

Commentary on the Public Sector Finances: July

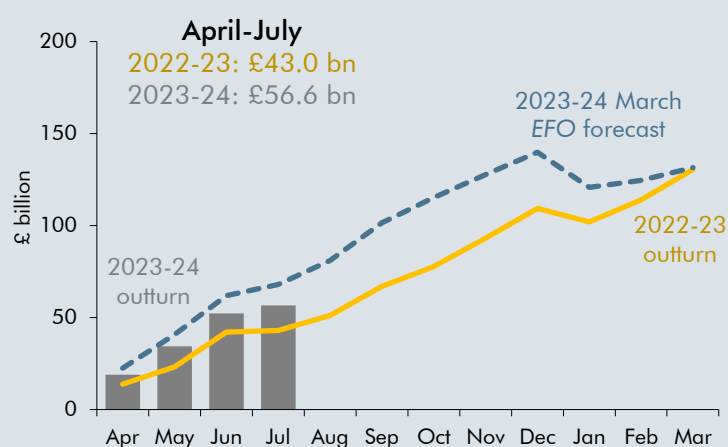
Office for
**Budget
Responsibility**

22 August 2023

Year-to-date borrowing remains below profile

Borrowing in the first four months of 2023-24 totalled £56.6 billion, £13.7 billion above the same period last year but £11.3 billion below the monthly profile consistent with our March forecast. The downside surprise is more than explained by higher central government receipts (£10.4 billion above profile), reflecting stronger nominal tax bases, alongside lower borrowing by local authorities and public corporations. This was partly offset by higher central government spending which was £8.0 billion above profile in part reflecting higher-than-forecast public sector pay awards.

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



Headlines

- **Public sector net borrowing (PSNB)** was £4.3 billion in July and £56.6 billion in the first four months of 2023-24. The latter is £13.7 billion (31.8 per cent) above the same period last year but £11.3 billion (16.7 per cent) below our March 2023 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £85.2 billion in July, up £4.5 billion (5.6 per cent) on last year and £2.3 billion (2.7 per cent) above our March profile. Year-to-date accrued receipts are £10.4 billion (3.4 per cent) above profile. HMRC cash receipts continue to be strong – likely due to in part to higher profits, wage growth and inflation – which may signal continued upside surprises in accrued receipts in future months.
- **Central government accrued spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) was £75.4 billion in July, up £5.1 billion (7.2 per cent) on last year and £2.8 billion (3.8 per cent) above profile. Year-to-date spending is £5.6 billion (1.8 per cent) above profile due to higher consumption and debt interest spending, partially offset by lower social benefits and grants.
- **Net debt** in July 2023 was 98.5 per cent of GDP, up 1.9 per cent of GDP on a year earlier, but 4.0 per cent of GDP below the monthly profile consistent with our March forecast, thanks to both lower cash debt and higher outturn GDP.
- **Revisions:** Borrowing in the first three months of 2023-24 was revised down by £2.1 billion, thanks to lower central government spending. Borrowing in 2022-23 was revised down by £1.5 billion, meaning it is now £21.8 billion lower than the estimate in our March 2023 forecast.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the July 2023 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 2023 *Economic and fiscal outlook (EFO)*. We compare the latest outturns with monthly profiles consistent with this forecast that were published on 18 May.
2. Borrowing in the first four months of 2023-24 was £56.6 billion, up £13.7 billion (31.8 per cent) on last year and £11.3 billion (16.7 per cent) lower than our March forecast. This undershoot is more than explained by central government accrued receipts coming in £10.4 billion (3.4 per cent) above profile, partially offset by higher-than-forecast central government spending (£5.6 billion, or 1.8 per cent, above profile). Borrowing by local authorities also contributed to the overall downside surprise, coming in £7.2 billion (13.4 per cent) below forecast, while borrowing by public corporations was £0.6 billion (10.8 per cent) above forecast.¹
3. The upside surprise in central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far this year reflects surpluses in PAYE income tax and NICs (£5.4 billion, or 4.3 per cent, above forecast), VAT (£4.1 billion, or 8.0 per cent, above forecast) and onshore corporation tax (£2.5 billion, or 10.6 per cent, above forecast). Data for the first four months of the financial year can be distorted by the usual volatility in receipts and one-offs, but the surpluses against the March profile do suggest stronger-than-anticipated nominal tax bases, such as wages and salaries, nominal consumer spending and profits.
4. HMRC cash receipts, a more timely indicator of tax performance albeit one that can be influenced by timing effects and one-offs, outperformed our forecast by £3.6 billion (4.6 per cent) in July, and were £6.6 billion (8.9 per cent) higher than in July last year. For the year-to-date, HMRC cash receipts were £13.1 billion (5.1 per cent above profile):
 - **PAYE income tax and NICs** cash receipts in July were £2.7 billion (8.1 per cent) higher than last year and £1.3 billion (3.9 per cent) above profile. This surplus in PAYE and NICs is likely to reflect in part backdated pay awards and one-off payments in June from the NHS pay agreement.
 - **Self-assessed income tax** receipts in July were £1.9 billion (18.8 per cent) above profile. With the second payment deadline for 2022-23 liabilities at the end of the month, it is usually necessary to wait for August cash receipts to know whether the July surplus is a timing effect or a genuine surprise relative to forecast.
 - **Cash VAT receipts** were £1.1 billion (6.3 per cent) above profile in July and £5.8 billion (10.7 per cent) higher than profile for the first four months of 2023-24. With the majority of these receipts reflecting spending between April and June, this upside surprise is likely to partly reflect the upside surprise in core inflation.

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).

- **Onshore corporation tax cash receipts** in July were £0.3 billion (9.0 per cent) above profile. The surplus is more-than-explained by strength in cash receipts related to medium-sized industrial and commercial firms, many of whom were paying their first instalment payment on 2023 profits.
 - **Offshore corporation tax and the energy profits levy** cash receipts were £1.3 billion (40.0 per cent) below profile in July, which captures the first instalment payment on 2023 calendar-year profits. The shortfall is likely to reflect in part lower-than-expected gas prices, with gas prices well below the 140-150p a therm assumed for the first three quarters of 2023 in the March forecast.
5. Spending data remain provisional at this stage of the year, but with that in mind, the upside surprise in year-to-date central government spending (excluding local authority grants and transfers related to quantitative easing) was driven by:
- Higher **consumption spending** (£7.3 billion, or 5.9 per cent, above our March forecast profile), partly reflecting an increase in spending following the civil service pay agreement and a £2.7 billion increase in May from the non-consolidated part of the NHS pay agreement. These agreements were announced after the Budget, so could not be incorporated in our March forecast.
 - Higher **debt interest spending** (£1.9 billion, or 5.3 per cent, above profile) reflecting higher-than-forecast RPI inflation increasing payments on index-linked gilts – these are uprated with a lag and so the surprise so far this year results primarily from RPI inflation in February to June being an average of 1.0 percentage points above our March forecast. Bank Rate has also increased by more than our March forecast assumed.
 - These upside surprises were partly offset by lower **central government net investment** (£1.2 billion, or 8.4 per cent, below profile) and lower spending on **net social benefits** (£1.7 billion, or 1.8 per cent, below profile).
6. July saw a £14.3 billion transfer – £5.4 billion above forecast – from the Treasury to the Bank of England’s Asset Purchase Facility (APF) to cover losses associated with the APF’s quantitative easing-related gilt holdings. The losses that prompt these transfers are largely the result of Bank Rate, paid on the APF’s liabilities, now exceeding the average coupon paid on the gilts it holds, with losses on active sales of gilts also contributing – see Box 4.4 of our March 2023 EFO for a fuller discussion. While the path of payments is volatile the upside surprise will likely reflect in part Bank Rate being higher than forecast (currently around a percentage point. As a purely internal public sector flow this transaction does not affect PSNB, instead losses in the APF largely show up in PSNB as higher debt interest spending net of the APF. The transfer does however crystallise losses in the measure of debt excluding the Bank of England that the Government targets for fiscal policy.
7. Borrowing between April and June was revised down by £2.1 billion from last month’s estimate, thanks to lower central government spending.

8. Borrowing in 2022-23 was revised down by £1.5 billion to £130.6 billion, thanks to an upward revision to central government receipts, meaning it is now £21.8 billion lower than the estimate in our March 2023 forecast.
9. Public sector net debt (PSND) in July 2023 was 98.5 per cent of GDP, up 1.9 per cent of GDP on a year earlier, but 4.0 per cent of GDP below the monthly profile consistent with our March forecast, thanks to both lower cash debt and higher outturn GDP.
10. The ONS also gave some preliminary indications of the revisions from latest pensions data. Borrowing for funded pensions in 2022-23 is expected to be revised up by £5.3 billion to £2.7 billion considerably closer to our forecast of £1.8 billion.

Public sector receipts, expenditure and net borrowing¹

	July					April to July				
	2023 outturn	2022 outturn	Change	2023 forecast	Outturn vs forecast	2023-24 outturn	2022-23 outturn	Change	2023-24 forecast	Outturn vs forecast
Central government current receipts	85.2	81.7	3.4	82.9	2.3	311.8	295.0	16.9	301.4	10.4
<i>of which:</i>										
Income tax	28.8	25.3	3.5	26.6	2.2	84.1	74.2	9.9	81.2	2.9
National Insurance contributions	14.4	14.8	-0.4	13.7	0.7	56.9	58.7	-1.9	53.8	3.1
VAT	13.5	13.0	0.5	12.9	0.6	55.5	51.3	4.2	51.4	4.1
Corporation tax ²	7.3	6.3	1.0	6.8	0.5	28.3	23.9	4.4	25.3	3.0
Other taxes and receipts	21.1	22.3	-1.2	22.8	-1.7	87.1	86.9	0.2	89.8	-2.7
Central government expenditure	103.0	83.9	19.2	97.8	5.3	394.9	341.6	53.3	386.9	8.0
<i>of which:</i>										
Interest payments	7.7	6.2	1.5	8.0	-0.3	37.8	40.9	-3.1	35.9	1.9
Net social benefits	23.1	22.8	0.4	23.7	-0.6	95.0	83.6	11.4	96.7	-1.7
Net current grants	13.8	14.0	-0.2	15.2	-1.4	59.6	60.1	-0.5	60.8	-1.2
Consumption expenditure on goods and services	33.6	32.1	1.5	32.3	1.2	132.7	121.4	11.3	125.3	7.3
Subsidies	2.2	2.2	0.0	2.1	0.1	13.3	8.5	4.7	13.2	0.1
Central government depreciation	2.9	2.9	0.0	2.9	0.0	12.1	11.4	0.7	11.6	0.5
Central government net investment	19.7	3.8	15.9	13.5	6.2	44.6	15.7	28.8	43.4	1.1
<i>Memo: CGNI ex APF and LA capital grants</i>	<i>3.1</i>	<i>1.8</i>	<i>1.3</i>	<i>0.7</i>	<i>2.4</i>	<i>13.9</i>	<i>10.7</i>	<i>3.2</i>	<i>15.1</i>	<i>-1.2</i>
Public sector net borrowing	4.3	0.9	3.4	6.0	-1.7	56.6	43.0	13.7	68.0	-11.3
<i>of which:</i>										
Central government net borrowing	17.9	2.2	15.7	14.9	3.0	83.1	46.6	36.5	85.5	-2.4
Local authorities net borrowing	-1.1	-1.4	0.3	-1.7	0.6	-8.8	-4.1	-4.7	-4.8	-4.0
Public corporations net borrowing	-12.5	0.2	-12.7	-7.1	-5.3	-17.7	0.4	-18.1	-12.8	-5.0
Central government current receipts ex Asset Purchase Facility ³	85.2	80.7	4.5	82.9	2.3	311.8	290.8	21.0	301.4	10.4
Central government expenditure ex local authority grants and APF ³	75.4	70.3	5.1	72.6	2.8	315.5	291.0	24.5	309.9	5.6
Local authorities net borrowing ex local authority grants ³	12.3	12.1	0.2	14.6	-2.3	46.6	46.5	0.0	53.8	-7.2
Public corporations net borrowing ex Asset Purchase Facility ³	1.8	-0.9	2.7	1.8	0.1	6.4	-3.8	10.1	5.7	0.6

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/july2023>

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 2023 <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>

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.