

22 July 2014

## Commentary on the Public Sector Finances release: June 2014

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 2014 Public Sector Finances this morning.<sup>1</sup> 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 £11.4 billion in June, £0.9 billion higher than market expectations and £3.8 billion higher than a year ago. The difference is largely explained by transfers from the APF, which amounted to around £3.9 billion in June 2013, but were not repeated this June.
3. On an underlying basis, excluding APF transfers, borrowing was £0.1 billion lower than last year in June and £2.5 billion higher than last year over the first three months of 2014-15. Higher borrowing so far this year largely reflects weak receipts growth, due in part to one-off factors such as income shifting in response to the reduction in the additional rate of income tax and last year's Swiss capital tax proceeds. These factors boosted receipts in the early part of 2013-14 and are consequently pushing down the year-on-year receipts comparison.

### Detailed commentary

4. The £3.8 billion rise in **headline PSNB** in June 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 differences in the 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 £0.1 billion fall in underlying PSNB in June reflects a £1.9 billion rise in underlying central government accrued receipts, and a £0.9 billion fall in borrowing by local authorities and public corporations, largely offset by a £2.8 billion rise in central government spending. The rise in central government spending includes additional grant to local authorities, which helps explain the fall in local authority borrowing.
6. Over the first three months of the financial year, underlying borrowing – excluding the differences from the APF transfers – is now £2.5 billion higher than last year.

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

Taking revisions to past data into account, the underlying deficit would need to improve by £12.8 billion over the year as a whole to match the March *Economic and fiscal outlook (EFO)* forecast for 2014-15.

7. Over the first three months of 2014-15, central government **receipts** growth has been weak. Excluding APF transfers, receipts are up just 1.6 per cent, compared with a full year forecast of 5.0 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, 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 4.3 per cent and 39.3 per cent on a year earlier respectively.
8. 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 in April 2013. 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).
9. Central government **current expenditure** increased by 3.9 per cent on a year earlier in June. The increase was mainly due to differences in the timing of payments of central government current grants to local authorities, which were £1 billion higher in June this year. Net social benefits were also 3.0 per cent higher, largely reflecting increases in state pensions and public service pension payments this year compared to last year. Departments' other current spending, excluding the grants to local authorities, increased by 3.6 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. These increases were partly offset by lower debt interest payments, which were 3.6 per cent down on last year, this reflects changes in the monthly profile of the Retail Prices Index (RPI), which affects debt interest on index-linked gilts.
10. Over the first three months of 2014-15, central government current expenditure increased by 0.9 per cent on a year earlier, compared with our full-year forecast of a 1.9 per cent rise. The lower increase is more than accounted for by timing differences on debt interest payments and current grants to local authorities, which are both lower than last year over the first three months, and we expect these timing differences to unwind over the rest of the year. Excluding debt interest payments and current grants to local authorities, central government current spending is 2.4 per cent higher than last year over the first three months, compared with our full year forecast of a 1.8 per cent increase.

11. 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.
12. The estimate for **underlying PSNB in 2013-14** was revised down by a further £1.2 billion to £105.8 billion, mainly reflecting new information on income tax receipts. This is now £2.0 billion lower than our estimate in the March EFO. However this view of outturn will change again in September or October to reflect further outturn data as that becomes available for central government and local authority spending. In particular the data published in Public Expenditure Statistical Analyses 2014 (published on 17 July) suggests that spending outturn could be revised upwards.

## Issues for next month's release

13. July is usually the second highest month for receipts during the financial year. This reflects:
- many medium and large onshore firms paying their first of four corporation tax instalment payments on their 2014 profits;
  - oil and gas firms paying their first of three instalment payments on their 2014 profits; and
  - the second payment on account for self-assessment liabilities for 2013-14 due on 31 July.
14. As mentioned previously, the next APF transfer between the Bank of England and HM Treasury is expected in July. Last July the APF transfer payment was £0.5 billion.

# Public sector receipts, expenditure and net borrowing

£ billion	June				April to June				Implied July to March				Budget 2014 forecast			
			change				change				change		2014-15	2013-14	change	
	2014	2013	£bn	%	2014-15	2013-14	£bn	%	2014-15	2013-14	£bn	%	Mar EFO*	outturn	£bn	%
<b>Central Government (CG) current receipts</b>																
Taxes on production	19.0	18.0	1.0	5.4	55.9	53.0	2.9	5.5	177.2	168.5	8.7	5.1	233.1	221.5	11.6	5.2
<i>Of which: VAT (accrued)</i>	10.2	9.7	0.5	5.5	29.7	28.5	1.2	4.3	92.9	89.6	3.4	3.8	122.6	118.1	4.6	3.9
Taxes on income and wealth	13.0	12.5	0.5	4.1	40.9	41.2	-0.2	-0.6	171.3	159.6	11.6	7.3	212.2	200.8	11.3	5.6
<i>Of which:</i>	11.3	11.0	0.3	2.3	32.2	33.3	-1.2	-3.5	136.9	125.5	11.4	9.1	169.1	158.8	10.3	6.5
<i>Income tax and CGT (accrued)</i>																
<i>Corporation tax</i>	1.5	1.4	0.1	7.9	8.2	7.2	0.9	13.0	32.3	32.1	0.3	0.9	40.5	39.3	1.2	3.1
Other taxes	1.4	1.4	0.1	5.2	4.3	4.9	-0.6	-13.1	12.9	12.5	0.4	3.3	17.2	17.4	-0.2	-1.1
Compulsory social contributions	9.2	8.9	0.3	3.3	26.3	26.6	-0.2	-0.8	83.7	80.7	2.9	3.7	110.0	107.3	2.6	2.5
Interest & dividends	0.7	4.5	-3.8	-84.2	6.3	13.8	-7.5	-54.4	15.9	6.9	9.0	130.1	22.2	20.7	1.5	7.3
Other receipts	0.8	0.8	0.1	7.9	2.4	2.2	0.2	7.7	7.4	6.9	0.5	7.5	9.8	9.1	0.7	7.9
<b>Total CG current receipts</b>	<b>44.1</b>	<b>46.0</b>	<b>-1.9</b>	<b>-4.1</b>	<b>136.2</b>	<b>141.7</b>	<b>-5.5</b>	<b>-3.9</b>	<b>468.2</b>	<b>435.2</b>	<b>33.1</b>	<b>7.6</b>	<b>604.4</b>	<b>576.9</b>	<b>27.6</b>	<b>4.8</b>
<b>CG Current expenditure</b>																
Interest payments	4.3	4.4	-0.2	-3.6	13.7	14.1	-0.4	-2.6	38.4	33.3	5.1	15.3	52.1	47.4	4.7	9.9
Net social benefits	16.0	15.6	0.5	3.0	48.8	47.9	0.9	1.9	148.6	145.4	3.1	2.2	197.4	193.3	4.0	2.1
Other	33.6	31.8	1.7	5.4	105.9	105.0	0.9	0.9	297.0	294.4	2.6	0.9	402.9	399.4	3.5	0.9
<b>Total current expenditure</b>	<b>53.9</b>	<b>51.8</b>	<b>2.0</b>	<b>3.9</b>	<b>168.5</b>	<b>167.0</b>	<b>1.4</b>	<b>0.9</b>	<b>483.9</b>	<b>473.1</b>	<b>10.8</b>	<b>2.3</b>	<b>652.4</b>	<b>640.1</b>	<b>12.3</b>	<b>1.9</b>
Depreciation	0.8	0.7	0.1	8.3	2.3	2.1	0.2	8.2	6.9	6.5	0.4	6.5	9.2	8.6	0.6	7.2
<b>CG Surplus on current budget</b>	<b>-10.5</b>	<b>-6.5</b>	<b>-4.0</b>	<b>-61.8</b>	<b>-34.6</b>	<b>-27.5</b>	<b>-7.1</b>	<b>-25.9</b>	<b>-22.5</b>	<b>-44.3</b>	<b>21.8</b>	<b>-49.2</b>	<b>-57.1</b>	<b>-71.8</b>	<b>14.7</b>	<b>-20.5</b>
CG Net investment	2.1	1.5	0.7	47.4	6.9	5.1	1.7	34.0	24.6	22.1	2.5	11.2	31.5	27.2	4.3	15.7
<b>CG Net borrowing</b>	<b>12.6</b>	<b>7.9</b>	<b>4.7</b>	<b>59.1</b>	<b>41.5</b>	<b>32.6</b>	<b>8.9</b>	<b>27.2</b>	<b>47.1</b>	<b>66.5</b>	<b>-19.3</b>	<b>-29.1</b>	<b>88.6</b>	<b>99.1</b>	<b>-10.4</b>	<b>-10.5</b>
Local Authorities net borrowing	-1.2	-0.1	-1.1	-	-9.1	-9.9	0.8	7.9	7.2	6.9	0.3	4.9	-1.9	-3.0	1.1	-37.7
Public Corporations net borrowing	-0.1	-0.2	0.2	63.8	-0.4	-0.7	0.4	50.6	-2.5	-1.7	-0.8	47.6	-2.9	-2.4	-0.5	21.0
<b>Public sector net borrowing</b>	<b>11.4</b>	<b>7.6</b>	<b>3.8</b>	<b>49.7</b>	<b>32.0</b>	<b>22.0</b>	<b>10.0</b>	<b>45.5</b>	<b>51.9</b>	<b>71.7</b>	<b>-19.8</b>	<b>-27.6</b>	<b>83.9</b>	<b>93.7</b>	<b>-9.8</b>	<b>-10.5</b>
PSNB (exc. APF)	11.4	11.5	-0.1	-1.0	36.1	33.7	2.5	7.3	59.4	72.2	-12.8	-17.8	95.5	105.8	-10.4	-9.8
Public sector net investment	1.5	1.1	0.4	37.0	4.3	3.4	1.0	28.4	23.6	21.3	2.3	10.8	27.9	24.7	3.2	13.0
<b>Public sector current budget</b>	<b>-9.9</b>	<b>-6.5</b>	<b>-3.4</b>	<b>-51.8</b>	<b>-27.7</b>	<b>-18.6</b>	<b>-9.0</b>	<b>-48.6</b>	<b>-28.3</b>	<b>-50.3</b>	<b>22.0</b>	<b>-43.7</b>	<b>-56.0</b>	<b>-68.9</b>	<b>12.9</b>	<b>-18.7</b>

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