

Commentary on the Public Sector Finances release: August 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the August 2015 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 July 2015 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) in August was £12.1 billion, up £1.4 billion on a year earlier and £2.9* billion higher than market expectations. The main reason for higher borrowing this August was a drop of 0.6 per cent in central government accrued receipts. A 53 per cent fall in self-assessment (SA) income tax receipts more than offset moderate growth in other tax streams such as PAYE income tax, NICs and VAT. The sharp fall in SA receipts reflects the timing of receipts between July and August. Taking the two months together, SA receipts were up slightly on last year.
3. Meeting our July *EFO* forecast for PSNB in 2015-16 would require an £20.6 billion reduction in borrowing over the full financial year. Last month, PSNB for the year-to-date was £7.3 billion lower than last year over the first four months of the year. However, higher borrowing in August and upward revisions to borrowing (particularly from local authorities) for the April to July period mean that year-to-date borrowing is now only £4.4 billion lower than a year ago over the first five months. There is some evidence that local authority borrowing could be higher than assumed in the July *EFO*, given the latest DCLG information on local authority current spending. We will be looking at this carefully in our next forecast. Other elements, such as the growth in central government receipts, are close to their full-year forecast. As illustrated by this month's figures, public finance figures are subject to timing effects and sizeable revisions.

Detailed commentary

4. PSNB was £12.1 billion in August, up £1.4 billion on a year earlier. A £0.3 billion drop in central government accrued receipts and a £1.3 billion rise in central government spending explain the rise in borrowing in August. Borrowing by both local authorities and public corporations were £0.1 billion lower than a year earlier.

¹<http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/august-2015/stb-psf-august-2015.html>

*This figure has been corrected from £1.9 billion since the original release of the PSF commentary.

5. Revisions in this month's release have increased PSNB in the first four months of 2015-16 by £2.2 billion. An upward revision of £2.4 billion in local authority borrowing more than explains the change. Central government spending was revised up by £0.9 billion, largely reflecting higher spending by the Department of Health and the NHS than previously assumed. Receipts were revised up by £0.8 billion.
6. The latest DCLG information for LA current spending in 2014-15 and in the first quarter of 2015-16 suggests higher spending than we had assumed in our July forecast. But this is only based on one quarter of data, and initial estimates are usually subject to considerable revision. We will want to look at all the latest information very carefully before reaching any judgements for public expenditure as a whole as part of our next forecast.
7. As noted earlier, central government accrued receipts fell slightly on a year earlier in August, mainly due to a 53 per cent drop in SA income tax. The second payment on account for 2014-15 SA liabilities was due on 31 July. With the due date at the end of the month, payments are collected in both July and August. In July, SA income tax receipts were up 17.3 on a year earlier and for the two months combined were up 5.4 per cent. The total for July and August will not provide any information about prospects for the year as a whole, as these payments on account are based on last year's tax liabilities. Our July *EFO* forecast for SA income tax assumes a 7.2 per cent rise in receipts in 2015-16 as a whole, including the balancing payments due on 2014-15 liabilities at the end of January 2016. That reflects the strong growth in self-employment in 2014, rising profits and previously announced measures on partnerships and accelerated payments. The drop in SA income tax this month offset rises of around 3 per cent in PAYE income tax, NICs and VAT receipts.
8. For the first five months of 2015-16, central government receipts (excluding APF transfers) increased by 3.9 per cent on a year earlier, close to the 4.1 per cent we expected for the full year in our latest *EFO*. Growth in VAT, SA income tax and stamp duty land tax is lower than our full-year forecasts. Offsetting that, growth in PAYE income tax, NICs and onshore corporation tax have been stronger than our full-year forecasts. PAYE and NICs receipts have been particularly strong in the business services, financial and construction sectors, while the stronger growth in corporation tax is spread between industrial and commercial firms and the financial sector. Receipts from the oil and gas sector continue to be very weak, with petroleum revenue tax (PRT) repayments exceeding gross receipts by £250 million so far in 2015-16 (i.e. PRT has subtracted from overall tax receipts).
9. Total central government spending in August was £1.3 billion higher than a year earlier. Debt interest spending was lower by £0.1 billion, reflecting the monthly path of RPI inflation that affects accrued payments on index-linked gilts. Spending on net social benefits was unchanged, while other current spending was £1.0 billion higher. The overall increase in other current spending reflected a number of smaller increases, including spending by the NHS and FCO and transfers to the EU. Central government net investment rose by £0.4 billion on a year earlier, mainly because net capital spending in August 2014 was reduced due to £0.2 billion capital receipts from asset sales – the final receipts from the sale of the Olympic village.

10. Total central government spending over April to August was £3.4 billion higher than a year earlier, an increase of 1.2 per cent, compared with a 0.7 per cent increase in our forecast for the whole of 2015-16 in our July *EFO*. However the profile of departments' spending varies from year to year and previous months' outturns are often revised.
11. In July, we forecast that public sector net debt (PSND) would fall from 80.8 per cent of GDP at the end of 2014-15 to 80.3 per cent by the end of 2015-16, but PSND in August was still up by 0.9 per cent of GDP from a year earlier. The main reason that we expect PSND to fall as a share of GDP this year is the Government's announced programme of financial asset sales. We expect this to raise £32 billion in 2015-16, but with the proceeds back-loaded towards the end of the year. So far in 2015-16, major asset sales have included the ongoing sales of Lloyds shares (that have totalled around £5½ billion so far this year), sales of shares in Royal Mail and Eurostar (each raising around £¾ billion) and the £2.1 billion sale of RBS shares in early August. This helps to explain why the public sector net cash requirement in the 12 months to August 2015 is currently down by only around £6 billion relative to the preceding 12 months, while we expect it to fall by £22 billion in 2015-16 as a whole.

Table 1: Accrued and cash borrowing measures, and public sector net debt

	August			Full year		
	£ billion			£ billion		
	2015	2014	change	2015-16 forecast	2014-15 outturn	change
Public sector net borrowing ¹	85.6	99.9	-14.3	69.5	90.1	-20.6
CG net cash requirement ex ^{1,2}	87.7	85.1	2.5	71.6	92.3	-20.7
Public sector net cash requirement ¹	64.9	71.2	-6.3	50.8	72.6	-21.8
	Public sector net debt (PSND)					
Public sector net debt	1506	1437	69	1532	1487	45
Public sector net debt (per cent of GDP)	80.6	79.7	0.9	80.3	80.8	-0.5

¹ 12 month rolling total.

² CGNCR excluding NRAM, B&B and Network Rail.

July 2015 *EFO* forecast published 8 July 2015 excluding public sector banks on a National Accounts basis.

Revisions to 2014-15 outturn

12. The ONS has revised up its estimate for 2014-15 by £2.0 billion to £90.1 billion. This is £0.9 billion higher than its estimate at the time of our July *EFO*. The £2 billion increase largely reflects upward revisions of £0.9 billion and £1.3 billion to borrowing by local authorities and public corporations respectively.

Table 2: Public sector receipts, expenditure and net borrowing

£ billion	August		April to August				Implied September to March				July forecast					
	2015	2014	change		2015-16	2014-15	change		2015-16	2014-15	change		2015-16 July EFO	2014-15 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts																
Taxes on production	19.3	19.0	0.2	1.1	97.6	95.2	2.4	2.6	144.8	136.5	8.2	6.0	242.4	231.7	10.7	4.6
Of which: VAT (accrued)	10.4	10.1	0.3	3.1	52.2	50.8	1.3	2.6	77.3	74.1	3.3	4.4	129.5	124.9	4.6	3.7
Taxes on income and wealth	13.3	14.0	-0.7	-5.0	83.3	79.8	3.4	4.3	137.1	132.9	4.3	3.2	220.4	212.7	7.7	3.6
Of which:																
Income tax and CGT (accrued)	11.9	12.3	-0.4	-3.5	65.4	62.9	2.6	4.1	111.2	106.3	4.9	4.6	176.7	169.2	7.5	4.4
Corporation tax	1.4	1.6	-0.2	-14.2	17.7	16.5	1.2	7.2	25.4	26.5	-1.1	-4.0	43.1	43.0	0.1	0.3
Other taxes	1.6	1.6	0.0	2.7	7.9	7.4	0.6	7.7	10.9	10.0	0.8	8.3	18.8	17.4	1.4	8.0
Compulsory social contributions	9.1	8.8	0.3	3.5	46.1	44.0	2.2	4.9	68.7	66.3	2.4	3.6	114.8	110.3	4.6	4.1
Interest & dividends	0.7	0.7	0.0	-3.7	7.7	7.9	-0.2	-2.9	9.7	11.2	-1.5	-13.3	17.4	19.1	-1.7	-9.0
Other receipts	1.8	1.9	-0.1	-5.7	9.4	8.9	0.5	5.8	12.6	13.5	-0.9	-6.6	22.0	22.4	-0.4	-1.7
Total CG current receipts	45.7	45.9	-0.3	-0.6	252.0	243.1	8.9	3.7	383.8	370.5	13.3	3.6	635.8	613.6	22.2	3.6
CG current expenditure																
Interest payments	4.1	4.2	-0.1	-3.5	22.0	21.8	0.1	0.5	24.7	23.3	1.4	6.0	46.7	45.2	1.5	3.3
Net social benefits	16.7	16.7	0.0	0.0	84.7	83.7	1.0	1.2	119.5	118.0	1.5	1.3	204.2	201.7	2.5	1.3
Other	32.6	31.6	1.0	3.2	169.9	168.8	1.1	0.7	233.6	234.5	-0.9	-0.4	403.5	403.3	0.2	0.0
Total current expenditure	53.5	52.6	0.9	1.6	276.5	274.3	2.2	0.8	377.8	375.8	2.0	0.5	654.3	650.1	4.2	0.6
Depreciation	1.5	1.5	0.0	0.7	7.5	7.4	0.1	1.1	11.0	10.5	0.5	4.9	18.5	17.9	0.6	3.3
CG current budget deficit	9.3	8.1	1.1	14.1	32.1	38.7	-6.6	-17.1	5.0	15.8	-10.8	-68.2	37.1	54.5	-17.4	-31.9
CG net investment	2.3	1.8	0.4	24.4	12.5	11.4	1.1	9.7	23.0	24.1	-1.1	-4.6	35.5	35.5	0.0	0.0
CG net borrowing	11.5	10.0	1.6	16.0	44.5	50.0	-5.5	-11.0	28.0	39.9	-11.9	-29.8	72.5	89.9	-17.4	-19.3
Local authorities net borrowing	1.8	2.0	-0.1		-4.4	-6.0	1.6		7.2	9.5	-2.3		2.8	3.5	-0.7	
Public corporations net borrowing	-1.3	-1.2	-0.1		-1.8	-1.2	-0.6		-4.1	-2.2	-1.9		-5.9	-3.4	-2.5	
Public sector net borrowing	12.1	10.7	1.4		38.4	42.8	-4.4	-10.3	31.1	47.3	-16.2	-34.2	69.5	90.1	-20.6	-22.8
Public sector net investment	1.9	1.7	0.3	15.5	7.7	6.7	1.0	15.2	20.9	23.6	-2.6	-11.2	28.6	30.3	-1.6	-5.4
Public sector current budget	10.2	9.1	1.1	12.1	30.7	36.1	-5.4	-15.1	10.2	23.7	-13.5	-57.0	40.8	59.8	-18.9	-31.7

July 2015 EFO forecast published 8 July 2015 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: <http://ons.gov.uk/ons/taxonomy/index.html?nscl=Public+Sector+Finance>

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.independent.gov.uk/July-2015-EFO-234224.pdf>

OBR supplementary fiscal tables: http://budgetresponsibility.org.uk/pubs/Fiscal_Supplementary_Tables-20151.xls