

Commentary on the Public Sector Finances release: April 2018

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the April 2018 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 2018 *Economic and fiscal outlook (EFO)*.

Summary

2. Public sector net borrowing (PSNB) was £7.8 billion in April, £1.1 billion lower than last year and £0.7 billion below market expectations. The fall in borrowing reflects a £0.5 billion rise in central government spending being more than offset by a £1.8 billion rise in central government receipts (excluding APF transfers). 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 2018-19.
3. Today's release also provides the second provisional outturn estimate for PSNB in 2017-18. Last month's first estimate has been revised down by £2.1 billion. This reflects both downward revisions to departmental spending in 2017-18 and strong corporation tax cash receipts in April that are accrued back to earlier months.
4. At £40.5 billion, the revised estimate for PSNB in 2017-18 is now £5.7 billion lower than 2016-17 and is £4.7 billion lower than our estimate in the March *EFO*. Abstracting from some items not currently included in the ONS outturns, this difference reflects £2.7 billion lower central government spending (excluding grants to local authorities) and £0.5 billion lower central government receipts. Borrowing by local authorities and public corporations is also lower by £2.9 billion.

¹ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/apr2018>

5. The 2017-18 estimate is still provisional and will be revised further over time. Some cash receipts received in the early months of 2018-19 (e.g. VAT and corporation tax receipts) relate to economic activity in 2017-18 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 seven years since 2010-11, initial estimates of net borrowing have been revised down by an average of £3.3 billion over the subsequent 12 months, with the revisions in individual years ranging from £6.0 billion down in 2016-17 to £1.2 billion up in 2014-15.

Detailed commentary

April 2018 outturn

6. Public sector net borrowing (PSNB) was £7.8 billion in April 2018, £1.1 billion lower than last year. Lower borrowing this April reflects a £0.5 billion rise in central government spending on last year being more than offset by a £1.8 billion rise in central government receipts (excluding APF transfers). Borrowing by local authorities and public corporations was up by £0.2 billion on last year.
7. Year-on-year growth in central government receipts (excluding APF transfers) of 3.4 per cent primarily reflected rises in PAYE income tax and VAT receipts. This is close to the 3.9 per cent growth in receipts expected for 2018-19 as a whole. However, 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 £0.7 billion higher than in April 2017, mainly reflecting initial outturn estimates of higher departmental spending. The overall increase reflected offsetting factors: debt interest payments were £1.0 billion lower than a year earlier, reflecting lower RPI inflation which decreases the accrued spending on index-linked gilts. However, those lower payments were then more than offset by higher estimated outturns on other spending components (net social benefits up by £0.4 billion, other current spending up by £0.5 billion, net capital spending up by £0.8 billion). The data on these other spending components in April are largely based on forecasts and will be replaced by outturn data as they become available.
9. Last month's release indicated a rise of 1.0 per cent of GDP in public sector net debt (PSND) between the end of 2016-17 and 2017-18. This has been revised down to a rise of 0.1 per cent of GDP, closer to the 0.3 per cent of GDP rise we forecast in March. The year-on-year rise in PSND in April was 0.3 per cent of GDP. Year-on-year comparisons are currently being distorted by the reclassification of English housing associations to the private sector from last November (taking £65.5 billion, 3.2% of GDP off the debt level) and the continued implication of the Bank of England's August 2016 monetary policy measures (raising PSND by £68 billion in April over the past year).

Provisional 2017-18 outturn

10. The latest provisional estimate for PSNB in 2017-18 was revised down by £2.1 billion from last month. Future revisions will occur, especially since outturn data on borrowing by local authorities is not available until September. The changes this month reflect:
- **Corporation tax receipts** in 2017-18 were revised up by £0.8 billion, reflecting strong cash receipts in April that accrue back to earlier months.
 - **Central government expenditure** was revised down by £1.1 billion for current spending and by £0.9 billion for net investment, reflecting lower spending across several departments.
11. The provisional estimate for PSNB in 2017-18 is now £4.7 billion lower than our March forecast. On a simple comparison between our forecast and the provisional ONS outturn, CG spending (excluding grants to local authorities) was £4.3 billion below forecast, while CG receipts were £2.6 billion below forecast. However, our receipts and spending forecasts include some items that are not yet in the ONS outturns, including several environmental levies totalling around £2.0 billion in 2017-18 (this lowers receipts and spending by the same amount).² Abstracting from these:
- **CG receipts** were £0.5 billion lower than we forecast in March, primarily reflecting weaker VAT receipts, down £0.8 billion on our forecast. Partially offsetting this were corporation tax receipts, which were £0.9 billion higher than expected.
 - **CG spending** was £2.7 billion lower than we forecast. £2.6 billion of this reflects lower 'other' spending by departments (£1.5 billion lower current and £1.1 billion lower capital spending). This suggests departments underspent by more than we assumed in March, but, as discussed above, these data are still subject to large revisions.
 - **Local authority borrowing** was £2.6 billion lower 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. Our March forecast assumed that local authorities will underspend their budgets by less than the ONS is currently assuming. 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 MHCLG usually releases in late August. We will explore any remaining differences from our forecast in our 2018 *Forecast evaluation report*.

² These environmental levies consist of £1.4 billion of subsidies for feed-in-tariffs, £0.3 billion of net social benefits for the warm home discount and £0.2 billion related to capacity market auctions. Table 2.44 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			
	2018	2017	change		2018-19	2017-18	change		2018-19	2017-18	change	
			£bn	%			£bn	%	EFO	outturn	£bn	%
Central government (CG) current receipts												
Taxes on production	22.1	21.2	1.0	4.5	253.1	242.0	11.0	4.6	275.2	263.2	12.0	4.6
Of which: VAT (accrued)	11.5	11.2	0.3	2.8	133.2	127.6	5.5	4.3	144.7	138.9	5.8	4.2
Taxes on income and wealth ¹	17.7	16.5	1.2	7.5	238.6	230.6	8.0	3.5	256.4	247.1	9.3	3.7
Of which:												
Income tax and CGT (accrued)	12.8	11.4	1.4	12.3	184.5	177.8	6.7	3.8	197.3	189.2	8.1	4.3
Corporation tax (accrued)	4.9	5.0	0.0	-0.9	53.8	52.8	1.0	1.9	58.7	57.7	1.0	1.7
Other taxes	1.5	1.6	-0.1	-7.3	16.5	16.1	0.4	2.5	17.9	17.6	0.3	1.6
Compulsory social contributions	11.0	11.4	-0.4	-3.4	125.5	121.7	3.9	3.2	136.5	133.0	3.5	2.6
Interest & dividends	3.9	4.9	-0.9	-19.1	17.2	13.7	3.5	25.9	21.2	18.6	2.6	14.1
Other receipts	1.9	2.0	-0.2	-8.3	21.0	20.2	0.7	3.6	22.8	22.3	0.6	2.5
Total CG current receipts	58.1	57.5	0.6	1.0	671.9	644.3	27.6	4.3	730.0	701.8	28.2	4.0
CG current expenditure												
Interest payments	6.1	7.1	-1.0	-14.5	47.2	47.5	-0.3	-0.7	53.3	54.6	-1.4	-2.5
Net social benefits	17.9	17.4	0.4	2.5	196.1	191.0	5.1	2.7	213.9	208.4	5.5	2.7
CG current grants to LAs	11.4	11.1	0.2	1.9	104.5	102.2	2.3	2.2	115.8	113.3	2.5	2.2
VAT and GNI-based payments to EU ²	1.0	1.0	0.0	-2.8	9.1	9.2	0.0	-0.5	10.1	10.2	-0.1	-0.8
Other CG current expenditure	25.0	24.6	0.5	2.0	281.1	266.8	14.4	5.4	306.2	291.3	14.9	5.1
Total current expenditure	61.3	61.2	0.1	0.1	638.0	616.6	21.4	3.5	699.3	677.8	21.5	3.2
Depreciation	1.5	1.5	0.0	2.8	17.0	16.6	0.5	2.8	18.6	18.1	0.5	2.8
CG current budget deficit	4.8	5.2	-0.5	-9.1	-16.9	-11.2	-5.7	51.1	-12.1	-6.0	-6.2	
CG net investment	3.9	3.5	0.4	12.1	39.3	37.2	2.1	5.6	43.2	40.7	2.5	6.2
of which: CG capital grants to LA	1.9	2.3	-0.3	-14.7	9.9	8.2	1.7	20.9	11.8	10.4	1.4	13.1
CG net borrowing	8.7	8.7	-0.1		22.4	26.0	-3.6		31.0	34.7	-3.7	-10.6
Local authorities net borrowing	-2.9	-3.3	0.4		9.4	10.2	-0.9	-8.4	6.5	7.0	-0.5	-6.9
Public corporations net borrowing	2.1	3.5	-1.4		-2.5	-4.7	2.2		-0.4	-1.2	0.7	-61.8
Public sector net borrowing	7.8	9.0	-1.1	-12.4	29.2	31.5	-2.3	-7.4	37.1	40.5	-3.4	-8.5
Public sector net investment	2.0	1.7	0.2	13.7	37.0	40.1	-3.1	-7.6	39.0	41.8	-2.8	-6.8
Public sector current budget	5.9	7.2	-1.3	-18.7	-7.8	-8.5	0.7		-1.9	-1.3	-0.6	46.9

March 2018 EFO forecast published 13 March 2018 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/apr2018>

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://obr.uk/download/economic-and-fiscal-outlook-march-2018/>

² Net of abatement.