

# Commentary on the Public Sector Finances: August 2021

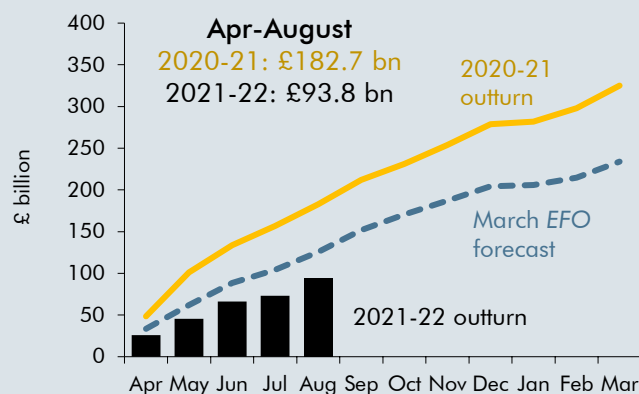
Office for  
**Budget  
Responsibility**

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## Borrowing continues to undershoot forecast

Government borrowing in August 2021 was £20.5 billion, down £5.5 billion from the same month last year. Year to date borrowing of £93.8 billion is now £31.9 billion below our March forecast profile. That reflects both stronger than expected receipts (thanks largely to a faster than expected economic recovery) and lower than expected spending (due to the faster than expected unwinding of pandemic-related government support).

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



## Headlines

- **Public sector net borrowing (PSNB)** totalled £20.5 billion in August 2021 and £93.8 billion in the first five months of 2021-22. These figures are respectively £1.0 billion (4.9 per cent) and £31.9 billion (25.4 per cent) below the monthly profiles consistent with our March forecast.
- **Central government accrued receipts** were £61.2 billion in August, £2.9 billion above our March forecast, and up £5.3 billion on last August. The year to date receipts surplus relative to forecast is £20.3 billion (6.9 per cent), reflecting the much stronger performance of income tax and NICs and corporation tax as the economy has rebounded faster than expected.
- **Central government spending** in August was £79.6 billion, down £1.0 billion on last year and just £0.1 billion below forecast. Year to date spending is down £44.5 billion on last year and is £10.3 billion (2.4 per cent) below forecast. The latter reflects lower costs of the CJRS and SEISS schemes, lower welfare spending and timing effects with respect to the EU divorce bill.
- **Net debt** in August stood at 97.6 per cent of GDP. This is 1.6 per cent of GDP higher than a year earlier but 6.6 per cent of GDP below our March forecast, thanks to lower borrowing and technical measurement factors related to newly issued IMF Special Drawing Rights.
- **Revisions:** Borrowing in 2020-21 was revised up £27.1 billion to £325.1 billion as write-offs associated with government-guaranteed loans have been incorporated for the first time. The latest estimate is £29.5 billion below our March forecast. Year to date borrowing in the first four months of 2021-22 was revised down by £4.7 billion thanks to local government net borrowing.

## Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the August 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 compare the latest outturns with monthly profiles consistent with this forecast that were published on 21 July. Next month's bulletin is released on 21 October, which is only six days ahead of our next *EFO* and means that we will not be able to publish a commentary alongside the data release.
2. Year to date borrowing in the first five months of 2021-22 of £93.8 billion was £31.9 billion (25.4 per cent) lower than expected. This outperformance is largely due to central government accrued receipts, which came in £20.3 billion (6.9 per cent) above profile, while central government spending was also £10.3 billion (2.4 per cent) below profile. Borrowing by local authorities was £4.5 billion below profile, while borrowing by public corporations was £3.2 billion above profile.
3. The upside surprise in accrued receipts so far in 2021-22 is dominated by PAYE income tax and NICs (which are up £9.8 billion or 7.7 per cent on profile), corporation tax receipts (which are up £5.0 billion or 30.3 per cent), VAT (which is up £2.2 billion or 4.2 per cent) and stamp duties (which are up £1.7 billion or 31.2 per cent). Overall, the outperformance of receipts in the year to date looks broadly consistent with the higher than expected economic output compared to our March forecast, with stamp duties also boosted by the faster than expected rise in house prices this year.
4. Notable movements in the August cash receipts data include:
  - **PAYE income tax and NICs cash receipts** were £1.3 billion (5.1 per cent) above profile. Cash receipts in August will mostly reflect July 2021 liabilities. Published RTI statistics suggest the number of paid employees in July increased by 1.9 per cent on a year earlier (a rise of 534,000 employees) while median monthly pay increased by 6.6 per cent on the previous year, pointing to continued strong recovery in the tax base.
  - **Corporation tax cash receipts** were £0.6 billion (or 37.1 per cent) above profile, continuing recent strength though to a somewhat smaller extent. That reflected stronger-than-expected receipts from both financial and non-financial companies.
  - **Cash receipts of VAT** were £0.6 billion (or 4.5 per cent) above profile. Cash VAT receipts relate to spending one-to-three months earlier, so will reflect the stronger pick-up in consumer spending in the second quarter of 2021 than we predicted in March.
5. Lower than forecast central government spending so far in 2021-22 is mostly due to the Coronavirus Job Retention Scheme (CJRS) and Self-employed Income Support Scheme (SEISS), which came in, respectively, £2.0 billion (20.0 per cent) and £5.0 billion (39.4 per cent) below profile. Net social benefit spending is also £1.7 billion (1.7 per cent) below profile in the year to date as the universal credit caseload has eased, while net current grants abroad are down £2.2 billion (33.0 per cent) thanks to timing effects related to the EU divorce bill. These have been offset by debt interest spending, which is £4.7 billion (20.5 per cent) above profile in the year to date thanks to higher RPI inflation in recent months.

6. Borrowing in 2020-21 was revised up by £27.1 billion to £325.1 billion, but it remains £29.5 billion below our March forecast. The large upward revision to outturn mainly reflects the expected future costs of write-offs against the pandemic loan guarantee schemes being reflected for the first time. Our forecasts anticipated this change, but overestimated its effect by £6.3 billion (at £27.2 billion versus £20.9 billion in this initial ONS estimate). Borrowing in the first four months of 2021-22 was revised down by £4.7 billion thanks to lower local government net borrowing.
  
7. There have also been material revisions to public sector net debt, with the July 2021 figure revised down by £14.5 billion (0.7 per cent of GDP) relative to last month's estimate. The largest source of revision relates to the IMF's recent large allocation of Special Drawing Rights – a form of international reserve currency – to all its members. The UK's allocation is worth £18.7 billion. In broad balance sheet terms, this is both an asset and a liability for the UK public sector. But for PSND, the liability to the IMF is not a debt liability, while the asset is liquid. As a result, the SDR allocation lowers PSND by £18.7 billion, even though it has no impact on the public sector's net financial liabilities or net worth.

Table 1.1: Public sector receipts, expenditure and net borrowing<sup>1</sup>

£ billion	August					April to August				
	2021 outturn	2020 outturn	change	2021 forecast	outturn vs forecast	2021-22 outturn	2020-21 outturn	change	2021-22 forecast	outturn vs forecast
<b>Central government current receipts</b>	<b>61.2</b>	<b>55.8</b>	<b>5.3</b>	<b>58.3</b>	<b>2.9</b>	<b>314.7</b>	<b>272.2</b>	<b>42.5</b>	<b>294.4</b>	<b>20.3</b>
<i>of which:</i>										
Income tax	16.1	14.4	1.7	14.6	1.5	84.9	69.7	15.2	76.5	8.4
<i>of which:</i>										
<i>Pay-as-you-earn</i>	14.3	12.7	1.6	13.0	1.4	74.4	66.2	8.3	68.2	6.3
<i>Self-assessment</i>	2.2	1.9	0.3	2.0	0.1	11.9	5.8	6.1	10.5	1.4
<i>Other income tax</i>	-0.4	-0.2	-0.2	-0.5	0.0	-1.5	-2.3	0.8	-2.2	0.7
National Insurance contributions	12.5	11.3	1.2	11.7	0.7	62.4	55.3	7.1	58.8	3.6
VAT	10.7	10.2	0.4	10.8	-0.1	54.7	46.2	8.4	52.5	2.2
Corporation tax <sup>2</sup>	4.0	4.0	-0.1	3.3	0.6	21.6	19.0	2.6	16.6	5.0
Other taxes and receipts	18.0	15.8	2.1	17.8	0.1	91.1	82.0	9.1	90.1	1.0
<b>Central government expenditure</b>	<b>79.6</b>	<b>80.5</b>	<b>-1.0</b>	<b>79.7</b>	<b>-0.1</b>	<b>416.6</b>	<b>461.1</b>	<b>-44.5</b>	<b>426.9</b>	<b>-10.3</b>
<i>of which:</i>										
Interest payments	6.3	3.4	2.9	1.6	4.7	27.6	16.9	10.7	22.9	4.7
Net social benefits	19.8	19.3	0.4	20.1	-0.3	98.9	97.5	1.4	100.6	-1.7
Central government current grants to local authorities	9.0	8.2	0.8	10.5	-1.6	62.2	69.8	-7.7	63.2	-1.1
Consumption expenditure on goods and services	29.5	28.0	1.5	30.1	-0.6	150.8	145.6	5.2	153.1	-2.3
Subsidies	5.8	11.8	-6.0	7.5	-1.7	30.4	65.4	-35.0	35.2	-4.8
<i>of which:</i>										
<i>Coronavirus job retention scheme (gross spending)</i>	1.1	3.4	-2.3	1.1	0.0	8.1	37.2	-29.2	10.1	-2.0
<i>Self-employed income support scheme</i>	2.1	4.7	-2.5	3.8	-1.7	7.6	12.2	-4.6	12.6	-5.0
Net current grants abroad	1.4	0.9	0.5	1.9	-0.5	4.5	8.9	-4.4	6.7	-2.2
Other current grants	1.8	1.8	0.0	1.6	0.1	8.4	7.9	0.5	7.6	0.8
Central government depreciation	2.6	2.6	0.1	2.8	-0.2	13.0	12.7	0.3	13.9	-0.9
Central government net investment	3.4	4.5	-1.1	3.6	-0.2	20.8	36.4	-15.6	23.6	-2.8
<b>Public sector net borrowing</b>	<b>20.5</b>	<b>26.1</b>	<b>-5.5</b>	<b>21.6</b>	<b>-1.0</b>	<b>93.8</b>	<b>182.7</b>	<b>-88.9</b>	<b>125.7</b>	<b>-31.9</b>
<i>of which:</i>										
Central government net borrowing	18.4	24.7	-6.3	21.4	-3.0	101.9	188.9	-87.0	132.4	-30.5
Local authorities net borrowing	3.0	2.2	0.9	1.7	1.3	-6.4	-8.9	2.5	-1.9	-4.5
Public corporations net borrowing	-0.9	-0.8	-0.1	-1.5	0.6	-1.7	2.7	-4.4	-4.9	3.2

<sup>1</sup> 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/august2021>

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 monthly profiles: <https://obr.uk/download/march-2021-economic-and-fiscal-outlook-monthly-profiles-july-update/>

<sup>2</sup> Less Bank surcharge