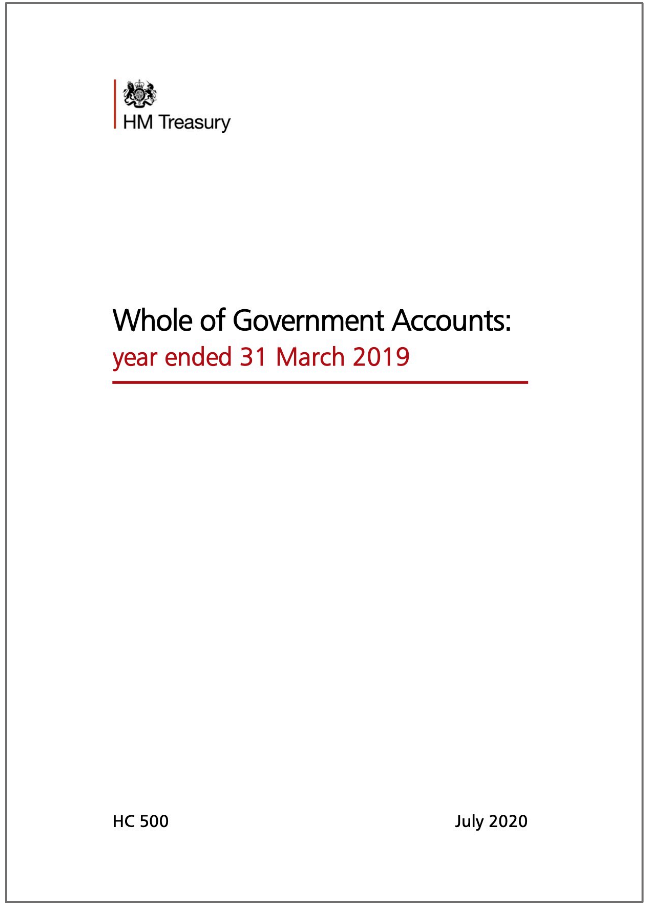
Whole of Government Accounts 2018-19

THE UK GOVERNMENT'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2019

Whole of Government Accounts 2018–19

- On 21 July 2020, the UK Government published its tenth Whole of Government Accounts (WGA) – for the year ended 31 March 2019
- The WGA bring together the accounts of over 9,000 public bodies in the UK across central government, devolved administrations, local government and public corporations
- The WGA is prepared in accordance with International Financial Reporting Standards (IFRS), which differ from the National Accounts rules used for calculating the fiscal deficit and public sector net debt


HM Treasury

Whole of Government Accounts:
year ended 31 March 2019

HC 500

July 2020

WGA is a report comprising

A performance analysis, governance and responsibility statements

- A extensive and detailed commentary on financial performance and the financial position presented in the WGA
- A statement of the responsibilities of the Accounting Officer in preparing accurate financial statements
- A statement about governance in the public sector, including accounting and financial reporting controls
- How the WGA is prepared, how it is used and HM Treasury's role in managing financial risks.

Financial statements

- 5 primary statements – including revenue and expenditure, balance sheet and cash flows
- 34 notes to the accounts, providing supporting detail and explanatory disclosures

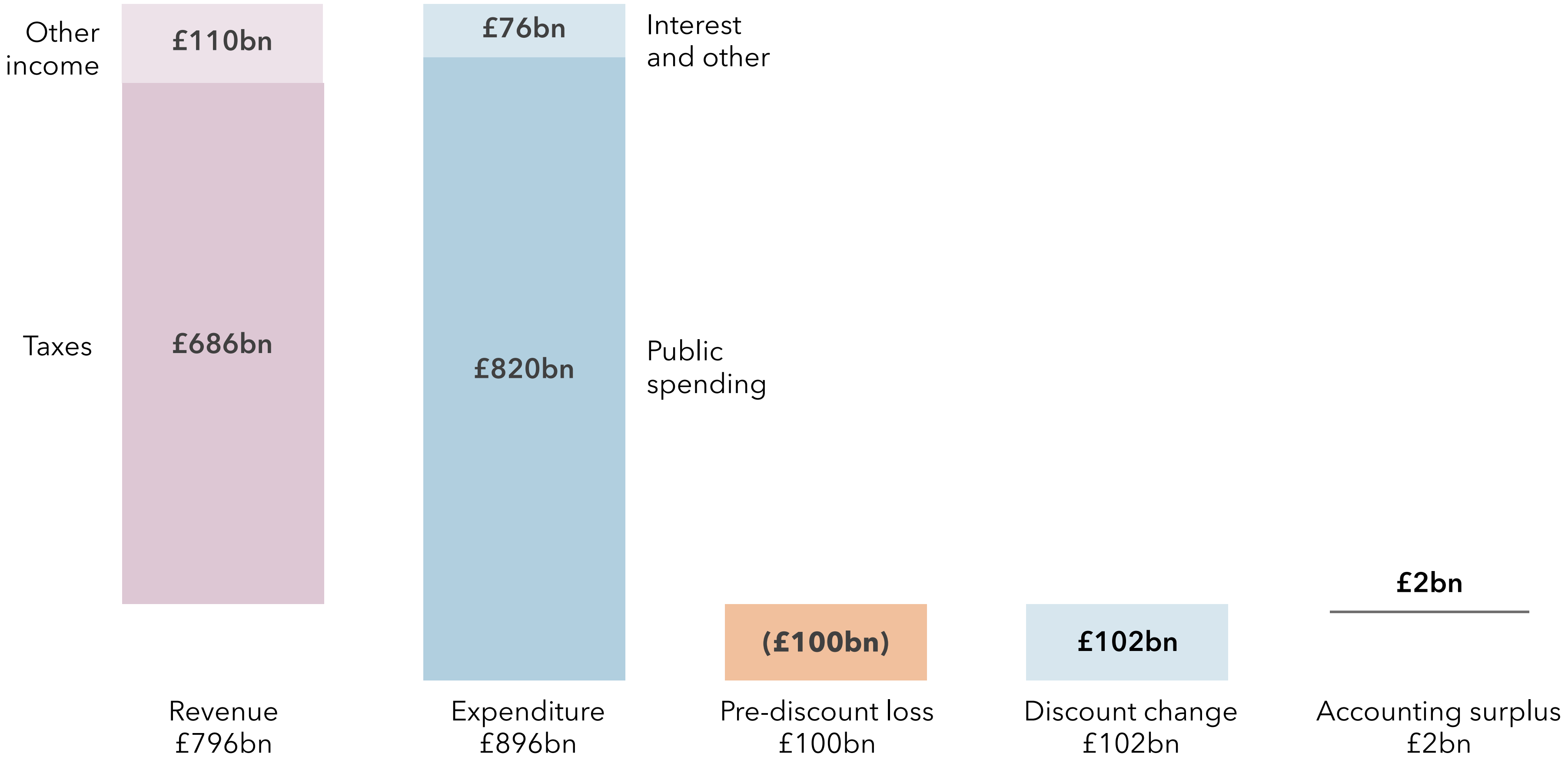
A report from the Comptroller & Auditor General

- True and fair opinion, subject to qualifications for the exclusion of RBS and other bodies, inconsistencies between central and local government accounting, MoD leased asset omissions and Academy schools
- Emphasis on the risks in estimating nuclear provisions and the Hinkley Point C contract for difference valuation

A comparison to the National Accounts

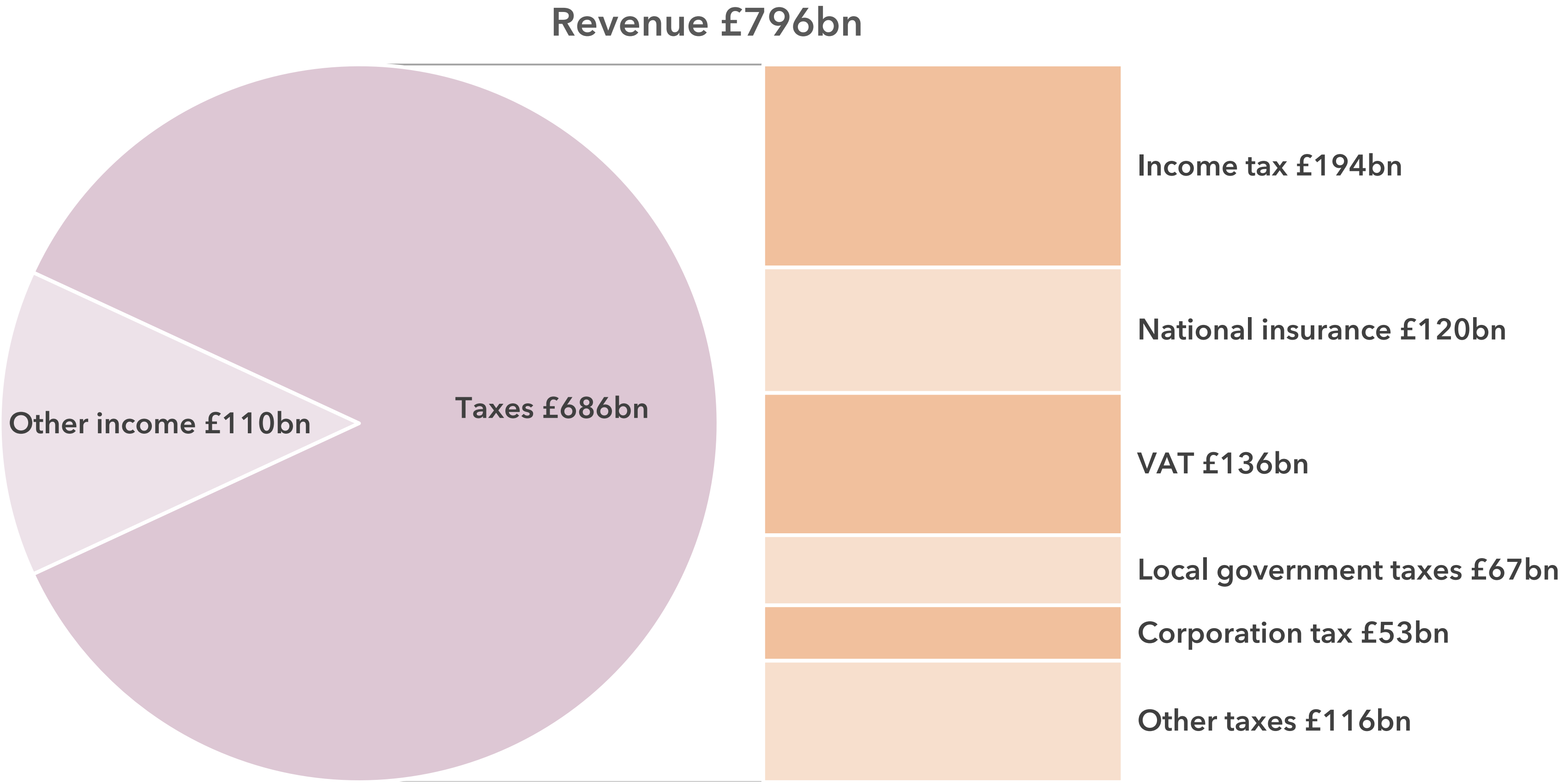
- An analysis of the differences from the National Accounts

WGA revenue and expenditure for 2018–19



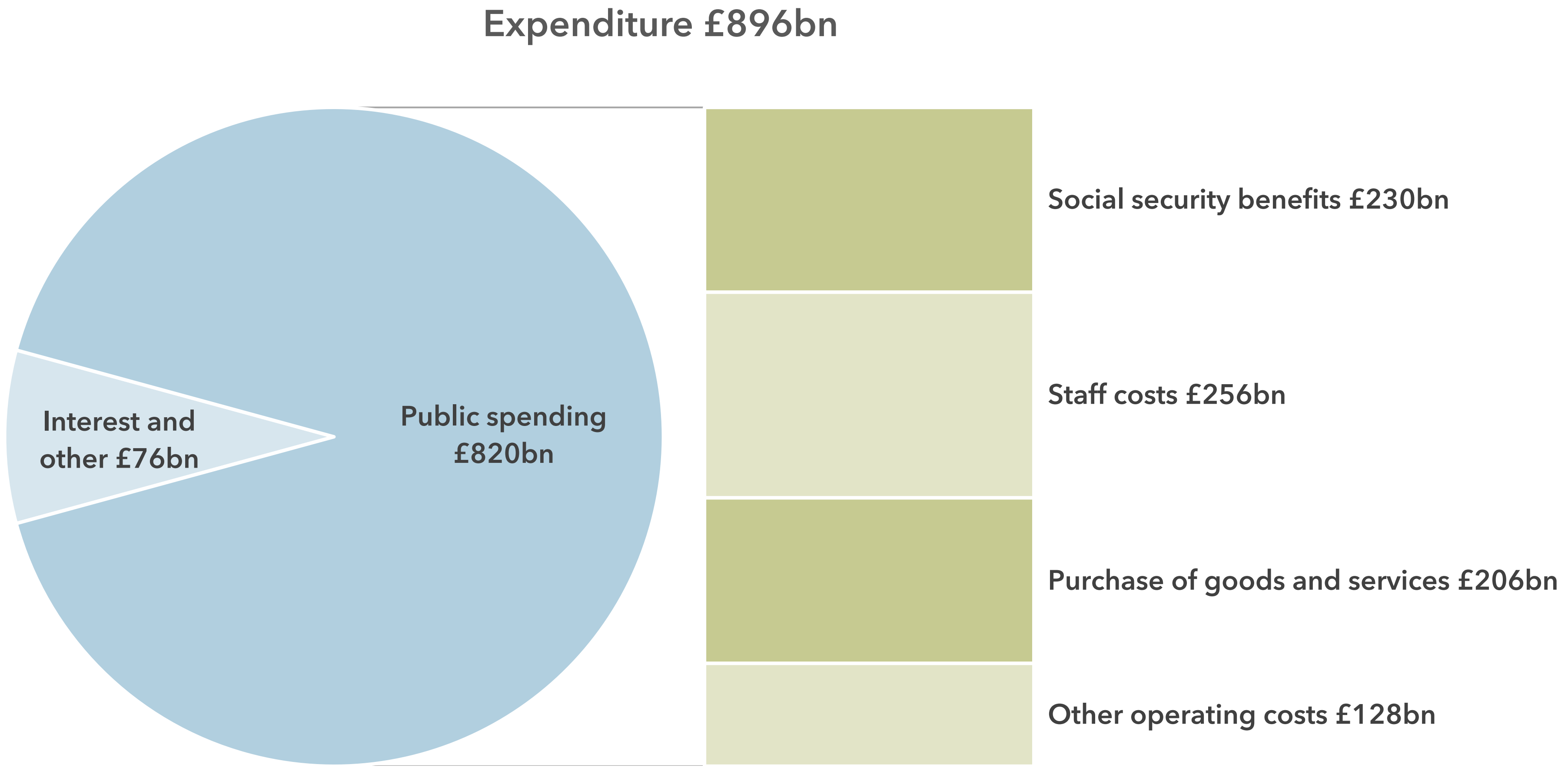
Source: HM Treasury, *Whole of Government Accounts 2018-19.*

WGA revenue for 2018–19



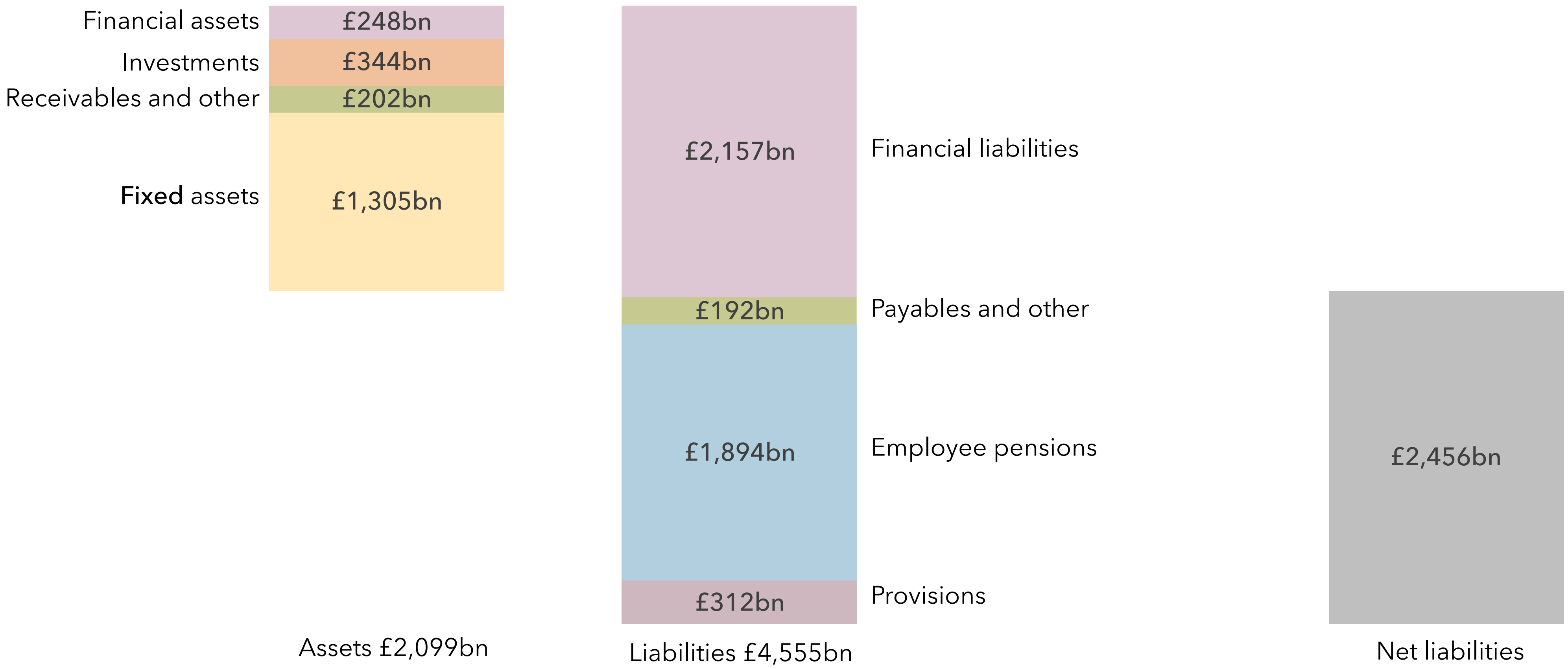
Source: HM Treasury, *Whole of Government Accounts 2018-19.*

WGA expenditure for 2018–19



Source: HM Treasury, *Whole of Government Accounts 2018-19. Excludes £102bn gain on discount rate change.*

WGA balance sheet at 31 March 2019



Source: HM Treasury, *Whole of Government Accounts 2018-19.*

WGA 2018–19 summarised financial statements

ICAEW

Revenue and expenditure	**£bn**
Revenue	796
Expenditure	(896)
Loss before discount changes	**(100)**
Discount rate changes	102
Accounting surplus for the year	**2**

Balance sheet	**£bn**
Total assets	2,099
Total liabilities	(4,555)
Net liabilities	**(2,456)**

Cash flows	**£bn**
Operating cash inflow	69
Investing cash outflow	(42)
Interest and similar outflows	(48)
Financing cash inflow	32
Increase in cash balances	**10**

Net change in financial position	**£bn**
Accounting surplus for the year	2
Fixed asset revaluations	50
Pension revaluations	71
Financial revaluations and other movements	(14)
Reduction in net liabilities	**109**

Source: HM Treasury, *Whole of Government Accounts 2018-19*.

WGA 2018–19 financial performance

ICAEW

- **£16bn increase in operating loss to £24bn**
  - £32bn (+4.2%) in higher revenues (slightly more than nominal economic growth of 3.9%)
  - less: £31bn pensions charge from lost legal case
  - plus: £10bn lower impairment charges
  - less: £27bn net increase in other areas of spending (a 3.6% increase, more than inflation of 2.1% but less than nominal growth in the economy)
- **£9bn lower loss before discount rate changes**
  - £16bn increase in operating loss above
  - less: £5bn lower interest on debt
  - less: £13bn lower interest on provisions
  - less: net £1bn in other charges
  - less: £6bn from change from a loss of £5bn to a gain of £1bn on revaluing financial assets

	2017-18 £bn	2018-19 £bn
Revenue	764	796
Public service expenditure	(772)	(820)
Operating loss	**(8)**	**(24)**
Interest and other	(101)	(76)
Loss before discount changes	**(109)**	**(100)**
Discount rate changes	(94)	102
(Loss)/surplus for the year	**(203)**	**2**

Source: HM Treasury, *Whole of Government Accounts 2018-19*. Presentation adjusted by ICAEW to reclassify interest and to separate out discount rate changes.

WGA 2018–19 financial position

- **£85bn increase in total assets**
  - £61bn fixed assets (of which £50bn from revaluations)
  - £20bn financial assets and cash
  - £4bn in other movements
- **£24bn decrease in total liabilities**
  - £58bn increase in financial liabilities (principally borrowing to fund cash expenditures)
  - £29bn increase in net pension obligations (£155bn increase in obligations, less £56bn paid out, £57bn actuarial changes, £13bn investment gains)
  - £1bn increase in payables and other liabilities
  - Less: £112bn reduction in provisions (£19bn in new provisions less £102bn discount rate change, £13bn spent and £16bn other reductions)
- **£109bn decrease in net liabilities**

	31 Mar 2018 £bn	**31 Mar 2019 £bn**
Fixed assets	1,244	1,305
Receivables and other	199	202
Investments	343	344
Financial assets and cash	228	248
Assets	2,014	**2,099**
Financial liabilities	(2,101)	(2,158)
Pensions	(1,865)	(1,894)
Provisions	(422)	(311)
Payables and other	(191)	(192)
Liabilities	(4,579)	**(4,555)**
Net liabilities	(2,565)	**(2,456)**

Source: HM Treasury, *Whole of Government Accounts 2018-19.*

WGA 2018–19 differences from National Accounts

WGA records more assets and liabilities

- The WGA includes a wider range of assets and liabilities than is reported in the headline measure of net debt reported the National Accounts
- Debt in the WGA is recorded using the effective interest rate method (in contrast to the National Accounts which uses nominal repayment values)
- PFI contracts, payables, provisions for long-term liabilities and net public sector pension obligations are included as liabilities in the balance sheet
- Fixed assets, receivables, inventories, investments and other asset are recorded on the asset side of the balance sheet

Together these add up to a £682bn difference between public sector net debt in the National Accounts and net liabilities in the WGA

	31 Mar 2018 £bn	31 Mar 2019 £bn
National Accounts – net debt	**(1,753)**	**(1,774)**
Different measurement of debt	156	140
PFI contract liabilities	(33)	(32)
Payables and other	(115)	(112)
Provisions	(422)	(311)
Net pension liabilities	(1,865)	(1,894)
Fixed assets	1,244	1,305
Receivables and other	155	159
Investments	72	76
Other differences	(4)	(13)
WGA - net liabilities	**(2,565)**	**(2,456)**

Source: HM Treasury, *Whole of Government Accounts 2018-19.*

WGA 2018–19 differences from National Accounts

	2017-18 £bn	2018-19 £bn
National Accounts - fiscal deficit	**(56)**	**(40)**
Add back: public sector net investment	44	44
National Accounts - current (deficit)/surplus	**(12)**	**4**
Differences in interest charges on debt and PFI	(5)	1
Long-term costs and interest on provisions	(10)	7
Pension costs and interest added to obligation	(63)	(71)
Differences in accounting for assets	(30)	(14)
Other differences	11	(27)
WGA – accounting loss before discount change	**(109)**	**(100)**
Discount rate change	(94)	102
WGA - accounting (loss)/surplus for the year	**(203)**	**2**

- WGA records a wider range of revenue and expenditure transactions
  - The WGA includes interest on PFI contracts and other differences in the way debt interest is calculated
  - Long-term costs and interest added to provisions (net of cash payments made) are recorded as expenditure
  - Pension costs and interest added to obligations (net of cash payments made) are recorded as expenditure
  - Capital grants, treated as investment in the National Accounts, are recorded as operating expenditure in the WGA, together with asset write-downs net of differences in the calculation of depreciation
- Together these add up to a £94bn difference between the National Accounts current surplus and the WGA accounting loss before discount change

Source: HM Treasury, *Whole of Government Accounts 2018-19*. Presentation adjusted by ICAEW to reclassify some differences and to separate out discount rate changes.

WGA 2018–19 summary

ICAEW

Continued losses and significant liabilities

- Loss on public expenditure £56bn, up £12bn
- Loss before discount change of £100bn, down £9bn
- Surplus of £2bn after £102bn discount change
- WGA assets £2,099bn
- WGA liabilities £4,555bn
- WGA net liabilities £2,456bn

More comprehensive than National Accounts

- National Accounts fiscal deficit £40bn
- National Accounts current surplus £4bn
- National Accounts net debt £1,774bn

Key drivers

- Continued shortfalls in revenue:
  - borrowing needed to fund cash expenditures, leading to higher debt each year
  - most long-term liabilities are unfunded and will need to be paid for out of future revenues
- Relatively low levels of capital expenditure:
  - fixed asset base not growing significantly after revaluations
- Long-term liabilities:
  - public sector pension obligations continue to grow, with the majority unfunded and so unable to benefit from offsetting investment growth
  - change in discount rate approach has reversed the big increase in provisions recorded in the previous year, causing a big swing from a very large accounting loss to a small surplus

Source: HM Treasury, *Whole of Government Accounts 2018-19*.