UK Statistics Authority

Further Information on Amendments made by Eurostat to the Manual on Government Deficit and Debt (MGDD), 2022 Edition

NSCASE(23)22

Introduction

1. This paper considers in further detail, aspects of the updated guidance topics introduced at the April 2023 NSCASE meeting, on the new 2022 edition of the Manual on Government Deficit and Debt (MGDD). The MGDD provides supplementary guidance specifically to define the boundary of Government and defines the scope of the associated Deficit (also known as borrowing) and Debt.

2. The new and updated topic areas have been researched and further information is provided below. The research included assessing whether the recording of support schemes during the coronavirus pandemic would change in light of updated guidance published in MGDD 2022, and also provides information on the fiscal impact from adoption of the new guidance.

3. Members of NSCASE are invited to:

   a) Make a recommendation in principle for full adoption of the MGDD 2022 updates, which support the ESA 2010 guidance framework. In doing this, NSCASE acknowledges that if there may be a future need or requirement, this does not exclude UK specific topics being revisited. For example, if there is a consideration in the context of either UK user needs, or if there are concerns about any underlying economic concepts. This recommendation for full adoption will give stakeholders confidence when developing policy, in the statistical framework being used for UK economic statistics measurement. This is something they have stated they would greatly value.

   b) Acknowledge that in recommending full adoption, some of the guidance topics are not currently, and will not in the future, be relevant to the compilation of the UK's public finance statistics.

   c) Recognise that there may be some topics where deviation from MGDD 2022 will need to be considered in the future in the light of new economic and statistical developments. Stakeholders will need to be kept fully informed in a timely manner, if these specific situations arise. Clear communications on deviations from the main guidance would include information published on the ONS website, to fully explain the reasoning behind the deviation, alongside the impact on the relevant statistics. This will maintain confidence in our outputs.

   d) Consider and agree that the scope of this recommendation is based on high level economic principles and their possible impact on public sector net borrowing and debt. The details for any specific topic can be discussed

or reviewed separately by correspondence to aid clarification. There is currently no evidence of a clear diversion in MGDD 2022 from UK economic statistics standards and international best practice.

Background

4. When the UK was part of the EU and the accompanying European Statistical System, new or updated guidance provided under European Council legislation, was adopted from the time it was published. This was unless member states for specific statistics, had requested and had obtained a derogation.

5. It is important to note, that the MGDD updated guidance plays a supporting role to the current SNA 2008 and ESA 2010 international guidance manuals that form the framework that is currently used by ONS. These are the basis of the compilation of the UK public sector finances and national accounts, which ensures appropriate international comparability.

Issues

6. In the paper presented to NSCASE entitled "Introduction to Amendments made by Eurostat to the Manual on Government Deficit and Debt (MGDD), 2022 Edition" (Paper Number 23(17)), the topics which were either new or updates to existing guidance, were categorised as either,

   a) of low complexity with a straightforward application for the UK,
   b) further research and evidence required on the impact of these updates/new guidance topics, or
   c) may not be applicable to the UK.

7. Further research has been carried out on all the new and updated topic areas, and the findings discussed at a recent meeting with HM Treasury and representatives from the devolved governments. All key stakeholders recognised that the guidance provided clarity and they supported the recommendation for full adoption.

8. These topics were discussed in the context of sound economic principles and from an economic statistical classification perspective. The stakeholders also recognised that there may be a need to consider specific topics individually in the future, which they also fully supported.

9. Member states have also been approached for their views on the impacts of these guidance changes from an economic statistics conceptual viewpoint, a fiscal impact perspective, and whether the changes have raised any specific issues in preparing their countries economic statistics relating to deficit and debt.

10. At the time of writing, seven responses have been received, which include the comments *"a negligible impact on deficit and debt*", "*we do not expect the*

required revisions to have a large impact on deficit and debt" and *"still assessing the impact". S*ome issues were mentioned which were country specific and these included the recording of Covid-19 schemes as one-off guarantees instead of standardised guarantees and the impact of the guidance regarding euro coin. As observed by the UK, some responses noted that different parts of the guidance do not apply to some countries.

11. Further information on each topic area is provided below:

a) Updated topics of low complexity with a straightforward application for the UK

Chapter 1.6.2 - Special Purpose Entities (SPEs)

12. Special Purpose Entities (or Vehicles) are described in ESA 2010 2.17 as "*usually a limited company or limited partnership, created to fulfil narrow, specific or temporary objectives and to isolate a financial risk, a specific tax or a regulatory risk*." This MGDD chapter includes updated guidance for resident SPEs and a new dedicated section of guidance for non-resident SPEs.

13. In summary, for resident SPEs the guidance expands on those which have characteristics similar to captive financial institutions (and whether they have independence of action) or are involved in fiscal operations including securitisation of assets or borrowing on behalf of government for example. Under the relevant conditions, relevant SPEs should not be considered to be separate institutional units, and rather are treated as an integral part of the general government sector.

14. For non-resident SPEs, the guidance expands on ESA 2010 2.20, and 20.47 which says that an exception to the above conditions, is when an SPE is non-resident, and therefore considered to be an institutional unit by convention, even if it does not meet the autonomy of decision criteria to be an institutional unit. These non-resident SPEs are also recognised separately from their controlling body (which is resident, and even if considered to be an SPE of general government).

15. The updated MGDD guidance describes how the transactions of such an SPE registered abroad should be reflected in the government accounts, and mainly applies the principal party principle while keeping rerouting for debt. This new section of the guidance addresses an identified gap in its provision of complementary guidance to ESA 2010. The additions are considered to be helpful guidance to provide further clarity on understanding, and consistency of recording these interactions.

16. *Fiscal impact* - SPEs of government which fit the relevant criteria, and engage in the type of activities described, mainly managing assets, are already included in the UK government's balance sheet, net debt statistics and net borrowing as per the existing ESA 2010 guidance. Therefore, the overall fiscal impact of adopting the new guidance is expected to be neutral or relatively small.

Chapter 2.5 - Military expenditure

17. This is an updated section on the recording of non-financial military assets, which are legally owned by one owner, but where economic ownership is shared by contract with others, with each having exclusive right to use the asset for a certain number of hours, for example. This is based on an observed situation concerning several countries within the European Economic Area. This specific type of arrangement is not currently applicable in the UK, but the economic principle of jointly owned and shared recording of non-financial assets where the risks and rewards from the asset are equally shared (as with a joint venture), is a principle supported and upheld in the UK.

18. *Fiscal impact* – If the UK jointly economically owns a non-financial military asset, the applicable proportionate amount will be recorded in the balance sheet of government. Under these circumstances, the adoption of this guidance would therefore impact public sector net worth, a broad measure of the balance sheet, to a relatively small extent.

Chapter 4.7 - Capital increases in Multilateral Development Banks (MDBs)

19. When MDBs extend concessional loans (typically characterised by a very low interest rate, long maturity and grace period) and grants to low-income countries, the resources for these activities become systematically depleted. Donor countries contributions to MDBs are to be recorded in the non-financial accounts. The motivation for this updated chapter is the time of recording.

20. This updated guidance clarifies the time of recording of concessional loans, as there is not a consistent recording approach by Member States relating to the term when capital transfers are “due to be made”. The update provides a specific interpretation that the transfer (recorded as a capital transfer) should be recorded when the instrument of commitment is signed and deposited by the donor country with the MDB. This is when the legally binding obligation to pay arises, regardless of the actual timing of payment, and is the methodological interpretation of ESA 2010, 4.166, “due to be made” in this context. The exception is when the commitment is subject to national contingency (a “qualified” instrument of commitment via Parliamentary approval).

21. Participations paid in advance of the commitment are to be recorded as expenditure at the time of payment, recognising that the MDB definitely requires the amounts paid in advance.

22. *Fiscal impact* – This guidance update provides clarity on the time of recording only, and although we would need to seek information of when the UK has reported these payments in the past, the adoption of this guidance is expected to have none, or a negligible overall fiscal impact.

Chapter 6.3.1.6 - Energy Performance Contracts (EPC)

23. This is a new section, which is providing a signpost to the standalone Guide to the Statistical Treatment of Energy Performance Guidance (Eurostat, 2018) which has been adopted by the UK since publication in May 2018. This has been used by the UK to inform indicative classification decisions on policy proposals during 2019 and into early 2020.

24. An EPC is defined as a contract between a public authority (inside general government sector) and a partner (outside the general government sector), to provide measures to improve the energy efficiency of existing public infrastructure. The payments for these improvements are conditional on their performance in achieving agreed energy consumption and/or cost savings.

25. The contract involves capital expenditure for construction works/equipment for providing energy efficiencies, by installing measures including new and/or improved lighting, heating and air conditioning systems. The contract also includes the delivery of related services for maintenance and operation of the asset. In some instances, assets may be installed to produce energy, and revenue can be generated from surplus energy sold (e.g., from solar panels to the national grid).

26. *Fiscal impact* - There has been no further progress in the UK on this policy area since that time, and there would only be an impact on government debt statistics if the new EPC assets were considered to be on the government's balance sheet, using the balance of risk and reward principle already established in existing guidance. Therefore, as there are no active policies currently on this topic, there is no current fiscal impact from adopting this new section of guidance.

Chapter 6.5 - EU Emissions Trading Scheme

27. In summary, energy intensive industries, the power generation and aviation sectors involved in the combustion of fuels are required to purchase a greenhouse gas emissions permit. The permit holder pays an application charge, which allows the user to acquire and surrender allowances in line with ETS obligations.

28. This is updated MGDD guidance in support of member states recording the associated tax using the time adjusted cash method. The UK now has its own version of this scheme (UK ETS) established in The Greenhouse Gas Emissions Trading Scheme Order 2020, but the existing economic principle set out for the EU is also upheld by the UK as the update supports the adjusted cash/accruals method of recording.

29. *Fiscal impact* – The UK government receives revenue from this scheme in the form of a tax on production which, therefore, already impacts UK public sector net borrowing at the relevant time of recording. Therefore, there is no further impact from adopting this updated guidance.

Chapter 7.4 - Government guarantees

30. This is updated guidance mainly in response to the rise of new, or the extension of existing schemes, to mitigate the economic and social impact of the Covid-19 pandemic, and to improve consistency of recording. Additional features have been included to provide clarity on the application of the standardised guarantee guidance.

31. The 2019 MGDD guidance states that for standardised guarantees (introduced in SNA 2008 and ESA 2010), guarantors should be in a position to estimate the average loss based on available statistics by using a probability-weighted risk of call. For one-off guarantees, guarantors would not be able to make at inception a reliable estimate of the risks of calls due to the uniqueness of the case. There are also other indicators to help with classifying different types of guarantees, including that standardised guarantees are issued in large numbers, along identical lines in order to pool risk, whereas one-off guarantees are issued on a case-by-case basis, usually under individual contracts.

32. The updated guidance in Chapter 7.4.1 focuses on the recognition of standardised guarantee schemes, and 7.4.3 addresses the issue of using other data sources (not just restricted to government estimates by national accountants) for the provision for calls, allowing the possibility to revise an initial estimate within one year of the guarantee being granted. It also takes into account practical aspects to enable the treatment of short-term (up to 2 years) standardised guarantee schemes as a one-off guarantee scheme and includes accounting examples.

33. Initial checks of the details provided in the new edition of the MGDD guidance, indicate that the UK Government's guarantee schemes introduced during Covid, which include the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Bounce Back Loan scheme, were all appropriately classified as standardised guarantee schemes under the MGDD 2019 guidance.

34. The Live Events Reinsurance Scheme and the Trade Credit Reinsurance Scheme were classified as one-off guarantee schemes, and therefore considered to be contingent liabilities. The UK recording of all these schemes appears to be consistent with the updated guidance.

35. *Fiscal impact* - For schemes classified as standardised guarantee schemes, the government's balance sheet will include a provision for calls under standardised guarantees liability, equivalent to the present value of expected calls under the guarantees. They will also have a capital transfer recorded at inception of the total estimated losses across the guarantee period which will impact net borrowing at that time. For those schemes classified as one-off guarantees, there is no immediate impact on the government's balance sheet, as they will be considered as contingent liabilities, and only recorded if the

guarantee is called. Therefore, the adoption of the MGDD 2022 guidance will have no further fiscal impact.

b) Further research and evidence required on the impact of these updates/new guidance topics

Chapter 2.2 - Recording of taxes and social contributions

36. This updated MGDD guidance reflects more detail on the timing and recording methods for the varied and innovative tax intervention schemes, for the fiscal measures put in place during the pandemic across EU Member States to alleviate economic and social impacts. These included tax deferrals, reductions in pre-payments, postponement of tax declarations and tax waivers. The draft guidance provided by Eurostat at that time has now been incorporated into MGDD 2022.

37. Prepayment of Income Tax. The first update refers to reductions in the pre-payment of income taxes, which is not related to an expected reduction in tax obligations. ESA 2010, 4.82 already allows some recording flexibility over two years, and the updated guidance provides more detail of applying relevant ad-hoc adjustments. If there is an anticipation of a large reduction in the total income tax due, then the recommendation is to use the established time adjusted cash method.

38. The UK operates for self-assessment income tax and those who pay National Insurance Contributions level 4 (NIC4, based on the level of self-employed profits), a "Payment on Account" system (GOV.UK, 2023). As one of the government's supporting measures during the pandemic, self-assessment taxpayers were given the option of deferring payment of their July 2020 Payment on Account until 31 January 2021 (GOV.UK, 2021). The aim was to provide financial relief, with no reductions to the tax liabilities due. For self-assessment income tax, the payments were recorded when received on a cash basis (within the relevant annual time period). The data for NIC4 was recorded on the accruals basis. These recordings are not expected to lead to any future ad-hoc adjustments, as they are within the relevant two-year period.

39. Tax Waivers. When a tax is fully waived (the legal right to collect it is relinquished) no accrual of revenue for the relevant period should be recorded. The updated guidance states that the tax waived should be recorded as a debt cancellation (if accrued in the past) or as reduced revenue (if not yet accrued). This is additional specific guidance to provide clarity in recording of tax waivers. This scenario was not specifically utilised by the UK government during the pandemic. The Business Rates retail discount (DLUHC & MHCLG, 2020) was provided at 100% discount, but the liability was not removed, it was paid instead by the UK government to local authorities to replace the revenue stream.

40. *Fiscal impact* – To summarise all these Chapter 2 updates, the UK applied the accruals principle during the pandemic, when it was applicable, to relevant data working closely with statisticians in HM Revenue & Customs. This was in response to the various tax intervention schemes the UK introduced during the pandemic. These were discussed and agreed at the time with key stakeholders, including HM Treasury. The UK also classified payments to support households with increased energy costs, which utilised the council tax system, as payable tax credits. All of the above had a large impact on public sector net borrowing and debt statistics at the relevant time. However, the UK's recording of the tax interventions during the pandemic is consistent with the existing and updated guidance, and no further adjustments are needed. There is therefore no further fiscal impact from adopting this updated guidance.

Chapter 3.5 - Capital injections into Foreign Direct Investments (FDI)

41. This is a new section clarifying the rules for the recording treatment of capital injections into foreign direct investments as a financial transaction. FDIs reinvested earnings are already reflected in government's net borrowing data at the time they occur. Therefore, FDI enterprises should not follow the same rules that exist for public corporations. However, if government makes a capital injection to offset holding losses or write offs that are not captured in the earnings definition, a partial reclassification of the injection as a non-financial transaction may be appropriate. This new guidance applies sound recording principles for the relevant circumstances.

42. *Fiscal impact* – This is already applied in the financial account and provides clarification of the circumstances when an amount should also be recorded in the non-financial account, impacting public sector net borrowing. Therefore, the adoption of this new section of guidance is not expected to have any additional fiscal impact.

Chapter 3.7 - Transfer of pension obligations

43. This is updated guidance clarifying pension terminology and recording methods under ESA 2010. As pensions is a complex topic, we propose that the current updated guidance is adopted as presented, as from consultation with ONS pension experts, they consider it to be an improvement on the existing MGDD 2019 guidance. They also said that it provided more clarity than is available anywhere else on this measurement topic. The updated paragraphs support and match how the UK currently applies the ESA 2010 guidance, and the substantive new element in paragraphs 29 to 36 offers an accounting solution.

44. It is recommended that other pension related topics where the UK may differ from the EU, should be considered separately by NSCASE in the future, and

should not be a barrier to the proposal for recommending the full adoption of the MGDD 2022 updates.

45. *Fiscal impact* – There is no fiscal impact on the statistics from this MGDD guidance update, as the UK is already measuring pension liabilities in accordance with ESA 2010, and the clarifications provided in this updated MGDD guidance.

Chapter 4.5 - Government interventions in bailouts and defeasance

46. This is updated guidance and draws on the experiences of the last fifteen years following the 2008 financial crisis; it aligns with the updated ESA 2010, in Chapter 20, and also reflects the developments in the support of financial institutions, in this context.

47. ESA 2010, 20.243 describes *"A bailout is a term meaning a rescue from financial distress. It is often used when a government unit provides short-term financial assistance to a corporation to help it survive a period of financial difficulty or a more permanent injection of financial resources to help recapitalise the corporation. Bailouts of financial institutions are often referred to as financial defeasance."*

48. There are numerous ways for government to intervene and rescue an entity from financial distress. National Accounts principles require that the accounting treatment of these should reflect the economic reality.

49. The new MGDD guidance expands on what to do at inception, for example when government acquires a portfolio of problematic assets, sets up or takes over a defeasance structure or provides loans or guarantees. This Chapter is extensive and now includes additional detailed information on what to do afterwards, including several accounting examples for clarification. This includes recordings during the defeasance process.

50. As a general principle, the purchase of financial assets is a financial transaction. However, there are situations which will impact net lending/borrowing, for example when a capital transfer is recorded if government forfeits a claim against a debtor, or if there is a difference between the government's purchase of an asset and its market/written-down or fair value.

51. *Fiscal impact* – The fiscal impacts will be different depending on the specific conditions of the bailout situation, and other areas of guidance (on guarantees loans etc) will also need to be considered. Each situation will need to be considered on a case-by-case basis, but the guidance establishes principles for considering these situations in the light of evidence from previous experience. Therefore, there is no immediate fiscal impact on the UK from adopting this guidance which supports and expands on ESA 2010

Chapter 4.6 - Securitisation of non-performing loans (NPLs) with government guarantees

52. This is new MGDD guidance and includes recording of novel and complex government arrangements to support financial institutions in the form of securitisation of non-performing loans.

53. ESA 2010 7.101 defines a loan as a non-performing *"when (a) payments of interest or principal are 90 days or more past their due date; (b) interest payable of 90 days or more has been capitalised, refinanced, or delayed by agreement; or (c) payments are less than 90 days overdue, but there are other good reasons (such as a debtor filing for bankruptcy) to doubt that payments will be made in full.*

54. ESA 2010 7.102 - *This definition of a non-performing loan is to be interpreted taking into account national conventions on when a loan is deemed to be non-performing. Once a loan is classified as non-performing, it (or any replacement loans) should remain classified as such until payments are received or the principal is written off on this or subsequent loans that replace the original."*

55. This new MGDD chapter states that each country's situation should be analysed on a case-by-case basis, and analysis should encompass a broader view of all relevant guidance to quantify the overall risk borne by each party. It clarifies in what cases senior debt guaranteed by government should be recorded as private debt and in the more exceptional circumstances, where it should be recorded as government debt. This includes an example where the government guarantees the senior debt issued by an SPE specifically created to purchase the NPLs. It clarifies recording sector information and general principles, including assessing who bears the most risk after the NPLs are transferred.

56. *Fiscal impact* - In all these cases of government intervention, there should be no initial impact on public sector net lending/borrowing at inception as no loss is expected (i.e., no gift component), and no guarantee fees recorded as, with for example, standardised guarantee schemes. However, the scale of other fiscal impacts will depend on the analysis of relevant cases on an individual basis, but there is no fiscal impact directly from the adoption of this updated guidance.

Chapter 4.9 - Recording of loans not expected to be fully repaid

57. This is new MGDD guidance following the provision of loans during the Covid-19 pandemic which did not go through the usual diligent loan provision "due process". Loans are instruments that are expected to be repaid fully, with interest charges designed to cover the rare cases of losses.

58. The scope of the new guidance addresses rare and exceptional cases and details partitioning loans at inception between a loan component and a

transfer component (as with standardised guarantees i.e., recovery loan scheme) and allows revision of the first estimate within one year. Partitioning is already well defined in ESA 2010. This new guidance also simplifies the approach for higher/lower anticipated recoveries.

59. *Fiscal impact* – The transfer component currently impacts public sector net borrowing as indicated above. The UK had significant involvement in developing guidance in the context of student loans, so there is no expected fiscal impact from existing loans. This new guidance adds clarity when levels of recovery change, but there is no fiscal impact directly from the adoption of this section of guidance.

Chapter 6.3.1.5 - Concessions

60. This is updated MGDD guidance which includes a clearer definition and criteria of a concession arrangement. The current expectation is that Eurostat will not be producing in the near future standalone guidance for Concessions, as it did for Public Private Partnerships (PPPs) and Energy Performance Contracts (EPCs).

61. A Concession means a long-term contract between a government unit and a concessionaire (which may be a public or a private unit) in which the government grants the concessionaire the legal right to exploit a specific asset which is either constructed or substantially renovated. The majority of payments must come from direct payments from end users under commercial conditions, which is an essential feature that distinguishes a concession from a PPP arrangement, or a public procurement contract for infrastructure.

62. Government financing contributions to the construction (or refurbishment) costs has to be less than 50%. At the end of the concession arrangement, all assets are returned to the government for no consideration (no payment). Examples include toll roads and bridges (e.g., the Second Severn Crossing project, now the Prince of Wales Bridge). As with other asset arrangements, whichever party bears the majority of the risks, and reaps the majority of the rewards, is deemed to be the economic owner, and the asset will appear on their balance sheet.

63. One example of a change is the update now explicitly states that at the end of the concession arrangement, all assets are returned to the government for no consideration (no payment), otherwise the arrangement is not a concession. The economic owner of the assets involved, is the unit which bears most of the risks and receives most of the rewards from the assets during the whole duration of the concession. These are measured in a similar way as in PPP arrangements, although less detailed.

64. *Fiscal impact* – The fiscal impact of this updated guidance is currently not known. To assess the full impact, a review of a sample of government concession arrangements and contracts, would confirm whether existing contracts would be considered to be concession arrangements under the new

guidance. This may impact their recording and the possibility of additional assets being classified to government, impacting the government's balance sheet and relevant debt statistics.

c) Not applicable to the UK

Chapter 2.6.4 - EU Recovery and Resilience Facility (RRF)

65. This is also new text regarding the statistical recording of the associated flows relating to grants from the European Structural and Investment funds. The RRF constitutes the biggest part of the Next Generation EU financial package outlined in EC regulation 2021/241. This is therefore not applicable to the UK, with no fiscal impact.

Chapter 8.2.2.1 – Coverage of government debt for EDP purposes

66. This is updated guidance ensuring that Eurostat's decision that no government notional other than deposit liability is recorded for euro coin when the economic issuer is deemed to be the central bank, is reflected in the MGDD guidance. This provides clarity on the interpretation of ESA 2010, Box 5.2.2. For the UK, this part of the guidance is applicable "Countries that have not joined the euro area record coin issued by government as liabilities (AF.21) of central government if they are effectively issued by this subsector." Any foreign currency notes or coins are liabilities of the Rest of the World sector, so the notional claim isn't an issue for the UK. There is therefore no fiscal impact from this MGDD 2022 updated guidance on the UK.

Chapter 8.5 – On-lending for supranational entities

67. This is new guidance on on-lending schemes as well as within general government units/subsectors. It relates to the SURE instrument - the temporary Support to mitigate Unemployment Risks in an Emergency (SURE) - Council Regulation 2020/672. It enables financial support to member states to address the negative economic and social consequences of the Covid-19 pandemic in the EU territory. Article 15 of the regulation states that this is not applicable to or in the UK, and therefore has no fiscal impact.

Conclusions and Recommendation

68. It is recognised at this time, that no substantive issues which would have a major impact on the UK fiscal statistics have been identified from these MGDD guidance updates. The aim of the MGDD 2022 edition, is to provide further clarification and support to existing guidance in the form of ESA 2010.

69. The risk of not fully adopting would be reduced stakeholder confidence with regard to developing policy, because there would be uncertainties about the

guidance being followed. It could also have an adverse impact on the perception of the trustworthiness of our outputs and statistics.

70. It is therefore proposed that NSCASE recommends the adoption of the MGDD 2022 in its entirety by the UK. This is with the proviso that any emerging evidence of a clear diversion from UK standards for economic statistics and international best practice (as has happened in the past with for example, the recording of student loans), can be brought to NSCASE as separate agenda items at the appropriate time in the future.

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Annex 1

Questions raised on MGDD 2022 at the NSCASE Meeting 17 April 2023

Question	Answer
Are student loans covered by the MGDD?	Student loans are income contingent loans and are covered in MGDD 2022 Chapter 4.8, Recording of income contingent loans. They are also considered as an example of a standardised guarantee as explained in Chapter 7.4.1, paragraph 9, and in paragraphs 15 to 17 above, and support the ESA 2010 guidance.
Does the MGDD impact the Bank of England and HMT?	The MGDD 2022 references the Bank of England in the context of a national central bank and its transactions with the general government sector. It provides practical national accounting examples to support ESA 2010, and these are included in MGDD 2022, Chapter 4, Relations between government and the financial sector. MGDD also references HM Treasury (Ministry of Finance/treasury) functions, which can be carried out by national central banks in some countries, and again provides practical guidance for the application and recording of the various transactions between this function and relevant parties. It is a supplement to ESA 2010. More information in the Methodological Guide (in supplementary reading pack). Asset Purchase Facility In summary, between January 2013 and July 2022, HM Treasury received regular payments from the Bank of England Asset Purchase Facility Fund (APF) under the indemnity agreement. These payments were recorded as central government interest and dividend receipts. However, the recent increase in interest rates as the APF began to run down its assets required support from HMT under the indemnity arrangement. In October 2022 the APF received its first payment under the indemnity agreement. This central government expenditure was recorded as a capital transfer to the Bank of England, a component of the Net Investment. As with other such payments, intra-public sector transfers are public sector net borrowing neutral. This will be reflected when the Methodological Guide is updated in the coming months.

Are regional public sector finances covered in the MGDD?	They are covered in the context of being supplementary guidance to the ESA 2010 guidance manual, the full title of which is the European System of National and Regional accounts. There is no specific guidance on the compilation of regional public sector finances in MGDD. This is covered in Chapter 13 of ESA 2010 and SNA 2008 Chapter 18, Section E.
What does MGDD cover: general government or public sector?	The MGDD 2022 is supplementary guidance to ESA 2010, and sets out in Chapter 1, Delimitation of the general government sector, that the general government sector excludes all government-controlled units considered to be market producers, therefore public corporations. The public sector consists of all general government units and public corporations outside government (ESA 2010, 20.303/20.307). The MGDD therefore references public corporations in the context of their interaction with general government throughout the manual.
Are pension liabilities of public sector workers covered in the MGDD?	As with many topics, pension liabilities of public sector workers are covered in the MGDD in the context of supporting ESA 2010, and the MGDD 2022 edition does contain some new accounting examples (see Chapter 3.7.4). Public sector workers are mainly covered by defined benefit pension schemes. Although many are unfunded, local government employees and staff at some non-departmental public bodies are members of funded defined benefit schemes. A far smaller proportion of public sector workers are covered by defined contribution schemes. The UK fiscal aggregates are based on the ESA 2010 framework, and there are important differences between this framework and standard UK accounting frameworks. To understand more about how the UK treats pension data, please see Pensions in the Public Sector finances: a methodological guide. (In supplementary reading pack).