

Commentary on the Public Sector Finances: August 2022

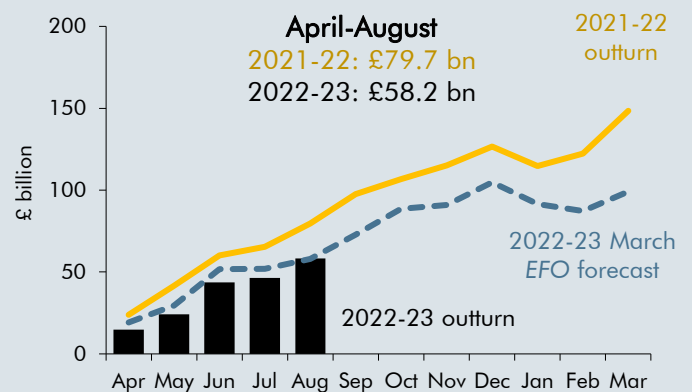
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Year-to-date deficit on track, but policy costs set to mount

Borrowing in the first five months of 2022-23 was just £0.2 billion above our March forecast profile, with higher debt interest payments (£9.0 billion above profile) offset by downside surprises elsewhere. But energy bill support measures have yet to have a material effect on the public finances. The May package has so far added £2.4 billion to spending, with costs set to rise from October. This month's much larger measures, including the energy price guarantee, will raise borrowing significantly through the second half of 2022-23. Various ONS revisions have materially lowered previous estimates of borrowing in 2021-22 and for the year to date.

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



Headlines

- **Public sector net borrowing (PSNB)** was £11.8 billion in August and £58.2 billion in the first five months of 2022-23. The latter is £21.4 billion (26.9 per cent) below the same period last year and is just £0.2 billion (0.4 per cent) above our March 2022 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £69.6 billion in August, up £5.6 billion (8.7 per cent) on last year but £0.9 billion (1.3 per cent) below our March forecast. Year-to-date receipts are £0.9 billion (0.3 per cent) below profile.
- **Central government spending** (excluding PSNB-neutral local authority grants) in August was £69.9 billion, £1.1 billion (1.6 per cent) higher than last year and £5.1 billion (7.9 per cent) above forecast. Year-to-date spending is £10.5 billion (3.0 per cent) above forecast, reflecting upside surprises in inflation-linked debt interest payments, spending on goods and services, and net social benefits (the latter boosted by cost-of-living payments to recipients of means-tested benefits).
- **Net debt** in August stood at 96.6 per cent of GDP. This is up 1.9 per cent of GDP on a year earlier, and is 1.1 per cent of GDP above our March forecast.
- **Revisions:** Borrowing in first four months of 2022-23 was revised down by £8.6 billion (15.6 per cent) reflecting both methodological and data updates. Borrowing in 2021-22 was also revised down by £10.4 billion (7.2 per cent), bringing it much closer to our March forecast. By contrast, public sector net debt has been revised up due to, among other things, more leases being treated as debt.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the August 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 March 2022 *Economic and fiscal outlook (EFO)*. We compare the latest outturns with monthly profiles consistent with this forecast that were published on 12 May.
2. Borrowing in the first five months of 2022-23 of £58.2 billion was down £21.4 billion (26.9 per cent) on last year, and is just £0.2 billion (0.4 per cent) above forecast. This small difference reflects several larger but largely offsetting surprises: public corporations' borrowing (especially pensions) is currently £4.8 billion below profile and local authorities' borrowing is £6.5 billion below, while central government receipts are £0.9 billion (0.3 per cent) below profile and central government spending is £10.5 billion (3.0 per cent) above profile.¹
3. Year-to-date borrowing includes relatively little of the cost of support measures that have been announced so far this year. Of February's announcements, the £2.7 billion cost of council tax rebates added to spending in April (and was reflected in our March forecast). Of May's announcements, £2.4 billion of payments to recipients of means-tested benefit added to spending in July (and was *not* reflected in our March forecast). But the universal £400 energy bills rebate will not add to spending until October (only half of which we knew about in March), nor will the much larger cost of the energy price freeze for households and the other measures announced by the new administration this month. These costs mean that borrowing can be expected to overshoot our March forecast significantly in the second half of 2022-23.
4. The downside surprise in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far in 2022-23 reflects shortfalls in interest and dividends receipts, which were £1.1 billion below profile (despite interest rates having risen largely as forecast), and modest shortfalls across a range of other taxes, including fuel duty.
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 £0.4 billion (0.6 per cent) below our March forecast profile in August. The small shortfall in August represents a combination of offsetting factors, with higher-than-expected income tax and NICs receipts (£0.4 billion above profile) and onshore corporation tax (£0.5 billion above profile) offset by a large shortfall in VAT receipts (£1.4 billion below profile). Key developments include:
 - **Cash VAT receipts** in August were £1.4 billion (9.8 per cent) below profile, but £1.9 billion (2.9 per cent) above profile for the year to date (some of this cash surplus relates to spending in 2021-22, so accrued receipts are just £0.1 billion above profile for the year to date). Higher-than-expected inflation will explain some of the year-to-date surplus in VAT receipts, but the nature of the inflation surprise is likely to have tempered the boost to receipts. Current CPI inflation of around 10 per cent is 2½

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

percentage points above our March forecast, but around a third of that surprise was due to food prices (which are zero-rated for VAT) rising faster than expected.

- **Onshore corporation tax cash receipts** were £0.5 billion (21.1 per cent) above profile in August and £4.5 billion (26.3 per cent) above profile for the year to date. Much of the strength in cash receipts this month relates to payments by small companies on last year's profits, which therefore accrue back to 2021-22.
- **Income tax and NICs cash receipts** were £0.4 billion (1.1 per cent) above profile in August and £2.2 billion above for the year to date, mostly reflecting stronger-than-expected April cash receipts on March bonuses. The surplus this month may be due to employers delaying some pay from June to July – thereby boosting August receipts relative to July – to take advantage of the July increase in the NICs primary threshold.

6. The upside surprise in central government spending (excluding local authority grants) so far in 2022-23 is driven by:

- Higher spending on **debt interest costs** (£9.0 billion, or 22.3 per cent, above profile), reflecting higher-than-forecast RPI inflation increasing accrued spending on index-linked gilts. RPI inflation averaged 11.8 per cent in the first five months of this year, 1.7 percentage points above our March forecast.
- Higher-than-expected **spending on goods and services** (£4.1 billion, or 2.8 per cent, above profile). This could reflect departments underspending their resource budgets by less than we assumed, although the data are still subject to revision.
- Higher spending on **net social benefits** (£3.6 billion, or 3.6 per cent, above profile), largely reflecting £2.4 billion in cost-of-living payments to recipients of means-tested benefits.² These were announced in May so were not included in our March forecast.
- These upside surprises were partly offset by a £6.8 billion (25.4 per cent) shortfall in **net investment spending** in the year to date, and a £2.9 billion shortfall in **subsidies**. 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 later in the year.

7. Year-to-date borrowing in the first four months of 2022-23 was revised down by £8.6 billion from last month's estimate, thanks to upward revisions to central government receipts (particularly business rates) of £2.3 billion, downward revisions to central government spending of £1.5 billion, and downward revisions of £4.8 billion to borrowing by other parts of the public sector (in particular in respect of local government and pensions).

8. Borrowing in 2021-22 was revised down by £10.4 billion from last month's estimate, thanks to methodological changes and data updates in relation to business rates, leases, pensions and student loans. The latest estimate is now £18.2 billion lower than the ONS's initial estimate published in April. This means that, after accounting for the fact that updated

² Department for Work and Pensions, *7.2 million Cost of Living payments made to low-income families*, July 2022.

estimates of calls on Covid loan guarantees were reflected in our March forecast but are not yet in the ONS data, the upside surprise relative to our March forecast is now just £0.7 billion.

9. Public sector net debt (PSND) in August 2022 was 96.6 per cent of GDP, up 1.9 per cent of GDP on a year earlier, and 1.1 per cent of GDP above our March 2022 monthly forecast profile. That upside surprise largely reflects data revisions rather than a faster year-on-year rise than predicted in our March forecast. PSND at the end of 2021-22 has been revised up by 1.3 per cent of GDP to 96.8 per cent due to methodology changes for central government leases, and data updates for public corporations (in particular pensions).

Table 1.1: Public sector receipts, expenditure and net borrowing¹

	August			April to August						
	2022 outturn	2021 outturn	Change	2022 forecast	Outturn vs forecast	2022-23 outturn	2021-22 outturn	Change	2022-23 forecast	Outturn vs forecast
Central government current receipts	69.6	64.1	5.6	70.5	-0.9	359.7	319.1	40.6	360.6	-0.9
<i>of which:</i>										
Income tax	17.2	16.3	0.9	17.9	-0.7	91.9	83.7	8.2	93.7	-1.8
National Insurance contributions	14.3	12.9	1.4	14.2	0.1	73.2	62.7	10.5	71.4	1.8
VAT	12.9	11.3	1.6	12.8	0.0	63.2	55.6	7.6	63.1	0.1
Corporation tax ²	5.2	4.9	0.3	5.3	-0.1	26.3	24.7	1.6	26.2	0.1
Other taxes and receipts	20.0	18.7	1.4	20.3	-0.2	105.1	92.4	12.7	106.1	-1.0
Central government expenditure	79.6	78.7	0.9	75.5	4.1	420.3	417.0	3.3	416.0	4.3
<i>of which:</i>										
Interest payments	8.2	6.8	1.5	4.9	3.3	49.0	29.7	19.3	40.1	9.0
Net social benefits	20.8	19.7	1.1	20.3	0.5	104.5	98.7	5.8	100.9	3.6
Net current grants	11.5	12.3	-0.8	12.4	-0.9	71.3	74.6	-3.3	73.9	-2.5
Consumption expenditure on goods and services	30.5	28.8	1.7	28.8	1.7	151.3	149.5	1.8	147.2	4.1
Subsidies	2.1	5.4	-3.4	2.7	-0.6	10.4	29.5	-19.0	13.3	-2.9
Central government depreciation	2.8	2.6	0.1	2.8	0.0	13.7	13.1	0.6	13.8	-0.1
Central government net investment	3.6	3.0	0.6	3.6	0.0	20.0	21.8	-1.9	26.8	-6.8
Public sector net borrowing	11.8	14.4	-2.6	6.0	5.8	58.2	79.7	-21.4	58.0	0.2
<i>of which:</i>										
Central government net borrowing	9.9	14.6	-4.7	5.0	5.0	60.5	97.9	-37.3	55.4	5.2
Local authorities net borrowing	2.5	1.8	0.6	1.1	1.4	-1.5	-9.6	8.1	-1.3	-0.2
Public corporations net borrowing	-0.6	-2.1	1.5	0.0	-0.5	-0.8	-8.6	7.8	3.9	-4.7
Central government current receipts ex Asset Purchase Facility ³	69.6	64.1	5.6	70.5	-0.9	355.5	317.3	38.3	356.4	-0.9
Central government expenditure ex local authority grants ³	69.9	68.8	1.1	64.7	5.1	360.3	349.1	11.2	349.8	10.5
Local authorities net borrowing ex local authority grants ³	12.2	11.7	0.4	11.9	0.3	58.4	58.3	0.2	64.9	-6.5
Public corporations net borrowing ex Asset Purchase Facility ³	-0.6	-2.1	1.5	0.0	-0.5	-4.9	-10.4	5.5	-0.2	-4.8

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/august2022>

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

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

² Less bank surcharge.

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