

Commentary on the Public Sector Finances: March 2019

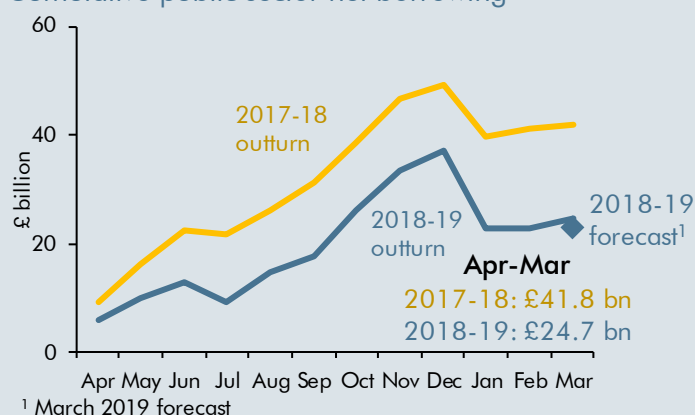
Office for
**Budget
Responsibility**

24 April 2019

Deficit fell by 40 per cent in 2018-19

Today provides the first provisional outturn estimate for the budget deficit for the full 2018-19 financial year: £24.7 billion, the lowest since 2001-02. Borrowing was £17.2 billion lower than in 2017-18, but £1.8 billion above our March forecast. However, in recent years the initial outturn estimate of the deficit has on average been revised down by around £3 billion within 12 months.

Cumulative public sector net borrowing



Headlines

- **Public sector net borrowing (PSNB)** for 2018-19 was £24.7 billion. The £17.2 billion drop from 2017-18 primarily reflects 4.9 per cent growth in central government receipts outpacing 2.6 per cent growth in central government spending.
- **This initial estimate is not yet based on final outturn data** – several elements are still based on forecasts and estimates. The figures typically take some months to settle down and revisions can be significant. Since 2010-11, revisions to initial estimates over the subsequent 12 months have ranged from £6.0 billion down for 2016-17 to £1.2 billion up for 2014-15.
- **Relative to our March EFO forecast**, borrowing in 2018-19 is £1.8 billion higher than we assumed. Abstracting from the ONS classification decisions that we have incorporated in our forecast, but that have not yet been implemented in the outturn data, higher central government spending is the main reason for the modest upside surprise.
- **Net debt** was 1.5 per cent of GDP lower in March 2019 than a year earlier. This is close to the 1.4 per cent of GDP fall we predicted in March.
- **Borrowing in March** was £1.7 billion, up £0.9 billion on last year. Strong end-year growth in spending, largely by government departments, pushed borrowing up relative to last year.

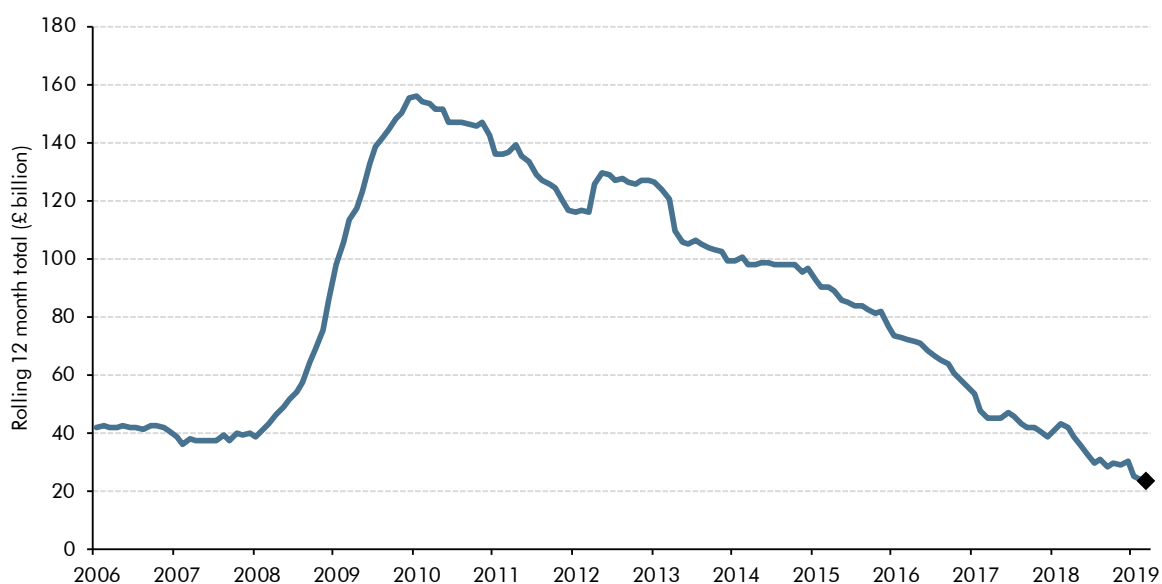
Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the March 2019 Public Sector Finances this morning, providing an initial estimate for full-year borrowing in 2018-19.¹ Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast, currently the March 2019 *Economic and fiscal outlook (EFO)*.

Public sector net borrowing in March

2. Public sector net borrowing (PSNB) was £1.7 billion in March, £0.9 billion higher than last year and £1.3 billion above market expectations. The rise in the deficit relative to last year reflected a £3.6 billion (5.6 per cent) rise in central government (CG) spending, partly offset by a £3.1 billion (5.0 per cent) rise in CG receipts. Borrowing by local authorities was £0.2 billion higher than last year, while the surplus from public corporations was £0.3 billion smaller than last year.
3. Chart 1.1 shows outturn PSNB on a 12-month rolling basis, relative to our latest full-year forecast for 2018-19. It shows that the initial ONS outturn estimate for 2018-19 is £1.8 billion higher than our March forecast. But, as outlined below, this margin is not large relative to the typical scale of subsequent revisions to initial outturn estimates.

Chart 1.1: Public sector net borrowing: rolling 12-month total



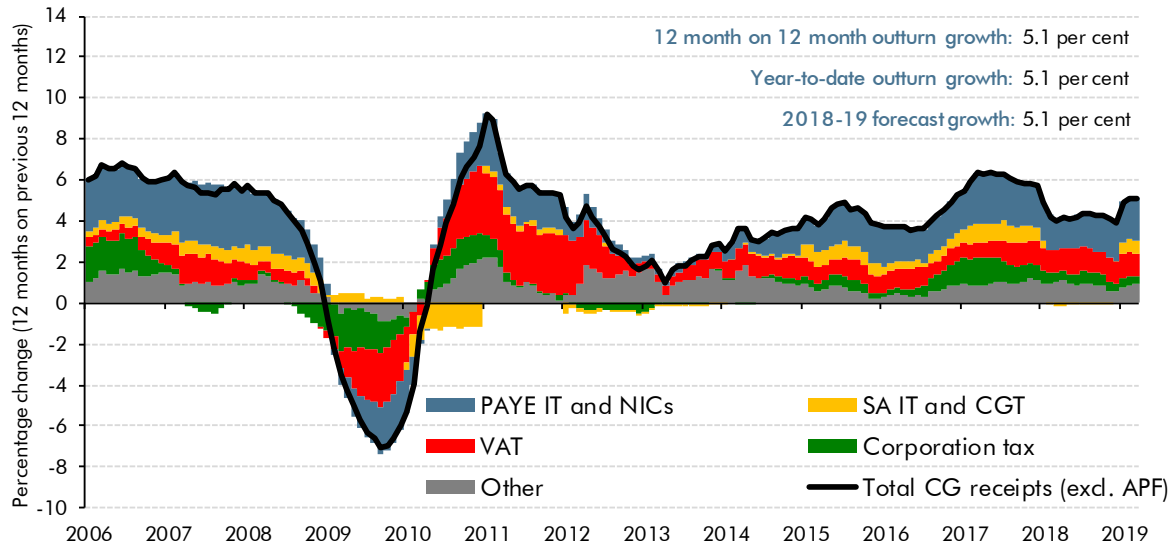
Source: ONS, OBR

4. Relative to last year, CG receipts (excluding APF transfers) were up 5.0 per cent in March, close the 5.1 per cent growth recorded for the whole of 2018-19 on a like-for-like basis. The rise in receipts in March was particularly concentrated in PAYE income

¹<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/march2019>

tax and National Insurance contributions, although this is based largely on forecast until next month's cash receipts. Chart 1.2 shows that outturn receipts growth (on a like-for-like basis) was close to our March forecast for 2018-19.

Chart 1.2: Growth in central government receipts: rolling 12-month average

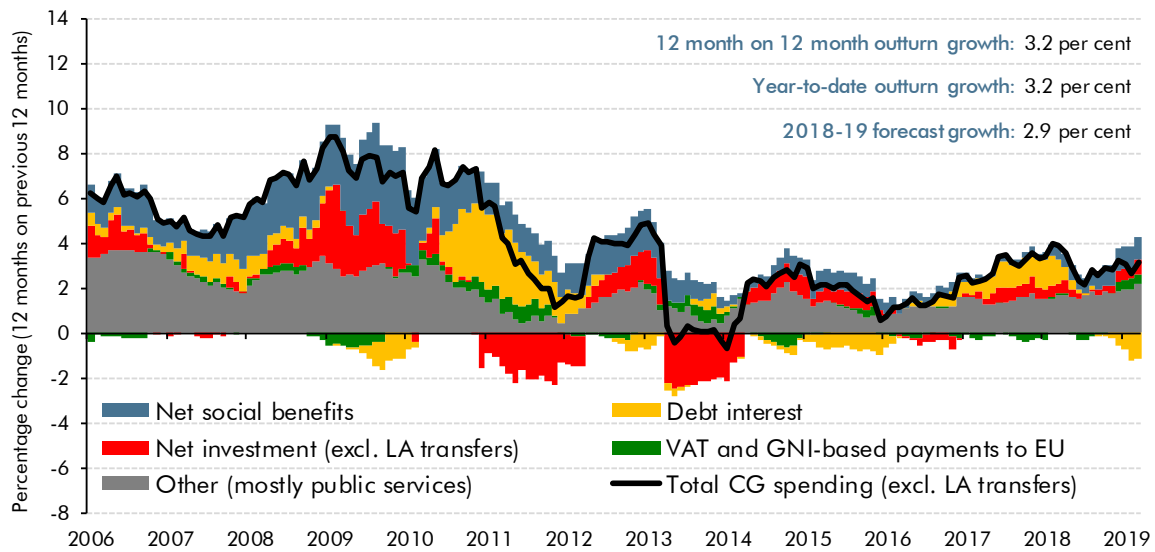


We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.

Source: ONS, OBR

5. Relative to last year, total CG spending (excluding grants to local authorities) was up 7.3 per cent in March (the fastest end-of-year spending growth rate recorded since 2009-10). It was up 3.2 per cent in 2018-19 as a whole, a little above our March forecast of a 2.9 per cent rise (on a like-for-like basis). Growth was particularly strong in current and capital spending by departments. Other CG current expenditure (largely spending on public services) was up 9.1 per cent on a year earlier in March (also the fastest March growth since 2009-10), while CG net investment (excluding capital grants to local authorities) was up 27.1 per cent on last year (again the fastest rise since 2009-10). Strong growth in both current and capital departmental spending appears to have been broadly based, with no obvious link to contingency spending ahead of a possible 'no deal' Brexit. Chart 1.3 shows CG spending growth on a 12-month rolling basis.

Chart 1.3: Growth in central government spending: rolling 12-month average

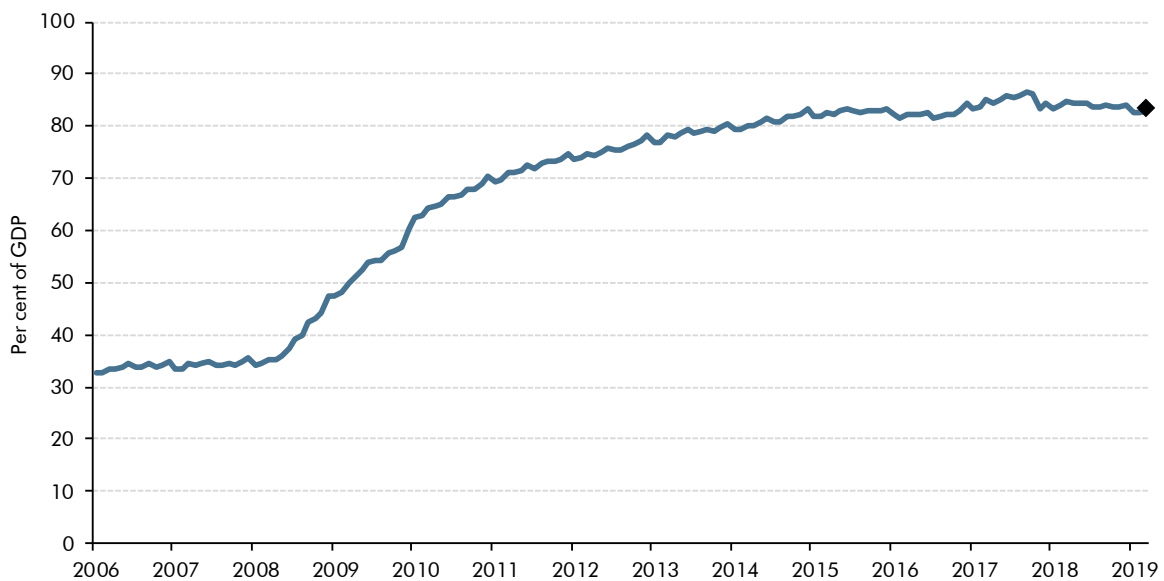


We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.
 Source: ONS, OBR

Debt

- Public sector net debt (PSND) in March 2019 was down 1.5 per cent of GDP from a year earlier, close to the 1.4 per cent of GDP fall that we forecast in the *EFO* for the same period. With the effect from the Term Funding Scheme (TFS) on the year-on-year change in PSND largely gone now, lower borrowing and higher nominal GDP provide the main contributions to the fall in the debt-to-GDP ratio. Chart 1.4 shows the outturn debt-to-GDP ratio, relative to our latest forecast for end of 2018-19.

Chart 1.4: Public sector net debt



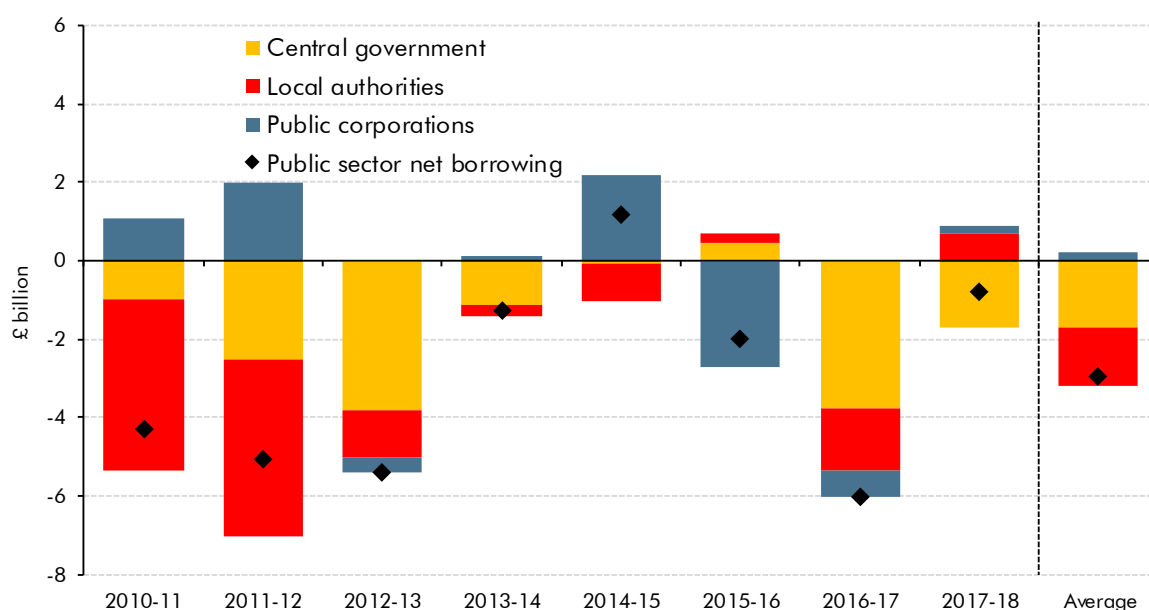
Source: ONS, OBR

Provisional 2018-19 estimate

7. Initial estimates of full-year borrowing are very provisional and are typically revised substantially as further information becomes available, allowing forecasts and estimates to be replaced with actual data. Chart 1.5 shows that since 2010-11, revisions have been in both directions and can be sizeable. Typically, they reflect:

- **The timing of cash receipts**, where some tax payments received in 2019-20 relate to economic activity in 2018-19 and will be accrued back to that year in the public finances. Accrued estimates for latest months in today's release are largely based on forecasts and will be revised in light of cash receipts in the coming months. For example, April PAYE and NICs cash receipts will largely relate to March salaries; some cash VAT receipts received between April and June will relate to consumer spending in the first quarter of 2019 (i.e. the final quarter of 2018-19); and quarterly corporation tax (CT) instalment payments by larger firms in the early months of 2019-20 and much of the cash CT from small companies throughout 2019 will relate to 2018-19 profits. Any surprises in these various cash receipts relative to the forecasts underpinning today's data release will lead to revisions to 2018-19 accrued receipts.
- Estimates for **central government spending** will be revised in May and usually again in September, as departments provide firmer information.
- Firmer data for **local authorities and public corporations** are also subject to a lag. Provisional outturn data for English local authorities' current spending are usually released at the end of August and included in the September ONS data release. Other outturn data are not final for a further three to nine months.

Chart 1.5: Revisions to PSNB between initial estimate and 12 months later



Source: ONS

8. The initial outturn estimate for PSNB in 2018-19 was £1.8 billion higher than our March forecast. On a simple comparison between forecast and provisional outturn, CG receipts were £3.0 billion below forecast, while CG spending was in line with forecast. However, our receipts and spending forecasts include several items that are not yet included in ONS outturns, which increase our forecasts of both relative to published outturns and the net effect of which is to reduce borrowing by £0.3 billion (and the difference between the initial outturn and forecast to £1.5 billion).² In addition, our forecast for PSNB-neutral transfers related to 'quantitative easing' was £0.6 billion lower than the latest ONS outturn, reducing CG receipts and borrowing by public corporations by the same amount. Abstracting from these factors:

- **CG receipts** were in line with our March forecast. Stronger VAT receipts were offset by lower business rates.
- **CG spending** was £2.1 billion higher than forecast. Both current and capital spending by departments were higher than expected. This is still based on very provisional data, but suggests that underspends against departmental spending limits may have been smaller than those assumed in our March forecast.
- **Borrowing by local authorities and public corporations** were £0.4 billion and £0.2 billion lower than expected respectively.

² This includes £2.0 billion of environmental levies and £0.3 billion related to the immigration health surcharge. Excluding these items lowers receipts and spending by equal amounts. Table 3.7 in the fiscal supplementary tables on the *EFO* page of our website provides details of these and other areas of our forecast that relate to items that are not yet included in ONS outturn data. These are available online here: https://obr.uk/docs/dlm_uploads/Fiscal_supplementary_tables_receipts_and_other_March_2019.xlsx

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	March				April to March				2018-19 EFO	March forecast		
	2019	2018	change		2018-19	2017-18	change			2017-18 outturn	change	
			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts												
Taxes on production	22.4	21.8	0.6	2.9	278.7	267.4	11.3	4.2	280.9	267.4	13.5	5.1
Of which: VAT (accrued)	12.2	11.8	0.4	3.2	150.8	142.8	8.1	5.6	150.1	142.8	7.3	5.1
Taxes on income and wealth ¹	23.0	22.2	0.9	3.9	261.7	246.1	15.6	6.3	261.8	246.1	15.7	6.4
Of which:												
Income tax and CGT (accrued)	18.1	17.0	1.1	6.4	201.7	188.4	13.3	7.0	201.8	188.4	13.4	7.1
Corporation tax (accrued)	4.9	5.1	-0.1	-2.6	60.1	57.5	2.6	4.5	60.0	57.5	2.4	4.3
Other taxes	1.7	1.6	0.1	7.3	18.2	17.8	0.4	2.1	18.2	17.8	0.3	1.8
Compulsory social contributions	14.3	13.2	1.1	8.3	137.7	131.5	6.1	4.6	137.7	131.5	6.1	4.6
Interest & dividends	1.7	1.3	0.3	26.4	19.7	18.6	1.0	5.5	20.3	18.6	1.7	9.1
Other receipts	2.1	2.0	0.1	3.1	23.5	23.5	0.0	0.1	23.6	23.5	0.1	0.4
Total CG current receipts	65.1	62.0	3.1	5.0	739.4	705.0	34.4	4.9	742.4	705.0	37.4	5.3
CG current expenditure												
Interest payments	-0.2	0.4	-0.6	-146.0	48.0	55.0	-7.0	-12.7	48.9	55.0	-6.1	-11.2
Net social benefits	17.9	17.3	0.6	3.3	214.6	208.4	6.2	3.0	215.1	208.4	6.7	3.2
CG current grants to LAs	9.5	10.1	-0.6	-6.1	112.9	114.1	-1.2	-1.1	112.7	114.1	-1.4	-1.2
VAT and GNI-based payments to EU ²	1.1	1.1	0.0	-1.9	12.9	10.2	2.7	26.6	12.9	10.2	2.7	26.7
Other CG current expenditure	28.9	26.5	2.4	9.1	307.8	294.4	13.4	4.6	307.5	294.4	13.1	4.5
Total current expenditure	57.2	55.4	1.7	3.1	696.3	682.2	14.1	2.1	697.2	682.2	15.0	2.2
Depreciation	1.6	1.6	0.0	0.9	18.6	18.5	0.1	0.4	18.6	18.5	0.1	0.3
CG current budget deficit	-6.4	-5.0	-1.4	27.2	-24.6	-4.4	-20.3		-26.7	-4.4	-22.3	
CG net investment	8.6	6.8	1.8	27.1	45.3	40.2	5.1	12.6	44.4	40.2	4.2	10.4
of which: CG capital grants to LA	2.2	1.8	0.4	22.7	11.6	10.5	1.1	10.0	11.5	10.5	1.0	9.2
CG net borrowing	2.2	1.7	0.5		20.7	35.8	-15.2	-42.3	17.7	35.8	-18.2	-50.7
Local authorities net borrowing	0.3	0.2	0.2		7.8	7.6	0.3	3.4	8.2	7.6	0.7	9.0
Public corporations net borrowing	-0.8	-1.1	0.3		-3.8	-1.6	-2.2	140.7	-3.1	-1.6	-1.5	94.2
Public sector net borrowing	1.7	0.8	0.9	114.3	24.7	41.8	-17.2	-41.0	22.8	41.8	-19.0	-45.4
Public sector net investment	8.2	6.5	1.7	25.7	43.7	42.7	1.0	2.4	43.2	42.7	0.6	1.4
Public sector current budget	-6.5	-5.7	-0.8	13.4	-19.0	-0.8	-18.2	2,180.2	-20.4	-0.8	-19.6	

March 2019 EFO forecast published 13 March 2019 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/march2019>

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: https://cdn.ubr.uk/EFO_March-2019.pdf

² Net of abatement.