Office for National Statistics

Article

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

Covers methodological changes and areas for future development.

Contact:
Eduard Moskalenko
public.sector.inquiries@ons.gov.uk
+44 1633 456738

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Table of contents

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 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 article published in November.

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 Section 2, we will continue to review methods and make other routine updates, such as changes induced by economic events or new policies.

Additional coronavirus (COVID-19) support

On 21 December 2021, the UK government announced the rollout of new grants for businesses affected by the Omicron variant of coronavirus (COVID-19), as well as the extension or reintroduction of some existing COVID-19 support schemes. A new scheme, the Omicron Hospitality and Leisure Grant, is targeted at hospitality, leisure and accommodation businesses in England and will be distributed through local authorities. Funding under this scheme will be available from January 2022.

We will review the statistical recording of the new grants, including how they should be accrued, at the earliest opportunity.

Flood Re Limited

Flood Re Limited is a reinsurance company responsible for administering the Flood Reinsurance Scheme. Flood Re Limited aims to improve the availability and affordability of flood insurance for eligible properties, and to manage the transition to risk-reflective pricing for household flood insurance over a 25-year period.

The Office for National Statistics (ONS) assessed the sector classification status of Flood Re Limited and concluded that the entity is under public sector control. Flood Re Limited has been classified to the central government subsector with effect from 11 November 2015, the date when the Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 came into force.

We will consider the implementation of the Flood Re Limited classification alongside other priorities and we aim to announce our intention next month in our longer-term workplan. Although the inclusion of Flood Re Limited within the public sector boundary is likely to affect the exact composition of stocks and flows, expenditure associated with Flood Re Limited is already accounted for in public sector net borrowing (PSNB). Therefore, we do not expect significant revisions to the fiscal aggregates as a result of this decision.

Bulb Energy Limited and wider developments in the energy market

On 24 November 2021, the energy provider Bulb Energy Limited 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 Limited 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.

We 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 Limited 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.

In addition, we will continue to actively monitor the wider developments in the energy market and will review any changes that may impact the public sector finances.