Commentary on the Public Sector Finances: August 2025

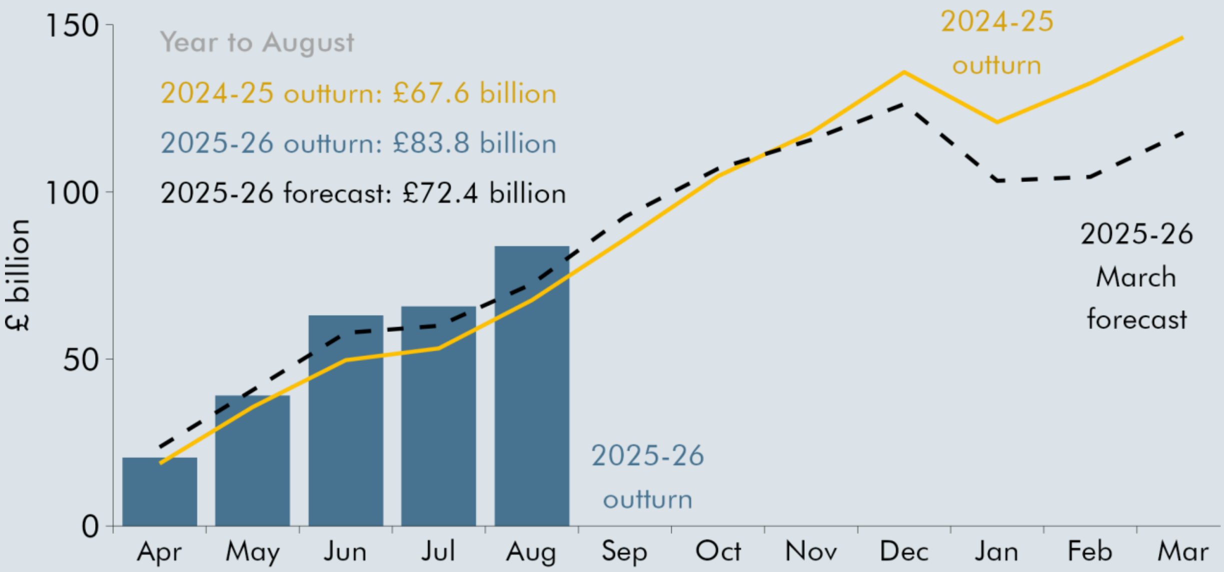
19 September 2025

Office for **Budget Responsibility**

Local authority revisions and lower-than-expected receipts push borrowing above forecast

This morning's ONS release[1] estimates that borrowing in the first five months of 2025-26 totalled £83.8 billion. This is £16.2 billion above the same period last year and £11.4 billion above the monthly profile consistent with our March forecast. The overshoot in this month's estimates compared to our March forecast profile is primarily due to revisions which have increased estimated borrowing by local authorities so far this year. In addition, VAT and other receipts were lower-than-expected in the month of August.

Public sector net borrowing in the year to date:
March 2025 OBR forecast vs latest ONS outturns



The revisions by the ONS to local authority borrowing so far this year are based on provisional budget data, and therefore subject to further revisions. Typically, local authority borrowing data is revised significantly as additional data becomes available through the financial year and in subsequent years. In today's release, ONS have also incorporated new information on local authority borrowing in previous fiscal years, which has increased borrowing in 2022-23 by £2.9 billion and 2023-24 by £2.7 billion.

[1] In this commentary we compare latest outturns with monthly profiles consistent with our March *Economic and fiscal outlook*.

Borrowing and debt

Public sector net borrowing was £83.8 billion in the first five months of 2025-26. This was £16.2 billion (24.0 per cent) above the same period last year and £11.4 billion (15.7 per cent) above forecast. Within this, central government net borrowing was £85.4 billion, £6.3 billion (8.0 per cent) above forecast, while borrowing by local authorities was £1.6 billion, £2.8 billion above forecast and borrowing by public corporations was -£3.2 billion (a surplus), £2.3 billion (41.2 per cent) below forecast.

In the profiles consistent with our March 2025 forecast we expect lower borrowing in the second half of 2025-26 relative to 2024-25, reflecting a sharp rise in capital gains tax expected around the end-January due date, lower debt interest payments in the second half of the year, and lower growth in central government net social benefits which were unusually backloaded last year.

The current budget deficit was £62.0 billion in the first five months of 2025-26, £15.3 billion (32.8 per cent) above forecast, while the central government net cash requirement was £73.2 billion, £10.2 billion (16.2 per cent) above forecast.

Net debt in August stood at 96.4 per cent of GDP, up 0.5 per cent of GDP on a year earlier, and 0.7 per cent of GDP above forecast.

Central government receipts

Central government accrued receipts in the first five months of 2025-26 were £6.1 billion (1.4 per cent) below forecast. Monthly HMRC cash receipts, a more timely indicator of tax performance albeit one that can be influenced by timing effects and one-offs, were £4.1 billion (6.2 per cent) below forecast and £2.1 billion (3.5 per cent) above last year in August. Within this:

- **Cash VAT receipts** were £12.8 billion in August, £3.2 billion (19.9 per cent) below forecast, and £1.4 billion (9.8 per cent) below last year. Cash receipts of VAT in August mainly relate to spending between May and July. Previous month's VAT receipts have been close to profile and nominal consumption, which drives VAT receipts, also appears to have been close to forecast so far this year. It is possible therefore that part of the August shortfall could be a one-off effect for example due to the timing of payments and repayments. It is also possible it could reflect the composition of spending if higher-than-expected food prices has led to more spending on zero-VAT rated items. For the year to date, cash VAT receipts are £3.0 billion (3.8 per cent) below forecast.

- **PAYE income tax and NICs** cash receipts were £36.8 billion in August, which is very close to forecast (just £0.1 billion (0.3 per cent) below forecast). These receipts are £3.8 billion (11.5 per cent) above last year, with employer NICs up 27 per cent on a year earlier mainly due to policy changes announced at the last Budget. For the year to date, PAYE income tax and NICs receipts remain very close to forecast (just £0.2 billion (0.1 per cent) above). Earnings growth of 4.7 per cent in the three months to July was also in line with the March forecast.

- **Self-assessed (SA) income tax and capital gains tax** cash receipts were £1.5 billion in August, £0.5 billion (23.6 per cent) below forecast, and £0.2 billion (11.9 per cent) below last year. This shortfall largely offsets higher-than-expected SA receipts in July. For the year to date, SA income tax and CGT receipts are close to forecast (£0.2 billion (0.9 per cent) below).

Central government accrued spending

Monthly figures for government consumption and net investment can be volatile, so the year-to-date position provides a better indicator of progress against the forecast. Central government accrued spending is currently estimated to be very close to forecast (just £0.2 billion above forecast) over the first five months of 2025-26. Within this:

- **Consumption expenditure on goods and services** was £2.9 billion (1.5 per cent) above forecast over the first five months of 2025-26.

- **Net social benefits** spending was £1.9 billion (1.4 per cent) above forecast.

- **Central government net investment (CGNI)** was £2.9 billion (7.3 per cent) below forecast. Data on departmental investment spending is particularly prone to revision, so this shortfall in the first half of the fiscal year may unwind in subsequent months.

- Other central government spending was close to forecast. **Net current grants** were £1.0 billion (1.3 per cent) below forecast, **debt interest** spending was £0.4 billion (0.7 per cent) above forecast, and **subsidies** were £0.3 billion (2.8 per cent) below forecast.

Revisions

Borrowing over the current and previous fiscal years has been revised.

- In the year to July, borrowing has been revised up by £5.9 billion. Around £3.3 billion reflects weak cash VAT receipts in August being accrued back to the previous three months. £3.4 billion reflects the incorporation of English, Scottish, and Welsh local authority budget data, of which almost all is a result of higher current spending.

- Borrowing over 2024-25 has been revised down by £2.0 billion. This reflects a £2.3 billion reduction in capital spending and £0.8 billion reduction in student loans, partially offset by a £0.9 and £0.5 billion increase to historic local government spending and Bank of England data respectively.

Table 1.1: Public sector receipts, expenditure and net borrowing[1]

	August					April to August				
	2025 outturn	2024 outturn	Change	2025 forecast	Outturn vs forecast	2025-26 outturn	2024-25 outturn	Change	2025-26 forecast	Outturn vs forecast
Public sector net borrowing	**18.0**	**14.4**	**3.5**	**12.5**	**5.5**	**83.8**	**67.6**	**16.2**	**72.4**	**11.4**
of which:										
Central government net borrowing	13.1	9.2	3.9	10.6	2.5	85.4	85.6	-0.3	79.1	6.3
Local authorities net borrowing	4.2	3.6	0.6	1.5	2.7	1.6	-3.0	4.7	-1.1	2.8
Public corporations net borrowing	0.7	1.6	-0.9	0.5	0.2	-3.2	-15.0	11.8	-5.5	2.3
Central government current receipts	**84.3**	**80.0**	**4.3**	**86.1**	**-1.8**	**433.0**	**407.5**	**25.5**	**439.1**	**-6.1**
of which:										
Income tax	21.7	20.8	1.0	22.4	-0.7	122.0	113.2	8.8	123.9	-1.9
National Insurance contributions	16.1	13.4	2.7	15.7	0.4	79.1	66.7	12.4	77.2	1.9
VAT[2]	14.8	14.6	0.2	15.1	-0.3	71.0	71.2	-0.2	74.5	-3.5
Onshore corporation tax[3]	7.7	7.8	-0.1	7.7	0.0	39.4	37.6	1.8	38.0	1.4
Other taxes and receipts	24.0	23.4	0.5	25.2	-1.2	121.4	118.7	2.7	125.5	-4.1
Central government expenditure	**97.4**	**89.2**	**8.2**	**96.6**	**0.7**	**518.3**	**493.1**	**25.2**	**518.2**	**0.2**
of which:										
Interest payments	8.4	6.6	1.9	8.5	-0.1	49.9	39.3	10.6	49.5	0.4
Net social benefits	27.3	26.2	1.1	26.9	0.5	135.4	127.8	7.6	133.6	1.9
Net current grants	12.9	11.8	1.2	13.5	-0.6	77.1	74.7	2.4	78.2	-1.0
Consumption expenditure on goods and services	38.0	34.3	3.7	36.7	1.3	189.8	173.6	16.2	187.0	2.9
Subsidies	2.4	2.4	0.0	2.4	-0.1	11.9	11.8	0.1	12.2	-0.3
Central government depreciation	3.6	3.4	0.3	3.8	-0.2	18.2	16.7	1.4	18.8	-0.7
Central government net investment	4.7	4.6	0.1	4.7	-0.1	36.1	49.1	-13.1	38.9	-2.9

[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/august2025

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 2025: https://obr.uk/efo/economic-and-fiscal-outlook-march-2025

[2] Excluding VAT refunds.

[3] Less bank surcharge, residential property developer tax, electricity generators levy and Pillar 2.