Office for
Budget
Responsibility

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Commentary on the Public Sector Finances release: August 2016

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the August 2016 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 2016 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) was £10.5 billion in August, down £0.9 billion on a year earlier and £0.3 billion above market expectations. The main reason for lower borrowing than a year ago was a 7.1 per cent rise in central government receipts, reflecting a large increase in self-assessment (SA) payments that were affected by the timing of receipts between July and August. Taking these two months together, SA receipts were up 10.2 per cent on last year. This was partly offset by a 5.1 per cent rise in central government spending, reflecting increases in debt interest payments, benefit payments and other current and capital spending.

3. Meeting our March *EFO* forecast for PSNB in 2016-17 would require it to fall by £21.0 billion over the full financial year. Five months into the year, PSNB was only £4.9 billion lower than last year. While prospects for the rest of the year are subject to greater uncertainty than usual, due to the result of the EU referendum, it is still worth noting that receipts and spending data are volatile from month to month and the subsequent revisions to initial estimates can be expected. The year-to-date comparison has also been affected by:

   - one-off factors that reduced borrowing in the early months of the last fiscal year that have not been repeated this year. Capital receipts of £0.5 billion from the British Coal staff superannuation scheme reduced net capital spending in April 2015, while £0.6

[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/aug2016

billion of fines levied by the Financial Conduct Authority boosted receipts in May and June 2015; and

- we expect growth in **central government receipts to be end-loaded** during 2016-17. This is primarily because of the Government's decision to pre-announce the dividend tax increase which took effect in April 2016. Taxpayers are likely to have shifted dividend income into 2015-16 to pre-empt the higher rate, boosting receipts with a lag in 2016-17. We estimate that this will increase receipts by £2½ billion this year, which will show up in self-assessment (SA) receipts in January and February 2017.

4. Despite these timing effects, it does appear that growth in PAYE, NICs and stamp duty land tax (SDLT) were slower in the first five months of the year than would be required to meet our March forecast for the year as a whole. But this weakness is not seen across all receipts streams – corporation tax has shown stronger growth so far this year than assumed for the full year, while growth in VAT receipts is in line with our full year forecast.

5. We have now had two full months of data since the UK's referendum on membership of the EU, but it is still too early to assess its impact on the public finances. That said, looking at the three possible early indicators of its effects that we identified in July:

- **July CT receipts** included quarterly instalment payments by large firms that partly reflect their expectations of profits for the whole financial year, most of which falls after the referendum. While July receipts were stronger than expected, much of the strength related to liabilities from previous years, making it difficult to infer any referendum-related effect;

- **SDLT receipts** are sensitive to changes in market sentiment. They are up 10 per cent on a year earlier for the April-to-August period, which is lower than our March forecast for 19 per cent growth over the year as a whole. The shortfall partly reflects a stronger than expected surge of transactions prior to the introduction of an additional 3 per cent surcharge on second home purchases in April. These will have increased receipts in 2015-16 at the expense of 2016-17. Uncertainty around the referendum result also seems to have reduced receipts growth, with falls in receipts from top-end residential and commercial transactions, particularly in London; and

- although public sector **debt interest payments** are higher this August than last year, that reflects a lagged effect from year-on-year differences in the monthly RPI profile. This is because movements in the RPI affect accrued interest on index-linked gilts with a lag. August payments were affected by the 0.25 per cent cut in Bank Rate last month, which reduce the cost of financing the Asset Purchase Facility's liabilities. It will reduce spending by around £0.2 billion over the third quarter. If the drop in the value of the pound since the referendum pushed up RPI inflation via its effect on import prices, that would raise spending associated with index-linked gilts with a lag of three to eight months. Gilt yields have declined further, but this impact will take much longer to manifest itself because of the long-average maturity of the outstanding stock.

Detailed commentary

6. PSNB was £10.5 billion in August, down £0.9 billion on last year. A £3.3 billion rise in central government receipts was partly offset by a £2.9 billion rise in central government spending. Borrowing by local authorities and public corporations were lower than last year, by £0.2 and £0.3 billion respectively.

7. Central government (CG) accrued receipts (excluding APF transfers) in August were up 7.1 per cent on a year earlier. This was driven by strong growth in NICs and self-assessment (SA) receipts. For NICs receipts, that reflects the abolition of the contracting-out rebate from April 2016 (which is expected to raise £5.6 billion over the whole of 2016-17). For SA receipts (up 175 per cent on a year earlier) it reflects a timing effect. The second payment on account for 2015-16 SA liabilities was due on 31 July, but that was a Sunday this year. This means that many more of the payments made on or before the due date scored in August rather than July. July and August receipts together were 10.2 per cent up on last year. These payments relate to 2014-15 liabilities, so will not reflect recent movements in earnings. The biggest SA payment, which relates to 2015-16 liabilities, is due on 31 January.

8. For the first five months of 2016-17, 4.2 per cent growth in central government receipts (excluding APF transfers) was slower than the 5.8 per cent needed to meet our full-year forecast. As set out in paragraph 3, year-to-date receipts growth has been depressed by one-off factors that boosted receipts in early 2015-16, and we expect receipts to be end-loaded this year. Our March 2016 forecast for SA income tax assumes a 24.1 per cent rise in receipts in 2016-17 as a whole, boosted by the forestalling from the pre-announced dividend tax rise. Growth in PAYE IT and NICs receipts of 4.8 per cent in the year-to-date is significantly below our full-year forecast of 7.8 per cent. In contrast, year-to-date CT receipts have risen slightly more so far this year than our full-year forecast assumes, while VAT receipts have increased broadly in line with our forecast.

9. Total CG spending in August was £2.9 billion higher than a year earlier, reflecting a £2.3 billion increase in current spending and a £0.5 billion increase in capital spending. The higher current spending reflected higher debt interest payments (up by £0.7 billion). This reflected differences in the monthly profile of RPI, and higher net social benefits (also up £0.7 billion). The latter reflected differences in the timing of payments of pensions and some disability benefits. Other current spending on public services was also higher by £0.8 billion, or 3.0 per cent. This was a little lower than the 4.5 per cent increase expected for the year as a whole in our March *EFO*, but the profile of monthly payments will change between years.

10. For the first five months of the financial year, total CG spending excluding grants to local authorities increased by 2.9 per cent, a little lower than our forecast (on a like-for-like basis) of 3.3 per cent for 2016-17 as a whole. Current and capital grants to local authorities were £2.6 billion lower over the first five months. This mainly reflects the expected reductions in the Revenue Support Grant, where the initial payments of grants were £3.0 billion lower in April this year. Reductions in CG grants are likely to have an offsetting effect on local authority borrowing in the short term.

11. Public sector net debt (PSND) in August as a share of GDP was flat on last year. The year-on-year comparison has been helped by large gilt auction premia (due to the fall in gilt yields, particularly on index-linked gilts) and revaluation effects from the unhedged components of the official foreign currency reserves (due to the fall in sterling). Much of the nominal GDP denominator used in the ratio remains a forecast,[2] so this is likely to be revised in future. Our March forecast assumed a 1.1 per cent of GDP fall in PSND between the end of 2015-16 and the end of 2016-17. That reflected a further expected fall in borrowing and the Government's announced programme of financial asset sales, which was expected to raise £21 billion in 2016-17. So far this year, the PSND figure has been reduced by only £0.5 billion by asset sales, reflecting the balancing payment on the sale of the Granite securitisation vehicle relating to former Northern Rock mortgages. Any effects of post-referendum financial market volatility or other factors on the Government's plans for financial asset sales – and the proceeds they might generate – will be factored into our next forecast in November.

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

	August			Full year		
	£ billion			£ billion		
	2016	2015	change	2016-17 forecast	2015-16 outturn	change
Public sector net borrowing[1]	71.6	89.2	-17.7	55.5	76.5	-21.0
CG net cash requirement ex[1,2]	84.2	87.5	-3.3	62.1	78.4	-16.3
Public sector net cash requirement[1]	46.0	70.3	-24.3	58.1	52.2	5.9
Public sector net debt (PSND)						
PSND (£ billion)	1622	1570	52	1638	1602	36
PSND (per cent of GDP)	83.6	83.6	0.0	82.6	84.2	-1.6

[1] 12 month rolling total.

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

March 2016 EFO forecast published 16 March 2016 excluding public sector banks on a National Accounts basis.

Revisions to 2015-16 outturns

12. The ONS has revised PSNB up by £1.2 billion in 2015-16, largely reflecting the latest provisional outturn data for expenditure. For total central government spending, that is now £704.5 billion (£0.3 billion lower than the comparable total that we forecast in March). The latest estimate also reflects provisional outturns for local authority net current expenditure in England (£111.7 billion, which is £1.3 billion higher than our March forecast) and local authority capital spending in England (£19.1 billion, which is £1.0 billion higher than our March forecast). We will examine the performance of our local authority spending forecasts along with all our other forecasts in our *Forecast evaluation report* next month.

[2] For the full financial year, the GDP denominator used in the PSND to GDP ratio is centred end-March. For the end of 15-16, this would be sum of the fourth quarter of 2015 and the first three quarters of 2016. The denominator for the end-June 2016 ratio would be the sum of the four quarters of 2016.

Table 1.2: Public sector receipts, expenditure and net borrowing[1]

£ billion	August				April to August				Implied September to March				March forecast			
			change				change				change		2016-17	2015-16	change	
	2016	2015	£bn	%	2016-17	2015-16	£bn	%	2016-17	2015-16	£bn	%	March EFO	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	20.6	19.8	0.8	3.9	102.8	99.1	3.7	3.7	150.5	142.5	7.9	5.6	253.3	241.7	11.6	4.8
Of which: VAT (accrued)	11.0	10.9	0.1	0.7	55.3	53.5	1.8	3.4	79.5	77.0	2.5	3.2	134.8	130.5	4.3	3.3
Taxes on income and wealth	15.1	13.5	1.6	12.0	86.6	83.2	3.3	4.0	146.3	137.3	9.0	6.6	232.9	220.5	12.3	5.6
Of which:																
Income tax and CGT (accrued)	13.6	12.2	1.5	12.0	68.0	65.4	2.6	3.9	121.1	110.5	10.6	9.6	189.1	175.9	13.2	7.5
Corporation tax	1.6	1.4	0.2	15.1	18.7	17.8	0.9	5.2	24.8	26.6	-1.9	-7.0	43.5	44.4	-0.9	-2.1
Other taxes	1.5	1.6	-0.2	-9.6	7.7	7.9	-0.2	-2.5	10.4	10.8	-0.4	-3.5	18.1	18.6	-0.6	-3.1
Compulsory social contributions	9.9	9.2	0.8	8.2	49.7	46.1	3.6	7.8	76.8	67.3	9.4	14.0	126.5	113.4	13.0	11.5
Interest & dividends	0.8	0.6	0.2	33.7	8.3	7.5	0.8	10.3	10.6	9.7	0.9	9.3	18.9	17.2	1.7	9.8
Other receipts	1.9	1.8	0.1	5.8	9.6	9.7	-0.1	-1.2	13.5	12.8	0.7	5.3	23.0	22.5	0.6	2.5
Total CG current receipts	**49.8**	**46.5**	**3.3**	**7.1**	**264.6**	**253.5**	**11.1**	**4.4**	**408.0**	**380.4**	**27.6**	**7.2**	**672.6**	**633.9**	**38.6**	**6.1**
CG current expenditure																
Interest payments	4.7	4.0	0.7	17.9	22.5	21.5	1.1	5.1	25.3	23.7	1.6	6.7	47.8	45.1	2.7	5.9
Net social benefits	17.4	16.6	0.7	4.4	85.6	84.7	0.9	1.1	120.3	118.8	1.5	1.2	205.9	203.5	2.4	1.2
CG current grants to LAs	8.7	8.6	0.1	1.5	49.9	53.4	-3.6	-6.7	64.9	64.6	0.4	0.5	114.8	118.0	-3.2	-2.7
Other	24.3	23.6	0.7	3.0	119.5	115.7	3.8	3.3	179.2	170.2	9.0	5.3	298.7	285.9	12.8	4.5
Total current expenditure	**55.1**	**52.8**	**2.3**	**4.3**	**277.4**	**275.2**	**2.2**	**0.8**	**389.7**	**377.3**	**12.4**	**3.3**	**667.1**	**652.5**	**14.6**	**2.2**
Depreciation	1.6	1.5	0.1	7.0	8.2	7.6	0.6	7.4	11.4	10.8	0.7	6.2	19.6	18.3	1.2	6.7
CG current budget deficit	**7.0**	**7.9**	**-0.9**		**21.0**	**29.3**	**-8.3**	**-28.3**	**-6.9**	**7.6**	**-14.5**		**14.1**	**36.9**	**-22.8**	**-61.7**
CG net investment	2.6	2.1	0.5	23.9	14.2	12.7	1.5	11.8	24.6	20.9	3.7	17.7	38.9	33.7	5.2	15.5
of which: CG capital grants to LA	0.7	0.7	0.1	9.0	6.3	5.4	1.0	18.1	7.7	6.5	1.2	19.0	14.0	11.8	2.2	18.6
CG net borrowing	**9.6**	**10.0**	**-0.4**	**-4.0**	**35.3**	**42.1**	**-6.8**	**-16.1**	**17.7**	**28.5**	**-10.8**	**-37.8**	**53.0**	**70.6**	**-17.6**	**-24.9**
Local authorities net borrowing	1.9	2.1	-0.2		-2.2	-4.0	1.8		4.7	10.1	-5.4	-53.1	2.5	6.1	-3.5	
Public corporations net borrowing	-1.0	-0.7	-0.3	50.1	0.7	0.6	0.1		-0.7	-0.8	0.1	-6.8	0.0	-0.1	0.1	
Public sector net borrowing	**10.5**	**11.5**	**-0.9**	**-8.1**	**33.8**	**38.7**	**-4.9**	**-12.7**	**21.7**	**37.8**	**-16.1**	**-42.5**	**55.5**	**76.5**	**-21.0**	**-27.4**
Public sector net investment	**2.9**	**2.5**	**0.5**	**18.7**	**10.9**	**10.5**	**0.4**	**4.3**	**25.5**	**22.9**	**2.5**	**11.0**	**36.4**	**33.4**	**3.0**	**8.9**
Public sector current budget	**7.6**	**9.0**	**-1.4**		**22.9**	**28.2**	**-5.3**	**-18.9**	**-3.7**	**14.9**	**-18.6**		**19.1**	**43.1**	**-23.9**	

March 2016 EFO forecast published 16 March 2016 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/aug2016
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://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-march-2016/
OBR supplementary fiscal tables: http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-supplementary-fiscal-tables-march-2016/