

Commentary on the Public Sector Finances release: April 2012

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the April 2012 Public Sector Finances this morning¹. This is the first month of the 2012-13 financial year and thus provides a very limited guide to likely trends over the rest of the year. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast.

Summary

2. Public sector net borrowing (PSNB) recorded its largest ever monthly surplus in April, although at £16.5 billion it was smaller than the £20.0 billion outside economists had on average expected.
3. The record surplus reflects:
 - a one-off reduction in PSNB of £28 billion related to the transfer of the Royal Mail's historical pension deficit, plus a share of its pension fund's assets into the public sector at the start of April; and
 - a one-off reduction in PSNB resulting from a £2.3 billion capital receipt following the closure of the Special Liquidity Scheme (SLS). This relates to fees received by the Bank of England that are being transferred to central government.
4. Abstracting from these two factors, PSNB in April would have been around £4.7 billion higher than a year ago. In part this reflects predictable weakness in onshore corporation tax receipts, as many firms paid the final instalment payment on their 2011 profits. It also reflects a £2.1 billion rise in central government spending, which in percentage terms is slightly bigger than the increase we forecast for the year as a whole in our *March 2012 Economic and Fiscal Outlook (EFO)*. The other major factor was a £2.0 billion fall in the local authority surplus since last April.
5. At this stage of the year central government spending has to be estimated without the benefit of outturn data from departments. Local authority borrowing figures are also volatile and prone to revisions. So, notwithstanding the size of the aggregate underlying deterioration since last April, it is far too soon to conclude whether the pattern will persist over the rest of the financial year.

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/april-2012/stb---march-2012.html>

6. Meanwhile the initial estimate of PSNB for 2011-12 was revised down by £1.6 billion to £124.4 billion, which is also £1.6 billion below our forecast in the March *EFO*. This reflected upward revisions to central government receipts and downward revisions to central government expenditure. Past experience shows that this outturn remains very provisional and subject to substantial change.

April 2012 outturn

7. The £28 billion reduction in PSNB from the Royal Mail transfer appears very favourable for the public finances. However, the long-term impact is likely to be negative as the present value of the transferred liabilities (the future payments to pensioners) exceeds the value of the transferred assets. The present value of the liabilities was estimated at £37.5 billion in the March *EFO*. Box 4.1 in the March *EFO* provides more detail of the impact on the public finances from this transfer.
8. The Royal Mail transfer and the fees from the closure of the SLS score as capital receipts and so reduce net investment and do not impact on the current budget. If these two factors are excluded, then PSNB would be £4.7 billion higher than April 2011. Central government expenditure rose by £2.1 billion, more than offsetting the rise of just £0.5 billion in central government receipts. In addition there is a £2.0 billion lower surplus on local authority borrowing than was the case last April. Local authority borrowing can be very volatile on a monthly basis and is often revised through the year.
9. Central government receipts grew by only 1.3 per cent in April, compared with our March *EFO* forecast of 3.8 per cent growth in receipts for 2012-13 as a whole. Weakness in receipts was most pronounced for onshore corporation tax. Many firms pay their fourth and final instalment payment on 2011 profits in April. As was the case for the previous instalment payments on 2011 profits, these were down on a year earlier, particularly in the financial sector. However, after only one month of the year it is much too early to draw any implications for the full year receipts forecast.
10. Central government current expenditure rose by 3.8 per cent in April, compared with our March *EFO* forecast of a 3.1 per cent full year increase. Departments have yet to supply outturn data on their spending in 2012-13, and apart from debt interest, the central government spending figures for April are estimates derived from full year plans and the March *EFO* forecast and so are likely to be revised considerably in future months.

Provisional 2011-12 outturn

11. The provisional PSNB outturn for 2011-12 was revised down by £1.6 billion to £124.4 billion. The lower outturn since the initial estimate last month reflects:
 - an upward revision of £1.0 billion in central government receipts. This chiefly reflected stronger-than-expected PAYE and NIC cash receipts in April. These relate to March salaries and were accrued back to 2011-12; and

- a downward revision of £0.6 billion in central government expenditure. This mainly reflects a lower estimate for net social benefits.
12. Compared with the March *EFO* forecast, PSNB is £1.6 billion lower than assumed. This is more than explained by £2.9 billion lower than expected central government expenditure. This more than offset £0.4 billion lower central government receipts. Borrowing by local authorities and public corporations were £2.3 billion higher and £1.4 billion lower respectively than assumed in the March *EFO* forecast.
13. Even though the ONS has published a revised estimate for PSNB in 2011-12, this estimate remains very provisional and subject to substantial change:
- some cash receipts, particularly for VAT, received in May and June relate to economic activity in 2011-12 and will be accrued back to that year. This could alter the 2011-12 estimate further;
 - we expect ONS estimates for central government current expenditure and investment to be revised in September to reflect departments provisional outturn; and
 - we expect ONS to revise their provisional estimates for local authority and public corporations borrowing in June to reflect changes in methodology and classifications on local authority interest payments, the inclusion of Crossrail and the exclusion of British Energy from the public sector. All of these changes were already included in the March *EFO* estimate. Firm data for local authorities and public corporations is only available with a longer lag.

Public sector receipts, expenditure and net borrowing

£ billion	April				May to March				Budget 2012 forecast			
	2012	2011	change		2012-13	2011 -12	change		2012-13 Mar EFO*	2011-12 outturn	change	
			£bn	%			£bn	%			£bn	%
Central Government (CG) current receipts												
Taxes on production	17.0	16.8	0.2	1.1	197.0	185.3	11.8	6.3	214.0	202.1	11.9	5.9
<i>Of which: VAT (accrued)</i>	9.5	9.0	0.4	4.9	105.1	100.8	4.2	4.2	114.6	109.9	4.7	4.3
Taxes on income and wealth	14.9	15.4	-0.5	-3.1	186.3	182.0	4.3	2.3	201.2	197.4	3.8	1.9
<i>Of which:</i>												
<i>Income tax and CGT (accrued)</i>	9.7	9.5	0.2	2.1	144.7	142.2	2.5	1.8	154.4	151.7	2.7	1.8
<i>Corporation tax</i>	4.9	5.6	-0.7	-12.5	38.9	36.5	2.4	6.6	43.8	42.1	1.7	4.1
Other taxes	1.2	1.2	0.0	-2.1	14.5	14.1	0.5	3.3	15.7	15.3	0.4	2.8
Compulsory social contributions	8.4	8.0	0.4	5.5	97.2	94.2	3.0	3.2	105.6	102.1	3.5	3.4
Interest & dividends	0.8	0.4	0.4	103.2	6.8	7.5	-0.8	-10.2	7.6	7.9	-0.3	-4.4
Other receipts	0.6	0.6	0.0	0.2	8.0	6.9	1.0	15.0	8.6	7.6	1.0	13.8
Total CG current receipts	42.9	42.4	0.5	1.3	509.7	490.0	19.7	4.0	552.6	532.4	20.3	3.8
CG Current expenditure												
Interest payments	5.2	4.7	0.4	9.0	39.6	42.4	-2.7	-6.4	44.8	47.1	-2.3	-4.9
Net social benefits	15.5	14.7	0.8	5.4	176.4	166.3	10.0	6.0	191.9	181.1	10.8	6.0
Other	35.6	34.7	0.9	2.5	363.6	353.6	10.0	2.8	399.2	388.3	10.9	2.8
Total current expenditure	56.2	54.2	2.1	3.8	579.7	562.3	17.3	3.1	635.9	616.5	19.4	3.1
Depreciation	0.7	0.6	0.1	13.7	7.2	6.5	0.7	10.8	7.9	7.1	0.8	11.0
CG Surplus on current budget	-14.0	-12.4	-1.6	13.1	-77.2	-78.9	1.7	-2.1	-91.2	-91.2	0.1	-0.1
CG Net investment	-28.1	1.7	-29.8		28.8	21.3	7.6	35.5	0.7	23.0	-22.3	
CG Net borrowing	-14.2	14.0	-28.2	-200.8	106.1	100.2	5.9	5.9	91.9	114.2	-22.3	-19.5
Local Authorities net borrowing	-2.4	-4.5	2.0		3.0	16.8	-13.8		0.6	12.3	-11.7	
Public Corporations net borrowing	0.1	-0.5	0.6		-0.7	0.5	-1.2		-0.6	0.0	-0.6	
Public sector net borrowing	-16.5	9.1	-25.6	-282.3	108.4	115.3	-6.9	-6.0	91.9	124.4	-32.5	-26.1
Public sector net borrowing (ex Royal Mail)	11.5	9.1	2.4	26.7	108.4	115.3	-6.9	-6.0	119.9	124.4	-4.5	-3.8
Public sector net investment	-28.9	1.0	-30.0		25.5	28.5	-3.0	-10.5	-3.4	29.6	-33.0	
Public sector current budget	-12.4	-8.0	-4.4	54.4	-82.9	-86.8	3.9		-95.3	-94.8	-0.5	0.5

March 2012 EFO forecast published 21 March 2012 excluding temporary effects of financial interventions on a National Accounts basis