Press Release

IFS analysis of today’s public finance figures

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

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

“While headline borrowing was higher in May 2014 than in May 2013, once adjustments for temporary receipts are made underlying borrowing actually fell slightly. But it is still the case that borrowing is not falling as fast as implied by the OBR’s forecast for the year as a whole: slow growth in central government spending has been more than offset by weak growth in receipts.

On the receipts side strong growth in VAT revenues has not been enough to offset the lacklustre performance of revenues from income tax and NICs, and if the OBR’s latest forecast for 2014–15 is to be realised then growth in receipts will need to pick up. However, the cut in the top rate of income tax from 50p to 45p will have affected the timing of receipts as some high income individuals pushed their income from 2012–13 into 2013–14, which will have distorted the growth rates we are observing now. We can therefore expect growth in tax receipts to accelerate over the coming months.”

Headline Comparisons

- **Public sector net borrowing** in May was £13.3bn, £4.6bn higher than in the same month of last year. However, excluding cash flows relating to the APF, this difference falls to £0.7bn, and underlying borrowing actually fell slightly when we take into account that in May 2013 receipts experienced a one-off boost of £0.9bn from the Swiss Tax agreement.

Also on this basis, borrowing for the first two months of this financial year is higher than the average growth for the year forecast by the Office for Budget Responsibility (OBR) in the March 2014 Budget. The increase in borrowing of 4.5% compared to the same two months last year compares unfavourably to the forecast for the year as a whole, of a fall of 11.5%. However, with ten months of the financial year left, there is still not enough evidence to suggest that borrowing will necessarily turn out to be significantly different from the OBR’s forecast.

- **Central government current receipts** in May were 3.3% higher than in the same month last year, excluding the impact of transfers related to the Asset Purchase Facility and receipts from the Swiss Tax agreement. This monthly growth has offset the fall in receipts seen last month, such that receipts in April and May together were 1.5% higher than in the same months of 2013. Growth in receipts over the rest of the year will need to pick up if the OBR’s March 2014 forecast of 5.4% growth for the year as a whole is to be correct. There is good reason to think that they will – receipts in 2013–14 were particularly concentrated in the earlier months
of the year, as some high income individuals responded to the reduction in the top rate of income tax that happened in April 2013. As the profile of receipts returns to ‘normal’, we can expect the growth in receipts to increase.

- **Central government current spending** in May was 0.4% higher than in the same month last year. This slightly offset the fall in spending seen last month, though taking the first two months of this financial year together, spending has been 0.6% lower 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 May was £1.5bn, £0.5bn more than was spent in May last year. Together, public sector net investment during April and May 2014 has been £2.8bn. This is £0.5bn higher than over the same months in 2013. The OBR’s forecast at the time of the March 2014 Budget predicted that net investment over the whole of 2014–15 would be £27.9 billion, which is 12.8% above last year’s level (£3.2bn).

**Further Analysis**

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

**Central government current receipts**

Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for May 2014 were 0.3% lower than in the same month last year, and, taking the first two months of this financial year together, 3.6% below the levels seen in the same months of 2013. This is in contrast to the OBR’s March 2014 forecast, which implies that receipts from these taxes will pick up over the rest of the year, growing by 5.4% over the whole of 2014–15.

VAT receipts in May 2013 were 4.9% higher than the same month last year. Together the VAT receipts during the first two months of 2014–15 were 5.7% higher than in the same months of 2013–14, helped by revised VAT receipts last month, which ONS now estimates increased by 6.5% rather than 4.1%. This growth is stronger than the forecast from the March 2014 Budget, which is for VAT receipts to grow by 3.8% over the whole of 2014–15.

Cash receipts of Corporation Tax in May 2014 were 17.5% higher than the same month last year. However, only a small fraction of annual payments of Corporation Tax are received in May (3.3% in the 2013–14 financial year). Corporation Tax receipts for April and May 2014 together were 10.8% higher than in the same months of 2014, again showing stronger growth than the OBR’s March forecast for the year as a whole of 2.9%.

**Central government current spending**

Expenditure on net social benefits was 0.8% lower in May 2014 than in May 2013, while expenditure in April and May 2014 together was 1.0% higher than in the same months of 2013. The OBR’s Budget forecast implies that this spending will grow by 2.1% over 2014–15.

Spending on debt interest was £4.2bn in May 2014, £0.4bn less than was spent in May 2013. Spending on debt interest in April and May 2014 was £9.5bn, also slightly down on the £9.7bn 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 £52.1bn, or £0.2bn below spending on this area in 2013–14.

Other current spending by central government, including spending on the delivery of public services was 2.5% higher in May 2014 than in May 2013. This increase in spending is in contrast to the 3.8% fall in this area of spending seen last month. This decrease was partly explained by a £1.5bn fall in grants paid to Local Authorities in April, which so far has been offset elsewhere by higher local government borrowing. Comparing the first two months of 2014−15 with the first two months of 2013−14, this area of spending fell by 1.2%, though the OBR’s Budget forecast implies that it will grow by 1.0% over the year as a whole.

Further information and contacts

For further information on today’s public finance release please contact: Carl Emmerson or Soumaya Keynes on 020 7291 4800, or email carl.e@ifs.org.uk or soumaya.k@ifs.org.uk.

Next month's public finances release is due to be published on Friday 22nd July.

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


ENDS

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.