

Commentary on the Public Sector Finances: September

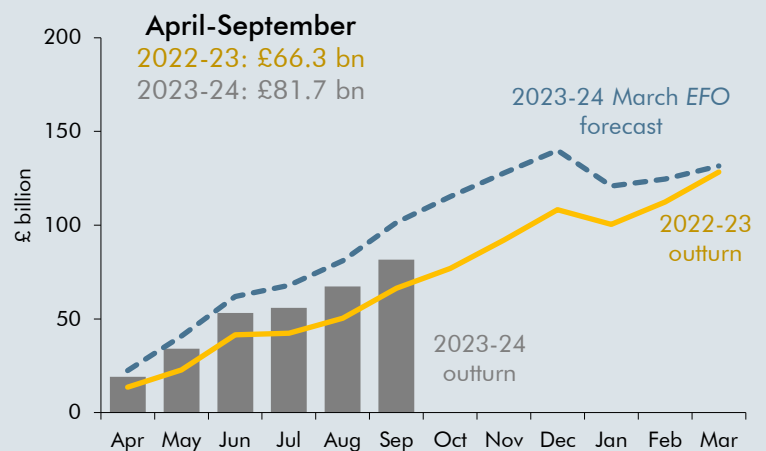
Office for
**Budget
Responsibility**

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Year-to-date borrowing moves further below our forecast

Borrowing in the first six months of 2023-24 totalled £81.7 billion, £15.3 billion above the same period last year but £19.8 billion below the monthly profile consistent with our March forecast. The difference with our forecast is more than explained by higher central government receipts (£14.7 billion above profile), reflecting stronger nominal tax bases, alongside lower borrowing by local authorities (£6.6 billion). This is partly offset by higher borrowing by public corporations and central government spending which were £0.9 billion and £0.6 billion above profile respectively.

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



Headlines

- **Public sector net borrowing (PSNB)** was £14.3 billion in September and £81.7 billion in the first six months of 2023-24. The latter is £15.3 billion (23.1 per cent) above the same period last year but £19.8 billion (19.5 per cent) below our March 2023 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £77.3 billion in September, up £3.4 billion (4.6 per cent) on last year and £1.8 billion (2.5 per cent) above our March profile. Year-to-date accrued receipts are £14.7 billion (3.3 per cent) above profile.
- **Central government accrued spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) was £77.0 billion in September, down £1.1 billion (1.5 per cent) on last year and £3.4 billion (4.3 per cent) below profile. Year-to-date spending is £0.6 billion (0.1 per cent) above profile due to higher consumption, partially offset by lower debt interest payments. The undershoot this month is more than explained by lower debt interest payments (£4.1 billion below profile).
- **Net debt** in September 2023 was 97.8 per cent of GDP, up 2.2 per cent of GDP on a year earlier, but 5.3 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 the first five months of 2023-24 was revised down by £2.3 billion, predominantly thanks to lower central government expenditure. Borrowing in 2022-23 was revised down by £0.2 billion, meaning it is now £24.1 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 September 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.
2. Borrowing in the first six months of 2023-24 was £81.7 billion, up £15.3 billion (23.1 per cent) on last year and £19.8 billion (19.5 per cent) lower than our March forecast. This undershoot is largely explained by central government accrued receipts coming in £14.7 billion (3.3 per cent) above profile, partially offset by higher-than-forecast central government spending (£0.6 billion, or 0.1 per cent, above profile). Borrowing by local authorities also contributed to the overall difference, at £6.6 billion (8.2 per cent) below forecast, while borrowing by public corporations was £0.9 billion (9.9 per cent) above forecast.¹
3. The overshoot in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far this year reflects surpluses in onshore corporation tax (£7.0 billion, or 19.2 per cent, above forecast), PAYE income tax and NICs (£6.5 billion, or 3.5 per cent, above forecast) and VAT (£6.4 billion or 8.1 per cent) above forecast. Data for the first six months of the financial year can be distorted by the usual volatility in receipts and one-offs, but the consistent surpluses against the March profile suggest stronger-than-anticipated growth in nominal tax bases, such as wages and salaries, nominal consumer spending, and profits.
4. HMRC cash receipts, a more timely indicator of tax performance albeit one that can be influenced by timing effects and one-offs, outperformed our forecast by £3.0 billion (5.2 per cent) in September, and were £3.2 billion (5.5 per cent) higher than in September last year.
 - **PAYE income tax and NICs** cash receipts in September were £0.5 billion (1.8 per cent) above profile and £1.2 billion (4.0 per cent) higher than last year. For the year to date, receipts are £5.4 billion (2.7 per cent) above profile which is likely to continue to reflect higher-than-forecast pay growth.
 - **Cash VAT receipts** were £1.1 billion (12.4 per cent) below profile in September but £7.0 billion (9.3 per cent) higher than profile for the first six months of 2023-24. The deficit this month reflects higher repayments than forecast which largely offsets lower repayments in the August data.
 - **Onshore corporation tax cash receipts** in September were £3.6 billion (34.6 per cent) above profile and in the year to date receipts are £8.8 billion (29.5 per cent) above profile. September represents a peak month for corporation tax receipts particularly from large and very large companies. There is little sign yet that the surpluses against profile recorded so far this financial year are starting to moderate.

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).

- The first payments of the **electricity generator levy** were made in September. This is the tax announced last Autumn on the returns of electricity generators who benefit from higher wholesale electricity prices. Receipts are £0.8 billion below profile for the year to date. Relative to our March forecast, wholesale electricity prices have also been significantly lower than expected.
5. Spending data remain provisional at this stage of the year, but with that in mind, the upside surprise of £0.6 billion in year-to-date central government spending (excluding local authority grants and transfers related to quantitative easing) was driven by:
 - Higher **consumption spending** (£11.7 billion, or 6.2 per cent, above our March forecast profile in the year to date), partly reflecting an increase in spending following the civil service pay agreement and a £2.7 billion increase in May from the non-consolidated part of the NHS pay agreement. These agreements were announced after the Budget, so could not be incorporated in our March forecast.
 - This upside surprise was largely offset by lower **debt interest spending** (£4.3 billion below profile), **net social benefits** (£2.2 billion below profile) and **net current grants** (£2.1 billion below profile) in the year to date. The shortfall in debt interest payments so far this year is almost entirely explained by lower debt interest payments this month. September debt interest spending was £4.1 billion below profile, and the third lowest in any month since monthly records began in 1997, reflecting the fall in RPI between June and July which is used to uprate the cost of index-linked gilts. The monthly fall in RPI between June and July was largely due to the fall in the Ofgem price cap.
 6. Borrowing between April and August was revised down by £2.3 billion from last month's estimate, thanks to lower central government spending of £2.0 billion, due to downward revisions to consumption spending and subsidies and higher central government receipts of £0.3 billion.
 7. Borrowing in 2022-23 was revised down by £0.2 billion to £128.3 billion, thanks to an upward revision to central government receipts, meaning it is now £24.1 billion lower than the estimate in our March 2023 forecast.
 8. Public sector net debt (PSND) in September 2023 was 97.8 per cent of GDP, up 2.2 per cent of GDP on a year earlier, but 5.3 per cent of GDP below the monthly profile consistent with our March forecast thanks to both lower cash debt and higher outturn GDP. Nominal GDP was revised up this month reflecting Blue-Book consistent revisions.

Public sector receipts, expenditure and net borrowing¹

	September					April to September				
	2023 outturn	2022 outturn	Change	2023 forecast	Outturn vs forecast	2023-24 outturn	2022-23 outturn	Change	2023-24 forecast	Outturn vs forecast
Central government current receipts	77.3	73.9	3.4	75.4	1.8	467.0	442.3	24.7	452.3	14.7
<i>of which:</i>										
Income tax	18.2	16.5	1.7	17.7	0.4	120.8	108.0	12.8	117.9	2.9
National Insurance contributions	14.8	15.0	-0.2	14.2	0.6	85.8	88.2	-2.4	81.5	4.2
VAT	15.0	13.7	1.3	13.9	1.0	85.3	78.5	6.8	79.0	6.4
Corporation tax ²	7.8	6.6	1.1	6.9	0.9	44.9	37.4	7.6	38.9	6.0
Other taxes and receipts	21.6	22.2	-0.6	22.7	-1.1	130.2	130.2	-0.1	135.0	-4.8
Central government expenditure	88.0	88.5	-0.5	92.1	-4.0	565.6	510.5	55.1	563.7	1.9
<i>of which:</i>										
Interest payments	0.7	7.9	-7.2	4.8	-4.1	44.2	57.8	-13.6	48.5	-4.3
Net social benefits	27.7	25.8	1.9	28.3	-0.5	146.3	130.2	16.1	148.5	-2.2
Net current grants	13.2	12.8	0.4	13.7	-0.5	85.8	85.3	0.5	88.0	-2.1
Consumption expenditure on goods and services	33.1	30.3	2.7	31.1	2.0	198.7	181.8	16.9	187.1	11.7
Subsidies	2.2	2.2	0.0	2.2	0.0	16.6	12.9	3.7	17.5	-0.9
Central government depreciation	2.9	2.8	0.1	2.9	0.0	17.9	16.8	1.0	17.4	0.5
Central government net investment	8.2	6.6	1.6	9.1	-0.8	56.1	25.6	30.5	56.8	-0.6
<i>Memo: CGNI ex APF and LA capital grants</i>	<i>7.2</i>	<i>5.9</i>	<i>1.3</i>	<i>7.8</i>	<i>-0.5</i>	<i>23.3</i>	<i>18.9</i>	<i>4.3</i>	<i>25.4</i>	<i>-2.1</i>
Public sector net borrowing	14.3	15.9	-1.6	20.5	-6.2	81.7	66.3	15.3	101.5	-19.8
<i>of which:</i>										
Central government net borrowing	10.7	14.6	-3.8	16.6	-5.9	98.6	68.2	30.4	111.5	-12.8
Local authorities net borrowing	1.7	2.1	-0.4	2.0	-0.3	-3.3	1.1	-4.4	-1.0	-2.4
Public corporations net borrowing	1.9	-0.7	2.7	2.0	0.0	-13.6	-3.0	-10.7	-9.0	-4.7
Central government current receipts ex Asset Purchase Facility ³	77.3	73.9	3.4	75.4	1.8	467.0	438.1	28.9	452.3	14.7
Central government expenditure ex local authority grants and APF ³	77.0	78.1	-1.1	80.4	-3.4	463.7	439.1	24.6	463.1	0.6
Local authorities net borrowing ex local authority grants ³	12.7	12.4	0.3	13.6	-0.9	74.5	72.5	2.0	81.2	-6.6
Public corporations net borrowing ex Asset Purchase Facility ³	1.9	-0.7	2.7	2.0	0.0	10.5	-7.1	17.6	9.5	0.9

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/september2023>

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, electricity generator levy and energy profits levy.

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