

Commentary on the Public Sector Finances release: July 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the July 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. Public sector net borrowing (PSNB) recorded a surplus of £0.2 billion in July, a £0.5 billion improvement on last year. The surplus was £1.2 billion better than market expectations. Excluding flows between different parts of the public sector, the improvement was driven by a £2.5 billion increase in central government receipts only partly offset by a £2.2 billion rise in central government spending.
3. Over the first four months of 2017-18, PSNB was £1.9 billion (9.0 per cent) higher than last year. Our March *EFO* central forecast was for borrowing of £58.3 billion in 2017-18 as a whole, £13.1 billion (29.0 per cent) higher than the latest estimated outturn for 2016-17 and £6.5 billion (12.6 per cent higher) than the forecast for 2016-17 we published in March.
4. Box 4.6 in our March 2017 *EFO* explains why we expect borrowing to rise in 2017-18. Three key factors are:
 - **Higher debt interest spending**, primarily as higher RPI inflation raises accrued interest on index-linked gilts. Debt interest spending is 23.1 per cent up on a year earlier in the first four months of 2017-18, compared with our full-year forecast of 15.3 per cent.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/july2017>

- **Changes to the timing of expenditure transfers to EU institutions** within calendar year 2017, which move spending from the end of 2016-17 into 2017-18. Transfers are up 55 per cent in the first four months of 2017-18, compared to a year ago, having been down more than 40 per cent in the final two months of 2016-17. This timing effect explains most of the year-to-date increase, but around a sixth of it is attributable to an additional £0.3 billion payment in June in relation to historical adjustments to the calculations of VAT- and GNI-based contributions.
 - **Self-assessment (SA) receipts will be depressed in 2017-18** by the unwinding of the income shifting ahead of the April 2016 dividend tax rise. We expect receipts to fall £3.8 billion on a year earlier, but unlike the two spending factors, which are already evident in the data, this will only affect the public finances in early 2018 when self-assessment payments are due.
5. Reflecting the in-year timing of these factors, year-to-date central government (CG) spending (excluding grants to local authorities) is up 6.1 per cent, compared with our full-year forecast of a 5.2 per cent rise, while year-to-date CG receipts (excluding APF transfers) are up 4.2 per cent, compared with our full-year forecast of a 2.5 per cent rise.
 6. As we have noted in previous commentaries, the initial estimate of PSNB for a full financial year can be revised significantly over subsequent months as more robust data become available for different components of spending and receipts. The revisions to 2016-17 are already quite striking, reducing the initial outturn estimate of £52.0 billion published in April by 13.2 per cent to £45.1 billion this month. This reflects a number of factors, so it is not clear how far they would have led us to publish a lower forecast for this and subsequent years in March had we known of them at the time and to what extent they will affect our next forecast.

Detailed commentary

7. Public sector net borrowing (PSNB) recorded a surplus of £0.2 billion in July, a £0.5 billion improvement on last year. Excluding flows between different parts of the public sector, the improvement was driven by a £2.5 billion increase in central government receipts only partly offset by a £2.2 billion rise in central government spending. Borrowing by local authorities was £0.7 billion higher and borrowing by public corporations was £0.6 billion lower than last year, reflecting lower CG grants to local authorities and lower APF transfers respectively.
8. CG receipts (excluding APF transfers) were up 4.2 per cent in July and up 4.3 per cent for the year-to-date. This compares with our full-year forecast for a 2.7 per cent rise. As noted earlier, the expected fall in SA receipts will only be felt in early 2018, so CG receipts growth should be ahead of our full-year forecast until January and February next year.
9. Receipts growth in July primarily reflected rises in PAYE income tax, NICs, SA receipts and VAT. Over the first four months of 2017-18, growth in PAYE income tax and NICs is slightly ahead of our full-year forecast (3.6 versus 2.9 per cent), as is growth in VAT receipts (3.2 versus 2.9 per cent). It is too early to judge whether this will persist over the rest of the financial year.

In particular, the weakness in PAYE income tax and NICs receipts in the first half of 2016-17 relative to the second half is likely to be flattering the year-on-year comparison.

10. The second payment on account for 2016-17 SA liabilities was due on 31 July. SA income tax receipts were up 10.6 per cent on a year earlier. Since 31 July fell on a Sunday last year, it will not be possible to make a full year-on-year assessment until both July and August SA receipts data are available. But even the total for July and August will not provide any meaningful information about prospects for the year as a whole, as these payments on account are estimated using 2015-16 tax liabilities.
11. Total CG spending (excluding grants to local authorities) was £2.2 billion (4.5 per cent) higher than last July. The main driver of the increase was other current and capital spending (up by £1.2 billion on last year), mainly from higher departmental spending. CG debt interest spending was also up by £0.7 billion (18.0 per cent) on last July, reflecting higher RPI inflation, which continues to raise the accrued interest cost of index-linked gilts. In addition, net social benefits and transfers to EU institutions both increased by £0.1 billion on last July.
12. For the year-to-date, CG spending (excluding grants to local authorities) was up by £11.9 billion (6.1 per cent). This is ahead of our full-year forecast of 5.2 per cent growth. Spending growth largely reflects the same factors affecting debt interest payments and transfers to EU institutions (discussed in paragraph 4) as well as other capital spending. The latter reflects higher departmental capital spending, caused largely by an increase in capital grants to the private sector in both June and July this year and increased fixed capital spending by BEIS for the year-to-date. This early in the financial year, a sizeable proportion of the departmental spending data are largely based on departments' own forecasts.
13. Public sector net debt (PSND) increased by 4.5 per cent of GDP between July 2016 and July 2017. This rise is more than explained by the implementation of the Bank of England's package of monetary policy measures announced last August, which has raised PSND by around £103 billion. The Term Funding Scheme (TFS) accounts for £78.3 billion of this rise. Our March forecast for PSND assumed a total TFS drawdown of £90 billion by the end of 2017-18 (versus a £100 billion limit). The TFS limit was raised in early August to £115 billion. PSND excluding the Bank of England was down 0.4 per cent of GDP on last year.

Revisions

14. PSNB in 2016-17 was revised down by £1.1 billion in this month's release. That largely reflects an upward revision to income tax receipts, where HMRC have aligned their outturn data with the latest HMRC Trust Statement.
15. September's PSF release is typically one in which the ONS revises the previous year's PSNB estimate to reflect the latest provisional outturn data on public expenditure, so that may affect next month's estimate of PSNB in 2016-17.
16. ONS are also planning to incorporate several methodological and classification changes in next month's release. These are set out in more detail in the ONS release.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	July				April to July				Implied August to March				March forecast			
	2017	2016	change		2017-18	2016-17	change		2017-18	2016-17	change		2017-18 EFO	2016-17 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts																
Taxes on production	21.9	20.9	1.1	5.1	85.5	82.1	3.4	4.1	178.8	169.7	9.1	5.4	264.3	251.8	12.4	4.9
Of which: VAT (accrued)	11.6	11.0	0.5	4.9	45.3	43.9	1.4	3.2	94.0	91.5	2.5	2.7	139.3	135.4	3.9	2.9
Taxes on income and wealth ¹	24.8	24.1	0.7	2.8	75.9	73.9	2.0	2.7	164.0	167.8	-3.8	-2.3	239.9	241.7	-1.8	-0.7
Of which:																
Income tax and CGT (accrued)	20.1	19.3	0.8	4.1	56.7	54.9	1.8	3.3	127.3	130.7	-3.4	-2.6	184.0	185.6	-1.6	-0.8
Corporation tax (accrued)	4.9	5.0	-0.2	-3.6	19.1	19.0	0.1	0.6	36.4	37.1	-0.7	-1.8	55.5	56.1	-0.6	-1.0
Other taxes	1.6	1.5	0.1	3.4	6.7	6.2	0.4	7.2	12.5	12.3	0.2	1.3	19.1	18.5	0.6	3.3
Compulsory social contributions	10.5	10.2	0.3	2.9	42.3	40.5	1.7	4.3	88.1	85.4	2.7	3.1	130.3	125.9	4.4	3.5
Interest & dividends	1.6	1.7	-0.2	-8.8	8.4	7.4	1.0	13.3	12.0	11.1	0.9	8.2	20.3	18.4	1.9	10.3
Other receipts	1.9	1.8	0.1	5.5	7.9	7.3	0.6	8.6	15.4	15.4	0.0	0.1	23.3	22.7	0.6	2.9
Total CG current receipts	62.3	60.2	2.0	3.4	226.6	217.4	9.1	4.2	470.7	461.7	9.0	2.0	697.3	679.1	18.2	2.7
CG current expenditure																
Interest payments	4.9	4.1	0.7	18.0	21.6	17.6	4.1	23.1	34.1	30.8	3.3	10.8	55.8	48.4	7.4	15.3
Net social benefits	17.4	17.3	0.1	0.8	69.4	68.3	1.1	1.6	140.1	136.5	3.6	2.6	209.5	204.8	4.7	2.3
CG current grants to LAs	9.5	10.2	-0.6	-6.2	42.0	42.0	0.0	-0.1	74.9	72.4	2.5	3.5	116.8	114.4	2.5	2.2
VAT and GNI-based payments to EU ²	1.0	0.9	0.1	9.2	4.2	2.7	1.5	55.2	8.0	6.8	1.2	17.2	12.2	9.6	2.7	28.0
Other CG current expenditure	23.8	23.2	0.6	2.5	96.2	92.5	3.7	4.0	197.7	189.9	7.9	4.1	293.9	282.3	11.6	4.1
Total current expenditure	56.7	55.8	0.9	1.6	233.4	223.1	10.4	4.6	454.9	436.4	18.5	4.2	688.3	659.5	28.8	4.4
Depreciation	1.6	1.6	0.1	4.7	6.5	6.2	0.3	4.7	13.4	12.5	0.9	6.8	19.8	18.7	1.1	6.1
CG current budget deficit	-4.0	-2.9	-1.1		13.3	11.8	1.5	12.8	-2.5	-12.8	10.3	-80.6	10.9	-0.9	11.8	
CG net investment	3.2	2.7	0.5	17.3	12.5	11.9	0.6	5.3	28.2	26.0	2.2	8.6	40.7	37.9	2.9	7.5
of which: CG capital grants to LA	0.7	0.8	-0.1	-14.9	4.5	5.2	-0.6	-12.1	6.3	5.7	0.6	9.7	10.8	10.9	-0.1	-0.7
CG net borrowing	-0.8	-0.2	-0.6		25.9	23.7	2.1	9.0	25.7	13.2	12.5	94.7	51.6	36.9	14.7	39.7
Local authorities net borrowing	0.8	0.1	0.7		-4.4	-4.7	0.3	-5.7	10.6	13.3	-2.7	-20.3	6.2	8.6	-2.4	-28.3
Public corporations net borrowing	-0.2	0.4	-0.6		1.3	1.9	-0.5	-28.2	-0.9	-2.3	1.4	-61.9	0.5	-0.4	0.9	-219.7
Public sector net borrowing	-0.2	0.3	-0.5		22.8	20.9	1.9	9.0	35.5	24.2	11.2	46.3	58.3	45.1	13.1	29.0
Public sector net investment	3.2	2.8	0.4	16.0	9.3	8.6	0.7	8.0	30.8	29.5	1.2	4.2	40.1	38.2	1.9	5.0
Public sector current budget	-3.4	-2.5	-0.9	37.7	13.5	12.3	1.2	9.7	4.7	-5.3	10.0		18.2	7.0	11.2	160.2

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/july2017>

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.