



Whole of Government Accounts

HM Treasury

July 1998

Contents

Executive summary	1
Chapter 1 The starting point	7
Chapter 2 What do we want from GAAP-based Whole of Government Accounts?	11
Chapter 3 Building a GAAP-based Whole of Government Account: coverage	20
Chapter 4 Building a GAAP-based Whole of Government Account: production and timing	37
Chapter 5 Statistically-based Whole of Government Accounts	56
Chapter 6 Conclusions and recommendations	62
Annexes	69

Executive summary

The Government's *Economic and Fiscal Strategy Report* published in June noted that the Government was carrying out a feasibility study of producing Whole of Government Accounts (WGA) - a set of consolidated financial statements covering the whole of the UK public sector.

This report explains why the Government sees benefits in producing WGA. The eventual goal would be a full set of audited accounts covering the whole public sector based on Generally Accepted Accounting Practice in the UK (UK GAAP), which represents the accounting and disclosure requirements of the Companies Act 1995 and Accounting Standards, supplemented by accumulated professional judgement. The GAAP-based Whole of Government Accounts would be produced alongside unaudited WGA for the whole public sector based on statistical principles.

Practical considerations suggest a staged approach to producing GAAP-based WGA, starting with a set of consolidated financial statements covering central government (CGA), and work in parallel to establish a basis for consolidating other parts of the public sector before deciding whether to move immediately to a consolidation of the whole of the public sector into WGA. Subject to further work, the aim would be for the first set of fully audited WGA to be available and published for 2005-06, with unaudited trial accounts from 2003-04 onwards.

The aim would be for the first set of unaudited WGA based on national accounts data to be published for 2001-02, with illustrative unpublished accounts prepared for 2000-01.

The starting point

The report takes as its starting point the need to establish the best way of meeting the Government's commitment in the *Code for Fiscal Stability* and in the *Economic and Fiscal Strategy Report* to produce GAAP-based whole of government accounts for the public sector, if practicably possible.

The new accounts would be produced alongside existing national accounts. While the latter provide an adequate basis for the conduct of fiscal policy, the Government is committed to strengthening the fiscal framework over time. GAAP-based accounts for the public sector, which would be auditable, offer an improved basis for monitoring developments and taking decisions.

The main potential users of WGA are identified as key government planners and managers, including Ministers. Other potential user groups include a wider group of government planners and managers and Parliamentary Select Committees as well as individual MPs. There are also groups outside government and Parliament, including taxpayers more generally and those who act on their behalf, such as academics and financial and other commentators in the media. Finally there is potential interest from corporate users and international bodies such as the IMF, the European Commission and the OECD.

Potential benefits to users

A number of key government planners and managers have said that they need WGA for the whole public sector to support the conduct and monitoring of fiscal policy. This information could also be of use for analysis and decision-making at a more disaggregated level.

Accountability to Parliament would improve with, for the first time, audited WGA financial statements available for scrutiny.

Taxpayers could be expected to benefit if the additional information led to improved economic decision-making through a more effective fiscal policy, and better scrutiny of the Government's economic policies.

Other potential users (financial and other commentators in the media, corporate users and academics) could also exercise more effective scrutiny of the Government's fiscal policy, provided the statements were meaningful and easily interpreted.

Practicalities

In the light of this, the key issue is to establish whether the potential benefits of producing GAAP-based WGA outweigh the costs (cash and opportunity costs).

Detailed consideration has been given to the entities that would need to be included in consolidated accounts covering the whole of the public sector and to the work that would be needed to produce an auditable, GAAP-based WGA. The key issues are the need to develop a sufficiently consistent set of accounting policies and conventions across the public sector as a whole, given the variations which currently exist, and the

choice of an appropriate consolidation methodology. The main challenge is to get accounting policies into line, and work is already in hand to achieve this. Once that has been done, it is believed that the consolidation itself should not be too onerous.

The report considers a number of issues which will arise because they relate to areas of government expenditure and income and asset holding where full accruals accounts could differ significantly from, or offer better information than that captured by, cash-based government accounts. These include the treatment of taxation receipts, public service pensions, social security benefits, financial liabilities, EU transactions and local authority companies. In each case, the report considers how such issues might be tackled in WGA. For the purposes of this report, it is assumed that the approaches suggested would be adopted, subject to the outcome of further research as necessary.

Other technical issues are also addressed in the report, for example how the audit would be conducted, how the process of consolidation would be carried out and the timescale. The report concludes that while further work is needed on the detailed practicalities of consolidation, the technical difficulties appear generally to be surmountable. It is assumed that the Treasury would prepare the consolidated account since the Treasury would be best placed to undertake the task.

Timescale

The report notes that, as with the introduction of resource accounting and budgeting (RAB), there will inevitably be a long lead time before fully auditable GAAP-based WGA could be produced. It concludes that, assuming that RAB is successfully introduced in 2001-02 as planned, it would be reasonable to aim to produce a set of dry run (unaudited) WGA on an accounting basis for 2003-04, with a view to the first full set of audited WGA being published for 2005-06.

Interim developments

The report notes that many of the benefits of GAAP-based WGA could be secured in the short term by WGA developed from a statistical base - that is, by building on the national accounts data produced by ONS, taking account of the significantly improved data provided by RAB.

The report concludes that developing WGA from a statistical base is a practical proposition and that such accounts could provide useful information for fiscal policy and other purposes, in advance of GAAP-based WGA becoming available.

The report notes that it could take around two years before the first set of statistically-based WGA could be produced. A reasonable target would therefore be to aim to produce the first illustrative statistically-based WGA in 2001 for financial year 2000-01, with the first published accounts in 2002 in respect of 2001-02.

Costs

The report has also looked at the ongoing and start up costs involved in producing WGA. It concludes that the costs of producing GAAP-based WGA for the public sector are unlikely to be prohibitive, provided moves to record the income side of the account on an accruals basis are only made as an integral part of upgrading systems over time. More accurate estimates would, however, need to be provided in the light of further work.

The ongoing annual cost of producing GAAP-based WGA for the UK public sector is provisionally estimated to be of the order of £1-2 million.

Developmental costs for CGA are also likely to be relatively modest: they are provisionally estimated to be no more than around £250,000 a year mainly for a project team in the Treasury to manage the process. For a whole public sector consolidation, some additional resources would be needed to meet other departments' costs including work by the Department of the Environment, Transport and the Regions (DETR) on consolidating local authority accounts.

There could also be some IT costs, depending on which approach to consolidation was chosen and the scope of the account.

The report provisionally estimates that the costs of producing statistically based WGA alongside national accounts could be of the order of £250,000 for the first two years while new systems are being introduced, and around £150,000 a year thereafter.

Consultation with others

In carrying out the scoping study, the Treasury has consulted a number of other individuals and organisations both in the UK and abroad. The Treasury is particularly grateful for the National Audit Office's help and advice on the technical aspects of the report, including advice on consolidation and audit.

Experience from other countries suggests that there is a general, if gradual, move in the direction of preparing information on a whole of government basis, and that those countries which have taken this step have seen considerable advantages. In particular, countries which have adopted GAAP-based WGA have found that these very quickly established primacy over statistical accounts which continue to be prepared to meet international obligations.

Conclusions and recommendations

The decision to recommend development of a full GAAP-based set of accounts reflects the fact that such accounts would provide useful information additional to that in the national accounts, and would be auditable. Users could therefore have real confidence that the figures they contained were constructed according to consistent, well defined rules which fit with the rules applied generally to the construction and presentation of commercial-style accounts.

The report concludes that this justifies the likely additional costs involved. The Government proposes, however, to adopt a staged approach to implementation:

- committing now to preparing CGA because central government data quality and consistency are much better, and consolidation at this level would start the process of improving the quality of the public sector balance sheet. And even if it were decided to go no further, this would meet Parliament's main interests; but
- subject to the outcome of parallel pilots and research, moving to the development of a full public sector WGA, incorporating local authorities and public corporations, unless the cost of doing so proved to be prohibitive, or other practical considerations (eg getting local authority data in a timely and accurate manner) gave real grounds to reconsider.

A decision on whether to publish a "dry run" CGA for 2001-02 in advance of a full WGA would be taken in 2000. If this were not possible, an alternative would be to plan to move straight to WGA covering the whole public sector without first producing CGA, with the first dry run WGA for 2003-04.

Because they can provide useful information before it is possible to introduce GAAP-based WGA, the Government also proposes to develop unaudited national accounts based WGA in the interim.

The aim for 2005-06 is therefore a fully audited set of WGA prepared on a GAAP basis covering the whole of the public sector, which would feed into both ESA95-based national accounts and into national accounts based WGA.

The report notes that a detailed project plan will now be drawn up to take this work forward.

Chapter 1: The starting point

1.1 Following a recommendation by the Committee of Public Accounts (PAC)¹, the Government announced in July 1997 its intention to undertake a study of the merits and feasibility of developing a consolidated set of financial statements for the public sector as a whole (“whole of government accounts”). The PAC’s recommendation arose in the context of the Government’s proposals to introduce resource accounting and budgeting (RAB) in central government. The then Treasury and Civil Service Select Committee (TCSC)² had previously asked the Treasury to review the case for consolidating Resource Accounts.

1.2 The Government announced that the research into whole of government accounts (WGA) would be carried out in consultation with the National Audit Office (NAO) and other relevant bodies. A full list of outside bodies and individuals consulted in the course of preparing the report is at **Annex A**. The Government is particularly grateful for the NAO’s help and advice on the technical aspects of the report, including advice on consolidation and audit. Memoranda of evidence submitted by outside bodies and individuals which have been taken into account in compiling the report are reproduced at **Annex B**.

1.3 The terms of reference for the scoping study (**Annex C**) were drawn widely to reflect a number of developments since the original PAC recommendation. These include progress towards the introduction of resource accounting and budgeting (RAB) and development of the Government’s fiscal framework, encompassing the golden rule, sustainable investment rule and balance sheet approach.

1.4 There have, however, been a number of further developments since the terms of reference were announced in autumn 1997. These include the publication by the Treasury of the *Code for Fiscal Stability* alongside the March 1998 Budget and, subsequently, of the *Economic and Fiscal Strategy Report (Cm3978)* in June 1998.

1 Fifteenth Report, Session 1994-95

2 Fourth Report, Session 1994-95

The Code for Fiscal Stability

1.5 The *Code for Fiscal Stability* requires the Government to have regard to:

- a set of firm principles of fiscal management;
- more transparent fiscal reporting; and
- use of best practice accounting methods.

1.6 The Code was given a statutory basis in this year's Finance Act. Legislation provides a basis for the policy to be more transparent and will make governments more readily answerable for any departure from the Code.

1.7 **The 'accounting practice' section of the Code (paragraphs 13 and 14) says that the Government shall:**

- **produce accounts for the whole public sector and that these should be produced on a consolidated basis where reasonably practicable;**
- **apply best practice accounting methods - UK GAAP adapted for the public sector - to the extent reasonably practicable; and**
- **adopt a Resource Accounting and Budgeting approach for planning and accounting for the costs of resources consumed, as soon as reasonably practicable.**

1.8 The five principles embodied in the Code and the key rules which guide the Government's fiscal policy are described in **Annex D** to this report, which also explains recent moves by the Government to look at both sides of the balance sheet rather than just liabilities such as public sector debt.

EFSR

1.9 The *Economic and Fiscal Strategy Report (EFSR)*, published in June, explained how the Government intends to achieve its central economic objectives of high and stable levels of growth and employment. Economic stability, including sound public finances, is a pre-requisite for achieving those objectives. The *EFSR* also set out, accordingly, how the Government has already strengthened the fiscal framework and its intention to reinforce it further over time.

1.10 The *EFSR* noted that RAB would further underpin the operation of the golden rule and offered a good opportunity to improve balance sheet data. It also suggested that, subject to the outcome of this feasibility study, RAB could be further enhanced by the development of whole of government accounts for the UK.

Conduct of fiscal policy

1.11 It is particularly important to have consistent data underpinning both fiscal policy and the systems for planning and control of public spending. The national accounts which are currently produced for the UK by the Office for National Statistics (ONS), within the framework of the internationally agreed System of National Accounts (SNA), provide an adequate basis for the conduct of fiscal policy. **The Government believes that the availability of RAB-based data will assist the process further.**

1.12 It is also important that the data underpinning fiscal policy can easily be reconciled with that for the rest of the economy, so that the Government's impact on other sectors can be measured. **The aim therefore should be to do everything possible to feed RAB-type data into the statistically-based accounts, while not damaging the integrity of those accounts for the purpose of international comparisons.**

1.13 This in turn suggests that we should aim to develop a system which allows us to articulate between the aggregates used for fiscal policy purposes and those that would still be required for international comparisons.

The starting point

1.14 **Against this background, the starting point for this scoping study is the need to establish the best way of meeting the Government's commitment in the *Code for Fiscal Stability* and the *EFSR* to produce auditable GAAP-based whole of government accounts for the public sector, if practicably possible.**

1.15 The Government believes that GAAP-based accounts for the public sector, which would be auditable, would provide useful information additional to that in the national accounts. These new accounts would be introduced alongside existing national accounts, which will continue to be produced in accordance with the UK's international commitments. **Annex E** explains in more detail the basis and content of the current national accounts and gives an outline of the UK public sector, including the current flows into and out of central government funds and accounts.

1.16 The remainder of this report explains in more detail what benefits the Government hopes to secure from GAAP-based WGA, and examines what would be involved in producing them, and to what timescale.

Chapter 2: What do we want from GAAP-based Whole of Government Accounts?

2.1 This chapter explains the rationale for the approach to GAAP-based WGA set out in the *Code for Fiscal Stability* and the *EFSR* described in **Chapter 1**. It examines the potential benefits of GAAP-based WGA not only from the Government's own perspective, but also from that of other potential users, in particular Parliament.

Potential users

2.2 The main potential users of WGA are expected to be key government planners and managers, including Ministers, since WGA will help to underpin the new fiscal policy framework. Other potential user groups include a wider group of government planners and managers, and Parliamentary Select Committees as well as individual MPs, who should benefit from greater transparency of financial reporting and accounting by government.

2.3 There are also groups outside government and Parliament who might benefit from the production of WGA, including taxpayers more generally and those who act on their behalf, such as academics and financial and other commentators in the media. Finally there is potential interest from corporate users and international bodies such as the IMF, the European Commission and the OECD.

2.4 This chapter focusses mainly on a consolidated account covering the whole of the public sector - that is, including all public sector entities and all public sector income and expenditure. It explains why less comprehensive models of WGA, such as a central government account (CGA) or general government account (GGA), would not deliver the overall benefits that the Government is seeking from developing these new accounts.

Benefits for Government planners and managers

2.5 As noted in **Chapter 1**, the Government has sought to develop the fiscal policy framework to build on the openness, transparency and accountability that characterises the new framework for monetary policy.

Macroeconomic benefits

2.6 One of the two key fiscal policy rules described in **Annex D** is the golden rule: that over the economic cycle, the Government will only borrow to invest and not to fund current expenditure. Resource Accounting and Budgeting (RAB) - a new system of planning, controlling and reporting on central government expenditure to be introduced in 2001-02 - offers significantly improved information on the capital/current split for the purposes of fiscal planning, which will underpin the operation of the golden rule.

2.7 Resource accounts will focus on income and expenditure from a central government perspective and be limited to balance sheet information for central government only. **Fiscal policy is assessed, however, by looking at the public sector as a whole. A whole of government account covering the whole of the public sector would therefore be needed for setting and monitoring fiscal policy, using the significantly improved information from resource accounts and other accruals accounts for public sector bodies to obtain best possible quality data.**

2.8 The three principal measures of the public finances³ are:

- surplus on current budget;
- public sector net borrowing; and
- net public sector debt.

2.9 The following measures are also of some relevance (the last two are the measures set out in the Maastricht Treaty):

- public sector net cash requirement;
- general government net borrowing; and
- general government gross debt.

³ These follow the new format for the public finances set out in the *Economic and Fiscal Strategy Report (Cm 3978)*, June 1998

2.10 These indicators are explained in **Annex F. Chapter 4** discusses the relationship between these indicators and the proposed primary financial statements in GAAP-based WGA.

2.11 The Government has signalled its intention to pay greater attention to movements in the public sector balance sheet. The information from resource accounts and accruals accounts for other public sector bodies offers the prospect of significant improvement in the quality of the public sector balance sheet. It is only with reliable information on the capital stock and depreciation that there can be confidence that public sector net wealth is being adequately measured and maintained.

2.12 The potential benefit to fiscal policy from WGA is not, however, limited to implementing the golden rule and the consequences for the public sector balance sheet. The increasing emphasis on openness and transparency reflected in the *Code for Fiscal Stability* and underpinned in legislation suggests the need for transparent, comprehensive and sound public accounts.

2.13 Soundly-based public finances data will also help the consideration of policy options. For instance, it is important to treat transactions as consistently as possible across sectors to avoid creating artificial incentives that reflect the nature of public sector accounting rather than the underlying reality.

Microeconomic benefits

2.14 WGA can also support analysis and decision making at a more disaggregated level. This includes:

- *resource allocation*: the efficient allocation of public expenditure between programmes requires information on the costs of public sector activities (health care, education, defence etc) which is compiled on a broadly comparable basis. WGA provide a framework for compiling and assembling such information. The greater consistency in accounting and costing conventions needed for WGA will therefore support better decisions on resource allocation within the public sector;
- *capital planning*: WGA will provide comprehensive information on asset stocks and depreciation across government. This will offer an improved basis for capital planning, including programmes of maintenance and replacement to retain the public sector capital base at an appropriate level, both in aggregate and by sector;

- *spending in the longer term*: public expenditure is subject to certain influences, most notably demographic changes, which are both long-term and wide-reaching in their effects. Most spending programmes will be affected in one way or another by population aging. WGA provide a framework for bringing together the effects of demographic changes and assessing their implications for public spending as a whole.

2.15 There could also be potential microeconomic benefits from having genuinely accruals based tax receipts, for example in terms of having more transparent and systematic knowledge of the tax accrued and known to be due and tax actually received. Such knowledge, including changes in the relationship over time, could help to inform tax collection and tax policy decisions. These issues are considered in more detail in **Chapter 3**, which concludes that more work would be needed before a reliable estimate of the additional net benefits of this approach could be made.

Implications of WGA for the decision making process

2.16 There are a number of specific areas of economic policy decision making where WGA could be expected to lead to significant improvements. These areas relate to three main policy roles and responsibilities of central government: stabilisation, growth and distribution.

2.17 First, as mentioned earlier, WGA can greatly assist the conduct of fiscal policy. Setting a prudent fiscal stance requires good information on all assets and liabilities of government. Government decision making should encompass an explicit ability to engage in risk and balance sheet management for the whole public sector.

2.18 Second, WGA would reinforce ongoing moves to refocus decision making from the short to the medium/ long term. Under cash accounting and budgeting, it can be difficult to avoid putting excessive focus on the short term, generally for one year, or at most two or three. However, the fiscal policy framework is moving to a longer-term focus, and some of the Government's service delivery projects are already being contracted in a medium/long term time frame, for example PFI projects extending in some cases over more than twenty years. It is critical for prudent fiscal management that all such forward expenditure commitments are recognised through WGA.

2.19 The refocus on a longer time frame should also lead to a greater appreciation of intergenerational equity in the budget process. It is important that the Government's accounting systems are capable of addressing concerns about shifting current

consumption expenditure to future periods, and deferring capital maintenance and the acquisition of new capital, in order to avoid future higher tax rates required to fund future social welfare and pension obligations arising from current policy decisions.

2.20 Third, there will be distributional and efficiency gains from improved transparency and accountability, and from an improved capacity to concentrate on the efficiency of government operations and service delivery. In terms of distribution policy, WGA should help determine whether the public sector is providing the right level and mix of public goods and services, and whether the overall allocation of resources meets the Government's priorities and the nation's needs.

Benefits for Parliament

2.21 GAAP-based WGA would be expected to bring significant benefits for Parliamentary Select Committees and MPs.

Transparency, financial reporting and accountability

2.22 At present, Parliament receives no audited financial statements which provide a true and fair overall view of the Government's financial performance - the extent to which current expenditure has been matched by revenue; or of its financial position - the extent of liabilities and whether they are matched by assets, including physical assets as well as financial investments.

2.23 The central Consolidated Fund and National Loans Fund Accounts show only cash receipts and payments, and the accompanying Supplementary Statements include only the financial assets and liabilities resulting from the Funds' financial operations. Nowhere are all of the Government's assets and liabilities - physical as well as financial - reported collectively on a reliable basis.

2.24 The national accounts prepared by the ONS provide a comprehensive set of figures for UK economic activity, including that of government. They are constructed according to national accounting conventions and standards, such as those in the European System of Accounts 1995 (ESA95), rather than financial reporting standards, such as GAAP. National accounts are also unaudited. As noted in **Chapter 1**, there will nevertheless be a continuing need to provide much of the present financial information in existing forms to satisfy international and EU requirements.

2.25 Suitably constructed WGA prepared in accordance with well understood and acknowledged accounting principles could provide Parliament and others with enhanced information about the totality of government income and expenditure,

assets and liabilities, and cash flows. They would show, for example, the extent of investment or disinvestment in government assets and the extent of, and changes in, government liabilities, both short and long term. They could also be used to measure the cash flows into and out of the Exchequer, presently reported in the Consolidated and National Loans Fund Accounts.

2.26 All this could help Parliament and others gain a better understanding of the significance of the Government's expenditure, taxation and borrowing plans.

2.27 Good quality information on the public finances compiled in this way would also help effective scrutiny of fiscal policy by Parliament, with particular benefit to formal scrutineers such as the Treasury Committee.

Taxpayers

2.28 To the extent that WGA led to improved economic decision making through the development of a more effective fiscal policy, there would be tangible benefits for taxpayers in terms of improved performance of the UK economy.

2.29 The greater transparency and accountability that WGA would bring would allow for more effective scrutiny of the Government's economic policies by the public in line with the commitments to greater transparency in the *Code for Fiscal Stability*. This could in turn facilitate a wider public understanding of the Government's financial affairs and lead to a greater emphasis on the financial results of all public sector bodies.

2.30 Improved understanding would be likely to lead, over time, to wider debate of the Government's financial position. As a result of WGA, it is likely that the setting and achievement of fiscal targets would be of greater interest to the public and may result in high-profile publication of indicators such as net wealth.

Other potential users

2.31 Financial and other commentators in the media, corporate users and academics could also benefit from more effective scrutiny of the Government's fiscal policy facilitated by WGA, provided the statements were comprehensible, meaningful and easily interpreted.

2.32 To the extent that governments generally progressively produce WGA, international bodies such as the IMF, the European Commission and the OECD will be likely to find such accounts useful, not only in terms of assessing the economic performance of individual countries, but also of making meaningful international comparisons.

Overseas experience

2.33 Overseas experience suggests that, if it is possible to produce an accurate WGA covering the public sector which is seen as a part of the accounting and forward planning of government, significant benefits can be obtained from it. Benefits arise in particular from improved financial reporting to Parliament and better fiscal policy decision-making in government.

2.34 **Annex G** looks in detail at the experience of other countries who have either already introduced WGA, or who are contemplating doing so.

Less comprehensive models

2.35 This chapter has so far considered a consolidation of the accounts of the whole public sector. Coverage could in principle be restricted to a lower level, for example to general government (GG) - ie central government plus local authorities - to produce a general government account (GGA); or to central government (CG) alone - ie excluding local authorities as well as public corporations - to produce a central government account (CGA).

2.36 GGA would be easier to produce than WGA since they would avoid the need to consolidate public corporations but would still need to cover local authorities. CGA would need to consolidate neither local authorities nor public corporations. Depending on the degree of consolidation, inter-LA transactions could be extremely complex, although the complexity could be eased by current moves to align LAs' accounting policies. Moreover, most CG bodies fall within the coverage of the Resource Accounting (RA) Manual, so there is already a significant degree of consistency in their accounting policies.

2.37 CG-only coverage would also meet the PAC's specific welcome⁴ for an account bringing together the income and expenditure, and the assets and liabilities, of central government.

4 Fifteenth Report, Session 1994-95

2.38 Against this, CGA or GGA would not fully meet the needs of fiscal policy, which is assessed by looking at the public sector as a whole. CGA or GGA would therefore need to be combined in some way with information from the missing sectors, thus lessening considerably the macroeconomic benefit from compiling WGA. The implications of this approach would need to be considered further.

2.39 Restricting the coverage of the accounts would also lose many of the benefits of extending the boundary beyond central government, for example, by excluding the assets and liabilities of other non-CG public bodies (assets such as their property and equipment, and liabilities such as their indebtedness from loans and claims); and their revenues and expenditures, to the extent that they were not already accounted for by central government (such as council tax, and expenditures funded by it).

2.40 Narrower consolidation would also give a less complete picture of the effect of government economic activity. Capital grants from central government to entities outside the consolidation boundary would, for example, be included in the accounts as current expenditure instead of capital investment (because the assets created would lie outside the boundary of consolidation). And current grants and transfers made to such other bodies could only be classified as such in the accounts, rather than being more meaningfully classified according to the nature of expenditure they support, such as staff costs, expenditure on goods and services and so on.

2.41 CGA or GGA would therefore be less satisfactory in terms of transparency and accountability. This would limit the use to which the accounts might be made by taxpayers, Parliament and outside commentators.

2.42 There is also a danger with a more restricted coverage than whole public sector WGA, that there could be a temptation to fudge the boundary at the margin. This would be more difficult at the public/private sector interface than if the boundary were inside the public sector.

Conclusion

2.43 This chapter has explained why the Government sees benefit in producing GAAP-based WGA covering the whole of the public sector:

- they would assist the conduct of fiscal policy;
- they would help to underpin and reinforce moves towards increased transparency and accountability in fiscal policy development; and

- they would provide Parliament with audited financial statements based on established accounting principles which provide a true and fair view of the Government's financial performance.

2.44 Against these benefits, the Government is mindful of the need to ensure that GAAP-based WGA do not involve excessive cost or contain data that are unreliable or incomplete.

2.45 The practicalities, costs and timescale for introducing GAAP-based WGA are considered in more detail in **Chapter 4**. The next chapter considers first the entities that would need to be included within the scope of GAAP-based WGA covering the whole public sector.

Chapter 3: Building a GAAP-based Whole of Government Account: coverage

3.1 This chapter starts to address the entities that would need to be covered by WGA based on Generally Accepted Accounting Practice in the UK (UK GAAP) adapted for the public sector.

3.2 To meet the Government's commitment to produce GAAP-based WGA outlined in **Chapter 1**, it would be necessary to base the WGA on a consolidation of the accounts of individual entities comprising all public sector activity, summarised below. In order to obtain consistency with the national accounts and the Government's control mechanisms, GAAP-based WGA would follow the sector boundaries established by the national accounts for CG, local government and public corporations.

Generally Accepted Accounting Practice in the UK (UK GAAP)

3.3 UK GAAP represents the accounting and disclosure requirements of the Companies Act 1995 and accounting standards and Urgent Issues Task Force abstracts issued by the Accounting Standards Board, supplemented by accumulated professional judgement. It is accepted that GAAP should be adapted to the particular needs of the public sector.

3.4 The adaptations to GAAP for departmental resource accounts under RAB are determined by the Government and reflected in the Resource Accounting (RA) Manual. The Government's decisions are subject to review by the Financial Reporting Advisory Board (FRAB), which was established by the Treasury to introduce an independent element into the process of setting financial reporting standards for government. The presumption is that GAAP adapted for the public sector would be used for WGA.

3.5 Individual accounts of reporting entities are audited. In the case of central government bodies, most accounts are audited by the Comptroller and Auditor General (C&AG), acting as Parliamentary auditor. Consolidated WGA on a resource accounts basis could be audited or reviewed by the C&AG or by another independent auditor.

RAB boundary

3.6 RAB applies to central government the financial reporting practices of both the private sector and much of the rest of the public sector. Under RAB, departments will prepare consolidated resource accounts covering all entities within the departmental boundary, as currently defined in the RA Manual. The boundary is different from the concept of a group under GAAP because it fulfils a different purpose. It is based on in-year budgetary control rather than on control of financial and operating policies. Entities within the RAB boundary will be monitored for national accounts purposes.

3.7 The departmental boundary under RAB includes the following entities:

- non-agency parts of departments, including non-executive NDPBs accounted for on-Vote;
- on-Vote agencies;
- executive NDPBs where there are good control reasons for consolidation; and
- NHS purchasers (excluding GP fundholders).

3.8 Separately from departmental resource accounts, departments administering the major public service pension schemes will prepare pension scheme statements. These will include a revenue account showing contributions receivable and pension benefits payable and will also include the report of the scheme actuary in which the liability of the scheme will be shown.

3.9 Entities outside the departmental boundary, and not therefore included in departmental consolidated resource accounts, are as follows:

- funds and accounts within central government listed in **Annex E**;
- certain other flows of income and expenditure, including borrowings and taxation receipts, which have not previously been fully captured by government accounts (see below);
- trading funds;
- nationalised industries;

- NHS providers;
- other executive NDPBs (ie where it has been decided they should not be consolidated in resource accounts);
- local authorities; and
- other public corporations.

3.10 Alongside the introduction of RAB, the Treasury is preparing for consultation guidance for non-departmental public bodies (NDPBs) and trading funds on the application of the accounting policies and principles set out in the RA Manual in the limited number of areas where there are differences of application, since there are clear advantages in adopting a common approach across central government.

Potential entities for consolidation in WGA

3.11 The entities which would potentially comprise a consolidated set of GAAP-based WGA therefore go much wider than those covered by the RAB boundary.

3.12 These entities have been considered in the context of the present government structures. However, the devolution of powers to Scotland, Northern Ireland and Wales, including changes to financial relationships (see below and **Annex E**), are likely to have an impact. This would need to be re-examined once those changes are fully articulated.

3.13 In summary, the potential entities for consolidation in WGA comprise:

Central government

- The 'core government', comprising transactions and balances relating to the National Loans Fund and Exchange Equalisation Account; funds operated by NILO; and elements of the Consolidated Fund including taxation revenues, and the National Insurance Fund not included through the accounts of other entities;
- Government departments, their on-Vote Executive Agencies, and non-executive NDPBs;
- Executive NDPBs;

- Central government employees' pension schemes;
- National Health Service entities not included in departmental resource accounts, other than NHS trusts;
- Other unfunded employment pension schemes (NHS, teachers, UKAEA etc).

Local authorities

- Unitary Councils; County Councils; Metropolitan Borough Councils; London Borough Councils; the Corporation of London; District Councils; fire, police, Probation Committees; Conservation Boards etc; Scottish and Welsh Unitary Councils and Northern Ireland Councils;
- Local education authority schools.

Public corporations

- Nationalised industries;
- Other public corporations;
- Trading funds.

3.14 Consolidation of central government would comprise of the order of 400 entities:

- 'core government' financial funds, some 20 entities;
- departmental resource accounts, some 60-70 accounts including those for Northern Ireland, Scotland and Wales;
- NDPBs, around 300 entities;
- pensions schemes, 4 major schemes.

3.15 A consolidation encompassing local authorities as well as central government would add about another 540 entities (excluding parish councils). Inclusion of public corporations and nationalised industries would add around a further 525 entities (including some 500 NHS Trusts). **Consolidation covering the whole public sector would therefore include of the order of 1,450 entities.**

3.16 Pension schemes with real funds are classified to the private sector in national accounts. WGA would only record the public sector's liabilities towards the schemes, for example employer contributions due but not yet paid, and any contingent liabilities towards the funds. For unfunded employment pension schemes (such as the civil service, armed forces, teachers, NHS and UKAEA schemes), WGA would aim to record the liabilities of the schemes as liabilities of government in the consolidated balance sheet.

3.17 The handling of public sector pensions in WGA is discussed in more detail later in this chapter.

New items to be consolidated

3.18 There are areas of government expenditure and income, and balance sheet items, which have not previously been fully captured by government accounts, for example taxation due in respect of each year and government liabilities such as social security benefits and public service pension liabilities. The issues raised here are therefore totally new from a public sector perspective, but are required to be dealt with under UK GAAP. Some of them have private sector counterparts, others do not.

3.19 The remainder of this chapter considers how these issues might be dealt with in GAAP-based WGA.

Taxation

3.20 Given that, with the introduction of RAB, all public spending (the expenditure side of the account) will be on a full accruals basis from 2001-02, it would in principle make sense for all taxation receipts (the income side of the account) to be treated on a similar basis, although the potential benefits are, arguably, smaller than for spending. On the spending side, accruals accounting encourages better investment decisions and asset management, but the gains on the tax side might be somewhat less.

3.21 Recording income from taxation on an accruals basis means scoring the tax when the liability is established rather than when the tax is actually received by the authorities. This would be in accordance with GAAP. Equally, the tax accrual should be measured as the assessed liability, not the amount of tax actually paid and should be recognised only to the extent that taxation is expected to be collected - ie taking account of uncertainties regarding the estimation of tax due and making provision for bad and doubtful tax debts.

3.22 The main benefits of recording tax receipts on an accruals basis would be that:

- income from taxation would be put on a consistent timing basis with expenditure;
- accruals should in principle provide a better estimate of the underlying budgetary position; and
- at the microeconomic level, better accruals information could help to inform tax collection and tax policy decisions.

3.23 For indirect taxes, there should, in principle, be relatively few problems in compiling some form of tax accruals data, given the systems that are currently in place for analysing data from tax returns and the fact that delays in the receipts of returns are generally no more than a few months. However, the operation and management structures of individual taxes vary greatly, and the potential benefits of recording receipts on an accruals basis must be carefully assessed against the potential impact of system changes on the efficient management of tax collection.

3.24 The picture for direct taxes is more complex. The main difficulties which relate to the measurement of direct taxes on an accruals basis relate to:

- identifying the point of liability - self assessment (SA) returns cover a variety of different types of income and gains which may have different points of activity; and
- timeliness and data frequency - the time lags in the direct tax system, which are necessary to allow for the preparation of accounts and the assessment (or self assessment) of tax liability, mean that estimates prepared within 2 years or so of the end of the period of activity will include a substantial estimated component. The tax system for businesses is firmly based on annual figures. Accurate quarterly accruals could only be produced by asking businesses to report on a quarterly basis, which would be a new requirement and would have resource implications for all concerned.

3.25 In principle most of these problems could be solved. Mechanisms could be developed to link each payment or repayment to the point of liability. But this would require substantial and complex changes to operational IT systems and therefore significant cost, not only for the Revenue Departments (provisionally estimated to run to tens of millions of pounds), but also possible compliance costs for industry and individuals. Additional information may be needed from taxpayers which, if it was not necessary for tax assessment purposes, would require legislation.

3.26 In theory, timeliness could be addressed to some extent by changing the payment rules, for example by making fiscal year accounting compulsory, or by bringing forward the due date for tax returns. However, changes of this nature might be extremely unpopular with taxpayers and their agents and could create additional work to collect data.

3.27 It is likely therefore that the short-term changes to tax collection systems needed to make good quality accruals data for both direct and indirect taxes immediately available would be so significant as to make the cost prohibitive. It would make sense in principle to introduce the necessary changes over a period of time, but more work would be needed to establish the practicalities.

3.28 It is worth noting, however, that since there is no parallel in the private sector for tax revenues, the matching concept in GAAP does not need to be applied in quite the same way in the public sector as for company accounts. An alternative approach might be to determine that the accrual of tax receipts should be recorded not at the point of activity, but at the point the tax becomes due. This would be very much easier to implement in practical terms and might have little impact on the quality of the information contained in the WGA.

3.29 A further alternative would be to use statistical methods to make accruals estimates of tax receipts. This would be relatively cheap, since it would not involve changing operational systems. It would also allow accruals estimates to be produced in a more timely way. However, this approach may not meet the likely audit requirements for GAAP-based accounts.

3.30 In summary, while it would in principle be highly desirable to move immediately to measuring taxation receipts on a full accruals basis, this may be too costly in terms both of the cash costs of implementation and the impact on taxpayers. If it proved, in the light of a full cost/benefit analysis, that the costs would be prohibitive, it would be necessary to pursue one of the alternative options outlined above, while

taking opportunities which arise to change the measurement of specific taxes to a full accruals basis as they occur. This could make the additional costs of moving to full accruals measurement of tax receipts more manageable.

Balance sheet issues

3.31 It is also necessary to consider whether WGA should cover government liabilities, notably public sector pension liabilities, social security liabilities and financial liabilities. These and other balance sheet issues are considered in the following paragraphs.

Public service pensions

3.32 Public service pension schemes have a statutory basis, with the accrued benefit entitlements earned by employees in effect underwritten by central or local government taxation powers. Most schemes are unfunded.

3.33 Unfunded pension schemes with an employer contribution/notional fund regime (such as the civil service, teachers, NHS and armed forces schemes) do not fit readily into the national accounts (ESA95) framework. Differences in the treatment of unfunded pension liabilities between ESA95 and GAAP are described in **Annex E**.

3.34 Under a GAAP approach, we would expect to include the stock of unfunded public service pension liabilities in the government balance sheet, with the accruing cost of providing public service pensions shown as current expenditure.

3.35 This fits in with the preferred treatment of public service pensions under RAB. Although most public service schemes are unfunded, the main schemes operate a regime in which the accruing costs of providing the scheme's benefits (after discounting for future notional investment return) are charged out to employers and employees using a notional fund to take account of the investment experience that a similar private funded occupational scheme might have achieved. Under RAB, the employer contributions to these schemes will appear directly or indirectly in resource accounts, and there will be scheme statements setting out amongst other things an actuarial assessment of the scheme's liabilities.

3.36 More work will be needed to establish how practicable it would be to produce a reconciliation in a GAAP framework between the relevant flows (ie employer contributions, liabilities extinguished in the period in question by the payment of pensions and the assumed investment return or charge associated with the stock of unfunded pension liabilities) and the change in the stock of pension liabilities.

3.37 Even though members of the main notionally funded schemes may in some cases not be central government employees (eg teachers), the schemes' pension liabilities are in practice central government liabilities: employers discharge their liability through the payment of an employer contribution to the relevant scheme. All these schemes would therefore need to be included in CGA as well as in WGA.

3.38 CGA, as well as WGA, would also need to encompass a number of schemes without an employer contribution regime, notably judges' schemes and a few other small schemes. A greater degree of estimation of liabilities, with less full articulation between accruing costs and changes in outstanding pension liabilities, may be necessary in the case of such schemes, at least initially.

3.39 Most of the larger pension schemes in the wider public sector outside CG are funded schemes. While the local government scheme is also a statutory public service scheme, pension arrangements for nationalised industries and public corporations are generally set up on a standard private sector trust basis, with the fund underwriting the benefits provided. In all cases where pensions are funded, it would seem reasonable to follow private sector practice and national accounts definitions and not seek to consolidate the pension schemes assets and liabilities into the WGA.

3.40 There are a number of significant pension schemes which are not only unfunded, but also have no employer contribution regime/notional fund, eg the police and fire schemes. There are also a large number of NDPBs with similar unfunded arrangements which are currently outside the RAB boundary, but which could come within the scope of the WGA. While it should be possible to estimate the unfunded pension liabilities of such schemes, it might prove difficult to do more than score pensions in payment - at least initially - so stocks and flows would not fully articulate.

Social security benefits

3.41 In total, annual expenditure on contributory and non-contributory social security benefits exceeds £95 billion. In part, this expenditure is cyclical and is made to claimants who may have a short or longer term entitlement to benefits.

3.42 Long term forecasts of social security expenditure are prepared to provide awareness of trends. These forecasts are not, however, equivalent to an actual liability, as in many cases no undertaking to make a payment has been given. In preparing a WGA to a 'true and fair' view, disclosure of material liabilities would be required including, where appropriate, specified social security benefits.

3.43 Generally accepted accounting principles and definitions can provide the basis for determining whether social security benefits give rise to an actual liability. Under GAAP, liabilities arise where there are "obligations to transfer economic benefits as a result of past transactions or events". In this context, this could be interpreted to mean that a liability arises if a specific guarantee or undertaking to make future payments has been given that will inevitably arise in the future, even though the amount and, possibly, the timing of the payment may be unknown.

3.44 To determine, on this basis, whether individual social security benefits meet this definition, a number of test criteria may be applied:

- the basis of any guarantee - current legislation;
- whether an undertaking has been given - past event; and
- the inevitability of future payments - length of entitlement and the consequence of a change in personal circumstances.

3.45 **Annex H** provides details of current social security benefits, analysed between contributory and non-contributory, and indicates against these criteria which might give rise to a liability. No assumption is made that payment of national insurance contributions (NICs) leads to a social security liability, other than in the possible case of the retirement pension, as any future contributory benefit payment is not inevitable and is dependent on a future event.

3.46 In the cases of retirement pension and child benefit, a guarantee or undertaking to make future payments could be said to be given. This guarantee is based on current legislation, a past event occurring, age or birth, and once awarded is certain to continue for life, or for sixteen years in the case of child benefit.

3.47 In calculating the amount of the liability, either of the following methods could be selected:

- base an actuarial assessment on the claimants currently in receipt of the benefit;
or
- in addition to current claimants, assess any future liability from potential new claimants.

3.48 Determining which method should be adopted is dependent on an interpretation of the extent to which any guarantee of future entitlement has been given. The Green Paper on Welfare Reform (Cm 3805) could be interpreted as giving a guarantee of entitlement to retirement pension and therefore a liability. The amount of a liability could vary year on year and may be affected by changes in legislation.

3.49 In the case of other benefits, although claimants may consider they have a long-term entitlement, it is not necessarily supported by current legislation and can be terminated on a change in personal circumstances, eg remarriage in the case of widow's benefit or improvement in medical condition in the case of disability benefits.

3.50 If the approach described above were adopted, a liability would be recognised in the balance sheet to meet approximately 40 per cent of current annual social security expenditure. The remaining 60 per cent would be treated as current expenditure as it occurs. Estimates of the liability for this latter element could be included as a note to the accounts to provide a more complete picture.

3.51 However, it is arguable that, under GAAP, the event giving rise to the obligation for retirement pensions and child benefit is the supply of those benefits, in which case liabilities should not be set up. Instead, expenditure on the benefits could, like that on other benefits, be regarded as being incurred in the year in respect of which the payments were due - that is, in each year in which recipients satisfied the requirements for entitlement to those benefits.

3.52 Further consideration of the appropriate application of GAAP would therefore be needed before a final decision was taken on the treatment of social security benefits in WGA.

Financial liabilities

3.53 Consideration also needs to be given to how financial liabilities (and assets) should be measured in GAAP-based WGA.

Government debt

3.54 The bulk of items on the liability side of the balance sheet are government stock either in the conventional form with a fixed nominal coupon or indexed-linked. One issue is whether it would be appropriate to value these items at market price or the amount that will be repaid. This issue is already being addressed in the design of the new Gilt Management Account, soon to replace the Gilt-edged Official Operations Account (GOOA).

3.55 For conventional gilts, these could be valued at their maturity value. However, the market price may differ radically from the redemption value and standard accounting practice for holders of gilts would be to recognise them at market value. Nonetheless, from the Government's standpoint, gilts are long term liabilities and it might therefore be more appropriate to recognise them at their maturity value.

3.56 It will also be necessary to consider the treatment of issue premia or discounts, as to whether they should be recognised in full at the time or amortised over the redemption period.

3.57 For index-linked gilts, the value at which government repays depends of course on the path of the retail price index.

3.58 A WGA balance sheet would also show shorter term liabilities such as Treasury Bills and short term borrowing.

National Savings

3.59 Valuing the liabilities of National Savings should be relatively straightforward, but only if valued on their current basis which does not fully accrue interest payable. It is arguable that accruals treatment would be required to show a true and fair view, and it would need to be established whether non-accrual had a material impact. Index linked National Savings Certificates pose similar problems to index linked gilts.

Notes and coins

3.60 Notes and coins are liabilities of government because government is the issuer. The treatment of bank notes would depend on whether the WGA boundary was drawn to include or exclude the Issue Department of the Bank of England.

Foreign currency assets

3.61 Most of the UK's foreign currency reserves are not just held on deposit in bank accounts but are invested in bonds - for instance, part of the UK's dollar holdings may be in US Treasury bonds. This raises the issue of whether, in valuing the bonds in dollars, one should take the current market rate, some average over a period or the nominal value.

Foreign exchange liabilities

3.62 At present, the UK borrows in foreign currencies (mainly dollars, deutschmarks and ECU) not to finance the UK's domestic deficit but to finance the reserves. The foreign currency borrowings are liabilities of the NLF and the assets are of the Exchange Equalisation Account. The same issue about valuation arises with foreign currency liabilities as with assets - ie whether to use the market price or the nominal value.

Gold

3.63 Gold raises an important valuation issue. Given the volatility of the price of gold and the significance of the UK's holdings, it may be inappropriate to value the entire stock at market price.

Profit and loss account

3.64 There is also the question of how to treat financial assets and liabilities in a WGA profit and loss account/operating cost statement, for example whether the cash management transactions of the Gilt-edged Official Operations Account (GOOA) should be consolidated into the WGA.

NILO

3.65 There are a variety of funds administered by NILO (eg the National Lottery Distribution Fund) which hold their reserves in gilts. Where these funds are within the government boundary, the gilt asset and liability should consolidate out, but some of NILO's funds are outside the government boundary. Where this is the case, consideration would need to be given to whether transactions and balances should be consolidated into the WGA or otherwise disclosed.

EU issues

3.66 It would be important for GAAP-based WGA to include, in some form, all EU funds to ensure that a full picture was presented. This section considers the possible treatment of EU receipts and contributions in WGA, and the difficulties and constraints that would be associated with doing so.

3.67 Funds received from the EU which are administered by departments will be recognised in WGA through the consolidation of departmental resource accounts. Expenditure financed by departments on behalf of the EU will also be included.

3.68 The RA Manual requires departments to treat amounts received or receivable from the various EU Funds (eg the Structural Funds) to finance grants to third parties as income in their resource accounts. At present there is no treatment prescribed in the RA Manual for amounts from the EU to finance capital expenditure by departments (eg infrastructure funds). Any subsequent disallowances by the EU would also need to be accounted for in departmental resource accounts.

3.69 Recognition of the gross contribution (after abatement) payable by the UK to the EU Budget would also be likely to need to be incorporated into WGA. This would require the five elements of the UK contribution to be placed on an accruals basis (since sums received from the Community, our receipts, are already expected to be recognised on an accruals basis). Recognition of the amounts of EU funds that are paid directly to UK third parties (ie without passing through government departments, and thus not appropriate to government accounts) would be limited to note disclosures rather than recognition on the financial statements.

3.70 There are, however, likely to be significant difficulties involved in placing this information on an accruals basis, which would need further examination.

3.71 The European Community revenue system is based on the conversion of estimates of Member States' liabilities in national currency into an obligation based on European Currency Units (ECUs at present, but due to be replaced by EUROS from 1 January 1999). This process requires that corrections are made over several years to Member States' obligations in ECU to reflect the effect of exchange rate movements, revisions to original estimates and to movements in comparative financing shares brought about by changes in economic circumstances and trading patterns.

3.72 There are also practical problems in the area of duties and levies (the so called "traditional own resources") associated with disputed amounts.

3.73 Furthermore, the UK's abatement is also based on estimates and is thus also subject to correction over several years.

3.74 Whereas this system can be, and currently is, readily represented in cash flow terms, a substantial, and resource intensive, change would be need to be made to existing information systems in order for the UK's gross contributions to be placed on an accruals basis. Consequently, the availability of any new information for presenting figures on an accruals basis would need to be examined in consultation with the departments associated with the estimates on which the UK's revenue contributions to the EU Budget are based (HM Customs and Excise, the Intervention Board and the Office for National Statistics).

3.75 The accruals based recognition points are unlikely to coincide with present cash flows and there might also be a need to recognise constructive as well as legal obligations to make contributions. The recognition criteria would also need to determine the handling of the 10 per cent of UK traditional own resource contributions retained to cover the administration of the collection of the traditional own resources.

3.76 It may, given the difficulties for producing full accruals information for EU receipts, be desirable for the EU element in WGA (gross contribution and revenues) itself to be disclosed in a separate note to the accounts. However, to the extent that opportunities arise to change the measurement of EU expenditure and receipts to a full accruals basis, these should be taken as they arise, subject to resolving the practical issues described above.

Devolution

3.77 The Government's proposals for devolving powers from the Westminster Parliament to Scotland, Northern Ireland and Wales will mean that a range of responsibilities and functions currently exercised by the Secretaries of State for

Scotland, Northern Ireland and Wales, and for which they are accountable to the Westminster Parliament, will in future be exercised by devolved administrations in Edinburgh, Belfast and Cardiff answerable to the Scottish Parliament, the New Northern Ireland Assembly and the National Assembly for Wales, respectively. The new arrangements, which are explained more fully in **Annex E**, will have implications for the development of WGA. The precise treatment of spending and income in Scotland, Northern Ireland and Wales will depend on the coverage of the new account.

3.78 For consolidated accounts covering the whole of the public sector, all spending and income by the Scottish Parliament and Welsh and Northern Ireland Assemblies (including Scottish, Welsh and Northern Ireland local authorities) would have to be included within the scope of the account.

3.79 For accounts confined to central government only, the issues would be more complex. On the one hand, the devolved administrations will be performing central government functions in Scotland, Northern Ireland and Wales. That argues for inclusion. They will not, however, be exercising those functions within the framework of collective responsibility, and the UK Government will have no control over the policies adopted, or over the balance between capital and current spending. That might argue for treating expenditure and income of the devolved administrations by showing the funding by the UK Exchequer, rather than the spending, for the purposes of a CGA. Thus the CGA would include all central government resources provided to the devolved administrations (primarily via the Assigned Budgets from the Secretaries of State for Scotland, Northern Ireland and Wales), but without analysis of the expenditure of those resources.

Treatment of LA companies

3.80 Local authority companies fall essentially into two categories for the purposes of the LA capital finance regime. Companies which are considered as “regulated” cover those which would have to be consolidated into the parent LA’s accounts if the LA was treated as if it were a Companies Act company. Non-regulated companies are those in which the authority has a minority interest and are not otherwise subject to effective control by the authority (eg through trading influence).

3.81 There is therefore already a basis for deciding which companies should be consolidated. However, no consolidation is done at present and there are likely to be practical difficulties that would have to be resolved. Although these are not likely to

vary in nature from consolidation issues elsewhere within the WGA, it seems reasonable to consider the question of consolidating LA companies once progress has been made on the practicalities of consolidating LAs' main accounts into WGA.

Conclusion

3.82 This chapter has considered the entities and flows that would need to be included in WGA, including a number of items that have not previously been fully captured by government accounts. For the purposes of this report, it is assumed that the approaches suggested in this chapter would be adopted, subject to the outcome of further research where necessary.

3.83 The next chapter considers how the accounts of these entities might be consolidated into GAAP-based WGA, the associated costs and the possible timescale.

Chapter 4: Building a GAAP-based Whole of Government Account: production and timing

4.1 This chapter looks at the practical implications of consolidating the accounts of individual public sector entities into a GAAP-based WGA by building on departmental resource accounts and consolidating the accounts of other public sector bodies.

Consolidation methodology

4.2 It is assumed in this report that the Treasury would prepare the consolidated account, since the Treasury would have most ready access to the necessary information and would therefore be best placed to undertake the task.

4.3 There are two possible approaches to the consolidation. One would be for the Treasury, as preparer of the account, to take on responsibility for the whole of the consolidation process and deal separately and directly with all of the entities concerned.

4.4 An alternative approach would be to use departments as intermediaries, making them responsible for sub-consolidation into their resource accounts of the accounts of those entities for which their Minister has policy and stewardship responsibility, for example their dependent NDPBs and dependent PCs. Such sub-consolidations would then be taken by the Treasury and consolidated with central government fund accounts to produce the WGA.

4.5 The merit of the first approach is that it would make coordination easier and would offer less risk of inconsistencies, omissions or double counting.

4.6 The advantage of the second approach is that an administrative relationship already exists between departments and their 'sponsored' bodies which might facilitate, in practical terms, the collection of data. This relationship might also be useful for exercising a first level quality control by departments over the consolidation data.

4.7 The first approach might be preferable if consolidation were to be achieved by 'cross government' banding of entities in the same tier of government (for example central government, local authorities and public corporations). The second approach might work better if a 'vertical' approach were adopted, linking all bodies first to their parent department. In either case, local authorities would probably be best consolidated by the Department for the Environment, Transport and the Regions (DETR).

4.8 Under either approach, there would be transactions and balances, for example other pensions or benefit liabilities, which were not included in any other audited account. These would need to be identified and subjected to full audit as part of the statements of the 'parent' government entity. This would also include an audit of government financing transactions and balances, together with transactions with the Consolidated Fund and other central funds.

Consolidation schedules

4.9 As regards practical details, under either approach each entity involved in the consolidation would need to produce each year a schedule of data corresponding to each figure or item of information contained in the WGA. This would be drawn from the entity's annual accounts or underlying records and sent to the preparers of the WGA, to be added to similar information from other entities. Much of the information needed might be drawn directly from the accounts, but in some cases a restructuring of information might be required, for example to classify income and expenditure in the way it was presented in the WGA.

4.10 In other cases, additional or different information would be required. For example, as noted in **Chapter 3**, tax revenues are presently recorded in the accounts of the Consolidated Fund when they are received rather than when they are due. If a standard accruals based approach were to be adopted for WGA, there would in principle need to be a change in the way that tax revenues were recorded and accounted for, in order to recognise taxes when they were due. Similarly, new information would be needed if government liabilities such as obligations for social security benefits were to be fully represented.

Intra-group transactions

4.11 In addition to data from their annual accounts, entities would also need to include in their consolidation schedules the total amounts of the transactions they carried out with each of the other entities included in the consolidation, and the amounts of any balances with those entities that were outstanding at the year end. This

would be needed so that these inter-entity transactions and balances could be excluded from the consolidated WGA figures. Such exclusion is a standard element in consolidation, in order to treat the consolidated entity as a single economic unit and include only the transactions and balances with outside parties.

4.12 Adjustments would also be needed to remove the double counting that would otherwise occur for transactions and balances that are reported in more than one of the accounts to be consolidated. This would mainly concern the Consolidated Fund, the National Loans Fund and the National Insurance Fund, each of which would include some of the transactions and balances also reported in departmental resource accounts.

4.13 If data were initially assembled in consolidation schedules, and the inter entity transactions and balances were then netted out, the resulting data for each entity could be collated into such sub-consolidations as may be required using a computer database or spreadsheet. The consolidated financial statements for the Commonwealth Government of Australia, for example, analyse assets, liabilities, revenues and expenditures both by type and by sector, and provide a third form of analysis of expenditure by departmental grouping.

Consistency of accounting policies and conventions

4.14 One of the requirements for preparing consolidated accounts under UK GAAP is that the accounting policies and conventions applied to the underlying individual accounts should be consistent, or that adjustments are made during consolidation to remove any inconsistency.

4.15 The accounting policies adopted by the various kinds of entity to be consolidated within a public sector WGA are not wholly consistent. In reviewing with the NAO the accounting policies to identify and assess the effect of differences, we took as a benchmark the key accounting policies applied by departments to resource accounts and compared them with the policies applied by NDPBs, trading funds, NHS Trusts, local authorities, nationalised industries and public corporations. The findings are set out at **Annex I**.

4.16 The review was conducted by examining the formal Accounts Directions under which accounts for each category of bodies included in **Annex I** are prepared. Principal accounting policies were identified and their application reviewed for a small sample of accounts for each type of entity.

4.17 Changes to the key areas of difference which might pose difficulties for consolidation are summarised below:

- infrastructure assets: differences in recognition and valuation policies;
- heritage assets: on which local authorities, for example, do not place a financial value;
- stock: differences in valuation policies;
- choice of options in the application of accounting standards, for example:
 - the local authority SORP allows for variation of accounting treatment between authorities, the impact of which may be material differences in accounting policies;
 - nationalised industries prepare their accounts in accordance with specific statute, the impact of which may be differences in accounting treatment; and
 - under the relevant accounting standard there is an option within defined limits of either capitalising or treating as current expenditure amounts spent on development;
- valuation bases (accounting convention): adoption of Modified Historical Cost Accounting (MHCA). MHCA is adopted for departmental resource accounts but is not applied to public corporations, some nationalised industries, and some local authority assets (most significantly infrastructure assets).

4.18 Among the most significant of these potential differences is likely to be the basis for valuing fixed assets, in particular infrastructure assets. The practical and cost implications of revaluing assets on a consistent MHCA basis might be substantial, and would need to be investigated further.

Private sector consolidations

4.19 It is worth examining at this point how the private sector handles consolidation, and whether lessons can be learned from this in developing WGA for the public sector.

Who does the consolidation?

4.20 There are two basic methods of preparing consolidated financial statements in the private sector:

- carrying out the consolidation using the financial statements of subsidiary entities; and
- using separate consolidation schedules.

4.21 Under the first approach, the individual financial statements of the subsidiaries (ie constituent elements of the group to be consolidated) are aggregated centrally by adding together the profit and loss account and balance sheet figures on a line-by-line basis, and any necessary elimination of intra-group balances and transactions. As noted above, given different accounting policies and conventions adopted by different parts of the public sector, this approach could be complex for WGA.

4.22 The second method involves each subsidiary preparing a consolidation return under which it adjusts its own statements to common accounting policies and presents the statements in a format that makes the consolidation process easier. Central consolidation adjustments are then made. On the face of it, this approach may be more promising for WGA, but could nevertheless involve a good deal of work.

4.23 Private sector consolidations are generally either performed in-house by the centre (ie the parent body) or by external accounting advisors. In most cases, the decision on which approach to adopt rests less on the size or complexity of the consolidation than on the degree of accounting resources available at the centre. It is thought that private sector practice is divided roughly 50:50 between the two approaches.

4.24 Most private sector consolidations are prepared not from individual statutory accounts, but from consolidation accounts packs that each subsidiary in the group is required to produce alongside its statutory year-end accounts. The possible use of consolidation accounts packs in producing WGA is examined in more detail later in this chapter.

Consolidation boundary

4.25 Determining the consolidation boundary in the private sector is usually relatively straightforward. The boundary is determined by UK GAAP and all that the account compilers at the centre need to do each year is determine precisely what changes, if any, have occurred since the previous year.

4.26 For the public sector, the consolidation boundary would depend on whether the coverage of the accounts extended to the public sector as a whole, or was limited to CG or GG. These building blocks are the sectors as defined in national accounts.

Use of consistent accounting policies

4.27 In the private sector, the use of consistent accounting policies is a fundamental requirement laid down in both the Companies Act and the relevant accounting standard (Financial Reporting Standard 2). This may require consolidation adjustments to be made to amounts reported in a subsidiary's individual financial statements.

4.28 Such consistency would be equally important for the public sector if WGA were to be meaningful. Different accounting policies pose a problem in terms of adhering to the accounting concept of consistency. The private sector, however, faces a different problem in consolidating between different accounting policies across different countries.

4.29 Within the RAB departmental boundary, all accounts will be on a consistent resource accounting basis. But, as noted above, there are various categories of government entity beyond the RAB boundary: trading funds, nationalised industries, NHS providers, executive NDPBs, local authorities and public corporations. **Annex I** illustrates the differences in accounting policies in each of these categories and, particularly in the case of public corporations, within individual categories. Adjusting these many different types of accounts could be extremely complex.

The consolidation itself

4.30 Provided the issues outlined above have been properly thought out and planned in advance, the consolidation itself is normally a fairly straightforward mathematical exercise.

4.31 However, further key issues that still need to be addressed at the consolidation stage include how to eliminate intra-group transactions and balances. Good consolidation systems lay down detailed ground rules for the agreement of inter-company balances and transactions throughout the year, not just at the year end. For WGA, it would be important for the issue of intra-governmental transactions to be tightly controlled from the outset.

IT solutions

4.32 Information technology offers a number of solutions to the practical problems of consolidation. One would be to use one of the commercial 'off-the-shelf' consolidation systems which are available. Such systems are becoming more widely used in the private and public sectors, and are also used by overseas governments (eg Australia, New Zealand) for their WGA consolidations. They have the ability to extract data on-line from a variety of systems, and provide powerful analytical and reporting tools.

4.33 Consolidation systems work by collecting information electronically from subsidiary bodies' accounting systems using wide area or local area networks. They streamline and automate the data collection and consolidation and offer the potential for period or annual accounts to be produced within days of the period end. The systems also provide the ability to "drill down" to lower levels of accounting systems, to analyse data and produce reports.

4.34 This would, however, require common minimum standards for the storage of financial records and greater harmonisation of accounting policies. Whether or not any such systems could cope with the number and wide diversity of accounting systems currently used by government has yet to be established.

4.35 A formal analysis of the consolidation systems available and their compatibility with existing or planned accounting systems in departments and elsewhere would therefore need to be carried out once decisions had been taken on the timetable for, and scope of, the WGA.

4.36 Spreadsheet packages are also widely used in the private sector for account consolidations, and have the advantage of being readily available, relatively cheap and very flexible. For spreadsheet-based systems, information is gathered from subsidiaries using consolidation schedules or "packs" in hard copy or electronic format and then input to central spreadsheets. Such an approach could be adopted for WGA. However, there can be disadvantages in using spreadsheets, notably difficulties with the audit trail, the need for maintenance and the risk of errors.

4.37 Other organisations also use general ledger systems for consolidations. These have reliable audit trails, but are not as flexible as purpose-built consolidation systems.

4.38 Given the likely advances in systems technology and communications infrastructure over the next few years, it is not possible at this stage to predict which option would provide the most cost-effective solution for a WGA consolidation.

Overseas experience

4.39 Experience overseas has confirmed that consolidation is possible once the underlying structures are in place. A number of countries have noted, however, that the elimination of intra-group transactions has posed problems, and in some cases it has not proved possible to eliminate all such transactions.

4.40 Overseas experience also suggests that the costs of the consolidation itself are low once the framework for the production of data has been set up. Indeed, the New Zealand Treasury has noted that the overall accounting costs for government are likely to have been reduced considerably by the implementation of modern accounting software packages and processes. New Zealand use an IT package to carry out the consolidation of the WGA which draws information directly from the accounting software of the component entities in the WGA, feeds it to a central point and then produces consolidated data.

4.41 Overseas experience of preparing WGA is described in more detail in **Annex G**.

Primary statements in WGA

4.42 It is assumed that the primary financial statements in the WGA would be based on the core statements in departmental resource accounts, equivalent to the financial statements already produced by the private sector and much of the rest of the public sector. These statements are:

- an income and expenditure account equivalent to a profit and loss account - the feasibility of including a Statement of Recognised Gains and Losses (SRGL) in the WGA would need to be examined further;

- a balance sheet; and
- a cash flow statement.

4.43 Illustrative examples of what these statements might look like are at **Annex J**. These are in a more summarised form than conventional accounts but are nevertheless founded on the same financial reporting principles. Their simplicity is to aid comprehension and facilitate production. They nevertheless provide key figures for fixed assets, separating out investments, net current assets/liabilities, long term liabilities, income, expenditures and financing.

4.44 The statements would be supported by more detailed analyses in notes to the account, although the nature of such analyses might be limited by the variety of forms in which information was analysed in the financial statements of consolidated entities.

4.45 At the more detailed level, staff costs would be relatively easy to show, as would a breakdown of significant liabilities (eg old age pensions) and revenues (income tax, corporation tax etc).

4.46 The financing section of the balance sheet would comprise government issues of debt and an activity-generated reserve, comprising all previous surpluses and deficits of taxation and other receipts relative to non-capital expenditure.

Do they meet fiscal policy needs?

4.47 The suggested form of the statements provides the major aggregates needed for overall fiscal policy purposes. Looking in turn at the list of fiscal indicators outlined in Chapter 2:

- the surplus on current budget would be the surplus (or deficit) on the income and expenditure account;
- public sector net borrowing would be the sum of the movements in fixed assets (shown in account notes) and the surplus or deficit on the income and expenditure account;
- net public sector debt would be the sum of government borrowings and net current assets (drawn from the balance sheet), adjusted to exclude stock;

- the public sector net cash requirement would be drawn from the cash flow statement figures, being the net government borrowing figure, net of the change in cash balances;
- general government net borrowing would be the same as public sector net borrowing, covering general government;
- general government gross debt would comprise government borrowings plus current liabilities.

4.48 Examples of account notes to disclose these figures are also included at **Annex J**.

4.49 The above covers only the most commonly used indicators. **It is important to note that the WGA would only deliver all of the indicators if it was constructed for the whole of the public sector and included analyses to distinguish between general government (CG plus LAs) and public sector figures, although a CGA would improve the quality of the public sector balance sheet as a stepping stone to improved public sector balance sheets overall.**

4.50 The usefulness of the accounts within and outside government would also clearly depend on the extent to which information was disaggregated - both between central government, local government and public corporations, and within each particular item on the primary statements or in account notes. This will need careful consideration, and a balance may need to be struck between what is desirable and what is reasonably achievable.

Measurement methodology

4.51 Transactions and balances included in WGA should properly follow UK generally accepted accounting practice (GAAP). As noted above, they would thus need to exclude any that were between entities included in the consolidation, for example transactions and balances between one department and another.

4.52 The identification and exclusion of these transactions and balances is likely to be one of the more difficult issues for the consolidation process. Further research would be needed to see which of these is sufficiently material to require this adjustment. Transactions between the Department for the Environment, Transport and the Regions and local authorities in terms of local authority grants, for example, could be significant.

Auditability

4.53 To maximise the credibility of GAAP-based WGA for users in Parliament and elsewhere, the accounts would need to be independently audited to professional standards. For countries such as New Zealand, Australia, Canada and the United States of America which already produce WGA, the accounts are subject to independent audit by the country's Auditor General. External audit would provide assurance that the accounts had been prepared in accordance with the adopted accounting policies, were true and fair in the context of those policies, and could be relied on.

4.54 The ultimate aim should therefore be for the accounts to be audited. As in other countries, the Comptroller and Auditor General, as head of the National Audit Office and the statutorily appointed auditor of the departmental and many other central government accounts which would comprise the WGA, would be the natural choice for this role.

4.55 WGA based on financial reporting principles should be capable of withstanding audit. To justify an unqualified audit opinion they would need to be free of material error as defined by the standards of the auditing profession.

4.56 Much of the audit would rely on the statutory audits of the entities consolidated into the WGA, which could be expected to accord with such standards. On that basis, and applying the same standards to the audit work on consolidation, it would be reasonable to require the WGA to meet similar overall standards. In setting the appropriate materiality to be used in conducting the WGA audit, the Comptroller and Auditor General would be informed by the materiality, or degree of precision, with which the underlying accounts had been prepared and audited.

4.57 The scale and complexity of audit would depend on the range of consolidation and the extent to which the account included entities for which the Comptroller and Auditor General was not the appointed auditor (eg local authorities, NHS Trusts etc - see below). For such entities it would be necessary for the auditor of the WGA to be able to place reliance on the work of their auditors, and auditing standards would require procedures to establish that the reliance was justified. These procedures are well established in the auditing profession, but their potential scale for a WGA audit means that the logistics would need to be carefully examined.

4.58 The range of existing audit responsibilities, and thus a measure of the potential complexity, is as follows:

- The Comptroller and Auditor General is the appointed auditor for all government departments, executive agencies, trading funds and the majority of NDPBs in Great Britain.
- Private sector auditors generally appointed by Secretaries of State audit those NDPBs not audited by the Comptroller and Auditor General, nationalised industries and public corporations.
- Auditors appointed by the Audit Commission in England and Wales and the Accounts Commission in Scotland conduct the audit of local authorities, National Health Service Trusts and Family Health Service Authorities.
- In Northern Ireland, the Comptroller and Auditor General of Northern Ireland has audit responsibilities for central government entities, and arrangements are currently being made for the Northern Ireland Audit Office to take on the role of Health Service Auditor and Local Government Auditor to deal with those respective areas of responsibility.
- In Scotland and Wales, changes to audit responsibilities are in train as a result of devolution.

4.59 As with the introduction of resource accounting for departments, it would make sense to conduct dry run audits for one or more years to test out the methodology. The dry run audits would reach an unpublished audit opinion on the initial sets of accounts. Whether or not those accounts would be published as 'unaudited' financial statements, or remain unpublished, would be for consideration.

Audit opinion

4.60 The form of the audit opinion could be as to whether the accounts gave a 'true and fair' view, similar to the standard opinion on a resource account, or a 'compilation report' stating that the auditors were content that the account had been satisfactorily compiled from the underlying audited accounts in accordance with standard accounting principles. The two opinions could be exclusive, or combined into a two-part audit report. Initially, it might only be possible to give a view on the compilation.

Frequency of production

4.61 Reliance on the audited accounts of consolidated bodies would necessarily restrict construction of audited WGA to an annual basis. It would nevertheless be possible to construct an unaudited account more frequently, based on returns made by those entities, but this would depend on their ability to produce such data. Further development work would be needed to increase the frequency of production of the accounts. It is worth noting that New Zealand produces WGA on a monthly basis.

Presentation to Parliament

4.62 Given the role that they might serve, it would be appropriate that WGA based on accounting principles should be formally laid before Parliament.

Statutory basis

4.63 It would be preferable, though not essential, for WGA to be prepared and audited under legislation. Although WGA could be prepared and audited on a non-statutory basis, that might call into question the status of the accounts and the Government's commitment to producing them.

4.64 There are no existing statutory powers that could be used to prepare or audit WGA although, as noted in **Chapter 1**, the *Code for Fiscal Stability* was given a statutory basis in this year's Finance Act. The most suitable vehicle for providing a statutory basis for WGA is likely to be the legislation that will be required for the introduction of resource based Supply.

Practical difficulties

4.65 The scale of difficulties encountered in producing WGA would depend largely on the scope of the consolidation and the amount of detail to be included in the account. Potential difficulties lie in four areas, which are discussed below.

Preparation of consolidation schedules

4.66 To the extent that information was directly available from entities' annual accounts, preparation of consolidation schedules would seem unlikely to pose a substantial burden.

4.67 However, the additional information required to identify transactions and balances with other entities in the consolidation might cause more of a problem. Existing accounting systems might not necessarily enable such figures to be readily identified, and the potentially very large numbers of entities comprising the consolidation could make this process particularly onerous. The burden of producing consolidation schedules would also be influenced by the amount of detail to be included in the WGA and therefore also required in the schedules.

4.68 Some of the entities do not have accounting policies that precisely match those adopted by central government for departmental resource accounts, for instance, consolidation of accounts which had different methods of valuing fixed assets would be complex.

4.69 For WGA to show a true and fair view, they would have to be based on a set of policies which was consistent for all entities. To the extent that any entity or group of entities followed policies which gave a materially different result, the figures for those entities would have to be adjusted to follow the policies adopted for the WGA.

4.70 A further potential problem might be the reclassification of transactions and balances for the consolidation schedule, if the classifications needed for the WGA did not match those in the entities' accounts. This would be more likely to affect costs and revenues rather than assets and liabilities.

4.71 Entities which have an accounting year which does not coincide with government's general accounting period (which runs to 31 March) would have to produce information at that date specifically for the consolidation schedule, if this were material.

4.72 More research would be required to establish the implications of these issues.

4.73 For a few entities - notably the Consolidated Fund, the National Loans Fund and the National Insurance Fund - there is a more fundamental problem. These funds are accounted for on a cash basis and there are at present no plans for adopting an accruals basis. Much of the movement on these funds is also represented on an accruals basis in departmental resource accounts, from which data could be taken for WGA. However, as noted earlier, the transactions and balances in these funds which are not recorded in resource accounts would also need to be included in WGA on an accruals basis.

4.74 Action would therefore be required either to change the accounting for these funds to an accruals basis, or to adopt other measures to ensure that all relevant accruals-based information was available and auditable. Such residual transactions and balances include the whole of tax revenues discussed in **Chapter 3**.

4.75 The timing of the preparation of consolidation schedules might also pose some problems. If the accounts on which they were based were late in being produced and audited, this would be likely to affect the ability to construct the consolidation schedules, and so the WGA. As with other aspects of consolidation, such a risk is magnified by the number of entities to be consolidated.

Audit of consolidation schedules

4.76 The auditors of entities' accounts would need to be commissioned to give an audit assurance on the consolidation schedules that the information in them was properly drawn from underlying records. The scale of this additional work would largely be affected by the same issues as those affecting construction of the schedules. To the extent that information in the schedules was drawn directly from the accounts, little would be entailed as such information would already have been audited; but, beyond that, additional audit procedures would be needed.

Preparation of the WGA

4.77 The main task for those preparing the consolidated WGA from the consolidation schedules would be the work required to establish that the inter-entity transactions and balances properly cancelled one another out - that is, that the same amounts were recorded by both parties. The investigation of discrepancies might be time consuming.

Audit of the WGA

4.78 Where the WGA auditor was also the auditor of consolidated entities, he would have to perform such additional procedures as were necessary to validate the consolidation schedules, as part of his work on the WGA. Where this was not the case, the WGA auditor would have to obtain assurance that the views on consolidation schedules given by other auditors could be relied on.

4.79 Just over half of the 400 or so central government entities would have been audited by the Comptroller and Auditor General and the remainder by other, mainly private sector auditors. Each of the 540 or so local authorities would have been audited by auditors of, or appointed by, the Audit Commission in England and Wales,

the Accounts Commission in Scotland, or the Local Authority Auditor in Northern Ireland. All of the 525 or so public corporations (mainly NHS Trusts) would have been audited by auditors other than the C&AG.

4.80 Consolidated accounts covering the whole public sector could therefore impose logistical difficulties in terms of audit of the consolidation, mainly because of this need to obtain reliance.

Production timetable

4.81 The timetable for publishing WGA prepared from an accounting base would be dictated by the timetables for producing individual entities' audited accounts.

4.82 Most NDPB, nationalised industry, public corporation and trading fund accounts are planned to be completed by July. Local authority accounts are planned to be completed by the end of September. Resource accounts are planned to be completed by the end of October. If the planned dates are met, it might be possible to produce WGA by December. More realistically, and working to the later dates by which such accounts are statutorily required, such an audited account might not be available until March.

Costs

4.83 As noted in **Chapter 1**, the Government has decided in principle to go ahead with the preparation of GAAP-based WGA, if practicably possible. Costs are clearly an important factor in assessing the practicalities. This section considers the various elements of preliminary and ongoing costs which would be involved in the development of GAAP-based WGA. These include the costs of producing and auditing the account and, for individual entities, in preparing, subjecting to audit, and providing to the account preparers the necessary accounting information for consolidation.

4.84 Costs would involve not only cash costs but also the opportunity costs of training time and time involved in communicating the change. The costs elements which might be involved are:

- *One off costs*: developmental work mainly by the centre, including pilots and further research; changing central funds systems to operate on an accruals basis; changing tax systems to record tax revenues on an accruals basis; changing systems to record social security obligations; getting consistent accounting policies throughout the public sector; and one off IT costs;
- *Continuing annual costs*: operating accruals-based systems; construction by entities of WGA schedules where drawn directly from accounts and existing accounting information, and liaison with WGA preparer; construction of schedules for entities where accounting information requires reformatting and/or inter-entity transactions not readily extractable; entity auditors' opinions on consolidation schedules; preparing WGA from consolidation schedules, including costs of reconciling inter-entity netting-off; WGA auditor obtaining assurance that the work of other auditors in relation to consolidation schedules might be relied on; and auditing the consolidation processes and producing the WGA.

4.85 The costs of producing the accounts would depend on the scope of the consolidation and therefore the numbers of entities concerned, the extent to which existing accounts and accounting information matched WGA requirements, the degree of detail in the main financial statements and the ancillary information to be included in the form of commentary and notes.

4.86 It is difficult to estimate with precision at this stage the extent of the costs of each of the various elements of the process outlined above, and more accurate estimates would need to be provided in the light of further work. In some cases it is possible to estimate costs by making broad comparisons. For example, the cost of current audit work can be taken as a broad indication of the cost of auditing the WGA. It has also been possible to take account of costs that other countries have incurred in producing WGA (see **Annex G**).

4.87 On this basis, the ongoing annual cost of producing and auditing GAAP-based WGA for the UK public sector is provisionally estimated to be around £1-2 million. This includes audit costs covering both the overall consolidation exercise and placing reliance on the work of other auditors and obtaining assurance certificates from them, but excludes costs that may be incurred by lower tier external auditors, for example in auditing intermediate consolidation processes. It also excludes the cost of recording tax revenues on an accruals basis.

4.88 **Developmental costs for a CGA should be relatively modest, and are provisionally estimated to amount to no more than around £250,000 a year leading up to full implementation.** This would be mainly for a project team in the Treasury to manage the process.

4.89 It is more difficult to estimate developmental costs for a whole public sector consolidation, pending further work. The cost would, however, include certain other departments' costs, for example those incurred by DETR and the territorial departments on preliminary work to consolidate local authorities' accounts.

4.90 There could also be IT costs, which would depend on which approach to consolidation was chosen and the scope of the account.

4.91 Start-up costs could potentially be significantly higher if it were decided to move straight away to measuring tax receipts on an accruals basis. The Revenue Departments have estimated that such costs could run to tens of millions of pounds. As noted in **Chapter 3**, one possibility would be for opportunities which arise to change the measurement of specific taxes to a full accruals basis to be taken as they arise. This could make the additional costs of moving to full accruals measurement of tax receipts more manageable.

Timescale

4.92 The Government is aiming to complete the implementation of resource accounting and budgeting in central government in 2001-02, which would be the first year of both Estimates and Accounts on a resource basis. While there would be some advantage in setting an early deadline for introducing WGA, the Government does not believe that it would make sense to try to introduce an accounting based WGA at least until RAB is properly bedded in.

4.93 **Assuming that RAB is successfully introduced in 2001-02, this suggests that it would be reasonable to aim to produce a set of dry run (unaudited) WGA on an accounting basis for 2003-04, with a view to the first full set of audited WGA on such a basis being published in respect of 2005-06. It might, however, be possible to produce a CGA earlier, with the first dry run (unaudited) set produced for 2001-02 if the necessary work on alignment of accounting policies and elimination of intra-group transactions proceeds sufficiently quickly.**

Conclusion

4.94 This chapter has looked at the practical implications of consolidating the accounts of individual public sector entities into a GAAP-based WGA. It has concluded that while further work is needed on the detailed practicalities of consolidation, the technical difficulties appear generally to be surmountable.

4.95 This chapter has also concluded that the costs of producing GAAP-based WGA for the public sector are unlikely to be prohibitive, provided a staged approach is adopted to getting the income side of the account on to an accruals basis.

4.96 On timing, as with the introduction of RAB, there will inevitably be a long lead time, and auditable WGA will clearly take some years to produce. **Chapter 5** therefore considers how fiscal policy requirements might be delivered in the interim period until auditable GAAP-based WGA are in place.

Chapter 5: Statistically-based Whole of Government Accounts

5.1 The Government's decision to proceed with the development of GAAP-based WGA for the public sector, subject to assessment of the practicalities, was taken against the background that the UK already produces national accounts. As noted in **Chapter 4**, GAAP-based WGA will take a number of years to introduce. This chapter considers what the Government might do to underpin fiscal policy development in the interim period until GAAP-based WGA are in place.

5.2 Many of the benefits of GAAP-based WGA described in **Chapter 2** would apply also to WGA developed from a statistical base - that is, by building on the national accounts data produced by ONS, taking account of the significantly improved data provided by resource accounting and budgeting (RAB). This chapter explores what more would be needed than this to produce WGA from a statistical base, and how and when this might be achieved, in order to deliver the data needed for short term fiscal policy purposes.

5.3 WGA would allow fiscal policy to classify some items differently from the national accounts but on the same basis as RAB. In this way, there would be a much closer correspondence between the fiscal framework and the system of public expenditure planning, budgeting and control. Fiscal policy classifications should be used for WGA on a statistical basis even though ESA95-based classifications would still be needed for other purposes. **Annex E** explores in more detail the definitional differences between RAB and ESA95.

ONS' national accounts

5.4 As noted in **Chapter 1**, the ONS already produces national accounts within the framework of the internationally agreed System of National Accounts (SNA). From September 1998, these accounts will be based on the European System of Accounts 1995 (ESA95). This internationally agreed system will be introduced throughout the European Union over the next few years and will be used for reporting economic statistics required under European law by the European Commission. The accounts are produced quarterly 12 weeks after the end of the latest quarter reported, and annually about 8 months after the end of the latest year reported.

5.5 In theory the accounts should be on a full accruals basis, but for practical reasons some types of distributive transactions are recorded on a cash basis.

5.6 Measures such as Gross Domestic Product and the Balance of Payments are part of the system, as well as public finances components such as public sector net borrowing and the current budget of the public sector. The public sector net cash requirement is reconciled with the national accounts.

5.7 Accounts are shown for central government, local authorities, and public corporations, as well as for the private sector of the economy and for UK transactions with the rest of the world. The system is integrated: for example, government receipts of corporation tax are matched by equivalent total payments of corporation tax by other sectors of the economy.

5.8 For each sector, there is a linked set of accounts showing production; generation, use and distribution of income; capital transactions; financial transactions; other balance sheet changes; and the balance sheet. For government, the distribution accounts are detailed showing receipts of various taxes and social contributions, and they show expenditure on various types of social benefits, other grants and government's own final consumption. Government expenditure is broken down by function (defence, health, education and so on). Some information is shown seasonally adjusted and at constant prices.

5.9 The system classifies as private sector some institutions providing public services - universities, for example. The classification depends on their finance and control and is based on rules in ESA95. The Treasury uses the same classification to distinguish between public and private sectors.

5.10 The accounts are built up from administrative data, survey returns and internal estimates. Government spending reported in national accounts for the latest financial year is reconciled with estimates produced by the Treasury from administrative data reported through the GEMS in-year monitoring system. This is the same source through which RAB data will be reported. RAB data will be prepared according to financial reporting principles and will be used in national accounts, along with audited data on central government financing, administrative data collected from local authorities and banking statistics.

5.11 Monthly data for monitoring fiscal policy are published jointly by the ONS and Treasury, covering public sector net borrowing and the public sector net cash requirement. ONS are working towards producing monthly estimates of the surplus on current budget, the measure used to monitor performance against the golden rule. National accounts data are published quarterly by the ONS, covering net borrowing and the surplus on current budget.

The European dimension

5.12 National accounts statistics based on ESA95 will remain important for policy purposes because of European Monetary Union (EMU), as well as the *Code for Fiscal Stability* (see **Annex D**). For example, general government net borrowing and general government gross debt (GGGD) are the measures used in the European Union excessive deficits procedure. These measures must also be set out in Member States' convergence and stability programmes.

5.13 There will therefore be a requirement, for the foreseeable future, to produce data and projections for general government net borrowing and GGGD on the definitions set out by the European Statistical Office (Eurostat), whatever framework is adopted for UK fiscal policy.

5.14 In October 1997, the Government said that it would ensure that the UK's fiscal rules and deficit reduction plan continue to be consistent with the terms of the Stability and Growth Pact, thus underlining its commitment to avoiding an excessive deficit under Article 104c of the Maastricht Treaty.

5.15 The quality of these statistics, and consistency with ESA definitions, are checked in detail by Eurostat. For example, it has recently been investigating the "exhaustiveness" (completeness) of the UK general government sector, in terms of whether the statistics cover all of it.

Data limitations

5.16 There are limitations with national accounts balance sheet data which cause difficulties in making greater use of the public sector balance sheet in the conduct of fiscal policy. By contrast, RAB-type data could in principle improve our ability to implement the golden rule. The ESA95 accounts would therefore need to be developed in various ways if they were to form the basis of WGA.

5.17 A key issue for national accounts from the fiscal policy perspective is determining the best way of improving the quality of information available, and especially of capturing the gains offered by RAB-type data, which offer not only better quality information but in certain cases new information, for example estimates of unfunded pension liabilities.

5.18 ONS have, however, begun a project to improve public sector balance sheets and expect to use outputs from RAB for this. Under RAB, outturn data on expenditure within the departmental boundary will be on an accruals basis and will therefore be more suitable for the national accounts than the current cash data. It will also include depreciation data for the first time.

Golden Rule

5.19 At present, the golden rule is implemented using a definition of the current balance relatively close to that in the national accounts. The two main differences are that in national accounts:

- capital taxes are counted as capital rather than current; and
- depreciation (capital consumption) is recorded as a resource in the current account rather than being netted off capital expenditure.

5.20 The movement of the UK national accounts later this year on to the definitions in ESA95 will remove the second of these differences.

5.21 Public sector net wealth is also defined within the structure of ESA, and work is in hand to improve estimates for the public sector. However, there would be no barrier to operating the golden rule using the WGA counterpart to the current balance if this offered a better alternative, just as the present definition of the current balance differs in some respects from the national accounts treatment.

Improving data quality

5.22 As noted above, the ONS have set up a project to develop improved systems to estimate national and sector non-financial balance sheets. Comprehensive balance sheets were first published in May 1987, but little of the methodology and the assumptions within these has been reviewed since.

5.23 Renewed interest in the estimates, particularly in the context of the new fiscal framework, means that the balance sheet methodology needs overhauling and updating. The project will look at ways of improving methodology and data sources and will conduct a feasibility study into the use of RAB data, where appropriate, to improve the production of quarterly balance sheets.

5.24 The *Code for Fiscal Stability (Annex D)* commits the Government to apply best practice accounting methods in the production of its accounts, to the extent reasonably practicable. The accounts should cover the whole public sector and should be consolidated where reasonably practicable. The extent to which WGA from a statistical base would be consistent with these provisions would depend on the extent and significance of differences between GAAP and national accounts conventions.

5.25 WGA prepared on a GAAP basis could help improve the production of the national accounts by improving the quality of the underlying statistics, provided WGA consist of a better organised collection of consistent information for the public sector. National accounts might be able to use such information either directly or for cross-checking. GAAP-based WGA - and, to a lesser extent, CGA - might be able to improve national accounts estimates in areas where they are currently weak, such as non-financial balance sheets, or where accruals information offers a better alternative, such as taxation, social security and public service pensions liabilities.

Practical difficulties

5.26 The practical difficulties in producing statistically based WGA are therefore likely to be:

- the need to address the current data limitations described above; and
- the need to produce national accounts which will be capable of producing data on both RAB-type definitions and ESA95 definitions, and reconciling the two.

Mechanics

5.27 The basic mechanics for producing WGA from national accounts are already in place. However, depending on their precise coverage, it would be necessary to add on data for certain items not currently covered by national accounts identified above, including the items which have not previously been fully captured by government accounts identified in **Chapter 3**.

Production timetable

5.28 National accounts data are currently prepared relatively quickly. As noted earlier, quarterly national accounts data are currently available within three months of the end of the latest quarter reported. **It is thought that statistically-based WGA**

could be produced in provisional form by the October after the end of the financial year to which they relate. With continuing technological improvements, there may be scope for improving further on this.

Costs

5.29 The costs involved in producing statistically based WGA would depend on the extent of the necessary additions to national accounts. **A provisional estimate is that additional resources needed to produce statistically based WGA alongside national accounts could be of the order of £250,000 for the first two years while new systems are being introduced, and around £150,000 a year thereafter.**

Timescale

5.30 It is thought that it would take around two years before the first set of statistically-based WGA could be produced. **A reasonable target would therefore be to aim to produce the first illustrative statistically based WGA in 2001 in respect of financial year 2000-01, with the first published accounts in 2002 in respect of 2001-02.**

Conclusion

5.31 This chapter has assessed the practical implications of developing WGA from a statistical base in the interim period while auditable GAAP-based WGA are being developed. It has shown that national accounts based WGA could have an important role in supporting fiscal policy development until GAAP-based WGA are introduced, and could be produced at reasonable cost.

5.32 Indeed, given certain advantages of statistically based WGA in terms of quicker production after the end of the financial year, the Government believes that such accounts are likely to have continuing value alongside GAAP-based WGA in helping to underpin the fiscal policy framework.

Chapter 6: Conclusions and recommendations

6.1 This chapter summarises the conclusions and recommendations of this scoping study into the development of whole of government accounts for the UK.

GAAP-based WGA

6.2 As noted in the *Code for Fiscal Stability* and the *EFSR*, the Government's long term aim is to develop a fully audited set of GAAP-based WGA covering the whole of the public sector, as far as practicably possible. The Government believes that this will provide better transparency and accountability to Parliament as well as greater certainty to fiscal planning.

6.3 Fully reliable GAAP-based WGA will however take some time to introduce. The Government therefore proposes to adopt a phased approach. On the basis of information currently available, practical considerations suggest that it may be necessary to build gradually towards this, starting first with a consolidation of the accounts of central government into a CGA.

6.4 This would, moreover, meet Parliament's welcome for an account bringing together the income and expenditure and assets and liabilities of central government. It would also start the process of improving the quality of balance sheet information for the central government components of a full public sector balance sheet.

6.5 Public sector wide WGA are likely to be rather more difficult to compile, in terms of developing a sufficiently consistent set of accounting policies and conventions across the public sector as a whole. However, despite some practical difficulties, the Government believes that this should nonetheless be achievable.

6.6 It would not, however, make sense to wait until CGA are in place before starting work on a possible WGA covering the whole public sector. The Government therefore proposes to begin work immediately in parallel on assessing the precise costs and benefits, and detailed practicalities, of consolidating local authorities and other public sector bodies into WGA.

6.7 In this way, preparation of the CGA would begin to be put in place alongside pilots and research to see how best to widen the scope of the account to cover the whole public sector. This would enable the decision on extending the coverage of the CGA to a WGA covering the whole public sector to be confirmed once a full cost/benefit analysis has been carried out.

Staged approach

6.8 The Government therefore proposes to adopt a staged approach:

- committing now to producing a CGA because data quality and consistency are much better for central government, and consolidation at this level would start the process of improving the quality of public sector balance sheet information. And, even if it were decided to go no further, this would meet Parliament's main interests; but
- subject to the outcome of parallel pilots and research, moving towards the development of a full public sector WGA, incorporating local authorities and public corporations, unless the cost of doing so proved to be prohibitive or other practical considerations (eg getting LA data in a timely and accurate manner) gave real grounds to reconsider.

6.9 A decision on whether to publish a dry run CGA for 2001-02 in advance of full WGA, if the necessary work on alignment of accounting policies and elimination of intra-group transactions proceeds sufficiently quickly, could be taken in 2000. If this is not possible, an alternative would be to plan, in the light of this further work on full WGA, to go straight for whole public sector coverage, with the first dry run WGA for 2003-04.

Statistically-based WGA

6.10 Policy requirements for whole public sector information will, however, remain until GAAP-based WGA covering the whole of the public sector are in place. **The Government therefore proposes in the meantime to develop unaudited national accounts-based WGA for use while GAAP-based WGA are being developed and implemented.**

Timing

6.11 The immediate operational need in order to improve government budgeting and accounting is to get RAB satisfactorily introduced in 2001-02.

6.12 This suggests that it would be prudent to aim to develop a first full set of trial GAAP-based WGA for 2003-04, with the first fully audited and published set of WGA on an accounting basis being prepared for 2005-06. These are provisional dates, subject to satisfactory progress being made in the interim with the work needed to develop the accounts.

6.13 Chapter 5 noted that it would be likely to take around two years to complete the work needed for statistically-based WGA to be produced. This suggests that it would be reasonable to aim to produce the first set of illustrative (unaudited) accounts on a statistical basis in the autumn of 2001 in respect of financial year 2000-01, with the first set of published accounts in 2002 in respect of 2001-02.

6.14 The following table summarises the proposed development timetable for the staged approach outlined above:

Year	GAAP-based WGA	Statistically-based WGA
1998	Establish legal requirements Full cost benefit analysis of consolidating CG bodies into CGA	Detailed assessment of resources needed to produce ESA-based WGA
1999	Begin work needed to consolidate CGA, including alignment of accounting policies and elimination of intra-group transactions Cost benefit analysis of consolidating LAs and other public sector bodies into WGA	Undertake work needed to resolve issues of data quality and incorporation of items not currently covered by national accounts
2000	Expand work on CGA to cover PCs accountable to Ministers Decision in light of progress on whether to aim for published "dry run" CGA for 2001-02 Pilots and research to see how best to widen scope of the account to cover whole public sector	Continue/complete this work
2001	Begin alignment of accounting policies and financial years and elimination of intra-group transactions for WGA Possible dry run CGA	First set of illustrative accounts produced for 2000-01 First illustrative quarterly outturn data
2002	Continue/complete process of alignment of accounting policies and financial years and elimination of intra-group transactions for WGA Possible first set of published dry run CGA	First set of published accounts produced for 2001-02 First published quarterly outturn data
2003	Possible further set of published dry run CGA	
2004	First set of trial WGA for 2003-04 (unaudited)	
2005	Second set of trial WGA for 2004-05 (unaudited)	
2006	First fully audited and published set of WGA for 2005-06	

6.15 A project team will need to be established and a detailed project plan drawn up to cover this forward programme.

Interim developments

6.16 The advantage of aiming for the introduction of statistically-based (unaudited) WGA, with quicker production after the end of the financial year, is that this will help to underpin the conduct of fiscal policy in the short/medium term until fully audited WGA are in place. However, even when that point is reached, it is likely to make sense to

continue to produce statistically-based WGA since they are likely to offer more timely estimates than GAAP-based WGA, which will be helpful for monitoring fiscal policy. Improvements in technology may, however, reduce the difference over time.

6.17 Statistically-based WGA will also provide a convenient cross check with the GAAP based accounts, and are likely to play an effective ongoing role in improving the quality of ESA-based national accounts, with which it is important that they should be reconciled.

Medium term aim

6.18 The medium term aim is therefore a fully audited set of WGA prepared on a GAAP basis covering the whole of the public sector, which would feed into both ESA95-based national accounts and into national accounts based WGA. This is illustrated in Chart 1 below.

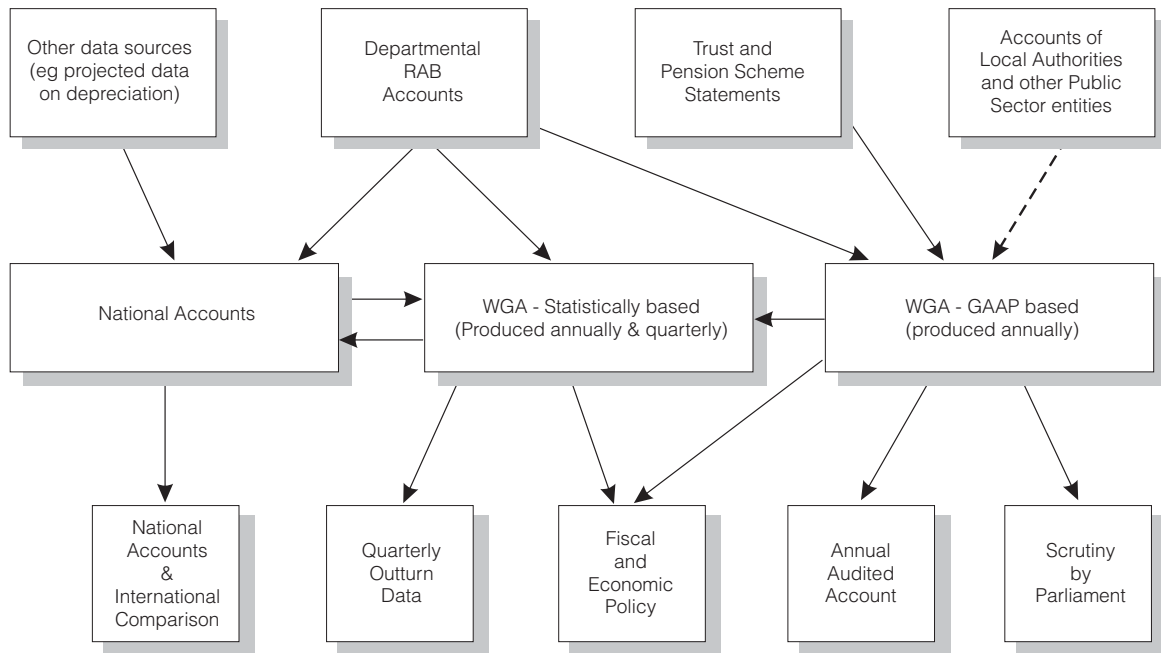
6.19 Production of audited GAAP-based accounts would be on an annual basis, with unaudited information available quarterly or, eventually, possibly even monthly as in New Zealand.

6.20 The statistically-based WGA would also be produced annually, and would be prepared in time to feed into the short term fiscal policy planning process. The aim would be to produce quarterly outturn data alongside the annual accounts.

Longer term vision

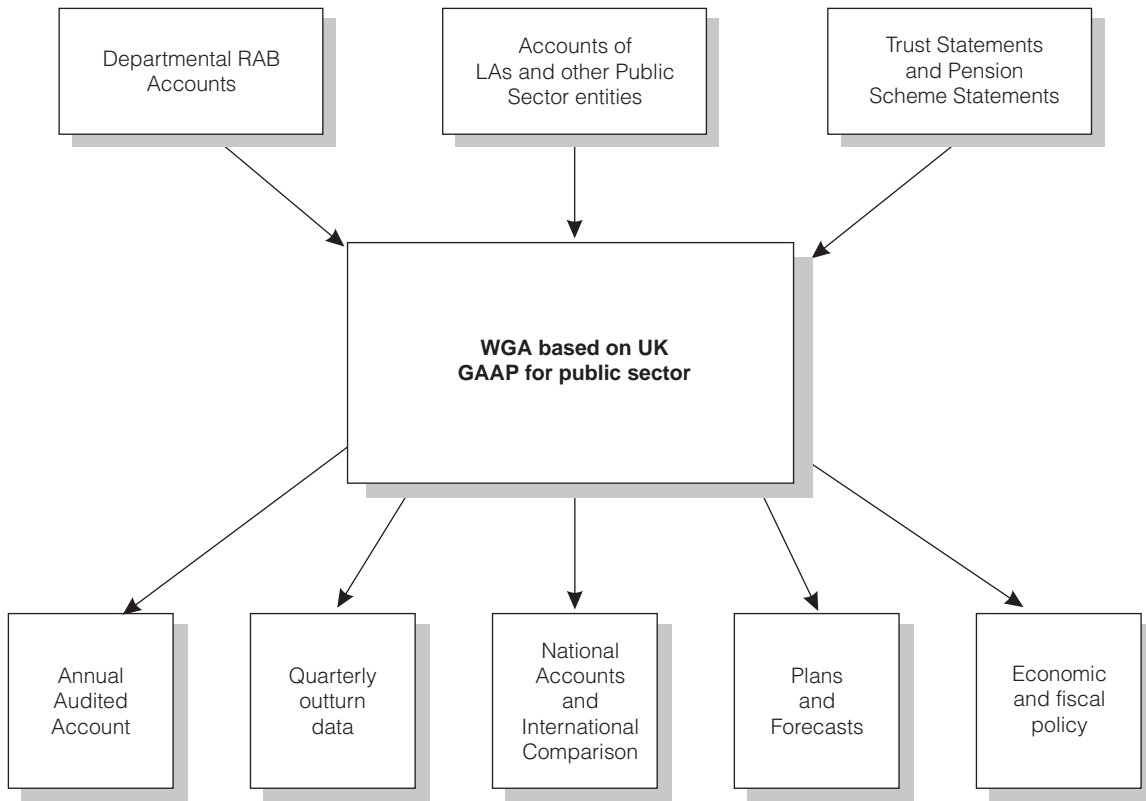
6.21 To the extent that GAAP-based information, first from RAB and then from WGA, progressively feeds directly into the national accounts, the longer term vision would be a single system of data collection which could be manipulated to provide all of the outputs shown in Chart 2.

Chart 1 GAAP-based and statistically-based Whole of Government Accounts in 2005-06



- Notes:
- 1) In order to produce quarterly information, it would be necessary for statistically-based WGA to be produced incorporating data from the national accounts and from departmental RAB accounts. These statistically-based WGA would adjust national accounts classifications to produce accounts which used RAB classifications. It will be possible to reconcile all three accounts - national accounts, WGA (GAAP-based) and WGA (Statistically-based) - to one another.
 - 2) National accounts data would be improved by data produced by the production of GAAP based WGA.

Chart 2 **Whole of Government Accounts: The longer term vision**



Notes: 1) Before this longer term vision might be achieved, the following would be needed:

- successful implementation of GAAP based WGA and audit; and
- technology to carry out consolidation receiving data from a variety of platforms and to allow manipulation of data for a variety of reports.

2) In order to produce the outputs shown, some of the data drawn from the WGA would need to be adjusted or combined with other data. For instance, national accounts would need to be prepared by adjusting data to take account of ESA classifications and some forecasts might need to combine eg GAAP information with demographic projections.

List of Annexes

- A** Outside bodies and individuals consulted in preparing the report
- B** Evidence submitted by outside bodies and individuals
- C** Terms of reference for the WGA scoping study
- D** *The Code for Fiscal Stability*
- E** UK public sector, national accounts and UK GAAP
- F** Key indicators in the present fiscal framework
- G** Summary of overseas experience
- H** Social security benefits
- I** Analysis of accounting conventions and policies
- J** Possible model primary statements
- K** Glossary
- L** Acronyms

Annex A

Outside bodies and individuals consulted in preparing the report

A.1 Listed below are the individuals and bodies who have been contacted during the course of the WGA scoping study. Comments received as a result of these contacts have been taken into account as appropriate in the report. Memoranda of evidence submitted by outside bodies and individuals are shown at Annex B.

- Audit Commission
- Accounts Commission for Scotland
- Budget Officials in a number of countries overseas
- Chartered Institute for Public Finance and Administration (CIPFA)
- Dr Peter Crossman, Queensland Treasury
- Financial Reporting Advisory Board (FRAB)
- National Audit Office
- National Institute for Economic and Social Research (NIESR)
- Professor David Heald, University of Aberdeen
- Local Government Association
- OECD - Economics Directorate
- OECD - PUMA
- Public Audit Forum

Annex B

Evidence submitted by outside bodies and individuals

B.1 The following Memoranda of evidence, which have been submitted to the Treasury by outside bodies and individuals during the course of the scoping study, have been taken into account in the compilation of this report. Evidence is appended to this Annex as follows:

Appendix I	Memorandum of evidence from CIPFA
Appendix II	Memorandum of evidence from Dr Peter Crossman
Appendix III	Memorandum of evidence from Professor David Heald
Appendix IV	Memorandum of evidence from the Financial Reporting Advisory Board (FRAB)
Appendix V	Memorandum of evidence from PUMA, OECD

Appendix I

Whole of Government Accounts (WGA) Scoping Study: Summary Report by CIPFA

Introduction

In its comments on the Green Paper *Better Accounting for the Taxpayer's Money* and in subsequent memoranda of comments to the House of Commons' Treasury Select Committee on aspects of resource accounting, CIPFA has urged that consolidated accountants should be prepared for the whole of government, as they would provide a different perspective on government activities than could be given in a set of discrete departmental resource accounts. Specifically, it has recommended that the preparation of such consolidated whole of government accounts should be explicitly accepted as a long-term goal.

CIPFA has also long held the view that, given the common public interest in the financial performance of public service bodies, there is a strong case for there being a much higher degree of consistency in the accounting and financial reporting requirements applying to different parts of the public services. It therefore welcomes the development of whole of government accounts, which could serve to bring about such convergence.

CIPFA acknowledges that the production of whole of government accounts will be a major undertaking. With the introduction of resource accounting in central government, accounting and financial requirements in all parts of the public sector will be based on UK GAAP. Nevertheless significant differences will remain between sectors.

As a contribution to the joint research being undertaken by the Treasury and the National Audit Office into the merits and feasibility of whole of government accounts, CIPFA has carried out a detailed comparison of the accounting and disclosure requirements of the Resource Accounting Manual (RAM) and the Statement of Recommended Practice (SORP) on Local Authority Accounting in Great Britain, with a view to identifying both significant differences and the practical issues likely to arise on consolidation of central government departmental resource accounts and local authority accounts.

The results of this exercise are set out in a detailed technical annex, which is available from CIPFA on request.

Process

The accounting and disclosure requirements for local authorities in Great Britain are defined in the SORP, which is developed and issued by CIPFA and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) under the auspices of the Accounting Standards Board (ASB). The SORP sets out the principles and accounting practices requirements for statements of accounts to present fairly the financial position and transactions of a local authority and to meet all legal accounting and reporting requirements. In England and Wales the SORP constitutes a 'proper accounting practice' with which local authorities are required to comply in preparing their financial statements under the Local Government and Housing Act 1989. In Scotland, the status and authority of the SORP derives from Scottish Office circular 5/1985 which indicates that local authorities should follow recommendations made by LASAAC regarding the form of accounts and accounting practice.

In accordance with the ASB's policy for the development of SORPs, the SORP is reviewed annually and updated, where appropriate, to reflect new pronouncements by the ASB and the Urgent Issues Task Force (UITF) and in accordance with 'due process'.

This annual updating process will facilitate any 'technical' changes that will need to be made to the SORP to bring it in line with the RAM. Moreover, there is anyway now a need to carry out a fundamental review of the accounting and reporting framework for local authorities in the light of the Government's 'Modernising Local Government' agenda, in particular its proposals in respect of best value and possible future changes to the capital financing system. In this context, therefore, it will be timely also to consider the appropriateness and practical implications of any further changes that may be required to facilitate whole of government accounts.

Insofar as the SORP is an accounting standard it does not prescribe specific accounting policies in any detail. This reflects CIPFA's view that these are matters properly left to individual professional judgement. However, CIPFA does recognise that if consolidated accounts are to be meaningful there may well be a need to introduce a greater degree of prescription into the local authority accounting framework.

Consolidation of local authority accounts

In order to produce whole of government accounts it would first be necessary to consolidate local authorities' accounts. Separate consolidation of police and fire and civil defence authorities' accounts will also be necessary.

The SORP provides for different accounting policies and treatments, and accounting statements in Scotland by comparison to England and Wales, reflecting its specific and different legislative framework. Consolidated local authority accounts would need to take into consideration these differences between England and Wales, and Scotland and it is suggested that consolidated by 'country' would be required in the first instance.

Clearly, some thought will need to be given to the practical process by which local authorities' accounts are consolidated. CIPFA does not envisage that consolidation will be on the basis of published financial statements but rather on the basis of specific 'returns' to the relevant department. In this way at least some of the differences in accounting policies between the sectors may be addressed relatively simply without having to make fundamental changes to current accounting practice.

There will be issues surrounding the internal consolidation of the ring-fenced Housing Revenue Account, the Collection Fund and DSO accounts, which will need to be addressed. Transactions between local authorities would also need to be identified separately and appropriate adjustments made.

Local authorities themselves produce group accounts in limited circumstances. Such group accounts are not produced on a fully consolidated basis; rather, summarised information is disclosed in a supplementary statement. Consolidation of local authority accounts may however require local authorities to produce fully consolidated group accounts. In general local authorities' interests in companies are currently not material, although this may change with the development of public/private partnerships and other forms of joint venture.

In producing whole of government accounts, financial flows between central and local government and between local authorities and other public sector entities to be consolidated in the whole of government accounts, eg NHS bodies, would need to be identified and appropriate adjustments made.



Accounting basis

Both the RAM and the SORP require financial statements to be prepared on the basis of modified historical cost accounting, reflecting on 'operating capability maintenance' (OCM) model of accounting. However, CIPFA notes that the Treasury is carrying out a pilot study to determine the possible application of a 'financial capital maintenance' (FCM) or 'real terms' accounting model, whereby changes in the value of net assets are adjusted for general price changes as well as changes in specific asset prices.

CIPFA believes that the modified historical cost approach, based on OCM, will serve to ensure comparability with other parts of the public services and with the private sector, to the extent that companies choose to revalue all or some of their fixed assets. It does not support the development of a system of FCM or 'real terms' accounting, which would result in the production of accounts bearing little resemblance to accounts prepared by other entities under GAAP.

Whilst CIPFA acknowledges that 'real terms' accounting information may be useful for management purposes and, in particular, decisions at the margin about the investment of resources in particular projects and/or programmes, it believes that the adoption of real terms accounting will introduce unnecessary complexity into the accounting arrangements and thus is sceptical about the introduction of such an accounting method for financial reporting purposes.

Accounting policies

The main differences between the accounting and disclosure requirements of the RAM and the SORP relate to:

- accounting for fixed assets:
 - infrastructure
 - community/heritage assets
 - donated assets
 - the revaluation reserve
 - profits/losses on disposal

- provisions for depreciation
- capital charging
- accounting for pension costs
- format of financial statements
- form of audit opinion.

The materiality of the effect of these differences in the context of what will be the very large numbers reported in whole of government accounts will need to be considered; in many cases the effect will not be material.

In many cases, the differences identified are purely technical and can be addressed through the annual process of updating the SORP. Other differences, for example the format of the financial statements, simply reflect the different nature of local authorities as opposed to central government bodies and, as such, will not cause particular difficulties upon consolidation.

A decision will need to be made on the form of the proposed consolidated income and expenditure account, in particular whether it is to be based on an objective analysis, ie by service or programme, or subjective analysis, ie by economic categories of income and expenditure. If a subjective basis is used at least some of the differences in accounting policies between sectors could be addressed relatively simply without having to make fundamental changes to current accounting practice.

Other differences reflect the specific requirements of the local government capital finance system. These requirements are reflected in:

- the requirement of the SORP to 'reverse out' capital charges and to replace them by statutory capital financing charges (in England, the minimum revenue provision (MRP); in Scotland, 'debt charges')
- imperfect 'articulation' between the income and expenditure account and the balance sheet which has resulted in the creation of two capital reserves which have no counterpart in UK GAAP.

It is to be hoped that the differences arising from these requirements may be addressed in the context of the current review of the local government capital finance system.

In addition, the requirements of the SORP in respect of capital charging do not apply to the statutory Housing Revenue Account, where capital charges are determined so as to equate to the statutory capital financing charge. However, CIPFA welcomes the fact that the DETR is formally considering the application to the HRA of resource accounting principles, which should also bring accounting for the HRA into line with other local authority services and registered social landlords. CIPFA is pleased to be represented on the Technical Advisory Group which is advising the DETR on the technical and practical issues involved.

The most obvious and potentially significant area where the requirements of the RAM and the SORP differ is in respect of infrastructure assets. While the RAM requires infrastructure assets to be included at current value on the same basis as all other operational assets, the SORP provides for such assets to be included at historical cost.

Clearly, to bring infrastructure assets within the scope of the revaluation provisions of the SORP would amount to more than simply a technical change, as it could have real resource implications for local authorities. Any such decision would need to be subject to a cost-benefit test. Therefore, CIPFA would need to discuss the practical implications of any such change with the Audit and Accounts Commissions, the Local Government Association and COSLA, and the engineering profession. It would also find it useful to discuss with both the Treasury and the DETR the approach to and practical experiences of the process of valuing infrastructure assets within central government.

Other significant differences, for example accounting for pension costs, particularly in relation to the unfunded police and firefighters' scheme, will also need to be addressed.

Form of audit opinion

Whilst accounts of central government bodies produced in accordance with the RAM will be prepared so as to give a 'true and fair' view the financial statements of local authorities are required to 'present fairly' their financial position and transactions.

CIPFA is currently developing a discussion paper on the meaning of a 'true and fair view' in the public sector and whether and, if so, how it differs from a 'presents fairly' opinion. In CIPFA's view the 'presents fairly' approach is no less rigorous than 'true and

fair' and arguably there is no fundamental distinction between the two. However, CIPFA would be prepared to consult with the DETR and Scottish Office, the Audit and the Accounts Commission and local authorities themselves and to promote a wider public debate on whether it would be appropriate to amend the relevant regulations to require local authorities' financial statements to give a true and fair view. However it is arguable whether the financial statements of local authorities are currently sufficiently similar to accounts of entities which purport to give a true and fair view.

Conclusion

If whole of government accounts are to be produced, the differences identified in CIPFA's report will need to be addressed. For its part, CIPFA is willing and ready to contribute to that process.

CIPFA
3 Robert Street
LONDON WC2N 6BH

Contact: Martin Evans, Policy and Technical Director
Tel: 0171 543 5676
Fax: 0171 543 5695

Appendix II

The context of reform of public sector accounting, including Whole of Government Accounts: Dr Peter Crossman, Queensland Treasury and Clare Hall, Cambridge

The views reflected in this Memorandum do not necessarily reflect the views of the Queensland Treasury or the Queensland Government.

Theoretical developments

Several influential strands of economic theory have recently focused attention on the need for improved information for better economic decision making by governments. These have included:

- public choice theory, which has addressed the question of what is the very role of government, and which has developed an analysis of the need to establish the accountability of government decision makers for the achievement of their expressed policy aims;
- the theory of rational expectations, which has focused on the power of government economic policy, suggesting that such policies are likely to be ineffective. More constructively, this theory has also suggested, firstly, that unpredictable or random policies are likely to be very disruptive, and secondly, that good policy should involve the selection of stable rules; and
- agency theory, or institutional economics, which has also been important in influencing modern views of the role of government and the nature of economic policy. This theory emphasises asymmetrical information, and suggests that while individual agents attempt to optimise their position, they do so within a framework of imperfect information. This theory also, amongst other things, points to the need for improvements in the quality and quantity of financial information.

As well, importantly, theory has also addressed the question of the sustainability of fiscal policy. That is, it asks whether current policy settings are capable of maintaining the current delivery of services without the need for major changes in the policy stance - for example, should taxes be raised now to prevent much higher rates in the future. This strand of theory stresses the need for government accounting to be comprehensive, i.e. to incorporate all public sector entities in the consolidation of

balance equations and balance sheets, since sustainability cannot be established without all public sector financial assets and liabilities being included in the analysis. Generational accounting is a particular manifestation of this concern, especially in relation to future unfunded social welfare liabilities.

As Buiter (1985, "A Guide to Public Sector Debts and Deficits, *Economic Policy*") has strongly pointed out, a comprehensive balance sheet of all government contractual obligations and claims and tangible real assets can be combined with a forward looking comprehensive projection of government non-contractual outlays and receipts. Such a construction would enable a government to think systematically about its solvency, the sustainability of its fiscal program and the intergenerational equity implications of its policy program. The balance sheet is valuable if only because it can be viewed as a key component of the government's inter-temporal budget constraint. Buiter not only emphasises the importance of including items "on balance sheet", including both formal institutional coverage of corporations, agencies and other tiers of government, but also uncertain future cash flows associated with the government's assets and liabilities. While this would be difficult to construct in practice, Buiter has also pointed out that innovative accounting techniques, such as option pricing methods and private sector risk valuation methodologies, could be helpful.

Fiscal principles

These modern views of the need for improved information in public finance point to a number of sound fiscal operating principles, including:

- fiscal responsibility rests largely on the principle of maintaining public sector net worth;
- fiscal responsibility must be complemented by fiscal transparency, requiring accrual-based accounting, budgeting, monitoring and performance assessment of government service delivery;
- efficient resource allocation and investment decisions require that government capital assets be allocated, and their full usage costs be charged, to the agency using (or holding) the assets; and
- all government assets and liabilities be recognised, regardless of their form, and that, where service delivery involves the private sector, risks should be allocated to the party best able to manage the risk.

The idea of preserving public sector net worth is based largely on the principle of intergenerational equity. The essence of this principle is that each generation should pay its own way. But the idea goes beyond this narrow concept to encompass the obligation of efficiency in all that a government does, so that resources are not wasted and assets held in trust for the current and future community are not wasted. This concept extends not only to current areas of service delivery, but also to environmental and exhaustible natural resources.

Adoption of such principles change the focus of public accounts from a narrow cash-based and short term view of parts of the public sector, to an exhaustive longer term view of all resource use in all parts of the public sector.

Implications for public accounts

There are two main areas of reform of public accounts implied by the adoption of sound fiscal principles. The first is the introduction of accrual accounting and budgeting. The second is the need to account for the entire public sector.

While financial reporting by government has traditionally been on a cash accounting basis, it now seems clear that proper stewardship of public funds cannot exist under a cash based system, since such a system fails to cover the public sector's stocks of assets and liabilities. Cash is a resource, and an important one, but it is only one of the possible set of fiscal and economic resources available to the public sector.

In the private sector, the common form of financial reporting has been on an accrual basis for many years. This form of account captures all accruing resource usage. There is now widespread agreement that public sector producing units and general government agencies should report on an accrual basis. The compelling reasons for change were not only a matter of subjecting these units to the same standards as their competitors (where relevant), but of improving the basic information relating to their financial performance.

The critical point is the purpose for which the reported financial information is to be used. While estimates of cash flow are necessary for cash management, even in the private sector, the fundamental measures of financial health, for almost any other purpose, are net worth (the difference between the value of assets and liabilities) and the operating balance (the difference between revenues and expenses) which increases or decreases net worth after allowing for re-valuations.

Whole of government accounts, which consolidate the activities of all tiers of government and all business enterprises (financial and trading) of all governments, are necessary to enable fiscal policy makers to comprehend the “whole picture” and to prevent any “switching” confusion from occurring in the accounts (i.e. expenditure from say one tier of government to another, or assets or liabilities from a public enterprise to a government).

Size of government

This is not to say that there is an absolute overall level of net worth which is optimal in any circumstances. There is a wide range of net worth positions which are potentially consistent with a prudent, responsible and sustainable fiscal stance. The precise net worth position which is adopted will be a function of a number of issues, including the starting balance sheet, likely risks and liabilities, and political preferences.

Indeed, this puts the old and somewhat tired debate about the “correct” size of government into perspective. Size simply does not matter, as long as efficiency, equity and sustainability objectives are being met. The size will reflect the issues mentioned above. What is important is that the supply of public goods and services should meet the demands of citizens and that all use of all public resources should be fully and clearly accounted for, and reported to, the citizens, who pay for and own that usage.

Conclusion

Fiscal principles, such as the maintenance of net worth, must be underpinned by a suitable measurement framework, i.e. an accounting and monitoring system which transparently recognises all assets and liabilities, contingent or otherwise. Accrual accounting and whole of government accounts are important first steps in this process. Further important steps, requiring much further research, include

the development of comprehensive balance sheets for sustainable fiscal policy, and the accounting for social costs and benefits that have no ready economic benchmark, such as the incorporation of environmental assets and liabilities.

Dr Peter Crossman
Queensland Treasury and Clare Hall, Cambridge
June 1998

Appendix III

Views on Whole of Government Accounts: Professor David Heald, University of Aberdeen

Under Resource Accounting and Budgeting (RAB) two forms of consolidation will be undertaken but another will not. The Departmental Resource Account (DRA) of each department will consolidate organisations falling within the relevant departmental boundary. Moreover, organisations outside the departmental boundary will continue to follow the current standard FRS2 in relation to any subsidiaries. However RAB will not involve the creation of a "super departmental" resource account, consolidating DRAs. The topic of consolidation within the public sector can be shown to be of substantive importance for anyone seeking the "whole picture" and it is possible to identify reasons for more systematic public sector financial consolidation.

The onset of RAB will be likely to lead to more and more pressure to consolidate DRAs and additional information to produce a Whole of Government Account (WGA). In addition, it is likely to be difficult to avoid the introduction of a consolidated government account for macro-economic reasons. A commitment has been given, subject to the outcome of the scoping study, to produce consolidated Central Government accounts along with a less firm commitment to widen the scope of the consolidation beyond Central Government as part of the recent fiscal policy announcements made by Treasury Ministers. In addition, it is likely that benefits would be derived from the production of a WGA because it would lead to improved public accountability and transparency and would inform micro-economic decision making.

It is worth noting that New Zealand has already produced a WGA, thus setting a precedent for others to consider. The New Zealand WGA involves the consolidation of all government bodies on a line-by-line basis, and the consolidation of all central government interests outside the general government boundary on an equity basis. Local authorities are excluded from the New Zealand financial statements, so that the term "WGA", though widely used, is rather misleading (note that in terms of both expenditure and functions, local government is much less important in New Zealand than in the UK). The UK will need to ensure that the data contained in the WGA are as reliable as possible, and that misinterpretations are avoided, particularly given the links to the macro-economic agenda and fiscal policy decisions.

Given that UK GAAP is being extended to central government and that there is a possibility that a WGA will be produced based on UK GAAP, then it is useful to consider the relevance of private sector experience with consolidation. The very purpose of consolidation in the private sector is to transcend the question of legal relationships so that economic entities can be reported upon. The decisive criterion for consolidation under UK GAAP is that of control and not that of ownership. Consolidation brings together the financial results of the parent and all subsidiaries, thereby eliminating an opportunity for income smoothing through timely dividend payments from subsidiaries to the parent. Therefore it is vitally important to define the boundary of the entity to be consolidated, which may be difficult given the complexity of government structure. It would be possible to contend that UK government is the ultimate parent of all UK government entities, which would suggest that consolidation should go beyond the New Zealand style of WGA to include local authorities. This would be likely to be highly contentious because of the constitutionally separate status of local authorities.

It is important to consider how the government sector differs from the private sector when accruals accounting is in operation. First, the idea of control is substantially more difficult to operationalise. Second, some liabilities (eg unfunded pensions) are much more under the discretionary control of government than would ever be the case for private sector decision-makers. Moreover, the future tax revenues (which will be the means of meeting these liabilities as they mature) are not capitalised, thereby aggravating the difficulty of interpreting the "General Fund". Third, the application of UK GAAP to government confronts problems originating from the way in which government confers unrequited benefits (eg capital grants to finance asset acquisition) outside the departmental and general government boundaries, thereby creating a new asset but one which it does not own but over whose use it may retain substantial control. In some cases, extending the area of consolidation based on the notion of control would resolve this problem. However, there will also be cases where the resulting asset is genuinely privately controlled.

A judgement concerning the balance between consolidation and disclosure, and how the two can most effectively be combined, needs to be made. Applying "control" as the criterion would lead to a vastly expanded area of consolidation in the UK, embracing both local authorities and even those parts of the quasi public sector which most observers would regard as primarily private in character. The issue becomes more sharply focussed in a federal system, such as in Australia where Whole of Government has the meaning of Whole of Jurisdiction (ie Commonwealth, six States and two Territories). When looking at net worth, it is always relevant to ask "whose net worth?". Across the complex structure of units and tiers of government there might be marked variations in fiscal probity and health. Whereas appeal to UK GAAP provides a

welcome safeguard against manipulation by preparers, such anchoring should not inhibit the search for a style of WGA which addresses both user needs and reflects the institutional context.

My overall conclusion would be that a WGA is a key “next step” in the UK’s financial management reform agenda. It would, in my opinion, be sensible to demonstrate that a Central Government consolidation could be successfully achieved and produce useful data before moving further and widening the scope of the consolidation to include other public sector bodies including local authorities.

An extended exposition of my views is available in the paper “*Consolidation principles and practices for the UK government sector*” co-authored with George Georgiou (mimeo, March 1998).

Professor David Heald
Department of Accounts, University of Aberdeen
June 1998

Appendix IV

Whole of Government Accounts: View from the Financial Reporting Advisory Board (FRAB)

The Board welcomes the study into WGA.

The Board sees this as a natural development from departmental resource accounts. By its nature WGA can only be of benefit as a further useful source of information for Parliament and the taxpayer.

It will be useful also in ensuring that all items of Government expenditure and income are accounted for. At present, various bodies produce individual sets of accruals accounts and the introduction of departmental resource accounts will extend significantly the coverage of accruals accounting in Government. While the Board endorses the introduction of departmental resource accounts as a major development in Government accounting, even in total they will only, as presently proposed, give a partial picture of the Government's overall financial position. There will remain significant areas of Government expenditure and income not brought to account in the same way. In the case of the Consolidated Fund, for example, the Board notes that there will be an overlap in the coverage of the accounts for that Fund and departmental resource accounts. WGA would rectify that and bring to account any areas which may not be reported at all.

However, the Board does not underestimate the task and resources involved and acknowledges that whether it is practical to do will be explored further, not least the different bases for accounting in different areas of Government.

The Board would welcome being kept in touch with progress in this important development and looks forward to being informed of the outcome of the scoping study.

Financial Reporting Advisory Board
April 1998

Appendix V

Whole of Government Accounts: Evidence submitted by the Public Management Service (PUMA) of the Organisation for Economic Cooperation and Development (OECD)

Introduction

The chief policy issue to be addressed in considering the introduction of accrual based whole of government accounts (WGA) is whether the migration to presenting financial information in this way provides greater economic benefits than it does costs, relative to the current state of affairs. There is then a subsidiary question of whether these benefits could be provided at a lower cost some other way, or whether higher benefits could be attained through a different approach.

This paper focuses on the nature of the benefits that may be provided by the use of WGA. Specifically, the paper focuses on:

- the policy rationale for the introduction of WGA;
- some characteristics of WGA;
- the issue of the appropriate form of consolidation; and
- three examples of policy relevant use of WGA - involving asset sales, targeting of net debt and the intertemporal budget constraint.

Background

In the United Kingdom, government bodies will be required to provide accrual accounting representations of their performance. In making this decision to apply accrual principles, policy makers in the United Kingdom have made a series of judgements about the benefits associated with accrual based information at the level of the individual organisations.

Whether or not to support the application of a similar approach to whole of government level will depend on whether similar sorts of gains can be expected from such application.

A policy rationale for WGA?

Information, ownership and control interests

Government - through a set of Executive decision making powers, or through a set of Legislative powers which it strongly influences - has powers of ownership and/or control concerning government organisations. These powers relate to government's decision-making rights over these organisations, including the rights to appoint people to run those organisations (control), or to delegate those rights of appointment to others. In some cases, there will also be a clear right of residual claimancy¹ - although this does not occur universally in the government sector.

The government has many interests similar to those of an owner in the private sector. It wishes to know whether the assets under its ownership and control are being run down or built-up, and the nature of the obligations being entered into by those it has provided rights to make decisions. This suggests at the very least, the government needs accrual based information to be able to determine a view of the performance of those responsible for managing government bodies. The degree to which government can then become well informed will rely substantially on the quality of the accrual accounting rule setting and the enforcement of those rules.

The flow of information to the government provides it with a basis to make a whole set of decisions about the use of resources. For instance, accrual information can shed light on questions, *inter alia*, concerning whether the current people should be left in charge of a particular organisation, whether more capital may be required, or whether there is capacity to withdraw capital. Indeed, it is not possible to have an informed view of performance from an owner's perspective in the absence of accrual based information.

Whilst these gains may apply to the government in its role as "owner and/or controller" of particular organisations, the issue of whether to introduce WGA revolves around whether there are parties who would have similar benefits if accrual accounts were to be applied to the whole government sector. In other words, would the aggregation of all the organisationally specific accrual information to provide a sector wide reporting entity provide benefits, and if so, then how should this aggregation occur?

¹ This refers to a right to any excess of funds from those organisations (ownership).

The interests of citizens

Citizens have an interest in government that can be equated to that of the interests that members may hold in a co-operative or a mutual. This is because, in the end, the financial underpinning of government relies on transfers (taxes) from citizens, which are then transformed into goods and services consumed by citizens or returned to citizens as other transfers. Any build-up in the net worth of government can be expected to be returned to citizens through time either as increased services or reduced taxation.

The question arises as to how citizens can assess their exposure (positive and negative) to government, and whether government is being managed in accordance with their wishes and expectations. Citizens are interested in these questions for several reasons, including their interests in managing their own wealth and their abilities to influence the government policy base through democratic and other processes (their corollary to control).

This gives rise to a need for information which takes future calls and claims into account - accrual accounting does this². The preparation of this information also makes more transparent the aggregate effects of government decisions on citizens and their personal wealth, and can, therefore, be expected to increase the degree of discipline on political decision-makers, and reduce the potency of at least this aspect of fiscal illusion.

It could be argued that once government has decided to apply accrual accounting to its constituent organisations, it has no need to consolidate this information as interested citizens could carry out this consolidation themselves. However, leaving this consolidation process to individual citizens (or the market) is less likely to be as efficient from an economy-wide perspective, especially given the value of information to government decision-makers. The commitment by government to produce accrual based WGA communicates a likelihood for making responsible fiscal decisions.

Accordingly, making available reliable and relevant accrual information at a whole of government level should increase the prospects for good private and public decision making.

2 The degree to which accrual accounting does this will be determined by the body of accounting rules.

What will accruals-based WGA provide?

An accruals basis for WGA could be expected to include three main statements:

Statement	Fiscal Indicator
1. Financial Performance	Surplus/deficit
2. Financial Position	Reported net worth
3. Cash Flows	Net cash flows from operating and investing activities

Necessary characteristics of WGA to give the benefits described above would include being compiled on the basis of professionally determined independent accounting rules and providing a basis to reconcile cash, operating and balance sheet statements.

Government authorities from time to time may be inclined to argue that such is their knowledge of the details of government transactions and such is the nature of these transactions that they should not be subjected to independently determined accounting rules, but that bespoke rules can be developed which may make a better fit. In such circumstances, it is essential to factor in the benefits in credibility that occur as a result of having rules which are determined independently of the interested parties. This includes being determined independently of the auditor.

Appropriate consolidation practice

One of the major accounting issues in migrating to full whole of government accrual accounts is the determination of the appropriate consolidation procedure. The major approaches include:

- line-by-line;
- equity; and
- modified equity.

The line-by-line method is *prima facie* the most appropriate. However, there are contrary arguments which revolve around the nature of the government's control over some of the entities which may form a constituent part of the reporting entity and the cost of preparation of line-by-line accounts (high) relative to net equity accounts (low). If the form of governance of such bodies - put in place by government - are inconsistent with the government's being able to assert operational control then this is an argument that line-by-line consolidation is inappropriate. However, if the form of governance provides government with a "presently exercisable *capacity* to control", then the argument for line-by-line consolidation appears to be strong.

The form of consolidation is differentially important across jurisdictions because of the effect that it has on some "grossed-up" items. For instance, in net equity consolidation the debt obligations of government owned commercial (or perhaps, non-commercial autonomous or almost autonomous) organisations would not appear as a government debt obligation, whereas it would under line-by-line. This becomes material in determining fiscal policy objectives, where these include targets for net debt.

Three issues in applying the WGA framework

Asset sales

The inclusion of a balance sheet in the accrual series provides what is often the missing link in more traditional bases of fiscal reporting. For example, under some cash forms of accounting, proceeds from asset sales could be included in an item such as financial net expenditure and hence increase the reported surplus (or reduce the reported deficit) and reduce the financing requirement. This has been the treatment in many jurisdictions for privatisation proceeds and it has not been possible for a financial statement user to determine whether the asset had been sold at a gain or a loss. With an accrual series, when an asset is sold:

- the proceeds are compared with the book value of the asset, and the resulting gain or loss is reported in the Statement of Financial Performance;
- the asset is extinguished from the balance sheet; and,
- the cash proceeds from the sale flow through the Statement of Cash Flows, and reduce the financing requirement.



Net debt versus net worth

There can be a number of dangers associated with an undue focus on net debt for the targeting of fiscal policy. As a measure, net debt can be easily manipulated and can be “window-dressed”. Net debt targeting typically does not take into account the transaction that results from or provides the debt financing. Unless double entry measures of recording are used, a focus on net debt can have distortionary effects on decision making.

Rather than concentrate solely on movements in net debt as the key indicator of shifts in government solvency, an accrual framework suggests that reported net worth is also an important measure. Changes in reported net worth from one period to another will show how wealth has been transferred between periods. The double entry method associated with accrual accounting means that reported net worth is not susceptible to manipulation through contrived cash-flow management. For instance, it is conceivable that a reduction in net debt can be associated with little or no change in reported net worth - this result occurs when the cash proceeds from an asset sale yields close to the book value of the asset.

It is likely that through time, sophisticated users of the financial statements will come to require net worth as well as net debt policy targets.

Limitations of reported net worth and the intertemporal budget constraint

Assets And Liabilities - Characteristics and recognition criteria

Assets

Essential characteristics

There must be service potential or future economic benefits, over which the State must have control.

The transaction or other event that gives rise to the State's control must have occurred.

Liabilities

Essential characteristics

There must be a present obligation - the State must have a duty or responsibility to sacrifice service potential or future economic benefits to one or more other entities.

The transaction or other event that gives rise to this obligation must have already occurred.

Recognition criteria

It must be probable that the service potential or future economic benefit (or the sacrifice thereof, in the case of liabilities) will take place.

The amount of the asset or liability must be capable of being measured reliably.

Reported net worth is the difference between those assets and liabilities that both have the above characteristics, and meet the recognition criteria. That is to say, reported net worth at a given time is the difference between the value of recognised government assets and the value of recognised government liabilities, both measured in accordance with the accounting rules.

The decision as to whether or not to include particular assets and liabilities on the accrual-based balance sheet is a judgement based on the relevant accounting standards, as well as an analysis of the benefits expected to be derived from providing the information and the cost of providing it. For instance, the estimated present value of the Government's obligations to members of its superannuation scheme may be recorded as a liability, but the estimated present value of the Government's obligations to pay war pensions to veterans may not be recorded. Similarly, the present value of future tax revenues is not likely to be recognised as an asset, but the service potential embodied in the motorway network would, in all likelihood, be included.

Notwithstanding, the resolution of measurement and inclusion/exclusion issues does not mean that the aggregate public sector balance sheet merely remains an exercise in applied accounting theory. Indeed, financial and fiscal reporting under an accrual regime will provide a closer approximation to economic substance than other financial reporting systems. In all likelihood the production of WGA will be

accompanied by a migration to using these forms of accounts for public reporting and debate on the fiscal position and for supporting and communicating decisions about aggregate financial management.

However, the requirement for reliability in measurement does not necessarily correspond to wider needs of decision makers who may need to take account of factors that would not be recorded in financial statements on this basis. Such factors may be very important in making quality economic and financial decisions. For instance, as well as non-recognition of items such as the future tax stream and future pension payments, many of the items on the balance sheet may not be recorded on a discounted cashflows basis and the balance sheet may include assets in respect of which the financial benefit is unclear (for example, archives).

Accordingly, reported net worth is not a complete measure of expected future cash flows³. So while the public sector balance sheet's role as a valuable accountability tool in recording and representing the financial effect of transactions in a transparent manner is quite clear, its value in setting long term financial strategies is less clear.

Although accruals provide a closer approximation to economic substance than cash-based alternatives, it should be possible to improve the usefulness of reported net worth for financial planning. This can be achieved by supplementing the accounting measure with the effects of future transactions expected under current or proposed policy settings. This would make this revised net worth measure more comprehensive and closer to an economic rather than an accounting measure, and provide a useful basis for considering issues of sustainability. These issues are taken up in the recent OECD report⁴ on ageing.

Jim Brumby
Head of Division
Budgeting and Management
Public Management Service
OECD
2 rue Andre Pascal
75775 PARIS CEDEX 16

3 This will depend on how close any particular country's accounting standards are to economic substance in valuation practice.

4 OECD, *Maintaining Prosperity in an Ageing Society*, OECD, Paris, 1998. See especially pp.104-105.

Annex C

Whole of Government Accounts study: Terms of reference

“To examine the possibility, desirability, practicalities, timescale and resource and other implications of consolidating the accounts of departments and agencies and other entities such as non-departmental public bodies, public corporations and local authorities, to enable the preparation of a consolidated set of financial statements initially for central government; and then, beyond that, to look at the scope for extending this to general government and the whole public sector (“whole of government accounts”).

The work will build on the information currently contained in the Consolidated Fund and National Loans Fund accounts and Supplementary Statements, and will take account of:

- developments on resource accounting and budgeting;
- the Government’s key principles for stable public finances;
- experience in other relevant countries; and
- the Government’s undertakings to Parliament.

The initial study will be carried out jointly with the National Audit Office in the case of the accounts of central government bodies, as recommended by the PAC; and in the case of other public sector bodies, in consultation with other relevant auditing bodies as appropriate, relevant sponsor departments and, through them, with the bodies themselves.

The aim is for the initial scoping study to be completed within a timescale which will enable preliminary conclusions to be published by the Summer of 1998.”

Annex D

The Code for Fiscal Stability

Guiding principles

D.1 The Code for Fiscal Stability published alongside the March 1998 Budget embodies a set of five principles:

- **transparency** in the setting of fiscal policy objectives, the implementation of policy and in the presentation of the public accounts;
- **stability** in the fiscal policy-making process and in the way fiscal policy impacts on the economy;
- **responsibility** in the management of the public finances;
- **fairness**, including between generations; and
- **efficiency** in the design and implementation of fiscal policy and in managing both sides of the public sector balance sheet.

D.2 The application of these principles is intended to assist the achievement of the Government's economic and social objectives.

The fiscal rules

D.3 Consistent with the Code, fiscal policy is guided by two key rules:

- the **golden rule**: over the economic cycle the Government will only borrow to invest and not to fund current expenditure; and
- the **sustainable investment rule**: net public debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

D.4 The golden rule distinguishes between current spending and investment, since worthwhile capital spending by government provides benefits for both current and future generations.

D.5 The sustainable investment rule is designed to ensure that borrowing for public investment is conducted in a responsible way that does not pose any threat to the sustainability of the public finances. In the EFSR, the Government said it believes that, other things being equal, it is desirable that net public debt be reduced to below 40 per cent of GDP over the economic cycle.

D.6 Both of the fiscal rules are to be applied over the economic cycle, in recognition of the significant effect of cyclical fluctuations on the public finances.

D.7 The fiscal rules focus on the whole of the public sector, because the debts of any part of the public sector could ultimately fall on the taxpayer. Looking at the whole public sector also removes incentives to reclassify activities simply to evade prudent constraints on borrowing.

Public sector balance sheet

D.8 The Government has also signalled its interest in looking at both sides of the public sector balance sheet data, rather than just public sector debt. There are close links between the balance sheet and the golden rule. If the Government borrows only to finance investment then additional debt will be matched by additional assets with no change in public sector net wealth.

D.9 To date, balance sheets have not played a large part in the fiscal policy framework. There are unresolved questions about how to measure the assets and liabilities in the balance sheet; which items should be included in the balance sheet; and how to interpret the data. A Treasury discussion paper⁵ accompanying the *Pre-Budget Report* gave more detail about these issues and about the assets and liabilities that make up the public sector balance sheet.

D.10 The Government is also actively seeking ways of developing the usefulness of the public sector balance sheet. The advent of Resource Accounting and Budgeting (RAB) presents a major opportunity in this respect. The Treasury is working with the Office for National Statistics on how best to use the information from RAB, and whole of government accounts, to improve the quality of data for public sector balance sheets.

⁵ "The public sector balance sheet", published December 1997.

Annex E

UK public sector, national accounts and UK GAAP

E.1 This Annex describes the following:

- Structure of the UK public sector
- Public sector cash flows
- Devolution
- System of National Accounts
- Changes resulting from ESA95
- ONS public sector accounts
- Generally Accepted Accounting Practice in the UK (UK GAAP)
- Comparison of ESA95 and UK GAAP

UK public sector

E.2 The UK economy is divided into sectors for national accounts purposes. The public sector is largely financed through taxation and borrowing from the other sectors of the economy.

E.3 The UK public sector consists of general government and public corporations (including nationalised industries). General government (GG) is divided into central government (CG) and local authorities, and these are further divided into market and non-market kinds of activity units. All public corporations are market producers.

E.4 The following paragraphs describe the component parts of the public sector as currently defined under ESA95. In this report, it has been assumed that the standard definition of central government, general government and the public sector, as defined at the time, would always be used as the basis for WGA. This is because it would not make sense to operate on any other basis. For example, strict

application of Generally Accepted Accounting Practice (UK GAAP) would not offer a workable solution since it would still be necessary to provide a reconciliation with government's expenditure planning and control aggregates. However, the coverage of the component parts of the public sector, and of the public sector itself, may vary over time, reflecting either real world changes (such as privatisation) or accounting policy changes.

Central government

E.5 As currently defined, the UK central government sector covers:

- the Consolidated Fund and the National Loans Fund, the two main accounts of central government at the Bank of England;
- departments and their executive agencies;
- bodies not administered as government departments but which are subject to Ministerial or departmental control, for example non-departmental public bodies (NDPBs) and regional health authorities (but not National Health Service Trusts, which are public corporations); and
- extra-budgetary non-trading funds and accounts controlled by departments, such as the National Insurance Fund, the Exchange Equalisation Account and the Contingencies Fund.

Local authorities

E.6 Local authorities are public authorities of limited geographical scope which have the power to raise funds through certain forms of local taxation. They comprise county, district, regional and borough councils. Services covered include those run by joint authorities, such as waste regulation, police, fire and civil defence services.

Public corporations

E.7 Public corporations are corporate enterprises which are publicly owned and controlled but which have substantial freedom to conduct their own affairs on ordinary business lines. Public corporations are ultimately controlled by Parliament, or in some cases by the parent local authority. Examples are the British Broadcasting Corporation and the Post Office. The larger limited companies set up to run local transport services, ports and airports, which are controlled by local authorities, also generally fall within the coverage of public corporations.



Public finance

E.8 Public finance relates to the income and expenditure of the public sector of the economy. Income is mainly derived from taxation, national insurance contributions, rent and the net trading income of public corporations. Expenditure is on the procurement of goods and services, wages and salaries and current and capital grants in such areas as health, education, defence, welfare and social security.

Public sector cash flows

E.9 The various flows of cash into and out of the public sector as a whole (including a provisional illustration of the post-devolution position - see below) are shown in the diagrams at Appendix I to this Annex. The central government funds and accounts which would be covered by WGA are described in Appendix II.

Devolution

E.10 The Government announced in 1997 proposals for devolving powers from the Westminster Parliament to Scotland and Wales, and in 1988 similar proposals were announced for Northern Ireland. The proposals will have implications for the way in which WGA would be compiled.

E.11 Devolution will mean that a range of responsibilities and functions exercised now by the Secretaries of State for Scotland, Northern Ireland and Wales, and for which they are accountable to the Westminster Parliament, will in future be exercised by devolved administrations in Edinburgh, Belfast and Cardiff answerable to the Scottish Parliament, the New Northern Ireland Assembly and the National Assembly for Wales, respectively.

E.12 The Scottish Parliament will have full legislative powers in relation to the matters devolved to it. The National Assembly for Wales will exercise powers administered now by the Secretary of State, but within the continuing framework of Westminster legislation. It will not have primary legislative powers of its own. Except for law, order and protective services, the New Northern Ireland Assembly will have full legislative powers in relation to matters currently the responsibility of the Northern Ireland Departments.

E.13 The finance associated with the devolved functions will also pass to the Scottish Parliament, the New Northern Ireland Assembly and the National Assembly for Wales. Tax revenues will continue to be pooled throughout the UK and the revenues allocated to public spending centrally at Westminster. The Westminster Parliament will

vote a block budget to each devolved country, channelled through the Secretary of State, which the devolved administrations will be free to deploy between their functions in the light of local priorities. Changes to these block budgets will be determined by the long-standing 'Barnett formula' which guarantees Scotland, Northern Ireland and Wales a population-based share of changes in comparable English or Great Britain spending plans, as appropriate.

E.14 The Scottish Parliament will also have a power to vary the basic rate of income tax by up to 3 per cent. The proceeds of any exercise of this power will be paid into a separate Scottish Consolidated Fund, as will the block grant voted by the Westminster Parliament and passed on by the Secretary of State. There will be no separate Consolidated Fund for Wales. Northern Ireland already has a Consolidated Fund.

E.15 The Scottish Parliament will assume full responsibility for local government in Scotland, including its finances and taxes. The National Assembly for Wales will also be responsible for local government finance in Wales, and will inherit the Secretary of State's powers to cap local authority expenditure in Wales. Unlike the Scottish Parliament, the National Assembly will not be able to legislate to establish new local government taxes.

E.16 The New Northern Ireland Assembly will also assume full responsibility for local government in Northern Ireland, including its finances and rates.

E.17 Mechanisms will be established to ensure that any benefit costs flowing from increases in council taxes or public sector rents which are faster than those in England are met from the resources available to the Parliament or Assembly concerned.

E.18 The new post devolution arrangements for Scotland are illustrated in the second chart in Appendix I to this Annex.

System of National Accounts

E.19 The internationally agreed System of National Accounts (SNA) forms the basis for existing UK economic accounts. The SNA consists of an integrated set of macroeconomic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules. It provides a comprehensive accounting framework within which economic data can be compiled and presented in a format that is designed for purposes of economic analysis, decision taking and policy making.

E.20 The accounts themselves provide a comprehensive and detailed record of the complex economic activities taking place within an economy and of the interaction between the different economic agents, and groups of agents, that takes place in markets and elsewhere.

ESA95

E.21 The European System of National Accounts (ESA95) was drawn up by the EU on a basis intended to be compatible with the internationally agreed System of National Accounts (SNA93). ESA95 is an integrated measure of the whole economy, allowing GDP to be calculated and the impact of different sectors on the economy to be assessed on the same basis. ESA95 is legally binding on the UK for certain purposes including the supply of data to the EC, such as for the stability and growth pact under EMU and the UK contributions to the European Communities. ESA95 will be implemented in the UK in ONS' *UK National Accounts 1997* to be published in October 1998.

E.22 Adherence to ESA95 is monitored by the statistical arm of the EU (Eurostat) which has the power to require accounts to be drawn up in particular ways. In the UK, ESA95 classifications and data are produced by the ONS, acting as an independent agency not subject to Ministerial direction.

E.23 Certain UK national accounts concepts are not specified in ESA95, but are drawn from it, for example the public sector, the public sector net cash requirement and GGE. The operational definition of these concepts is with ONS. Some measures may be defined by the Treasury having regard to national accounts measures but with some differences, for example the current balance used in the FSBR, and GGE(X). In some cases, ONS may provide independent data both on Treasury definitions and on pure national accounts definitions.

ESA95: main changes

E.24 The *1998 Blue Book* will introduce a number of changes to national accounts. The main ones are:

- an expanded definition of capital - defence dual use assets and computer software become capital;
- the difference between the issue and redemption price of gilts will be spread over the life of the gilts and recorded as interest;
- the Issue Department becomes part of the new central banking sector, not central government;
- depreciation on infrastructure will be scored;
- notionally funded pension schemes, such as for teachers and NHS staff, will be recorded on a pay as you go basis rather than as a financial transaction;
- unfunded pension schemes, such as for civil servants and armed forces, will record both the accruing superannuation liability and the payment of pensions in payment;
- debt write-offs by mutual consent will be recorded as the payment of capital transfers and repayment of debt;
- taxes are presented in a different way; and
- some licence fee receipts become reclassified as sales of services rather than as revenue.

ONS' public sector accounts

E.25 By way of illustration, Appendix III to this Annex shows two of the public sector tables based on national accounts data which are currently published:

- Table B23: “*Public sector transactions by sub-sector and economic category*” from the March 1998 *FSBR (HC 620)*, which shows a full analysis of public sector receipts and expenditure by economic category⁶. The data are presented separately for central government, local government, general government, public corporations and the public sector. For the most part, the table follows national accounts conventions, although taxes on capital and depreciation are treated as current items in this table; and
- Table 12.12 “*Public sector balance sheet*” from the *1997 Blue Book*, which shows tangible assets and financial assets and liabilities at market prices for the public sector, to give a balance representing the net wealth of the public sector. (Separate tables are also produced for each part of the public sector.) Tangible assets in this context are land, buildings, vehicles, machinery and other fixed assets, and stocks, owned by the public sector. Estimates of most of these are currently compiled from the perpetual inventory model but in future might come from RAB for central government.

Generally Accepted Accounting Practice

E.26 Generally Accepted Accounting Practice in the UK (UK GAAP) represents the accounting and disclosure requirements of the Companies Act 1995 and accounting standards and Urgent Issues Task Force abstracts issued by the Accounting Standards Board, supplemented by accumulated professional judgement. It is accepted that GAAP should be adapted to the particular needs of the public sector.

E.27 The adaptations to GAAP for departmental resource accounts under RAB are determined by the Government and reflected in the Resource Accounting (RA) Manual. The Government’s decisions are subject to review by the Financial Reporting Advisory Board (FRAB), which was established by the Treasury to introduce an independent element into the process of setting financial reporting standards for government. The presumption is that GAAP adapted for the public sector would be used for WGA.

⁶ HC 620 used the previous format for the public finances.

E.28 Individual accounts of reporting entities are audited. In the case of central government bodies, most accounts are audited by the Comptroller and Auditor General (C&AG), acting as Parliamentary auditor. Consolidated WGA on a resource accounts basis could be audited or reviewed by the C&AG or by another independent auditor.

Differences between ESA95 and Resource Accounts

E.29 In general, resource accounts and ESA95 measures are broadly similar. Both seek to measure transactions on an accruals basis, although the way in which accruals are measured differs. Both set out to distinguish between current and capital expenditure, and most transactions of government are treated in the same way in both sets of accounts.

E.30 There are differences, however, and the main ones are set out in the table in Appendix IV to this Annex. The following points are worth noting:

- several of the differences reflect the use of RAB as a budgeting tool for government. Scoring rules need to reflect incentive frameworks and data availability, so there are differences between RAB accounts and national accounts; and
- a number of the differences are quite detailed - for example, whether a capital asset is tangible or intangible, or whether an item of expenditure is current or capital - but some of these are nevertheless significant.

E.31 The size of the differences is unlikely to be large over time in comparison with GDP or gross expenditure numbers⁷. It will be important, however, that the *Financial Statement and Budget Report (FSBR)* and *Public Expenditure Statistical Analyses (PESA)* include reconciliation tables for key measures between resource accounts and ESA95 accounts.

⁷ The New Zealand Treasury publishes a reconciliation between its two main measures of the current balance: the operating balance produced on a GAAP basis and the saving measure produced under the System of National Accounts (SNA). In the 1997 Budget, for outturns, forecasts and projections for years 1996 to 2000 the difference between the two measures varied from -\$NZ47m to +\$NZ448m on an average SNA saving of \$NZ2,185m. The difference is more modest compared with total government outlays on an SNA basis averaging \$NZ32,301 over the period, and with forecast average nominal GDP production between 1996-2000 of \$101,370m.

Appendix I

Public sector cash flows

E.1.1 This Appendix contains two diagrams:

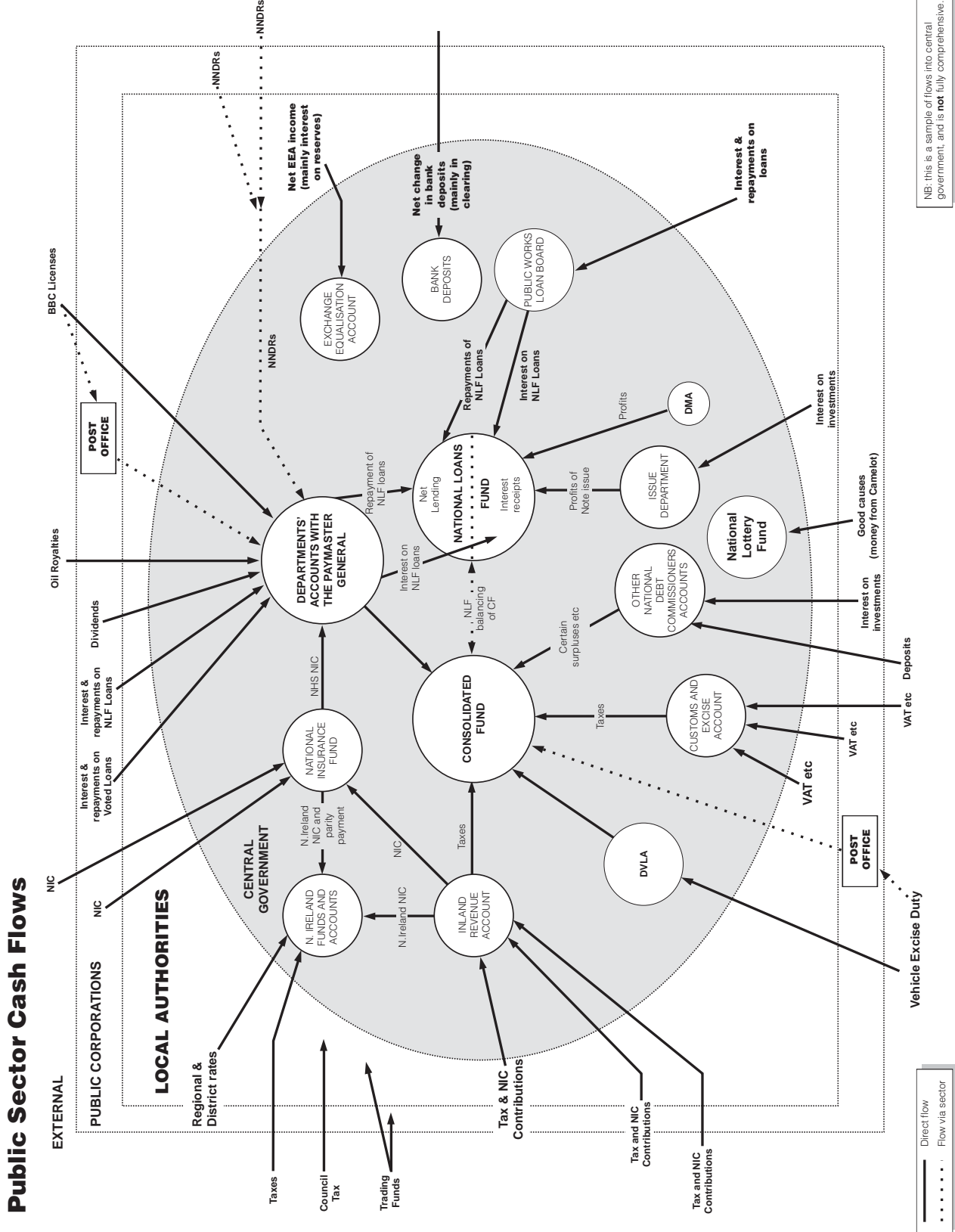
- an illustration of current flows of cash into and out of central government, general government and the public sector as a whole; and
- a provisional illustration of what the position is expected to be for Scotland post-devolution.

E.1.2 The post-devolution position for Scotland has not yet been fully clarified. It is not yet known for example:

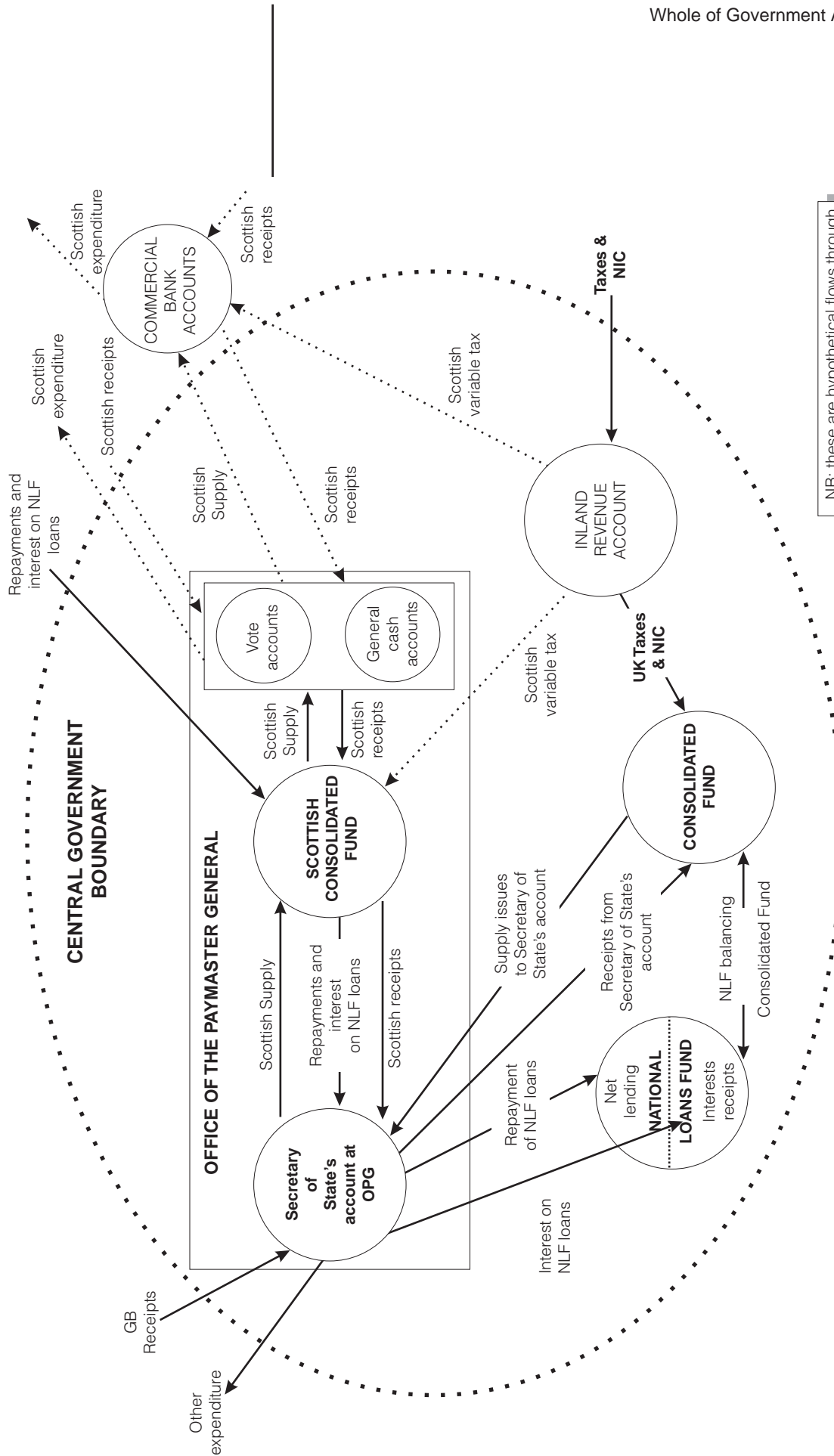
- what effect devolution will have on the calculation of the central government net cash requirement;
- how funds will cross the CG boundary after being passed over to the Scottish Consolidated Fund; or
- where the Scottish variable rate tax proceeds will be held.

E.1.3 These issues will be resolved before the new devolved arrangements are fully implemented.

E.1.4 Notes to the diagrams, together with figures showing a comparison of the current volume of major flows into central government with those of ten years ago, follow the diagrams in this Appendix.



Post Devolution - Scotland



NB: these are hypothetical flows through Scottish accounts and are subject to change.

..... Hypothetical flows

Notes to diagrams

Known forthcoming changes are as follows:

1. The DMA will replace the GOOA later this year.
2. Under ESA95, the Issue Department will move outside the CG boundary.
3. The Inland Revenue is to take over the Contributions Agency from 1999.
4. Scottish devolution will involve some alterations to central government accounting:
 - ❑ the Secretary of State's Vote account will be held at OPG, and will receive funds drawn down from the Consolidated Fund, which can in turn be transferred across to the Scottish Consolidated Fund;
 - ❑ the Scottish Consolidated Fund will be held at OPG; Scottish funds may be passed from there to commercial bank accounts via a general cash account at OPG or separate Vote accounts; and
 - ❑ receipts from Scottish functions will be due to the Scottish Consolidated Fund, whereas receipts from UK functions in Scotland will be due to the Consolidated Fund.

Comparison of major flows into central government

The following table compares the 1996-97 volume of major CG flows with 1986-87.

Central Government Flows (£000)	1996-97	1986-87
Inland Revenue to CF	103,892,434	57,114,937
Customs & Excise to CF	82,351,409	41,093,968
Vehicle Excise Duty to CF	4,217,508	2,576,326
Issue Department to NLF	1,200,868	1,231,588
Public Works Loans Board to NLF		
interest on loans	3,709,643	
repayments of loans	5,400,578	
Total loans within Central Government		
interest on loans	299,573	
repayment of loans	402,679	
NIC into NIF	47,395,000	25,351,000
IR to N Ireland account	938,000	
IR NIC to NIF	43,817,000	23,467,000
NIF NIC & parity payments to N Ireland a/c	105,000	225,000
NHS NIC to OPG account	5,152,000	2,221,000
Central payment of NIC (civil service & HM forces)	2,229,000	1,024,000

Appendix II

Central government funds and accounts

E.2.1 The central government funds and accounts which would need to be covered by consolidated accounts are explained below.

Consolidated Fund (CF)

E.2.2 Along with the National Loans Fund (NLF), the CF is the main central government account. It receives proceeds of central taxation, some receipts collected by departments, interest and dividends on loans made by, and assets acquired by, the NLF, and miscellaneous receipts. Most receipts are transfers from other central government (CG) funds, made via the Office of the Paymaster General (OPG). The majority of CF expenditure is made up of payments to other CG funds and accounts.

National Loans Fund

E.2.3 The purpose of the NLF is to account for all Exchequer borrowing and capital finance, and the associated interest flows and management costs. Amongst other transactions, the NLF receives receipts from any new borrowing and repayments of loans it has made. Payments from the NLF include repayments of borrowings, interest and management costs of the National Debt and issues of statutory loans to nationalised industries, local authorities etc. Some NLF borrowing is from central government funds and accounts, or by net sales of gilts to government accounts managed by the National Debt Commissioners.

E.2.4 The NLF and CF are closely linked. Any NLF interest payments and debt management costs not met by NLF interest receipts are borne by the CF and transferred to the NLF. The CF is then balanced daily by the NLF. The assets and liabilities of the NLF together yield its net liability, which is a liability of the CF.

Paymaster General's accounts

E.2.5 The Office of the Paymaster General (OPG) holds an account at the Bank of England within which all government departments have their own account. Customs and Excise and the Inland Revenue currently hold their own accounts at the Bank of England, as well as accounts with the OPG. OPG provides a clearing service for departments. The accounts act as a resting place for money flowing in or out of other CG funds, usually the CF. OPG also holds trading fund balances on behalf of public corporations, which must be netted out when accounting for CG balances.

Issue Department

E.2.6 This is the Bank of England department which manages the note issue. It is required to hold assets equivalent to the value of the total issue of Bank of England bank notes. These assets include government debt and commercial bills. Issue Department profits, which are paid over to the NLF, include interest receipts from investments outside CG and interest receipts received from the NLF on the Issue Department's holdings of central government debt. Under ESA95, the Issue Department will be taken outside the CG boundary.

Exchange Equalisation Account (EEA)

E.2.7 The EEA is used for checking undue fluctuations in the exchange value of sterling, and for securing the conservation or disposition in the national interest of the means of making payments abroad, and for certain purposes is related to the UK's membership of the IMF. The EEA holds Britain's official reserves of gold, foreign currency and special drawing rights on the IMF.

Gilt-edged Official Operations Account (GOOA)

E.2.8 The GOOA involves trades in government stocks. The new Debt Management Office has undertaken the gilts dealing function for these trades since April 1998.

National Insurance Fund

E.2.9 The NIF receives all national insurance contributions (NICs) and interest income from its investments. NICs legally belong to separate organisations: the NIF transfers the NHS allocation of NICs to the Department of Health, and the Northern Ireland NICs go to the Northern Ireland NIF. Payments from the NIF include all contributory benefits and their associated administrative costs.



National Debt Commissioners' Accounts

E.2.10 These accounts generally have specific sources of income such as interest generated by a fund's own assets or a transfer from the Consolidated Fund or NLF, and their own specific expenditures.

Northern Ireland funds and accounts

E.2.11 Most of the funds and accounts represented in the first diagram in Appendix I of this Annex cover Great Britain only; for most functions there are separate Northern Ireland funds and accounts. The main account is the Northern Ireland Consolidated Fund, which performs the same duties as both the CF and the NLF.

Appendix III

Examples of national accounts tables currently produced

E.3.1 This appendix contains examples of two of the public sector tables based on national accounts data which are currently published:

- Table B23: *“Public sector transactions by sub-sector and economic category”* from the March 1998 *FSBR (HC 620)*, which shows a full analysis of public sector receipts and expenditure by economic category⁸. The data are presented separately for central government, local government, general government, public corporations and the public sector. For the most part, the table follows national accounts conventions, although taxes on capital and depreciation are treated as current items in this table; and
- Table 12.12 *“Public sector balance sheet”* from the *1997 Blue Book* which shows tangible assets and financial assets and liabilities at market prices for the public sector, to give a balance representing the net wealth of the public sector. (Separate tables are also produced for each part of the public sector.) Tangible assets in this context are land, buildings, vehicles, machinery and other fixed assets, and stocks, owned by the public sector. Estimates of most of these are currently compiled from the perpetual inventory model but in future might come from RAB for central government.

⁸ HC 620 used the previous format for the public finances

*Extract from March 1998 FSBR (HC 620)***Table B23: Public sector transactions by sub-sector and economic category**

£billion 1997-98 General government						
<i>Line</i>	Central government	Local authorities	Total	Public corporations	Public sector	
<i>Current receipts²</i>						
Taxes on income and royalties	1	111.2	0.0	111.2	-0.5	110.7
Taxes on expenditure	2	120.2	0.2	120.4	0.0	120.4
Taxes on capital	3	4.5	0.0	4.5	0.0	4.5
Social Security contributions	4	50.7	0.0	50.7	0.0	50.7
Council Tax	5	0.0	11.1	11.1	0.0	11.1
Gross trading surplus	6	0.0	0.8	0.7	5.0	5.7
Rent and miscellaneous current transfers	7	1.1	4.0	5.1	0.5	5.6
Interest and dividends from private sector and abroad	8	2.1	0.8	2.9	0.2	3.1
Interest and dividends within public sector	9	6.3	-4.0	2.2	-2.2	0.0
Imputed charge for non trading capital consumption	10	1.6	2.3	3.9	0.0	3.9
Total current receipts	11	297.6	15.1	312.7	3.0	315.7
<i>Current expenditure²</i>						
Current expenditure on goods and services	12	101.5	56.0	157.5	0.0	157.5
Depreciation	13	1.7	5.1	6.9	3.7	10.6
Subsidies	14	7.5	0.7	8.2	0.0	8.2
Current grants to personal sector	15	90.8	13.4	104.2	0.0	104.2
Current grants abroad	16	5.4	0.0	5.4	0.0	5.4
Current grants within public sector	17	58.7	-58.7	0.0	0.0	0.0
Debt interest	18	28.6	0.3	28.9	-0.4	28.5
Apportionment of Reserve	19	0.0	0.0	0.0	0.0	0.0
Total current expenditure	20	294.2	16.9	311.1	3.3	314.5
Current balance¹	21	3.3	-1.8	1.6	-0.4	1.2
Capital transfers	22	0.0	0.3	0.3	-0.1	0.2
<i>Capital expenditure²</i>						
Gross domestic fixed capital expenditure	23	3.2	5.5	8.7	4.2	12.9
Less Depreciation	24	-1.7	-5.1	-6.9	-3.7	-10.6
Increase in stocks	25	0.0	0.0	0.0	0.0	0.0
Capital grants to private sector	26	2.9	0.9	3.8	0.4	4.2
Capital grants to public sector	27	5.5	-3.5	2.0	-2.0	0.0
Apportionment of Reserve	28	0.0	0.0	0.0	0.0	0.0
Total capital expenditure	29	9.8	-2.2	7.6	-1.1	6.4
Financial deficit¹	30	6.5	-0.7	5.8	-0.6	5.1

continued ...

Table B23: Public sector transactions by sub-sector and economic category - continued

£billion						
1997-98						
General government						
<i>Line</i>	Central government	Local authorities	Total	Public corporations	Public sector	
<i>Financial transactions</i>						
Net lending to private sector and abroad	31	-0.1	0.0	0.0	0.0	0.0
Cash expenditure on company securities (including privatisation proceeds)	32	-1.8	0.0	-1.8	0.0	-1.8
Transactions concerning certain public sector pension schemes	33	1.4	0.0	1.4	0.0	1.4
Accruals adjustments on receipts	34	1.7	0.0	1.7	0.0	1.7
Other accruals adjustments	35	-1.9	0.0	-1.9	0.0	-1.9
Miscellaneous financial transactions	36	-1.4	0.0	-1.4	-0.5	-1.9
Borrowing requirement	37	4.5⁴	-0.7	3.8	-1.2	2.6
£billion						
1998-99						
General government						
<i>Line</i>	Central government	Local authorities	Total	Public corporations	Public sector	
<i>Current receipts²</i>						
Taxes on income and royalties	1	116.8	0.0	116.8	-0.5	116.3
Taxes on expenditure	2	127.4	0.2	127.6	0.0	127.6
Taxes on capital	3	6.2	0.0	6.2	0.0	6.2
Social Security contributions	4	53.9	0.0	53.9	0.0	53.9
Council Tax	5	0.0	11.6	11.6	0.0	11.6
Gross trading surplus	6	0.0	0.8	0.7	4.4	5.1
Rent and miscellaneous current transfers	7	0.9	4.0	4.9	0.5	5.5
Interest and dividends from private sector and abroad	8	1.4	0.9	2.3	0.2	2.5
Interest and dividends within public sector	9	6.0	-3.8	2.2	-2.2	0.0
Imputed charge for non trading capital consumption	10	1.9	2.4	4.3	0.0	4.3
Total current receipts	11	3.14	16.0	330.4	2.5	333.0
<i>Current expenditure²</i>						
Current expenditure on goods and services	12	104.1	58.8	165.6	0.0	165.6
Depreciation	13	1.9	5.5	7.4	3.5	10.9
Subsidies	14	7.4	0.7	8.1	0.0	8.1
Current grants to personal sector	15	95.0	13.7	108.6	0.0	108.6
Current grants abroad	16	6.1	0.0	6.1	0.0	6.1
Current grants within public sector	17	61.1	-61.1	0.0	0.0	0.0
Debt interest	18	28.2	0.4	28.6	-0.4	28.1
Apportionment of Reserve	19	2.7	0.0	0.0	0.0	0.0
Total current expenditure	20	306.4	17.9	324.4	3.1	327.5
Current balance¹	21	8.0	-2.0	6.1	-0.6	5.5
Capital transfers	22	0.0	0.3	0.3	-0.1	0.1

continued ...

Table B23: Public sector transactions by sub-sector and economic category - *continued*

	£billion					
	1998-99					
	General government					
	<i>Line</i>	Central government	Local authorities	Total	Public corporations	Public sector
<i>Current expenditure²</i>						
Gross domestic fixed capital expenditure	23	3.4	6.2	10.0	4.2	14.2
Less Depreciation	24	-1.9	-5.5	-7.4	-3.5	-10.9
Increase in stocks	25	0.0	0.0	0.0	0.0	0.0
Capital grants to private sector	26	2.8	0.7	3.5	0.4	3.9
Capital grants to public sector	27	5.3	-3.6	1.7	-1.7	0.0
Apportionment of Reserve	28	0.3	0.0	0.0	0.0	0.0
Total capital expenditure	29	10.0	-2.1	7.8	-0.7	7.0
Financial deficit¹	30	2.0	-0.5	1.5	0.1	1.6
<i>Financial transactions</i>						
Net lending to private sector and abroad	31	0.2	0.0	0.2	0.0	0.2
Cash expenditure on company securities (including privatisation proceeds)	32	0.0	0.0	0.0	0.0	0.0
Transactions concerning certain public sector pension schemes	33	1.4	0.0	1.4	0.0	1.4
Accruals adjustments on receipts	34	1.9	0.0	1.9	0.0	1.7
Other accruals adjustments	35	-1.9	0.0	-1.9	0.0	-1.9
Miscellaneous financial transactions	36	-0.8	0.0	0.0	0.0	0.0
Borrowing requirement	37	2.8⁴	-0.5	2.2	0.1	2.3

1. Current balance (line 21) = current receipts (line 11) - current expenditure (line 20). Financial deficit (line 30) = capital expenditure (line 29) - capital receipts (line 22) - current balance (line 21).

2. On an accruals basis.

3. Excluding local authorities' payments to central government and public corporations' payments to general government, which are in line 9.

4. Own account borrowing.

Extract from 1997 Blue Book
12.12 Public sector¹

£ billion at end of year

		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Tangible assets:												
Residential buildings	CXBF	72.2	83.9	98.3	100.1	92.9	87.8	83.1	82.4	74.5	76.6	79.4
Agricultural land, buildings & forestry	CXBG	3.8	2.7	3.1	3.5	3.0	2.8	2.4	2.8	3.1	3.5	4.1
Commercial, industrial and other buildings	CXBH	81.7	89.3	101.4	105.6	100.2	97.5	93.9	90.6	96.9	97.9	103.6
Civil engineering works	CXBI	136.9	155.0	179.5	158.3	144.7	141.9	130.0	135.5	145.3	157.8	175.5
Plant and machinery	CXBJ	62.0	63.8	66.1	69.7	47.7	39.6	40.8	42.2	43.8	45.7	39.0
Vehicles, including ships, aircraft, etc	CXBK	5.7	4.4	4.4	4.6	4.9	4.9	5.1	5.6	6.2	6.1	1.7
Stocks and work in progress	CXBM	6.7	6.0	5.8	5.0	2.5	2.8	2.8	2.6	2.0	1.7	1.7
<i>Total tangible assets²</i>	CXBN	369.0	405.1	458.7	446.8	395.9	377.3	358.2	361.7	371.8	389.3	405.0
Financial assets:												
Notes and coin	RETC	0.6	0.6	0.6	0.5	0.8	0.7	0.5	0.6	0.7	0.8	0.8
Sterling treasury bills	RETD	-	-	0.1	0.1	-	-	-	0.2	-	0.1	-
British government securities	RETE	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.9	1.3	2.1
National savings	RECC	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1	-	-
Tax instruments	APFH	-	0.1	0.1	0.1	-	0.1	0.1	0.1	0.1	0.1	0.1
Government liabilities under exchange cover scheme	RECD	-	-	-	-	-	-	-	-	-	-	-
Other public sector financing:												
Non-marketable debt	REVS	0.1	0.3	0.8	0.7	0.9	1.1	1.2	2.4	3.1	4.2	4.9
Short-term assets	RETF	0.3	1.8	3.1	4.2	2.2	3.2	3.8	4.3	5.1	5.0	6.2
Issue Department transactions in bills, etc	RETG	11.7	6.0	6.4	2.8	3.5	5.3	9.7	11.3	5.1	3.0	1.3
Official reserves	APDD	17.4	27.0	28.7	26.3	22.5	26.0	28.3	29.7	30.7	31.8	27.3
Local authority debt: Temporary	RETH	0.9	0.6	0.6	0.6	0.7	0.7	0.5	0.5	0.6	0.8	0.8
Sterling securities	RETI	-	-	-	-	-	-	-	-	-	-	-
Other Sterling debt	RETJ	34.4	39.9	44.7	47.3	49.4	49.3	43.4	41.9	41.1	42.8	42.8
Public corporations' debt: Sterling	RETK	22.0	21.5	24.8	26.6	22.3	22.2	23.5	24.5	25.1	24.2	21.2
Deposits with banks: Sterling other	RMGI	4.9	6.9	10.0	10.1	8.8	6.2	7.3	8.7	8.5	14.5	16.2
Foreign currency other	RMGJ	0.3	0.3	0.2	0.2	0.2	0.2	0.4	0.3	0.3	0.6	0.6
Sterling money market instruments	RMGK	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Credit extended by retailers	AQKI	-	-	-	-	-	-	-	-	-	-	-
Identified trade credit: Domestic	RETP	9.4	10.2	10.0	9.4	9.2	8.1	7.8	7.4	8.5	8.4	7.6
Import and export	REAH	-	-	-	-	-	-	-	-	-	-	-
Loans secured on dwellings: Other	RETQ	5.0	4.6	4.4	4.3	3.8	3.0	2.5	2.2	2.0	1.8	1.7
Other public sector lending	RETR	7.3	7.4	7.8	9.1	9.6	10.3	10.9	11.3	12.0	12.9	13.9
United Kingdom company securities	RETS	16.6	14.4	13.1	14.6	15.0	17.4	16.2	13.8	8.6	6.0	2.4
Overseas securities	APDN	-	-	-	-	-	-	-	-	-	-	-
Direct and other investment abroad	RYXX	0.2	0.2	-	-	-	-	-	0.6	0.7	0.8	0.8
Miscellaneous instruments	RETT	1.5	1.3	1.3	1.2	1.3	1.3	1.4	1.4	1.4	1.5	1.6
Accruals adjustments	RETV	19.8	20.9	21.3	23.9	22.5	24.7	23.6	25.8	25.6	26.4	24.3
<i>Total financial assets²</i>	RETV	152.9	164.7	178.6	182.5	173.2	180.2	181.8	187.7	180.4	187.0	176.7

continued ...

12.12 Public sector¹ continued

		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Financial liabilities:												
Notes and coin	APOE	15.1	16.2	17.7	18.9	19.0	19.2	20.6	22.0	23.3	24.9	25.1
Sterling treasury bills	ACQC	1.7	3.9	5.2	8.1	10.2	8.6	4.2	2.9	5.1	17.0	3.8
British government securities	RYXY	125.4	132.9	126.2	108.0	99.8	112.6	147.0	221.3	212.5	250.4	280.8
National savings	REYD	33.1	35.6	37.2	35.6	36.4	38.6	43.7	46.6	51.2	54.5	61.3
Tax instruments	ACRV	4.0	3.4	2.4	2.6	2.9	2.9	2.4	2.3	1.8	1.4	0.9
Net government indebtedness to Banking Dept	RRGO	0.7	1.0	1.1	1.4	1.8	1.7	1.5	-5.0	-0.8	-1.6	1.2
Northern Ireland central government debt	RETW	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Government liabilities under exchange cover scheme	REXB	-	-	-	-	-	-	-	-	-	-	-
Other public sector financing:												
Non-marketable debt	RETX	0.1	0.3	0.8	0.7	0.9	1.1	1.2	2.4	3.1	4.2	4.9
Government foreign currency debt	REUQ	5.1	3.7	2.9	5.1	4.8	6.6	19.7	17.8	16.4	17.2	15.3
Other government overseas financing	REUU	3.2	2.7	2.7	2.9	2.4	2.4	2.8	2.8	2.6	2.6	2.2
Local authority debt: Temporary	RMAC	3.0	2.8	2.5	2.1	3.1	2.7	2.2	1.9	1.9	2.0	1.9
Foreign currency	REZU	0.7	0.8	0.7	0.8	0.7	0.7	0.6	0.5	0.5	0.5	0.4
Sterling securities	RDUU	0.6	0.4	0.4	0.3	0.1	0.1	0.2	0.2	0.5	0.5	0.7
Other Sterling debt	REZR	40.5	44.4	48.3	50.0	51.7	51.4	47.0	47.3	47.0	49.1	49.0
Public corporations' debt:												
Foreign currency	REZW	5.4	3.9	2.7	1.0	0.7	0.6	0.2	0.1	0.3	0.2	0.2
Sterling	RETY	23.3	22.7	26.0	27.9	23.2	23.5	25.6	26.2	26.4	25.3	22.4
Bank lending (excl public sector):												
Foreign currency	RKWH	-	-	-	-	-	-	-	-	-	-	-
Sterling	RETZ	0.7	0.7	0.8	0.5	0.4	0.4	0.3	0.3	-	-	-
Identified trade credit:												
Domestic	REUA	12.4	14.2	14.3	13.8	13.6	13.0	13.1	15.2	16.9	16.2	15.4
Import and export	REXH	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other public sector lending	REUB	0.5	0.7	0.7	0.9	0.7	0.7	0.7	0.9	0.7	0.8	0.8
Lending by financial institutions:												
Finance leasing	ASLN	1.1	1.4	1.7	1.8	1.9	1.7	1.6	1.6	1.9	1.9	1.9
Other	REUW	0.5	0.5	0.5	0.5	-	-	-	-	-	-	-
United Kingdom company securities	REYZ	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.4	1.1	1.1	0.4
Life assurance and pension funds	REUP	8.3	8.9	9.8	10.2	10.2	10.2	9.9	9.4	9.1	8.3	7.4
Miscellaneous instruments	REUC	2.5	2.4	2.6	2.4	2.7	1.8	2.0	2.6	4.1	4.5	4.3
Accruals adjustments	REUD	7.5	8.6	9.2	10.4	10.4	11.9	12.5	14.3	14.9	16.9	16.5
<i>Total financial liabilities²</i>	REUE	295.2	312.5	316.3	306.2	298.2	313.1	359.3	434.1	441.1	498.0	517.0
Net financial wealth²	REUF	-142.3	-147.8	-137.7	-123.7	-125.0	-132.9	-177.5	-246.4	-260.7	-311.0	-340.2
Total net wealth²	REUG	226.7	257.3	321.0	323.1	270.9	244.4	180.7	115.3	111.0	78.3	64.9

1. For scope of updates see Methodological notes

2. Differences between totals and sums of components are due to rounding

Appendix IV

Definitional differences between RAB and ESA95

Subject	RAB treatment	ESA95 treatment
Definition of capital expenditure:		
MoD single use fighting equipment: purchase/ sale; treatment in balance sheets; need to depreciate	Treated as capital expenditure	Treated as current expenditure
Treatment of sums received on disposal	RAB will distinguish between book value and disposal proceeds in the resource account, and will have a pure cash number in the cash flow statement.	For national accounts, receipts from sale of capital assets are recorded as sale receipts on an accruals basis.
Barter transactions	To be included if material	To be included if any part of the transaction is worth more than £10m
Capital grants to private sector and overseas	Treated as current	Treated as capital
Capital-type expenditure on heritage assets	Operational heritage assets, and non-operational heritage assets which meet criteria for capitalisation in the Resource Accounting Manual to be treated as capital. Practical guidance in respect of applying the criteria in the RAM to non-operational assets under discussion.	Treated as capital
In-house software (where the creation of major in-house computer software is treated as the creation of an asset)	Tangible asset	Intangible asset
Calculation of depreciation		
	RAB currently calculates on the basis of modified historical cost accounting (based on asset specific price indices).	The national accounts, based on current replacement cost, will continue to be on an asset basis.
	HM Treasury are examining possible use of FCM which takes account of the impact of general inflation and is compatible with the 6% cost of capital charge which is set in real terms. This will produce a more accurate assessment of the costs of holding assets.	RAB practice may in due course provide the basis for national accounts valuation and capital consumption. If so, there will be differences until the two are aligned. A HMT / ONS working party will discuss the treatment of depreciation further within the context of what is recommended by SNA/ESA95.
		Note that capital stock in perpetual inventory model used by the ONS under ESA79 is adjusted by price deflators for that asset. It shows what it would cost to maintain the same mix of assets.

continued ...

Subject	RAB treatment	ESA95 treatment
Cost of capital	<p>Charge for cost of capital based on 6% real return on assets less liabilities included in departmental accounts.</p> <p>Interest payments on national debt recorded as interest (though not in departmental resource accounts).</p>	<p>No cost of capital charge.</p> <p>Interest payments on national debt recorded as interest (including an imputed amount for the discount/ premium on issue price of gilts).</p>
Pensions	<p>Departmental resource accounts will show accruing superannuation liability charges (aslcs).</p> <p>Separately from departmental resource accounts, departments administering pension schemes will prepare pension scheme statements. These will include a revenue account showing contributions receivable (aslcs in the case of the PCSPS), pension benefits payable and transfers, and will also include the report of the scheme actuary in which the liability of the scheme will be shown.</p>	<p>GGE will (in effect) show pensions in payment.</p> <p>Aslcs will appear both as part of government final consumption and as a government receipt which is netted off in the GGE calculation.</p> <p>Pension payments are a distributive expenditure of government.</p> <p>Treatment of bulk transfers between unfunded schemes of general government and real funded schemes is treated as part of current expenditure/ receipts of general government.</p> <p>The liabilities representing future unfunded pension benefits are not shown under ESA95.</p>
Subsidised loans	<p>A measure of the subsidy is to be shown in departmental resource accounts.</p>	<p>Net lending scores in GGE. Interest received scores in current receipts. Treatment of subsidised loans is to be reviewed by the ONS.</p>
Public corporations market and overseas borrowing (PCMOB)	<p>Movements in PCMOB are likely to be included in departmental financing requirements.</p>	<p>PCMOB is not part of general government measures. PCMOB is part of appropriate public sector measures.</p>
Consolidation of general government accounts	<p>Not consolidated under RAB.</p>	<p>GGE nets off flows within the general government boundary.</p>
Consolidation of departmental accounts	<p>Departmental resource accounts will be a consolidation of the accounts of bodies within the departmental boundary.</p> <p>These will normally be only but not all of the bodies in the central government sector in national accounts.</p>	<p>National accounts measures do not recognise the departmental boundary.</p> <p>Instead, national accounts recognises all central government bodies as belonging to the central government sub-sector and all public corporations as belonging to their sub-sector.</p>
Treatment of income/receipts	<p>Some receipts will be netted off departmental expenditure totals in Schedule 2 (but not Schedule 1) under RAB which will be treated as revenue receipts in ESA95.</p>	<p>Some receipts will be netted off departmental expenditure totals under RAB which will be treated as revenue receipts in ESA95.</p>

continued ...

Subject	RAB treatment	ESA95 treatment
Movements in balance sheet items such as: revaluations of buildings, provisions for bad debts	The treatment would depend on the transaction involved. For example, the revaluation of buildings will affect items on the balance sheet (asset valuation; revaluation reserve) and subsequent depreciation amounts and cost of capital recorded in the operating costs statement. Setting up or adjusting provision for bad debts will affect the value of debts on the balance sheet and will impact directly on the operating costs statement.	Not normally taken through current account, but through separate Other Changes in Volume of Assets Account and Revaluation Account which impact directly on the balance sheet.
Debt write-off by mutual agreement	Writing off a debt (whether or not by mutual agreement) would be treated as a charge to the operating costs statement.	A capital grant should be imputed as paid to the debtor, who is deemed to use it to repay the loan/debt. No such grant would be recorded in flow accounts where the debt was written off as unrecoverable or as part of an on-going process of privatisation.
Insurance	For externally provided insurance, premium payments to the insurance company should be charged to the operating costs statement. For self-insurance, no notional premiums are charged. Instead, expenditure in connection with uninsured risks will be charged to the operating costs statement.	National accounts will divide real insurance premia into three categories: payment for a service; payment into a distributed insurance pool; and acquisition of insurance technical reserves. National accounts will also show an imputed amount for income from insurance technical reserves, which is treated as being immediately reinvested in more insurance.

- Notes:*
1. It is likely that there will in addition be differences of practice in areas such as when maintenance expenditure on buildings should be treated as capital.
 2. RAB treatment differs from local authority accounting and from other public sector GAAP accounting in a number of ways.
 3. There will also be differences of accounting practice, for example in the use of estimated data where reliable data are not to hand, and in the concept of materiality.

Annex F

Key indicators in the present fiscal framework

F.1 The *Economic and Fiscal Strategy Report* (Cm 3987, June 1998) introduced a new format for the public accounts that would more readily allow monitoring and assessment of progress against the two fiscal rules, and is in line with best international practice.

F.2 The main changes are to separate the current and capital accounts - a key distinction - and to focus on a measure of budget balance that excludes financial transactions. The three principal measures of the public finances are:

- **surplus on current budget** – current receipts less current spending – is used to judge whether the golden rule will be met over the economic cycle. It is defined very close to the national accounts definition, measured on an accruals basis where possible;
- the surplus on current budget together with net investment, which is also on an accruals basis, gives **public sector net borrowing** – the finance needed to meet net investment over and above what can be funded by surplus on current budget; and
- **public sector net debt ratio** – total debt of the public sector (net of certain liquid assets) as a proportion of GDP – is used to judge whether the Government is meeting its sustainable investment rule.

F.3 For many years, the principal measure of UK government borrowing was the Public Sector Borrowing Requirement, now called **public sector net cash requirement**. This is a cash measure, equal to public sector net borrowing plus financial transactions (which include the accruals adjustments necessary to move from an accruals to a cash measure). The Government's financing policy is presently set with regard to the central government net cash requirement.

F.4 The Government will also monitor and publish forecasts for the two Maastricht measures, on Eurostat definitions:

- **general government net borrowing** which differs from public sector net borrowing in that it excludes the transactions of public corporations (but does include general government transactions with public corporations); and

- **general government gross debt** which again does not include public corporations; it differs also from net public sector debt in not netting off liquid assets.

F.5 The relationships between the current budget, public sector net investment and the public sector net cash requirement are best illustrated in Table 4.5 of the *Economic and Fiscal Strategy Report*, and in more detail on the previous format in Table B23 of the March 1998 *FSBR* (see Appendix III to Annex E), showing the components that make up the principal measures of government borrowing.

F.6 Ideally, WGA would be able to produce information at least as detailed as *FSBR* Table B23. Certainly, the more aggregate figures shown in the *EFSR* Table 4.5 would be required.

F.7 With the Government having signalled its interest in the public sector balance sheet, and RAB generating departmental balance sheets, it would also be desirable to be able to generate at least the main components of a public sector balance sheet: public sector tangible assets; public sector net financial assets (the difference between these is public sector net wealth); and as much of the composition as is feasible.

Annex G

Summary of overseas experience

G.1 In deciding whether to develop a set of WGA for the UK, we have looked at the experience of other countries who have either already embarked on this route, or have contemplated doing so. We have considered the conclusions those countries have reached in addressing issues similar to those faced by the UK.

G.2 The Appendix below contains a summary of overseas experience of WGA compiled from responses from a number of OECD and other countries to a questionnaire circulated by HM Treasury in November 1997. This experience, along with data collected from other sources, has been drawn on to inform the assessment of WGA in this report.

Who prepares WGA?

G.3 The responses to the Treasury's questionnaire suggest that there is a general, if gradual, move in the direction of preparing information on a whole of government basis, although few countries so far have actually reached the stage of preparing WGA, particularly for the specific purposes for which the UK might wish to use them.

G.4 There are, however, some notable exceptions. **New Zealand, Australia, Canada** and the **United States of America**, for instance, have experience, in varying degrees, of preparing WGA which has proved very helpful in assessing the merits of developing WGA for the UK.

G.5 **New Zealand** has produced WGA on a full accruals basis since 1994 covering the whole of its public sector. The WGA comply with NZ GAAP, which is the same for private and public sectors. WGA are produced on a monthly basis from 30 September each year and are subject to independent audit annually. The introduction of WGA took two years to complete and was carried out in parallel with the introduction of full accruals accounting.

G.6 **Australia** has produced WGA for two trial years and the accounts are currently undergoing their first audit. Unlike New Zealand, Australia has not yet introduced resource based planning and feels that the main benefits of WGA will be delivered only once resource budgeting is in place. The WGA are currently produced annually, although a 'cut-down' version is expected to be produced more frequently following the introduction of resource budgeting. The aim is to be able to produce the first set of statements each year six months after the end of the financial year.

G.7 **Canada** has produced a form of WGA since before the Second World War. The financial statements have evolved over time and the reporting entity has broadened from the Consolidated Revenue Fund to include all entities controlled by the Government. Although their accounts are not based on full accruals accounting, their experience is interesting and relevant as it has evolved into a key indicator for fiscal management of the Government, as well as a key accountability document to Parliament. The consolidation does not include local government, although all entities accountable to Parliament are included. Full accounts are produced and audited annually and a statement of revenues and expenditures is produced on a monthly basis. Following the introduction of full accruals accounting it is expected that there will be quarterly reporting of all financial statements.

G.8 The **USA** produced its first set of prototype Consolidated Financial statements for audit in 1997. The accounts cover the federal government of America. The Consolidated Statements are currently used primarily as a tool to ensure greater accountability over government assets. Data quality and management of assets and liabilities are expected to improve and the accounts to become increasingly useful. The Consolidated Statements are produced annually by 30 September for the period to the end of the previous March.

European experience

G.9 All EU countries produce consolidated accounts for the public sector for national accounts purposes. These consolidations are at present used for public finance statistical purposes, and much of the information contained within them is estimated.

G.10 Few European countries have yet taken a decision to produce consolidated accounts from an accounting base. The majority of European countries still produce cash based accounts for central government entities. A number of countries expressed an interest in moving to accruals accounting in the future and/or to the production of WGA in the longer term. There are, however, some specific examples of public sector consolidation that are worth noting.

G.11 **Sweden** produces a fully consolidated account covering Parliament, the Royal House, the Cabinet, Ministers and central, regional and local departments. An annual consolidated report is produced no later than 9 months after the end of the financial year but is not audited at present, although Parliament has requested a private auditor's examination of it.

G.12 **Iceland** presents central government accounts on a consolidated basis for government departments and their agencies, although some transactions between entities are not entirely eliminated. These accounts are produced and audited annually, with interim financial reports prepared on a quarterly basis. The accounts are prepared no later than two months after the end of the financial year.

G.13 **Finland** is currently in the process of introducing accruals accounting, and Whole State Accounts (WSA) with the same coverage as the Budget will then be produced. The WSA may then be given a wider scope to cover extra budgetary funds and state enterprises. There are no plans to consolidate local authorities or social security funds. The production of WGA has been found to be difficult because the ownership and control criteria which would need to be applied according to the Accounting Act are not fulfilled in the case of the public sector as a whole.

Benefits

G.14 Overseas experience suggests that significant benefits can be obtained from the production of an accurate WGA which is seen as a part of the accounting and forward planning of government. Such benefits arise in particular from improved financial reporting to Parliament and better fiscal policy decision-making in government.

G.15 WGA produced on an accruals basis are believed to reflect the true financial position of governments more accurately than consolidated information produced on a cash basis. Accruals are also considered to provide more and better quality information for both financial reporting and decision making purposes.

G.16 Many countries indicated that the decision to produce consolidated accounts was driven by a need or aim to improve accountability. In some cases (eg Australia and Sweden), Parliament specifically requested that the information be provided to improve reporting and accountability of the Government to them.

G.17 WGA have been used overseas as a tool for fiscal policy development, for statistical information purposes, for financial reporting and accountability and to improve transparency. High level aggregates have been drawn from the consolidated accounts to inform policy decisions.

G.18 All of the countries who produce WGA stated that they had benefited from doing so. The degree of benefit appears to depend on the scope and coverage of the account; the existence of accruals accounting and budgeting for component entities; the accuracy of the data; and the number of years for which the WGA have been produced.

G.19 Specifically, the benefits that **New Zealand** list as having resulted from the introduction of accruals based accounting and budgeting and the production of WGA include: improved cash management; improved asset management; performance improvements; and a better basis for informing fiscal policy decisions.

Difficulties

G.20 The accuracy of WGA has a crucial impact on the benefits which can be derived from them. Where countries have been producing WGA which contain imprecise or estimated data, they are looking to improve accuracy over time to allow them to secure greater benefits.

G.21 Overseas experience suggests that preparing WGA is more difficult where reporting entities are very different in nature or have materially different accounting principles. Overcoming such difficulties can be a problem, and many countries have chosen to prepare accounts which have a narrower scope than the whole of the public sector. However, these accounts still appear to be of use.

G.22 The elimination of internal transactions may also cause difficulties and some countries have so far found these problems insurmountable.

G.23 There is also a risk that accounts which are audited may be subject to qualification, which could result in the accuracy or reliability of the account being questioned. Qualifications may occur, for instance, if the data contained in them failed to represent a fair presentation of the financial position or results of the country, or if transactions in the accounts had been accounted for in an improper manner.



Summary

G.24 Overseas experience suggests that if it is possible to produce an accurate WGA which is seen as a part of the accounting and forward planning of government, then significant benefits can be obtained from it. Such benefits arise in particular from improved financial reporting to Parliament and better fiscal policy decision-making in Government.

G.25 It is worth noting also that countries which have adopted GAAP-based WGA have found that they have quickly established primacy over the statistically based national accounts which are still prepared to meet international obligations.

Appendix

The following information has been compiled from answers received from countries who responded to a questionnaire circulated by HM Treasury asking for information about their experiences in compiling consolidated accounts for public sector entities.

1. Structure of public sector

New Zealand	Central government, State owned enterprises and Crown entities.
Australia	3 tiers - Federal, State and local. At Federal level component parts are Departments, Statutory Authorities and Companies.
Canada	Government of Canada includes departments, agencies, corporations and funds which are owned or controlled by government and are accountable to Parliament. Governments of the Canadian provinces and territories and municipal governments are independent of the federal government and are not included in the Government of Canada financial reporting entity.
USA	The federal government is composed of three branches (executive, legislative and judicial). The executive branch is composed of departments, agencies, government corporations, and other entities which report to the President of the United States.
Iceland	Central government (departments and agencies, non-financial public enterprises; lending institutions; financial enterprises and majority-owned companies) and Municipalities (municipal governments and agencies and municipal enterprises).
Sweden	The Government is made up of Parliament, the Royal house, the Cabinet, Ministers and central/regional/local departments. The central government sector also includes the Bank of Sweden and the pension fund. The whole public sector includes regional councils and municipalities as well.
Finland	The State within the State Budget; extra-budgetary funds; state enterprises; public bodies reporting directly to Parliament; local authorities; county of Åland; pension funds administered by private insurance corporations and public bodies not belonging to other mentioned classes.
Japan	Central government departments and their executive agencies, public corporations (central government), local governments and public corporations (local governments).

Ireland	Government departments and offices and Executive Agencies under their aegis; Local Authorities; Public Bodies; State Sponsored Bodies.
Switzerland	Public corporations; public social security funds; public administrations and agencies (including central government, regional government; and local government).
Portugal	Central government departments; regional governments; local governments and Social Security. General Government accounts exclude nationalised industries and public corporations but financial transactions between general government and those entities are included.
Germany	Federal government; federal states; communities and affiliated municipal authorities; nationalised insurances and national funds (eg Federal Railway Fund).
Denmark	Central Government Departments and their executive agencies; non-agency parts of departments (including public enterprises included in Central Government Budget; subsidised private schools; churches, etc); Local Governments and public enterprises included in Local Government Budgets; Social Security Funds and Public owned corporations.
Hungary	The General Government sector consists of four subsectors: (i) central government sector including central budgetary institutions (eg administration, law courts, defence, universities, etc); (ii) six extra-budgetary funds performing central government tasks and funded by earmarked tax revenues (eg the Road Fund etc); (iii) the social security sector (eg Health Insurance Fund and Pension Fund) and (iv) the local government and budgetary sector which consists of more than 3000 local governments. (NB: Public foundations and public corporations are not included in the General Government Sector.)
Spain	3 levels of government - State public sector; Autonomous public sector and Local public sector.

2. To what extent do public sector entities produce accounts on a partial or full accruals basis?

Country	Full accruals	Partial accruals	Notes
New Zealand	Y	–	All entities, & NZ Reserve Bank form "the Crown" for purposes of Government reporting and produce accruals accounts.
Australia	Y	–	Commonwealth and all controlled entities produce full accruals statements.
Canada	–	Y	All Crown corporations prepare full accruals accounts. The rest of government follows "modified accruals accounting". This means that GAAP is generally followed except that non-financial assets are treated as expenditure and fully charged when acquired. Tax revenues are accounted for on a cash basis when collected. Full accruals accounting will be adopted by 2001-02 including capitalisation and depreciation of capital assets.
United States	–	Y	The 24 major executive branch departments and agencies prepare entity wide audited financial statements. Government corporations also prepare audited statements on a full accruals basis. Legislative and Judicial agencies are not required by law to prepare accruals statements and some, therefore, report on a cash basis.
Iceland	Y	–	From 1998 central government accounts will be on a full accruals basis. Municipal accounting is also on an accruals basis. (However, multi-year investment projects which the government commits to carry out to completion are entered in the accounts as expenditure in the year of the contract.)
Sweden	Y	–	All entities included in the Government Annual Report (the Government Sector) produce accounts on a full accruals basis as do all other public sector entities although a few municipalities may still account on a modified accruals basis but will be required to move to full accruals from 1998.
Finland	–	Y	Component parts of public sector other than the State within Budget (ministries, agencies, in-budget enterprises) produce accounts on a full or partial accruals basis. The State will adopt accruals accounting beginning January 1st 1998. Local authorities introduced accruals accounting in 1997.
Japan	–	Y	Some public corporations and some special account budgets (eg postal service) produce accounts on a partial accruals basis. Main parts of government's budget are purely cash based.
Ireland	–	Y	Government Departments produce cash based accounts although the introduction of information of an accruals nature is being implemented. Local authorities produce cash based accounts. Public bodies have varied accounting systems (some full accruals and some partial accruals). State Sponsored Bodies produce accounts on an accruals basis.
Switzerland	–	–	All public sector accounting is on a cash basis. Expenditure and revenue are accounted for at the moment the payment is realised. There is no further processing of the data to obtain information on an accruals basis.

continued ...

Country	Full accruals	Partial accruals	Notes
Portugal	–	Y	Essentially a cash based accounting system. However some autonomous services produce accruals accounts and the social security system follows a partial form of accruals account.
Germany	–	–	Germany has not adopted commercial accounting practice on a wide scale for accounting or budgeting. Cash based methods dominate on the federal level. A new cost and results accounting systems (CRA) is being introduced in 1998 to standardise accounting practices at a Federal level.
Denmark	–	Y	Accruals accounting is used by all publicly owned corporations and to some extent by public enterprises. However, public enterprises then transform their accounts to align them with those of central government. Central government accounts are produced on a basis that is between accruals and cash accounting.
Hungary	–	–	All government sector accounting is carried out on cash basis double entry book-keeping.
Spain	–	Y	Two groups of entity can be identified from the three layers of the public sector (i) entities subject to the General Plan for Spanish Business Accounts and (ii) entities subject to the General Plan for Public Accounts. Both incorporate the principle of accruals accounting although its definition in each is slightly different. Group (i) entities produce full accruals accounts. Group (ii) entities in the State public sector produce full accruals accounts which have been adjusted from cash figures at the end of the financial year. Group (ii) entities in the autonomous public sector produce full accruals accounts except where they have not yet adopted the public accounts general plan. Group (ii) entities in the local public sector produce modified accruals accounts.

3. To what extent are those accounts consolidated to form an overall set of financial statements for part or all of the public sector (“whole of government accounts” - WGA)?

Country	Full	Partial	None	Notes
New Zealand	Y	–	–	Central government entities and the Reserve Bank are consolidated with state-owned enterprises and Crown entities are equity accounted into the WGA. Moving to fully consolidated WGA following revision of the financial reporting standard.
Australia	Y	–	–	2 trial WGA statements have been produced. Currently in process of producing audited WGA statements for 1996-97 financial year.
Canada	–	Y	–	All departments, agencies, boards, commissions, funds and appropriation-dependent Crown corporations are fully consolidated. Enterprise corporations (commercially viable) are accounted for on an equity basis only (ie only profits and losses are included in the consolidation). Local government is not consolidated into the central government account.

continued ...

Whole of Government Accounts

Country	Full	Partial	None	Notes
United States	Y	–	–	All Federal accounts are transmitted electronically to a central database maintained by the US Treasury which prepares the Consolidated Financial Statements.
Iceland	–	Y	–	Central government accounts are presented on a consolidated basis for government departments and their agencies (Group A) although some transactions between entities are not entirely eliminated. Income and expenditure accounts for non-financial public enterprises and lending institutions are presented on a gross basis whereas their profits or losses are entered under Group A. The assets and profits for financial enterprises and majority-owned companies are entered under Group A. Thus the consolidation takes place by pulling all accounting results under Group A.
Sweden	–	Y	–	Annual accounts of the Government Sector are fully consolidated into the Government Annual Report. A section is also included on the Central Government sector where a full consolidation has not been possible.
Finland	–	–	Y	WGA not currently applied. With the introduction of accruals accounting Whole State Accounts with the same coverage as the Budget will be produced. In the future it may be expanded to cover extra budgetary funds and state enterprises. There are no plans to consolidate local authorities and social security funds. Further answers relate to Whole State Account (WSA).
Japan	–	–	Y	Central Government's budget consists of the General Account budget and 38 special account budgets. Local governments and public corporations compile their own budgets. There is no WGA.
Ireland	–	–	Y	Consolidated accounts are not produced in any form.
Switzerland	–	Y	–	Consolidation occurs for public finance statistical purposes only. The consolidation is primarily of the public administrations and agencies although much of the local government information is estimated. Further consolidation is very rough ie adding total revenue and expenditure of the social security accounts to the government account figures. Public corporation results are not consolidated.
Portugal	–	Y	–	Public sector accounts are consolidated to form a set of Government accounts. Results are subsequently converted to the European System of Accounts (ESA) by the financial department.

continued ...

Country	Full	Partial	None	Notes
Denmark	–	Y	–	National Accounts (ESA95) are produced. In addition, Denmark produces and publishes consolidated data for General Government (central and local governments including public enterprises) for analysis of public expenditure purposes. These accounts are produced using the accounting practices of Central Government and indicate the level of gross current and capital expenditure that needs to be financed.
Hungary	–	–	Y	The preparation of the book-keeping system of state accounts was established only two years ago with the foundation of the Hungarian State Treasury. Implementation of an uniform policy of government accounting is part of a long-term process. The accounts are to no extent consolidated.
Spain	–	–	Y	The State public sector does not yet consolidate accounting data from its constituent entities. The State General Account includes the State General Administration account and the accounts of the autonomous agencies but without consolidating any data or even aggregating figures.
Germany	–	–	Y	WGA based on commercial accounting principles do not exist.

**4. What is the precise coverage of the WGA in respect of the component bodies in the public sector?
Do the accounts include taxation receipts and government borrowing transactions?**

Country	Include taxation receipts	Include govt. borrowing transactions	Notes
New Zealand	Y	Y	Coverage is whole public sector.
Australia	-	-	Include Commonwealth and controlled entities. All transactions of each entity recognised in the WGA with inter-entities eliminated.
Canada	Y	Y	All entities accountable to Parliament are included. All tax and non-tax revenues and all borrowings of consolidated entities are included in the consolidated financial statements. Revenues and borrowings of other levels of government (provincial and local) and of enterprise Crown corporations are excluded. The central bank is treated as an enterprise corporation and therefore bank notes and its other liabilities are not recorded as liabilities in the WGA.
United States	Y	Y	The Consolidated Financial Statements (CFS) do not receive full accruals data from all legislative and judicial branch agencies. All of the accounts (including taxation receipts and government borrowing transactions) are included in the CFS.
Iceland	Y	Y	Accounts include assessed taxes on the revenue side and an offsetting item on the expenditure side which covers uncollected taxes and the difference between assessment and actual tax receipts. Borrowing transactions are covered under Group A (eg Government departments and their agencies).
Sweden	Y	Y	The State budget is still on a cash or modified accruals basis. This means that all entities account for appropriations or general income on these bases for transactions that relate to the State budget and <i>also</i> on a full accruals basis for all transactions in order to produce the financial statements required. At present, new principles for state budget appropriations and general income are being investigated and a full accruals basis may be used for budgeting and accounting from 2000.
Finland	-	-	A consolidated account for the State will be produced once accruals accounting has been implemented. Local authorities and social security funds will be excluded as their inclusion in National Accounts is considered to be all that is necessary.

5. To what extent do WGA and the accounts of component parts of the public sector follow private sector accounting standards? Who sets the accounting standards to be followed? Is this done from outside the public sector?

Country	Accounting standards
New Zealand	All public sector entities comply with NZ GAAP. NZ GAAP is the same for public and private sectors. Accounting standards are approved by Accounting Standards Review Board (ASRB) and are then legislated.
Australia	WGA prepared in accordance with Australian Accounting Standard 31 Financial Reporting by Governments which was designed specifically for Government. No statutory requirement to prepare the statements. Standards are issued by Australian Accounting Standards Board which is outside the Commonwealth.
Canada	Accounting standards for the private sector are established by the Canadian Institute of Chartered Accountants (CICA). CICA is a non-government body outside the public sector. CICA develops and recommends accounting standards for governments through its Public Sector Accounting and Auditing Board (PSAAB). PSAAB has no authority and can only make recommendations but these have become widely accepted.
United States	The Consolidated Financial Statements are prepared in accordance with accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB). This is a board established to develop accounting standards useful in the federal sector.
Iceland	Private sector accounting principles are emulated as far as practicable with the important exception that durable assets are written off in the year of purchase. A special Government Accounts Committee oversees the implementation of the Government Financial Reporting Act. Members are all public servants.
Sweden	All entities follow GAAP for Government which is identical (where applicable) to private sector GAAP. Standards are set by Government Ordinances and by detailed regulations issued by the Swedish NAO.
Finland	Accounting standards of private sector are set in legislation and in recommendations given by the accounting standards committee which has a special section for local authorities. The Budget Decree provides a similar committee for accounting of the State.
Portugal	Accounting standards are submitted to the Accounting Standard Commission which plays a consultative role.

6. To what extent do WGA and the accounts of component bodies of the public sector reflect changing prices, in terms of either valuing assets on a current cost basis, or accounting for the effects of general inflation, or both?

Country	Reflection of changing prices
New Zealand	Current cost accounting is not part of GAAP in NZ. Assets are valued at net current value or a suitable alternative is used if not appropriate.
Australia	At present assets are valued on a variety of bases. When accruals budgeting is introduced all entities will move to a current cost basis of valuation.
Canada	Generally, both the private and public sector in Canada do not reflect changing prices or the effect of inflation in accounts. Assets are recorded at historical cost less write-downs, if any, to reflect reductions in future economic benefits of the assets.
United States	FASAB standards generally require historical cost for valuation purposes.
Iceland	Revaluations are based on changing prices by a linkage to the building cost index. Current cost basis is not generally used. Revaluation principle is applied conservatively since many government assets have no market value.
Sweden	All assets and liabilities are recorded at acquisition value less depreciation (or equivalent for current assets). Any revaluation with the aim of reflecting changing prices may be calculated separately and shown in the notes.
Finland	No procedures in private sector or State accounting to take into account changing prices, but there is access to prudent revaluation of assets if necessary.

7. How do you handle military, infrastructure and heritage assets? How are liabilities for state-provided pensions treated in the accounts?

Country	Specialist assets	Pension liabilities
New Zealand	Specialised assets operating in non-contestable markets are normally valued using depreciated replacement cost.	State provided pensions are recorded in financial statements on a "pay as you go" basis. Pensions associated with employment contracts are accrued with the contributory service of members.
Australia	Military, infrastructure and heritage assets are included where they meet recognition criteria (ie service potential embodied in the asset will eventuate and the asset possesses a reliable cost or value).	
Canada	Currently all tangible capital assets are expensed on acquisition. From 2001-02 military and infrastructure assets will be capitalised and depreciated over their useful lives. A heritage asset will normally be capitalised and depreciated over its useful life up to a maximum of 40 years. However, costs relating to monuments, works of art and museum collections will be expensed on acquisition.	The Old Age Security Program is a transfer payment program whereby benefits are paid to eligible recipients. It is non-contributory and can be amended at will by Parliament. It is accounted for on a pay-as-you-go basis and no liability is recorded for future benefits.
United States	FASAB has established special accounting for military, infrastructure (federally financed but not federally owned) and heritage assets. For instance, expenditure on the acquisition, construction, reconstruction or improvement of heritage assets is reported as a cost in the period incurred.	The Consolidated Fund Statement does not include state-provided pensions since they are not liabilities of the federal government.
Iceland	Infrastructure and heritage assets are written off in the year of purchase. Although not entered on the balance sheet they are recorded in asset registers.	Most government pensions are concentrated in the Government Employees Pension Fund. The fund has accumulated an actuarial loss over the years for which the Treasury acts as guarantor. 1998 budget and accounts will reflect the loss for the first time.
Sweden	Military equipment is currently treated in two ways. Peace-time equipment is treated as an asset, equipment purchased for the purpose of war use is written off immediately. But from 1998 or 1999 all will be treated as assets. Infrastructure and heritage assets are treated as assets (except for art, buildings etc purchased before 1993 where a meaningful value has not been established). For roads, life time is normally 40 years.	
Finland	These assets are included in the balance sheet of the State despite difficulties in evaluation.	State pension liabilities are presented as a footnote to the WSA balance sheet.

8. What primary statements are included in the consolidated set of accounts (balance sheet, income and expenditure account, cash flow statement, etc)?

New Zealand

- An operating statement
- A statement of financial position (balance sheet)
- A cashflow statement
- A borrowings statement
- A statement of movements in equity
- A contingent liabilities statement

Australia

Statements include a statement of assets and liabilities, operating statement and cash flow statement.

Canada

- Statement of assets and liabilities
- Statement of revenues and expenditures
- Statement of accumulated deficit
- Statement of changes in financial position (cash flow).

United States

- Balance sheet
- Statement of net cost
- Statement of changes in net position

Iceland

- Statement of income and expenditure
- Statement of assets and liabilities
- Statement of cash flow

Sweden

- Central government consolidated balance sheet
- Central government consolidated income statement
- Statement of the Financial position of central government

Finland

Annual accounts of the State include an income and expenditure account, a balance sheet, a Budget outcome report and the Government Report on the Management and State of the State Finances to Parliament.

9. How often are the accounts produced - annually or more frequently?

Country	Frequency of account production
New Zealand	WGA are produced monthly. First set of accounts in each year are produced for 3 months ending 30 September.
Australia	At present production is annual. After introduction of accruals budgeting they will have a greater strategic role and will be produced (in cut-down version) more frequently.
Canada	Full accounts are produced annually. Monthly reporting consists of a statement of revenues and expenditures only. Under accruals accounting more frequent (at least quarterly) reporting of all statements is anticipated.
United States	Accounts are produced annually. The fiscal year ends on 30 September and the Consolidated Financial Statements must be produced by 31 March the following year.
Iceland	Accounts are annual. Interim financial reports are prepared quarterly.
Sweden	Each accounting entity is required to produce accounts monthly to be included in a central data base. Regular statements of operations, balance sheets and statements of changes in financial position are prepared semi-annually. The consolidated accounts of the Government are produced annually.
Portugal	Cash based statements are produced annually for general government consolidated accounting.

10. Are WGA audited? If so, by whom?

Country	Audited Y/N	Auditor
New Zealand	Y	Audit Office (public sector organisation with statutory independent authority) carry out annual audit.
Australia	Y	Auditor General
Canada	Y	Annual financial statements are audited by Auditor General of Canada. This audit report is addressed to the House of Commons.
United States	Y	Statements are audited by the General Accounting Office which is part of the legislative branch. This is a statutory requirement.
Iceland	Y	Central government accounts are audited by State Accounting Office.
Sweden	N*	Swedish NAO Auditors (the Swedish NAO is an autonomous department under the Ministry of Finance)

* Departmental semi-annual report is checked by auditors who submit a simplified audit opinion to the Cabinet. A full audit report is produced for each annual report. The consolidated annual report of the Government has not been audited yet but Parliament have asked for a private auditor's examination of the report.

11. To what extent is the audit opinion the same as for private sector accounts, and the same as for the accounts of the component bodies of WGA? If WGA are produced to a lower standard than for the accounts of the component bodies, is this because the purpose of WGA is other than for financial reporting where the degree of accuracy required may be lower?

Country	Audit opinion
New Zealand	Public and private sector financial statements and audit opinions are produced to same standards.
Australia	Standard of preparation (and audit) will be determined on the basis of materiality which must take into account the nature of government operations.
Canada	The audit opinion is very similar to that in the private sector. WGA are prepared to the same standards as component accounts. Government strives for 100% accuracy and the auditor uses a materiality limit of approximately 0.5% of expenditures.
United States	There are audit standards which are applicable to auditing federal agencies - the standards are published by the Office of Management and Budget (an executive branch office which oversees the entire executive branch). The auditing standards are developed in coordination with the General Accounting Office. The audit of the Statements is largely based on the audits of the component bodies so the standard is the same.
Iceland	Audit opinion is rendered in line with opinions of chartered public accountants for private sector accounts. The State Accountant-General must, by law, be a chartered accountant and adhere to professional principles and requirements.
Sweden	Offices of the Ministries are audited annually and standards are by and large those of the private sector since the audit does not need to cover a statement on the results of operations (which has no parallel outside Government). Parliament have asked for the Annual Report of Government to be audited but this has not yet happened and the scope and standards are not identified.

12. How long after the end of the financial year are the annual WGA produced? Are they prepared by your finance department or statistical office?

Country	Length after Financial year	Preparation
New Zealand	3 months after balance date. Audited statements are required by statute to be published by 30 September each year.	
Australia	Objective is to have statements completed within 6 months of year end.	Statements are prepared by department of Finance and Administration.
Canada	Financial statements are available about five months after year end. Delay is caused by determination of certain accruals related to the tax system. These numbers are not available until 4 months after year end. Otherwise statements could be ready within three months of year end.	Statements are prepared by the Canadian equivalent of Treasury/Finance department. There is no input from the Statistical Office.
United States	The Statements are produced by 31 March for the fiscal year ending on the preceding 30 September.	The Financial Management Service (a bureau within the Department of the Treasury) prepares the Consolidated Financial Statements.
Iceland	Accounts are prepared no later than 2 months after the end of the financial year.	Accounts are prepared by the State Accounting Office.
Sweden	Departmental annual reports are submitted before 1 March each year and audit reports are submitted before 1 April. Cabinet is required to submit a consolidated annual report of the Government to Parliament as soon as possible but not later than 9 months after the end of the year.	The accounts are prepared by the non-audit part of the Swedish NAO.
Portugal	Consolidated cash based accounts for central Government and social security are produced almost a year after the end of the financial year.	Consolidated general government accounts formulated on an ESA basis are produced by the National Statistical Office (INE).

13. Are the WGA presented to Parliament?

Country	to Parliament Y/N	Notes
New Zealand	Y	They are also subject to examination by the Finance and Expenditure Select Committee.
Australia	Y*	*Audited Statements will be tabled. Trial statements were not tabled but were presented to Public Accounts Committee.
Canada	Y	Financial statements and audit report are presented to Parliament. This is required by statute.
United States	Y	The Statements are presented to Congress.
Iceland	Y	Accounts are presented by Minister of Finance to the Althing.
Sweden	Y	
Portugal	Y	Consolidated cash based accounts for central Government and social security are submitted to Parliament.

14. Which if any of the accounting requirements are covered by statute?

Country	Requirements covered by statute
New Zealand	Requirement to produce WGA on an accruals basis and the frequency of reporting requirements.
Australia	None at present.
Canada	The relevant statute is general. It requires the government to table in Parliament financial statements that present fairly the financial position of the government and the revenues and expenditures for the year.
United States	The requirement to produce the Consolidated Financial Statements is required by the Government Management Reform Act of 1994 which also requires audited entity-wide financial statements from the 24 large departments and agencies.
Iceland	Government Financial Reporting Act covers the basic accounting principles and requirements in as much as they differ from principles common to all accounting.
Sweden	The State Budget Act 1997 requires accounting in Government to follow GAAP and give a true and fair view. It also requires the Cabinet to be accountable to Parliament for the funds and other assets of the Government and for operations, debts and liabilities of the Government. Cabinet is also required to report on the outcome of the State budget appropriations not later than 30 April with a final report before 30 September.

15. What led to the decision to produce WGA?

Country	Reasons it was decided to produce WGA
New Zealand	Prior to WGA the only consolidated information produced was cash information for central government. This information was not believed to fairly reflect the true financial position of the whole of government. It was also believed that accruals would provide a richer suite of information both for financial reporting accountability and fiscal policy decision making purposes.
Australia	Several developments led to decision. 2 major ones were recommendations of National Committee of Audit (and the Public Accounts Committee) and the issue of an accounting standard of government reporting.
Canada	A statutory requirement to prepare financial statements goes back to before World War II. Statements have evolved over time. The reporting entity has been broadened from the Consolidated Revenue Fund to include all entities that the government controls. Today, WGA are viewed as a key accountability document of the government to Parliament.
United States	Audited Consolidated Financial Statements are required by law.
Iceland	The structure and organisation of the government account had not been reviewed for a number of years. The change in general accounting principles and the increased need to use budgeting and accounting information as a tool of fiscal policy prompted a review which led to a revision of accounting processes in 1992 which took three years to introduce.
Sweden	The Annual Report for the whole Government (including elimination of transactions between departments) is prepared to improve the Cabinet's accountability to Parliament.
Portugal	General Government consolidated accounts formulated on a cash or ESA basis constitute a requirement to report to the European Union Commission.

16. What are the WGA used for - as a tool for fiscal policy development, purely for statistical purposes or for financial reporting? What, if any, high level aggregates are used in decision making in the fiscal policy context?

Country	Use of WGA
New Zealand	Used for both fiscal policy development and financial reporting. Fiscal responsibility Act defines principles of responsible fiscal management. These are based on high level aggregates such as operating balance, net worth and net debt. Government is also required to state short term intentions and long term objectives.
Australia	Currently sole use is for reporting purposes but will become more strategic for resource management after introduction of accruals budgeting. Cash information is solely used for broad fiscal policy purposes and will still be important in this area despite the introduction of accruals.
Canada	WGA is used as a tool for fiscal policy and for financial reporting. The annual deficit reported in the WGA is the key indicator of fiscal management of the government and the deficit target heavily influences decision making throughout the year. Deficit targets are a high profile political matter in Canada. The deficit is accruals-based expenditures less revenues not cash requirements or borrowings. Generally, the deficit is the some \$4billion greater than the cash requirement.
United States	At the present time the account is primarily a tool to ensure greater accountability over government assets (the aggregates point out areas that need to be addressed) and it also allows readers to understand in a user friendly way the financial condition of the government and what major government functions cost.
Iceland	Government accounts are used as a tool for fiscal policy as well as a general management and information tool. Principal high-level aggregates used are the revenue balance; cash flow from operations; borrowing requirement and the balance sheet.
Sweden	The Financial Statements in the annual report attract certain interest but the report on the outcome of the State budget is the most important document. The main objective of the report is to assist financial reporting and decision making in Parliament.
Portugal	Consolidated accounts are used for fiscal policy and statistical purposes. A few high level aggregates are used for decision making purposes in terms of fiscal policy (including deficit and debt; public saving and primary expenditure).

17. What other benefits have arisen from producing WGA? For example, in what ways have WGA improved data quality?

Country	Benefits
New Zealand	WGA was part of set of management reforms. Key benefit is consistency and integration with those reforms. Benefits include: improved cash management; improved asset management; promotion of better benchmarking and analysis of Government Services leading to performance improvements; and an improved basis on which to take fiscal policy decisions.
Australia	Until WGA are used for strategic budget purposes benefits are minimal. Quality of information has improved markedly since first trial as well as the requirements of the regulations.
Canada	A strong fiscal discipline has been imposed over all of government (not just the core represented in the Consolidated Revenue Fund). This has led to a greater emphasis on financial results of Crown corporations and greater discipline in privatisation activities. The WGA has also facilitated a wider public understanding of the Government's financial affairs.
United States	The US have advised that they find benefits hard to quantify but believe that if something is not measured it is not managed. The preparation of Consolidated Financial Statements has led to improved management of financial assets and liabilities. Audit and production have also led to an improvement in data quality.
Iceland	Accounting revision is still in its initial stage. The 1998 budget proposal has been presented on the basis of the revised accounting principles and are expected to benefit the government by presenting clearer aggregates for policy making purposes.
Sweden	The new accounting model and principles have led to improved overall quality of accounting, a uniform solution to accounting problems, a better understanding of the effects of financial decisions, improved departmental and Ministry management and information on the cost of operations. The model has facilitated the introduction of capital charging on assets and payments (except transfers and collection of taxes).
Portugal	The production of consolidated accounts improved information and data quality and rationalised the management of general government's global reserves.

18. In policy terms, what has been done differently as a result of the development of WGA? For example, what decisions have been affected by having WGA and what decisions could not have been made without them?

Country	Things done differently
New Zealand	WGA have given Ministers more relevant and useful information on which to base decisions. However, New Zealand felt that it would be difficult to express what decisions would or would not have been made without WGA.
Australia	WGA not being used in this way at present.
Canada	More comprehensive accounting standards and consistently high annual deficits has led to a greater public understanding and debate of the government's operating costs and financial position in recent years. This has resulted in decisions to impose greater financial discipline on government programmes.
United States	1997 was the first year in which an audited set of Statements was produced. It is therefore too early to say what the effects of the production of consolidated accounts will be. However, Congress displayed interest in the Statements and held hearings the day after they were produced.
Iceland	It is too early to tell how revisions will affect policy making. However, the Government Financial Reporting Act stipulates that the budget shall be accompanied by a projection of government finances for the next three years following the next fiscal year. The full accounting for pension liabilities has prompted a review of government pension arrangements to prevent the accumulation of unfunded liabilities in the future.
Sweden	WGA has not been used very much as a basis for decisions because MPs do not know how to interpret the documents in a Government context. Usefulness is expected to increase over time.
Portugal	The development of general government consolidated accounts led to a higher level of mutual responsibility and solidarity among institutional bodies.

19. How are WGA produced - by consolidating or aggregating the accounts of individual bodies or as an entirely separate exercise?

Country	WGA production method
New Zealand	Central Government information is fully consolidated and the net surplus of statement-owned enterprises and crown entities is aggregated into WGA.
Australia	Formal process of consolidation. Data is provided by agencies in a consolidation pack.
Canada	The WGA is produced by aggregating accounts of the core government and consolidating the financial statements of appropriation-dependent Crown corporations.
United States	Agencies electronically transmit their adjusted trial balances to the Treasury where consolidation and the production of the Consolidation Financial Statements take place.
Iceland	Accounts are produced by an aggregation of the accounts of individual entities.
Sweden	Departmental financial statements are reported electronically and on paper to the non-audit part of the Swedish NAO where the figures are aggregated (with the elimination of internal transactions) into financial statements for the whole Government.
Portugal	The general government accounts either in cash or on an ESA basis are produced by consolidation.

20. What difficulties were encountered in consolidation (eg different accounting policies or depreciation methods; timing of information available, data quality, etc)?

Country	Difficulties
New Zealand	Most difficulties related to culture change with the move to accruals accounting. In consolidating, a few differences in accounting policies were experienced. Timing of information has improved considerably over the past few years as has the quality of information. It was important to make all parties aware of objectives and end targets.
Australia	Major difficulty was in getting statements to balance. Mainly due to administered items entries (ie such as pension payments) which straddle departments. Departments are now required to apply double entry bookkeeping for all transactions, in many cases this involves the use of "transfer to central bank account" type entries.
Canada	Where accounting policies differ (eg Crown corporations capitalise fixed assets) the accounts of the entity are converted to those of the government. Where different year-ends exist, supplementary information is requested from the entity to adjust the year-end to that of the government. Materiality is also considered.
United States	Many difficulties are eliminated because all agencies are required to follow FASAB accounting standards; to use a US Government Standards General Ledger and to produce audited statements by 1 March. There are still problems occurring in the elimination of intra-governmental transactions.
Iceland	It has not been possible to consolidate intra-governmental transactions in the same way throughout.
Sweden	Elimination of internal transactions may be difficult because of deficiencies in the electronically transmitted accounting information from Departments. A new project has begun to develop a new electronic information system. There are few accounting policy problems as most entities follow regulations issued. However for certain unique transactions, where normal accounting methods are difficult to apply, problems may arise.
Portugal	Difficulties in consolidation arise from different accounting policies and non-fulfilment of the schedules of deliverance of information by all levels of government.

21. How accurate are the consolidated figures? To what extent is the degree of accuracy a result of the purpose of WGA?

Country	Accuracy
New Zealand	WGA fairly reflect the financial position of government and the results of its operations (as per the audit opinion). Beyond that, accuracy is difficult to assess.
Australia	View is that last trial statements were materially accurate.
Canada	Statements contain a reasonable degree of accuracy. A materiality limit of 0.5% of expenditures is applied by the auditor.
United States	It is currently hard to know how accurate the data is because of systems problems which are occurring and which undermine the reliability of the data. Actions to correct such weaknesses have been identified and are being implemented.
Iceland	Consolidation of intra-governmental transactions is not applied wholly throughout. For example, refunding of out-patient services by hospitals is reported as an expense of the hospital and the refund as an expense under the Sickness Insurance Scheme leading to some double counting in the consolidated account.
Sweden	The figures are thought to be very accurate overall. Supplementary information provided in notes on alternative valuation methods may, however, be based on assumptions in various areas and information on the Central Government Sector is less accurate since full elimination of internal transactions is not possible.

22. What additional costs have resulted from producing WGA?

Country	Costs
New Zealand	In 1997/98 \$1.985 million appropriated for aggregate financial reporting. Includes cost of direct labour, audit fees and overheads. Overall accounting costs believed to have been considerably reduced by implementation of modern accounting software packages and processes.
Australia	Hyperion consolidation software was purchased (cost commercial in confidence). WGA team comprises 4 full time staff and one consultant. Expertise from other parts of department is also called on to resolve significant policy issues.
Canada	The process is well established and costs are not considered to be significant.
United States	The costs are not great because all of the agencies are required to produce entity-wide audited statements so that the Consolidation is developed from data which is required already.
Iceland	The Treasury is budgeting in 1998 a total of about £1.2 million for the creation of budgeting, accounting and taxation data software. Staff and training costs will be additional.
Sweden	Since new accounting models, principles and systems are required at departmental level irrespective of the requirements for an Annual Report of the Government the additional costs have been negligible. The whole accounting reform has, however, required large investments in systems and staff training at all levels.

23. How long did it take to implement WGA? What was your overall view of the process?

Country	Implementation length	Overall view
New Zealand	18 month transition period to move agencies from cash to accruals reporting. Development changes in centralisation took place alongside that allowing WGA to be introduced within 2 year period.	
Australia	2 trials	Process reasonably smooth although care had to be taken over the interpretation of the numbers.
Canada	Not applicable. WGA have been in place long term and have evolved to present form over time.	Canadian view is that WGA financial statements are essential to the financial management of the government and for the government's accountability to Parliament and the public.
United States	It took four years to develop the Consolidated Financial Statements.	Work started at an early stage to define the problems and to assign task forces to work on problems. A system was already in place to capture the data when the requirement for audited Consolidated Financial Statements was enacted and an unaudited prototype set of Consolidated Statements had been produced for 20 years. The process was not controlled by the Treasury as the General Accounting Office and the Office of Management and Budget were major players. Negotiations over what needed to be done and then finding ways to execute the decisions were significant implementation factors.
Iceland	More than three years	Substantial progress has been made in improving information systems, and tools and data for analysis are now in place that will help share fiscal policy in the future.
Sweden	Alongside introduction of new accounting model between 1992-94.	Generally the process was smoother than expected but the effort, especially at departmental level, was substantial.

.01

24. Do you have any other comments or observations on your experience of WGA?**Australia**

Major comment relates to the role the standard setting bodies played in the process. Although they were a significant catalyst in getting governments to report on an accrual basis they were generally naive of the public sector and its objectives. Accordingly many concepts that were developed for the private sector were thought to apply equally well to the public sector. This misunderstanding resulted in substantial resource effort in negotiating reasonable approaches to applying the concepts.

Canada

Once the process of producing WGA is established it becomes routine. Nevertheless, all organisations within the government need to recognise their responsibilities to contribute information on time to ensure successful preparation each year.

- United States** A copy of a testimony from the Treasury to a Congressional subcommittee was provided which provided background, a definition of the role of the Treasury, details of the preparation of the accounts and discussion of the Consolidated Financial Statements and conclusions about the experiences to date. This document noted that weaknesses in agency accounting practices and financial management systems had been the fundamental cause of problems with 1997 Statements; that the Treasury would be increasing efforts to ensure effective cash disbursement reconciliations; that problems with the elimination of transactions between agencies needed to be resolved and that training of financial and management personnel would be increased to address common errors identified in agency information.
- Sweden** Sweden would recommend the principles to other Governments and would suggest changing general accounting principles and principles for appropriations and general income during the same time period, since reporting according to different principles is costly and causes errors. This task implies fighting both a traditional view, where cash appropriation accounting is considered enough and a "private sector view" where Governments would implement accounting principles and methods used in non-public sectors.
- Iceland** More information about the reforms can be found in a report titled "Financial Reporting Reform". Chapter 2 is particularly relevant to consolidation.
- 25. If you do not produce public sector accounts on an accruals basis - either for individual components of the public sector or for the public sector generally - do you have plans to do so?**
- Canada** Canada expects to report on a full accruals basis by 2001-02.
- Finland** The Finnish Government Sector is currently in the process of introducing accruals accounting. It will be introduced in the State as a whole as well as in Ministries and Agencies from 1 January 1998.
- Japan** Negative attitude towards the introduction of accruals accounting in central Government because public sector is considered to be essentially different from private sector which looks after its own interests.
- Ireland** Some parts of the public sector in Ireland already produce accruals accounts. The introduction of accruals information in the accounts of Government departments is currently being implemented.
- Switzerland** No plans to produce accounts on an accruals basis but will be following the revised IMF manual on government statistics and so will be obliged to adapt financial data in that sense.

Portugal

A budgeting and accounting accruals based framework for General Government was approved in 1997.

Greece

The Greek Government plans to adapt accruals based accounting to handle its Central Government Budget. The same procedure will then be applied to General Government Accounts at a later date.

Hungary

Hungary has not introduced accruals based accounting. However, they have prepared a draft government paper "*Modernisation of public finance management and information systems*" which seeks to address the following:

- transition to double entry book-keeping on an accruals basis;
- implementation of an uniform policy of government accounting:
 - preparation of book-keeping consolidation;
 - application of uniform recording and evaluating principles;
 - composition of assets and liabilities;
- compilation of statistics for National Accounts in accordance with ESA95 which will be based on accruals, or modified accruals, double entry book-keeping information.

26. If you currently produce/are introducing public sector accounts on an accruals basis for individual components of the public sector, but do not consolidate those accounts, do you have plans to do so?

Canada	Only Crown corporations not dependent on appropriations are not consolidated but are accounted for on an equity basis. These entities report on a full accruals basis and are not considered to carry out "government-type" activities. There are no plans to consolidate them in the future.
Sweden	It would be difficult to introduce a fully consolidated public sector report given the organisation and constitutional setup in Sweden.
Finland	WGA concept has been little discussed in Finland mostly due to self-government of local authorities and social security funds. The ownership and control criteria, that are applied when accounts are consolidated according to the Accounting Act are not fulfilled in the case of the public sector as a whole. On the other hand, they could - and should - be applied to State-owned enterprises and extra-budgetary funds. Current position on WGA is to utilize the National Accounts information and to learn from experience elsewhere.
Ireland	No plans to produce consolidated accounts for the public sector as a whole.
Switzerland	No plans to amend current process of consolidation for statistical purposes only. No plans to introduce full consolidated accounts for public sector.
Portugal	Once a plan of accounts is on an accruals basis it will be possible to consolidate the individual accounts on that basis as well.
Spain	In relation to the State Public Sector, it is foreseeable that there will be a consolidation of the Autonomous agencies and public corporations. However, in view of the difficulty of the work and the virtual absence of any studies of the matter at public sector level it was felt advisable to carry out some research. Accordingly, a research project has been commissioned from a team of professionals who will study the consolidation of financial positions of entities in the State Public Sector which are required to use the Public Accounts General Plan.

Annex H

Social Security Benefits

	Basis of guarantee/ current legislation (note 1)	Past event or undertaking	Inevitability of future payments	Actual liability
Contributory Benefits:				
Retirement Pension	✓	✓	✓	✓
Christmas Bonus	✗	✓	✗	✗
Widow's benefit	✓	✓	✗	✗
JSA Contributory	✗	✗	✗	✗
Incapacity Benefit	✗	✓	✗	✗
Statutory Sick Pay	✗	✓	✗	✗
Maternity Allowance	✓	✓	✓ (note 2)	✗
Statutory Maternity Pay	✓	✓	✓ (note 2)	✗
Guardian's Allowance & CSA	✓	✓	✓	✗ (note 3)
Non-Contributory Benefits:				
War Pension	✓	✓	✗	✗
Attendance Allowance	✗	✓	✗	✗
Invalid Care Allowance	✗	✓	✗	✗
Severe Disablement Allowance	✗	✓	✗	✗
Disability Living Allowance	✗	✓	✗	✗
Disability Working Allowance	✗	✓	✗	✗
Industrial Injuries Disablement Benefit	✗	✓	✗	✗
Industrial Death Benefit	✗	✓	✗	✗
Jobseeker's Allowance	✗	✓	✗	✗
Income Support	✗	✓	✗	✗
Child Benefit	✓	✓	✓	✓
One Parent Benefit	✗	✓	✗	✗
Family Credit	✓	✓	✗	✗
Independent Living Fund	✗	✓	✗	✗
Social Fund and Winter Fuel Payments	✗	✗	✗	✗
Earnings Top-Up Pilots	✗	✗	✗	✗
Housing Benefits:				
■ Rent Allowance	✗	✗	✗	✗
■ Council Tax Benefit	✗	✗	✗	✗
■ Rent Rebate - DSS	✗	✗	✗	✗

Notes: 1. The definition of legislation used expects continuation of benefit payment without further test/review of entitlement.

2. Future payments are inevitable for maternity pay/allowance but the entitlement is limited to a fixed period of a number of weeks only. These benefits did not, therefore, meet the continuity criteria necessary for the definition of a long-term liability.

3. In respect of guardian allowance the annual expenditure is £1 million compared with Child Benefit of approximately £7 billion and is therefore deemed to be immaterial.

Annex I

Whole of Government Accounts - Analysis of accounting convention and policies

Accounting Policy	Resource Accounts	Trading Funds	NDPBs	NHS Trusts	Local Authorities	Nationalised Industries	Public Corporations
General Policies	Resource accounting manual	Executive agency guidance	NDPB guidance. However some NDPBs are charities and apply the charities SORP, or limited companies and have to comply in full with companies legislation and UK GAAP	Directions of Secretary of State; comply with ASB standards as far as appropriate	Code of Practice on Local Authority accounting; CIPFA guidance; appropriate accounting standards	Directions of Secretary of State; relevant Statute (eg Transport Act), Companies Act	Companies Act; applicable accounting standards
Accounting convention	Historical costs modified to account for the revaluation of fixed assets and stocks where material, at their value to the business by reference to their current costs	As for resource accounts	Ditto for the majority of NDPBs. Some NDPBs account for assets at historical cost, or revalue only buildings. Where NDPBs are charities the charities SORP applies	As for resource accounts	Ditto for land, property and other operational assets. Infrastructure at historical cost	Some apply MHCA. Others account under historical cost convention; or may be modified in parts - eg to revalue investment properties	Historic cost convention
Fixed Assets	Thresholds set for each resource account to capture all material assets and asset types	As for resource accounts	As for resource account	£5,000 threshold	Not known	Not known	Not known

continued...

Accounts

Accounting Policy	Resource Accounts	Trading Funds	NDPBs	NHS Trusts	Local Authorities	Nationalised Industries	Public Corporations
Valuation principles	Per FRED 17	Will be per FRED 17, when issued as FRS	Will be per FRED 17, when issued as FRS	Will be FRED 17, majority of buildings (including land and installations) at DRC	SORP groupings dictate valuation principle. As FRED 17, except infrastructure at historical cost; heritage assets not included; some LAs value vehicles, plant and equipment at historical cost. Community assets, where value cannot be determined given nominal £1000 value	Infrastructure: MEAV. Other: DRC by reference to MEAV	Fixed assets valued at cost
Depreciation	Set to match the expected useful economic life of the assets	As for resource accounts	As for resource accounts	As for resource accounts	As for resource accounts	Ditto, but infrastructure not depreciated; investment and (some) business properties treated as infrastructure and not depreciated	As for resource accounts
Donated Assets	Capitalised at valuation on receipt. An amount equal to the depreciation charge on the gifted asset is released from the donated asset reserve to the operating cost statement each year	As for resource accounts	As for resource accounts	As for resource accounts	Not known	Probably n/a	Probably n/a

continued...

Accounting Policy	Resource Accounts	Trading Funds	NDPBs	NHS Trusts	Local Authorities	Nationalised Industries	Public Corporations
Investments	Loans made shown at historical cost Nationalised industries at historical cost Other investments at valuation	Fixed assets investments as for fixed assets. Current asset investments as for current assets	Fixed assets investments as for fixed assets. Current asset investments as for current assets	No fixed asset investments	Cost less provision for loss in value for investments in listed and unlisted companies. Only superannuation funds held at market value	Investment in subsidiaries and associates at cost	Investments in subsidiaries and associates at cost
Stocks	Valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used	Valued at lower of cost (or current replacement cost where the difference is material) and net realisable value	Valued at lower of cost (or current replacement cost where the difference is material) and net realisable value	Valued at lower of cost and NRV	Valued at lower of cost and NRV	Varies: cost or lower of cost and NRV	Lower of cost and NRV
Work in progress	Lower of cost, including appropriate overheads, and net realisable value. Where WIP is related to consumable stock they should be valued as for stock above	Valued at lower of cost (or current replacement cost where the difference is material) and net realisable value/ recoverable amount (per SSAP 9)	Valued at lower of cost (or current replacement cost where the difference is material) and net realisable value (per SSAP 9)	As for resource accounts	As for resource accounts	As for resource accounts	As for resource accounts

continued...

Accounts

Accounting Policy	Resource Accounts	Trading Funds	NDPBs	NHS Trusts	Local Authorities	Nationalised Industries	Public Corporations
Research and development	For goods or services: Per SSAP13, provided service or good is to be supplied on a full cost recovery basis. For other goods or services: Generally per SSAP 13	SSAP 13 applies	SSAP 13 applies	SSAP 13 applies	R and D is charged to I and E account as incurred	SSAP 13	Varies: capitalised or written off as incurred
Provisions	Will be per FRED 14	Will be per FRED 14	Will be per FRED 14	Ditto. But failure to fully provide for clinical negligence	Will be per FRED 14	Will be per FRED 14	
Foreign exchange transactions	Rate on date of transaction. (or average rate for the period where rates do not fluctuate significantly)	As for resource accounts	As for resource accounts	As for resource accounts	Ditto. Except where transaction settled at a contracted rate, that rate should be used	As for resource accounts	As for resource accounts
Pensions (expenditure)	PCSPS rules. Similar to SSAP 24	Ditto or SSAP 24	Ditto or SSAP 24	NHS Pension Scheme	Various schemes, including teachers, but possible note disclosure of SSAP 24 figures	SSAP 24	SSAP 24
Early departure	In full when retirement programme has been announced (FRED 14)	As for resource accounts	As for resource accounts	NHS Pension Scheme: extra costs of early retirements recharged to the individual employer	FRED 14	FRED 14	FRED 14

Annex J

Possible model primary statements

J. 1 This Annex contains illustrative examples of what the primary financial statements in WGA might look like. These are:

- a balance sheet;
- a cash flow statement; and
- an income and expenditure account (equivalent to a profit and loss account).

J. 2 The WGA could be prepared to show as much detail as the underlying accounts it comprised. However, variations in the way such detail was presented in the accounts, particularly between different parts of the public sector, could make the construction of such a WGA problematic.

J. 3 The attached illustrative primary financial statements and key supporting notes for a WGA therefore present information only in highly aggregated form, sufficient to provide a readily assimilable picture for Parliament and other users as well as to serve requirements for macroeconomic information.

J. 4 To the extent that experience showed that core detail could readily be consolidated, and/or there was a demand for greater detail (for example to show expenditure by departmental sector, public sector or by type), such detail could be introduced either by expanding the primary financial statements or through account notes.

J. 5 The accounts would in any event include a set of notes providing the additional information called for by UK GAAP, to the extent that it was appropriate to a WGA. Among other things, such notes would describe the accounting policies adopted in constructing the accounts.

J. 6 The illustrative financial statements which follow are based on UK GAAP with some simplifications and departures to aid construction and clarity, or to provide disclosures that more closely match economic classifications. These departures are mainly that:

- borrowings which finance government activity are all included in the "government borrowings" figure in the bottom half of the balance sheet, regardless of when they are due for redemption. Liabilities in the top half of the balance sheet are those which derive from operating activities and include long term provisions;
- expenditure on the face of the income and expenditure statement is separated into costs, other administrative costs, grants and programme costs. This mainly follows the format of departmental resource accounts, for ease of production. Other forms of analysis could be derived with varying degrees of difficulty, depending on the detail in underlying accounts; and
- current assets/liabilities are shown net. A breakdown of this figure could however be shown in the notes to the account.

Format for Whole Government Accounts

Cash Flow	£	Income and Expenditure	£	Balance Sheet	£bn
		Income from taxation	(X)	Fixed Assets	X
Net operating cash flows	X	Other income	(X)	Investments	X
			<u>(X)</u>	Other long term assets	X
Capital expenditure and financial investments	(X)			Net current assets/liabilities	(X)
		Staff costs	X	Long term liabilities	<u>(X)</u>
Net cash outflow for returns on investments and servicing of finance.	(X)	Other administration costs	X	Total Public Sector funds/liabilities	X
		Current grants and transfers	X		
Net Cash Borrowing	X	Depreciation	X	Government borrowings	Xs
		Cost of CG borrowing	X	General Fund (net wealth)	X
Increase/decrease in cash balance	X	Surplus/deficit (current balance)	(X)	Total Government funds/liabilities	X

Whole of Government Accounts

Format for Whole Government Accounts

Note 1: Net borrowing

	Central Government	Local Authority	Total General Government	Other public sector	Total Public Sector
Fixed asset additions	X	X	X	X	X
Disposals	(X)	(X)	(X)	(X)	(X)
Revaluations	Δ	Δ	Δ	Δ	Δ
Net change in fixed assets	X/(X)	X/(X)	X/(X)	X/(X)	X/(X)
Current balance			X	X	X
General Government net borrowing			(X)		
Net borrowing					(X)

Note 2: Net public sector debt

Government Borrowings	(X)
Investments	X
Net current assets/(liabilities)	X/(X)
Less: Stock	(X)
Net public sector debt	<u>(X)</u>

Note 3: General Government Gross Debt

Government Borrowings	(X)
Current liabilities	(X)
General Government gross debt	<u>(X)</u>

Note 4: Public Sector net cash requirement

	£ million
Net Cash borrowings	(X)
Change in cash balances	X
Public sector borrowing requirement	<u>(X)</u>

Annex K

Glossary of terms

Accounting Standards	Comprise Financial Reporting Standards (FRSs) issued by the Accounting Standards Board (ASB), and Statements of Standard Accounting Practice (SSAPs) issued by the ASB's predecessor body and adopted by the ASB. They are authoritative statements of how particular types of transactions and other events should be reflected in the financial statements of a reporting entity. Applicable to financial statements that are intended to give a true and fair view of an entity's state of affairs and of its profit and loss (or income and expenditure).
Accounts Direction	A formal document which is issued by the Treasury or a sponsor department to a public sector organisation detailing the content of accounts and the way in which they must be presented.
Accruals accounting	A method of accounting which records expenditure as it is incurred and income as it is earned during an accounting period. (Compare with Cash Accounting.)
Accrued interest	Interest earned but yet to be paid at a specific point in time.
Accruing Superannuation Liability Charges (aslcs)	Contributions made by departments to the Civil Superannuation Vote (which is used to fund the payment of pensions to members of the Principal Civil Service Pension Scheme). Contributions are based on an actuarially determined percentage of existing employees pensionable pay.
Balance Sheet	A financial statement which shows the assets, liabilities and capital of an organisation on a particular date, normally the end of an accounting period.
Barter transactions	Transactions in which goods or services or both are exchanged but no money passes.
Capital consumption	See depreciation.
Capital expenditure	Under UK GAAP, comprises expenditure on new construction, land, extensions of, and alterations to, existing buildings and the purchase of any other fixed assets (eg machinery, plant and vehicles) having an expected working life of more than one year. Under national accounts classifications, also includes expenditure on capital grants and stocks and lending for capital purposes. (Compare with current expenditure.)
Capital grants	Contributions towards expenditure on fixed assets made by central government departments to organisations in the private sector and other parts of the public sector.

Capital stock	The value of fixed assets as determined for national accounts purposes. This includes vehicles, ships, aircraft, plant and machinery, land, buildings and works.
Capital taxes	Taxes levied on capital rather than those related to income and expenditure. An example is Inheritance Tax.
Cash accounting	A method of accounting which records cash payments and cash receipts as they occur within an accounting period. (Compare with Accruals Accounting.)
Central government	Government departments and their executive agencies and most non-departmental public bodies. The central government sector does not include local authorities, public corporations (including NHS Trusts) or nationalised industries.
Central Government Account (CGA)	A set of consolidated financial statements covering central government.
Central government funds and accounts	Funds statistically classified to central government which are used to administer payments to, and receipts from, other government departments, central government borrowing and other activities. Examples include the Consolidated Fund, the National Loans Fund, the Exchange Equalisation Account and the Paymaster General's accounts.
Central Government Net Cash Requirement	A cash measure of the difference between the spending and receipts of central government. Includes financial transactions, such as privatisation proceeds, which do not affect the financial deficit. Formerly known as the Central Government Borrowing Requirement.
Code for Fiscal Stability	Published alongside the March 1998 Budget, this required the Government to commit to common-sense principles of fiscal management, more transparent financial reporting and the use of best practice accounting methods.
Comprehensive Spending Review	A review commissioned by the Government in June 1997 requiring central government departments to reassess their aims and objectives. Completed in July 1998.
Consolidated Fund	The Exchequer account in to which tax receipts and other current receipts not specifically directed elsewhere are paid and from which funds are provided for almost all central government expenditure.
Consolidation	The process of incorporating the results of linked entities into a single account, which involves the elimination of inter-entity transactions and balances.
Consolidation boundary	A limit drawn to include all related entities whose results and balances should be consolidated.

Contingencies Fund	A central fund which can be used for urgent expenditure in anticipation of provision by Parliament becoming available. It is administered by the Treasury under the Contingencies Fund Act 1974. Drawings on this fund must be repaid when Parliament has voted the additional sums required.
Contingent liability	A possible liability that in certain circumstances could become an actual liability.
Control Total	The aggregate of the elements of public expenditure which the Government plans and controls to achieve its wider objective for General Government Expenditure. The Control Total excludes items such as cyclical social security payments and debt interest which are part of General Government Expenditure. To be replaced after 1998-99 by Departmental Expenditure Limits and Annually Managed Expenditure.
Cost of capital	The opportunity cost of capital invested.
Coupon	The interest rate payable, for example, on government stock. The coupon rate can be either fixed, linked to the Retail Price Index (index-linked) or variable in line with current market rates (floating).
Current assets	Cash, short-term investments, stocks, debtors, prepayments and accrued income.
Current expenditure	Expenditure which is neither capital expenditure nor financial expenditure (loans, transactions in company securities). For the purposes of classifying public expenditure, includes the running costs of departments, debt interest and current grants payable. Under UK GAAP, also includes capital grants. (Compare with capital expenditure.)
Current liabilities	Liabilities incurred in the normal course of business including creditors, accrued expenditure and deferred income.
Debt Management Office (DMO)	A new agency established in April 1998 to manage government debt.
Defence Dual Use Assets	Assets that are capable of both military and civilian use. Will be regarded as capital assets for national accounts under ESA95, which regards expenditure on military equipment that can only be used for fighting as current expenditure.
Depreciation	A measure of the wearing out, consumption or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through technological or market changes. (Also referred to as capital consumption.)
Economic and Fiscal Strategy Report	Publication required by the Code for Fiscal Stability, setting out the Government's long-term economic and fiscal strategy, including any objectives for the key fiscal aggregates. First EFSR was published June 1998.

Economic and Monetary Union (EMU)	A programme of monetary convergence adopted by certain member states of the European Community. Full entry into EMU involves the intention to replace local currency with the Euro. The European Central Bank will set a single interest rate for all countries making full entry into EMU.
EU excessive deficits procedure	Set out originally in Maastricht Treaty. Designed to prevent governments running unsustainable fiscal policies. Reference values set at 3 per cent of GDP for general government net lending and 60 per cent of GDP for general government gross debt. Exceeding those values may indicate an excessive deficit.
European System of Accounts	A set of accounting conventions designed to ensure consistency across Europe in disclosure of information about national accounts. The latest version was produced in 1995 (ESA95).
Exchange Equalisation Account (EEA)	A central government account used for checking undue fluctuations in the exchange value of sterling and securing the means of making payments abroad. The EEA holds Britain's official reserves of gold, foreign currency and special drawing rights on the International Monetary Fund.
Executive agency	An entity established to carry out the executive functions of government as distinct from providing policy advice. The term executive agency is a generic one which encompasses both bodies financed from departmental Supply Estimates and trading funds.
Financial Capital Maintenance	An accounting convention designed to take account of the impact of general price inflation on the measurement of expenditure recorded in an entity's income and expenditure account.
Financial Reporting Standards (FRS)	Standards promulgated by the Accounting Standards Board which are intended to be incorporated into generally accepted accounting practice by the private sector. FRS2 - Accounting for Subsidiary Undertakings - sets out the manner in which consolidated financial statements are to be prepared.
Fiscal policy	The Government's budgetary policy as determined by decisions on the level and types of planned expenditure and taxation.
Fixed assets	Assets, with an expected life of more than one year, held for use on a continuous basis.
General government	Central government and local authorities.
General Government Account (GGA)	A set of consolidated financial statements covering general government.

General Government Expenditure (GGE)	Total current and capital expenditure by general government, together with two financial transactions: net lending and expenditure on company securities (net). It includes most elements in the Control Total plus debt interest and cyclical social security payments.
General Government Gross Debt (GGGD)	A measure of general government's total financial liabilities.
General Government Net Lending	The difference in accruals terms between the capital and current expenditure of general government and its capital and current receipts.
Generally Accepted Accounting Practice (GAAP)	See UK GAAP
Gilts	Long-term borrowing instruments issued by government. They can be issued at their nominal value or at a discount of premium and attract quarterly or half-yearly interest.
Golden Rule	One of the Government's two fiscal rules (the other is the Sustainable Investment Rule), set out first in the July 1997 Budget. States that over the economic cycle the Government will borrow only to invest and not to fund current spending.
Gross Domestic Product	Principal national accounts measure of national income. Equals the sum of all incomes earned in the UK from the production of goods and services; also equals the total of final expenditures on goods and services produced in the UK less their import content; further equals the sum of value added by all activities which produce goods and services on UK territory.
Heritage assets	Those assets which are intended to be preserved for future generations because of their cultural, environmental or historical associations.
Historic cost accounting	An accounting convention that values assets at their initial cost and makes no allowance for the impact of price inflation.
Infrastructure assets	Assets which form part of an integrated network servicing a significant geographical area, such as motorways.
Insurance technical reserves	Under ESA95, a measure of the reserves that policy holders and beneficiaries are deemed to hold at insurance companies and pensions funds.
Intangible assets	Fixed assets which do not have physical substance but are identifiable, are controlled by the entity and which have estimated useful lives of more than one year. Examples include patents and copyright.

Issue Department	The Bank of England department that is responsible for the issue of banknotes and for maintaining a stock of assets to back the total value of notes in circulation.
Issue of debt	The process by which government borrowing instruments, such as gilts and National Savings products, are created and sold to investors.
Macroeconomic	An economic perspective which focusses on aspects of the whole economy, eg overall demand and imports, rather than individual entities within it. (Compare with microeconomic.)
Materiality	An expression of the relative significance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission or mis-statement would reasonably influence the decisions of an addressee of the auditor's report.
Microeconomic	An economic perspective which focusses on the actions of individual agents, firms or industries in the economy rather than the overall economy.
Modified Historic Cost Accounting (MHCA)	An accounting convention whereby historic cost accounting is modified by the inclusion of fixed assets, and stocks where material, at current values.
National Accounts	An annual publication by the Office of National Statistics that includes estimates of the domestic and national product, income and expenditure of the United Kingdom (published as "The Blue Book").
National Debt Commissioners Accounts	The accounts of various funds managed by the National Debt Commissioners, such as the National Lottery Distribution Fund and the National Insurance Fund.
National Loans Fund	The Government's main account for handling its borrowing operations and lending to local authorities (via the Public Works Loan Board) and certain other public bodies.
Net public sector debt	A measure of the public sector's financial liabilities net of liquid financial assets. Used to monitor progress against the Government's golden rule.
Nominal value	The value at which gilts and other government stock are redeemed on their maturity date.
Non-departmental public bodies (NDPBs)	Entities that have a role in the process of government but which are neither a government department nor part of a department. They are established at arms length from departments. A distinction is drawn between executive NDPBs and non-executive ones, which carry out regulatory, administrative or commercial functions.

On-vote Agency	An executive agency that is either a department in its own right, or forms part of a government (parent) department and is financed as a Supply service through a Vote or Votes.
Operating Cost Statement	A financial statement to be included in departmental resource accounts which will disclose administration costs, programme costs and income during the accounting period.
Opportunity cost	The cost of a resource in terms of its best alternative use.
Other Changes in Volume of Assets Account	One of the accounts in ESA95. It covers cases such as catastrophic loss of assets. Changes in the volume of assets due to capital expenditure or financial transactions would appear in other accounts.
Perpetual inventory model	Basis used by ONS for estimating depreciation for national accounts.
Provision	A liability in respect of which the amount or timing of the expenditure that will be undertaken is uncertain.
Public corporations	Corporate enterprises which are publicly owned and controlled, but which have substantial freedom to conduct their own affairs along ordinary business lines. Examples include the British Broadcasting Corporation and the Post Office.
Public sector	General government together with public corporations.
Public Sector Net Borrowing	The Government's preferred measure of the fiscal stance. An accruals measure, consistent with national accounting conventions, of the difference between public sector expenditure and receipts, covering both current and capital budgets. Formerly known as public sector financial deficit.
Public Sector Net Cash Requirement	A cash measure of the difference between the spending and receipts of the public sector. Includes financial transactions, such as privatisation proceeds, which do not affect the financial deficit. Formerly known as Public Sector Borrowing Requirement.
Public Sector Net Wealth	The tangible assets of the public sector plus net financial wealth. Net financial wealth mainly comprises financial assets such as the value of official reserves less outstanding public sector debt.
Regularity	The requirement that financial transactions should be in accordance with the legislation authorising them, regulations issued by a body with a power to do so under governing legislation, Parliamentary authority and Treasury authority.

Resource Accounting	A set of accruals accounting techniques for reporting on expenditure of central government and a framework for analysing expenditure by departmental objective, relating this to outputs where possible.
Resource-based Supply	Expenditure which is voted by Parliament on a resource accounting basis.
Resource Budgeting	Planning and controlling public expenditure on a resource accounting basis.
Revaluation reserve	An element in the account that records, where appropriate, the revaluation of fixed assets and stock.
Stability and Growth Pact	An EU agreement finalised in Amsterdam in 1997 setting out a political commitment to sound public finances and two regulations clarifying and speeding up the excessive deficits procedure and multilateral surveillance processes in the Maastricht Treaty.
Stock	Includes consumable stores, goods or other assets purchased for resale, and materials intended for resale at intermediate stages of production. Also another name for a gilt.
Supply Estimate	A statement presented to the House of Commons of the estimated expenditure of a department which asks for the necessary funds to be voted.
Supply expenditure	Expenditure which is financed by monies voted by Parliament in Supply Estimates.
Surplus on Current Budget	The difference between the public sector's current receipts and current expenditure. Used to monitor progress against the Government's Golden Rule.
Sustainable Investment Rule	One of the Government's two fiscal rules (see also Golden Rule) stating that net public debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.
System of National Accounts	An internationally agreed standard for preparing national accounts on a statistical basis. The latest revision - SNA93 - is being implemented in the EU as ESA95.
Tangible assets	Assets having a physical identity, such as buildings or plant and machinery.
Trading fund	A department and/or executive agency established under the Government Trading Funds Act 1973, as amended by the Government Trading Act 1990. It is financed outside the Supply system and operates within a financing framework covering its operating costs, receipts, capital expenditure, borrowings and cash flows.
Unfunded pension liabilities	Statutory liabilities to pay old age pensions, where there has been no specific funding by either employees or employers. An example is the State old age pension.

**United Kingdom
Generally Accepted
Accounting Practice
(UK GAAP)**

The accounting and disclosure requirements of the Companies Act 1995 and Accounting Standards, supplemented by accumulated professional judgement.

**Urgent Issues Task
Force**

Its main role is to assist the ASB where an accounting standard or Companies Act provision exists, but where unsatisfactory or conflicting interpretations have developed or seem likely to develop. The UITF's deliberations are promulgated by means of Abstracts.

Vote

An individual Supply Estimate (so called because the procedure by which Parliament authorises expenditure is to vote Supply).

**Whole of Government
Account**

A set of consolidated financial statements covering the whole of the public sector.

Annex L


List of acronyms

ASB	Accounting Standards Board
ASLCs	Accruing Superannuation Liability Charges
ASRB	Accounting Standards Review Board (New Zealand)
C&AG	Comptroller & Auditor General
CF	Consolidated Fund
CFS	Consolidated Financial Statements (United States)
CG	Central Government
CGA	Central Government Accounts
CICA	Canadian Institute of Chartered Accountants
CIPFA	Chartered Institute for Public Finance and Administration
CRA	Cost and results accounting (Germany)
DETR	Department of the Environment, Transport and the Regions
DMA	Debt Management Agency
DSS	Department of Social Security
DVLA	Driver Vehicle Licence Agency
ECU	European Currency Unit
EEA	Exchange Equalisation Account
EFSR	Economic and Fiscal Strategy Report
EMU	European Monetary Union
ESA	European System of Accounts
ESA95	European System of Accounts 1995

EU	European Union
EUROSTAT	European Statistical Office
FASAB	Federal Accounting Standards Advisory Board (United States)
FCM	Financial Capital Maintenance
FRAB	Financial Reporting Advisory Board
FRED	Financial Reporting Exposure Draft
FRS	Financial Reporting Service
FSBR	Financial Statement and Budget Report
GAAP	Generally Accepted Accounting Practice
GDP	Gross Domestic Product
GG	General Government
GGA	General Government Accounts
GGE	General Government Expenditure
GGFD	General Government Financial Deficit
GGGD	General Government Gross Debt
GOOA	Gilt-Edged Official Operations Account
GP Fundholders	General Practice Fundholders
IMF	International Monetary Fund
INE	National Statistical Office (Portugal)
IR	Inland Revenue
LAs	Local Authorities
MHCA	Modified Historical Cost Accounting
MoD	Ministry of Defence
NAO	National Audit Office

Whole of Government Accounts

NDPBs	Non-departmental public bodies
NHS	National Health Service
NICs	National Insurance Contributions
NIESR	National Institute for Economic and Social Research
NIF	National Insurance Fund
NILO	National Investment and Loans Office
NLF	National Loans Fund
NNDR	National Non-Domestic Rates
NRV	Net Realisable Value
NZ	New Zealand
OECD	Office of Economic Co-operation and Development
ONS	Office for National Statistics
OPG	Office of the Paymaster General
PAC	Committee of Public Accounts
PC	Public corporation
PCMOB	Public Corporations Market and Overseas Borrowing
PCSPS	Principal Civil Service Pension Scheme
PESA	Public Expenditure Statistical Analyses
PFI	Private Finance Initiative
PSAAB	Public Sector Accounting and Auditing Board (Canada)
PUMA	Public Management Service of the OECD
RAB	Resource Accounting and Budgeting
R&D	Research and development
RAM	Resource Accounting Manual



R&P	Receipts and Payments
SA	Self-assessment
SNA	System of National Accounts
SORP	Statement of Recommended Practice
SSAP	Statement of Standard Accounting Practice
UKAEA	United Kingdom Atomic Energy Agency
UK GAAP	Generally Accepted Accounting Practice in the United Kingdom
WGA	Whole of Government Accounts
WSA	Whole State Account