

# Financial Reporting Advisory Board Paper

## Whole of Government Accounts: 2015-16 strategy and priorities

<b>Issue:</b>	This paper provides the board with an overview of the strategy for the delivery of the 2015-16 Whole of Government Accounts (WGA), including the approach being taken with the simplification and streamlining of WGA and the plans to increase the use of the document and underlying dataset.
<b>Impact on guidance:</b>	None
<b>IAS/IFRS adaptation?</b>	Not applicable
<b>Impact on WGA?</b>	Yes
<b>IPSAS compliant?</b>	Not applicable
<b>Interpretation for the public sector context?</b>	Not applicable
<b>Impact on budgetary regime?</b>	Not applicable
<b>Alignment with National Accounts</b>	Not applicable
<b>Impact on Estimates?</b>	Not applicable
<b>Recommendation:</b>	The board notes the approach for the production of the 2015-16 WGA and the updates provided. We would welcome any comments or suggestions on our forward plans for improving the utility and usefulness of the document.
<b>Timing:</b>	For information only

## **DETAIL**

### ***Background***

1. The 2014-15 WGA had mixed success against its strategy. On the one hand, it made significant progress with the qualifications, losing two relating to school assets and spectrum receipts. The level of unadjusted errors also reduced. However, it was published two months behind schedule in May 2016 as a result of delays in the publication of consolidated accounts by Department for Education (DfE).

2. In 2015-16 we intend to make improvements to timeliness and qualifications, although we will be partially constrained by issues in the underlying accounts, most notably DfE. We will also be focusing on raising the profile and the use of the accounts including implementing improvements from the Simplifying and Streamlining project.

### ***Key Messages for the 2015-16 WGA***

3. The key changes and priorities for 2015-16 are summarised below
- Our planning assumption is to improve the publication time from the 2014-15 year
  - Our eliminations strategy will be further refined to ensure we can replicate improvements from the last two years
  - We will implement a communications strategy, raising the profile of WGA
  - We will increase the use of WGA data by working with teams across the Treasury on data analytics
  - We will adopt Simplifying and Streamlining improvements to the WGA
  - We will continue to work with relevant experts in teams across HMT to ensure a robust and clear narrative is provided to support the accounts

### ***Qualifications Strategy***

4. We lost two qualifications in 2014-15. Strategies are in place to manage the remaining qualification issues and based on work already in hand we plan on removing the qualifications as follows:

5. **Boundary:** Housing associations will be a new issue for 2015-16 but our hope is that their classification to the public sector will be short term. Network Rail was the last of the major entities to be added into the WGA boundary in 2014-15. Further education colleges in Scotland and Northern Ireland will be brought into the accounts for the first time in 2015-16. They are not material to the overall accounts, but further our progress toward boundary alignment. Another boundary misalignment are trust ports. We have been engaging with the trust ports through the Department for Transport and we plan to perform an impact assessment during the autumn regarding the potential inclusion of trust ports into the 2016-17 WGA. We will continue to work towards full alignment with the National Accounts classification of public sector entities.

6. RBS continues to be held as a public sector bank by HMT and we account for this investment as a financial asset – available for sale (IAS39). As with prior years we do not intend to consolidate RBS although we will make improvements to disclosures.

7. **Intra-government transactions and balances:** The eliminations error in the 2014-15 accounts was £6.5 billion, an improvement from the £7.2 billion in 2013-14 and below the NAO materiality threshold of £8.0 billion for two consecutive years. The team will continue to work on making the eliminations process more efficient, however there comes a point when the law of diminishing returns kicks in, and the amount of time spent in reducing the elimination adds little value. There is a risk with the inherent uncertainty on the Department for Education internal balances relating to academies and we are working with the department to mitigate this risk.

8. **Accounting policies/frameworks:** The Department for Transport achieved an unqualified consolidation of Network Rail in their 2015-16 accounts. Therefore the issue of introducing a depreciated replacement cost valuation for the railway network appears to be successfully resolved and this element of the qualification should be removed this year. Highways infrastructure assets remains a material inconsistency where central government entities use depreciated replacement cost and local authorities use historic cost. The CIPFA code of practice for valuing infrastructure assets at depreciated replacement cost would originally have come into force 2016-17, but this has now been delayed. This is major change to the valuation policy of local government, and will bring local government financial reporting frameworks in line with the requirements of the government Financial Reporting Manual once implemented.

9. **Underlying qualifications in entity accounts:** In 2014-15 the Department for Education were qualified on the basis of incomplete and inaccurate valuation of academies' land and building assets. We are working with the department on this issue as part of the wider cross government work on reforming the academy reporting framework. The current proposal is to produce a sector report separate to the core department and undertake a consolidation within the Department for Education for WGA purposes. As the sector report would have a 31 August year end, we are working to ensure the proposal provides the necessary analysis and assurance for WGA.

10. In 2015-16 the Ministry of Defence was qualified on the basis of leased assets and liabilities of a material value been omitted from the ministry's statement of financial position. This will therefore be an issue in the 2015-16 WGA.

### ***Improvements to 2015-16 Whole of Government Accounts***

11. New reporting guidance on **simplifying and streamlining** of accounts will be applied to ensure disclosures are proportionate and focussed on the material items in the accounts.

12. Each section of the WGA will be assessed against the following set of criteria:

- The requirements of the accounting standards have been met
- The section is easy to understand

- The section "tells a story"
- The section is transparent
- The information contained in this section is material
- The needs of users are being met

13. Recommendations to the Accounting Officer will then be formulated based on the deficiencies identified. All recommendations may not be implemented in 2015-16, but will then be incorporated into planning for future years. We will also be incorporating lessons learnt based on feedback from the National Audit Office and the Parliamentary Scrutiny Unit on the outcome of the simplification and streamlining of central government departments annual reports.

14. We have prepared a draft WGA communication strategy as part of our actions to raise the profile of WGA within government and to embed it into the routine monitoring of the risks to public finances. This will be the first year that we have a formal strategy in place for this. We will be looking to make progress in 2015-16, however we acknowledge that this won't be a single year of effort and work will continue in future years.

15. As well as improving the WGA document we are looking at ways of making more use of the underlying dataset, which contains accounting data for every entity in the public sector for the last five years. We want to unlock the analytical capability of this dataset to support the Treasury's strategic objectives and provide unique and informative analysis about government spending. We have begun working on a data analytics pilot to establish new uses. We will be exploring how specific sets of data can feed into more useful disclosures in the 2015-16 publication.

### ***The longer term strategy for the Whole of Government Accounts***

16. We will improve our analysis of expenditure in a couple of areas. Following feedback from the Public Accounts Committee we want to begin an exercise that analyses spend across geographical areas and provides more information on the make-up of spend on goods and services. We would also like to spend more time analysing spending by function, for example defence, welfare, health etc.

17. Our long term goal continues to be to move to a December publication date. In 2017-18 the statutory deadline for local authorities to produce their accounts will move forwards by two months to the end of July. We are also working with DfE to ensure that they can achieve a pre-recess publication. Together these will make a significant difference to the timing of WGA. We will also be contributing to work on IT improvements but fundamentally we will need to have a completely new look at our processes to achieve a December date.

***Recommendation***

18. The Treasury requests that the board notes the plans in place to deliver the Whole of Government Accounts for 2015-16 and the update provided. We would welcome any comments or suggestions for improvement.

**HM Treasury**

**14 November 2016**