

FRAB MEETING (119) ON 13TH DECEMBER 2013

A.O.B. PAPER FROM RON HODGES

GUARANTEES AND OBLIGATIONS OFF BALANCE SHEET

One of my continuing concerns with public sector financial reporting is the existence of Obligations Off Balance Sheet (OOBS) and the dangers that these result in inadequate public sector accountability and poor contracting. The use of PFI as an OOBS mechanism is perhaps the clearest example of these dangers in recent years, at least until the adoption of IFRS-based accounting.

There appear to be an increasing number of arrangements through which the government, on behalf of taxpayers, are providing guarantees to third parties for the promotion of particular government policies. The particular examples that come to mind include the guarantees of mortgage borrowing under the help-to-buy scheme and the recent guarantees given to support the construction of the Hinkley Point nuclear power station.

My concern is not with the individual policies, which is clearly a matter for government, but rather to ensure that the expected costs of such guarantees and any remaining contingent liabilities are fully and accurately disclosed in government financial statements together with information about the methods of estimation and measurement that have been used.

At this stage I would like to request that the Board be provided with information on the following matters:

1. How is it intended that costs and obligations of these two policy arrangements will be determined and reflected in the financial statements of the relevant departments and in the Whole of Government accounts.
2. Is there any indication currently of the extent of the costs and obligations to be recognised in 2013/14 for these schemes? If not, what is likely to be the process for determining these costs and obligations and when it is expected that they will be determined?
3. How is it intended that costs and obligations of these two policy arrangements will be determined and reflected in the resource budgets of the relevant departments from 2014/15?

Thank you.

Ron Hodges

3rd December 2013