

WHY DO WE NEED LOCAL AUTHORITY SPENDING AND FINANCING DATA?

**A note for staff in local authorities
by Communities and Local Government (CLG), HM Treasury, and the
Office for National Statistics (ONS)**

CLG uses the data to:

- Calculate Formula Grant settlements for future years
- Understand what the roles and functions of local government should be in the future
- Analyse the benefits of prudential capital borrowing to Local Authorities
- Publish Local Government Financial Statistics which gives an explanation of the local authority financial systems, past and present

HM Treasury uses the data to:

- Set fiscal policy, determining tax levels and spending plans
- Forecast and monitor income and expenditure
- Report to ministers and the public on public spending

ONS uses the data as key inputs to:

- Compile the National Accounts, which are a major input to the monetary policy
- Report on the UK's compliance with the EU Stability and Growth Pact
- Analyse the measurement of Government output and productivity

Local government expenditure represents about a quarter of all public expenditure and this note explains how the data received from the local authorities are used by CLG, HM Treasury and ONS.

CLG

1. Much of the financial data that you provide on forms to contacts in CLG is needed for that Department's use in the management of the local government finance system. For example, CLG uses the information you supply to calculate future year's Formula Grant settlements, or to determine whether local authorities can stick within the prudential capital borrowing regime.
2. What you may not know is that the Treasury and the Office for National Statistics (ONS) ask for some additional data to be collected on these forms, which CLG passes on to them. Both the Treasury and the ONS are very grateful to staff in local authorities for the work that you do in collecting and processing spending and financing data. However, they appreciate that the uses to which they put your data

may not always be obvious to you at the supplier end of the information chain. So this note sets out how we use your information, and hopefully shows you why the timely and accurate supply of these data by each of you matters to the running of the national economy.

HM Treasury

3. **Forecasting and Monitoring Income and Expenditure.** Fiscal policy determines levels of taxation and public spending, and is part of the macroeconomic framework designed to help ensure a stable economy. The Government has committed itself to two fiscal rules:
 - The public sector should borrow only to invest, not to fund current expenditure (the golden rule); and
 - The net debt of the public sector should be kept at or below a sustainable level (the sustainable investment rule).
4. Measuring the fiscal rules on a public sector basis (rather than say central government or general government (central plus local government)) is a key part of the fiscal framework for two reasons:
 - Firstly, the liabilities of local government (or public corporations) would ultimately be borne by the taxpayer, so it makes sense to consider the public sector as a whole.
 - Secondly, any analysis of the economic impact of fiscal policy needs to consider the full scope of Government activity.
5. More specifically:
 - In the UK, the sub-sectors that make up the public sector are closely integrated. A lot of local government's funding comes from central government. There is a choice about whether services are provided by central or local government. And most borrowing by local government is from central government, which in turn borrows from the financial markets. And so it makes sense to look at the position in the round.
 - Taxes levied by local government affect central government's ability to tax (and vice versa) because the public's willingness to pay taxes is limited.
 - Similarly the level of public sector borrowing has much the same effect on the market whether the borrowing is by central government or local government.
6. A further issue is the IMF's Code of Good Practices in Fiscal Transparency, which the Government has made steps to comply with. This makes clear that countries should aim to publish public finance aggregates on the position of central and local government combined. Moreover, the Code of Good Practices makes clear that information needs to be of high quality and timely.
7. Local government accounts for about one quarter of total public sector expenditure. So local authority spending, split between current and capital, is a key component of the monthly and quarterly published data which monitors progress against the fiscal rules, and which receive significant public attention. It is also a key element of the forecasting of spending, which matters when considering how much money can be spent, how much should be raised in taxation and how much borrowed while sticking to the fiscal rules.
8. Local authority self-financed expenditure (LASFE) can have different effects on the fiscal rules depending on whether it is capital or current and whether it is funded by

taxes and other current income, capital receipts, borrowing, or other means. So we need to know not only what the spending is on but also how it is financed. For example:

- If a local authority borrowed to fund current expenditure, that would make the measure of the golden rule worse
 - If a local authority borrowed to fund expenditure on a capital asset, that would have no initial effect on the golden rule, but it would affect the total amount of borrowing, and therefore increase the amount of Public Sector Net Debt closer to the limit that is sustainable. Moreover, in later years the interest on the loan and the depreciation of the asset that had been bought would both tend to make the current balance worse
 - If a local authority taxed in order to fund current expenditure, that would be neutral in the golden rule – but would increase the level of taxation overall.
9. Forecasts of LASFE inform how much is available in total in the Government's spending reviews to allocate to departments to spend.
 10. Since LASFE is part of total public spending, its size is an indicator of the overall size of the public sector, and the split of responsibilities between central and local government, which can inform policy debate.
 11. Information on local authority spending, financing and borrowing outturn and plans is published by the Treasury in the Budget and the Pre-Budget Report (PBR).
 12. **Reporting.** The Treasury prepares statistical reports to inform Parliament and the public on public spending. The main publication is the annual *Public Expenditure Statistical Analyses (PESA)*. It contains tables showing public spending by function (education, health & care, etc). Functional analyses bring together spending by central and local government, and by English departments and by the Devolved Administrations in Scotland, Wales and Northern Ireland. So accurate reporting allows us to make comparisons of total UK spending on different functions and sub-functions irrespective of the way in which spending is organised.
 13. The functional numbers also underpin reporting against some government expenditure targets, for example those relating to total health and total education spending.
 14. The data you supply also feeds into the PESA analysis of total public spending set out by the country or region for which the spending is made. It is combined with departmental spending data. We can then work out public spending per head in different regions on different functions. This analysis informs the Government's regional policy agenda.

ONS

15. **National Accounts and the Fiscal Framework.** ONS produce the National Accounts. These are an integrated framework for describing transactions and the wealth of sectors of the economy. They are produced to meet legal requirements. They are internally comparable. For example, Gross Domestic Product (GDP), the measure of economic activity, is a National Accounts measure, with Local government consumption an important component of GDP. GDP is then key indicator for informing monetary policy, and forecasting fiscal requirements, such as the levels of taxes and

borrowing set in the budget and PBR (the Treasury's fiscal rules are on a National Accounts basis).

16. **Reporting for Maastricht Treaty and Stability and Growth Pact purposes.** The EU has its own fiscal rules for Member States, again determined on a National Accounts basis. These relate to the General Government sector (Central Government + Local Government) rather than the whole public sector (general government and public corporations), so the Local Government data are of increased importance.
17. **Functions of Government/ Government Output and Productivity.** The allocation of expenditure to different categories, such as pay and procurement, and functions, such as transport and education, has an important effect on the measurement of Government output and productivity.

Conclusion

18. We hope the above information has helped show you how important the information you provide is to all of us. It doesn't just affect the amount of money that your authority receives from central government in grants each year. It also affects the Chancellor's Budget statement, the monthly public sector finances and quarterly estimates of Gross Domestic Product (GDP) and even the monthly decisions on interest rates.
19. We hope this also explains why the timeliness of data supply is important to all of these users. We ask you to supply us with data by certain deadlines (which we agree with the LGA first), as we need to compile your information to use in preparing the November Pre-Budget Report, or to inform a quarterly estimate of GDP. If a deadline is missed, then no matter how small an authority you are, you will cause many complications and affect the efficient running of the national economy. For these reasons, we will be making a particular effort in the coming years to work with you to try to supply your data by the agreed dates.
20. If you would like further information about the uses to which we put your data, or would like any special analyses of the data yourself, please contact your usual contact point in CLG in the first instance.

Website Links

- **Local Government Financial Statistics England** can be found at <http://www.local.communities.gov.uk/finance/stats/index.htm>
- **PESA** http://www.hm-treasury.gov.uk/economic_data_and_tools/finance_spending_statistics/pes_publications/pespub_pesa07.cfm
- **Budget** http://www.hm-treasury.gov.uk/budget/bud_index.cfm
- **Pre-Budget Report** http://www.hm-treasury.gov.uk/pbr_csr/pbr_csr07_index.cfm
- **ONS** Information on public sector accounts is at <http://www.statistics.gov.uk/CCI/nscl.asp?ID=8215>
- **National Accounts Blue Book** is at <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=1143&Pos=2&ColRank=1&Rank=272>