

Commentary on the Public Sector Finances: August 2024

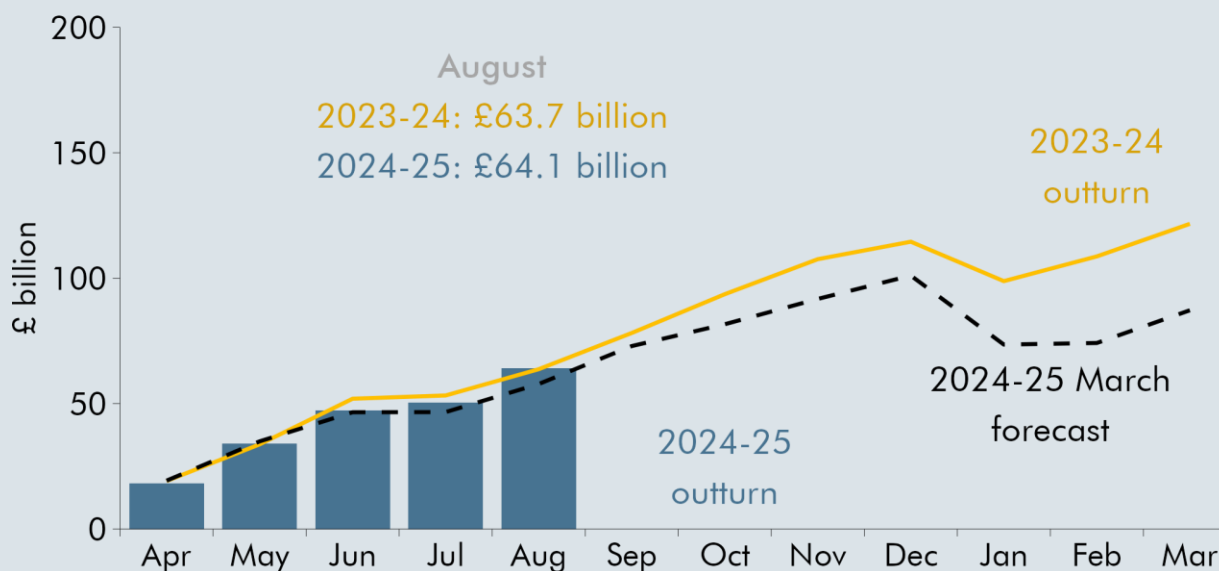
20 September 2024

Office for
Budget
Responsibility

Departmental spending keeps borrowing above forecast

This morning's ONS release¹ shows that borrowing in the first five months of 2024-25 totalled **£64.1 billion**. This is £0.3 billion above the same period last year and £6.2 billion above the monthly profile consistent with our March forecast. Higher-than-expected borrowing continues to be driven by departmental spending, particularly consumption expenditure on goods and services which is £8.5 billion above forecast.

Public sector net borrowing in the year to date:
March 2024 OBR forecast vs latest ONS outturns



Central government accrued receipts for the first five months of 2024-25 are above forecast by £3.8 billion, or 0.9 per cent. Upward revisions to PAYE income tax and NICs for the earlier months of the financial year mean these receipts are £3.0 billion stronger than forecast, consistent with more persistent earnings growth than anticipated in March. VAT receipts are below profile, likely due to weaker-than-forecast nominal consumption of standard VAT-rated goods.

Our next forecast will be published alongside the Budget on 30 October, and will incorporate the data in this morning's ONS release. Because we will be finalising this forecast, we will not be publishing a monthly commentary on 22 October alongside the next ONS Public Sector Finances release, so our next monthly commentary will be published on 21 November.

¹ In this commentary we compare latest outturns with monthly profiles consistent with our March 2024 *Economic and fiscal outlook*.

Borrowing and debt

Public sector net borrowing was £64.1 billion in the first five months of 2024-25. This was £0.3 billion (0.5 per cent) above the same period last year and £6.2 billion (10.8 per cent) higher than our March forecast profile. This reflects central government net borrowing coming in £7.7 billion (9.9 per cent) above our forecast profile in the year to date, offset by local authority net borrowing £1.6 billion below profile.²

Net debt in August stood at 100 per cent of GDP, up 4.3 per cent of GDP on a year earlier.

Central government receipts

Central government accrued receipts in the first five months of 2024-25 are above forecast by £3.8 billion, or 0.9 per cent. Monthly HMRC cash receipts, a more timely indicator of tax performance albeit one that can be influenced by timing effects and one-offs, were £0.9 billion (1.5 per cent) below forecast in August, but in aggregate were £1.2 billion (0.3 per cent) above forecast for the year to date. Within this:

- **PAYE income tax and NICs** cash receipts were £33.0 billion in August, just £0.1 billion (0.7 per cent) below forecast, and £0.3 billion (0.9 per cent) below last year. The year-on-year fall reflects the 4p reduction in employee NICs and base effects from the one-off NHS and Civil Service pay awards made in the summer last year. Following improvements in the recording of receipts, PAYE income tax and NIC cash receipts were revised up by £3.8 billion for the April-to-July period, so cash receipts for the year to date are £3.3 billion (1.8 per cent) above forecast, consistent with stronger earnings growth than anticipated in the March forecast.
- **Self-assessed (SA) income tax** cash receipts were £1.5 billion in August, £0.2 billion (13.4 per cent) below forecast. The second payment on account for 2023-24 SA income tax liabilities was due at the end of July. Over July and August combined, SA income tax receipts were £1.0 billion (6.4 per cent) below forecast.
- **Cash VAT receipts** were £14.3 billion in August, £1.3 billion (8.4 per cent) below forecast and £1.2 billion (7.6 per cent) below last year. There is considerable volatility between months in VAT receipts, but there is currently a year-to-date shortfall of £2.5 billion (3.3 per cent) compared to the March forecast. This may be due to weaker-than-expected nominal consumer spending, especially in standard-rated goods.
- **Corporation tax** cash receipts were £3.2 billion in August, £0.3 billion (10.6 per cent) above forecast and £1.3 billion (69.3 per cent) above last year. For the year to date, receipts are £0.8 billion above forecast, mainly from instalment payments from industrial and commercial companies.

² Public corporations net borrowing was just £0.1 billion above profile.

Central government spending

Central government spending was £11.5 billion (2.4 per cent) above forecast over the first five months of 2024-25. Within this:

- **Consumption expenditure on goods and services** was £8.5 billion (5.1 per cent) above forecast over the first five months of 2024-25, while **net current grants** were £3.8 billion (5.2 per cent) above forecast, largely driven by fiscally neutral grants to local authorities. Data on central government spending remain highly provisional at this time of year. Nevertheless, they indicate that departmental spending for 2024-25 could significantly exceed the March 2024 forecast. Due to this risk, on 29 July the OBR initiated a review of the preparation of our March forecast for departmental spending.³
- The overshoots in consumption expenditure on goods and services and net current grants were offset somewhat by lower **net social benefits** spending, which is £2.1 billion (1.6 per cent) below forecast.
- **Debt interest** spending was just £0.1 billion (0.3 per cent) above forecast.

Revisions

Borrowing over the current and previous fiscal years has been revised. In the year to July, borrowing has been revised down by £1.0 billion thanks to upward revisions to receipts, while borrowing over 2023-24 has been revised up by £1.4 billion.

The ONS has introduced a new methodology for the compilation of central government interest payable, including on financial instruments such as gilts.⁴ This affects interest flows within the public sector and between the public and private sector, and public sector net borrowing, but the balance sheet aggregates such as net debt are unaffected.

³ See <https://obr.uk/obr-review-of-the-march-2024-forecast-for-departmental-expenditure-limits/>

⁴ See <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/developmentofpublicsectorfinancestatistics/july2024>

Table 1.1: Public sector receipts, expenditure and net borrowing¹

	August					April to August				
	2024 outturn	2023 outturn	Change	2024 forecast	Outturn vs forecast	2024-25 outturn	2023-24 outturn	Change	2024-25 forecast	Outturn vs forecast
Public sector net borrowing	13.7	10.5	3.3	11.2	2.5	64.1	63.7	0.3	57.8	6.2
<i>of which:</i>										
Central government net borrowing	9.7	6.9	2.8	8.9	0.7	85.9	84.7	1.2	78.2	7.7
Local authorities net borrowing	2.8	1.8	1.0	1.3	1.5	-5.6	-4.5	-1.1	-4.0	-1.6
Public corporations net borrowing	1.3	1.8	-0.6	1.0	0.3	-16.2	-16.5	0.2	-16.4	0.1
Central government current receipts	80.8	77.5	3.3	79.6	1.2	410.2	397.1	13.1	406.4	3.8
<i>of which:</i>										
Income tax	20.4	18.9	1.5	19.9	0.5	111.9	104.2	7.7	110.5	1.4
National Insurance contributions	13.4	14.2	-0.8	13.3	0.2	66.8	71.6	-4.8	66.0	0.8
VAT ²	14.4	13.7	0.7	14.4	-0.1	70.9	69.9	1.0	72.3	-1.5
Onshore corporation tax ³	8.4	7.7	0.8	8.3	0.2	40.3	36.4	3.9	39.5	0.9
Other taxes and receipts	24.2	23.0	1.1	23.8	0.4	120.2	114.9	5.3	118.0	2.2
Central government expenditure	90.5	84.4	6.1	88.6	1.9	496.1	481.8	14.3	484.5	11.5
<i>of which:</i>										
Interest payments	5.9	6.0	-0.1	7.3	-1.4	38.3	46.2	-7.8	38.2	0.1
Net social benefits	26.3	23.6	2.7	26.3	0.0	128.5	118.7	9.7	130.6	-2.1
Net current grants	12.4	12.9	-0.5	12.8	-0.4	76.1	73.0	3.0	72.3	3.8
Consumption expenditure on goods and services	35.2	32.7	2.5	32.7	2.4	175.2	166.3	8.9	166.6	8.5
Subsidies	2.3	2.3	0.1	2.1	0.2	11.6	15.0	-3.4	10.7	0.9
Central government depreciation	3.5	3.3	0.2	3.5	0.0	17.2	16.1	1.1	17.5	-0.3
Central government net investment	4.9	3.7	1.3	3.8	1.1	49.2	46.5	2.7	48.7	0.5

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/august2024>

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 2024: <https://obr.uk/efo/economic-and-fiscal-outlook-march-2024>

² Excluding VAT refunds.

³ Less bank surcharge and residential property developer tax.