

# Commentary on the Public Sector Finances: June

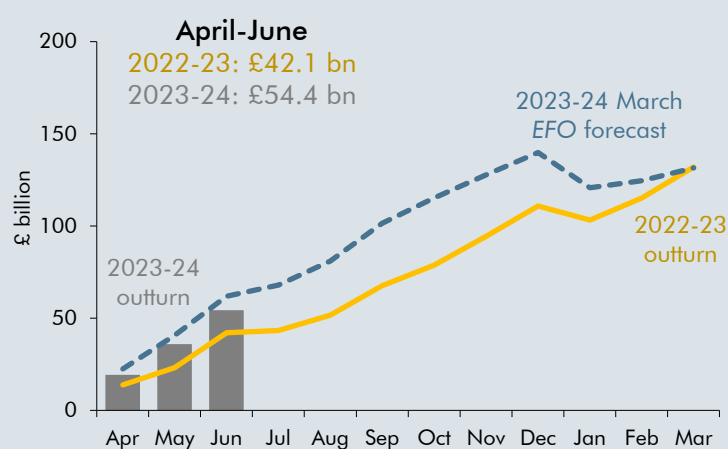
Office for  
**Budget  
Responsibility**

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## Strong receipts bring year-to-date borrowing below forecast

Borrowing in the first three months of 2023-24 totalled £54.4 billion, £12.2 billion above the same period last year but £7.5 billion below the monthly profile consistent with our March forecast. This downside surprise is more than explained by higher central government receipts (£7.7 billion above profile) thanks to surpluses across the three major taxes – onshore corporation tax, VAT, and PAYE income tax and NICs – alongside lower borrowing by local authorities. Central government spending coming in £4.5 billion above profile provided a partial offset.

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



## Headlines

- **Public sector net borrowing (PSNB)** was £18.5 billion in June and £54.4 billion in the first three months of 2023-24. The latter is £12.2 billion (29.1 per cent) above the same period last year but £7.5 billion (12.2 per cent) below our March 2023 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £77.4 billion in June, up £5.6 billion (7.8 per cent) on last year and £2.9 billion (3.8 per cent) above our March profile. Year-to-date accrued receipts are £7.7 billion (3.5 per cent) above profile. HMRC cash receipts continue to be very strong – likely due to in part to higher profits, wage growth and inflation – which may signal continued upside surprises in accrued receipts in future months.
- **Central government accrued spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) was £82.7 billion in June, up £2.7 billion (3.4 per cent) on last year and £1.4 billion (1.7 per cent) above profile. Year-to-date spending is £4.5 billion (1.9 per cent) above profile due to higher consumption and debt interest spending, partially offset by lower investment spending.
- **Net debt** in June 2023 was 100.8 per cent of GDP, up 3.5 per cent of GDP on a year earlier, but 1.5 per cent of GDP below the monthly profile consistent with our March forecast, thanks to both lower cash debt and higher outturn GDP.
- **Revisions:** Borrowing in April and May was revised down by £7.0 billion, thanks to both higher central government receipts and lower central government spending. Borrowing in 2022-23 was revised down by £2.1 billion, meaning it is now £20.3 billion lower than the estimate in our March 2023 forecast.

## Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the June 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 March 2023 *Economic and fiscal outlook (EFO)*. We compare the latest outturns with monthly profiles consistent with this forecast that were published on 18 May.<sup>1</sup>
2. Borrowing in the first three months of 2023-24 was £54.4 billion, up £12.2 billion (29.1 per cent) on last year and £7.5 billion (12.2 per cent) lower than our March forecast. This undershoot is more than explained by central government accrued receipts coming in £7.7 billion (3.5 per cent) above profile, partially offset by higher-than-forecast central government spending (£4.5 billion, or 1.9 per cent, above profile). Borrowing by local authorities also contributed to the overall downside surprise, coming in £4.9 billion (12.5 per cent) below forecast, while borrowing by public corporations was £0.5 billion (13.2 per cent) above forecast.<sup>2</sup>
3. The upside surprise in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far this year reflects surpluses in PAYE income tax and NICs (£3.8 billion, or 4.0 per cent, above forecast), VAT (£2.8 billion, or 7.2 per cent, above forecast) and onshore corporation tax (£2.2 billion, or 13.0 per cent, above forecast). Data for the first three months of the financial year can be distorted by the usual volatility in receipts and one-offs, but the surpluses against the March profile do suggest stronger-than-anticipated nominal tax bases, such as wages and salaries, nominal consumer spending and profits. Earnings growth (as measured by average weekly earnings) averaged 7.6 per cent in April and May, compared to our forecast of 6.2 per cent growth in average wages and salaries in the second quarter of 2023. Data from the quarterly national accounts for the first quarter of 2023 indicated growth in nominal consumer spending of 9.5 per cent, compared with the 7.7 per cent assumed in our March forecast. June is also the first month in which electricity generator levy receipts have been scored, following the Royal Assent of the associated legislation.
4. HMRC cash receipts, a more timely indicator of tax performance albeit one that can be influenced by timing effects and one-offs, strongly outperformed our forecast by £4.7 billion (8.5 per cent) in June, and were £3.8 billion (6.7 per cent) higher than in June last year. Much of this strength explains the upward revisions to accrued receipts in earlier months of the year (detailed below). The strength is explained by:
  - **Onshore corporation tax cash receipts** in June were £3.1 billion (34.9 per cent) higher than last year and £3.7 billion (45.3 per cent) above profile. Strong cash receipts in June primarily related to very large companies' payments on current-year liabilities, which reflect the rise in the main rate to 25 per cent and the introduction of the full-expensing capital allowances measure. With both financial and non-financial sectors performing strongly, the surplus against profile is likely to partly reflect profits

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<sup>1</sup> A correction has been made to the monthly profile of index-linked gilts. This has no effect on the profile for PSNB.

<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 (APF, 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).

performing better than expected (for example, because financial sector firms have benefited from the rise in the margin between lending and savings rates).

- **Cash VAT receipts** were £1.2 billion (15.0 per cent) above profile in June and £4.2 billion (11.4 per cent) higher than profile for the first three months of 2023-24. With the majority of these receipts reflecting spending between March and May, this upside surprise may partly reflect higher-than-expected core inflation so far in 2023.
- **PAYE income tax and NICs cash receipts** were £0.7 billion (2.2 per cent) above profile in June. As noted above, higher-than-expected earnings growth is likely to be the main driver of this upside surprise.

5. Spending data remain provisional at this stage of the year, but with that in mind, the upside surprise in year-to-date central government spending (excluding local authority grants and transfers related to quantitative easing) was driven by:

- Higher **consumption spending** (£6.4 billion, or 6.9 per cent, above our March forecast profile), partly reflecting a £2.7 billion increase in May from the non-consolidated part of the NHS pay agreement. This agreement was announced after the Budget, so could not be incorporated in our March forecast.
- Higher **debt interest spending** (£2.0 billion, or 7.1 per cent, above profile) reflecting higher-than-forecast RPI inflation increasing payments on index-linked gilts – these are uprated with a lag and so the surprise so far this year results primarily from RPI inflation in February to April being an average of 1.0 percentage points above our March forecast. Bank Rate has also increased by more than our March forecast assumed.
- These upside surprises were partially offset by lower **central government net investment** (£3.1 billion, or 13.2 per cent, below profile), and lower spending on **net social benefits** (£0.9 billion, or 1.3 per cent, below profile).

6. Borrowing in April and May was revised down by £7.0 billion from last month's estimate, thanks to both higher receipts and lower spending. The £4.3 billion upward revision to receipts reflected the fact that June cash receipts were higher than forecast.

7. Borrowing in 2022-23 was revised down by £2.1 billion to £132.1 billion, thanks to an upward revision to central government receipts, meaning it is now £20.3 billion lower than the estimate in our March 2023 forecast.

8. Public sector net debt (PSND) in June 2023 was 100.8 per cent of GDP, up 3.5 per cent of GDP on a year earlier, but 1.5 per cent of GDP below the monthly profile consistent with our March forecast, thanks to both lower cash debt and higher outturn GDP.

Table 1.1: Public sector receipts, expenditure and net borrowing<sup>1</sup>

	June					April to June				
	2023 outturn	2022 outturn	Change	2023 forecast	Outturn vs forecast	2023-24 outturn	2022-23 outturn	Change	2023-24 forecast	Outturn vs forecast
<b>Central government current receipts</b>	<b>77.4</b>	<b>71.8</b>	<b>5.6</b>	<b>74.5</b>	<b>2.9</b>	<b>226.2</b>	<b>213.2</b>	<b>13.0</b>	<b>218.5</b>	<b>7.7</b>
<i>of which:</i>										
Income tax	18.7	16.7	2.0	18.5	0.2	55.1	48.9	6.1	54.6	0.5
National Insurance contributions	14.7	15.0	-0.3	14.0	0.8	42.4	43.8	-1.5	40.1	2.3
VAT	13.7	13.1	0.6	13.1	0.6	41.2	38.3	2.9	38.4	2.8
Corporation tax <sup>2</sup>	7.5	5.8	1.7	6.3	1.1	21.6	17.6	4.0	18.5	3.1
Other taxes and receipts	22.7	21.1	1.6	22.5	0.2	66.0	64.5	1.5	67.0	-1.0
<b>Central government expenditure</b>	<b>96.7</b>	<b>91.5</b>	<b>5.2</b>	<b>94.4</b>	<b>2.4</b>	<b>294.3</b>	<b>257.7</b>	<b>36.6</b>	<b>289.1</b>	<b>5.2</b>
<i>of which:</i>										
Interest payments	12.5	20.0	-7.5	14.0	-1.4	29.8	34.6	-4.8	27.9	2.0
Net social benefits	24.0	20.1	4.0	23.7	0.3	72.1	60.9	11.2	73.0	-0.9
Net current grants	15.5	13.0	2.4	14.2	1.2	46.4	46.1	0.3	45.6	0.8
Consumption expenditure on goods and services	32.7	30.2	2.4	31.4	1.3	99.4	89.3	10.1	93.0	6.4
Subsidies	3.6	2.2	1.4	3.3	0.3	11.4	6.3	5.1	11.1	0.4
Central government depreciation	3.0	2.8	0.2	2.9	0.2	9.1	8.5	0.7	8.7	0.5
Central government net investment	5.4	3.2	2.2	4.9	0.5	26.0	12.0	14.1	30.0	-4.0
<i>Memo: CGNI ex APF and LA capital grants</i>	<i>4.0</i>	<i>2.4</i>	<i>1.6</i>	<i>3.3</i>	<i>0.7</i>	<i>11.4</i>	<i>8.9</i>	<i>2.5</i>	<i>14.4</i>	<i>-3.1</i>
<b>Public sector net borrowing</b>	<b>18.5</b>	<b>18.9</b>	<b>-0.4</b>	<b>21.1</b>	<b>-2.7</b>	<b>54.4</b>	<b>42.1</b>	<b>12.2</b>	<b>61.9</b>	<b>-7.5</b>
<i>of which:</i>										
Central government net borrowing	19.4	19.8	-0.4	19.9	-0.5	68.1	44.6	23.5	70.6	-2.5
Local authorities net borrowing	-2.6	-0.1	-2.5	-0.1	-2.5	-8.4	-2.7	-5.8	-3.1	-5.3
Public corporations net borrowing	1.7	-0.8	2.5	1.4	0.3	-5.3	0.2	-5.5	-5.6	0.3
Central government current receipts ex Asset Purchase Facility <sup>3</sup>	77.4	71.8	5.6	74.5	2.9	226.2	210.0	16.2	218.5	7.7
Central government expenditure ex local authority grants and APF <sup>3</sup>	82.7	80.0	2.7	81.3	1.4	241.8	220.7	21.1	237.2	4.5
Local authorities net borrowing ex local authority grants <sup>3</sup>	11.4	11.5	0.0	12.9	-1.5	34.3	34.4	-0.1	39.2	-4.9
Public corporations net borrowing ex Asset Purchase Facility <sup>3</sup>	1.7	-0.8	2.5	1.4	0.3	4.5	-2.9	7.4	4.0	0.5

<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/june2023>

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 March 2023 <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>

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

<sup>3</sup> Excluding PSNB-neutral intra-public sector flows (the Asset Purchase Facility and local authority grants) to aid monthly monitoring.