	-10.6	-6.2	-4.5	-72.6	9.3	4.4	4.9	110.7	-1.3	-1.8	0.5	-28.4
Public Corporations net borrowing	-0.6	-0.4	-0.3	-64.7	-1.0	-0.6	-0.4	-71.0	0.1	-2.5	2.6	-105.1	-0.9	-3.1	2.2	-71.7
Public sector net borrowing	13.2	14.4	-1.3	-8.7	34.6	22.6	12.1	53.5	73.0	58.7	14.3	24.4	107.7	81.3	26.4	32.5
PSNB (ex. Royal Mail)	13.2	14.4	-1.3	-8.7	34.6	50.5	-15.9	-31.4	73.0	58.7	14.3	24.4	107.7	109.2	-1.5	-1.4
PSNB (ex. Royal Mail and APF)	13.2	14.4	-1.3	-8.7	46.8	50.5	-3.7	-7.3	73.0	65.1	7.9	12.1	119.8	115.7	4.2	3.6
Public sector net investment	1.9	1.6	0.3	19.8	7.2	-21.2	28.4	133.9	17.0	15.7	1.3	8.4	24.2	-5.5	29.7	
Public sector current budget	-11.2	-12.8	1.6	12.2	-27.4	-43.8	16.4	37.3	-56.1	-43.0	-13.1	30.5	-83.5	-86.8	3.3	-3.8

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