

Commentary on the Public Sector Finances release: April 2017

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the April 2017 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 2017 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) was £10.4 billion in April, £1.2 billion higher than last year and £1.7 billion above market expectations. The rise in borrowing reflects a £2.7 billion rise in central government spending (of which £2.1 billion was an inflation-driven rise in debt interest spending). This was only partly offset by a £2.1 billion rise in central government receipts. In the first month of the fiscal year, the estimate for year-to-date PSNB relies heavily 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 2017-18 as a whole.
3. Today's release provides the second provisional outturn estimate for PSNB in 2016-17 as a whole. Last month's first estimate has been revised down by £3.3 billion. Around £2 billion reflects strong cash receipts for PAYE and VAT in April that are accrued back to earlier months. The remainder largely reflects downward revisions to departmental spending in 2016-17.
4. At £48.7 billion, the revised estimate for PSNB in 2016-17 is now £23.4 billion lower than 2015-16 and is £3.0 billion lower than our estimate in the March *EFO*. This difference reflects £2.3 billion lower central government spending and £3.6 billion higher central government receipts (excluding some items not currently included in the ONS outturns). That is partly offset by £2.6 billion higher borrowing by local authorities and public corporations.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/apr2017>

5. The 2016-17 estimate is still provisional and past experience suggests that it will be revised further over time. Some cash receipts received in the early months of 2017-18 (e.g. VAT and corporation tax receipts) relate to economic activity in 2016-17 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 three to nine months). In the six years since 2010-11, initial estimates of net borrowing have been revised down by an average of £2.8 billion over the subsequent 12 months, with the revisions in individual years ranging from £5.4 billion down in 2012-13 to £1.2 billion up in 2014-15.

Detailed commentary

April 2017 outturn

6. Public sector net borrowing (PSNB) was £10.4 billion in April 2017, £1.2 billion higher than last year. Higher borrowing this April reflects a £2.7 billion rise in central government spending on last year, only partly offset by a £2.1 billion rise in central government receipts. Borrowing by local authorities and public corporations was up by £0.6 billion on last year.
7. The modest increase in central government receipts (excluding APF transfers) reflected rises in PAYE income tax, NICs and onshore corporation tax receipts. Estimates for these receipts streams in April are largely based on forecasts at this stage. They will be replaced by outturn data as they become available.
8. Total central government spending (excluding grants to local authorities) was £3.0 billion (5.9 per cent) higher than in April 2016, almost entirely explained by higher current expenditure. In particular, accrued debt interest payments were £2.1 billion higher than a year earlier, reflecting higher RPI inflation which increases the accrued spending on index-linked gilts. The effect of RPI inflation on debt interest payments is lagged by around three to eight months, so further upward pressure can be expected as the further recent rises in RPI inflation feed through. UK expenditure transfers to the EU were £0.5 billion higher than last year, reflecting timing changes within 2017 that reduced spending at the end of 2016-17. Data on other spending components in April are largely based on forecasts and will be replaced by outturn data as they become available.
9. Public sector net debt (PSND) increased by 2.5 per cent of GDP in April 2017 from a year earlier. This rise largely reflects the implementation of the Bank of England's package of monetary policy measures announced last August, which raises PSND by around £82 billion. PSND excluding the Bank of England was down 1.6 per cent of GDP on last year. The sale of Bradford & Bingley mortgage assets has reduced PSND by around £12 billion this month.

Provisional 2016-17 outturn

10. The latest provisional estimate for PSNB in 2016-17 was revised down by £3.3 billion from last month. Future revisions are likely, but the changes this month reflect:

- **VAT receipts** in 2016-17 were revised up by £1.7 billion, reflecting strong cash receipts in April that accrue back to earlier months. This is likely to reflect changes in the timing of VAT repayments to businesses;
- **income tax and NICs receipts** were revised up by £0.7 billion, reflecting strong cash receipts in April that also accrue back to earlier months. This largely reflects stronger-than-expected bonus payments from the financial sector; and
- **central government current expenditure** was revised down by £1.0 billion, reflecting lower departmental spending.

11. The provisional estimate for PSNB in 2016-17 is now £3.0 billion lower than our March forecast. On a simple comparison between our forecast and the provisional ONS outturn, CG spending (including grants to local authorities) was £3.8 billion below forecast, while CG receipts were £1.8 billion above forecast. However, our receipts and spending forecasts include some items that are not yet in the ONS outturns, including two environmental levies totalling around £1.7 billion in 2016-17.² Abstracting from these:

- **CG receipts** were £3.6 billion higher than we forecast in March. PAYE income tax and NICs receipts were £2.1 billion higher than expected, reflecting strong cash receipts in March and April, the key months for bonuses;
- **CG spending** was £2.3 billion lower than we forecast. £1.5 billion of this reflects lower 'other' current spending (most of which is departmental spending) and suggests that, despite revising it up significantly in March, our underspending assumption was too small. Most of the remaining difference reflects lower-than-expected spending on net social benefits (£0.9 billion below forecast); and
- **local authority borrowing** was £2.2 billion higher than we forecast. It is worth noting that this initial ONS outturn estimate includes several forecast elements, where outturn data are not yet available. These ONS estimates are produced independently from our March *EFO* forecasts, so differences between them reflect different judgements given the available data. There is considerable uncertainty around all these judgements at this stage. The ONS will revise the outturns as further data become available, including for example the provisional outturn data for English local authorities' current spending that DCLG usually releases in late August. We will explore any remaining differences from our forecast in our *2017 Forecast evaluation report*.

² These environmental levies consist of £1.3 billion of subsidies for feed-in-tariffs, £0.3 billion of net social benefits for the warm home discount and £0.1 billion related to the contracts for difference scheme. Table 2.46 in the fiscal supplementary tables on the *EFO* page of our website provides details of these and other areas of our forecast that relate to ONS classification decisions that have been taken, but have not yet been included in ONS outturn data.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	April				Implied May to March				March forecast			
	2017	2016	change		2017-18	2016-17	change		2017-18 EFO	2016-17 outturn	change	
			£bn	%			£bn	%			£bn	%
Central government (CG) current receipts												
Taxes on production	20.5	20.5	0.0	0.0	243.7	229.9	13.8	6.0	264.3	250.5	13.8	5.5
Of which: VAT (accrued)	11.1	11.1	0.0	0.2	128.2	124.0	4.3	3.4	139.3	135.0	4.3	3.2
Taxes on income and wealth ¹	17.0	16.4	0.5	3.1	222.9	223.4	-0.5	-0.2	239.9	239.8	0.1	0.0
Of which:												
Income tax and CGT (accrued)	12.1	12.0	0.2	1.4	171.9	172.6	-0.7	-0.4	184.0	184.5	-0.5	-0.3
Corporation tax (accrued)	4.8	4.5	0.3	7.0	50.8	50.9	-0.1	-0.3	55.5	55.4	0.2	0.3
Other taxes	1.7	1.5	0.2	10.0	17.4	17.0	0.4	2.3	19.1	18.6	0.6	3.0
Compulsory social contributions	10.5	10.0	0.5	4.5	119.8	115.9	3.9	3.4	130.3	125.9	4.4	3.5
Interest & dividends	5.1	4.3	0.7	16.4	15.3	14.5	0.8	5.6	20.3	18.8	1.5	8.1
Other receipts	2.1	1.8	0.3	16.8	21.2	21.0	0.1	0.7	23.3	22.9	0.4	2.0
Total CG current receipts	56.9	54.7	2.1	3.9	640.4	621.8	18.6	3.0	697.3	676.5	20.8	3.1
CG current expenditure												
Interest payments	7.2	5.2	2.1	39.7	48.6	44.0	4.6	10.5	55.8	49.1	6.6	13.5
Net social benefits	17.6	17.4	0.2	1.2	191.9	187.4	4.5	2.4	209.5	204.8	4.7	2.3
CG current grants to LAs	11.7	11.1	0.6	5.4	105.1	103.2	1.9	1.8	116.8	114.4	2.5	2.2
VAT and GNI-based payments to EU ²	1.0	0.5	0.5	96.4	11.2	8.7	2.6	29.8	12.2	9.2	3.1	33.5
Other CG current expenditure	24.4	24.3	0.1	0.5	269.5	258.2	11.3	4.4	293.9	282.5	11.5	4.1
Total current expenditure	61.9	58.5	3.5	5.9	626.4	601.4	24.9	4.1	688.3	659.9	28.4	4.3
Depreciation	1.6	1.5	0.1	4.6	18.2	17.3	0.9	5.2	19.8	18.9	1.0	5.2
CG current budget deficit	6.7	5.3	1.4		4.2	-3.0	7.2		10.9	2.3	8.6	376.9
CG net investment	3.7	4.6	-0.8	-18.1	37.0	33.0	4.0	12.0	40.7	37.6	3.1	8.3
of which: CG capital grants to LA	2.1	3.0	-0.9	-29.1	8.7	7.9	0.8		10.8	10.9	-0.1	-0.6
CG net borrowing	10.4	9.9	0.6		41.2	30.0	11.1		51.6	39.9	11.7	29.3
Local authorities net borrowing	-3.5	-3.7	0.2		9.7	13.2	-3.5		6.2	9.5	-3.4	
Public corporations net borrowing	3.4	3.0	0.4	15.0	-2.9	-3.7	0.8	-20.6	0.5	-0.7	1.2	
Public sector net borrowing	10.4	9.2	1.2	13.1	47.9	39.5	8.4		58.3	48.7	9.6	19.6
Public sector net investment	1.9	1.9	0.0	2.5	38.2	36.1	2.1	5.8	40.1	38.0	2.1	5.6
Public sector current budget	8.5	7.3	1.2		9.7	3.4	6.3		18.2	10.7	7.4	

March 2017 EFO forecast published 08 March 2017 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/apr2017>

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.org.uk/March2017EFO-231.pdf>

² Net of abatement.