

Commentary on the Public Sector Finances release: January 2016

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 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 2015 *Economic and fiscal outlook (EFO)*. The next ONS bulletin will be released on 22 March, just after we publish our next *EFO* on 16 March.
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 implemented that decision in this month's release. This decision has increased borrowing by £3.6 billion and public sector net debt by £60 billion (3.3 per cent of GDP) in 2014-15. These are close to the estimates that we included in our November 2015 forecast. The rest of this commentary therefore focuses on the latest data and comparisons with our November forecast including the effects of housing associations.

Summary

3. Public sector net borrowing (PSNB) recorded a surplus of £11.2 billion in January 2016. January is generally the biggest month of the year for tax receipts as payments of self-assessment (SA) and capital gains tax (CGT) relating to the previous financial year (2014-15 liabilities this January) were due at the end of the month.
4. The surplus was £1.0 billion higher than in January 2015, but £1.1 billion lower than market expectations of a £12.3 billion surplus. Timing issues with SA and CGT receipts – 31 January

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/january-2016/stb.html>

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

fell on a Sunday this year – mean that it is not possible to make a full assessment of performance against our forecast until both January and February receipts data are available.

5. Borrowing over the first ten months of the year was down £10.6 billion or 13.7 per cent on the same period a year ago. A simple extrapolation of the year-on-year percentage fall in the deficit would imply full-year borrowing of around £79 billion, a fall of around £13 billion, which would be around £6 billion above our November forecast. But timing effects and the very high likelihood of revisions to the initial outturn data (even after the current fiscal year is over) mean that this is not necessarily a good guide to the eventual outturn figure.
6. On the current data, meeting our full-year forecast for 2015-16 would require borrowing to fall by £18.4 billion in the year as a whole. That implies borrowing of £7.0 billion over the next two months, compared with £14.8 billion in the same period last year. Our November forecast does assume stronger growth in receipts in the remainder of the year (particularly income tax and stamp duty land tax) but local authority borrowing as measured in the statistical bulletin looks likely to exceed our November forecast. Considerable uncertainty remains over prospects for the remaining two months of the financial year, while data on local authority borrowing are often subject to substantial revisions over subsequent months.
7. Public sector net debt (PSND) in January 2016 is estimated to have fallen by 0.1 per cent of GDP relative to January 2015. A major contributor to the drop over the past 12 months has been the Government's programme of financial asset sales, including multi-billion pound sales of Lloyds shares and UK Asset Resolution mortgage assets. But the nominal GDP estimate used to calculate the debt ratio is in part still a forecast, so it remains to be seen if debt is still shown to fall on this basis in the year to January in future outturn estimates.

Detailed commentary

8. January's budget surplus was £1.0 billion up on last year. Central government receipts were £2.4 billion higher than last January, partly offset by a £2.1 billion rise in central government spending. Local authority borrowing was £0.6 billion lower than last year and public corporations' borrowing was £0.2 billion lower.
9. Central government receipts (excluding APF transfers) in January were up 3.7 per cent on a year earlier. SA and PAYE income tax receipts were the main contributors to the year-on-year rise, but were slightly offset by a fall in corporation tax receipts.
10. Payments of SA income tax (SA IT) and CGT relating to 2014-15 liabilities were due at the end of January. SA IT liabilities will have been boosted in 2014-15 as the effect of previously announced measures and a rising tax base helped 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. The strength of property markets in 2014-15 is also expected to have boosted CGT receipts.
11. To meet our November forecast for 2015-16 SA IT and CGT required receipts to be £2.2 billion (7.4 per cent) higher than last year. SA IT and CGT in January was £1.4 billion

(8.4 per cent) higher than last year.³ We will know enough about SA receipts in February to be able to make a fuller assessment of SA IT and CGT receipts in our March *EFO*.

12. January is also an important month for corporation tax receipts, which fell by 7.8 per cent on a year earlier. Many medium and large onshore firms paid the third of four instalment payments on their 2015 profits, while oil and gas firms paid the third and final instalment on their 2015 profits. A rise in receipts from medium and large non-oil, non-financial firms was more than offset by a fall in receipts from oil and gas firms.
13. Central government receipts (excluding APF transfers) in the first 10 months of 2015-16 were £17.7 billion higher than a year earlier, an increase of 3.5 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 two months of the year, including stronger growth in PAYE and SA receipts. The year-on-year increase in 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. The giveaway associated with the December 2014 introduction of a 'slice' system for residential properties stopped depressing year-on-year growth in SDLT receipts in December, with receipts in December and January up 9.6 per cent on a year earlier, compared with a 7.1 per cent fall over the April to November period.
14. Total central government spending in January was £2.1 billion higher than a year earlier, comprising a £1.5 billion increase in current spending and a £0.6 billion increase in capital spending. The increase in current spending largely reflects a £1.3 billion rise in debt interest payments, reflecting the profile of monthly RPI increases, which affects accrued debt interest on index-linked gilts. Spending on net social benefits fell by £0.2 billion and other current spending increased by £0.3 billion. Central government current grants to local authorities were unchanged from a year ago. Within that overall result, payments by the Department of Health were lower, because of payments brought forward into December, and payments to local authorities by the Department for Communities and Local Government were higher, mainly reflecting differences in the payment profiles for revenue support grant. The increase in CG capital spending reflects a £0.3 billion increase in capital grants to local authorities and a £0.3 billion increase in other capital spending.
15. Total central government spending in the first ten months of 2015-16 was £5.2 billion higher than a year earlier, an increase of 0.9 per cent, just below the 1.0 per cent increase for the whole of 2015-16 that we forecast in our November *EFO*. However, central government grants to local authorities in the remaining two months of the year are expected to be much lower than a year ago. This reflects changes in the profile and reductions in the overall level of revenue support grant.

³ SA income tax, CGT and NIC4 are collected together. The split between these tax streams is provisional and subject to change once HMRC provides a breakdown between these tax streams.

16. In this month's statistical bulletin, the ONS has revised local authority borrowing up by £1.1 billion for the year to date. This means that, over the first nine months of 2015-16, local authority borrowing is now £0.9 billion higher than last year. Other things being equal, we would expect the fall in central government grants to local authorities over the final two months of the year to increase local authority borrowing by more than we forecast in November. This presents a source of uncertainty for our March forecast. It is important to note that judgements about in-year local authority data are always subject to considerable uncertainty given limited information on which to base them, and that initial borrowing estimates are often subject to large revisions.
17. 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 (Table 1.1 shows 83.7 per cent for 2014-15, reflecting revisions to nominal GDP described in last month's commentary). The main reason that we expected PSND to fall as a share of GDP this year is the Government's programme of financial asset sales. Our forecast included £30 billion in respect of these asset sales in 2015-16, of which around four-fifths have already taken place. PSND in January 2015 fell by 0.1 per cent of GDP relative to last year. That reflects asset sales as well as lower borrowing so far this year. Much of the GDP denominator underpinning the January estimate is currently a forecast – the ONS projects forward nominal GDP using the annual growth forecast for nominal GDP from our November forecast – so this initial estimate is subject to considerable uncertainty.⁴ The Government announced on 28 January that the remaining sales of Lloyds shares this year would be postponed, which all else equal would mean PSND being around £5 billion higher at the end of 2015-16 than we assumed in our November forecast.
18. As ever, it is important to bear in mind the scope for initial estimates to be revised over time. We will update our forecast for the debt-to-GDP ratio at the end of 2015-16 in next month's *EFO*. The first ONS estimate of the outturn will be published in April, but at that stage the GDP denominator will still be mostly forecast. It will not be based entirely on outturn estimates of nominal GDP until January 2017, and even then that will be an early view of GDP that can be expected to be revised further over time.

⁴ For the full financial year, the GDP denominator used in the public sector net debt to GDP ratio is centred end-March. For 2015-16, this will be the sum of the final quarter of 2015 and the first three quarters of 2016.

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

	January			Full year		
	£ billion			£ billion		
	2016	2015	change	2015-16 forecast	2014-15 outturn	change
Public sector net borrowing ¹	81.3	96.0	-14.8	73.5	91.9	-18.4
CG net cash requirement ex ^{1,2}	86.1	91.5	-5.4	75.5	92.3	-16.9
Public sector net cash requirement ¹	51.3	78.6	-27.3	61.0	76.3	-15.3
Public sector net debt (PSND)						
PSND (£billion)	1582	1529	53	1599	1547	53
PSND (per cent of GDP)	82.8	82.9	-0.1	82.5	83.7	-1.2

¹ 12 month rolling total.

² 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

19. The February receipts data will include the remaining SA and CGT receipts relating to 2014-15 liabilities and the initial PAYE receipts from financial sector bonuses.
20. The next ONS bulletin will be released on 22 March, shortly after publication of the Budget and our next EFO, so we will not publish a commentary on that day.

Table 1.2: Public sector receipts, expenditure and net borrowing¹

£ billion	January				April to January				Implied February to March				November forecast				
			change				change				change		2015-16		2014-15		
	2016	2015	£bn	%	2015-16	2014-15	£bn	%	2015-16	2014-15	£bn	%	Nov	EFO	outturn	£bn	%
Central government (CG) current receipts																	
Taxes on production	19.6	18.9	0.7	3.7	200.0	194.1	5.8	3.0	42.7	38.1	4.7	12.3	242.7	232.2	10.5	4.5	
<i>Of which: VAT (accrued)</i>	11.0	10.7	0.3	2.7	108.2	104.4	3.8	3.7	21.5	20.5	1.0	5.0	129.7	124.8	4.9	3.9	
Taxes on income and wealth	38.0	36.6	1.3	3.7	184.5	177.2	7.3	4.1	37.8	35.5	2.3	6.4	222.3	212.7	9.6	4.5	
<i>Of which:</i>																	
<i>Income tax and CGT (accrued)</i>	30.3	28.5	1.8	6.5	143.7	137.2	6.5	4.7	34.5	32.0	2.5	7.9	178.2	169.2	9.0	5.3	
<i>Corporation tax</i>	7.7	8.4	-0.7	-7.8	40.5	39.3	1.2	3.0	3.8	3.7	0.1	3.6	44.3	43.0	1.3	3.0	
Other taxes	1.4	1.4	0.0	3.0	15.5	14.4	1.1	7.7	3.1	2.9	0.2	7.5	18.6	17.2	1.3	7.7	
Compulsory social contributions	9.6	9.2	0.3	3.7	91.8	88.7	3.1	3.5	22.8	21.6	1.3	5.9	114.6	110.3	4.4	4.0	
Interest & dividends	2.6	2.6	0.0	-1.0	15.6	17.2	-1.6	-9.4	1.4	1.9	-0.5	-24.8	17.0	19.1	-2.1	-10.9	
Other receipts	1.8	1.8	0.0	-1.1	18.7	19.1	-0.3	-1.8	3.8	3.6	0.2	5.6	22.5	22.7	-0.1	-0.6	
Total CG current receipts	72.9	70.5	2.4	3.4	526.1	510.6	15.5	3.0	111.7	103.6	8.1	7.9	637.8	614.2	23.6	3.8	
CG current expenditure																	
Interest payments	4.2	2.9	1.3	46.0	40.8	40.5	0.3	0.8	5.7	4.7	1.0	21.2	46.5	45.2	1.3	2.9	
Net social benefits	16.5	16.7	-0.2	-0.9	171.0	169.8	1.2	0.7	33.8	31.9	1.9	5.9	204.8	201.7	3.1	1.5	
CG current grants to LAs	8.8	8.9	0.0	-0.1	99.7	101.2	-1.5	-1.5	17.3	21.3	-4.1	-19.0	117.0	122.6	-5.6	-4.5	
<i>Other</i>	24.0	23.7	0.3	1.3	236.0	231.6	4.4	1.9	52.3	48.8	3.6	7.3	288.3	280.4	7.9	2.8	
Total current expenditure	53.5	52.1	1.5	2.8	547.5	543.1	4.4	0.8	109.1	106.7	2.4	2.3	656.6	649.8	6.8	1.0	
Depreciation	1.5	1.5	0.0	2.5	15.2	14.9	0.3	1.7	3.4	3.0	0.4	13.4	18.6	17.9	0.7	3.7	
CG current budget deficit	-17.8	-16.9	-0.9	5.2	36.6	47.4	-10.8	-22.7	0.8	6.1	-5.3		37.4	53.5	-16.1	-30.1	
CG net investment	3.9	3.2	0.6	19.9	26.5	26.0	0.5	2.0	8.1	9.3	-1.2	-13.0	34.7	35.4	-0.7	-2.0	
<i>of which: CG capital grants to LA</i>	1.5	1.1	0.3	28.4	10.22	9.86	0.4	3.7	2.0	2.1	-0.2	-7.2	12.2	12.0	0.2	1.7	
CG net borrowing	-13.9	-13.7	-0.2	1.7	63.1	73.4	-10.3	-14.0	8.9	15.5	-6.5		72.1	88.9	-16.8	-18.9	
Local authorities net borrowing	1.7	2.3	-0.6		2.0	1.1	0.9		0.9	1.1	-0.2		2.9	2.2	0.8		
Public corporations net borrowing	1.0	1.2	-0.2		1.3	2.6	-1.3		-2.9	-1.8	-1.1		-1.5	0.8	-2.4		
Public sector net borrowing	-11.2	-10.2	-1.0	9.7	66.5	77.0	-10.6	-13.7	7.0	14.8	-7.8		73.5	91.9	-18.4	-20.0	
Public sector net investment	4.1	3.8	0.3	8.2	26.1	24.2	1.8	7.6	7.5	10.6	-3.1	-29.1	33.6	34.8	-1.3	-3.6	
Public sector current budget	-15.3	-14.0	-1.3	9.3	40.4	52.8	-12.4	-23.5	-0.5	4.2	-4.7		39.9	57.0	-17.1	-30.0	

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/january-2016/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