

Commentary on the Public Sector Finances: October 2021

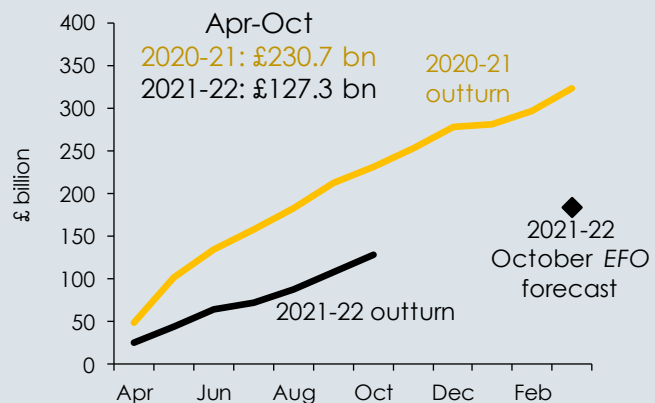
Office for
**Budget
Responsibility**

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Budget deficit down over £100 billion so far in 2021-22

Government borrowing in October 2021 was £18.8 billion, down £0.2 billion from last year. But year to date borrowing of £127.3 billion is down £103.4 billion (44.8 per cent) on the same period last year. This reflects the economic recovery boosting receipts and the lower cost of pandemic-related support schemes, but is partially offset by a sharp rise in debt interest payments thanks to higher RPI inflation in recent months.

Public sector net borrowing in the year to date:
October 2021 OBR forecast vs latest ONS outturns



Headlines

- **Public sector net borrowing (PSNB)** totalled £18.8 billion in October 2021 (down £0.2 billion on a year ago) and £127.3 billion in the first seven months of 2021-22 (down £103.4 billion on the same period in 2020-21).
- **Central government accrued receipts** were £65.5 billion in October, up 6.2 per cent on last October. Year to date receipts growth of 15.4 per cent is above our October forecast of 8.7 per cent for 2021-22 as a whole, but this reflects very strong growth early in 2021-22 relative to the initial lockdown in 2020-21. We expect growth to moderate over the remainder of 2021-22.
- **Central government accrued spending** in October was £78.0 billion, up £1.5 billion on last year. Year to date spending is down £43.6 billion (7.0 per cent) on last year, which is broadly in line with our October forecast of a 7.8 per cent full-year fall in 2021-22. The decline in pandemic-related spending is partially offset by a sharp year-on-year increase in debt interest payments of £14.8 billion in the year to date, driven by higher RPI inflation in recent months.
- **Net debt** in October stood at 95.1 per cent of GDP. This is down 0.2 per cent of GDP on last October, with the increase in cash debt due to the continuing budget deficit and lending under the Bank of England's Term Funding Scheme more than offset by strong nominal GDP growth.
- **Revisions:** borrowing in 2020-21 has been revised up £3.2 billion on last month's figure, driven by downward receipts revisions. Borrowing in the first six months of 2021-22 was revised up by £0.4 billion, with upward revisions to expenditure more than offsetting upward revisions to receipts.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the October 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 October 2021 *Economic and fiscal outlook (EFO)*. We will publish monthly profiles consistent with this forecast on 9 December, so for the purposes of this release we have compared the latest data to outturns in previous years.
2. Year to date borrowing in the first seven months of 2021-22 of £127.3 billion was £103.4 billion below the same period last year. This improvement reflects both higher receipts and lower spending: central government accrued receipts are up £59.7 billion on the same period last year, while central government spending was £43.6 billion down on the same period last year. Net borrowing by local authorities was up £4.9 billion, while net borrowing by public corporations was down £5.0 billion – with these movements partly offsetting those in central government (due to, respectively, lower central government grants to local authorities and lower central government receipts from the Asset Purchase Facility).
3. The 15.4 per cent rise in central government accrued receipts so far in 2021-22 relative to the same period last year is well above the 8.7 per cent rise for 2021-22 as a whole that we forecast in October, but that is in line with expectations. It reflects the uneven path of receipts in both 2020-21 and 2021-22, especially the very sharp falls in the first half of 2020-21 during the initial nationwide lockdown. The year-on-year increase is dominated by PAYE income tax and NICs receipts (which are up £20.1 billion or 11.7 per cent), corporation tax (including bank surcharge) receipts (up £4.6 billion or 16.3 per cent) and stamp duties (up £4.4 billion, or 67.8 per cent).
4. Notable movements in the October receipts data include:
 - The continued strength of PAYE income tax and NICs was again evident in October cash receipts (mainly reflecting September salaries), which were up by £2.1 billion (8.5 per cent) on a year earlier. Reflecting the much stronger labour market outturns for both employment and earnings relative to our March forecast, in October we revised up our forecast for accrued PAYE income tax and NICs receipts in 2021-22 by £23.3 billion.
 - Cash receipts of corporation tax in October were up 20.1 per cent on a year earlier, thanks in particular to higher instalment payments from oil and gas producers in the light of higher energy prices. Much stronger corporation tax receipts so far this year led us to revise up our 2021-22 accrued forecast by £11.7 billion in October.
5. The 7.0 per cent fall in central government spending in the first seven months of 2021-22 relative to the same period last year is broadly in line with our October forecast for the full year. The year to date drop is mostly due to the coronavirus job retention scheme (CJRS) and self-employment income support scheme (SEISS), which have, respectively, cost £32.2 billion and £5.2 billion less than in the same period last year. Central government net investment between April and October is also £18.5 billion (37.1 per cent) lower than last year, when it was boosted by accrued costs associated with loan guarantee schemes, while current grants to local authorities are down £7.7 billion (8.6 per cent). These are partly offset by higher debt interest

spending, which is up £14.8 billion (62.9 per cent) reflecting the rise in RPI inflation, and higher consumption spending (up £10.4 billion, or 5.1 per cent).

6. Public sector net debt (PSND) in October 2021 was down 0.2 per cent of GDP on a year earlier. Cash debt increased by £206.2 billion (10.0 per cent) due to the continuing budget deficit and increased lending under the Bank of England's Term Funding Scheme, but this was outweighed by strong growth in the nominal GDP denominator (up 10.2 per cent). The denominator is partly based on our October forecast, so will be revised over time.
7. Borrowing in 2020-21 was revised up by £3.2 billion on last month's figure. This was primarily driven by downward revisions to receipts due to the incorporation of information from HMRC's annual Trust Statement, as well as revisions to VAT related to losses from the VAT deferral scheme and the re-profiling of some VAT receipts from the initial lockdown period into 2019-20. Year to date borrowing in the first six months of 2021-22 was £0.4 billion up on last month's estimate, with upward revisions to spending more than offsetting upward revisions to receipts.