

## Accounting for UK Plc *Ian Carruthers*

It sounds a simple idea – financial statements for ‘UK plc’; commercial style consolidated accounts for the whole public sector. But the programme to deliver the Government’s commitment to this is proving enormously complex and challenging. So why bother? And what are the implications for Government, the public and public sector finance professionals?

The Code for Fiscal Stability commits Government to producing Whole of Government Accounts (WGA) according to UK GAAP. WGA will provide a ‘true and fair’ view and will be audited, yielding confidence in their reliability. They will therefore provide better transparency and accountability to Parliament and the general public as well as providing information to underpin fiscal planning at a macro level and providing more consistent information for resource allocation between sectors and individual bodies.

The Code also commits the Government to focussing public sector financial management on the medium/long-term. WGA builds on the first stage in this process, the introduction of Resource Accounting and Budgeting in central government. The Golden Rule (borrowing only to invest over the economic cycle) and the Sustainable Investment Rule (only investing at affordable levels) underpin this approach. There is also the intention in due course to use the Government’s Balance Sheet as a fiscal policy tool, requiring reliable audited accruals data.

Crucial decisions early in the process were to develop the coverage of the accounts in two stages and to have a series of ‘dry run’ years. 2001/02 will be the first dry run year for Central Government Accounts (CGA), which is the first stage to WGA. We are now preparing these accounts. One early lesson from the first dry run is the need for timely accounts from bodies, if WGA themselves are to be produced in reasonable time.

### **CGA Timetable**

2001/02	First dry run year for CGA
2002/03	Second dry run year CGA
2003/04	First published CGA

On the plus side the consolidation process is proceeding more smoothly than we had expected. Even so, the problems encountered have vindicated the dry run strategy. We intend to repeat this approach for the extension to full WGA. We have already begun the process of preparing for extension to WGA. This will bring in three large new sectors – local government, NHS Trusts and other Public Corporations, adding more than a thousand extra bodies to the group. The timetable for the extension to WGA has yet to be finalised, but the first dry run year looks likely to be 2004/05, coinciding with the introduction of the Prudential Framework for local authority capital finance.

The Prudential Framework is crucial to WGA. It is, in effect, an application of the fiscal rules at individual entity level. The inclusion of local authorities into WGA both complements this and will be supported by the accounting policy changes it makes possible. We have been working with CIPFA, ODPM and the devolved administrations to co-ordinate these different strands.

Other developments in local government accounting, like the CIPFA/LASAAC capital accounting review and the acceleration of the timetable for the production of local authority accounts, are also important. Harmonised accounting policies, providing a consistent picture in unconsolidated and consolidated accounts, will ensure we get the maximum benefit from more robust inputs to the policy making process.

In practice we are aiming for the information required for WGA to be collected as part of the routine of statistical returns. Many of these will need to be restructured as the Prudential Framework is introduced and this creates an opportunity to streamline all financial information required from local authorities.

The situation for NHS Trusts is, perhaps, slightly easier. NHS Trusts across the UK have already been brought under the aegis of the Treasury’s Financial Reporting Advisory Board (FRAB); accounting policies are closely aligned with those adopted for CGA. Extending WGA to public corporations is a big outstanding challenge. These vary enormously in both size and accounting policies, but a few large companies – BBC, Bank of England and BNFL – account for a high proportion of the assets and turnover. We need to consider how best to collect the necessary information.

Devolved administrations will be crucial to the extension process. In particular the National Assembly for Wales has already expressed its intention to produce a Whole of Government of Wales Account. This will consolidate all the National Assembly functions, local authorities and other Welsh public bodies. The Assembly government has already commissioned a pilot project on consolidating local authorities.

We will be seeking a decision from Ministers and devolved administrations on the final timetable for extension to WGA in the next few months, hopefully with an announcement early in the summer.

If this wasn't complicated enough WGA will also have to respond to other substantial developments. Financial reporting is changing rapidly as accounting standards respond to recent scandals and converge internationally, and the public sector needs to react to this. The Treasury is therefore working with the International Federation of Accountants (IFAC) and other governments to develop International Public Sector Accounting Standards addressing issues such as accounting for taxation and the state pension and other social policy obligations.

The WGA development programme has several more years to run. By then we hope to have established WGA as a normal part of the public sector financial scene, both for preparers and users. But the programme is already maturing at a startling rate. Despite the time and effort involved we are confident that the exertions of all concerned in producing WGA will be fully repaid in the benefits of enhanced accountability to parliament and the public and improved financial management of the public sector as a whole. You can find more information on WGA at [www.wga.gov.uk](http://www.wga.gov.uk).

*Ian Carruthers is Head of the Treasury's Whole of Government Accounts Programme.*

**This article was taken from the March 2003 issue of *CIPFA Spectrum: Policy & technical perspective for CIPFA members and students***