Commentary on the Public Sector Finances release: November 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the November 2017 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 2017 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) was £8.7 billion in November, down £0.2 billion on a year earlier and £0.3 billion below market expectations. A £2.6 billion rise in central government receipts was only partly offset by a £2.2 billion rise in central government spending. Borrowing by local authorities was up by £0.2 billion on a year earlier.

3. The ONS has implemented its decision to reclassify English housing associations from the public to the private sector in this release. This change was anticipated in our November 2017 forecast and reduced our PSNB forecast by £1.4 billion in 2017-18. The reclassification took effect last month, so will only affect the data from November onwards. The ONS has included some other smaller methodological and classification changes in this release that were also mostly anticipated in our November forecast.

4. Having been revised down significantly since the first outturn estimate in April, PSNB for 2016-17 was this month further revised down by £0.2 billion to £45.5 billion. Downward revisions to borrowing from public corporations (related to the use of latest data from the Whole of Government Accounts) more than offset downward revisions to onshore corporation tax receipts. The latest estimate is now £6.5 billion lower than the initial estimate from April.

5. Borrowing to date in 2017-18 is down 6.1 per cent on the same point a year earlier, in contrast to our November forecast of a 9.6 per cent rise over the full year. This is largely because the year-to-date does not include the key months for self-assessment (SA) income tax

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receipts (January and February). We expect SA receipts to be £3.1 billion lower for the full year than in 2016-17 as dividend forestalling effects from last year unwind.

6. There is greater uncertainty than usual around local authority (LA) net borrowing this year, given the large increase in borrowing in 2016-17 as reserves were drawn down and 'prudential' borrowing was greater than expected. If that were to be repeated this year, it might not be confirmed in outturn data until September 2018. We expect LA net borrowing in 2017-18 to be £1.7 billion higher than the 2016-17 outturn.

Detailed commentary

7. PSNB in November was £8.7 billion, down £0.2 billion on a year earlier. A £2.2 billion rise in central government (CG) spending was more than offset by the £2.6 billion rise in CG receipts. Borrowing by local authorities was £0.2 billion higher while borrowing by public corporations was broadly flat on a year earlier.

8. Relative to the same period last year, CG receipts (excluding APF transfers) were up 5.1 per cent in November and 4.0 per cent year-to-date. These compare with our full-year forecast of a 3.0 per cent rise. SA receipts are expected to fall this year as the boost to 2016-17 from dividend income shifting (see Box 4.3 of our March 2017 *EFO*) will not be repeated this year. But that will only be seen in the data in early 2018, so we would expect CG receipts growth to outpace our full-year forecast until January and February 2018.

9. Total CG spending was £2.2 billion (3.8 per cent) higher than last November. The main driver of the increase was other current spending (up by £1.6 billion or 6.9 per cent on last year), mainly due to higher departmental spending. CG debt interest spending was also up by £0.5 billion (12.5 per cent) on last November, reflecting higher RPI inflation, which continues to raise accrued interest on index-linked gilts. Net social benefits spending was higher by £0.3 billion (1.5 per cent), while net transfers to EU institutions were broadly unchanged on last year. CG net investment was up by £0.2 billion (10.1 per cent) on last November, mainly due to higher capital spending by departments.

10. For the first eight months of the year, CG spending was up by £14.3 billion (3.0 per cent), in line with our full-year forecast (on a like-for-like basis). This reflects a number of offsetting differences. Areas where year-to-date growth is below our full-year forecast on a like-for-like basis include net social benefits (up 1.6 versus 2.2 per cent) and CG net investment (up 3.0 versus 5.0 per cent). In other areas, year-to-date growth is above our full-year forecast, including current grants to local authorities (down 1.1 versus a forecast fall of 1.3 per cent) and other current spending (up 3.3 versus 2.9 per cent). CG debt interest payments are up 15.6 per cent so far this year, slightly more than our full-year forecast of 12.4 per cent, again reflecting the path of RPI inflation. All CG spending data can be volatile and are subject to revision.

11. The reclassification of English housing associations to the private sector also affects public sector net debt (PSND). As the reclassification took effect on 16 November (when Parliament passed the relevant regulations), PSND excludes the debt of English housing associations from

that date. End-November PSND is therefore £65.5 billion or 3.2 per cent of GDP lower as a result of the reclassification. But compared with a year earlier, PSND is still 1.2 per cent of GDP higher. This is more than explained by implementation of the Bank of England's August 2016 monetary policy measures, which have raised PSND by around £116 billion. The Term Funding Scheme accounts for £93 billion of this rise. We assume a total TFS drawdown of £130 billion by February 2018 (compared with a limit of £140 billion). PSND excluding the Bank of England was down by 3.5 per cent of GDP compared with last November.

Table 1.1: Public sector receipts, expenditure and net borrowing[1]

£ billion	November				April to November				Implied December to March				November forecast			
			change				change				change		2017-18	2016-17	change	
	2017	2016	£bn	%	2017-18	2016-17	£bn	%	2017-18	2016-17	£bn	%	EFO	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	23.0	21.7	1.3	5.9	177.7	168.6	9.1	5.4	88.7	84.7	3.9	4.6	266.4	253.3	13.1	5.2
Of which: VAT (accrued)	12.0	11.6	0.4	3.1	93.1	89.5	3.7	4.1	46.8	46.0	0.9	1.9	139.9	135.4	4.5	3.3
Taxes on income and wealth[1]	16.7	16.0	0.7	4.4	143.9	140.5	3.5	2.5	96.8	100.3	-3.5	-3.5	240.7	240.8	0.0	0.0
Of which:																
Income tax and CGT (accrued)	12.5	11.7	0.7	6.2	106.9	103.4	3.5	3.4	79.1	82.2	-3.2	-3.9	186.0	185.6	0.3	0.2
Corporation tax (accrued)	4.2	4.2	0.0	-0.1	36.9	37.0	-0.1	-0.3	17.7	18.2	-0.4	-2.4	54.6	55.2	-0.6	-1.0
Other taxes	1.4	1.4	0.0	2.4	12.0	11.7	0.4	3.2	5.7	5.8	-0.1	-0.9	17.7	17.4	0.3	1.8
Compulsory social contributions	10.3	9.9	0.4	3.6	83.7	80.3	3.4	4.2	47.3	45.7	1.7	3.7	131.0	125.9	5.1	4.0
Interest & dividends	0.8	0.6	0.2	32.7	14.9	13.3	1.7	12.4	6.5	5.1	1.3	26.1	21.4	18.4	3.0	16.3
Other receipts	1.9	1.9	0.0	0.6	14.9	14.8	0.1	0.6	8.2	8.1	0.1	1.2	23.1	22.9	0.2	0.8
Total CG current receipts	54.0	51.4	2.6	5.0	447.2	429.1	18.1	4.2	253.2	249.7	3.4	1.4	700.4	678.8	21.6	3.2
CG current expenditure																
Interest payments	4.6	4.1	0.5	12.5	40.1	34.7	5.4	15.6	14.6	14.0	0.6	4.3	54.7	48.7	6.0	12.4
Net social benefits	18.9	18.6	0.3	1.5	140.6	138.3	2.3	1.6	68.9	66.4	2.5	3.7	209.5	204.7	4.8	2.3
CG current grants to LAs	8.2	8.6	-0.3	-3.9	76.9	77.8	-0.9	-1.1	35.9	36.6	-0.6	-1.7	112.9	114.4	-1.5	-1.3
VAT and GNI-based payments to EU[2]	0.9	1.0	-0.1	-7.9	7.4	6.6	0.8	11.7	3.2	3.0	0.3	9.4	10.6	9.6	1.0	11.0
Other CG current expenditure	25.1	23.5	1.6	6.9	193.4	187.3	6.1	3.3	101.1	97.0	4.0	4.2	294.5	284.4	10.1	3.6
Total current expenditure	57.7	55.7	2.0	3.6	458.4	444.7	13.7	3.1	223.7	216.9	6.8	3.1	682.2	661.7	20.5	3.1
Depreciation	1.5	1.5	0.0	0.9	12.1	12.2	-0.1	-0.8	6.5	6.1	0.5	7.7	18.6	18.2	0.4	2.0
CG current budget deficit	5.3	5.8	-0.6	-9.6	23.3	27.8	-4.5	-16.3	-22.9	-26.7	3.8	-14.3	0.4	1.1	-0.7	
CG net investment	2.4	2.2	0.2	10.1	22.6	21.9	0.7	3.0	17.3	16.1	1.3	7.8	39.9	38.0	1.9	5.0
of which: CG capital grants to LA	0.5	0.6	-0.1	-16.7	6.9	7.7	-0.9	-11.1	5.1	3.2	1.8	56.8	11.9	10.9	1.0	9.0
CG net borrowing	7.7	8.0	-0.3		45.8	49.7	-3.9	-7.8	-5.5	-10.6	5.1		40.3	39.1	1.2	3.1
Local authorities net borrowing	2.0	1.8	0.2		-0.4	0.7	-1.1	-157.1	9.8	7.1	2.7	38.4	9.4	7.8	1.7	21.4
Public corporations net borrowing	-1.0	-1.0	0.0		2.7	0.9	1.8	212.7	-2.6	-2.2	-0.3		0.1	-1.3	1.5	-109.3
Public sector net borrowing	8.7	8.9	-0.2	-1.9	48.1	51.3	-3.1	-6.1	1.7	-5.7	7.5		49.9	45.5	4.4	9.6
Public sector net investment	2.7	2.5	0.2	6.2	21.9	20.2	1.8	8.9	19.8	18.6	1.2	6.5	41.8	38.8	3.0	7.7
Public sector current budget	6.0	6.3	-0.3	-5.1	26.2	31.1	-4.9	-15.8	-18.1	-24.3	6.3		8.1	6.8	1.4	20.0

November 2017 EFO forecast published 22 November 2017 excluding public sector banks on a National Accounts basis.

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[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
   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-fiscal-outlook-november-2017/

[2] Net of abatement.