

Commentary on the Public Sector Finances release: April 2016

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the April 2016 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 2016 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) was £7.2 billion in April, £0.3 billion lower than last year but £0.8 billion above market expectations. The fall in borrowing reflects a £2.0 billion rise in central government spending, more than offset by a £1.5 billion rise in central government receipts and a £0.7 billion fall in local authority borrowing. Just one month into the year, the estimate for PSNB is still to a significant extent based on forecasts that will be replaced by outturn data in due course. It is unlikely to provide a meaningful guide to the trend in PSNB over 2016-17 as a whole.
3. Today's release provides the second provisional outturn estimate for PSNB for the full 2015-16 financial year. Last month's first estimate has been revised up by £2.0 billion, reflecting weak April cash PAYE and VAT receipts that are accrued back to earlier months. This largely reflects lower payments from financial sector and other bonuses than we had assumed in our March *EFO* forecast. At £76.0 billion, the revised estimate for PSNB is now £3.8 billion higher than our estimate in the March *EFO*. This difference is more than explained by £2.0 billion higher local authority borrowing and £2.2 billion lower central government receipts (excluding two environmental levies that will raise receipts and spending by the same amount when they are included in the outturn data). We still think it more likely than not that 2015-16 local authority borrowing will be revised down later in the year as firm outturn data become available.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/may2016>

4. The 2015-16 estimate is still provisional and past experience suggests that this outturn will continue to be revised over time. Some cash receipts received in the early months of 2016-17 (e.g. VAT receipts) relate to economic activity in 2015-16 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 3 to 9 months). Since 2011-12, the average absolute revision to PSNB over the 12 months following the initial estimate has been £3.2 billion, with revisions more often down than up.

Detailed commentary

5. Public sector net borrowing (PSNB) was £7.2 billion in April 2016, £0.3 billion lower than last year. Lower borrowing this April reflects a £2.0 billion rise in central government spending on last year, more than offset by the combined effect of a £1.5 billion rise in central government receipts, £0.7 billion lower local authority borrowing and £0.1 billion lower borrowing by public corporations.
6. Central government accrued receipts (excluding APF transfers) were 3.1 per cent up on a year earlier in April. This reflected moderate rises in accrued income tax and VAT and stronger rises in NICs and stamp duty land tax (SDLT) receipts. The strength of NICs receipts reflects the abolition of the NICs contracting-out rebate from April 2016 (expected to raise £5.6 billion over the whole of 2016-17 and contributing to the 11.5 per cent year-on-year rise in NICs receipts in our latest forecast). In contrast, corporation tax receipts in April fell by 5.1 per cent on a year earlier. Many medium and large onshore companies paid their fourth and final instalment on 2015 profits in April. Receipts from the industrial and commercial sector were flat on a year earlier after recording much stronger rises in the previous 2015 instalment payments. Receipts from the life assurance sector fell sharply on a year earlier.
7. SDLT receipts in April rose by 47 per cent on a year earlier. For March and April combined, receipts were up 40 per cent on a year earlier. Receipts have been boosted by the rush of property purchases that took place ahead of the pre-announced 3 per cent surcharge on second homes from 1 April 2016. With SDLT receipts recorded in the public finances data on a cash basis (i.e. when HMRC receives the payment), some of the SDLT paid on sales at the end of March were received by HMRC in April and have therefore affected this month's data. Today's numbers on residential property transactions also show the effect of buyers rushing to purchase ahead of the second homes surcharge. After a 90 per cent year-on-year rise in March, there was a 19 per cent drop in residential transactions from a year ago in April. Over the two months combined, there was a 37 per cent rise in transactions on a year earlier.
8. Growth in central government receipts in April was slower than the 5.9 per cent needed to meet our 2016-17 EFO receipts forecast. Many of the policy measures that have an effect in 2016-17 are likely to do so throughout the year: e.g. the abolition of the NICs contracting-out rebate boosting receipts and the above-inflation rises in the personal allowance and higher rate thresholds for income tax reducing them (by around £2¼ billion). However, the £2½ billion boost from income shifting expected ahead of the dividend tax rise in April 2016

will only affect self-assessment receipts in January and February next year and will mean that receipts will be end-loaded during 2016-17.

9. Total central government spending was £2.0 billion higher than in April 2015, reflecting a £0.1 billion fall in current expenditure and a £2.0 billion rise in net investment. The fall in current expenditure reflected a fall in current grants to local authorities (which will have had an offsetting effect on local authority borrowing) that was only partly offset by a rise in expenditure on net social benefits (up £0.5 billion). The rise in net investment reflected a £1.1 billion rise in capital grants to local authorities (again with an offsetting effect on local authority borrowing) and rises in other capital spending, including a £0.5 billion increase in DECC capital spending. Both of these increases reflect one-off capital receipts affecting April 2015, thus reducing net capital spending last year and affecting the year-on-year comparison: LA capital grants reflected the Welsh Housing Revenue Account (HRA) receipt and DECC spending reflected the receipts from the British coal staff superannuation scheme.

10. The latest provisional estimate for PSNB in 2015-16 has been revised up since last month. It is now £3.8 billion higher than our latest *EFO* forecast, of which £2.0 billion reflects higher local authority borrowing. On a simple comparison between forecast and provisional outturn, central government (CG) receipts were £4.0 billion below forecast, while total CG spending (current expenditure and investment) was £2.8 billion below forecast. However, our receipts and spending forecasts include two environmental levies that are not yet in the ONS outturns, totalling around £1.7 billion and affecting both receipts and spending.² Abstracting from these classification differences:
 - **CG receipts** were £2.2 billion lower than forecast in the March *EFO*. Weak PAYE and NICs cash receipts in March and April (relating to lower bonuses than we had expected in both the financial and non-financial sectors) were only partly offset by stronger receipts from fuel duty, SDLT and corporation tax; and
 - **CG spending** was £0.8 billion lower than forecast. Debt interest payments, net social benefits and grants to local authorities were respectively £0.8 billion, £0.7 billion and £0.4 billion lower than expected. This was partly offset by £0.2 billion higher departmental spending and £0.9 billion higher net investment (excluding grants to local authorities).

11. Local authority borrowing was £2.0 billion higher than forecast. At this initial outturn stage, the ONS estimate still includes several forecast elements, where outturn data are not yet available. As we stated in the *EFO*, it is important to remember that in the *EFO* we try to forecast the levels at which outturns will settle when all the relevant data have been gathered over the coming months. We will need to wait and see if the ONS outturns remain higher than our forecast when they have been revised to reflect the provisional outturn data for English local authorities that DCLG usually releases around the end of August. We will explore any remaining differences in our *Forecast evaluation report* later this year.

² These environmental levies consist of £1.4 billion of subsidies for feed-in tariffs and £0.3 billion of net social benefits for warm homes discount. Table 2.45 in the fiscal supplementary tables on the OBR website provides details of these and other areas of the OBR forecasts that are not yet included in ONS outturns.

12. In March, we forecast that public sector net debt (PSND) would fall from 83.7 per cent of GDP at the end of 2015-16 to 82.6 per cent by the end on 2016-17. This reflects a further expected fall in borrowing and the Government's announced programme of financial asset sales, which is expected to raise £21 billion in 2016-17. PSND in April rose by 0.1 per cent of GDP on a year earlier.

Table 1.1: Accrued and cash borrowing measures, and public sector net debt

	April			Full year		
	£ billion			£ billion		
	2016	2015	change	2016-17 forecast	2015-16 outturn	change
Public sector net borrowing ¹	75.6	89.8	-14.2	55.5	76.0	-20.5
CG net cash requirement ex ^{1,2}	81.3	87.9	-6.6	62.1	78.4	-16.3
Public sector net cash requirement ¹	55.5	73.3	-17.8	58.1	50.4	7.7
Public sector net debt (PSND)						
PSND (£ billion)	1596	1546	50	1638	1598	40
PSND (per cent of GDP)	83.3	83.2	0.1	82.6	83.7	-1.1

¹ 12 month rolling total.

² CGNCR excluding NRAM, B&B and Network Rail.

March 2016 EFO forecast published 16 March 2016 excluding public sector banks on a National Accounts basis.

Table 1.2: Public sector receipts, expenditure and net borrowing¹

£ billion	April				Implied May to March				March forecast			
	2016	2015	change		2016-17	2015-16	change		2016-17	2015-16	change	
			£bn	%			£bn	%	March EFO	outturn	£bn	%
Central government (CG) current receipts												
Taxes on production	20.1	19.3	0.8	4.0	233.2	221.2	12.0	5.4	253.3	240.5	12.7	5.3
Of which: VAT (accrued)	10.8	10.6	0.2	2.1	124.0	119.1	4.9	4.1	134.8	129.7	5.1	3.9
Taxes on income and wealth	18.0	18.1	-0.1	-0.6	214.9	202.8	12.1	5.9	232.9	220.9	11.9	5.4
Of which:												
Income tax and CGT (accrued)	12.1	11.8	0.3	2.4	177.0	164.5	12.5	7.6	189.1	176.4	12.7	7.2
Corporation tax	5.8	6.1	-0.3	-5.1	37.7	38.2	-0.5	-1.4	43.5	44.3	-0.9	-1.9
Other taxes	1.5	1.4	0.1	4.1	16.6	17.1	-0.5	-3.2	18.1	18.5	-0.5	-2.6
Compulsory social contributions	10.0	9.1	0.9	9.4	116.5	104.3	12.2	11.7	126.5	113.4	13.0	11.5
Interest & dividends	4.4	4.6	-0.2	-4.3	14.5	12.9	1.6	12.0	18.9	17.5	1.4	7.8
Other receipts	2.0	1.9	0.1	6.1	21.1	20.7	0.3	1.6	23.0	22.6	0.5	2.0
Total CG current receipts	55.9	54.4	1.5	2.7	616.7	579.2	37.5	6.5	672.6	633.6	39.0	6.2
CG current expenditure												
Interest payments	5.0	5.0	0.0	0.9	42.8	39.9	2.9	7.3	47.8	44.9	2.9	6.6
Net social benefits	17.6	17.0	0.5	3.1	188.3	186.3	2.0	1.1	205.9	203.3	2.5	1.2
CG current grants to LAs	13.2	14.0	-0.8	-5.5	101.6	103.8	-2.2	-2.1	114.8	117.8	-3.0	-2.5
Other	24.1	23.9	0.1	0.6	274.6	261.5	13.1	5.0	298.7	285.4	13.3	4.6
Total current expenditure	59.9	60.0	-0.1	-0.1	607.3	591.5	15.8	2.7	667.1	651.4	15.7	2.4
Depreciation	1.6	1.5	0.1	7.4	17.9	16.9	1.0	6.2	19.6	18.4	1.2	6.3
CG current budget deficit	5.6	7.1	-1.4		8.5	29.2	-20.7		14.1	36.3	-22.1	-61.0
CG net investment	4.3	2.3	2.0	85.2	34.5	31.8	2.7	8.5	38.9	34.2	4.7	13.8
of which: CG capital grants to LA	2.7	1.6	1.1	69.8	11.4	10.0	1.3	13.5	14.0	11.6	2.5	21.2
CG net borrowing	10.0	9.4	0.5	5.8	43.0	61.0	-18.0	-29.5	53.0	70.4	-17.4	-24.7
Local authorities net borrowing	-5.7	-5.0	-0.7		8.3	10.8	-2.6	-23.9	2.5	5.8	-3.3	
Public corporations net borrowing	2.9	3.1	-0.1	-4.7	-3.0	-3.4	0.4	-12.4	0.0	-0.3	0.3	
Public sector net borrowing	7.2	7.5	-0.3	-4.4	48.3	68.5	-20.1	-29.4	55.5	76.0	-20.5	-27.0
Public sector net investment	1.9	1.1	0.8	69.0	34.5	34.1	0.4	1.2	36.4	35.2	1.2	3.3
Public sector current budget	5.3	6.4	-1.1		13.8	34.4	-20.5		19.1	40.8	-21.6	

March 2016 EFO forecast published 16 March 2016 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/may2016>

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: <http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-march-2016/>

OBR supplementary fiscal tables: <http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-supplementary-fiscal-tables-march-2016/>