IFS analysis of today’s public finance figures

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

Rowena Crawford, a Senior Research Economist at the IFS, said:

"On the face of it today's figures continue to show that borrowing so far this year has not fallen relative to last year's level, despite the Office for Budget Responsibility’s forecast that this would be the case over the year as a whole. However, this is largely the result of a fall in income tax receipts over the last three months compared to the same months last year, which is not expected to continue. Income tax receipts in the early months of the last financial year were particularly high, as some high income individuals pushed their income from 2012–13 into 2013–14 to take advantage of the lower top rate of income tax that was effective from April 2013. This boosted pay-as-you-earn income tax receipts in the early months of 2013–14. This boost to receipts was not repeated in the early months of this year, but there should be a significant boost to income tax receipts from self-assessment in the last three months of the current financial year in response to the same types of income shifting. This could be sufficient to bring borrowing back on track to meet the OBR’s forecast."

Headline Comparisons

- **Central government current receipts** in June were 4.7% 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 June together, these were 1.6% higher than in the same three 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.

- **Central government current spending** in June was 4.0% higher than in the same month last year, and taking the first three months of this financial year together, spending has been 1.0% 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 June was £1.5 billion, £0.4 billion more than was spent in June last year. Together, public sector net investment
between April and June 2014 has been £4.3 billion. This is £1.0 billion higher than over the same three 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 12.8% above last year’s level (£24.7 billion).

- **Public sector net borrowing** in June was £11.4 billion, similar to the £11.5 billion borrowed in the same month of last year once cash flows relating to the APF are excluded. On the same basis borrowing for the first three months of this financial year has been 7.3% higher than over the same period last year. This compares unfavourably with the 11.4% fall in borrowing forecast for the year as a whole by the Office for Budget Responsibility (OBR) in March 2014, but the comparison between borrowing this year and last is also affected by the unusually high receipts from taxes on high income individuals and from the Swiss capital tax in the early months of 2013–14. 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 three months of the financial year. Bearing this in mind, the figures for receipts and spending in June 2014 show:

**Central government current receipts**

Receipts from National Insurance Contributions (NICs) for June 2014 were 3.3% higher than in the same month last year. Between April and June 2014, receipts from NICs have been 0.8% lower than 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%.

Receipts from Income Tax and CGT in June 2014 were 2.3% higher than the same month last year. Between April and June 2014, receipts from Income Tax and Capital Gains Tax (CGT) have been 3.5% 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.

Comparisons of NICs and (particularly) income tax and CGT receipts in April–June 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.

VAT receipts in June 2014 were 5.5% higher than the same month last year. Together the VAT receipts during the first three months of 2014–15 were 4.3% 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.

Cash receipts of Corporation Tax in June 2014 were 17.9% higher than the same month last year. However, only a small fraction of annual payments of Corporation Tax are received in June (3% in the 2013–14 financial year). Corporation Tax receipts for April to June 2014 together were 13.1% 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%.
Central government current spending

Expenditure on net social benefits was 3.0% higher in June 2014 than in June 2013, while expenditure between April and June 2014 together was 1.9% higher than in the same months of 2013. The OBR’s March 2014 forecast implies that this spending will grow by 2.1% over 2014–15.

Spending on debt interest was £4.3 billion in June 2014, similar to the £4.4 billion that was spent in June 2013. Spending on debt interest between April and June 2014 was £13.7 billion, also slightly down on the £14.1 billion spent in the same months of last year. The OBR forecast at the time of the March 2014 Budget that total debt interest spending by central government in 2014–15 would be £52.1 billion, £4.7 billion more than was spent in 2013–14.

Other current spending by central government, including spending on the delivery of public services, was 5.5% higher in June 2014 than in June 2013. Comparing the first three months of 2014–15 with the first three months of 2013–14, this area of spending grew by 1.0%, the same rate as forecast by the OBR in March 2014 for the year as a whole.

Further information and contacts

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

Next month’s public finances release is due to be published on Thursday 23rd August.

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.