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**ABSTRACT**

November 2021 marked 10 years since the publication of the first UK Whole of Government Accounts (WGA), representing the first set of audited financial statements prepared in accordance with international accounting standards for the UK public sector. With governments around the world investing substantial resources into modernizing their financial reporting practices and systems, it is important to consider whether these changes will deliver value for money and will result in tangible benefits. As calls for further research into what public sector accounting reforms bring practical benefits, this new development article considers the usefulness of WGA, outlining what WGA makes visible, its limitations and the challenges that lie ahead.

November 2021 marked the 10th anniversary of the publication of the first UK Whole of Government Accounts (WGA) for the year ended 31 March 2010, with these being the first set of audited financial statements prepared in accordance with international accounting standards for the UK public sector. This article reflects on the UK WGA, which brings together audited financial information for central government, local government and public corporations, and considers whether it is has the potential to be an important tool for fiscal planning. Albeit with certain caveats, we contend that there are potential benefits from adopting a consolidated approach to public sector financial reporting and that governments across the world should consider this as part of their reform agenda. We believe that this discussion is particularly relevant at this time given the pressures to enhance public sector financial management in the aftermath of the Covid-19 pandemic and the need for countries to attend to the United Nations (UN) Sustainable Development Goals (SDGs).

Consolidated reporting in the UK

In simple terms, consolidated reporting combines the income, expenditure, assets and liabilities of public bodies into a single set of financial statements. While traditional measures of the financial health of a country tend to focus on debt, typically assessing it as a percentage of gross domestic product, WGA provides a more comprehensive view of public wealth. Preparing WGA is a complex task, entailing a small team within HM Treasury consolidating more than 9,000 government entities (including central and local government, the National Health Service, schools and public corporations) (HM Treasury, 2020a). Since its inception, WGA’s validity has been questioned by both the academic and political community due to the ongoing qualified audit opinions and the length of time taken to prepare and publish the accounts (Heald & Georgiou, 2011; Chow et al., 2019; Public Accounts Committee, 2021). On the other hand, it has been recognized as a catalyst for standardizing accounting policy across government (Chow et al., 2019) and is argued to provide the most ‘complete and accurate of pictures to the UK’s public sector finances’ (Public Accounts Committee, 2021, p. 4).

Realizing the importance of the public sector balance sheet

Consolidated reporting in the public sector is argued to have been triggered by the ongoing New Public Management agenda, designed to achieve a more business-like and performance-focused public sector (Hood, 1995). To date, uptake on the implementation and use of consolidated financial statements remains low, with only a handful of countries currently doing so (Bergmann et al., 2016). Unlike the private sector, the preparation of public sector consolidated financial statements differs significantly between countries. For example, Australia’s exclude local government (Day & Guthrie, 2008), whereas Italy only...
consolidates at the local level (Carini et al., 2019). At present, the UK and Estonia remain the only countries to consolidate at all levels of government (Ministry of Finance Estonia, 2018; HM Treasury, 2020a).

The UK’s WGA journey began with a scoping study in 1998. WGA has been part of an intensive 30-year accounting reform agenda designed to provide public sector accountability and financial management. Drawing on the UK WGA experience, we now focus on the potential benefits of preparing a public sector consolidated balance sheet.

**Combined with the national accounts, WGA allows for more robust monitoring of public finances**

Most governments already prepare a balance sheet as part of their national accounting processes in accordance with the System of National Accounts or the European System of Accounts (used by members of the European Union). While these systems are accrual based, they have a very different methodological approach compared to international standards such as the International Financial Reporting Standards or the International Public Sector Accounting Standards. For example, in the UK national accounts, pension expenditure is only recognized when paid, with future obligations being ignored. WGA, on the other hand, also recognizes future liabilities, which were estimated to be £1.8 trillion in WGA 2018–19 and rising (this is not including the state pension). Similarly, public–private partnership (PPP) or private finance initiative contracts are recognized in the national accounts as current or capital expenses in the year incurred (depending on the assessment of risks and rewards), whereas WGA recognizes PPP contracts as assets and liabilities based on who controls the assets (HM Treasury, 2020a). The recognition of such future liabilities (not confined to those described above) can significantly impact upon the values included in the calculation of public sector net debt (i.e. what the public sector owes) which is an important factor when setting fiscal policy. Even if governments do not wish to prepare UK-style WGA, having information on future liabilities (for example pensions and PPPs), which is currently not available given the basis on which national accounts are prepared, would be helpful in policy formulation. In the UK, evidence of this is emerging. For example, the collation of information on student loans in the WGA has facilitated debate around the potential impact of selling some of the student loans on public sector net debt and net worth and doing so would deliver value for money (HM Treasury, 2020b).

**Better management of assets**

Most government departments prepare annual reports and accounts, outlining their financial position and the assets they hold. The public sector balance sheet, on the other hand, shows the aggregate financial position of assets held, outlining what government as a whole owns (or controls). Presenting assets in the financial statements prompts questions around how they can be better managed, along with what can be disposed of, if not being utilized efficiently. WGA has facilitated this by contributing to ‘the balance sheet review’, which has recommended that incentives for better asset management be incorporated into the spending reviews and budgets for government departments (HM Treasury, 2020b). The review also motivated the creation of the digital national asset register, a central register containing the details of all government-owned property. Having the central asset register digitalized will purportedly ‘help identify opportunities for property disposal …and for release of land for public benefit such as on housing, hospitals and schools’ (HM Treasury, 2020b, p. 29).

**A deeper risk assessment of long-term liabilities**

The public sector balance sheet highlights (short- and long-term) liabilities at a whole of government level. For the UK, WGA has not only revealed previously hidden liabilities, but also has encouraged action. For example, WGA’s exposure of clinical negligence claims provisions led to an additional £9.4 million being allocated to improving maternity safety in the Spending Review 2020, along with a consultation to tackle the rising costs of clinical negligence over the long term (HM Treasury, 2020b). In addition, WGA’s exposure of long-term contingent liabilities has provided the impetus to create a new framework that outlines how to assess contingent liabilities over the value of £3 million (International Monetary Fund, 2017). While much of the contingent liabilities (£377.5 billion as of WGA 2018–19) are disclosures to the accounts, they represent a portfolio of potential risk that, if crystallized, would have a detrimental impact on the sustainability of public finances (HM Treasury, 2020a). This new framework also led to the reassessment of ‘existing’ contingent liabilities, with £9.6 billion being rejected and therefore (arguably) a more meaningful risk position being established. Further, it has prompted the need for more education and knowledge on how to quantify risk and reduce the probability of risk materializing (HM Treasury, 2020c).

**Caveats and opportunities**

UK WGA is innovative and unique in terms of its scope, coverage and application. While ambitious, it remains problematic in its current format. Preparing a public sector balance sheet is both logistically and technically difficult. For countries seeking to pursue consolidated accounting, careful consideration is needed to determine the consolidation boundary (i.e. the entities deemed to be ‘controlled’ and therefore consolidated), much of which will be dependent upon the structure of government (Bergmann et al., 2016). If countries wish to adopt a whole of government approach, similar to the UK or Estonia, it is essential to apply a standardized conceptual framework, including chart of accounts, and harmonize deadlines for the preparation of audited financial statements across the whole public sector.

The timeliness of the publication of UK WGA continues to be questioned, raising concerns about the usefulness of the information (Public Accounts Committee, 2021; Stewart & Connolly, 2021), with part of the problem being deemed to be obtaining information from local government. The timetable remains significantly more than the two to three months typically taken for multinational listed companies to produce audited financial statements, or the five to six months taken by New Zealand, Canada and Australia (albeit...
these do not incorporate local government). The UK Comptroller and Auditor General has expressed concern that a myriad of variables, including staff shortages and a lack of skilled audit staff, is delaying the information reaching HM Treasury and subsequently the consolidation process (HM Treasury, 2020a). In addition, at the time of writing (January 2022), the 2019–20 WGA had not been published, the cause of which was attributed to Covid-19 and the implementation of a new computerized system. If successful, WGA 2019–20 will be the first set of consolidated accounts prepared largely on an IT basis (Public Accounts Committee, 2021).

The original intentions of WGA were to contribute to the setting of fiscal policy (HM Treasury, 1998). To date, this has not been possible due to the length of time taken to prepare WGA. It is currently published 15 months after the year-end, thereby reinforcing the need for having the national accounts as the means to facilitate short-term fiscal policy. WGA’s true potential comes from what can be learned for the long term. It took almost 10 years for the UK to conduct a balance sheet review and, despite the ongoing issues of timeliness and usefulness, evidence that WGA is starting to be used is emerging, albeit slowly. The efforts of HM Treasury must be commended for producing such a detailed, retrospective view of public sector finances at a whole of government level. Moving forward, HM Treasury has an opportunity to extract information that highlights key policy issues, such as the existing and likely future costs of climate change initiatives across government and how SDGs are being met. This is in addition to the Public Accounts Committee’s (2021) recommendations to outline how taxpayer’s money has been used to tackle cross-government initiatives, such as the cost of exiting the European Union and the cost of the Covid-19 response. The risks faced because of Covid-19 and climate change are unprecedented and, while a consolidated public sector balance sheet is not a panacea, the UK is in the privileged position of being able to reflect on its experience with WGA, including the outcome of the ‘balance sheet review’ (HM Treasury, 2020b), with it being possible to consider ‘what works’, what information is still needed and how the preparation of WGA could be enhanced. Further research that examines the benefits and difficulties of preparing public sector consolidated financial statements, together with how the information is used is needed, especially given the need to deal with the challenges and information requirements arising from Covid-19 and the UN SDGs. For example, research that draws on the views and experiences of various stakeholders, including public sector accountants and oversight bodies, elected officials and private sector consultants who have been involved in the implementation of accounting reforms, could be advantageous and provide valuable insights.

**Disclosure statement**

No potential conflict of interest was reported by the author.

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