Office for
Budget
Responsibility

21 August 2014

Commentary on the Public Sector Finances release: July 2014

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the July 2014 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. This is the last release where the headline public finance figures will be shown on the basis used in the March *Economic and fiscal outlook (EFO)*. Next month, the headline measures will include the changes highlighted in the ONS's Public Sector Finances Review and be on an European System of Accounts 2010 basis (ESA10).

Summary

2. July is usually the second highest month for receipts during the financial year, reflecting the timing of corporation tax and self-assessment (SA) payments, so the budget is often in surplus for the month. However, this July, public sector net borrowing (PSNB) recorded a deficit of £0.2 billion. Excluding Asset Purchase Facility (APF) transfers of £0.5 billion, underlying borrowing was £0.8 billion in deficit.

3. Underlying borrowing for the first four months of 2014-15 was £1.8 billion higher than last year. The March *EFO* forecast for 2014-15 was for a fall of £10.4 billion compared with 2013-14 over the full financial year. Higher borrowing so far this year largely reflects weak receipts growth. One-off factors such as income shifting in response to the reduction in the additional rate of income tax and last year's Swiss capital tax proceeds depressed receipts growth in the early part of the financial year. Other factors such as the end-loading of SA payments will boost receipts in January and February next year. In addition, weaker-than-expected wage growth so far in 2014-15 is likely to affect PAYE and NIC receipts.

Detailed commentary

4. Although underlying borrowing recorded a small deficit in July, the deficit was £0.8 billion lower than last year. Underlying central government receipts rose by £1.8 billion, more than offseting a £0.5 billion rise in central government spending and an increase of £0.4 billion in local authority borrowing.

5. Over the first four months of the financial year, underlying borrowing was £1.8 billion higher than last year. Over the remaining eight months of the financial year,

[1] http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/july-2014/index.html

the underlying deficit would need to be £12.2 billion lower than last year to match the 2014-15 *EFO* forecast.

6. Central government accrued **receipts** (excluding APF transfers) rose by 3.3 per cent in July on a year earlier, reflecting rises in accrued PAYE and NIC receipts, SA receipts and stamp duty land tax receipts. The rise in PAYE and NIC receipts chiefly reflects very weak receipts in July last year. At this point, accrued PAYE and NIC receipts are estimated and will be subject to potential revision once cash receipts are received in August and accrued back to July (since they relate to that month's salaries).

7. Many firms paid their first **corporation tax** instalment payment on their 2014 profits in July. Corporation tax was down 4.8 per cent on a year earlier in July, primarily because of a fall in receipts from oil and gas firms. Our March *EFO* forecast had allowed for a fall in offshore corporation tax during 2014-15. Factors such as lower gas prices, the effect of the appreciation of sterling against the dollar on sterling oil prices and continued high capital expenditure by the industry have all limited receipts. With 100 per cent first year allowances available to oil and gas firms, higher investment leads to an immediate reduction in receipts.

8. The second payment on account for **SA** liabilities for 2013-14 was due on 31 July. SA income tax receipts were up 3.8 per cent on a year earlier. With the due date at the end of the month, payments are collected in both July and August, so the situation will be clearer once we have August receipts. The March EFO forecast for SA income tax assumes a 30 per cent rise in receipts in 2014-15, in part related to the income-shifting of SA liabilities due to the reduction in the additional rate in April 2013. With payments on accounts based on previous tax bills (i.e. for 2012-13 liabilities), the boost to SA receipts will only occur at the end of January 2015 when the balancing payment on 2013-14 liabilities is paid.

9. For the first four months of the year, central government accrued receipts (excluding APF transfers) were up 1.6 per cent on year ago, against a full-year forecast of 5 per cent. As noted earlier, we expect receipts growth to be end-loaded during 2014. However, ONS labour market data for the first three months of 2014-15 showed average weekly earnings were 0.2 per cent lower than a year earlier, 1.5 percentage points less than we forecast. Employment grew by 0.8 million from the same quarter last year, which was 0.3 million more than we forecast in March (although around three-quarters of the over-forecast reflects stronger self-employment). While ONS data for wage and salary growth for the period are not yet available, this combination of stronger employment and weaker earnings growth suggests it may have been weaker than the 2.7 per cent assumed in the March forecast. Perhaps more importantly, it also implies that the average effective tax rate is likely to be lower than assumed due to a greater proportion of total wages and salaries being subject to the £10,000 income tax personal allowance. Both factors provide a downside risk to PAYE and NIC receipts. Tax from the stronger than expected rise in the number of self-employed is likely to be received in 2015-16, given the payment lags for self-assessment.

10. Central government **current expenditure** increased by 1.9 per cent on a year earlier in July, in line with our full-year forecast. Within this current spending total, debt interest payments were 6.5 per cent higher than last year, reflecting changes in the monthly profile of the Retail Prices Index (RPI), which affects debt interest on index-linked gilts. Net social benefits were 2.2 per cent higher, just above our full-year forecast increase. Departments' other current spending was 1.3 per cent higher, but most of this increase was accounted for by higher payments of current grants to local authorities, reflecting differences in timing of payments from last year. The profile of departments' spending varies from year to year and previous months' outturns are often revised.

11. Central government **net investment** fell by 16.6 per cent on a year earlier in July, but this fall was more than accounted for by lower payments of capital grants to local authorities, reflecting differences in timing of payments, and by £0.2 billion received and netted off spending from the final instalment from the sale of the Olympic Village.

12. Over the first four months of 2014-15, central government current expenditure increased by 1.2 per cent on a year earlier, compared with our full-year forecast of a 1.9 per cent rise. However the lower increase is more than accounted for by timing differences on debt interest payments and current grants to local authorities, which are both lower than last year over the first four months, and we expect most of these timing differences to unwind over the rest of the year. Excluding debt interest payments and current grants to local authorities, central government current spending is 2.3 per cent higher than last year over the first three months, compared with our full year forecast of a 1.8 per cent increase.

13. It is important to note that outturn data for central government spending can be volatile on a monthly basis and is particularly uncertain in the early part of the financial year. Local government and public corporations data are similarly liable to revision.

Issues for next month's release

14. ONS are due to implement their revisions in respect of both the Public Sector Finances Review and the switch to ESA 2010 in next month's release. Annex B of our March EFO explains the potential effect on the public sector finances of these changes. The ONS have also provided a shadow table in its releases since June which compares the main fiscal aggregates under the current and forthcoming treatments. Our monthly commentary in June looked in more detail at this shadow table.

15. We also expect ONS to revise PSNB for 2013-14 to reflect further outturn data for central government spending. The data published in Public Expenditure Statistical Analyses 2014 (published in July) suggested that this spending outturn could be revised upwards.

Public sector receipts, expenditure and net borrowing

£ billion	July				April to July				Implied August to March				Budget 2014 forecast			
			change				change				change		2014-15	2013-14	change	
	2014	2013	£bn	%	2014-15	2013-14	£bn	%	2014-15	2013-14	£bn	%	Mar EFO*	outturn	£bn	%
Central Government (CG) current receipts																
Taxes on production	19.6	18.8	0.8	4.0	75.8	71.8	4.1	5.7	157.3	149.7	7.6	5.0	233.1	221.5	11.6	5.2
Of which: VAT (accrued)	10.3	9.9	0.4	3.9	40.4	38.4	2.0	5.2	82.2	79.7	2.6	3.2	122.6	118.1	4.6	3.9
Taxes on income and wealth	24.0	23.6	0.5	1.9	64.8	64.8	0.0	0.0	147.4	136.0	11.3	8.3	212.2	200.8	11.3	5.6
Of which:																
Income tax and CGT (accrued)	17.4	16.5	0.8	5.1	49.4	49.9	-0.5	-1.1	119.7	108.9	10.8	9.9	169.1	158.8	10.3	6.5
Corporation tax	*6.6*	*6.9*	*-0.3*	*-4.8*	*14.7*	*14.1*	*0.6*	*4.3*	*25.8*	*25.2*	*0.6*	*2.5*	*40.5*	*39.3*	*1.2*	*3.1*
Other taxes	1.4	1.4	0.0	-0.7	5.7	6.4	-0.7	-11.2	11.5	11.0	0.5	4.6	17.2	17.4	-0.2	-1.1
Compulsory social contributions	8.7	8.3	0.4	4.9	34.9	34.9	0.0	0.0	75.1	72.4	2.6	3.7	110.0	107.3	2.6	2.5
Interest & dividends	1.3	1.2	0.1	7.8	7.6	15.0	-7.3	-49.1	14.6	5.7	8.9	155.7	22.2	20.7	1.5	7.3
Other receipts	0.8	0.8	0.1	6.7	3.2	3.0	0.2	7.5	6.6	6.1	0.5	8.5	9.8	9.1	0.7	7.9
Total CG current receipts	**55.9**	**54.1**	**1.8**	**3.2**	**192.0**	**195.8**	**-3.8**	**-1.9**	**412.4**	**381.1**	**31.4**	**8.2**	**604.4**	**576.9**	**27.6**	**4.8**
CG Current expenditure																
Interest payments	3.8	3.6	0.2	6.5	17.6	17.7	-0.1	-0.5	34.5	29.7	4.8	16.1	52.1	47.4	4.7	9.9
Net social benefits	16.9	16.6	0.4	2.2	65.7	64.5	1.2	1.8	131.7	128.8	2.8	2.2	197.4	193.3	4.0	2.1
Other	32.1	31.7	0.4	1.3	138.4	136.7	1.7	1.2	264.5	262.7	1.8	0.7	402.9	399.4	3.5	0.9
Total current expenditure	**52.9**	**51.9**	**1.0**	**1.9**	**221.7**	**218.9**	**2.7**	**1.2**	**430.7**	**421.2**	**9.5**	**2.2**	**652.4**	**640.1**	**12.3**	**1.9**
Depreciation	0.8	0.7	0.1	7.0	3.1	2.8	0.2	7.9	6.1	5.8	0.3	5.6	9.2	8.6	0.6	7.2
CG Surplus on current budget	**2.2**	**1.5**	**0.7**	**48.6**	**-32.7**	**-26.0**	**-6.7**	**-25.8**	**-24.4**	**-45.8**	**21.4**	**-46.7**	**-57.1**	**-71.8**	**14.7**	**-20.5**
CG Net investment	2.5	3.0	-0.5	-16.6	9.0	8.1	0.9	10.6	22.5	19.1	3.4	17.6	31.5	27.2	4.3	15.7
CG Net borrowing	**0.3**	**1.5**	**-1.2**	**-79.7**	**41.7**	**34.1**	**7.6**	**22.2**	**46.9**	**65.0**	**-18.0**	**-27.8**	**88.6**	**99.1**	**-10.4**	**-10.5**
Local Authorities net borrowing	0.0	-0.3	0.4	109.0	-8.9	-10.3	1.4	13.5	7.0	7.3	-0.3	-3.6	-1.9	-3.0	1.1	-37.7
Public Corporations net borrowing	-0.1	-0.1	0.0	27.2	-0.4	-0.8	0.4	46.9	-2.5	-1.6	-0.9	56.9	-2.9	-2.4	-0.5	21.0
Public sector net borrowing	**0.2**	**1.0**	**-0.8**	**-77.2**	**32.4**	**23.0**	**9.4**	**40.6**	**51.5**	**70.7**	**-19.2**	**-27.2**	**83.9**	**93.7**	**-9.8**	**-10.5**
PSNB (exc. APF)	**0.8**	**1.6**	**-0.8**	**-51.4**	**37.0**	**35.2**	**1.8**	**5.1**	**58.4**	**70.6**	**-12.2**	**-17.3**	**95.5**	**105.8**	**-10.4**	**-9.8**
Public sector net investment	1.7	1.7	0.0	-2.4	5.9	5.1	0.7	14.4	22.0	19.6	2.4	12.3	27.9	24.7	3.1	12.7
Public sector current budget	1.5	0.7	0.8	111.3	-26.5	-17.9	-8.6	-48.1	-29.5	-51.0	21.6	42.3	-56.0	-68.9	12.9	-18.7

March 2014 *EFO* forecast published 19 March 2014 excluding temporary effects of financial interventions on a National Accounts basis.