

Commentary on the Public Sector Finances release: January 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 2015 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, currently the December 2014 *Economic and fiscal outlook (EFO)*. The next ONS bulletin will be released on 20 March, two days after publication of the Budget and our next *EFO*, so we will not publish a commentary on that day.

Summary

2. Public sector net borrowing (PSNB) recorded a surplus of £8.8 billion in January 2015. January is generally the highest month of the year for tax receipts as payments of self-assessment (SA) and capital gains tax (CGT) relating to the previous financial year (2013-14 liabilities this January) are due at the end of the month.
3. The surplus was £2.3 billion higher than in January 2014, but a little lower than market expectations of a £9.0 billion surplus. Timing issues with SA and CGT receipts mean that it is not possible to make a full assessment until both January and February receipts data are available.
4. Last month's PSF release included 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. In this month's release, that December adjustment has been revised to include the accrual of the associated refund, which has reduced the net payment from £2.9 billion to £1.7 billion. This is consistent with the amounts we included in our December forecast.
5. Our December forecast assumes a fall in borrowing of just over £6 billion between 2013-14 and 2014-15. Following relatively large revisions to data for the first nine months of the year, this release estimates PSNB for the first 10 months of 2014-15 to be £6.0 billion lower than the same period last year.

January 2015 outturn

6. January's surplus was £2.3 billion up on last year. Central government receipts were £4.8 billion higher than last January, but £2.1 billion of this reflected transfers from the Bank of England's Asset Purchase Facility that reduced public corporations'

¹<http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/january-2015/index.html>

receipts by the same amount. Central government spending was £0.4 billion higher and local authority borrowing £0.1 billion higher than last year.

7. Central government accrued receipts (excluding APF transfers) were up 4.3 per cent on a year earlier in January. SA and corporation tax receipts were the main contributors to the rise in receipts compared with last January, but were slightly offset by a fall in stamp duty land tax receipts.
8. Payments of SA and CGT relating to 2013-14 liabilities were due at the end of January. However, some payments are typically received in February. That is particularly so this year, as 31 January was a Saturday. SA liabilities will also have been boosted in 2013-14 as people moved liabilities into 2013-14 in order to take advantage of the lower 45p additional rate of income tax. CGT receipts will have been boosted by the strength of both equity and property markets during 2013-14.
9. To meet our December forecast for total SA (income tax, Class 4 NICs and CGT) required receipts to be £4.0 billion higher than last year in the final three months of the financial year. SA in January was £0.8 billion (5.6 per cent) higher than last year in January. HMRC has provided some management information on receipts up to 6 February in its monthly release.² This indicates that total SA receipts in January and early February were up £3.2 billion (18.4 per cent) on a year earlier and therefore closer to our December forecast. A fuller assessment of SA receipts will be possible once we have data for the whole of January and February.
10. January is also an important month for corporation tax receipts, which increased by 12.1 per cent on a year earlier. Many medium and large onshore firms paid the third of four instalment payments on their 2014 profits, while oil and gas firms paid their third and final instalment on their 2014 profits. The rise in receipts from medium and large onshore firms (in particular from financial firms) was only partially offset by a fall in receipts from oil and gas firms. Given that the steep fall in oil prices occurred so late in 2014, we can expect a much more sizeable effect on receipts from this sector in 2015-16 if lower prices are sustained.
11. Central government current spending fell by £0.1 billion compared with January 2014. Within this small overall fall, debt interest payments fell by £0.8 billion (21.2 per cent on a year earlier), reflecting the effect of lower RPI inflation on debt interest for index-linked gilts, net social benefit spending increased by £0.2 billion (1.5 per cent) and other current spending increased by £0.5 billion (1.4 per cent on a year earlier). This largely reflects the different timing of payment of grants associated with student loans, where £0.5 billion of payments have been made in January this year, compared to December in 2013-14. Net capital spending was £0.4 billion (15.6 per cent) higher than in January 2014.

Outturn for April to January 2015

12. Revisions in this month's release have reduced PSNB for the first nine months of the year by £3.6 billion. Central government receipts have been revised up by £0.9

²https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/405246/20150212_Janreceiptsbulletin.pdf

billion, mainly reflecting stronger than expected cash receipts of PAYE and VAT in January, which are accrued back to earlier months. Central government current expenditure was revised down by £2.7 billion, which included the additional accrued refund of £1.2 billion associated with EU member states historic revisions to their gross national income data for the period 2002-2013. Central government net investment was revised down by £0.4 billion (1.6 per cent) and local government borrowing was revised up by £0.4 billion.

13. Year-to-date growth in central government receipts (excluding APF transfers) of 3.5 per cent is the same as our full-year forecast of 3.5 per cent. Year-to-date growth in both corporation tax and accrued VAT receipts is above our full-year forecasts.
14. Total central government current spending has increased by 1.4 per cent over the first 10 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. As set out in our December *EFO*, we also expect that low RPI inflation – which has already fallen further than we expected in December – will continue to reduce debt interest payments over the last two months of this year, compared to last year, reflecting lower payments on index-linked gilts.

Revisions and classification changes in next month's release

15. In this month's release, the ONS has announced that it intends to implement various classification changes and revisions in next month's Public Sector Finances Statistical Bulletin.⁴ We intend to reflect those changes in our forecasts in our March 2015 *EFO*.

Other issues for next month's release

16. The February receipts data will include the remaining SA and CGT receipts relating to 2013-14 liabilities and the first PAYE receipts from financial sector bonuses.

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.)

⁴ Further details are available in the 'Recent events and methodological changes' section of the ONS release which can be accessed via the link in footnote 1 of this commentary.

Public sector receipts, expenditure and net borrowing

£ billion	January		April to January				Implied February 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	18.7	18.5	0.2	1.1	192.8	185.6	7.2	3.9	39.2	37.6	1.6	4.1	232.0	223.2	8.8	3.9
<i>Of which: VAT (accrued)</i>	10.6	10.4	0.2	2.1	104.1	100.1	4.0	4.0	19.9	20.1	-0.2	-1.1	124.0	120.2	3.8	3.1
Taxes on income and wealth	34.9	32.7	2.2	6.9	175.6	169.9	5.6	3.3	35.1	33.7	1.4	4.3	210.7	203.6	7.1	3.5
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	26.7	25.2	1.5	6.1	135.4	131.3	4.2	3.2	32.7	30.2	2.5	8.2	168.1	161.5	6.6	4.1
<i>Corporation tax</i>	8.3	7.4	0.9	12.1	38.7	36.3	2.3	6.4	2.0	2.9	-0.9	-30.5	40.7	39.3	1.4	3.6
Other taxes	1.4	1.4	0.0	0.1	14.5	14.6	-0.2	-1.2	1.9	2.8	-0.9	-33.2	16.4	17.4	-1.0	-6.0
Compulsory social contributions	9.1	9.0	0.2	1.8	88.5	86.6	1.8	2.1	20.5	20.7	-0.2	-1.0	109.0	107.3	1.7	1.6
Interest & dividends	2.7	0.5	2.2	410.6	18.1	18.7	-0.6	-3.2	1.0	1.6	-0.6	-37.3	19.1	20.3	-1.2	-5.9
Other receipts	1.8	1.8	0.0	-1.1	18.8	17.3	1.6	9.0	4.4	3.5	0.9	27.2	23.2	20.8	2.4	11.8
Total CG current receipts	68.6	63.8	4.8	7.5	508.2	492.9	15.4	3.1	102.2	99.7	2.5	2.5	611.4	592.6	18.8	3.2
CG Current expenditure																
Interest payments	2.9	3.7	-0.8	-21.2	41.2	41.7	-0.5	-1.2	6.9	7.0	-0.1	-1.0	48.1	48.7	-0.6	-1.2
Net social benefits	16.6	16.4	0.2	1.5	169.8	165.5	4.3	2.6	32.4	30.8	1.6	5.0	202.2	196.3	5.9	3.0
Other	32.9	32.4	0.5	1.4	332.2	328.6	3.6	1.1	70.4	71.2	-0.8	-1.2	402.6	399.8	2.8	0.7
Total current expenditure	52.4	52.5	-0.1	-0.1	543.2	535.7	7.4	1.4	109.8	109.1	0.7	0.6	654.1	644.8	9.3	1.4
Depreciation	1.5	1.5	0.0	0.5	14.9	14.5	0.4	2.5	4.0	2.9	1.1	37.9	18.9	17.4	1.5	8.4
CG Surplus on current budget	-14.7	-9.8	-4.9	-49.7	49.8	57.4	-7.6	-13.2	11.8	12.2	-0.4	-3.3	61.6	69.7	-8.1	-11.6
CG Net investment	3.3	2.9	0.4	15.6	26.3	24.3	2.1	8.5	8.2	8.0	0.2	2.5	34.5	32.3	2.2	6.8
CG Net borrowing	-11.3	-6.9	-4.4	-63.9	76.2	81.7	-5.5	-6.7	19.9	20.3	-0.4	-1.8	96.1	102.0	-5.9	-5.8
Local Authorities net borrowing	1.8	1.7	0.1	7.2	-0.6	-0.9	0.2	27.0	0.4	-0.6	1.0		-0.2	-1.5	1.3	-86.8
Public Corporations net borrowing	0.7	-1.2	2.1	178.1	-1.6	-0.8	-0.7	-56.4	-3.1	-2.3	-0.8		-4.7	-3.1	-1.6	
Public sector net borrowing	-8.8	-6.5	-2.3	-34.9	74.0	80.0	-6.0	-7.5	17.3	17.3	0.0	-0.3	91.3	97.3	-6.0	-6.2
Public sector net investment	3.4	2.7	0.7	25.8	19.2	17.4	1.8	10.2	8.5	8.4	0.1	1.2	27.7	25.8	1.9	7.5
Public sector current budget	-12.2	-9.2	-3.0	-32.2	54.8	62.6	-7.8	-12.4	8.8	9.0	-0.2	-2.2	63.6	71.6	-8.0	

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