

Commentary on the Public Sector Finances: August

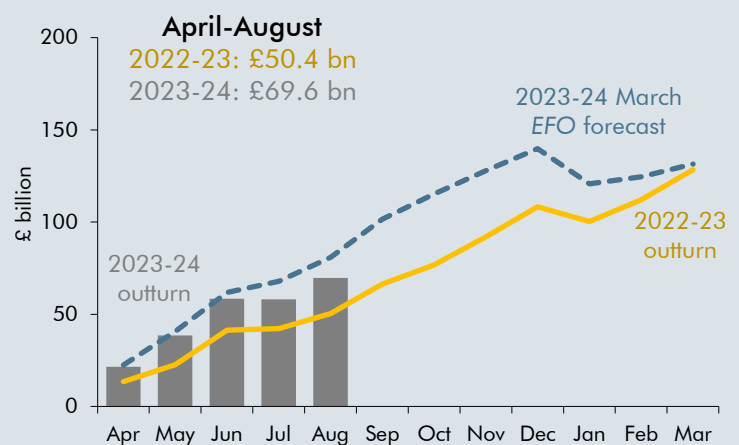
Office for
**Budget
Responsibility**

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Strong receipts keep borrowing below profile

Borrowing in the first five months of 2023-24 totalled £69.6 billion, £19.3 billion above the same period last year but £11.3 billion below the monthly profile consistent with our March forecast. The downside surprise is more than explained by higher central government receipts (£12.6 billion above profile), reflecting stronger nominal tax bases. This was partly offset by higher central government spending which was £8.2 billion above profile partly reflecting higher-than-forecast public sector pay awards.

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



Headlines

- **Public sector net borrowing (PSNB)** was £11.6 billion in August and £69.6 billion in the year-to-date. The latter is £19.3 billion (38.2 per cent) above the same period last year but £11.3 billion (14.0 per cent) below our March 2023 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £76.6 billion in August, up £3.1 billion (4.2 per cent) on last year and £1.2 billion (1.6 per cent) above our March profile. Year-to-date accrued receipts are £12.6 billion (3.3 per cent) above profile. HMRC cash receipts continue to be strong – in part likely due 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 £73.5 billion in August, up £3.4 billion (4.8 per cent) on last year and £0.7 billion (1.0 per cent) above profile. Year-to-date spending is £6.1 billion (1.6 per cent) above profile due to higher consumption spending, partially offset by lower social benefits and grants.
- **Net debt** in August 2023 was 98.8 per cent of GDP, up 2.3 per cent of GDP on a year earlier, but 3.8 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 four months of 2023-24 was revised down by £1.5 billion, reflecting ONS completing regular annual data updates. Borrowing in 2022-23 was revised down by £2.2 billion, meaning it is now £23.9 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 August 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 five months of 2023-24 was £69.6 billion, up £19.3 billion (38.2 per cent) on last year and £11.3 billion (14.0 per cent) lower than our March forecast. This undershoot is more than explained by central government accrued receipts coming in £12.6 billion (3.3 per cent) above profile, partially offset by higher-than-forecast central government spending (£6.1 billion, or 1.6 per cent, above profile). Borrowing by local authorities also contributed to the overall downside surprise, coming in £5.8 billion (8.5 per cent) below forecast, while borrowing by public corporations was £0.9 billion (12.5 per cent) above forecast.¹
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 (£6.9 billion, or 4.4 per cent, above forecast), VAT (£7.0 billion, or 10.8 per cent, above forecast) and onshore corporation tax (£2.6 billion, or 8.6 per cent, above forecast). This is partially offset by less-than-forecasted offshore receipts (£1.7 billion, or 37.2 per cent below forecast).
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 £2.7 billion (4.6 per cent) in August, and were £2.4 billion (4.1 per cent) higher than in August last year. For the year-to-date, HMRC cash receipts were £15.8 billion (5.0 per cent above profile):
 - **PAYE income tax and NICs** cash receipts in August were £1.1 billion (3.4 per cent) higher than last year and £1.0 billion (3.3 per cent) above profile. This surplus in PAYE and NICs cash receipts this month is likely to be primarily due to stronger earnings growth. Cash receipts in August relate to July salaries which were boosted by backdated pay awards and one-off payments from the Civil Service pay agreement.
 - **Self-assessed income tax** receipts in August were £1.0 billion (38.6 per cent) below profile. With the due date for the second payment on account on 2022-23 liabilities at the end of July, it is better to look at July and August combined. For the two months combined, SA income tax receipts were £0.9 billion (7.4 per cent) above profile. The 2023-24 picture will be unclear until the majority of taxpayers' liabilities are paid in January 2024.
 - **Cash VAT receipts** were £2.2 billion (16.9 per cent) above profile in August and £8.1 billion (12.0 per cent) higher than profile for the first five months of 2023-24. The August cash number was boosted by unusually low VAT repayments which could be a timing effect. Abstracting from this, VAT receipts have been significantly stronger than profiled.

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).

Real consumer spending has held up better than expected, core inflation has surprised on the upside and possibly the composition of spending has been more VAT-friendly than expected.

- **Onshore corporation tax** cash receipts in August were £0.4 billion (17.8 per cent) below profile. However, August is a quiet month for receipts. The months that have recorded the biggest surpluses vs profile have been the ones when most very large companies pay their instalment payments. Their next payment in September will show whether the strength in receipts recorded in March and June has been repeated.

5. Spending data remains 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** (£10.3 billion, or 6.6 per cent, above our March forecast profile), partly reflecting an increase in spending on pay agreements, where the difference includes the £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.
 - The upside surprise was partly offset by lower-than-expected **social benefits** (£2.0 billion, or 1.6 per cent, below profile and **current grants** (£1.5 billion below profile or 9.9 per cent).
6. Borrowing between April and July was revised down by £1.5 billion from last month's estimate, thanks to stronger central government receipts of £1.0 billion and a downward revision to central government net investment of £0.8 billion. Partially offset by upward revisions to consumption of £0.7 billion.
7. Borrowing in 2022-23 was revised down by £2.2 billion to £128.4 billion, meaning it is now £23.9 billion lower than the estimate in our March 2023 forecast. Latest data reduced funded pensions borrowing by £4.5 billion and other public corporations by £1.6 billion. While local government borrowing was increased by £3.9 billion.
8. Public sector net debt (PSND) in August 2023 was 98.8 per cent of GDP, up 2.3 per cent of GDP on a year earlier, but 3.8 per cent of GDP below the monthly profile consistent with our March forecast. These estimates will be revised in next month's release following updated GDP figures due on 29 September.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

| | August | | | | | April to August | | | | |
|---|-----------------|-----------------|------------|------------------|------------------------|--------------------|--------------------|-------------|---------------------|------------------------|
| | 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 | 76.6 | 73.5 | 3.1 | 75.4 | 1.2 | 389.4 | 368.4 | 21.0 | 376.8 | 12.6 |
| <i>of which:</i> | | | | | | | | | | |
| Income tax | 18.6 | 17.4 | 1.3 | 19.0 | -0.4 | 102.8 | 91.6 | 11.3 | 100.2 | 2.7 |
| National Insurance contributions | 14.3 | 14.5 | -0.1 | 13.5 | 0.8 | 71.2 | 73.2 | -1.9 | 67.4 | 3.9 |
| VAT | 14.6 | 13.6 | 1.0 | 13.7 | 0.9 | 72.1 | 64.8 | 7.2 | 65.0 | 7.0 |
| Corporation tax ² | 6.9 | 6.5 | 0.5 | 6.7 | 0.2 | 33.8 | 30.6 | 3.2 | 32.0 | 1.8 |
| Other taxes and receipts | 22.1 | 21.7 | 0.4 | 22.5 | -0.3 | 109.5 | 108.2 | 1.2 | 112.2 | -2.8 |
| Central government expenditure | 84.9 | 80.6 | 4.3 | 84.8 | 0.1 | 479.9 | 422.0 | 57.9 | 471.7 | 8.2 |
| <i>of which:</i> | | | | | | | | | | |
| Interest payments | 5.6 | 8.6 | -3.1 | 7.8 | -2.2 | 43.5 | 49.9 | -6.4 | 43.7 | -0.2 |
| Net social benefits | 23.5 | 20.8 | 2.7 | 23.6 | -0.1 | 118.3 | 104.4 | 13.9 | 120.3 | -2.0 |
| Net current grants | 13.1 | 12.4 | 0.7 | 13.5 | -0.3 | 73.0 | 72.5 | 0.5 | 74.3 | -1.2 |
| Consumption expenditure on goods and services | 32.8 | 30.3 | 2.5 | 30.7 | 2.2 | 166.2 | 151.5 | 14.7 | 156.0 | 10.3 |
| Subsidies | 2.2 | 2.2 | 0.0 | 2.2 | 0.1 | 15.4 | 10.7 | 4.7 | 15.3 | 0.1 |
| Central government depreciation | 2.9 | 2.8 | 0.1 | 2.9 | 0.0 | 14.9 | 14.0 | 0.9 | 14.5 | 0.5 |
| Central government net investment | 4.7 | 3.5 | 1.3 | 4.2 | 0.5 | 48.5 | 19.0 | 29.5 | 47.7 | 0.8 |
| <i>Memo: CGNI ex APF and LA capital grants</i> | <i>3.5</i> | <i>2.6</i> | <i>0.9</i> | <i>2.5</i> | <i>0.9</i> | <i>16.5</i> | <i>13.0</i> | <i>3.5</i> | <i>17.6</i> | <i>-1.1</i> |
| Public sector net borrowing | 11.6 | 8.1 | 3.5 | 13.0 | -1.4 | 69.6 | 50.4 | 19.3 | 81.0 | -11.3 |
| <i>of which:</i> | | | | | | | | | | |
| Central government net borrowing | 8.3 | 7.1 | 1.2 | 9.4 | -1.1 | 90.5 | 53.6 | 36.9 | 94.9 | -4.3 |
| Local authorities net borrowing | 1.4 | 2.0 | -0.6 | 1.8 | -0.5 | -5.3 | -1.0 | -4.3 | -2.9 | -2.3 |
| Public corporations net borrowing | 1.9 | -0.9 | 2.8 | 1.8 | 0.1 | -15.6 | -2.2 | -13.4 | -10.9 | -4.7 |
| Central government current receipts ex Asset Purchase Facility ³ | 76.6 | 73.5 | 3.1 | 75.4 | 1.2 | 389.4 | 364.3 | 25.1 | 376.8 | 12.6 |
| Central government expenditure ex local authority grants and APF ³ | 73.5 | 70.2 | 3.4 | 72.8 | 0.7 | 388.7 | 361.0 | 27.8 | 382.7 | 6.1 |
| Local authorities net borrowing ex local authority grants ³ | 12.7 | 12.4 | 0.3 | 13.8 | -1.0 | 61.8 | 60.1 | 1.7 | 67.6 | -5.8 |
| Public corporations net borrowing ex Asset Purchase Facility ³ | 1.9 | -0.9 | 2.8 | 1.8 | 0.1 | 8.5 | -6.4 | 14.9 | 7.6 | 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/august2023>

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.