Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA2010

United Kingdom

April 2015

Background

Compilation and publishing of the Inventory of the methods, procedures and sources used to compile actual deficit and debt data is foreseen by Council Regulation 479/2009, as amended.

According to Article 8.1: *"The Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 95.... Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. The assessment will focus on areas specified in the inventories of Member States such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording."*

In line with the provisions of the Regulation set up in Article 9, "*Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts. The inventories shall be prepared in accordance with guidelines adopted by the Commission (Eurostat) after consultation of CMFB. The inventories shall be updated following revisions in the methods, procedures and sources adopted by Member States to compile their statistical data*".

The content of the Inventory and the related guidelines have been endorsed by the Committee on Monetary, Financial and Balance of Payments statistics in June 2012 and are followed by all EU Member States. This version introduces references to the ESA2010 as well as some updates of the relevant topics mirroring the changes introduced by the ESA2010.

Contents

A. Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data

This chapter provides a summary description on the general government sector components and specifies institutional responsibilities and basic data sources used for EDP tables and for the compilation of general government national accounts. Special attention is given to EDP tables: detailed description of components of the working balance and the transition into EDP B.9 (net lending/net borrowing); compilation of Maastricht debt and of stock-flow adjustments; explanation of the link between EDP table 2 and 3, balancing process and statistical discrepancies.

1. General Government

This section describes the coverage of the general government sector and the subsectors for the UK.

The UK general government (S.13) sector is composed of two subsectors: central government (S.1311) and local government (S.1313). A list of all institutional units included in these two subsectors can be found in the Public Sector Classification Guide. This guide is a list of bodies that have been classified by the Office for National Statistics (ONS) as public sector bodies within the National Accounts.

The Public Sector Classification Guide includes bodies classified within the general government sector, as either central government or local government bodies. The guide also includes public non-financial corporations and public financial corporations (further divided into five subsectors) and maintains lists of former central government, local government and public corporation entities.

Other useful information on the size and shape of the general government sector in the UK can be found on the Civil Service website in the "Public Bodies" publication which lists the various Non-Departmental Public Bodies and the "List of Ministerial Responsibilities" which identifies all of the Executive Agencies. Similar publications are published separately by the Welsh Government, Scottish Government and Northern Ireland Assembly.

1.1. Central government subsector (S.1311)

This sector includes all central government bodies. These are organisations with central budgetary responsibility, including ministries, central offices and organisations established and/or managed by ministries or other central authorities.

There are over 7,500 organisations classified in the central government sector, although more than 5,000 of these are education institutions (mainly academies). A list of these central government bodies can be found in the Public Sector Classifications Guide. Most of the central government organisations are identified in the classifications guide by name, but in a few instances the Public Sector Classification Guide includes single entries for a block of similar units; examples of these block entries are academies (which are schools directly funded by central government) and NHS Trusts (which are bodies that manage the hospital care provided by the NHS).

Examples of organisations in the central government sector are:

- Academies and Academy Trusts
- Advisory Committees and Councils
- Department for Transport
- Her Majesty's Treasury
- Her Majesty's Revenue and Customs
- Jobcentre Plus
- Ministry of Defence
- National Assembly of Wales
- National Audit Office
- Northern Ireland Schools
- Office for National Statistics
- Scottish Executive
- UK Debt Management Office
- Network Rail
- UK Asset Resolution Ltd.

Most central government organisations are departmental or devolved administration bodies that have a role in setting or implementing UK government policy. Two unusual central government bodies are UK Asset Resolution Limited and Network Rail. UK Asset Resolution Limited is the holding company established in 2010 to manage the winding down of the assets and liabilities of Northern Rock Asset Management plc and Bradford & Bingley plc. In the terms of the international government finance statistics manuals this is considered a financial defeasance structure in central government. Network Rail is responsible for the operation and maintenance of Britain's rail infrastructure. Under new guidance in ESA2010 it was classified into central government as a result of explicit guarantees provided by the UK government to Network Rail and because it did not meet the statistical requirements to be considered a market body. The classification of Network Rail was implemented for the first time in EDP statistics in September 2014 (at the point ESA2010 came into force) but the classification applied from April 2004 onwards.

1.2. State government subsector (S.1312)

The UK does not have a State Government subsector and so this section does not apply to the UK.

1.3. Local government subsector (S.1313)

This sector includes all local budgetary organisations, including their regional offices, town councils and regional councils.

There are over 28,000 organisations and organisation types classified in the local government sector. A list of these local government organisations can be found in the Public Sector Classifications Guide. The Public Sector Classifications Guide includes many single entries in the local government sector for blocks of similar types of units. For instance, the guide includes a single entry for all parish councils (which number around 10,500) and another single entry for community schools (which number around 17,000).

1.4. Social security funds subsector (S.1314)

The UK does not have a Social Security Funds subsector and so this section does not apply to the UK.

Further details relating to practical aspects of sector classification for individual units into general government sector can be found in Chapter B, section 1.

2. Institutional arrangements

This section provides general information on institutional arrangements relating to the production and dissemination of government deficit and debt statistics:

- responsibility of national authorities for compilation of individual EDP tables and underlying government national accounts, as defined by ESA95 Transmission Programme;
- institutional arrangements relating to public accounts which are used by statistical authorities for compilation of government national accounts and EDP tables;
- general overview about bookkeeping system used by public units, internal quality checks and external auditing;
- communication between individual national authorities involved in EDP;
- publishing of deficit and debt statistics.

Legal basis for the compilation of GFS and EDP data

There is no UK specific law relating to the compilation of GFS and EDP data. The statistics are compiled in accordance with general statistical law, such as the Statistics and Registration Service Act. However, the compilation of GFS and EDP is assisted by other legal acts, such as the Government Resources and Accounts Act which describes how government bodies should compile their resource accounts.

2.1 Institutional responsibilities for the compilation of general government deficit and debt data

This section describes institutional responsibilities for compilation of Government Finance Statistics (national accounts for general government and EDP tables).

National accounts data for general government are transmitted to Eurostat[1] via the following tables (see the related EU legislation)[2] :
Table 2 – Main aggregates of general government (annual data)
Table 6 – Financial accounts by sector (annual data)
Table 7 – Balance Sheets for financial assets and liabilities (annual data)
Table 801 – Non-financial accounts by sector (quarterly)
Table 9 – Detailed Tax and Social Contribution Receipts by Type of Tax or Social Contribution and Receiving Subsector (annual data)
Table 11 – Expenditure of General Government by function (annual data)
Table 25 - Quarterly Non-financial Accounts of General Government
Table 26 – Balance sheets for non-financial assets (annual data)
Table 27 – Quarterly Financial Accounts of General Government
Table 28 – Quarterly Government Debt (Maastricht Debt) for General Government

[1] http://ec.europa.eu/eurostat/data/database
[2] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:174:0001:0727:EN:PDF

Institutional Arrangements- *2.1 Institutional Responsibilities for the Compilation of General Government Deficit and Debt Data*

Data on government deficits and debt levels are reported to Eurostat twice a year (in April and October) in EDP notification tables[3].

Table 1. - Institutional responsibilities for the compilation of general government national accounts and EDP tables

Institutional responsibilities *(the appropriate cells are crossed)*			**NSI**	**MOF**	**NCB**	**Other**
Compilation of national accounts for General Government:						
Nonfinancial accounts	annual		X			
	quarterly		X			
Financial accounts	annual		X			
	quarterly		X			
Maastricht debt	quarterly		X			
Compilation of EDP Tables:						
EDP table 1	actual data	deficit/surplus	X			
		Debt	X			
		other variables	X			
	planned data	deficit/surplus		X		
		Debt		X		
		other variables		X		
EDP table 2 (actual data)	2A central government		X			
	2B state government		X			
	2C local government		X			
	2D social security funds		X			
EDP table 3 (actual data)	3A general government		X			
	3B central government		X			
	3C state government		X			
	3D local government		X			
	3E social security funds		X			
EDP table 4			X			

NSI - National statistical institute including units subordinated to the NSI (the latter is to be specified in comments)
MOF – Ministry of Finance/Economy including units subordinated to the MOF (to be specified in comments)
NCB – National Central Bank
Other – other national body, to be specified in comments

The NSI for the UK is the Office for National Statistics (ONS) and the MOF is the HM Treasury (HMT). As can be seen in Table 1, ONS is responsible for compiling all outturn data relating to EDP statistics, whilst HMT provides the planned or forecast EDP data.

[3] http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables

The basic process of compiling the EDP statistics is that ONS receives administrative outturn data relating to central government and local government with HMT providing the required planned data. (For details of data sources see Chapter A, Section 3.) ONS then quality assures and processes these data to produce the required EDP statistical aggregates and the completed EDP tables are transmitted electronically to Eurostat by the ONS.

Some of the statistical aggregates require ONS to model or impute data elements, but these instances are few and relatively small in magnitude. An example of a modelled series is the capital consumption of central and local government. An example of an imputed series is the tax and off-setting subsidy relating to the Renewable Obligation Certificate scheme which incentivises energy companies to source energy from renewable sources.

The EDP data compilation processes are aligned with those used in producing the monthly UK Public Sector Finances publication. So, the general government deficit and gross debt figures reported for EDP (for the period 1997 onwards) should always be consistent with those published in the Public Sector Finances (PSF) bulletin immediately prior to the EDP notification. The monthly PSF publication is produced jointly by ONS and HMT as it includes UK specific fiscal aggregates as well as aggregates defined through EDP and National Accounts legislation.

Table 2 provides an overview of the different roles and responsibilities assumed by ONS and HMT when specifying, compiling and publishing the EDP statistics. These responsibilities are group according to the Generic Statistical Business Process Model (GSBPM).

Table 2. - Detail of responsibilities of the Office for National Statistics (ONS) and the HM Treasury (HMT) in the compilation of general government national accounts and EDP tables

Phase of GSBPM	ONS….	HM Treasury….
Specify Needs (determine needs, consult & confirm needs, establish output objectives, identify concepts)	• liaise with Eurostat over statistical issues relating to the reporting of GFS and EDP • apply National Accounts and EDP rules and guidelines in defining statistical aggregates • decide on the National Accounts' boundary of the public sector and the classification of units and transactions within this boundary (via the ONS National Accounts Classification Committee) • consult with the wider statistics community on whether the existing GFS statistics meet	• agree, via the Economic and Finance Committee, the strategic direction for the monitoring of government finances and National Accounts in the EU

Phase of GSBPM	ONS….	HM Treasury….
	their needs	
Design (design outputs, design data collection methodology, design statistical processing methodology, design production systems)	• are responsible for the design of the statistical processing systems used by ONS to compile the EDP and GFS data • liaise with data providers, such as the Department for Communities (DCLG), Local Government and the Bank of England, to ensure that their surveys are designed in such a way as to provide the data required for GFS and EDP.	• are responsible for the design of the public sector wide OSCAR data collection system and HM Treasury's cash management systems to meet the statistical requirements of GFS and EDP • are responsible for the design of other administrative systems to ensure that departments follow international statistical accounting rules within their data supply • ensure the existence of expertise and guidance to allow departments to supply data correctly on a National Accounts' basis
Build (build data collection instrument, build or enhance process components, test and finalise production systems)	• are responsible for the build of statistical processing systems used by ONS to compile GFS and EDP	• are responsible for the build of the reporting outputs from the public sector wide OSCAR data collection system and HM Treasury's cash management systems to provide data required for GFS and EDP • are responsible for the build of administrative systems to ensure that departments follow international statistical accounting rules within their data supply
Collect (set up collection, run collection)	• manage the direct collection of required data from public corporations and some government organisations (e.g. UK Asset Resolution Ltd) • work with a range of public sector data suppliers (including HMT, HM Revenue & Customs (HMRC) and Bank of England) to receive data from their surveys and/or administrative systems	• manage the direct collection of the required government data through the OSCAR data system and the HMT cash management systems • work with departments and internal teams with departmental spending responsibilities to assure the quality of the data collected through OSCAR and other HMT systems
Process (integrate data, classify & code, review/validate & edit, impute, derive new variables & statistical units, calculate aggregates, finalise data files)	• have primary responsibility for the application of National Accounts' principles in classifying and coding transactions (e.g. assignment of COFOG and ESA categories), but in practice much of the coding is done on OSCAR by data suppliers	• aggregate and quality assure the OSCAR data applying adjustments where necessary to correct for supplier errors or move the data onto a National Accounts basis • ensure that the OSCAR data model is updated to take account of changing PSF

Phase of GSBPM	ONS….	HM Treasury….
	• impute where deemed appropriate (e.g. imputation of taxes/subsidies, the effect of government guarantees on loan rates) • apply adjustments to supplied data (e.g. for local government) when deemed necessary to comply with National Accounts' principles • responsible for finalising GFS and EDP data	statistical requirements • provide to ONS planned EDP data for future years based on the forecasts of the Office for Budgetary Responsibility (OBR)
Analyse (prepare draft outputs, validate outputs, scrutinize & explain, apply disclosure control, finalise outputs)	• apply quality assurance checks to data supplied for use in EDP and GFS to ensure measures conform to statistical standards. (Some quality assurance is conducted by ONS and HMT with both calculating aggregates and then comparing their results.)	• apply quality assurance checks to data supplied for use in EDP and GFS. (Some quality assurance is conducted by ONS and HMT both calculating aggregates and then comparing their results.)
Disseminate (produce dissemination products, manage release of dissemination products, promote dissemination products, manage user support)	• ensure the content and general release of EDP and GFS outputs comply with the UK and ESS Code of Practice • manage pre-release access for EDP and GFS data • respond to statistical enquiries from users	• provide written and oral briefing to ministers and senior management
Archive (manage archive repository, preserve data and associated metadata)	• have responsibility for maintaining an archive of GFS and EDP transmissions • ensure that data used in the EDP and GFS production are archived according to the data archiving policy	• manage the OSCAR* and Treasury cash management systems data archiving process and ensuring that data sent to ONS for EDP and GFS are archived according to the data archiving policy
Evaluate (gather evaluation inputs, conduct evaluation, agree action plan)	• conduct evaluation of the GFS and EDP output and its compilation processes through the National Statistics Quality Reviews • collect user views via the ONS functional email, online surveys and face to face meetings • jointly run the cross-government Public Finances Statistics Data Group which meets quarterly to identify and monitor issues and	• jointly run the cross-government Public Finances Statistics Data Group which meets quarterly to identify and monitor issues and actions relating to GFS and EDP

Phase of GSBPM	ONS….	HM Treasury….
	actions relating to GFS and EDP	

* OSCAR is the HM Treasury's Online System for Central Accounting and Reporting

2.1.1 Existence of an EDP unit/department

The EDP statistics are compiled, by the ONS, within the Government, Corporations and Classification Division which sits within the National Accounts and Economic Statistics directorate. The public sector part of the division contains a number of different teams (or branches) including:

- central government delivery branch;
- local government delivery branch;
- general government development & public corporations branch;
- PSF and EDP delivery branch;
- PSF and EDP development branch;
- NA classifications branch.

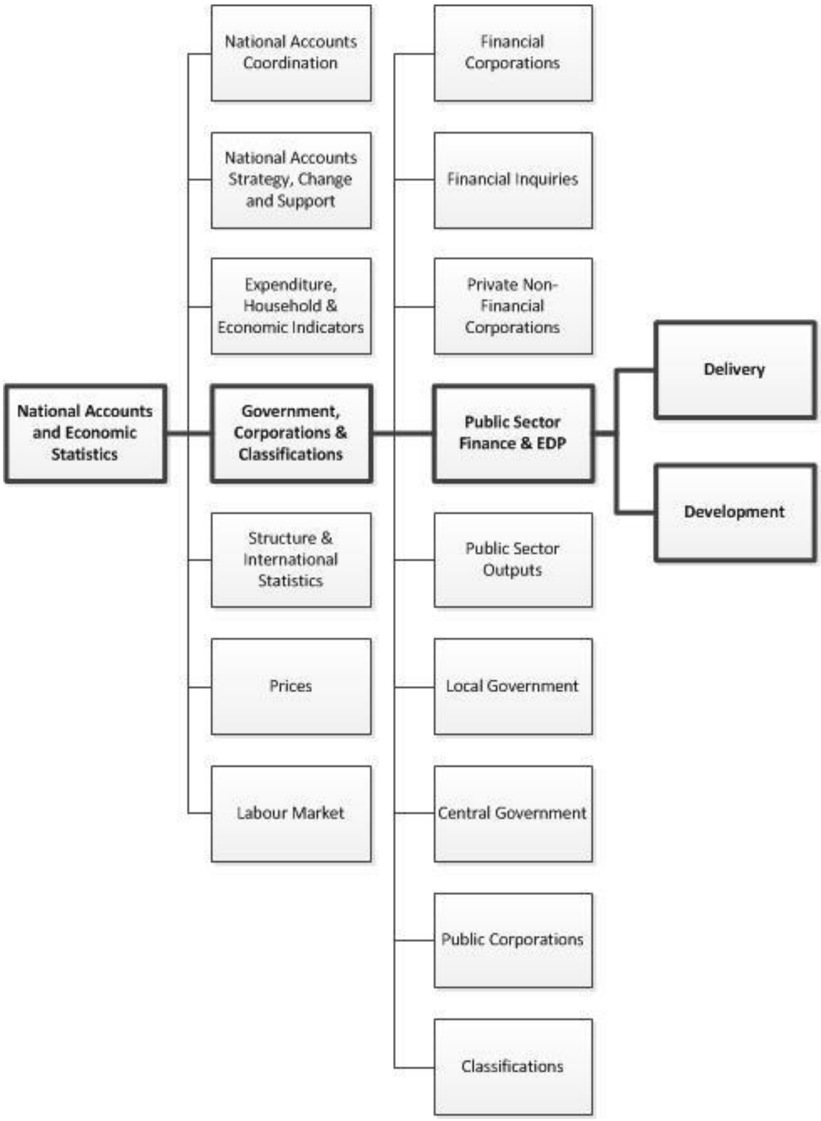
The PSF and EDP delivery branch is the team responsible for compiling the EDP data (and GFS Tables 2, 9, 25, 27 & 28), transmitting it to Eurostat and publishing it within UK statistical publications. To do this the branch has its own EDP compilation processes and systems but it is reliant on the data and work of other ONS branches as well as administrative data provided by government bodies.

Specifically:
The central and local government delivery branches compile the general government (and subsector) financial and non-financial accounts for the UK National Accounts. To do this it draws on data supplied by HMT (through its Online System for Central Accounting and Reporting (OSCAR) database), the Department for Communities and Local Government (DCLG), HM Revenue & Customs (HMRC), other government departments, devolved administrations and other National Accounts teams within ONS. These branches also produce the GFS Table 11.

The classifications branch manages the National Accounts classification process and maintains the Public Sector Classification Guide (see Chapter A, Section 1).

The development branches implement EDP and GFS system changes which result from new government initiatives, classification changes or quality improvement projects.

Diagram of ONS Organisational Structure related to EDP statistics production



2.1.2 Availability of resources for the compilation of GFS data

As explained in Section 2.1.1 and earlier in this chapter, there is a single ONS team (the PSF and EDP delivery branch) responsible for the compilation, publication and transmission of UK:

- UK monthly Public Sector Finances;
- EDP statistics;
- GFS tables 2, 9, 25, 27 & 28 (under ESA Transmission Programme);
- GFS and EDP tables required by the European Central Bank;
- International Monetary Fund (IMF) Yearbook statistics;
- IMF/OECD Quarterly Debt statistics.

This ONS team is a small team (of 6 team members), but it is supported in its role by the work of other ONS teams (see organogram in Section 2.1.1) and key data providers such as HMT, Bank of England, HMRC DCLG. The data provided to the PSF and EDP delivery branch are, therefore, largely already on an ESA2010 basis and have been subject to prior quality assurance checks. This allows the delivery branch to focus on compiling the required tables and statistical aggregates for output, ensuring that they are consistent, accurate and the revisions since last output are explained.

GFS Table 11 (under the ESA Transmission Programme) is produced by the ONS central and local government delivery branches and Tables 6, 7, 801 and 26 are produced as part of the UK National Accounts central processes.

2.2 Institutional arrangements relating to public accounts

Generally, "public accounts" are basic source data for GFS compilation, i.e. EDP tables as well as annual and quarterly accounts for general government. Public accounts are used by public units and refer to accounting records and relating accounting outputs (e.g. financial statements) based on the accounting framework defined by a national legislation. This section provides a general overview on institutional responsibilities relating to public accounts. Further details on public accounts for individual government subsectors are described under relevant sections on data sources and EDP tables.

2.2.1 Legal / institutional framework

For the public accounts for General Government bodies, the requirement to produce resource accounts is generally covered under the Government Resources and Accounts Act 2000. All government bodies and public corporations in the UK use this Act for the purposes of public accounts and full accruals accounting. Each public sector body has responsibility for the production of its own published accounts.

In the UK, the public accounts (i.e. the published accounts of public sector bodies) are covered by standards and legislation relevant to the type of body. For central government departments such as HMT and Department for Transport, the published accounts – (i.e. resource accounts) are produced according to a modified form of International Financial Reporting Standards (IFRS). Wherever applicable, IFRS standards are applied in full. In certain cases, however, the General Government sector requires some modification of the IFRS standards to reflect the way in which the public sector works. The independent Financial Reporting Advisory Board (FRAB - on which ONS and HMT are both represented) considers each case on its merits and advises where interpretations or adaptations of the IFRS rules are appropriate. Each year HMT produces an updated guide to the implementation of the IFRS-based accounting rules – the Financial Reporting Manual (FREM).

For local government bodies, a similar system of IFRS based accounting rules is applied. In this case, the IFRS rules, interpreted or adapted as advised by the FRAB, are published in the CIPFA/LAASAC guide, which constitutes 'proper accounting practice' under UK local government legislation.

The published accounts of public corporations are produced according to either IFRS or UK GAAP (Generally Accepted Accounting Practice) depending on their size. Smaller public corporations may apply UK GAAP as prescribed by the UK's Accounting Standards Board (ASB).

All UK public bodies presently produce their public accounts using full accruals accounting and according to recognised accounting standards, as explained above. It is unlikely that this position will change in future. Accounting practice naturally develops over time and, as would be expected, the various accounting standard producing bodies (IFRS, ASB) will also develop their standards and guidance. These changes are applied to UK public sector bodies through the relevant processes described above.

In addition to the above, the UK government publishes, for accounting years from 2009-10 (accounting year end 31 March), a set of 'consolidated' accounts called the Whole of Government Accounts (WGA). These are also produced under the same system of adapted/interpreted IFRS standards applied to resource accounts and are audited by the National Audit Office (NAO).

To summarise the areas of institutional responsibility:

- The FRAB advises HMT on the appropriateness of IFRS accounting standards, interpreting and/or adapting these to ensure applicability and relevance to government bodies.
- HMT is responsible for the production and updating each year of the Financial Resource Accounting Manual (FReM) and associated guidance.
- HMT is responsible for the production of the WGA.
- The International Accounting Standards Board (IASB) and the UK Accounting Standards Board (ASB) are responsible for the maintenance and updating of the IFRS and UK GAAP accounting standards respectively.
- Each public sector body is responsible for ensuring the quality of the data included within its public accounts through external checks by the relevant external audit body (see Section 2.2.2.) and internal checks defined by its own internal audit procedures.

2.2.2 Auditing of public accounts

2.2.2.1 General government units

All general government units have their public accounts audited according to a structured audit programme agreed between the audit bodies and the units being audited. Most general government units produce their public accounts to a 31 March accounting date. The auditors' reports are published as part of those accounts, generally around July the same year. All annual accounts, including the auditors' report, are published on the relevant department's website and/or www.gov.uk.

In addition to the auditing of published financial accounts, the auditing bodies also carry out a range of other auditing activities such as value-for-money analysis. The focus of the financial audit is, of course, on the contents of the published accounts and this naturally includes the audit of underlying flows and balances, according to normal auditing practice, using risk-based approaches.

The principal auditing institution for General Government units is the UK National Audit Office (NAO), except where the audit responsibility is devolved to the UK's Devolved Administrations. The 2011 Budget Responsibility and National Audit Act (BRANA) and the National Audit Act define the roles and responsibilities of the NAO.

The legislation establishes the NAO as a corporate body led by a Board consisting of four executive members (including the Comptroller & Auditor General (C&AG) as Chief Executive) and five non-executive members (including a Chairman). The Board is charged with setting the strategic direction for the NAO and supporting the C&AG, who is independent in terms of their statutory functions and their audit judgments. The C&AG role has a fixed term of ten years.

As regards government audit work outside the remit of the NAO:

England: The Local Audit and Accountability Bill 2014 provides the local audit and accountability framework for local public bodies in England. These bodies include local government, health, police, fire and rescue and other local public services. The bill gives local bodies the freedom to appoint their own auditors from an open and competitive market; manage their own audit arrangements, with appropriate safeguards to ensure auditor independence; and retain high audit standards. Prior to the Local Audit and Accountability Bill 2014, audits of local authorities and other local public bodies were overseen by the Audit Commission (which is due to close at the end of 2014/15).

Wales: The Wales Audit Office is headed by the Auditor General for Wales who directly audits the Welsh Government and the NHS in Wales or, in the case of local government, appoints auditors to undertake financial audit and examine local value for money matters. He reports to the Welsh Government. The Wales Audit Office covers all devolved public sectors in Wales - including health and social care, local and central government, fire service, national parks, agriculture, education and community councils.

Scotland: The Auditor General, who scrutinises the Scottish Executive and bodies including the Scottish NHS; and the Accounts Commission for Scotland, which oversees local government audit, are both supported by Audit Scotland. Audit Scotland audits around 200 organisations in Scotland. These include central government bodies (Scottish Government, NDPB's and others), NHS bodies, councils, joint boards and committees (including police and fire and rescue services), further education colleges and Scottish Water.

Northern Ireland: There has been a separated Comptroller and Auditor General for Northern Ireland since the foundation of the state in 1921. He heads the Northern Ireland Audit Office (NIAO) which audits central and local government functions and reports to the Northern Ireland Assembly. The NIAO is responsible for the financial and value-for-money audit of central government bodies in Northern Ireland, including Northern Ireland Departments, Executive Agencies, Executive Non-Departmental Public Bodies (NDPBs) and Health and Social Care Bodies. The financial audit of local government bodies, including district councils, is undertaken by NIAO staff designated by the Department of the Environment as local government auditors. Local government auditors are mainly responsible for the audit of Northern Ireland District Councils and report the results of their work to the Department of the Environment.

More information on the audit of UK Government and public sector bodies can be found on the website of the National Audit Office.

2.2.2.2 Public units, not part of general government

All main public sector units have their accounts audited. In the UK there is not a large number of public bodies that are not included as part of general government. Those public corporations which constitute public trading funds (e.g. Export Credit Guarantee Department) come within the remit of the NAO, and so the same arrangements apply as for general government units. Other public corporations are audited by independent regulatory auditors under the applicable accounting framework. Most public corporations utilise the services of private external audit bodies (i.e. large accountancy practices) to conduct their audits.

As with general government units most public corporations publish their accounts in the summer. The auditors’ reports are published as part of those accounts and the accounts are published on the website of the corporation and/or the website of the sponsoring government department In addition to the auditing of published financial accounts, the auditing bodies also carry out a range of other auditing activities such as value-for-money analysis. The focus of the financial audit is, of course, on the contents of the published accounts. This naturally includes the audit of underlying flows and balances, according to normal auditing practice, using risk-based approaches.

2.3 Communication

2.3.1 Communication between actors involved in EDP

2.3.1.1 Agreement on co-operation

As shown in Table 1 of Section 2.1 of this inventory, there are only two institutions that are responsible for EDP reporting in the UK.

The ONS has sole responsibility for compiling, publishing and transmitting to Eurostat the UK financial and non-financial accounts outturn data. In addition, the ONS has responsibility for applying national accounts methodology, making national accounts classification decisions and ensuring that the outputs are produced in accordance with the UK and ESS Code of Practice.

HMT has responsibility for providing the planned or forecast data, and is also a key data supplier of outturn data collected from government departments.

There is a formal Service Level Agreement between HMT and ONS, relating to the provision and compilation of public sector finance statistics.

Co-operation between HMT and ONS officials takes place via a number of different media and fora, including:

- responsible officials in both organisations meet monthly to consider the impact of upcoming government initiatives and to quality assure the monthly data;
- ONS classification branch discusses classification issues with their counterparts in HMT so as to ensure that all pertinent information is being shared and that HMT are enforcing the National Accounts classification decisions within government accounts;
- ONS and HMT meet quarterly, via the Public Finance Statistics Data Group, with other key government data suppliers (such as HMRC, DCLG and the Office for Budget Responsibility (OBR)) to discuss quality and implementation issues relating to public sector finance statistics.

A high level overview of the different roles and responsibilities of HMT and ONS in the production of GFS and EDP is provided in Table 2 of Section 2.1 of this inventory.

2.3.1.2 Access to data sources based on public accounts

Detailed information on EDP data sources is provided in Chapter 3 of this inventory. Much of the data required by ONS to compile the EDP statistics is provided to ONS by government departments and organisations in a spreadsheet format to a pre-agreed timetable. Some data items are sourced by ONS from reports published by government departments and organisations. The data in these reports may be in spreadsheet or fixed pdf formats.

Table 3 provides an overview of the principal data sources used in the compilation of EDP statistics and the way in which ONS access these data sources.

Table 3 – Overview of principal EDP data sources and how ONS receive the data

Data source / coverage	**Data supplier**	**Data access / format**	**Data Frequency**
OSCAR (Online System for Central Accounting and Reporting) data - detailed income and expenditure data for central government bodies and some financial flows data	HM Treasury (HMT)	ONS have direct access to the OSCAR database, but also receive monthly and quarterly extracts in spreadsheet format. HM Treasury publish the detailed OSCAR data on their website on a quarterly and annual cycle.	Monthly and Quarterly
Issuance, redemption and stock of debt securities - detailed information on all debt securities by auction	HM Treasury (HMT) / Debt Management Office (DMO)	ONS receive data in a spreadsheet format. Auction data are also available as pdf documents on the DMO website.	Daily and Monthly
Treasury Cash Management Systems – detailed information on the flows and stocks in the Consolidated Fund, National Loans Fund and other government cash accounts	HM Treasury (HMT)	ONS receive data both in a spreadsheet format and as pdf documents.	Monthly
HM Revenue & Customs (HMRC) tax databases – detailed information on accrued and cash tax revenue by individual tax	HM Revenue & Customs (HMRC)	ONS do not have direct access to HMRC databases but receive data in a spreadsheet format. HMRC publish the cash data monthly on their website.	Monthly

Data source / coverage	Data supplier	Data access / format	Data Frequency
Local Government Surveys – information on the income, expenditure and financial balance sheet of local government bodies aggregated by country (i.e. England, Wales, Scotland and Northern Ireland)	Department for Communities and Local Government (DCLG) and Devolved Administrations	ONS receive most data in a spreadsheet format, but data also published by DCLG and Devolved Administrations on their website.	Monthly, Quarterly and Annual (depending on data survey)
Financial Institution Surveys – information on the deposits and loans of central and local government by type of financial transaction and subsector	Bank of England (BoE)	ONS do not have direct access to BoE databases but receive data in a spreadsheet format.	Monthly and Quarterly
Official Reserves – detailed information on the financial flows and stocks within central government official reserves	Bank of England (BoE)	ONS receive data in a spreadsheet format.	Monthly
Published Accounts – full information on accounts of government units, including information not collected elsewhere on government guarantees and trade credits	Individual government units	ONS source data when published and from the websites of the bodies or www.gov.uk	Annually

2.3.2 Publication of deficit and debt statistics

2.3.2.1 Publication of EDP data

EDP tables for the UK are published in April and October by the Office for National Statistics in a release called EU Government Deficit and Debt Return. The tables published are as those submitted to Eurostat and therefore contain both calendar and financial years. The EDP tables are published ahead of the Eurostat publication (usually one or two working days before) and are accompanied by an explanatory statistical bulletin and metadata for each table. The ESA GFS tables are published alongside the EDP tables, and for this reason the release is quarterly with only ESA GFS tables included in the January and July editions.

The supporting statistical bulletin provides information on how the headline figures are constructed and how they fully reconcile with the figures in the monthly Public Sector Finances statistical bulletin (which is published jointly by the Office for National Statistics and HM Treasury). The bulletin contains some commentary on the figures with visual representations of the data and a background notes section with more detailed metadata concerning the collection, quality, relevance, and coherence of the data. The bulletin also includes tables on the impact of the financial crisis which follow a similar format to the Eurostat EDP tables but which provide full balance sheet data.

2.3.2.2 Publication of underlying government ESA95 accounts

The EU Government Deficit and Debt Return which contains the EDP tables (see section 2.3.2.1) also contains other Government Finance Statistics tables provided to Eurostat under the terms of the ESA transmission programme. Tables included are:

ESA Table 0200 – Main Aggregates of General Government
ESA Table 2500 – Quarterly Non-Financial Accounts of General Government
ESA Table 2700 – Quarterly Financial Accounts of General Government
ESA Table 2800 – Quarterly Government Debt (Maastricht Debt) for General Government
ESA Table 2899 – Inter-Government Lending
ESA Table 0900 – List of Taxes
ESA Table 1100 – Annual Expenditure of General Government by Function

As many of these tables are produced quarterly, there are editions of the release published in July and January as well as in April and October.

3 EDP tables and data sources

This section reports on availability and use of basic data sources for the compilation of national accounts and EDP tables, by general government subsectors and main units/groups of units. It also aims at describing adjustments to basic data source in order to compile ESA95 based deficit/surplus; EDP tables compilation techniques, balancing practices; link between EDP table 2 and 3.

3.1 EDP table 1

EDP table 1 provides the core, summary information for the reporting period, as requested by the related EU legislation[4]: net borrowing(-)/net lending(+)(B.9) for general government sector and its subsectors, outstanding amount of Maastricht debt by instruments, Gross Domestic Product (GDP), gross fixed capital formation (GFCF) for GG sector and data on interest expenditure (D.41) .

This section focuses on Maastricht debt only. A detailed description of EDP B.9 calculation and data sources for individual subsectors is covered under section 3.2.

3.1.1 Compilation of Maastricht debt

3.1.1.1 Specification of debt instruments

Maastricht Debt is composed of liabilities resulting from:

- debt securities issued by government (such as government bonds and treasury bills);
- loans taken out by government;
- deposits of households and corporations held by government;
- currency issued by government.

In many countries currency is issued by the Central Bank and so is a liability of the Central Bank and not Government. In the UK, banknotes are issued by the Bank of England and so the liability resulting from these banknotes is not part of Maastricht Debt. However, coinage is issued by the Royal Mint which is classified within government and so the liability resulting from coins in circulation is part of Maastricht Debt.

Central Government (S.1311)

The UK Central Government accounts for more than 95% of UK General Government (Maastricht) Debt. The UK Central Government debt structure varies over time but the largest component is always the liability generated through the issuance of government bonds (known also as ‘gilts’). Gilts account for anything between 70% and 90% of the UK Central Government debt. The next largest liability for the UK Central Government relates to deposits, of which the principal deposits are with National Savings. Liabilities relating to treasury bills, loans and coinage make up the rest of the UK Central Government debt.

[4] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R0479-20140901&from=EN

More detail of the main UK Central Government debt instruments, and the principal sector(s) that hold the counterpart assets, is provided below.

Currency and deposits (F.2)
- Coins in circulation (main creditors: all sectors);
- Deposits with National Savings (main creditors: S.14 - households);
- Funds lodged in courts (main creditors: all sectors);
- Official reserves – short term liabilities (main creditors: S.12 – financial corporations);
- Debt Management Office (DMO) - repurchase orders (main creditors: S.12 – financial corporations);
- DMO - public corporation deposits (main creditors: S.11001 – public corporations);
- DMO - local government deposits (main creditors: S.1313 – local government) [*Note: these loans between local government and central government consolidate out in the general government Maastricht Debt*].

Money-market instruments (F.31)
- Treasury bills (main creditors: S.2 – rest of the world, S.12 – financial corporations).

Bonds (F.32)
- Government bonds (or ‘gilts’) (main creditors: S.2 – rest of the world, S.12 – financial corporations);
- Securities issued by Northern Rock Asset Management and Bradford & Bingley (main creditors: S.2 – rest of the world, S.12 – financial corporations);
- London Continental Railway bonds (main creditors: S.2 – rest of the world, S.12 – financial corporations).

Short-term loans (F.41)
- Departmental loans with UK financial institutions (main creditors: S.12 – financial corporations);
- DMO loans with UK financial institutions (main creditors: S.12 – financial corporations);
- Foreign currency loans with overseas banks (main creditors: S.2 – rest of the world).

Long-term loans (F.42)
- Inter-government loans to UK (main creditors: S.2 – rest of the world);
- Finance leasing loans (main creditors: S.11 – non-financial corporations).

Local Government (S.1313)

The UK Local Government accounts for only a small part of UK General Government (Maastricht) Debt. Most debt liabilities of Local Government relate to loans provided to Local Government by Central Government. As Maastricht Debt is calculated as consolidated General Government gross debt these loans between Local Government and Central

Government do not impact on Maastricht Debt. The remaining Local Government debt liabilities relate to local government issued bonds and loans that Local Government take out with commercial banks.

More detail of the main UK Local Government debt instruments, and the principal sector(s) that hold the counterpart assets, is provided below.

Currency and deposits (F.2)
- No relevant instruments.

Money-market instruments (F.31)
- No relevant instruments.

Bonds (F.32)
- Local Authority bonds (main creditors: all sectors).

Short-term loans (F.41)
- Local authority loans with UK financial institutions (main creditors: S.12 – financial corporations).

Long-term loans (F.42)
- Local authority loans with UK financial institutions (main creditors: S.12 – financial corporations);
- Local authority loans with overseas financial institutions (main creditors: S.2 – rest of the world);
- Finance leasing loans (main creditors: S.11 – non-financial corporations);
- Loans with Public Works Loan Board (creditor: S.1311 – central government) [*Note: these loans between local government and central government consolidate out in the general government Maastricht Debt*].

3.1.1.2 Data sources used for the compilation of Maastricht debt

Gross debt and net debt figures are compiled monthly for the UK Public Sector Finances publication. Central Government gross debt is added to Local Government gross debt and intra-government debt holdings removed in order to arrive at Maastricht Debt (which is General Government consolidated gross debt). The UK Public Sector Finances report General Government gross debt, but additionally include the debt of public corporations to compile Public Sector gross debt.

The UK Public Sector Finances also include the UK fiscal measure of debt 'Public Sector Net Debt' which is defined as the gross debt (using the same financial instruments as included in Maastricht Debt) less liquid assets (i.e. cash and cash-like instruments). Liquid assets are not an ESA concept and this net debt measure is therefore specific to the UK.

Most debt data are sourced from HM Treasury (HMT), the Debt Management Office (DMO) and the Department for Communities and Local Government (DCLG). DCLG provide local government bond and loan data which they collect from local government bodies. DMO provide data on bonds, treasury bills and the loan and deposit arrangements between central government and other public sector bodies. HMT collate and provide data on other central government securities, loans, deposits and currency.

Data sources used are the same for both the April and October notification. Most are monthly in nature, available a month in arrears, so little is required in the way of statistical estimation when compiling the debt statistics. Revisions to debt statistics are therefore usually limited to the latest year other than when methodological changes have been made which impact on historic data.

EDP data for the first notification in April are based on Public Sector Finance (PSF) data published in March, and data for the October notification are based on PSF data published in September.

Valuation

Maastricht Debt is measured at face value, instead of the market valuation used in the UK National Accounts balance sheet.

For deposit and currency (F.2) liabilities the face value (and market value) is treated as being equivalent to the transactional value.

For loans (F.4) the face (or nominal) value is taken to be the unpaid principal plus any unpaid accrued interest.

For bonds (F.32) and treasury bills (F.31) the UK calculates the face value of bonds to be the value of those instruments at redemption. For index-linked instruments where the final redemption value is not known the face value is calculated as the capital uplifted issuance value with the uplift based on the latest price indices (specifically the Retail Price Indices).

The logic of using this treatment for government debt is that the redemption value is what government will ultimately have to pay and as such is the actual government liability. The National Accounts balance sheet, in contrast, is measuring the relationship between sectors of the economy at a point in time. For this purpose, market value can be a more meaningful valuation.

3.1.1.3 Amendments to basic data sources

Not applicable.

3.1.1.4 Consolidation of Maastricht debt

As explained above, a significant amount of Local Government debt is held by Central Government. These holdings are in the form of loans between the Public Works Loan Board

(a central government body managed by the DMO) and local government bodies. There are much smaller holdings of Central Government debt by Local Government. These holdings reflect:

(i) holdings of central government bonds by local government bodies;
(ii) holdings of treasury bills by local government bodies;
(iii) local government deposits with central government (usually with the DMO).

In most cases of debt cross holdings the data source used is the administrative central government data. This is because the single source central government administrative data is considered more reliable than the data collected from individual local government bodies. The exceptions are the data on local government holdings of central government bonds and treasury bills which are sourced from local government data collected by DCLG. This is because there is no central government administrative source which identifies the holders of central government bonds and treasury bills at a point in time.

3.2 Central Government subsector, EDP table 2A and 3B

Information provided in this section refers to data sources available for the Central Government (S.1311), indicates what sources are used for compilation of non-financial and financial accounts and EDP tables for S.1311, and explains the adjustments made in order to comply with ESA2010.

3.2.1 Data sources for main Central Government unit : "The State"

This section describes data sources available and used for compilation of national accounts and EDP tables for the main Central Government unit:

- Basic data sources
- Complementary data sources used for the purpose of special ESA95 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

As in most countries, the Central Government sector (S.1311) in the UK is large and complex. It comprises a central group of departments or ministries, which form a single institutional unit. The departments are responsible for large amounts of expenditure but they are not separate institutional units since they do not own assets or engage in transactions independently of central government as a whole.

Central government also includes many other institutional units, such as:

- the assemblies for Scotland, Wales and Northern Ireland (commonly referred to as the devolved administrations);

- bodies which carry out specific advisory, regulatory and/or management functions for government departments or the devolved administrations (commonly referred to as non-departmental public bodies;
- organisations which provide non-market services on behalf of government (such as health or education bodies);
- non-profit institutions which are controlled and predominately financed by central government and whose competence also extends over the whole economic territory.

More information on the coverage of the central government sector in the UK can be found in Chapter 1 of this Inventory.

The UK is relatively unusual in that it has aligned its government budgeting treatment as closely as possible to National Accounts concepts and principles. One feature of this is that the UK budgeting system, managed by HMT to control public spending, uses the National Accounts boundary for central government, local government and public corporations. This means that the UK does not record an extra-budgetary account in its government finance statistics. In practice what this means is that the National Accounts sector classifications decisions, made independently by ONS (see Section 5), are reflected in budgeting guidance provided by HMT to departments. For example, if ONS classify a newly established body as being under public sector control in the central government sub-sector then HMT will identify an appropriate department to be the sponsoring body and that department must then consolidate that body into its own resource accounts and include the body when providing budgetary reports. The system is enforced through legal designation orders and departmental audits (see Section 1).

The UK budgeting system not only follows National Accounts sector classification when setting the budgetary boundaries, it also closely follows National Accounts concepts when defining the budget measures themselves. Resource and capital budgets of government departments are set in terms of accruals information. In the case of resources, measuring them when they are consumed rather than when the cash is paid. A key concept in the UK Government's budget framework is Total Managed Expenditure (TME) which is a measure defined using National Accounts concepts and which represents the current and capital spending of the public sector. Full details of the budgeting treatment are published in HMT's Consolidated Budgeting Guidance. Although the accrued treatment described in this budgeting guidance is closely aligned to the National Accounts principles set out in the European System of Accounts (ESA) manual there are some elements of divergence.

To operate its budgeting system, HMT collect expenditure data from all government departments and the devolved administrations via its public spending database, OSCAR (Online System for Central Accounting and Reporting). As noted above, when recording their data on OSCAR, departments and devolved administrations must include within their data the consolidated accounts of related non-departmental bodies and agencies. OSCAR data are reported as monthly profiles for the current financial year. Outturn data are reported for those months that have already ended and forecast data for future months. Departments and devolved administrations update the OCSAR data monthly and HMT and ONS aggregate and quality assure the data monthly for inclusion in the monthly Public Sector Finances statistical bulletin. OSCAR data are reported according to a prescribed Chart of Accounts which requires reporters to provide detailed metadata for each transaction line, including the relevant ESA transaction code and Classification of Functions of Government (COFOG) code for the particular item of expenditure. OSCAR is therefore the principal data source for the compilation of the expenditure component of central government net borrowing in EDP Table 2A and 3A.

Although the database OSCAR provides timely accrued data that are closely in line with National Accounts concepts and principles some adjustments are still necessary to the data in order to derive the Government Finance Statistics reported for both the EDP and the monthly Public Sector Finances. These adjustments to OSCAR can be broken down into three categories:

1. adjustments that are made to include additional expenditure not reported on OSCAR (e.g. ONS imputes tax and spending related to Renewable Obligation Certificates and adds this to OSCAR data)
2. adjustments that are made to replace OSCAR budget data because the National Accounts and EDP compilation use a different data source (e..g. depreciation is calculated by ONS using a modelled approach and OSCAR data are not used)
3. adjustments that are made to OSCAR budget data in order to move them to a basis consistent with National Accounts (e.g. not all research and development expenditure included on OSCAR is capitalised as is required for National Accounts so adjustments move the current expenditure to capital expenditure)

As part of a commitment to transparency, HMT publish the full OSCAR dataset on their website every quarter and annually release the Public Expenditure Statistical Analyses (PESA) to provide information on government spending. The PESA publication includes information on the OCSAR accounting adjustments described above.

Most central government income is in the form of tax receipts, the vast majority of which are collected by HM Revenue & Customs (HMRC). Therefore, tax income (and some social contribution income, namely NICs - National Insurance Contributions) figures are collated and quality-assured by HMRC analysts. The source data are monthly cash figures which are accrued in line with ONS agreed accrual methodologies to arrive at the accrued income. These income data are used in the compilation of central government net borrowing in EDP Tables 2A and 3B.

Table 4 – Availability and use of basic source data for the main central government unit

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1: First results	Time of availability of annual results for T-1: Final data		WB	B.9 (NFA)	B.9f (FA)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
A	M	T+10	T+11	(2) Current and capital revenue and expenditure (via OSCAR)	x	x	
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
				(5) Profit and loss accounts			
				(6) Balance sheets			
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
				(9) Other:			
C	M	T+7	T+7	(9a) HM Revenue and Customs – tax receipts	x	x	
M	M	T+7	T+4	(9b) Debt Management Office and National Savings & Investments – deposits, loans and debt securities	x	x	X
M	M	T+7	T+7	(9c) HM Treasury – cash flows, loans, equity, guarantees…	x	x	X
A	M	T+11	T+3	(9d) Bank of England – currency and deposits, loans			X
A	M	T+7	T+4	(9e) Official Reserves			X
M	M	T+11	T+7	(9f) UK Asset Resolution - data on Northern Rock Asset Management and Bradford & Bingley	x	x	X

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1(based on a calendar year) = number of months and days after the reporting period. As the UK operates an April to March financial year, final results for calendar year T-1 may be later than in some other countries which operate a January to December financial year.
Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively
Empty cells in column 1, 2, 3 and 4 mean that the data source is not a basic data source for central government.

3.2.1.1 Details of the basic data sources

Data sources used for compilation of national accounts

In the UK the main government finance statistics used by government, analysts and commentators are the monthly Public Sector Finance (PSF) statistics published jointly by the ONS and HMT. The PSF statistics report the UK fiscal measures of public sector net borrowing and public sector net debt along with the sectoral and transactional components of those measures.

In accordance with the EDP Regulations the UK Working Balance for Central Government is taken to be the central government net borrowing as reported in the monthly PSF statistics.

As explained in section 3.2.1 the UK Government, since 1998, has aligned its budgeting and fiscal reporting systems closely with National Accounts. This means that the EDP Working Balance for the UK Central Government (as published in the PSF) uses the same data sources and methodologies as National Accounts and as such does not differ from the EDP central government net borrowing. Note that prior to the introduction of ESA2010 two adjustments were necessary to make the translation between the PSF central government net borrowing and the EDP central government net borrowing. Under ESA2010, and the related new EDP legislation, these adjustments are no longer necessary.

Data for Central Government (in PSF, EDP and National Accounts) come from government administration sources, mainly involving information available from departmental accounting systems.

The UK operates a full quarterly set of accounts but the data sources are a mixture of monthly, quarterly and annual sources. Quarterly accounts enable estimates to be compiled by both calendar and UK financial years which run from April to March.

The processing gives precedence to the most accurate data source currently available when the accounts are prepared. This would normally be provisional or final audited annual financial year accounts presented to Parliament. These are supplemented by other sources of information to allocate the annual information over the four quarters to add additional detail not present in the annual accounts.

The EDP and PSF systems are designed to produce the latest estimates from public sector accounts data. The same data are used in quarterly and annual National Accounts but, as explained in Chapter 4, the PSF and EDP statistics are produced separately from the rest of the national accounts in order that the latest data may be used even when data revisions relate to periods outside of that quarter’s (or year’s) revision period for National Accounts.

Although EDP and PSF statistics do not require all the sectoral counterparty information (for each stock and transaction) required by national accounts it is important that the government statistics are consolidated in accordance with ESA rules. Therefore, in the government administrative data transfers between different parts of government (and the public sector) are clearly differentiated from payments passing to or from other sectors of the economy.

CG Expenditure data

The main source of central government expenditure data is HMT's public spending database, OSCAR (Online System for Central Accounting and Reporting), which collects financial information from across the public sector. The OSCAR database is designed to monitor spending against frameworks set out by the government of the day. Statisticians in HMT ensure that OSCAR maintains its integrity as a data source for the uses to which it is put.

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 HMT finance systems with some smaller contributions from other places including National Savings and Investments (NS&I). A further expenditure item not available from OSCAR is the consumption of fixed capital (or depreciation). The depreciation on assets is calculated using the ONS perpetual inventory model. Other non-OSCAR expenditure data comes from bodies such as DMO, HMRC and the Bank of England.

The data reported monthly to HMT on OSCAR is on an accrued basis. In most cases the accrual methodology applied is fully consistent with ESA guidance, but at times adjustments must be made to ensure that the data are ESA compliant.

However, the calculation of accrued debt interest expenditure (which is not reported via OSCAR) is more complicated. Debt interest expenditure largely relates to the debt servicing of UK government bonds (or gilts). This expenditure consists of three separate components:

i. **coupon payments.** The majority of interest payments on UK gilts (coupon payments) are paid out every six months from the National Loans Fund (NLF); a large government bank account at the Bank of England. Information on coupon payments comes from HMT'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 face value. They may have been sold at a discount or premium, so that the debt issued is less than, or greater than, the face value. Maastricht debt only records the face value increase in government liability from the issuance of these gilts. The discounts or premia on top of this are part of the debt servicing cost and under

ESA2010 are treated like interest accruing. 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

There are other interest payments made by government that do not relate to government gilts. These include interest on Treasury bills, other short-term borrowing, National Savings certificates and loans. All interest payments are accrued over the lifetime of the instrument.

CG Income date

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 are collated and quality-assured by HMRC analysts from their administrative data sources before delivery to HMT and ONS.

The accruals principle used for tax receipts 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.

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. An example of this is Renewable Obligation Certificates (ROCs) where ONS imputes a tax revenue from the purchase of ROCs by energy companies but offsets this with an equal amount in the form of subsidies to the renewable energy generator firms. In reality, there is no direct cash flow from the ROCs market to government. However, as government set up the scheme in order to incentivise the purchase of renewable generated energy, national accounts considers that the economic reality is that government is taxing energy suppliers and redistributing this to renewable energy generators. The source data for this imputation is data on the auction of ROCs from Ofgem (Office of Gas and Electricity Markets).

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 the levies of utilities regulators etc.;
- HMT sources which covers the majority of dividend and interest receipts as well as the TV licence fee, guarantee fees 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 the consumption of fixed capital (i.e.

depreciation). Depreciation of government is calculated from a perpetual inventory model which uses capital stocks data as inputs (see CG Expenditure section above).

Working balance (WB)

The Working Balance (WB) for central government is the central government net borrowing as reported in the monthly Public Sector Finances. The same data and methods are used in the calculation of the WB as in compilation of net borrowing (-B.9) for the EDP and so the WB is equal to the EDP net borrowing.

3.2.1.2 Statistical surveys used as a basic data source

No statistical surveys are used in compiling the central government accounts.

3.2.1.3 Supplementary data sources and analytical information

This section describes supplementary data sources used to amend basic data sources when compiling national accounts. In order to meet ESA2010 requirements, supplementary data could be used for e.g. for accrual adjustments, reclassification of specific transactions, consolidation, amendments of revenue and expenditure structure, amendments of structure of assets and liabilities, identification of a counterpart sector, etc.

The WB and EDP B.9 are both produced using the same basic data sources. No supplementary data sources are required, although as explained in section 3.1.1.1, certain ONS models or estimates are used in places of the accounts.

Specifically,

- central government consumption of fixed capital is arrived at (as in most Member States) through use of a perpetual inventory method which applies average life lengths to capital stocks of assets;
- imputed interest receipts and fees related to the services provided by financial intermediaries (known as FISIM) to central government;
- imputed tax and spend where there are no cash flows to or from central government but transactions within the wider economy have been re-routed via central government to reflect a tax on one sector/industry and an equal subsidy or grant to another sector/industry.

None of these transactions have an impact on net borrowing but the last two increase central government total expenditure and total revenue by equal amounts.

3.2.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

Not applicable.

3.2.1.3.2 Supplementary data sources used for the compilation of financial accounts

Not applicable.

3.2.1.4 Extra-budgetary accounts (EBA)

Usually, not all flows of a non-financial nature are recorded in the so called budgetary accounts which enter the WB, as reported in the first line of EDP table 2. Some funds could be put aside as reserves, special purpose funds and are booked in so called “extra-budgetary accounts” - EBA. In some cases, according to national legislation, transactions which are not scrutinized by budgetary rules can be booked in EBA and not in ordinary budgetary accounts. It is very important that all non-financial flows of the main entity, including those entering EBA, are appropriately incorporated into calculations of deficit.

The UK Government has set its budgetary boundaries on the basis of National Accounts' classifications. This means that in the UK there are no extra-budgetary accounts as the full central government accounts are equivalent in scope to the Government budgetary accounts.

3.2.2 Data sources for other Central Government units

This section describes data sources available and used for compilation of national accounts and EDP tables for other Central Government units (those not reported in the working balance in EDP T2A).

The central government data sources used in the WB are the same as those included in EDP net borrowing and therefore this section is not applicable.

3.2.2.1 Details of the basic data sources

Not applicable.

3.2.2.2 Statistical surveys used as a basic data source

Not applicable.

3.2.2.3 Supplementary data sources and analytical information

This section describes supplementary data sources which are used to amend basic data sources while compiling national accounts. In order to meet ESA2010 requirements, supplementary data could be used for, e.g., accrual adjustments, reclassification of specific transactions, consolidation, amendments of revenue and expenditure structure, amendments of structure of assets and liabilities, identification of a counterpart sector, etc.

Not applicable.

3.2.2.3.1 Supplementary data sources used for the compilation of non-financial accounts

Not applicable.

3.2.2.3.2 Supplementary data sources used for the compilation of financial accounts

Not applicable.

3.2.3 EDP table 2A

This section provides detailed information on individual lines reported in EDP T2A.

3.2.3.1 Working balance - use for the compilation of national accounts

The Working Balance (WB) in EDP Table 2A is the net borrowing figure published in the monthly Public Sector Finances bulletin. These published figures are used by government, parliament and the general public to monitor progress against budget forecasts and the fiscal mandate.

3.2.3.2 Legal basis of the working balance

There is no single piece of UK Government legislation which sets and defines the WB. However, the WB is based upon expenditure data, whose budget limits will have been voted on by parliament, as well as revenue and expenditure data which will at the end of the year be included in the resource accounts of the different central government bodies and audited by the National Audit Office (NAO). For more information on the auditing arrangements for central government bodies see section 2.2.

3.2.3.3 Coverage of units in the working balance

Two adjustment lines due to sector delimitation appear in EDP T2. The purpose of the first adjustment is to exclude flows relating to units which do not belong to the government sector (or to the particular subsector) according to ESA2010 definition. The second adjustment refers to B.9 of other units which are classified within the particular government subsector, but related inflows/outflows are not included in the working balance.

There is no difference in coverage of units between the Working Balance (WB) and EDP net borrowing. Central government units included in the WB are exactly the same as those included in EDP net borrowing (B.9).

3.2.3.3.1 Units to be classified outside the subsector, but reported in the WB

Not applicable.

3.2.3.3.2 Units to be classified inside the subsector, but not reported in the WB

Not applicable.

3.2.3.4 Accounting basis of the working balance

The WB is compiled on an accrual basis using National Accounts concepts and definitions.

3.2.3.4.1 Accrual adjustment relating to interest D.41, as reported in EDP T2

There are no accrual adjustments relating to interest reported in EDP T2 as interest is accrued in the WB in line with ESA guidance. More information on the accrual adjustments applied to government bonds can be found section 3.2.1.1. Similar accrual adjustments are applied to interest paid and received in relation to other securities. Interest related to deposits and loans is apportioned evenly over the lifetime of the deposit or loan.

3.2.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2

There are no accrual adjustments relating to other accounts receivable/payable in EDP T2 as accounts receivable/payable are recorded in the WB in line with ESA guidance.

3.2.3.4.3 Other accrual adjustments in EDP T2

Not applicable.

3.2.3.5 Completeness of non-financial flows covered in the working balance

No adjustments are reported in EDP Table 2A for non-financial flows as there is no difference in coverage of non-financial transactions between the WB and EDP net borrowing.

3.2.3.6 Financial transactions included in the working balance

No adjustments are reported in EDP Table 2A for financial flows as there is no difference in coverage of non-financial transactions between the WB and EDP net borrowing.

3.2.3.7 Other adjustments reported in EDP T2

Not applicable.

3.2.3.8 Net lending/net borrowing of central government

The WB is compiled in the same way as EDP net borrowing (B.9) for central government and so no adjustments are required.

3.2.4 EDP table 3B

3.2.4.1 Transactions in financial assets and liabilities

EDP Table 3B is compiled using transaction and stocks data from a variety of sources. Some of the data are sourced directly from the financial accounts of government units and other data are sourced from counterparty data.

The main 'direct' data sources for financial transactions and stocks are:

- Debt Management Office (DMO) accounts for debt instrument liabilities;
- National Savings & Investments (NS&I) for deposit liabilities;
- Bank of England Official Reserves for reserve assets and liabilities;
- Public Works Loan Board (PWLB) for loan assets;
- UK Asset Resolution Ltd (UKAR) for assets and liabilities of Northern Rock Asset Management and Bradford & Bingley (which are classified as central government due to being financial defeasance structures); and
- HM Treasury (HMT) for other government transactions and stocks including government equity holdings and loans made by Treasury and other government departments.

'Indirect' data, or counterparty data, are collected through Bank of England surveys of the financial sector and are used to compile parts of the government accounts. Specifically much of the government deposit asset data (F.2/AF.2) and some elements of the loan liability data (F.4/AF.4) are compiled using Bank of England survey data. The Bank of England surveys are exhaustive surveys of UK financial corporations.

The Bank of England survey counterparty data are used and preferred as they provide data for the whole of the UK economy, split by sector, on a consistent and coherent basis. This feature of the Bank of England data makes it attractive for producing integrated and balanced National Accounts.

Table 5. Data used for compilation of transactions and of stocks of financial assets and Liabilities

	Assets								Liabilities							
Source Data	**F.1**	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**	**F.1**	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**
			Calculation of transactions													
Transaction data Debt Management Office & National Savings & Investments							X			X	X				X	
Transaction data Bank of England Surveys of Financial Institutions		X														
Transaction data Official Reserves	X	X	X	X			X		X		X	X			X	
Transaction & Stock data HM Treasury		X	X	X	X			X		X						X
Transaction data Public Works Loan Board				X												
Transaction & Stock data UK Asset Resolution Ltd		X	X	X			X	X			X	X		X	X	X
Transaction & Stock data Network Rail		X	X	X	X		X	X			X	X			X	X
Stock data Bank of England Surveys of Financial Institutions		X										X				
			Calculation of stocks													
Stock data Debt Management Office & National							x			x	x				x	

	Assets								Liabilities							
Source Data	**F.1**	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**	**F.1**	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**
Savings & Investments																
Stock data Bank of England Surveys of Financial Institutions		x										x				
Stock data Official Reserves	x	x	x	x			x		x		x	x			x	
Stock & Transaction data HM Treasury		x	x	x	x			x		x						x
Stock data Public Works Loan Board				x												
Stock & Transaction data UK Asset Resolution Ltd		x	x	x				x			x	x		x		x
Transaction & Stock data Network Rail		x	x	x	x		x	x			x	x			x	x

F.1 (monetary gold and Special Drawing Rights) assets and liabilities: In the UK, central government includes units which make financial transactions that in another country may be carried out by the central bank; in particular, managing international exchange reserves, operating exchange stabilisation funds and transacting with the International Monetary Fund (IMF). This means that the UK Central Government includes the assets and liabilities relating to IMF issued Special Drawing Rights (SDRs). The Bank of England provides data on transactions and stocks of SDRs.

F.2 (currency and deposits) assets: The UK Government Banking Service is responsible for much of the cash deposits held by central government. However, some Central Government units may also hold deposits at commercial banks, building societies and other financial institutions. Data on stocks and transactions of deposits are sourced from Bank of England surveys. Most financial institutions must supply both transaction and stock data in the Bank of England surveys but some specialist institutions are only required to provide quarterly stocks data . Where these bodies hold central government deposits the stocks are used to estimate transactional flows.

F.2 (currency and deposits) liabilities: Although the issuance of bank notes in the UK is the responsibility of the central bank, and so not recorded in the central government accounts, the Royal Mint, who issues coins, is part of the central government sector. Currency liabilities for central government therefore relate to coins in issue. Deposit liabilities for central government largely relate to deposits held and managed by the NS&I. Data on stocks and transactions of liabilities in currency and deposits are provided by the Royal Mint and NS&I via HMT.

F.3 (debt securities) assets: Data on securities held by central government units are largely sourced from monthly returns on the Official Reserves and HMT data. Although some central government bodies hold central government issued bonds (i.e. gilts) these are not recorded as assets but are netted off from the central government F.3 liability figures as part of the consolidation of the subsector.

F.3 (debt securities) liabilities: Most UK government debt securities are issued by the DMO in the form of short-term Treasury Bills and long-term bonds (or gilts). Data on the issuances, redemptions, interest payments and cancellations of these debt securities are all provided monthly by the DMO.

F.4 (loans) assets: Government departments are not generally permitted to loan money. However, central government, in the form of the Public Works Loan Board, loans substantial sums of money to local government, public corporation bodies and the Student Loans Company (a central government unit). Data on these bodies are provided monthly via HMT. HMT also provides data on other loans made by central government, including loans made as part of finance lease arrangements.

F.4 (loans) liabilities: Central Government generally issues debt securities to finance its activities rather than borrowing money in the form of loans. Government departments are generally not permitted to take out commercial loans, but some central government units do have such loans and data on these are collected through the Bank of England survey data. The Official Reserves also provide some data on central government loan liabilities.

F.5 (equity and investment fund shares) assets: Government departments are not generally permitted to invest in equity portfolio investments. However, HMT does hold some share equity in corporations such as Royal Bank of Scotland, Lloyds Banking Group and the Royal Mail. These share holdings are managed by UK Financial Investments (UKFI) who are a central government body and who report the data to ONS via HMT. Central government also holds equity in public corporations but the value of this equity can be difficult to calculate as there is no market valuation mechanism. Where equity holdings in public corporations is recorded it is based on the estimated net worth of the public corporation.

F.6 (insurance, pension and standardised guarantee schemes) liabilities: Central Government has no insurance or pension liabilities within the National Accounts framework (as central government pensions are treated as contingent liabilities which are outside of the core National Accounts). However, central government does record liabilities related to standardised guarantees. The only UK Government run standardised guarantee scheme a eth mortgage guarantees provided under the Help to Buy scheme. This scheme is administered by UK Asset Resolution Ltd and they provide the data used to calculate the standardised guarantee liabilities for the scheme.

F.7 (financial derivatives and employee stock options) assets / liabilities: The UK government don't hold employee stock options but some government units do deal in financial derivatives, notably the Debt Management Office, Official Reserves, UKAR and Network Rail. It is not always easy to split financial derivative assets from liabilities and so in some cases these derivatives are recorded on a net basis.

F.8 (other accounts receivable/payable) assets / liabilities: Most of the other accounts receivable and payable figures recorded for central government relate to accrual adjustments for taxes, social contributions, EU flows and subsidies (in particular agricultural subsidies). These figures are generally calculated from cash and accrual data sources rather than being directly sourced from the annual accounts of government units. This is because the resource accounts of government departments do not provide accounts receivable/payable figures on an ESA compliant basis nor in a standardised format. In most cases the transactions in other accounts receivable and payable are used to calculate the equivalent stocks.

3.2.4.2 Other stock-flow adjustments

Issuance above/below nominal value recorded in EDP Table 3B relates to those debt securities which are issued at premia or discount. Detailed data on each separate auction of government debt securities are sourced monthly from the DMO and these data are used to calculate the total aggregated cash premia or discount for any given period.

Difference between interest accrued and paid recorded in EDP Table 3B relates to all debt securities. The accrued interest on debt securities includes three elements, (i) the accrued interest relating to regular coupon interest payments, (ii) the accrued premia and/or discount of the debt security, (iii) the accrued capital uplift of an index linked debt security. More information on these calculations can be found in section 3.2.1.1. As with the 'issuance above/below nominal value' the required debt securities data are sourced from the DMO.

Redemptions of debt above/below nominal value are not recorded by the UK as all debt securities are recorded in the gross debt at face value at redemption.

Appreciation/depreciation of foreign currency debt recorded in EDP Table 3B relates to the holding gain/loss realised on foreign currency liabilities held in the Official Reserves. All Official Reserves data are received monthly.

Changes in sector classifications are not relevant in every year. The last recording was in 2010 when Northern Rock Asset Management and Bradford & Bingley were both classified as central government bodies (having previously been classified as public corporations) which led to large changes in debt with no corresponding transaction flows.

Other volume changes in financial liabilities have not needed to be recorded by the UK in EDP Table 3B in recent years. Conceptually this category would include changes in debt stock levels as a result of catastrophic losses, uncompensated seizures and other volume changes (such as through debt write-offs and currency withdrawals).

3.2.4.3 Balancing of non-financial and financial accounts, transactions in F.8

This section aims at describing of techniques and methods for balancing non-financial and financial accounts applied generally for the whole general government sector.

Allocation of discrepancy B.9 vs B.9f

From 2007, the UK has recorded transparently the discrepancy between B.9 and B.9f in EDP Table 3B in the row 'Difference between capital and financial accounts'. Prior to 2007, the UK balanced B.9 and B.9f by applying balancing adjustments in other accounts receivable/payable.

Changes to intermediate data

The UK central government net borrowing (B.9) is calculated from direct revenue and expenditure data. However, as explained in 3.2.4.1 some the financial assets/liabilities data are based on counterpart data and this informs the financial accounts net borrowing (B.9f).

Complementary elements on stocks/

Not applicable.

Accruals

No data in either the financial or non-financial accounts are changed in order to reduce the discrepancy. However it is expected that the bulk of any discrepancies will relate to inadequacies in the financial accounts data and not the non-financial accounts data. The reason for this assertion is that the UK Central Government deficit is calculated from non-financial accounts data which mainly relate to HMRC time adjusted cash receipts data and to accrued expenditure data (from OSCAR) which are monitored to ensure that they meet the budget limits set by Parliament. Both these data sources are subject to extensive quality checks in terms of their coverage and accuracy. By contrast, the financial accounts data are compiled from a large number of direct and indirect data sources and as a result the coverage of the data is not as systematically assured as that for the non-financial accounts. In particular, the other accounts receivable/payable data are known to be limited in their coverage as certain expenditure items (such as those on goods and services and staff costs) do not have recorded any related other accounts receivable/payable even though there will be some incurred. The reason for this weakness in the other accounts receivable/payable data is that the government budgets on an accrual basis and so accrual data are available without equivalent cash figures also being available.

Ex-post monitoring

ONS monitors the statistical discrepancy on an on-going basis and has a programme of work to review data sources and processes with the aim of minimising the statistical discrepancy. Since 2012, a significant reduction in the UK statistical discrepancy has been achieved.

3.3 State government subsector, EDP table 2B and 3C

The State Government subsector is not applicable in the UK where the devolved administrations of Wales, Scotland and Northern Ireland are classified as central government bodies. Municipal governing bodies, such as the Greater London Authority, are classified as local government bodies.

3.4 Local government subsector, EDP table 2C and 3D

This subsector includes any non-profit institutions (NPIs) which are controlled and mainly financed by local governments. These units are in principle those whose fiscal, legislative and executive authority extends over small geographical areas distinguished for administrative and political purposes. In the UK the local government sector includes all levels of local councils – counties, districts and parish councils - fire and police authorities and some other local bodies. It also includes the London Assembly. Units supplying services on a non-market basis (such as education and health) are classified as part of the local government unit to which they belong.

'Local government' does not include the local agencies of central government such as the National Health Service.

More information on the coverage of the local government sector in the UK can be found in Chapter 1 of this Inventory.

3.4.1 Data sources for Local Government

Local Government data are mainly based on surveys of local government units conducted by the Department for Communities and Local Government (DCLG) and the devolved administrations in Scotland, Wales and Northern Ireland. These data are supplemented by central government administrative data for transactions between central and local government.

The most comprehensive local government data are available annually, relating to financial years, but some data are available monthly and/or quarterly.

Table 6 – Availability and use of basic source data for local government units

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and			

				expenditure			
				(2) Current and capital revenue and expenditure			
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
				(5) Profit and loss accounts			
				(6) Balance sheets			
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
A	M	T+11		Monthly survey of sample of local government units			x
A	Q	T+11	T+3	Quarterly survey of sample of local government units	x	x	x
A	A	T+8	T+3	Annual survey of all local government units	x	x	x
				(9) Other:			
A	M	T+11		Bank of England			x
A	M	T+11		HM Treasury	x	x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

3.4.1.1 Details of the basic data sources

Detailed annual returns of expenditure and income are compiled by local government and collected by DCLG, Scottish Government, Welsh Government and the Northern Ireland Executive.

Provisional annual outturn figures are available four to six months after the end of the financial year. Final annual outturn 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. In particular:

- data relating to central government grants to local government are available monthly from the HMT OSCAR system (see the section on central government expenditure above);
- data relating to central government loans to local government and deposits by local government with central government are available monthly from returns from the DMO;

- data relating to deposits and loans with private sector financial institutions are available monthly from Bank of England survey data Note: Bank of England surveys are not sample surveys but have full coverage*;*
- quarterly DCLG surveys provide estimates of current expenditure, interest and dividend receipts and council tax receipts although these only cover England as the devolved administrations don't collect the equivalent quarterly data for their jurisdictions Note: quarterly DCLG surveys are not sample surveys but have full coverage;
- quarterly surveys of DCLG and the Scottish Government provide estimates of capital expenditure in England and Scotland Note: quarterly surveys are not sample surveys but have full coverage;
- quarterly information on transactions in local government's financial liabilities and assets is obtained from surveys of all local authorities in the UK, conducted by DCLG. Note: quarterly surveys are not sample surveys but have full coverage; monthly figures are available based on a smaller sample survey - the monthly figures are therefore subject to sampling error and are less reliable than the quarterly figures.

Where quarterly or monthly data on actual expenditure and revenue are not available then budgetary spending figures or forecast revenue estimates are used until the provisional annual outturn data become available.

3.4.1.2 Statistical surveys used as a basic data source

See section 3.4.1.1 for information on which surveys from the DCLG and the Bank of England are used in compiling the local government data. Most surveys are administrative surveys with full coverage of local government units, although some monthly surveys are more limited in scope and are based on samples.

3.4.1.3 Supplementary data sources and analytical information

The WB and EDP B.9 are both produced using the same basic data sources. No supplementary data sources are required, although certain ONS models or estimates are used in places of the accounts.

Specifically,

- local government capital consumption is arrived at (as in most Member States) through use of a perpetual inventory method which applies average life lengths to capital stocks of assets;
- imputed interest receipts and fees related to the services provided by financial intermediaries (known as FISIM) to local government.

Neither of these imputed transactions have an impact on net borrowing (either in the WB or EDP B.9).

3.4.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

Not applicable.

3.4.1.3.2 Supplementary data sources used for the compilation of financial accounts

Not applicable.

3.4.2 Data sources for other Local Government units

Not applicable.

3.4.3 EDP table 2C

3.4.3.1 Working balance - use for the compilation of national accounts

The WB in EDP Table 2C is the net borrowing figure published in the monthly Public Sector Finances bulletin. These published figures are used by government, parliament and the general public to monitor progress against budget forecasts and the fiscal mandate.

3.4.3.2 Legal basis of the working balance

There is no single piece of UK Government legislation which sets and defines the WB. However, the WB is based upon expenditure data, whose budget limits will have been voted on by parliament, as well as revenue and expenditure data which will at the end of the year be included in the published accounts of the different local government bodies and audited. For more information on the auditing arrangements for local government bodies see section 2.2.

3.4.3.3 Coverage of units in the working balance

There is no difference in coverage of units between the WB and EDP net borrowing. Local government units included in the WB are exactly the same as those included in EDP net borrowing (B.9).

3.4.3.3.1 Units to be classified outside the subsector, but reported in the WB

Not applicable.

3.4.3.3.2 Units to be classified inside the subsector, but not reported in the WB

Not applicable.

3.4.3.4 Accounting basis of the working balance

The WB is compiled on an accrual basis using National Accounts concepts and definitions.

3.4.3.4.1 Accrual adjustments relating to interest D.41, as reported in EDP T2C

There are no accrual adjustments relating to interest reported in EDP T2C as interest is accrued in the WB in line with ESA guidance. More information on the accrual adjustments applied to government bonds can be found section 3.2.1.1. Similar accrual adjustments are applied to interest paid and received in relation to other securities. Interest related to deposits and loans is apportioned evenly over the lifetime of the deposit or loan.

3.4.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.7 in EDP T2C

The other accounts payables and receivables reported in the WB (and EDP Table 3D) mainly relate to non-financial transactions in taxes and subsidies.

3.4.3.4.3 Other accrual adjustments in EDP T2C

Not applicable.

3.4.3.5 Completeness of non-financial flows covered in the working balance

No adjustments are reported in EDP Table 2C for non-financial flows as there is no difference in coverage of non-financial transactions between the WB and EDP net borrowing.

3.4.3.6 Financial transactions included in the working balance

No adjustments are reported in EDP Table 2C for financial flows as there is no difference in coverage of non-financial transactions between the WB and EDP net borrowing.

3.4.3.7 Other adjustments reported in EDP T2C

No other adjustments are reported in EDP Table 2C.

3.4.3.8 Net lending/net borrowing of local government

As described earlier in this chapter, the same data are used in the calculation of the WB as in compilation of EDP net borrowing (B.9) for central government. There are no adjustments made to the WB to arrive at the EDP B.9.

3.4.4 EDP table 3D

3.4.4.1 Transactions in financial assets and liabilities

Table 7. Data used for compilation of transactions and of stocks of financial assets and liabilities

		Assets							Liabilities					
Source Data	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**	**F.2**	**F.3**	**F.4**	**F.5**	**F.6**	**F.7**	**F.8**
		Calculation of transactions												
Transaction data Debt Management Office	x													
Transaction data HM Treasury							x			x				x
Transaction data Bank of England Surveys of Financial Institutions	x													
Stock data Bank of England Surveys of Financial Institutions	x									x				
Stock data Surveys of local authorities		x	x	x			x		x	x				x
		Calculation of stocks												
Transaction data HM Treasury										x				
Stock data HM Treasury										x				
Stock data Debt Management Office	x													
Stock data Bank of England Surveys	x									x				

of Financial Institutions														
Stock data **Surveys of local authorities**		**x**	**x**	**x**			**x**		**x**	**x**				**x**

F.2 assets: Local government units hold deposits with central government via the Debt Management Account. The DMO provides transaction and stock data relating to these deposits. Local government units also hold deposits at commercial banks, building societies and other financial institutions. Data on stocks and transactions of deposits are sourced from Bank of England surveys. Most financial institutions must supply both transaction and stock data in the Bank of England surveys but some specialist institutions are only required to provide quarterly stocks data. Where these bodies hold local government deposits the stocks are used to estimate transactional flows.

F.3 assets: Data on securities held by central government units are largely sourced from financial surveys of local authorities managed by the DCLG.

F.3 liabilities: In general local government raises money by borrowing from central government but on occasion local government does issue bonds in order to raise funds for specific projects. These data are sourced from financial surveys of local authorities managed by the DCLG.

F.4 assets: Local government units may on occasion engage in the lending of funds and where they do these data are also sourced from financial surveys of local authorities managed by the DCLG.

F.4 liabilities: Local government borrows significant amounts of money from central government via the Public Works Loan Board. Data on these loans are sourced from the DMO via HMT’s cash management system. Local government units may also hold borrow from commercial banks, building societies and other financial institutions. Data on stocks of loans are sourced both from Bank of England surveys and from financial surveys of local authorities managed by the DCLG. The two data sources are cross-checked as a quality assurance measure and the best data used. Usually the Bank of England data are used so as to provide consistency with National Accounts which uses Bank of England data for other sectors of the accounts.

F.5 assets: Data on equity investments of local government are largely sourced from financial surveys of local authorities managed by the DCLG.

F.7 assets / liabilities: Most of the other accounts receivable and payable figures recorded for local government relate to accrual adjustments for taxes and EU flows as well as timing adjustments related to the management of the Housing Revenue Account. These figures are generally calculated from cash and accrual data sources rather than being directly sourced from the annual accounts of government units. The data for these calculations is generally sourced from the DCLG and HMT.

3.4.4.2 Other stock-flow adjustments

In recent years there have been few other stock-flow adjustments recorded for local government.

Local government have not issued securities or engaged in derivative swaps activities and so the categories.

Issuance above/below nominal value and **Difference between interest accrued and paid** are not relevant.

Redemptions of debt above/below nominal value is generally not relevant to local government although in 2012 local government did pay an early repayment premia to the Public Works Loan Board as part of the Housing Revenue Account re-organisation, which was recorded in this line.

Appreciation/depreciation of foreign currency debt, **Changes in sector classifications** and **Other volume changes in financial liabilities** have not needed to be recorded by the UK in EDP Table 3D in recent years.

3.5 Social security subsector, EDP table 2D and 3E

The Social Security subsector is not applicable in the UK. In the UK the administration of social security funds is an integral part of central government for both its funding and decision-making, and so it is not separately classified as a social security fund subsector of government.

3.6 Link between EDP T2 and related EDP T3

The monitoring of the link between the individual adjustments in EDP T2 and the related transactions reported in EDP T3 is important for the assessment of GFS data quality.
It is not expected that the adjustments from EDP T2 would be clearly identified in EDT3.

- First, this is due to different coverage of units, because the adjustments in EDP T2 should refer only to the main entity reported in the WB, while transactions in EDP T3 reflect the whole subsector.
- Second, due to the accounting basis and coverage of transactions reported in the WB. For the former, if the WB is on accrual basis, theoretically there is no need for adjustments in other accounts receivable/payable F.7 in EDP T2, but it should be ensured that the accrual recordings in non-financial accounts are linked to transactions in F.7 reported in EDP T3 and in FA. For the latter (coverage of transactions), the WB balance as reported in EDP T2 typically does not cover all financial flows, since some are booked in the so called extra-budgetary accounts of the main entity.

- Third, adjustments/transactions reported in EDP T2A are non-consolidated, since they refer to the main entity only, as recorded in the working balance (e.g. loans, other accounts receivable/payable, etc.), while financial transactions recorded in EDP T3 refer to the whole subsector and are consolidated.

As far as specific imputations are concerned, such as debt cancellation, debt assumption etc., which are reported in EDP T2, these should be reflected also in financial accounts and EDP T3 under the related financial instrument.

Therefore, in order to ensure consistency between non-financial and financial accounts and quality of GFS data, statisticians are to be able to explain and to quantify a link between flows reported in EDP T2 and EDP T3.

3.6.1 Coverage of units

There is no difference in coverage of units between the WB and EDP net borrowing. Therefore, units included in the WB in EDP Table 2 are exactly the same as those included in EDP net borrowing (B.9) and gross debt in EDP Table 3.

3.6.2 Financial transactions

The WB in EDP Table 2 is compiled on an accrual basis using National Accounts concepts and definitions. Therefore, it is not necessary to make any adjustments for financial transactions included in the WB.

3.6.3 Adjustments for accrued interest D.41

There are no accrual adjustments relating to interest reported in EDP Table 2 as interest is accrued in the WB in line with ESA guidance. More information on the accrual adjustments applied to government bonds can be found section 3.2.1.1. Similar accrual adjustments are applied to interest paid and received in relation to other securities. Interest related to deposits and loans is apportioned evenly over the lifetime of the deposit or loan.

3.6.4 Other accounts receivable/payable F.8

There are no other accounts receivable/payable adjustments necessary to bring the WB in line with ESA guidance.

3.6.5 Other adjustments/imputations

There are no other adjustments made to the WB.

3.7 General comments on data sources

Not applicable.

3.8 EDP table 4

Table 4 – The statements on the provision of additional data contained in the Council minutes of 23/11/1993 request the submission of trade credits and advances, amounts outstanding in the government debt from the financing of public undertakings, differences between the face value and the present value of government debt and GNI at market prices.

3.8.1 Trade credits and advances

Detailed data reported to ONS via the HM Treasury OSCAR system relate to public sector expenditure recorded on an accrued basis by ESA transaction category. Cash data are available but they are reported through different systems and not disaggregated by ESA transaction category. This means that ONS has no single administrative data source providing information on trade credits and trade advances (e.g. prepayments).

Aggregated data on trade credits and advances are provided within the published accounts of public sector units, and such published accounts are audited as described earlier in the Inventory. Therefore, in order to provide the information requested in EDP Table 4 an annual exercise is undertaken to review the individual published resource accounts for Central Government bodies. The trade credits/payables reported in these resource accounts are aggregated to arrive at a total figure for Central Government. For Local Government, the data, while also available in published accounts, are much more difficult to aggregate given that there are many hundreds of local government bodies in the UK. Therefore, in order to arrive at an estimate for the Local Government sector, published accounts for a sample of local government bodies, based on size and type, are reviewed annually and the total trade credits for that sample are aggregated and then scaled up to arrive at a total UK figure.

Although the preceding paragraph sets out the current methodology for estimating trade credits/payables it is recognised that this methodology could be improved through both more complete coverage of the Local Government sector and a less resource intensive methodology. Therefore, ONS are currently exploring alternative approaches, such as using the systems and processes currently used to compile the Whole of Government Accounts.

The figure for ‘Trade credits and advances (AF.81L)’ within EDP Table 4 is the stock of liabilities. The corresponding flow is part of the figure for ‘Net incurrence of other accounts payable (F.8)’ within EDP Table 3.

3.8.2 Amount outstanding in the government debt from the financing of public undertakings

The UK calculates the amount outstanding in the government debt from the financing of public undertakings as the sum of central government and local government holdings of financial and non-financial public corporations’ debt. This is an indirect measure of the debt undertaken by government on behalf of public corporations. The basis of the recording is that where government has loaned money to public corporations or purchased debt securities of public corporations it can be assumed that it will have had to increase its own debt in order to do so.

4 Revision policy used for annual GFS

This section relates to the revision policy concerning annual non-financial and financial government accounts. It describes the country policy for revisions with and without impact on the deficit (non-financial accounts for general government) and debt (financial accounts for general government).

4.1 Existence of a revision policy in your country

The ONS National Accounts Revisions Policy covers all published quarterly and annual series appearing in the National Accounts. Although the Public Sector Finance (PSF), Excessive Deficit Procedure (EDP) publications use National Accounts concepts they have a specific revisions policy.

A revision is defined as a scheduled change to any published ONS output whether printed or electronic. Revisions are categorised as follows:

R1. To incorporate better source data such as:

- more complete or corrected reporting by respondents
- source data that more closely matches the concepts

R2. To capture routine recalculations such as:

- incorporation of updated seasonal factors
- updating of base period

R3. To reflect improved methodology such as:

- changes in statistical methods
- changes in concepts, definitions and classifications

PSF data are published monthly and all time periods are open for revision every month. Revisions may fall within the R1, R2 or R3 categories. This is to ensure that the latest and best data are used for fiscal policy at all times.

EDP published data are fully consistent (back to 1997) with PSF published data, with all time periods open to revisions and the same revisions policy applied. EDP data published in April are fully consistent with the PSF publication released in March and EDP data published in October are fully consistent with the PSF publication of September.

Each quarter the quarterly National Accounts are aligned as far as possible with the PSF published data. However, as the National Accounts revision policy limits the data period open for revisions there are usually still some methodological differences between the National Accounts and PSF datasets. Annual National Accounts publications (usually published in July or October) have a longer open period than the quarterly National Accounts and so alignment between the PSF and National Accounts publications tends to be closer at these points in the year.

4.1.1 Relating to deficit and non-financial accounts

There is a standard approach to revisions regardless of the impact on deficit.

4.1.2 Relating to debt and financial accounts

There is a standard approach to revisions regardless of the impact on debt.

4.2 Reasons for other than ordinary revisions

There is no distinction within UK EDP data between ordinary and non-ordinary revisions. See Section 4.1 for the different categories of revision.

4.3 Timetable for finalising and revising the accounts

The government financial and non-financial accounts are produced every quarter by the end of March, June, September and December. The accounts are consistent with the PSF data published monthly and are transmitted quarterly to Eurostat in the form of Government Finance Statistics tables provided under the ESA Transmission Programme and published on the ONS website. The March and September data transmissions coincide with the EDP notification periods and in these months the additional EDP tables are transmitted to Eurostat. Each quarter, data may have been updated, methodologies improved or data sources changed and these changes are all identified in the quarterly processing as revisions.

There is no point at which the published data changes from being provisional to final as revisions may always be identified and when they are identified they are taken on in the PSF and EDP published data. However, government source data for a particular financial year is usually near final 9 months after the end of the financial year (i.e. by December) and is unlikely to change significantly 15 months after the end of the financial year (i.e by June in the preceding calendar year). This means that in the March/April EDP in calendar year t data for the calendar year t-2 is near final and by the September/October EDP it is unlikely to change significantly due to data revisions. Of course although the source data may be unlikely to change there still may be revisions in the data due to methodological and data source improvements.

B. Methodological issues

5 Sector delimitation – practical aspects

5.1 Sector classification of units

General government is defined by ESA2010 §2.111 as "… institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth". Moreover, §20.05 specifies that the general government sector "consists of all government units and all non-market non-profits institutions (NPIs) that are controlled by government units. It also comprises other non-market as identified in paragraphs 20.18 to 20.39".

It is necessary to determine:
a. if it is an institutional unit (ESA2010 2.12 describes the rules according to which an entity can be considered as an institutional unit)
b. if it is a public institutional unit (ESA 2010 §20.18 and MGDD I.2.3 – define the notion of control by the government over an entity as "the ability to determine the general policy or programme of that entity"…. According to the list of criteria listed in ESA 2010 §20.309)
c. if it is a non-market public institutional unit - reference to "Market-non-market delineation" (ESA 2010 §20.19 to §20.28 and MGDD I.2.4)"

A list of all UK public sector bodies, classified in accordance with ESA 2010, is published in the ONS Public Sector Classification Guide, which is updated monthly. The majority of bodies listed in the guide are institutional units. However, the guide also lists, for completeness, a number of bodies described as Advisory Non-Departmental Public Bodies that typically do not meet the criteria for institutional units but which (usually) do have a legal existence.

The guide also includes information on bodies previously classified in the public sector which exited the public sector due to the removal of public sector controls over the unit or dissolution of the unit in question. The guide identifies former Central Government bodies, former Local Government bodies, and former Public Corporations.

Non-market units under public sector control are included within Central or Local Government as appropriate. Not all units are listed individually though; 'En bloc' entries are included where there are large numbers of similar units, notably in relation to schools, National Health Service bodies, local authorities, police forces, and similar bodies.

In the UK, all classifications are established by the ONS National Accounts Classification Committee (NACC) with authorisation at senior levels of the ONS when appropriate. The ONS classification process is transparent and details can be found on the ONS website.

5.1.1 Criteria used for sector classification of new units

In general, ONS follows a three-step process to apply the ESA 2010 rules and supplementary guidance in the Manual on Government Deficit and Debt (MGDD) on the classification of new units into the public sector:

1. Does the body qualify as an institutional unit as defined in Chapter 2 0f ESA 2010?
2. Is the body subject to public sector controls (over corporate policy) as defined in Chapters 2 and 20 of ESA 2010 and Part I of the MGDD?
3. Is the guidance a market body (i.e. public corporation) or non-market body (i.e. a unit within the General Government sector) as defined in Chapters 3 and 20 of ESA 2010?

Where ESA 2010 and the MGDD provide supplementary guidance on the classification of specific types of units, this is applied. In particular, rules in chapter 20 on the classification of 'public producers' as market or non-market bodies is often drawn upon alongside the 'quantitative market test' (whereby a market body must have income from sales which cover more than 50% of its production costs). The market test is usually carried out at the institutional unit level using at least 3 years of data from audited accounts.

Prior to ESA2010, there was much more limited information in the international manuals on how to judge whether a unit was under public sector control. However, ONS applied a list of 14 indicators of public sector control:

- determine aspects of how the body delivers its outputs;
- have a final say in sale/acquisition of fixed assets;
- be entitled to a share of proceeds of asset disposals that goes beyond the repayment of previous government support for capital formation;
- close the body;
- prevent the body from ending its relationship with the public sector;
- veto any takeover (except in the case of an conventional special share);
- change the constitution of the body, or veto changes to it;
- decide what sort of financial transactions the body can undertake, or limit them;
- prevent the body from receiving certain types of income from other sources;
- exert numerous minor controls over how the body is run;
- exert financial control (n.b. this is different from funding) as part of a general system of controlling public expenditure;
- control dividend policy;
- set pay rates;
- approve acquisitions for non regulatory reasons.

Sufficient evidence against any of these indicators, was sufficient for ONS to judge a body to be under public sector control.

5.1.2 Updating of the register

The ONS Public Sector Classification Guide provides a register of bodies classified within the public sector and bodies previously classified in the sector but subsequently abolished or privatised. The guide is maintained by a dedicated team within ONS (the National Accounts Classification Team) and updated each month.

The National Accounts Classification Team work with other teams within ONS (such as those maintaining the central business register) and HM Treasury, as well as monitoring media, legislation, and other information channels to identify bodies being created, abolished, merged, or renamed so that these changes can be reflected in the guide. Likewise, where there are material changes to the governance of a unit, the classification is reviewed and any change published in the guide.

In the case of new units being established, classification decisions are made ex-ante (i.e. before a unit becomes economically active) where possible to enable the correct classification to be implemented immediately by data suppliers and compilers without requiring historic data revisions.

The guide is also updated through regular reviews of the classifications of public sector market bodies. It is aimed to conduct the market test at least every 3 years, drawing on their published and audited accounts. For public sector non-market bodies (classified in the General Government sector S.13), the market test is only repeated if new facts emerge necessitating a classification review.

Major reviews of en bloc classification decisions take place if there are significant legislative or funding changes. These can be prompted by queries from Government departments, requests by HM Treasury or investigations by the ONS Classification Branch.

The ESA 2010 indicators are broadly consistent with the 14 indicators ONS used prior to the introduction of ESA 2010 (see 5.1.1). This meant that ONS did not need to reclassify many new units to the public sector as a result of the introduction of ESA2010. However, the new ESA2010 criteria for assessing whether non-profit bodies are government controlled has led to the reclassification of Network Rail from a private corporation to a government unit. More information on this classification can be found in section 5.2.

All decisions are reflected in the updated guide published in the month the decision is taken and highlighted in an accompanying ‘classifications update’.

5.1.3 Consistency between different data sources concerning classification of units

ONS public sector classification decisions are used within ONS, HM Treasury, Department of Communities and Local Government (DCLG), the devolved administrations, and the Bank of England in the statistics they produce.

Bodies classified in the General Government sector are required (via regulation e.g. designation orders) and under HM Treasury accounting guidance, to be consolidated into the accounts and budgets of Government Departments. For the wider public sector, there are additional government accounting rules which apply to a body once it has been classified by ONS as a public corporation.

In ONS, Classification decisions are reflected in the Inter-Departmental Business Register (IDBR), which is used as the sampling frame for ONS surveys. In most cases, updates to the IDBR and government accounts data mean that unit classification decisions automatically feed into National Accounts data sources ensuring consistency within the implementation of classification decisions. For classification decisions which apply retrospectively (i.e. which lead to revisions to previously published data timeseries) ONS works with data suppliers and compiler areas to make the necessary historic revisions.

Classification changes are implemented in the EDP, PSF and National Accounts as soon as possible, subject to data availability and the relevant revisions policies. Often classifications are implemented in EDP and PSF statistics ahead of National Accounts as a result of the EDP and PSF revisions policy allowing changes to historic data within a shorter timeframe than the National Accounts revisions policy. See Section 4 of this Inventory for more information on the differing revisions policies.

5.2 Existence and classification of specific units

1. Non-profit institutions

Some Non-Profit Institutions (NPIs) which apparently serve households are classified inside the General Government sector. NPIs are classified to the General Government sector if they are controlled by government (or public sector bodies in aggregate) in accordance with ESA 2010. These NPIs include many different types of educational bodies as well as a number of registered charities, including non-departmental public bodies with charitable status (such as the Arts Council for England, Arts Council for Wales, British Council, National Health Service Charities).

2. Quasi-corporations

The UK only recognises a limited number of quasi-corporations. The major quasi-corporations relate to Local Government controlled housing organised and funded through the Housing Revenue Account (HRA). The HRA is a separate ring-fenced section of Local Authorities through which rental income is received and expenditure on housing management and maintenance is managed. The HRA is classified as a quasi-corporation in the public non-financial corporations sector.

3. Infrastructure companies

Much of the public infrastructure in the UK has been privatised. However, the pattern is different across England, Wales, Scotland and Northern Ireland, and some infrastructure companies do remain in public ownership. The most significant are listed below.

3a. Rail and Metro

Transport for London is classified as a Local Government body; however it has a number of subsidiary companies classified as public non-financial corporations. These include London Underground Ltd and Docklands Light Railway Ltd.

In Northern Ireland, Northern Ireland Railways remains entirely public sector owned, and is classified as a public non-financial corporation.

The main rail network in Britain is owned by Network Rail Ltd which is classified (under ESA2010) as a central government body (although under ESA95 it was classified as a private non-financial corporation). More information on this classification decision can be found on the ONS website. The majority of the train operating companies and mainline rail freight companies are classified as private non-financial corporations. Notable exceptions to this rule are:

- East Coast Mainline Company Ltd – classified as a public non-financial corporation;
- Direct Rail Services Ltd - a public non-financial corporation subsidiary of the Nuclear Decommissioning Authority.

The UK has a number of smaller tram and metro networks (in Manchester, Sheffield, Tyne and Wear, Birmingham, Nottingham, and Blackpool). These are a mixture of public and private sector bodies.

3b. Airports

Most of the large UK airports are classified within the private sector. However, a number of the smaller UK airports and airport groups are in public ownership including Newcastle International Airport Ltd and Cardiff International Airport Ltd (both classified as public non-financial corporations), Highland and Islands Airports Ltd (classified in Central Government) and Cornwall Airport (classified in Local Government). Both Highlands and Islands Airports Ltd and Cornwall Airport receive significant government financial support and have insufficient income to pass the ‘market test’.

3c. Ports

Although most UK ports are classified in the private sector, a small number of the UK’s largest Trust Ports are classified in the public sector as a result of government control in the Ports Act 1991. Consequently the large ports of Dover, Aberdeen, Milford Haven, Harwich, Poole and Port of Tyne are classified as public non-financial corporations, along with some smaller trust ports whose governing bodies are largely public sector appointed or subject to public sector control in other ways.

3d. Public Utility Companies

The UK has privatised most of its water, gas and electricity companies as well as British Telecom (now BT Group plc). However, the public sector continues to control Scottish Water (classified as a public non-Financial corporation) and Northern Ireland Water (classified within Central Government).

The Nuclear Decommissioning Agency (classified within the Central Government sector) also continues to operate a small number of Magnox Nuclear reactors, and so generates and sells electricity.

3e. Roads

Most roads in the UK are owned by the Government or public sector bodies. The Strategic Road Network, which includes most motorways, is owned by the Department for Transport and managed by the Highways Agency. Local Government owns the remaining local road network.

Several dedicated units manage particular pieces of road infrastructure – these include the Humber Bridge Board and Tamar Bridge Torpoint Ferry Joint Committee. They are classified as public non financial corporations because they are mainly funded by road tolls. The Forth Estuary Transport Authority and Tay Road Bridge Joint Board are both classified to Central Government following a Scottish Government decision to abolish road tolls.

Concessions exist in relation to the M6 Toll Motorway and Severn River Crossings which means that these particular pieces of infrastructure are classified outside of the government sector.

4. Education bodies (universities, colleges and schools)

The classification of universities, schools and similar bodies varies considerably. Most state funded schools are classified in the Local Government sector but academies (run by Academy Trusts) are under more centralised control and are classified as Central Government bodies.

Further Education Colleges and Sixth Form College Corporations in England and Wales are classified outside of the public sector as Non-Profit Institutions Serving Households (NPISH) bodies. However, many of the equivalent bodies in Scotland and Northern Ireland are classified to Central Government due to the differences in legislation set by the devolved administrations.

Unlike schools and further education colleges, universities in the UK have typically had much greater autonomy and have been in control of their own general corporate policy through their individual governing bodies. Consequently most universities are classified as NPISH bodies.

5. Public TV and radio

The UK has three major public sector controlled TV and radio companies. The best known is the BBC, which is predominantly funded by the Television Licence Fee. The Licence Fee is classified as a D.59 other current tax, and consequently the BBC is classified as a Central Government body. The BBC has a number of commercially funded subsidiary companies (e.g. BBC Worldwide Ltd) and these are classified in their own right as public non-financial corporations following application of the market test.

The specialist Welsh Broadcaster ‘S4C’ is also classified in the Central Government sector. It is not funded by a license fee but from a mixture of sources, as is the significantly smaller specialist Gaelic language channel, BBC Alba.

Channel Four Television Corporation Ltd is also public sector controlled. However, Channel Four is entirely funded from the sale of advertising and other sources of commercial income, and receives little or no government subsidy. As such it is classified as a public non-financial corporation.

6. Public hospitals

The National Health Service in the UK comprises four independent systems in England, Wales, Scotland, and Northern Ireland. However, public sector hospitals in all four countries are all classified as non-market bodies in the Central Government sector.

In England, the majority of public hospitals are controlled by NHS Trusts or NHS Foundation Trusts. These two types of bodies have different levels of autonomy but are both ultimately under public sector control. In Scotland, hospitals are under the control of regional Health Boards directly controlled by the Scottish Ministers. In Wales, hospitals are again mainly under the control of regional Health Boards under the control of the Welsh Ministers. In Northern Ireland, hospitals are controlled by regional Health and Social Care Trusts.

7. Special Purpose Vehicles (SPVs)

A number of UK banks have used SPVs to transfer risks, reduce funding costs, and lower their capital requirements. A large number of UK Monetary Financial Institutions have used SPVs, and the Bank of England provides a list of these here:
http://www.bankofengland.co.uk/statistics/Documents/dl/13.12.2010_mcg.xls

Most of the SPVs included in the Bank of England list have not been explicitly classified by ONS as they are clearly not public sector bodies. However, the SPVs related to Northern Rock and Bradford and Bingley (both financial institutions acquired by the Government during the financial crisis), have had to be classified given the public sector nature of their parent institution. Most of these SPVs are resident units, which under ESA2010 rules are classified with their parent, i.e. within the central government subsector. A small number are registered in Jersey (although these have very limited activity) and these are institutional units in the Rest of the World sector.

8. Specific public units involved in financial activities

There are a number of public sector bodies in the UK involved in financial activities. They include:

- Royal Bank of Scotland (RBS) is in the Public Financial Corporation sector, specifically as a public monetary financial institution. In 2009, the UK Government acquired a large equity holding in RBS Group and now owns more than 80% of the shares in the Group. The Group includes a number of financial corporation subsidiaries in the monetary financial institutions, other financial institutions and pension corporation subsectors, as well as a number of non-financial corporation subsidiaries.
- Lloyds Banking Group was in the public sector from January 2009 (when the UK Government acquired 39% of its equity) until March 2014 when it was reclassified to the private sector following the UK Government reducing its share holdings to below 25%.
- Northern Rock Asset Management and Bradford and Bingley are companies acquired by the UK Government following the financial crisis, and are now being gradually wound down (by the UK Asset Resolution Ltd) following the sale of continuing banking operations back to the private sector. Both companies are considered ‘defeasance structures’ and classified in the Central Government sector.
- Export Credit Guarantee Department helps exporters of UK goods and services to win business, and UK firms to invest overseas. It is classified as a public financial corporation.
- Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) are regulatory authorities for the UK financial corporation sector and are both classified as financial auxiliaries.
- The Pension Protection Fund is a support mechanism, organised on a commercial basis, to provide support for the failure of private sector defined benefit pension schemes in case of company failure. It is classified as a public pension fund and insurance corporation.
- The Financial Services Compensation Scheme is the UK’s deposit protection scheme and is classified in Central Government as it is deemed to serve households rather than the

financial sector (currently being reassessed under new MGDD guidance on Deposit Protection Schemes).

- Green Investment Bank plc was established to provide investment for green projects. Unable to borrow, the company is classified within the Central Government sector.
- Big Society Capital Group (BSCG) was established to manage funds taken from dormant bank accounts and supplemented with funds provided by a consortium of commercial banks. BSCG invest in 'social projects' on a match-funding basis. The three units within the group are all classified to the Central Government subsector as they are subject to public sector controls and the investment activities undertaken are judged to be non-market.

9. Other specific units

Not applicable.

6 Time of recording

This section describes the time of recording for taxes and social contributions, EU flows, military expenditure, interest and other transactions (subsidies, current and capital transfers and financial transactions.

The time of recording is defined in ESA2010 §1.101. It is the accrual basis, meaning when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled.

6.1 Taxes and social contributions

Council Regulation 2516/2000 amended the Regulation on European system of national and regional accounts in the Community (ESA) 95 as concerns taxes and social contributions and clarified the rules concerning both the time of recording and the amounts to be recorded.

6.1.1 Taxes

This section describes the methods of recording of taxes on an accrual basis. The time of recording is defined in ESA2010 para. 4.26 and para. 4.82 as the time "…when the activities, transactions or other events occur which create the liabilities to pay taxes".

Most central government income is in the form of tax receipts, the majority of which are collected by HM Revenue & Customs (HMRC). The data for tax and social contributions are collated and quality-assured by HMRC analysts from their administrative data sources before delivery each month to ONS and the HM Treasury (HMT). The monthly data are of good quality with the end of year audit conducted by HMRC in order to publish their end of year Trust Statement (usually in July) yielding relatively small revisions to the previously supplied monthly cash data.

All HMRC tax data are cash based with accrued figures calculated on a time-adjusted cash basis. The accruals principle used for tax receipts 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 (Pay as You Earn) 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 (Value Added Tax) is accrued over the quarter preceding the cash receipt. In some cases (notably corporation tax) an appropriate accrual lag is not available in a timely manner and so unaltered cash data are used instead.

Data for other non-HMRC taxes are supplied directly to ONS by relevant levy raising body. These taxes include vehicle excise duty, television license, passport fees, regulator fees, levies collected by government levy-funded bodies, national non-domestic rates (NNDR) and council tax. In the case of NNDR, council tax, levy payments and regulatory fees the annual cash receipts are smoothed over the year to reflect that the activities that give rise to the tax liability are occurring throughout the year. For other taxes where there is no information on the accrual timing unaltered cash data are used instead.

Reimbursements, refunds, penalties and settlements are all recorded together with the associated tax. As accrual information for these payments is not generally available, the payments are recorded on an unaltered cash basis. An exception to this are the large income tax reimbursements that HMRC made between 2010/11 and 2012/13 as a result of identifying errors made in tax calculations for the period 2003/04 to 2008/09 when introducing a new computer system. As the payments relate to an extended period of time, and it was possible to identify when the original liability arose, the reimbursement payments have been accrued back to the year of the original liability.

In addition to cash-based tax data, the UK also imputes certain tax and spend items. An example of this is Renewable Obligation Certificates (ROCs) where ONS imputes a tax revenue from the purchase of ROCs by energy companies but offsets this with an equal amount in the form of subsidies to the renewable energy generator firms. In reality, there is no direct cash flow from the ROCs market to government. But as government set up the scheme in order to incentivise the purchase of renewable generated energy, national accounts considers that the economic reality is that government is taxing energy suppliers and redistributing this to renewable energy generators. The source data for this imputation is data on the auction of ROCs from Ofgem (Office of Gas and Electricity Markets).

ONS is responsible for final collation and quality assurance of tax data to be included within EDP statistics, but works closely with HMRC in quality assuring the data. Accrued tax data are published monthly in the joint ONS and HMT Public Sector Finances bulletin with HMRC publishing cash tax data by tax type on the same day. The needs of the PSF bulletin and National Accounts are fully embedded into all the receipts monitoring systems.

6.1.2 Social contributions

The time of recording of social contributions is defined in ESA10 para. 4.94 as "… the time when the work that gives rise to the liability to pay the contribution is carried out…" for employers and employees social contributions, and as "… when the liabilities to pay are created" for self-employed and non-employed persons.

Social contributions are collected by HMRC and reported on a cash-adjusted basis as with HMRC taxes. As social contributions are in general paid alongside PAYE the contributions are lagged by one month as with the PAYE data. The data collection processes for social contributions are the same as those for taxes described in section 6.1.1.

6.2 EU flows

The issue of recording EU flows is important for national accounts, especially government accounts, because – due to the institutional arrangements – in general all amounts transit via government accounts. In order to avoid potential effects on the level of government deficits, countries have to eliminate these flows from public accounts. Eurostat, after consultation with Member States, released a decision in February 2005. The ESA2010 Manual on Government Deficit and Debt Chapter II. 6 "*Grants from the EU budget*" provide further details concerning the recording of these flows.

6.2.1 General questions

There are five principle EU structural and agricultural funds which the UK receives funding from:

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- Cohesion Fund (CF)
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

Each of the funds is managed in the UK by one or more authorised managing authorities. These managing authorities ensure that the bodies who are recipients for the funds are eligible for the funding and provide the necessary documentation for submission to the European institutions providing the funds. Most of the bodies in receipt of the European funds are private sector bodies although some government units are beneficiaries of the European funding. These units are mainly local government bodies who are in receipt of ERDF or ESF payments.

All managing authorities in the UK are classified in the government sector. In England, the key managing authorities are the Department for Communities and Local Government (DCLG) for the ERDF and CF, the Department for Work and Pensions (DWP) for the ESF and Department for Environment, Food and Rural Affairs (DFERA) for the EAFRD and EMFF. In the devolved administrations of Wales, Scotland and Northern Ireland, similar government bodies manage the European fund claims, and in London the Greater London Authority acts as the managing authority for certain of the European funds.

In general, the European Institutions administering the funds only provide the funds once the expenditure has taken place and they have received all relevant documents in order to provide reimbursement for the appropriate amount. Similarly the UK central government department, or devolved administration, who is operating as a managing authorities will generally only disburse EU funding once such payments have been confirmed as allowable for EU grant/subsidy purposes. The process of confirming that the payments are allowable under the terms of the EU funds may be carried out directly by the managing authority or by a local authority, or non-departmental body, through which the payment is being channelled. However, no EU grant funds are paid to local authorities (or non-departmental bodies) until the local authorities concerned have made disbursements to third parties and until such payments have been confirmed as allowable for EU grant purposes. Consequently, EU funds may not accumulate within government prior to distribution to the appropriate beneficiary.

Although the EU funding passes through government accounts, in the UK, the subsidies and grants paid through the EU funds are recorded as being paid directly from the Rest of the World sector (S.2) to the relevant National Accounts Sector (i.e. the sector to which the fund beneficiary belongs). To achieve this, the departmental (or devolved administration) revenue and expenditure data relating to EU Structural and Agricultural Funds (as recorded on HM Treasury's OSCAR data system), are removed prior to compiling government net borrowing. Only expenditure which relates to grants or subsidies to third parties are excluded. So, where government itself is the final beneficiary for EU funding then the expenditure (and related revenue) is recorded as normal in the government accounts. Similarly where the UK government is providing additional funds to a project on top of the EU funds (or because EU funding claims were disallowed) then this additional funding is recorded as normal in the government accounts.

It should be noted that although the EU grant and subsidy data are excluded from the compilation of the government accounts the data are used within the wider National Accounts to identify the flows from the EU (Rest of the World sector) to the other sectors of the economy.

Cash flows in and out of the UK Government related to EU grants and subsidies are included within the F.2 data in the government financial accounts. Where there is a timing difference between the cash in-flow and out-flow this will impact on the net borrowing as derived from the financial account. Therefore, an accounts receivable/payable flow is derived from EU cash receipts and assumptions about the profile of cash expenditure.

6.2.2 Cash and Schengen facility:

The time of recording of payments received by the beneficiary Member States through Schengen and Transitional Facilities would be accounted according to the Eurostat decision on EU flows, while the time of recording of Cash-flow Facility is when the transfers are to be made by the Commission. In practice, in this particular case, the amounts would be recorded as revenue in the years in which they were received by the beneficiary countries.

This facility does not apply to the UK.

6.2.3 Jeremie/Jessica

The European Commission and the European Investment Bank Group and other International Financial Institutions on financial engineering in cohesion policy, the European Commission drew up new initiatives for improving access to finance of European corporations. These initiatives require the involvement of EU governments (as in the case for other cohesion and structural policy instruments). EU Member States implement the JEREMIE and JESSICA initiatives by establishing a Holding Fund funded through their Structural Fund receipts from the European Commission and national contributions. The Holding Fund (HF) can be managed either by the EIF or by other financial institutions, according to the EU Structural

Funds legislation applicable In this context, the "Managing Authorities" can award management either directly to the EIF or any national institution which benefits from public procurement exemption under national law through a grant agreement, or indirectly by way of tender to a financial institution through a service contract. Holding Funds can be set up either as "*ring-fenced blocks of finance*" or as bank accounts managed by the Holding Fund manager on behalf of and in the name of the Managing Authority, or as an independent legal entity (Special Purpose Vehicle – SPV).

The UK has implemented Jeremie and Jessica programmes in some regions of the UK. Jeremie schemes have been implemented in Wales, Yorkshire and Humberside, the Northwest of England and the Northeast of England

- The Welsh scheme is managed by Finance Wales, a body classified in Central Government.
- The Yorkshire and Humberside Jeremie Scheme is managed by a company called Finance Yorkshire Ltd, classified as
- The Northwest Jeremie scheme is managed by Northwest Business Finance Ltd, classified as
- The Northeast scheme is managed by Northeast Finance Ltd, classified as

The UK Jessica schemes are predominantly funded by Structural Funds alone but a small amount of Government funding was provided to Northeast Finance Ltd.

The UK also has Jessica funds in London, the North West, the East Midlands, Wales and Scotland.

- The London Jessica Fund, called the London Green Fund is managed by the Greater London Assembly, classified in the Local Government subsector.
- The Scottish fund is managed by a Jessica Investment Board, within the Scottish Government. The Welsh fund, known as the Regeneration Investment Fund for Wales is administered by the Welsh European Funding Office (WEFO), which is part of the Welsh Government.
- The Northwest Jessica fund is known as the Northwest Urban Investment Fund, and The East Midlands Jessica Fund is known as the East Midlands Urban Development Fund, both were established by the Central Government classified Regional Development Agencies.

Unlike the Jeremie funds, the Jessica Funds are predominantly match funded by UK Government, with similar amounts invested by EU Structural Funds and by the UK Government. These have mainly been grants.

The final beneficiaries of Jessica and Jeremie programmes in the UK have been predominatly non-government units.

6.2.4 Market Regulatory Agencies

Market regulatory agencies are bodies whose intervention activities are mostly characterised by buying and selling products, often on behalf of the EU, with an aim to stabilize prices and to maintain purchasing prices to farmers at a sufficiently high level: they offer buying agricultural products from domestic producers at a predetermined price (often higher than "market" prices) and reselling them usually at a lower price later on and occasionally arranging for giving them away free of charge. These agencies can be involved in storing agricultural inventories, or in arranging for storage, as well as in distributing subsidies.

The question is whether the principle of re-arranging EU transactions would also apply to the recording of changes in inventories (P.52) arising from the interventions of agricultural market regulatory agencies in the market. According to the guidance, in those circumstances where a market regulatory agency acting on behalf of the EU is classified inside general government, the creation of a unit in S.11 is recommended in order to capture the changes in agricultural inventories, and to avoid that such changes in inventories are recorded in national government accounts (as changes in government inventories, with an impact on the government deficit/surplus) or in the rest of the world accounts (as exports and imports). The unit to be created to capture these changes in inventories is a quasi-corporation, rather than a notional unit, in order to ensure an equality of treatment with cases where market regulatory agencies are classified outside government. This is also appropriate because any temporary difference in value arising from changes in market value of these inventories not yet covered by subsidies is likely to be small and on average zero.

The only remaining market regulatory agency in the UK is the British Wool Marketing Board (BWMB) which was established in 1950 to operate a central marketing system for UK fleece wool, with the aim of achieving the best possible net return for producers. It collects, grades, sells and promotes fleece wool and is the only remaining agricultural commodity board in the UK with aims of:

- providing a secure market outlook for producers
- stimulating demand by technical research, product development and promotion
- improving the quality of the clip
- providing an efficient marketing service from collection to auction

It is a non-profit institution and covers its costs from a portion of the price of the wool it sells - with the remainder being passed to the producers. Importantly, the wool producers are not obliged to sell their product via the BWMB and therefore payments to The Board are voluntary. It was classified as a Public Non-financial Corporation in September 2010 with effect from 1958.

6.3 Military expenditure

The ESA2010 principle on accrual recording, when applied to military expenditure, is generally the time when the economic ownership of the good occurs, which is usually when delivered.
ESA 2010 paragraphs 20.190-20.192 define the rules for the statistical recording of military equipment. Chapter II.5 in Part II of the ESA 2010 MGDD details the rules concerning the recording of military expenditure.

6.3.1 Types of contracts

The Ministry of Defence purchases most of its single use military equipment (e.g. planes, tanks, ships) through competitive tender processes with industrial suppliers. On occasion though military development projects have involved international collaborations. A notable example being the Future European Fighter Aircraft programme which developed the Eurofighter.

Payments for single use military expenditure will normally take place as phased payments during the contract although the accrued expenditure will be reported at the point of delivery by the contractor. This leads to significant accounts receivable being recorded in EDP and National Accounts to reflect the fact that cash payments are being made ahead of the accrued expenditure being recorded. Some accounts payable will also be recorded where payments have taken place under contract after delivery of the equipment. As it is not possible within the data received to differentiate between accounts receivable and payable the timing adjustments are all recorded on a net basis within accounts receivable.

6.3.2 Borderline cases

There are no borderline cases.

6.3.3 Recording in national accounts

The Ministry of Defence, like other UK central government bodies, compiles its annual accounts in accordance with the International Financial Reporting Standards (IFRS) as adapted for the public sector by the UK Government's Financial Reporting Manual (FREM). See Chapter 2.2 for more details.

As with other public sector expenditure, in-year accrued military expenditure data are recorded on the HM Treasury managed OSCAR database system. The OSCAR system requires the Ministry of Defence (MoD) to record at the start of the financial year monthly budget profiles for different categories of expenditure (split by ESA transaction category, asset type and COFOG). These budget profiles are then updated with outturn data on a monthly basis and the detailed OSCAR data provided to ONS quarterly for processing for National Accounts and EDP purposes. More aggregated OSCAR data are provided to ONS on a monthly basis for inclusion in the monthly UK Public Sector Finances.

Cash data recorded in AF.2/F.2 are sourced from the Bank of England surveys that collect all cash deposit movements within both the Government Banking Service and commercial banks. The cash data are only available at transactional level, aggregated for the central government subsector and it is not possible from this data source to identify specific cash movements related to single use military equipment. Therefore, on a quarterly basis ONS collects directly from the Ministry of Defence cash expenditure related to the procurement of single use military equipment. These data are used to calculate net accounts receivable/payable figures (as the accrued OSCAR data source identifies separately single use military equipment expenditure) and are reported in EDP Questionnaire Table 7.

In addition to recording the capital expenditure on military equipment (P.51g) there is also the need to record in National Accounts and EDP the consumption of these capital assets (P.51c) and where relevant the sale of the "used" assets (P.51g). The sales are recorded at the point of disposal as negative fixed capital formation and the consumption of the capital assets is calculated using a modelled approach which uses average life lengths for each different type of asset. This same modelled approach is used to calculate the consumption of fixed capital assets throughout the UK National Accounts.

The accounts also include expenditure on single use items, such as ammunition and bombs, these are recorded in National Accounts as a positive change in inventories (P.52) when acquired. When the items are used they are removed from the inventories by the recording of a negative change in inventories (P.52) and an equal amount is recorded as expenditure in intermediate consumption (P.2). More information on this treatment and the wider recording of military expenditure in National Accounts is available in an article on the ONS website.

6.4 Interest

This part aims at describing accrual adjustment for interest.

ESA2010 paragraph 20.178 reads: "*In the system, interest is recorded on an accrual basis, i.e. interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding"*

ESA2010 MGDD part II, chapter II.4 is dealing with some practical aspects of the recording of interest.

6.4.1 Interest expenditure

Table 8: Availability and basis of data on interest

Instrument	S.1311		S.1312		S.1313		S.1314	
	State	**OCGB**	**Main unit**	**OSGB**	**Main unit**	**OLGB**	**Main unit**	**OSSB**
Deposits (AF.2)	cash/ accrual	cash/ accrual	M	M	cash/ accrual	cash/ accrual	M	M
Securities other than shares (AF.3)	cash/ accrual	cash/ accrual	M	M	cash/ accrual	cash/ accrual	M	M
Loans (AF.4)	cash/ accrual	cash/ accrual	M	M	cash/ accrual	cash/ accrual	M	M
Other accounts receivable (AF.8)	M	M	M	M	M	M	M	M

Cash/accrual, M (not applicable) or L (not available)

Most interest expenditure by government relates to interest paid on government bonds and loans. Interest expenditure related to bonds and most other significant liabilities are available on both a cash and accruals basis. The cash and accruals data are used to calculate both interest payable and interest accrued but not yet paid.

6.4.2 Interest Revenue

Interest receipts of government relate to a variety of different assets. Most of the interest receipt data comes from administrative sources (e.g. for student loans and the Public Works Loan Board) but some receipts are calculated from asset stocks and assumed rates of interest (e.g. interest on deposits with commercial banks). All accrual adjustments are recorded in the instrument to which the interest receipt relates.

6.4.3 Consolidation

All interest payments and receipts are linked to a specific instrument and further split by counterpart sector. This information allows interest to be consolidated both within and between government subsectors. The two most significant areas of consolidation are for government holdings of government issued bonds and for central government loans to local government (via the Public Works Loans Board).

6.4.4 Recording of discounts and premiums on government securities

Premia and discount payments made on government securities at the point of issuance are accrued over the lifetime of the government security and recorded as such in government interest payable (D.41). All accrued interest on government issued securities is treated as government expenditure regardless of whether it relates to premia or discounts and so securities issued at premia result in negative accrued expenditure. This accrual treatment is followed in both the WB and EDP statistics and so no adjustment between the two is required.

6.5 Time of recording of other transactions

The UK Government budgets, monitors and reports the public sector finances on an accrual basis and so the principal EDP data sources record transactions on an accrual basis (e.g. OSCAR, local government survey data). Tax revenue is an exception to this general rule where the accrued tax figures are calculated from cash tax receipts using a time-adjusted cash methodology.

In general the accrual principles followed by UK public sector bodies are in line with ESA requirements, but in some cases adjustments have to be made, such as for the recording of fines at the point that the liability is fixed by the courts. Wherever possible these adjustments are made by the data suppliers (e.g. HMT or DCLG) within their data systems.

7 Specific government transactions

Methodological rules applicable for recording of specific government transactions are set up in the Manual on Government Deficit and Debt (implementation of ESA2010), 2014 edition[5].

7.1 Guarantees, debt assumptions

Generally, government guarantees are recorded off-balance sheet in government accounts (contingent liability), and neither government debt nor deficit is impacted. However, when a guarantee is activated (called), the payment made by government on behalf of debtor is normally recorded as government expenditure. In case of repeated guarantee calls, the whole outstanding amount of the guaranteed debt should be assumed by government. The latter leads to one-off increase of government debt as well as deficit. The accounting rules are explained in the Chapter VII.4 on Government guarantees of the ESA2010 Manual on government deficit and debt. This chapter describes also specific cases and related treatment in national accounts.

7.1.1 Guarantees on borrowing

7.1.1.1 New guarantees provided

Recording in public accounts

As explained in Chapter 2, all UK public bodies compile and publish a full set of annual accounts according to recognised accrual accounting standards. In the UK, most government guarantees are provided by central government departments, including HM Treasury. A range of smaller guarantees may be provided by local government units. In the case of both central and local government bodies, the relevant unit providing the guarantee is responsible for maintaining related accounting records and for ensuring appropriate accounting in its published resource accounts.

Recording in national accounts

Government guarantees in the accounts are sourced by ONS from the consolidated published accounts of central government departments and local government bodies. Due to the large number of local government bodies it is not possible to review the accounts of every unit, but a sample is taken which includes the larger bodies and the range of different bodies. ONS conduct this review of the accounts on an annual basis, but significant guarantees are generally reported to ONS on an in-year basis by HM Treasury.

7.1.1.2 Treatment of guarantees called

Recording in public accounts

[5] http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-010

UK Government guarantees have generally not been called in recent years. The last significant guarantee call was in 2008, when Metronet (a public non-financial corporation) entered administration and the government guarantee on Metronet borrowing was called resulting in a call amount of £1.8 billion. The call was recorded in the accounts of all relevant parties (in this case Transport for London – the parent company of Metronet, the Greater London Authority and the Department for Transport) following the recognised accounting standards followed by that body.

Recording in national accounts

The Metronet guarantee call was recorded as follows in the national accounts. Central government (the Department of Transport) funds transferred to local government (the Greater London Authority and then Transport for London) are recorded as a capital transfer (D.99). At the same time, Transport for London (local government) assumes the debt of Metronet which is recorded as an increase in the AF.3/AF.4 liabilities of local government (and an offsetting reduction in the liabilities of public corporations) and a capital transfer (D.99) is recorded from the local government sector to the public corporation sector. In future periods local government (Transport for London) pays off the debt and this is recorded within the financial account as a cash flow out for an equal reduction in AF.4 liabilities.

The treatment of the Metronet guarantee call is in line with the treatment set out in the Chapter VII.4 on Government guarantees of the ESA2010 Manual on Government Deficit and Debt (MGDD). No other guarantee calls have been recorded in recent years, but should any take place then the MGDD guidance would be followed.

7.1.1.3 Treatment of repayments related to guarantees called

Recording in public accounts

No recent cases of this in the UK.

Recording in national accounts

No recent cases of this in the UK.

7.1.1.4 Treatment of write-offs by government in public accounts of government assets that arose from calls, if any

Not applicable.

7.1.1.5 Data sources

Data on guarantees are generally sourced from published accounts as explained in 7.1.1.1. Data on guarantee calls will generally be sourced either directly the involved bodies. The treatment of guarantee calls is the same in the WB as in the EDP statistics.

7.1.2 Guarantees on assets

The UK Government does on occasion guarantee assets the most noteworthy recent cases being during the global financial crisis of 2007/08 onwards. Examples of guarantees on assets are the Contingent Capital Facility taken bu by the Royal Bank of Scotland and Lloyds Banking Group and bank deposit guarantee schemes.

7.1.2.1 New guarantees provided

Recording in public accounts

See section 7.1.1.1.

Recording in national accounts

See section 7.1.1.1.

7.1.2.2 Treatment of guarantees called

Recording in public accounts

No government guarantees on assets have been called in recent periods.

Recording in national accounts

No government guarantees on assets have been called in recent periods.

7.1.2.3 Treatment of repayments related to guarantees called

Recording in public accounts

No recent cases of this in the UK.

Recording in national accounts

No recent cases of this in the UK.

7.1.2.4 Treatment of write-offs

Not applicable.

7.1.2.5 Data sources

Data on guarantees are generally sourced from published accounts as explained in 7.1.1.1.

7.2 Claims, debt cancellations and debt write-offs

Providing loan capital is generally a financial transaction not impacting the net borrowing/net lending (B.9). Government, as a lender, is expecting that the debtor will be in a position to repay the loans, according to a schedule agreed at inception. However, if the loan is non-recoverable, the recording of government expenditure might be considered. The related accounting rules are set up in ESA95 and further clarified in the Chapter III.2 on Capital injections and Chapter VII.2 on Debt assumption and cancellation of the ESA95 Manual on government deficit and debt.

7.2.1 New lending

Lending by government covers a wide range of activities. Departments (or their arms length bodies) may lend money to individuals or corporations to further government policy aims. Examples include:

- Loans to small businesses;
- Help to buy (loans).

There are also some government bodies that specialise in providing loans. Examples include:
- Public Work Loans Board (a central government body): provides loans to public bodies, including local government bodies;
- UK Asset Resolution Ltd (a central government body): manages the loan books of Northern Rock Asset Management and Bradford & Bingley;
- Student Loans Company (a central government body): provides loans to students;
- Export Credit Guarantee Department (a central government body): provides loans to businesses involved in the UK export market.

Loans data are mainly sourced from the HM Treasury cash management system, OSCAR and departmental resource accounts. Many of the data sources (e.g. the HM Treasury cash management system) only provide net loans data which mean movements in new lending and repayments are not separately identified.

7.2.2 Debt cancellations

Debt cancellations may be reported to the ONS through returns from the government bodies involved in the debt cancellation (this is the case in terms of debt cancellation by the Export Credit Guarantee Department and Students Loans Company) or may be reported by HM Treasury (e.g. the cancellation of gilts transferred to government from the Royal Mail Pension Plan).

When aware of a debt cancellation ONS check whether it should indeed by recorded as debt cancellation rather than debt write-off and then record appropriately in the accounts. Debt cancellations are recorded as D.99 transactions, whereas debt write offs are recorded as changes in volume within the financial accounts. The same treatment is always followed in the WB as the EDP data.

7.2.3 Repayments of claims

See section 7.2.1.

7.2.4 Debt write-offs

See section 7.2.2.

7.2.5 Sale of claims

There have not been many cases where the UK Government has sold loan assets. However, one example where this has occurred is in the sale of mortgages held by UK Asset Resolution Ltd (the holding company for Northern Rock Asset Management and Bradford & Bingley Ltd). When made aware of sales such as these ONS first reviews whether the “sales” are true sales in National Accounts terms (i.e. all the risks and rewards have been transferred to the new owner) or whether there are clauses that prevent the full transfer of risk and reward. In the case of the UK Asset Resolution Ltd mortgage books these sales have been viewed as true sales and the recording, therefore, is as a financial transaction between AF.2 and AF.4. In each case the sales were deemed to be market transactions and so any (small) differences between the sale price and the nominal value of the loans sold are treated as other volume changes rather than capital transfers.

7.3 Capital injections in public corporations

Government capital injections are transactions which occur when governments provide assets (in cash or in kind) to public corporations (or assume liabilities), in their capacity of owner / shareholder, with an aim to capitalize or recapitalize them. The accounting rules are set out in ESA2010 paragraphs 20.197-20.203 and clarified in the Chapter III.2 on Capital injections of the ESA2010 Manual on government deficit and debt. These chapters devotes considerable space to set the operational rules for the recording of capital injections in national accounts either as transactions in equity (financial transaction = financing = “below-the-line”), or as capital transfers (non-financial transaction = expenditure = “above-the-line”). It is recalled that the MGDD also indicates that payments by government to public units, structured in the legal form of a loan or a bond, might be considered in specific circumstances as capital injections, and to be classified in certain cases as a non-financial transaction (predominantly capital transfer D.9); cf. MGDD III.2.3.2.2.
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Capital injections in public corporations may relate to equity injections, recorded as a financial transaction (involving F.2 and F.5), or as a capital transfer (D.9). In the UK there have been instances where government has injected capital into corporations via the purchase of equity, but because the government paid above the market price for the equity a capital transfer (D.99) is recorded for the amount paid by the government above the market valuation. Examples of this include the government purchase of shares of Royal Bank of Scotland and Lloyds Banking Group in 2009.

Information on capital injections are obtained via regular communications between the ONS and HM Treasury. Decisions on the appropriate recording of such transactions are made, independently by the ONS, with reference to the latest ESA/MGDD guidance. These decisions are then fed back to HM Treasury so that they can ensure that the data sources are appropriately coded. These classification decisions on the nature of transactions apply equally to the UK public sector finances and the EDP and national accounts data and so no translation between the WB and the EDP data is necessary.

7.4 Dividends

The accounting rules are set out in ESA2010 paragraphs 20.205-20.207. It is recalled, that the ESA2010 Manual on Government Deficit and Debt chapter III.5 indicates that large and exceptional payments out of reserves which significantly reduce the own funds of the corporation should be treated as superdividends, i.e. transaction in shares and other equity (a capital withdrawal). It also sets out that the resource available for distribution by a unit (a corporation) is the *distributable income* of the unit, as defined in the ESA2010, paragraph 4.55.

Total distributions could therefore comprise one part recorded as distributed income of corporations, D.42, and another recorded as transactions in equity, F.5. The former data is reported to Eurostat in ESA2010 table 2 and table 8 within “other property income” category, and the latter is included within transactions in equity in financial accounts. Within the latter, for the benefit of analysis, one should also distinguish between amounts received from the National Central Bank, and amounts received from other public corporations.

ONS source data on dividend payments largely from HM Treasury and the Bank of England, although local government do record via their DCLG returns some dividend payments (most notably from the arms length public housing associations which are classified as public corporations).

In general most dividends received by the UK government are small but when larger dividends are observed they are independently analysed by ONS with a view to determining whether the transactions constitute true dividends or withdrawals of equity (‘super-dividends’). A prominent case has been the transfer of cash from the Bank of England’s Asset Purchase Facility Fund to central government. In this case only some of the dividend payments have been recorded in property income receivable (D.4R) with the rest of the cash transfers recorded as withdrawals of equity.

Classification decisions such as this include analyses of whether the amounts transferred constitute final or interim dividends and whether the amounts transferred exceed the paying unit’s entrepreneurial income. The Eurostat rules are pertinent in that, where ONS determines that a dividend in a final dividend, then the related entrepreneurial income is calculated by reference to the previous accounting year of the paying body. Where ONS determines that the dividend is an interim dividend, then the entrepreneurial income of the current year may be taken into account.

7.5 Privatization

The accounting rules are set out in ESA2010 paragraphs 20.210-20.213. The proceeds collected by government when disposing of shares in public corporations are often called privatization proceeds. The counterpart entity (i.e. the acquirer of shares) is the private sector. Privatization can be indirect when the proceeds are forwarded to government after the sale of a subsidiary. The MGDD chapter V.2 indicates that such indirect privatization proceeds are not government revenue. MGDD chapters V.3 and chapters V.4, respectively, provide the guidance on the treatment of privatisation proceeds from public corporations and restitution and use of vouchers for privatisation.

Specifically, chapter V.3.1 of the ESA2010 Manual on government deficit and debt mentions that in some EU Member States, holding companies have been set- up by the government to restructure the public sector with the aim of making the enterprises more competitive and profitable and, in the long run, disengaging the government. Often their main activity is to organise the privatisation efficiently and transfer the proceeds of the sale of shares to other public corporations (owned by the holding company or not), through grants, loans or capital injections.

The main issue is: what is the relevant sector classification of this sort of unit managing privatisation and possibly making grants to other enterprises? Should this activity been considered as taking place on behalf of the government?

Examples of recent privatizations conducted by the UK Government include:

- the sale of Royal Mail Group in 2013
- the sale of Northern Rock plc to Virgin Money in 2012.

In neither of these cases was a separate institutional unit involved in the privatization process. Although in both cases some restructuring was necessary ahead of privatization. So in the case of Northern Rock plc, part of the bank was separated off in 2010 and reclassified into government as a defeasance structure (i.e. Northern Rock Asset Management). In the case of the Royal Mail Group the historic assets and liabilities of the Royal Mail Pension Plan were transferred to government in 2012.

In both recent cases, the privatization was recorded in the government accounts as a sale of equity, i.e. a purely financial transaction. In the case of the Royal Mail Group sale, Government did retain 10% of the shares and provide them to Royal Mail workers as part of the privatization agreement. This was recorded in the government accounts as a capital transfer payable (D.99) from Government to households (i.e. a gift).

7.6 Public Private Partnerships

The term “Public-Private Partnerships” (PPPs) is widely used for many different types of long-term contracts between government and corporations for the provision of public infrastructure. In these partnerships, government agrees to buy services from a non-government unit over a long period of time, resulting from the use of specific “dedicated assets”, such that the non-government unit builds a specifically designed asset to supply the service. The accounting rules are set out in ESA2010 paragraphs 20.276-20.282 and clarified in the Chapter VI.4 of the ESA2010 Manual on government deficit and debt.

The key statistical issue is the classification of the assets involved in the PPP contract – either as government assets (thereby immediately influencing government deficit and debt) or as the partner’s assets (spreading the impact on government deficit over the duration of the contract). This is an issue similar to the one of distinguishing between operating leases and finance leases, which is explained in Chapter 15 of ESA2010.

As a result of the methodological approach followed, in national accounts the assets involved in a PPP can be considered as non-government assets only if there is strong evidence that the partner is bearing most of the risk attached to the asset of the specific partnership. In this context, it was agreed among European statistical experts that, for the interpretation of risk assessment, guidance should focus on three main categories of risk: “construction risk” (covering events like late delivery, respect of specifications and additional costs), “availability risk” (covering volume and quality of output) and “demand risk” (covering variability of demand).

PPP assets are classified in the partner's balance sheet if both of the following conditions are met: the partner bears the construction risks and the partner bears at least one of either availability or demand risk, as designed in the contract.

If the conditions are not met, or *if government assumes the risks through another mechanism*, (e.g. guarantees, government financing) then the assets are to be recorded in the government's balance sheet. The treatment is in this case similar to the treatment of a financial lease in national accounts requiring the recording of government capital expenditure and borrowing. In borderline cases it is appropriate to consider other criteria, notably what happens to the asset at the end of the PPP contract.

PPP contracts are generally referred to as ‘Private Finance Initiatives’ (PFIs) contracts in the UK, though not all PFIs constitute PPPs under Eurostat rules). Significant use has been made of such PFI contracts in the UK for the funding of infrastructure projects. Eurostat rules (i.e those in the MGDD) are clear on the characteristics of each of PPP contract – and whether such contracts constitute, in substance, either financial or operating leases – and concessions.

Of the total PPP contracts in existence, roughly half in number relate to those of central government departments, the remainder relating to local government bodies. Data on existing and proposed PFIs are maintained by a specific unit - ‘Infrastructure UK’ – within HM Treasury (HMT). This unit maintains a central database of PFIs including a wide range of relevant data about the contracts. Through this database, and through regular contact between ONS and HMT, knowledge about existing and planned PFIs, and about proposals for changes in infrastructure financing is maintained.

Each government unit is responsible, under HMT and DCLG direction, for providing relevant PPP data, both for the purpose of maintaining PPP data under an ESA/MGDD basis and for the purposes (under an IFRS/IFRIC basis) of producing the units' published resource accounts and the unit's data inputs into the UK Whole of Government Accounts.

Given the number and range of PPPs in the UK, and the complexity of PPP contract documentation (often well in excess of 1000 pages per contract), it is not feasible for the ONS to individually assess the risks etc associated with each PPP contract, with a view to determining the appropriate treatment in National Accounts and EDP statistics. Consequently, each government unit individually assesses the appropriate accounting treatment, usually with external expert accounting assistance, under each of the MGDD and IFRS/IFRIC rules. ONS, as the final quality assurer of EDP and National Accounts data, carries out a number of checks on more significant PPPs to quality assure this process, in consultation with Eurostat, where appropriate.

Under ESA/MGDD PPP rules, the existence of government guarantees to PFI partners (e.g. against their losses, debt etc) would constitute a transfer of risk away from the contracting partner. Consequently, the analysis of PFI contracts under MGDD rules includes an analysis of any such guarantees, though these are rare in the UK.

7.7 Financial derivatives

This part describes the use of financial derivatives and the recording of derivative related flows in EDP tables and national accounts.

Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union does not distinguish between the ESA and EDP definition of interest. The Regulation No 549/2013 paragraph 4.47 reads: *Payment resulting from any kind of swap arrangement is recorded as a transaction in financial derivatives in the financial account, and not as interest recorded as property income. Transactions under forward rate agreements are recorded as transactions in financial derivatives in the financial account, and not recorded as property income*.

ESA2010 paragraph 20.133 specifies the treatment of so called of market swaps: "*Lump sums exchanged at inception on off-market swaps are classified as loans (AF.4) when the lump sum is received by government. Off-market swaps are partitioned in the balance sheet into a loan component and a regular, 'at-the-money' swap component.*"

7.7.1 Types of derivatives used

The UK Government do not use derivative contracts widely, in comparison to many other Member States, but where they are used it is for management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions. The main types of derivatives employed are:

Forward Rate Agreements: which are designed to protect against interest rate or exchange rate changes by agreeing on the rate to be paid/received at a settlement date, based on a notional amount of principal that is never exchanged.

Swaps: which like forward rate agreements hedge against interest rate or exchange rate changes by agreeing to exchange streams of payments/receipts based on a notional amount of principal.

Options: which are designed to protect against risks arising from forecast transactions by giving the holder the right, but not the obligation, to purchase or sell an asset (usually a financial asset) at a predetermined price during a specified period of time.

7.7.2 Data sources

Derivatives are mainly used by the UK Government within the Official Reserves, managed by the Bank of England on behalf of the UK Government. However, derivatives are used on smaller scales elsewhere in Government, particularly in relation to National Savings instruments and foreign currency transactions (outside of the Official Reserves). The other UK Government body that hold significant quantities of derivatives is Network Rail.

Data on derivative transactions within the Official Reserves are provided monthly by the Bank of England as net asset figures. Data on Network Rail derivative transactions are sourced from Network Rail accounts which are published every 6 months, in the periods between published reports ONS estimates are used based on previous derivative activity. Data on derivatives associated with National Savings' instruments are provided monthly by

National Savings & Investments (NS&I) as net asset figures. Other derivative activity is captured quarterly through ONS' Quarterly Securities Dealers Survey.

7.7.3 Recording

Not all derivative data sources separately distinguish between asset and liability movements in derivatives. Therefore, the UK Government Finance Statistics (published in ESA Table 2700) and EDP transmissions record financial derivative transactions on a net asset basis whereas stocks of financial derivatives are recorded on both the liability and asset side of the balance sheet based on information available from the ONS' Quarterly Securities Dealers Survey and from the Network Rail accounts.

7.8 Payments for the use of roads

The main issue is whether payments for road, both in the case of tolls and vignettes, should be considered as sale of services or as a tax, when the infrastructures are owned by public units. The issue is important also because the classification of payments made for the usage of roads, either as sales or taxes, influences the assessment of the 50% criterion, which is fundamental for the purpose of assessing whether a given institutional unit (in some cases, a government-controlled entity receiving the payment of the toll or vignette) is a market or a non-market producer.

Payments for the use of roads will generally be classified as a sale of a service in the case of tolls. They will also be classified as a sale of a service in the case of vignettes whenever users have sufficient choice both in terms of selecting specific roads and of choosing a determined length of time for the vignette.

The UK road network is predominantly free to use, however road tolls exist for a number of individual pieces of road infrastructure, mainly bridges and tunnels. Examples where tolls are charged include:

- The Mersey Tunnels
- The Dartford Crossings
- The Tamar Bridge
- The Humber Bridge

In most cases, daily tolls or monthly/annual vignettes are available, and all these charges are treated as the sale of a service by Government.

The bodies collecting the charges vary. Some are stand alone bodies, institutional units in their own right (e.g. the Humber Bridge Board) and classified as non-financial corporations. Others like the Dartford Crossings are run by a Government body, which is mainly funded by grant funding.

The other major road toll like charge is the London Congestion Charge, administered and collected by Transport for London, but also considered a sale of a service by government.

7.9 Emission permits

There are two main trading systems, where European Union Member States can participate:

The Kyoto Protocol is a 1997 international treaty which came into force in 2005. In the treaty, most developed nations agreed to legally binding targets for their emissions of the six major greenhouse gases.[33] Emission quotas (known as "Assigned amounts", AAUs) were agreed by each participating 'Annex 1' country,

The European Union Emission Trading Scheme (or EU ETS) is the largest multi-national, greenhouse gas emissions trading scheme in the world. It is one of the EU's central policy instruments to meet their cap set in the Kyoto Protocol. The so-called EU emission Allowance (EUA) is traded.

The ESA2010 MGDD part VI, chapter VI.5 is dealing with the statistical recording of the emission trading allowances.

The UK has run a number of carbon trading or emissions permit schemes, and participates in the EU Emissions Trading Scheme (ETS). Prior to the creation of the EU ETS the UK had its own, voluntary emissions trading scheme (the UK ETS). This initial scheme did not involve any payments to Government.

Under the EU ETS, the majority of permits have been given away, rather than sold, however from 2008 under Phase II and Phase III of the EU ETS the UK Government has auctioned some permits. A full list of the auctions and the amounts raised is on the UK Debt Management Office website.

Under the MGDD guidance, ETS permits which have been purchased are recorded as taxes on production (D.29) in the year of surrender. ONS uses the available data (see above) to calculate the D.29 annual figures and generates a quarterly path for these based on the UK GDP quarterly data. Cash data are available for the auction proceeds and so AF.89/F.89 stocks and flows are calculated based on this cash data and the derived D.29 data.

In addition to the EU ETS, the UK has a further emissions permit scheme, the Carbon Reduction Commitment Energy Efficiency Scheme. This was introduced in 2012, and the first permits were sold in June and July 2012 relating to pollution in 2011-12. In line with the MGDD guidance on the EU ETS, these are classified as D.29 taxes on production, accruing at the point at which they were surrendered. Permits sold but not surrendered (around 1% of the total) are recorded in AF.89.

7.10 Sale and leaseback operations

Government sells an asset and immediately leases it back from the purchaser. The issue is whether the sale is to be considered as a "true sale" (transaction in GFCF improving B.9) or the transaction is to be treated differently and an asset should remain on government's balance sheet.

MGDD part VI, chapter VI.2 deals with sale and lease back operations.

Not relevant to the UK.

7.11 Securitisation

Securitisation is when a government unit transfers the ownership rights over financial or nonfinancial assets, or the right to receive specific future cash flows, to a special-purpose vehicle (SPV) which in exchange pays the government unit by way of financing itself by issuing, on its own account, asset backed bonds.
The classification of the proceeds received by government as disposal of an asset may lead to an impact on the government deficit, when the asset is a nonfinancial asset or if it is determined that a revenue should accrue. All securitisation of fiscal claims should be treated as borrowing, as well as all securitisation with a deferred purchase price clause and all securitisation with a clause in the contract referring to the possibility of substitution of assets. Also if the government compensates the SPV ex-post, although this was not required according to the contract, the operation should be reclassified as government borrowing.

ESA2010 paragraphs 20.260-20.271 establish securitisation operations accounting rules. The MGDD part V, chapter V.5 and the Eurostat decision of 25 June 2007, "Securitisation operations undertaken by general government" are dealing with securitisation operations.

Although certain bodies involved in securitisation operations have been reclassified into the general government sector (e.g. Network Rail, Northern Rock Asset Management, Bradford & Bingley) there have been no significant cases of the UK Government establishing new securitisation operations in recent years.

The UK Government was looking at the securitisation of student loans but decided against these plans in 2014. The ONS also looked at Islamic bonds (so called Sukuk) issued by HM Treasury in 2014 as a possible securitisation operation. However, ONS concluded that the Sukuk were asset based and not asset backed as investors had no recourse to the asset in the event that government were to default, i.e. the asset were generating income rather than providing securitisation.

7.12 UMTS licenses

The sale of UMTS licenses is to be recorded as the sale of a non-financial asset (the license) at the time the license is allocated. Thus, sale proceeds have a positive effect on B.9 in the year when the license is allocated. The actual payment of cash payment does not influence the recording of this transaction.
In some special cases, the sale of UMTS could be seen as a rent for the use of a non-financial asset, recorded over the life time of the license. In this case, the impact on government B.9 is spread over the duration of the license.

The ESA2010 MGDD part VI, chapter VI.1 and Eurostat decision of 14 July 2000 on the allocation of mobile phone licences (UMTS) are dealing with the sale of UMTS licenses.

The UK has conducted two sales of UMTS licences. Third generation (3G) mobile phone licenses were auctioned in early 2000 raising approximately £22.5 billion and 4G licenses were auctioned in early 2013 which raised the significantly smaller sum of £2.3 billion. In both cases the licenses sold were non-transferable and so under the ESA2010 and MGDD guidance the revenue from the sales are treated as rent for the use of a non-financial non-produced asset. The rent is accrued over the lifetime of the licenses (approximately 20 years in both cases).

Previously under ESA95, these licenses were recorded as sales of non-produced assets at the time of the auctions.

7.13 Transactions with the Central Bank

The management of asset portfolios and interventions in foreign exchange markets for monetary policy purposes, may generate capital gains for central banks which are liable to be distributed to general government. The amounts involved may sometimes be very large. Capital gains are not income in national accounts and therefore payments to government financed out of capital gains cannot be recorded as property income but have to be recorded as financial transactions.
It also proposes to apply the rules on capital injections when government makes a payment to the Central Bank. Such payments by government may be made to cover losses made by the Central Bank. Capital losses may occur due to foreign exchange holding losses. Operational losses may occur due to the fact that interest and other operational income do not cover operational costs made by the central bank. Capital losses can not be recorded as equity injection, therefore capital gains and losses are somehow not treated symmetrically. This asymmetrical treatment is nevertheless justified for the purpose of appropriately measuring government deficit.

The Bank of England manages the Asset Purchase Facility Fund and previously managed the Special Liquidity Scheme. In both cases this has resulted in large cash transfers being made from the Bank of England to Central Government. These cash transfers have been subject to the super-dividend test, as described in the ESA2010 MGDD, and as a result the transfers have been in part treated as dividends and in part treated as equity withdrawals. The same principle has been applied to the smaller dividend flows to Government from the Bank of England Issue Department. For further details please see section 7.4.

7.14 Lump sum pension payments

ESA2010 paragraphs 20.273-20.275 define the accounting rules for recording of the lump sum pension payments. The related accounting rules are further described in the ESA2010 MGDD and debt Part III.6 Impact on government accounts of transfer of pension obligations.

In April 2012, the historic assets and liabilities of the Royal Mail Pension Plan were transferred to the Central Government. The pension plan was prior to transfer a funded plan but with insufficient assets to meet its liabilities and once transferred became an unfunded scheme within Government. The transferred assets of the scheme were valued at £28.7 billion and the liabilities at £37.5 billion resulting in an £8.9 billion shortfall in the scheme. This has been recorded as a deficit increasing £8.9 billion capital transfer payable by Government at

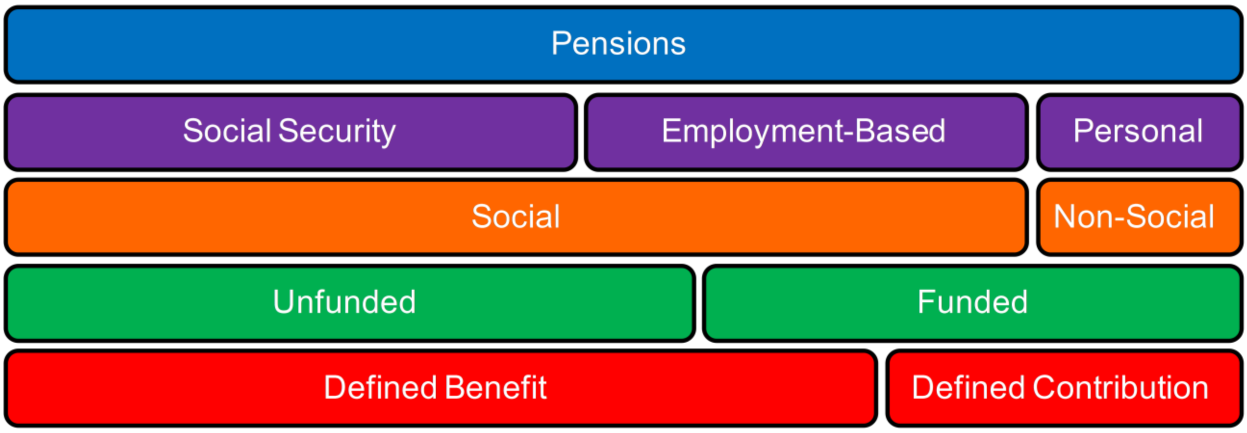
April 2012. However, this treatment (which is described in the ESA10 MGDD) crystallises the pension shortfall at the point of transfer and so to avoid double counting a stock of accounts payable of £37.5 billion is recorded as at April 2012 and pension scheme benefits paid (which are currently at around £1.4 billion a year) are not recorded in the non-financial accounts but instead are recorded as reductions in other accounts payable.

7.15 Pension schemes

ESA2010 has introduced a number of important changes in the recording of pensions in the National Accounts. The UK have published initial estimates of pension liabilities across all sectors of the UK Economy in the Pensions Supplementary Table.

7.15.1 Classification of Pensions schemes in the National Accounts

Table 9: Classification of Schemes under ESA 2010



There are a range of different types of pensions available in the UK and various ways of classifying them. Table 9 shows that pensions are divided into three ‘sources of pensions’ – either social security, workplace pensions (employment-based) or personal pensions. It is then possible to classify these ‘sources of pensions’ into two separate classifications the first classification, is whether a scheme is social or non-social, with the second classification being whether a scheme is funded or unfunded. ESA 2010 introduced a further classification of schemes into defined benefit and defined contribution schemes. In the context of the National Accounts, hybrid and notionally defined contribution schemes are deemed to be defined benefit schemes.

7.15.2 Employment-Based Schemes

Almost all government schemes are unfunded schemes (for special cases, see 7.15.4). It is only possible for unfunded schemes to be defined benefit. Most of these schemes are run by government units exclusively for government employees but some schemes are run by government units and include participants employed outside the government sector. In the UK there are "notionally-funded" schemes for teachers (public and private sector) and public sector health workers (see 7.5.14). These schemes are part of the Central Government sector and the actual benefits and the administrative costs of the schemes are paid for by central government out of general taxation revenue. Both employers and employees make actual contributions at rates set by Central Government but these feed into general government revenue rather than a ring-fenced fund for the scheme.

The transactions associated with the schemes are included in derivations of the following lines:

D.6111	Employers' actual pension contributions
D.6121	Employers' imputed pension contributions
D.6131	Employees' actual pension contributions
D.6221	Other social insurance pension benefits
D.12	Employers' social contributions - as part of compensation of employees

Until 2002/03, the contributions paid by employees and employers were set at a rate which did not cover the inflationary increase element of the liability. This shortfall was made up by Central Government. These transactions were scored as follows:

D.7	Current transfers to the employers' sector (if not Central Government)
D.6121	Employers' imputed pension contributions
D.12	Employers' social contributions - as part of compensation of employees of the employer's sector

7.15.3 Social security schemes

Social security schemes are classified in the UK as part of Central Government, rather than as part of a separate Social Security Funds sub-sector within General Government. This is as the UK does not have a ring-fenced fund which meets the ESA definition of the Social Security Funds sub-sector.

7.15.4 Special Cases

There are two special cases related to the ESA2010 introduction of the concept of the pension administrator and pension manager in the UK National Accounts and a third relating to "notionally-funded" schemes. "Notionally-funded" schemes do not fit neatly into the general classification since they are unfunded schemes operated by an institutional unit that is not the direct employer of (or in some cases even in the same institutional sector as) the participants covered, and are not state schemes available to all and funded by compulsory social contributions.

The Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is a group of 101 regional pension funds that primarily provide pensions to Local Government employees and former employees. The scheme itself is somewhat of an anomaly, as it is a funded scheme in which the pension administrator is classified within the Financial Corporations sector (S.12) but where Local Government as the primary sponsoring employer is considered to be the pension manager.

However, the scheme is not simply for local government employees' alone. There are a range of other employers, or 'admitted bodies', with employees as members of the scheme, such as probation boards, housing associations non-teaching staff at schools, and private sector contractors to local government to name but a few. This would suggest that the scheme is a multi-employer scheme and, therefore, the scheme itself should be classified as the pension manager. However, in reality, the majority of the membership is current or former local government employees, and any admitted bodies must accept the terms and conditions of the scheme and adhere to pre-determined benefit levels dictated by Parliament.

As with other funded schemes in the UK, the scheme itself has responsibility for the investment strategy, yet this alone does not imply that the scheme is the pension manager. In the LGPS there is no evidence of any risk-pooling mechanism within the scheme. It is difficult to argue that, without any risk-pooling and the majority of members being current or former local government employees, that the scheme is truly multi-employer in the sense outlined in ESA 2010. For these reasons, the ONS classifies Local Government as the pension manager of the LGPS and so liable for any imputed contributions resulting from any shortfalls between the annual change in entitlements and contributions for the LGPS

Crown Guarantee Schemes

A number of pension schemes in the UK operate with a 'crown guarantee'. In this circumstance, the pension scheme has been given a guarantee by either a public authority (a Minister of the Crown, a Government Department, or any authority exercising statutory functions on behalf of the Crown), the Scottish Ministers, the National Assembly for Wales, or a Local Authority, that any liabilities will be met by the Government if the scheme is no longer able to meet those liabilities. The majority of schemes with a crown guarantee are those associated with the privatised industries (e.g. railways, mining and telecommunications). This granting of a guarantee poses difficulties in terms of determining the pension manager of such schemes. For many crown guarantee schemes, a sponsoring employer continues to exist that sets terms and conditions and is ultimately responsible for the liabilities. Therefore, the sponsoring employer is classified as the pension manager of such schemes.

Notionally-Funded Schemes

In the UK there are "notionally-funded" schemes for teachers (public and private sector) and public sector health workers run by central government. Currently in both of these cases some of those covered by the schemes are employed by units outside General Government. The teachers' scheme covers school teachers and those teaching in higher and further education employed by the private sector as well as those employed by Local Government. There are also a number of extremely small schemes run by central government for employees of small public corporations such as museums and for foreign nationals employed by UK embassies. Government finances the benefits paid from the schemes out of general taxation revenue, pays for the administration of the schemes and is responsible for setting the level of contributions and benefits.