

Commentary on the Public Sector Finances release: May 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the May 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)*.

Summary

2. Public sector net borrowing (PSNB) was £5.0 billion in May, £2.0 billion lower than last year and £1.3 billion below market expectations. A £0.2 billion rise in central government spending was more than offset by a £1.6 billion rise in central government receipts and £0.3 billion reductions in net borrowing by both local authorities and public corporations.
3. Over the first two months of 2018-19, PSNB is £4.1 billion (25.8 per cent) lower than last year. Given the latest 2017-18 outturn, this is more than the improvement in PSNB for 2018-19 we forecast in March. Much of the improvement so far this year reflects weaker spending growth than assumed in our full-year forecast for 2018-19. Some of this reflects identifiable timing effects on debt interest and EU contributions, but the remainder may just reflect the very provisional nature of the data. Spending data can be volatile from month to month and prone to revision, so it is still too early in the financial year to draw meaningful conclusions about the public finances for the year as a whole.
4. The estimate for PSNB in 2017-18 has been revised down by a further £1.0 billion since last month, reflecting £0.3 billion higher receipts, £0.5 billion lower central government spending and a £0.1 billion downward revision to local authority borrowing. At £39.5 billion, PSNB is now £6.2 billion lower than the latest estimate for 2016-17, £5.7 billion lower than our estimate in the March *EFO* and £3.2 billion lower than the ONS's provisional estimate in

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/may2018>

April. Further revisions can be expected over time since firmer data for local authorities, public corporations and some central government departments will not be available until September or October.

Detailed commentary

5. Public sector net borrowing (PSNB) was £5.0 billion in May 2018, £2.0 billion lower than last year. A £0.2 billion rise in central government (CG) spending was more than offset by a £1.6 billion rise in CG receipts and lower borrowing by local authorities and public corporations (both down £0.3 billion). The ONS has also revised borrowing in April down by £1.0 billion.
6. CG receipts excluding APF transfers were up 3.0 per cent on a year earlier in May and 3.9 per cent for the year-to-date. This is in line with the 3.9 per cent growth in receipts we expect for 2018-19 as a whole. Receipts growth in May reflected strong rises in both income tax (up £0.9 billion) and VAT (up £0.6 billion), the former reflecting continued strong growth in receipts from the business services sector.
7. Total CG spending excluding grants to local authorities was £0.5 billion (1.0 per cent) lower than last May. For the first two months of 2018-19, total CG spending on this basis was down by 0.1 per cent on a year earlier, against our full-year forecast of 3.1 per cent growth. This was driven by year-on-year falls in debt interest spending and UK contributions to the EU and relatively weak growth in other current spending, reflecting the monthly path of RPI inflation affecting index-linked gilts and timing effects. As noted earlier, spending data this early in the financial year is very provisional and subject to revision.
8. The provisional estimate for PSNB in 2017-18 has been revised down again. It is now £5.7 billion lower than our March forecast. Abstracting from some items that are not yet in the ONS outturns, CG receipts were £0.3 billion higher than we forecast in March and CG spending, excluding grants to local authorities, was £3.2 billion lower than we forecast. Borrowing by local authorities and public corporations were also lower than we assumed in March, by £2.7 billion and £0.3 billion respectively. Further revisions in the coming months can be expected as full outturns become available.
9. Public sector net debt (PSND) fell by 0.4 per cent of GDP in May 2018 from a year earlier. 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) and the continued implications of the Bank of England's August 2016 monetary policy measures (raising PSND by £62 billion in the year to May 2018). The year-on-year fall in the PSND-to-GDP ratio in May has been helped by an £11 billion monthly rise in liquid assets (which net off in PSND), reflecting the government's cash management. The £5.3 billion sale of Bradford & Bingley mortgage loans also reduced PSND in May. This sale, and the £2.5 billion of RBS share sales that will reduce PSND next month, are part of £16.6 billion of financial asset sales factored into our forecast for 2018-19. These sales are a key reason for our forecast for PSND as a share of GDP at the end of 2018-19 to be slightly lower than it was at the end of 2017-18.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	May				April to May				Implied June to March				March forecast				
	2018	2017	change		2018-19	2017-18	change		2018-19	2017-18	change		2018-19 EFO	2017-18 outturn	change		
			£bn	%			£bn	%			£bn	%			£bn	%	
Central government (CG) current receipts																	
Taxes on production	21.5	21.3	0.3	1.2	44.2	42.4	1.7	4.1	231.0	220.8	10.2	4.6	275.2	263.3	11.9	4.5	
Of which: VAT (accrued)	11.5	10.9	0.6	5.4	23.2	22.1	1.1	5.0	121.5	116.8	4.7	4.0	144.7	138.9	5.8	4.2	
Taxes on income and wealth ¹	17.5	16.5	1.0	6.0	35.4	33.0	2.4	7.4	221.0	213.9	7.0	3.3	256.4	246.9	9.5	3.8	
Of which:																	
Income tax and CGT (accrued)	12.5	11.6	0.9	7.5	25.5	23.0	2.5	10.7	171.8	165.5	6.3	3.8	197.3	188.6	8.7	4.6	
Corporation tax (accrued)	4.9	4.8	0.1	2.6	9.9	9.8	0.1	0.8	48.8	48.3	0.5	1.1	58.7	58.1	0.6	1.1	
Other taxes	1.6	1.6	0.0	-2.0	3.1	3.2	-0.1	-4.5	14.9	14.5	0.4	2.5	17.9	17.7	0.2	1.2	
Compulsory social contributions	10.7	10.4	0.3	2.6	21.7	21.8	-0.1	-0.2	114.8	111.3	3.5	3.2	136.5	133.0	3.5	2.6	
Interest & dividends	0.9	0.8	0.0	3.7	4.8	5.7	-0.9	-15.3	16.3	12.9	3.4	26.3	21.2	18.7	2.5	13.6	
Other receipts	1.9	1.8	0.0	1.7	3.7	3.9	-0.2	-4.5	19.1	18.7	0.4	2.1	22.8	22.6	0.2	1.0	
Total CG current receipts	54.0	52.5	1.6	3.0	112.9	110.0	2.9	2.7	617.1	592.2	24.9	4.2	730.0	702.2	27.8	4.0	
CG current expenditure																	
Interest payments	3.4	4.5	-1.1	-23.6	9.6	11.6	-2.1	-17.8	43.7	43.1	0.6	1.3	53.3	54.7	-1.5	-2.7	
Net social benefits	18.2	17.4	0.8	4.5	35.8	34.8	0.9	2.7	178.2	173.8	4.4	2.5	213.9	208.6	5.3	2.6	
CG current grants to LAs	9.8	9.1	0.6	6.8	21.1	20.3	0.8	4.0	94.7	93.1	1.7	1.8	115.8	113.4	2.5	2.2	
VAT and GNI-based payments to EU ²	0.8	1.0	-0.2	-23.5	1.7	2.0	-0.3	-12.6	8.4	8.2	0.2	2.0	10.1	10.2	-0.1	-0.8	
Other CG current expenditure	24.0	23.6	0.4	1.7	48.9	48.2	0.7	1.5	257.3	243.3	14.0	5.7	306.2	291.5	14.7	5.0	
Total current expenditure	56.2	55.6	0.5	0.9	117.1	116.9	0.2	0.1	582.2	561.5	20.8	3.7	699.3	678.4	20.9	3.1	
Depreciation	1.5	1.5	0.0	0.7	3.1	3.1	0.0	0.7	15.5	15.4	0.0	0.3	18.6	18.5	0.1	0.3	
CG current budget deficit	3.7	4.7	-1.0	-21.8	7.2	10.0	-2.7		-19.4	-15.3	-4.1	26.8	-12.1	-5.3	-6.8		
CG net investment	2.6	2.9	-0.4	-12.6	6.5	6.4	0.1	1.4	36.7	32.7	3.9	12.0	43.2	39.2	4.0	10.3	
of which: CG capital grants to LA	1.0	1.0	0.0	4.8	2.8	3.2	-0.5	-14.3	9.0	7.2	1.8	25.5	11.8	10.4	1.4	13.2	
CG net borrowing	6.3	7.6	-1.4		13.8	16.4	-2.7	-16.2	17.3	17.4	-0.2		31.0	33.8	-2.8	-8.3	
Local authorities net borrowing	-0.4	0.0	-0.3		-3.1	-3.4	0.3	-9.5	9.5	10.2	-0.7	-6.5	6.5	6.8	-0.3	-5.1	
Public corporations net borrowing	-0.9	-0.6	-0.3		1.1	2.9	-1.8	-60.9	-1.6	-4.1	2.5		-0.4	-1.2	0.8	-62.9	
Public sector net borrowing	5.0	7.0	-2.0	-28.7	11.8	16.0	-4.1	-25.8	25.2	23.5	1.7	7.3	37.1	39.5	-2.4	-6.1	
Public sector net investment	1.5	2.6	-1.0	-40.5	3.7	4.4	-0.7	-15.9	35.3	36.3	-1.0	-2.7	39.0	40.7	-1.7	-4.2	
Public sector current budget	3.4	4.4	-1.0	-21.8	8.2	11.6	-3.4	-29.5	-10.1	-12.8	2.7		-1.9	-1.2	-0.7	58.7	

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/may2018>

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 Net of abatement.