

Commentary on the Public Sector Finances: November 2018

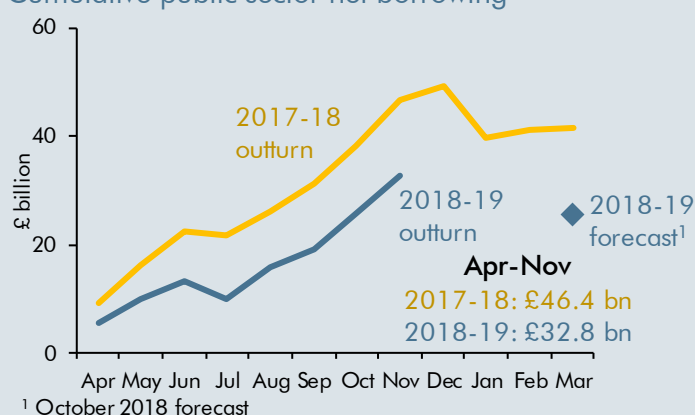
Office for
**Budget
Responsibility**

21 December 2018

Deficit continues to fall significantly in 2018-19

Continued strength in receipts growth means borrowing over the first eight months of 2018-19 is down almost 30 per cent relative to the same period in 2017-18.

Cumulative public sector net borrowing



Headlines

- **Public sector net borrowing (PSNB) in November** is provisionally estimated at £7.2 billion, £0.9 billion down on the same month last year and £0.5 billion below market expectations.
- Last month's estimate of **PSNB over the first seven months of 2018-19** was revised down £1.1 billion to £25.6 billion.
- **Year-to-date PSNB** stands at £32.8 billion, down £13.6 billion (29.4 per cent) on the same period in 2017-18. Our October *EFO* forecast of £25.5 billion for 2018-19 as a whole implies a £16.0 billion fall (38.6 per cent) over the full financial year.
- **Year-to-date central government receipts** (excluding PSNB-neutral transfers related to 'quantitative easing') are 4.7 per cent up on the same period in 2017-18 – in line with our full-year forecast of a 4.7 per cent rise (on a like-for-like basis).
- **Year-to-date central government spending** (excluding PSNB-neutral grants to local authorities) is up 2.3 per cent on last year – less than our full-year forecast of a 3.1 per cent rise (on a like-for-like basis).
- **The debt-to-GDP ratio** was unchanged from a year earlier in November 2018, partly reflecting the upward contribution of monetary policy measures.

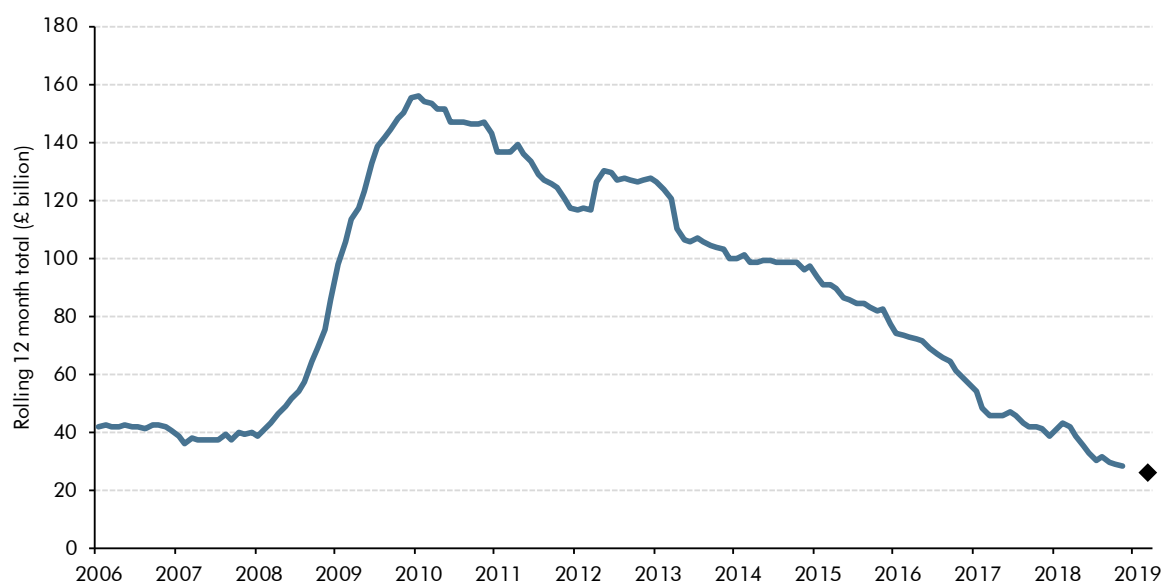
Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the November 2018 Public Sector Finances this morning, covering the first eight months of the 2018-19 fiscal year.¹ Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast, currently the October 2018 *Economic and fiscal outlook (EFO)*.

Public sector net borrowing

2. Public sector net borrowing (PSNB) is provisionally estimated at £7.2 billion in November, £0.9 billion down on the same month a year earlier and £0.5 billion below market expectations. The £2.1 billion rise in central government (CG) receipts relative to last October (excluding APF transfers) outstripped the £1.6 billion rise in CG spending (excluding PSNB-neutral grants to local authorities). Borrowing by local authorities was £1.0 billion lower than a year earlier, in part because of higher CG grants to them.
3. The year-on-year fall in borrowing in November leaves year-to-date borrowing down slightly more than was reported in last month's data release. Year-to-date borrowing is £13.6 billion lower than in 2017-18. Meeting our latest *EFO* forecast for PSNB in 2018-19 as a whole would require a fall of £16.0 billion from the latest estimate of 2017-18 outturn. Chart 1.1 shows outturn PSNB on a 12-month rolling basis, relative to our latest full-year forecast for 2018-19.

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



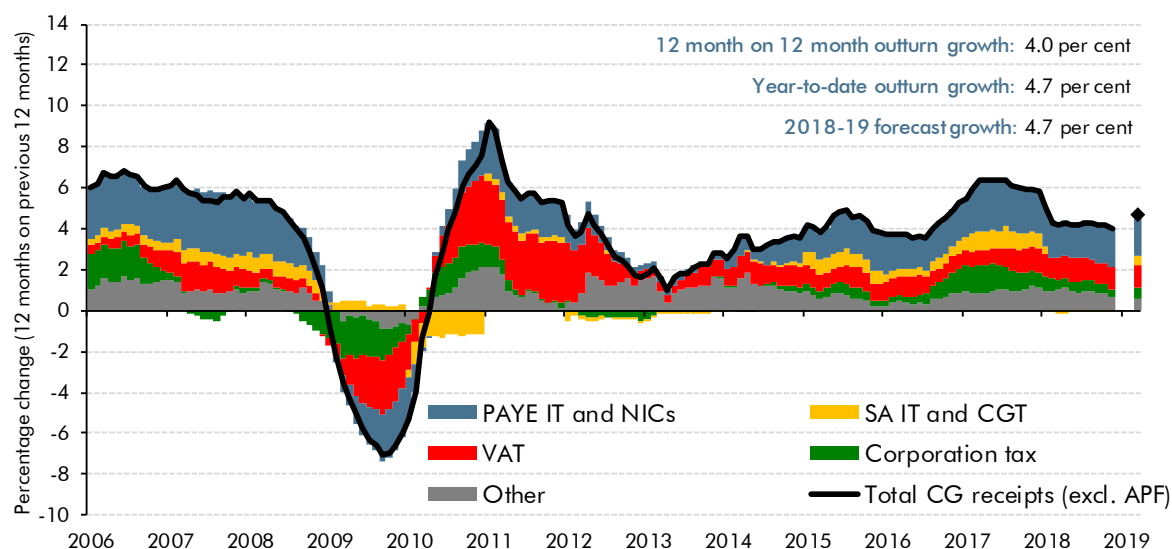
Source: ONS, OBR

¹<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/november2018>

Central government receipts

- Relative to the same period last year, CG receipts (excluding APF transfers) were up 3.8 per cent in November and 4.7 per cent for the year-to-date. The latter is in line with our full-year forecast rise of 4.7 per cent on a like-for-like basis. As with earlier months in 2018-19, strength in receipts has been particularly evident in PAYE income tax, NICs and VAT. Growth in all three tax streams for the year-to-date is higher than our full-year forecast. PAYE income tax so far in 2018-19 is up 5.1 per cent compared with a full-year forecast of 4.4 per cent, while VAT receipts are up 6.0 versus 5.2 per cent. Tobacco receipts in November were down by around 70 per cent on a year earlier, as tobacco firms forestalled (cleared more cigarettes with HMRC) ahead of the Budget duty rise. The early timing of the Budget meant that forestalling took place a month earlier than last year – tobacco receipts in October were up 90 per cent on a year earlier.
- Chart 1.2 shows that year-to-date growth in CG receipts is broadly in line with our *EFO* forecast. On a rolling 12-month basis, outturn receipts growth is marginally below our full-year forecast. That largely reflects the fall in self-assessment income tax and capital gains tax receipts at the end of 2017-18, which will fall out of the year-on-year comparison by the end of 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

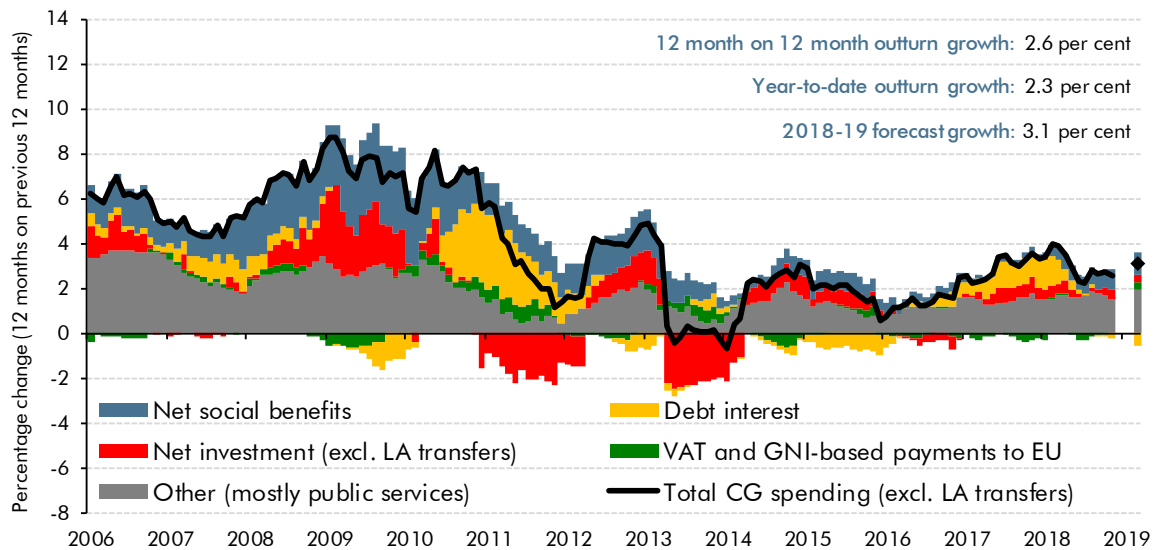
Spending

- Relative to last year, total CG spending (excluding grants to local authorities) was up 3.1 per cent in November and 2.3 per cent year-to-date, with the latter below our October forecast of a 3.1 per cent rise over the whole year (on a like-for-like basis). The rise in CG spending in November was largely driven by 'other' CG current and capital spending (reflecting higher departmental spending). A £0.8 billion increase in net social benefits expenditure (reflecting higher spending across several benefits) was more than

offset by debt interest payments being £0.9 billion lower (reflecting the monthly path of RPI inflation, which affects accrued interest paid on interest-linked gilts).

7. The main driver of weaker spending growth over the first eight months of 2018-19 has been debt interest, which is down 7.7 per cent relative to the same period last year – a sharper decline than our full-year forecast of a 6.3 per cent fall. Growth in departmental current spending for the year-to-date has been weaker than we forecast for the full year, but these data remain provisional and subject to future revision.
8. Chart 1.3 shows that on both a year-to-date basis and a rolling 12-month basis, outturn CG spending growth is below our full-year forecast. That largely reflects departmental spending, as set out above.

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

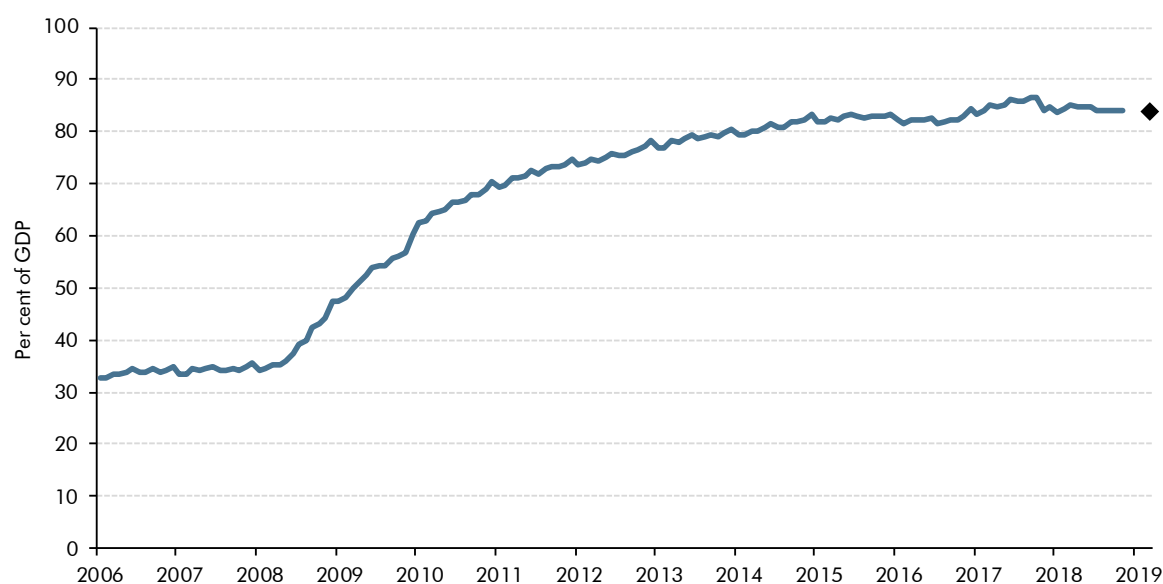


We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.
 Source: ONS, OBR

Debt

9. Public sector net debt (PSND) was unchanged as a share of GDP from a year earlier in November 2018, in contrast to the 1.3 per cent of GDP fall we forecast in the *EFO* for the year to the end of 2018-19. This also contrasts with the falls in the debt-to-GDP ratio we have seen over recent months, as the impact of the ONS classification change that moved English housing associations to the private sector in November 2017 has now fallen out of the year-on-year comparison. But that comparison continues to be distorted by the implications of the Bank of England’s August 2016 monetary policy measures (which raised PSND by £28.6 billion or 1.3 per cent of GDP in the year to November 2018). This effect will diminish over the rest of 2018-19. Lower borrowing and higher nominal GDP provide the main downward 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

ONS announcement on the accounting treatment of student loans

10. On 17 December, the ONS announced its intention to change the accounting treatment of student loans. The new approach would treat issuance of UK student loans as a combination of a transfer to students (government spending) and a genuine loan (financial transaction). The ONS refers to this as a 'partitioned loan-transfer approach'. This is the same concept as the 'hybrid' accounting treatment we set out in *Working paper No.12: Student loans and fiscal illusions*. The ONS's current aim is to publish provisional estimates in June 2019, with full implementation of the new approach in the outturn statistics in September 2019. We presented the implications of the hybrid treatment for our October forecast in Box 4.3 of the *Economic and fiscal outlook*. We will revisit these estimates and discuss the implications for the public finances at the Spring Statement (the date for which has yet to be announced).

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	November				April to November				Implied December to March				October forecast			
	2018	2017	change		2018-19	2017-18	change		2018-19	2017-18	change		2018-19 EFO	2017-18 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts																
Taxes on production	23.8	23.4	0.4	1.8	187.8	179.7	8.1	4.5	93.6	87.6	5.9	6.8	281.4	267.3	14.1	5.3
Of which: VAT (accrued)	12.9	12.1	0.8	6.6	100.5	94.8	5.7	6.0	49.6	47.8	1.8	3.7	150.1	142.6	7.4	5.2
Taxes on income and wealth ¹	17.8	16.9	0.9	5.6	153.4	145.0	8.4	5.8	107.1	101.4	5.7	5.6	260.6	246.4	14.1	5.7
Of which:																
Income tax and CGT (accrued)	13.0	12.2	0.8	6.3	112.3	105.9	6.5	6.1	86.5	82.6	3.9	4.7	198.9	188.5	10.4	5.5
Corporation tax (accrued)	4.8	4.6	0.2	4.2	40.9	39.0	1.9	4.9	20.6	18.7	1.8	9.8	61.5	57.7	3.7	6.5
Other taxes	1.4	1.4	0.0	0.3	12.3	12.1	0.2	1.8	6.1	5.8	0.3	5.1	18.4	17.8	0.5	2.9
Compulsory social contributions	10.7	10.3	0.4	4.0	87.7	84.3	3.4	4.0	49.2	48.3	1.0	2.0	136.9	132.5	4.4	3.3
Interest & dividends	0.9	0.7	0.3	40.2	15.0	14.9	0.1	0.3	5.8	3.7	2.1	57.7	20.8	18.6	2.2	11.8
Other receipts	1.9	1.9	0.0	0.5	14.9	15.2	-0.3	-1.8	8.4	7.6	0.9	11.4	23.4	22.8	0.6	2.6
Total CG current receipts	56.6	54.5	2.1	3.8	471.1	451.2	19.9	4.4	270.3	254.4	15.9	6.3	741.4	705.5	35.8	5.1
CG current expenditure																
Interest payments	3.0	3.9	-0.9	-23.7	36.5	39.5	-3.0	-7.7	15.1	15.5	-0.4	-2.7	51.6	55.0	-3.4	-6.3
Net social benefits	19.7	18.9	0.8	4.1	144.4	140.4	3.9	2.8	70.9	68.0	2.9	4.3	215.3	208.4	6.9	3.3
CG current grants to LAs	8.3	8.3	0.0	0.0	77.1	77.0	0.1	0.1	36.0	37.1	-1.1	-3.0	113.1	114.1	-1.0	-0.9
VAT and GNI-based payments to EU ²	1.1	0.9	0.2	17.6	7.6	7.4	0.2	3.3	2.5	2.8	-0.3	-11.5	10.1	10.2	-0.1	-0.8
Other CG current expenditure	26.1	25.2	0.9	3.4	200.7	194.3	6.4	3.3	109.7	100.1	9.6	9.6	310.4	294.4	16.0	5.4
Total current expenditure	58.2	57.3	0.9	1.5	466.3	458.7	7.7	1.7	234.1	223.5	10.7	4.8	700.5	682.2	18.3	2.7
Depreciation	1.6	1.5	0.0	1.2	12.4	12.3	0.1	0.5	6.3	6.2	0.1	1.0	18.6	18.5	0.1	0.7
CG current budget deficit	3.2	4.4	-1.2	-26.9	7.6	19.8	-12.2		-29.9	-24.7	-5.2	21.1	-22.2	-4.9	-17.4	
CG net investment	3.8	2.5	1.3	53.9	25.5	23.3	2.2	9.4	17.4	16.9	0.5	3.1	42.9	40.2	2.7	6.7
of which: CG capital grants to LA	1.1	0.5	0.6	114.8	7.4	7.0	0.4	5.5	4.0	3.5	0.5	12.9	11.4	10.5	0.8	8.0
CG net borrowing	7.0	6.8	0.2		33.2	43.1	-10.0	-23.1	-12.5	-7.8	-4.7		20.7	35.3	-14.7	-41.5
Local authorities net borrowing	1.2	2.2	-1.0		-0.9	0.6	-1.5	-243.4	7.2	6.9	0.2	3.1	6.3	7.6	-1.3	-17.1
Public corporations net borrowing	-1.0	-0.9	0.0		0.5	2.7	-2.1	-79.9	-2.0	-4.1	2.1		-1.5	-1.4	0.0	2.2
Public sector net borrowing	7.2	8.1	-0.9	-11.1	32.8	46.4	-13.6	-29.4	-7.3	-5.0	-2.3	47.2	25.5	41.5	-16.0	-38.6
Public sector net investment	3.3	3.0	0.3	9.6	21.3	23.7	-2.3	-9.8	19.9	19.2	0.7	3.7	41.2	42.8	-1.6	-3.8
Public sector current budget	3.9	5.1	-1.2	-23.2	11.5	22.8	-11.3	-49.7	-27.2	-24.1	-3.1		-15.7	-1.3	-14.4	

October 2018 EFO forecast published 29 October 2018 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/november2018>

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.obr.uk/EFO_October-2018.pdf

² Net of abatement.