

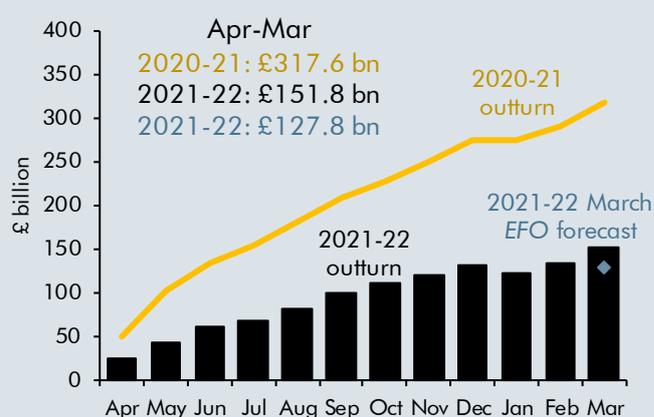
Commentary on the Public Sector Finances: March 2022

26 April 2022

2021-22 budget deficit exceeds March 2022 forecast

The initial full-year estimate of government borrowing in 2021-22 is £151.8 billion, less than half the 2020-21 figure but £24.0 billion above our March forecast (and £16.7 billion above it on a like-for-like basis). This surprise relative to forecast is largely due to higher-than-expected central government spending, which outweighed stronger-than-expected receipts. The like-for-like surprise could narrow as accrued spending figures are revised over the next six months. That said, central government cash borrowing also exceeded our forecast by £20.0 billion.

Public sector net borrowing in the year to date:
March 2022 OBR forecast vs latest ONS outturns



Headlines

- **Public sector net borrowing (PSNB)** was £18.1 billion in March, down £8.8 billion on the previous year. PSNB was £151.8 billion in 2021-22 as a whole – less than half its 2020-21 level of £317.6 billion but £24.0 billion (18.8 per cent) higher than our latest forecast. This is the first estimate from the ONS and can be expected to be revised over the coming months.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) raised £822.6 billion in 2021-22, up £109.2 billion (15.3 per cent) on 2020-21 and £6.5 billion (0.8 per cent) higher than our March forecast. This reflects strength across most taxes, thanks to strong growth in the cash size of the economy.
- **Central government spending** (excluding PSNB-neutral local authority grants) was £847.1 billion in 2021-22, down £43.0 billion (4.8 per cent) on 2020-21 but £29.2 billion (3.6 per cent) higher than forecast. This surprise reflects higher-than-expected central government consumption and net investment, but £7.3 billion of the investment surprise relates to anticipated future revisions.
- The **central government net cash requirement** for 2021-22 was £129.2 billion, £205.3 billion lower than 2020-21 but £20.0 billion higher than our March forecast.
- **Public sector net debt (PSND)** stood at 96.2 per cent of GDP in 2021-22, 0.6 percentage points higher than our March forecast thanks to the higher cash requirement, partially offset by upward revisions to the nominal GDP denominator.
- **Revisions:** Borrowing in the first eleven months of 2021-22 was revised down by £4.7 billion thanks largely to lower spending on government consumption and net social benefits.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the March 2022 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 the 2021-22 forecast from our March 2022 *Economic and fiscal outlook (EFO)*. In this commentary, we look at the initial estimate for the full 2021-22 fiscal year. We plan to publish monthly profiles consistent with our latest forecast for 2022-23 on 12 May and will use these profiles in subsequent monthly commentaries.
2. The first estimate of public sector net borrowing (PSNB) for the full 2021-22 fiscal year was £151.8 billion – down £165.7 billion (52.2 per cent) on last year but £24.0 billion (18.8 per cent) higher than forecast. £7.3 billion of the difference relates to student loan reforms announced in February and the latest estimate of calls on pandemic-related loan guarantees that our forecast anticipates, so the like-for-like surprise relative to forecast is £16.7 billion (13.1 per cent). This is more than explained by higher-than-expected central government spending, which was £21.9 billion (2.7 per cent) above forecast on a like-for-like basis, only partially offset by central government receipts that were £6.5 billion (0.8 per cent) higher than forecast. Provisional estimates of borrowing by local authorities and public corporations were, respectively, £5.1 billion above and £3.8 billion below our March forecast.¹
3. Central government accrued receipts (excluding APF transfers) rebounded strongly in 2021-22 and were up £109.2 billion (15.3 per cent) on 2020-21. The rebound was broad-based, with all the major taxes recovering strongly – PAYE income tax and NICs, VAT, and corporation tax all increased by more than £10 billion – while growth in self-assessed income tax receipts, stamp duty land tax and fuel duty were all in double digits in percentage terms. Receipts surprised on the upside in the latter half of 2021-22 against our October forecast and have again outperformed our March forecast. This latest 0.8 per cent upside surprise accords with signals from economic data published since we closed our March forecast: CPI inflation hit 7 per cent in March, already 1 percentage point higher than forecast, while the level of monthly real GDP as of February was 1 per cent above forecast. Even so, across the full year growth in receipts continues to be stronger than growth in nominal GDP (see Box 3.1 in the March *EFO*), which still holds when using end-March National Accounts data.
4. Central government accrued receipts in this release reflect cash payments of tax up to the end of March, plus forecasts for future months where these cash receipts will be accrued back to 2021-22. These figures will be revised as cash forecasts are replaced with outturns. The ONS will also get firmer information for other non-HMRC receipts – notably business rates – over time. The main differences between our March forecast for 2021-22 and initial outturns are:
 - Accrued **PAYE income tax and NICs** receipts were close to our March forecast (just £0.1 billion below). Our forecast allowed for strong growth in bonuses in the financial and professional services sectors (of 20 and 31 per cent on a year earlier, respectively). These assumptions are supported by recent earnings data, which suggest

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).

that bonuses in the financial and business services sector were up 34.1 per cent year on year in the three months to February.

- Accrued **VAT** receipts for 2021-22 were £2.2 billion above our March forecast. This figure will be subject to revision as some of the cash receipts paid in April, May and June will accrue back to 2021-22.
- Accrued receipts of **corporation tax** (excluding the bank surcharge) were £1.6 billion higher than forecast. Payments from very large companies explain most of the surplus, which could point to continuing buoyant profitability in both non-financial and financial sectors in 2022.
- Receipts from **self-assessed (SA) income tax and capital gains tax (CGT)** were £1.6 billion above forecast. This is likely to reflect even greater strength in the factors that led to a large upward revision in our March forecast, which incorporated cash payments up to almost the end of February. Receipts in 2021-22 largely relate to liabilities from 2020-21, when sole trader and partnership income in the upper half of the income distribution helped buoy SA income tax despite the pandemic, while CGT receipts were boosted by a small number of high-value disposals.
- **Business rates** and **environmental levies** came in £3.0 billion higher than forecast. This data remains provisional, so could be subject to revision in the coming months.

5. The upside surprise in central government spending (excluding local authority grants) in 2021-22 relative to our March forecast was driven by large upside surprises in spending on goods and services (£12.4 billion above forecast) and central government net investment (£18.5 billion above forecast in total and £11.2 billion on a like-for-like basis):

- While downward revisions to **spending on goods and services** have been common recently, as departments' provisional forecasts are replaced with firmer outturn data, the strength in recent cash data (see paragraph below) suggests that this may not be repeated. If not, it would point to considerably less underspending against departmental limits than the historically high £22 billion we assumed in March.
- Abstracting from the £7.3 billion downward revision to **net investment** that our forecast anticipated for when the ONS takes on information relating to the student loan reforms announced in February and updates its estimates of calls on Covid loan guarantees when the Department for Business, Energy and Industrial Strategy releases its next annual report, the upside surprise in the initial outturn suggests that supply bottlenecks may not have impinged on capital outlays at the end of the year by as much as expected.

While not included in our headline measure of central government spending, it is also notable that central government **grants to local authorities** were £5.1 billion higher than our March forecast, despite which borrowing by local authorities was also higher than forecast. The reasons for these differences are unclear at present given the provisional nature of the data.

6. The central government net cash requirement for the full 2021-22 fiscal year totalled £129.2 billion, £205.3 billion lower than in 2020-21 but £20.0 billion above our March forecast. This

upside surprise is in line with that in central government accrued net borrowing (on a like-for-like basis excluding the student loans and loan guarantee effects), and largely reflects the higher-than-forecast central government spending discussed above.

7. Year-to-date borrowing in the first 11 months of 2021-22 was revised down £4.7 billion from last month's estimate, largely thanks to downward revisions to government consumption and net social benefits, alongside a modest upward revision to accrued receipts.
8. Public sector net debt (PSND) in 2021-22 was 96.2 per cent of GDP, up 2.3 per cent of GDP on a year earlier and 0.6 per cent of GDP higher than our March forecast. Cash debt increased by £209 billion over the past year due to the continuing budget deficit and lending under the Bank of England's Term Funding Scheme, but the nominal GDP denominator is up 7.2 per cent over the same period, limiting the year-on-year rise in the debt-to-GDP ratio.

Table 1.1: Public sector receipts, expenditure and net borrowing in 2021-22¹

	£ billion				
	2021-22 outturn	2020-21 outturn	Change	2021-22 forecast	Outturn vs forecast
Central government current receipts	830.0	724.7	105.3	823.5	6.5
<i>of which:</i>					
Income tax	226.3	195.6	30.8	224.9	1.4
National Insurance contributions	158.9	144.3	14.6	159.4	-0.5
VAT	140.9	117.4	23.4	138.7	2.2
Corporation tax ²	63.0	54.0	9.0	61.4	1.6
Other taxes and receipts	240.9	213.5	27.4	239.1	1.8
Central government expenditure	992.2	1055.2	-62.9	958.4	33.8
<i>of which:</i>					
Interest payments	69.9	39.4	30.5	69.5	0.4
Net social benefits	234.6	235.9	-1.2	236.3	-1.7
Net current grants	165.7	189.4	-23.7	162.2	3.5
Consumption expenditure on goods and services	372.6	361.0	11.6	360.2	12.4
Subsidies	50.5	117.9	-67.4	49.6	1.0
Central government depreciation	32.0	30.8	1.2	32.2	-0.2
Central government net investment	67.0	80.8	-13.8	48.5	18.5
Public sector net borrowing	151.8	317.6	-165.7	127.8	24.0
<i>of which:</i>					
Central government net borrowing	162.2	330.5	-168.2	134.9	27.3
Local authorities net borrowing	-0.7	-7.1	6.4	-1.2	0.5
Public corporations net borrowing	-9.7	-5.8	-3.9	-5.9	-3.8
Central government current receipts ex Asset Purchase Facility ³	822.6	713.4	109.2	816.1	6.5
Central government expenditure ex local authority grants ³	847.1	890.1	-43.0	818.0	29.2
Local authorities net borrowing ex local authority grants ³	144.4	158.0	-13.6	139.3	5.1
Public corporations net borrowing ex Asset Purchase Facility ³	-17.1	-17.1	0.0	-13.3	-3.8

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/march2022>

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

² Less bank surcharge.

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