

# Commentary on the Public Sector Finances: December 2020

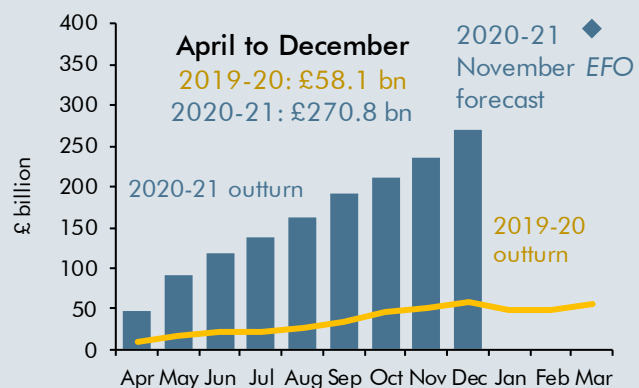
Office for  
**Budget  
Responsibility**

22 January 2021

## Budget deficit continues to rise sharply

The pace of government borrowing picked up further in December to reach £34.1 billion, the highest monthly total since May. Year-to-date borrowing now stands at £270.8 billion, far exceeding the pre-virus annual record set at the peak of the financial crisis (£158 billion). The reimposition of a national lockdown in early January means prospects for the rest of the year remain highly uncertain.

Public sector net borrowing



## Headlines

- Today's data highlight the continued fiscal cost of the **coronavirus pandemic**, although it will be many months before the full impact becomes clear.
- **Public sector net borrowing (PSNB)** totalled £34.1 billion in December, £2.1 billion higher than market expectations. Borrowing over the first nine months of the year reached £270.8 billion. Much of the apparent shortfall relative to our November forecast reflects statistical issues, with write-offs associated with pandemic loan schemes not yet featuring in the data.
- **HMRC cash receipts** in the year to date were 13.7 per cent lower than a year earlier, with VAT accounting for the bulk of the fall thanks to the Government's rate cuts and deferral scheme (which ended on 30 June) together with lower consumer spending. Income tax and NICs, and most other sources of tax receipts, were also down on last year.
- **Central government spending** so far in 2020-21 is 30.1 per cent higher than a year earlier, reflecting higher public services spending, the cost of the coronavirus job retention and self-employment income support schemes, and additional grants to local authorities.
- **Net debt** rose by 15.3 per cent of GDP on a year earlier to reach 99.4 per cent in December, its highest level since 1961-62. Recent estimates of PSND as a share of GDP were revised down this month, as ONS have now incorporated outturn nominal GDP for Q3 2020 into the denominator.

## Monitoring the public finances this year

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the December 2020 Public Sector Finances this morning.<sup>1</sup> Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast. Last month we published monthly profiles for borrowing, receipts and spending consistent with our November 2020 *Economic and fiscal outlook (EFO)*. These monthly profiles are available on our website. They do not reflect the cost of extending the coronavirus job retention scheme (CJRS) and the three guaranteed loan schemes announced on 18 December (which last month we estimated might cost around £7 billion on the basis of our November central forecast) or the £4.6 billion of additional lockdown grants announced on 5 January. These will be reflected in our next forecast, which will be published alongside the Budget on 3 March.

## The public finances in December 2020

2. Today's initial estimate of public sector net borrowing (PSNB) in December 2020 was £34.1 billion, up £28.2 billion on December 2019 and £2.1 billion higher than market expectations. The sharp rise on last year reflected a £28.2 billion rise in central government spending and a £0.7 billion fall in central government receipts (excluding transfers relating to the Asset Purchase Facility (APF)). Local authorities' borrowing was down £0.3 billion on last year. Borrowing by public corporations (excluding APF transfers) was £0.3 billion down on last year.
3. Over the first nine months of 2020-21, PSNB totalled £270.8 billion, up £212.7 billion on the same period last year. But PSNB over the first nine months of the year was revised down by £4.2 billion this month, in part due to downward revisions to central government spending. This repeats the pattern of revisions in recent months' public finances releases. Borrowing by local authorities has been revised down (by £1.2 billion) reflecting the incorporation of our latest forecasts into the provisional 'outturn' data.
4. Around 80 per cent of the rise in borrowing so far this year is explained by higher central government expenditure, which is up by £181.2 billion (30.1 per cent) on a year earlier. That rise is largely thanks to much higher 'other' current spending (mostly departmental spending, but including the cost of the CJRS and SEISS), as well as higher welfare spending. The remainder reflects the £38.3 billion (7.0 per cent) fall in central government receipts, reflecting the wider fall in economic activity as well as various virus-related reliefs and tax cuts.
5. As illustrated by the revisions to outturn data reported today, initial estimates of accrued spending, receipts and borrowing are particularly prone to revision at the present juncture. In many cases, the outturn data are currently based on our scenario profiles or other forecasts, reflecting the often-significant lag between the underlying economic activity and corresponding tax payments, and the lags in collating and transmitting outturn departmental spending data to the ONS. As more cash data become available over the coming months and these initial assumptions are updated, large revisions can be expected. These issues are overlaid with other challenges, such as adjusting the accrued tax data for non-payment of liabilities and subsequent repayment of arrears. Outturn data do not yet reflect the upfront cost of future

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<sup>1</sup> <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/December2020>

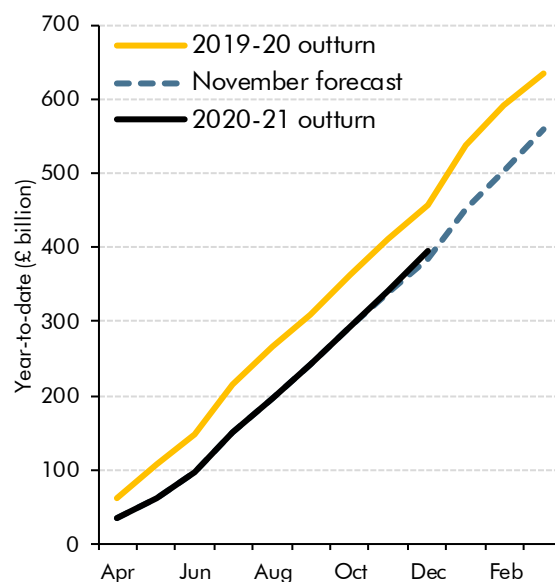
calls on loan guarantees. These are expected to be substantial, so their eventual inclusion in the official statistics will also be a source of large future revisions.

## Receipts

### Cash receipts collected by HMRC

HMRC collects around 90 per cent of all central government cash receipts. Receipts over the first nine months of the year were down by £62.7 billion (13.7 per cent) on last year. But in December receipts were up by £6.0 billion (12.9 per cent) on last year, the strongest year-on-year increase since the start of the pandemic. The rise in December is driven mostly by strong income tax, VAT and corporation tax receipts.

VAT receipts account for more than half the year-to-date fall in receipts relative to last year, thanks to the Government's rate cuts and deferral scheme (which ended on 30 June), together with lower consumer spending. The remainder of the fall largely reflects the other main taxes: income tax and NICs, corporation tax and fuel duties. Some of this fall reflects timing effects, in particular the decision to allow the deferral of July self-assessment instalment payments. This makes it difficult to make like-for-like comparisons between the path of tax receipts and GDP data so far this year.

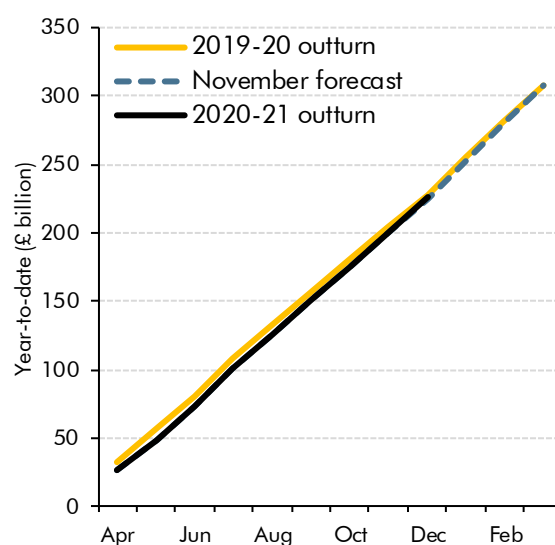


Source: HMRC, OBR

### PAYE income tax and National Insurance contributions (cash basis)

December cash receipts for PAYE income tax and NICs mainly relate to November liabilities. Cash receipts in December were again unexpectedly strong, up 7.4 per cent on a year earlier. HMRC's 'real-time information' (RTI) has shown surprisingly strong year-on-year growth in median pay in recent months, alongside a decline in the number of employees, suggesting a concentration of job losses (and lack of job creation) at the lower end of the income distribution. The provisional estimates for November 2020 suggest that the trend continued.

Total receipts in the year to date are down just £2.7 billion (1.2 per cent) on a year earlier. The fall largely reflects fewer employees on payrolls, but it is much smaller than the fall in GDP thanks to the Government's direct support for employment



Source: HMRC, OBR

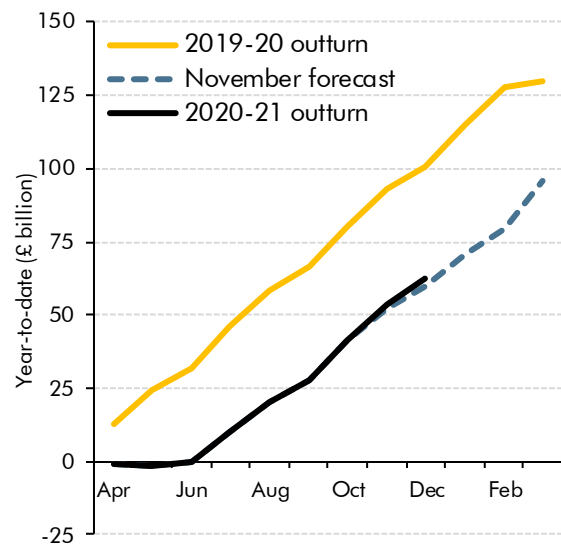
support through the furlough scheme and indirect support through grants and tax cuts for business.

### VAT receipts (cash basis)

Cash VAT receipts in December were £8.5 billion (up 12 per cent on the same month last year), the first year-on-year rise in receipts since January.

Total receipts so far this year are down by £38.5 billion (38.3 per cent) on last year. Over 80 per cent of this shortfall occurred between April and June, reflecting the Government’s decision to defer payments over this period. Over July to December, receipts were on average down by £1 billion a month relative to last year. These more modest falls reflect both cuts to the main rates of VAT for some sectors as well as weaker consumer spending.

It is likely that the strength of receipts in December reflects both consumer spending holding up better than expected and some early repayments of VAT that was deferred from earlier in the year.



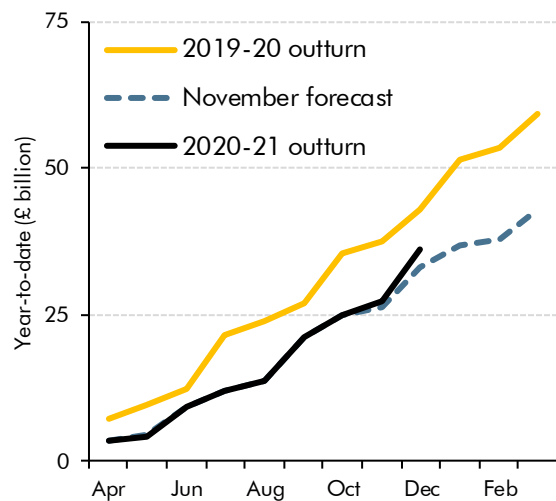
Source: HMRC, OBR

### Onshore corporation tax receipts (cash basis)

On a cash basis, December onshore corporation tax receipts were up £3.1 billion (54.1 per cent) on last year. But year to date receipts remain down £7.5 billion (17.2 per cent) on last year.

The year-to-date fall relative to last year largely reflects two factors. First, the change in quarterly payment deadlines for very large companies has altered the monthly pattern of receipts (reflected in the monthly profile of our November forecast). Second, many companies paying in quarterly instalments will have revised down their estimates of total liabilities for 2020 compared with the previous year, reflecting both a weaker profit outlook and higher anticipated use of loss relief schemes.

The strength of larger companies’ payments in December could reflect more profits and fewer losses than assumed in our November forecast, since many will be paying their final instalment against 2020 liabilities.



Source: HMRC, OBR

## Selected other HMRC cash receipts

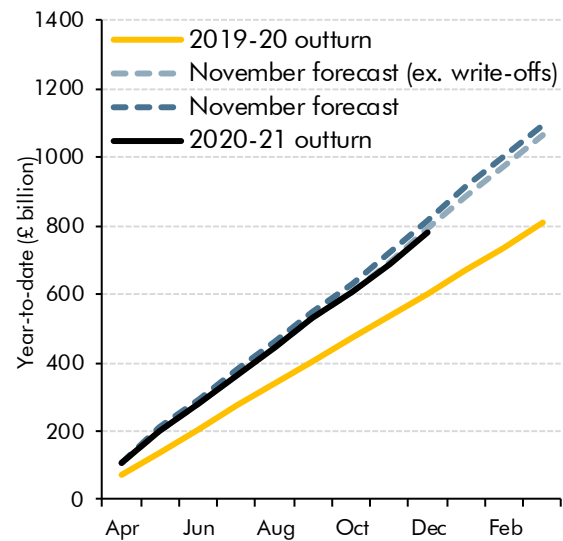
Other notable movements in cash receipts include:

- **Fuel duty** receipts for April to December were down £5.0 billion (23 per cent) on a year earlier. This largely reflects the sharp fall in motor vehicle use over April to June during the lockdown period. Cash receipts in December, which largely coincide with the November lockdown period, were down by 21 per cent on a year earlier, around half the 44 per cent fall seen in April to June receipts, which largely coincide with the first nationwide lockdown.
- **Stamp duty land tax (SDLT)** in the year to date is down 32.6 per cent on last year. Receipts were particularly weak at the start of the financial year, reflecting the impact of the first lockdown on the volume of property transactions. Despite the pick-up in both house prices and transactions, receipts are still weaker overall than last year, reflecting the Government's temporary SDLT holiday. But December receipts came in at £1.2 billion – only 9.1 per cent lower than last year, and £0.4 billion (49 per cent) higher than our November profile.
- **Air passenger duty** remains exceptionally weak. Year-to-date receipts are down 84 per cent on last year due to the collapse in the number of flights taken.

## Public spending

### Central government spending (accruals basis)

Total CG spending in the year to date is up £181.2 billion (30 per cent) on last year. Almost 90 per cent of the rise reflects 'other current expenditure' (mostly departmental spending), in large part driven by spending on virus response and on the CJRS and SEISS. Higher net social benefits spending accounts for around 9 per cent of the rise, reflecting a sharp rise in the working-age welfare caseload. This is partly offset by lower debt interest spending.

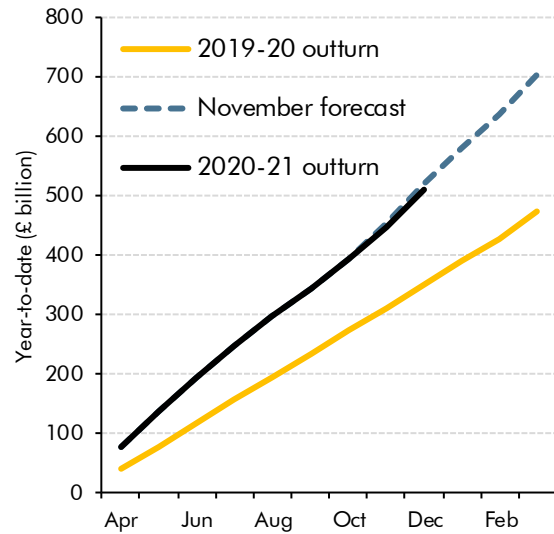


Source: ONS, OBR

## 'Other current expenditure' (largely departmental spending)

'Other current expenditure' includes departmental spending and grants to local authorities, plus subsidies like the CJRS and SEISS.

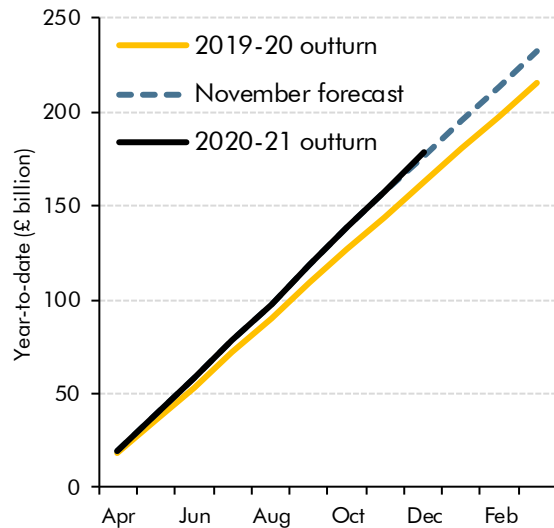
Year-to-date spending is up £161.1 billion (46 per cent) on last year. A little less than half of this is explained by the CJRS (with around £49 billion accrued so far in 2020-21) and the SEISS (around £19 billion). Virus-related departmental spending, including the cost of PPE and the NHS Test and Trace programme, also makes up a significant proportion of the rise.



Source: ONS, OBR

## Net social benefits spending

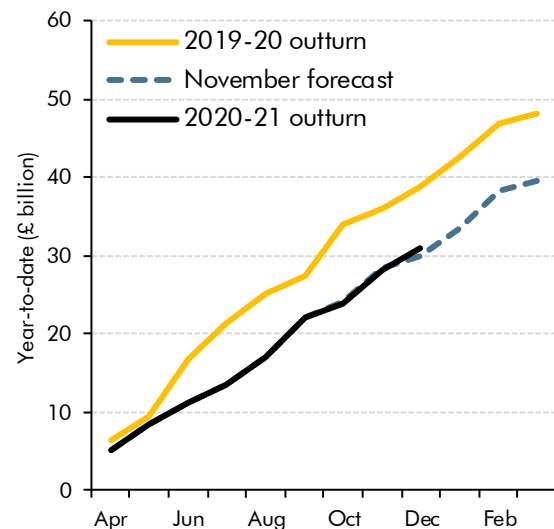
The ONS's 'net social benefits' category includes both welfare spending and net public service pension payments. Year-to-date CG net social benefits spending is up £15.8 billion (9.7 per cent) on last year. This is driven largely by the sharp rise in the universal credit caseload that has been seen since the start of the pandemic, plus the £20 a week temporary increase in the basic element of universal credit and working tax credits.



Source: ONS, OBR

## Central government debt interest spending

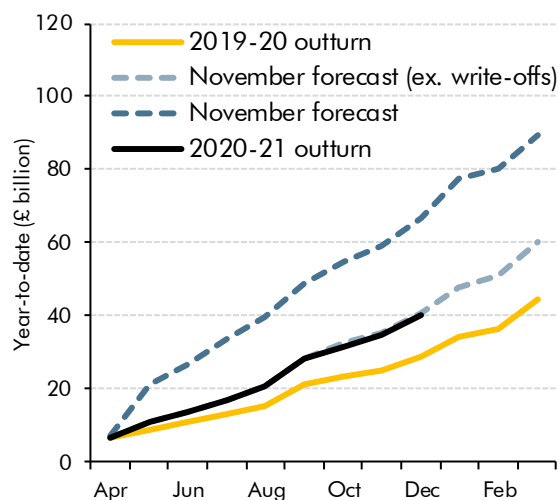
Debt interest spending so far this year is down £7.7 billion on last year, which is mostly explained by lower RPI inflation reducing accrued spending on index-linked gilts. The path of debt interest spending has picked up somewhat in recent months though – also driven by the monthly path of RPI.



Source: ONS, OBR

## Central government net investment

CG net investment so far this year is £11.3 billion (39 per cent) higher than last year. This growth reflects virus-related capital spending, as well as higher spending on High Speed 2 and previously planned increases in health and social care. This line does not yet include the costs associated with expected future write-offs on guaranteed loans, which explains the large difference between the latest outturn and our November forecast profile.



Source: ONS, OBR

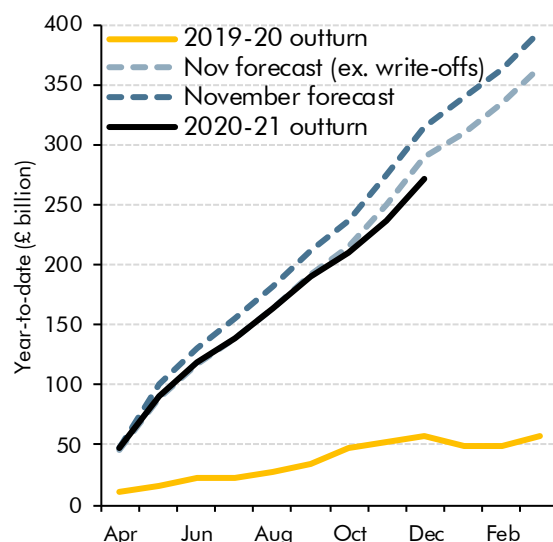
## Fiscal aggregates

### Public sector net borrowing (PSNB)

Public sector net borrowing so far in 2020-21 totalled £271 billion, up £213 billion on last year. The rise is dominated by higher central government spending, which has risen by £181 billion, with central government receipts having fallen by a more modest £38.3 billion on last year.

PSNB across April to November was revised down by £4.2 billion in today's release, partly explained by downward revisions to central government spending and local authority borrowing.

Much of the apparent shortfall in borrowing relative to our November forecast reflects statistical issues, with the upfront recording of future write-offs associated with the pandemic loan schemes not yet featuring in the ONS outturns. Our profile assumes that these have cost £26 billion so far this year.

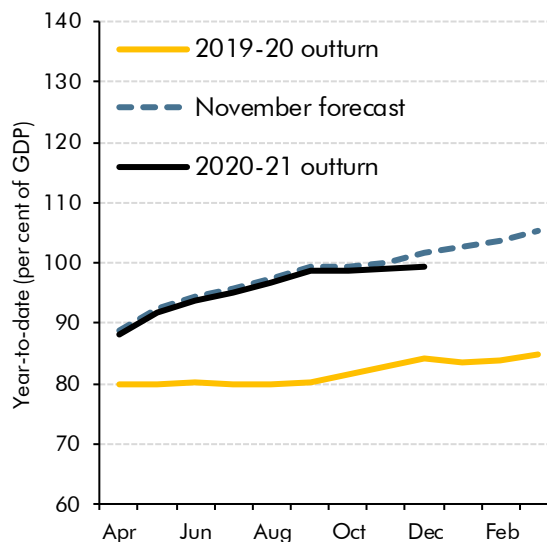


Source: ONS, OBR

## Public sector net debt (PSND)

PSND in December rose 15.3 per cent of GDP on a year earlier to reach 99.4 per cent, its highest level since 1961-62. Cash debt rose by £325.7 billion relative to last year, reflecting both higher central government cash borrowing and the Bank of England's new Term Funding Scheme and the expansion of its gilt purchases.

Recent estimates of PSND as a share of GDP were revised down this month, as ONS have now incorporated outturn nominal GDP for Q3 2020 into the denominator. Our November forecast implies that PSND will rise above 100 per cent of GDP again over the next few months, driven by a sharp rise in cash borrowing in the final months of 2020-21.

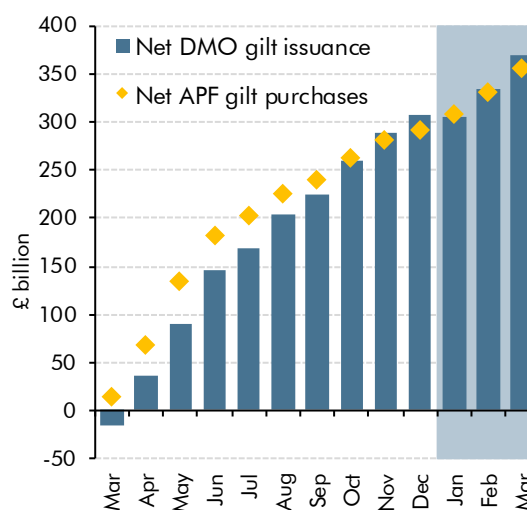


Source: ONS, OBR

## Financing

### Gilt issuance, QE purchases and use of the Ways & Means Facility

Up to the end of December, the DMO issued £389 billion in gilts (80 per cent of the £483.5 billion it plans to issue in 2020-21). Net of redemptions, gilt issuance totalled £323 billion over that period. By the same point, the Bank of England had purchased some £318 billion of gilts (out of a total of planned additional purchases of £450 billion). So, in effect, the Bank has purchased £71 billion less from the private and overseas sectors than the DMO has issued (but only £33 billion less on a net basis). To date the Treasury has not made use of its 'Ways & Means Facility' overdraft at the Bank.



Source: BoE, DMO, OBR



## Issues for next month's release and beyond

6. Significant data revisions can be expected over the coming months, as new outturns become available and as the ONS incorporates the impact of many Government policies into the public finance statistics. It is difficult to estimate the likely total size and direction of these changes, but some specific issues include:
- Spending associated with the various **guaranteed loan schemes**. The three main schemes are the coronavirus business interruption loan scheme (CBILS), the coronavirus large business interruption loan schemes (CLBILS) and the bounce back loan scheme (BBLs). The ONS has now determined that all three should be classified as 'standardised guarantee schemes', so the lifetime costs (i.e. the write-offs) are recorded as expenditure at the time the guarantees are provided (raising PSNB as loans are issued). Our latest *EFO* assumes that these schemes would raise PSNB in 2020-21 by £29.5 billion on gross lending of £86.7 billion. The ONS has not yet incorporated any costs associated with these schemes into the outturn data. When it does, the uncertainty around future default rates means that there could be large future adjustments or revisions to the initial estimates as more is learnt about default rates and associated fiscal costs.
  - **SEISS payments** have continued to be scored on a cash basis in this release, but the ONS plans to revisit this in the future.
  - The ONS is continuing to consider how to reflect **non-payment of tax liabilities** in the accruals-based receipts figures used when estimating PSNB. The cash receipts data suggest this has been a material issue across many taxes, with subsequent payments of past debts also an issue. Future revisions in respect of these flows are possible.
  - There is currently limited information about **taxes not collected by HMRC**. The ONS has not yet taken into account the recent announcements by some large retailers that they will not take advantage of the business rates 'holiday'. These recent announcements add up to over £2 billion for 2020-21 as a whole.
  - In July, the ONS announced its decision to classify many **train operating companies (TOCs)** into the public sector from 1 April 2020, following 'emergency measures agreements' (EMAs) between them and the Government.<sup>2</sup> The ONS has not yet incorporated this effect into the statistics, but has said it will aim to do this at the earliest opportunity. In the interim period, the ONS will continue to score payments to TOCs (recorded as subsidies to the private sector) as contributing to PSNB. Following the expiry of the EMAs in September, the Government announced that all rail franchises would be replaced by 'emergency recovery measures agreements' (ERMAs).<sup>3</sup> The ONS has said it will consider the implications of this at the earliest opportunity.

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<sup>2</sup> *The ONS classifies train operating companies now running under emergency measures agreements*, ONS, 31 July 2020.

<sup>3</sup> *Rail franchising reaches the terminus as a new railway takes shape*, DfT, 21 September 2020.