Office for National Statistics

Article

Recent and upcoming changes to public sector finance statistics: January 2021

Areas for future development in the public sector finance statistics.

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1 . Overview

This article describes how the most significant coronavirus (COVID-19) support schemes are – or will be – recorded in the public sector finance statistics. It also provides information about methodological changes and presents areas for future development.

Context

In 2018, we adopted a new strategy to provide visibility and explanation of methodological changes in the public sector finance (PSF) statistics, not only at the point that they are introduced but also before and after implementation. The strategy included publication of a work programme covering the potential development areas. The latest version can be found in our article titled Looking ahead – developments in public sector finance statistics: 2019.

In response to government actions during the coronavirus (COVID-19) pandemic, we announced some changes to our plans in July 2020. Because the focus of our work shifted to reviewing and recording government interventions, it has not been possible to fully meet the commitments we set out in the 2019 article.

In the longer-term, there remains considerable uncertainty around the state of public finances and the actions that the government might take to facilitate the economic recovery. Whatever these actions are, it is likely that we will need to consider how they should be reflected in fiscal statistics. In these circumstances, we have taken a decision to suspend the announcement of our work programme beyond the 18-month horizon.

We expect to return to publishing a longer-term work plan later in 2021 and in the meantime, we will be updating this article with the details of any additional areas of methodology we expect to explore.

2 . Impact of the coronavirus pandemic on public sector finance statistics

Since the start of the coronavirus (COVID-19) pandemic, the UK government, the devolved administrations and the Bank of England have announced policies and schemes to support the economy and individuals affected by the pandemic.

In total, at least 50 schemes have been announced by the UK government and the devolved administrations. In this section we explain how the largest active schemes are – or will be – recorded in fiscal statistics. Fully recorded in compliance with the international statistical guidance are the following schemes:

- COVID-19 Corporate Financing Facility
- Coronavirus Job Retention Scheme (CJRS)
- Self-Employment Income Support Scheme (SEISS)
- Eat Out to Help Out
- miscellaneous subsidies paid out to businesses

Miscellaneous subsidies paid out to businesses include payments from:

- the Coronavirus Small Business Grant Fund
- the Coronavirus Retail, Hospitality and Leisure Grant Fund
- the Coronavirus Local Authority Discretionary Grants
- similar schemes in devolved administrations

There may be other business subsidies, more recently announced, that have not yet been implemented.

In certain cases, data may not yet be available to implement the correct statistical treatment. In those cases, we explain what we will do in the meantime to ensure that the fiscal aggregates remain a good reflection of the government's true fiscal position. Under such intermediate treatment, transactions may have asymmetric impacts: for example, cash spending may be recorded but the balance sheet impacts may be incomplete.

The following schemes are partially or not yet implemented in the public sector finance statistics:

- Coronavirus Business Interruption Loan Scheme
- Coronavirus Large Business Interruption Loan Scheme
- Bounce Back Loan Scheme
- Future Fund
- Emergency Measures Agreements for train operating companies
- Trade Credit Reinsurance Scheme
- Local Restrictions Support Grant

Finally, some schemes have been announced but relate to future periods. This category includes cases where the scheme may be open for applications, but no transactions have taken place yet. Schemes that have been postponed and remain inactive are also included in this category:

- Job Support Scheme (JSS)
- Closed Business Lockdown Payment

Some of the methodological or classification assessments presented in this article are provisional and subject to change, reflecting the provisional nature of the international statistical guidance supplied by organisations such as the International Monetary Fund and the European Statistical Office (Eurostat). It may take a considerable amount of time to agree a harmonised treatment internationally.

We will reflect on the emerging guidance and where necessary, will reconsider our provisional classifications or make retroactive changes to our recording.

COVID-19 Corporate Financing Facility

The COVID-19 Corporate Financing Facility (CCFF) is a scheme under which the Bank of England, acting for HM Treasury, purchases commercial paper issued by larger, non-financial corporations, to increase their ability to deal with short-term liquidity problems, to support corporate finance markets and to ease the supply of credit to such corporations. The CCFF scheme is unlimited in size and initially had a duration of one year, though more flexibility was later introduced.

We have undertaken a classification assessment of the scheme and concluded that while CCFF has a certain degree of independence, the nature of the agreement it operates under means it carries out a limited range of activities in narrow conditions set by the government in the framework of public policy objectives. For this reason, the scheme is recorded in the central government sub-sector; in other words, it is not deemed to be part of the central bank sector for statistical purposes.

The purchases of commercial paper under the CCFF are treated as a financial transaction whereby one financial asset – cash – is exchanged for another financial asset of the same value. We have taken a provisional view that the commercial paper represents a liquid asset as defined for the purposes of measuring public sector net debt (PSND). Such assets are netted off the value of qualifying liabilities in the calculation of PSND; this means that the purchase of commercial paper is neutral to PSND, as indeed to the wider balance sheet measure of public sector net financial liabilities (PSNFL). As interest is deemed to accrue on the asset balance, both PSND and PSNFL will decrease over time.

Consistent with our assessment of the purchase as a financial transaction, no expenditure is recorded and public sector net borrowing (PSNB) is not affected at the time the commercial paper is bought. It is, however, purchased at discount relative to the face value. In line with the statistical guidance, we spread the difference between the face value of the commercial paper and the purchase value over the expected maturity term and record it as revenue (interest receivable) for the government. As the interest accruing on the assets is currently greater than that on the liabilities created to finance the purchases balance, both PSND and PSNFL should decrease over time.

Should any of the support provided under the CCFF fail to be repaid – perhaps because the business involved ceases trading – we will separately review the situation against the guidance on debt forgiveness. The case-by-case analysis is essential to determine whether or not PSNB should be increased by the value of the commercial paper in question.

This provisional treatment of the CCFF is already implemented in public sector finance statistics and improvements have been introduced in the September 2020 publication; it may be revised once official statistical guidance has been published. We are also working on improving the way we estimate interest revenue, to reflect the time profile of the impact more accurately.

Government loan guarantee schemes

To assist businesses in accessing credit at the time of the pandemic, the government has set up loan guarantee schemes. Provided through the British Business Bank, a central government organisation, the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and the Bounce Back Loan Scheme allow businesses to benefit from guarantees extended to their lenders.

The CBILS and the CLBILS are loan guarantee schemes created by the government to support UK businesses that are losing revenue and seeing their cashflow disrupted as a result of the coronavirus (COVID-19). Using internationally agreed guidance, we have carried out a formal assessment of these schemes and concluded that the guarantees should be recorded as standardised in nature.

The decision means that we will record expenditure in the form of a capital transfer at the time the guarantees are provided, reflecting the amounts likely to be called. It is this expenditure at inception that will contribute to an increase in PSNB.

The calls on the guarantees made in the later time periods will, on the other hand, be considered as financial transactions that will not affect PSNB. We will, however, compare the outturn data on calls with our forecast used to estimate the expenditure at inception and will reflect any differences in our PSNB estimates. On the balance sheet, an estimate of expected calls would be recorded as a liability for the government from inception. Such provisions are not included in the scope of public sector net debt (PSND), which will not be affected until the actual calls lead to government cash spending. However, it will increase the wider public sector net financial liabilities (PSNFL) measure at the time of guarantee inception rather than in the periods when calls are made.

Payments made by the government to cover the costs of interest during the first year (the business interruption payment) are provisionally considered to be subsidies on production, while the fees paid by the participating lenders to the government for access to the schemes are recorded as fees for sales of government service.

This treatment means that the impact of guarantee extension on PSNB and the value of the provisions for expected calls recorded on the balance sheet will reflect the government's financial position. We will work further to develop the methodology with the aim of implementing in the public sector finances at the earliest opportunity. Until reliable estimates of expected calls become available, we expect to temporarily treat any actual calls as expenditure, increasing PSNB at the time they occur.

The Bounce Back Loan Scheme (BBLS) is a scheme designed to enable smaller businesses to access finance more quickly during the coronavirus (COVID-19) pandemic. While broadly similar to the earlier CBILS and CLBILS in design, it offers different terms and conditions and has unique features. Following a formal assessment of this scheme using internationally-agreed guidance, this was also classified as a standardised loan guarantee scheme, and as with the CBILS and CLBILS schemes, we will work to develop the methodology with the aim of implementing it in the public sector finances at the earliest opportunity. Until reliable estimates of expected calls become available, we expect to temporarily record expenditure at the time when the guarantees are called, increasing PSNB then and not at inception.

Coronavirus Job Retention Scheme and Self-employment Income Support Scheme

The Coronavirus Job Retention Scheme (CJRS) was designed to help employers pay wages and salaries to those employees that would, in the absence of government support, be made unemployed. To benefit from the scheme, employers had to declare the affected employees as furloughed workers, with Her Majesty's Revenue and Customs (HMRC) subsequently reimbursing between 60% and 80% of the qualifying staff costs up to a maximum threshold.

An equivalent scheme for the self-employed was also introduced, titled the Coronavirus (COVID-19) Self-employment Income Support Scheme (SEISS). Based on the information held by HMRC, the government offered to pay 70% to 80% of the pro-rated trading profits over the previous three years, up to a maximum threshold. The statistical classification of both schemes presented a challenge because they could be viewed either as subsidies to employers or as benefits to employees (and the self-employed) routed through businesses for administrative reasons. As similar schemes were introduced by other countries, the international statistical organisations have provided some preliminary guiding principles to assist the national statistical institutes in classifying such schemes.

Having carefully studied the emerging international guidance (which remains provisional), we concluded that it would be appropriate to treat the UK schemes as subsidies to employers and the self-employed in their capacity as producers. The subsidies are recorded as expenditure in government accounts, contributing to an increase in PSNB.

Job Support Scheme

A replacement for the Coronavirus Job Retention Scheme (CJRS) was first announced by the Chancellor on 24 September 2020. During October 2020, the design of the new Job Support Scheme (JSS) underwent some changes and the scheme was additionally expanded to companies having to close premises as a result of the local restrictions. The JSS was initially expected to last six months from 1 November 2020, however, its introduction was postponed following the announcement of the new national restrictions in England and the extension of CJRS.

Future Fund

Under the Future Fund initiative, eligible innovative companies could receive government funding in the form of convertible loans, which had to be at least matched by private sector investments. The scheme was administered by the British Business Bank, which is classified to the central government sector for statistical purposes. The application period for the scheme closed in January 2021.

The loans extended to companies have a fixed term of three years and attract interest, which does not become payable until maturity. At that point, the loans are either repaid with accrued interest, or, under certain circumstances, converted into equity. The borrowers are required not to use government loans to repay borrowing from shareholders, pay dividends or make discretionary payments or bonuses to employees, directors or consultants. Some of these conditions (such as remuneration of senior staff) could be interpreted as government influences over the general corporate policy. In cases where we judge that the conditions attached to lending may lead to effective control over the borrower's corporate policy, we will review the borrower's statistical classification.

Under the statistical framework, convertible debt is recorded as debt securities rather than as loans if it can be reasonably expected that it will be repaid. Lending under the scheme is therefore initially viewed as a financial transaction, whereby the government exchanges a cash asset for a debt security asset. Cash is a liquid asset whereas the convertible debt security is not; therefore, while extending the loans has no effect on the wide PSNFL aggregate, it does increase the narrower PSND measure because of a reduction in the balance of liquid assets.

The recording of lending under the scheme as a financial transaction also means that there is no PSNB impact at loan extension. On the other hand, interest accruing on the loans is considered government revenue and reduces PSNB when it accrues. It is recorded as accruing continuously over the convertible loan term, even though it does not become payable until maturity. The accrued but not yet paid interest is also added to the debt asset balance, thereby gradually reducing PSNFL.

On maturity, debt is either repaid (reducing PSND through acquisition of liquid cash assets) or is deemed to be exchanged for equity. Indeed, the latter scenario may result in the government assuming control over the company, which may in turn lead to its public sector classification. We will review instances of debt-to-equity conversion to establish the appropriate statistical recording on a case-by-case basis.

Emergency Measures Agreements for train operating companies

In response to the coronavirus pandemic and the subsequent introduction of movement restrictions, the government announced emergency measures to ensure that the railways continued to operate in the circumstances of dramatically falling passenger numbers.

Train operators with government franchise agreements had the opportunity to "temporarily transition" onto Emergency Measures Agreements (EMAs), under which the normal financial franchise mechanisms were suspended (initially for six months), transferring all revenue and cost risk to the government. The train operators then continued to run day-to-day services for a small pre-determined management fee. Alongside transferring the financial risk to the government, EMAs also imposed some obligations on the private train operating companies, in what is already a highly regulated industry.

We therefore undertook a classification review of train operating companies who are operating under EMAs, in the context of the internationally agreed statistical rules. We concluded that public sector control exists for reasons including that most of the revenue and cost risk associated with rail travel has transferred to the public sector, and because EMAs place restrictions on train operating companies' ability to borrow and take important decisions relating to their corporate policy.

On 21 September 2020, the government announced that all rail franchises will be replaced by Emergency Recovery Measures Agreements (ERMAs), intended to pave the way for wider rail industry reform.

Under EMAs (and subsequently ERMAs), the government became responsible for covering the qualifying costs of train operators, plus a small management fee. These payments, recorded as subsidies to the private sector, have been contributing to the overall rise in PSNB since the start of the coronavirus (COVID-19) pandemic. We will continue to include this subsidy in our calculation of PSNB in the interim period until we are able to establish new data sources and include train operating companies, revenue and expenditure on a gross basis.

Trade Credit Reinsurance Scheme

In a further coronavirus (COVID-19) support intervention, the government announced a scheme to provide £10 billion to ensure that trade credit insurance coverage was maintained. This scheme is to protect non-service, domestic and exporting businesses against customer defaults, payment delays and the risk of insurers withdrawing this insurance cover or increasing premiums to unaffordable levels. It is available to UK market operating insurers on a temporary basis, with payment terms of up to two years. The government will share the risk with insurers, of losses arising from business insolvencies.

Through a temporary reinsurance agreement with insurers, the government will:

- reinsure 90% of insurance claims up to a cap of £3 billion and 100% of claims between £3 billion and £10 billion
- receive 100% of gross policy premiums and return a portion of these premiums to insurers to cover their costs

The scheme is managed by the Department for Business, Energy and Industrial Strategy (BEIS), and the scheme rules require participating insurers comply with certain restrictions during the period of the scheme.

Using internationally agreed guidance, we have carried out a formal classification assessment. Noting that the scheme operates differently to commercial reinsurance and falls outside of the statistical definition of this activity, we concluded that it should be recorded as a one-off guarantee scheme.

One-off guarantees are considered to be contingent liabilities of government and their provision will not have an immediate impact on the public sector finances. However, they will contribute to an increase in PSNB if the guarantees are called, which will be attributed to the month in which the claim on government is made. The payments made by participating insurers to the government have been classified as payments for non-market output.

Eat Out to Help Out

To support the hospitality sector, the government launched the Eat Out to Help Out scheme, to encourage people to start eating out again following the first UK lockdown. This allowed participants to receive a discount on their food and non-alcoholic drinks bill when eating in at a restaurant, pub or café on Mondays, Tuesdays and Wednesdays during August 2020, which the government then reimbursed to businesses. There were no limits on the amount of times this capped discount of £10 per person could be used, and the government established a £500 million fund to support this scheme.

Our provisional assessment is that these payments should be treated as a subsidy paid by central government. As such, these reimbursements have increased central government expenditure in August 2020 by £0.5 billion and also contributed to an increase in PSNB.

Kickstart Scheme

In response to the risk to employment resulting from the coronavirus (COVID-19) pandemic, the government announced on 1 August 2020 that it would introduce a new Kickstart Scheme in Great Britain. This is a £2 billion fund to create six-month work placements aimed at those aged 16 to 24 years who receive Universal Credit and are deemed to be at risk of long-term unemployment.

The scheme was launched on 2 September 2020 for businesses to sign up to be part of the scheme. Funding available for each job will cover 100% of the relevant National Minimum Wage for 25 hours a week, plus the associated employer National Insurance contributions and employer minimum automatic pension enrolment contributions. Our provisional assessment is to record these payments as subsidies by the government to the private sector and therefore contribute to an increase in PSNB.

Local Restrictions Support Grants

In a further scheme to help businesses and protect jobs, the government announced on 9 September 2020 that businesses in England will be eligible to receive grants worth up to £1,500 per eligible property every three weeks, if they are required to close because of local coronavirus (COVID-19) restrictions. Properties with a higher rateable value entitle the business to a grant of £1,500 for every three weeks they are required to close. Properties with a lower rateable value allow businesses to claim £1,000. The availability of these payments will be triggered by a national decision to close businesses in a high incidence area. Each payment will be made for a three-week restriction period, with each new three-week period triggering the availability of additional payments. This was updated to every two weeks in December 2020. Similar support schemes apply for eligible businesses in Scotland, Wales and Northern Ireland.

We will record these payments as subsidies on production. In economic statistics, subsidies are recorded on an accrual basis, at the time when the event that gives rise to the subsidy takes place. Where the actual payments are made after the event, we time-adjust them to affect PSNB in the month they relate to, rather than in the month they are made.

Closed Business Lockdown Payment

In January 2021, a set of additional support measures were announced. The largest element of the £4.6 billion package is the new one-off Closed Business Lockdown Payment (CBLP) for retail, hospitality and leisure industries in England. Businesses in these industries have been required to close for the duration of the national lockdown in England. To assist them financially, government has offered to provide one-off CBLP grants worth between £4,000 and £9,000 per eligible property. The amount payable in each case is to be determined by the rateable value of the business property.

The one-off nature of these grants makes them distinct from the other types of support provided by government through large national schemes. We will review the statistical recording of these new lockdown grants, including how they should be accrued, at the earliest opportunity.

3 . Other methodological changes

In September 2020, we made major improvements to the public sector finances (PSF) dataset. These improvements included the recording of Pool Reinsurance Company Limited (Pool Re) implemented as part of our wider review of public financial corporations, updates to our data sources for public pension funds and several smaller changes, such as the classification of Home Office immigration charges as a combination of taxes and fees. A detailed explanation of the changes is available in the September 2020 version of this publication.

Alongside these developments, we continued making routine updates, such as incorporating new data from the UK National Accounts and student loan forecasts into our statistics.

Where these updates give rise to impacts on public sector net borrowing (PSNB), we have included them in Table 2 of the PSF bulletin. Alongside the bulletin, Impact of Pool Re and other classification, methodology and data changes introduced in September 2020: Appendix J presents the effect of these changes on all our headline public sector measures: public sector current budget, net investment, net borrowing, net debt and net financial liabilities excluding public sector banks.

4 . Expected future changes

There remains considerable uncertainty about the actions the government might take in response to the economic consequences of the coronavirus (COVID-19) pandemic. We are expecting our focus to remain on reviewing and implementing support programmes provided by the UK government and for that reason, we have temporarily suspended announcing our medium- and long-term work programme.

Nonetheless, we have made significant progress in some of the areas listed in the 2019 edition of the Looking ahead article. This section describes the changes we are expecting to implement in 2021 and beyond. It will be updated when new work packages are identified.

New fiscal rules and review of the fiscal framework

Budget 2020, published in March, saw an introduction of three new fiscal rules:

- to have the current budget at least in balance by the third year of the rolling five-year forecast period
- to ensure that public sector net investment does not exceed 3% of gross domestic product (GDP) on average over the rolling five-year forecast period
- if the debt interest to revenue ratio is forecast to remain over 6% for a sustained period, the government will take action to ensure the debt-to-GDP ratio is falling

We have been publishing the public sector current budget deficit (excluding public sector banks) and public sector net investment (excluding public sector banks) as a ratio of GDP for some time within Public sector finances Tables 1 to 10: Appendix A. The debt interest to revenue ratio (DIR) was introduced for the first time in March 2020 an Experimental Statistic, and we are now working to make improvements to the underlying data where necessary.

Alongside these new rules, HM Treasury announced a review of the fiscal framework to ensure it remained "appropriate for the current macroeconomic environment". We will consider the outcome of the review and will work with HM Treasury to define the scope of any future statistical aggregates.

In the meantime, we have resumed the work on improving the quality of the balance sheet data, which had been delayed by the coronavirus (COVID-19). This project, announced in the 2019 edition of the [Looking ahead article](), will deliver quality improvements to our balance sheet data. We expect that as a result of the enhanced coverage of public corporations, the total values of assets and liabilities reported on the public sector balance sheet should rise. This will strengthen our estimate of public sector net financial liabilities (PSNFL) and may also result in smaller improvements to the measurement of public sector net debt (PSND), for example, if we identify any additional loan liabilities that should be recorded in the public corporation sub-sector.

New International Financial Reporting Standards treatment of leases

In 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 (IFRS 16), which replaced the earlier International Accounting Standard 17 (IAS 17) and prescribes a different treatment of leases in business accounting.

Under IAS 17, financial statements categorise leases as either finance leases (reported on lessees' balance sheet) or operating leases (off balance sheet). Under IFRS 16, nearly all leases will be reported on balance sheet within lessees' financial statements, leading to increases in lessees' reported debt and non-current assets. However, the guidance under IFRS 16 is not necessarily symmetric between lessees and lessors meaning that the lease may or may not be recorded on the lessors' balance sheet.

The changes resulting from IFRS 16 are a potential issue for the public sector finance (PSF) statistics. Most UK public sector organisations compile accounts in accordance with IFRS, adapted or interpreted for the public sector. At present, the source of leasing data in the public sector finances is the business accounting data compiled in accordance with IAS 17. In effect this means that we are using IAS 17 data as a proxy for ESA 2010. This is necessary because of the very large number of leases (numbering in the tens of thousands) in place across the public sector and the impossibility of individually classifying under European System of Accounts: ESA 2010 each individual lease.

IFRS 16 is conceptually markedly different from both IAS 17 and ESA 2010. Therefore, it is likely that the data sources used for leases in PSF will report step changes when the new standard is adopted. In addition, the lack of symmetry between lessee and lessor recording in IFRS 16 presents challenges for national accounts and public sector finances, which need to fully reconcile between sectors.

Therefore, we have to consider how to continue to compile ESA 2010-compliant leasing data once the underlying source is following the new IFRS 16 standard. We are working closely with HM Treasury to find a resolution to this challenge. As part of this work, we have reviewed a small representative sample of government leases to determine how they would be classified under ESA 2010. We have then compared this with the accounting under IFRS 16 and IAS 17 to investigate which would be a more suitable proxy for ESA 2010. Through this work, we found that all the public sector property leases reviewed had substantial risk transfer from the lessor to the lessee indicating that a recording as a financial lease would be most appropriate. This was unexpected, as under IAS 17 most property leases would be accounted for as operating leases.

Based on this analysis, we have concluded that:

- in the case of property leases, IFRS 16 is a good proxy for ESA 2010, so we will use IFRS 16 data
- in the case of non-property leases, IFRS 16 is not a good proxy, so we will use IFRS 16 data, which have been adjusted to better align with the concepts applied in ESA 2010

Having come to this conclusion, we have worked with HM Treasury to source appropriate data not only for future public sector leasing, but also to revise the leasing data historically, so that the full data time series is on a consistent methodological basis. We have made considerable progress on estimating the impacts of leases related to central government units. However, more work is needed to establish the correct statistical classification of the more diverse set of local government leases, as well as those related to rolling stock of public train operating companies. We expect to undertake this work over the coming year.

The effect IFRS 16 will have on the UK's fiscal aggregates and other economic statistics is difficult to estimate at this stage, as is the effect it may have on the size and operation of leasing markets. These effects were summarised in the 2018 edition of the Looking Ahead article, and as soon as further analysis on the potential impact has been carried out, we will look to make the relevant estimates available.

National non-domestic rates

In the national accounts and fiscal statistics, tax receipts are generally recorded on an accrual basis rather than on a cash receipt basis. In other words, we record government revenue at the point where the tax liability arose for businesses and individuals, rather than when the tax was actually paid.

Accrued revenues for national non-domestic rates (NNDR), also known as business rates, are presently calculated using a mixture of cash information and assessments of likely receipts.

This method is based on the total number of taxable properties across local authorities, their applicable tax rates and reliefs, and the amount that taxpayers are liable to pay in a financial year, together with relevant adjustments, which vary slightly for different parts of the UK, as NNDR is a devolved tax.

Prompted by changes in business rates retention by local authorities and by the introduction of the option to pay the rates in 12, rather than the default 10 monthly instalments, we began to review our methodology in 2018 to establish whether we could make any main improvements. We have since worked with relevant government departments to ensure that all aspects of NNDR will be reflected in the new accruals process.

We will use data from the Valuation Office Agency to help establish new apportionments by sector; and data published by the Ministry of Housing, Communities and Local Government (MHCLG), including data on cash receipts, arrears and refunds from their Quarterly Revenue Collection. Taking into account that over-payments, arrears and refunds of NNDR occur, we will apply the accruals methodology to the analyses of these data.

While our new accruals methodology for NNDR remains under development, we have ensured that wherever possible our existing statistics reflect the impact of the coronavirus (COVID-19) pandemic and government policies.

In response to the coronavirus (COVID-19) pandemic, qualifying businesses in retail, leisure and hospitality were eligible for business rates relief (alternatively described as a business rates holiday or discount) for the financial year ending (FYE) March 2021.

At the end of 2020, some businesses announced their intention to make payments in lieu of the business rates relief.

Considering the voluntary nature of this decision, we treat the associated payments by these businesses in respect of the FYE March 2021 not as business rates (taxes), but instead as capital transfers to central government from the private non-financial corporations sub-sector, recorded at the point of payment.

McCloud case and other changes to pension data

In 2015, the government introduced changes to most public sector pension schemes. As part of the transitional arrangements, older members of the pension schemes had an opportunity to stay in their original pension schemes, which offered better terms than the new schemes introduced at the time, whereas younger members had to transfer to the new schemes. In December 2018, the Court of Appeal ruled that these arrangements amounted to unlawful age discrimination in a decision that was later upheld by the Supreme Court.

Although the court ruling was related to judges' and firefighters' pension schemes, the government confirmed that the difference in treatment needed to be remedied across all relevant public sector pension schemes.

Following a consultation, information about the remedy was published in February 2021.

Most public sector pension schemes affected by the McCloud remedy are unfunded. The ESA 2010 framework considers obligations under unfunded schemes to be contingent. Such obligations are included in the supplementary statistics, such as the UK National Accounts Table 29: Accrued-to-date pension entitlements in social insurance and datasets compiled in accordance with the International Monetary Fund's Government Finance Statistics Manual, but are not recorded on the public sector balance sheet in the core UK National Accounts publications such as the Blue Book, nor in the ESA 2010-based public sector finance statistics. Thus, the remedy implemented by the unfunded schemes will have no direct impact on the balance sheet aggregates and will affect PSNB to the extent that the actual amount of pension benefits payable should change.

Unlike unfunded obligations, liabilities of funded pension schemes are included in the ESA 2010-based statistics. As a result, movements in the gross liability of the funded Local Government Pension Scheme will be transmitted simultaneously to the wide balance sheet aggregate, PSNFL, and to the flow measure, PSNB, where a capital transfer will be recorded to reflect a negotiated change in obligations. The McCloud remedy will have no direct effect on PSND, which excludes all pension obligations.

In addition to these changes, we will be updating our pension estimates to incorporate the new data and revise the discount rate assumption from 5% (nominal) to 4% (nominal) in line with international requirements. More information about this change is available in our publication titled Pensions in the national accounts, a fuller picture of the UK's funded and unfunded pension obligations: 2018. For impact on public sector finance statistics, please see our methodological guide.

Sale of railway arches

On 11 September 2018, Network Rail announced it had agreed terms for the sale of its Commercial Estate business in England and Wales. On 4 February 2019, the National Audit Office confirmed that Network Rail had completed a £1.46 billion sale of its commercial property portfolio consisting of approximately 5,200 properties across England and Wales, mainly railway arches.

Public sector net debt at the end of February 2019 and the central government net cash requirement in February 2019 were each reduced by an amount equivalent to the cash received by central government from the sale.

We announced on 31 March 2020 that the agreement would mainly be treated as an operating lease with payments for market output being made over a long period of time. Further details are given in the public sector classification guide. This classification is not yet reflected in the statistics and, given the retrospective nature of the change, we expect to include it in the 2021 change package.

Clinical negligence indemnity cover

On 1 April 2019, the government announced the Clinical Negligence Scheme for General Practice (CNSGP), operated by NHS Resolution on behalf of the Secretary of State for Health and Social Care.

The scheme provides comprehensive cover to all general practitioners (GPs) and their wider practice team for clinical negligence relating to NHS services occurring from 1 April 2019. In parallel, the government has agreed commercial terms with the Medical Protection Society covering claims for historical NHS clinical negligence incidents concerning their GP members occurring at any time before 1 April 2019.

We have assessed the CNSGP against the internationally agreed guidance and concluded that claims arising from a ruling of negligence will be recorded as an other miscellaneous current transfer. This expenditure of central government will contribute to an increase in PSNB at the time the compensation is due.

5 . Future developments

Over the coming months, we will be updating this article with new information as it becomes available. It should be noted that we are not seeking to quantify the complete fiscal impact of the coronavirus (COVID-19) in our publications – an increase in the amounts of social benefits paid, for instance, would need to be measured against the amounts that would have otherwise been paid. Such analysis, which involves economic modelling, is produced by the independent Office for Budget Responsibility.

Rather than identifying the extra demands placed on public finances by the coronavirus (COVID-19), our statistics focus on the total levels of public sector borrowing and debt. To that end, we intend to publish a detailed article describing how we have recorded coronavirus support schemes, the smaller of which are not discussed in this article, and how they affected the fiscal aggregates.