

# Commentary on the Public Sector Finances: December 2018

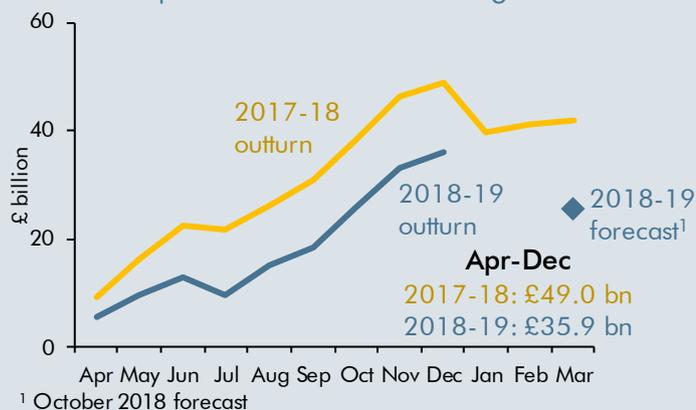
Office for  
**Budget  
Responsibility**

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## Deficit continues to fall significantly in 2018-19

Higher spending pushed borrowing up slightly in December, relative to the same month last year. But over the first nine months of 2018-19, borrowing is still down by more than a quarter relative to the same period in 2017-18.

Cumulative public sector net borrowing



## Headlines

- **Public sector net borrowing (PSNB) in December** is provisionally estimated at £3.0 billion, £0.3 billion up on the same month last year and £0.7 billion above market expectations.
- Last month's estimate of **PSNB over the first eight months of 2018-19** was revised up £0.2 billion to £33.0 billion.
- **Year-to-date PSNB** stands at £35.9 billion, down £13.1 billion (26.7 per cent) on the same period in 2017-18. Our October *EFO* forecast of £25.5 billion for 2018-19 as a whole implies a £16.4 billion fall (39.2 per cent) over the full 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 2.9 per cent on last year – slightly less than our full-year forecast of a 3.1 per cent rise (on a like-for-like basis).
- **Net debt** was 0.5 per cent of GDP lower in December 2018 than a year earlier. This comparison is still being affected by the addition to debt from monetary policy measures.

## Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the December 2018 Public Sector Finances this morning, covering the first nine 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 October 2018 *Economic and fiscal outlook (EFO)*.

### Public sector net borrowing

2. Public sector net borrowing (PSNB) is provisionally estimated at £3.0 billion in December, £0.3 billion up on the same month a year earlier and £0.7 billion above market expectations of £2.3 billion. The £3.1 billion rise in central government (CG) spending (excluding PSNB-neutral grants to local authorities) more than offset the £2.5 billion rise in CG receipts (excluding APF transfers) relative to last December. Borrowing by local authorities was £0.4 billion lower on a year earlier, while borrowing by public corporations was £0.1 billion higher.
3. The year-on-year rise in borrowing in December leaves year-to-date borrowing down slightly less than was reported in last month's data release. Year-to-date borrowing is £13.1 billion (26.7 per cent) lower than in the same period in 2017-18. Meeting our latest *EFO* forecast for PSNB in 2018-19 as a whole would require a fall of £16.4 billion (39.2 per cent) from the latest estimate of 2017-18 outturn. 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



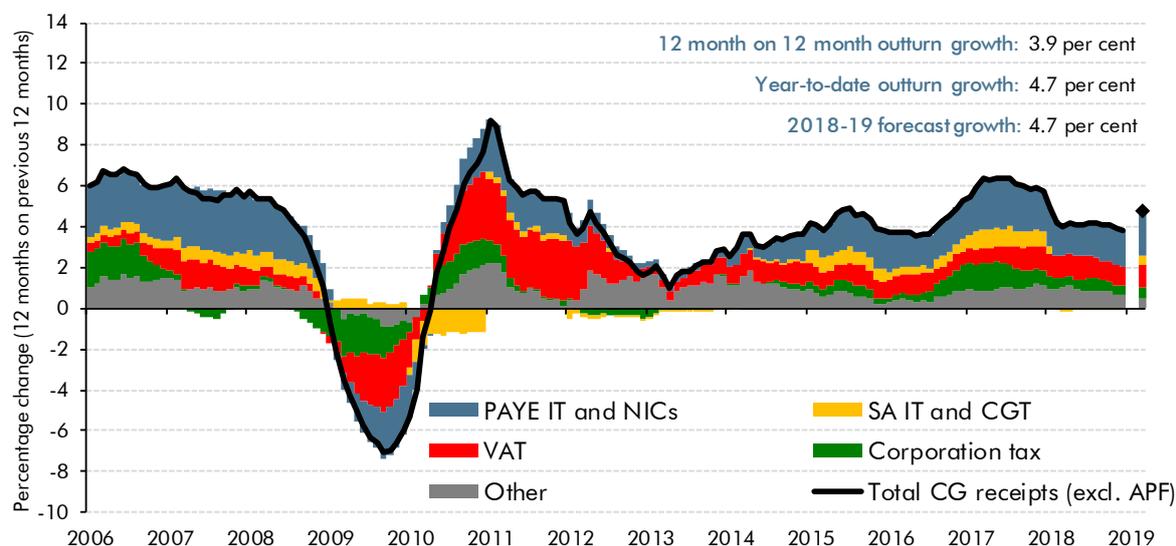
Source: ONS, OBR

<sup>1</sup><https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2018>

## Central government receipts

4. Relative to the same period last year, CG receipts (excluding APF transfers) were up 4.3 per cent in December and 4.7 per cent for the year-to-date. The latter is in line with our full-year forecast on a like-for-like basis. Strength in receipts so far in 2018-19 has been particularly evident in PAYE income tax – up 5.5 per cent year-to-date compared with a full-year forecast of 4.4 per cent. This reflects unexpectedly strong earnings growth in recent months. Growth in VAT receipts is now marginally below our full-year forecast, at 5.1 versus 5.2 per cent.
5. Chart 1.2 shows that year-to-date growth in CG receipts is broadly in line with our *EFO* forecast. On a rolling 12-month basis, outturn receipts growth is marginally below our full-year forecast. That largely reflects the fall in self-assessment income tax and capital gains tax receipts at the end of 2017-18, which will drop out of the year-on-year comparison by the end of 2018-19.

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

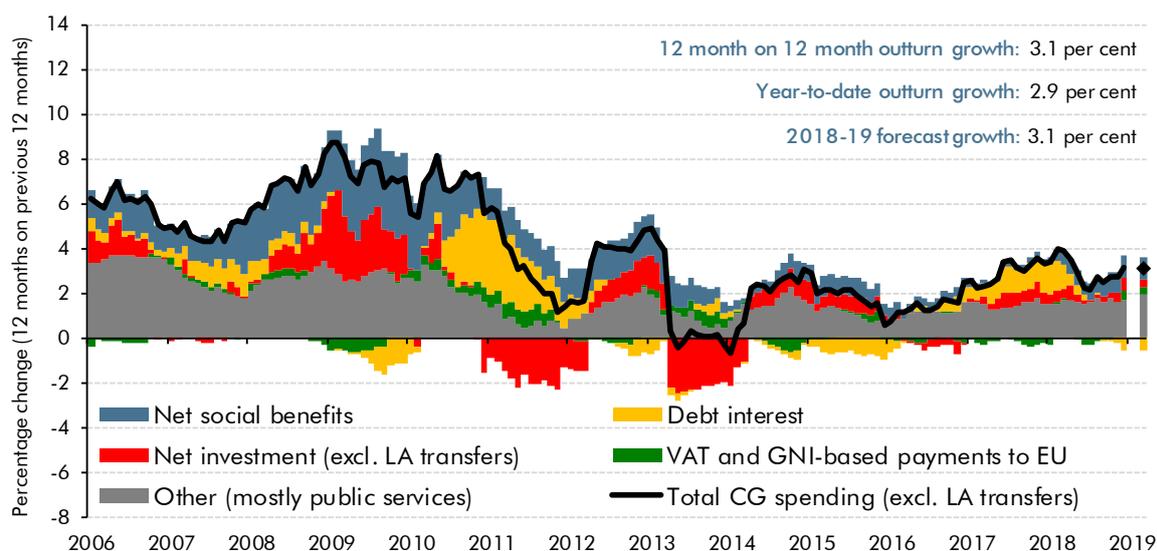
6. Relative to last year, total CG spending (excluding grants to local authorities) was up 6.2 per cent in December and 2.9 per cent for the year-to-date, with the latter slightly below our October forecast of a 3.1 per cent rise over the full year (on a like-for-like basis). The rise in CG spending in December was driven by an increase in 'other' CG current and capital spending (reflecting higher departmental spending) and higher transfers to EU institutions (up £1.5 billion on last December).<sup>2</sup> On the latter, the UK received a large *credit* (£1.2 billion) in December 2017. This reflected amendments to the EU's budget that were, in turn, largely due to lower-than-budgeted EU spending on structural

<sup>2</sup> VAT- and GNI-based contributions to the EU budget, net of abatement.

and investment funds, but also reflected standard updates to its estimates of Member State contributions. The net effect of the same factors led to a £0.3 billion *payment* being made in December 2018. Net social benefits expenditure was also up (by £0.5 billion, reflecting higher spending across several benefits), but this was offset by debt interest payments being £0.5 billion lower (reflecting the monthly path of RPI inflation, which affects accrued interest paid on index-linked gilts).

7. The main driver of weaker spending growth over the first nine months of 2018-19 has been debt interest, which is 8.2 per cent lower than in the same period last year – a somewhat sharper decline than our full-year forecast of a 6.3 per cent fall. Growth in departmental current spending for the year-to-date has been weaker than we forecast for the full year, but these data remain provisional and subject to future revision.
8. Chart 1.3 shows that outturn CG spending growth is below our full-year forecast on a year-to-date basis, but in line with our full-year forecast on a rolling 12-month basis. That largely reflects departmental spending, as set out above.

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

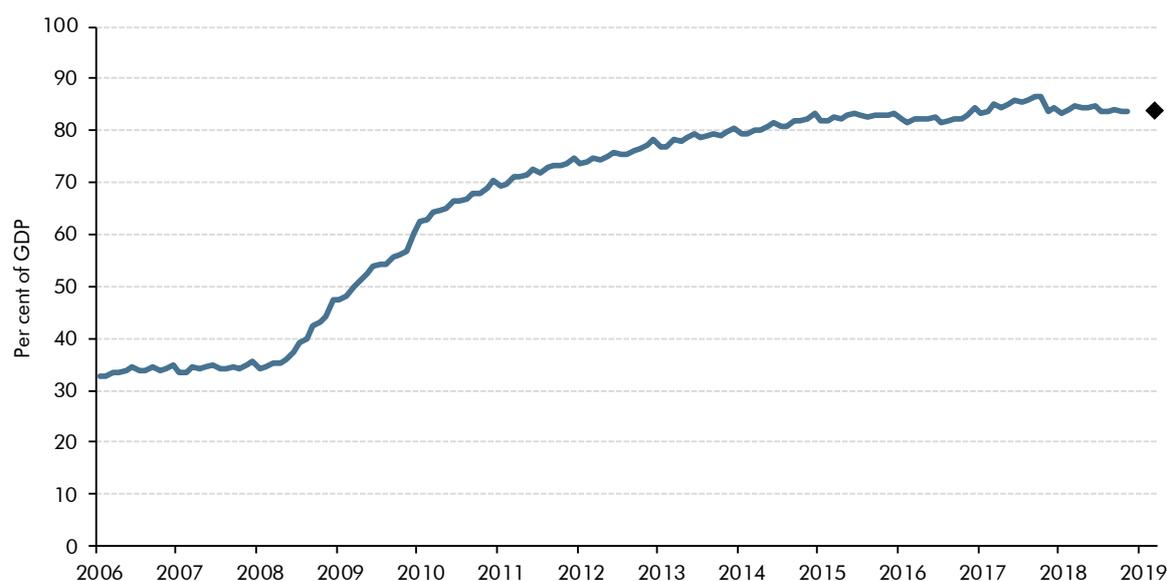


We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.  
 Source: ONS, OBR

## Debt

9. Public sector net debt (PSND) in December 2018 was down 0.5 per cent of GDP from a year earlier, less than the 1.3 per cent of GDP fall we forecast in the *EFO* for the year to the end of 2018-19. The comparison continues to be distorted by the Bank of England’s August 2016 monetary policy measures (which raised PSND by £18.2 billion or 0.9 per cent of GDP in the year to December 2018). This effect will diminish over the rest of 2018-19. Lower borrowing and higher nominal GDP provide the main downward contributions to the fall in the debt-to-GDP ratio. 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

## ONS announcement on the treatment of HMRC fines & penalties

10. In this month's release, the ONS has included an estimate of the fines and penalties HMRC receives from late tax payments. For 2017-18, this is estimated to be £0.7 billion. We anticipated this classification change in our October 2018 *EFO* forecast.

## Issues for next month's release

11. January is generally the biggest month of the year for cash receipts. In particular:
  - Many medium and large onshore firms pay the third of four **corporation tax** instalment payments on 2018 profits, while oil and gas firms pay their third and final instalment on 2018 profits. These January cash receipts are likely to lead to revisions to accrued receipts data in earlier months.
  - **Self-assessment** income tax, Class 4 NICs and capital gains tax (CGT) are due at the end of January. Although most of these receipts will be included in the January outturn, some later payments will be reflected in February. Around 40 per cent (£1.4 billion) of the improvement needed over the rest of 2018-19 to meet our full-year PSNB forecast is expected to come from these taxes. SA income tax and CGT are two of the tax streams most to forecast – given the complexity of the taxes and that they can be particularly affected by changes in taxpayer behaviour (e.g. the timing of asset disposals for CGT).
  - Cash **VAT** receipts are highest in January (reflecting retail sales over Christmas and the usual monthly pattern during the quarter). These receipts will accrue back to the previous three months.

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

£ billion	December				April to December				Implied January to March				October forecast				
	2018	2017	change		2018-19	2017-18	change		2018-19	2017-18	change		2018-19	2017-18	change		
			£bn	%			£bn	%			£bn	%	EFO	outturn	£bn	%	
<b>Central government (CG) current receipts</b>																	
Taxes on production	24.1	23.1	1.1	4.6	211.5	202.7	8.8	4.3	69.9	64.6	5.2	8.1	281.4	267.3	14.0	5.3	
Of which: VAT (accrued)	12.9	12.5	0.4	3.4	112.8	107.3	5.5	5.1	37.2	35.3	1.9	5.5	150.1	142.6	7.4	5.2	
Taxes on income and wealth <sup>1</sup>	19.8	19.0	0.8	4.2	174.0	164.0	10.0	6.1	86.5	82.3	4.3	5.2	260.6	246.3	14.3	5.8	
Of which:																	
Income tax and CGT (accrued)	15.3	14.4	0.9	5.9	128.2	120.3	8.0	6.6	70.6	68.1	2.5	3.7	198.9	188.4	10.5	5.6	
Corporation tax (accrued)	4.7	4.5	0.2	4.7	45.8	43.4	2.3	5.4	15.7	14.2	1.5	10.4	61.5	57.6	3.8	6.6	
Other taxes	1.3	1.3	-0.1	-4.4	13.5	13.4	0.2	1.2	4.8	4.5	0.3	7.8	18.4	17.8	0.5	2.9	
Compulsory social contributions	11.7	11.4	0.3	2.6	99.1	95.4	3.6	3.8	37.8	36.1	1.7	4.7	136.9	131.5	5.3	4.1	
Interest & dividends	0.9	0.6	0.3	52.9	15.7	15.5	0.2	1.1	5.1	3.1	2.0	64.8	20.8	18.6	2.2	11.8	
Other receipts	2.0	1.9	0.0	2.2	17.4	17.6	-0.2	-1.0	5.9	5.9	0.1	1.0	23.4	23.5	-0.1	-0.5	
<b>Total CG current receipts</b>	<b>59.8</b>	<b>57.3</b>	<b>2.5</b>	<b>4.3</b>	<b>531.3</b>	<b>508.6</b>	<b>22.7</b>	<b>4.5</b>	<b>210.1</b>	<b>196.4</b>	<b>13.6</b>	<b>6.9</b>	<b>741.4</b>	<b>705.1</b>	<b>36.3</b>	<b>5.1</b>	
<b>CG current expenditure</b>																	
Interest payments	3.9	4.4	-0.5	-11.6	40.4	43.9	-3.6	-8.2	11.2	11.1	0.1	1.3	51.6	55.0	-3.4	-6.3	
Net social benefits	18.2	17.7	0.5	3.1	162.5	158.1	4.4	2.8	52.8	50.3	2.5	5.0	215.3	208.4	6.9	3.3	
CG current grants to LAs	9.0	9.1	-0.1	-0.7	86.0	86.1	-0.1	-0.2	27.1	28.0	-0.9	-3.1	113.1	114.1	-1.0	-0.9	
VAT and GNI-based payments to EU <sup>2</sup>	0.3	-1.2	1.5	-126.7	7.9	6.2	1.7	27.9	2.2	4.0	-1.8	-45.2	10.1	10.2	-0.1	-0.8	
Other CG current expenditure	25.2	24.7	0.5	1.9	226.5	219.0	7.5	3.4	83.9	75.4	8.5	11.3	310.4	294.4	16.0	5.4	
<b>Total current expenditure</b>	<b>56.6</b>	<b>54.7</b>	<b>1.9</b>	<b>3.5</b>	<b>523.3</b>	<b>513.4</b>	<b>9.9</b>	<b>1.9</b>	<b>177.2</b>	<b>168.8</b>	<b>8.4</b>	<b>5.0</b>	<b>700.5</b>	<b>682.2</b>	<b>18.3</b>	<b>2.7</b>	
Depreciation	1.6	1.5	0.0	1.2	13.9	13.9	0.1	0.5	4.7	4.7	0.1	1.3	18.6	18.5	0.1	0.7	
<b>CG current budget deficit</b>	<b>-1.6</b>	<b>-1.1</b>	<b>-0.5</b>	<b>46.3</b>	<b>5.9</b>	<b>18.6</b>	<b>-12.7</b>		<b>-28.1</b>	<b>-23.0</b>	<b>-5.1</b>	<b>22.2</b>	<b>-22.2</b>	<b>-4.4</b>	<b>-17.8</b>		
CG net investment	4.5	3.4	1.1	33.5	30.3	26.7	3.6	13.3	12.6	13.5	-0.8	-6.3	42.9	40.2	2.7	6.7	
of which: CG capital grants to LA	0.5	0.5	0.0	6.0	8.0	7.5	0.5	6.9	3.3	3.0	0.3	10.8	11.4	10.5	0.8	8.0	
<b>CG net borrowing</b>	<b>2.9</b>	<b>2.3</b>	<b>0.6</b>		<b>36.2</b>	<b>45.3</b>	<b>-9.1</b>	<b>-20.2</b>	<b>-15.5</b>	<b>-9.5</b>	<b>-6.0</b>		<b>20.7</b>	<b>35.8</b>	<b>-15.1</b>	<b>-42.2</b>	
Local authorities net borrowing	1.1	1.5	-0.4		0.3	2.1	-1.8	-86.5	6.0	5.4	0.5	10.1	6.3	7.6	-1.3	-17.1	
Public corporations net borrowing	-1.1	-1.1	0.1		-0.5	1.6	-2.1	-132.3	-1.0	-3.0	2.0		-1.5	-1.4	0.0	2.2	
<b>Public sector net borrowing</b>	<b>3.0</b>	<b>2.7</b>	<b>0.3</b>	<b>11.3</b>	<b>35.9</b>	<b>49.0</b>	<b>-13.1</b>	<b>-26.7</b>	<b>-10.5</b>	<b>-7.1</b>	<b>-3.4</b>	<b>47.5</b>	<b>25.5</b>	<b>41.9</b>	<b>-16.4</b>	<b>-39.2</b>	
<b>Public sector net investment</b>	<b>4.5</b>	<b>3.7</b>	<b>0.8</b>	<b>22.5</b>	<b>26.0</b>	<b>27.3</b>	<b>-1.4</b>	<b>-5.0</b>	<b>15.2</b>	<b>15.5</b>	<b>-0.2</b>	<b>-1.6</b>	<b>41.2</b>	<b>42.8</b>	<b>-1.6</b>	<b>-3.8</b>	
<b>Public sector current budget</b>	<b>-1.5</b>	<b>-1.0</b>	<b>-0.5</b>	<b>52.1</b>	<b>10.0</b>	<b>21.7</b>	<b>-11.7</b>	<b>-54.0</b>	<b>-25.7</b>	<b>-22.6</b>	<b>-3.1</b>		<b>-15.7</b>	<b>-0.9</b>	<b>-14.8</b>	<b>1,614.3</b>	

October 2018 EFO forecast published 29 October 2018 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/december2018>

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\\_October-2018.pdf](https://cdn.ubr.uk/EFO_October-2018.pdf)

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