Pensions in public sector finances: consultation response

Our response to the recent consultation on the treatment of pension statistics in the public sector finances, summarising the responses to the consultation and outlining the next steps to be taken.

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1 . Background

Statistics on public sector finances (PSF) provide important information on the UK government financial position. A significant component of these statistics is accounted for by public sector pensions. For instance, public sector net borrowing is affected by the expenditure on the UK State Pension and pension benefits to public sector employees, net of the associated pension contributions.

Although similar in their overall effect on the fiscal aggregates, pensions can be presented in several ways in the PSF statistics, all of which maintain alignment to the international statistical framework. The recording of public sector pensions was reviewed by the Public Sector Finances Technical Advisory Group (PSFTAG), which recommended changing our existing presentation. In June 2018, we published a technical note and consultation document explaining the current treatment of public sector pensions within the PSF statistics, the options for their future presentation and the PSFTAG recommendations. The purpose of the consultation, which ran from 21 June 2018 to 31 August 2018, was to gather and assess user views on each of these recommendations.

2 . Recommendations made by the Public Sector Finances Technical Advisory Group

There are a number of different possible treatments of pensions within the public sector finances (PSF) statistics that all comply with the international statistical framework, the European System of Accounts 2010: ESA 2010, and the economic statistics sector classification of pension schemes. In cases where a judgement needs to be made on how to treat an institution, transaction or an asset or liability that is not clearly or specifically covered by the statistical guidelines and rules, the Public Sector Finances Technical Advisory Group (PSFTAG) may be invited to consider how the classification decisions are best reflected in the PSF statistics. The consultation document contained the recommendations made by this expert advisory committee, and asked for feedback on the following broad themes:

- how the assets and liabilities of the funded public sector pension schemes should be presented
- how the balance sheet and transactions of the Pension Protection Fund (PPF) should be incorporated
- how the obligations of the unfunded public sector pension schemes should be presented

Each of the themes contained a discussion of whether the assets and liabilities should be included in the so-called “inc-“ or “ex-boundary” of the PSF statistics. The concept of public sector excluding public sector banks (ex-boundary) was introduced in September 2014 following a wide-reaching Review of the PSF statistics in 2013. The 2013 Review recommended the move to fiscal aggregates based on the public sector excluding public sector banks and in doing so defined the six main principles that any ex-boundary or measure should follow in the PSF statistics. The six principles are listed in Annex 3 of the technical note and consultation document. Fiscal statistics that include the public sector banks are known as the inc-measures. By implication, the inclusion of a unit within the ex-boundary means that it is also included in the wider inc-boundary.

On the broad themes outlined previously, PSFTAG made the following recommendations:

- assets and liabilities of the funded public sector employment-related pension schemes should be included within the ex- (and consequently in the inc-) measures
- the Pension Protection Fund should be recorded within the ex- (and consequently in the inc-) boundary
- obligations of the unfunded public sector pension schemes should be reported in a supplementary table published alongside the main PSF presentation, but should not be included in either the inc- or the ex-measures

In the view of PSFTAG, these recommendations would best align the recording of public sector pensions with the principles of the 2013 Review, while also maintaining full compliance with international statistics guidelines for the reporting of national accounts and government finance statistics. The rationales for these recommendations are explained in full in Section 4 of the technical note and consultation document.

3 . Questions in the consultation

In the consultation, we invited users to provide their view on each of the three recommendations made by the Public Sector Finances Technical Advisory Group (PSFTAG), as described in Section 2. We asked whether users agreed with the recommendations and, if they did not agree, whether they preferred any of the alternative options that the group identified as potentially possible. The specific questions that we asked are:

- Question 1a: Do you agree with the PSFTAG recommendation to record the administrators of the funded public sector pension schemes in the ex-boundary?
- Question 1b: If you have answered no to Question 1a, would you favour recording administrators of funded pension schemes outside of any PSF boundary or in the inc-boundary?
- Question 2a: Do you agree with the PSFTAG recommendation to record the Pension Protection Fund (PPF) in the ex-boundary?
- Question 2b: If you have answered no to Question 2a, would you favour recording PPF outside of any PSF boundary or in the inc-boundary?
- Question 3a: Do you agree with the PSFTAG recommendation to record the liabilities of the unfunded public sector pension schemes in a supplementary table, within the public sector finances, but not in any of the main fiscal aggregates?
- Question 3b: If you have answered no to Question 3a, would you favour recording unfunded pension schemes in the inc- or in both the ex- and inc-boundary?

4 . Your responses

Over the period during which the consultation was open, we received three responses [1]. None of the three responses answered all the questions in the consultation, with two responses providing feedback related to a specific aspect of the consultation, and the other response focusing on an issue related to public sector pension statistics but not covered in the consultation. This section summarises the themes raised by the respondents, along with our response to each of those points.

Feedback on how the Pension Protection Fund should be recorded

One respondent disagreed with the recommendation made by the Public Sector Finances Technical Advisory Group (PSFTAG) that the Pension Protection Fund (PPF) should be recorded in the ex-boundary of the public sector finances (PSF) statistics. This respondent's view was that the PPF should not be recorded in either the ex- or the inc- boundary, because the grant-in-aid which the PPF receives from the Department for Work and Pensions provides only a small proportion of its funding, and the government does not underwrite the pension liabilities held by the PPF. The respondent also pointed out that since there is no correlation between the activities of the PPF and the government's need to issue gilts, the PPF should not be recorded in public sector accounts.

Our response

The PSF statistics are compiled in accordance with the international statistical framework, the European System of Accounts 2010: ESA 2010. Under ESA 2010, the public sector boundary is drawn based on an assessment of where the overall control over corporate policy lies. In the case of the PPF, this assessment concluded that the PPF should be classified as a public sector unit.

Principle 1 of the 2013 Review states that PSF statistics should be as inclusive as possible, ensuring that the full range of public sector liabilities (as recognised in the UK National Accounts) are reported as transparently as possible. To abide by this principle, the PSF statistics aim to record the activities of all public sector bodies, regardless of how they are financed and what the government's risk exposure is to that body. Indeed, there are a number of bodies that are self-financing and pose no significant financial risk to HM Treasury, but which are nonetheless classified to the public sector and included in the PSF statistics.

Excluding the PPF from the PSF presentation would be excluding an element of government policy from our fiscal statistics. The exclusion of a public sector body from the ex-boundary of the PSF statistics can only be justified when its inclusion would impair the understanding of the overall fiscal aggregates, as has been the case with certain public sector banks. Even then, such units are recorded in the inc-boundary.

After consideration, we concluded that the inclusion of the PPF in the ex-boundary will not cause an impaired understanding of the fiscal aggregates. Therefore, we have accepted the PSFTAG recommendation that the PPF should be included in the ex- (and consequently inc-) boundary in the PSF statistics.

Feedback on how unfunded public sector pension schemes should be recorded

A second respondent disagreed with the PSFTAG recommendation to exclude the liabilities of unfunded public sector pension schemes from the main fiscal aggregates in the PSF statistics. This respondent recommended that all public sector liabilities should be included in fiscal aggregates, including unfunded pension liabilities.

Our response

Including the liabilities of unfunded public sector pension schemes in the fiscal aggregates would in principle be consistent with Principle 1 of the 2013 Review, which states that the PSF statistics should be as inclusive as possible. However, to include the unfunded pension liabilities would not be compliant with the ESA 2010 framework. Such a treatment would therefore go against Principles 4 and 5 of the Review, which require us to produce the PSF statistics strictly in accordance with the ESA 2010 guidelines.

Given these points, we have accepted the PSFTAG recommendation to record unfunded pension liabilities in a supplementary table within the public sector finances, but not within the main fiscal aggregates. This will improve the informativeness and coverage of the PSF statistics without undermining their compliance with the ESA 2010 framework.

Additionally, we have separately announced our intention to start publishing data presented in accordance with the International Monetary Fund's government finance statistics framework, for which the underlying manual is the Government Finance Statistics Manual 2014: GFSM 2014. Unlike ESA 2010, GFSM 2014 requires the liability for all unfunded employment-related pension schemes to be included in the statistical aggregates. In the meantime, we have published the estimates for these schemes in the UK National Accounts Table 29: Accrued-to-date pension entitlements in social insurance.

Feedback on the methodology related to public sector pensions statistics

The third respondent made no comments on the specific questions in the consultation. This respondent felt that the presentation of public sector pensions in the PSF statistics failed to outline an actuarial assumption upon which unfunded public sector pension liabilities are calculated, namely the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate.

Our response

In the national accounts of all countries which adhere to the ESA 2010 framework, the pension liabilities of most public sector pension schemes are calculated using a stable discount rate specified by the European statistical agency, Eurostat[2]. This discount rate often differs from the rates used by the scheme actuaries, such as the SCAPE rate, but it ensures comparability of the statistical estimates, both within each country and between the countries.

More detail on the assumptions can be found in the methodology article on pensions in the UK national accounts published in March 2018. In response to the feedback, we will ensure that the methodology related to public sector pension schemes is transparent and accessible.

Notes about Your responses

1. It is important to note that some of the users of the public sector finances statistics are represented on the Public Sector Finances Technical Advisory Group and had an opportunity to communicate their views outside of this consultation.

2. The international statistical framework specifically refers to the pension schemes whose manager (sponsor) is classified to the government sector. As such, this provision does not cover schemes managed by public corporations, which includes the Pension Protection Fund as a special case.

5 . What we will do

Having carefully considered the responses to the consultation, we have decided to implement each of the three recommendations made by the Public Sector Finances Technical Advisory Group, namely:

- to include assets and liabilities of the funded public sector employment-related pension schemes in the ex- (and consequently in the inc-) measures

- to record the Pension Protection Fund in the ex- (and consequently in the inc-) boundary

- to report obligations of the unfunded public sector pension schemes, both employment-related and those that cover the wider population, in a supplementary table published alongside the main public sector finances presentation, but not in either the inc- or the ex-measures

The work on implementing these recommendations has commenced and we expect it to be completed by the end of 2019. We intend to announce the exact implementation date in the public sector finances (PSF) statistical bulletin, and provide estimates of the expected impact in advance of the implementation. It should be noted that there is a considerable time lag in the availability of outturn data on pension fund assets and actuarial liabilities, which can exceed three years for some pension schemes. This may lead to revisions to historic fiscal aggregates once the modelled estimates are replaced with the outturn data.

We would like to thank respondents for their time and effort in responding to the consultation.