Commentary on the

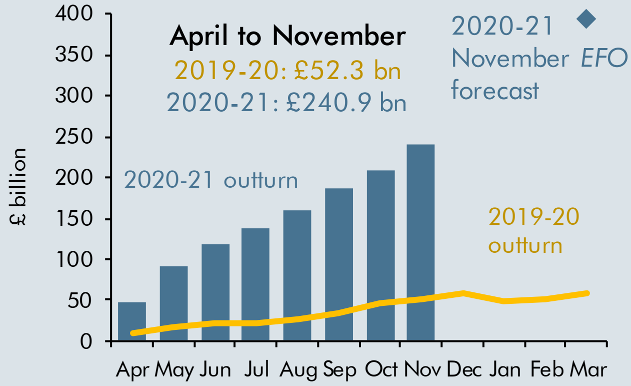
Public Sector Finances: November 2020

22 December 2020

Budget deficit continues to rise very sharply

The pace of government borrowing picked up again in November to reach £32 billion, the highest monthly total since May. Year-to-date borrowing now stands at £241 billion, far exceeding the pre-virus annual record set at the peak of the financial crisis (£158 billion). With a sharp resurgence in virus cases and the introduction of further health restrictions, prospects for the rest of the year remain highly uncertain.

Public sector net borrowing



Headlines

- Today's data highlight the growing fiscal cost of the **coronavirus pandemic**, although it will be many months before the full impact becomes clear.
- **Public sector net borrowing (PSNB)** totalled £31.6 billion in November, £3.6 billion higher than market expectations. Borrowing over the first eight months of the year reached £240.9 billion.
- **HMRC cash receipts** in the year to date were 17 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 per cent higher than a year earlier, reflecting the cost of the coronavirus job retention and self-employment income support schemes, plus additional grants to local authorities and higher public services spending.
- **Net debt** rose by 16.6 per cent of GDP on a year earlier to reach 99.5 per cent in November, its highest level since 1961-62. Our latest forecast assumes that net debt will rise above 100 per cent of GDP over the coming months.

Monitoring the public finances this year

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the November 2020 Public Sector Finances this morning.[1] Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast. This month we have published new monthly profiles for borrowing, receipts and spending consistent with our November 2020 *Economic and fiscal outlook (EFO)*. These monthly profiles are available on our website. Our next forecast will be published alongside the Budget on 3 March.

2. On 18 December, the Chancellor announced that the coronavirus job retention scheme (CJRS) and the three guaranteed loan schemes would be extended, by one and two months respectively. We will reflect the cost of these extensions in our next forecast, but on the basis of the central forecast we produced in November, their cost might be of the order of £3 billion for an additional month of CJRS claims and £4 billion for the upfront cost of future write-offs associated with two more months of loan outlays. There is considerable uncertainty around these figures, with the eventual cost depending on the paths of the virus and of the economy.

The public finances in November 2020

3. Today's initial estimate of public sector net borrowing (PSNB) in November 2020 was £31.6 billion, up £26.0 billion on November 2019 and £3.6 billion higher than market expectations. The sharp rise on last year reflected a £24.7 billion rise in central government spending, plus a £3.5 billion fall in central government receipts (excluding transfers relating to the Asset Purchase Facility (APF)). Local authorities' borrowing was down £1.9 billion on last year. Borrowing by public corporations (excluding APF transfers) was £0.3 billion down on last year.

4. Over the first eight months of 2020-21, PSNB totalled £240.9 billion, up £188.6 billion on the same period last year. But PSNB over the first seven months of the year was revised down by £5.6 billion this month, in part due to higher November cash receipts that accrue to earlier months. This repeats the pattern of revisions in recent months' public finances releases. Borrowing by local authorities has been revised down (by £3.6 billion) reflecting the incorporation of our latest forecasts into the data.

5. Around 80 per cent of the rise in borrowing so far this year is explained by higher central government expenditure, which is up by £156.6 billion (29 per cent) on a year earlier. That rise is largely thanks to much higher 'other' current spending (mostly departmental spending, but including the cost of the CJRS and SEISS), as well as higher welfare spending. The remainder of the rise in borrowing reflects the £36.9 billion (8 per cent) fall in central government receipts, consistent with the wider fall in economic activity as well as various virus-related reliefs and tax cuts.

6. As illustrated by the revisions to outturn data reported today, initial estimates of accrued spending, receipts and borrowing are particularly prone to revision at the present juncture. In many cases, the outturn data are currently based on our July *FSR* scenario profiles or other forecasts, reflecting the often-significant lag between the underlying economic activity and corresponding tax payments, and the lags in collating and transmitting outturn departmental

[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/November2020

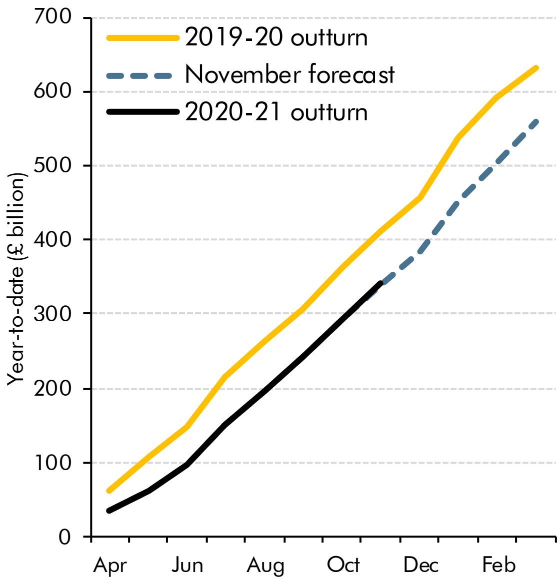
spending data to the ONS. As more cash data become available over the coming months and these initial assumptions are updated, large revisions can be expected. These issues are overlaid with other challenges, such as adjusting the accrued tax data for non-payment of liabilities and subsequent repayment of arrears. Outturn data do not yet reflect the upfront cost of future calls on loan guarantees. These are expected to be substantial, so their eventual inclusion in the official statistics will also be a source of large future revisions.

Receipts

Cash receipts collected by HMRC

HMRC collects around 90 per cent of all central government cash receipts. Receipts over the first eight months of the year were down by £69.0 billion (17 per cent) on last year. But in November alone receipts were up by £1.5 billion (3 per cent) on last year.

VAT receipts account for more than half the year-to-date fall in receipts relative to last year, thanks to the Government's rate cuts and deferral scheme (which ended on 30 June) together with lower consumer spending. The remainder of the fall largely reflects the other main taxes: income tax and NICs, corporation tax and fuel duties. Some of this fall reflects timing effects, in particular the decision to allow the deferral of July self-assessment instalment payments. This makes it difficult to make like-for-like comparisons between the path of tax receipts and GDP data so far this year.

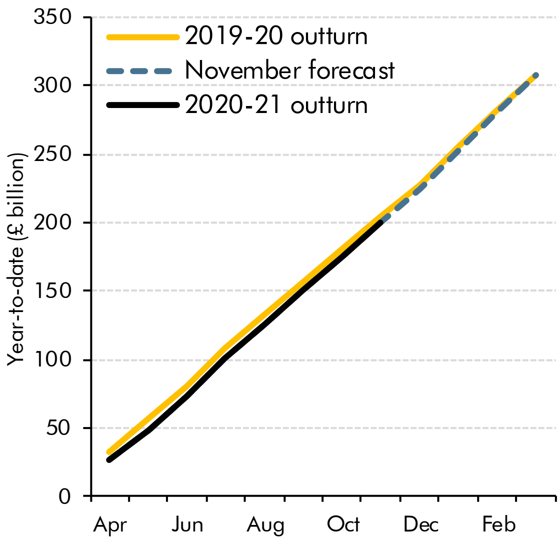


Source: HMRC, OBR

PAYE income tax and National Insurance contributions (cash basis)

November cash receipts for PAYE income tax and NICs mainly relate to October liabilities. Cash receipts in November were again unexpectedly strong, up 5.9 per cent on a year earlier. HMRC's 'real-time information' (RTI) for October shows year-on-year growth in median pay alongside a decline in the number of employees, suggesting a concentration of job losses at the lower end of the income distribution. Provisional estimates for November 2020 suggest that trend has continued.

Total receipts in the year to date are down £4.5 billion (2 per cent) on a year earlier. This largely reflects the fall in the number of employees, but also non-payment of tax liabilities. In the initial stages of the pandemic, many firms built up PAYE



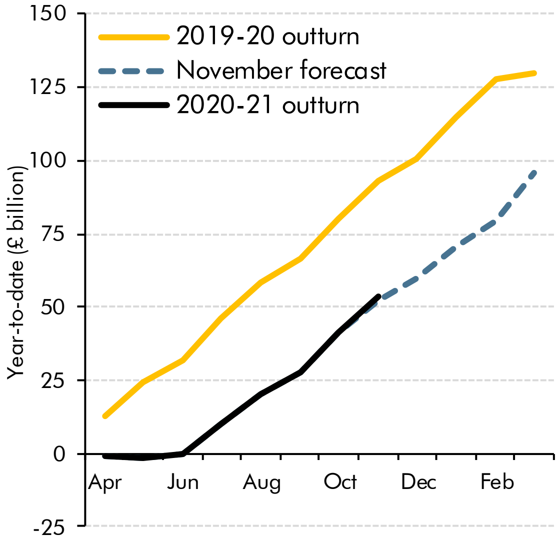
Source: HMRC, OBR

debt. But firms have already paid off significant amounts of that debt, perhaps facilitated by the subsequent disbursement of loans, grants and CJRS payments.

VAT receipts (cash basis)

Cash VAT receipts in November were £12.2 billion (down 6 per cent on the same month last year).

Total receipts so far this year are down by £39.4 billion (42.4 per cent) on last year. Over 80 per cent of this shortfall occurred between April and June, reflecting the Government's decision to defer payments over this period. Over July to November, receipts were on average down by £1.4 billion a month relative to last year. These more modest falls reflect both cuts to the main rates of VAT for some sectors as well as weaker consumer spending.

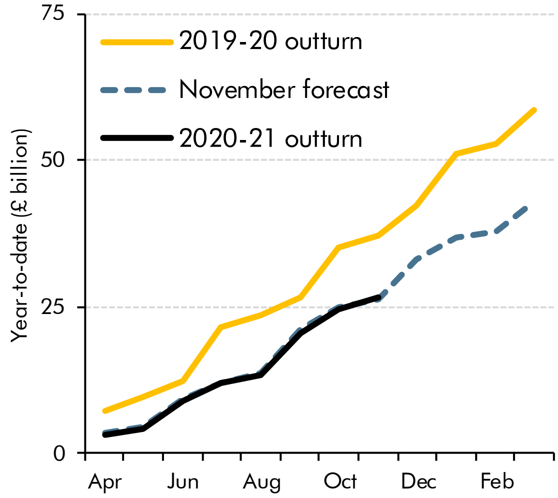


Source: HMRC, OBR

Onshore corporation tax receipts (cash basis)

On a cash basis, November onshore corporation tax receipts were up £0.1 billion (5.6 per cent) on last year. But year to date receipts remain down £10.9 billion (29 per cent) on last year.

The fall relative to last year largely reflects two factors. First, the change in quarterly payment deadlines for very large companies has altered the monthly pattern of receipts (reflected in the monthly profile of our November *EFO* forecast). Second, many companies paying in quarterly instalments will have revised down their estimates of total liabilities for the year, reflecting both a weaker profit outlook and higher anticipated use of loss relief schemes.



Source: HMRC, OBR

Selected other HMRC cash receipts

Other notable movements in cash receipts include:

- **Fuel duty** receipts for April to November were down £4.4 billion (24 per cent) on a year earlier. This largely reflects the sharp fall in motor vehicle use over April to June during the lockdown period. Cash receipts in November were £2.1 billion, down by 1.2 per cent on the October figure.

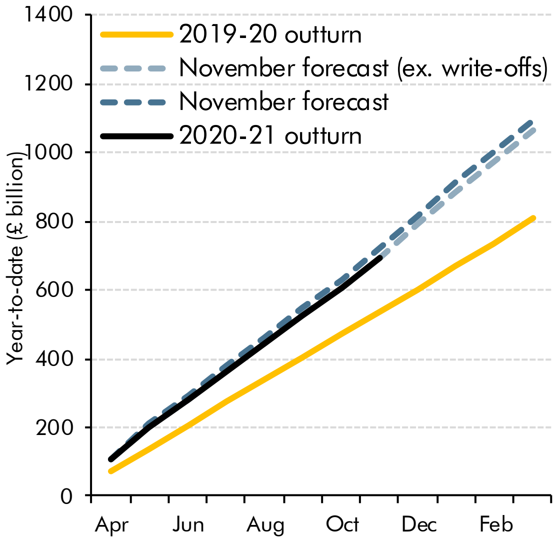
- **Stamp duty land tax (SDLT)** in the year to date is down 36 per cent on last year. Receipts were particularly weak at the start of the year, reflecting the impact of the first lockdown on the volume of property transactions. Despite the pick-up in transactions in October, receipts are still much weaker than last year, reflecting the Government's temporary SDLT holiday.

- **Air passenger duty** remains exceptionally weak. Year to date receipts are down 86 per cent on last year due to the collapse in the number of flights taken.

Public spending

Central government spending (accruals basis)

Total CG spending in the year to date is up £156.6 billion (29 per cent) on last year. Fully 90 per cent of the rise reflects 'other current expenditure' (mostly departmental spending), in large part driven by the CJRS and SEISS. Higher net social benefits spending accounts for around 9 per cent of the rise, reflecting a sharp rise in the working-age welfare caseload. This is partly offset by lower debt interest spending.

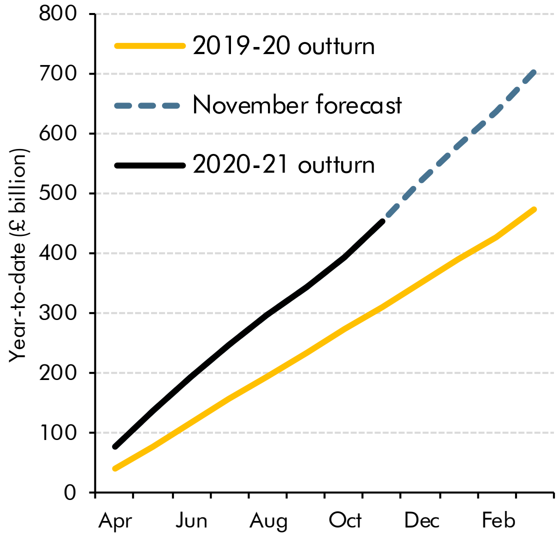


Source: ONS, OBR

'Other current expenditure' (largely departmental spending)

'Other current expenditure' includes departmental spending and grants to local authorities, plus subsidies like the CJRS and SEISS.

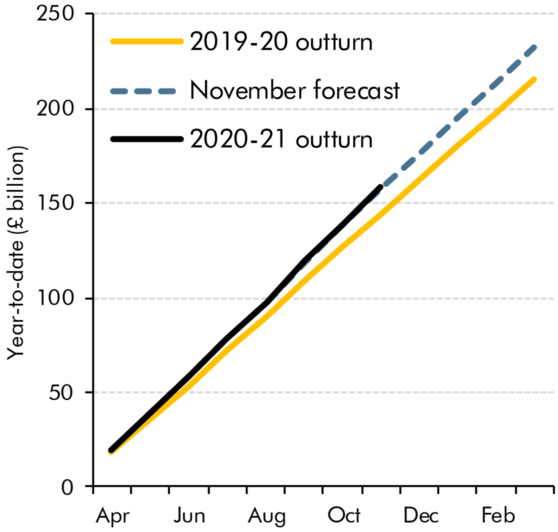
Year-to-date spending is up £141.4 billion (46 per cent) on last year. A little less than half of this is explained by the CJRS (with around £46.9 billion accrued so far in 2020-21) and the SEISS (around £13.5 billion). Virus-related departmental spending, including the cost of PPE and the NHS Test and Trace programme, also makes up a significant proportion of the rise.



Source: ONS, OBR

Net social benefits spending

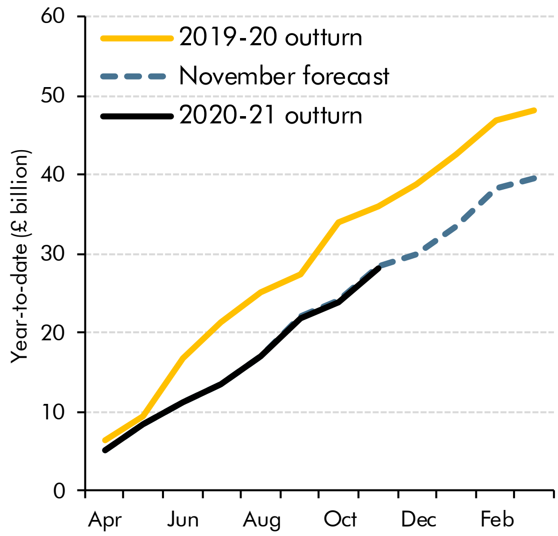
The ONS's 'net social benefits' category includes both welfare spending and net public service pension payments. Year-to-date CG net social benefits spending is up £13.8 billion (9.6 per cent) on last year. This is driven largely by the sharp rise in the universal credit caseload that has been seen since the start of the pandemic.



Source: ONS, OBR

Central government debt interest spending

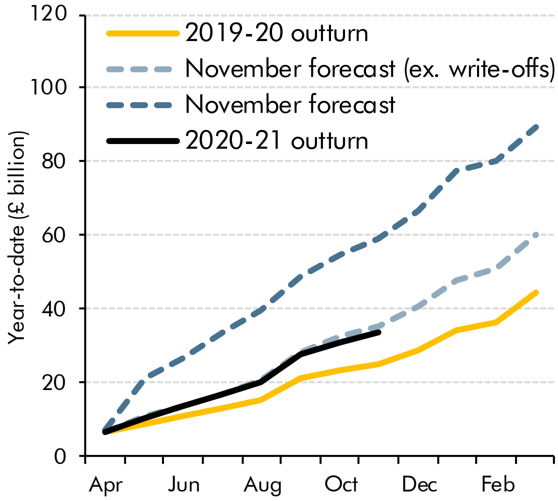
Debt interest spending so far this year is down £7.8 billion on last year, which is mostly explained by lower RPI inflation reducing accrued spending on index-linked gilts. The path of debt interest spending has picked up somewhat in recent months though – also driven by the monthly path of RPI.



Source: ONS, OBR

Central government net investment

CG net investment so far this year is £8.7 billion (35 per cent) higher than last year. This growth reflects virus-related capital spending, as well as higher spending on High Speed 2 and previously planned increases in health and social care. This line does not yet include the costs associated with expected future write-offs on guaranteed loans, which explains the large difference between the latest outturn and our latest forecast and monthly profile.



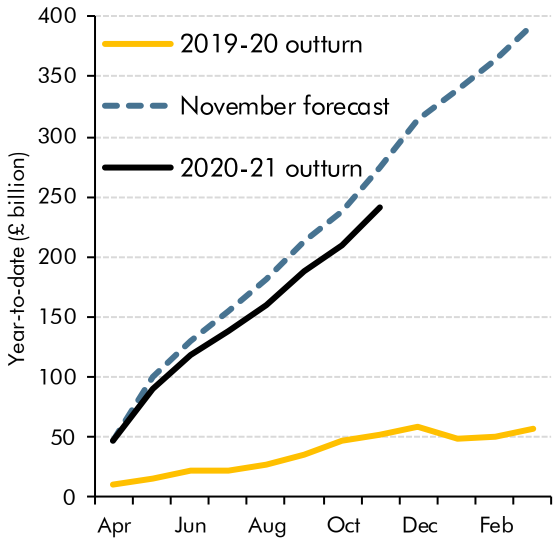
Source: ONS, OBR

Fiscal aggregates

Public sector net borrowing (PSNB)

Public sector net borrowing so far in 2020-21 totalled £240.9 billion, up £188.6 billion on last year. The rise is dominated by higher central government spending, which has risen by £156.6 billion, with central government receipts having fallen by a more modest £36.9 billion on last year.

PSNB across April to October was revised down by £5.6 billion in today's release, partly explained by unexpected strength in November cash receipts that accrue to earlier months.

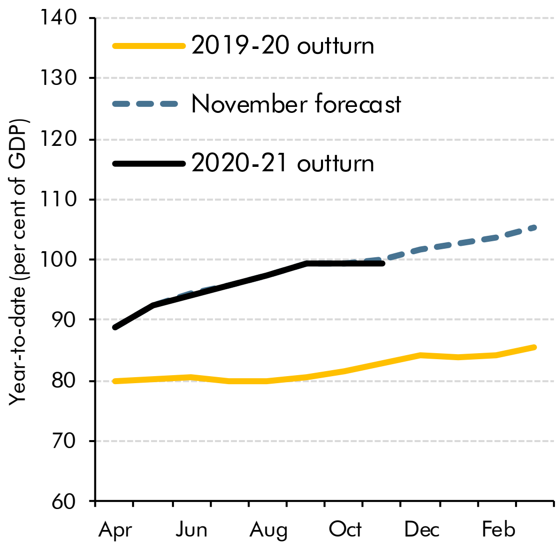


Source: ONS, OBR

Public sector net debt (PSND)

PSND in November rose 16.6 per cent of GDP on a year earlier to reach 99.5 per cent, its highest level since 1961-62. Cash debt rose by £303 billion relative to last year, reflecting both higher central government cash borrowing and the Bank of England's new Term Funding Scheme and the expansion of its gilt purchases.

Recent estimates of PSND as a share of GDP were revised down this month, reflecting revisions to our forecast for nominal GDP over the near term. That forecast implies that PSND will rise above 100 per cent of GDP again over the next few months, driven



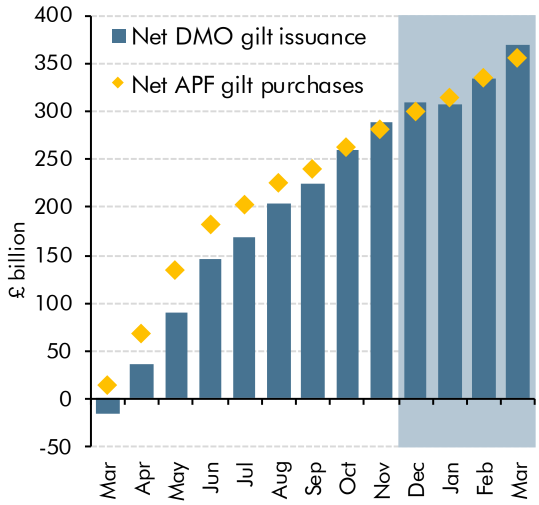
Source: ONS, OBR

by a sharp rise in cash borrowing in the final months of 2020-21.

Financing

Gilt issuance, QE purchases and use of the Ways & Means Facility

Up to the end of November, the DMO issued £369 billion in gilts (76 per cent of the £485.5 billion it plans to issue in 2020-21). Net of redemptions, gilt issuance totalled £304 billion over that period. By the same point, the Bank of England had purchased some £308 billion of gilts (out of a total of planned additional purchases of £450 billion). So, in effect, the Bank has purchased £62 billion less from the private and overseas sectors than the DMO has issued (but only £24 billion less on a net basis). To date the Treasury has not made use of its 'Ways & Means Facility' overdraft at the Bank.



Source: BoE, DMO, OBR

Issues for next month's release and beyond

7. Significant data revisions can be expected over the coming months, as new outturns become available and as the ONS incorporates the impact of many Government policies into the public finance statistics. It is difficult to estimate the likely total size and direction of these changes, but some specific issues include:

- Next month the ONS plans to incorporate our latest **monthly profiles for HMRC cash receipts** into estimates for accrued outturns in months for which cash outturns are not yet available. We do not anticipate this change having a large impact on recorded outturns.

- Spending associated with the various **guaranteed loan schemes**. The three main schemes are the coronavirus business interruption loan scheme (CBILS), the coronavirus large business interruption loan schemes (CLBILS) and the bounce back loan scheme (BBLS). The ONS has now determined that all three should be classified as 'standardised guarantee schemes', so the lifetime costs (i.e. the write-offs) are recorded as expenditure at the time the guarantees are provided (raising PSNB as loans are issued). Our latest *EFO* assumes that these schemes would raise PSNB in 2020-21 by £29.5 billion on gross lending of £86.7 billion. The ONS has not yet incorporated any costs associated with these schemes into the outturn data. When it does, the uncertainty around future default rates means that there could be large future adjustments or revisions to the initial estimates as more is learnt about default rates and associated fiscal costs.

- **SEISS payments** have continued to be scored on a cash basis in this release, but the ONS plans to revisit this in the future.

- The ONS is continuing to consider how to reflect **non-payment of tax liabilities** in the accruals-based receipts figures used when estimating PSNB. The cash receipts data suggest this has been a material issue across many taxes, with subsequent payments of past debts also an issue. Future revisions in respect of these flows are possible.

- There is currently limited information about **taxes not collected by HMRC**. The ONS have not yet taken into account the recent announcements by some large retailers that they will not take advantage of the business rates 'holiday'. These recent announcements add up to over £2 billion for 2020-21 as a whole.

- In July, the ONS announced its decision to classify many **train operating companies (TOCs)** into the public sector from 1 April 2020, following 'emergency measures agreements' (EMAs) between them and the Government.[2] The ONS has not yet incorporated this effect into the statistics, but has said it will aim to do this at the earliest opportunity. In the interim period, the ONS will continue to score payments to TOCs (recorded as subsidies to the private sector) as contributing to PSNB. Following the expiry of the EMAs in September, the Government announced that all rail franchises would be replaced by 'emergency recovery measures agreements' (ERMAs).[3] The ONS has said it will consider the implications of this at the earliest opportunity.

[2] *The ONS classifies train operating companies now running under emergency measures agreements*, ONS, 31 July 2020.
[3] *Rail franchising reaches the terminus as a new railway takes shape*, DfT, 21 September 2020.