



Improving Public Financial Management: A view from the front-line

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Improving Public Financial Management

- Context
- There are some challenges...
- Tackling the challenges
- Is better accounting the answer?
- The to-do list...
- A role for the accountancy profession

Context: the whole point of the exercise

The well-managed public finances!

High quality public accounting is necessary to deliver:

- Meeting the **legitimate expectation** of citizens
- Taxation that is **fair**
- Better **value for money** for public expenditure
- High **quality public services**
- Provide **Confidence** to institutional investors
- Enable **stability** and **growth**

Context: the whole point of the exercise

To manage the public finances well implies:

- **Accountability** for public money
- Accurate records of **Assets and Liabilities**
- 'No surprises' on payables and receivables
- Good understanding of **cause and effect relationships**
- **Accurate forecasting** of the cost of delivering policies

Even in relatively advanced countries, for example UK, New Zealand, Australia, there is still some way to go...



“...shortfalls in financial management have significant consequences. The over-commitment in future spending plans has led to additional savings being necessary. During 2009-10, the Department had to find additional savings of £800 million to bring its planned expenditure back into line with its budgets. Finding these reductions mid-year is a time-consuming and de-stabilising exercise. Many areas have to revisit or adjust their plans leading to delays, material changes to project specifications and costly renegotiation of contracts with industry. Delaying projects also leads to significant increases in the project cost.”

Sir Amyas CE Morse

Comptroller & Auditor General

Improving Public Financial Management

Some of the challenges....

The completeness challenge: what is inside the financial management boundary?

- what entities are included?
- what assets?
- what liabilities?

Who decides where the boundary is?
How often does the boundary change?



The existence challenge: are the records accurate?

Over 2.5 million lines of inventory in over 1000 locations....

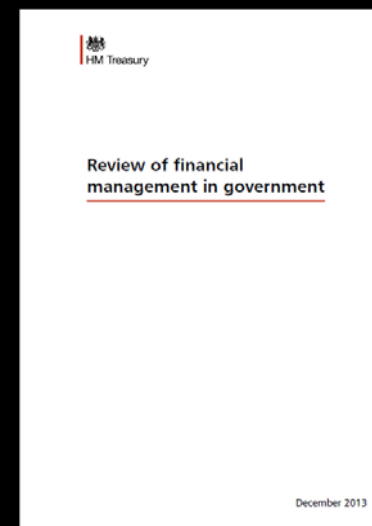
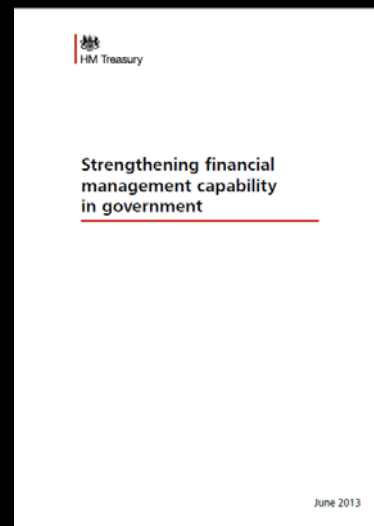
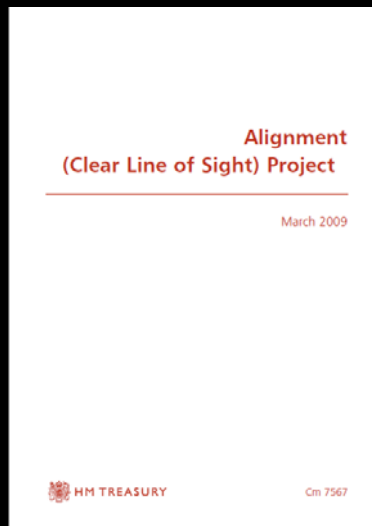
The valuation challenge - what is it worth?

- purchase price?
- replacement value?
- does it matter?



Tackling the challenges

No shortage of initiatives to improve public financial management!



It is not enough to implement modern accounting

Tackling the Challenges: WGA



HM Treasury

Whole of Government Accounts 2013-14 key facts and figures

Whole of Government Accounts is a consolidated set of financial statements, based on international accounting standards, for the UK public sector. It shows the income received by the public sector, what it pays out and is charged by way of expenditure, what it owns (assets), and what it owes (liabilities). Below are extracts from the 2013-14 account.

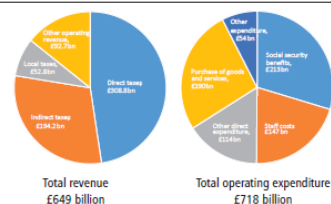
Headline figures

Operating revenue:	£649 billion	Total assets:	£1,337 billion
Operating expenditure:	£718 billion	Total liabilities:	£3,189 billion
Net financing costs:	£79 billion	Net liabilities:	£1,852 billion
Net expenditure:	£149 billion		

Revenue and expenditure

The government's revenue comes mostly from taxes and is used to fund expenditure such as the delivery of frontline services, social security benefits and staff costs.

Net expenditure reduced by £30 billion from £179 billion in the 2012-13 to £149 billion in 2013-14 largely due to increased tax revenues and stabilisation of overall expenditure.



Assets and liabilities

Total liabilities increased to £3,189 billion from £2,925 billion (restated) in 2012-13, and comprised:

- £1,302 billion liability for public service pensions
- £1,096 billion of debt in the form of government borrowing
- £791 billion of trade and other payables, provisions and other liabilities.

Total assets increased to £1,337 billion from £1,298 (restated) billion in 2012-13, and comprised:

- £763 billion of land, buildings, dwellings, infrastructure and other property, plant and equipment
- £574 billion of trade and other receivables, loans and deposits with banks, and other assets.

Working capital is a measure of current assets less current liabilities and was negative £443 billion. It included £212 billion of government borrowing due to be repaid within one year as part of normal financing arrangements of its operations.

	2010-11 £bn	2011-12 £bn	2012-13 £bn	2013-14 £bn
Property, plant and equipment	714	744.5	746.8	762.6
Gold, cash and other financial assets	254.6	282.1	311.2	324
Trade receivables	145.1	141.9	138.9	149.1
Equity in public sector banks	59.5	40.8	40	43
Intangible assets	34.8	35.2	34.5	31.9
Other physical assets	26.3	26.1	26.1	26.7
Total Assets	1,234.30	1,270.60	1,297.50	1,337.30
Public sector pensions	961	1,005.80	1,171.90	1,301.90
Government borrowing	908.2	965.5	996.2	1,096.10
Financial liabilities	295.4	374.3	472.8	490.6
Trade payables	148.4	158.9	153.5	158.7
Provisions	107	113	131	141.8
Total Liabilities	2,420.00	2,617.50	2,925.40	3,189.10
Net Liabilities	1,185.70	1,346.90	1,627.90	1,851.80
% of GDP	75%	83%	100%	111%

Government operating revenue and expenditure

Revenue

	2011 £bn	2012 £bn	2013 £bn	2014 £bn
Direct taxes	296	291	289	309
Indirect taxes	166	178	179	194
Local taxes	53	55	56	53
Other revenue	99	93	96	93
Total operating revenue	614	617	621	649



The primary source of revenue is taxation, being 86% of total public sector income. The primary purpose of the tax system is to raise revenue to fund public services and other government activities.

Tax revenue increased in 2013-14 to £556 billion from £524 billion in 2012-13, a £32 billion increase overall in tax receipts comprising:

a £20 billion increase in direct tax receipts; a £15 billion increase in indirect tax receipts such as VAT; offset by a £3 billion decrease in receipts from local taxes.

Other operating revenue included revenue from sales of goods and services, fees, levies and charges.

Expenditure

	2011 £bn	2012 £bn	2013 £bn	2014 £bn
Social security benefits	204	210	215	213
Purchase of goods and services	187	178	182	190
Wages and salaries	153	149	148	147
Grants and subsidies	68	62	56	60
Other expenses	51	49	65	54
Direct spend	663	648	666	664
Expenditure relating to revaluations	(38)	67	51	54
Total operating expenditure	625	715	717	718

Direct spend in 2013-14 was £2 billion lower than the previous year. This was incurred in the direct delivery of the government's policies. Other items of operating expenditure result from the revaluation of assets and liabilities, which are outside the direct control of individual entities within WGA and can be volatile in nature.

Total expenditure in 2013-14 was £718 billion. This figure is consistent with the amount spent in 2012-13.

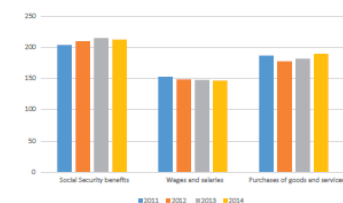
The most significant elements of expenditure were social security benefit payments, goods and services purchased to meet operational requirements, and the cost of employing staff in the public sector. Other expenses include depreciation of property plant and equipment, the write-off of debt not collectible, as well as other costs associated with the delivery of front-line services.

Social security benefits, goods and services, and staff costs

Social benefit payments have decreased in the year to £213 billion, a decrease of £2 billion from the previous year. Housing benefit fell by £1.2 billion from £28.5 billion to £27.3 billion (4.2%), this is due to continuing welfare reforms.

Purchase of goods and services have increased by £7.5 billion. The largest area of spend (£54 billion) was on health for the purchase of clinical supplies, medical services and costs of prescriptions, with the remaining costs spread across all areas of the public sector.

Staff costs include costs for all permanent and temporary staff and contractors in the public sector including those involved in the delivery of front line services. There was an overall slight decrease in wages and salaries due to continuing pay restraint in the sector.



Is better accounting the answer?

- Effective financial management needs complete, accurate and timely numbers, consistently presented – this is the start point but...
- ...the real value comes from using the numbers to support policy and decision making:
 - Trend analysis
 - Analytical review
 - Cause & effect relationships
- Value also comes from the experience of putting theory into practice “trying stuff out” & the associated learning
 - Process of iterative implementation develops insight
 - Decision makers start to think differently with new information

The 'to-do' list:

20 years on we still have not fully embedded modern financial management in the **thinking of policy makers**:

- We've got the information – we've only just started to use it!
- Financial systems are still not well joined up
- Too much 'building on the rubble'
- Challenge of creating an 'efficiency culture'

Keeping a cadre of **skilled finance staff** requires on-going effort:

- Need a long term strategy to create a 'pipeline' of professional staff
- Need to think carefully about recruitment & retention
- Talent management is the key

A role for the accountancy profession?

Good quality accounting which links costs to outputs can:

- enhance visibility and understanding of the cost of delivering public services
- help recognise the actual cost of policies; and
- Improve financial planning to increase spending power!

Professionally skilled finance staff can:

- Develop a long term financial strategy and associated risk management strategy to support delivery
- Create a culture of greater efficiency
- Help prioritise resources to deliver outputs!



A world leader
of the accountancy
and finance profession