Commentary on the

Public Sector Finances: April 2020

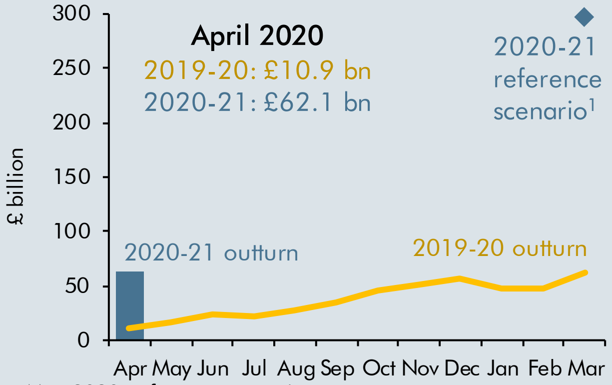
Office for Budget Responsibility

22 May 2020

Budget deficit leaps to £62 billion in April 2020 alone

April's public finances data provide an initial taste of the fiscal hit from the coronavirus lockdown and Government support for individuals and businesses. Tax payments received by HMRC were down 42 per cent on the same month last year, while central government spending jumped 52 per cent. As a result, the budget deficit was the largest in any single month and greater than our Budget forecast for the full year.

Public sector net borrowing



[1] May 2020 reference scenario

Headlines

- Today's data highlight the fiscal impact of the **coronavirus crisis**, but will be prone to material future revisions. The headline accrued data rely heavily on forecasts (including our reference scenario assumptions in places). And while cash measures reflect actual payments to and from government, any underlying pattern is clouded by timing effects and non-payment of taxes. It will take many months before the true scale of even the initial shock becomes clear.
- **Public sector net borrowing (PSNB)** totalled £62.1 billion in April, £19.6 billion higher than market expectations. This takes the headline deficit to a record monthly level. The sharp rise on last year reflects both much higher spending and a significant deterioration in tax receipts.
- **HMRC cash receipts** fell by 42 per cent on a year earlier. VAT accounted for the bulk of the deterioration as the Government's VAT deferral scheme left VAT receipts negative in April. Income tax, corporation tax and fuel duties also saw sharp falls on a year earlier.
- **Central government spending** was up 52 per cent in April, reflecting the assumed impact of the coronavirus job retention scheme (CJRS), higher grants to local authorities and higher public services spending, much of which was coronavirus related (including NHS spending).
- **Net debt** rose by 17.4 per cent of GDP on a year earlier to 97.7 per cent in April – a sharper rise than at any point during the financial crisis. This reflects higher borrowing and the impact of Bank of England schemes on cash debt, but also the falls in nominal GDP over the coming months assumed in our reference scenario, which the ONS has used pending outturn data.

Monitoring the public finances through the lockdown

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the April 2020 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. But given the large shock to economy and public finances caused by the coronavirus lockdown, it is no longer meaningful to compare the latest data with our March 2020 *Economic and fiscal outlook* (*EFO*). Instead, this commentary compares the latest numbers to monthly profiles consistent with our coronavirus reference scenario, which we published on 14 May (available on our website). In broad terms, these profiles draw on historical monthly patterns to profile the Budget forecast and then scale the full-year hit implied by the reference scenario over the first half of 2020-21. As with the scenario itself, the profiles are relatively broad-brush and illustrative.

The public finances in April 2020

2. The first estimate of public sector net borrowing (PSNB) in April 2020 was £62.1 billion, up £51.1 billion on April last year and £19.6 billion higher than market expectations. This is the largest budget deficit in any month on record and close to the deficit for 2019-20 as a whole. The sharp rise reflected a £38.4 billion rise in central government spending, compounded by a £16.4 billion fall in central government receipts. The April surplus recorded by local authorities was £7.3 billion (a rise of £4.7 billion on last year), as the £12.7 billion rise in grants from central government for support to businesses had not all been paid out by the end of April. Borrowing by public corporations was up £1.0 billion on a year earlier.

3. Borrowing in April was £4.5 billion lower than our scenario assumes. Central government receipts explain the majority of the difference: they were £3.1 billion higher than assumed. This partly reflects our scenario assumption that smaller receipts would fall in proportion to the fall in nominal GDP, which is not fully borne out in today's initial estimate of the April data. This may simply reflect lack of timely information about taxes not collected by HMRC.

4. As we set out last month, initial estimates of accrued spending, receipts and borrowing are likely to be heavily revised over the coming months. In many cases, the outturn data are currently based on our reference scenario profiles or other forecasts as there is often a significant lag between the underlying economic activity and corresponding cash payments. As more cash data become available over the coming months and these initial assumptions are replaced, large revisions can be expected. These are likely to include the estimated costs of the coronavirus job retention scheme (CJRS), where the accrued spending outturn currently reflects our estimate of its cost, and the self-employment income support scheme (SEISS), which is not yet reflected in the accrued outturns. These issues are overlaid by other challenges in the data, such as adjusting the accrued tax data for non-payment of tax liabilities, where the ONS expects to revisit its timing adjustments as more data become available. It is not possible to say at this stage what the overall size or direction of future revisions might be.

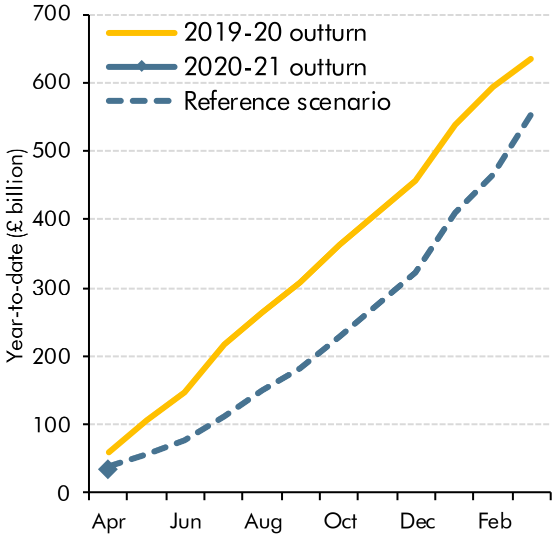
[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/April2020

Receipts

Cash receipts collected by HMRC

HMRC collects around 90 per cent of all central government cash receipts. Receipts in April were down by £25.8 billion (42 per cent) on last year. That represented a £3.5 billion shortfall relative to our reference scenario.

Shortfalls against the scenario were recorded across all the larger tax heads: income tax, NICs, VAT and corporation tax. This is likely to reflect liabilities having been hit more quickly than our scenario assumes and more non-payment of past liabilities due to cashflow issues for taxpayers.

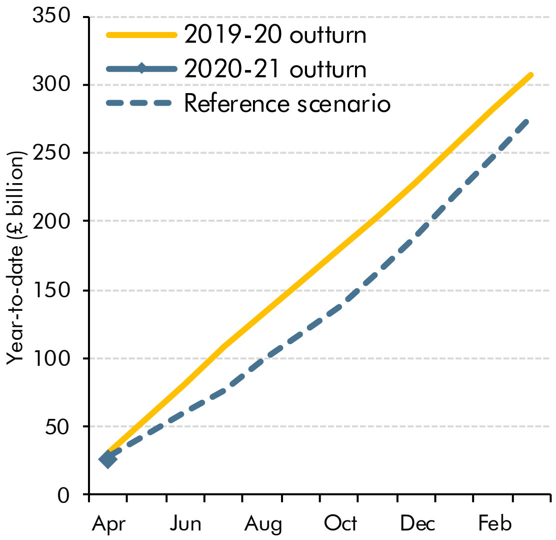


Source: HMRC, OBR

PAYE income tax and National Insurance contributions (cash basis)

April cash receipts for PAYE income tax and NICs relate to March liabilities. HMRC's 'real-time information' (RTI) shows that total pay rose 2.0 per cent on a year earlier in March (down from 4.1 per cent in February, but supported by the pre-lockdown weeks in March). Despite that, cash receipts were down £5.1 billion (16 per cent) on last year – a £1.9 billion shortfall relative to our reference scenario. This probably reflects even greater non-payment of liabilities than we assumed.

Provisional RTI for April points to a 1.2 per cent fall in employee numbers relative to last year (down from 0.4 per cent growth in March). Information on total pay in April is not yet available, but it is likely to fall more sharply thanks to fewer hours being worked per employee (with experimental ONS weekly data showing a 25 per cent fall in the final week of March relative to earlier in the month) and to pay cuts (including for those furloughed at 80 per cent of full pay via the CJRS). The associated drop in April PAYE liabilities will hit May cash receipts. (Our scenario assumes a 33 per cent year-on-year fall in May receipts.)

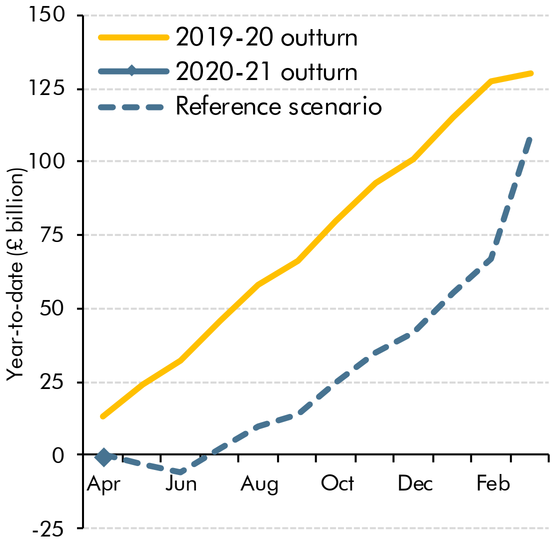


Source: HMRC, OBR

VAT receipts (cash basis)

In cash terms, VAT repayments exceeded payments in April, so receipts were negative at minus £0.9 billion. The sharp fall in VAT payments relative to last April largely reflected the deferral of most VAT payments over March to June to the end of the financial year thanks to the deferral policy.

Our scenario assumes minus £0.1 billion for VAT receipts in April. The shortfall could reflect greater-than-assumed take-up of the deferral scheme or firms claiming more repayments of past VAT payments as their sales have dropped.

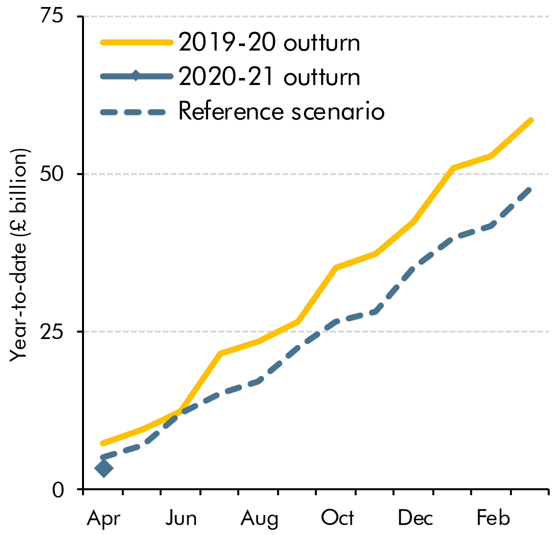


Source: HMRC, OBR

Onshore corporation tax receipts (cash basis)

On a cash basis, onshore corporation tax receipts were down £4.0 billion (55 per cent) on last April, a shortfall of £1.8 billion relative to our reference scenario. As with income tax, this is likely to reflect both liabilities being hit sooner than the scenario assumes and also cash flow issues causing some firms not to pay tax due on earlier liabilities.

Much of April's cash receipts will relate to liabilities generated before the coronavirus lockdown period. But instalment payments by larger companies will also partly be based on their estimates of future profits over the remainder of the year, which will no doubt have been revised down sharply.

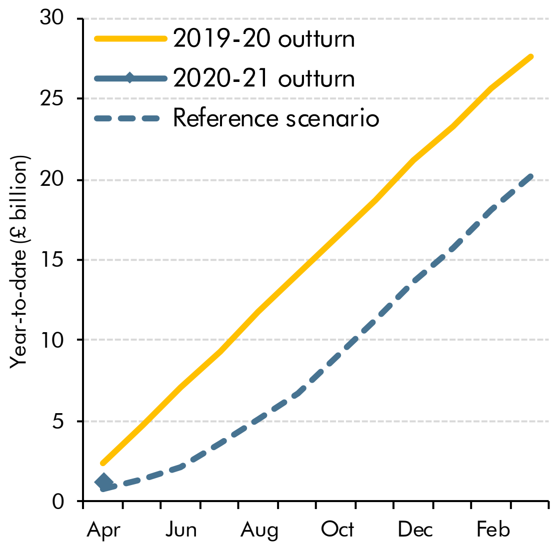


Source: HMRC, OBR

Fuel duty receipts (cash basis)

Fuel duty receipts in April were down £1.1 billion (48 per cent) on last year, but they exceeded our reference scenario by £0.5 billion. The Department for Transport's daily data suggest that motor vehicle use was down around two-thirds relative to normal in April, so receipts have held up on that basis too.

This relative strength is likely in part to reflect timing effects. For example, April cash payments may reflect a higher proportion of underlying activity in March than the scenario assumes. The composition of vehicle use might also play a part, with use of HGVs and LGVs having fallen less than use of cars.



Source: HMRC, OBR

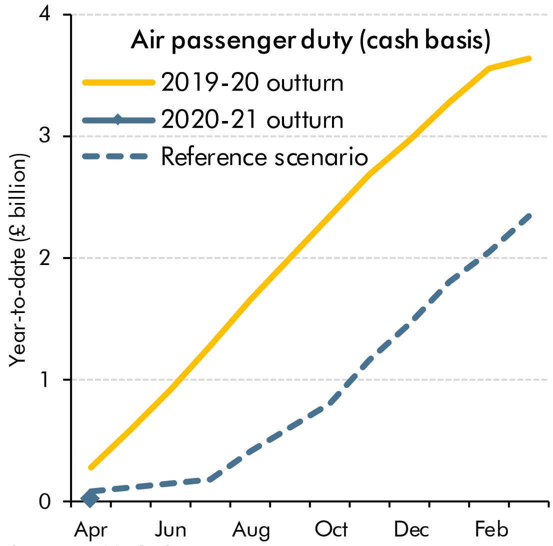
Selected other HMRC cash receipts

Other notable movements in cash receipts include:

- **Alcohol duty** fell 31 per cent on last year, a sharper fall than our scenario assumes. This suggests the offset to the closure of pubs, bars and restaurants from more sales from shops may have been smaller than we assumed.

- **Stamp duty land tax** fell 43 per cent, close to our scenario, as property sales fell sharply. But **stamp duty on shares** rose 59 per cent, well above the scenario, due to higher turnover in equity markets (not captured in the scenario).

- **Air passenger duty** collapsed (down 90 per cent on last year) as the number of flights taken dropped substantially. The fall is even larger than the scenario assumes – down to £29 million rather than £78 million – possibly reflecting time-to-pay arrangements.



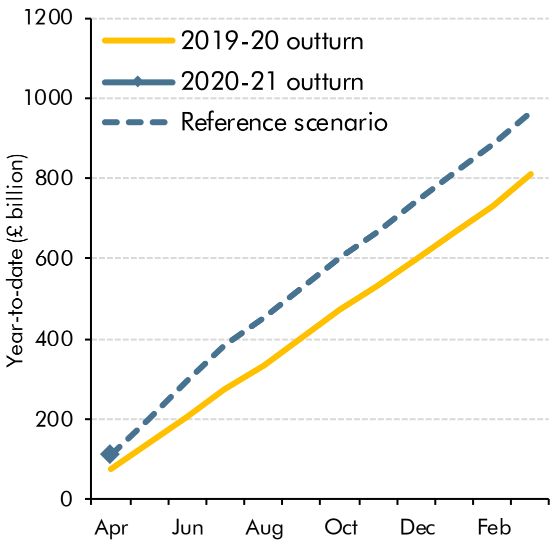
Source: HMRC, OBR

Public spending

Central government spending (accruals basis)

Total CG spending was £111.8 billion in April 2020, up £38.4 billion (52 per cent) on April 2019 but very close to our reference scenario. In part that is because the data include a forecast for CJRS spending that has been aligned to our costing pending outturn data on use of the scheme.

At this stage of the year, even in normal circumstances, expenditure data are highly provisional and subject to revision. The current situation has further increased the potential for substantial revisions – for example, when administrative data for actual CJRS and SEISS claims can replace forecasts.

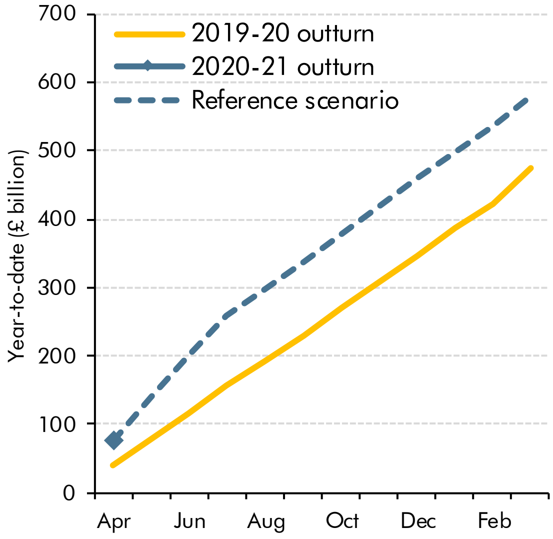


Source: ONS, OBR

'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.

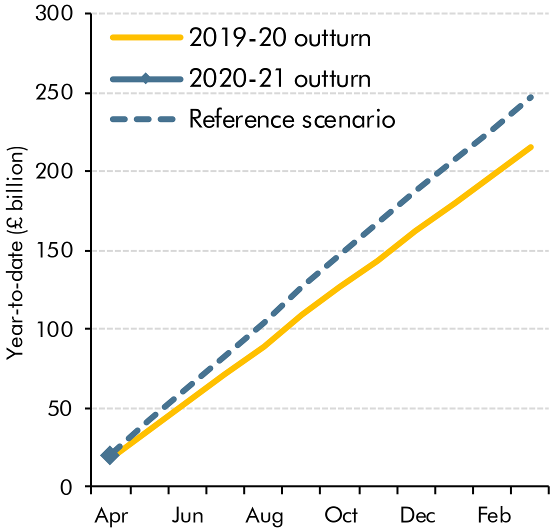
Spending in April is estimated at £76.3 billion, up £36.1 billion (90 per cent) on last year and £0.5 billion higher than our scenario assumes. The jump relative to last year is largely explained by the CJRS (with £14 billion assumed to accrue to April); grants to local authorities, which are up £14.2 billion thanks largely to business support measures; and around £7 billion in additional public services spending, likely to be mostly coronavirus-related.



Source: ONS, OBR

Net social benefits spending

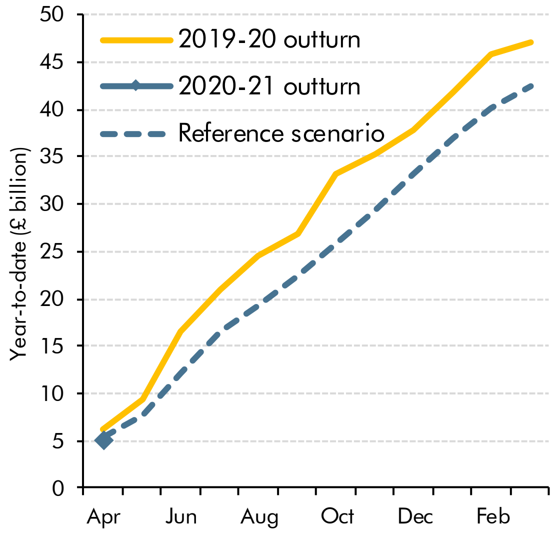
This category includes both welfare spending and net public service pension payments. CG net social benefits spending was £19.7 billion in April 2020, up £1.6 billion (8.8 per cent) on last year but £0.9 billion lower than our scenario assumes. This could be because the scenario overstates the extent or pace of the rise in unemployment taking place, but could also be because we underestimated the extent to which payment lags in universal credit affect when associated spending will appear in the data. This should become clearer next month.



Source: ONS, OBR

Central government debt interest spending

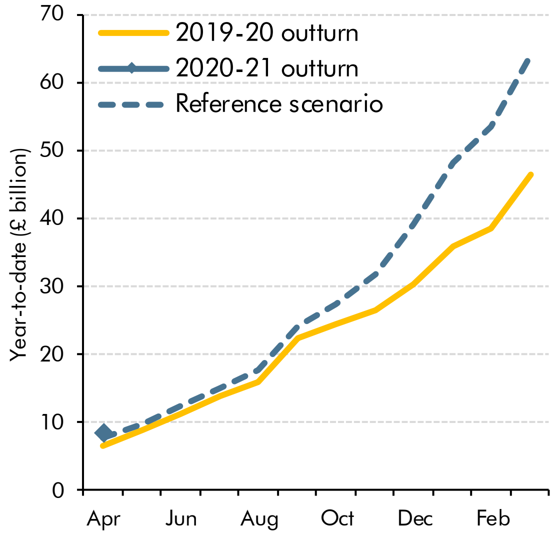
Debt interest spending was £5.0 billion in April, down £1.2 billion on last year and £0.4 billion lower than our scenario profile. This was mostly due to lower RPI inflation affecting accrued spending on index-linked gilts, but also the fact that significant amounts of conventional gilts were issued at lower interest rates than those on debt being redeemed.



Source: ONS, OBR

Central government net investment

CG net investment in April was £8.3 billion, up £1.8 billion on last year and £0.6 billion above our scenario profile. 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. Capital grants to local authorities were down on last year, but this is a timing effect, with some payments now due to be paid in May. 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 less apparent than we assumed.



Source: ONS, OBR

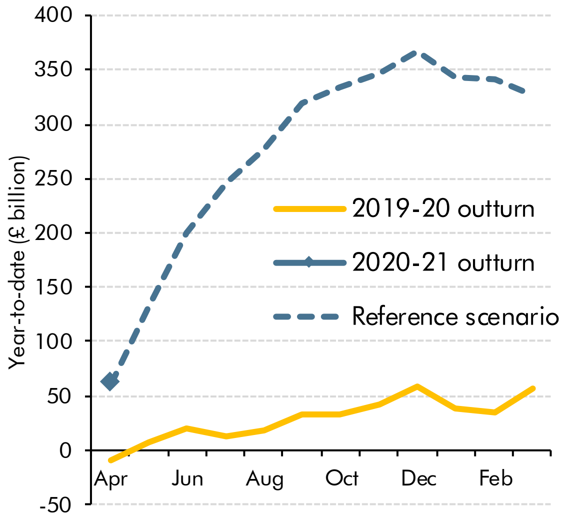
Fiscal aggregates

Central government net cash requirement (CGNCR)

Central government cash borrowing leapt to £63.5 billion in April, £73.3 billion up on last April. This was the highest monthly CGNCR on record, exceeding the £57.6 billion borrowed in December 2009 during the financial crisis. It also exceeds total cash borrowing in 2019-20 as a whole.

To a large extent the rise reflected a sharp rise in outlays, most notably higher central government grants to local authorities and other public spending, plus the initial CJRS cash outlays.

The sharp fall in HMRC cash receipts also played a part, with other receipts up marginally on last year.

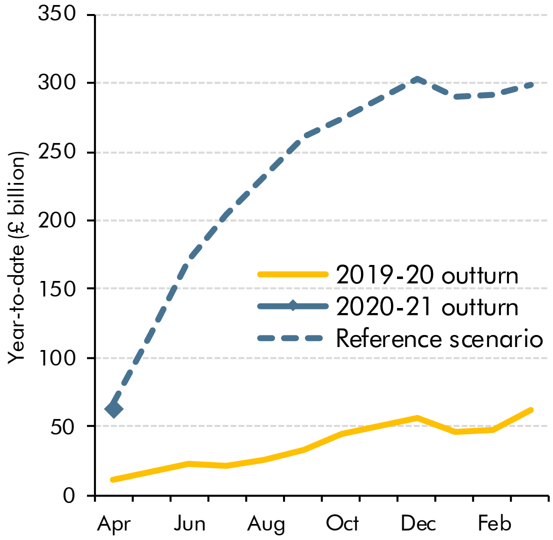


Source: ONS, OBR

Public sector net borrowing (PSNB)

Public sector net borrowing in April totalled £62.1 billion, up £51.1 billion on last year, largely driven by much higher central government spending but also by a sharp fall in tax receipts. Borrowing was marginally lower than our reference scenario assumes, reflecting somewhat less weakness than we assumed in accrued tax receipts.

PSNB in March 2020 was revised up by £11.7 billion, in large part due to the assumed cost of the CJRS accruing to that month. This could be revised materially once outturn data are available. CG receipts were revised down by £4.5 billion in March, largely reflecting weak HMRC cash receipts in April being accrued back to the previous month.



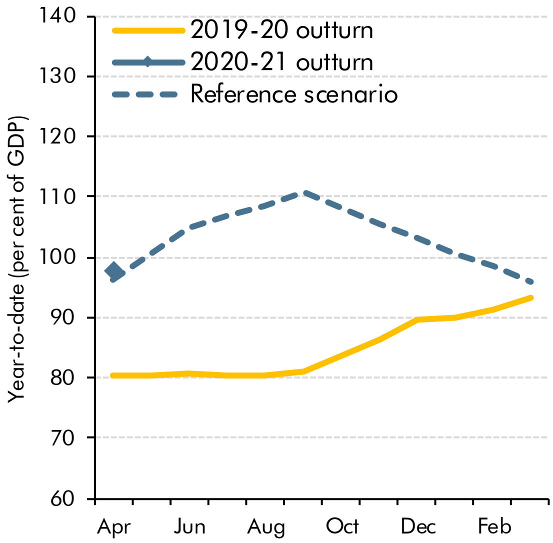
Source: ONS, OBR

Public sector net debt (PSND)

Public sector net debt (PSND) in April rose by 17.4 per cent of GDP on a year earlier – a sharper rise than at any point during the financial crisis.

Cash debt rose by £118.4 billion relative to last April, largely due to higher central government cash borrowing but also in part thanks to the extension to the Bank of England's Term Funding Scheme and the expansion of its gilt purchases.

By ONS convention, the debt-to-GDP ratio in any given month is measured as the stock of cash debt in that month relative to the sum of GDP over the twelve months that straddle the end of the current month. In this release, the ONS has used the assumed path of nominal GDP in our reference scenario to fill in the period for which GDP data are not yet available. This assumed sharp fall in nominal GDP contributed more to the recorded rise in the debt-to-GDP ratio than the rise in cash debt.

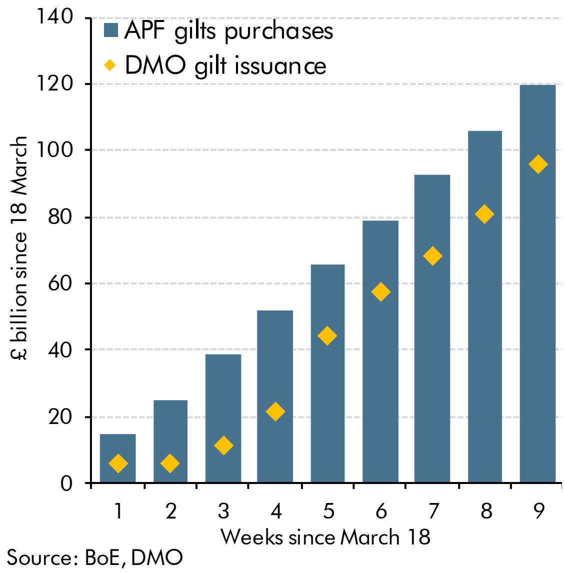


Source: ONS, OBR

Financing

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

The DMO has issued £90.2 billion of gilts between 1 April and 19 May – 40.1 per cent of the £225 billion it plans to issue between April and July. In the period since 18 March, when the Bank of England commenced purchases under the latest £200 billion extension to quantitative easing, it has purchased £119.6 billion of gilts from the market. In effect, the Bank has purchased £29.4 billion more gilts from the private and overseas sectors than the DMO has issued so far in 2020-21. To date, the Treasury has not made use of the 'Ways & Means Facility' – its overdraft at the Bank.



Source: BoE, DMO

Issues for next month's release and beyond

5. We can expect significant data revisions over the coming months, although it is difficult to estimate the potential size and direction of these changes. Some key issues include:

- Accrued spending data on the **CJRS** are currently aligned to our costing. As of 17 May, HMRC reports that £11.1 billion of claims had been made, which suggests that accrued spending of £7 billion in March and £14 billion in April may be revised down. It is not possible at this stage to say why CJRS take-up (at 8 million jobs) has been close to what we assumed, but the amount claimed has been lower than we might expect eight weeks since the full lockdown began. It is possible that it could simply be a timing effect related to how firms are claiming, but we may also have overestimated average claims.

- The cost of **SEISS** grants has not yet been incorporated in the accrued spending figures. By 17 May, just a few days after the scheme opened, 2 million claims had been made at a cost of £6.1 billion. Our monthly profiles assume that the cost of this scheme will be accrued across months rather than reflecting when the cash amounts are paid out, thereby raising accrued spending by £3.0 billion a month in April, May and June.

- The ONS is continuing to consider how to reflect **non-payment of liabilities** in the accruals-based receipts figures used when estimating public sector net borrowing. The cash receipts data suggest this has been a material issue across the many taxes.

- 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.