

# Commentary on the Public Sector Finances: April 2019

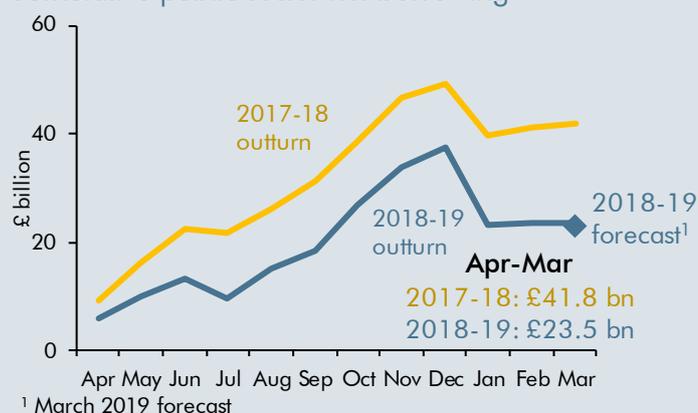
Office for  
**Budget  
Responsibility**

22 May 2019

## Borrowing in April little changed from last year

Borrowing fell by just £33 million in April compared with last year, despite a £0.8 billion special dividend received on RBS shares. After the sharp drop in borrowing in 2018-19, we expect a small rise this year due to tax and spending giveaways. The 2018-19 outturn was revised down by £1.1 billion this month and is now just £0.7 billion above our March forecast.

Cumulative public sector net borrowing



## Headlines

- **Public sector net borrowing (PSNB)** in April was £5.8 billion, just £33 million lower than last year. This was despite a £0.8 billion boost to receipts from a special dividend paid by RBS.
- **We expect a small rise in borrowing in 2019-20.** This reflects both the income tax giveaways announced in Budget 2018 and higher departmental spending (on the NHS in particular).
- **Central government receipts** (excluding PSNB-neutral transfers related to 'quantitative easing') were up 3.2 per cent in April, above our full-year forecast of a 2.6 per cent rise (on a like-for-like basis).
- **Central government spending** (excluding PSNB-neutral grants to local authorities) was up 3.5 per cent, close to our full-year forecast of a 3.4 per cent rise (on a like-for-like basis).
- **Net debt** was 1.6 per cent of GDP lower in April 2019 compared with a year earlier.
- **PSNB for 2018-19** was revised down by £1.1 billion to £23.5 billion, and is now just £0.7 billion above our March forecast. This figure remains provisional. Outturns typically take several months to settle down and revisions can be significant.

## Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the April 2019 Public Sector Finances this morning.<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)*.

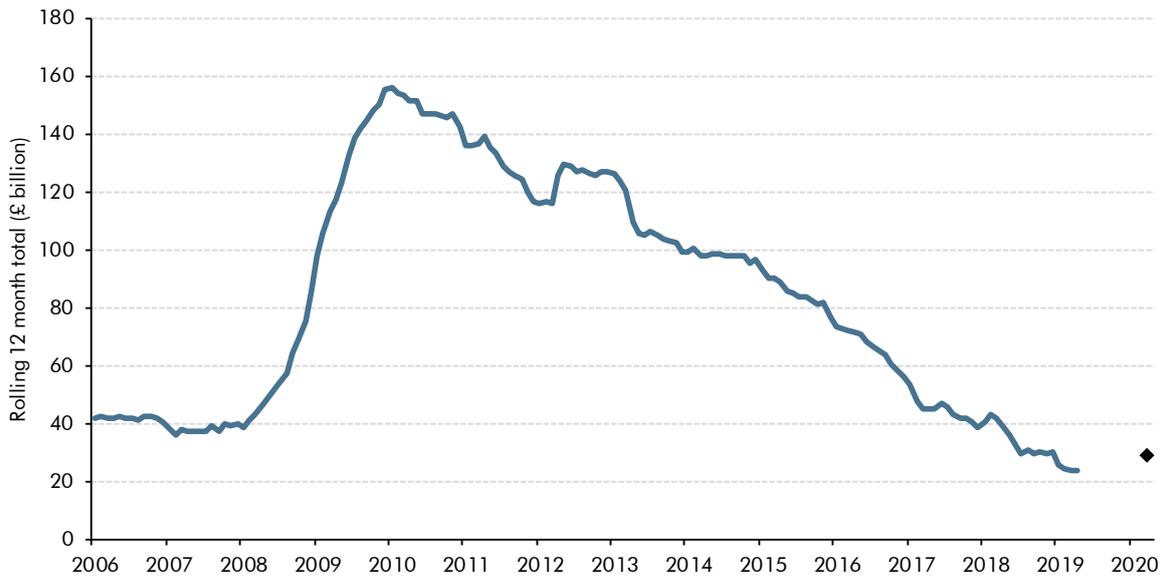
### Public sector net borrowing

2. Public sector net borrowing (PSNB) was £5.8 billion in March, just £33 million lower than last year and £0.1 billion below market expectations. A £1.8 billion (3.2 per cent) rise in central government (CG) receipts (excluding APF transfers) was matched by a £1.8 billion (2.7 per cent) rise in CG spending. Borrowing by local authorities was £0.1 billion lower than last year, while the surplus from public corporations (excluding APF transfers) was £0.1 billion smaller than last year.
3. Chart 1.1 shows outturn PSNB on a 12-month rolling basis, relative to our latest full-year forecast for 2019-20. We expect a small rise in borrowing in 2019-20, only partly reversing the large fall in 2018-19. This reflects several factors:
  - The **Budget 2018 income tax announcements** of a £12,500 personal allowance (PA) (up 5.5 per cent on 2018-19) and a £50,000 higher rate threshold (HRT) (up 7.9 per cent). In our October 2018 *EFO*, we estimated that these measures would reduce income tax receipts by £3.3 billion in 2019-20 (relative to a baseline that assumed thresholds would rise in line with CPI inflation). PAYE income tax growth is expected to slow from 5.3 per cent in 2018-19 to 0.5 per cent in 2019-20.
  - The **temporary rise in the annual investment allowance to £1 million** and our forecast for **slower growth in 2019 in the main nominal tax bases** (wages and salaries (particularly from employment growth), nominal consumer spending and profits) also contribute to slower receipts growth. CG receipts growth is expected to slow from 4.9 per cent in 2018-19 to 2.6 per cent in 2019-20.
  - **Stronger growth in CG spending**, particularly DEL spending on public services. This largely reflects the additional resources for the NHS announced in June 2018. This added £7.4 billion to departmental spending limits in 2019-20.

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<sup>1</sup><https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/april2019>

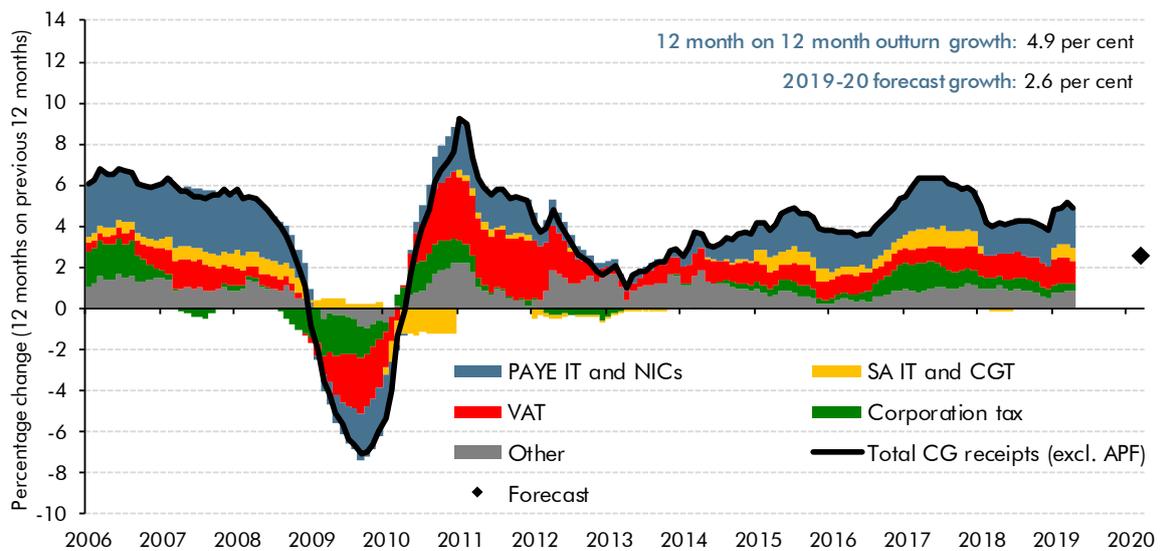
Chart 1.1: Public sector net borrowing: rolling 12-month total



Source: ONS, OBR

4. Relative to last year, CG receipts (excluding APF transfers) were up 3.2 per cent in April, above the 2.6 per cent rise we expect for the whole of 2019-20 (on a like-for-like basis). A little under half the rise in April reflected the £0.8 billion special dividend received on the Government’s RBS shares. There were also material rises in National Insurance contributions and VAT receipts. We expect the Government to receive £1.0 billion in RBS dividends over the whole of 2019-20. PAYE income tax was only 0.6 per cent up on last April (with growth dampened by Budget measures), although this figure is based largely on forecast until next month’s cash receipts. Chart 1.2 shows the rolling 12-month average growth in CG receipts. We would expect this to slow as 2019-20 progresses.

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

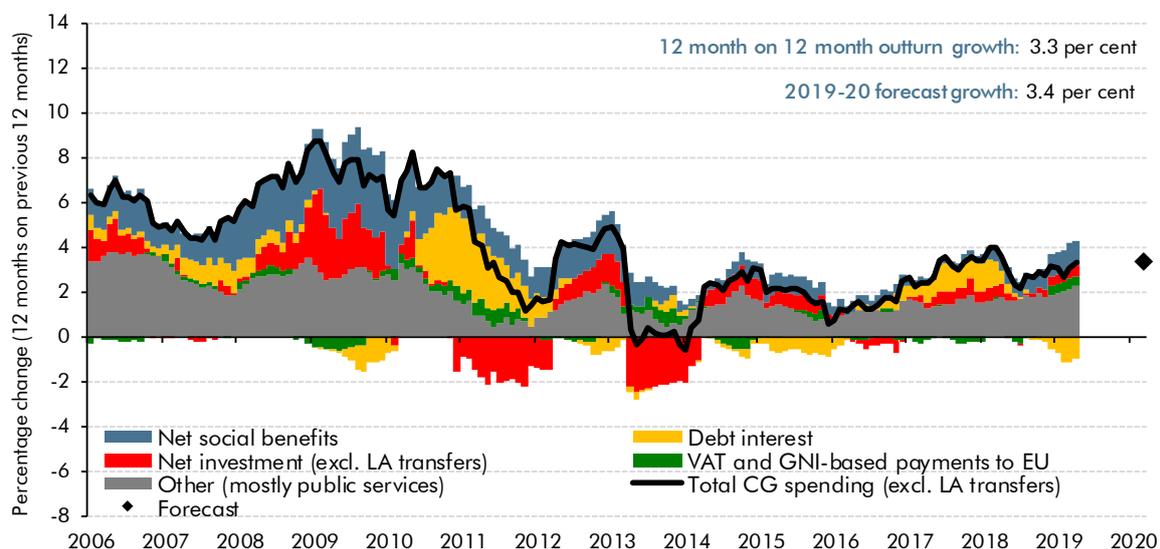


We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.

Source: ONS, OBR

5. Our March forecast assumed flat financial sector bonuses and around 4 per cent growth in non-financial sector bonuses in the final months of 2018-19. The sectoral breakdown of PAYE receipts suggests financial sector bonuses may have fallen, but non-financial sector bonuses (primarily from business services) are likely to have outstripped our March assumption. This is consistent with the latest average weekly earnings data.
6. Relative to last year, total CG spending (excluding grants to local authorities) was up 3.5 per cent in April. That is close to our full-year forecast for 2019-20 of 3.4 per cent growth (on a like-for-like basis), although in the first month of the year this comparison is not particularly meaningful. Other CG current expenditure (largely spending on public services) was up 5.3 per cent on a year earlier, as the more generous NHS settlement announced in June 2018 has started to take effect. CG net investment (excluding capital grants to local authorities and public corporations) was up 14.1 per cent on last year. Chart 1.3 shows CG spending growth on a 12-month rolling basis.

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

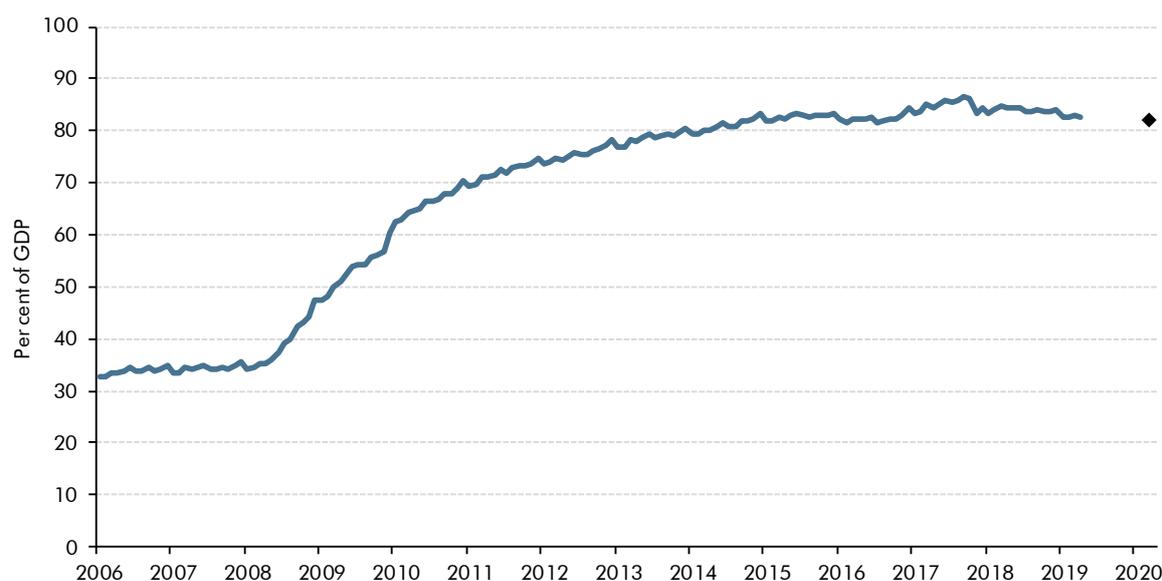


We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.  
Source: ONS, OBR

## Debt

7. Public sector net debt (PSND) in April 2019 was down 1.6 per cent of GDP from a year earlier. The £4.9 billion sale of Bradford and Bingley mortgages by UK Asset Resolution (UKAR) lowered PSND this month. This is part of the £16.4 billion of financial asset sales expected during 2019-20, which include the Government divesting itself of the remaining UKAR loan assets, plus further sales of RBS shares and student loans.

Chart 1.4: Public sector net debt



Source: ONS, OBR

### Provisional 2018-19 estimate

8. The second provisional estimate for PSNB in 2018-19 was revised down by £1.1 billion from the initial estimate published last month, thanks to lower estimates of CG spending. The estimate is likely to be revised further over time. Some cash receipts received in the early months of 2019-20 (e.g. VAT and corporation tax receipts) relate to economic activity in 2018-19 and will be accrued back to that year. Firmer data for local authorities, public corporations and some central government departments will not be available until September or October (and in some cases will not be final for a further three to nine months). In the eight years since 2010-11, initial estimates of net borrowing have been revised down by an average of £3.0 billion over the subsequent 12 months, with revisions in individual years in both directions.
9. The provisional estimate for PSNB in 2018-19 is now only £0.7 billion higher than our March forecast. On a simple comparison between forecast and provisional outturn, CG receipts were £2.8 billion below forecast, while CG spending was £0.8 billion lower than forecast. However, our receipts and spending forecasts include several items that are not yet included in ONS outturns, which increase our forecasts of both relative to published outturns and the net effect of which is to reduce borrowing by £0.3 billion (and the difference between the initial outturn and forecast to £0.4 billion).<sup>2</sup> In addition, our forecast for PSNB-neutral transfers related to 'quantitative easing' was £0.6 billion lower than the latest ONS outturn, reducing CG receipts and borrowing by public corporations by the same amount. Abstracting from these factors:

<sup>2</sup> This includes £2.0 billion of environmental levies and £0.3 billion related to the immigration health surcharge. Excluding these items lowers receipts and spending by equal amounts. Table 3.7 in the fiscal supplementary tables on the EFO page of our website details these and other areas of our forecast that relate to items that are not yet included in ONS outturn data. These are available online here: [https://obr.uk/docs/dlm\\_uploads/Fiscal\\_supplementary\\_tables\\_receipts\\_and\\_other\\_March\\_2019.xlsx](https://obr.uk/docs/dlm_uploads/Fiscal_supplementary_tables_receipts_and_other_March_2019.xlsx)

- **CG receipts** were £0.2 billion higher than our March forecast.
- **CG spending** (excluding grants to local authorities) was £0.9 billion higher than forecast. Both current and capital spending were somewhat higher than expected (by 0.1 and 0.9 per cent respectively).
- **Borrowing by local authorities and public corporations** (excluding PSNB-neutral flows within the public sector) were both £0.2 billion lower than expected.

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

| £ billion                                       | April       |             |             |             | Implied May to March |              |             |             | 2019-20<br>EFO | March forecast     |             |             |
|---|-------------|-------------|-------------|-------------|----------------------|--------------|-------------|-------------|----------------|--------------------|-------------|-------------|
|   | 2019        | 2018        | change      |             | 2019-20              | 2018-19      | change      |             |                | 2018-19<br>outturn | change      |             |
|   |             |             | £bn         | %           |                      |              | £bn         | %           |                |                    | £bn         | %           |
| <b>Central government (CG) current receipts</b> |             |             |             |             |                      |              |             |             |                |                    |             |             |
| Taxes on production                             | 23.5        | 23.5        | 0.0         | 0.0         | 264.9                | 255.3        | 9.6         | 3.8         | 288.4          | 278.8              | 9.6         | 3.5         |
| Of which: VAT (accrued)                         | 12.9        | 12.5        | 0.4         | 3.2         | 142.2                | 138.7        | 3.5         | 2.5         | 155.0          | 151.1              | 3.9         | 2.6         |
| Taxes on income and wealth <sup>1</sup>         | 18.3        | 18.0        | 0.3         | 1.7         | 247.0                | 243.9        | 3.1         | 1.3         | 265.3          | 261.9              | 3.4         | 1.3         |
| Of which:                                       |             |             |             |             |                      |              |             |             |                |                    |             |             |
| Income tax and CGT (accrued)                    | 13.0        | 12.9        | 0.2         | 1.3         | 191.7                | 188.8        | 3.0         | 1.6         | 204.8          | 201.7              | 3.1         | 1.6         |
| Corporation tax (accrued)                       | 5.2         | 5.1         | 0.1         | 2.2         | 54.9                 | 55.1         | -0.2        | -0.3        | 60.2           | 60.2               | -0.1        | -0.1        |
| Other taxes                                     | 1.6         | 1.5         | 0.1         | 7.0         | 16.7                 | 16.8         | -0.1        | -0.5        | 18.3           | 18.3               | 0.0         | 0.1         |
| Compulsory social contributions                 | 11.5        | 11.0        | 0.5         | 4.6         | 131.9                | 126.7        | 5.2         | 4.1         | 143.4          | 137.7              | 5.7         | 4.2         |
| Interest & dividends                            | 4.3         | 3.9         | 0.4         | 9.0         | 17.8                 | 15.7         | 2.1         | 13.3        | 22.1           | 19.7               | 2.4         | 12.4        |
| Other receipts                                  | 2.0         | 1.9         | 0.2         | 8.2         | 22.2                 | 21.5         | 0.8         | 3.7         | 24.3           | 23.3               | 1.0         | 4.1         |
| <b>Total CG current receipts</b>                | <b>61.2</b> | <b>59.8</b> | <b>1.4</b>  | <b>2.4</b>  | <b>700.6</b>         | <b>679.8</b> | <b>20.8</b> | <b>3.1</b>  | <b>761.8</b>   | <b>739.7</b>       | <b>22.2</b> | <b>3.0</b>  |
| <b>CG current expenditure</b>                   |             |             |             |             |                      |              |             |             |                |                    |             |             |
| Interest payments                               | 6.1         | 6.1         | -0.1        | -1.4        | 45.0                 | 41.9         | 3.1         | 7.5         | 51.1           | 48.0               | 3.0         | 6.3         |
| Net social benefits                             | 18.2        | 17.6        | 0.6         | 3.2         | 193.2                | 196.9        | -3.7        | -1.9        | 211.4          | 214.6              | -3.2        | -1.5        |
| CG current grants to LAs                        | 11.0        | 11.0        | 0.0         | 0.0         | 103.3                | 101.9        | 1.3         | 1.3         | 114.3          | 112.9              | 1.3         | 1.2         |
| VAT and GNI-based payments to EU <sup>2</sup>   | 0.7         | 1.0         | -0.2        | -23.7       | 12.2                 | 11.9         | 0.2         | 2.0         | 12.9           | 12.9               | 0.0         | 0.1         |
| Other CG current expenditure                    | 26.5        | 25.1        | 1.3         | 5.3         | 299.2                | 282.3        | 17.0        | 6.0         | 325.7          | 307.4              | 18.3        | 6.0         |
| <b>Total current expenditure</b>                | <b>62.4</b> | <b>60.9</b> | <b>1.6</b>  | <b>2.6</b>  | <b>652.9</b>         | <b>635.0</b> | <b>17.9</b> | <b>2.8</b>  | <b>715.3</b>   | <b>695.8</b>       | <b>19.5</b> | <b>2.8</b>  |
| Depreciation                                    | 1.6         | 1.5         | 0.0         | 2.8         | 17.5                 | 17.0         | 0.5         | 3.0         | 19.1           | 18.6               | 0.6         | 3.0         |
| <b>CG current budget deficit</b>                | <b>2.8</b>  | <b>2.6</b>  | <b>0.2</b>  | <b>8.1</b>  | <b>-30.2</b>         | <b>-27.9</b> | <b>-2.3</b> | <b>8.3</b>  | <b>-27.4</b>   | <b>-25.3</b>       | <b>-2.1</b> |             |
| CG net investment                               | 4.1         | 3.9         | 0.2         | 4.3         | 45.6                 | 41.0         | 4.6         | 11.2        | 49.7           | 44.9               | 4.8         | 10.6        |
| of which: CG capital grants to LA               | 1.7         | 1.8         | -0.1        | -4.8        | 9.9                  | 9.9          | 0.1         | 0.7         | 11.6           | 11.6               | 0.0         | -0.1        |
| <b>CG net borrowing</b>                         | <b>6.8</b>  | <b>6.5</b>  | <b>0.4</b>  |             | <b>15.5</b>          | <b>13.2</b>  | <b>2.3</b>  |             | <b>22.3</b>    | <b>19.6</b>        | <b>2.7</b>  | <b>13.7</b> |
| Local authorities net borrowing                 | -2.7        | -2.6        | -0.1        |             | 12.0                 | 10.3         | 1.7         | 16.2        | 9.3            | 7.7                | 1.6         | 20.1        |
| Public corporations net borrowing               | 1.7         | 2.0         | -0.3        |             | -3.9                 | -5.8         | 1.9         |             | -2.3           | -3.8               | 1.6         | -40.8       |
| <b>Public sector net borrowing</b>              | <b>5.8</b>  | <b>5.9</b>  | <b>0.0</b>  | <b>-0.6</b> | <b>23.5</b>          | <b>17.7</b>  | <b>5.8</b>  | <b>33.0</b> | <b>29.3</b>    | <b>23.5</b>        | <b>5.8</b>  | <b>24.6</b> |
| <b>Public sector net investment</b>             | <b>2.3</b>  | <b>2.2</b>  | <b>0.1</b>  | <b>4.5</b>  | <b>44.7</b>          | <b>41.1</b>  | <b>3.6</b>  | <b>8.8</b>  | <b>47.0</b>    | <b>43.3</b>        | <b>3.7</b>  | <b>8.6</b>  |
| <b>Public sector current budget</b>             | <b>3.5</b>  | <b>3.7</b>  | <b>-0.1</b> | <b>-3.6</b> | <b>-21.2</b>         | <b>-23.4</b> | <b>2.2</b>  |             | <b>-17.7</b>   | <b>-19.8</b>       | <b>2.1</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/april2019>

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.