Commentary on the

Public Sector Finances release: October 2018

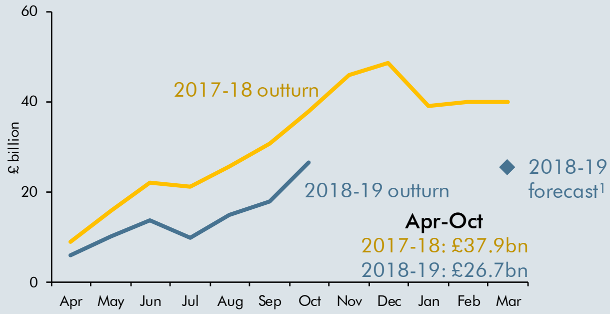
Office for Budget Responsibility

21 November 2018

Deficit up in October but down sharply so far in 2018-19

Higher spending growth in October pushed the deficit up relative to last October. But strong receipts growth means borrowing in the first seven months of 2018-19 is still down almost 30 per cent relative to the same period in 2017-18.

Cumulative public sector net borrowing



[1] October 2018 forecast

Headlines

- **Public sector net borrowing (PSNB) in October** is provisionally estimated at £8.8 billion, £1.6 billion up on a year earlier and £2.7 billion above market expectations.
- **PSNB in the first half of 2018-19 was revised** down £2.0 billion to £17.9 billion.
- **Year-to-date PSNB** stands at £26.7 billion, down £11.2 billion (29.6 per cent) on the same period in 2017-18. Our October *EFO* forecast for 2018-19 implies a £14.6 billion fall (36.4 per cent) over the whole 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 2.5 per cent on last year – a little less than our full-year forecast of a 3.2 per cent rise (on a like-for-like basis).
- **PSNB in 2017-18 was revised** up by £0.2 billion to £40.1 billion

Full commentary

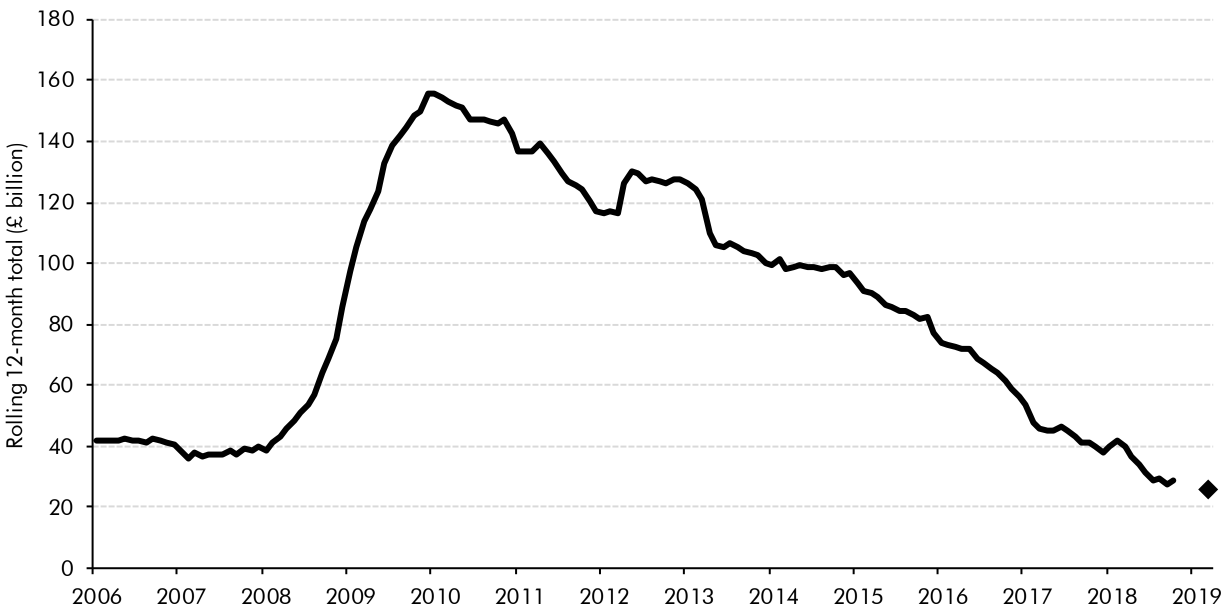
1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the October 2018 Public Sector Finances this morning, covering the first seven months of the 2018-19 fiscal year.[1] Each month the OBR provides a brief analysis of the data and a comparison with our most recent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

Public sector net borrowing

2. Public sector net borrowing (PSNB) is provisionally estimated at £8.8 billion in October, up £1.6 billion on a year earlier and £2.7 billion above market expectations. The £4.7 billion rise in central government (CG) spending since the previous October outstripped the £2.0 billion rise in CG receipts (excluding APF transfers). 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 rise in borrowing in October was outweighed by a £2.0 billion downward revision to borrowing in the first six months of 2018-19, leaving year-to-date borrowing down slightly more than was reported in last month's data release. Year-to-date borrowing is £11.2 billion lower than in 2017-18. Meeting our latest *EFO* forecast for PSNB in 2018-19 as a whole would require a fall of £14.6 billion from the latest estimate of 2017-18 outturn.

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



[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/october2018

Central government receipts

4. Relative to the same period last year, CG receipts (excluding APF transfers) were up 3.7 per cent in October and 4.7 per cent for the year-to-date. This is in line with a full-year forecast increase 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. Growth in PAYE income tax so far in 2018-19 is 4.9 per cent compared with a full year forecast of 4.4 per cent, while growth in VAT receipts for the year-to-date is 5.7 per cent compared with a full-year forecast of 5.4 per cent. Tobacco receipts were up 80 per cent in October from 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.

5. CG receipts for the first six months of 2018-19 were revised up £1.3 billion in this month's release, primarily thanks to a £1.0 billion upward revision to accrued corporation tax receipts. We highlighted in last month's commentary and *EFO* that an upward revision was likely. The ONS's time-shifting accruals methodology relies to a considerable degree on our most recent published forecast. This month, the ONS has incorporated the higher cash corporation tax forecast from the October *EFO*. Cash corporation tax had come in stronger than expected in the March forecast and we judged that higher cash receipts would persist over the rest of 2018-19 and into 2019-20. Cash receipts for quarterly instalment payers on onshore CT are time-shifted back 4 to 6 months so the tax is scored closer to when the economic activity generating the CT liabilities took place. The higher forecast cash receipts in the remainder of 2018-19 thus raise accrued receipts in the first half of the year. In addition, many medium and large companies made a quarterly instalment payment in October. Cash corporation tax receipts were up 3.1 per cent on a year earlier boosted by receipts from industrial and commercial companies and offshore firms (the latter reflecting the sharp rise in oil and gas prices ahead of the October payment).

Spending

6. Relative to last year, total CG spending (excluding grants to local authorities) was up 7.7 per cent in October and 2.5 per cent year-to-date, below our October forecast for a 3.2 per cent rise over the whole year (on a like-for-like basis). The rise in CG spending in October was broadly-based with rises in debt interest, net contributions to the EU and in other CG current and capital spending (largely reflecting higher departmental spending). The main driver of weaker growth over the first seven months of 2018-19 has been debt interest payments, which are down 6.2 per cent relative to the same period last year. This has brought the decline in payments over the year to date in line with our full year forecast of a 6.2 per cent fall.

7. Growth in departmental current spending for the year-to-date has also been slightly weaker than we forecast for the full year. After markedly weaker growth over the first six months of the year, this month's higher spending brings the year-to-date outturn closer to our full-year forecast from October. These data remain provisional and subject to future revision.

Debt

8. Public sector net debt (PSND) fell by 2.7 per cent of GDP between October 2017 and October 2018, greater than the 1.3 per cent of GDP fall we forecast in the *EFO* for the year to the end of 2018-19. Year-on-year comparisons are currently being distorted by the reclassification of English housing associations to the private sector from last November (which reduces PSND by £65.5 billion or 3.2 per cent of GDP from that point) and the continued implications of the Bank of England's August 2016 monetary policy measures (which raises PSND by £36.7 billion or 1.7 per cent of GDP in the year to October 2018). The English housing associations effect will drop out of the year-on-year comparison next month while the effect from the Bank of England measures will diminish over the rest of 2018-19.

Chart 1.2: Public sector net debt

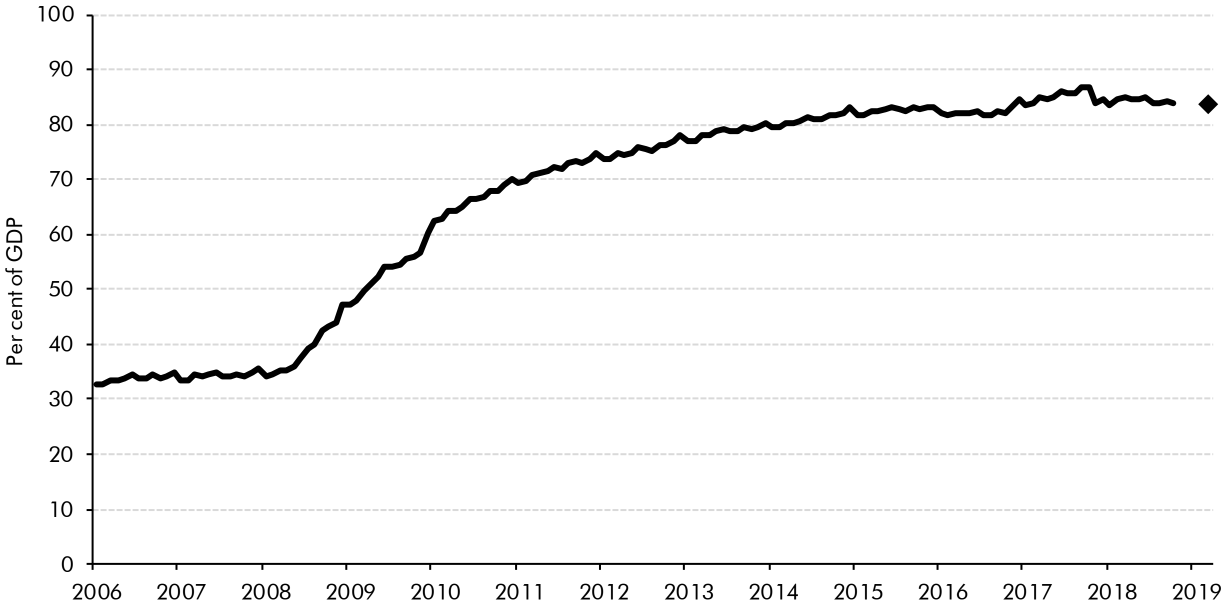


Table 1.1: Public sector receipts, expenditure and net borrowing[1]

£ billion	October				April to October				Implied November to March				October forecast			
			change				change				change		2018-19	2017-18	change	
	2018	2017	£bn	%	2018-19	2017-18	£bn	%	2018-19	2017-18	£bn	%	EFO	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	24.0	22.9	1.2	5.2	163.5	156.2	7.3	4.7	117.9	110.9	6.9	6.3	281.4	267.1	14.3	5.3
Of which: VAT (accrued)	12.6	12.2	0.4	3.3	87.3	82.6	4.7	5.7	62.8	59.8	2.9	4.9	150.1	142.4	7.7	5.4
Taxes on income and wealth[1]	17.7	17.3	0.4	2.3	135.1	128.2	6.9	5.4	125.5	118.3	7.2	6.1	260.6	246.5	14.1	5.7
Of which:																
Income tax and CGT (accrued)	13.0	12.7	0.3	2.6	99.1	93.6	5.4	5.8	99.8	94.9	4.9	5.2	198.9	188.5	10.4	5.5
Corporation tax (accrued)	4.7	4.6	0.1	1.7	35.8	34.4	1.4	4.2	25.6	23.4	2.3	9.7	61.5	57.8	3.7	6.4
Other taxes	1.5	1.4	0.1	6.5	10.8	10.6	0.2	1.9	7.5	7.2	0.3	4.3	18.4	17.8	0.5	2.9
Compulsory social contributions	10.8	10.6	0.2	1.7	76.8	74.0	2.8	3.8	60.1	58.6	1.6	2.7	136.9	132.5	4.4	3.3
Interest & dividends	3.9	5.1	-1.1	-22.2	14.4	14.3	0.1	0.8	6.4	4.4	2.1	47.2	20.8	18.7	2.2	11.6
Other receipts	1.9	1.9	0.0	-1.9	13.1	13.3	-0.3	-2.2	10.3	9.4	0.9	9.3	23.4	22.8	0.6	2.6
Total CG current receipts	**59.9**	**59.2**	**0.7**	**1.2**	**413.6**	**396.6**	**17.1**	**4.3**	**327.7**	**308.8**	**18.9**	**6.1**	**741.4**	**705.4**	**36.0**	**5.1**
CG current expenditure																
Interest payments	6.8	6.0	0.8	12.9	33.4	35.6	-2.2	-6.2	18.2	19.4	-1.2	-6.2	51.6	55.0	-3.4	-6.2
Net social benefits	18.2	17.3	0.8	4.6	124.8	121.5	3.2	2.7	90.6	86.9	3.7	4.2	215.3	208.4	6.9	3.3
CG current grants to LAs	10.1	9.4	0.7	7.6	71.1	68.7	2.3	3.4	42.0	45.4	-3.4	-7.4	113.1	114.1	-1.0	-0.9
VAT and GNI-based payments to EU[2]	1.1	0.9	0.2	18.0	6.5	6.4	0.1	1.3	3.6	3.7	-0.2	-4.4	10.1	10.2	-0.1	-0.8
Other CG current expenditure	25.6	24.3	1.3	5.5	175.1	168.9	6.2	3.7	135.2	125.3	10.0	8.0	310.4	294.2	16.2	5.5
Total current expenditure	**61.7**	**57.9**	**3.8**	**6.6**	**410.9**	**401.2**	**9.6**	**2.4**	**289.6**	**280.7**	**8.9**	**3.2**	**700.5**	**681.9**	**18.6**	**2.7**
Depreciation	1.6	1.5	0.0	1.3	10.8	10.8	0.0	0.4	7.8	7.7	0.1	1.1	18.6	18.5	0.1	0.7
CG current budget deficit	**3.4**	**0.2**	**3.1**	**1,281.5**	**8.1**	**15.4**	**-7.4**		**-30.3**	**-20.4**	**-9.9**	**48.8**	**-22.2**	**-4.9**	**-17.3**	
CG net investment	3.6	2.7	0.9	32.7	21.8	20.5	1.3	6.3	21.1	19.0	2.1	11.0	42.9	39.5	3.4	8.6
of which: CG capital grants to LA	0.7	0.7	0.0	-4.5	6.3	6.5	-0.2	-3.4	5.1	4.0	1.1	26.3	11.4	10.5	0.8	8.0
CG net borrowing	**7.0**	**3.0**	**4.0**		**29.8**	**35.9**	**-6.1**	**-16.9**	**-9.2**	**-1.3**	**-7.8**		**20.7**	**34.6**	**-13.9**	**-40.2**
Local authorities net borrowing	0.0	1.0	-1.0		-4.9	-2.0	-3.0	151.7	11.2	8.5	2.7	31.4	6.3	6.6	-0.3	-4.5
Public corporations net borrowing	1.9	3.3	-1.4		1.8	3.9	-2.2	-54.6	-3.3	-5.0	1.8		-1.5	-1.1	-0.4	32.8
Public sector net borrowing	**8.8**	**7.2**	**1.6**	**21.9**	**26.7**	**37.9**	**-11.2**	**-29.6**	**-1.2**	**2.2**	**-3.4**	**-156.4**	**25.5**	**40.1**	**-14.6**	**-36.4**
Public sector net investment	**3.6**	**3.3**	**0.3**	**9.5**	**17.8**	**20.0**	**-2.2**	**-11.1**	**23.4**	**21.2**	**2.2**	**10.3**	**41.2**	**41.2**	**0.0**	**-0.1**
Public sector current budget	**5.2**	**3.9**	**1.3**	**32.4**	**8.9**	**17.9**	**-9.0**	**-50.3**	**-24.6**	**-19.1**	**-5.6**		**-15.7**	**-1.2**	**-14.6**	**1,228.1**

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/october2018
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.