Commentary on the

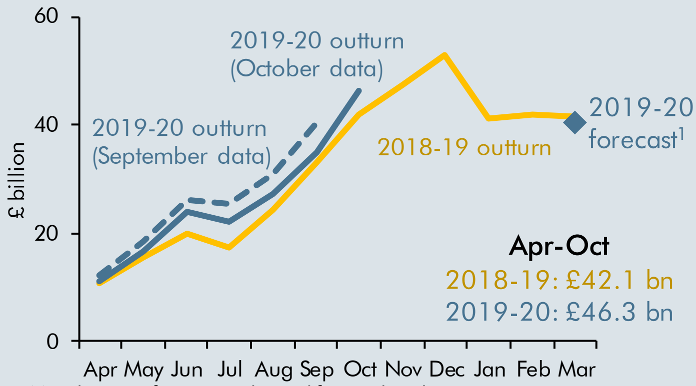
Public Sector Finances: October 2019

21 November 2019

Borrowing up £4.3 billion so far in 2019-20

Borrowing in the first half of 2019-20 was revised down by £5.2 billion, thanks to lower central government spending and lower local authority borrowing. But it rose by £2.3 billion on a year earlier in October alone. That leaves the year-to-date deficit up £4.3 billion on the same period last year – a 10 per cent rise, down from the 22 per cent first-half rise reported last month.

Cumulative public sector net borrowing



[1] March 2019 forecast adjusted for student loan estimate

Headlines

- **Public sector net borrowing (PSNB)** is estimated at £11.2 billion in October, £2.3 billion higher than a year earlier. It has risen in six out of seven months so far in 2019-20.
- **Year-to-date borrowing** was up £4.3 billion (10.3 per cent) on the same period last year. Our March forecast (including our estimate at the time of the student loans methodology change), assumed a £7.2 billion (21.8 per cent) rise in borrowing for 2019-20 as a whole.
- **ONS revisions** significantly lowered estimated borrowing in the first half of 2019-20 – from last month's estimate of £40.3 billion to £35.1 billion in the latest data.
- **Central government receipts** (excluding PSNB-neutral transfers related to 'quantitative easing') were up 0.1 per cent in October. Year-to-date receipts growth of 3.1 per cent is a little above our March forecast of a 2.6 per cent rise in 2019-20 (on a like-for-like basis).
- **Central government spending** (excluding PSNB-neutral grants to local authorities) was up 3.5 per cent in October and 4.1 per cent for the year to date, still above our March forecast of a 3.3 per cent full-year rise in 2019-20 (on a like-for-like basis) but by a materially smaller margin than was the case when comparing to last month's data.
- **Net debt** was 1.1 per cent of GDP lower in October 2019 than a year earlier.

Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the October 2019 Public Sector Finances this morning, covering the first seven months of 2019-20.[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*).

2. Substantial classification and other statistical changes incorporated into September's release make like-for-like comparisons of our March forecast with the latest outturn difficult. Overall borrowing in 2018-19 was revised up by £17.8 billion. As with our previous two monthly commentaries, we compare borrowing outturns on the new basis with a version of our March forecast that incorporates estimates of the student loans change presented in that *EFO*. We will publish a full restatement of our March forecast consistent with the current statistical treatments after the General Election. Elsewhere we have concentrated on year-on-year changes, which should be less affected by the various statistical changes.

Public sector net borrowing

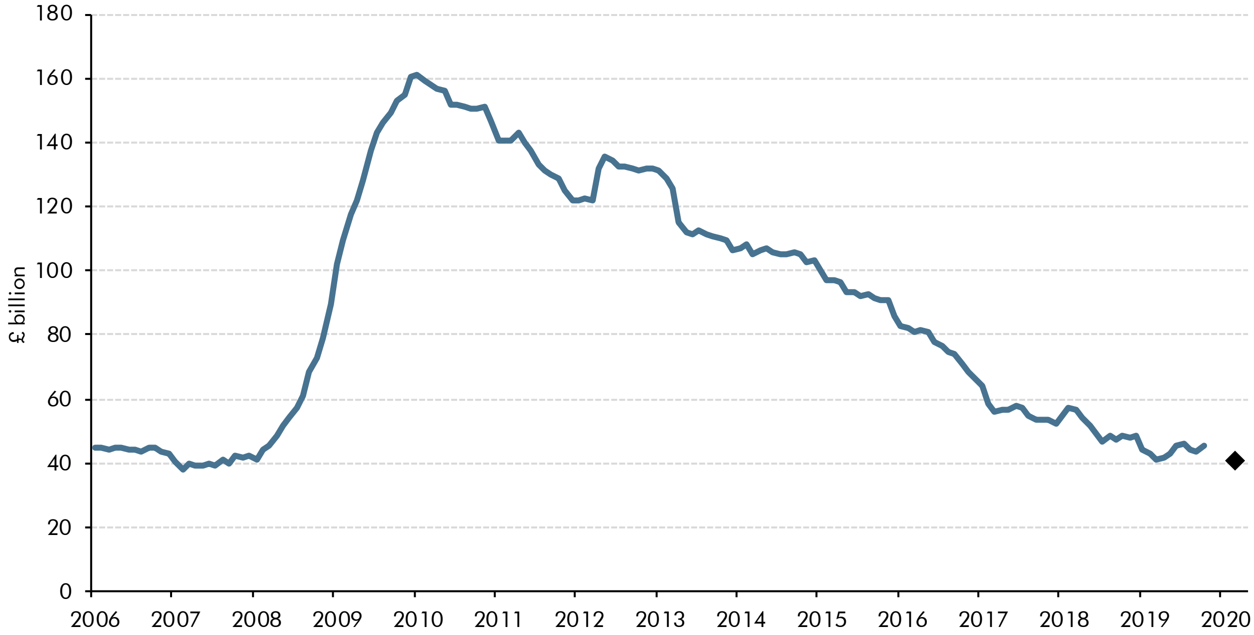
3. Public sector net borrowing (PSNB) was £11.2 billion in October, £2.3 billion higher than last year and £1.9 billion higher than market expectations. The £1.9 billion (2.8 per cent) rise in central government (CG) spending exceeded the slight rise of £0.2 billion (0.4 per cent) in CG receipts. Borrowing by local authorities was £0.5 billion higher than last year while borrowing by public corporations was £0.2 billion higher.

4. Despite the rise in borrowing in October relative to last year, the deficit is up by less over the first seven months of 2019-20 (£4.3 billion or 10.3 per cent) than the rise reported in last month's data release for the first half of the year (£7.2 billion or 21.6 per cent). That reflects a £5.2 billion downward revision to borrowing in the first half of the year, which largely stems from lower estimates of public spending. The largest contributors to this were a £1.3 billion correction to local government current expenditure (relating to the switch from housing benefit to universal credit) and a £3.9 billion downward revision to CG spending. Our March forecast assumed a £7.2 billion (21.8 per cent) full-year rise in borrowing in 2019-20.

5. Chart 1.1 shows outturn PSNB on a 12-month rolling basis relative to our latest full-year forecast for 2019-20. Borrowing over the 12 months to October 2019 already somewhat exceeds our full-year forecast for 2019-20.

[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/october2019

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



Source: ONS, OBR

Central government receipts

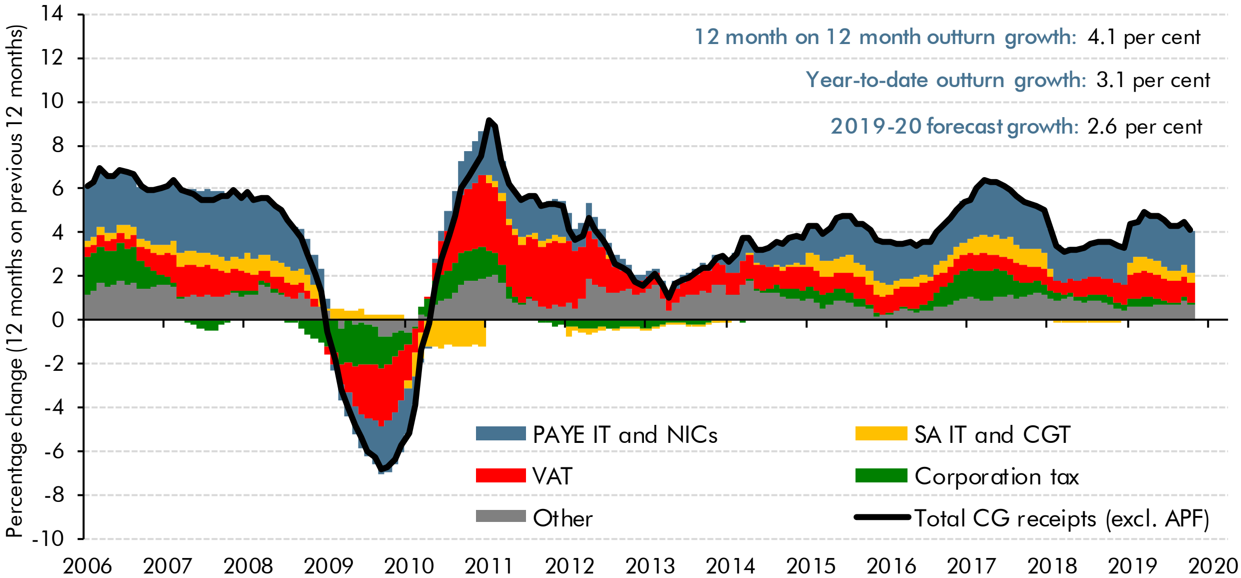
6. Relative to last year, CG receipts (excluding APF transfers) were little changed in October. They are up 3.1 per cent in the first seven months of 2019-20, a little above our 2.6 per cent March forecast for 2019-20 as a whole. Weak receipts in October mainly reflected a fall in income tax (likely due to timing of repayments), lower corporation tax and a sharp fall in tobacco receipts (likely due to forestalling patterns). These were offset by higher NICs and VAT receipts.

7. For the year to date, growth of 3.8 per cent in PAYE income tax and NICs receipts outpaces our full-year forecast for 2019-20 of 2.2 per cent. This is likely to reflect the strength of earnings growth in recent months. 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 forecast for the year as a whole.

8. In contrast to these positives, year-to-date growth in several smaller tax streams has been weaker than our full-year forecasts for them, with falls in fuel duty, tobacco and alcohol duties, stamp duty land tax and inheritance tax. Stamp duty is down 3.7 per cent so far this year thanks to the slowing housing market. Inheritance tax is down 8.8 per cent, probably due to some payments having been brought forward to March to avoid the sharp rise in probate fees for high-value estates that was slated to take effect in April, but was subsequently delayed.

9. Chart 1.2 shows the rolling 12-month average growth in CG receipts. On this metric, growth is currently being boosted by January 2019 SA receipts. We would expect it to slow towards the year-to-date and forecast growth rates as 2019-20 progresses.

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

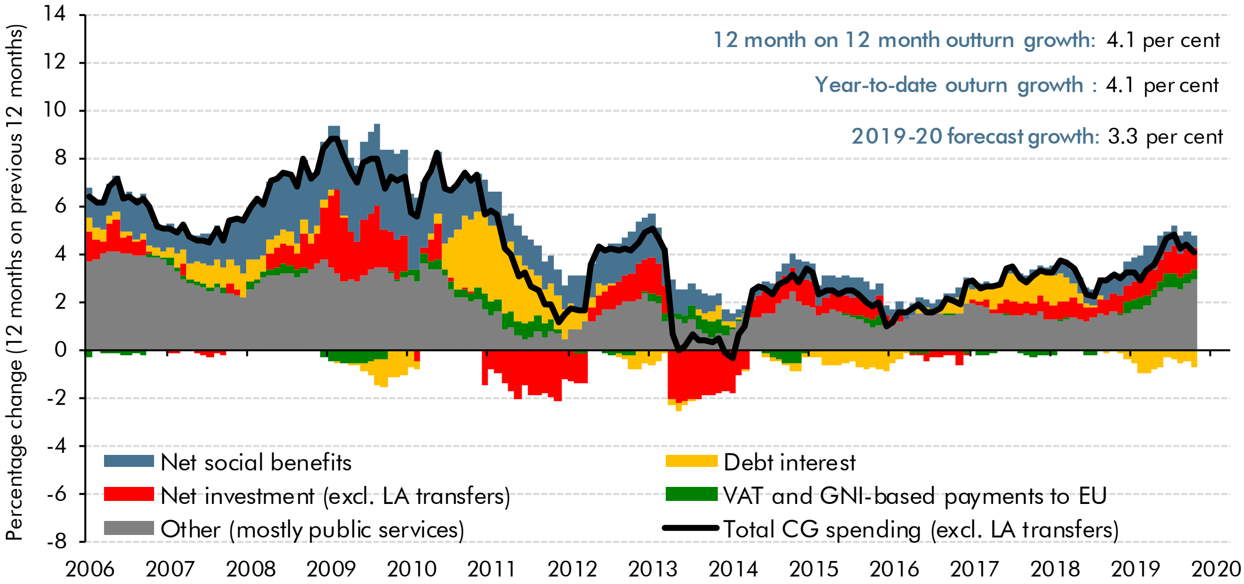
Central government spending

10. Relative to last year, total CG spending (excluding grants to local authorities) was up 3.5 per cent in October and up 4.1 per cent for the year to date, somewhat above our March forecast for growth over 2019-20 as a whole. The £2.0 billion rise in CG spending on this basis in October was more than explained by a £2.7 billion rise in other CG current spending (mostly spending on public services) with debt interest spending, net social benefits and current grants to local authorities all lower than a year earlier.

11. Spending growth in the first half of 2019-20 has been revised down materially relative to last month's estimate. Overall CG spending (excluding grants to local authorities) has been revised down by £3.9 billion in that period, taking growth on a year earlier down from 5.4 to 4.2 per cent. Within the total, 'other CG current expenditure' was revised down by £1.0 billion, taking growth down from 8.1 to 6.6 per cent. Despite these revisions, other CG current expenditure has continued to rise faster than overall CG spending in the year to date and is now up 7.1 per cent on last year. Several factors contribute to this strength, including the more generous NHS settlement and the large rise in employer contribution rates for public service pension schemes (raising staff costs).

12. Chart 1.3 shows CG spending growth on a 12-month rolling basis. Last month, spending growth on this metric was still picking up in the latest month. The substantial revisions included in this month's data means that it is now slowing from its peak earlier in the year.

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

13. Public sector net debt (PSND) in October 2019 was down 1.1 per cent of GDP from a year earlier. Around 0.5 percentage points of this drop is explained by the £4.9 billion sale of Bradford and Bingley mortgages by UK Asset Resolution (UKAR) in April and £6.8 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, but we did not assume that any further TFS loans would be repaid early.