

WHOLE OF GOVERNMENT ACCOUNTS



AT THE HEART OF
PUBLIC SERVICES 

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The Government is committed to putting in place procedures that can deliver an annual set of consolidated financial statements covering the whole of the public sector. The first set of Whole of Government Accounts (WGA) will be published for the fiscal year 2006/07. The development of this project has been progressing over several years. Following an earlier recommendation from the Public Accounts Committee, the Government made a commitment in the Code for Fiscal Stability (which accompanied the March 1998 Budget), and the subsequent Economic and Fiscal Strategy Report (June 1998) to the production of GAAP based consolidated accounts.

The Government Resources and Accounts Act 2000, requires WGA to be produced in accordance with UK GAAP (suitably adapted). As GAAP-based accounts, WGA will rely on the existence of timely and consistently-produced entity accounts. Its dependencies therefore include the full implementation of the Prudential System for local government finance.

Before attempting to consolidate the whole of the public sector, the Treasury decided to take the interim step of consolidating the figures for Central Government only. Central Government Accounts (CGA) have been

dryrun for 2001/02 and 2002/03, involving 320 entities, and CGA will be formally published for 2003/04. In December 2003, it was formally announced in the pre-Budget report that WGA for the whole of the public sector would be published for 2006/07, adding just under a thousand additional entities to the consolidation as performed under CGA. Dry runs for WGA will take place for 2004/05, and 2005/06 although these accounts will not be published.

Why is there a need for WGA?

The Government believes that there are several compelling reasons to move as quickly as possible to WGA. Probably first among these reasons is the belief that public finances need to become more transparent. The present systems make it difficult for anyone, including Parliament, to be able to obtain a full overview of the scale and scope of the public sector finances. Not only does this have a number of practical implications, which are discussed further below, but the present state of play does not contribute to the effective use of their democratic rights by interest groups, commentators, and the general public.

It is an important element of their financial policy that best financial management practices are encouraged and developed within the public

sector. To be fully effective, these practices require good quality, consistent, and reliable information. For example, the Chancellor's "Golden Rule" states that over the economic cycle, the Government will borrow only to invest, and not to fund current spending. In order to forecast and monitor the practical application of this rule, quality systems are needed, that are capable of tracking investment and current spending separately. Resource Accounting and Budgeting provides the tools for the job, and WGA will bring better financial data to support these processes.

The WGA Team point to a wide range of benefits that can be achieved through WGA. These include:

- Improved data on public sector assets

- The possibility of benchmarking and comparisons not only between similar organisations, but across different groups within the public sector

- Improved accountability to Parliament and to the taxpaying public

The main features of Whole of Government Accounts

The Treasury describes WGA as "a set of consolidated financial statements covering the whole of the public sector". As this description implies, the core statements will be the

Income and Expenditure Account, the Balance Sheet, and the Cashflow Statement. The statements will be prepared using the accruals concept, and will follow UK GAAP, as adapted with the approval of the Financial Reporting Advisory Board (FRAB). Material intra group transactions and balances will be eliminated. WGA does not immediately involve a full convergence of accounting practices, but there will be some consolidation adjustments at the centre. These will include the elimination of notional interest charges, and of Public Dividend Capital from NHS Trusts. Local Government also uses a specialised form of reserve accounting relating to capital items, and this issue is under consideration at the time of writing (January 2004).

WGA will cover a wide range of organisations, in England and Wales, Scotland, and Northern Ireland, mainly under the headings:

- Central Government funds departments and agencies
- Non-Departmental Public Bodies
- Trading Funds
- Local Authorities
- Fire Authorities
- Police Authorities
- Waste/Waste Disposal Authorities
- Passenger Transport Authorities

- NHS Trusts
- Public Corporations
- Unfunded Public Sector Pension Schemes

A full list of organisations that are expected to be included is available on CIPFA's WGA webpage at <http://www.cipfa.org.uk/pt/wga.cfm> - 2

The Whole of Government Accounts website, at <http://www.wga.gov.uk/pages/tablea.html> at present details the current CGA entities.

Inclusion will require the making of a Statutory Order for England and Wales, and equivalent action to be taken by the Scottish Parliament and by the Northern Ireland Executive.

The Welsh Assembly also intends to prepare a WGA for Wales, including all Assembly functions, with local government and other Welsh public bodies, and is developing processes and coverage through dryruns.

Issues that need to be addressed

The plans for the introduction of WGA contain a number of matters that will be worked on further in the period following introduction. These matters include:

- Materiality levels: In recognition of the huge volume of transactions between public sector entities, it is not planned to

attempt a complete elimination upon consolidation. The approach in CGA is that bodies must report & agree all intra-group transactions and balances over £1m. Departmental sub-consolidating groups may set lower thresholds and any intra-group transaction that is reported by both parties will be eliminated regardless of size. It is possible that in time the thresholds for elimination will be increased as knowledge of the level and nature of transactions increases.

- Consistency of data is a major issue. There are two main options for addressing all the differences between the various entities being consolidated. Alignment can either be achieved by making consolidation adjustments or by moving towards common accounting policies across the public sector. Although much has been achieved in terms of convergence in the public sector in recent years, further progress may be slower. Nevertheless for some differences in accounting, such as that relating to the valuation of infrastructure assets, consolidation adjustments are not a realistic option, due to the scope of the work that would be involved.

Examples of consistency issues include:

Central Government departments, and the NHS, for

¹ FRAB is an independent statutory advisory body, that oversees the Treasury's Resource Accounting Manual, and provides accounting advice in respect of NDPB's and Trading Funds

example, now come under the remit of the FRAB. And although the policies adopted by some are based upon commercial practice as represented by UK GAAP, there are areas where the FRAB has sanctioned departures from the GAAP. Local Government accounting follows the Code of Practice on Local Authority Accounting in the UK (the LA SORP), and diverges from UK GAAP where statutory requirements make this necessary. In June 2000 the CIPFA/LASAAC Joint Committee agreed in principle to modify the current requirements governing the production of group accounts in the SORP and move towards a revised requirement for group accounts based on UK GAAP, suitably modified where necessary. The revised group accounts requirements will require local authorities to consider all their interests (including those in local authorities and similar bodies, hereafter referred to as statutory bodies) and prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint venture. This will become even more important with the development of the Prudential Framework for Capital Expenditure (which applies to all territories apart from Northern Ireland) and the need for authorities to take note of all their commitments, including those in alternative service delivery vehicles.

- Some forms of Tax Revenue seem likely to continue at least for the time being on a receipts basis, rather than using a pure accruals basis. The principle agreed by the FRAB for WGA is that taxation revenues will be deemed to accrue evenly over the tax return period for which they are due, but will be recognised only at the point that they can be reliably measured. In practice, this is likely to mean that income tax, for example, will have to be recorded on a cash basis; on the other hand, motor vehicle tax will be relatively easy to treat on an accruals basis.
- Another issue under consideration is whether government 'commitments' on social policy should result in the recognition of liabilities or provisions for liabilities and charges. Commitments on social policy will include those relating to health, education, benefits and the old age pension. Current UK government accounting in this area will not recognise a liability until all eligibility criteria for the social benefit in question have been met. The alternative approach, in relation to the old age pension, for example, would mean recognising a liability at some point between workforce entry and retirement age. This would be a substantial change in accounting policy in the UK. These issues are also currently the subject of

international consultation.

- National Accounts data – the Treasury is developing arrangements for providing the "System of National Accounts (SNA)" data that is used by ONS to prepare National Accounts and for international comparisons. Although WGA and SNA accounting policies differ in some areas, Treasury is doing a lot of work to establish where concepts are compatible with a view to the Office of National Statistics (ONS) using WGA data as the source for National Accounts. ONS are already taking CGA assets data, and in moving towards using actual depreciation figures. There is also an international project to align SNA & GAAP

Conclusion

Progress with CGA has been encouraging. The first dry run involved data from 230 entities, with larger ones submitting the data via the internet-based Government On Line Data system (GOLD). Smaller bodies returned spreadsheet data. The second dry run, for 2002/03, is in progress, and will include 320 bodies, of whom 50 will use GOLD.

It is clear that much work still needs to be done before a comprehensive and robust WGA is achievable. But it will be a considerable achievement for the UK when the full system is in place and working. WGA is the most ambitious attempt at a full consolidation of the public sector in any of

the major economies.

This review will be updated periodically to report further progress.

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