

Commentary on the Public Sector Finances: November 2022

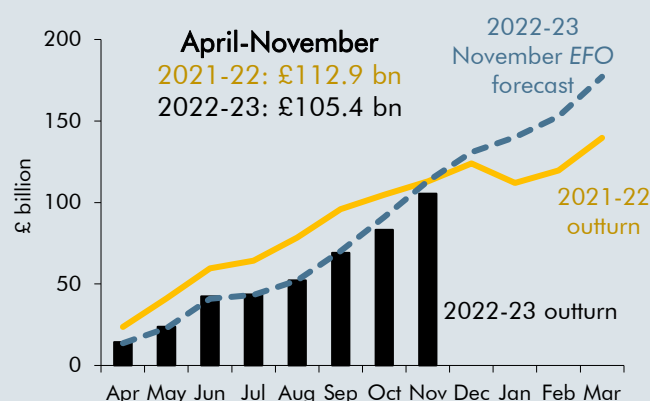
Office for
Budget
Responsibility

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Government support drives record November borrowing

Borrowing in November was £22.0 billion, the highest November figure since monthly records began, largely thanks to a sharp rise in public spending due to the cost of energy and cost-of-living support schemes introduced this year. Borrowing in the first eight months of 2022-23 was £7.8 billion below our November forecast profile published today, largely thanks to lower spending on investment and current grants, some of which may reflect timing effects that reverse in coming months.

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



Headlines

- **Public sector net borrowing (PSNB)** was £22.0 billion in November and £105.4 billion in the first eight months of 2022-23. The latter is £7.6 billion (6.7 per cent) below the same period last year and is £7.8 billion (6.9 per cent) below our November 2022 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £69.2 billion in November, up £3.2 billion (4.8 per cent) on last year but £0.9 billion (1.3 per cent) below our forecast profile. Year-to-date receipts are £0.9 billion (0.2 per cent) below profile.
- **Central government spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) in November was £79.0 billion, £14.2 billion (22.0 per cent) higher than last year but £1.6 billion (2.0 per cent) below forecast. Year-to-date spending is £6.8 billion (1.1 per cent) below forecast, largely relating to central government net investment and other current grants.
- **Net debt** in November stood at 98.7 per cent of GDP. This is down 0.3 per cent of GDP on a year earlier, and is 0.3 per cent of GDP below our November forecast profile.
- **Revisions:** Borrowing in first seven months of 2022-23 was revised down by £1.1 billion, reflecting revisions to local government borrowing. Borrowing in 2021-22 was revised down by £7.3 billion, due to updated data on expected calls on Covid loan guarantees.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the November 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 November 2022 *Economic and fiscal outlook (EFO)*. We compare the latest outturns with monthly profiles consistent with that forecast and based on the information we had at the time it was closed, which we have published alongside this commentary today. As shown in the chart above, borrowing rises in every month of 2022-23 in these profiles – including January, which normally records a surplus due to payment of self-assessment tax liabilities.
2. Several energy and cost-of-living support policies announced this year are affecting the profiles for borrowing, spending and receipts – and were reflected in our November forecast and the accompanying monthly profiles. In the year to date, these include:
 - £7.2 billion of revenues from the **energy profits levy** – an additional tax on the profits of oil and gas companies.
 - **Cost-of-living payments** to recipients of means-tested benefits, disability benefits and pensioner benefits. The first two of these have raised net social benefits spending by around £6.3 billion so far this year, including £2.7 billion spending on the second tranche of means-tested-benefit payments in November, while the pensioner payment has increased year-to-date spending further.¹
 - £3.8 billion of spending on the **energy bills support scheme** (a £400 discount on household energy bills) spread equally across October and November, with similar monthly amounts due to be spent over the remainder of this year.
 - Spending on the **energy price guarantee** and **energy bill relief scheme**, which cap the unit cost of energy for households and businesses respectively, and both began in October. Our forecast profiles expect spending on these two schemes to total £9.4 billion across October and November. Unfortunately, while the ONS now includes indicative estimates for these payments as part of spending on subsidies within the statistics, it has not separated out their cost. The fact that our forecast for spending on subsidies (of which these schemes form the major part) in these months is broadly on track suggests our forecast profiles provide a reasonable guide to scheme costs so far.
3. Borrowing in the first eight months of 2022-23 of £105.4 billion was down £7.6 billion (6.7 per cent) on last year, and is £7.8 billion (6.9 per cent) below profile. This undershoot is largely explained by central government spending coming in £6.8 billion (1.1 per cent) below profile, alongside smaller downside surprises in borrowing by both local authorities and public corporations – respectively £1.1 billion (1.2 per cent) and £0.8 billion (20.2 per cent) below profile. These were partially offset by central government receipts coming in £0.9 billion (0.2 per cent) below profile.²

¹ Department for Work and Pensions, *Cost of Living Payment management information*, December 2022.

² 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

4. The downside surprise in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far in 2022-23 more than reflects shortfalls in accrued corporation tax (CT) receipts, which were £4.1 billion below profile. Much of this is likely to reflect the fact that the accrued CT figures will only take on the higher November *EFO* cash CT forecast for the remainder of 2022-23 and 2023-24 in next month's release. These higher cash forecasts will accrue back to earlier months of the financial year. Due to the long lags between CT liabilities being accrued and the associated cash payments for some companies (particularly smaller ones), the ONS typically uses our forecasts to fill gaps in the accrued receipts data until they can be replaced with outturn cash payments.
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 £0.9 billion (1.5 per cent) below our November forecast profile in November. Key developments include:
 - **PAYE income tax and NICs cash receipts** continued to show strong year-on-year growth of 12 per cent in November as a result of strong wage growth, the first year of the freeze in the personal allowance and higher-rate threshold, and the 1¼ percentage point rise in NICs rates in 2022-23. The NICs rate rise was reversed from November, which will be reflected in December cash receipts.
 - **Cash VAT receipts** in November were £0.1 billion (0.4 per cent) below profile, but £1.0 billion (0.9 per cent) above profile for the year to date. Our November forecast allowed for an effect from the near-term economic downturn and a lower standard-rated share of spending, as more is spent on lower-rated energy and zero-rated food.
 - **Onshore corporation tax cash receipts** were £0.3 billion (8.5 per cent) below profile in November and £0.3 billion (0.9 per cent) below profile for the year to date. In our November forecast, we assumed that some of the strength in onshore CT receipts seen in the first half of 2022-23 would persist into the remainder of the financial year.
6. The downside surprise in central government spending (excluding local authority grants and transfers related to quantitative easing) so far in 2022-23 is driven by:
 - Lower **net investment spending** (£5.6 billion, or 14.1 per cent, below profile), particularly in October. 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.
 - Lower spending on **other current grants** (£3.5 billion, or 15.4 per cent).
 - Lower spending on **debt interest costs** (£2.8 billion, or 3.8 per cent, below profile). Monthly debt interest spending continues to be highly volatile, reflecting the paths of monthly RPI inflation and interest rates.
 - These downside surprises were partly offset by higher-than-expected spending on goods and services (£5.1 billion, or 2.1 per cent, above profile). This could reflect departments underspending their resource budgets by less than we assumed in the

(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).

face of higher inflation and pressures on pay budgets, although the data are still subject to revision at this stage in the year.

7. Year-to-date borrowing in the first seven months of 2022-23 was revised down £1.1 billion from last month's estimate, largely thanks to downward revisions to local government borrowing. Borrowing in 2021-22 was revised down by more significantly – by £7.3 billion from last month's estimate – largely thanks to updated estimates of calls on Covid loan guarantees, which were reflected in both our March and November forecasts.
8. Public sector net debt (PSND) in November 2022 was 98.7 per cent of GDP, down 0.3 per cent of GDP on a year earlier (and 0.3 per cent of GDP below our November 2022 monthly forecast profile). Recorded debt rose by £125.9 billion (5.1 per cent) on last year, £15.9 billion of which reflects auction premia switching sign to auction discounts now that market interest rates are higher than coupons on most gilts being sold. Despite this rise, the debt-to-GDP ratio fell because nominal GDP growth in the denominator period was somewhat greater than the percentage rise in the cash debt numerator in the year to November 2022.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

	November					April to November				
	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	69.2	66.0	3.2	70.1	-0.9	580.1	520.1	60.0	581.0	-0.9
<i>of which:</i>										
Income tax	16.0	15.1	1.0	16.6	-0.6	141.6	128.8	12.8	141.2	0.4
National Insurance contributions	13.2	13.0	0.2	13.1	0.1	116.6	101.8	14.8	114.8	1.8
VAT	13.6	12.7	0.9	14.0	-0.3	105.0	93.2	11.8	105.1	-0.1
Corporation tax ²	5.108	6.2	-1.1	5.7	-0.6	43.6	42.2	1.4	47.7	-4.1
Other taxes and receipts	21.2	19.0	2.2	20.7	0.5	173.3	154.1	19.1	172.2	1.0
Central government expenditure	88.8	74.3	14.5	91.1	-2.3	685.8	649.4	36.4	693.3	-7.5
<i>of which:</i>										
Interest payments	7.3	4.9	2.4	8.0	-0.7	70.5	45.8	24.7	73.3	-2.8
Net social benefits	23.0	19.0	4.0	23.2	-0.3	173.7	158.1	15.6	174.0	-0.3
Net current grants	13.6	12.1	1.6	16.3	-2.6	113.1	111.8	1.3	117.5	-4.4
Consumption expenditure on goods and services	31.0	30.2	0.9	29.4	1.6	245.8	239.8	6.0	240.7	5.1
Subsidies	7.0	2.3	4.7	6.6	0.4	25.5	37.5	-12.0	25.6	-0.1
Central government depreciation	2.8	2.6	0.2	2.8	0.0	22.8	20.9	1.8	22.1	0.6
Central government net investment	4.0	3.2	0.8	4.7	-0.8	34.4	35.4	-1.0	40.1	-5.6
Public sector net borrowing	22.0	8.1	13.9	22.2	-0.2	105.4	112.9	-7.6	113.2	-7.8
<i>of which:</i>										
Central government net borrowing	19.6	8.3	11.3	20.9	-1.4	105.7	129.3	-23.6	112.3	-6.6
Local authorities net borrowing	2.1	2.1	0.0	1.2	0.9	1.2	-5.9	7.0	1.6	-0.4
Public corporations net borrowing	0.3	-2.3	2.6	0.0	0.3	-1.6	-10.5	9.0	-0.7	-0.8
Central government current receipts ex Asset Purchase Facility ³	69.2	66.0	3.2	70.1	-0.9	575.9	513.3	62.6	576.8	-0.9
Central government expenditure ex local authority grants and APF ³	79.0	64.7	14.2	80.6	-1.6	592.5	550.7	41.8	599.3	-6.8
Local authorities net borrowing ex local authority grants ³	11.9	11.7	0.3	11.7	0.2	93.6	92.9	0.8	94.8	-1.1
Public corporations net borrowing ex Asset Purchase Facility ³	0.3	-2.3	2.6	0.0	0.3	-4.9	-17.3	12.4	-4.1	-0.8

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/november2022>

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

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

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.