

CIPFA BRIEFING

March 2015

whole of government accounts

Delivering their full potential

The UK Whole of Government Accounts (WGA) are the most comprehensive set of audited consolidated government accounts published globally, comprising all 5500 public entities in the UK public sector. These include central government departments and arms-length bodies, local government bodies, the health sector and public corporations such as the Bank of England. WGA provides details of the Government's revenue and expenditure, assets and liabilities, using IFRS-based policies.

While the fifth WGA, covering 2013-14, have been published considerably earlier than those for earlier years, the information they contain is not yet used as an integral part of the UK fiscal and public sector spending architecture. CIPFA thinks this is essential if all key spending and service decisions are to be taken in the context of the current fiscal position, encompassing all assets and liabilities, as well as their impacts on medium to long-term sustainability, and intergenerational equity.

WGA framework

The Government Resources and Accounts Act 2000 provides the framework for WGA preparation. As with individual departmental resource (accrual) accounts it requires WGA to:

- present a true and fair view, and
- conform to Generally Accepted Accounting Practice (GAAP) subject to such adaptations as are necessary in the context.

WGA are therefore prepared using the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), interpreted and /or adapted for the public sector context. Interpretations and adaptations are developed using the International Public Sector Accounting Standards (IPSASs) developed by the International Public Sector Accounting Standards Board (IPSASB). In a 2012 Ernst and Young survey for Eurostat, UK Central Government emerged as 95% IPSAS compliant as the UK Government approach parallels IPSASB's own standards development process.

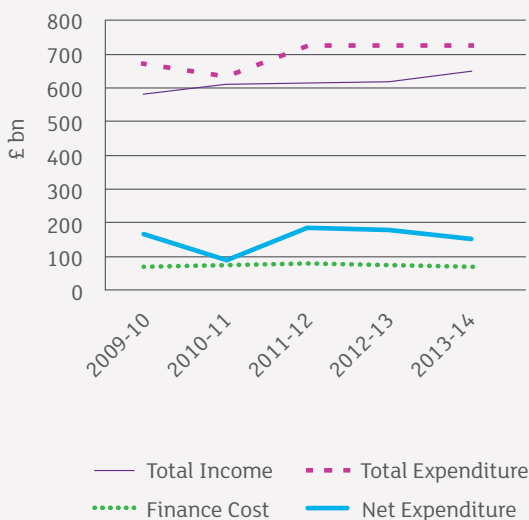
The provision of better information for fiscal management purposes was one of the original drivers for the WGA programme. WGA therefore adopt the public sector boundary used for National Accounts purposes rather than determining the bodies to be consolidated using IFRS. As the tests for control in both sets of guidance are similar, in practice the resulting coverage is also similar, though different in several important cases, so leading to one of the qualifications discussed below.

WGA headlines

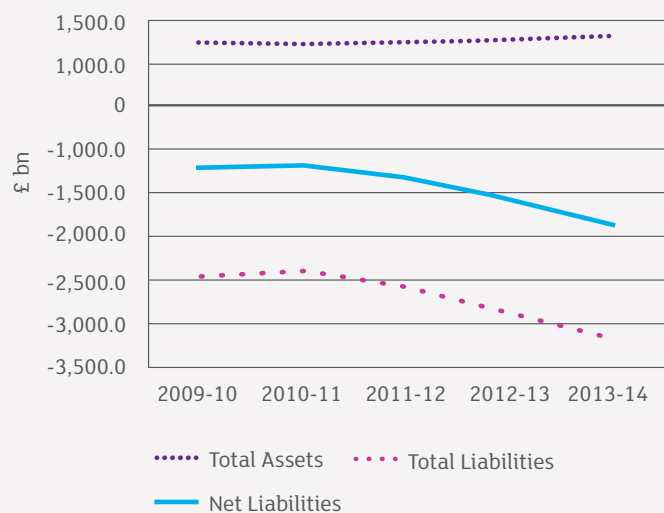
The 2013-14 WGA present the most up-to-date audited financial information ahead of the General Election. They show:

- Total income increased to £649bn (up 4.5% from 2012-13).
- Total expenditure increased marginally to £718bn (up 0.1% from 2012-13 billion).
- The UK's net liabilities increased by £224bn during 2013-14, while overall net liabilities have increased over the 5 years by £624bn. This is mainly due to increasing net public sector pension liabilities and government financing and borrowing.
- The UK's net public sector pensions liabilities have increased by £130bn (£11.1%) to £1.3 trillion due mainly to a combination of current service and financing costs, as well as actuarial losses.
- Five year trend data as summarized below show that while net expenditure is on a downward trend net liabilities continue to increase.
- For a future government the increasing net liabilities underline the need to manage balance sheet risk particularly in the area of public service pensions, where there remains a concern about long term sustainability even given recent reforms.

WGA Income and Expenditure



WGA Financial Position



Using WGA information

WGA are audited, and include information that National Accounts do not, in particular pension scheme liabilities and other provisions. The reconciliation below between WGA net liabilities and National Accounts Public Sector Net Debt shows the magnitude of the key areas where WGA provides additional information:

The publication of WGA therefore improves the transparency of government spending decisions and their impacts on the public finances by providing a more complete picture of the Government's financial position than the National Accounts.

Reconciliation between National Accounts and 2013-14 WGA

	£bn
Net Liabilities (WGA)	1,852
Net public sector pension liability	(1,302)
Provisions	(142)
PFI Contracts	(33)
Unamortised premium or discount on gilts	(29)
Property, plant and equipment	763
Intangible assets	32
UK Asset Resolution (UKAR) net impact on net debt	74
Trade and other payables	(47)
Accruals and deferred income	(44)
Trade and other receivables	39
Prepayments and accrued income	80
Investments	23
Network Rail	34
Asset Purchase Facility	45
Other	57
Public Sector net debt (National Accounts)	1,402

It is crucial that fiscal and budgetary decisions are taken on the basis of reliable and decision-useful data. WGA are now prepared using the same system as HM Treasury uses for public spending budgets and in-year monitoring, as well as for provision of data to the Office for National Statistics. They can therefore complement existing information in the public domain on government expenditure, and through being audited provide additional confidence. Producing WGA quicker would enhance the impact of these functions.

The Office for Budget Responsibility (OBR) uses the WGA balance sheet as the start point for developing the long-term fiscal projections in its annual Fiscal Sustainability Report. However CIPFA thinks that there is room to go further to demonstrate publicly that the accrual approach is well-embedded in the management of the UK public finances and deliver the full potential of WGA:

- WGA data provide useful information about the changing public service policy and delivery landscape, including the distribution of assets and liabilities, helping understanding of the mechanics needed to manage them effectively. They could therefore be a useful tool in following the public pound.
- WGA need to be used as an integral part of the UK public spending architecture if all key spending and service decisions are to be taken in the context of their impacts on medium to long-term sustainability, and intergenerational equity.
- Autumn Statement and Budget documentation needs to be developed to include forecast financial statements, including forecast balance sheets, and budget comparisons for the whole public sector, in order to emphasise the importance of WGA data, and demonstrate the way in which it can support the operation of the fiscal framework.

WGA challenges

The Comptroller and Auditor General's certificate on the 2013-14 WGA had six major qualifications, most of which have been present since the first publication in 2009-10. HM Treasury has however made significant progress in trying to reduce and ultimately resolve the qualifications, and the direction of travel appears likely to be as follows:

The Public Accounts Committee have welcomed the efforts made to reduce the qualifications. However, qualifications to any set of published accounts undermine their value, so the Treasury needs to continue its efforts to resolve these qualifications as soon as possible.

	Reason for WGA audit qualification	Potential resolution of qualification
1	Account boundary	Inclusion of Network Rail within the 2014-15 WGA. The main remaining qualification in respect of the non-consolidation of the Royal Bank of Scotland could be resolved either immediately by consolidation, or through its eventual sale.
2	Inconsistent accounting policies	Planned move to current values for local authority roads in the 2016-17 accounts.
3	3G and 4G licences	Change in accounting policy or decreasing impact over time.
4	Completeness and valuation of schools' assets	Changes to accounting policies for local authority schools in 2014-15 accounts.
5	Qualification of underlying audit opinions	Resolution of underlying qualifications in Department for Education and Ministry of Defence Accounts.
6	Elimination of intra-group transactions and balances	Further improvement of agreement processes across Government.

Timeliness is also important. The first WGA were published 19 months after the year end, whereas the 2013-14 WGA were published within one year, marking a huge improvement. However, one year is still a long way from best practice and hinders the usefulness of the data. Further shortening the publication timetable will help, particularly if WGA can be published alongside the Autumn Statement. This would then enable the publication of the OBR Financial Sustainability Report to be moved too, increasing its policy impact.

Although WGA production and audit process improvements have considerably shortened the publication timetable, significant process redesign will be required to advance this much further. Earlier WGA publication will require more corporate style reporting processes, including the delivery of consolidation information before the publication of audited financial accounts.

CIPFA's position on Whole of Government Accounts (WGA)

- 1 The publication of annual WGA has been a significant step forward in the UK Government's accountability, and the earlier publication of the 2013-14 account is welcome.
- 2 WGA data provide useful information about the changing public service policy and delivery landscape, including the distribution of assets and liabilities, helping understanding of the mechanics needed to manage them effectively.
- 3 WGA need to be used as an integral part of the UK fiscal and public sector spending architecture if all key spending and service decisions are to be taken in the context of their impacts on the current fiscal position, encompassing all assets and liabilities, as well as medium to long-term sustainability, and intergenerational equity.
- 4 Autumn Statement and Budget documentation needs to be developed to include forecast financial statements, including forecast balance sheets, and budget comparisons for the whole public sector, in order to emphasise the importance of WGA data, and demonstrate the way in which it can support the operation of the fiscal framework.
- 5 WGA audit qualifications need to be removed as soon as possible to allow full use to be made of all WGA information both in National Accounts and for public financial management purposes.
- 6 WGA need to be produced even more quickly if they are to deliver their full potential impact on decision making, for example as part of the information supporting the annual Autumn Statement.
- 7 Earlier WGA publication will require more corporate style reporting processes, including the delivery of consolidation information before the publication of audited financial accounts.

References

- 1 Overview and comparison of public accounting and auditing practices in the 27 EU Member States: Prepared for Eurostat, Final Report, 19 December 2012
- 2 Government Resources and Accounts Act 2000
- 3 Financial Reporting Advisory Board (FRAB)
- 4 European System of Regional and National Accounts (ESA 2010)
- 5 UN System of National Accounts 2008 – 2008 SNA
- 6 Office for Budget Responsibility Fiscal Sustainability Report July 2014
- 7 26th Report – Whole of Government Accounts 2012-13 | HC 678 | Published 07 January 2015 Public Accounts Committee
- 8 Whole of Government Accounts 2009-10 | HC1601 November 2011
- 9 Whole of Government Accounts 2010-11 | HC687 October 2012
- 10 Whole of Government Accounts 2011-12 | HC 531 July 2013
- 11 Whole of Government Accounts 2012-13 | HC 93 June 2014
- 12 Whole of Government Accounts 2013-14 | HC 1091 March 2015



Registered office: 77 Mansell Street, London E1 8AN
T: 020 7543 5600 F: 020 7543 5700 www.cipfa.org

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