Public Financial Management: A Whole System Approach

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Executive Director, Policy and Standards - CIPFA
IPSASB Member
Session outline

• Why strong PFM is essential
• PFM ‘Whole System Approach’ (WSA):
  — Introduction
  — Overview
• Accrual as the foundation
• Strengthening PFM:
  — Standards – role of IPSASs
  — Processes / controls
  — Learning and Growing
‘Making a step-change in government accounting and auditing is completely within leaders’ control. The on-going crisis screams out for urgent concerted global action.’

Rob Whiteman
CIPFA Chief Executive

http://www.cipfa.org/policy-and-guidance/reports/fixing-the-foundations
http://www.cipfa.org/policy-and-guidance/reports/pfm-taking-responsibility
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
‘Whole system’ approach crucial to strong PFM
PFM Definition

‘The system by which the financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals’

- better decisions
- better value for money
- better outcomes for:
  - Service recipients
  - Citizens
  - Economy as whole
What is the ‘Whole System Approach’?

- Framework supporting development of effective PFM at country, region/sector and entity levels
- Holistic model complementing existing assessment tools
- Recognises the interconnectedness of key players
- Emphasises need for improvement across the system – no one initiative on its own is sufficient
- Supports need for citizen involvement, accountability parliamentary scrutiny and absence of corruption
- Recognises there are checks and balances in every system – key is to act together to make PFM effective

The whole is more than the sum of the parts
Who is strong PFM important for?

- Governments and their advisors
- Ministries of Finance in countries focused on PFM reform
- PFM professionals – who design, implement, operate, review, evaluate PFM
- Professional Accountancy Organisations (PAOs)
- Supreme Audit Institutions (SAI)s
- Donors and financial markets

▸ **PFM and good governance are inseparable**

All countries whatever their state of development
PFM as part of Good Governance

Outcomes
Sustainable social benefit

Delivery of services and products

Institutional Framework

Public Financial Management

Enablers

Governance

Demand for services and projects

Stakeholder consultation

www.cipfa.org/policy-and-guidance/articles/pfm-a-whole-system-approach
Strong PFM:
WSA - Key elements

- Legislation
- Standards & Codes
- Execution:
  - Strategy & planning
  - Operations
  - Monitoring & Control
- Scrutiny
- Assurance
- Learning & Growing

Accrual-based information as the foundation......
Ghana’s public finances: How much do you really know about...?
## Accrual-based information – the bigger picture: UK WGA 2014 balance sheet

### Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net public service pension liability</td>
<td>£1,302 bn</td>
</tr>
<tr>
<td>Government financing</td>
<td>£1,096 bn</td>
</tr>
<tr>
<td>Other liabilities and provisions</td>
<td>£791 bn</td>
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</tbody>
</table>

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net liability</td>
<td>£1,852 bn</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>£763 bn</td>
</tr>
<tr>
<td>Other assets and equity investments</td>
<td>£574 bn</td>
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</tbody>
</table>
# UK WGA – the bigger picture (1):
Reconciliation to public sector net debt

<table>
<thead>
<tr>
<th></th>
<th>2013-14 (£bn)</th>
<th>2012-13 (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net public service pensions liability</td>
<td>(1,302)</td>
<td>(1,172)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(142)</td>
<td>(131)</td>
</tr>
<tr>
<td>PFI contracts</td>
<td>(33)</td>
<td>(32)</td>
</tr>
<tr>
<td>Unamortised premium or discount on gilts</td>
<td>(29)</td>
<td>(31)</td>
</tr>
<tr>
<td>Tangible and intangible fixed assets</td>
<td>763</td>
<td>747</td>
</tr>
<tr>
<td>UK Asset Resolution (UKAR) net impact on net debt</td>
<td>74</td>
<td>83</td>
</tr>
<tr>
<td>Payables and receivables</td>
<td>33</td>
<td>29</td>
</tr>
<tr>
<td>Investments</td>
<td>23</td>
<td>27</td>
</tr>
<tr>
<td>Network Rail</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Asset Purchase Facility</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>Other</td>
<td>84</td>
<td>71</td>
</tr>
<tr>
<td><strong>Public sector net debt (National Accounts)</strong></td>
<td><strong>1,402</strong></td>
<td><strong>1,299</strong></td>
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</tbody>
</table>
UK WGA – the bigger picture (2): Reconciliation of current deficit

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net deficit for year (WGA)</strong></td>
<td>£bn</td>
<td>£bn</td>
</tr>
<tr>
<td>Public service pensions</td>
<td>(49)</td>
<td>(48)</td>
</tr>
<tr>
<td>Depreciation and Impairment of assets</td>
<td>(18)</td>
<td>(16)</td>
</tr>
<tr>
<td>Capital grants</td>
<td>(11)</td>
<td>(12)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(10)</td>
<td>(16)</td>
</tr>
<tr>
<td>Net gains/losses on sale of assets</td>
<td>4</td>
<td>(3)</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td><strong>Current deficit (National Accounts)</strong></td>
<td>73</td>
<td>84</td>
</tr>
</tbody>
</table>
Strengthening PFM (1): WSA – Key elements

- Legislation
- Standards & Codes
- Execution:
  - Strategy & planning
  - Operations
  - Monitoring & Control
- Scrutiny
- Assurance
- Learning & Growing
Strengthening PFM (2): Standards
IPSAS – based financial reporting

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
Strengthening PFM (3): Standards
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
Strengthening PFM (4): CIPFA FM Model

How good is PFM in your organisation?

<table>
<thead>
<tr>
<th></th>
<th>Securing Stewardship</th>
<th>Supporting Performance</th>
<th>Enabling Transformation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>L1, L2</td>
<td>L3 - L5</td>
<td>L6, L7</td>
</tr>
<tr>
<td>People</td>
<td>P1, P2</td>
<td>P3, P4</td>
<td>P5, P6</td>
</tr>
<tr>
<td>Processes</td>
<td>PR 1 - PR10</td>
<td>PR11 - PR14</td>
<td>PR15, PR16</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>S1 – S3</td>
<td>S4 - S6</td>
<td>S7, S8</td>
</tr>
</tbody>
</table>
Strengthening PFM (5): CIPFA FM Model

How good is PFM in your organisation?

- Strong PFM as corporate responsibility
- Is financial management where we want it to be?
- Identifies priority areas for improvement
- Allows tracking over time
- Can be used to benchmark between organisations
- Can test organisational leaders skills in financial management

www.cipfa.org/services/advisory-and-transformation/financial-management-model
Strengthening PFM (6):
Role of CFO – Creating the vision
Strengthening PFM (7):
CIPFA Role of CFO Statement

The CFO in a public service organisations:

1. is a **key member of the Leadership Team**, helping it to develop and implement strategy and to resource and deliver the organisation’s strategic objectives sustainably and in the public interest;

2. must be **actively involved in**, and able to bring influence to bear on, **all material business decisions** to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation’s overall financial strategy; and

3. must **lead the promotion and delivery** by the **whole organisation** of **good financial management** so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

**To deliver these responsibilities the Chief Financial Officer:**

4. must lead and direct a finance function that is resourced to be fit for purpose; and

5. must be professionally qualified and suitably experienced.
Strengthening PFM (8): Building capacity

- Equip CFOs for top leadership positions
- Develop CFO cadre
- Increase PFM knowledge and skills across Government
- Develop role of Finance Function
- Increase number of qualified accountants

Developing Government PFM knowledge and professionalism
Strengthening PFM (9):
CIPFA MoU with ICAG

- Leadership academies
- Role of CFO / CFO academies / guidance
- CIPFA Certificates and PFM training
- CIPFA FM Model and other guidance
- New CIPFA PQ / routes to membership
PFM Whole System Approach: Conclusions

- Strong PFM is essential
- Reforms will fail without a ‘Whole System Approach’
- Tailored approaches to suit local circumstances vital
- Accrual-based information as foundation for strong PFM
- IPSASs-based reporting – credibility and comparability
- Accrual essential to improving public expenditure control
- Capacity development fundamental

- CIPFA and ICAG can help......
Questions and discussion

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