

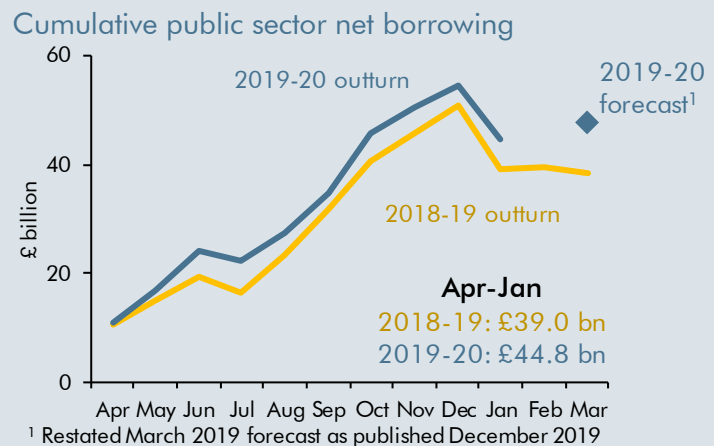
Commentary on the Public Sector Finances: January 2020

Office for
**Budget
Responsibility**

21 February 2020

January surplus down on a year earlier

Very strong spending growth outweighed strong receipts growth this month, leaving the usual January surplus smaller than it was a year ago. But, over the first ten months of 2019-20, borrowing continues to rise relative to the same period year, albeit at a slower pace than is implied by our latest full-year forecast.



Headlines

- We compare latest outturns with our **restated March 2019 forecast**, which reflects several recent ONS statistical changes and means that comparisons are now on a like-for-like basis.
- **Public sector net borrowing (PSNB)** is provisionally estimated to have shown a surplus of £9.8 billion in January. This was £2.1 billion smaller than the same month last year and £1.6 billion lower than the average market expectation of £11.4 billion.
- **Year-to-date borrowing** was up £5.8 billion (14.9 per cent) up on the same period last year. Our restated PSNB forecast for 2019-20 implies a £9.2 billion (24.0 per cent) full-year rise.
- **Central government receipts** (excluding PSNB-neutral transfers related to 'quantitative easing') were up 3.8 per cent in January. Year-to-date receipts growth of 3.0 per cent is above our restated March forecast of a 2.4 per cent rise in 2019-20 as a whole.
- **Central government spending** (excluding PSNB-neutral grants to local authorities) was up by 7.6 per cent in January and up 3.7 per cent for the year to date. Year-to-date spending is above our restated March forecast of a 3.2 per cent rise in 2019-20 as a whole, with weaker debt interest spending only partially offsetting stronger growth in departmental spending.
- **Net debt** was 0.7 per cent of GDP lower in January 2020 than a year earlier.

Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 2020 Public Sector Finances this morning, covering the first ten months of 2019-20.¹ Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast. This is currently from the March 2019 *Economic and fiscal outlook (EFO)*, which we have restated to be on a consistent basis with the substantial classification and other statistical changes that were incorporated into September's Public Sector Finances release.² Our restated forecast for borrowing in 2019-20 is £18.3 billion higher than the original one.
2. Our next forecast will be published on 11 March alongside the Chancellor's Budget.

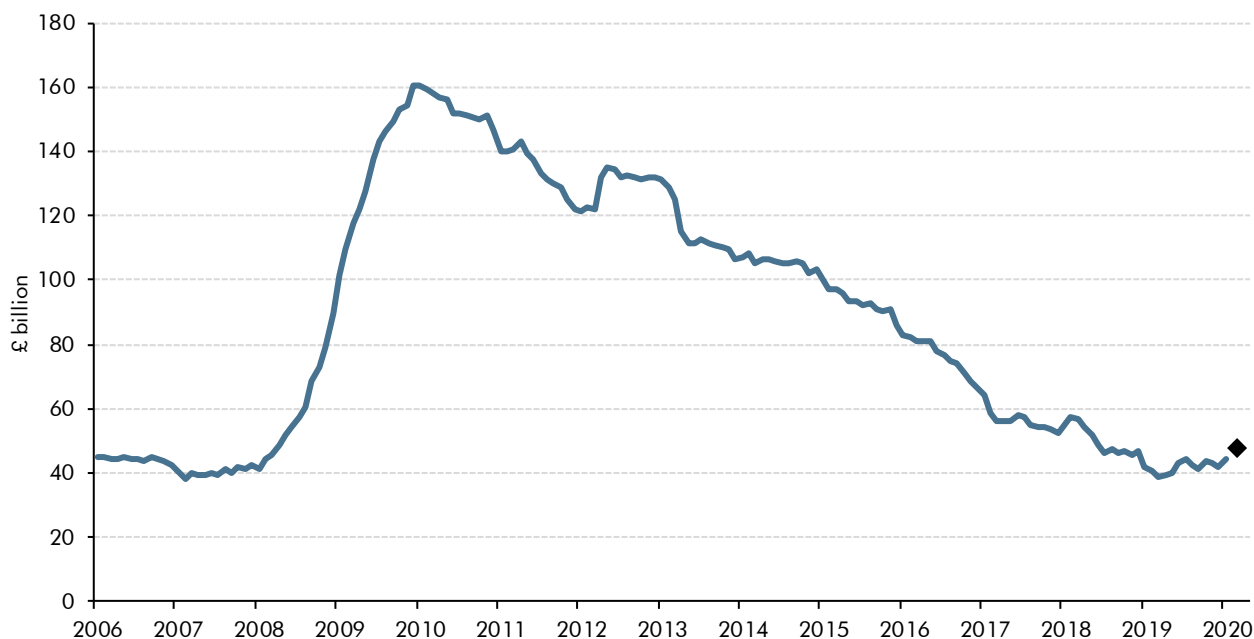
Public sector net borrowing

3. Public sector net borrowing (PSNB) recorded an £9.8 billion surplus in January, £2.1 billion lower than last year and £1.6 billion lower than market expectations. Abstracting from flows within the public sector, the smaller surplus relative to last year reflected a £4.3 billion (7.6 per cent) rise in central government spending, only partly offset by a £3.0 billion (3.8 per cent) rise in central government receipts. Borrowing by local authorities was up by £0.5 billion, while borrowing by public corporations was up by £0.3 billion.
4. Borrowing over the first nine months of 2019-20 is up £5.8 billion (14.9 per cent) on a year earlier. To meet our restated forecast of £47.6 billion for 2019-20 as a whole requires a £9.2 billion (24.0 per cent) rise over the full financial year. This would require a materially worse performance for the public finances over the last two months of the year, relative to the small surplus recorded over February and March 2019.
5. Chart 1.1 shows outturn PSNB on a 12-month rolling basis relative to our restated full-year forecast for 2019-20. It is currently a little below that full-year forecast, which in part will reflect our latest forecast for weaker receipts growth over the remaining months of the year.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2020>

² https://obr.uk/docs/dlm_uploads/Restated_March_2019_forecast.pdf

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

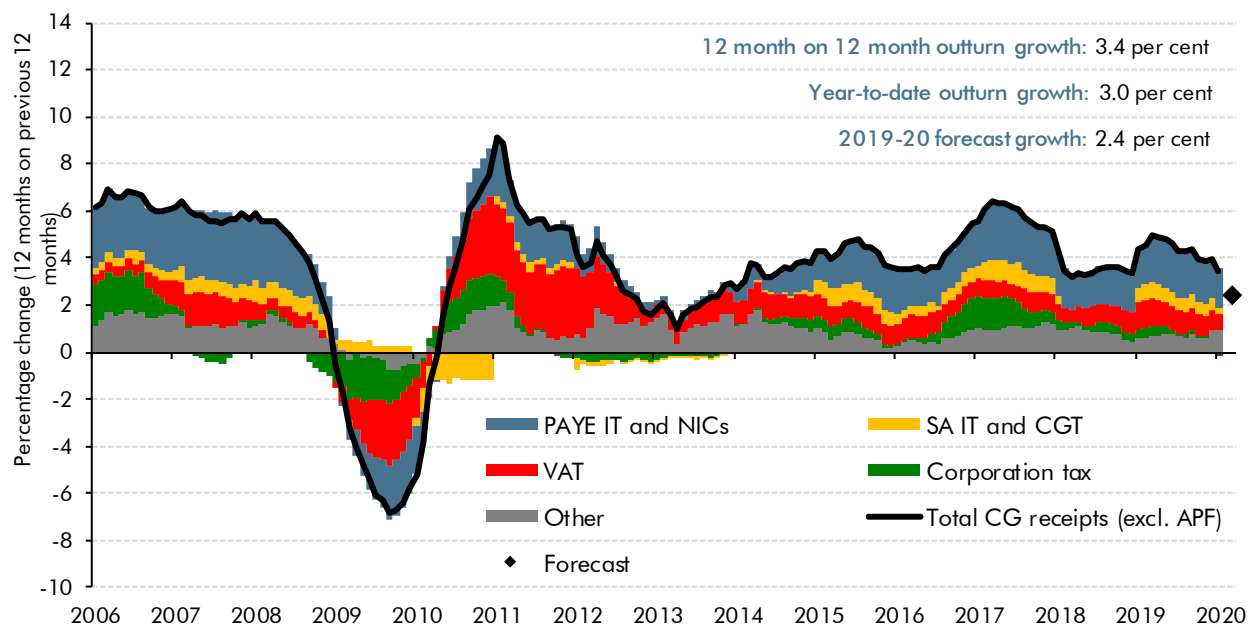


Source: ONS, OBR

Central government receipts

6. January is generally the largest month of the year for tax receipts, with SA payments due at the end of the month, plus cash payments of corporation tax by large firms and VAT receipts relating to the Christmas period. Relative to the same period last year, CG receipts (excluding APF transfers) were up 3.8 per cent in January and 3.0 per cent for the year-to-date. This is above our full-year forecast of 2.4 per cent. Receipts in January were boosted by a one-off £0.8 billion fine, following the recent Serious Fraud Office announcement of a 'deferred prosecution agreement' (DPA) with Airbus.
7. SA receipts include income tax, capital gains tax and Class 4 NICs, which are collected together. The breakdown between these tax streams is provisional and subject to change once HMRC have fuller information. SA income tax and CGT combined were up in January by £1.3 billion (6.0 per cent) on a year earlier. This brings year-to-date growth to 5.4 per cent, close to our 6 per cent full-year forecast.
8. Strength in receipts so far in 2019-20 has been particularly evident in PAYE income tax and NICs – up 3.5 per cent year-to-date compared with our full-year forecast of 2.2 per cent. While earnings growth has eased from its peak in the summer, earnings growth so far this year has been stronger than we forecast back in March. Overall year-to-date receipts growth has also benefited from the £1.8 billion of RBS special dividends received so far this year, which exceeds the £1.0 billion we predicted for the year as a whole.
9. Chart 1.2 shows the rolling 12-month average growth in CG receipts, which is currently running above our latest forecast. That largely reflects the stronger-than-expected PAYE income tax and NICs receipts seen so far this year.

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

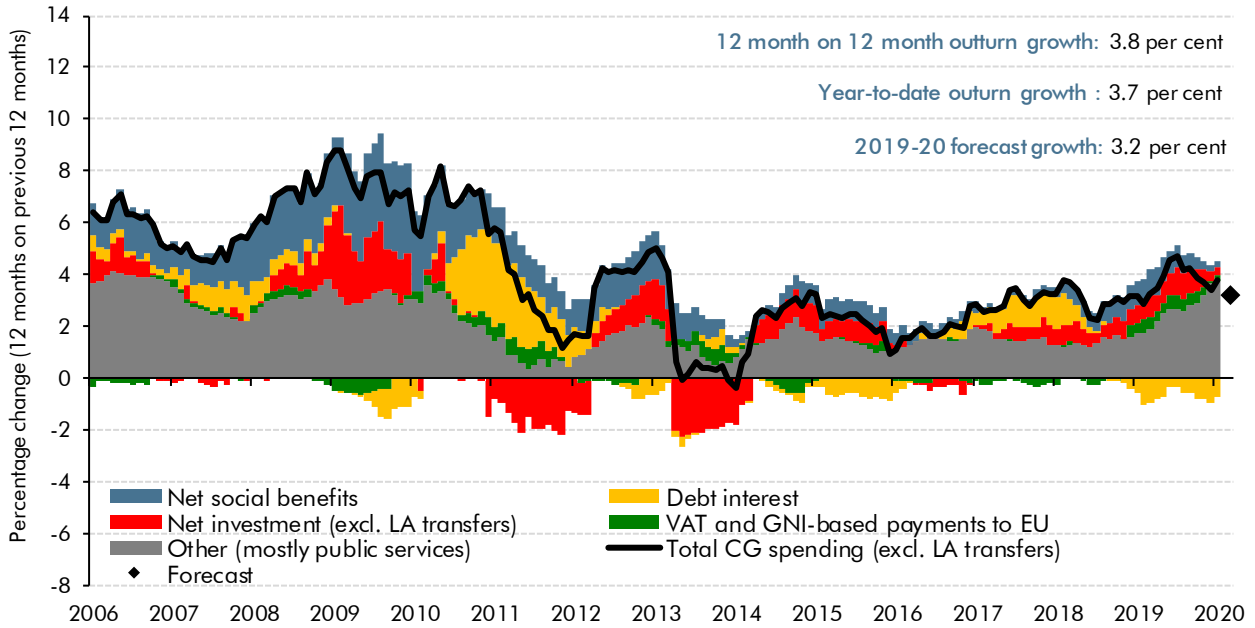


Source: ONS, OBR

Central government spending

10. Relative to last year, total CG spending (excluding grants to local authorities) was up 7.6 per cent in January and up 3.7 per cent for the year to date. The £4.3 billion rise in CG spending on this basis in January was explained by a number of factors. UK contributions to the EU were £1.1 billion higher than a year earlier, although this reflects a timing effect that we expect to unwind over the remaining months of the year. Other current spending (mainly reflecting departmental spending), welfare spending and debt interest spending were all up strongly on a year earlier.
11. For the year to date, CG spending growth of 3.7 per cent is above the full-year growth of 3.2 per cent in our restated March forecast, although this reflects offsetting factors. Other CG spending (mainly reflecting departmental spending) was up 7.9 per cent on last year, compared with our full-year forecast of 4.9 per cent. Several factors contribute to this strength, including the more generous NHS settlement and the higher employer pension contributions (which have raised staff costs). Offsetting that upward effect, debt interest provides the main offset, largely reflecting the path of RPI inflation earlier in the year.
12. Chart 1.3 shows CG spending growth on a 12-month rolling basis, again largely reflecting the fact that departmental spending is currently running ahead of our latest forecast.

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

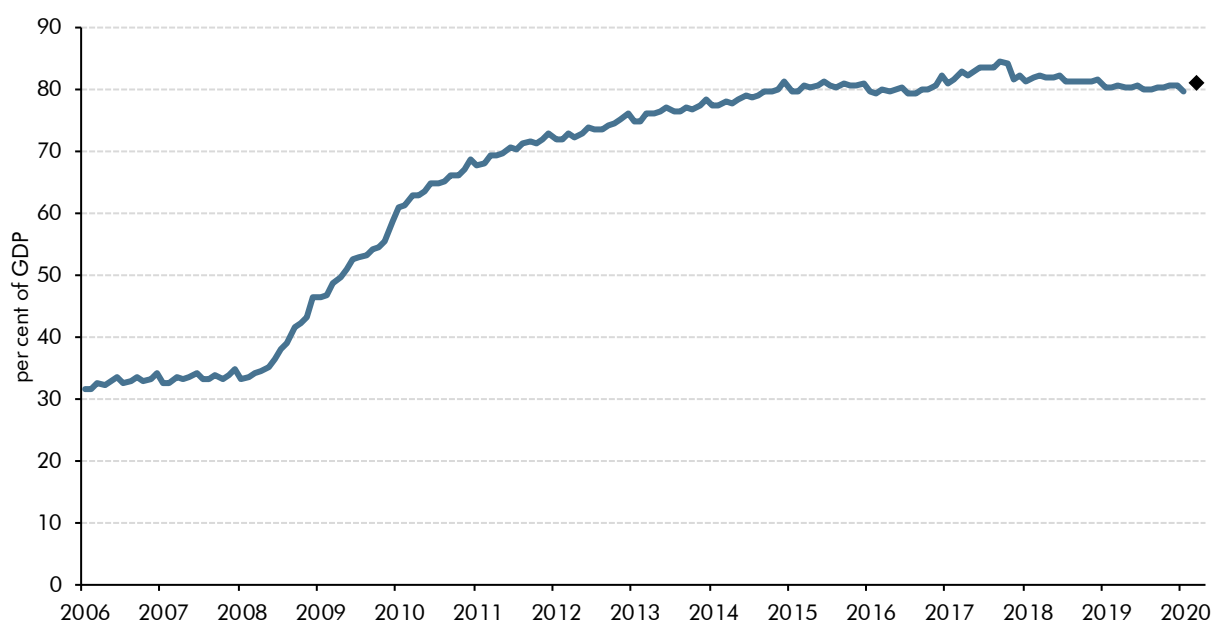


Source: ONS, OBR

Debt

- Public sector net debt (PSND) in January was down 0.7 per cent of GDP from a year earlier. This was more than accounted for by the £4.9 billion sale of Bradford and Bingley mortgages by UK Asset Resolution (UKAR) in April and £13.7 billion in early repayments of Term Funding Scheme (TFS) loans since the start of the financial year. The UKAR sale was part of the £16.4 billion of financial asset sales expected during 2019-20 in our March forecast. We will reassess prospects for the remaining £11½ billion of sales planned by the end of 2019-20 ahead of our next forecast. Our March 2019 forecast assumed that all TFS loans would be repaid in 2020-21 and 2021-22. But some banks have been repaying early. We will therefore need to revise our TFS forecast too.

Chart 1.4: Public sector net debt



Source: ONS, OBR

Issues for future releases

14. Despite there being only two months of the fiscal year remaining, there is still significant uncertainty over the full-year figure – which itself will inevitably be revised over time:
 - Some **self-assessment (SA) receipts** will be collected in February, so the picture for this year is not complete.
 - **Income tax paid on bonuses** in the financial and non-financial sectors is concentrated in the final months of the fiscal year. The range of possible outcomes is wide.
 - Outturn data for **local authority net borrowing** will not be available until September 2020, so we will not have the first full picture for overall borrowing for 2019-20 until then at the earliest.
 - **Other current spending** – largely day-to-day spending by CG departments – is also subject to uncertainty as departments adjust their plans following Supplementary Estimates and following agreements of Budget Exchange and reserve claims with the Treasury.
15. As well as factoring the latest data into our forthcoming March forecast, we will need to judge whether and how they should affect future years. Typically, a higher starting point for receipts would raise future years too, but the extent of that effect would depend on many other influences. For instance, ahead of our March forecast we will consider provisional HMRC analysis of SA tax returns to understand the drivers of this month's receipts and any implication that has for future years.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	January				April to January				Implied February to March				Restated March forecast			
			change				change				change		2019-20	2018-19	change	
	2020	2019	£bn	%	2019-20	2018-19	£bn	%	2019-20	2018-19	£bn	%	Forecast	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	23.0	23.4	-0.3	-1.5	240.3	235.5	4.8	2.1	46.8	45.0	1.9	4.2	287.2	280.4	6.7	2.4
Of which: VAT (accrued)	13.3	13.2	0.2	1.3	131.0	126.9	4.0	3.2	24.1	24.5	-0.4	-1.7	155.0	151.4	3.6	2.4
Taxes on income and wealth	41.1	39.6	1.6	4.0	213.6	210.5	3.1	1.5	47.5	49.5	-2.0	-4.0	261.1	260.0	1.1	0.4
Of which:																
Income tax and CGT (accrued)	36.6	34.6	2.0	5.8	166.6	162.3	4.3	2.6	38.2	39.5	-1.3	-3.3	204.8	201.8	3.0	1.5
Corporation tax	4.7	5.0	-0.3	-6.4	46.7	48.3	-1.5	-3.2	9.2	9.9	-0.7	-6.8	55.9	58.1	-2.2	-3.8
Other taxes	1.4	1.5	-0.1	-6.7	15.0	15.2	-0.2	-1.2	3.4	3.1	0.2	6.8	18.3	18.3	0.0	0.2
Compulsory social contributions	12.2	11.5	0.8	6.5	116.2	110.3	5.9	5.3	27.1	26.9	0.2	0.9	143.4	137.3	6.1	4.5
Interest & dividends	1.1	1.2	-0.1	-8.9	16.9	16.6	0.3	1.5	3.0	2.0	1.0	50.3	19.9	18.6	1.3	6.9
Other receipts	3.8	2.9	1.0	33.6	29.4	27.6	1.8	6.5	5.0	5.7	-0.7	-12.1	34.4	33.3	1.1	3.3
Total CG current receipts	82.8	80.0	2.7	3.4	631.4	615.7	15.7	2.6	132.9	132.2	0.7	0.5	764.3	747.9	16.4	2.2
CG current expenditure																
Interest payments	3.9	3.5	0.4	10.3	41.8	44.3	-2.5	-5.7	9.3	4.5	4.8		51.1	48.8	2.3	4.7
Net social benefits	18.4	17.8	0.5	3.1	180.8	180.6	0.2	0.1	30.6	34.1	-3.5	-10.3	211.4	214.7	-3.3	-1.5
CG current grants to LAs	8.8	9.3	-0.5	-5.1	93.1	95.0	-1.9	-2.0	21.2	17.7	3.4	19.4	114.3	112.7	1.6	1.4
VAT and GNI-based payments to EU ²	2.1	1.1	1.1	96.6	9.6	9.0	0.5	6.0	3.9	3.9	0.0	-0.8	13.4	12.9	0.5	4.0
Other	29.1	27.2	1.9	6.9	284.2	263.4	20.8	7.9	50.2	55.3	-5.1	-9.3	334.3	318.7	15.6	4.9
Total current expenditure	62.3	59.0	3.4	5.7	609.5	592.3	17.1	2.9	115.1	115.5	-0.4	-0.4	724.5	707.8	16.7	2.4
Depreciation	2.6	2.4	0.2	7.3	24.5	23.6	0.8	3.6	4.8	4.8	0.0	0.4	29.3	28.4	0.9	3.0
CG current budget deficit	-17.9	-18.7	0.8	-4.2	2.5	0.3	2.2	813.0	-13.0	-12.0	-1.1		-10.5	-11.7	1.2	-9.9
CG net investment	6.0	5.8	0.2	3.6	36.0	35.1	0.9	2.7	14.5	10.3	4.1	40.3	50.5	45.4	5.1	11.2
of which: CG capital grants to LA	0.9	1.0	-0.1	-10.3	9.3	8.9	0.3	3.5	2.3	2.6	-0.3	-9.9	11.6	11.5	0.1	0.5
CG net borrowing	-11.9	-12.9	1.0	-7.7	38.5	35.4	3.2	9.0	1.4	-1.7	3.1		40.0	33.7	6.3	18.6
Local authorities net borrowing	2.4	1.3	1.1		7.0	2.3	4.7		2.3	2.9	-0.6	-21.4	9.3	5.2	4.0	77.2
Public corporations net borrowing	-0.4	-0.4	0.0	-11.0	-0.7	1.4	-2.1	-150.7	-0.9	-1.9	1.0	-51.8	-1.6	-0.5	-1.1	
Public sector net borrowing	-9.8	-11.9	2.1	-17.8	44.8	39.0	5.8	14.9	2.8	-0.6	3.4		47.6	38.4	9.2	24.0
Public sector net investment	7.5	6.4	1.1	17.2	37.6	33.4	4.2	12.6	12.6	10.8	1.8	16.5	50.2	44.2	6.0	13.6
Public sector current budget	-17.3	-18.3	1.0	-5.6	7.2	5.6	1.6	28.2	-9.7	-11.4	1.7		-2.5	-5.8	3.3	
<i>Restated March 2019 EFO forecast published 16 December 2019 excluding public sector banks on a National Accounts basis.</i>																
Memo: CG receipts ex. APF flows	82.5	79.5	3.0	3.8	624.3	606.0	18.3	3.0	131.5	132.2	-0.8	-0.6	755.8	738.2	17.6	2.4
Memo: CG spending ex. grants to LAs	61.2	56.9	4.3	7.6	567.6	547.1	20.5	3.7	110.8	110.3	0.6	0.5	678.4	657.4	21.0	3.2

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/January2020>

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_March-2019.pdf

² Net of abatement.