

## Commentary on the Public Sector Finances release: May 2016

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the May 2016 Public Sector Finances this morning.<sup>1</sup> Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast, currently the March 2016 *Economic and fiscal outlook (EFO)*.

### Summary

2. Public sector net borrowing (PSNB) was £9.7 billion in May, £0.4 billion lower than last year, but £0.4 billion above market expectations. A rise in central government receipts of £1.6 billion relative to last year was partly offset by a £1.3 billion rise in central government spending. Borrowing by local authorities was £0.1 billion lower than last year.
3. Meeting our March *EFO* forecast for PSNB in 2016-17 would require a £19.5 billion reduction in borrowing over the full financial year. Over the first two months PSNB is £0.2 billion higher than last year, although it is too early to draw meaningful conclusions about the likely path over the year as a whole. April's PSNB was revised up by £1.0 billion, more than reflecting an upward revision to central government spending (excluding PSNB-neutral grants to local authorities). There have also been large downward revisions to central government grants to local authorities, with corresponding upward revisions to local authority borrowing. Receipts and spending data are volatile from month to month and prone to revision, especially at this early stage of the year. On top of this normal uncertainty around the monthly data, the year-to-date comparison has also been affected by:
  - **one-off factors** affecting last year that were not repeated this year. Capital receipts of £0.5 billion from the British Coal staff superannuation scheme reduced net capital

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<sup>1</sup> <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/may16>

spending in April 2015, while a £0.3 billion Financial Conduct Authority fine imposed on Barclays Bank boosted receipts in May 2015; and

- we expect growth in **central government receipts to be end-loaded** during 2015-16, primarily because the £2½ billion boost from income shifting expected ahead of the pre-announced dividend tax rise will only affect self-assessment (SA) receipts in January and February next year.
4. Last month's estimate of PSNB in 2015-16 has been revised down by £1.0 billion to £74.9 billion. This is £16.7 billion lower than in 2014-15, but £2.8 billion higher than our estimate in the March *EFO*. Receipts in 2015-16 were revised up by £0.9 billion (reflecting strong cash VAT receipts in May, which partly accrue back to 2015-16) but remain below our March *EFO* forecast. Local authority net borrowing has been revised down by £1.4 billion, so that it is now only £0.6 billion above our forecast. However public corporations net borrowing has been revised up by £0.8 billion so that it is now £1.5 billion higher than forecast. The 2015-16 PSNB estimate remains provisional and past experience suggests that this outturn will continue to be revised over time.

## Detailed commentary

5. Public sector net borrowing (PSNB) was £9.7 billion in May 2016, £0.4 billion lower than last year. Lower borrowing reflects a £1.6 billion year-on-year rise in central government receipts, partly offset by a £1.3 billion rise in central government spending. Borrowing by local authorities and public corporations were both £0.1 billion lower than last year.
6. Central government accrued receipts were up 3.5 per cent on a year earlier in May. This reflected modest rises in accrued income tax and VAT and a strong 7.6 per cent rise in NICs receipts. The latter reflects the abolition of the NICs contracting-out rebate from April 2016 (expected to raise £5.6 billion over the whole of 2016-17). In addition to the effect on the year-on-year comparison from the FCA fine last year, receipts growth in May was also reduced by the 5.3 per cent drop in stamp duty land tax (SDLT) receipts. This reflects the fall in residential property transactions in April and May after the rush of property purchases that took place ahead of the pre-announced 3 per cent surcharge on second homes.
7. For the first two months of the financial year, growth in central government receipts (excluding APF transfers) of 3.6 per cent was slower than the 5.7 per cent needed to meet our 2016-17 *EFO* receipts forecast. As noted earlier, we expect receipts growth to be end-loaded this year because of the boost to SA from the dividend tax rise.
8. Total central government spending was £1.3 billion higher than in May 2015, mainly due to £0.7 billion higher debt interest spending – reflecting the monthly path of RPI inflation – and £0.4 billion higher other departmental current spending. Capital spending, spending on net social benefits and current grants to local authorities were little changed on the previous May.
9. Total central government spending over April and May was £2.7 billion higher than a year earlier, but within this central government grants to local authorities were £1.7 billion lower

while other central government spending was £4.4 billion higher. The lower grants to local authorities are PSNB-neutral in that they reduce central government borrowing and increase local authority borrowing. But our March Budget forecast also assumed that some of this reduction in grants would feed through to lower local authority spending, and so lower PSNB over the year. The latest revised data show that current grants to local authorities were £2.8 billion lower in April. This is the same size as the reduction we forecast for the whole year, which suggests that the changes to the profile of payments for these grants has meant that this reduction has all come through at the start of the year. The £4.4 billion other higher spending reflected £0.3 billion higher net social benefits, £0.8 billion higher debt interest payments, £1.9 billion higher other current spending (which is consistent with our forecast for a 4.4 per cent increase in this spending over the whole year), and £1.2 billion higher capital spending (excluding grants to local authorities). The increase in capital spending is partly explained by the one-off capital receipt of £0.5 billion from the British Coal staff superannuation scheme that reduced net capital spending in April 2015.

10. The latest provisional estimate for PSNB in 2015-16 has been revised down by £1.0 billion since last month and is now £2.8 billion higher than our March *EFO* forecast. The largest revisions since last month are on local authority net borrowing, which has been revised down by £1.4 billion, reflecting the latest releases of provisional local authority capital spending data in England, and provisional local authority current spending data in Scotland. Public corporations net borrowing has also been revised up by £0.8 billion, reflecting provisional outturns from the English local authority housing revenue accounts, which are classified as public corporations in the National Accounts. Within central government, central government current receipts and spending were revised up by £0.9 and £0.8 billion respectively, and central government capital spending was revised down by £0.4 billion, so that central government net borrowing was revised down by £0.3 billion.
11. Abstracting from classification issues highlighted in last month's commentary, higher borrowing in 2015-16 relative to our March *EFO* forecast is more than explained by a £1.3 billion shortfall in central government receipts (largely due to lower PAYE and NICs from weaker bonuses in the financial and non-financial sectors), £0.6 billion higher local authority borrowing, and £1.5 billion higher borrowing by public corporations. There are various interactions between the local authority and public corporations data, and there could be further revisions to outturn data in the autumn.
12. In March, we forecast that public sector net debt (PSND) would fall from 83.7 per cent of GDP at the end of 2015-16 to 82.6 per cent by the end on 2016-17. PSND in May was unchanged as a share of GDP on a year earlier. The full-year drop in PSND as a share of GDP reflects a further expected fall in borrowing and the Government's announced programme of financial asset sales, which is expected to raise £21 billion in 2016-17. We expect most of the asset sales to take place later in the year, with only £0.5 billion of 2016-17 proceeds (from the balancing payment on the sale of the Granite securitisation vehicle relating to former Northern Rock mortgages) so far affecting the PSND figure.

Table 1.1: Accrued and cash borrowing measures, and public sector net debt

	May			Full year		
	£ billion			£ billion		
	2016	2015	change	2016-17 forecast	2015-16 outturn	change
Public sector net borrowing <sup>1</sup>	75.1	87.6	-12.5	55.5	74.9	-19.5
CG net cash requirement ex <sup>1,2</sup>	74.2	88.7	-14.6	62.1	78.4	-16.3
Public sector net cash requirement <sup>1</sup>	48.5	71.4	-22.9	58.1	50.2	7.9
<b>Public sector net debt (PSND)</b>						
PSND (£ billion)	1607	1557	50	1638	1598	40
PSND (per cent of GDP)	83.7	83.7	0.0	82.6	83.7	-1.1

<sup>1</sup> 12 month rolling total.

<sup>2</sup> CGNCR excluding NRAM, B&B and Network Rail.

March 2016 EFO forecast published 16 March 2016 excluding public sector banks on a National Accounts basis.

Table 1.2: Public sector receipts, expenditure and net borrowing<sup>1</sup>

£ billion	May				April to May				Implied June to March				March forecast					
			change				change				change		2016-17		2015-16		change	
	2016	2015	£bn	%	2016-17	2015-16	£bn	%	2016-17	2015-16	£bn	%	March EFO	outturn	£bn	%		
<b>Central government (CG) current receipts</b>																		
Taxes on production	19.7	19.4	0.2	1.2	40.1	38.7	1.4	3.6	213.1	202.9	10.2	5.0	253.3	241.7	11.6	4.8		
Of which: VAT (accrued)	10.6	10.5	0.2	1.9	21.7	21.1	0.7	3.2	113.1	109.4	3.7	3.4	134.8	130.4	4.4	3.4		
Taxes on income and wealth	13.6	13.0	0.6	4.3	31.4	31.1	0.3	1.0	201.5	189.8	11.6	6.1	232.9	220.9	11.9	5.4		
Of which:																		
Income tax and CGT (accrued)	11.6	11.4	0.2	1.5	23.6	23.3	0.3	1.4	165.5	153.2	12.3	8.1	189.1	176.4	12.7	7.2		
Corporation tax	1.9	1.5	0.4	26.2	7.7	7.6	0.1	1.2	35.7	36.7	-0.9	-2.6	43.5	44.3	-0.9	-1.9		
Other taxes	1.6	1.6	0.0	-0.3	3.0	3.0	0.1	1.7	15.0	15.7	-0.6	-4.0	18.1	18.6	-0.6	-3.1		
Compulsory social contributions	10.0	9.3	0.7	7.6	19.9	18.5	1.5	7.9	106.5	95.0	11.6	12.2	126.5	113.4	13.0	11.5		
Interest & dividends	0.9	0.7	0.2	35.4	5.4	5.3	0.1	2.6	13.5	12.0	1.5	12.4	18.9	17.3	1.6	9.4		
Other receipts	1.9	2.0	-0.1	-5.5	3.9	3.9	0.0	0.1	19.2	18.7	0.5	2.7	23.0	22.5	0.5	2.2		
<b>Total CG current receipts</b>	<b>47.6</b>	<b>46.0</b>	<b>1.6</b>	<b>3.5</b>	<b>103.8</b>	<b>100.4</b>	<b>3.4</b>	<b>3.4</b>	<b>568.8</b>	<b>534.1</b>	<b>34.7</b>	<b>6.5</b>	<b>672.6</b>	<b>634.5</b>	<b>38.1</b>	<b>6.0</b>		
<b>CG current expenditure</b>																		
Interest payments	4.6	3.9	0.7	16.7	9.7	8.9	0.8	8.8	38.1	36.0	2.1	5.8	47.8	44.9	2.9	6.4		
Net social benefits	16.9	16.8	0.0	0.2	34.2	33.9	0.3	1.0	171.7	169.6	2.1	1.2	205.9	203.4	2.4	1.2		
CG current grants to LAs	9.0	9.0	0.0	0.5	20.1	23.0	-2.8	-12.3	94.6	94.6	0.1	0.1	114.8	117.6	-2.8	-2.4		
Other	23.3	22.9	0.4	1.8	48.8	46.9	1.9	4.0	249.9	239.3	10.6	4.4	298.7	286.2	12.5	4.4		
<b>Total current expenditure</b>	<b>53.8</b>	<b>52.7</b>	<b>1.2</b>	<b>2.2</b>	<b>112.8</b>	<b>112.7</b>	<b>0.2</b>	<b>0.1</b>	<b>554.3</b>	<b>539.5</b>	<b>14.8</b>	<b>2.7</b>	<b>667.1</b>	<b>652.2</b>	<b>15.0</b>	<b>2.3</b>		
Depreciation	1.6	1.5	0.1	7.4	3.3	3.0	0.2	7.4	16.3	15.4	0.9	6.1	19.6	18.4	1.2	6.3		
<b>CG current budget deficit</b>	<b>7.8</b>	<b>8.2</b>	<b>-0.3</b>		<b>12.3</b>	<b>15.3</b>	<b>-3.0</b>	<b>-19.5</b>	<b>1.8</b>	<b>20.8</b>	<b>-19.0</b>		<b>14.1</b>	<b>36.1</b>	<b>-22.0</b>	<b>-60.9</b>		
CG net investment	2.2	2.1	0.1	2.8	6.8	4.5	2.3	50.2	32.0	29.4	2.7	9.1	38.9	33.9	5.0	14.6		
of which: CG capital grants to LA	0.6	0.9	-0.3	-36.8	3.6	2.5	1.1	45.0	10.4	9.0	1.4	15.6	14.0	11.5	2.5	22.0		
<b>CG net borrowing</b>	<b>10.0</b>	<b>10.3</b>	<b>-0.3</b>	<b>-2.8</b>	<b>19.1</b>	<b>19.8</b>	<b>-0.7</b>	<b>-3.5</b>	<b>33.9</b>	<b>50.2</b>	<b>-16.3</b>	<b>-32.5</b>	<b>53.0</b>	<b>70.0</b>	<b>-17.0</b>	<b>-24.3</b>		
Local authorities net borrowing	0.5	0.6	-0.1		-3.4	-4.4	1.0		6.0	8.9	-2.9	-32.7	2.5	4.4	-1.9			
Public corporations net borrowing	-0.8	-0.7	0.0	4.3	2.2	2.4	-0.1		-2.3	-1.9	-0.4	19.7	0.0	0.5	-0.5			
<b>Public sector net borrowing</b>	<b>9.7</b>	<b>10.1</b>	<b>-0.4</b>	<b>-3.8</b>	<b>17.9</b>	<b>17.8</b>	<b>0.2</b>	<b>0.8</b>	<b>37.6</b>	<b>57.2</b>	<b>-19.6</b>	<b>-34.3</b>	<b>55.5</b>	<b>74.9</b>	<b>-19.5</b>	<b>-26.0</b>		
<b>Public sector net investment</b>	<b>1.9</b>	<b>1.6</b>	<b>0.3</b>	<b>19.8</b>	<b>3.8</b>	<b>2.8</b>	<b>1.0</b>	<b>36.3</b>	<b>32.6</b>	<b>31.1</b>	<b>1.5</b>	<b>4.9</b>	<b>36.4</b>	<b>33.8</b>	<b>2.5</b>	<b>7.5</b>		
<b>Public sector current budget</b>	<b>7.8</b>	<b>8.5</b>	<b>-0.7</b>		<b>14.1</b>	<b>15.0</b>	<b>-0.9</b>	<b>-5.7</b>	<b>5.0</b>	<b>26.1</b>	<b>-21.1</b>		<b>19.1</b>	<b>41.1</b>	<b>-22.0</b>			

March 2016 EFO forecast published 16 March 2016 excluding public sector banks on a National Accounts basis.

<sup>1</sup> 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/may2016>

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/download/economic-and-fiscal-outlook-march-2016/>

OBR supplementary fiscal tables: <http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-supplementary-fiscal-tables-march-2016/>