ICAEW
REPRESENTATION 40/24

WHOLE OF GOVERNMENT ACCOUNTS 2021/22

Issued 1 May 2024

ICAEW welcomes the opportunity to respond to the consultation issued on 22 March 2024 by the Committee of Public Accounts (PAC or the Committee) on the Whole of Government Accounts ("WGA") for the year ended 31 March 2022. Our submission relates to the 2021/22 WGA published by HM Treasury on 28 March 2024.

We welcome the improvement in the time taken to produce the latest WGA

- But two years is still much too long, and substantial progress still needs to be made.
- Accelerating the recovery plan should be a higher priority.

We draw the following items in the 2021/22 WGA to the attention of the PAC

- The number of central government bodies not being consolidated is concerning.
- The £45bn added to provisions for liabilities and charges in 2021/22.
- Lack of commentary on how the government plans to reduce the level of unpaid taxes.
- A reference to recent guidance encouraging the disposal of assets that match liabilities.
- Climate-related disclosures under development are an opportunity to be world leading.

Our points on the 2019/20 and 2020/21 WGA still need to be addressed

- We concur with the PAC on the importance of WGA.
- The extended delays are detrimental to good governance.
- Action is needed to get WGA back on track.
- Omitting local authorities from WGA is worse than the 'sin' of using unaudited numbers.
- WGA are not yet being used as the multi-purpose tool they should be.
- Accountability events would help Parliament hold the Government to account.
- The performance report does not yet provide a strategic overview of performance.
- The three accounting frameworks used by government need further rationalisation.
- Covid-19 cost tracker highlights potential weaknesses in data collection and analysis.
- Fraud and waste are rightly highlighted, but estimates could be clearer.
- Presentation, disclosures and readability could be improved.

For questions on this response please contact us at representations@icaew.com quoting REP 40/24.

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KEY POINTS

INTRODUCTION

1. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports, and regulates more than 167,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical, and ethical standards.
2. This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 13,000 in ICAEW's Public Sector Community.
3. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.
4. We submitted evidence to the PAC in 2022 in ICAEW Representation 47/22 Whole of Government Accounts. This focused on the process of preparation and recurring issues as the 2019/20 WGA was not available sufficiently in advance of our submission for us to comment on its content.
5. We submitted evidence to the PAC in 2023 in ICAEW Representation 111/23 Whole of Government Accounts 2020/21. We reiterated our disappointment that the WGA continues to be delayed and expressed our concerns about the omission of some local authorities. We highlighted how WGA have yet to fulfil their potential, and brought several matters to the attention of the PAC.
6. We would be very happy to discuss our feedback in more detail if the Committee believes that would be of assistance.

WE WELCOME THE IMPROVEMENT IN THE TIME TAKEN TO PRODUCE THE LATEST WGA

But two years is still much too long, and substantial progress still needs to be made

7. We are pleased that the time taken to produce the latest WGA has improved from 27 months for the 2020/21 WGA to just under 24 months for the 2021/22 WGA, and that there is a plan to bring the time taken down to under 16 months by next summer.
8. Significant progress still needs to be made to bring the time taken to prepare the WGA over the next few years down to the nine-month target set by HM Treasury for itself.
9. This will still be substantially longer than the two to four months typically taken by listed companies in the private sector to prepare their annual financial reports.

Accelerating the recovery plan should be a higher priority

10. In most organisations an inability to produce an annual financial report within a reasonable period of time would be treated as an urgent priority to resolve.
11. We are therefore disappointed that the government does not share our view about the urgency of getting the WGA back on track and we believe that there is a strong case to accelerate the timetable to bring the time taken down to under 12 months by next March for the 2023/24 WGA rather than 16 months as currently planned.
12. While some limited additional resources may be required to achieve this, getting the WGA back on track will have significant benefits in the usefulness of WGA for accountability, governance and transparency. It would also enable the WGA team to shift from recovery of the process to investing more time in evolving the WGA to improve the quality and understandability of both the performance report and the financial statements.

WE DRAW THE FOLLOWING ITEMS IN THE 2021/22 WGA TO THE ATTENTION OF THE PAC

The number of central government bodies not being consolidated is concerning

13. While we understand the difficulties being experienced in obtaining WGA submissions from local authorities that led to 157 local government organisations not being consolidated in the 2020/21 WGA, it is concerning that 21 central government bodies were excluded.
14. Of these, 14 were Scottish government bodies where the timetable for WGA submissions for 2021/22 conflicted with the preparation of their 2022/23 audited financial statements.
15. The other 7 were public corporations that are accountable to the UK government.
16. We hope that these problems will resolve themselves as the timeline for producing WGA is shortened, but we would also encourage HM Treasury to work with the Scottish government and with the public corporations concerned to ensure scheduling conflicts are avoided in future financial years.

The £45bn added to provisions for liabilities and charges in 2021/22

17. Provisions for liabilities and charges increased by £162bn from £366bn in £528bn of which £137bn related to changes in the discount rate used – an accounting assumption that causes the measurement of these liabilities to change each year. These large movements (a reflection of how big these financial exposures are) obscure additions from new provisions and updated estimates of £45bn during the year, the £25bn utilised during the year and net other changes of £5bn.
18. The new provisions and increases in expected future pay-outs of £45bn can be broken down between £16bn for nuclear decommissioning, £7bn for clinical negligence, £5bn in adjustments to the estimate for EU liabilities and £17bn for legal, oil and gas decommissioning costs, and other liabilities. These are substantial amounts of public money that are being recognised in the WGA that deserve scrutiny, especially the nuclear decommissioning provisions which continue to be added to each year as cost estimates rise.
19. Responsibility for overseeing these amounts is split between different departments and hence select committees, but it is only in the WGA that the full extent of these increases are visible when they are brought together.
20. The PAC may want to consider initiating a thematic review on the quality and nature of cost estimates for these uncertain and risky liabilities that run into the hundreds of billions of pounds, potentially in conjunction with the other select committees concerned.

Lack of commentary on how the government plans to reduce the level of unpaid taxes

21. Note 5 on page 183 of the 2021/22 WGA reports £176.4bn in unpaid taxes (£122.6bn in accrued tax revenue, £49.6bn in current taxation and duties receivable, and £4.2bn in non-current taxation and duties receivable) before taking account of £18.0bn in impairments.
22. This was an increase of £12.1bn over the £164.3bn equivalent total for the prior year before impairments of £18.5bn, but if the covid-19 era VAT deferral scheme was adjusted for the increase is closer to £32bn.
23. The net amount is equivalent to 20% of the £774.7bn total taxation revenue in 2022/23, which does not sound unreasonable. However, in practice the vast majority of tax revenue is received during the financial year. The majority by value of income tax and national insurance (PAYE) and VAT assessments are paid one month in arrears, while council tax and business rates are fully paid during the year in most cases.
24. These outstanding balances therefore represent a much higher proportion of the taxes concerned, in particular self-assessment income tax and corporation tax balances, that are typically paid more than nine months after the end of the financial year, albeit partly offset by quarterly payments on account.
25. Bringing down the level of unpaid taxes by speeding up tax payments would significantly improve cash inflows and mitigate some of the pressures on public spending.

26. Unfortunately, there is no commentary in the 2021/22 WGA on actions that are being considered to reduce the level of unpaid taxes. While there is more detail in HMRC's annual financial report that is subject to scrutiny by the Treasury Committee, the balances are material to the overall WGA, with significant sums of money tied up in the balance sheet that could be put to better use.

A reference to recent guidance encouraging the cashing in of assets that match liabilities

27. Sections 1.79 and 1.81 on page 41 of the 2021/22 WGA refer to guidance issued to departments on 19 October 2023 in the form of a Dear Accounting Officer letter (DAO 05/23) regarding when it is appropriate to hold assets to match liabilities, including steps to take to 'defund' (i.e., cash-in) such assets.
28. This guidance reflects the long-standing policy of government to settle liabilities paid for by central government when they fall due and not to set aside money ahead of that settlement.
29. This policy is one of the reasons why the UK does not have sovereign wealth funds, most public sector employee pension plans are unfunded, and there are no investments set aside to cover the state pension or other long-term liabilities – in contrast with many other countries.
30. The lack of long-term funding also severely constrains the ability of HM Treasury to make spending choices given that a significant proportion of public expenditures relate to the settlement of pre-existing liabilities and other financial commitments.
31. The policy does not cover assets used to fund liabilities where funding comes from non-tax revenues, such as the Pension Protection Fund and there are some exceptions – the most notable being the Crown Estate (a sovereign wealth fund established in 1760, which was before this policy was adopted) and local government and other pension funds (including those of Parliament and the Bank of England).
32. This policy is a fundamental principle that underpins how the public finances in the UK are managed but is rarely examined – there is an argument that this might be worthy of an inquiry by the PAC or Treasury Committee at some point.
33. However, the more specific point we wish to raise is whether the PAC has adequate visibility of assets that may be cashed-in following the issue of this guidance, in particular whether disposals represent value for money for taxpayers.

Climate-related disclosures under development are an opportunity to be world leading

34. Chart 1.VV on page 94 of the 2021/22 WGA provides a useful summary of progress made against the Greening Government Commitments 2021 to 2025, and is a good example of how key performance indicators can be presented in an annual financial report.
35. HM Treasury sets out on page 95 of the 2021/22 WGA their phased plan to implement Task Force on Climate-related Financial Disclosures (TCFD) in departmental and other central government annual financial reports over the next three financial years commencing with the 2023/24 reports.
36. We are pleased that the Government Actuary Department (GAD) is working on scenario modelling to support the strategic pillar of TCFD. They will need to work closely with the Department for Energy Security and Net Zero (DESNZ) to provide nation-wide scenarios for inclusion in the WGA.
37. WGA provides a vehicle to report a consolidated overview of the UK public sector's financial exposures to climate change and the actions being taken to address climate-related risks.
38. This an opportunity for the UK to lead the world in reporting climate-related financial disclosures.

OUR POINTS ON THE 2019/20 AND 2020/21 WGA STILL NEED TO BE ADDRESSED

39. We reiterate points we made in our 2022 submission as most of them are still relevant:

We concur with the PAC on the critical importance of WGA

- WGA are vital for accountability and for informing strategic decision-making.
- Despite the challenges, WGA increase transparency about public sector finances.
- WGA are driving improvements in public financial management.

The extended delay in publishing the WGA is detrimental to good governance

- Delays in publication of this and subsequent WGA undermine their usefulness.
- Preparing financial statements is a core financial control in any organisation.
- Delaying the audit means audit findings remain unresolved for longer.

Action is needed to get WGA back on track

- The time taken falls a long way short of the long-term target of nine months.
- Delays in one WGA lead to delays in subsequent WGA, compounding the problem.
- The crisis in local audit and reporting is a cause of delays that needs to be addressed.
- The pandemic has exposed issues in underlying financial reporting processes.
- Finance teams are under increasing pressure and need support.

40. We also reiterate points we made in our 2023 submission as most of them are still relevant:

Omitting local authorities from WGA is worse than 'sin' of using unaudited numbers

- Turns WGA from potentially not being accurate to definitely being inaccurate.
- Omissions adversely affect quality, distort trends and make WGA a less useful tool.
- Fortunately, the omissions are not fundamental, and they are explained well.
- But WGA would be much better even if not all numbers are audited.

WGA are not yet being used as the multi-purpose tool that they should be

- WGA have improved accountability, financial management and internal financial controls, strategic decision-making, and Parliamentary oversight.
- However, WGA are not core to government and their role in accountability is limited.
- Planning is needed to embed WGA into how both government and Parliament work.

Accountability events would help Parliament hold the Government to account

- The primary purpose of annual financial reports is to hold organisations to account.
- We believe there should be annual financial presentation to Parliament.
- We also believe there should be an AGM-type event to formally adopt the accounts.

The performance report does not yet provide a strategic overview of performance

- The performance provides an excellent explainer on the contents of the accounts.
- There are also useful sections on risk, debt, covid-19, the EU, net zero and fraud.
- However, it does not yet meet best practice in providing a comprehensive review of the financial year or performance against objectives and could be better structured.

The three accounting frameworks used by government need further rationalisation

- Line of sight is obscured by three different accounting frameworks within government: resource accounting, National Accounts, and IFRS WGA/departmental accounts.
- Further improvements can be made to further align resource accounting with IFRS.
- Opportunity for WGA-based fiscal targets as in Canada, Australia and New Zealand.

Covid-19 cost tracker highlights potential weaknesses in data collection and analysis

- Reliance on NAO analysis suggests WGA is not being used to collect data effectively.
- Lack of reconciliation to amounts recorded in WGA may indicate a control weakness.
- Opportunity for better reporting following HM Treasury taking over the cost tracker.

Fraud and waste are quite rightly highlighted, but estimates could be clearer

- We like the Government's commitment to be the most transparent in the world on fraud.
- But disclosures in WGA could be clearer and more specific to the financial year.
- Would be helpful to analyse fraud between before and after recovery actions.

Presentation and disclosures could be improved

- Debt and other financial liabilities should be combined in the balance sheet.
- Presentation of trends over multiple years should follow a consistent approach.
- An analysis is needed on how the interest rate profile of debt is affected by QE.
- We made other suggestions that we would be happy to discuss with HM Treasury.