

# Commentary on the Public Sector Finances: June 2020

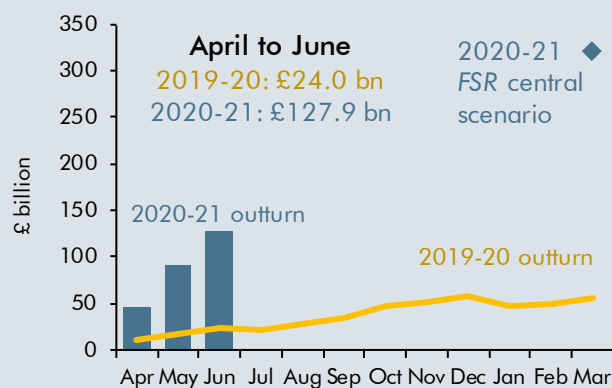
Office for  
**Budget  
Responsibility**

21 July 2020

## Budget deficit reaches £128 billion in just three months

The budget deficit continues to rise sharply. Three months into the 2020-21 fiscal year, tax payments received by HMRC are down by 35 per cent on last year, while central government spending is up 40 per cent. But year-to-date borrowing is lower than assumed in the central scenario from our *Fiscal sustainability report*. That reflects lower departmental spending and loan guarantee write-off costs that are not yet incorporated in the outturn data, as well as surprisingly strong June tax receipts.

Public sector net borrowing



## Headlines

- Today's data highlight the gathering fiscal impact of the **coronavirus crisis**, but the numbers will be prone to revision. It will be many months before the true scale of the shock becomes clear.
- **Public sector net borrowing (PSNB)** totalled £35.5 billion in June, £9.5 billion lower than market expectations. Borrowing over the first three months of the year reached £127.9 billion, despite the deficit for April and May being revised down by £11.4 billion.
- **HMRC cash receipts** over the first three months of 2020-21 are down by roughly a third on a year earlier, with VAT accounting for the bulk of the deterioration thanks to the Government's deferral scheme. Income tax and NICs receipts were surprisingly strong in June.
- **Central government spending** so far in 2020-21 is up by 40 per cent on a year earlier, reflecting the cost of the coronavirus job retention and self-employment income support schemes, plus additional grants to local authorities and higher public services spending.
- **Net debt** rose by 23.4 per cent of GDP on a year earlier to 99.6 per cent in June. Cash debt is up sharply thanks to the impact of higher borrowing and Bank of England schemes. The rise in the debt-to-GDP ratio also reflects the year-on-year fall in nominal GDP assumed in our *FSR* central scenario. As that scenario is not as weak as our April reference scenario, which underpinned last month's public finances data, the ratio has been revised down to below 100 per cent of GDP this month. But it is likely to reach that landmark again soon.

## Monitoring the public finances through the lockdown

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 2020 Public Sector Finances this morning.<sup>1</sup> Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast. But given the large shock to the economy and public finances caused by the coronavirus lockdown, it would not be meaningful to compare the latest data with our March 2020 *Economic and fiscal outlook (EFO)*. Instead, this commentary compares the latest numbers to the monthly profiles we published on 14 July consistent with our *Fiscal sustainability report (FSR)* central scenario (available on our website).

### The public finances in June 2020

2. The first estimate of public sector net borrowing (PSNB) in June 2020 was £35.5 billion, up £28.3 billion on last June but £9.5 billion lower than market expectations. The sharp rise on last year reflected a £16.2 billion rise in central government spending, compounded by a £9.8 billion fall in central government receipts. Local authorities' borrowing was up £2.7 billion on last year as spending increased. Borrowing by public corporations was little changed.
3. Over the first three months of the year, PSNB totalled £127.9 billion, up £103.9 billion on the same period last year. Full-year borrowing has only exceeded £127.9 billion on two occasions (in 2009-10 and 2010-11). The jump in year-to-date borrowing comes despite PSNB in April and May being revised down by £11.4 billion this month, almost entirely as a result of higher accrued tax receipts. Accrued income tax and NICs receipts were revised up by £7.4 billion, as cash receipts in June far exceeded previously assumed amounts (as described below). VAT receipts were revised up by £3.6 billion, also due to higher June cash receipts.
4. PSNB over the first three months of 2020-21 is currently £22.3 billion (14.8 per cent) below our *FSR* central scenario. Part of the difference relates to spending associated with future calls on government-guaranteed loan schemes (worth £9.9 billion over this period in our scenario), which is not currently recorded in the outturn data. But even on a like-for-like basis, the difference is substantial. It is explained by both weaker outturn central government spending and stronger HMRC cash receipts in June (which largely accrue back to earlier months and were not available at the time of completing our *FSR* scenario).
5. As we set out last month, and as illustrated by the revisions to outturn data reported today, initial estimates of accrued spending, receipts and borrowing are likely to be particularly prone to revision over the coming months. In many cases, the outturn data are currently based on our scenario profiles or other forecasts, reflecting the often significant lag between the underlying economic activity and corresponding tax payments and the lags in collating and transmitting outturn departmental spending data to the ONS. As more cash data become available over the coming months and these initial assumptions are replaced, large revisions can be expected. These issues are overlaid with other challenges in the data, such as adjusting the accrued tax data for non-payment of liabilities and subsequent repayment of arrears.

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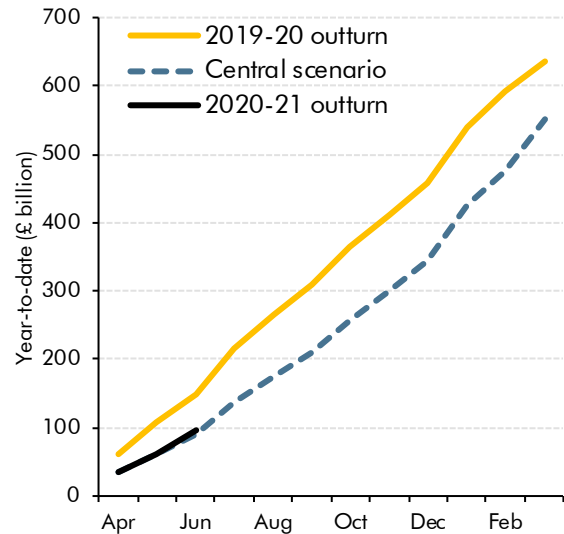
<sup>1</sup> <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/june2020>

## Receipts

### Cash receipts collected by HMRC

HMRC collects around 90 per cent of all central government cash receipts. Receipts in the first three months of 2020-21 were down by £51.2 billion (35 per cent) on last year. That is a £5.9 billion (6.5 per cent) higher than our central scenario assumes.

Income tax, NICs and VAT were all stronger than assumed. This is likely to reflect a range of factors, including movements in the underlying tax base, the extent of non-payment of tax liabilities and any subsequent repayment of arrears, and behaviour in response to recent policy changes (such as take up of the VAT deferral scheme).

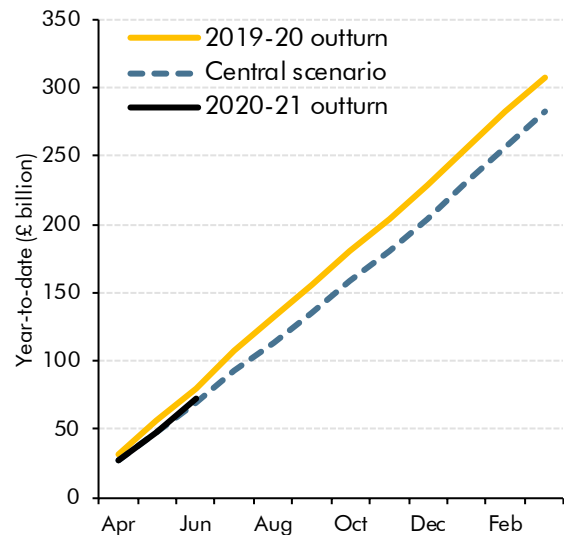


Source: HMRC, OBR

### PAYE income tax and National Insurance contributions (cash basis)

June cash receipts for PAYE income tax and NICs mainly relate to May liabilities. Cash receipts in June were unexpectedly strong. They were up 1.4 per cent on last June, after steep falls of 16.0 and 13.6 per cent in April and May. This path for cash receipts contrasts with data from HMRC's 'real-time information' (RTI), which show a steadier decline in total pay. That said, median pay in June picked up a little (total pay data are not yet available).

These differences are likely to reflect non-payments of tax liabilities and subsequent repayments of tax debts. Initially, firms clearly struggled to meet their usual tax payment schedules so built up significant amounts of PAYE tax debt. But it looks like firms started to pay off some of that debt in June, perhaps helped by the loans, grants and CJRS income that has now been disbursed.



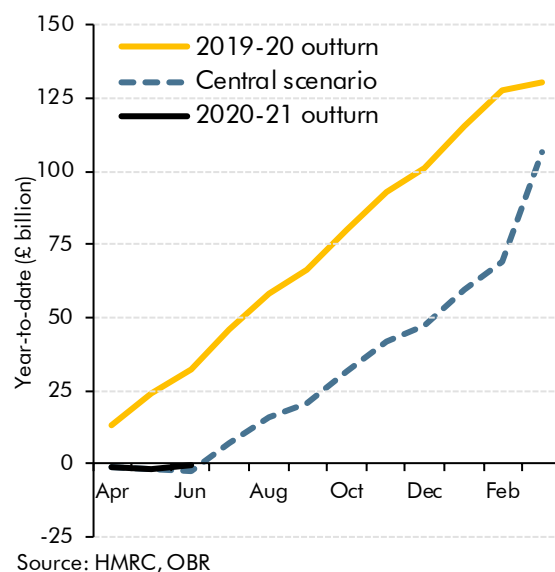
Source: HMRC, OBR

## VAT receipts (cash basis)

In cash terms, year-to-date VAT receipts were negative at minus £0.4 billion, with total repayments exceeding payments for the first three months of the year. This is largely explained by the deferral policy reducing payments significantly.

But unlike April and May, VAT receipts in June were positive at £1.1 billion, exceeding our scenario by £2.3 billion. The positive outturn could reflect lower-than-assumed take-up of the deferral scheme, timing effects or higher-than-assumed consumer spending boosting liabilities.

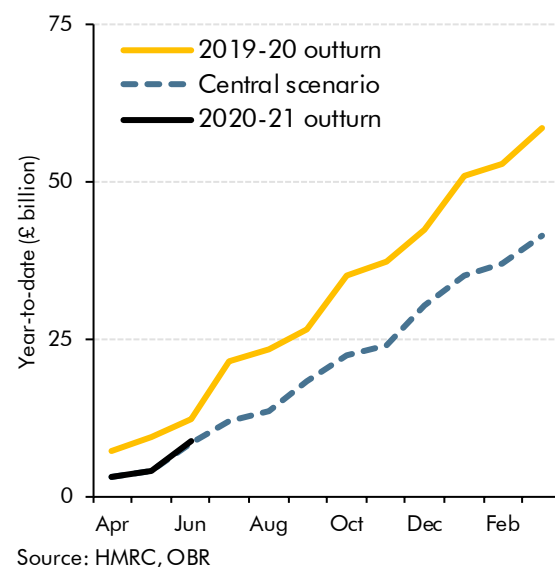
VAT receipts rebound strongly from July in our central scenario, as the deferral scheme came to an end on 30 June.



## Onshore corporation tax receipts (cash basis)

On a cash basis, year-to-date onshore corporation tax receipts were down £3.4 billion (28 per cent) on last year. That was £0.2 billion higher than our central scenario. The fall relative to last year will in part reflect companies' own revised estimates of their total liabilities for the year.

Cash receipts in June were up £1.9 billion (69 per cent) on last year, but this is explained by the change in quarterly payment deadlines for very large companies. This change of payment pattern is reflected in the monthly profile of our central scenario, hence receipts being close to that profile.



## Selected other HMRC cash receipts

Other notable movements in cash receipts include:

- **Fuel duty** receipts for April to June were down £3.2 billion (45 per cent) on a year earlier, in line with our central scenario. This largely reflects the sharp reduction in motor vehicle use during the lockdown period. Non-payment of liabilities during April and May could also have contributed to the weakness in receipts.
- **Stamp duty land tax** in the year to date is down 43 per cent on last year, £0.1 billion (10 per cent) above our central scenario. **Stamp duty on shares** is up 30 per cent on last year, having been boosted by higher stock market turnover.

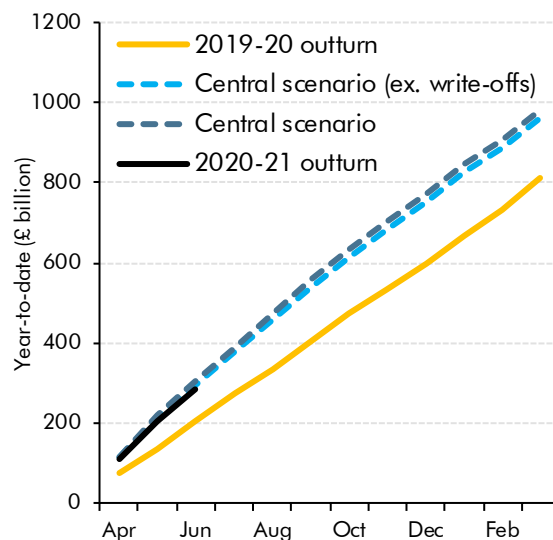
- **Air passenger duty** remains exceptionally weak – down 90 per cent on last year in the first three months thanks to the sharp fall in the number of flights being taken.

## Public spending

### Central government spending (accruals basis)

Total CG spending in the year to date is up £81.9 billion (40 per cent) on last year, with the rate of growth slowing a little in June (up £16.2 billion or 24 per cent). Comparisons with our central scenario are currently distorted by it including costs associated with accruing future calls on loan guarantees that are yet to be included in outturn. Abstracting from that, year-to-date CG spending was £10.5 billion (4 per cent) below our scenario. That reflects lower-than-assumed spending on public services and on net social benefits.

At this stage of the year, even in normal circumstances, expenditure data are provisional. The current situation has further increased the potential for substantial revisions.



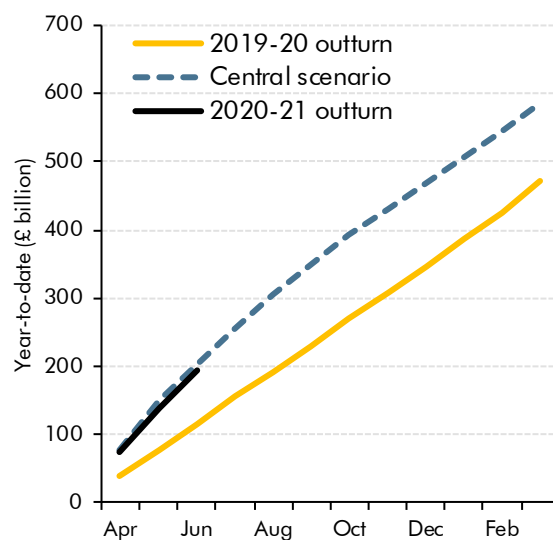
Source: ONS, OBR

### 'Other current expenditure' (largely departmental spending)

'Other current expenditure' includes departmental spending and grants to local authorities, but also subsidies like the CJRS and SEISS.

Year-to-date spending is up £79.4 billion (69 per cent) on last year, but is £9.2 billion (5 per cent) lower than our central scenario assumes. The jump relative to last year is largely explained by the CJRS (with around £30 billion accrued so far in 2020-21) and the SEISS (with around £7.5 billion accrued so far). Both are in line with our scenario.

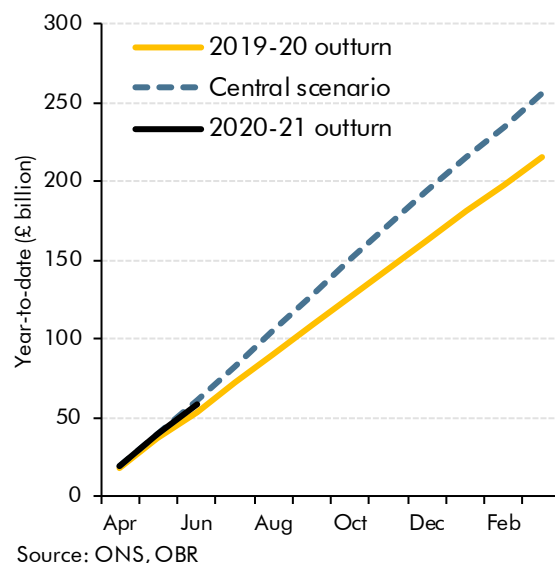
Lower-than-assumed spending is concentrated in public services spending in April and May, where our scenario assumes that departments' provisional outturn data will be revised up over time.



Source: ONS, OBR

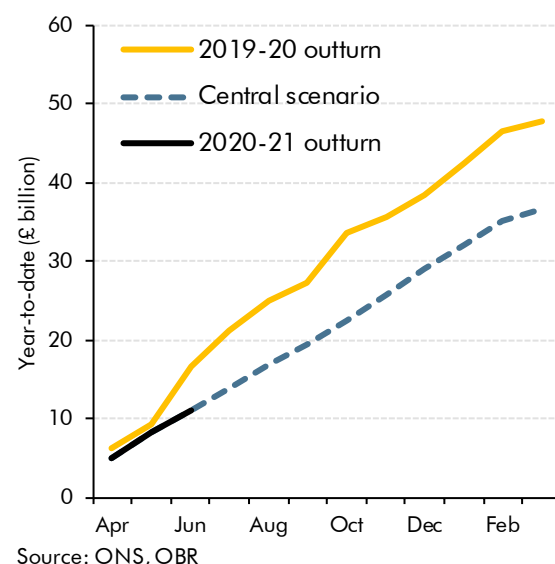
## Net social benefits spending

This category includes both welfare spending and net public service pension payments. Year-to-date CG net social benefits spending is up £5.0 billion (9 per cent) on last year, but is £2.3 billion lower than our central scenario assumes. Given the sharp rise in claimant count unemployment, this could reflect our scenario overstating the speed with which that rise feeds through to higher benefits spending.



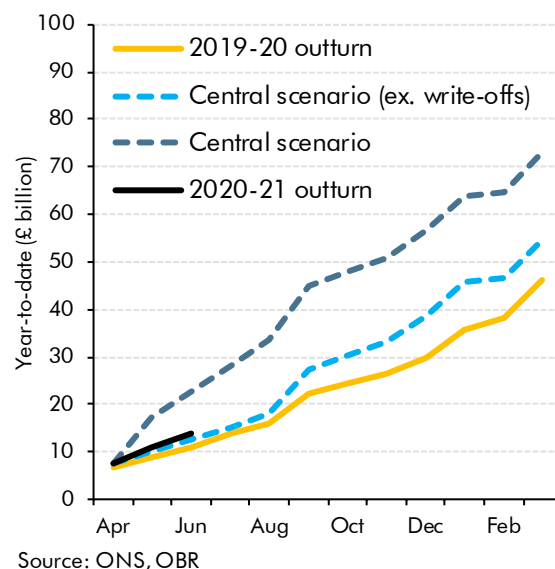
## Central government debt interest spending

Debt interest spending so far this year is down £5.6 billion on last year, but is very close to our central scenario. The fall is mostly due to lower RPI inflation, which lowers accrued spending on indexed gilts relative to last year.



## Central government net investment

CG net investment so far this year is £2.7 billion (24 per cent) higher than last year. Abstracting from loan guarantee write-offs, spending is £1.0 billion (8 per cent) higher than our central scenario assumes. Year-on-year growth reflects some coronavirus-related capital spending, as well as higher spending on High Speed 2 and previously planned increases in health and social care. Our scenario assumes that the disruption to construction activity will weigh on capital spending in the initial months of 2020-21, but to date that is not particularly apparent in the provisional data.

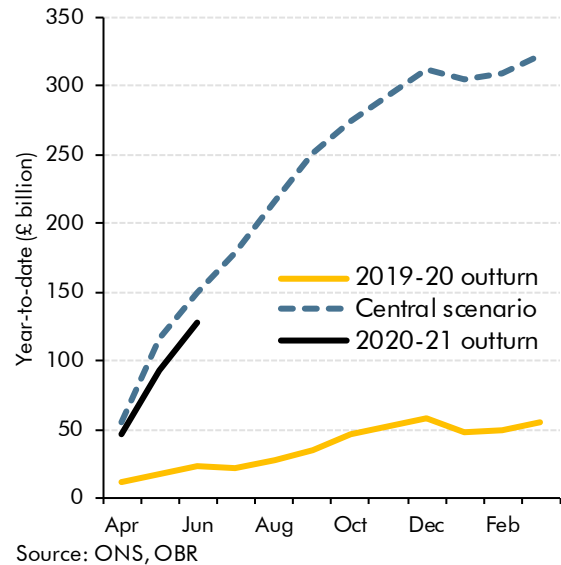


## Fiscal aggregates

### Public sector net borrowing (PSNB)

Public sector net borrowing so far in 2020-21 totalled £127.9 billion, up £103.9 billion on last year. Abstracting from loan guarantee write-offs, year-to-date borrowing is £12.4 billion lower than our *FSR* central scenario assumes, largely reflecting somewhat lower CG spending.

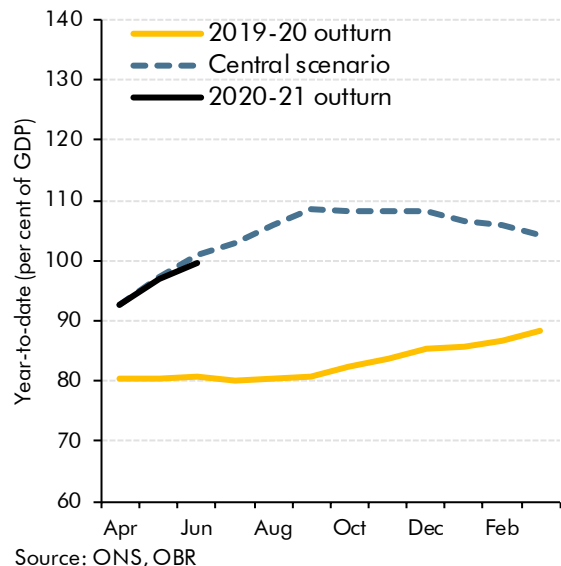
PSNB in April and May combined was revised down by £11.4 billion, with the bulk of the revision explained by surprisingly strong cash receipts in June that accrue back to those months.



### Public sector net debt (PSND)

PSND in June rose 23.4 per cent of GDP on a year earlier to reach 99.6 per cent. Cash debt rose by £195.5 billion relative to last June, reflecting both higher central government cash borrowing and also the Bank of England's new Term Funding Scheme and the expansion of its gilt purchases.

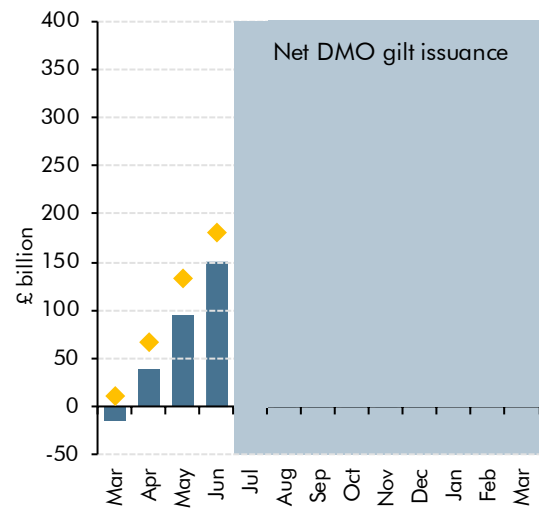
The ONS has switched from using our April reference scenario to our *FSR* central scenario for nominal GDP as the denominator in these estimates, which has resulted in the debt-to-GDP ratio being revised down to below 100 per cent of GDP. Our central scenario shows PSND reaching 104.1 per cent of GDP by the end of the year.



## Financing

### Gilt issuance, QE purchases and use of the Ways & Means Facility

Between 1 April and 16 July, the DMO issued £204 billion of gilts – 53 per cent of the £385 billion it plans to issue between April and November (net of redemptions, gilt issuance totalled £193 billion). In the period since 18 March, when the Bank of England commenced purchases under the £300 billion extension to quantitative easing, it has purchased £210 billion of gilts from the market. So in effect the Bank has purchased £6 billion more gilts from the private and overseas sectors than the DMO has issued so far in 2020-21 (and £17 billion more than net DMO issuance). To date, the Treasury has not made use of the 'Ways & Means Facility' – its overdraft at the Bank.



Source: BoE, DMO, OBR



## Issues for next month's release and beyond

6. Significant data revisions can be expected over the coming months, although it is difficult to estimate the potential size and direction of these changes. Some key issues include:
- Spending associated with the various **guaranteed loan schemes**. The three main schemes are the coronavirus business interruption loan scheme (CBILS), the coronavirus large business interruption loan schemes (CLBILS) and the bounce back loan scheme (BBLs). The ONS has determined that the CBILS and the CLBILS should be classified as 'standardised guarantee schemes', so the lifetime costs (i.e. the write-offs) are recorded as expenditure at the time the guarantees are provided (raising PSNB). Our *FSR* central scenario assumes that these two schemes would raise PSNB in 2020-21 by £1.0 billion. The ONS has not yet incorporated any costs associated with these schemes into the outturn data.
  - Our scenario assumes that the **BBLs** will be classified in this way too, raising PSNB by £17.3 billion in 2020-21 in the central scenario. But the ONS is still deliberating, since it has some features that differ from those of the other schemes. We discussed the classification risks this poses in the *FSR* (see paragraph 5.75). There are considerable uncertainties surrounding our scenario assumptions, reflecting both the total value of the loans taken up and the value of the defaults on these loans (as discussed in Chapter 3 of the *FSR*). Once these schemes are incorporated into the data, the uncertainty around future default rates means that there could be large future adjustments or revisions to the initial estimates as we learn more about actual default rates and associated fiscal costs.
  - **SEISS payments** have been scored on a cash basis in this release, but the ONS plans to revisit this in the near future.
  - The ONS is continuing to consider how to reflect **non-payment of tax liabilities** in the accruals-based receipts figures used when estimating PSNB. The cash receipts data suggest this has been a material issue across many taxes, with subsequent payments of past debts also now an issue. Future revisions in respect of these issues are possible.
  - There is currently limited information about **taxes not collected by HMRC**, such as business rates, which the ONS notes are currently likely to be overestimated.
  - Next month the ONS plans to incorporate our latest **monthly profiles for HMRC cash receipts** into estimates for accrued outturns in months for which cash outturns are not yet available. All else equal this would raise accrued tax receipts relative to this month's release, although much of this effect has been superseded by the June cash data.