Office for Budget Responsibility

8 December 2016

Supplementary forecast information release

UK oil and gas revenues

1.1 The OBR is releasing the information below following a request for further detail underlying the changes to our UK oil and gas revenues forecast in our November 2016 *Economic and fiscal outlook (EFO)*. We will, as far as possible, meet ongoing requests to release supplementary forecast information where this will improve the quality of the public debate on the public finances. Our full release policy is available on our website.

1.2 We have been asked to show the sources of the upward revision to our UK oil and gas revenues forecast. These are set out in Table 1.1.

1.3 Our forecast for UK oil and gas revenues in 2016-17 has been revised up by £0.5 billion since March, but is still *minus* £0.5 billion. Instalment payments have been stronger than expected so far this year, but revenues remain negative as repayments on petroleum revenue tax (PRT) are still expected to more than offset net corporation tax (CT) payments.

1.4 Thereafter our revenue forecast has been revised up in all years – by £2.5 billion in 2020-21 – and is now positive from 2017-18 onwards. This is the first time we have revised our North Sea revenues forecast up since March 2011. This reflects higher sterling oil prices, due to both a higher dollar oil price and a weaker pound. We have also adjusted the methodology we use in our dollar oil price assumption, although the impact is relatively modest. While we continue to use the first two years of the futures curve, we now hold prices flat in real terms thereafter rather than in nominal terms (see paragraph 3.50 of our full *EFO*). The sterling oil price in 2017 is now expected to average £44 a barrel, up from £29 a barrel in our March forecast. Higher gas prices, up 14 to 16½ pence a therm from 2017-18 onwards, also boost receipts. Production in 2016 has been stronger than expected too. We now assume that oil production will be flat until 2019 (rather than until 2018) partly reflecting returns on high levels of capital expenditure over the past few years.

1.5 As Table 1.1 shows, all of these factors contributed to the upward revision to revenues, with the jump in dollar oil prices the biggest contributor. Of the £1.2 billion boost to revenues from dollar oil prices in 2020-21, around 80 per cent reflects the movement in the futures curve since March while 20 per cent is due to the change in forecast assumption methodology.

1.6 As we note in every *EFO,* the judgements underlying the oil and gas revenues forecast are particularly uncertain. These include the extent to which the current oil and gas price environment will affect production and expenditure in the industry and how much the cut in the PRT rate to zero in March 2016 will provide an offset by boosting post-tax returns on oil and gas extraction. The extent to which the high level of losses accumulated in recent years will drag on future receipts is also highly uncertain.

Table 1.1: Key changes to the oil and gas revenues forecast since March

	£ billion				
	Forecast				
	2016-17	2017-18	2018-19	2019-20	2020-21
March forecast	**-1.1**	**-1.0**	**-0.9**	**-1.0**	**-0.9**
November forecast	**-0.5**	**0.9**	**1.5**	**1.8**	**1.6**
Change	0.5	1.9	2.4	2.8	2.5
	Underlying OBR forecast changes				
Total	**0.5**	**1.9**	**2.4**	**2.8**	**2.5**
of which:					
Production and expenditure	0.1	0.3	0.5	0.6	0.5
Dollar oil price	0.4	0.7	1.1	1.0	1.2
Exchange rate	0.1	0.7	0.7	0.7	0.6
Gas prices	0.1	0.7	0.6	0.6	0.7
Modelling and outturn receipts	-0.2	-0.6	-0.5	-0.2	-0.5