



Managing contingent liabilities in the public sector

On 21 February 2019 GAD and HM Treasury co-hosted an event to discuss obligations which may arise from uncertain future events ('contingent liabilities'). The event explored questions as to how departments can best identify, measure, monitor and manage the risks they face; and how HM Treasury can help to further improve the management of these liabilities. This article reports from the event and summarises its key outcomes.

Who attended?

We were pleased to welcome over 60 attendees from across the public sector, representing organisations including: Ministry of Defence, Pension Protection Fund, Ministry of Housing, Communities and Local Government, Local Government Mutual, Department for Education and Department for Transport.

What was discussed?

The event focused on contingent liabilities: for example costs relating to contractual guarantees or natural disasters. Topics covered included:

- **Background to the contingent liabilities framework:** A framework used to approve new contingent liabilities, developed by HM Treasury.
- **Sharing and learning from good practice:** Departments provided an overview of their approaches to managing contingent liabilities. In addition, the Department for International Development explained how they helped set up Kenya's Hunger Safety Net Programme that directly supports Kenyans impacted by droughts.
- **Techniques for modelling risk:** GAD illustrated how modelling can help support effective contingent risk management, providing demonstrations of:
 1. **World Bank case study:** GAD has developed tools to help countries understand and develop financing strategies to mitigate against natural disasters
 2. **Department for Education (DfE) case study:** closer to home, GAD's scenario modelling is helping DfE to understand its risks, such as the cost of a serious flooding event on academy schools



Looking forward

Attendees contributed to round table discussions that will support an HM Treasury policy paper feeding into 2019 Spending Review. A selection of proposed actions are shown below:

- provide a central source of information, expertise and tools to support departments and decision making
- incentivise the effective risk management of contingent liabilities
- continue to develop the existing contingent liabilities framework

There was a recognition that contingent liabilities stem from long-term risks but government funding and decision-making focuses on a one-year time horizon. Overcoming this remains challenging.

Next steps

A huge thank you to our speakers and attendees for making the event such a success. GAD and HM Treasury plan to keep in touch with attendees and use case studies of current best practises to support policy recommendations. Please contact jonathan.day@gad.gov.uk for a copy of the slides, to contribute your ideas, or if you would like to discuss the topic in more detail.