UK Government Investments

REPORT INSIGHTS

CONTINGENT LIABILITY REPORT 2025

Contingent liabilities are commitments to use public funds if uncertain future events occur

- For example, a new business that wants a loan to enable it to invest and grow can find it hard to borrow from a lender without a track record.
- The UK Government could offer to provide a guarantee and share some of the risks with the lender.
- If the company does well, government will not have to pay anything which is why this is described as a contingent liability, contingent on the ability of the company to pay back.
- Government stands behind the company and the lender, offering support as and where needed.

UKGI has a multidisciplinary team of experts to deliver this analysis

- The Contingent Liability Central Capability, now known as Financial Instruments and Transactions Advisory Group (FInTAG), was established within UKGI in 2021 to strengthen contingent liability expertise within government and improve how government manages its portfolio of risk from contingent liabilities.
- Going forward the group also reports on financial investments, advises on new financial instruments and transactions and embeds best practice across government.
- The team brings together experts in credit, data, analytics, policy and actuarial skills.

UKGI has produced a portfolio analysis of the UK Government's contingent liabilities

- The data captured and analysed for this report will inform decisions on the amount of risk government takes through its contingent liabilities.
- Working with 18 central government departments, we collated data to provide analysis of almost 800 on-budget and over 800 off-budget liabilities.
- The report includes first-of-its kind analysis on the efficacy of charging for financial guarantees and the impact to the public purse of a major shock in the economy or financial markets.
- You can read the full report here.

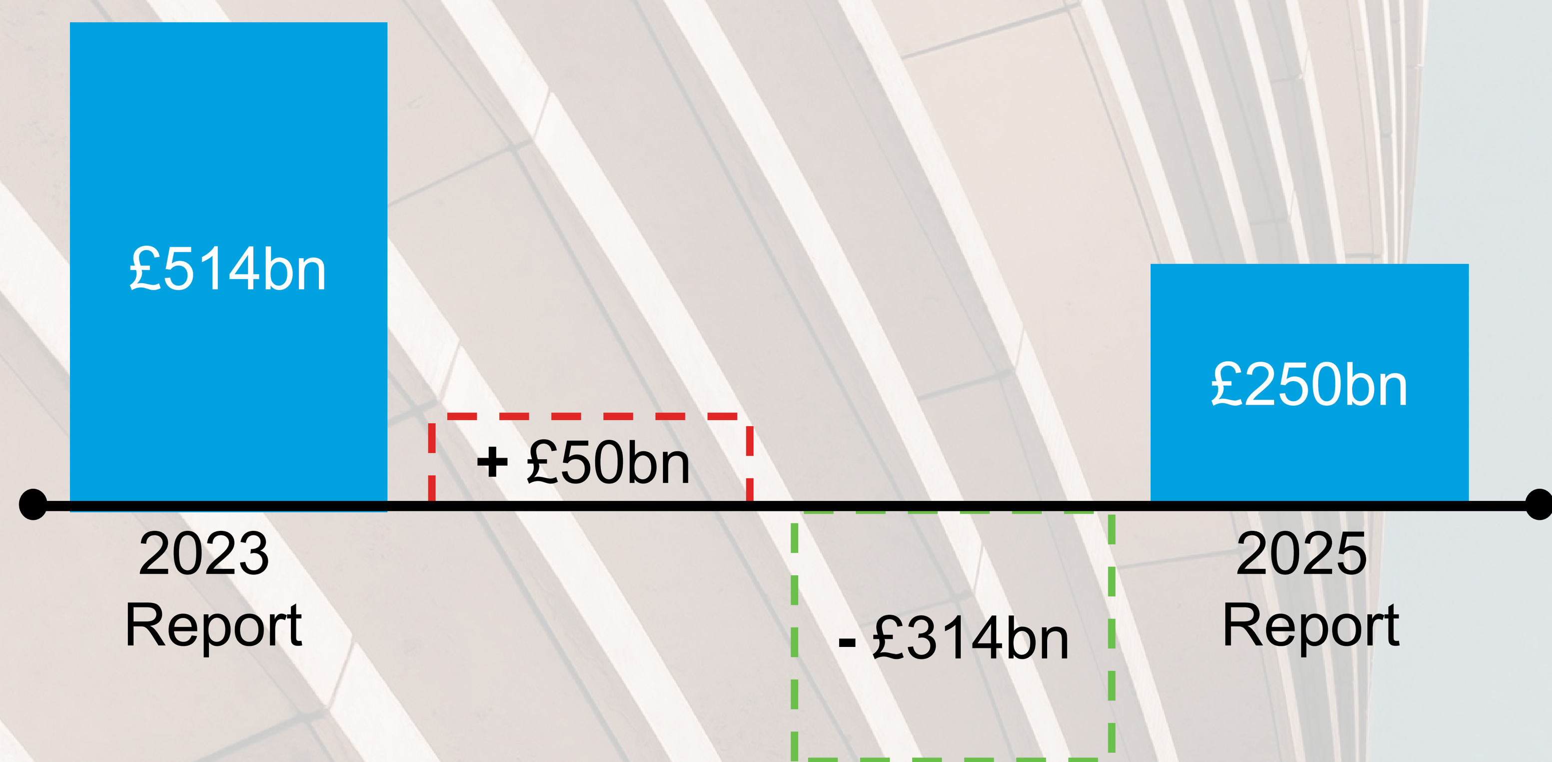
The expected cost of the portfolio is £250bn

- The expected cost of the overall portfolio has decreased since our previous report from £514bn to £250bn, largely driven by the change in the discount rate affecting on-budget liabilities. However, when excluding the impact of the discount rate, the underlying cost of the portfolio has increased since the previous report.
- Where the government charges a fee or premium for a financial guarantee, the amount generated does not cover the expected cost of the entire portfolio of financial guarantees.
- The report shows that c.£18bn of the portfolio has a listed trigger of “major economic or financial downturn”. If an event like this were to occur, the expected cost would increase by c.£10bn.

OVERVIEW

Since the 2023 Report, the underlying costs have increased by c£50bn. However, the change in discount rates and other factors such as payments made, has meant that the expected cost has decreased by c£314bn in the same period.

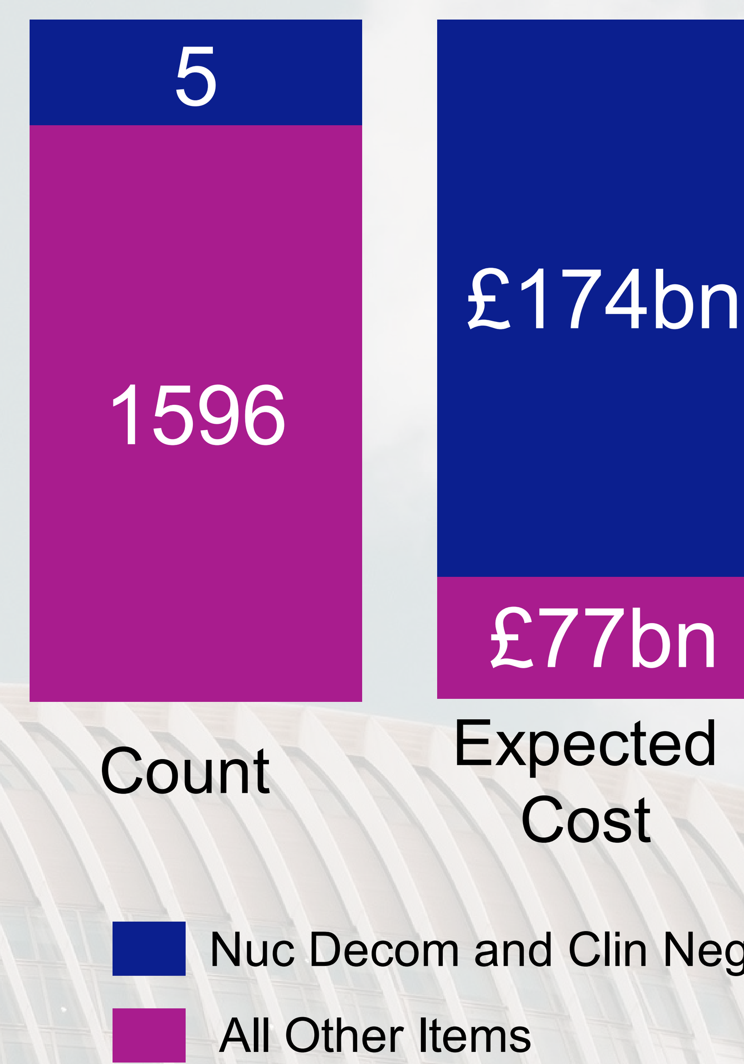
Therefore, as of April 2024, the expected cost of the portfolio is £250bn



DIVERSIFICATION

Governments exposure is highly concentrated on ultra long-dated exposure to nuclear decommissioning and clinical negligence.

Analysis looks at the diversity of risks in the portfolio which covers a range of schemes and provisions across a broad mix of sectors and beneficiaries.

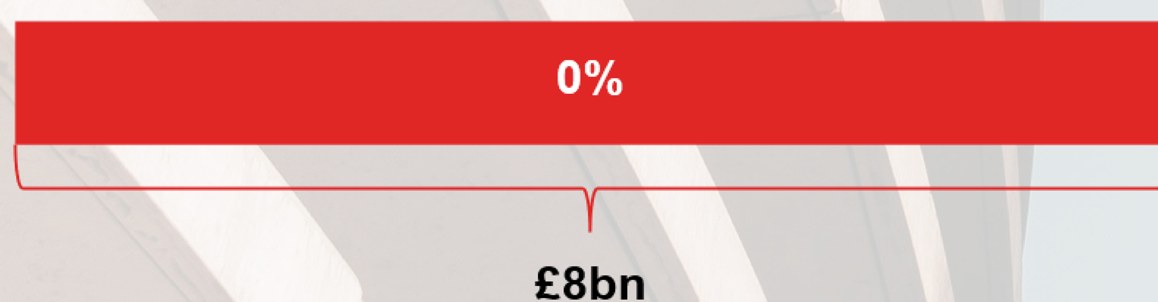


CHARGING FOR RISK

New analysis assesses whether the government charges adequately for the risk it takes on in its portfolio of financial guarantees.

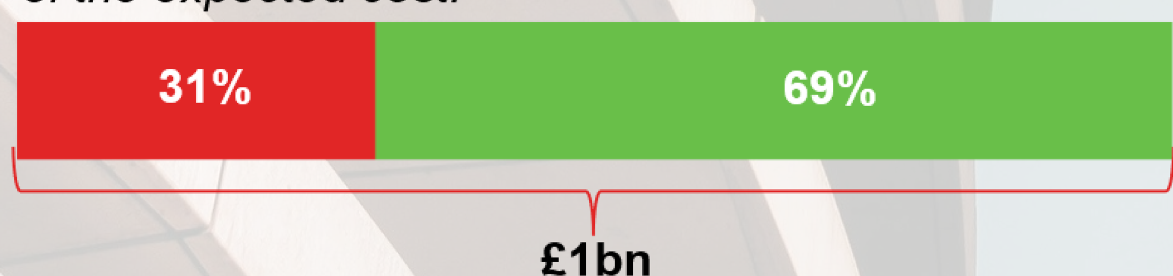
Covid schemes have a major impact, so the data provides a breakdown with and without these schemes.

Across the whole portfolio, the government recovers 0% of the expected cost:



Across the fee-charging portfolio, the government recovers 34% of the expected cost:

Across the fee-charging portfolio where Covid-schemes are exempt, the government recovers 69% of the expected cost:



RISK TRIGGERS

£18bn worth of the portfolio of contingent liabilities are exposed to the trigger "a major economic or financial downturn". However, if this trigger were to occur, the expected cost of this subset of liabilities would increase by £10bn.

This is a significant increase on expected cost of the subset of liabilities that have this trigger, but a small proportion of the entire portfolio.