

Thirty-Seventh Report of Session 2019-21

HM Treasury

Whole of Government Accounts 2018-19

Introduction from the Committee

The WGA is a unique document which provides the most complete and accurate picture available of the UK public sector finances. The WGA is a set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS), which brings together information on the financial performance and position of over 9,000 organisations across the UK public sector, including: central government departments; local authorities; devolved administrations; the NHS; academy schools; and public corporations such as the Bank of England. In 2018–19, the WGA included net expenditure (total expenditure less income) of £56.2 billion and net liabilities (the difference between assets and liabilities) of £2.5 trillion. The Treasury published WGA 2018–19 on 21 July 2020, 15 months after the end of the financial year. The Comptroller & Auditor General again qualified his opinion on the 2018–19 accounts as a result of longstanding financial reporting issues. The Committee has previously recommended that the Treasury: use the WGA to provide better insight into how well the government is managing risks to fiscal sustainability, including providing more information on how well government is performing against its key policy objectives relating to managing fiscal risks; ensures that users of the accounts have access to the information they find valuable in the WGA and make improvements in harmonisation of the information provided by individual components; and that the Treasury focuses its efforts on making the WGA as useful as possible to its users, whether that be through bringing the publication earlier or through enhancing the insight it provides.

Based on the Whole of Government Accounts (WGA) for the year ended 31 March 2019, the Committee took evidence, on Thursday 19 November 2020 from the HM Treasury. The Committee published its report on 22 January 2021. This is the government's response to the Committee's report.

Relevant reports

- HM Treasury report: [Whole of Government Accounts 2018-19](#) – Session 2019-21 (HC 500)
- [Report of the Comptroller and Auditor General on the Whole of Government Accounts 2018-19](#)
- PAC report: [Whole of Government Accounts 2018-19](#) – Session 2019-21 (HC 655)

Government responses to the Committee

1: PAC conclusion: *The WGA still does not provide Parliament and the public with the information that they need to better understand the government's financial position and exposure to fiscal risk.*

1: PAC recommendation: *The Treasury should ensure that the WGA is a forward-looking document, providing the public and Parliament with the information that they need to better understand how the government manages its financial position and exposure to fiscal risk.*

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

1.2 The government is committed to transparency on fiscal risks and welcomes independent scrutiny of risk exposure. Every year the Office for Budget Responsibility (OBR) publishes either a Fiscal Risks Report or a Fiscal Sustainability Report, providing comprehensive surveys of near-term fiscal risks and longer-term pressures on the public finances. Every other year the government publishes its response to the Fiscal Risks Report, setting out the action the government is taking to manage the fiscal risks identified. The OBR will publish its third Fiscal Risks Report in 2021. The International Monetary Fund ([IMF](#)) and the Organisation for Economic Cooperation and Development ([OECD](#)) have recognised the OBR Fiscal Risks Report as one of the most comprehensive of its kind. The OBR is the UK's official economic forecaster and produces an

Economic and Fiscal Outlook twice a year. The OBR's publications are the best sources for official forward-looking assessments of the fiscal position.

1.3 The Whole of Government Accounts (WGA) financial statements are, like any other audited set of accounts, a record of past financial performance, and give an assessment of the balance sheet at a defined point in time in the past. They do not include forward-looking assessments of the fiscal position or estimates of the government's exposure to fiscal risk: applying the relevant accounting standards to government accounts does not generate that information. But the accompanying performance report gives us the opportunity to include a broader commentary, beyond the scope of the audited accounts, including summary information on the forward-looking position, drawing on information published by the OBR. In the WGA 2019-20, the performance report will set out additional forward-looking information and commentary on the Treasury's overall approach to managing the financial position and fiscal risk. It will include more information on the principal risks and uncertainties facing the economy and their potential implications for the WGA in future years. And it will include greater information on the profile of future cash flows from existing WGA liabilities and more information on expenditure on COVID-19, based on available published data sources including departmental data.

2: PAC conclusion: *There is an apparent lack of ownership by the Treasury of the analysis and scenario planning activities necessary to manage the impact of COVID-19 on government finances.*

2: PAC recommendation: *The Treasury should write to the committee setting out what specific analysis it is currently undertaking as it manages the economic impacts of COVID-19.*

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 Since the onset of the pandemic, HM Treasury has provided ministers with advice on the impact on the economy and the public finances. To inform this, it has brought together the economic data published by the Office for National Statistics (ONS), forecasts and projections prepared by the OBR, the Bank of England and others, academic literature and real-time information such as mobility data. In considering the impact on particular sectors or regions we have considered the non-pharmaceutical restrictions (NPIs) in force or under consideration; the extent of Gross Value Added (GVA) accounted for by the sectors directly affected; the employment accounted for by those sectors; regional variations in NPIs, and the resultant impacts on factors such as supply chains and ability to travel to work; and the vulnerability of the labour market and firms, using the information provided by survey data. We have used a range of analytical tools to bring together this information and to assess the interaction between the different factors. This analytical work has generated advice to ministers on the possible range of impacts, although inevitably those are subject to a high degree of uncertainty.

2.3 In November 2020, the government published an [Analysis of the health, economic and social effects of COVID-19 and the approach to tiering](#) which drew together some of this analysis. It also set out the data that are most helpful to look at when considering the regional or sectoral impact of measures of the NPIs.

2.4 In February 2021, the government published the [Roadmap out of lockdown](#) which built on this and set out the health, social and economic analysis that underpinned the steps announced. For the economy, this included the impacts on GVA and jobs in those sectors affected by restrictions over the last year, as well as information about the distribution of those impacts.

2.5 The March 2021 [Budget document](#) provided further detail on different ways that HM Treasury has assessed the impact that the tiered system of restrictions and lockdowns had on the economy last year.

2.6 The OBR, in their [Budget forecast](#), have formed their own assessment of how the economy will evolve under the Roadmap. In its central forecast, the OBR expect that gross domestic product (GDP) will grow by 4.0% in 2021 and it assumes some long-term scarring in the economy of around 3% of GDP.

2.7 HM Treasury will continue to incorporate economic analysis into policy advice to ministers, using all the information set out above, as well as previous experience at earlier stages in the pandemic.

3: PAC conclusion: *The WGA does not provide assurance that significant risks to the UK's financial sustainability are well managed.*

3: PAC recommendation: *The Treasury should provide meaningful insight through the WGA into how it works with other government bodies to ensure risks to financial sustainability are appropriately managed.*

3.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

3.2 HM Treasury works closely with other government departments to ensure that public funds are managed effectively and sustainably, with close spending control oversight of all spending and balance sheet risks, to deliver the government's policy objectives. The government also values independent analysis and commentary on the sustainability of the public finances, particularly through the biennial publication of the OBR's Fiscal Sustainability Report.

3.3 The [Balance Sheet Review](#), which concluded in November 2020, aimed to strengthen control of long-term risks and the costs of liabilities, to identify opportunities to dispose of assets that no longer serve a policy purpose and improve returns on retained assets. The government has put in place a number of further actions to strengthen risk management in line with its recommendations including improving the identification and mitigation of balance sheet risks and improving capability to understand and manage balance sheet risk in a strategic way. Future WGAs will continue to report on these developments in balance sheet management and set out how they support the management of risks to financial sustainability. WGA 2019-20 will also provide more information on how the key liabilities in the account are managed, how they have evolved over time, and how value for money is achieved in discharging these obligations. It will also draw on information produced by the OBR on wider spending projections, to place the accounting liabilities in a broader context.

4: PAC conclusion: *The financial sustainability of some local authorities presents a significant risk to government.*

4: PAC recommendation: *The Treasury should work with the Ministry of Housing, Communities and Local Government to ensure government's response to the Redmond review is agreed and implemented as soon as possible. It should set out how it knows its oversight of local government fiscal risks is effective in the WGA given government's exposure as the funder of last resort.*

4.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

4.2 The UK, unlike most other countries, has a long-established practice of setting its fiscal objectives by reference to the whole public sector. The medium term forecasts of fiscal activity by local authorities are included within the fiscal aggregates forecast by the OBR and reported in outturn by HM Treasury and the Office for National Statistics each month, and which are used to support management of the UK's fiscal position. The Ministry of Housing, Communities and Local Government (MHCLG) has the responsibility to monitor fiscal risks and intervene where necessary. HM Treasury works closely with MHCLG to understand the financial issues within the sector and determine appropriate policy responses: for example, in the reforms to the terms of loans provided by the Public Works Loan Board.

4.3 The WGA 2019-20 performance report will include additional information showing how fiscal risks are monitored and managed in the local government sector and bring in wider information on finances in the sector into the performance report. In future years, WGA will also build on existing segmental reporting in the account to show more detailed breakdowns of local authority balance sheet and revenue and expenditure items in the performance report. HM Treasury will, in addition, work with MHCLG to support their implementation of the government's response to the [Redmond Review](#) to ensure stability in the audit

market and timely, transparent reporting of financial data needed to manage fiscal risks in local government. MHCLG published this response in December 2020, setting out how the government would, in partnership with key organisations, take swift action to support the ongoing sustainability of the local audit market. This includes, subject to consultation, enabling audit firms, councils and Public Sector Audit Appointments Limited (PSAA) to agree fees that more closely match the actual costs of audit, and temporarily extending the deadline for the publication of auditor opinions on local authorities' accounts. This is alongside an additional £15 million to affected local authorities in 2021-22 to help councils to both meet the growing cost pressures in the audit market and deliver Sir Tony Redmond's recommendations.

5: PAC conclusion: *The Treasury has aspirations to standardise financial reporting across government but has not set out how this will make the WGA more useful or accessible.*

5: PAC recommendation: *The Treasury should report against the progress of the work carried out by the Government Finance Function in the WGA given how key it is to improving both the production of the WGA and the insights it can provide. It should ensure its programme includes and accelerates plans to implement tools and processes to improve the information it gathers on cross-government issues such as EU Exit and COVID-19.*

5.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

5.2 The Government Finance Function is developing a performance framework to measure progress against the strategic deliverables it set out in its 2019 strategy and to drive enhanced insight across central government. The function will begin reporting in April 2021 and will use the performance framework to measure the overall impact of the function across the core finance activities set out in the [Government Finance Standard](#). The convergence of finance processes and data standards to improve the comparability of data across departments is integral to this, enabling greater consistency and comparability of finance information. Additionally, minimum standards for board pack management information have been agreed by the Finance Leadership Group and are in the process of being embedded by departments, with a sub-set of early adopters due to implement in April 2021. HM Treasury is also piloting certified data analytics training in partnership with the Institute of Chartered Accountants in England and Wales (ICAEW) to enhance data analytical and visualisation skills.

5.3 A full review of the Government Finance Function's progress against the objectives set out in the 2019-2023 Government Finance Function Strategy is presented in the Function's [Annual Review 2020](#). WGA 2019-20 will include a summary that will allow the public and Parliament a snapshot of the work of the Government Finance Function.

5.4 Consistent reporting of cross government spending remains a significant challenge, with consistent definitions, treatment of opportunity costs or allocations of staff costs to projects as barriers to consistent reporting of costs. However, the implementation of OSCAR 2 allows for more efficient gathering of data, as well as the potential for comparing data across organisations to generate insight. The convergence of finance data, technology and processes should allow for more comparability.

5.5 HM Treasury has also set out additional reporting requirements on EU Exit and COVID-19 for departmental Annual Reports and Accounts (ARA), as outlined to the Committee in the [Chief Secretary's letter of 3 December 2020](#). The WGA 2019-20 performance report will include estimated expenditures on EU Exit and COVID-19, using the best available information, including departmental ARA as they become available.

6: PAC conclusion: *The quality of the next WGA will suffer if the Treasury does not resolve challenges in its accounts production process.*

6: PAC recommendation: *The Treasury should set out how it is going to meet the challenging timetable it has set for the WGA 2019–20 without leading to a decline in the quality of the account.*

6.1 The government agrees with the Committee's recommendation.

Recommendation implemented

6.2 HM Treasury [*wrote to the Committee on 25 January 2021*](#) setting out some of the challenges in relation to meeting a pre-summer recess publication timetable for WGA 2019-20. This matter was then discussed with the Committee at the private session on 2 February 2021. As explained then, the aim is to publish WGA 2019-20 post summer recess 2021.