

Article

Recent and upcoming changes to public sector finance statistics: July 2020

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



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Release date:
21 August 2020

Next release:
25 September 2020

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1 . Introduction

This article provides information on recent and upcoming changes to our public sector finance statistics. It describes how the most significant coronavirus (COVID-19) support schemes announced by the government are – or will be – recorded in these statistics; it also provides information about other methodological changes we are expecting to implement in September 2020 and it presents areas for development beyond September 2020.

2 . Context

Transparency strategy

In 2018, we [adopted a new strategy](#) to provide visibility and explanation of methodological changes in the public sector finance (PSF) statistics, not only at the point that they are introduced but also before and after the implementation. The strategy included publication of work programme covering the potential development areas. The latest version can be found in our article titled '[Looking ahead – developments in public sector finance statistics: 2019](#)'.

We also adopted an approach of packaging together methodological changes. While we would still reflect events in the economy (including coronavirus interventions) at the earliest opportunity, changes to statistical methodology and major retroactive classification decisions would occur, where possible, at a single point in the year to provide increased predictability to users.

Changes to our work programme

Since we [communicated our work programme in 2019](#), we successfully implemented the new treatment of student loans, transitioned to presenting funded public pension schemes on a gross basis and introduced a supplementary set of tables compiled in accordance with the International Monetary Fund's Government Finance Statistics framework.

However, the policy response to the pandemic has required considerable effort to ensure that the public sector finances kept pace with developments. Government interventions to support the economy over this period have been unprecedented in their size and distinctly novel in nature: bearing characteristics which were not envisaged by existing international statistical guidance.

These schemes could potentially be accounted for in different ways, which, in turn, would have different consequences for the trajectory of public sector net borrowing (PSNB) and the size of public sector net debt (PSND) and public sector net financial liabilities (PSNFL). Where appropriate, we have consulted with the international statistical community and followed our [statistical classification process](#) to determine the most appropriate statistical treatment.

Because the focus of our work shifted to reviewing and recording government interventions, it has not been possible to fully meet the commitments we set out in the 2019 article. We have continued to work on some areas of the methodology, discussed in [Section 3](#) of this article, but we are no longer expecting to review the treatment of leases in the public sector this year. We are now expecting to complete this piece of work within the next 18 months. Similarly, the expected improvements to the data used in the measurement of the public sector net financial liabilities will not be made this year.

Long-term plans

In the longer term, there remains considerable uncertainty around the state of public finances and the actions which the government might take to facilitate economic recovery. Whatever these actions are, it is likely that we will need to consider how they should be reflected in fiscal statistics. In these circumstances, we have taken a decision to suspend the announcement of our work programme beyond the 18-month horizon.

Furthermore, as we will continue to respond to the events in the economy, we may review our short-term priorities. We expect to return to publishing a longer-term work plan in 2021 and in the meantime, we will be updating this article with the details of any additional areas of methodology we expect to explore.

In structuring this article, we therefore distinguish three categories of changes:

- coronavirus support schemes that will be implemented at the earliest opportunity
- methodological changes that we expect to implement in September 2020
- known methodological changes that we expect to implement in the September 2021 package or beyond.

Where the provisional impacts of those changes on the fiscal aggregates are known and material, we will include them in the set of tables published alongside the [public sector finance](#) bulletin in August.

3 . 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 policies and schemes to support the economy and individuals affected by the pandemic.

In total, over 30 schemes have been announced by the UK government and the devolved administrations. In this section we explain how the largest of these support schemes are – or will be – recorded in fiscal statistics in the first instance. Some of those schemes have already undergone a methodological or classification assessment. These assessments are provisional and subject to change, reflecting the provisional nature of the international statistical guidance supplied by organisations such as the International Monetary Fund and the European Statistical Office (Eurostat). It may take a considerable amount of time to agree a harmonised treatment internationally. We will reflect on the emerging guidance and where necessary, will reconsider our provisional classifications or make retroactive changes to our recording.

In certain cases, data may not yet be available to implement the correct statistical treatment. In those cases, we explain what we will do in the meantime to ensure that the fiscal aggregates remain a good reflection of the government's true fiscal position.

COVID-19 Corporate Financing Facility

The Covid Corporate Financing Facility (CCFF) is a scheme under which the Bank of England, acting for HM Treasury, purchases commercial paper issued by larger, non-financial corporations, in order to increase their ability to deal with short-term liquidity problems, to support corporate finance markets and to ease the supply of credit to such corporations. The CCFF scheme is unlimited in size and initially had a duration of one year, though more [flexibility was later introduced](#).

We have undertaken a [classification assessment](#) of the scheme and concluded that while CCFF has a certain degree of independence, the nature of the agreement it operates under means it carries out a limited range of activities in narrow conditions set by government in the framework of public policy objectives. For this reason, the scheme is recorded in the central government sub-sector; in other words, it is not deemed to be part of the central bank sector for statistical purposes.

The purchases of commercial paper under the CCFF are treated as a financial transaction whereby one financial asset – cash – is exchanged for another financial asset of the same value. We have taken a provisional view that the commercial paper represents a liquid asset as defined for the purposes of measuring public sector net debt (PSND). Such assets are netted off the value of qualifying liabilities in the calculation of PSND; this means that the purchase of commercial paper is neutral to PSND, as indeed to the wider balance sheet measure of public sector net financial liabilities (PSNFL). As interest is deemed to accrue on the asset balance, both PSND and PSNFL decrease over time.

Consistent with our assessment of the purchase as a financial transaction, no expenditure is recorded and public sector net borrowing (PSNB) is not affected at the time the commercial paper is bought. It is, however, [purchased at discount](#) relative to the face value. In line with the statistical guidance, we spread the difference between the face value of the commercial paper and the purchase value over the expected maturity term and record it as revenue (interest receivable) for government. As the interest accruing on the assets is currently greater than that on the liabilities created to finance the purchases balance, both PSND and PSNFL should decrease over time.

Should any of the support provided under the CCFF fail to be repaid – perhaps because the business involved ceases trading – we will separately review the situation against the guidance on debt forgiveness. The case-by-case analysis is essential to determine whether or not PSNB should be increased by the value of the commercial paper in question.

This provisional treatment of the CCFF is already implemented in public sector finance statistics; it may be revised once official statistical guidance has been published. We are also working on improving the way we estimate interest revenue, to reflect the time profile of the impact more accurately.

Government loan guarantee schemes

To assist businesses in accessing credit at the time of the pandemic, government has set up loan guarantee schemes. Provided through the British Business Bank, a central government organisation, the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Bounce Back Loan Scheme allow businesses to benefit from guarantees extended to their lenders.

The [Coronavirus Business Interruption Loan Scheme](#) (CBILS) and the [Coronavirus Large Business Interruption Loan Scheme](#) (CLBILS) are loan guarantee schemes created by the government to support UK businesses that are losing revenue and seeing their cashflow disrupted as a result of the coronavirus. Using internationally agreed guidance, we have carried out a formal assessment of these schemes and concluded that the guarantees should be recorded as standardised in nature.

The decision means that we will record expenditure in the form of a capital transfer at the time the guarantees are provided, reflecting the amounts likely to be called. It is this expenditure at inception that will contribute to an increase in PSNB.

The calls on the guarantees made in the later time periods will, on the other hand, be considered as financial transactions that will not affect PSNB. We will, however, compare the outturn data on calls with our forecast used to estimate the expenditure at inception and will reflect any differences in our PSNB estimates.

On the balance sheet, an estimate of expected calls would be recorded as a liability for government from inception. Such provisions are not included in the scope of public sector net debt (PSND), which will not be affected until the actual calls lead to government cash spending. However, it will increase the wider public sector net financial liabilities (PSNFL) measure at the time of guarantee inception rather than in the periods when calls are made.

Payments made by government to cover the costs of interest during the first year (the business interruption payment) are provisionally considered to be subsidies on production, while the fees paid by the participating lenders to government for access to the schemes are recorded as fees for sales of government service.

This treatment means that the impact of guarantee extension on PSNB and the value of the provisions for expected calls recorded on the balance sheet will reflect government's financial position. We will work further to develop the methodology with the aim of implementing in the public sector finances at the earliest opportunity. Until reliable estimates of expected calls become available, we expect to temporarily treat any actual calls as expenditure, increasing PSNB at the time they occur.

[The Bounce Back Loan Scheme](#) (BBLs) is a scheme designed to enable smaller businesses to access finance more quickly during the coronavirus outbreak. While broadly similar to the earlier CBILs and CLBILs in design, it offers different terms and conditions and has unique features. Following a formal assessment of this scheme using internationally agreed guidance, this was also classified as a standardised loan guarantee scheme, and as with the CBILs and CLBILs schemes, we will work to develop the methodology with the aim of implementing in the public sector finances at the earliest opportunity. Until reliable estimates of expected calls become available, we expect to temporarily record expenditure at the time when the guarantees are called, increasing PSNB then and not at inception.

Coronavirus Job Retention Scheme and Self-employment Income Support Scheme

The Coronavirus Job Retention Scheme (CJRS) was designed to help employers pay wages and salaries to those employees that would, in the absence of government support, be made unemployed. To benefit from the scheme, employers had to declare the affected employees as furloughed workers, with Her Majesty's Revenue and Customs (HMRC) subsequently reimbursing 80% the qualifying staff costs up to a maximum threshold.

An equivalent scheme for the self-employed was also introduced, titled the Coronavirus (COVID-19) Self-employment Income Support Scheme. Based on the information held by HMRC, government offered to pay 80% of the pro-rated trading profits over the previous three years.

The statistical classification of both schemes presented a challenge because they could be viewed either as subsidies to employers or as benefits to employees (and the self-employed) routed through businesses for administrative reasons. As similar schemes were introduced by other countries, the international statistical organisations have provided some preliminary guiding principles to assist the national statistical institutes in classifying such schemes.

Having carefully studied the emerging international guidance (which remains provisional), we concluded that it would be appropriate to treat the UK schemes as subsidies to employers and the self-employed in their capacity as producers. The subsidies are recorded as expenditure in government accounts, contributing to an increase in PSNB.

Future Fund

Under the Future Fund initiative, eligible innovative companies can receive government funding in form of convertible loans, which have to be at least matched by private sector investments. The scheme is administered by the British Business Bank, which is classified to the central government sector for statistical purposes.

The loans extended to companies have a fixed term of three years and attract interest which does not become payable until maturity. At that point, the loans are either repaid with accrued interest, or, under certain circumstances, converted into equity. The borrowers are required not to use government loans to repay borrowing from shareholders, pay dividends or make discretionary payments or bonuses to employees, directors or consultants. Some of these conditions (such as remuneration of senior staff) could be interpreted as government influences over the general corporate policy. In cases where we judge that the conditions attached to lending may lead to effective control over borrower's corporate policy, we will review the borrower's statistical classification.

Under the statistical framework, convertible debt is recorded as debt securities rather than as 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 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 wide PSNFL aggregate, it does increase the narrower PSND measure owing to a reduction in the balance of liquid assets.

The recording of lending under the scheme as a financial transaction also means that there is no PSNB impact at loan extension. On the other hand, interest accruing on the loans is considered government revenue and reduces PSNB when it accrues. It is recorded as accruing continuously over the convertible loan term, even though it does not become payable until maturity. 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 acquisition of liquid cash assets) or is deemed to be exchanged for equity. Indeed, the latter scenario may result in 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.

Emergency Measures Agreements for train operating companies

In response to the coronavirus outbreak and the subsequent introduction of movement restrictions, the Government announced emergency measures to ensure that the railways continued to operate in the circumstances of dramatically falling passenger numbers.

Train operators with government franchise agreements had the opportunity to "temporarily transition" onto Emergency Measures Agreements (EMAs), under which the normal financial franchise mechanisms were suspended (initially for 6 months), transferring all revenue and cost risk to the Government. The train operators then continued to run day-to-day services for a small pre-determined management fee. Alongside transferring the financial risk to government, EMAs also imposed some obligations on the private train operating companies, in what is already a highly regulated industry.

We therefore undertook a classification review of train operating companies who are operating under EMAs with the UK and Scottish Governments, in the context of the internationally agreed statistical rules. The Office for National Statistics (ONS) concluded that public sector control exists for reasons including that most of the revenue and cost risk associated with rail travel has transferred to the public sector, and because EMAs place restrictions on train operating companies' ability to borrow and take important decisions relating to their corporate policy.

The Wales and Borders rail franchise will also be reviewed in the near future. It is operated under an Operator Development Partner Agreement and was initially put under an Emergency Interim Agreement, before an Emergency Measures Agreement came into force on 3 May 2020. The result of the review will be announced as soon as possible.

Under EMAs, the government became responsible for covering the qualifying costs of train operators, plus a small management fee. These payments, recorded as subsidies to the private sector, have been contributing to the overall rise in PSNB since the start of the coronavirus pandemic. We will continue to include this subsidy in our calculation of PSNB in the interim period until we are able to establish new data sources and include TOCs' revenue and expenditure on a gross basis.

Trade Credit Reinsurance Scheme

In a further coronavirus support intervention, the government announced a scheme to provide £10 billion to ensure that trade credit insurance coverage was maintained. This scheme is to protect non-service, domestic and exporting businesses against customer defaults, payment delays and the risk of insurers withdrawing this insurance cover or increasing premiums to unaffordable levels. It is available to UK market operating insurers on a temporary basis for nine months backdated to 1 April 2020, with payment terms of up to two years. The government will share the risk with insurers, of losses arising from business insolvencies.

Through a temporary reinsurance agreement with insurers, the government will:

- reinsure 90% of insurance claims up to a cap of £3 billion and 100% of claims between £3 billion and £10 billion
- receive 90% of gross policy premiums and return 35% of these premiums to insurers to cover their costs

The scheme will be managed by the Department for Business, Energy and Industrial Strategy (BEIS), and the scheme rules require participating insurers comply with certain restrictions during the period of the scheme. We will be assessing the classification of this scheme against the relevant statistical guidance and will publish the outcome as soon as possible.

Eat out to Help Out

To support the hospitality sector, the government launched the Eat out to Help out scheme, to encourage people to start eating out again following the easing of UK lockdown. This allows participants to receive 50% off their food and non-alcoholic drinks bill when eating in at a restaurant, pub or café on Mondays, Tuesdays and Wednesdays during August, which the government will then reimburse to businesses. There are no limits on the amount of times this capped discount of £10 per person can be used, and the government has established a £500 million fund to support this scheme. Our provisional assessment is to record these as subsidies by the government to the private hospitality sector and therefore contribute an increase to PSNB.

Kickstart Scheme

In response to the risk to employment as a result of the coronavirus pandemic, the government announced on 1 August 2020 that it will introduce a new Kickstart Scheme in Great Britain. This is a £2 billion fund to create six-month work placements aimed at those aged 16 to 24 years who are on Universal Credit and are deemed to be at risk of long-term unemployment. Funding available for each job will cover 100% of the relevant National Minimum Wage for 25 hours a week, plus the associated employer National Insurance contributions and employer minimum automatic enrolment contributions. Our provisional assessment is to record these payments as subsidies by the government to the private sector and therefore contribute an increase to PSNB.

Job Retention Bonus

Employers who have previously claimed under the Job Retention Scheme for furloughed employees, and who keep these employees in continuous employment through to 31 January 2021, a one-off payment of £1,000 per employee will be paid by the government. Eligible employees must earn at least £520 per month on average between 1 November 2020 and 31 January 2021. Employers will be paid in February 2021 after they have filed Pay As You Earn (PAYE) returns for January 2021. Our provisional assessment is that these payments will be recorded as subsidies by the government to the private sector and will contribute an increase to PSNB.

4 . Other changes expected in September 2020

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. We remain committed to this approach, which particularly applies to retroactive changes, which are often prompted by updates to the international statistical guidance. This section presents information on aspects of methodology or statistical classifications that are planned for implementation in September 2020.

Alongside the development areas listed here, we will continue to make routine updates to the public sector finances (PSF) 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 the coronavirus interventions) will still be recorded at the earliest opportunity. Where these updates give rise to impacts on net borrowing, we have included them in Table 5 in this PSF bulletin.

Pool Re

In the [2019 Looking ahead article](#), we announced a review of methodology associated with public financial corporations and of how exhaustively such corporations are covered by the public sector finances (PSF) statistics. As part of this work package, we undertook a classification assessment of Pool Reinsurance Company Limited (Pool Re) in the context of the internationally-agreed statistical rules.

Pool Re is a reinsurance company which was established in 1993 and covers insurance companies against claims by their policy holders for damage to property and business interruption (whether or not consequential) caused by acts of terrorism. Noting that limited range of activities, the degree of government influence and constraints over Pool Re's assets and to the extent to which it does not act like a normal commercial organisation, we concluded that Pool Re should be classified to the central government sector with effect from 8 March 1993, the date it came into existence.

The treatment of financial corporations such as Pool Re in the national accounts and fiscal statistics is complicated. The international statistical guidance prescribes the use of specialised statistical models to value the output of such corporations. Insurance (and reinsurance) companies may have rather volatile flows in the short-term. Pool Re, being a terrorism risk reinsurer, is particularly prone to irregular claim patterns. In national accounts and fiscal statistics, the recording of actual insurance flows should be adjusted to be representative of the longer-term performance to avoid unnecessary volatility.

One further feature of Pool Re is the retrocession agreement it has with HM Treasury. Under the agreement, Pool Re can call upon government funding should its own resources and commercial retrocession be insufficient to meet extraordinary claims. In return it pays HM Treasury an annual premium. Owing to the uncertain classification status of Pool Re prior to our assessment, the payments to HM Treasury under the retrocession agreement were never recorded as revenue for the public sector. They will now be recorded and consolidated in central government accounts.

Because Pool Re's revenue exceeds its expenditure (as recorded in accordance with the international statistical guidance), its inclusion in the public sector will contribute to a reduction in public sector net borrowing (PSNB) of £342 million in the financial year ending (FYE) March 2019.

Public sector net debt (PSND) is also reduced, by £1.9 billion in the year ending March 2019. This is mainly as a consequence of consolidation of government debt securities held by Pool Re. While the consolidation itself is neutral in principle – it means that the government liability is reduced by the face value of debt securities held by Pool Re, but no asset is recorded – fiscal aggregates do not always account for assets and liabilities symmetrically. PSND by design does not include long-term debt securities (including gilts) held as assets by the public sector bodies, hence only the reduction in government debt liabilities is captured by this aggregate, leading to a downward level shift.

Public sector net financial liabilities (PSNFL) also reduced by £5.9 billion in FYE March 2019. This broader measure is mainly affected by the excess of Pool Re's financial assets over its financial liabilities, as recorded in accordance with the statistical framework.

London North Eastern Railway and Northern Rail

From 24 June 2018, government took over the running of East Coast Mainline train services, previously provided by the private sector company trading as Virgin Trains East Coast. This was followed, on 1 March 2020, by the transition of the Northern rail franchise into public ownership.

London North Eastern Railway (LNER) and Northern Rail (NR), which replaced privately-owned Virgin Trains East Coast and Arriva Trains Northern respectively, are owned by DfT OLR Holdings Ltd (DOHL). DOHL is considered to be the operator of last resort for Her Majesty's Government; it was established by the Department for Transport (DfT) to continue to provide rail services if a franchise is terminated. We have assessed the classification status of DOHL, as well as its train operating subsidiaries, and concluded that they should be classified as public non-financial corporations.

We also reviewed the impact of the franchise termination on fiscal aggregates. Recording one-off fiscal impacts could be appropriate, for example, if net liabilities of the private train operators had been transferred to government. We judged that the transition into public ownership took place in such a manner that there was no rationale for recording one-off expenditure (or revenue) transactions.

The classification decision means that LNER and NR will now be recorded in the public sector accounts from June 2018 and March 2020 respectively. From the time of the transition into public ownership, the amount of subsidy or franchise premium that the Department for Transport pays to, or receives from, these train operators will be consolidated at the public sector level. This will not affect public sector net borrowing (PSNB) directly. Instead, it will be the balance between other revenue (such as passenger income) and expenditure, as recorded in accordance with the statistical framework, that will define the PSNB impact.

Because the Department for Transport was subsidising the private operator of the Northern rail franchise and receiving premium payments from the East Coast Mainline operator prior to the termination of the franchises, we are not able to quantify the ongoing fiscal impact of the transition into public ownership. This would require knowing the amount of subsidy (or premium) that would have been paid (or received) by government if the private companies had continued to operate; indeed, those pre-existing financial mechanisms under the franchise agreements would have also been affected by the coronavirus-related measures in 2020.

Updated estimates of funded public sector pensions

In September 2019, [we changed the way in which we present funded public employment-related pension schemes in the PSF statistics](#). In addition to recognising the public sector's liability for the pension scheme deficit, we extended the coverage to include pension schemes themselves (and all their assets and liabilities – presenting these on a gross basis) and the Pension Protection Fund. This year, we are including new data sources to reflect the composition of the pension schemes' balance sheets more accurately. We are also updating our estimate of the pension liability with the latest available data.

The transition to gross recording in 2019 was predominantly, but not exclusively, presentational in nature. While it greatly increased the volume of assets recorded on the public sector balance sheet it also consolidated many inter-public sector balances and transactions. Such a presentation requires more granular data compared with recording the net pension liability of pension managers. Most of the data we used in 2019 were derived from pension scheme accounts and there are conceptual differences in recognition of financial assets and liabilities under the European system of accounts (ESA) 2010, and International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Practice in the UK (UK GAAP), which underpin the production of corporate accounts.

To refine our estimates, we have made use of the new [Financial Survey of Pension Schemes](#). This new data source will not materially change our estimate of the total value of assets held in public pension funds, which stood at approximately £400bn in the financial year ending (FYE) March 2019. However, it will allow us to better bridge the financial reporting data to the statistical requirements, such as to improve our categorisation of pension assets into liquid and illiquid, and to better separate the UK Government gilts from other forms of debt securities held in public pension funds. Because PSND is sensitive to the asset categorisation, we expect that the adoption of the new data source should reduce our PSND estimates by around £5 billion.

Another change we are making is more routine and relates to updating the actuarial estimates of pension schemes' liabilities. Actuarial valuation is a complex process and most public sector schemes conduct it every three to four years. This creates a considerable time lag in the availability of the actuarial data, which can exceed four years. Until such valuation becomes available, we forecast the pension liability using our best knowledge of the economic climate. The replacement of the modelled estimates with the outturn data then causes retrospective revisions, which may also materially impact the fiscal aggregates. This year, we will be introducing the valuation results for FYE 2016 into PSF statistics and revising our modelled estimates for the subsequent years accordingly. Compared with our earlier forecast, the new valuation results combined with the latest resource accounts suggest a significant improvement in pension schemes' funding position. Reflecting the improvement, PSNB would be reduced by around £1.5 billion over FYE 2019. The changes to balance sheet measure, PSNFL, are inevitably much larger, owing to the very large values of both assets held in pension funds and schemes' liabilities. At the public sector level, the overall PSNFL effect is expected to be a reduction of around £58bn in the same period.

Classification of Home Office immigration charges

In the national accounts and fiscal statistics, [government income is categorised by its type](#); the three main types being taxes, social contributions and fees. In 2019, we examined the statistical classification of visa charges and the Immigration Health Surcharges.

We established that compulsory charges for visas, citizenship and points-based applications (PBS) should be recorded as taxes, while the optional premium service charges are payments for a service. We also determined that the Immigration Health Surcharges should be recorded as a social contribution.

Taxes largely finance the activity of government in providing free or subsidised goods or services to society, such as in the provision of public and merit goods (goods or services that are provided by government for society to meet a perceived need), like education, health, welfare and defence. Taxes are compulsory and unrequited charges levied by government on businesses and households. They are also most often redistributive in nature, with government taxing one section of society and using this to provide goods or services to another.

Charges for visas (including British citizenship) and points-based system (PBS) applications all fall under this category of income: they are compulsory once an applicant has chosen to apply for the right to enter or live in the UK (or their sponsor has decided to support their application under the points-based system) and are unrequited: while the charges associated with some types of visas are set below the cost of conducting necessary checks and issuing the visas, on the global level, the amounts raised by the Home Office exceed the costs incurred by a substantial margin.

In contrast to taxes, fees are required. It is possible for charges to be compulsory and still be fees, such as in the case of regulatory fees, where it is clear that a service is being provided to the payer (for example, government checking the safety of business premises), and the amount charged by government is not out of proportion to the cost of providing the service.

The premium service charges made within and outside the UK, (which enable the outcome of the visa application to be known within a short time) and discretionary service charges at the border (which offer faster, more convenient entry) are optional, as purchasing these services is not required in order to obtain a visa or to gain entry at the border, making them non-compulsory. Consequently, the classification assessment concluded that these charges should be classified as fees for sales of non-market service.

Finally, we observed that the Immigration Health Surcharge payable by those who apply for visas lasting more than six months and entitling them to receive NHS care in the same way as permanent UK residents, is a contribution made to a social insurance scheme to make provision for healthcare services. We concluded that it should therefore be classified as a social contribution.

We expect to be implementing these classification decisions in PSF statistics in September 2020. There should be no impact on the fiscal aggregates arising from these changes, which affect the categorisation of government revenue but not its total amount.

5 . Other changes expected beyond September 2020

There remains considerable uncertainty about the actions the government might take in response to the economic consequences of the coronavirus pandemic. We are expecting our focus to remain on reviewing any economic events that may affect the UK public sector and for that reason, we have temporarily suspended announcing our medium- and long-term work programme.

Nonetheless, we have made significant progress in some of the areas listed in the 2019 edition of the [Looking Ahead article](#). This section describes the changes we are expecting to implement in 2021 and beyond. It will be updated when new work packages are identified.

New fiscal rules and review of the fiscal framework

[Budget 2020](#), published in March, saw an introduction of three new fiscal rules:

- to have the current budget at least in balance by the third year of the rolling five-year forecast period
- to ensure that public sector net investment does not exceed 3% of gross domestic product (GDP) on average over the rolling five-year forecast period
- if the debt interest to revenue ratio is forecast to remain over 6% for a sustained period, the government will take action to ensure the debt-to-GDP ratio is falling

We have been publishing the public sector current budget deficit (excluding public sector banks) and public sector net investment (excluding public sector banks) as a ratio of GDP for some time within [Public sector finances tables 1 to 10: Appendix A](#). However, the debt interest to revenue ratio (DIR) was introduced for the first time in March 2020.

The [Budget 2020 report](#) defined the debt interest to revenue ratio as "public sector net interest paid (gross interest paid less interest received) as a proportion of non-interest receipts." After consultation with the Office for National Statistics (ONS), HM Treasury has determined that the numerator of this ratio was to be set as the interest paid by the public sector (excluding public sector banks) less the property income received. The corresponding denominator has been set as public sector (excluding public sector banks) current receipts, (again) less the property income received.

We first published DIR in March 2020 as an [Experimental Statistic](#), and we are now working to make improvements to the underlying data where necessary.

Alongside these new rules, HM Treasury announced a review of the fiscal framework to ensure it remained "appropriate for the current macroeconomic environment". We will consider the outcome of the review and will work with HM Treasury to define the scope of any future statistical aggregates.

New International Financial Reporting Standards treatment of leases

In 2016, the International Accounting Standards Board issued the [International Financial Reporting Standard 16 \(IFRS 16\)](#), which replaced the earlier International Accounting Standard 17 (IAS 17) and prescribes a different treatment of leases in business accounting. Under IAS 17, financial statements categorise leases as either finance leases (reported on lessees' balance sheet) or operating leases (off balance sheet). Under IFRS 16, nearly all leases will be reported on balance sheet within lessees' financial statements, leading to increases in lessees' reported debt and non-current assets. However, the guidance under IFRS 16 is not necessarily symmetric between lessees and lessors meaning that the lease may or may not be recorded on the lessors' balance sheet.

The changes due to IFRS 16 are a potential issue for the public sector finance (PSF) statistics because most UK public sector organisations compile accounts in accordance with IFRS, adapted or interpreted for the public sector. Following the introduction of IFRS 16, the [Financial Reporting Advisory Board \(FRAB\)](#) mandated the use of IFRS 16 in public sector financial reports that relate to the financial year ending (FYE) 2020. In 2020, this date was put back by another year, to financial year ending 2021, as a result of the coronavirus pressures.

At present, the source of leasing data in the public sector finances is the business accounting data compiled in accordance with IAS 17. In effect this means that we are using IAS 17 data as a proxy for ESA 2010. This is necessary due to the very large number of leases (numbering in the tens of thousands) in place across the public sector and the impossibility of individually classifying under ESA 2010 each individual lease.

IFRS 16 is conceptually markedly different from both IAS 17 and ESA 2010. Therefore, it is likely that the data sources used for leases in PSF will report step changes between FYE 2020 and FYE 2021. In addition, the lack of symmetry between lessee and lessor recording in IFRS 16 presents challenges for national accounts and public sector finances, which need to fully reconcile between sectors.

Therefore, we have to consider how to continue to compile ESA 2010 compliant leasing data once the underlying source is following the new IFRS 16 standard. We are working closely with HM Treasury to find a resolution to this challenge. As part of this work, we have reviewed a small representative sample of government leases to determine how they would be classified under ESA 2010. We have then compared this with the accounting under IFRS 16 and IAS 17 to investigate which would be a more suitable proxy for ESA 2010. Through this work, we found that all the public sector property leases reviewed had substantial risk transfer from the lessor to the lessee indicating that a recording as a financial lease would be most appropriate. This was unexpected, as under IAS 17 most property leases would be accounted for as operating leases.

Based on this analysis, we have concluded that:

- in the case of property leases, IFRS 16 is a good proxy for ESA 2010, so we will use IFRS 16 data
- in the case of non-property leases, IFRS 16 is not a good proxy, so we will use IFRS 16 data which have been adjusted to better align with the concepts applied in ESA 2010

Having come to this conclusion we have worked with HM Treasury to source appropriate data not only for future public sector leasing, but also to revise the leasing data historically, so that the full time series is on a consistent methodological basis. We have made considerable progress on estimating the impacts of leases related to central government units. However, more work is needed to establish the correct statistical classification of the more diverse set of local government leases, as well as those related to rolling stock of public train operating companies. We expect to undertake this work over the coming year and include the revised treatment of leases in our 2021 change package.

The effect IFRS 16 will have on the UK's fiscal aggregates and other economic statistics is difficult to estimate at this stage, as is the effect it may have on the size and operation of leasing markets. These effects were summarised in [the 2018 edition of the Looking Ahead article](#), and as soon as further analysis on the potential impact has been carried out, we will look to make the relevant estimates available.

McCloud pension case

In 2015, the government introduced changes to most public sector pension schemes. As part of the transitional arrangements, older members of the pension schemes had an opportunity to stay in their original pension schemes, which offered better terms than the new schemes introduced at the time. Younger members had to transfer to the new schemes. In December 2018, the Court of Appeal ruled that these arrangements amounted to unlawful age discrimination in a decision that was later upheld by the Supreme Court.

Although the court ruling was related to judges' and firefighters' pension schemes, on 15 July 2019 the government confirmed that [the difference in treatment will need to be remedied across all relevant public sector pension schemes](#).

Though the government published [a progress update](#) on 31 January 2020 and [a further update](#) on 25 March 2020. On 16 July 2020, a public consultation was launched providing two options for development with main stakeholders. The consultation closes on 11 October 2020, and further information will be published later this year. Therefore, the impact of this decision on the fiscal aggregates is still not yet known, but it has the potential to change the size of the pension liability as well as the net borrowing position of the public sector pension sub-sector. We will provide further information on the impacts of this ruling when it becomes available.

Sale of railway arches

On 11 September 2018, Network Rail announced it had agreed terms for the sale of its Commercial Estate business in England and Wales. On 4 February 2019, the National Audit Office confirmed that [Network Rail had completed a £1.46 billion sale of its commercial property portfolio](#) consisting of approximately 5,200 properties across England and Wales, mainly railway arches.

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

Clinical Negligence Indemnity Cover

On 1 April 2019, the government announced the [Clinical Negligence Scheme for General Practice \(CNSGP\)](#), operated by [NHS Resolution](#) on behalf of the Secretary of State for Health and Social Care.

The scheme provides comprehensive cover to all general practitioners (GPs) and their wider practice team for clinical negligence relating to NHS services occurring from 1 April 2019. In parallel, the government has agreed commercial terms with the Medical Protection Society covering claims for historical NHS clinical negligence incidents concerning their GP members occurring at any time before 1 April 2019.

We are currently assessing the statistical classification of the scheme. We will announce the classification and explain its implications for the PSF statistics at the earliest opportunity.

OneWeb

On 3 July 2020, the [UK government announced £400m stake in satellite firm OneWeb](#) as part of a plan to replace use of the EU's Galileo sat-nav system. The UK government will own an equity stake in the new operation.

We are currently assessing the impact this may have and we will explain its implications for the PSF statistics at the earliest opportunity.

6 . Next steps

Over the coming months, we will be updating this article with new information as it becomes available. It should be noted that we are not seeking to quantify the complete fiscal impact of the coronavirus in our publications: an increase in the amounts of social benefits paid, for instance, would need to be measured against the amounts that would have otherwise been paid. Such analysis, which involves economic modelling, [is produced by the independent Office for Budget Responsibility](#).

Rather than identifying the extra demands placed on public finances by the coronavirus, our statistics focus on the total levels of public sector borrowing and debt. To that end, we intend to publish a detailed article describing how we have recorded coronavirus support schemes, the smaller of which are not discussed in this article, and how they affected the fiscal aggregates.