Press Release

IFS analysis of today’s public finance figures

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

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

“Borrowing in December 2014 was £2.9 billion higher than in December 2013. However, the increase is entirely explained by a one-off payment to the European Union of £2.9 billion becoming due; part of which is expected to be offset by later rebates. Over the last nine months borrowing has not fallen as quickly as the OBR are expecting for the year as a whole but there are a number of reasons to think that their forecast will still prove correct – not least that receipts of self-assessment income tax in January are expected to be much higher than they were last year. Next month’s figures will shed considerably more light on the likely outturn for the year as a whole.”

Headline Comparisons

- **Central government current receipts** in December were 2.3% higher than in the same month last year. The latest figures also show an increase relative to last year’s level of 2.3% for the year to date, with an increase of 4.5% in November and December compared to the same two months in 2013. This is slightly slower growth than forecast by the Office for Budget Responsibility (OBR) in its latest Economic and Fiscal Outlook, published last month. At that time, the OBR forecast an increase in receipts relative to last year’s levels of 3.2% for the year as a whole and an increase of 5.1% for the period from November 2014 to March 2015.

  However, the latest outturns are distorted by differences in the timing of transfers to central government from the Asset Purchase Facility. Excluding these transfers still suggests that revenues have grown more slowly so far this year than projected for the year as a whole but to a lesser extent than the headline figures suggest. The OBR is expecting strong growth in receipts over the final three months of the financial year. This is because there is expected to be an unusually high level of receipts from self-assessment income tax as a result of high income individuals having adjusted their behaviour in order to take advantage of the drop in the top rate of income tax (from 50p to 45p) in April 2013.

- **Central government current spending** in December was 5.0% higher than in the same month last year, though this was largely driven by a one-off £2.9 billion contribution to the European Commission budget becoming due. The OBR’s latest forecast implies an increase relative to last year’s level of 1.6% for the year as a whole and of 1.2% for the period from November 2014 to March 2015. The latest figures show slightly faster growth of 2.1% for the year to date, with an increase of 2.8% in November and December 2014 compared to the same two months in...
2013. However, the OBR expects some of this to unwind in the last few months of this financial year, as the payment to the EU is partially refunded, and as spending on debt interest is expected to fall.

- **Public sector net investment** in December was £2.9 billion, £0.6 billion more than was spent in December 2013. Public sector net investment between April 2014 and December 2014 was £16.1 billion, which is 9.5% higher than in the same nine months of 2013. The OBR’s latest forecast was that net investment in 2014–15 would be £27.7 billion, which is 7.4% above last year’s level.

**What would happen if these trends continued?**

- Public sector net borrowing during the first nine months of 2014–15 was £86.3 billion, which is 0.1% below the amount borrowed during the same months in 2013–14. If this trend were to continue for the remaining three months of the financial year, borrowing for the whole of 2014–15 would come in at £97.1bn. This is around £6bn higher than forecast by the OBR in its December 2014 Economic and Fiscal Outlook forecast.

- However, there are reasons to think that borrowing will turn out lower than this simple extrapolation suggests. Borrowing during the year up to December was increased by the one-off distortions mentioned above, and is expected to be reduced in the remaining months due to the differences in the timing of self assessment income tax receipts. Tax payments are not received evenly throughout the year and January tends to be the month with the single highest level of receipts; the information released in next month’s public finances press release will, therefore, be very informative about the state of the public finances.

**Further Analysis**

We should be cautious of inferring or extrapolating likely outcomes over the financial year as a whole from information on only the first nine months, particularly as some factors are likely to affect the profile of receipts and spending differently in 2014–15 than in 2013–14. However, bearing this in mind, the figures for receipts and spending in December 2014 show:

**Central government current receipts**

Accrued receipts from income tax, capital gains tax and National Insurance contributions for December 2014 were 2.1% higher than in the same month last year. The latest OBR forecasts imply that the receipts from these taxes will be 3.1% up on last year’s levels over the whole year and 3.6% up over the period from November 2014 to March 2015. Together, the receipts for these taxes during the first nine months of 2014–15 were 2.1% higher than those for the same months of 2013–14, while the receipts for November and December 2014 were 3.6% higher than the same two months of 2013.

Accrued receipts of VAT in December 2014 were 0.9% lower than the same month last year. This rather weak growth may in part reflect Black Friday leading to consumer purchases being brought forward from December to November: VAT receipts grew strongly in November, with receipts being 4.8% higher than in November 2013. Taking November and December together, VAT receipts were 1.9% higher in these two months in 2014 than in 2013. The OBR’s Autumn Statement forecasts imply that the receipts from this tax will be 3.1% up on last year’s levels over the whole year and 1.6% up over the period from November 2014 to March 2015. Together, accrued VAT
Receipts during the first nine months of 2014–15 were 3.6% higher than those for the first nine months of 2013–14.

Cash corporation tax receipts for December 2014 were 12.1% higher than the same month last year. However, only a small fraction of annual corporation tax payments are received in December. The OBR’s Autumn Statement forecasts imply that the receipts from this tax will be 3.9% up on last year’s levels over the whole year and 9.4% up over the period from November 2014 to March 2015. Corporation tax receipts between April and December 2014 were 5.0% higher than in the same months of 2013, while receipts for November and December 2014 were 9.4% higher than the same two months of 2013. A clearer picture for Corporation Tax receipts this year will emerge next month when figures for receipts in January 2015, which is normally a significant month for these receipts, are published.

Central government current spending

Expenditure on net social benefits was 3.2% higher in December 2014 than in December 2013. Expenditure between April and December 2014 was 2.8% higher than in the same months of 2013, while spending in November and December 2014 was 3.0% higher than in the same two months of 2014. The latest OBR forecast implies that this spending will be 3.1% up on last year’s levels over the whole year and 3.7% up over the period from November 2014 to March 2015.

Spending on debt interest was £3.9 billion in December 2014, £0.3 billion more than in December 2013. Total spending on debt interest between April and December 2014 was £38.4 billion. Last month the OBR forecast that total debt interest spending by central government in 2014–15 would be £48.1 billion.

Other current spending by central government, including spending on the delivery of public services, was 5.4% higher in December 2014 than in December 2013. The OBR’s Autumn Statement forecast implies that this spending will be 1.2% higher than last year’s levels over the whole year and 0.7% higher over the period from November 2014 to March 2015. Expenditure between April and December 2014 was 2.0% higher than in the same months of 2013, while spending in November and December 2014 was 3.1% higher than in the same two months of 2013. However, these comparisons should be treated with caution as the timing of departmental spending can change, distorting the overall spending growth rates. Furthermore, the OBR expects this component of spending to be depressed by a refund from the European Commission at some point in the last three months of this financial year.

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 Friday 20th February 2015.

The IFS Green Budget – analysing the issues and challenges facing George Osborne as he prepares for the coalition government’s final Budget of this parliament – will be launched at the University of London’s Senate House on Wednesday 4th February 2015. The 2015 Green Budget, in association with ICAEW and funded by the Nuffield Foundation, will incorporate analysis of
global and UK economies produced by analysts from Oxford Economics. For more details see http://www.ifs.org.uk/events/1110.

Relevant links:

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


Useful links and background information on Autumn Statement 2014 can be found at: http://www.ifs.org.uk/tools_and_resources/budget/498


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Notes to Editors:

1. Central government current spending includes depreciation.
2. Where possible we compare figures on an accruals basis with the Office for Budget Responsibility forecast.

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