Office for National Statistics

Article

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

Includes how the main coronavirus (COVID-19) support schemes are recorded, methodological changes, and areas for future development.

Contact:
Eduard Moskalenko
public.sector.inquiries@ons.gov.uk
+44 (0)1633 456738

Release date:
21 July 2021

Next release:
20 August 2021

Table of contents

1 . Overview

Most methodological changes to the public sector finance statistics are prompted by the need for statistics to keep pace with the evolving economy. These changes can alter perceptions of the government's fiscal exposure, as measured by the fiscal aggregates such as public sector net borrowing (PSNB) or public sector net debt (PSND).

This article increases transparency around the methodology work, including classification reviews, that is currently underway or planned within the next 18 months. We intend to resume the publication of a [separate longer-term work plan](), which was suspended during the coronavirus (COVID-19) pandemic, later in 2021.

2 . Treatment of coronavirus support schemes

Since the start of the coronavirus (COVID-19) pandemic, [the UK government](), the devolved administrations and the Bank of England have announced over 50 schemes to support the economy and individuals affected by the pandemic. Some were reflected in statistics immediately, but others required the development of economic models and, in some instances, the extension of international guidance.

Fully implemented in statistics

The following schemes are fully recorded in compliance with international guidance and their treatment is explained in [earlier versions of this article]():

- COVID-19 Corporate Financing Facility
- Coronavirus Job Retention Scheme
- Self-Employment Income Support Scheme
- Eat Out to Help Out
- Local Restrictions Support Grant
- Closed Business Lockdown Payment
- Trade Credit Reinsurance Scheme
- Kickstart Scheme
- miscellaneous subsidies paid to businesses, including local authority discretionary grants

Partially or not yet implemented in statistics

The recording of some schemes remains incomplete, normally because data are not yet available to implement the correct treatment. The following measures are partially or not yet implemented in the public sector finance statistics:

- train operating companies under Emergency Measures Agreements
- Future Fund
- Government loan guarantee schemes

This section explains how we expect to treat these schemes and what we do in the meantime to ensure that the fiscal aggregates remain a good reflection of the government's fiscal position. It summarises recent changes to methods or decisions relevant to the implementation of these schemes. Further detail on the measures in this section can be found in previous editions of this article.

Train operating companies under Emergency Measures Agreements

Emergency Recovery Measures Agreements (ERMAs), which replaced the previous Emergency Measures Agreements (EMAs), are arrangements between government and train operating companies (TOCs) to ensure railways continue to operate during the disruption caused by the coronavirus pandemic.

Following a classification review, we concluded that the ERMAs placed TOCs under public sector control. We will look to establish new data sources and include the full accounts of TOCs in our statistics. In the meantime, we have included the management fees paid by the government to TOCs as subsidies to the private sector. These have contributed to the overall rise in public sector net borrowing (PSNB) since the start of the coronavirus pandemic.

On 20 May 2021, the government announced its Plan for Rail to reform Britain's railways. This will include the establishment of a new rail body, Great British Railways. We will carry out a classification review of the new rail structure when more details become available.

Future Fund

The Future Fund (which has now closed) offered convertible loans to eligible companies affected by the coronavirus pandemic. Convertible debt is recorded as debt securities rather than 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 wider public sector net financial liabilities (PSNFL) aggregate, it does increase the narrower public sector net debt (PSND) measure.

The recording of this lending as a financial transaction also means that there is no PSNB impact at the point of loan extension. In contrast, interest accruing on the loans is considered government revenue and reduces PSNB when it accrues continuously over the convertible loan term. 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 the acquisition of liquid cash assets) or is deemed to be exchanged for equity. 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.

Government loan guarantee schemes

We described the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Bounce Back Loan Scheme in previous editions of this article. These schemes have now closed and been replaced by the Recovery Loan Scheme. This is largely similar to the three schemes mentioned and is expected to remain open until December 2021.

Using internationally agreed guidance, we have carried out a formal assessment of these schemes and concluded that the guarantees issued under all four schemes should be recorded as standardised. The effect of this on PSNB, PSND and PSNFL is considered in the March 2021 article. We continue to develop the methodology with the aim of implementing it in the public sector finances at the earliest opportunity.

3 . Other changes expected within the next 18 months

Our focus will remain on reviewing and implementing new policies and support programmes provided by the UK government in response to the economic consequences of the coronavirus (COVID-19) pandemic. Nonetheless, we have made significant progress in some of the other areas listed in the 2019 Looking ahead article. This section describes the changes we are expecting to implement within the next 18 months. Our longer-term plans will be announced later this year.

Fiscal aggregates

The Budget 2020 provided for a review of the fiscal framework to ensure it remained "appropriate for the current macroeconomic environment". While the coronavirus pandemic has had major implications for the review, we are resuming work on improving the quality of the balance sheet data, particularly in areas beyond those included in public sector net debt (PSND). We published a methodology article devoted to this work on 22 June 2021.

National non-domestic rates

In the national accounts and fiscal statistics, tax receipts are generally recorded on an accruals basis rather than on a cash basis; we record government revenue at the point when the tax liability arises, rather than when the tax is 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.

Our plan for improving this methodology has been outlined in previous editions of this article. While our new accruals methodology remains under development, we have ensured that wherever possible, our existing statistics reflect the impact of the coronavirus pandemic and government policies.

McCloud case and other changes to pension data

During 2021, we will be updating our pension estimates to 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 Pensions in the national accounts, a fuller picture of the UK's funded and unfunded pension obligations: 2018. For the impact on public sector finance statistics, please see our methodological guide.

We will also be incorporating new data related to pension funds. Notably, some changes are expected as a result of the McCloud court case. Most public sector pension schemes affected by the McCloud remedy are unfunded. Obligations under such schemes are not recorded in the ESA 2010-based public sector finance statistics. Consequently, the remedy implemented by the unfunded schemes will have no direct impact on the balance sheet aggregates, and will affect public sector net borrowing (PSNB) only 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 wider balance sheet aggregate, public sector net financial liabilities (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.

Sale of railway arches

In February 2019, Network Rail completed the sale of its Commercial Estate business, primarily consisting of railway arches.

Public sector net debt at the end of February 2019 and the central government net cash requirement in February 2019 were 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.

Payments to the EU under the Withdrawal Agreement

The Withdrawal Agreement lays out the settlement of financial commitments between the UK and the European Union (EU). With the end of the transition period on 31 December 2020, the UK's regular monthly Value Added Tax (VAT) and gross national income-based contributions to the EU budget stopped, and the mechanics of the remaining payments to settle the outstanding commitments have changed.

We have reviewed the statistical treatment of the payments being made following the end of the transition period. We judged that, for statistical purposes, they should be recorded as current international cooperation transfers and are included under current transfers abroad in the public sector finances (PSF) bulletin. Such transfers should be recorded when they must be made. Consequently, we will accrue each instalment to the time it is scheduled to be paid, which is expected to coincide with the cash payments.