Office for **Budget Responsibility**

23 January 2018

Commentary on the Public Sector Finances release: December 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the December 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 November 2017 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) was £2.6 billion in December, down £2.5 billion on a year earlier and £2.4 billion below market expectations. A significant reason for the drop relative to last year is a £1.2 billion fall in UK transfers to EU institutions.[2] This reflects amendments to the 2017 EU budget due to lower spending related to structural and investment funds and updated Commission estimates of member states' contributions. Abstracting from EU contributions, a £1.4 billion rise in central government spending was more than offset by a £1.8 billion rise in central government receipts. Local authority net borrowing fell by £0.8 billion, but that largely reflected the timing of grants from central government.

3. Borrowing to date in 2017-18 is down £6.6 billion (11.7 per cent) on the same point a year earlier, in contrast to our November forecast of a £3.9 billion (8.4 per cent) rise over the full year. Several factors are likely to push up borrowing over the remainder of the financial year:

   - Lower **self-assessment income tax receipts** in January and February as dividend shifting effects from last year unwind. To meet our forecast for a £3.1 billion fall in SA income receipts in 2017-18 from a year earlier, receipts would have to be £3.8 billion lower over the rest of the financial year than in the final three months of 2016-17.

   - **Local authority net borrowing** so far in 2017-18 is £2.0 billion lower than last year, compared with our forecast of a £1.7 billion rise on the previous year for the whole of 2017-18. Local authority net borrowing in the final quarter of the year can be large

[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2017

[2] VAT- and GNI-based contributions to the EU budget, net of abatement. See Annex B of our November 2017 *EFO* for more detail.

and is volatile from year to year. At this stage, ONS financial year-to-date figures include underspend adjustments, because final outturn data have typically been lower than local authorities' budgets. Part of the difference between our full-year forecast and the latest year-to-date figures therefore reflects differences of views about as-yet unknown underspending. There is greater uncertainty than usual around such judgements this year, given the large increase in borrowing in 2016-17, which reflected the largest net drawdown of reserves seen since consistent and comparable data started to be recorded in the mid-2000s, and the greater use of 'prudential' borrowing to finance wider capital investments. Outturn data for 2017-18 local authority net borrowing will not be available until September 2018.

- UK transfers to EU institutions so far in 2017-18 are £0.4 billion lower than last year, compared with a forecast £1.0 billion rise over the whole financial year. This partly reflects lower spending related to structural and investment funds. We expect an increase in expenditure in the final months of 2017-18 relative to 2016-17 as our forecast for contributions that the European Commission draws forward into the first quarter of the calendar year is higher than last year.
- Our forecast for other current spending – largely day-to-day spending by central government departments – is also expected to be slightly higher in the final months of 2017-18 (year-to-date spending is up 2.6 per cent against our full-year forecast of a 2.9 per cent rise, on a like-for-like basis).
- Despite these factors and abstracting from the uncertain effects of self-assessment receipts and local authority net borrowing, it appears that the underlying improvement in borrowing so far this year is a little faster than would be consistent with our November forecast.

Detailed commentary

4. PSNB in December was £2.6 billion, down £2.5 billion on a year earlier. A £0.3 billion rise in central government (CG) spending was more than offset by the £1.8 billion rise in CG receipts. Borrowing by local authorities was £0.8 billion lower while borrowing by public corporations was down by £0.1 billion on a year earlier.

5. Relative to the same period last year, CG receipts (excluding APF transfers) were up 3.3 per cent in December and 4.2 per cent year-to-date. These compare with our full-year forecast of a 3.1 per cent rise. Key revenue streams such as PAYE, NICs and VAT show year-to-date growth similar to our full-year forecasts from November. Growth in accrued corporation tax so far this year is stronger than our full-year forecast. Slower full-year growth of total receipts relative to the year-to-date position reflects the expected drop in SA income tax receipts in January and February. As noted earlier this relates to the unwinding of the dividend income shifting which boosted 2016-17 receipts (see Box 4.3 of our March 2017 *EFO*).

6. Our 2017-18 receipts forecast remains subject to significant uncertainty. SA income tax and capital gains tax (also due at the end of January) are among the most difficult taxes to forecast, reflecting the complexity of the taxes and susceptibility to behavioral changes among

taxpayers – as with the income-shifting affected 2016-17 and 2017-18. Another big uncertainty relates to the PAYE income tax paid on financial sector bonuses. We have assumed that bonuses will rise in line with earnings, but the range of possible outcomes is wide.

7. Total CG spending excluding grants to local authorities was £0.3 billion (0.6 per cent) lower than last December. Underlying this were several offsetting changes. The largest fall in spending (of £1.2 billion) came from UK transfers to EU institutions, reflecting the factors discussed in paragraph 2. Other current spending fell by £0.5 billion, mainly due to a timing effect for some DFID grants that were paid in November this year but in December last year. The main offsetting factors were higher net investment spending (up £0.7 billion), reflecting higher capital spending by a number of departments, and higher CG debt interest payments (up £0.5 billion), reflecting the profile of RPI inflation (which continues to raise accrued interest on index-linked gilts).

8. For the first nine months of the year, CG spending (excluding grants to local authorities) was up by £15.5 billion (3.5 per cent), slightly below our full-year forecast (on a like-for-like basis) of a 3.6 per cent increase. Paragraph 3 explains areas why we expect transfers to EU institutions to be stronger in the remaining months of 2017-18. All CG spending data can be volatile and are subject to revision.

9. Public sector net debt (PSND) increased by 0.7 per cent of GDP between December 2016 and December 2017. Two factors have had large, but partly offsetting, effects on the PSND over the past year. The reclassification of English housing associations to the private sector from November 2017 has reduced PSND by £65.5 billion or 3.2 per cent of GDP. The continued implementation of the Bank of England's August 2016 monetary policy measures has raised PSND by £96 billion since last December (and by £126 billion in total). The Term Funding Scheme accounts for £82 billion of the rise over the past year. PSND excluding the Bank of England was down by 3.6 per cent of GDP compared with last December due almost entirely to the housing associations reclassification.

Issues for next month's release

10. January is generally the biggest month of the year for cash receipts. In particular:

- Many medium and large onshore firms pay the third of four corporation tax instalment payments on 2017 profits, while oil and gas firms pay their third and final instalment on 2017 profits. Under the new ONS National Accounts accruals methodology, these January cash receipts are likely to lead to revisions to the accrued data in earlier months.

- Self-assessment income tax, class 4 NICs and capital gains tax are due at the end of the month. Although most of these receipts will be included in the January outturn, some later payments will score in February. There will, therefore, remain some uncertainty as to how SA receipts have performed relative to our 2017-18 forecast until the February data are released in March. The last day of January falls on a weekday this year, as it did in 2017, so this should not be a source of distortion in year-on-year comparisons.

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

£ billion	December				April to December				Implied January to March				November forecast			
			change				change				change		2017-18	2016-17	change	
	2017	2016	£bn	%	2017-18	2016-17	£bn	%	2017-18	2016-17	£bn	%	*EFO*	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	22.8	22.2	0.6	2.7	200.1	190.7	9.3	4.9	66.3	62.6	3.7	5.9	266.4	253.3	13.1	5.2
Of which: VAT (accrued)	12.3	11.7	0.6	4.9	104.7	101.2	3.5	3.5	35.3	34.2	1.0	3.0	139.9	135.4	4.5	3.3
Taxes on income and wealth[1]	18.6	17.8	0.8	4.3	163.4	157.9	5.5	3.5	77.4	82.4	-5.0	-6.1	240.7	240.3	0.5	0.2
Of which:																
Income tax and CGT (accrued)	14.3	13.5	0.7	5.2	121.1	116.9	4.2	3.6	64.8	68.7	-3.9	-5.6	186.0	185.6	0.3	0.2
Corporation tax (accrued)	4.3	4.2	0.1	1.9	42.0	40.8	1.2	2.9	12.6	13.9	-1.2	-8.9	54.6	54.7	-0.1	-0.1
Other taxes	1.3	1.4	0.0	-1.9	13.4	13.0	0.3	2.6	4.4	4.4	0.0	-0.6	17.7	17.4	0.3	1.8
Compulsory social contributions	11.0	10.7	0.3	2.8	94.7	91.0	3.7	4.1	36.3	34.9	1.3	3.8	131.0	125.9	5.1	4.0
Interest & dividends	0.7	0.5	0.2	28.0	15.6	13.8	1.8	13.0	5.8	4.6	1.2	25.9	21.4	18.4	3.0	16.3
Other receipts	1.9	1.8	0.0	1.9	16.8	16.7	0.1	0.7	6.3	6.3	0.1	1.2	23.1	22.9	0.2	0.8
Total CG current receipts	**56.3**	**54.4**	**1.8**	**3.3**	**504.0**	**483.2**	**20.8**	**4.3**	**196.4**	**195.1**	**1.3**	**0.7**	**700.4**	**678.3**	**22.1**	**3.3**
CG current expenditure																
Interest payments	3.7	3.2	0.5	15.2	43.8	37.9	5.9	15.5	10.9	10.8	0.1	1.2	54.7	48.7	6.0	12.4
Net social benefits	17.7	17.6	0.1	0.6	158.2	155.9	2.2	1.4	51.3	48.8	2.5	5.2	209.5	204.7	4.8	2.3
CG current grants to LAs	9.7	9.1	0.6	6.9	86.7	86.9	-0.2	-0.2	26.2	27.5	-1.3	-4.8	112.9	114.4	-1.5	-1.3
VAT and GNI-based payments to EU[2]	-1.2	0.0	-1.2		6.2	6.6	-0.4	-6.0	4.4	3.0	1.4	48.5	10.6	9.6	1.0	11.0
Other CG current expenditure	24.1	24.6	-0.5	-2.0	217.4	211.9	5.5	2.6	77.1	72.5	4.7	6.4	294.5	284.4	10.1	3.6
Total current expenditure	**54.0**	**54.4**	**-0.4**	**-0.8**	**512.2**	**499.2**	**13.0**	**2.6**	**169.9**	**162.5**	**7.5**	**4.6**	**682.2**	**661.7**	**20.5**	**3.1**
Depreciation	1.6	1.5	0.0	2.2	13.6	13.7	-0.1	-0.4	5.0	4.6	0.4	9.5	18.6	18.2	0.4	2.0
CG current budget deficit	**-0.7**	**1.5**	**-2.2**	**-145.9**	**21.8**	**29.7**	**-7.8**	**-26.4**	**-21.5**	**-28.1**	**6.6**	**-23.6**	**0.4**	**1.6**	**-1.2**	
CG net investment	4.0	3.3	0.7	21.3	26.6	25.2	1.4	5.7	13.3	12.8	0.5	3.8	39.9	38.0	1.9	5.0
of which: CG capital grants to LA	0.5	0.6	0.0	-7.9	7.4	8.3	-0.9	-10.6	4.5	2.7	1.9	69.5	11.9	10.9	1.0	9.0
CG net borrowing	**3.3**	**4.8**	**-1.5**		**48.5**	**54.9**	**-6.4**	**-11.6**	**-8.2**	**-15.3**	**7.1**		**40.3**	**39.6**	**0.7**	**1.8**
Local authorities net borrowing	0.5	1.3	-0.8		0.0	2.0	-2.0	-98.6	9.4	5.8	3.6	62.9	9.4	7.8	1.7	21.4
Public corporations net borrowing	-1.2	-1.1	-0.1		1.5	-0.2	1.7	-791.7	-1.4	-1.1	-0.2		0.1	-1.3	1.5	-109.3
Public sector net borrowing	**2.6**	**5.1**	**-2.5**	**-48.8**	**50.0**	**56.7**	**-6.6**	**-11.7**	**-0.1**	**-10.6**	**10.5**		**49.9**	**46.0**	**3.9**	**8.4**
Public sector net investment	**4.0**	**3.6**	**0.4**	**11.2**	**26.0**	**23.7**	**2.3**	**9.5**	**15.8**	**15.0**	**0.7**	**4.9**	**41.8**	**38.8**	**3.0**	**7.7**
Public sector current budget	**-1.4**	**1.5**	**-2.9**	**-191.4**	**24.0**	**32.9**	**-8.9**	**-27.0**	**-15.9**	**-25.7**	**9.8**		**8.1**	**7.3**	**0.9**	**11.9**

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.