



IFS Green Budget 2016

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To make good decisions, understand your finances

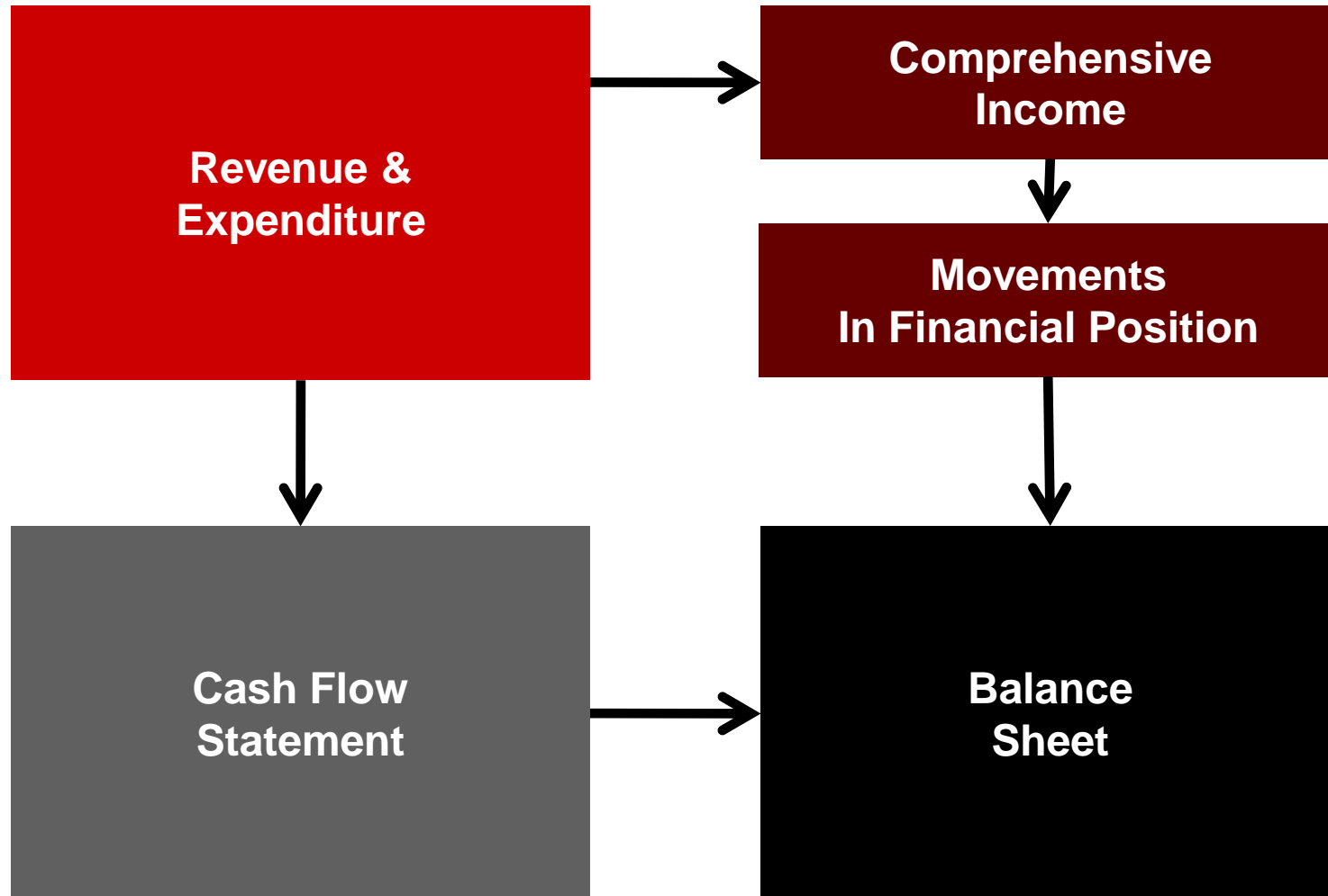
Five years of Whole of Government Accounts (WGA)

- Provides insights not available from the National Accounts
- But – takes too long to produce
 - lack of comprehensive monthly financial reports

Infrastructure funding

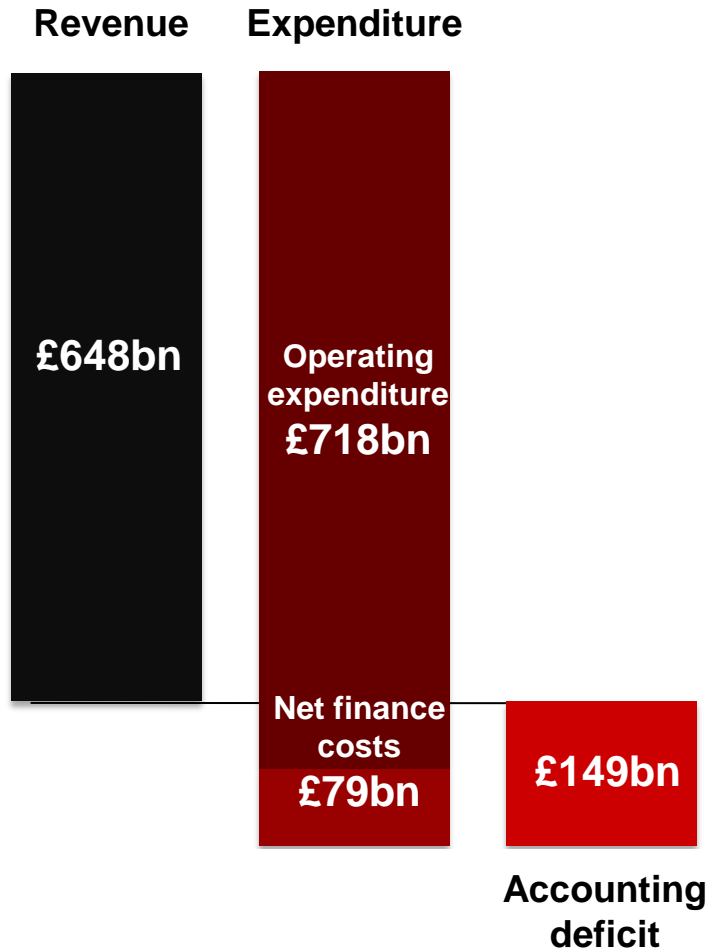
- The Chancellor's dilemma – how to improve the public finances and increase investment at the same time
- How hard is it to encourage private sector investment?
- Is it time to bring PFI on balance sheet?
- And instead prioritise investments that pay for themselves?

Five years of integrated financial accounts

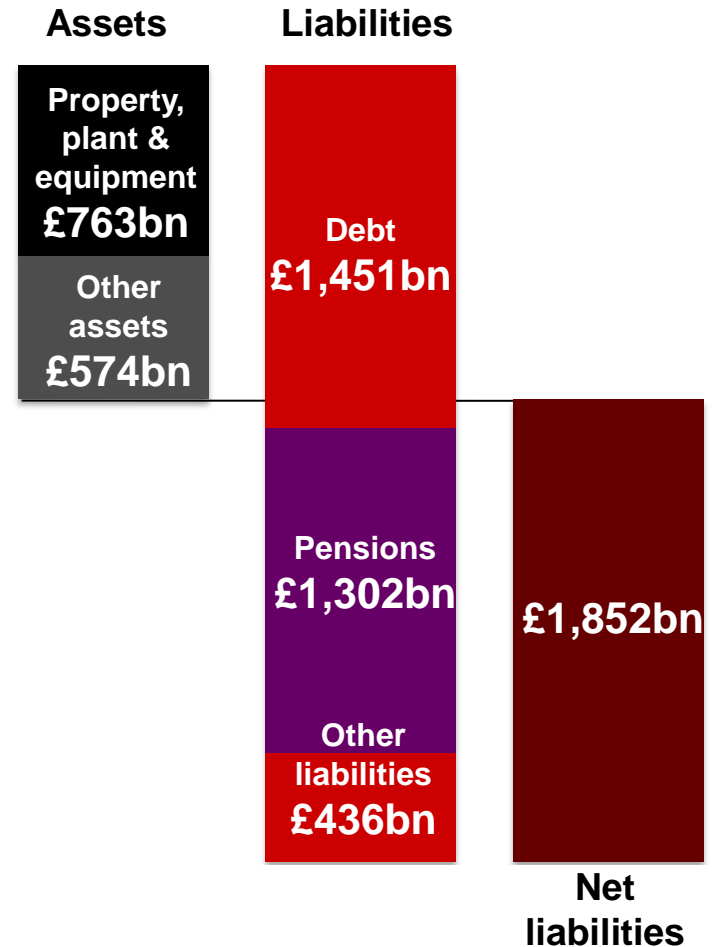


Five years of Whole of Government Accounts

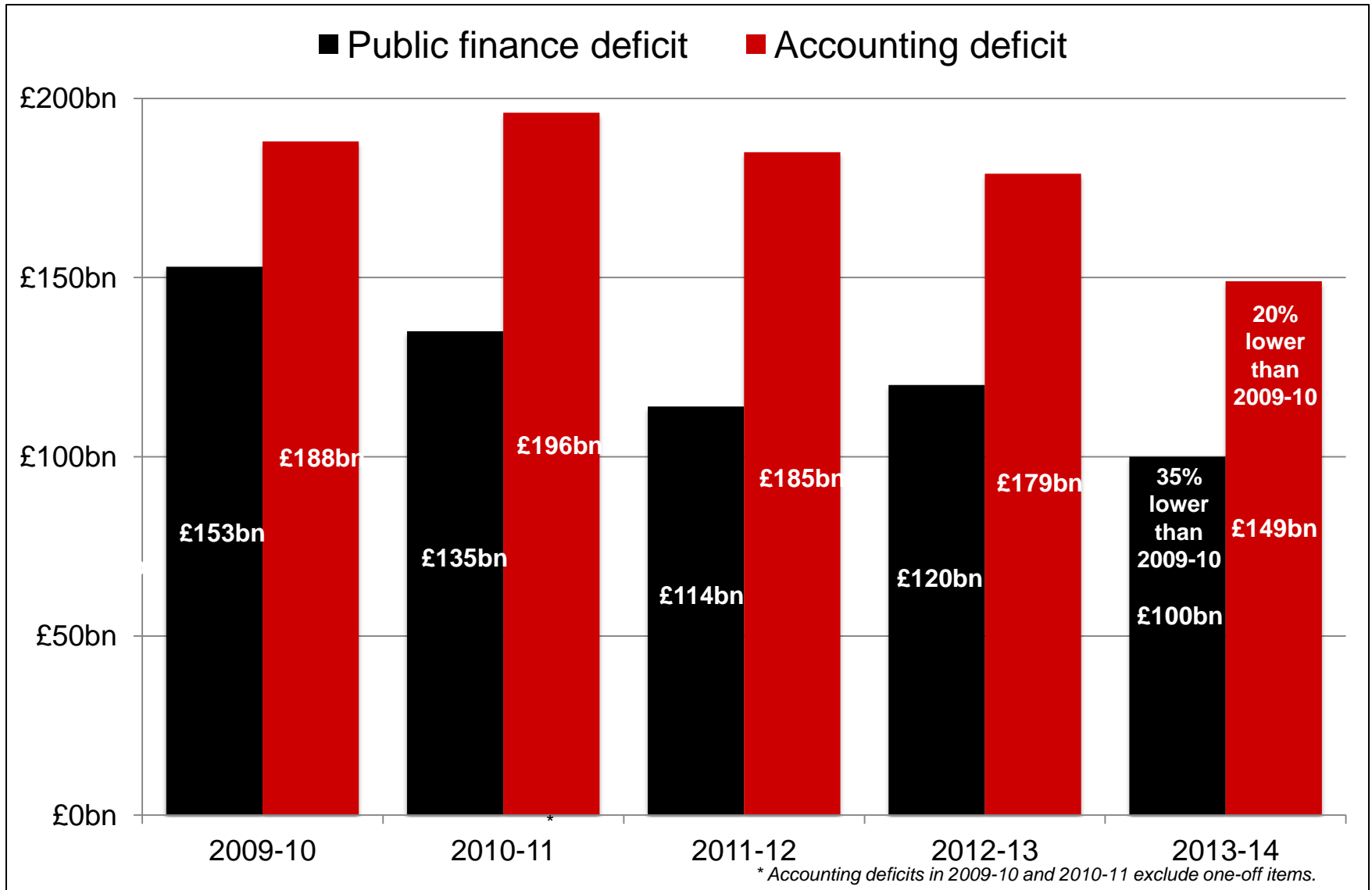
Revenue & Expenditure for 2013–14



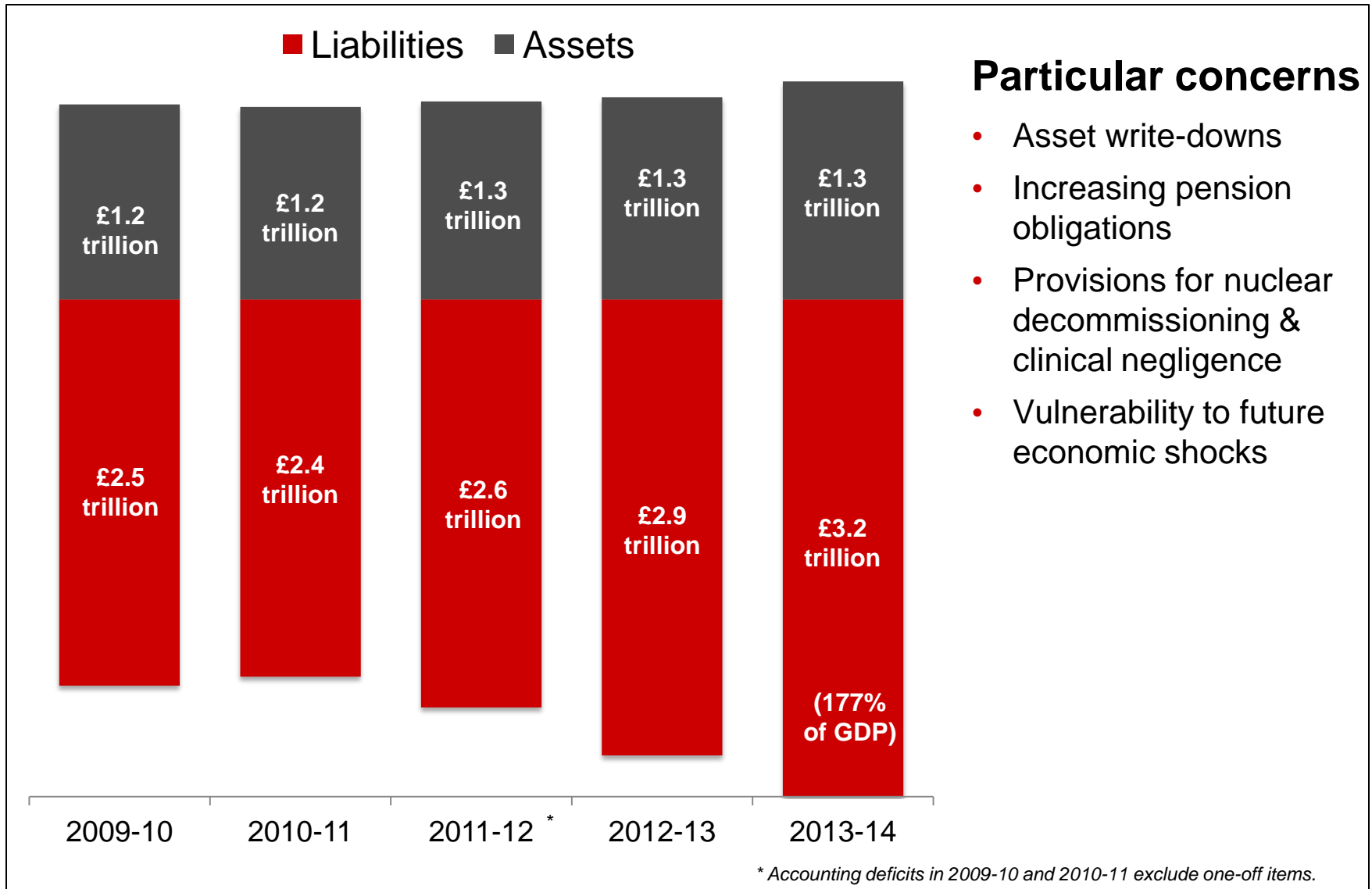
Balance Sheet at 31 March 2014



Five years of accounting deficits



Five years of balance sheets



Five years of improvement, but ...

Significant progress

- Preparation time from 2 years down to 12 months
- Increased standardisation of accounting across the public sector
- WGA starting to be used to support decision making

But more to do ...

- Target of 9 months not achieved (v. 3 months in the private sector)
- Finance systems still disjointed and inflexible – just as devolution accelerates
- Lack of comprehensive monthly internal financial reporting

Its time ...

- To embed WGA into the financial foundations of Whitehall
- For a modern financial consolidation system – to enable reporting within days not months

Infrastructure funding – a fiscal dilemma

- How to increase infrastructure funding at the same time as sorting the public finances?
- Fiscal charter rule = run a surplus = no new borrowing
- Options:
 - Cut operational spending faster?
 - Bypass the fiscal charter through ‘off balance sheet’ PFI projects?
 - Encourage private sector investment?
 - Investments that pay for themselves?

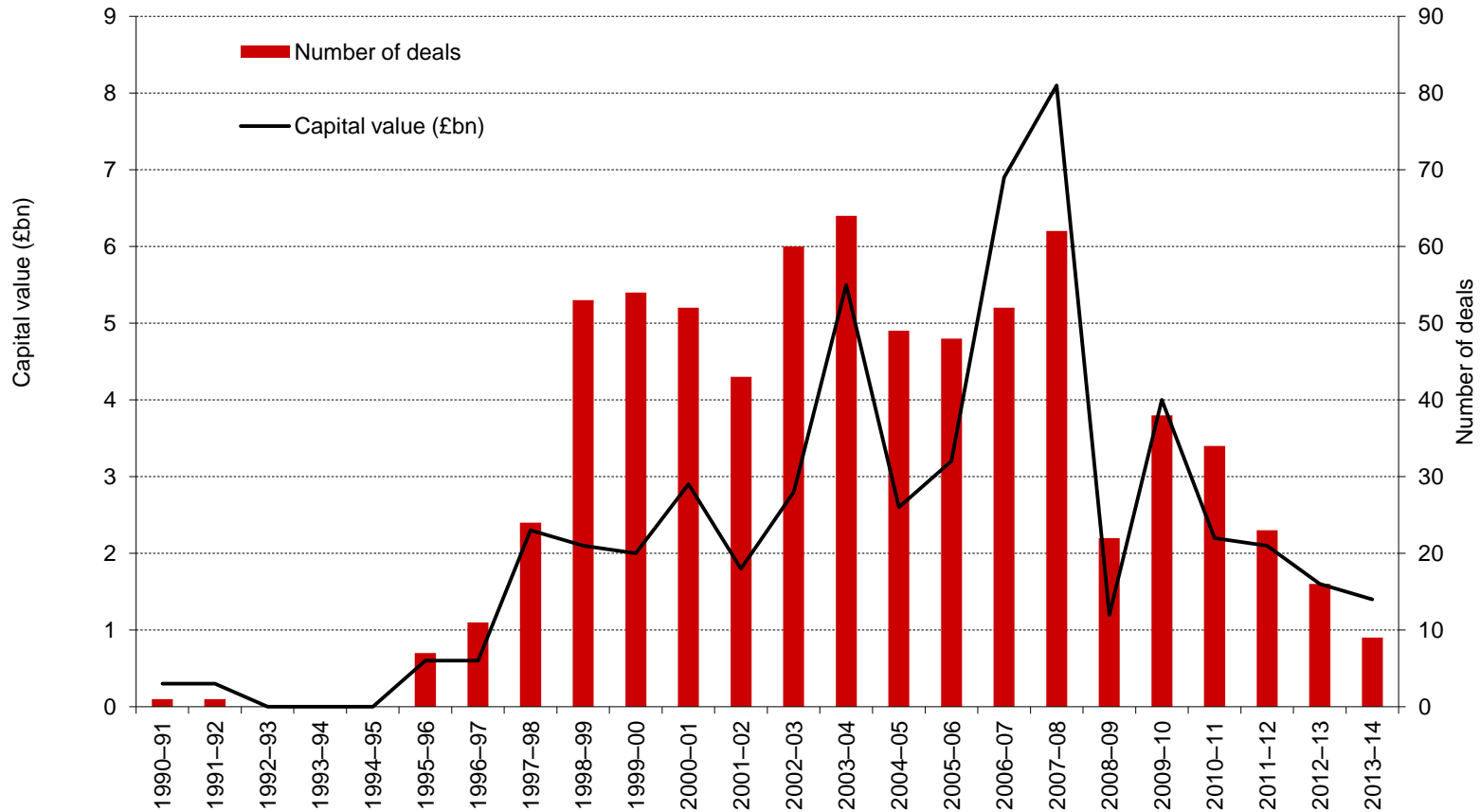
Flat public investment for next four years

- Government investment plans relatively flat until 2018-19, before an increase in the last year of the parliament

Fiscal year	2015-16	2016-17	2017-18	2018-19	2019-20
	£bn	£bn	£bn	£bn	£bn
Railways ^a	7.6	8.2	7.3	7.1	9.8
Schools	4.6	5.1	4.6	4.5	4.5
Highways and roads	2.8	2.8	3.2	3.5	4.0
Housing and regeneration	1.0	1.0	1.3	2.2	2.1
Science	1.1	1.1	1.1	1.2	1.2
Flood defences and other	0.4	0.5	0.5	0.5	0.5
Total selected infrastructure	17.5	18.7	18.0	19.1	22.1
Housing associations ^b	7.9	7.7	7.3	7.2	7.2
Total incl. housing associations	25.4	26.4	25.3	26.3	29.3

^a Railways include HS2. ^b Housing association spending estimated by OBR
 Source: Autumn Statement 2015 and OBR November 2015.

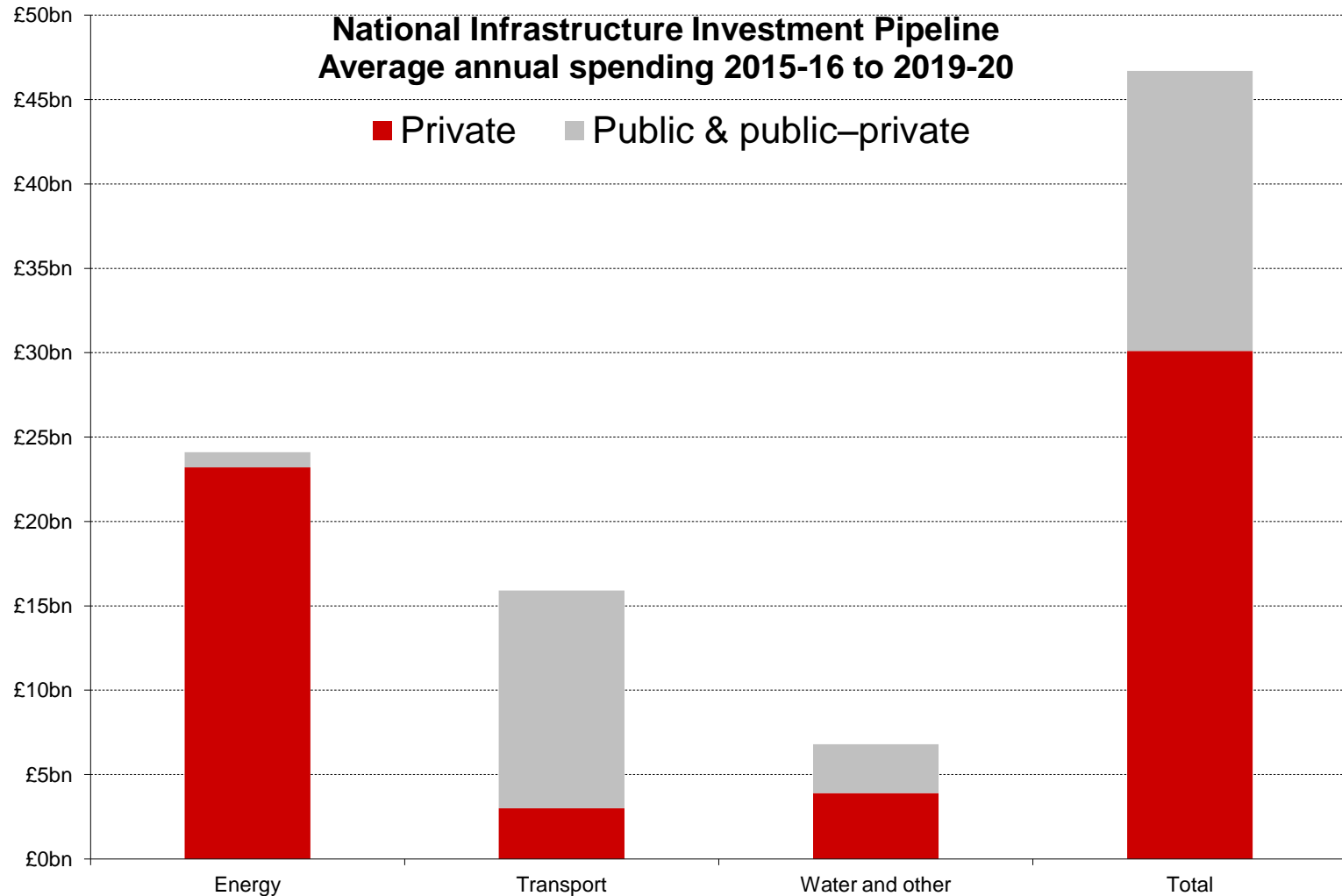
New PFI projects running at < £2 billion a year



Source: HM Treasury, PFI projects 2014 summary data, 15 December 2014.

- PFI contracts are now only 2.9% of public sector net debt and neutral to the deficit – is it time to bring them on balance sheet?

Infrastructure investment of £47 billion a year



Source: March 2014 National Infrastructure Investment Pipeline (does not include housing, schools, hospitals or commercial buildings).

Infrastructure funding – the story so far

Less funding from banks

- rebuilding their balance sheets

Less funding from institutional investors

- Monoline insurers – bust, so no AAA bonds anymore

Increased costs

- higher funding costs than before

Government actions

To get better value from PFI

- PF2 contracts – better value for the taxpayer

To provide regulatory or market incentives

- Continued strong investment by price-regulated utilities
- Growing investment in renewables – up until policy changed

Reducing risk for investors

- UK Guarantees to support lending (but only £1.7bn in first two years)

Widening the pool of finance available

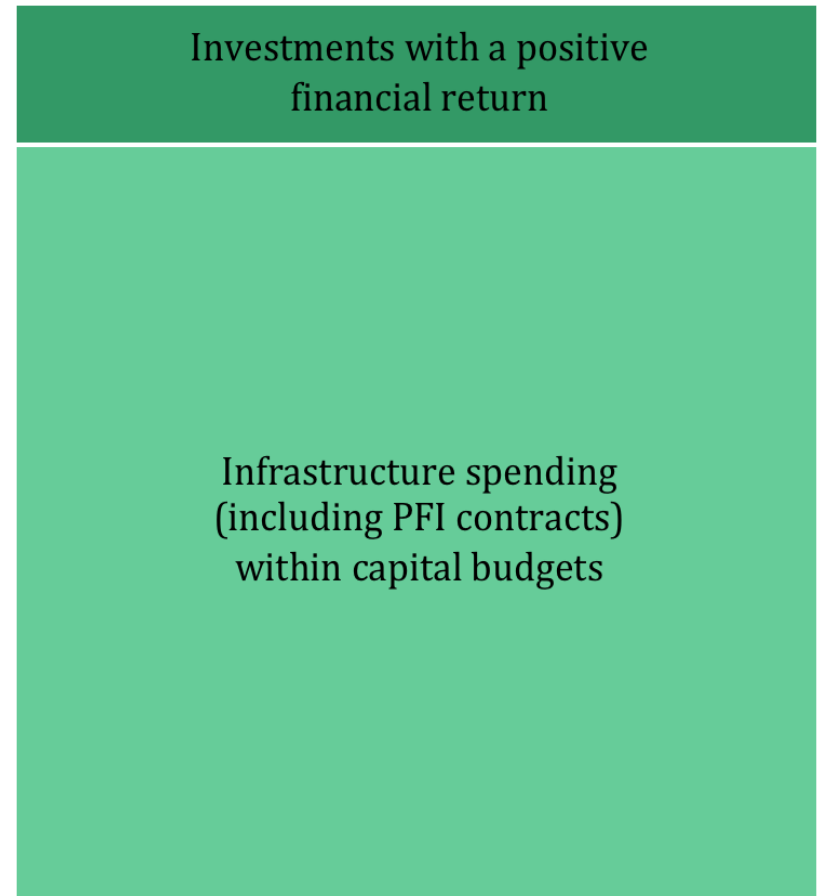
- Pensions Infrastructure Platform (but less than £1bn in 4 years)
- Planned collective vehicles for public sector pension funds

Time for a sustainable approach?

Current approach



A commercially sustainable approach





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of the accountancy
and finance profession