

Commentary on the Public Sector Finances: June 2019

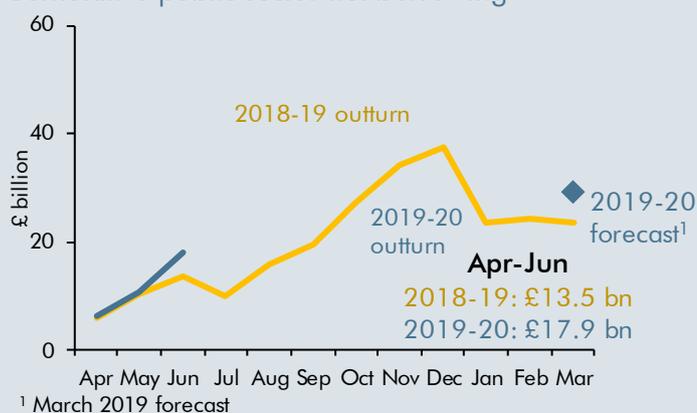
Office for
**Budget
Responsibility**

19 July 2019

Borrowing rises year-on-year again in June

The budget deficit has risen relative to last year in each of the past three months. For the year to date, it is now up £4.5 billion on a year earlier. Spending growth has picked up. Our March forecast assumes a small rise in borrowing in 2019-20 as a whole.

Cumulative public sector net borrowing



Headlines

- **Public sector net borrowing (PSNB) in June** was £7.2 billion, £3.8 billion up on last year.
- **Year-to-date borrowing** was up £4.5 billion on the same period last year. We expect a small rise in borrowing in 2019-20 as a whole. This reflects 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 just 1.5 per cent in June. Year-to-date receipts growth of 3.1 per cent is a little above our full-year forecast of a 2.7 per cent rise (on a like-for-like basis).
- **Central government spending** (excluding PSNB-neutral grants to local authorities) was up 8.6 per cent in June and 5.9 per cent for the year to date, well above our full-year forecast of a 3.3 per cent rise (on a like-for-like basis).
- **Net debt** was 1.5 per cent of GDP lower in June 2019 than it was in June 2018.
- **PSNB for 2018-19** was revised down by £0.5 billion to £23.5 billion, and is now £0.7 billion above our March forecast.

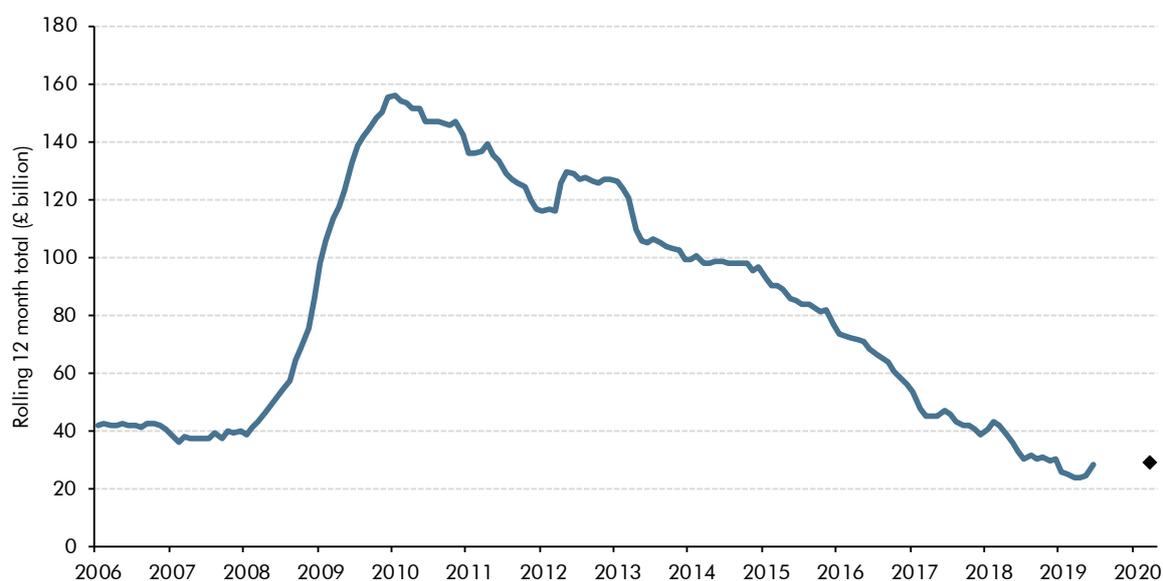
Full commentary

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

Public sector net borrowing

2. Public sector net borrowing (PSNB) was £7.2 billion in June, £3.8 billion higher than last year and £3.3 billion above market expectations. A £4.4 billion (7.1 per cent) rise in central government (CG) spending far outstripped the £0.8 billion (1.5 per cent) rise in CG receipts. Borrowing by local authorities was £0.3 billion higher than last year while borrowing by public corporations was unchanged.
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 a forecast of slower growth in receipts reflecting the Budget 2018 announcements on the income tax personal allowance and higher rate threshold, the temporary rise in the annual investment allowance to £1 million, and slower growth in the main nominal tax bases in 2019. CG spending is expected to be stronger, particularly DEL spending on public services thanks to the additional resources for the NHS announced in June 2018.

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



Source: ONS, OBR

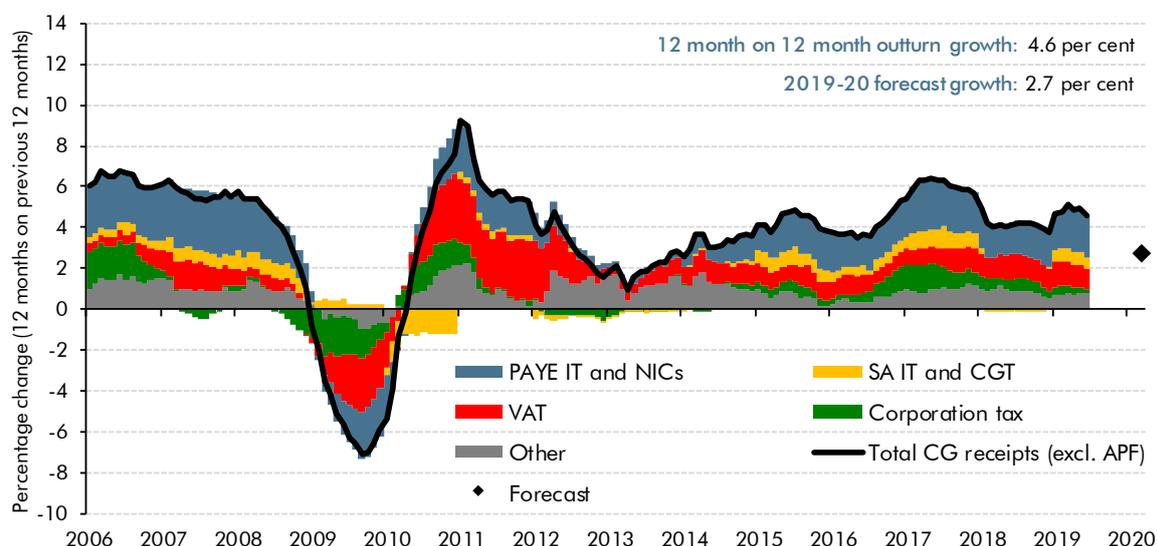
4. Relative to last year, CG receipts (excluding APF transfers) were up 1.5 per cent in June and up 3.1 per cent in the first three months of the financial year, a little above the 2.7

¹<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/june2019>

per cent rise we expect for the whole of 2019-20 (on a like-for-like basis). Receipts growth in June mainly reflected rises in National Insurance contributions. Year-to-date receipts growth has also benefited from the £0.8 billion special dividend received on the Government's RBS shares that scored in April. This month's figures showed particular weakness in inheritance tax and stamp duty land tax receipts. Inheritance tax receipts are down 15 per cent year-on-year so far in 2019-20, which is 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. Stamp duty receipts were down 11.4 per cent year-on-year in June and 6.1 per cent for the year to date, consistent with weakness in both house prices and property transactions. Receipts from commercial property were particularly weak in June.

- Chart 1.2 shows the rolling 12-month average growth in CG receipts. We would expect this to slow as 2019-20 progresses.

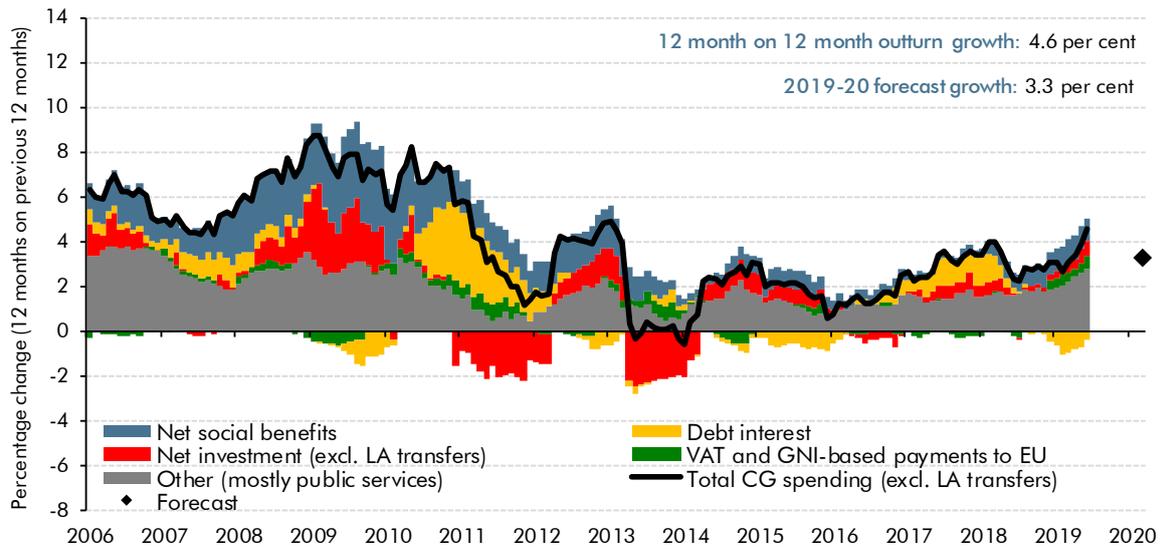
Chart 1.2: Growth in central government receipts: rolling 12-month average



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

- Relative to last year, total CG spending (excluding grants to local authorities) was up 8.6 per cent in June and up 5.9 per cent for the year to date. That is well above our full-year forecast for 2019-20 of 3.3 per cent growth (on a like-for-like basis), although spending data this early in the financial year are very provisional and often based on departmental forecasts, so subject to revision. The £4.4 billion rise in CG spending in June reflects a £2.1 billion rise in debt interest spending and a £1.6 billion rise in other CG current expenditure (largely spending on public services). The rise in debt interest payments reflects the monthly path of RPI (in particular the sharp rise in the April RPI), which affects the accrued uplift of index-linked gilts. In the first three months of 2019-20, other CG current expenditure was up 7.5 per cent, boosted by the more generous NHS settlement. 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

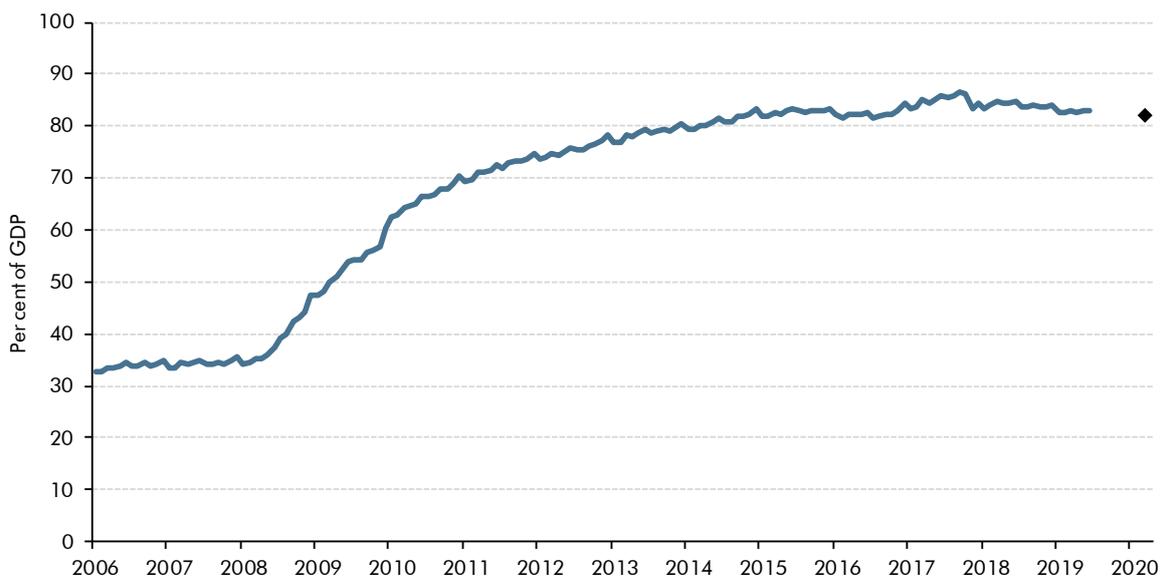


We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.
Source: ONS, OBR

Debt

- Public sector net debt (PSND) in June 2019 was down 1.5 per cent of GDP from a year earlier. The drop is partly explained by the £4.9 billion sale of Bradford and Bingley mortgages by UK Asset Resolution (UKAR) in April and £4.5 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.

Chart 1.4: Public sector net debt



Source: ONS, OBR

Forthcoming public sector finances developments

8. The ONS is planning to incorporate several changes in methodology in its public sector finances release in September. We intend to reflect these changes in our next fiscal forecast. These changes include:
- The improvement in the accounting treatment of **student loans** will add materially to borrowing – by £10.6 billion in 2018-19. Outlays will no longer all be treated as loans despite the fact that a significant proportion are expected to be written off rather than repaid. Instead, that portion will be treated as spending rather than lending and will add to borrowing as it happens. The spending portion will not accrue interest. This removes the most problematic ‘fiscal illusions’ generated by the existing treatment.
 - Public employment-related **pension schemes and the Pension Protection Fund** will be moved within the public sector boundary. This would reduce public sector net debt in 2018-19 by £30.5 billion, reflecting the liquid assets they hold.

Issues for next month’s data release

9. July is usually the second largest month in the year for cash receipts. This reflects:
- Many **medium-sized and large onshore firms** with calendar year accounting periods paying the first of four corporation tax instalment payments on their 2019 profits.
 - **Oil and gas firms** paying the first of three corporation tax instalment payments on their 2019 profits.
 - The second payment on account for **self-assessment liabilities** for 2018-19 is due on 31 July. Late payments can fall into August, so the year-on-year comparison may not be clear until the following month.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	June				April to June				July to March				March forecast			
	2019	2018	change		2019-20	2018-19	change		2019-20	2018-19	change		2019-20 EFO	2018-19 outturn	change	
			£bn	%			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts																
Taxes on production	23.6	23.7	-0.1	-0.5	70.3	69.6	0.7	1.0	218.1	209.1	9.0	4.3	288.4	278.7	9.7	3.5
Of which: VAT (accrued)	12.8	12.7	0.1	1.2	38.5	37.2	1.3	3.6	116.5	113.9	2.6	2.3	155.0	151.1	4.0	2.6
Taxes on income and wealth ¹	18.9	18.6	0.3	1.4	55.2	53.9	1.3	2.4	210.1	207.8	2.3	1.1	265.3	261.7	3.6	1.4
Of which:																
Income tax and CGT (accrued)	13.4	13.1	0.3	2.3	39.1	37.9	1.2	3.2	165.7	163.6	2.1	1.3	204.8	201.5	3.3	1.6
Corporation tax (accrued)	5.4	5.5	-0.1	-2.3	15.9	15.8	0.1	0.4	44.2	44.3	-0.1	-0.2	60.2	60.2	0.0	0.0
Other taxes	1.4	1.6	-0.2	-9.4	4.5	4.7	-0.1	-3.0	13.8	13.7	0.1	1.1	18.3	18.3	0.0	0.1
Compulsory social contributions	11.7	11.2	0.5	4.4	34.6	32.8	1.8	5.4	108.8	104.9	3.9	3.7	143.4	137.7	5.7	4.1
Interest & dividends	1.1	0.8	0.3	34.4	6.9	5.9	1.0	16.1	15.2	14.9	0.3	1.8	22.1	20.9	1.2	5.9
Other receipts	2.0	1.9	0.1	5.0	6.1	5.7	0.3	5.9	18.2	17.8	0.4	2.5	24.3	23.5	0.8	3.3
Total CG current receipts	58.7	57.8	0.8	1.5	177.6	172.7	4.9	2.9	584.2	568.1	16.1	2.8	761.8	740.8	21.0	2.8
CG current expenditure																
Interest payments	7.1	5.0	2.1	42.2	16.4	14.6	1.8	12.5	34.7	34.0	0.6	1.8	51.1	48.7	2.4	5.0
Net social benefits	17.5	17.4	0.1	0.8	54.0	53.1	0.9	1.7	157.4	161.6	-4.2	-2.6	211.4	214.7	-3.3	-1.5
CG current grants to LAs	9.3	9.5	-0.2	-2.0	29.4	29.8	-0.3	-1.2	84.8	83.2	1.6	1.9	114.3	113.0	1.2	1.1
VAT and GNI-based payments to EU ²	1.0	0.6	0.4	64.5	2.4	2.4	0.1	2.2	10.5	10.5	0.0	-0.4	12.9	12.9	0.0	0.0
Other CG current expenditure	26.6	25.1	1.6	6.2	80.2	74.6	5.6	7.5	245.5	232.9	12.5	5.4	325.7	307.5	18.1	5.9
Total current expenditure	61.5	57.5	4.0	7.0	182.5	174.5	8.0	4.6	532.8	522.4	10.5	2.0	715.3	696.9	18.5	2.7
Depreciation	1.6	1.5	0.0	2.7	4.7	4.6	0.1	2.8	14.4	13.9	0.4	3.2	19.1	18.6	0.6	3.1
CG current budget deficit	4.4	1.2	3.2	265.5	9.6	6.4	3.2		-37.0	-31.8	-5.2	16.3	-27.4	-25.4	-2.0	
CG net investment	3.2	2.9	0.3	11.2	10.1	9.2	0.9	9.3	39.6	35.2	4.4	12.5	49.7	44.4	5.3	11.8
of which: CG capital grants to LA	0.5	0.4	0.1	20.6	3.4	3.2	0.2	5.2	8.2	8.4	-0.2	-2.5	11.6	11.6	0.0	-0.4
CG net borrowing	7.6	4.1	3.5		19.7	15.6	4.1	26.1	2.7	3.4	-0.8		22.3	19.0	3.3	17.3
Local authorities net borrowing	0.6	0.2	0.3		-1.7	-2.6	0.9	-33.9	11.0	8.7	2.3	26.3	9.3	6.1	3.2	51.4
Public corporations net borrowing	-1.0	-1.0	0.0		0.0	0.4	-0.5	-110.7	-2.2	-2.1	-0.2		-2.3	-1.6	-0.6	38.9
Public sector net borrowing	7.2	3.3	3.8	114.6	17.9	13.5	4.5	33.2	11.4	10.1	1.3	13.2	29.3	23.5	5.8	24.7
Public sector net investment	2.6	2.5	0.0	0.8	6.4	6.3	0.1	1.1	40.6	35.4	5.3	15.0	47.0	41.7	5.4	12.9
Public sector current budget	4.6	0.8	3.8	477.3	11.6	7.2	4.4	61.5	-29.2	-25.3	-4.0		-17.7	-18.1	0.4	

March 2019 EFO forecast published 13 March 2019 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/june2019>

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.