Office for National Statistics

Statistical bulletin

Government Deficit and Debt Under the Maastricht Treaty: September 2013

The UK's report to the European Commission under the Maastricht Treaty showing the actual and planned deficit (net borrowing) and gross debt (all financial liabilities) of central and local government.

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1. Latest figures

- The statistics presented in this publication are consistent with the definitions used by the European Commission. They fulfil the legal requirement for the UK (and other EU Member States) to report actual and planned government deficit and debt

- In 2012/13 general government deficit (or net borrowing) was £82.1 billion, equivalent to 5.2% of gross domestic product (GDP) – down from 7.6% of GDP in 2011/12

- These estimates include the impact of two transactions which affect general government net borrowing in 2012/13. The asset purchase facility transfers in Q1 2013 lowered borrowing by £6.4 billion, while the transfer of the Royal Mail to Pension Plan assets in April 2012 reduced borrowing by £28.0 billion. Together the transactions have reduced net borrowing by 2.2% of GDP

- In 2012/13, general government gross consolidated debt (nominal value) was £1,386.7 billion, equivalent to 88.3% of GDP – up from 85.0% in 2011/12

2. Background

The Government deficit and debt under the Maastricht Treaty statistical bulletin is published every six months, around the end of March and September each year, to coincide with the dates when the UK and other European Union (EU) Member States are required to report to the European Commission their actual and planned government deficit and debt.

The source data for this publication are the same as those used in compiling the monthly Public Sector Finances bulletin. However, there are three main differences between this bulletin and the Public Sector Finances.

1. This bulletin includes only debt and deficit recorded to central and local government, whereas the Public Sector Finance bulletin also includes measures of other public sector bodies.

2. This bulletin reports gross debt, that is all financial liabilities of central and local government, whereas the Public Sector Finance bulletin headline figure is net debt, that is the financial liabilities minus liquid assets (mainly in the form of cash deposits).

3. General government net borrowing as reported in this bulletin differs a little from that in the Public Sector Finances bulletin in order to make it fully consistent with guidance in the Manual on Government Deficit and Debt.

Annex A contains full details of these differences and a quantification of the size.

3. Main statistics

Article 126 of the Treaty on the Functioning of the European Union (EU) obliges member states to avoid excessive budgetary deficits. The Protocol on the Excessive Deficit Procedure, annexed to the Maastricht Treaty, defines two criteria and reference values with which Member States' governments should comply. These are:

- a deficit (net borrowing) to Gross Domestic Product (GDP) ratio of 3%

- and a debt to GDP ratio of 60%

The deficit is a measure of how much the government has to borrow to cover its expenditure once revenue has been netted off, for this reason it is also known as net borrowing. The monetary values quoted are in 'current prices', that is, they represent the price of borrowing in the year to which they relate without any adjustments for inflation. Thus for comparisons over time the figures as a percentage of GDP (also measured in current prices) are used to provide a comparable time series.

General government net borrowing and gross debt

In 2012/13, the UK government net borrowing (or deficit) stood at £82.1 billion (5.2% of GDP). This is the third reduction in the deficit since 2009/10 when it was £163.5 billion (11.4% of GDP). However, it is still higher than 2007/08 when it was £41.3 billion (2.9% of GDP).

The estimates of net borrowing provided under the Maastricht Treaty for 2012/13 include the impact of the transfer of Royal Mail Pension Plan assets and the Bank of England asset purchase facility. The combined impact of these transactions was to reduce net borrowing by £34.4 billion (or 2.2% of GDP).

In the financial year 2012/13, UK government gross debt was £1,386.7 billion (88.3% of GDP). The general government gross debt first exceeded the 'excessive deficit' reference value in 2009/10 when it was 73.1% of GDP.

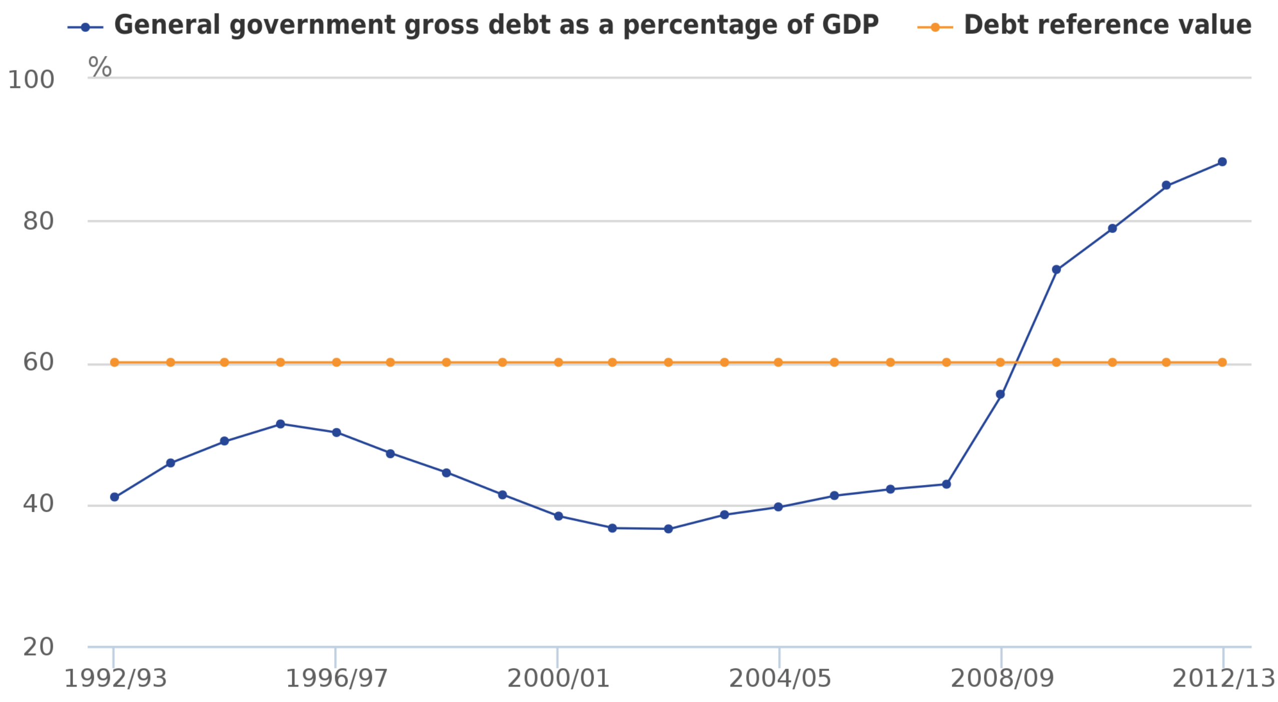
Government Deficit and Debt

Financial Years	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
General government deficit £bn	41.30	100.70	163.50	141.70	117.80	82.10
as a percentage of GDP	2.90	7.00	11.40	9.40	7.60	5.20
General government debt at nominal values £bn	619.70	800.00	1,046.40	1,185.50	1,315.80	1,386.70
as a percentage of GDP	42.80	55.50	73.10	78.90	85.00	88.30

Source: Office for National Statistics

Between 1995/96 and 2000/01 gross debt as a percentage of GDP reduced. However, it has risen every year since 2002/03. The long term general government gross debt as a percentage of GDP is illustrated in Figure 1.

Figure 1, General government gross debt as a percentage of GDP



Source: Office for National Statistics

Notes:

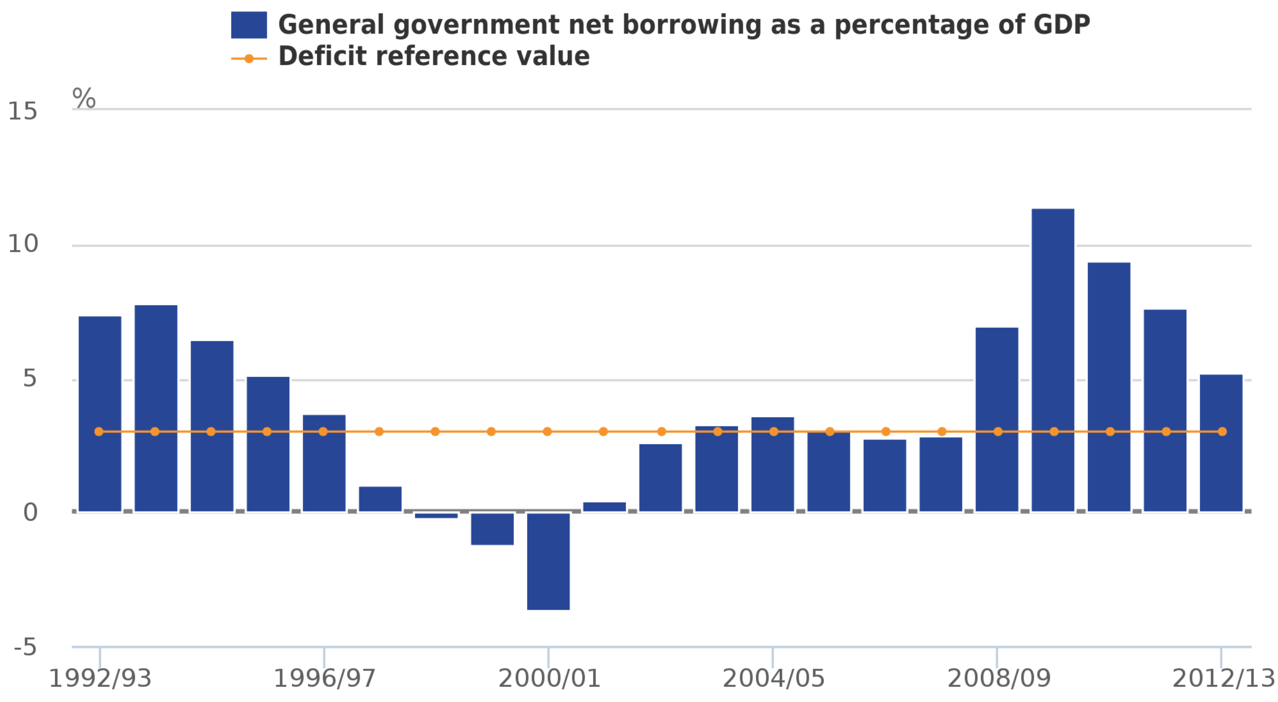
1. GDP = Gross Domestic Product.

2. Debt reference value - 60%.

General government net borrowing over time

The UK economy was exiting a recession in 1993. Between 1992/93 and 1996/97 net borrowing as a percentage of GDP remained above the 3% to GDP reference value for borrowing. For the three years 1998/99 to 2000/01 general government net borrowing as a percentage of GDP reduced as net borrowing was negative, indicating a surplus. The net borrowing was close to the 3% of GDP reference value for the years 2003/04 to 2007/08. Since then it has been noticeably above the 3% reference value. Government net borrowing as a percentage of GDP is illustrated in Figure 2.

Figure 2, General government net borrowing as a percentage of GDP



Source: Office for National Statistics

Notes:

1. GDP = Gross Domestic Product.

2. Deficit reference value - 3%.

Bank of England Asset Purchase Facility fund

The Chancellor announced on 9 November 2012 that it had been agreed with the Bank of England to transfer to the Exchequer the excess cash in the Asset Purchase Facility Fund. In line with European guidance (from Eurostat) the amount of cash that reduces net borrowing is limited by the entrepreneurial income earned by the Bank of England in the previous year.

In 2012/13, there were £11.3 billion of transfers from the Asset Purchase Facility to HM Treasury. Of this transfer £6.4 billion impacted on net borrowing.

In Q2 2013, £11.7 billion was transferred to HM Treasury. All of this cash impacted on net borrowing. The total amount of cash transferred that affects borrowing is determined by the entrepreneurial income of the Bank of England.

Environmental levies

The EU Emissions Trading System (ETS) and UK Carbon Reduction Commitments (CRCs) Energy Efficiency Scheme are two environmental schemes which are administered by the Environment Agency to reduce emissions. Data from both schemes have been included in the statistics included in this release. As the schemes provide revenue to the government (classified as taxes on production in the Non-Financial Account) they reduce net borrowing.

The impact on net borrowing of the revenue from ETS was £57 million, £244 million, £341 million, £257 million in the financial years 2009/10 to 2012/13 respectively. A further payment of £420 million was recorded in April 2013

(2013/14). The first CRC payment of £591 million was accrued to September 2012 and therefore reduced net borrowing in 2012/13.

4. International comparability

All European Union (EU) Member States report their latest deficit and debt values to the European Commission twice a year, which are then published by Eurostat (the European statistical agency). The figures in this statistical bulletin will be published by Eurostat on 21 October2013.

The tables in this bulletin present the UK Government debt and deficit position at the end of both the financial and calendar years. The United Kingdom, uniquely within the European Union, is assessed against the deficit and debt on a financial year basis. In March/April the UK provide their first estimates for the previous calendar year and revised estimates for the previous financial year. In September/October the UK provide revised estimates for the calendar year (2012 in the case of this bulletin) and first estimates for the latest completed financial year (2012/13 in this case).

The UK figures may be compared to those of other EU Member States on the Government Finance Statistics section of the Eurostat website. The latest UK government deficit and debt figures exceed the reference values set out in the Protocol on the Excessive Deficit Procedure. According to the last deficit and debt figures published on 22 April 2013, 15 Member States had a deficit exceeding the 3% reference value, and 14 Member States had gross debts exceeding the 60% reference value in 2012 Q4.

While the key statistics provided to Eurostat are those of general government consolidated gross debt and general government net borrowing (or deficit), detailed datasets showing the components of the debt and deficit statistics, as well as supplementary government finance statistics, are also supplied by Member States. A full set of government finance tables provided by the UK to Eurostat in September / October 2013 will be published on the ONS website on 18 October 2013. A similar set of tables, published as part of the March / April 2013 data transmission, were published on the ONS website on 19 April 2013.

5. Revisions

Table M8R presents the revisions to key aggregates since the last publication in April 2013. Revisions to the data are consistent with revisions incorporated within the Public Sector Finances statistical bulletin since April 2013.

In general, the scale of the revisions is well within what might be reasonably expected based on revisions in previous years. For more information on these revisions see the revisions analysis (81.5 Kb Excel sheet) attached to this release.

Further information on these and other revisions can be found in the PSF statistical bulletin and the summary quality report (201.4 Kb Pdf) relating to EDP and PSF statistics.

6. Annex A - Comparability with UK Public Sector Finances

The UK publishes a monthly Public Sector Finances (PSF) statistical bulletin which provides the latest estimates of the public sector finances, including figures for public sector net borrowing and public sector net debt. These Public Sector Finances (PSF) statistical bulletins focus on data for the latest month and the financial year to date, although they also include long time series which put the data in context.

The PSF statistics, and the statistics in this bulletin, are both compiled using National Account concepts and rules, following the European System of Accounts 1995 (ESA95) and additional guidance in the Manual on Government Deficit and Debt.

Although the statistics in the PSF bulletin and this bulletin are compiled using the same data sources and following the same national accounting practices, there are some differences between the coverage of the two bulletins and the definitions of the key statistical aggregates.

There are three main differences between the figures. The first is one of coverage. The Public Sector Finances covers the entire public sector while the figures in this bulletin are restricted to general government. The general government sector, as defined in National Accounts, covers agencies and departments within central government and within local government. The public sector is a wider concept covering publicly-controlled companies as well as general government.

This means that this bulletin does not include the gross debt of public corporations. In the latest PSF bulletin, for the financial year 2012/13, the reported gross debt for non-financial public corporations was £10 billion and for financial public corporation was £1,799 billion.

The second difference is that the net debt measure reported in the PSF bulletin (and used by the UK Government for budget and forecast purposes) is calculated as the total stock of financial liabilities minus liquid assets. By contrast, the debt measure used as part of the Excessive Deficit Procedure (EDP) and reported in this bulletin is a gross debt measure which is calculated as the total stock of all financial liabilities.

The general government gross debt is higher than the general government net debt found by the total value of all general government liquid assets. The latest PSF bulletin estimates general government liquid assets at the end of the financial year 2012/13 to be £137 billion.

The third difference is that the EDP deficit statistics are compiled according to EDP rules described in the relevant legislation and following guidance in the Manual on Government Deficit and Debt. In two areas these rules and guidelines differ from those following in producing the net borrowing measure published in the PSF statistical bulletin.

The first area of difference is that general government net borrowing published in the PSF statistical bulletin (in accordance with ESA95 rules) excludes interest payments or receipts received as part of financial instruments known as swaps and forward rate agreements. However, the deficit measure in this bulletin explicitly includes these interest payments/receipts within the definition of the general government net borrowing.

A swap agreement is one where two parties agree to exchange cash flows. As an example, the Government may hold foreign currency bonds, whose interest payments are subject to variable exchange rates. In order to receive a more steady cash flow the Government may enter a swap agreement with another organisation where they agree to swap the interest flow of the foreign currency bonds with an alternative interest flow provided by the counterpart organisation. This is an illustrative example only and governments may enter into swap and forward rate agreements for a wide range of reasons.

The second area of difference is in the recording of expenditure on single use military equipment. In the UK National Accounts and PSF this expenditure is recorded on an accrued basis in line with International Financial Reporting Standards (IFRS). However, in this publication the military expenditure is accrued to the point of delivery of the goods, in line with Eurostat guidance in the Manual on Government Deficit and Debt.

The effect of including swap and forward rate agreements can increase or decrease general government net borrowing. Similarly, accruing military goods expenditure at the point of delivery, instead of as stage payments are made, can drive net borrowing up or down. In the financial year 2012/13, the adjustment for swap and forward rate agreements amounted to a decrease in net borrowing of £102 million, and the adjustment for military expenditure a decrease in net borrowing of £2,098 million.

A full reconciliation of the two deficit measures back to 1992/93 is available within Table M7 of this statistical bulletin.

For further information on the methodology employed within the Public Sector Finances and this bulletin, then a methodological guide (360.3 Kb Pdf) can be found on the ONS website.

7. Annex B - Data tables

There are nine tables included as part of this bulletin. Most tables extend back to 1992/93 in financial years and 1992 in calendar years. However, tables M5, M6 and M9 only cover more recent periods.

All values in the tables are at current prices and are not seasonally adjusted. The debt figures are at nominal value. That is the debt is valued at the face value of the debt, which is what the government will be liable to pay, and not the market value of the debt.

Table M1 shows the general government deficit and debt (in £ million and as a percentage of GDP).

Table M2 shows the general government debt by financial instrument (in £ million).

Table M3 shows transactions (or changes) in general government debt by financial instrument (in £ million).

Table M4 shows how the deficit can be reconciled with the changes in gross debt (in £ million).

Table M5 shows how the unconsolidated financial liabilities of central government and local government are consolidated to arrive at general government consolidated gross debt (in £ million).

Table M6 shows how the unconsolidated transactions (or changes) in financial liabilities of central government and local government are consolidated to arrive at consolidated transactions in general government gross debt (in £ million).

Table M7 shows how general government net borrowing (or deficit) can be reconciled with the general government net borrowing reported in the Public Sector Finances bulletin of 20 September 2013 (in £ million and as a percentage of GDP).

Table M8R shows revisions in deficit and debt between the figures published in this bulletin and those published in the last bulletin on April 2013 (in £ million and as a percentage of GDP)

Table M9 relates to government activities undertaken to support financial institutions during the financial crisis. It does not include wider economic stimulus packages. The table is presented into two parts. Part 1 shows the impact on government deficit from both the expenditure undertaken by government and the revenue received as part of these support measures.

Part 2 shows the impact on the government balance sheet from the support measures. Part 2 also includes estimates of the contingent liabilities that government is exposed to through the activities undertaken to support financial institutions. All figures are in £ million.

8. Background notes

1. **Government deficit and debt under the Maastricht Treaty**

   Article 126 of the Treaty on the Functioning of the European Union (commonly known as the Maastricht Treaty) obliges member states to avoid excessive budgetary deficits. The Protocol on the Excessive Deficit Procedure, annexed to the Maastricht Treaty, defines two criteria and reference values for compliance. These are a deficit to Gross Domestic Product (GDP) ratio of 3%, and a debt to GDP ratio of 60%.

   EU Member States have to report their actual and planned government deficits, and their levels of debt, to the European Commission to specific deadlines twice each year. The estimates in this statistical bulletin are supplied to the European Commission by ONS in accordance with the schedules in the Excessive Deficit Procedure. Forecasts for future years are provided separately by HM Treasury.

   The first deadline (1 April) is designed so that the European Commission can gain an early sight of Member States' debt and deficit for the previous calendar year, and the second deadline (1 October) is to receive updates to these figures. However, for the United Kingdom, uniquely within the European Union, the Stability and Growth Pact sets the reference period to be the financial year (1 April to 31 March), recognising the different budgetary year arrangements in the United Kingdom. The second deadline (1 October) thus provides for the UK the first estimate for the latest financial year.

   The Protocol on the Excessive Deficit Procedure defines Government deficit and debt following the rules and principles laid out in the European System of Accounts 1995. This is also the manual that governs the United Kingdom's National Accounts.

2. **Data quality**

   Data in this bulletin are consistent with those published in the latest Public Sector Finances statistical bulletin. A summary quality report (201.4 Kb Pdf) for the public sector finances is available on the ONS website. This report describes in detail the intended uses of the statistics presented in this publication, their general quality and the methods used to produce them.

3. **Coherence**

   The net borrowing (or deficit) data in this statistical bulletin are based on those published in the Public Sector Finances statistical bulletin of 20 September 2013, but have been modified to take account of a European Regulation that requires payments/receipts for certain financial instruments (ie swaps and forward rate agreements) to be treated as interest, and hence part of general government net borrowing as reported for the Excessive Deficit Procedure. The Regulation does not amend general government net borrowing for National Accounts purposes, which is the version presented in the Public Sector Finances Statistical Bulletin.

   The reconciliation between the net borrowing published in this bulletin and that published in the Public Sector Finances (PSF) statistical bulletin of 20 September 2013 is shown in table M7. It can be seen in table M7 that the net borrowing figures do not only differ due to the different methodologies for swaps but also differ with regard to the recording of expenditure on single use military equipment. In the UK National Accounts and PSF this expenditure is currently recorded on an accrued basis in line with International Financial Reporting Standards (IFRS). However, in this publication the military expenditure is accrued to the point of delivery of the goods, in line with Eurostat guidance.

   The estimate of GDP used in this bulletin is consistent with that published on 26 September 2013 in the UK National Accounts.

4. **Relevance to users**

The UK Statistics Authority (UKSA) conducted an assessment of the Government Deficit and Debt Statistical Bulletin in 2011 to ensure that the bulletin and its compilation methods fully comply with all requirements of the National Statistics Code of Practice. A report of their findings was published on 3 November 2011. Following work to comply with the requirements itemised in the UKSA report, the Public Sector Finances has had designation as National Statistics confirmed.

The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

Designation can be broadly interpreted to mean that the statistics:

- meet identified user needs
- are well explained and readily accessible
- are produced according to sound methods
- are managed impartially and objectively in the public interest

Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.

As part of our continuous engagement strategy, we welcome comments on how else we might improve the Government Deficit and Debt Statistical Bulletin. If you have recommendations for the improvement of the Government Deficit and Debt Statistical Bulletin, please email them to psa@ons.gsi.gov.uk or see the contact details below.

5. **Revisions**

Data in this bulletin are consistent with those published in the latest Public Sector Finances statistical bulletin. The public sector finances revisions' policy was reviewed at the end of 2012 and subsequently updated to more fully reflect compilation processes. The Public Sector Revisions' policy (59.3 Kb Pdf) is available on the ONS website.

Revisions to the EDP data are consistent with the revisions period in the Public Sector Finances statistical bulletin, which aims to incorporate the most up-to-date information for all time periods and therefore revisions can be included for any time periods. A summary quality report can be found on the ONS website which provides further information on how the quality of the statistical measures is assured.

One indication of the reliability of the key indicators in this bulletin can be obtained by monitoring the size of revisions. For this reason a new Annex has been introduced showing the magnitude of revisions between publications for general government net borrowing and general government consolidated gross debt. A summary of the information in the Annex can be found in the Summary table of revision indicators attached below.

Summary table of revision indicators

	Latest financial year value	Average financial year revision[1]	Average (absolute) financial year revision [1]
General Government Net Borrowing, £m (MDUK)	82,146	727.3	1,901.8
General Government Net Debt, £m (YEQG)	1,386,687	1,225.7	1,826.4

Source: Office for National Statistics

Notes:

1. Net Borrowing average revision relates to the last 8 years but the Net Debt average revision excludes the latest year so as to exclude distorting effects of the implementation of the classification change for Northern Rock Asset Management and Bradford & Bingley.

Table M8R and the "Revisions" section in the bulletin provide more detailed information on revisions between this publication and the previous publication in April 2013.

6. **Relevant links**

The latest public sector finances statistical bulletin is available on the ONS website.

Detailed data supplied to Eurostat under the Excessive Deficit Procedure are available on both the ONS website and on the Eurostat website. The latest available data are those published in April 2013. Once finalised the detailed data relating to this publication will be published on **21 October 2013**.

Eurostat analyse all data provided by Member States and publish a press release which places the UK figures in a European context and provides commentary on any issues specific to member states.

Details of the revisions policy for this and the other public sector finances statistical bulletins are available in the Public Sector Revisions' policy (59.3 Kb Pdf).

Information on the classification of institutional units for the purposes of National Accounts can be found at National Accounts classifications.

An inventory (133.3 Kb Pdf) of the data sources used within the data supplied for the Excessive Deficit Procedure is available on the ONS website.

7. A list of ministers and officials with pre-publication access to the contents of this bulletin is available on request. In addition some members of the Treasury's Fiscal Statistics and Policy (FSP) team will have access to them at all stages, because they are involved in the compilation or quality assurance of the data, and some members of the Treasury's Communications team will see the HM Treasury bulletin, but only within the 24 hour pre-release period, because they place the data on the website.

8. **Publication policy**

Complete runs of series in the Public Sector Finances bulletin are available to download free of charge here. An electronic dataset is made available one working day after publication of the Public Sector Finances Statistical Bulletin. The dataset contains quarterly data consistent with the latest Public Sector Finances Statistical Bulletin, analysed by economic category and subsector.

9. **Following ONS**

Follow ONS on Twitter and Facebook.

10. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.