

Making the case for accrual-based IPSASs

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Session outline

- Case for accrual
- Case for IPSASs
- Realising full potential benefits of IPSASs

Why strong PFM is essential

- Government depends on trust
- Poor Public Financial Management:
 - Allows waste
 - Encourages corruption
 - Reduces ability to collect taxes
 - Adverse impact on services
- Government expenditure typically 30%-40% GDP
- Poor PFM impacts on rest of economy and investor perceptions

Why strong PFM is essential (2)



or



Adoption of accrual-based reporting crucial to strong PFM

Case for accrual (1): What do you know about the past?

Compared with cash accrual provides:

- Complete data on:
 - Assets
 - Liabilities
- Plus at Whole of Government level:
 - Public sector employee liabilities
 - Government debt
- Overall financial position
- Accountability for past decisions
- Resulting future funding commitments



Case for accrual (2): UK WGA 2014 balance sheet

Liabilities	Assets
Net public service pension liability £1,302 bn	Net liability £1,852 bn
Government financing £1,096 bn	Property, plant and equipment £763 bn
Other liabilities and provisions £791 bn	Other assets and equity investments £574 bn

Case for accrual (3): UK WGA

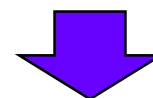
Reconciliation of public sector net debt

	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

Case for 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
- Affordability of current and new programmes
- Plus at Whole of Government level:
 - Taxation due
 - Overall surplus or deficit



Case for accrual (5): UK WGA

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

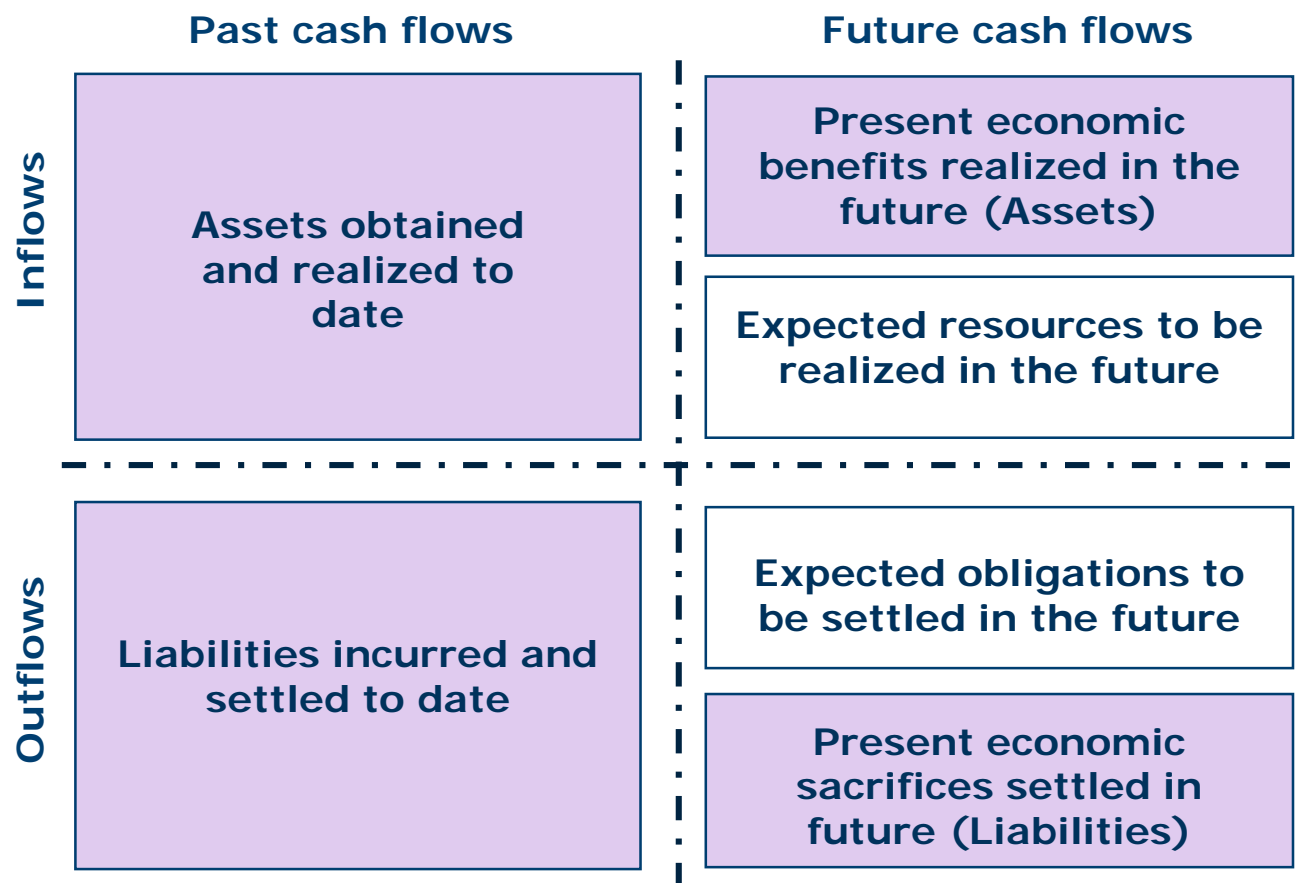
Case for accrual (6): What do you know about the future?

Compared with cash accrual provides:

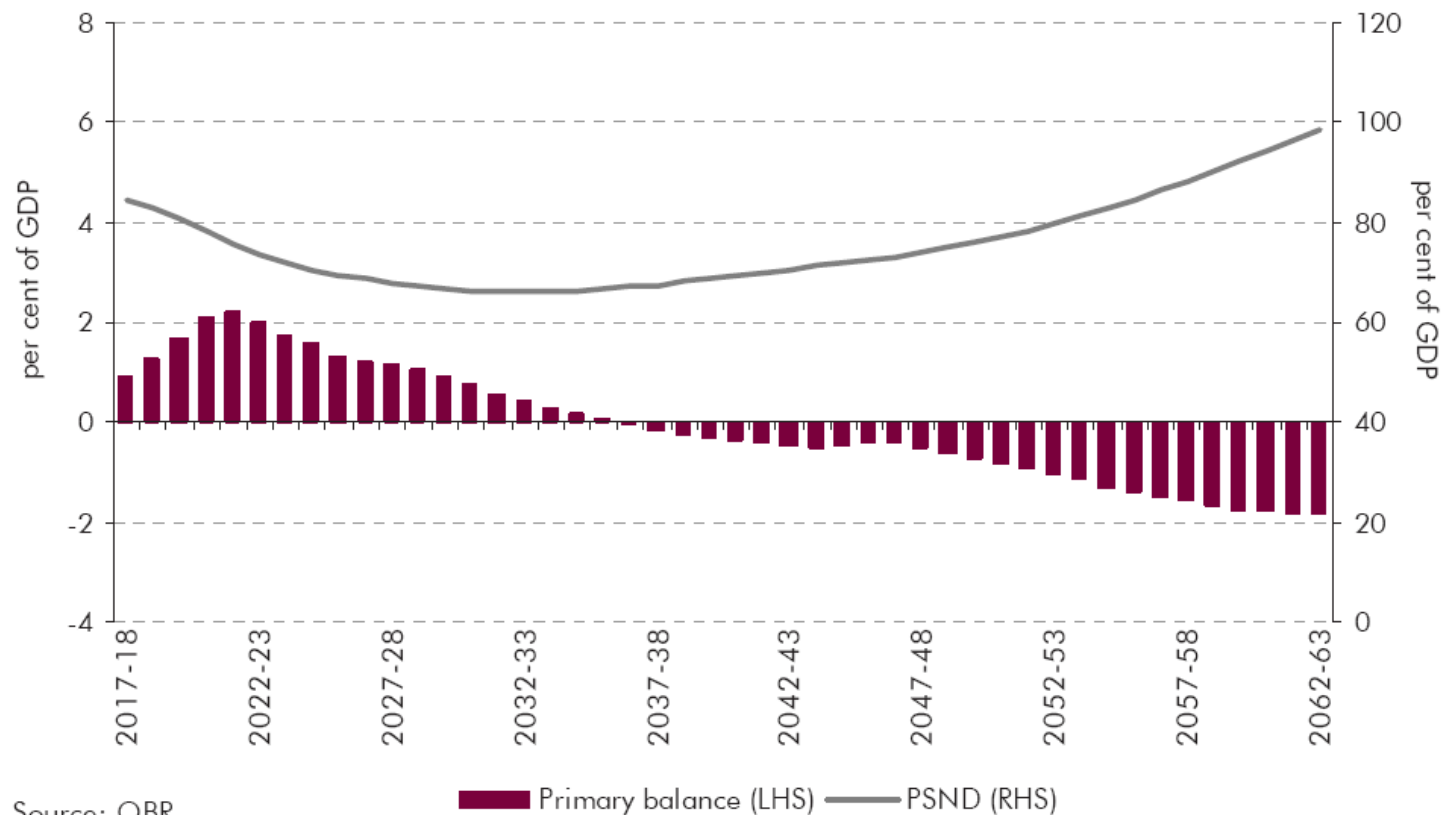
- Funding requirements for:
 - Asset maintenance / replacement
 - Settling existing liabilities
- Entity's ongoing ability to finance activities
- Plus at Whole of Government level basis for assessing:
 - Impact of demographic changes
 - Sustainability of current policies / services
 - Scope for services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



Case for Accrual (7): Balance sheet basis for financial sustainability projections



UK Public Sector Finances: The longer term challenges



Source: OBR

Case for IPSASs

Enhanced financial credibility

- Only internationally-recognised financial reporting standards for public sector
- Set by independent international board of public sector finance experts
- Based on private sector IFRS where appropriate
- Specifically addressing key public sector issues

Transparency and trust

- Legislature and electorate
- Financial markets

Credibility demands comparability

IPSASs: Realising full potential benefits

- IPSAS-based financial reporting can only take you so far...
- Improved public expenditure control requires accrual budgeting too:
 - Better asset management
 - Improved liability and risk management
 - Full economic impact of decisions - fewer surprises
- At a Whole of Government level, accrual budgeting and reporting:
 - Creates space for fiscal choices
 - Earlier warning of longer term fiscal trends
 - Enhanced financial credibility – lower borrowing costs

Conclusions: Case for accrual-based IPSAS

- Compared with cash accrual provides:
 - Complete financial overview of an entity – full accountability
 - Reliable basis for decision making
- IPSASs as public sector standards set by independent global standard setter – credibility and comparability
- Full benefits of accrual IPSASs delivered through accrual budgeting as well as reporting
- Strong IPSAS-based PFM has real economic benefits – Government and economy as a whole.

Questions and discussion



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