

Whole of Government Accounting in the UK



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Abbreviations

AAAFASC	American Accounting Association Financial Accounting Standards Committee
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ANAO	Australian National Audit Office
ASB	Accounting Standards Board
C&AG	Comptroller and Auditor General, Head of the NAO
CFS	Code for Fiscal Stability
CGA	(Consolidated) Central Government Accounting
CIPFA	Chartered Institute of Public Finance and Accountancy
COINS	Combined Online Information System
DfES	Department for Education and Skills
EFSR	Economic and Fiscal Stability Report
ESA	European System of Accounts (1995)
EU	European Union
FASB	Financial Accounting Standards Board
FRAB	Financial Reporting Advisory Board
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GEMS	General Expenditure Monitoring System
GFS	Government Finance Statistics
GOLD	Government Online Data system
GRAA	Government Resources and Accounts Act (2000)
GRAB	Government Resources and Accounts Bill (1999)
HC	House of Commons
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
NAO	National Audit Office
NHS	National Health Service
NZ	New Zealand
ODPM	Office of the Deputy Prime Minister
ONS	Office of National Statistics
PAC	Public Accounts Committee
PAF	Public Audit Forum
PES	Public Expenditure Statistics
PFI	Private Finance Initiative
RAB	Resource Accounting and Budgeting
SNA	System of National Accounts
VFM	Value for Money
WGA	Whole of Government Accounts

Executive summary

The UK government made a commitment to produce a consolidated set of public sector accruals-based accounts, known as Whole of Government Accounts (WGA), as a component of its accounting reforms, eg Resource Accounting and Budgeting (RAB). This requirement was mandated by the *Government Resources and Accounts Act (2000)*.

The government has claimed that WGA is needed for the following reasons: (1) to assist in macroeconomic and fiscal planning; (2) to achieve greater accountability and transparency of public finances; and (3) to provide widespread improvement in accounting information systems across the public sector. This report documents the history and development of WGA and considers the degree of progress to date in realising the claims made for such a consolidated public sector accounting system.

In assessing the role of WGA in macroeconomic and fiscal planning, the report highlights a number of compatibility issues arising from the use of GAAP as the underlying accounting basis. It also examines the motives behind the tradition of using (consolidated) accounting in the private sector in order not only to assess the practical capacity of an accruals-based WGA but also to identify the likely users of WGA accounting information.

Concerning the claim that WGA will improve accountability of public sector finances through greater accounting transparency, the report points to a number of unresolved problems, including inconsistencies in accounting for certain public sector assets and liabilities and debates over the limits of the WGA consolidation boundary. The report also shows that a number of these issues have also proved problematic in other countries more experienced in WGA, such as Australia and New Zealand, raising questions about how much has been learned at the international level in this area of development and reform.

The report presents evidence of improvements in public sector accounting systems, with the consolidation process required by WGA acting as a catalyst, stimulating change at the departmental level – particularly in terms of the collection and recording of financial data. What impact this has had in terms of improved governmental decision making, however, is an open question, the answer to which depends upon the long-term practical operation of WGA systems.

The research findings lead to the conclusion that WGA appears to have been a tool to instill the discipline of accounting across the public sector, rather than its supposed role of improving macroeconomic management and governmental accountability processes.

The deadlines for the publication of WGA have been extended on a number of occasions (no full WGA accounts have yet been published by the UK government), thus there are limits to the assessment of the practical outcomes of WGA. Nevertheless, the planned scale of the project (it is said to be the biggest ever governmental accounting consolidation project), the major claims that have been (and continue to be) made for it and the continuing delay over full implementation certainly warrant the type of independent review and analysis provided here.

Ten years after the initial official governmental study first advocated WGA, this report offers a thorough and timely insight into such a ‘grand design’ project. The findings are of both national and international relevance. Certainly it would be prudent for countries considering the implementation of similar consolidated public sector accounting systems to ensure that they have absorbed the lessons from the experiences of ‘pioneer’ countries, and given careful consideration to the relative costs, benefits and practical achievements of such reforms.

1. Introduction

THE AIMS OF THE RESEARCH

This report examines the pursuit and implementation, to date, of Whole of Government Accounting (WGA) in the UK. This study was designed with the following four aims.

- To provide a detailed account of WGA's historical development, studying the way in which WGA was initiated, promoted, debated and approved.
- To consider the main factors driving the development and implementation of WGA and the key shifts that have taken place over the relevant period.
- To elicit and explore the personal experiences of key actors and stakeholders involved with the WGA project.
- To review, on the basis of experiences to date, the extent to which the claims for WGA are justified, identifying key benefits secured, problems overcome and hurdles still to be surmounted.

Overall, the report is intended to raise awareness about a project that can appear to be rather technical but that, on closer inspection, has fundamental implications for the way in which we think about government and how we account for and monitor its performance and that of other public sector institutions. By drawing on the views of a range of governmental officers, political representatives, audit bodies and other key stakeholders (eg professional accounting bodies and academics), the research provides an informed assessment of the development process associated with the pursuit of WGA. We hope the study will be useful to those with an interest in governmental accountability, including those who do not necessarily have the accounting skills to be able to understand properly the significance of the WGA project. An important dimension of the study is that it identifies and seeks to coordinate the various views that public sector accountants and Treasury officials have of the WGA project and its implementation. WGA is capable of affecting the role and reputation of both public sector accounting systems and public sector accountants. Accordingly, it is essential to explore the views and experiences of those who have worked most closely with WGA, particularly in terms of the key factors to influence its operational development and the extent to which it is enhancing the quality of governmental accounting systems. Indeed, in this respect, it is worth noting that some earlier academic accounting research on the UK public sector has shown accountants to be more sceptical of the need for, and value of, accounting-based reforms than the politicians and managers who promote them (Bogt and Helden 2000).

Above all, we hope that the report will contribute to debate, both nationally and internationally, on WGA initiatives and the changing nature of governmental accounting more generally. In particular, it should serve to emphasise the importance of keeping the Treasury's cost-benefit assessments of WGA, and continuing WGA development processes, under suitably close scrutiny.

RESEARCH APPROACH

The first stage of our research focused on the development of the Government Resources and Accounts Act 2000 (GRAA) and the legislative approval duly given to the WGA project. This stage of the research involved a broad-based literature review, analysing a range of documentary material, including relevant parliamentary papers and associated parliamentary minutes, academic and professional literature, and newspaper commentaries.

The second stage of the research sought to explore the practical development of WGA, to consider its degree of progress in terms of meeting its stated aims and to gain insights into the changing role of, or broader implications for, public sector accounting. The research work included analysing key parliamentary documents and relevant reports from government departments and professional accounting bodies, and conducting a series of semi-structured interviews with individuals involved with the WGA project. These individuals were drawn from the UK, Australian and New Zealand Treasuries, UK representatives from Parliament, the Office for National Statistics (UK), the National Audit Office (UK), local governments (UK) and the Financial Reporting Advisory Board (FRAB).

REPORT STRUCTURE

The remainder of the report is presented in four chapters. Chapter 2 outlines the history of WGA, focusing on the claims made for it and the parliamentary debates that led to its becoming mandated. Chapter 3 describes the development and implementation of WGA. In Chapter 4 we assess the UK WGA experience in light of the government's claims for it. Chapter 5 concludes the report and considers its research and policy implications.

2. Introducing WGA

INTRODUCTION

In the past decade or so, there has been significant promotion of accruals accounting and budgeting across the UK public sector. Although certain parts of the public sector have been using accruals accounting for longer periods (eg local government and the National Health Service), the adoption of accruals accounting became widespread only when the government rolled out Resource Accounting and Budgeting (RAB) systems across all central government bodies. The RAB reforms were closely followed by the WGA programme, which sought to develop RAB further by generating a consolidated set of accruals-based accounts for the public sector as a whole. The Government Resources and Accounts Act 2000 (GRAA) duly mandated that the government report on both a RAB and a WGA basis.

The government's claims for WGA have three elements. The first relates to claims of improved decision making, especially at the macroeconomic level, whereby WGA is said to enhance policy making primarily through the provision of better quality information and more joined-up reporting. The second element promises increased accountability to Parliament and the public, through the production, for the first time, of an audited balance sheet of the government's assets and liabilities. The third element concerns the anticipated benefits that the discipline of having to produce consolidated public sector accounts would bring to the reliability, timeliness and usefulness of the individual accounting systems of the various public sector bodies participating in the WGA consolidation process.

These themes are well illustrated by the following extracts, the first three of which are taken from the WGA website (HM Treasury 2006c) and the final one from the most recent Treasury report about WGA.

WGA – Improving government information through joined-up reporting.

WGA will provide better quality and more transparent information to assist with the development of fiscal policy, to facilitate better management of public services and to assist with the more effective distribution of resources. In particular, WGA will provide audited data to underpin the operation of the Golden Rule, and allow the public sector balance sheet to be used in fiscal management. Preparing WGA will meet the commitment in the Code for Fiscal Stability to produce accounts for the whole public sector on a consolidated basis.

The overview of the public sector finances provided by WGA will also improve government's accountability to parliament and taxpayers, and form an important element in the Modernising Government agenda.

Amongst the benefits from the WGA programme are: Additional impetus to improvements in the quality and timeliness of individual body accounts and to financial management systems. (HM Treasury 2005b: para. 6.4)

THE INCEPTION OF WGA IN THE UK

The idea of WGA is not new, having been pioneered in New Zealand and Australia. In New Zealand, a WGA for central government was published in 1992, while the Australian Commonwealth (ie federal) government first trialled WGA for the 1994/5 financial period – Funnell and Cooper (1998) note that the state of New South Wales published a state-based WGA as early as 1989. In both New Zealand and Australia, the publication of WGA was preceded by the move from a cash to an accruals basis for governmental financial reporting.

In the mid-1990s, the UK's Conservative government formally proposed that central government financial reporting and budgeting should change from a cash to an accruals basis. These proposals and the associated benefits of RAB were published in a parliamentary green paper (HM Treasury 1994). The green paper also considered developing a set of whole of central government accounts (CGA) but rejected it on the grounds that it would be of little value, given the differences between the various government departments and other bodies that would have to be consolidated (HM Treasury 1994: para. 2.24). The government also argued that the consolidation would not produce a meaningful accounting entity, in the sense that 'it would not represent any of the "usual bases" for describing governmental activity' (HM Treasury 1994: para. 2.26). It was only after pressure from Parliament that HM Treasury agreed to review its initial objections (HM Treasury 1995: paras 3.10 and 4.14; C&AG 1995: para. 33), although no further action was taken until the change of government following the May 1997 general elections (Chow et al. 2007).

As part of its economic reform programme, the new Labour government announced in its Economic Fiscal Strategy Report (EFSR – see HM Treasury 1998a) that it would consider producing WGA to enhance both RAB and economic policy making, subject to the results of a feasibility study. These results were published in the form of a WGA 'scoping study' (HM Treasury 1998c). The scoping study investigated the practicalities of producing WGA and estimated such costs to be an 'affordable' sum of around £1m–£2m per annum. In addition, the scoping study considered other practical and conceptual issues such as determining the key users of WGA, the usefulness of WGA information for economic and accountability purposes as compared with statistics-based National Accounts, the choice of accounting policies to adopt and modify, and consolidation boundaries. The scoping study also reported on HM Treasury's consultations with experts and other national governments (in countries such as New Zealand, Australia, the US, Sweden and Japan).

The government did not give any specific rationales in the scoping study as to why WGA was better than the existing, statistically based, National Accounts, except to say that cash-based expenditure information would be replaced by an accruals-based system, and that a GAAP-based system would generate additional information regarding unfunded pension liabilities and asset depreciation charges (HM

Treasury 1998c: paras.5.16–5.25). The scoping study did, however, conclude that the benefits from producing WGA would outweigh its costs. It recommended that the government should first develop a whole of central government accounts (CGA), which would consolidate the resource accounts of central government departments. On completion of CGA, the scoping study recommended that it be extended to WGA (representing a consolidation of CGA with the accounts of local government and public corporations). This staged approach was intended to provide a transitional period to deal with any unresolved issues. These proposals (along with the move from cash accounting to RAB in central government) were subsequently debated in Parliament during the passage of the Government Resources and Accounts Bill (GRAB 1999) in the 1999/2000 Parliamentary sessions.

PARLIAMENTARY DEBATES

The GRAB 1999 was proposed as a significant amendment to the Exchequer and Audit Departments Act of 1866, which mandated government to keep cash-based records of its receipts and payments. The GRAB 1999 was debated in both Houses of Parliament.

In the House of Commons, the government proclaimed the benefits of WGA and explained how it would link to the government's economic reform policies, such as the 1998 Code for Fiscal Stability.

In the longer term, our aim is for resource accounting and budgeting to lead to whole of Government accounts, which are the natural next step. That will enable us to fulfil the commitment given in the code for fiscal stability to produce accounts for the whole public sector on a consolidated basis, if possible. (Andrew Smith, Chief Secretary to the Treasury, Labour MP, Hansard Debates, 6 December 1999, Col. 576, 4.19pm)

Audited WGA will improve the information available and support the conduct and monitoring of fiscal policy. The accounts will also improve accountability to Parliament and provide greater transparency for taxpayers... WGA will be an important extension of resource accounting and will provide Parliament with an overview of public finances, which it has never had before. (Melanie Johnson, Economic Secretary to the Labour Government, House of Commons Standing Committee A, Government Resources and Accounts Bill, 20 January 2000, 10.30am)

These claims were also repeated in the House of Lords, where the government's Deputy Chief Whip proclaimed that:

In the longer term, our aim is for resource accounting and budgeting to lead to 'whole of government accounts' (WGA), which is the natural next step. Whole of government accounts will fulfil the commitment given in the code for fiscal stability to produce accounts for the whole public sector on a consolidated basis if possible. Audited WGA will improve the information available to support the conduct and monitoring of fiscal policy. The

accounts will also improve accountability to Parliament and provide greater transparency for taxpayers. (Lord McIntosh of Haringey, Lords Hansard, 10 April 2000, Col. 13, 3.08pm)

Opposition MPs in the House of Commons voiced their concerns over issues such as the proposed consolidation boundary, the reporting of liabilities on the WGA balance sheet and the scope of the powers of the Comptroller and Auditor General (C&AG) to access and scrutinise bodies included in the WGA consolidation.

In clauses 10 to 11, we shall address the fact that the Treasury has ignored the C&AG's views of the powers that he needs to audit the WGA. [5pm, 18 January, 2000]...It is the C&AG's opinion that, under the accounting standards under which he is required to work, he has access to the subordinate accounts and the right to intervene or to require intervention from the subordinate auditors of the components of WGA. If he is not able to have that access, he may have to qualify WGA on those grounds. That is in nobody's interest. (David Davis, Conservative MP, 29 February 2000, Col. 323, 2.30am)

If resource accounting takes the ultimate form of a consolidated balance sheet for the whole of Government, can my Hon. Friend imagine what the notes to the balance sheet would look like with all the contingent liabilities that he has just described? Is it not vital that the C&AG has access to every aspect of the spending of taxpayers' money – particularly in respect of contingent liabilities? (Charles Wardle, former Independent MP, 29 February 2000, Col. 264, 10.45am)

We are talking about whether the public sector pension funds – unfunded liabilities – are to be recognised as liabilities...We are talking about whether the PFI [private finance initiative] liabilities are to be on the balance sheet as liabilities...A question arises that is deeply material to public policy and to the whole structure of accounting: should disability benefits, in some form, be on the liabilities side of the WGA, or should they not? That is an enormous potential sum. (Oliver Letwin, Conservative MP, 29 February 2000, Col. 221, 7.45pm)

Such views were reiterated in the House of Lords by Conservative members, as reflected in the following comment by Viscount Bridgeman.

With a broad brush, perhaps I may summarise our three concerns. First, the Bill gives the Treasury enormous powers to determine what is or is not to be included in the accounts. Secondly, it establishes no clear principles for the accounting of income and expenditure. Thirdly, it continues to permit the Treasury to omit large public assets and liabilities from the national balance sheet...In particular, the state pension liabilities are omitted from the accounts. There is nothing to prevent any government from re-classifying expenditure...we continue to be concerned about the vagueness of the Bill in valuing the assets of the Ministry of Defence and the definition of private/public partnership. (Col. 48, 10 April 2000, 5.23pm)

Despite expressions of concern with respect to the access rights of the C&AG, and degrees of freedom given to HM Treasury in the determination of accounting policies and the bodies to be included in the WGA consolidation, overall there was a considerable degree of cross-party parliamentary agreement that WGA was an essential part of the proposed accounting reforms.

The substantive point...is that clause 10 [of the GRAB 1999] allows the Government to stage the preparation of the whole of Government accounts, which we think is sensible and a proper and appropriate route. (David Davis, Conservative MP, Standing Committee A, 20 January 2000, 10.45am)

We do not need to wait another decade before we get the WGA. There is cross-party support for this, as we all seem to believe that this will make a huge difference and be a paradigm shift in the way in which we look at public finances. Let us therefore get to WGA as soon as possible. Let us not wait or put obstacles in the way. (Edward Davey, Liberal Democrat MP, Standing Committee A, 20 January 2000, 11.00am)

The movement towards resource accounting has been a bi-partisan, indeed tri-partisan, affair...We all welcome the basic ideas. I take those basic ideas to be, first and most importantly, the production for the government of a straightforward consolidated profit and loss, income and expenditure statement; a balance sheet, critically; and a cash flow statement. They offer the opportunity for parliament and informed commentators, and perhaps even eventually for a wider part of the electorate, to understand – for the first time, in a form that is comprehensible to the ordinary person, including the ordinary Member of Parliament – roughly what is gained and what is spent by government. That is an unambiguously good thing, and we are all in favour of it. (Oliver Letwin, Conservative MP, House of Commons Hansard Debates, 29 February, Col. 381, 6.34am)

Ezzamel et al. (2005), in a study of the introduction of RAB in Northern Ireland, concluded that the quality of parliamentary debate had been hindered by a lack of accounting knowledge on the part of Members of Parliament. While the above quotes suggest that some Westminster MPs had an informed but critical view, it was also evident that a significant number had limited understanding of the technical accounting issues relating to the development of both RAB and WGA. For example, some MPs clearly chose to place their faith in the C&AG's ability to carry out the necessary checks and balances on Parliament's behalf on such technical accounting matters.

I am not an accountant. I confess to having not read the resource accounting manual, which is rather large. I do not know whether the many hundreds and thousands of decisions about new accounting practices made under this initiative are fair and reasonable, but I know that, if those decisions were being taken outside Her Majesty's Treasury by a body that, like the C&AG, was genuinely independent, I would trust that manual far, far more.

(Edward Davey, Liberal Democrat MP, House of Commons Hansard Debates, 6 December 1999, Col. 607, 6.21pm)

It also has to be said that the GRAB 1999 was moved through Parliament at considerable speed and this not only reflected, but may also have contributed to, the limited parliamentary discussion on WGA. This was apparent in that members in both Houses of Parliament suggested that the government, in seeking to secure parliamentary acceptance of the bill, had not provided the House of Commons' Public Accounts Committee (PAC) and the NAO with sufficient time to scrutinise the bill. In addition, the bill was also presented during its reading in the House of Lords as a 'technical' bill on accounting matters, which may well have reduced the numbers attending the debate on the bill. Such criticisms came from MPs affiliated with opposition parties and also from Labour politicians.

From what I hear from my Hon. Friends, who are all in favour of a shift to resource accounting, they, like me...are profoundly concerned about the speed with which the Bill is being introduced, given that there are clear reservations throughout the National Audit Office...What is happening? If the NAO is resisting, why are we proceeding with the Bill in this way? (Dale Campbell-Savours, Labour MP (now Lord Campbell-Savours), House of Commons Hansard Debates, 9 December 1999, Col. 573, 4.19pm)

Having waited so long, I believe that it is unfortunate that there have been criticisms about the lack of consultation that took place immediately before the Bill was introduced. I understand that the PAC was not consulted on the draft Bill and the NAO received the Bill in draft form only three weeks before its publication in its present form. Therefore, those matters of concern exist and make it more difficult to get matters right. (Lord Higgins, Conservative, Lords Hansard, Col. 17, 10 April 2000, 3.22pm)

My Lords, not many weeks ago the House was full to the rafters for the debate on Section 28 [another parliamentary bill, unrelated to GRAB 1999]; an enactment of Parliament which, as I recall noble Lords on both sides of the argument said, had never resulted in a single prosecution. One cannot help but contrast that with this afternoon's debate. We are a happy few, a band of brothers, but we are not present or speaking in vast numbers. One might say that perhaps the Treasury did not encourage us to be present in vast numbers as its own brief on the subject states that the Bill is 'technical'. I am sure that few noble Lords would quarrel with that description. (Lord Lipsey, Labour, 10 April 2000, Lords Hansard, Col. 36, 4.36pm)

If anything, the NAO's concerns regarding access dominated much of the debating time devoted to GRAB

1999.¹ These concerns were subsequently reflected in a broader parliamentary review of auditing and accountability arrangements in central government (see the Sharman Report 2001 and the government's response in HM Treasury 2002). Other time during the parliamentary debates was taken up by the government in explaining the general merits of WGA, its plans for the future and defending any such broad-based claims following questions by opposition politicians.

Overall, there was very little parliamentary discussion on the specifics of WGA and little critique or analysis of the detailed process and mechanisms by which WGA was going to be put together. This may well have reflected MPs' assessments of their own accounting expertise and competence – but it also seemed to relate more directly to the fact that many of them appeared to see WGA as a positive development. This was certainly the case in relation to whether WGA could be used to manage matters of inter-generational equity and provide a source of information on which macroeconomic decisions could be taken. Indeed, some expressed views that very much echoed the government's claims on the uses of WGA in the original HM Treasury scoping study (1998c: para. 2.19 and para. 2.7 respectively).

In the whole of the post-war period, we have said that the economic objectives are high economic growth, low inflation, a high level of employment and a balance of payments more or less in equilibrium. In many respects, if we can get the balance sheet going, there is a strong argument for having a balance sheet where you can see what is happening in relation to inter-generational transfers. A government may seem to be doing well for a long time but in fact, all they are merely doing is robbing the future to pay the present, or vice versa. So I welcome the balance sheet aspect but am sorry that it is not, as yet, in a form that would seem to be either comprehensible or comprehensive. (Lord Higgins, Conservative, Lords Hansard, 10 April 2000, Col. 20, 3.22pm)

There is an interesting parallel here between the way national income accounting has continuously improved itself by getting closer to the economic as opposed to the accounting basis of income definitions. We still do not use those broader definitions of national income in our macroeconomic policy making. But, leaving that aside, there is still a lot further to go in writing accounts so that they will make economic sense. (Lord Desai, Labour, Lords Hansard 10 April 2000, Col. 42, 4.59pm)

Having passed through the House of Commons and the House of Lords, the GRAB 1999 became legislation (in the form of the Government Resources and Accounts Act – GRAA 2000) on 28 July 2000. A separate but related act for Northern Ireland was passed a year later in the form of GRAA (Northern Ireland) 2001.

SECTION SUMMARY

This section has reviewed the development of the idea of WGA, noting experiences in other countries, the changes in the UK government's attitude to such a project and the scale of the claims made for it. It has also traced the parliamentary progression of GRAB in the UK, culminating in the legislative commitment to produce a form of WGA – which, when implemented (and given the scale of the UK public sector compared with those of New Zealand and Australia), would not only be 'the most comprehensive set of public sector financial statements in the world, as no other countries currently include local government' (HM Treasury 2003) – but also 'one of the most complex consolidations in the world and place the UK at the forefront of public sector financial reporting' (HM Treasury 2004: para. 3.14).

The UK parliamentary debate revealed a generally high level of support for the government's WGA proposals. There was a real attraction to the notion that WGA would not only enhance accountability in the parliamentary reporting sense, but could also be used for purposes of macroeconomic management, developing financial management processes within central government departments, and stimulating a general improvement in the consistency and accuracy of public sector accounting systems. That said, it has to be acknowledged that the parliamentary debating time on GRAB was limited and the debate itself was not very detailed in terms of assessing WGA and the associated implementation timescales. Questions could also be raised about the general level of accounting expertise or interest among politicians and the potential diluting effect that this had on parliamentary interest in GRAB 1999 and its expected achievements.

From a policy perspective, the debates clearly demonstrate the UK governmental practice of committing to reforms and then undergoing experimentation in the form of a series of 'dry runs' (see Lüder and Jones 2003 for some discussion on this point). The implications of such an approach to policy formation will be considered in subsequent sections of this report as attention turns to the practical development and implementation of WGA.

1. At that time, the NAO was concerned about being responsible for auditing the WGA consolidation process even though its access to (and ability to inspect the accounts of) some bodies included in the consolidation might be restricted because, as non-departmental public bodies and public corporations, they do not come under its normal audit remit.

3. The development and implementation of WGA

INTRODUCTION

The UK government's motives for wanting WGA were significantly different, or at least more expansive, once the Labour government came into power in 1997. The original parliamentary call during the previous (Conservative-led) government for a form of consolidated government accounting was underpinned by a stated desire to improve accountability. This desire had two central aspects. The first was to improve the presentation of accounts, driven by a view that existing forms of financial reporting were making it difficult for Parliament to get a good, overall picture of central government's assets and liabilities. The second was a concern that a significant number of bodies might fall outside the RAB boundaries, even though they were under the funding regime and influence of central government. Although the Conservative government had been initially reluctant to pursue CGA, by 1994 it duly advocated it as a tool that would help to produce a more comprehensive view of the government's 'balance sheet' (HM Treasury 1994: para. 2.24; see also Chow et al. 2007: 29–30).

Following the 1997 election, the new government not only pursued a larger-scaled consolidation (moving from CGA to WGA), but also claimed that WGA could be used as a vehicle for improving macroeconomic decision making (HM Treasury 1998a). WGA was held out as supporting the various economic reforms proposed in the EFSR (HM Treasury 1998a). The EFSR was a policy document outlining the proposals for major macroeconomic policy changes, which included a commitment by the government to move to RAB, the introduction and adherence of the Code for Fiscal Stability (CFS – which includes the golden rule and the sustainable investment rule), and granting independence to the Bank of England (the UK's central bank) to set interest rates.

The government's linkage of WGA with other (macroeconomic) reforms proposed in the EFSR represented a significant departure from the original aims of CGA to improve governmental financial reporting and accountability (see Chow et al. 2007 for a more in-depth discussion). The EFSR sought to improve the standing and sophistication of the economic management strategies of the incoming Labour government, given that the party was not perceived as having a strong reputation historically in this regard (Coates and Hay 2001; King 2005). The EFSR did not enlarge the case for WGA in any great depth. It noted that information from the WGA balance sheet could be used to target the golden rule (HM Treasury 1998c: para.2.6) and that, for fiscal purposes, this necessitated expanding the consolidation boundary from CGA to WGA – but no detailed explanation was provided as to why it had been earlier determined by the government that a CGA basis was sufficient to meet parliamentary demands (HM Treasury 1998c: para. 2.37).

The government attempted to provide a clearer explanation for the role of WGA within the wider decision-making process in a book published two years after the GRAA had been passed (see HM Treasury 2002). This

represented WGA as a reporting tool alongside RAB but emphasised that information from WGA would also be fed back into the policy-making process underpinning the fiscal framework laid out in the EFSR. Interestingly, the concept of using consolidated whole of government accounts for macroeconomic decision making is not new. As Chow et al. (2007) point out, in the mid-1980s the UK government had considered, but, ultimately, did not pursue, targeting the balance sheet net worth as a fiscal management tool (albeit using National Accounts-based rather than GAAP-based information). The subsequent proposed use of WGA for macroeconomic decision making had strong parallels with developments in Australia. For example, Mellor (1996), a key figure working for the New South Wales (NSW) Treasury during the inception of WGA, argues that a WGA balance sheet should be used in processes of macroeconomic management to provide a more complete financial picture, improve resource management and transparency, and link financial planning and short-term budgeting. Mellor suggests that better asset management and long-term planning is engendered by incorporating assets onto balance sheets and through more in-depth reporting of unfunded pensions liabilities. She also claims that WGA encourages greater consideration for inter-generational equity, where the incorporation of forward projections of assets and liabilities assists in terms of assessing the fiscal sustainability of particular government policies.

A number of recent developments have provided further details of HM Treasury's intention for WGA to be of macroeconomic policy relevance. For example, the Treasury Committee (2006) makes it clear that Parliament expects WGA-based information to be used to underpin the sustainable investment rule in the CFS. The sustainable investment rule self-imposes a ceiling on the debt that the government can take on, stipulating that public sector net debt should be maintained below 40% of Gross Domestic Product (GDP) for each year of the economic cycle. The Treasury Committee (2006: para.45) acknowledges that there are limitations related to the arbitrary nature of the self-imposed 40% ceiling, but stresses the importance of such fiscal constraints in preventing government from taking on unsustainable debt levels that may damage the economic prospects of future generations. Such declarations (and the encompassing reliance on consolidated accounting information) are significant. When the golden rule in the CFS is represented as international best practice in terms of government economic policy, WGA, by association, becomes seen as best governmental practice.

THE IMPLEMENTATION OF WGA IN THE UK

HM Treasury is responsible for implementing WGA. A government reporting unit was established within the HM Treasury directorate of Financial Management Reporting and Audit² specifically for the purpose of implementing WGA. The responsibility for implementing WGA within this unit was delegated to two work-teams: the Government Financial Information and Reporting Team and the Financial Reporting Policy Team. Sir Andrew Likierman originally headed up the Financial Management Reporting and Audit directorate, being succeeded by Dame Mary Keegan in September 2004, who was herself replaced by Jon Thompson in April 2008.

2. This directorate, now known as Government Financial Management, is one of five directorates across which HM Treasury functions are organised. The other directorates are Ministerial and Corporate Services; Budget, Tax and Welfare; International and Finance; and Public Services and Growth.

The original scoping study (HM Treasury 1998c) recommended a staged approach to implementing WGA. The desire for a gradual consolidation of the various tiers of government was influenced by a range of matters including: anticipated practical difficulties in consolidating a large and diverse number of bodies; ensuring consistency in accounting policies; and allowing reporting systems and procedures to be developed in a progressive and manageable way. The scoping study's proposed development timetable for WGA, reproduced in Table 3.1 below, comprised three main stages. The first stage was the development of a WGA using (the statistics-based) National Accounts information. The second stage required the development of a GAAP-based CGA. The final stage would extend the consolidation from a GAAP-based CGA to WGA, more than tripling the number of bodies included in the consolidation.

Table 3.1: Summary of the proposed development timetable for the staged approach to WGA

Year	GAAP-based WGA	Statistically-based WGA
1998	Establish legal requirements. Full cost-benefit analysis of consolidating CG bodies into CGA.	Detailed assessment of the 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 Minister's 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.	

Source: reproduced from the scoping study (HM Treasury 1998c: 65).

The scoping study estimated that the costs of WGA development and implementation would be £250,000 for each of the first two years and £150,000 for each of the two dry run years following these (HM Treasury 1998c: 4 and para. 4.88). These estimates were based on the costs likely to be incurred in setting up a project team in HM Treasury to manage the process and to cover IT costs related to the consolidation exercise (HM Treasury 1998c: 4 and paras 4.89–4.90). Annual running costs (including audit costs) once the system was operational were estimated at £1m–£2m. The scoping study indicated that further work was, however, needed to provide more accurate cost estimates.

The actual progression of WGA through these stages of development is now considered in greater detail, together with resulting changes in governmental accounting systems, associated staff training processes and auditing arrangements.

Stage 1

The first stage in the WGA process involved the production of a dry run, statistically based CGA for the year April 2001 to March 2002. The government had, in 1998, claimed that it was necessary to start off with an interim CGA based on National Accounts data produced by the Office for National Statistics (ONS) and prepared using the European System of Accounts 1995 (ESA95) standard – the legally mandated reporting standard for national statistics set by the European Union (EU) and based on the United Nations' System of National Accounts (1993) or SNA93. During this stage, it was intended that such a CGA would be useful for underpinning the fiscal framework introduced in the EFSR in the short and medium term (eg the golden rule and sustainable investment rule in the Code for Fiscal Stability), until a fully GAAP-based WGA could be produced (HM Treasury 1998c: paras 5.1–5.3, 6.16).

The National (statistical) Accounts divide the UK economy into different sectors, of which the public or governmental sector is one. This sector is further sub-divided into central government and local authorities (HM Treasury 1998c: para. E3). The central government component from the National Accounts was used to prepare the initial CGA. In completing this stage, the government announced that in its 'development of CGA it has identified solutions to many of the issues that will need to be overcome in producing WGA. The Government was then confident that WGA can be produced and intends publishing them for the first time for 2006–07' (HM Treasury 2003). In practice, the process has been more problematic, with not even the stage 1, dry run, statistical CGA, having been published to date.

Stage 2

Stage 2 in the development of UK WGA involved the development of a GAAP-based CGA. In stage 2, the government planned to produce dry run CGAs for three years (2001/2, 2002/3 and 2003/4), incorporating some 300 bodies (Statutory Instrument No. 486, 2005). The consolidation boundary for CGA incorporated central government departments (eg Department for Transport,

HM Treasury), non-departmental public bodies (NDPBs) and Central Funds. The parliamentary accounting standards watchdog (see FRAB 2004: para. 2.7) argued, however, that such a boundary definition was not fully GAAP compliant, because Trading Funds and Public Corporations were not included in the CGA consolidation, despite being controlled by central government.

The C&AG's report (2005: paras 1.92–1.95), during stage 2, on the development of WGA indicated that significant progress had been made in the following areas:

- changing accounting for taxation income from a cash to an accruals basis
- recognition of assets and liabilities of central government on an accruals basis
- reporting pensions liabilities for central government on an FRS 17 Retirement Benefits (ASB 2000) basis.

Nonetheless, the C&AG (2005: para. 1.98) also identified a number of areas where problems had been encountered and further improvement was required:

- in identifying inter-entity transactions and balances in the consolidation process between CGA bodies, where difficulties of identification had been found
- in the collection of information relating to FRS17 requirements and contingent liabilities.

The C&AG (2005: para. 1.99) also highlighted significant issues that needed to be addressed in moving from stage 2 to stage 3 (CGA to WGA), including inconsistencies in accounting for fixed assets between central government and other bodies included in the wider WGA consolidation, agreement of the WGA boundary, and coordination of the audit effort between non-CGA bodies. The C&AG (2006: paras 3.62–64) also expressed his 'disappointment' with the 'lack of visible progress' (para. 3.64) in HM Treasury's continuing reliance on accounting for PFI projects on the government's balance sheet, preferring instead to rely on its interpretation of Application Note F in FRS 5 (ASB 1994; 1998a; 1998b; see also related accounting interpretation in HM Treasury 1998b) that allows for the off-balance sheet treatment of PFI projects that meet GAAP criteria. This difference in opinion between the C&AG and HM Treasury over the balance sheet status of PFI projects spanned all three dry-run years of stage 2 of the WGA project (from 2001 to 2004).

Stage 2 has been completed, but FRAB (2006: para. 1.17) expressed its disappointment that the accounts of the dry-run full CGA for 2003/4 had not yet been published. The C&AG also echoed similar concerns to FRAB when pronouncing, 'the delay in publication of CGA would damage public confidence in the WGA programme' (as quoted in Treasury Committee 2006: para. 47). HM Treasury's response to the criticisms was that the 'complexity of accounting issues around producing a set of accounts encompassing the whole of government means

that inevitably [preparation of WGA] will take some time' (Treasury Committee 2006: para. 47). To date, none of the three dry run full CGAs have been published.

Stage 3

On 10 December 2003, the government formally committed itself (as part of its pre-budget report) (issued during stage 2) to extending CGA to WGA and allocated one 'dry-run' year in 2004/5 to sort out any implementation issues (C&AG 2005: para. 1.91) – with the expectation that publication of the first set of WGA would be in 2006 (covering the year 2005/6). This original timetable has been revised on a number of occasions, with the current plan being that the first fully audited and published set of WGA will be for 2009/10. Despite delays, the claims made for WGA continue to be strong ones. For instance, the C&AG's (2008) assessment of progress with WGA contained the following assertions:

The move to WGA is a significant one that will have many advantages. Comprehensive, audited public sector financial information based on internationally recognised accounting standards will be available for the first time, and will contribute significantly to policy formulation and resource allocation, and will raise the quality of debate on the public finances. The Comptroller and Auditor General remains committed to working with the Treasury and other bodies across the public sector in making a success of the WGA project and, in so doing, increasing the accountability and transparency of the whole public sector (para. 3.6).

The extension from CGA to WGA involves the consolidation of a further 1,000 bodies (more than 600 local governments, over 300 National Health Service (NHS) and Foundation Trusts, and about 60 Public Corporations and Trading Funds) (C&AG 2006: para. 1.96). The approach requires individual departments to perform a sub-consolidation of the bodies that they control, followed by a submission of a single entity statement to HM Treasury, which will then undertake the top-level consolidation. The expansion of CGA to WGA has similarly experienced difficulties in implementation. The 2008 Budget report, for instance, stated that the revised 2009/10 target date 'would allow time to complete the alignment of local and central government accounting policies and to enable WGA to be published on an IFRS basis' (HM Treasury 2008: para. C103). FRAB (2006: para. 1.13; 2007a: para. 3.31) highlighted the significance of alignment issues, noting that while the local government road network is valued at historical cost, the motorway and trunk road network is valued at current cost on central government's accounts. Accounting for PFI projects is a further example of the problems that WGA has faced, with FRAB stating that it has 'misgivings about the consistent interpretation of accounting guidance across the public sector, and... remains deeply concerned about the missing assets associated with those PFI schemes' (FRAB 2006: para. 1.20). The planned move towards IFRS (see HM Treasury 2007a: para. 6.60) has led HM Treasury to announce that Technical Note 1 on accounting for PFI projects (HM Treasury 1998b) will 'no longer be relevant' once IFRS is in

place for the year 2008/9 (FRAB 2007a: para. 3.5; FRAB 2007b: para. 7). FRAB has suggested that HM Treasury consider adopting Interpretation No.12 on Service Concessions of the International Financial Reporting Interpretations Committee (IFRIC) as a guide in its development of a replacement for Technical Note 1 on accounting for PFI projects (FRAB 2007a: paras 2.13 and 3.6–3.10). The major implication of IFRIC 12 is that the criteria for classifying PFI on the government's balance sheet will change, moving from an assessment of risk and rewards to an increased emphasis on which party controls the PFI infrastructure (see FRAB 2007a: para.2.13). The impact of adopting international accounting standards would therefore bring on balance sheet many of these PFI schemes.

ACCOUNTING INFORMATION SYSTEMS DEVELOPMENTS

The initial information system used to collect CGA information was derived from National Accounts information. From stage 2 onwards a new system, the Government Online Database (GOLD) was introduced. GOLD was a Web-based system used to gather the audited annual outturn (ie accounting) data from the individual bodies included in the consolidation process. This information was then recast using a standardised chart of accounts, pre-specified by GOLD, to generate WGA. This standardised chart of accounts was created to align the information gathered from the accounts of individual bodies that were not uniform in format.

HM Treasury interviewees explained that the software underpinning GOLD was imported from New Zealand and Australia, and subsequently adapted for UK purposes. In addition to GOLD, use was also made of two existing information systems. One was Public Expenditure Statistics (PES), a Treasury database storing five years' worth of historical data and two projection timelines, one for a year ahead, and the other for three years ahead. The second system was the General Expenditure Monitoring System (GEMS), a Treasury database providing more detailed outturn and forecast figures for the current financial year. Data recorded in GEMS involved projections on a monthly, quarterly and annual basis.

Stage 3 has seen the replacement of these multiple information systems (ie GOLD, PES and GEMS) through an HM Treasury (2005a, 2005b) scheme known as the Single Data System programme. This scheme was designed to bring together all public sector financial data (historical, current and projections, annual and monthly/quarterly data) in one system – referred to as the 'Combined Online Information System' (COINS). This over-arching database sought to establish a more uniform structure in terms of how information is collected and to alleviate the inconsistencies that have emerged from having three separate accounting systems for public sector data (GOLD, PES and GEMS) (Atkinson Review 2005: para. 5.44). It was also designed to reduce the burden of data collection on, and duplication across, departments. Ian Carruthers, the former head of HM Treasury's WGA programme and one of

the architects of COINS, also claimed that:

COINS is designed to significantly improve the quality and accessibility of expenditure monitoring and forecast information available to Treasury teams. By providing a definitive view of each department's finances, more closely linked to the way it runs its business, COINS will support an increased focus on in-year monitoring, and underpin other financial management work currently in progress. (HM Treasury 2005a: 4, col. 1, para. 4)

COINS was recommended by the National Statistics Quality Review of Government Accounts and Indicators (NSQRGAI) as one solution for dealing with a number of issues highlighted in the Atkinson Review (2005: para. 5.5) regarding output measurement, such as:

- complexity of data flows involving multiple suppliers
- accuracy in codifying and mapping data into the various databases
- poor timeliness.

The claimed planned benefits of adopting COINS (see Atkinson Review 2005: para. 5.40) include:

- improved data quality at reduced cost
- a central warehouse for collecting and sharing data requiring a single input
- facility for managers to cross-check data across bodies, reducing the need to reconcile and/or explain differences in balances
- easier comparison and reconciliation between balances produced by the ONS and HM Treasury.

The information produced by COINS (which went live in 2005/6) is used for three distinct functions – budgeting, recording government spending, and the preparation of audited financial statements. It is largely through the third element that the accounts for WGA are generated. In practical accounting terms, COINS requires individual government departments to convert their end-of-year, final Trial Balance into the format required for resource accounts. For WGA purposes, the financial year-end is taken to be 31 March.

The responsibility for mapping the accounting data into COINS rests with the individual government departments/public sector bodies. HM Treasury has produced a guidance pack and provides a dedicated phone service for those bodies needing further assistance. In terms of WGA, individual central government departments map their trial balance onto the standard accounts used by COINS. HM Treasury then inputs this information into COINS to produce its own (WGA) interpretation of the Balance Sheet and the Income and Expenditure account. For local government, the Department for Communities and Local

Government (DCLG) supplies data from local government.³ An HM Treasury official in charge of managing the operations of COINS for WGA purposes explained, in interview, that government departments and other bodies such as local government are also required to produce a second set of trial balances to identify inter-entity transactions between the various public sector bodies in WGA.

As an information system, COINS has been developed with many 'firewalls' that prevent individual reporting bodies from having access to the whole consolidation process. Instead, bodies are only allowed access to data that they are responsible for producing or using. This design follows the recommendations of the NAO (see, for example, C&AG 2007: para. 3.10). The firewalls protect the overall integrity of the data from manipulation by individual bodies. For example, those who are in charge of preparing the consolidation of the accounts are not allowed access to the budgetary side of the data, reducing the possibility of accounting manipulation for political ends (eg choosing accounting policies to fit budgetary needs). Access restrictions do, however, serve to emphasise that the value and/or use of a 'centralised' WGA to those further down the reporting hierarchy (eg departments and individual bodies producing data) is likely to be questionable, with WGA being of most use to those with the fullest degree of access (eg HM Treasury).

The move towards a unified system such as COINS is being accompanied by parallel developments by the ONS, which is aligning some of its existing data sources for National Accounts (such as those for capital consumption) more closely with those of the RAB/WGA programme (HM Treasury 2006a). Nonetheless, the Atkinson Review has noted that COINS alone cannot and should not be seen as the cure for all the problems generated from the use of multiple information systems (2005 para. 5.44).

WGA TRAINING AND EDUCATION

HM Treasury has put in place a number of mechanisms for training and educating departments on how WGA will affect them and what processes they will have to undertake to comply with the WGA requirements. HM Treasury has assisted in this role through involvement at training events designed to update staff on WGA project progress. Continuing Professional Development (CPD) forums are held to update Treasury staff on WGA progress, while a phone line and a website (www.wga.gov.uk) provide support for government departments that require further assistance in submitting their accounts to Treasury.

Other organisations with an interest in WGA, such as CIPFA in relation to local government in England and Wales, also play an active role in terms of training and advice to accounting staff. CIPFA supported the Labour government's proposals for WGA in the 1998 scoping

3. The responsibility for the input of budgetary data, however, is different – see HM Treasury 2006b for further details.

study and has regularly sought to communicate local government views on WGA to HM Treasury. As one CIPFA interviewee acknowledged:

CIPFA has a standard role for local government and the preponderance of our members are in local government. The implications of the WGA project for local government were quite significant. CIPFA were quite keen to also dispel disquiet about the resource implications of WGA for local government...its discussions with Treasury led CIPFA to form the view that this was going to be done in the most cost-effective way possible in terms of data collection from local government and that local government was not going to be subjected to a large bureaucratic exercise which basically involved putting together a second set of accounts. I think there were certain misgivings from people that it could be a big resource-intensive burden.

According to another interviewee (in charge of preparing local government accounting information for WGA purposes), CIPFA and the WGA phone line of HM Treasury have been the two most important sources of information for local government accounting officials. He also noted that most of the training provided by HM Treasury on how to prepare for the process of submitting WGA data was indirect, where local government officers relied on HM Treasury to make available instruction lists to assist with the preparation of the required accounting information.

THE AUDIT OF WGA

In terms of auditing arrangements, the C&AG and his team at the NAO are responsible for the audit of all central government bodies and the final WGA consolidation (Section 11, GRAA 2000). For bodies that are not within the C&AG's remit but within the WGA boundary (eg local government and devolved governments), the C&AG will have to rely on the work of individual statutory auditors in forming his opinion on WGA (C&AG 2007: para. 3.11). The NAO has set up a working group of the Public Audit Forum (PAF) to discuss the results of the dry-run audit process of WGA by all audit bodies concerned. The PAF is a working group jointly established by the NAO with other auditors such as Audit Scotland, the Northern Ireland Audit Office, the Wales Audit Office, the Audit Commission and auditors appointed by the latter (for local government and NHS trusts) to determine the scope of the work and to establish working protocols for the dry-run WGA audit of 2005/6 (C&AG 2007: para. 3.12). The C&AG has been granted powers, under the new UK Companies Act 2006, to audit government-owned companies. This extension of audit powers was the culmination of the recommendation made in the Sharman report (2001), addressing concerns that central government departments were creating government-owned companies that the C&AG could not audit, as they were considered to be private enterprises (Sharman Report 2001; C&AG 2007: paras 3.16–3.17).

SECTION SUMMARY

This section has described the motives for and the developmental process of WGA. WGA was originally a Parliament-driven initiative, but since the election of the Labour government in 1997, the role for WGA has expanded. This expansion has encompassed the use of WGA information for economic policy-making purposes, whereby such information is said to be useful in planning for inter-generational equity, asset and debt management, and pensions. While the claims that WGA information could be used for more active purposes of economic management (rather than just for reporting purposes) are not new, having originated in Australia, they have certainly broadened the scope of the WGA project in the UK.

This section also described the three-stage implementation process associated with WGA in the UK (the third stage is currently under way, although no WGA reports from this stage nor any previous stage have, as yet, been published). In stage 1, efforts were devoted to constructing CGA using statistical (rather than GAAP-based) accounting information taken from UK National Accounts. Stage 2 saw the pursuit of CGA using GAAP-based resource accounts, consolidating the accounts obtained from individual central government departments and other public sector organisations. During this stage, the government came under scrutiny from the NAO because the chosen consolidation boundaries were not considered sufficient to include all relevant bodies. Stage 3 has seen the WGA project expand beyond the central government boundary to include local governments, the NHS, and a number of other public sector-related organisations, such as public corporations. The transition from stage 2 to stage 3 presents a significant logistical task for the government and a number of issues remain unresolved, such as delays with the submission of accounts and difficulties in reconciling inter-entity transfers between bodies. These problems are discussed further in the next section as we now turn to evaluate the UK WGA experience to date.

4. Assessing the UK WGA experience

INTRODUCTION

In evaluating the UK experience to date with WGA, it makes sense to focus on the three key claims that the government has made for it. The first claim was that WGA would enhance governmental decision making, especially at the macroeconomic level. The second was that of increased accountability, where the publication of a consolidated government balance sheet would make the use of public money more transparent. The third claim was that WGA would provide an impetus for improving the accounting processes within and across public sector bodies.

IMPROVING GOVERNMENTAL (MACROECONOMIC) DECISION MAKING

In the House of Lords debate relating to GRAB 1999, a key parliamentary expectation, as exemplified in the quotes cited earlier (in section 2) by Lord Higgins and Lord Desai, was for WGA to be used to improve national economic management. Of particular importance in this debate was the belief that WGA would help in terms of planning for issues of inter-generational equity. This has become an important issue in many developed nations, owing to an ageing population profile and concerns over the sustainability of public sector pensions and government finances (Chan 2003). Our fieldwork sought to consider the ability of WGA to facilitate macroeconomic management processes and we approached the issue in two, complementary, ways. The first was to consider, briefly, the historical development of consolidated accounting techniques in a private-sector context and assess whether this has any salient lessons for similar initiatives in a public sector context. The second drew on our interviews with a range of individuals involved in the practical development of WGA in the UK, considering, in particular, their perceptions of its current or likely future contribution to macroeconomic management processes.

Considering the history of private sector consolidated accounting, HM Treasury's desire to learn from private sector experience, as highlighted by the quote below from the parliamentary debates on GRAB 1999, was important in the adoption of consolidated accounting techniques for the public sector. 'The purpose of the WGA clauses in the Bill [GRAB] is to enable the Treasury to prepare as efficiently as possible by adopting relevant best practice consolidation procedures used in the private sector' (Andrew Smith, Chief Secretary to the Treasury, Labour, House of Commons Hansard Debates for 6 December 1999, Col. 577, 4.19pm)

As there is such a commitment to learning from private sector experience, it is worth reviewing the historical development of consolidated accounting in this domain, particularly in terms of the motives for adopting, and experiences with, such a form of accounting practice. Our historical analysis serves to illustrate some of the conceptual choices made in the pursuit of accounting change and some potentially problematic issues or constraining factors that might be transferred to the public sector if inadequate attention is given to the lessons of history.

Consolidation accounting in the UK first emerged in the early 1900s – Edwards (1991) discovered that Pearson and Knowles Coal and Iron Company Ltd, a manufacturing company in England, had published a set of consolidated accounts in 1910. Edwards went on to argue, however, that this 'obscure' publication had no influence on the subsequent adoption of consolidated accounts by British companies. Instead, he contended that the adoption of consolidated accounting among large British companies started only in 1922, when Nobel Industries (now known as ICI) first published a set of consolidated accounts.⁴ In addition, ideas on consolidation accounting, which were pioneered in the US at the turn of the 20th century, were disseminated in the UK in 1922 through a series of lectures organised for the Institute of Chartered Accountants in England and Wales (ICAEW) by Sir Gilbert Garnsey of Price Waterhouse, who had just returned from the US (Edwards 1991; Edwards and Webb 1984; Kitchen 1972; and Walker 1978).

Edwards and Webb (1984) suggest that at the time of their study the managers of British companies were generally opposed to consolidation accounting because it would give them less opportunity to create secret reserves and 'smooth' income. In a review of the literature on the history of consolidated accounting, Nobes and Parker (2004: 43) note that the Companies Act of 1928/9 contained no requirements for consolidation accounting, and point out that the ICAEW had in fact voted against requiring companies to produce consolidation accounts during the consultation period before the 1928/9 Act and its amendment were passed. This was in stark contrast to the pro-consolidation stance of the Law Society. In the 1920s, consolidated accounts were used merely to supplement the conventional balance sheet (Bircher 1988) by reporting on investments in more detail than their cost, with private subsidiaries, at that time, being exempt from publication requirements (Nobes and Parker 2004: 43). Consolidation accounting was made a requirement only when the London Stock Exchange made it a condition for the issue of new shares from 1939 onwards. Subsequently, the 1948 Companies Act made consolidation accounting in the UK compulsory for groups of companies.

Bircher (1988) argues that in addition to impending legislation (ie the Companies Act 1948), the adoption of consolidated accounting was assisted by increasing gearing levels in companies, changes in the tax laws, and pressures to reduce the amount of dividends paid. This suggests that an over-arching motive for adopting consolidated accounting in the private sector was to obtain tangible economic benefits, such as assisting companies to access debt finance or reduce agency costs (Mora and Rees 1998; Whittred 1987).

It has been claimed that, in the US, private sector accounting standard setters have pioneered consolidated

4. Even here, Edwards (1991: 131) explains that the method used was merely a simple aggregation of accounts, where inter-entity transactions were not eliminated, rather than the consolidation process we are familiar with today.

accounting methods to help understand the economic environment in which companies were operating (see Nobes and Parker 2004: 373). Consolidated accounting has also been seen as a method that could be used to bridge the different legal and reporting requirements that existed between states within the American federal system. The Financial Accounting Standards Board (FASB), with accounting standard SFAS No. 94 (1987), made it a requirement that listed group companies produce consolidated accounts, regardless of the compatibility of the businesses that were added together in the consolidation – reflecting the FASB's desire to outlaw attempts by companies to indulge in off-balance sheet financing (see Mian and Smith 1990). Consolidated accounting has, over the years, become the accepted international standard, although it has not been without its critics and has been historically less attractive or accepted in some national contexts (Nobes and Parker 2004: 41–4, 373–82). Some such criticisms are quite longstanding. For instance, in terms of the value of consolidated accounting to users of the accounts, Walker (1976, 1978) argues that the production of consolidated reports (in comparison with producing individual reports for the parent company and its subsidiaries) does not necessarily increase or improve the ability of shareholders and creditors to assess the potential for future earnings and/or ability to repay debt. Instead, the consolidation can hide the losses of weaker subsidiaries in the group and downplay the profits of the stronger subsidiaries, which can mislead creditors (Walker 1976). In a relatively recent review, Clarke et al. (2003: 218) made similar points regarding the value of consolidated accounting:

Whether consolidation accounting practices should be tolerated is contestable. Accounting data are reasonably expected to reflect financial reality in its legal, social and economic contexts. And whereas reality might be less than transparent, consolidated financial data cannot by any stroke of the imagination be considered a realistic reflection of the aggregative wealth and progress of the related companies, being as they are aggregations of their separate conventional accounting data – some as they appear in the originals, some adjusted to accommodate presumed, often counterfactual, characteristics of the transactions between them.

Relatively recent corporate scandals, including the notorious collapse of Enron, have cast renewed doubt on the value of consolidated accounting to users, particularly given the nature of practices with respect to 'special purpose entities' (Hartgraves and Benston 2002). A critical factor here has frequently been the adequacy of the specification of the consolidation boundary and the failure to control corporate managers' capacities for engaging in various forms of off-balance sheet financing and creative accounting (Hartgraves and Benston 2002; AAAFASC 2003).

In summary, the history of consolidated accounting is one that reveals a range of motives for its existence and a fair degree of doubt over its capacity to deliver in terms of desired levels of transparency and accurate reporting of

corporate activities, wealth and commitments. While its critics may remain in the minority, the persistence of their criticisms and the evident fact that the use of consolidated accounting has not resulted in the demise of creative accounting and corporate accounting scandals is pertinent in terms of the expectations for WGA. It certainly poses questions about the extent to which consolidated accounts will prove useful in assessing the government's ability to pay its debts and whether the highly aggregated nature of the accounts will reduce the number of users who might find the accounts helpful. Additionally, there is clearly no historical attempt, at least in the private sector, specifically to use the balance sheet as a tool for economic planning. Private sector consolidation accounting has a strong focus on issues of accountability (eg presentation of group debt, representation of entities controlled by the parent), reflected in an accounting approach that has traditionally concentrated on past transactions and notions of prudence. This, again, sits interestingly in light of the government's consideration of accounting for future income projections (ie economic ideas of defining income and net worth based on predictions of future cash flows) – see HM Treasury (2005c).

ACCOUNTING FOR PUBLIC SECTOR FINANCE

The traditional source for accounting information on public sector finances for the purposes of economic policy making has been the UK's National Accounts, published by the Office for National Statistics (ONS). With the advent of WGA, the government sought to use this GAAP-based system to replace, or at least complement, National Accounts information for macroeconomic decision making (see HM Treasury 1998c: 62–8).

National accounting in the UK was first developed towards the end of the Second World War (Studenski 1958, as cited in Jones 2000). Since then, various forms of 'UK National Accounts' have been prepared to aid in economic and social policy formulation and monitoring, and used to represent the public sector balance sheet (on a statistical accounting basis). The statistical accounting policies used to produce National Accounts are based on international standards promoted by the United Nations (UN), the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD) and the European Commission (HM Treasury 2005b: para. 5.2). The information collected for the preparation of the UK National Accounts is used to produce key economic statistics such as GDP.

Although both statistical and GAAP-based accounting systems claim to measure government economic activity, there are a number of conceptual differences between the two. According to HM Treasury (2005b: para.5.15):

National accounts are designed primarily for economic analysis, showing economic activity by sector of the economy. The main focus of National Accounts is therefore on the income and consumption in each of the various sectors (and sub-sectors) of the economy rather than on individual entities' financial performance. GAAP,

on the other hand, has been developed to reflect the financial performance and position of individual organisations.

In particular, the accounting information from National Accounts is aggregated according to the sectors of the economy (eg government, financial corporations and the household sector), making it difficult to report on the economic output of a single entity within government, such as a government department. The Office for National Statistics also relies on estimated data for certain sectors/sub-sectors of the economy (including the public sector) if the data are difficult to obtain (HM Treasury 2005b: para.5.13). Accounting information from central government departments needs to be obtained from annual departmental reports – which were kept on a cash basis before RAB/WGA.

Another important area where GAAP and National Accounts differ significantly is in the timing of cost recognition. For example, GAAP recognises provisions and government pensions earlier than National Accounts (ie National Accounts do not recognise pensions as early as FRS17), but single-use military equipment (SUME) later (ie expensed) than National Accounts (HM Treasury 2005b: paras 5.19–5.27). Other key differences are in the treatment of intra- and inter-entity transactions between parties in a group, which are only eliminated under a GAAP-based consolidation; and the use of market-based values to measure assets and liabilities for National Accounts, in contrast to the mixed historical cost/fair value approach under GAAP (see IFAC 2005 for more extensive discussions of these differences). Such differences in accounting can affect government financial planning. For example, HM Treasury (2005b) has claimed that the earlier recognition of liabilities under the GAAP-based WGA system has obligated the government to plan further ahead for their incurrence. HM Treasury (2005b) has also said, however, that decision making will improve at both the micro (individual) and macro (aggregated) level under a GAAP-based WGA system, because of the greater amount of data being collected from the accounts of individual public sector bodies. In particular, WGA was expected to allow for greater flexibility in configuring data for use by various decision makers and to reduce reliance on estimates by recording in greater detail individual transactions and the elimination of inter-entity transactions through line-by-line consolidation.

Our interviews revealed mixed views in terms of the supposed benefits for economic policy making of a GAAP-based WGA system. Few interviewees were able to provide specific examples of how the new information was being, or will be, used. Even HM Treasury staff who could provide such examples chose to emphasise the gradual and complex nature of the process of shifting to WGA.

Because of the way [HM Treasury does] long-term projections, which is essentially just a very long-run discounted cash flow, this means that the provision itself is inadequate. You could use movements in the provision as some kind of fiscal indicator and that's the way [the

WGA team within HM Treasury] were talking 18 months–two years ago and...in terms of using net liabilities or assets and WGA, that's something that we would still do ...The people who deal with that angle of fiscal policy are now saying, right, what we need to do between us is gather the information so that we can incorporate the future flows that are encapsulated in the provision into our long-term forecasts and we need to make sure that's done on a basis which is consistent with the information you're getting so that we can say to people, well yes there's a £X (or whatever it is) nuclear decommissioning provision but actually that's there in the long-term forecasts and it's exactly comparable and if you do discount back the long-term forecast element of that, it does come to the £X you've got on the balance sheet... We are starting to integrate, not by just grabbing a GAAP number and doing something with it but by actually trying intelligently to analyse it and look at what the implications are.

Many interviewees, while acknowledging that the collection of WGA information had created a greater awareness of the need to tighten financial reporting processes across the public sector, expressed their reservations over the probable usefulness of WGA for ministers and key government planners. For example, in response to a question on how HM Treasury would use WGA information, a Treasury official involved in the development of WGA suggested that, for the moment, only certain components would be useful for economic planning purposes.

Yes [WGA would be used, but] not the whole of WGA, as there isn't a huge amount of interest in the fixed asset information. For the sort of things we do on fixed assets, WGA information doesn't really help much. However, for certain parts of the WGA – accounting for pensions is the one that really stands out – it is useful. In addition, some of the stuff around financial assets and liabilities is starting to be connected because people are realising that [there is useful] information out there.

In its defence, two interviewees within HM Treasury argued that the introduction of WGA had more to do with driving the broader accounting reform agenda across the public sector, although they also had some uncertainties in terms of user identification.

From my position...it is not clearly set out what the ultimate goal is or...who the end users are going to be. Now you would say Parliament would be a user but you'd have to explain it to them. Academics would be users and you also have the fiscal policy individuals [in HM Treasury] who would be users. How does it all fit in? That is one thing I can't explain. One area that I can...is to do with the financial management aspect and here it is driving the whole financial management in the public sector, improving the quality and the timing, of the reporting.

[WGA] has got people saying 'oh WGA, why don't we think about that bit on the budget...WGA is either precipitating [budgetary planning] or, in a lot of cases, just providing the focus for it.

For HM Treasury employees, one reason for the uncertainty surrounding the types of decision for which WGA is likely to be useful is that many potential users are confused about how WGA will differ from the information being provided by the statistics-based National Accounts.

[On the question of whether I] envisage any teething issues from WGA reporting, I think one very big problem [HM Treasury has] will be to try and understand and interpret what the accounts say and to explain them to people...first of all [HM Treasury] need to understand the accounts themselves, because nobody's ever seen anything like that produced from accounts, whereas the national statistics people that have done statistics for a long time...if there is a big difference between what the statistics say and what the GAAP-based accounts say and the interpretation...that's definitely going to be an issue and the other one will be comparability both internally, in the accounts themselves, at least for the first few years, and also comparability to other accounts that are produced.

In our interviews with the Audit Commission, one interviewee raised a concern over the usefulness of WGA for those identified audiences.

The main users were anticipated to be within government itself, planners, economists within government, and also to some extent Parliament. Now, I am not sure that I remember seeing anybody out there saying that this [WGA] would be something the public would engage with. I think there is a big issue about whom this is for, really. You'll be talking about such massive numbers that often people can't relate to that number, I think. If you say that somebody's lost £100,000, you can perhaps understand that. If you start talking about £5 billion, people can't relate.

Such concerns were also echoed in a relatively recent statement made by FRAB.

Whole of government accounts will be an important tool in helping to demonstrate the Government's stewardship of the public finances. The Board welcomes the Treasury's published explanations of how an accruals based balance sheet interacts with other forms of reporting, but considers that these publications have limited audiences. The Board urges the Treasury, therefore, to consider carefully how it will explain in plain English to the general users the meaning of the stewardship information in whole of government accounts. (FRAB 2006: para. 4.11)

In our subsequent interviews at HM Treasury,⁵ officials still stressed that the key users of WGA are itself and Parliament, and therefore the design of WGA would primarily take into account the needs of these two users.

We have identified our key users as Parliament and the Treasury; The Treasury because the Treasury agrees budgets with departments so we want to know what departments have done with the budget, and Parliament for at least two reasons, probably three actually: First, because they [Parliament] are the proxy for the taxpayer, or the people whether they're a taxpayer or not. So you want to be able to give them information to be able to understand what the government's doing. Second, they want to scrutinise what governments are doing because they are the Parliament and that's a parliament's job, and third because, of course, they are the people that vote the estimates [ie granting parliamentary approval for a government's budget] and so they want to know what departments have done with resources they've been voted.

Nonetheless, there are also indications that HM Treasury is also now explicitly considering the needs of an individual public user in designing WGA for publication.

It would be interesting to know, or to think about what the [WGA] accounts ought to look like...In trying to make a balance sheet meaningful and relevant in terms of what 'Joe Public' might understand, for example, should you try to present a balance sheet in such a way that your equity side is actually the national debt? Now, because people have heard about the national debt, and while they might not know exactly what it is, but if you [show how your assets and your liabilities relates to your national debt], it might help.

Interviews with other organisations, such as the Audit Commission, the ONS and individual local governments, suggest that they see HM Treasury as the key beneficiary of the WGA project, but they remain unclear over how WGA can be used by themselves or others.

WGA...can be seen to be used in a more general way. [If you think about it], who would use it? It could only really be the Treasury and the Chancellor for macroeconomic purposes. It may fulfil some broader function about statistical returns to Europe, or whatever it might be, but as a management tool, I can't see it being that helpful. (Audit Commission)

It's a very difficult question to answer [the question of who WGA users are]...perhaps you ought to ask Parliament because they passed the Government Resources and Accounts Act. (Office for National Statistics)

You only have your own information [from WGA submissions]. You can't access information for other [local] authorities so you cannot compare other authorities with your information. The information is purely for the government's purposes. You produce because they've asked for it and you don't have any option. The benefit to the authorities would be negligible because there's a cost attached to it. (Local Government Accounting Officer)

5. We have conducted a number of interviews at HM Treasury with various staff over a period of 18 months.

Although it is clear that WGA has been premised on a supposed broad range of users and associated user-needs, such comments suggest that there has been little active involvement on the part of users in WGA policy development. This may help to explain the difficulties that interviewees have had in detailing specific instances where WGA information is likely to prove useful – making the difficulties in this respect of some HM Treasury officials significant, given the claims of others that HM Treasury is likely to be the central user of WGA. Weakly developed conceptions of the identity and information needs of users mirror the development of consolidated accounting in the private sector. Further, it has parallels with Young's finding (2006) that much of the development of accounting standards in the private sector has occurred on the basis of general, ill-specified, references to 'user needs' or desires – and processes rarely involving any detailed study of the decision models employed by specific user groups. Young argues that individual users need to be more involved in the accounting standard setting process.

That said, some reported experiences to date do suggest that WGA might have produced unexpected benefits to some 'potential' user groups. Specifically, it has been claimed that central government departments and local governments may well be experiencing an improvement in their decision-making processes – with WGA being said to provide incentives for more proactive balance sheet management and policy determination. For example, an interviewee from HM Treasury noticed that WGA sub-consolidation exercises were getting central government departments to think more about their 'group' and associated identity, operating capacity and risk exposures.

That is partly about the departmental balance sheet, which is very much focused on the estimates boundary and doesn't take in the group balance sheet...Getting [a central government department] to think about their group and the risks in their group is one of the things that came out of the financial management review and there is a link there to WGA in that...they are responsible for doing a sub-consolidation for WGA. The WGA sub-consolidation is purely an administrative process, which does not get published. It is just that they know what is going on and that is where most of these group transactions are within that little family. So, WGA would get them to do the work, [which leads them to think] as a group and manage as a group.

In local government, there was some reported evidence that WGA information has featured, or at least been considered, in aspects of policy making, despite the current lack of full convergence between local government and central government accounting standards. As another Treasury official commented:

[HM Treasury] has already used some WGA information in policy formulation...I happened to mention to the local government team that we...had some information and before we knew it, it was appearing in submissions to ministers...It was undoubtedly better than anything we'd had from local authorities before. I don't think it's going

to seriously harm local government where they are on a different basis, I don't think there's any great push to use WGA numbers as the basis for distributing grants or anything like that...but actually people are sitting up and paying attention to the numbers.

Although there is an indication that some governmental decision makers are able to use some of the information arising from WGA for policy purposes, neither the WGA scoping study nor our interviewees provided convincing support for the claims that a WGA, GAAP-based accounting system will result in more accurate and useful information than the existing 'estimate'-based statistical, national accounting system. Doubts about the usefulness of WGA information for macroeconomic decision making are fuelled further when the government professes that WGA information will be only one of a number of indicators used for its long-term planning of public finances (HM Treasury 2005c; for further discussion, see Chow et al. 2007). Indeed, some recent observations of WGA developments have suggested that changing from a 'National Accounts' to a 'GAAP' basis of accounting is going to be rather more problematic than first anticipated, because the information it produces may not be politically expedient. For example, the Chancellor of the Exchequer has claimed that the result of such a move would triple the value of debt on the government's balance sheet, the implication of which is that the government could never meet the debt ceiling imposed by its own fiscal rule (ie the sustainable investment rule) unless its debt ceiling were significantly raised in tandem with any such accounting changes (Treasury Committee 2006: para. 51).

From an international learning perspective, it is worth emphasising that the twin problems of usability of WGA and the task of managing the changed basis of accounting for public sector finances were also observed in Australia and New Zealand. Given the similarity in the claims made for WGA, it is important to note that a survey of Australian WGA experiences revealed that it was only used for reporting purposes, not policy making (see HM Treasury 1998c: 147). Additionally, the introduction of WGA in Australia is reported to have led to confusion over where the differences lie in the information presented by the existing Government Finance Statistics (GFS) accrual reports and the newer GAAP-based accrual reports. An Australian state treasury official in charge of preparing WGA made the following observation during an interview.

It is confusing at the moment because there are a number of different bases of preparing information out there which are similar in terminology and results. So for the uneducated user you really need to have a fairly strong understanding of government to pick which numbers are comparable. I think you also need to be able to actually get them in front of you and have a look at them because Joe Bloggs on the street is just going to get what is reported to him and he is just going to go 'ah you have a surplus, that's good'.

An interviewee from the International Federation of Accountants (IFAC) with experience of Australian WGA

developments amplified such points.

In Australia...there were parliamentarians who were thoroughly confused by what appeared to be different outcomes [as a result of the publications of the financial reports on a GFS and GAAP basis] over the same time reference for reasons which seemed quite opaque. They wouldn't have been opaque to people who'd been highly knowledgeable about both systems but to your average intelligent layman it was frustrating that two systems appeared to present such different outcomes. I think it enhances the standing of both communities if they are able to clearly identify and explain those differences.

This issue of presenting public sector finances using two different sets of accounting standards (statistical and GAAP) was also raised by the Australian Accounting Standards Board (AASB) and it is currently trying to resolve the differences and consider ways in which to reconcile the statements where differences cannot be eliminated (see AASB 2007a; 2007b). At the international level, IFAC published a research report outlining various differences between the two approaches and what could be done to harmonise/minimise the impact of such differences (see IFAC 2005). HM Treasury is considering harmonising to enable GAAP data to be used in the preparation of National Accounts (HM Treasury 2005b: para. 5.28). Since public sector data for both statistical and GAAP reporting purposes often come from identical sources (eg a central/local government department supplying raw data), harmonisation is viewed as helping to improve the quality and consistency of the data-collection and processing process, undertaken in the UK through COINS (see HM Treasury 2005b: para. 5.11). This harmonisation process is, however, set to be complicated by the changing of the statistical basis for both the UK's National Accounts (ESA95) and the current UK GAAP, from 2008 onwards – with the government obligated to adopting the forthcoming SNA2008⁶ and IFRS (FRAB 2007b) respectively.

Regarding the New Zealand experience with WGA, the general consensus (eg Newberry and Pallot 2005; Norman 1997; Pallot 2001) is that there have been improvements in the amount and detail of information available to users – but there remains a lack of clarity over the intended users of WGA statements, and an inability to attribute improved decision making in government to WGA (see HM Treasury 1998c: 147).

In summary, evidence on the usefulness of WGA for decision making is mixed. Although it is recognised that WGA has not yet been published in the UK, some interviewees have noted that the information being collected for WGA purposes has started to feature in the decisions of local government and HM Treasury. Other interviewees were more circumspect, however, expressing

their doubts over the claims made for the usefulness of WGA given poorly defined user groups and needs. Furthermore, a key aspect of the usability of WGA information is linked to the accounting system on which it is based and the extent to which confusion will be caused by the continued production of accounts on a statistical basis.

IMPROVING ACCOUNTABILITY THROUGH BETTER FINANCIAL REPORTING

Another key claim for WGA is that it will provide a better overall picture of government finances by bringing together all the assets and liabilities that it controls (HM Treasury 1998c: para. 2.17). This sub-section considers this claim by reviewing the way in which assets are valued in the public sector and the nature of debates over the definition and reporting of governmental debt.

Issues of consistency in public sector asset accounting

While delivering improvements in the processing of accounting information, the British government has experienced problems ensuring the consistent application of GAAP between central and local government.⁷ These problems can be traced in part to the additional legislative and political controls on local government, such as the latter's lack of freedom to determine its own financial policies. As one HM Treasury interviewee emphasised:

The area that gives rise to a number of headaches are [sic] the differences between central and local government and in particular local government. A lot of their accounting is not UK accounts-based, it's more legislative, it's driven by legislation and it's driven by millions of controls that were in place from local authorities which had nothing to do with accounting.

A significant area of divergence is the classification of roads by central and local governments (FRAB 2006: paras. 1.10–1.17). Currently, local governments record roads and other infrastructure assets at historical cost, whereas central government records them at current cost. The concern, expressed by some interviewees, is that if roads were reported on the balance sheet of local governments at current cost, this could lead to the impression that local government assets consist largely of roads. An interviewee close to the Audit Commission explained:

You have got different ways of measuring assets, so you might have billions reflected through central government for things like roads, but you have nothing for local government. Yet that isn't the case. One of the reasons local government decided to not to value roads [at current cost] is because it would make it look as if there were nothing else apart from roads that were valued, because they have so many roads.

6. For updates on the revision of the System of National Accounts (SNA), see the United Nations' Inter-secretariat Working Group on National Accounts (ISWGNA) website (UN 2008).

7. The need to comply with IFRS, as stipulated by the 2007 Budget, might throw up further problems of accounting policy alignment.

Such concerns with adopting a current-cost basis of accounting have also been evident in debates over the valuation of heritage assets. Carnegie and West (2005) and Hooper et al. (2005), for instance, argue that as governments cannot take advantage of any increases in the value of heritage assets (as there are often covenants on its sale), a fair value approach is an inappropriate method of valuation. CIPFA/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) claim to have addressed issues concerning the departure of local government accounting standards (SoRP) from UK GAAP (CIPFA/LASAAC 2007). The case of roads and other infrastructure assets suggests, however, that some departures are still problematic, with the C&AG (2007: para. 3.13) highlighting the divergent accounting treatment of roads as a significant issue requiring resolution.

International experiences suggest that such valuation issues are difficult and time-consuming to resolve. In Australia, provisional arrangements for the recording of 'land under roads' in Australian Accounting Standard (AAS) 31 'Financial Reporting by Government', allowed entities unable to measure reliably the value of land under roads to refer to such assets in the notes to the accounts rather than including them on a WGA balance sheet. A time limit was set for this exemption, although this has been extended from 1996 up to December 2006, owing to pressure from the entities concerned, the asserted difficulties and scale of issues faced in valuing land under roads (although the official communication by the AASB does not say what these issues are), and a stated lack of 'international convergence' or agreement on whether land under roads should be valued (see AASB 2006). This issue still remains unresolved despite the lapse of the December 2006 deadline, with transitional arrangements being extended (see the proposed standard AASB 10XY on dealing with land under roads in AASB 2007a: 5).

In the UK, the problems arising from the inconsistencies in accounting policy could, in part, be attributed to the divergent approaches taken by the UK's various public and private sector professional accounting bodies. Ellwood and Newberry (2007: 558–9) show that while the ASB had rejected the matching concept (and by implication, current cost valuations), other public sector accountants (notably HM Treasury for central government) had retained and adopted current cost valuations. Such issues are significant, as UK government officials have traditionally emphasised the importance of WGA in engendering an inclusive and more consistent form of accounting, with desired knock-on benefits for processes of asset management not only within central government, but also across the public sector. As Paul Boateng made clear when he was Chief Secretary to HM Treasury: 'Including public sector bodies beyond central government is essential to achieving the full benefits from WGA. In particular, it will improve the overall management of essential public assets such as schools, roads and hospitals' (HM Treasury 2003).

Defining the scope of WGA – the consolidation boundary and governmental liabilities

Another accounting dimension that has proved problematic in the UK has been the WGA consolidation boundary. According to IAS 27, para. 4 (IASB 2003), control is defined as 'the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities'. The government has faced pressures to account for the liabilities of former public sector companies that are now privatised but that still have a government guarantee to maintain their existence. In the case of Network Rail, HM Treasury has argued that the C&AG's interpretation of control is problematic and emphasised that the government does not have operational control over Network Rail. On this basis, it concluded that Network Rail should not be consolidated.⁸ In relation to local government, HM Treasury (2005b: para 5.5) has argued that it should be consolidated because a large proportion of its assets are funded by central government. To do otherwise would mean that central government accounts would record a large outflow, with no corresponding asset appearing on its balance sheet. HM Treasury (2005b: para 5.5) has argued that local government accounts should be consolidated because a large proportion of local government assets are funded by central government. Such consolidation is not unproblematic, however, as (under IAS 27) it implies central government control of local government, and thereby appears to conflict with the settled understanding of the separate roles and responsibilities of central and local government as set out in legislation.⁹

Alternatively, if it is acknowledged that all tiers of government are providing public services, then there are grounds for suggesting that a consolidated accounting view of the provision of such services should include all such tiers – and the various organisations providing such services through Private Finance Initiative (PFI) schemes. In relation to such schemes, however, HM Treasury has steadfastly refused to accept that the government controls the private companies running these schemes, despite the annual insistence of the NAO since 2001 that they should have been included on the government's balance sheet

8. An interviewee from the Office for National Statistics, with a detailed involvement in the Network Rail debates, supported such a view. This interviewee argued that Network Rail should not be consolidated, because HM Treasury does not have the power to dictate policies across the group that is being consolidated.

9. Although questions can be raised over the extent of any claimed local government independence given its high financial dependence on central government. Indeed, the constitutional implications for local government of WGA reforms have already been raised in countries such as New Zealand (Newberry and Pallot 2006).

(see C&AG 2007: paras 3.22 and 3.27).¹⁰ The scale of 'debt' being assumed under PFI schemes continues to be a central concern for those involved in WGA implementation, with the C&AG in 2006 stating that the WGA accounts are likely to be qualified owing to the high level of off-balance sheet financing by the government (including PFI projects for both the health and local government sectors, as quoted in Treasury Committee 2006: para. 48). The C&AG has argued that the risks associated with such projects are not fully transferred to private sector bodies and thus the government should record the expenditure commitments as part of its (longer-term) debts in the balance sheet. HM Treasury has responded that this is unrealistic and emphasised that any such qualifications would not significantly affect the WGA development, as individual accounts are qualified on a frequent basis anyway (Treasury Committee 2006: para. 48; see also C&AG 2006: paras 3.62–3.64).

To reconcile these differences, the C&AG (2007: para. 3.27) has stated that a joint committee, comprising HM Treasury, the NAO and the Audit Commission along with major private sector accounting firms, will work towards an agreement on amending/withdrawing HM Treasury's own interpretation of PFI accounting that allowed some PFI bodies within local government and the NHS to be classified off-balance sheet (HM Treasury 1998b). FRAB has called for the government to consider changing the criterion for classifying PFI on the government's balance sheet, from one based on an assessment of risk and rewards to one based on control, whereby a body has to include the PFI infrastructure on balance sheet if it is deemed to control it, under the proposed IFRIC 12 (FRAB 2007a: para. 2.13).

Ellwood and Newberry (2007: 566, para. 1) note that the Code for Fiscal Stability 'does not take into account the impact of finance leases on public sector net debt as the impact cannot be accurately estimated [by the government]'. Significantly, such levels of uncertainty do appear to be having some influence on the probable use of WGA-related data. As noted earlier, Gordon Brown, then Chancellor of the Exchequer (now Prime Minister), implied in 2006 (see Treasury Committee 2006: para. 51) that the figures produced using WGA would not feature in certain key governmental economic policies, such as the sustainable investment rule (one of the components in the Code for Fiscal Stability) without further review of the fiscal limits imposed by the rule. This was despite claims made in earlier HM Treasury publications that WGA would help underpin the Code for Fiscal Stability.

10. Academic analyses on this topic tend to be supportive of the stance taken by the NAO. For example, Hodges and Mellett (2004, 2005) conclude that PFI projects are effectively long-term lease financing schemes from which the government cannot extricate itself without suffering punitive costs and, thus, are required to be shown on the balance sheet. Froud (2003) argues that PFI projects could not fully transfer all risks from the public to the private sector without limiting the ability of the public sector to respond to unanticipated events.

Learning from previous experiences?

The accounting problems and definitional issues discussed in this report are not unique to the UK. Both Australia and New Zealand reported experiences of similar problems. For instance, in New Zealand, the Treasury had to counter concerns that the claimed accuracy and usefulness of the Crown financial statements would be undermined by accounting difficulties encountered in the valuation of infrastructure, community and heritage assets and with the valuation of liabilities such as pensions (see Pallot 1994, 2001). Pallot (2001) notes that managers had not consistently recorded the procedures or methods used in valuing their assets and liabilities – leading the NZ Audit Office to insist that departments develop appropriate systems and prepare reports that gave full disclosure of any problematic areas to Parliament.

In Australia, the debate over the recording of government assets such as heritage, cultural and community assets has focused on the appropriateness of the asset definition, whether such assets can be accurately valued, what valuation basis is appropriate, and what benefit this information is likely to provide (eg Carnegie and West 2003, 2005; Carnegie and Wolnizer 1995, 1997; Hooper et al. 2005). Recently, Wise (2006) undertook a review of (Australian) WGA reports for the 1999/2000 and 2003/4 financial years with a view to understanding valuation issues concerning WGA, and found that there were significant inconsistencies and omissions in the reporting of public assets and obligations on the WGA balance sheet. Some critics argue that many public assets are not only unlikely to have a market value but are also unlikely ever to be sold off – suggesting that any estimated market valuations are going to have little informational value to a user. Others claim that the cost of valuing such assets is likely to be exorbitant and well in excess of the benefits gained by valuation/balance sheet inclusion (see Wise 2006). Advocates of WGA, however, suggest that putting such assets in the balance sheet helps to ensure that managers are kept accountable for their maintenance – with their main concern being to develop a more consistent and conceptually defensible approach to valuation (see Hone 1997).

One of the most debated and controversial issues surrounding the preparation of WGA in Australia and New Zealand has been over definitions of control – especially regarding whether bodies such as universities, charities, schools and hospitals should be included in WGA consolidations (see Miley 1999; Miley and Read 2000; Wise 2006). Discussions have concerned whether any such inclusion should be based on the degree of funding provided by the national or federal government or whether more specific reference needs to be given to the legislation governing such institutions (in order to judge the level and nature of governmental control and the material impact of not including any such entities in the consolidation process: see Barrett 2001). In New Zealand, attempts have been made to eliminate any confusion over the boundaries of the Crown entity by amending the definitions to include 'all property over which the Crown (central government) holds ownership rights' (Pallot 1994). This has been interpreted to include sub-entities and other items relating to the

Crown, including departments, Office of Parliament, state-owned enterprises, Crown entities, Ministers of the Crown, Reserve Bank of New Zealand, Government Super Fund, and the New Zealand Super Fund (New Zealand Treasury 2007).

In summary, this sub-section has considered claims that the production of WGA will improve government accountability through enhanced accounting transparency, and has identified three key problem areas. These are the consistency of accounting standards used across the public sector, definitions of control, and the scale of the consolidation boundary – with experiences in the UK, Australia and New Zealand having shown that such issues have proved difficult to resolve in practice, with direct implications for achieved levels of transparency.

IMPROVING FINANCIAL MANAGEMENT ACROSS THE PUBLIC SECTOR

A third key claim for WGA is that it will improve the quality of public sector financial management. This has been something of a problematic matter in that the capacity for the highly aggregated information produced by WGA to be used at a departmental or individual organisational level is clearly limited. That said, various interviewees spoke of WGA as having proved to be a useful vehicle for reinforcing a series of related accounting reforms, including the National Asset Register (HM Treasury 2007b), the Combined Online Information System (COINS) and RAB – although, in itself, it did not necessarily provide additional useful information benefits for government departments:

WGA tends to be a Trojan horse for getting things changed...the emphasis is on good financial management [from which] good financial reporting follows and good accountability follows. (HM Treasury interviewee)

I don't see WGA itself being a particularly helpful thing. But to get to WGA, you have to have RAB produced on an absolutely correct basis, and so that is the benefit of it. (Audit Commission interviewee)

The financial management reviews are beyond the WGA programme...But if you see it from the [perspective of the Head of the Government Accountancy Service], it is all her problem and she sees it as one project or programme. That is exactly what we are trying to get people to do, which is to improve their cash flow management as part of their financial management but in an individual body balance sheet management context. In addition, they also need to think about the non-financial risks and join the financial management reporting up with non-financial management.... One of the things that WGA is making the departments do is to get creditors' and debtors' records correct. They never bothered before, even once RAB was up and running. But, they can't do [prepare accounts] without having a proper creditors' and debtors' ledger. (HM Treasury interviewee)

In addition to improving government financial reporting and management, interviewees expected that WGA would

improve the comparability of public entities through the centralisation/harmonisation of accounting functions.

[COINS and the agenda to investigate convergence between GAAP and National Accounts is] probably one of the driving factors behind the WGA, and there is quite a lot more close work between ONS and the Treasury in terms of data exchange and revision. (HM Treasury interviewee)

Now, of course, WGA is in a sense a convenient big driver in [pushing for bodies to harmonise their reporting dates], because if WGA is to be prepared, it can only be prepared on the underlying resource accounts of the ODPM and the Department of Health. In turn, they have to rely on every local authority and trust. So, that is quite a big driver, actually. (Audit Commission interviewee)

Some local government interviewees also suggested that WGA is improving the financial communications between local government and central government (including processes of recognising and measuring inter-entity transactions).

[Producing WGA] is a bit of a task. However, we do see at least some spin-off benefits here. One of the things that we're being positive about is actually ensuring that we do have that central capacity whilst at the same time ensuring that...[we link] what we do in here to what happens out there in departments. It is about getting the balance right; the thing we were really interested in was WGA and our accounts. We have become quite alienated from out there but likewise we know that, [we must] make sure we can do the accounts, make sure that they are done properly, and make sure they link in with the returns. We do see them at the heart of good governance throughout the council. If you get those basic building blocks in place...you have a sound basis to build on, otherwise you can build up all these information flows but unless, at the end of the day, your accounting is sound, you fall apart.

This centralising tendency with respect to accounting information is not without risk. For example, there are those (eg see Jones 2003) who have argued that, conceptually, governmental budgeting and (statistically based) national accounting systems are underpinned with fundamentally different user perspectives from those of external financial reporting and accountability systems. Such differences in perspectives represent a key reason for the divergence in the traditions and methods of accounting across such systems and represent a significant challenge for the UK government to overcome with reconciliation and integrating projects such as COINS. In addition to these conceptual differences, there are also concerns about the ability of consolidated bodies to provide the data within the required timescales. For example, the C&AG (2006: para. 1.9; 2007: para. 3.7) has reported that, despite the significant advances made, the government has still yet to achieve the prerequisite standards. Issues identified by the C&AG (2006: para. 1.94) include:

- poor timeliness, whereby too many bodies still fail to submit their accounts to HM Treasury on time
- continuing problems in eliminating inter-entity transactions
- incomplete information on some pension schemes, leading to concerns about the accuracy of reporting with regard to pension liabilities.

The elimination of inter-entity transactions has proved to be a continuing problem, not just in the UK, but also in countries with more experience of WGA reforms, such as Australia and New Zealand (see Barrett 2001; Miley 1999). Barrett (1997) notes that during the development of WGA in Australia, many of the agencies being consolidated were not operating with systems that were designed to collect such information – partial recording of the initial transaction made any elimination process essentially problematic.

On a more positive note, in interview, some UK local government officials did suggest that the process of implementing WGA reforms has provided the impetus (if not the incentives) for timelier reporting. In this respect, the harmonisation of reporting dates was seen to be central to any improvements in the comparability of information and the ability to benchmark. While it is too early to draw conclusions as to whether other organisations across the public sector will reap similar benefits, such interviewees were certainly encouraged by their experiences to date.

There have been some real benefits in terms of providing a bit of a focus. It's fair to say that in local government, on the finance side, the budget has always had a greater focus and the actual accounts have been seen as a very technical exercise. What we have now seen [with WGA] is a greater focus on that process, particularly in terms of speeding [the reporting] up. At the very least that is then released resources so we're not spending all of our time... so we've had resource gained in terms of being able to put resources into other areas, which has been helpful.

In summary, WGA is represented as an instrument for improving financial management across the public sector. It is encouraging a gradual centralisation of public sector accounting information, through the harmonisation of accounting standards and the process of establishing a unified accounting system for public sector data (eg COINS). The experience to date in implementing and using WGA information, however, is rather mixed; some users are finding the impetus for accounting information useful, while others are still struggling with the consolidation process or with the transition process between cash-based and accruals-based accounting. While the C&AG (2008: para. 14) recently concluded that 'good progress continues to be made on what is a challenging and significant project', there also appear to be grounds for arguing that for some public bodies, WGA has been about getting them to improve their basic accounting recording and reporting practices. Indeed, the C&AG (2008: para. 3.4) report gives a clear indication of this when noting that the key issues

on which the Treasury and the NAO are continuing to work together include the number of bodies that are: 'failing to deliver within the accelerating timeframes set by the Treasury; having difficulty in identifying transactions and balances for elimination with other government bodies, distorting the overall picture of government finances; and submitting consolidation returns of poor quality, reflecting lack of appropriate supervision, appropriate resources, and prioritisation of the consolidation process'.

Furthermore, despite having completed two stages of the WGA development timetable, no WGA financial statements or supporting data have been published, with the period of delay for publication of full WGA now amounting to four years. The C&AG (2008) confirmed that the first full WGA dry run consolidation and dry run audit procedures were completed for the 2005/06 financial year but the lack of publication is something over which FRAB has regularly expressed its disappointment (see FRAB 2006: para. 1.17; FRAB 2007a: para. 3.32).

SECTION SUMMARY

The development of WGA was premised on three key claims – namely, that it would aid governmental economic policy making, enhance governmental accountability to Parliament, and improve public sector financial management. On the first claim of aiding economic policy making, there exist some significant doubts as to the adequacy of consolidated accrual-based financial accounts, both from a historical perspective and from the perceived practical value of WGA reports currently being constructed. In relation to the second claim of improving accountability and the pursuit of better governmental financial reporting, difficulties have been experienced over the lack of harmonisation between GAAP-based and statistically based accounting standards/systems and debates/disputes over the valuation bases for assets and liabilities, definitions of governmental control and the scale of the consolidation boundary. With regard to the third claim of improving public sector financial management, the main impact of WGA appears to have been not from the use of any WGA information, but rather from the disciplining powers of such a development in terms of stimulating individual government departments to improve or align their internal accounting systems with the requirements of the WGA data-collection and reporting systems. A number of the issues to arise while developing and implementing WGA in the UK have also surfaced in countries more advanced with WGA reforms, such as Australia and New Zealand. Some issues still remain problematic in these countries, but they are both able to publish WGA information on a routine basis. The scale of the consolidation being undertaken in the UK is, however, much larger and more complex than anything attempted in either New Zealand or Australia. The UK has yet to publish its first set of WGA financial statements, so questions still remain about the extent to which, for a governmental consolidation of this scale and detail, the problems and issues raised in the above analysis are 'surmountable' (as claimed by the government's initial scoping study for WGA; see HM Treasury 1998c: 3).

5. Summary and concluding remarks

This report contributes to our understanding of WGA by providing a detailed account of the UK government's development, to date, of WGA and an assessment of the extent to which the claims made for it are being met. The issues discussed in this report provide useful historical reflections on the move to consolidated financial reporting in the UK public sector. Historical analysis and contextual considerations are important for gaining an informed, broad-based understanding of the nature of such accounting systems and their capacity to deliver improved macroeconomic decision making, governmental accountability and financial management. Although the UK has yet to produce a first completed set of WGA accounts, and regularly adjusted/extended planned reporting timetables, the experiences with WGA to date give important insights on the practical opportunities available to, and the hurdles and constraints confronting, those charged with the task of implementing accounting change in the public sector.

For all the grand claims that have been (and continue to be) made about WGA, its practical usefulness does appear to be falling somewhat short, although this may change once it is fully operational. WGA's presumed capacity to improve economic decision making has been the main benefit claimed for it, yet at present it looks set to play a mainly catalytic role, stimulating improvements in accounting systems within departments, and, it is hoped, triggering higher standards of public sector financial management. Nonetheless, the lack of a clearly defined user for, and use of, WGA, has worried public sector watchdogs such as FRAB, particularly given parliamentary expectations of WGA. Further, government planners and others said to benefit from WGA have had little direct involvement in its development.

From a logistical standpoint, it is clear that the government has struggled to deliver WGA within the timeframes set, despite claims that such problems are surmountable. This will have had implications for the costs of the WGA project, although it is difficult to determine the extent of such expenditure. No such financial data are publicly available, nor has it proved possible to identify and/or access the more detailed estimates recommended in the scoping study. In practice the position is further complicated by the fact that HM Treasury staff working on WGA have also been involved in other activities, while IT expenditure similarly has been directed at a number of strategic priorities in the recording of financial data and not just at the consolidation exercise. Within the Treasury, the scale of WGA has also not been such as to warrant its being treated as a separate cost centre. Collectively, such a state of affairs could be seen as indicative of the privileged status often assigned to public sector financial management reforms in that they are not subjected to as strict a set of VFM tests and evaluations as are said to be applied to other public services (see Humphrey et al. 1993). Alternatively, it could be indicative of a project that has not proved to be as successful as the claims made for it or that has lost momentum in the face of significant operational problems and competing organisational priorities. Overall, and in light of the information in the public domain, it remains something of an open question whether the government has allocated sufficient resources to the task or whether the exercise (of consolidating more than a thousand bodies under WGA and implementing

accruals accounting and budgeting across central government only a few years before WGA's launch) has just been too big – and whether it would have been more sensible to secure a fully operational form of CGA before embarking on the wider WGA project. The longer the delays in publication of WGA financial statements, the more it is likely to be argued that the problems encountered are fundamental ones, rather than initial teething troubles or resource issues. Debates to date over the WGA boundary definitions, notions of control and the inclusion of various assets and liabilities, coupled with problems over the elimination of inter-entity balances and data-collection processes, certainly suggest that the practice of WGA will be more complex and problematic than indicated in the reports advocating its benefits and potential. Debates over asset and liability classifications might look theoretical but the amounts concerned are material and, in certain cases, will significantly raise the level of reported governmental debt on the WGA balance sheet. More generally, the findings reported here point to the need for more investigation of, and learning from, the experiences of other countries that have implemented, or are seeking to implement, WGA systems. In this respect, it is noticeable that the UK government has struggled with WGA issues that have also proved problematic in both Australia and New Zealand – for example, concerning the nature of the consolidation boundary, the scale of inter-entity transactions and the valuation and ownership of certain public sector assets and liabilities.

Although the UK did commit to a staged development process with WGA, it may well be that a more experimental implementation approach (with more limited system developments and evident, published, completion of one stage before advancement to the next stage of development) will prove to be a more appropriate best-practice norm than the path followed by the UK government. (For a discussion on the benefits of experimentation prior to committing to a new accounting system rather than experimenting as part of the implementation process, see Lüder and Jones 2003). Wildavsky (1973) cites the 'rule of the mounting mirage', whereby the promises of a reform programme become ever grander to counter the disappointment and demoralisation of experienced failures and unrealised expectations. While the WGA experience certainly started with grand claims, it would appear that expectations over time have been somewhat toned down – and that some experienced benefits have been rather more unintended than planned, in the sense that WGA has acted as a catalyst or a discipline for delivering improved accounting systems within government departments. In this respect, it looks fair to say that the WGA development process has been helped rather more by the securing of (small) practical achievements than the building up of grand, anticipated claims – although such claims clearly helped in the initial go-ahead for the reform programme. A firmer evaluation of the overall merits and 'value-for-money' of WGA awaits its publication and practical establishment as a regular system of government reporting. If, in this sense, the jury is still out on the value of WGA, it is also fair to say, on the basis of the evidence presented here, that the case for the defence (ie for advocates of WGA) is in need of further evidence demonstrating substantive and substantial operational impacts.

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