

Commentary on the Public Sector Finances release: February 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the February 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. This is currently the March 2018 *Economic and fiscal outlook (EFO)*, published earlier this month.
2. Our March 2018 forecast was based on last month's ONS release and some administrative information for February. For example, we were able to draw on preliminary analysis of self-assessment (SA) receipts to mid-February (relating to income tax, NICs and capital gains tax) and some information on February PAYE income tax and NICs, and corporation tax.

Headlines

3. Public sector net borrowing (PSNB) was in deficit by £1.3 billion in February, compared to a surplus of £1.2 billion a year ago. This deficit was £0.5 billion smaller than market expectations of £1.8 billion. The £2.5 billion higher borrowing relative to last year reflected a £4.1 billion rise in central government (CG) spending, against only a £1.2 billion rise in CG receipts. Local authority borrowing was £2.9 billion, down £0.4 billion on February 2017. Borrowing by public corporations was little changed on a year earlier.
4. Higher borrowing in February relative to last year reflects two timing effects that increase borrowing in the final months of 2017-18 and were factored into our March forecast:
 - **Forestalling of dividend income:** SA income tax receipts were boosted last year by dividend income being shifted into 2015-16 ahead of the rise in dividend tax in April 2016 (final payments on 2015-16 SA liabilities were due in January 2017, but some late payments were received in February too). 2016-17 SA liabilities were consequently

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/february2018>

weaker as this income shifting was partly unwound. SA income tax receipts were down £0.4 billion (7.6 per cent) year-on-year in February.

- **The timing of calendar year 2018 contributions to the EU:** transfers to EU institutions in February were up by £0.6 billion on a year earlier.² The European Commission can choose to draw forward up to five months' worth of Member States' annual contributions to be paid in the first quarter of the calendar year. This year, the Commission requested 3.7 months' worth of payments, as opposed to three months' worth in 2017, with the largest increase coming in February.
5. With just one month remaining in 2017-18, PSNB is down £2.5 billion (5.7 per cent) on a year earlier. This compares with our full-year forecast of a £0.8 billion (1.8 per cent) fall. In last months' release, with two months of the year remaining, PSNB was down £7.2 billion on a year earlier. Much of the change since then reflects revisions to ONS data for the first 10 months of the year, which include higher local authority net borrowing and lower CG receipts.
 6. The majority of the difference between our forecast and an extrapolation of the year-to-date relates to **local authority net borrowing**, where the ONS does not yet have full outturn data. So far in 2017-18 it is £0.4 billion up on last year, compared with our full-year forecast of a £1.8 billion rise. 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. We believe local authorities will underspend their budgets by less than the ONS is currently assuming. 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 before September 2018.
 7. The other main difference concerns UK transfers to EU institutions. So far in 2017-18 these are £0.3 billion higher than last year, compared with our forecast £0.6 billion rise over the whole financial year. We expect transfers in March to be up on a year earlier as the European Commission requested to draw forward a larger proportion of 2018 calendar year contributions into the first quarter of the year than it did last year. The final 2017-18 payment was transferred on 1 March.
 8. The other main uncertainties affecting our full-year forecast include:
 - **Income tax on bonuses in the financial and non-financial sectors:** these are concentrated in the final months of the fiscal year. Our March forecast assumed they would rise in line with earnings, but the range of possible outcomes is wide.

² Transfers to EU institutions are defined as VAT- and GNI-based contributions to the EU budget, net of abatement. The same definition applies to each subsequent use of this term.

- **Other spending – largely day-to-day and investment spending by central government departments:** the extent to which departments will underspend against the final plans laid out in Supplementary Estimates remains a source of uncertainty, with a month of the year to go and the subsequent revisions that can be expected over the first half of 2018-19.

Detailed commentary

Borrowing

9. PSNB in February showed a deficit of £1.3 billion, against a surplus of £1.2 billion last year. A £1.2 billion rise in CG receipts was more than offset by a £4.1 billion rise in CG spending. Borrowing by local authorities was £0.4 billion down on February last year, while borrowing by public corporations was little changed on a year earlier.

Receipts

10. Relative to the same period last year, CG receipts (excluding APF transfers) were up only 2.0 per cent in February, but were up 3.6 per cent year-to-date. Receipts growth in February was primarily driven by PAYE and NICs receipts, continuing recent strength. This offset year-on-year falls in both SA income tax and capital gains tax (CGT).
11. Payments of SA income tax and CGT relating to 2016-17 liabilities were due at the end of January, although some late payments were received in February as some taxpayers submitted their SA returns after the deadline. Based on administrative information up to mid-February, in March we revised our forecast for SA income tax receipts in 2017-18 up and our forecast for CGT receipts down. Part of the upward revision to SA income tax reflected slower unwinding of the income shifting related to the dividend tax rise and stronger growth in SA income streams. This also led to higher initial payments on account for 2017-18 liabilities.

Spending

12. Total CG spending was £4.1 billion (7.2 per cent) higher than a year earlier. Total current spending was £2.9 billion higher, mostly due to debt interest payments (up £0.9 billion), UK transfers to the EU (up £0.6 billion) and other current spending (up £1.0 billion) – the latter largely reflecting higher spending by the NHS. Capital spending was up £1.2 billion, reflecting higher spending across several departments.
13. For the first eleven months of the year, CG spending (excluding grants to local authorities) was up £20.8 billion (3.8 per cent), in line with our full-year forecast (on a like-for-like basis). Grants to local authorities were £2.4 billion lower, compared with our full-year forecast of a £0.2 billion increase. All CG spending data can be volatile and subject to revision. A clearer view of outturn will be revealed over the first half of 2018-19.

Debt

14. 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 reduced PSND by £65.5 billion or 3.2 per cent of GDP from that point onwards; and the continued implementation of the Bank of England's August 2016 monetary policy measures has raised PSND by £91 billion since last February (and by £150 billion in total). The Term Funding Scheme accounts for £85 billion of the rise over the past year. Including both factors, PSND increased by 0.9 per cent of GDP between February 2017 and February 2018. Excluding the monetary policy package effects, PSND excluding the Bank of England was down by 3.1 per cent of GDP over the past year. Excluding both effects, PSND excluding the Bank and on a broadly like-for-like basis was up 0.1 per cent of GDP.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	February				April to February				Implied March				2017-18 EFO	March forecast			
	2018	2017	change		2017-18	2016-17	change		2017-18	2016-17	change			2016-17 outturn	change		
			£bn	%			£bn	%			£bn	%			£bn	%	
Central government (CG) current receipts																	
Taxes on production	21.5	21.1	0.4	1.7	242.6	232.7	9.8	4.2	23.6	20.7	2.9	14.0	266.2	253.4	12.7	5.0	
Of which: VAT (accrued)	11.4	11.4	0.0	0.0	127.9	124.4	3.4	2.7	11.8	11.1	0.7	6.1	139.7	135.6	4.1	3.0	
Taxes on income and wealth ¹	24.9	24.8	0.1	0.4	224.9	219.0	5.9	2.7	21.6	21.1	0.4	1.9	246.5	240.1	6.4	2.6	
Of which:																	
Income tax and CGT (accrued)	20.4	20.4	0.0	-0.1	172.5	169.3	3.2	1.9	16.9	16.3	0.5	3.3	189.4	185.6	3.7	2.0	
Corporation tax (accrued)	4.6	4.5	0.1	2.5	52.4	49.7	2.6	5.3	4.5	4.8	-0.3	-6.6	56.8	54.5	2.3	4.3	
Other taxes	1.4	1.4	0.0	-0.1	16.2	15.9	0.3	1.7	1.5	1.6	-0.1	-8.0	17.6	17.5	0.1	0.8	
Compulsory social contributions	12.0	11.4	0.6	5.1	118.6	113.3	5.3	4.7	13.7	13.0	0.7	5.5	132.3	126.2	6.0	4.8	
Interest & dividends	0.8	0.5	0.2	42.1	17.3	17.1	0.2	1.1	2.0	1.3	0.7	52.6	19.3	18.4	0.9	4.8	
Other receipts	1.9	1.9	0.0	-1.2	20.4	21.1	-0.7	-3.2	2.2	1.9	0.3	15.8	22.6	22.9	-0.4	-1.7	
Total CG current receipts	62.4	61.2	1.2	2.0	639.9	619.0	20.9	3.4	64.5	59.6	4.9	8.2	704.4	678.6	25.8	3.8	
CG current expenditure																	
Interest payments	6.4	5.5	0.9	16.0	54.2	47.4	6.8	14.4	0.2	1.3	-1.1	-83.5	54.4	48.7	5.7	11.8	
Net social benefits	16.0	15.4	0.6	3.6	191.3	188.2	3.1	1.6	17.8	16.8	1.0	6.1	209.1	205.0	4.1	2.0	
CG current grants to LAs	8.2	8.3	-0.1	-1.2	103.1	104.7	-1.6	-1.5	10.3	9.6	0.7	7.1	113.4	114.4	-0.9	-0.8	
VAT and GNI-based payments to EU ²	1.8	1.2	0.6	53.2	9.1	8.8	0.3	4.0	1.0	0.8	0.2	25.7	10.1	9.6	0.6	5.8	
Other CG current expenditure	24.0	23.0	1.0	4.2	266.3	259.0	7.3	2.8	28.0	25.3	2.7	10.7	294.3	284.4	10.0	3.5	
Total current expenditure	56.3	53.4	2.9	5.5	624.0	608.1	15.9	2.6	57.3	53.8	3.5	6.5	681.4	662.0	19.4	2.9	
Depreciation	1.5	1.5	0.0	-1.1	16.6	16.7	-0.2	-1.0	1.6	1.5	0.1	4.1	18.1	18.2	-0.1	-0.6	
CG current budget deficit	-4.6	-6.3	1.7	-27.0	0.7	5.8	-5.2	-88.7	-5.6	-4.3	-1.3	30.8	-4.9	1.6	-6.5		
CG net investment	4.1	2.9	1.2	42.0	34.2	31.5	2.7	8.6	7.2	6.5	0.7	10.6	41.4	38.0	3.4	9.0	
of which: CG capital grants to LA	0.6	0.5	0.2	33.7	8.8	9.6	-0.8	-8.5	1.6	1.4	0.2	17.4	10.4	10.9	-0.6	-5.2	
CG net borrowing	-0.5	-3.4	2.9		34.9	37.3	-2.5	-6.6	1.6	2.3	-0.6		36.5	39.6	-3.1	-7.8	
Local authorities net borrowing	2.9	3.3	-0.4		7.2	6.8	0.4	5.3	2.4	1.0	1.4	143.0	9.6	7.8	1.8	22.8	
Public corporations net borrowing	-1.1	-1.1	0.0		-0.7	-0.2	-0.4	180.9	-0.2	-1.1	0.9		-0.9	-1.4	0.5	-34.0	
Public sector net borrowing	1.3	-1.2	2.5	-215.7	41.4	43.9	-2.5	-5.7	3.8	2.1	1.7		45.2	46.0	-0.8	-1.8	
Public sector net investment	4.8	4.1	0.7	18.1	35.7	32.0	3.7	11.5	7.9	6.8	1.1	16.3	43.5	38.8	4.8	12.3	
Public sector current budget	-3.5	-5.3	1.8	-33.4	5.7	11.9	-6.2	-52.1	-4.1	-4.6	0.6		1.6	7.2	-5.6	-77.4	

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>

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.