



HM TREASURY

7th Annual OECD Public Sector Accruals
Symposium

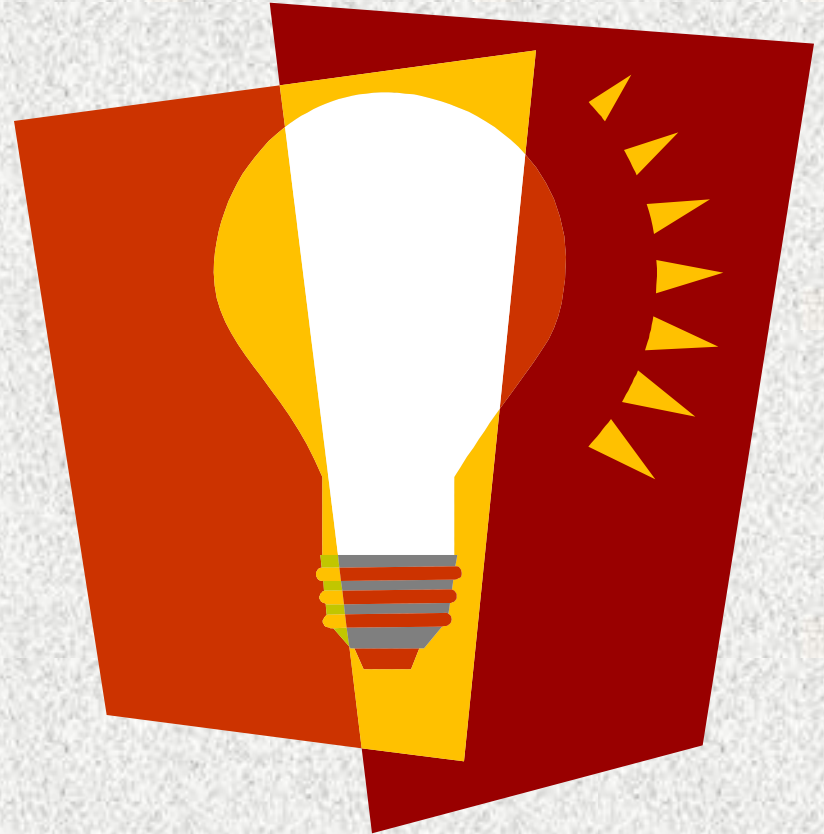
Paris, 5 March 2007

Balance Sheet Analysis – the UK approach

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Outline

- Background
- Balance sheet options
- Results
- Assessment
- UK approach



Background

- Code for Fiscal Stability (1998) committed UK government to:
 - Set out its long-term aims for fiscal policy & debt management
 - Provide at least 10 year (in practice 30 year) illustrative fiscal projections
 - Produce consolidated accruals/GAAP Whole of Government Accounts (WGA)
 - ...amongst other things

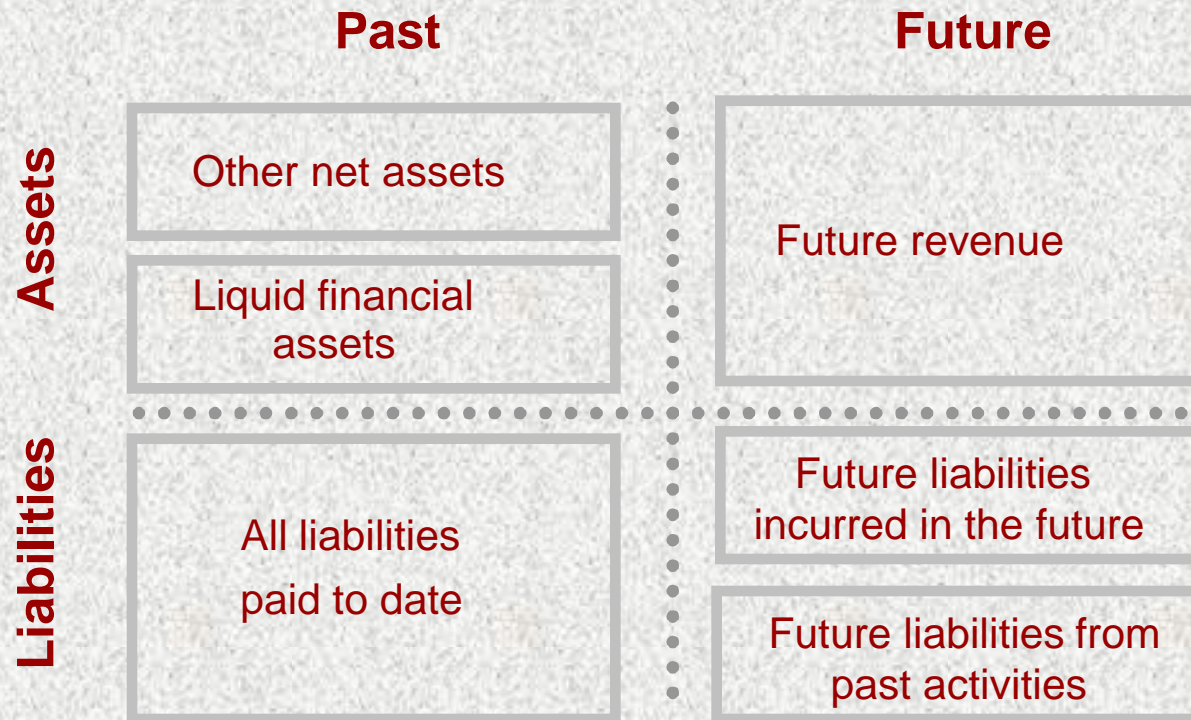


Challenges

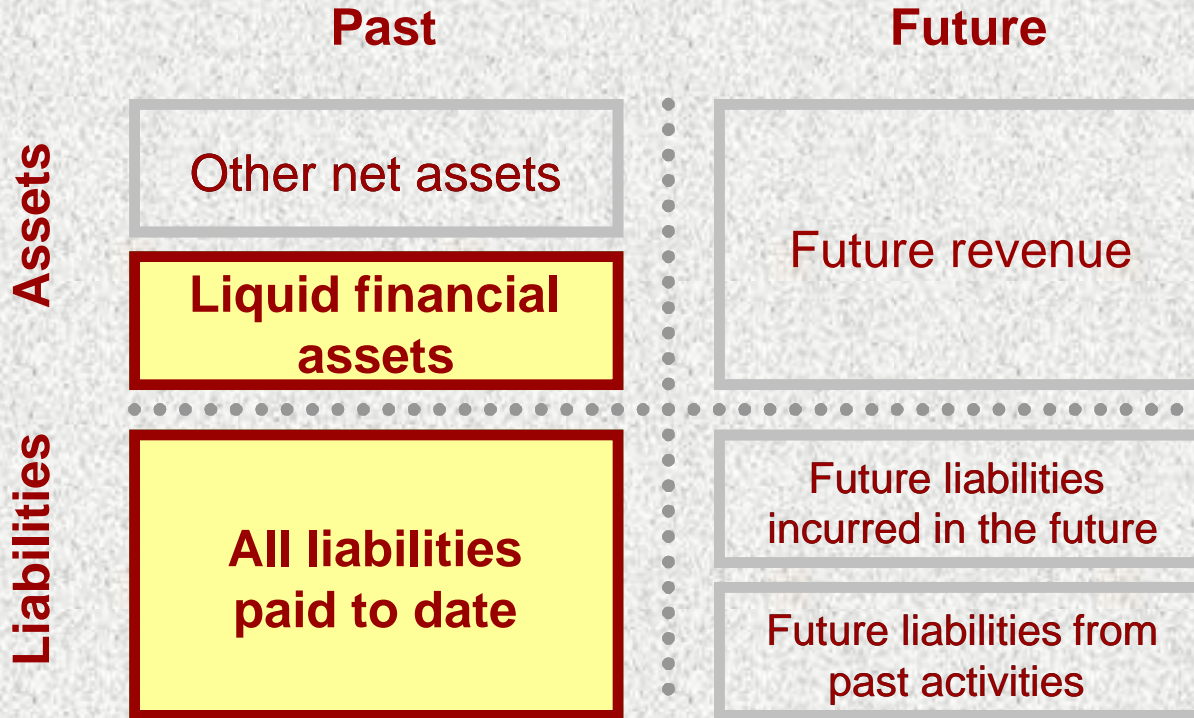
- Practicalities of producing WGA for 1300 diverse bodies
- Understanding three sets of information on government finances
 - National Accounts
 - WGA
 - Long-term projections
- Presentation & explanation of what the different figures are for & what they mean



Government's Financial Position

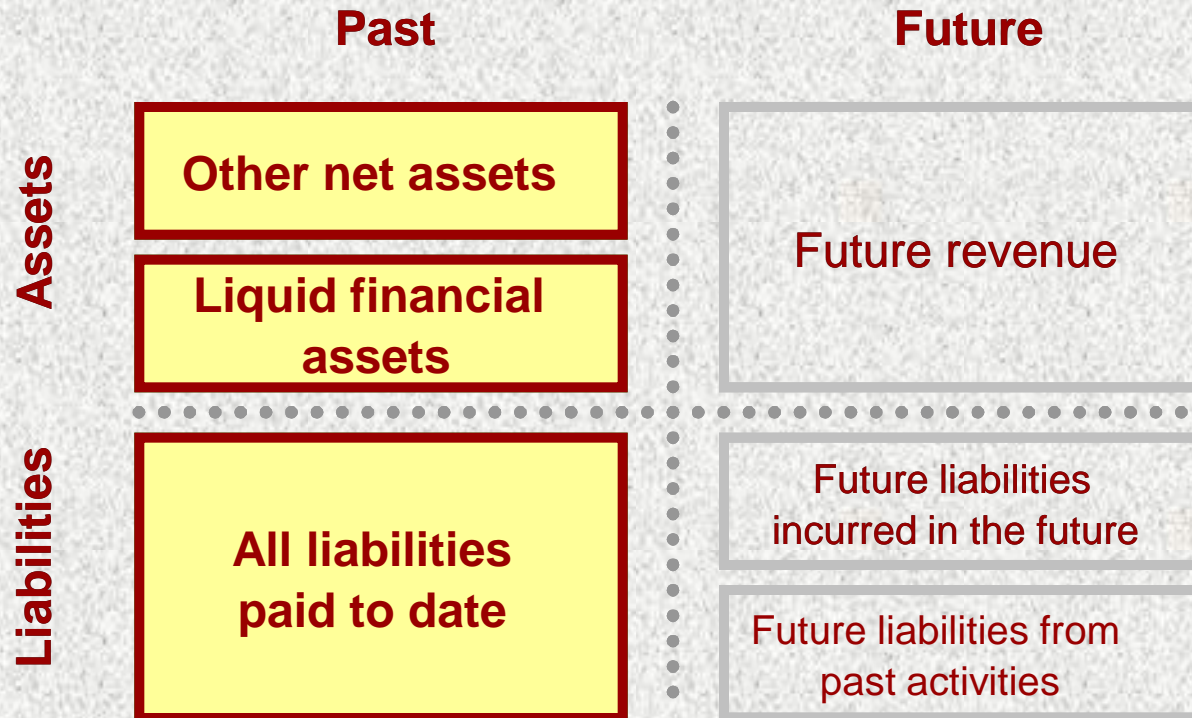


National Accounts: Net Debt



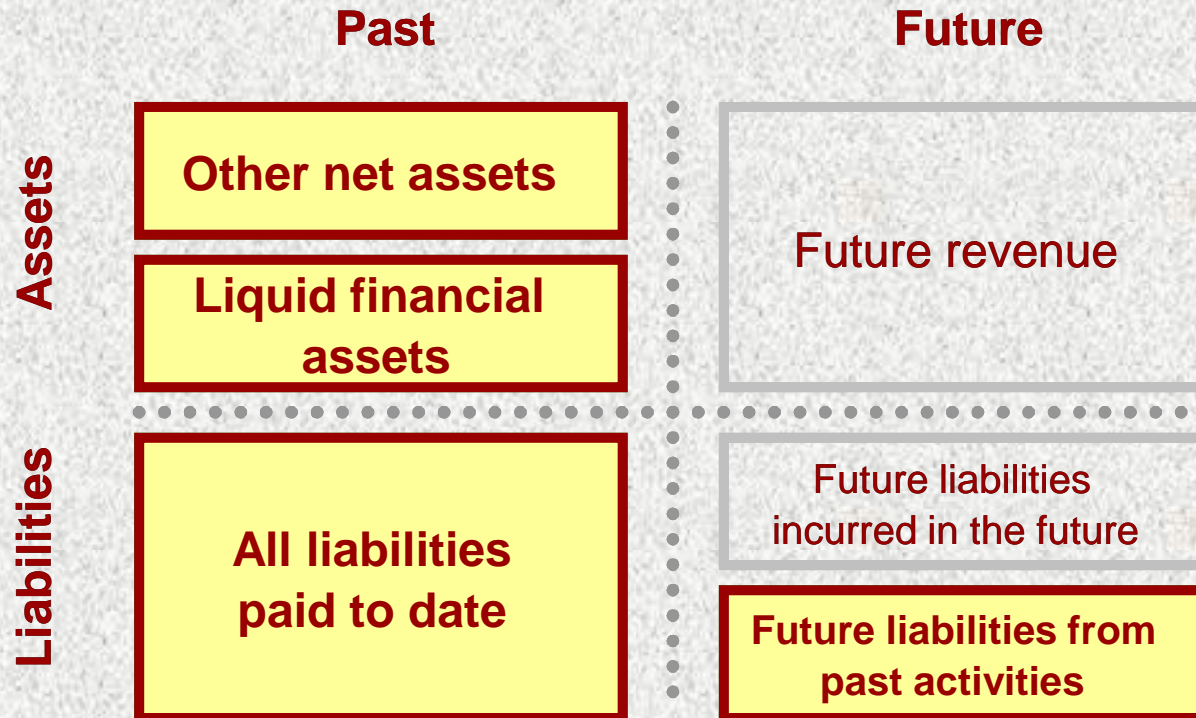
National Accounts Balance Sheet

(“Net Worth”)

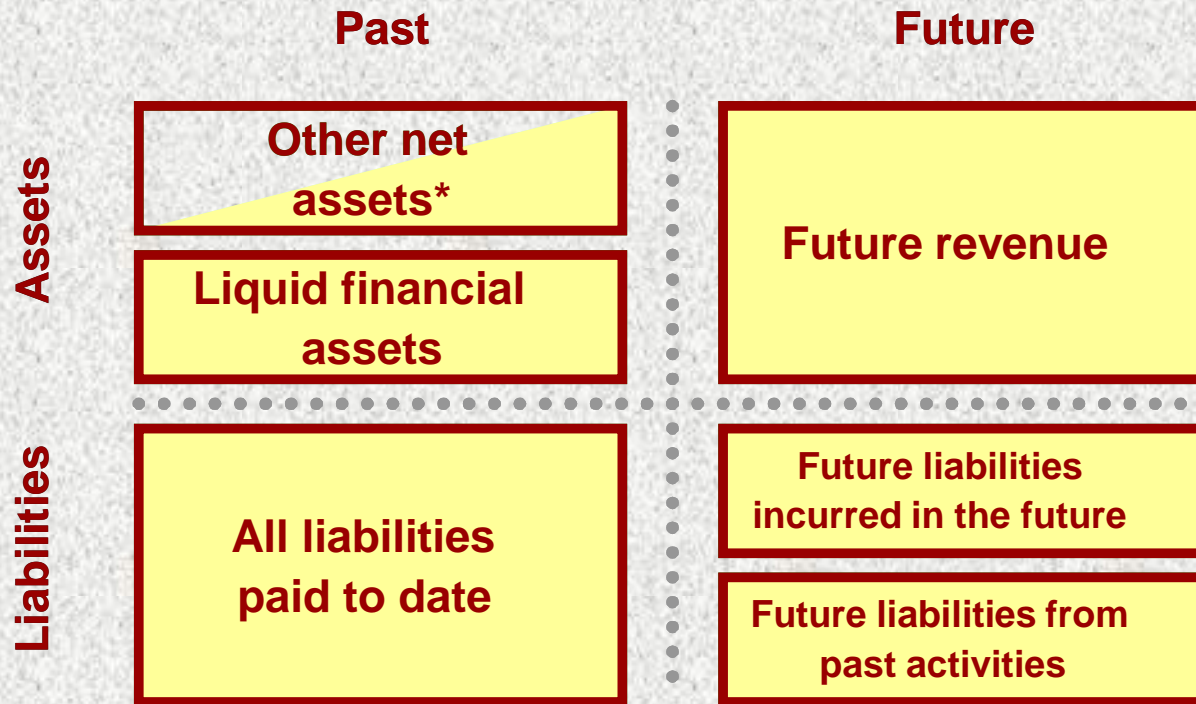


GAAP Balance Sheet

(“Net Liabilities”)



Long-Term Fiscal Projections

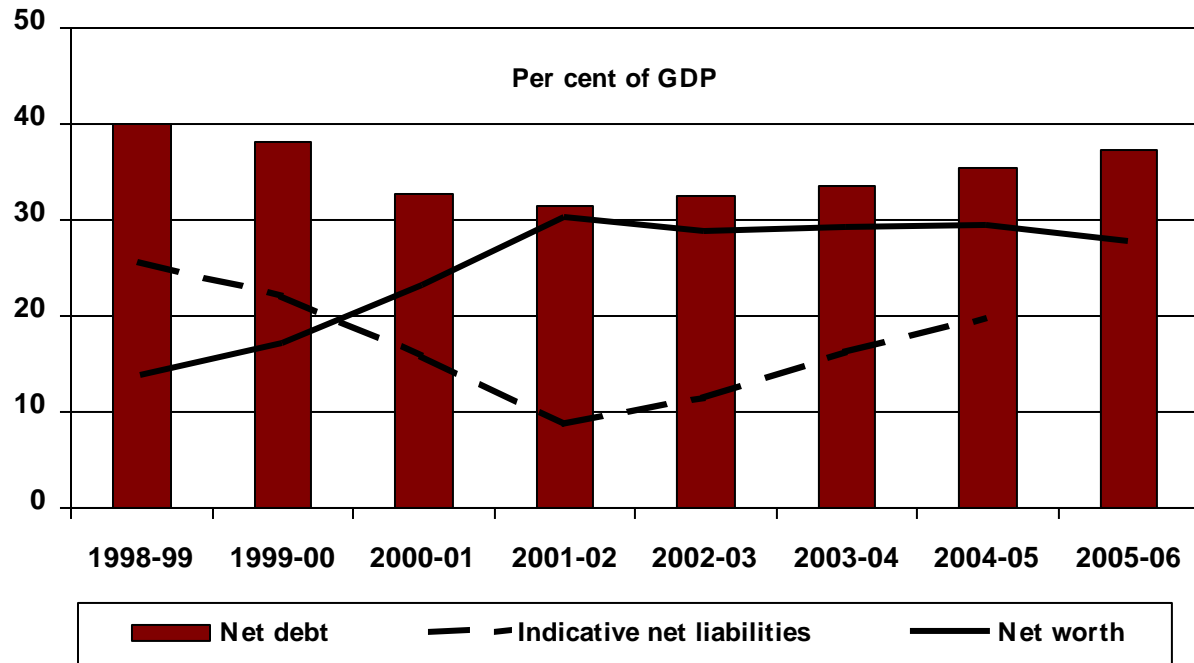


* Seldom includes non-financial assets



Results (1)

Public sector net debt, net worth and indicative net liabilities¹

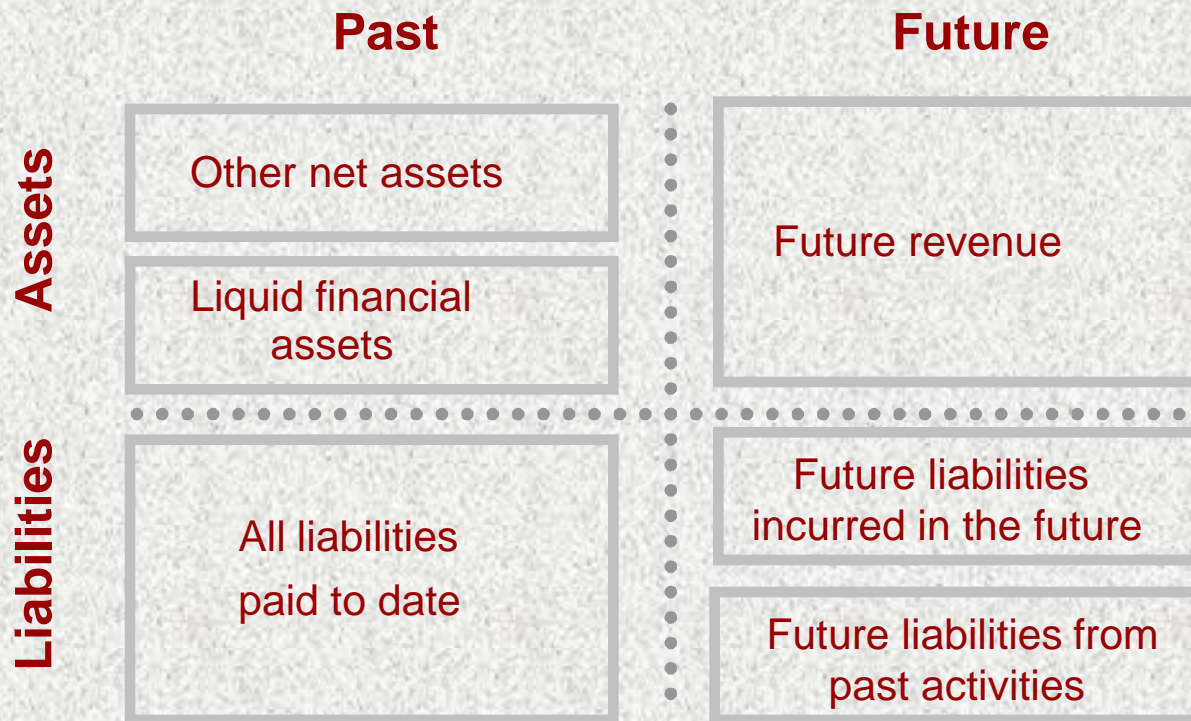


¹ Data for indicative net liabilities are not yet available for 2005-06. The exact figures for the indicative net liabilities are 25.2, 25.7, 22.0, 15.8, 8.8, 11.5, 16.2, and 19.8 per cent of GDP respectively.

Source: HM Treasury.



Results (2)



Results (2)

	Past	Future
Assets	156	7,271
	12	
Liabilities	122	7,586
		146



Results (2a)

Explanation

- Comparison of accruals balance sheet and NPV of future cash flows
- Elements expressed in proportion to accruals net liabilities
- Sources: Dry run WGA & HMT projections (infinite time horizon)

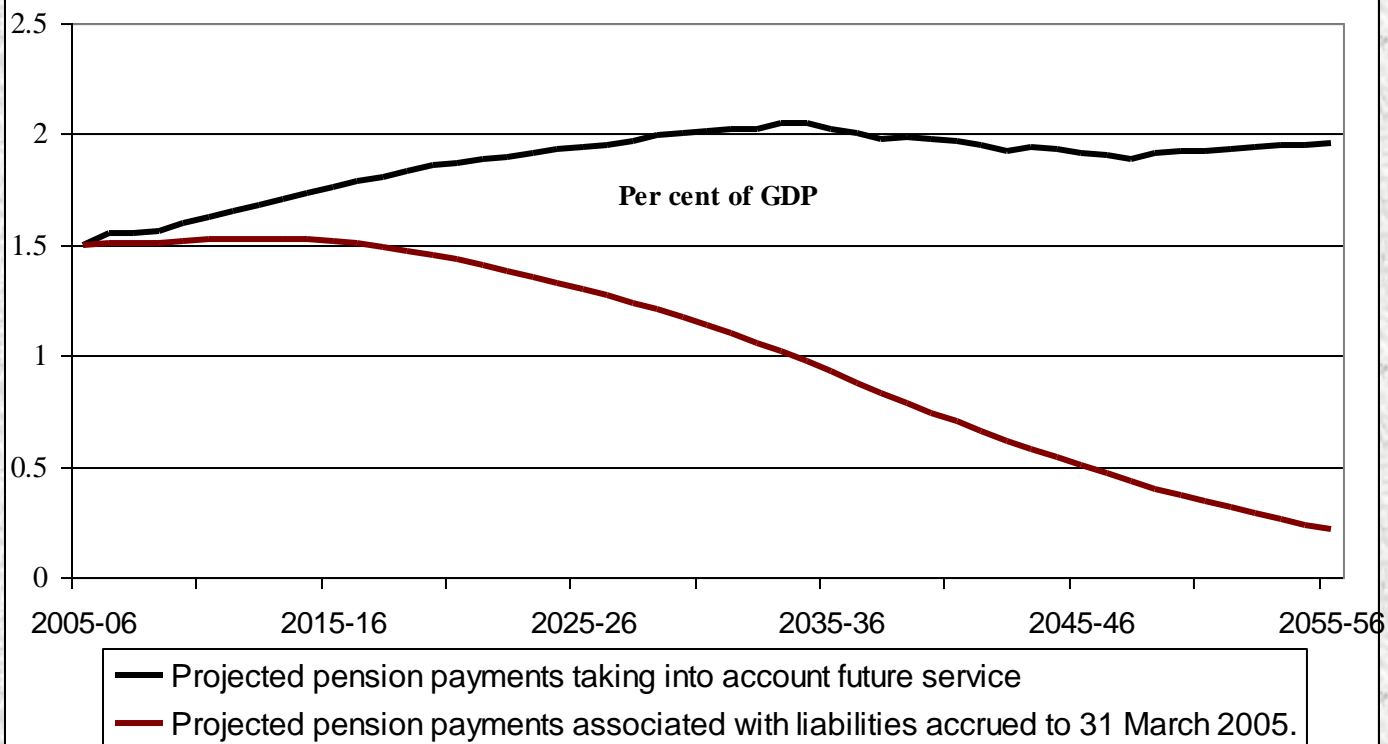
Conclusions

- Accruals balance sheet good for medium term
- Over very long run existing stocks are unimportant in context of future flows
- Difference between future flows consistent with LTPFR conclusions



Present Stocks & Future Flows

Public service pension spending



Source: HM Treasury, based on Government Actuary's Department.



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Strengths & Weaknesses

Net Debt

- ✓ Certainty, ease of calculation, gross debt used for international comparability
- ✗ Backwards looking, not comprehensive

Net Worth

- ✓ More complete, ESA/SNA basis widely comparable
- ✗ Current position not forwards looking, requires estimates of some values



Strengths & Weaknesses (2)

Net Liabilities

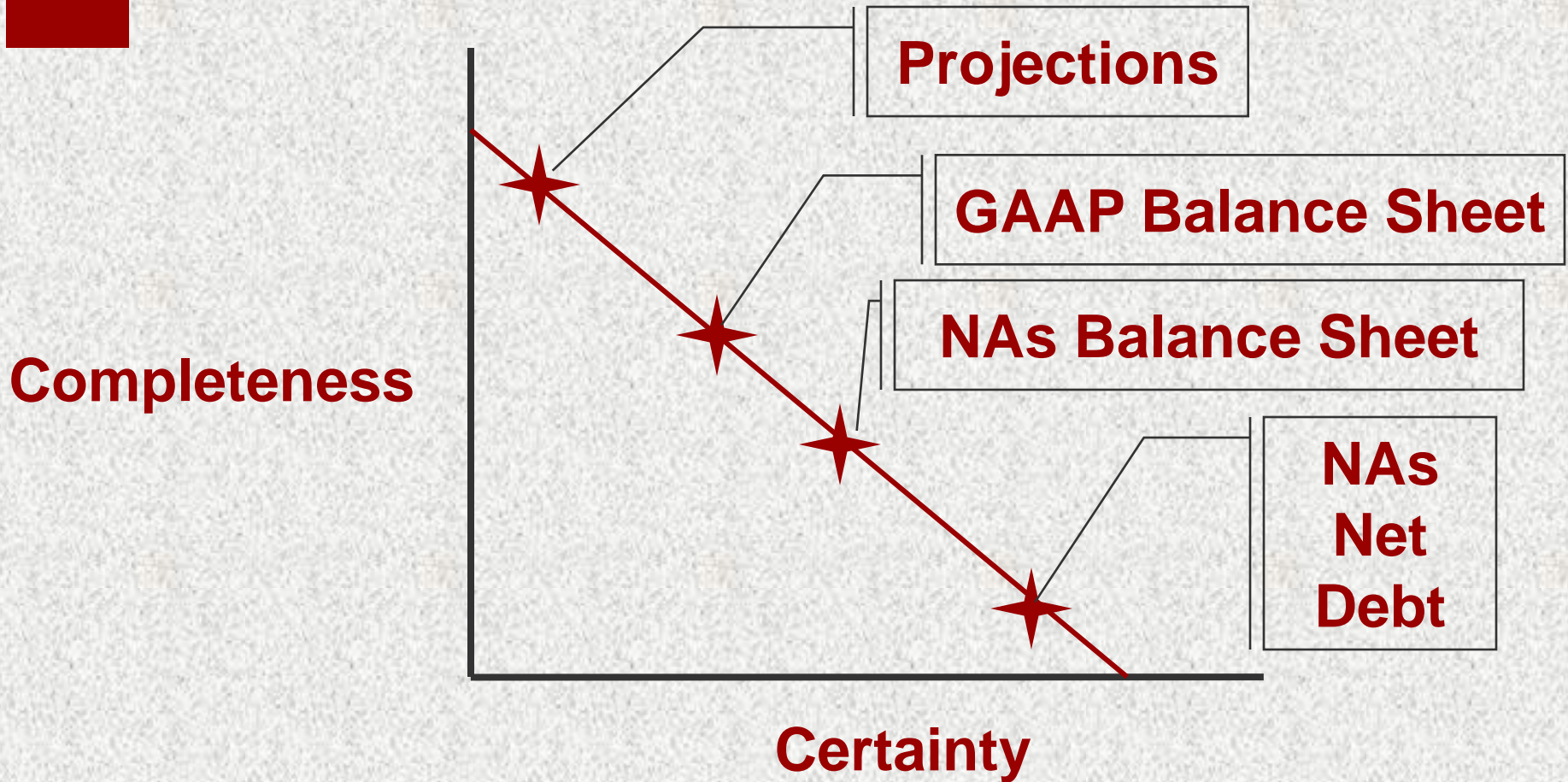
- ✓ More complete, audited, GAAP-basis
- ✗ Current position not forwards looking, requires estimates of some values

Long-term fiscal projections

- ✓ Forwards looking, broadly comprehensive, timing of trends is clear
- ✗ Projections inherently uncertain



Quality trade-off



UK Approach

- Sustainable Investment Rule based on Net Debt
- Sustainability assessed on the basis of long-term fiscal projections
- Underlying data from balance sheets inform projections



Provisions (1)

- WGA provisions data shared with fiscal policy colleagues
- Provisions can be analysed as:
 1. Those where cash flows are already in public spending (“Class 1”)
 2. No existing cash flows (“Class 2”)



Provisions (2)

“Class 1” Provisions

- Fiscal projections should already reflect data underlying provision
- Check projections are consistent

For example:

Public Sector
Pensions

“Class 2” Provisions

- Future cash flows probably omitted from long-term projections
- Include underlying data in long-term projections

For example:

No known examples



Contingent Liabilities

- Not specifically included in long-term projections but...
- Details shared with fiscal policy colleagues
- Most are immaterial or minor in context of long-term projections...
- ...or unquantifiable
- UK also considers “reportable remote contingent liabilities”



Further Information

- Long-term Public Finance Reports 2003-2006
- Delivering the Benefits of Accruals Accounting for the Whole Public Sector (2005)
- Published with Pre-Budget Reports on HMT Website
- Questions

