



Sustainability | Leadership | Innovation



## 2016 HIGHLY COMMENDED PUBLIC SECTOR AND THIRD SECTOR

# LESSONS IN DRIVING BUSINESS SUSTAINABILITY

## HM TREASURY

Putting the accounts of the public sector together into a structure resembling the private sector brings all manner of benefits. You can ask questions about how the government's balance sheet is going to evolve over time. You can ask questions about the scale of liabilities. You can ask how they are going to be paid for. By putting all of the assets and liabilities into one place you can use the information to assess the long-term sustainability of the public finances. This case study shows how answers to these questions may soon be found.

As the UK's economics and finance ministry, HM Treasury is responsible for formulating and implementing the government's financial and economic policy. The Treasury has been trying to consolidate a vast number of audited accounts from the thousands of organisations across the public sector. It was important to provide transparency in public finances, to give accountability over how this money is spent, and to enable the public and stakeholders of all types to examine and, over time, help shape the priorities through which public servants create value for society. It has been an extraordinary task and has taken many years. 'Our objective was to prepare a consolidated set of accounts for the entire public sector which, in 2014/15, was over 6,000 entities,' said Tanya de Jager, Consolidation Accountant in the Whole of Government Accounts team at the Treasury.

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It was a huge change, a huge enterprise and an unparalleled cultural change. 'It was no small task. It is a fundamental shift in the way that public finances are reported. It is the first time that we get a set of accounts prepared on a commercial basis, audited, for the entire government sector,' she said. 'They are really a unique set of accounts globally,' said Vicky Rock, Head of Government Financial Reporting at HM Treasury. 'There is nobody else in the world who consolidates all of central government and local government. The scale of the task is quite vast.'

It has been an evolutionary process and the 2014/15 financial statements were the first to reduce the number of qualifications. By achieving this, HM Treasury hopes to increase public trust in, and perception of, the accounts and help focus attention on underlying analysis rather than technical challenges. The use of improved data should help manage public expenditure. For the first time, HM Treasury has a complete picture of all of the government's assets and liabilities. That had simply never existed before. It represents a fundamental change in the way public finances are reported to Parliament and the public. 'This has been a 10 year journey since 1999 when the primary legislation was put in place,' said de Jager. 'It has been an iterative journey. We have learned and adapted every year so we do things in a more useful manner and we also adapted the way we present the information to be more useful to the users of accounts,' she said. It has been a huge undertaking. 'Some of the challenges have been the sheer scale of the project as well as the different accounting policies and just bringing it all together into one place, harmonising everything and presenting it in a clear way.' It has also been a case of sorting out the vast challenge before anyone could think of deriving usefulness from it. The benefits would come only after the mountain of preparatory work. 'For a long time it was difficult and challenging just to produce the accounts,' said Rock.



Whole of Government Accounts workshops for government officials

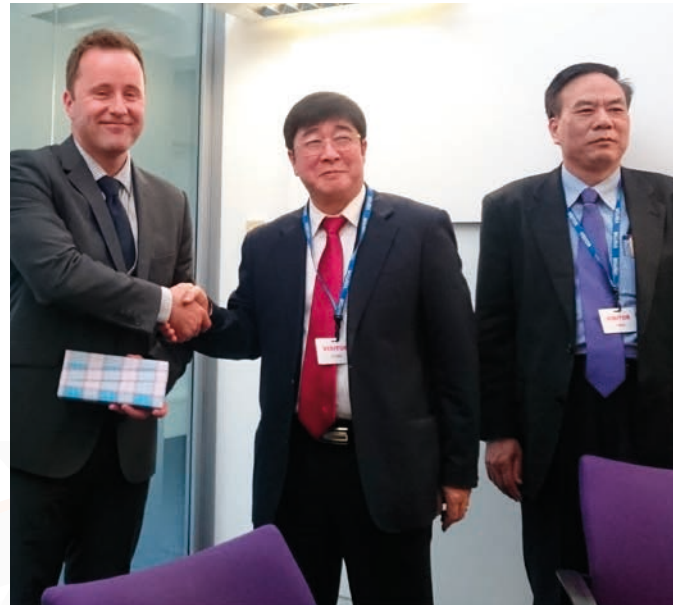
'Where we are now is looking forward, making much more use of the data that we collate, making more use of the document, making it accessible to the lay person, and really using it to drive some improvements to how decision making is made across government.' The advantages and benefits are now coming into view.

'The importance of Whole of Government Accounts,' said Rock, 'is to give you transparency over the public finances, to give accountability for how public sector money is spent and to give that improvement to decision-makers. What we have now is a great opportunity. We have learned from all that happened previously and we are now in a position to be much more proactive about how we use all of this and how we improve the understanding of public finances and some of the public debate that goes around that as well.'

## ‘ We are now able to compare entities. ’

The value, understanding and comparability that private sector companies have been able to get from their figures for generations are now, somewhat suddenly, available for the first time to the public sector. 'The main benefit is that we are now able to compare entities across government as well as with the private sector because we are preparing a set of accounts on a commercial type of basis,' said de Jager. 'When you are thinking about risk management and the long-term sustainability of the public finances you really need that complete picture,' said Rock. 'And putting it all together helps to put things into context and helps you to realise what is significant and where more of your resources should be focused than maybe they traditionally have been.' And this huge enterprise has been put together by a very small finance function. 'The Whole of Government Accounts is prepared by a small team of seven officials in HM Treasury,' said de Jager, 'which is a really small team and we couldn't have done it without the finance officials of entities across government and their buy-in to this project and also their help in ensuring that we got quality data and on time,' she said. But that very cooperation and collaboration brought other deeper benefits. 'It goes even further than that,' she said, 'because one of the things which has really come out of this project is the harmonisation of accounting policies across the various strands of the public sector. It was not without its challenges of persuasion and example. 'We had to demonstrate the value and purpose of what we are doing,' said Rock. 'We are asking people to commit time, to commit resources, to carry out consolidations for us, to do the data returns, all at a time when they are busy finance teams, and when their staffing is often being reduced. What we had to do was show them the tangible benefits of doing this; how we are using it in the Treasury; how it is informing public debate; what Parliament is interested in; and how it is being picked up elsewhere, by the Office for Budget Responsibility (OBR), by the IMF, by ICAEW, among others, to build up a picture for the public finances and how having that consolidated view is so much more than the sum of its parts.' And along the way they learned huge lessons from the experience.

## ‘ They are really a unique set of accounts globally. ’



Whole Government Accounts workshops for government officials

'One of our main lessons is that we need to meet the needs of a wide range of stakeholders,' said de Jager. 'We have Parliament. We have the external public. We have the accounting bodies, the local authorities. They all have different needs. It is about understanding their needs and understanding how we can implement that into our document to make sure it is useful and not just an academic exercise that we are conducting.' The other lesson was one of accessibility. 'We are involving thousands of preparers from across the public sector and if we are to show them the value of this then we need to make the documents accessible,' said Rock. And, once assimilated, then questions of sustainability within government can be examined. 'One of the big benefits of pulling all of the assets and liabilities into one place is that you can use that to assess the long-term sustainability of the public finances,' said Rock. 'So we have been working with the OBR on this and going wider than their definitions by provisions, guarantees, contingent liabilities, to start to say how the government's balance sheet is going to evolve over time. What is the scale of these liabilities? How are they going to be paid for? And this is leading to changes in how policies are made in government.' There are many ramifications. 'If you look at things like nuclear decommissioning and realise that these schemes have huge tails of 20 to 30 years in the future then we need to design into the contract how this is going to be paid for, rather than worrying about them at a later point when they feed through.'

### WHAT THE JUDGES SAID

The Whole of Government Accounts project is an accounting tour de force. The production of a single consolidation incorporating all the activities of the UK public sector is the culmination of 15 years' work and is a significant technical feat.