Commentary on the

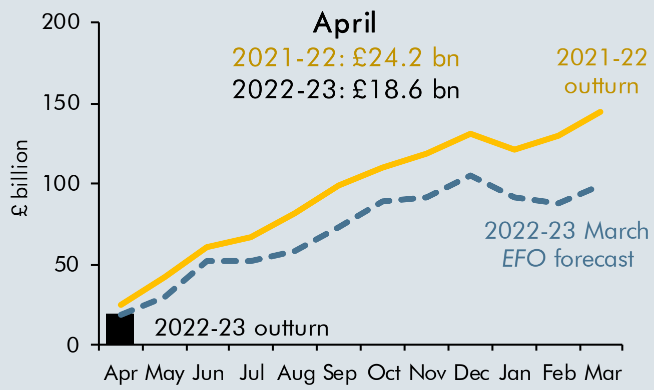
Public Sector Finances: April 2022

24 May 2022

Cash tax receipts outperform our forecast in April

The budget deficit continued to fall in April 2022, with borrowing of £18.6 billion down £5.6 billion on last year and just £0.6 billion below our most recent forecast profile. By contrast the more timely data from cash receipts were particularly strong, up 18.5 per cent on last April and £6.4 billion (10.2 per cent) higher than our forecast. Income tax has been boosted by very strong growth in bonuses, while cash receipts of VAT and corporation tax also surprised materially to the upside.

Public sector net borrowing in the year to date: March 2022 OBR forecast vs latest ONS outturns



Headlines

- **Public sector net borrowing (PSNB)** was £18.6 billion in April, down £5.6 billion (23.2 per cent) on last April and £0.6 billion (3.0 per cent) below our March forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £67.1 billion in April, up £6.8 billion (11.3 per cent) on last year but £1.6 billion (2.3 per cent) below our March forecast. (This contrasts with the strength in April cash receipts, noted below.)
- **Central government spending** (excluding PSNB-neutral local authority grants) in April was £74.3 billion, little changed from last year and just £0.3 billion (0.4 per cent) above forecast (reflecting largely offsetting surprises in different components of spending).
- **HMRC cash receipts** – the most timely indicator of tax performance – were up 18.5 per cent on last year and 10.2 per cent higher than our March profile. PAYE income tax and NICs were up 8.8 per cent on profile; VAT was up 13.5 per cent; and onshore corporation tax was up 22.7 per cent.
- **Net debt** in April stood at 95.7 per cent of GDP. This is 0.9 per cent of GDP up on a year earlier but in line with the monthly profile consistent with our March forecast.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the April 2022 Public Sector Finances this morning. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast – in this instance our March 2022 *Economic and fiscal outlook* (*EFO*). We compare the latest outturns with monthly profiles consistent with this forecast that were published on 12 May.

2. Borrowing in April 2022 of £18.6 billion was down £5.6 billion (23.2 per cent) on the same period last year, and is a modest £0.6 billion (3.0 per cent) lower than forecast. This outperformance comes despite central government borrowing somewhat more than expected, as central government receipts came in £1.6 billion (2.3 per cent) below profile and central government spending was £0.3 billion (0.4 per cent) above profile. By contrast, borrowing by local authorities and public corporations were, respectively, £1.6 billion and £0.9 billion below profile, outweighing the upside surprise in central government borrowing.[1]

3. The small downside surprise in central government accrued receipts in April (excluding PSNB-neutral transfers related to quantitative easing) is thanks to lower receipts across a range of smaller taxes, including interest and dividends receipts. That said, the strength in April cash receipts noted below points to the possibility of April accrued receipts being revised up in future releases if cash receipts remain strong in the coming months. The small upside surprise in central government spending (excluding local authority grants) in April relates to higher other current grants (with the ONS including the full impact of the council tax rebate in April, whereas our profile assumed it would be frontloaded but spread over April to June) and consumption of goods and services, broadly offset by lower interest payments and subsidies.

4. The most striking news in this month's data relates to HMRC cash receipts – the most timely indicator of tax performance, albeit one that can be particularly influenced by one-offs and timing effects. The 10.2 per cent upside surprise in HMRC cash receipts for April relative to our forecast profile is broadly based, with large contributions from all the major taxes: income tax and NICs, VAT and corporation tax. The extent of these upside surprises is difficult to square with the more modest surprises in the economic data published since our March forecast:

   - **PAYE income tax and NICs cash receipts** were £3.1 billion (8.8 per cent) above profile. Cash receipts in April mostly reflect March 2022 liabilities, which typically include a large portion of bonus-related receipts. ONS data report first-quarter bonus payments in the financial and professional services sectors rising by 28 per cent and 67 per cent respectively on a year earlier, whereas our forecast assumed (historically large) 20 per cent and 31 per cent growth rates. Tax-consistent RTI statistics report growth in aggregate pay of 12.4 per cent in the first quarter of 2022 (and 13.7 per cent in March alone). The first quarter figure is well above the growth in wages and salaries assumed in our forecast (6.9 per cent) and is also stronger than implied by the latest ONS data (the slightly broader measure of 'compensation of employees' was up 6.0

[1] Throughout this commentary we exclude two PSNB-neutral intra-public sector transfers that can be large and uneven from month to month, thereby distorting the signal from the monthly path of the public finances data. These relate to: (1) the Asset Purchase Facility (affecting central government receipts and public corporations net borrowing); and (2) grants to local authorities (affecting central government expenditure and local authorities net borrowing).

per cent in outturn versus our forecast of 6.4 per cent). It is therefore possible that the tax base is outperforming both our forecasts and the latest ONS economic data.

- **Cash VAT receipts** were £2.1 billion (13.5 per cent) above profile. These payments relate to VAT liabilities on spending one to three months earlier, meaning the latest outturns cover the period from January to March. March CPI inflation was 1 percentage point above our forecast, so less than a tenth of the upside surprise in tax payments, suggesting that other factors such as timing effects or a greater share of spending on standard-rated goods and services could explain this strength.

- **Onshore corporation tax cash receipts** were £0.7 billion (22.7 per cent) above profile. Our forecast assumes that profits growth will slow this year as margins are squeezed by higher energy prices and wages, while use of the super-deduction increases. The surprise could therefore reflect a combination of last year's strong profits and weak business investment continuing to a greater extent than assumed.

5. Borrowing in 2021-22 was revised down by £7.2 billion thanks to higher accrued tax receipts (in turn reflecting the upside surprise in April cash receipts). This takes the like-for-like upside surprise relative to our March forecast down from £16.7 billion in last month's initial estimate to £9.5 billion. But central government spending in 2021-22 remains significantly higher than our March forecast, even after removing anticipated future revisions to investment spending associated with student loan reforms and updated estimates of calls on Covid loan guarantees. This reflects large upside surprises in spending on goods and services (£13.1 billion above forecast) and net investment (£10.9 billion, like-for-like). As we noted last month, these data are still provisional, so future revisions could reduce these differences. But it is also possible that underspending against departmental plans was smaller than assumed.

6. Public sector net debt (PSND) in April 2022 was 95.7 per cent of GDP, up 0.9 per cent of GDP on a year earlier, but in line with the monthly profile consistent with our March forecast.

Table 1.1: Public sector receipts, expenditure and net borrowing in April 2022[1]

	April				
	2022 outturn	2021 outturn	Change	2022 forecast	Outturn vs forecast
Central government current receipts	**70.2**	**60.3**	**9.9**	**72.3**	**-2.1**
of which:					
Income tax	18.3	15.4	2.9	17.7	0.6
National Insurance contributions	13.4	12.0	1.4	13.3	0.0
VAT	11.8	10.4	1.4	11.9	-0.2
Corporation tax[2]	5.1	4.9	0.2	5.1	0.0
Other taxes and receipts	21.6	17.6	4.0	24.2	-2.6
Central government expenditure	**88.8**	**93.0**	**-4.1**	**89.3**	**-0.5**
of which:					
Interest payments	4.4	4.9	-0.5	6.5	-2.1
Net social benefits	20.3	20.4	-0.1	20.3	-0.1
Net current grants	19.2	19.7	-0.5	17.2	2.0
Consumption expenditure on goods and services	30.7	29.5	1.2	29.1	1.6
Subsidies	1.5	8.3	-6.8	2.8	-1.3
Central government depreciation	2.8	2.6	0.2	2.8	0.0
Central government net investment	10.0	7.6	2.4	10.6	-0.6
Public sector net borrowing	**18.6**	**24.2**	**-5.6**	**19.1**	**-0.6**
of which:					
Central government net borrowing	18.6	32.7	-14.1	17.0	1.6
Local authorities net borrowing	-2.3	-7.1	4.8	-1.5	-0.8
Public corporations net borrowing	2.3	-1.4	3.6	3.7	-1.4
Central government current receipts ex Asset Purchase Facility[3]	67.1	60.3	6.8	68.6	-1.6
Central government expenditure ex local authority grants[3]	74.3	74.4	-0.1	74.0	0.3
Local authorities net borrowing ex local authority grants[3]	12.2	11.4	0.8	13.8	-1.6
Public corporations net borrowing ex Asset Purchase Facility[3]	-0.9	-1.4	0.5	0.0	-0.9

[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/april2022
HMRC tax receipts and national insurance contributions: https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk
OBR March 2022 monthly profiles: https://obr.uk/monthly-public-finances-briefing/

[2] Less bank surcharge.

[3] Excluding PSNB-neutral intra-public sector flows (the Asset Purchase Facility and local authority grants) to aid monthly monitoring.