Whole of government accounts developments in the UK: conceptual, technical and timetable issues

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When published, the UK's much-delayed whole of government accounts (WGA) will provide valuable incremental information on UK public finances. The WGA will complement existing fiscal indicators such as net debt, which excludes public assets other than liquid financial assets, by establishing a more complete picture. Emphasising the relevance of accounting consolidation to the public sector, this article assesses potential uses of WGA and discusses why the UK WGA timetable for publication—originally 2005–06 and now 2009–10—slipped so badly. A series of conceptual and technical issues is examined, including how the WGA boundary is defined; the emphasis the UK places on alignment with the national accounts; and the proposed treatment of taxes paid by entities within the WGA consolidation.

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> *A true and fair view is even more important to the operation of democracy than [to] the functioning of markets* (John Kay, 6 August 2008).

The 1995 decision of the UK government (Treasury, 1995) to adopt accruals accounting in central government focused on government departments which had lagged behind in the adoption of GAAP-based accounting in nationalized industries (from nationalizations in the 1940s) and in executive Non-Departmental Public Bodies (NDPBs) and executive agencies (typically late 1980s and early 1990s). The arguments used in favour of this move related to microeconomic efficiency (for example greater comparability across government and with the private sector, thereby stimulating higher cost efficiency and better budgeting) and public accountability (reporting to parliament, the public and users).

The UK Treasury made great efforts in the mid-1990s to secure the support of parliament, implicitly to avoid the long-timescale Resource Accounting and Budgeting (RAB) project being derailed by a change of government. The 1997 election of the Labour government brought reaffirmed commitment to the 2001–02 timetable for accruals-based departmental estimates and accounts, followed by the scoping study timetable for Whole of Government Accounts (WGA) (Treasury, 1998). Thereafter, Treasury pronouncements about RAB placed emphasis on the macro-fiscal context of fiscal transparency and fiscal rules, and on how accruals accounting fitted into the 1998 public expenditure control framework which aligns to the national accounts. Given this new emphasis, WGA would contribute—albeit in a sketchily outlined way—to better fiscal policy and to greater fiscal transparency.

The present timetable is for WGA to be published for 2009–10, the first year of reporting by UK central government on the basis of International Financial Reporting Standards (IFRS). It should be noted that, given the EU's endorsement mechanism, it is possible that the EU-endorsed IFRS may differ from those adopted by the International Accounting Standards Board (IASB). Moreover, the lag between the time an IFRS is adopted by IASB and the date at which it is endorsed can be substantial. The Treasury has prepared the IFRS version of the Financial Reporting Manual (I-FReM) (Treasury, 2008a) and the Financial Reporting Advisory Board (FRAB) has approved it. The FRAB has adopted an operating philosophy of minimizing adaptations from UK GAAP and the same approach has carried over to IFRS; there have to be good *accounting* reasons why the public sector should adapt IFRS. Budgeting is an important reason for having interpretations (often meaning narrowing available options). If adaptations and/or interpretations are included in other chapters of I-FReM for departmental accounts, these are normally carried forward to WGA. Relatively few additional adaptations and interpretations have

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been made at the WGA level.*

Significantly, financial reporting and national accounts have developed along procedurally different and substantively distinct paths (Jones, 2003). Although national accounts statisticians use data from financial reports, they represent a distinctive epistemic community with their own traditions, values and professionalism. Importantly, national statistical institutes are part of their respective governments and their employees are civil servants, albeit with variably-effective governance structures to safeguard statistical independence. Revisions to national accounts standards are matters of governmental negotiation at an international level: this arena is markedly different from that in which the IASB operates. Given that macroeconomic policies and obligations generally depend on national accounts definitions, the relationship of WGA to national accounts aggregates is of both research and policy interest. If there is not a 'clear line of sight' from WGA to national accounts aggregates, the practical impact of the former on policy formation and fiscal surveillance will be greatly reduced.

This article examines justifications for consolidated financial reporting in the public sector, and evaluates UK experience thus far. It concludes by raising some generic issues that may have relevance to other countries' experience. Its relevance to developments in practice and to research about practice is two-fold. First, the move of government accounting to accruals initially relates to the entity level, but such is the policy importance of aggregate measures that complex issues must be confronted regarding the criteria that determine the scope of consolidation. This has historically been troublesome in the private sector, even without the ambiguities that attach to control in the public sector. Second, the article explores the relationship between financial accounting standards (to which the UK government has committed itself through the adoption of IFRS) and national accounts standards (to which it is committed by international obligations). Differences in such standards, and in the way in which they are applied, have implications for the numbers that are generated. Moreover, in part for reasons of budgetary management and in part for presentational purposes, the statutory requirements that govern the preparation of WGA depart from both IFRS and the European System of Accounts (ESA 95) (Eurostat, 1996), referring not to 'control' but to 'public nature' and dependence on 'public money' (Government Resources and Accounts Act 2000, section 9[1]).

*Adaptations occur when the required accounting treatment diverges from IFRS. Interpretations occur where IFRS requirements are translated into public sector terminology and/or where choices of accounting treatment available in IFRS are narrowed for reasons of consistency across the public sector.

Justifications for consolidation in government accounting

In 1994 and 1995, academic and professional commentators criticized the way in which the departmental boundary was established by Treasury fiat rather than by reference to accounting standards. The Treasury resisted arguments in favour of expanding the departmental boundary (for example to include trading funds and executive NDPBs) and of producing WGA. A pragmatic defence of the departmental boundary was that the move to accruals for both accounting and budgeting was very demanding, especially for large and complex departments, and that further consolidation could wait. Consequently, the 1998 scoping study (Treasury, 1998)—announcing the timetable for the Whole of Central Government Account (WCGA) and WGA—represented an important shift in the Treasury's public position. The WCGA would be a consolidation of the central government sector, thereby a sub-consolidation of the WGA which would also include local authorities and public corporations.

Justifications for consolidation must be based upon the benefits it can deliver, in comparison with the alternatives of no consolidation or of recourse to other accounting tools such as disclosure. First, one element of New Public Management (NPM) is that it fragments the public sector into smaller organizations. Such disaggregation is claimed to bring both efficiency and accountability benefits. However, it does not remove the need to see the broader picture; indeed, it increases the importance of formal methods of re-aggregation (i.e. consolidation), both for overall system control and for public accountability. This is especially the case when funding flows become more complex, as with purchaser-provider separation. Delineating what is public and what is private has become a technically complex task, aggravated by the temptations facing governments to position activities on the presentationally-best side of whatever definitions are in force. Moreover, tensions arise about how to treat organizations on the fringes of the public sector (for example universities, housing associations) where the desire for them to have autonomy for efficiency and accountability reasons may conflict with macroeconomic concerns about their borrowing and debt.

Second, there has been widespread concern in the past 25 years about changes in the net worth of UK government. Public debate in the 1980s and 1990s was stimulated by controversies about the sale of state assets. The Treasury then treated privatization proceeds as negative expenditure, rather than as a means of financing the deficit. Moreover, assets were often disposed of at heavy discounts and with large transactions costs. There will be cases in which privatization at market value will improve government net worth, as when the private sector uses the assets more efficiently and the present value of the resulting gains exceeds transactions costs. Asset sales in this vein would represent a beneficial readjustment of the government's asset portfolio. Attention to government net worth increased markedly after the change of government in May 1997. The incoming chancellor of the exchequer committed the Labour government to observe the 'golden rule' (the current budget will balance over the economic cycle) and the 'sustainable investment rule' (net debt will not exceed 40% of GDP). The Code for Fiscal Stability was given statutory force in the Finance Act 1998. A National Asset Register was produced and Budget documents paid much attention to the dramatic deterioration of public sector net worth during the 1990s. Some of this was political knockabout at the expense of the previous Conservative government, but there was substance in concerns about physical and social infrastructure. More recently, the issue of government liabilities, particularly unfunded/underfunded public sector employee pensions and nuclear decommissioning liabilities, have attracted comparable attention to that earlier paid to assets.

While accruals accounting provides an opportunity for better tracking of government net worth, this will only be realized if there is sufficient consolidation to provide an overall picture. Otherwise, the 'moons and satellites' outside the departmental boundaries (Heald and Georgiou, 2000) make it impossible to have a coherent overview. An important difference between the private and public sectors is that it is much more difficult to pin down the relevant public sector objective function in quantifiable terms; shareholder wealth maximization is a coherent objective for a private company, whereas maximizing either total or per capita public sector net worth makes little sense and runs counter to worldwide trends towards a reduced role for the 'production state'. Given the valuation issues relating to some of the assets and liabilities typically held by government, WGA will only ever be one of the building blocks used to assess public finances. It is quite possible that one of the principal benefits of WGA will be that it legitimates a set of questions which governments could previously ignore. Trends that appear from multi-year data—for example, in relation to changes in net worth relative to GDP—are likely to be more informative than annual ratios; this is a consequence of the valuation issues affecting both assets and liabilities.

Third, the fact that an entity's accounts will be consolidated into, say, those of the parent department and then into the WGA has toughened accounting discipline about reporting deadlines. Several parts of the UK public sector had poor records of timeliness: the Treasury's 'Faster Closing' initiative (Treasury, 2003a) has had success in bringing forward the laying of most resource accounts to before the start of the parliamentary recess in late July. In the past, long audit lags have led to significant revisions to data—particularly in relation to local authority expenditure and financing—used for UK fiscal policy decisions. Moreover, the fact that there will be WGA from 2009–10 works in favour of stopping the off-balance sheet treatment of Private Finance Initiative (PFI) assets, in particular by National Health Service (NHS) bodies and local authorities. Whereas the comptroller and auditor general (C&AG) is not the auditor of local authorities nor of most NHS bodies, the external auditor role in relation to WGA allowed the then C&AG to indicate publicly that consistent treatment of PFI assets would be an important audit issue (Bourn, 2006).

UK developments

Timetable delays

From the vantage point of 1998 (scoping study) and 2000 (Government Resources and Accounts Act 2000), it would seem remarkable that no UK WGA has yet been published (Chow *et al.*, 2007). The WGA project was then scheduled to be completed for financial year 2005–06. The present timetable is for the publication of WGA 2009–10, with the end of 2010 seeming a likely publication date. This timetable may depend on the success of the 2009–10 conversion of department and other resource accounts from UK GAAP to IFRS, in terms of both timeliness and the absence of significant audit problems at major departments.

It is difficult to weight the relative importance of different factors behind delays, but the following five appear to have been important. First, the Treasury met its 1995-set schedule for switching from cash to accruals for departmental reporting in 2001–02, defying sceptics who had doubted whether a UK government could retain commitment to such an initiative over a seven-year period. There is no evidence of comparable drive behind WGA. Departments may have concluded from all the delays that WGA is not a high priority for the Treasury. If they sensed that the WGA project had lost steam, this would affect their own commitment and may in part explain the inadequate consolidation returns from departments that have led to more dry runs than originally intended.

Second, a ministerial decision was taken not to publish WCGA, whose publication for 2003–04 had been part of the original timetable. The WCGA would have had a dual role: valuable in itself as covering the areas of financial responsibility of central government, and valuable as a staging post for the WGA. The stated justification for non-publication is that the WCGA would present a misleading picture. The most likely explanation is that the WCGA was thought to portray UK public finances in a much less favourable light than Treasury ministers wished. Albeit an over-simplification, UK local authorities have high asset values whereas UK central government has large liabilities. At the time of the Pre-Budget Report and Budget, the Treasury publishes volumes of policy and technical materials. If it had published the first audited WCGA among such documents, together with a good technical explanation, only a few commentators would have noticed. By refusing to publish WCGA and dry-run WGAs, the government has made it more likely that eventual WGA publication will be adversely portrayed in the media.

Third, the WGA project was overshadowed by other developments. It represented unfinished business in relation to the 2001–02 adoption of accruals accounting in UK central government. Given the decision not to publish the WCGA, the WGA needed to be published before the switch from UK GAAP to IFRS. The revised timetable of 2006–07 was derailed by the March 2007 announcement that IFRS would be adopted for 2008–09 (later revised to 2009–10). A decision was taken not to publish WGA on a UK GAAP basis on the grounds that this would be burdensome on departments and confusing to users. The cumulative effect is that, instead of the first published WGA being prepared on the basis of UK GAAP (in use since 2001–02), the 2009–10 WGA will be based on IFRS in the first year of application. The anchor of UK government accounting moving to IFRS has therefore compounded the effect of earlier delays.

Fourth, the WGA project may have suffered from limited resources relative to its size and complexity. Moreover, delays make it more likely that there is staff turnover, with consequent damage to continuity. If the Treasury is really serious about a project, it can throw resources at it. If the skill resources were not available internally, it could have outsourced some of the WGA work to large private audit firms with experience of complex consolidations. Sometimes projects can be killed off by inadequate resourcing. In the WGA case, it is more likely that the low resourcing reflected the relative priorities of Treasury senior management. Setting an example to other departments by delivering efficiency savings in administrative costs—even in the presence of huge cumulative underspends (Treasury, 2008b, table 6)—figured more prominently.

Fifth, the political and fiscal context changed dramatically during the period from when WGA should have been published (late in 2006 for 2005–06) to the present (early 2009). It is difficult to establish any precise link between broader developments and WGA delays, but the context is important as backcloth. What is widely regarded as manipulation by the Labour government of the fiscal rules—for example by fudging the length of the economic cycle over which they have to be met—has caused credibility damage. The present climate may not be seen as conducive to putting complex new information into the public domain that might be used to criticize the government's fiscal management. The Treasury wrote to one of the authors on 19 August 2008, after having conducted an internal review of its earlier decision not to release completed WCGAs and WGAs under the provisions of the Freedom of Information Act 2000. The grounds for this refusal were that premature release would risk damage to the 'financial interests of the UK'. Those interests might also be prejudiced by explaining the nature of the potential damage (Treasury, 2008c, paras 15 and 22).

Notwithstanding these delays, non-publication of the UK WGA does not involve breaking any statutory duties. The Government Resources and Accounts Act 2000 provides that 'The Treasury shall by order specify dates by which the duties [including laying before the House of Commons]…shall be performed' (subsection 11[6]). The WGA timetable means that publication is delayed until after the next UK election due by mid-2010, with three elections having taken place between the scoping study and actual publication. In that context it might be published 'quietly', so as not to attract attention, or amidst ministerial rhetoric about a new government's rotten fiscal inheritance.

Unpublished progress

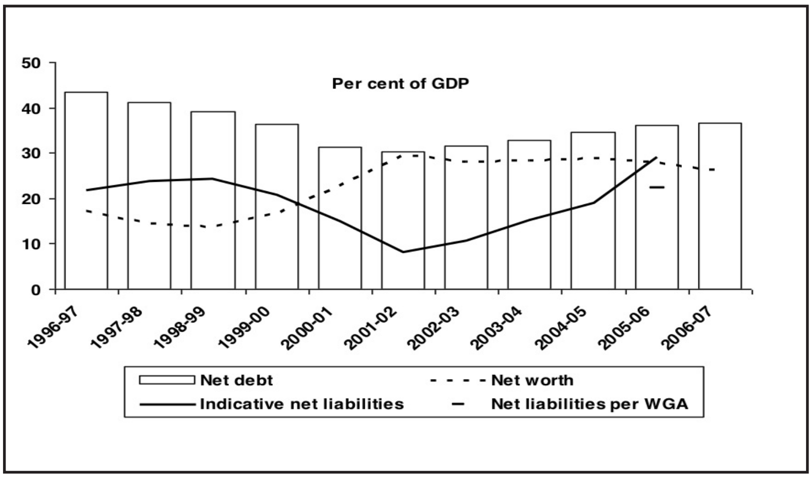
The availability in the public domain since January 2005 of the agenda, minutes and working documents of FRAB has allowed access to information on WGAs that would not otherwise have been released. The Treasury (2007a) noted that 'The [2005–06] dry run accounts were quicker, more complete, more comprehensive and of better quality than previous years' (para. 6). Issues raised by the National Audit Office (NAO) 'were individually immaterial at WGA level [but] they did raise issues for WGA', particularly with regard to movements on reserves and intra-group transaction streams and balances. In October 2007, when Treasury (2007a) was written, it was too early to comment on the 2006–07 dry run, though the different tasks facing sub-consolidating departments, stand-alone departments and pension schemes were mentioned.

As expected, bringing local authorities into the WGA has proved a difficult area: local authorities are not as well integrated into the statistical reporting system as NHS bodies and considerable differences remain between central government and local authority accounting. The governance frameworks for accounting regulation are converging and local authorities will move to IFRS in 2010–11, one year later than central government and the NHS.

The only published results from the WGA project appeared in a companion document to the March 2008 Budget, the Long-Term Public Finance Report (Treasury, 2008d). From figure 1 it is possible to derive the only number that has emerged into the public domain from the WGA project. This indicates that the 2005–06 WGA would show negative net assets (here labelled as net liabilities per WGA) of 22% of GDP (Treasury, 2008d, p. 34); 2005–06 is the only year for which net liabilities per WGA are plotted in figure 1.

As well as the 2005–06 data point for net liabilities per WGA, figure 1 shows time series for net debt (a key fiscal aggregate) and for two broader measures (net worth and indicative net liabilities). Of the four fiscal indicators in figure 1, net worth is positive whereas the other three are negative. Indicative net liabilities are unaudited and largely derived from the national accounts, but currently serve as a proxy for WGA

Figure 1. Public sector net debt, net worth and indicative liabilities. (Source: Treasury, 2008d, p. 34.)



net liabilities which are based on audited financial accounts. The WGA will therefore have confirmatory value as well as improving the data sources for the national accounts. Given that indicative net liabilities are only a proxy, figure 1 plots three conceptually distinct fiscal indicators.

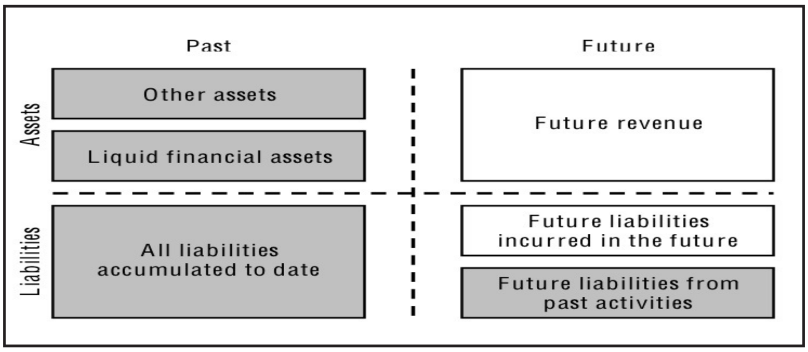
Figure 2 (Treasury 2003b, p. 20) can be used to explain the relationship between these fiscal indicators. This portrays assets and liabilities as rows and 'past' and 'future' as columns:

- Net worth represents the difference between total assets (the sum of liquid financial assets and other assets, top left quadrant of figure 2) and all liabilities accumulated to date (bottom left), reflecting the fact that debt incurred in the past has contributed to the financing of assets held today.
- Net debt consists of all liabilities accumulated to date (bottom left) less liquid financial assets in the top left quadrant.
- Indicative net liabilities is net worth (as above) plus future liabilities from past activities (bottom right), using statistical estimates from the national accounts because full sets of entity financial reports are not available.
- Net liabilities per WGA is conceptually the same as indicative net liabilities but is fully underpinned by financial accounts.

As a result of their different coverage, these indicators may create different impressions about fiscal sustainability; for example, net debt incorporates the liabilities of banks that meet the Office for National Statistics (ONS) criteria for control by government, but excludes bank assets other than liquid financial assets.

The WGA balance sheet includes all government assets, all liabilities accumulated to date and future liabilities from past activities

Figure 2. Accruals based balance sheet. (Source: Treasury, 2003b, p. 20.)



(i.e. all shaded areas in figure 2). Future revenue (for example tax revenue) and 'future liabilities incurred in the future' (for example pension obligations that will be built up by government employees in future on the basis of their present terms and conditions of employment) are excluded as they do not meet accounting recognition tests. This explains the role of the comprehensive projections which are made annually by the Treasury for both 50-year and infinite time horizons (Eich, 2008; Treasury, 2008d). These long-term projections include other assets (top left)* and future liabilities incurred in the future (bottom right).

Conceptual and technical issues

The specification of the area of the WGA consolidation raises important issues. What will happen is not an unconstrained application of IAS 27 (the private sector consolidation standard) (IASB, 2008a). The 1995 super-imposition of a departmental boundary (which overrode FRS 2, the relevant standard under UK GAAP) is being replicated. Only those reporting entities classified by the ONS as belonging to the central government sector and over which parent entities exercise in-year budgetary and spending control will be consolidated in the resource accounts of government departments, even if IAS 27 indicates control. (There is no similar restriction for local authority accounts.) The Treasury will determine which organizations fall within the WGA consolidation (The Whole of Government Accounts [Designation of Bodies] Order 2007), following—with some exceptions—the decisions of the ONS, which applies national accounts standards, not financial reporting standards.

The Government Resources and Accounts Act 2000, enacted primarily to enable supply estimates to be presented and voted on an accruals basis, also provided for WGA:

> *(1) The Treasury shall prepare in respect of each financial year a set of accounts for a group of bodies each of which appears to the Treasury—(a) to exercise functions of a public nature, or (b) to be entirely or substantially funded from public money. (2) Accounts prepared under this section may include information referring wholly or partly to activities which—(a) are not activities of bodies falling within subsection (1), but (b) appear to the Treasury to be activities of a public nature.* (Part of section 5, as amended by The Companies Act [International Accounting Standards and Other Accounting Amendments] Regulations 2004, Schedule 7, Part 2.)

The sweeping nature of Treasury powers reflects the style of UK parliamentary draftsmanship, rather than being unusual in the powers that it gives to the executive. Given that such primary legislation is enacted infrequently, there is a strong case for broadly-drafted powers, provided that their exercise is subject to effective scrutiny. The use of the expression 'appear to the Treasury' leaves so much discretion as to frustrate applications for judicial review. The wording of sub-section 5 (not reproduced here) delimits 'have regard to any relevant guidance' [i.e. UK GAAP/IFRS] to subsections (2)(a) and (2)(b), thereby subordinating the role of IFRS to Treasury decisions taken under subsections (1) and (2). In the past, auditors of public sector accounts acquiesced to constraints imposed by Treasury Accounts Directions, some of which subverted the intention of particular accounting standards. The 'true and fair' audit opinion was therefore given within those artificial constraints.

Importantly, there is no mention of 'control' as a criterion for determining whether an organization is included in the WGA. Instead, there is an either/or test: 'to exercise functions of a public nature' or 'to be entirely or substantially funded from public money', with a back-up for activities of organizations outside the above test, but which 'appear to the Treasury to be activities of a public nature'. What is 'of a public nature' is ideologically contested and may change through time: for example, coal mines, road haulage and telephone appliances were activities of the UK public sector in the early 1980s. Subsection (1)(a) uses the expression '*functions* of a public nature', whereas subsection (2)(a) uses the expression '*activities*

*However, Treasury (2003b, chart 3.3, p. 23) notes that 'Comprehensive projections usually only include financial assets'; the focus of the projections is upon government solvency rather than inter-generational fairness.

of a public nature' (italics added). There is no statutory definition of 'public money', though authoritative guidance is provided by the Sharman Report (2001) and the Treasury's (2007b) *Managing Public Money*.

'Dependence on public money' as a criterion of consolidation has precedents. GASB 14, published in 1991 by the Governmental Accounting Standards Board (GASB, 1991), defines the reporting entity in the context of US state and local governments. The concept of fiscal dependency was introduced by GASB as one of the criteria in determining which entities should be included in the area of consolidation. Fiscal dependency is deemed to exist when a unit or an organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government (paras 16–18). In contrast, the IASB has considered but rejected the criterion of 'economic dependence'—for example in the context of supplier dependence—in its recent Exposure Draft on consolidation (IASB, 2008b).

The process of updating the private sector control criterion for consolidation has proved a time-consuming process. The experience of Enron's special purpose entities has heightened the salience and difficulty of this task. Moreover, control in the public sector context is even more complex and multi-faceted. There are diverse instruments other than ownership through which control over strategy and operational decisions can be exercised, for example via regulatory authorizations and conditional access to finance. Governments may have recourse to such instruments if national statistical institutes are not robust in their judgements about what is in the public sector on the basis of their control criterion. There will always be difficult judgements at the margins, in part because NPM has further blurred the boundaries of both general government and the public sector.

Given the desired links to national accounts and fiscal policy, there is logic in the use of designation powers to align WGA with national accounts. Treasury (2008f, paras 9–13 and Annex A) adapts IAS 27 in two ways. First, it requires the exclusion of those subsidiaries, already included in the consolidated financial statements of an entity, which fail either of the statutory public nature and public money tests. If abused, this could lead to the off-balance sheet treatment of some borrowing and debt. Second, it excludes the Royal Household, parliament and the parliament/assemblies of Scotland, Wales and Northern Ireland, including the audit agencies run by the two comptroller and auditor generals and the two auditor generals, on the grounds that these are public sector bodies not controlled by government.

This sudden reappearance of 'control' is puzzling after the recourse to 'public nature' and 'public money', particularly in reference to representative institutions and state audit offices, both of which are quintessentially public. However, these are small organizations in relation to WGA and unlikely to be material.

Another consolidation issue concerns the treatment of tax payments by entities within the consolidation: for example, central government pays non-domestic rates to local authorities and local authorities pay VAT to central government. The question arises as to whether such payments should be eliminated in the consolidation. Three options were identified (Treasury, 2008e, para. 26):

> *(a) All taxes receivable and payable can be reported gross.*
> *(b) All taxes receivable and payable can be reported net, including the elimination of VAT on assets and liabilities.*
> *(c) All taxes receivable and payable can be reported net, ignoring the elimination of VAT on assets and liabilities.*

Feedback from reporting entities indicated that adequate records did not exist to eliminate VAT from balance sheets. This ruled out (*b*). The Treasury concluded in favour of (*a*): 'On balance we believe that it is preferable to show taxes payable and receivable gross' (Treasury, 2008e, para. 27). However, FRAB (2008, paras. 49–53) chose option (*c*), involving less adaptation of IFRS. This decision leads to inconsistent treatment of VAT between income statement and balance sheet and does not align with the gross treatment of VAT in the national accounts.

The arguments for gross treatment can be summarized as follows:

- Taxes are fundamentally different from the financial flows that are eliminated in private sector consolidations; this is exactly the kind of adaptation of IFRS that reflects a genuine public/private difference.
- As a matter of principle, gross treatment is to be preferred, on the grounds that net treatment may understate—or be perceived to understate—the size and cost of government. (There has been a long-standing controversy in the UK about netting

practices in connection with tax credits.)

- The Treasury is working on its 'Clear Line of Sight' project, which seeks to harmonize treatments between estimates, resource accounts, public expenditure statistics and national accounts, yet net treatment will generate differences from national accounts (which have gross treatment for both income statement and balance sheet).

The publication of WGA on a gross basis, showing taxes paid within consolidated government, would usefully contribute to transparency about taxation in a way that net treatment does not.

Issues for future discussion

Certain UK issues may have relevance in other jurisdictions. First, the area of the UK WGA consolidation is governed by the use that the Treasury makes of its powers under statute (public nature, public money), not IAS 27 (control). This power might be used constructively to secure alignment with national accounts: if WGA is not exactly aligned with national accounts data, an accessible reconciliation is essential.

The UK context emphasizes the link to national accounts; in part, this reflects UK policy traditions and the relative clout of directorates within the UK Treasury, but it is also influenced by the fiscal surveillance dimension of EU membership. This may lead to differences from countries such as Australia and New Zealand, which do not face such obligations and may not be constrained in the same way by national accounts treatment. Alternatively, the discretionary power might be used for balance sheet manipulation: for example, by excluding entities such as Northern Rock (the recently nationalized bank) or Network Rail (the railway infrastructure provider)* on the grounds that banking and railways are not functions or activities of a public nature, or that public ownership and/or control is temporary.

The issue of when control is judged to be temporary has acquired unexpected salience as a result of the full nationalization of some UK banks and majority/large government stakes in others. The first UK standard on consolidation, SSAP 14, provided limited guidance on the meaning of 'temporary'. It required that a subsidiary should be excluded from consolidation if 'control is intended to be temporary' (Accounting Standards Committee, 1978, para. 21d) but did not elaborate. FRS 2 (Accounting Standards Board, 1992) which replaced SSAP 14, clarified that a subsidiary should be excluded if the interest in it is held exclusively with a view to subsequent resale and the subsidiary has not previously been consolidated (Accounting Standards Board, 1992, para. 25b). Importantly, FRS 2 defined an interest with a view to subsequent resale as one 'for which a purchaser has been identified or is being sought, and which is reasonably expected to be disposed of within approximately one year of its date of acquisition' (Accounting Standards Board, 1992, para. 11). Subsidiaries which met this exclusion criterion should be included as current assets at the lower of cost or net realizable value.

The IASB provisions, included in IAS 27 (IASB, 2008a) and IFRS 5 (IASB, 2004), are consistent with FRS 2, requiring the exclusion of a subsidiary when it is acquired with a view to sale and this sale is expected within one year from the date of its classification as an asset held for sale. However, IFRS 5 provides more guidance relating to the conditions which must be met in order for an asset (including a subsidiary) to be classified as being held for sale: for example the sale must be 'highly probable' (para. 7), taken to mean that the management should initiate an active programme to locate a buyer and complete the disposal. Notwithstanding this clarity about how temporary control should be interpreted, the statutory override might be used by the UK Treasury to exclude nationalized and majority-owned banks from WGA (see Cooper, 2008, col. 1896, on the temporary public ownership of Northern Rock).

Second, international differences in understanding of what is meant by WGA are emerging. In Australia, for example, WGAs are consolidated accounts for the 'Whole of Political Jurisdiction' (emphasizing public accountability), for the Commonwealth government and for each state. In contrast, in the United Kingdom, WGA refers to the UK public sector (emphasizing fiscal management). For example, the WGA consolidation will include the devolved administrations of Scotland, Wales and Northern Ireland. Unlike New Zealand, local authorities will be included but universities (classified to the private sector in the UK national accounts) excluded. The WGA will exclude parliament and associated bodies—such as the NAO—on the grounds that the UK government does not control them.

Third, there are important issues

*Network Rail was design-engineered by the Treasury so that it would not meet the ONS's criteria for being in the public sector. However, the then C&AG stated that Network Rail met UK GAAP criteria for consolidation (Bourn and Cook, 2002).

concerning the scheduling of WGA projects. Instead of first publishing for 2005–06, the WGA will be for 2009–10. However, this is a year in which central government will be on IFRS but local authorities—a significant part of the UK public sector—will not. This introduces an unexpected and unnecessary complication. Heald (2008) suggested that it would have been preferable to publish the WCGA but delay the WGA until 2010–11 when the whole of the UK public sector would be on a common accounting basis.

Fourth, the achievement of Kay's (2008) objective of 'a true and fair view' of government will substantially depend on the contribution of 'intermediate users', whose pivotal role in public sector accounting has been emphasized by Rutherford (1992). They are the channel through which the incremental information content of WGA can be interpreted for parliamentary, media and public audiences. As an example, the treatment of taxation in WGA appears to be a strictly technical matter, but in fact raises important transparency issues about the workings and size of government. ■

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