

21 June 2013

## Commentary on the Public Sector Finances release: May 2013

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the May 2013 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) – excluding financial interventions – was £8.8 billion in May, £6.9 billion lower than a year ago and £3.8 billion lower than market expectations. The sharp fall in PSNB in May from a year earlier partly reflects:
  - a transfer of £3.9 billion from the Asset Purchase Facility (APF) to the Exchequer; and
  - expected capital tax receipts of £3.2 billion from the UK-Swiss tax agreement. Capital tax receipts from the agreement will flow in between now and July 2014, but the ONS has decided to accrue its best estimate of the total receipts to May 2013 straight away and then revise the figure if necessary as the money flows in. The £3.2 billion estimate is based on the forecast for Swiss capital tax in our March 2013 Economic and fiscal outlook (EFO) and includes the £0.3 billion pre-payment already received and the £2.9 billion cash receipts expected over the next year. We noted when this measure was first incorporated in our forecasts that the eventual amount that would be raised was highly uncertain and revisions to this estimate could therefore be significant.
3. If these two factors were excluded, then PSNB in May would be close to last year's level.
4. Comparing PSNB for the first two months of 2013-14 with the full year forecasts in the March 2013 EFO is complicated by timing effects from the APF and the UK-Swiss tax agreement. The effect on PSNB from APF transfers is front-loaded in 2013-14, but was back-loaded in 2012-13. After the first two months of the financial year, PSNB excluding last year's Royal Mail transfers is £10.7 billion lower than last year, compared with a forecast reduction of £4.6 billion for the whole of 2013-14. PSNB excluding Royal Mail and APF – the measure we highlighted in our March EFO – was £2.9 billion lower than last year in the first two months of 2013-14. Without the UK-Swiss tax agreement receipts it would be £0.2 billion higher. Following revisions to

---

<sup>1</sup> <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/may-2013/stb---may-2013.html>

the 2012-13 outturn, meeting the 2013-14 full year forecast would allow for a £1.0 billion rise from a year ago.

5. Even abstracting from these timing effects, two months' data provide only a very limited guide to likely trends over the rest of the financial year. Outturn data for central government spending can be volatile on a monthly basis and is particularly uncertain early in the financial year, and local authority borrowing is also prone to revisions. This month's release contains significant revisions that increase central government current spending in April by £8.5 billion, but because the revisions are focused on central government grants to local authorities, there is a largely offsetting revision, reducing local authority net borrowing in April by £7.7 billion with little effect on PSNB.
6. The ONS's initial estimate for PSNB excluding Royal Mail and APF for 2012-13 has been revised down by a further £0.7 billion to £118.8 billion. It is now £2.1 billion lower than our estimate in the March EFO. However, methodological and classification changes by the ONS and updated data mean that PSNB outturns have been revised down in each year from 2009-10. A £2.4 billion downward revision in PSNB for 2011-12 mainly reflecting Whole of Government Accounts data for public corporations means that PSNB excluding Royal Mail and APF now rises by £0.2 billion between 2011-12 and 2012-13. Changes of this scale from year to year are fiscally and statistically insignificant and the underlying PSNB remains broadly flat between the two years. Past experience shows that the 2012-13 outturn remains very provisional at this stage and subject to significant change.

## May 2013 outturn (and year-to-date)

7. The £6.9 billion fall in PSNB in May from last year reflects an £8.1 billion rise in central government receipts, a £2.4 billion fall in central government expenditure and £3.7 billion higher local authority borrowing. The last two of these changes are largely explained by changes to the timing of grants from central government to local authorities (explained further below).
8. In 2013-14, the Department for Communities and Local Government (DCLG) are only distributing around half of business rates to English local authorities while the other half are being retained by local authorities as part of the business rate retention scheme. Last year DCLG distributed the full amount of business rates to local authorities on a broadly constant basis throughout the year. The £11 billion payments which DCLG are still distributing in 2013-14 have been subsumed within the revenue support grant, which is distributed to local authorities in a heavily front-loaded profile, with large payments in April. Other grants which were previously separate, including grant for council tax benefit and early intervention grant have also now been subsumed within revenue support grant from 2013-14 and hence follow a different monthly pattern to 2012-13.
9. These changes largely explain why central government current spending was 28.3 per cent higher than last year in April but 7.9 per cent lower in May. This timing of grants has also affected local authority net borrowing, giving a £7.0 billion larger surplus in April and £3.7 billion higher borrowing in May, compared with last year.

We expect these timing effects on both central government expenditure and local authority borrowing to unwind over the remainder of the financial year, but they will continue to complicate interpretation of year-on-year growth rates.

10. In last month's release, DCLG had not provided any outturn data or profile for their payments of grants to local authorities. (We noted in last month's commentary that the estimate of central government spending was largely a forecast, as some departments had not yet provided data.) In this month's release DCLG have now provided provisional outturn data for spending in April and May, and the figure for central government current spending in April has been revised up by £8.5 billion to reflect their front-loaded payments of grants to local authorities as described in the previous paragraph. Since these revisions are focused on grants to local authorities, there is a largely offsetting revision to local authority net borrowing in April, which has been revised down by £7.7 billion.
11. Central government receipts grew by 21.0 per cent in May 2013 and by 16.5 per cent for the first two months of the financial year, compared with a year earlier. As noted earlier, this largely reflects the effects of APF transfers and Swiss capital tax receipts which are accrued to May. Although ONS have previously used OBR forecasts as the basis for their estimates in similar circumstances, this is unusual in its size and the degree of uncertainty around it. As we said when the expected impact of the agreement was first included in our forecasts in autumn 2012: "The estimated revenue raised by this measure is highly uncertain as there is little hard information about the value of UK individuals' financial assets in Switzerland, and how these individuals will respond to the policy."<sup>2</sup>
12. Cash receipts of PAYE and National insurance contributions (NICs) in May showed strong growth of 6.9 per cent and 8.5 per cent respectively on a year ago. These relate to April salaries and are accrued back to April, reducing that month's PSNB. As the cash receipts were stronger than forecast in last month's release this has led to an upward revision of over £1 billion to April receipts. The strong growth in these receipts is consistent with average weekly earnings data that suggests that some bonuses in the financial and business services sectors may have been delayed to take advantage of the introduction of the 45p additional rate of income tax. Cash receipts of PAYE and NICs in the last two months have been stronger than we assumed in the March forecast. In particular, financial sector bonuses are estimated to have been substantially stronger than the 10 per cent fall we assumed in the March forecast.

## Provisional 2012-13 outturn

13. The ONS have made a large number of revisions to PSNB outturns reflecting methodological and classification changes, as well as updated data. More details of

these changes can be found on the ONS website.<sup>3</sup> The provisional outturn for PSNB excluding Royal Mail and APF for 2012-13 was revised down by £0.7 billion to £118.8 billion. This is £2.1 billion lower than the March EFO estimate and £0.2 billion higher than the latest revised estimates in 2011-12.

14. The estimate for 2012-13 remains provisional and subject to change. We expect ONS estimates for central government current expenditure and investment to be revised in September to reflect departments' provisional outturn. In addition, the first provisional outturn data for local authority current spending will not become available until August, and so we would also expect the ONS estimates to be revised for this in September.

## Issues for next month's release

15. APF transfers will reduce PSNB by £3.9 billion in June and a further £0.7 billion in July, as explained in the ONS bulletin. With the threshold of the Bank of England's entrepreneurial income from last year being reached in July, only £0.7 billion of the July transfer will impact on PSNB. The rest of that transfer and APF transfers over the remainder of the financial year will be classified as financial transactions and not affect PSNB. They will continue to reduce the central government net cash requirement and net debt.

---

<sup>3</sup> <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-finances/index.html>

# Public sector receipts, expenditure and net borrowing

£ billion	May				April to May				Implied June to March				Budget 2013 forecast			
	change				change				change				2013-14 Mar EFO*	2012-13 outturn	change	
	2013	2012	£bn	%	2013-14	2012-13	£bn	%	2013-14	2012-13	£bn	%			£bn	%
<b>Central Government (CG) current receipts</b>																
Taxes on production	17.3	16.7	0.7	4.1	34.1	32.9	1.2	3.8	181.9	174.3	7.6	4.4	216.0	207.2	8.8	4.2
Of which: VAT (accrued)	9.4	9.2	0.2	2.1	18.7	18.3	0.4	2.0	96.8	93.9	3.0	3.2	115.5	112.2	3.4	3.0
Taxes on income and wealth	10.9	11.1	-0.2	-1.6	28.9	26.5	2.4	9.2	169.9	168.0	1.9	1.1	198.8	194.5	4.3	2.2
Of which:																
Income tax and CGT (accrued)	9.4	9.6	-0.2	-2.0	22.5	19.8	2.7	13.6	133.8	131.9	1.9	1.4	156.3	151.7	4.6	3.0
Corporation tax	1.3	1.2	0.1	4.4	6.0	6.1	-0.1	-2.3	32.3	33.3	-1.0	-3.1	38.3	39.4	-1.2	-3.0
Other taxes	4.6	1.3	3.3	261.8	5.9	2.4	3.5	141.7	14.0	13.0	1.0	7.8	19.9	15.4	4.5	29.3
Compulsory social contributions	8.5	8.3	0.2	3.0	17.8	16.8	1.0	6.0	88.9	87.8	1.1	1.2	106.7	104.6	2.1	2.0
Interest & dividends	4.7	0.7	4.0	595.9	9.5	3.8	5.7	149.9	11.8	12.8	-1.0	-7.5	21.3	16.6	4.7	28.6
Other receipts	0.7	0.7	0.0	0.1	1.4	1.4	0.0	0.1	7.5	7.4	0.1	1.5	8.9	8.8	0.1	1.2
<b>Total CG current receipts</b>	<b>46.9</b>	<b>38.7</b>	<b>8.1</b>	<b>21.0</b>	<b>97.7</b>	<b>83.8</b>	<b>13.8</b>	<b>16.5</b>	<b>473.8</b>	<b>463.2</b>	<b>10.6</b>	<b>2.3</b>	<b>571.5</b>	<b>547.0</b>	<b>24.5</b>	<b>4.5</b>
<b>CG Current expenditure</b>																
Interest payments	4.6	4.6	0.0	0.5	9.7	9.8	-0.1	-0.6	39.8	37.2	2.7	7.2	49.5	47.0	2.6	5.5
Net social benefits	16.5	16.4	0.1	0.8	32.3	32.2	0.2	0.5	163.0	159.3	3.6	2.3	195.3	191.5	3.7	1.9
Other	30.4	33.0	-2.6	-7.9	71.7	65.2	6.5	10.0	327.6	326.6	1.0	0.3	399.3	391.8	7.5	1.9
<b>Total current expenditure</b>	<b>51.5</b>	<b>53.9</b>	<b>-2.4</b>	<b>-4.5</b>	<b>113.7</b>	<b>107.1</b>	<b>6.6</b>	<b>6.2</b>	<b>530.4</b>	<b>523.2</b>	<b>7.2</b>	<b>1.4</b>	<b>644.1</b>	<b>630.3</b>	<b>13.8</b>	<b>2.2</b>
Depreciation	0.7	0.7	0.0	0.0	1.4	1.4	0.0	0.0	6.9	6.9	0.0	-0.1	8.3	8.3	0.0	-0.1
<b>CG Surplus on current budget</b>	<b>-5.3</b>	<b>-15.9</b>	<b>10.6</b>	<b>66.6</b>	<b>-17.4</b>	<b>-24.7</b>	<b>7.2</b>	<b>29.3</b>	<b>-63.5</b>	<b>-66.9</b>	<b>3.4</b>	<b>-5.1</b>	<b>-80.9</b>	<b>-91.6</b>	<b>10.7</b>	<b>-11.7</b>
CG Net investment	1.9	1.9	0.0	2.0	4.3	-23.0	27.3	118.9	24.6	20.1	4.5	22.2	28.9	-2.9	31.8	
<b>CG Net borrowing</b>	<b>7.2</b>	<b>17.8</b>	<b>-10.5</b>	<b>-59.3</b>	<b>21.8</b>	<b>1.7</b>	<b>20.1</b>	<b>1189.5</b>	<b>88.0</b>	<b>87.1</b>	<b>0.9</b>	<b>1.1</b>	<b>109.8</b>	<b>88.8</b>	<b>21.0</b>	<b>23.7</b>
Local Authorities net borrowing	1.5	-2.1	3.7	172.4	-7.9	-4.6	-3.3	-71.1	6.6	5.1	1.5	29.3	-1.3	0.5	-1.8	
Public Corporations net borrowing	0.0	0.0	0.0	480.0	-0.2	-0.1	-0.1	-201.5	-0.7	-4.2	3.5	-84.0	-0.9	-4.3	3.4	-79.7
<b>Public sector net borrowing</b>	<b>8.8</b>	<b>15.6</b>	<b>-6.9</b>	<b>-43.9</b>	<b>13.6</b>	<b>-3.0</b>	<b>16.7</b>	<b>-551.6</b>	<b>94.1</b>	<b>88.0</b>	<b>6.0</b>	<b>6.9</b>	<b>107.7</b>	<b>85.0</b>	<b>22.7</b>	<b>26.7</b>
PSNB (ex. Royal Mail)	8.8	15.6	-6.9	-43.9	13.6	24.3	-10.7	-43.9	94.1	88.0	6.0	6.9	107.7	112.3	-4.6	-4.1
PSNB (ex. Royal Mail and APF)	12.7	15.6	-3.0	-19.0	21.4	24.3	-2.9	-11.9	98.4	94.4	3.9	4.2	119.8	118.8	1.0	0.9
<b>Public sector net investment</b>	<b>1.4</b>	<b>1.4</b>	<b>0.0</b>	<b>-1.2</b>	<b>2.7</b>	<b>-25.2</b>	<b>27.9</b>	<b>110.7</b>	<b>21.5</b>	<b>20.4</b>	<b>1.0</b>	<b>5.0</b>	<b>24.2</b>	<b>-4.8</b>	<b>28.9</b>	
<b>Public sector current budget</b>	<b>-7.4</b>	<b>-14.2</b>	<b>6.8</b>	<b>48.0</b>	<b>-10.9</b>	<b>-22.1</b>	<b>11.2</b>	<b>50.6</b>	<b>-72.6</b>	<b>-67.7</b>	<b>-5.0</b>	<b>7.3</b>	<b>-83.5</b>	<b>-89.8</b>	<b>6.2</b>	<b>-7.0</b>

March 2013 EFO forecast published 20 March 2013 excluding temporary effects of financial interventions on a National Accounts basis