

19 July 2013

Commentary on the Public Sector Finances release: June 2013

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 2013 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.

Summary

2. Public sector net borrowing (PSNB) – excluding financial interventions – was £8.5 billion in June, £3.4 billion lower than a year ago and slightly above market expectations of £8.0 billion. A further £3.9 billion transfer from the Asset Purchase Facility (APF) to the Exchequer more than explains the lower PSNB than last June.
3. The ONS have revised down their estimate of capital tax receipts from the UK-Swiss tax agreement from £3.2 billion (based on the forecast in the March 2013 *EFO*) to £0.3 billion (the pre-payment already received). This worsens the May PSNB by £2.9 billion. The decision reflects an announcement by the Swiss Bankers' Association on 5 July that less revenue was being transferred to the UK than anticipated through this one-off levy. In light of this, the OBR has asked the Treasury and HM Revenue & Customs to re-estimate the revenues they expect from the Swiss deal and other tax disclosure agreements ahead of our next forecast in the autumn (see below).
4. The ONS's decision last month to include the *EFO* forecast as outturn data highlights an often underappreciated feature of the monthly public finance statistics. Because the data are largely presented on an accruals basis, estimates of the amount of spending or revenue accruing in a particular month may have to be put in the outturn data before the associated flows of cash have taken place. It is common practice in such situations for the ONS to use a forecast until more data becomes available. The ONS Statistical Bulletin describes this revisions process.
5. After the first three months of the 2013-14 financial year, PSNB excluding Royal Mail and APF – the measure we highlighted in our March *EFO* – was unchanged from last year. Following revisions to the 2012-13 outturn, meeting the 2013-14 full year forecast would imply a £3.4 billion rise from a year ago. However, three months' data provides only a very limited guide to likely trends over the rest of the year, since outturn data for central government spending, local authority and public corporations borrowing can be volatile on a monthly basis and prone to revisions.

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

6. The ONS's previous estimate for PSNB excluding Royal Mail and APF for 2012-13 has been revised down by a further £2.3 billion to £116.5 billion, reflecting higher receipts for income tax and business rates. It is now £4.4 billion lower than our estimate in the March *EFO*. PSNB excluding Royal Mail and APF now falls by £2.1 billion between 2011-12 and 2012-13. That fall is composed of a £6.1 billion reduction in net investment and a £4.1 billion increase in the current budget deficit. Past experience suggests that the 2012-13 outturn still remains subject to significant change.

June 2013 outturn (and year-to-date)

7. The £3.4 billion fall in PSNB in June from last year is more than accounted for by the APF transfer. Abstracting from this, PSNB was £0.5 billion higher than last year. Central government accrued receipts (ex APF) were up £1.2 billion, but were offset by £1.2 billion higher central government spending. Borrowing by local authorities and public corporations were up £0.7 billion and down £0.2 billion respectively on a year earlier.
8. Central government current expenditure increased by 1.8 per cent in June, compared to spending in June last year. The increase in spending was largely because debt interest payments in June were up 11 per cent on a year earlier. This reflected changes in the monthly profile of the Retail Prices Index (RPI), which affects payments on index-linked gilts.
9. Central government current expenditure increased by 4.6 per cent for the first three months of 2013-14, compared with a year earlier. This compares with our March *EFO* forecast of a 2.2 per cent full year increase. The stronger growth in the first three months is due to a change in the timing of the payment of grants to local authorities. We provided a full explanation of the changes in payments of grants in our commentary on the PSF release last month.
10. Central government accrued receipts grew by 12.5 per cent in June 2013, primarily reflecting the effect of the APF transfer. Excluding the transfer, receipts growth in June was 3.2 per cent on a year earlier, primarily reflecting modest growth in income tax, NICs and corporation tax.
11. For the first quarter of the 2013-14 financial year, central government accrued receipts are up 12.7 per cent, again mainly due to APF transfers. These transfers' effect on receipts is front-loaded in 2013-14, but was back-loaded in 2012-13. As noted earlier, the yield from Swiss capital tax looks like it will be significantly lower than expected at the March 2013 *EFO*. Abstracting from both APF transfers and Swiss capital tax receipts, receipts growth for the year-to-date is 3.1 per cent, above the full-year forecast of 2.4 per cent. Receipts growth so far this year has benefited from the deferral of some bonuses in the financial and business services sector into 2013-14 to take advantage of the introduction of the lower 45p additional rate of income tax. Income tax repayments (primarily those related to PAYE) are also substantially lower than last year. Offsetting this, the year-on-year comparison for receipts growth has been affected by the £2.3 billion dividend related to the closure of the Special Liquidity Scheme, which boosted receipts in April 2012.

The UK-Swiss and other tax disclosure agreements

12. The ONS's decision to revise down its estimate of the receipts from the UK-Swiss tax agreement reflects the following announcement on 5 July from the Swiss Bankers' Association²:

"The implementation of the tax agreement with the UK is proceeding on schedule. Under the terms of the agreement UK clients had until the end of May 2013 to decide whether to regularise the past by opting to pay the one-off flat-rate withholding tax or disclosing their assets to the UK tax authorities.

First indications from selected banks in Switzerland show that there are fewer untaxed UK assets in Switzerland than had been previously assumed. This is mainly due to the fact that many clients have resident non-domiciled status. These clients are not liable to taxation in the UK and thus do not fall under the Agreement. Furthermore, numerous UK clients have opted for voluntary disclosure, which comes as no surprise given the latest developments in Switzerland with regard to the announced adoption of a global standard for the automatic exchange of information.

As a result of these two developments, less tax than expected is being transferred to the UK by means of the one-off payment. The possibility can therefore not be ruled out that either none or only a small part of the banks' guarantee payment of CHF 500 million will be recovered."

13. The SBA has not provided its own estimate for the yield from the one-off levy, but on the basis of their statement it is likely to be significantly lower than the Treasury costing that we certified for our March 2013 forecast. The ONS will update the current £0.3 billion estimate in future *Public Sector Finance* releases as required.
14. We noted in December 2012 (and reiterated last month when the March forecast was included in the outturn data) that: "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".³ We noted last month that revisions to the figure could be significant.
15. The ultimate impact on the public finances will depend on the extent to which the low level of receipts from the one-off levy reflects the fact that there were fewer UK assets in Switzerland than was assumed in the costing and on the extent to which a greater-than-expected proportion of those affected by the agreement have chosen to disclose via alternative routes such as the Lichtenstein Disclosure Facility (LDF) or through HMRC. To the extent that the apparent shortfall appears through either LDF or HMRC, then it is likely to score primarily as income tax in 2014-15 and 2015-16, given the time lags in settling cases through these alternative routes.

² <http://www.swissbanking.org/en/medienmitteilung-20130705.htm>

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/185454/as2012_policy_costings.pdf.pdf

16. In addition to the UK-Swiss agreement, our March *EFO* forecast included expected receipts from similar tax agreements and disclosure facilities, such as those with Jersey, Guernsey and the Isle of Man announced just prior to or at Budget 2013, as well as the LDF. In light of the Swiss announcement, and the possible interactions between the various agreements, we will ask the Treasury and HMRC to look again at their estimates of the expected yield from these agreements and facilities ahead of our next forecast at the time of the Autumn Statement. Particular issues include:

- the tax base: assumptions on the size of UK assets, the proportion that are non-domicile and the proportion that are already compliant;
- behavioural responses: the extent to which funds move to other offshore centres and the extent to which other tax agreements reduce the options for moving funds;
- any information on those choosing to disclose via LDF or HMRC, rather than pay the one-off levy on their Swiss assets;
- the implications of the lower-than-expected one-off levy on Swiss assets for the future withholding tax on Swiss funds; and
- the consistency of assumptions on the operation of, and interactions between, the different agreements and disclosure facilities.

17. But it is important to emphasise that estimates of revenues from agreements such as these are bound to remain highly uncertain given the difficulties in establishing the amount of assets covered by the agreements and the behaviour they encourage.

Issues for next month's release

18. 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 2013 profits;
- oil and gas firms paying their first of three instalment payments on their 2013 profits; and
- the second payment on account for self assessment liabilities for 2012-13 due on 31 July.

19. APF transfers will reduce PSNB by £0.7 billion in July. The threshold of the Bank of England's entrepreneurial income from last year will be reached in July, so only £0.7 billion of the July transfer will impact on PSNB. The rest of that transfer and subsequent 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.

Public sector receipts, expenditure and net borrowing

£ billion	June				April to June				Implied July to March				Budget 2013 forecast			
			change				change				change		2013-14	2012-13	change	
	2013	2012	£bn	%	2013-14	2012-13	£bn	%	2013-14	2012-13	£bn	%	Mar EFO*	outturn	£bn	%
Central Government (CG) current receipts																
Taxes on production	17.6	17.4	0.2	1.3	52.0	50.4	1.6	3.1	164.0	157.7	6.3	4.0	216.0	208.1	7.9	3.8
Of which: VAT (accrued)	9.5	9.4	0.0	0.4	28.4	27.8	0.6	2.2	87.1	84.3	2.8	3.4	115.5	112.1	3.4	3.1
Taxes on income and wealth	12.7	12.2	0.5	4.2	41.5	38.7	2.8	7.2	157.3	157.3	0.0	0.0	198.8	196.0	2.8	1.4
Of which:																
Income tax and CGT (accrued)	11.2	10.9	0.4	3.3	33.6	30.8	2.9	9.3	122.7	122.4	0.3	0.2	156.3	153.2	3.1	2.0
Corporation tax	1.3	1.1	0.2	14.3	7.3	7.3	0.0	0.3	31.0	32.2	-1.2	-3.7	38.3	39.4	-1.2	-3.0
Other taxes	1.3	1.2	0.1	6.6	4.3	3.7	0.6	17.1	15.6	11.7	3.9	33.5	19.9	15.4	4.5	29.3
Compulsory social contributions	9.0	8.8	0.2	1.8	26.7	25.6	1.1	4.2	80.0	78.9	1.1	1.4	106.7	104.5	2.2	2.1
Interest & dividends	4.7	0.5	4.1	794.1	14.2	4.3	9.8	227.5	7.1	12.3	-5.2	-42.2	21.3	16.6	4.7	28.3
Other receipts	0.7	0.7	0.0	0.8	2.2	2.2	0.0	0.9	6.7	6.5	0.2	2.7	8.9	8.7	0.2	2.0
Total CG current receipts	46.0	40.9	5.1	12.5	140.9	125.0	15.9	12.7	430.6	424.3	6.3	1.5	571.5	549.3	22.2	4.0
CG Current expenditure																
Interest payments	4.4	4.0	0.4	11.0	14.0	13.7	0.3	2.1	35.5	33.3	2.3	6.8	49.5	47.0	2.6	5.5
Net social benefits	15.7	15.3	0.4	2.3	47.9	47.5	0.4	0.9	147.4	144.0	3.3	2.3	195.3	191.5	3.7	1.9
Other	32.7	32.6	0.1	0.4	104.4	97.8	6.6	6.7	294.9	294.0	0.9	0.3	399.3	391.8	7.5	1.9
Total current expenditure	52.8	51.9	0.9	1.8	166.3	159.0	7.3	4.6	477.8	471.3	6.5	1.4	644.1	630.3	13.8	2.2
Depreciation	0.7	0.7	0.0	0.0	2.0	2.0	0.0	0.0	6.3	6.3	0.0	-0.1	8.3	8.3	0.0	-0.1
CG Surplus on current budget	-7.5	-11.7	4.2	35.9	-27.5	-36.1	8.6	23.9	-53.4	-53.2	-0.2	0.3	-80.9	-89.3	8.4	-9.4
CG Net investment	2.1	1.8	0.3	14.5	6.1	-21.1	27.2	-128.7	22.8	18.2	4.6	25.1	28.9	-2.9	31.8	1109.7
CG Net borrowing	9.6	13.5	-3.9	-29.1	33.5	14.9	18.6	124.3	76.3	71.6	4.7	6.6	109.8	86.5	23.3	27.0
Local Authorities net borrowing	-0.8	-1.6	0.7	46.7	-8.8	-6.2	-2.6	-41.7	7.5	6.7	0.8	11.9	-1.3	0.5	-1.8	
Public Corporations net borrowing	-0.3	-0.1	-0.2	-246.3	-0.4	-0.1	-0.3	-206.3	-0.5	-4.2	3.7	-88.8	-0.9	-4.3	3.4	-79.7
Public sector net borrowing	8.5	11.9	-3.4	-28.6	24.3	8.6	15.7	182.7	83.4	74.1	9.3	12.5	107.7	82.7	25.0	30.2
PSNB (ex. Royal Mail)	8.5	11.9	-3.4	-28.6	24.3	35.9	-11.6	-32.4	83.4	74.1	9.3	12.5	107.7	110.0	-2.3	-2.1
PSNB (ex. Royal Mail and APF)	12.4	11.9	0.5	4.1	35.9	35.9	0.0	0.1	83.9	80.6	3.3	4.1	119.8	116.5	3.4	2.9
Public sector net investment	1.5	1.3	0.2	14.6	4.0	-23.9	27.8	116.6	20.2	19.1	1.0	5.4	24.2	-4.8	28.9	
Public sector current budget	-7.0	-10.6	3.6	34.0	-20.3	-32.4	12.1	37.4	-63.2	-55.1	-8.1	14.8	-83.5	-87.5	4.0	-4.5

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