

Commentary on the Public Sector Finances release: February 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the February 2017 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, currently the March 2017 *Economic and fiscal outlook (EFO)*.
2. With the early March Budget date, our forecast was based on last month's release and administrative information on self-assessment (SA) receipts (both SA income tax and capital gains tax) to mid-February. Early information on other February cash receipts was not available until after we had closed the forecast to all but the effects of Budget policy measures.

Summary

3. Public sector net borrowing (PSNB) was £1.8 billion in February, £2.8 billion lower than last year and £1.4 billion below market expectations. Lower borrowing this February relative to last February partly reflects two timing effects that we highlighted in the *EFO* as factors that would reduce borrowing in 2016-17, but raise it in 2017-18. These were:
 - **forestalling of dividend income:** SA income tax was boosted more than expected by dividend income being brought forward ahead of the rise in dividend tax in April 2016. Final payments on 2015-16 SA liabilities were made in January and February 2017. SA income tax receipts were up 49.1 per cent on a year earlier in February and 16.3 per cent in January and February combined; and
 - **the timing of calendar year 2017 contributions to the EU:** net contributions in February were down by £1.1 billion on a year earlier. The European Commission can choose to draw forward part of the annual contributions to be paid in the first quarter of the

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/feb2017>

calendar year. In 2016, all member states paid 4.3 months' contributions in the three months to March (and then correspondingly less in the remaining 9 months to December), but in 2017 all member states are only paying 3 months' contributions in the three months to March, with no payments drawn forward into the first quarter.

4. Eleven months into the year, PSNB is £19.9 billion lower than last year. This compares with a £20.2 billion drop required to meet our March forecast for 2016-17. Last month, the year-to-date fall over the first 10 months of the year was reported at £13.6 billion. The steeper fall reflects the lower February deficit but also revisions to earlier months, in particular a £3.1 billion upward revision to central government receipts. This includes a £0.5 billion reparation payment for criminal behaviour made by Rolls-Royce PLC under a 'Deferred Prosecution Agreement' (which was not included in our March forecast and has been accrued to January) and an upward revision of £1.6 billion to accrued corporation tax (CT) (reflecting strong cash receipts in February and the fact that those elements of the receipts data that are based on monthly forecasts have now been made consistent with our higher March CT forecast).
5. Although there is only one month remaining in the financial year, the outturn for the full year remains subject to considerable uncertainty – both because of next month's data and the usual flow of revisions over subsequent months. On the receipts side, March and April (relating to February and March salaries) are the biggest months for tax from financial and non-financial sector bonuses. On the spending side, estimates for central government spending will continue to be revised over the first half of 2017-18 as firmer information becomes available. Fuller data from local authorities and public corporations are only available with a longer lag.

Detailed commentary

6. PSNB in February was £1.8 billion, down from £4.6 billion last year. A £3.9 billion rise in central government receipts more than offset a £0.4 billion rise in central government expenditure and a £0.9 billion rise in borrowing by local authorities. Borrowing by public corporations was down by £0.1 billion.
7. Central government (CG) accrued receipts in February were up 7.1 per cent on a year earlier. This reflected the strong growth in SA income tax (boosted by dividend forestalling), a 59 per cent rise in receipts from capital gains tax and the continuing boost to NICs from the abolition of the contracting-out rebate in April 2016. Receipts from capital gains tax were up 23.5 per cent over January and February combined. As we noted in the March *EFO*, this was much stronger than would have been suggested by changes in equity prices in 2015-16 (the FTSE All-Share index was down year-on-year). Preliminary analysis available for our March forecast indicated that gains from disposals of unlisted shares rose by more than a third.
8. The strength of SA income tax receipts reflects stronger than expected dividend forestalling, as described in Box 4.3 of the March *EFO*. Our latest estimate is that dividend income shifting increased 2016-17 SA receipts by £4.0 billion (higher than the initial estimate of £2.6 billion) but will reduce future receipts by £4.8 billion, chiefly in 2017-18.

9. CG accrued receipts (excluding APF receipts) were up 6.2 per cent in the first eleven months of 2016-17 from a year earlier. That compares with our full-year forecast of 6.0 per cent. As mentioned above, accrued CT receipts in the first ten months have been revised up by £1.6 billion relative to last month's release. Under the new time-shifted CT methodology, the strong instalment payments made in February by larger companies will be accrued back to the period between August and October. Accrued CT receipts for the current month are entirely based on an HMRC monthly forecast of future cash receipts that has been constrained to our March forecast for full-year receipts in this and future years. The upward revision to our CT forecast in March has therefore pushed up the ONS monthly estimates of CT receipts in this release. The outturns will be revised again once cash receipts become available.
10. Total CG spending excluding grants to local authorities ('ex grants') was £0.9 billion higher than a year earlier in February, while CG grants to local authorities were down £0.5 billion on last year. Current spending ex grants was £0.4 billion higher. Sources of higher spending included debt interest payments (up by £1.1 billion, reflecting higher RPI inflation) and other current spending (up by £0.8 billion, largely reflecting higher spending on public services, broadly in line with our full-year forecast). These were partly offset by lower VAT and GNI-based transfers to the EU (net of abatement, where these payments were £1.1 billion lower this year because of the difference in the amounts drawn forward into the first three months of the calendar year – as explained above) and lower spending on net social benefits (down by £0.4 billion, due to differences in the monthly profile of spending). Capital spending ex grants was £0.4 billion higher, largely reflecting higher capital spending across a number of departments.
11. For the first eleven months of 2016-17, total CG spending ex grants increased by 2.8 per cent, close to our full-year forecast (on a like-for-like basis) of 3.0 per cent. As ever, initial monthly outturns can be subject to large revisions. Grants to local authorities were £5.1 billion lower over the first eleven months of the year, compared with our full year forecast for a reduction of £3.9 billion. The fall in grants mainly reflects reductions in the Revenue Support Grant, where the initial payments were £3.0 billion lower in April 2016. Reductions in CG grants are likely to have an offsetting effect on local authority borrowing, but only to the extent that they reflect changes in the monthly pattern of grant payments.
12. Public sector net debt (PSND) increased by 2.3 per cent of GDP in February from a year earlier. Our March forecast assumed that PSND by the end of 2016-17 would be up by 3.0 per cent of GDP relative to the end of 2015-16. All the rise in the debt to GDP ratio reflects implementation of the Bank of England's package of monetary policy measures announced last August. PSND excluding the Bank of England was down 0.7 per cent of GDP on a year earlier. By the end of February, monetary policy measures had the following effects:
 - use of the demand-led **Term Funding Scheme** (TFS) had reached £42.9 billion by the end of January, adding that amount to PSND. Our March forecast assumes that TFS use reaches £50 billion by end-2016-17 and £90 billion by end-2017-18; and
 - **the other elements** of the August package (corporate bond purchases of up to £10 billion and further gilt purchases to take the stock of purchases to £435 billion) had

already added around £19½ billion to PSND. Corporate bond purchases add one-for-one to PSND, while gilt purchases raise PSND by the difference between the nominal value of the gilts purchased and the market price paid by the Bank.

Table 1.1: Accrued and cash borrowing measures, and public sector net debt

	February			Full year		
	£ billion			£ billion		
	2017	2016	change	2016-17 forecast	2015-16 outturn	change
Public sector net borrowing ¹	52.1	73.7	-21.6	51.7	72.0	-20.2
CG net cash requirement ex ^{1,2}	71.7	81.9	-10.2	72.5	78.5	-6.0
Public sector net cash requirement ¹	81.8	52.1	29.7	132.1	50.3	81.8
Public sector net debt (PSND)						
PSND (£ billion)	1700	1589	111	1730	1606	124
PSND (per cent of GDP)	85.4	83.1	2.3	86.6	83.7	2.9

¹ 12 month rolling total.

² CGNCR excluding NRAM, B&B and Network Rail.

March 2017 EFO forecast published 08 March 2017 excluding public sector banks on a National Accounts basis.

Table 1.2: Public sector receipts, expenditure and net borrowing¹

£ billion	February				April to February				Implied March				March forecast					
			change				change				change		2016-17		2015-16		change	
	2017	2016	£bn	%	2016-17	2015-16	£bn	%	2016-17	2015-16	£bn	%	EFO	outturn	£bn	%		
Central government (CG) current receipts																		
Taxes on production	20.3	20.4	-0.1	-0.5	230.6	222.3	8.3	3.7	21.4	20.0	1.4	6.9	252.0	242.3	9.6	4.0		
Of which: VAT (accrued)	11.2	10.9	0.3	2.5	124.3	120.0	4.3	3.6	10.2	10.5	-0.3	-3.1	134.5	130.5	4.0	3.1		
Taxes on income and wealth ¹	24.1	20.9	3.2	15.1	218.4	201.8	16.6	8.2	20.3	20.1	0.2	0.9	238.6	221.9	16.8	7.6		
Of which:																		
Income tax and CGT (accrued)	19.6	17.3	2.3	13.6	167.8	159.9	7.9	4.9	15.6	16.0	-0.4	-2.7	183.4	175.9	7.4	4.2		
Corporation tax (accrued)	4.6	3.9	0.7	17.0	50.6	41.7	8.9	21.3	4.4	4.0	0.4	10.7	55.1	45.7	9.3	20.4		
Other taxes	1.5	1.6	-0.1	-4.6	16.7	16.7	-0.1	-0.5	1.7	1.7	0.0	1.3	18.4	18.4	-0.1	-0.3		
Compulsory social contributions	10.7	10.0	0.7	7.3	112.4	103.1	9.3	9.0	12.6	11.0	1.6	14.9	125.0	114.1	10.9	9.6		
Interest & dividends	0.7	0.6	0.1	15.5	17.4	15.9	1.6	9.8	0.7	1.3	-0.6	-46.8	18.1	17.2	0.9	5.4		
Other receipts	1.9	1.8	0.1	6.0	20.7	20.6	0.1	0.7	1.8	1.9	0.0	-2.5	22.6	22.5	0.1	0.4		
Total CG current receipts	59.3	55.3	3.9	7.1	616.1	580.4	35.8	6.2	58.5	56.0	2.5	4.5	674.7	636.4	38.3	6.0		
CG current expenditure																		
Interest payments	5.5	4.4	1.1	24.6	47.5	44.2	3.3	7.6	1.6	1.0	0.7	69.9	49.1	45.1	4.0	8.9		
Net social benefits	15.5	15.9	-0.4	-2.2	188.3	187.0	1.3	0.7	17.8	16.5	1.2	7.5	206.1	203.5	2.6	1.3		
CG current grants to LAs	8.3	8.4	-0.2	-1.8	104.8	108.3	-3.6	-3.3	9.6	9.7	0.0	-0.2	114.4	118.0	-3.6	-3.0		
VAT and GNI-based payments to EU ²	1.2	2.3	-1.1	-48.5	8.4	10.2	-1.9	-18.4	0.8	1.0	-0.2	-21.3	9.2	11.3	-2.1	-18.6		
Other CG current expenditure	23.2	22.4	0.8	3.7	257.9	249.3	8.6	3.4	27.3	24.8	2.4	9.8	285.1	274.1	11.0	4.0		
Total current expenditure	53.7	53.4	0.3	0.5	606.8	599.0	7.8	1.3	57.1	53.0	4.1	7.8	663.9	652.0	11.9	1.8		
Depreciation	1.6	1.5	0.1	5.3	17.2	16.8	0.4	2.5	1.6	1.5	0.1	5.7	18.9	18.3	0.5	2.7		
CG current budget deficit	-3.9	-0.3	-3.6		7.9	35.4	-27.6	-77.8	0.2	-1.5	1.7		8.1	34.0	-25.9	-76.2		
CG net investment	3.2	3.1	0.0	1.0	31.3	29.6	1.7	5.6	6.1	5.3	0.9	16.3	37.5	34.9	2.5	7.2		
of which: CG capital grants to LA	0.5	0.9	-0.3	-40.4	9.5	11.0	-1.5	-14.0	2.1	0.9	1.2		11.5	11.8	-0.3	-2.8		
CG net borrowing	-0.8	2.8	-3.5		39.2	65.1	-25.9	-39.8	6.3	3.8	2.5		45.5	68.9	-23.4	-33.9		
Local authorities net borrowing	3.5	2.6	0.9		8.3	4.8	3.5		-0.9	1.4	-2.3		7.4	6.2	1.2			
Public corporations net borrowing	-1.0	-0.9	-0.1	14.6	0.4	-2.1	2.5		-1.5	-1.0	-0.5	56.4	-1.2	-3.1	1.9			
Public sector net borrowing	1.8	4.6	-2.8	-60.5	47.8	67.7	-19.9	-29.4	3.9	4.2	-0.3		51.7	72.0	-20.2	-28.1		
Public sector net investment	4.4	3.4	1.0	28.5	31.4	26.0	5.4	20.6	5.1	5.6	-0.5	-8.3	36.5	31.6	4.9	15.5		
Public sector current budget	-2.6	1.1	-3.7		16.4	41.7	-25.3	-60.7	-1.2	-1.3	0.1		15.2	40.4	-25.1			

March 2017 EFO forecast published 08 March 2017 excluding public sector banks on a National Accounts basis.

¹ Data and forecasts contained in this table can be found from the following sources:

ONS public sector finances: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/feb2017>

HMRC tax receipts and national insurance contributions: <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk>

OBR Economic and fiscal outlook: <http://cdn.budgetresponsibility.org.uk/March2017EFO-231.pdf>

² Net of abatement