

Commentary on the Public Sector Finances: June 2021

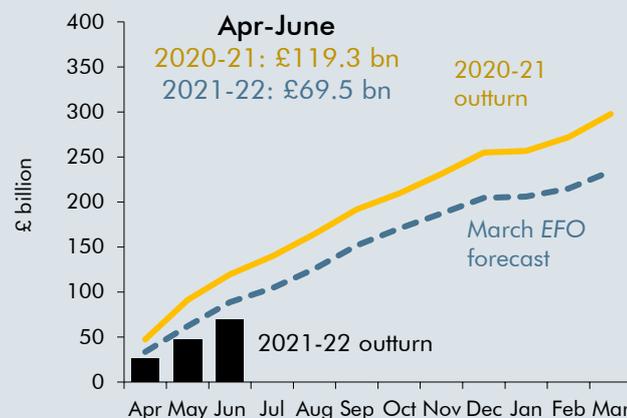
Office for
**Budget
Responsibility**

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Budget deficit continues to fall faster than expected

Government borrowing in June 2021 was £22.8 billion, down over 19 per cent from last year. Year-to-date borrowing of £69.5 billion is now £19.0 billion below our March forecast profile. That reflects both stronger-than-expected receipts (consistent with the faster economic rebound in recent months) and lower-than-expected spending (perhaps reflecting continued shortfalls in spending on pandemic-related programmes).

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



Headlines

- **Public sector net borrowing (PSNB)** totalled £22.8 billion in June 2021 and £69.5 billion in the first three months of 2021-22. These figures are respectively £3.8 billion and £19.0 billion below the monthly profiles consistent with our March forecast.
- **HMRC cash receipts** in June were £52.1 billion, £8.9 billion above our March forecast, and up £16.3 billion on last June. The year-to-date receipts surplus relative to forecast is £11.3 billion, reflecting much stronger performance of corporation tax, income tax and NICs.
- **Central government spending** in June was £84.1 billion, up £2.5 billion on last year but £2.2 billion below forecast. Year-to-date spending is down £24.2 billion on last year, and is £5.5 billion below forecast. Higher RPI inflation meant that debt interest payments in June hit £8.7 billion, the highest monthly amount on records that stretch back to January 1998.
- **Net debt** in June stood at 99.7 per cent of GDP. This is 6.3 per cent of GDP higher than a year earlier but is 3.9 per cent of GDP below our March forecast, thanks both to lower central government cash spending in 2020-21, plus continued lower borrowing so far this year.

Detail

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the June 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, and have revised these today to bring them into line with the accruals treatment of the Brexit divorce bill payments through the year, which the ONS has stipulated in today's bulletin. This changes the monthly pattern of spending on the divorce bill, but not the total within 2021-22. We have used these revised profiles when comparing outturns to forecast.
2. Year-to-date borrowing in the first three months of 2021-22 of £69.5 billion was £19.0 billion below our forecast profile. This outperformance is mostly due to central government accrued receipts which were £11.8 billion (7.0 per cent) above profile, while central government spending also came in £5.5 billion (2.1 per cent) below profile. Borrowing by local authorities and public corporations were, respectively, £1.0 billion and £0.7 billion below profile. The surprises in central government spending and local authorities borrowing are likely to be related, with central government grants to local authorities higher than expected so far this year, lowering local authorities borrowing. This is likely to be a timing effect.
3. The upside surprise in accrued receipts so far in 2021-22 is dominated by PAYE income tax and NICs receipts (which are up £5.9 billion or 7.7 per cent on profile) and corporation tax receipts (which are up £3.2 billion or 32.1 per cent). Other upside surprises include receipts from SA income tax, stamp duties, other income tax, and fuel duty, which together are £3.1 billion (35.7 per cent) above our forecast profile. Overall, outperformance of receipts in the year to date looks broadly consistent with the monthly path of economic output having exceeded our March forecast by around 5 per cent so far in the second quarter of 2021.
4. The downside surprise in central government spending so far in 2021-22 is mostly due to lower subsidies, including CJRS and SEISS, which are £1.5 billion (6.5 per cent) lower than expected. Net social benefit spending is also £1.0 billion (1.7 per cent) lower than expected, while debt interest spending is £0.9 billion (4.8 per cent) lower than expected for the year to date (although it was higher than expected in June thanks to higher RPI inflation). These are partly offset by current grants to local authorities, which are £2.0 billion (5.3 per cent) higher than expected so far this year.
5. The largest source of surprise relative to forecast in June alone came from receipts, where the surplus was particularly large. Notable sources of upside news include:
 - **Corporation tax cash receipts** in June were £8.1 billion, up £3.3 billion (68 per cent) on last year and fully £4.2 billion (110 per cent) above our March forecast profile. Receipts are now £6.4 billion above profile for the year to date. Strong cash receipts in June primarily related to very large companies' payments on current year liabilities, with both financial and non-financial sectors performing strongly. It is possible that lower initial take-up of the 'super-deduction' capital allowances measure could be a factor, but the scale of the surplus against profile indicates that a quicker-than-expected rebound in profits to pre-pandemic levels must be the main factor. Around

half of the higher cash receipts so far in 2021-22 against profile accrue back to 2020-21, with the remaining half boosting this year's accrued receipts.

- **PAYE income tax and NICS cash receipts** in June were £2.4 billion (9.6 per cent) above our March profile. Stronger receipts are consistent with the latest HMRC real-time information on total pay, which indicates a faster return to pre-pandemic levels in employee numbers and even greater strength in average pay than our March forecast anticipated. Self-assessed income tax has also been stronger so far this year, which may reflect deferred payments being made earlier than our March forecast assumed.
- **Stamp duty land tax (SDLT) receipts** spiked in June reflecting transactions brought forward ahead of the ending of the temporary £500,000 nil-rate band at the end of the month. Receipts in June were £1.2 billion, up £556 million on last month. This was, however, only £142 million higher than expected, with forestalling behaviour having been factored into our March forecast profiles.