

Commentary on the Public Sector Finances release: December 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the December 2015 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 2015 *Economic and fiscal outlook (EFO)*.
2. In our November forecast, we anticipated the effect on the public finances of the ONS decision to reclassify private registered providers of social housing in England – which includes most housing associations and some private sector providers – into the public sector.² The ONS aim to implement this decision in next month's release, so this commentary compares latest data with our November forecast excluding the effect of the reclassification. (Our November *EFO* forecast was for housing associations to add £4.5 billion to borrowing in 2014-15 and £4.6 billion in 2015-16, so this would have little effect on the year-on-year changes that are the focus of this commentary.)

Summary

3. Public sector net borrowing (PSNB) in December was £7.5 billion, down £4.3 billion on a year earlier and £3.0 billion lower than market expectations. Lower borrowing in December, relative to last year, reflects the fact that central government receipts were up £1.8 billion on a year earlier and that central government spending was £1.1 billion lower. Lower central government spending mainly reflects the unwinding of timing effects that we described in last month's commentary. Borrowing by local authorities was down by £1.4 billion and borrowing by public corporations was flat.

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/december-2015/stb.html>

² 'Classification announcement: "Private registered providers" of social housing in England', ONS, 30 October 2015.

4. Borrowing over the first nine months of the year was down £11.0 billion or 12.9 per cent year-on-year. While that is a larger fall than the 8.9 per cent year-to-date drop reported in last month's data release, at £74.2 billion borrowing year-to-date is higher than our November *EFO* full-year forecast of £68.9 billion. A simple extrapolation of the year-on-year percentage fall in the deficit would imply full-year borrowing of around £78 billion, a fall of only £11 billion and around £9 billion above forecast.
5. Meeting our full-year forecast for 2015-16 – on the basis of the current public finances data prior to implementing the housing associations reclassification – would require borrowing to fall by £20.2 billion in the year as a whole. That implies an overall surplus of around £5½ billion over the next three months, compared with a £4 billion deficit in the same period last year. Our forecast does assume stronger growth in receipts in the remainder of the year, particularly self-assessment (SA) income tax and stamp duty land tax (explained below). But considerable uncertainty nonetheless remains over prospects for the rest of the financial year.

Detailed commentary

6. PSNB was £7.5 billion in December, down £4.3 billion on a year earlier. This was primarily due to lower central government borrowing, with receipts up £1.8 billion and spending down £1.1 billion on last year. Borrowing by local authorities fell by £1.4 billion and borrowing by public corporations was flat, relative to last December.
7. Central government receipts in December were up 3.6 per cent on a year earlier, reflecting growth across most of the main taxes, partly offset by stronger growth in income tax repayments. Growth in receipts for the year-to-date remains at or above the full-year forecast for PAYE income tax, NICs and onshore corporation tax.
8. Central government receipts (excluding APF transfers) in the first nine months of 2015-16 were £15.8 billion higher than a year earlier, an increase of 3.7 per cent. That compares to the 4.3 per cent increase for the whole of 2015-16 we forecast in our November *EFO*. In addition to receipts not yet included in the ONS numbers, there are a number of factors behind our expectation of stronger growth in the last three months of the year:
 - the balancing payment for 2014-15 self-assessment (SA) income tax liabilities will be paid at the end of January 2015. SA receipts are expected to rise by £1.3 billion in 2015-16 as a whole. Previously announced measures are expected to contribute around £2.1 billion to the year-on-year change, including measures on partnership income (around £0.8 billion), accelerated payments (around £0.6 billion relative to 2014-15) and the Autumn Statement 2012 measure to increase the higher rate threshold by just 1 per cent in 2014-15 (around £0.3 billion). Growth in the different tax bases relevant to SA receipts also contribute positively to the year-on-year change, by around £1.8 billion. In particular, total self-employment is estimated to have increased by 4.1 per cent in 2014-15. These factors help to offset the negative contribution from last year's one-off boost to SA receipts from the deferral of income related to the reduction in the additional rate of income tax to 45p not being repeated this year;

- January is also the month in which the vast majority of 2014-15 liabilities for capital gains tax (CGT) are paid. The strength of property markets in 2014-15 is expected to boost CGT receipts, although in the absence of information on receipts performance so far this year, our forecast is subject to considerable uncertainty. (The recent fall in the stock market will not affect CGT receipts until 2016-17 at the earliest); and
 - the year-on-year increase for stamp duty should benefit from higher annual growth in residential transactions, including a small boost from forestalling of activity related to the pre-announced surcharge that will be imposed on second homes and buy-to-let properties from April 2016. Data released yesterday reported residential property transactions in December 2015 were up 11.6 per cent year-on-year. The giveaway associated with the December 2014 introduction of a 'slice' system for residential properties has stopped depressing year-on-year growth in SDLT receipts this month, with receipts up 7.7 per cent on a year earlier, compared with a 7.1 per cent fall over the April to November period.
9. Both SA and CGT have historically been difficult to forecast given the complexity of the tax structure, sizeable behavioural responses involved with the disposal of assets and timing of dividend payments, and difficulties in measuring the tax base. These forecasts – along with tax arising from bonus payments in early 2016 – are key uncertainties for receipts over the remainder of 2015-16.
10. Total central government spending in December was £1.1 billion lower than a year earlier, comprising a £0.2 billion fall in current spending and a £0.9 billion fall in capital spending. This fall largely reflects the unwinding of timing effects that were explained in last month's commentary. Within current spending, EU contributions related to gross national income (GNI) and VAT were £1.0 billion lower this December than last. These contributions were boosted in December 2014 by the large, one-off payment for historical revisions to estimates of UK GNI. As expected, lower EU contributions this December have offset higher contributions in November, so that spending for the year to date is now in line with spending over the same period a year ago. The fall in capital spending also reflects the unwinding of timing effects from last month. The Department for International Development (DfID) made a £0.8 billion payment in November this year (to the World Bank in relation to the International Development Association), where the equivalent payment in 2014 was made in December.
11. Within the overall £0.2 billion fall in current spending in December, the fall in EU contributions was partly offset by a £1.2 billion increase in current grants to local authorities. This reflects an earlier payment timing by the Department of Health to local authorities relative to last year, which we expect to unwind in January. These changes have no effect on overall public sector borrowing and explain most of the reduction in borrowing by local authorities in December. Spending on net social benefits increased by £0.1 billion, offset by a £0.1 billion fall in debt interest payments.
12. Total central government spending in the first nine months of 2015-16 was £4.2 billion higher than a year earlier, an increase of 0.8 per cent, close to the 0.9 per cent increase for the whole of 2015-16 that we forecast in our November *EFO*. However, within these overall

spending comparisons, central government grants to local authorities are expected to be about £4 billion lower over the last three months of the year, compared to a year ago. This reflects changes in the profile and reductions in the overall level of revenue support grant, and other timing effects as explained above. We expect this reduction in grants to be offset by increases in other elements of central government spending, including spending on debt interest payments. The expected increase in debt interest payments over the last three months of the year reflects differences in the profile of monthly RPI increases, which affects accrued debt interest on index-linked gilts. This forecast will be sensitive to the effect of recent commodity price falls – and other factors – on the path of RPI inflation.

13. In our November forecast, public sector net debt (PSND) was expected to fall from 83.1 per cent of GDP at the end of 2014-15 to 82.5 per cent by the end of 2015-16. Excluding the effect of the housing associations reclassification (consistent with today's data release), we expected a fall from 80.4 per cent to 79.2 per cent. The main reason that we expected PSND to fall as a share of GDP this year is the Government's announced programme of financial asset sales. Our forecast includes £30 billion in respect of these asset sales in 2015-16, but with the proceeds back-loaded towards the end of the year. Major asset sales in the first nine months of 2015-16 have included the ongoing sales of Lloyds shares (that have totalled around £7 billion so far this year), sales of shares in Royal Mail and Eurostar (each raising around £¾ billion) and the £2.1 billion sale of RBS shares. The £13 billion sale of the Granite securitisation vehicle and some related assets announced in November reduced PSND in December, so around four-fifths of the proceeds from asset sales expected in 2015-16 has now been reflected in the official data.
14. PSND in December 2015 rose by 0.1 per cent of GDP relative to last year. The ONS has revised up its estimate of last month's PSND-to-GDP ratio from 80.5 per cent in last month's release to 80.9 per cent this month. That reflects revisions to nominal GDP that were contained in December's Quarterly National Accounts release, published after our November forecast. As we noted in the November EFO (paragraph 5.20), the GDP data that were available at the time of our last forecast appeared to flatter the year-on-year change in debt in 2015-16. All else equal, this revision reduces the extent of that apparent statistical artefact.

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

	December			Full year		
	£ billion			£ billion		
	2015	2014	change	2015-16 forecast	2014-15 outturn	change
Public sector net borrowing ^{1,2}	78.1	98.2	-20.1	68.9	89.1	-20.2
CG net cash requirement ex ^{1,3}	88.2	95.5	-7.3	75.5	92.3	-16.9
Public sector net cash requirement ^{1,2}	52.5	78.2	-25.7	56.5	72.6	-16.1
Public sector net debt (PSND)						
PSND (£billion) ²	1543	1489	53	1536	1487	49
PSND (per cent of GDP) ²	81.0	80.9	0.1	79.2	80.4	-1.2

¹ 12 month rolling total.

² Forecast excludes housing associations. See Annex B of our November *EFO* for more information.

³ CGNCR excluding NRAM, B&B and Network Rail.

November 2015 EFO forecast published 25 November 2015 excluding public sector banks on a National Accounts basis.

Issues for next month's release

15. 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 2015 profits, while oil and gas firms will pay their third and final instalment on their 2015 profits; and
- payments on 2014-15 SA (income tax, class 4 NICs and capital gains tax) liabilities are due at the end of the month. Although most of these receipts will be included in the January outturn, some will score in February. There will, therefore, remain some uncertainty as to how SA receipts have performed relative to our 2015-16 forecast until February data are released in March.

16. In this month's release, the ONS announced that it aims to implement the reclassification of housing associations into the public sector in next month's release.

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		
	2015	2014	£bn	%	2015-16	2014-15	£bn	%	2015-16	2014-15	£bn	%	2015-16 Nov	2014-15 EFO	2014-15 outturn	£bn	%
Central government (CG) current receipts																	
Taxes on production	21.0	20.3	0.7	3.4	180.3	175.1	5.2	3.0	62.4	56.9	5.5	9.6	242.7	232.1	10.7	4.6	
Of which: VAT (accrued)	11.2	11.0	0.3	2.4	97.2	93.7	3.5	3.7	32.5	31.2	1.3	4.3	129.7	124.8	4.9	3.9	
Taxes on income and wealth	16.5	16.2	0.3	1.8	146.7	140.6	6.1	4.4	75.7	72.2	3.5	4.8	222.3	212.7	9.6	4.5	
Of which:																	
Income tax and CGT (accrued)	13.1	12.6	0.4	3.4	113.7	108.7	5.0	4.6	64.5	60.5	4.0	6.7	178.2	169.2	9.0	5.3	
Corporation tax	3.4	3.5	-0.1	-2.3	32.6	31.0	1.7	5.4	11.7	12.0	-0.4	-3.1	44.3	43.0	1.3	3.0	
Other taxes	1.5	1.4	0.1	9.2	14.2	13.1	1.1	8.1	4.4	4.3	0.1	2.2	18.6	17.4	1.2	6.7	
Compulsory social contributions	9.9	9.5	0.5	4.8	82.8	79.5	3.4	4.2	31.8	30.8	1.0	3.3	114.6	110.3	4.4	4.0	
Interest & dividends	0.7	0.5	0.2	43.8	13.0	14.6	-1.6	-10.9	4.0	4.5	-0.5	-11.2	17.0	19.1	-2.1	-10.9	
Other receipts	1.8	1.8	0.0	1.1	16.6	17.1	-0.5	-2.7	5.9	5.3	0.6	11.6	22.5	22.4	0.2	0.7	
Total CG current receipts	51.3	49.5	1.8	3.6	453.6	439.9	13.7	3.1	184.2	174.0	10.2	5.8	637.8	613.9	23.9	3.9	
CG current expenditure																	
Interest payments	3.6	3.7	-0.1	-3.4	36.6	37.6	-1.0	-2.6	9.9	7.6	2.3	30.6	46.5	45.2	1.3	2.9	
Net social benefits	17.4	17.3	0.1	0.4	154.4	153.1	1.3	0.9	50.4	48.6	1.8	3.7	204.8	201.7	3.1	1.5	
CG current grants to LAs	10.5	9.3	1.2	12.9	90.9	92.4	-1.5	-1.6	26.1	30.2	-4.1	-13.5	117.0	122.6	-5.6	-4.5	
Other	24.2	25.5	-1.3	-5.1	213.1	208.3	4.8	2.3	75.2	72.6	2.6	3.6	288.3	280.9	7.4	2.6	
Total current expenditure	55.7	55.8	-0.2	-0.3	495.0	491.4	3.7	0.7	161.6	158.9	2.6	1.7	656.6	650.3	6.3	1.0	
Depreciation	1.5	1.5	0.0	1.9	13.7	13.4	0.2	1.6	4.9	4.5	0.4	9.8	18.6	17.9	0.7	3.7	
CG current budget deficit	5.9	7.8	-1.9	-24.7	55.1	64.9	-9.8	-15.1	-17.6	-10.6	-7.1		37.4	54.3	-16.9	-31.1	
CG net investment	2.8	3.7	-0.9	-24.5	23.1	22.8	0.3	1.4	11.5	12.6	-1.0	-8.1	34.7	35.4	-0.7	-2.0	
of which: CG capital grants to LA	0.8	0.8	0.0	-0.9	8.89	8.72	0.2	1.9	3.3	3.3	0.0	1.3	12.2	12.0	0.2	1.7	
CG net borrowing	8.7	11.5	-2.8	-24.7	78.2	87.7	-9.5	-10.8	-6.1	2.0	-8.1		72.1	89.7	-17.6	-19.6	
Local authorities net borrowing	0.0	1.3	-1.4		-0.9	-1.2	0.4		3.8	3.4	0.4		2.9	2.2	0.8		
Public corporations net borrowing ¹	-1.2	-1.1	0.0		-3.1	-1.3	-1.9		-3.0	-1.5	-1.6		-6.1	-2.7	-3.4		
Public sector net borrowing¹	7.5	11.7	-4.3	-36.3	74.2	85.2	-11.0	-12.9	-5.3	3.9	-9.2		68.9	89.1	-20.2	-22.7	
Public sector net investment¹	2.5	3.5	-1.0	-27.7	17.3	16.3	1.0	5.9	9.6	13.0	-3.4	-26.1	26.9	29.3	-2.4	-8.3	
Public sector current budget¹	5.0	8.3	-3.3	-39.9	56.9	68.9	-11.9	-17.3	-15.0	-9.1	-5.8	64.2	42.0	59.8	-17.8	-29.8	

¹ Forecast excludes housing associations. See Annex B of our November EFO for more information

November 2015 EFO forecast published 25 November 2015 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: <http://www.ons.gov.uk/ons/rel/psg/public-sector-finances/december-2015/index.html>

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/pubs/EFO_November_2015.pdf

OBR supplementary fiscal tables: http://cdn.budgetresponsibility.independent.gov.uk/Fiscal_Supplementary_Tables_November_2015.xls