

Commentary on the Public Sector Finances release: January 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 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 November 2017 *Economic and fiscal outlook (EFO)*. This is the final release before our next forecast, to be published on 13 March alongside the Chancellor's Spring Statement. That forecast will be based on today's official data plus some administrative data on February's receipts.

Headlines

2. Public sector net borrowing (PSNB) recorded a surplus of £10.0 billion in January. January is generally the largest month of the year for tax receipts, with self-assessment (SA) income tax and capital gains tax (CGT) payments due at the end of the month, plus cash payments of corporation tax by large firms and VAT receipts relating to the Christmas period. This January's surplus was £1.6 billion lower than a year earlier, but £0.4 billion higher than market expectations. It was stronger than would be consistent with our November forecast, thanks to higher-than-expected SA income tax receipts.
3. Abstracting from Asset Purchase Facility (APF) flows, the smaller surplus relative to last year reflected a £0.4 billion rise in central government (CG) receipts being more than offset by a £2.0 billion rise in CG spending. Local authority borrowing was up £0.2 billion, while borrowing by public corporations fell by £0.1 billion.
4. Borrowing to date in 2017-18 is down £7.2 billion (16.0 per cent) on a year earlier. This contrasts with our November forecast of a £4.1 billion (9.0 per cent) rise over the full year. We had expected a £3.1 billion drop in SA income tax receipts due to dividend income having been brought forward to 2015-16 to avoid a rise in the dividend tax rate in April 2016. But, although SA income tax receipts fell £0.5 billion year-on-year in January, they are up £0.2 billion year-to-date. CGT receipts were weaker than expected.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2018>

5. Overall, it now looks clear that borrowing in 2017-18 will undershoot our November forecast by a significant margin. But the full-year deficit is still unlikely to fall as sharply from last year's figure as a simple extrapolation of the year to date would suggest.
6. Even this late in the year, there is still significant uncertainty over full-year borrowing:
 - **Local authority net borrowing** is the largest source of difference between year-to-date PSNB and our full-year forecast. So far in 2017-18 it is £1.0 billion down on last year, compared with our full-year forecast of a £1.7 billion rise. Local authority borrowing in the final quarter of the fiscal year can be large and is volatile from year to year. At this stage, ONS outturn data reflect its own view of local authorities' underspending against budgets this year, which is smoothed across those months for which actual outturn data are unavailable. Part of the difference between our full-year forecast and the latest year-to-date outturns therefore reflects differences of views about the gap between budgets and actual spending. There is greater uncertainty than usual around such judgements this year, given the large rise in local authority borrowing in 2016-17, which reflected the largest net drawdown of reserves seen since comparable data started to be recorded in the mid-2000s, as well as the greater use of 'prudential' borrowing to finance wider capital investments. Full outturn data for 2017-18 local authority borrowing will not be available until September 2018.
 - Some **SA income tax receipts** will be collected in February, so we do not yet have a full picture for this year. It is possible that some of the strength in January reflected more people paying on time rather than a genuine surplus relative to forecast.
 - **Income tax on bonuses** in the financial and non-financial sectors are concentrated in the final months of the fiscal year. Our November forecast assumed they would rise in line with earnings, but the range of possible outcomes is wide.
 - **UK transfers to EU institutions** so far in 2017-18 are £0.3 billion lower than last year, compared with our forecast £1.0 billion rise over the whole financial year. We expect transfers in the final months of 2017-18 to be higher than a year earlier as we have assumed that the European Commission will draw forward a larger proportion of 2018 calendar year contributions into the first quarter of the year than it did last year.
 - **Other current spending** – largely day-to-day spending by central government departments – is also subject to uncertainty in the final months of the year as departments adjust their plans following Supplementary Estimates and following agreements of Budget Exchange and reserve claims with the Treasury.
7. As well as factoring the latest data into our March forecast, we will need to make judgements about whether and how it should affect future years. Typically, a better starting point would mean an improved position across the forecast, but the extent of that improvement would be subject to many other influences. For example, ahead of our March forecast we will need to consider HMRC analysis of SA tax returns to understand the drivers of higher income tax and lower CGT receipts and the implications of that for future years.

Detailed commentary

Borrowing

8. January's budget surplus was £10.0 billion, down £1.6 billion on a year earlier. Excluding APF flows, a £0.4 billion rise in CG receipts was more than offset by the £2.0 billion rise in CG spending. Borrowing by local authorities was £0.2 billion higher, and borrowing by public corporations was down by £0.1 billion on a year earlier.

Receipts

9. Relative to the same period last year, CG receipts (excluding APF transfers) were up 0.6 per cent in January and 4.0 per cent year-to-date. These compare with our full-year forecast of a 3.0 per cent rise. Growth in NICs and cash CT so far this year is stronger than our full-year forecasts. The new CT accruals methodology time-shifts larger firms' instalment payments to earlier months of 2017-18 and smaller firms' non-instalment payments to 2016-17. PAYE and VAT receipts growth year-to-date has been similar to our full-year forecasts.
10. Payments of SA income tax and CGT relating to 2016-17 liabilities were due at the end of January. SA income tax receipts fell by considerably less than expected but CGT receipts showed an unexpected drop. SA receipts will have been boosted temporarily last year as individuals anticipated the changes to the dividend tax regime that were introduced in April 2016. The unwinding of this effect is likely to have dampened SA receipts this year, although we will not know the full extent of this effect until HMRC analysts have been able to review the administrative data (see Box 4.3 of our March 2017 EFO).

Spending

11. Total CG spending was £2.0 billion (3.3 per cent) higher than a year earlier, while CG grants to local authorities were down £0.1 billion on last year. Total current spending was £1.4 billion higher, mostly due to higher net social benefit spending (up £0.7 billion) and higher other current spending (up £0.6 billion, largely reflecting higher spending by the NHS). Capital spending was £0.5 billion higher, reflecting higher departmental capital spending across several departments.
12. For the first ten months of the year, CG spending (excluding grants to local authorities) was up £17.0 billion (3.5 per cent), only slightly below our November full-year forecast (on a like-for-like basis) of a 3.6 per cent increase. All CG spending data can be volatile and are subject to revision.

Debt

13. 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 2017 reduced PSND by £65.5 billion or 3.2 per cent of GDP from that point; and the continued implementation of the Bank of England's August 2016 monetary policy measures has raised PSND by £96 billion since last January (and by

£130 billion in total). The Term Funding Scheme accounts for £75 billion of the rise over the past year. Including both factors, PSND increased by 0.4 per cent of GDP between January 2017 and January 2018. Excluding the monetary policy package effects, PSND excluding the Bank of England was down by 3.0 per cent of GDP over the past year. Excluding them both, PSND excluding the Bank and on a broadly like-for-like basis was up 0.2 per cent of GDP.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	January				April to January				Implied February to March				November forecast			
	2018	2017	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	21.4	20.7	0.7	3.3	221.6	211.6	10.0	4.7	44.8	41.9	2.9	7.0	266.4	253.4	12.9	5.1
Of which: VAT (accrued)	11.9	11.7	0.2	1.4	116.8	113.1	3.7	3.3	23.2	22.5	0.7	2.9	139.9	135.6	4.4	3.2
Taxes on income and wealth ¹	36.3	36.4	-0.1	-0.3	201.1	194.3	6.8	3.5	39.7	46.0	-6.4	-13.9	240.7	240.4	0.4	0.2
Of which:																
Income tax and CGT (accrued)	31.9	32.0	-0.1	-0.3	153.7	148.9	4.8	3.2	32.3	36.7	-4.5	-12.1	186.0	185.6	0.3	0.2
Corporation tax (accrued)	4.5	4.5	0.0	0.5	47.3	45.4	1.9	4.1	7.4	9.4	-2.0	-21.5	54.6	54.8	-0.2	-0.3
Other taxes	1.4	1.4	0.0	-2.1	14.7	14.5	0.2	1.6	3.0	3.0	0.0	0.9	17.7	17.5	0.3	1.5
Compulsory social contributions	11.1	10.6	0.5	4.4	106.2	101.6	4.6	4.5	24.7	24.3	0.5	1.9	131.0	125.9	5.1	4.0
Interest & dividends	1.0	2.8	-1.8	-64.7	16.6	16.6	0.0	0.1	4.8	1.8	3.0	161.9	21.4	18.4	3.0	16.3
Other receipts	1.9	2.5	-0.7	-26.0	18.6	19.2	-0.6	-3.3	4.6	3.8	0.8	21.7	23.1	22.9	0.2	0.8
Total CG current receipts	73.0	74.4	-1.4	-1.9	578.8	557.8	21.0	3.8	121.6	120.8	0.8	0.7	700.4	678.6	21.8	3.2
CG current expenditure																
Interest payments	4.0	4.0	0.0	1.2	47.7	41.9	5.8	13.9	7.0	6.8	0.2	3.2	54.7	48.7	6.0	12.4
Net social benefits	17.3	16.6	0.7	4.3	175.4	172.5	2.9	1.7	34.1	32.2	1.9	5.9	209.5	204.7	4.8	2.3
CG current grants to LAs	9.6	9.6	0.0	-0.4	95.6	96.5	-0.9	-1.0	17.3	17.9	-0.6	-3.1	112.9	114.4	-1.5	-1.3
VAT and GNI-based payments to EU ²	1.1	1.0	0.1	10.2	7.3	7.6	-0.3	-3.9	3.3	2.0	1.3	67.5	10.6	9.6	1.0	11.0
Other CG current expenditure	24.7	24.1	0.6	2.5	242.2	236.0	6.1	2.6	52.4	48.3	4.0	8.4	294.5	284.4	10.1	3.6
Total current expenditure	56.7	55.3	1.4	2.6	568.1	554.5	13.5	2.4	114.1	107.2	7.0	6.5	682.2	661.7	20.5	3.1
Depreciation	1.5	1.5	0.0	-1.1	15.1	15.2	-0.2	-1.0	3.6	3.0	0.5	17.3	18.6	18.2	0.4	2.0
CG current budget deficit	-14.7	-17.6	2.8	-16.2	4.3	11.9	-7.6	-63.8	-3.9	-10.6	6.7	-62.9	0.4	1.3	-0.9	
CG net investment	3.9	3.4	0.5	15.9	30.3	28.6	1.7	5.9	9.7	9.4	0.2	2.6	39.9	38.0	1.9	5.0
of which: CG capital grants to LA	0.7	0.8	-0.1	-12.4	8.1	9.1	-1.0	-11.4	3.9	1.8	2.0	110.6	11.9	10.9	1.0	9.0
CG net borrowing	-10.8	-14.2	3.4		34.6	40.5	-5.9	-14.6	5.7	-1.2	6.9		40.3	39.3	1.0	2.5
Local authorities net borrowing	1.7	1.5	0.2		2.5	3.5	-1.0	-28.4	6.9	4.3	2.7	62.7	9.4	7.8	1.7	21.4
Public corporations net borrowing	-0.9	1.0	-1.9		0.6	0.8	-0.2	-28.7	-0.5	-2.2	1.7		0.1	-1.3	1.5	-109.3
Public sector net borrowing	-10.0	-11.6	1.6	-13.9	37.7	44.9	-7.2	-16.0	12.2	0.9	11.3		49.9	45.8	4.1	9.0
Public sector net investment	4.8	4.2	0.6	13.9	30.5	27.9	2.6	9.3	11.3	10.9	0.4	3.7	41.8	38.8	3.0	7.7
Public sector current budget	-14.8	-15.8	1.0	-6.5	7.2	17.0	-9.8	-57.6	0.9	-10.0	10.9		8.1	7.0	1.1	16.1

November 2017 EFO forecast published 22 November 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>

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/efo/economic-fiscal-outlook-november-2017/>

² Net of abatement.