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## Exploring the Bigger Picture

A recent academic study helpfully focused on the consequences of an ageing population in terms of increasing periods of infirmity in later life. It was widely reported - the fact that the numerical difference between life expectancy and healthy life expectancy (i.e. the aggregate period one might expect to be in poor health) was growing provided the opportunity to proclaim the need for greatly increased residential care capacity.

However, the significant fact is not whether the difference between life expectancy and healthy life expectancy is growing or not, but the extent to which this observation should change our view of the future. Surely our planning is based on some age-related assumptions about demand based on available data and the study is relevant only if it changes those assumptions?

It's very common in many fields to establish a baseline or a benchmark of some sort which is then used to assess variations in performance or in policy effects. So where are the benchmarks for some of these long-term policy commitments such as care costs and pensions? And contingencies such as nuclear decommissioning? And how do we explore the risks that the future might not turn out exactly as per the benchmarks?

Recent additions mean there is now a small suite of very important Government publications that aim to help with these questions. I would focus on three:

- The [Whole of Government Accounts \(WGA\)](#) for 2016 released by HM Treasury seeks to quantify and comment on the Revenue, Assets and Liabilities across the entire public sector,
- The first [Fiscal Risks Report \(FRR\)](#) is a new initiative from the independent Office for Budget Responsibility (OBR) that analyses the risks to these and other Government fiscal measures, and
- OBR's existing regular reports such as the [Fiscal Sustainability Report \(FSR\)](#).

Taken together, these reports represent a most comprehensive view of Government finances, forecasts and risks. They help distinguish the very important from the less important and provide an antidote to any single issue or silo approach that might otherwise fail to recognise longer-term or wider implications. They ought also to go some way to contextualising the additional evidence presented in studies such as the one to which I referred at the start of this blog.

There is plenty for analytical types like me to go at in these documents. And some obvious themes. The effects and risks of an ageing population are there for all to see, with the FSR being based on assumptions linking costs to the growth in population in general and the aged population in particular. And the scale and complexity of Government exposure to pension liabilities, nuclear decommissioning costs and clinical negligence claims is laid bare before us. Less familiar to me perhaps is the limited lifespan of certain important Government revenue streams such as North Sea oil revenues and vehicle fuel and tobacco duty.

The reports view Government finances through three different but complementary lenses. The WGA presents a snapshot view for the year, including a balance sheet valuation of assets and future liabilities discounted to today's values. The OBR's FSR looks at finances based on future cash flows over many years and includes a quantification of any fiscal remedies that might be employed to maintain sustainability in the long term. The FRR goes

into much more detail about the risks to revenue and spending over this long time horizon and poses questions to the Treasury about those risks.

In my experience, a multi-dimensional view of complex systems is often necessary and I think this three-pronged approach works well together. WGA gives us a quantified view of the scale of Government liabilities valued at a point in time and enables comparisons to be made with asset values and between different types of liabilities. The process of discounting applies different weights to short- and long-term future commitments, reflecting the time value of money. It does lose some of the detail in the process and changes in the rate of discount used can make year-to-year comparisons problematic.

By contrast, the OBR works with the projected cash flows each year enabling longer-term trends to be observed and fiscal challenges to be assessed. Viewed through this lens for example, the Government's liability to public service pensions, which appears as £1.4 trillion in the WGA and is the largest single liability by some distance, represents annual net expenditure of less than 1.5% of GDP in the longer-term. OBR do not discount future items to the present day but do express future costs and revenues as a proportion of GDP and thereby place a high dependency on the assumptions about future GDP growth into its analysis.

Underpinning all these great outputs is some pretty heavy lifting in terms of assumptions and models. The process of compilation, challenge and stakeholder consultation is massive, and improving internal consistency and comprehensiveness is a never-ending task. GAD plays a part in the process; we are pleased to be consultees on some of these documents and to assist our clients in preparing inputs to, and interpreting, them.

The effort is worth it. This suite of documents are a hugely important reference work with which analysts and commentators should become more familiar. In my opinion the Government has reached a pre-eminent position in terms of transparency, quantification and challenge of its finances.

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