

# Commentary on the Public Sector Finances release: November 2016

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

## Summary

2. Public sector net borrowing (PSNB) was £12.6 billion in November, down £0.6 billion on a year earlier and £0.4 billion above market expectations. The main reason for the fall in borrowing on last year was a 3.6 per cent rise in central government receipts, only partly offset by a 2.3 per cent rise in central government spending. The rise in receipts reflects higher national insurance contributions (NICs), onshore corporation tax and VAT receipts.
3. PSNB in 2015-16 has been revised down by £0.6 billion, while year-to-date borrowing has been revised down by £1.7 billion, reflecting a number of factors including lower local authority borrowing. Last month's release (published a day before our November forecast) also included downward revisions to earlier months. We did not have pre-release access to that data (although we did use some administrative receipts data). Relative to the release published two months ago (for which we had full information prior to closing the November forecast), PSNB over April to September has been revised down by £3.4 billion.
4. Based on the latest data for 2015-16, meeting our November *EFO* forecast for PSNB in 2016-17 would require it to fall by £7.2 billion over the full financial year. Eight months into the year, PSNB is £7.7 billion lower than last year. Considerable uncertainty remains over

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<sup>1</sup> <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/nov2016>

prospects for borrowing in the remaining third of the year, but we expect PSNB to rise slightly relative to the same period in 2015-16. This is due to:

- **onshore corporation tax**, where strength in October instalment payments that was factored into our November forecast is not expected to persist over the rest of the year;
  - **stamp duty land tax**, where we expect much weaker growth over the rest of the year. SDLT receipts in April 2016 were up 48 per cent on a year earlier, reflecting forestalling ahead of the introduction of an additional rate of stamp duty on additional properties (i.e. buy-to-let investments and second homes). We expect the weakness in receipts seen since the EU referendum to persist over the rest of the year; and
  - **central government spending**, where a number of factors are expected to boost growth later in the year. These include debt interest spending, which is expected to rise due to higher RPI inflation (with a lag of three to eight months) and higher planned investment spending. Timing effects related to VAT and GNI-based EU contributions partly offset this.
5. We expect higher borrowing in the remaining months of the year even though past policy measures should boost self-assessment (SA) income tax receipts in January 2017. This should add around £3 billion to 2016-17 receipts, £2½ billion of which reflects 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.

## Detailed commentary

6. PSNB was £12.6 billion in November, down £0.6 billion on last year. A £1.3 billion rise in central government spending was more than offset by a £1.7 billion rise in central government receipts. Borrowing by local authorities was down £0.1 billion on a year earlier, while borrowing by public corporations was down £0.2 billion on a year earlier.
7. Central government (CG) accrued receipts (excluding APF transfers) in November were up 3.6 per cent on a year earlier. The rise was driven by growth 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). November growth in CT receipts was stronger than our full year forecast.
8. For the first eight months of 2016-17, 4.1 per cent growth in CG receipts (ex. APF) is broadly in line with the 4.0 per cent needed to meet our full-year forecast (on a like-for-like basis). As discussed in paragraph 4, we expect weaker onshore CT and SDLT receipts over the remaining four months of the year, partly offset by a boost to SA income tax receipts.
9. Total CG spending in November was £1.3 billion higher than a year earlier, reflecting a £1.9 billion increase in current spending and a £0.5 billion fall in capital spending. The higher current spending reflected higher debt interest payments (up by £1.0 billion, reflecting differences in the monthly profile of RPI) and higher other current spending (up by

£1.2 billion), largely reflecting spending on public services. This was partly offset by lower payments to the EU (down by £0.6 billion), reflecting a different monthly profile, as discussed in the October monthly commentary release.

10. For the first eight months of the financial year, total CG spending excluding grants to local authorities increased by 2.9 per cent, lower than our forecast (on a like-for-like basis) of 3.7 per cent for 2016-17 as a whole. As discussed in paragraph 4, this difference reflects a number of factors including higher debt interest and investment spending. Current and capital grants to local authorities were £3.7 billion lower over the first eight months of the year. That mainly reflected reductions in the Revenue Support Grant, where the initial payments of grants 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.
11. Public sector net debt (PSND) rose by 0.1 per cent of GDP in November from a year earlier. This compares with our November forecast that PSND by the end of 2016-17 will be up by 3.1 per cent of GDP on a year ago. The year-on-year comparison in November is being helped by the £13 billion sale of the Granite securitisation vehicle in December 2015. This will stop benefiting the year-on-year comparison from next month. Most of the additional upward effect in our 2016-17 forecast relates to the effects of the Bank of England's package of monetary policy measures announced in August:
  - the **Term Funding Scheme** (TFS) provides Bank of England funding to UK banks and building societies that choose to participate. Use of the scheme adds to PSND since the reserves created to finance it will add to debt but the loans will be treated as illiquid loans that do not net off PSND. Use of the TFS will be demand-led. We assumed in the November *EFO* that take-up would be £33 billion by the end of 2016-17 (which would rise to £85 billion by the end of 2017-18). Use of the TFS in November had reached £5.8 billion; 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 gilt 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 (which would rise to £27 billion by the end of 2017-18). By November these additional purchases had added around £10 billion to PSND.

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

	November			Full year		
	£ billion			£ billion		
	2016	2015	change	2016-17 forecast	2015-16 outturn	change
Public sector net borrowing <sup>1</sup>	67.7	85.8	-18.1	68.2	75.4	-7.2
CG net cash requirement ex <sup>1,2</sup>	83.6	91.3	-7.7	85.7	78.5	7.2
Public sector net cash requirement <sup>1</sup>	44.8	71.2	-26.4	123.8	52.2	71.6
<b>Public sector net debt (PSND)</b>						
PSND (£ billion)	1655	1597	59	1725	1602	122
PSND (per cent of GDP)	84.5	84.4	0.1	87.3	83.8	3.5

<sup>1</sup> 12 month rolling total.

<sup>2</sup> 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.

Table 1.2: Public sector receipts, expenditure and net borrowing<sup>1</sup>

£ billion	November				April to November				Implied December to March				November forecast					
			change				change				change		2016-17		2015-16		change	
	2016	2015	£bn	%	2016-17	2015-16	£bn	%	2016-17	2015-16	£bn	%	Nov	EFO	outturn	£bn	%	
<b>Central government (CG) current receipts</b>																		
Taxes on production	21.3	20.3	1.0	4.8	167.3	161.0	6.3	3.9	84.9	81.4	3.5	4.3	252.2	242.3	9.8	4.1		
Of which: VAT (accrued)	11.5	11.0	0.5	4.4	89.1	86.6	2.5	2.9	44.8	43.9	0.9	2.0	133.9	130.5	3.4	2.6		
Taxes on income and wealth	13.6	13.3	0.2	1.8	134.2	129.5	4.7	3.6	93.9	91.1	2.8	3.1	228.1	220.5	7.5	3.4		
Of which:																		
Income tax and CGT (accrued)	11.4	11.5	-0.1	-1.1	101.9	99.8	2.1	2.1	79.0	76.1	2.9	3.8	180.9	175.9	5.0	2.8		
Corporation tax	2.2	1.8	0.4	22.9	32.2	29.4	2.8	9.7	14.9	15.0	-0.1	-0.7	47.1	44.4	2.7	6.2		
Other taxes	1.5	1.5	0.0	-2.2	12.4	12.6	-0.2	-1.6	5.8	6.0	-0.2	-3.8	18.2	18.6	-0.4	-2.3		
Compulsory social contributions	9.7	9.1	0.6	6.3	79.7	73.6	6.1	8.3	44.6	40.4	4.2	10.4	124.4	114.1	10.3	9.0		
Interest & dividends	0.5	0.7	-0.2	-26.2	13.3	12.2	1.2	9.8	4.3	5.0	-0.7	-14.8	17.6	17.2	0.4	2.6		
Other receipts	1.9	1.9	0.1	5.0	14.8	15.1	-0.3	-2.3	8.1	7.3	0.8	10.6	22.9	22.5	0.4	1.9		
<b>Total CG current receipts</b>	<b>48.5</b>	<b>46.8</b>	<b>1.7</b>	<b>3.6</b>	<b>421.8</b>	<b>404.0</b>	<b>17.8</b>	<b>4.4</b>	<b>241.6</b>	<b>231.3</b>	<b>10.3</b>	<b>4.5</b>	<b>663.3</b>	<b>635.2</b>	<b>28.1</b>	<b>4.4</b>		
<b>CG current expenditure</b>																		
Interest payments	4.2	3.2	1.0	30.1	34.8	32.2	2.6	8.1	14.5	12.9	1.6	12.0	49.3	45.1	4.2	9.2		
Net social benefits	18.7	18.3	0.3	1.7	138.7	137.1	1.6	1.2	67.6	66.5	1.1	1.6	206.2	203.6	2.7	1.3		
CG current grants to LAs	8.4	8.4	-0.1	-0.8	77.4	80.6	-3.1	-3.9	37.3	37.4	-0.1	-0.3	114.7	118.0	-3.3	-2.8		
Other	24.7	24.1	0.6	2.7	193.4	187.0	6.4	3.4	105.0	98.4	6.6	6.7	298.4	285.4	13.0	4.6		
<b>Total current expenditure</b>	<b>55.9</b>	<b>54.0</b>	<b>1.9</b>	<b>3.4</b>	<b>444.3</b>	<b>436.9</b>	<b>7.4</b>	<b>1.7</b>	<b>224.4</b>	<b>215.2</b>	<b>9.1</b>	<b>4.2</b>	<b>668.6</b>	<b>652.1</b>	<b>16.6</b>	<b>2.5</b>		
Depreciation	1.7	1.5	0.1	8.7	12.6	12.2	0.4	3.6	6.7	6.2	0.6	9.2	19.4	18.3	1.0	5.5		
<b>CG current budget deficit</b>	<b>9.0</b>	<b>8.7</b>	<b>0.3</b>		<b>35.1</b>	<b>45.1</b>	<b>-9.9</b>	<b>-22.0</b>	<b>-10.5</b>	<b>-9.8</b>	<b>-0.6</b>		<b>24.7</b>	<b>35.2</b>	<b>-10.6</b>	<b>-30.0</b>		
CG net investment	2.5	3.1	-0.6	-20.6	21.0	21.5	-0.5	-2.1	16.4	13.4	2.9	21.8	37.4	34.9	2.5	7.1		
of which: CG capital grants to LA	0.8	0.6	0.1	19.0	7.5	8.0	-0.5	-6.4	4.7	3.8	0.9	22.3	12.2	11.8	0.3	2.9		
<b>CG net borrowing</b>	<b>11.5</b>	<b>11.9</b>	<b>-0.3</b>	<b>-2.9</b>	<b>56.2</b>	<b>66.6</b>	<b>-10.4</b>	<b>-15.6</b>	<b>5.9</b>	<b>3.6</b>	<b>2.3</b>	<b>63.8</b>	<b>62.1</b>	<b>70.1</b>	<b>-8.1</b>	<b>-11.5</b>		
Local authorities net borrowing	2.1	2.2	-0.1		2.2	0.4	1.8		5.7	5.8	0.0	-0.4	7.9	6.2	1.8			
Public corporations net borrowing	-1.0	-0.8	-0.2	23.1	1.2	0.3	0.9		-3.0	-1.2	-1.8	153.6	-1.8	-0.9	-0.9			
<b>Public sector net borrowing</b>	<b>12.6</b>	<b>13.2</b>	<b>-0.6</b>	<b>-4.4</b>	<b>59.5</b>	<b>67.2</b>	<b>-7.7</b>	<b>-11.5</b>	<b>8.7</b>	<b>8.2</b>	<b>0.5</b>	<b>5.8</b>	<b>68.2</b>	<b>75.4</b>	<b>-7.2</b>	<b>-9.6</b>		
<b>Public sector net investment</b>	<b>2.7</b>	<b>3.4</b>	<b>-0.7</b>	<b>-19.4</b>	<b>18.9</b>	<b>19.1</b>	<b>-0.2</b>	<b>-1.1</b>	<b>18.5</b>	<b>14.4</b>	<b>4.2</b>	<b>28.9</b>	<b>37.4</b>	<b>33.5</b>	<b>3.9</b>	<b>11.8</b>		
<b>Public sector current budget</b>	<b>9.9</b>	<b>9.9</b>	<b>0.1</b>		<b>40.7</b>	<b>48.1</b>	<b>-7.5</b>	<b>-15.5</b>	<b>-9.9</b>	<b>-6.2</b>	<b>-3.7</b>		<b>30.8</b>	<b>41.9</b>	<b>-11.2</b>			

November 2016 EFO forecast published 23 November 2016 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/nov2016>

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/>