Commentary on the

Public Sector Finances: January 2022

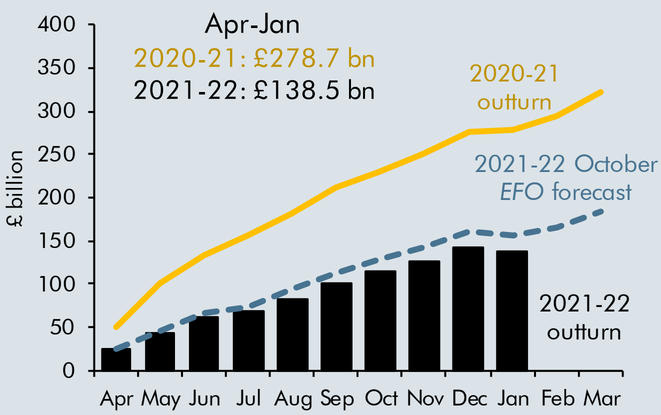
Office for Budget Responsibility

22 February 2022

January tax receipts and debt interest far exceed forecasts

January is a big month for tax receipts, with self-assessment (SA) payments due. This year's relate to 2020-21 liabilities – a year affected by both lockdowns and huge fiscal support. At £26.8 billion, SA receipts exceeded our forecast by £7.8 billion. That helped take the year to date receipts surplus relative to our October 2021 forecast to £29.1 billion. But higher inflation has raised debt interest costs too, helping to push year to date spending £8.8 billion above profile. Year to date borrowing of £138.5 billion is £17.8 billion below our October forecast, while the central government net cash requirement is a much larger £56.4 billion below.

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



Headlines

- **Public sector net borrowing (PSNB)** returned to a small surplus of £2.9 billion in January (£0.6 billion smaller than our October forecast profile) and was £138.5 billion in the first ten months of 2021-22 (£17.8 billion (11.4 per cent) below profile). PSNB is down 50.3 per cent on last year.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £90.9 billion in January, up £8.6 billion on last year and £8.6 billion above our October forecast. The year to date receipts surplus relative to forecast is £29.1 billion (4.5 per cent), reflecting strong performance across taxes, led by income tax, corporation tax and VAT.
- **Central government spending** (excluding PSNB-neutral local authority grants) in January was £75.6 billion, up £5.2 billion on last year and £5.6 billion above forecast. Year to date spending is down £39.9 billion on last year but is £8.8 billion higher than forecast. The surprise reflects higher spending on debt interest (thanks to higher RPI inflation), public services, and rail subsidies.
- The **central government net cash requirement** is £56.4 billion lower than our October forecast profile – a much larger shortfall than currently recorded relative to the accrued measure of PSNB.
- **Net debt** in January stood at 94.9 per cent of GDP. This is 0.9 per cent of GDP up on a year earlier, but 2.1 per cent of GDP below our October forecast.
- **Revisions:** Borrowing in the first nine months of 2021-22 was revised down by £5.4 billion thanks to lower spending on consumption and subsidies, alongside higher tax receipts.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the January 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 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. Next month's Statistical Bulletin will be released on 22 March, the day before our next *EFO* is published. We will therefore not be providing a commentary alongside that release.

2. Year to date borrowing in the first ten months of 2021-22 of £138.5 billion was down 50.3 per cent on the same period last year, and is £17.8 billion (11.4 per cent) lower than forecast. This outperformance is more than explained by central government receipts, which have come in £29.1 billion (4.5 per cent) above profile, whereas central government spending was only £8.8 billion (1.3 per cent) above profile. Borrowing by local authorities and public corporations were, respectively, £3.4 billion above and £0.9 billion below profile.[1]

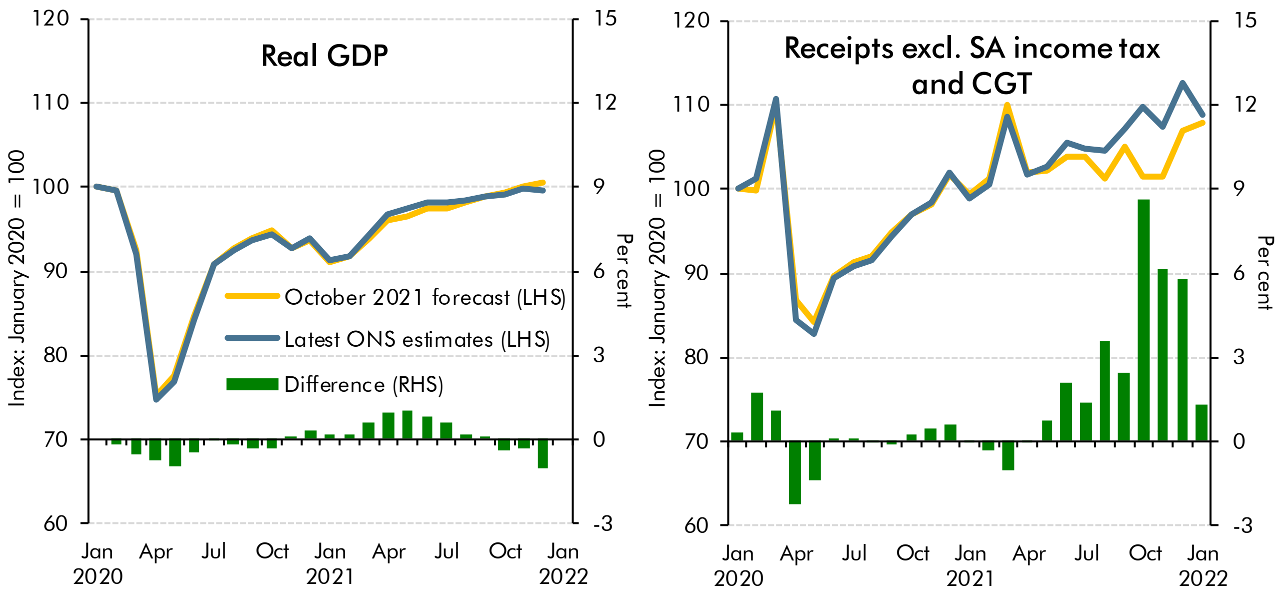
3. The upside surprise in accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) so far in 2021-22 is broad-based, with the largest contributions from: self-assessment (SA) income tax and capital gains tax (which is up £9.8 billion, or 27.9 per cent, on profile), PAYE income tax and NICs (up £6.6 billion or 2.4 per cent), corporation tax[2] (up £6.1 billion or 13.9 per cent), and VAT (up £3.8 billion or 3.4 per cent). The £26.8 billion of SA income tax and capital gains tax receipts (CGT) paid in January were £7.8 billion above our October forecast profile. These payments are recorded on a cash basis in the statistics, but they largely relate to liabilities incurred in respect of 2020-21 economic activity and suggest that relevant income streams and/or asset disposals held up better than expected.

4. Overall, the 3.2 per cent outperformance of receipts in the year to date (excluding SA income tax and CGT payments that relate to last year) comes despite a modest *under*performance of monthly real GDP relative to our October forecast as of December (Chart 1.1). Possible reasons for this apparent rise in effective tax rates (i.e. pence raised in tax per pound of GDP) include stronger earnings growth among the higher paid boosting income tax, exceptional strength in financial sector profits as pandemic-related loan-loss provisions are written back, and weaker than expected business investment reducing deductions against corporation tax. The latter could suggest that the super-deduction has not induced as strong an investment response as our October forecast assumed.

[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.

Chart 1.1: Monthly real GDP and receipts relative to October *EFO* forecast



Note: Our October 2021 GDP forecast has been adjusted to align with the ONS's appraoch to measuring monthly real GDP. Receipts also exclude PSNB-neutral transfers related to quantitative easing.
Source: ONS, OBR

5. Notable movements in the January cash receipts data include:

- **Self-assessment (SA) receipts** for income tax and capital gains tax were £7.8 billion (41.0 per cent) above profile in January alone, with SA receipts up £9.8 billion (27.9 per cent) on profile for the year to date.[3] January is the key month for SA payments, which are based largely on liabilities in the previous tax year. A surplus on the CGT side could reflect a greater volume of asset disposals in 2020-21 and/or broad financial asset prices holding up better than the stock market (which we use to proxy disposals of both listed and unlisted financial assets). A surplus on income tax could reflect a smaller than assumed fall in self-employed incomes in 2020-21, perhaps reflecting the role of fiscal support measures or that falls in self-employment were concentrated at the lower end of the income distribution. Other sources of SA income such as dividends and rental income could also have been less affected by the pandemic than we had assumed. We will explore the drivers of recent SA receipts strength in our next *EFO*, although it is likely to remain a key source of uncertainty.

- **Cash VAT receipts** were £2.5 billion (15.4 per cent) above profile. Cash VAT receipts relate to spending one to three months earlier, meaning the latest outturns have only just started to reflect the period in which coronavirus cases were surging from the Omicron variant. They also reflect the strong retail sales in November.

- **PAYE income tax and NICs cash receipts** were £1.4 billion (4.6 per cent) above profile. Cash receipts in January mostly reflect December 2021 liabilities. Published RTI statistics suggest the number of payrolled employees in December increased by 4.5 per cent on a year earlier and median monthly pay increased by 5.9 per cent over the same period, pointing to continued strong growth in the tax base.

[3] SA income tax, CGT, and Class 2 and Class 4 NICs are collected together. This month's provisional breakdown is largely based on the weighting of each tax stream to total SA. HMRC will revise this split in subsequent releases based on detailed receipts data.

- **Corporation tax cash receipts** were £0.4 billion (or 8.0 per cent) above profile, a smaller upside surprise than in previous months. This is likely to reflect a combination of higher underlying profits and lower than expected use of the super-deduction.

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

   - Higher than expected **debt interest costs**, which were £8.0 billion, or 16.1 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 predicted in October. In January it was 7.8 per cent, already well above the 5.4 per cent for the first quarter of 2022 that we forecast in October. So further large upside surprises in spending relative to our October forecast will follow in the coming months.

   - Increased **spending on goods and services**, which was £6.9 billion (2.3 per cent) above profile, likely reflecting a rise in health spending related to the very large numbers of coronavirus tests conducted since Omicron struck.

   - Higher than expected **spending on subsidies** (£3.3 billion, or 7.8 per cent, above profile) thanks to more support for the rail industry than expected.

   These increases are offset slightly by lower than expected net social benefit spending, which came in £1.7 billion (0.9 per cent) below profile.

7. Year to date borrowing in the first nine months of 2021-22 was revised down by £5.4 billion from last month's estimate, thanks to lower government consumption (largely relating to health spending) and lower subsidies (relating to support for passenger rail), alongside higher tax receipts.

8. Public sector net debt (PSND) in January 2022 was 94.9 per cent of GDP, up 0.9 per cent of GDP on a year earlier, but 2.1 per cent of GDP below the monthly profiles consistent with our October forecast. Cash debt increased by £210.7 billion (10.0 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 9.0 per cent over the same period, thereby limiting the year-on-year rise in the debt-to-GDP ratio.

9. The central government net cash requirement in the year to January totalled £108.9 billion, £56.4 billion below our October forecast profile for the year to date. The £38.6 billion larger shortfall relative to forecast than is currently recorded for PSNB is likely to reflect the combination of several factors. We will examine them in our forthcoming March 2022 EFO.

Table 1.1: Public sector receipts, expenditure and net borrowing[1]

£ billion	January					April to January				
	2022 outturn	2021 outturn	Change	2022 forecast	Outturn vs forecast	2021-22 outturn	2020-21 outturn	Change	2021-22 forecast	Outturn vs forecast
Central government current receipts	**91.6**	**82.9**	**8.6**	**85.3**	**6.2**	**678.9**	**592.0**	**86.9**	**652.1**	**26.7**
of which:										
Income tax	35.1	31.2	3.9	29.0	6.2	184.4	155.9	28.5	172.5	11.9
National Insurance contributions	14.2	12.5	1.6	13.9	0.3	129.2	117.4	11.8	127.7	1.6
VAT	11.2	10.0	1.2	11.6	-0.4	114.4	98.4	16.1	110.7	3.8
Corporation tax[2]	4.9	5.2	-0.3	4.1	0.8	49.9	43.0	6.9	43.8	6.1
Other taxes and receipts	26.2	24.0	2.2	26.8	-0.6	200.9	177.3	23.6	197.6	3.3
Central government expenditure	**87.7**	**85.4**	**2.3**	**80.7**	**7.0**	**821.2**	**875.7**	**-54.5**	**811.1**	**10.1**
of which:										
Interest payments	6.1	1.6	4.5	3.6	2.5	57.8	32.1	25.7	49.8	8.0
Net social benefits	19.7	19.5	0.2	19.9	-0.2	198.1	197.3	0.8	199.8	-1.7
Net current grants	14.0	16.5	-2.5	13.4	0.6	138.4	158.7	-20.3	140.4	-1.9
Consumption expenditure on goods and services	33.9	30.1	3.8	30.3	3.6	307.8	294.3	13.6	301.0	6.9
Subsidies	2.6	8.1	-5.5	2.3	0.3	45.0	103.0	-58.0	41.7	3.3
Central government depreciation	2.8	2.6	0.2	2.8	0.0	26.8	25.5	1.2	27.1	-0.3
Central government net investment	8.5	7.0	1.6	8.4	0.1	47.2	64.9	-17.6	51.4	-4.1
Public sector net borrowing	**-2.9**	**2.5**	**-5.4**	**-3.5**	**0.6**	**138.5**	**278.7**	**-140.2**	**156.3**	**-17.8**
of which:										
Central government net borrowing	-3.9	2.4	-6.3	-4.6	0.7	142.4	283.7	-141.4	159.0	-16.6
Local authorities net borrowing	1.7	1.0	0.7	1.5	0.2	2.2	-2.7	4.8	0.0	2.2
Public corporations net borrowing	-0.8	-1.0	0.2	-0.4	-0.3	-6.0	-2.4	-3.6	-2.7	-3.3
Central government current receipts ex Asset Purchase Facility[3]	90.9	82.2	8.6	82.3	8.6	671.5	580.7	90.8	642.3	29.1
Central government expenditure ex local authority grants[3]	75.6	70.4	5.2	70.0	5.6	699.5	739.5	-39.9	690.7	8.8
Local authorities net borrowing ex local authority grants[3]	13.8	16.0	-2.2	12.3	12.3	123.8	133.6	-9.8	120.4	3.4
Public corporations net borrowing ex Asset Purchase Facility[3]	-1.4	-1.6	0.2	-3.5	-3.5	-13.4	-13.7	0.3	-12.5	-0.9

[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/january2022

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.