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# OECD Public Sector Accruals Symposium: UK Update

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## Coverage

Context: Fiscal responsibility

Treasury's Financial Management Objectives

IFRS

Whole of Government Accounts

Alignment





## Fiscal Framework: 5 principles of fiscal management

- transparency in the setting of fiscal policy objectives, the implementation of fiscal policy and the publication of the public accounts;
- stability in the fiscal policy-making process and in the way fiscal policy impacts on the economy;
- responsibility in the management of the public finances;
- fairness, including between generations; and
- efficiency in the design and implementation of fiscal policy and in managing both sides of the public sector balance sheet.





## Fiscal Responsibility Act 2010

- The Act sets out the Government's first legislative fiscal plan, the Fiscal Consolidation Plan (FCP):
- Extends from 2009-10 to 2015-16, requiring that the Government:
  - halves public sector net borrowing as a share of GDP over four years from its forecast peak in 2009-10 to be 5.5% of GDP or less in 2013-14 (in secondary legislation);
  - reduces borrowing as a share of GDP in each and every year from 2009-10 to 2015-16; and
  - ensures that public sector net debt is falling as a share of GDP in 2015-16.





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## Treasury's Financial Management Objectives

Promote improvements in the effectiveness of financial management and finance professionalism in Government

Implement reporting frameworks that build on best practice and deliver efficient, effective and transparent reporting mechanisms for Government financial data

Promote excellent accountability in the use of public funds through setting standards of governance, risk management and internal control





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## IFRS Objectives

- Improved financial management
- Budget 2007 and Budget 2008
- Improved accountability
- Best practice financial reporting standards for public interest entities
- Private vs Public sectors
- Use of Economic Resources





## IFRS - Timetable

- Trigger points 3 and 4: Restatement of 2008-09 Accounts and their audit – Central Government (and NHS)
- Devolved Governments – similar timetable
- Supply Estimates and forecasts for 2009-10
- Parliamentary Summer recess 2010: 2009-10 Resource Accounts
- Local Government 2010-11
- Whole of Government Accounts





## IFRS Issues – Departments and Arm's Length Bodies

- Service Concession Arrangements, leases, financial instruments (UK GAAP) (IFRIC 12)
- Recognition of Intangible Assets (IAS 38)
- Leases (IFRIC 4 / IAS 17)
- Leave accruals (IAS 19)
- Segment Reporting (IFRS 8)
- Foreign currency gains / losses (IAS 21)
- Opening balances (IFRS 1/ IAS 1)
- Machinery of Government changes







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## Whole of Government Accounts and the Alignment Project

**WGA is part of the financial management agenda:**

Only audited set of data across the public sector – improving transparency and accountability to Parliament and tax payers

More complete picture of government finances as WGA includes provisions and contingent liabilities

More accessible for users as WGA is prepared using generally accepted accounting principles (IFRS)

Potential to support longer-term fiscal decision making





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## Whole of Government Accounts and the Alignment Project

**Alignment is also part of this agenda:**

Parliament wants to have better control over public spending – currently limited influence as what Parliament votes is different from Treasury controls

Simplifies the reporting of public expenditure to make it more transparent and easier to understand

Departments can manage their financial resources more easily if only one set of measures and controls apply





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## Whole of Government Accounts and the Alignment Project

### Background to WGA

First stated as Government's intention in Code for Fiscal Stability 1998

Embedded in Government Resources and Accounts Act 2000 (with separate legislative / administrative arrangements for Scotland / NI)

Dry runs commenced in 2001-02 initially only for central government, with WGA first expected to be published 2005-06

Deferred to 2008-09, but then again to 2009-10 when IFRS was delayed a year for central government

Orders laid to allow account to be published for 2009-10





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## Whole of Government Accounts and the Alignment Project

### What is WGA?

Set of accounts based on International Financial Reporting Standards and encompassing the whole of the public sector (central government, devolved administrations, NHS, local authorities, public corporations)

Will look and feel like a set of private sector accounts and include management commentary, primary statements and a full set of notes

Ultimately, will enable comparisons to be made across central government, local government, NHS and public corporations as information will be prepared on the same basis





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## Whole of Government Accounts and the Alignment Project

### Risks and Issues

Submitters do not hit deadlines

Quality of submissions is poor – inability to eliminate counterparty transactions and balances

Lack of convergence – different timetables for the implementation of IFRS and infrastructure assets

Dispute over which entities should be included in WGA





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## Whole of Government Accounts and the **Alignment Project**

### **Aims of the project**

**To modernise the public spending system** to make it more transparent and accountable

**To simplify the reporting of public expenditure** to make it easier to understand

**To make it easier for departments to manage their financial resources** and to strengthen value for money incentives.

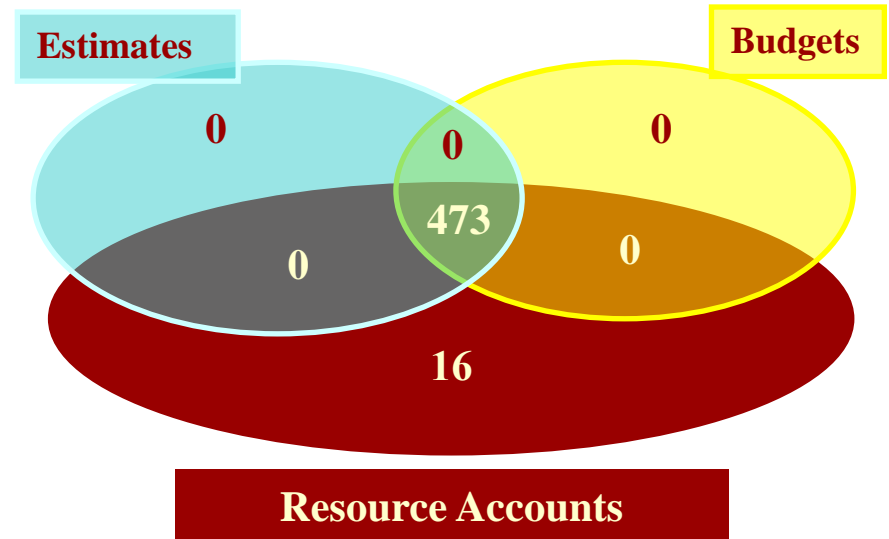
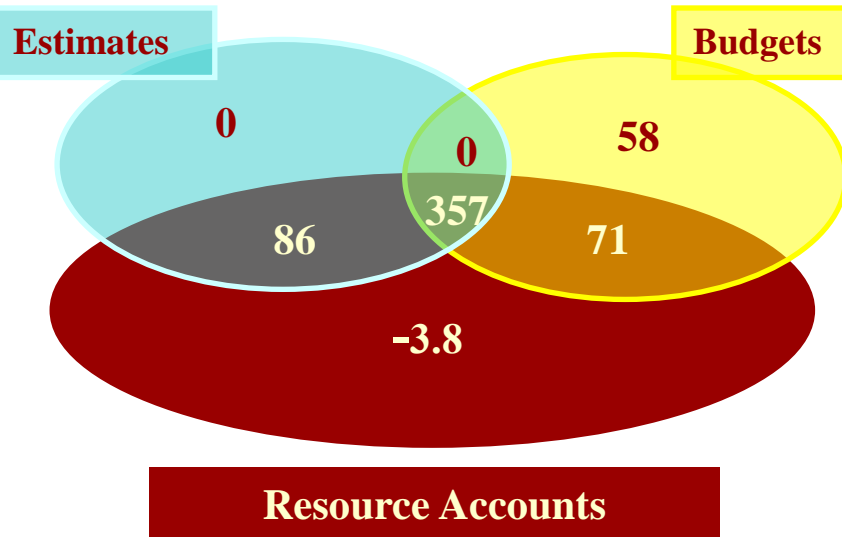




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## Existing financial frameworks – the problem of misalignments

What the proposed changes would mean.....



Amounts included under each framework (£bn) for 2008-09 plans on central Treasury systems as at August 2008. Excludes devolved administrations.





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## Whole of Government Accounts and **the Alignment Project**

### **The main changes...**

Parliament will vote budgetary limits (DEL, AME, plus NCR)

Estimates will be extended to cover areas of spending that are currently not voted

The spending of NDPBs will be consolidated into Estimates and resource accounts

Estimates will be voted net of income

Revisions to budgetary framework (to remove the distinction between cash/non-cash, provisions, cost of capital charge)

Only three spending publication events each year







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## Whole of Government Accounts and the **Alignment Project**

### **Implementation timetable**

**2009-10:** preparing for implementation – guidance, systems, training, legislation

**2010-11:** implementation of budgetary changes, dry running of Estimates and resource accounts on new basis

**2011-12:** full implementation – live running of Estimates and resource accounts on aligned basis

**2012-13:** produce combined Departmental Reports and Accounts for 2011-12





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