Recovery fails to plug gap in public finances

Chancellor forced to raise borrowing as poor wage growth saps tax receipts

SARAH O'CONNOR - ECONOMICS CORRESPONDENT

Britain's public finances are deteriorating despite the recovering economy, meaning more austerity may be needed after the general election to balance the government's books.

Official data show that George Osborne was forced to borrow £21.8bn last month to plug the gap between revenues and spending, £700m more than a year ago. Mr Osborne was forecast to borrow about 12.5% less this year than last as he ploughs on with his nine-year austerity programme to close the UK's budget deficit. Yet so far he has borrowed £16.5bn more.

Spending is still under control, but tax receipts have grown just 2.5% so far this year compared with their 5% growth rate for the first 12 months of 2015.

For that to be the whole story, economists say. The OBR forecast they would rise 6.5% per cent this year; so far they have dropped 0.8% per cent. That probably reflects very weak wage growth in the UK, which has fallen to its lowest on record, depressing income tax and national insurance contributions.

Recent jobs growth has been concentrated in low-skill, low-paid sectors, which means a greater proportion of salaries will fall within the £10,000 personal allowance. Michael Saunders, an economist at CB, said this was the natural response of a system designed to put a very low tax burden on lower earners.

"These changes to the UK's tax and benefit structure are proving highly effective in encouraging people to join the workforce and seek employment," he said. "However, these changes also mean that the fiscal dividend from economic recovery is proving to be smaller than the OBR expected."

That does not necessarily mean Mr Osborne will overshoot the OBR's borrowing forecasts. Seven months of the fiscal year remain and the Treasury expects a tax boom in January when self-assessment receipts start to come in.

The picture has also been complicated by changes to the way public finances are measured, following an internal review and changes to European statistical standards.

The changes have pushed up the official level of public sector net debt by £12.8bn in 2015-16. As a result, the OBR's revised August forecast for 2016-17 is £42.3bn.

The ONS could not give that figure as a percentage of national income because the gross domestic product data are still being reviewed.

But economists said yesterday that those trends did not look promising.

"Rather than being in a position to offer some tax relief or spending sweetness to kick in before next May's general election, Mr Osborne may be faced with the unspeakable choice of announcing some fiscal tightening or a slight loosening of deficit reduction plans," said Martin Beck, economic adviser to the IEP report, a forecasting organisation.

Irish couple cement place with Saw Swee Hock

EDWIN HEATHCOTE

The completion of the Saw Swee Hock student centre at the London School of Economics raised eyebrows in the capital this year. This powerful, characterful building expressed the complexity of its site in its faceted, boldly angled, cliff-like brick wall.

Today, O'Donnell + Tuomey, the architectural practice behind the design, was awarded the Royal Institute of British Architects' Gold Medal, an honour that has, in the past, been bestowed on most of the profession's international greats, from Le Corbusier and Frank Lloyd Wright to Lord Foster and Frank Gehry.

Although the Irish husband and wife pairing, Sheila O'Donnell and John Tuomey, are among the least starry names to have received the award, their committed, carefully crafted architecture and thoughtful approach has won them many admirers inside the profession and their recent buildings beyond their native Dublin have impressed and delighted.

The Photographers' Gallery just off London's Oxford Street (2012) is an impressive urban intervention that has turned a dingy Soho alley into a public place, while their Lyric Theatre in Belfast (2011) is a powerful civic landmark in the terrace streets of a once-forgotten city.

It was in their native Dublin, however, that the architects made their name and established their reputation for designs that were both urban and urban. They were among a generation of architects who, in the early 1990s, began considering and master-planning a newly reinvigorated Dublin and were instrumental in reviving the once-neglected Temple Bar district, beginning with their Irish Film Institute of 1991.

Throughout the boom in the Irish economy, O'Donnell + Tuomey eschewed the brute, commercial opportunities in their home country, deciding instead to plough on with public and civic commisison, schools, institutions, cultural buildings and social housing.

Their commitment to the public realm has won them international and domestic respect and has ensured that, even as the Irish economy continues to suffer, they have managed to maintain, and consistently interesting workload.

Their architecture embodies a strange and perhaps necessary search for rational order and an apparent desire to pull architecture apart, to fragment it, to reflect the chaos of urban life and the unexpected collisions of streets, people and incessant construction.

It is an approach embodied in the LSE student centre, which seems to amplify the dynamic street scape of a medieval plan rammed up against a modern business district and inhabited by the urgent activity of everyday student life.

Kíla's Gold Medal reflects lifetime achievement, its Stirling Prize is awarded for a particular building and O'Donnell + Tuomey's LSE design is also shortlisted for this year's, the winner of which will be announced next month. They are the third husband and wife team to have won the medal.

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