

WGA – The ‘Wholly’ Grail of Public Sector Accounting?

For many not directly involved in public sector financial reporting the move to International Financial Reporting Standards (IFRS) for all public sector entities must feel like finance colleagues creating another self-generating, cottage industry. Shadow accounts, restated balance sheets and further audit reviews leading to the holy grail of WGA (Whole of Government Accounts) seem curious distractions at a time when the public sector is facing huge funding challenges.

It is perhaps an apposite time, therefore, to reiterate why such significant changes in financial reporting are taking place.

The reasons for the adoption of IFRS and those for preparing WGA are different but, in overall terms, they have the same broad principles behind them i.e. consistency and comparability. IFRS have now been accepted across most of the developed world as a set of appropriate standards for financial reporting. In the commercial sector this has become ever more important with the globalisation of capital markets. But it is also important that public sector entities report under these accepted standards to promote comparability between organisations and across sectors.

The consistency and comparability arguments also hold true for WGA. The original stimulus for WGA came in a Treasury scoping study in 1998 and the reasons still hold true today. Firstly, consolidation of public sector organisations into one set of accounts provides an overview of the financial state of the UK government and makes comparisons with other fiscal data possible. Given the greater interaction between public bodies, for example, shared service initiatives and partnership arrangements, such an overview has grown in importance.

Making informed comments on changes in the net worth of the UK government should also be possible once a history of WGA accounts is available. This will mean, for example, the full underfunding of public employee pensions can be tracked as will the government's pledge to make sustainable investment into physical and social infrastructure. The adoption of IFRS across the public sector will also bring consistency in the treatment of PFI and other PPP contracts. In general, many of the schemes will be brought finally on the public sector balance sheet, a development welcomed by most practitioners and commentators.

The WGA process has also brought an improved level of discipline to financial reporting within the public sector. In the past, some departments and government bodies have been notorious for the length of time they have taken to finalise accounts. Fiscal decision making has been made far more difficult given previous year figures have not been finalised. The disciplines of WGA have brought a significant improvement in the timeliness of public sector financial reporting.

But the full realisation of the benefits coming from WGA remains theoretical. The 1998 scoping study envisaged the first full set of WGA being published in 2005/06. This original target came and went. The most recent timetable is for 2009/10 accounts to be published probably towards the end of 2010. Given that local government will move to IFRS in 2010/11 – a year later than central government and the NHS – it is quite possible that this will be given as a reason for further delay. Issues such as ensuring consistency between local and central government in the valuation of the road network remain outstanding and may hold back publication.

That this whole process will have taken over 10 years to complete is testament to the complexity of the task. However, many commentators believe that at least some of the delay has been caused by political stalling due to concern that the picture painted by WGA of government finances would be portrayed as poor within the media. And, if this has really been a reason over the last 10 years, just think how much worse the future position will be as a result of the bank bail-outs!

The WGA initiative has the potential to deliver real benefits and the efforts of finance practitioners up and down the country have been significant in bringing us to the current position. Whoever is in government next year will be faced with a long and difficult agenda of issues. Notwithstanding these challenges, it is imperative that a real commitment is given to the earliest publication of WGA. The alternative is that this initiative loses all credibility in the eyes of practitioners and the rest of the public sector.

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