

Commentary on the Public Sector Finances: November 2021

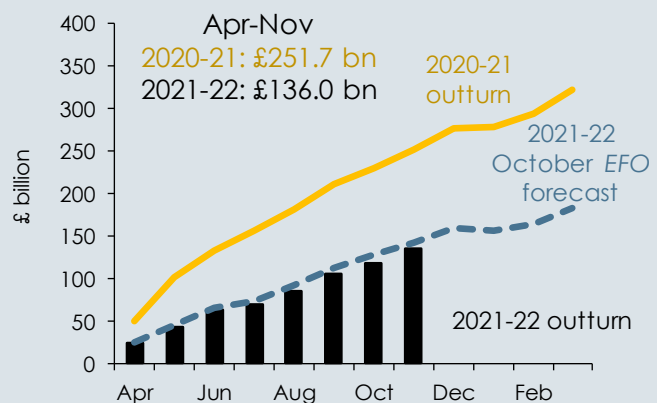


21 December 2021

Budget deficit continues to fall sharply

Government borrowing in November 2021 was £17.4 billion, down £4.9 billion on last November. Year to date borrowing of £136.0 billion is down 46 per cent on the same period last year and is £7.1 billion below our October forecast profile. That undershoot reflects stronger than expected receipts (thanks largely to a more resilient labour market) more than offsetting higher than expected spending.

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



Headlines

- **Public sector net borrowing (PSNB)** was £17.4 billion in November 2021 and £136.0 billion in the first eight months of 2021-22, with both down sharply on the corresponding periods in 2020-21. These figures are, respectively, £3.2 billion (22.3 per cent) above and £7.1 billion (5.0 per cent) below the monthly profiles consistent with our October forecast.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £61.1 billion in November, £1.2 billion above our October forecast, and up £2.5 billion on last November. The year to date receipts surplus relative to forecast is £9.5 billion (1.9 per cent), reflecting the stronger performance of income tax and NICs and VAT.
- **Central government spending** (excluding PSNB-neutral local authority grants) in November was £67.2 billion, down £2.4 billion on last year but £3.5 billion above forecast. Year to date spending is down £38.9 billion on last year but is £4.2 billion (0.8 per cent) above forecast. The latter reflects higher government consumption and higher debt interest payments as a result of higher than expected RPI inflation, slightly offset by lower welfare spending.
- **Net debt** in November stood at 96.1 per cent of GDP. This is 0.6 per cent of GDP higher than a year earlier, due to increased lending under the Term Funding Scheme, but 0.7 per cent of GDP below our October forecast.
- **Revisions:** Borrowing in the first seven months of 2021-22 was revised down by £8.7 billion thanks to downward revisions to expenditure and local authorities net borrowing and upward revisions to receipts.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the November 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 compare the latest outturns with monthly profiles consistent with this forecast that were published on 9 December.
2. Year to date borrowing in the first eight months of 2021-22 of £136.0 billion was down 46.0 per cent on the same period last year, and is £7.1 billion (5.0 per cent) lower than expected. This outperformance is more than explained by central government receipts, which came in £9.5 billion (1.9 per cent) above profile, whereas central government spending was £4.2 billion (0.8 per cent) above profile. Borrowing by local authorities was £0.6 billion above profile, while borrowing by public corporations was £2.3 billion below profile.¹
3. The upside surprise in accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far in 2021-22 is dominated by PAYE income tax and NICs (which are up £4.1 billion or 1.9 per cent on profile) and VAT (which is up £2.7 billion or 3.1 per cent).
4. Notable movements in the November cash receipts data include:
 - **PAYE income tax and NICs cash receipts** were £1.3 billion (5.0 per cent) above profile. Cash receipts in November will mostly reflect October 2021 liabilities. Published RTI statistics suggest the number of payrolled employees in October increased by 4.0 per cent on a year earlier (a rise of 1,139,000 employees) while median monthly pay increased by 4.9 per cent on the previous year, pointing to continued strong recovery in the tax base. In our October forecast we expected the number of people in employment in the fourth quarter of 2021 to be flat on a year earlier as the closure of the furlough scheme led to a modest rise in unemployment. The upside surprise in PAYE income tax and NICs receipts is therefore consistent with the unexpectedly low level on unemployment in the latest labour market data.²
 - **Cash VAT receipts** were £1.0 billion (7.5 per cent) above profile. Cash VAT receipts relate to spending one to three months earlier, so will reflect the strength of the pick-up in consumer spending in the second and third quarters of 2021. It is too soon for any impacts from the recent surge in coronavirus cases to have affected cash receipts.
 - **Corporation tax cash receipts** were £0.3 billion (or 12.8 per cent) above profile, continuing recent strength though to a somewhat smaller extent.
5. Higher than forecast central government spending (excluding local authority grants) so far in 2021-22 is driven by increased spending on goods and services (£4.4 billion or 1.8 per cent), subsidies (£3.1 billion or 8.4 per cent) and debt interest (£2.0 billion or 4.8 per cent). Higher

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 (affecting central government receipts and public corporations net borrowing); and (2) grants to local authorities (affecting central government expenditure and local authorities net borrowing).

² Our forecast is for adult employment as measured in the ONS Labour Force Survey. This is a broader measure than payrolled employees captured in the RTI data, notably including the self-employed, where employment growth has been weaker. Even so, there is so far little sign of a material rise in unemployment following the closure of the furlough scheme.

than expected debt interest costs reflect higher than expected RPI inflation in recent months, which increased to a 20-year high of 7.1 per cent in November, already well above the 5.2 per cent we expected across the fourth quarter of 2021. This is marginally offset by net social benefit spending, which is £1.3 billion (0.8 per cent) below profile.

6. Year to date borrowing in the first seven months of 2021-22 was revised down £8.7 billion from last month's estimate, thanks to lower spending, lower borrowing by local authorities and higher receipts. Public sector net borrowing for 2020-21 has been revised down by £1.3 billion due to a reduced estimate of spending and higher receipts.
7. Public sector net debt (PSND) in November 2021 was 96.1 per cent of GDP, up 0.6 per cent of GDP on a year earlier, but 0.7 per cent of GDP below the monthly profiles consistent with our October forecast. Cash debt increased by £218.2 billion (10.4 per cent) over the past 12 months due to the continuing budget deficit and lending under the Bank of England's Term Funding Scheme.³

³ The Term Funding Scheme with additional incentives for SMEs (TFSME) closed to new lending at the end of October. The November PSF release included the Bank of England's weekly data on the size of the scheme up to 27 October, with increases in the size of the scheme in the final four days it remained open captured in this month's release.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	November					April to November				
	2021 outturn	2020 outturn	change	2021 forecast	outturn vs forecast	2021-22 outturn	2020-21 outturn	change	2021-22 forecast	outturn vs forecast
Central government current receipts	61.1	58.6	2.5	59.9	1.2	512.0	446.8	65.2	502.5	9.5
<i>of which:</i>										
Income tax	15.2	14.5	0.7	14.1	1.0	130.7	108.3	22.4	126.6	4.1
National Insurance contributions	12.9	12.3	0.7	12.7	0.2	101.3	92.3	9.0	100.2	1.1
VAT	11.3	11.0	0.3	11.2	0.1	90.0	77.0	12.9	87.2	2.7
Corporation tax ²	3.6	4.6	-1.0	3.8	-0.2	35.9	33.0	2.8	36.0	-0.1
Other taxes and receipts	18.2	16.2	1.9	18.1	0.1	154.2	136.2	18.0	152.5	1.7
Central government expenditure	76.6	82.4	-5.7	73.2	3.5	653.9	704.6	-50.7	650.0	3.9
<i>of which:</i>										
Interest payments	4.5	4.1	0.4	2.8	1.7	42.9	27.8	15.1	40.9	2.0
Net social benefits	18.9	19.1	-0.1	19.2	-0.2	158.5	157.8	0.7	159.8	-1.3
Net current grants	12.0	16.6	-4.6	12.5	-0.6	111.9	129.1	-17.2	114.1	-2.2
Consumption expenditure on goods and services	32.1	30.0	2.1	30.1	1.9	244.9	234.3	10.6	240.4	4.4
Subsidies	2.8	6.3	-3.5	2.2	0.6	40.2	82.8	-42.6	37.1	3.1
Central government depreciation	2.8	2.6	0.2	2.8	0.0	21.2	20.4	0.8	21.4	-0.3
Central government net investment	3.5	3.8	-0.2	3.5	0.0	34.4	52.4	-18.0	36.4	-2.0
Public sector net borrowing	17.4	22.2	-4.9	14.2	3.2	136.0	251.7	-115.8	143.1	-7.1
<i>of which:</i>										
Central government net borrowing	15.5	23.8	-8.3	13.3	2.3	141.9	257.8	-115.9	147.5	-5.6
Local authorities net borrowing	3.3	-0.1	3.4	1.6	1.7	-2.1	-6.1	4.0	-3.0	0.8
Public corporations net borrowing	-1.5	-1.5	0.0	-0.7	-0.7	-3.8	0.1	-3.9	-1.5	-2.3
Central government current receipts ex Asset Purchase Facility ³	61.1	58.6	2.5	59.9	1.2	505.3	436.2	69.1	495.8	9.5
Central government expenditure ex local authority grants ³	67.2	69.5	-2.4	63.7	63.7	554.7	593.5	-38.9	550.5	4.2
Local authorities net borrowing ex local authority grants ³	12.8	12.7	0.1	11.1	11.1	97.2	104.9	-93.8	96.6	0.6
Public corporations net borrowing ex Asset Purchase Facility ³	-1.5	-1.5	0.0	-0.7	-0.7	-10.6	-10.6	0.0	-8.2	-2.3

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/November2020>

HMRC tax receipts and national insurance contributions: <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk>

OBR October 2021 monthly profiles: <https://obr.uk/monthly-public-finances-briefing/>

² Less Bank surcharge.

³ Excluding P S NB -neutral intra-public sector flows (the Asset Purchase Facility and local authority grants) to aid monthly monitoring.