Commentary on the

Public Sector Finances: October 2022

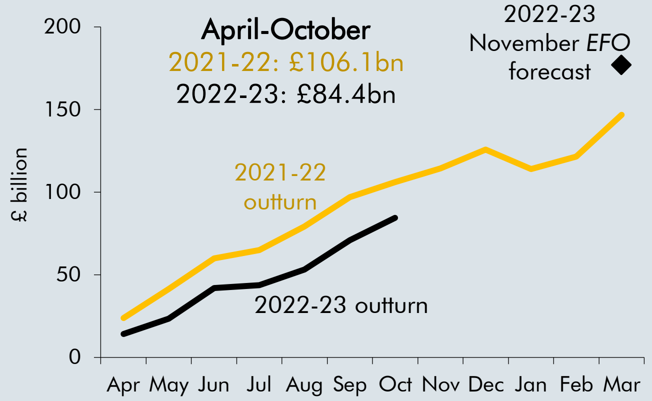
Office for Budget Responsibility

22 November 2022

Budget deficit starts rising again in October

Government borrowing in October 2022 was £13.5 billion, £4.4 billion higher than last year – thanks to the first payments from two energy support schemes for households. But year-to-date borrowing of £84.4 billion is down £21.7 billion (20.5 per cent) on last year – thanks to stronger tax receipts and no spending on Covid schemes, which more than offset higher debt interest, net social benefits and energy support.

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



Headlines

- **Public sector net borrowing (PSNB)** totalled £13.5 billion in October 2022 (up £4.4 billion on a year ago) and £88.4 billion in the first seven months of 2022-23 (down £21.7 billion or 20.5 per cent on the same period in 2021-22).
- **Central government accrued receipts** were £70.2 billion in October, up 6.3 per cent on last October – a smaller rise than the year-to-date receipts growth of 12.5 per cent on last year.
- **Central government accrued spending** in October was £72.6 billion, up £7.1 billion on last year. Year-to-date spending is up £24.7 billion (5.1 per cent) on last year. This is largely due to a sharp RPI-driven year-on-year increase in debt interest payments (of £22.4 billion).
- **Net debt** in October stood at 97.5 per cent of GDP. This is down 0.5 per cent of GDP on last October, with the increase in cash debt due to the continuing budget deficit slightly more than offset by the year-on-year rise in the nominal GDP denominator.
- **Revisions:** borrowing in the first six months of 2022-23 was revised down by £1.6 billion, primarily due to upward revisions to receipts with smaller downward revisions to expenditure.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the October 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 plan to publish monthly profiles consistent with this forecast alongside next month's Public Sector Finances release, so for the purposes of this release we have compared the latest data to monthly outturns in 2021-22.

2. Year-to-date public sector net borrowing (PSNB) in the first seven months of 2022-23 of £84.4 billion was £21.7 billion below the same period last year. That improvement is more than explained by higher central government accrued receipts, which were up £55.8 billion on the same period last year. This was partially offset by central government spending (up £24.7 billion on the same period last year), and net borrowing by both local authorities and public corporations (up £1.0 billion and £8.4 billion respectively).[1]

3. These year-on-year changes have been affected by several new energy and cost-of-living support policies announced this year, many of which were not reflected in our March 2022 forecast, but all of which feature in our November forecast. These include:

   - The £150 **council tax rebate** for households living in Bands A-D announced alongside our March forecast, which increased borrowing by £3.0 billion in April this year.

   - The **energy bills support scheme** (EBSS), which offers a £400 discount on household energy bills, the first half of which was announced alongside our March forecast. The first £1.9 billion of EBSS spending was recorded in October, with the remaining payments equally spread across the remaining five months of this year.[2]

   - **Cost-of-living payments** to recipients of means-tested benefits, disability benefits and pensioner benefits announced in May. The first two of these have raised net social benefits spending by around £3.6 billion so far this year, while the pensioner payment has also increased year-to-date accrued spending. The second means-tested benefit payment is due in November.[3]

   - The **energy price guarantee** (EPG) announced in September, which caps the unit cost of energy for households, and began paying out in October. Unfortunately, while the ONS has included these payments within this month's statistics, it has not separated out the cost. It is likely that the cost of the EPG in October will be less than one-sixth of its total cost within 2022-23, however, given the monthly cost depends on energy usage and

[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 and public corporations net borrowing); and (2) grants to local authorities (affecting central government expenditure and local authorities net borrowing). We have not made any adjustment for the first APF-related payment from the Treasury to the Bank of England that was recorded in October (£0.8 billion), but plan to do so in future.

[2] The monthly profiles consistent with our March 2022 forecast assumed that all of the £200 discount announced at the time would be recorded in October, rather than spread across three months. This is the main reason why spending and borrowing in October remain below our March 2022 forecast profile, despite higher spending in respect of new support schemes announced since March.

[3] Department for Work and Pensions, *Cost of Living Payment management information*, November 2022; Department for Work and Pensions, *Cost of Living Payment: Guidance on getting an extra payment to help with the cost of living if you're entitled to certain benefits or tax credits*, May 2022.

October was unseasonably warm. (The equivalent **energy bill relief scheme** for businesses also began in October, but no estimate of its monthly cost is yet available.)

- These new areas of spending have been partially offset by the **energy profits levy**, an additional tax on the profits of oil and gas companies, which has raised £3.5 billion in the year to October.

- Further spending in several of these areas in the remaining five months of 2022-23 – alongside the effects of the economic downturn tempering tax receipts somewhat – is the main reason why our November forecast shows borrowing rising by £43.8 billion relative to 2021-22 across the year as a whole, a sharp turnaround from the falls recorded over the year to date.

4. The 12.5 per cent year-on-year rise in in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) in the first seven months of 2022-23 reflects increases across most taxes, including PAYE income tax and NICs (£24.9 billion) and VAT (£11.1 billion). For 2022-23 as a whole, our November forecast assumed a year-on-year rise of 10.6 per cent on the basis that receipts have continued to outpace the growth of nominal GDP so far in 2022-23 but are likely to slow modestly in the remainder of the year.

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

   - Cash receipts of **PAYE income tax and NICs** in October (which mainly relate to September salaries) were strong, up by £3.9 billion (14.5 per cent) on a year earlier. This reflects strong nominal earnings growth (which we revised up for 2022-23 in our November *EFO*) and the short-lived 1.25 percentage point rise in NICs rate. The latter came to an end at the start of November when its cancellation (announced in the September Growth Plan) took effect.

   - Cash receipts of **corporation tax** in October were up £2.5 billion (51.2 per cent) on a year earlier, thanks in particular to higher instalment payments from oil and gas producers as a result of higher energy prices. Oil and gas firms made their second corporation tax instalment of three on 2022 profits. Much stronger corporation tax receipts so far this year, particularly from onshore companies, led us to revise up our 2022-23 accrued receipts forecast by £8.9 billion in our November *EFO*.

   - Cash **VAT** receipts in October were £0.3 billion (1.6 per cent) lower than last year. In part this reflects large payments that were being made by firms under the VAT deferral scheme this time last year and that have not been repeated this year. On top of this, sharp rises in energy and food prices will reduce also the share of consumer spending subject to the standard rate of VAT, which is likely to be weighing on receipts too.

6. The 5.1 per cent year-on-year rise in central government spending (excluding local authority grants) in the first seven months of 2022-23 reflects: the increased cost of debt interest payments (£22.4 billion, or 54.7 per cent, higher than the same period last year thanks to the rise in RPI inflation); net social benefits (£11.2 billion, or 8.1 per cent, higher than last year, partly reflecting cost-of-living payments); and other current grants (£4.0 billion, or 33.5 per cent higher, reflecting April's council tax rebate and October's initial EBSS payments). These were

partly offset by a year-on-year fall in spending on subsidies of £19.4 billion (54.0 per cent), thanks largely to the ending of the coronavirus job retention scheme and self-employment income support scheme this time last year.

7. Year-to-date borrowing in the first six months of 2022-23 was revised down by £1.6 billion from last month's estimate, largely thanks to upwards revisions to receipts of £1.3 billion, reflecting a £1.0 billion upward revision to interest and dividends receipts because of the inclusion of dividends paid to HM Treasury relating to Royal Bank of Scotland. Spending was revised down by £0.3 billion, with other current grants and net investment revised down by £0.7 billion and £0.4 billion respectively while consumption spending was revised up £0.8 billion.

8. Public sector net debt (PSND) at the end of October 2022 was 97.5 per cent of GDP, down 0.5 per cent of GDP on a year earlier. Cash debt rose by £148.3 billion (6.4 per cent) thanks to the continuing budget deficit, but this was outweighed by growth in the GDP denominator.