Funding the Future

Article URL

Published: January 12, 2026, 5:20 pm

There is a very strange feature that, as far as I can see, has not had much attention paid to it so far within the Whole of Government Accounts for the year to 31 March 2023 that were published yesterday.

Ignoring the fact that, as I noted yesterday, these accounts were subject to qualification by the National Audit Office because about 90% of the data from local authorities required for their preparation was either unavailable or had not itself been audited, some parts of this data might be considered reliable, and this might be true with regard to interest costs arising during the course of that year and pension liabilities owing at the end of it.

This is the income statement that was included in those accounts:

Statement of Revenue and Expenditure

For the year ended 31 March 2023

	Note	2022-23 £bn	2021-22 £bn
Taxation revenue	4	(857.7)	(774.7)
Other revenue	5	(116.8)	(106.9)
Total public services revenue		**(974.5)**	**(881.6)**
Social security benefits	6	276.1	259.7
Staff costs	7	306.7	284.5
Purchase of goods and services	8	254.3	256.2
Grants and subsidies	9	122.4	121.0
Depreciation and impairment	10	52.8	47.9
Interest costs on government borrowing	11	85.1	47.1
Increase/(decrease) in provisions	23	36.2	28.0
Total expenditure on public services		**1,133.6**	**1,044.4**
Net expenditure on public services		**159.1**	**162.8**
Financing costs of long-term liabilities, including discounting	11	(141.9)	197.2
Revaluation of financial assets and liabilities		(31.8)	(0.4)
Net (income)/expenditure for the year		**(14.6)**	**359.6**

Ignore, for a moment, any of the information excluding that for finance costs, which you will note total (£141.9) billion, as noted near the bottom of the data.

Then, note what is peculiar about this figure. Everyone would expect the government's overall financing cost during the course of that year to represent an expense, but that is not the case. The figure of (£141.9) does, in fact, represent net finance income arising during the course of the year. That is why the figure is in brackets. It is the opposite of what is expected.

There was a cost of £197.2 billion in 2021/22 when interest rates were much lower, but there was finance income in 2022/23 when interest rates had risen.

This is the exact opposite, of course, of what the government has been saying. And remember that these accounts are prepared in accordance with International Financial Reporting Standards in a similar fashion to the accounts of major PLCs. This data is meant to provide a true and fair view. In this case, using those accounting standards, there is no reason to think that they do not.

The explanation is to be found in the notes to the accounts, the relevant one of which is as follows:

Note 11. Finance expense

	2022-23 £bn	2021-22 £bn
Gilts	78.0	44.6
National Savings and Investment products	5.5	2.5
Treasury bills	1.2	-
Bank deposits and other	0.4	-
Total interest costs on government borrowing	**85.1**	**47.1**

Interest costs on government borrowing

There is no impact on interest costs from entities that made data submissions in 2021-22 but did not submit to the WGA this year, and similarly, no impact from entities that submitted this year but not in 2021-22.

In 2022-23, interest costs on government borrowings have increased by £38.0 billion (81%) to £85.1 billion. This is largely attributed to a £33.4 billion (75%) increase in interest on gilts as a result of higher financing costs.

	Note	2022-23 £bn	2021-22 £bn
Pension financing costs	25	51.3	39.0
Provision financing costs	23	(222.8)	149.9
Other finance expense		29.6	8.3
Total financing costs of long-term liabilities		**(141.9)**	**197.2**

Ministers might well, of course, seek to highlight the significant increase in the apparent interest cost arising during the course of the year. However, whilst it is true that the costing question rose, that is offset because the cost of financing future pension obligations fell very dramatically because of the increase in interest rates, which therefore meant that a much smaller provision is required for such costs, meaning that in overall terms the government actually had, in a proper accounting sense, net financial income rising during the course of the year of in excess of £140 billion.

That then led me to look at the government's balance sheet at the end of that year because if this was the case, then there must have been a dramatic change in the government's financial position as a result of this reduced cost of pension financing, and that is exactly what the accounts show. This is the year-end balance sheet:

Statement of Financial Position

As at 31 March 2023

	Note	2022-23 £bn	2021-22 £bn
Non-current assets			
Property, plant and equipment	12	1,435.3	1,340.4
Right of use assets	13	28.8	-
Investment properties	14	14.2	14.8
Intangible assets	15	47.9	43.7
Trade and other receivables	16	22.7	22.4
Other financial assets	17	505.1	456.9
		2,054.0	**1,878.2**
Current assets			
Inventories	18	13.2	13.5
Trade and other receivables	16	210.2	193.2
Other financial assets	17	216.0	267.9
Cash and cash equivalents	19	43.9	45.6
Gold holdings	34	16.0	14.7
Assets held for sale		1.0	1.2
		500.3	**536.1**
Total assets		**2,554.3**	**2,414.3**
Current liabilities			
Trade and other payables	20	(168.6)	(160.8)
Government borrowings	21	(371.9)	(340.0)
Other financial liabilities	22	(948.0)	(1,030.4)
Provisions	23	(29.8)	(29.7)
		(1,518.3)	**(1,560.9)**
Non-current liabilities			
Trade and other payables	20	(47.7)	(51.8)
Government borrowings	21	(1,382.1)	(1,235.7)
Other financial liabilities	22	(303.2)	(303.6)
Provisions	23	(277.1)	(498.1)
Net public sector pension liability	25	(1,415.0)	(2,639.1)
Total non-current liabilities		**(3,425.1)**	**(4,728.3)**
Total liabilities		**(4,943.4)**	**(6,289.2)**
Net liabilities		**(2,389.1)**	**(3,874.9)**
Financed by taxpayers' equity:			
General reserve		(3,154.0)	(4,547.6)
Revaluation reserve		759.7	667.8
Other reserves		5.2	4.9
Total liabilities to be funded by future revenues		**(2,389.1)**	**(3,874.9)**

The critical figure to look at is net public sector pension liabilities as shown under non-current liabilities, and as is clear, this potential cost fell from£2,639 billion to £1,415 billion during the year, or a decline of £1,224 billion - or almost half the UK's annual income.

What is more, the total UK government deficit fell from £3,875 billion to £2,389 billion or by £1,486 billion (or, near enough £1.5 trillion) in total, or well over half the UK's total annual income for this year. And I stress that this happened in a single year, and all because interest rates rose so much that future pension costs are now considered to be vastly more affordable.

The good news is that the UK is now, near enough, £1.5 trillion better off than it thought. That money should, as a result, now be available to be spent on making sure that those pensioners for whom the provision is being made might have a country in which it is possible to live in their old age.

The good news is that the government should be trumpeting this - the supposed burden of costs on our grandchildren has been reduced considerably, and we can concentrate on giving them an inheritance instead.

And, because the Bank of England is going to keep interest rates high, whether that is appropriate or not, what we can be sure of is that this situation is not going to change very much for some time to come.

So, does this matter? The answer is that, of course, it does. If we take financial management seriously - and we should - then this cancellation of net interest costs is massively important. It changes the whole austerity narrative.

And the same is true of the government's net financial position. What many claimed was unaffordable suddenly appears to be a matter of no great consequence, albeit the crushing burden of current interest rates on people now suffering them will continue - but the government appears reconciled to that, so it might as well take advantage of the upside.

What is more, if we consider the debt narrative - which only focuses on a very small part of the true story of debt, as I have long suggested, and significantly overstates that cost in ways I have also long highlighted, then this also matters. GDP on 31 March 2023 was approximately £2,650 billion per annum, according to Office for Budget Responsibility data. Total government liabilities - including all pension liabilities - were no more than 90.1% of that sum at that time. In the worst possible scenario, government debt is now less than is claimed by the Office for National Statistics, and because interest rates are now higher, this situation might have got better since then. The debt narrative that governments (both before the elections and since) have been peddling is quite seriously wrong.

If only the government prepared proper financial accounts on a regular basis - as any business would - then this would have been obvious long ago. We would have been spared a great deal of economic nonsense that has been claimed since then. We could, at the very least, have had a more informed debate.

And if the government wants to argue that this approach is wrong - and say that this accounting is not appropriate, they then have to justify why:

a) they have adopted it

b) they say these accounts are true and fair

c) they require companies to use it.

There are reasons to discuss whether these accounts are true and fair, in my opinion, but that option is not open to the government - they have already said that they are. So, they must address facts on the basis that they are right. The missing local authority figures will not change the figures I note materially. And, in that case, what this data shows is a situation where the government debt narrative is totally wrong, and the government's financial position improved by £1.5 trillion in a year.

Now, what is the influence of that on government policy going to be?