The Balance Sheet Review Report:
Improving public sector balance sheet management

November 2020
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Foreword

The Balance Sheet Review has taken a ground-breaking approach, looking across assets, liabilities and financial risks set out in the Whole of Government Accounts (WGA) to identify immediate and longer-lasting opportunities to improve the health of the public finances. As Chief Secretary, and a former member of the Public Accounts Committee, I have always recognised the value of WGA in providing a complete record for taxpayers of what the government owns, owes, spends and receives. It complements other tools long relied on by governments to assess the economic and fiscal position and the affordability of policies, such as fiscal statistics that focus on borrowing and debt. The UK is a world-leader in publishing WGA and is among the first in the world to undertake a review of the government’s balance sheet.

The benefits to taxpayers from improved balance sheet management are clear. The huge size of the public sector balance sheet, with £2.1 trillion of assets and £4.6 trillion of liabilities,\(^1\) means that even small improvements in returns from assets owned by the government can make a substantial contribution towards better, higher quality public services or lower taxes. At the same time, stronger recognition and management of the financial risks across its liabilities could substantially reduce costs and risks to taxpayers.

Since 2017, the Balance Sheet Review has uncovered, unlocked and delivered significant opportunities to increase the efficiency of the balance sheet. Embedding it in a spending review offers an additional benefit in allowing the government to take these opportunities into account before providing new money. This report marks the conclusion of the Review. We should be ambitious and creative in exploring how we can apply its conclusions across government and policy decision making and embed a stronger focus on balance sheet management alongside well established processes for managing the public finances.

The Covid-19 pandemic and the government’s policy response have served to highlight the important role that balance sheet interventions can play in supporting businesses. We have stepped in when markets cannot, to guarantee lending, transfer risk and provide direct loans and equity to reduce long-term economic scarring. These interventions add new and complex assets, liabilities and risk to the balance sheet that will need to be carefully

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\(^1\) As at 31 March 2019 ‘Whole of Government Accounts 2018-19’, HM Treasury, July 2020
managed over the long term to minimise risk and maximise value for taxpayers.

I am therefore pleased that the Treasury is setting out a public sector balance sheet framework and is expanding the government’s capability and expertise in balance sheet management. This will provide strategic challenge to managers of assets and liabilities across government, support fiscal sustainability and ensure continued improvements to the management of the public finances over the long term.

Chief Secretary to the Treasury

November 2020
Executive summary

The Balance Sheet Review (BSR) was launched in 2017 to identify opportunities to dispose of assets that no longer serve a policy purpose, improve returns on retained assets and reduce the risk and cost of liabilities. As well as strengthening balance sheet management, these opportunities will release resources for further investment in public services and improve the sustainability of the public finances.

This report sets out the Review’s full conclusions and reforms to improve balance sheet management. Publishing this report alongside Spending Review 2020 allows the government to reflect these conclusions in future departmental plans.

The Review has identified significant opportunities to increase the efficiency of the balance sheet which fit into three broad categories:

- **Transparency**: increasing transparency over the long-term impacts of policies on the public sector balance sheet
- **Asset management**: delivering better value for money from assets
- **Risk management**: strengthening control of long-term risks and costs of liabilities

The BSR has identified opportunities for systemic reforms that will embed improvements in the government’s management of assets or liabilities, and one-off opportunities to achieve improved returns or reduce the risk from a specific asset or liability on a department’s balance sheet. Significant successes include:

1. Setting out a public sector balance sheet framework which articulates the government’s approach for delivering value for money, assessing performance and managing risk across its portfolios of policy, financial and commercial assets and liabilities. This framework will ensure continued improvements to balance sheet management and fiscal sustainability after the conclusion of the BSR.

2. Improving the measurement and forecasting of broader balance sheet metrics, by working with the Office for National Statistics (ONS) and the Office for Budget Responsibility (OBR), as a necessary step to understanding the impact of policy decisions on the balance sheet. The ONS initiated the publication of statistical measures of the balance sheet, compliant with the International Monetary Fund’s
Government Finance Statistics Manual 2014 (GFSM2014), in 2019. The OBR produced its first detailed forecast for the government’s financial balance sheet in 2018, and is working towards developing its first projection of Public Sector Net Worth. These will be updated at future fiscal events and place the UK at the forefront of the international drive to enhance transparency and accountability over the public finances.

(3) Embedding balance sheet management in spending reviews and introducing new departmental budgetary rules on income retention, ahead of Spending Review 2020. This incentivises a long-term approach to spending decision-making, taking into account balance sheet implications. It enhances the government’s consideration of opportunities to improve the management of existing assets and liabilities before providing new money.

(4) Retiring the use of Private Finance 2 (PF2), a type of off-balance sheet financing that succeeded the Private Financing Initiative (PFI), for new projects after November 2018, as announced at Budget 2018. The government found the model to be inflexible, overly complex and a source of significant fiscal risk.

(5) Publishing ‘Asset Sales Disclosures’ requirements in March 2019 and improving transparency around major asset sales. The government must now disclose publicly the rationale for an asset sale, whether the sale price achieves value for money and the impact across a broad range of public finance metrics including the balance sheet.

(6) Publishing ‘Government as insurer of last resort’ in March 2020, designing a body to assess contingent liabilities, and improving the management of risk across government’s £377.5 billion portfolio of contingent liabilities. The report outlines 10 proposals for contingent liability management across government including the Contingent Liability Central Capability which will be established in 2021. The capability will advise on opportunities to increase compensation for risk where appropriate and monitor the risk government is exposed to from its portfolio of contingent liabilities.

(7) Publishing ‘Getting smart about intellectual property and other intangibles in the public sector’ in November 2018, and greater unlocking value from knowledge assets across the public sector. This

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1 ‘International Monetary Fund’s Government Finance Statistics framework in the public sector finances’, ONS, October 2019
2 ‘Budget 2018’, HM Treasury, October 2018
3 ‘Budget 2020’, HM Treasury March 2020
4 ‘Asset sale disclosures: guidance for government’, HM Treasury, March 2019
5 ‘Government as insurer of last resort’, HM Treasury, March 2020
7 ‘Getting smart about intellectual property and other intangibles in the public sector’, HM Treasury, October 2018
includes working to establish a fund to invest in innovative public sector ideas and a new unit to scout for and develop these opportunities. The report identified specific barriers to improving returns from £150 billion of knowledge assets and set out proposals to realise greater value from these assets across government. The unit will be established in 2021.

(8) Developing a publicly accessible geospatial Digital National Asset Register (DNAR) to uncover opportunities to improve the utilisation of land and property holdings, and to reveal opportunities to sell surplus estate assets. The DNAR will enable better management and commercialisation of the government’s £443 billion of freehold land and property and is expected to roll out across the public sector from May 2021. 8

(9) Restricting local governments from purchasing commercial property for rental income. To reduce the likelihood of local authorities exposing the government to potentially significant risks outside of its control which may ultimately fall to the taxpayer, in May 2020 the Treasury announced a consultation on placing restrictions on local authorities buying investment property. 9 Once implemented, this will help to reduce the fiscal risk and will achieve £475 million in savings between 2020-26, on top of the OBR’s forecast of reduced spending on commercial investments as a result of Covid-19.

(10) Announcing funding for pilots targeting infant brain injury and further improving maternity safety and helping control the increasing cost of clinical negligence. At March 2019, the government provided for £85.3 billion for possible future costs associated with legal cases brought against the NHS as a result of clinical negligence. 10 This represents the diversion of resource from front line services and a significant source of fiscal risk.

Looking ahead

While this report marks the conclusion of the BSR, the government’s focus on improving balance sheet management will continue. Future work in this space includes:

(1) Using the public sector balance sheet framework to assess performance to improve efficiency across portfolios.

(2) Considering the conclusions of the BSR as part of the government’s fiscal framework review which is broader in scope but will draw on several areas, including developments in the management and measurement of the balance sheet.

8 ‘Whole of Government Accounts 2018-19’, HM Treasury, July 2020
9 ‘Public Works Loan Board: future lending terms’, HM Treasury March 2020
(3) Supporting further work by the ONS and OBR to accurately measure and forecast broader balance sheet metrics to improve fiscal decision making.

(4) Further embedding the consideration of balance sheet management impacts in spending decisions, processes and guidance across government.

(5) Establishing a fund to encourage investment in intangible assets and set up a new unit to search for and develop opportunities relating to intangible assets across government.

(6) Strengthening risk management across government through the establishment of the Contingent Liability Central Capability and managing the risks that the government is exposed to on a portfolio basis.

(7) Formalising mechanisms to increase compensation for risk borne by the taxpayer and apply this to specific opportunities identified by the BSR.

(8) Further improving maternity safety which helps to control the increasing cost of clinical negligence and the associated fiscal risk. Actions include rolling out pilots targeting infant brain injury, funded at Spending Review 2020. It is critical that the government continues to improve patient safety whilst also tackling the rising costs of clinical negligence, and it will publish a consultation next year.

(9) Further highlighting the importance of developing train stations and adjoining land to stimulate local economies. The ambition is to create tens of thousands of homes and jobs and increase public value by £7 billion over 10 years.

(10) Applying good practice from the BSR to support the management of risk from the government’s Covid-19 interventions as well as the appropriate management of legacy tangible and intangible assets acquired during the pandemic.

(11) Reviewing the public sector balance sheet and risk exposures in the context of climate change and the shift to a greener economy.
Chapter 1

Developing the Balance Sheet Review

1.1 The BSR was undertaken in line with the government’s balance sheet management principles, which are to:

- secure maximum value for taxpayers from the government’s assets and liabilities
- enhance transparency over the government’s balance sheet management decisions
- optimise the management and mitigation of balance sheet risks
- safeguard overall public sector net worth
- strengthen fiscal sustainability

1.2 The Review will release resources for further investment in public services and improve the sustainability of the public finances. The UK has a strong record of scrutinising spend through its spending review process, but this is the first time it has undertaken a comprehensive assessment of assets and liabilities.

Laying the foundations

1.3 The public sector balance sheet shows what the government owns and what it owes at a fixed point in time. In line with international best practice, the government has embraced accrual accounting, recognising assets and liabilities as well as cash flows. It publishes an independently verified annual account of the balance sheet (Whole of Government Accounts) in line with international accounting standards, making the UK a pioneer in the publication of balance sheet information.

1.4 The Whole of Government Accounts (WGA) consolidates organisations across the whole of the public sector as well as all financial and non-financial assets and liabilities. Published since 2010, WGA offers a more comprehensive fiscal picture alongside the National Accounts and has provided the foundation for the BSR.

1.5 WGA discloses that the UK’s public sector balance sheet amounted to £4.6 trillion of liabilities and £2.1 trillion of assets as at 31 March.
The overall size of the balance sheet has increased in recent years, as shown in Chart 1.A. below. Some significant assets and liabilities are not included in the balance sheet in line with international accounting standards. A liability for future state pension payments is not included because the payments are only recognised when they fall due. Similarly, WGA does not include an asset for future tax revenue as the revenue can only be recognised as it falls due.

The government also had £377.5 billion of contingent liabilities as at 31 March 2019 which are not recognised on the balance sheet under accounting standards. They represent a commitment to future expenditure if a particular event happens or certain conditions are met, and expose the government to risks that could weaken the balance sheet if they crystallise. The Treasury requires government departments to disclose remote contingent liabilities through its government reporting framework. The government’s response to the Covid-19 pandemic is expanding the balance sheet and creating more contingent liabilities.

Chart 1.A: The growth in WGA assets and liabilities

1 Whole of Government Accounts 2018-19, HM Treasury, July 2020
2 ibid
1.7 WGA and the OBR’s Fiscal risk reports have also revealed that factors beyond debt and borrowing affect the volatility of the balance sheet, for example fluctuations in interest and exchange rates.³ Growth in the size of the balance sheet and the influence of external factors present a strong case for initiating a review to identify opportunities to strengthen balance sheet management.

Benefits of Balance Sheet Management

1.8 Assessing the health of the public finances through the perspective of stocks (assets and liabilities) in addition to flows (income and expenditure) is important and gives rise to a number of benefits.

1.9 The balance sheet plays an important role as a buffer for risk. A stronger balance sheet has greater capacity to accommodate shocks. The International Monetary Fund (IMF) found that countries with a stronger balance sheet experience shorter, shallower recessions.⁴

1.10 The IMF also found that financial markets consider governments’ asset positions in addition to debt levels when determining borrowing costs.⁵ Emerging and advanced economies with stronger balance sheets enjoy a lower cost of borrowing than economies with weaker balance sheets.

1.11 Balance sheet information can help identify opportunities to increase returns and boost revenue from core assets, which can be i) reinvested in better public services; ii) used to lower taxes; and/or iii) reduce debt. Given the significant size of assets and liabilities, and pressure to reduce waste and improve efficiency, small improvements in their management can yield substantial returns. A 1% increase in returns from public sector assets would yield £20 billion annually, exceeding the combined receipts from capital gains and inheritance tax.⁶ Balance sheet information also enables portfolio management of risk, helping identify opportunities to improve the management of risks across the balance sheet which look small in isolation but can be very big in aggregate.

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⁴ ‘Fiscal Monitor: Managing Public Wealth’, International Monetary Fund, October 2018
⁵ ‘Economic and Fiscal Outlook’, Office for Budget Responsibility, March 2020
⁶ IMF found in a sample of emerging and advance economies, a 1% GDP increase in government net worth/net financial worth lowers yields on government borrowings by some 0.7/0.6 bps, while a 1% increase in gross debt corresponded to a 1 bp increase in yields. ‘Fiscal Monitor: Managing Public Wealth’, IMF, October 2018
Box 1.A: Managing fiscal risk during Covid-19

The government has responded to Covid-19 with timely support to the economy. These interventions drew on the lessons of the BSR to ensure that fiscal risks were recognised and managed appropriately, balanced against meeting the urgent needs of businesses. While the economic impacts of Covid-19 and the government’s response has come at a significant fiscal cost and will have increased liabilities in the short term, the costs of failing to act would have been much higher and longer lasting.

The government’s interventions include substantial support for firms affected by Covid-19 in the form of financial guarantees, including the Covid-19 Corporate Financing Facility (CCFF), the Coronavirus Business Interruption Loan Scheme (CBILS), and the Bounce Back Loan Scheme (BBLS), as well as re-insurance programs such as the Trade Credit Re-Insurance scheme. The total guaranteed amount is projected to reach £106 billion by 31 January 2021.7

In line with proposals in the ‘Government as insurer of last resort’ report, while the government is taking on fiscal risk from these schemes, taxpayers receive some compensation. The government charges a fee of between 50 and 200bps to lenders benefiting from a government guarantee for the CBILS and CLBILS schemes. The ONS are planning to recognise an estimate of the full fiscal cost of the loan guarantee schemes up front in public finance statistics, improving transparency. Similarly, the Trade Credit Insurance Scheme sees the government receiving all Premium Income charged by insurers – the Treasury’s latest estimates indicate this income will cover a significant proportion of the expected fiscal cost of the scheme.

To support the management of risk, the Treasury has undertaken a review of the CCFF scheme.8 The government subsequently announced an enhanced process for reviewing the credit quality of eligible firms. In cases where a firm’s credit rating has fallen below investment grade, the firm will have the option to pursue a review on which the Treasury, as the ultimate risk-owner of the CCFF, will take the final decision on continued participation. In order to manage any complex assets acquired from the crisis and associated fiscal risk, the government is increasing capacity in UK Government Investments to pool expertise and manage these assets as a portfolio.

In addition to guarantees, the government has also given out loans, such as the Future Fund, which are recorded as an asset on the government’s balance sheet. The scheme co-invests with the private sector to share the risk in early stage firms seeking funding. The government charges a minimum interest rate of 8% on the loans and they are designed to convert into an equity stake depending on the progress of the business, offering taxpayer exposure to potential upside risk.

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7 Economic and Fiscal Outlook, OBR November 2020 projects total guaranteed amount across CBILS, BBLS and CLBILS to reach £80.7bn by 31 January 2021, Net commercial paper outstanding from the CCFF scheme totalled £15bn at close of 18 November according to the Bank of England. The Trade Credit Insurance Scheme guarantees up to £10bn of total exposure.

1.12 During the Covid-19 pandemic and the 2007 to 2008 financial crisis, the government has acted as an insurer of last resort. This includes offering guarantees to ensure firms can continue to access affordable finance during difficult times. These crisis-related interventions bring new and unconventional assets, liabilities and risks onto the public sector balance sheet, which may not be fully recognised by conventional public finance measures and existing management frameworks. For this reason, a broader perspective to managing the public finances and the public sector balance sheet is necessary. The responses to Covid-19 are set out in more detail in Box 1.A and Box 4.B.

1.13 Balance sheet interventions are also being used to support the government’s strategic objectives and deliver policies. This includes issuing direct loans, purchasing equity stakes or offering guarantees where it can provide superior value for money for taxpayers than conventional government spending. For example, student loans and the Help to Buy scheme have supported millions of individuals to access university education and to buy a home. Guarantees and loans from UK Export Finance and the British Business Bank have supported thousands of businesses to expand into new markets and invest in new technologies. This has led to an increase in financial assets on the balance sheet which are exposed to economic risks.

Developing the Balance Sheet Review approach

1.14 The Treasury has developed an innovative approach to reviewing the UK’s balance sheet that systematically identifies opportunities to make more effective use of the UK’s assets and liabilities.

Chart 1.B: A systematic approach to reviewing the balance sheet
1.15 The Review distinguished between core assets and liabilities (those that are vital to policy or in the public interest to hold) and non-core assets and liabilities (those that no longer serve a policy purpose). Departments were asked to identify whether assets and liabilities were deemed to be core or not. Any disposal of non-core assets or divestment of non-core liabilities must still demonstrate value for money and comply with asset sales disclosure requirements.

1.16 The Treasury worked closely with departments responsible for specific assets and liabilities as well as with experts across government and internationally to evaluate and prioritise opportunities. Experts included the Government Actuary’s Department (GAD), UK Government Investments (UKGI), the Intellectual Property Office and the departments’ property, commercial and finance functions.

1.17 The Review revealed the challenges faced by all departments to manage their balance sheets efficiently. The government identified barriers, developed proposals for reform and implemented changes to deliver systemic improvements.

1.18 The Review has also highlighted the value of having a clear public sector balance sheet framework for managing the government’s assets and liabilities over the long term. The importance of good balance sheet management has been underscored by the increasing use of the public sector balance sheet to deliver policy objectives. The legacy of assets, liabilities and risk acquired during both the 2007 to 2008 financial crisis and the Covid-19 pandemic will require careful management to minimise risk and maximise value for taxpayers, further emphasising the importance of good balance sheet management.
Chapter 2

A public sector balance sheet framework

2.1 The government is setting out a public sector balance sheet framework, in line with its balance sheet management principles (see paragraph 1.1). This framework will guide the Treasury’s fiscal and public spending decisions by:

- dividing public sector assets and liabilities into three portfolios (policy, financial and commercial portfolios)
- outlining long-term management objectives, governance arrangements and exit strategies for each portfolio to optimise portfolio management
- identifying portfolio management opportunities for similar assets/liabilities within each portfolio to improve the management of risk and returns

2.2 Box 2.A provides further details on the framework and visualises the public sector balance sheet in line with this approach.

2.3 The framework is aligned with international best practice from New Zealand, and parallels global accounting standards, as well as the IMF’s functions of government classification standards.\(^1\) It extends and delivers the government’s commitment at Budget 2020 to consider establishing a framework for judging whether to proceed with an asset sale or other balance sheet transaction, and builds on the suite of wider balance sheet management reforms introduced since the beginning of the BSR.

2.4 As a first step, this framework has been applied to inform the management of the assets of the government's Future Fund and to guide the objectives and operational management of legacy assets and liabilities from Covid-19 interventions.\(^2\) Going forward, the government will:

- update its central guidance in line with this framework to create a sound basis for managing risk and optimising returns for taxpayers

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\(^2\) *Future Fund Launch*, HM Treasury May 2020
- apply this framework to help evaluate the case for proceeding with significant future asset sales and wider balance sheet transactions
- apply this framework to inform how credit risk should be managed across different asset portfolios
- draw on this framework to inform the mandates of future institutional vehicles tasked with delivering specific policy priorities
- identify management economies of scale within each asset portfolio to optimise performance
- consider opportunities to further develop the framework, including through the development of an investment strategy to provide clear future performance expectations for individual public sector assets and liabilities
Box 2.A: Public sector balance sheet framework

**Policy portfolio**

**Composition:** fixed and specialised assets, e.g. schools, hospitals, defence

**Management objectives:** support government policy objectives, e.g. delivery of public services, and achieve value for money

**Governance:** ministers establish policy objectives, and decide when to buy and sell assets

**Exit strategy:** assets held until they no longer serve a policy purpose, and then sold to achieve value for money

**Financial portfolio**

**Composition:** financial assets, e.g. equity stakes, forex reserves, pensions

**Management objectives:** build buffers for future shocks, fund liabilities from contractual obligations

**Governance:** ministers decide liabilities to be funded. Assets managed professionally arm’s-length from the government

**Exit strategy:** assets sold when required for liquidity purposes, when liabilities materialise, on discretion of fund managers

**Commercial portfolio**

**Composition:** state owned enterprises, public corporations

**Management objective:** achieve public interest objectives and maximise returns while limiting risk for taxpayers

**Governance:** assets managed arm’s-length from the government, subject to ministerial mandates

**Exit strategy:** asset sales conducted by fund managers, subject to overall ministerial mandates

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**UK balance sheet by portfolio classification, 2018-19**

<table>
<thead>
<tr>
<th>Policy Portfolio</th>
<th>Financial Portfolio</th>
<th>Commercial Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other assets (£120bn)</td>
<td>Derivatives / other (£30bn)</td>
<td>Debt securities (£105bn)</td>
</tr>
<tr>
<td>Trade and other payables (£190bn)</td>
<td>Property plant and equipment (£1.3bn)</td>
<td>IMF assets (£33bn)</td>
</tr>
<tr>
<td>Trade / other receivables</td>
<td></td>
<td>Equity investments (£56bn)</td>
</tr>
<tr>
<td>Billions</td>
<td></td>
<td>Loans and deposits (£275bn)</td>
</tr>
<tr>
<td>Source: WGA, 2018-19</td>
<td></td>
<td>Student loans (£77bn)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public Sector Pensions (£1.9bn)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Government borrowings (£1.4bn)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other financial liabilities (£750bn)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provisions (£31bn)</td>
</tr>
</tbody>
</table>
Chapter 3

Realising the benefits of the BSR: Transparency

1. Highlighting the importance of using a range of balance sheet metrics to strengthen fiscal decision-making

3.1 Improving the coverage, quality, frequency and timeliness of balance sheet information is key to understanding the long-term impacts of policies on the public finances and to unlocking the gains from taking a more active approach to the management of the public sector balance sheet.

3.2 Through successive budgets, the BSR has highlighted the importance of considering the impacts of policies across a range of balance sheet metrics to better inform fiscal decision-making. This includes:

   i) **Strengthening assessments of fiscal sustainability**, by taking into account the health of the entire public sector balance sheet, beyond public debt

   ii) **Better informing decisions to buy or sell assets and settle or incur liabilities**, by considering the impacts across the government’s balance sheet as well as on income flows over the longer term

   iii) **Enhancing fiscal transparency** through rules requiring departments to systematically disclose the impacts of asset sales across a range of balance sheet metrics to Parliament (see paragraphs 3.6 – 3.8)

3.3 To realise these benefits and position the UK at the forefront of the international drive to enhance transparency and accountability of the public finances, the Treasury has worked with the ONS and OBR to extend the UK’s suite of balance sheet reporting beyond WGA. This includes introducing new statistics and forecasts for both the government’s financial and full balance sheet. Chart 3.A visualises the assets and liabilities included in these aggregates.

   i) Public Sector Net Financial Liabilities

      a. **Statistics** - the ONS started reporting in-year data in Autumn 2016 on Public Sector Net Financial Liabilities (PSNFL), which recognises all public sector financial assets and liabilities recorded in the national accounts
b. **Forecasts** - the OBR started forecasting PSNFL in aggregate in 2016 through its Economic and Fiscal Outlook,¹ Budget 2018 featured the OBR’s first five-year forecast of the government’s financial balance sheet,² with PSNFL broken down into its component assets and liabilities

ii) **Public Sector Net Worth**

a. **Statistics** - following recommendations in ‘Managing fiscal risks 2018’,³ in 2019 the ONS started publishing comprehensive balance sheet statistics (including fixed assets) in line with the IMF’s Government Finance Statistics Manual 2014 for the first time. These statistics provide more frequent and timelier in-year data on the government’s full balance sheet

b. **Projections** - the OBR is working towards producing its first projection of Public Sector Net Worth (PSNW), the balance between public sector assets and liabilities, to provide a forward-view of the entire public sector balance sheet

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**Chart 3.A: Balance sheet metrics**

<table>
<thead>
<tr>
<th>National Accounts measures</th>
<th>WGA</th>
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<tbody>
<tr>
<td>Public Sector Net Debt</td>
<td>WGA Net Liabilities</td>
</tr>
<tr>
<td>Public Sector Net Financial Liabilities</td>
<td>Non-financial assets</td>
</tr>
<tr>
<td>Public Sector Net Worth*</td>
<td>Illiquid financial assets</td>
</tr>
<tr>
<td>Assets</td>
<td>Non-financial assets</td>
</tr>
<tr>
<td>Liquid financial assets</td>
<td>Illiquid financial assets</td>
</tr>
<tr>
<td>Liabilities</td>
<td>WGA Net Liabilities</td>
</tr>
<tr>
<td>Government borrowing</td>
<td>Non-financial assets</td>
</tr>
<tr>
<td>Government borrowing</td>
<td>Illiquid financial assets</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>Non-financial assets</td>
</tr>
<tr>
<td>Funded public sector pensions</td>
<td>Illiquid financial assets</td>
</tr>
<tr>
<td>Funded public sector pensions*</td>
<td>Liquid financial assets</td>
</tr>
<tr>
<td>Unfunded Public sector pensions*</td>
<td>Liquid financial assets</td>
</tr>
<tr>
<td>PFI contracts*</td>
<td>Liquid financial assets</td>
</tr>
<tr>
<td>Provisions</td>
<td>Liquid financial assets</td>
</tr>
</tbody>
</table>

* Unfunded public sector pensions and PFI contracts will be included in the Government Financial Statistics Manual measure of PSNW, but not in the European Statistics Agency 2010 based measure

Source: WGA 2018-19

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¹ *Economic and Fiscal Outlook*, Office for Budget Responsibility, November 2016
² *Budget 2018*, HM Treasury, October 2018
³ *Managing fiscal risks*, HM Treasury, July 2018
These new statistics and forecasts of broader balance sheet metrics will enable a more comprehensive appraisal of policies to secure value for money for taxpayers in the long term. For example, statistics and projections of PSNW will provide more information on the net fiscal benefit of the government’s infrastructure strategy, by recognising the assets created by this investment as well as the debt issued to finance them. They will also improve transparency over future spending commitments. For example, improvements in the management of public sector pension liabilities would not be recognised by conventional measures of public sector debt but would be recorded as an improvement in PSNW.

Going forward, the government will:

i) support further work by the ONS and OBR to accurately measure and forecast broader balance sheet metrics to inform fiscal decision making

ii) consider the conclusions of the BSR as part of the government’s fiscal framework review. Budget 2020 announced a review of the fiscal framework to ensure that it remains appropriate for the current macroeconomic environment, supports the policy agenda of the government to invest in and level up every part of the country, and keeps the UK at the leading edge of international best practice in macroeconomic policy. The fiscal framework review is broad in scope and will draw on several areas, including developments in the management and measurement of the balance sheet. This will take into account: i) the BSR’s conclusions to improve the management of loans, guarantees, contingent liabilities, and wider balance sheet transactions; and ii) the strengths and limitations of using broader balance sheet measures to assess fiscal sustainability. When it is concluded, the Treasury will lay a new Charter for Budget Responsibility before Parliament.

2. Using broader fiscal metrics to increase transparency around asset sales

Asset sales: Improving decision making and disclosure guidance

Broader balance sheet measures help to improve accountability around asset sales and their impact on the balance sheet. Individual asset sales in the past have received a high level of scrutiny from the public, Parliament and the National Audit Office (NAO).

Supported by recommendations from the NAO and the Public Accounts Committee, in 2019 the Treasury published new Asset Sales
Disclosure Guidance as part of the BSR. The guidance outlines stricter disclosure requirements for asset sales including:

- setting out the policy rationale for the sale
- assessing whether the sale achieved value for money
- reporting on a wider range of public finance measures including balance sheet impact to increase transparency

3.8 The work of the BSR will make it easier in future for Parliament and the public to scrutinise asset sales, the rationale for their sale, and the impact on the public finances.

Box 3.A: Student loans

In 2013, the government decided to sell a portion of the student loans issued before 2012 (‘Plan 1’ loans). This followed the Sale of Student Loans Act 2008, which provides the legal basis for selling student loans. In December 2017, the first sale concluded raising £1.7 billion.

At Budget 2018, the government announced an extension of the programme to 2022-23, increasing target proceeds from £12 billion to £15 billion. In December 2018, the second sale concluded raising £1.9 billion. When considering the impact on fiscal policy, the government’s stated objectives for the two completed sales included “reducing public sector net debt, while not having a significant impact on public sector net borrowing”. In this context, student loan sales created fiscal headroom with which to invest in other priorities with greater economic or social returns.

As a result of the new ONS treatment published in December 2018 which more closely reflects the actual impact of the loans on the public finances, loan sales resulted in a significant negative impact on public sector net borrowing. This meant that sales also had an impact on other metrics such as Public Sector Net Investment. For these reasons, the government decided in March 2020 not to proceed with further sales of student loans.

The BSR encouraged consideration of how selling student loans would affect a wider range of public finance measures including broader balance sheet metrics (Public Sector Net Financial Liabilities and Public Sector Net Worth) in addition to Public Sector Net Debt and Public Sector Net Borrowing, and this was taken into account during the March 2020 Review of the student loan sale programme.

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4 ‘Asset sale disclosures: guidance for government’, HM Treasury, March 2019
5 ‘Review of the student loan sale programme’, HM Treasury, March 2020
6 ‘New treatment of student loans in the public sector finances and national accounts’, Office for National Statistics, December 2018
7 ‘Student loans in the public sector finances, a methodological guide’, Office for National Statistics, January 2020
Chapter 4

Realising the benefits of the BSR: Asset management

1. Recognising long-term balance sheet implications in spending decisions

4.1 Efficient management of government assets, which are many multiples of the value of public spending and revenue, contributes to the effective delivery of public services and the long-run sustainability of the public finances. As a result of the BSR, balance sheet management is becoming embedded in spending reviews, starting with Spending Review 2020. Including balance sheet management in the spending review process incentivises a long-term approach to spending decision-making. It also offers the benefit of allowing the government to take into account opportunities to improve the management of existing assets and liabilities before providing new money.

4.2 In line with the balance sheet framework objectives to incentivise the more efficient use of policy assets, the BSR proposed new departmental budgetary rules on income retention. Ahead of Spending Review 2020, the government formalised the new rules in the 2020-21 Consolidated Budgeting Guidance (CBG) to departments.¹ These changes clarify that the Treasury will look favourably on departments retaining income above forecast if this additional income has arisen as a result of improved asset management, including from value for money sales of assets or the commercialisation of retained assets. These updates were incorporated into department guidance for Spending Review 2020 to help inform department’s spending bids.

4.3 During the course of the BSR, the Treasury also removed arbitrary targets on department asset sales and Spending Review 2020 refrains from setting new asset sales targets. The government previously set a target in Spending Review 2015 to raise £5 billion from asset sales between 2015 and 2020.² Removing targets ensures that departments are not required to proceed with asset sales that do not achieve value for money.

¹ ‘Consolidated budget guidance 2020-21’ HM Treasury, March 2020
4.4 As part of the Spending Review 2020 process, departments were required to indicate how items in their spending bids will improve balance sheet management over the Spending Review period or beyond, including:

- strategies to improve the returns and/or utilisation of core assets
- plans to reduce the costs and risks of core liabilities
- improving compensation for bearing risk
- identifying assets or liabilities that no longer serve a policy purpose and should be disposed of in a way that supports the sustainability of the public sector balance sheet

4.5 Departments were also asked to identify opportunities where the public sector estate can be better managed and/or released for alternative uses or sale. This guidance replaced the asset sales targets used in previous spending reviews.

4.6 These changes have led to greater awareness of the impact of spending allocations on the balance sheet. Going forward, the Treasury will continue to assess the effectiveness of these changes and determine how to strengthen balance sheet management considerations in spending decisions and future spending reviews.

2. Ensuring that assets are financed and managed to achieve long term value for money

Retiring the Private Finance Initiative and its successor Private Finance 2

4.7 Private Finance Initiatives (PFIs) are a form of Public Private Partnerships. There are nearly 700 existing PFI operational projects in the UK, including schools, roads, prisons, waste management and energy-from-waste infrastructure, housing, and military accommodation and equipment. WGA reported PFI liabilities of £39 billion and show that PFI contracts cost the government nearly £10 billion per annum.

4.8 The BSR recognised the higher cost and increased fiscal risk associated with PFIs and found them to be overly complex and inflexible. Budget 2018 announced that Private Finance 2, the successor to PFIs, would no longer be used on new government projects. As part of the subsequent Infrastructure Finance Review, the government explored alternative private financing models for government-funded infrastructure and assessed them against its key test: whether the

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4 'Whole of Government Accounts 2018-19', HM Treasury, July 2020

5 'Budget 2018', HM Treasury, October 2018
benefits of private finance outweigh its additional costs. No new models were found through this process, and so in the National Infrastructure Strategy, the government is now announcing that it will not reintroduce PFIs.

4.9 Balance sheet information has helped reveal the full long-term cost associated with private finance. The OBR identified PFIs as a significant risk to the government in the 2017 Fiscal Risk Report. It noted that conventional fiscal measures (PSND) included only £6 billion of these liabilities in the National Accounts while WGA reported PFI liabilities of £39 billion.

4.10 In PFI contracts, the upfront capital costs (i.e. of a school or hospital) are paid by the private sector. In exchange, the government pays an annual unitary charge that comprises repayment of the initial capital, interest on that capital, and ongoing maintenance. This usually occurs over a 25 to 30-year period. As shown in Chart 4.A below, the cost of a PFI contract will appear cheaper in the short-run, but more expensive in the long-run. Traditionally, the incentives for government tend to weigh short-run costs more highly than the long-term costs, making PFIs seem more attractive.

Chart 4.A: Estimated cash flows of a privately and publicly financed project

4.11 In addition, since PFI is off-balance-sheet, the future costs of PFI contracts do not appear up front in the UK’s main fiscal metrics, instead only appearing as the unitary charges are paid. This flattering of the fiscal metrics used at the time has historically further incentivised the use of PFIs.

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6 ‘Fiscal risks report 2017’, Office for Budget Responsibility, July 2017
The BSR also announced at Budget 2018 a new PFI Centre of Best Practice in the Department of Health and Social Care (DHSC) to improve the management of the NHS’s 100+ major existing PFI contracts and ensure projects are performing and providing value for money.

The government still makes payments of nearly £10 billion a year on existing PFIs which were entered into by previous administrations. At Budget 2020 the Treasury announced £2 million had been set aside to carry out targeted contract reviews in 2020-21. The government is funding a programme of work to review PFI contracts to ensure they are managed as best as possible. This includes providing support for authorities taking back PFI assets as contracts expire and providing extensive contract management training across the public sector.

Strengthening asset maintenance to extend the useful life and value of the public sector asset base

The BSR worked with the Office of Government Property (OGP) and government departments to draw attention to the balance sheet, spending, operational and wider benefits of increased investment in maintenance. This work has shown that:

- under-investment in maintenance impacts the useful life and value of public sector assets, impacting public sector net worth over the long run
- there is a strong value for money case for increasing investment in asset maintenance. The OGP has found that deferring backlog maintenance can multiply costs by over 1.5 times over a 2 to 4-year period
- maintenance investment is consistent with the government’s wider objectives of achieving a carbon net zero position by 2050. Improving the fabric, services and technology in buildings also contributes positively to energy efficiency and decarbonisation. Much required maintenance investment relates to replacing ageing intensive infrastructure (e.g. heating systems) with modern ‘greener’ fabric and technology
- asset maintenance can support rapid operational improvements to public services. While departments should adopt a planned approach to maintenance, based on lifecycle replacement, maintaining existing assets involves large numbers of small targeted projects that can be conceived and delivered quickly, delivering rapid public service and economic benefits

Ahead of Spending Review 2020, the Treasury and the OGP worked together to develop new tools to help departments strengthen bids focused on reducing the maintenance backlog across government and progressing planned maintenance and wider estate investment.
programmes, including carbon net zero interventions. These tools were made available to departments through the Property Professional Portal. This makes clear that departments should ensure they demonstrate how maintenance investment can be optimised to reduce operational risks and by synchronising lifecycle replacement with Net Zero interventions to reduce longer-term running costs and operational risks. The Treasury will continue to work with the OGP to develop supplementary guidance for departments on this in future.

4.16 The BSR has worked with departments to identify opportunities to reduce their maintenance backlog. Key successes include:

- **Department of Health and Social Care**: A new health infrastructure plan published in 2019 underscores the NHS’s commitment to invest to maintain its assets and reduce backlog maintenance (see Box 4.A for more information).\(^7\) This comes on top of a £1.5 billion package for hospital investment, announced as part of the Prime Minister’s June 2020 New Deal for Britain,\(^8\) to ensure NHS hospitals continue to deliver world leading services.

- **Ministry of Justice**: In June 2020, the government announced a £142 million package for digital upgrades and maintenance for around 100 courts this year and £83 million for maintenance of prisons and youth offender facilities.\(^9\)

- **Department for Transport**: In June 2020, the government also announced £100 million in funding this year for 29 projects to improve the UK road network from bridge repairs in Sandwell to boosting the quality of the A15 in the Humber region.

- **Department for Education**: In June 2020, the government announced a transformative ten-year rebuilding programme for schools across England, as well as committing £560 million and £200 million for repairs and upgrades to schools and Further Education colleges respectively this year.\(^10\) In addition, as part of Spending Review 2020, the government has pledged £1.8 billion in 2021-22 (an increase on the £1.4 billion budget in 2020-21) for school condition funding.

- **Ministry of Defence**: In 2019-20, the Ministry of Defence increased central investment in maintenance, and in 2020-21 the department received £200 million over two years to renovate accommodation as part of the Chancellor’s 2020 Capital Stimulus Package.\(^11\) The Spending Review will continue to fund maintenance across the MOD estate.

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\(^7\) ‘Health infrastructure plan’, Department of Health and Social Care, September 2019

\(^8\) ‘PM: A new deal for Britain’, Prime Minister’s Office, June 2020

\(^9\) ibid

\(^10\) ‘PM announces transformative school rebuilding programme’, Department for Education, June 2020

\(^11\) ‘£200 million announced for vital improvements to troops accommodation’, Ministry of Defence, July 2020
• **Department for Digital, Culture, Media and Sport**: At Budget 2020 the government announced £27 million for urgent maintenance on the National Museums’ estates. As part of Spending Review 2020 the government has provided a further £60 million to address maintenance works at the National Museums and DCMS-sponsored cultural bodies. This will enable these institutions to protect and preserve their world-renowned buildings and unique collections, safeguarding the nation’s cultural heritage.

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**Box 4.A: Department of Health and Social Care: improving returns and utilisation of assets**

The government’s response to the 2017 Naylor Review of NHS estates and property outlined a vision for an “efficient, sustainable and clinically fit-for-purpose estate”. A key aspect of this new estate ambition is that the NHS can proactively maintain assets and reduce its maintenance backlog. DHSC published a Health infrastructure Plan in October 2019 which set out a long-term, rolling five-year programme of investment in health infrastructure, including capital to build new hospitals, modernise our primary care estate, invest in new diagnostics and technology, and help eradicate critical safety issues in the NHS estate.

In October 2020 the Government announced 48 hospitals will be constructed by 2030. Spending Review 2020 will provide the initial tranche of funding for these schemes. These new hospitals collectively account for a significant element of backlog maintenance, and the schemes will tackle this backlog. The wider backlog is being addressed in a number of ways:

- the announcement of an additional £1.5 billion in 2020-21 to tackle critical infrastructure risk, undertake update work in A&E, eradicate mental health dormitories and provide enabling funding for health infrastructure schemes
- four waves of Sustainability and Transformation Partnerships funding to deliver upgrades and service change across the NHS estate
- a further investment in 20 upgrade schemes announced by the Prime Minister and continued local investment by NHS Trusts

In return for capital investment, the NHS will continue to maximise the productivity benefits of its estate, including improving utilisation of clinical space, ensuring building and maintenance is done sustainably, improving the energy efficiency and releasing properties not needed to support the government’s target of building new houses.

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12 ‘NHS Property and Estates’, Sir Robert Naylor March 2017
13 ‘Health infrastructure plan: a new, strategic approach to improving our hospitals and health infrastructure’, Department of Health and Social Care, October 2019
14 ‘PM confirms £3.7 billion for 40 hospitals in biggest hospital building programme in a generation’, Department of Health and Social Care, October 2020
3. Applying best practice in asset management to optimise returns

Maximising the value of knowledge assets in the public sector

4.17 Investment in knowledge assets (KAs), examples of which include intellectual property, R&D, technology, data, know-how and other intangibles, is of large and growing importance to modern economies. The BSR has recognised the scale and variety of KAs held by the public sector.

4.18 Published at Budget 2018, the report ‘Getting smart about intellectual property and other intangibles in the public sector’ examined the management of KAs in the public sector.\(^\text{15}\) It estimated the value of these assets to be as high as £150 billion based on investments in knowledge generating activities.\(^\text{16}\) It also identified barriers that lead to KAs being undervalued and underexploited and included recommendations aimed at realising greater value from these assets.

4.19 Examples of KAs developed in the public sector include: i) the repurposing of a coating, originally developed by the Ministry of Defence for Hazmat suits, to waterproof mobile phones; ii) breakthrough thermal imaging technology developed by the National Physical Laboratory to enable the early detection of diabetic foot ulceration; and iii) a laser technology, developed by the Science & Technology Facilities Council, now used to test for explosives in 70 airports worldwide.

4.20 The characteristics and properties of these KAs vary from physical assets. They are non-rival, highly scalable, generate significant spill-overs and are driven by synergies (for example, a dataset may have no value, but combined with a new algorithm can have huge value). Special attention to how we manage and exploit these assets is therefore important.

4.21 At Budget 2020, it was announced that, to unlock more value from its KAs, the government will establish a fund to invest in innovative public sector ideas and a new unit to scout for and develop these opportunities. These proposals will improve the UK public sector’s knowledge and technology transfer infrastructure, secure best value from its investments in R&D and support the ‘last mile’ of innovation, all of which contribute towards achieving the government’s science superpower vision for the UK.

\(^{15}\) ‘Getting smart about intellectual property and other intangibles in the public sector’, HM Treasury, October 2018

\(^{16}\) Since the 2018 report, more granular analysis of expenditure on KAs by departments has identified £104 billion of KAs held by central government departments. Unlike the £150 billion figure from 2018 estimated by SPINTAN, this analysis was limited to central government departmental groups, so is narrower in scope. However, it showed some of the most significant KA holding departmental groups to be DHSC (£56 billion), MOD (£16 billion) and BEIS (£7 billion). This includes the arms-length bodies and other organisations sponsored by these departments, such as the Met Office, Dstl and NHS.
4.22 Spending Review 2020 has confirmed that this unit will be sponsored by BEIS and will be established in 2021, while the government will establish a new fund for public sector KAs. Further detail on these initiatives and a wider implementation strategy will be in a forthcoming report by the Treasury.

Encouraging innovative thinking around land and buildings

4.23 One of the largest components of the government’s policy portfolio is land and buildings, totalling £443 billion at 31 March 2019 and making up around 21% of the government’s total asset base. Improving the management of government land and property could lead to a significant increase in returns and better utilisation of existing assets. The BSR considered the opportunity, the barriers, and the current work to overcome those barriers and what more could be done, looking at international best practice, examples within government and what further levers could be put in place.


The Digital National Asset Register: enabling better management of property across government

4.24 The BSR found there to be no central register of government property to uncover opportunities to maximise the value or utilisation of these holdings. The Treasury has worked with the Office of Government Property within Cabinet Office, supporting their digital and data transformation programme which includes the Digital National Asset Register (DNAR) and the creation of a marketplace for property (Government Property Finder). Budget 2018 announced the launch of the government’s first-ever geo-spatial DNAR to enable better management and commercialisation of its property assets.
4.25 The DNAR will bring together for the first time local and national property and socio-economic data in one place. Presenting the information in this way is a necessary first step to managing the property asset base as a portfolio and improving both utilisation and returns.

4.26 The DNAR will create a single record of land and property assets of public sector entities under one umbrella, combined with socio-economic and related data sets. The register is currently estimated to hold more than 300,000 properties with a balance sheet value of over £443 billion. Digitally unifying the estate information will help identify opportunities for property disposal, re-location and co-location by providing information on vacant, surplus and available estate within the public sector; and identify opportunities for release of land for public benefit such as on housing, hospitals and schools.

4.27 The DNAR has completed an ‘Alpha’ trial phase to prove that it is deliverable. A full version is currently being designed, with roll-out across the public sector expected to start from May 2021.

Smarter use of infrastructure assets to increase returns

4.28 The government’s infrastructure assets were valued at £657 billion as at 31 March 2019, representing one of the largest assets on the public sector balance sheet. The rail network represents half of all infrastructure assets owned by the government. As part of the BSR, the Treasury has worked with the Department for Transport (DfT), Network Rail and London Continental Railway (LCR) to explore options around maximising the value of railway land assets.

4.29 The UK is exploring options to increase the land value capture of infrastructure assets including:

- taxing increases in property value across stations as a result of railway development to extract value and help recover some of the costs of infrastructure development
- investing in improved transport to increase the value of both residential and commercial property through increases in land values

4.30 Capturing increases in land value that transport schemes can bring could help pay for some of their cost. This has been explored in other countries such as the USA and Canada as well as in the UK.

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17 Whole of Government Accounts 2018-19, HM Treasury, July 2020
18 In London, a property located 1,000m from a station commands a 4.1% premium, increasing to 6.6% at 750m and 9.4% at 500m from a station. In Manchester, a property located 500m from a Metrolink or railway station attracts a 7.8% price premium. Nationwide Housing Price Index Special Report, June 2019
19 Bay Area Rapid Transit (BART), California, USA and Transport Oriented Development. Land value capture, tenth report of session 2017-19, House of Commons, September 2018
Internationally, significant value has been derived from railway assets, including the Hong Kong Rail + Property model which generates profit and keeps passenger fares low.\textsuperscript{20}

4.31 Modelling undertaken for Transport for London shows that land value capture mechanisms applied to eight sample transport projects, including the Bakerloo line extension, could raise between £29 billion and £44 billion, with the eight sample projects having a capital cost of £36 billion. The mechanisms identified and funds generated include: £13 billion – £28 billion through a transport premium charge; £6 billion through zonal retention of Stamp Duty Land Tax (SDLT); £7 billion through retention and revaluation of business rates; and £3 billion from implementation of the Development Rights Auction Model (DRAM).\textsuperscript{21} This shows the potential of considering different mechanisms for capturing value from land such as station led regeneration.

Station led local regeneration to improve utilisation of assets

4.32 The BSR concluded that innovative and ambitious development of stations and the adjoining land can stimulate local economies as well as bringing in revenue. Reviewing the use of rail property can lead to more housing and local economy generation, or station-led regeneration.\textsuperscript{22}

4.33 LCR’s redevelopment of St Pancras station in London and partnership with others regenerating the lands around King’s Cross transformed disused buildings and contaminated land, reinvigorated the local economy and unlocked value to the benefit of taxpayers.\textsuperscript{23}

4.34 As part of the BSR, the Treasury is working with DfT, Network Rail and LCR to unlock development opportunities and support station-led regeneration. Earlier this year DfT, Network Rail and LCR signed a pledge for coordinated action to realise the potential to build tens of thousands of homes, lead massive regeneration, improve the station environment and create great places in and around stations.\textsuperscript{24} They are also working with Homes England and Ministry of Housing, Communities and Local Government (MHCLG) to unlock barriers to residential development opportunities around stations.

4.35 As at March 2020, NR expected to have delivered land for about 9,000 homes and LCR a further 1,000 homes. LCR’s ambition over the

\textsuperscript{20} Error! Bookmark not defined., and ‘Rail plus property model self-financing formula’, McKinsey & Company
\textsuperscript{21} ‘Land value capture: final report’, Transport for London, February 2017
\textsuperscript{22} An estimated 280,000 homes could be built in unused space above train tracks, tube lines and the overground network in London per ‘Out of Thin Air - One Year On’, WSP, 2018
\textsuperscript{23} ‘Kings Cross - A Holistic Approach to Placemaking’, London & Continental Railways Limited
\textsuperscript{24} ‘Network Rail Collaboration’, London & Continental Railways Limited
next 10 years is to create tens of thousands of homes and jobs and increase public value by more than £7 billion.\(^{25}\)

4.36 The government supports further exploration of the opportunities for station-led regeneration, including identifying the barriers and how to unlock them.

**Improving management of debt owed to the government**

4.37 As of 31 March 2019, central government was owed around £24 billion of overdue debt, primarily comprising of overdue tax and welfare benefit overpayments. The value of debt owed to the government is increasing during the Covid-19 pandemic, for example schemes to enable businesses to defer tax repayments to support business resilience as set out in the Winter Economy Plan (detailed in Box 4.B).\(^{26}\)

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**Box 4.B: Tax deferral to support businesses affected by Covid-19**

In September 2020, the Chancellor announced the Winter Economy Plan with further measures to protect jobs and help businesses impacted by Covid-19.\(^{27}\) This included support to over half a million business who previously deferred VAT to preserve cashflow.

The Chancellor announced more breathing space through the New Payment Scheme, which gives these businesses the option to pay back in smaller instalments. Rather than paying a lump sum in full at the end of March next year, businesses will be able to make up to 11 smaller interest-free payments during the 2021-22 financial year. Tax owed to the government is equivalent to a financial asset on the public sector balance sheet.

This announcement has a large cashflow impact on revenues, with debt owed to government increasing by £15.0 billion in 2020-21 and falling by £14.6 billion in 2021-22, while the balance sheet impact is only from revenue that is not ultimately repaid. The New Payment Scheme demonstrates that the government is being innovative in looking across the public sector balance sheet to identify ways to support business resilience.

4.38 As part of the BSR, the Treasury has worked with the Government Debt Management Function to look at ways to further improve recovery of debt owed to government. In 2017 new performance

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\(^{25}\) 'About LCR', London & Continental Railways Limited

\(^{26}\) 'Winter Economy Plan', HM Treasury, September 2020

\(^{27}\) ibid
management measures and a three-year Cross Government Debt Management Strategy were established. This strategy enabled £3.2 billion in benefits, including the development of a centralised debt management framework (the Debt Market Integrator) which has enabled collection of £1.2 billion of government debt, £0.7 billion of which would otherwise have remained outstanding. The current 2020-23 debt strategy is forecast to deliver debt benefits and additional yield of at least £3 billion.

4.39 Further potential improvements to debt management include developing a Single Customer View for debt owed to government and a Government Debt Management Profession which will set and drive higher standards for the management of debt across government. The Single Customer View will make better use of data to deliver an improved service to the public and the government alike by allowing the automation of affordable repayment plans in routine cases and confident escalation to robust recovery measures where people can and should pay.

Box 4.C: Piloting better ways to reduce debt owed to government

As of 31 March 2019, the total amount of Council Tax outstanding in England stood at £3.2 billion. Councils identified that data from Her Majesty's Revenues and Customs (HMRC) could help tackle these arrears.

The Government Debt Management Function facilitated a 12-month pilot sharing HMRC data with 29 councils using the Digital Economy Act (2017) as a legislative gateway. The aim of the pilot was to help councils avoid resorting to expensive enforcement agent action by enabling them to recover more debt through Attachment of Earnings. As a direct result of the pilot:

- the 29 councils recovered around £5 million in outstanding debt with significantly reduced use of enforcement agents
- 9,900 debtors were contacted – of those over 1,000 potentially vulnerable debtors were moved onto Council Tax Support, while some engaged with councils for the first time and some in high-earnings brackets repaid their arrears in one payment

Councils are now developing the pilot further with the aim of integrating the work with business-as-usual processes.

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28 from 2016-17 through to 2019-20
29 Government Debt Management Function, Cabinet Office
30 Fraud, Error, Debt, and Grants, Cabinet Office
31 ibid
Improving returns from foreign currency reserve savings

4.40 At the end of October 2020 the government held £177 billion of foreign currency reserves, with the majority held in the Exchange Equalisation Account (EEA). Alongside the BSR, the Treasury and the Bank of England reviewed the investment strategy and composition of the government’s foreign exchange reserve assets held in the EEA.

4.41 The objective was to review the stock of foreign exchange assets on the government’s balance sheet from first principles: affirming the EEA’s policy objectives, calibrating risk tolerance and setting an investment objective. This represented a step-change versus previous practice, where the focus was on investing the flow of additional financing into the reserves rather than evaluating the portfolio as a whole. The process identified a number of opportunities to optimise returns while maintaining a dynamic, yet prudent, approach to managing the reserves in line with international best practice.

4.42 The principal outcome of the investment strategy review was a change in approach to the trade-off between policy readiness, financial risk, and investment return. That trade-off is defined in new Investment Principles for the EEA. As a result of the review, the investment strategy now seeks to optimise return on investments whilst ensuring policy readiness (by setting a minimum requirement for the safest and most liquid assets) and overlaying investment constraints to prudently manage financial risks (liquidity, credit, and market risk).

4.43 As a result, changes in the government’s approach include:

(i) **Extending the EEA’s investment horizon** – in order to optimise the portfolio over both the short-term and long-term investment horizon, the strategic asset allocation will be comprised of a balance between a short-term view, which seeks out cyclically undervalued asset classes, and a long-term view, which seeks to provide portfolio stability.

(ii) **Broadening the types of assets in which the reserves are invested and holding a greater proportion of assets with higher returns but with sufficient liquidity** – which should improve risk-adjusted returns through slightly higher credit exposure, longer maturity investments and importantly through diversification. The overall impact on realised future return is naturally highly uncertain – as it is subject to future asset price and currency movements – but initial estimates are for an additional £50 million expected return in FY2021. The transition towards the new asset allocation began in April 2020 and as transition progresses, improved returns are expected to grow.

(iii) **Reducing the proportion of the reserves that is hedged for foreign exchange risk** – exposure to foreign exchange risk can help the EEA to meet its policy objectives, as the largest uses of the EEA are likely to be
positively correlated with sterling depreciation (which increases the
sterling value of EEA). However, alongside the potential for greater
returns, foreign exchange risk is also the primary driver of mark-to-
market volatility for the EEA. In addition to reinvesting a greater
portion of maturing hedged assets into unhedged assets, over 2017-
20, £18 billion of additional financing was provided for unhedged
reserves.

4.44 Further details can be found in the Management of the Official
Reserves document, published at Budget 2020.33

4. Improving the management of financial assets to deliver
value for money

4.45 The BSR has considered the case for government to hold assets
against liabilities. Where all the financial risk sits with central
government, it is generally more efficient to fund these liabilities
through gilt financing when required. Where the government holds
existing assets against liabilities, it should consider retaining them
unless there is a strong value for money rationale for disposal and it
supports wider policy considerations.

Local Government Pension Scheme — delivering value for money

4.46 The Local Government Pension Scheme England & Wales (LGPS E&W)
represents one of the largest asset holdings in the government’s
financial portfolio. The LGPS (E&W) is locally administered and funded
by 86 administering authorities (mostly county councils and London
boroughs) and on 31 March 2020 held assets of £272 billion in order
to meet its long-term liabilities to pay the benefits of its 6.1 million
members. The scheme is a significant global investor, and among the
top six funded pension schemes in the world.

4.47 The LGPS is generally in a strong position. Assets and liabilities across
the scheme are almost in balance with a 98% funding level across the
funds,34 and was cashflow positive in 2019-20 with total income of
£16 billion (including investment income) and total expenditure of
£13.4 billion.35 Long term investment performance has been generally
good with thirty year returns at 8.4%.36

4.48 In 2016, the government required the LGPS funds to come together in
partnerships of their own choosing to pool their investments. This is a
long-term reform which aims to deliver the benefits of scale including

33 ‘Management of the Official Reserves’, HM Treasury, March 2020
34 Based on actuarial valuations of 86 funds (excluding the two Environment Agency funds), used to set employer contribution rates
in each fund from 1 April 2020 to 31 March 2023 (‘2019 Triennial valuation in the LGPS (England & Wales)’, LGPS advisory board)
36 ‘Local Authority Pension Performance Analytics Annual Report 2018-19’, PIRC, 2019
better value for money, lower costs, improved governance and management, and diversification of risk from improved access to a wider range of assets, including infrastructure. All the pools, ranging in size from £17 billion to £46 billion, have been operational since January 2019. The pools estimate that cumulative savings of around £300 million had been delivered by September 2020.

4.49 This reform is in line with the principles for the financial portfolio (set out in Chapter 2) and has already covered its set up costs but remains incomplete with around a third of assets pooled. The government believes the LGPS is now on the threshold of delivering substantial and growing net savings and needs to accelerate progress in order to optimise performance and savings in line with the principles of the balance sheet framework.

4.50 This reform will require a strengthened framework for LGPS investments and pooling. The government will therefore consult next year on next steps, including proposals to deliver stronger governance, improved reporting, and greater transparency on investment performance, including benchmarking against UK and international comparators.

The Nuclear Liabilities Fund and protecting the balance sheet

4.51 The Nuclear Liabilities Fund (NLF) was set up by the government as an independent fund to meet the long-term costs of decommissioning eight nuclear power plants that were sold to EDF Energy in 2009. The majority of the NLF’s assets are held in the National Loans Fund (NatLF) which is within public sector accounts, with a minority invested in private sector investments. In general, the Treasury’s view is investing funds in the private sector in order to meet future liabilities is deemed to be an unnecessary risk and not a financially efficient use of funds, especially given the government is in a net liability position and the risk of this liability crystallising is all within the public sector.

4.52 In early 2020, certain of EDF Energy’s liabilities relating to these nuclear power stations were revised upwards. In addition, in March 2020 interest rates and thus the yield on NatLF deposits fell. It was judged by the NLF’s Trustees that in these new circumstances, the NLF’s existing investment portfolio would not be on track for sufficiency.

4.53 The Trustees’ proposed solution was to take some of the NLF’s deposits out of the NatLF as they matured and invest these in the NLF’s higher-returning private investment portfolio. However, this proposal was not in line with the Treasury’s general principles as described above. This proposal would also have worsened the government’s balance sheet (decreasing its assets in relation to its liabilities), worsened PSND, and would have put a strain on the government’s cash management position at a time when it was already under pressure due to Covid-19 pandemic.
4.54 The Treasury proposed an alternative solution to the NLF’s Trustees to provide a top-up to the NLF’s deposits in the NatLF, with the exact amount to be determined by the NLF and its fiduciary manager’s analysis of how much funding would be needed to meet the revised liabilities figure in a lower-rate environment. A top-up to the NLF’s NatLF deposits would be in line with the Treasury’s general principle of avoiding the further transfer of assets out of the public sector, thereby protecting the government’s balance sheet position and avoiding any additional strain on the government’s cash management services.

4.55 The NLF’s Trustees accepted this solution on the basis that it would ensure the Fund was on track for sufficiency.
Chapter 5

Realising the benefits of the BSR: Risk management

1. Improving the identification and mitigation of balance sheet risks

Mitigating risk by reducing inflation exposure from government bonds

5.1 In 2018, the BSR announced that the government was taking action to reduce inflation exposure by looking to reduce the proportion of index-linked gilt issuance in a measured fashion over the medium term. Index-linked gilt issuance as a share of total gilt sales fell by 3.0 and 4.9 percentage points on the previous year in 2018-19 and 2019-20 respectively.

5.2 Index-linked gilts differ from conventional gilts in that the coupon payments and the principal are adjusted in line with the UK Retail Prices Index (RPI). Issuing index-linked gilts has historically brought cost advantages due to strong demand from, for example, the domestic pension fund and insurance industries, and has built the UK’s financial resilience through supporting our long average debt maturity and diversifying our investor base. The UK’s relatively large stock of index-linked debt also increases the sensitivity of the public finances to inflation shocks, as highlighted by the OBR.

5.3 The government has been considering ways to mitigate inflation exposure in the debt portfolio. Its aim is to reduce the proportion of index-linked gilt issuance in a measured fashion over the medium term. This entails striking the appropriate balance between index-linked and conventional gilts, taking account of the level of structural demand, the diversity of the investor base, and the government’s desired inflation exposure.

5.4 Decisions on precise levels of index-linked and conventional gilt issuance will continue to be made annually through the financing remit process (and revisions thereof), taking into account cost and

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1 Also included in HM Treasury’s ‘Managing fiscal risks’ 2018 report, in response to OBR’s Fiscal risks report 2017
2 HM Treasury and the UK Statistics Authority published the outcome of their joint consultation on reforming the RPI methodology alongside Spending Review 2020. ‘A consultation on the Reform to Retail Prices Index (RPI) Methodology’, HM Treasury March 2020
3 Fiscal risks report 2017, Office for Budget Responsibility, July 2017
risk, market and demand conditions, as well as wider factors, in the context of its debt management objective.

Placing controls on local government purchasing commercial property

5.5 Local authorities invest billions of pounds in capital finance in their communities. The government helps support this activity by offering low cost loans through the Public Works Loan Board (PWLB). In recent years, a minority of councils have increasingly used the cheap finance from PWLB to buy commercial property primarily to generate income. The NAO estimates that local authorities bought £6.6 billion of commercial property between 2016-17 and 2018-19.4

5.6 The BSR identified an increasing risk that the government was being exposed to from the increase in these assets. Using PWLB debt to invest in commercial property reduces the availability of PWLB finance for core local authority activities. In addition, local authorities may become dependent on commercial property income to support services. These local authorities become exposed to both specific risks (i.e. individual property issues such as the financial strength of the tenant) and systematic risks (i.e. movements in markets such as the 2008 fall in the housing market). If a significant systemic risk were to crystallise, the local authority would likely be unable to cover its costs, forcing central government to step in and cover them.

5.7 To address local authorities exposing the government to potentially significant risks outside of its control, in May 2020, the Treasury announced a consultation on placing restrictions on local authorities buying investment property.5 LAs that wish to buy commercial property primarily for yield would not be able to take out new loans from the PWLB in the year in which they have bought the asset.

5.8 The PWLB will continue to support LA investment in service delivery, regeneration, and housing, without impinging on the powers and freedoms that LAs use to deliver local services in innovative ways. Once implemented, this will help to reduce the fiscal risk and will achieve £475 million in savings between 2020-26, on top of the OBR’s forecast of reduced spending on commercial investments as a result of Covid-19.

Managing fiscal risk from clinical negligence

5.9 The government’s second largest provision (£85.3 billion as at 31 March 2019 per WGA) provides for possible future costs associated with legal cases brought against the NHS as a result of clinical negligence.6 In the last 10 years claims have doubled and payments

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4 'Local authority investment in commercial property', National Audit Office, February 2020
5 'Public Works Loan Board: future lending terms', HM Treasury, March 2020
6 'Whole of Government Accounts 2018-19', HM Treasury, July 2020
have quadrupled, while the provision for possible future payments of compensation and legal fees has increased by 550%. On a per household basis, the provision against negligence is now worth £3,600 per household, compared to £700 per household 10 years ago. In addition, the government had a further £51 billion of contingent liabilities as at 31 March 2019, representing an estimation of the additional provision that would be recognised in the accounts if damages payments were awarded on all claims, rather than taking into account the probability of damages being paid. The increase in the cost of clinical negligence is forecast to continue, representing the diversion of resource from front line services and a significant source of fiscal risk.

Chart 5.A: NHS Resolution increasing provision for clinical negligence claims and the number of new claims reported in year

<table>
<thead>
<tr>
<th>Year</th>
<th>Clinical provision, £billion</th>
<th>Number of clinical claims and incidents reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>28.3</td>
<td>11,497</td>
</tr>
<tr>
<td>2015-16</td>
<td>56.1</td>
<td>10,965</td>
</tr>
<tr>
<td>2016-17</td>
<td>64.7</td>
<td>10,866</td>
</tr>
<tr>
<td>2017-18</td>
<td>76.7</td>
<td>10,668</td>
</tr>
<tr>
<td>2018-19</td>
<td>83.1</td>
<td>10,672</td>
</tr>
<tr>
<td>2019-20</td>
<td>82.5</td>
<td>11,682</td>
</tr>
</tbody>
</table>

Source: NHS Resolution

5.10 The BSR has focused on reducing the increasing cost of clinical negligence. DHSC has led work across government on this issue, working closely with the Treasury, the Ministry of Justice and Cabinet Office.

5.11 Patient safety is an important component of the government’s approach: preventing negligent harm in the first place, as well as being the right thing to do, has the potential to reduce the costs of clinical negligence. Substantial programmes on patient safety are

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7 Between 2006-07 and 2017-18, clinical claims payments quadrupled, from £0.6 billion to £2.2 billion, with the number of reported claims doubling from 5,400 to 10,600 over the same period.


9 Using total clinical negligence provisions in NHS Resolution’s Annual Report and Accounts over the number of households in England each year per ONS, costs have increased from £700 per-household in 2009-10 to £3,600 per-household in 2019-20.

underway as set out in the ‘NHS Patient Safety Strategy: Safer culture, safer systems, safer patients’ published in July 2019.\textsuperscript{11}

5.12 The BSR highlighted the need for a targeted approach to prevent the costs of clinical negligence from continuing to rise. With obstetric claims making up 50% of the value of clinical negligence claims, taking targeted action to improve maternity safety and prevent negligent harm in the first place is important to managing the increasing costs of clinical negligence and fiscal risk in an impactful way, as well as being the right thing to do.

5.13 Building on the work that has been done on maternity safety and a range of maternity safety initiatives, a task force of representatives from DHSC, the Treasury, Cabinet Office, NHS Resolution and NHS England/Improvement was established in 2019 focusing on maternity safety and clinical negligence. The importance of safety in maternity services is heightened by the devastating impact that infant brain injuries can have, requiring lifetime care and significant costs. The group considered a programme of work to identify new or existing interventions that draw on the latest research on approaches to prevent infant brain injuries. The BSR was a catalyst for the development and consideration for funding of piloting new interventions targeting infant brain injury. These pilots will be funded by a share of £9.4 million at Spending Review 2020.

5.14 It is critical that the government continues to improve patient safety in a targeted, impactful way and tackle the rising costs of clinical negligence. To advance this work, in addition to the ongoing work outlined above, the government will publish a consultation next year.

5.15 Work has also been undertaken to look into the costs of claimant legal fees which comprise a disproportionate amount of many lower value claims. Having consulted on this issue in 2017, DHSC is considering proposals from the Civil Justice Council for fixed recoverable costs and process improvements for clinical negligence claims of up to £25,000 damages and will consult on any next steps.

Developing risk frameworks

5.16 At Budget 2017, the government announced a new package of £8 billion of financial guarantees to support private sector house building.\textsuperscript{12} Drawing on experience gained from the BSR, the Treasury is working with the Ministry of Housing, Communities and Local Government (MHCLG) to develop a risk sharing framework where the risk is shared appropriately between all counterparties. This would address concerns that MHCLG is particularly exposed to housing market risk. The framework would ensure that the Exchequer is fully compensated for its role as lender of last resort, MHCLG is fully

\textsuperscript{11} The NHS patient safety strategy’, NHS England and NHS Improvement, July 2019

\textsuperscript{12} Autumn Budget 2017’, HM Treasury, November 2017
compensated for insurance provided to the housing sector, and risk is adequately priced and budgeted for.

5.17 The Treasury is working to develop a risk framework with MoD. Due to the complexity of MoD’s equipment programme, the department is exposed to a large number of contingent liabilities. The Treasury and MoD are working to develop a risk framework to ensure the contingent liabilities are best managed to reduce the risk and provide value for money to the taxpayer. The framework will begin to be implemented over the SR period.

Reducing insurance costs in education

5.18 The risk protection arrangement (RPA) is an alternative to commercial insurance for all schools, providing a risk pooling solution. Under RPA, the government covers losses rather than commercial insurance companies. The RPA was originally only available to academies but as from 1st April 2020 the RPA offer was expanded to include local authority-controlled schools, some of whom still broker their own insurance arrangements through local authorities.

5.19 The BSR drew upon actuarial experts within GAD and found that academies and local authorities could receive materially lower premiums through the RPA than from commercial insurance, with potential savings of £75 million to £175 million per year. This demonstrates an opportunity to achieve savings for taxpayers by replacing commercial insurance with a government contingent liability.

2. Improving capability to understand and manage balance sheet risk

The government’s contingent liability portfolio

5.20 The government takes on risk that the private sector cannot to protect the population and provide stability when unforeseen events occur. This can create potential liabilities that are uncertain but might lead to future expenditure if specific conditions are met or specific events happen. These liabilities are known as contingent liabilities.

5.21 As at 31 March 2019, the government had contingent liabilities of £80 billion and a further £297 billion of remote contingent liabilities considered to have a very low chance of crystallising. These liabilities represent a commitment to possible future expenditure and so are a significant source of fiscal risk to the government.
A new approval framework for contingent liabilities

5.22 When building the case for launching the BSR, the Treasury identified that more could be done to better understand its portfolio of contingent liabilities and improve the management of the associated risk. As a result, the Treasury introduced a new approval framework for contingent liabilities in July 2017.\textsuperscript{13} The framework requires contingent liabilities that are novel, contentious or repercussive and have a maximum exposure of over £3 million to be evaluated according to five criteria: i) rationale; ii) exposure; iii) risk and return; iv) risk management and mitigation; and v) affordability.

5.23 Over 180 new contingent liability proposals, with a current maximum exposure of around £260 billion, have been evaluated using the framework. The majority have only been approved after: i) more comprehensive information or improved quantification was provided to better understand the risk; and/or ii) substantial policy changes to reduce the risk or improve compensation to the taxpayer for bearing the risk. Contingent liabilities with a total exposure of around £15 billion have been rejected outright, helping to reduce risk.\textsuperscript{14}

5.24 The approval framework has been featured by both the IMF and Organisation for Economic Co-operation and Development (OECD) as an example of international best practice in the management of government guarantees.\textsuperscript{15}

A new contingent liability central capability

5.25 At Budget 2020, the Treasury published a report on ‘Government as insurer of last resort’ which set out proposals for improving the management of the government’s contingent liabilities in line with four key objectives:

- improve the expertise in the government to quantify and price risk
- improve compensation for risk taken on by the taxpayer
- establish the right incentives to reduce both the probability of risk materialising and the cost when it does
- clarify risk ownership to provide more certainty on how losses will be shared between the Exchequer, departments and the private sector

5.26 The Treasury is working to implement these proposals, including establishing a Contingent Liability Central Capability in 2021. This unit

\textsuperscript{13} ‘Contingent liability approval framework: guidance’, HM Treasury, July 2017

\textsuperscript{14} Source: HM Treasury

\textsuperscript{15} ‘How to strengthen the management of government guarantees’, International Monetary Fund, October 2017, 18th Annual Meeting of OECD Senior Financial Management and Reporting Officials, OECD Paris, March 2018
will be an analytical and advisory body that strengthens contingent liability expertise within the government. Bringing expertise together from UKGI and GAD, the unit will:

- advise on new contingent liabilities including the level at which premiums should be set where appropriate
- review the stock of pre-existing contingent liabilities, considering total exposure, expected loss and the level at which premiums could be set, and examining their management and where risk can be mitigated
- monitor and analyse the total risk government is exposed to on a whole portfolio basis, and conduct stress-tests to determine the economic conditions to which the government is especially vulnerable
- report on the portfolio and results of stress-testing, ensuring the government better understands the fiscal risk it is exposed to so that it can better manage the associated risks - the Treasury will use this information to inform risk management and contingency planning

3. Improving compensation for risk to protect the taxpayer

Charging the private sector for risk borne by taxpayers

5.27 The BSR found that, at present, there are limited incentives for departments to consider the full fiscal cost associated with a contingent liability. As a result, the taxpayer may be under-compensated for the risk that it takes on. In line with international best practice, and as set out in the ‘Government as insurer of last resort report’,\(^\text{16}\) the Treasury is exploring options to charge fees equaling expected cost for the guarantees and insurance it provides. Charging for risk reduces the government’s total risk exposure by ensuring that beneficiaries are incentivised to reduce their risk and reduce their charges and that the Exchequer is fully compensated for its role as lender of last resort.

5.28 Charging for risk is expected to be applied, where appropriate and consistent with wider policy objectives, from 2021-22. The Treasury will formalise mechanisms to increase compensation for risk borne by the taxpayer and apply this to specific opportunities identified by this Review.

\(^{16}\) ‘Government as insurer of last resort’, HM Treasury, March 2020
ATOL and insolvency protection

5.29 The BSR found that there was an opportunity to learn from the Airline Insolvency Review findings and review the compensation arrangements involving ATOL (Air Travel Organiser’s Licence).

5.30 When Monarch Airlines was placed into administration in 2017, over 110,000 passengers were overseas, and more than 300,000 bookings for future holidays were lost, affecting a further three quarters of a million people.17 The government instructed the Civil Aviation Authority to undertake a repatriation operation to bring home not only those passengers whose holidays were protected by the ATOL scheme, but all those overseas. The additional costs of £45 million for repatriating non-ATOL protected passengers was covered by taxpayers.18 Since then, the government has provided further support to the industry following the much larger failure of Thomas Cook. The NAO has estimated the additional cost to the government from the insolvency of Thomas Cook at £156 million.19

5.31 Following the failure of Monarch, the Chancellor announced an Airline Insolvency Review. Published in 2019, the Review found that around 75% of passengers would need to access and pay for alternative travel arrangements themselves if they are left overseas in the event of the collapse of an airline.20 It recommended that new arrangements be put in place to provide practicable, effectual and affordable protection for all UK originating air passengers facing stranding because the operator of their return flight has failed. The Review also recommended that the taxpayer should be shielded from picking up the costs by requiring all airlines to pay for financial protections to cover the estimated cost of repatriating their UK passengers to the UK in the event of insolvency. It estimated that on average, the overall cost of this protection would be less than 50p per UK originating passenger.

5.32 The government’s immediate priority is travel issues arising from the current Covid-19 pandemic. The government is also committed to considering what the future shape of the sector means for insolvency protection.

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18 Investigation into government’s response to the collapse of Thomas Cook’, National Audit Office, March 2020
19 ibid
Chapter 6
Conclusion and next steps

6.1 While this report marks the conclusion of the BSR, the government’s focus on improving balance sheet management will continue. Future work in this space includes:

(1) Using the public sector balance sheet framework to assess performance to improve efficiency across portfolios.

(2) Considering the conclusions of the BSR as part of the government’s fiscal framework review which is broader in scope but will draw on several areas, including developments in the management and measurement of the balance sheet.

(3) Supporting further work by the ONS and OBR to accurately measure and forecast broader balance sheet metrics to improve fiscal decision making.

(4) Further embedding the consideration of balance sheet management impacts in spending decisions, processes and guidance across government.

(5) Establishing a fund to encourage investment in intangible assets and set up a new unit to search for and develop opportunities relating to intangible assets across government.

(6) Strengthening risk management across government through the establishment of the Contingent Liability Central Capability and managing the risks that the government is exposed to on a portfolio basis.

(7) Formalising mechanisms to increase compensation for risk borne by the taxpayer and apply this to specific opportunities identified by the BSR.

(8) Further improving maternity safety which helps to control the increasing cost of clinical negligence and the associated fiscal risk. Actions include rolling out pilots targeting infant brain injury, funded at Spending Review 2020. It is critical that the government continues to improve patient safety whilst also tackling the rising costs of clinical negligence, and it will publish a consultation next year.

(9) Further highlighting the importance of developing train stations and adjoining land to stimulate local economies. The ambition is to
create tens of thousands of homes and jobs and increase public value by £7 billion over 10 years.

(10) Applying good practice from the BSR to support the management of risk from the government’s Covid-19 interventions as well as the appropriate management of legacy tangible and intangible assets acquired during the pandemic.

(11) Reviewing the public sector balance sheet and risk exposures in the context of climate change and the shift to a greener economy.
HM Treasury contacts

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If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk