

# **Public Sector Finance Statistics: Implementation of ESA 2010 and PSF Review recommendations**

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# Today publishing:

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## Public Sector Finance Statistics, including:

- PSF Review recommendations
  - new 'excluding public sector banks' measures
  - more component detail published
  - inclusion of Maastricht debt/deficit
  - improved presentation
- ESA 2010 implementation
  - Network Rail re-classification
  - revised treatment of Royal Mail Pension Plan transfer, 3G/4G spectra auctions and Local Government Pension Scheme
  - capitalisation of R&D and military expenditure

# Overview

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- Background
- Impact on key published aggregates
- Changes to data
  - a) European System of Accounts 2010
  - b) Review of Public Sector Finance Statistics
- Changes to presentation
- Future developments
- Questions
- Close

# Background



# Background : ESA 2010 (overview)

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- European System of Accounts 2010 is being implemented in National Accounts and Public Sector Finances in September 2014
- September 2014 is implementation date across Europe
- ONS has published numerous articles about the impact of ESA 2010 on National Accounts:

<http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/methodology-and-articles/2011-present/index.html>

- ONS published articles in Dec 2013, Feb 2014 and Jun 2014 setting out impact of ESA 2010 on Public Sector Finances

<http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-statistics/index.html>

# Background : ESA 2010 (GDP)

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- GDP
  - will be published on 30 Sept 2014
  - average annual GDP current price level (1997 to 2012) increase of around £50bn (4.0%)
  - increase ranges between £25bn (2.6%) and £100bn (6.2%)
  - not all the increase is as a result of ESA 2010
  - biggest single impact is from R&D capitalisation

# Background : ESA 2010 (PSF)

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- Public Sector Finances
  - published today (23 Sept 2014)\*
  - only ESA 2010 impact on net debt is Network Rail
  - main ESA 2010 impacts on net borrowing are Network Rail, 3G/4G, Royal Mail Pension Plan (RMPP) transfer and Local Government Pension Scheme (LGPS)
  - capitalisation of R&D and military weapons expenditure are net borrowing neutral
  - net debt increases by £33bn (at end of July 2014)
  - net borrowing increases by £4.0bn (in 2013/14) and by £1.1bn (in 2014/15 ytd)

\* Full time series for PSF aggregates as '% of GDP' will be published on 30 Sep 2014

# Background : PSF Review (overview)

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- announced in May 2013
- took forward the recommendations of the UK Statistics Authority as part of their Review of the statistical treatment of the Asset Purchase Facility
- ONS led Review which looked at
  - a) definition of ex-measures
  - b) presentation and dissemination of statistics
- Advisory Group for Review involved key stakeholders
- discussions held with wider stakeholder community
- formal consultation took place between Dec 2013 and Jan 2014



# Background : PSF Review (conclusions)

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## Presentation

- improve the clarity of presentation of the PSF
- increase the availability of data to help users understand drivers of change in PSF
- increase the transparency of impacts of financial interventions and other one-off factors on the PSF

## Ex-measures

- replace the existing ex-measures of PSF which exclude “temporary effects of financial interventions” with new measures which exclude only the Public Sector Banks;
- bring consistency to the treatment of shares and compensation payments in the PSF

# Background : PSF Review (impacts)

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- Asset Purchase Facility (APF) and Special Liquidity Scheme (SLS) are now within the “ex-boundary”
- removes need for an “ex-APF” measure
- inclusion of APF
  - increases PSND ex
  - but, reduces PSNB ex (as all flows between government and the APF net out)
- inclusion of SLS
  - main impact is to increase PSNB ex in 2012/13 as dividend payment no longer increases revenue
- no longer treat shares and loans as “temporary”
  - increases PSND ex, although when the shares are disposed and/or loans re-paid these reduce PSND ex accordingly

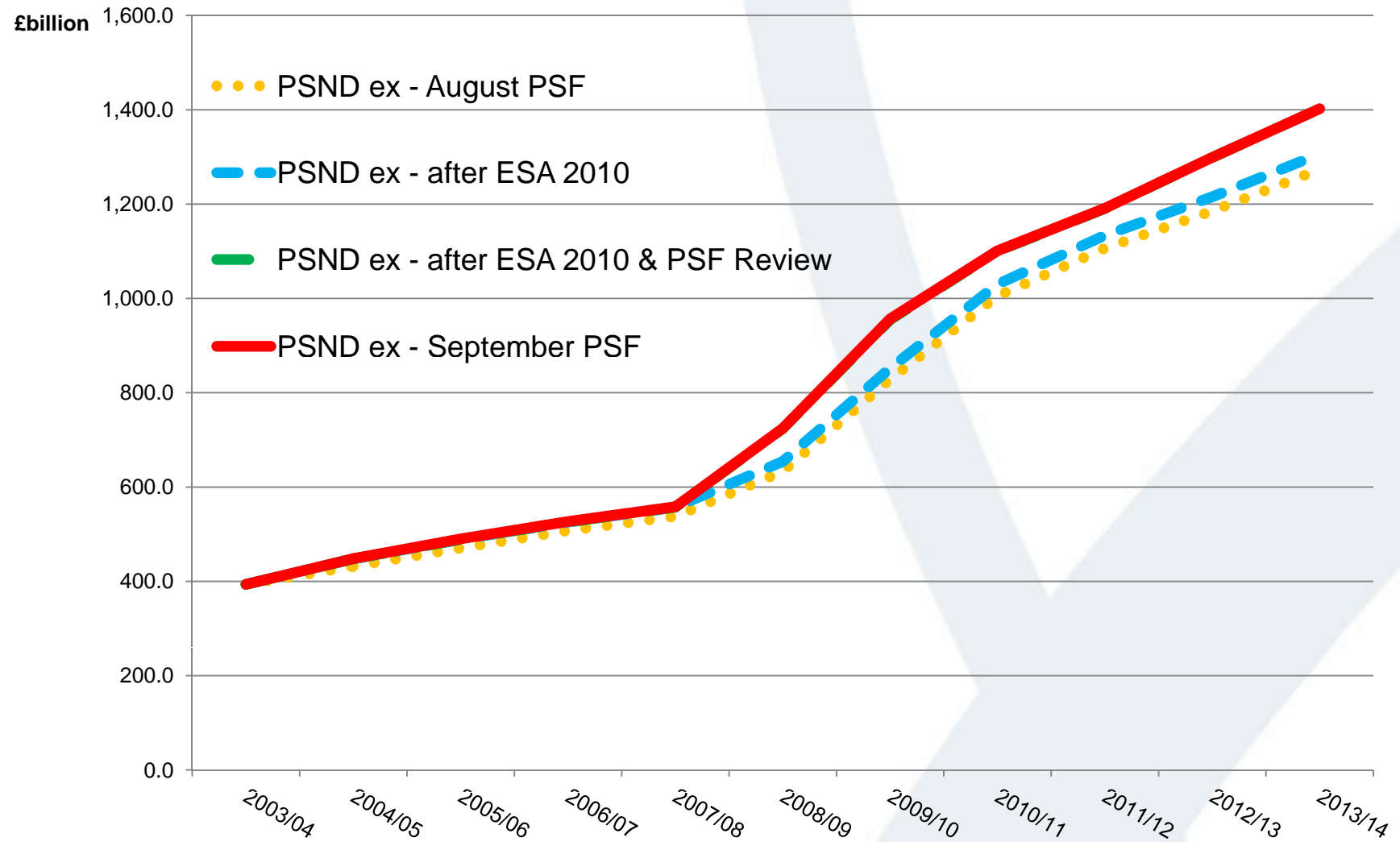
# Background : PSF Review (timeline)

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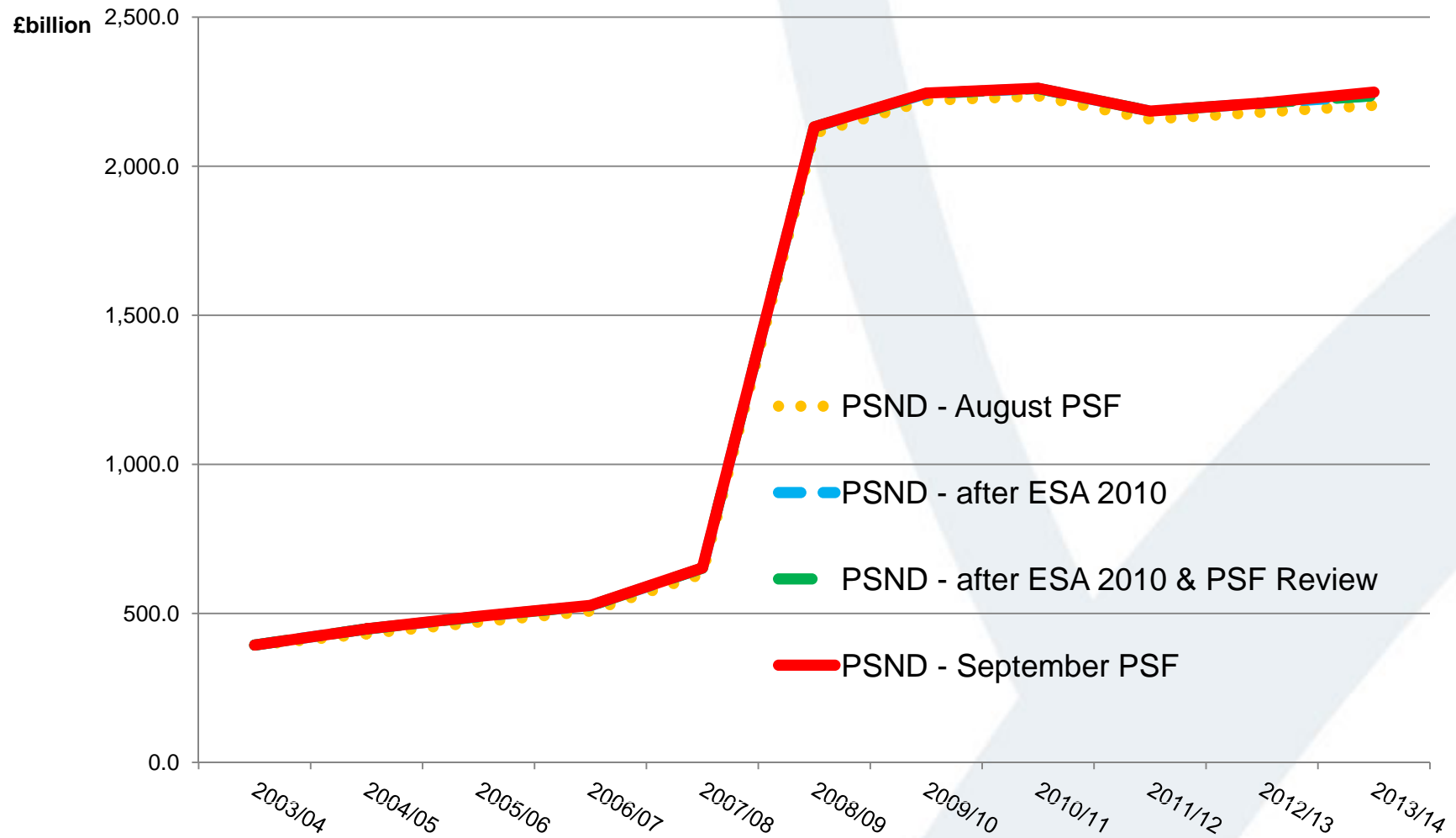
<i>Feb 2013</i>	<i>UKSA review of APF statistics</i>
May 2013	PSF Review launched
<i>Jun 2013</i>	<i>UKSA concludes APF review</i>
Jun – Dec 2013	PSF Review undertaken
Dec 2013	PSF Review consultation launched
Feb 2014	PSF Review concluded
Feb – Aug 2014	Many PSF Review presentational improvements implemented
Jun 2014	Impact table introduced showing first estimates of impact of Sep changes
Sep 2014	ESA 2010 and PSF Review implemented in Public Sector Finances

# Impact on Key PSF Aggregates

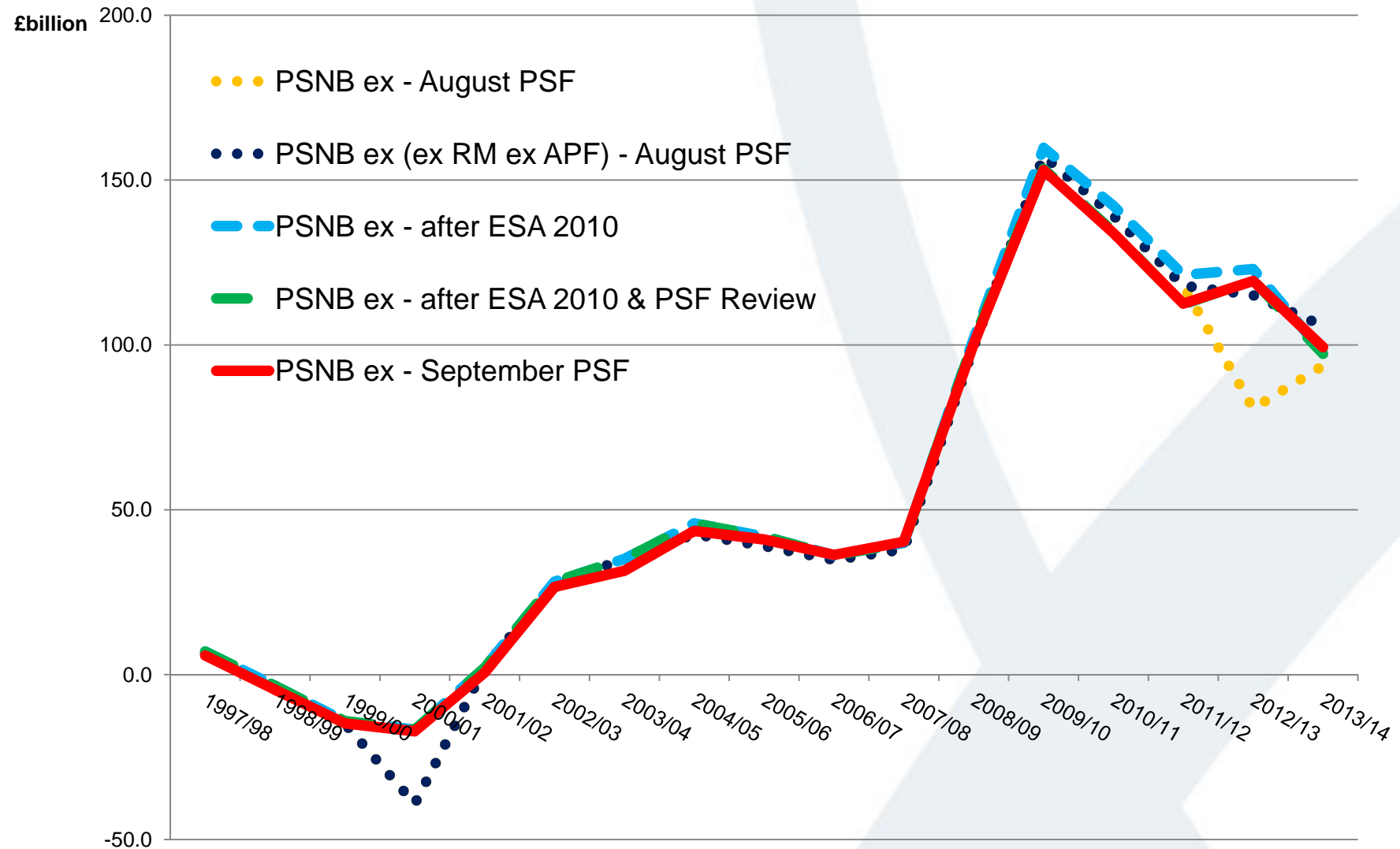
# Public Sector Net Debt ex



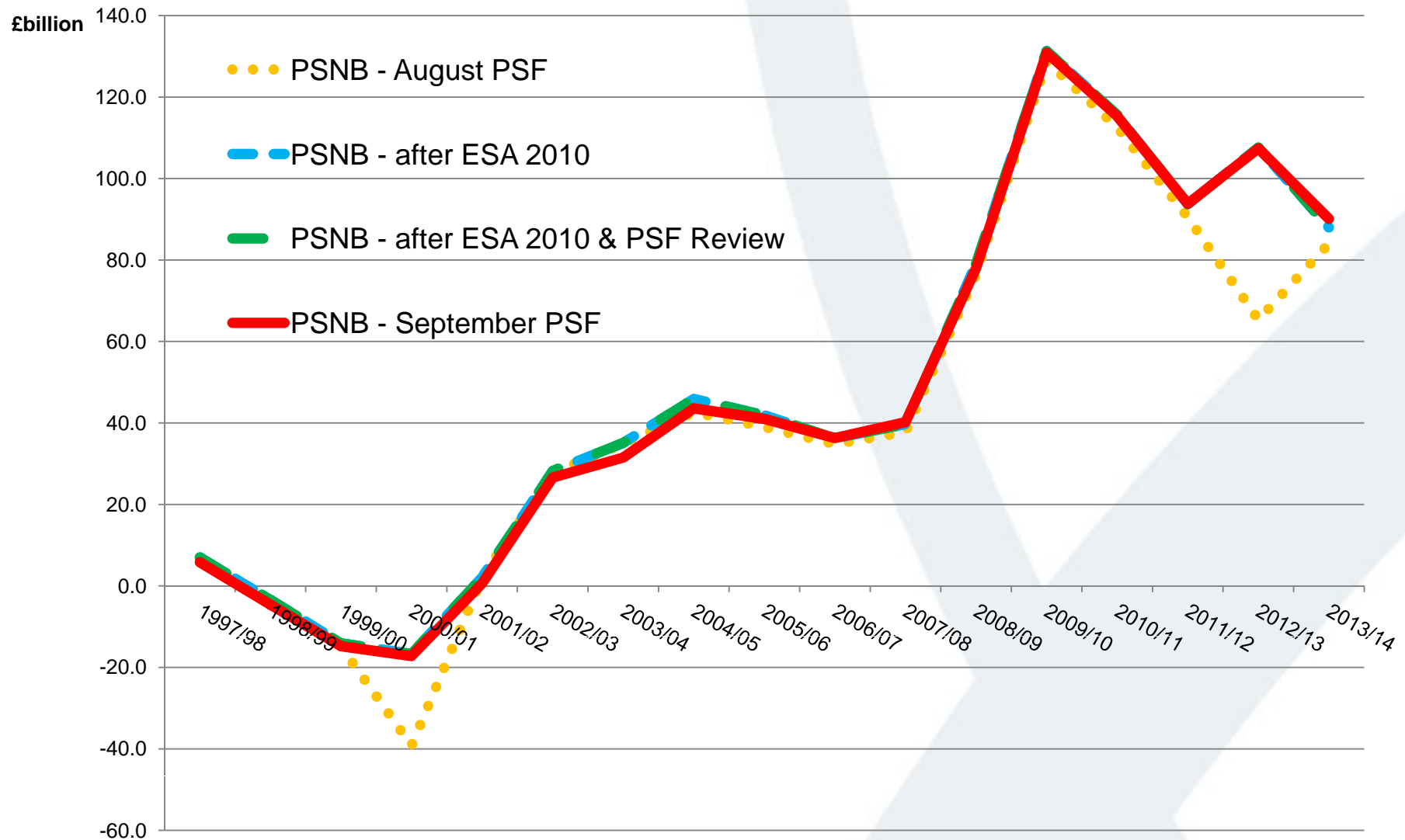
# Public Sector Net Debt



# Public Sector Net Borrowing ex



# Public Sector Net Borrowing





# Changes to data : ESA 2010

# Main changes under ESA 2010

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- delineation of the Public Sector : Network Rail
- changes in treatment of Pensions : LGPS
- changes in treatment of Pension transfers : RMPP
- changes in treatment of licenses for use of natural resources : 3G / 4G
- capitalisation of decommissioning costs
- capitalisation of R&D
- capitalisation of military weapons expenditure
- changes in treatment of tax write-offs : NNDR & CT
- changes in treatment of EU VAT contributions

# Network Rail

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- was outside the public sector statistics now included within central government statistics
- classification announced Dec 2013  
<http://www.ons.gov.uk/ons/rel/na-classification/national-accounts-sector-classification/classification-of-network-rail-under-european-system-of-accounts-2010/index.html>
- classification based on new ESA 2010 rules so being implemented now
- classification applies from 2004/05 onwards
- classification based on:
  - ESA 2010 control criteria for not-for-profit bodies includes “risk exposure”
  - ESA 2010 market test includes debt interest payments

## Network Rail (Cont.)

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- PSNB ex raised by £4.6bn in 2013/14 (less in previous years)
  - £3.1bn increase in PSCB ex
  - £1.6bn increase in PSNI ex
- CGNCR raised by £3.3bn in 2013/14 (less in previous years)
- PSND ex raised by £33bn at end of July 2014

# Local Government Pension Scheme (LGPS)

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- New guidance on treatment of funded, defined benefit pension schemes
  - Includes Local Government scheme
- Imputed contributions added to cover the entitlements/contributions gap
- The imputed contributions increase wage bill (compensation of employees)
- This is extra current spending which increases current budget deficit
- PSNB ex raised by £1.9bn in 2013/14
- No impact on PSND ex or PSNCR ex

# Royal Mail Pension Plan transfer (RMPP)

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- New rules on pension scheme transfers
- RMPP assets (around £28bn) no longer count as a one-off capital transfer to government
  - now a financial advance for social contributions
  - future payments offset by imputed revenue (around £1.3bn a year)
- RMPP liabilities/assets gap (around £9.5bn) now considered a capital transfer payment
- PSNB ex raised by £36.2bn in 2012/13 (or £8.2bn compared to PSNB ex (ex RM ex APF))
- No impact on PSND ex or PSNCR ex

## 3G & 4G Mobile Phone licenses (3G/4G)

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- New rules on permits to use natural resources
- Changes the profile of receipts from sales of non-produced assets (i.e. mobile phone licences) to rent
- Rent is accrued over life of the lease even if paid up front
- 3G licenses issued in 2000 and now recorded as around £1.0bn per year over 20 years instead of £22bn in 2000/01
- 4G licenses issued in 2013 and now recorded as around £0.2bn per year over 20 years instead of £2.3bn in 2012/13

# New non-financial assets

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- New rules on when spending is capitalised
  - Weapons Systems
  - R&D
  - Decommissioning costs
- Only decommissioning costs impact on PSNB ex – impacts small, last impact in 2011/12
- For weapons and R&D, current spend adjusted for capital consumption becomes capital spend
- Current budget deficit increased by £3.2bn in 2013/14 and net investment decreased by same amount



## Other impacts of ESA 10

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- Tax write-offs for national non-domestic rates (NDR) and Council tax (CT) are no longer recorded as capital expenditure but within current receipts – increases current budget deficit by £0.3bn in 2013/14 and reduced net investment by same amount
- EU VAT contributions are no longer recorded as a reduction in VAT receipts but as current spending (a transfer from UK to EU) – no impact on current budget deficit but increases VAT in 2013/14 by £2.2bn

# Changes to data : PSF Review

# Asset Purchase Facility (APF)

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- APF moves inside 'ex-boundary'
- PSNB ex decreases as both gilt interest payments to APF and cash transfers from APF consolidate out – in 2013/14 only an impact of £0.4bn as flows similar in both directions
- PSND ex increases by £45bn at end of July 2014
- CGNCR unaffected
- PSNCR ex decreases by £12.7bn in 2013/14

# Special Liquidity Scheme (SLS)

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- SLS moves inside 'ex-boundary'
- SLS ended in 2012
- PSNB ex increases by £2.3bn as dividend paid to CG in April 2012 consolidates out
- PSNCR ex increases by similar amount
- Smaller impacts during lifetime of SLS

# RBS and LBG Shares

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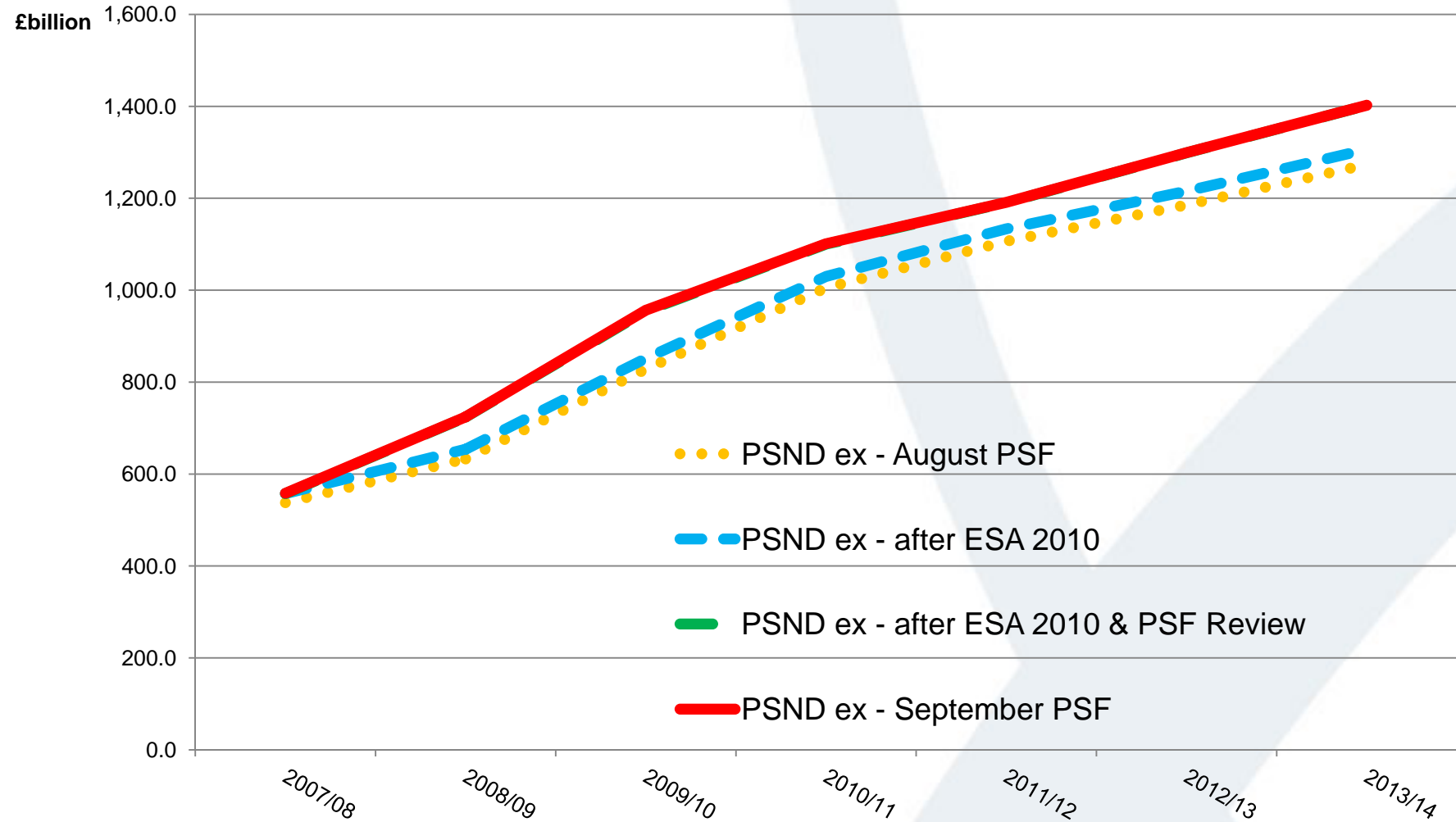
- previously the purchase of RBS and LBG shares was treated as a temporary effect of financial interventions
- PSND ex was therefore not impacted for the full value of the share purchases in 2008 and 2009
- New PSND ex includes the impact of share purchases / sales in full
- PSND ex at end of 2009 increased by £53.8bn
- PSND ex reduced by £6bn as a result of Lloyds share sales in 2013/14

# Depositor Compensation payments

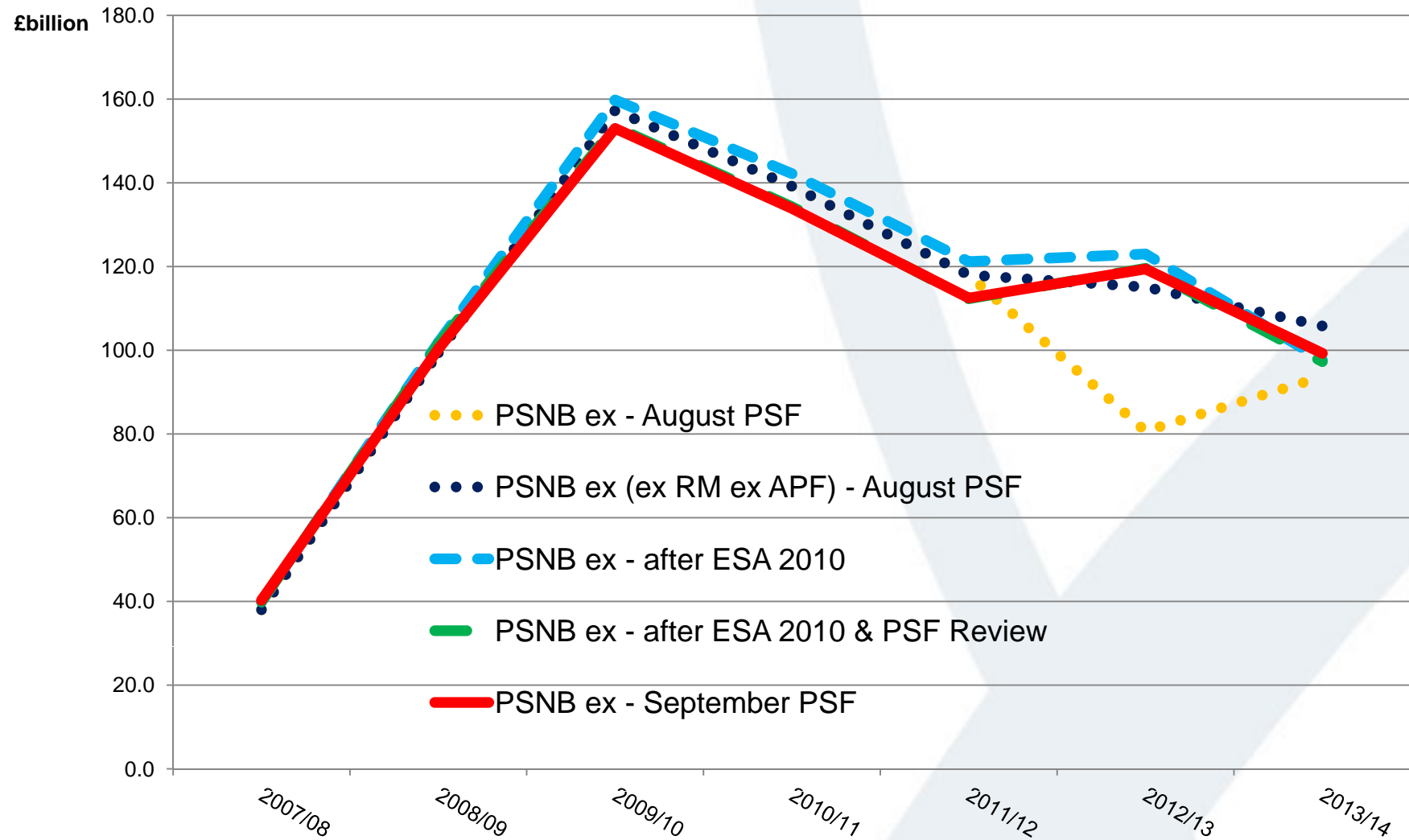
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- previously compensation payments to depositors were treated as temporary effects of financial interventions
- PSND ex was therefore not impacted for the full value of the compensation payments
- New PSND ex includes the impact of compensation payments in full
- PSND ex at end of 2013/14 increased by £3.5bn
- PSND ex at end of 2009 is increased by nearly £50bn as a result of payments to NRAM and B&B in 2008 and 2009. These re consolidated from 2010 onwards when NRAM and B&B become CG bodies.

# Public Sector Net Debt ex

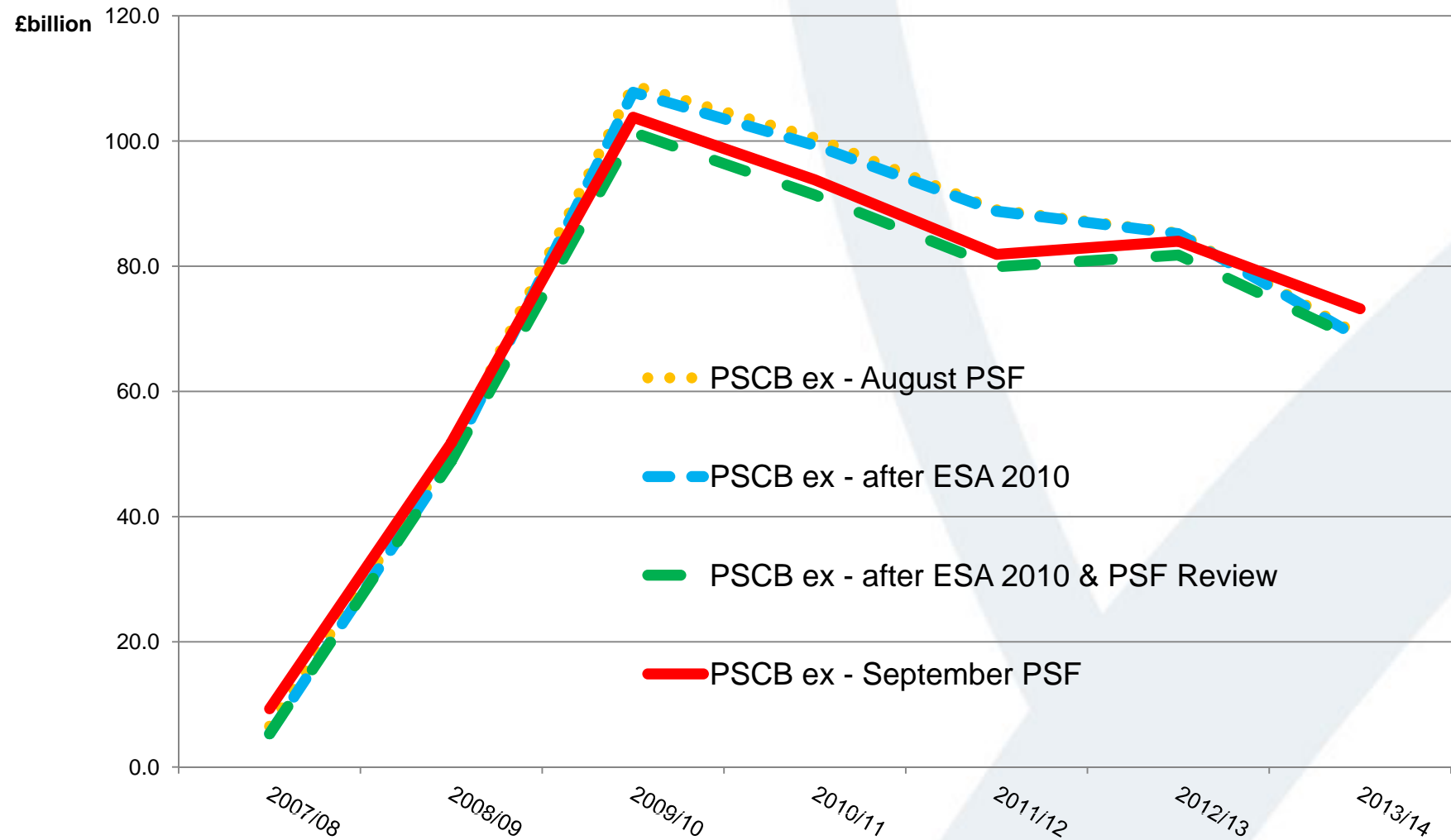


# Public Sector Net Borrowing ex

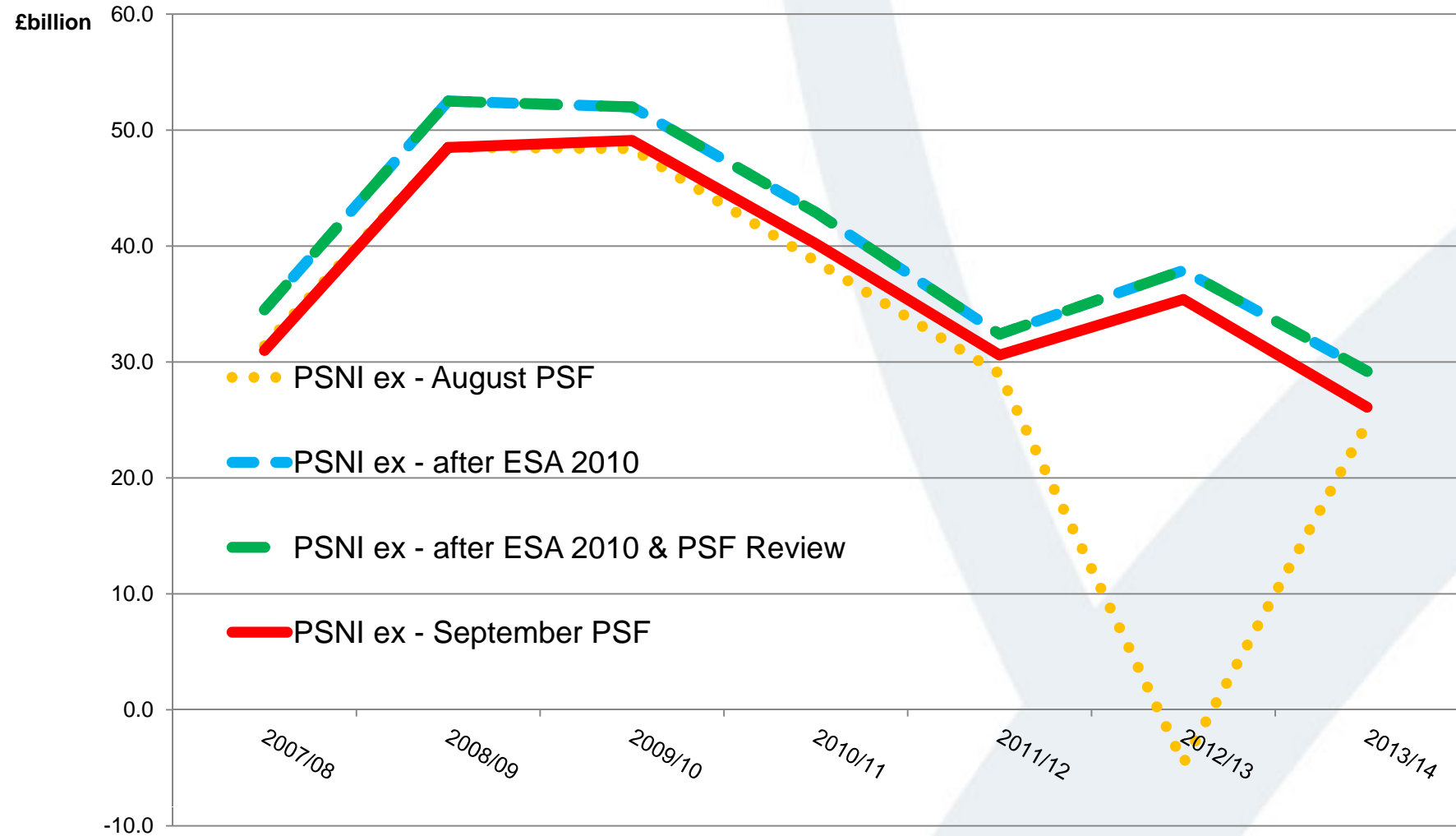




# Public Sector Current Budget Deficit ex



# Public Sector Net Investment ex



# Changes to presentation



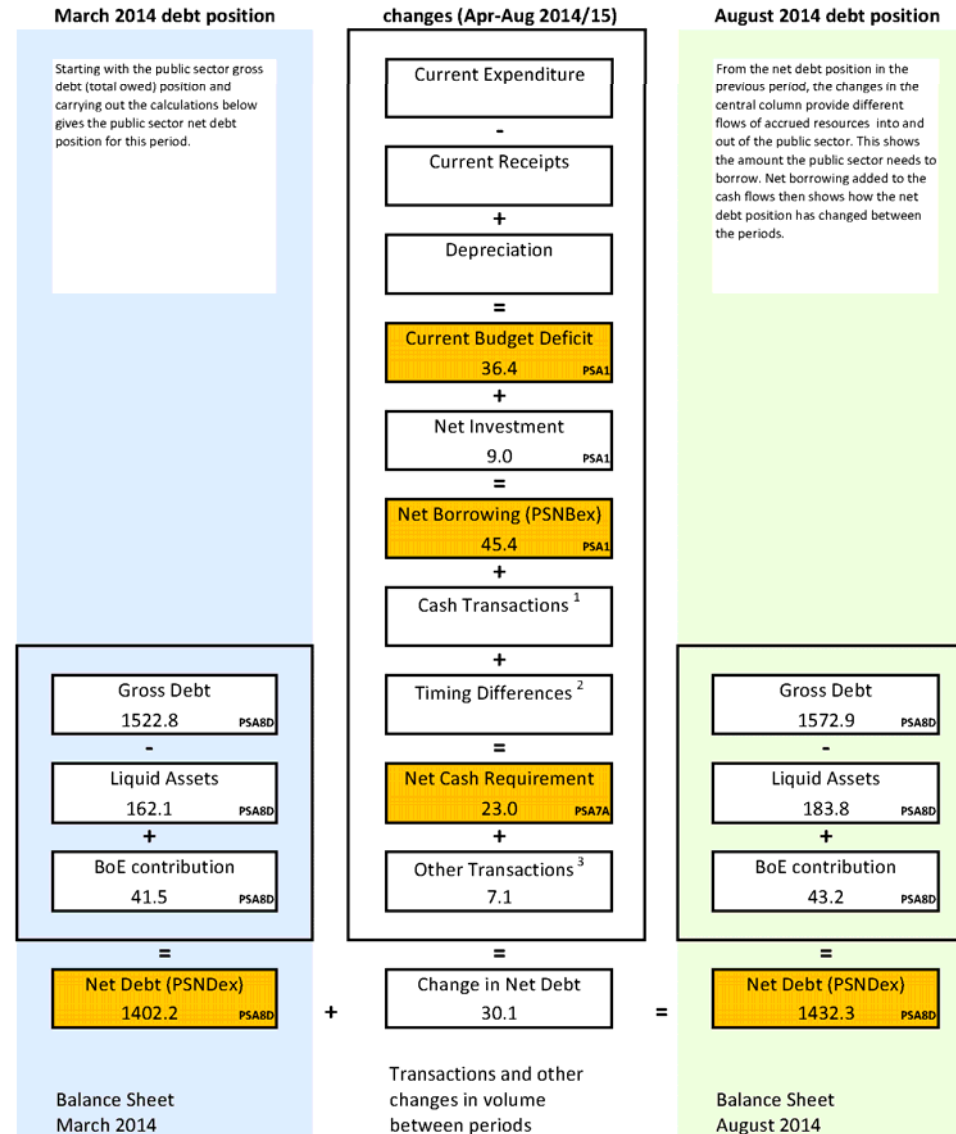
# Presentation – improving clarity and transparency

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- set the latest numbers more into the context of longer term trends
- integrated ‘Maastricht measures’ into monthly bulletin
- provided new presentational framework
- published more detailed breakdowns of tax receipts and government expenditure to allow users to assess the underlying trends more easily
- published a time-series of one-off or irregular transactions or stocks so users can see all the impacts clearly over time
- improved the commentary to provide clearer messages about relative impacts of routine tax and spend as well as specific, one-off factors
- Surplus on Current Budget now shown as Current Budget Deficit

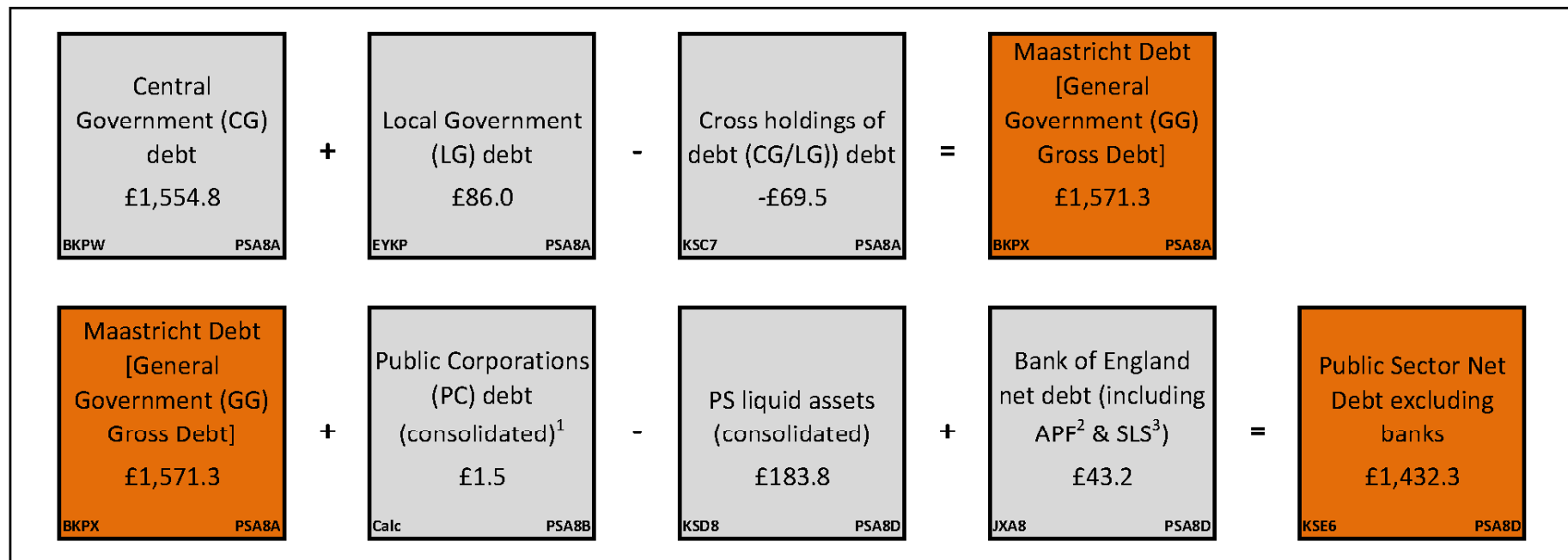
# Presentational framework - transactions

Diagram1: 2014/15 Year to date changes in Public Sector Finances (excluding financial interventions) (£ billion)



# Presentational framework - sectors

Diagram 4: 2014/15 year to date sectoral split of PSND excluding public sector banks (£ billion)



# More detail : revenue

## PSA6D Central Government Account : Current Receipts

£ million

	Taxes on production									
	of which									
	Total	VAT	Alcohol	Tobacco	Fuel duty	Business rates <sup>1</sup>	Stamp duty (shares)	Stamp duty (land and property) <sup>2</sup>	Vehicle duty paid by businesses	Other <sup>3</sup>
	NMBY	NZGF	MF8V	GTAO	CUDG	CUKY	BKST	MM9F	EKED	MF8W
2010/11	193 649	99 523	9 434	9 305	27 256	21 523	2 970	5 981	925	16 752
2011/12	206 464	112 067	10 180	9 878	26 798	22 759	2 794	6 125	946	14 917
2012/13	211 449	114 465	10 139	9 590	26 571	23 848	2 233	6 907	958	16 738
2013/14	223 458	120 226	10 308	9 556	26 882	24 577	3 108	9 371	978	18 452
2012 Aug	17 399	9 145	849	680	2 237	2 012	218	683	89	1 486
Sep	17 748	9 514	757	979	2 260	2 011	166	588	63	1 410
Oct	18 167	9 775	1 036	769	2 220	2 010	174	624	102	1 457
Nov	18 073	9 758	1 203	622	2 324	2 010	231	611	59	1 255
Dec	18 649	10 150	824	1 052	2 331	2 007	188	591	64	1 442

# More detail :expenditure

## PSA6E Central Government Account : Current Expenditure

£ million

	Current expenditure on goods and services						
	Total	of which					
		Staff costs	Market output and output for final use <sup>3 4</sup>	Purchase of goods and services	Depreciation	Subsidies	Interest
	NMBJ	NMBG	-MUT5	MF76	NSRN	NMCD	NMFX
2010/11	206 324	93 654	-19 228	116 108	15 790	5 726	46 609
2011/12	212 326	96 286	-17 601	117 034	16 607	5 769	49 704
2012/13	218 632	99 306	-16 557	118 670	17 213	7 726	48 856
2013/14	226 251	100 842	-18 761	125 993	18 177	7 659	48 696
2012 Aug	18 483	8 262	-1 399	10 193	1 427	643	2 908
Sep	18 654	8 262	-1 413	10 393	1 412	644	3 027
Oct	18 084	8 317	-1 334	9 654	1 447	662	4 487
Nov	17 533	8 317	-1 288	9 059	1 445	662	4 455
Dec	20 018	8 318	-1 340	11 594	1 446	663	5 013
2013 Jan	18 294	8 205	-1 490	10 090	1 489	635	3 816
Feb	17 444	8 205	-1 604	9 355	1 488	635	4 669
Mar	20 976	8 205	-1 615	12 967	1 419	637	2 597
Apr	18 472	8 063	-1 516	10 411	1 514	611	5 212
May	17 856	8 196	-1 420	9 612	1 468	611	4 692
Jun	18 231	8 192	-1 394	9 944	1 499	591	4 526



# Information on drivers : APF

## PSA9 Bank of England Asset Purchase Facility Fund (APF)

£ million

Bank of England Asset Purchase Facility Fund (APF)							
	Interest receivable <sup>1</sup>	Interest payable <sup>1</sup>	Net interest receivable	Cash transfers to HM Treasury		Loan liability	APF gilt holdings (at nominal value) <sup>2</sup>
				Total	of which Dividends		
	MDD6	MDD7	MDD8	MT6A	L6BD	MDE2	MEX2
2010	8 660	958	7 702	–	–	199 398	177 736
2011	8 946	942	8 004	–	–	249 920	228 141
2012	12 992	1 494	11 498	–	–	374 974	326 725
2013	14 428	1 799	12 629	40 157	18 609	374 991	326 535
2009/10	6 207	694	5 513	–	–	199 667	177 736
2010/11	8 653	950	7 703	–	–	199 285	177 736
2011/12	9 755	1 009	8 746	–	–	303 534	270 703
2012/13	13 688	1 630	12 058	11 271	6 428	374 990	326 296
2013/14	14 398	1 833	12 565	31 102	12 181	374 939	325 894
2009 Q3	1 477	163	1 314	–	–	153 770	136 351
Q4	1 954	219	1 735	–	–	190 053	167 822
2010 Q1	2 123	239	1 884	–	–	199 667	177 736
Q2	2 163	238	1 925	–	–	199 527	177 736
Q3	2 187	242	1 945	–	–	199 500	177 736
Q4	2 187	239	1 948	–	–	199 398	177 736

# Information on drivers : one-off events

## Large impacts on Public Sector fiscal measures excluding banking groups

There is no precise definition of what constitutes a large impact but they generally will have either an impact of more than £1 billion in a period on public sector net borrowing and/or an impact of more than £10 billion in a period on public sector net debt.

Event	Description of Event	Period Impacted	Impact (£ billion)						
			PS current receipts (ex banks) <sup>1</sup>	PS current expenditure (ex banks) <sup>1</sup>	PS current budget deficit (ex banks)	PS net investment (ex banks)	PS net borrowing (ex banks)	PS net cash requirement (ex banks)	PS net debt (ex banks)
			JW20	JW2Q	-JW2T	-JW2Z	-J5II	JW38	HF6W <sup>2</sup>
3G Mobile Spectra auction <sup>3</sup>	The Government auctioned the rights (licences) to transmit within 3G mobile spectra. The transaction has been recorded as lease of a natural resource.	2000 May	0.0	0.0	0.0	0.0	0.0	-12.5	-12.5
		2000 Sep	0.0	0.0	0.0	0.0	0.0	-10.0	-22.5
		2000/01	0.8	0.0	-0.8	0.0	-0.8	0.0	-22.5
		2001/02 and every year thereafter until 2021/22	1.0	0.0	-1.0	0.0	-1.0	0.0	-22.5
Paris Club debt forgiveness to Nigeria	In 2005, the Paris Club (which includes the United Kingdom as a member) agreed a deal with Nigeria to forgive a portion of their debt. The debt forgiveness was recorded as increasing net borrowing (as debt forgiveness is treated as a capital transfer) and reduced the UK equity holding in the Paris Club.	2005 Oct	0.0	0.0	0.0	1.1	1.1	0.0	0.0
		2006 Apr	0.0	0.0	0.0	1.1	1.1	0.0	0.0
Loan to Northern Rock Plc	Public sector loans were made to Northern Rock in order to help the company service its debts to customers. These loans were initially provided by Bank of England but in August 2008 they were transferred to government.	2008 Aug	0.0	0.0	0.0	0.0	0.0	18.9	18.9

# Future Developments



# Further Developments

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- Lloyds reprivatisation to be implemented
- reconciliation of NCR and Net Debt
- bring full transactional table (currently published with only quarterly data) into main monthly bulletin
- publish expenditure data by department

**What else do you, the users, want?**

**Questions?**

