

# Commentary on the Public Sector Finances: December 2022

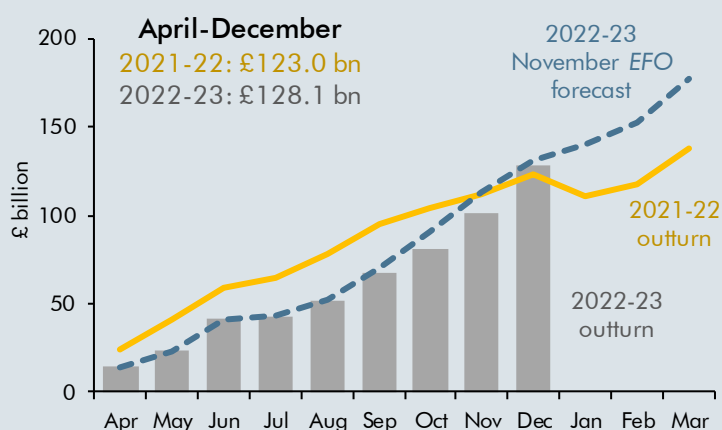
Office for  
Budget  
Responsibility

24 January 2023

## Year-to-date deficit rises, but by less than forecast

Borrowing in the first nine months of 2022-23 was £128.1 billion, up £5.1 billion on last year but £2.7 billion below our November forecast profile in the headline figures and £11.3 billion below profile on a like-for-like basis (correcting for a temporary difference in student loans figures in our forecast profile versus ONS outturn). This surprise was broad-based across central government receipts and spending, as well as borrowing by both local authorities and public corporations.

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



## Headlines

- **Public sector net borrowing (PSNB)** jumped to £27.4 billion in December and was £128.1 billion in the first nine months of 2022-23. The latter is £5.1 billion (4.1 per cent) above the same period last year and is £2.7 billion (2.0 per cent) below our November 2022 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £74.6 billion in December, up £3.9 billion (5.6 per cent) on last year and £0.3 billion (0.4 per cent) above profile. Year-to-date receipts are £2.8 billion (0.4 per cent) above profile.
- **Central government spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) in December was £89.4 billion, £17.6 billion (24.5 per cent) higher than last year and £9.7 billion (12.2 per cent) above forecast. Year-to-date spending is £1.7 billion (0.3 per cent) above our forecast profile, but £6.9 billion (1.0 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 December stood at 99.5 per cent of GDP. This is up 0.2 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 £4.6 billion, reflecting upward revisions to receipts, primarily corporation tax where cash receipts have continued to outperform our forecasts.

## Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the December 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 November 2022 *Economic and fiscal outlook (EFO)*. We compare the latest outturns with monthly profiles consistent with this forecast that were published on 21 December 2022.
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).<sup>1</sup>
  - £5.7 billion of spending on the **energy bills support scheme** (a £400 discount on household energy bills) spread equally across October, November and December with similar monthly amounts due to be spent over the remainder 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 to total £15.5 billion across October, November and December. While the ONS now includes indicative estimates for these payments as part of spending on subsidies within the statistics, it has not separated out their cost due to the provisional nature of the data. While bearing this in mind, the fact that our forecast for spending on subsidies (of which these schemes form the major part) in these months is only slightly below profile suggests our forecast profiles provide a reasonable guide to schemes' cost so far.
  - £3.7 billion of revenues from the **energy profits levy** – an additional tax on the profits of oil and gas companies.
3. Borrowing in the first nine months of 2022-23 was £128.1 billion, up £5.1 billion (4.1 per cent) on last year, but £2.7 billion (2.0 per cent) below profile. However, our November forecast accounted for a £8.6 billion reduction in central government net investment in December due to changes in student loans that the ONS is yet to implement when more definite estimates are available. This means that on a like-for-like basis, borrowing was £11.3 billion (8.6 per cent) lower than our profile in the first nine months of 2022-23. This undershoot is explained by receipts coming in £2.8 billion (0.4 per cent) above profile; central government spending coming in £6.9 billion (1.0 per cent) below profile on a like-for-like basis (i.e. after correcting for the student loan differences); and borrowing by public

---

<sup>1</sup> Department for Work and Pensions, *Cost of Living Payment management information*, December 2022.

corporations and local authorities being, respectively, £0.2 billion and £1.4 billion below profile.<sup>2</sup>

4. The upside surprise in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) of £2.8 billion (0.4 per cent) so far in 2022-23 is more than explained by stronger-than-expected receipts from PAYE income tax and NICs (£2.9 billion above profile) and onshore corporation tax (£1.8 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 £1.2 billion (2.0 per cent) above our November forecast profile in December. Key developments include:
  - **Onshore corporation tax** cash receipts were £1.9 billion (21.2 per cent) above profile in December and £1.6 billion (3.2 per cent) above profile for the year to date. The surplus is due to higher-than-expected receipts from large and very large companies, partially offset by a shortfall from small companies. In our November forecast, we assumed that some of the strength in onshore CT receipts seen in the first half of 2022-23 would persist into the remainder of the financial year but would gradually diminish given the effects of wage and energy costs on profit margins. There is little sign of this being realised in the cash receipts data yet.
  - **Energy profits levy (EPL)** cash receipts in December were £0.6 billion (24.5 per cent) below profile. This was the first instalment of EPL payments on 2022 profits, with the second and final instalment due in January. The shortfall could therefore be a timing effect between these two months, or could reflect the volatility in oil and gas prices resulting in lower EPL liabilities than our forecast assumed.
  - **PAYE income tax and NICs** cash receipts continued to show strong year-on-year growth of 9.0 per cent in December as a result of high nominal wage growth, and the first year of the freeze in the personal allowance and higher-rate threshold.
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 **net investment spending** (£12.0 billion, or 32.9 per cent, below profile on a like-for-like basis). 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.)
  - Lower spending on **other current grants** (£4.5 billion, or 16.5 per cent, below profile) and **subsidies** (£1.0 billion, or 3.0 per cent, below profile), which may partly reflect lower-than-expected support for energy users in the year to date.

---

<sup>2</sup> 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).

- Lower spending on **debt interest costs** (£2.5 billion, or 2.8 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 £33.4 billion (61.3 per cent) on last year at £87.8 billion over nine months. The previous full-year record was £72.5 billion in 2021-22. So far this year we have seen the largest and second largest monthly outturns for debt interest spending on record (in June and December, respectively).
  - These downside surprises were partially offset by higher spending on **goods and services** (£6.5 billion, or 2.4 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 £4.6 billion from last month's estimate, largely thanks to upward revisions to corporation tax receipts. Borrowing in 2021-22 was revised down by £2.0 billion from last month's estimate, reflecting upwards revisions to corporation tax and VAT.
8. Public sector net debt (PSND) in December 2022 was 99.5 per cent of GDP, up 0.2 per cent of GDP on a year earlier (but 1.0 per cent of GDP below our November 2022 monthly forecast profile). Cash debt increased by £132.7 billion (5.6 per cent) over the past 12 months due to the continuing budget deficit, but the nominal GDP denominator was up 5.4 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 borrowing<sup>1</sup>

	December					April to December				
	2022 outturn	2021 outturn	Change	2022 forecast	Outturn vs forecast	2022-23 outturn	2021-22 outturn	Change	2022-23 forecast	Outturn vs forecast
<b>Central government current receipts</b>	<b>74.6</b>	<b>70.6</b>	<b>3.9</b>	<b>74.3</b>	<b>0.3</b>	<b>658.1</b>	<b>591.2</b>	<b>66.9</b>	<b>655.3</b>	<b>2.8</b>
<i>of which:</i>										
Income tax	19.9	18.2	1.7	20.2	-0.3	161.6	147.0	14.6	161.4	0.3
National Insurance contributions	14.2	13.9	0.3	14.0	0.2	130.9	115.7	15.2	128.8	2.1
VAT	13.5	13.0	0.4	13.7	-0.2	119.0	106.1	12.9	118.8	0.2
Corporation tax <sup>2</sup>	6.6	6.4	0.2	5.7	0.9	55.2	49.1	6.2	53.4	1.8
Other taxes and receipts	20.3	19.1	1.2	20.7	-0.4	191.3	173.3	18.0	192.9	-1.7
<b>Central government expenditure</b>	<b>99.5</b>	<b>82.4</b>	<b>17.1</b>	<b>90.9</b>	<b>8.6</b>	<b>784.3</b>	<b>731.8</b>	<b>52.5</b>	<b>784.2</b>	<b>0.0</b>
<i>of which:</i>										
Interest payments	17.3	8.7	8.7	17.1	0.3	87.8	54.5	33.4	90.3	-2.5
Net social benefits	21.0	20.1	0.9	21.1	-0.1	194.6	178.2	16.4	195.1	-0.4
Net current grants	14.2	12.6	1.6	16.3	-2.1	127.4	124.4	3.0	133.8	-6.4
Consumption expenditure on goods and services	31.5	31.1	0.5	29.7	1.8	276.9	270.9	6.0	270.4	6.5
Subsidies	7.2	2.4	4.8	7.5	-0.3	32.1	39.9	-7.8	33.1	-1.0
Central government depreciation	2.8	2.6	0.2	2.8	0.0	25.6	23.6	2.0	25.0	0.6
Central government net investment <sup>3</sup>	5.5	4.9	0.6	-3.5	9.0	39.8	40.3	-0.5	36.5	3.3
<b>Public sector net borrowing</b>	<b>27.4</b>	<b>10.7</b>	<b>16.7</b>	<b>17.6</b>	<b>9.8</b>	<b>128.1</b>	<b>123.0</b>	<b>5.1</b>	<b>130.8</b>	<b>-2.7</b>
<i>of which:</i>										
Central government net borrowing	25.0	11.8	13.2	16.6	8.4	126.2	140.6	-14.4	128.9	-2.8
Local authorities net borrowing	1.8	1.1	0.7	0.9	0.8	2.9	-4.8	7.7	2.5	0.3
Public corporations net borrowing	0.6	-2.2	2.8	0.0	0.6	-0.9	-12.7	11.8	-0.7	-0.2
Central government current receipts ex Asset Purchase Facility <sup>4</sup>	74.6	70.6	3.9	74.3	0.3	653.9	584.5	69.4	651.1	2.8
Central government expenditure ex local authority grants and APF <sup>4</sup>	89.4	71.8	17.6	79.7	9.7	680.7	622.5	58.2	679.0	1.7
Local authorities net borrowing ex local authority grants <sup>4</sup>	11.9	11.7	0.3	12.2	-0.3	105.6	104.5	1.1	107.0	-1.4
Public corporations net borrowing ex Asset Purchase Facility <sup>4</sup>	0.6	-2.2	2.8	0.0	0.6	-4.3	-19.5	15.2	-4.0	-0.2

<sup>1</sup> 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/december2022>

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/>

<sup>2</sup> Less bank surcharge and energy profits levy.

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

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