Commentary on the

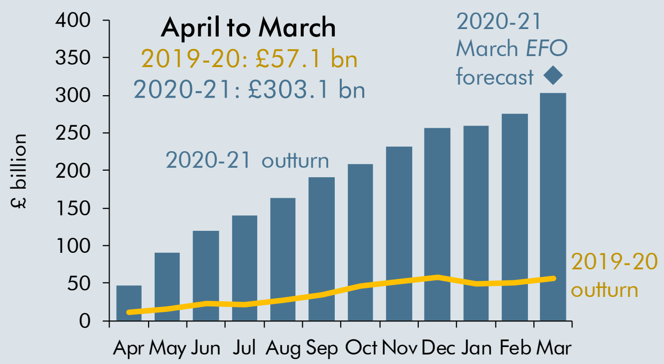
Public Sector Finances: March 2021

23 April 2021

Record budget deficit undershoots March 2021 forecast

The initial estimate of government borrowing for the 2020-21 fiscal year of £303.1 billion is roughly double the previous record set at the height of the financial crisis in 2009-10 (£157.7 billion). But it is £24.3 billion below our March forecast on a like-for-like basis (and £51.5 billion below it including loan write-offs that are not yet recorded in outturn). The surprise relative to our forecast is largely due to spending on pandemic-related programmes coming in below our downwardly revised forecast. Receipts were only modestly stronger than anticipated.

Public sector net borrowing (excl. loan write-offs)



Headlines

- **Public sector net borrowing (PSNB)** is estimated to have totalled £303.1 billion in 2020-21. This is the first estimate from the ONS, which can be expected to be revised in the coming months. PSNB in March alone was £28.0 billion, £6.0 billion above market expectations.
- **Borrowing was well below our March and November forecasts** – by £24.3 billion and £61.0 billion respectively. This primarily reflects lower-than-expected spending by central government departments, in particular health spending, which has been revised down progressively.
- **HMRC cash receipts** for 2020-21 were £584.3 billion, £49.1 billion (7.8 per cent) down on the previous year, with VAT accounting for the bulk of the fall thanks to the Government's rate cuts, together with lower consumer spending. Many other sources of receipts were also down on last year. The full-year figure was £ 7.2 billion above our March 2021 forecast.
- **Central government spending** in 2020-21 on the ONS's initial estimate amounted to £1033.3 billion, up £220.4 billion (27.1 per cent) on the previous year, reflecting higher public services spending, the cost of the CJRS and self-employment income support schemes, and additional grants to local authorities. This was £10.9 billion below our forecast (on a like-for-like basis).
- **Net debt** in March 2021 stood at 97.7 per cent of GDP. This is 13.3 per cent of GDP higher than a year earlier, but 2.5 per cent of GDP below our March 2021 forecast.

Commentary

1 The Office for National Statistics and HM Treasury published their Statistical Bulletin on the March 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 full-year forecasts for 2020-21 from the March 2021 *Economic and fiscal outlook* (*EFO*). We plan to publish monthly profiles consistent with our latest forecast for 2021-22 on 6 May and will use these profiles in subsequent monthly commentaries.

2 The first estimate of public sector net borrowing (PSNB) for the full 2020-21 fiscal year reached £303.1 billion, by far the highest cash deficit on record. Relative to 2019-20, the deficit was up £246.1 billion. This rise has been dominated by higher central government spending, which was £220.4 billion higher than in 2019-20, with central government receipts having fallen by a more modest £34.0 billion. Borrowing by local authorities was down £9.8 billion while borrowing by public corporations was up £1.6 billion.

3 Despite hitting a record high, this initial estimate of the full-year deficit is well below our two most recent *EFO* forecasts (as shown in Chart 1.1). On a simple comparison, the initial outturn is £90.5 billion below our November forecast and £51.5 billion below our downwardly revised March forecast. But these comparisons are not like-for-like because we include estimates of the future costs of write-offs against the pandemic loan guarantee schemes, which the ONS has said should be reflected in public spending as the loans are issued but has yet to include estimates in the outturn data. Our November forecast assumed £29.5 billion of write-offs, which we revised down to £27.2 billion in March.

4 On a like-for-like basis, the initial outturn is £61.0 billion below our November forecast and £24.3 billion below our March forecast. In cash terms these are by far the largest in-year forecast differences since the OBR was established. They echo those witnessed during the financial crisis, but on a much larger scale: the initial outturn for 2009-10 published in April 2010 was £163.4 billion – £3.1 billion below the Treasury's March 2010 forecast and £14.2 billion below its November 2009 forecast.

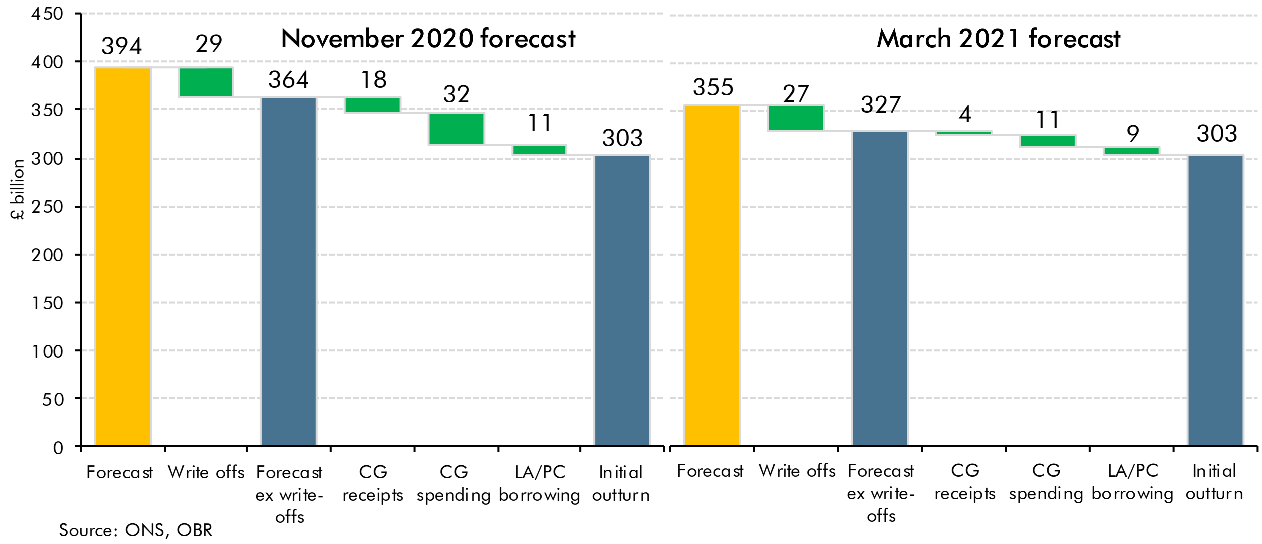
5 Chart 1.1 shows how the like-for-like differences between our two most recent forecasts and this initial ONS outturn break down into differences in central government receipts, central government spending (the largest source of the year-on-year rise in borrowing) and borrowing by local authorities and public corporations. On this like-for-like basis it shows that:

- **Central government receipts are higher than expected**. Receipts exceeded our November forecast by £17.7 billion (2.5 per cent), with positive surprises across all the major tax streams. Much of that upside was clear by the time of our March forecast, so the surplus relative to March was just £4.2 billion (0.6 per cent). This is primarily due to higher than expected receipts from PAYE income tax and NICs, and from onshore corporation tax. This is broadly consistent with the economy modestly outperforming our March forecast in recent months.

- **Central government spending is considerably lower than expected**. Spending was £32.2 billion (3.0 per cent) lower than our November forecast, thanks largely to departmental spending coming in much lower than forecast. Some of this underspending relative to the amounts allocated by the Treasury was already apparent as we prepared our March forecast, leading us to revise down departmental resource spending by £11.0 billion, implying a £19.9 billion shortfall relative to Treasury allocations. But despite that revision, overall central government spending came in £10.9 billion below our March forecast, with the latest estimates suggesting even greater underspending relative to plans, in particular health spending. There have been smaller upside surprises relative to our March forecast for subsidies (particularly to transport) and for net social benefits spending (including on universal credit).

- **Local government and public corporations net borrowing is lower than expected** by a combined £9.0 billion. This is mainly due to lower local government current expenditure than in our forecast. It is worth stressing that local government and public corporations data is subject to considerable lags, so this may be revised significantly in the coming months. The ONS also notes some uncertainty regarding the recording of unused coronavirus-related business grants, which may increase local government net borrowing if these are subsequently surrendered to central government. That said, whether they are ultimately recorded in the central or local government sector should not matter for public spending overall and therefore their effect on PSNB.

Chart 1.1: Public sector net borrowing: initial outturn versus recent forecast



Source: ONS, OBR

6 These comparisons are all relative to the initial estimate of outturn, which will undoubtedly be revised over time as provisional data are replaced with final outturns and as forecasts that fill gaps in the data can be filled. For example, departmental spending is currently informed by departments' own forecasts of their full-year spending; accrued receipts data reflects cash payments up to the end of March plus forecasts for future months where those cash receipts will be accrued back to 2020-21; and there are significant lags in data for local authorities and public corporations that are currently filled using ONS forecasts.

7 Departmental spending figures are typically subject to material revision until September of the following year, beyond which revisions are typically small or driven by classification changes. It is possible that timelines might be even longer for material revisions this year due to pressures on departments. This appears to be the area of greatest uncertainty around the initial outturn, with previous months' data having been revised materially in

recent months. The ONS has also highlighted greater-than-usual uncertainty surrounding local government expenditure due to the differences between funding received from central government and grants paid out to the private sector. This means that the final position of central and local government net borrowing might move in the coming months if unused grants are returned to central government.

8 One indicator of possible future PSNB revisions comes from the raw cash data that drive the **central government net cash requirement (CGNCR) and public sector net debt (PSND)**. The outturn for PSND (excluding the Bank of England) is £1,920 billion, which is £28.1 billion lower than our March forecast (and £67.4 billion lower than our November forecast). The error is largely explained by lower cash outlays by central government. As a result, the measure of the CGNCR used for government financing (known as CGNCRex) was £35.2 billion lower than our March forecast. This means that central government cash borrowing fell short of our March forecast by a greater margin than central government accrued borrowing (£35.2 billion versus £24.3 billion). Cash measures are not revised, but they are much more susceptible to timing effects. This means that we should not expect the two errors to align perfectly, but it does seem likely that the gap between them will decline as the accrued data firm up over the summer. We might therefore expect to see downward revisions to PSNB in future iterations of the public finances data and thus the errors relative to our March and November forecasts to increase.

9 We will explore the sources of the downside surprise in borrowing relative to these forecasts in our next *Forecast evaluation report*, once final outturn data are available. But at this early stage, one conclusion that can be tentatively drawn is that the cost of pandemic-related spending programmes in 2020-21 was significantly less than the Treasury's spending allocations assumed. On its own, that would tell us little about the extent to which the economy will be scarred by the pandemic and therefore would not be a cause to alter the medium-term assumptions underpinning our most recent forecast and that informed the Chancellor's medium-term tax and spending decisions at the March Budget. That said, these assumptions are very uncertain and will be reviewed ahead of our next forecast.