

Commentary on the Public Sector Finances: March 2023

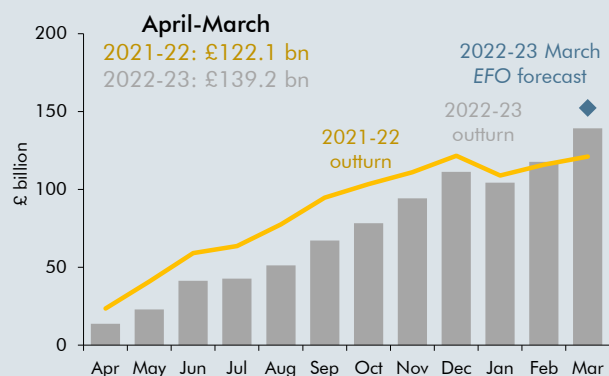
Office for
**Budget
Responsibility**

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2022-23 budget deficit lower than March forecast

The initial full-year estimate of government borrowing in 2022-23 is £139.2 billion, an £18.1 billion increase on the 2021-22 figure but £13.2 billion lower than our March forecast. This difference was driven by central government spending (£8.1 billion lower than forecast), local authorities net borrowing (£3.2 billion below forecast) and public corporations net borrowing (£6.9 billion below), which were partially offset by receipts coming in £5.0 billion lower than expected.

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



Headlines

- **Public sector net borrowing (PSNB)** was £21.5 billion in March, up £16.3 billion on last year. PSNB was £139.2 billion in 2022-23 as a whole – up £18.1 billion (15.0 per cent) on 2021-22 and £13.2 billion (8.6 per cent) below our March forecast. This is the first full-year estimate from the ONS and can be expected to be revised over the coming months.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) reached £924.8 billion in 2022-23, up £91.0 billion (10.9 per cent) on 2021-22 but £5.0 billion (0.5 per cent) below our March forecast, thanks to modest shortfalls in PAYE income tax and a range of other receipts.
- **Central government accrued spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) was £920.3 billion in 2022-23, up £83.5 billion (10.0 per cent) on 2021-22 but £8.1 billion (0.9 per cent) lower than forecast. This was largely thanks to lower debt interest and net investment spending than expected.
- **Net debt** stood at 99.6 per cent of GDP in 2022-23, up 2.3 percentage points on last year thanks to cash debt rising faster than the nominal GDP denominator. Debt was 1.0 per cent of GDP lower than our March forecast in this initial ONS estimate for the year-end.
- **Revisions:** Borrowing in the first eleven months of 2022-23 was revised down by £14.6 billion, in large part due to the ONS incorporating updated student loan losses in outturn data.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the March 2023 Public Sector Finances this morning. Each month the OBR provides a brief analysis of the data and a comparison to our most recent forecast – in this instance our March 2023 *Economic and fiscal outlook (EFO)*. We plan to publish monthly profiles for 2023-24 consistent with this forecast ahead of the next Public Sector Finances release. In this commentary, we compare our full-year March 2023 forecast for 2022-23 to the ONS's initial and provisional estimate of the full-year outturn.
2. The first estimate of public sector net borrowing (PSNB) for 2022-23 as a whole is £139.2 billion – up £18.1 billion (15.0 per cent) on last year but £13.2 billion (8.6 per cent) lower than forecast. Lower-than-expected central government spending, which was £8.1 billion (0.9 per cent) below forecast, was only partially offset by central government receipts coming in £5.0 billion (0.5 per cent) lower than forecast. The rest of the borrowing shortfall was explained by provisional estimates of borrowing by local authorities and public corporations coming in, respectively, £3.2 billion below and £6.9 billion below our March forecast, the latter predominantly driven by lower spending on public sector pensions.¹
3. Central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) in 2022-23 were up £91.0 billion (10.9 per cent) on 2021-22. The strength was broad-based, with all the major taxes – PAYE income tax and NICs, VAT, and onshore corporation tax – showing strong year-on-year growth, alongside double-digit percentage growth rates in self-assessed income tax receipts, air passenger duty, and interest and dividend receipts. Growth in receipts slowed towards the end of the financial year.
4. The first estimate of central government accrued receipts in 2022-23 was £5.0 billion (0.5 per cent) below our full-year March forecast. The data in this release reflect cash payments of tax up to the end of March, plus forecasts for future months where these cash receipts will be accrued back to 2022-23. These figures will be revised as cash forecasts are replaced with outturns. The ONS will also get firmer information for other non-HMRC receipts – notably business rates – over time. The main differences between our March forecast for 2022-23 and initial outturns are:
 - Accrued **PAYE income tax and NICs** receipts were £0.5 billion (0.1 per cent) lower than expected. Our March forecast assumed strong bonus growth in the financial and professional services sectors, of 6.6 per cent and 20 per cent respectively. The shortfall could therefore reflect weaker bonus growth than assumed, particularly from financial services (based on the latest average weekly earnings data from the ONS).
 - Accrued **VAT** receipts for 2022-23 were £0.3 billion (0.2 per cent) below forecast, reflecting weakness in February cash receipts. This figure will be subject to revision as some of the cash receipts paid in April, May and June will accrue back to 2022-23.

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 (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).

- Receipts of **corporation tax** (excluding the bank surcharge) were £1.0 billion (1.3 per cent) higher than forecast. This is more than explained by onshore corporation tax, which is £1.1 billion (1.6 per cent) above our March forecast. Offshore corporation tax receipts were £0.1 billion below forecast. Cash receipts of onshore corporation tax in March were up £3.1 billion (37.6 per cent) on last year, with this month representing the first payment by large companies on 2023 profits (which will be subject to the 6 percentage point rise in the main rate of corporation tax that came into effect in April).
 - Receipts from **self-assessed (SA) income tax and capital gains tax (CGT)** were just £0.1 billion below forecast. Receipts are up £7.6 billion (14.6 per cent) on last year, driven by the strong growth in self-assessed incomes of higher earners and rises in the capital gains of the top 1 per cent of taxpayers.
 - **Stamp duty** receipts were £0.7 billion (3.2 per cent) below forecast, driven by a faster deterioration of stamp duty land tax receipts in February and March than expected.
 - **Electricity generator levy** receipts were £0.8 billion below forecast as the ONS is yet to score accrued outturn in 2022-23. With the first instalment of receipts still to be paid, this will therefore be revised as future cash payments are accrued back.
 - **Interest and dividend receipts** came in £1.7 billion below forecast, although this estimate remains provisional, so could also be subject to revision in the coming months.
 - **Environmental levies** came in £1.1 billion below forecast, mainly due to the capacity markets scheme not yet being included in the ONS figures.
5. The downside surprise in central government spending (excluding local authority grants and transfers related to quantitative easing) in 2022-23 relative to our March forecast was £8.1 billion, or 0.9 per cent. The main differences between our March forecast and initial provisional outturns are:
- Lower **debt interest** spending (£4.9 billion, or 4.4 per cent, below forecast). This is an early estimate, therefore it may be revised in future months.
 - Lower **central government net investment** spending (£4.2 billion, or 6.1 per cent, below forecast). This is partly driven by the fact that the ONS has now incorporated into outturn statistics changes to the student loans regime anticipated in both our November and March forecasts, but at a £10.0 billion reduction in net investment spending in December, the change was £1.4 billion larger than the £8.6 billion reduction we expected. A further portion of the difference is due to the ONS not yet including Bulb sale-related transactions – which were included in our forecast in the form of £1.9 billion of capital grants in 2022-23 – in outturn data.
 - While not included in our headline central government spending estimate, **local authority grants** were £1.3 billion lower than forecast.
6. Year-to date borrowing in the first 11 months of 2022-23 was revised down by £14.6 billion from last month’s estimate, largely thanks to an £11.2 billion downward revision to central

government net investment (which was in turn largely thanks to the ONS incorporating the effect of updated student loans losses in outturn data), alongside a upward revision to accrued receipts of £3.3 billion (owing to upward revisions across a range of receipts). On a like-for-like basis (abstracting from the incorporation of changes to the student loans regime in outturn that was anticipated in both our November and March forecasts) borrowing in the first 11 months of 2022-23 was revised down by £6.0 billion lower, of which £1.4 billion is due to ONS' estimate of the effect of these student loan losses being larger than ours, while the remainder is due to upward revisions to receipts (£3.3 billion) and downward revisions to spending (£1.3 billion).

7. Public sector net debt (PSND) in 2022-23 was 99.6 per cent of GDP, up 2.3 per cent of GDP on a year earlier but 1.0 per cent of GDP lower than our March forecast. Cash debt increased by £148.5 billion (6.2 per cent) over the past year due largely to the continuing budget deficit, but the nominal GDP denominator was up 3.8 per cent over the same period, limiting the year-on-year rise in the debt-to-GDP ratio.
8. For the first time this month the ONS has published an estimate of public sector net worth (PSNW). This is a different variant of PSNW to the one we currently forecast, but we hope to incorporate both versions in future forecasts to allow for more regular monitoring.²

² For more information on our approach to forecasting PSNW, see: Ebdon, J., and F. Khatun, *OBR Working Paper No. 16: Forecasting the balance sheet: Public sector net worth*, October 2021.

Table 1.1: Public sector receipts, expenditure and net borrowing in 2022-23¹

	£ billion				
	2022-23 outturn	2021-22 outturn	Change	2022-23 forecast	Outturn vs forecast
Central government current receipts	929.0	841.1	88.0	934.0	-5.0
<i>of which:</i>					
Income tax	248.2	225.0	23.2	249.8	-1.6
National Insurance contributions	177.6	160.9	16.7	176.7	0.8
VAT	159.3	143.3	16.0	159.6	-0.3
Corporation tax ²	75.3	69.5	5.9	73.9	1.0
Other taxes and receipts	268.6	242.4	26.2	273.9	-4.9
Central government expenditure	1,067	984.1	83.2	1,077	-9.4
<i>of which:</i>					
Interest payments	106.6	72.5	34.0	111.4	-4.9
Net social benefits	254.2	235.1	19.1	256.2	-2.1
Net current grants	177.8	167.5	10.3	176.1	1.7
Consumption expenditure on goods and services	372.6	370.7	1.9	374.3	-1.7
Subsidies	56.0	47.2	8.8	55.7	0.3
Central government depreciation	35.0	31.9	3.0	33.4	1.5
Central government net investment ³	65.3	59.1	6.1	69.5	-4.2
Public sector net borrowing	139.2	121.1	18.1	152.4	-13.2
<i>of which:</i>					
Central government net borrowing	138.3	143.0	-4.8	142.6	-4.4
Local authorities net borrowing	4.6	-3.7	8.3	6.5	-1.9
Public corporations net borrowing	-3.7	-18.3	14.6	3.2	-6.9
Central government current receipts ex Asset Purchase Facility ³	924.8	833.8	91.0	929.8	-5.0
Central government expenditure ex local authority grants and APF ³	920.3	836.9	83.5	928.4	-8.1
Local authorities net borrowing ex local authority grants ³	146.5	143.6	3.0	149.7	-3.2
Public corporations net borrowing ex Asset Purchase Facility ³	-2.8	-25.5	22.7	4.1	-6.9

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/march2023>

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/>

² Less bank surcharge and energy profits levy.

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