



# IFS Green Budget 2017

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# IFS Green Budget 2017: ICAEW chapters

- Liabilities in the Whole of Government Accounts
  - Accounting deficits include costs not captured by fiscal deficits
  - Total liabilities much greater than just debt
  - Very large pension obligations
  - Growing liabilities for nuclear and clinical negligence
- Debt
  - Public sector net debt expected to be £1.75tn at 31 March 2017
  - £646bn in funding needed over the next five years
  - Strategy last updated in 1995, time for an update?
  - QE has had a big impact on the profile of external debt

# Decisions have consequences

*Financial year 2014/15*

*Fiscal deficit £96bn*

*Public sector net debt £1,549bn*

Income statement	£bn
Revenue	659
Expenditure	(859)
<b>Accounting deficit</b>	<b>(152)</b>

Balance sheet	£bn
Total assets	1,455
<b>Total liabilities</b>	<b>(3,558)</b>
Net liabilities	(2,103)

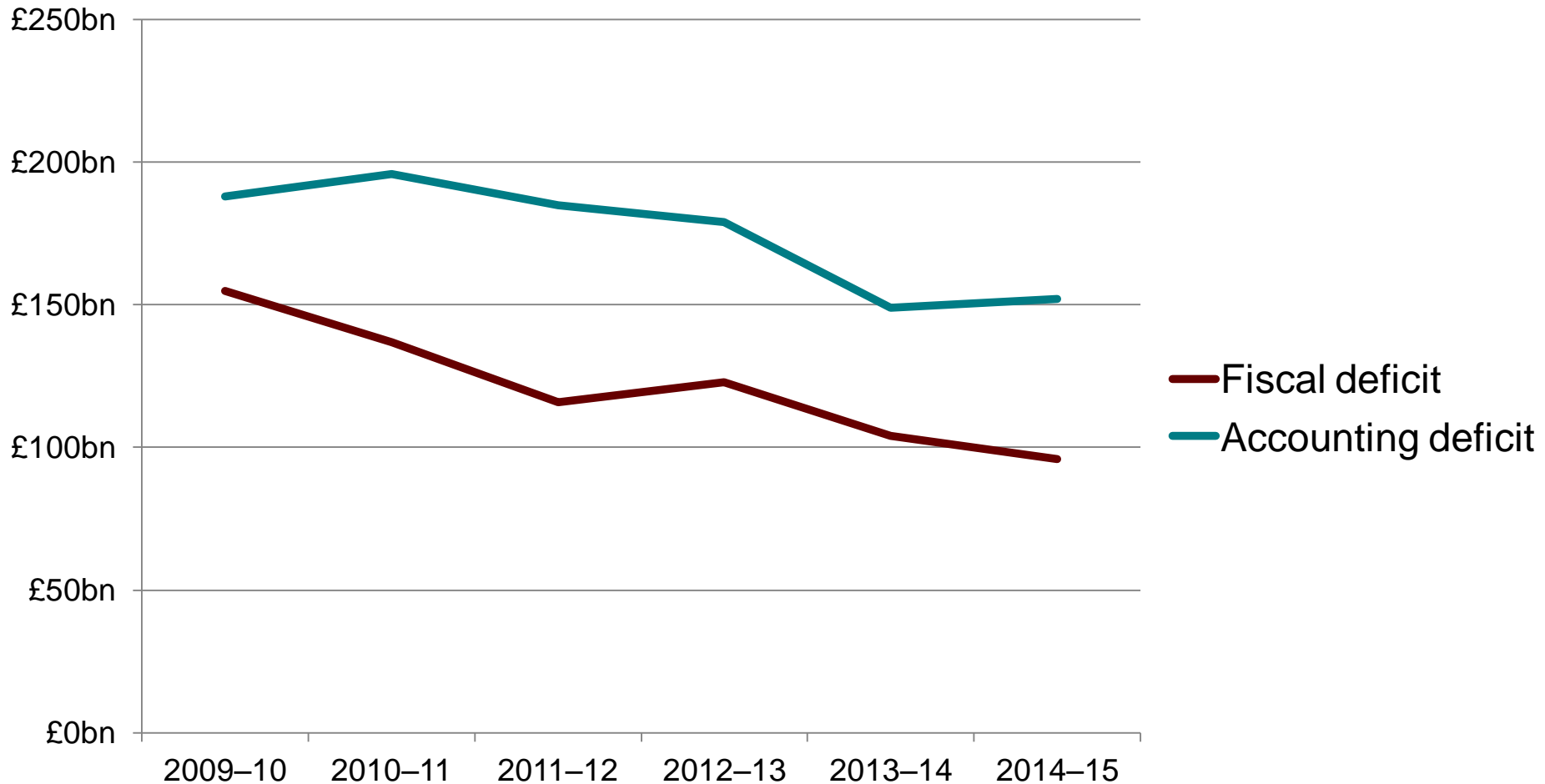
Cash flows	£bn
Operating cash outflow	(11)
Investing cash outflow	(53)
Interest and similar outflows	(27)
<b>Financing cash inflow</b>	<b>91</b>
Change in cash balances	0

Financial position	£bn
Accounting deficit	(152)
Actuarial revaluation	(135)
Asset revaluations	27
Other movements	(2)
<b>Change in financial position</b>	<b>(262)</b>

Source: Whole of Government Accounts

# Accounting deficits are larger

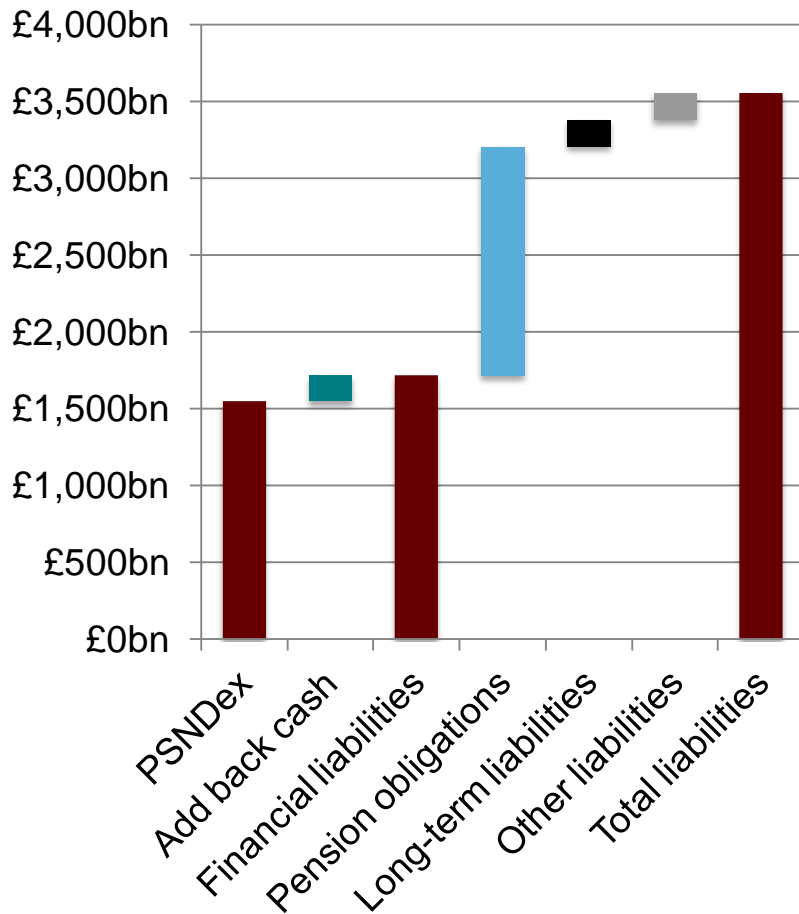
## National Accounts v Whole of Government Accounts



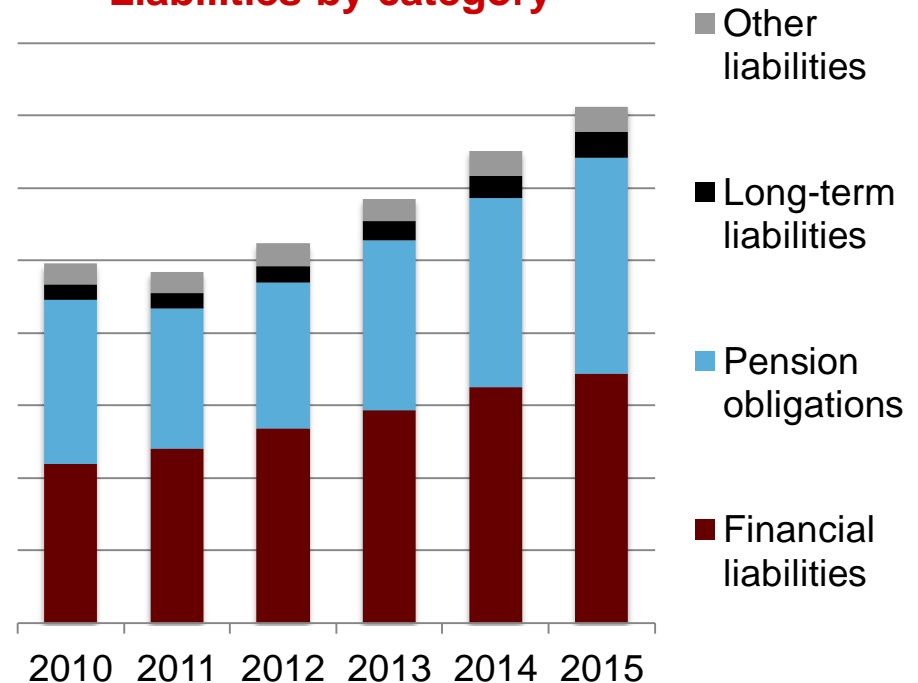
Source: Whole of Government Accounts

# Many more liabilities than just debt

**National Accounts -> WGA**



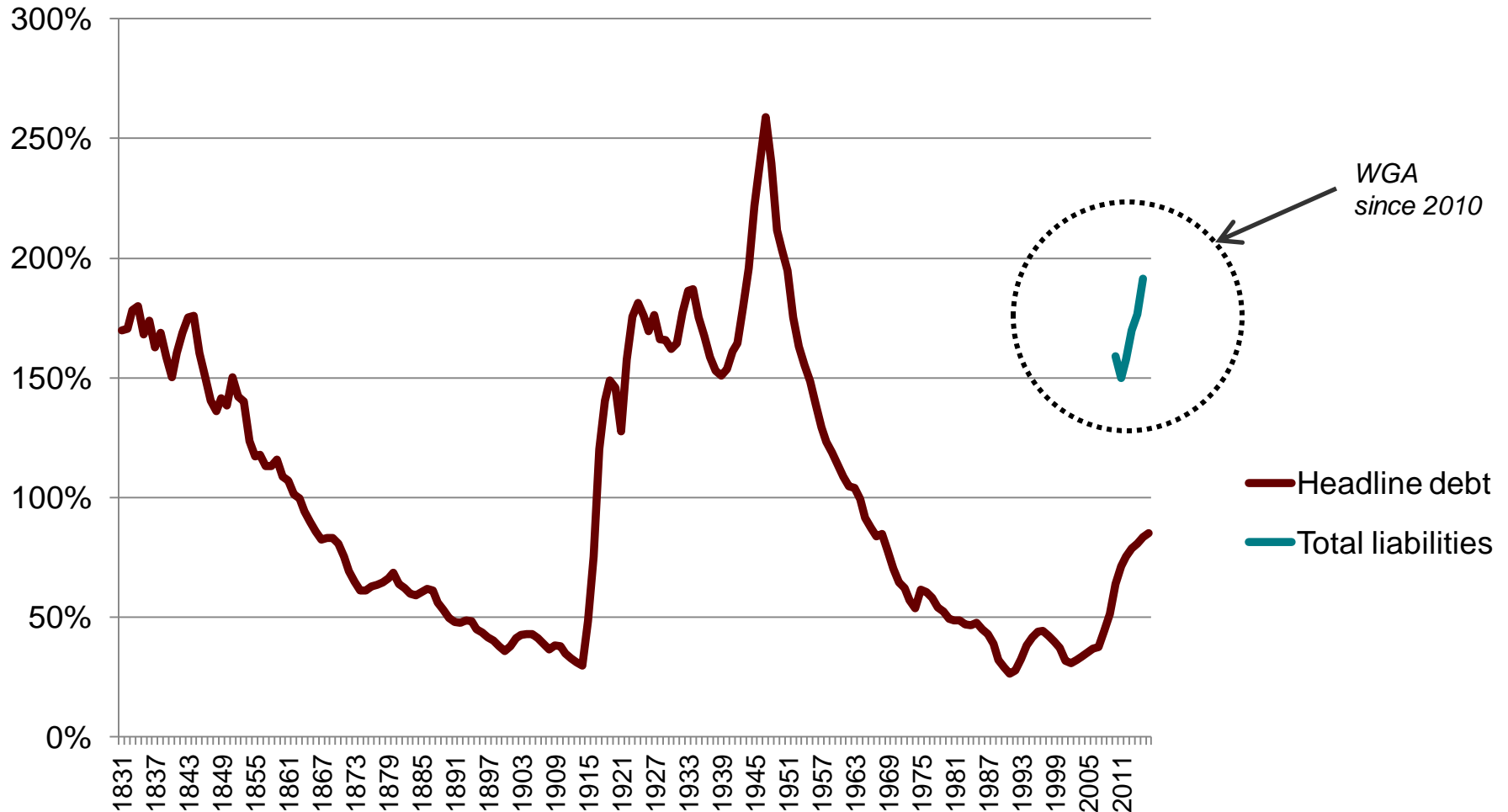
**Liabilities by category**



Source: Whole of Government Accounts

# Total liabilities up to 191% of GDP

## Debt and total liabilities / GDP



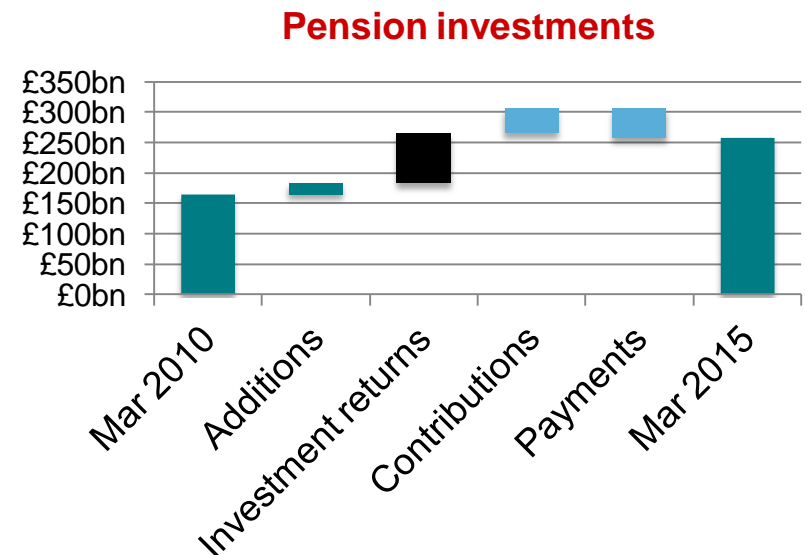
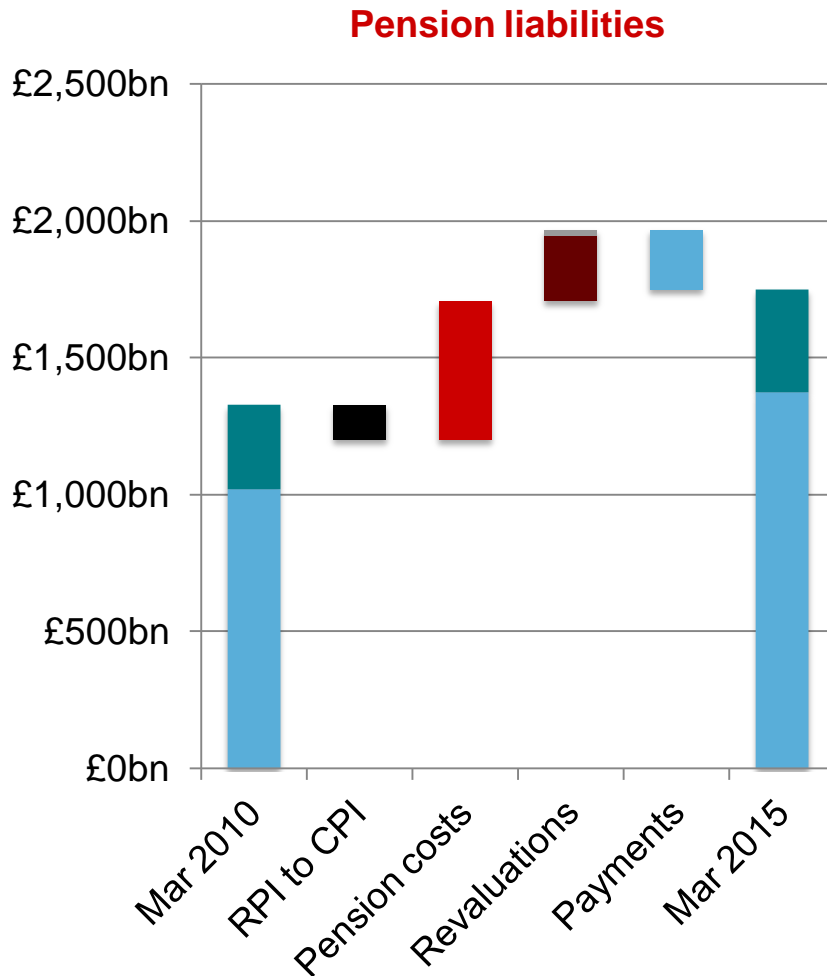
Source: Bank of England; Whole of Government Accounts.

# Pension obligations

*Net pension liability  
up £358bn to £1,493bn  
over five years to March 2015*

*Unfunded pension liabilities  
up £354bn to £1,373bn*

*Net funded pension liabilities  
up £4bn\* to £120bn (net)  
\* thanks to £82bn in investment returns*

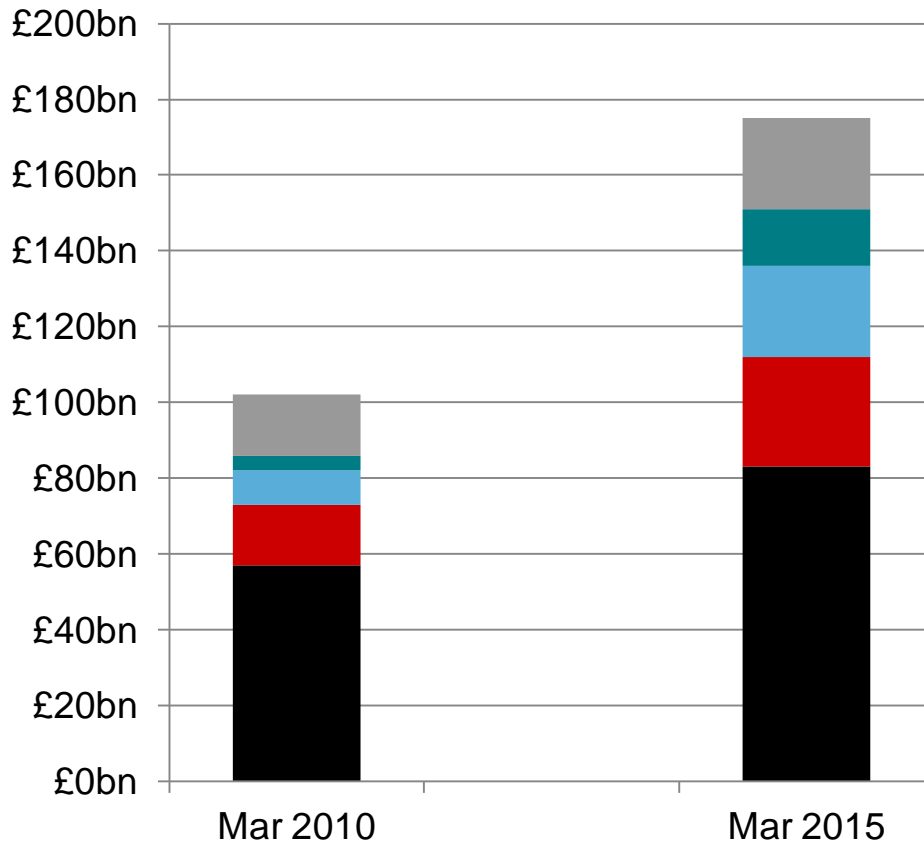


Source: Whole of Government Accounts

# Long-term liabilities

*Small in comparison with debt and pensions, but these are big numbers - and they are growing*

## Provisions for liabilities and charges



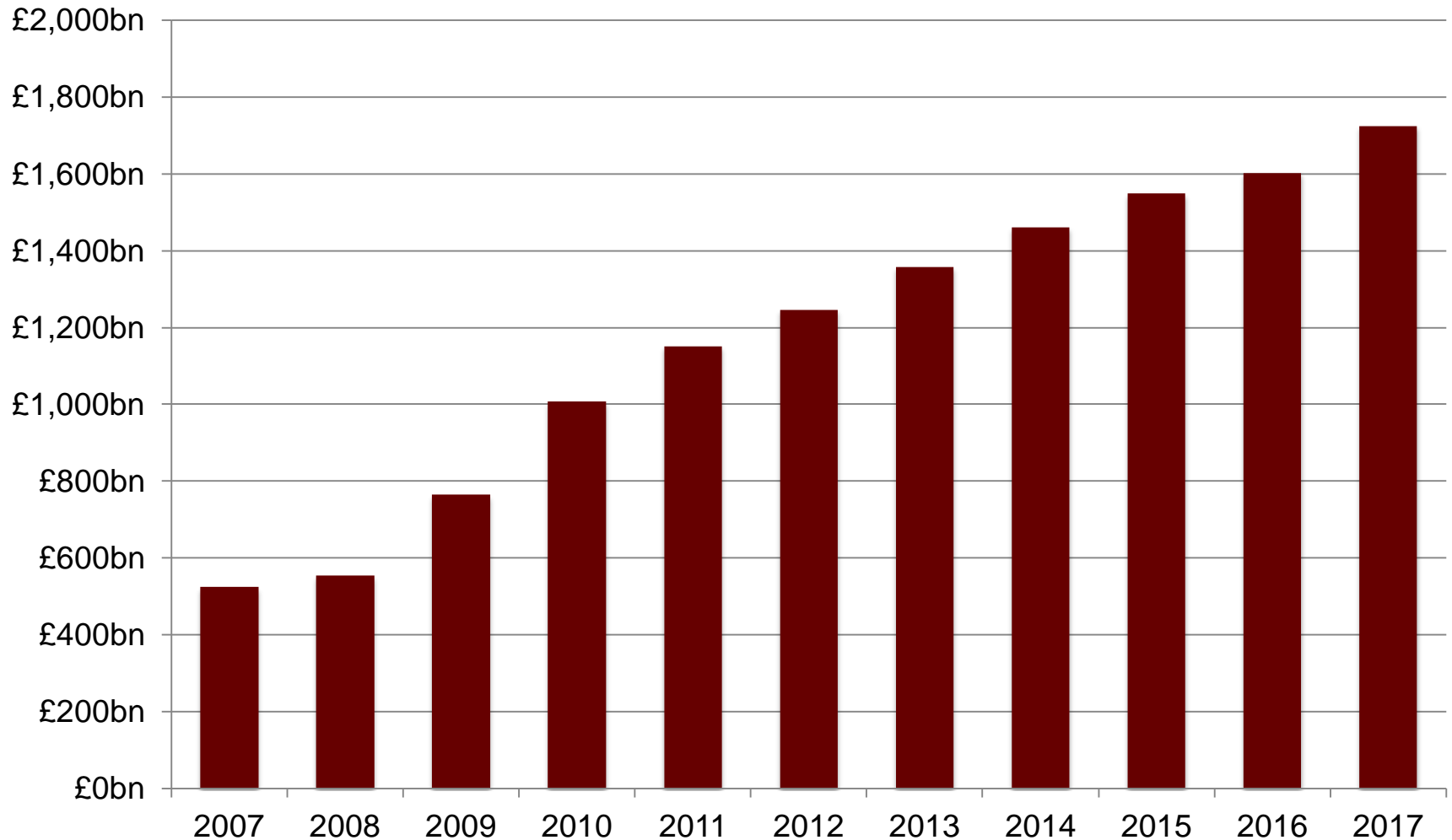
- Litigation and other £24bn
- Tax refund claims £15bn
- Private sector pensions £24bn
- Clinical negligence £29bn
- Nuclear decommissioning £83bn

Source: Whole of Government Accounts



# Debt is increasing

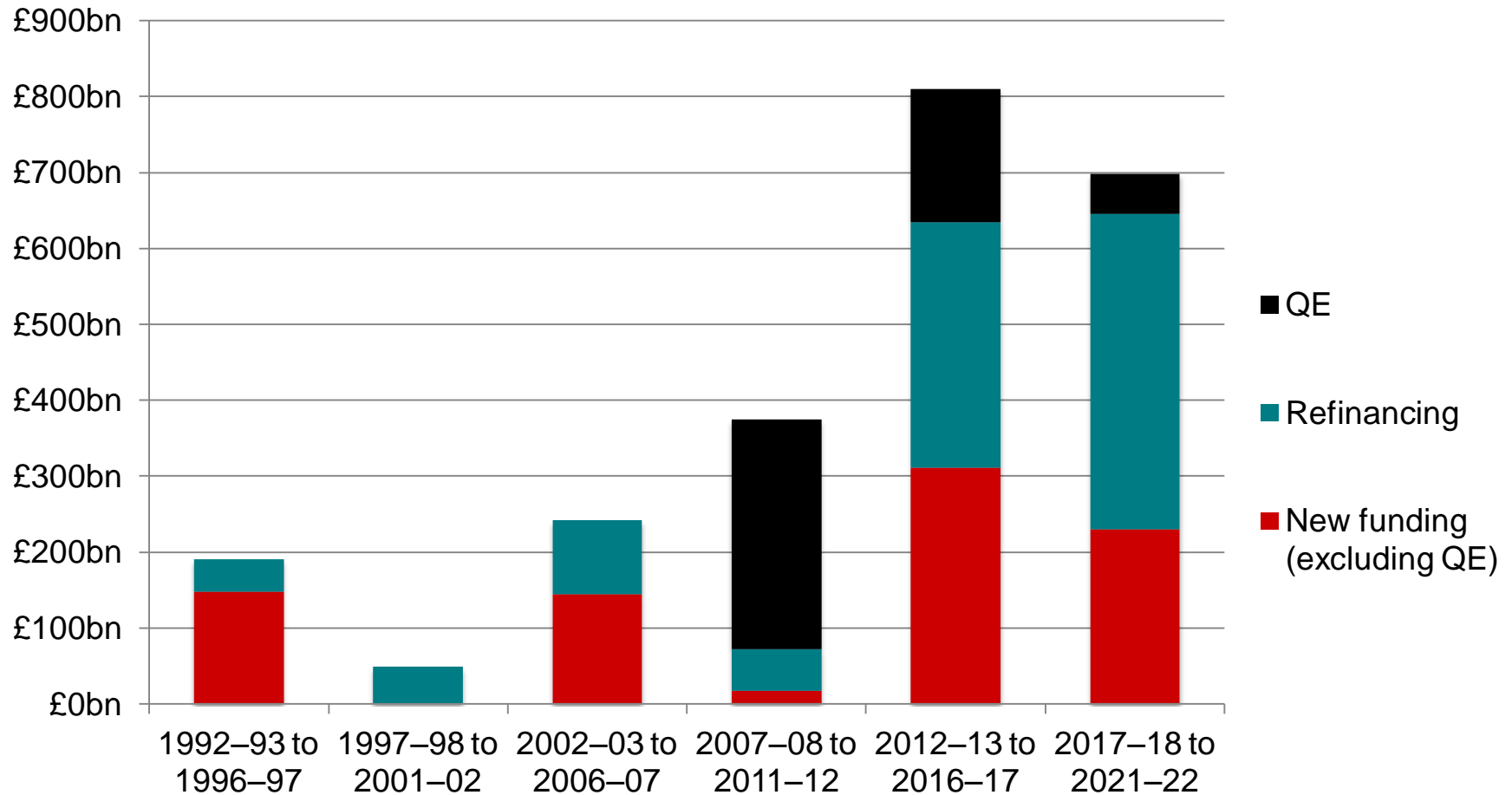
Public sector net debt excluding banks - March 2007 to 2017



Source: Office for Budget Responsibility.

# Deficits down, but need more funding excl QE

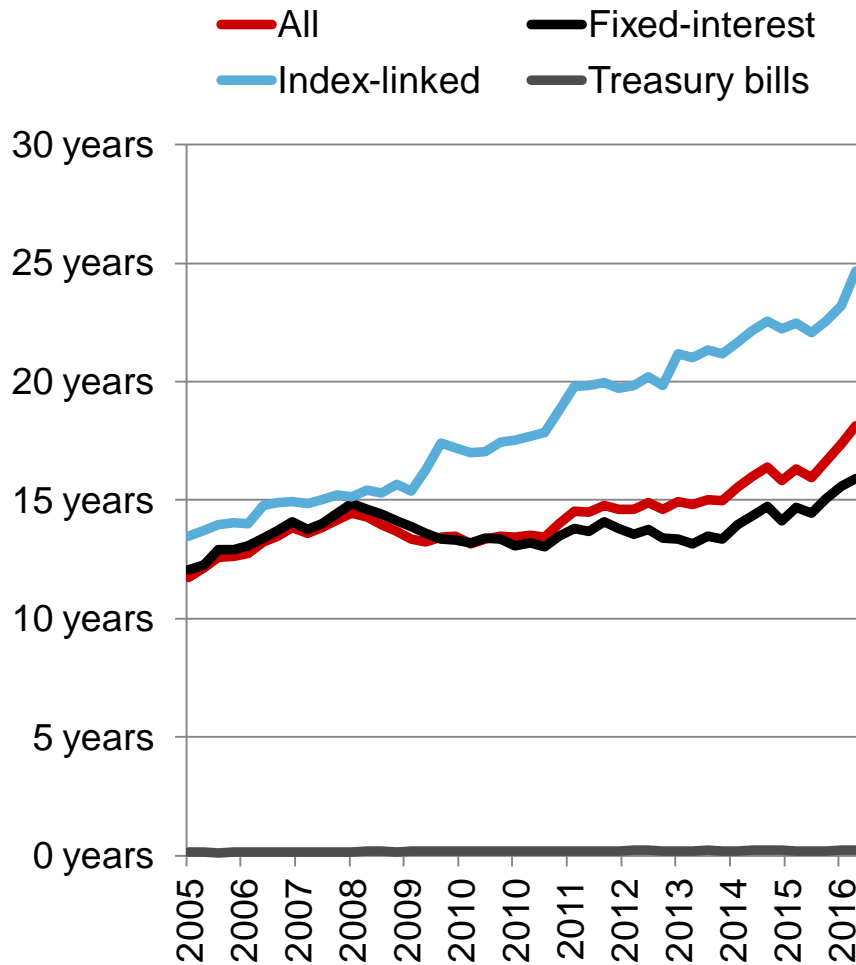
Five year funding requirements 1992-93 to 2021-22



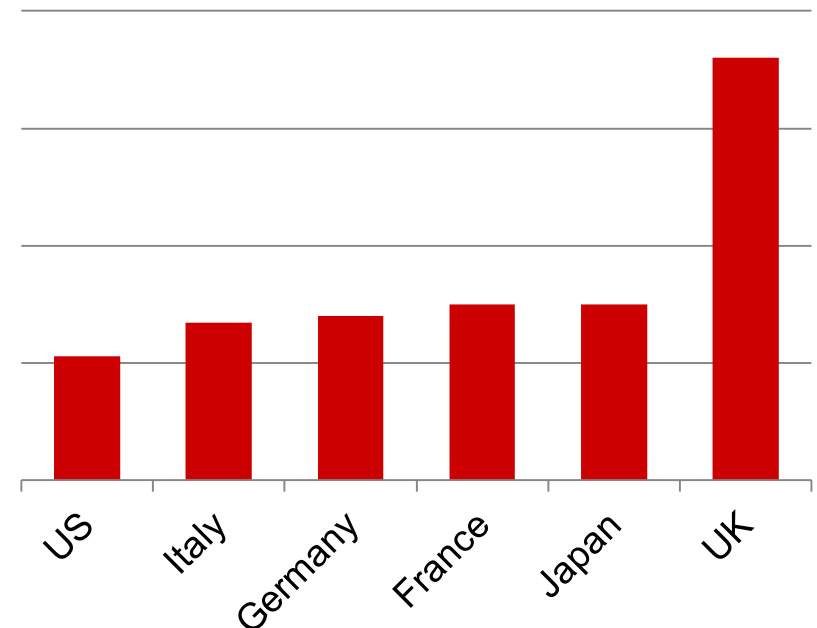
Sources: Debt Management Office; Bank of England

# Longer dated debt

*DMO 1995 strategy to balance interest rate and refinancing risk has led to increasing maturities locking in low nominal or real interest rates*



## Average maturities



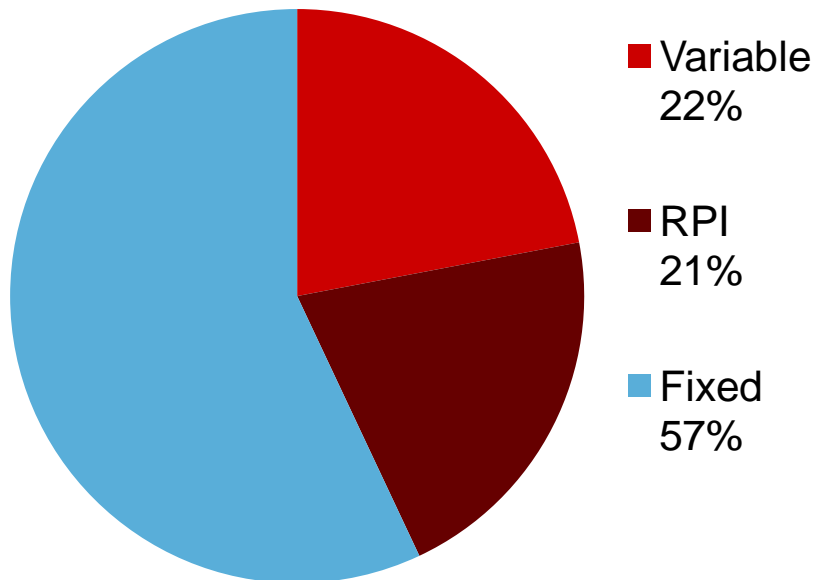
Sources: Debt Management Office and overseas equivalents.

# Interest profile

*QE has exchanged fixed-interest gilts for Bank of England deposits paying bank base rate*

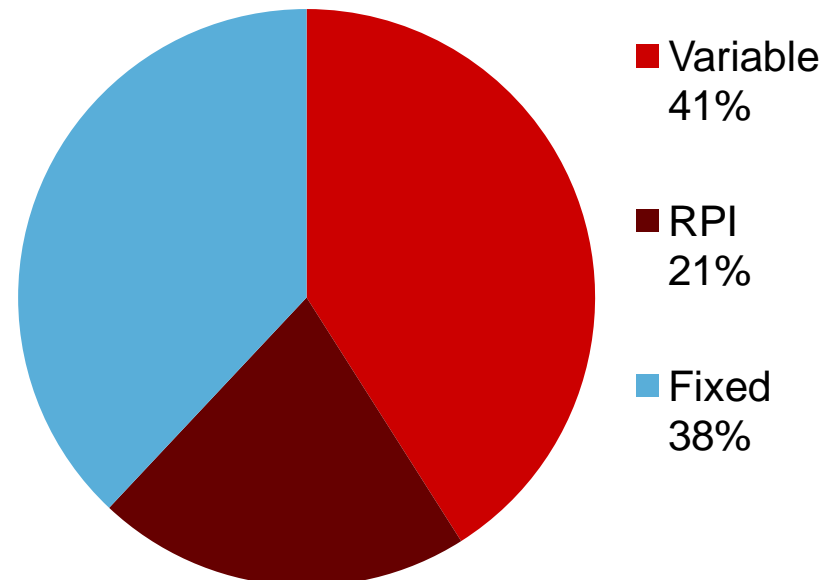
## Interest profile

(DMO perspective)



## Interest profile

(public sector perspective)



Sources: Debt Management Office; ICAEW calculation.

Variable comprises treasury bills, ultra-short (<3 year) fixed-interest gilts, NS&I variable deposits and Bank of England deposits.

# Summary

- Liabilities in the Whole of Government Accounts
  - Decisions have (financial) consequences
  - Liabilities are much larger than just debt
  - Better information and commentary to improve decision-making
  - Speedier production of the WGA needed
- Debt
  - Financing requirements to increase despite lower deficits
  - Treasury management strategy needs updating – to include ‘country level’ stress tests
  - DMO has made good progress in extending maturities
  - But, QE is one big interest rate swap



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