Press Release

IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances, October 2014. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first seven months of the financial year 2014–15.

Soumaya Keynes, a Research Economist at the IFS, said:

“With the Autumn Statement only just over a week away, the Chancellor may be disappointed that this month’s figures continue to show that borrowing this year is higher than over the same months of last year, in contrast to the Budget forecast that borrowing would fall by £11 billion over the year as a whole. In part this gloomy picture is the result of timing effects that will unwind later in the year. However, it likely also reflects weaker than forecast earnings growth, which has depressed revenues from income tax and national insurance, adding to an already large deficit.”

Headline Comparisons

• The big picture is largely unchanged. As Figure 1 shows, borrowing so far in 2014–15 has been higher than over the same months of 2013–14, by 6.1%. This compares to a forecast fall back in March of around £11 billion over the year as a whole, or 11.8%. The absence of a decline in borrowing over the first seven months of this year appears to have been driven by a combination of weaker receipts and higher spending than forecast. However, one should be cautious about comparing outturns with the March forecasts because of major accounting changes since then.

Cash public sector net borrowing, outturns and forecast
• Revenues from income tax to underperform. These receipts have fallen by 0.4% over the year to date, which is disappointing compared to a forecast increase over the year as a whole of 5.8%. Some of this weakness should be reversed in January, as self-assessment receipts are boosted due to reverse-forestalling in response to the April 2013 reduction in the top rate of income tax. However, the rest is likely to reflect underlying weakness in earnings growth and the Office for Budget Responsibility has suggested that income tax receipts will be more likely to undershoot than overshoot expectations.

• Revenues from NICs, the other main direct tax on incomes, are also underperforming relative to expectations. Over the first seven months of this financial year, NICs revenues have increased by 1.9%, compared to a forecast in March of 2.5%. The picture is not as bad as for income tax, but is lacklustre nonetheless and, unlike for income tax, no particular bounce-back is expected in January.

• Relatively strong growth in other receipts is offsetting the weak growth in the major taxes on incomes. October is an important month for corporation tax receipts. Compared to October last year, corporation tax receipts are up by 1.8%. While this is low compared to the OBR’s forecast growth for the year as whole, strong growth in earlier months means that, for the year to date, corporation tax receipts are growing more strongly than forecast, by 4.2% compared to a forecast of 3.1%.

Changes to borrowing definitions

• Significant accounting changes introduced in September mean that the figures for borrowing that will be presented in the Chancellor’s Autumn Statement on 4th December will not be directly comparable to the headline figures presented in the March Budget.

• There are fairly significant differences between alternative measures, but it is important to understand that the accounting changes reflect no change to the underlying strength of the public finances, simply a difference in how they are measured. In order to understand any underlying trends, one has to compare numbers on consistent bases.

• In the Autumn Statement, the OBR will present forecasts for borrowing using the new definitions and are likely to present these figures both including and excluding the effects of the Asset Purchase Facility (APF). At the time of the March Budget, the OBR estimated that (using the new definitions) borrowing would be £86.6 billion this year including the APF, or £99.1 billion excluding the APF.

Further information and contacts

For further information on today’s public finance release please contact: Carl Emmerson, Soumaya Keynes or Gemma Tetlow on 020 7291 4800 or email carl_emmerson@ifs.org.uk, soumaya_k@ifs.org.uk or gemma_t@ifs.org.uk.

Next month’s public finances release is due to be published on Friday 19th December.

Relevant links:

This, and previous editions of this press release, can be downloaded from http://www.ifs.org.uk/publications/pf


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Notes to Editors:

1. All the outturn figures presented in this press release incorporate changes to the definition of some components of revenues and spending, and borrowing and debt that were implemented by the Office for National Statistics last month. The OBR will not produce forecasts on this new basis until their next Economic and Fiscal Outlook (EFO), which is scheduled to be published on December 3rd. However, in their March 2014 EFO the OBR produced estimates of what they expected their forecasts for the headline measures of borrowing and debt would be under the new definitions. Where possible we therefore compare the published outturn data from the ONS with these illustrative projections.

2. All figures are on a basis that excludes public sector banks.