Office for National Statistics

Article

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

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

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Correction

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Following publication on 21 September 2021, an error has been found in the Public Sector Finances (PSF): August 2021 release. The error affects data for the period April 2020 to August 2021 inclusive.

Public Sector Net Borrowing (excluding Public Sector Banks – PSNB ex) was overstated by £4.6 billion in the financial year ending March 2021 and £2.5 billion in the financial year-to-August 2021. PSNB is now estimated to have been £320.5 billion in the financial year ending March 2021 and £91.3 billion in the financial year-to-August 2021.

This error was the result of provisional data for the Public Sector Funded Pension Schemes being used in the estimation of the published dataset.

In September 2021, we changed the discount rate used for future pension liabilities from 5% to 4%, taking on a change in international statistical standards. However, in the provisional dataset, the data for April 2020 onwards for these public sector schemes was estimated using the 5% discount rate. In the corrected version, this had been updated, consistent with the 4% rate.

Correcting this error has affected Public Sector Funded Pension Schemes' net borrowing and so Public Sector Net Borrowing. There has been no impact on net cash requirement or net debt as a result of this correction.

ONS apologises for any inconvenience caused by this error.

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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.

This edition focuses on changes that have been implemented in the public sector finances (PSF) bulletin published in September 2021. More information about other recent changes, including the treatment of coronavirus (COVID-19) support schemes already implemented in statistics, can be found in previous editions.

We intend to resume the publication of a separate longer-term work plan, which was suspended during the coronavirus pandemic, later in 2021.

2 . Changes in September 2021

In accordance with our transparency strategy and to provide increased predictability to users, we aim to package together methodological changes so that they occur, where possible, at a single point in the year. This section presents information on aspects of methodology or statistical classifications that have been implemented in September 2021. The impacts of these changes are presented in Tables 12 and 13 of this month's public sector finances (PSF) bulletin.

Alongside the development areas listed here, we continue to make routine updates to the public sector finances dataset, such as incorporating new data from the UK National Accounts and student loan forecasts into our statistics. The changes induced by economic events (such as most coronavirus (COVID-19) interventions) are still recorded at the earliest opportunity.

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.

Currently, we capture the 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. In September 2021, we have included the full accounts of TOCs in our statistics from the point at which EMAs were effective. We also now record the fees paid by government to TOCs as subsidies to public corporations instead of subsidies to the private sector. The PSNB for the financial year ending March 2021 has been revised downwards by approximately £0.7bn as a result of these changes. There has been no impact on public sector net debt (PSND).

Future Fund

The Future Fund 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.

The recording of this lending as a financial transaction means that there is no PSNB impact at the point of lending. In contrast, interest accruing on the loans is considered government revenue and has reduced PSNB by £0.1bn in the financial year ending (FYE) March 2021, as it accrues continuously over the convertible loan term.

Cash is a liquid asset, whereas the convertible debt security is not; therefore, the provision of the loans contributed an increase of £1.1bn to PSND in FYE March 2021. This increase was already implicitly captured in our estimates for FYE March 2021, as was any impact of cash payments or receipts over the course of the year. Therefore, the changes made in the recording of Future Fund in September 2021 had no additional impact on PSND.

However, public sector net financial liabilities (PSNFL) have now been revised down by £1.1bn for FYE March 2021 as a result of recognising the corresponding increase in government asset holdings in the form of debt securities (convertible loans are recorded as debt securities, differently to conventional loans).

On maturity, we expect this debt to be either repaid (reducing PSND through the acquisition of liquid cash assets) or to be exchanged for equity. The latter scenario may result in the government assuming control over the company, which may lead to its public sector classification. We will review instances of debt-to-equity conversion to establish the appropriate statistical recording.

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. Using internationally agreed guidance, we have carried out a formal assessment of these schemes and concluded that the guarantees issued under all three schemes should be recorded as standardised.

We have implemented this classification in the September 2021 PSF bulletin. Expenditure in the form of a capital transfer is now recorded at the time the guarantees are provided, reflecting estimated losses under the schemes over their lifetimes. It is this expenditure at inception that has contributed to an increase in PSNB of £20.9bn in FYE March 2021.

The recording of provision for calls on the government balance sheet has increased PSNFL by the same amount in FYE March 2021, although both estimates are still provisional and subject to further changes. PSND is a narrower balance sheet measure than PSNFL; it excludes provisions for calls under standardised guarantee schemes and has not been affected by this change.

The figures included in this month's bulletin remain provisional and subject to change as more information becomes available. We are working closely with the Department for Business, Energy and Industrial Strategy (BEIS) to ensure we have the most recent information. Should more up-to-date estimates become available, we will incorporate them at the earliest opportunity.

Changes to pensions data

As of September 2021, we have updated our pensions 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. We have also incorporated recent classifications and new data related to pension funds. Notably, we included the Bank of England Pension Fund in our statistics.

In combination, these changes have resulted in a £1.6bn increase in PSNB in FYE March 2021 and we expect them to result in a PSNFL increase of around £55.6bn in the same year. The main cause of these revisions is the discount rate change. This increases the value of the pension liabilities and affects imputed expenditure, which represents the amounts that the manager would need to contribute each time period to cover the change in actuarial liabilities.

While PSND does not include pension liabilities, it is also affected. This is because of more information becoming available from our new financial survey of pension schemes and more recent scheme accounts related to holdings of gilts and other assets and liabilities by pension funds. The consolidation of gilts at a public sector level and improved information on other assets and liabilities has resulted in a downwards revision of PSND of £12.9 bn in FYE March 2021. PSND changes in the earlier years are smaller in magnitude, being primarily explained by the inclusion of the Bank of England's pension scheme.

Bank of England accounts

We have also improved our processing of data for the Banking and Issue Departments of the Bank of England to provide more comprehensive coverage and greater accuracy. Improvements include increasing the granularity of data used to calculate PSF aggregates, fully consolidating the Bank's holdings of UK government securities (gilts) and some revisions to the Bank's contribution to PSND.

The Bank of England's Banking and Issue Departments' contribution to PSNB remains similar. The impact on PSND is somewhat greater, with the Bank's contribution revised upwards by £3.6 billion for FYE March 2021 as a result of these changes and the incorporation of the latest data. The largest driver of the revisions is the consolidation of gilts held by the Bank's Banking and Issue Departments, which is now done at face value consistent with the approach we apply to other public sector bodies.

Asset Purchase Facility

We have reviewed the data sources for the Bank of England's Asset Purchase Facility (APF) Fund and moved from estimates based on management information to data from published sources. Our review verified the published monthly data by referring to audited accounts, and concluded that that, where available, published data sources should be used in preference to management information.

While having little effect on net borrowing, this change has caused substantial revisions to the profile of net debt over the period February 2015 to date. The size and direction of these revisions vary, with, for example, a downwards revision of £4.5bn at the end of March 2020 and an upwards revision of £9.1bn at the end of March 2021.

Our presentation table PSA9A also now includes more granular data for the Bank of England (including APF) contribution to public sector net debt.

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. The agreement is 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 new treatment has been implemented in September 2021. PSND has not been affected by the change, as any impact on cash payments or receipts will already have been reflected in the latest estimates (of public sector net debt and central government net cash requirement). However, the broader PSNFL will see an increase of around £1.5bn at the time of the initial sale, with the impact diminishing over time as the imputed payments accrue. The impact on PSNB is minor.

3 . Changes expected beyond September 2021

We continue to work on other developments detailed in the March edition of this article, including:

- improving and extending our balance sheet statistics
- reviewing the treatment of leases under International Financial Accounting Standard 16
- implementing a new accruals methodology for national non-domestic rates (business rates)

We will provide further updates on these areas in the coming months.