

Office for  
**Budget  
Responsibility**

**Restated March 2019 forecast**

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November 2019



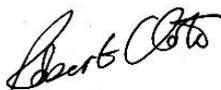
# Foreword

The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Our founding legislation states that our duty is "to examine and report on the sustainability of the public finances" and that we "must perform that duty objectively, transparently and impartially". This motivated our decision to publish a technical restatement of our March 2019 forecast after the Chancellor cancelled the 6 November Budget. The substantial classification and other statistical changes implemented by the Office for National Statistics since March meant that our most recent published forecast no longer provided a meaningful baseline against which to monitor incoming monthly data or to assess policy statements.

We notified both the Treasury and the Treasury Committee on 29 October of our intention to publish such a restatement on 7 November, consistent with our stated release policy. On 6 November, the Treasury raised concerns about the publication's consistency with the Cabinet Office General Election Guidance. We asked for the Cabinet Secretary – as the ultimate arbiter of this guidance – to give his opinion before reaching a final decision on whether to publish. His judgement that it would not be consistent with the guidance was conveyed to us overnight. We therefore announced at 08.30 on 7 November that the restatement would no longer be published.

The General Election Guidance remained in effect until 22:00 on 12 December. For transparency, we are therefore now, at the earliest opportunity, publishing the restatement. This is in precisely the form that it was signed off by the Budget Responsibility Committee on 6 November. As such, where it refers to the 'latest data', these are the data as they stood at that time. Since then, one more month of public finances data have been published – these would have had little effect on the comparisons set out in paragraph 1.29; and the third quarter GDP figures have been released – these confirmed that the economy expanded again after the contraction in the second quarter.

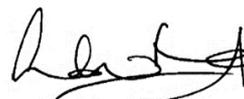
Following this episode, we will be seeking greater clarity from the Cabinet Office in future editions of its General Election Guidance, so that we are able to perform our statutory duty effectively during election periods.



Robert Chote



Sir Charles Bean



Andy King

The Budget Responsibility Committee

16 December 2019

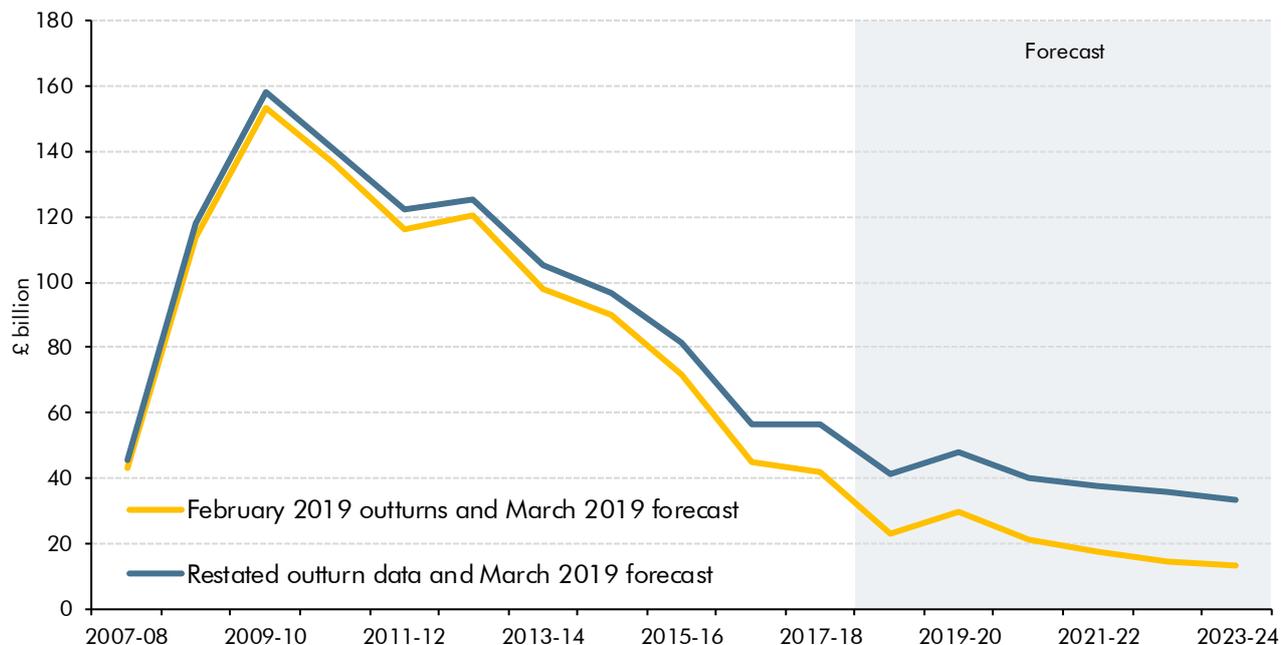


# 1 Restated March 2019 forecast

## Introduction

- 1.1 The Chancellor announced on 14 October that he intended to hold a Budget on 6 November. On 25 October, he announced that that was no longer the case. On 29 October we wrote to the Treasury to set out some of the implications.<sup>1</sup> In doing so we said we would publish a technical restatement of our March 2019 forecast so that it can be viewed on a consistent basis with the latest official public finances data produced by the Office for National Statistics (ONS), given the material changes to those statistics since March. This provides a consistent baseline against which it will be possible to consider the implications of recent developments in the economy and public finances, plus the impact of new policy decisions, when the Chancellor asks us to produce our next forecast.
- 1.2 As Chart 1.1 shows, and as we explain in detail below, this restatement of the March forecast increases measured public sector net borrowing by roughly £20 billion a year, which means that the deficit would still be in excess of £30 billion in the final year of the forecast in 2023-24. By contrast, the restatement lowers our forecast for net debt.

Chart 1.1: Public sector net borrowing: restated outturn and forecast



Source: ONS, OBR

<sup>1</sup> Letter from Robert Chote to Sir Tom Scholar, Permanent Secretary to HM Treasury, 29 October – available on our website.

1.3 In each *Economic and fiscal outlook (EFO)*, as well as describing our latest forecast, we also describe as transparently as we can why it has changed since the previous one. We typically split the sources of the overall revision into three categories: classification and other statistical changes to the public finances data since our previous forecast; changes to forecast judgements and the implications of new data published over that period; and the cost or yield of new policies announced since the previous fiscal event (including their indirect effects on the public finances via their impact on the economy).

1.4 In this restatement we consider only the first of these. If we had completed the forecast that was being prepared for 6 November, there would have been like-for-like revisions to the pre-measures forecast and the effects of new policies to consider. As regards the former:

- Prospects for near-term **world GDP and trade growth are materially weaker**, with the International Monetary Fund having revised down its forecasts for growth in advanced and emerging economies over the next two years.
- **UK GDP growth this year has been more uneven** than we expected, with output declining in the second quarter and rebounding in the third. Business surveys have weakened further in recent months and consumer confidence remains subdued.
- But **average earnings growth has continued to pick up** and unemployment remains low. ONS Blue Book revisions point to a higher saving ratio than previously estimated.
- New **ONS population projections suggest less fiscally unfavourable demographics** over the coming five years, with lower fertility and higher mortality (both reducing pressure on spending) but higher net migration (adding to employment and receipts growth).
- **Year-to-date borrowing has risen proportionately faster than our full-year March forecast**. Mechanically extrapolating the increase over the year to date would imply a full-year upward revision of around £10 billion (relative to our March forecast including our estimate at the time of the student loans change). But experience shows how a simple extrapolation of revision-prone data may be misleading. For example, one notable feature over the year to date has been the rapid growth of public services spending. It is very rare for departments to overspend the limits they agree with the Treasury, so it seems likely that this will slow – but by how much is uncertain. Another notable feature has been the rise in local authority borrowing. But here, on 28 October, the ONS announced that an error had been found in the data on ‘local government social benefits’, which are affected by the shift from housing benefit to universal credit. Correcting this lowers year-to-date borrowing by £1.3 billion. (We do not restate our forecast for this as it only relates to 2019-20. Indeed, it should bring this year’s data into line with the 2018-19 data that underpinned our March forecast. It is no different to any other ‘news’ in the monthly data so far this year.)

1.5 As regards new policies, setting aside anything that might have been announced in the Budget, we would have expected to reflect the Chancellor’s announcement of a higher National Living Wage by 2024, the additional departmental spending for 2020-21

announced in the Spending Round and various other smaller measures announced since March. It is unlikely that the new Brexit Withdrawal Agreement and Political Declaration would have had material quantitative effects on our forecast. The new Withdrawal Agreement retains the key elements of the old one that were assumed in our March forecast, namely the transition period to December 2020 and the financial settlement. The new Political Declaration sets different objectives for the future UK-EU trading relationship and the extent of regulatory alignment, but these remain the subject of future negotiations.

## ONS statistical changes since March

- 1.6 In its September 2019 public sector finances data release, the ONS incorporated several classification changes, including a new accounting treatment for student loans and a material correction to corporation tax receipts. Our March forecast did not incorporate any of these changes, although we were able to estimate most of the student loans change in an annex to the March *EFO*. Together, these changes add significantly to measured receipts and even more so to measured spending, leaving public sector net borrowing higher and the current budget surplus lower than previously recorded. Most of the changes relate to accrued spending and receipts, so the effect on cash measures of borrowing and on public sector net debt are more modest, reducing the latter. There have been some other, more minor, ONS-related changes since March that would have affected our new forecast.

### Student loans accounting treatment change

- 1.7 We have discussed the fiscal illusions generated by the previous treatment of student loans in the public finances in various places.<sup>2</sup> The issue was also raised by the House of Commons Treasury Select Committee and the House of Lords Economic Affairs Committee in reports last year.<sup>3</sup> The ONS launched a programme of work domestically and with international partners to try to resolve these problems within the constraints of the European System of Accounts and associated guidance. We discussed its ‘partitioned loan-transfer approach’ – treating outlays that are expected to be repaid as loans and those that are not as grants to students – in Annex B of our March 2019 *EFO* and it was implemented in the September public sector finances release. As well as treating some ‘lending’ as spending, interest is no longer accrued on loan balances that are not expected to be repaid.
- 1.8 The new approach therefore raises spending and lowers receipts relative to the previous one. This raises borrowing. The spending element is treated as capital spending, so adds to public sector net investment, while the receipts element raises the current budget deficit.
- 1.9 Our March estimate of what the changes would add to borrowing in 2018-19 proved too low – £10.5 billion versus £12.4 billion. This £1.9 billion difference reflects two factors:

<sup>2</sup> See, for example, Ebdon, J. and Waite, R., *Working paper No. 12: Student loans and fiscal illusions*, July 2018.

<sup>3</sup> House of Commons Treasury Committee, *Student Loans Seventh Report of Session 2017-19*, February 2018 and House of Lords Economic Affairs Committee, *Treating Students Fairly: The Economics of Post-School Education Second Report of Session 2017-19*, June 2018.

- The ONS had not yet said how it would reflect **the sale of student loans** at a discount in the public finances, so we could not anticipate the impact. In the event, it has decided to record a capital transfer equal to the difference between the sale proceeds and the value at which the loans sold were recorded in public sector net financial liabilities (which reflects only the portion of outlays and accrued interest treated as a conventional loan asset). The £1.9 billion proceeds from loans sold in December 2018 were associated with a £1.5 billion capital transfer.
- We modelled the effect of the new accounting treatment on English loans, then grossed them up to reflect those issued in the **rest of the UK**. The ONS estimates suggest we underestimated the borrowing effect of non-English outlays by £0.4 billion.

1.10 Table 1.1 shows how we have restated our March forecasts to reflect the new accounting treatment. These figures have been revised from those annexed in our March *EFO*:

- **Capital transfers recorded at the point of loan outlays:** we have restated this forecast using the same model that underpinned our March forecast and the analysis in Annex B, but updated to reflect the ONS outturn estimates for 2018-19. The spending associated with new loan outlays rises steadily over the forecast period in line with the rise in overall loan outlays. The proportion of outlays treated as spending declines gently over the period because earnings are forecast to grow faster than the average size of loan balances, which implies that each future cohort of students is expected to repay a slightly higher proportion of their loan balances than the previous one.
- **Capital transfers recorded at the point of loan sales:** our March forecast incorporated the Government's plan to raise £15 billion of proceeds from student loan sales up to 2022-23, of which £3.6 billion had already been raised via sales completed in December 2017 and December 2018. On average over those two sales, capital transfers worth 72 per cent of the sales proceeds were recorded. We have therefore applied that same percentage to the proceeds assumed in future years to restate our March forecast. This adds around £2 billion a year to spending up to 2022-23.
- **Modified interest accrued on student loan balances:** this line is also restated using the model underpinning our March forecast, updated to reflect latest ONS outturns. The 'modified interest' that accrues on the true loan component of outstanding balances is around 45 per cent lower than the interest accrued under the previous approach in each year. This reduces receipts by progressively larger amounts over the forecast period as the stock of outstanding student loan balances continues to rise.
- **Assets recorded in public sector net financial liabilities (PSNFL):** previously all loan outlays and all capitalised interest added to the size of the loan asset that is recorded in PSNFL, while repayments and loan sales reduced it. The ONS now records a smaller loan asset in line with the smaller share of outlays that are recorded as loans and the associated lower modified interest accruing.

Table 1.1: Student loans: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Capital transfers at the point of loan outlays</b>						
March forecast	0.0	0.0	0.0	0.0	0.0	0.0
Restated forecast	8.6	9.3	9.6	9.8	10.1	10.4
<b>Difference</b>	<b>8.6</b>	<b>9.3</b>	<b>9.6</b>	<b>9.8</b>	<b>10.1</b>	<b>10.4</b>
<i>Memo: versus Annex B</i>						
<i>March 2019 EFO Annex B</i>	8.5	9.1	9.4	9.6	9.9	10.2
<i>Difference</i>	0.1	0.2	0.2	0.2	0.2	0.2
<b>Capital transfers at the point of loan sales</b>						
March forecast	0.0	0.0	0.0	0.0	0.0	0.0
Restated forecast	1.5	1.9	2.0	2.1	2.2	0.0
<b>Difference</b>	<b>1.5</b>	<b>1.9</b>	<b>2.0</b>	<b>2.1</b>	<b>2.2</b>	<b>0.0</b>
<b>Interest accrued on loan balances</b>						
March forecast	4.5	4.9	5.4	6.4	7.4	8.4
Restated forecast	2.3	2.7	2.9	3.4	3.9	4.5
<b>Difference</b>	<b>-2.3</b>	<b>-2.2</b>	<b>-2.5</b>	<b>-3.0</b>	<b>-3.5</b>	<b>-4.0</b>
<i>Memo: versus Annex B</i>						
<i>March 2019 EFO Annex B</i>	2.5	2.8	3.2	3.7	4.2	4.8
<i>Difference</i>	-0.2	-0.1	-0.3	-0.2	-0.3	-0.3
<b>Loan assets recorded in PSNFL</b>						
March forecast	112	133	154	176	199	224
Restated forecast	56	63	70	78	85	96
<b>Difference</b>	<b>-56</b>	<b>-69</b>	<b>-83</b>	<b>-98</b>	<b>-114</b>	<b>-128</b>

## Funded public sector pension schemes

1.11 The ONS incorporated funded public sector pension schemes into the public finances data in September. These schemes fall into three categories:

- **Funded schemes with largely public sector members:** these are dominated by the Local Government Pension Scheme, which is a defined benefit scheme covering 14,800 employers, 5.8 million members and with assets of £275 billion. The scheme's net liability is a liability of the public sector, so it has previously added to PSNFL, while an imputed sum has been recorded in public spending each year as a reflection of employer contributions that would be necessary for the schemes not to be in deficit. Under the new treatment, there will be much larger flows recorded as interest paid and received, although these are actuarial concepts rather than cash payments in either direction. The discount rate used on the spending side is stipulated by Eurostat as 5 per cent. The ONS has used the same rate on the receipts side, which means that these actuarial measures do not materially affect the yearly path of borrowing.
- **The Pension Protection Fund (PPF):** this entity takes over the responsibilities of defined benefit schemes largely from insolvent private sector firms. Once sitting with the PPF, the schemes are closed to new contributions, while benefits paid out are reduced. The PPF imposes a levy on the defined benefit pensions industry to ensure its future

liabilities can be met. Despite the PPF having been founded as part of the Pensions Act in 2004, and opening its doors in 2005, this is the first time the ONS has included it in the public finances statistics. The PPF's activities could become a source of volatility in borrowing from year to year since capital transfers are recorded when schemes' net liabilities are taken onto its balance sheet.

- **The National Employment Savings Trust (NEST):** this entity was set up to facilitate auto-enrolment as part of the workplace pension reforms in the Pensions Act 2008. It has grown rapidly in recent years as auto-enrolment has been rolled out. It is a defined contribution scheme, so in essence its members' pension pots equal their accrued pension rights. As such, its inclusion in the public finances statistics raises spending and receipts, but has no material effect on any balances between the two.

1.12 Table 1.2 shows how we have restated our March forecasts to reflect the inclusion of these schemes within the statistical definition of the public sector. They have relatively complicated finances, so with only little time since the September data release to assess the detail, these forecasts have been produced using relatively simple methodologies. In each case we have identified a single line of their finances to drive the forecast and have then used historical ratios between that line and other elements of their finances to complete the picture. We will look to refine our approach to forecasting these schemes in future publications.

1.13 For the funded schemes, the forecast is driven by an assumption that employer contributions rise in line with average earnings and that employee contributions are a constant share of employer ones. These flows drive the balance sheet, upon which the key rates of return are fixed in the ONS methodology. For the PPF, we assume its finances are driven by the total liabilities of schemes being transferred in. Proportionate relationships then determine assumptions about schemes' assets, the PPF's running costs, the return on assets and the benefits paid out to scheme members, and so on. For NEST, we align contribution assumptions with auto-enrolment assumptions in other parts of our forecast.

1.14 The effect of these schemes on the two balance sheet measures that we forecast differs greatly. The overall net liability of the schemes is already included in PSNFL but the classification change has a small upwards effect due to valuation effects on gilts and capital assets holdings. But despite continuing deficits they reduce PSND. This counterintuitive result stems from the fact that most of the schemes' liabilities are not classed as 'debt liabilities', whereas some of the assets they hold against those liabilities are gilts and are consolidated out of the PSND calculation (as they are now treated as central government liabilities to other parts of the public sector). Cash held by the schemes also decreases PSND.

Table 1.2: Funded pension schemes: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Interest and dividends receipts</b>						
March forecast	0.0	0.0	0.0	0.0	0.0	0.0
Restated forecast	-17.9	-18.6	-19.6	-20.5	-21.6	-22.6
<b>Difference</b>	<b>-17.9</b>	<b>-18.6</b>	<b>-19.6</b>	<b>-20.5</b>	<b>-21.6</b>	<b>-22.6</b>
<b>Interest payments</b>						
March forecast	0.0	0.0	0.0	0.0	0.0	0.0
Restated forecast	18.1	18.9	19.8	20.8	21.9	22.9
<b>Difference</b>	<b>18.1</b>	<b>18.9</b>	<b>19.8</b>	<b>20.8</b>	<b>21.9</b>	<b>22.9</b>
<b>Capital grants</b>						
March forecast	0.0	0.0	0.0	0.0	0.0	0.0
Restated forecast	1.1	0.5	0.5	0.5	0.5	0.5
<b>Difference</b>	<b>1.1</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
<b>Other transactions</b>						
March forecast	0.0	0.0	0.0	0.0	0.0	0.0
Restated forecast	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Difference</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>

## Depreciation

- 1.15 The ONS has overhauled its estimates of the size of capital stock owned by the public sector and the assumptions that it applies when calculating the rate at which it is assumed to depreciate. Among the changes are shorter average life lengths for some asset types and different assumptions about the profile of depreciation over the life of an asset. The overall effect has been to revise estimates of depreciation materially higher. For a given flow of gross investment spending, this reduces the amount that is treated as net investment. It increases current expenditure, which includes depreciation, and increases the public sector gross operating surplus recorded within receipts. The overall effect is to leave net borrowing unchanged, but to raise the current deficit and reduce net investment in equal measure.
- 1.16 While new depreciation estimates were published in September, the detailed capital stocks data that underpin them were only published with the Blue Book on 31 October. We have therefore used a simple trend-based method to restate our March forecast to be consistent with the higher level of depreciation in outturn. We will revisit this for our next full forecast.

Table 1.3: Depreciation: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Central government (adds to spending and receipts<sup>1</sup>)</b>						
March forecast	18.6	19.1	20.0	21.0	22.0	23.0
Restated forecast	28.4	29.3	30.5	31.8	33.2	34.7
<b>Difference</b>	<b>9.8</b>	<b>10.2</b>	<b>10.5</b>	<b>10.9</b>	<b>11.3</b>	<b>11.7</b>
<b>Local government (adds to spending and receipts<sup>2</sup>)</b>						
March forecast	12.4	12.9	13.4	13.8	14.3	14.8
Restated forecast	12.7	13.0	13.5	14.0	14.5	15.0
<b>Difference</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>Public corporations (neutral for spending and receipts<sup>3</sup>)</b>						
March forecast	9.2	9.1	9.2	9.4	9.5	9.6
Restated forecast	7.7	7.5	7.6	7.6	7.7	7.8
<b>Difference</b>	<b>-1.5</b>	<b>-1.6</b>	<b>-1.7</b>	<b>-1.7</b>	<b>-1.8</b>	<b>-1.8</b>
<b>Public sector<sup>4</sup></b>						
March forecast	40.2	41.1	42.6	44.2	45.8	47.5
Restated forecast	48.8	49.8	51.6	53.5	55.5	57.5
<b>Difference</b>	<b>8.5</b>	<b>8.7</b>	<b>9.0</b>	<b>9.3</b>	<b>9.7</b>	<b>10.0</b>

<sup>1</sup> Central government depreciation increases public sector current receipts (PSCR) by increasing gross operating surplus, and increases total managed expenditure (TME). Therefore, this has no impact on public sector net borrowing (PSNB).

<sup>2</sup> Local government depreciation increases PSCR by increasing gross operating surplus, and increases TME. Therefore, this has no impact on PSNB.

<sup>3</sup> Unlike central and local government, public corporations' depreciation does not increase PSCR or TME. Like the other subsectors, this has no impact on PSNB.

<sup>4</sup> The public sector figure is the total impact on the depreciation series, which is neutral for PSNB. The total impact on PSCR and TME is the sum of the impacts on central government and local government.

## Corporation tax receipts

1.17 Unlike the other items for which we are restating the March forecast, the change to corporation tax receipts is a correction rather than a change in coverage or methodology. This correction reflects two factors:

- First, HMRC and the ONS discovered some **double-counting in respect of directly payable corporation tax credits**, the largest of which is the R&D tax credit. Corporation tax credits are administered via the corporation tax system itself. This presents a challenge when compiling the statistical data, in which both directly payable and reduced liability tax credits are treated as spending, rather than a negative tax. (This also applies to personal tax credits, but these are administered separately from the income tax system.) Work continues to ensure that the administrative data are appropriately feeding into the ONS statistics and further revisions are possible.
- Second, HMRC also corrected its estimate of **the split between companies that pay via the 'Quarterly Instalment Payment' (QIP) system and those that do not**. This does not affect measured cash receipts, but does affect the time-shifting calculations that are used to generate the accrued measures in the National Accounts. We will consider any

further implications from this in our next forecast, such as on our estimate of the impact of moving QIP payment dates forward for the largest corporation tax payers.<sup>4</sup>

1.18 In its September *Public sector finances* release, the ONS revised accrued corporation tax receipts down by £2.6 billion in 2018-19 by correcting the cash data prior to April 2019. HMRC revised its cash receipts data down by £4.0 billion in 2018-19, but by then it had largely fixed the double-counting problem in the monthly data for April 2019 onwards. Unfortunately it was not made clear in the September explanation of the correction that, as a result, the scale of the revision in 2018-19 was dampened. It therefore understated the effect it would have on the deficit in future years. Table 1.4 restates our March accrued receipts forecast to be consistent with the full effect of the correction in 2018-19. This lowers receipts by £4.4 billion in 2018-19 and by amounts rising to almost £5 billion in 2023-24. While this is a correction, rather than a methodological change, the effect is large enough to make like-for-like comparisons with our March forecast difficult without first restating it.

Table 1.4: Onshore corporation tax: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	56.2	56.7	56.8	58.4	61.0	63.5
Restated forecast	51.8	52.5	52.5	54.0	56.4	58.7
<b>Difference</b>	<b>-4.4</b>	<b>-4.2</b>	<b>-4.3</b>	<b>-4.4</b>	<b>-4.6</b>	<b>-4.8</b>

## Lifetime ISA

1.19 The launch of Lifetime ISAs was announced in Budget 2016 and took effect in April 2017. The top-up payments from the Government have been reflected in our forecasts as capital grants, consistent with advice from the Treasury's classification experts at the time of the announcement. But the ONS has now reached its own conclusion on classification and will treat the payments as current grants. Restating our March forecast on this basis moves capital spending to current, so it has no effect on net borrowing but does increase the current budget deficit and reduce net investment in equal measure. The forecast has a rising profile as the amounts saved into Lifetime ISAs are assumed to rise over time. This forecast is subject to considerable uncertainty. We have revised it down materially relative to the original estimate from March 2016 due to unexpectedly low take-up.

<sup>4</sup> See Box 4.2 of our November 2016 *Economic and fiscal outlook* for more information.

Table 1.5: Lifetime ISA: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Other PSCE items in departmental AME</b>						
March forecast	0.0	0.0	0.0	0.0	0.0	0.0
Restated forecast	0.1	0.3	0.4	0.6	0.6	0.6
<b>Difference</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>
<b>Other PSGI items in departmental AME</b>						
March forecast	0.1	0.3	0.4	0.6	0.6	0.6
Restated forecast	0.0	0.0	0.0	0.0	0.0	0.0
<b>Difference</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-0.4</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>

## Environmental levies

- 1.20 Our March forecast included several environmental levies that in the real world add to customers' energy bills. The ONS has decided that some of these schemes, such as the renewables obligation, should be treated as an imputed tax that pays for imputed spending of an equal amount. This treatment derives from the fact that the charges would not exist without the policy that established them, so in statistical terms they are treated as equivalent to a normal tax and spending policy. But the ONS has not reached a classification decision for all the schemes. Two – the warm home discount and feed-in tariffs – were included in the Treasury's March 2010 forecast and in all our forecasts subsequently. We were content to anticipate the ONS classifying them in this way because they were similar to other environmental levies already included in the ONS data – such as the renewables obligation.
- 1.21 In its May 2019 *Looking ahead* article on future classification plans,<sup>5</sup> the ONS indicated that decisions regarding 'rearranged transactions' like these will only be taken over the long term – beyond three years from now. It also noted that "*Guidance in the area of rearranged transactions continues to evolve and elements that can be applied to energy schemes resembling tax and expenditure are still limited.*" Since these schemes are neutral for borrowing, but drive a wedge between our forecast for receipts and spending growth and the ONS outturns that our forecasts are monitored against, we have decided to stop anticipating their future classification in the public finances.
- 1.22 Table 1.6 shows our restated March forecasts excluding the warm home discount and feed-in tariffs. The restatement has an equal effect on receipts and spending. The spending forecast remains higher than the receipts one because of the renewable heat incentive, which is treated as conventional spending in the public finances data.

<sup>5</sup> ONS, *Looking ahead – developments in public sector finance statistics: 2019*, 31 May 2019.

Table 1.6: Environmental levies: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Environmental levies: receipts</b>						
March forecast	9.6	10.1	10.6	11.1	11.6	11.9
Restated forecast	7.8	8.3	8.7	9.2	9.6	9.9
<b>Difference</b>	<b>-1.8</b>	<b>-1.8</b>	<b>-1.9</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.1</b>
<b>Environmental levies: spending</b>						
March forecast	9.9	10.6	11.6	12.3	12.7	13.1
Restated forecast	8.1	8.7	9.7	10.3	10.7	11.0
<b>Difference</b>	<b>-1.8</b>	<b>-1.8</b>	<b>-1.9</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.1</b>

## Restated March 2019 forecasts

1.23 In this section we document the effect of the statistical changes described above on the various fiscal aggregates that we publish in each *EFO*.

### Public sector current receipts

1.24 Measured receipts are between 2.6 and 2.7 per cent higher in each year. In cash terms the restatement increases modestly over time, while as a proportion of receipts it falls gently. The largest of these restatements affect receipts and spending in equal measure or close to that. Only the reduction in accrued student loans interest and the correction to corporation tax receipts feed through significantly to borrowing – and both raise it.

Table 1.7: Public sector current receipts: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	789.0	811.4	844.0	874.0	906.6	941.5
Restated forecast	809.6	833.2	866.7	897.4	930.6	966.3
<b>Difference</b>	<b>20.5</b>	<b>21.8</b>	<b>22.7</b>	<b>23.4</b>	<b>24.0</b>	<b>24.8</b>
<i>of which:</i>						
Funded public sector pension schemes	19.0	19.8	20.7	21.7	22.7	23.8
Depreciation	10.0	10.3	10.7	11.0	11.4	11.9
Student loans (modified interest)	-2.3	-2.2	-2.5	-3.0	-3.5	-4.0
Environmental levies <sup>1</sup>	-1.8	-1.8	-1.9	-2.0	-2.0	-2.1
Corporation tax correction	-4.4	-4.2	-4.3	-4.4	-4.6	-4.8

<sup>1</sup> Feed-in-tariffs and warm home discount.

### Total managed expenditure

1.25 Total public spending is between 4.7 and 4.9 per cent higher in each year. As with receipts, the restatement increases in cash terms but declines in proportionate terms across the forecast period. The various borrowing-neutral changes dominate the overall restatement, but those that significantly feed through to borrowing – the capital transfers associated with student loan outlays and sales – exceed £10 billion in every year.

Table 1.8: Total managed expenditure: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Public sector current expenditure (PSCE)</b>						
March forecast	728.4	752.6	772.1	797.2	824.0	853.7
Restated forecast	755.5	780.8	801.8	828.2	856.5	887.7
<b>Difference</b>	<b>27.1</b>	<b>28.2</b>	<b>29.6</b>	<b>31.1</b>	<b>32.5</b>	<b>34.0</b>
<i>of which:</i>						
Funded public sector pension schemes	18.8	19.5	20.4	21.4	22.5	23.5
Depreciation	10.0	10.3	10.7	11.0	11.4	11.9
Environmental levies <sup>1</sup>	-1.8	-1.8	-1.9	-2.0	-2.0	-2.1
Lifetime ISA	0.1	0.3	0.4	0.6	0.6	0.6
<b>Public sector gross investment (PSGI)</b>						
March forecast	83.5	88.1	93.0	94.5	97.0	101.2
Restated forecast	95.0	100.0	105.2	106.8	109.6	111.9
<b>Difference</b>	<b>11.6</b>	<b>11.9</b>	<b>12.1</b>	<b>12.3</b>	<b>12.6</b>	<b>10.7</b>
<i>of which:</i>						
Funded public sector pension schemes	1.6	0.9	0.9	0.9	0.9	0.9
Student loans (new outlays)	8.6	9.3	9.6	9.8	10.1	10.4
Student loans (asset sales)	1.5	1.9	2.0	2.1	2.2	0.0
Lifetime ISA	-0.1	-0.3	-0.4	-0.6	-0.6	-0.6
<b>Less depreciation</b>						
March forecast	-40.2	-41.1	-42.6	-44.2	-45.8	-47.5
Restated forecast	-48.7	-49.8	-51.6	-53.5	-55.5	-57.5
<b>Difference</b>	<b>-8.4</b>	<b>-8.7</b>	<b>-9.0</b>	<b>-9.3</b>	<b>-9.7</b>	<b>-10.0</b>
<b>Public sector net investment</b>						
March forecast	43.2	47.0	50.5	50.3	51.2	53.8
Restated forecast	46.4	50.2	53.6	53.3	54.1	54.4
<b>Difference</b>	<b>3.2</b>	<b>3.2</b>	<b>3.1</b>	<b>2.9</b>	<b>2.9</b>	<b>0.6</b>
<b>Total managed expenditure</b>						
March forecast	811.8	840.7	865.2	891.7	921.0	954.9
Restated forecast	850.5	880.8	906.9	935.0	966.0	999.6
<b>Difference</b>	<b>38.7</b>	<b>40.1</b>	<b>41.7</b>	<b>43.3</b>	<b>45.0</b>	<b>44.6</b>

<sup>1</sup> Feed-in-tariffs and warm home discount.

## Public sector net borrowing

- 1.26 Our restated borrowing forecast shows the deficit to be materially larger across the forecast period. The restatement is dominated by the new treatment of student loans, which increases spending and lowers receipts. The scale of the restatement is reasonably stable from year to year, so it does little to the profile of borrowing over this period, which still falls steadily in cash terms and somewhat more so relative to GDP.
- 1.27 Our restated forecast shows borrowing rising £6.7 billion (16.4 per cent) in 2019-20. That compares with a £5.9 billion (17.7 per cent) rise in the first half of 2019-20, once the £1.3 billion correction to local authority spending is factored in. So the combination of this full restatement of our March forecast and the most recent ONS data correction removes most of the difference between our forecast and a simple extrapolation of the year to date.

Table 1.9: Public sector net borrowing: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	22.8	29.3	21.2	17.6	14.4	13.5
Restated forecast	41.0	47.6	40.2	37.6	35.4	33.3
<b>Difference</b>	<b>18.1</b>	<b>18.3</b>	<b>19.1</b>	<b>20.0</b>	<b>21.0</b>	<b>19.9</b>
<i>of which:</i>						
Student loans (new outlays and modified interest receipts)	10.9	11.5	12.1	12.8	13.6	14.4
Student loans (asset sales)	1.5	1.9	2.0	2.1	2.2	0.0
Corporation tax correction	4.4	4.2	4.3	4.4	4.6	4.8
Funded public sector pension schemes	1.3	0.7	0.7	0.7	0.7	0.7

## Cyclically adjusted net borrowing

- 1.28 We calculate cyclically adjusted net borrowing by applying estimated ‘cyclical adjustment coefficients’ to our forecast of the output gap. As neither of these are affected by the restatement, the difference between our original and restated March forecasts for cyclically adjusted net borrowing are identical to those for headline borrowing.
- 1.29 This measure is used in the Government’s current fiscal mandate, which requires the cyclically adjusted budget deficit to lie below 2 per cent of GDP in 2020-21. Our March forecast showed the mandate being met with a margin of £26.6 billion. Our restated March forecast reduces that margin to £7.5 billion, somewhat less than the £13.4 billion of additional departmental spending announced in the Spending Round in September. However, this is not a formal judgement that the fiscal mandate is now on course to be broken. That will need to wait for our next forecast, when – among other things – we will need to take account of the fact that the direct impact of higher departmental spending on borrowing will be partly offset by its indirect impact on economic activity and tax receipts. Higher departmental spending on staff would also boost contributions to public service pension schemes, reducing the net cost of them in annually managed expenditure.

Table 1.10: Cyclically adjusted net borrowing: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	24.9	28.7	18.9	15.9	13.9	13.4
Restated forecast	43.0	47.0	37.9	35.8	34.9	33.3
<b>Difference</b>	<b>18.1</b>	<b>18.3</b>	<b>19.1</b>	<b>20.0</b>	<b>21.0</b>	<b>19.9</b>
<i>of which:</i>						
Student loans (new outlays and modified interest receipts)	10.9	11.5	12.1	12.8	13.6	14.4
Student loans (asset sales)	1.5	1.9	2.0	2.1	2.2	0.0
Corporation tax correction	4.4	4.2	4.3	4.4	4.6	4.8
Funded public sector pension schemes	1.3	0.7	0.7	0.7	0.7	0.7

## Current budget deficit

1.30 Our restated current budget forecast shows a significantly smaller surplus in all years. The restatement is dominated by the higher depreciation forecast, with smaller but material effects from lower corporation tax receipts and lower accrued interest on student loans.

Table 1.11: Current budget deficit: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	-20.4	-17.7	-29.3	-32.7	-36.8	-40.3
Restated forecast	-5.4	-2.5	-13.3	-15.7	-18.6	-21.1
<b>Difference</b>	<b>15.0</b>	<b>15.1</b>	<b>16.0</b>	<b>17.0</b>	<b>18.1</b>	<b>19.2</b>
<i>of which:</i>						
Funded public sector pension schemes	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2
Depreciation	8.4	8.7	9.0	9.3	9.7	10.0
Student loans (modified interest)	2.3	2.2	2.5	3.0	3.5	4.0
Lifetime ISA	0.1	0.3	0.4	0.6	0.6	0.6
Corporation tax correction	4.4	4.2	4.3	4.4	4.6	4.8

## Public sector net investment (PSNI)

1.31 The largest effects on public sector net investment relate to student loans, which boost it via the capital transfers recognising future write-offs, and depreciation, which reduce it. Smaller changes relate to the capital transfers and conventional capital spending of pension funds, and the switch of Lifetime ISA top-up payments from capital to current grants. The net effect of these largely offsetting changes is to raise PSNI by around £2½ to £3¼ billion a year until 2022-23. The difference then drops as no student loan sales are planned in 2023-24.

Table 1.12: Public sector net investment: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	43.2	47.0	50.5	50.3	51.2	53.8
Restated forecast	46.4	50.2	53.6	53.3	54.1	54.4
<b>Difference</b>	<b>3.2</b>	<b>3.2</b>	<b>3.1</b>	<b>2.9</b>	<b>2.9</b>	<b>0.6</b>
<i>of which:</i>						
Funded public sector pension schemes	1.6	0.9	0.9	0.9	0.9	0.9
Depreciation	-8.4	-8.7	-9.0	-9.3	-9.7	-10.0
Student loans (new outlays)	8.6	9.3	9.6	9.8	10.1	10.4
Student loans (asset sales)	1.5	1.9	2.0	2.1	2.2	0.0
Lifetime ISA	-0.1	-0.3	-0.4	-0.6	-0.6	-0.6

## Financial transactions

1.32 As most of the restatements relate to the accruals treatment of different receipts and spending, they are associated with financial transactions of the opposite sign that reconcile accrued and cash borrowing. The largest of these relate to student loans, where the new capital transfers and the lower accrued interest receipts bring the accrued flows more closely in line with the cash flows, reducing the gap between their PSNB and PSNCR treatment.

Table 1.13: Financial transactions: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	5.8	0.3	-25.4	-51.5	26.0	21.3
Restated forecast	-9.3	-15.0	-41.4	-68.3	8.3	4.9
<b>Difference</b>	<b>-15.1</b>	<b>-15.2</b>	<b>-16.0</b>	<b>-16.9</b>	<b>-17.8</b>	<b>-16.5</b>
of which:						
Funded public sector pension schemes	-2.7	-1.8	-1.9	-2.0	-2.1	-2.1
Student loans	-12.4	-13.4	-14.1	-14.9	-15.7	-14.4

## Central government net cash requirement (CGNCR)

1.33 Most of the restated changes either relate to changes in the accruals treatment of receipts and spending lines and therefore do not affect cash flows or they do not involve central government. The exception is the double-counting of corporation tax receipts, which affects forecasts of both cash and accrued measures of central government borrowing.

Table 1.14: CGNCR: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	34.0	23.7	47.2	41.2	40.7	36.6
Restated forecast	38.5	28.0	51.5	45.6	45.3	41.3
<b>Difference</b>	<b>4.4</b>	<b>4.2</b>	<b>4.3</b>	<b>4.4</b>	<b>4.6</b>	<b>4.8</b>
of which:						
Corporation tax correction	4.4	4.2	4.3	4.4	4.6	4.8

## Public sector net debt (PSND)

1.34 PSND is largely a cash measure, so it has been affected by few of the statistical changes. Our restated March forecast starts lower, thanks largely to the gilts held by funded pension schemes, which now net off within the public sector. It then rises more quickly in cash terms than in our original forecast as the cumulative effect of lower corporation tax receipts builds.

Table 1.15: PSND: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	1803	1838	1828	1796	1838	1878
Restated forecast	1779	1817	1810	1781	1827	1870
<b>Difference</b>	<b>-24.2</b>	<b>-21.2</b>	<b>-18.1</b>	<b>-15.0</b>	<b>-11.8</b>	<b>-8.4</b>
<i>of which:</i>						
Funded public sector pension schemes	-28.6	-29.8	-31.1	-32.4	-33.7	-35.2
Corporation tax correction	4.4	8.6	13.0	17.4	22.0	26.8
<i>Memo: PSND ex BoE restated</i>	<i>1595</i>	<i>1631</i>	<i>1676</i>	<i>1720</i>	<i>1767</i>	<i>1810</i>

## Public sector net financial liabilities (PSNFL)

1.35 The ONS changes have had a larger effect on PSNFL than on PSND. In 2018-19 it is £68 billion higher than we estimated in March based on the data available at the time. The largest contributor to that upward revision is the treatment of student loans, where the ONS valued the loan assets at £56 billion less on the new treatment than the previous one.

1.36 Our restated forecast exceeds our original March forecast by increasing amounts over time, consistent with the cumulative upward revision to public sector net borrowing. Again, the lower value of student loan assets dominates the overall change, with lower corporation tax receipts also contributing materially by the end of the period.

Table 1.16: PSNFL: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March forecast	1447	1473	1489	1498	1510	1519
Restated forecast	1515	1559	1594	1622	1655	1684
<b>Difference</b>	<b>68.1</b>	<b>86.0</b>	<b>104.7</b>	<b>124.3</b>	<b>144.9</b>	<b>164.4</b>
<i>of which:</i>						
Student loans	55.9	69.3	83.3	98.2	113.9	128.3
Funded public sector pension schemes	7.8	8.1	8.4	8.7	9.0	9.4
Corporation tax correction	4.4	8.6	13.0	17.4	22.0	26.8

## Maastricht Treaty fiscal aggregates

1.37 The aggregates defined under the Maastricht treaty – general government net borrowing (GGNB) and general government gross debt (GGGD) are not affected by the funded public sector pension schemes changes (these schemes are public corporations) but are by the other changes to the same degree as the whole public sector aggregates PSNB and PSND.

Table 1.17: GGNB and GGGD: restated March forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>General government net borrowing (GGNB)</b>						
March forecast	25.9	31.6	24.9	25.6	17.3	15.7
Restated forecast	42.7	49.2	43.3	44.9	37.7	34.9
<b>Difference</b>	<b>16.8</b>	<b>17.6</b>	<b>18.4</b>	<b>19.3</b>	<b>20.3</b>	<b>19.2</b>
<i>of which:</i>						
Student loans (new outlays)	10.9	11.5	12.1	12.8	13.6	14.4
Student loans (asset sales)	1.5	1.9	2.0	2.1	2.2	0.0
Corporation tax correction	4.4	4.2	4.3	4.4	4.6	4.8
<b>General government gross debt (GGGD)</b>						
March forecast	1822	1843	1885	1935	1980	2023
Restated forecast	1826	1852	1898	1953	2002	2050
<b>Difference</b>	<b>4.4</b>	<b>8.6</b>	<b>13.0</b>	<b>17.4</b>	<b>22.0</b>	<b>26.8</b>
<i>of which:</i>						
Corporation tax correction	4.4	8.6	13.0	17.4	22.0	26.8