Recent Classification Decisions and Economic Events Affecting Public Sector Finances Statistics

Abstract

This article provides more information relating to large classification decisions and economic events affecting the Public Sector Finances predominantly relating to the financial years 2011/12, 2012/13 and 2014, but the information is not restricted to those years. The article is a useful companion to the monthly Public Sector Finances bulletin.

Recent classification decisions and economic Events

The following decisions and events are provided in reverse chronological order (the most recent first) of their implementation where possible with an indication of the time period where the public sector finance statistics are affected.

Swiss Tax Agreement

On 1 January 2013 an agreement between the UK and the Swiss Confederation on cooperation in the area of taxation came into force. Under the terms of the agreement banking deposits of UK residents held in Swiss banks became liable for taxation. The details of the agreement can be read on the HMRC website.

In January 2013, the Swiss authorities made an initial cash payment of £342 million to the UK Government. This payment was accrued to May 2013, based on when the Swiss authorities calculated the liabilities. Although more cash is anticipated to arrive over the coming year, under National Accounts rules the full cash amount will be accrued to May 2013 when the liability was recorded. Uncertainty over the total payment means that it is likely that the May 2013 figures will be revised in the financial year 2013/14 and possibly beyond.

Bank of England Asset Purchase Facility Fund (BEAPFF)

The Chancellor announced on 9 November 2012 that it had been agreed with the Bank of England to transfer to the Exchequer the excess cash in the Asset Purchase Facility Fund. The announcement stated that the excess cash accumulated by the fund up to the end of 2012/13 would not be transferred in one lump sum but would be transferred in stages over 2012/13 and 2013/14. Excess cash accumulated by the fund in 2013/14 and beyond would be subject to regular quarterly transfers.

It is planned that transfers from the BEAPFF to the Exchequer will continue to take place on a regular monthly basis over the first half of 2013/14. There is an annual limit for cash transfers from the Bank of England which can impact on net borrowing. This is calculated from the entrepreneurial income of the Bank. The amount of the cash transfer related to the BEAPFF that can impact on net borrowing is affected by other cash transfers from the Bank. Once the limit is reached, all subsequent transfers will have no effect on net borrowing. Cash transferred after the limit is reached will however impact on central government net cash requirement and net debt.

For more information on the BEAPFF and how it is treated and presented, the National Accounts Classification Committee decision was published in February 2013: Changes to Cash Management Arrangements between the Bank of England Asset Purchase Facility and HM Treasury

4G Spectrum Auction

The media regulator Ofcom announced on 20 February 2013 that the auction for the use of the 4G spectrum had ended and had raised £2.34bn. The proceeds of the auction were received by government and recorded as a sale of an asset. The proceeds are reflected in the central government and public sector net investment figures for February 2013. The cash proceeds reduced both public sector net borrowing and net cash requirement in that month.

Royal Mail Pension Plan

In April 2012, the historic liabilities and some of the assets of the Royal Mail Pension Plan

(RMPP) were transferred to government. Under National Accounts rules, the pension liabilities of unfunded pension plans, like those for the Civil Service, are contingent liabilities and are therefore not recorded as liabilities in the National Accounts or Public Sector Finances. However, the transfer of the assets is recorded in the government finances.
Guidance on how to record the government assumption of pension liabilities in circumstances like this is explicitly set out in the Eurostat Manual on Government Deficit and Debt chapter on "Payments to government from transfer of pension obligations". The impact of the transfer of assets has been to record a capital transfer to the government which has reduced public sector net borrowing in April 2012.
Eurostat (the European statistical agency) have also provided guidance that the assets transferred, which were in the form of property should be treated differently to the other transferred assets. The approach is that the property assets are still recorded within the capital transfer to government, but they are simultaneously recorded as government payments towards acquisition of a capital fixed asset. The effect is to reduce the impact on government net borrowing of the capital transfer in April 2012.
When the property assets are sold then there is a positive effect on government net borrowing as the sale is recorded at the point of sale as disposal of a capital fixed asset. An example of this is in February 2013 when government sold some of the property received from the Royal Mail Pension Plan. As a consequence Public sector net borrowing in February 2013 was reduced by the sale receipts. When the government sells the remaining property that it acquired from the Royal Mail Pension Plan it will record, at that point, capital receipts from the sale(s) which will further reduce public sector net borrowing.

Special Liquidity Scheme
The Bank of England Special Liquidity Scheme (SLS) officially closed at the end of January 2012. On closure the accumulated net profits of the scheme were transferred to the Treasury in April 2012. The net profits amounted to £2.3 billion. As part of the winding up of the scheme the SLS has reclaimed the corporation tax paid on its operations. This amounted to £0.7 billion and was repaid to the Bank by HMRC in March 2012 depressing recorded tax receipts in that month.
The £2.3 billion April 2012 transfer from the final profits of the Special Liquidity Scheme is classified as a dividend payment. This means that central government revenue was increased in April 2012 by £2.3 billion, leading to the public sector current budget deficit and public sector net borrowing excluding temporary effects of financial interventions (PSNB ex) being suppressed in this month by £2.3 billion. There is no impact on public sector net borrowing including temporary effects of financial interventions (PSNB) as the transfer is within the public sector, as it is defined in this statistical measure.

Northern Rock and Bradford and Bingley
Following the sale of Northern Rock plc to Virgin Money Holdings (UK) Ltd on 1 January 2012, Northern Rock plc moved out of the public sector. Therefore, Northern Rock plc is not included in the data for public sector banking groups from January 2012 onwards.
As reported in an ONS news release on 28 September 2012, Northern Rock (Asset Management) plc and Bradford & Bingley were reclassified from public financial corporations to central government with effect from January 2010 and July 2010 respectively. In the January 2013 PSF bulletin the classification decision bringing Northern Rock Asset Management (NRAM) and Bradford & Bingley (B&B) into central government was implemented.
The headline impacts of the reclassification were to:
- Increase central government net debt, and so PSND ex, at the end of 2012.
- Reduce central government net borrowing, and so PSNB ex in 2011/12 and 2010/11.
The implementation of the reclassification of NRAM and B&B has been done on a provisional basis using data sourced from UK Asset Resolution Ltd, the body who manage both NRAM and B&B. The process of implementing the reclassification has led to improved data sources being obtained and the identification of some deficiencies in the data sources

previously used when recording NRAM and B&B in the public sector banking sector.
On 11 December 2012, the Economic Secretary to the Treasury announced that Northern Rock Asset Management (NRAM) would be refunding interest payments to some customers. The refunds are being made because of failure by NRAM to comply with all the requirements for loan documentation under the Consumer Credit Act 2008. The UK Asset Resolution (UKAR – the holding company which manages NRAM) has stated that it will be refunding the interest payments made by affected customers over the period that their documentation was not compliant. The estimate of the total cost of this action on 11 December 2012 was £270 million. More information can be found on the UKAR website. £240 million of refund payments took place in March 2013 and these were recorded under National Accounts rules as current transfers to the private sector, which means that they increase the public sector current budget deficit and the public sector net borrowing. As most of the payments will be used to reduce the loan balances of NRAM customers there was also a simultaneous reduction in public sector loan assets.

3G Spectrum License
In February 2012 the public sector finances were updated as a result of a review into the correct treatment in National Accounts of government receipts related to third generation mobile phone services (3G). This followed the sale of licenses in 2000, which granted mobile phone companies exclusive use of parts of the spectrum for third generation mobile phone services. The review concluded that the UK should record these receipts as a sale of an asset rather than as rental payments and this decision was reflected in the February 2012 dataset (published 21 March 2012). There was not an impact on public sector net debt from this classification change, but public sector net borrowing increased by approximately £1billion for every year since 2000/01, and public sector net borrowing in 2000/01 reduced by approximately £21 billion.

Important Events
Blue Book
One month before the annual National accounts publication, the "Blue Book," a consistent set of quarterly National Accounts is published. It is an essential principle of the Public Sector Finances (as published in the Public Sector Finances bulletin) that they are based on National Accounts concepts, definitions and methodologies. However, although National Accounts and Public Sector Finances are conceptually aligned, data in the different publications can diverge due to different revision policies in National Accounts and Public Sector Finances.
Both publications should be aligned to National Accounts classification decisions. Public Sector Finances has an open revisions policy meaning it takes on decisions from the National Accounts Classification Committee (NACC) as soon as possible.
National Accounts has an annual revisions round and in the past few years, the National Accounts have taken on major decisions from the NACC, but not all decisions. The Blue Book 2013 edition in July 2013 delivered a major improvement in alignment between the publications.
When conducting the Blue Book 2013 alignment the majority of revisions impacted on National Accounts, however there were a number of Public Sector Finance revisions which were incorporated in the 21 June 2013 bulletin. These revisions are itemised in that bulletin. More information on the methodological changes can be found in an article on the alignment between National Accounts and Public Sector Finances. This article was published in parallel to the statistical bulletin, on 21 June 2013, and is available on the ONS website.

Banking Sector Groups
Data for the Royal Bank of Scotland and Lloyds Banking Group were fully incorporated into the public sector finances for the first time in the statistical bulletin published on 25 January 2011. Prior to this data for public sector banking groups related only to Northern Rock plc, Northern Rock (Asset Management) plc, and Bradford and Bingley plc. An article providing

commentary on inputs to the public sector banks series, the sources of the data, processing methodologies, and the impacts on key aggregates is available from the ONS website
It is important to note that data for the public sector banking groups (such as Royal Bank of Scotland and Lloyds Banking Group) are only available at six monthly intervals. Thus the net debt, net cash requirement and net borrowing of public sector banking groups for the most recent months tend to be based on ONS estimates.
Due to the difficulty in predicting the results of the public sector banks, these ONS estimates are often substantially revised once outturn data become available. Given this and the potential size of the impact of the public sector banks on certain public sector finance statistics, particular caution should be exercised when interpreting full year PSNB, PSND and PSNCR data prior to outturn data for the public sector banking groups becoming available. Public sector bank data for the first six months of the calendar year (January to June) are normally available for inclusion in the bulletin around September, and data for the last six months (July to December) around March. This means that, for the public sector finance statistical measures which include the public sector banks, reliable data on the previous financial year are not available until the autumn.

Classification issues concerning financial interventions
There have been a number of financial interventions in recent years. These are described in the article "Public Sector Interventions in the Financial Crisis" which also explains the classification of the institutions and transactions associated with these measures in the UK's National Accounts and Public Sector Finances. These decisions follow consultation with Eurostat, the Statistical Office of the European Union, to ensure consistent interpretation of the international guidance.

Revenue Support Grants
The bulk of the Revenue Support Grant was paid by central government to local government in April 2014 of this financial year with remaining balance paid in February. This means that for central government current expenditure year-on-year growth between April 2012 and 2013,as well as growth between February 2013 and February 2014 is high. Year-on-year growth in other months is generally lower. The impact of this central government expenditure is largely offset in local government net borrowing.

The payment has affected current expenditure growth rates in 2014/15 because £7.6 billion was paid out in April 2014, compared with £9.1 billion in April 2013. The impact on central government other current expenditure is largely offset in local government net borrowing and is the main factor behind the smaller local government surplus on net borrowing in the year-to-date.

Lloyds Banking Group / Treatment of public sector banks in public sector finances
On the 17 September 2013, the UK Government began selling part of its share holdings in Lloyds Banking Group (LBG). A further share sales on 23 and 24 March 2014 meant that the UK Government surrendered in total a 13.5% stake in the institution, a quantity sufficient to lead to LBG being re-classified from a public sector body to a private sector body.

The re-classification of LBG means that as of April 2014 the Royal Bank of Scotland (RBS) is the only commercial bank within the 'Public Sector Banking Groups' sector reported in the Public Sector Finances. After careful discussion with RBS to mitigate disclosure concerns, ONS are now able to fully reflect the re-classification of LBG to the private sector.

The classification change only impacts the PSNB and PSND aggregates and has no impact on PSNB ex or PSND ex. Removing LBG leads to revisions in PSND, PSNB and PSNCR from January 2014 even though LBG remained in the public sector until March 2014.

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Sovereign Sukuk

In June 2014, the UK government sold £200 million Sovereign Sukuk, maturing in July 2019. Sovereign Sukuk have been classified, for the statistical purposes of the Public Sector Finances and National Accounts, as bonds with the periodic payments to Sukuk certificate holders being treated as equivalent to interest. This means that the Sukuk issuance has increased public sector net debt by £200 million and the regular payments by government will add to debt interest expenditure.

ESA 2010 and the Public Sector Finance Review

In August 2014, the statistics in this bulletin were substantially revised reflecting: the move from European System of Accounts (ESA) 1995 to ESA 2010; Implementation of the new ex measures defined as part of the 2013 Review of Public Sector Finance Statistics.

The Public Sector Finances comply with international standards set out in the ESA. These standards ensure that economic statistics produced by all EU member states are compiled in a consistent, comparable, and reliable way. The new ESA 2010 standards were adopted by all EU countries in September 2014.

More detail can be found in the Transition to ESA10 article published in February 2014 and the Developments to Public Sector Finances article published in June 2014.