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

<table>
<thead>
<tr>
<th>Income statement</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>659</td>
</tr>
<tr>
<td>Expenditure</td>
<td>(859)</td>
</tr>
<tr>
<td><strong>Accounting deficit</strong></td>
<td>(152)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balance sheet</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>1,455</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>(3,558)</td>
</tr>
<tr>
<td>Net liabilities</td>
<td>(2,103)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash outflow</td>
<td>(11)</td>
</tr>
<tr>
<td>Investing cash outflow</td>
<td>(53)</td>
</tr>
<tr>
<td>Interest and similar outflows</td>
<td>(27)</td>
</tr>
<tr>
<td><strong>Financing cash inflow</strong></td>
<td>91</td>
</tr>
<tr>
<td>Change in cash balances</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial position</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting deficit</td>
<td>(152)</td>
</tr>
<tr>
<td>Actuarial revaluation</td>
<td>(135)</td>
</tr>
<tr>
<td>Asset revaluations</td>
<td>27</td>
</tr>
<tr>
<td>Other movements</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Change in financial position</strong></td>
<td>(262)</td>
</tr>
</tbody>
</table>

### Fiscal deficit £96bn

### Public sector net debt £1,549bn

*Source: Whole of Government Accounts*
Accounting deficits are larger

National Accounts v Whole of Government Accounts

- Fiscal deficit
- Accounting deficit

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

**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

£200bn
£180bn
£160bn
£140bn
£120bn
£100bn
£80bn
£60bn
£40bn
£20bn
£0bn

Mar 2010
Mar 2015

- 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

(DMO perspective)
- Variable: 22%
- RPI: 21%
- Fixed: 57%

(public sector perspective)
- Variable: 41%
- RPI: 21%
- Fixed: 38%

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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