

# Commentary on the Public Sector Finances release: May 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the May 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)*.

## Summary

2. Public sector net borrowing (PSNB) was £6.7 billion in May, £0.3 billion lower than last year and £0.1 billion below market expectations. A strong £3.3 billion rise in central government spending was more than offset by a £2.6 billion rise in central government receipts and a £0.9 billion reduction in local authority borrowing.
3. Over the first two months of 2017-18, PSNB is £0.1 billion lower than last year. This contrasts with our March *EFO* forecast which assumed borrowing of £58.3 billion for the whole of 2017-18, £11.6 billion higher than the latest outturn for 2016-17. Given that receipts and spending data are volatile from month to month and prone to revision, it is too early in the financial year to draw meaningful conclusions about the public finances for the year as a whole.
4. Box 4.6 in our March 2017 *EFO* explains why we expect borrowing to rise in 2017-18. Three of the key factors are:
  - **Higher debt interest spending**, primarily from higher RPI inflation increasing accrued interest on index-linked gilts. Debt interest spending is up 21.9 per cent on a year

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<sup>1</sup> <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/may2017>

earlier in the first two months of 2017-18, compared with our full-year forecast of 15.3 per cent;

- **Changes to the timing of expenditure transfers to EU institutions** within calendar year 2017, which move spending from the end of 2016-17 into 2017-18. Transfers are up more than 50 per cent in the first two months of 2017-18 from a year ago, having been down more than 40 per cent in the final two months of 2016-17; and
- **Self-assessment (SA) receipts will be depressed in 2017-18** by the unwinding of the income shifting ahead of the April 2016 dividend tax rise. Unlike the two spending factors, which are already evident in the data, this will only affect the public finances in early 2018 when self-assessment payments are due.

5. The estimate for PSNB in 2016-17 has been revised down by a further £2.1 billion since last month, reflecting £1.1 billion higher receipts, £0.4 billion lower central government spending and a £0.9 billion downward revision to local authority borrowing. At £46.6 billion, PSNB is now £25.6 billion lower than 2015-16, £5.1 billion lower than our estimate in the March *EFO* and £5.4 billion lower than the ONS's provisional estimate in April. Past experience suggests that it will be revised further over time.

## Detailed commentary

6. Public sector net borrowing (PSNB) was £6.7 billion in May 2017, £0.3 billion lower than last year. A £2.6 billion rise in central government receipts and lower borrowing by local authorities (down £0.9 billion) and public corporations (down £0.2 billion) more than offset a strong £3.3 billion rise in central government spending.
7. Central government (CG) receipts were up 5.1 per cent in May and up 5.1 per cent for the year-to-date. This compares with our full year forecast for receipts growth of 2.9 per cent. As noted earlier, the expected fall in SA receipts will only be felt in early 2018, so CG receipts growth should be ahead of its full-year forecast growth until January and February next year.
8. Receipts growth in May reflected moderate rises in each of income tax, NICs and VAT. The strongest year-on-year growth was recorded in stamp duty land tax (SDLT) and inheritance tax (IHT). Both have been affected by behavioural responses to tax changes. SDLT receipts were up 45 per cent on last May, reflecting transactions being temporarily depressed a year ago around the April 2016 introduction of the 3 per cent surcharge on additional properties. IHT receipts were up 34 per cent in the first two months of 2017-18 from a year earlier. It appears that one reason may be that IHT has been paid more promptly as executors tried to avoid the sharp rise in probate fees (particularly for high-value estates) that had been planned to take effect in May. The Government has now cancelled this rise.
9. Total CG spending excluding grants to local authorities was £2.5 billion (5.3 per cent) higher than last May and is up by £5.2 billion for the year-to-date (5.3 per cent). This is higher than our full-year forecast of 4.7 per cent growth. The strength of growth in May mainly reflects a £1.3 billion rise in other current spending (largely attributable to higher departmental

spending on public services and administration), a £0.6 billion increase in spending on net social benefits (across a number of DWP-administered benefits) and £0.5 billion higher net investment spending (most of which was a timing effect).

10. For the year-to-date, spending growth largely reflects the same sources, plus higher debt interest payments (up £2.1 billion) and net EU transfers (£0.7 billion). Higher debt interest payments reflect the rise in RPI inflation raising accrued spending on index-linked gilts. Higher EU expenditure transfers reflect the timing effect discussed in paragraph 4. Partly offsetting these factors is a £0.1 billion decline in net investment spending.
11. Public sector net debt (PSND) increased by 2.9 per cent of GDP in April 2017 from a year earlier. This rise is more than explained by the implementation of the Bank of England's package of monetary policy measures announced last August, which raises PSND by around £87 billion. PSND excluding the Bank of England was down 1.4 per cent of GDP on last year.
12. The provisional estimate for PSNB in 2016-17 is now £5.1 billion lower than our March forecast. Abstracting from some items that are not yet in the ONS outturns, CG receipts were £4.5 billion higher than we forecast in March (with higher income tax, NICs and corporation tax the main contributors), CG spending was £2.6 billion lower than we forecast (mainly from lower departmental spending and net social benefits). Partly offsetting this, borrowing by local authorities and public corporations were £1.2 billion and £0.7 billion higher respectively than assumed in the March forecast. Further revisions in the coming months are likely. For example, DCLG usually releases provisional outturn data for English local authorities' current spending in August.

Table 1.1: Public sector receipts, expenditure and net borrowing<sup>1</sup>

£ billion	May				April to May				Implied June 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	21.1	20.0	1.1	5.5	41.9	40.5	1.4	3.4	222.4	210.9	11.4	5.4	264.3	251.5	12.8	5.1
Of which: VAT (accrued)	11.2	10.7	0.5	4.3	22.5	21.8	0.7	3.2	116.8	113.5	3.3	2.9	139.3	135.3	4.0	3.0
Taxes on income and wealth <sup>1</sup>	16.6	16.1	0.6	3.6	33.8	32.5	1.2	3.8	206.1	207.9	-1.8	-0.9	239.9	240.4	-0.6	-0.2
Of which:																
Income tax and CGT (accrued)	11.7	11.4	0.3	2.7	23.9	23.4	0.6	2.4	160.1	161.3	-1.1	-0.7	184.0	184.6	-0.6	-0.3
Corporation tax (accrued)	4.7	4.6	0.1	2.5	9.5	9.1	0.4	4.7	46.0	46.8	-0.8	-1.7	55.5	55.9	-0.3	-0.6
Other taxes	1.7	1.5	0.2	13.4	3.4	3.1	0.4	11.7	15.7	15.6	0.1	0.9	19.1	18.6	0.5	2.7
Compulsory social contributions	10.4	10.0	0.4	3.7	20.9	20.0	0.9	4.5	109.4	105.9	3.5	3.3	130.3	125.9	4.4	3.5
Interest & dividends	1.0	0.8	0.2	24.7	6.1	5.1	1.0	19.1	14.3	13.3	0.9	6.9	20.3	18.4	1.9	10.3
Other receipts	1.9	1.8	0.1	5.7	4.1	3.6	0.4	12.1	19.2	19.0	0.2	1.1	23.3	22.7	0.6	2.8
<b>Total CG current receipts</b>	<b>52.7</b>	<b>50.2</b>	<b>2.6</b>	<b>5.1</b>	<b>110.2</b>	<b>104.9</b>	<b>5.3</b>	<b>5.1</b>	<b>587.1</b>	<b>572.7</b>	<b>14.4</b>	<b>2.5</b>	<b>697.3</b>	<b>677.6</b>	<b>19.7</b>	<b>2.9</b>
<b>CG current expenditure</b>																
Interest payments	4.5	4.7	-0.1	-2.5	11.9	9.8	2.1	21.9	43.9	38.6	5.3	13.6	55.8	48.4	7.4	15.3
Net social benefits	17.5	16.9	0.6	3.3	35.1	34.3	0.8	2.4	174.4	170.5	3.9	2.3	209.5	204.8	4.7	2.3
CG current grants to LAs	9.3	9.0	0.3	3.7	20.4	20.1	0.3	1.4	96.5	94.3	2.2	2.3	116.8	114.4	2.5	2.2
VAT and GNI-based payments to EU <sup>2</sup>	1.0	0.8	0.2	23.0	2.0	1.3	0.7	51.3	10.2	8.2	2.0	24.3	12.2	9.6	2.7	28.0
Other CG current expenditure	23.5	22.3	1.3	5.7	48.0	46.6	1.5	3.2	245.9	235.8	10.1	4.3	293.9	282.3	11.6	4.1
<b>Total current expenditure</b>	<b>55.8</b>	<b>53.6</b>	<b>2.2</b>	<b>4.2</b>	<b>117.4</b>	<b>112.0</b>	<b>5.4</b>	<b>4.8</b>	<b>570.9</b>	<b>547.4</b>	<b>23.4</b>	<b>4.3</b>	<b>688.3</b>	<b>659.5</b>	<b>28.8</b>	<b>4.4</b>
Depreciation	1.6	1.5	0.1	4.7	3.2	3.1	0.1	4.7	16.6	15.6	1.0	6.4	19.8	18.7	1.1	6.1
<b>CG current budget deficit</b>	<b>4.7</b>	<b>5.0</b>	<b>-0.3</b>		<b>10.5</b>	<b>10.2</b>	<b>0.2</b>	<b>2.2</b>	<b>0.4</b>	<b>-9.7</b>	<b>10.1</b>		<b>10.9</b>	<b>0.5</b>	<b>10.3</b>	<b>1,877.8</b>
CG net investment	2.8	1.8	1.0	55.3	6.1	6.4	-0.3	-4.6	34.7	31.5	3.2	10.0	40.7	37.9	2.9	7.5
of which: CG capital grants to LA	1.0	0.5	0.5	95.0	3.2	3.5	-0.2	-6.7	7.6	7.4	0.2		10.8	10.9	-0.1	-0.7
<b>CG net borrowing</b>	<b>7.6</b>	<b>6.8</b>	<b>0.8</b>		<b>16.5</b>	<b>16.6</b>	<b>-0.1</b>	<b>-0.4</b>	<b>35.1</b>	<b>21.8</b>	<b>13.2</b>		<b>51.6</b>	<b>38.4</b>	<b>13.2</b>	<b>34.3</b>
Local authorities net borrowing	0.1	1.0	-0.9		-2.9	-2.7	-0.2		9.1	11.3	-2.2		6.2	8.6	-2.4	
Public corporations net borrowing	-0.9	-0.7	-0.2	27.2	2.5	2.3	0.2		-2.0	-2.7	0.7	-24.6	0.5	-0.4	0.9	
<b>Public sector net borrowing</b>	<b>6.7</b>	<b>7.1</b>	<b>-0.3</b>	<b>-4.9</b>	<b>16.1</b>	<b>16.2</b>	<b>-0.1</b>	<b>-0.4</b>	<b>42.1</b>	<b>30.5</b>	<b>11.7</b>		<b>58.3</b>	<b>46.6</b>	<b>11.6</b>	<b>25.0</b>
<b>Public sector net investment</b>	<b>2.1</b>	<b>1.7</b>	<b>0.4</b>	<b>21.7</b>	<b>3.2</b>	<b>3.6</b>	<b>-0.3</b>	<b>-9.5</b>	<b>36.9</b>	<b>34.6</b>	<b>2.3</b>	<b>6.6</b>	<b>40.1</b>	<b>38.1</b>	<b>1.9</b>	<b>5.1</b>
<b>Public sector current budget</b>	<b>4.6</b>	<b>5.4</b>	<b>-0.7</b>		<b>12.9</b>	<b>12.6</b>	<b>0.3</b>	<b>2.2</b>	<b>5.3</b>	<b>-4.1</b>	<b>9.4</b>		<b>18.2</b>	<b>8.5</b>	<b>9.7</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/may2017>

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.