

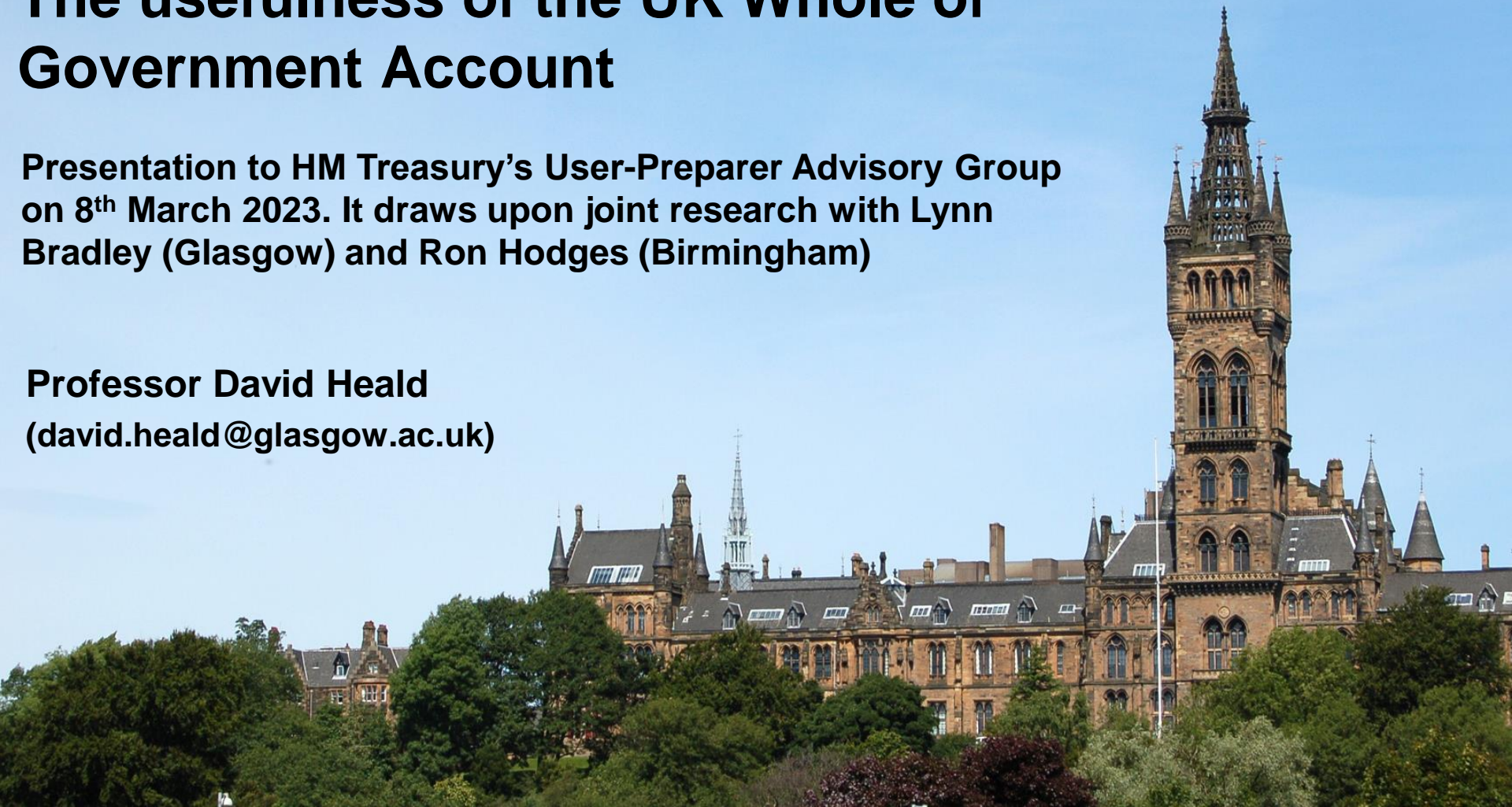


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The usefulness of the UK Whole of Government Account

Presentation to HM Treasury's User-Preparer Advisory Group on 8th March 2023. It draws upon joint research with Lynn Bradley (Glasgow) and Ron Hodges (Birmingham)

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What WGAs were supposed to achieve

Landmark document on WGA was the Treasury's (1998) *Scoping Study*

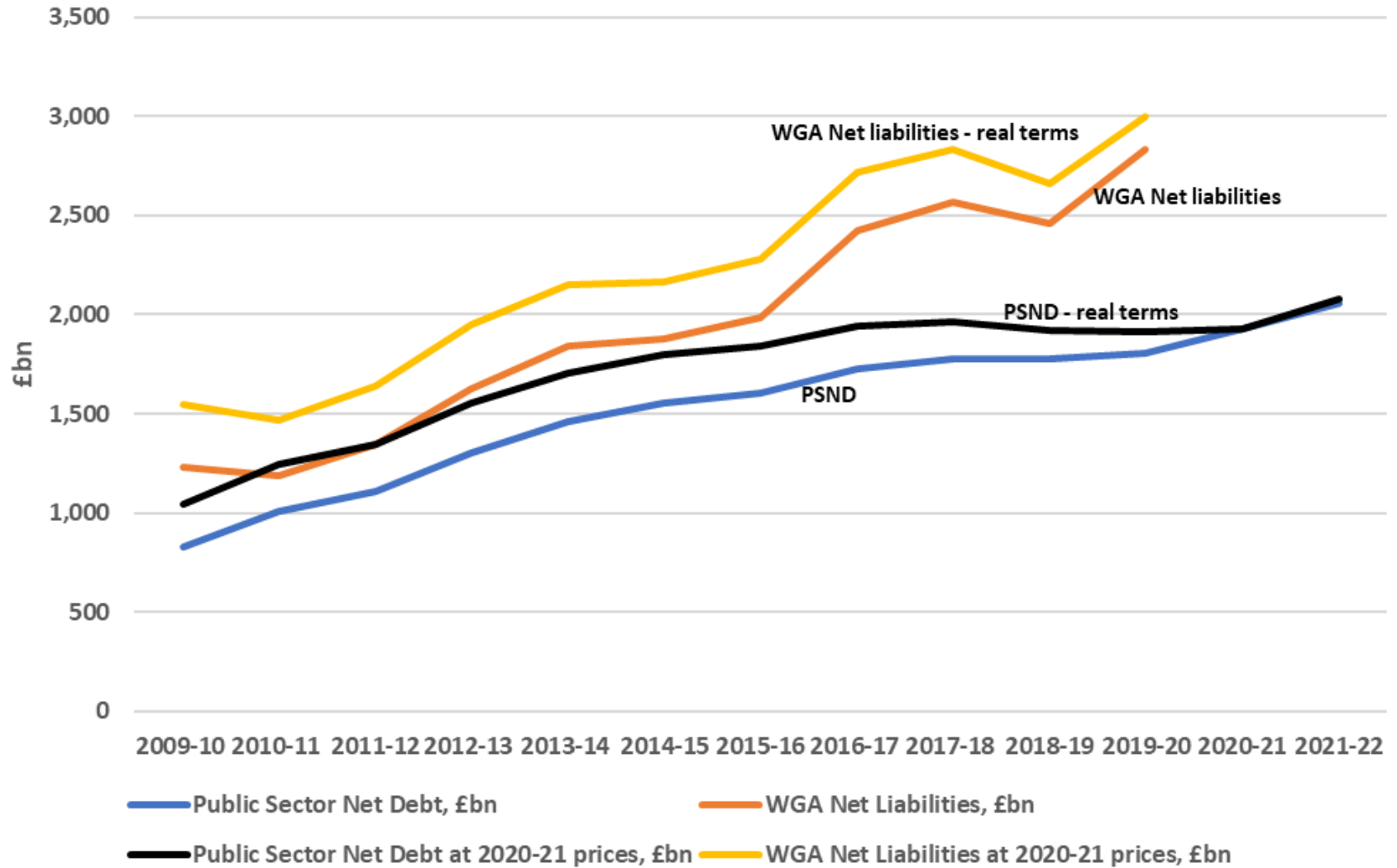
- 1) Alongside accruals accounting at entity level, better information for decision-making
- 2) Transparency (not necessarily the term then used) and the potential for enhanced public accountability
- 3) Academic specialists in public sector accounting linked the move to accruals with the need for greater fiscal transparency, particularly when New Public Management reforms were fragmenting government. Such developments enhanced the importance of consolidation, with the WGA being a 'super-consolidation' still not attempted in most countries

What can be learned by government and by users from 11 years of published audited WGAs?

WGA Balance Sheet, 2009-10 to 2019-20, £bn

Item	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Non-current assets											
Property, plant and equipment	712.8	714.0	744.5	746.8	812.3	1,075.8	1,120.2	1,167.6	1,208.4	1,268.0	1,313.3
Investment property	12.0	12.4	12.6	12.4	13.9	14.9	15.8	18.2	20.0	22.9	24.1
Intangible assets	36.3	34.8	35.2	34.5	31.9	32.4	33.0	34.5	36.0	37.4	40.2
Trade and other receivables	14.4	15.1	15.9	16.6	17.7	12.7	14.4	15.2	19.1	17.9	22.3
Equity investment in PS banks	61.1	59.5	40.8	40.0	43.0						
Other financial assets	119.2	120.4	125.0	158.6	164.6	216.6	208.8	260.8	323.3	320.6	299.2
Total: Non-current assets	955.8	956.2	974.0	1,008.9	1,083.4	1,352.4	1,392.2	1,496.3	1,606.8	1,666.8	1,699.1
Current assets											
Inventories	12.0	12.0	11.4	12.1	11.8	11.3	9.6	9.2	9.9	9.7	10.6
Trade and other receivables	125.0	130.0	126.0	122.3	131.9	133.2	140.3	158.0	160.8	172.4	159.7
Other financial assets	128.0	102.7	125.5	117.6	151.5	148.9	164.2	198.1	184.3	194.3	217.0
Cash and cash equivalents	19.7	22.5	21.2	24.5	26.9	26.8	25.8	28.3	34.3	44.2	37.6
Gold holdings	7.3	9.0	10.4	10.5	7.7	8.0	8.6	9.9	9.4	9.9	12.8
Assets held for sale	1.7	1.9	2.1	1.6	1.7	2.7	1.7	3.2	8.3	1.5	1.7
Total: Current assets	293.7	278.1	296.6	288.6	331.5	330.9	350.2	406.7	407.0	432.0	439.4
Total assets	1,249.5	1,234.3	1,270.6	1,297.5	1,414.9	1,683.3	1,742.4	1,903.0	2,013.8	2,098.8	2,138.5
Current liabilities											
Trade and other payables	-103.1	-98.6	-103.7	-98.3	-107.0	-108.8	-114.7	-122.5	-126.8	-133.3	-143.2
Government borrowings	-200.9	-217.0	-224.2	-214.3	-212.4	-235.2	-274.2	-275.5	-275.6	-307.2	-344.7
Other financial liabilities	-270.1	-259.4	-341.1	-408.4	-432.8	-444.2	-452.5	-584.9	-654.0	-652.1	-656.8
Provisions	-15.7	-11.6	-13.6	-13.4	-17.1	-14.9	-14.7	-15.6	-16.4	-17.7	-30.4
Total: Current liabilities	-589.8	-586.6	-682.6	-734.4	-769.3	-803.1	-856.1	-998.5	-1,072.8	-1,110.3	-1,175.1
Non-current liabilities											
Trade and other payables	-74.0	-49.8	-55.2	-55.2	-66.0	-64.1	-65.5	-63.1	-64.4	-58.6	-57.9
Government borrowings	-580.9	-691.2	-741.3	-781.9	-883.7	-939.3	-986.4	-1,013.5	-1,071.8	-1,100.0	-1,100.7
Other financial liabilities	-11.5	-36.0	-33.2	-64.4	-95.9	-98.3	-104.9	-107.3	-98.8	-98.1	-105.1
Provisions	-86.5	-95.4	-99.4	-117.6	-137.5	-160.4	-290.8	-306.6	-406.1	-293.7	-344.4
Net public sector pension liability	-1,134.7	-961.0	-1,005.8	-1,171.9	-1,303.1	-1,493.3	-1,424.7	-1,834.7	-1,865.3	-1,893.9	-2,189.5
Total: Non-current liabilities	-1,887.6	-1,833.4	-1,934.9	-2,191.0	-2,486.2	-2,755.4	-2,872.3	-3,325.2	-3,506.4	-3,444.3	-3,797.6
Total liabilities	-2,477.4	-2,420.0	-2,617.5	-2,925.4	-3,255.5	-3,558.5	-3,728.4	-4,323.7	-4,579.2	-4,554.6	-4,972.7
WGA Net liabilities	-1,227.9	-1,185.7	-1,346.9	-1,627.9	-1,840.6	-1,875.2	-1,986.0	-2,420.7	-2,565.4	-2,455.8	-2,834.2
Financed by taxpayers' equity											
General reserve	-1,426.9	-1,422.7	-1,588.9	-1,876.6	-2,099.7	-2,379.7	-2,504.4	-2,948.1	-3,134.0	-3,048.8	-3,436.1
Revaluation reserve	214.9	231.4	238.8	245.0	255.9	501.0	514.5	482.4	564.5	588.8	597.3
Other reserves	-15.9	5.6	3.2	3.7	3.2	3.5	3.9	45.0	4.1	4.2	4.6
Total liabilities to be funded by future revenues	-1,227.9	-1,185.7	-1,346.9	-1,627.9	-1,840.6	-1,875.2	-1,986.0	-2,420.7	-2,565.4	-2,455.8	-2,834.2

Figure 1: PSND and WGA Net Liabilities in nominal and real terms



Note: GDP Deflators are those used at the time of the 23 March 2022 Spring Statement.

Figure 2: Alternative measures of Public Sector Liabilities, 2009-10 to 2021-22

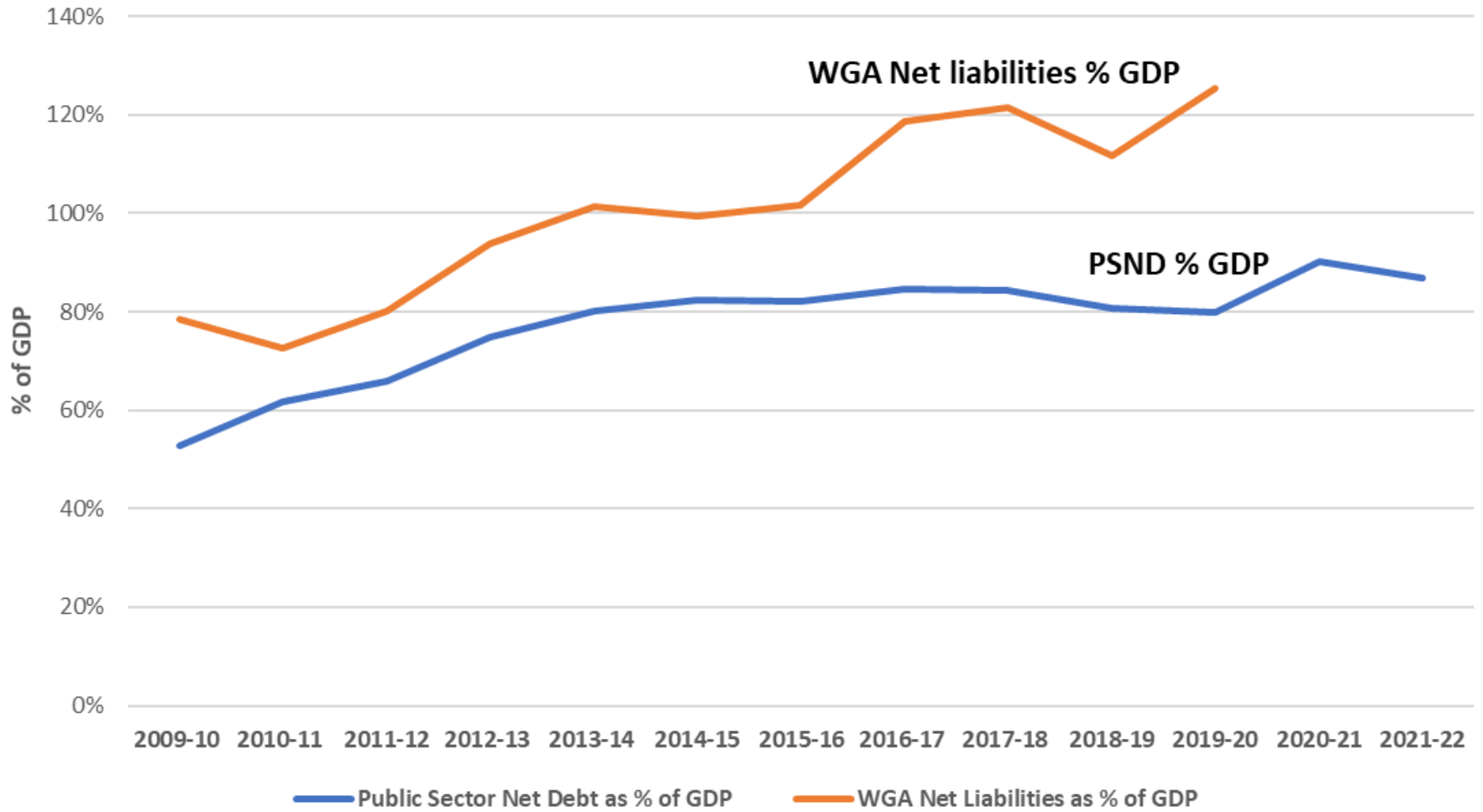
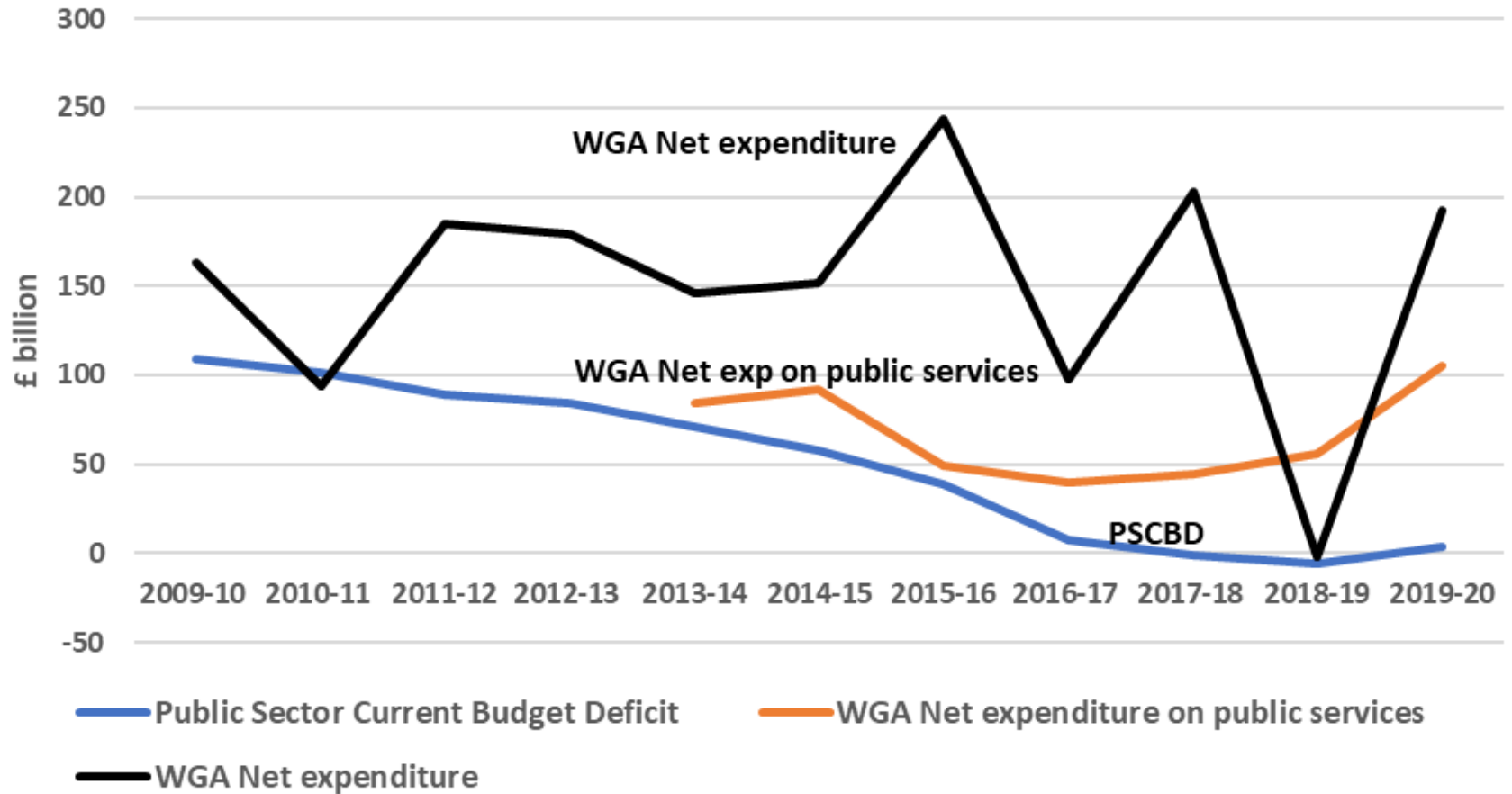


Figure 3: Alternative Measures of the Budget Deficit



NAO Audit Certificates on UK Whole of Government Accounts, 2009-10 to 2019-20

Financial Year	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Overall Qualified Audit Opinion ('Except for...' basis)	a	a	a	a	a	a	a	a	a	a	a
Causes of Qualifications											
Boundary Issue 1	b	b	b	b	b	b	b	b	b	b	b
Boundary Issue 2	c	c	c	c	c	c	c	c	c	c	c
Intra-group transactions	d	d	d	d	d	d	d	d	d	d	
Valuation of infrastructure	e	e	e	e	e	e	e	e	e	e	e
3G and 4G licences	f	f	f	f	f						
Accounting for Leases	g	g	g	g	g	g	g	g	g	g	g
Accounting for inventories	h	h	h	h	h						
Pension liabilities		i	i								
Local Authority Schools		j	j	j	j						
Academy Schools		k	k	k	k	k	k	k	k	k	k
Local authority assets											l
Emphasis of Matter											
Nuclear decommissioning	m	m	m	m	m	m	m	m	m	m	m
Hinkley Point C contract								n	n	n	

Slide 13 in the Appendix provides the notes to this table.

What has been achieved?

- 1) WGA has been implemented and sustained, but lateness risks irrelevance (2019-20 was published on 6 June 2022)
- 2) The Public Accounts Committee is regarded as the primary user of WGA but is not well equipped for this role. Intermediate users (eg academics, capital market actors, professional bodies and think tanks) could play a role before the PAC's annual evidence session with the Treasury. The 2019-20 meeting was held on 8 June 2022, only two days after the publication of WGA 2019-20
- 3) There has been limited interconnection between the four modes of government accounting (Heald and Hodges, 2018). These four modes are government financial reporting, statistical accounting (ie national accounts), budgeting, and fiscal sustainability analysis. These modes compete for attention but can be synergistic (eg more attention to the 'statistical' public sector balance sheet by the Office for National Statistics)
- 4) The WGA provides a more complete picture of UK public finances and overcomes the limitations of statistical accounting's focus on general government, by applying the control principle to go beyond. The Accounting Officer's report provides valuable explanations and commentary on a consolidation of more than 10,000 entities. The Treasury's work on the Balance Sheet Review and on contingent liabilities has in part been stimulated by the existence of the WGA

Topics for discussion

The UK has impressive technical achievements in government financial reporting, as international comparisons show. Areas for concern are:

- 1) Timeliness** – the IMF (2016) red mark for late reporting shows that this problem has causes before Covid-19, for example in relation to local authorities and the Whole of Government Account (National Audit Office, 2023). The Public Accounts Committee (2023) has flagged up the risk to WGA quality of the local audit crisis (Bradley et al., 2022). Being so late raises difficulties in relation to what is said about post-balance sheet events and emerging fiscal risks
- 2) Durability of audit qualifications** – some of these reflect data problems but some reflect principled disagreements between the Comptroller and Auditor General and HM Treasury
- 3) Fiscal sustainability** – WGA presents a bleaker picture of UK public finances than does statistical accounting: WGA Net Liabilities are higher than PSND; and WGA Net Expenditure is more adverse than Public Sector Current Budget Deficit. The path of WGA Net Expenditure on public services indicates a fiscal problem beyond that shown by the Public Sector Current Budget Deficit
- 4) Few users outside the community of preparers, auditors and parliamentary staff** – partly a lack of numeracy skills but also because government financial reports are long and increasingly technical documents. Transparency requires understandability as well as accessibility. There will always be much more to do

Appendix

WGA Net Liabilities compared with Public Sector Net Debt, £bn

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Public Sector Net Debt, £bn	828	1,005	1,106	1,299	1,458	1,554	1,603	1,727	1,779	1,774	1,806	1,931	2,054
Add liabilities not recognized in national accounts													
Net public sector pensions liability	1,135	961	1,006	1,172	1,303	1,493	1,425	1,835	1,865	1,894	2,190		
Provisions	102	108	113	131	155	175	306	322	422	311	375		
PFI contracts	25	27	31	32	33	33	33	33	33	32	31		
Adjust assets measured differently in national accounts													
Asset Purchase Facility				-44	-46	-49	-50	-127	-200	-194	-181		
Unamortised premia on gilts	13	15	23	31	29	35	38	51	54	56	62		
UK Asset Resolution (UKAR) net impact on net debt	-59	-94	-83	-83	-74	-50	-30	-24	-10	-2	1		
Add assets and liabilities excluded from measure of PSND													
Property, plant and equipment		-710	-745	-747	-812	-1,076	-1,120	-1,168	-1,208	-1,268	-1,313		
Investment property		-13	-13	-12	-14	-15	-16	-18	-20	-23	-24		
Intangible assets		-34	-35	-35	-32	-32	-33	-35	-36	-37	-40		
Tangible and intangible fixed assets	-769												
Trade and other receivables		-40	-35	-35	-37	-35	-37	-49	-42	-41	-45		
Prepayments and accrued income		-77	-81	-77	-80	-78	-87	-91	-103	-108	-88		
Inventories		-12	-11	-12	-12	-11	-10	-9	-10	-10	-11		
Investments	-11	-17	-17	-27	-23	-73	-50	-51	-52	-53	-33		
Trade and other payables		51	50	48	47	49	51	51	53	51	56		
Accruals and deferred income		37	41	39	44	54	55	59	62	61	66		
Deduct liabilities not yet recognised in WGA													
Network Rail				-34									
Housing associations				-	-56	-60	-67	-70		0	0		
Other adjustments													
Other adjustments including eliminations	-27	-16		-15	-43	-39	-25	-15	-22	12	-18		
Inadequate data to match classification structure													
Payables and receivables	-9												
Net taxation and duties due		-5	-3	-3									
WGA Net Liabilities, £bn	1,228	1,186	1,347	1,628	1,840	1,875	1,986	2,421	2,565	2,456	2,834		

Public Sector Current Deficit compared to WGA Net Expenditure, £bn

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Public Sector Current Budget Deficit	109	101	89	84	71	58	39	7	-1	-6	4
Add expenditure on liabilities excluded from National Accounts:											
Increase in provisions	-27	6	6	16	9	18	0	7	5	21	74
Adjust expenditure calculated differently from National Accounts:											
Public sector pensions	51	-79	52	48							
Depreciation and amortisation		7	4	-5	-10	-10	-8	-10	-10	-15	-19
Impairments and revaluations of assets		53	35	21	21	15	9	15	25	13	16
Depreciation and impairment of assets	30										
Net (gains)/Losses on sale of assets		4	0	3	-4	-2	-6	2	4	4	2
Capital grants	16	18	15	12	11	8	7	9	9	10	9
Research and development					3	3	3	2	2	2	2
UK Asset Resolution net impact on current deficit	1	1	1	1							
Military expenditure capitalized in WGA	-5	-5	-6								
Other adjustments											
Other Adjustments including eliminations	-12	-12	-11	-1	-17	2	5	8	11	27	17
WGA Net expenditure on public services					84	92	49	40	44	56	105
Financing costs of long-term liabilities, including discounting					57	65	187	68	154	-57	66
Revaluation of financial assets and liabilities					5	-5	8	-10	5	-1	20
WGA Net expenditure	163	94	185	179	146	152	244	98	203	-2	192
Memorandum items											
Excess of WGA Net expenditure over PSCBD	54	-7	96	95	75	94	205	91	204	4	188
WGA Net expenditure as percentage of GDP	10.4%	5.8%	11.0%	10.3%	8.0%	8.0%	12.5%	4.8%	9.6%	-0.1%	8.5%
PSCBD as percentage of GDP	7.0%	6.2%	5.3%	4.8%	3.9%	3.1%	2.0%	0.3%	0.0%	-0.3%	0.2%

Notes about audit qualifications

- (a) Except for [the causes of the qualification] the financial statements give a true and fair view of the state of the whole of government's affairs for the financial year and of its net expenditure for the year; and the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000.
- (b) HM Treasury defines the accounting boundary based upon bodies classified by the ONS as being in the public sector. The C&AG takes the view that it would be more accurate to assess the accounting boundary with reference to accounting standards.
- (c) The C&AG considers that the basis of consolidation has not been applied consistently in that a number of bodies are not consolidated, even though they are classified by the ONS as being within the public sector. Examples include the publicly-owned banks and, for some years, Network Rail.
- (d) The C&AG has, in most years, been unable to confirm the completeness of the elimination of intra-group transactions and balances.
- (e) The C&AG reports on the inconsistent application of accounting policies relating to the valuation of infrastructure assets. In all years this applies to local government bodies and, in some years, to Network Rail and the Environment Agency.
- (f) In some years the WGA includes income arising from the sale of new 3G/4G telecommunication licences. The C&AG believes that the income from these licences should be spread over the licence period.
- (g) The Ministry of Defence has not undertaken sufficient work to account for leasing transactions under IAS 17.
- (h) The Ministry of Defence did not maintain adequate accounting records and was unable to provide audit evidence in respect of some inventories and non-current assets.
- (i) The Cabinet Office was unable to provide sufficient evidence for the C&AG to validate some pension benefits awarded and accrued.
- (j) Local authority-maintained school assets were omitted from the WGA.
- (k) Academy schools prepare their accounts for the financial year from 1 September to 31 August, corresponding to the academic year. Their accounts for 1 September 2018 to 31 August 2019 are consolidated in the 2019-20 WGA covering the period from 1 April 2019 to 31 March 2020. This does not comply with IFRS 10, leading to a continuing qualification.
- (l) Local authority audits on Property, Plant and Equipment and Investment Properties were not concluded so that the C&AG was unable to obtain sufficient audit evidence.
- (m) Refers to the considerable uncertainty over future cost estimates due to the very long timescale and the complexity of the plants and materials.

Refers to the considerable uncertainty in the valuation of the Hinkley Point C (nuclear power station under construction) Contract for Difference, which is not recognized but is treated as a contingent liability.

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