

## Briefing: the real national debt

March 2021

The chancellor recently unveiled his budget for the coming financial year. The figures from the Office for Budget Responsibility showed the national debt will increase to £2.5 trillion next year.<sup>1</sup> Yet this is only part of the picture with regard to the UK's debt.

A fuller picture of the UK government's liabilities should be regularly reported: the real national debt. This incorporates areas of future spending which are not formally recognised in either the whole of government accounts or the monthly public sector finances bulletin published by the Office for National Statistics (ONS). The basic state pension and many public sector workers' pensions are not formally counted as a liability, since they are only recognised when they fall due.<sup>2</sup> Yet these two combined are likely to reach £6.8 trillion in the next financial year.

Compared to many other rich countries, the UK is fortunate to have much longer dated government issued debt;<sup>3</sup> almost 40 per cent of conventional gilts mature in more than 15 years.<sup>4</sup> This means the modified duration – the change in the value of a debt security relative to a change in interest rates – is more manageable for the UK government. The cost of borrowing and servicing debt has also declined markedly, with many short-term gilt yields at or slightly above zero per cent.<sup>5</sup>

But this does not mean that borrowing and servicing debt will remain cheap forever. Given the size of the liabilities, they present a challenge to the long-term stability of the public finances – for example, if interest rates were to rise and if the public sector workforce continues to grow. A plan for prudent management of all liabilities – and not just public sector net debt – must be an urgent priority for the government after the pandemic.

### Key findings

- In 2021-22 the real national debt will be **£9.6 trillion**. This is almost twice the economic output of the continent of Africa, which is **£4.9 trillion**.<sup>6</sup>
- The real national debt is equivalent to **more than four times the size of the UK economy, or 423 per cent of forecast nominal GDP**.
- On a **per household basis**, the real national debt will equate to **£344,216**. On a **per person basis**, it is **£143,382**.
- The real national debt is made up of public sector net debt (**PSND**), unfunded **state pension liabilities**, unfunded **public sector pension scheme liabilities**, private finance initiative (**PFI**) and **nuclear decommissioning** costs.
- The official national debt (PSND) **dramatically understates taxpayer liabilities**. The real national debt is more than **four times larger than this year's forecast official national debt**.

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<sup>1</sup> Office for Budget Responsibility, *Public finances databank – March 2021*, 3 March 2021, <https://obr.uk/download/public-finances-databank-march-2021/>, (accessed 3 March 2021).

<sup>2</sup> HM Treasury, *Whole of Government Accounts 2018-19*, July 2020, p. 59.

<sup>3</sup> Organisation for Economic Co-operation and Development, *OECD Economic Surveys: United Kingdom*, October 2020, p. 26.

<sup>4</sup> United Kingdom Debt Management Office, *Gilt Market: Gilts in Issue on 2 March 2021*, 3 March 2021, [www.dmo.gov.uk/data/pdfdatareport?reportCode=D1A](http://www.dmo.gov.uk/data/pdfdatareport?reportCode=D1A), (accessed 3 March 2021).

<sup>5</sup> Bloomberg, *United Kingdom Rates & Bonds*, 2021, [www.bloomberg.com/markets/rates-bonds/government-bonds/uk](http://www.bloomberg.com/markets/rates-bonds/government-bonds/uk), (accessed 3 March 2021).

<sup>6</sup> International Monetary Fund, *GDP, current prices: Purchasing power parity; billions of international dollars*, 2021, [www.imf.org/external/datamapper/PPPGBP@WEO/OEMDC/ADVEC/WEOORLD/AFQ](http://www.imf.org/external/datamapper/PPPGBP@WEO/OEMDC/ADVEC/WEOORLD/AFQ), (accessed 22 February 2021).

**Table: estimated UK real national debt, 2021-22**

Real national debt component	£ (billion)
Public sector net debt	2,502.9
State pensions	5,015.5
Public sector pensions	1,837.8
Private Finance Initiative	62
Nuclear decommissioning	159.3
<b>Total</b>	<b>9,577.5</b>

## Unfunded pensions

The majority of pensions for current, future and retired public sector workers are unfunded. This means that they are paid from general taxation revenues. This is in contrast to (funded) private sector workplace pensions, whereby payments are made to funds which then select a variety of securities to meet future liabilities for current and future retirees.

Future liabilities for public sector pension schemes are found in the whole of government accounts.

Estimates for future basic state pensions are not provided in the whole of government accounts. However, the latest estimate (for 2018) released by the ONS puts the estimated liabilities at £4.8 trillion,<sup>7</sup> or £5 trillion in 2021-22 prices. This represents a substantial increase on the previous estimate from 2015 in large part because of a change in the discount rate, which changed from five per cent to four per cent.<sup>8</sup> The discount rate is used to reduce an amount of money at a date in the future to an equivalent value in the present.<sup>9</sup> A lower discount rate means higher liabilities.

Though this reduction reflects a more realistic assessment of the liabilities which the government has taken on for public sector workers, it is nevertheless higher than many private defined benefit schemes.<sup>10</sup>

## Gross government debt versus public sector net debt

Public sector net debt – the main measure of aggregate borrowing by the government – is an incomplete metric. It measures net debt (the total debt stock minus assets), rather than the gross amount. This reduces the total liability, since cash and other short-terms assets it holds are deducted from the gross amount.<sup>11</sup>

General government gross debt (GGGD) avoids this netting process, but is today used only for international comparison purposes. GGGD constitutes currency and deposits, debt securities (such as gilts) and loans (both long and short-term). GGGD as a proportion of GDP stood at 100.6 per cent in January 2021.<sup>12</sup> At the end of September 2020 – the most recent sterling figures available – the value of it was £2.14 trillion.<sup>13</sup> In comparison, PSND was 97.9 per cent of GDP in January 2021, the highest debt to GDP ratio since 1962-63.<sup>14,15</sup>

<sup>7</sup> Office for National Statistics, *Pensions in the national accounts, a fuller picture of the UK's funded and unfunded pension obligations: 2018*, 8 February 2021, [www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/pensionsinthenationalaccountsfullerpictureoftheuksfundandunfundedpensionobligations/2018](http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/pensionsinthenationalaccountsfullerpictureoftheuksfundandunfundedpensionobligations/2018), (accessed 12 February 2021).

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> The Pensions Regulator, *Scheme funding analysis 2020*, 11 August 2020, [www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/scheme-funding-analysis-2020](http://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/scheme-funding-analysis-2020), (accessed 19 February 2021).

<sup>11</sup> Office for National Statistics, *Public sector finances, UK: January 2021*, 19 February 2021, [www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2021](http://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2021), (accessed 19 February 2021).

<sup>12</sup> Ibid.

<sup>13</sup> Office for National Statistics, *General government quarterly debt (Maastricht debt): ESA Table 28*, 21 January 2021, [www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/datasets/esatable28quarterlygovernmentdebtmmaastrichtdebtforgeneralgovernment](http://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/datasets/esatable28quarterlygovernmentdebtmmaastrichtdebtforgeneralgovernment), (accessed 18 February 2021).

<sup>14</sup> Office for National Statistics, *Public sector finances, UK: January 2021*, 19 February 2021, [www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2021](http://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2021), (accessed 19 February 2021).

<sup>15</sup> Office for Budget Responsibility, *Public finances databank – March 2021*, 3 March 2021, <https://obr.uk/download/public-finances-databank-march-2021/>, (accessed 3 March 2021).

Public sector net debt itself is also likely to be undervalued. This is because the debt is measured in nominal terms. In other words, the debt is not revalued to reflect prevailing market prices. A 'marked-to-market' or fair value accounting procedures would likely increase the size of PSND.

## Calculations

The total figure for the real national debt next financial year will be at least £9,577,472,682,004.

### Public sector net debt

The latest forecast from the OBR for 2021-22 was used.<sup>16</sup>

### Public sector pensions

The unfunded public sector pension liabilities are taken from the whole of government accounts.<sup>17</sup> Figures for 2018-19 were extrapolated in line with nominal GDP estimates for 2021-22.<sup>18</sup>

### State pensions

The future liabilities of the basic state pension were taken from an occasional ONS release.<sup>19</sup> Figures for the end of 2018 were extrapolated in line with nominal GDP estimates for 2021-22.<sup>20</sup>

### Private Finance Initiative

The total capital value of the PFI and PF2 portfolio was taken from HM Treasury and Infrastructure and Projects Authority summary data.<sup>21</sup> This represents the point when contracts are signed and after which construction begins. Figures for 2017-18 were extrapolated in line with nominal GDP estimates for 2021-22.<sup>22</sup>

### Nuclear decommissioning

The future costs of nuclear decommissioning were estimated in the whole of government accounts.<sup>23</sup> Figures for 2018-19 were extrapolated in line with nominal GDP estimates for 2021-22.<sup>24</sup>

### What is not included

Public sector pension schemes which are funded have not been included. Principally, this includes the local government pension scheme which consists of 89 separate funds. Other funded schemes include academy schools, the Department for Transport (including Network Rail), the Ministry of Justice and the BBC.<sup>25</sup> The net liabilities for funded public sector schemes stood at £137.8 billion in 2018-19.

Contingent liabilities in the whole of government accounts have not been included. These are liabilities which are not sufficiently likely to occur to incorporate into the whole of government accounts balance sheet.<sup>26</sup> Contingent liabilities – including remote contingent liabilities – amounted to £377.5 billion in 2018-19.<sup>27</sup> For example, this includes £50.8 billion for clinical negligence.<sup>28</sup>

Local authority and devolved administrations liabilities have not been included.

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<sup>16</sup> Office for Budget Responsibility, *Public finances databank – March 2021*, 3 March 2021, <https://obr.uk/download/public-finances-databank-march-2021/>, (accessed 3 March 2021).

<sup>17</sup> HM Treasury, *Whole of Government Accounts 2018-19*, July 2020, p. 150.

<sup>18</sup> Office for Budget Responsibility, *Public finances databank – March 2021*, 3 March 2021, <https://obr.uk/download/public-finances-databank-march-2021/>, (accessed 3 March 2021).

<sup>19</sup> Office for National Statistics, *Pensions in the national accounts, a fuller picture of the UK's funded and unfunded pension obligations: 2018*, 8 February 2021,

[www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/pensionsinthenationalaccountsfullerpictureoftheuksfundandunfundedpensionobligations/2018](http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/pensionsinthenationalaccountsfullerpictureoftheuksfundandunfundedpensionobligations/2018), (accessed 12 February 2021).

<sup>20</sup> Office for Budget Responsibility, *Public finances databank – March 2021*, 3 March 2021, <https://obr.uk/download/public-finances-databank-march-2021/>, (accessed 3 March 2021).

<sup>21</sup> HM Treasury & Infrastructure and Projects Authority, *Private Finance Initiative and Private Finance 2 projects: 2018 summary data*, May 2019, p. 5.

<sup>22</sup> Office for Budget Responsibility, *Public finances databank – March 2021*, 3 March 2021, <https://obr.uk/download/public-finances-databank-march-2021/>, (accessed 3 March 2021).

<sup>23</sup> HM Treasury, *Whole of Government Accounts 2018-19*, July 2020, p. 38.

<sup>24</sup> Office for Budget Responsibility, *Public finances databank – March 2021*, 3 March 2021, <https://obr.uk/download/public-finances-databank-march-2021/>, (accessed 3 March 2021).

<sup>25</sup> HM Treasury, *Whole of Government Accounts 2018-19*, July 2020, p. 151.

<sup>26</sup> *Ibid*, p. 2.

<sup>27</sup> HM Treasury, *Whole of Government Accounts 2018-19*, July 2020, p. 2.

<sup>28</sup> *Ibid*, p. 39.