

Commentary on the Public Sector Finances release: June 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 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 £5.4 billion in June, £0.8 billion lower than last year but £0.5 billion above market expectations. A £1.5 billion year-on-year rise in central government (CG) receipts and a £1.7 billion fall in CG spending were only partly offset by a £2.7 billion rise in net borrowing by local authorities. Borrowing by public corporations was £0.3 billion lower than last year.
3. Over the first quarter of 2018-19, PSNB was £5.4 billion lower than the same period last year. Given the latest estimate of 2017-18 outturn, this is more than the improvement that is needed to meet our March forecast for PSNB in 2018-19 as a whole. With CG receipts growth (excluding APF transfers) so far in 2018-19 a little below our full-year forecast, the improvement in borrowing reflects weaker spending than assumed in our full-year forecast.
4. Total CG spending in the first three months of 2018-19 was down by 0.9 per cent on a year earlier. Some of this reflects timing effects on transfers to EU institutions² and grants to local authorities, but the remainder may just reflect the very provisional nature of the data. Spending data can be volatile from month to month and is prone to revision, so it is still too early in the financial year to draw meaningful conclusions about the public finances for the year as a whole.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/june2018>

² VAT- and GNI-based contributions to the EU budget, net of abatement.

Detailed commentary

5. Public sector net borrowing (PSNB) was £5.4 billion in June 2018, £0.8 billion lower than last year. A £1.5 billion rise in CG receipts and a £1.7 billion fall in CG spending were only partly offset by a £2.7 billion rise in net borrowing by local authorities. Borrowing by public corporations was down £0.3 billion on last year.
6. CG receipts (excluding APF transfers) were up £1.5 billion (2.8 per cent) on a year earlier in June and up £6.0 billion (3.7 per cent) in the year-to-date. This is a little weaker than our full-year forecast for receipts growth of 3.9 per cent in 2018-19 as a whole. Receipts growth in June primarily reflected rises in VAT (up £0.5 billion), NICs (up £0.4 billion) and PAYE income tax (up £0.4 billion). Over the first quarter of 2018-19, growth in PAYE income tax and NICs is running slightly above our full-year forecast (3.5 versus 2.9 per cent), as is growth in VAT receipts (5.6 versus 4.0 per cent). Growth in property transaction taxes is running below our full-year forecast (an 8.6 per cent fall versus a rise of 1.4 per cent). But it is too soon to judge whether these trends will persist over the rest of the financial year.
7. Total CG spending was down £1.7 billion (2.7 per cent) on last June and is down £1.8 billion (0.9 per cent) for the year-to-date. This compares with our full-year forecast of 3.1 per cent growth on a like-for-like basis. The weakness of growth in June mainly reflects current grants to local authorities being down £2.1 billion (17.6 per cent) relative to last year. This appears to be a timing effect that we expect to unwind next month and which contributed to the higher local authority net borrowing recorded this month.
8. Excluding grants to local authorities, CG spending in June was £0.6 billion (1.2 per cent) higher than a year earlier. This reflected several offsetting factors. Spending on transfers to EU institutions fell by £0.6 billion (largely reflecting differences in the usual June adjustments to calculations of historical VAT- and GNI-based contributions).³ Debt interest payments were £0.1 billion lower, reflecting lower RPI inflation, which reduces accrued interest on index-linked gilts. Other current spending was up £0.6 billion (largely attributable to higher departmental spending on public services and administration), while net social benefits and net investment spending were each up by £0.4 billion.
9. For the year-to-date, the weakness in CG spending growth largely reflects the same factors that held down spending in June. As already noted, spending data this early in the financial year are very provisional and are subject to revision. For example, departmental spending so far in 2018-19 is largely based on forecasts from government departments.
10. Public sector net debt (PSND) fell by 1.0 per cent of GDP in June 2018 from a year earlier. 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) and the continued implications of the Bank of England's August 2016 monetary policy measures (raising PSND by £56 billion or 2.7 per cent of GDP

³ VAT- and GNI-based contributions to the EU budget, net of abatement.

in the year to June 2018). The year-on-year fall in the PSND-to-GDP ratio in June has also been helped by a number of other factors:

- the sale of £2.5 billion of RBS shares, which reduced PSND by 0.1 per cent of GDP. This sale, plus the £5.2 billion sale of Bradford & Bingley mortgage loans the previous month, are part of the £16.6 billion of financial asset sales factored into our March forecast for PSND in 2018-19.
- the reclassification of Welsh housing associations to the private sector taking £2.7 billion off PSND (0.1 per cent of GDP); and
- a high level of liquid assets (which net off PSND). These are £21 billion higher than last year, reflecting the government's cash management.

Issues for next month's data release

11. July is usually the second largest month of the year for cash receipts. This reflects:

- Many **medium-sized and large onshore firms** paying the first of four corporation tax instalment payments on their 2018 profits. Under the time-shifted National Accounts basis for corporation tax, these will accrue back to the first three months of 2018 – so the current estimate of PSNB in 2017-18 is likely to be revised as a result.
- **Oil and gas firms** paying the first of three corporation tax instalment payments on their 2018 profits. These may be affected by the rise in the oil price in recent months.
- The second payment on account for **self-assessment** liabilities for 2017-18 is due on 31 July. Due to the possibility of late payments falling into August, the year-on-year comparison may not be clear until the following month's data are also available.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	June				April to June				Implied July to March				March forecast			
	2018	2017	£bn	change %	2018-19	2017-18	£bn	change %	2018-19	2017-18	£bn	change %	2018-19 EFO	2017-18 outturn	£bn	change %
Central government (CG) current receipts																
Taxes on production	22.7	22.2	0.5	2.2	67.4	64.6	2.7	4.2	207.8	198.9	8.9	4.5	275.2	263.6	11.6	4.4
Of which: VAT (accrued)	11.9	11.5	0.5	4.0	35.4	33.6	1.9	5.6	109.2	105.5	3.7	3.5	144.7	139.1	5.6	4.0
Taxes on income and wealth ¹	18.0	17.7	0.3	1.9	53.0	50.6	2.4	4.6	203.4	196.0	7.4	3.8	256.4	246.7	9.7	3.9
Of which:																
Income tax and CGT (accrued)	12.9	12.6	0.3	2.1	37.9	35.7	2.3	6.4	159.4	152.9	6.5	4.2	197.3	188.6	8.7	4.6
Corporation tax (accrued)	5.1	5.0	0.1	1.0	14.9	14.8	0.1	0.8	43.8	43.1	0.7	1.7	58.7	57.9	0.9	1.5
Other taxes	1.6	1.5	0.1	3.9	4.6	4.7	-0.1	-1.8	13.3	13.0	0.3	2.2	17.9	17.7	0.2	1.1
Compulsory social contributions	11.2	10.8	0.4	3.5	33.0	32.6	0.5	1.5	103.5	100.5	3.0	3.0	136.5	133.0	3.5	2.6
Interest & dividends	0.9	0.6	0.2	39.9	5.8	6.3	-0.6	-9.0	15.4	12.3	3.1	25.1	21.2	18.7	2.5	13.6
Other receipts	1.9	1.8	0.0	1.1	5.6	5.8	-0.2	-2.8	17.2	16.9	0.4	2.2	22.8	22.6	0.2	1.0
Total CG current receipts	56.2	54.6	1.5	2.8	169.4	164.6	4.7	2.9	560.6	537.6	23.0	4.3	730.0	702.3	27.7	3.9
CG current expenditure																
Interest payments	4.9	4.9	-0.1	-1.3	14.4	16.6	-2.2	-13.0	38.8	38.2	0.7	1.7	53.3	54.7	-1.5	-2.7
Net social benefits	17.5	17.1	0.4	2.2	53.3	51.9	1.4	2.7	160.6	156.7	3.9	2.5	213.9	208.6	5.3	2.6
CG current grants to LAs	9.9	12.0	-2.1	-17.6	31.0	32.3	-1.3	-4.1	84.9	81.1	3.8	4.7	115.8	113.4	2.5	2.2
VAT and GNI-based payments to EU ²	0.6	1.3	-0.6	-49.8	2.4	3.2	-0.9	-27.0	7.7	7.0	0.8	11.4	10.1	10.2	-0.1	-0.8
Other CG current expenditure	24.7	24.2	0.6	2.3	73.5	72.4	1.1	1.6	232.7	219.1	13.6	6.2	306.2	291.5	14.7	5.0
Total current expenditure	57.6	59.5	-1.9	-3.1	174.5	176.4	-1.8	-1.0	524.8	502.0	22.8	4.5	699.3	678.4	20.9	3.1
Depreciation	1.5	1.5	0.0	0.7	4.6	4.6	0.0	0.7	13.9	13.9	0.0	0.2	18.6	18.5	0.1	0.3
CG current budget deficit	3.0	6.4	-3.4	-52.9	9.8	16.3	-6.5		-21.9	-21.7	-0.2	1.0	-12.1	-5.4	-6.7	
CG net investment	3.3	3.2	0.1	4.0	9.6	9.6	0.0	0.4	33.6	29.6	4.0	13.5	43.2	39.2	4.0	10.3
of which: CG capital grants to LA	0.4	0.7	-0.2	-35.7	3.2	3.9	-0.7	-19.0	8.6	6.5	2.1	32.4	11.8	10.4	1.4	13.2
CG net borrowing	6.3	9.5	-3.2		19.4	25.9	-6.5	-25.1	11.6	7.8	3.8		31.0	33.8	-2.7	-8.1
Local authorities net borrowing	0.1	-2.6	2.7		-2.9	-6.0	3.1	-51.2	9.4	12.8	-3.4	-26.6	6.5	6.8	-0.3	-5.1
Public corporations net borrowing	-1.0	-0.7	-0.3		0.3	2.3	-2.0	-88.1	-0.7	-3.5	2.8		-0.4	-1.2	0.8	-63.0
Public sector net borrowing	5.4	6.2	-0.8	-13.5	16.8	22.2	-5.4	-24.4	20.3	17.2	3.1	18.1	37.1	39.4	-2.3	-5.8
Public sector net investment	2.8	3.1	-0.3	-8.7	6.4	7.4	-1.0	-13.8	32.5	33.2	-0.6	-1.9	39.0	40.6	-1.6	-4.1
Public sector current budget	2.6	3.1	-0.6	-18.3	10.3	14.7	-4.4	-29.8	-12.2	-16.0	3.7		-1.9	-1.3	-0.7	52.0

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/june2018>

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.