

Commentary on the Public Sector Finances: January 2021

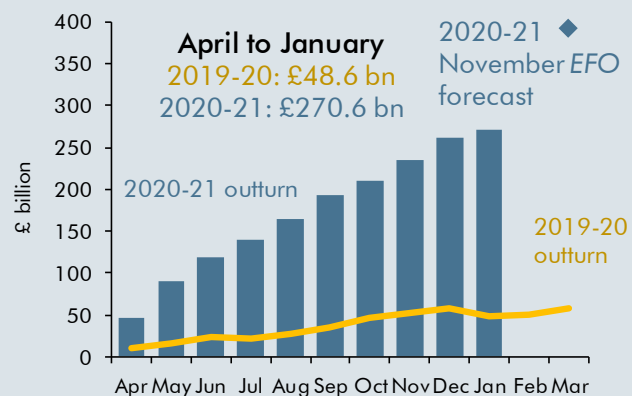
Office for
**Budget
Responsibility**

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Sharp rise in budget deficit is slower than expected

Government borrowing continued to rise in January, with monthly borrowing of £8.8 billion, despite a better-than-expected £24 billion of tax payments being made through self-assessment. Year-to-date borrowing has reached £271 billion, far exceeding the pre-virus annual record set at the height of the financial crisis in 2009-10 (£158 billion). We will publish our latest estimate of borrowing for 2020-21 alongside the Budget on 3 March.

Public sector net borrowing



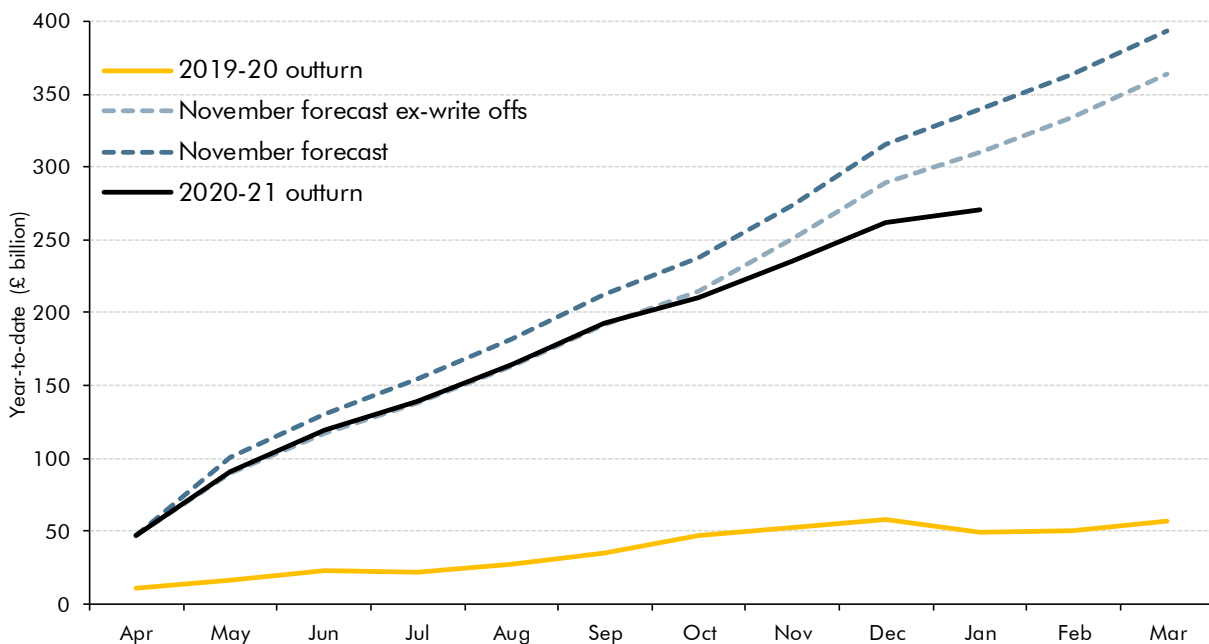
Headlines

- **Public sector net borrowing (PSNB)** totalled £8.8 billion in January, £16.2 billion below market expectations. Borrowing over the first ten months of the year reached £270.6 billion. This is lower than assumed in our November forecast, but much of this shortfall reflects statistical issues, with write-offs associated with pandemic loan schemes not yet featuring in the data. On a like-for-like basis, PSNB (ex-write offs) is still below forecast due to lower-than-expected central government spending and higher receipts (particularly from self-assessment taxes).
- **HMRC cash receipts** in the year to date were 12.1 per cent lower than a year earlier, with VAT accounting for the bulk of the fall thanks to the Government's rate cuts and deferral scheme (which ended on 30 June) together with lower consumer spending. Income tax and NICs, and most other sources of tax receipts, were also down on last year.
- **Central government spending** so far in 2020-21 is 29.2 per cent higher than a year earlier, reflecting higher public services spending, the cost of the coronavirus job retention and self-employment income support schemes, and additional grants to local authorities.
- **Net debt** rose by 14.7 per cent of GDP on a year earlier to reach 97.9 per cent in January.

Commentary

- 1 The Office for National Statistics and HM Treasury published their Statistical Bulletin on the January 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. As we are just ten days away from the Budget on 3 March, today's commentary is more brief than usual.
- 2 Public sector net borrowing (PSNB) has reached £270.6 billion in the first ten months of 2020-21, by far the highest cash deficit on record. The rise has been dominated by higher central government spending, which has risen by £196.1 billion on the same period last year, with central government receipts having fallen by a more modest £38.0 billion.
- 3 Relative to the monthly profile of our November forecast, year-to-date borrowing is currently £69.3 billion lower than expected. But £29.4 billion of that relates to the upfront recognition of future write-offs associated with the pandemic loan schemes, in line with an ONS decision on how they should be recorded that it has not yet reflected in the outturns. But even on a like-for-like comparison to our ex-write offs forecast, cumulative PSNB is now £39.8 billion lower than expected (Chart 1.1). The largest contributors to this difference are self-assessment income tax and central government current spending.

Chart 1.1: Public sector net borrowing: forecast versus year-to-date outturns



Source: ONS, OBR

- 4 The most notable movements in January data release include:
 - **Self-assessment (SA)** income tax and capital gains tax receipts in January came in £7.5 billion higher than assumed in our monthly profile at £24.0 billion. That was 7.1 per cent up on last January. These are payments in respect of 2019-20 liabilities, so pre-date the pandemic, but had been expected to be weaker due to deferrals. In the event, far fewer taxpayers have made use of the Government's 'self-serve time-to-pay scheme' that was announced in November's Spending Review to defer payments into 2021-22 than we assumed in our November forecast. Some taxpayers may have been

able to use government support grants to stay current on their taxes, thereby choosing not to take advantage of the deferral. This brings forward receipts that our November forecast assumed would be deferred and paid in 2021-22, so relative to that forecast it represents both an upside surprise for receipts in 2020-21 but a downside surprise for receipts in 2021-22.

- **VAT** cash receipts also surprised on the upside, coming in £4.3 billion higher than assumed in our November forecast, and £0.9 billion up on last year. Early indications are that this is mostly from the earlier repayment of liabilities deferred from March to June, but some of the strength is likely to reflect a stronger underlying tax base.
- **Central government expenditure** for the year to date has been revised down by £6.1 billion. This is mostly driven by revisions to spending from the Department for Health and Social Care over the past few months. In our November forecast we assumed that the increased totals for departmental resource spending in 2020-21 that were set by the Treasury in the Spending Review would be underspent by £12 billion for the year as a whole. This was a larger margin than we would normally expect due to the difficulty of spending at the pace implied by those plans. Today's data suggest that departments are likely to underspend by an even greater margin, which we will need to reflect in our new forecasts to be published alongside the Budget on 3 March.