Office for
**Budget
Responsibility**

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# Commentary on the Public Sector Finances release: September 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the September 2017 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 2017 *Economic and fiscal outlook (EFO)*.

2. Our next *EFO* will be published alongside the Chancellor's first Autumn Budget on 22 November. This will be the day after the next public finances data release, so we do not plan to publish a commentary on next month's figures. We will not have pre-release access to that data release to inform our November forecast, which will have been closed on 17 November. But we will be able to draw on administrative sources consistent with some elements of the full dataset – in particular in relation to October tax receipts.

## Summary

3. Public sector net borrowing (PSNB) was £5.9 billion in September, down £0.7 billion on a year earlier and £0.6 billion below market expectations. This primarily reflected slightly lower central government (CG) borrowing where a £1.8 billion rise in receipts was only partly offset by a £1.4 billion rise in spending. Borrowing by local authorities was down by £0.4 billion on a year earlier.

4. The latest estimate of PSNB in 2016-17 is £45.7 billion, £6.4 billion lower than our March 2017 forecast (on a like-for-like basis, after adjusting for various ONS classification decisions that we have reflected in our forecasts but that the ONS has not yet implemented in the outturn data). Only part of this difference is likely to prompt downward revisions to our forthcoming forecast for 2017-18.[2]

[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/september2017
[2] Borrowing in 2016-17 has been revised down significantly since the first ONS outturn estimate was published in April. A breakdown of these revisions and commentary on their possible forecast implications was provided in Box 3.1 of last week's *Forecast evaluation report*.

5. Borrowing to date in 2017-18 is also lower than our March forecast would suggest. Halfway through the year, borrowing is down 7.2 per cent on a year earlier. This is likely to overstate the extent to which full-year borrowing will be revised down in our November forecast. For example, a simple extrapolation of the year-to-date percentage change would point to full-year borrowing of £42.4 billion, £16.2 billion lower than our March forecast (on a like-for-like basis). Such an approach is unlikely to provide a good guide to full-year borrowing. In particular, data for the first half of the year do not reflect the £3.8 billion fall in self-assessment (SA) income tax receipts we expect as dividend forestalling effects unwind, reducing receipts in January and February relative to last year. There is also greater uncertainty than usual around local authority (LA) net borrowing this year given the large increase in borrowing in 2016-17 as reserves were drawn down and prudential borrowing sources were utilised more heavily than expected. If that were to be repeated this year, it might not be confirmed in outturn data until September 2018. On a like-for-like basis, LA net borrowing in 2016-17 was £2.1 billion higher than our March forecast.

## Detailed commentary

6. Public sector net borrowing (PSNB) in September was £5.9 billion, down £0.7 billion on a year earlier. A £1.8 billion rise in CG receipts was higher than the £1.4 billion rise in CG spending. Borrowing by local authorities was £0.4 billion lower while borrowing by public corporations was up by £0.1 billion on a year earlier.

7. Relative to the same period last year, CG receipts (excluding APF transfers) were up 3.5 per cent in September and 3.8 per cent year-to-date. These compare with our full-year forecast of a 2.0 per cent rise (on a like-for-like basis). Over the first half of 2017-18, PAYE income tax and NICs receipts have risen faster than our full-year forecast (3.7 versus 2.9 per cent), but this may be because 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.

8. Total CG spending was £1.4 billion (2.4 per cent) higher than last September. The main driver of the increase was other current spending (up by £0.8 billion or 3.5 per cent on last year), mainly due to higher departmental spending. CG debt interest spending was also up by £0.4 billion (11.4 per cent) on last August, reflecting changes in the monthly path of RPI inflation, which affect accrued interest on index-linked gilts. Partially offsetting these increases, net social benefits spending was lower by £0.1 billion and net transfers to EU institutions were also lower by £0.1 billion.

9. For the first half of the year, CG spending was up by £10.5 billion (2.9 per cent), slightly less than our full-year forecast of 4.0 per cent growth (on a like-for-like basis). Areas where year-to-date growth is below our full-year forecast on a like-for-like basis include net social benefits (up 1.5 versus 2.3 per cent), net transfers to EU institutions (up 20.0 versus 28.0 per cent), current grants to local authorities (down 0.2 per cent versus a rise of 2.2 per cent) and other central government capital spending (up 5.9 versus 11.2 per cent). CG debt interest payments

are up 15.7 per cent so far this year, slightly faster than our full-year forecast of 14.6 per cent, again reflecting the path of RPI inflation. All CG spending data can be volatile and subject to large revisions.

10. Net transfers to EU institutions will be lower than we had assumed this year because the 2016 EU budget was underspent by more than we expected, so a larger surplus was distributed to member states. On its own, this could reduce net transfers by around £¾ billion. Another area of spending that is clearly running below our March forecast is tax credits, where spending is down 5.0 per cent on a year earlier in the first half of the year. Interpreting this is complicated, since some of the drop relates to some of the caseload moving to universal credit (UC). Our March forecast assumed that tax credits spending would fall 2.6 per cent, with the decline more than explained by the shift to UC. In fact, spending seems to be falling in underlying terms too, with new claims lower than expected.

11. Public sector net debt (PSND) increased by 4.4 per cent of GDP between September 2016 and September 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 £108 billion. The Term Funding Scheme (TFS) accounts for £85 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 0.4 per cent of GDP compared with last September.

## Table 1.1: Public sector receipts, expenditure and net borrowing[1]

| £ billion | September | | | | April to September | | | | Implied October to March | | | | March forecast | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | change | | | | change | | | | change | | 2017-18 | 2016-17 | change | |
| | 2017 | 2016 | £bn | % | 2017-18 | 2016-17 | £bn | % | 2017-18 | 2016-17 | £bn | % | EFO | outturn | £bn | % |
| **Central government (CG) current receipts** | | | | | | | | | | | | | | | | |
| Taxes on production | 22.1 | 21.2 | 0.8 | 4.0 | 130.6 | 124.6 | 6.0 | 4.8 | 133.7 | 128.3 | 5.4 | 4.2 | 264.3 | 252.9 | 11.4 | 4.5 |
| *Of which: VAT (accrued)* | 11.6 | 11.2 | 0.4 | 3.6 | 68.5 | 66.1 | 2.4 | 3.7 | 70.8 | 69.4 | 1.4 | 2.0 | 139.3 | 135.4 | 3.9 | 2.9 |
| Taxes on income and wealth[1] | 17.0 | 16.5 | 0.5 | 3.2 | 110.7 | 108.6 | 2.1 | 1.9 | 129.2 | 132.9 | -3.7 | -2.8 | 239.9 | 241.5 | -1.6 | -0.7 |
| *Of which:* | | | | | | | | | | | | | | | | |
| *Income tax and CGT (accrued)* | 12.2 | 11.6 | 0.6 | 5.5 | 81.6 | 79.7 | 1.9 | 2.3 | 102.5 | 105.9 | -3.4 | -3.2 | 184.0 | 185.6 | -1.6 | -0.9 |
| *Corporation tax (accrued)* | 4.7 | 4.8 | -0.1 | -1.8 | 29.0 | 28.8 | 0.1 | 0.5 | 26.6 | 27.1 | -0.5 | -1.9 | 55.5 | 55.9 | -0.4 | -0.7 |
| Other taxes | 1.5 | 1.5 | 0.0 | 2.3 | 9.3 | 8.8 | 0.5 | 5.4 | 9.8 | 8.6 | 1.2 | 14.4 | 19.1 | 17.4 | 1.7 | 9.8 |
| Compulsory social contributions | 10.4 | 10.0 | 0.4 | 4.2 | 62.9 | 60.3 | 2.6 | 4.3 | 67.5 | 65.7 | 1.8 | 2.7 | 130.3 | 125.9 | 4.4 | 3.5 |
| Interest & dividends | 0.9 | 1.0 | -0.1 | -9.4 | 9.6 | 9.1 | 0.6 | 6.4 | 10.7 | 9.5 | 1.2 | 12.8 | 20.3 | 18.5 | 1.8 | 9.7 |
| Other receipts | 1.9 | 1.9 | 0.1 | 2.8 | 11.5 | 11.1 | 0.4 | 3.2 | 11.8 | 11.9 | -0.1 | -0.6 | 23.3 | 23.0 | 0.3 | 1.2 |
| **Total CG current receipts** | **53.9** | **52.1** | **1.8** | **3.4** | **334.5** | **322.4** | **12.1** | **3.8** | **362.7** | **356.9** | **5.8** | **1.6** | **697.3** | **679.3** | **17.9** | **2.6** |
| **CG current expenditure** | | | | | | | | | | | | | | | | |
| Interest payments | 3.7 | 3.3 | 0.4 | 11.4 | 29.9 | 25.8 | 4.1 | 15.7 | 25.9 | 22.9 | 3.1 | 13.4 | 55.8 | 48.7 | 7.1 | 14.6 |
| Net social benefits | 17.2 | 17.3 | -0.1 | -0.4 | 104.3 | 102.8 | 1.5 | 1.5 | 105.2 | 101.7 | 3.5 | 3.4 | 209.5 | 204.5 | 5.0 | 2.5 |
| CG current grants to LAs | 9.1 | 9.0 | 0.2 | 1.7 | 59.4 | 59.5 | -0.1 | -0.2 | 57.5 | 54.8 | 2.6 | 4.8 | 116.8 | 114.4 | 2.5 | 2.2 |
| VAT and GNI-based payments to EU[2] | 0.9 | 1.0 | -0.1 | -7.9 | 5.5 | 4.6 | 0.9 | 20.0 | 6.7 | 4.9 | 1.8 | 35.5 | 12.2 | 9.6 | 2.7 | 28.0 |
| Other CG current expenditure | 24.1 | 23.2 | 0.8 | 3.5 | 143.8 | 140.2 | 3.7 | 2.6 | 150.1 | 144.7 | 5.4 | 3.8 | 293.9 | 284.8 | 9.1 | 3.2 |
| **Total current expenditure** | **55.1** | **53.9** | **1.2** | **2.2** | **342.9** | **332.8** | **10.1** | **3.0** | **345.4** | **329.0** | **16.4** | **5.0** | **688.3** | **661.9** | **26.4** | **4.0** |
| Depreciation | 1.5 | 1.5 | 0.0 | 0.9 | 9.2 | 9.1 | 0.1 | 1.1 | 10.6 | 9.2 | 1.4 | 15.2 | 19.8 | 18.3 | 1.5 | 8.2 |
| **CG current budget deficit** | **2.7** | **3.3** | **-0.6** | **-16.9** | **17.6** | **19.5** | **-1.9** | **-10.0** | **-6.7** | **-18.7** | **11.9** | **-63.9** | **10.9** | **0.9** | **10.0** | |
| CG net investment | 2.9 | 2.7 | 0.2 | 6.9 | 17.1 | 16.8 | 0.3 | 2.1 | 23.6 | 20.6 | 3.0 | 14.7 | 40.7 | 37.4 | 3.4 | 9.0 |
| *of which: CG capital grants to LA* | 0.6 | 0.6 | 0.0 | -0.5 | 5.6 | 6.3 | -0.7 | -11.4 | 5.2 | 4.6 | 0.6 | 12.7 | 10.8 | 10.9 | -0.1 | -1.2 |
| **CG net borrowing** | **5.6** | **6.0** | **-0.4** | | **34.7** | **36.3** | **-1.6** | **-4.4** | **16.9** | **2.0** | **14.9** | | **51.6** | **38.3** | **13.3** | **34.9** |
| Local authorities net borrowing | 1.1 | 1.5 | -0.4 | | -2.6 | -1.6 | -1.0 | 65.6 | 8.8 | 9.2 | -0.4 | -4.7 | 6.2 | 7.7 | -1.5 | -19.3 |
| Public corporations net borrowing | -0.8 | -0.8 | 0.1 | | 0.4 | 0.3 | 0.1 | 38.1 | 0.0 | -0.5 | 0.6 | | 0.5 | -0.2 | 0.7 | -318.3 |
| **Public sector net borrowing** | **5.9** | **6.6** | **-0.7** | **-10.7** | **32.5** | **35.0** | **-2.5** | **-7.2** | **25.8** | **10.7** | **15.1** | | **58.3** | **45.7** | **12.6** | **27.5** |
| **Public sector net investment** | **3.4** | **3.1** | **0.3** | **8.4** | **16.1** | **14.9** | **1.2** | **8.2** | **24.0** | **23.7** | **0.2** | **0.9** | **40.1** | **38.6** | **1.4** | **3.7** |
| **Public sector current budget** | **2.5** | **3.5** | **-1.0** | **-27.5** | **16.4** | **20.1** | **-3.7** | **-18.6** | **1.8** | **-13.1** | **14.9** | | **18.2** | **7.0** | **11.1** | **158.3** |

*March 2017 EFO forecast published 08 March 2017 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/september2017
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

[2] 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). This will also affect the implied figures calculated for October to March 2017-18.