Press Release

IFS analysis of today's public finance figures

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

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

“Today’s figures show that borrowing in July this year was lower than in the same month last year, but higher if one compares the first four months of this financial year with the same months of last financial year. On the face of it, this is bad news for George Osborne’s prospects of achieving the £10 billion drop in borrowing that has been forecast by the OBR for the year as a whole. But a closer look at the figures suggests that things may not be as gloomy as they first appear.

So far this year, central government spending has grown broadly in line with the OBR’s forecast for the year as a whole. The higher levels of borrowing have been driven by weak growth in tax receipts – in particular, receipts of income tax, capital gains tax and National Insurance contributions. But this is in large part a timing effect that will unwind later in the year. The drop in the top rate of income tax from 50p to 45p in April 2013 induced some high income individuals to change the timing of their income, which boosted tax receipts in the early months of last year. While this makes growth this year look weak, it is also expected to boost tax receipts in the final three months of this year.”

Headline Comparisons

- **Central government current receipts** in July were 3.3% higher than in the same month last year, excluding the impact of transfers related to the Asset Purchase Facility (APF). Taking receipts over April to July together, these were 2.1% higher than in the same four months of 2013. This is lower than the 5.0% growth forecast for the year as a whole by the OBR at the time of the March 2014 Budget, but there is good reason to believe that the average growth in receipts will be higher over the remainder of the financial year. Receipts in the early months of last year were particularly high for two reasons. First, the Exchequer received £0.9 billion from a tax on Swiss bank accounts. Second, some high income individuals responded to the reduction in the top rate of income tax in April 2013 by shifting income from the 2012–13 tax year into 2013–14. These have the effect of depressing the growth in receipts in the early months of 2014–15, and the latter will tend to boost growth in income tax receipts in the final three months of this year.

- **Central government current spending** in July was 2.0% higher than in the same month last year, and taking the first four months of this financial year together, spending has been 1.3% higher than in the same
months of 2013. This is lower growth in spending than the 2.0% increase forecast by the OBR in March for the year as a whole.

- **Public sector net investment** in July was £1.7 billion, the same as was spent in July last year. Together, public sector net investment between April and July 2014 has been £5.9 billion. This is £0.7 billion higher than over the same four months in 2013. The OBR’s March 2014 forecast was for net investment over the whole of 2014–15 to be £27.9 billion, which is 12.9% above last year’s level (£24.7 billion).

- **Public sector net borrowing** in July was £0.8 billion, around half of the £1.6 billion borrowed in the same month of last year once cash flows relating to the APF are excluded. Borrowing is lower in July than in many other months of the year because it is one of the four months of the year when a large proportion of corporation tax payments are made (the others being April, October and January). Excluding APF transfers, borrowing for the first four months of this financial year has been 7.8% higher than over the same period last year. This compares to the 11.4% fall in borrowing forecast for the year as a whole by the Office for Budget Responsibility (OBR) in March 2014. However, the comparison between borrowing over the first four months of this year and last year is affected by the unusually high receipts of income tax and from the Swiss capital tax in the early months of 2013–14 mentioned above. Over the rest of the financial year the comparison between borrowing this year and last is likely to look more favourable.

**Further Analysis**

Little can be inferred or extrapolated about the public finances in 2014–15 from information about only the first four months of the financial year. Bearing this in mind, the figures for receipts and spending in July 2014 show:

**Central government current receipts**

Receipts from income tax and capital gains tax (CGT) in July 2014 were 5.1% higher than the same month last year. Between April and July 2014, receipts from income tax and CGT have been 1.1% lower than over the same months last year, compared to the OBR’s March 2014 forecast for growth of 6.6% over the year as a whole.

Receipts from National Insurance contributions (NICs) for July 2014 were 4.9% higher than in the same month last year. Between April and July 2014, receipts from NICs have been the same as over the same period last year. This is in contrast to the OBR’s March 2014 forecast for the year as a whole, which was for NICs receipts to grow by 2.5%.

Comparisons of NICs and (particularly) income tax and CGT receipts in April–July this year to the same months last year should, however, be interpreted with caution. Receipts last year were affected by some high income individuals having responded to the reduction in the top rate of income tax, which occurred in April 2013, by shifting income (and thus their tax liabilities) from 2012–13 into 2013–14. Conversely, growth in income tax and CGT receipts is likely to be boosted later this financial year by self-assessment tax payments in respect of income earned in 2013–14. However, the OBR has also noted in their press release today that earnings growth has been lower so far this year than was assumed in their March 2014 forecasts. This weaker earnings growth will tend to depress receipts of income tax and NICs relative to the OBR’s March forecast.
Cash receipts of corporation tax in July 2014 were 4.8% lower than the same month last year. July is one of the four months in the year when a substantial proportion of corporation tax payments are made. Despite the relatively weak growth in corporation tax receipts in July, receipts for April to July 2014 together were 4.3% higher than in the same months of 2013, showing stronger growth than the OBR’s March forecast for the year as a whole of 3.1%.

VAT receipts in July 2014 were 3.9% higher than the same month last year. Together the VAT receipts during the first four months of 2014–15 were 5.2% higher than in the same months of 2013–14. This growth is stronger than the OBR’s March 2014 forecast, which is for VAT receipts to grow by 3.8% over the whole of 2014–15.

Central government current spending

Expenditure on net social benefits was 2.2% higher in July 2014 than in July 2013, while expenditure between April and July 2014 together was 1.8% higher than in the same months of 2013. The OBR’s March 2014 forecast implies that this component of spending will grow by 2.1% over 2014–15.

Spending on debt interest was £3.8 billion in July 2014, slightly above the £3.6 billion that was spent in July 2013. Spending on debt interest between April and July 2014 was £17.6 billion, which is slightly lower than the £17.7 billion spent in the same months of last year. The OBR forecast at the time of the March 2014 Budget was that total debt interest spending by central government in 2014–15 would be £52.1 billion, £4.7 billion (or 10.0%) more than was spent in 2013–14.

Other current spending by central government, including spending on the delivery of public services, was 1.4% higher in July 2014 than in July 2013. Comparing the first four months of 2014–15 with the first four months of 2013–14, this area of spending grew by 1.3%, which is slightly faster than the 1.0% rate forecast by the OBR in March 2014 for the year as a whole.

Changes to definitions of borrowing and debt next month

Next month, the ONS will publish public sector finance statistics that will incorporate changes to the definition of some components of public revenues and spending; these will also affect measures of public sector borrowing and debt. These changes are required to comply with the European System of Accounts 2010 guidelines and other changes that have arisen from the recent Public Sector Finance Review. The expected effect of these changes on the headline measures of borrowing and debt is described in detail in Annex B of the OBR’s March 2014 Economic and Fiscal Outlook. These changes will affect the measurement of both past and future public borrowing and debt. The effect varies over time. In the near-term, these changes are expected to increase slightly the headline level of borrowing and debt.

Further information and contacts

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

Next month’s public finances release is due to be published on Tuesday 23rd September.
Relevant links:

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


Useful links and background information on Budget 2014 can be found at: http://www.ifs.org.uk/tools_and_resources/budget/426


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Notes to Editors:

1. All figures are on a basis that excludes the impact of temporary financial sector interventions.
2. Central government current spending includes depreciation.
3. Where possible we compare figures on an accruals basis with the Office for Budget Responsibility forecast.