

Commentary on the Public Sector Finances: June 2022

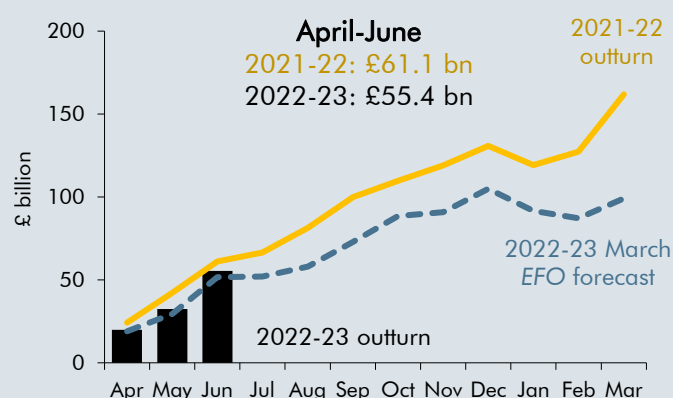
Office for
Budget
Responsibility

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Higher inflation delivers record debt interest spending

The budget deficit continues to fall year on year, with April-to-June borrowing of £55.4 billion down £5.7 billion on last year. But it was £3.7 billion above our most recent forecast profile, largely reflecting higher spending, alongside modestly lower receipts. Debt interest spending hit a record high – for both the single month of June (£19.4 billion) and for the year to date (£33.7 billion). Much of this is accrued debt interest on index-linked gilts, which will be paid out in cash terms over several decades as these gilts are redeemed.

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



Headlines

- **Public sector net borrowing (PSNB)** was £22.9 billion in June and £55.4 billion in the first three months of 2022-23. The latter is £5.7 billion (9.3 per cent) below the same period last year but is £3.7 billion (7.1 per cent) above our March 2022 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £70.5 billion in June, up £7.9 billion (12.6 per cent) on last year but £0.1 billion (0.1 per cent) below our March forecast. Year-to-date receipts are below our March forecast profile, with the shortfall standing at £1.6 billion (0.8 per cent).
- **Central government spending** (excluding PSNB-neutral local authority grants) in June was £81.8 billion, £10.3 billion (14.4 per cent) higher than last year and £1.5 billion (1.8 per cent) above forecast. Year-to-date spending is £6.5 billion (3.0 per cent) above forecast, reflecting upside surprises in inflation-linked debt interest payments and in spending on goods and services.
- **Net debt** in June stood at 96.1 per cent of GDP. This is up 1.0 per cent of GDP on a year earlier, but is 0.6 per cent of GDP below our March forecast.
- **Revisions:** Borrowing in first two months of 2022-23 was revised down by £3.3 billion, largely thanks to upward revisions to receipts alongside smaller downward revisions to spending.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the June 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 the first three months of 2022-23 of £55.4 billion was down £5.7 billion (9.3 per cent) on last year, but is £3.7 billion (7.1 per cent) higher than forecast. This overshoot is explained by both central government receipts, which came in £1.6 billion (0.8 per cent) below profile, and central government spending, which came in £6.5 billion (3.0 per cent) above profile. These surprises were partially offset by borrowing by both local authorities (£2.4 billion below profile) and public corporations (£2.1 billion below profile).¹
3. The downside surprise in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far in 2022-23 is mostly explained by interest and dividend receipts (a revenue line for which data are more provisional than the taxes collected by HMRC), which were £1.2 billion below profile. There are also modest shortfalls across a range of smaller taxes and modest surpluses in other areas.
4. HMRC cash receipts – the most timely indicator of tax performance, albeit one that can be particularly influenced by one-offs and timing effects – were £4.7 billion (9.2 per cent) above our March forecast profile in June. This was largely driven by VAT and corporation tax, and partly offset by lower income tax and NICs:
 - **Cash VAT receipts** in June were £1.9 billion (28 per cent) above profile. In a reversal of the picture from last month, this surplus partly reflects lower VAT repayments in June. This may be due to a timing effect that was not factored into our forecast profile, as firms submitted requests for repayments to HMRC ahead of the Jubilee bank holidays in early June, earlier than they would in a normal year. VAT receipts relate to liabilities on spending one-to-three months earlier, meaning the latest outturns cover the period from March to May, so the April rise in the domestic energy price cap will be starting to have an effect. Our March forecast assumed that by switching spending from standard- to reduced-rate goods, the net effect of higher domestic energy prices on VAT receipts will be negative. It is possible that, alongside lower repayments, higher-than-expected inflation has offset these effects to deliver the latest surplus – although the precise impact of higher energy bills, higher pump prices and increased food and other costs on VAT receipts is hard to disentangle at this stage.
 - **Onshore corporation tax cash receipts** were £1.7 billion (23.0 per cent) above profile in June, and £3.2 billion (26.9 per cent) above profile for the year to date. Much of the strength in cash receipts this month relates to small and medium-sized firms, which in turn mainly relates to 2021 profits. This accrues back to 2021-22 – accrued corporation tax is up just £0.3 billion (1.8 per cent) on our March forecast profile so

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).

far in 2022-23, reflecting smaller upside surprises in payments from very large companies (paying their first or second instalment payments on 2022 profits).

- **PAYE income tax and NICs cash receipts** in June were £0.3 billion (1.0 per cent) below profile. The year-to-date cash surplus (£2.6 billion, or 2.7 per cent) is more than explained by stronger-than-expected April cash receipts (£3.1 billion), which in turn reflects stronger-than-expected March bonus payments and accrues to 2021-22.

5. The upside surprise in central government spending (excluding local authority grants) so far in 2022-23 is driven by:

- Higher-than-expected **spending on goods and services** (£4.5 billion, or 5.2 per cent, above profile). Data on departmental spending remain provisional at this stage of the financial year and will often reflect plans rather than outturns.
- Higher spending on **debt interest costs** (£2.5 billion, or 7.9 per cent, above profile), reflecting higher-than-forecast RPI inflation increasing payments on index-linked gilts. RPI inflation averaged 11.5 per cent in the first three months of this year, 1.3 percentage points above our March forecast. With several external forecasters now predicting that the CPI measure of inflation could reach 12 per cent in October – over 3 percentage points higher than the peak in our March forecast – further significant upside surprises in debt interest spending can be expected through the year. Both year-to-date spending of £33.7 billion and the June figure of £19.4 billion are the largest on record. Since the monthly profile of debt interest on index-linked gilts relates to month-on-month RPI inflation, the surprises relative to our spending forecast profile have been uneven. The largest surprise related to May debt interest as a result of month-on-month RPI inflation in March being higher than expected. The record-high spending in June was broadly in line with our latest forecast thanks to April's monthly rise in the RPI being close to forecast.² £16.7 billion of this month's accrued interest spending comes from the impact of inflation on index-linked gilts that will be paid in cash terms in the coming decades – with about half paid in the next twenty years.
- These upside surprises were partly offset by a £3.8 billion (19.9 per cent) shortfall in **net investment spending** in the year to date. Spending data are still provisional at this point in the year and investment spending historically tends to be both volatile and end-loaded within the fiscal year, so this could simply be a timing effect.

6. Our March forecast and associated monthly profiles do not include the Government's May cost-of-living support package for 2022-23, which includes additional spending estimated at £15.3 billion and additional receipts estimated at £4½ billion from the new energy profits levy. Box 3.3 in our recent *Fiscal risks and sustainability* report provides more detail on the package and a breakdown of the roughly £11 billion that these provisional estimates suggest it could add to borrowing in 2022-23. The package has yet to affect year-to-date borrowing in outturn, but the first half of the cost-of-living payment to those on means-tested benefits is

² For further discussion of this month's record-high debt interest spending, see: Emmerson, C. and I. Stockton, *The government's debt interest bill in June hugely increased by high inflation and seasonal effects*, July 2022.

being paid in July. The ONS will make decisions on the treatment of some elements of the package (e.g. the accruals treatment for the energy profits levy) in due course.

7. Year-to-date borrowing in first two months of 2022-23 was revised down by £3.3 billion from last month's estimate, thanks to both upward revisions to receipts of £2.4 billion, reflecting stronger VAT cash receipts and updated data on the emissions trading scheme, and downward revisions to spending of £0.8 billion.
8. Public sector net debt (PSND) in June 2022 was 96.1 per cent of GDP, up 1.0 per cent of GDP on a year earlier, but 0.6 per cent of GDP below our March 2022 monthly forecast profile.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

	June					April to June				
	2022 outturn	2021 outturn	Change	2022 forecast	Outturn vs forecast	2022-23 outturn	2021-22 outturn	Change	2022-23 forecast	Outturn vs forecast
Central government current receipts	70.5	62.6	7.9	70.6	-0.1	208.9	183.5	25.5	211.1	-2.2
<i>of which:</i>										
Income tax	17.2	15.3	2.0	16.8	0.4	49.6	45.8	3.8	50.7	-1.1
National Insurance contributions	15.2	12.8	2.4	15.1	0.0	43.9	37.3	6.6	42.9	1.0
VAT	12.8	11.2	1.6	13.0	-0.2	37.8	30.6	7.2	37.4	0.4
Corporation tax ²	5.5	4.8	0.7	5.3	0.1	15.8	14.7	1.2	15.6	0.3
Other taxes and receipts	19.9	18.7	1.2	20.3	-0.5	61.8	55.1	6.7	64.5	-2.7
Central government expenditure	93.3	83.0	10.3	93.2	0.1	263.4	258.6	4.8	261.1	2.3
<i>of which:</i>										
Interest payments	19.4	9.1	10.3	19.7	-0.3	33.7	18.5	15.2	31.3	2.5
Net social benefits	19.9	19.2	0.7	19.6	0.3	60.7	59.0	1.7	60.1	0.5
Net current grants	14.5	14.4	0.1	15.6	-1.0	46.0	50.0	-4.0	46.6	-0.6
Consumption expenditure on goods and services	31.4	30.4	1.0	29.7	1.7	92.5	90.3	2.3	88.0	4.5
Subsidies	2.2	4.6	-2.5	2.6	-0.4	6.5	20.4	-14.0	8.0	-1.6
Central government depreciation	2.9	2.6	0.3	2.8	0.1	8.7	7.8	0.9	8.3	0.4
Central government net investment	4.4	3.4	0.9	4.3	0.1	15.5	15.2	0.2	19.3	-3.8
Public sector net borrowing	22.9	18.8	4.1	22.3	0.6	55.4	61.1	-5.7	51.8	3.7
<i>of which:</i>										
Central government net borrowing	22.8	20.4	2.4	22.6	0.2	54.4	75.1	-20.7	50.0	4.4
Local authorities net borrowing	0.7	-0.1	0.9	-0.3	1.0	0.1	-9.8	9.9	-1.8	1.9
Public corporations net borrowing	-0.6	-1.4	0.8	0.0	-0.5	0.9	-4.2	5.2	3.6	-2.6
Central government current receipts ex Asset Purchase Facility ³	70.5	62.6	7.9	70.6	-0.1	205.8	183.4	22.3	207.4	-1.6
Central government expenditure ex local authority grants ³	81.8	71.5	10.3	80.3	1.5	226.7	214.6	12.1	220.2	6.5
Local authorities net borrowing ex local authority grants ³	12.2	11.4	0.8	12.6	-0.4	36.7	34.2	2.5	39.1	-2.4
Public corporations net borrowing ex Asset Purchase Facility ³	-0.6	-1.4	0.8	0.0	-0.5	-2.2	-4.3	2.0	-0.1	-2.1

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/june2022>

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.