Funding the Future

The UK governmentâ€™s own accounts show that QE ca...

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The government has finally published its Whole of Government Accounts for 2018-19.

The first thing to note are the dates:

HM Treasury

Whole of Government Accounts:
year ended 31 March 2019

HC 500

July 2020

It takes 16 months to get these accounts - which is about 10 too long. If the government expects PLCs to report in seven months then so should it. This delay means that the government and those who hold it to account are always working with outdated data when it comes to reviewing public finances and that is totally unacceptable.

Second, this is the government's balance sheet at 31 March 2019:

Statement of Financial Position

As at 31 March 2019

	Note	2018-19 £bn	2017-18 Restated £bn
Non-current assets			
Property, plant and equipment	12	1,268.0	1,208.4
Investment property	13	22.9	20.0
Intangible assets	14	37.4	36.0
Trade and other receivables	15	17.9	19.1
Other financial assets	16	320.6	323.3
		1,666.8	**1,606.8**
Current assets			
Inventories	17	9.7	9.9
Trade and other receivables	15	172.4	160.8
Other financial assets	16	194.3	184.3
Cash and cash equivalents	18	44.2	34.3
Gold holdings		9.9	9.4
Assets held for sale		1.5	8.3
		432.0	**407.0**
Total assets		**2,098.8**	**2,013.8**
Current liabilities			
Trade and other payables	19	(133.3)	(126.8)
Government borrowings	20	(307.2)	(275.6)
Other financial liabilities	21	(652.1)	(654.0)
Provisions	22	(17.7)	(16.4)
		(1,110.3)	**(1,072.8)**
Non-current liabilities			
Trade and other payables	19	(58.6)	(64.4)
Government borrowings	20	(1,100.0)	(1,071.8)
Other financial liabilities	21	(98.1)	(98.8)
Provisions	22	(293.7)	(406.1)
Net public sector pension liability	24	(1,893.9)	(1,865.3)
		(3,444.3)	**(3,506.4)**
Total liabilities		**(4,554.6)**	**(4,579.2)**
Net liabilities		**(2,455.8)**	**(2,565.4)**
Financed by taxpayers' equity:			
General reserve		(3,018.6)	(3,134.0)
Revaluation reserve		558.6	564.5
Other reserves		4.2	4.1
Total liabilities to be funded by future revenues		**(2,455.8)**	**(2,565.4)**

What I am most interested in noting in this post is government borrowing. This is explained in note 20 to the accounts as follows:

Note 20. Government borrowings

	2018-19 £bn	2017-18 £bn
Non-current:		
Gilts	1,100.0	1,071.8
Total non-current government borrowings	1,100.0	1,071.8
Current:		
National Savings and Investment products (NS&I)	167.6	156.7
Treasury bills	79.7	68.7
Gilts	59.9	50.2
Total current government borrowings	307.2	275.6

This sin explained by the following notes:

The Government borrows to make up the shortfall between income and expenditure (including any capital expenditure). The National Accounts show a clearer picture of government borrowing used for the financing of deficits, and more detail on this can be found in Chapter 1.

NS&I products are a range of secure savings and investments offered to the public, that are backed by the Exchequer. They provide the government with a source for financing public spending. Further details of these products and NS&I's 2018-19 accounts can be found on the NS&I website.

Treasury bills are issued by the Debt Management Office (DMO) and, along with other money market operations, are used by the DMO to meet the government's daily cash requirements. Further details on these operations can be found in the Debt Management Report 2018-19.

But crucially they add this:

Gilts are UK government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Price Index. As the government's debt manager, the DMO sells gilts to the market to ensure enough funding is available to meet the government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, except for gilts held by funded public sector pension schemes. Further details regarding gilts are available in the Debt Management Report 2018-19 and the 2018-19 accounts of the National Loans Fund.

In other words, as I have always argued, gilts owned by the government are cancelled within its accounts because they are not owed to anyone. And that is, very obviously true.

I do not dispute that the result is that central bank reserves rise. Note 21 covers this:

Note 21. Other financial liabilities

	2018-19 £bn	2017-18 £bn
Non-current:		
Deposits by banks	2.8	2.3
Bank and other borrowings	70.3	67.2
Debt securities	4.5	4.5
Derivatives	19.3	24.1
Financial guarantees	0.3	0.2
Other financial liabilities	0.9	0.5
Total non-current other financial liabilities	**98.1**	**98.8**
Current:		
Deposits by banks	554.0	555.8
Banknotes in circulation	74.2	73.3
Bank and other borrowings	7.3	8.3
IMF Special Drawing Rights liability	10.8	10.5
Debt securities	0.9	1.1
Derivatives	4.9	5.0
Total current other financial liabilities	**652.1**	**654.0**
Total other financial liabilities	**750.2**	**752.8**

Deposits by banks mainly consists of deposits held by the Bank of England. The deposits are the reserves held for banks and building societies, that are repayable on demand, and are the means by which banks and building societies settle transactions.

In other words, QE creates bank deposits, otherwise known as money. Again, I have never said anything else. But the banks and building societies will not be withdrawing these funds from the Bank of England where they are held, because they are used for clearing their own payments. So let's not pretend that there is risk in this: it's vital liquidity to keep markets functioning.

So what we have are accounts that show that UK government debt is £1,407 billion, of which £167 billion are savings accounts which can be ignored for this purpose. That leaves £1,240 billion of actual gilt and Treasury Bill notional debt. GDP was £2,138 billion in 2018/19. So debt was 58% of GDP.

And yet the accounts say this:

> 1.70 At the end of the financial year ending March 2019, UK general government gross debt was £1,821.3 billion, equivalent to 85.2% of gross domestic product (GDP) (source ONS).[5] This represents an increase of £57.5 billion since the end of the financial year ending March 2018, although debt as a percentage of GDP fell by 0.1 percentage points from 85.3% over the same period.

But that is untrue. First, it's untrue because it conflicts with the accounts and such contradictory statements are not permitted in audited accounts.

Second, it's factually untrue. There is no such debt owing.

And third, it's relying on an unaudited third party claim that is itself false to make a statement in audited accounts, which are therefore wrong.

And I know they are wrong because on the previous page it says this:

> 1.66 Government borrowing is achieved through the issuance of gilts and Treasury bills. The total nominal value of central government wholesale debt (excluding government holdings) as at 31 March 2019 was £1,407.2 billion, up from £1,347.4 billion as at 31 March 2018.

The accounts are self-contradictory. Only one claim, at most, is right. At most debt was 65.8% if GDP ion this basis as well, which also makes the claim on that issue wrong as well.

So much for true and fair reporting. But all the evidence that I am right on this issue is there to see, despite government best efforts to lie about it.