

20 June 2014

Commentary on the Public Sector Finances release: May 2014

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the May 2014 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) was £13.3 billion in May, £4.6 billion higher than market expectations and £4.6 billion higher than a year ago. The difference is largely explained by transfers from the APF, which amounted to around £3.9 billion in May 2013, but were not repeated this May. (As we noted in last month's commentary, the next APF transfer will not take place until July.)
3. On an underlying basis, excluding APF transfers, borrowing was £0.7 billion higher than last year in May and £1.9 billion higher over the first two months of 2014-15. Year-on-year changes in underlying PSNB are also affected by one-off factors related to income tax and Swiss capital tax receipts.

Detailed commentary

4. The £4.6 billion rise in **headline PSNB** in May 2014 largely reflects last year's APF transfer not being repeated this year. Year-on-year comparisons of headline borrowing in 2014-15 will be complicated throughout the year by the different timing of APF payments. APF transfers in 2013-14 reduced PSNB in April, May, June and July. In 2014-15, they reduced PSNB in April, and will again in July, October and January.
5. The £0.7 billion rise in **underlying PSNB** in May primarily reflects a £0.9 billion rise in central government spending that was only partly offset by a £0.5 billion rise in central government accrued receipts. Borrowing by local authorities and public corporations was £0.2 billion higher than last year. For the year-to-date, underlying borrowing is £1.9 billion higher than last year. To meet the *March Economic and fiscal outlook (EFO)* forecast for underlying PSNB in 2014-15 requires an improvement of £11.5 billion over the full year.
6. Over the first two months of 2014-15, central government **receipts** growth has been weak. Excluding APF transfers, receipts are up just 1.4 per cent, compared with a full

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/may-2014/stb---may-2014.html>

year forecast of 5.2 per cent. Subdued year-on-year growth in central government accrued receipts so far in 2014-15 largely reflects the front-loading of receipts last year. In particular, that reflected income shifting of PAYE and NIC liabilities related to the reduction in the additional rate of income tax to 45p and the accruing of £0.9 billion of Swiss capital tax receipts to the single month of May 2013. Other tax streams have shown stronger growth so far in 2014-15, with accrued VAT and stamp duty land tax up by 5.7 per cent and 30.2 per cent on a year earlier respectively.

7. Last year's front-loading means receipts growth in 2014-15 is likely to be end-loaded, primarily due to the timing of self-assessment income tax receipts through the year. The March *EFO* forecast for SA income tax assumes a 30 per cent rise in receipts in 2014-15, in part related to the income-shifting of SA liabilities due to the reduction in the additional rate. This will boost SA receipts due at the end of January 2015 when the final tax payments on 2013-14 liabilities are paid. (SA is paid with a one-year lag, so last year's boost to PAYE will be seen this year for SA. Similarly the unwinding of that effect, which is reducing year-on-year PAYE growth rates in the latest data, will be repeated for SA in January 2016).
8. Central government **current expenditure** increased by 0.3 per cent on a year earlier in May. This small increase reflects lower spending on debt interest and net social benefits. Debt interest payments in May were 9.0 per cent lower than last year, reflecting changes in the monthly profile of the Retail Prices Index (RPI), which affects debt interest on index-linked gilts. Net social benefits were 0.8 per cent lower, reflecting timing differences in the payment of tax credits: more payments were brought forward into April this year, and some of this timing effect has unwound in May, reducing this month's spending. Departments' other current spending increased by 2.3 per cent on last year, but their profile of spending will vary from year to year and previous months' outturns are often revised, particularly at this early stage of the year.
9. Central government current expenditure fell 0.7 per cent on a year earlier in the first two months of 2014-15, compared with our full-year forecast of a 1.9 per cent rise. The fall mainly reflects timing differences on central government current grants to local authorities, which are £1.9 billion lower than last year. We would expect these timing differences to have an offsetting effect on local authority borrowing, and to unwind over the course of the year.
10. It is important to note that outturn data for central government spending can be volatile on a monthly basis and is particularly uncertain in the early part of the financial year. Local government and public corporations data are similarly liable to revision.
11. The estimate for **underlying PSNB in 2013-14** was revised down by a further £0.4 billion to £107.0 billion. This is now £0.8 billion lower than our estimate in the March *EFO*. Past experience suggests that this outturn will be revised further over time.

Forthcoming changes to the public finances data

12. The public finances data will undergo significant revision in September to reflect the ONS Public Sector Finances Review and the switch to the 2010 European System of Accounts (ESA10). The ONS has provided a shadow table in its release today, comparing the main fiscal aggregates under the current and forthcoming treatment.
13. As we explained in Annex B of our March *EFO*, the ONS will be implementing a number of changes, including:
- treating the bank shares bought by the government during the financial crisis as an illiquid asset rather than a liquid one (so that they will no longer reduce the headline measure of net debt);
 - bringing the Bank of England's Asset Purchase Facility within the headline measures of debt and borrowing (so that flows of money between the Treasury and the APF will no longer affect those measures);
 - treating Network Rail as a central government body rather than a private sector one (adding Network Rail's borrowing and debt to the headline measures);
 - changing the way in which the 2012 transfer of the Royal Mail Pension plan into the public sector is treated (meaning it will increase rather than reduce net borrowing in 2012-13, and reduce net borrowing slightly thereafter); and
 - treating the proceeds from the 3G and 4G spectrum auctions in 2000-01 and 2012-13 as flows of rent over the licence period rather than one-off negative capital spending (increasing the deficit in the auction years and reducing it thereafter).
14. The ONS's estimates of the impact of these changes on the headline measures of net borrowing and net debt since 2011-12 are shown in the table below. The impact in 2013-14 is slightly larger than we anticipated in Annex B of the March *EFO*, largely because the estimate of Network Rail's outturn borrowing based on published accounts was £1.8 billion higher than we had assumed.

	PSNB ex (£bn)				PSND ex (£bn)		
	Current treatment	Forthcoming treatment	Change	of which : Royal Mail	Current treatment	Forthcoming treatment	Change
2011-12	118	112.2	-5.8	0.0	1,106	1,191	84
2012-13	80.7	119.7	39.0	36.3	1,185	1,299	113
2013-14	94.9	98.7	3.8	0.0	1,273	1,402	129

Public sector receipts, expenditure and net borrowing

£ billion	May				April to May				Implied June to March				Budget 2014 forecast			
	change				change				change				2014-15 Mar EFO*	2013-14 outturn	change	
	2014	2013	£bn	%	2014-15	2013-14	£bn	%	2014-15	2013-14	£bn	%			£bn	%
Central Government (CG) current receipts																
Taxes on production	18.6	17.6	1.0	5.5	36.9	35.0	1.9	5.4	196.2	186.6	9.6	5.1	233.1	221.6	11.5	5.2
<i>Of which: VAT (accrued)</i>	9.9	9.5	0.5	4.9	20.0	18.9	1.1	5.7	102.6	99.2	3.4	3.5	122.6	118.1	4.5	3.8
Taxes on income and wealth	11.9	11.8	0.0	0.4	28.1	28.6	-0.4	-1.5	184.1	171.1	13.0	7.6	212.2	199.7	12.5	6.2
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	10.2	10.3	-0.1	-1.4	21.1	22.1	-1.0	-4.7	148.0	135.5	12.5	9.3	169.1	157.6	11.5	7.3
<i>Corporation tax</i>	1.5	1.3	0.2	17.5	6.6	6.0	0.6	10.8	33.9	33.4	0.5	1.5	40.5	39.3	1.2	2.9
Other taxes	1.5	2.3	-0.8	-34.5	2.8	3.6	-0.7	-20.9	14.4	13.8	0.7	4.7	17.2	17.4	-0.1	-0.8
Compulsory social contributions	8.6	8.5	0.1	1.0	17.3	17.7	-0.4	-2.2	92.7	89.7	3.0	3.3	110.0	107.4	2.6	2.4
Interest & dividends	0.7	4.5	-3.8	-83.8	5.6	9.2	-3.7	-39.7	16.6	11.4	5.2	45.3	22.2	20.6	1.6	7.7
Other receipts	0.8	0.7	0.1	11.0	1.6	1.5	0.1	7.7	8.2	7.6	0.6	8.1	9.8	9.1	0.7	7.9
Total CG current receipts	42.1	45.5	-3.4	-7.5	92.3	95.5	-3.2	-3.4	512.1	480.2	31.9	6.6	604.4	575.7	28.7	5.0
CG Current expenditure																
Interest payments	4.2	4.6	-0.4	-9.0	9.5	9.7	-0.2	-2.1	42.6	37.7	4.9	13.0	52.1	47.4	4.7	9.9
Net social benefits	16.3	16.5	-0.1	-0.8	32.7	32.4	0.3	1.0	164.7	160.9	3.7	2.3	197.4	193.3	4.0	2.1
Other	31.3	30.6	0.7	2.3	72.2	73.1	-1.0	-1.3	330.7	326.3	4.4	1.4	402.9	399.4	3.5	0.9
Total current expenditure	51.7	51.6	0.1	0.3	114.4	115.2	-0.9	-0.7	538.0	524.9	13.1	2.5	652.4	640.1	12.3	1.9
Depreciation	0.8	0.7	0.1	11.8	1.5	1.4	0.1	8.2	7.7	7.2	0.5	7.3	9.2	8.6	0.6	7.2
CG Surplus on current budget	-10.4	-6.8	-3.6	-53.7	-23.6	-21.1	-2.5	-11.9	-33.5	-51.9	18.3	-35.4	-57.1	-73.0	15.8	-21.7
CG Net investment	2.1	1.4	0.7	51.9	4.8	3.7	1.1	30.3	26.7	23.5	3.2	13.5	31.5	27.2	4.3	15.7
CG Net borrowing	12.5	8.2	4.4	53.4	28.4	24.8	3.6	14.6	60.2	75.4	-15.2	-20.1	88.6	100.2	-11.6	-11.6
Local Authorities net borrowing	0.9	0.8	0.1	10.4	-8.1	-9.8	1.7	17.1	6.2	6.8	-0.6	-8.3	-1.9	-3.0	1.1	-37.7
Public Corporations net borrowing	-0.1	-0.2	0.2	65.4	-0.2	-0.5	0.3	66.3	-2.7	-1.8	-0.8	45.6	-2.9	-2.3	-0.5	23.1
Public sector net borrowing	13.3	8.7	4.6	52.5	20.1	14.5	5.6	38.6	63.8	80.4	-16.6	-20.6	83.9	94.9	-11.0	-11.6
PSNB (exc. APF)	13.3	12.6	0.7	5.6	24.2	22.3	1.9	8.7	71.3	84.7	-13.4	-15.9	95.5	107.0	-11.5	-10.8
Public sector net investment	1.5	1.0	0.5	47.0	2.8	2.3	0.6	24.7	25.0	22.2	2.8	12.8	27.9	24.7	3.1	12.6
Public sector current budget	-11.8	-7.7	-4.1	-53.2	-17.2	-12.2	-5.0	-41.2	-38.7	-57.9	19.1	-33.1	-56.0	-70.1	14.1	-20.1

March 2014 EFO forecast published 19 March 2014 excluding temporary effects of financial interventions on a National Accounts basis