

# Commentary on the Public Sector Finances release: August 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the August 2017 Public Sector Finances this morning.<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 2017 *Economic and fiscal outlook (EFO)*. The 2016-17 estimates in today's release will provide the outturn against which we will assess our March 2015 and March 2016 forecasts in our forthcoming *Forecast evaluation report*, which will be published on 10 October.

## Summary

2. Public sector net borrowing (PSNB) was £5.7 billion in August, down £1.3 billion on a year earlier and £1.4 billion below market expectations. This primarily reflected the drop in central government (CG) borrowing where a rise in receipts of £1.8 billion was only partly offset by a modest £0.4 billion rise in spending.
3. Over the first five months of 2017-18, PSNB was £0.2 billion lower than last year. Our March forecast was for borrowing of £58.3 billion in 2017-18 as a whole, £12.6 billion higher than the latest estimated outturn for 2016-17 and £6.5 billion higher than the forecast for 2016-17 we published in March.
4. The latest estimated outturns in today's release factor in a number of methodological, classification and other changes, most of which the ONS will include in Blue Book 2017. These changes were not included in our March *EFO*, so will be reflected in our next *EFO* when it is published alongside the Chancellor's Autumn Budget on 22 November. Together these changes reduced the latest estimate for 2016-17 PSNB by £2.7 billion, but the inclusion of new data on CG spending and English local authorities' borrowing more than offset that to leave PSNB in 2016-17 £0.5 billion higher than was estimated last month. But at £45.6 billion, it is still £6.1 billion lower than we forecast in March. These changes will also have affected the latest estimates for 2017-18 in the year to date.

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<sup>1</sup> <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/august2017>

## Detailed commentary

5. Public sector net borrowing (PSNB) was £5.7 billion, down £1.3 billion on a year earlier. A £1.8 billion rise in CG receipts was much higher than the £0.4 billion rise in CG spending. Borrowing by local authorities was £0.1 billion lower while borrowing by public corporations was £0.3 billion higher compared with last year.
6. Relative to the same period last year, CG receipts (excluding APF transfers) were up 3.5 per cent in August and up 3.7 per cent year-to-date. These compare with our full-year forecast for a 2.4 per cent rise. Over the first five months of 2017-18, PAYE income tax and NICs receipts have risen faster than our full-year forecast (4.0 versus 2.9 per cent), but this may be because PAYE and NICs receipts were subdued in the first half of 2016-17 rather than signalling stronger-than-expected performance this year. SA receipts are expected to fall this year as the boost to 2016-17 from dividend income shifting (see Box 4.3 of our March *EFO*) will not be repeated this year. But that will only be seen in the data in early 2018, so we would expect CG receipts growth to outpace our full-year forecast until January and February next year.
7. Receipts growth in August primarily reflected rises in PAYE income tax, NICs and VAT. In contrast, SA income tax receipts were down sharply on a year ago – a possibility we flagged in last month's commentary. The second payment-on-account for 2016-17 SA liabilities was due on 31 July (a Monday in 2017) and it is likely that more of these payments were received in July rather than in August compared with last year (when 31 July was a Sunday). While August SA receipts were down 22 per cent on last year, across July and August combined, they were up 4.4 per cent. But this does not provide any meaningful information about prospects for the year as a whole, as these payments are estimated using 2015-16 tax liabilities.
8. Total CG spending (excluding grants to local authorities) was £0.6 billion (1.3 per cent) higher than last August. The main source of increase was other current and capital spending (up £1.0 billion or 3.9 per cent on last year), mainly from higher departmental spending. Net social benefits spending was up £0.3 billion (1.9 per cent), mainly DWP-administered benefits. Partly offsetting this was a £0.5 billion (56 per cent) drop in net transfers to EU institutions, which reflected lower net payments this August because of the surplus on the 2016 EU budget. These surplus-related reductions vary in size and timing from year to year, with this year's being larger than the average of recent years. Although most of the effect happened in August, we expect some further reductions by the end of 2017. Overall, the effect could be around  $\frac{3}{4}$  billion larger than we assumed in our March *EFO*. For our November forecast, we will consider what this implies for the EU budget and our forecast for the UK's transfers to EU institutions. CG debt interest spending was also down £0.2 billion (3.8 per cent) on last August, reflecting volatility in the monthly path of RPI, which affects accrued interest on index-linked gilts.
9. For the year-to-date, CG spending (excluding grants to local authorities) was up by £10.8 billion (4.4 per cent). This is a slightly slower rise than our full-year forecast of 4.9 per cent. The departmental data can be volatile and subject to large revisions, as we have seen this month in respect of 2016-17 (set out below).

10. Public sector net debt (PSND) increased by 4.8 per cent of GDP between August 2016 and August 2017. This rise was more than explained by the implementation of the Bank of England's package of monetary policy measures announced last August, which has raised PSND by around £103 billion. The Term Funding Scheme (TFS) accounts for £83 billion of this rise. Our March PSND forecast assumed a total TFS drawdown of £90 billion by the end of 2017-18 (versus the £100 billion limit that was then in place). The Bank's Monetary Policy Committee has since decided to raise the TFS limit to £115 billion, which we will factor into our November forecast. PSND excluding the Bank of England was down 0.5 per cent of GDP compared with last August.

## Revisions to 2016-17 outturns

11. The ONS has revised its estimate of PSNB in 2016-17 up by £0.5 billion since last month's release – this followed a series of downward revisions that left last month's estimate £6.9 billion below the initial estimate published in April. This month's upward revision reflects:
  - **provisional outturn data for central government spending** (consistent with the Treasury's 2017 Public Expenditure Statistical Analysis), which raises CG spending and PSNB by £2.0 billion; and
  - **provisional outturns for local authority current and capital expenditure** in England (consistent with recent DCLG releases), which raise local authority spending and PSNB by £1.6 billion.
12. These upward revisions are partly offset by the incorporation of a number of methodological, classification and other changes that the ONS flagged in last month's release. These reduce PSNB in 2016-17 by £2.7 billion. They include revisions to estimates of unfunded and funded pension schemes, the inclusion of the 'victim surcharge' (a type of fine that represents a source of income for the Ministry of Justice) and other sources of departmental income, and changes relating to Rail for London and Tube Lines Ltd (which will be included in a future Blue Book). The implications of these changes will be factored into our November forecast as we were not able to anticipate their effects in March.
13. Despite this month's upward revision to 2016-17 PSNB, the latest estimate remains £6.1 billion below our March forecast. Correcting for the effect of environmental levies not yet included in ONS outturns, which lower both receipts and spending by £1.6 billion, Table 1.1 provides a comparison of latest 2016-17 outturns with our March forecast. Stronger-than-expected receipts explain most of the difference, with that strength spread across income tax, NICs, VAT and onshore corporation tax.

Table 1.1: Breakdown of the difference between the March 2017 forecast and latest outturn

	£ billion
	2016-17
<b>March 2017 forecast</b>	<b>51.7</b>
<b>Outturn<sup>1</sup></b>	<b>45.6</b>
Difference	-6.1
<i>of which:</i>	
Measurement differences <sup>2</sup>	0.3
IT and NICs receipts	-3.5
VAT receipts	-0.9
Corporation tax receipts	-0.8
Other receipts	-1.2
CG spending	-1.1
LA net borrowing	0.5
PC net borrowing	0.7

Note: This table shows impacts on PSNB, i.e. higher-than-expected receipts reduces net borrowing.

<sup>1</sup>Reflects methodological and classification changes not anticipated in our March 2017 forecast.

<sup>2</sup>Our March 2017 forecast included various items where we anticipated future revisions or classification changes that the ONS had previously announced that it will include in the public finance statistics, but have not done so yet. Box 4.1 of our November 2015 Economic and fiscal outlook discusses some of these differences in further detail.

Table 1.2: Public sector receipts, expenditure and net borrowing<sup>1</sup>

£ billion	August				April to August				Implied September to March				March forecast			
	2017	2016	change		2017-18	2016-17	change		2017-18	2016-17	change		2017-18 EFO	2016-17 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
<b>Central government (CG) current receipts</b>																
Taxes on production	22.0	20.9	1.2	5.6	108.0	103.4	4.6	4.5	156.3	149.6	6.7	4.5	264.3	252.9	11.4	4.5
Of which: VAT (accrued)	11.6	11.0	0.6	5.6	56.5	54.8	1.7	3.1	82.8	80.6	2.2	2.7	139.3	135.4	3.9	2.9
Taxes on income and wealth <sup>1</sup>	18.0	18.2	-0.2	-1.2	93.6	92.1	1.5	1.6	146.3	149.4	-3.1	-2.1	239.9	241.5	-1.6	-0.7
Of which:																
Income tax and CGT (accrued)	13.2	13.2	-0.1	-0.6	69.6	68.1	1.4	2.1	114.5	117.5	-3.0	-2.6	184.0	185.6	-1.6	-0.9
Corporation tax (accrued)	4.8	5.1	-0.2	-4.3	24.0	24.1	-0.1	-0.3	31.5	31.8	-0.3	-1.0	55.5	55.9	-0.4	-0.7
Other taxes	1.5	1.5	0.0	3.1	7.8	7.3	0.4	6.0	11.4	10.1	1.3	12.6	19.1	17.4	1.7	9.8
Compulsory social contributions	10.4	9.8	0.6	5.8	52.6	50.3	2.3	4.6	77.7	75.6	2.1	2.7	130.3	125.9	4.4	3.5
Interest & dividends	0.9	0.6	0.2	39.7	8.9	8.0	0.8	10.4	11.5	10.5	1.0	9.2	20.3	18.5	1.8	9.7
Other receipts	1.9	1.9	0.0	2.2	9.6	9.3	0.3	3.3	13.7	13.8	0.0	-0.2	23.3	23.0	0.3	1.2
<b>Total CG current receipts</b>	<b>54.6</b>	<b>52.8</b>	<b>1.8</b>	<b>3.5</b>	<b>280.4</b>	<b>270.4</b>	<b>10.0</b>	<b>3.7</b>	<b>416.8</b>	<b>408.9</b>	<b>7.9</b>	<b>1.9</b>	<b>697.3</b>	<b>679.3</b>	<b>17.9</b>	<b>2.6</b>
<b>CG current expenditure</b>																
Interest payments	4.6	4.8	-0.2	-3.8	26.3	22.5	3.8	17.0	29.5	26.2	3.3	12.6	55.8	48.7	7.1	14.6
Net social benefits	17.6	17.3	0.3	1.9	87.0	85.4	1.5	1.8	122.5	119.0	3.5	2.9	209.5	204.5	5.0	2.5
CG current grants to LAs	8.4	8.6	-0.1	-1.6	50.2	50.6	-0.3	-0.7	66.6	63.8	2.8	4.5	116.8	114.4	2.5	2.2
VAT and GNI-based payments to EU <sup>2</sup>	0.4	0.9	-0.5	-56.4	4.6	3.6	1.0	27.6	7.6	5.9	1.7	28.2	12.2	9.6	2.7	28.0
Other CG current expenditure	23.8	23.4	0.4	1.8	119.8	116.9	2.9	2.5	174.1	167.9	6.2	3.7	293.9	284.8	9.1	3.2
<b>Total current expenditure</b>	<b>54.8</b>	<b>54.9</b>	<b>-0.1</b>	<b>-0.1</b>	<b>287.9</b>	<b>279.0</b>	<b>8.9</b>	<b>3.2</b>	<b>400.4</b>	<b>382.9</b>	<b>17.5</b>	<b>4.6</b>	<b>688.3</b>	<b>661.9</b>	<b>26.4</b>	<b>4.0</b>
Depreciation	1.5	1.5	0.0	1.0	7.7	7.6	0.1	1.1	12.1	10.7	1.4	13.2	19.8	18.3	1.5	8.2
<b>CG current budget deficit</b>	<b>1.7</b>	<b>3.6</b>	<b>-1.9</b>		<b>15.2</b>	<b>16.2</b>	<b>-1.0</b>	<b>-6.3</b>	<b>-4.3</b>	<b>-15.3</b>	<b>11.0</b>	<b>-71.9</b>	<b>10.9</b>	<b>0.9</b>	<b>10.0</b>	
CG net investment	2.6	2.1	0.5	22.7	14.8	14.1	0.8	5.4	25.9	23.3	2.6	11.2	40.7	37.4	3.4	9.0
of which: CG capital grants to LA	0.5	0.5	-0.1	-10.8	5.0	5.7	-0.7	-12.4	5.8	5.3	0.6	10.9	10.8	10.9	-0.1	-1.2
<b>CG net borrowing</b>	<b>4.4</b>	<b>5.8</b>	<b>-1.4</b>		<b>30.0</b>	<b>30.2</b>	<b>-0.3</b>	<b>-0.8</b>	<b>21.6</b>	<b>8.0</b>	<b>13.6</b>		<b>51.6</b>	<b>38.2</b>	<b>13.4</b>	<b>34.9</b>
Local authorities net borrowing	1.9	2.0	-0.1		-3.4	-2.8	-0.6	21.2	9.6	10.7	-1.1	-10.2	6.2	7.9	-1.7	-21.4
Public corporations net borrowing	-0.6	-0.9	0.3		1.7	1.1	0.7	62.2	-1.3	-1.6	0.3	-19.4	0.5	-0.5	1.0	-198.0
<b>Public sector net borrowing</b>	<b>5.7</b>	<b>6.9</b>	<b>-1.3</b>		<b>28.3</b>	<b>28.5</b>	<b>-0.2</b>	<b>-0.7</b>	<b>30.0</b>	<b>17.1</b>	<b>12.8</b>	<b>74.9</b>	<b>58.3</b>	<b>45.6</b>	<b>12.6</b>	<b>27.7</b>
<b>Public sector net investment</b>	<b>3.4</b>	<b>2.6</b>	<b>0.8</b>	<b>32.5</b>	<b>13.8</b>	<b>11.6</b>	<b>2.2</b>	<b>18.7</b>	<b>26.3</b>	<b>26.2</b>	<b>0.1</b>	<b>0.2</b>	<b>40.1</b>	<b>37.9</b>	<b>2.2</b>	<b>5.9</b>
<b>Public sector current budget</b>	<b>2.2</b>	<b>4.3</b>	<b>-2.1</b>	<b>-48.4</b>	<b>14.5</b>	<b>16.9</b>	<b>-2.4</b>	<b>-14.0</b>	<b>3.7</b>	<b>-9.1</b>	<b>12.8</b>		<b>18.2</b>	<b>7.8</b>	<b>10.4</b>	<b>134.1</b>

March 2017 EFO forecast published 08 March 2017 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/august2017>

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.org.uk/March2017EFO-231.pdf>

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

Figures shown for the March EFO for 2017-18 do not include the methodological and classification changes included in the latest outturns (from the Statistical Bulletin on the August 2017 Public Sector Finances), and this will also affect the implied figures calculated for September to March 2017-18.