

Article

Recent and upcoming changes to public sector finance statistics: November 2021

Covers methodological changes and areas for future development.



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1 . Overview

Most methodological changes to the public sector finance statistics are prompted by the need for statistics to keep pace with the evolving economy. These changes can alter perceptions of the government's fiscal exposure, as measured by the fiscal aggregates such as public sector net borrowing (PSNB) or public sector net debt (PSND). This article increases transparency around the methodology work, including classification reviews, that is currently underway or planned within the next 18 months.

In [September 2021](#), we implemented several methodological changes, such as the treatment of the coronavirus (COVID-19) loan guarantee schemes and improvements to the recording of the Bank of England in the Public Sector Finances (PSF). More information about these changes can be found in [previous editions](#) of this article. This edition focuses on changes that we expect to implement in the PSF bulletin over the next 18 months.

We intend to resume the publication of a [separate longer-term work plan](#), which was suspended during the coronavirus pandemic, in [February 2022](#).

2 . Changes expected in the next annual package

In accordance with our [transparency strategy](#) and to provide increased predictability to users, we aim to package together methodological changes so that they occur, where possible, at a single point in the year. This section presents information on aspects of methodology we expect to review in the next annual package.

Treatment of leases

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 International Financial Reporting Standard 16 (IFRS 16), which is markedly different conceptually from both IAS 17 and the statistical framework.

We have now considered how to compile leasing data recorded in line with the new IFRS 16 standard. Through this work, we also 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, it would have been appropriate to record them as financial leases in statistics.

Having come to this conclusion, we have worked with HM Treasury to source appropriate data for future public sector leasing and to revise the leasing data historically. This means the historical data will be compiled on a similar basis to the data we expect to collect under these new accounting standards in the future and the full time series will be measured on a consistent methodological basis.

The effects of the coronavirus (COVID-19) pandemic delayed the full implementation of IFRS 16 across the public sector organisations and the associated transition to the new method in statistics. We expect to revise the treatment of central government leases in 2022, and we will continue to monitor the reporting of leases by other public sector units to transition to the new methodology at an appropriate time.

National non-domestic rates

In the national accounts and fiscal statistics, tax receipts are generally recorded on an accruals basis rather than on a cash receipts basis. In other words, we record government revenue at the point where the tax liability arose for businesses and individuals, rather than when the tax was actually paid.

Accrued revenues for national non-domestic rates (NNDR), also known as business rates, are presently calculated using a mixture of cash information and assessments of likely receipts. Prompted by changes in business rates retention by local authorities, we are currently reviewing our methodology to establish what improvements we can make to our measurement of accrued NNDR. We are working with the relevant government departments to ensure that all aspects of NNDR will be reflected in the new accruals process, including tax receipts, the recording of reliefs, and the flows between central and local government.

While our new accruals methodology for NNDR remains under development we have ensured that, wherever possible, our existing statistics reflect the impact of the coronavirus pandemic and government policies. This includes additional business rates reliefs (alternatively described as a business rates holiday or discount) for qualifying businesses in retail, leisure and hospitality for the financial year ending (FYE) 2021. At the end of 2020, some businesses announced their intention to make voluntary payments in lieu of the reliefs; information on how these are recorded can be found in the previous month's [article](#).

New statistical aggregates

In June 2021, we announced our plans to [introduce an additional statistical aggregate](#), public sector net worth, to the public sector finance statistics and explained how it would differ from existing measures. In this announcement, we described several improvements required to ensure that the new statistic would be robust.

We will endeavour to make some of these improvements in 2022. This should include better financial data, particularly in areas of the balance sheet not used to estimate public sector net debt. Other improvements, such as strengthened public sector non-financial asset data, may take longer to implement.

3 . Other items under review

Alongside the development areas listed in the previous section, we will continue to review methods and make other routine updates, such as changes induced by economic events or new policies.

Asset Purchase Facility in the fiscal aggregates

In the [Autumn Budget 2021](#), the Chancellor confirmed the fiscal mandate to have public sector net debt (PSND) (excluding the Bank of England) as a percentage of gross domestic product (GDP), falling by the third year of the rolling forecast period. The Asset Purchase Facility (APF) is by far the largest component of the Bank of England's contribution to the fiscal aggregates. This section explains how we record the APF in fiscal statistics.

In 2009, the Bank of England established a separate company, the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF), as the vehicle to undertake quantitative easing. The Office for National Statistics (ONS) considered that the BEAPFF did not meet the statistical criteria to be an institutional unit. It is therefore consolidated with its parent, the Bank of England, in our statistics.

As of 30 September 2021, the BEAPFF – funded by a loan from the Bank of England – had cumulatively [purchased assets totalling £855.6 billion in value](#) (net of sales, redemptions and repayments), predominantly in UK government gilts. These gilts remain a central government liability and thus, measured at their face (redemption) value, contribute to PSND excluding the Bank of England. In our broader measure of PSND, which includes the Bank of England, the loan to BEAPFF and the fund's holdings of gilts are consolidated. However, the reserves created by the Bank of England to fund the BEAPFF loan are included. Because the gilts were purchased at market prices, which have generally exceeded face values on the purchase dates, the reserve liabilities are higher than the redemption value of the gilts that is subject to consolidation. Any future holding losses arising from the convergence of the market value of gilts to their redemption value at maturity are accounted for upfront in PSND including the Bank of England and will not affect this measure at the time of redemption or sale.

As a result of its gilt holdings, the BEAPFF receives interest payments from Her Majesty's Treasury (HMT). It also pays interest on the loan from the Bank of England (a transaction which is fully consolidated), which in turn pays interest on the associated reserve liabilities. However, interest paid by the APF has been lower than the interest received from HMT. Since 2013, the resulting excess cash, net of operating costs, is transferred back to HMT. The transfer is recorded as a dividend payment to central government. Because of consolidation, there is no direct impact on the fiscal aggregates at the public sector level from either HMT interest payments to BEAPFF, or the transfer of excess cash back to HMT. However, interest accruing on the Bank of England's reserve liabilities contributes to the public sector current budget deficit, and public sector net borrowing (PSNB).

In the event that the BEAPFF runs down its assets, for example if quantitative easing were unwound, BEAPFF could generate losses. In this situation, BEAPFF would either retain more of its interest income to cover any losses (thereby decreasing the amount of dividend payable to central government), or would receive a transfer from HMT under the indemnity arrangement.

The ONS has considered the recording of such hypothetical indemnity payments, against the guidance set out in the Manual on Government Deficit and Debt and concluded that it should be recorded as a capital transfer. Such a transfer between public units, should it take place, would have no direct accounting impact at the consolidated public sector level. Ultimately, however, HMT would face a reduction in interest income from BEAPFF and may have to finance the indemnity payment. The extent to which that extra spending (or reduction in revenue) is transmitted into gilt issuance and coupon payments on these gilts, will determine the final impact on both measures of PSND, current budget deficit and PSNB.

Bulb Energy Ltd

On 24 November, the energy provider Bulb Energy Ltd was placed into a Special Administration Regime (SAR) by the government. SARs are designed to ensure continued provision of essential services when providers become insolvent. As such, the government will provide the necessary funding for Bulb Energy Ltd to continue to supply energy to customers, with the opportunity to recoup these funds at a later date. The SAR process differs from normal insolvency processes followed by energy companies, where customers are transferred to a supplier of last resort.

The ONS will consider the impact of the SAR on the public sector finances and review as part of our classifications work. An update will be provided in due course. In the meantime, Bulb Energy Ltd will continue to be treated as part of the private sector. Payments made under the SAR will provisionally be treated as expenditure under "other capital transfers", a component of net investment, as they happen.