

Commentary on the Public Sector Finances release: March 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the March 2018 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 2018 *Economic and fiscal outlook (EFO)*.

Headlines

2. Today's release provides the first provisional outturn estimate for the full 2017-18 financial year. Public sector net borrowing (PSNB) was £42.6 billion, £3.5 billion lower than last year and £2.5 billion lower than our estimate in the March *EFO*. However, 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 seven years since 2010-11, initial estimates of net borrowing have been revised down by an average of £3.3 billion over the subsequent 12 months, with the revisions in individual years ranging from £6.0 billion down for 2016-17 to £1.2 billion up for 2014-15.
3. Abstracting from the ONS classification decisions that we have incorporated in our forecast, but which have not yet been implemented in the outturn data, the initial outturn for borrowing in 2017-18 is £2.9 billion below our March forecast. Central government spending was £0.7 billion lower and central government receipts £1.3 billion lower than we forecast. The initial estimate for local government borrowing is £2.7 billion below our March forecast, although as explained below there is greater uncertainty than usual regarding the extent to which local authorities have drawn down their reserves to finance higher spending. The initial estimate for net borrowing by public corporations is £0.9 billion lower than forecast.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/march2018>

4. 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 2018-19 relate to economic activity in 2017-18 and will be accrued back to that year in the public finances. Accrued estimates for latest months in today's release are largely based on forecasts and will be revised in light of cash receipts in the coming months. For example, April PAYE and NICs cash receipts largely relate to March salaries; some cash VAT receipts received between April and June relate to consumer spending in the first quarter of 2018; and quarterly corporation tax (CT) instalment payments by larger firms in the early months of 2018-19, and much of the cash CT from small companies throughout 2018, will relate to 2017-18 profits. Any surprises in these various cash receipts relative to the forecasts underpinning today's data release will lead to revisions to 2017-18 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.
 - Firmer data for **local authorities and public corporations** are also subject to a 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 are not final for a further three to nine months.
5. Public sector net debt (PSND) increased by 1.0 per cent of GDP between the end of 2016-17 and the end of 2017-18, greater than the 0.3 per cent of GDP rise assumed in our March forecast. This is more than accounted for by the continuing effects of the Bank of England's package of monetary policy measures announced in August 2016, the estimated impact of which may yet be revised. PSND excluding the Bank of England was down 3.2 per cent of GDP from last year.

Detailed commentary

March 2018 monthly outturn

6. PSNB in March was £1.3 billion, down £0.8 billion on last year and £1.6 billion lower than market expectations. A £2.4 billion rise in central government spending was more than offset by a £1.8 billion rise in central government receipts and £1.4 billion lower borrowing by local authorities. Borrowing by public corporations was flat on a year earlier.
7. Central government (CG) accrued receipts in March were up £1.8 billion (3.1 per cent) on a year earlier, primarily reflecting strong growth in income tax and NICs from the financial and business services sectors (bonuses are concentrated in the final months of each financial year).
8. Excluding grants to local authorities, total CG spending in March increased by £1.3 billion (2.6 per cent) relative to last year. The main sources of this rise were net social benefit payments (up by £0.6 billion, reflecting increases across a number of benefits), other current spending (up by £0.6 billion, largely reflecting higher departmental spending on public

services and administration) and capital spending excluding grants (up £0.8 billion, reflecting higher spending across several departments). This was partly offset by a £1.0 billion fall in debt interest payments, reflecting the monthly path of RPI inflation. Current and capital grants to local authorities were also up by £0.6 billion and £0.4 billion, respectively.

9. Public sector net debt (PSND) figures over the past year have been affected by two large, partly offsetting factors unrelated to the deficit: the reclassification of English housing associations to the private sector from November reduced PSND by £65.5 billion or 3.2 per cent of GDP from that point onwards; and the continued implementation of the Bank of England's August 2016 monetary policy measures has raised PSND by £71 billion since last March (and by £147 billion in total). The Term Funding Scheme accounts for £74 billion of the rise over the past year. Including both factors, PSND increased by 1.0 per cent of GDP between March 2017 and March 2018. Excluding the monetary policy package effects, PSND excluding the Bank of England was down by 3.2 per cent of GDP over the past year. Excluding both effects, PSND excluding the Bank and on a broadly like-for-like basis was flat as a share of GDP.

Provisional 2017-18 estimate

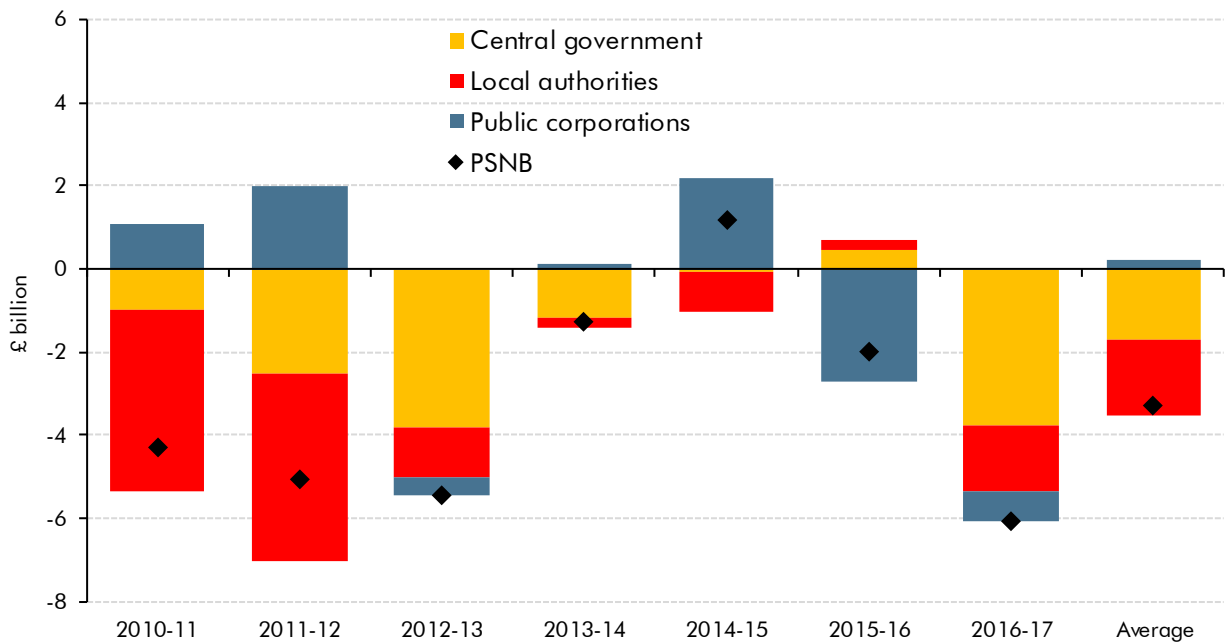
10. The initial outturn for PSNB in 2017-18 was £2.5 billion lower than our March forecast. On a simple comparison between forecast and provisional outturn, CG spending was £2.3 billion below forecast, while CG receipts were £3.4 billion below forecast. However, our receipts and spending forecasts include several items that are not yet included in ONS outturns, which increase our forecasts of both relative to published outturns and the net effect of which is to reduce borrowing by £0.4 billion.² Abstracting from these measurement differences:
 - **CG receipts** were £1.3 billion lower than forecast. This was primarily due to weaker-than-expected cash VAT receipts.
 - **CG spending** was £0.7 billion lower than forecast, mainly reflecting £0.9 billion lower other current spending and £0.3 billion lower net social benefits.
11. Local authority borrowing was £2.7 billion lower than forecast in the March *EFO*. It is worth noting that this initial ONS outturn 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. Our March forecast assumed that local authorities will underspend their budgets by less than the ONS is currently assuming. There is considerable uncertainty around all these judgements at this stage. The ONS will revise the outturns as further data become available, including for example the provisional outturn data for English local authorities' current spending that will not be available before September 2018. We will explore any remaining differences from our forecast in our 2018 *Forecast evaluation report*. Public corporations' net borrowing was £0.9

² This includes £1.9 billion of environmental levies, consisting of £1.4 billion of subsidies for feed-in-tariffs, £0.3 billion of net social benefits for the warm home discount and £0.2 billion of receipts from capacity market auctions. Excluding these levies lowers receipts and spending by equal amounts. Table 2.44 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. These are available online here: <http://obr.uk/efo/economic-fiscal-outlook-march-2018/>.

billion below our forecast, reflecting lower transfers from Asset Purchase Facility to central government.

12. As noted above, the initial PSNB outturn is subject to revision over the coming months. Chart 1.1 shows that since 2010-11, the revisions have been in both directions – though more frequently revised down than up in the past seven years – and can be sizeable. Our March forecast implies that PSNB in 2017-18 may be revised up over the next 12 months as outturn data for local authorities’ spending become available.

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			
	2018	2017	change		2017-18	2016-17	change		2017-18 EFO	2016-17 outturn	change	
			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts												
Taxes on production	20.8	20.7	0.1	0.4	263.1	253.5	9.6	3.8	266.2	253.5	12.7	5.0
Of which: VAT (accrued)	11.1	11.1	-0.1	-0.5	138.8	135.6	3.2	2.3	139.7	135.6	4.1	3.0
Taxes on income and wealth ¹	22.2	21.1	1.1	5.2	246.5	240.0	6.5	2.7	246.5	240.0	6.5	2.7
Of which:												
Income tax and CGT (accrued)	17.3	16.3	1.0	6.1	189.2	185.6	3.5	1.9	189.4	185.6	3.7	2.0
Corporation tax (accrued)	4.9	4.8	0.1	2.2	57.2	54.4	2.8	5.2	56.8	54.4	2.5	4.6
Other taxes	1.4	1.6	-0.1	-9.0	17.6	17.5	0.2	0.9	17.6	17.5	0.1	0.8
Compulsory social contributions	13.8	13.0	0.8	6.3	133.0	126.2	6.8	5.4	132.3	126.2	6.0	4.8
Interest & dividends	1.3	1.3	0.0	-2.1	18.6	18.4	0.2	0.8	19.3	18.4	0.9	4.8
Other receipts	1.9	1.9	0.0	-1.2	22.2	22.9	-0.7	-3.1	22.6	22.9	-0.4	-1.7
Total CG current receipts	61.4	59.6	1.8	3.1	701.1	678.5	22.6	3.3	704.4	678.5	25.9	3.8
CG current expenditure												
Interest payments	0.3	1.3	-1.0	-75.2	54.7	48.7	6.0	12.4	54.4	48.7	5.7	11.8
Net social benefits	17.4	16.8	0.6	3.8	208.5	205.0	3.5	1.7	209.1	205.0	4.1	2.0
CG current grants to LAs	10.3	9.6	0.6	6.7	113.5	114.4	-0.9	-0.7	113.4	114.4	-0.9	-0.8
VAT and GNI-based payments to EU ²	1.1	0.8	0.3	36.3	10.2	9.6	0.6	6.6	10.1	9.6	0.6	5.8
Other CG current expenditure	25.9	25.3	0.6	2.2	292.1	284.4	7.7	2.7	294.3	284.4	10.0	3.5
Total current expenditure	55.0	53.8	1.1	2.1	679.0	662.0	17.0	2.6	681.4	662.0	19.4	2.9
Depreciation	1.5	1.5	0.0	-1.0	18.1	18.2	-0.2	-1.0	18.1	18.2	-0.1	-0.6
CG current budget deficit	-5.0	-4.3	-0.7	16.4	-4.0	1.7	-5.8		-4.9	1.7	-6.6	
CG net investment	7.8	6.5	1.3	19.2	41.6	38.0	3.6	9.4	41.4	38.0	3.4	9.0
of which: CG capital grants to LA	1.8	1.4	0.4	30.6	10.4	10.9	-0.6	-5.2	10.4	10.9	-0.6	-5.2
CG net borrowing	2.8	2.3	0.6		37.5	39.7	-2.2	-5.5	36.5	39.7	-3.2	-8.1
Local authorities net borrowing	-0.4	1.0	-1.4		6.9	7.8	-0.9	-11.9	9.6	7.8	1.8	22.8
Public corporations net borrowing	-1.1	-1.1	0.0		-1.8	-1.4	-0.4	28.5	-0.9	-1.4	0.5	-34.0
Public sector net borrowing	1.3	2.1	-0.8	-36.8	42.6	46.2	-3.5	-7.6	45.2	46.2	-1.0	-2.2
Public sector net investment	7.3	6.8	0.5	8.0	42.7	38.8	4.0	10.3	43.5	38.8	4.8	12.3
Public sector current budget	-5.9	-4.6	-1.3	28.7	-0.1	7.4	-7.5	-101.5	1.6	7.4	-5.8	-77.9

March 2018 EFO forecast published 13 March 2018 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/march2018>

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://obr.uk/efo/economic-fiscal-outlook-march-2018/>

² Net of abatement.