

Commentary on the Public Sector Finances release: June 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 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 July 2015 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) was £9.4 billion in June, £0.8 billion lower than last year and £0.7 billion above market expectations. The main reason for the drop was 4.4 per cent growth in central government accrued receipts. Changes to the timing of central government grants to local authorities pushed up central government spending relative to last June but reduced local authority borrowing.
3. Meeting our July *EFO* forecast for PSNB in 2015-16 would require an £18.7 billion reduction in borrowing over the full financial year. A quarter of the way through the financial year, PSNB was £6.1 billion lower than a year earlier. Income tax, NICs, VAT and corporation tax receipts have all recorded stronger growth so far this year than the full-year growth rate forecasts we published earlier this month.
4. Last month's estimate of PSNB in 2014-15 has been revised down by £1.0 billion. PSNB is now estimated at £88.2 billion in 2014-15, £10.3 billion lower than 2013-14. Firmer data relating to central government spending, local authorities and public corporations will become available over the coming months, so this outturn is likely to be revised further.

Detailed commentary

5. PSNB was £9.4 billion in June 2015, £0.8 billion lower than a year earlier. A £2.0 billion rise in central government receipts was more than matched by a £2.1 billion rise in total central government spending. Borrowing by local authorities was £1.0 billion lower than a year ago.
6. Revisions in this month's release have lowered PSNB in the first two months of 2015-16 by £0.6 billion. Central government receipts were revised up by £1.2 billion, more than offsetting upward revisions of £0.5 billion in central government spending. The upward revision to receipts partly reflects stronger-than-expected cash

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

receipts of PAYE and NICs in June. These receipts relate to May salaries and were accrued back to that month. We did not include information on June cash receipts in our latest *EFO* forecast.

7. Central government accrued receipts were up 4.4 per cent on a year earlier in June, reflecting growth in all the major taxes: income tax, NICs, corporation tax and VAT. For the first three months of 2015-16, central government receipts (excluding APF transfers) increased by 5.7 per cent on a year earlier – stronger than the 4.3 per cent we expected for the full year in our recent *EFO*. The stronger growth so far in 2015-16 reflects:
 - strong receipts growth of PAYE and NICs in the business services, financial and construction sectors;
 - that the steep year-on-year fall expected in corporation tax payments from oil and gas firms in 2015-16 will only have an effect from next month, when firms make their first instalment payment on 2015 profits. We also expect growth in onshore corporation tax receipts to slow given the further cut in the main rate of corporation tax to 20 per cent in April 2015;
 - accrued VAT receipts are stronger than our full-year forecast. At this stage, much of this estimate is a forecast, since a sizeable element of the cash receipts received so far in 2015-16 have been accrued back to 2014-15; and
 - receipts in April and May were boosted by £0.5 billion of Financial Conduct Authority fines. We did not include further fines in our forecast for 2015-16.
8. Total central government spending was £2.1 billion higher than in June 2014. Debt interest spending was £0.2 billion higher than the previous June, reflecting the monthly path of RPI inflation. Spending on net social benefits was £0.6 billion up on the previous June while other current spending was £0.8 billion higher. The latter was mainly driven by the timing of central government grants to local authorities – in particular, the revenue support grant – as discussed in more detail in May's commentary. Central government net investment rose by £0.5 billion on a year earlier. The main contributing factors were higher spending by the Education Funding Agency, larger central government capital grants to TfL and higher MoD R&D spending. Central government spending over April to June was £0.6 billion lower than a year earlier, mainly reflecting the timing of central government grants to local authorities.
9. We have introduced a table looking at the latest position on public sector net debt (PSND). We forecast in the July *EFO* that PSND would fall from 80.8 per cent of GDP in 2014-15 to 80.3 per cent by the end of 2015-16, but PSND in June was still up by 1.4 per cent of GDP from a year earlier. The main reason that we expect PSND to fall as a share of GDP this year is the Government's announced programme of financial asset sales. We expect this to raise £32 billion in 2015-16, but with the proceeds back-loaded towards the end of the year. So far in 2015-16, major asset sales have included the ongoing sales of Lloyds shares (that have totalled around £3 billion so far this year) and sales of shares in Royal Mail and Eurostar (each raising

around £¾ billion). This helps to explain why the public sector net cash requirement in the 12 months to June 2015 is currently down by only around £4 billion relative to the preceding 12 months, while we expect it to fall by £25 billion in 2015-16 as a whole.

Table 1: Public sector net cash requirement and net debt

	June			Full year		
	£ billion			£ billion		
	2015	2014	change	2015-16 forecast	2014-15 outturn	change
Public sector net borrowing ¹	82.0	98.7	-16.7	69.5	88.2	-18.7
CG net cash requirement ex ^{1,2}	88.4	85.2	3.1	71.6	92.3	-20.7
Public sector net cash requirement ¹	68.9	72.7	-3.8	50.8	75.8	-25.0
Public sector net debt (PSND)						
Public sector net debt	1513	1436	77	1532	1486	46
Public sector net debt (per cent of GDP)	81.5	80.1	1.4	80.3	80.7	-0.4

¹ 12 month rolling total.

² CGNCR excluding NRAM, B&B and Network Rail.

July 2015 EFO forecast published 8 July 2015 excluding public sector banks on a National Accounts basis.

Issues for next month's release

10. July is usually the second highest month for receipts during the financial year. This reflects:

- many medium and large onshore firms paying the first of four corporation tax payments on their 2015 profits;
- oil and gas firms paying their first of three instalment payments on their 2015 profits; and
- the second payment on account for self-assessment liabilities for 2014-15 due on 31 July.

Table 2: Public sector receipts, expenditure and net borrowing

£ billion	June		April to June				Implied July to March				July forecast					
	2015	2014	change		2015-16	2014-15	change		2015-16	2014-15	change		2015-16 July EFO	2014-15 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts																
Taxes on production	19.8	19.1	0.7	3.5	58.6	56.5	2.0	3.6	183.8	174.8	9.0	5.1	242.4	231.4	11.0	4.8
Of which: VAT (accrued)	10.9	10.2	0.7	6.9	32.5	30.6	1.9	6.3	97.0	94.2	2.8	3.0	129.5	124.8	4.7	3.8
Taxes on income and wealth	13.3	13.0	0.3	2.3	44.1	41.7	2.4	5.8	176.3	170.9	5.4	3.1	220.4	212.6	7.8	3.7
Of which:																
Income tax and CGT (accrued)	11.5	11.2	0.3	2.5	34.5	32.9	1.6	4.8	142.2	136.2	5.9	4.3	176.7	169.2	7.5	4.4
Corporation tax	1.7	1.5	0.2	13.9	9.2	8.1	1.1	13.6	33.1	34.0	-0.9	-2.6	42.3	42.1	0.2	0.6
Other taxes	1.7	1.4	0.2	15.7	4.6	4.3	0.3	7.7	14.2	13.1	1.1	8.2	18.8	17.4	1.4	8.1
Compulsory social contributions	9.6	9.1	0.5	6.0	28.4	26.4	2.0	7.5	86.4	83.8	2.6	3.1	114.8	110.3	4.6	4.1
Interest & dividends	0.7	0.6	0.1	11.6	5.9	6.0	0.0	-0.3	11.4	13.1	-1.7	-12.9	17.4	19.1	-1.7	-8.9
Other receipts	1.9	1.7	0.2	10.5	5.9	5.1	0.8	16.0	16.1	16.6	-0.5	-3.1	22.0	21.7	0.3	1.4
Total CG current receipts	46.9	44.9	2.0	4.4	147.5	140.0	7.5	5.4	488.3	472.4	15.8	3.4	635.8	612.4	23.4	3.8
CG current expenditure																
Interest payments	4.6	4.3	0.2	5.7	13.7	14.0	-0.2	-1.7	33.0	31.5	1.5	4.8	46.7	45.4	1.3	2.8
Net social benefits	16.6	16.0	0.6	3.6	50.5	49.8	0.7	1.4	153.7	152.0	1.8	1.2	204.2	201.7	2.5	1.2
Other	34.2	33.4	0.8	2.3	103.5	105.3	-1.8	-1.7	299.9	296.4	3.5	1.2	403.5	401.8	1.7	0.4
Total current expenditure	55.3	53.8	1.6	2.9	167.7	169.1	-1.4	-0.8	486.6	479.9	6.8	1.4	654.3	648.9	5.4	0.8
Depreciation	1.5	1.4	0.1	5.1	4.5	4.3	0.2	5.1	14.0	13.0	1.1	8.2	18.5	17.3	1.3	7.4
CG current budget deficit	10.0	10.3	-0.3	-3.4	24.7	33.4	-8.7	-26.0	12.4	20.4	-8.0	-39.3	37.1	53.8	-16.7	-31.0
CG net investment	2.8	2.3	0.5	20.0	7.4	6.8	0.5	8.1	28.1	29.7	-1.6	-5.4	35.5	36.5	-1.1	-2.9
CG net borrowing	12.7	12.6	0.1	0.9	32.1	40.2	-8.1	-20.2	40.5	50.1	-9.6	-19.2	72.5	90.3	-17.8	-19.7
Local authorities net borrowing	-2.3	-1.3	-1.0		-7.5	-9.5	2.0		10.4	12.1	-1.8		2.8	2.6	0.2	
Public corporations net borrowing	-1.1	-1.1	0.1		0.6	0.6	0.0		-6.5	-5.3	-1.2		-5.9	-4.7	-1.2	
Public sector net borrowing	9.4	10.2	-0.8	-8.3	25.1	31.3	-6.1	-19.6	44.3	56.9	-12.6	-22.1	69.5	88.2	-18.7	-21.2
Public sector net investment	1.8	1.5	0.2	16.0	3.3	3.5	-0.2	-4.9	25.3	27.0	-1.7	-6.3	28.6	30.5	-1.9	-6.1
Public sector current budget	7.6	8.7	-1.1	-12.5	21.8	27.8	-6.0	-21.5	19.0	29.9	-10.9	-36.3	40.8	57.7	-16.8	-29.2

July 2015 EFO forecast published 8 July 2015 excluding public sector banks on a National Accounts basis.

¹ Data and forecasts contained in this table can be found from the following sources:

ONS public sector finances: <http://ons.gov.uk/ons/taxonomy/index.html?nscl=Public+Sector+Finance>

HMRC tax receipts and national insurance contributions: <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk>

OBR Economic and fiscal outlook: http://cdn.budgetresponsibility.independent.gov.uk/March2015EFO_18-03-webv1.pdf

OBR supplementary fiscal tables: http://budgetresponsibility.org.uk/pubs/Fiscal_Supplementary_Tables_March_20151.xls