Office for
Budget
Responsibility

22 October 2013

Commentary on the Public Sector Finances release: September 2013

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the September 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 £11.1 billion in September, £1.0 billion lower than the £12.1 billion borrowing recorded last September and close to market expectations of £11.3 billion. Borrowing in the month was not affected by transfers from the Asset Purchase Facility (APF), which reduced the net cash requirement by £4.0 billion but will not affect public sector net borrowing for the rest of this financial year.

3. Central government receipts were 7.0 per cent higher than in September last year, reflecting growth in VAT, stamp duty land tax, onshore corporation tax receipts and non-PAYE elements of income tax. This offset an increase in central government current spending of 2.5 per cent.

4. After the first half of the 2013-14 financial year, PSNB excluding Royal Mail and APF – the measure we highlighted in our March *EFO* – was £5.9 billion lower than last year, with net investment higher by £0.1 billion and the current deficit lower by £6.0 billion.

5. Following a further downward revision, borrowing in 2012-13 is now estimated to have been £5.5 billion lower than we assumed in our March EFO. Consequently our March forecast for borrowing in 2013-14 now implies a £4.4 billion increase over 2012-13. But with borrowing £5.9 billion down from last year over the first six months of the year, this would require a significant reversal of the recent trend. We will publish new forecasts alongside the Autumn Statement on 4 December.

6. Developments over the first half of the year for the central government sector have been driven by:

   - year-on-year growth in central government receipts including APF transfers of 8.3 per cent, which is well ahead of the 3.9 per cent growth we forecast for

[1] http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/public-sector-finances---september-2013/stb---september-2013.html

2013-14 as a whole. However, much of this reflects the timing of APF transfers, which are front-loaded in 2013-14, but were back-loaded in 2012-13. In addition, although the yield from the Swiss capital tax looks like it will be significantly lower than expected at the March 2013 *EFO*, it has still increased growth in receipts in the first half of the year. Abstracting from both the APF transfers and the Swiss capital tax, growth in receipts for the year-to-date is 3.4 per cent – higher than the full year forecast of 2.3 per cent;

- year-on-year growth in central government current expenditure of 2.4 per cent is also ahead of the 2.0 per cent increase we forecast for 2013-14 as a whole. However, this stronger growth reflects the earlier timing of grant payments to local authorities and expenditure transfers to EU institutions this year. Grant payments to local authorities in 2013-14 were much more front-loaded than last year. These timing effects have not yet fully unwound, which has some effect in increasing central government spending and reducing local government borrowing compared to last year. But it is now apparent that transfers to EU institutions have also been more front-loaded in the first half of this year, an increase in central government spending that feeds through to public sector borrowing. Together, these timing shifts in grants to local authorities and transfers to EU institutions more than account for the additional growth in central government current expenditure, compared with our March *EFO* forecast.

7. At this mid-stage of the financial year, there remains significant uncertainty around the local authority and public corporations borrowing figures, both in respect of the annual totals and the path across the year. These are prone to substantial revisions.

8. Overall, borrowing is coming in lower this year than our March forecast would have suggested, but the size of any possible undershoot for the year as a whole remains very uncertain. The latest month's data continue to suggest that the pick-up in the economy and the housing market is boosting stamp duty and onshore corporation tax, partially offset by weaker North Sea receipts. The latest data also provides tentative evidence of a pick-up in VAT. But income tax continues to be held down by weak earnings growth. As always, the outlook for the full year is clouded by the fact that data for central government spending and borrowing by local authorities and public corporations is volatile and prone to significant revision.

September 2013 outturn

9. The £1.0 billion fall in PSNB compared with last September is more than explained by the increase in receipts, which were £2.9 billion higher than last year. This was partially offset by an increase of £1.3 billion in central government current expenditure and small increases in central government net investment and borrowing by public corporations.

10. Central government current expenditure increased by 2.5 per cent in September compared with last year. Within this overall increase, other current spending increased by 3.4 per cent and debt interest fell by 5.3 per cent. As usual, the changes in debt interest reflect changes in the monthly profile of RPI compared with last year, which affects debt interest on index-linked gilts. Within the overall increase

in other current spending, higher spending by departments was partly offset by lower current grants to local authorities. Departmental payments are often volatile on a month-to-month basis and are subject to revision. There may be additional volatility and uncertainty this year due to possible changes to the spending profile arising from the creation of new NHS bodies.

11. Central government accrued receipts grew by 7.0 per cent in September from a year earlier. This was driven by growth across the majority of the major receipts streams, and in particular in VAT, onshore corporation tax and stamp duty land tax (which was 39 per cent higher than a year earlier in September and is 26.4 per cent up on the year to date). A temporary effect of an increase in some of the more volatile elements of non-PAYE income tax also boosted receipts growth. Finally, oil and gas firms paid the balancing payment on their petroleum revenue tax liabilities in the first half of 2013 in September. These were lower than a year ago, consistent with the lower corporation tax instalments from these firms in July.

Outturn for April to September 2013

12. Revisions in this month's release to the data for the first five months of 2013-14 lowered PSNB by £1.2 billion, which was mainly due to downward revisions to central government spending alongside some small upward revisions to receipts. Cash receipts of VAT were strong in September. Since these relate to economic activity over the past three months, ONS accrue the receipts to those months.

13. Growth in central government current expenditure for the first six months of the financial year is 2.4 per cent, which is above the 2.0 per cent increase expected for 2013-14 as a whole. However, as explained in paragraph 6, this stronger growth is more than accounted for by the earlier timing of grant payments to local authorities, and also by the earlier timing of expenditure transfers to EU institutions this year. Within central government current expenditure, over the first six months, debt interest has increased by 1.2 per cent, which is lower than the 3.3 per cent increase that we forecast for the whole of 2013-14 in our March 2013 *EFO* and net social benefits has increased by 1.1 per cent, against our full year forecast for a 2.0 per cent increase. Debt interest spending is lower to date because of differences in the monthly RPI profile. The lower net social benefit spending over the first six months probably also largely reflects differences in the timing of spending.

14. Central government receipts have grown by 8.3 per cent in the year to date, well above our full-year forecast of 3.9 per cent. This is thanks mainly to the timing of APF transfers which came in at the beginning of this year, whereas last year they came in at the end. Capital tax receipts from the UK-Swiss tax agreement are likely to be less than the £3.2 billion estimate included in the March 2013 *EFO*. The total payment so far is £0.7 billion, which is accrued to May 2013. Whilst receipts are lower than expected, they continue to boost the growth rate of receipts compared to last year.

15. Abstracting from both APF transfers and the Swiss capital tax, receipts growth for the year-to-date is now 3.4 per cent – above the full year forecast of 2.3 per cent. Growth in accrued VAT receipts of 4.1 per cent in September has strengthened the

year-to-date position, which is now showing growth higher than our full year forecast of 3.1 per cent. As was the case last month, stamp duty land tax and onshore corporation tax continue to display growth in excess of our March 2013 forecast.

16. Growth in both income tax and NICs for the year-to-date is above the full year forecasts, but this largely reflects the fact that receipts in the first few months of the year benefited from the deferral of some income/bonuses to take advantage of the reduction of the additional rate of income tax to 45p and some temporary effects in non-PAYE income tax. Prospects for PAYE and NIC receipts growth will depend on the feed-through from the low growth in average weekly earnings in the latest data.

17. In September, the Government sold some of the shares it held in Lloyds Banking Group, raising £3.2 billion. In the National Accounts, this share sale is classified as the exchange of one financial asset for another, a financial transaction, so does not affect net borrowing. The central government net cash requirement was reduced by the full value of the sale. For public sector net debt excluding financial interventions, the headline measure of net debt, the impact of the share sale reflects the profit relative to the value at which the shares were held. This profit reduced net debt by £586 million in September.

Issues for next month's release

18. October is an important month for corporation tax. Many medium and large onshore firms will pay the second of four instalment payments on their 2013 profits, while oil and gas firms will pay the second of three instalment payments on their 2013 profits.

19. The Government's sale of shares in Royal Mail earlier this month will affect the public finances in a number of ways. The income from the sale will reduce the central government net cash requirement in a relatively straightforward manner, but the impact on public sector net borrowing and net debt is more complex and are subject to future ONS decisions.

Public sector receipts, expenditure and net borrowing

£ billion	September				April to September				Implied October 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	%
<u>Central Government (CG) current receipts</u>																
Taxes on production	18.9	18.0	0.9	4.8	108.1	103.5	4.6	4.5	107.9	105.4	2.5	2.3	216.0	208.9	7.1	3.4
Of which: VAT (accrued)	9.7	9.3	0.4	4.1	57.3	55.3	1.9	3.5	58.2	56.8	1.5	2.6	115.5	112.1	3.5	3.1
Taxes on income and wealth	13.9	12.6	1.4	10.9	90.9	87.2	3.7	4.3	107.9	108.8	-0.9	-0.9	198.8	196.0	2.8	1.4
Of which:																
Income tax and CGT (accrued)	*11.3*	*10.1*	*1.2*	*11.9*	*71.9*	*68.3*	*3.6*	*5.3*	*85.1*	*84.9*	*0.2*	*0.2*	*157.0*	*153.2*	*3.8*	*2.5*
Corporation tax	*2.1*	*1.8*	*0.3*	*16.6*	*17.6*	*17.1*	*0.4*	*2.6*	*20.7*	*22.3*	*-1.6*	*-7.3*	*38.3*	*39.5*	*-1.2*	*-3.0*
Other taxes	1.4	1.2	0.2	17.7	9.2	7.7	1.5	19.2	10.7	7.7	3.0	39.3	19.9	15.4	4.5	29.3
Compulsory social contributions	8.7	8.5	0.2	2.2	52.2	50.8	1.3	2.7	54.5	53.7	0.8	1.5	106.7	104.5	2.2	2.1
Interest & dividends	1.1	0.8	0.3	36.4	16.7	6.3	10.3	162.5	4.6	10.4	-5.8	-55.6	21.3	16.7	4.6	27.5
Other receipts	0.7	0.7	0.0	0.1	4.4	4.4	0.1	1.8	4.5	4.4	0.1	2.5	8.9	8.8	0.1	1.2
Total CG current receipts	**44.8**	**41.9**	**2.9**	**7.0**	**281.5**	**260.0**	**21.6**	**8.3**	**290.0**	**290.3**	**-0.3**	**-0.1**	**571.5**	**550.3**	**21.2**	**3.9**
<u>CG Current expenditure</u>																
Interest payments	2.8	3.0	-0.2	-5.3	23.6	23.4	0.3	1.2	25.9	24.6	1.4	5.6	49.5	48.0	1.6	3.3
Net social benefits	16.2	15.9	0.3	2.0	96.9	95.8	1.1	1.1	98.4	95.7	2.7	2.8	195.3	191.5	3.8	2.0
Other	34.2	33.1	1.1	3.4	200.7	194.6	6.1	3.1	198.6	197.5	1.1	0.5	399.3	392.1	7.2	1.8
Total current expenditure	**53.2**	**51.9**	**1.3**	**2.5**	**321.3**	**313.8**	**7.5**	**2.4**	**322.8**	**317.8**	**5.0**	**1.6**	**644.1**	**631.6**	**12.5**	**2.0**
Depreciation	0.7	0.7	0.0	0.0	4.2	4.1	0.1	1.9	4.1	4.2	-0.1	-2.6	8.3	8.3	0.0	-0.1
CG Surplus on current budget	**-9.1**	**-10.8**	**1.7**	**15.4**	**-43.9**	**-57.9**	**14.0**	**24.2**	**-37.0**	**-31.7**	**-5.3**	**16.8**	**-80.9**	**-89.6**	**8.7**	**-9.7**
CG Net investment	2.4	2.1	0.2	10.3	12.6	-15.7	28.4	180.3	16.3	12.2	4.1	33.8	28.9	-3.5	32.4	-
CG Net borrowing	**11.5**	**12.9**	**-1.4**	**-11.1**	**56.6**	**42.2**	**14.4**	**34.0**	**53.2**	**43.9**	**9.3**	**21.3**	**109.8**	**86.1**	**23.7**	**27.6**
Local Authorities net borrowing	-0.5	-0.4	-0.1	-25.1	-11.1	-6.5	-4.6	-69.9	9.8	4.7	5.1	107.9	-1.3	-1.8	0.5	-28.4
Public Corporations net borrowing	0.1	-0.5	0.5	110.8	-0.9	-1.0	0.1	10.8	0.0	-2.3	2.3	-101.2	-0.9	-3.3	2.4	-73.5
Public sector net borrowing	11.1	12.1	-1.0	-8.2	44.5	34.6	9.9	28.6	63.2	46.4	16.8	36.1	107.7	81.0	26.7	32.9
PSNB (ex. Royal Mail)	11.1	12.1	-1.0	-8.2	44.5	62.6	-18.1	-28.9	63.2	46.4	16.8	36.1	107.7	109.0	-1.3	-1.2
PSNB (ex. Royal Mail and APF)	11.1	12.1	-1.0	-8.2	56.7	62.6	-5.9	-9.4	63.1	52.8	10.3	19.6	119.8	115.4	4.4	3.9
Public sector net investment	2.0	1.7	0.3	15.6	8.5	-19.5	28.1	-	15.7	13.7	1.9	14.2	24.2	-5.8	29.9	-
Public sector current budget	-9.1	-10.4	1.3	12.2	-36.0	-54.1	18.2	33.6	-47.5	-32.7	-14.8	45.3	-83.5	-86.8	3.3	-3.8

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