

Commentary on the Public Sector Finances release: March 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the March 2015 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 2015 *Economic and fiscal outlook (EFO)*.

Summary

2. Today's release provides the first provisional outturn estimate for the full 2014-15 financial year. Public sector net borrowing (PSNB) was £87.3 billion, £11.1 billion lower than last year and £2.8 billion lower than our estimate in the March *EFO*.
3. Even though we now have outturn data for all 12 months of the financial year, the initial estimate is still very provisional and is likely to be subject to revisions in coming months. This reflects various factors:
 - some cash receipts received in the early part of 2015-16 relate to economic activity in 2014-15 and will be accrued back to that year. April PAYE and NICs cash receipts largely relate to March salaries (including bonuses paid in that month) and will be accrued back to 2014-15. Likewise, some of the cash VAT receipts received between April and June relate to consumer spending in the first quarter of 2015 and will thus be accrued back to 2014-15. The accrued income tax, NICs and VAT estimates for March 2015 included in today's release depend to a large extent on forecasts of cash receipts in early 2015-16;
 - estimates for central government current expenditure and investment will be revised as firmer information from departments becomes available; and
 - firmer data for local authorities and public corporations will not become available until September or October, and will not be final for a further 3 to 9 months.

March 2015 outturn

4. PSNB was £7.4 billion in March 2015, £0.4 billion lower than in March 2014 and slightly above market expectations of £7.0 billion. Lower borrowing this March reflects a £1.5 billion rise in central government receipts on last year, a fall of £0.5

¹ <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/march-2015/index.html>

billion in total central government spending, £1.9 billion higher local authority borrowing and £0.2 billion lower borrowing by public corporations.

5. Central government accrued receipts (excluding APF transfers) were up 3.0 per cent on a year earlier in March. This primarily reflects higher cash receipts from income tax (PAYE and self-assessment) and onshore corporation tax. The balancing payment on petroleum revenue tax (PRT) liabilities for the second half of 2014 was due in March. This was negative (i.e. gross repayments exceeded gross payments) which meant that receipts from PRT for the whole of 2014-15 were just £75 million, the lowest level since 1991-92 when receipts for the whole year were negative.
6. Central government current spending was £1.7 billion (3.1 per cent) lower than in March 2014, mainly because debt interest payments were £1.6 billion lower, reflecting the effect of lower RPI inflation on debt interest for index-linked gilts. There were also offsetting movements in net social benefits, which were £0.6 billion (3.8 per cent) higher than a year earlier, and other current spending, which was £0.6 billion (1.8 per cent) lower than a year earlier. The former mainly reflects an increase in state pension payments and the latter mainly reflects a timing difference related to localised business rates. Net capital spending was up by £1.0 billion (19.3 per cent) on March 2014, with £0.5 billion of this difference explained by a base effect from the proceeds of the sale of the Olympic Village (a one-off payment that was recorded as negative capital spending in March 2014).

Provisional 2014-15 outturn

7. The provisional estimate for PSNB in 2014-15 was £2.8 billion lower than our latest *EFO* forecast. On a simple comparison between forecast and provisional outturn, central government receipts were £0.5 billion above forecast, while total central government spending (current expenditure and gross investment) were £2.7 billion below forecast. But comparisons with the *EFO* forecast are affected by a number of measurement differences between ONS outturns and our forecast:
 - our receipts and spending forecasts include two environmental levies that are not yet in ONS outturns, totalling around £1.1 billion.² As the effect of these levies is equal on receipts and spending, they are neutral for borrowing;
 - our forecast anticipated changes to central government depreciation in respect of changes to the life length of roads, which are to be taken on from the September 2015 PSF release. This lowers both receipts (through central government gross operating surplus) and spending (depreciation) by around £0.8 billion, and is therefore also neutral for borrowing;
 - our forecast anticipated the forthcoming ONS classification change that will include subscriptions to multilateral development banks in capital spending,

² These environmental levies consist of £0.8 billion of subsidies for feed-in tariffs and £0.3 billion of net social benefits for warm homes discount. In November 2012, the ONS announced its classification decision that feed-in tariffs should be classified as imputed tax and spend.

which has not yet been reflected in outturn. This explains around £½ billion of the lower central government spending.

8. Abstracting from these measurement differences:

- central government receipts were around £2.4 billion above our *EFO* estimate. Tax receipts were higher than expected, mainly because of strong cash receipts in March of PAYE income tax, NICs and VAT, which accrued to earlier months in 2014-15. PAYE and NIC receipts were boosted by stronger than expected growth in non-financial sector bonuses; and
- central government current expenditure is currently estimated to have been £0.1 billion below our *EFO* forecast. Within current spending, debt interest payments were £0.4 billion higher than forecast, net social benefits £0.7 billion lower (mainly due to lower than expected DWP benefits and public service pension payments) and other current spending was £0.2 billion higher than forecast. Central government capital spending outturn was also around £0.4 billion below our forecast.

9. Local authority borrowing was £2.0 billion higher than assumed in the *EFO* and public corporations borrowing was £1.5 billion lower. Both the *EFO* forecast and the latest ONS estimate of local authority borrowing are based on a forecast of borrowing in the January to March quarter. The first estimate of full-year local authority borrowing for 2014-15 based on actual data is not expected to be available until September or October this year.

10. The initial estimate for public sector net debt at the end of 2014-15 was £1484 billion (80.4 per cent of GDP). This compares with our March forecast of £1479 billion (80.4 per cent of GDP). The debt ratio is particularly subject to change given that it is based on a forecast of nominal GDP.³

³ Public sector net debt uses nominal GDP centred end-March (i.e. the fourth quarter of 2014 to the third quarter of 2015) as the denominator for the calculation.

Public sector receipts, expenditure and net borrowing¹

£ billion	March				Full year				March forecast			
	2015	2014	change		2014-15	2013-14	change		2014-15 March EFO	2013-14 outturn	change	
			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts												
Taxes on production	19.5	19.5	0.0	0.2	232.0	223.4	8.5	3.8	233.0	223.4	9.6	4.3
<i>Of which: VAT (accrued)</i>	10.3	10.3	0.1	0.8	125.1	120.2	4.9	4.1	124.6	120.2	4.4	3.7
Taxes on income and wealth	17.3	16.5	0.8	4.8	213.3	203.6	9.7	4.8	211.6	203.6	8.0	3.9
<i>Of which:</i>												
<i>Income tax and CGT (accrued)</i>	15.5	14.8	0.7	4.9	169.7	161.5	8.1	5.0	168.3	161.5	6.7	4.2
<i>Corporation tax</i>	1.9	1.5	0.4	28.5	42.3	39.3	3.0	7.6	41.5	39.3	2.2	5.6
Other taxes	1.5	1.4	0.0	2.4	17.3	17.4	-0.1	-0.6	17.5	17.4	0.1	0.3
Compulsory social contributions	11.4	11.2	0.2	2.1	109.5	107.3	2.1	2.0	108.7	107.3	1.4	1.3
Interest & dividends	1.5	1.1	0.4	37.0	19.6	20.3	-0.7	-3.3	19.6	20.3	-0.7	-3.4
Other receipts	1.7	1.7	0.0	1.0	21.7	20.3	1.5	7.2	22.4	20.3	2.1	10.5
Total CG current receipts	52.9	51.4	1.5	3.0	613.4	592.3	21.1	3.6	612.9	592.3	20.5	3.5
CG current expenditure												
Interest payments	1.0	2.6	-1.6	-61.8	46.1	48.7	-2.6	-5.3	45.7	48.7	-3.0	-6.1
Net social benefits	16.6	16.0	0.6	3.8	201.7	196.3	5.4	2.7	202.7	196.3	6.4	3.3
Other	34.6	35.3	-0.6	-1.8	400.7	399.5	1.1	0.3	402.0	399.5	2.5	0.6
Total current expenditure	52.3	53.9	-1.7	-3.1	648.5	644.5	3.9	0.6	650.4	644.5	5.9	0.9
Depreciation	1.5	1.4	0.1	5.1	17.3	17.0	0.3	1.9	18.1	17.0	1.1	6.5
CG current budget deficit	0.8	3.9	-3.1	-79.6	52.3	69.2	-16.8	-24.3	55.7	69.2	-13.5	-19.5
CG net investment	6.4	5.4	1.0	19.3	36.6	33.9	2.7	7.9	36.6	33.9	2.6	7.7
CG net borrowing	7.2	9.3	-2.1	-22.3	89.0	103.1	-14.2	-13.7	92.2	103.1	-10.9	-10.6
Local authorities net borrowing	1.6	-0.3	1.9		3.2	-1.5	4.7		1.3	-1.5	2.8	
Public corporations net borrowing	-1.4	-1.2	-0.2		-4.8	-3.1	-1.7		-3.3	-3.1	-0.2	
Public sector net borrowing	7.4	7.8	-0.4	-5.6	87.3	98.5	-11.1	-11.3	90.2	98.5	-8.3	-8.4
Public sector net investment	6.2	5.1	1.1	22.0	30.4	27.4	3.0	11.0	30.4	27.4	3.0	10.9
Public sector current budget	1.2	2.7	-1.6	-56.9	56.9	71.1	-14.2	-19.9	59.8	71.0	-11.3	-15.9

March 2015 EFO forecast published 18 March 2015 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: <http://ons.gov.uk/ons/taxonomy/index.html?nscl=Public+Sector+Finance>

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://cdn.budgetresponsibility.independent.gov.uk/March2015EFO_18-03-webv1.pdf

OBR supplementary fiscal tables: http://budgetresponsibility.org.uk/pubs/Fiscal_Supplementary_Tables_March_20151.xls