Accrual adoption: Learning from the UK experiences

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Accrual adoption: Learning from the UK experiences

• Phasing the accrual transition
  – Entities
  – Transaction / account areas

• Managing the accrual programme
  – Central vs local
  – Building quality and compliance

• Embedding accrual in decision making
  – PFM frameworks
  – Culture change
Phasing the accrual transition – Entities (1): Gradual adoption across public sector

- Public corporations – commercial accounts
- Local government – partial then full accrual
- NHS providers – accrual from creation
- Central government – departments last to implement accrual at organisational level
- Public sector consolidation – Whole of Government Accounts (WGA)
Phasing the accrual transition – Entities (2): Why publish WGA? - The benefits

- **more complete** - provides a more complete picture of UK’s finances - as includes provisions (e.g. nuclear), pensions, contingent liabilities, future contracts (PFI)
- **decision making** - can support longer-term fiscal decision making – better quality information for ONS
- **improve efficiency** - drives conversion of accounting practices and aligning processes. Highlights discrepancies in interpretations of accounting standards
- **transparency** – ‘making public data public’
- **accountability** - improves accountability to Parliament - as the only audited set of data across the public sector
UK WGA 2013-14

Liabilities

- Net public service pension liability: £1,302 bn
- Government financing: £1,096 bn
- Other liabilities and provisions: £791 bn

Assets

- Net liability: £1,852 bn
- Property, plant and equipment: £763 bn
- Other assets and equity investments: £574 bn
## Whole of Government Accounts: Reconciliation of public sector net debt

<table>
<thead>
<tr>
<th>Description</th>
<th>2013-14 £bn</th>
<th>2012-13 £bn</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net public service pensions liability</td>
<td>(1,302)</td>
<td>(1,172)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(142)</td>
<td>(131)</td>
</tr>
<tr>
<td>PFI contracts</td>
<td>(33)</td>
<td>(32)</td>
</tr>
<tr>
<td>Unamortised premium or discount on gilts</td>
<td>(29)</td>
<td>(31)</td>
</tr>
<tr>
<td>Tangible and intangible fixed assets</td>
<td>763</td>
<td>747</td>
</tr>
<tr>
<td>UK Asset Resolution (UKAR) net impact on net debt</td>
<td>74</td>
<td>83</td>
</tr>
<tr>
<td>Payables and receivables</td>
<td>33</td>
<td>29</td>
</tr>
<tr>
<td>Investments</td>
<td>23</td>
<td>27</td>
</tr>
<tr>
<td>Network Rail</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Asset Purchase Facility</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>Other</td>
<td>84</td>
<td>71</td>
</tr>
<tr>
<td><strong>Public sector net debt (National Accounts)</strong></td>
<td>1,402</td>
<td>1,299</td>
</tr>
</tbody>
</table>
### Whole of Government Accounts: Reconciliation of current deficit

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net deficit for year (WGA)</strong></td>
<td>149</td>
<td>179</td>
</tr>
<tr>
<td>Public service pensions</td>
<td>(49)</td>
<td>(48)</td>
</tr>
<tr>
<td>Depreciation and Impairment of assets</td>
<td>(18)</td>
<td>(16)</td>
</tr>
<tr>
<td>Capital grants</td>
<td>(11)</td>
<td>(12)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(10)</td>
<td>(16)</td>
</tr>
<tr>
<td>Net gains/losses on sale of assets</td>
<td>4</td>
<td>(3)</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td><strong>Current deficit (National Accounts)</strong></td>
<td>73</td>
<td>84</td>
</tr>
</tbody>
</table>
Phasing the accrual transition – Entities (3):
Building WGA coverage – project timeline

- Central Government Departments; NDPBs; and Devolved Administrations
  - 01-02
  - 02-03
  - 03-04

- Local Authorities; NHS Trusts; Public corporations
  - 05-06
  - 06-07
  - 07-08
  - 08-09
  - 09-10
Phasing the accrual transition: Transactions / account areas:

- Accrual for individual entities covers:
  - Income (local taxation & charges for services)
  - Expenditure
  - Debtors and creditors
  - Property plant & equipment

- Extension to WGA required accrual accounts for:
  - Taxation (Income and Corporation Taxes, VAT etc)
  - Debt and currency /gold reserves
  - Employee pension schemes
Managing the accrual programme (1): IPSASB Study 14 – Success features

- Clear mandate
- Political commitment – major project
- Commitment of central entities and key officials
- Use of legislation
- Effective project management structure
- Adequate technological capacity and information systems; and
- Adequate resources (human and financial)
Managing the accrual programme (2): Central vs Local: Leadership

- Small HM Treasury project team
- Composition evolved with project
- Policy and legislation responsibilities
- Developed programme framework – timetables and milestones
- Programme management – monitoring and addressing emerging issues
- Stakeholder management - promotion and progress reporting
Managing the accrual programme (3): Central vs Local: Entity-level systems

• Departmental choice:
  – New System?
  – Bespoke or off-the-shelf?
  – New procedures?

• HM Treasury role:
  – Project team set timetable and high level output requirements
  BUT
  – No central system guidance
  – No Standard Chart of Accounts
Managing the accrual programme (4): Central vs Local: HMT Systems

- Implemented new consolidation system
- Excel consolidation packs
- Departmental sub-consolidations
- Addressed lack of data standardisation through
  - Accounting guidance changes
  - Developing Standard Chart of Accounts (SCoA)
- Original consolidation system re-implemented to integrate 3 HMT systems (COINS)
- Estimates, budgets, in-year reports, ONS data as well as WGA
Managing the accrual programme (5): Central vs Local: Systems development

- Standard Chart of Accounts (SCoA) only used for HMT data collection
- New transparency / transaction publication requirements
- COINS performance problems – complexity of framework pre-alignment
- OSCAR replacement – top level SCoA
- Aiming for Common Chart of Accounts (CCoA) for all departments
- Improved transparency, data consistency and comparability, plus efficiency improvements.
Managing the accrual programme (6): IPSASB Study 14: Reform periods

- Short (1-3 Years) – strong political support; few entities
- Medium (4-6 years) – increased preparation and implementation time
- Long – (6+ years) – risk of ‘reform fatigue’.
Managing the accrual programme (7):
CG Accrual accounts and budgets

- 1994 discussion paper
- 1996 policy adopted
- 1999 ‘Dry run’ accrual accounts
- 2000 first accrual accounts published
- 2001 last cash accounts published
- 2001/02 first accrual budgets; and
- 2003/04 full accrual budgets (including depreciation and provisions)
Managing the accrual programme (8): Data quality - Qualified CG audit reports

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>1999</td>
<td>30</td>
</tr>
<tr>
<td>2000</td>
<td>12</td>
</tr>
<tr>
<td>2001</td>
<td>9</td>
</tr>
<tr>
<td>2002</td>
<td>6</td>
</tr>
<tr>
<td>2003</td>
<td>3</td>
</tr>
<tr>
<td>2004</td>
<td>2</td>
</tr>
</tbody>
</table>
Managing the accrual programme (9): Improvements in timeliness

- Average time to submit accrual accounts to Parliament:
  - 2000: 310 days
  - 2001: 255 days
  - 2004: 210 days

- By 2010 all accrual accounts laid within 110 days of year end (pre Summer Parliamentary Recess)
Managing the accrual programme (10): WGA data problems

- Development of 1500 body consolidation from scratch
- Data submission rates built gradually
- Poor timeliness
- Poor data quality
- Identification and agreement of intra-government balances and transactions – large discrepancies
- Integration with other Treasury systems – COINS
Embedding accrual – PFM frameworks (1): Accrual accounting policies

- Government Resources and Accounts Act 2000
- IFRS adapted where necessary for public sector
- Adaptation process and criteria
- IPSAS as reference source (95% compliant)
- Financial Reporting Advisory Board oversight
- Annual FRAB reports to Parliament
Embedding accrual – PFM frameworks (2): Benefits of accrual budgeting

- Alignment of performance and accountability frameworks – what gets measured gets managed!
- Improved risk management and stronger value for money incentives
- Focus on asset management
- Management of working capital
- Transparent system with a single set of rules and numbers
- Less complexity if budgets and accounts are fully aligned......
Embedding accrual – PFM framework alignment

Then ... and Now

Amounts included under each framework (£bn) for departments’ 2008-09 resource plans. Excludes devolved administrations.
Embedding accrual – Culture change (1): Building the skills

- Limited accounting expertise initially
- Training decentralised
- Some centrally-written guides
- Gradual management and external financial reporting improvements:
  - Quality and timeliness.
- Mainstream role for Finance
- Increased number of qualified accountants
- Qualified Finance Directors on Department Boards (by 2007)
Embedding accrual – Culture change (2): CIPFA Role of CFO Statement
Embedding accrual – Culture change (3):
CIPFA Role of CFO Statement

The CFO in a public service organisations:

1. is a **key member of the Leadership Team**, helping it to develop and implement strategy and to resource and deliver the organisation’s strategic objectives sustainably and in the public interest;

2. must be **actively involved in**, and able to bring influence to bear on, **all material business decisions** to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation’s overall financial strategy; and

3. must **lead the promotion and delivery** by the **whole organisation** of **good financial management** so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Financial Officer:

4. must lead and direct a finance function that is resourced to be fit for purpose; and

5. must be professionally qualified and suitably experienced.
Embedding accrual – Culture change (4):
The CIPFA FM Model

- Strong FM as corporate responsibility
- Is financial management where we want it to be?
- Identifies priority areas for improvement
- Allows tracking over time
- Can be used to benchmark between organisations
- Can test organisational leaders skills in financial management

www.cipfafmmodel@cipfa.org.uk
Accrual adoption: Conclusions from UK experiences

• Accrual accounting and budgeting have improved transparency and PFM
• Need for phased approach – entities and account areas
• Time required for reforms – but not too much!
• Medium term approach (4-6 years) works well
• Coordinated programme from start to avoid unnecessary problems (and costs)
• Benefits maximised by PFM framework alignment
• Need to change culture as well as systems
• A long and continuing journey ...
Questions?

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