

# Commentary on the Public Sector Finances: February 2019

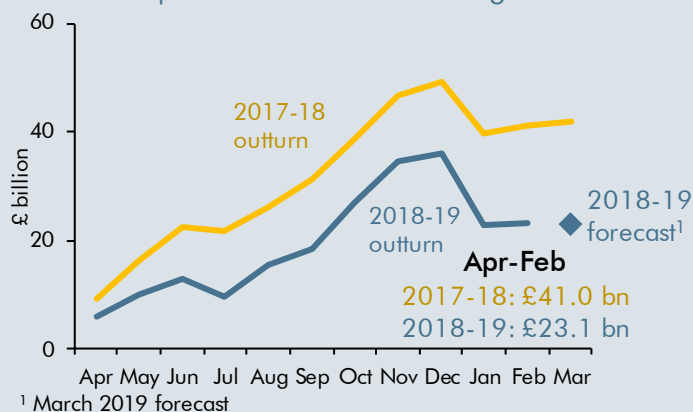
Office for  
**Budget  
Responsibility**

21 March 2019

## Deficit continues to fall in 2018-19

Broad-based growth in tax receipts and lower debt interest spending continued to push the deficit down relative to last year in February. With only one month of 2018-19 to go, borrowing is down almost half relative to the same period in 2017-18 – broadly in line with our recent forecast.

Cumulative public sector net borrowing



## Headlines

- **Public sector net borrowing (PSNB)** is provisionally estimated at £0.2 billion in February, £1.0 billion lower than a year earlier. This was £0.5 billion below market expectations.
- Last month's estimate of **PSNB over the first ten months of 2018-19** was revised up by £1.7 billion to £22.9 billion, largely reflecting updated local authority data.
- **Year-to-date PSNB** stands at £23.1 billion, down £18.0 billion (43.8 per cent) on the same period in 2017-18. Our March *EFO* forecast of £22.8 billion for 2018-19 as a whole implies a £19.0 billion fall (45.4 per cent) over the full financial year.
- **Year-to-date central government receipts** (excluding PSNB-neutral transfers related to 'quantitative easing') are 5.2 per cent up on the same period in 2017-18 – slightly above our full-year forecast of a 5.1 per cent rise (on a like-for-like basis).
- **Year-to-date central government spending** (excluding PSNB-neutral grants to local authorities) is up 2.9 per cent on last year – in line with our full-year forecast of a 2.9 per cent rise (on a like-for-like basis).
- **Net debt** was 1.4 per cent of GDP lower in February 2019 than a year earlier. This largely reflects the fall in borrowing and growth in nominal GDP over the past 12 months.

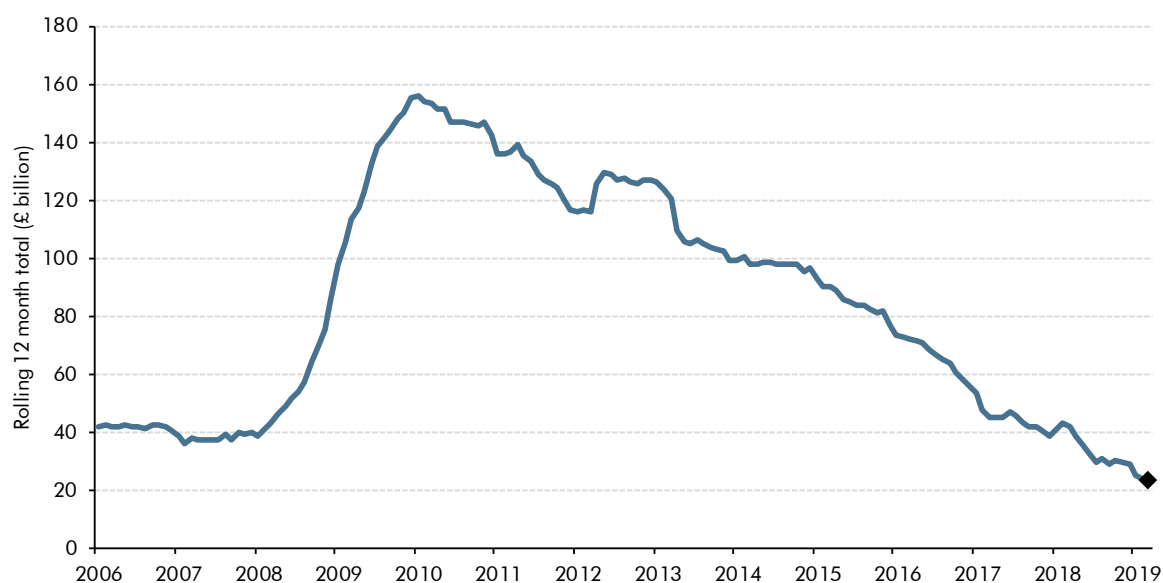
## Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the February 2019 Public Sector Finances this morning, covering eleven months of the 2018-19 fiscal year.<sup>1</sup> 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

2. Public sector net borrowing (PSNB) was £0.2 billion in February, £1.0 billion lower than last year and £0.5 billion below market expectations. The fall in the deficit relative to last year reflected a £2.3 billion (3.6 per cent) rise in central government (CG) receipts, only some of which was offset by a £1.0 billion (1.6 per cent) rise in CG spending. Borrowing by local authorities was £0.1 billion lower than last year, while borrowing by public corporations was £0.3 billion higher than last year.
3. Borrowing for the year-to-date is now £18.0 billion (43.8 per cent) lower than a year earlier. Meeting our latest *EFO* forecast for PSNB in 2018-19 as a whole would require a fall of £19.0 billion (45.4 per cent) from the latest estimate of 2017-18 outturn, so our latest forecast would be met if there were a small year-on-year fall in borrowing in March. 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

<sup>1</sup><https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/february2019>

4. Although there is only one month remaining in the financial year, the outturn for the full year is still subject to considerable uncertainty – both because of next month’s data and the usual flow of revisions over subsequent months. On the receipts side, March and April income tax and NICs cash payments (relating to February and March salaries) are typically the biggest months for tax from financial and non-financial sector bonuses. On the spending side, estimates for central government spending will continue to be revised over the first half of 2017-18 as firmer information becomes available. Fuller data from local authorities and public corporations are only available with a longer lag.<sup>2</sup>

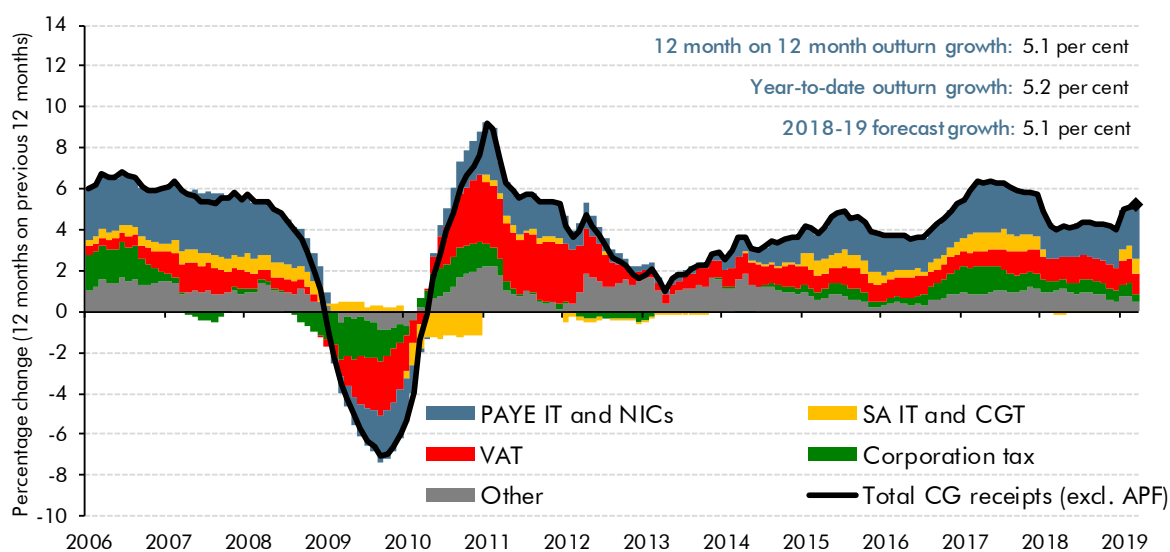
## Central government receipts

5. Relative to last year, CG receipts (excluding APF transfers) were up 3.6 per cent in February and 5.2 per cent for the year-to-date, marginally above our full-year forecast on a like-for-like basis. The rise in receipts in February continues to be broad-based with most of the major taxes (PAYE income tax, NICs, VAT and onshore corporation tax) showing continued solid growth on a year earlier.
6. Self-assessment (SA) income tax payments in February were down £0.2 billion (5.6 per cent) on a year earlier, although this is likely to reflect changes in payment timings. Taking January and February together, SA income tax receipts were up £1.7 billion (9.9 per cent) on a year earlier and capital gains tax receipts were up £1.3 billion (17.2 per cent) on a year earlier. As we set out in our March *EFO*, preliminary analysis from HMRC suggests that the strength in these receipts was broad-based across the various income streams – this analysis will be refined over the coming months.
7. Central government receipts over the first ten months of the year were revised down by £0.3 billion. This reflects several partly offsetting changes, including the impact of our latest forecast on the accruals adjustments incorporated into the ONS data as well as the incorporation of new data on the VAT ‘mini one stop shop’ (MOSS) scheme that we highlighted in last month’s commentary and incorporated into our latest forecast.
8. Chart 1.2 shows that outturn receipts growth is close to our March forecast for 2018-19 as a whole.

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<sup>2</sup> See Working Paper No:13, *In-year fiscal forecasting and monitoring* on our website for more information.

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



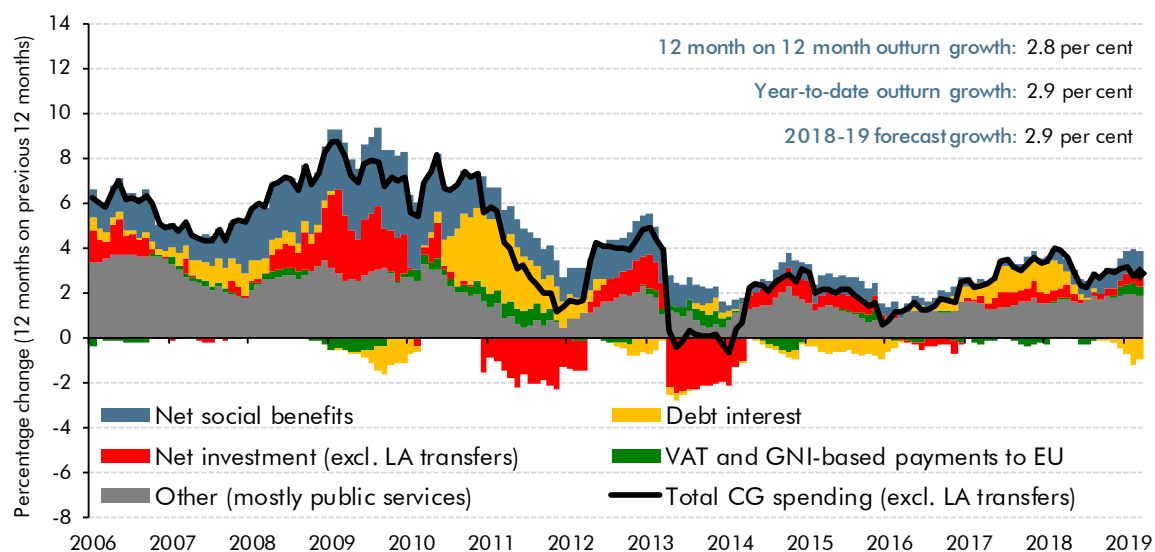
We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.

Source: ONS, OBR

## Central government spending

9. Relative to last year, total CG spending (excluding grants to local authorities) was up 2.2 per cent in February and 2.9 per cent for the year-to-date, with the latter in line with our March forecast of a 2.9 per cent rise over the full year (on a like-for-like basis). The rise in CG spending in February was largely driven by an increase in VAT and GNI-based payments to the European Union. This largely reflects a larger 'draw-forward' of contributions in calendar year 2019 relative to last year. This is purely a timing effect that will unwind in 2019-20. Other upward contributions came from higher departmental spending and net social benefits. Offsetting that, debt interest payments were down £1.9 billion on last year (reflecting the monthly path of RPI inflation, which affects accrued interest paid on index-linked gilts). Both the higher EU contributions and the lower debt interest payments in February were anticipated in our March EFO.
10. Our March forecast implies slightly weaker spending growth in the last month of the year. March is typically the second largest month of the year for spending, mainly reflecting the fact that departments look to spend the amounts they have been allocated before the end of the fiscal year. Departmental spending data remain provisional and there is particular uncertainty over Brexit-related spending in the final month of 2018-19. Chart 1.3 shows that outturn CG spending growth is close to our full-year forecast.

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



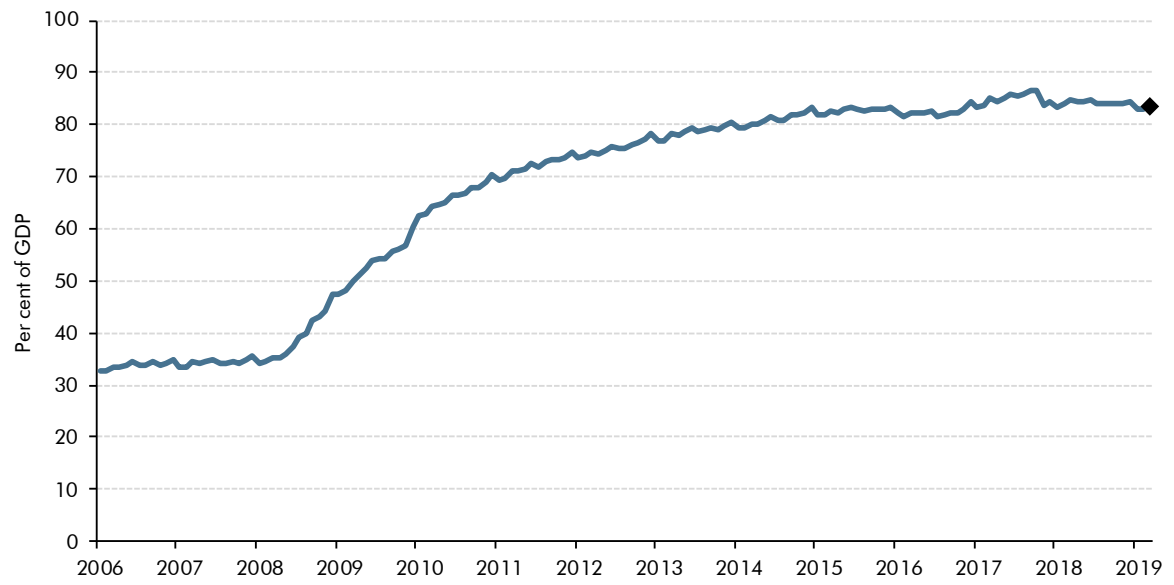
We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.

Source: ONS, OBR

## Debt

- Public sector net debt (PSND) in February 2019 was down 1.4 per cent of GDP from a year earlier, close to the 1.5 per cent of GDP fall we forecast in the *EFO* for the year to the end of 2018-19. Up until January 2019, the year-on-year impact of the Term Funding Scheme (TFS) raised the debt-to-GDP ratio, reflecting the rising take-up of loans until February 2018 (when the scheme closed, having made loans totalling £127 billion). Now that the scheme is closed, its year-on-year impact on PSND will stabilise until the loans are repaid. As £5 billion of loans have recently been repaid early, the TFS has made a downward contribution to the year-on-year change in PSND this month. Lower borrowing and higher nominal GDP provide the remaining downward contributions to the fall in the debt-to-GDP ratio this month. 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

Table 1.1: Public sector receipts, expenditure and net borrowing<sup>1</sup>

| £ billion                                       | February    |             |               |              | April to February |              |               |               | Implied March |             |               |               | March forecast |                    |               |              |
|---|-------------|-------------|---------------|--------------|-------------------|--------------|---------------|---------------|---------------|-------------|---------------|---------------|----------------|--------------------|---------------|--------------|
|   | 2019        | 2018        | change<br>£bn | %            | 2018-19           | 2017-18      | change<br>£bn | %             | 2018-19       | 2017-18     | change<br>£bn | %             | 2018-19<br>EFO | 2017-18<br>outturn | change<br>£bn | %            |
| <b>Central government (CG) current receipts</b> |             |             |               |              |                   |              |               |               |               |             |               |               |                |                    |               |              |
| Taxes on production                             | 22.0        | 21.6        | 0.4           | 1.8          | 256.1             | 245.6        | 10.5          | 4.3           | 24.8          | 21.8        | 3.0           | 13.8          | 280.9          | 267.4              | 13.5          | 5.1          |
| Of which: VAT (accrued)                         | 11.9        | 11.7        | 0.2           | 2.1          | 138.5             | 131.0        | 7.5           | 5.7           | 11.6          | 11.8        | -0.2          | -2.0          | 150.1          | 142.8              | 7.3           | 5.1          |
| Taxes on income and wealth <sup>1</sup>         | 25.6        | 24.5        | 1.1           | 4.5          | 239.6             | 223.9        | 15.6          | 7.0           | 22.2          | 22.2        | 0.0           | 0.2           | 261.8          | 246.1              | 15.7          | 6.4          |
| Of which:                                       |             |             |               |              |                   |              |               |               |               |             |               |               |                |                    |               |              |
| Income tax and CGT (accrued)                    | 20.7        | 20.0        | 0.7           | 3.5          | 183.6             | 171.4        | 12.2          | 7.1           | 18.2          | 17.0        | 1.2           | 6.8           | 201.8          | 188.4              | 13.4          | 7.1          |
| Corporation tax (accrued)                       | 4.9         | 4.6         | 0.3           | 6.5          | 56.0              | 52.4         | 3.6           | 6.8           | 4.0           | 5.1         | -1.1          | -22.1         | 60.0           | 57.5               | 2.4           | 4.3          |
| Other taxes                                     | 1.4         | 1.5         | 0.0           | -2.8         | 16.5              | 16.3         | 0.2           | 1.5           | 1.6           | 1.6         | 0.1           | 5.3           | 18.2           | 17.8               | 0.3           | 1.8          |
| Compulsory social contributions                 | 12.4        | 11.9        | 0.5           | 3.9          | 123.4             | 118.3        | 5.0           | 4.2           | 14.3          | 13.2        | 1.1           | 8.4           | 137.7          | 131.5              | 6.1           | 4.6          |
| Interest & dividends                            | 1.1         | 0.8         | 0.3           | 37.9         | 18.0              | 17.3         | 0.7           | 3.8           | 2.4           | 1.3         | 1.0           | 80.4          | 20.3           | 18.6               | 1.7           | 9.1          |
| Other receipts                                  | 2.0         | 1.9         | 0.0           | 2.5          | 21.4              | 21.5         | -0.1          | -0.5          | 2.2           | 2.0         | 0.2           | 10.6          | 23.6           | 23.5               | 0.1           | 0.4          |
| <b>Total CG current receipts</b>                | <b>64.5</b> | <b>62.2</b> | <b>2.3</b>    | <b>3.6</b>   | <b>674.9</b>      | <b>643.0</b> | <b>31.9</b>   | <b>5.0</b>    | <b>67.5</b>   | <b>62.0</b> | <b>5.5</b>    | <b>8.9</b>    | <b>742.4</b>   | <b>705.0</b>       | <b>37.4</b>   | <b>5.3</b>   |
| <b>CG current expenditure</b>                   |             |             |               |              |                   |              |               |               |               |             |               |               |                |                    |               |              |
| Interest payments                               | 4.5         | 6.4         | -1.9          | -29.7        | 48.2              | 54.6         | -6.4          | -11.7         | 0.7           | 0.4         | 0.2           | 55.4          | 48.9           | 55.0               | -6.1          | -11.2        |
| Net social benefits                             | 16.4        | 15.8        | 0.6           | 4.1          | 197.0             | 191.1        | 5.8           | 3.1           | 18.2          | 17.3        | 0.9           | 5.0           | 215.1          | 208.4              | 6.7           | 3.2          |
| CG current grants to LAs                        | 8.1         | 8.4         | -0.3          | -3.7         | 103.3             | 104.0        | -0.7          | -0.6          | 9.4           | 10.1        | -0.7          | -7.3          | 112.7          | 114.1              | -1.4          | -1.2         |
| VAT and GNI-based payments to EU <sup>2</sup>   | 2.9         | 1.8         | 1.0           | 55.6         | 11.8              | 9.1          | 2.7           | 30.0          | 1.1           | 1.1         | 0.0           | -0.8          | 12.9           | 10.2               | 2.7           | 26.7         |
| Other CG current expenditure                    | 25.0        | 23.9        | 1.1           | 4.6          | 278.9             | 267.9        | 11.0          | 4.1           | 28.6          | 26.5        | 2.1           | 7.8           | 307.5          | 294.4              | 13.1          | 4.5          |
| <b>Total current expenditure</b>                | <b>56.8</b> | <b>56.3</b> | <b>0.5</b>    | <b>1.0</b>   | <b>639.3</b>      | <b>626.7</b> | <b>12.6</b>   | <b>2.0</b>    | <b>57.9</b>   | <b>55.4</b> | <b>2.4</b>    | <b>4.4</b>    | <b>697.2</b>   | <b>682.2</b>       | <b>15.0</b>   | <b>2.2</b>   |
| Depreciation                                    | 1.6         | 1.6         | 0.0           | 1.0          | 17.0              | 17.0         | 0.1           | 0.3           | 1.6           | 1.6         | 0.0           | 0.3           | 18.6           | 18.5               | 0.1           | 0.3          |
| <b>CG current budget deficit</b>                | <b>-6.1</b> | <b>-4.4</b> | <b>-1.7</b>   | <b>38.6</b>  | <b>-18.6</b>      | <b>0.7</b>   | <b>-19.3</b>  |               | <b>-8.1</b>   | <b>-5.0</b> | <b>-3.1</b>   | <b>61.3</b>   | <b>-26.7</b>   | <b>-4.4</b>        | <b>-22.3</b>  |              |
| CG net investment                               | 3.8         | 3.3         | 0.4           | 13.4         | 37.0              | 33.5         | 3.6           | 10.6          | 7.4           | 6.8         | 0.6           | 9.1           | 44.4           | 40.2               | 4.2           | 10.4         |
| of which: CG capital grants to LA               | 0.5         | 0.4         | 0.2           | 44.1         | 9.3               | 8.7          | 0.6           | 7.4           | 2.1           | 1.8         | 0.3           | 17.8          | 11.5           | 10.5               | 1.0           | 9.2          |
| <b>CG net borrowing</b>                         | <b>-2.3</b> | <b>-1.1</b> | <b>-1.3</b>   |              | <b>18.4</b>       | <b>34.1</b>  | <b>-15.7</b>  | <b>-46.1</b>  | <b>-0.7</b>   | <b>1.7</b>  | <b>-2.5</b>   |               | <b>17.7</b>    | <b>35.8</b>        | <b>-18.2</b>  | <b>-50.7</b> |
| Local authorities net borrowing                 | 3.3         | 3.4         | -0.1          |              | 7.1               | 7.4          | -0.3          | -4.4          | 1.2           | 0.2         | 1.0           | 558.1         | 8.2            | 7.6                | 0.7           | 9.0          |
| Public corporations net borrowing               | -0.8        | -1.1        | 0.3           |              | -2.4              | -0.5         | -1.9          | 415.5         | -0.7          | -1.1        | 0.4           |               | -3.1           | -1.6               | -1.5          | 94.2         |
| <b>Public sector net borrowing</b>              | <b>0.2</b>  | <b>1.2</b>  | <b>-1.0</b>   | <b>-83.7</b> | <b>23.1</b>       | <b>41.0</b>  | <b>-18.0</b>  | <b>-43.8</b>  | <b>-0.2</b>   | <b>0.8</b>  | <b>-1.0</b>   | <b>-128.7</b> | <b>22.8</b>    | <b>41.8</b>        | <b>-19.0</b>  | <b>-45.4</b> |
| <b>Public sector net investment</b>             | <b>5.0</b>  | <b>4.6</b>  | <b>0.4</b>    | <b>9.3</b>   | <b>35.8</b>       | <b>36.1</b>  | <b>-0.3</b>   | <b>-0.9</b>   | <b>7.4</b>    | <b>6.5</b>  | <b>0.9</b>    | <b>13.7</b>   | <b>43.2</b>    | <b>42.7</b>        | <b>0.6</b>    | <b>1.4</b>   |
| <b>Public sector current budget</b>             | <b>-4.8</b> | <b>-3.4</b> | <b>-1.5</b>   | <b>43.1</b>  | <b>-12.8</b>      | <b>4.9</b>   | <b>-17.7</b>  | <b>-360.3</b> | <b>-7.7</b>   | <b>-5.7</b> | <b>-1.9</b>   |               | <b>-20.4</b>   | <b>-0.8</b>        | <b>-19.6</b>  |              |

March 2019 EFO forecast published 13 March 2019 excluding public sector banks on a National Accounts basis.

<sup>1</sup> 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/february2019>

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](https://cdn.ubr.uk/EFO_March-2019.pdf)

<sup>2</sup> Net of abatement.