

Commentary on the Public Sector Finances release: April 2015

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the April 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)*. We will be publishing an updated forecast and *EFO* alongside the Government's summer budget, which the Chancellor has announced will take place on 8 July.

Summary

2. Public sector net borrowing (PSNB) was £6.8 billion in April, £2.5 billion lower than last year and £1.5 billion below market expectations. Much of the fall reflected 3.4 per cent growth in central government receipts (excluding APF transfers) since last April, with the increase spread between income tax, NICs, VAT and corporation tax. Central government spending was also £2.7 billion lower than a year earlier, but this was mainly because of a change in the timing of central government grants to local authorities and was thus offset by higher local authority borrowing than last year. Abstracting from the change in the timing of grants, both central government spending and local authority borrowing were a little lower than last year.
3. Meeting our March *EFO* forecast for PSNB in 2015-16 would require a £12.4 billion reduction in borrowing over the full financial year. One month into the year, the estimates for both central government spending and receipts still have a large element of forecast. For example, some departments have yet to provide any outturn spending data. Local authority borrowing figures are also volatile and prone to revision. The April figures are therefore unlikely to provide a meaningful guide to the trend in PSNB over 2015-16 as a whole.
4. Last month's first estimate of PSNB in 2014-15 has been revised up by £0.3 billion. PSNB was £87.7 billion in 2014-15, £10.8 billion lower than 2013-14 and £2.5 billion lower than our estimate in the March *EFO*. Past experience shows that this outturn will continue to be revised over the coming months.

April 2015 outturn

5. PSNB was £6.8 billion in April 2015; £2.5 billion lower than a year earlier. Lower borrowing this April reflects a £1.4 billion rise in central government receipts on last

¹<http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/april-2015/stb-psf-april-2015.html>

year, a fall of £2.7 billion in total central government spending, £1.8 billion higher local authority borrowing and £0.2 billion lower borrowing by public corporations. Central government grants to local authorities were £2.3 billion lower than last April, explaining much of the fall in central government spending and rise in local authority borrowing. This is a timing effect.

6. Central government accrued receipts (excluding APF transfers) were up 3.4 per cent on a year earlier in April. This reflected moderate rises in income tax, NICs and VAT, and a strong 11.3 per cent rise in corporation tax. Many medium and large onshore companies paid their fourth and final instalment on 2014 profits in April. The financial and life assurance sectors were the main drivers of higher corporation tax, where improved profitability appears to have more than offset the effect of the 2 per cent reduction in the main rate of corporation tax to 21 per cent in April 2014.
7. Total central government spending was £2.7 billion lower than in April 2014, mainly because the profile of payments of central government grants to local authorities has changed again this year. Payments of current grants to local authorities were £4.3 billion lower than a year ago, with revenue support grant payments at £3.2 billion this April, compared with £7.6 billion in April 2014. This is partly offset by higher capital grants to local authorities this April, up £2.1 billion on last year, largely because all of the £1.1 billion grant payments relating to the newly created Local Growth Fund have been accrued to April.
8. These timing differences accounted for £2.3 billion of the overall £2.7 billion year-on-year fall in central government spending. They also affect year-on-year comparisons of current and capital spending:
 - central government current spending was down £4.7 billion (7.4 per cent) on a year earlier, with grants down £4.3 billion; and
 - central government capital spending (net investment) was up £1.9 billion (77 per cent) on a year earlier, with capital grants up £2.1 billion.

Provisional 2014-15 outturn

9. The latest provisional estimate for PSNB in 2014-15 was revised up by £0.3 billion from last month, but remains £2.5 billion lower than our latest *EFO* forecast at £87.7 billion. Future revisions are likely, due to various factors:
 - some cash receipts, received in May and June (particularly for VAT) will relate to economic activity in 2014-15 and will be accrued back to that year;
 - 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.

10. Relative to our March forecast, lower borrowing of £2.5 billion in 2014-15 reflects £0.3 billion higher central government receipts, £2.4 billion lower central government spending, £1.6 billion higher borrowing by local authorities and £1.4 billion lower borrowing by public corporations. However, comparisons with the *EFO* forecast are affected by a number of measurement differences between ONS outturns and our forecast. These lower both receipts and spending and were explained in more detail in last month's commentary. Abstracting from these measurement differences, central government receipts were £1.9 billion higher (primarily from higher-than-expected income tax and NIC receipts, reflecting stronger bonuses in both the financial and non-financial sectors). Central government spending was £0.5 billion lower, mainly from lower capital spending.

Public sector receipts, expenditure and net borrowing¹

£ billion	April				Implied May to March				March forecast			
	2015	2014	change		2015-16	2014-15	change		2015-16 March EFO	2014-15 outturn	change	
			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts												
Taxes on production	18.9	18.5	0.4	2.2	219.6	213.2	6.4	3.0	238.5	231.7	6.8	3.0
Of which: VAT (accrued)	10.6	10.2	0.3	3.4	117.7	114.8	2.9	2.5	128.3	125.0	3.2	2.6
Taxes on income and wealth	17.5	16.6	0.9	5.7	202.8	196.7	6.0	3.1	220.3	213.3	7.0	3.3
Of which:												
Income tax and CGT (accrued)	11.6	11.2	0.4	3.7	165.4	158.4	7.0	4.4	177.0	169.7	7.4	4.3
Corporation tax	5.7	5.1	0.6	11.3	36.4	37.2	-0.8	-2.1	42.1	42.3	-0.2	-0.5
Other taxes	1.2	1.3	-0.2	-12.4	17.1	16.0	1.1	7.1	18.3	17.3	1.0	5.6
Compulsory social contributions	9.0	8.7	0.3	3.3	104.2	100.7	3.4	3.4	113.2	109.5	3.7	3.4
Interest & dividends	4.5	4.7	-0.2	-3.3	13.6	14.9	-1.3	-8.8	18.1	19.6	-1.5	-7.5
Other receipts	1.8	1.7	0.1	4.6	20.2	20.1	0.1	0.6	21.9	21.7	0.2	0.9
Total CG current receipts	52.9	51.5	1.4	2.7	577.4	561.6	15.8	2.8	630.3	613.1	17.2	2.8
CG current expenditure												
Interest payments	5.0	5.4	-0.4	-6.9	41.0	40.7	0.3	0.8	46.0	46.1	0.0	-0.1
Net social benefits	16.7	16.9	-0.2	-1.1	187.1	184.9	2.2	1.2	203.7	201.8	2.0	1.0
Other	36.8	40.9	-4.1	-10.0	368.2	360.2	7.9	2.2	404.9	401.1	3.8	1.0
of which: CG current grants to LA	13.7	18.1	-4.3	-24.0	103.9	104.1	-0.2	-0.2	117.6	122.2	-4.6	-3.7
Total current expenditure	58.5	63.2	-4.7	-7.4	596.2	585.8	10.5	1.8	654.7	648.9	5.8	0.9
Depreciation	1.5	1.4	0.1	5.3	17.4	15.9	1.5	9.7	18.9	17.3	1.6	9.4
CG current budget deficit	7.1	13.1	-6.0	-45.6	36.2	40.0	-3.8	-9.6	43.3	53.1	-9.8	-18.5
CG net investment	4.4	2.5	1.9	77.0	31.8	33.9	-2.1	-6.2	36.2	36.4	-0.2	-0.5
of which: CG capital grants to LA	3.6	1.5	2.1	136.9	8.5	10.6	-2.2	-20.5	12.2	12.1	0.1	0.8
CG net borrowing	11.5	15.6	-4.1	-26.1	68.0	74.0	-5.9	-8.0	79.5	89.5	-10.0	-11.2
Local authorities net borrowing	-7.3	-9.1	1.8		9.0	12.0	-3.0		1.7	2.9	-1.2	
Public corporations net borrowing	2.6	2.9	-0.2		-8.6	-7.6	-1.0		-5.9	-4.7	-1.2	
Public sector net borrowing	6.8	9.3	-2.5	-26.9	68.4	78.3	-9.9	-12.6	75.3	87.7	-12.4	-14.1
Public sector net investment	0.5	0.8	-0.3	-33.7	29.0	30.0	-0.9	-3.2	29.5	30.7	-1.2	-3.9
Public sector current budget	6.3	8.6	-2.3	-26.3	39.4	48.4	-8.9	-18.5	45.7	56.9	-11.2	-19.7

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