House of Commons Library

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28 October 2021

Autumn Budget and Spending Review 2021: A summary

Number 9351

Contents

Introduction

The Autumn Budget and Spending Review 2021 was presented by the Chancellor of the Exchequer to Parliament on 27 October. This was accompanied by official forecasts for the economy and public finances from the Office for Budget Responsibility (OBR) in its Economic and fiscal outlook.

Since the March 2021 Budget, the UK has exited lockdown and removed most public health restrictions. This has facilitated an economic recovery. Many of the Government's pandemic-related support schemes have now ended.

While high levels of Coivd-19 cases highlight the continued uncertainty over the future path of the pandemic, this Budget was the first in over two years that wasn't dominated by managing the pandemic.

The Chancellor in his Budget statement talked of "begin[ning] the work of preparing for a new economy post Covid".[1] The effects of the pandemic, however, were still front and centre in the policy decisions and the OBR's forecasts for the economy and public finances.

Along with the Budget, the Chancellor announced the results of the Spending Review. This sets departmental budgets for the following three years, up to 2024/25. It was the first multi-year spending review since 2015.

1 HM Treasury, Autumn Budget and Spending Review 2021 Speech, 27 October 2021

1 Policy announcements

1.1 Taxes

Announced changes to taxes include:

- A freeze on **fuel duty** in 2022/23, for the twelfth consecutive year.
- A one-year freeze on **alcohol duty** from February 2022. After this there will be a reform to alcohol duties with all products taxed in proportion to their alcohol content; a standardised set of bands; and new rates for low strength products. There will also be 5% cuts to duty rates on draught beer and cider.
- An increase on duty rates on all **tobacco** products. This will be by the retail price index (RPI) + 2%, in line with the 'tobacco duty escalator'. The rate on hand-rolling tobacco will increase by more, by RPI + 6%, and the minimum excise tax on a pack of cigarettes will increase by RPI+3%. These changes will start from the evening of 27 October 2021.
- Various changes to **business rates** following a review, including:
  - a new, temporary 50% relief for retail, hospitality and leisure businesses in 2022/23, up to a cap of £110,000 per business
  - a freeze to the business rates multiplier in 2022/23. Bills would have risen by 3% without the freeze.
  - reliefs for property improvements for the year after they are carried out, from 2023/24. There will also be business rates reliefs and exemptions to support businesses using green technologies.
  - an increase in the frequency of business rates revaluations so that they take place every three years, instead of every five years
- Extending the temporary higher £1 million level of the **annual investment allowance** until 31 March 2023. This is a capital tax allowance for certain investments in plant and machinery.
- Increases in the **theatre, orchestra and museums & galleries exhibition tax reliefs**, until 31 March 2024.
- Changes to **air passenger duty**, with a new band and lower rates for domestic flights, and a new band and higher rates for travel over 5,500 miles.
- Changes to **research and development tax reliefs** to include the costs of cloud computing and data, and to focus support to innovation in the UK.

- A freeze on vehicle excise duty rates for **heavy goods vehicles** to continue in 2022/23 (as they were in 2021/22). The HGV road user levy will be suspended for another twelve months from August 2022. The levy has been suspended since August 2020.
- A reduction of the **bank surcharge** on top of corporation tax from 8% to 3% from April 2023. The annual allowance on the surcharge will rise to £100m. This follows planned increases in the standard rate of corporation tax, which is rising from 19% to 25% in 2023/24.

1.2 Benefits

Announced changes to benefits include:

- Changes to Universal Credit (UC) to reduce the amount that is taken away as earnings rise:
  - The **taper rate for Universal Credit** will decrease from 63p to 55p from 1 December. This means a person's UC award will be reduced by 55p, rather than 63p, for every £1 of net earnings above any work allowance.
  - The **work allowance** will increase for households with children and household members with limited capability to work. This means they can keep £500 per year more from what they earn before their UC starts to be reduced, from 1 December 2021.
- **The roll out of Universal Credit** is planned to end by March 2025, rather than 2024.
- Delaying the introduction of the **new housing element of pension credit**, which will replace pensioner housing benefit, from April 2023 to April 2025.

1.3 Wages

Announced changes to wages included:

- The **National Living Wage** for people aged 23 or over will increase from £8.91 to £9.50 an hour from April 2022. There will also be increases to the National Minimum Wage rates for younger people and apprentices.
- An end to the one-year **public sector pay freeze**.

1.4 Spending

Details of the Spending Review and departmental budgets up to 2024/25 is provided in section 2 below.

Detailed announcements

The Spending Review also contained some announcement on more detailed areas of spending. The larger announcements included:

- Capital funding for **health,** including investment in hospital building and upgrades, increased diagnostic capacity through community diagnostic centres, innovative use of digital technology, new surgical hubs and health-related research and development.
- The **education** budget includes new funding for education recovery after the pandemic, as well as funding for skills, apprenticeships, and early years initiatives.
- Additional funding to recruit **police** officers and to protect vulnerable people in the **asylum** system.
- Funding to reduce **court backlogs**, increase capacity and complete court reform, as well as creating more prison places.
- Funding for **development** priorities such as climate finance, nature and biodiversity, green growth, women and girls, humanitarian preparedness and response, and covid vaccines. Aid spending will return to 0.7% of GNI in 2024/25, if certain conditions about the state of the public finances are met.
- Funding for the **Shared Prosperity Fund**, replacing EU structural funding in the UK.
- Funding for **housing**, including an additional £1.8 billion for housing supply and funding to end rough sleeping.
- **Transport** investment, including for rail, roads, city region transport settlements, buses, cycling and the transition to electric vehicles.
- Increasing core funding for **universities** and research institutions by 2024/25 compared to rates in 2021/22.
- Funding for the **Net Zero strategy** including for a large-scale nuclear project
- A **Global Britain Investment Fund** to support investment in the UK's life sciences, offshore wind and automotive manufacturing sectors
- Funding for **digital benefits systems**, to move legacy claimants over to Universal Credit and to maintain and upgrade DWP estates.
- Funding for **customs IT systems** and modernising HMRC's IT
- Funding for **government offices** away from London

- Increasing public **research and development** investment to £20 billion by 2024/25, as part of an ambition to spend £22 billion by 2026/27 (a target that was originally to be achieved by 2024/25).

The first recipients of the Levelling Up Fund and the Community Ownership Fund were also announced.

1.5 Changes to fiscal rules

The Government is proposing new fiscal rules, in a new Charter for Budget Responsibility, which will need to be approved by the House of Commons.

The new fiscal 'mandate' would require public sector net debt, as a percentage of GDP, to fall by the third year of the rolling forecast period. Public sector net debt here excludes the Bank of England.

There are also supplementary targets:

- to **balance the current budget** by the third year of the rolling forecast period;
- to ensure that **public sector net investment does not exceed 3% of GDP** on average over the rolling forecast period;
- to ensure that certain **spending on welfare is contained within a cap** (and margin).

These concepts, and the previous rules, are explained in the Library briefing The UK's fiscal targets.

The Treasury will also consider a broader set of indicators, looking at debt affordability and the public sector balance sheet.

The OBR judges that this new fiscal mandate and supplementary targets are met in its current forecast.

2 Spending Review

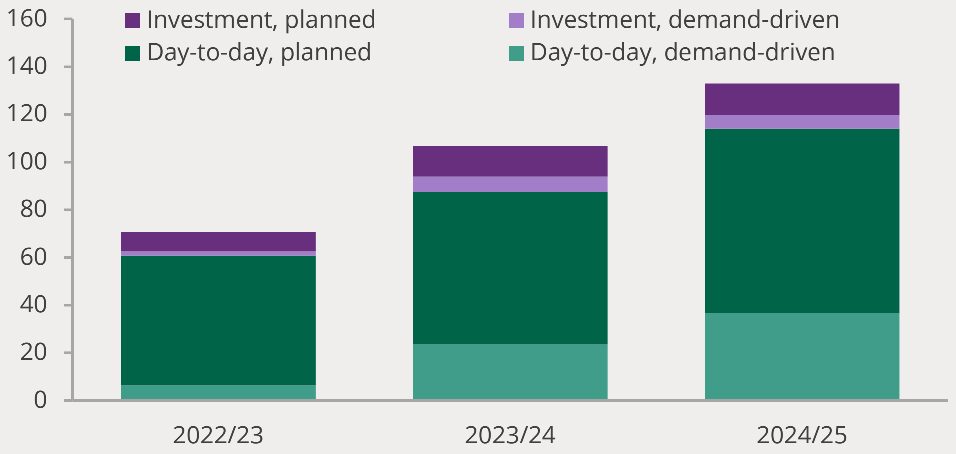
2.1 Overall spending totals

Spending Review 2021 covers the three years from 2022/23 to 2024/25. Over this period, the Government will spend a total of £3,234 billion, equivalent to about £48,200 per person in the UK.[2]

This money is divided up into several pots. 46% is for planned day-to-day spending – that is, spending that can be predicted ahead of time and that is spent on things that are used up, such as pay. A further 42% is for demand-driven spending, such as benefits, and the remaining 12% is for investment.

Total spending, relative to 2021/22 levels, across the 2021 Spending Review period

£ billions, not adjusted for inflation, relative to 2021/22 non-Covid spending



Source: HM Treasury, Autumn Budget and Spending Review 2021, table 1.15, 27 October 2021

When adjusted for inflation, spending increases in each year of the Spending Review period. The increase is heavily front-loaded to the start of the period, with a 4.4% real-terms increase in overall spending in 2022/23 relative to the previous year. Spending then increases by 1.2% in real terms in 2023/24, and finally by 0.5% in 2024/25.

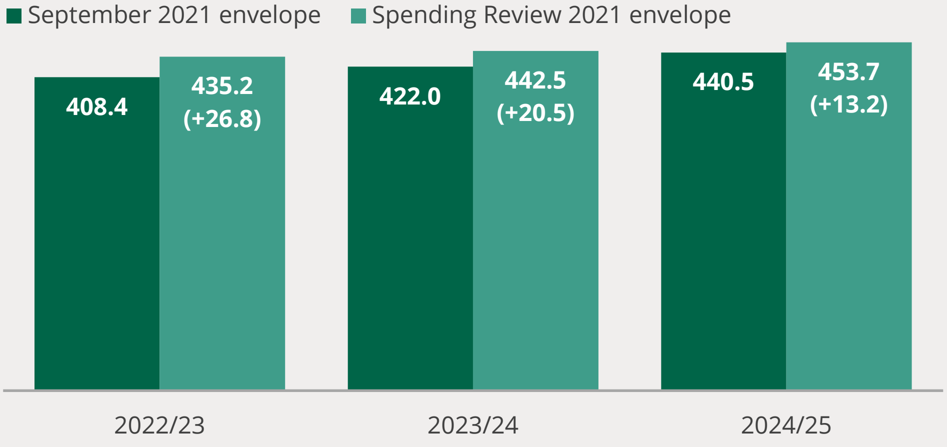
This is a much larger amount of spending than had initially been announced as the Spending Review 'envelope'. In September, the Chancellor said that the Spending Review would follow the path set out at the March 2021 Budget, plus

2 Library calculation, based on Autumn Budget and Spending Review 2021, table 1.15, and ONS, United Kingdom population mid-year estimate for 2020.

the extra money raised by the new Health and Social Care Levy and the increase to dividends tax rates.[3] However, as the chart below shows, the amounts allocated in the Spending Review are substantially higher, particularly for 2022/23, where planned day-to-day spending is nearly £27 billion higher than expected.

The spending envelope has been increased substantially

£ billions, not adjusted for inflation, RDEL exc depreciation



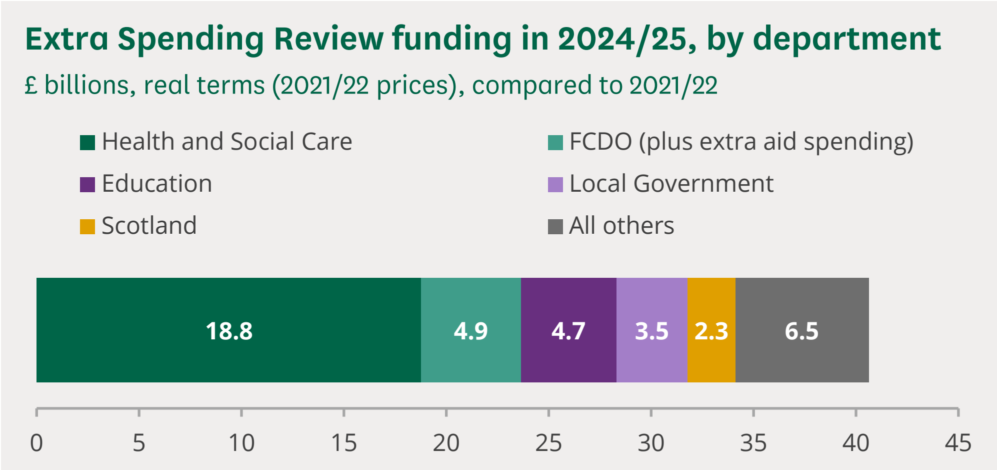
Source: HM Treasury, Chancellor launches vision for future public spending, 7 September 2021, and Autumn Budget and Spending Review 2021, table 1.17, 27 October 2021

2.2 Departmental settlements

Each Government department has received an individual settlement at the Spending Review, setting its spending limits for each year of the Review period. The main total that is set is "RDEL excluding depreciation" – this is the amount that the department can spend on pre-planned day-to-day spending, rather than investment.

Departments are not all receiving the same increases in spending. In fact, just two departments (the Department for Health and Social Care and the Department for Education) between them account for over half of all the extra funding allocated across the Review period. This is in comparison with their 2021/22 level of funding.

[3] HM Treasury, Chancellor launches vision for future public spending, 7 September 2021



Note: Funding here includes only RDEL excluding depreciation.

Source: HM Treasury, Autumn Budget and Spending Review 2021, table 1.17, 27 October 2021

Funding for the Foreign, Commonwealth and Development Office (FCDO) is a special case here. Across the Review period, it is set to receive a spending allocation of £1.2 billion in real terms, leaving its budget in 2024/25 at the same level as in 2021/22. However, based on current fiscal forecasts, the UK will return to spending 0.7% of gross national income (GNI) on overseas aid in 2024/25, and this will result in an increase of about £4.9 billion (in 2021/22 prices) in that year. If this is added to the FCDO's spending, it then accounts for about 12% of all the extra Spending Review funding.

Winners and losers among the departments

In his speech, the Chancellor said that "as a result of this Spending Review, and contrary to speculation, there will be a real terms rise in overall spending for every single department."[4] There had indeed been speculation of cuts in this Spending Review – the Institute for Fiscal Studies (IFS) predicted that unprotected budgets could face cuts of over £2 billion in 2022/23,[5] and our background briefing pointed out several areas where the spending situation could be tight.[6]

The discrepancy is mostly because, as noted above, the overall spending 'envelope' is much larger than commentators had expected. In their initial response to the Spending Review, the IFS said that spending plans had been topped up using the "windfall from improved OBR forecasts". However, IFS researchers also noted the large proportion of spending that had been absorbed by health and said that "things might still feel tight" for other departments.[7]

It is also worth noting that the claim of "every single department" receiving a real terms rise in spending is true once an exception is made for the Ministry

[4] HM Treasury, Autumn Budget and Spending Review 2021 Speech, 27 October 2021

[5] Institute for Fiscal Studies, Spending Review 2021: plans, promises and predicaments, 12 October 2021

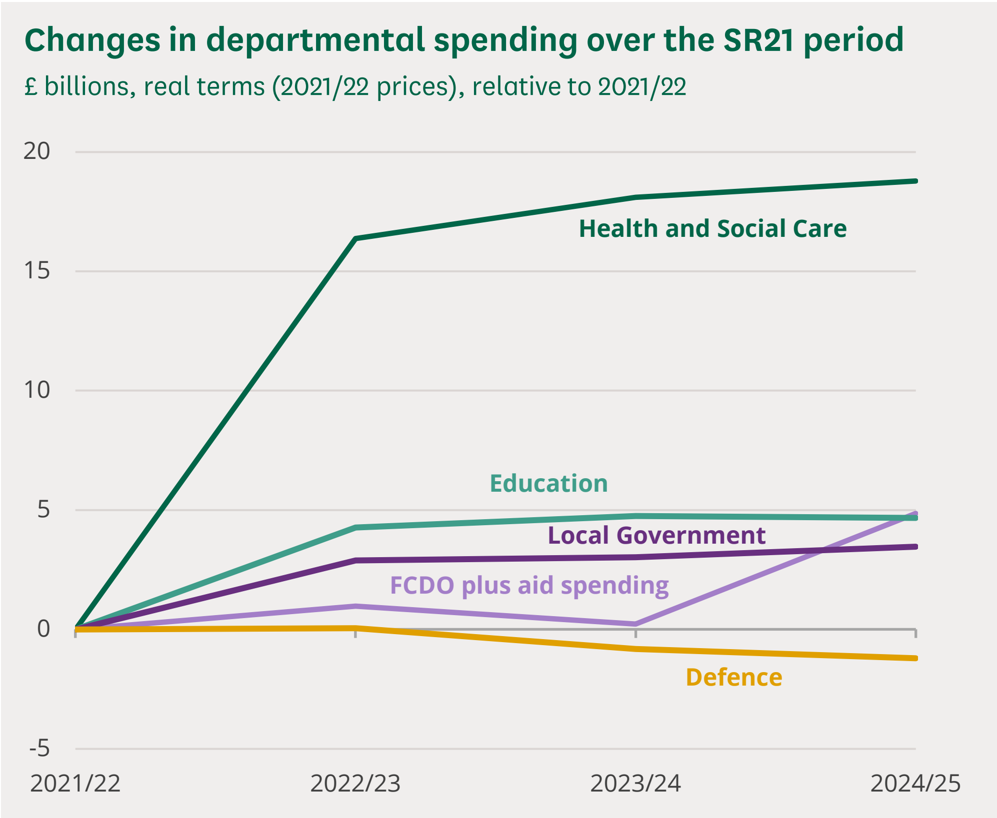
[6] Commons Library Research Briefing CBP-9349, Background to the Autumn Budget and Spending Review 2021, 21 October 2021.

[7] Institute for Fiscal Studies, Autumn Budget and Spending Review 2021, 27 October 2021

of Defence, which received its settlement before Spending Review 2021. The Ministry of Defence received a four-year settlement at Spending Review 2020, which results in average annual real terms growth from 2019/20 to 2024/25 of 1.5%[8]

Day-to-day spending

As the table overleaf shows, the day-to-day spending of all departments, except the Ministry of Defence, will be at least flat in real terms over the Spending Review period. The Ministry of Defence's day-to-day budget will see an annual average real terms fall of 1.4% between 2021/22 and 2024/25, or 0.6% between 2019/20 and 2024/25. Some departments (such as the Department for International Trade and the Cabinet Office) will have day-to-day budgets that are essentially flat in real terms. Others (such as Local Government, Transport and Health and Social Care) will see average annual real terms growth of over 4%.



Note: Funding here includes only RDEL excluding depreciation.

Source: HM Treasury, Autumn Budget and Spending Review 2021, table 1.17, 27 October 2021

As the chart above shows, much of the money in this Spending Review is front-loaded, arriving early in the review period. Many departments will therefore have a large boost in funding in 2022/23 and will then see their budgets fall in subsequent years. For example, the Department for Transport will have its

8 See footnote 33 on page 39 of the Autumn Budget and Spending Review document

budget increased by 73% in real terms in 2022/23, followed by decreases of 15% and 18% in the next two years.

Spending Review 2021 departmental spending settlements

£ billions, real terms (2021/22 prices), RDEL excluding depreciation

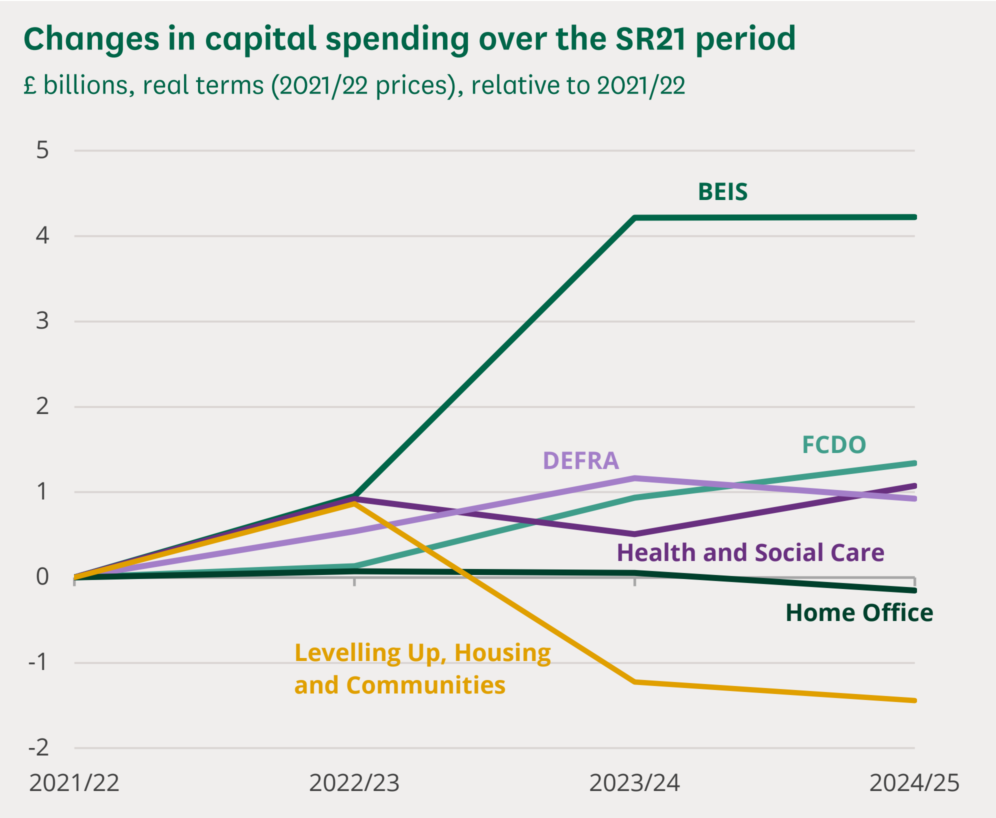
	Baseline 2021/22	2022/23	2023/24	2024/25	Annual average % change, 2021/22 to 2024/25
Health and Social Care	147.1	163.5	165.2	165.9	4.1%
Education	70.7	75.0	75.5	75.4	2.2%
Home Office	13.7	14.8	14.9	14.7	2.5%
Justice	8.4	9.1	9.3	9.4	4.1%
Law Officers' Departments	0.7	0.8	0.8	0.7	2.2%
Defence	31.5	31.5	30.7	30.3	-1.4%
Single Intelligence Account	2.2	2.2	2.3	2.3	1.7%
FCDO (plus aid spending)	7.3	8.3	7.5	12.2	21.9%
Local Government	8.5	11.4	11.5	12.0	9.4%
Levelling Up, Housing and Communities	1.9	2.1	2.1	2.0	1.1%
Transport	4.4	7.6	6.5	5.3	6.8%
BEIS	2.3	2.5	2.6	2.4	1.4%
DCMS	1.4	2.0	1.5	1.5	2.2%
DEFRA	4.1	4.4	4.2	4.0	3.1%
International Trade	0.5	0.5	0.5	0.5	0.1%
Work & Pensions	5.6	7.4	6.9	6.5	4.6%
HMRC	4.2	5.1	4.7	4.4	1.2%
Treasury	0.2	0.3	0.3	0.3	0.9%
Cabinet Office	0.5	0.6	0.6	0.5	1.4%
Scotland	31.6	34.1	34.0	33.9	2.5%
Wales	13.5	14.7	14.7	14.6	2.6%
Northern Ireland	11.7	12.6	12.6	12.5	2.1%
Small and Independent Bodies	2.1	2.3	2.4	2.2	2.8%
UK Shared Prosperity Fund	0.0	0.4	0.6	1.2	-

Note: As the original figures in the Spending Review are given only to the nearest £100 million, adjustments for inflation have only limited accuracy and may not match up with the overall percentage changes.

Source: HM Treasury, Autumn Budget and Spending Review 2021, table 1.17, 27 October 2021

Capital spending

This Spending Review also includes limits for capital spending – that is, investment spending on assets that last. The total amount being distributed between the departments is much lower than for day-to-day spending, coming to an overall total of about £330 billion. The changes in spending for the various departments also tend to be less dramatic.



Source: HM Treasury, Autumn Budget and Spending Review 2021, table 1.18, 27 October 2021

However, there are still some definite winners and losers among the departments when it comes to capital spending. The Department for Business, Energy and Industrial Strategy (BEIS) gains the most to its capital budgets, with its annual capital budget increasing by £4.2 billion in real terms in 2024/25 relative to 2021/22. DEFRA, the FCDO, and the Department for Health and Social Care will also have large increases. DCMS has a relatively large average annual real terms increase of 11.8%.

As with day-to-day spending, some departments will also see their capital spending decrease over the Review period. Seven departments will have capital spending that is lower in real terms in 2024/25 than it was in 2021/22 (the Home Office, the Ministry of Justice, Law Officers' Departments, the Department for International Trade, HMRC, HM Treasury, and the Cabinet Office). Several of these already had very small capital budgets in 2021/22.

The Spending Review document also states that the Department for Levelling Up, Housing and Communities will have its capital budget increased by an annual average of 5.1% in real terms between 2021/22 and 2024/25. This is only true if the department's funding for the Help to Buy programme is not included. As the chart above shows, if it remains part of the figures, the programme's withdrawal after 2022/23 results in the department's capital budget decreasing by about £1.4 billion across the Spending Review period.[9]

[9] See footnote 7 to table E.4 of the Autumn Budget and Spending Review document

Spending Review 2021 capital spending settlements
£ billions, real terms (2021/22 prices), CDEL

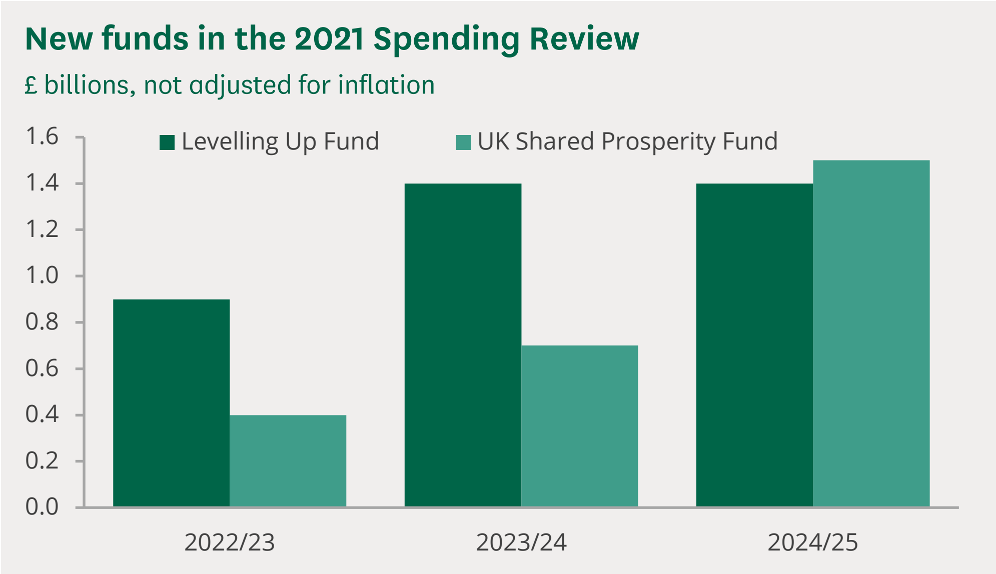
	Baseline 2021/22	2022/23	2023/24	2024/25	Annual average % change, 2021/22 to 2024/25
Health and Social Care	9.4	10.3	9.9	10.5	3.8%
Education	5.6	6.1	6.7	5.7	0.5%
Home Office	0.9	1.0	1.0	0.7	-7.0%
Justice	1.4	1.7	2.1	1.3	-1.4%
Law Officers' Departments	0.0	0.0	0.0	0.0	-6.7%
Defence	14.4	15.2	15.1	15.1	1.8%
Single Intelligence Account	0.9	1.0	1.1	1.1	9.1%
FCDO	2.4	2.5	3.3	3.7	16.0%
Levelling up, Housing and Communities	7.8	8.7	6.6	6.4	5.1%
Levelling Up Fund	0.2	0.9	1.3	1.3	-
Transport	18.8	19.0	19.0	19.2	0.6%
BEIS	15.6	16.6	19.8	19.8	8.3%
DCMS	0.8	0.8	1.0	1.0	11.8%
DEFRA	1.6	2.1	2.8	2.5	8.4%
International Trade	0.0	0.0	0.0	0.0	-1.1%
Work & Pensions	0.3	0.6	0.5	0.4	1.2%
HMRC	0.6	0.7	0.6	0.5	-9.1%
HMT	0.0	0.0	0.0	0.0	-19.6%
Cabinet Office	0.5	0.4	0.5	0.5	-1.3%
Scotland	5.2	5.5	5.3	5.1	1.9%
Wales	2.4	2.5	2.5	2.4	2.3%
Northern Ireland	1.7	1.8	1.8	1.7	2.5%
Small and Independent Bodies	0.4	0.5	0.5	0.6	16.8%
UK Shared Prosperity Fund	0.0	0.0	0.1	0.2	-

Note: As the original figures in the Spending Review are given only to the nearest £100 million, adjustments for inflation have only limited accuracy and may not match up with the overall percentage changes.

Source: HM Treasury, Autumn Budget and Spending Review 2021, table 1.18, 27 October 2021

2.3 New funds in the figures

Two new funds appear in the Spending Review settlement, separate from any Government department. These are the Levelling Up Fund and the UK Shared Prosperity Fund (UKSPF).



Note: Funding here includes only RDEL excluding depreciation.

Source: HM Treasury, Autumn Budget and Spending Review 2021, table 1.16, 27 October 2021

As the chart above shows, each of these funds is set to ramp up the level of funding it provides over the next few years until each is providing around £1.5 billion per year.

The Levelling Up Fund is one of three "levelling up and community investments" which the Government intends to support local economic growth. The Library briefly discussed this Fund in a debate pack for a Westminster Hall debate on The Government's Levelling Up Agenda in September 2021.

The UK Shared Prosperity Fund is somewhat different, as this is intended to replace the structural funds that the UK used to receive as a member of the EU. As explained in the Library's briefing on the Fund,[10] very few details on the UKSPF have been published since its initial announcement in 2017. This Spending Review represents the first look at the profile of funding over the next few years. However, the 2020 Spending Review had said that there would be an investment framework for the Fund published in spring 2021.[11] This has not yet been published, which leaves little time for the Fund to be set up ahead of its scheduled start in 2022/23.

[10] Commons Library Research Briefing CBP-8527, The UK Shared Prosperity Fund, 29 January 2021.

[11] HM Treasury, Spending Review 2020, box 3.1, 25 November 2020

3 OBR forecasts

The Office for Budget Responsibility (OBR) published new forecasts for the economy and public finances alongside the Budget and Spending Review.[12] The OBR's previous forecasts were published in March 2021.[13]

This section summarises the new forecasts for key indicators of the economy and the public finances.

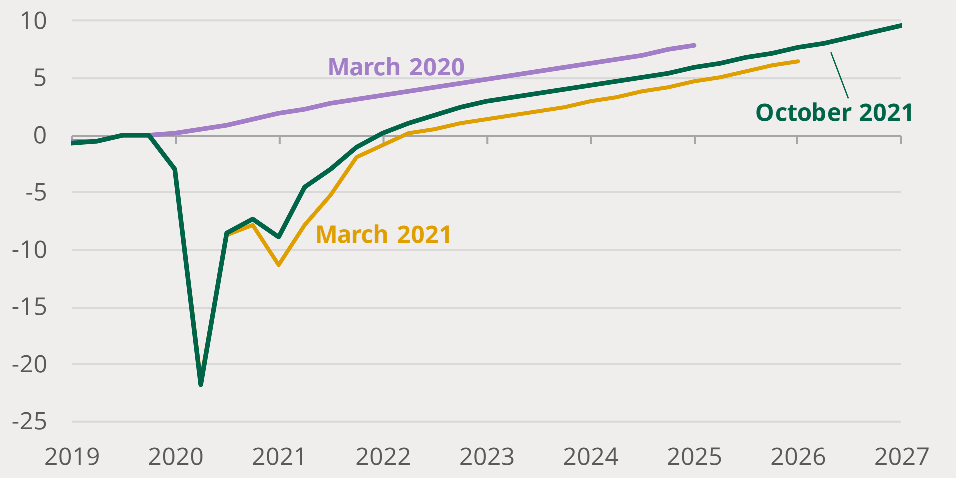
3.1 Economy

GDP

- Economic growth has been faster than forecast by the OBR in March 2021. The OBR now expects monthly GDP to return to its pre-pandemic level by the end of 2021, sooner than previously forecast.[14]
- The OBR now forecasts GDP growth of 6.5% in 2021, compared with 4.0% in its March 2021 forecast. It expects growth of 6.0% in 2022, compared with 7.3% previously. Taken together, the economy is forecast to grow faster this year and next than was expected in March.

OBR forecasts for level of GDP

% change with GDP level of Q4 2019, comparison of OBR forecasts



[12] OBR, Economic and fiscal outlook, 27 October 2021. All data are sourced from this

[13] OBR, Economic and fiscal outlook, 3 March 2021

[14] Using Feb 2020 as the pre-pandemic GDP level; the OBR itself says "around the turn of the year", p10

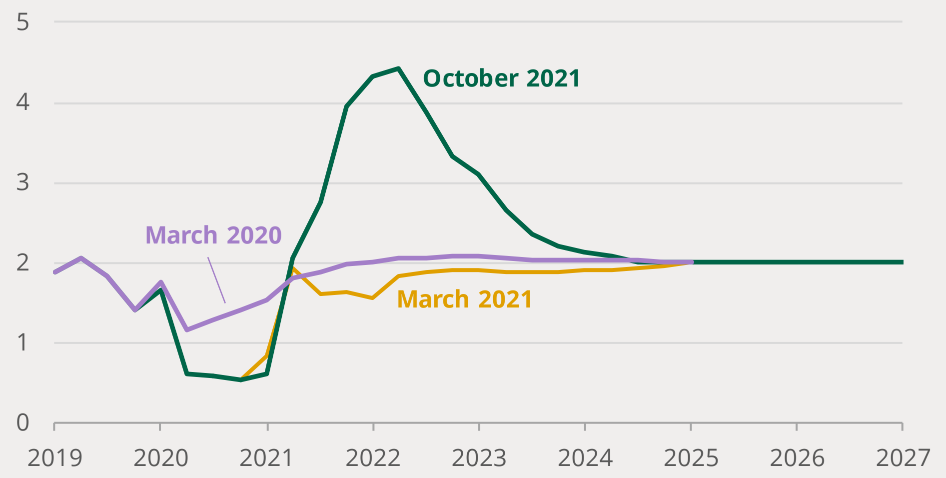
- The current bottlenecks in the supply chain affecting the economy are expected to "hold back growth" in the coming quarters, the OBR anticipates. [15]
- The OBR estimated that the "fiscal stimulus" announced at this Budget will add 0.4% to the level of GDP in 2022/23 and add 0.3% to 2023/24 GDP. [16]

Inflation

- The recent rise in prices is reflected in the OBR's forecasts for inflation. The OBR forecasts a peak of 4.4% in the annual inflation rate of the Consumer Prices Index (CPI) during the second quarter of 2022. That compares with 3.1% in September 2021 (the most recent outturn figure). The OBR said that additional developments since it closed its forecasts (on 24 September) would be in line with inflation peaking at close to 5% next year.

OBR forecasts for inflation

%, annual change in CPI, comparison of OBR forecasts



Labour market and incomes

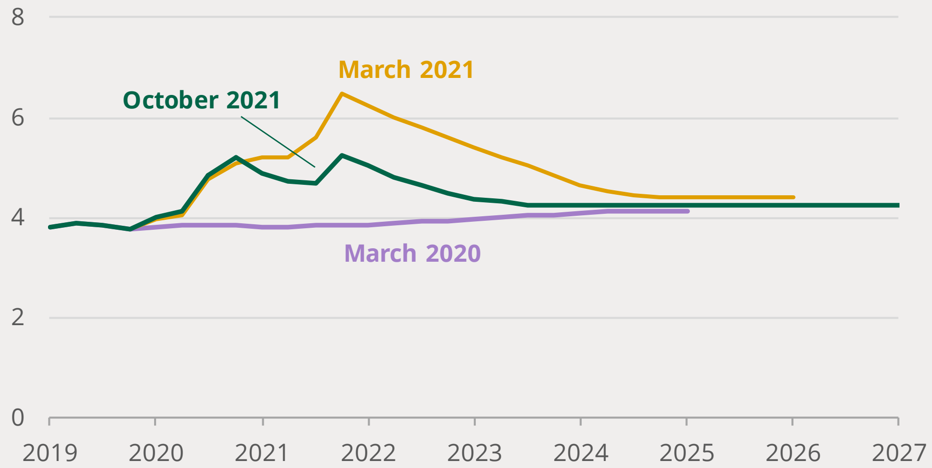
- The OBR said that the labour market has "proved more resilient" than it had expected in March. [17] It now expects unemployment rate to peak at a lower level of 5.2% in the fourth quarter of 2021. In March it had forecast a peak of 6.5%.

[15] OBR, Economic and fiscal outlook, 27 October 2021, para 1.2
[16] OBR, Economic and fiscal outlook, 27 October 2021, para 1.14
[17] OBR, Economic and fiscal outlook, 27 October 2021, para 1.8

- The OBR credits the success of the Government's schemes, such as the furlough scheme, with limiting the increase in the unemployment rate. [18]

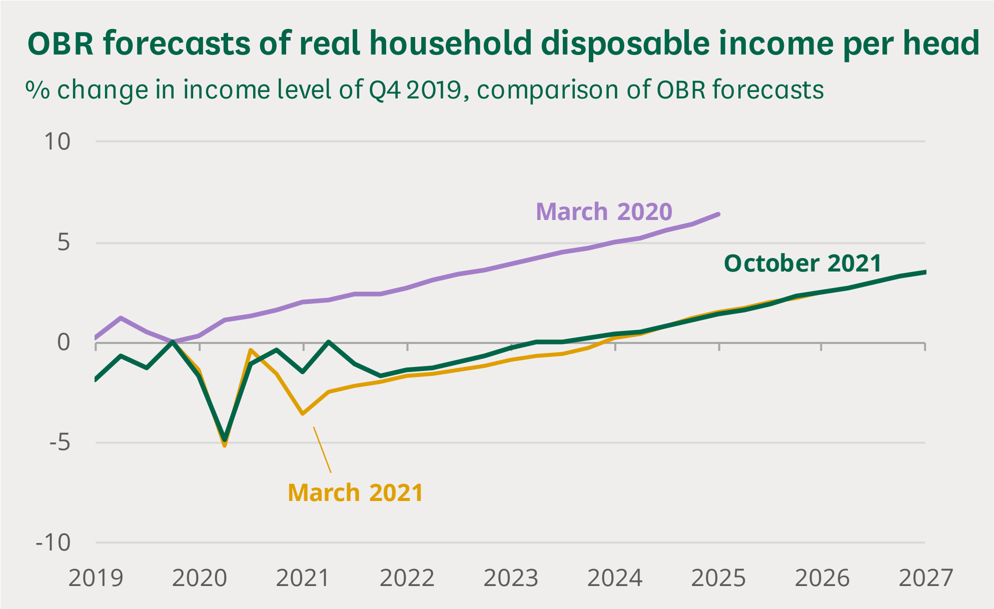
OBR forecasts for the unemployment rate

%, comparison of OBR forecasts



- Forecasts for average wage growth in 2021-2023 have been increased. The OBR said that this was partly due to labour shortages in some sectors, though it also warned that supply bottlenecks will push up inflation. As a result, expectations of real (inflation-adjusted) wage growth over the next three years is described as "subdued" by the OBR. [19]
- A measure of post-tax household incomes, on a per person basis, is forecast to stagnate over the next few quarters when adjusted for inflation. The OBR expects this measure of incomes to return sustainably to pre-pandemic levels in the second half of 2023. [20]

[18] OBR, Economic and fiscal outlook, 27 October 2021, pp61-64
[19] OBR, Economic and fiscal outlook, 27 October 2021, pp65-67
[20] OBR, Economic and fiscal outlook, 27 October 2021, pp75-76



Long-term impact of Brexit and pandemic

- The OBR has not changed its assumption that Brexit will lead to the UK economy being 4% smaller in the long-term compared to if the UK had voted to remain in the EU. [21]
- Estimates of the sustained economic damage caused by the pandemic have been lowered. Previously, the OBR forecast GDP to be 3% lower in the "medium term" compared with its pre-pandemic trajectory. It now thinks it will be 2% lower. The OBR stressed the large degree of uncertainty associated with this forecast. [22]

[21] OBR, Economic and fiscal outlook, 27 October 2021, pp58-50, Box 2.4
[22] OBR, Economic and fiscal outlook, 27 October 2021, para 1.3 and pp32-41

Summary table

OBR forecasts: economy

	2020	2021	2022	2023	2024	2025	2026
GDP growth, %							
March 2021	-9.9	4.0	7.3	1.7	1.6	1.7	n/a
October 2021	-9.8	6.5	6.0	2.1	1.3	1.6	1.7
GDP level, 2020=100							
March 2021	100.0	104.0	111.6	113.6	115.3	117.3	n/a
October 2021	100.0	106.5	112.8	115.2	116.7	118.6	120.6
Business investment growth, %							
March 2021	-10.7	-2.2	16.6	3.0	-2.3	5.1	n/a
October 2021	-10.2	-2.4	15.7	4.7	-0.8	4.8	5.8
ILO unemployment rate, annual ave (%)							
March 2021	4.5	5.6	5.9	5.1	4.5	4.4	n/a
October 2021	4.6	4.9	4.8	4.3	4.2	4.2	4.2
CPI annual inflation, %							
March 2021	0.9	1.5	1.8	1.9	1.9	2.0	n/a
October 2021	0.9	2.3	4.0	2.6	2.1	2.0	2.0
Productivity growth, %							
March 2021	0.5	-0.6	1.2	1.1	1.2	1.6	n/a
October 2021	0.6	0.5	0.9	1.3	1.3	1.3	1.4
Average earnings, % change on previous year							
March 2021	1.1	1.9	2.7	2.2	2.8	3.5	n/a
October 2021	1.2	5.0	3.9	3.0	2.2	2.9	3.5
Real household disposable income per head, % change on previous year							
March 2021	-1.1	-0.4	1.1	0.9	1.3	1.2	n/a
October 2021	-1.0	1.0	0.0	1.1	0.7	1.1	1.1

Sources: OBR, Economic and fiscal outlook, March 2021 and October 2021

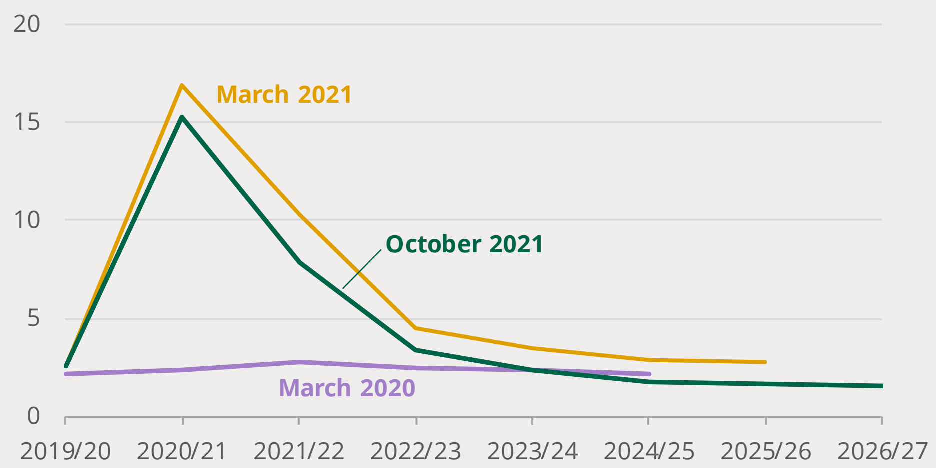
3.2 Public finances

Some highlights from the OBR's forecasts for the public finances include: [23]

- Forecasts for government borrowing – the budget deficit – have been lowered, against the background of improving economic forecasts. Compared with the OBR's March 2021 forecasts, borrowing is now expected to be lower in every year.
- The OBR forecast the budget deficit to be £183 billion (7.9% of GDP) in 2021/22, compared to its previous March 2021 forecast of £234 billion (10.3% of GDP). This then falls to £83 billion (3.3% of GDP) in 2022/23.
- While lower than previously expected, the budget deficits in 2020/21 and 2021/22 are very large by historical standards. This is primarily a result of the huge cost of the Government support schemes and also the loss of tax revenues.

OBR forecasts for the budget deficit

% of GDP, comparison of OBR forecasts for PSNB



- Largely due to the large budget deficits, public sector net debt has increased since the start of the pandemic. As a proportion of the value of annual economic output (GDP), net debt has risen from 83% of GDP in 2019/20 to a forecast 98% of GDP in 2021/22. It is then expected to gradually decline, as economic growth outpaces increases in debt. By

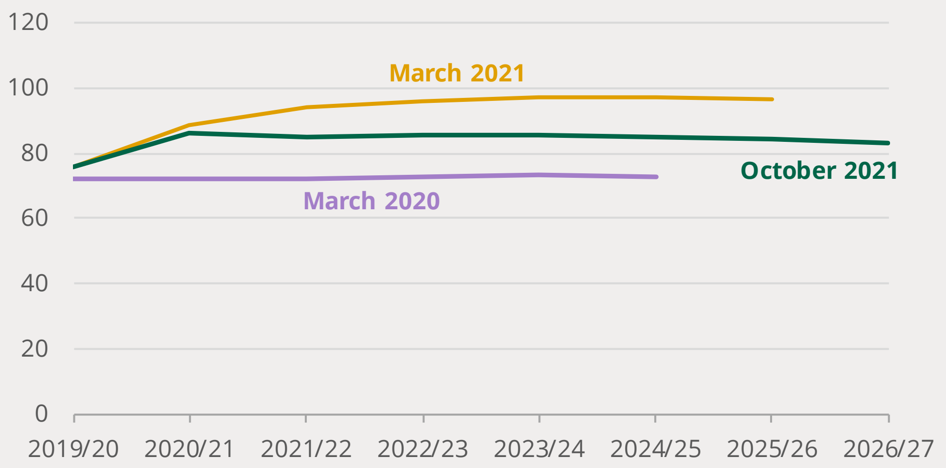
[23] OBR, Economic and fiscal outlook, 27 October 2021. All data are sourced from this

2026/27 (the last year for which the OBR provides forecasts), debt is anticipated to fall to 88% of GDP.

- A measure of net debt that excludes the Bank of England is proposed by the Chancellor to be the measure used in a new fiscal target. This underlying measure shows net debt as a proportion of GDP remaining fairly steady in forthcoming years before falling in 2025/26 and 2026/27. Excluding the Bank of England means that this measure of underlying debt isn't affected by some temporary policy measures that the Bank has taken following the EU referendum and pandemic.

OBR forecasts for underlying net debt

% of GDP, comparison of OBR forecasts for PSND excl. Bank of England



- Tax rises announced in and since the March 2021 Budget include increases in corporation tax from 2023/24, higher personal taxation (via freezes in income tax thresholds), and higher National Insurance Contributions. The OBR forecasts that tax revenues as a proportion of GDP will rise from 33.5% of GDP before the pandemic to 36.2% of GDP in 2026/27. The OBR says this will be the highest it has been since the early 1950s. [24]
- The increases in public spending announced will, according to OBR forecasts, take public spending as a share of GDP up from 39.8% before the pandemic to 41.6% in 2026/27. The OBR says this will be the largest sustained share of GDP since the late 1970s (although it was temporarily higher in the early 2010s following the financial crisis). [25]
- The Chancellor announced a new set of fiscal rules (see section 1.5 for more).

[24] OBR, Economic and fiscal outlook, 27 October 2021, para 1.4 and pp92-98

[25] OBR, Economic and fiscal outlook, 27 October 2021, para 1.4 and pp112-120

OBR forecasts: public finances

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Net borrowing (PSNB), £ billion							
March 2021	355	234	107	85	74	74	n/a
October 2021	320	183	83	62	46	46	44
Net borrowing (PSNB), % of GDP							
March 2021	16.9	10.3	4.5	3.5	2.9	2.8	n/a
October 2021	15.2	7.9	3.3	2.4	1.7	1.7	1.5
Current budget deficit, % of GDP							
March 2021	13.3	7.6	1.7	0.6	0.1	0.0	n/a
October 2021	11.8	5.3	0.6	-0.5	-0.9	-1.0	-1.1
Net debt (PSND), £ billion							
March 2021	2,198	2,503	2,631	2,747	2,761	2,804	n/a
October 2021	2,136	2,369	2,479	2,561	2,567	2,546	2,567
Net debt (PSND), % of GDP							
March 2021	100.2	107.4	109.0	109.7	106.2	103.8	n/a
October 2021	96.6	98.2	97.9	97.8	94.7	90.5	88.0
Net debt (PSND) excluding Bank of England, % of GDP							
March 2021	88.8	93.8	96.0	97.1	97.0	96.8	n/a
October 2021	86.1	85.2	85.4	85.7	85.1	84.2	83.3

Sources: OBR, Economic and fiscal outlook, March 2021 and October 2021

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