

# Commentary on the Public Sector Finances: April 2021

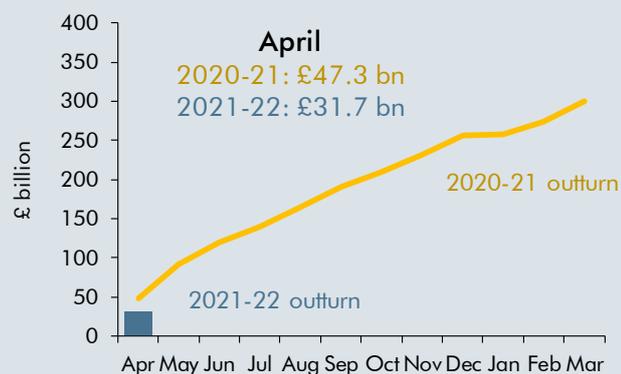
Office for  
**Budget  
Responsibility**

25 May 2021

## Budget deficit remains high, but now falling on last year

Government borrowing in April 2021 of £31.7 billion was £15.6 billion below last April and £7.3 billion below the profile consistent with our most recent forecast. The shortfall against forecast mostly relates to the timing of payments to the EU. The underlying outperformance is just £1.8 billion. Compared to last April, at the start of the coronavirus pandemic, spending is down £12.9 billion, while receipts are up £3.8 billion.

Public sector net borrowing



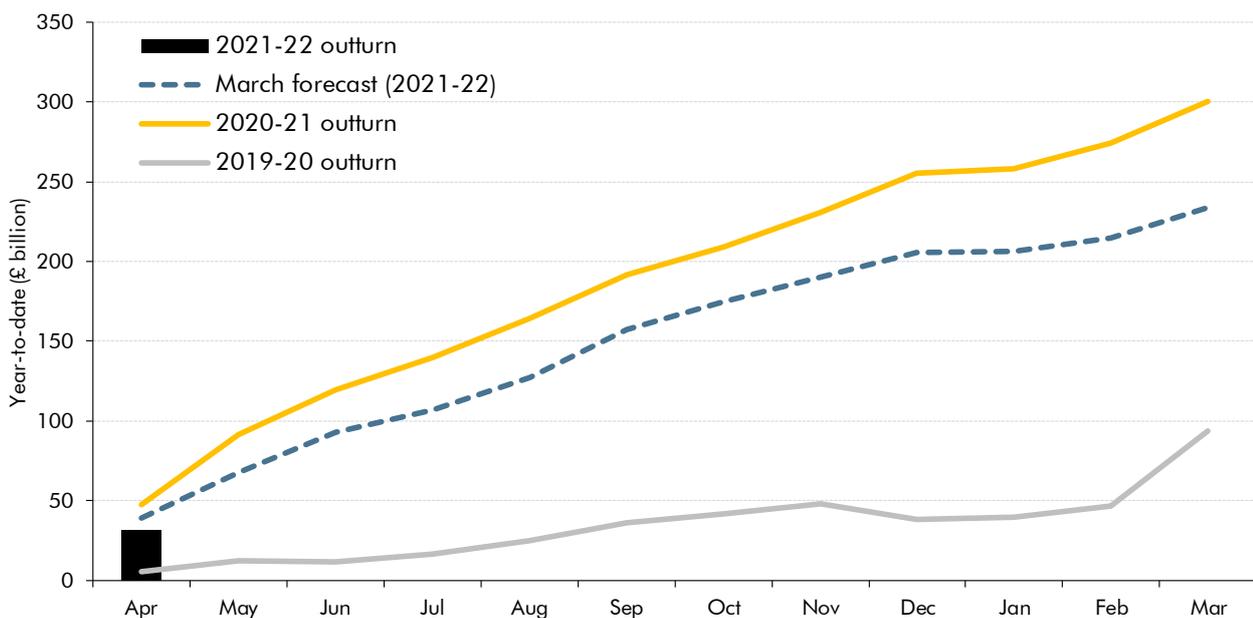
## Headlines

- **Public sector net borrowing (PSNB)** totalled £31.7 billion in April 2021, down £15.6 billion on last April and £7.3 billion below our March forecast. But this shortfall versus forecast is mostly related to the timing of ONS recording of payments to the EU in respect of the Brexit financial settlement (the so-called 'divorce bill'). Looking through that, the shortfall is £1.8 billion.
- **HMRC cash receipts** in April were £23.0 billion higher than last April (when pandemic-related tax debts jumped, and the Government permitted VAT payments to be deferred). This is £1.7 billion above our March forecast, thanks to stronger than expected receipts from PAYE income tax and NICs, corporation tax, and stamp duty land tax.
- **Central government spending** in April was £12.9 billion down on last April, when pandemic-related spending on business grants, public services, and the CJRS and SEISS were starting. This represents a £2.9 billion shortfall relative to our March forecast, but exceeds our forecast by £2.6 billion once the divorce bill related timing effect is stripped out.
- **Net debt** in April 2021 stood at 98.5 per cent of GDP. This is 10.6 per cent of GDP higher than a year earlier and 15.1 per cent of GDP up on February 2020, before the pandemic hit the public finances. The latest estimate is 2.8 per cent of GDP below our March 2021 forecast. This largely reflects the lower central government cash spending in 2020-21 discussed last month.

## Commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the April 2021 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 2021 *Economic and fiscal outlook (EFO)*. We published monthly profiles consistent with this forecast on 6 May, which we compare to the latest outturn in the chart below.
2. Public sector net borrowing (PSNB) was £31.7 billion in April, down £15.6 billion on last April and £7.3 billion below our March forecast. But these figures are flattered by a £5.5 billion timing effect in respect of the EU financial settlement (the so-called Brexit ‘divorce bill’). On a more like-for-like comparison, PSNB was therefore £1.8 billion below our March forecast in April. The ONS is provisionally recording divorce bill payments on a cash basis, whereas the monthly profiling of our forecast assumed they would accrue twice a year (in April and September). This is purely a timing issue and does not affect our view of the full-year forecast. The ONS has not yet made a final decision on the recording of these payments, and therefore the timing of accrual is subject to change.
3. Excluding the divorce bill timing effect, the £1.8 billion shortfall in PSNB in April relative to our forecast is more than explained by the combination of higher central government accrued receipts (which came in £1.5 billion higher than our forecast and up £3.8 billion compared to last April) and a larger-than-expected monthly surplus for local authorities (£2.6 billion higher than forecast, but down from £10.2 billion last April to £5.0 billion this year – with the variation and surprise relative to forecast largely relating to grants from central government). The strength in receipts relative our forecast is largely attributable to income tax and stamp duty land tax. Central government spending was down £12.9 billion on last year, but excluding the timing effect it was £2.6 billion higher than our March forecast – a surprise that largely offsets the unexpectedly large surplus recorded by local authorities.

Chart 1.1: Public sector net borrowing: forecast versus year-to-date outturns



Source: ONS, OBR

4. The ONS has revised PSNB in 2020-21 down from last month's initial estimate of £303.1 billion to £300.3 billion. Central government spending was revised up by £1.4 billion, but that was more than offset by central government receipts being revised up by £2.1 billion and local authority borrowing being revised down by £2.2 billion (thanks to higher grants from central government). The latest estimate is £54.3 billion below our March forecast, but the ONS figure does not yet include estimates of the future costs of write-offs against the pandemic loan guarantee schemes (assumed to be £27.2 billion in our March forecast). On a like-for-like basis, the £27.1 shortfall relative to our forecast mainly reflects lower-than-expected spending on virus-related programmes (despite our forecast assuming an unprecedentedly large £19.9 billion underspend against the resource budgets allocated to departments by the Treasury).
5. Notable movements in the April receipts data include:
- **PAYE income tax and NICs** cash receipts in April were £31.6 billion. That is £5.0 billion (18.9 per cent) higher than last year, and £0.3 billion (1.1 per cent) above our March forecast. The strength compared to last year reflects the sizeable build up in PAYE tax debts at the start of the pandemic. The modest upside relative to our March forecast is likely to reflect strong receipts from the professional services sector.
  - **Onshore corporation tax** cash receipts in April were £2.8 billion. This is £1.0 billion (58.3 per cent) above our March profile, but £0.5 billion down on last year. The large upside surprise relative to the forecast profile comes almost entirely from larger non-financial companies and continues a run of positive surprises in recent months. The fall relative to last April largely reflects changes to payment patterns of very large companies, so should be seen as a timing effect rather than a meaningful fall.
  - **Stamp duty land tax (SDLT)** receipts in April were £1.0 billion. This is £0.3 billion (49.5 per cent) above our forecast profile, which assumed a weaker April after a spike in March related to the previously planned end of the SDLT holiday (before it was extended in the March Budget). In the event, property transactions fell back less than expected in April, while mortgage lenders report that house prices continue to soar.