

21 February 2014

Commentary on the Public Sector Finances release: January 2014

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 2014 Public Sector Finances this morning. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast. The next ONS bulletin is released on 21 March, two days after publication of the Budget and our next *Economic and fiscal outlook (EFO)*, so we will not publish a public finances commentary on that day.

Summary

2. Headline public sector net borrowing (PSNB) recorded a surplus of £4.7 billion in January 2014. January is generally the highest month of the year for tax receipts so typically sees a surplus. The surplus was £5.1 billion lower than in January 2013 and significantly lower than market expectations of a surplus of £8.2 billion. However, the deterioration since last year largely reflects the fact that a transfer of cash from the Asset Purchase Facility boosted the surplus by £3.8 billion, in January 2013, while APF-related transfers did not affect the PSNB in January 2014.
3. Excluding APF-related effects, the underlying surplus in January 2014 was around £1.3 billion smaller than last year. This mainly reflects the fact that central government expenditure was £0.7 billion higher and borrowing by local authorities was £0.4 billion higher than last year. Receipts were little changed from last year.
4. Underlying borrowing is now £4.0 billion lower in the first ten months of this year than at the same stage last year (excluding Royal Mail and APF transfers). To meet our December *EFO* full year forecast of £111.2 billion, borrowing would have to be £0.4 billion higher than last year in the final two months of 2013-14. This would be a departure from the trend over the year to date.

January 2014 outturn

5. Receipts (excluding APF) were little changed between January last year and January this year. Growth in VAT receipts and stamp duties was offset by lower income tax receipts. Corporation tax receipts were also lower than last year, with strength in non-financial companies not enough to offset the decline in receipts from North Sea oil and gas companies.

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/january-2014/stb---january-2014.html>

6. Payments of self-assessment (SA) and capital gains tax (CGT) relating to 2012-13 liabilities were due at the end of January. However, it is typically the case that large amounts of SA score in the early part of February. Therefore it is not possible to make a full assessment until both January and February receipts data are available. SA liabilities are expected to have been depressed in 2012-13 as people are assumed to have moved liabilities into 2013-14 in order to take advantage in the lower 45p additional rate of income tax – cash receipts in January and February next year will be boosted as a result. Weakness in income tax receipts in January mainly reflects the 7.7 per cent drop in SA income tax receipts and volatility in some minor elements of non-PAYE income tax.
7. The ONS's estimate of accrued PAYE in January is as usual an estimate at this stage and is subject to revision next month depending on February cash receipts. The revision could be particularly large because February cash receipts should include tax paid on financial sector bonuses, which is highly uncertain.
8. January is also an important month for corporation tax receipts, which fell 5.5 per cent on a year earlier. Many medium and large onshore firms paid the third of four instalment payments on their 2013 profits, while oil and gas firms paid their third and final instalment on their 2013 profits. Corporation tax receipts from oil and gas companies were much lower than in January 2013, due to declines in production and high levels of fully-tax deductible capital expenditure in the industry. Lower North Sea receipts more than offset a rise in receipts from onshore companies.
9. Central government current expenditure was 0.8 per cent higher than last January. Within this, debt interest payments were 4.7 per cent lower, net social benefits were 1.3 per cent higher and departmental and other current spending was 1.2 per cent higher. The monthly profiles of debt interest payments are normally volatile, with the differences mainly reflecting differences in the monthly path of the RPI. The 1.2 per cent growth in other current spending reflects a 4 per cent increase in the level of departmental and other current spending, offset by lower current grants to local authorities. This reflects different timings in the payments of grants to local authorities, where more grants are expected to be paid in February, as explained further below.

Outturn for April 2013 to January 2014

10. Revisions in this month's release have lowered PSNB for the first nine months of the financial year by £0.7 billion. This reflected a downward revision of £0.7 billion to central government spending and a £1.3 billion upward revision to receipts, partly offset by an upward revision to local government borrowing of £1.4 billion.
11. Underlying public sector net borrowing in the first ten months of 2013-14 was £90.7 billion, £4.0 billion lower than last year. To meet our December forecast, borrowing would need to be £0.4 billion higher than last year in the remaining two months of the year.
12. Central government receipts for the first ten months of 2013-14 were 5.2 per cent higher than in the same period last year, significantly above the 4.6 per cent growth rate implied for the year as a whole by our December forecast. Growth in the first

ten months of 2013-14 has been boosted by the payments from the APF to the Treasury between April and July. Excluding APF transfers, and the one-off effect of the £0.8 billion of Swiss capital tax receipts in May 2013, underlying receipts growth in the first ten months of the year is 3.2 per cent. Our December forecast implied growth of 3.4 per cent for the year as a whole on the same basis.

13. Central government current expenditure in the first ten months of 2013-14 is 1.3 per cent higher than the same period last year, compared with a full year forecast of 1.9 per cent. However, this comparison is being affected by differences in the monthly profile of certain spending items. In particular, the timing for payments of central government current grants to local authorities is now lagging behind the timing a year ago, so that more grants are expected to be paid in the final two months, with over £3 billion more grants expected to be paid in February. The lag in grant payments to date is partly offset by the timing of net contributions to the EU, which are ahead of last year so that less is expected to be paid in the final two months. Excluding spending on current grants to local authorities and net contributions to the EU, central government current spending so far in 2013-14 is up by 2.4 per cent, in line with the full year forecast of 2.4 per cent.
14. A particular uncertainty is the degree to which central government departments will underspend against the plans for Departmental Expenditure Limits (DELs). Much depends on departments' reductions in spending in their supplementary estimates, which form their final spending plans, and the extent to which they then underspend against those final plans. Departments supplementary estimates have now been published, and we will update our forecasts of departments underspends against their DELs in our March *EFO* forecast.
15. After the latest revisions which increased local authority net borrowing by £1.4 billion in 2013-14, local authority borrowing for the first ten months of 2013-14 is now £2.8 billion more than a year ago, compared with our forecast for a full year increase of £0.4 billion. However, as explained above, we expect more central government grants to be paid to local authorities over the next two months, compared to last year, with over £3 billion of additional payments expected to be paid in February in particular. Local authority borrowing normally tends to be higher in February and March because most council tax receipts are received in the first ten months of the year, but these additional payments will reduce local authority borrowing in the last two months, compared to last year.

Public sector receipts, expenditure and net borrowing

£ billion	January		April to January				Implied February to March				Full Year					
	2014	2013	change		2013-14	2012-13	change		2013-14	2012-13	change		2013-14 Dec EFO*	2012-13 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central Government (CG) current receipts																
Taxes on production	17.9	16.6	1.2	7.4	183.5	174.1	9.4	5.4	37.7	34.8	2.9	8.5	221.2	208.9	12.3	5.9
<i>Of which: VAT (accrued)</i>	9.9	9.4	0.5	5.7	97.9	93.8	4.1	4.4	19.7	18.3	1.4	7.6	117.6	112.1	5.5	4.9
Taxes on income and wealth	32.5	34.2	-1.8	-5.2	168.4	165.2	3.2	1.9	30.7	30.8	-0.1	-0.3	199.1	196.0	3.1	1.6
<i>Of which:</i>																
<i>Income tax and CGT (accrued)</i>	24.9	26.2	-1.3	-4.9	129.6	125.6	4.0	3.2	28.2	27.6	0.5	1.9	157.8	153.2	4.5	3.0
<i>Corporation tax</i>	7.4	7.8	-0.4	-5.5	36.4	36.8	-0.4	-1.2	2.1	2.6	-0.5	-18.2	38.5	39.5	-0.9	-2.3
Other taxes	1.3	1.2	0.1	9.1	14.5	12.7	1.8	13.9	2.7	4.2	-1.5	-35.8	21.9	17.0	4.9	29.0
Compulsory social contributions	9.0	8.7	0.3	3.6	87.4	84.8	2.6	3.1	19.5	19.7	-0.2	-1.0	106.9	104.5	2.4	2.3
Interest & dividends	0.7	4.3	-3.6	-83.7	19.2	12.8	6.5	50.6	2.7	4.2	-1.5	-35.8	21.9	17.0	4.9	29.0
Other receipts	0.7	0.8	-0.1	-8.6	7.5	7.4	0.1	1.9	1.9	1.4	0.5	36.3	9.4	8.8	0.6	7.0
Total CG current receipts	62.1	65.8	-3.8	-5.7	480.5	456.9	23.6	5.2	95.3	93.6	1.7	1.8	575.8	550.5	25.3	4.6
CG Current expenditure																
Interest payments	3.5	3.7	-0.2	-4.7	40.6	40.5	0.1	0.1	8.9	7.1	1.9	26.5	49.5	47.6	2.0	4.1
Net social benefits	16.1	15.9	0.2	1.3	163.2	161.5	1.7	1.0	30.3	30.0	0.4	1.3	193.5	191.5	2.1	1.1
Other	33.0	32.6	0.4	1.2	331.0	325.9	5.1	1.6	68.6	65.9	2.8	4.2	399.6	391.8	7.9	2.0
Total current expenditure	52.6	52.2	0.4	0.8	534.7	527.9	6.8	1.3	108.0	102.9	5.1	5.0	642.7	630.8	11.9	1.9
Depreciation	0.7	0.7	-0.1	-9.7	7.1	6.9	0.1	2.1	1.7	1.4	0.3	23.0	8.8	8.3	0.5	6.3
CG Surplus on current budget	8.8	12.9	-4.1	-31.8	-61.2	-77.9	16.7	21.4	-14.6	-10.7	-3.9	35.9	-75.8	-88.6	12.8	-14.5
CG Net investment	2.8	2.5	0.3	12.0	22.4	-7.1	29.5	415.8	4.3	3.6	0.7	20.6	26.7	-3.5	30.2	-
CG Net borrowing	-6.0	-10.4	4.4	42.4	83.6	70.8	12.8	18.1	18.9	14.3	4.6	32.1	102.5	85.1	17.4	20.4
Local Authorities net borrowing	1.6	0.9	0.7	83.1	-2.7	-5.5	2.8	50.7	1.5	3.8	-2.4	-	-1.2	-1.7	0.4	-25.7
Public Corporations net borrowing	-0.3	-0.3	-0.1	-25.0	-2.5	-2.5	0.1	2.2	0.3	-0.6	0.9	-	-2.2	-3.1	0.9	-28.9
Public sector net borrowing	-4.7	-9.8	5.1	-51.8	78.5	62.8	15.6	24.9	20.6	17.5	3.1	17.6	99.0	80.3	18.7	23.3
PSNB (ex. Royal Mail)	-4.7	-9.8	5.1	-51.8	78.5	90.9	-12.4	-13.6	20.6	17.5	3.1	17.6	99.0	108.4	-9.3	-8.6
PSNB (ex. Royal Mail and APF)	-4.7	-6.0	1.3	-21.8	90.7	94.6	-4.0	-4.2	20.6	20.2	0.4	2.0	111.2	114.8	-3.6	-3.1
Public sector net investment	3.2	2.9	0.3	11.7	18.4	-10.6	29.0	-	6.5	5.4	1.1	19.8	24.9	-5.2	30.1	-
Public sector current budget	7.9	12.7	-4.7	-37.4	-60.1	-73.5	13.4	18.2	-14.1	-12.0	-2.1	17.5	-74.2	-85.5	11.3	-13.2

December 2013 EFO forecast published 5 December 2013 excluding temporary effects of financial interventions on a National Accounts basis