

Funding the Future

Accounting failures do not come much bigger than this

Published: January 13, 2026, 9:46 am

I have been asked a number of questions since returning to the [issue of the excess interest payments](#) recorded as a result of the extraordinary accruals being made for redemption costs in indexed linked bonds. As a result, I have prepared the following table:

Central government debt interest payable, £ billions, UK, January 2021 to December 2022

Notes	1. Net of redemption proceeds.		
Unit	£ billions		
	Interest payable		
	Total	Index linked bond	Conventional Gilt
Jan 2021	1.7	-1.2	2.9
Feb 2021	5.5	2.7	2.8
Mar 2021	2.0	-0.9	2.9
Apr 2021	5.1	1.8	3.3
May 2021	4.7	1.4	3.3
Jun 2021	9.4	6.0	3.4
Jul 2021	3.8	1.0	2.8
Aug 2021	6.8	3.3	3.5
Sep 2021	5.1	2.0	3.1
Oct 2021	6.1	2.9	3.1
Nov 2021	4.9	1.9	3.0
Dec 2021	8.7	5.5	3.2
Jan 2022	6.3	3.4	2.9
Feb 2022	8.2	5.2	3.0
Mar 2022	3.6	0.2	3.3
Apr 2022	6.7	3.9	2.8
May 2022	7.9	5.0	3.0
Jun 2022	20.0	16.7	3.4
Jul 2022	6.2	4.0	2.2
Aug 2022	8.5	4.7	3.7
Sep 2022	7.7	4.7	3.0
Oct 2022	6.1	3.3	2.8
Nov 2022	7.4	4.2	3.2
Dec 2022	17.3	13.7	3.6
Total	169.7	95.4	74.2
2021	63.8	26.4	37.3
2021	105.9	69.0	36.9
Debt in issue 2021	2164	499	1665
Debt in issue 2022	2219	557	1662
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Notional return 2021	2.95%	5.29%	2.24%

The data initially comes from the [Office for National Statistics](#). That on gilts in issue and Bank of England holdings is from the latest [Debt Management Office](#) publication, which is the best available.

What is apparent is that the issue being addressed here relates entirely to index-linked bonds. There is no issue with conventional gilts.

The rate of return on index-linked bonds has risen in line with inflation, hardly surprisingly. However, as inflation tumbles, as it will, that rate will also fall. In fact, it is possible it will become negative, as the data shows is entirely possible. In other words, this is a very short-term phenomenon.

Simply equating the rates of return, there was an excess cost to index-linked bonds in 2022 of about £57 billion. That calculation could be refined: it would not much change the conclusions if it was.

If that excess cost was spread, as I suggest appropriate, over the 17-year period that these bonds have, on average, remaining in existence then the cost to be recorded in 2022 would have been approximately £3.4 billion, which comes in at neither here nor there.

Instead, it has been recorded as if an excess and continuing cost when it is neither. My suggestion is that this is deliberate misaccounting to fuel the austerity agenda.

When accounting is used in that way it has ceased to be objective, true or fair and the Office for National Statistics should know that. Whatever the accounting standard they use, there is always a true and fair option they can use for reporting for decision-making purposes. They are not using that option and that is, in my opinion, a gross failure on their part.

No only is the interest on the national debt the sum they report because they do not state it net of sums paid to HM Treasury, they also deliberately overstate the cost of index-linked bonds that have to be accrued over their life. Accounting failures do not come much bigger than this. The overstatement of interest cost was approximately £66 billion (£57 excess cost of gilts less £3 billion apportioned cost plus £12 billion of interest paid to the Treasury). That's a fail in anyone's book.