Managing the Public Sector Balance Sheet in the UK

Richard Hughes
Director of Fiscal Policy

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Outline

1. Evolution of the UK Public Sector Balance Sheet
2. Disposing of Financial Sector Assets
4. Conducting a Balance Sheet Review
5. Getting Smart about Intellectual Property
6. Controlling Contingent Liabilities
1. Evolution of the UK Public Sector Balance Sheet

UK Public Sector Assets, Liabilities, and Net Worth (% of GDP)

Source: IMF (2018)
2. Returning financial assets to the private sector

Cash flows from assets acquired during the financial crisis

- Cash outlays: £137 billion
- Principal repayments: £92 billion
- Other fees received: £21 billion
- Net cash position: £23 billion
- Outstanding principal repayments due to HMT: £5 billion
- Market value: £29 billion
- Implied balance: £11 billion

Legend:
- Lloyds
- RBS
- UKAR
- Guarantees
- Other

Bank of England Balance Sheet
(2006-18)

Bank of England Capital & Income Framework
(2018)

Source: Bank of England
4. Conducting a Balance Sheet Review

Framework for the Balance Sheet Review

Understanding the balance sheet

- Core
  - Assets
    - Whole of Government Accounts
  - Non-core

Managing the balance sheet

- Core
  - Improve return
  - Improve utilisation
  - Disposal
  - Reduce cost
  - Reduce risk
  - Improve compensation for bearing risk
- Non-core
  - Divest

Example opportunity

- Lease asset to the private sector
- Share asset with other government departments
- Sell asset
- Optimise debt portfolio
- Add conditions to guarantees
- Negotiate premium for providing guarantee
- Settle liability
5. Getting smart about intellectual property


Source: OECD, SPINTAN, UK WGA
6. Controlling contingent liabilities

Profile of UK Government Contingent Liabilities

Source: HM Treasury (2018)
6. Controlling contingent liabilities

Contingent Liabilities Approval Regime

1. Rationale
   a. Why govt intervention necessary?
   b. Why a contingent liability?
   c. What alternative explored?

2. Exposure
   a. What is the size?
   b. What is the maturity?
   c. What is govt’s exit strategy?

3. Risk & Return
   a. What are triggers for crystallisation?
   b. What is likelihood of crystallisation?
   c. What is expected loss vs. return?

4. Mitigation & Management
   a. Who is managing the risk?
   b. What risk mitigation tools are in place?
   c. Is the taxpayer adequately compensated?

5. Affordability
   a. Can the dept’s budget absorb the risk?
   b. What is the residual fiscal exposure?
   c. What is the impact on borrowing & debt?

Source: HM Treasury (2018)