
UK Government
Investments
ANNUAL REPORT ON THE UK GOVERNMENT'S CONTINGENT LIABILITIES, APRIL 2026

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Foreword from the Chief Secretary to the Treasury

Strong management of the public finances underpins economic growth and the provision of high-quality public services and investment.

Taking some measure of risk is vital to delivering on policy objectives – to getting things done – whether that's rebuilding the NHS, cutting the cost of living or making our streets safer. So government must take risks, but it is vital that we understand those risks, that risks are proportionate, and that we are always maximising value for public money.

And it is vital that we are transparent about the risks we face. Not only to enhance our fiscal credibility, but also to make sure we are accountable to the public when spending taxpayer money.

That principle of transparency, exemplified through this report, is part of our commitment to improving the fiscal policy-making process, making it clearer and less volatile.

I therefore welcome this report from UK Government Investments, and would like to extend my thanks to the civil servants across various government departments who have supported its preparation and publication.

The Rt Hon James Murray MP
Chief Secretary to the Treasury

Foreword from the Director of FInTAG

Contingent liabilities allow government to pursue policy priorities by sharing risk and enabling investment in areas where private markets may not be able or willing to do so. Used well, they allow government to deploy its balance sheet efficiently to support growth, resilience and long-term value for money. However, they also represent a significant and evolving source of fiscal risk. When not well understood, transparently recorded or actively managed, contingent liabilities can accumulate over time and, if crystallised, place material pressure on the public finances.

Since our establishment, we have quantified the government's exposure, enhanced transparency and brought consistency to the delivery and management of the government's portfolio of contingent liabilities. This quantification provides a measure of the potential fiscal impact of these exposures over time and underscores the importance of actively managing contingent liabilities as a portfolio of risk. The aim is that this database will allow government to better assess trade-offs, anticipate emerging risks and consider the implications of new policy decisions.

Over the past year, total portfolio exposure has increased by around 7% to £268bn, driven primarily by a net £8bn increase in the government's potential exposure to compensate those affected by contaminated blood and blood products. Excluding this, growth in contingent liabilities across government has been relatively modest.

Last year's report placed a spotlight on the extent to which government is charging for financial guarantees. Excluding guarantees used in response to Covid-19, the guarantee fee coverage ratio has increased from 54% to 72%. This represents an important improvement in risk pricing, with the government increasingly being remunerated for the risks it takes on behalf of the taxpayer.

This year's report continues to support the move to a portfolio-based approach to managing fiscal risk. It provides an analysis of key drivers of risk and considers how risks may interact and crystallise simultaneously. Applying a downside stress scenario gives a measure of potential impact in an adverse scenario.

UK Government Investments will continue to work closely with departments and HM Treasury to strengthen the management of contingent liabilities across government. By improving data, analysis and foresight, this report supports a more resilient, sustainable and accountable approach to managing fiscal risk on behalf of the taxpayer.

Siobhán Duffy
Director of Financial Instruments and Transactions Advisory Group

Executive Summary

- The government uses contingent liabilities to support businesses and individuals and to deliver its policy priorities. Contingent liabilities involve making commitments to use public funds if uncertain future events occur, such as a default on a guaranteed loan or a successful legal claim.
- Contingent liabilities represent a significant and evolving source of fiscal risk. To improve transparency and fiscal risk management, the government asked UK Government Investments (UKGI) to publish an annual report on its contingent liability portfolio.
- This report presents a consolidated view of that portfolio. By systematically cataloguing and analysing these exposures, it provides a comprehensive picture of the government's risk position to inform future policy decisions and highlight opportunities to manage the portfolio more effectively.
- As of 31 March 2025, the expected cost of the government's contingent liabilities was £268bn. This is the amount the government can expect to pay out over time for the provisions, financial guarantees and insurance-like liabilities it has entered into.
- The expected cost of the portfolio has increased by £18bn (7%) since 31 March 2024. The largest single factor driving this increase is changes to the compensation arrangements for individuals infected or affected by contaminated blood and blood products, which have increased portfolio exposure by £8bn since last year.
- The vast majority of the total expected cost comes from nuclear decommissioning and NHS clinical negligence provisions, which together account for almost 70% of the total (£185bn).
- The expected cost of the portfolio will materialise over many decades. Around £232bn of the liabilities are due to expire in 30 years or more, though even very long-term liabilities may involve costs to government in the short-term.
- The fees the government charges when it assumes financial risks on behalf of the private sector are insufficient to cover its expected costs, but performance has improved since last year. On a like-for-like basis, fee coverage for all guarantees has risen from 24% to 26%, and for the non-Covid fee-charging portfolio coverage has risen from 54% to 72%.
- To strengthen its analysis of the portfolio, UKGI has carried out a stress test on a subset of the portfolio and found that the additional expected cost of a major economic or financial shock could be £10bn.
- UKGI will use the data and insights from this report to support government departments and HM Treasury when assessing proposals for new contingent liabilities and in managing the existing portfolio.

Portfolio composition

Expected cost as of 31 March 2025

£268bn

This is the amount the government expects to pay for its provisions, guarantees, and insurance liabilities, in today's terms.

The government's role:

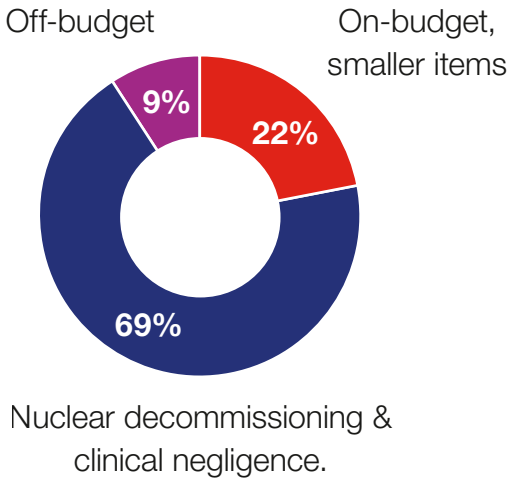
Government responsibilities are the biggest part of the portfolio. These are costs the government is legally or contractually committed to because of past activities.

£251bn
Government responsibilities

£8bn
Government as a guarantor

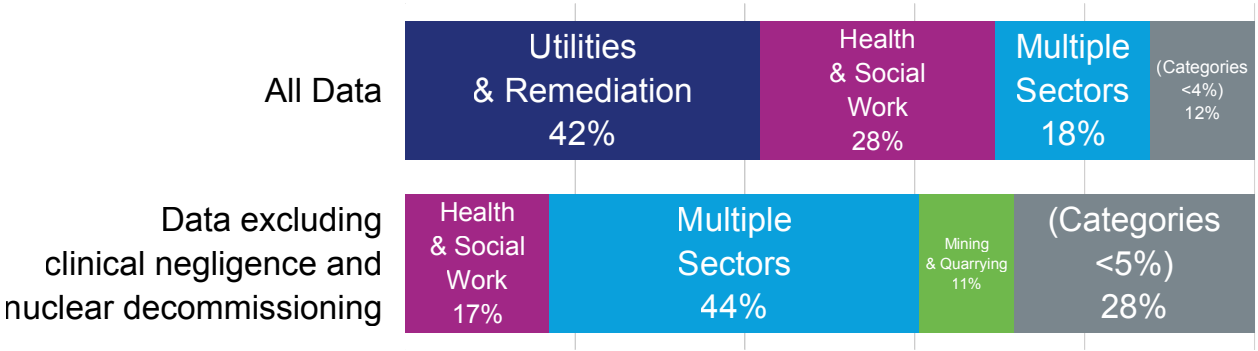
£9bn
Government as an insurer

Breakdown by key reporting categories



The portfolio is dominated by nuclear decommissioning and clinical negligence liabilities. Throughout the report we often exclude clinical negligence and nuclear decommissioning from the analysis to better understand the remaining components.

Breakdown by key sectors of risk



The portfolio is relatively concentrated by sector, with the majority of expected cost originating from a few industries. Liabilities labelled as multiple sectors means they relate to two or more sectors.

Portfolio changes

Changes to expected cost of portfolio since last report

+£18bn

This is mainly driven by the increases in expected costs due to contaminated blood and blood products compensation.

Specific movements of the portfolio

£250bn

2025 Report: This is the expected cost at the end of financial year 2023-24.

+£6bn

New liabilities: Expected costs from new, smaller, liabilities.

+£14bn

Net expected cost increases: Changes to expected costs for existing liabilities during the year.

-£2bn

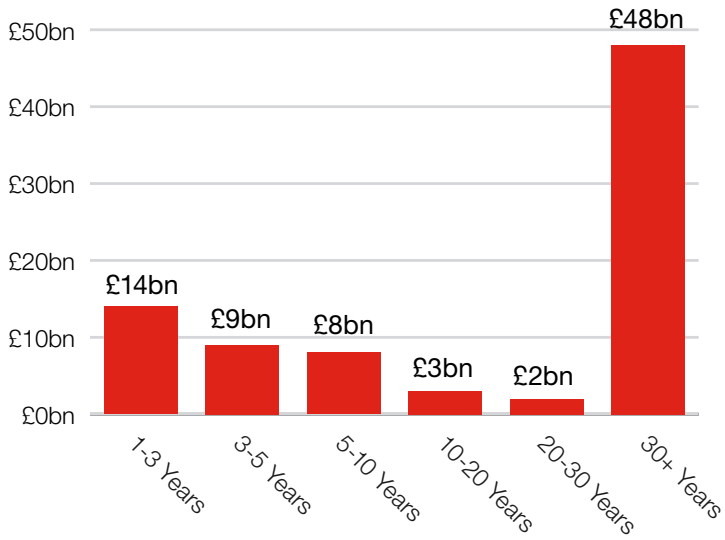
Expired liabilities: Expected cost of liabilities that expired during the year.

£268bn
(+7%)

2026 Report: Expected cost at the end of financial year 2024-25.

Future expectations and expiry

£31bn of liabilities are expected to expire over the next 10 years. The remainder of the portfolio is long-dated, affecting the government's risk exposure over time. The figure shows the lifetime expected costs allocated to the end of the liability's expected lifetime, costs could be incurred before the liability expires.



Clinical negligence and nuclear decommissioning are long-dated liabilities and are excluded from this analysis

Chapter 1: Introducing Contingent Liabilities Across Government

The government defines contingent liabilities as commitments to use public funds if uncertain future events occur. Contingent liabilities are a versatile tool that can be used to deliver policy objectives. They can take the form of different financial products and commitments ranging from insurance-like indemnities to financial guarantees, purchaser protections and legal cases.

Contingent liabilities do not typically impact key fiscal metrics immediately upon creation. However, they can crystallise and affect the public finances if the underlying risk materialises. Effective governance and controls are therefore important to manage the likelihood, scale and timing of potential costs. In 2017 the government improved how fiscal risk is managed through the introduction of the *Contingent Liability Approval Framework*.[1] This systematised the management of new contingent liabilities through a standardised checklist and was designed to ensure policies giving rise to contingent liabilities are consistent with HM Treasury's objective of safeguarding the sustainability of public finances.

Since 2022, UK Government Investments (UKGI) has published an annual report on contingent liabilities to provide portfolio-level information that can be used by government to inform decision-making. More recently, as set out at Autumn Budget 2025, the government has taken additional steps to ensure fiscal risk is managed responsibly through the introduction of the *Balance Sheet Framework*[2] and *Guidance for Managing Government's Implicit Liabilities*[3] and UKGI has published its first *Financial Investment Report*.[4] Taken together, these place the government at the forefront internationally of proactive management of its balance sheet.

Aims

Building on UKGI's previous reports, this report aims to:

1. examine how the scale and composition of the contingent liability risk has changed over time;
2. assess whether the government charges adequately for the risk it takes; and
3. assess the impact on government's liabilities of a specific downside stress scenario.

1 Contingent Liability Approval Framework
2 Balance Sheet Framework – GOV.UK
3 Guidance for managing government's implicit liabilities – GOV.UK
4 Financial Investment Report 2025 – UK Government Investments (UKGI)

Scope of the report

UKGI has analysed the contingent liabilities held across government departments and organisations within their accounting boundary. The scope of the report does not include contingent liabilities or other uncertain items managed by devolved administrations or local government. References in this report to contingent liabilities cover explicit contingent liabilities only. Implicit liabilities are similar to contingent liabilities in that they are uncertain future costs that could arise, but they are not liabilities in a legal or financial reporting sense as there is no formal commitment by government to spend money ahead of the event.

Why do contingent liabilities matter?

- **Contingent liabilities play an important role in how government delivers its policy priorities**. They underpin support to businesses and households and reflect long-term commitments such as nuclear decommissioning and NHS clinical negligence.
- **They can be powerful, value for money tools.** They can unlock private investment and support growth, while limiting the upfront call on public funds.
- **They involve large, real fiscal commitments**. While they may not require upfront spending (and therefore not impact headline fiscal metrics like debt and borrowing), they can translate into significant and sometimes sudden calls on the public finances when they crystallise.
- **They can be sensitive to shocks and policy changes.** The expected cost of a contingent liability is not static. The scale and likelihood of crystallisation can change over time in response to economic conditions. For example, a recession or a financial market disruption could trigger greater calls on guarantees.
- **They can be heavily concentrated in particular sectors.** This matters because difficulties in those sectors can have disproportionate fiscal consequences.
- **Without close monitoring, risks can accumulate relatively unnoticed until they crystallise.** This can force sudden spending pressures, potentially requiring government departments to reprioritise how they use their budgets and force trade-offs with other policy priorities.
- **Systematic consideration of contingent liabilities, including trend analysis, allows earlier identification of emerging pressures.** Understanding where risks are concentrated, for example, can help identify vulnerability to sector-specific shocks and drive action to mitigate these risks, including potentially limiting further sectoral exposure.
- **Monitoring of contingent liabilities helps inform public financial management.** In addition to managing new contingent liabilities, recognition of spend already committed via large liabilities is important for monitoring fiscal risk.

Definitions of terms used in this report

Figure 01A: Definitions of terms

Term	Definition
Contingent liability	Commitments to use public funds if uncertain future events occur. For the purposes of the report this includes both on- and off-budget items.
Crystallisation of a contingent liability	A contingent liability crystallises when the uncertain future event it depends on occurs, turning a potential obligation into an actual obligation for which payment (in whole or in part) becomes due.
On-budget liabilities	**Recognised on the balance sheet.** In line with accounting standards, these liabilities are recorded in departmental accounts using a best estimate of the expected cost, recognising uncertainty over the timing and amount of future outturns. Such items appear as provisions, financial guarantees, or insurance-like liabilities in accounts. This term is used interchangeably with the term 'provision' throughout the report.
Off-budget liabilities	**Disclosed in the notes to accounts.** In line with accounting standards, these liabilities are not recognised on the balance sheet because they are considered either relatively unlikely to crystallise or cannot be measured with sufficient reliability at the reporting date. They are disclosed in the notes with limited or no quantification. Such items appear as contingent liabilities and remote contingent liabilities in accounts.
Government's role in contingent liabilities	
Government responsibilities	Future contingent or uncertain expenditure that the government is legally or contractually committed to incurring because of past public sector related activities.
Government as insurer	Instances where, to achieve its objectives, the government offers an indemnity or other insurance-like products because the private sector is unwilling or unable to cover the risk.
Government as guarantor	Instances where, to achieve its objectives, the government chooses to offer a financial guarantee where the private sector is unwilling or unable to cover the risk.
Products and tools	
Financial guarantees	When the government agrees to pay the debts of a third party if they default.
Indemnities/other insurance products	When the government agrees to cover costs if a certain event occurs.
Legal cases	When a lawsuit is likely to be brought against the government while undertaking its core activities.
Purchaser protections	Where the government agrees to provide warranties or indemnities relating to asset sales.

Key information about data used

This report uses data from 18 central government departments as of the year ending 31 March 2025.[5] A full assessment of the data sources and their limitations is covered in **Annex B** and **Annex C.** Values in figures and tables may not fully add up due to the effects of rounding for presentational purposes.

5 As of 1 April 2025, International Financial Reporting Standard (IFRS) 17 Insurance Contracts is being applied by HM Treasury through the Government Financial Reporting Manual (FReM). IFRS17 is the new accounting standard for insurance contracts issued by the International Accounting Standards Board (IASB) and it replaces IFRS 4 Insurance Contracts. The data used throughout the report is based on financial year 2024-25 and so is not impacted by the introduction of IFRS17.

Chapter 2: Portfolio Overview

Introduction

This chapter provides an overview of the government's aggregate contingent liability portfolio, examining its structure, composition and risk exposure. It shows how the scale and composition of the contingent liability risk has changed over time, which departments hold the risk and to which sectors the government is exposed.

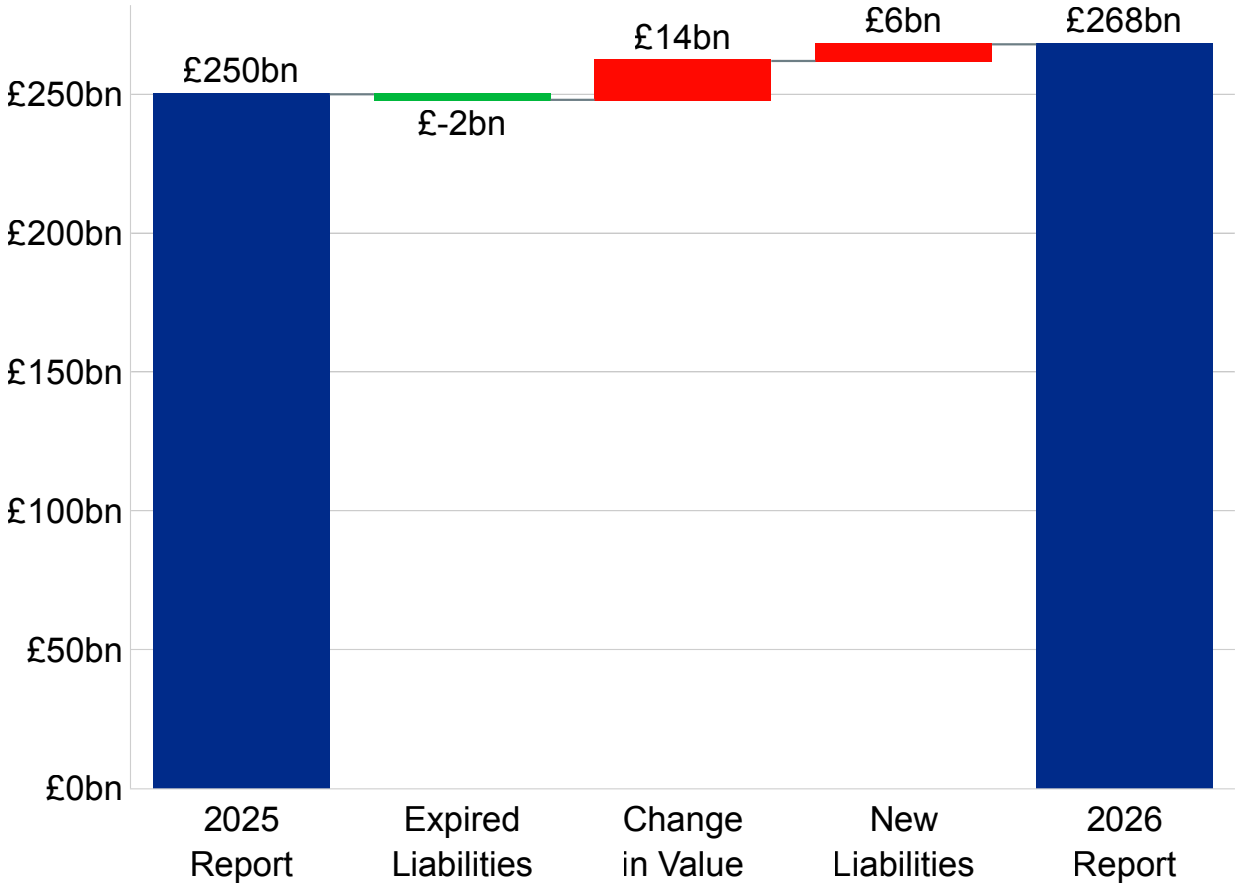
Portfolio summary

Figure 02A: Total expected cost between 31 March 2024 and 31 March 2025

Type	As of March 2025			As of March 2024		
	On-budget (£bn)	Off-budget (£bn)	Total (£bn)	On-budget (£bn)	Off-budget (£bn)	Total (£bn)
Government Responsibility	232	18	251	214	17	231
Government as Insurer	4	5	9	5	5	10
Government as Guarantor	7	1	8	9	1	10
Total	**244**	**24**	**268**	**227**	**23**	**250**

As of 31 March 2025, the government's contingent liability portfolio is estimated to have an expected cost of £268bn. This is the amount the government can expect to pay out over time for the provisions, financial guarantees and insurance-like liabilities into which it has entered. Of this total, £244bn is classed as "on-budget liabilities" that are recognised on the government's balance sheet. The remaining £24bn is considered to be either relatively unlikely to crystallise or cannot be measured reliably, so is not included on the government's balance sheet.

Figure 02B: Change in value of the portfolio from 31 March 2024 to 31 March 2025



As of 31 March 2025, the portfolio had grown by £18bn since the previous year. The largest increase relates to an £8bn increase in exposure associated with revised compensation arrangements for individuals infected or affected by contaminated blood and blood products. In the previous year, the Department of Health and Social Care recorded a £2bn provision for this liability. This has now been replaced by a £10bn provision for the newly established Infected Blood Compensation Authority (IBCA).

An additional £5bn reflects valuation adjustments to existing liabilities, arising from discounting effects on the very largest items in the portfolio, inflation and changes in other assumptions. The very long-term nominal discount rate applied (as set out by HM Treasury)[6] was 4.55%, which was broadly unchanged from last year (at 4.40%), and therefore had limited effect on valuations. Further details of the impact of discount rates on the portfolio can be found in **Annex E**.

The upward movements in value were partially offset by £2bn of contingent liabilities expiring, including multiple provisions related to repairs of government buildings at the end of their lease terms.

6 The discount rate to determine the value of His Majesty's Government (HMG) provisions is set by HM Treasury in their annual publications on the Public Expenditure System.

Infected Blood Compensation Scheme

The Cabinet Office established the Infected Blood Compensation Scheme (IBCS) in August 2024 following the Infected Blood Inquiry Report and the Victims and Prisoners Act 2024. Full implementation began in March 2025. The scheme addresses one of the most significant public health failures in UK history, where an estimated 25,000–45,000 individuals were infected with hepatitis C or HIV through NHS blood products, with further harm to partners and families.

The IBCS replaces the England Infected Blood Support Scheme (EIBSS) and similar schemes for Scotland, Northern Ireland and Wales, and has expanded eligibility to include estates of deceased victims and affected family members, such as unpaid carers suffering loss of earnings. As of 31 March 2024, the Department of Health and Social Care recorded a provision related to infected blood compensation of £2bn. By 31 March 2025, this provision was replaced by a £10bn discounted provision for the new scheme, now held by the Cabinet Office. The Department of Health and Social Care retained a small £0.1bn provision for residual EIBSS payments, which is expected to wind down by March 2027.

There remains significant uncertainty over the total value and timing of payments because the number of people eligible to claim is not yet fully known. The provision will reduce as payments are made, but the overall size may increase or decrease in future years as new information emerges.

The government's largest contingent liabilities

The vast majority (£185bn, or nearly 70%) of the expected cost of the government's contingent liabilities portfolio comes from provisions for nuclear decommissioning and clinical negligence. Nuclear decommissioning provisions cover the safe dismantling and remediation of nuclear facilities. Clinical negligence liabilities account for future costs in cases where the Department of Health and Social Care, or relevant NHS providers, are the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence.

Both provisions have increased since March 2024. The table below breaks down how the provisions have changed since UKGI's previous report.

Figure 02C: Movements in nuclear decommissioning and clinical negligence provisions

	Description	Provision (£bn)
Provision as of 31 March 2024		174
Movement due to passage of time and remeasurement effects	A slight increase in provisions reflects off-setting movements in: • increase year-on-year as the expected payment date gets closer • decrease due to a slight change in the rate used to discount cashflows	+4
Movement due to payments made	Decrease in provisions as a result of payments made related to the liability.	-7
Movement due to other factors	**Nuclear decommissioning:** change in the provision as a result of assumption changes and project updates. The largest driver this year was a reduction in the estimate of projected cost savings achieved through future Sellafield efficiency projects, managed by the Nuclear Decommissioning Authority, as well as changes in the Ministry of Defence's Submarine Disposal Capability project.	+9
	Clinical negligence: change in the provision as a result of new exposure from patient harm that occurred during the year, newly reported claims and assumption changes. This was partly offset by an increase in the Personal Injury Discount Rate, which is used to calculate damages awarded in personal injury cases.	+5
Provisions as of 31 March 2025		185
Total change		+11

Comparing payments made with changes to discounted provisions driven by other factors can provide useful insight into the maturity of a liability. For less mature provisions, such as nuclear decommissioning and clinical negligence, the majority of cashflows are expected far into the future, so changes due to new exposure activity or changes in assumptions will likely be larger than payments. Future cashflows are subject to greater uncertainty and potential modelling revisions year-on-year.

These two items have consistently dominated successive reports and are expected to remain the largest drivers of fiscal risk in the portfolio for the foreseeable future. Given their scale, nature, and influence, UKGI excludes them from certain elements of the portfolio analysis to enable a more informative assessment of the composition and risk profile of the remaining portfolio. Further detail, explanation and analysis on these provisions can be found in **Annex E**.

Beyond these dominant provisions, the next eight largest liabilities make up £37bn of the total expected cost of the portfolio.

Figure 02D: Top ten contingent liabilities by expected cost[7]

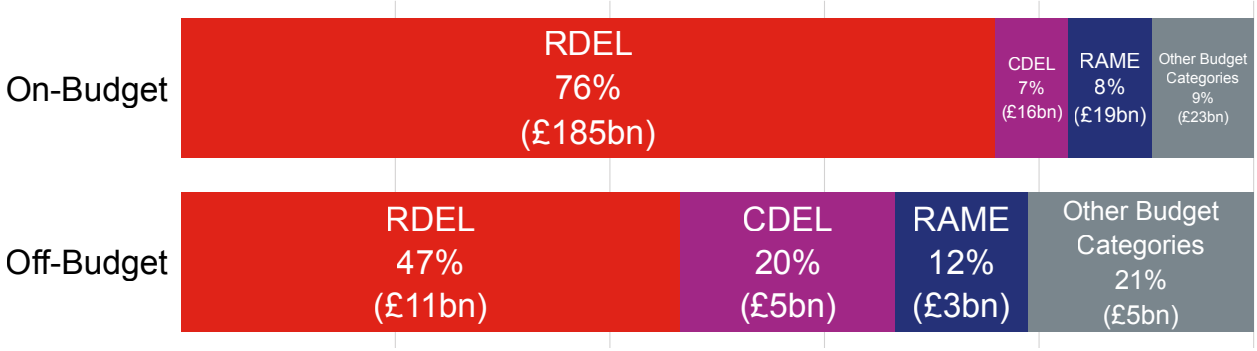
Name	Description	Department	Sector of Risk	Expected Cost (£bn)
Nuclear Decommissioning	Costs related to closing and securing nuclear facilities no longer in use. This item represents an aggregation of four separate provisions which relate to different nuclear facilities.	DESNZ & MOD	Utilities & Remediation	124.9
Clinical Negligence	Compensation to individuals who have been harmed due to negligent treatment in the NHS.	DHSC	Health & Social Work	60.0
Infected Blood Compensation Scheme	Compensation to NHS patients who contracted infections via transfusions of contaminated blood and blood products during the 1970s and 1980s. Administered by the Infected Blood Compensation Authority.	CO	Health & Social Work	9.6
EU Financial Settlement	The UK's share of commitments made under the 2014-2020 EU Budget and of the EU's liabilities for pension rights and rights to other employment-related benefits accrued on or before 31 December 2020, as outlined in Articles 140 and 142 of the Withdrawal Agreement created upon the UK's exit from the EU.	HMT	Multiple Sectors	9.5
Provision for oil and gas field decommissioning	Provision for tax repayments over the expected lifetime of the decommissioning of North Sea oil and gas fields.	HMRC	Mining & Quarrying	5.8
Financial Assistance Scheme	Compensation to individuals who lost access to pension benefits due to employer insolvency.	DWP	Multiple Sectors	3.7
Bounce Back Loans Scheme	Loan guarantee scheme created to support small and medium businesses adversely affected by Covid-19. HMG guaranteed 100% of small loans offered via commercial lenders. Administered by the British Business Bank.	DBT	Multiple Sectors	2.8
Legal Claims	Provision for tax repayments to settle litigation.	HMRC	Multiple Sectors	2.4
Mining Remediation Authority	Costs related to remediation of impacts to the natural and built environment resulting from legacy coal mining activity.	DESNZ	Mining & Quarrying	1.7
European Economic Area Medical Costs	Compensation for healthcare services provided to UK citizens in EEA countries under reciprocal healthcare agreements.	DHSC	Health & Social Work	1.4
Total Top 10				221.8

7 Expected cost values in this table have not been rounded to more clearly show differences between the top ten contingent liabilities in the portfolio.

Contingent liabilities and departmental budgets

While contingent liabilities do not require public funding upfront, they can crystallise into significant and sometimes sudden calls on the public finances when the uncertain future event upon which they depend occurs. If the costs are larger or accrue earlier than expected, they can require departments to rapidly reprioritise how they use their resource or capital budgets, known as Resource Departmental Expenditure Limits (RDEL) and Capital Departmental Expenditure Limits (CDEL), which can mean cancelling or delaying other activities. If the cost of the liability is funded through Annually Managed Expenditure (or AME, for which departments are not set budget limits), it still impacts on the government's finances and can worsen key fiscal metrics such as debt and borrowing. Understanding how contingent liabilities are distributed across budget categories is important for identifying where crystallisations are most likely to translate into operational or strategic pressures for departments.

Figure 02E: Total liabilities as of 31 March 2025 split by budget type



The 'other' category in the figure above comprises less commonly used classifications. These are Capital AME and Trust Accounts. These categories have been amalgamated for presentational purposes as they are the less material part of the portfolio.

An order of magnitude estimate shows that in 2024-25, government spent around £20bn because of contingent liabilities crystallising.[8] This represented about 2% of total spending by central government departments that year, highlighting the relative scale of fiscal impact of these commitments.

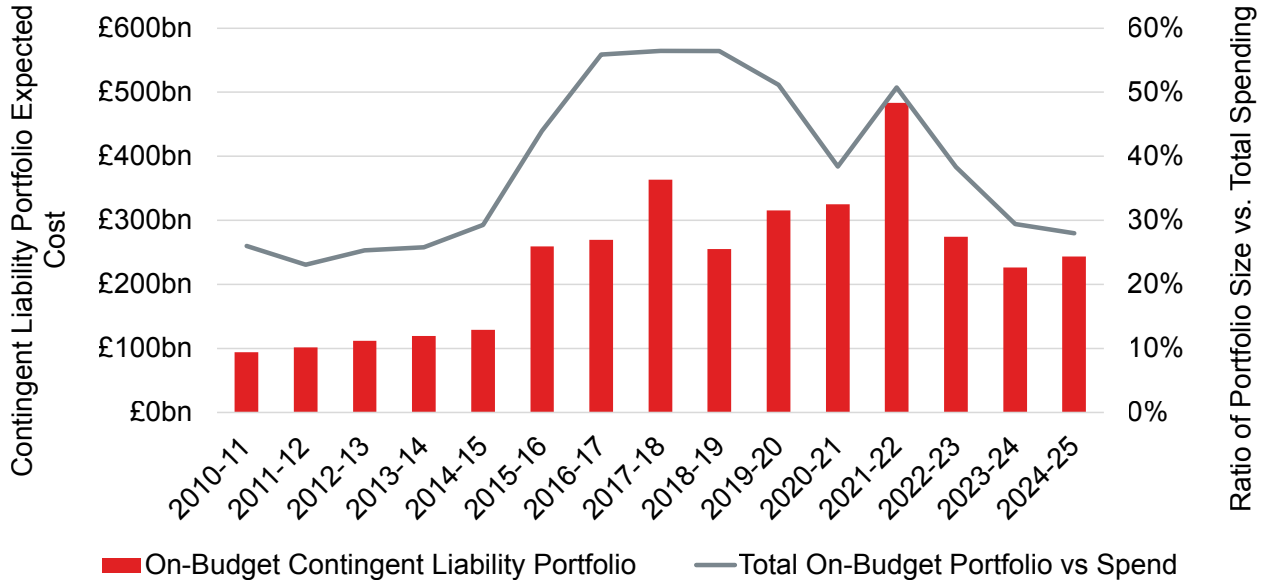
The total spending figure used excluded any departmental expenditure on NHS trusts, local authorities, and devolved administrations. This approach ensures that the spending figure used is consistent with the scope of contingent liabilities captured in this report. The resulting total of £871bn, reflects approximately two thirds of all central government expenditure. For a fuller methodology, see **Annex E3**.

While most of this spending arises from obligations to which government is already legally or contractually bound, the scale of outturn underlines the importance of close monitoring and robust design of new contingent liabilities. Tracking this

8 This estimate is rounded to the nearest £10bn

over time will help government understand year-on-year variability. To assess how the contingent liability risk landscape is evolving, UKGI compared changes in the expected cost of on-budget liabilities between 2010-11 and 2024-25, with changes in departmental spending over the same period (in nominal terms, not adjusted for inflation). While lifetime expected costs are not directly comparable with annual expenditure, this analysis helps to illustrate the order of magnitude of future risks relative to budgets and provides insight into whether the intensity of risk is increasing or declining. In turn, this can support considerations of government's overall risk appetite when deploying contingent liabilities as a policy tool.

Figure 02F: On-budget portfolio expected cost, relative to total departmental spending. Both are in nominal (not inflation adjusted) terms.



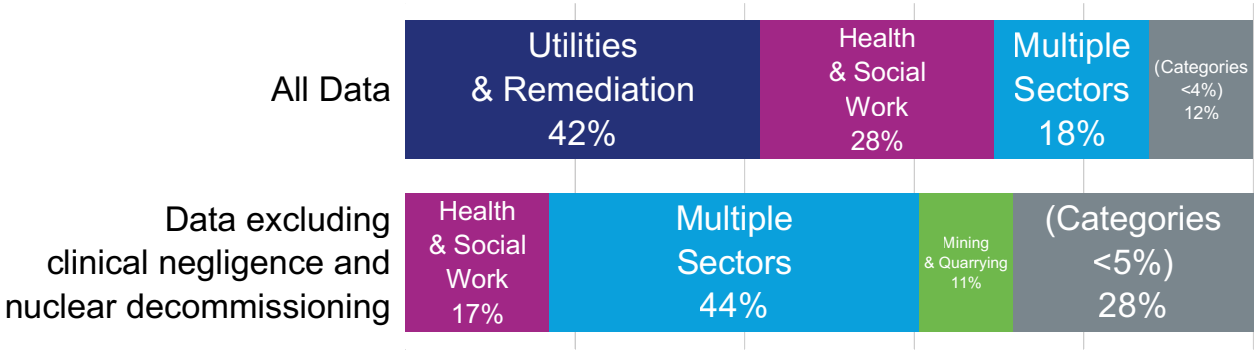
As shown in **Figure 02F**, there was a significant increase in the relative expected lifetime cost of the on-budget portfolio relative to total spend between 2014-15 to 2016-17 with a sustained peak just before the Covid-19 pandemic. During, and after, the pandemic, the relative size of the on-budget portfolio has significantly reduced. This indicates that the relative size of the on-budget portfolio has now returned to the levels seen in the early 2010s.

A departure from this longer term, cyclical pattern, occurred in 2021-22. A steep increase in the portfolio expected cost from 2020-21 to 2021-22 was almost entirely attributable to a meaningful decrease in the discount rates used to value these provisions. Most of this increase was accounted for by increases in nuclear decommissioning and clinical negligence, which together represented over 90% of the total year-on-year increase.

More recently, in 2024-25, the portfolio increased marginally, but its relative size as compared to total spending continued to fall. UKGI will continue to monitor this trend.

Sectors of risk

Figure 02G: Sectors with the greatest contingent liability exposure



Understanding the sectoral composition of the portfolio helps identify concentrations of risk and enables government to plan and implement strategies to mitigate the risk and consider the impact of new contingent liabilities.

As highlighted by **Figure 02G,** the government's portfolio is heavily concentrated in the 'Utilities & Remediation' and the 'Health & Social Work' sectors, reflecting the dominance of commitments for nuclear decommissioning and clinical negligence. A significant number of sectors have been grouped together as they each made up less than 4% of the portfolio.

Excluding clinical negligence and nuclear decommissioning, the remainder of the portfolio is more diversified across sectors. A material portion is classified as 'Multiple Sectors', where individual liabilities span two or more sectors. For example, the Bounce Back Loans scheme was designed to enable businesses across sectors to access finance more quickly during the Covid-19 outbreak. 'Health & Social Work' continues to represent a significant portion due to a £10bn provision for the Infected Blood Compensation Scheme.

UKGI analysed common properties between off-budget contingent liabilities that have either partially or fully crystallised since 2023 to better understand the crystallisation risk across the portfolio. As of 31 March 2025, and excluding clinical negligence and nuclear decommissioning, approximately 12% of these contingent liabilities (measured by number) have either partially or fully crystallised. Many of these liabilities are long-standing and are expected to remain over several years.

Shared characteristics of these liabilities can be evenly distributed across four high-level risk areas. This indicates that crystallisation risk is not driven by a single liability type but instead arises from a range of structural features. Insights from this analysis help inform where future liabilities may be more prone to crystallisation and where enhanced monitoring or mitigation may be warranted.

Figure 02H: Off-budget crystallisations by high level risk area

Risk Area	Example
Energy services (19% of total): capital budget related activities focused on the energy sector. These liabilities typically have an expected cost of £20m and are very long-term with a low estimated probability of crystallisation. Make up a fifth of items that have crystallised.	(DBT) Baglan Operations Limited Indemnity to the Official Receiver to carry out their responsibilities as liquidator to Baglan Operations, the now-closed gas generation plant.[9]
Health and social work (25% of total): activities mainly relating to health and social work and the beneficiaries are individuals or households. These liabilities typically have an expected cost of £3m and are shorter term liabilities with a medium to high probability of crystallisation.	(DESNZ) Remaining claims to be received in regard to the settlement of health claims payable to former employees in the civil nuclear industry.
Legal cases (34% of total): these liabilities typically have an expected cost of £0.5m and are relatively short term, a typical characteristic of legal cases, and have a very high estimated probability of crystallising (over 50%) but low expected cost.	(DWP) Compensation Claims relating to tribunals, injury and Civil Service Appeals Board cases.
Financial & insurance-like activities (22% of total): these liabilities typically have an expected cost of £0.5m and are relatively long-term, whilst having relatively low probability of crystallisation.	(MHCLG) Grenfell Assisted Home Ownership Scheme

9 Contingent Liability Notification: Baglan Operations Limited and Baglan Group Companies. Statement April 2021

Case study: Nuclear Third-Party Liability

Nuclear has a key role in the UK's transition to net zero by 2050, with safety and regulation being of paramount importance, and the risk of any accidents in the UK remaining very low. In 2022, changes to protocols in the field of nuclear energy strengthened the UK's nuclear third-party liability regime, providing more compensation to more victims for a broader range of damages. A key change was extending the period during which personal injury claims could be made, in the highly unlikely event of an incident, from 10 to 30 years.

After engaging with the market, it became clear that UK insurers could not immediately provide sufficient insurance capacity up to the new requirements. The government has therefore offered indemnities to operators for an economic charge, for allowable claims made in the 10 to 30 year period after an incident, up to a maximum limit.

This is an example of government providing capacity that works alongside commercially available cover. The government sets a premium price that balances an overriding policy objective to encourage, but not crowd out, the market, while also ensuring operators can meet their legal obligation to have sufficient cover in place. This charging approach is aligned with the principle of government developing a long-term exit strategy to address the cause of the market disruption and facilitate the transfer of risk back to the commercial market.

2026 is the fifth year this intervention was required. There are encouraging signs the market is developing, with insurers covering more of the risk. The government will continue to review the arrangements annually and aim to reduce intervention as insurers expand capacity and close the gap.

UKGI supports DESNZ on an annual basis with the completion of the contingent liability checklist required under the Contingent Liability Approval Framework.

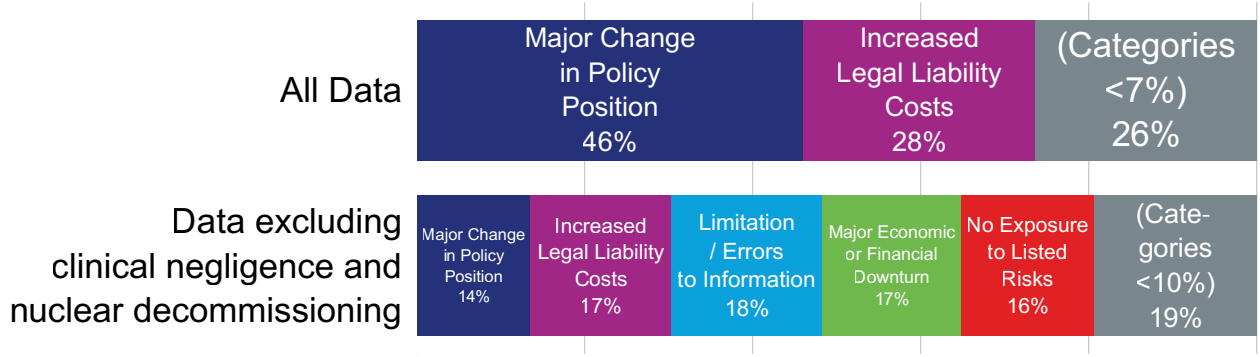
Portfolio exposure of cross-sector trigger

To understand where the government's portfolio may be disproportionately exposed, UKGI has assessed the areas and events that could pose substantial risks. This analysis examines triggers that could materially affect the likelihood or scale of future crystallisations, with a focus on cross-sector triggers that may impact multiple categories of contingent liabilities and therefore indicate systemic or concentrated risks.

Similar to last year, UKGI analysis shows that government's contingent liability portfolio is broadly exposed to three substantive key cross-sector triggers:

- a major change in policy position;
- increased legal liability costs – e.g. from a relevant court judgement; and
- a major economic or financial downturn.

Figure 02I: The distribution of cross-sector triggers across the portfolio



When considering the potential impact of these events, it should be noted that not all triggers interact with liabilities in the same way. For example, a direct change in policy on nuclear decommissioning would be very unlikely to impact other liabilities, while a hypothetical change in the government's policy approach to net zero could impact a larger number. Other triggers, such as a major economic or financial downturn may impact liabilities that share common features, meaning a single event could cause several significant crystallisations simultaneously. A single court judgement may impact a few liabilities but is unlikely to impact a wide range.

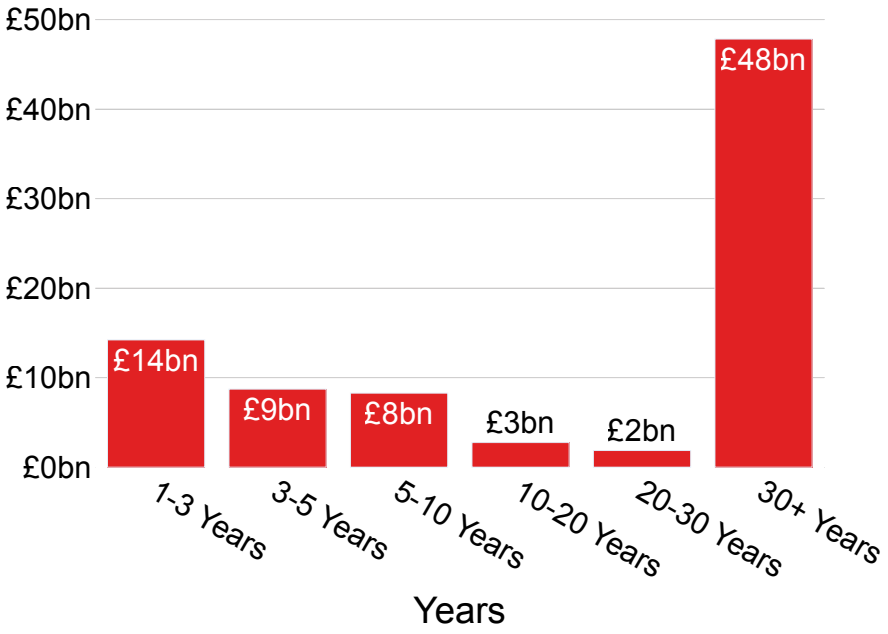
The 'limitation or errors to information' category refers to liabilities and provisions where uncertainty about key data could significantly affect future costs. In such cases, inaccurate or unknown information may lead to unexpected crystallisation or substantial increases in payments. The most prominent example of this is the Infected Blood Compensation Scheme, where uncertainty over the size of the affected population creates a material risk to the provision's valuation.

The 'other' category relates to a further nine triggers which span various types of damages incurred from different events as well as changes in socio-economic and legal environments. Excluding clinical negligence and nuclear decommissioning, the analysis suggests the government is not disproportionately exposed to any single trigger.

Future landscape of the contingent liability portfolio

Understanding how the portfolio is expected to evolve over time provides valuable insight to its structure, which can help decision-makers anticipate emerging risks, evaluate whether current mitigation strategies remain effective, or determine the level of fiscal exposure they are prepared to accept through new commitments. By analysing future projections, the government can make informed choices on risk appetite and design targeted interventions that strengthen resilience against long-term uncertainties.

Figure 02J: End date of liabilities over time, excluding clinical negligence and nuclear decommissioning. The categories show the range of years outstanding



Analysis of the portfolio's expiry profile shows government's contingent liabilities are heavily weighted to the long-term. Excluding clinical negligence and nuclear decommissioning, around £48bn are classified as expiring beyond 30 years, compared with around £31bn expected over the next decade. **Figure 02J** assigns the full expected cost of each contingent liability to the year in which the liability expires. While for some contingent liabilities the cost will result from the occurrence of a single event, and it could be in the year in which the liability expires, for many the cost will fall across many years. An example of this is the costs the UK is committed to as part of the financial settlement related to its withdrawal from the European Union.[10]

Even though the government's portfolio of contingent liabilities is long-dated, there remains a risk that liabilities crystallise earlier than expected, or at increased scale or severity. This reinforces the need for government to maintain a proactive approach to monitoring and managing its portfolio. Maintaining this analysis on a rolling basis helps assess the cumulative impact of liabilities replacing expiring ones.

While expiry projections provide useful insight, they are subject to uncertainty. The portfolio is dynamic and changes in policy, economic conditions and other shocks can materially alter the outlook. Scenario-based analysis can help decision-makers understand potential impacts on the portfolio and inform risk appetite. The Downside Stress Scenario Analysis chapter assesses the portfolio against a major financial or economic downturn.

10 Outstanding liabilities under the Financial Settlement

Chapter 3: Financial Guarantees – Fees Charged & Coverage

The contingent liability commitments considered in this report create a risk to the public finances if they crystallise. Managing Public Money[11] makes clear that, where government provides guarantees or other forms of financial risk transfer, departments should normally charge an appropriate fee that reflects the risk being assumed, both to protect taxpayers and to avoid distorting markets by offering an implicit subsidy. Whether a fee is appropriate in specific cases – and the level at which it is set – will depend on a number of factors, including the department's wider policy goals and the nature of support it is offering.

UK Export Finance and Financial Guarantees

UK Export Finance (UKEF) is the government's export credit agency and provides financial guarantee products that support lenders in financing UK exports and overseas projects with UK export content. Through guarantees such as buyer credit, working capital and development facilities, UKEF shares credit risk with commercial banks to improve access to finance and reduce borrowing costs for exporters and overseas buyers.

Fees for UKEF's financial guarantees are set on a risk-based basis. Premiums reflect the underlying credit risk of the borrower, the country of risk, the tenor of the facility and the structure of the transaction. UKEF's pricing is designed to cover expected and unexpected losses and operating costs over time, ensuring that its activities operate at no net cost to the taxpayer. For medium and long-term transactions, UKEF must also comply with international rules under the OECD Arrangement, which set minimum premium benchmarks to maintain a level playing field with other export credit agencies. Premiums are typically charged upfront, and for some facilities additional commitment fees may apply on undrawn amounts during the availability period.

UK Export Finance is an example of good practice – its guarantee schemes consistently apply strong risk assessment and transparent pricing. UKEF's long-standing commercial approach demonstrates how well-designed government guarantees can both support national policy priorities – such as boosting UK exports – and recover their costs through premiums and fees, ensuring sustainable management of exchequer risk.

11 HM Treasury, Managing Public Money, June 2025

There are some circumstances where government decides not to charge a fee. For example, it may not be appropriate to charge for guarantees provided to some foreign governments and multilateral partners in support of international development objectives. In other cases, guarantees may be introduced in response to acute economic stress, where charging could inhibit the effectiveness of the intervention or constrain access for groups the policy is intended to support.

Case study: Mortgage Guarantee Scheme

Launched in 2021, the Mortgage Guarantee Scheme helped to restore and sustain the availability of high loan-to-value (LTV) mortgage products, as many lenders withdrew these products from the market in the wake of the Covid-19 pandemic. The scheme gave lenders the option of having a government guarantee for mortgages above 90% LTV and up to 95% LTV, in exchange for a fee, to boost and sustain market confidence in offering these products, which are of particular benefit to first-time buyers who may struggle to raise larger deposits.

The 2021 Mortgage Guarantee Scheme closed to new accounts in June 2025 and supported nearly 59,000 mortgages, 86% of which were first-time buyer purchases. From July 2025, the government launched a new, permanent Mortgage Guarantee Scheme helping to sustain availability of these high LTV products through the economic cycle, as well as facilitating new market entrants by giving lenders the stability of a permanently available guarantee scheme, should lenders choose to participate.

The analysis presented below considers the extent to which fees offset expected costs. It focuses specifically on financial guarantees as they form a more comparable set of products than insurance-type liabilities, where pricing approaches and rates will vary by risk.

Financial guarantees are an important component of the government's contingent liability portfolio, supporting the delivery of policy outcomes through sharing risk with lenders, investors and overseas partners, where private markets are unwilling or unable to bear the risk alone. By standing behind borrowers or projects, the government can unlock investment, support economic activity and reduce financing costs for the private sector for public benefit, while avoiding an immediate cash outlay.

Figure 03A shows that the expected cost of the financial guarantees sub-portfolio is not covered by net lifetime expected premium and fee income, resulting in 0% coverage once crystallisations already incurred are taken into account.[12]

12 The methodology on fee charging related to guarantees is covered in Annex E.

Figure 03A: Financial guarantees summary as of March 2025, including fee charging

Guarantee Scheme	Expected Costs (£m)	Net Premiums and Fees (£m)	Net Expected Costs (£m)	Fee Coverage
Covid-19 Schemes	3,028	0	3,028	0%
Export Finance Guarantees	128	285	0	222%
Int. Development & Foreign Sovereign Guarantees	1,094	15	1,078	1%
Housing Guarantees	124	123	2	99%
ENABLE Guarantee Scheme	<1	55	0	27500%
Enterprise Finance Guarantee	3	0	3	0%
Recovery Loan Scheme[13]	363	0	363	0%
Infrastructure Guarantees (Active)[14]	60	646	0	1070%
Infrastructure Guarantees (Legacy)	102	0	102	0%
Entire Financial Guarantees Portfolio	4,902	0	4,902	0%
Fee Charging Financial Guarantees Portfolio	1,195	310	885	26%

This outcome is primarily driven by the fact that the total expected lifetime premium and fee income across the sub-portfolio is exceeded by the crystallisations already incurred. This aggregate figure is materially influenced by the large portion of financial guarantees for which government does not charge, with many of these introduced as a response to economic stress, for example Covid-19 schemes.

Analysis of the financial guarantees still in existence at the end of March 2025 shows that on a like-for-like basis, fee coverage for financial guarantees and schemes that charge a fee has risen over the last year from 24% to 26%, and for the non-Covid related fee charging portfolio from 54% to 72%. Further explanation of the year-on-year comparison is provided in **Annex E**.

A detailed breakdown of scheme-level outstanding balances as of March 2025, including prior year comparators, is set out in **Annex E**. The Annex provides further context on movements across individual guarantee programmes and the evolving composition of the portfolio.

13 In the past year, the Recovery Loan Scheme has been merged with the Growth Guarantee Scheme and is continuing as the Growth Guarantee Scheme.

14 Infrastructure Guarantees (Active) figures above cover six guarantees in place at March 2025. Four of these were guarantee commitments to loans that were not expected to be drawn down in the next 12 months. These undrawn guarantees still attract premiums to reflect the risk of a future claim. Under accounting rules, expected losses are estimated only over the next 12 months unless credit risk has increased significantly – as a result, these four undrawn guarantees had an Expected Cost of zero. Their lifetime fees therefore result in the high Fee Coverage ratio shown above.

Chapter 4: Downside Stress Scenario Analysis

Throughout the preceding chapters, the focus has been on the expected cost of reported liabilities as they currently stand or how they may expire. This is the best estimate of costs that could occur, but in practice actual costs could be higher or lower.

A major economic or financial downturn could significantly impact the scale of the costs, because it would affect many parts of the portfolio at once. This type of shock is the single event most likely to create widespread, cascading impacts across the broadest set of contingent liabilities in the government's portfolio. Last year UKGI carried out a stress scenario analysis on those liabilities that were subject to a primary risk trigger of a major economic or financial downturn. The analysis has been updated this year, using the same methodology, to see how this downside stress scenario has evolved over the past year. Choosing this type of shock as its main stress scenario allows the government to understand how its existing contingent liability commitments would potentially constrain its financial flexibility in such a scenario.

Scenario

Figure 04A: Stress studied – major economic or financial downturn

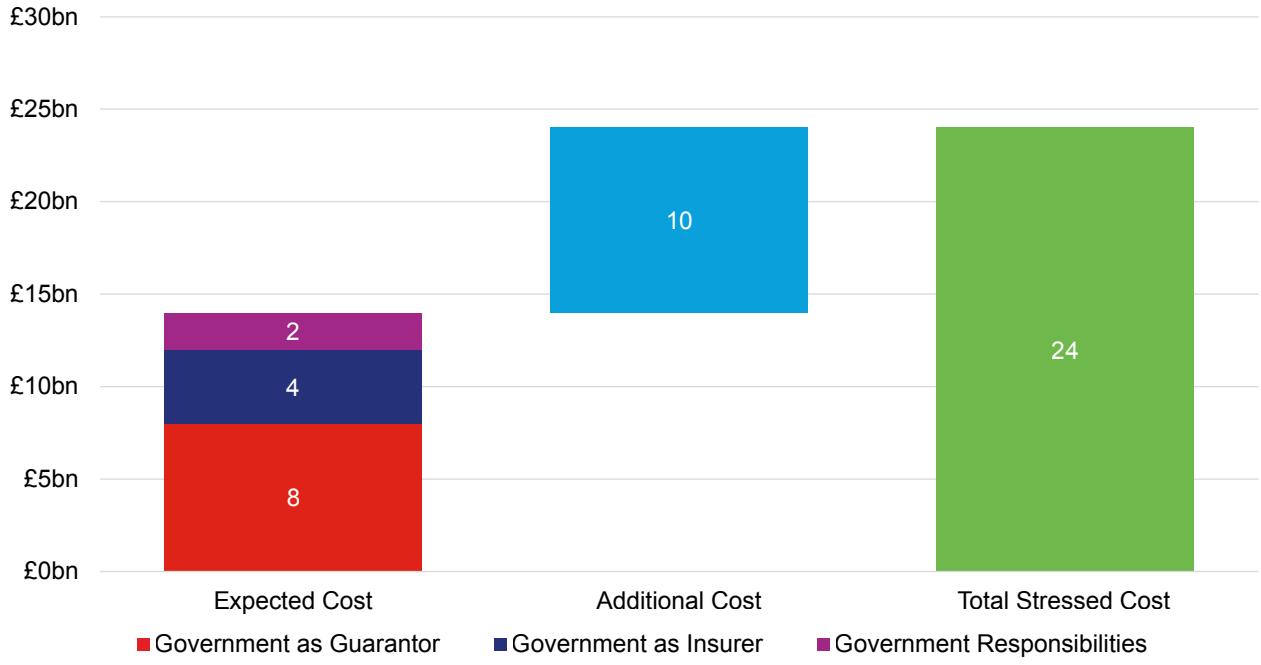
A one-year external shock that causes an increase in the extent, and frequency, of crystallisations of contingent liabilities with counterparty credit risks. Additional losses on liabilities could arise from a deterioration in the creditworthiness of these counterparties that impairs their ability to service their debt obligations. This would result in an increase in the expected number of defaults and hence the expected cost incurred for these liabilities.

This scenario considers all liabilities that have an explicit link to additional losses being incurred in response to a major economic or financial downturn. In this scenario no secondary impacts to other sectors or parts of the portfolio are considered. Other major macroeconomic or policy intervention impacts are also assumed to occur in parallel but with no further impact on existing items within the sub-portfolio.

If this scenario were to occur, organisations may be unable to service their debts because of cash flow constraints, for example. Liabilities in the form of financial guarantees would see increased expected costs where the underlying risk relates to the ability of third parties to make debt service payments. The shock would increase both the anticipated frequency and extent to which contingent liabilities might crystallise.

Impact of the stress scenario

Figure 04B: The impact of the stress scenario on the government's portfolio



This downside stress scenario is limited to liabilities that would be impacted by a major economic or financial downturn, for example the Coronavirus Large Business Interruption Loan Scheme (CLBILS). These liabilities represent 16% of the total portfolio when excluding clinical negligence and nuclear decommissioning (£14bn). **Figure 04B** sets out the impact of applying the stress scenario and shows that, when subjected to the scenario, the portfolio incurred an additional expected cost of £10bn. The additional cost is determined by a balance of three factors: probability of default, the size of the liability, and the outstanding lifetime of the liability. The average additional expected cost for most liabilities linked to the studied trigger has fallen relative to last year's analysis. However, increases in the largest items offset these reductions, resulting in an overall additional expected cost that is the same as last year's stress-test (£10bn).

Interpretation of analytical findings

In interpreting this result, it is important to consider the scale of this increase relative to the overall expected cost of the entire portfolio and its implications for the wider fiscal position. Although the costs arising from the stress scenario may materialise over several years, the additional expected cost generated by this shock is substantial. This suggests that, should such a shock occur, the impact on departmental budgets could be material.

By establishing the order of magnitude by which the expected cost of the portfolio could rise in response to this type of shock, policymakers are better placed to assess their risk appetite for taking on further contingent liabilities with similar characteristics.

The analysis considers the impact of this shock on the existing contingent liability portfolio in isolation. In practice, a major financial or economic downturn would be expected to generate wider and more significant fiscal impacts beyond those captured here. The findings should therefore be interpreted in the context of historical experience, broader macroeconomic risks, and the limitations of the stress testing approach.

Further detail on the methodology used and setting the scenario can be found in **Annex E**.

Chapter 5: Conclusions and Next Steps

Conclusion

The overall size of the government's contingent liability portfolio has seen little change versus previous years, largely due to the stability of discount rates. While the portfolio has seen a significant increase due to the expansion of the Infected Blood Compensation Scheme, this has been partially offset by £2bn of other liabilities expiring.

Despite the stability in headline figures, the provisions within the portfolio continue to rise. After adjusting for the impact of discount rate changes, the underlying costs continue to increase year-on-year, as observed in last year's report, a trend that has been consistent over the last few years. There has been notable growth in the largest items (clinical negligence and nuclear decommissioning) which together continue to dominate the portfolio. For new liabilities, early engagement with the Contingent Liability Approval Framework and close co-ordination between departments, HM Treasury and UKGI will continue to be important to help shape risk, design mitigations, and manage potential costs effectively.

Although the position has improved since last year, the analysis continues to highlight that income generated through fees and premiums remains insufficient to cover the expected lifetime cost of financial guarantees. This means government continues to absorb costs to achieve policy objectives. Recent trends in approved contingent liabilities indicate that fees could increasingly be used to cover costs.

Next steps

The management of contingent liabilities on a portfolio basis enables a more detailed and holistic view of the potential impact of new contingent liability proposals and can inform decisions about the management of the existing portfolio.

UKGI will use the insights from this report, and the data underpinning it, to support government departments and HM Treasury when assessing proposals for new contingent liabilities and in managing the existing portfolio.

To help continue to inform the management of contingent liabilities across government, UKGI will:

- **Continue to improve data quality and categorisation:** in particular, working with departments to reduce the reliance on "other" and "multiple sectors", to enhance, for example, the government's understanding of the sectoral concentration of the portfolio.
- **Explore how portfolio-level insights can be better used to inform decision-making across government:** this includes reviewing whether and how departments currently apply portfolio management principles to their contingent liabilities, and supporting the adoption of best practice.

- **Develop the stress scenario:** by increasing the granularity of the economic shock applied to the scenario, considering alternative scenarios beyond economic downturns, and exploring the overlap of shocks across the government's contingent liabilities and financial investments to provide a holistic view of the risks on both sides of the balance sheet.
- **Share best practice:** provide guidance for departments on better cost estimation for new contingent liabilities.
- **Support departments on the use of fees:** work with departments, through the approval process for contingent liabilities, to ensure they are considering the use of fees where appropriate.

Annex A: Definitions

#	Term	Definition
1	**Additional cost**	All future costs that are anticipated to occur when the contingent liability portfolio is subjected to the stress scenario, in addition to the expected costs under the baseline scenario.
2	**Annually managed expenditure (AME)**	One of the budgetary categories, referring to large, demand-led and volatile government spending. Departments do not control this spend directly and so the expenditure cannot be feasibly managed within Spending Review and Budget processes. The largest AME items covered in this report are the EU Financial Settlement and the Financial Assistance Scheme. AME is split further into Resource AME (RAME) and Capital AME (CAME). Resource spending refers to day-to-day spending on departmental activities, while capital spending is characterised by creating a new asset or enhancing an existing one.
3	**Contingent liability**	Contingent liabilities are, in the context of Managing Public Money (MPM), commitments to use public funds if uncertain future events occur. This definition is broader than the standard accounting definition of a contingent liability as it includes on-budget items such as financial guarantees or insurance contracts. These are equivalent to explicit liabilities due to the contractual commitment to meet these costs.
4	**Credit risk**	The risk that a borrower or counterparty will fail to meet its contractual financial obligations in full and on time, resulting in financial loss to the lender or investor.
5	**Cross-sector trigger**	An event which could increase the probability or size of future crystallisations across the portfolio of risks.
6	**Crystallisation of a contingent liability**	A contingent liability crystallises when the uncertain future event it depends on occurs, turning a potential obligation into an actual obligation for which payment (in whole or in part) becomes due.
7	**Departmental expenditure limits (DEL)**	A budgetary category related to budgeted spending over which departments are expected to exercise control. DEL limits are set as part of Spending Reviews and Estimates. The largest DEL items covered in this report are nuclear decommissioning and clinical negligence. DEL is split further into Resource DEL (RDEL) and Capital DEL (CDEL). Resource spending refers to day-to-day spending on departmental activities, while capital spending is characterized by creating a new asset or enhancing an existing one.

#	Term	Definition
8	**Discount rate/public expenditure system (PES) rate**	A financial assumption used to determine the present value of future payments. For the purposes of preparing government departments' financial accounts, discount rates are prescribed by HM Treasury, and vary across provisions, financial instruments, and pensions. For provisions, the rates issued by HM Treasury are based on Bank of England yield curves of conventional government bonds (UK Gilts).
9	**End date**	An estimate of when government will no longer be exposed to the risk. This includes liabilities without a fixed expiry date, based on an understanding of the risk.
10	**Expected cost**	An amount which represents the probability-weighted best estimate of cost to the risk holder over the period for which the risk is held. This reflects both the size of possible costs and the likelihood of those costs occurring. This measure excludes any premiums collected.
11	**Fee charging**	Indicates whether a premium or fee is charged to the beneficiary of a guarantee or insurance arrangement in exchange for the government assuming risk. Where fee charging applies, income is expected to be received over the lifetime of the scheme to partially or fully offset the expected cost of the liability. Where no fee is charged, the government assumes the risk without direct compensation from the beneficiary, typically for policy or public interest reasons.
12	**Financial guarantee**	When the government agrees to pay the debts of a third party if they default.
13	**Government as guarantor**	Instances where, to achieve its objectives, the government chooses to offer a financial guarantee where the private sector is unwilling or unable to cover the risk.
14	**Government as insurer**	Instances where, to achieve its objectives, the government offers an indemnity or other insurance-like products because the private sector is unwilling or unable to cover the risk.
15	**Government responsibilities**	Future contingent or uncertain expenditure that the government is legally or contractually committed to incurring because of past public sector related activities.
16	**His Majesty's Treasury (HMT or HM Treasury)**	A ministerial government department responsible for developing and executing the government's public finance and economic policy.

#	Term	Definition
17	**Implicit liabilities**	Future liabilities that a government may feel obliged to fulfil for political or moral reasons in the absence of any contractual or legal obligation to do so. Implicit liabilities are similar to contingent liabilities in that they are uncertain future costs that could arise, but the absence of contractual agreements characterises them. These are not analysed within this report.
18	**Indemnities/ other insurance products**	When the government agrees to cover costs if a certain event occurs.
19	**Legal cases**	When a lawsuit is likely to be brought against the government while undertaking its core activities.
20	**Management information**	Operationally relevant data relating to a business function or activity.
21	**Net expected cost**	Amount representing the overall financial impact on the government from providing a financial guarantee. Reflects the expected cost net of the product of lifetime premiums and fees minus crystallisations to date.
22	**Off-budget liability**	Disclosed in the notes to accounts. In line with accounting standards, these liabilities are not recognised on the balance sheet because they are considered either relatively unlikely to crystallise or cannot be measured with sufficient reliability at the reporting date. They are disclosed in the notes with limited or no quantification. Such items appear as contingent liabilities and remote contingent liabilities in accounts.
23	**On-budget liabilities**	Recognised on the balance sheet. In line with accounting standards, these liabilities are recorded in departmental accounts using a best estimate of the expected cost, recognising uncertainty over the timing and amount of future outturns. Such items appear as provisions, financial guarantees, or insurance-like liabilities in accounts. We use this term interchangeably with the term 'provision' throughout the report.
24	**Portfolio management**	An approach to manage the fiscal risk of contingent liabilities by considering a range of risk metrics to better understand possible fiscal implications and inform the appetite to entering into new contingent liabilities and develop management strategies.
25	**Provisions**	Future funds required by an organisation to cover expected future expenses arising from a specified past event, where the expenses have a greater than 50% likelihood of being incurred. These fall within the public finance definition of a contingent liability.

#	Term	Definition
26	**Purchaser protections**	Where the government agrees to provide warranties or indemnities relating to asset sales.
27	**Risk appetite**	The maximum amount of risk (after controls and other measures have been put in place) that an organisation is willing to take in pursuit of objectives it deems have value.
28	**Stress scenario**	A method of analysis used to help quantify the financial impact of an adverse economic or financial scenario. Achieved through varying multiple assumptions in a model at once to mimic the expected behaviour of the assumptions if the adverse scenario were to occur.

Annex B: Data Sources

The analysis included within this report should be treated as unaudited administrative data and should not be considered as national or official statistics. We often refer to this as Management Information (MI).

On-Budget and Off-Budget Liabilities

Like the approach for the 2025 Contingent Liabilities Report, this report uses information for on-budget and off-budget liabilities that has been gathered across departments. By on-budget and off-budget liabilities we broadly mean:

- On-budget: provisions, financial guarantees, or insurance liabilities; and
- Off-budget: contingent liabilities and remote contingent liabilities.

Some of the aggregated on-budget data reflects figures that will be included in departments' annual report and accounts, but due to this being MI, it should not be expected that a full reconciliation is possible.

Data Exclusions

We have excluded 'implicit' liabilities which, rather than arising explicitly through law or contractual obligations, represent obligations that potentially arise through public expectation, political pressure, or the role of the state as society understands it.

We received data pertaining to a total of 1,327 contingent liabilities. Through our data validation process (see **Annex D**) this was reduced to 1,257 active liabilities.

Like the 2025 Report, this report includes analysis on liabilities that expired during the course of the financial year 2024-25 to identify year-on-year changes. These expired liabilities are therefore included in our dataset to inform our understanding of these changes, but they have been excluded from end of 2024-25 totals.

Exclusions of certain data were made for specific charts in our data visualisation to ensure clarity. This most often applies to items that dominate the portfolio (clinical negligence and nuclear decommissioning). This is sign-posted by either stating if we are looking at All data or Data excluding clinical negligence and nuclear decommissioning.

Supplementary Data Sources

For some of the specific pieces of analysis carried out in this report, additional data was collected. When this is the case, these data sources are outlined within the relevant methodology annex as set out below.

Budget Comparison Calculations

The section of the report on Contingent Liabilities and Departmental Budgets includes certain analysis which compares changes in the contingent liability portfolio to total departmental spending levels. This analysis references data on government's spending as published by HM Treasury, as well as using data collected by UKGI through the data commission process.

This is explored further in **Annex E,** under section **E3: Budget Comparison Calculations**.

Financial Guarantees

The Financial Guarantees chapter provides an overview of the government's portfolio of financial guarantees. The data used in the analysis in this chapter was also aggregated by working across departments and through references to data published in certain departments' annual reports and accounts.

This is explored further in **Annex E,** under section **E5: Financial Guarantees Analysis**.

Analysis of Discount Rates

We have conducted analysis of changes in the expected cost of contingent liabilities as compared to changes in the discount rates used in estimating these costs. This helps to interpret the impact of discount rate fluctuations on the expected cost of the portfolio. Discount rate data was sourced from the Public Expenditure System papers published annually by HM Treasury.

Further details of the discount rate analysis and the impact of discount rates over the long-term are included in **Annex E,** under section **E6: Discount Rate Analysis**.

Government Departments

For this report, data has been aggregated from the following government departments:

Department Name	Acronym
Cabinet Office	CO
Department for Business and Trade	DBT
Department for Culture, Media and Sports	DCMS
Department for Food and Rural Affairs	Defra
Department for Energy Security and Net Zero	DESNZ
Department for Education	DfE
Department for Transport	DfT
Department for Science, Innovation and Technology	DSIT
Department for Work and Pensions	DWP
Department of Health and Social Care	DHSC
Foreign, Commonwealth and Development Office	FCDO
His Majesty's Revenue and Customs	HMRC
His Majesty's Treasury	HMT
Home Office	HO
Ministry of Defence	MOD
Ministry of Housing, Communities and Local Government	MHCLG
Ministry of Justice	MOJ
UK Export Finance	UKEF

Organisations Excluded

This report does not consider contingent liabilities held by the public sector beyond central government department accounting boundaries, including devolved administrations, NHS trusts or local authorities. In addition, ministerial departments with no identified, or material, contingent liabilities are not included within this report. The Whole of Government Accounts reports on business-as-usual spending and contingent liabilities for local authorities. Therefore, this information will not be analysed within this report.

Annex C: Data Limitations

Continuous Improvement: Data Quality and Completeness

The purpose of this report is to analyse liability data on an aggregate portfolio level. The data used consists of self-reported MI, which is of limited quality and not formally audited. UKGI consistently works with the aim to ensure that year-on-year, the data quality is improved. We do this through improving guidance provided to departments, ongoing improvements to validation- and data completeness checks.

A process of four independent steps of quality assurance on the underlying data was undertaken (see the **Annex D** for quality assurance). Due to the volume and nature of this data, however, it has not been possible to scrutinise every single data point in detail. We therefore apply a risk prioritisation approach where we review the most material items most thoroughly. We will continue to work with departments to further improve the information collected for subsequent reports.

Differences between On-Budget and Off-Budget Data

Our data set includes both on-budget and off-budget contingent liabilities. On-budget liabilities are recognised on departments' balance sheets. In contrast, off-budget liabilities are not recorded on the balance sheet. Instead, they are disclosed in the notes to a department's financial accounts with limited or no quantification. For the purposes of this report, we have asked departments to estimate an expected cost for off-budget contingent liabilities, which is outside of departments' accounting practice.

While the values of on-budget contingent liabilities are calculated in accordance with specified accounting standards, off-budget liabilities have been valued using instruction provided by UKGI. There are several ways in which the approach to define expected cost for off- and on-budget contingent liabilities differ.

Specificity of expected cost

Firstly, on- and off-budget expected costs differ in the specificity of estimates provided. For on-budget liabilities, the expected cost reflects a point estimate over the liability's future lifetime, without deducting any premiums collected. Off-budget liabilities are, by their nature, highly uncertain. For this reason, departments were asked to quantify the expected cost for all off-budget liabilities as a range, rather than a point estimate. Range estimates for off-budget items have been used on the basis that having some (albeit limited and uncertain) information on these items is deemed more valuable than seeking more precise information that would not be available for as many items.

For reporting purposes, we take the mid-point of each band to give an approximate expected cost for aggregation purposes. The top range is defined as "> £500m" with no upper limit given. Based on our understanding of the liabilities we assumed an upper end of £2bn giving a midpoint estimate of £1.25bn. This creates a limitation, and the upper end assumption may need to be reconsidered during future years.

Figure C.1: Table of expected cost ranges departments can choose from in the off-budget part of the data collection

Expected Cost Ranges						
<£1m	£1m to £5m	£5m to £10m	£10m to £50m	£50m to £100m	£100m to £500m	>£500m

Nominal basis of expected cost

There is an additional limitation in that we are assuming nominal values for all items. It is possible that for off-budget items there is a variation in terms of which year is used for the price basis. For on-budget this should be less of an issue as Departments supply values that will support their current year's annual report and accounts.

Discounting of expected cost

Expected costs for on- and off-budget contingent liabilities additionally differ with regards to the application of discount rates. Under accounting guidance, on-budget contingent liabilities represent the present value of expected future costs as of the reporting date. Future crystallisations are forecast for each on-budget liability, and these are further discounted to present value using a discount rate as set by HM Treasury.

Expected costs for off-budget liabilities as included in this report reflect undiscounted values. We consider that this treatment is appropriate given the significant uncertainty regarding the amount and timing of future payments associated with these contingent liabilities. However, we note that as a result, the magnitude of off-budget expected costs may be overstated on a like-for-like basis.

Impact of Data Ranges and Relationship to Accounting Data

A notable limitation to the data collected is that it does not meet the quality thresholds under accounting standards and therefore analysis of individual items is not appropriate unless specific details are published in annual reports and accounts. It also means that reconciliation of total values between our dataset and published annual reports and accounts should not be expected to be possible and such an exercise is not undertaken.

Because costs are reported in relatively wide bands as stated above, the true value could be much higher or lower than we assume. As an example, if the real figure is at the top of a band, the overall expected cost could be around twice what our mid-point estimate suggests.

This approach also means that results can change materially if assumptions move. In effect, if new information leads to a change in the assumed band, the headline risk numbers can shift sharply, even if the underlying reality hasn't changed very much.

For example, assume that something moves from being approximately £4.5m (i.e., band £1m to £5m with a mid-point estimate of £3m) to being approximately £5.5m. Then it will not only move bands (to £5m to £10m) but the mid-point estimate changes to £7.5m. So from a reporting perspective, although the underlying liability has only changed by approximately £1m, the number used for analysis has increased by £4.5m.

Although this kind of approach has clear shortcomings, for most off-budget

contingent liabilities, the value estimates are sufficiently uncertain to justify this approach. The net positive of being able to softly quantify liabilities in ranges is worthwhile as opposed to not having quantification estimates at all.

Unquantifiable Off-Budget Items

Off-budget liabilities are included in the notes to financial statements within departments' annual reports and accounts. Within the notes, these liabilities may be quantified or not, depending on the level of uncertainty and circumstances associated with the liability. As part of our data commission, we have requested that departments report whether each off-budget contingent liability is "quantifiable", meaning that it is quantified in the notes to financial statements, or "unquantifiable".

Figure C.2 shows that only a small proportion of the expected cost of all off-budget contingent liabilities in our dataset has been assigned a probability of crystallisation of more than 50 percent. Most of these contingent liabilities have a percentage of crystallisation of less than 50 percent. Overall, the expected cost of off-budget contingent liabilities is relatively evenly divided between quantifiable and unquantifiable. However, we note that a slight majority of "lower probability" (<50 percent probability of crystallisation) liabilities are reported as quantifiable, whereas the majority of "high probability" off-budget contingent liabilities (>50 percent probability of crystallisation) are unquantifiable.

Figure C.2: Expected cost of off-budget contingent liabilities, according to probability of crystallisation and classification as quantifiable or unquantifiable. Proportions are weighted by expected cost

Reported As	< 50% Probability	> 50% Probability
Quantifiable	49%	3%
Unquantifiable	40%	7%

Use of Counts

On occasion, this report includes counts of liabilities as a measure of quantification. We allowed departments to group liability types that contained similar, small liabilities, such as legal cases, into single line items to reduce the burden of work. For this reason, the total number of liabilities may be understated, and rates derived from counts may not be comparable between different years.

Despite these limitations, grouping benefits accuracy, especially when dealing with small cases well below the threshold of our minimum expected cost category. By doing this, we can reduce the overestimation of risk caused by having large, expected cost ranges.

Reasonable Worst-Case Scenario Exposure

This reflects a loss event the occurrence of which is very unlikely but not implausible. This measure should be based on the exposure to government from the liability over its future lifetime as at the reporting date.

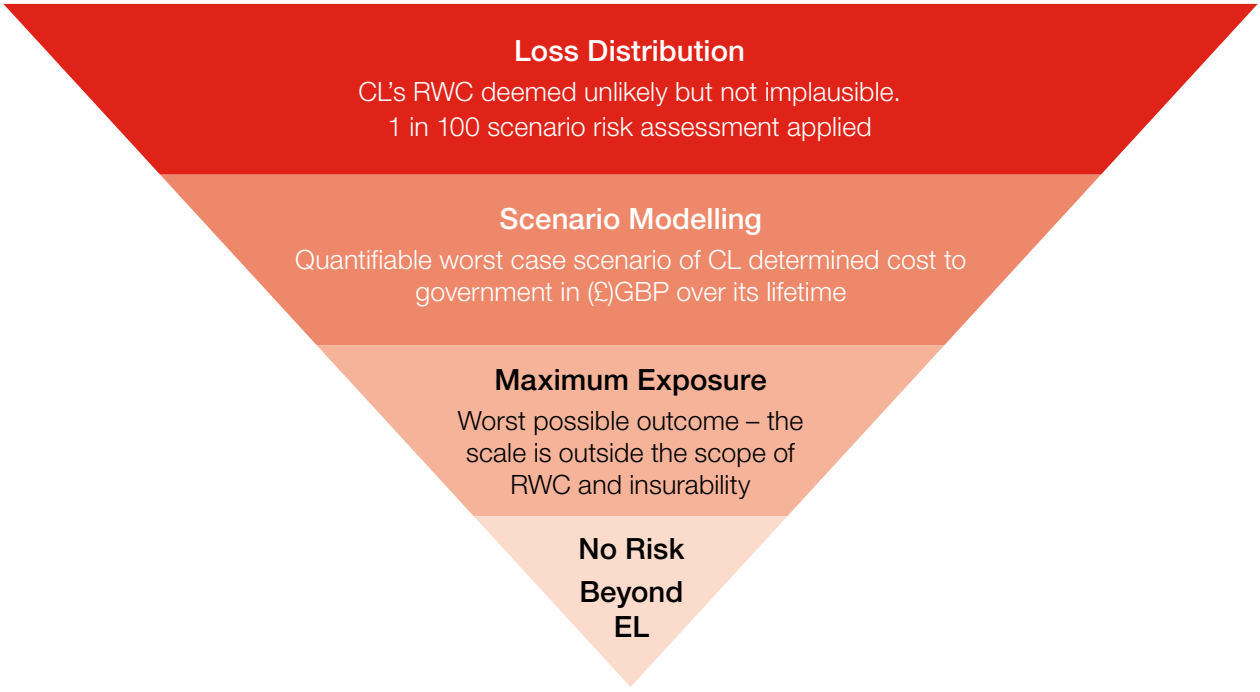
As **Figure C.3** demonstrates, the highest quality estimate of reasonable worst-case is generated by understanding the expected

loss distribution of a liability and calculating the impact of a 1 in 100 event occurring. If this is not possible, the reasonable worst-case can be estimated across the liability's lifetime including its future. If neither is possible then a maximum exposure can be provided and finally beyond that there is no data provided beyond the expected cost. This final option means we would only understand the mean loss and not the shape of the loss distribution for that liability.

Where new data was gathered (including new exposure estimates for items) to feed into this report, we used a broad definition of 'reasonable worst-case'. This acknowledged the challenges in estimating exposures.

For this report, the primary goal was to acquire this measure for every contingent liability. However, a special emphasis was placed on extra checks on quality reporting for liabilities linked to the trigger Major Economic or Financial Downturn as the reasonable worst-case data was used, in a limited capacity, for the Stress Scenario model.

Figure C.3: Pyramid table of loss distribution and outcomes when quantifying contingent liabilities in order of likelihood from reasonable worst-case to no risk



Start/End Date

There are many different reasonable definitions that could refer to the start or end of a liability. For example, the date the liability first existed, the date it was recorded on departmental minutes, or the date it was recorded on parliamentary minutes. This, combined with the diverse nature of contingent liabilities, means that even within departments there are likely to be liabilities with different date definitions.

Trying to capture all of these for all liabilities would be very onerous and add little value. We have captured the best date organisations had (and if none is available a best estimate). This does mean that individual liabilities will use different date definitions, but in aggregate this will be

smoothed out, and we took the approach that some information is better than none.

Where there were gaps (usually in the case of perpetual liabilities with no end date) we have assumed a single end date far into the future. We did not perform any sensitivity analysis on these as we have not included any second order analysis of dates such as cashflows that would be affected meaningfully by changes to the assumptions.

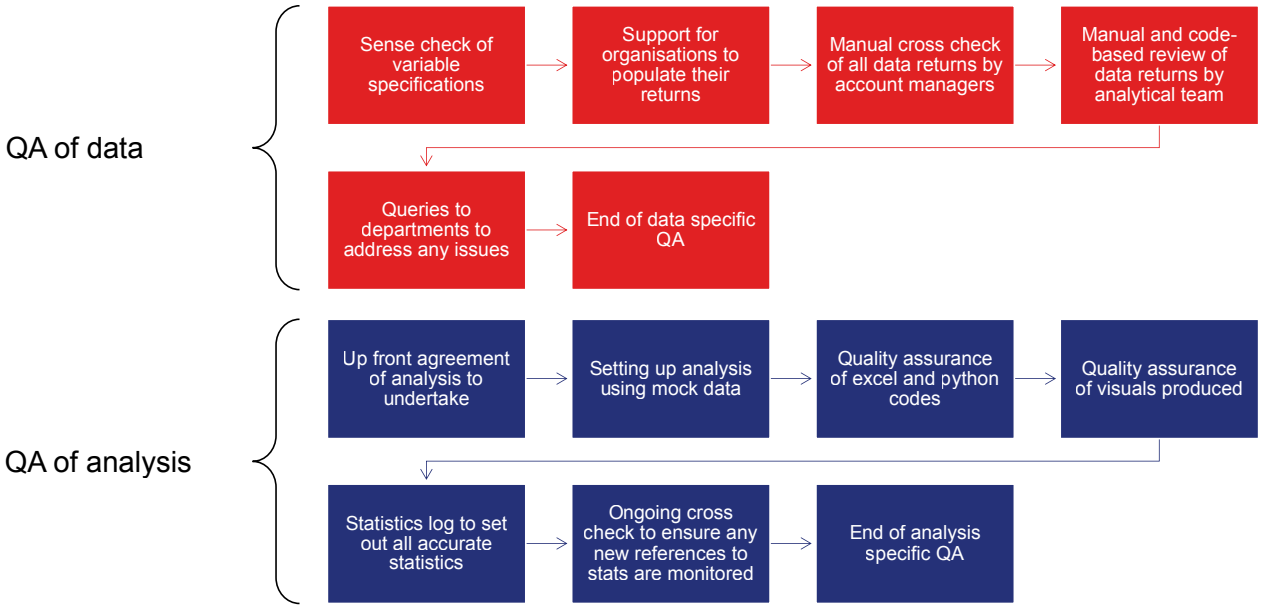
These dates aim to roughly bound the period over which expenditure could potentially be expected. However, we can't say any more specifically when payment(s) could fall.

Annex D: Consistency and Quality Assurance

On-Budget and Off-Budget Liabilities

Quality assurance checks are embedded in every stage of producing this report. This includes: data collection, data processing, analysis and visualisation as well as reporting. At a high level, these checks are summarised in **Figure D.1** below. This section sets out, in detail, the checks applied at each step.

Figure D.1: This figure sets out the four main phases of the data and analytical lifecycle. It captures which associated checks, quality assurance reviews, and approaches we use to ensure robust and reliable data reporting



Data Collection

We collected on-budget and off-budget data as set out in **Annex B**. It is important to note that although the data we receive goes through a quality assurance process, ultimately the departments are responsible for the accuracy of the data they provide. As stated in **Figure D.1** the data we gathered went through several stages of checking to ensure completeness and quality.

The first stage of checking was built into the template used to aggregate this information, in the form of input validation. This ensures cells had the correct data type in them, as well as error checks on each column and row to alert the user to any key issues such as missing inputs. Upon receiving each completed template, the individual responsible for relationship management for each department manually checked the data provided. If any issues were spotted, they queried these with departments.

The second stage involved members of the analytical team, responsible for the data commission, checking the data for any

further errors. The reason for this step is because the analytical team has a deeper understanding of how the data will be used and therefore more technical aspects of the data to check. This includes checking items for self-consistency with other items provided, and carrying out a reconciliation of items provided in this year's data set with that provided last year. The reconciliation included mapping identifiers from the data set that informed the 2025 Contingent Liability Report to identifiers supplied for this report, which in many cases had been changed by departments. By carrying out this mapping exercise we will be able to track items over time. The reconciliation also revealed some missing items which were queried with departments.

The third stage used a Python script to combine data gathered into one combined data set. The script then cleaned and aggregated the data with the following steps:

- Set datatypes of columns and coerce values into the correct type
- Input assumptions for missing dates
- Add columns for:
    - Numerical values of range inputs
    - Binary flags summarising categories
    - Second order information such as the duration between start and end date
    - Sensitivity checks

This data was then displayed in a Python dashboard, as well as being queried into an Excel spreadsheet with calculations being cross-checked independently in both tools.

Quality Assurance of Analysis and Visualisations

We use two main vehicles for producing our visuals. The main figures in the report are produced using a Python produced dashboard. Visuals produced for bespoke or one-off pieces of analysis are produced in Excel.

A quality assurance review of our Python scripts has previously been performed by Government Actuary's Department (GAD). The scripts were split into 2 main functions:

- To combine and clean the Excel templates into a .csv format dataset.
- To create a dashboard in Python using Dash.

The primary scope of this quality assurance was to review the code, looking for obvious errors and anywhere that best practice was not being followed, and to test that the code functioned as expected by running test cases through it.

The review also looked at the visuals produced by the dashboard and compared this to a specification we'd provided to check that we'd followed the methodology we'd stated to produce those visuals.

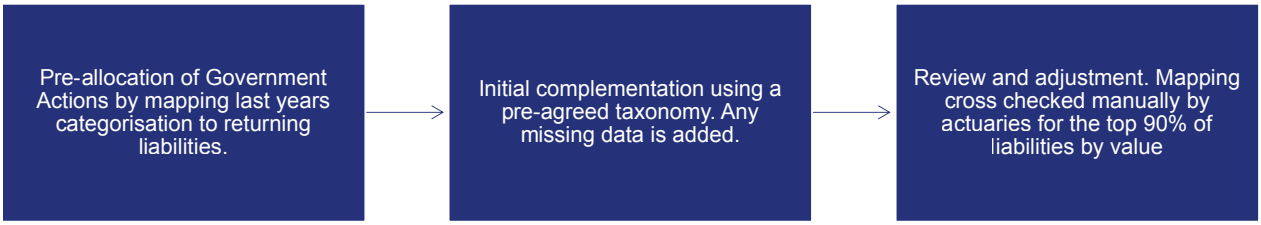
An internal review is now carried out annually by team members for the dashboard. The Excel visuals are quality assured as per our normal practices.

Government Action Assignments

When the data was aggregated using the above step, there was also a need to cross check the correct assignments of

the Government Actions (Responsibilities, Insurer, Guarantor). This is a data field that UKGI assigns to all contingent liabilities. The approach is summarised in **Figure D.2** below.

Figure D.2: This three-step process sets out how the government action data is assigned to each contingent liability



This approach means that the assignment of Government Action has been through three layers of checking so that we can be as certain as possible the information is accurate. There may, however, be outstanding data errors despite this process. As always, we apply a risk-based principle meaning that the most material items are most thoroughly checked.

Consistency Checking of Reported Data and Statistics

As we produced the report, we created a database of statistics used. This database contained citation and links to the underlying sources and flagged if there were any inconsistencies across the report. This was maintained and updated on an ongoing basis as the report was drafted. This way we could ensure we minimised the likelihood of any manual or human errors entering the drafting process.

Application of Artificial Intelligence (Algorithmic Transparency Statement)

To produce this report, internally available AI tools, compliant with the data security standards of our organisation, have been used in a limited way. Use of AI tools has been compliant with government's AI policy, standards and guidelines. Their use has mainly been experimental to explore use cases for our report production. In any instance that AI has been employed in relation to the report, we have taken the following steps to ensure data, drafting, and analysis is fit for purpose:

- In instances where AI has been used to support in coding, all products have been through a human quality assurance process.
- In instances where AI has been used for drafting purposes, any text generated has been through multiple rounds of review by drafters and senior staff.

All decisions on wording, or data values, have ultimately been made by a human unless the impact is demonstrably immaterial.

Annex E: Analytical Methodologies

E1: Downside stress scenario model

Background

For last year's report we developed a stress scenario for the government's contingent liability portfolio. The purpose of this exercise was to help HM Treasury, and the readers, understand the potential additional cost (AC) should the portfolio be subjected to a *Major Economic or Financial Downturn* scenario as described below.

By studying the potential behaviour of the portfolio government can better understand the risks it holds. Quantifying the order of magnitude of potential costs could further the government's understanding of portfolio risk and help inform fiscal planning.

This methodological explanation is an abridged version covering the key points. For a fuller explanation of the method, please reference the annex of last year's report.

The problem statement for this stress scenario is:

To understand how much AC could arise from the portfolios expected cost (EC), based on a hypothetical one-year stress scenario. The scenario is only applied to the subset of the portfolio that departments have indicated is linked to the trigger *Major Economic or Financial Downturn*.[15] Therefore, the question to be answered is:

> *if X% of the portfolio, by expected cost, linked to a specific trigger, undergoes an external shock, how much additional cost (£Ybn) could be generated as a result?*

The key limitations of the method are covered later in this annex. It is important to note that this scenario modelling is a novel piece of analysis that should be considered a first step to further develop our understanding of how to study the contingent liability portfolio.

The scenario

The sub-portfolio mainly consists of guarantee products and insurance products whose cost is driven by an underlying counterparty credit risk. Therefore, the scenario studied needs to reflect the risks associated with these liabilities. At a high level, the scenario chosen is:

> *We are carrying out further analysis on the sub-portfolio of liabilities that are mapped to the cross-sector trigger Major Economic or Financial Downturn. On inspection of these items, the majority are guarantee products. Those that are not, are almost all still susceptible to an underlying risk driven by counterparty credit worthiness. We consider a one-year external shock that causes a widespread crystallisation, or increase in expected cost, of contingent*

15 In this Annex E1 the term sub-portfolio is used for this specific subset unless otherwise specified.

liabilities with clear counterparty risks. The additional losses of these liabilities arise from the creditworthiness of these counterparties reducing which impairs their ability to service their obligations. This would result in an increase in the expected number of defaults and hence the expected cost incurred for these liabilities.

Data

To properly inform the methodology, we must ensure that the characteristics of the portfolio and scope of data align to the aim and mechanics of the model developed.

As stated in the scenario above, the characteristics of the sub-portfolio studied need to align with products whose underlying risk is driven by credit risks. As established last year, this is the case and we are confident that this assumption reasonably holds true.

Specifically, the scope of what is being considered is all liabilities that satisfy all the following criteria:

- The general qualifying criteria as set out for the report,
- Liabilities that have been linked to the cross-sectoral trigger *Major Economic or Financial Downturn*, and
- The following data is available:
  - Description,
  - End date,[16]
  - Department,
  - Expected Cost (EC),
  - Reasonable Worst-Case Scenario (RWC),
  - Probability of Crystallisation (PC), and
  - Type of contingent liability (for example guarantees, indemnity, legal case etc).

Our approach is also supported by externally obtained data and methods, such as:

- Credit ratings mapped to probability of default (PD) and outstanding lifetime (OL);
- Basel III IRB approach; and
- Any additional information needed to better understand the one-year stressed EC of the largest items.

It is important to state up front that the definition of the AC is all future expected losses that are additional to the normal scenario EC when the sub-portfolio is subjected to the stress scenario. This is because a shock occurring in one year can lead to an increase in counterparty defaults for multiple years. This would in turn result in increased expected costs beyond the period of the shock.

The AC relates specifically to those additional potential costs caused by a single hypothetical external shock as described by our scenario, which has been applied to the portfolio of liabilities as it stands as of March 2025.

Quality assurance

As with any model development, a strong process of quality assurance aligned

16 Where liabilities are particularly material, we review if the end date, and therefore the outstanding lifetime of the liability, is sensible.

with the AQuA Book is required.[17] For the stress scenario model this consisted of two individual pieces of work, namely the quality assurance of: the methodology itself; and that the model that implements the methodology. Following the initial development of the methodology, the Government's Actuary's Department conducted a quality assurance review. This review resulted in specific recommendations and comments which were then subsequently implemented. The model itself was structured in accordance with best practice on model building within the governments analytical function, and included a quality assurance log, version control and supporting documentation. As a final quality assurance step, independent reviews from two UKGI technical experts were undertaken, and the resulting recommendations and comments were acted on. Details of this process is outlined in last year's annex.

High level summary of approach

Model and Methodology:

The use of the Internal Ratings-Based Approach (IRB) is outlined in more detail in the annex of last year's report, and more information can also be found as part of the Basel III framework. In simple terms the capital requirement represents the capital a bank would need to hold in order to survive a downturn scenario where it incurs substantial losses (i.e., the AC) on its financial products. For our purposes, this capital requirement can read across to represent the AC government could incur from a downside scenario.

Box 1: High level approach

This approach translates into the following steps being taken:

1. Annualise the EC and PD for all liabilities.
2. Each liability is assigned a notional credit rating based on the probability of crystallisation and the OL using the MI data UKGI holds.
3. The annualised EC is then stressed by a factor specific for each credit rating. These factors are Internal Ratings-Based (IRB) Risk Weight-Asset (RWA) factors used within the Basel III Framework which broadly represent an increase in losses due to an increase in defaults.
4. Once the stressed EC has been estimated for all items in the portfolio, the total AC can be calculated by subtracting the pre-stressed EC from the post-stressed EC for all items and summing these values

17 AQuA Book – GOV.UK

Key points to note regarding how the calculation has been derived:

- The IRB formula has been adjusted to represent the 99th percentile rather than the 99.9th percentile as prescribed by the framework;
- The approach assumes that the LGD and EAD remain unchanged between normal conditions and the stressed conditions;
- The parameters are based on the Basel III framework and specifically we use corporate exposures; and
- The parameterisation of the IRB factors allows for cross-correlations between exposures. The cross-correlation is representative of a large, well-diversified, bank.

The prescriptive formulation of the functions, and how they are empirically parameterised can be seen in the Bank of International Settlements, Basel Committee on Banking Supervision Framework.[18]

It is important to note that we use an amended version of the formula as follows:

Box 2: Simplification of the IRB factors

We assume that:

$$EAD_{normal\ conditions} = EAD_{stressed\ conditions}$$

$$LGD_{normal\ conditions} = LGD_{stressed\ conditions}$$

Given that:

$$EC = PD\ LGD_{normal\ conditions} EAD_{normal\ conditions}$$

This means that:

$$\frac{EC}{PD} = LGD_{normal\ conditions} EAD_{normal\ conditions} = LGD_{stressed\ conditions} EAD_{stressed\ conditions}$$

Therefore, we can use the formula, *as per the Banking Supervision Framework*

$$Required\ Capital = 8\% \cdot RWA = 8\% \cdot 12.5 \cdot EAD_{stressed\ conditions} \cdot K$$

Where "Required Capital" can be viewed as our AC, and the formula:

$$K = \left[LGD \cdot N \left[\frac{G(PD)}{\sqrt{(1-R)}} + \sqrt{\frac{R}{1-R}} \cdot G(0.999) \right] - PD \cdot LGD \right] \cdot \frac{(1 + (M - 2.5) \cdot b)}{(1 - 1.5 \cdot b)}$$

Which can be simplified to:

$$K = LGD_{stressed\ conditions} \cdot f(PD, M, b, R)$$

18 Bank of International Settlements, Basel Committee on Banking Supervision Framework, chapter CRE31

Where:

- *PD* – One year probability default
- *M* – Effective maturity of the portfolio, *set to 5 as informed by a weighted average maturity of our portfolio and capped as per Banking Supervision Framework*
- *b* – Prescribed parameter based on corporate exposures
- *R* – Prescribed parameter based on corporate exposures
- *0.999* – this percentile is changed to 0.99 to meet our purposes
- *N*(*x*) – the cumulative distribution function for a standard normal random variable
- *G*(*x*) – the inverse cumulative distribution function for a standard normal random variable

To obtain:

$$AC = \frac{EC}{PD} f(PD, M, b, R)$$

Then our stressed one-year loss is

$$AC + EC = EC + \frac{EC}{PD} f(PD, M, b, R)$$

$$AC + EC = EC \cdot \left(\frac{PD + f(PD, M, b, R)}{PD}\right)$$

For the purposes of our calculation, the IRB factors which we multiply by our EC are:

$$\text{IRB factors} = \frac{PD + f(PD, M, b, R)}{PD}$$

Before going into the details of the stress scenario, it is important to note the time aspect elements of the underlying data and what the stress scenario is seeking to achieve. For this discussion, please see the box below.

Box 3: Details of lifetime values and one-year values:

All quantified CL data provided to UKGI is reported on a lifetime basis. This means that all EC and PC values represent the position across the reminder of the CL's lifetime. However, the scenario analysis is performed as a one-off, one-year, external shock event. Therefore, it is important to ensure that we can move between lifetime and one-year costs timeframes so that appropriate modelling can be undertaken.

How we annualise PCs:

The outstanding lifetime of the CL and its lifetime PC are used to identify an appropriate credit rating using tables published by ratings agencies. This is done by:

- Identify the correct column based on the OL of the CL;

- Identify the row with the PD closest to the PC. This gives you the estimated credit rating;
- The credit rating is assumed to be applicable for the next year; and
- Therefore, you identify the PD for the one-year OL whilst keeping the credit rating constant.
- This gives you the one-year (annualised) PD for the CL.

How we annualise ECs:

The ratio of the one-year PD identified above is divided by the original PD for the original OL. This ratio is then applied to the lifetime EC and the one-year EC is obtained.

Step-by-step approach for stress scenario of the portfolio

The steps required for estimation of the post-stressed EC for liabilities can be seen below. At the end, there is also a simple worked example to demonstrate the mechanics of the model.

Step 1.1 – Setting up the parameterisation

The key components for parametrisation of the model are:

- Selecting an appropriate nominal credit rating; and
- Annualising the PC and EC in accordance with Box 3

The nominal credit rating is assigned based on the following approach:

1. Using the PC from the dataset, and the OL of the liability, assign the most appropriate credit rating. The credit ratings are assigned based on a probability of default table as published b ratings agencies.[19]
    a. For items with an OL of over the maximum we default to using the maximum OL in the table.
2. To annualise the PD, we read across the table, keeping the credit rating the same, and take the PD for the one-year value and assign this as the PD for the liability.
3. The EC is annualised by taking the ratio between the one-year PD divided by the original PD and scaling the reported EC by this factor.

Our IRB factors, representing the extent to which losses crystallise during an external shock calibrated to be equivalent to a 1 in 100-year event, are then selected based on the assigned credit rating. The IRB factors are presented in Table A below, based on the derivation is described in Box 2.

19 Our analysis relies on credit ratings tables as published by S&P as part of the Default, Transition, and Recovery: 2023 Annual Global Corporate Default and Rating Transition Study

Table A: This table shows how the selected high-level PD is translated into a pre-stressed credit rating. It also shows the associated IRB factor that is used to re-estimate the post-stressed EC.

Note that the 0.01% PD for the AAA rating has been imputed. In reality it is <0.01% but in order for the methodology to produce a real number, we have set the value to be the lowest possible non-zero value.

Credit Rating	One-year PD	IRB Factor (99%)
AAA	0.01%	69.04
AA	0.02%	53.23
A	0.05%	38.54
BBB	0.14%	26.83
BB	0.57%	15.32
B	2.98%	6.44
CCC/C	25.98%	2.37

Step 1.2 – Approach to calculate each liability's AC

As previously described, the definition of the AC is all future losses that are additional to the normal scenario EC when the sub-portfolio is subjected to the stress scenario. This is because whilst the shock only occurs for one year, it could lead to an increase in counterparty defaults for multiple years. This would in turn mean increased costs beyond the period of the shock. This is consistent with our understanding of how the IRB factors operate – i.e., while the factors are applied to annual cashflows, they account not only for defaults during the year but also for potential future losses arising from shifts in expectations incorporated into their one-in-one-hundred-year scenario.

The IRB factor is multiplied by the pre-stressed annualised EC to calculate the initial post-stressed annualised EC.

1. The difference between the post stressed annualised EC and the pre-stressed annualised EC is the AC.
2. Cross-compare the AC and lifetime EC with the liability's RWC:
    a. The sum of the AC and lifetime EC cannot be greater than the RWC;
    b. If it is, the AC is set to be the RWC minus the lifetime EC.

The sum of the AC and the EC is capped at the RWC cost. This recognises:

- Some items will have specified maximum exposure limits as their RWC and it would be unreasonable for our stressed EC to exceed these caps, as it's not possible in practice; and
- Departments have provided lifetime reasonable worst-case scenario for each item, and we want our approach to be informed by this information to avoid overestimating the risk from items.

When reviewing the outputs of the model we identify items which have been materially capped by the RWC and consider if the applied cap is reasonable. Once this has been done, the total AC is added up to find the total AC for the portfolio.

Box 4: A simple worked example:

1. We have an off-budget guarantee with the following properties:
   a. EC = £8.00m
   b. RWC = £300.00m
   c. PC = 2.5%
   d. Trigger = Major Economic or Financial Downturn
   e. M = 8 years left.
2. Assign a nominal credit rating by comparing the PD, 2.5%, at the OL of 8 years against a credit agency's probability default table. We therefore have a credit rating estimate of BBB (based on the PC and OL and the 8 year default rate for BBB of 2.33%).
3. Infer the one-year PD based on the credit agency's probability default table. In this case 0.14%
4. Therefore, the annualised PD and EC is:
   a. PD = 0.14%; and
   b. EC (annualised) = 0.14%/2.33%*£8.00m=£0.48m
   c. The one-year IRB factor for a credit rating of BBB is 26.83
5. Therefore, the estimated post-stressed annualised EC is £0.48m*26.83=£12.88m.
6. The AC is therefore £12.88m-£0.48m=£12.40m

   A check is carried out to ensure that the sum of the AC and lifetime EC does not exceed the RWC. £12.40m+£8.00m = £20.40m < £300.00m. Therefore, the AC is acceptable.
7. AC for this CL for this liability under the scenario is £12.40m.

Key Limitations

There are some key limitations and biases that prevent the model from fully capturing the complexity of the real portfolio. These include, but are not limited to:

- The transformation between lifetime costs and annualised costs is approximate;
- The result contained in the report chapter should be considered as an illustrative order of magnitude possibility of what increased costs may be incurred in the event of a *Major Economic or Financial Downturn*;
- The additional cost is in relation to those items with a cross-sector trigger of *Major Economic or Financial Downturn* only. However, the data collected from departments only maps one trigger to each liability. Therefore, the stress scenario does not include those items that may be affected by such a downturn but have a different primary cross-sector trigger.

- The stress scenario studied only represents one possible scenario. Other scenarios may occur that are either a *Major Economic or Financial Downturn* or not;
- Detailed modelling of each underlying liability has not been carried out;
- Implicit liabilities, creation of new liabilities, parallel policy responses, second-order economic factors, and creation of new contingent liabilities due to an external shock have not been considered; and
- This scenario modelling is a novel and experimental approach and should be considered a stepping-stone to further develop our understanding of how to study contingent liability portfolios in the future.

E2: Clinical negligence and nuclear decommissioning deep-dive

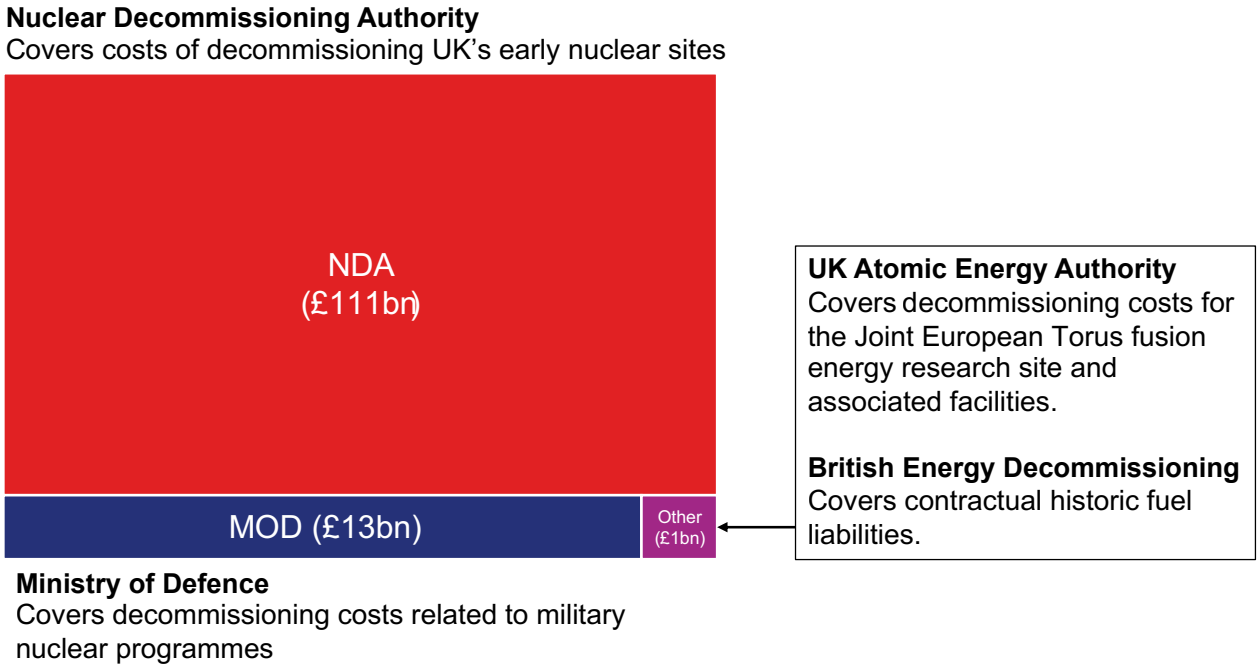
As highlighted throughout this report, the portfolio is heavily influenced by two significant provisions: nuclear decommissioning and clinical negligence. This section provides some further insights on the composition and movements in these provisions, using information from departments' annual reports and accounts.[20]

Introduction to provisions

Nuclear decommissioning

Nuclear decommissioning is the largest contingent liability that government holds, with the total government reserve amounting to £125bn (47% of the total portfolio). Nuclear decommissioning provisions will be spent on the safe dismantling and remediation of facilities, waste management, recovery of materials and contingency reserves. Provisions for nuclear decommissioning are held across multiple government departments.[21]

Figure E2.1: Composition of the Government's Nuclear Decommissioning Provision



Clinical negligence

DHSC's provision for clinical negligence claims accounts for £60bn of the government's total CL portfolio, or 22%. This provision will cover compensation payouts, legal fees and other related costs that arise across the NHS. DHSC monitor the cost of clinical negligence and administer payments through NHS Resolution. Increasing attention is being paid to the cost of clinical negligence in the UK. As per the NAO's report on clinical

20 DESNZ Annual Report and Accounts 2024/25, MOD Annual Report and Accounts 2024/25, NDA Annual Report and Accounts 2024/25, and DHSC Annual Report and Accounts 2024/25.

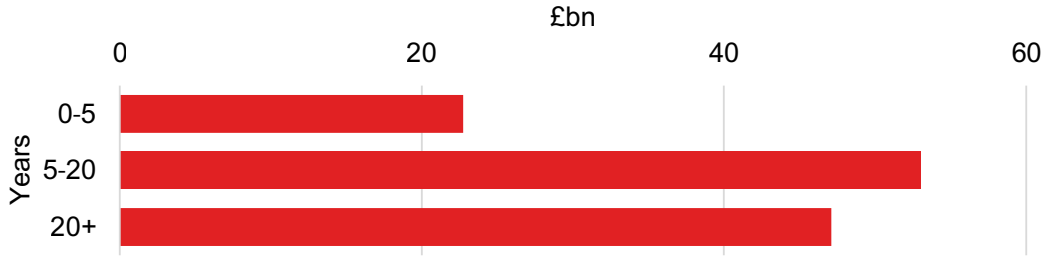
21 Note that Government's nuclear decommissioning provision also covers areas not included in this diagram or analysed in this report, including assets on recoverable contract costs for the NDA and the Nuclear Liabilities Fund, responsible for meeting the costs of decommissioning the second generation of nuclear sites

negligence published in 2025, government's liability for clinical negligence claims has increased in real terms from £14.4bn since 2006/07, driven by rising volumes of claims and rising costs of each settlement.[22]

Discounted cashflow profile

While the government has liabilities it expects to settle long into the future with respect to nuclear decommissioning and clinical negligence, the majority of these liabilities will occur within the next 20 years. For example, looking at the discounted cashflow profile for the NDA and MOD nuclear decommissioning provisions, £76bn of the provision held today is expected to be utilised in the next 20 years, with £47bn falling afterwards.

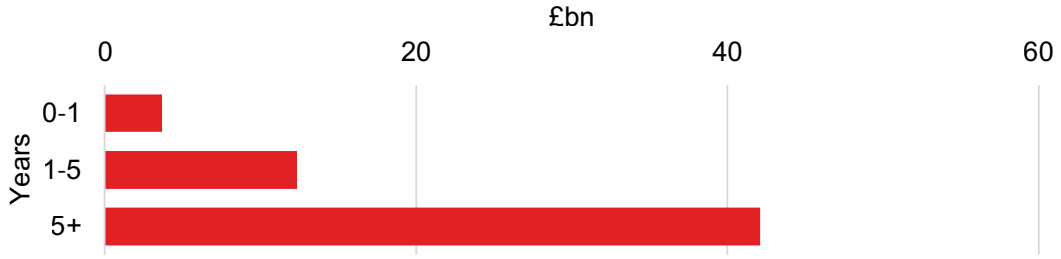
Figure E2.2: NDA and MoD nuclear decommissioning provisions – discounted cashflow profile



*The cashflow profile for the NDA provision has been taken from the NDA's 2024/25 annual report and accounts whereas all other information about the NDA provision in this report has been taken from DESNZ's 2024/25 annual report and accounts. The NDA provision quoted in DESNZ and NDA's accounts are different by approximately £900m, mainly due to allowances for NDA pensions in DESNZ's figures.

DHSC's 2024/25 report and accounts does not provide a breakdown of clinical negligence discounted cashflows beyond 5 years into the future, but a similar pattern can be inferred for the short term. £16bn of the clinical negligence provision is expected to be utilised in the next 5 years, with the remaining £44bn of the provision falling beyond 5 years from now.

Figure E2.3: Clinical negligence provisions – discounted cashflow profile



It is important to appreciate that actual cashflows in the future will likely differ from those quoted due to the following:

- These amounts are discounted. Cashflows further in the future are more heavily discounted when we consider them today. As we approach the time at which these various liabilities fall due, the provision will increase as the impact of discounting fades.

22 Costs of clinical negligence, NAO report.

- These are projections utilising information available today. Future project changes and macroeconomic uncertainty means this is only an estimate, and future payments will likely vary as new information emerges.

Longer term trends

Looking further in the past, we can see that there has been growth in most years for both provisions. We have looked at previous years' annual reports and accounts for DESNZ, MOD and DHSC (as well as BEIS and DECC as former departments holding nuclear decommissioning liabilities). After removing the impacts of discount rate changes and unwinding, we have been able to see whether the liability has grown or decreased over the period.

For both provisions, movements due to new exposure and changes in modelling assumptions outweigh payments made against the provisions in most years. This indicates that the risk being covered by the provision has consistently increased by more than the liabilities have been settled.

After removing the impacts of discount rate changes and unwinding, the risk exposure government faces in relation to nuclear decommissioning provisions has grown in 11 of the previous 15 years. This is to be expected given the liability is fairly immature; the impact of changes in modelling assumptions is larger than the payments made against the provision. As discussed in the discounted cashflow section above, DESNZ expect payments to ramp up over the next 20 years.

Similarly, the risk exposure underlying the clinical negligence provision has grown in 13 of the last 15 years. The NAO report suggests some reasons for this, including a higher volume of claims and an increasing amount spent on claimant and government legal representatives.[23] The NAO report also explains coverage has been broadening over time, for example to some general practice services. Additionally, the size of the provision has been influenced by greater use of Periodic Payment Orders (PPOs), which pay compensation for high-value claims by way of a smaller lump sum upon settlement with future annual payments awarded for life rather than as a single lump sum.

23 Costs of clinical negligence, NAO report, NHS Resolution Annual report and accounts 2024/25.

E3: Budget comparison calculations

The Portfolio Overview chapter of the report includes analysis that compares crystallisations of contingent liabilities to broader government spending. There are two elements to the budget comparison calculations in the report. The first examines total crystallisations as a proportion of total departmental spending along different categories of government budgets. The second observes trends in the total expected cost of the on-budget portfolio as compared to total spending over time.

Crystallisations as a proportion of total departmental spending 2024/25

This analysis aims to examine crystallisations in the 2024-25 year as a proportion of total departmental spending in these respective categories. Crystallisations are calculated as the sum of crystallisations to date in the 2024-25 data for each budget category, less the amount crystallised to date in the 2023-24 data. The departmental spending data is taken from the Public Expenditure Statistical Analyses 2025. The relevant data for each budget category excludes expenditure via devolved administrations (Scottish Government, Welsh Government, Northern Ireland Executive, and Small and Independent Bodies) as well as expenditure via local authorities. This is referred to as government own spend.

We note that the departmental spending figures represent net spending (total spending offset by any income). The total data includes spending and crystallisations across the four major budget categories: RDEL, CDEL, and RAME, and CAME. However, in the report we do not break it down by these budget categories, this is because there is sufficient uncertainty relating to the validity of the combination of the underlying data to justify this.

Part of the challenge is that departmental spending figures consist of net figure. This means that as an example, for CAME, it includes many positive capital revenue lines, where departmental inflows exceeded spending in this budget category. As a result, CAME crystallisations appeared to be a larger proportion of overall spending. However, it is reasonable that these distorting effects less important when the spend is compared to the total budget spend.

Given this underlying uncertainty, we have only quoted an estimated value for total spend due to crystallisation in the past year to the nearest £10bn.

On-budget portfolio expected loss relative to total departmental spending analysis

Figure 02F in the report shows trends in the total expected cost of the on-budget portfolio as compared to total spending over time. Expected cost figures are calculated from the on-budget contingent liability data from historical UKGI data as well as from data collected via the current report's data commission. The contingent liability portfolio expected loss reflects the expected loss over the liability's future lifetime at reporting date, without deducting premiums. This expected cost is then compared to the overall departmental spending figures, within the CDEL, RDEL, CAME and RAME categories, over the five-year period. From this we can observe the trend in government's reliance on contingent

liabilities and the financial structure of government spending over time.

Data sources

Both of the analyses described above relied on spending data from the Public Expenditure Statistical Analysis (PESA) 2025 report, as well as UKGI's own data collection. Tables 6.1, 6.2, 6.3 were downloaded from the PESA 2025 Chapter 6 tables and used to calculate government own spending across RDEL, RAME, CDEL, and CAME budget categories. These include revenue and spending figures by department according to these classifications.

E4: Common properties of crystallised off-budget contingent liabilities

The analysis of common properties of crystallised off-budget contingent liabilities, described in the Portfolio Overview chapter, aims to understand emerging patterns of crystallisations. The analysis solely focused on off-budget items reflecting the limited understanding of these items and the uncertainty surrounding them.

To complete this analysis, we used mixed-type clustering to identify groups within the off-budget crystallised item portfolio. This type of analysis groups data points together based on similar characteristics. The model was first tested on contingent liability data reported for the 2023-24 year and then was applied to the current year's data. To clean the data, only crystallised items were included and the Very Large Items and expired items were removed. Prior to this, variables describing numeric and categorical characteristics were assessed using predictive models (e.g. logistic regression and random forest model) to see how strongly each characteristic helped explain whether a liability crystallised as seen in **Figure E4.1**.

Figure E4.1: This figure shows the predictive power of the different types of datafields used in the study

More predictive ↕ **Less predictive**	Reasonable worst case (Numeric)	Probability midpoint (Numeric)	Future duration (Numeric)	Category (Categorical)
	Expected loss (Numeric)	Department (Categorical)	Cross sector trigger (Categorical)	Sector of risk (Categorical)
	Duration years (Numeric)	Type of beneficiary (Categorical)	Spending type (Categorical)	Crystallised to date amount (Numeric)

Rows with missing or blank values were removed to allow the clustering algorithm to be applied. Clusters were estimated using the k-prototypes algorithms which permits the combination of numeric and categorical variables to be included. To understand the optimal number of clusters for this dataset an "elbow" plot was created, which depicts how coherent the groups are. The more groups that are added, the more the fit of the model improves. However, after a certain point the improvements become very small, and this is the point at which the number of clusters was selected. This led to a four-cluster solution to be applied to the data. The results were interpreted by

the team using the raw data and summary statistics as seen in **Figure E4.2**.

The clusters illustrate that crystallised off-budget contingent liabilities do not fit into a singular set of characteristics. Instead, they fall into a few clear groups with distinct characteristics. A key takeaway is that by seeing these groups emerging, you can consider unique approaches to approvals, monitoring, and management of liabilities depending on what family it belongs to. Therefore, this analysis will support UKGI in designing and monitoring offbudget contingent liabilities, by highlighting combinations of characteristics that may increase the risk of crystallisation.

Figure E4.2: This table summarises the key statistics of the liabilities that where categorised in each group

Cluster	First: Energy services	Second: Health & social work	Third: Legal cases	Fourth: Financial & insurance-like activities
Count	6	8	11	7
Percentage of Total	19%	25%	34%	22%
Median RWC	£4,667,092,493	£3,359,000	£500,000	£5,000,000
Mean RWC	£26,430,791,649	£42,367,348	£695,775,261	£727,383,429
Sum RWC	£158,584,749,894	£338,938,786	£7,653,527,874	£5,091,684,000
Median Expected Loss	£18,750,000	£3,000,000	£500,000	£500,000
Mean Expected Loss	£423,916,667	£18,437,500	£117,454,545	£9,928,571
Sum Expected Loss	£2,543,500,000	£147,500,000	£1,292,000,000	£69,500,000
Mean Probability	8%	39%	45%	10%
Median Duration	135.03	5.79	9	40
Median Future Duration	109.29	1.96	1.25	6.75
Top Sector of Risk	Energy Services	Health & Social Work	Multiple Sectors	Financial & Insurance Activities
Top Sector of Beneficiary	Mixed outside Government	Individual or Household	Individual or Household	Mixed outside Government
Top Cross Sector Trigger	Major Economic or Financial Downturn	No Exposure to Listed Risks	Increased Legal Liability Costs	Major Economic or Financial Downturn
Number of High Probability Cases	0	2	6	0
Mean Crystallised to Date Amount	£3,670,778,436	£3,238,766	£36,502,946	£2,515,612
Sum Crystallised to Date Amount	£22,024,670,618	£25,910,130	£401,532,409	£17,609,287
Top Type	Indemnities	Legal cases	Legal cases	Guarantees
Capital vs Resource Budget	3/3	1/7	1/10	2/5

E5: Financial guarantees analysis

Fee Coverage Comparison

The fee coverage ratio for financial guarantees that charge a fee increased from 24% in the previous reporting year to 26% as at March 2025, when considering only guarantees that remained active at the end of the period.

This report focuses on schemes that remained active within the guarantees portfolio at the reporting date. Accordingly, the 24% figure is not directly comparable with the 34% figure reported in the previous report.

For the purposes of providing a consistent year-on-year comparison of the active fee-charging guarantees portfolio, the 24% figure reflects the prior-year coverage recalculated on a comparable basis, excluding a scheme that is no longer active and has no outstanding balance and expected cost as at March 2025. The 34% figure reported previously reflected the portfolio composition at that time, when the scheme was still active.

Outstanding Balance and Expected Cost of Financial Guarantees

The table below sets out the outstanding balance and expected cost of the government's financial guarantees portfolio as of March 2025, alongside the prior year comparator.

As at March 2025, the total outstanding balance of financial guarantees was £44.1bn, compared to £56.8bn in March 2024. This represents a reduction of approximately £12.7bn, primarily reflecting the continued amortisation and expiry of Covid-19 support schemes and other maturing guarantees.

While the overall portfolio has contracted year-on-year, movements within individual schemes vary. Reductions in legacy and pandemic-related schemes have been partly offset by growth in certain international development, infrastructure and sector-specific guarantee programmes, reflecting evolving policy priorities.

The portfolio continues to include a mix of domestic and international guarantees, spanning export finance, development finance, housing, infrastructure and sectoral interventions.

As with previous years, changes in outstanding balance reflect a combination of:

- amortisation of underlying exposures,
- expiry or closure of schemes,
- new issuances, and
- scheme-specific adjustments.

The outstanding balance should be considered alongside expected cost and fee coverage metrics discussed in Portfolio Overview chapter, which provide further insight into the fiscal risk associated with these guarantees.

Figure E5.1

Guarantee Scheme		Entire Portfolio – Outstanding Balance – (£m) March 2025	Entire Portfolio – Outstanding Balance – (£m) March 2024	Expected Cost – (£m) March 2025
Covid-19 Schemes	BBLS	11,570	18,465	2,805
	CBILS	2,515	6,642	207
	CLBILS	70	141	16
Recovery Loan Schemes	RLS	1,129	2,409	157
	Growth Guarantee Scheme	1,412	1,164	205
UKEF Guarantees[24]	Guarantees & Insurance Account (since 1991) (account 2)	8,403	9,227	128
	TCRF Account (temporary Covid risk framework) – financial guarantees and insurance (account 6)	0	2042	0
International Development and Foreign Sovereign Guarantees	FCDO Guarantee Portfolio	8,210	7,873	1,094
Housing Guarantee	AHGS 2013	3,200	3,200	30
	AHGS 2020	1,760	1,065	3
	PRSGS	1,460	1,500	30
	MGS 2013 (Scheme closed and guarantee expired)	0	0	0.0
	MGS 2021	1,149	950	61
ENABLE Schemes	ENABLE Guarantee Scheme (SMEs)	606	869	<1
	ENABLE Build (SME Housebuilders)	421	421	<1
EFG	Enterprise Financial Guarantees	32	56	3
NWF Guarantees	NWF Guarantees reported under HMT returns	1,640	240	60
UK Infrastructure Guarantees (HMT)	Legacy scheme aimed to support infrastructure projects, issued prior to UKIB.	572	575	102
Total		**44,149**	**56,838**	**4,902**

24 Figures for UK Export Finance (UKEF) reflect the classification used in the 2025 data commission return and as stated under financial guarantees in the UKEF Annual Report & Accounts as of 31.03.2025. Future planned accounting changes may lead to a reclassification and change in these values.

Net Expected Cost Analysis

This report analyses the government's ability to cover the expected costs for its portfolio of on-budget financial guarantees and guarantee schemes through charging fees or premiums. This approach takes a long-term view on the sustainability of the portfolio.

Many liabilities transfer risk from the private sector to the public sector. This applies to the entire portfolio of financial guarantees analysed here. Managing Public Money stipulates that the starting basis in these cases should be that a risk-based fee is charged to the private sector (analogous to a guarantee fee for financial guarantees). Charging fees in this way ensures the private sector has an incentive to mitigate risk and reduces taxpayers' exposure to liabilities crystallising. It will not always be possible or desirable to charge the private sector a fee. For example, if the department does not have the legal power to do so, or because the policy intervention is counter-cyclical.

It should be noted that this analysis is for illustrative purposes only as the fee and premium income is not held in a segregated account, it is used for general government spending.

The analysis includes both non-fee and fee charging financial guarantees and guarantee schemes to understand how they reduce the buffer between premiums and fees charged against the expected costs. By assessing the extent to which government is charging premiums and fees, we aim to understand whether it is being compensated adequately for the risks assumed. This analysis is critical to ensuring that government interventions remain fiscally prudent while supporting wider policy objectives.

The Net Expected Cost calculation approach evaluates whether a financial guarantee or scheme generates adequate fees and premiums to offset its Expected Cost, ensuring alignment with our focus on long-term sustainability. The analysis factors in any losses incurred to date (Crystallisations to Date) by offsetting the Lifetime Expected Premiums and Fees (defined as Premiums and Fees to Date plus Future Premiums and Fees), resulting in a Net Premium and Fees position. The Net Premium and Fees are then used to offset any Expected Cost, resulting in a net expected cost position.

This work represents a significant step forward in understanding how premiums and fees align with expected risks, offering valuable insights for future government fiscal planning.

In order to calculate a net expected cost position, we had to determine what data items Departments could reasonably supply to us in a consistent and reproducible way (this is especially important for data aggregation). Naturally, much of the information we used was obtained from widely available information from audited departmental annual report and accounts. Where this data was not available, specialists within departmental Finance Teams supported us to provide such data. The way in which this data was obtained and audited followed the same checks and balances for other data items collected.

Figure E5.2: This table sets out the data items used for the analysis and a description

Data Item	Measure Type	Definition
Expected Cost	Forward[25] looking	A statistical measure that quantifies the potential loss to a guarantor caused by a[26] borrower not meeting its financial obligations.
Crystallisations to Date	Backwards[27] looking	The £ value of payments made to date by government to the beneficiary of a financial guarantee
Premiums and Fees to Date	Backwards looking	The £ value of fees and premiums paid to date by the beneficiary of a financial guarantee to government
Future Premiums and Fees	Forward looking	An estimate of the expected future premiums and fees to be paid to government by the beneficiary of a financial guarantee

Forward looking data points refer to events expected to occur in the future, and backward-looking data points reflect actual performance to date.

In developing an approach to quantify the level of 'risk to reward' for government's participation in guarantee-related transactions, we first lean on existing formulas which are well established in financial literature, and then suitably adapt them to apply to the data items collected through this commission. Is it important to emphasise that government is not in the business of making a 'profit', but rather that it simply covers its Expected Cost. This means that from the four data items collected, and described above, we can think of *Crystallisations to Date* + *Expected Costs* as representing the lifetime expected risk associated with either a facility or aggregate bucket of transactions, and, *Premium and Fees to Date* + *Future Premium and Fees* as representing the lifetime expected 'income' associated with either a facility or aggregate bucket of transactions. The relationship between these two (i.e., the former divided by the latter) gives a lifetime expected loss ratio not too dissimilar to that used by other financial institutions. Our approach and analysis do not intend to calculate an expected loss ratio as outlined above, but rather builds on this and evaluates the net expected cost, in £ terms, of on-budget guarantees by using the following two formulas:

Stage 1: Net Lifetime Expected Premiums and Fees = (Premiums and Fees to Date + Future Premiums and Fees) – Crystallisations to Date

Stage 2: Net Expected Cost = Expected Cost – Net Lifetime Expected Premiums and Fees

25 This refers to events expected to occur in the future.

26 In the private sector, the term expected loss is used in relation of risks to profitability. The analogous concept is herein referred to as expected cost, reflecting a broader focus on fiscal spending.

27 This refers to historical events that have occurred to date.

The Stage 1 formula, Net Lifetime Expected Premiums and Fees seeks to quantify, in £ terms, the total residual premium income after adjusting for past crystallisations.

The Stage 2 formula, Net Expected Cost, builds on the Stage 1 formula and seeks to quantify the difference between future costs to government (that is Expected Cost) less the net Lifetime Expected Premiums and Fees. The result of this is essentially the residual risk left to government after premiums and fees have been deducted.

The variables in the formulae above have been used because they support lifetime calculations for the portfolio, aligning with our focus on assessing its long-term sustainability. However, these formulae present certain challenges, primarily the possibility of negative Net Lifetime Expected Premiums and Fees, which would lead to a wrong interpretation of the Net Expected Cost. To address these issues, we implemented the following rules:

- If the Net Lifetime Expected Premiums and Fees are ≤ £0 it is shown as "0" in the table (as presented in **Figure 03A** of the report) as it means Crystallisations to Date have been greater than the Lifetime Expected Premiums and Fees, meaning there is nothing available to offset against the Expected Cost. In that scenario the Net Expected Cost equal the Expected Cost.
- Otherwise, if the Net Lifetime Expected Premiums and Fees are > £0 it means there is a surplus amount that can be used to cover some or all the Expected Cost.
- If the Net Lifetime Expected Premiums and Fees are greater than the Expected Cost, the Net Expected Cost are shown as zero in the table, meaning all the Expected cost can be fully offset with the available income.

Thus, net expected cost represents the balance that government would pay out over and above what will be recouped in premiums and fees across the lifetime of these schemes.

Data Collection

The analysis incorporates data collected from 18 UK Government Departments (listed under **Annex B**) through our annual data commission, focusing on historical and future fee income, crystallisations to date, and expected costs.

The data we collected underwent multiple levels of verification to ensure completeness and quality. The first level of validation was integrated into the aggregation template itself, which included input validation to ensure cells contained the correct data types and error checks across columns and rows to flag potential issues. Once the completed templates were received, the FInTAG team member assigned to each department manually reviewed the data, cross-checking for possible errors and consulting with departments as needed.

The second level of validation was carried out by the FInTAG analytical team overseeing the data commission. They reviewed the data for obvious errors, verified internal consistency across items, and performed a reconciliation with data from the last time. This reconciliation involved mapping identifiers from the prior dataset to the current one, as many identifiers had been updated by departments. This mapping exercise enables the tracking of items over time and identified missing items, which were subsequently addressed with departments.

Figure E5.3: This table shows an illustration of the methodology

Guarantee Scheme	Expected Costs – (£m)	Premiums and Fees to date – (£m)	Future Premiums and Fees – (£m)	Crystallisation to date – (£m)	Net Premiums and Fees – (£m)	Net Expected Costs – (£m)	Fee Coverage
Financial Guarantee 1.0	500.0	80.0	72.0	200.0	0.0	500.0	0%
Guarantee Scheme 1.0	600.0	100.0	80.0	0.0	180.0	420.0	30%
Guarantee Scheme 2.0	30.0	186.0	0.0	0.0	186.0	0.0	620%

Additionally, this year's data commission included a new dataset on future premiums and fees, which was not part of the previous data commission. This dataset was incorporated into the net expected cost analysis to evaluate the profitability of the government's on-budget financial guarantees portfolio and its ability to adequately cover its cost of risk associated with the portfolio. By accounting for lifetime expected premiums and fees (Premiums and Fees to Date plus Future Premiums and Fees), the analysis aims to assess whether these fees and premiums sufficiently offset incurred losses and expected costs.

Limitations and Considerations

The analysis is subject to several limitations and considerations, which should be noted:

Non-Segregation of Fees: It is normal government practise that fees and premiums collected are not held in a ring-fenced segregated account and are instead used for other government expenditures. This means the analysis is for illustrative purposes only.

Exclusion of Recoveries: The analysis does not entirely account for potential recoveries from defaults, which, if included, could materially improve the financial position. In the case of schemes where collateral is held against the underlying loans, recoveries from defaults are factored into the Expected Cost calculations.

Data Reliability and Quality Assurance: The methodology used for the net expected costs analysis did not undergo a separate quality assurance process as for this kind of analysis no model was developed, and no modelling assumptions were made. While the data collected from departments and used for this analysis underwent an internal quality assurance process as outlined in more detail in **Annex D**, ultimately departments are responsible for the data they provided and therefore we have relied on the data being correct.

Labelling and Consistency: The naming conventions, such as "Expected Costs" and "Net Expected Cost Analysis," align with broader report definitions to ensure clarity and consistency across this and future reports.

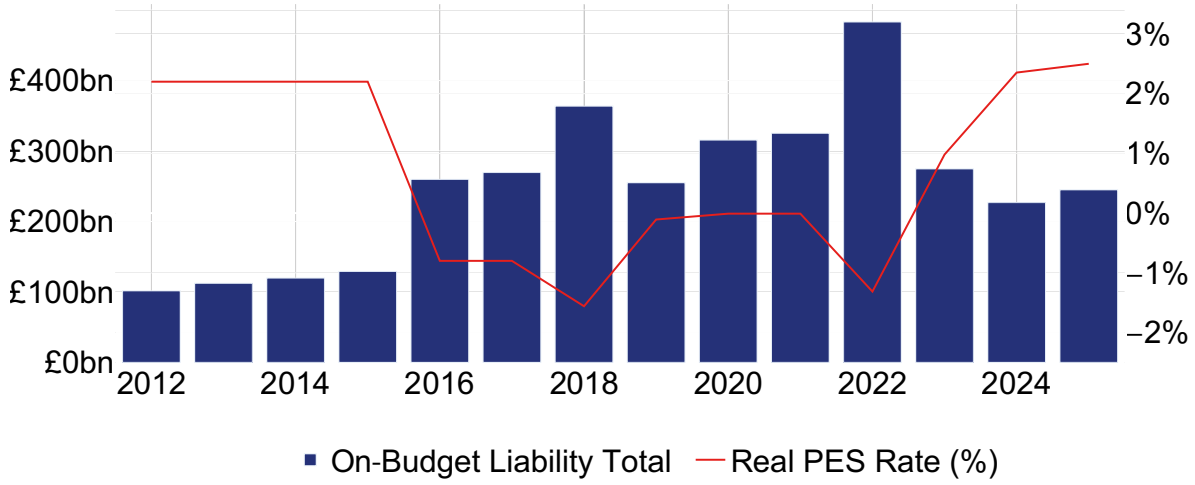
E6: Discount rate analysis

The Contingent Liabilities Report carries out high-level analysis of how government's portfolio of contingent liabilities has evolved over time. One example of this analysis is the comparison of the total expected cost of the on-budget liabilities sub-portfolio to changes in the discount rate used in calculating these values.

This analysis uses balance sheet data from published annual reports and accounts going back to 2011-12 as the basis for the on-budget sub-portfolio expected cost. From the financial year 2024 onwards, we use our own commissioned data to supplement this trend. These portfolio values are compared to discount rates set and reported by HM Treasury in their annual publications on the Public Expenditure System (also known as PES papers). The weighted average duration of the 2024-25 on-budget liability portfolio is more than 30 years. For that reason, the most appropriate PES provisions discount rate would be the one for the "very long-term" (defined by HM Treasury as more than 30 years). However, this specific rate has only been updated annually since 2021, and therefore the "long-term" rate has been used for prior years.

This analysis does not consider off-budget liabilities because the expected cost of these liabilities has only been measured since 2023. However, since on-budget liabilities make up most of the expected cost, this can be seen as indicative of trends across the whole portfolio.

Figure E6.1: Historical on-budget total expected cost, compared to movements in the public expenditure system (PES) real discount rate at the longest term available between 2012 and 2025



As **Figure E6.1** demonstrates, there has been significant year-on-year volatility in the total expected cost of on-budget liabilities as reported for accounting purposes. The figure also illustrates the volatility of the discount rate over the same period, leading to large fluctuations in the expected cost of the portfolio. Where the discount rate decreases or increases, the corresponding on-budget expected cost typically moves in the opposite direction. For periods where the discount rate has remained stable (2011-2015, 2016-17, 2019-2021), the expected cost is less volatile, with the overall

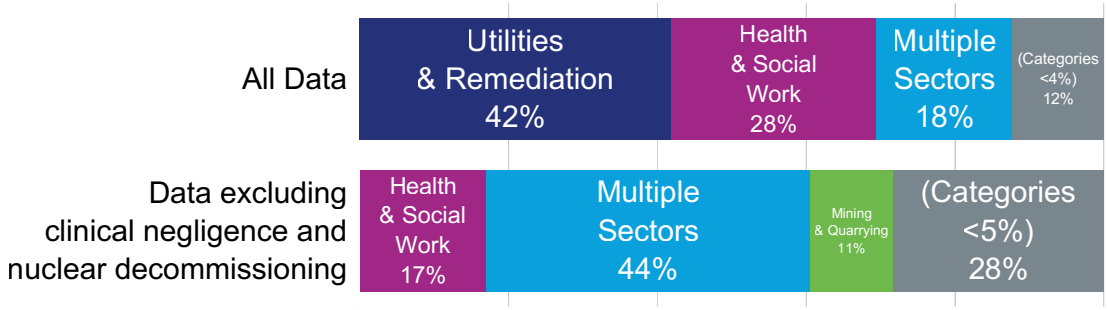
expected cost seeing a steady year-on-year increase.

In 2025, the nominal discount rate as set out by HM Treasury for very long-dated provisions (more than 30 years) was 4.55%, corresponding to a real rate of 2.50%. This was broadly unchanged from the previous year (at 4.40% nominal and 2.35% real), resulting in a limited impact on the estimated cost of liabilities of on-budget liabilities.

E7: Simplification in visual presentation

To engage the reader and ensure our intended messages are being communicated effectively through the visuals in this report, we have grouped smaller categories together. This design principle has been used consistently in previous contingent liability reports and has been maintained here for continuity.

For example, in the visual below conveying the portfolio distribution of sector of risk, smaller categories that do not materially affect the overall message have been combined into a single grouped category. To demonstrate why this is of benefit, the table beneath the visual sets out the other sector of risk categories which make up this grouped category shown in the "All Data" bar, for transparency. As is apparent, the data is very non-evenly distributed, so beyond the main categories, the proportion of the portfolio per item becomes very small very quickly.



Sector of Risk categories grouped within "Categories <4%"	% of All Data
Mining & Quarrying	3.4%
Admin & Support Services	1.5%
Public Administration, Defence & Social Security	1.4%
Financial & Insurance Activities	1.2%
Energy Services	1.0%
Technical Services	0.7%
Real Estate Activities	0.6%
Construction	0.6%
Trade & Vehicle Repair	0.6%
Transportation & Storage	0.4%
Manufacturing	0.2%
Arts, Entertainment & Recreation	0.2%
Education	0.1%
Hospitality Services	0.1%
Information & Communication	0.1%
Agriculture, Forestry & Fishing	0.0%
Household Employment	0.0%
Extraterritorial Activities	0.0%
Other Service Activities	0.0%
Total	**12.4%**