

# Public Expenditure System

News story

We have played a central role, working with HM Treasury, to set several discount rates which are used in the accounting valuation of over half of central government's liabilities.



The Government Actuary's Department (GAD) has played a key role in helping HM Treasury to set several discount rates used in central government accounting.

## **Valuation of liabilities**

The discount rates are used in the valuation of more than half of central government's liabilities, including:

- the net public sector pension liability of around £1.9 trillion according to the [2018/19 Whole of Government Accounts](#)
- general provisions of over £300 billion (e.g. provisions for nuclear decommissioning costs and clinical negligence)
- financial instruments (e.g. government guarantees on around £80 billion of loans to businesses under the Coronavirus Loan Schemes)

## **GAD's involvement**

Actuaries in GAD helped HM Treasury to set the discount rates in line with the requirements of the Financial Reporting Manual and applicable accounting standards.

The discount rates were promulgated via HM Treasury's Public Expenditure System note to central government departments in time for the preparation of their supplementary estimates.

## **Several challenges**

GAD actuary Steve Lewis led on the project. He said: "GAD has played a central role in this process. There were a number of challenges along the

way, and in particular the announced changes to the Retail Prices Index widely expected to come into force in 2030.

“This made setting discount rates in excess of inflation (used for discounting liability cashflows that increase with inflation) more challenging than in previous years.”

The new discount rates are lower than those previously in force, which would be expected to lead to a higher value being reported in the 2021/22 accounts for the relevant liabilities and assets.

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