

## Commentary on the Public Sector Finances release: September 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the September 2018 Public Sector Finances this morning, covering the first half of the 2018-19 fiscal year.<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 2018 *Economic and fiscal outlook (EFO)*.
2. Our next *EFO* forecast will be published alongside the Chancellor's unusually early Autumn Budget on 29 October and it will to a large extent be based on today's data release. Unlike a typical autumn fiscal event, we will have very little administrative data on central government receipts in October to factor in and no data at all on central government spending.

### Headlines

3. Public sector net borrowing (PSNB) is provisionally estimated at £4.1 billion in September, down £0.8 billion on a year earlier and £0.4 billion below market expectations. A £1.6 billion rise in central government (CG) spending was more than offset by a £1.7 billion rise in CG receipts. Borrowing by local authorities was £0.6 billion lower than a year earlier, while borrowing by public corporations was down £0.1 billion.
4. At the time of our March *EFO*, we forecast that net borrowing would drop from £45.2 billion in 2017-18 to £37.1 billion in 2018-19, a fall of 18 per cent. The ONS's initial outturn estimate for 2017-18, published in April, was £42.6 billion. Since then, in line with the pattern of recent years, it has revised that estimate lower still to £39.8 billion.
5. Borrowing so far this year is estimated at £19.9 billion. This is 35 per cent lower than the latest estimate for the first half of last year, a steeper decline than the 18 per cent we anticipated for the full year back in March – despite the downward revision to last year's deficit.

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<sup>1</sup> <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/september2018>

6. The main factors behind the faster fall in borrowing so far this year include:
  - **Stronger growth in CG receipts.** On a like-for-like basis (excluding APF transfers), CG receipts over the first half of the year are up by 4.4 per cent on a year earlier, relative to our March forecast of a 3.0 per cent rise. PAYE income tax and NICs, VAT and alcohol duties are the main drivers of the strength. As discussed below, cash receipts from corporation tax are also growing more quickly than we forecast for the full year, but this has yet to feed through to the ONS accrued receipts measure. With receipts growth exceeding expectations across most of the major taxes, this raises the possibility that current estimates of nominal GDP growth may in time be revised higher.
  - **Weaker growth in CG spending.** On a like-for-like basis (excluding grants to local authorities), CG spending over the first half of the year is only up by 1.8 per cent on a year earlier, relative to our forecast of a 2.6 per cent rise. That mainly reflects slower growth in departmental current spending (although these data remain very provisional) and lower debt interest payments (following lower RPI inflation earlier in the year). More often than not, debt interest payments are higher than expected when receipts are higher than expected, with offsetting effects on the deficit, but this year they are both pushing in the direction of lower borrowing than expected.
7. Mechanically extrapolating the percentage change in net borrowing that we have seen so far this year over the full fiscal year would imply a deficit for 2018-19 about £11 billion lower than we forecast in March. But that would not take account of the fact that the recent strength of cash corporation tax receipts has yet to be reflected in the accrued borrowing measure. The implications of both – plus detailed consideration of the specific drivers and timing factors that affect different tax and spending streams – will be reflected in our forecast later this month.

## Detailed commentary

### Borrowing

8. Public sector net borrowing (PSNB) in September was £4.1 billion, down £0.8 billion on a year earlier. A £1.6 billion rise in central government (CG) spending was more than offset by a £1.7 billion rise in CG receipts. Borrowing by local authorities was down £0.6 billion on last year, while borrowing by public corporations was down £0.1 billion.

### Receipts

9. Relative to the same period last year, CG receipts (excluding APF transfers) were up 3.2 per cent in September and 4.4 per cent year-to-date, a little above our full-year forecast of a 3.0 per cent rise (on a like-for-like basis). The main sources of faster growth have been PAYE income tax (growing at 5.8 over the first six months of the year, relative to our March full-year forecast of 2.7 per cent) and VAT receipts (growing at 6.5 per cent, relative to our March full-year forecast of 3.7 per cent). These may in part reflect stronger growth in employment and buoyant retail sales in the second and third quarters of 2018.

10. Partly offsetting that faster growth, recorded accrued onshore corporation tax receipts have only risen by 1.6 per cent over the first half of the year, relative to our full-year March forecast of 3.8 per cent growth. But this is largely because the ONS's time-shifting accruals methodology relies to a considerable degree on our most recent published forecast. So the vast bulk of recorded receipts so far this year still reflect our March forecast for cash receipts in 2018-19. On a cash basis, onshore corporation tax receipts are up 3.3 per cent on a year earlier, relative to our March forecast of a 0.4 per cent fall. This reflects strong growth in receipts from large non-financial companies. This indicates that our March forecast for 2018-19 cash receipts was too low and that the recorded onshore corporation tax data are likely to be revised up once we have reflected this in our October forecast.
11. Stamp duty land tax (SDLT) receipts are down 10.0 per cent year-to-date, compared with our full-year forecast of a 1.1 per cent fall. This reflects lower residential transactions and a weaker London housing market than expected. Almost 40 per cent of residential SDLT receipts in 2017-18 were accounted for by transactions in London.

## Spending

12. Total CG spending (excluding grants to local authorities) was up by 2.4 per cent in September and 1.8 per cent year-to-date, below our March forecast for a 2.6 per cent rise over the whole year (on a like-for-like basis). The main driver of weaker growth so far this year has been debt interest payments, which have fallen by 10.5 per cent over the first six months of year relative to our March forecast of a 3.2 per cent fall. This largely reflects weaker RPI growth at the start of the year, which usually feeds into debt interest spending with a two-month lag.
13. Growth in departmental current spending in the first months of 2018-19 has also been weaker than we forecast for the full year. Much departmental spending data at this stage in the financial year reflect departments' own forecasts. These data are therefore provisional and subject to future revision.

## Debt

14. Public sector net debt (PSND) fell by 2.4 per cent of GDP between September 2017 and September 2018. 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 from that point) and the continued implications of the Bank of England's August 2016 monetary policy measures (raising PSND by £41.6 billion or 1.9 per cent of GDP in the year to September 2018). Both effects will largely drop out of the year-on-year comparison by the end of the financial year. Liquid assets are unusually high due to the government's cash management operations. These net off PSND and in September were £24 billion up on a year earlier. ONS have also now fully incorporated the impact of moving Scottish housing associations in the private sector this month, reducing PSND in September 2018 by a further £3.4 billion.

## Revisions to outturn data

15. This month the ONS has incorporated a correction to the VAT refund data. VAT refunds exist so that approved public sector organisations can recover the VAT incurred on some types of expenditure. VAT refunds ensure that irrecoverable VAT payments do not generate additional costs for these public sector bodies. The ONS has now included VAT refunds to several organisations that were not previously captured, including the BBC, the NHS, Police and Crime Commissioners, and Academies. This correction has increased both receipts and spending by around £3.4 billion in 2017-18 and is neutral for PSNB as a whole.

## Issues for next month's release

16. October is typically the fourth largest month in the year for HMRC cash receipts. In particular:
  - **For medium and large sized firms**, October typically reflects the second quarterly instalment payment (QIP) of onshore CT in respect of profits in the 2018 calendar year.
  - **For smaller firms**, October typically reflects the balancing payment of onshore CT in respect of profits in the 2017 calendar year.

Table 1.1: Public sector receipts, expenditure and net borrowing<sup>1</sup>

£ billion	September				April to September				Implied October 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	%
<b>Central government (CG) current receipts</b>																
Taxes on production	23.1	22.7	0.4	1.7	139.3	133.3	6.0	4.5	135.8	133.8	2.0	1.5	275.2	267.1	8.1	3.0
Of which: VAT (accrued)	12.4	11.9	0.5	4.5	74.7	70.3	4.4	6.2	70.0	72.1	-2.1	-2.9	144.7	142.4	2.3	1.6
Taxes on income and wealth <sup>1</sup>	17.9	17.2	0.7	4.1	117.0	110.9	6.1	5.5	139.4	135.7	3.6	2.7	256.4	246.7	9.7	3.9
Of which:																
Income tax and CGT (accrued)	12.9	12.1	0.8	6.2	86.8	81.0	5.8	7.2	110.5	107.5	3.0	2.8	197.3	188.5	8.8	4.7
Corporation tax (accrued)	4.9	4.9	-0.1	-1.2	30.1	29.9	0.2	0.8	28.6	28.1	0.5	1.7	58.7	58.0	0.7	1.2
Other taxes	1.6	1.5	0.0	2.5	9.3	9.2	0.1	0.8	8.7	8.6	0.0	0.1	17.9	17.8	0.1	0.5
Compulsory social contributions	10.9	10.6	0.3	3.2	65.1	63.3	1.8	2.8	71.4	69.2	2.2	3.2	136.5	132.5	4.0	3.0
Interest & dividends	1.1	0.8	0.3	38.4	10.4	9.2	1.2	13.4	10.7	9.4	1.3	13.7	21.2	18.7	2.5	13.5
Other receipts	1.9	1.9	0.0	-2.0	11.2	11.4	-0.3	-2.2	11.7	11.4	0.3	2.6	22.8	22.8	0.0	0.2
<b>Total CG current receipts</b>	<b>56.4</b>	<b>54.7</b>	<b>1.7</b>	<b>3.2</b>	<b>352.4</b>	<b>337.4</b>	<b>14.9</b>	<b>4.4</b>	<b>377.6</b>	<b>368.2</b>	<b>9.5</b>	<b>2.6</b>	<b>730.0</b>	<b>705.6</b>	<b>24.4</b>	<b>3.5</b>
<b>CG current expenditure</b>																
Interest payments	2.9	3.7	-0.8	-22.7	26.5	29.6	-3.1	-10.5	26.8	25.5	1.3	5.3	53.3	55.0	-1.8	-3.2
Net social benefits	17.6	17.3	0.3	1.7	106.6	104.2	2.4	2.3	107.3	104.2	3.1	2.9	213.9	208.4	5.5	2.6
CG current grants to LAs	9.2	9.0	0.2	2.4	61.0	59.3	1.7	2.8	54.8	54.8	0.1	0.1	115.8	114.1	1.7	1.5
VAT and GNI-based payments to EU <sup>2</sup>	1.1	0.9	0.2	17.1	5.4	5.5	-0.1	-1.5	4.7	4.7	0.0	0.0	10.1	10.2	-0.1	-0.8
Other CG current expenditure	25.3	24.3	0.9	3.9	150.1	144.6	5.5	3.8	156.1	149.5	6.6	4.4	306.2	294.2	12.0	4.1
<b>Total current expenditure</b>	<b>56.0</b>	<b>55.2</b>	<b>0.8</b>	<b>1.4</b>	<b>349.6</b>	<b>343.3</b>	<b>6.3</b>	<b>1.8</b>	<b>349.7</b>	<b>338.6</b>	<b>11.0</b>	<b>3.3</b>	<b>699.3</b>	<b>681.9</b>	<b>17.4</b>	<b>2.5</b>
Depreciation	1.5	1.5	0.0	0.5	9.3	9.2	0.0	0.3	9.3	9.3	0.0	0.4	18.6	18.5	0.1	0.3
<b>CG current budget deficit</b>	<b>1.2</b>	<b>2.1</b>	<b>-1.0</b>	<b>-44.8</b>	<b>6.5</b>	<b>15.1</b>	<b>-8.6</b>		<b>-18.7</b>	<b>-20.3</b>	<b>1.6</b>	<b>-7.9</b>	<b>-12.1</b>	<b>-5.2</b>	<b>-7.0</b>	
CG net investment	3.4	2.6	0.9	33.7	18.4	17.8	0.6	3.5	24.8	21.8	3.0	13.9	43.2	39.5	3.7	9.2
of which: CG capital grants to LA	0.9	0.7	0.2	31.2	5.6	5.8	-0.2	-3.2	6.2	4.8	1.5	30.7	11.8	10.5	1.3	12.1
<b>CG net borrowing</b>	<b>4.6</b>	<b>4.7</b>	<b>-0.1</b>		<b>24.9</b>	<b>32.8</b>	<b>-8.0</b>	<b>-24.2</b>	<b>6.1</b>	<b>1.5</b>	<b>4.6</b>		<b>31.0</b>	<b>34.3</b>	<b>-3.3</b>	<b>-9.7</b>
Local authorities net borrowing	0.4	1.0	-0.6		-4.9	-2.9	-2.0	67.3	11.4	9.5	1.9	19.9	6.5	6.6	-0.1	-1.3
Public corporations net borrowing	-0.8	-0.7	-0.1		-0.1	0.7	-0.7	-110.5	-0.4	-1.8	1.4		-0.4	-1.1	0.6	-59.1
<b>Public sector net borrowing</b>	<b>4.1</b>	<b>5.0</b>	<b>-0.8</b>	<b>-16.8</b>	<b>19.9</b>	<b>30.6</b>	<b>-10.7</b>	<b>-35.0</b>	<b>17.2</b>	<b>9.2</b>	<b>7.9</b>	<b>85.9</b>	<b>37.1</b>	<b>39.8</b>	<b>-2.8</b>	<b>-6.9</b>
<b>Public sector net investment</b>	<b>3.0</b>	<b>2.9</b>	<b>0.1</b>	<b>3.5</b>	<b>14.4</b>	<b>16.7</b>	<b>-2.3</b>	<b>-13.9</b>	<b>24.6</b>	<b>24.5</b>	<b>0.1</b>	<b>0.2</b>	<b>39.0</b>	<b>41.2</b>	<b>-2.3</b>	<b>-5.5</b>
<b>Public sector current budget</b>	<b>1.1</b>	<b>2.0</b>	<b>-0.9</b>	<b>-46.5</b>	<b>5.5</b>	<b>13.9</b>	<b>-8.4</b>	<b>-60.3</b>	<b>-7.4</b>	<b>-15.3</b>	<b>7.9</b>		<b>-1.9</b>	<b>-1.4</b>	<b>-0.5</b>	<b>33.7</b>

March 2018 EFO forecast published 13 March 2018 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/september2018>

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/>

<sup>2</sup> Net of abatement.