

Article

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

Main methodology changes introduced to public sector finance statistics in September 2019, estimates of headline measures had these changes not been introduced and planned future changes.



Contact:
Fraser Munro
public.sector.inquiries@ons.gov.uk
+44 (0)1633 456402

Release date:
23 April 2020

Next release:
22 May 2020

Table of contents

1. [Coronavirus support schemes](#)
2. [New fiscal rules introduced in Budget 2020](#)
3. [Methodology changes introduced in September 2019](#)
4. [Public sector pensions](#)
5. [Student loans](#)
6. [Capital consumption](#)
7. [Future developments](#)

1 . Coronavirus support schemes

In recent weeks the [UK government](#) and the [Bank of England](#) have announced policies and schemes to support the economy and individuals affected by the coronavirus (COVID-19) pandemic.

National statistics institutes across the world are considering how schemes in each country should be measured in economic statistics, including in public finance statistics. Likewise, international organisations such as the International Monetary Fund, the European Statistical Office (Eurostat) and others are working to produce detailed guidance on the treatment of coronavirus schemes in line with agreed international statistical frameworks.

In this section we explain the Office for National Statistics's (ONS's) initial assessments of some of the largest schemes. These assessments are provisional and subject to change in the coming months.

COVID Corporate Financing Facility

The COVID Corporate Financing Facility (CCFC) is a scheme under which the Bank of England, acting for HM Treasury, will buy commercial paper issued by larger, non-financial corporations, in order to help with their cash flow position. This scheme is unlimited in size and will have an initial duration of one year.

The provisional assessment is that this is a central government scheme, and that the commercial paper acquired under the scheme is a liquid asset of central government. We will reach a formal classification decision in due course.

Coronavirus Business Interruption Loan Scheme and Coronavirus Large Business Interruption Loan Scheme

The Coronavirus Business Interruption Loan Scheme, and the Coronavirus Large Business Interruption Loan Scheme allow enterprises to benefit from government guarantees to their lenders. The schemes are administered by the British Business Bank, a central government organisation. Eligible lenders can make use of the guarantee covering up to 80% of the loan, with an overall cap per lender and a fee for accessing the guarantee.

As a reliable estimate of the number of calls and the average loss cannot be made at inception, the provisional assessment is that the government, as guarantor, has a contingent liability. These types of liability are not recorded in the public finances unless they are called.

The relatively small fees paid by the lender to government are considered as payments for a non-market service, reducing public sector net borrowing. The income from fees is spread over the life of the guarantee in accordance with the accrual's principle.

The relatively large calls under guarantees would be considered as debt assumption and recorded as other capital transfers at the time they are made. The calls would increase public sector net borrowing and public sector net debt by creating a liability on the government balance sheet (or by reducing cash assets if repaid in the same accounting period).

The provisional assessment is that the business interruption payment is, in statistical terms, not part of the guarantee package but is instead a subsidy on production. These payments are only made for loans guaranteed under the small and medium enterprise scheme, and not for the large business scheme, and they increase public sector net borrowing when they are made.

Coronavirus Job Retention Scheme and Coronavirus Self-employment Income Support Scheme

The Coronavirus Job Retention Scheme is a temporary scheme designed to help employers pay wages and salaries to those employees who would otherwise be laid off.

To benefit from the scheme, employers need to submit the details and earnings of the affected employees (furloughed workers) to HM Revenue and Customs (HMRC), with HMRC subsequently reimbursing the staff costs. There is an upper limit to the support per employee equal to 80% of their pay up to the maximum of £2,500 per person per month.

On 26 March 2020, an equivalent scheme for the self-employed was announced. Under the temporary Coronavirus Self-employment Income Support Scheme, the government offered to pay 80% of the pro-rated trading profits over the previous three years, based on the information held by HMRC. The payment is taxable and the ceiling is set to £2,500 per person per month.

There is ongoing international debate about the appropriate treatment of similar schemes in other countries. In the meantime, the provisional assessment is that these payments are subsidies on production by central government to the employers.

2 . New fiscal rules introduced in Budget 2020

In the [Budget 2020](#) report, the government introduced 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

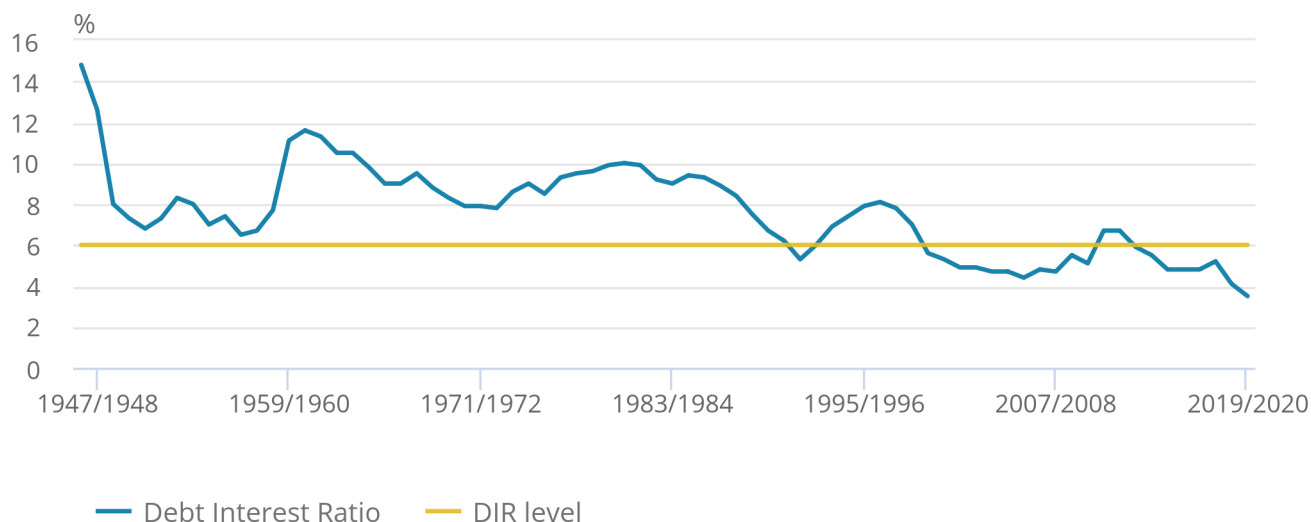
We have been publishing the public sector current budget deficit (excluding public sector banks) and public sector net investment (excluding public sector banks) as a ratio of GDP for some time within [Public sector finances tables 1 to 10: Appendix A](#), Tables PSA1 and PSA5A respectively. However, the debt interest to revenue ratio (DIR) was introduced for the first time in March 2020 as an [Experimental Statistic](#) and we are working to make improvements where necessary.

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.

A higher (lower) ratio would indicate that a larger (smaller) fraction of revenue is required to service the UK public sector's (excluding public sector banks) financial liabilities.

Figure 1: Debt interest to revenue ratio for the financial years ending March 1947 to March 2019, UK

Figure 1: Debt interest to revenue ratio for the financial years ending March 1947 to March 2019, UK



Source: Office for National Statistics – Public sector finances

Notes:

1. [Appendix H, Debt interest to revenue ratio for the financial years ending March 1947 to March 2019](#), presents the data underlying Figure 1.

The DIR has varied considerably over the last seven decades. Until the financial year ending March 1991 the DIR was above 6% every year, reflecting much higher interest rates on government debt than is the case now and, initially, the very high post-war debt-to-GDP ratio. But the DIR fell through most of this period as the high interest rates were usually accompanied by high nominal GDP growth. The ratio was 4.7% in the financial year ending March 2008 ahead of the 2008 economic downturn and has only exceeded 6.0% twice over the decade since.

The ratio is defined on a financial year basis and data for it on a monthly and quarterly basis can be volatile and potentially misleading. We have chosen to present data in the tables on a rolling 12-month basis but even this should be treated with caution as an indicator of the end-financial year position.

The DIR is presented in Table PSA4 of [Public sector finances tables 1 to 10: Appendix A](#) of the monthly Public sector finances statistical bulletin. These data are presented as a rolling 12-month ratio such that the value presented in the March of each year represent a financial year total.

The DIR also is presented as a memo item in the [Public sector finances borrowing by sub-sector](#) presentation. These data are presented as monthly, quarterly, calendar and financial year data.

3 . Methodology changes introduced in September 2019

In September 2019, we introduced some methodology changes to public sector finance statistics. These changes affect estimates of our headline measures of public sector net borrowing excluding public sector banks, public sector net debt excluding public sector banks and public sector net financial liabilities excluding public sector banks. In this article we present estimates of our headline measures had these changes not been introduced. This is the last time we will update these estimates based on the old method.

4 . Public sector pensions

We have adopted a new, gross presentation of funded employment-related pensions. This change, predominantly presentational in nature, has greatly increased the volume of assets recorded on the public sector balance sheet but consolidated many inter-public sector balances and transactions. We now also include the Pension Protection Fund within the public sector boundary.

These changes have reduced public sector net debt excluding public sector banks at the end of March 2019 by £28.6 billion, reflecting the consolidation of gilts and recognition of liquid assets held by the public pension schemes.

The article [Pensions in the public sector finances: a methodological guide](#) explains the methods and data sources we use to record pensions in fiscal statistics

5 . Student loans

Improvements in the statistical treatment of student loans have added £12.4 billion to public sector net borrowing excluding public sector banks in the financial year ending March 2019. Outlays are no longer all treated as conventional loans. Instead, we split lending into two components -- a genuine loan to students and government spending. This new approach recognises that a significant proportion of student loan debt will never be repaid. We record government expenditure related to the expected cancellation of student loans in the period that loans are issued. Further, government revenue no longer includes interest accrued that will never be paid.

The article [Student loans in the public sector finances: a methodological guide](#) explains the methods we use to partition student loans into government expenditure and a financial transaction.

6 . Capital consumption

In June 2019, we announced our intention to introduce a number of [improvements to the estimation of capital stocks](#) and therefore the consumption of fixed capital in September 2019. These improvements included a review of:

- the life length of fixed assets
- the classification of stocks by asset, industry and the institutional sector
- the modelling of the age-efficiency profile of capital assets

Any updates to capital consumption are public sector net borrowing excluding public sector banks neutral and have no impact on public sector net debt excluding public sector banks or public sector net financial liabilities excluding public sector banks.

Impact of these developments

Tables 1, 2 and 3 present our latest estimates of public sector net borrowing excluding public sector banks, public sector net debt excluding public sector banks, and public sector net financial liabilities excluding public sector banks with the impact of the methodology changes introduced in September 2019 removed. This is the last time we will update these estimates based on the old method and Tables 1, 2 and 3 will be removed with effect from next month's article.

Table 1: The impacts on public sector net borrowing of removing the changes to the accounting for public sector pensions, student loans and capital consumption introduced in September 2019

£ billion (not seasonally adjusted)

	Public sector net borrowing ex ¹	Public sector net borrowing ex as a percentage of GDP ¹	Public sector funded pension schemes ²	Student loans	Capital consumption	Public sector net borrowing ex ³	Public sector net borrowing ex as a percentage of GDP ³
1997/98	9.3	1.0	0.1	0.0	0.0	9.1	0.9
1998/99	-1.0	-0.1	0.0	0.0	0.0	-1.1	-0.1
1999/00	-11.4	-1.1	-0.6	0.1	0.0	-10.9	-1.0
2000/01	-15.7	-1.4	-0.1	0.2	0.0	-15.8	-1.4
2001/02	5.4	0.5	1.0	0.2	0.0	4.3	0.4
2002/03	34.1	2.8	1.7	0.2	0.0	32.2	2.7
2003/04	41.7	3.3	2.5	0.2	0.0	39.0	3.1
2004/05	49.2	3.7	2.6	0.3	0.0	46.3	3.5
2005/06	44.3	3.1	2.2	0.3	0.0	41.8	2.9
2006/07	40.0	2.7	1.4	0.4	0.0	38.2	2.6
2007/08	45.7	2.9	1.9	0.6	0.0	43.2	2.8
2008/09	117.9	7.5	4.0	0.8	0.0	113.1	7.2
2009/10	158.3	10.2	3.4	1.5	0.0	153.5	9.9
2010/11	140.4	8.7	2.5	1.2	0.0	136.7	8.4
2011/12	122.2	7.3	3.9	1.3	0.0	117.0	7.0
2012/13	125.4	7.3	1.5	2.2	0.0	121.7	7.0
2013/14	105.5	5.8	3.1	3.8	0.0	98.5	5.5
2014/15	96.9	5.2	1.6	5.4	0.0	89.8	4.8
2015/16	81.2	4.2	0.4	6.5	0.0	74.3	3.8
2016/17	56.0	2.8	1.0	7.5	0.0	47.5	2.4
2017/18	56.5	2.7	0.6	9.9	0.0	46.1	2.2
2018/19	39.3	1.8	1.3	12.4	0.0	25.6	1.2
2019/20	48.7	2.2	1.3	14.1	0.0	33.2	1.5

Source: Office for National Statistics – Public sector finances

Notes

1. Consistent with Public sector finances, UK: March 2020 (published on 23 April 2020). [Back to table](#)
2. Includes Pension Protection Fund and public sector employment-related pension funds. [Back to table](#)
3. Presents PSNB ex and PSNB ex % of GDP on a basis that excludes the September 2019 changes. [Back to table](#)

Table 2: The impacts on public sector net debt of removing the changes to the accounting for public sector pensions, student loans and capital consumption introduced in September 2019

£ billion (not seasonally adjusted)

	Public sector net debt ex ¹	Public sector net debt ex as a percentage of GDP ¹	Public sector funded pension schemes ²	Student loans	Capital Consumption	Public sector net debt ex ³	Public sector net debt ex as a percentage of GDP ³
1997/98	350.6	35.7	-8.0	0.0	0.0	358.6	36.5
1998/99	349.3	33.9	-8.5	0.0	0.0	357.8	34.8
1999/00	339.5	31.3	-9.8	0.0	0.0	349.3	32.2
2000/01	307.6	27.2	-9.1	0.0	0.0	316.7	28.0
2001/02	314.6	26.8	-8.5	0.0	0.0	323.1	27.5
2002/03	348.7	28.1	-7.5	0.0	0.0	356.2	28.7
2003/04	382.2	29.3	-8.8	0.0	0.0	391.0	30.0
2004/05	436.6	31.8	-9.9	0.0	0.0	446.5	32.5
2005/06	475.5	32.6	-11.8	0.0	0.0	487.2	33.4
2006/07	510.5	33.4	-13.1	0.0	0.0	523.6	34.3
2007/08	544.7	34.2	-12.5	0.0	0.0	557.2	35.0
2008/09	757.0	48.8	-11.3	0.0	0.0	768.3	49.5
2009/10	996.9	62.9	-15.0	0.0	0.0	1,011.9	63.8
2010/11	1,140.0	69.3	-17.6	0.0	0.0	1,157.6	70.4
2011/12	1,236.2	72.9	-16.9	0.0	0.0	1,253.1	73.9
2012/13	1,342.8	76.2	-20.8	0.0	0.0	1,363.6	77.4
2013/14	1,442.8	78.1	-21.6	0.0	0.0	1,464.4	79.3
2014/15	1,528.0	80.5	-26.8	0.0	0.0	1,554.8	81.9
2015/16	1,578.8	79.9	-24.1	0.0	0.0	1,602.9	81.1
2016/17	1,701.5	82.9	-25.7	0.0	0.0	1,727.2	84.1
2017/18	1,752.8	82.4	-27.2	0.0	0.0	1,780.1	83.7
2018/19	1,773.5	80.7	-28.6	0.0	0.0	1,802.1	82.0
2019/20	1,804.0	79.7	-28.6	0.0	0.0	1,832.6	81.0

Source: Office for National Statistics – Public sector finances

Notes

1. Consistent with Public sector finances, UK: March 2020 (published on 23 April 2020). [Back to table](#)
2. Includes Pension Protection Fund and public sector employment-related pension funds. [Back to table](#)
3. Presents PSND ex and PSND ex % of GDP at the end of March in each financial year on a basis that excludes the September 2019 changes. [Back to table](#)

Table 3: The impacts on public sector net financial liabilities of removing the changes to the accounting for public sector pensions, student loans and capital consumption introduced in September 2019

£ billion (not seasonally adjusted) unless otherwise stated

	Public sector net financial liabilities¹	Public sector net financial liabilities as a percentage of GDP¹	Public sector funded pension schemes²	Student loans	Public sector net financial liabilities³	Public sector net financial liabilities as a percentage of GDP³
1997/98	315.8	32.2	3.9	0.0	311.8	31.8
1998/99	318.3	30.9	4.4	-0.2	314.0	30.5
1999/00	286.8	26.4	4.7	0.0	282.1	26.0
2000/01	290.9	25.7	4.3	-0.1	286.6	25.4
2001/02	317.0	27.0	3.7	-0.2	313.5	26.7
2002/03	368.6	29.7	3.6	-0.6	365.6	29.5
2003/04	387.5	29.7	3.9	-0.7	384.3	29.5
2004/05	431.5	31.4	4.3	-1.1	428.3	31.2
2005/06	435.9	29.9	5.2	-1.3	432.0	29.6
2006/07	461.8	30.2	5.2	-0.9	457.5	29.9
2007/08	512.0	32.2	4.8	-0.1	507.3	31.9
2008/09	711.1	45.8	3.5	1.0	706.7	45.6
2009/10	834.7	52.6	3.6	1.9	829.2	52.3
2010/11	941.4	57.2	3.3	2.8	935.4	56.9
2011/12	1,077.0	63.5	6.0	4.3	1,066.8	62.9
2012/13	1,204.6	68.4	6.1	6.3	1,192.2	67.6
2013/14	1,286.4	69.7	5.5	10.5	1,270.4	68.8
2014/15	1,364.7	71.9	8.6	16.3	1,339.8	70.6
2015/16	1,444.9	73.1	7.3	22.9	1,414.7	71.6
2016/17	1,489.2	72.5	9.1	31.2	1,449.0	70.6
2017/18	1,459.0	68.6	7.3	39.8	1,411.9	66.4
2018/19	1,482.7	67.4	7.8	55.7	1,419.1	64.5

Source: Office for National Statistics – Public sector finances

Notes

1. Consistent with Public sector finances, UK: March 2020 (published on 23 April 2020). [Back to table](#)
2. Includes Pension Protection Fund and public sector employment-related pension funds. [Back to table](#)
3. Presents PSNFL ex and PSNFL ex % of GDP at the end of March in each financial year on a basis that excludes the September 2019 changes. [Back to table](#)

[Impact of student loans, public sector-funded pension scheme changes and capital consumption changes introduced in September 2019: Appendix G](#) expands this presentation to include the impact on current budget deficit and net investment. It also provides additional quarterly and monthly time series. We agreed to continue publishing updated versions of these tables until the end of the current financial year (March 2020) and therefore these tables will be removed with effect from next month's article.

7 . Future developments

This section presents information on aspects of data or methodology that are planned but not yet included in the public sector finances.

Developments in public sector finance statistics

On 31 May 2019, we published the second in our series of development articles, [Looking ahead -- developments in public sector finance statistics: 2019](#). In this article, we listed a number of short-term areas of work that we aim to implement in public sector finance statistics within 18 months from the date of this publication. These include:

- the treatment of student loans (subsequently introduced in September 2019)
- the presentation of pension data on a gross basis (subsequently introduced in September 2019)
- the International Monetary Fund's (IMF) Government Finance Statistics Framework (GFSM) (subsequently introduced in October 2019)
- the treatment of capital consumption, or depreciation (subsequently introduced in September 2019)
- the continuous development of public sector net financial liabilities (PSNFL)
- the recording of leases

The article also provides some detail on the areas of planned medium- and longer-term development.

Ongoing developments in public sector finance statistics

This subsection presents information on our current continuous improvement projects and methodological decisions that are planned but not yet included in the public sector finances. Because of recent events and the demands of incorporating the impact of the coronavirus (COVID-19) pandemic in the public sector finances, some of these investigations have been deprioritised.

Thomas Cook Group plc

On 23 September 2019, winding up orders were made against [Thomas Cook Group plc](#) and associated companies. The court appointed the Official Receiver as the liquidator. We will announce the implications of this decision on the public finances in due course.

Flybe

On 15 January 2020, the [government provided an update on Flybe](#) and outlined an upcoming review of regional connectivity. As part of this work and ahead of the March Budget, HM Treasury reviewed Air Passenger Duty (APD). We will announce the implications of this decision on the public finances in due course.

Northern Rail

On 29 January 2020, the government announced that from 1 March 2020, the [Northern Rail franchise](#) would be taken into public ownership. We will announce the implications of this decision on the public finances in due course.

East Coast Mainline

On 16 May 2018, the government announced that from 24 June 2018, [London North Eastern Railway \(LNER\) would take over the running of East Coast Mainline services](#). On 31 August 2018, we announced that [LNER would be classified to the public non-financial corporations sub-sector](#), effective from 14 February 2018. We will announce the implications of this decision on the public finances in due course.

Sale of railway arches

On 11 September 2018, Network Rail announced they had agreed terms for the sale of their 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 non-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 in this release.

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, the impact of this decision on the public sector finances 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.

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 implications of this scheme for the public sector finances and will announce our findings at the earliest opportunity.

Carillion insolvency

Following Carillion Plc declaring insolvency on 15 January 2018, the UK government announced that it would [provide the funding required by the Official Receiver](#) to ensure continuity of public services through an orderly liquidation. The Official Receiver has been appointed by the court as liquidator, along with partners at PwC that have been appointed as Special Managers. The defined benefit pension schemes of former Carillion employees are currently being [assessed by the Pension Protection Fund](#) prior to any transition into the Pension Protection Fund scheme.

We are currently investigating the various impacts of the liquidation of Carillion on the public sector finances, including in relation to the public-private partnership projects in which Carillion was involved and the additional funding that the government has provided to maintain public services. We will announce our findings in due course.

Prior to liquidation, Carillion held approximately 450 contracts with the government, representing 38% of Carillion's 2016 reported revenue.