Financial Reporting Advisory Board paper

Whole of Government Accounts (WGA):

Key messages for 2014-15

Issue:	This is the sixth year of publication of WGA. This paper provides an overview of the 2014-15 WGA.
Impact on guidance:	n/a
IAS/IFRS adaptation?	n/a
Impact on WGA?	n/a
IPSAS compliant?	n/a
Interpretation for the public sector context?	n/a
Impact on budgetary regime? Impact on Estimates?	n/a
Alignment with National Accounts	n/a
Recommendation:	HM Treasury ask that the Board note the progress made in improving the WGA process, and the key messages from the 2014-15 account.
Timing:	n/a

DETAIL

Background

1. The WGA consolidates the audited accounts of over 6,000 organisations across the UK public sector. WGA is based on International Financial Reporting Standards (IFRS), the system of accounts used internationally by the private sector. WGA is independently audited by the National Audit Office (NAO).

WGA progress highlights

2. For 2014-15 the main improvements in quality to WGA are:

a. Removal of two audit qualifications relating to the valuation of school assets and the recognition of income for the use of the electromagnetic spectrum (3G and 4G). This reflects improved reporting of the government's asset ownership and annual income.

b. Further improvements in the underlying data quality and the process of consolidating the underlying accounts in WGA, which requires adjustments to remove transactions between component entities. These improvements feed through to the accuracy of the presentation of the figures and the disclosures in the accounts.

3. Although issues do still remain, HM Treasury has plans in place to continue to improve data quality in this and other areas. The audit qualifications apply to limited areas of the accounts, partly reflecting underlying entity qualifications and differences in policy view between HM Treasury and the National Audit Office (NAO), but do not diminish the fundamental value and usefulness of these accounts.

4. The 2014-15 consolidated accounts for the Department for Education were delayed in their production. This has had a consequential impact on the publication date for the 2014-15 WGA. HM Treasury are working with the Department for Education to address this issue for future publications.

5. The Treasury has applied the principles of streamlining and simplification. The overview at the front of the report contains the key figures and trends, making it easier for the reader of the accounts to identify the key trends in the data.

Key Messages:

6. A high level summary is shown below:

	2014-15	2013-14 restated	Change	Change
	£bn	£bn	%	£bn
Total Income	-659.3	-652.9	1%	-6.4
Total Expenditure	733.9	718.4	2%	15.5
Finance Costs & Other	77.4	80.2	-3%	-2.8
Net Expenditure	**152.0**	**145.7**	4%	**6.3**
Total Assets	1,455.3	1,414.9	3%	40.4
Total Liabilities	3,558.5	3,255.5	9%	303
Net Liabilities	**2,103.2**	**1,840.6**	**12.5**	**262.6**

7. The key trends:

a. Revenue increased

Total revenue continued to grow from taxes and other sources, increasing by 1.0% from £652.9 billion (2013-14) to £659.3 billion (2014-15).

Tax revenue increased by £10.9 billion with VAT income increasing by £5.7 billion (5.3%) as the economic recovery continued.

b. Total expenditure increased

Expenditure (excluding financing costs) increased by 2.2% from £718.4 billion (2013-14) to £733.9 billion (2014-15). There are a number of accounting judgements and adjustments that have driven the increase in expenditure in 2014-15, primarily related to public sector pension liabilities and provisions.

Benefits expenditure grew by £4.3 billion, £3.6 billion of which relates to the state retirement pension; reflecting both demographic trends and the government's policy of increasing state pensions every year by the highest of price inflation, earnings growth, or 2.5%.

c. Net expenditure increased

Net expenditure reported in the Whole of Government Accounts increased from £145.7 billion (2013-14 restated) to £152.0 billion (2014-15), an increase of 4.3%. This differs from the government's fiscal measure, as reported in the National Accounts, for the current deficit (surplus on current budget) which for the same period reduced from £71 billion to £57 billion.

Net expenditure is affected by some significant increases in estimated costs this year. The most prominent are the estimate of the provision for the oil and gas field decommissioning as well as the public sector pension costs. These estimated costs are treated differently in the WGA and the National Accounts.

d. Assets increased

Property, plant and equipment increased by £35.5 billion largely due to government investment plans in infrastructure and other parts of the public sector including health, as well as revaluations following quinquennial reviews resulting in an upwards movement in underlying assets values.

e. Liabilities increased

The most significant driver behind the increase in liabilities is the change in the value of the public sector pension liability. This has increased by £190.2 billion (+14.6%) during 2014-15 mainly due to the reduction to the (net of CPI) discount rates used to measure the liability.

Government borrowing has increased by £78.4 billion (+7.2%) in order to fund the ongoing, though reducing deficit.

f. Net liabilities

Total net liabilities (assets minus liabilities) has increased by 14.3% from £1,840.6 billion (restated) in 2013-14 to £2,103.2 billion in 2014-15.

Recommendation:

8. HM Treasury ask that the Board note the progress made in improving the WGA process, and the key messages from the 2014-15 account.

HM Treasury
June 2016