

Commentary on the Public Sector Finances release: March 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the March 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)*.

Summary

2. Today's release provides the first provisional outturn for the full 2016-17 financial year. Public sector net borrowing (PSNB) was £52.0 billion, £20.0 billion lower than last year and £0.3 billion higher than our estimate in the March *EFO*.
3. But this figure is not yet based on final outturn data; a number of elements are still based on forecasts and estimates. The figures typically take some months to settle down and revisions can be significant. In the six years since 2010-11, initial estimates of net borrowing have been revised down by an average of £2.8 billion over the subsequent 12 months, with the revisions in individual years ranging from £5.4 billion down in 2012-13 to £1.2 billion up in 2014-15.
4. The provisional estimate for net borrowing in 2016-17 is close to our March forecast, but this masks bigger differences in composition. Borrowing by local authorities and public corporations were £2.0 billion and £0.5 billion higher respectively than we assumed in March, but the impact on the total deficit was largely offset by £2.2 billion lower central government borrowing. Abstracting from the main ONS classification decisions that we have incorporated in our forecast, but which they have not yet implemented in the outturn data, central government spending was £1.2 billion lower and central government receipts £1.0 billion

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/mar2017>

higher than we forecast. (These classification decisions lower receipts and spending by the same amount.)

5. This initial estimate is very provisional and is likely to be revised as further information becomes available. Typically these revisions reflect various factors:
 - some **cash receipts** received in 2017-18 relate to economic activity in 2016-17 and will be accrued back to that year. Accrued estimates in today's release are largely based on forecasts and will be revised in light of cash receipts in the coming months. April PAYE and NICs cash receipts largely relate to March salaries. Some of the cash VAT receipts received between April and June relate to consumer spending in the first quarter of 2017. Quarterly corporation tax (CT) instalment payments by larger firms in the early months of 2017-18, and much of the cash CT from small companies throughout 2017, will relate to 2016-17. Any surprises in these various cash receipts relative to forecast will lead to revisions to 2016-17 accrued receipts;
 - estimates for **central government current expenditure and investment** will be revised in May and usually again in September, as departments provide firmer information; and
 - firmer data for **local authorities and public corporations** are subject to a longer lag. Provisional outturn data for English local authorities current spending are usually released at the end of August and included in the September PSF release. Other outturn data is not final for a further 3 to 9 months.
6. Public sector net debt (PSND) increased by 3.0 per cent of GDP between the end of 2015-16 and the end of 2016-17, in line with our March forecast. All this rise 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 from last year.

Detailed commentary

March 2017 outturns

7. PSNB in March was £5.1 billion, up £0.8 billion on last year and £2.0 billion higher than market expectations. A £3.0 billion rise in central government spending more than offset a £1.9 billion rise in central government receipts and £0.2 billion lower borrowing by local authorities. Borrowing by public corporations was down by £0.1 billion.
8. Central government (CG) accrued receipts in March were up 3.5 per cent on a year earlier, primarily reflecting strong growth in NICs and onshore CT. The strong rise in NICs reflected the boost from abolishing the contracting-out rebate in April 2016 and weak data a year ago. Onshore CT has benefited from strong profit growth in recent quarters. The main sources of the £3.0 billion rise in total CG spending in March relative to last year are debt interest payments (up by £0.7 billion, reflecting higher RPI inflation), other current spending (up by £0.8 billion, largely reflecting higher departmental spending on public services and

administration), capital grants to local authorities (up by £0.6 billion) and capital spending ex grants (up £0.8 billion, largely reflecting higher spending across a number of departments).

9. As noted earlier, the 3.0 per cent rise in the debt-to-GDP ratio reflects the implementation of last August's monetary policy measures. By the end of March, these had the following effects:
- use of the demand-led **Term Funding Scheme** (TFS) had reached £53.5 billion, adding that amount to PSND. This compares with our March forecast of £50 billion (rising to £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) raised PSND by £23.1 billion. 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.

Provisional 2016-17 estimate

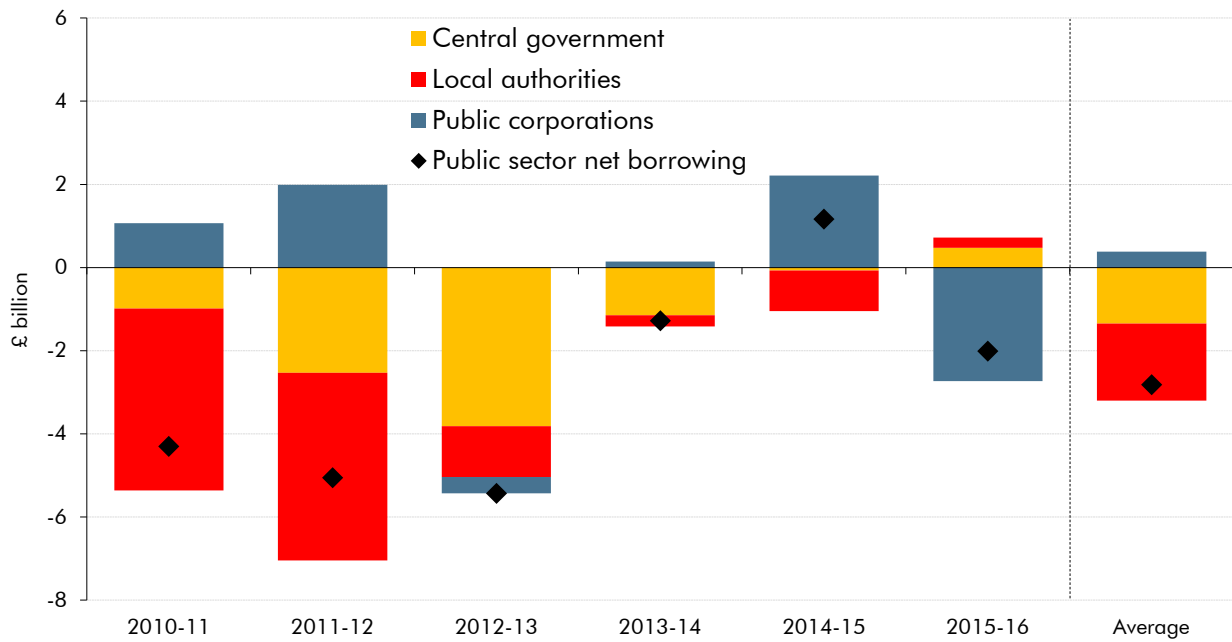
10. The provisional estimate for PSNB in 2016-17 was £0.3 billion higher than our March forecast. On a simple comparison between forecast and provisional outturn, CG spending was £2.8 billion below forecast, while CG receipts were £0.6 billion below forecast. However, our receipts and spending forecasts include two environmental levies that are not yet in the ONS outturns, totalling around £1.6 billion.² Abstracting from these measurement differences:
- **CG receipts** were £1.0 billion higher than forecast. Stronger receipts from PAYE and NICs (reflecting stronger bonuses in the financial and business services sector than assumed in our forecast) and CT offset weaker-than-expected VAT receipts. Receipts were also boosted by £0.5 billion by the 'deferred prosecution agreement' reached by Rolls-Royce that was not included in our March forecast; and
 - **CG spending** was £1.2 billion lower than forecast, mainly reflecting £0.8 billion lower net social benefits and £0.7 billion lower other current spending. The former mainly reflects lower than expected spending on benefits, while the latter relates to lower-than-expected departmental spending on public services and administration. This initial data – which will be subject to revision – suggests a larger underspend against final departmental plans than we expected in March.
11. Local authority borrowing was £2.0 billion higher than forecast in the March *EFO*. It is worth noting that this initial ONS outturn estimate includes several forecast elements, where outturn data are not yet available. These ONS estimates are produced independently from our March *EFO* forecasts, so differences between them reflect different judgements given the available data. There is considerable uncertainty around all these judgements at this stage. The ONS will revise the outturns as further data becomes available, including for example the

² These environmental levies consist of £1.3 billion of subsidies for feed-in-tariffs and £0.3 billion of net social benefits for the warm home discount. Table 2.46 in the fiscal supplementary tables on the *EFO* page of our website provides details of these and other areas of our forecast that relate to ONS classification decisions that are not yet included in ONS outturn data.

provisional outturn data for English local authorities' current spending that DCLG usually releases towards the end of August. We will explore any remaining differences from our forecast in our 2017 *Forecast evaluation report*.

- As noted above, the initial PSNB outturn is subject to revision over the coming months. The chart shows that the revisions have been in both directions – though more frequently revised down than up in the past six years – and can be sizeable.

Chart 1.1: Revisions to PSNB between initial estimate and 12 months later



Source: ONS

Table 1.1: Public sector receipts, expenditure and net borrowing¹

| £ billion | March | | | | April to March | | | | March forecast | | | |
|---|-------------|-------------|-------------|-------------|----------------|--------------|--------------|--------------|----------------|--------------------|--------------|--------------|
| | 2017 | 2016 | change | | 2016-17 | 2015-16 | change | | 2016-17 EFO | 2015-16 outturn | change | |
| | | | £bn | % | | | £bn | % | | | £bn | % |
| Central government (CG) current receipts | | | | | | | | | | | | |
| Taxes on production | 19.7 | 20.0 | -0.3 | -1.6 | 248.7 | 242.3 | 6.3 | 2.6 | 252.0 | 242.3 | 9.6 | 4.0 |
| Of which: VAT (accrued) | 10.6 | 10.5 | 0.1 | 0.9 | 133.3 | 130.5 | 2.8 | 2.1 | 134.5 | 130.5 | 4.0 | 3.1 |
| Taxes on income and wealth ¹ | 20.5 | 20.1 | 0.5 | 2.3 | 239.8 | 221.8 | 18.0 | 8.1 | 238.6 | 221.8 | 16.8 | 7.6 |
| Of which: | | | | | | | | | | | | |
| Income tax and CGT (accrued) | 15.7 | 16.0 | -0.3 | -2.0 | 184.2 | 175.9 | 8.3 | 4.7 | 183.4 | 175.9 | 7.4 | 4.2 |
| Corporation tax (accrued) | 4.8 | 4.0 | 0.8 | 21.1 | 55.7 | 45.7 | 10.0 | 21.8 | 55.1 | 45.7 | 9.3 | 20.4 |
| Other taxes | 1.7 | 1.7 | 0.0 | 1.2 | 18.5 | 18.4 | 0.0 | 0.1 | 18.4 | 18.4 | -0.1 | -0.3 |
| Compulsory social contributions | 12.6 | 11.0 | 1.6 | 14.9 | 125.6 | 114.1 | 11.5 | 10.1 | 125.0 | 114.1 | 10.9 | 9.6 |
| Interest & dividends | 1.4 | 1.3 | 0.1 | 6.2 | 18.8 | 17.2 | 1.6 | 9.6 | 18.1 | 17.2 | 0.9 | 5.4 |
| Other receipts | 1.9 | 1.9 | 0.1 | 3.3 | 22.7 | 22.5 | 0.2 | 0.9 | 22.6 | 22.5 | 0.1 | 0.4 |
| Total CG current receipts | 57.9 | 56.0 | 1.9 | 3.5 | 674.1 | 636.4 | 37.7 | 5.9 | 674.7 | 636.4 | 38.3 | 6.0 |
| CG current expenditure | | | | | | | | | | | | |
| Interest payments | 1.6 | 1.0 | 0.7 | 69.8 | 49.1 | 45.1 | 4.0 | 8.9 | 49.1 | 45.1 | 4.0 | 8.9 |
| Net social benefits | 16.8 | 16.5 | 0.3 | 1.9 | 204.9 | 203.5 | 1.4 | 0.7 | 206.1 | 203.5 | 2.6 | 1.3 |
| CG current grants to LAs | 9.7 | 9.7 | 0.0 | -0.1 | 114.4 | 118.0 | -3.6 | -3.0 | 114.4 | 118.0 | -3.6 | -3.0 |
| VAT and GNI-based payments to EU ² | 0.8 | 1.0 | -0.2 | -21.3 | 9.2 | 11.3 | -2.1 | -18.6 | 9.2 | 11.3 | -2.1 | -18.6 |
| Other CG current expenditure | 25.7 | 24.8 | 0.8 | 3.4 | 283.3 | 274.1 | 9.1 | 3.3 | 285.1 | 274.1 | 11.0 | 4.0 |
| Total current expenditure | 54.6 | 53.0 | 1.6 | 3.0 | 660.9 | 652.0 | 8.9 | 1.4 | 663.9 | 652.0 | 11.9 | 1.8 |
| Depreciation | 1.6 | 1.5 | 0.1 | 5.4 | 18.9 | 18.3 | 0.5 | 2.8 | 18.9 | 18.3 | 0.5 | 2.7 |
| CG current budget deficit | -1.7 | -1.5 | -0.3 | | 5.6 | 34.0 | -28.4 | -83.5 | 8.1 | 34.0 | -25.9 | -76.3 |
| CG net investment | 6.6 | 5.3 | 1.4 | 25.7 | 37.7 | 34.9 | 2.8 | 8.0 | 37.5 | 34.9 | 2.5 | 7.2 |
| of which: CG capital grants to LA | 1.4 | 0.9 | 0.6 | 70.4 | 11.0 | 11.8 | -0.9 | -7.4 | 11.5 | 11.8 | -0.3 | -2.8 |
| CG net borrowing | 4.9 | 3.8 | 1.1 | | 43.3 | 68.9 | -25.6 | -37.1 | 45.5 | 68.9 | -23.4 | -33.9 |
| Local authorities net borrowing | 1.2 | 1.4 | -0.2 | | 9.4 | 6.2 | 3.2 | | 7.4 | 6.2 | 1.2 | |
| Public corporations net borrowing | -1.0 | -1.0 | -0.1 | 8.2 | -0.7 | -3.1 | 2.4 | | -1.2 | -3.1 | 1.9 | |
| Public sector net borrowing | 5.1 | 4.3 | 0.8 | 19.6 | 52.0 | 72.0 | -20.0 | -27.7 | 51.7 | 72.0 | -20.2 | -28.1 |
| Public sector net investment | 6.9 | 5.6 | 1.3 | 23.6 | 38.0 | 31.6 | 6.4 | 20.2 | 36.5 | 31.6 | 4.9 | 15.5 |
| Public sector current budget | -1.8 | -1.3 | -0.5 | | 14.0 | 40.4 | -26.3 | -65.2 | 15.2 | 40.4 | -25.2 | |

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/mar2017>

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.