Office for National Statistics

Article

Alignment between public sector finances and national accounts: September 2019

An explanation of the differences between public sector net borrowing estimates published in the public sector finances and those in the national accounts.

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1 . Executive summary

This article compares the estimates of public sector net borrowing published in the monthly public sector finances (PSF), on 24 September 2019, and the quarterly national accounts (QNA), published on 30 September 2019, and summarises the reasons for the differences identified.

The largest differences prior to the 2012 to 2013 financial year are because of the continued variation in the treatment of both nuclear decommissioning costs and gross fixed capital formation transfer costs, plus the reclassification of London and Continental Railways, all of which are already implemented in the PSF but have yet to be implemented into the UK National Accounts. In the more recent period significant differences have been introduced, largely due to an error identified in Corporation Tax receipts and Corporation Tax credits data supplied by HM Revenue and Customs (HMRC). Corrected data published by HMRC were able to be implemented in PSF but not in national accounts.

This article provides a snapshot of differences between PSF and national accounts as of September 2019. We aim to resolve the current differences between the statistics, but new areas of divergence will undoubtedly emerge between PSF releases and national accounts publications and as a result of the different revisions policies for each area. Therefore, aligning the two datasets is not a one-off activity but something we work on regularly, while ensuring that the PSF provide the most up-to-date picture of government finances.

2 . Introduction

The core UK National Accounts, as published in outputs such as the UK National Accounts, the 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 have existed for many years and are the result of different revisions policies in the UK National Accounts and the PSF. The UK National Accounts are revised less frequently than the PSF because of the added complexity and integrated nature of the UK National Accounts, 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 of the PSF and national accounts 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 similar articles published alongside Blue Book 2018 and Blue Book 2017. This article presents some of the reasons behind the differences in the PSF and national accounts datasets, and it is structured as follows:

- Section 3 provides background on the PSF and national accounts outputs and the reasons why they differ
- Section 4 provides detail on the main alignment differences between the PSF and national accounts as at September 2019
- Section 5 describes the changes made in Blue Book 2019 that affect the alignment position
- Section 6 provides information on the plans for future alignment work
- Annex A in the Appendix dataset illustrates the extent of differences between the PSF and national accounts datasets as at September 2019

3 . Background

National accounts

The term "national accounts" in this article refers to those integrated outputs and datasets that form the core UK National Accounts. The outputs include (but are not limited to) the annual Blue Book and annual UK Balance of Payments (Pink Book); the quarterly national accounts; the UK Economic Accounts; and gross domestic product (GDP). Specifically, the national accounts dataset used in this article is that of the quarterly national accounts published on 30 September 2019 and the related Blue Book 2019 dataset.

The primary purpose of the UK National Accounts is to provide an integrated description of all economic activity within the UK. It is used heavily by policymakers and analysts to provide a coherent macroeconomic picture of the UK through important measures such as GDP, households saving ratio and the balance of trade. The integrated nature of national accounts means that there is less flexibility for taking on revisions, and so the data published in the UK National Accounts are only open for revision in specific periods, which can vary by quarter.

Public sector finances

The term "public sector finances" (PSF) in this article refers to those outputs and datasets that form the suite of PSF statistics. The outputs include (but are not limited to) the monthly PSF, 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 24 September 2019.

The primary purpose of the PSF is to inform its users of the state of the PSF 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.

Revisions policies

The inconsistencies between the PSF and national accounts datasets are not conceptual in nature but are the result of the application of different revisions policies. The revisions policies and data compilation processes for the PSF and national accounts were deliberately separated from July 2004 to better meet the needs of the users of government finance statistics, as recommended by a 2002 National Statistics Quality Review. As noted earlier, the PSF revisions policy (PDF, 206KB) allows revisions to be taken on in any publication and for all time periods, but the national accounts revisions policy (PDF, 44.9KB) is much more restrictive owing 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 national accounts.

Although the original intention was that the national accounts would be aligned with the PSF at the earliest opportunity, differences between the two datasets built up over several 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 owing to the different revisions policies. This article summarises the main reasons for the differences between the two datasets as at September 2019.

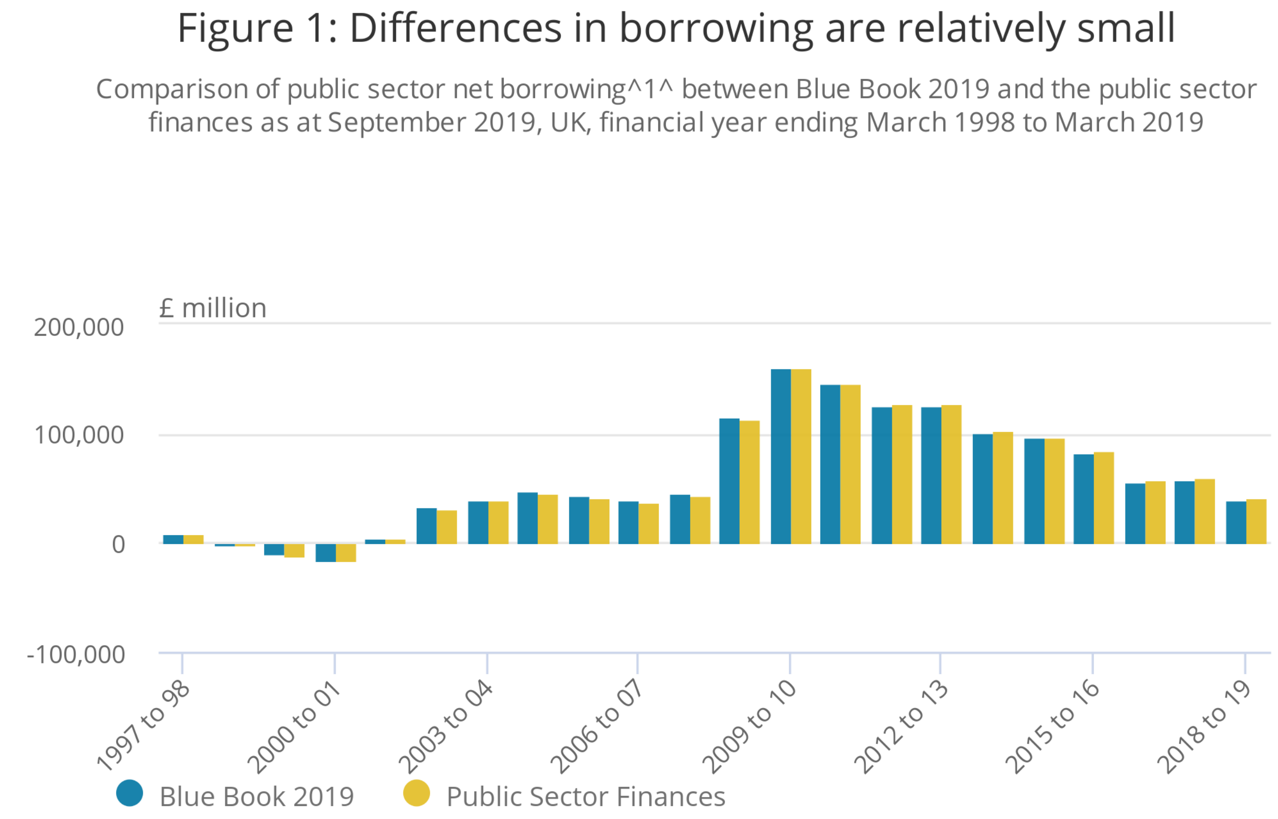
4 . Public sector finances and national accounts differences

Differences in public sector net borrowing

Figure 1 compares public sector net borrowing as published in the public sector finances (PSF) and national accounts in September 2019, while Figure 2 compares the alignment differences between the PSF and national accounts as at June 2018 (consistent with the compilation of Blue Book 2018) and at September 2019.

Figure 1: Differences in borrowing are relatively small

Comparison of public sector net borrowing[1] between Blue Book 2019 and the public sector finances as at September 2019, UK, financial year ending March 1998 to March 2019



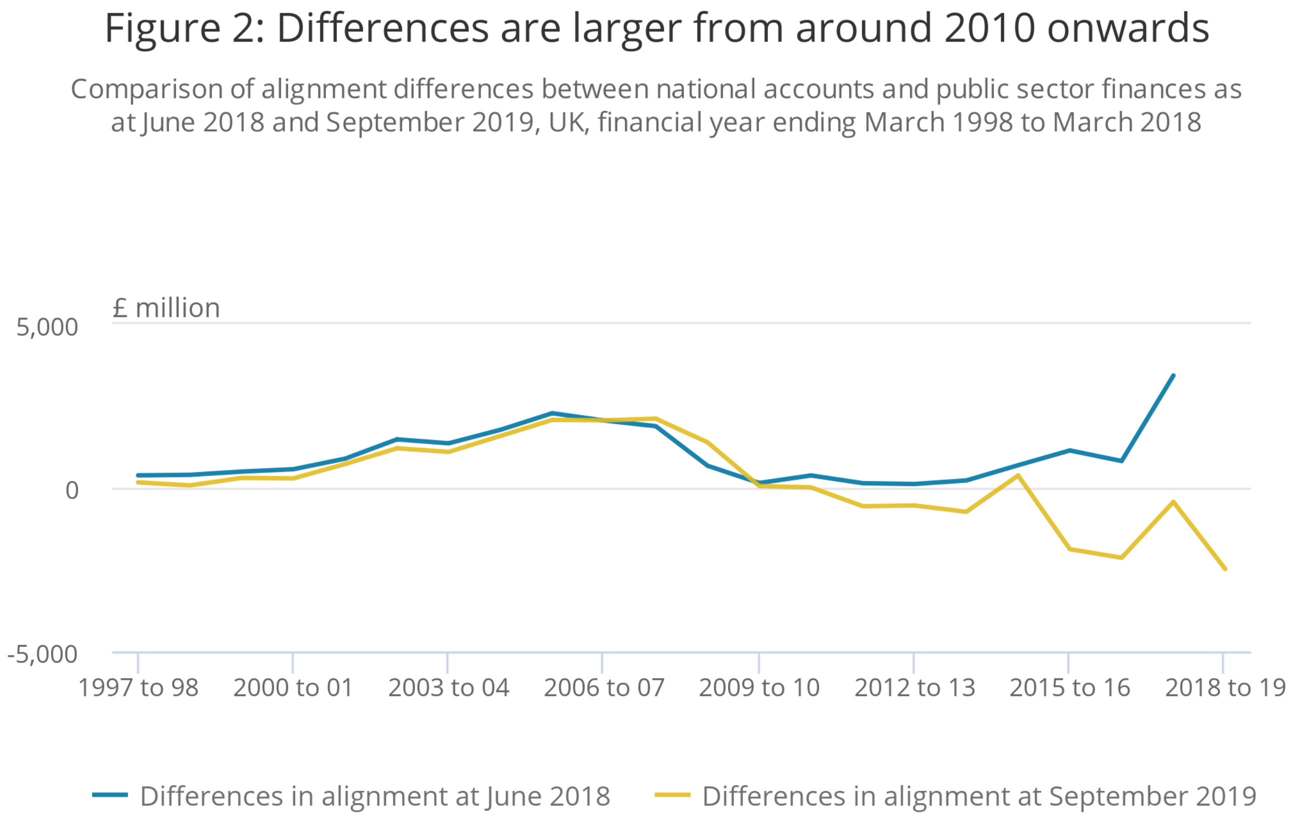
Source: Office for National Statistics – Blue Book 2019 and Public sector finances

Notes:

1. Here public sector comprises central government, local government and non-financial public corporations.

Figure 2: Differences are larger from around 2010 onwards

Comparison of alignment differences between national accounts and public sector finances as at June 2018 and September 2019, UK, financial year ending March 1998 to March 2018



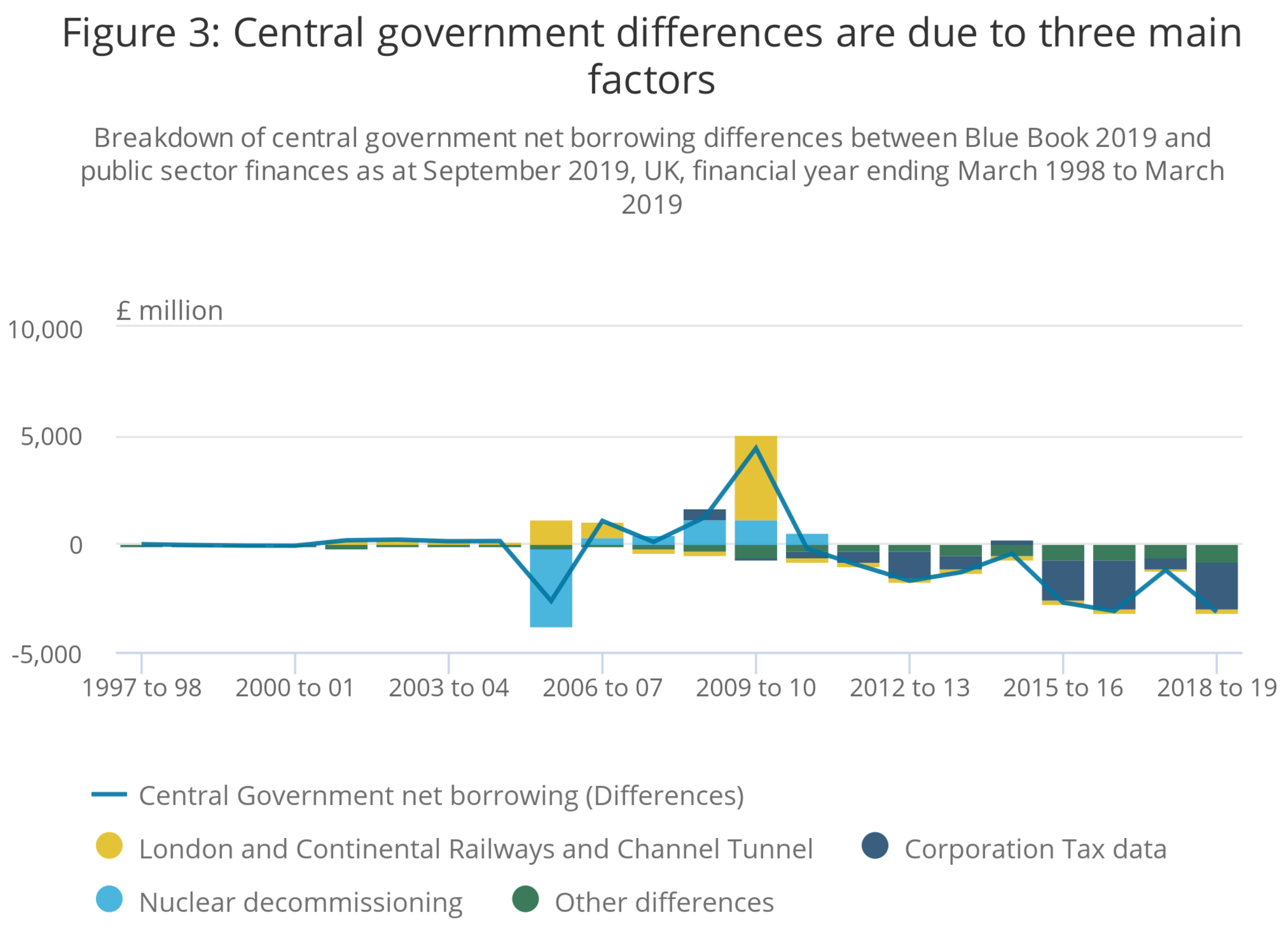
Source: Office for National Statistics – UK National Accounts and Public sector finances

It can be seen that, prior to the 2006 to 2007 financial year, the alignment position is broadly similar to that described in the previous article in June 2018. From that year onwards the alignment position moves away from that observed last year, with larger deviations in some of the later years. This is largely because of the central government sub-sector, specifically where revisions to Corporation Tax data and student loans data have been incorporated into the PSF but not national accounts.

Figure 3 shows the impact of the revisions to Corporation Tax data that particularly affect the 2015 to 2016 financial year onwards and are the main reason for the PSF and national accounts moving further out of alignment in these years. At the publication of Blue Book 2018 the main differences were explained by the treatment of the transfer of nuclear assets for the purposes of their decommissioning and historical transactions relating to London and Continental Railways, both of which are yet to be implemented in the national accounts. These two factors, and the additional differences between the PSF and national accounts shown in Figure 3, help explain why the alignment position for central government (and thus the public sector) has not improved further in September 2019.

Figure 3: Central government differences are due to three main factors

Breakdown of central government net borrowing differences between Blue Book 2019 and public sector finances as at September 2019, UK, financial year ending March 1998 to March 2019

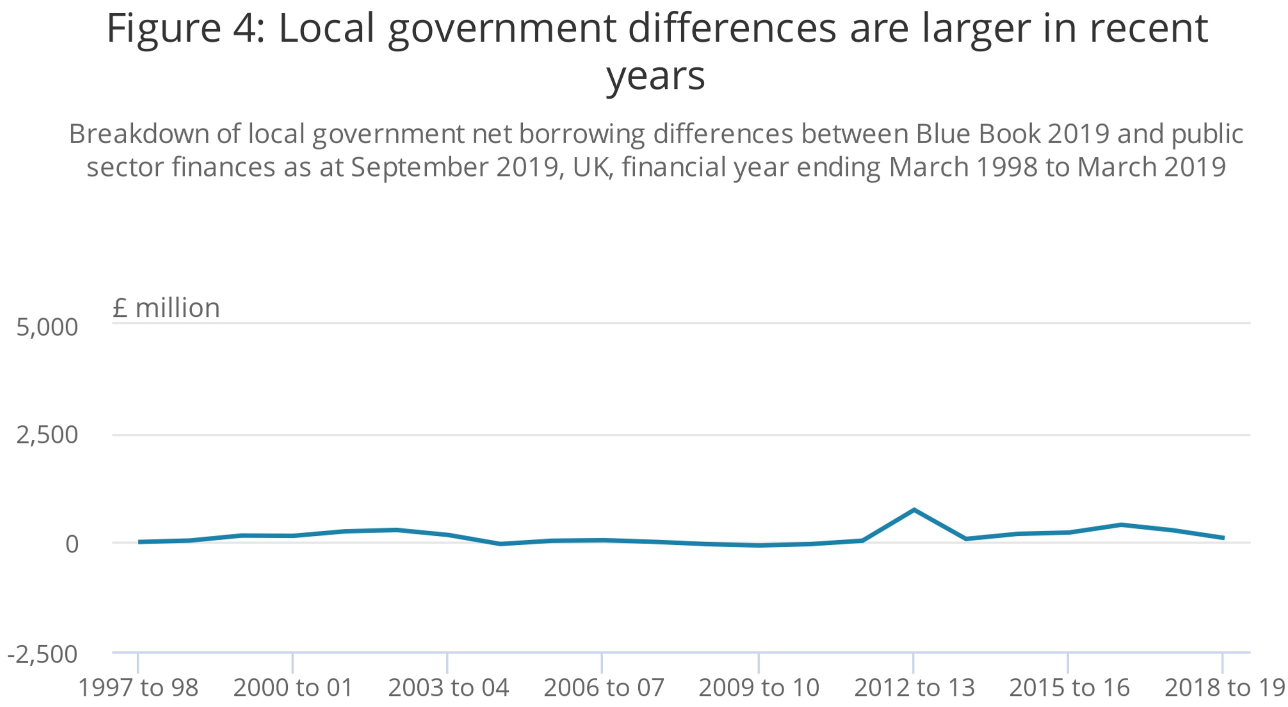


Source: Office for National Statistics – Blue Book 2019 and Public sector finances

Figure 4 shows that the difference in local government net borrowing is relatively minor and that unlike the central government and public corporations sub-sectors, there are no major sources of alignment differences but instead a number of smaller issues, which continue to be investigated. The differences are similar to those present at the publication of Blue Book 2018, because most Blue Book 2019 local government updates were implemented simultaneously in the PSF and national accounts.

Figure 4: Local government differences are larger in recent years

Breakdown of local government net borrowing differences between Blue Book 2019 and public sector finances as at September 2019, UK, financial year ending March 1998 to March 2019

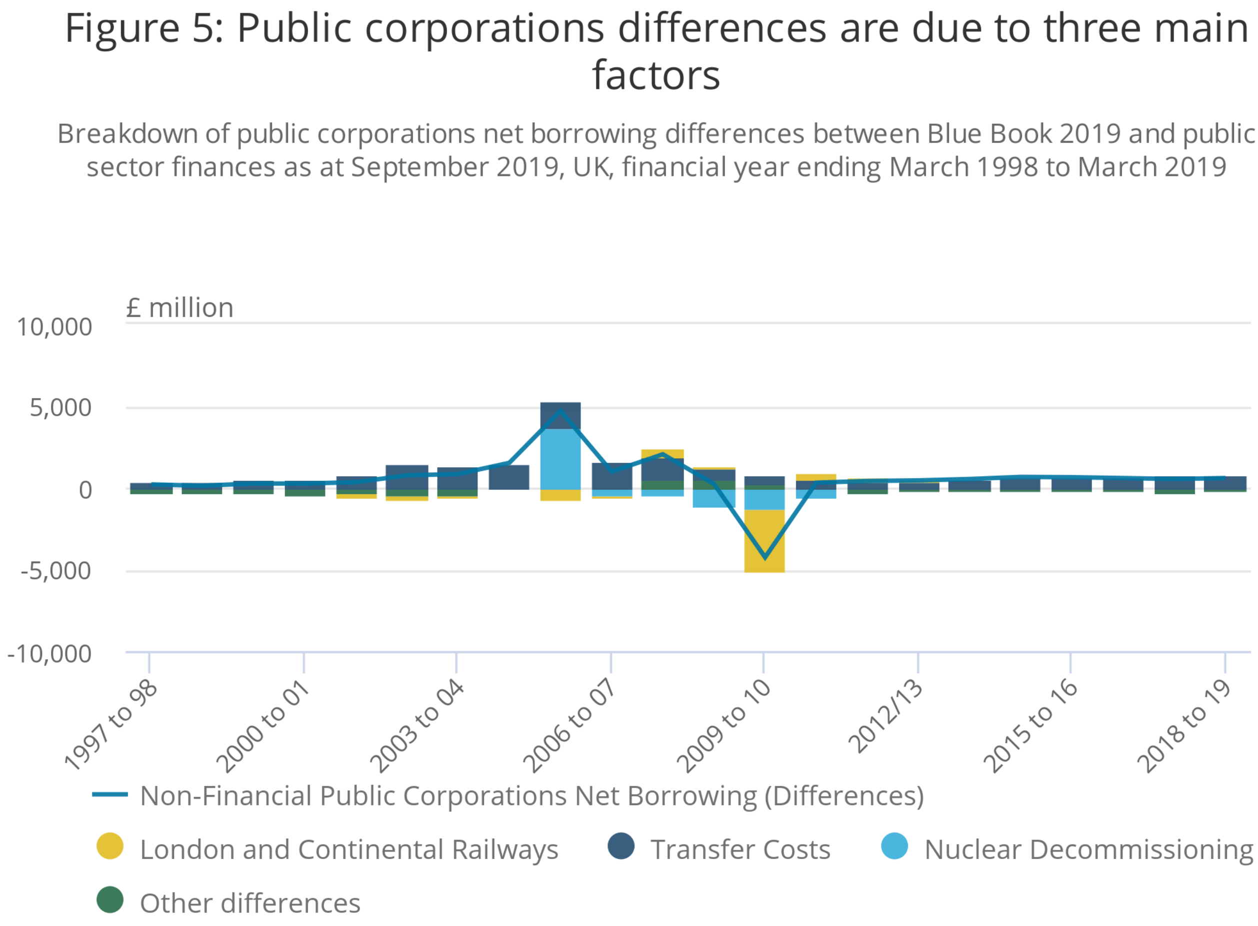


Source: Office for National Statistics – Blue Book 2019 and Public sector finances

Finally, Figure 5 shows the difference between the PSF and national accounts measurements of net borrowing for the public corporations sub-sector, which broadly can be considered smaller than those that existed during the compilation of Blue Book 2018. This is because of the improvement work on the recording of public corporations gross operating surplus (GOS). Nuclear decommissioning and the reclassification of London and Continental Railways, along with the varying treatment of recording transfer costs, largely account for the remaining differences between the two datasets.

Figure 5: Public corporations differences are due to three main factors

Breakdown of public corporations net borrowing differences between Blue Book 2019 and public sector finances as at September 2019, UK, financial year ending March 1998 to March 2019



Source: Office for National Statistics – Blue Book 2019 and Public sector finances

To summarise, some of the differences covered in the previous alignment article are still present. Owing to ongoing alignment work and the number of updates included in Blue Book 2019, some have been resolved and some new differences have been introduced. However, in all cases the differences in alignment remain relatively small, and we continue to be committed to minimising their number and scale.

Most of these methodological and classification changes affected not only the latest years but also the data in the earlier time periods, and they are detailed in Section 5. Annex A in the Appendix dataset shows, in tabular format, the differences in central government net borrowing, local government net borrowing and non-financial public corporations' net borrowing. The main drivers behind the remaining differences at the public sector level are:

- the reclassification of London and Continental Railways
- the change in treatment of nuclear decommissioning
- revisions to Corporation Tax data
- multilateral development banks
- student loans
- the recording of transfer costs for fixed assets and non-produced non-financial assets

These changes are covered in further detail in the next subsection. The remaining alignment differences, not already mentioned, are the sum of a number of much smaller issues that we continue to investigate.

Remaining methodological and classification differences

This section looks at methodological and classification changes implemented in the PSF that are yet to be incorporated in the national accounts dataset.

Reclassification of London and Continental Railways

In 2009, we classified London and Continental Railways to the central government sector, effective from 1999. Following a review of the treatment of London and Continental Railways, the Office for National Statistics (ONS) has identified some transactions, including liabilities relating to bonds and loans, that required further reclassification work to bring recording into line with the 2009 classification decision.

These changes led to revisions to central government current expenditure within interest payable, interest receivable and subsidies, and revisions to central government capital expenditure within capital transfers from central government. These changes were largely, but not entirely, offset by equal and opposite changes in the public corporations' accounts.

The improvements to the London and Continental Railways data were implemented in the August 2016 PSF statistical bulletin.

Nuclear decommissioning

Eurostat, in its 2016 version of the Manual on Government Deficit and Debt, introduced new statistical rules on the transfer of an asset nearing the end of its life cycle to government. Such a transfer took place in the UK in 2005 when British Nuclear Fuels plc (BNFL), then a public corporation, transferred all of its nuclear sites to the Nuclear Decommissioning Authority, a central government body. The restructuring involved the surrender of financial assets held by BNFL's Nuclear Liabilities Investment Portfolio (NLIP) to the UK Government.

The transition to the new statistical approach of accounting for decommissioning costs brings two principal changes. Firstly, the value of the power stations transferred in 2005 no longer implicitly includes the provisional cost of their future decommissioning, implying a transfer of an asset with a positive residual value. Secondly, the transfer of BNFL's NLIP is considered an advance for future work. There is no impact on public sector fiscal aggregates as the amended transactions recorded are between the central government and public corporations' sub-sectors.

The new treatment of nuclear decommissioning was introduced in the February 2017 PSF statistical bulletin.

Revisions to Corporation Tax data

On 24 September 2019, HM Revenue and Customs (HMRC) published corrected data for Corporation Tax receipts and Corporation Tax credits. The error mainly relates to the treatment of Corporation Tax credits, which are included within total Corporation Tax receipts as well as within total central government expenditure as subsidies.

HMRC recently identified that the Corporation Tax credits had erroneously been included twice within total Corporation Tax receipts. Although this problem affected the data from the financial year ending March 2011 onwards, the impact on public sector net borrowing is for a longer time period, beginning from the financial year ending March 2008. This is because the reported data are time-adjusted to ensure consistency with the national accounts statistical framework.

These latest figures are included in the PSF dataset but not in the national account dataset.

Multilateral development banks

The UK Government subscribes to several international institutions that provide loans for economic and social development activities in developing countries. These institutions are referred to as multilateral development banks; examples include the International Development Association (IDA); the European Bank for Reconstruction and Development (EBRD); and the African Development Bank Group (AfDB).

In April 2015, the treatment of UK Government subscriptions to the IDA was changed in the PSF to record them as capital transfers (which impact net borrowing) instead of equity injections (which do not impact net borrowing).

This change in treatment has not yet been fully implemented in the national accounts dataset.

Student loans

Improvements in the statistical treatment of student loans have been added to both the PSF and national accounts. Outlays are no longer all treated as conventional loans. Instead, we split lending into two components: a genuine loan to students and government spending. This new approach recognises that a significant proportion of student loan debt will never be repaid. We record government expenditure related to the expected cancellation of student loans in the period that loans are issued. Further, government revenue no longer includes interest accrued that will never be paid.

The student loans inputs into the national accounts were derived from our provisional estimates produced for a methodology publication in June 2019. Improved estimates were included in the PSF in September 2019, but these latest figures are not yet included in the national accounts.

Gross fixed capital formation transfer costs

Transfer costs are the fees and taxes incurred as a result of the ownership of an asset being transferred from one owner to another. We improved the estimates of transfer costs to take advantage of the best available data, specifically taking into account the floor space of properties. Such data uses the House Price Index (HPI) as part of the calculation of current price transfer costs data. A new HPI (with an associated back series) was introduced in 2016, and data based on this new methodology was used in the compilation of gross fixed capital formation for Blue Book 2017.

We also strengthened the breakdown of transfer costs by institutional sector, replacing the current method, which is based on historical proportions. The new method assumes that those components where administrative sources are used (for example, HM Land Registry fees and Stamp Duty) are proportionally assigned to institutional sectors based on the pattern of acquisitions of dwellings and other buildings and structures.

In addition to strengthening our own methodology for estimating transfer costs, we verified that our source data for many public corporations' capital formation already include transfer costs calculated on a different basis, in accordance with the International Accounting Standard 16 — Property, Plant and Equipment. In the September 2017 PSF statistical bulletin, we have applied an additional adjustment to prevent double-counting transfer costs. This adjustment is not, at present, applied to the national accounts dataset.

Reclassification of Companies House and HM Land Registry

In October 2018, we reclassified these bodies from the public corporations sub-sector to the central government sub-sector. The impact of the reclassification is not fully symmetrical, and this causes an impact on public sector net borrowing, owing to the method of estimating final consumption expenditure for government bodies (on a sum of costs basis) rather than including trading surplus as a component of net borrowing (as for public corporations).

The reclassification has not yet been implemented in the national accounts.

GDP balancing of public corporations

Improvements to the framework for producing gross domestic product (GDP) estimates, based on confronting the different measures of GDP and using a more integrated method of balancing using supply and use tables across all sectors, have introduced balancing adjustments to the income of public corporations in national accounts estimates. These adjustments have not been included in the compilation of the PSF dataset.

5 . Methodological improvements and classifications implemented in Blue Book 2019

In Blue Book 2019, and the related quarterly national accounts, we implemented several improvements that impact on public sector finance (PSF) statistics. These improvements had previously been included in the PSF and are being included in the national accounts for the first time in September 2019. Owing to the changes now being implemented in both the PSF and national accounts, there is no impact on the differences between the two datasets in September 2019, as presented in this article. However, the improvements have led to revised borrowing figures since Blue Book 2018, and so the main methodological changes are detailed here.

Payments of Motor Vehicle Duty

Payments of motor vehicle duty have been revised further following changes implemented in Blue Book 2017 to split the tax between other taxes on production and other current tax as a result of the separation between the households sector and non-profit institutions serving households sector.

Improvement to the coverage of fines and penalties

Having reviewed our recording of fines and penalties for the late payment of taxes to HM Revenue and Customs (HMRC), we identified additional fine and penalty revenue not previously recorded in our calculation of net borrowing. These payments were first introduced into the PSF earlier this year and recorded as fines under the “other receipts” category within the central government account from the financial year ending March 2011 to date.

6 . Future planned alignment work

Section 4 set out the main differences between the public sector finances (PSF) and national accounts datasets at the end of September 2019. Work will continue over the following years to remove these differences and bring the two datasets into closer alignment. While we aim to further reduce the existing differences between the PSF and national accounts in future Blue Books, the exact national accounts implementation dates for each of the changes will be decided with consideration of the wider strategy and priorities.

Although we will be addressing the existing differences, it is to be expected that the PSF dataset will further diverge from the national accounts dataset as other classifications and methodological improvements are implemented in the PSF that, owing to the national accounts revisions policy (PDF, 44.9KB), cannot be implemented in the quarterly national accounts publications. Where possible, these changes will be reflected in Blue Book 2020 and Blue Book 2021, but there are always likely to be some differences between the PSF and national accounts datasets. By its nature, the process of alignment between the PSF and national accounts is not a one-off activity but something that needs to happen at frequent intervals to avoid widening divergence.