

Commentary on the Public Sector Finances release: August 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the August 2018 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 2018 *Economic and fiscal outlook (EFO)*.

Headlines

2. Public sector net borrowing (PSNB) was £6.8 billion in August, up £2.4 billion on a year earlier and £3.4 billion above market expectations of £3.4 billion. A £0.9 billion rise in central government (CG) receipts was more than offset by a £3.9 billion rise in CG spending. Borrowing by local authorities was £0.5 billion lower than a year earlier, while borrowing by public corporations was down £0.1 billion.
3. Despite higher borrowing in August, PSNB in the first five months of 2018-19 was £7.8 billion lower than over the same period last year at £17.8 billion. Our March forecast was for borrowing of £37.1 billion in 2018-19 as a whole, £8.1 billion lower than the forecast for 2017-18 we published in March and £2.8 billion lower than the latest estimated outturn.
4. The substantial fall in borrowing so far in 2018-19 is largely due to slower growth in CG spending than we forecast in March, but CG receipts growth (excluding APF transfers) is also fractionally stronger than our full-year forecast. Year-to-date CG spending (excluding grants to local authorities) is up just 1.7 per cent, compared with our full-year forecast of a 3.1 per cent rise (on a like-for-like basis). Year-to-date CG receipts are up 4.0 per cent versus our full-year forecast of 3.7 per cent (again on a like-for-like basis).
5. The main factors behind the drop in borrowing so far this year include:

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/august2018>

- **Stronger year-on-year growth in PAYE income tax, NICs and VAT receipts**, reflecting stronger growth in employment and the summer pick-up in consumer spending.
 - **Slower growth in departmental current spending** early in 2018-19. These data remain very provisional, so it is still too early in the financial year to draw meaningful conclusions about trends in departmental spending for the year as a whole.
 - **Timing effects reducing transfers to EU institutions**, which we expect to unwind.²
 - **Lower debt interest payments**, reflecting lower RPI inflation earlier in the year.
6. Alongside this month's release, the ONS has incorporated firmer data for local authority borrowing and CG spending in 2017-18. Borrowing by local authorities was little changed from the ONS's previous estimate, so was £2.8 billion lower than our March estimate since we had expected to see the provisional ONS estimate revised up. The surprise relative to our March forecast comes from local authorities' current spending falling short of their income leading them to add to their reserves in 2017-18 when we had expected them to draw them down again as they did in 2015-16 and 2016-17. CG spending was revised up by £0.5 billion, reflecting firmer departmental data in line with the latest statistical release.

Detailed commentary

Borrowing

7. Public sector net borrowing (PSNB) in August was £6.8 billion, up £2.4 billion on a year earlier. A £0.9 billion rise in CG receipts was more than offset by a £3.9 billion rise in CG spending. Borrowing by local authorities was down £0.5 billion on last year, while borrowing by public corporations was down £0.1 billion.

Receipts

8. Relative to the same period last year, CG receipts (excluding APF transfers) were up 1.6 per cent in August and up 4.0 per cent year-to-date, a little above our full-year forecast of a 3.7 per cent rise on a like-for-like basis. Over the first five months of 2018-19, the two largest tax streams have performed more strongly than our full-year forecasts. PAYE income tax and NICs receipts have risen faster than our full-year forecast (4.1 versus 2.9 per cent), as have VAT receipts (5.6 versus 4.0 per cent). In cash terms, onshore corporation tax receipts have also risen faster in the year to date than our full-year forecast (9.4 versus 2.1 per cent). By contrast, stamp duty land tax (SDLT) receipts are down 8.5 per cent year-to-date, compared with our full-year forecast of a 1.1 per cent fall. This reflects lower-than-expected residential transactions and a weaker London housing market – 40 per cent of residential SDLT receipts in 2016-17 (the latest year for which data are available) were accounted for by transactions in London.

² Transfers to EU institutions refer to the UK's VAT- and GNI-based contributions to the EU budget, net of the abatement.

9. Receipts growth in August primarily reflected rises in PAYE income tax, NICs and VAT (each up by £0.4 billion respectively), while SA income tax receipts were broadly flat on a year ago. The second payment-on-account for 2017-18 SA liabilities was due in July, although it is possible that some of these payments were received in August. Across July and August combined, SA receipts were up 10.3 per cent on a year earlier. But this does not provide any meaningful information about prospects for the year as a whole, since these payments are derived mechanically from the 2016-17 tax liabilities that underpinned January 2018 receipts. By contrast, tobacco receipts were weak in August – down by £0.3 billion. Year-on-year comparisons are currently being distorted by last year's change in the timing of duty uprating due to the Chancellor moving the Budget to the autumn.

Spending

10. Total CG spending (excluding grants to local authorities) in August was £3.6 billion (7.3 per cent) higher than last year. This rise reflects increases across several spending lines. Other current and capital spending was up £2.2 billion (8.4 per cent), mainly from higher departmental spending, including on public sector pay. Net social benefits spending was up £0.7 billion (3.9 per cent) due to rises across several DWP-administered benefits. Net transfers to EU institutions were also up, by £0.6 billion, due to the timing of the reimbursement of the 2016 EU budget surplus, which affected the profile of payments in 2017. CG debt interest spending was up £0.2 billion (4.1 per cent) on last August, reflecting the monthly path of RPI, which affects accrued interest on index-linked gilts.
11. For the year to date, CG spending (excluding grants to local authorities) was up £4.3 billion (1.7 per cent). This is below our full-year forecast of 3.1 per cent growth (on a like-for-like basis), partly thanks to lower debt interest spending earlier in the year and the EU-related timing effects. 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 highly provisional and subject to future revision, as we have seen this month in respect of 2017-18 (as set out below).

Debt

12. Public sector net debt (PSND) fell by 1.8 per cent of GDP between August 2017 and August 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 £48.8 billion or 2.3 per cent of GDP in the year to August 2018). Both effects will 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 August were up £4 billion on a year earlier.

Revisions to 2017-18 outturns

13. The ONS has revised its estimate of PSNB in 2017-18 up by £0.5 billion since last month's release. This latest estimate is £0.6 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 2018 Public Expenditure Statistical Analyses (PESA) publication) has led to CG spending and PSNB being revised up by £0.5 billion.
 - **Provisional outturns for local authority current and capital expenditure** in England (consistent with recent MHCLG releases), which reduce local authority spending and PSNB by £0.1 billion.
14. The PESA-consistent CG expenditure data now reflect provisional, but not final, outturn estimates. Both current and capital spending were revised up, increasing PSNB by £0.5 billion overall. Borrowing by local government has been revised down by £0.1 billion, which reflects two partly offsetting factors: local authorities' current spending fell short of income, allowing them to add to their reserves, but they borrowed significantly to finance capital expenditure. Relative to the assumptions in our March forecast, the latest provisional data show £2.8 billion lower local authority borrowing than we had expected, with the previous ONS estimates subject to much smaller revisions than we had anticipated. These data remain subject to future revisions.
15. Despite this month's upward revision to 2017-18 PSNB, the latest estimate remains £5.3 billion below our March forecast. Abstracting from the effect of environmental levies not yet included in ONS outturns, which lower receipts by £2.0 billion and spending by £1.7 billion, Table 1.1 provides a comparison of latest 2017-18 outturns with our March forecast. The £5.7 billion like-for-like difference mainly reflects weaker CG spending and net borrowing by local authorities.

Table 1.1: Breakdown of the difference between the March 2018 forecast and latest outturn

	£ billion
	2017-18
March 2018 forecast	45.6
Outturn	39.9
Difference	-5.7
of which:	
Measurement differences ¹	0.4
IT and NICs receipts	0.6
VAT receipts	0.6
Corporation tax receipts	-1.2
Other CG receipts	-0.3
CG spending	-2.6
LA net borrowing	-2.8
PC net borrowing	-0.2

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

¹Our March 2018 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.

Issues for next month's release

16. The ONS has signalled several classification changes that will be included in the public sector finance release next month:
- **VAT refunds:** several public sector organisations can recover the VAT incurred on some types of expenditure. These refunds ensure that irrecoverable VAT payments do not generate additional costs for these public sector bodies. From next month, the ONS will include VAT refunds to several organisations that were not previously included in the data, including the BBC, the NHS, Police and Crime Commissioners, and Academies. These will increase both receipts and spending by around £3.4 billion, so are largely neutral for PSNB.
 - **HMRC fines and penalties:** the ONS has investigated the recording of fines and penalties collected by HMRC for late tax payments, identifying around £0.7 billion that were not correctly recorded in 2017-18. Including these will increase CG receipts and reduce PSNB.

Table 1.2: Public sector receipts, expenditure and net borrowing¹

£ billion	August				April to August				Implied September 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	%
Central government (CG) current receipts																
Taxes on production	22.4	22.4	0.0	-0.1	113.7	109.3	4.3	4.0	161.5	154.5	7.0	4.5	275.2	263.8	11.3	4.3
Of which: VAT (accrued)	12.1	11.7	0.4	3.0	60.3	57.1	3.2	5.6	84.4	82.0	2.3	2.8	144.7	139.1	5.6	4.0
Taxes on income and wealth ¹	18.3	18.0	0.3	1.7	97.7	93.8	3.9	4.1	158.7	152.9	5.7	3.8	256.4	246.8	9.6	3.9
Of which:																
Income tax and CGT (accrued)	13.3	12.7	0.6	4.7	72.7	68.8	3.9	5.6	124.6	119.7	4.9	4.1	197.3	188.5	8.8	4.7
Corporation tax (accrued)	5.0	5.3	-0.2	-4.7	25.0	25.0	0.0	-0.1	33.7	33.0	0.7	2.0	58.7	58.1	0.6	1.1
Other taxes	1.6	1.5	0.0	2.7	7.7	7.7	0.0	0.5	10.2	10.2	0.0	0.5	17.9	17.8	0.1	0.5
Compulsory social contributions	10.7	10.2	0.4	4.0	55.0	52.8	2.3	4.3	81.5	79.8	1.8	2.2	136.5	132.5	4.0	3.0
Interest & dividends	0.8	0.7	0.1	16.8	9.4	8.4	0.9	10.9	11.8	10.2	1.6	15.7	21.2	18.7	2.5	13.5
Other receipts	1.9	1.9	0.0	0.8	9.3	9.5	-0.2	-1.9	13.5	13.3	0.2	1.7	22.8	22.8	0.0	0.2
Total CG current receipts	55.6	54.7	0.9	1.6	292.8	281.6	11.2	4.0	437.2	420.8	16.4	3.9	730.0	702.4	27.6	3.9
CG current expenditure																
Interest payments	4.6	4.4	0.2	4.1	23.6	25.9	-2.3	-8.8	29.6	29.2	0.5	1.7	53.3	55.0	-1.8	-3.2
Net social benefits	18.3	17.6	0.7	3.9	89.4	86.9	2.5	2.9	124.5	121.5	3.0	2.5	213.9	208.4	5.5	2.6
CG current grants to LAs	8.6	8.4	0.2	2.5	51.5	50.1	1.4	2.8	64.3	63.4	0.9	1.4	115.8	113.5	2.3	2.0
VAT and GNI-based payments to EU ²	1.0	0.4	0.6	165.0	4.4	4.6	-0.2	-5.2	5.7	5.6	0.2	2.8	10.1	10.2	-0.1	-0.8
Other CG current expenditure	24.8	23.6	1.2	5.2	123.2	119.3	4.0	3.3	183.0	172.3	10.6	6.2	306.2	291.6	14.6	5.0
Total current expenditure	57.3	54.4	2.9	5.4	292.1	286.8	5.3	1.9	407.2	392.0	15.2	3.9	699.3	678.8	20.5	3.0
Depreciation	1.5	1.5	0.0	0.5	7.7	7.7	0.0	0.6	10.8	10.8	0.0	0.1	18.6	18.5	0.1	0.3
CG current budget deficit	3.2	1.2	2.1	176.9	7.1	12.9	-5.8		-19.2	-18.0	-1.2	6.6	-12.1	-5.1	-7.0	
CG net investment	3.1	2.2	0.9	43.3	15.0	15.1	-0.2	-1.1	28.2	24.3	4.0	16.4	43.2	39.4	3.8	9.7
of which: CG capital grants to LA	0.6	0.5	0.1	23.2	4.6	5.1	-0.5	-9.7	7.2	5.3	1.9	36.0	11.8	10.4	1.4	13.7
CG net borrowing	6.3	3.3	3.0		22.0	28.0	-6.0	-21.4	9.0	6.2	2.8		31.0	34.3	-3.2	-9.4
Local authorities net borrowing	1.2	1.7	-0.5		-5.1	-3.9	-1.2	31.4	11.6	10.6	1.0	9.2	6.5	6.7	-0.2	-3.6
Public corporations net borrowing	-0.8	-0.7	-0.1		0.8	1.4	-0.6	-41.7	-1.3	-2.5	1.2		-0.4	-1.1	0.6	-59.1
Public sector net borrowing	6.8	4.3	2.4	55.4	17.8	25.6	-7.8	-30.5	19.3	14.3	5.0	34.9	37.1	39.9	-2.8	-7.1
Public sector net investment	3.0	2.7	0.3	10.8	11.6	13.8	-2.2	-16.0	27.4	27.5	-0.1	-0.2	39.0	41.2	-2.3	-5.5
Public sector current budget	3.7	1.6	2.1	130.2	6.2	11.8	-5.6	-47.4	-8.1	-13.1	5.0		-1.9	-1.4	-0.5	40.4
March 2018 EFO forecast published 13 March 2018 excluding public sector banks on a National Accounts basis.																

March 2018 EFO forecast published 13 March 2018 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/august2018>

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/>

² Net of abatement.