

PRESS NOTICE

Better data on local authorities could help public finance forecasts

More timely and accurate information on local authority behaviour would make it easier to keep track of the state of the public finances, the independent Office for Budget Responsibility has concluded after an evaluation of its first set of Budget forecasts in June 2010.

The OBR will publish this detailed *Forecast evaluation report* (FER) once a year, comparing the forecasts it makes at the time of each year's Budget with the outturns shown in official data in the autumn of the following year. The aim is to increase public understanding of how the forecasts perform and to identify ways to improve them in future years.

The latest outturn data show that public sector net borrowing is now estimated at £137 billion in 2010-11. This was £12 billion lower than the OBR forecast in June 2010, a slightly smaller error than the average over the past 10 years of official forecasts. The FER shows that tax receipts were higher than forecast and government expenditure lower than forecast.

More than a third of the error arose from an overestimate of local authority spending, a much larger proportionate forecast error than those for central government spending or revenues. Locally financed non-investment spending is currently estimated at £22.6 billion for the year, £4.4 billion lower than forecast in June 2010. Rather than drawing down their reserves to cushion spending from the impact of financial pressures, local authorities appear to have added to them – perhaps in readiness for an even tighter squeeze ahead.

Until very recently there was very little official data on local authority borrowing available until several months after the end of the year concerned. The estimates made in-year were typically unreliable and often revised significantly. In addition to the revisions that help explain the forecast error for 2010-11, we have already seen significant revisions to outturn estimates of local authority borrowing in the early months of 2011-12.

The FER notes that the task of forecasting local authority borrowing should be made easier by quarterly in-year estimates of local authority current spending,

which recently became available for the first time from the Department of Communities and Local Government (DCLG).

The FER sets out a number of other areas in which the OBR hopes to be able to improve its forecasting methods. These include recent improvements in balance sheet analysis, access to a new model for forecasting debt interest, and a review of HM Revenue and Customs' forecasting models for stamp duty land tax, alcohol duties and business rates.

Many of the errors in the OBR fiscal forecast for 2010-11 were not large by historical standards. For example, total public sector receipts of £551.8bn were just £4.1 billion (0.7 per cent) above forecast. In addition to assessing our fiscal forecasts, the FER also quantifies the errors in our economic forecasts and the contributions these make to the errors in the fiscal forecasts. The unusually late and incomplete nature of the National Accounts revisions on October 5 mean that we have had to compare our forecasts mostly to earlier National Accounts estimates. These show that the June 2010 forecast modestly underestimated economic growth in 2010, but the gap was bigger when the forecast is compared to the latest data.

Robert Chote, the Chairman of the OBR, said:

"Keeping track of the income and spending of local authorities has long been one of the biggest challenges in preparing public finance forecasts. New quarterly data from DCLG should help, especially once we have a long enough run of data to understand the patterns during the year."

NOTES TO EDITORS

1. The Office for Budget Responsibility is the UK's independent fiscal watchdog – responsible for producing forecasts for the economy and the public finances and reporting on long-term fiscal sustainability.

2. The full report, including supplementary data is available here: <http://budgetresponsibility.independent.gov.uk/publications/forecast-evaluation-report/>

3. In this *Forecast evaluation report*, the OBR's June 2010 Budget forecast is compared to against data consistent with the latest Public Finance release (21 September 2011) and the Quarterly National Accounts (QNA) published on 28 June 2011. The report does not take on the data released in the latest QNA on 5 October, consistent with the forthcoming ONS *Blue Book*.

4. Questions about the Economic and fiscal outlook should be sent to the OBR press office: OBRpress@obr.gsi.gov.uk or on 020 7271 2466/ 2442.