

# Commentary on the Public Sector Finances: July 2022

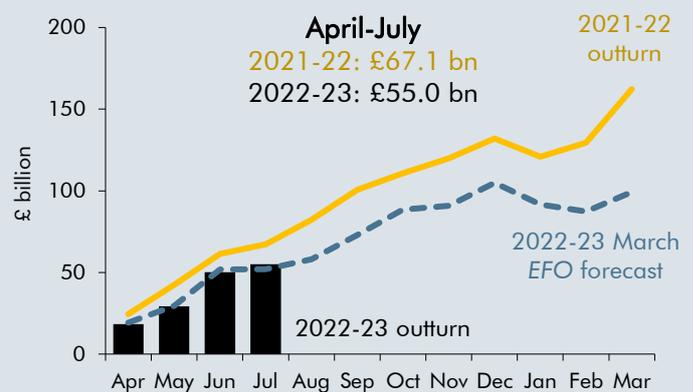
Office for  
Budget  
Responsibility

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## Debt interest and support for energy bills add to borrowing

The budget deficit continues to fall year on year, with April-to-July borrowing of £55.0 billion down £12.1 billion on last year. But it was £3.0 billion above our March forecast profile, largely reflecting higher spending. Sharp rises in inflation continue to raise debt interest costs by even more than our forecast assumed, while the cost-of-living payments to means-tested benefit recipients – announced in May, so not reflected in our March forecast – began last month.

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



## Headlines

- **Public sector net borrowing (PSNB)** was £4.9 billion in July and £55.0 billion in the first four months of 2022-23. The latter is £12.1 billion (18.1 per cent) below the same period last year but is £3.0 billion (5.8 per cent) above our March 2022 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £77.2 billion in July, up £6.9 billion (9.8 per cent) on last year but £1.4 billion (1.7 per cent) below our March forecast. Year-to-date receipts are below our March forecast profile, with the shortfall standing at £2.3 billion (0.8 per cent).
- **Central government spending** (excluding PSNB-neutral local authority grants) in July was £70.2 billion, £4.3 billion (6.6 per cent) higher than last year and £5.3 billion (8.2 per cent) above forecast. Year-to-date spending is £6.9 billion (2.4 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 the initial cost-of-living payments to recipients of means-tested benefits).
- **Net debt** in July stood at 95.5 per cent of GDP. This is up 1.4 per cent of GDP on a year earlier, but is 0.4 per cent of GDP below our March forecast.
- **Revisions:** Borrowing in first three months of 2022-23 was revised down by £5.4 billion, largely thanks to downward revisions to spending alongside a small upward revision to receipts.

## Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the July 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 four months of 2022-23 of £55.0 billion was down £12.1 billion (18.1 per cent) on last year, but is £3.0 billion (5.8 per cent) higher than forecast. This overshoot is explained by both central government receipts, which came in £2.3 billion (0.8 per cent) below profile, and central government spending, which came in £6.9 billion (2.4 per cent) above profile. These surprises were partially offset by borrowing by both local authorities (£3.9 billion below profile) and public corporations (£2.3 billion below profile).<sup>1</sup>
3. The downside surprise in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far in 2022-23 is largely down to shortfalls in interest and dividends receipts, which were £1.5 billion below profile (despite interest rates having risen largely as forecast), PAYE income tax and NICs receipts (£0.7 billion below profile), with a more modest net shortfall across a range of smaller taxes. These were partly offset by accrued VAT receipts, which are currently £1.2 billion above profile.
4. HMRC cash receipts – the most timely indicator of tax performance, albeit one that can be particularly influenced by one-offs and timing effects – were £1.5 billion (2.0 per cent) below our March forecast profile in July. The small shortfall in July represents a combination of offsetting factors, with higher-than-expected VAT receipts (£1.3 billion above profile) and onshore corporation tax (£0.9 billion above profile) offset by lower offshore corporation tax (£1.1 billion below profile), income tax and NICs receipts (£1.4 billion below profile) and modest shortfalls in cash receipts elsewhere. Key developments include:
  - **Cash VAT receipts** in July were £1.3 billion (7.8. per cent) above profile, continuing the strength seen so far this year (cash receipts are £3.3 billion above profile for the year to date – a larger surplus than for accrued receipts because some relates to spending in 2021-22). VAT receipts relate to liabilities on spending one-to-three months earlier, meaning the latest outturns cover the period from April to June, so the April rise in the domestic energy price cap will be having an effect. Our March forecast assumed that by switching spending from standard- to reduced-rated goods, the net effect of higher domestic energy prices on VAT receipts will be negative. It is possible that higher-than-expected inflation has offset these effects to deliver the latest surplus – although the precise impact of higher energy bills, higher pump prices and increased food and other costs on VAT receipts is hard to disentangle at this stage.
  - **Onshore corporation tax cash receipts** were £0.9 billion (27.9 per cent) above profile in July, and £4.1 billion (27.1 per cent) above profile for the year to date. Much of the

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<sup>1</sup> 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).

strength in cash receipts this month relates to instalment payments by large companies with a seven-month lag, which therefore accrues back to 2021-22.

- **Offshore corporation tax cash receipts** were £1.1 billion (37.2 per cent) below profile in July, which captures the first instalment payment on 2022 calendar-year profits. Our March forecast assumed a flat profile for the three instalment payments this year, so with recent expectations of gas prices in the second half of 2022 much higher than our March forecast assumed it is possible that subsequent instalment payments will be higher and this shortfall will be made up or exceeded.
- **Income tax and NICs cash receipts** were £1.4 billion (3.4 per cent) below profile in July, but £1.8 billion above profile for the year to date, reflecting stronger-than-expected April cash receipts on March bonuses. This latest shortfall is partly explained by self-assessment (SA) income tax receipts coming in £0.5 billion below profile in July. July is a peak month for SA income tax with the second payment deadline for 2021-22 liabilities at the end of the month. It is usually necessary to wait for August cash receipts to know whether any shortfall is a timing effect (due to more late payments than expected) or a genuine surprise relative to forecast.

5. 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** (£4.6 billion, or 13.1 per cent, above profile), reflecting higher-than-forecast RPI inflation increasing payments on index-linked gilts. RPI inflation averaged 11.7 per cent in the first four months of this year, 1.5 percentage points above our March forecast.
- Higher-than-expected **spending on goods and services** (£3.1 billion, or 2.6 per cent, above profile). Data on departmental spending remain provisional at this stage of the financial year and will often reflect plans rather than outturns, with this month's release seeing downward revisions to consumption spending in earlier months of the year as firmer data on health-related spending became available.
- Higher spending on **net social benefits** (£2.8 billion, or 3.5 per cent, above profile), largely reflecting £2.4 billion in cost-of-living payments to recipients of means-tested benefits paid out in July.<sup>2</sup> These were announced by the Government in May so were not included in our March forecast.
- These upside surprises were partly offset by a £5.7 billion (24.7 per cent) shortfall in **net investment spending** in the year to date (albeit with net investment spending in July £0.6 billion above our profile for the month). Spending data are still provisional at this point in the year and investment spending tends to be both volatile and end-loaded within the fiscal year, so this could simply be a timing effect.

6. Our March forecast and associated monthly profiles do not include the Government's May cost-of-living support package for 2022-23, which includes additional spending estimated at

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

£15.3 billion (of which initial sums were paid in July, as mentioned above) and additional receipts estimated at £4½ billion from the new energy profits levy.

7. Year-to-date borrowing in the first three months of 2022-23 was revised down by £5.4 billion from last month's estimate, largely thanks to downward revisions to spending of £5.0 billion, reflecting a £2.5 billion downward revision to consumption spending and a £2.5 billion downward revision to net investment spending. Receipts were also revised up by £0.7 billion, reflecting stronger cash VAT receipts, partially offset by minor downward revisions to PAYE income tax, NICs and corporation tax.
8. Borrowing last year (2021-22) was revised up by £2.2 billion on last month's figure due to updated HMRC receipts data for 2021-22, and down £7.8 billion on the ONS's initial estimate published in April. This means on a like-for-like basis the upside surprise relative to our March forecast is now £8.9 billion.
9. Public sector net debt (PSND) in July 2022 was 95.5 per cent of GDP, up 1.4 per cent of GDP on a year earlier, but 0.4 per cent of GDP below our March 2022 monthly forecast profile.
10. The ONS has provided some preliminary estimates for methodology and data changes that will be reflected in next month's bulletin. This includes an updated methodology for business rates and central government leases, data improvements in public corporations, and data updates for student loans. The resulting path of borrowing revisions is uneven over time, with a £3.9 billion reduction in 2021-22. By contrast, debt is revised up in all years, and by £23.7 billion (1.0 per cent of GDP) at the end of 2021-22.

Table 1.1: Public sector receipts, expenditure and net borrowing<sup>1</sup>

	July					April to July				
	2022 outturn	2021 outturn	Change	2022 forecast	Outturn vs forecast	2022-23 outturn	2021-22 outturn	Change	2022-23 forecast	Outturn vs forecast
<b>Central government current receipts</b>	<b>78.2</b>	<b>72.1</b>	<b>6.1</b>	<b>79.0</b>	<b>-0.8</b>	<b>287.8</b>	<b>255.3</b>	<b>32.5</b>	<b>290.1</b>	<b>-2.2</b>
<i>of which:</i>										
Income tax	24.7	22.2	2.6	25.2	-0.4	74.2	67.4	6.7	75.9	-1.7
National Insurance contributions	14.4	12.6	1.8	14.3	0.1	58.2	49.9	8.4	57.2	1.0
VAT	12.6	11.2	1.4	12.8	-0.2	51.5	44.0	7.4	50.3	1.2
Corporation tax <sup>2</sup>	5.3	5.0	0.4	5.3	0.0	21.0	19.6	1.4	20.9	0.2
Other taxes and receipts	21.1	21.1	0.0	21.3	-0.2	82.9	74.3	8.6	85.9	-2.9
<b>Central government expenditure</b>	<b>84.0</b>	<b>79.8</b>	<b>4.2</b>	<b>79.4</b>	<b>4.6</b>	<b>342.4</b>	<b>338.4</b>	<b>4.0</b>	<b>340.5</b>	<b>1.9</b>
<i>of which:</i>										
Interest payments	5.8	3.6	2.3	3.9	1.9	39.8	22.1	17.7	35.2	4.6
Net social benefits	22.7	20.0	2.8	20.4	2.3	83.4	79.0	4.4	80.6	2.8
Net current grants	14.4	14.9	-0.5	15.4	-1.0	60.1	62.3	-2.2	61.4	-1.3
Consumption expenditure on goods and services	31.5	31.1	0.4	30.4	1.1	121.5	121.3	0.2	118.4	3.1
Subsidies	2.1	3.7	-1.5	2.6	-0.5	8.5	24.1	-15.6	10.7	-2.2
Central government depreciation	3.0	2.6	0.4	2.8	0.2	11.7	10.4	1.3	11.1	0.6
Central government net investment	4.4	4.0	0.4	3.9	0.6	17.4	19.3	-1.8	23.2	-5.7
<b>Public sector net borrowing</b>	<b>4.9</b>	<b>5.7</b>	<b>-0.8</b>	<b>0.2</b>	<b>4.7</b>	<b>55.0</b>	<b>67.1</b>	<b>-12.1</b>	<b>52.0</b>	<b>3.0</b>
<i>of which:</i>										
Central government net borrowing	5.8	7.7	-1.9	0.4	5.3	54.6	83.1	-28.5	50.4	4.1
Local authorities net borrowing	-1.3	-2.4	1.1	-0.6	-0.7	-1.3	-12.2	10.9	-2.4	1.1
Public corporations net borrowing	0.5	0.5	0.0	0.4	0.1	1.7	-3.8	5.5	4.0	-2.3
Central government current receipts ex Asset Purchase Facility <sup>3</sup>	77.2	70.3	6.9	78.5	-1.4	283.7	253.4	30.2	285.9	-2.3
Central government expenditure ex local authority grants <sup>3</sup>	70.2	65.9	4.3	64.9	5.3	292.0	280.5	11.5	285.1	6.9
Local authorities net borrowing ex local authority grants <sup>3</sup>	12.4	11.5	0.9	13.9	-1.4	49.1	45.7	3.4	53.0	-3.9
Public corporations net borrowing ex Asset Purchase Facility <sup>3</sup>	-0.6	-1.4	0.8	0.0	-0.5	-2.4	-5.6	3.2	-0.2	-2.3

<sup>1</sup> 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/july2022>

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/>

<sup>2</sup> Less bank surcharge.

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