Monthly statistics on the Public Sector Finances: A methodological guide

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1. Introduction to Public Sector Finance Statistics

1.1 About the Public Sector Finances

The Public Sector Finances (PSF) statistics are a compilation of statistics on the main aspects of the UK public sector’s finances, which give an indication of the current state of the country’s financial position. PSF statistics are compiled and published monthly in the Public Sector Finances Statistical Bulletin1.

The primary purpose of the PSF bulletin is to inform its users of the state of the public sector finances and the fiscal position. As well as being of wider interest to the general public, the PSF statistics form a vital input to the policy and forecasting work of HM Treasury and the Office for Budget Responsibility (OBR). The OBR was established in May 2010 and placed on a permanent, statutory footing in March 2011. As set out in the Budget Responsibility and National Audit Act 20112, the OBR has a duty to prepare fiscal and economic forecasts twice each year. The Government has adopted the OBR’s forecasts as the official forecasts used to inform policy decisions. The Charter for Budget Responsibility3 sets out the Government’s intention to continue this practice.

The statistics in the PSF bulletin are designated as UK National Statistics, which requires that they comply with the Code of Practice for Official Statistics4, requiring high professional standards in their production, management and dissemination. The UK Statistics Authority has a statutory duty to assess (or reassess) all designated National Statistics against its Code of Practice. Its latest assessment report5 for the PSF bulletin was published in November 2011.

Publication arrangements

PSF statistics are published jointly by the Office for National Statistics (ONS) and HM Treasury. The governance arrangements for the statistics are described in a recent article6.

1.2 Main Public Sector Finances measures

The statistical aggregates published in the PSF bulletin are currently defined using National Accounts concepts and rules. The ONS produces the UK National Accounts on an internationally comparable basis, following the European System of Accounts 1995 (ESA95)7, which in turn is largely consistent with the United Nations 1993 System of National Accounts (SNA93)8.

The fiscal measures reported every month are discussed in more detail in Section 3. There are four main measures:

- the public sector surplus on current budget (SO CB) represents the balance of receipts over current expenditure, after providing for depreciation on capital assets. It is measured on an accruals basis (accruals accounting is described in more detail in Section 2) following internationally agreed concepts (ESA95);

- public sector net borrowing (PSNB), or net lending if there is a surplus, equals the change in the public sector’s accruing net financial indebtedness, i.e. the overall (current and capital) budget ‘deficit’. It is also measured on an accruals basis following ESA95;

- public sector net debt (PSND) consists of the public sector’s financial liabilities minus its liquid financial assets (mainly foreign exchange reserves and cash
deposits), both measured at face value. It is reported on a cash basis, usually as a percentage of GDP, and again conforms to ESA95 principles; and

- the public sector net cash requirement (PSNCR) is a cash measure closely related to PSNB. It represents the public sector’s need to raise cash through e.g. issuing gilts or running down liquid assets. Before 1998, this cash based-measure had been called the Public Sector Borrowing Requirement (PSBR) but was renamed as the Public Sector Net Cash Requirement (PSNCR) in 1998 to avoid confusion with public sector net borrowing (PSNB).

Two sets of fiscal aggregates are maintained. One set, the ‘ex measures’, excludes the temporary effects of the financial interventions made in response to the financial crisis that began in 2007, e.g. temporary public ownership of various banking groups – discussed further in Section 3.2. The ex measures are the Government’s preferred measures of the fiscal position and are used to set fiscal policy. Another set of measures includes the effects of the financial sector interventions. The two bases are identical before 2007-08.

1.3 Other sources of data

There are a number of other government sources of data that complement the statistics included in the PSF bulletin. Some provide more detail on particular aspects of the underlying data (e.g. receipts or expenditure) whilst others focus on alternative measures of the state of the public sector finances. Such other sources include:

- Whole of Government Accounts (WGA) data⁹ – an annual HM Treasury consolidation of the resource accounts (i.e. published financial reports) of over 1,500 organisations in the public sector, which reports the Government’s financial position on a ‘business accounting’ basis similar to that used by companies in the private sector (further detail is provided in Section 2 below);

- public finances databank¹⁰ – a monthly collation of public finances data derived from the PSF statistics and OBR forecasts released by HM Treasury;

- Public Spending National Statistics¹¹ are published by HM Treasury annually and provide greater analysis of public sector expenditure for past years (and future spending plans in the Public Expenditure Statistical Analysis Command Paper¹²) than is contained in the PSF bulletin (including more detailed economic and functional breakdown as well as totals by regions). Data for past years published are subsequently updated quarterly;

- HM Revenue and Customs (HMRC) tax statistics¹³ provide numerous statistics and analyses of tax receipts alongside a more detailed monthly breakdown¹⁴ of the tax receipts data contained in the PSF bulletin;

- Economic and Fiscal Outlook¹⁵ is a biannual report from the OBR which presents medium term projections for the public sector finances and assesses whether the government’s fiscal mandate is likely to be met;

- Fiscal sustainability report¹⁶ – an annual report produced by the OBR, which presents long-term projections for the public sector finances and the public sector balance sheet, assessing their sustainability;

- A series of ONS articles¹⁷ have looked at wider measures of public sector debt and the balance sheet beyond the PSF bulletin;

- DCLG publish Local Government Financial Statistics England¹⁸ annually;
• EU Government Debt and Deficit\textsuperscript{19} – the ONS publishes a statistical bulletin twice a year containing the UK’s general government debt and deficit position as required under the Maastricht treaty; and
• Government Expenditure and Revenue Scotland\textsuperscript{20} is an annual report produced by the Scottish Government that estimates a set of public sector accounts for Scotland, based on UK fiscal statistics.

1.4 About this guide
This methodology guide updates and brings together the content of a range of published articles, including the last full PSF methodology article published in 1999\textsuperscript{21}.

In this guide:
• Section 2 describes how the statistics are compiled according to accountancy rules establishing the limits of the public sector and the nature of the transactions undertaken. Also described here are some alternative accounting and expenditure monitoring systems in existence, including those used for financial reporting – for example, for the production of government departments’ annual financial statements;
• Section 3 introduces the fiscal policy context around the statistics, including the different fiscal frameworks and targets this and previous governments have adopted, as well as the UK’s European deficit and debt reporting requirements under the Maastricht Treaty;
• Section 4 outlines the main fiscal aggregates reported in the PSF statistics and their relationship to each other; and finally
• Section 5 documents the sources of the data brought together to produce the accrued net borrowing aggregates
• Section 6 briefly outlines the relationship with the National Accounts.
2. Concepts

2.1 What is the public sector?

Before beginning to assemble statistics for the public sector, the boundary of the public sector must first be established.

The ONS has a documented classification process to determine which entities should be classified within the public sector – discussed further in Section 2.2 below. ONS bases its classification decisions on the legally-binding ESA95 which establishes the rules by which member states of the European Union should produce their National Accounts.

The breakdown of the UK public sector published in the PSF Bulletin is central government, local government and public corporations. Central government and local government totals combine to general government. The public corporations sector is further split into non-financial public corporations, the Bank of England and public sector banking groups. More details on these sectors are included below.

The Central Government (CG) sector

The CG sector includes all administrative departments of the state and other central agencies whose competence extends over the whole country. This sector includes, amongst others, those public sector entities dealing with taxation, defence, health etc. Regional Health Authorities and NHS Trusts are considered to be central government. ESA95 specifies separate sectors for state government and social security funds. Both of these sectors are currently included under CG in the PSF Bulletin.

The Local Government (LG) sector

The LG sector includes those types of public administration whose competence extends to only the local part of the economic territory, apart from local agencies of central government such as the NHS Trusts. Also included are non-profit institutions which are controlled by a local government body and whose competence is restricted to the economic territories of local government. The local authority Housing Revenue Account, which is the account that runs local authority controlled housing, is excluded from the LG sector as it is treated as a public corporation.

The Public Corporations (PC) sector

Public corporations are publicly-controlled companies. They include both non-financial and financial corporations; historically there have been more of the latter. Following the recent financial sector interventions, the UK government controls financial corporations such as the Lloyds Banking Group and the Royal Bank of Scotland. The Bank of England is also classified to the public corporations sector. Data for the Bank have been presented separately within the PSF bulletin since January 2011. The data for the Bank are ONS estimates derived from the Bank’s published accounts. Prior to January 2011 data for the Bank were included in the PSF bulletin within the time series for public corporations.

The composition of the UK public sector is illustrated in Figure 1 below.
2.2 Sector classification

The PSF bulletin relies on a clear, transparent definition of the public sector. Decisions on which bodies fall within the public sector are made by the ONS. The ONS has a published classification process\textsuperscript{22} – some of the content of which is summarised below – and, for particularly important or difficult decisions, makes use of its panel of classification experts, known as the National Accounts Classification Committee (NACC).

The international statistical manuals (ESA95, SNA93 etc) provide the broad framework and principles for making classification decisions. It is important to have a clear agreement on the boundary between the public and private sectors and ONS, in conjunction with European partners, has developed comprehensive criteria for classification. The main focus of this is on the boundaries of the general government (GG) sector, which comprises the central government, (state government) and local government sectors. The overall public sector comprises the GG and public corporations sector.

ONS and HM Treasury have produced guidelines to help government departments classify their activities and the activities of their subsidiary bodies for National Accounts (and so for PSF) purposes. These have been circulated to departments with the expectation that most cases will be settled by reference to the guidelines, without the need for any consultation.

For cases not covered clearly by this guidance, policy departments – including HM Treasury – will refer issues to HM Treasury’s Classification Branch who act as technical experts and answer the straightforward queries on behalf of ONS. For less straightforward queries, HM Treasury’s Classification Branch will ask ONS to interpret the guidance and to make a classification decision.

The classification guidelines are extensive but essentially comprise two main stages:

1. deciding whether an entity is within the public sector or the private sector; and
2. deciding whether the entity is a market, or non-market, producer.

The difference between the public and private sectors is determined by where control lies, rather than by ownership or whether the entity is publicly financed. International guidance defines control as the ability to determine general corporate policy, for example through the appointment of directors, control of over half of the voting power, through special legislation, decree or regulation. If such control by the public sector exists, through one or more bodies, then the entity is classified to the public sector.
The market versus non-market decision is important in that it establishes, for public sector entities, whether those entities are public corporations (market) or part of government (non-market). The broad guideline for assessing whether a body is a market producer is that more than half of its net operating costs should be accounted for by sales (rather than grants or other forms of income).

The ONS also makes classification decisions regarding transactions involving public sector receipts and expenditure. Examples of significant decisions include:

- **whether payments received by government are taxes or service charges.** In making such decisions, the ONS considers whether such flows are compulsory and unrequited (in which case, for example, a receipt would be treated as a tax) or required, in that the cost or provision of the service is proportionate to the cost charged for the service. This is important because taxes increase receipts while service charges are treated as decreasing expenditure; and

- **whether payments by government are current or capital, and within the current category whether they are a grant or a payment for a service.** The distinction between current and capital spending is crucial for the aggregates used to set and monitor fiscal policy. The distinction between grants and payments for services is important as for example majority funding of a public sector entity via grant-in-aid or taxation will result in the classification of that entity as non-market and hence its allocation to the general government sector, rather than as a public corporation.

ONS is the final arbiter of National Accounts classification decisions in the UK and may examine cases on its own initiative at any time. In some cases, ONS will consult Eurostat, the statistical office of the European Union.

### 2.3 Alternative accounting systems – financial reporting versus statistical reporting

The ONS is legally bound to follow ESA95 to produce the UK National Accounts and the principles underlying ESA95 are also applied in producing the PSF statistics as the Government has chosen to base its fiscal policy on ESA95 concepts since 1997 – as outlined in Section 3 below. The National Accounts illustrate the financial affairs of the UK economy for a given period, and enable the generation of indicators of economic activity, such as GDP. Ongoing developments will lead to a revised ESA (ESA10) to be implemented from around 2014.

ESA95 is generally consistent with the more global statistical guidance provided in the SNA93. Like the SNA93 and most modern business accounting systems, ESA95 is founded on the accruals accounting system. Unlike most business accounting systems, however, ESA95 (and SNA93) do not generally recognise accounting provisions.

The Eurostat Manual on Government Deficit and Debt (MGDD) gives supplementary guidance and interpretation on the application of the ESA95 framework for the public sector although it is mainly focussed on general government. MGDD aids the application of ESA for the purpose of the submission of EDP Statistics to Eurostat.

The MGDD, like ESA and most modern accounting frameworks, focuses on concepts of economic substance rather than on legal form. Often, such an approach will require the analysis of which party bears the risks and rewards relating to a particular asset, liability or transaction.

Although the PSF statistics are produced in line with ESA95 many of the underlying source data are based on commercial accounting systems, which are discussed briefly below.
Cash
The concept of cash is widely understood and accepted. The Government has a cash management and forecasting system, which underlies some of the data in the PSF Bulletin.

UK GAAP
UK Generally Accepted Accounting Practice (UK GAAP) represents the collected body of UK accounting standards (as issued by the UK Accounting Standards Board\textsuperscript{25}) along with supplementary guidance published by recognised accounting experts. It was used as the basis of reporting by government departments until 2008-09.

UK GAAP follows the principles of accruals accounting. It must be remembered however, that such accounting standards are written primarily for private sector entities’ financial reporting. This means that when the public sector uses these accounting standards there arise issues of compatibility and practical applicability. Because of the sometimes uneasy fit of primarily private sector financial reporting rules to the public sector, financial reporting standards sometimes need to be interpreted or adapted for use by public sector bodies. The job of ensuring that public sector financial reporting is as consistent as possible with that of the private sector belongs, in the UK, to the independent Financial Reporting Advisory Board (FRAB\textsuperscript{26}).

The FRAB was established in 1996 and its role is “to promote the highest possible standards in government reporting”. It advises on reporting across government departments and implementing public sector accounting policies. The FRAB updates annually the Government Financial Reporting Manual (FReM)\textsuperscript{27} which is the technical accounting guide to the preparation of financial statements for central government entities. The FRAB also oversees the financial reporting rules applied within the local government and health sectors.

IFRS
International Financial Reporting Standards (IFRS) – previously named International Accounting Standards (IAS) are financial reporting standards developed by the International Accounting Standards Board (IASB) whose purpose is to develop and maintain a set of consistent global accounting standards. The Council of the European Union has adopted a number of the IASB’s standards, requiring EU listed corporate groups, including banks and insurance companies, to prepare their consolidated accounts in accordance with IAS/IFRS for accounting years commencing 1 January 2005 onwards. IFRS was implemented and adopted for the UK private corporate sector from 1 January 2005, in accordance with EU Regulation 1606/2002.

Given that the FRAB’s role (see above) is to put public sector and private sector financial reporting on a consistent footing, it has in recent years turned its attention to adopting, interpreting or adapting IFRS for use in the FReM and associated public sector financial reporting manuals. In the UK, central government departments adopted IFRS (via the FReM) from 2009-10 and local government from 2010-11. The first set of audited IFRS-based Whole of Government Accounts\textsuperscript{28} (WGA) was published in December 2011, for the financial year 2009-10.

There are, as described above, several different accounting systems in place, some for statistical purposes and some for financial reporting purposes. Inevitably such systems will not be fully aligned or applied consistently. As regards the PSF statistics, much of the required source data comes from the financial reporting systems of public sector bodies. These bodies (central government departments, local authorities, health trusts, public corporations etc) will maintain accounting systems for two main purposes – internal
reporting, budgeting and performance measurement, and external financial reporting. For the latter purpose, the data must be kept, or at least converted into, a form which is in line with the legally required accounting framework, for example IFRS. For the former, data may be of a less formal form, may follow alternative accounting rules and be categorised differently.

In preparing the PSF statistics, care needs to be taken to ensure that the source data, from public sector accounting systems, are transformed where necessary to a form which is compatible with the statistical rules within ESA. The sources of the PSF data, and the adjustments made to transform it into a useable form for PSF use, are discussed in Section 5 below.

The difficulties arising from the existence of several types of accounting system have gained attention in recent years. Recent work by various bodies, for example the International Public Sector Accounting Standards Board (IPSASB)\textsuperscript{29}, Eurostat and a number of bodies interested in the potential of Extensible Business Reporting Language (XBRL)\textsuperscript{30}, may lead to some progress in addressing this issue in the near future.

\section*{2.4 Public expenditure frameworks}
Over time, multiple accounting frameworks have developed to measure UK government spending. Each one has been tailored to meet the requirements of diverse financial management tasks:

- **budgets** are used by HM Treasury to control public spending;
- **estimates** are the means through which Parliamentary approval is sought for departmental spending;
- **National Accounts** principles are applied in monitoring the overall fiscal position through aggregates in the PSF bulletin; and
- **resource accounts** (the annual financial accounts and reports of public sector bodies) follow, as explained above, commercial accounting principles adapted for use in the public sector.

HM Treasury’s budgeting system\textsuperscript{31} aims to both: (i) control public expenditure to support the Government’s fiscal framework; and (ii) provide good incentives for departments to manage spending well to deliver high quality public services and offer value for money to the taxpayer. Underpinning this is a measurement framework, decided by HM Treasury, and explained in detail in the consolidated budgeting guidance\textsuperscript{32}.

Conceptually, the budgeting treatment is deliberately close to National Accounts as opposed to departmental resource accounts.

Overall, government departments have separate ‘resource’ (current expenditure such as pay or procurement) and ‘capital’ budgets (for new investment and net policy lending). Each budget is then sub-divided into spending that scores as DEL (Departmental Expenditure Limits) or AME (Annually Managed Expenditure). DEL spending encompasses items that HM Treasury expects departments to be able to manage and predict accurately (e.g. staff costs, consultancy services and most grant payments). The AME category is reserved for spending that HM Treasury recognises is difficult to manage, which may be demand-led or particularly volatile (e.g. benefit payments or tax credits).

The level of every department’s budget (i.e. the amount they have to spend) is fixed every four years during the Spending Review process, according to the Government’s priorities. The latest review\textsuperscript{33} in 2010, set departmental budgets for four years, from 2011-12 to 2014-15.
DEL totals are fixed absolutely at the review and departments may not exceed them. AME totals are (necessarily) less easily managed and departments are expected to monitor them closely and inform HM Treasury if spending is rising above forecasts.

As explained in the previous section, central government entities (with some exceptions/additions) must set out their financial position annually in reports and accounts, which are based on IFRS, adapted for the public sector, as laid out in the FReM.

The Government needs Parliament to grant it the legal authority to spend the resources set out in departments’ agreed spending plans for the year. Estimates are the Parliamentary means of granting this authority. The Main Estimates, around the start of the financial year, start the supply procedure, whereby Parliament gives statutory authority for the consumption of resources and capital by government and for cash to be drawn from the Consolidated Fund (the Government’s bank account at the Bank of England). Usually in January, new or revised estimates, the Supplementary Estimates, are presented to Parliament updating the requests for supply made previously. Once agreed by Parliament, the estimates become firm expenditure limits that cannot be exceeded by a department in that financial year.

There is extensive guidance on the production of Estimates available on the HM Treasury website.

In the late 2000s, it became clear that the multiple spending frameworks were unnecessarily complex, hindering scrutiny and accountability, whilst increasing burdens and reducing efficiency. The Clear Line of Sight Project was set up to address these weaknesses through:

(i) aligning the Budgets, Accounts and Estimates frameworks as far as possible;
(ii) reducing the number of spending publications; and
(iii) bringing forward the publication of departmental financial reports and accounts by one month to June.

Consequently, from 2011-12, Estimates have been produced on essentially the same basis as HM Treasury’s budgeting framework.

One common feature of all of these frameworks (like the National Accounts) is they are on an accruals basis – see earlier. This basis scores transactions at the time they have an effect economically rather than the time the cash transfers.

Government departments have prepared annual accounts since 1866, on a cash basis until 1999-00 and on an accruals thereafter. 1997-98 saw the start of a large shift in public sector financial reporting in the UK with the adoption of Resource Accounting and Budgeting (RAB), which aimed to align accounts and budgets more closely with government policy priorities as well as moving to an accruals basis – implementation was not completed until 1999-00. Departmental resource accounts after this shift were based initially on UK GAAP, as modified for the public sector under the guidance of the FRAB, before moving to an IFRS basis in 2009-10.

As explained earlier, the start of the implementation of RAB in 1998 coincided with a major change in the format of the PSF bulletin, giving prominence to accrued fiscal measures rather than cash ones along with the adoption of ESA95. Since 1998, the Government’s fiscal targets/rules for the deficit have also been based on accrued measures (discussed further in Section 3).

The advantages of cash accounting (namely the availability of timely and accurate estimates) had become outweighed by some serious drawbacks. As cash measures depend on the timing of actual transactions, the figures can be erratic and volatile. Moreover, the
accrued balance of receipts and expenditure, net borrowing (PSNB) does not include the (mainly one-off) impacts of financial transactions, thereby arguably giving a better guide to the underlying fiscal position.
3. The UK fiscal framework

3.1 Fiscal policy and the PSF statistics

Arguably, the most important use of the PSF bulletin is by government to monitor and analyse the UK fiscal position (i.e. the state of the public finances), which in turn informs fiscal policy decisions. These are decisions such as how much money government should spend and how this spending should be financed, either by taxation or borrowing. This section describes the policy context around the bulletin, in particular the various rules and targets that have been set by successive governments.

Fiscal policy and monetary policy are the main tools available to influence the UK economy as a whole (i.e. macroeconomic tools).

Current UK Monetary policy primarily seeks to maintain stable prices (i.e. it targets inflation and the consumer prices index, CPI) by setting a short-term interest rate. The responsibility to set monetary policy was given to the Monetary Policy Committee (MPC) of the Bank of England in May 1997. The MPC is operationally independent in setting interest rates to meet the Government’s annual inflation target – currently for the Consumer Prices Index to be below 2 per cent.

Fiscal policy is typically complicated. The same overall fiscal position could be reached using numerous policy interventions. As a simple example, a government could fund additional public spending through increases in taxes or extra borrowing. Moreover, there is usually no single, clear target. Recent Governments have aimed to be more transparent and stable in their fiscal policy actions, often working within a framework to specified overall targets. In earlier periods fiscal objectives were less well defined and more changeable.

3.2 Former fiscal frameworks

Fiscal targets prior to 1997

For around the 30 years before 1997, fiscal targets (if any were set) were mostly specified in terms of the PSNCR (a balanced budget would have had a PSNCR of nil) – although PSNCR was, as explained earlier, termed public sector borrowing requirement (PSBR) at the time. In the 1980s, the Government frequently adjusted its target for the PSNCR, often aiming to reduce it over the medium term or maintain it at a low level. The 1987-88 surplus (the first for nearly 20 years) prompted a tax cut and the adoption of a balanced-budget medium-term objective. In the early 1990s, the surplus evaporated faster than forecasted, although budget balance remained the medium-term objective. However, the return to balance was from a deficit position rather than from the surplus of the late 1980s. From a peak deficit in 1993-94, the PSNCR came down to around 1 per cent of GDP in 1997 as a result of strict fiscal control on spending, particularly capital investment.

The golden rule and a new framework for fiscal policy – 1997-2008

In 1997, the Government laid out a new framework for fiscal policy as part of its wider macroeconomic reforms, which also included delegating responsibility for monetary policy to the Bank of England and for debt and cash management to the Debt Management Office (DMO), an agency of HM Treasury. These reforms aimed partly to tackle the greater macroeconomic instability in the UK economy compared to other G7 countries from the 1970s to early 1990s, outlined in a 1998 HM Treasury paper. Frequently-changing fiscal and monetary policy regimes contributed to this problem.
The framework was formally introduced at Budget 1998 with a legislated Code for Fiscal Stability[^44], which set out key principles for fiscal management, enhanced reporting requirements and a new role for the National Audit Office in auditing the assumptions underpinning the public finance projections. There was flexibility to respond to unforeseen circumstances by reformulating the fiscal rules and objectives.

The Government at the time had two fiscal policy objectives on different time horizons[^45]:

i. over the medium term, to ensure sound public finances and that spending and taxation impact fairly within and between generations; and

ii. over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers (see Box 1) to help smooth the path of the economy.

Box 1: Fiscal aggregates and the economic cycle

Over the long term, output in the UK economy has tended to increase. However, over short intervals the economy does not follow a smooth path. The deviation at any point in time from the long-term trend is the ‘output gap’, which can be positive (when output is above the trend level) or negative (output below trend). A full economic cycle is typically characterised as successive time periods having a positive and negative output gap, i.e. an up- followed by a down-phase. However, no two economic cycles are the same and their definition inevitably involves a degree of judgement in practice.

The economic cycle affects the state of the public finances, through so-called automatic stabilisers. Automatic stabilisers are elements of revenue and expenditure, which act to dampen the fluctuations in the economy (without any need for policy intervention, hence ‘automatic’). For instance, during an up-phase tax receipts rise as incomes go up, reducing the rise in private disposable incomes and therefore dampening the upsurge. Similarly, during a downturn, benefit payments increase, moderating the slowdown by increasing household incomes. Typically the action of automatic stabilisers is symmetrical over the cycle. Moreover, as they smooth the path of the economy and operate with no time lags, in general Governments have tried to avoid constraining their action. Therefore, fiscal policy has often concentrated on cyclically-adjusted measures of the position, i.e. with the effects of automatic stabilisers removed. What remains after adjustment is an estimate of the structural balance (plus occasional one-offs such as the transfer of assets from the Royal Mail Pension Plan in April 2012), the balance we would expect on average over the course of the full economic cycle.

It is not possible to measure the structural balance in practice, instead it must be estimated from, amongst other things, estimates of the output gap. The method for doing this is explained in a 2008 Treasury Working Paper[^a]. The Treasury published cyclically-adjusted estimates of various forecasted aggregates from the 1998 Pre-Budget Report until 2010. Since its creation under the current fiscal framework in May 2010, this forecasting role has been part of the remit of the Office for Budget Responsibility.

[^a]: Public finances and the cycle[^48]

To achieve its fiscal policy objectives the Government at the time set two fiscal rules[^47]:

- **the golden rule** – that, over the economic cycle (explained in Box 1), the Government will borrow only to invest and not to fund current spending; and

- **the sustainable investment rule** – that PSND as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt would be maintained below 40 per cent of GDP over the economic cycle.
In practice, the golden rule would be met if the SOCB (i.e. surplus or deficit on current budget) was positive on average over the duration of the economic cycle. The sustainable investment rule, when applied alongside the golden rule, constrained capital spending.

An HM Treasury assessment in 2008\textsuperscript{48} judged that the Government had met its fiscal rules over the economic cycle that began in 1997-98 and ended in 2006-07\textsuperscript{49}.

**The Public Sector Finances excluding financial interventions (2008 onwards)**

The financial crisis and consequent economic shocks that hit the UK from 2007-08 led the Government to make exceptional interventions in the financial sector. New concepts for measuring the fiscal position were introduced to the PSF bulletin at this time – PSND and PSNB excluding the temporary effects of financial interventions, the so-called ex measures, PSND ex/PSNB ex for short\textsuperscript{50}.

The rationale for this change in basis was that the reported position would be distorted if these interventions were included and would not reflect the true, underlying position of the public finances. Consequently from August 2008 (for PSND ex) and December 2009 for (PSNB ex), the ex measures (alongside those with financial interventions included) have been reported in the PSF bulletin. More detail on the ex measures is provided in an ONS article\textsuperscript{51}. The aggregates used in fiscal policy have been exclusively on an ex basis since 2009.

The intervention that initialised the ex measures was the temporary public ownership of Northern Rock from October 2007. The ONS ruled that the public sector had the power to control Northern Rock’s corporate policy and consequently it should be classified as a public financial corporation in the National Accounts (and PSF bulletin). This means that the company’s gross liabilities (net of liquid assets) would increase PSND from the point of public ownership. As the intention was to return Northern Rock to private ownership ultimately, Northern Rock was considered outside of the public sector for calculating the ex measures. The same reasoning applied to all later interventions relating to (now) public sector banks (Northern Rock\textsuperscript{52}, Bradford & Bingley, Lloyds Banking Group and the Royal Bank of Scotland) and other related intervention schemes run by the Bank of England. Further details of classification decisions on the UK’s financial sector inventions were given in a 2009 ONS article\textsuperscript{53}.

**New rules in response to the crisis (2008-2010)**

At the 2008 Pre-Budget Report, the Government announced it would temporarily depart from its fiscal rules. The new rule was intended to allow fiscal policy to support demand in the economy and prevent pro-cyclical policy. The golden rule requirement to balance the current budget over the cycle would have required a huge amount of fiscal tightening, which would have depressed the economy even further. The Government decided to allow public sector debt to rise to absorb the immediate shock, with fiscal policy set to support the economy. After this adjustment had worked through the economy in full, the new temporary fiscal rule would come into effect:

Fiscal policy would be set to improve the cyclically-adjusted current budget each year.

The 2008 Pre-Budget report also set out a temporary fiscal stimulus package, worth 1 per cent of GDP in 2009-10. The main measure of this was an immediate, temporary reduction in the rate of VAT to 15 per cent to the end of the 2009 calendar year.

At the final Budget of the then Parliament in March 2010, the legislated consolidation plan required\textsuperscript{54}:

- PSNB to more than halve to 5.5 per cent of GDP or less in 2013-14;
- PSNB to be reduced as a share of GDP in each and every year from 2009-10 to 2015-16; and
- PSND to be falling as a share of GDP in 2015-16.

3.3 The current fiscal framework (2010 onwards)

A reformed fiscal framework was established after May 2010, superseding what was in place beforehand. The new framework is written into legislation, via the Budget Responsibility and National Audit Act 201155. The act requires the Government to lay a Charter for Budget Responsibility56 before Parliament. The Charter, first published in April 2011, sets out the Government’s approach to fiscal policy and management of the public debt and its objectives for fiscal policy and fiscal mandate (i.e. its targets for the fiscal position).

The major innovation of the new framework was the creation of the Office for Budget Responsibility (OBR) in May 201057, to increase transparency and openness in official forecasting58. The formal main duty of the OBR is to examine and report on the sustainability of the public finances. It performs this duty completely independently of Government. The OBR publishes independent five-year forecasts of the UK economy and public finances biannually in its Economic and fiscal outlook59 (EFO) publications. The EFO includes an assessment of the progress towards the Government’s fiscal targets – currently, whether there is a greater than 50 per cent chance that the Government will meet its current fiscal mandate.

The Charter for Budget Responsibility lays out the Government’s fiscal policy objectives, to:
- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider Government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

Finally, the Charter states the Government’s mandate for fiscal policy in this Parliament, first announced at the June Budget 2010:
- a forward-looking target to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period.

The mandate is supplemented by:
- a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16, ensuring the public finances are restored to a sustainable path.

The present mandate is based on current spending, deliberately excluding capital expenditure to safeguard public investment, which is the most economically productive element of public spending. A cyclically-adjusted aggregate is targeted, so the automatic stabilisers are allowed to operate fully (see Box 1) in support of the economy. The OBR’s economy forecasts are produced for a rolling five-year period. The mandate therefore anchors the Government’s medium-term fiscal stance, meaning the public finances are always being brought back to balance by the end of the forecast window.

The mandate lapses at the dissolution of the present Parliament. HM Treasury will then have to set out a revised mandate as soon as possible into the life of the new Parliament. However, at any time, HM Treasury can modify its fiscal policy objectives and/or mandate by modifying the Charter, although the reasons for such a departure have to be fully explained.
3.4 UK fiscal policy as part of the European Union

In preparation for monetary union, various safeguards against fiscal profligacy were enshrined in the *Treaty on the Functioning of the European Union* \(^{60}\) (commonly known as the Maastricht Treaty), which has been in force since 1993. In particular, the *Stability and Growth Pact* \(^{61}\) requires all member states to avoid excessive budget deficits and government debt. The reference values are a general government deficit of 3 per cent and general government debt of 60 per cent of GDP. EU member governments have to report their actual and planned deficits, along with their levels of debt, to the European Commission to fixed deadlines twice a year.

Estimates for past financial and calendar years are supplied for the UK by the ONS (also published in a dedicated ONS statistical bulletin)\(^{62}\) and forecasts by HM Treasury. The so-called *Treaty* debt and deficit aggregates are on the same National Accounts (i.e. ESA95) basis as the PSF aggregates. The main difference is that the Treaty measures are for the general government sector (i.e. including only central and local government) whereas the headline aggregates in the PSF bulletin cover the entire public sector (i.e. general government plus public corporations).

Recent events in the euro area have led to revisions to the EU’s fiscal safeguards, although the UK has chosen to opt out of these reforms. The final form of the fiscal reforms has yet to materialise but is expected later in 2012.
4. Fiscal measures included in the Public Sector Finances statistics

This section describes the main components and derivation of the fiscal measures published in the PSF bulletin. These are primarily designed by HM Treasury for the purpose of monitoring progress towards government fiscal goals (see Section 3). Consequently, the fiscal measures are defined by HM Treasury although their measurement is based on ESA principles. The PSF statistics provide reliable, timely and appropriate information to enable users to gauge the government's progress towards its fiscal goals.

4.1 Composition and reconciliation of the PSF aggregates

Of the main fiscal aggregates the surplus on current budget, public sector net borrowing and the public sector net cash requirement measure changes within a given period and are thus ‘flow’ measures. Public sector net debt on the other hand records the accumulated position and is thus a stock measure.

**Surplus on current budget (SOCB)**

The Introduction described SOCB as representing the balance of receipts over current expenditure, after providing for depreciation on capital assets. That is

\[ \text{surplus on current budget} = \text{current receipts} - \text{current expenditure} - \text{depreciation} \]

Current receipts and current expenditure consist of the following components which affect public sector totals:

**Current receipts:**

- taxes on income and wealth – primarily composing of income tax, corporation tax and petroleum revenue tax;
- taxes on production – of which the largest component is VAT. Other components include: oil, alcohol, tobacco and various gambling levies, stamp duties, national non-domestic rates, rail franchise premia, and other levies on industry;
- other current taxes – mostly vehicle excise duty, the bank levy and TV and other licences;
- taxes on capital – almost entirely inheritance tax. Some ESA95 capital taxes are recorded within net investment;
- compulsory social contributions – which are national insurance contributions;
- gross operating surplus – for central and local government this is assumed to be equal to the depreciation of capital assets;
- interest and dividends receipts; and
- rent and other current transfers which is a very minor item in the accounts.

**Current expenditure:**

- current expenditure on goods and services – this contains expenditure on wages and salaries and on the purchase of goods and services;
- subsidies;
- net social benefits which includes welfare payments and public sector pension payments;
- net current grants abroad – overseas aid and other grants abroad;
- other current grants – grants to UK non-public sector bodies; and
- interest and dividends payments.

**Public sector net borrowing (PSNB)**

PSNB covers both the current and capital elements of income and expenditure. As such it is equal to the current account plus net investment (adjusted for depreciation). There is a sign convention difference between SOCB and PSNB so that a deficit has a negative sign for SOCB but a positive sign for PSNB, so

\[
\text{public sector net borrowing} = -\text{surplus on current budget} + \text{net investment}.
\]

Net Investment has the following components:

- gross fixed capital formation which is acquisitions less disposals of capital assets;
- (minus) depreciation of capital assets;
- increase in inventories and valuables (usually a very minor series); and
- capital grants to the private sector;

**Reconciliation of public sector net borrowing and public sector net cash requirement (PSNCR)**

Public sector net borrowing measures the change, in a period, in the level of financial assets and liabilities on an accrued basis. The public sector net cash requirement on the other hand measures the public sector’s need for cash. Conceptually this means there are two main areas of difference between PSNB and PSNCR:

- timing differences – as a cash based measure most transactions occur at the point when money changes hands in PSNCR, while PSNB is mostly measured at the point at which a liability arises. In the reconciliation of measures most of these differences are recorded as *accounts receivable/payable*. There are particularly large timing differences in debt interest, mostly arising from the uplift on the principal of index-linked gilts. These are recorded as *adjustment for interest on gilts*; and
- financial transactions – where cash is used to purchase a financial asset of equal value there is no change to overall indebtedness and so no impact on PSNB. However, there will have been cash movements which impact on PSNCR. Many of these transactions will be in *net lending to private sector and rest of the world* especially student loans. Others as *net acquisition of company securities* which traditionally has mostly contained privatisation proceeds.

As the two measures are largely recorded using different systems there is also a statistical discrepancy. Table PSF4 in each PSF bulletin gives a disaggregation of PSNCR, whilst PSF5 breaks down the financial transactions that allow reconciliation to PSNB.

**Public sector net debt (PSND)**

PSND is defined as the public sector financial liabilities (measured at nominal values) minus its liquid assets. The main components of liabilities are gilts and Treasury bills issued and National Savings liabilities. The main liquid assets are bank deposits and foreign exchange reserves.
PSND is predominantly a cash-based measure and is therefore approximately equivalent to the cumulative PSNCR. There are however some differences;

- the capital uplift on index-linked gilts is only recorded in the PSNCR when it is paid out but accrues in PSND over the life of the instruments;
- when gilts are issued at discounts and premia, the level of PSND is deemed to have changed by the nominal value of gilts issued, whereas the PSNCR is financed, and hence its calculation is affected by the actual cash amounts received;
- fluctuations in exchange rates affect the sterling value of the official reserves included within liquid assets in the PSND calculations but do not affect the calculation of the PSNCR; and
- the reclassification of bodies into and out of the public sector can change the level of debt (PSND) without any movements in cash being observed – i.e. with no PSNCR impact.

The stock equivalent of PSNB is the public sector’s net financial wealth. This differs from PSND as net wealth is measured at market as opposed to nominal values and all financial assets are netted off rather than merely liquid assets. PSND also differs from gross general government debt (calculated for EDP purposes) in that the latter is on a gross basis (i.e. no assets are netted off) and covers only the general government sector (rather than the whole public sector).

4.2 Derivation of the fiscal measures

In practice, there are two methods that can be used to calculate budget deficits:

- **above the line** – from income and expenditure, with the budget deficit defined as expenditure minus income; or
- **below the line** – by summing the transactions that finance the deficits.

A combination of the two approaches is used in the PSF bulletin. Central government net borrowing and SOCB are predominantly measured above the line, whilst the central government net cash requirement is calculated and cross-checked using both methods. A breakdown of the income and expenditure determinants of the Central Government Net Cash Requirement (CGNCR) is given in table PSF6 of each PSF bulletin.

The main fiscal flow aggregates (PSNB, SOCB, PSNCR) are formed from totals for the public sector sub-sectors separately: central government, local government and public corporations. To reach public sector totals (excluding the temporary effects of the financial sector interventions, i.e. ex measures) the ONS sums these sub-sector values and adds them to data for the Bank of England. Each subtotal for the different sectors includes the transactions between them, which exactly net off one another in the overall aggregates. To produce totals including the effect of the financial sector interventions the public sector banking groups are also included.
5. Data sources

Section 4 outlined the main, published fiscal aggregates and how they relate to each other. In this section, we describe the sources of the data used to produce the published monthly estimates and how the data from these sources evolves over time.

5.1 Central government (CG)

Central government’s contribution to the public sector borrowing and debt aggregates is compiled by HM Treasury, mainly using administrative data sources. This is efficient because the information can be collected once and then used for all purposes. As explained earlier, central government data are reported on an accruals basis in nearly all cases.

CG expenditure data

The main source of central government expenditure data is HM Treasury’s public spending database, OSCAR (Online System for Central Accounting and Reporting), which collects financial information from across the public sector. Before 2012-13, the HM Treasury database was called COINS (Combined Online Information System). The OSCAR database is designed to monitor spending against the frameworks outlined in Section 2. Statisticians in HM Treasury ensure that OSCAR maintains its integrity as a data source for the PSF bulletin. As part of the Government’s commitment to increased transparency in public spending data, HM Treasury has published the raw data from OSCAR (formerly COINS), underlying the PSF bulletin on a quarterly basis since June 2010.

Central government expenditure data from OSCAR (COINS before 2012-13) go through various stages of refinement during the current financial year and beyond:

- **stage one** – each month, departments submit to OSCAR a monthly profile of spending for the current financial year. This includes estimates of actual spend for completed months (outturn) and forecasts for future months. In subsequent data supplies, a department can provide updated estimates for any month, which tends to lead to frequent revisions to the published data in the bulletin. Some departments are more likely to revise their data than others, usually as they are:
  - **arrears reporters** – some departments report their expenditure in arrears. The latest data reported in the bulletin through the year are not an estimate of actual spending but rather a forecast; and/or
  - **subject to special reporting arrangements.** Some bodies amalgamated into departmental OSCAR returns provide updated data on a quarterly rather than monthly basis. These are arms length bodies in various departments, NHS Trusts and Foundation Trusts (in the Department of Health’s return) along with academy schools (Department for Education).

- **stage two** – in July following the completion of the financial year, HM Treasury’s annual Public Spending National Statistics are published, based on most departments’ audited resource accounts. Departments update their full-year expenditure estimates (but not their monthly profile) for this publication;

- **stage three** – these full year estimates are updated for the autumn update of HM Treasury’s Public Spending National Statistics; and

- **stage four** – in the February following the end of the financial year the winter update of HM Treasury’s Public Spending National statistics are published. Usually, this will
incorporate the finalised, audited accounts of the devolved administrations along with those of any outstanding departments.

The spending data from OSCAR are modified with a number of so-called National Accounts adjustments. These adjustments are made for a number of reasons:

- **conceptual framework differences.** Although HM Treasury's budgeting system is designed to follow the National Accounts treatment for most transactions there remain a number of differences. Conceptual adjustments bring budgeting data in to line with the National Accounts framework;

- **error corrections.** Sometimes there are errors in the data that departments load on to COINS. Although every effort is made to correct the data on the database itself, in some cases this is not possible within the tight publication timetable and adjustments are made on top of the data instead; and

- **use of sources other than OSCAR.** Adjustments are necessary where ONS uses data sources other than OSCAR, for example depreciation where ONS uses a perpetual inventory model (PIM) rather than Department’s own estimates.

A small number of expenditure items come from sources other than OSCAR. The largest of these, expenditure on debt interest, is computed from a variety of sources – mostly the DMO and HM Treasury finance systems with some smaller contributions from other places including National Savings and Investments (NS&I). Depreciation on assets is calculated using the ONS perpetual inventory model. Central government subsidies to public corporations are also sourced from ONS public corporation data rather than through the central government collection. Other data comes from bodies such as DMO, HMRC and the Bank of England.

As explained above, the data reported monthly to HM Treasury on OSCAR is on an accrued basis to line up with published departmental resource accounts. However, the calculation of accrued debt interest expenditure is more complicated. Debt interest expenditure consists of the sum of four separate components:

i. **coupon payments.** The majority of interest payments on UK gilts (coupon payments) are paid out every six months (some are quarterly) from the National Loans Fund (NLF; a large government bank account at the Bank of England). Information on coupon payments comes from HM Treasury’s financial management systems. An adjustment is then applied to distribute the coupon payments to the months when they accrued. This spreads monthly payments evenly for conventional gilts (i.e. those with a fixed interest rate). The adjustment is more complicated for the index-linked variety, with the accrued monthly interest payments varying with movements in the retail prices index (RPI);

ii. **uplift on index-linked gilts.** The principal of an index-linked gilt is also adjusted in line with RPI. Rather than scoring this capital uplift at the date the gilt is redeemed, the uplift is accrued over the life of the gilt, mirroring movements in RPI;

iii. **amortisation of discounts and premia of issue.** Frequently, gilts are not issued at their nominal value. They may have been sold at a discount (or premium), so that the debt issued is less than (or greater than) the nominal value. PSND scores the nominal increase in government liability from the issuance of these gilts. The discounts or premia on top of this are arguably part of the financing cost and under ESA95 are treated like interest accruing. In practice, information on the profit/loss made at gilt auctions is supplied by the DMO and these amounts are then spread evenly over the time before redemption of the gilts; and
iv. other: There are a number of other small amounts of interest that the government pays out and are scored to PSNB as they accrue. These include interest on Treasury bills, National Savings certificates and short-term borrowing.

CG income data

Most central government income is in the form of tax receipts, the vast majority of which are collected by HMRC. Therefore, figures for the majority of receipts in the PSF bulletin are collated and quality-assured by HMRC analysts from their administrative data sources before delivery to HM Treasury and ONS. These processes are equally as involved as those for expenditure and included cross-referencing with HM Treasury’s financial systems, but are mainly the responsibility of the authorities collecting the receipts (in nearly all cases HMRC).

HMRC publishes data consistent with the PSF bulletin in National Statistics series so its data collection and quality assurance procedures will be subject to the scrutiny of the UK Statistics Authority outside of any use in the PSF bulletin. The needs of the PSF bulletin and National Accounts are fully embedded into all the receipts monitoring systems. This is in contrast with expenditure data with its multiple accounting frameworks, where the needs of the bulletin are often a secondary (though important) consideration.

The accruals principle for tax receipts used is to record them when the tax liability arises (rather than when the underlying economic activity took place). For the majority of tax receipts this means in practice that a simple time lag is applied to the cash series. For example PAYE cash receipts are lagged by one month as for the most part the government receives PAYE taxes one month after salaries are paid. Similarly, VAT is accrued over the quarter preceding the cash receipt. In some cases (notably corporation tax) an appropriate accrual time is not available in a timely manner and so unaltered cash data are used instead.

As most tax data are time lagged, the published estimates for the latest periods contain significant levels of forecast. For periods older than one quarter, estimates are almost entirely data driven though revisions can still occur particularly after the year end as part of the auditing process.

In addition to the accruals adjustments, to move to a National Accounts consistent basis other adjustments to tax data are made. Most notable are the inclusion of ‘imputed’ tax and spend items, in particular VAT refunds to public sector bodies.

Other income data collected includes information from:

- non-HMRC tax or levy raising bodies supplied directly to ONS. This includes vehicle excise duty and national non-domestic rates as well as information from utilities regulators etc.;
- HM Treasury sources which covers the majority of dividend and interest receipts as well as the TV licence fee and a number of smaller items; and
- ONS modelling for the gross operating surplus. By convention, the government gross operating surplus is assumed to be equal to depreciation which is derived from ONS models.

Cash data

The majority of the cash data comes from HM Treasury’s cash management systems, supplemented with data from the DMO, Bank of England and other sources. Estimates of the central government net cash requirement are produced via a system of balancing a number of central government accounts for which complete balances are produced each month: this includes accounts such as the Consolidated Fund, National Loans Fund, and the Debt Management Account etc.
Within each account transactions are divided into ‘determinants’ of the cash requirement and ‘financing’ items. Determinants are the income and expenditure associated with government business while financing items are the activities to fund these activities. As the accounts are fully balanced, the sum of the determinants (that is the net cash requirement) equals the sum of the financing items.

5.2 Local government

Most local government data are annual, relating to financial years. Detailed annual returns of expenditure and income are compiled by local government and collected by the Department for Communities and Local Government (DCLG), Scottish Government, Welsh Assembly Government and the Northern Ireland Government. Data for the current year are generally based on local government budgets and are therefore prone to revision once final data are available. Final figures are based on audited resource accounts, which are available for England around eight months after the end of the financial year and somewhat later for the devolved administrations.

Some data are available in-year – the data relating to Central Government grants to local government are collected on OSCAR (see the section on central government expenditure above). Quarterly DCLG surveys provide estimates of current expenditure, interest and dividend receipts and council tax receipts - none of the devolved administrations collect any quarterly data on current transactions. The DCLG data on interest and dividends is supplemented by data from the Bank of England. DCLG and the Scottish Government collect quarterly returns of capital expenditure. DCLG also collects monthly data for the whole of the UK on the borrowing and lending of local government.

Where reports on actual spending are not received by DCLG or the Scottish Government, forecast or planned spending estimates may be used. Reports by DCLG to the ONS are made on a consolidated basis for the entities covered by the returns.

5.3 Public corporations

ONS collects quarterly data directly from the eight largest public corporations via survey questionnaires. Data for financial years from the remaining public corporations comes from their published annual accounts. Again, data for public corporations are prone to revision until final, audited, accounts are published.

An exercise is underway currently to establish whether data supplied by public corporations to HM Treasury, as part of the WGA project, can be used to complement the public corporations' published annual accounts.
6. Relationships with the National Accounts

The PSF Statistical Bulletin differs from other National Accounts publications insofar as it reflects a more flexible approach to revising data. The aim is to incorporate the most up to date information for all time periods, and revisions can be included for any time periods.

Consequently, data presented in the PSF bulletin may sometimes be inconsistent with published GDP data. Typically this results from the inclusion of revised data in the PSF Bulletin that are not incorporated into GDP estimates until a later date, in accordance with National Accounts’ more restrictive revisions policy.

Periodically an alignment process is undertaken to ensure that quarterly data presented in the PSF bulletin, and quarterly national accounts estimates published for constituent sectors/sub-sectors (such as central government and local government), are consistent and coherent.
7. Summary

This document provides further background and complementary information to the monthly Public Sector Finances statistical bulletin, jointly published by the ONS and HM Treasury. We describe the conceptual and fiscal policy context around the bulletin before explaining the main fiscal measures and how they are derived. Finally, we detail the data sources used to compile the monthly estimates of the fiscal position.

It is intended that this document remains the most up-to-date source of methodology relating to the PSF release, so it will be modified and expanded in the future. Significantly, future versions will include a longer explanation of the construction of the ex measures and further information about the relationship between PSF and National Accounts data.

We welcome feedback on this version and suggestions for further information to include future versions, which can be sent to: psa@ons.gsi.gov.uk.
Acronyms and abbreviations

AME – Annually Managed Expenditure. Spending in departmental budgets that is difficult to manage precisely, often it is particularly volatile or demand-led (e.g. benefit payments, tax credits).

CG - Central Government - the CG sub-sector of the public sector or a property of that sub-sector. Public sector non-market bodies with a national remit (which includes the devolved administrations in Northern Ireland, Scotland and Wales).

CGNCR – Central Government Net Cash Requirement

COINS – Combined Online Information System. HM Treasury’s public spending database until 2012-13, used to collect financial management data from across the public sector to support fiscal management, Parliamentary Estimates, WGA and other statistical analyses.

DEL – Departmental Expenditure Limit. Departmental spending total that is set during regular Spending Reviews. DEL includes items that departments have the power to manage such as wages or consultancy spend.

DMO – Debt Management Office. An agency of HM Treasury, established in 1997 to conduct the UK’s cash and debt management activities.

EDP – Excessive Deficit Procedure – part of the Maastricht Treaty that requires European Union members to report their GG debt and deficit twice a year.

EFO – Economic and Fiscal Outlook. The OBR’s biannual publication that includes their fiscal and economic forecast for the UK over the next five years and its assessment of the likelihood the Government will meet its fiscal mandate.

ESA – European System of Accounts. The system of National and Regional Accounts used by members of the European Union. The version in current use is from 1995 (ESA95) although in future the updated system from 2010 (ESA10) will be used to compile the UK National Accounts.

FSR – The Office for Budget Responsibility’s Fiscal Sustainability Report.

GAAP – Generally Accepted Accounting Principles (or Practice)

GDP – Gross domestic product

GG – General government – the government sector of the public sector, i.e. central plus local government. The UK reports its GG debt and deficit to the European Union under the Maastricht Treaty.

HMRC – HM Revenue and Customs.

IFRS – International Financial Reporting Standards

LG – Local government - the LG sub-sector of the public sector or a property of that sub-sector. Public sector non-market bodies with a remit that is not larger than a few local authority boundaries at most. Entities (regardless of their remit) that are controlled by other LG bodies are also in this sector.

MPC – Monetary Policy Committee of the Bank of England. Since May 1997 the MPC has been responsible for setting UK monetary policy to meet the Government’s inflation target.

NA – National Accounts.

NACC – National Accounts Classification Committee. ONS committee of National Accounts experts who approve all National Accounts classification decisions.

NLF – National Loans Fund

OBR – Office for Budget Responsibility. Established in May 2010, the OBR is an independent body whose main roles are producing the Government’s official economic and fiscal forecasts and assessing the sustainability of the public finances.

ONS – Office for National Statistics. The UK’s independent statistical agency.

OSCAR – Online System for Central Accounting and Reporting. The database replacement for COINS, in use from 2012-13 onwards.

PAYE – Pay as you earn

PC – public corporation – the PC sub-sector of the public sector or a property of that sub-sector. Public sector market bodies.

PESA – Public Expenditure Statistical Analyses – the previous name for HM Treasury’s Public Spending National Statistics series – still used for the PESA Command Paper

PS – Public sector – which includes Central Government and Local Government sectors (together comprising the General Government sector) and Public Corporations

PSF – Public Sector Finances

PSNB – Public sector net borrowing

PSNCR – Public sector net cash requirement

PSND – Public sector net debt

RAB – Resource Accounting and Budgeting

SNA – System of National Accounts. International guidelines from the UN on compiling National Accounts. The 1993 version is the one implemented for ESA95. A complete update was undertaken in 2008.

SOCB – Surplus on current budget

SUME – Single use military equipment

VAT – Value added tax.

WGA – whole of government accounts.
References and endnotes

7. ESA95 is available at: http://circa.europa.eu/irc/dsis/nfaccount/info/data/esa95/en/een00sum.htm
9. www.hm-treasury.gov.uk/psr_government_accounts.htm
10. www.hm-treasury.gov.uk/psf_statistics.htm
11. www.hm-treasury.gov.uk/pespub_index.htm
23. The SNA was also recently revised in 2008 (SNA08) and the latest ESA (ESA10) is consistent with that. http://unstats.un.ohttp://www.hm-treasury.gov.uk/psr_government_accounts.htmrg/unsd/nationalaccount/sna2008.asp
24. The http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-12-003/EN/KS-RA-12-003-EN.PDF MGDD is available at:
25. ASB: http://www.ifrs.org/Home.htm
26. FRAB: http://www.hm-treasury.gov.uk/psr_frab_index.htm
27. The FReM is available at: http://www.hm-treasury.gov.uk/frem_index.htm
28. WGA: http://www.hm-treasury.gov.uk/psr_government_accounts.htm
29. IPSASB: http://www.ifac.org/public-sector
30. XBRL: http://www2.xbrl.org/uk/
31. www.hm-treasury.gov.uk/psr_budgeting_classification_index.htm
A Treasury article (Delivering Economic Stability: Lessons from Macroeconomic Policy Experience, HM Treasury, November 1998, Pre-Budget Report Publication) analysing the lessons from this period stressed that insufficient attention was paid to the cyclically-adjusted position of the public finances at this time (see Box 1). There was little room for tax cuts in late 1980s, despite the unadjusted budget surplus, as the structural balance had already reduced to zero, leading to the deficits of the early 1990s. From 1997, cyclically-adjusted estimates of the fiscal aggregates were published by the Treasury and from 2010 by the Office for Budget Responsibility.

i.e. lower and more volatile GDP growth combined with higher and more volatile inflation

Ibid.

These objectives were first outlined in the 1999 Pre-Budget Report and were explained more fully in Analysing UK Fiscal Policy, a Treasury paper published alongside.

The golden rule was first set at the July Budget 1997 as was a rule restricting the level of debt albeit the rule evolved slightly subsequently – the level at 40 per cent of GDP was set at Budget 2001.


As explained in Box 1, a degree of judgement has to be applied in deciding the dating of economic cycles. The Treasury used various approaches at the time as explained in Evidence on the economic cycle, HM Treasury, 2008 Pre-Budget Report Publication.

PSND ex was introduced at Budget 2008 whilst PSNB ex came in at the 2009 Pre-Budget Report.


On 1 January 2010, Northern Rock was restructured into two companies: Northern Rock plc and Northern Rock (Asset Management) plc. In January 2012 the Government sold Northern Rock plc to Virgin Money.

Kellaway, 2009, Public Sector Interventions in the Financial Crisis: Statistical Classification Decisions

The Government at the time attempted to strengthen their fiscal framework by requiring a statutory fiscal plan for delivering sound public finances to be set out at all times, giving Parliament a role in setting and monitoring the Government’s fiscal plans for the first time. These requirements have since been repealed.
The Budget Responsibility and National Audit Act 2011 placed the OBR on a statutory footing.

Until 2010, forecasting had been the responsibility of the Treasury with the Chancellor responsible for the key judgements used to produce the forecasts. Analysis in 2010 showed that government forecasts underestimated borrowing on average and compared to external forecasters despite the alleged prudent approach employed.

A full list of data sources is published on the Treasury website:
http://www.hm-treasury.gov.uk/natstats_standards_policies_statistics.htm

Some constraints to revisions are placed on expenditure data, specifically the quarterly totals are aligned to the latest published quarterly National Accounts data and only once the National Accounts have been updated is the monthly profile of spending revised in the PSF bulletin.

The reporting arrangements for academy schools from 2012-13 are still being finalised. This has only recently become a significant issue since the number of academies has increased substantially in the last year and this trend is expected to continue over this Parliament.

The PIM is explained in a 2008 ONS article: http://www.ons.gov.uk/ons/rel/elmr/economic-and-labour-market-review/no--9--september-2008/methods-explained--perpetual-inventory-method--pim--pdf

http://www.hmrc.gov.uk/thelibrary/national-statistics.htm