

National Accounting and Fiscal Rules: How to Unleash the Investment Potential of UK Publicly Owned Companies

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Publicly owned companies currently weigh on public finances, but they need not. The right classification and fiscal metrics could enable investment at scale to fulfil policy mandates without affecting the deficit and debt figures.

Key Points

- A publicly owned company's statistical classification — as a government body, a public corporation, or a private corporation — determines whether its borrowing and debt count against national fiscal aggregates, decisively shaping the scope for public investment.
- The UK's current fiscal rules consolidate public corporations into both the deficit (PSCB) and debt (PSNFL) measures: publicly owned companies weigh on the headline numbers in ways they do not in other European countries.
- Because they are classified as public corporations sitting outside general government, comparable publicly owned companies — such as France's EDF and Germany's KfW — can borrow independently in capital markets to finance additional investment without burdening national fiscal aggregates.
- The UK could unlock the constrained investment potential of its publicly owned companies through three options: reclassifying them, switching to a PSNW debt metric or adopting EU-style fiscal aggregates that deconsolidate public corporations.
- Newly nationalised, revenue-generating companies should default to public-corporation status, so that public ownership can expand productive investment without inflating measured public debt.

Summary

How a country treats the financial accounts of its publicly owned companies is not merely a technical exercise. It is a political choice, with serious implications for the state's capacity to deliver public investment at scale. In the UK, the Office for National Statistics (ONS) allocates public bodies across the government and corporate sectors according to international accounting standards. National, politically established fiscal-rule metrics then translate those classifications into hard constraints on borrowing, thus limiting the investment capacity of publicly owned companies. Even under the new fiscal rules introduced in 2024, the UK's deficit and debt measures consolidate revenue-generating public corporations into the headline fiscal aggregates for the public sector. This contrasts with continental Europe, where publicly owned companies such as France's EDF and Germany's KfW borrow autonomously in capital markets to fund investment at scale, yet their financial figures are kept off the national books. Drawing on these comparisons, three reform options are considered: recalibrating the ONS's classification decisions on individual entities, adopting a net-worth debt metric and moving towards EU-style fiscal aggregates that confine consolidation to general government. Together, they offer a roadmap for public ownership to serve additional public investment, rather than weighing on the borrowing and debt figures that might ultimately discipline it.

Statistical Classification of Publicly Owned Companies in National Accounts

Public bodies are formally established public sector organisations — rather than simple unstaffed public funds — other than ministerial departments.^[1] Their multiple institutional forms, including publicly owned companies, are subject to different classification methods.^[2] One that matters not only for how these entities operate day to day, but for a country's broader approach to economic policy, is their statistical classification within the national accounting system.

In the UK, the Office for National Statistics (ONS) is responsible for allocating publicly owned companies into groups called “institutional sectors”.^[3] The ONS operates in accordance with the European System of Accounts (ESA) 2010 and the Manual on Government Deficit and Debt (MGDD), 2022 edition.^[4]

The process starts from the institutional unit, defined as an economic entity characterised by decision-making autonomy.^[5] The ONS then establishes whether the unit is subject to “public sector control”.^[6] Such control broadly implies that a public sector entity^[7] “can determine the general policy or programme of another unit”, though the assessment is conducted on a case-by-case basis.^[8]

The public sector is therefore composed by different subsectors (set out in more detail in Table 1):

- Central government
- Local government
- Public financial corporations
- Public non-financial corporations

This introduces a further distinction between “market” and “non-market” producers, which turns on determining whether the unit sells its products and services at “economically significant prices”. If it does not, the unit falls under the government category, otherwise it is classified as a corporation. When controlled by the public sector, it becomes a public corporation and remains distinct from government.^[9] Public corporations may be financial or non-financial, depending on whether their principal activity is financial intermediation or the production of goods and non-financial services.^[10]

Table 1: ONS statistical classification of units by institutional sector

Market		Non-market
Non-Financial Corporations (S.11)	Financial Corporations (S.12)	General Government (S.13)
Non-Financial Public Corporations (S.11001)	Financial Public Corporations of which: Central Bank (S.121) (Public) Deposit-taking corporations except the central bank (S.12201) (Public) Money market funds (S.12301) (Public) Non-MMF investment funds (S.12401) (Public) Other financial intermediaries, except insurance corporations and pension funds (S.12501) (Public) Financial auxiliaries (S.12601) (Public) Captive financial institutions and money lenders (S.12701) (Public) Insurance corporations (S.12801) (Public) Pension funds (S.12901)	Central Government (S.1311) State government (excluding social security funds) (S.1312) Local Government (S.1313) Social security funds (S.1314)

Market		Non-market
Non-Financial Corporations (S.11)	Financial Corporations (S.12)	General Government (S.13)
National private non-financial corporations (S.11002) Foreign controlled non-financial corporations (S.11003)	National private financial corporations (S.122; S.12202; S.12302; S.12402; S.12502; S.12602; S.12702; S.12802; S.12902) Foreign controlled financial corporations (S.12203; S.12303; S.12403; S.12503; S.12603; S.12703; S.12803; S.12903)	

Notes: The public sector perimeter is represented by yellow-shaded cells. Source: Author's elaboration on ESA 2010.

This means that comparable publicly owned companies — even when operating in similar sectors — may be classified differently according to the degree of public control and the economically significant nature of their activities. In transport and infrastructure, for instance, Manchester Airports Group (MAG) is classified as a non-financial public corporation, while Transport for London (TfL) and Network Rail fall under local and central government respectively.^[11] It can also happen — though this is particularly infrequent in the UK — that a commercial entity is classified as a private corporation even in presence of a significant ownership stake from a public sector entity. This is the case of Eutelsat, in which the UK government is the third largest shareholder with a 10.89 per cent stake, but the company remains a private non-financial corporation.^[12]

This cross-classification has several implications for the national accounts. The output and gross fixed capital formation (i.e. investment) figures of public corporations are recorded separately from those of general government.^[13] Employees of public corporations are public sector employees, but not general government employees.^[14] Yet the most consequential implications concern the financial variables — borrowing and debt — and their interrelation with the definitions and rules of fiscal policy.

Implications of UK Fiscal Rules for Publicly Owned Companies

National accounting standards and the statistical classifications of individual institutional units interact with the government's fiscal rules, affecting the borrowing capacity and investment potential of publicly owned companies. While the former rest on established international standards with limited room for national interpretation, fiscal rules and their

corresponding metrics are entirely set domestically — in the UK they were changed in 2024.^[15]

The deficit metric and its effect on publicly owned companies

The UK assesses its deficit against the public sector current budget (PSCB):

$$\begin{aligned} \text{PSCB} = & \\ & (\text{government current receipts} - \text{government current} \\ & \quad \text{expenditure}) \\ & + \\ & (\text{public corporations' revenues} - \text{public corporations'} \\ & \quad \text{operating costs}) \end{aligned}$$

This means that publicly owned companies affect fiscal deficits in the following ways:

1. The current balance of public corporations is consolidated into the national deficit, alongside that of publicly owned companies classified within government.
2. An entity that is not classified as a public corporation — because the share of public ownership leaves public control below the required threshold — does not contribute to the headline deficit.
3. Unlike the previous public sector net borrowing measure (PSNB), borrowing by publicly owned companies is kept off the deficit when it is channelled towards capital spending.^[16]

The debt metric and its effect on publicly owned companies

The UK debt is assessed against Public Sector Net Financial Liabilities (PSNFL).^[17]

$$\begin{aligned} \text{PSNFL} = & \\ & + \text{Public corporation debt} \\ & + \text{Other liabilities} = \\ & - \text{Liquid financial assets (of general government and} \\ & \quad \text{public corporations)} \\ & - \text{Illiquid financial assets (of general government and} \\ & \quad \text{public corporations)} \end{aligned}$$

Two major implications for publicly owned companies follow from this measure:^[18]

1. Publicly owned companies are discouraged from acquiring or building a physical asset with corporate debt (if they could raise it), since this increases public sector debt.
2. Conversely, when that debt is used to buy financial assets, the effect on public sector debt is neutral, as the asset offsets the new liability.

Comparison with Other European Nations

While it adopts the same standards for national accounting classification, the UK system contrasts with the rest of Europe in its definition of fiscal aggregates.

On the deficit side, the fiscal policy of EU member states is ultimately evaluated against the general government deficit (GGD) — or “net borrowing” — equal simply to total general government receipts minus total general government expenditure.^[19] This excludes the net balance of public corporations but includes capital expenditure by government.

On the debt side, the EU fiscal framework is premised on the measure of general government gross debt (GGGD) — the nominal (face) value of total gross debt outstanding consolidated between and within the government subsectors.^[20] This again excludes the debt from public corporations, but it is also a “gross” measure, not netted out by corresponding assets, financial or non-financial, on the other side of the government balance sheet.

European cases of financial and non-financial public corporations and how they compare to the UK

Two European counterparts illustrate how these rules bear on non-financial and financial public corporations respectively.

Non-financial public corporation: France’s EDF

EDF is the clearest example of a publicly owned energy company that could serve as a role model for the UK’s GB Energy. Similarly to GB Energy, EDF pursues policy objectives on prices and investment, alongside its ordinary commercial activity. Yet the two companies diverge in important ways. Beyond their obvious distance in size and in operating role (see Table 2), they differ in financial governance and statistical status. They also interact differently with the fiscal rules of France and the UK respectively.

As an independent public corporation, EDF can take loans and issue bonds on the capital markets at a modest premium over the cost faced by the French government but still

below the average private corporate rate. Crucially, EDF's borrowing does not weigh on French public finances. Only when the government provides a capital transfer to cover losses does this appear as an increase in the national deficit figure. On the debt side, EDF's substantial gross (or net) debt is kept off the government balance sheet — reducing the national debt-to-GDP figure by 2.8 percentage points under France's current fiscal rules.^[21] Unlike GB Energy — even were it to adopt public corporation status — EDF can borrow to invest in energy generation and infrastructure without affecting France's government finances beyond special cases of recapitalisation.

Table 2: Comparison between France's EDF and GB Energy

	EDF ^[22]	Great British Energy
Key facts		
Public ownership	100%	100%
National accounting classification	Public corporation	Central government, with the ambition to become a public corporation ^[23]
Key figures		
Revenues	€113.3bn (£97.4bn)	[Unavailable]
Installed electricity capacity in France	94.9 GW	[Unavailable]
Domestic employees	Approximately 160,000	72 ^[24]
Financial governance		
Can it borrow autonomously in capital markets?	Yes	No
Net financial debt	€51.5 bn (£44.2bn)	[Unavailable]
Gross financial debt (Loans and other financial liabilities at amortised cost)	€84.2 bn (£72.3 bn)	[Unavailable]
Net borrowing	€3.8 bn (£3.2bn)	[Unavailable]
Impact on fiscal aggregates of:		
Increased net borrowing	None — unless the government provides a capital transfer to cover losses	Positive when not balanced by net investment
Increased debt	None	Positive when used to acquire physical assets; netted out when used to acquire financial assets

Financial public corporation: Germany's KfW

As Germany's principal policy bank, KfW operates to promote the country's "economic, social and environmental conditions".^[25] Its UK counterpart — though considerably smaller and different in mandate and operations, is the National Wealth Fund (NWF) (see Table 3).

KfW is classified as a financial public corporation, despite legal protections that might appear to place it closer to a government unit. The German federal government is obliged to safeguard KfW from bankruptcy and even from financial distress.^[26] Moreover, all of KfW's obligations are covered by an explicit federal government guarantee.^[27] Were KfW classified as central government, its borrowing and debt liabilities would be consolidated in Germany's fiscal aggregates, raising the debt-to-GDP ratio by a staggering 10.7 percentage points.^[28]

This does not happen, because KfW's market status was confirmed in 2002 through a formal understanding with the European Commission, which had challenged KfW's relationship with the federal government as a form of state aid.^[29] KfW continues to borrow and service its debt on capital markets, enjoying the sovereign's credit status.

Table 3: Comparison between Germany's KfW and the NWF

	KfW ^[30]	NWF ^[31]
Key facts		
Public ownership	100%	100%
National accounting classification	Public corporation	Central government from previous UKIB's classification, ONS to evaluate the NWF's status ^[32]
Key figures		
Assets	€540.7bn (£465bn)	£2.2bn
Assets	€540.7bn (£465bn)	£2.2bn
Domestic annual lending (including guarantees)	€62 bn (£53.3bn)	£2.3bn
Domestic employees	8,699	302
Financial governance		
Can it borrow autonomously in capital markets?	Yes	Yes, but it does not

	KfW ^[30]	NWF ^[31]
Gross financial debt (Financial liabilities at amortised cost)	€479.1bn (£411.9 bn)	Approximately £1bn (to HMT)
Net borrowing	-€6.9bn (-£5.9bn)	Approximately £850mIn (from HMT)
Impact on fiscal aggregates of:		
Increased net borrowing	None, only if government provides a capital transfer or cover losses (no recent cases of this happening)	Positive when not balanced by net investment, which should be performed by the company that receives financing through the NWF
Increased debt	None	Positive when used to buy physical assets (not the NWF case currently), netted out when acquiring financial assets

Notes: Figures for 2025. Source: Author's elaboration on companies' financial reports.

KfW is also active as a public equity investor — through its subsidiary KfW Capital — with €5.6 bn equity investments in 2025. The companies in which KfW holds minority stakes remain private corporations, although they would not impact Germany's fiscal aggregates even if they were classified as public corporations.^[33]

In the UK, the same would hold as long as the companies receiving the NWF's equity financing remain private corporations. Under current fiscal rules, any increased borrowing from the NWF dedicated to equity financing would not affect the deficit, if that financing supported capital expenditure. Similarly, under PSNFL, the debt used to fund the equity operation would be netted out, since the ownership stake counts as an "illiquid financial asset".

Options for the UK to Unleash the Investment Potential of Its Publicly Owned Companies

The European examples demonstrate that revenue-generating publicly owned companies need not weigh on the fiscal aggregates for deficit and debt. The UK's self-inflicted status as an international outlier — imposing fiscal constraints on current and future publicly owned companies — limits their investment potential and their capacity to achieve systemic impact. Three separate but related options of reforms could address this problem.

1. More flexible classification decisions of publicly owned companies

Changing the statistical criteria so as to exclude publicly owned companies from the public sector would make the UK depart from international standards in national accounting. Redefining current publicly owned companies — especially wholly owned ones — as private corporations is also unfeasible.

But determining whether a company under public control qualifies as a public corporation, rather than as government, involves a qualitative assessment by the national statistical authority, which leaves some room for interpretation.^[34] Moving publicly owned companies from government to public-corporation status would grant them greater latitude and open the way to a different fiscal treatment altogether (see option 3 below). The KfW case illustrates the value of securing and maintaining a public-corporation classification.

Raising the ownership threshold for public control — and correspondingly relaxing the control assessment — could also allow a potentially larger group of minority-owned companies to be classified as private corporations. This would also become particularly relevant were the government in future to back a wider set of firms through minority equity stakes for industrial-policy purposes.

2. Switch the debt metric to public sector net worth (PSNW)

Adopting public sector net worth (PSNW) as the debt metric would address the inclusion of publicly owned companies' liabilities within national debt. PSNW nets total liabilities against all public sector assets — financial and non-financial (such as buildings, land, equipment, etc.). The headline figure turns negative when total liabilities exceed total assets.^[35]

In practice, a publicly owned company's net financial position — gross financial debt minus cash and short-term liquid assets — would no longer contribute to national debt as it currently does. In its place, a new measure that also sets non-financial assets against that debt would apply, so that investing in value-appreciating non-financial assets could well make a positive contribution to PSNW.

PSNW also carries implications for future nationalisations. The debt incurred to bring a company into public ownership would be partly offset by the value of the company's assets.

3. Adopt European metrics on deficit and debt

The UK could harmonise its fiscal metrics with EU standards. The immediate consequence would be the deconsolidation of public corporations from the national fiscal aggregates, which could also grant those companies greater operational and financial autonomy. Crucially, publicly owned companies that remained classified as general government would still count towards national deficit and debt — as is the case for several current UK publicly owned companies.

The adoption of EU metrics should be accompanied by a different approach to classification — one that allows market producers to be classified as public corporations from the earliest stage, rather than as general government (see option 1).

Companies newly brought into public ownership should default to public corporation status, given their previously established nature as market producers. Nationalisations would then affect the fiscal aggregates only through the cost of compensating former owners. Thereafter, new public corporations would place no further burden on public finances with the exception of loss-covering capital injections — these are commonly treated as “non-financial transactions” affecting the government’s net borrowing.^[36]

Option	Benefits
1. More flexible individual classification decisions of publicly owned companies	Higher operational flexibility — and potential deconsolidation from public finances under different fiscal rules — for publicly owned companies classified as public corporations. More scope for companies with minority public ownership to be classified as private corporations.
2. Switch the debt metric to public sector net worth (PSNW)	Reduced contribution to national debt for publicly owned companies. Debt accrued by bringing a company into public ownership could be offset by the value of its assets.
3. Adopt European metrics on deficit and debt	Full operational and financial autonomy for publicly owned companies classified as public corporations. Reduced burden on public finances (both deficit and debt).

A proposed roadmap

The three options are not mutually exclusive and could be phased over time. The more publicly owned companies are classified as public corporations — or as private, where the ownership stake is low — the greater the relief for the national fiscal aggregates. PSNW could first replace PSNFL to facilitate the nationalisation of strategic companies by reducing the effect of the ownership transfer on national debt. For its part, the current

PSCB measure would leave public corporations' borrowing to fund investment outside the deficit. Nationalising companies would not affect the deficit either, since the acquisition of shares purchased at market value would be recorded as a financial transaction.^[37]

Moving to EU fiscal standards would be the optimal end point, to fully deconsolidate public corporations' financial variables from the fiscal aggregates — once the UK's system of publicly owned companies matches the scale and diversity of comparable European nations that have retained greater public control of their economies through public ownership.

Footnotes

- [1] “Public bodies reform”, Cabinet Office. [Available here](#).
- [2] The Cabinet Office operates an administrative classification aimed at clarifying the governance of public bodies in relation to their functions, helping departments to create arm’s length bodies (ALBs), and promoting greater transparency and accountability. “Classification of Public Bodies: Guidance for Departments”, Cabinet Office. [Available here](#).
- [3] “European System of Accounts — ESA 2010”, Eurostat, 2013, Section 2.32. [Available here](#). “Manual on Government Deficit and Debt — Implementation of ESA 2010 (2022 edition)”, Eurostat, 2023. [Available here](#).
- [4] ESA 2010 itself follows the statistical guidance in the United Nations System of National Accounts (SNA) 2008. “System of National Accounts 2008”, United Nations, 2009. [Available here](#).
- [5] ESA 2010, Section 2.12.
- [6] “UK economic statistics sector and transaction classifications: the classification process”. ONS, [Available here](#).
- [7] The ultimate public sector entity is general government.
- [8] “Statistical classification to the public sector”, ONS, 08/07/2024. [Available here](#).
- [9] “Defining the boundary between the general government sector and public non-financial corporations in economic statistics”, ONS, 28/11/2025. [Available here](#).
- [10] Eurostat, ESA 2010, Sections 2.45 and 2.55.
- [11] “Public sector classification guide and forward work plan”, ONS. [Available here](#).
- [12] Eutelsat is classified as a private non-financial corporation in France too, where the government holds a 29.65% stake and is the largest shareholder.
- [13] “UK National Accounts, The Blue Book: 2025”, ONS. [Available here](#).
- [14] In 2025, employees in public corporations totalled 159,000, as against over 6 million general government employees. “Public sector employment, UK: March 2026”, ONS. [Available here](#).
- [15] “Charter for Budget Responsibility: February 2026 update”, HM Treasury, 02/2026. [Available here](#).
- [16] The previous PSNB measure included net investment.
- [17] “Public Sector Net Worth: A New Fiscal Metric?”, Office for Budget Responsibility. [Available here](#).
- [18] The previous PSND measure did not include other liabilities, and it crucially excluded illiquid financial assets.
- [19] Even under the new Fiscal Framework introduced in 2024 — which looks at a medium-term net expenditure path — the Excessive Deficit Procedure is activated by

reference to the ratio of government deficit to GDP, as defined in the Treaties. “Regulation (EU) 2024/1263”, Official Journal of the European Union. [Available here](#).

[20] “Glossary: Government debt”, Eurostat. [Available here](#).

[21] Author’s calculation based on Eurostat figures. “Provision of deficit and debt data for 2025 — first notification”, Eurostat, 22/04/2026. [Available here](#).

[22] “Annual results 2025: consolidated financial statements”, EDF, 2026. [Available here](#).

[23] Indicatively classified as a central government organisation by the HMT Classifications team. “Great British Energy Framework Document”, Department for Energy Security and Net Zero. [Available here](#).

[24] “DESNZ annual report and accounts 2025 to 2026”, Department for Energy Security and Net Zero, 2026. [Available here](#).

[25] “Förderauftrag und Geschichte”, KfW. [Available here](#).

[26] “Registration Document (Relationship with the Federal Republic)”, KfW / US Securities and Exchange Commission, 2021. [Available here](#).

[27] Article 1a of the Law Concerning Kreditanstalt für Wiederaufbau. “Law Concerning KfW”, KfW. [Available here](#).

[28] Author’s calculation based on Eurostat figures. “Provision of deficit and debt data for 2025 — first notification”, Eurostat, 22/04/2026. [Available here](#).

[29] “Offering Circular / Registration Statement”, KfW / US Securities and Exchange Commission, 2018. [Available here](#).

[30] “KfW Financial Report 2025”, KfW, 2025. [Available here](#).

[31] “National Wealth Fund Annual Report and Accounts 2024–25”, National Wealth Fund, 2025. [Available here](#).

[32] “Public sector classification guide and forward work plan”, ONS. [Available here](#).

[33] KfW is the formal controlling shareholder — on behalf of the German government — in Deutsche Post and Deutsche Telekom. Because of KfW’s public sector nature, both companies are classified as public corporations. “Privatisierung der Deutschen Post”, KfW. [Available here](#); “Privatisierung der Deutschen Telekom”, KfW. [Available here](#).

[34] For that reason the ONS provides a Classifications Forward Work Plan, with an estimate of the potential impact of its future classifications on fiscal aggregates. “Public sector classification guide and forward work plan”, ONS. [Available here](#).

[35] The liability side of the equation would also increase under PSNW, with the addition of unfunded public sector pensions and PFI contracts, though these are outweighed by the public sector’s non-financial assets. “Wider measures of the public sector balance sheet: public sector net worth”, ONS. [Available here](#).

[36] Section 3.2 in “Manual on Government Deficit and Debt — Implementation of ESA 2010 (2022 edition)”, Eurostat, 2023. [Available here](#).

[37] “Public ownership of industries and services”, House of Commons Library, 31/05/2018. [Available here](#)