Office for
Budget
Responsibility

21 August 2018

Commentary on the Public Sector Finances release: July 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the July 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. Public sector net borrowing (PSNB) recorded a surplus of £2.0 billion in July, a £1.0 billion improvement on last year. The surplus was £0.9 billion larger than market expectations. A £4.5 billion year-on-year rise in central government (CG) spending was more than offset by a £4.1 billion rise in CG receipts and a £2.8 billion fall in net borrowing by local authorities. Borrowing by public corporations was up £1.3 billion on last year.

3. Over the first four months of 2018-19, PSNB was £12.8 billion – down £8.5 billion (40.0 per cent) on last year and the lowest borrowing for the April-to-July period since 2002-03. Our March forecast was for borrowing of £37.1 billion in 2018-19, £2.4 billion (6.0 per cent) lower than the latest estimated outturn for 2017-18 and £8.1 billion (17.9 per cent) lower than the forecast for 2017-18 we published in March.

4. CG receipts growth (excluding APF transfers) so far in 2018-19 is a little above our full-year forecast, but spending growth to date has been considerably lower than our full-year forecast. Year-to-date CG spending (excluding grants to local authorities) is up just 0.5 per cent, compared with our full-year forecast of a 3.5 per cent rise. This is likely to reflect:

   - **Weak year-on-year growth in departmental current spending** so far in 2018-19. These data remain very provisional. Spending can be volatile from month to month and data

[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/july2018

are prone to revision, so it is still too early in the financial year to draw meaningful conclusions about trends in departmental spending for the year as a whole.

- **Lower debt interest payments**, reflecting lower RPI inflation earlier in the year. This continues to reduce the accrued interest cost of index-linked gilts relative to last year.

- **Lower transfers to EU institutions** reflecting timing effects that we expect to unwind.[2]

Detailed commentary

Borrowing

5. Public sector net borrowing (PSNB) recorded a surplus of £2.0 billion in July, a £1.0 billion improvement on last year. A £4.5 billion year-on-year rise in CG spending was more than offset by a £4.1 billion rise in CG receipts and a £2.8 billion fall in net borrowing by local authorities. Borrowing by public corporations was up £1.3 billion on last year.

Receipts

6. CG receipts (excluding APF transfers) were up 4.1 per cent in July and 4.5 per cent for the year-to-date. This is a little above our full-year forecast of a 3.9 per cent rise.

7. Receipts growth in July primarily reflected rises in self-assessment (SA), PAYE income tax, NICs and VAT. Over the first four months of 2018-19, growth in PAYE income tax and NICs is slightly stronger than our full-year forecast (3.8 versus 2.9 per cent), as is growth in VAT receipts (5.7 versus 4.0 per cent). In contrast, stamp duty land tax (SDLT) is down 9.9 per cent for the year-to-date, compared with our full-year forecast of a 1.1 per cent fall. This reflects lower-than-expected residential property transactions and a weaker London housing market – 40 per cent of residential SDLT receipts in 2016-17 were accounted for by transactions in London.

8. The second payment on account for 2017-18 SA liabilities was due on 31 July. SA income tax receipts were up 12.1 per cent on a year earlier. Since some payments due on 31 July are recorded in August, 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, since these payments on account are based on 2016-17 tax liabilities.

Spending

9. Total CG spending was up £4.5 billion (7.5 per cent) on last July, but only £1.9 billion (0.7 per cent) for the year-to-date. This compares with our full-year forecast of 3.1 per cent growth on a like-for-like basis. The larger rise in July mainly reflects current grants to local authorities up £2.8 billion (29.3 per cent) relative to last year. This unwinds the timing effect from June

[2] VAT- and GNI-based contributions to the EU budget, net of abatement.

that we discussed in last month's commentary, and has contributed to the drop in local authority net borrowing recorded this month.

10. Excluding grants to local authorities, total CG spending was £1.4 billion (2.8 per cent) higher than last July. The main driver of the increase was other current and capital spending (up by £1.1 billion on last year), mainly from higher departmental spending. CG debt interest spending was down by £0.3 billion (6.2 per cent) on last July, reflecting lower RPI inflation earlier in the year, which continues to reduce the accrued interest cost of index-linked gilts. In addition, net social benefits spending increased by £0.6 billon (3.4 per cent) on last July, reflecting higher payments across several benefits.

11. For the year-to-date, CG spending (excluding grants to local authorities) was up by £1.1 billion (0.5 per cent). This is below our full-year forecast of 3.1 per cent growth (on a like-for-like basis), partly thanks to lower debt interest spending and timing effects on transfers to EU institutions[3]. But growth in departmental current spending has been weak - other CG current spending is up 1.9 per cent so far in 2018-19 compared with our full-year forecast of 4.4 per cent (on a like-for-like basis). A sizeable proportion of the departmental spending data this early in the financial year is based on departments' own forecasts. These data are therefore highly provisional and subject to future revision.

Debt

12. Public sector net debt (PSND) fell by 1.7 per cent of GDP between July 2017 and July 2018. Year-on-year comparisons are currently being distorted by the reclassification of English housing associations to the private sector from last November (reducing measured PSND by £65.5 billion or 3.2 per cent of GDP from that point) and the continued implications of the Bank of England's August 2016 monetary policy measures (raising PSND by £45.7 billion or 2.1 per cent of GDP in the year to July 2018). Both effects will drop out of the year-on-year comparison by the end of the financial year. Liquid assets are unusually high due to the government's cash management operations. These net off PSND and in July were up £16.0 billion on a year earlier. This downward effect on PSND is likely to diminish over time.

13. Our March forecast assumed a small year-on-year drop in PSND as a share of GDP at the end of 2018-19 helped by £16.6 billion of asset sales during the year. The latest data include £7.7 billion of proceeds from sales of RBS shares and Bradford & Bingley mortgage loans.

[3] VAT- and GNI-based contributions to the EU budget, net of abatement.

Table 1.1: Public sector receipts, expenditure and net borrowing[1]

£ billion	July				April to July				Implied August to March				March forecast			
			change				change				change		2018-19	2017-18	change	
	2018	2017	£bn	%	2018-19	2017-18	£bn	%	2018-19	2017-18	£bn	%	*EFO*	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	22.7	22.2	0.4	1.9	90.5	86.9	3.6	4.1	184.7	176.9	7.8	4.4	275.2	263.8	11.3	4.3
Of which: VAT (accrued)	12.1	11.8	0.3	2.4	48.0	45.4	2.6	5.7	96.7	93.7	3.0	3.2	144.7	139.1	5.6	4.0
Taxes on income and wealth[1]	26.2	24.6	1.6	6.4	79.5	75.8	3.7	4.9	176.8	170.9	5.9	3.5	256.4	246.7	9.7	3.9
Of which:																
Income tax and CGT (accrued)	21.3	19.9	1.4	7.2	59.5	56.1	3.4	6.0	137.8	132.4	5.4	4.1	197.3	188.5	8.8	4.7
Corporation tax (accrued)	5.0	5.0	0.1	1.8	20.0	19.7	0.3	1.6	38.7	38.3	0.4	1.1	58.7	58.0	0.7	1.3
Other taxes	1.5	1.5	0.1	3.7	6.1	6.2	0.0	-0.4	11.8	11.7	0.1	1.0	17.9	17.8	0.1	0.5
Compulsory social contributions	10.9	10.6	0.3	3.1	44.2	42.5	1.7	3.9	92.3	90.0	2.4	2.6	136.5	132.5	4.0	3.0
Interest & dividends	3.1	1.4	1.7	121.2	9.2	7.7	1.5	18.8	12.0	10.9	1.1	9.8	21.2	18.7	2.5	13.5
Other receipts	1.9	1.9	0.0	0.8	7.5	7.6	-0.2	-2.0	15.4	15.0	0.3	2.1	22.8	22.7	0.2	0.7
Total CG current receipts	**66.3**	**62.2**	**4.1**	**6.6**	**237.0**	**226.7**	**10.2**	**4.5**	**493.0**	**475.5**	**17.6**	**3.7**	**730.0**	**702.2**	**27.8**	**4.0**
CG current expenditure																
Interest payments	4.5	4.8	-0.3	-6.2	19.0	21.4	-2.4	-11.1	34.2	33.4	0.9	2.6	53.3	54.7	-1.5	-2.7
Net social benefits	18.0	17.4	0.6	3.4	71.3	69.3	1.9	2.8	142.7	139.2	3.4	2.5	213.9	208.6	5.3	2.6
CG current grants to LAs	12.2	9.4	2.8	29.3	42.9	41.7	1.2	2.9	72.9	71.6	1.3	1.8	115.8	113.4	2.5	2.2
VAT and GNI-based payments to EU[2]	1.0	1.0	0.0	-0.9	3.3	4.2	-0.9	-20.9	6.8	6.0	0.8	13.4	10.1	10.2	-0.1	-0.8
Other CG current expenditure	24.8	23.7	1.2	4.9	97.9	96.1	1.8	1.9	208.3	195.4	12.9	6.6	306.2	291.5	14.7	5.0
Total current expenditure	**60.6**	**56.4**	**4.2**	**7.5**	**234.4**	**232.7**	**1.7**	**0.7**	**464.9**	**445.6**	**19.3**	**4.3**	**699.3**	**678.4**	**20.9**	**3.1**
Depreciation	1.5	1.5	0.0	0.5	6.2	6.1	0.0	0.7	12.4	12.4	0.0	0.2	18.6	18.5	0.1	0.3
CG current budget deficit	**-4.1**	**-4.3**	**0.1**	**-3.0**	**3.6**	**12.1**	**-8.5**		**-15.7**	**-17.5**	**1.7**	-10.0	**-12.1**	**-5.3**	**-6.8**	
CG net investment	3.1	2.8	0.3	10.9	12.5	12.4	0.2	1.4	30.6	26.8	3.9	14.4	43.2	39.2	4.0	10.3
of which: CG capital grants to LA	1.0	0.7	0.4	52.9	4.2	4.6	-0.4	-8.9	7.6	5.9	1.8	30.3	11.8	10.4	1.4	13.2
CG net borrowing	**-1.0**	**-1.5**	**0.4**		**16.1**	**24.5**	**-8.4**	**-34.2**	**14.9**	**9.3**	**5.6**		**31.0**	**33.8**	**-2.8**	**-8.2**
Local authorities net borrowing	-2.3	0.5	-2.8		-4.9	-5.5	0.5	-9.9	11.4	12.3	-0.9	-7.2	6.5	6.8	-0.3	-5.1
Public corporations net borrowing	1.3	0.0	1.3		1.6	2.2	-0.7	-29.7	-2.0	-3.4	1.4		-0.4	-1.2	0.8	-63.0
Public sector net borrowing	**-2.0**	**-1.0**	**-1.0**	**104.7**	**12.8**	**21.3**	**-8.5**	**-40.0**	**24.3**	**18.1**	**6.1**	**33.9**	**37.1**	**39.4**	**-2.4**	**-6.0**
Public sector net investment	**2.5**	**3.2**	**-0.7**	**-20.8**	**8.8**	**10.7**	**-1.8**	**-17.3**	**30.1**	**30.0**	**0.2**	**0.6**	**39.0**	**40.6**	**-1.6**	**-4.1**
Public sector current budget	**-4.5**	**-4.2**	**-0.4**	**8.5**	**4.0**	**10.6**	**-6.7**	**-62.7**	**-5.9**	**-11.8**	**6.0**		**-1.9**	**-1.2**	**-0.7**	**59.0**

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/july2018
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] VAT- and GNI-based contributions to the EU budget, net of abatement.