

Commentary on the Public Sector Finances release: December 2014

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the December 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 in the December 2014 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) was £13.1 billion in December, £2.9 billion higher than in December 2013 and above market expectations of £9.7 billion.
3. Higher borrowing in December primarily reflects an additional accrued payment of £2.9 billion to the EU due to an upward historic revision to UK Gross National Income (GNI), which was accrued to December by the ONS. This payment was included in our December *EFO* forecast for 2014-15, along with the related £1.2 billion refund. We expect that refund to be accrued later in 2014-15, although the timing of this is not certain. (The cash payments related to this historic adjustment are all expected to take place in 2015-16.)² Abstracting from this payment, PSNB would have been broadly flat compared to December 2013.
4. Our December *EFO* forecast assumes a fall in borrowing of just over £6 billion between 2013-14 and 2014-15. This release estimates PSNB for the first nine months of 2014-15 to be £0.1 billion lower than the same period last year.
5. To match our December *EFO* forecast, borrowing in the remaining three months of the year would need to be £5.9 billion lower than in the same period last year. As noted in recent commentaries, we expect receipts growth to be end-loaded in 2014-15. In particular, receipts from self-assessment (SA) income tax and capital gains tax (CGT) are expected to be £4.3 billion higher in the remaining three months of the year, compared to last year. This largely reflects the shifting of liabilities due to the reduction in the additional rate of income tax to 45p affecting SA and the rise in asset prices during 2013-14 affecting CGT. We also expect the £1.2 billion accrued refund related to the £2.9 billion additional EU contribution to score later in 2014-15, as mentioned above, and for debt interest payments to be around £1 billion

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

² See paragraphs 4.127 to 4.141 of our December 2014 *Economic and fiscal outlook* for a full explanation of the different ways in which these payments were expected to affect the accrued and cash measures of government borrowing in 2014-15 and 2015-16, and the details of the associated rebate.

lower than last year over the final three months, reflecting the effect of lower RPI inflation on index-linked gilts.

December 2014 outturn

6. The £2.9 billion rise in borrowing in December compared with the previous year is due to a combination of £1.1 billion higher central government receipts and £3.6 billion higher central government spending. Borrowing by local authorities was £0.4 billion higher than last year.
7. Central government accrued receipts (excluding APF transfers) were up 2.3 per cent on a year earlier in December. Receipts growth came primarily from income tax and corporation tax. The rise in corporation tax in December reflected stronger receipts from smaller industrial and commercial companies.
8. Central government current spending increased by 5.0 per cent on a year earlier in December. This rise mainly reflects an increase in other current spending from the accrual of an additional gross payment of £2.9 billion to the EU, reflecting an historic adjustment to the UK's payments to the EU for the period 2002-2013, following revisions to the UK National Accounts last summer. Our December *EFO* forecast assumed the net effect in 2014-15 would be £1.7 billion, due to the gross payment of £2.9 billion being partly offset by a refund of £1.2 billion. That refund has not been included in the public finances data yet. Our forecast assumed that it would be accrued by the end of 2014-15.
9. The year-on-year increase in other current expenditure this month also included a £1.0 billion net reduction in departmental spending, which partially offset the additional £2.9 billion accrual. Debt interest payments increased by £0.3 billion compared with December 2013, reflecting the volatility in the monthly path of RPI. And net social benefits increased by £0.5 billion, mainly reflecting increased state pension payments.

Outturn for April to December 2014

10. Revisions in this month's release have reduced PSNB for the first eight months of the year by £2.6 billion. Central government receipts have been revised up by £1.8 billion, mainly reflecting stronger than expected cash receipts of PAYE, NICs and VAT in December, which are accrued back to earlier months. Central government current expenditure was revised up by £0.4 billion, but net investment was revised down by £0.9 billion.
11. Year-to-date growth in central government receipts (excluding APF transfers) of 3.2 per cent is below the full-year forecast of 3.5 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 SA income tax receipts to be boosted 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.

12. January 2015 is also the month in which the vast majority of 2013-14 liabilities for capital gains tax (CGT) are paid. The strength of both equity and property markets during 2013-14 is expected to boost CGT receipts, although in the absence of information on receipts performance so far this year, our forecast is subject to considerable uncertainty.
13. Total central government current spending has increased by 2.1 per cent over the first nine months of 2014-15, compared with our full-year forecast of 1.3 per cent.³ Trends in spending in the year-to-date can be a poor guide to the full-year outturn because departments' monthly spending data are prone to large revisions – as seen again this month – and the timing of payments can also vary considerably from year to year. The outturn to date is also higher than our forecast because it does not yet include the £1.2 billion accrued refund on the additional payments to the EU described above. As set out in our December *EFO* forecast, we also expect that the current low RPI inflation levels will reduce debt interest payments over the last three months of this year, compared to last year, by around £1 billion, reflecting the effect of payments on index-linked gilts.

Issues for next month's 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 2014 profits, while oil and gas firms will pay their third and final instalment payment on their 2014 profits; and
 - SA (income tax, class 4 NICs and capital gains tax): this will relate to 2013-14 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.

³ As shown in Table 4.25 of our December *EFO*, except that the figure above has been adjusted to additionally include negative tax credits, as shown in Table 4.23 of the *EFO*. (The ONS revised the classification of negative tax credits in their December 2014 bulletin for the Public Sector Finance statistics, so that these are now treated as spending rather than receipts, as required under ESA10.)

Public sector receipts, expenditure and net borrowing

| £ billion | December | | April to December | | | | Implied January to March | | | | Autumn 2014 forecast | | | | | |
|---|-------------|-------------|-------------------|-------------|--------------|--------------|--------------------------|-------------|--------------|--------------|----------------------|--------------|---------------------|--------------------|-------------|--------------|
| | 2014 | 2013 | change | | 2014-15 | 2013-14 | change | | 2014-15 | 2013-14 | change | | 2014-15 Dec EFO* | 2013-14 outturn | change | |
| | | | £bn | % | | | £bn | % | | | £bn | % | | | £bn | % |
| Central Government (CG) current receipts | | | | | | | | | | | | | | | | |
| Taxes on production | 19.7 | 19.6 | 0.1 | 0.5 | 173.8 | 167.2 | 6.7 | 4.0 | 58.2 | 56.0 | 2.1 | 3.8 | 232.0 | 223.2 | 8.7 | 3.9 |
| <i>Of which: VAT (accrued)</i> | 10.5 | 10.6 | -0.1 | -0.9 | 92.9 | 89.7 | 3.2 | 3.6 | 31.0 | 30.5 | 0.5 | 1.6 | 123.9 | 120.2 | 3.7 | 3.1 |
| Taxes on income and wealth | 16.2 | 15.5 | 0.7 | 4.6 | 140.4 | 137.3 | 3.1 | 2.2 | 70.3 | 66.3 | 3.9 | 6.0 | 210.7 | 203.6 | 7.0 | 3.5 |
| <i>Of which:</i> | | | | | | | | | | | | | | | | |
| <i>Income tax and CGT (accrued)</i> | 12.6 | 12.2 | 0.4 | 3.1 | 108.4 | 106.1 | 2.4 | 2.2 | 59.7 | 55.4 | 4.3 | 7.7 | 168.1 | 161.5 | 6.6 | 4.1 |
| <i>Corporation tax</i> | 3.4 | 3.0 | 0.4 | 14.5 | 30.4 | 30.2 | 0.2 | 0.5 | 10.4 | 10.3 | 0.0 | 0.3 | 40.9 | 40.7 | 0.2 | 0.4 |
| Other taxes | 1.3 | 1.3 | 0.0 | 2.1 | 13.1 | 13.3 | -0.2 | -1.5 | 4.3 | 4.1 | 0.1 | 2.8 | 17.4 | 17.4 | -0.1 | -0.5 |
| Compulsory social contributions | 9.3 | 9.2 | 0.1 | 0.8 | 79.1 | 77.7 | 1.5 | 1.9 | 29.9 | 29.6 | 0.3 | 0.9 | 109.0 | 107.3 | 1.7 | 1.6 |
| Interest & dividends | 0.7 | 0.6 | 0.1 | 22.3 | 15.3 | 18.2 | -2.9 | -15.7 | 3.9 | 2.1 | 1.8 | 85.5 | 19.2 | 20.3 | -1.1 | -5.5 |
| Other receipts | 1.8 | 1.7 | 0.1 | 3.4 | 17.1 | 15.5 | 1.6 | 10.1 | 6.1 | 5.3 | 0.9 | 16.3 | 23.2 | 20.8 | 2.5 | 11.8 |
| Total CG current receipts | 49.0 | 47.9 | 1.1 | 2.3 | 438.8 | 429.1 | 9.7 | 2.3 | 172.6 | 163.6 | 9.0 | 5.5 | 611.4 | 592.7 | 18.7 | 3.2 |
| CG Current expenditure | | | | | | | | | | | | | | | | |
| Interest payments | 3.9 | 3.6 | 0.3 | 9.4 | 38.4 | 38.0 | 0.4 | 1.1 | 9.7 | 10.7 | -0.9 | -8.9 | 48.1 | 48.7 | -0.5 | -1.1 |
| Net social benefits | 17.3 | 16.8 | 0.5 | 3.2 | 153.2 | 149.1 | 4.1 | 2.8 | 49.3 | 47.2 | 2.1 | 4.5 | 202.5 | 196.3 | 6.2 | 3.2 |
| Other | 36.2 | 34.3 | 1.9 | 5.5 | 301.9 | 296.2 | 5.7 | 1.9 | 101.5 | 103.6 | -2.1 | -2.0 | 403.4 | 399.8 | 3.6 | 0.9 |
| Total current expenditure | 57.4 | 54.7 | 2.8 | 5.0 | 493.4 | 483.2 | 10.2 | 2.1 | 160.7 | 161.6 | -0.9 | -0.6 | 654.1 | 644.8 | 9.3 | 1.4 |
| Depreciation | 1.5 | 1.5 | 0.0 | 2.7 | 13.4 | 13.1 | 0.4 | 2.8 | 5.5 | 20.8 | 2.5 | 11.8 | 18.9 | 17.4 | 1.5 | 8.4 |
| CG Surplus on current budget | 9.9 | 8.2 | 1.7 | 20.7 | 68.1 | 67.2 | 0.9 | 1.4 | -6.5 | 592.7 | 18.7 | 3.2 | 61.6 | 69.6 | -8.0 | -11.5 |
| CG Net investment | 3.5 | 2.8 | 0.8 | 28.5 | 23.4 | 21.4 | 2.0 | 9.3 | 11.1 | 10.9 | 0.2 | 1.9 | 34.5 | 32.3 | 2.2 | 6.8 |
| CG Net borrowing | 13.4 | 10.9 | 2.5 | 22.7 | 91.5 | 88.5 | 2.9 | 3.3 | 4.6 | 13.4 | -8.8 | -65.7 | 96.1 | 101.9 | -5.8 | -5.7 |
| Local Authorities net borrowing | 1.0 | 0.6 | 0.4 | 67.4 | -2.8 | -2.6 | -0.3 | -11.1 | 2.6 | 1.1 | 1.5 | 138.5 | -0.2 | -1.5 | 1.3 | -85.7 |
| Public Corporations net borrowing | -1.3 | -1.2 | 0.0 | -17.9 | -2.3 | 0.5 | -2.8 | -98.2 | -2.4 | -3.6 | 1.2 | 124.4 | -4.7 | -3.1 | -1.6 | |
| Public sector net borrowing | 13.1 | 10.3 | 2.9 | 27.8 | 86.3 | 86.5 | -0.1 | -0.1 | 4.9 | 10.8 | -5.9 | -54.4 | 91.3 | 97.3 | -6.0 | -6.2 |
| Public sector net investment | 2.9 | 2.2 | 0.6 | 28.4 | 16.1 | 14.7 | 1.4 | 9.5 | 11.6 | 11.1 | 0.5 | 4.7 | 27.7 | 25.8 | 1.9 | 7.5 |
| Public sector current budget | 10.2 | 8.0 | 2.2 | 27.6 | 70.2 | 71.7 | -1.5 | -2.1 | -6.6 | -0.2 | -6.4 | | 63.6 | 71.5 | -7.9 | -11.1 |

*December 2014 EFO forecast published 3 December 2014 excluding public sector banks on a National Accounts basis.