

Commentary on the Public Sector Finances: May 2021

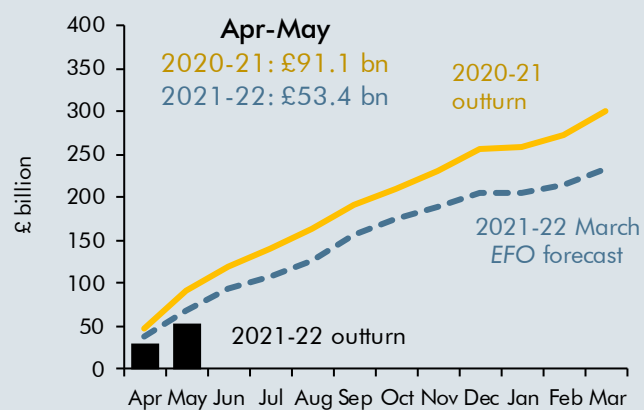
Office for
Budget
Responsibility

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Falling budget deficit continues to undershoot forecast

Government borrowing in May 2021 was £24.3 billion, down over 40 per cent from last year. And year-to-date borrowing of £53.4 billion is £14.1 billion below our March forecast profile. More than a third of that reflects differences in the timing of EU divorce bill payments. But lower spending and moderately stronger receipts growth mean that two months into 2021-22, the underlying outperformance of borrowing relative to forecast is £8.6 billion.

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



Headlines

- **Public sector net borrowing (PSNB)** totalled £24.3 billion in May 2021 and £53.4 billion in April and May combined. These figures are respectively £4.2 billion and £14.1 billion below the monthly profiles consistent with our March forecast. For the year to date, the figure is raised by the timing of the ONS's recording of payments to the EU (the so-called Brexit 'divorce bill').
- **HMRC cash receipts** in May were £48.6 billion, just £0.7 billion above our March forecast, but up £22.5 billion compared to last May. The year-to-date receipts surplus relative to our forecast is £2.4 billion, reflecting much stronger performance of corporation tax, partly offset by lower than anticipated VAT receipts. Surprises in other tax streams have been smaller.
- **Central government spending** in May was £81.8 billion, down £10.9 billion on last year and £3.1 billion below our forecast. Year-to-date spending is down £25.0 billion on last year, and is £7.2 billion below forecast – much of which relates to the timing of EU payments.
- **Net debt** in May stood at 99.2 per cent of GDP. This is 7.8 per cent of GDP higher than a year earlier, but is 3.2 per cent of GDP below our March forecast. This largely reflects lower central government cash spending in 2020-21, plus the further, more modest, shortfalls so far this year.

Detail

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the May 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, which we compare to the latest outturn in the chart above.
2. Borrowing in May was £4.2 billion below our forecast profile. This outperformance is largely due to central government spending, which came in £3.1 billion below profile, while central government receipts were £1.7 billion above profile. Lower spending in May reflected lower-than-expected subsidies, largely due to lower SEISS payments. For the first two months of 2021-22, spending is £7.2 billion lower than expected, which is mostly down to the timing of EU payments (which explains £5.5 billion), with the remainder shortfall in spending spread across a number of items. Current expenditure on goods and services slightly offsets this, being £1.5 billion higher than profile so far. The strength in receipts is more modest than the shortfall in spending and is spread relatively widely across different tax streams.
3. Notable movements in the May receipts data include:
 - **Corporation tax cash receipts** in May were £2.0 billion, up £1.1 billion higher than last year and fully £1.1 billion (123 per cent) above our March forecast profile. Receipts are now £2.1 billion above profile for the year to date. This is largely due to non-financial companies, with the strength related to both upward revisions to firms' views of last year's profits and liabilities, and higher payments on this year's liabilities.
 - **Cash receipts of VAT** came in £1 billion below our forecast in May, and £2.1 billion below for the year to date. The shortfall is due in part to the VAT postponed accounting scheme that was introduced at the start of 2021. Fewer taxpayers than expected have taken up the new regime, meaning more import VAT was paid at the end of 2020-21.
 - **Accrued receipts of PAYE income tax and NICS** were £2.5 billion above our March forecast for the year-to-date. Receipts relating to current year liabilities have been stronger than anticipated, consistent with the latest labour market data. But against that, arrears payments related to last year's liabilities were weaker than expected.
 - **Fuel duty receipts** were £2.3 billion in May, up £1.3 billion on last year's lockdown depressed figure and £0.4 billion above our profile. The level of May is close to the monthly amounts in our forecast profile for the second half of 2021-22, when traffic volumes are assumed to be similar to pre-pandemic levels. The May data are consistent with the daily Department for Transport data on road traffic volumes, which averaged over 90 per cent of pre-pandemic levels between mid-April and mid-May (the closest comparator for the period to which May fuel duty receipts relate).
4. This month the ONS revised down its estimate for PSNB in April from £31.7 billion to £29.1 billion. This is largely explained by the £1.2 billion downward revision to central government spending and the £1.1 billion downward revision to local authority borrowing. It also revised down its estimate of borrowing in 2020-21 from £300.3 billion to £299.2 billion.