FOCAL

Foro de Contadurías Gubernamentales de América Latina

VI FORO DE CONTADURÍAS GUBERNAMENTALES
DE AMÉRICA LATINA Y EL CARIBE

Benefits of Accrual in Strengthening PFM

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- Esta apresentação está disponível em Português:
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Session Outline: Benefits of Accrual in Strengthening PFM

Benefits of Accrual

Making the Changes Happen

IPSAS / IPSASB background

Enhanced financial credibility

- Only global financial reporting standards for public sector
- Independent international board of public sector finance experts
- Independent governance (PIC) and advisory arrangements (CAG)
- Address key public sector issues
- Aligned private sector IFRS and / or GFS where appropriate
- One third of pronouncements wholly / mainly public sector specific

Transparency and trust

- Legislature and electorate
- Financial markets

Credibility demands comparability

Public Sector Conceptual Framework

Financial Reporting Objectives:

- Accountability
- Decision making

Apply for both Whole of Government and individual agency financial statements

<u>Accrual – based</u> information to deliver both objectives

Key characteristics:

Benefits of accrual (1):
What do you know about the past?

Compared with cash accrual provides:

- Complete data on:
  - Assets – tangible and intangible
  - Liabilities – PPPs, provisions, guarantees
- Plus at Whole of Government level:
  - Public sector employee liabilities
  - Government debt
- Complete overall financial position
- Accountability for past decisions
- Resulting future funding commitments

Benefits of accrual (2): UK WGA 2018 balance sheet

Assets

Property, plant and equipment
£1,208 bn

Other assets and equity investments
£806 bn

Net liabilities
£2,565 bn

Liabilities

Net public service pension liability
£1,865 bn

Government borrowing
£1,347 bn

Other liabilities and provisions
£1,367 bn

Benefits of accrual (3):
Public Sector Net Debt vs WGA Net Worth

	2016-17	2017-18
	£bn	**£bn**
Public Sector Net Debt (National Accounts)	**1,727**	**1,779**
Liabilities not recognised in National Accounts:		
- Net public service pensions liability	1,835	1,865
- Provisions	322	422
- PFI contracts	33	33
Assets measured differently in National Accounts	(100)	(156)
Assets excluded from PSND:		
- Property plant and equipment	(1,168)	(1,208)
- Other	(202)	(210)
Liabilities excluded from PSND: Accruals and deferred income	59	62
Liabilities not in WGA: Housing Associations	(70)	-
Other adjustments (including eliminations)	(16)	(22)
Net liabilities (WGA)	**2,420**	**2,565**

Using better asset information in practice:
UK Balance Sheet Review

- **Getting smarter about IP and other knowledge assets**
- **Linking to physical information – first ever geo-spatial National Asset Register**
- **Stricter disclosure requirements for asset sales**
- **New centre of asset management best practice for NHS**
- **Improved debt management**
- **Also managing liabilities better:**
  - Stricter controls over guarantees and contingent liabilities
  - Reduced proportion of index-linked gilts
  - Improving incentives and compensation for insurance to private sector

Benefits of accrual (4):
What do you know about the present?

Compared with cash accrual provides:

- Full cost of service provision:
  - Use of assets
  - Liabilities incurred
- Actual financial performance
- Ability to determine charge / subsidy levels
- Full information to compare options - efficiency
- Affordability of current and new programmes
- Plus at Whole of Government level:
  - Taxation due
  - Overall surplus or deficit

Benefits of accrual (5):
UK WGA Reconciliation of deficits

	2016-17	2017-18
	£bn	£bn
Public sector current budget deficit (National Accounts)	**7**	**(1)**
Excluded from National Accounts: Increase in provisions	7	5
Measured differently in National Accounts:		
- Depreciation and amortisation	(10)	(9)
- Impairments and revaluations	15	25
- Capital grants	9	9
- Research and development	2	2
- Other adjustments	10	23
Financing of long-term liabilities (inc. discounting)	68	154
Revaluation of financial assets and liabilities	(10)	5
Total net expenditure (WGA)	**98**	**213**

Benefits of accrual (6):
What do you know about the future?

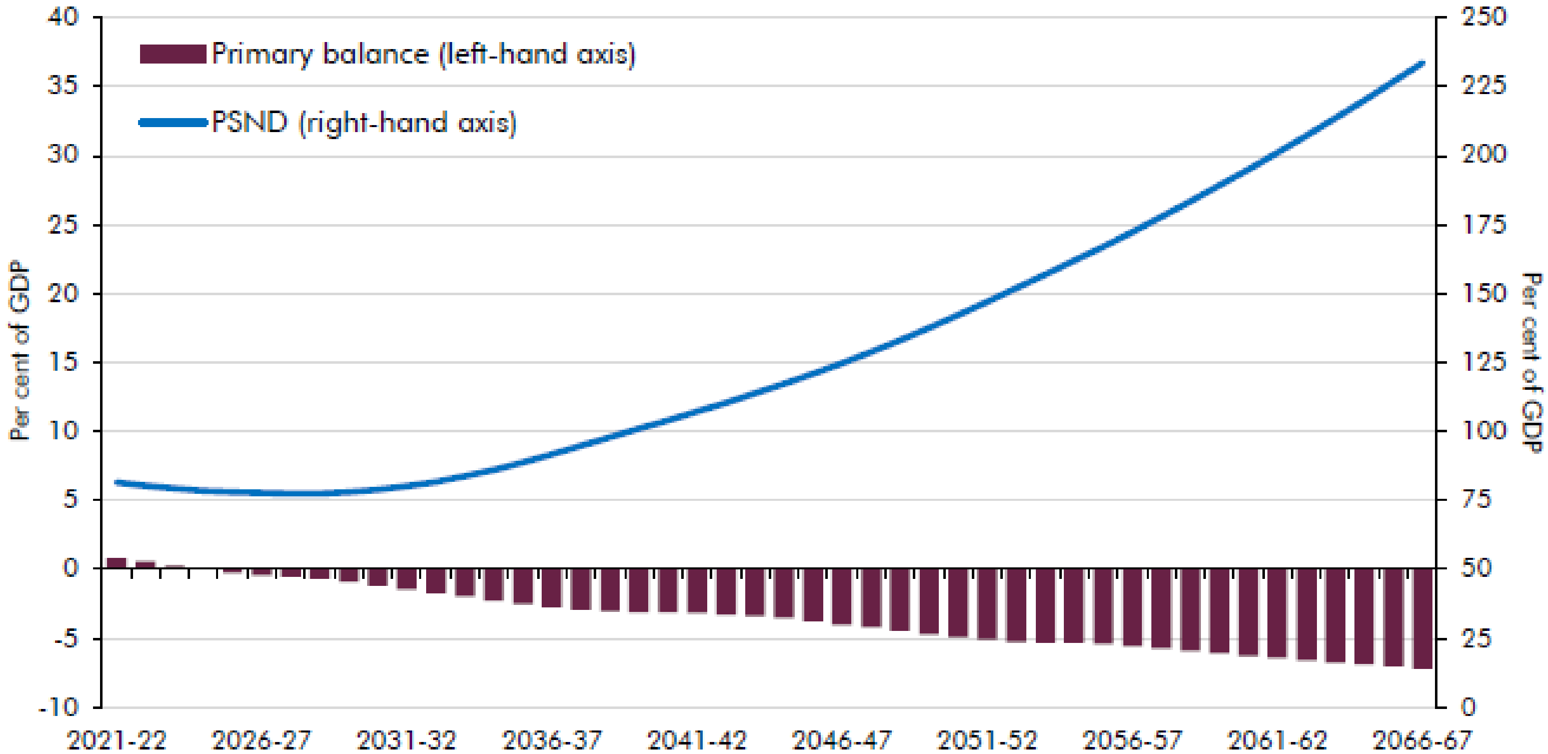
Compared with cash accrual provides:

- Funding requirements and risks for:
  - o Asset maintenance / replacement
  - o Settling existing liabilities
- Entity’s ongoing ability to finance activities
- Plus at Whole of Government level basis for assessing:
  - o Impact of demographic changes
  - o Sustainability of current policies / services
  - o Scope for services changes

Assessing Long-Term Financial Sustainability: Accrual-based information as foundation

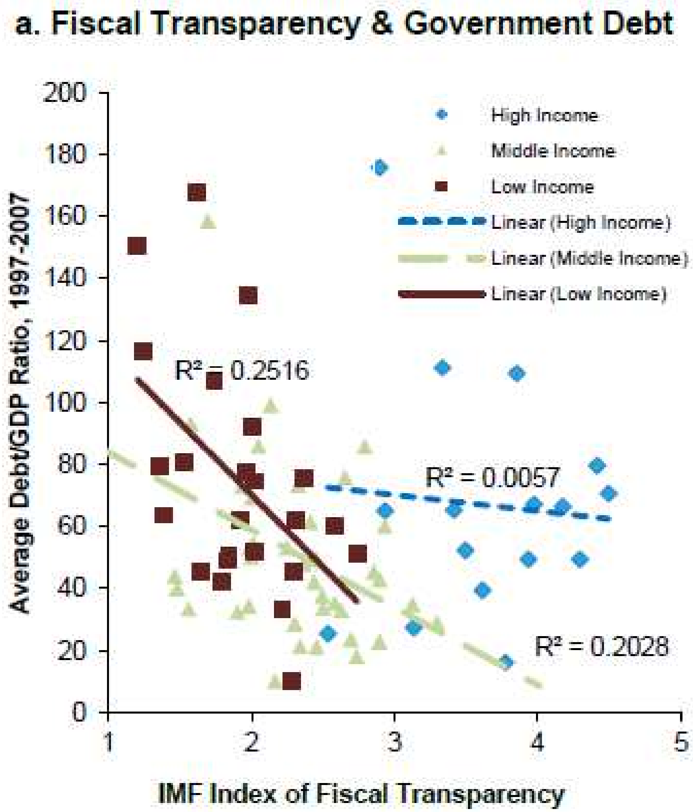
	Past cash flows	Future cash flows
Inflows	Assets obtained and realized to date	Present economic benefits realized in the future (Assets) Expected resources to be realized in the future
Outflows	Liabilities incurred and settled to date	Expected obligations to be settled in the future Present economic sacrifices settled in future (Liabilities)

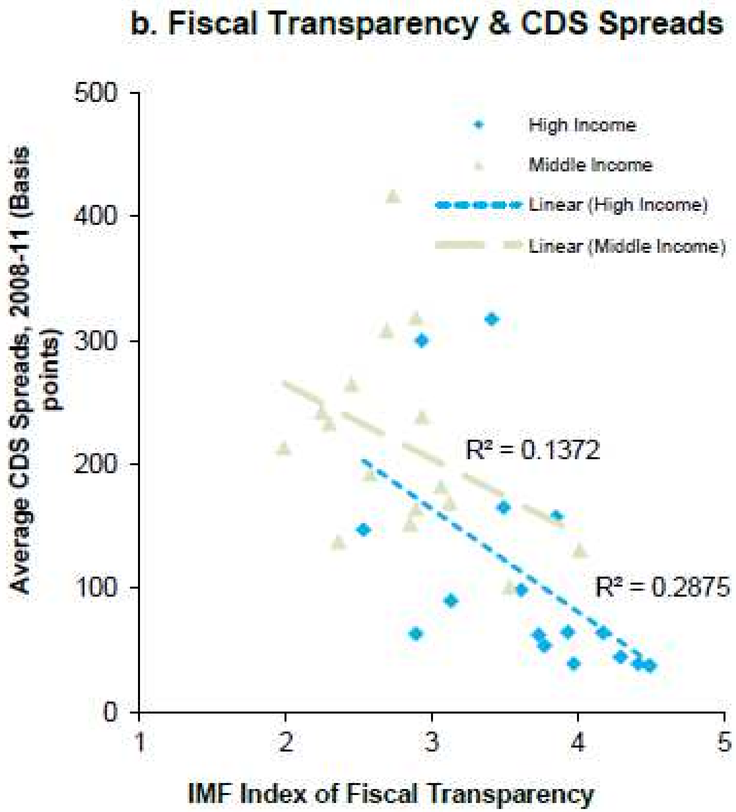
Understanding the longer term challenges:
UK Public Sector Finances……



Source: OBR

Increased transparency has a real world impact…
Less debt and lower interest rates





IMF Fiscal Monitor Conclusions

- Balance sheet approach complements existing debt approach
- Strengthens statistical and accounting systems
- Consider alternative indicators: Net Worth and liquid assets

BUT

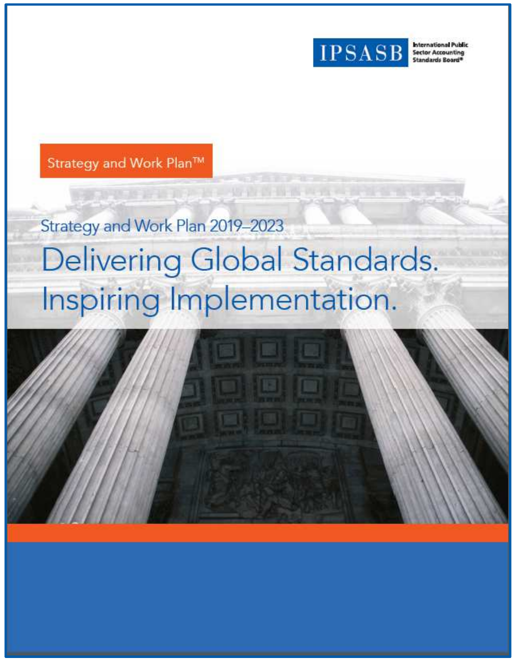
- Assets are more volatile than debt
- Many assets illiquid and not marketable
- Data availability issues
- Measurement problems

2019-2023 Strategy and Work Plan: Delivering Global Standards. Inspiring Implementation.

Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS.

This Strategic Objective will be delivered through two main areas of activity both of which have a public interest focus:

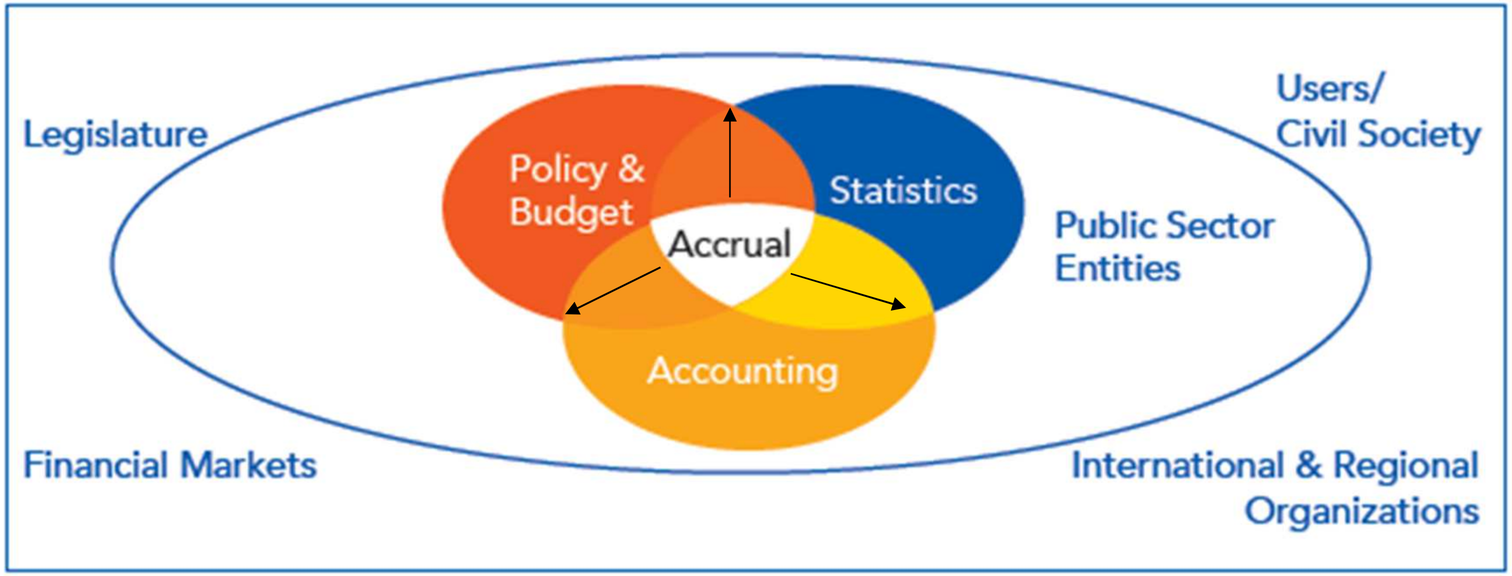
Delivering Global Standards: Developing and maintaining IPSAS and other high-quality financial reporting guidance for the public sector	**Inspiring Implementation**: Raising awareness of IPSAS and the benefits of their adoption



Theme E: Advocating the benefits of accrual in strengthening PFM

In order to maximize the benefits of accrual-based information, it should be used for as many purposes as possible:

Uses/Users of accrual in PFM



Questions, discussion & further information

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