

Commentary on the Public Sector Finances release: December 2016

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

Summary

2. Public sector net borrowing (PSNB) was £6.9 billion in December, £0.2 billion above market expectations but down £0.4 billion on a year earlier. The drop since last year reflected a £2.9 billion (5.6 per cent) increase in central government receipts, including higher national insurance contributions (NICs), income tax and onshore corporation tax receipts. Local authority borrowing was up £1.4 billion, but that reflected the timing of grants from central government. Excluding grants to local authorities, central government spending was up £2.8 billion (5.8 per cent).
3. Year-to-date borrowing in 2016-17 has been revised down in this release by £2.6 billion, reflecting a number of factors. This is the latest in a series of downward revisions to the official data since we closed our last forecast (which was consistent with the September data released in late October). Relative to the data underpinning our forecast, PSNB over April to September has been revised down by £2.9 billion. PSNB in 2015-16 has also been revised down since then, but by a smaller £0.6 billion. This means that year-on-year comparisons are more favourable than was the case when we closed our November forecast.
4. Based on the latest data for 2015-16, meeting our latest forecast for PSNB in 2016-17 would require it to fall by £7.2 billion over the full financial year. Nine months into the year, PSNB is

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/dec2016>

already £10.6 billion lower than last year. As well as revisions, this reflects stronger receipts growth in recent months than our full-year forecast of 4.0 per cent.

5. Even though we are three quarters of the way through 2016-17, the biggest months for receipts – and the biggest sources of forecast uncertainty – are still to come. On the receipts side, key uncertainties relate to self-assessment (SA) income tax (due to policy effects) and the income tax received from financial sector bonuses (always volatile, but particularly so when financial markets have been volatile). We expect past policy measures to boost SA income tax receipts by around £3 billion this year, with £2½ billion due to forestalling ahead of the April 2016 rise in dividend tax. SA receipts are received with a one-year lag and most will be paid in January and February 2017. Forestalling behaviour is particularly difficult to forecast.
6. The forestalling related to the rise in dividend tax should reduce borrowing in the final quarter of 2016-17, but there are other factors likely to push in the other direction. These include stamp duty land tax (SDLT) receipts, where the end of 2015-16 was boosted by forestalling ahead of the introduction of higher duty rates on buy-to-let investments and second homes. Debt interest spending is expected to rise due to higher RPI inflation (with a lag of three to eight months) and investment spending is expected to be higher.

Detailed commentary

7. PSNB was £6.9 billion in December, down £0.4 billion on last year. A £1.4 billion rise in central government spending (helped by lower grants to local authorities) was more than offset by a £2.9 billion rise in central government receipts. Borrowing by local authorities was up by £1.4 billion on a year earlier (reflecting the lower grants from central government), while borrowing by public corporations was down £0.3 billion on a year earlier.
8. Central government (CG) accrued receipts (excluding APF transfers) in December were up 5.6 per cent on a year earlier. The rise was driven by ongoing strength in NICs receipts, reflecting the abolition of the contracting-out rebate from April 2016 (which is expected to raise £5.6 billion over the whole of 2016-17), and both PAYE and SA income tax receipts. The vast majority of SA income tax receipts are received in the January-February and July-August peaks, so higher receipts in December could just reflect early filing of tax returns rather than signalling stronger full-year receipts. Growth in corporation tax has remained stronger than our full-year forecast. This could reflect the resilience of sales growth since the referendum, alongside the slowdown in tax-deductible capital spending, both of which may have boosted taxable profits by more than assumed in our forecast. The latest ONS profits data have been notably strong (although these can also be subject to significant revisions over time).
9. For the first nine months of 2016-17, CG receipts grew by 4.5 per cent (excluding APF), slightly above the 4.3 per cent needed to meet our full-year forecast (on a like-for-like basis). As discussed in paragraph 5, the biggest months for receipts – and the biggest sources of forecast uncertainty – are still to come.
10. Total CG spending (excluding grants to local authorities) was £2.8 billion higher than a year earlier in December, while CG grants to local authorities fell by £1.4 billion on last year.

Current spending was £1.4 billion higher, mostly due to other current spending (£1.9 billion higher, largely reflecting higher spending on public services) and net social benefits spending (£0.2 billion higher). These increases were partly offset by lower debt interest payments (£0.2 billion lower, reflecting differences in the monthly profile of RPI inflation) and a fall in VAT and GNI-based transfers to the EU net of abatement (down by £0.5 billion, largely reflecting the timing of the latest annual surcharge payment, which has moved back from December 2016 to June 2017 (see paragraph 4.131 of our November *EFO*)). Capital spending was £1.4 billion higher, largely reflecting higher departmental capital spending, spread across a number of departments.

11. For the first nine months of 2016-17, total CG spending excluding grants to local authorities increased by 2.9 per cent, lower than our full-year forecast (on a like-for-like basis) of 3.7 per cent. Our higher full-year forecast reflects a number of factors including higher debt interest and investment spending. Grants to local authorities were £4.5 billion lower over the first nine months of the year. That mainly reflected reductions in the Revenue Support Grant, where the initial payments were £3.0 billion lower in April this year. Reductions in CG grants are likely to have an offsetting effect on local authority borrowing in the short term.
12. Public sector net debt (PSND) rose by 1.7 per cent of GDP in December from a year earlier, compared with a year-on-year rise of 0.4 per cent of GDP in November. This jump reflects the £13 billion sale of the Granite securitisation vehicle in December 2015 no longer benefiting the year-on-year comparison, plus the effect from the Bank of England's package of monetary policy measures announced in August building up. Our November forecast assumed that PSND by the end of 2016-17 would be up by 3.1 per cent of GDP on a year earlier. By the end of December, monetary policy measures had the following effects:
 - the **Term Funding Scheme** (TFS), which provides Bank of England funding to UK banks and building societies that choose to participate, adds to PSND since the reserves created to finance it will add to debt but the loans will be treated as illiquid assets that do not net off PSND. Use of the TFS is demand-led. We assumed in the November *EFO* that take-up would reach £33 billion by the end of 2016-17 (and peak at £85 billion by the end of 2017-18). TFS use had reached £20.7 billion by December; and
 - **the other elements** of the August package were corporate bond purchases of up to £10 billion (raising PSND by an equivalent amount) and further gilt purchases to take the stock of purchases to £435 billion (raising PSND by the difference between the nominal value of the gilts purchased and the market price paid by the Bank of England when they are purchased). We assumed in the November *EFO* that purchases of corporate bond and gilts would together add £16 billion to PSND by the end of 2016-17 (rising to £27 billion by the end of 2017-18). By December these additional purchases had added around £10 billion to PSND.

Table 1.1: Accrued and cash borrowing measures, and public sector net debt

| | December | | | Full year | | |
|---|-----------|------|--------|---------------------|--------------------|--------|
| | £ billion | | | £ billion | | |
| | 2016 | 2015 | change | 2016-17 forecast | 2015-16 outturn | change |
| Public sector net borrowing ¹ | 64.8 | 80.7 | -15.9 | 68.2 | 75.4 | -7.2 |
| CG net cash requirement ex ^{1,2} | 82.3 | 88.1 | -5.9 | 85.7 | 78.5 | 7.2 |
| Public sector net cash requirement ¹ | 65.6 | 58.1 | 7.5 | 123.8 | 52.2 | 71.6 |
| Public sector net debt (PSND) | | | | | | |
| PSND (£ billion) | 1698 | 1607 | 92 | 1725 | 1602 | 122 |
| PSND (per cent of GDP) | 86.2 | 84.5 | 1.7 | 87.3 | 83.6 | 3.7 |

¹ 12 month rolling total.

² CGNCR excluding NRAM, B&B and Network Rail.

November 2016 EFO forecast published 23 November 2016 excluding public sector banks on a National Accounts basis.

Issues for next month's release

13. January is generally the biggest month of the year for receipts. In particular:

- **corporation tax:** many medium and large onshore firms will pay the third of four instalment payments on their 2016 profits, while oil and gas firms will pay their third and final instalment on their 2016 profits; and
- **payments on 2015-16 SA liabilities** (income tax, class 4 NICs and capital gains tax) are due at the end of the month. Although most of these receipts will be included in the January outturn (especially with 31 January falling on a Tuesday this year), some will score in February. There will, therefore, remain some uncertainty as to how SA receipts have performed relative to our 2016-17 forecast until February data are released in March. Year-on-year comparisons in the January data may be affected by the fact that 31 January last year was a Sunday, meaning more payments were received in February.

14. The ONS has announced that it intends to implement a new National Accounts accruals methodology for corporation tax in next month's release. We expect this to raise measured corporation tax receipts in 2016-17. Box 4.2 of our November 2016 EFO provides more information on this. The ONS is also planning in next month's release to extend the reclassification to the public sector of private registered providers of social housing to cover not only England but also the devolved administrations.

Table 1.2: Public sector receipts, expenditure and net borrowing¹

| £ billion | December | | | | April to December | | | | Implied January to March | | | | November forecast | | | |
|---|-------------|-------------|-------------|--------------|-------------------|--------------|--------------|--------------|--------------------------|--------------|------------|---------------|--------------------|--------------------|--------------|--------------|
| | | | change | | | | change | | | | change | | | | change | |
| | 2016 | 2015 | £bn | % | 2016-17 | 2015-16 | £bn | % | 2016-17 | 2015-16 | £bn | % | 2016-17 Nov EFO | 2015-16 outturn | £bn | % |
| Central government (CG) current receipts | | | | | | | | | | | | | | | | |
| Taxes on production | 21.8 | 21.1 | 0.6 | 3.0 | 189.5 | 182.1 | 7.4 | 4.0 | 62.7 | 60.2 | 2.5 | 4.1 | 252.2 | 242.3 | 9.8 | 4.1 |
| Of which: VAT (accrued) | 11.6 | 11.4 | 0.2 | 2.0 | 101.2 | 98.0 | 3.1 | 3.2 | 32.8 | 32.5 | 0.3 | 0.8 | 133.9 | 130.5 | 3.4 | 2.6 |
| Taxes on income and wealth | 17.3 | 16.2 | 1.1 | 7.1 | 151.5 | 145.6 | 5.9 | 4.0 | 76.5 | 74.9 | 1.6 | 2.2 | 228.1 | 220.5 | 7.5 | 3.4 |
| Of which: | | | | | | | | | | | | | | | | |
| Income tax and CGT (accrued) | 13.3 | 12.5 | 0.7 | 5.8 | 115.2 | 112.3 | 2.9 | 2.6 | 65.7 | 63.6 | 2.1 | 3.4 | 180.9 | 175.9 | 5.0 | 2.8 |
| Corporation tax | 4.0 | 3.5 | 0.4 | 12.4 | 36.2 | 32.9 | 3.3 | 9.9 | 11.0 | 11.5 | -0.5 | -4.7 | 47.1 | 44.4 | 2.7 | 6.2 |
| Other taxes | 1.4 | 1.5 | 0.0 | -2.6 | 13.8 | 14.1 | -0.2 | -1.7 | 4.4 | 4.5 | -0.2 | -4.1 | 18.2 | 18.6 | -0.4 | -2.3 |
| Compulsory social contributions | 10.6 | 9.7 | 1.0 | 10.1 | 90.9 | 83.3 | 7.7 | 9.2 | 33.4 | 30.8 | 2.7 | 8.6 | 124.4 | 114.1 | 10.3 | 9.0 |
| Interest & dividends | 0.7 | 0.7 | 0.0 | 3.6 | 14.3 | 12.8 | 1.4 | 11.1 | 3.4 | 4.4 | -1.0 | -22.4 | 17.6 | 17.2 | 0.4 | 2.6 |
| Other receipts | 2.0 | 1.9 | 0.1 | 6.1 | 16.8 | 17.0 | -0.2 | -1.4 | 6.1 | 5.5 | 0.7 | 12.2 | 22.9 | 22.5 | 0.4 | 1.9 |
| Total CG current receipts | 53.8 | 51.0 | 2.9 | 5.6 | 476.8 | 454.9 | 21.9 | 4.8 | 186.6 | 180.3 | 6.3 | 3.5 | 663.3 | 635.2 | 28.1 | 4.4 |
| CG current expenditure | | | | | | | | | | | | | | | | |
| Interest payments | 3.3 | 3.5 | -0.2 | -6.3 | 38.1 | 35.7 | 2.4 | 6.7 | 11.2 | 9.4 | 1.8 | 18.5 | 49.3 | 45.1 | 4.2 | 9.2 |
| Net social benefits | 17.7 | 17.5 | 0.2 | 1.0 | 156.3 | 154.6 | 1.7 | 1.1 | 49.9 | 49.0 | 0.9 | 1.9 | 206.2 | 203.6 | 2.7 | 1.3 |
| CG current grants to LAs | 9.1 | 10.5 | -1.4 | -13.6 | 86.9 | 91.1 | -4.2 | -4.6 | 27.9 | 26.9 | 1.0 | 3.5 | 114.7 | 118.0 | -3.3 | -2.8 |
| Other | 25.5 | 24.0 | 1.4 | 5.9 | 217.9 | 211.0 | 6.9 | 3.3 | 80.5 | 74.4 | 6.1 | 8.2 | 298.4 | 285.4 | 13.0 | 4.6 |
| Total current expenditure | 55.5 | 55.5 | 0.0 | -0.1 | 499.2 | 492.4 | 6.8 | 1.4 | 169.5 | 159.7 | 9.7 | 6.1 | 668.6 | 652.1 | 16.6 | 2.5 |
| Depreciation | 1.7 | 1.5 | 0.1 | 8.8 | 14.3 | 13.7 | 0.6 | 4.2 | 5.1 | 4.6 | 0.4 | 9.4 | 19.4 | 18.3 | 1.0 | 5.5 |
| CG current budget deficit | 3.3 | 6.1 | -2.8 | | 36.7 | 51.1 | -14.5 | -28.3 | -12.0 | -15.9 | 3.9 | | 24.7 | 35.2 | -10.6 | -30.0 |
| CG net investment | 3.1 | 1.8 | 1.3 | 72.9 | 23.9 | 23.3 | 0.6 | 2.7 | 13.5 | 11.6 | 1.8 | 15.9 | 37.4 | 34.9 | 2.5 | 7.1 |
| of which: CG capital grants to LA | 0.7 | 0.6 | 0.1 | 10.4 | 8.3 | 8.6 | -0.3 | -3.2 | 3.8 | 3.2 | 0.6 | 19.1 | 12.2 | 11.8 | 0.3 | 2.9 |
| CG net borrowing | 6.4 | 7.9 | -1.5 | -18.5 | 60.6 | 74.4 | -13.8 | -18.6 | 1.5 | -4.3 | 5.7 | -134.3 | 62.1 | 70.1 | -8.1 | -11.5 |
| Local authorities net borrowing | 1.5 | 0.2 | 1.4 | | 3.2 | 0.6 | 2.6 | | 4.8 | 5.6 | -0.8 | -14.9 | 7.9 | 6.2 | 1.8 | |
| Public corporations net borrowing | -1.1 | -0.8 | -0.3 | 33.7 | 0.1 | -0.5 | 0.6 | | -1.9 | -0.4 | -1.5 | 412.8 | -1.8 | -0.9 | -0.9 | |
| Public sector net borrowing | 6.9 | 7.2 | -0.4 | -5.0 | 63.8 | 74.5 | -10.6 | -14.3 | 4.4 | 1.0 | 3.4 | 358.2 | 68.2 | 75.4 | -7.2 | -9.6 |
| Public sector net investment | 3.4 | 2.1 | 1.3 | 62.8 | 21.9 | 21.2 | 0.7 | 3.2 | 15.6 | 12.3 | 3.3 | 26.5 | 37.4 | 33.5 | 3.9 | 11.8 |
| Public sector current budget | 3.5 | 5.1 | -1.7 | | 41.9 | 53.3 | -11.3 | -21.3 | -11.2 | -11.3 | 0.2 | | 30.8 | 41.9 | -11.2 | |

November 2016 EFO forecast published 23 November 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/dec2016>

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/efo/economic-and-fiscal-outlook-november-2016/>