Is cash still king?
Maximising the benefits of accrual information in the public sector

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Our global reach in numbers

- 219,000 members and 527,000 students in 179 countries
- 110 offices and centres in 52 countries
- 67,000 public sector member and students around the world
- Over 100 years’ of working with governments to support better PFM.
Content

- Global transition: changes to reporting bases
- The benefits of accruals in the public sector
  - Accrual accounting, cash budgeting
  - Accrual accounting and budgeting
- Creating decision-useful information
- IFAC perspectives and ways to engage
- Q&A
A time of global transition: current reporting basis

Source: IFAC and CIPFA 2018
A time of global transition: projected reporting basis

2018:
- Cash: 30%
- Accruals: 25%
- Cash transitioning to accruals: 45%

2023:
- Cash: 17.5%
- Accruals: 65%
- Cash transitioning to accruals: 17.5%

Source: IFAC and CIPFA 2018
The benefits of accruals in the public sector

<table>
<thead>
<tr>
<th>BENEFITS</th>
<th>(A) CASH ACCOUNTING AND CASH BUDGETING</th>
<th>(B) ACCRUAL ACCOUNTING AND CASH BUDGETING</th>
<th>(C) ACCRUAL ACCOUNTING AND ACCRUAL BUDGETING</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Provides basic fiscal discipline</td>
<td>Facilitates public scrutiny</td>
<td>The benefits in Column B PLUS</td>
<td></td>
</tr>
<tr>
<td>• Simpler / intuitive for non-financial staff and the public</td>
<td>• Improved accountability</td>
<td>Puts finance at the heart of decision-making</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Provides fiscal credibility</td>
<td>• Embeds performance management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Achieving value for money and financially sustainable decision-making</td>
<td>• Improves medium-term forecasting and planning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Managing assets well and accounting for the maintenance backlog</td>
<td>o Further enhances fiscal credibility</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Managing liabilities and identifying fiscal risks</td>
<td>• Effective project management across government</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reducing fiscal illusions and improving incentives</td>
<td>• Embeds the finance function in day-to-day decision-making</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Supporting long-term thinking</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LEVEL OF COMPLEXITY</th>
<th>LOW</th>
<th>HIGH</th>
<th>MEDIUM</th>
</tr>
</thead>
</table>

Think Ahead
Column B: Accrual accounting, budgeting on a cash basis

- Transparency and facilitating public scrutiny
- Fiscal credibility
- Achieving value for money
  - Managing assets & accounting for the maintenance backlog
  - Managing liabilities & identifying fiscal risks
  - Reducing fiscal illusions & perverse incentives
  - Supporting long-term thinking
Reducing fiscal illusions

Identifying fiscal illusions
- Accounting boundary
- Timing of payments
- Classification and recognition
- Reducing net worth (e.g., sale of assets)

**Recommendation 11:** plan to produce a fully consolidated balance sheet

### Figure: UK WGA 2017–18 PSND to total WGA net liabilities

<table>
<thead>
<tr>
<th>Public Sector Net Debt (National Accounts)</th>
<th>2017-18 £bn</th>
<th>2016-17 £bn</th>
<th>2015-16 £bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add liabilities not recognised in National Accounts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net public sector pensions liability</td>
<td>1,865</td>
<td>1,835</td>
<td>1,425</td>
</tr>
<tr>
<td>Provisions</td>
<td>422</td>
<td>322</td>
<td>306</td>
</tr>
<tr>
<td>PFI contracts</td>
<td>33</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Adjust assets measured differently in national accounts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Purchase Facility</td>
<td>(200)</td>
<td>(127)</td>
<td>(50)</td>
</tr>
<tr>
<td>Unamortised premia on gilts</td>
<td>54</td>
<td>51</td>
<td>38</td>
</tr>
<tr>
<td>UK Asset Resolution (UKAR) net impact on net debt</td>
<td>(10)</td>
<td>(24)</td>
<td>(30)</td>
</tr>
<tr>
<td>Add assets &amp; liabilities excluded from measure of PSND:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>(1,208)</td>
<td>(1,168)</td>
<td>(1,120)</td>
</tr>
<tr>
<td>Investment property</td>
<td>(20)</td>
<td>(18)</td>
<td>(16)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(36)</td>
<td>(33)</td>
<td>(33)</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>(42)</td>
<td>(49)</td>
<td>(37)</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>(103)</td>
<td>(91)</td>
<td>(87)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(10)</td>
<td>(9)</td>
<td>(10)</td>
</tr>
<tr>
<td>Investments</td>
<td>(52)</td>
<td>(51)</td>
<td>(50)</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>53</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>62</td>
<td>59</td>
<td>55</td>
</tr>
<tr>
<td>Deduct liabilities not yet recognised in WGA:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing associations</td>
<td>-</td>
<td>(70)</td>
<td>(67)</td>
</tr>
<tr>
<td>Other adjustments including eliminations</td>
<td>(22)</td>
<td>(15)</td>
<td>(25)</td>
</tr>
<tr>
<td>Net liabilities (WGA)</td>
<td>2,565</td>
<td>2,421</td>
<td>1,986</td>
</tr>
</tbody>
</table>

Source: HM Treasury 2019-202
Column C: Accrual accounting and budgeting

The benefits of Column B and,

- Putting finance at the heart of decision-making
  - Embeds performance management
  - Improves medium-term forecasting and planning
  - Supports effective project management across government

“Managing the budget strengthens the hand of finance. If you want the finance function to be drivers of decisions, then accrual budgeting is critical to making sure that the function is a key element of decision making”

_Vicky Rock, Director Public Spending, UK Treasury_
Embedding performance management

Figure: Performance management – a New Zealand perspective

Recommendation 7: implement accrual budgeting in order to put finance at the heart of decision-making, while embedding performance management across government.
Creating decision-useful information

Figure: Key enablers of decision-useful information

- Setting a clear target: Objective setting
- Stakeholders
- Systems
- Skills
Setting a clear target: objective setting

Lessons learned on objective setting included:

▪ taking a whole-system approach
▪ building a long-term roadmap
▪ creating multiple checkpoints at which to measure success.

“An added benefit to the improved information an accrual accounting reform exercise brings, are the broader PFM improvements, when they are part of a comprehensive reform project’.

Ross Smith, Program and technical director, IPSAS Board
Stakeholders

- Advocacy
  - Broad political buy-in
  - Non-finance staff

- Challenge
  - Public audit
  - Legislative committees
Lessons learned on systems included:

- Central vs devolved implementation
- Reporting flexibility
- Building in incentives

“We were conscious of the incentives [for] departmental managers and indeed, on ministers. We introduced the capital charge because to give organisations the incentive to use capital more efficiently”

Ian Ball, ex-CEO IFAC
Skills

Lessons learned on skills included:

- build internal capacity within the public sector
- establish clear career paths, and
- receive the right external support.

ACCA’s certificates in:

- Public Financial Management, and
- International Public Sector Accounting Standards

Final consideration: balance the right systems with the skills available
Perspectives from IFAC

• After COVID-19: how accounting transparency can help with the tough decisions ahead

• **New approach** to accountancy education
  – Accountancy Education E-Tool
    • Revised International Education Standards
    – [Illustrative learning outcomes for the public sector accountancy curricula](#)
    • Sign up to stay informed, send an email to AltaPrinsloo@ifac.org

• We need your help (post COVID-19)
  – IPSAS train the trainer originally developed by IPSASB staff—update?
  – Transition to the accrual basis of accounting: guidance for governments and government entities—project brief to update the [2010 version](#)
  – International Public Sector Financial Accountability [Index](#)—update postponed
What’s Next – Public Sector Professional Insights for 2020/21

1. Public sector financial health after COVID-19
   • June / July 2020

2. New Models of Public Procurement
   • November 2020

3. Accounting Standards for SOEs
   • March 2021
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