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

	2013-14	2012-13
	£bn	£bn
Net liabilities	**1,852**	**1,630**
Net public service pensions liability	(1,302)	(1,172)
Provisions	(142)	(131)
PFI contracts	(33)	(32)
Unamortised premium or discount on gilts	(29)	(31)
Tangible and intangible fixed assets	763	747
UK Asset Resolution (UKAR) net impact on net debt	74	83
Payables and receivables	33	29
Investments	23	27
Network Rail	34	34
Asset Purchase Facility	45	44
Other	84	71
Public sector net debt (National Accounts)	**1,402**	**1,299**

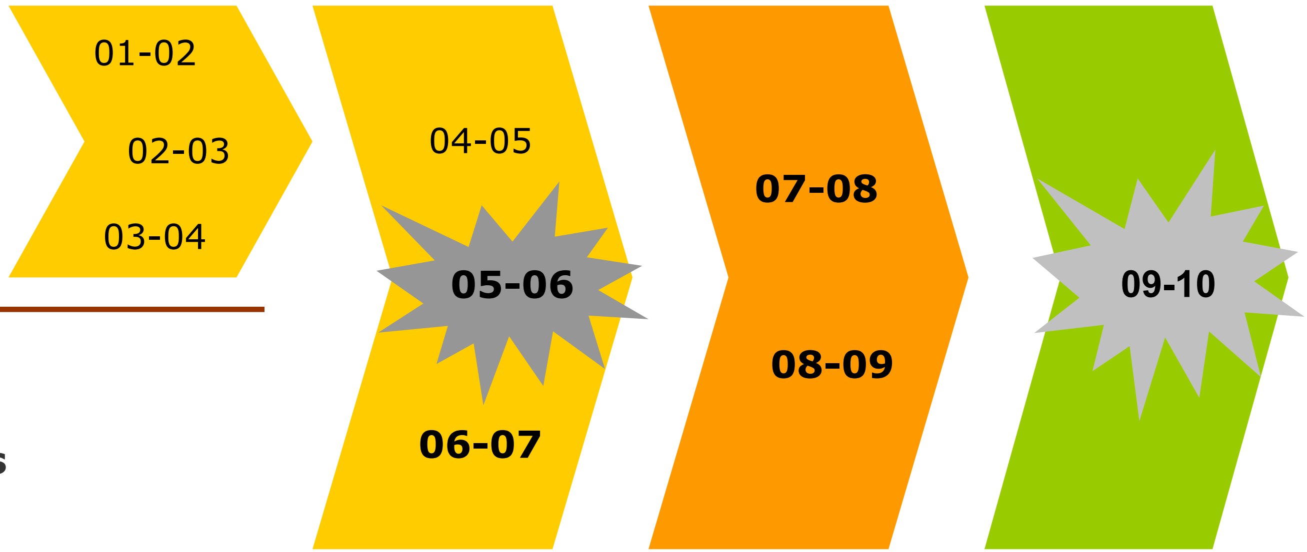
Whole of Government Accounts: Reconciliation of current deficit

	2013-14	2012-13
	£bn	£bn
Net deficit for year (WGA)	**149**	**179**
Public service pensions	(49)	(48)
Depreciation and Impairment of assets	(18)	(16)
Capital grants	(11)	(12)
Provisions	(10)	(16)
Net gains/losses on sale of assets	4	(3)
Other	8	-
Current deficit (National Accounts)	**73**	**84**

Phasing the accrual transition – Entities (3): Building WGA coverage – project timeline

Central Government Departments;
NDPBs; and
Devolved Administrations

Local Authorities;
NHS Trusts;
Public corporations



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.

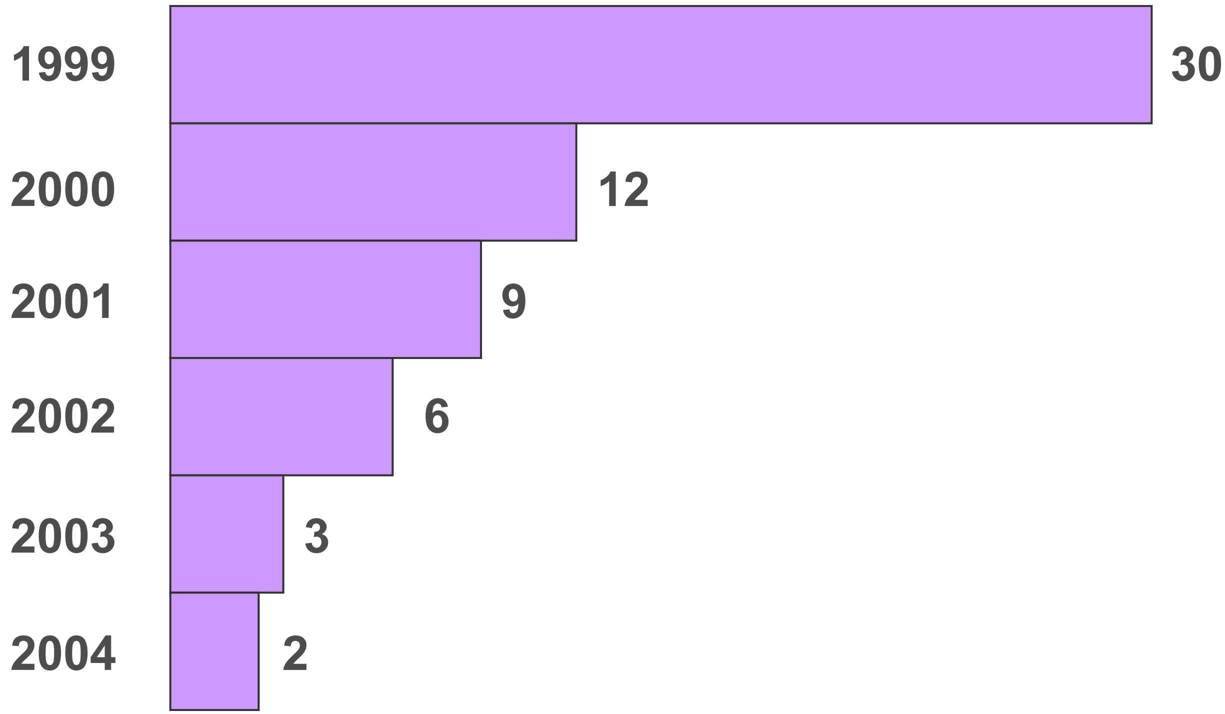
Managing the accrual programme (6): IPSASB Study 14: Reform periods

- 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



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……

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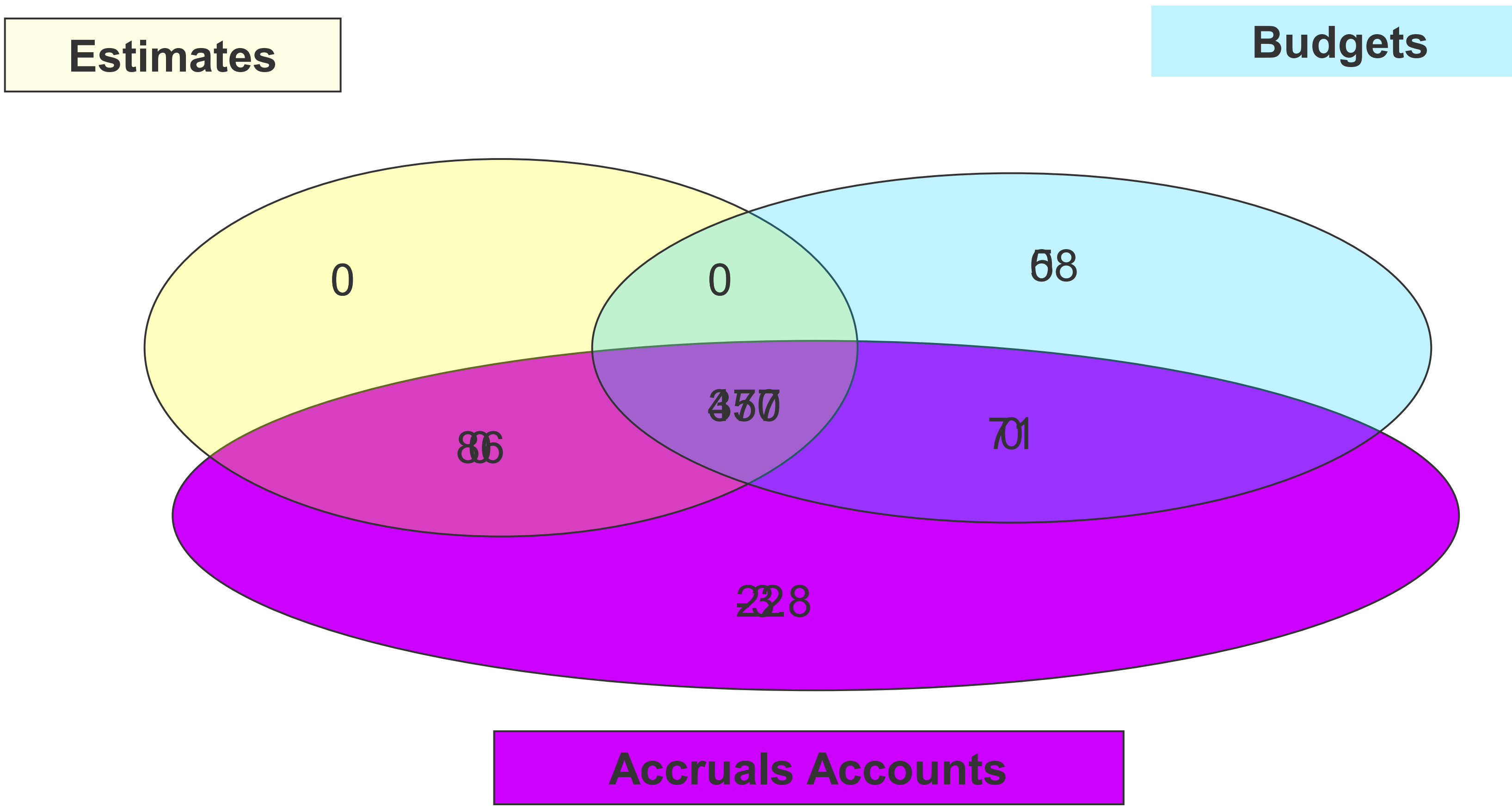
Embedding accrual – PFM framework alignment

Then … and Now

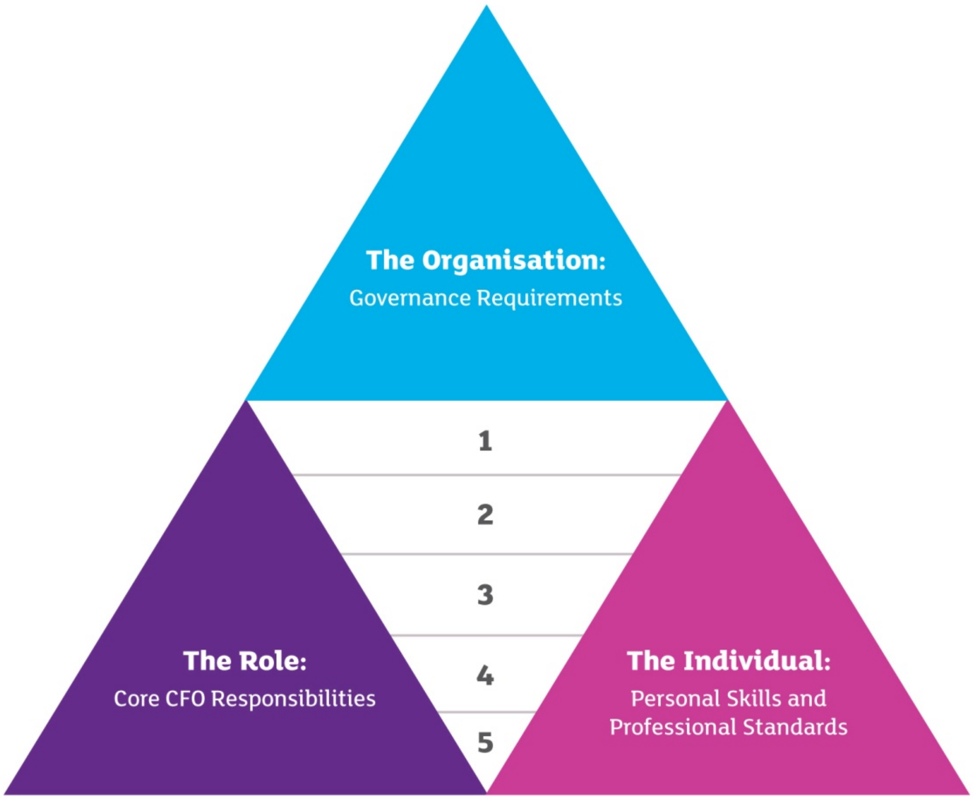


Amounts included under each framework (£bn) for departments’ 2008-09 resource plans. Excludes devolved administrations.

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



www.cipfa.org.uk/panels/finance_director/

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 <u>**and**</u> 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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