

Commentary on the Public Sector Finances: January 2023

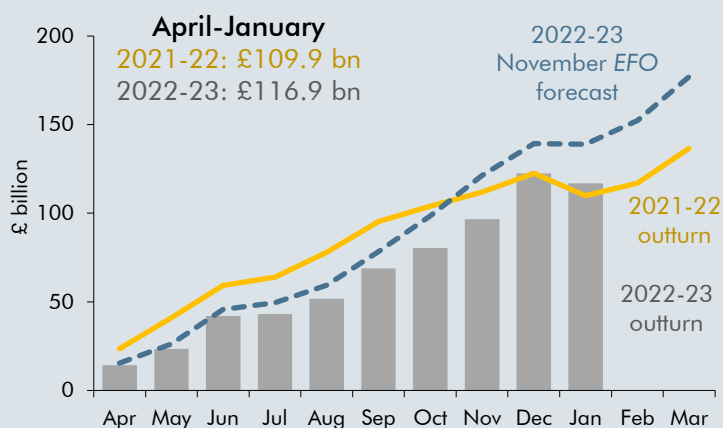
Office for
Budget
Responsibility

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January surplus and revisions pull deficit further below profile

January is a big month for tax receipts, with self-assessment (SA) payments due. At £35.1 billion, SA receipts exceeded our November forecast by £5.8 billion (partly reflecting timing effects). Alongside large downward revisions to borrowing in previous months, this has left year-to-date borrowing in the first ten months of 2022-23 £22.0 billion below our forecast profile in the headline figures and £30.6 billion below profile on a like-for-like basis (correcting for a temporary difference in student loans figures).

Public sector net borrowing in the year to date:
January 2023 OBR forecast vs latest ONS outturns



Headlines

- **Public sector net borrowing (PSNB)** returned to a surplus of £5.4 billion in January and was £116.9 billion in the first ten months of 2022-23. The latter is £7.0 billion (6.3 per cent) above the same period last year but is £22.0 billion (15.8 per cent) below our November 2022 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £107.8 billion in January, up £13.1 billion (13.8 per cent) on last year and £4.7 billion (4.6 per cent) above profile. Year-to-date receipts are £9.7 billion (1.3 per cent) above profile.
- **Central government spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) in January was £88.4 billion, £16.7 billion (23.3 per cent) higher than last year but £0.9 billion (1.0 per cent) below forecast. Year-to-date spending is £2.9 billion (0.4 per cent) below our forecast profile, and £11.5 billion (1.5 per cent) below profile on a like-for-like basis that accounts for student loan changes yet to be recorded in outturn by the ONS.
- **Net debt** in January stood at 98.9 per cent of GDP. This is up 1.2 per cent of GDP on a year earlier, but is 1.0 per cent of GDP below our November forecast profile.
- **Revisions:** Borrowing in first nine months of 2022-23 was revised down by £5.8 billion (4.5 per cent), reflecting upward revisions to receipts, primarily VAT, and downwards revisions to spending, in particular due to lower-than-expected costs of energy subsidy schemes for households and businesses.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the January 2023 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 November 2022 *Economic and fiscal outlook (EFO)*. We compare the latest outturns with monthly profiles consistent with this forecast that were first published on 21 December 2022 and were republished yesterday to correct a small error in the borrowing profiles.¹
2. Several energy and cost-of-living support policies announced this year are affecting the profiles for borrowing, spending and receipts – and were reflected in our November forecast and the accompanying monthly profiles. In the year to date, these include:
 - **Cost-of-living payments** to recipients of means-tested benefits, disability benefits and pensioner benefits. The first two of these have raised net social benefits spending by around £6.4 billion so far this year, while the pensioner payment has increased year-to-date spending further (our forecast assumes that this payment adds £2.6 billion).²
 - £7.7 billion of spending on the **energy bills support scheme** (a £400 discount on household energy bills) spread equally across the four months from October to January, with similar monthly amounts due to be spent over the remaining two months of this financial year.
 - Spending on the **energy price guarantee** and **energy bill relief scheme**, which cap the unit cost of energy for households and businesses respectively, and both began in October. Our forecast profiles assume spending on these two schemes totalled £25.0 billion between October and January. While the ONS now includes indicative estimates for these payments as part of spending on subsidies within its outturn statistics, it has not separated out their cost due to the provisional nature of the data. The fact that our forecast for spending on subsidies (of which these schemes form the major part) in these months is (thanks to revisions) now significantly below profile, suggests the cost of the schemes has been lower than forecast. We will provide a full update on the costs of these schemes in our next *EFO* on 15 March, which will reflect the impact of lower wholesale energy prices as well as other factors in how the schemes have operated.
 - £4.0 billion of accrued revenues from the **energy profits levy (EPL)** – an additional tax on the profits of oil and gas companies.
3. Borrowing in the first ten months of 2022-23 was £116.9 billion, up a relatively modest £7.0 billion (6.3 per cent) on last year. That figure is £22.0 billion (15.8 per cent) below our forecast profile. However, our November forecast accounted for an £8.6 billion reduction in central government net investment in December due to changes in student loans that the ONS plans to implement when more definite estimates are available. This means that on a like-for-like basis, borrowing was £30.6 billion (22.0 per cent) below profile in the first ten months of

¹ On 20 February 2023 we corrected an error in our monthly profiles driven by the fact that January public corporations net borrowing did not reflect the impact of the Asset Purchase Facility, which affected the profiles for both public corporations and public sector net borrowing.

² Department for Work and Pensions, *Cost of Living Payment management information*, December 2022.

2022-23. This undershoot is explained by receipts coming in £9.7 billion (1.3 per cent) above profile; central government spending coming in £11.5 billion (1.5 per cent) below profile on a like-for-like basis (i.e. after correcting for the student loan differences); and borrowing by public corporations and local authorities being, respectively, £8.9 billion and £0.6 billion below profile.³

4. The upside surprise in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) of £9.7 billion (1.3 per cent) so far in 2022-23 is explained by stronger-than-expected receipts from a wide range of taxes, including SA income tax and capital gains tax (£5.7 billion above profile), PAYE income tax and NICs (£3.5 billion above profile), and VAT (£2.9 billion above profile).
5. HMRC cash receipts – the most timely indicator of tax performance, albeit one that can be particularly influenced by one-offs and timing effects – were £5.7 billion (5.7 per cent) above our November forecast profile in January. Key developments include:
 - **Self-assessment income tax and capital gains tax (CGT)** cash receipts in January were £5.8 billion (19.8 per cent) above profile and £8.0 billion (29.6 per cent) higher than last year. These payments largely relate to 2021-22 liabilities, with the strength relative to forecast likely to be explained by a combination of payment timing (i.e. the split between January and February payments⁴) and stronger underlying receipts (relative to the growth in tax liabilities assumed in our November forecast on the basis of outturn data in respect of the different SA income streams). We will explore the underlying drivers of this surplus on the basis of provisional HMRC analysis of SA returns in our forthcoming *EFO* on 15 March.
 - **VAT** cash receipts in January were £1.9 billion (10.6 per cent) above profile and £1.2 billion (6.5 per cent) higher than a year ago. January is a peak month for VAT receipts within the quarterly ‘stagger’ of payments, and it is possible that this quarter could follow the pattern seen in the previous one, where October receipts were above profile while November and December receipts were in line with profile.
 - Oil and gas firms paid their third and final instalment of **offshore corporation tax** in January, and their second and final payment of the **energy profits levy** on 2022 profits. Year-to-date receipts from oil and gas firms in the first ten months of this year totalled £9.1 billion, compared with £2.0 billion for the whole of 2021-22, reflecting the surge in oil and gas prices and the introduction of the EPL. Relative to our November forecast, cash receipts from these two taxes were £2.5 billion below profile in January and £3.0 billion below profile in the year to date. It appears that this shortfall at least partly reflects the gas prices achieved by firms being lower than the market prices assumed in our forecast because of hedging and forward sales.
 - **Onshore corporation tax** cash receipts were £1.1 billion (21.0 per cent) above profile in January and £2.7 billion (5.0 per cent) above profile for the year to date. In our

³ 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, central government expenditure, and public corporations net borrowing); and (2) grants to local authorities (affecting central government expenditure and local authorities net borrowing).

⁴ SA income tax, CGT, Class 2 and Class 4 NICs are collected together. This month’s provisional breakdown is largely based on the weighting of each tax stream to total SA. HMRC will revise this split in subsequent releases based on detailed receipts data.

November forecast, we assumed that some of the strength in onshore corporation tax receipts seen in the first half of 2022-23 would persist into the remainder of the financial year, but that it would gradually diminish given the effects of wage and energy costs on profit margins. There is still little sign of this being realised in the cash receipts data yet.

6. The shortfall in central government spending (excluding local authority grants and transfers related to quantitative easing) so far in 2022-23, after correcting for student loan changes captured in our monthly profiles but not yet recorded by the ONS in outturn, is driven by:
- Lower spending on **subsidies** (£6.8 billion, or 15.5 per cent, below profile), which will partly reflect lower-than-expected costs of support for energy users.
 - Lower **net investment spending**, excluding transfers related to quantitative easing (£5.2 billion, or 10.4 per cent, below profile on a like-for-like basis that also accounts for the impact of student loan changes mentioned above). Investment spending tends to be both volatile and end-loaded within the fiscal year, so this could yet prove to be a timing effect that unwinds (in 2021-22, the year-end surge in investment spending was particularly large). The downside surprise was partially offset by investment spending coming in £1.2 billion higher in January as a result of a payment to the EU relating to failure to prevent the undervaluation of customs duties on Chinese footwear and textile products while a member of the EU, which was not reflected in our forecast.
 - Lower **debt interest spending** (£3.7 billion, or 3.8 per cent, below profile). Monthly debt interest spending continues to be highly volatile, reflecting the paths of monthly RPI inflation and interest rates. Even with this undershoot, debt interest spending is up £34.8 billion (57.3 per cent) on last year, at £95.6 billion over ten months.
 - Lower spending on **other current grants** (£2.7 billion, or 8.4 per cent, below profile), which may also reflect spending on energy support schemes being lower than expected. Other current grants were £0.3 billion higher than expected in January alone, but this includes £1.1 billion related to the current transfer element of the payment to the EU mentioned above.
 - These downside surprises were partially offset by higher spending on **goods and services** (£8.1 billion, or 2.7 per cent, above profile). This could reflect departments underspending their resource budgets by less than we assumed in the face of higher inflation and pressures on pay budgets, although the data are still subject to revision.
7. Year-to-date borrowing in the first nine months of 2022-23 was revised down by £5.8 billion (4.5 per cent) from last month's estimate, thanks to a £3.7 billion (0.5 per cent) downward revision to spending and a £2.2 billion (0.3 per cent) upward revisions to receipts. A large downward revision to subsidies of £5.7 billion (17.8 per cent), mainly due to a lower-than-expected costs of energy schemes for households and businesses, is somewhat offset by upward revisions to other current grants and debt interest, at £1.4 billion (6.4 per cent) and £1.0 billion (1.2 per cent) respectively. Upward revisions to receipts include a large VAT revision of £2.7 billion (2.3 per cent) due to high January cash data being accrued back to the three months before, and some smaller revisions across a number of taxes, offset by a £1.5 billion (2.4 per cent) downwards revision to corporation tax.

8. Public sector net debt (PSND) in January 2023 was 98.9 per cent of GDP, up 1.2 per cent of GDP on a year earlier (but 1.0 per cent of GDP below our November 2022 monthly profile). Cash debt increased by £143.4 billion (6.1 per cent) over the past 12 months due to the continuing budget deficit, but the nominal GDP denominator was up 4.8 per cent over the same period, thereby limiting the year-on-year rise in the debt-to-GDP ratio.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

	January			April to January						
	2023 outturn	2022 outturn	Change	2023 forecast	Outturn vs forecast	2022-23 outturn	2021-22 outturn	Change	2022-23 forecast	Outturn vs forecast
Central government current receipts	107.8	95.2	12.6	103.1	4.7	768.1	687.0	81.0	758.4	9.7
<i>of which:</i>										
Income tax	40.4	33.2	7.3	37.0	3.4	202.1	180.2	21.9	198.4	3.7
National Insurance contributions	14.8	14.4	0.4	14.5	0.3	145.9	130.1	15.9	143.3	2.7
VAT	13.4	13.0	0.4	13.4	0.0	135.1	119.2	15.9	132.2	2.9
Corporation tax ²	7.1	6.2	0.9	6.7	0.3	61.5	56.0	5.5	60.1	1.3
Other taxes and receipts	32.2	28.5	3.6	31.5	0.7	223.4	201.6	21.8	224.4	-1.0
Central government expenditure	103.6	83.6	20.1	111.2	-7.5	886.4	815.4	71.1	895.4	-8.9
<i>of which:</i>										
Interest payments	6.7	6.3	0.4	9.0	-2.3	95.6	60.8	34.8	99.3	-3.7
Net social benefits	20.4	18.9	1.4	20.6	-0.2	215.1	197.1	17.9	215.7	-0.6
Net current grants	15.6	13.7	1.9	16.4	-0.8	146.3	138.1	8.2	150.2	-3.9
Consumption expenditure on goods and services	31.7	31.8	-0.1	29.9	1.8	308.4	302.7	5.7	300.4	8.1
Subsidies	10.8	2.4	8.4	11.0	-0.1	37.2	42.4	-5.2	44.1	-6.8
Central government depreciation	2.9	2.8	0.1	2.9	0.0	28.5	26.4	2.1	27.8	0.6
Central government net investment ³	15.6	7.6	8.0	21.4	-5.8	55.4	47.9	7.5	57.9	-2.5
Public sector net borrowing	-5.4	-12.5	7.1	-0.4	-5.0	116.9	109.9	7.0	138.9	-22.0
<i>of which:</i>										
Central government net borrowing	-4.2	-11.6	7.5	8.1	-12.2	118.4	128.3	-9.9	137.0	-18.6
Local authorities net borrowing	2.6	0.8	1.8	1.0	1.6	3.3	-4.0	7.2	3.6	-0.3
Public corporations net borrowing	-3.8	-1.7	-2.2	-9.5	5.6	-4.7	-14.4	9.7	-1.6	-3.1
Central government current receipts ex Asset Purchase Facility ⁴	107.8	94.7	13.1	103.1	4.7	763.9	679.8	84.1	754.2	9.7
Central government expenditure ex local authority grants and APF ⁴	88.4	71.7	16.7	89.3	-0.9	765.4	694.2	71.3	768.3	-2.9
Local authorities net borrowing ex local authority grants ⁴	13.7	12.7	1.0	12.9	0.8	119.3	117.2	2.0	119.8	-0.6
Public corporations net borrowing ex Asset Purchase Facility ⁴	0.3	-2.2	2.5	0.5	-0.2	-3.9	-21.6	17.7	5.1	-8.9

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/january2023>

HMRC tax receipts and national insurance contributions: <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk>

OBR November 2022 monthly profiles: <https://obr.uk/monthly-public-finances-briefing/>

² Less bank surcharge and energy profits levy.

³ This shows ONS outturn only, no adjustments for student loan changes are made.

⁴ Excluding PSNB-neutral intra-public sector flows (the Asset Purchase Facility and local authority grants) to aid monthly monitoring.