

Consultation Response: “The Government Balance Sheet”

To: Public Accounts Committee

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:

The Intergenerational Foundation (IF) is pleased to have the opportunity to respond to the Public Accounts Committee’s (PAC) public inquiry into the Government balance sheet. As IF exists to argue in favour of the interests of younger and future generations, we would like to draw your attention to the intergenerational nature of the balance sheet, which is hugely important as most of the government’s assets and liabilities will become the responsibility of future generations.

IF would like to make the following points to the PAC inquiry:

Pensions

- IF is concerned about the size of public sector pension liabilities detailed in the WGA, which the NAO estimates now amount to almost £1.5 trillion, equivalent to 81% of GDP. The unfunded nature of these pension schemes means the bill to pay for them will be passed on to future generations.
- The estimate of £1.5 trillion is hugely sensitive to a range of assumptions relating to economic growth, the size of the public sector workforce, inflation and the discount rate; IF agrees with the NAO that a) the WGA should make more explicit the assumptions which have been used, and b) the Treasury ought to publish sensitivity analyses which show in detail how the value of the liabilities is affected under a range of different assumptions about these variables. This is desirable so that the government can engage in appropriate financial planning for the future.
- The NAO’s report into the WGA also identified a range of other pension liabilities which are not all included on the government’s balance sheet at present, but which the government could become liable to pay at some point in the future under adverse circumstances, for example local authority pension schemes or the BBC pension scheme. IF believes that the WGA should contain modelled scenarios under which all of these liabilities could crystallise, and how much this could potentially cost using a

range of different assumptions.

- IF also echoes the NAO's call that the WGA should contain more background detail about the government's pension liabilities, such as the number of scheme members who are currently contributing towards and making withdrawals from each scheme.
- IF agrees with the NAO that it would be useful if the government could provide a definition of the term "affordability" in relation to its potential future exposure to pensions; i.e. could it determine a level at which it would consider future pension payments to be "unaffordable," either in cash terms or as a percentage of GDP?

Other points:

- IF is also in agreement with the NAO that the WGA contain insufficient detail about the size and nature of the government's other financial commitments; in particular, more effort needs to be put into modelling future scenarios which explore the likelihood of government provisions, contingencies and guarantees crystallising and the potential cost implications which this would have.
- IF is also concerned about the NHS clinical negligence liability, which has grown rapidly over recent years and stood at £28 billion provision and £14 billion contingent liability in 2014-15. We think there should be a separate public inquiry into the recent growth of this liability and its management by the NHS Litigation Authority.
- IF is also particularly concerned about the future of the Student Loan Book, one of the largest assets in the WGA, which is currently shrouded in uncertainty as the government has failed to deliver on its policy of selling off all or part of it. IF believes that the interests of students should be paramount in future decision-making over the Student Loan Book. We believe the government should provide greater certainty for student debtors by publishing its official strategy for dealing with the student loan book, including how it intends to protect the interests of borrowers following any future sale.

If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise further, please contact:

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