

Commentary on the Public Sector Finances release: September 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the September 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)*.
2. Our next *EFO* will be published on 25 November. We do not plan to publish a commentary on next month's public finances data release given its proximity to our next forecast.

Summary

3. Public sector net borrowing (PSNB) in September was £9.4 billion, down £1.6 billion on a year earlier and £0.7 billion lower than market expectations. The main reason for lower borrowing this September was a 3.9 per cent increase in central government accrued receipts, reflecting rises across the main taxes: PAYE, NICs, onshore corporation tax and VAT.
4. Meeting our July *EFO* forecast for PSNB in 2015-16 would require a £20.6 billion reduction in borrowing over the full financial year. Last month, PSNB for the year-to-date was £4.4 billion lower than last year. Lower borrowing in September and downward revisions to borrowing (from both higher central government receipts and lower central government spending) for the April to August period mean that borrowing is now £7.5 billion lower than a year earlier over the first half of 2015-16. Within the public sector, local authorities' net borrowing is estimated to have increased by £1.6 billion in the first half of the year, which contrasts with the £0.7 billion full-year drop we forecast in July. Provisional local authorities' estimates are often subject to significant revision, but this clearly represents a source of considerable uncertainty for our November forecast.

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/september-2015/index.html>

Detailed commentary

5. PSNB was £9.4 billion in September, down £1.6 billion on a year earlier. A £1.8 billion rise in central government accrued receipts – partly offset by a £0.6 billion rise in central government spending – explains most of the fall in borrowing in September. Borrowing by local authorities was £0.2 billion lower and borrowing by public corporations was £0.1 billion lower.
6. Revisions in this month's release have reduced PSNB in the first five months of 2015-16 by £1.5 billion. Central government spending was revised down by £0.9 billion (largely reflecting revisions by the Department for Education (DfE) and the Department for Health). Central government receipts were revised up by £1.0 billion (reflecting higher cash VAT receipts in September, which are accrued back to earlier months).
7. Central government receipts in September were £1.8 billion higher than a year earlier, reflecting moderate growth in each of the main tax streams: PAYE, NICs, VAT and onshore corporation tax.
8. For the first six months of 2015-16, central government receipts (excluding APF transfers) increased by 4.2 per cent on a year earlier, just above the 4.1 per cent we expected for the full year in our latest *EFO*. Growth in stamp duty land tax receipts is lower than our full-year forecasts, but this is more than offset by growth in PAYE income tax, NICs and onshore corporation tax. 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. The strength in September cash VAT receipts has reversed the weakness seen in earlier months. Growth in accrued VAT receipts for the first half of 2015-16 are now a little above our full-year forecast.
9. Receipts from the oil and gas sector continue to be very weak. Oil and gas firms made a balancing payment on their petroleum revenue tax (PRT) liabilities for the first half of 2015 in September. So far this year, receipts from oil and gas firms have been negative (minus £40 million) as PRT repayments have exceeded corporation tax and gross PRT payments.
10. Total central government spending in September was £0.5 billion higher than a year earlier, comprising a £0.6 billion increase in current spending and £0.1 billion lower capital spending. Debt interest spending was lower by £0.4 billion, reflecting the monthly path of RPI inflation that affects accrued payments on index-linked gilts. Spending on net social benefits and current grants to local authorities were each £0.1 billion higher, while other current spending was £0.8 billion higher. The increase in other current spending reflected a £0.3 billion increase in DfE spending, and a number of smaller increases. Total central government spending over April to September was £3.1 billion higher than a year earlier, an increase of 0.9 per cent, just above the 0.7 per cent increase in our July *EFO* forecast for the whole of 2015-16. Excluding central government grants to local authorities, central government spending over the first six months of the year is 1.9 per cent higher than a year earlier, compared with our forecast of 1.1 per cent for 2015-16 as a whole. It is important to stress that 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 2015-16.² However, PSND in September was still up by 1.1 per cent of GDP on a year earlier. The main reason that we expected PSND to fall as a share of GDP this year is the Government's announced programme of financial asset sales. The forecast included £32 billion in respect of these asset sales in 2015-16, but with the proceeds back-loaded towards the end of the year. Major asset sales in the first six months of 2015-16 have included the ongoing sales of Lloyds shares (that have totalled around £6 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 September 2015 is currently down by only around £17 billion relative to the preceding 12 months, while we expect it to fall by £22 billion in 2015-16 as a whole.

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

	September			Full year		
	£ billion			£ billion		
	2015	2014	change	2015-16 forecast	2014-15 outturn	change
Public sector net borrowing ¹	82.7	100.6	-17.9	69.5	90.1	-20.6
CG net cash requirement ex ^{1,2}	87.4	93.1	-5.8	71.6	92.3	-20.7
Public sector net cash requirement ¹	62.1	78.8	-16.7	50.8	72.6	-21.8
Public sector net debt (PSND)						
PSND (£billion)	1524	1454	71	1532	1487	45
PSND (per cent of GDP)	80.6	79.5	1.1	80.3	80.0	0.3

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.

Issues for next month's release

12. October is an important month for corporation tax. Many medium and large onshore firms will pay the second of four instalment payments on their 2015 profits. Next month's debt numbers will include the effect of further sales of Lloyds shares and the £600 million raised by the final sale of Royal Mail shares. The Royal Mail sale raised less than we had forecast in July, in part because the share price had fallen since July and in part because the Government chose to gift a further 1 per cent of its stake to Royal Mail staff. That gift element will increase public sector net borrowing rather than reducing public sector net debt.

² The ONS revised up the level of nominal GDP in the 2015 Blue Book that was published at the end of September. As a result, PSND as a share of GDP for 2014-15 has been revised down from 80.8 per cent to 80.0 per cent. All else equal, this denominator effect would also reduce our forecast for PSND as a percentage of GDP in 2015-16.

Table 1.2: Public sector receipts, expenditure and net borrowing¹

£ billion	September				April to September				Implied October to March				July forecast			
			change				change				change				change	
	2015	2014	£bn	%	2015-16	2014-15	£bn	%	2015-16	2014-15	£bn	%	2015-16 July EFO	2014-15 outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	19.8	19.6	0.3	1.4	118.4	114.7	3.7	3.2	123.9	116.9	7.0	6.0	242.4	231.6	10.7	4.6
Of which: VAT (accrued)	10.7	10.3	0.3	3.2	63.9	61.2	2.7	4.4	65.6	63.7	1.9	3.0	129.5	124.8	4.6	3.7
Taxes on income and wealth	14.0	13.3	0.6	4.9	97.3	93.2	4.1	4.4	123.1	119.6	3.6	3.0	220.4	212.7	7.7	3.6
Of which:																
Income tax and CGT (accrued)	11.4	11.0	0.4	4.1	76.9	73.8	3.1	4.2	99.8	95.4	4.4	4.6	176.7	169.2	7.5	4.4
Corporation tax	2.5	2.2	0.3	12.7	20.3	18.8	1.5	7.9	22.9	24.2	-1.3	-5.5	43.1	43.0	0.1	0.3
Other taxes	1.6	1.6	0.1	5.0	9.6	8.9	0.6	7.3	9.2	8.5	0.8	8.9	18.8	17.4	1.4	8.0
Compulsory social contributions	9.1	8.8	0.4	4.5	55.2	52.7	2.5	4.7	59.6	57.5	2.1	3.6	114.8	110.3	4.6	4.1
Interest & dividends	1.2	0.8	0.4	59.2	8.9	8.7	0.2	2.2	8.5	10.4	-1.9	-18.3	17.4	19.1	-1.7	-9.0
Other receipts	1.8	1.8	-0.1	-3.7	11.3	10.7	0.6	5.2	10.7	11.7	-0.9	-8.0	22.0	22.4	-0.4	-1.7
Total CG current receipts	47.5	45.8	1.8	3.9	300.5	288.9	11.7	4.0	335.2	324.6	10.6	3.3	635.8	613.5	22.3	3.6
CG current expenditure																
Interest payments	2.6	3.0	-0.4	-14.1	24.5	24.9	-0.3	-1.3	22.1	20.3	1.8	8.9	46.7	45.2	1.5	3.3
Net social benefits	17.1	17.0	0.1	0.7	101.7	100.7	1.0	1.0	102.5	101.0	1.6	1.5	204.2	201.7	2.5	1.3
CG current grants to LAs	9.5	9.4	0.1	1.4	62.5	64.9	-2.5	-3.8	59.7	57.6	2.1	3.7	122.2	122.5	-0.3	-0.3
Other	24.1	23.3	0.8	3.4	140.5	136.5	4.1	3.0	140.7	144.2	-3.5	-2.5	281.3	280.7	0.5	0.2
Total current expenditure	53.3	52.6	0.6	1.2	329.2	327.0	2.2	0.7	325.1	323.1	2.0	0.6	654.3	650.1	4.2	0.6
Depreciation	1.5	1.5	0.0	0.8	9.0	8.9	0.1	1.0	9.5	9.0	0.5	5.6	18.5	17.9	0.6	3.3
CG current budget deficit	7.2	8.4	-1.1	-13.7	37.7	47.0	-9.3	-19.9	-0.6	7.5	-8.1		37.1	54.5	-17.4	-32.0
CG net investment	2.3	2.4	-0.1	-3.2	14.5	13.8	0.7	5.3	21.0	21.7	-0.7	-3.4	35.5	35.5	0.0	0.0
of which: CG capital grants to LA	0.8	0.8	0.0	-4.7	6.4	6.0	0.3	5.6	4.5	6.0	-1.5	-25.3	10.9	12.1	-1.2	-9.8
CG net borrowing	9.5	10.8	-1.2	-11.4	52.2	60.8	-8.6	-14.2	20.3	29.2	-8.8	-30.3	72.5	90.0	-17.5	-19.4
Local authorities net borrowing	1.1	1.3	-0.2		-3.0	-4.7	1.6		5.8	8.2	-2.3		2.8	3.5	-0.7	
Public corporations net borrowing	-1.2	-1.1	-0.1		-2.8	-2.4	-0.5		-3.0	-1.0	-2.0		-5.9	-3.4	-2.5	
Public sector net borrowing	9.4	11.0	-1.6		46.3	53.8	-7.5	-13.9	23.1	36.3	-13.2	-36.3	69.5	90.1	-20.6	-22.9
Public sector net investment	2.1	2.2	-0.1	-3.9	9.9	8.9	1.0	11.1	18.7	21.5	-2.8	-12.9	28.6	30.4	-1.8	-5.9
Public sector current budget	7.3	8.8	-1.5	-16.9	36.4	44.9	-8.4	-18.8	4.4	14.8	-10.4	-70.3	40.8	59.7	-18.8	-31.6

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