

The public sector interest cost - revisited

<https://www.taxresearch.org.uk/Blog/2022/02/23/the-public-sector-interest-cost-revisited/>

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A month ago [I suggested that](#) the Office for National Statistics might be overstating the cost of interest in its monthly reports on the UK government's finances. Much discussion ensued, and I suggested that I was writing to the ONS for clarification on their accounting. I duly did so.

In fairness to the ONS, they have supplied me with a reply to the submission that I made to them, and have welcomed my suggestion that it might be appropriate to summarise the cost of government debt within their publications in a manner that might be consistent with my proposal, which was (dates are for example):

Interest paid on:	December 2021	December 2021	Year to December 2021	Year to December 2020
Conventional gilts				
Index linked gilts				
Treasury bonds				
NS&I				
Bank of England central bank reserve accounts				
Sub total				
Change in provision for the cost of index linked gilt redemption				
Total interest cost				

The intention of this suggestion was straightforward. It was to differentiate that part of the cost which is actually going to be settled in cash in a manner that is highly probable and to then identify that part of the cost which relates to the estimated cost of redemption of index-linked gilts, which might best be described as a pretty wild estimate during a period when the retail price increase is increasing aberrationally, which happens to be the case at present.

I have been advised by the ONS that this reconciliation is, in principle, possible using the data at present. However, so far, and try as I might, I have been unable to locate

some of the necessary tables to check that this is the case, such is the near impossibility of finding almost any data on the ONS website.

In the meantime, another month has passed and [this is the claimed cost of expenditure on interest this month](#):

Central government expenditure

Central government bodies spent £87.7 billion in January 2022, £2.3 billion more than in January 2021.

Table 3: Central government expenditure
Central government expenditure compared with the same month a year earlier, UK, January 2022

	January (£ billion)		Change on a year ago	
	2021	2022	£ billion	%
Interest payments ¹	1.6	6.1	4.5	286.7

The ONS explain this as follows:

Interest payments on debt by central government

Accrued interest payments on central government debt were £6.1 billion in January 2022, the highest January amount since records began in April 1997, £4.5 billion more than in January 2021, but lower than in June 2021 when interest payments were £9.0 billion.

The recent high levels of debt interest payments are largely a result of movements in the Retail Prices Index (RPI) to which index-linked gilts are pegged.

In January 2022, the RPI uplift on index-linked gilts was £3.4 billion over and above the accrued coupon payments and other components of debt interest.

So, at least £3.4 billion of the £6.1 billion charge is made up and assumes that the current rate of inflation p[ersists to the time of redemption of all the index-linked gilts in issue.

Some might think that possible. I consider it to be utterly implausible.

Candidly, what we are looking at are some pretty big reveals of charges sometime soon in this case when RPI drops, as most, for very good reason, think it will.

What to conclude from this? Four things. The accounting should be improved. I think the ONS get that. Second, the ONS website really does need to be improved so that data can be found. Third, this method of estimation is too crude to be useful. Fourth,

the claims that costs must be curtailed for this reason make no sense.

There will be more to come on this issue.