

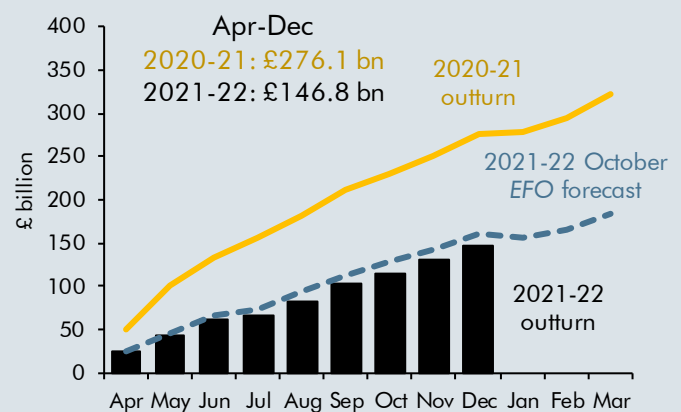
Commentary on the Public Sector Finances: December 2021

25 January 2022

Budget deficit falling sharply thanks to strong tax revenues

Government borrowing in December 2021 was £16.8 billion, down £7.6 billion on December 2020. Year to date borrowing of £146.8 billion is down 46.8 per cent on the same period last year and is £13.0 billion below our October forecast profile. That undershoot reflects stronger than expected receipts (thanks largely to a more resilient labour market and strong business profits) more than offsetting higher than expected spending.

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



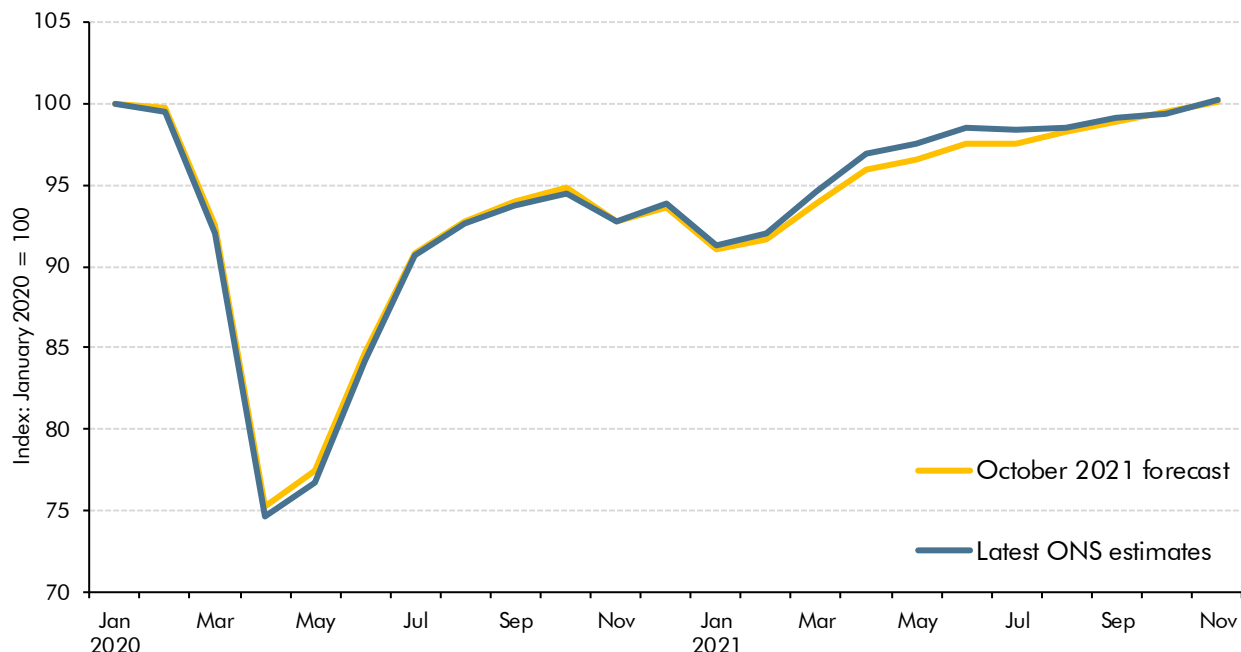
Headlines

- **Public sector net borrowing (PSNB)** was £16.8 billion in December and £146.8 billion in the first nine months of 2021-22, both down sharply on last year. These figures are, respectively, £0.1 billion (0.8 per cent) above and £13.0 billion (8.1 per cent) below our October forecast profiles.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £68.5 billion in December, up £6.2 billion on last year, and £4.2 billion above our October forecast. The year to date receipts surplus relative to forecast is £18.7 billion (3.3 per cent), reflecting the strong performance of income tax and NICs, corporation tax, and VAT.
- **Central government spending** (excluding PSNB-neutral local authority grants) in December was £74.1 billion, down £1.5 billion on last year but £3.8 billion above forecast. Year to date spending is down £41.3 billion on last year but is £7.0 billion higher than forecast. The surprise reflects higher spending on public services, debt interest (thanks to higher RPI inflation), and rail subsidies.
- **Net debt** in December stood at 96.0 per cent of GDP. This is 0.4 per cent of GDP up on a year earlier due to increased Term Funding Scheme lending, but 1.4 per cent of GDP below our October forecast.
- **Revisions:** Borrowing in the first eight months of 2021-22 was revised down by £6.0 billion thanks to downward revisions to government consumption expenditure and upward revisions to receipts.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the December 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 October 2021 *Economic and fiscal outlook (EFO)*. We compare the latest outturns with monthly profiles consistent with this forecast that were published on 9 December.
2. Year to date borrowing in the first nine months of 2021-22 of £146.8 billion was down 46.8 per cent on the same period last year, and is £13.0 billion (8.1 per cent) lower than forecast. This outperformance is more than explained by central government receipts, which came in £18.7 billion (3.3 per cent) above profile, whereas central government spending was £7.0 billion (1.1 per cent) above profile. Borrowing by local authorities was £1.9 billion above profile, while borrowing by public corporations was £3.1 billion below profile.¹
3. The upside surprise in accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far in 2021-22 is dominated by PAYE income tax and NICs (which are up £5.0 billion, or 2.1 per cent, on profile), corporation tax² (up £4.9 billion, or 12.4 per cent, on profile), and VAT (which is up £3.2 billion, or 3.2 per cent). The 3.3 per cent outperformance of receipts relative to forecast comes despite monthly real GDP as of November being just 0.1 per cent higher than forecast (Chart 1.1) – with strength associated with historical upward revisions that were not incorporated in our October forecast having been almost precisely offset by subsequent bottleneck-related weakness. CPI inflation in the fourth quarter of 2021 has also been around 1 percentage point higher than forecast.

Chart 1.1: Monthly real GDP relative to October EFO forecast



Source: ONS, OBR

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).

² Excluding the bank surcharge.

4. Notable movements in the December cash receipts data include:

- **Corporation tax cash receipts** were £5.2 billion (or 77.2 per cent) above profile. December sees very large companies paying the third or fourth instalment payment on their 2021 liabilities and the December surplus is in large part attributed to these companies. Receipts have continued to come in much stronger than expected, particularly in the financial sector. It is unclear at this stage whether this reflects higher underlying profits or lower than expected use of the investment super-deduction.
- **PAYE income tax and NICs cash receipts** were £1.3 billion (5.0 per cent) above profile. Cash receipts in December will mostly reflect November 2021 liabilities. Published RTI statistics suggest the number of payrolled employees in November increased by 4.2 per cent on November 2020 levels and median monthly pay increased by 5.6 per cent over the same period, pointing to continued strong recovery in the tax base. In our October forecast we expected the number of people in employment in the fourth quarter of 2021 to be flat on a year earlier as the closure of the furlough scheme led to a modest rise in unemployment. The upside surprise in PAYE income tax and NICs receipts is therefore consistent with the unexpectedly low level of unemployment in the latest labour market data.³
- **Cash VAT receipts** were £1.2 billion (15.5 per cent) above profile. Cash VAT receipts relate to spending one to three months earlier, so it remains to be seen how the surge in coronavirus cases from the Omicron variant will affect cash receipts.

5. Higher than forecast central government spending (excluding local authority grants) so far in 2021-22 is driven by:

- Increased **spending on goods and services**, which was £5.8 billion (2.1 per cent) above profile, thanks largely to a rise in health spending, which in turn could be related to the very large numbers of coronavirus tests conducted since Omicron struck.
- Higher than expected **debt interest costs** (£5.4 billion, or 11.6 per cent, above profile), reflecting the sharp rise in RPI inflation in recent months. RPI inflation averaged 6.9 per cent in the fourth quarter of 2021, far exceeding the 5.2 per cent we expected in our October forecast.
- Higher than expected **spending on subsidies** (£3.6 billion, or 9.0 per cent, above profile) thanks to more support for the rail industry than expected.

These increases are offset very slightly by lower than expected net social benefit spending, which came in £1.4 billion (0.8 per cent) below profile.

6. Year to date borrowing in the first eight months of 2021-22 was revised down £6.0 billion from last month's estimate, thanks to lower government consumption and higher receipts (due

³ Our forecast is for adult employment as measured in the ONS Labour Force Survey. This is a broader measure than payrolled employees captured in the RTI data, notably including the self-employed, where performance has been materially weaker. Even so, there is so far little sign of any rise in unemployment following the closure of the furlough scheme.

to some of the strong December cash receipts data – corporation tax in particular – accruing back to earlier months).

7. Public sector net debt (PSND) in December 2021 was 96.0 per cent of GDP, up 0.4 per cent of GDP on a year earlier, but 1.4 per cent of GDP below the monthly profiles consistent with our October forecast. Cash debt increased by £207.8 billion (9.7 per cent) over the past 12 months due to the continuing budget deficit and lending under the Bank of England’s Term Funding Scheme, but the nominal GDP denominator is up 9.3 per cent over the same period thereby limiting the year-on-year rise in the debt-to-GDP ratio.

Table 1.1: Public sector receipts, expenditure and net borrowing¹

£ billion	December					April to December				
	2021 outturn	2020 outturn	Change	2021 forecast	Outturn vs forecast	2021-22 outturn	2020-21 outturn	Change	2021-22 forecast	Outturn vs forecast
Central government current receipts	68.5	62.3	6.2	64.3	4.2	585.6	509.2	76.4	566.8	18.7
<i>of which:</i>										
Income tax	18.3	16.5	1.8	16.9	1.3	149.1	124.7	24.4	143.5	5.6
National Insurance contributions	13.7	12.6	1.1	13.6	0.1	114.9	104.9	10.0	113.8	1.1
VAT	11.5	11.3	0.1	11.8	-0.4	102.3	88.4	13.9	99.1	3.2
Corporation tax ²	5.3	4.9	0.4	3.7	1.6	44.6	38.0	6.6	39.7	4.9
Other taxes and receipts	19.8	17.0	2.7	18.2	1.5	174.7	153.3	21.4	170.7	3.9
Central government expenditure	84.7	85.8	-1.0	80.3	4.4	737.4	790.4	-52.9	730.3	7.1
<i>of which:</i>										
Interest payments	8.1	2.7	5.4	5.3	2.9	51.5	30.5	21.0	46.2	5.4
Net social benefits	20.1	19.9	0.2	20.1	0.0	178.5	177.8	0.7	179.9	-1.4
Net current grants	12.7	13.1	-0.4	12.9	-0.2	124.3	142.2	-17.9	127.0	-2.6
Consumption expenditure on goods and services	32.6	29.9	2.7	30.2	2.3	276.5	264.2	12.3	270.7	5.8
Subsidies	2.9	12.0	-9.1	2.4	0.6	43.0	94.8	-51.8	39.5	3.6
Central government depreciation	2.8	2.6	0.2	2.8	0.0	24.0	22.9	1.0	24.2	-0.3
Central government net investment	5.4	5.5	-0.1	6.6	-1.1	39.6	57.9	-18.3	42.9	-3.3
Public sector net borrowing	16.8	24.4	-7.6	16.7	0.1	146.8	276.1	-129.3	159.8	-13.0
<i>of which:</i>										
Central government net borrowing	16.2	23.5	-7.2	16.0	0.2	151.9	281.2	-129.3	163.5	-11.7
Local authorities net borrowing	2.1	2.4	-0.3	1.4	0.7	0.2	-3.7	3.9	-1.5	1.8
Public corporations net borrowing	-1.5	-1.5	0.0	-0.7	-0.8	-5.4	-1.4	-3.9	-2.2	-3.1
Central government current receipts ex Asset Purchase Facility ³	68.5	62.3	6.2	64.3	4.2	578.8	498.5	80.3	560.1	18.7
Central government expenditure ex local authority grants ³	74.1	75.5	-1.5	70.2	70.2	627.7	669.1	-41.3	620.7	7.0
Local authorities net borrowing ex local authority grants ³	12.8	12.7	0.1	11.5	11.5	110.0	117.6	-106.1	108.1	1.9
Public corporations net borrowing ex Asset Purchase Facility ³	-1.5	-1.5	0.0	-0.7	-0.7	-12.1	-12.1	0.0	-9.0	-3.1

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/december2021>

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

OBR October 2021 monthly profiles: <https://obr.uk/monthly-public-finances-briefing/>

² Less bank surcharge.

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