



**intergenerational
foundation**

Fairness for Future Generations

A response to the government consultation on central government annual reports and accounts

Who we are...

The [Intergenerational Foundation](#) (IF) researches fairness between current and future generations in the UK, in order to protect the interests of younger and future generations, who are at risk of being ignored by current policy-makers.

Our response...

This is a general response to the consultation on the central government annual reports and accounts; it includes a specific response to Question 3 in the consultation document.

IF feels there are a number of problems with the way government accounts have been constructed and published in the past. The main issue has been the question of “hidden liabilities”, whereby the government has significantly underemphasised the scale and importance of, particularly, state and public sector pension liabilities which are “off-balance-sheet.” Further, there are urgent questions about the current discount rate used in estimating pension liabilities, and about the accuracy of current life expectancy estimates, both of which result, IF believes, in a serious underestimation of the true scale of these hidden liabilities. The headline figure for national debt is currently around £1.2 trillion; taking into account the true value of these liabilities, the OBR estimates that HM Government has promised to pay closer to £4 trillion.¹

Passing on such a large financial burden to future taxpayers is intergenerationally unfair in itself, but it is vital that the public be fully informed about the scale of the debt which future generations are going to inherit. In order to protect the interests of future generations, IF recommends that the following changes should be made to the structure and practice of government accounting:

- **A range of discount rates should be used for the projections of pensions and other liabilities** – Given their size, these calculations have a large impact on economic policy, and so should be diligently and carefully carried out. The headline discount rate of 3.5%² per annum is questionable, and estimates for these liabilities need to include a range of discount rates (including some that are lower than 3.5%), as IF believes that this would give a broader and more accurate picture of the government’s true liabilities.

¹ OBR (2013) *Fiscal Sustainability Report 2013* London: OBR

² HM Treasury (2013) *The Green Book* London: HM Treasury

- **A range of life expectancy calculations should be used** – Pension liabilities in particular are projected with a heavy reliance on estimates of average future life expectancy. However, given the scale of the liabilities, even a small difference between life expectancy projections and reality could potentially cause huge funding difficulties. For the sake of contingency planning, therefore, IF urges that the government projections take into account a range of projected average life expectancies.
- **Specific liabilities which are currently not included in government accounts should be included “on-balance-sheet”** – These include public sector and state pensions. For the public interest it is vital that this information should be easily and widely accessible.
- **The auditor should be an independent body and not a governmental department** – As a means of ensuring transparency and accountability: the government should not audit its own accounts.
- **The Office for Budget Responsibility (OBR) should make a statement accompanying the publication of the accounts** – This would give the public a clearer picture as to the sustainability of the government accounts for younger and future generations.
- **National debt should be expressed as a proportion of UK tax revenue in addition to expressing it as a proportion of GDP** – The ability of the nation to pay its debts is more accurately represented by the total tax revenue than by GDP, as tax revenue is not absolutely proportional to GDP, and is a clearer indicator of the state of the nation’s finances.

Conclusion...

In order to help put the interests of future taxpayers at the heart of government accounts in the future, IF would be willing to discuss any of these ideas further with HM Treasury.

For more information about the Intergenerational Foundation and its work, please visit www.if.org.uk or contact Liz Emerson, Co-Founder at liz@intergenerational.org.uk.

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