

Clarifying how Public Sector Finances classification decisions are made

This article explains how classification and methodology decisions, which impact on the Public Sector Finances, are made.

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Release date:
8 July 2016

Next release:
To be announced

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1 . Background

The Public Sector Finances (PSF) Statistical Bulletin is a monthly National Statistics publication that has been produced jointly by the Office for National Statistics (ONS) and HM Treasury since 1998. This note explains how classification and methodology decisions, which impact on the PSF, are made. In particular the note seeks to:

- clarify the relationship between Economic Statistics' classification decisions and the PSF
- explain the role of the Public Sector Finances Technical Advisory Group (PSFTAG)
- describe the governance arrangements for the PSFTAG

This document was updated in June 2016 to reflect changes in ONS personnel and organisational structures as well as the introduction of the European System of Accounts 2010 (ESA 2010) in 2014. The 2016 update included some textual amendments to improve the clarity of the document, but it should be stressed that there have been no material changes to the governance arrangements around statistical classification decisions since the original 2013 version of the paper.

2 . Introduction

The ONS article [Production of the Public Sector Finances statistical bulletin : responsibilities and accountabilities](#) provides an overview of the roles of the Office for National Statistics (ONS) and HM Treasury (HMT) in producing the monthly Public Sector Finances. As set out in that document, ONS is solely responsible for:

- statistical decisions on scope and methodology of the bulletin
- compilation of statistics
- content, production and dissemination of bulletin
- ensuring compliance with the Code of Practice
- decisions on classifications.

How ONS makes classification decisions that impact the Public Sector Finances is the subject of this document.

3 . Public sector finances classifications decision governance

All classification decisions which relate to the Public Sector Finances are ultimately the responsibility of the ONS Director responsible for National Accounts and Economic Statistics, which include the Public Sector Finances statistics.

The ONS Director is supported in their classification decision making role by the advice of two groups:

The Economic Statistics Classification Committee (ESCC) which interprets international statistical guidance and rules on how things should be recorded in the National Accounts and in the Public Sector Finances.

The Public Sector Finances Technical Advisory Group (PSFTAG) which advises on how concepts within the UK Government's fiscal framework should be interpreted within the statistical framework of the Public Sector Finances. Some decisions which are considered to be uncontroversial or not of high fiscal significance will be delegated by the Director to one of the following:

- the Chair of the ESCC
- the Chair of the PSFTAG
- the Deputy Director responsible for the Public Sector Finances.

3.1 Role of ESCC in Public Sector Finances

The Public Sector Finances are produced in accordance with the internationally agreed guidelines and rules of National Accounts (including the [System of National Accounts 2008](#) and the [European System of Accounts 2010](#)). Therefore, ONS classification decisions determining how organisational bodies, transactions and balance sheet levels are to be treated in the National Accounts follow through to the Public Sector Finances'.

These ONS classification decisions are made following the published [ONS economic statistics classification process](#) with expert advice being provided by the ESCC on the more complex and/or significant cases.

Where ONS has made a classification decision based on international National Accounts' guidance and rules this is applied to Public Sector Finances. In this way National Accounts' classification decisions:

- define those organisations and institutions which are within the public sector (and so within the central government, local government and public corporation sub-sectors of the public sector)
- classify transactions according to the type of expenditure or revenue they represent (examples being whether something is a tax, a subsidy, a transfer or a social benefit)
- indicate the appropriate time of recording for transactions (based on the National Accounts principle of when the economic activity took place)
- identify those financial assets and liabilities which are to be recorded in financial accounts and balance sheets and those which are to be excluded (an example of an area of exclusion being contingent liabilities).

This approach where ONS defines the fiscal boundary for the Public Sector Finances through its classification decisions has its roots in the 1998 decision (published in HMT Treasury's [1998 Economic and Fiscal Strategy Report](#)) to base the UK Government's fiscal framework on National Accounts. For more details see the [methodology guide](#) for the monthly Public Sector Finances.

3.2 Role of PSFTAG in Public Sector Finances

The Public Sector Finances Technical Advisory Group (PSFTAG) is a group of experts which advises on classification issues that arise when defining how organisations, transactions and balance sheet levels should be recorded in the Public Sector Finances.

PSFTAG advises only on classification decisions that require a judgement to be made on how to treat an institution, transaction or an asset or liability level that is not clearly or specifically covered by the National Accounts' guidelines and rules. Typical areas of consideration by PSFTAG are:

- whether an asset should be considered liquid and therefore netted off in the calculation of Public Sector Net Debt (as liquidity is not a National Accounts concept but it is involved in the fiscal measure of net debt)
- whether a capital tax should be recorded in Public Sector Net Borrowing (PSNB) as a receipt or as negative capital expenditure (as in National Accounts all capital taxes are recorded as revenue but in the UK fiscal framework some are included within the current budget and others in the capital budget)
- whether an institution or transaction should be treated as a temporary effect of financial interventions and therefore excluded from the main fiscal measures of net debt (PSND ex) and net borrowing (PSNB ex) (as the UK fiscal framework has, since 2008, included measures which exclude temporary effects of government financial interventions).

4 . PSFTAG governance and membership

The Public Sector Finances Technical Advisory Group (PSFTAG) has been providing advice to ONS staff responsible for the production of the monthly Public Sector Finances since the 1998 decision to base the UK Public Finances on National Accounts' concepts. Following recommendations made by the UK Statistics Authority in their 2013 review of [Statistics Relating to Transfers from the Asset Purchase Facility Fund](#), ONS reviewed the membership and governance structure of the PSFTAG and made changes to the way it operates in arriving at Public Sector Finances' classification decisions.

The changes were to:

- limit the membership of PSFTAG to ONS and HM Treasury experts
- clarify the reporting lines of the PSFTAG and who makes the decisions
- clarify the process by which decisions may be appealed.

The role of the PSFTAG and its revised governance and membership arrangements are described below.

The Public Sector Finances Technical Advisory Group (PSFTAG) meets as and when required and includes members from both ONS and HM Treasury (HMT) to reflect the joint nature of the Public Sector Finances statistical bulletin.

PSFTAG has a core membership of seven, two members from HMT and five from ONS, including the Chair of the PSFTAG who will be a senior member of staff in the ONS Directorate responsible for the compilation and publication of the Public Sector Finances.

The Chair of PSFTAG can appoint ONS and HMT members with the expertise necessary to PSFTAG, but a majority of ONS members should be maintained.

The Chair of PSFTAG can also appoint external experts (particularly from the Bank of England and on Local Government) to join PSFTAG for a particular case where their expertise will be helpful in interpreting statistical guidance and accountancy concepts.

The Chair of PSFTAG will consider the discussions of PSFTAG and the consensus reached in arriving at a final decision which will be published on the ONS website. If PSFTAG is unable to reach a consensus and/or the decision is likely to be one attracting considerable user interest then the Chair of PSFTAG will brief the ONS Director responsible for National Accounts and Economic Statistics on the PSFTAG discussions and a final classification decision will be made by that Director.

The membership of PSFTAG may vary depending on the topics under discussion at a particular meeting, but the 5 ONS members will include the appointed PSFTAG Chair and the Branch Head of Public Sector Finances; while one of the two HMT members will be the Statistical Head of Profession in HMT.