

Commentary on the Public Sector Finances release: January 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 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 2016 *Economic and fiscal outlook (EFO)*. This is the final bulletin before our forthcoming forecast, alongside the Budget on March 8, which will be based on this data and some administrative data on February receipts.
2. In this month's release, the ONS has implemented a new accruals methodology for recording corporation tax (CT) in the official data. It was previously recorded on a cash basis (when HMRC receives the tax). The cash receipts will now be time-shifted back so that they are recorded closer to the time when the economic activity that created the CT liabilities took place. One consequence of this change is that measured CT receipts are smoothed over the year rather than peaking in the months that contain most quarterly instalment payments. (These include January, so this is relevant to the single-month data in this release). Our November CT forecast was on a cash basis for 2016-17, so is not directly comparable. Box 4.2 in our November *EFO* provides more detail on the methodological change.
3. The ONS has also implemented its decision to reclassify private registered providers of social housing in Scotland, Wales and Northern Ireland to the public sector. Such providers in England had already been classified to the public sector. We anticipated this classification decision in our November *EFO* forecast.

Summary

4. On the new basis, public sector net borrowing (PSNB) recorded a surplus of £9.4 billion in January. January is generally the biggest month of the year for tax receipts as payments of

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2017>

self-assessment (SA) income tax and capital gains tax (CGT) relating to the previous financial year (2015-16 liabilities this January) were due at the end of the month. On the old basis, it was also a big month for CT receipts, but on the time-shifted basis the strong cash receipts recorded this month (up 26 per cent on a year earlier) are recorded across preceding months.

5. The January surplus was £0.3 billion higher than in January 2016. But it was £4.6 billion lower than market expectations. However, these expectations are unlikely to have factored in the change to the monthly pattern of measured CT receipts. On the old cash basis January CT receipts would have been £5.8 billion higher than now recorded. The larger surplus compared to last year reflected a £3.7 billion (5.3 per cent) increase in central government receipts, mainly due to strong SA income tax and CGT receipts.
6. Based on the latest data for 2015-16, meeting our latest forecast for PSNB in 2016-17 would require it to fall by £3.5 billion over the full financial year. (This is lower than we previously thought, reflecting a £3.7 billion downward revision to 2015-16 PSNB on the new basis). Ten months into the year, PSNB is already £13.6 billion lower than last year. As well as downward revisions to earlier months of 2016-17, this reflects stronger receipts growth in recent months than our full-year forecast of 4.3 per cent. Simply extrapolating this percentage change over the final two months of the year would imply full-year PSNB of £56.2 billion, a £12.0 billion bigger fall than required to meet our November forecast, with £1.6 billion of that reflecting the CT classification change.
7. Stronger than expected receipts growth since our November forecast reflects:
 - cash receipts of **corporation tax** have grown more strongly to date than our full-year forecast. The new CT accruals methodology accrues the instalment payments to earlier months of 2016-17 and non-instalment payments to 2015-16;
 - SA receipts (**SA income tax and capital gains tax**) were up £2.0 billion (11.2 per cent) in January on a year earlier. This relates to final payments on 2015-16 liabilities, which we expected to be boosted by forestalling ahead of the April 2016 rise in the dividend tax. HMRC management information shows SA receipts up £5.2 billion (23.3 per cent) on last year in the period up to 9 February. As this period covers most payments, it should provide a better guide to full-year receipts; and
 - receipts from **PAYE income tax** and **VAT** have all shown somewhat stronger growth than our full-year forecasts.
8. With only two months of the year remaining, extrapolating forward year-on-year changes is likely to give a reasonable sense of the extent to which borrowing is undershooting our November forecast. But considerable uncertainties remain. On the receipts side, financial sector bonuses will affect income tax – our November forecast assumed they would rise 2.5 per cent. And as always, data for central government spending and borrowing by local authorities and public corporations are volatile and prone to significant revision.

9. As well as factoring this latest data into our March forecast, we will need to make judgements about whether and how it should affect future years. For example, future years would be positively affected by higher CGT receipts but negatively affected if we have underestimated the extent of forestalling on SA income tax. Next year will also see the new CT methodology applied in a year when the main CT rate is being cut, the effect of which will be concentrated in the year it happens rather than being partly spread over future years due to payment lags. Overall, one should not necessarily assume that a large undershoot of the forecast this year would feed through fully into future years.

Detailed commentary

10. January's budget surplus was £9.4 billion, up £0.3 billion on last year. A £2.8 billion rise in central government spending (reflecting higher current expenditure) was more than offset by a £3.7 billion rise in central government receipts. Borrowing by local authorities was up by £0.4 billion on a year earlier (reflecting the lower grants from central government), while borrowing by public corporations was up £0.2 billion on a year earlier.
11. Central government (CG) accrued receipts (excluding APF transfers) in January were up 5.2 per cent on a year earlier. SA income tax and CGT receipts were the main contributors to the rise, along with strong VAT and NICs, the latter continuing to be boosted by the abolition of the contracting-out rebate from April 2016.
12. Payments of SA income tax and CGT relating to 2015-16 liabilities were due at the end of January. Income tax liabilities will have been boosted in 2015-16 by forestalling ahead of the rise in dividend tax from April 2016, which was originally estimated to add £2.5 billion to 2016-17 receipts. It is too early to tell how much of the growth in SA income tax is due to underestimating this effect. We will need to make a judgement about it for our March forecast on the basis of HMRC's provisional analysis of SA returns, but expect to have to revise that judgement in future forecasts.
13. To meet our November forecast for 2016-17 SA income tax and CGT required receipts to be £4.6 billion higher than last year. Together, SA IT and CGT² in January were £2.0 billion (11.2 per cent) higher than last year. HMRC has reported some management information on receipts up to 9 February in its monthly release. This indicates that total SA receipts (SA IT, CGT and NIC4) in January and early February were up £5.2 billion (23.3 per cent) on a year earlier, higher than our November forecast. We should have sufficient information about SA receipts in February to make a fuller assessment of SA IT and CGT receipts in our March EFO.
14. January was also an important month for cash payments of CT as many medium and large onshore firms paid the third of four instalment payments on their 2016 profits, while oil and gas firms paid the third and final instalment on their 2016 profits. CT cash receipts in January were £2.0 billion (26.2 per cent) higher than last year, due to strength in receipts from medium and large non-oil firms as well as one-off payments from litigation cases. This could

² 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 streams

reflect the resilience of sales growth since the referendum, alongside the slowdown in tax-deductible capital spending, both of which may have boosted taxable profits by more than assumed in our November forecast. The latest ONS profits data have been notably strong (although these can also be subject to significant revisions over time).

15. On the new time-shifted CT methodology, the strength in January cash receipts from larger firms is spread evenly over the period from July to October. Similarly, strong growth in January payments by small companies, which are normally paid nine months after the end of their accounting period, will accrue back evenly over the months between April 2015 and March 2016. January CT receipts on the new methodology are only up 2.9 per cent on a year earlier. This is entirely based on an HMRC monthly forecast of future cash receipts that has been constrained to be consistent with our November forecast for full-year receipts in this and future years. Many accrued taxes include forecasts in the latest months until cash receipts are known, but the new CT methodology means that forecasts will affect more months than is the case for income tax or VAT. This means ONS outturns are likely to be revised after we publish updated forecasts in March, and then again when cash receipts data become available.
16. Total CG spending (excluding grants to local authorities) was £3.0 billion higher than a year earlier in January, while CG grants to local authorities were down £0.2 billion on last year. Current spending was £2.3 billion higher, mostly due to more other current spending (up £1.7) billion, largely reflecting higher spending on public services). VAT and GNI-based transfers to the EU (net of abatement) were £0.5 billion higher, largely reflecting a different monthly spending profile to last year. There were small changes in net social benefits spending (up £0.2 billion on last January) and gross debt interest payments (£0.1 billion down). Capital spending was £0.7 billion higher, largely reflecting higher departmental capital spending, spread across a number of departments.
17. For the first ten months of 2016-17, total CG spending excluding grants to local authorities increased by 3.0 per cent, lower than our full-year forecast (on a like-for-like basis) of 3.7 per cent. Our higher full-year forecast reflects a number of factors, including higher debt interest spending and higher EU transfers. The latter were down 13.2 per cent year-to-date, compared to our November forecast of a 2.3 per cent fall for the year as a whole. This mainly reflects differences in the timing of spending compared to last year. A further uncertainty affecting EU transfers in 2016-17 is the extent of front-loading in the 2017 calendar year via the European Commission's 'draw-forward' of contributions. (This amount will be known in time to include in our March forecast). Grants to local authorities were £4.8 billion lower over the first ten months of the year. That mainly reflected reductions in the Revenue Support Grant, where the initial payments were £3.0 billion lower in April 2016. Reductions in CG grants are likely to have an offsetting effect on local authority borrowing in the short term.
18. Public sector net debt (PSND) rose by 1.9 per cent of GDP in January from a year earlier. Much of the upward pressure reflects implementation of the Bank of England's package of monetary policy measures announced in August. Our November forecast assumed that PSND by the end of 2016-17 would be up by 3.1 per cent of GDP on a year earlier. By the end of January, monetary policy measures had the following effects:

- the **Term Funding Scheme** (TFS), which provides Bank of England funding to UK banks and building societies that choose to participate, adds to PSND since the reserves created to finance it add to debt but the loans are treated as illiquid assets that do not net off PSND. Use is demand-led. We assumed in November that take-up would reach £33 billion by the end of 2016-17 (and peak at £85 billion by the end of 2017-18). Use had already reached £31.4 billion by the end of January; 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 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 November that purchases of corporate bond and gilts would together add £16 billion to PSND by the end of 2016-17 (rising to £27 billion by the end of 2017-18). Following faster than projected usage, by end of January these additional purchases had already added around £14 billion to PSND.

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

	January			Full year		
	£ billion			£ billion		
	2017	2016	change	2016-17 forecast	2015-16 outturn	change
Public sector net borrowing ¹	58.0	74.8	-16.8	68.2	71.7	-3.5
CG net cash requirement ex ^{1,2}	74.6	86.1	-11.5	85.7	78.5	7.2
Public sector net cash requirement ¹	55.7	52.3	3.5	123.8	50.3	73.5
Public sector net debt (PSND)						
PSND (£ billion)	1683	1591	92	1725	1606	119
PSND (per cent of GDP)	85.3	83.4	1.9	87.3	83.7	3.6

¹ 12 month rolling total.

² 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 borrowing¹

£ billion	January				April to January				Implied February to March				November forecast					
			change				change				change		2016-17		2015-16		change	
	2017	2016	£bn	%	2016-17	2015-16	£bn	%	2016-17	2015-16	£bn	%	Nov	EFO	outturn	£bn	%	
Central government (CG) current receipts																		
Taxes on production	20.2	19.8	0.3	1.6	210.2	201.9	8.2	4.1	42.0	40.5	1.5	3.8	252.2	242.4	9.8	4.0		
Of which: VAT (accrued)	11.4	11.0	0.4	3.7	113.1	109.1	4.1	3.7	20.8	21.5	-0.6	-3.0	133.9	130.5	3.4	2.6		
Taxes on income and wealth ¹	36.3	34.3	2.0	5.8	191.4	181.0	10.5	5.8	36.6	41.1	-4.5	-10.9	228.1	222.1	6.0	2.7		
Of which:																		
Income tax and CGT (accrued)	32.2	30.3	1.9	6.1	146.9	142.6	4.3	3.0	34.0	33.3	0.7	2.2	180.9	175.9	5.0	2.8		
Other taxes	1.5	1.4	0.1	3.9	15.1	15.2	0.0	-0.1	3.0	3.3	-0.2	-7.0	18.2	18.4	-0.2	-1.3		
Compulsory social contributions	10.6	9.8	0.8	8.0	101.5	93.1	8.4	9.0	22.9	21.0	1.9	9.0	124.4	114.1	10.3	9.0		
Interest & dividends	2.9	2.5	0.4	17.1	17.1	15.3	1.8	11.9	0.5	1.9	-1.4	-71.7	17.6	17.2	0.4	2.6		
Other receipts	1.9	1.8	0.1	6.3	18.3	18.8	-0.5	-2.4	4.6	3.7	0.9	24.1	22.9	22.5	0.4	1.9		
Total CG current receipts	73.3	69.6	3.7	5.3	553.7	525.2	28.5	5.4	109.7	111.4	-1.8	-1.6	663.3	636.6	26.7	4.2		
CG current expenditure																		
Interest payments	4.0	4.1	-0.1	-1.8	42.1	39.8	2.3	5.8	7.2	5.4	1.8	34.4	49.3	45.1	4.2	9.2		
Net social benefits	16.7	16.5	0.2	1.3	172.8	171.1	1.7	1.0	33.5	32.5	1.0	3.0	206.2	203.6	2.7	1.3		
CG current grants to LAs	9.4	8.8	0.6	6.4	96.2	99.9	-3.7	-3.7	18.5	18.1	0.4	2.2	114.7	118.0	-3.3	-2.8		
Other	26.0	23.8	2.2	9.1	242.0	234.8	7.1	3.0	56.4	50.5	5.9	11.6	298.4	285.4	13.0	4.6		
Total current expenditure	56.1	53.3	2.9	5.4	553.1	545.6	7.5	1.4	115.6	106.5	9.1	8.5	668.6	652.1	16.6	2.5		
Depreciation	1.6	1.5	0.0	3.2	15.6	15.3	0.3	2.3	3.8	3.1	0.7	21.4	19.4	18.3	1.0	5.5		
CG current budget deficit	-15.6	-14.8	-0.8		15.0	35.6	-20.7	-57.9	9.7	-1.9	11.5		24.7	33.8	-9.1	-27.0		
CG net investment	3.1	3.2	-0.1	-3.9	28.1	26.5	1.6	6.0	9.3	8.4	0.9	10.3	37.4	34.9	2.5	7.1		
of which: CG capital grants to LA	0.7	1.5	-0.8	-52.0	9.0	10.1	-1.1	-11.3	3.2	1.7	1.5	87.1	12.2	11.8	0.3	2.9		
CG net borrowing	-12.4	-11.6	-0.9	7.6	43.1	62.2	-19.1	-30.6	18.9	6.5	12.4		62.1	68.7	-6.7	-9.7		
Local authorities net borrowing	2.0	1.6	0.4		5.2	2.1	3.1		2.7	4.0	-1.3	-32.9	7.9	6.2	1.8			
Public corporations net borrowing	1.1	0.9	0.2	17.1	1.0	-1.4	2.3		-2.8	-1.9	-0.9	49.3	-1.8	-3.2	1.4			
Public sector net borrowing	-9.4	-9.1	-0.3	3.5	49.3	62.9	-13.6	-21.6	18.9	8.7	10.1		68.2	71.7	-3.5	-4.8		
Public sector net investment	3.9	2.9	1.1	37.4	27.2	22.6	4.6	20.4	10.2	9.0	1.2	13.4	37.4	31.6	5.8	18.4		
Public sector current budget	-13.3	-11.9	-1.4		22.1	40.3	-18.2	-45.2	8.7	-0.3	8.9		30.8	40.1	-9.3			

¹ Corporation tax (CT) receipts are now recorded on an accrued basis. Our November CT forecast was on a cash basis. The CT line has been removed from this table as it does not provide a meaningful comparison. We will reinstate this line next month.

November 2016 EFO forecast published 23 November 2016 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: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2017>

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/>