



## Financial Reporting Advisory Board Paper

### Whole of Government Accounts 2014-15: Paper setting out the strategy for the delivery of the accounts.

<b>Issue:</b>	This paper provides the board with an overview of the strategy for the delivery of the 2014-15 Whole of Government Accounts, including actions being taken to resolve the qualifications and to improve the utility of the document.
<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 2014-15 Whole of Government Accounts, the efforts being made to resolve the qualifications of the account and HMT Treasury's forward plans for improving the utility and usefulness of the document.
<b>Timing:</b>	For information only

## **DETAIL**

### ***Background***

1. This note updates the board on our approach to the delivery of the 2014-15 Whole of Government Accounts and sets out the key areas of focus and development for the year. HM Treasury have delivered incremental improvements in the timing and quality of the accounts and this provides a stable foundation to further develop the accounts, make progress on the qualifications and raise the profile of the publication.

2. Delivering the 2013-14 accounts in March was a major milestone in our faster closing strategy. For 2014-15, our priority is to consolidate the substantial progress we have already made to timing, focus on narrative improvements and develop our communications strategy to improve the usefulness of the accounts. We are planning to publish in March 2016 although we will endeavour to deliver earlier if possible.

### ***Key Messages for the 2014-15 WGA***

3. The key changes and priorities for 2014-15 are summarised below

- a. Our planning assumption is to publish by the end of March 2016
- b. Network Rail will be consolidated for the first time in 2014-15
- c. Our eliminations strategy has been refined to ensure we can replicate last years' continuous improvement and aim to remove the qualification
- d. We plan to review our treatment of 3G and 4G under IAS 18 in light of the requirements of IFRS15 – Revenue from Contracts with Customers.
- e. We are developing a communication strategy to increase the profile of WGA
- f. We are working with the underlying entities on qualifications that impact on WGA
- g. The WGA disclosure notes will be fully reviewed to ensure they are still relevant and informative
- h. Our primary development effort will be to build on the performance report improvements implemented last year to clearly explain the underlying fiscal narrative

**Qualifications Strategy**

4. Strategies are in place to manage the qualification issues and based on work already in hand we plan on removing the qualifications as follows:

	2014-15	2015-16	2016-17	2017-18
Boundary	↑	↑	?	?
Eliminations	✓			
3G	↑	?		
Schools	↑	✓		
Accounting policies	↑	↑	?	
Underlying qualifications	↑	↑	?	?

↔	No Change
↑	Improvements delivered in year but qualification still anticipated
?	Too much uncertainty
✓	Expected removal of qualification

5. **Boundary:** Network Rail is being consolidated for the first time in the 2014-15 WGA accounts. Meetings with the Network Rail team have taken place to ensure a smooth integration. They are completing a 2014-15 data collection pack separate to the core department and consolidation into WGA provides the department with an opportunity to collect and test data to help with the consolidation into the main department in 2015-16. The only residual issue with Network Rail is the valuation of their infrastructure assets. These are currently valued on an income basis which is not in accordance with the FReM and this may lead to a qualification for WGA in 2014-15. We are working on this issue with the Department for Transport and the NAO.

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). Given the short term nature of the ownership we do not intend to undertake a full consolidation, however the WGA includes extracts from the RBS accounts as a supporting disclosure.

7. Further education colleges in Scotland and Northern Ireland are classified to the public sector, but not currently consolidated into WGA. Although not material to the overall accounts, they remain as a boundary misalignment. We previously obtained agreement from the Scottish Government that they would provide the information necessary to support WGA consolidation as a condition of the derogation to allow the colleges to retain a 31 July year end. Further education colleges in Northern Ireland will be consolidated from 2015-16 and we are seeking to secure the same agreement with Scotland.

8. **Intra-government transactions and balances:** The eliminations error in the 2013-14 accounts was £7.2 billion, a significant reduction from the £9.9 billion in 2012-13 and below the NAO materiality threshold of £8.0 billion. If we secure further improvements in 2014-15 and demonstrate this achievement can be replicated then there is a good chance that this qualification will be removed. This is a key area of focus for the team and we are reviewing our inter-company methodology to implement lessons learnt from last year. There is a residual risk with the inherent uncertainty on the Department for

Education internal balances relating to academies and we are working with the department and the NAO to mitigate this risk.

**9. 3G/4G licence fee income:** WGA accounted for all income relating to the auction of the 3G and 4G spectrum in the year of the auction rather than spreading the income across the life of the contract as per NAO's interpretation of IAS18 – revenue recognition. The ONS have recently changed their treatment of the 3G and 4G income in the national accounts because of changes to statistical reporting rules. The new statistical treatment is aligned with the NAO's recommendation. We will review our accounting treatment following ONS's change in treatment and in light of the expected treatment under 'IFRS15 – Revenue from Contracts with Customers'.

**10. School assets:** Local authorities have not been consistently recognising maintained schools' assets. In 2013-14 up to £23 billion of assets from voluntary aided and foundation schools and £8 billion assets from voluntary controlled schools were estimated to have been omitted from WGA. The treatment of Foundation and Voluntary Aided and Voluntary controlled schools in local government has now been established and implemented in the 2014-15 Local Government code of practice. In summary, local authorities will follow the IFRS consolidation standards without adaptation and therefore where these schools are distinct entities where control can be demonstrated, they will be consolidated within the local authority accounting boundary.

**11. Accounting policies/frameworks:** Highways infrastructure assets remains a material inconsistency where central government entities use depreciated replacement cost and local authorities use historic cost. CIPFA are introducing depreciated replacement cost in 2016-17 and are preparing an implementation plan to deliver this change. We are part of the project implementation board, ensuring there is consistency in accounting policy between central government, through the Highways Agency and local government.

**12. Underlying qualifications in entity accounts:** In 2013-14 the Department for Education received an adverse opinion due to level of error and uncertainty in their financial statements relating to the recognition of academies land and buildings data. We are working with the department on this issue as part of the wider cross government work on reforming the academy reporting framework.

### ***Improvements to 2014-15 Whole of Government Accounts***

13. Alongside our plans set out above the Treasury has identified further areas of development for this reporting year. Our primary focus is on improvements to the presentation of the narrative to ensure the accounts meet the needs of our end users and raise our external profile to bring WGA further outside the accounting world and into the public domain.

14. A key strength for WGA is the underlying dataset, which contains accounting data for every entity in the public sector for the last four years. We need to unlock the analytical capability of this dataset to support the Treasury's strategic objectives and provide unique and informative analysis about government spending. In April 2015, we commissioned Cranfield University to analyse the local government sector using the underlying data used to produce WGA. This is a good example of how the academic sector can be used to provide analytical insight and is an area we will seek to develop further.

15. We will adopt the simplifying and streamlining accounts agenda to critically review the content of the accounts to determine whether the disclosures are proportionate and focussed on the material items in the accounts. The needs of our users must be balanced against the requirements on the Financial Reporting Manual, but there are areas of the accounts that would benefit from a back to basics review. We are planning a small focus group with users to find out what areas they find most useful and what could be improved. The output of this will be used to drive the enhancements and narrative development, leading to a more focussed, streamlined and easier to read set of accounts.

16. Following feedback from the Public Accounts Committee and the NAO, we are planning an additional section in the performance report to provide an overview of fraud, error and debt across government. This will draw together key information from the accounts into one summary table, with an accompanying narrative to explain the key numbers and drivers, helping to address a key area of confusion with the users of the accounts.

17. The overall presentation of the accounts will be reviewed to identify the most effective method of communicating the wealth of data contained in WGA. This will include a range of visual improvements to the accounts themselves, such as a greater use of graphical representations of data, charts and summary tables. Outside the main accounts we will continue to provide a summary document that sets out the key data on a four page document. Alongside this, we are working with the NAO to share the underlying data on our respective websites in a format that enables users to 'drill down' into the primary statements and compare/contrast the underlying dataset. This will help raise the profile of the data and develop a broader understanding of the government finances with our stakeholders.

***Recommendation***

18. The Treasury requests that the board notes the plans in place to deliver the Whole of Government Accounts for 2014-15 and the actions being taken to reduce the qualifications. We are prioritising the presentation and utility of the document this year and any views from the board on how the accounts can be developed are welcomed.

**HM Treasury**

**12<sup>th</sup> November 2015**