

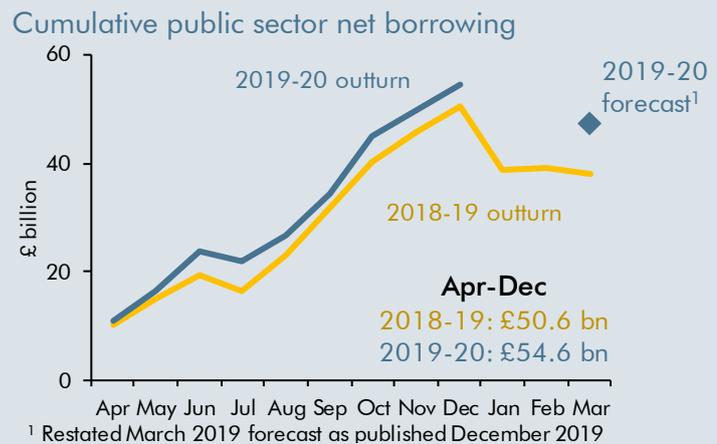
Commentary on the Public Sector Finances: December 2019

Office for
**Budget
Responsibility**

22 January 2020

Year-to-date borrowing rises by less than anticipated

Borrowing has risen so far this year, but at a slower rate than anticipated in our restated March forecast. With three months of the year to go, a number of uncertainties remain. January is a big month for receipts, while bonus season and end-year departmental spending are always sources of uncertainty.



Headlines

- We compare latest outturns with our **restated March 2019 forecast**, which reflects several recent ONS statistical changes and means comparisons are now on a like-for-like basis.
- **Public sector net borrowing (PSNB)** is estimated at £4.8 billion in December, £0.2 billion lower than a year earlier. Despite the fall this month, borrowing has risen in five out of nine months so far this year.
- **Year-to-date borrowing** was up £4.0 billion (7.9 per cent) on the same period last year. Our restated PSNB forecast for 2019-20 implies a £9.6 billion (25.4 per cent) full-year rise.
- The ONS has revised down **borrowing so far this year** by £1.0 billion in this month's release. This follows successive downward revisions to borrowing in recent releases. Borrowing over the first six months of the year is now £6.0 billion lower than the first estimate released in October.
- **Central government receipts** (excluding PSNB-neutral transfers related to 'quantitative easing') were up 3.7 per cent in December. Year-to-date receipts growth of 2.8 per cent is above our restated March forecast of a 2.3 per cent rise in 2019-20 as a whole.
- **Central government spending** (excluding PSNB-neutral grants to local authorities) was up by 2.9 per cent in December and up 3.3 per cent for the year to date. Year-to-date spending is a little above our restated March forecast of a 3.2 per cent rise in 2019-20 as a whole, where several factors only partly offset stronger growth in departmental spending.
- **Net debt** was 0.9 per cent of GDP lower in December 2019 than a year earlier.

Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the December 2019 Public Sector Finances this morning, covering the first nine 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.

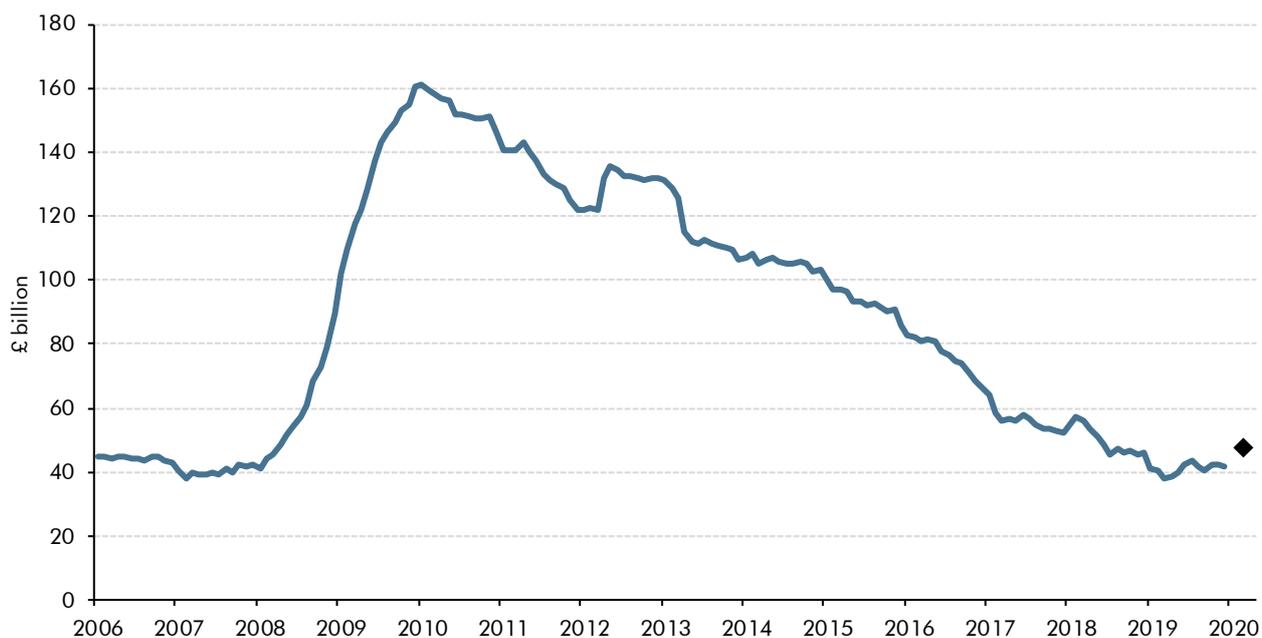
Public sector net borrowing

3. Public sector net borrowing (PSNB) was £4.8 billion in December, £0.2 billion lower than last year and £0.5 billion lower than market expectations. Central government (CG) borrowing fell on a year earlier, thanks to a £2.2 billion rise in total CG receipts being only partly offset by a £1.8 billion rise in total CG spending. Borrowing by local authorities and public corporations both rose by £0.1 billion on a year earlier.
4. The deficit for the first nine months of 2019-20 is up £4.0 billion (7.9 per cent) on a year earlier. To meet our restated forecast of £47.6 billion for 2019-20 as a whole requires a £9.6 billion (25.4 per cent) rise over the full financial year. This would require a materially worse performance for the public finances over the rest of the year than was the case last year, when a surplus of £12.7 billion was recorded across the final three months of the year. But last year was boosted by particularly strong self-assessment receipts and risks remain around prospects for borrowing through the rest of this year: January is a big month for receipts, while bonus season and end-year departmental spending are always sources of uncertainty.
5. Borrowing across the first eight months of 2019-20 was revised down by £1.0 billion in this month's release. This follows repeated downward revisions in recent months – borrowing over the first six months of the year is now £6.0 billion lower than the first estimate released in October. Much of these revisions reflect lower estimates of CG spending, the strength of which had been the main reason for year-to-date borrowing apparently running ahead of our March forecast in earlier data releases. This picture has now reversed, with a simple extrapolation based on year-to-date outturns pointing to full-year borrowing well below our restated forecast.
6. 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 the boost from strong self-assessment receipts in January 2019.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2019>

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

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

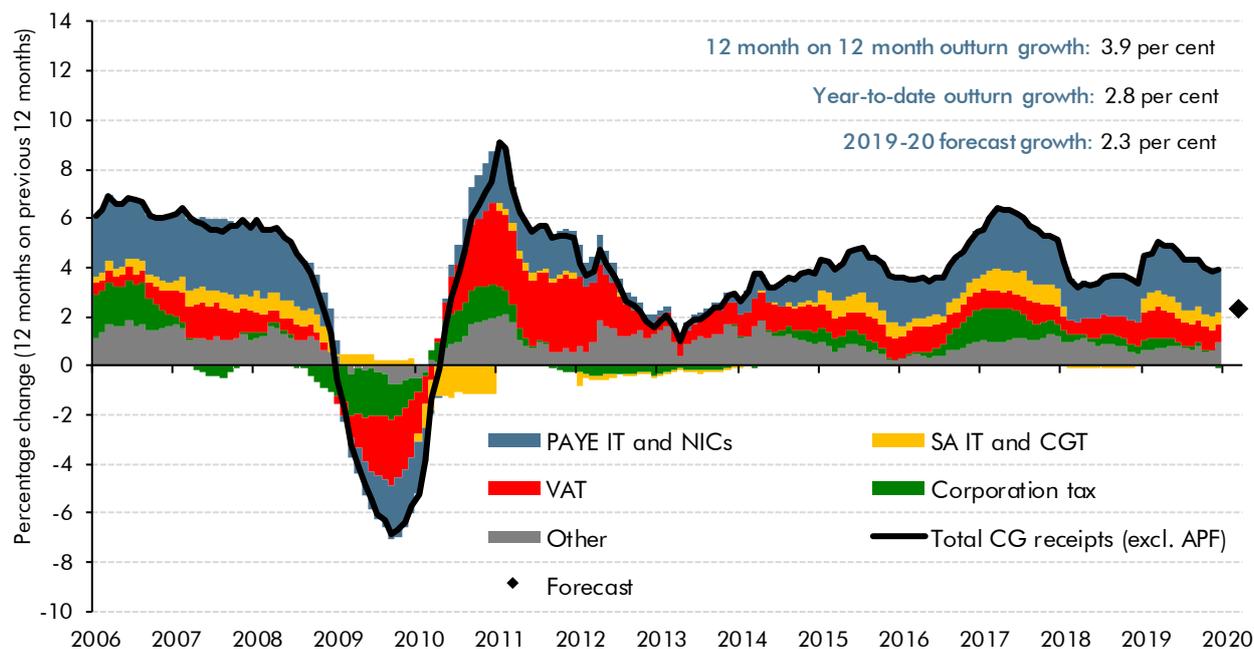


Source: ONS, OBR

Central government receipts

7. Relative to last year, CG receipts (excluding APF transfers) were up 3.7 per cent in December. They are up 2.8 per cent in the first nine months of 2019-20, above the 2.3 per cent full-year rise in our restated March forecast. Tobacco and stamp duty receipts were strong in December, following year-on-year falls in earlier months. The strength is likely to reflect timing effects following both the cancelled Budget and the General Election. Weak growth in corporation tax, PAYE income tax and VAT receipts partly offset these positive factors.
8. Strength in receipts so far this year has been driven by PAYE income tax and NICs, where year-to-date growth of 3.5 per cent has outpaced our full-year forecast for 2019-20 of 2.2 per cent. While earnings growth has eased a little over the past two months, 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. Largely offsetting these positives, year-to-date growth in several smaller tax streams has been weaker than our full-year forecasts for them. Stamp duties, fuel duty, tobacco and alcohol duties, and inheritance tax are all down on the same period last year. Fuel duty receipts are down 0.9 per cent on a year earlier, in part reflecting relatively weak growth in mileages over the first six months of the fiscal year. Inheritance tax is down 5.8 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.
10. Chart 1.2 shows the rolling 12-month average growth in CG receipts. On this metric, growth is currently being boosted by January 2019 self-assessment receipts. We would expect it to slow towards the year-to-date and forecast growth rates in the next couple of months.

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

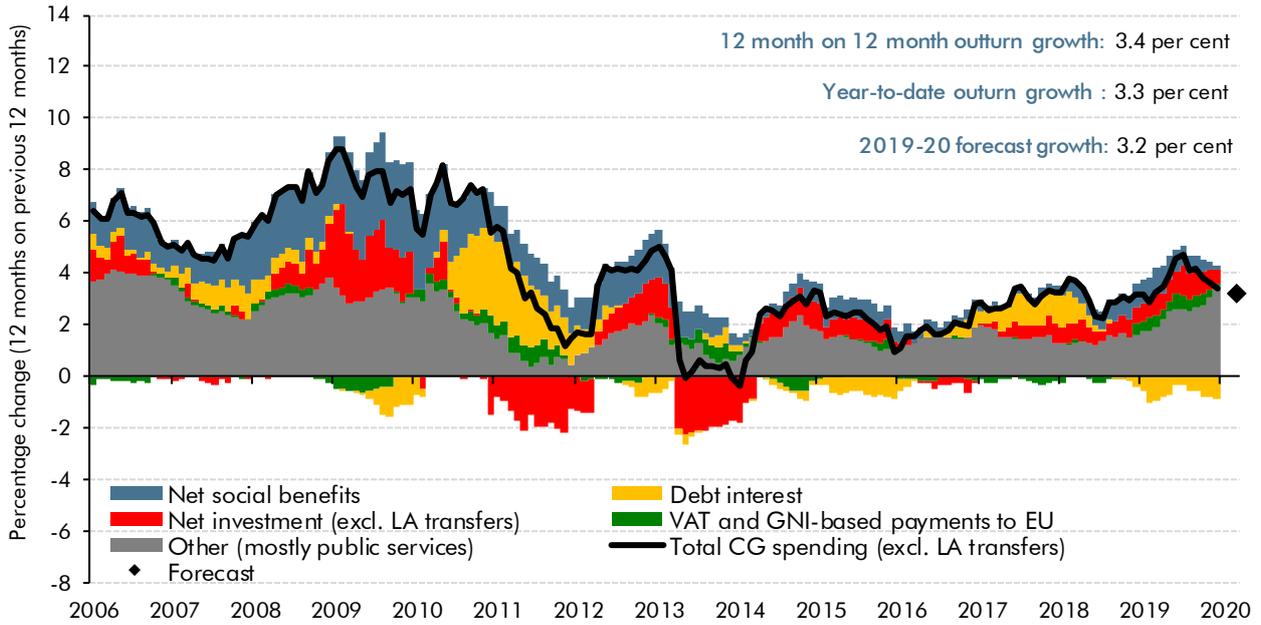


Source: ONS, OBR

Central government spending

11. Relative to last year, total CG spending (excluding grants to local authorities) was up 2.9 per cent in December and up 3.3 per cent for the year to date. The £1.6 billion rise in CG spending on this basis in December was more than explained by a £3.5 billion rise in other CG current spending (mostly spending on public services) with debt interest spending, net investment and net social benefits all lower than a year earlier. (CG net investment was £0.8 billion lower than in December 2018, more than explained by the sale of student loans last year not being repeated this year. The loans are sold for less than they are valued in the public finances, so a capital transfer equivalent to this discount is recorded at the point of sale.)
12. As noted above, spending in earlier months of 2019-20 has been revised down substantially in the past three releases. Overall CG spending has been revised down by around £5.6 billion in that period. For the year to date, CG spending growth of 3.3 per cent is a little 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 7.6 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, EU contributions and net social benefits are all down on a year earlier (the latter due to the large rise in employer pension contribution rates for public service pension schemes).
13. Chart 1.3 shows CG spending growth on a 12-month rolling basis. Three months ago, spending growth on this metric was still picking up in the latest month. The substantial revisions since then mean that it is now slowing from its peak earlier in the year.

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

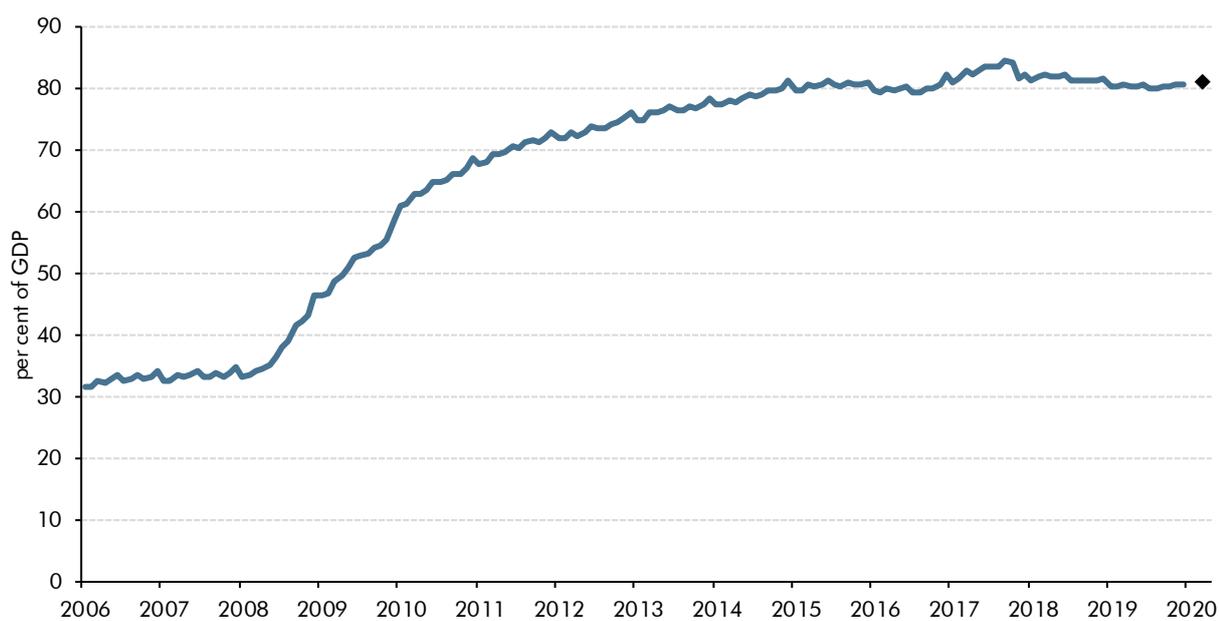


Source: ONS, OBR

Debt

14. Public sector net debt (PSND) in December 2019 was down 0.9 per cent of GDP from a year earlier. Around 0.8 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 £13.1 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 next month's release

15. January is generally the biggest month of the year for cash receipts. In particular:

- Many medium and large onshore firms will pay their third of four **corporation tax** instalment payments on 2019 profits. These January cash receipts are likely to lead to revisions to accrued receipts data for earlier months. As very large firms continue to move onto the earlier quarterly instalment payment (QIP) regime over the next few months, the January peak in cash receipts will be more muted from next year.
- **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. SA income tax and CGT are two of the most difficult tax streams to forecast – given the complexity of the taxes and their sensitivity to 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 borrowing¹

£ billion	December				April to December				Implied January to March				Restated March forecast			
			change				change				change		2019-20	2018-19	change	
	2019	2018	£bn	%	2019-20	2018-19	£bn	%	2019-20	2018-19	£bn	%	Forecast	outturn	£bn	%
Central government (CG) current receipts																
Taxes on production	24.8	23.7	1.1	4.8	216.5	212.1	4.4	2.1	70.6	68.3	2.3	3.4	287.2	280.4	6.7	2.4
Of which: VAT (accrued)	13.3	13.1	0.2	1.7	117.1	113.8	3.3	2.9	37.9	37.6	0.3	0.9	155.0	151.4	3.6	2.4
Taxes on income and wealth	19.7	19.8	0.0	0.0	172.6	171.2	1.4	0.8	88.5	89.1	-0.6	-0.7	261.1	260.3	0.8	0.3
Of which:																
Income tax and CGT (accrued)	15.3	15.3	-0.1	-0.4	130.2	127.7	2.5	1.9	74.6	74.1	0.5	0.7	204.8	201.8	3.0	1.5
Corporation tax	4.4	4.7	-0.3	-6.7	42.1	43.5	-1.5	-3.4	13.9	14.9	-1.1	-7.1	55.9	58.5	-2.5	-4.3
Other taxes	1.5	1.3	0.2	16.3	13.6	13.6	-0.1	-0.5	4.8	4.7	0.1	2.1	18.3	18.3	0.0	0.2
Compulsory social contributions	12.3	11.8	0.5	3.8	104.2	98.9	5.3	5.4	39.2	38.4	0.8	2.2	143.4	137.3	6.1	4.5
Interest & dividends	1.0	0.6	0.3	53.4	15.7	15.4	0.4	2.3	4.2	3.2	0.9	28.3	19.9	18.6	1.3	6.9
Other receipts	2.9	2.8	0.1	3.6	25.6	24.8	0.8	3.0	8.9	8.6	0.2	2.7	34.4	33.4	1.0	3.0
Total CG current receipts	62.2	60.0	2.2	3.7	548.2	536.0	12.2	2.3	216.1	212.4	3.8	1.8	764.3	748.3	16.0	2.1
CG current expenditure																
Interest payments	2.8	4.0	-1.1	-28.7	38.3	40.8	-2.5	-6.2	12.8	8.0	4.8	60.5	51.1	48.8	2.3	4.7
Net social benefits	18.1	18.2	-0.1	-0.5	162.4	162.8	-0.4	-0.2	49.0	51.9	-3.0	-5.7	211.4	214.7	-3.3	-1.5
CG current grants to LAs	9.0	8.9	0.2	1.8	84.6	85.6	-1.1	-1.2	29.7	27.0	2.6	9.7	114.3	112.7	1.6	1.4
VAT and GNI-based payments to EU ²	0.4	0.3	0.1	31.8	7.4	7.9	-0.5	-6.4	6.0	5.0	1.0	20.5	13.4	12.9	0.5	4.0
Other	29.8	26.4	3.5	13.1	254.2	236.2	18.0	7.6	80.1	82.5	-2.4	-2.9	334.3	318.7	15.6	4.9
Total current expenditure	60.2	57.7	2.5	4.3	546.9	533.4	13.6	2.5	177.6	174.4	3.1	1.8	724.5	707.8	16.7	2.4
Depreciation	2.5	2.4	0.2	6.5	21.9	21.2	0.7	3.2	7.4	7.2	0.2	2.7	29.3	28.4	0.9	3.0
CG current budget deficit	0.5	0.1	0.4	614.5	20.6	18.6	2.0	10.8	-31.2	-30.7	-0.4		-10.5	-12.1	1.6	-13.1
CG net investment	3.7	4.5	-0.8	-18.4	30.5	29.3	1.2	4.3	19.9	16.1	3.8	23.9	50.5	45.4	5.1	11.2
of which: CG capital grants to LA	0.6	0.5	0.1	17.7	8.4	8.0	0.4	5.1	3.2	3.6	-0.3	-9.7	11.6	11.5	0.1	0.5
CG net borrowing	4.2	4.6	-0.4	-8.9	51.2	47.9	3.3	6.8	-11.2	-14.6	3.4	-23.3	40.0	33.3	6.7	20.1
Local authorities net borrowing	1.4	1.3	0.1		4.2	1.0	3.3		5.1	4.3	0.8	18.4	9.3	5.2	4.0	77.2
Public corporations net borrowing	-0.8	-0.9	0.1	-8.0	-0.8	1.8	-2.5	-142.6	-0.8	-2.3	1.5	-63.1	-1.6	-0.5	-1.1	
Public sector net borrowing	4.8	5.0	-0.2	-4.3	54.6	50.6	4.0	7.9	-7.0	-12.7	5.7		47.6	38.0	9.6	25.4
Public sector net investment	4.2	4.7	-0.5	-10.7	30.3	27.0	3.2	11.9	20.0	17.2	2.8	16.3	50.2	44.2	6.0	13.6
Public sector current budget	0.6	0.3	0.3	107.9	24.4	23.6	0.8	3.3	-26.9	-29.8	2.9		-2.5	-6.2	3.7	
<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	62.2	60.0	2.2	3.7	541.3	526.8	14.6	2.8	214.4	211.9	2.6	1.2	755.8	738.7	17.1	2.3
Memo: CG spending ex. grants to LAs	56.8	55.2	1.6	2.9	506.4	490.3	16.1	3.3	172.0	167.1	4.9	2.9	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/december2019>

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.