Office for **Budget Responsibility**

22 December 2015

Commentary on the Public Sector Finances release: November 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the November 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 has not yet implemented that decision in the official data, so this commentary compares latest data with our November forecast excluding the effect of the reclassification. (We expect 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 November was £14.2 billion, up £1.3 billion on a year earlier and £2.4 billion higher than market expectations. This is the second consecutive month that borrowing has been higher than a year earlier, although borrowing in the first seven months of 2015-16 has been revised down by £1.6 billion relative to last month's release.

4. Higher borrowing in November, relative to last year, reflects the fact that receipts were up just £0.5 billion on a year earlier but central government spending was £1.7 billion higher. But timing effects and other one-off factors have affected the figures this month:

[1] http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/november-2015/stb.html
[2] 'Classification announcement: "Private registered providers" of social housing in England', ONS, 30 October 2015.

- weak growth in central government accrued receipts reflects slow growth in VAT and NICs, but receipts were also boosted last November by £1.1 billion of fines levied on banks by the Financial Conduct Authority related to failings in foreign exchange business practices. This month's data include only £0.1 billion of FCA fines; and

- central government spending relative to last November was boosted by a £1.0 billion rise in EU contributions and a £0.8 billion rise in DfID spending related to payments to the World Bank, with the effects of both expected to unwind next month.

5. Meeting our November *EFO* forecast for PSNB in 2015-16 – on the basis of the current public finances data prior to implementing the housing associations reclassification – would require a £20.3 billion reduction in borrowing over the full financial year. Over the first eight months of the financial year, borrowing was only £6.6 billion lower than last year. If borrowing was to fall at the same average year-on-year rate in the next four months, PSNB would only fall by around £10 billion in 2015-16 as a whole. Considerable uncertainty remains over prospects for borrowing in the rest of the financial year, but we continue to expect PSNB to fall more sharply over the final four months of the year than over the first eight. This is due to:

   - central government accrued receipts (excluding APF transfers) were up 3.7 per cent in the first eight months, compared with the 4.3 per cent growth we expected for the full financial year in our latest *EFO*. Growth in many of the larger revenue streams - such as PAYE income tax, NICs, VAT and onshore corporation tax - are close to or above our full-year forecasts. Slower growth in receipts partly reflects the fact that we include some smaller receipts streams in our forecast that are not yet included in the ONS outturn data[3]. We also expect growth in self-assessment (SA) income tax and stamp duty land tax to pick up in the remainder of the financial year (explained below);

   - central government spending for the year-to-date is stronger than our full-year forecast, particularly when the spending streams not yet included in the ONS release are excluded. However, the timing effects from this month's release will unwind. The DFID payment to the World Bank was made in December last year. The EU contributions related to gross national income (GNI) and VAT are running ahead of last year's profile of payments by £1 billion at the end of November, but much of this is expected to unwind in December because last December's data include the £2.9 billion accrued payment that included the large one-off payment related to historical revisions to the UK GNI. In addition, the in-year spending cuts announced by the Government in June are likely to have most of their effect in the second half of the financial year; and

   - central government current grants to local authorities are expected to be lower in the remainder of the financial year than in 2014-15. This will reduce central government spending with an offsetting effect on local authority borrowing.

[3] Table 2.44 in the November 2015 *EFO* supplementary fiscal tables on our website provides more details on receipts and spending streams not yet included in the ONS release.

Detailed commentary

6. PSNB was £14.2 billion in November, up £1.3 billion on a year earlier. This was primarily due to higher central government borrowing, with receipts up £0.5 billion and spending up £1.7 billion on last year. Borrowing by local authorities and public corporations were little changed.

7. Revisions in this month's release have reduced PSNB in the first seven months of 2015-16 by £1.6 billion. Central government spending was revised down by £0.5 billion (largely reflecting revisions from the Department for Health and the Ministry of Defence). Central government receipts were revised up by £1.3 billion (largely reflecting higher cash VAT and PAYE receipts in November, which were accrued back to earlier months).

8. Central government receipts in November were up just 1.1 per cent on a year earlier. As noted earlier, this partly reflects the FCA fines that boosted receipts last November. Estimates of accrued VAT and NICs are based on forecasts of cash receipts for future months, so the slow growth in November in both these receipts streams will be subject to revision as data on actual cash receipts replace those forecasts. Growth in receipts for the year-to-date remains at or above the full-year forecast for PAYE income tax, NICs, VAT and onshore corporation tax. In addition to receipts not yet included in the ONS numbers, we expect SA receipts to be boosted by various policy measures from previous Budgets and Autumn Statements, including the measure on partnership income. The year-on-year increase for stamp duty should also 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. The giveaway associated with the December 2014 introduction of a 'slice' system for residential properties will also stop depressing year-on-year growth from December.

9. Total central government spending in November was £1.7 billion higher than a year earlier, comprising a £0.7 billion increase in current spending and a £1.0 billion increase in capital spending. The overall increase in current spending is more than explained by a £1.0 billion increase in VAT and GNI based EU contributions, which reflects timing differences in the profile of payments compared to last year. Next month, the year-on-year comparison will be against December 2014, when £2.9 billion of payments to the EU were included in accrued spending, much in relation to a one-off adjustment following revisions to historical GNI data in the UK and other Member States. We do not expect that to be repeated this year. Within current spending, spending on net social benefits was also £0.3 billion higher. These increases were partly offset by a £0.9 billion reduction in debt interest, reflecting the monthly path of RPI inflation that affects accrued payments on index-linked gilts, and a £0.4 billion drop in current grants to local authorities.

10. The £1.0 billion increase in capital spending in November is largely explained by a £0.8 billion increase in spending by the Department for International Development (DfID), which mainly reflects a payment to the World Bank in relation to the International Development Association. In 2014 the equivalent payment was made in December, so we expect this timing effect to unwind next month. Taken together, the £1.8 billion timing effects from EU

contributions and DFID capital spending more than explain the £1.7 billion increase in central government spending in November.

11. Total central government spending in the first eight months of 2015-16 was £5.7 billion higher than a year earlier, an increase of 1.2 per cent compared to the 0.9 per cent increase for the whole of 2015-16 we forecast in our November *EFO*. This difference is more than explained by timing differences in the profile of payments of central government grants to local authorities, plus the EU contributions and DfID effects described above. For the eight months to November, central government current grants to local authorities are £2.7 billion lower than a year earlier, but for the remaining four months of the year, our November forecast assumes a further £2.9 billion fall, thereby reducing central government spending (with an offsetting effect on local authority borrowing).

12. In our November forecast, public sector net debt (PSND) was expected to fall from 82.5 per cent of GDP at the end of 2014-15 to 81.7 per cent by the end of 2015-16. Excluding the effect of the housing associations reclassification (consistent with today's data release), we expect a fall from 80.0 per cent to 79.2 per cent. The ONS estimates that PSND in November was still up by 0.8 per cent of GDP on a year earlier. 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 eight 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 is expected to reduce PSND in December, at which point around four-fifths of the proceeds from asset sales expected in 2015-16 will be reflected in the official data.

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

	November			Full year		
	£ billion			£ billion		
	2015	2014	change	2015-16 forecast	2014-15 outturn	change
Public sector net borrowing[1,2]	82.6	97.5	-14.8	68.9	89.2	-20.3
CG net cash requirement ex[1,3]	91.3	94.1	-2.8	75.5	92.3	-16.9
Public sector net cash requirement[1,2]	62.6	76.5	-13.9	56.5	72.6	-16.1
	Public sector net debt (PSND)					
PSND (£billion)[2]	1536	1465	72	1536	1487	49
PSND (per cent of GDP)[2]	80.5	79.7	0.8	79.2	80.0	-0.8

[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.

Table 1.2: Public sector receipts, expenditure and net borrowing[1]

£ billion	November				April to November				Implied December to March				November forecast			
			change				change				change		2015-16	2014-15	change	
	2015	2014	£bn	%	2015-16	2014-15	£bn	%	2015-16	2014-15	£bn	%	Nov EFO	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	20.1	19.8	0.3	1.7	159.6	154.9	4.7	3.0	83.2	77.1	6.1	7.9	242.7	232.0	10.8	4.6
Of which: VAT (accrued)	10.9	10.8	0.1	0.8	86.1	82.7	3.4	4.1	43.6	42.1	1.5	3.6	129.7	124.8	4.9	3.9
Taxes on income and wealth	13.2	12.6	0.6	4.7	130.1	124.4	5.7	4.6	92.3	88.4	3.9	4.4	222.3	212.7	9.6	4.5
Of which:																
Income tax and CGT (accrued)	11.4	11.1	0.3	2.5	100.5	96.1	4.4	4.6	77.7	73.1	4.6	6.3	178.2	169.2	9.0	5.3
Corporation tax	1.7	1.3	0.4	26.7	29.3	27.5	1.8	6.4	15.0	15.5	-0.5	-2.9	44.3	43.0	1.3	3.0
Other taxes	1.5	1.4	0.2	11.2	12.7	11.8	0.9	8.0	5.9	5.6	0.2	3.9	18.6	17.4	1.2	6.7
Compulsory social contributions	8.9	8.8	0.2	2.1	72.8	70.0	2.8	4.0	41.8	40.3	1.6	3.9	114.6	110.3	4.4	4.0
Interest & dividends	0.7	0.5	0.3	53.2	12.3	14.1	-1.8	-12.7	4.7	5.0	-0.3	-6.0	17.0	19.1	-2.1	-10.9
Other receipts	1.9	2.9	-1.0	-35.7	14.9	15.3	-0.4	-2.4	7.6	7.1	0.5	7.5	22.5	22.4	0.2	0.7
Total CG current receipts	**46.3**	**45.9**	**0.5**	**1.1**	**402.4**	**390.4**	**12.0**	**3.1**	**235.4**	**223.4**	**12.0**	**5.4**	**637.8**	**613.8**	**24.0**	**3.9**
CG current expenditure																
Interest payments	3.3	4.2	-0.9	-20.7	33.1	33.9	-0.8	-2.5	13.4	11.3	2.2	19.3	46.5	45.2	1.3	2.9
Net social benefits	18.4	18.1	0.3	1.8	137.2	135.8	1.4	1.0	67.6	65.9	1.8	2.7	204.8	201.7	3.1	1.5
CG current grants to LAs	8.4	8.8	-0.4	-4.0	80.4	83.1	-2.7	-3.2	36.6	39.5	-2.9	-7.3	117.0	122.6	-5.6	-4.5
Other	24.6	23.0	1.5	6.7	188.8	182.7	6.0	3.3	99.5	98.1	1.4	1.5	288.3	280.9	7.4	2.6
Total current expenditure	**54.7**	**54.1**	**0.7**	**1.2**	**439.3**	**435.5**	**3.8**	**0.9**	**217.3**	**214.8**	**2.5**	**1.2**	**656.6**	**650.3**	**6.3**	**1.0**
Depreciation	1.5	1.5	0.0	1.8	12.2	11.9	0.2	1.9	6.4	6.0	0.4	7.3	18.6	17.9	0.7	3.7
CG current budget deficit	**9.9**	**9.7**	**0.2**	**2.1**	**49.1**	**57.1**	**-8.0**	**-14.0**	**-11.7**	**-2.7**	**-9.0**		**37.4**	**54.4**	**-17.0**	**-31.2**
CG net investment	3.3	2.3	1.0	41.8	20.7	19.1	1.7	8.7	14.0	16.3	-2.4	-14.4	34.7	35.4	-0.7	-2.0
of which: CG capital grants to LA	0.9	0.7	0.2	25.9	9.4	8.1	1.3	16.4	2.8	3.9	-1.1	-28.5	12.2	12.0	0.2	1.7
CG net borrowing	**13.2**	**12.0**	**1.2**	**9.7**	**69.8**	**76.1**	**-6.3**	**-8.3**	**2.3**	**13.6**	**-11.4**	**-83.5**	**72.1**	**89.8**	**-17.7**	**-19.7**
Local authorities net borrowing	2.0	2.0	0.0		-1.0	-2.6	1.6		3.9	4.7	-0.8		2.9	2.2	0.8	
Public corporations net borrowing[1]	-1.0	-1.1	0.1		-1.9	-0.1	-1.8		-4.2	-2.6	-1.6		-6.1	-2.7	-3.4	
Public sector net borrowing[1]	**14.2**	**12.9**	**1.3**		**66.9**	**73.4**	**-6.6**	**-8.9**	**2.0**	**15.8**	**-13.8**	**-87.4**	**68.9**	**89.2**	**-20.3**	**-22.8**
Public sector net investment[1]	**2.9**	**2.2**	**0.8**	**35.2**	**15.0**	**12.8**	**2.1**	**16.7**	**11.9**	**16.5**	**-4.6**	**-27.8**	**26.9**	**29.3**	**-2.4**	**-8.3**
Public sector current budget[1]	**11.2**	**10.7**	**0.5**	**5.0**	**51.9**	**60.6**	**-8.7**	**-14.4**	**-9.9**	**-0.7**	**-9.2**		**42.0**	**59.9**	**-17.9**	**-29.9**

[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/psa/public-sector-finances/november-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