Article

Alignment between Public Sector Finances and National Accounts: June 2016

Table of contents

1. Executive summary

This article compares the estimates of public sector net borrowing published in the monthly Public Sector Finances (PSF), on 21 June 2016, and the National Accounts (NA), published on 30 June 2016, and summarises the reasons for the differences identified.

The main difference is due to the expenditure and revenue of English "housing associations" being included in the PSF figures, in line with a recent classification decision, but this classification has yet to be implemented in the NA dataset where the housing associations remain recorded in the private sector.

In addition to the housing association classification's impacts, the article sets out other differences between the PSF and NA datasets due to methodological improvements and classifications implemented. The work that will take place over the next year to remove these differences and bring the datasets into closer alignment is also described in brief.

You are reminded that new areas of divergence are likely to emerge between annual National Accounts publications as a result of the different revisions policies for the National Accounts and the Public Sector Finances. Therefore, work to align the 2 datasets is not a one-off piece of work but something that must be returned to regularly.

2. Introduction

The core UK National Accounts (NA), as published in outputs such as the Annual National Accounts (Blue Book), Quarterly National Accounts and UK Economic Accounts, are not fully consistent with data published in the UK Public Sector Finances (PSF) and related outputs. The differences between the outputs are not a new phenomenon but have existed for many years and are the result of different revisions policies in the NA and the PSF. The NA being necessarily revised less frequently than the PSF due to the added complexity and integrated nature of the NA which need to balance across all sectors of the economy and not just the public sector.

It is important to note that the differences do not reflect conceptual differences in the compilation of the outputs. All NA and PSF publications are based on the National Accounts framework and are compiled in accordance with the standards set out in the European System of Accounts 2010 (ESA 2010) under European law.

This article is an update to a similar article published alongside the Blue Book 2015 in October 2015. The article presents some of the reasons behind the differences in the NA and the PSF datasets and gives an overview of the work which is planned to be completed over the next year to bring the 2 outputs into closer alignment. The article is structured as follows:

Section 3 – provides background on the NA and the PSF outputs and the reasons why they differ;

Section 4 – provides detail on the main alignment differences between the NA and the PSF as at June 2016;

Section 5 – provides information on the plans for future alignment work;

Appendix A – illustrates the extent of differences between the NA and the PSF datasets in June 2016.

3. Background

3.1 National Accounts (NA)

The term NA in this article refers to those integrated outputs and datasets which form the core National Accounts. The outputs include (but are not limited to) the annual Blue Book and annual Balance of Payments (Pink Book), the Quarterly National Accounts, the UK Economic Accounts and the Gross Domestic Product (preliminary and second estimates). Specifically, the NA dataset used in this article is that of the Quarterly National Accounts published on 30 June 2016 and the related Blue Book 2016 dataset.

The primary purpose of the NA is to provide an integrated description of all economic activity within the UK. It is used heavily by policy makers and analysts to provide a coherent macro-economic picture of the UK through important measures such as gross domestic product (GDP), household saving ratio and the balance of trade. The integrated nature of NA means that there is less flexibility for taking on revisions and so the data published in the NA are only open for revision in specific periods. The detail of which periods are open for revision varies by quarter.

3.2 Public Sector Finances (PSF)

The term PSF in this article refers to those outputs and datasets which form the suite of public sector finance statistics. The outputs include (but are not limited to) the monthly Public Sector Finances, the quarterly Government Deficit and Debt (under the Maastricht Treaty) bulletin and the related international transmissions of Government Finance Statistics. Specifically, the PSF dataset used in this article is that published on 21 June 2016.

The primary purpose of the PSF is to inform its users of the state of the public sector finances and the fiscal position. To do this it is important that the latest events and statistical classifications are reflected in the data and so the data published in the PSF are open for comprehensive revision every month for all time periods.

3.3 Revisions Policies

The inconsistencies between NA and PSF are not conceptual in nature but are the result of the application of different revisions policies. The revisions policies and data compilation processes for NA and PSF were deliberately separated from July 2004 in order to better meet the needs of the users of government finance statistics, as recommended by a 2002 National Statistics Quality Review. As noted above, the PSF Revisions Policy allows revisions to be taken on in any publication and for all time periods, but the NA Revisions Policy is much more restrictive, due to the integrated nature of the accounts, generally only allowing long time series revisions at a single point in the year. This means that the PSF usually incorporates data and methodological revisions affecting the public finances ahead of the NA.

Although the original intention was that the NA would come into alignment with the PSF at the earliest opportunity, the differences between the 2 datasets built up over a number of years. Over the last few years, work has been undertaken to bring the datasets back into closer alignment, although at any one point in time there are always likely to be some differences as a result of the different revisions policies. This article summarises the main reasons for differences between the 2 datasets as at June 2016.
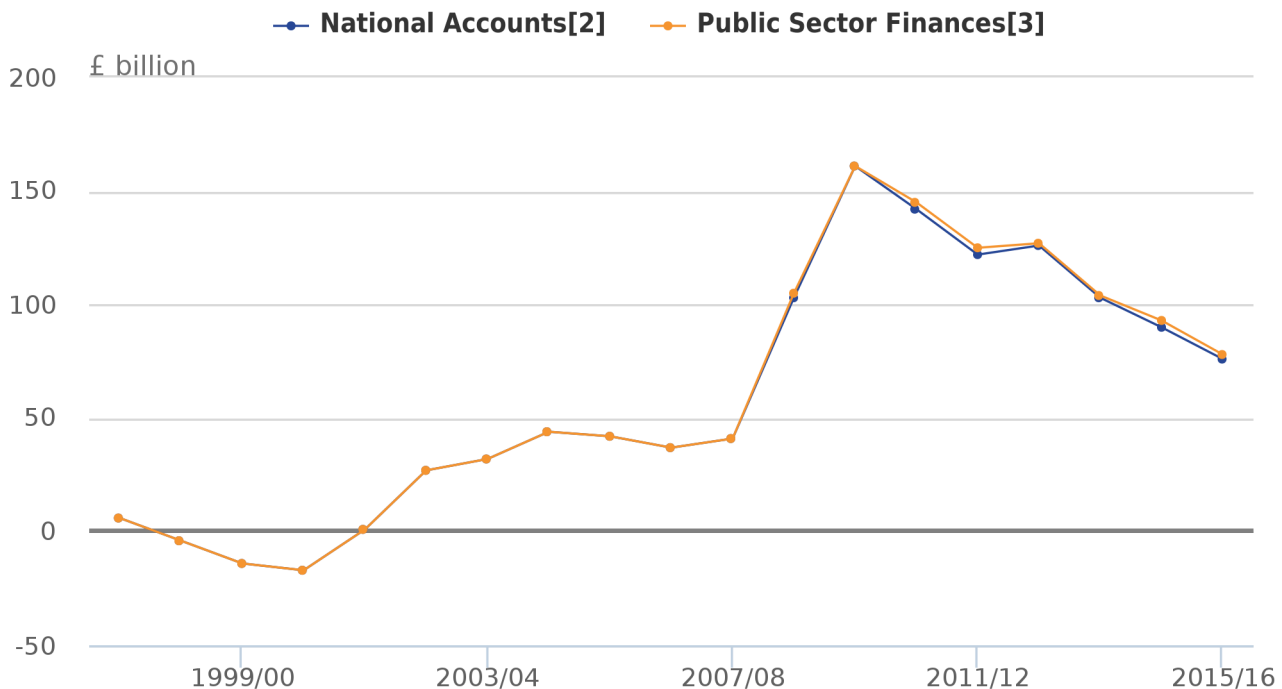
4. National accounts and public sector finance alignment

4.1 Differences in Public Sector Net Borrowing

Figure 1 compares public sector net borrowing as published in the National Accounts and in the Public Sector Finances in June 2016. It can be seen that the 2 datasets are closely aligned between the financial year ending March 1998 and the financial year ending March 2016, but there is an observable divergence in the published figures from the financial year ending March 2009 onwards. This divergence in recent years is largely due to the reclassification of English "housing associations" (more properly known as English private registered providers of social housing) from being private corporations to public corporations. The classification decision applies from July 2008 and has been implemented in the Public Sector Finances but not the National Accounts.

Figure 1: Comparison of public sector net borrowing[1]

UK, financial year ending March 1998 to financial year ending March 2016

Source: Office for National Statistics

Notes:

1. Public sector net borrowing excluding public sector banks and the Bank of England.

2. National Accounts as published on 30 June 2016.

3. Public sector finances as published on 21 June 2016.

Appendix A shows, in tabular format, the differences in central government net borrowing, local government net borrowing and non-financial public corporations' net borrowing. Where the differences are due to methodological and classification differences between National Accounts and Public Sector Finances, these are shown in the table.

4.2 Methodological Improvements and Classifications Implemented in the PSF

Since September 2015, when the Quarterly National Accounts consistent with Blue Book 2015 were published, there have been a number of classifications implemented in the Public Sector Finances which have not yet been introduced into the National Accounts as well as some methodological improvements. These changes have led to a divergence in the net borrowing reported in the Public Sector Finances and the National Accounts.

4.2.1 Implementation of reclassification of "housing associations"

The reclassification of English private registered providers of social housing (referred to in this article as housing associations) from the private to the public corporation sector was reflected in public sector finances for the first time in the January 2016 PSF statistical bulletin. This reclassification, announced on 30 October 2015, affects over 1,500 bodies providing social housing and applies back to July 2008 when the controls in the Housing and Regeneration Act 2008 came into force. The impact of the reclassification is to increase the net borrowing for public corporations by between £2 billion and £4 billion a year.

4.2.2 Improvements to coverage of departmental revenue data

Through a joint programme of quality assurance work by the Office for National Statistics and HM Treasury, additional departmental income was identified that had not been previously incorporated in the Public Sector Finances (or National Accounts). This income was included for the first time in Public Sector Finances in the January 2016 PSF statistical bulletin. The majority of the additional income, approximately £500 million a year since 2008, related to fees for services and goods. A further £350 million a year of income (approximately) related to miscellaneous transfers and rent.

4.2.3 Introduction of data for community infrastructure levy

Community infrastructure levy is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. The community infrastructure levy was included for the first time in public sector finances in the November 2015 PSF statistical bulletin. Its inclusion has reduced local government net borrowing from financial year ending March 2013 onwards. In the financial year ending March 2015 borrowing was reduced by around £100 million.

4.2.4 Introduction of data for light dues

Light dues are charges that are levied on ships for the maintenance of lighthouses and other aids to navigation. Light dues were included for the first time in the Public Sector Finances in the November 2015 PSF statistical bulletin. The inclusion of these receipts has led to a decrease in central government net borrowing of approximately £100 million a year.

4.2.5 Improvements to local government interest payable estimates

Through quality assurance work improvements to the calculation of local government interest payable were identified. These improvements were included for the first time in the February 2016 PSF statistical bulletin and led to small reductions in local government net borrowing of less than £50 million a year.

4.2.6 Air Travel Organisers' Licensing (ATOL) protection contributions

In addition to the above recent implementations in the Public Sector Finances, there are some differences between Public Sector Finances and National Accounts which were present in September 2015, but which have yet to be brought into alignment. The principal methodological difference in this category is the inclusion of ATOL protection contributions.

ATOL protection contributions from airline and travel companies are classified as taxes on production. These contributions were included for the first time in public sector finances in the March 2015 statistical bulletin. The inclusion of these receipts have led to a decrease in central government net borrowing of between £20 and £60 million a year from April 2008 onwards.

4.3 Methodological Improvements and Classifications Implemented in Blue Book 2016

A number of improvements have been introduced in Blue Book 2016 and the related Quarterly National Accounts, which impact on public sector finance statistics. Some of these improvements have been made simultaneously within National Accounts and the Public Sector Finance statistics, while others had previously been included in the Public Sector Finances and were being included in National Accounts for the first time in June 2016. As a result of the changes being implemented in both National Accounts and Public Sector Finances there is no impact on the differences between the 2 datasets in June 2016, as presented in this article. However, the improvements have led to revised borrowing figures since Blue Book 2015 and so the main methodological changes are listed here for information:

- changes to the treatment of non-market output and social transfers in kind

- introduction of Government Standardised Guarantees (Help to Buy Mortgage Guarantees)

- introduction of Crossrail Business Rate Supplement

- improvements to Transport for London Capital Stock changes

For more information on these methodological changes see Blue Book 2016 methodology articles published in February 2016 and June 2016.

5. Future planned alignment work

The published National Accounts Medium-Term Work Plan 2015 to 2018 noted that:

"Due to the other NA priorities very limited additional alignment work is currently planned for 2016 but more alignment work is planned for Blue Book 2017. However, NA will consider individual classification decisions that are likely to have a significant impact on a case-by-case basis to assess whether it is possible to introduce them into the National Accounts sooner."

In accordance with the work plan relatively little was done in the way of alignment between PSF and NA datasets between Blue Book 2015 and Blue Book 2016. As described in section 4.2 of this article there are, as of June 2016, 6 main methodological differences between public sector net borrowing in the NA and the PSF. By far the largest of these differences is due to the implementation in public sector finances of the classification of housing associations.

We will publish the detailed scope for Blue Book 2017 in the autumn of 2016, but the intention will be, to as far as possible, bring the NA and PSF datasets into alignment through the implementation in National Accounts of the methodological improvements and classification changes described in this article, including the reclassification of "housing associations". Of course, it is to be expected that between Blue Book 2016 and Blue Book 2017 the PSF dataset will further diverge from the NA dataset as other classifications and methodological improvements are implemented in the PSF which, due to the NA Revisions Policy, cannot be implemented in quarterly NA publications. Where possible these changes will be reflected in Blue Book 2017, but there are always likely to be some differences between the PSF and NA datasets. By its nature, the process of alignment between the NA and the PSF is not a one-off activity but something that needs to happen at frequent intervals to avoid widening divergence.