

22 January 2014

Commentary on the Public Sector Finances release: December 2013

1. The Office for National Statistics and HM Treasury published their December 2013 Public Sector Finances bulletin this morning.¹ Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast in the December 2013 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) totalled £12.1 billion in December, £2.1 billion lower than in December 2012 and below market expectations of £14.0 billion. The fall in borrowing between December 2012 and December 2013 primarily reflects a £1.3 billion rise in central government receipts and a £1.2 billion fall in central government spending.
3. The December 2013 *EFO* forecast for 'underlying' PSNB (excluding Asset Purchase Facility transfers) in 2013-14 was £111.2 billion. This implies a £3.7 billion fall from 2012-13. This release estimates underlying PSNB for the first nine months of 2013-14 was £4.8 billion lower than the same period last year.
4. To match the December *EFO* forecast, borrowing in the remaining three months of the year would need to be £1.2 billion higher than in the same period last year. The year-to-date position reflects:
 - growth in central government accrued receipts so far in 2013-14 of 6.6 per cent, well ahead of the 4.6 per cent forecast for the full financial year. However, this reflects the timing of APF transfers. Excluding these transfers and the Swiss capital tax, receipts growth of 3.3 per cent is close to the full year forecast of 3.4 per cent; and
 - growth in central government current spending so far in 2013-14 of 1.4 per cent, compared with a full year forecast of 1.9 per cent. However, this comparison is being affected by differences in the monthly profile of certain spending lines. In particular, the timing for payments of central government current grants to local authorities is now lagging behind the timing a year ago, so that more grants are expected to be paid in the final quarter

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

compared to last year. That effect is partly offset by the timing of net contributions to the EU, which are ahead of last year so that less is expected to be paid in the final quarter. Excluding those timing effects, central government current spending so far in 2013-14 is up by 2.2 per cent, compared with a full year forecast of 2.4 per cent.

5. Even at this relatively late point in the year, the 2013-14 PSNB forecast remains uncertain. Tax receipts will depend in part on the performance of the economy over the remainder of the year, but there are additional uncertainties, such as the tax expected from financial sector bonuses and the extent to which receipts from self-assessment (SA) income tax are affected by the reduction in the additional rate of income tax to 45p. And on the spending side, much will depend on departments' surrenders of underspends in their supplementary estimates (usually published in February) and the extent to which those estimates are in turn underspent. Central and local government monthly expenditure outturns are also prone to revision well after the end of the financial year.

December 2013 outturn

6. The £2.1 billion fall in borrowing in December compared with the previous year is due to a combination of £1.3 billion higher receipts and £1.2 billion lower central government spending. Borrowing by local authorities was £0.3 billion higher than last year.
7. Central government accrued receipts rose by 3.0 per cent in December compared to a year earlier. Receipts growth came primarily from VAT, corporation tax and stamp duties. Receipts of stamp duty land tax (SDLT) were particularly strong, up 62 per cent on a year earlier. This is being boosted by a 29.6 per cent rise in residential property transactions in the year to December and an 11.6 per cent rise in London house prices (over the year to November). London accounts for over 40 per cent of total SDLT receipts.
8. Central government current spending fell by 2.6 per cent in December compared to a year earlier. This fall was mainly from lower central government debt interest payments, which were £1.4 billion lower than last December. This mainly reflected differences in the monthly path for RPI, which affects debt interest on index-linked gilts. Changes in other elements of current expenditure were roughly offsetting: net social benefits were £0.5 billion higher than last December, while other current spending – which includes departmental spending – was £0.5 billion lower than last December. The fall in other current spending was more than accounted for by a £0.9 billion fall in net EU contributions in December, which unwound some of the timing effects on EU spending from earlier this year.

Outturn for April to December 2013

9. Revisions in this month's release have left PSNB for the first eight months of 2013-14 unchanged from last month. Central government current expenditure was revised up by £0.8 billion, but this was offset by a similar upward revision to central government accrued receipts.

10. Central government receipts growth of 6.6 per cent for the first nine months of the financial year is higher than the 4.6 per cent growth implied by our December forecast for 2013-14 as a whole. As noted earlier, this primarily reflects the timing of APF transfers. Abstracting from APF transfers and Swiss capital tax receipts, the underlying growth in receipts for the year-to-date is broadly in line with our full year forecast. Over the remainder of the financial year, we expect a drop in corporation tax (particularly from the North Sea) and flat SA receipts. SA receipts may be depressed by additional rate taxpayers moving some of their 2012-13 liabilities into 2013-14 (which will be paid in 2014-15) in order to take advantage of the reduction in the additional rate to 45p. This is expected to be offset by strength in receipts from VAT, capital gains tax and stamp taxes.
11. Central government current spending so far in 2013-14 is up by 1.4 per cent, compared with a full year forecast of 1.9 per cent. However, as explained above, the comparison is affected by differences in the profile of spending compared to last year, and we expect another large instalment of revenue support grant to be paid in February, which will increase current expenditure in February, compared to a year ago. Excluding central government current grants to local authorities and net contributions to the EU, current spending so far in 2013-14 is up by 2.2 per cent, compared with a full year forecast of 2.4 per cent.
12. Central government net investment is also showing an increase of 8.7 per cent so far in 2013-14, compared with a full year forecast for a small decrease of 0.2 per cent, after adjusting for the effects of the capital grants received for Royal Mail and Spectrum (4G) in 2012-13. However the receipts expected in March from the sale of the Olympic village will reduce capital spending at the end of this year, reducing the growth over the year as a whole.
13. Central government spending outturns are still subject to large potential revisions. And the key outcomes affecting departments' final spending plans, and their end-year underspends against those plans, are still unknown. Much depends on departments' surrenders of underspends in their supplementary estimates (which we expect to be published in February) and the extent to which those estimates are in turn underspent. We will update our forecasts of underspends of central government current and capital spending in our March *EFO* forecast, when we will know the final plans and be able to estimate the final underspends.

Issues for the next PSF release

14. January is generally the biggest month of the year for receipts. In particular, this reflects:
 - corporation tax: many medium and large onshore firms will pay the third of four instalment payments on their 2013 profits, while oil and gas firms will pay their third and final instalment payment on their 2013 profits; and
 - SA and capital gains tax: this will relate to 2012-13 liabilities and is due at the end of the month. Although most of these receipts will be included in the January outturn, some will score in February.

Public sector receipts, expenditure and net borrowing

£ billion	December				April to December				Implied January to March				Full year			
			change				change				change		2013-14	2012-13	change	
	2013	2012	£bn	%	2013-14	2012-13	£bn	%	2013-14	2012-13	£bn	%	2013-14 Dec EFO*	2012-13 outturn	£bn	%
Central Government (CG) current receipts																
Taxes on production	19.4	18.3	1.1	6.2	165.5	157.5	8.0	5.1	55.7	51.4	4.3	8.4	221.2	208.9	12.3	5.9
<i>Of which: VAT (accrued)</i>	10.4	9.9	0.5	5.4	88.0	84.5	3.5	4.2	29.6	27.6	2.0	7.2	117.6	112.1	5.5	4.9
Taxes on income and wealth	14.8	14.7	0.1	0.6	135.5	130.9	4.5	3.5	63.6	65.1	-1.5	-2.3	199.1	196.0	3.1	1.6
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	11.5	11.7	-0.2	-1.5	104.2	99.3	4.9	4.9	53.6	53.9	-0.4	-0.7	157.8	153.2	4.5	3.0
<i>Corporation tax</i>	3.0	2.8	0.2	8.6	29.0	29.0	0.0	0.0	9.5	10.4	-0.9	-8.7	38.5	39.5	-0.9	-2.3
Other taxes	1.3	1.2	0.1	11.4	13.1	11.5	1.6	14.1	4.1	3.9	0.3	7.3	17.2	15.4	1.9	12.2
Compulsory social contributions	8.9	8.9	0.0	0.0	77.9	76.1	1.8	2.4	29.0	28.4	0.6	2.2	106.9	104.5	2.4	2.3
Interest & dividends	0.6	0.6	0.0	-4.6	18.4	8.5	9.9	116.0	3.5	8.5	-5.0	-59.0	21.9	17.0	4.9	29.0
Other receipts	0.7	0.7	0.0	-0.1	6.7	6.6	0.2	2.3	2.7	2.2	0.5	23.2	9.4	8.8	0.6	7.0
Total CG current receipts	45.8	44.4	1.3	3.0	417.1	391.1	26.0	6.6	158.7	159.4	-0.7	-0.5	575.8	550.5	25.3	4.6
CG Current expenditure																
Interest payments	3.5	4.9	-1.4	-29.3	37.0	36.8	0.2	0.4	12.5	10.8	1.8	16.4	49.5	47.6	2.0	4.1
Net social benefits	16.5	16.0	0.5	2.9	147.0	145.6	1.3	0.9	46.5	45.9	0.7	1.5	193.5	191.5	2.1	1.1
Other	34.6	35.2	-0.5	-1.4	298.5	293.3	5.1	1.8	101.1	98.5	2.7	2.7	399.6	391.8	7.9	2.0
Total current expenditure	54.6	56.1	-1.5	-2.6	482.4	475.7	6.6	1.4	160.3	155.1	5.2	3.4	642.7	630.8	11.9	1.9
Depreciation	0.7	0.7	0.0	0.0	6.4	6.2	0.2	2.5	2.4	2.1	0.3	15.3	8.8	8.3	0.5	6.3
CG Surplus on current budget	-9.5	-12.4	2.8	22.7	-71.7	-90.8	19.2	21.1	-4.1	2.2	-6.3	-286.3	-75.8	-88.6	12.8	-14.5
CG Net investment	2.8	2.5	0.3	10.7	20.0	-9.6	29.6	308.3	6.7	6.1	0.6	10.5	26.7	-3.5	30.2	
CG Net borrowing	12.4	14.9	-2.5	-17.0	91.7	81.2	10.5	12.9	10.8	3.9	6.9	176.7	102.5	85.1	17.4	20.4
Local Authorities net borrowing	-0.1	-0.3	0.3	78.9	-5.7	-6.2	0.5	8.2	4.5	4.8	-0.3	-6.4	-1.2	-1.4	0.2	-13.7
Public Corporations net borrowing	-0.2	-0.3	0.1	39.0	-2.1	-2.1	0.0	1.5	-0.1	-1.1	1.0	-90.8	-2.2	-3.2	1.0	-31.3
Public sector net borrowing	12.1	14.2	-2.1	-15.0	83.9	72.9	11.0	15.1	15.1	7.6	7.6	100.5	99.0	80.5	18.6	23.1
PSNB (ex. Royal Mail)	12.1	14.2	-2.1	-15.0	83.9	100.9	-17.0	-16.9	15.1	7.6	7.6	100.5	99.0	108.5	-9.4	-8.7
PSNB (ex. Royal Mail and APF)	12.1	14.2	-2.1	-15.0	96.1	100.9	-4.8	-4.8	15.1	14.0	1.2	8.3	111.2	114.9	-3.7	-3.2
Public sector net investment	2.5	2.3	0.2	10.7	15.5	-13.4	29.0	215.8	9.4	8.1	1.3	15.8	24.9	-5.3	30.2	
Public sector current budget	-9.5	-11.9	2.4	20.0	-68.4	-86.3	18.0	20.8	-5.8	0.6	-6.4		-74.2	-85.7	11.5	-13.5

*December 2013 EFO forecast published 5 December 2013. Excluding temporary effects of financial interventions on a National Accounts basis.