

Commentary on the Public Sector Finances release: June 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 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) was £6.9 billion in June, £2.0 billion higher than last year and £2.0 billion above market expectations. A £4.6 billion rise in central government (CG) current spending (up 8.3 per cent on a year earlier) is the key driver of higher borrowing in June. Strong rises were recorded in debt interest payments, UK transfers to the EU and current departmental expenditure.
3. Over the first quarter of 2017-18, PSNB is £1.9 billion higher than last year. Our March *EFO* forecast assumed borrowing of £58.3 billion for the whole of 2017-18, £12.0 billion higher than the latest outturn for 2016-17.
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 up 24.3 per cent on a year earlier in the first three months of 2017-18, compared with our full-year forecast of 15.3 per cent.
 - **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

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/june2017>

by 78 per cent in the first three months of 2017-18 from 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, while around a fifth of it is attributable to an additional £0.3 billion payment 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 £3.9 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. As a result of these factors, year-to-date CG current spending is up 5.6 per cent, compared with a full-year forecast of 4.4 per cent growth. In contrast, year-to-date growth in CG receipts is 4.7 per cent, compared with a full-year forecast of 2.8 per cent.

Detailed commentary

6. Public sector net borrowing (PSNB) was £6.9 billion in June 2017, £2.0 billion higher than last year. A strong £4.8 billion rise in CG spending was only partly offset by a £2.4 billion rise in CG receipts. Borrowing by local authorities and public corporations were £0.3 billion and £0.2 billion lower than last year.
7. Central government (CG) receipts were up 4.6 per cent in June and up 4.7 per cent for the year-to-date. This compares with our full year forecast for receipts growth of 2.8 per cent. 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 growth until January and February next year.
8. Receipts growth in June primarily reflected rises in PAYE income tax, NICs, VAT and stamp duty land tax. Over the first quarter of 2017-18, growth in PAYE income tax and NICs is running ahead of our full-year forecast (4.2 versus 2.9 per cent), while growth in VAT receipts was slower than our full-year forecast (2.1 versus 3.1 per cent). It is too early to judge whether these trends 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. Looking at the key drivers of PAYE income tax and NICs relative to our March forecast for the year-to-date, there have been similarly sized surprises to the downside on earnings growth and to the upside on employment growth.
9. Total CG spending was £4.8 billion (8.1 per cent) higher than last June and is up by £9.5 billion (5.2 per cent) for the year-to-date. This is higher than our full-year forecast of 4.6 per cent growth. The strength of growth in June mainly reflects a £2.0 billion rise in other current spending (largely attributable to higher departmental spending on public services and administration), a £1.2 billion increase in debt interest payments (primarily from higher RPI inflation increasing accrued interest on index-linked gilts) and £0.7 billion higher spending on transfers to EU institutions (with £0.3 billion of that reflecting a payment in relation to historical

adjustments to the calculations of VAT- and GNI-based contributions). Net social benefits and net investment spending were also both higher (by £0.3 billion and £0.2 billion respectively).

10. For the year-to-date, spending growth largely reflects the same factors affecting debt interest payments, transfers to EU institutions and other current spending. The latter reflects higher departmental spending on public services and administration, where year-to-date growth currently stands at 4.8 per cent, compared with our full-year forecast of 4.1 per cent. This early in the financial year, much of the departmental spending is not firm outturn data and is largely based on forecasts from the departments themselves.
11. Public sector net debt (PSND) increased by 3.6 per cent of GDP in June 2017 from a year earlier. This rise is more than explained by the implementation of the Bank of England's package of monetary policy measures announced last August, which raises PSND by around £94 billion. PSND excluding the Bank of England was down 0.6 per cent of GDP on last year.

Issues for next month's commentary

12. July is usually the second biggest month for cash receipts during the financial year. This reflects:
 - Many **medium and large onshore firms** paying the first of four corporation tax instalment payments on their 2017 profits. Under the new National Accounts basis for corporation tax, these will accrue back to the first three months of 2017.
 - **Oil and gas firms** paying their first of three CT instalment payments on their 2017 profits.
 - The second payment on account for **self-assessment** liabilities for 2016-17 are due on 31 July. As that is a Monday this year but was a Sunday last year, the year-on-year comparison may not be clear until August data are also available.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	June				April to June				Implied July 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	21.7	20.7	1.0	4.8	63.4	61.3	2.2	3.5	200.8	190.3	10.6	5.6	264.3	251.5	12.7	5.1
Of which: VAT (accrued)	11.4	11.0	0.4	3.4	33.5	32.8	0.7	2.1	105.7	102.3	3.5	3.4	139.3	135.1	4.2	3.1
Taxes on income and wealth ¹	17.5	17.0	0.6	3.4	51.1	49.5	1.6	3.3	188.8	191.3	-2.5	-1.3	239.9	240.8	-0.9	-0.4
Of which:																
Income tax and CGT (accrued)	12.7	11.9	0.8	7.1	36.6	35.2	1.4	3.9	147.4	149.4	-2.0	-1.3	184.0	184.6	-0.6	-0.3
Corporation tax (accrued)	4.8	5.0	-0.2	-3.2	14.3	14.0	0.3	1.9	41.2	42.2	-1.0	-2.3	55.5	56.2	-0.7	-1.3
Other taxes	1.7	1.6	0.0	2.4	5.1	4.7	0.4	8.5	14.0	13.9	0.1	0.7	19.1	18.6	0.5	2.7
Compulsory social contributions	10.8	10.2	0.5	5.0	31.7	30.3	1.5	4.8	98.6	95.6	2.9	3.1	130.3	125.9	4.4	3.5
Interest & dividends	0.7	0.6	0.2	28.2	6.8	5.7	1.1	20.0	13.5	12.8	0.8	6.0	20.3	18.4	1.9	10.3
Other receipts	1.9	1.8	0.1	6.1	6.0	5.4	0.5	9.9	17.3	17.2	0.1	0.6	23.3	22.7	0.6	2.8
Total CG current receipts	54.3	51.9	2.4	4.6	164.2	156.8	7.3	4.7	533.1	521.2	11.9	2.3	697.3	678.0	19.3	2.8
CG current expenditure																
Interest payments	4.9	3.7	1.2	32.9	16.7	13.4	3.3	24.3	39.1	35.0	4.1	11.8	55.8	48.4	7.4	15.3
Net social benefits	17.0	16.7	0.3	1.6	51.9	51.0	0.9	1.7	157.6	153.8	3.8	2.5	209.5	204.8	4.7	2.3
CG current grants to LAs	12.0	11.7	0.3	2.9	32.3	31.8	0.5	1.7	84.5	82.6	1.9	2.4	116.8	114.4	2.5	2.2
VAT and GNI-based payments to EU ²	1.2	0.5	0.7	148.8	3.2	1.8	1.4	78.3	9.0	7.7	1.3	16.2	12.2	9.6	2.7	28.0
Other CG current expenditure	24.7	22.7	2.0	8.9	72.6	69.2	3.3	4.8	221.4	213.1	8.3	3.9	293.9	282.3	11.6	4.1
Total current expenditure	59.9	55.3	4.6	8.3	176.7	167.3	9.4	5.6	511.6	492.1	19.4	4.0	688.3	659.5	28.8	4.4
Depreciation	1.6	1.5	0.1	4.6	4.8	4.6	0.2	4.6	15.0	14.1	0.9	6.6	19.8	18.7	1.1	6.1
CG current budget deficit	7.2	4.9	2.3	46.5	17.4	15.1	2.3	15.2	-6.5	-15.0	8.4	-56.3	10.9	0.1	10.7	
CG net investment	2.9	2.8	0.2	6.3	9.0	9.1	-0.1	-1.5	31.7	28.7	3.0	10.4	40.7	37.9	2.9	7.5
of which: CG capital grants to LA	0.7	0.9	-0.2	-21.7	3.9	4.3	-0.4	-9.8	6.9	6.6	0.4	5.4	10.8	10.9	-0.1	-0.7
CG net borrowing	10.1	7.7	2.5	32.0	26.4	24.2	2.2	8.9	25.2	13.8	11.4	83.0	51.6	38.0	13.6	35.8
Local authorities net borrowing	-2.4	-2.1	-0.3	11.9	-5.2	-4.8	-0.4	8.2	11.4	13.4	-2.0	-15.2	6.2	8.6	-2.4	-28.3
Public corporations net borrowing	-0.9	-0.8	-0.2	20.4	1.6	1.5	0.1	6.8	-1.1	-1.9	0.8	-40.4	0.5	-0.4	0.9	-219.7
Public sector net borrowing	6.9	4.8	2.0	42.6	22.8	21.0	1.9	8.9	35.4	25.3	10.2	40.2	58.3	46.2	12.0	26.1
Public sector net investment	2.5	2.3	0.2	9.8	5.7	5.8	-0.1	-2.2	34.4	32.3	2.0	6.3	40.1	38.2	1.9	5.0
Public sector current budget	4.4	2.5	1.8	72.0	17.1	15.1	2.0	13.2	1.1	-7.1	8.1		18.2	8.1	10.1	125.7

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/june2017>

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.