Office for National Statistics

Article

Recent and upcoming changes to public sector finance statistics: February 2022

Information on recent and upcoming changes to our public sector finance statistics.

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1 . Overview

Most methodological changes to the public sector finance (PSF) 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.

We have now resumed the annual publication of our longer-term work plan. Our Looking ahead – developments in public sector finance statistics: 2022 article provides information on changes expected in the next annual package and beyond. Information about the changes we implemented in September 2021 can be found in our Recent and upcoming changes to public sector finance statistics: August 2021 article.

We will continue to publish this monthly article as needed to update users on ongoing short-term work, as well as the immediate impact of new policies or events on the public sector finance statistics.

2 . Recent changes and items under review

Train operating companies under Emergency Measures Agreements

In the public sector finance (PSF) bulletin published in September 2021, English train operating companies (TOCs) were included within the public sector. This was following their reclassification while under Emergency Measures Agreements. In this month's PSF statistics, we have implemented the reclassification of Scottish TOCs into the public sector. This has increased public sector net borrowing (PSNB) by £0.9 billion in the financial year ending (FYE) 2021, and £0.8 billion in the FYE 2022.

We have also implemented the reclassification of Transport for Wales Rail Services as a public corporation between 3 May 2020 and 6 February 2021. A new body, Transport for Wales Rail Limited, now provides rail services in Wales and was classified to the central government subsector from 7 February 2021. Since Transport for Wales has consistently been part of the public sector, there has been no change to any of the fiscal aggregates at the public sector level.

Spring Statement

We will review the statistical treatment of any schemes and measures announced in the Spring Statement on 23 March 2022. We will also review the prioritisation of upcoming changes if appropriate.

Energy bills rebate

On 3 February 2022, the UK government announced a package of measures in response to rising energy bills. We outlined the details of this in our Recent and Upcoming Changes to public sector finance statistics: January 2022 article.

Following the UK government's announced Council Tax Rebate in England, the Office for National Statistics (ONS) concluded that the scheme should be classified as a payable tax credit within "other miscellaneous current transfers." This will contribute to PSNB when it is due to be paid in April 2022. For more detail on this classification you can view our Public sector classification guide and forward work plan.

As per Classification of the Council Tax rebate in England: 28 February 2022 statement, we will provide details on our classification of the associated discretionary fund for local authorities and the Council Tax rebate in Scotland and Wales as soon as the assessments are complete. The classification treatment of the energy bills rebate scheme will be determined as information about this policy becomes available.

Developments in the energy market

Previously, we noted that Bulb Energy Limited had been placed into a Special Administration Regime (SAR) by the government as detailed in our Recent and upcoming changes to public sector finance statistics: December 2021 article. We will consider the impact of the SAR on public sector finances and review as part of our classifications work. An update will be provided in due course.

In the meantime, Bulb Energy Limited will continue to be treated as part of the private sector. Payments made under the SAR will provisionally be treated as expenditure under "other capital transfers", a component of net investment, as they happen.

In addition, we will continue to actively monitor the wider developments in the energy market and will review any changes that may affect public sector finances.

UK Infrastructure Bank

The UK government launched the UK Infrastructure Bank (UKIB) in June 2021 as detailed in our Recent and upcoming changes to public sector finance statistics: January 2022 article.

In January 2022, the ONS classified UKIB to the central government subsector with effect from 17 June 2021, the date UKIB became operational.

The methodology around certain financial activities is complex owing to differences between the statistical guidance and financial reporting requirements. We expect that the classification of UKIB may take longer than average to be fully implemented in the public sector finance statistics. We will communicate the expected implementation date in a future update to this article.

Omicron Hospitality and Leisure Grant and coronavirus (COVID-19) loan guarantee schemes

On 21 December 2021, the UK government announced the roll out of new grants for businesses affected by the Omicron variant of coronavirus (COVID-19), as well as the extension or reintroduction of some existing COVID-19 support schemes. The Omicron Hospitality and Leisure Grant (PDF, 243KB), closed for new applications on 18 March 2022, with all final payments due to be made by 31 March 2022.

Payments made from central government to local government in relation to the scheme are recorded as current transfers from central to local government. These have no impact at the public sector level. Payments made to firms will be recorded as local government expenditure in the appropriate month as data become available.

We have updated the estimates of provisions for calls under the various coronavirus loan guarantee schemes. As a result, there are very small revisions to PSNB, and we expect to see reductions to our estimates of public sector net financial liabilities (PSNFL) to be published in April 2022. This reflects improved expectations of loan repayment under the Coronavirus Business Loan Scheme, the Coronavirus Large Business Loan Scheme, and the Bounce Back Loan Scheme. Estimates for the Recovery Loan Scheme have also now been included.

Any difference between the initial forecast and the observed value of calls would be reflected in our PSNB estimates as explained in our Recent and upcoming changes to public sector finance statistics: March 2021 article . In line with the statistical guidance, we expect to perform the reconciliation annually to limit volatility arising from regular modelling updates. Such reconciliation would see the recording of a new capital transfer either to or from government (depending on whether more or fewer calls are expected).

The transfer would normally be dated to the end of each financial year, although the statistics will be updated somewhat later, when the new data become available.

Changes to higher education student loans

On 24 February 2022, the UK government announced new changes to the student finance system in England.

When recording student loans in the PSF statistics, a portion of the student loan outlay is considered to be a capital transfer to the borrower. This contributes to PSNB at the time at which the loans are issued. The remaining portion is treated as a genuine loan asset for government. This approach recognises that some student loan debt will never be repaid, and so it records government expenditure when loans are issued rather than when the outstanding balances are ultimately cancelled.

The partitioning of student loans into expenditure and lending components is underpinned by economic models, which project repayments over several decades into the future. With such a lengthy forecast horizon, the estimates are sensitive to changes in assumptions. For example, revised expectations of graduates' future earnings affect how much money is expected in repayments. This changes the proportion of student loan stock considered to be effectively cancelled by the government, which in turn feeds into government expenditure and PSNB.

Changes in economic assumptions also result in a revaluation of the loan asset stock. These stock changes are usually recorded at the time the improved modelling becomes available to the ONS. For more information on student loans in the PSF statistics see our Student loans in the public sector finances: a methodological guide, January 2020.

In the PSF bulletin published March 2022, we have revised capital transfers to the private sector (and therefore PSNB) up by £1.7 billion over the financial year-to-January 2022. This is to reflect reduced repayment expectations for loans issued over this period.

There will also be an associated reduction in interest receivable on the - now smaller - loan asset, leading to a further £0.3 billion upward revision of PSNB for the financial year-to-January 2022. In the PSF bulletin published in April 2022, we will record a £12.0 billion downward adjustment (revaluation) to the stock of student loan assets for April 2021. This will increase PSNFL by the equivalent amount.

These routine modelling updates differ from the recording of policy interventions. Policy changes only affecting future borrowers do not require statistical adjustments in the present. Future partitioning associated with those loans will be done based on the new terms and conditions. On the other hand, interventions significantly altering the value of the existing loan stock (through changing expectations of future repayments) give rise to capital transfers. This affects PSNB when the policy is enacted.

The changes announced on 24 February 2022 will affect both new students entering higher education and existing borrowers. For new cohorts of students, these changes will apply from the academic year starting 2023:

- graduates will see their student loan interest rate set to the Retail Price Index (RPI) of inflation
- the maximum tuition fee will continue at £9,250 up to and including the academic year starting 2024 (for current and future students)
- the loan balance will be written off 40 years after repayments begin, rather than the current 30
- the annual repayment threshold will be reduced from £27,295 to £25,000 until the financial year ending 2027

The changes will also affect current and former students with Plan 2 loans; in these cases, the repayment threshold will remain at £27,295 until the financial year ending 2027. For more information on Plan 2 loans see GOV.UK's Repaying your student loan.

In combination, we expect these changes to reduce the proportion of student loan outlay recorded as government expenditure. We will implement these changes to our student loan estimates at the first opportunity, ensuring the correct time of recording for the various elements of the package.

3 . Related links

[Public sector finances, UK]
Bulletin | Released monthly
How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.