Office for National Statistics

Article

Looking ahead – developments in public sector finance statistics: 2023

What the Office for National Statistics sees as areas for future development in the public sector finance statistics.

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1 . Overview of planned developments in public sector finance statistics

This article outlines areas of planned improvement in fiscal statistics. These are split into short-term and long-term plans, providing an indication of when we expect to implement these changes into official statistics.

We do not attempt to pre-empt new government policies or events in the wider UK economy. Methodological issues that arise after this publication will be discussed in the next annual update of this article or in our more frequent Recent and upcoming changes to public sector finance statistics articles.

Each monthly public sector finances release can contain methodological changes that reflect movements across the public sector boundary (for example, following the sale of a public corporation) or new transactions (such as new types of support grants). We aim to provide information about these routine changes through our more frequent releases.

This article focuses on large changes that require extensive research and development before they can be released within official statistics. This can happen, for example, with transactions and stocks where the value is estimated through economic modelling. Some provisional estimates may be available from non-statistical sources, but new methods or data sources will be assessed to ensure they meet the quality requirements and are compliant with the Code of Practice for Statistics.

We also discuss statistical classifications and methods we expect to review in the future. For example, in light of updates to legislation and public funding, we plan to review the transactions in the higher education sector. For more information on this review, see our subsection on Treatment of higher education funding in Section 3: Long-term developments.

Short-term changes are those that we aim to implement in public sector finance (PSF) statistics within 24 months from the date of this publication. This generally means implementation in the PSF release published in either June 2024 or June 2025.

Short-term projects include:

- providing detailed information on gilt liabilities and improvements to interest payable
- improvements to data for the Bank of England
- a review of public sector non-financial assets and depreciation

Our section on short-term developments also describes our plans for implementing some classification decisions that require more complex methods. For example, the reinsurance schemes Flood Re and Pool Re (Nuclear) require a specific method to reflect their financial activities before they can be included in public sector finances.

Long-term developments are those where work is expected to take longer than 24 months. Such improvements may require significant changes to data collection and methodology. In other cases, our reviews may conclude that no change to the statistics is appropriate.

Long-term projects include:

- development of local government finance statistics
- recording of leases
- development of granular data to inform international comparison
- data on contingent liabilities and other potential obligations
- a review of changes to the rail sector
- treatment of higher education funding

We expect to review and update the list of long-term developments annually, as events take place that affect the UK public sector. Where appropriate, we will change our plans to reflect policy developments to ensure that our statistics capture the underlying economic reality, and to prioritise based on our capacity to take forward these developments.

We will also consider the implications of future changes to the international statistical manuals we use to compile our statistics, such as the recent adoption of the Eurostat's Manual on Government Deficit and Debt 2022 edition and the expected update to the United Nations' System of National Accounts in 2025. Updates to these manuals may affect our current and future work in the area of public finance statistics.

2 . Short-term developments

Detailed information on gilt liabilities and improvements to interest payable

In the next 24 months, we aim to start publishing more detailed information on UK government gilt liabilities, including a breakdown of interest payable on gilts. Within the same timeframe, we plan to make improvements to the compilation of central government interest payable, which includes interest on gilts and interest payable on other financial instruments.

Gilts (short for "gilt-edged securities") are UK government debt securities. Gilts are issued by the Debt Management Office (DMO) on behalf of HM Treasury (HMT) in return for cash, which is used to fill any gap between income, mainly from taxes, and expenditure.

There are two broad types of gilts: conventional and index-linked. A conventional gilt attracts a fixed interest payment ("coupon") and guarantees to repay the fixed amount of principal at maturity. The coupon and the principal of an index-linked gilt are uplifted in line with movements in the Retail Prices Index (RPI).

Gilt liabilities are the single largest component of the total amount owed by the public sector, as measured by our headline statistic, public sector net debt (PSND). In fiscal statistics, gilts are recorded at their redemption price, known as "face value". For conventional gilts, this value does not change between issuance and maturity, whereas the face value of index-linked gilts is adjusted with the RPI. In accordance with statistical rules, this adjustment is applied continuously rather than at the discrete points the uplifts are calculated by the DMO.

To increase the transparency around our estimates of debt, we aim to start publishing a breakdown of the gilt liabilities to show the liability for conventional gilts separately from the liability for index-linked gilts, as recorded on a statistical basis.

A further area where the statistical treatment merits increased transparency is the recording of interest on gilts. In economic statistics, the term "interest" is wider than just periodic cash payments such as coupon payments. Also included in interest expenditure are uplifts to the principal of index-linked gilts and, for gilts issued at a discount, the unwinding of that discount over the lifetime of the gilts. For more information on gilt interest, see our Calculation of interest payable on government gilts article.

Such recording stems from the statistical principle that interest accrues continuously between issuance and maturity of a debt instrument, regardless of when it becomes payable. A contractual uplift to the face value, or a convergence of issuance price with the face value (that is, with the redemption price) are seen as economically equivalent to an accruing coupon and are recorded in a similar way. We aim to start publishing more information on various forms of gilt interest, beyond the total.

In addition to these changes related to interest on gilts, we aim to review the compilation of central government debt interest payable more broadly. This is because interest expenditure includes interest payable on other financial instruments such as loans, bills and bonds, and other liabilities of government as well as gilts.

Improvements to data for the Bank of England

The Bank of England is the UK’s central bank, with its balance sheet separated into the Banking and Issue Department and the Asset Purchase Facility (APF). In the next 24 months, we will continue to review the granularity and periodicity of these data to further improve our estimates of the Bank of England’s impact on the fiscal aggregates.

In September 2021, we improved our processing of data for the Banking and Issue Department to provide greater coverage and accuracy. Improvements included increasing granularity of data used to calculate the public sector finance (PSF) aggregates, fully consolidating the Bank’s holdings of UK government debt securities (gilts) and some revisions to the Bank’s contribution to public sector net debt (PSND). For more information, see our Recent and upcoming changes to public sector finance statistics: August 2021 article.

By December 2024, we aim to include additional monthly data from the Bank of England which will replace further instances where annual data is used. The more frequent data will be used to provide more precise monthly estimates of the contribution of the Bank of England to the PSF aggregates.

The Asset Purchase Facility (APF) houses assets purchased by the Bank of England as part of the quantitative easing programme that started in 2009. In September 2021, we also reviewed the main data sources for the Bank of England’s APF fund. Where possible, the data sources were changed from estimates based on management information to data from published sources, which included data from APF gilt holdings, corporate bond holdings and data related to the indemnity guarantee from HM Treasury.

We aim to continue this development by reviewing the full APF balance sheet by December 2024. This work will help improve the consolidation process between the Bank of England and the APF, improving the timeliness and accuracy of our estimates of the Bank of England’s impact on public sector finances.

Review of public sector non-financial assets and depreciation

In the next 24 months, we aim to complete research into improving our estimates of public sector non-financial assets (NFA). Estimating stocks and flows of NFA is an important aspect of producing national accounts and forms part of our measure of public sector net worth (PSNW). These data also feed into flow measures used in the public sector finances, including current budget deficit and net investment.

PSNW is a broad statistical aggregate which summarises the value of non-financial and financial assets and liabilities held by the public sector. PSNW is a more comprehensive balance sheet measure than other measures, such as public sector net financial liabilities (PSNFL), because it includes non-financial assets.

Non-financial assets consist of produced assets, such as building and transport equipment, and non-produced assets such as land. We estimate produced fixed assets using the Perpetual Inventory Method (PIM), following the guidance in the Organisation for Economic Cooperation and Development's (OECD) 2009 Measuring Capital manual. This is also supported by Eurostat's European System of Accounts 2010 (ESA 2010) and the United Nations' System of National Accounts 2008 (SNA 2008). For further information on the PIM, see our Capital stocks user guide.

The PIM produces estimates of the gross stock, the consumption of fixed capital (CFC), and the net stock (gross stock less CFC). It combines flows of gross fixed capital formation with other changes in volume affecting the value of the assets.

We must make assumptions about the service lives, retirement profiles and depreciation patterns of fixed assets by industry. Consumption of fixed capital represents the reduction in the value of the fixed assets used in the production process during the accounting period resulting from physical deterioration, normal obsolescence, or normal accidental damage. The method for estimating consumption of fixed capital in statistics is distinct from methods used to estimate depreciation for business accounting purposes.

In recent years, several improvements have been made to capital stock estimates. In preparation for the UK National Accounts Blue Book 2019, we undertook a review of the asset service lives and the related flows used in the measurement of capital stock. The Blue Book 2020 included methodological changes to professional fees, which we incorporated into fiscal statistics in September 2021.

We now expect to further strengthen our NFA estimates by reviewing some of the sources, methods and assumptions that impact on the public sector. We expect the improvements to the NFA estimates for the public sector finances to take several years to implement, but we aim to complete the research phase within the next 24 months.

While the NFA review aims to strengthen our estimate of PSNW, it will not affect public sector net debt (PSND) or public sector net financial liabilities (PSNFL). Public sector CFC feeds into the calculations for the PSF aggregates of receipts, current expenditure, and net investment (or capital expenditure), but the improvements to the public sector capital stock estimates will not directly affect public sector net borrowing (PSNB).

This work will focus on non-financial assets within the bounds of the core public finance statistics frameworks. Other types of assets, such as some environmental assets, currently lie outside this framework.

Implementation of classifications decisions

There is an ongoing need to implement statistical classifications to reflect movements across the public sector boundary or to record new transactions. We aim to implement routine classifications in the monthly public sector finance (PSF) release as quickly as possible. For more information on statistical classifications, see our [Public sector classification guide and forward work plan]().

However, several classification decisions require more work before we can implement them into official statistics. This includes cases that may require complex changes to current methods or involve material revisions to the historical time series. We aim to implement such complex classifications in our annual change package, usually in June.

In June 2023, we implemented Bulb Energy Limited (Bulb) as a public non-financial corporation (S.11001) into PSF statistics. Since then, the Office for National Statistics (ONS) has classified further aspects relating to the transfer of Bulb to Octopus Energy. We aim to implement these subsequent classification decisions in the public sector finances within the next 24 months. For more information, please see our [Recent and upcoming changes to public sector finance statistics: August 2023 article]().

We have announced several classifications which may take us longer to implement. These include the British Business Bank, the UK Infrastructure Bank, the Development Bank of Wales, and the reinsurance schemes Flood Re and Pool Re (Nuclear). More time is needed for research because of the complex methods around certain financial activities causing significant differences between statistical guidance and financial reporting requirements.

In November 2022, the ONS reclassified Further Education Corporations, sixth-form colleges, and designated institutions in England, as part of the central government subsector. As this classification case requires substantial research into available data sources, it is also considered to be complex and will take time to implement.

In cases where substantial research is needed ahead of implementation, we sometimes take interim measures to ensure that the fiscal aggregates remain a good reflection of the government's true fiscal position. We will explain these in an update to an upcoming release of our more frequently published [Recent and upcoming changes to public sector finance statistics](). Intermediate measures may not completely cover the impacts, for example we may record cash data but not include the full balance sheet.

3 . Long-term developments

Development of local government finance statistics

We aim to make improvements to local government statistics within the public sector finances by incorporating enhanced data provided by the Department for Levelling Up, Housing and Communities (DLUHC). These improvements are expected to be implemented into our statistics in a phased way, beginning from 2024.

Local authority data provided by DLUHC and the devolved administrations (the Scottish Government, the Welsh Government, and the Northern Ireland Executive) are used to report expenditure, revenue, assets, and liabilities data for the local government subsector within the public finance statistics.

Like other sectors, local government data are subject to routine classification decisions and international reporting standards. There are, however, areas of development that are specific to local government, which include providing more granular detail and ensuring estimates cover all units within the subsector.

To improve our understanding of data flows within the sector, and between local government and other organisations, we require more detailed breakdowns than have been available to date, for example of loans, equity, and debt liabilities. These breakdowns will provide us with data flows on both a gross and net basis, for local government. Similarly, better information on equity holdings will improve the quality of our fiscal indicators, such as public sector net worth. In addition, we need to ensure we capture all organisations that fall within the boundary of the local government sector; for instance, where local authorities are working jointly with other organisations.

The Office for National Statistics (ONS) has provided support for DLUHC's Review of local government finance (LGF) statistics, the findings from which were published on 11 April 2022. The review considered various areas for enhancing these statistics, including their presentation and accessibility, and the collection by DLUHC of additional and more granular data breakdowns. An update on DLUHC's progress of its three-year plan to meet the review recommendations was published on 15 May 2023. For more information on the review, please see DLUHC's Local government finance statistics: update on review recommendations policy paper.

As the review's recommendations are implemented by DLUHC, we plan to use additional or improved data within our public sector finances statistics where useful and appropriate. We will extend our statistics gradually, reflecting DLUHC's phased approach to publishing more data.

Finally, we will be able to improve the timeliness of our data on revenue expenditure by local authorities once DLUHC publishes a fourth quarter forecast along with its third quarter revenue data, providing an earlier update for the full financial year than is currently available. We anticipate these earlier data will affect our statistics in 2025.

Recording of leases

We expect to review the treatment of leases for local government organisations and public corporations in line with the adoption of the new International Financial Reporting Standard 16 (IFRS 16) for lease accounting.

Historically, it was possible to use business accounting estimates as a source of leasing data. This was because the standard describing the recording of leases, the International Accounting Standard 17 (IAS 17), and the international statistical framework were closely aligned. However, in 2016, IAS 17 was replaced by the new IFRS 16, which is conceptually different from both IAS 17 and the statistical framework.

In 2022, we considered how to compile central government leasing data recorded in line with the new IFRS 16 standard. Through this work, we found that although most property leases were accounted for as operating leases under the preceding standard, IAS 17, they had substantial risk transfer from the lessor to the lessee. As such, we concluded it is appropriate to record them as “financial leases” (a statistical term for finance leases). For more information, see the Recent and upcoming changes to public sector finance statistics: August 2022 article.

The effects of the coronavirus (COVID-19) pandemic delayed the full implementation of IFRS 16 across other public sector organisations. In the long term, we intend to look at the local government and public corporations, in line with the adoption of IFRS 16 in these subsectors which is expected by 2025.

We also intend to continue the work on central government leases in the future. This is because we expect the adoption of the IFRS 16 to better align the source data to the needs of fiscal statistics and reduce the need for statistical modelling in the future. We also expect to transition to using IFRS 16 estimates of asset values when such data become available.

Development of granular data to inform international comparison

There are various programmes under which we provide data on the UK's government finance statistics to international organisations such as the International Monetary Fund (IMF). These include the provision of data under the UK's adherence to the G20 Data Gaps Initiative (DGI) and the IMF Special Data Dissemination Standard Plus (SDDS Plus). For more information on these initiatives, see the G20 DGI Recommendations and IMF's SDDS Plus overview.

By around 2027, we aim to improve the quality of the data we publish and provide to the IMF as part of the UK's adherence to these international initiatives. For an example of this published data, see the IMF's Government Finance Statistics framework in the public sector finance: Appendix E dataset. Our development work may include addressing data gaps, particularly where more detailed breakdowns could provide greater insight about the ownership of government debt. For example, we aim to provide a breakdown of government debt by counterparty and a breakdown by residual maturity.

Data on contingent liabilities and other potential obligations

Contingent liabilities are possible obligations that only arise when specific conditions prevail in the future. As such, there is uncertainty over whether a payment will be required or not, and its potential size. International statistical frameworks and business accounting manuals recommend that contingent liabilities are described as supplementary or memorandum items, rather than being reported within the main accounts.

In the long term, and subject to availability of resources, we aim to improve the coverage and presentation of data on contingent liabilities. Our Government Finance Statistics Manual (GFSM) tables may be further adapted to incorporate additional information. As these improvements would relate to supplementary or memorandum items to the accounts, they will have no impact on any of the main fiscal statistics.

Review of changes to the rail sector

The Great British Railways: Williams-Shapps plan for rail, published in May 2021, details government plans to transform the railways in Great Britain. Additionally, the coronavirus pandemic has altered the public sector's involvement in the operations of the railways. Therefore, we expect to consider the impact of any changes to the structure of the rail industry on statistical classifications and, consequently, on the fiscal aggregates.

Following privatisation in the 1990s of the railways in Great Britain, most units were classified to the private sector by the ONS for statistical purposes. Although the bodies responsible for the infrastructure were subsequently classified in the public sector, the majority of train operating companies remained in the private sector until the coronavirus pandemic. Franchises operated by the government-controlled operator of last resort were an exception to this general principle. Examples of train operating companies we considered to be part of the public non-financial corporations sector included London and South Eastern Railway, London North Eastern Railway (which began operating the InterCity East Coast franchise in June 2018), and Northern Trains.

In response to the coronavirus pandemic, train operating companies with government franchise agreements transitioned onto Emergency Measures Agreements (EMAs). Under EMAs (typically replaced by Emergency Recovery Measures Agreements (ERMAs) in September 2020 and then National Rail Contracts (NRCs)), the UK government became responsible for the qualifying costs of train operators in England, Wales and Scotland. These agreements restricted the train operating companies' ability to borrow, take decisions relating to their corporate policy, and transferred most of the revenue and cost risk to the public sector. As a result, we concluded that EMAs (and subsequent agreements) amounted to effective public sector control over all franchise train operating companies.

The Williams-Shapps plan for rail that was published in 2021 outlines a future model that would see a restructure of the railway sector, with Network Rail and parts of other public organisations (for example, the Department for Transport) being integrated into a new body: Great British Railways (GBR). GBR is also expected to take over responsibilities, roles, and people from organisations across the sector, including those exercised by the Rail Delivery Group (RDG). A consultation on rail reform legislation was undertaken in the summer of 2022 and the UK government is expected to publish a response in due course.

We are therefore awaiting further details on Great British Railways (GBR) and future contracts with train operating companies. We will consider the impact on statistical classifications and fiscal aggregates from any changes to the structure of the railway, the subsector classification of GBR, and the statistical treatment of transactions in the rail sector. Before this happens, we may consider the classification of train operating companies which have not been further reviewed since they were placed into emergency measures on 1 April 2020, to establish if they are still market bodies following the coronavirus pandemic.

Treatment of higher education funding

We intend to review the higher education sector to ensure we are recording the various streams of public financing consistently with their economic nature (for example, as subsidies, current transfers, or payments for services). We aim to conduct our analysis of these transactions between the public sector and the higher education sector, to establish the impacts on the public sector finances. This review will also encompass new and updated legislation and inform the subsector classification assessment of universities and higher education providers across England, Wales, Scotland and Northern Ireland.

Most UK universities have been classified to the non-profit institutions serving households sector since the adoption of the the European System of Accounts 1995 (ESA 1995) statistical framework. However, since the early 2000s there have been many changes in the higher education sector, including changes to legislation and public sector funding arrangements.

Over this period, several reforms have altered the mechanisms of public sector funding for the higher education sector, including:

- a rise in tuition fees
- changes to the student loans system
- the replacement of the Higher Education Funding Councils; that is, for England the replacement bodies are UK Research and Innovation and the Office for Students

In September 2019, we reviewed the treatment of student loans which dealt with an element of implicit public sector expenditure related to the cancellation of student loans that will not be repaid by graduates. For more information, see our Student loans in the public sector finances: a methodological guide. We now want to examine the broader funding arrangements for universities to investigate whether public sector funding streams are recorded consistently and correctly. An important part of the review is to assess whether the UK universities, which are simultaneously involved in the provision of education and research activities, should be considered to be market producers.

While some institutions cover much of their costs through tuition fees alone, more research-intensive universities have a higher proportion of income from other sources. For these institutions, it is important to examine the income generated through research activities. Where public sector organisations are the sources of research funding, we will ensure such transactions are accurately recorded in the fiscal statistics. This element of university income includes amounts paid, for example, by health authorities or other government units, for specific research projects.

The assessment of public research funding is particularly challenging because the funding can reach universities through a variety of streams, which vary from one institution to another. We aim to review public funding beyond the student loan system to ensure it is reflected in fiscal statistics appropriately; for example, as current transfers or as payments for services.

The legislative changes resulting from the UK Government's Post-18 review of education and funding have the potential to further reshape this relationship. For example, in February 2022, the UK government concluded its review and announced several reforms to higher education and the student finance system in England, and launched consultations on related policy proposals, including the lifelong loan entitlement. For more information, see UK Parliament's Post-18 Education and Funding Review: Government conclusion article. Given these changes, we are committed to reviewing all transactions between the public sector and universities beyond student loans.

Our analysis will be conducted alongside the sector classification review of all UK universities and higher education providers against the latest international guidance, which we aim to complete by 2026. This is because there are clear links between the two dimensions of our analysis. For instance, if a specific university is found to be a market rather than a non-market producer from a classification point of view, certain grants may have to be recorded as subsidies instead of transfers in accordance with the statistical rules. Similarly, if we find that the conditions attached to a particular stream of public funding could significantly influence a university's corporate policy, we will take this into account when assessing the statistical classification of universities receiving that stream of funding.

4 . Related links

Public sector finances, UK
Bulletin | Released monthly
How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

Recent and upcoming changes to public sector finance statistics
Article | Released monthly
Recent and upcoming changes to our public sector finance statistics, including recent classification announcements, and the impacts on government spending and debt.

Looking ahead – developments in public sector finance statistics
Article | Released annually
Outlining what the Office for National Statistics sees as areas for future development in the public sector finance statistics.

Public sector classification guide and forward work plan
Article | Released 19 December 2023
The forward work plan sets out the units and transactions that we expect to assess and classify in the coming 12 to 18 months.

5 . Cite this article

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