

Commentary on the Public Sector Finances release: March 2016

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the March 2016 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 2016 *Economic and fiscal outlook (EFO)*.

Summary

2. Today's release provides the first provisional outturn estimate for the full 2015-16 financial year. Public sector net borrowing (PSNB) was £74.0 billion, £17.7 billion lower than last year and £1.8 billion higher than our estimate in the March *EFO*. As we noted in March, these estimates typically take months to settle down: since 2009-10 the initial estimate for each year had been revised up or (more often) down by an average of £3.5 billion within 12 months.
3. The provisional estimate for net borrowing in 2015-16 is slightly higher than our March forecast, primarily because local authority borrowing was £2.1 billion higher. Borrowing by public corporations was £0.6 billion higher. Central government borrowing was £0.9 billion lower. Central government receipts and spending were respectively slightly above and slightly below the *EFO* forecasts, excluding two environmental levies that will lower receipts and spending by the same amount when they are included in the outturn data.
4. However, these sectoral estimates are all very provisional and are likely to be revised in coming months. Typically these revisions reflect various factors:
 - some cash receipts received in the early part of 2016-17 relate to economic activity in 2015-16 and will be **accrued** back to that year. April PAYE and NICs cash receipts largely relate to March salaries and will be accrued back to 2015-16. Likewise, some

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/march2016>

of the cash VAT receipts received between April and June relate to consumer spending in the first quarter of 2016 and will thus be accrued back to 2015-16. The accrued income tax, NICs and VAT estimates for March 2016 included in today's release depend to a large extent on forecasts of cash receipts in early 2016-17;

- estimates for central government current expenditure and investment will be revised in May and then usually in September as **firmer information from departments** becomes available; and
 - **firmer data for local authorities and public corporations** will not become available until September or October, and will not be final for a further 3 to 9 months.
5. The Government's supplementary fiscal target requires public sector net debt (PSND) to fall as a share of GDP in each year to 2019-20. Our March *EFO* forecast that this target would be missed in 2015-16. The initial data suggest that this is the case, with PSND rising by 0.2 per cent of GDP from 2014-15. But this too is subject to revision, not only because the cash addition to debt during the year may be revised but also because the nominal GDP estimate used to calculate the debt ratio is still largely a forecast.

Detailed commentary

6. According to the provisional data, the public sector borrowed £4.8 billion in March, £2.6 billion less than last year and £1.2 billion less than market expectations. CG receipts were £2.8 billion higher than last year, while CG spending was £0.5 billion lower than last year. The decline in total CG spending is more than explained by differences in the timing of grants to local authorities during 2015-16. These were £1 billion lower than last year in March and are the key driver of the £0.9 billion increase in local authority borrowing. Abstracting from grants to local authorities, a rise of £0.8 billion in departmental current expenditure was partly offset by a £0.5 billion fall in CG investment.
7. Central government receipts were up 5.4 per cent on March last year, reflecting strong growth in PAYE income tax, NICs, VAT, alcohol duty and stamp duty land tax. Some of the strength in accrued PAYE and NIC receipts is due to the timing of receipts from financial sector bonuses. Cash PAYE and NIC receipts in March (accrued back to February) fell on a year earlier. This was probably due in part to some financial sector companies delaying bonuses by a month, but the evidence so far also suggests a 10 per cent underlying fall in bonuses in the sector, compared with the 5 per cent drop assumed in the March *EFO*. Stamp duty land tax receipts rose 25 per cent on a year earlier. This is likely to have been boosted by strong sales of second homes ahead of the pre-announced 3 per cent surcharge from April 2016. Today's numbers on residential property transactions indicated a 70 per cent year-on-year rise in March.
8. The provisional estimate for PSNB in 2015-16 was £1.8 billion higher than our latest *EFO* forecast, of which £2.1 billion reflects higher local authority borrowing. On a simple comparison between forecast and provisional outturn, CG receipts were £1.3 billion below forecast, while total CG spending (current expenditure and investment) was £2.2 billion below

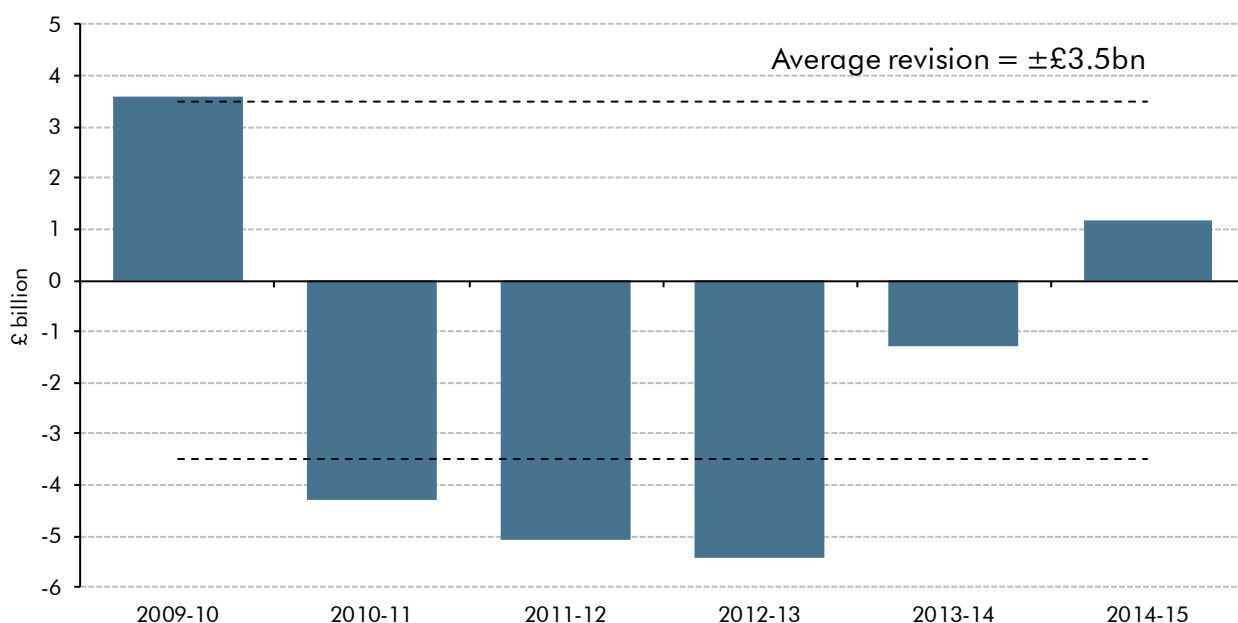
forecast. However, our receipts and spending forecasts include two environmental levies that are not yet in the ONS outturns, totalling around £1.7 billion.² Abstracting from these measurement differences:

- CG receipts were £0.5 billion higher than forecast in the March *EFO*. Stronger receipts from VAT, fuel duty, SDLT and corporation tax more than offset weaker PAYE and NIC receipts (relating to steeper falls in financial sector bonuses); and
- CG spending was £0.2 billion lower than forecast in the March *EFO*. Debt interest payments, net social benefits and grants to local authorities were £0.6 billion, £0.7 billion and £0.4 billion lower than expected respectively. This was partly offset by £0.4 billion higher departmental spending and £1.1 billion higher net investment (excluding grants to local authorities).

9. Local authority borrowing was £2.1 billion higher than forecast in the March *EFO*. At this initial outturn stage, the ONS estimate still includes several forecast elements, where outturn data are not available yet. As we stated in the *EFO*, it is important to remember that our *EFO* forecasts are forecasting the levels at which outturns will settle when all the relevant data have been gathered over the coming months. We will need to wait and see if the ONS outturns remain higher than our forecast when ONS revise them to reflect the provisional outturn data for English local authorities that DCLG usually releases around the end of August. We will explore any remaining differences in our *Forecast evaluation report*.
10. As noted earlier, the initial PSNB outturn is subject to revision over the coming months. The chart shows that revisions have been in both directions and can be sizeable. Since 2009-10, the average revision has been plus or minus £3.5 billion. The relative size of the potential revision reflects the fact that net borrowing is the difference between two much larger numbers – receipts and spending – and small percentage revisions to either imply much larger percentage revisions to net borrowing.

² These environmental levies consist of £1.4 billion of subsidies for feed-in tariffs and £0.3 billion of net social benefits for warm homes discount. Table 2.45 in the fiscal supplementary tables on the OBR website provides details of these and other areas of the OBR forecasts that are not yet included in ONS outturns.

Chart 1.1: Revisions in PSNB between initial estimate and estimate 12 months later



Source: ONS, excluding classification changes (Table 6, March 2016 public sector finances statistical bulletin)

- The 0.2 percentage point rise in PSND as a share of GDP between 2014-15 and 2015-16 is slightly lower than our *EFO* forecast of a 0.4 percentage point rise. PSND at the end of 2015-16 was £3.5 billion higher than in our March forecast. This reflects: first, that the central government net cash requirement was £2.9 billion higher than forecast and; second, that the value of the UK's foreign exchange reserves (which are treated as a liquid asset and netted off PSND) was £2.5 billion lower, reflecting exchange rate movements in March. This was more than offset by a higher nominal GDP denominator. As mentioned earlier, the debt ratio is particularly subject to change given that it is still largely based on a forecast of nominal GDP.³

³ Public sector net debt uses non-seasonally adjusted nominal GDP centred end-March (i.e. the fourth quarter of 2015 to the third quarter of 2016) as the denominator for the calculation.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	March				April to March				March forecast			
	2016	2015	change		2015-16	2014-15	change		2015-16 March EFO	2014-15 outturn	change	
			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts												
Taxes on production	20.3	19.3	0.9	4.9	241.7	232.3	9.4	4.0	243.2	232.3	11.0	4.7
Of which: VAT (accrued)	10.7	10.2	0.5	5.2	130.3	124.8	5.5	4.4	130.0	124.8	5.2	4.1
Taxes on income and wealth	18.1	17.2	0.9	5.1	221.0	212.7	8.3	3.9	221.0	212.7	8.3	3.9
Of which:												
Income tax and CGT (accrued)	16.3	15.4	0.8	5.3	176.5	169.2	7.4	4.3	176.9	169.2	7.7	4.5
Corporation tax	1.9	2.0	-0.1	-5.3	44.3	43.0	1.3	3.1	44.1	43.0	1.1	2.6
Other taxes	1.6	1.5	0.2	10.2	18.7	17.2	1.4	8.2	18.6	17.2	1.3	7.7
Compulsory social contributions	12.2	11.6	0.7	5.6	114.7	110.3	4.5	4.1	114.9	110.3	4.6	4.2
Interest & dividends	1.5	1.3	0.1	10.3	17.5	19.1	-1.6	-8.2	17.3	19.1	-1.8	-9.3
Other receipts	1.9	1.8	0.1	5.0	22.6	22.7	-0.1	-0.3	22.5	22.7	-0.1	-0.6
Total CG current receipts	55.6	52.8	2.8	5.4	636.2	614.3	21.9	3.6	637.5	614.3	23.3	3.8
CG current expenditure												
Interest payments	1.0	0.9	0.2	17.6	45.1	45.2	-0.1	-0.3	45.7	45.2	0.4	1.0
Net social benefits	16.5	16.6	-0.1	-0.5	203.4	201.7	1.7	0.8	204.4	201.7	2.7	1.3
CG current grants to LAs	9.5	10.0	-0.5	-4.8	117.6	122.6	-4.9	-4.0	117.8	122.6	-4.8	-3.9
Other	25.6	24.8	0.8	3.2	285.7	280.3	5.3	1.9	286.6	280.3	6.3	2.3
Total current expenditure	52.8	52.4	0.4	0.8	651.8	649.8	2.0	0.3	654.5	649.8	4.7	0.7
Depreciation	1.6	1.5	0.1	3.3	18.4	18.0	0.5	2.6	18.4	18.0	0.5	2.6
CG current budget deficit	-1.3	1.1	-2.4		34.0	53.5	-19.5	-36.5	35.4	53.5	-18.1	-33.9
CG net investment	5.3	6.3	-1.0	-15.5	34.5	35.4	-0.9	-2.5	33.9	35.4	-1.4	-4.0
of which: CG capital grants to LA	0.8	1.3	-0.5	-37.4	11.7	11.8	-0.1	-1.2	11.9	11.8	0.1	1.1
CG net borrowing	4.0	7.4	-3.4	-45.7	68.4	88.8	-20.4	-23.0	69.3	88.8	-19.5	-22.0
Local authorities net borrowing	1.7	0.9	0.9		5.9	1.9	4.0		3.8	1.9	2.0	
Public corporations net borrowing	-1.0	-0.8	-0.1	15.8	-0.4	0.9	-1.3		-1.0	0.9	-1.9	
Public sector net borrowing	4.8	7.4	-2.6	-35.4	74.0	91.7	-17.7	-19.3	72.2	91.7	-19.5	-21.3
Public sector net investment	6.1	6.6	-0.5	-7.0	35.4	34.6	0.8	2.4	33.2	34.6	-1.4	-4.1
Public sector current budget	-1.3	0.8	-2.2		38.6	57.1	-18.5	-32.4	39.0	57.1	-18.1	

March 2016 EFO forecast published 16 March 2016 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/march2016>

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://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-march-2016/>

OBR supplementary fiscal tables: <http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-supplementary-fiscal-tables-march-2016/>