Commentary on the

Public Sector Finances: February 2023

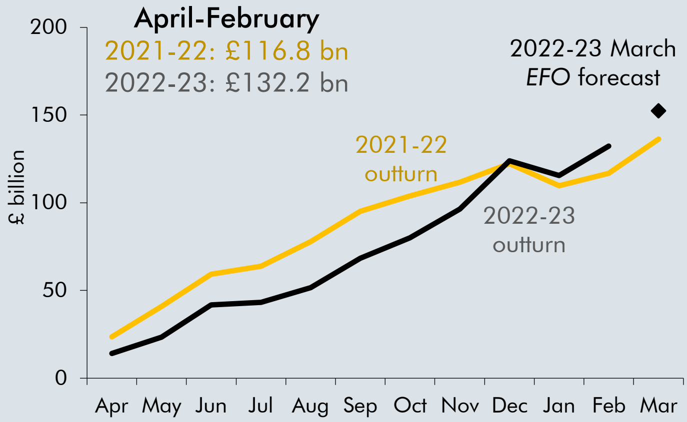
Office for Budget Responsibility

21 March 2023

Energy support measures raise borrowing in February

Government borrowing in February 2023 was £16.7 billion, up £9.7 billion on last year, largely thanks to spending on energy schemes. Year-to-date borrowing of £132.2 billion is up £15.5 billion (13.2 per cent) on last year. But it is only up £6.9 billion (5.9 per cent) on a like-for-like basis (correcting for student loans figures not yet recorded in outturn). While this is smaller than the full-year rise in our March forecast, energy schemes will lift borrowing in March too and data uncertainties remain considerable.

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



Headlines

- **Public sector net borrowing (PSNB)** totalled £16.7 billion in February 2023 (up £9.7 billion on a year ago) and £132.2 billion in the first 11 months of 2022-23 (up £15.5 billion, or 13.2 per cent, on the same period in 2021-22).
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £77.8 billion in February, up 6.8 per cent on a year ago – a smaller rise than the 11.5 per cent growth in receipts in the year to date relative to the same period last year.
- **Central government accrued spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) in February was £80.5 billion, up £11.4 billion on last year. Year-to-date spending was up £79.7 billion (10.4 per cent) on last year, and £71.1 billion (9.3 per cent) on a like-for-like basis (stripping out student loan changes yet to be recorded in outurn). The RPI-driven year-on-year jump in debt interest accounts for £33.7 billion of the rise.
- **Net debt** in February stood at 99.2 per cent of GDP. This is up 2.2 per cent of GDP on last February, as cash debt has risen faster than the nominal GDP denominator.
- **Revisions:** borrowing in the first ten months of 2022-23 was revised down by £1.4 billion, primarily due to downward revisions to spending, partly offset by downward revisions to receipts.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the February 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 May Public Sector Finances release, so for the purposes of this release we have compared the latest 2022-23 data to monthly outturns in 2021-22 and, where we can, to our latest full-year forecasts. Next month, we will compare our full-year March 2023 forecast for 2022-23 to the ONS's initial and provisional estimate of the full-year outturn.

2. Public sector net borrowing (PSNB) in the first 11 months of 2022-23 was £132.2 billion, up £15.5 billion (13.2 per cent) on the same period last year. However, both our November 2022 and March 2023 forecasts accounted for an £8.6 billion reduction in central government net investment in December due to changes in student loans that the ONS plans to incorporate in the outturn statistics when more definite estimates are available. Adjusting for this would take the year-to-date borrowing increase on a like-for-like basis to just 5.9 per cent (£6.9 billion), well below the 25 per cent (£30.0 billion) full-year rise predicted in our March 2023 forecast. That difference relates largely to borrowing by both local authorities and particularly public corporations – data that are currently less complete and more uncertain than that for receipts:

   - The year-on-year rise in **receipts** (excluding transfers from the APF) in the first 11 months of 2022-23 is 11.5 per cent (£87.0 billion), which is similar to the 11.8 per cent (£98.1 billion) full-year rise predicted in our March forecast.

   - Year-to-date **spending** (on a like-for-like basis correcting for the temporary student loans difference and excluding PSNB-neutral grants to local authorities and transfers to the APF) is 9.3 per cent (£71.1 billion) above the same period last year, which is slightly less than the 10.0 per cent (£83.3 billion) full-year rise predicted in our March forecast.

   - Year-to-date **local authorities net borrowing** (excluding grants from central government) is £2.7 billion above the same period last year, whereas our March 2023 forecast anticipated a year-on-year increase of £5.9 billion for 2022-23 as a whole. We have assumed a greater degree of end-year loading of local authority spending this year in light of the pressures on budgets from higher inflation in the second half of the year.

   - **Public corporations net borrowing** (excluding transfers between the Treasury and the APF related to quantitative easing) in the first 11 months of 2022-23 is £20.1 billion higher than the same period last year, due in part to interest-related losses accruing in the APF.[1] This is a proportionately smaller rise than the £30.3 billion assumed in our latest full-year forecast. Different assumptions in our forecast and the ONS's latest estimates about accrued flows in respect of funded pension schemes explain some of this difference.

[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).

3. Compared to the monthly profiles that were consistent with our previous November 2022 forecast, borrowing in the first 11 months of 2022-23 (on a like-for-like basis) is £28.6 billion below profile. This is a slightly smaller undershoot than the £30.6 billion figure for the first 10 months of the year according to the statistics published last month. That reflects borrowing coming in £3.4 billion above profile in February, partially offset by a £1.4 billion downward revision to borrowing in the year to January. The difference from our November forecast profile is therefore converging on the £24.7 billion downward revision to borrowing in 2022-23 as a whole that was factored into our latest March *EFO* forecast.

4. The 11.5 per cent year-on-year rise in in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) in the first 11 months of 2022-23 reflects relatively strong growth across most taxes, including PAYE income tax and NICs (up £34.5 billion, or 11.0 per cent) and VAT (up £15.1 billion, or 11.5 per cent).

5. Notable movements in the February cash receipts data include:

   - Cash receipts of **self-assessment (SA) income tax and capital gains tax (CGT)** were down £0.1 billion on a year earlier. The small fall reflects timing effects (given the end of January deadline for payments) with a greater proportion of receipts this year recorded in January (perhaps reflecting easements that were in place last year but not this year). Our March forecast incorporated information from early February, so we were aware of this timing effect. Taken together, January and February receipts were up £8.0 billion (25.0 per cent) on a year earlier, with two-thirds of the increase related to SA income tax and the remain third relating to CGT. Our March 2023 *EFO* explored some of the drivers of this strength, including strong growth in self-assessed incomes of higher earners, greater-than-expected forestalling of dividend income ahead of last April's dividend tax rise, and rises in the capital gains of the top 1 per cent of taxpayers.

   - Cash receipts of **PAYE income tax and NICs** in February (which mainly relate to January salaries) were up £1.4 billion (4.4 per cent) on a year earlier. This reflects increases in both employment and average earnings, with aggregate pay of employees in January up 7.2 per cent on a year earlier.[2]

   - Cash receipts of **onshore corporation tax** in February were strong again, up £1.1 billion (46.9 per cent) on a year earlier, driven by growth in receipts from large companies in the industrial and commercial sector. As noted in our March *EFO*, there is little evidence yet that profits are being squeezed by higher wage and energy costs.

   - Cash **VAT** receipts in February were down £1.0 billion (6.6 per cent) on last year, with the fall more than explained by higher VAT repayments. This follows the pattern seen in earlier quarters of the financial year where the second month of the quarter has recorded weak cash receipts after strong cash receipts in the first month.

6. The 9.3 per cent year-on-year rise in central government spending (excluding local authority grants and transfers related to quantitative easing, and also correcting for the temporary student loans difference) in the first 11 months of 2022-23 reflects: higher debt interest payments (up

[2] ONS, *Earnings and employment from Pay As You Earn Real Time Information, UK*, March 2023.

£33.7 billion, or 48.8 per cent, on last year thanks to high RPI inflation); higher net social benefits spending (up £18.8 billion, or 8.7 per cent, partly reflecting cost-of-living payments); and higher spending on other current grants (up £14.7 billion, or 79.1 per cent, reflecting April's council tax rebate and monthly energy bills support scheme payments since October).

7. Year-to-date borrowing in the first ten months of 2022-23 was revised down by £1.4 billion from last month's estimate, largely thanks to downward revisions to spending of £2.9 billion (notably a large downward revision to central government net investment spending of £2.5 billion). This is partially offset by downward revisions to receipts of £1.1 billion, reflecting downward revisions to VAT and income tax, partially offset by smaller upward revisions across a range of taxes.

8. Public sector net debt (PSND) at the end of February 2023 was 99.2 per cent of GDP, up 2.2 per cent of GDP on a year earlier. Cash debt rose by £151.7 billion (6.4 per cent) thanks to the continuing budget deficit, outstripping growth in the nominal GDP denominator.