Office for
Budget
Responsibility

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Commentary on the Public Sector Finances release: July 2016

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the July 2016 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 2016 *Economic and fiscal outlook (EFO)*. July's data cover the first full month since the referendum on membership of the EU, but it is still too early to assess the impact of the referendum result on the public finances.

Summary

2. Public sector net borrowing (PSNB) recorded a surplus of £1.0 billion in July, a £0.2 billion deterioration on last year's surplus. The surplus was £0.9 billion below market expectations. July is usually the second highest month for receipts during the financial year, reflecting the timing of corporation tax and self-assessment (SA) payments.

3. The underlying reason for the slightly smaller surplus than last year was that the 2.2 per cent growth in central government accrued receipts (excluding APF transfers) was slower than the 4.2 per cent growth in central government spending (excluding grants to local authorities).. The rise in central government spending mostly reflected growth in departmental spending. Growth in central government receipts was depressed by weak income tax receipts, although this partly reflects timing effects as the first self-assessment (SA) payment deadline fell on a weekend this year.

4. Meeting our March *EFO* forecast for PSNB in 2016-17 would require it to fall by £19.8 billion over the full financial year. A third of the way through the financial year, PSNB was only £3.0 billion lower than last year. While prospects for the rest of the year are subject to greater uncertainty than usual due to the result of the EU referendum, it is still worth noting that

[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/july2016

receipts and spending data are volatile from month to month and prone to revision, especially at this relatively early stage of the year. In addition to the SA timing effects, the year-to-date comparison has been affected by:

- **one-off factors** that reduced borrowing by this stage last year that have not been repeated this year. Capital receipts of £0.5 billion from the British Coal staff superannuation scheme reduced net capital spending in April 2015, while £0.6 billion of fines levied by the Financial Conduct Authority boosted receipts in May and June 2015; and

- we expect growth in **central government receipts to be end-loaded** during 2016-17. This is primarily because of the Government's decision to pre-announce the dividend tax increase which took effect in April 2016. Taxpayers are likely to have shifted dividend income into 2015-16 to pre-empt the higher rate, boosting receipts with a lag in 2016-17. We estimate that this will increase receipts by £2½ billion this year, which will show up in self-assessment (SA) receipts in January and February 2017.

5. However, despite these timing effects, there is still evidence that growth in PAYE, NICs and stamp duty land tax (SDLT) was slower in the first four months of the year than would be required to meet our March forecast for the year as a whole. July's data cover the first full month since the UK's referendum on membership of the EU, but a very substantial proportion of the data in this month's release is either a forecast or still reflects economic activity prior to the referendum. That means there is still little firm evidence on how the referendum result might affect the public finances this year.

Detailed commentary

6. PSNB recorded a surplus of £1.0 billion in July 2016, a deterioration of £0.2 billion on last year. A £2.0 billion rise in central government receipts was partly offset by a £0.9 billion rise in central government spending. Borrowing by local authorities was £0.9 billion higher than a year ago and borrowing by public corporations was £0.5 billion higher than last year. However, the rise in LA and PC borrowing largely reflects changes in flows within the public sector (from CG grants to LAs and APF transfers). After removing the effect of these flows, central government receipts were up by £1.3 billion, while central government spending was up by £2.0 billion. So this rise in central government borrowing explains most of the deterioration this month.

7. Central government (CG) accrued receipts (excluding APF transfers) in July were up 2.2 per cent on a year earlier. This growth was driven by a 6.9 per cent rise in NICs receipts. This reflects the abolition of the NICs contracting-out rebate from April 2016 (expected to raise £5.6 billion over the whole of 2016-17). Corporation tax receipts were 8.4 per cent up on a year earlier, as stronger-than-expected payments relating to profits from previous years offset slightly weaker instalment payments this quarter. CT receipts were also boosted by the first payments from the bank surcharge, which totalled £0.3 billion in July. CT instalment payments for the current year should reflect company views of their taxable profits for the whole year,

but especially given the effects from previous years, it is too early to infer any referendum related effects.

8. The second payment on account for 2015-16 SA liabilities was due on 31 July. SA income tax receipts were down 3.5 per cent on a year earlier. Timing issues with self-assessment (SA) receipts – 31 July fell on a Sunday this year so that more of the payments made on or before the due date will score in August rather than July this year – mean that it is not possible to make a full assessment until both July and August SA receipts data are available. But even the total for July and August will not provide any information about prospects for the year as a whole as these payments on account are based on last year's tax liabilities.

9. SDLT receipts over May to July were 2.8 per cent down on a year earlier, compared with our full-year forecast growth of around 19 per cent. In part this is likely to reflect the larger-than-expected rush of property purchases that took place ahead of the pre-announced 3 per cent surcharge on second homes that took effect in April – more forestalling at the end of 2015-16 would imply less activity at the start of 2016-17. But uncertainty prior to the referendum may also have contributed to the weakness of receipts related to residential and commercial properties in London and higher-priced transactions in general.

10. For the first third of the financial year, growth in central government receipts (excluding APF transfers) of 2.9 per cent was slower than the 5.8 per cent needed to meet our full-year forecast. As set out in paragraph 4, year-to-date receipts growth has been affected by one-off factors that boosted receipts in early 2015-16, while we expect receipts to be end-loaded this year because of the boost to SA from the pre-announced dividend tax rise. However, growth in PAYE IT and NICs receipts of 3.8 per cent is well below our full-year forecast of 7.8 per cent.

11. Total CG spending in July was £0.9 billion higher than a year earlier. There was a £0.4 billion rise in debt interest payments, reflecting volatility in the monthly profile of RPI. Spending on net social benefits and CG current grants to local authorities fell by £0.2 billion and £0.5 billion respectively, with the latter reflecting a timing effect which reversed the £0.5 billion increase in June. Meanwhile, other current spending rose by £1.0 billion – largely reflecting higher net contributions to the EU and higher health spending – and net investment was flat. The increase in EU net spending is a timing effect, reflecting the European Commission requesting a larger draw-forward of contributions this July compared to last. Higher draw-forwards were anticipated in our March EFO forecast, when we knew that the draw-forward into January to March had been lower this year, which had no effect on spending in the calendar year 2016, but shifted £0.7 billion of spending in our forecast from 2015-16 to 2016-17.

12. For the first four months of the financial year, CG current spending was down by 0.1 per cent on a year ago, compared with a full-year forecast of 2.3 per cent growth. This partly reflects weaker growth so far in debt interest payments, net social benefits and other CG current spending (largely on public services) than projected in the full-year forecast. CG current grants to local authorities were also £3.2 billion lower than last year (mainly reflecting expected reductions in the Revenue Support Grant). Reductions in CG grants are likely to have an offsetting effect on local authority borrowing in the short term. Growth in CG net investment is stronger so far in 2016-17 than in our full-year forecast. Over the first four months of the

financial year it is £1.5 billion higher than last year. This mainly reflects the one-off effect from the capital receipt related to the British Coal Staff superannuation scheme, a PSNB-neutral effect from a Welsh Housing Revenue Account receipt and higher defence capital spending.

13. Public sector net debt (PSND) in July fell by 0.9 per cent of GDP from a year earlier. Large auction premia and revaluation effects of the unhedged components of the official reserves are the main contributors of the fall in central government net debt (CGND). Much of the nominal GDP denominator used in the ratio remains a forecast,[2] so this is likely to be revised in future. Our March forecast assumed a 1.1 per cent of GDP fall in PSND between the end of 2015-16 and the end of 2016-17. That reflected a further expected fall in borrowing and the Government's announced programme of financial asset sales, which was expected to raise £21 billion in 2016-17. So far, the PSND figure has been reduced by only £0.5 billion by asset sales in 2016-17, reflecting the balancing payment on the sale of the Granite securitisation vehicle relating to former Northern Rock mortgages. Any effects of post-referendum financial market volatility or other factors on the Government's plans for financial asset sales – and the proceeds they might generate – will be factored into our next forecast.

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

	July			Full year		
	£ billion			£ billion		
	2016	2015	change	2016-17 forecast	2015-16 outturn	change
Public sector net borrowing[1]	72.3	85.7	-13.4	55.5	75.3	-19.8
CG net cash requirement ex[1,2]	80.4	90.5	-10.1	62.1	78.4	-16.3
Public sector net cash requirement[1]	47.4	74.3	-26.9	58.1	52.2	5.9
	Public sector net debt (PSND)					
PSND (£ billion)	1604	1569	35	1638	1601	38
PSND (per cent of GDP)	82.9	83.8	-0.9	82.6	83.7	-1.1

[1] 12 month rolling total.

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

March 2016 EFO forecast published 16 March 2016 excluding public sector banks on a National Accounts basis.

Issues for next month's commentary

14. ONS may revise 2015-16 PSNB to reflect latest expenditure provisional outturn data.

15. The ONS is also planning to make a number of further changes to the calculation of PSND in September. Initial indications are that these will add around £8½ billion to the level of PSND for 2015-16. These changes reflect the inclusion of bonds issued by London Continental Railways, the inclusion of repurchase agreements between the official reserves and overseas and non-bank UK institutions and adjustments to NS&I outstanding balances. We expect these changes will also affect PSND outturn to date in 2016-17, but there is no information available on those expected revisions.

[2] For the full financial year, the GDP denominator used in the PSND to GDP ratio is centred end-March. For the end of 15-16, this would be sum of the fourth quarter of 2015 and the first three quarters of 2016. The denominator for the end-June 2016 ratio would be the sum of the four quarters of 2016.

Table 1.2: Public sector receipts, expenditure and net borrowing[1]

£ billion	July				April to July				Implied August to March				March forecast			
			change				change				change		2016-17	2015-16	change	
	2016	2015	£bn	%	2016-17	2015-16	£bn	%	2016-17	2015-16	£bn	%	March EFO	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	20.6	20.8	-0.2	-0.8	81.4	79.3	2.1	2.6	171.9	162.3	9.5	5.9	253.3	241.7	11.6	4.8
Of which: VAT (accrued)	11.0	10.8	0.1	1.3	43.6	42.5	1.1	2.6	91.2	88.0	3.2	3.7	134.8	130.5	4.3	3.3
Taxes on income and wealth	26.2	25.4	0.8	3.3	71.2	69.7	1.4	2.1	161.7	150.8	10.9	7.2	232.9	220.5	12.3	5.6
Of which:																
Income tax and CGT (accrued)	18.9	18.5	0.4	1.9	54.0	53.2	0.8	1.5	135.1	122.7	12.4	10.1	189.1	175.9	13.2	7.5
Corporation tax	7.5	6.9	0.6	8.4	17.1	16.4	0.7	4.4	26.3	28.0	-1.7	-6.0	43.5	44.4	-0.9	-2.1
Other taxes	1.5	1.7	-0.1	-8.9	6.1	6.3	-0.1	-2.1	11.9	12.4	-0.4	-3.5	18.1	18.6	-0.6	-3.0
Compulsory social contributions	9.7	9.1	0.6	6.9	39.3	36.9	2.4	6.4	87.2	76.5	10.7	13.9	126.5	113.4	13.0	11.5
Interest & dividends	1.8	1.0	0.8	79.9	8.0	6.9	1.0	14.7	10.9	10.3	0.6	5.8	18.9	17.3	1.6	9.4
Other receipts	1.9	1.8	0.1	3.1	7.7	7.9	-0.2	-3.0	15.4	14.6	0.7	5.1	23.0	22.5	0.5	2.2
Total CG current receipts	**61.8**	**59.8**	**2.0**	**3.4**	**213.6**	**207.1**	**6.5**	**3.1**	**459.0**	**427.0**	**32.0**	**7.5**	**672.6**	**634.1**	**38.5**	**6.1**
CG current expenditure																
Interest payments	4.5	4.0	0.4	10.6	17.9	17.4	0.4	2.5	30.0	27.5	2.4	8.8	47.8	44.9	2.9	6.4
Net social benefits	17.2	17.4	-0.2	-1.4	68.2	68.0	0.2	0.4	137.6	135.4	2.2	1.6	205.9	203.4	2.4	1.2
CG current grants to LAs	9.7	10.2	-0.5	-4.7	41.2	44.5	-3.2	-7.3	73.6	73.1	0.5	0.6	114.8	117.6	-2.8	-2.4
Other	24.4	23.3	1.0	4.4	95.2	92.9	2.3	2.4	203.5	193.3	10.2	5.3	298.7	286.2	12.5	4.4
Total current expenditure	**55.7**	**55.0**	**0.7**	**1.3**	**222.5**	**222.8**	**-0.3**	**-0.1**	**444.7**	**429.4**	**15.3**	**3.6**	**667.1**	**652.2**	**15.0**	**2.3**
Depreciation	1.6	1.5	0.1	6.7	6.5	6.1	0.4	7.2	13.1	12.3	0.7	5.9	19.6	18.4	1.2	6.3
CG current budget deficit	**-4.4**	**-3.3**	**-1.2**		**15.4**	**21.8**	**-6.4**	**-29.2**	**-1.3**	**14.7**	**-16.0**		**14.1**	**36.5**	**-22.4**	**-61.3**
CG net investment	2.7	2.7	0.0	1.4	11.4	9.8	1.5	15.6	27.5	24.1	3.4	14.2	38.9	33.9	5.0	14.6
of which: CG capital grants to LA	0.9	1.5	-0.6	-41.2	5.2	4.7	0.4	9.2	8.9	6.8	2.1	30.9	14.0	11.5	2.5	22.0
CG net borrowing	**-1.7**	**-0.6**	**-1.1**	**203.4**	**26.8**	**31.6**	**-4.8**	**-15.3**	**26.2**	**38.8**	**-12.6**	**-32.5**	**53.0**	**70.4**	**-17.4**	**-24.7**
Local authorities net borrowing	0.4	-0.5	0.9		-4.9	-6.4	1.5		7.4	10.8	-3.4	-31.5	2.5	4.4	-1.9	
Public corporations net borrowing	0.3	-0.2	0.5	-300.6	1.8	1.5	0.3		-1.8	-1.0	-0.8	77.7	0.0	0.4	-0.5	
Public sector net borrowing	**-1.0**	**-1.2**	**0.2**	**-16.5**	**23.7**	**26.7**	**-3.0**	**-11.3**	**31.8**	**48.6**	**-16.8**	**-34.6**	**55.5**	**75.3**	**-19.8**	**-26.3**
Public sector net investment	**2.8**	**2.3**	**0.6**	**25.1**	**8.2**	**7.4**	**0.8**	**10.6**	**28.2**	**26.4**	**1.8**	**6.7**	**36.4**	**33.8**	**2.5**	**7.5**
Public sector current budget	**-3.8**	**-3.4**	**-0.4**		**15.5**	**19.4**	**-3.8**	**-19.7**	**3.6**	**22.1**	**-18.6**		**19.1**	**41.5**	**-22.4**	

March 2016 EFO forecast published 16 March 2016 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/july2016
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://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-march-2016/
OBR supplementary fiscal tables: http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-supplementary-fiscal-tables-march-2016/