



HM TREASURY

CReCER

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**Presentation of Information on Budget
Execution**

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Comparable reporting and misalignments

IPSAS 1 “Presentation of Financial Statements”

- *encouraged, but did not require*, inclusion in financial statements of comparison with budgeted amounts, where financial statements and budget are on the **same** basis
- *did not encourage or require* a comparison where financial statements and budget are on a **different** basis

IPSAS 24 “Presentation of Budget Information in Financial Statements”

- mandatory application if budgets publicly available
- identifies required disclosures, *whether or not* the budgets and financial statements are presented on the same basis



IPSAS 24 is challenging, but coherent and necessary

From periods beginning on or after 1.1.09, the disclosure requirements are:

Original Budget

COMPARE &
EXPLAIN

Final Budget

COMPARE &
EXPLAIN

**Actuals -
Budget
Basis**

RECONCILE

**Actuals -
Financial
Statements**

(Can be separate report)

(Column in financial statements if Actual Amounts on same basis)

- a comparison of **Actual Amounts** with **Original** and **Final Budgets** (on the same basis as accounted for in the Budgets)
- an explanation of material differences between **Actual Amounts** and **Budgets**
- a reconciliation of **Actual Amounts** on the **budget basis** with **Actual Amounts** in the **financial statements**, when bases differ
- an additional (budget) column can be included in the financial statements, but only where the bases are comparable



Financial reporting - UK public sector (Y/E 31.3.10 - 2009-10)

- Spending Review set **Spending Plan** for three years (2008-09 to 2010-11)
- **Original Budget** for 2009-10 was confirmed in March 2009
- Two opportunities in-year to revise **Original Budget** (in October 2009 and January 2010), leading to **Final Budget**
- **Actual Amounts** monitored in year and reported in annual financial statements (resource accounts) by end July 2010

But the different frameworks had different boundaries and rules, making it all highly complex and difficult to hold anyone to account

It complied with IPSAS 24, but in a very confusing and opaque way



Three initiatives to help us improve our reporting:

- **Clear Line of Sight (CLOs)**

(Has addressed the problems of different frameworks)

- **On-line System for Central Accounts and Reports (OSCAR)**

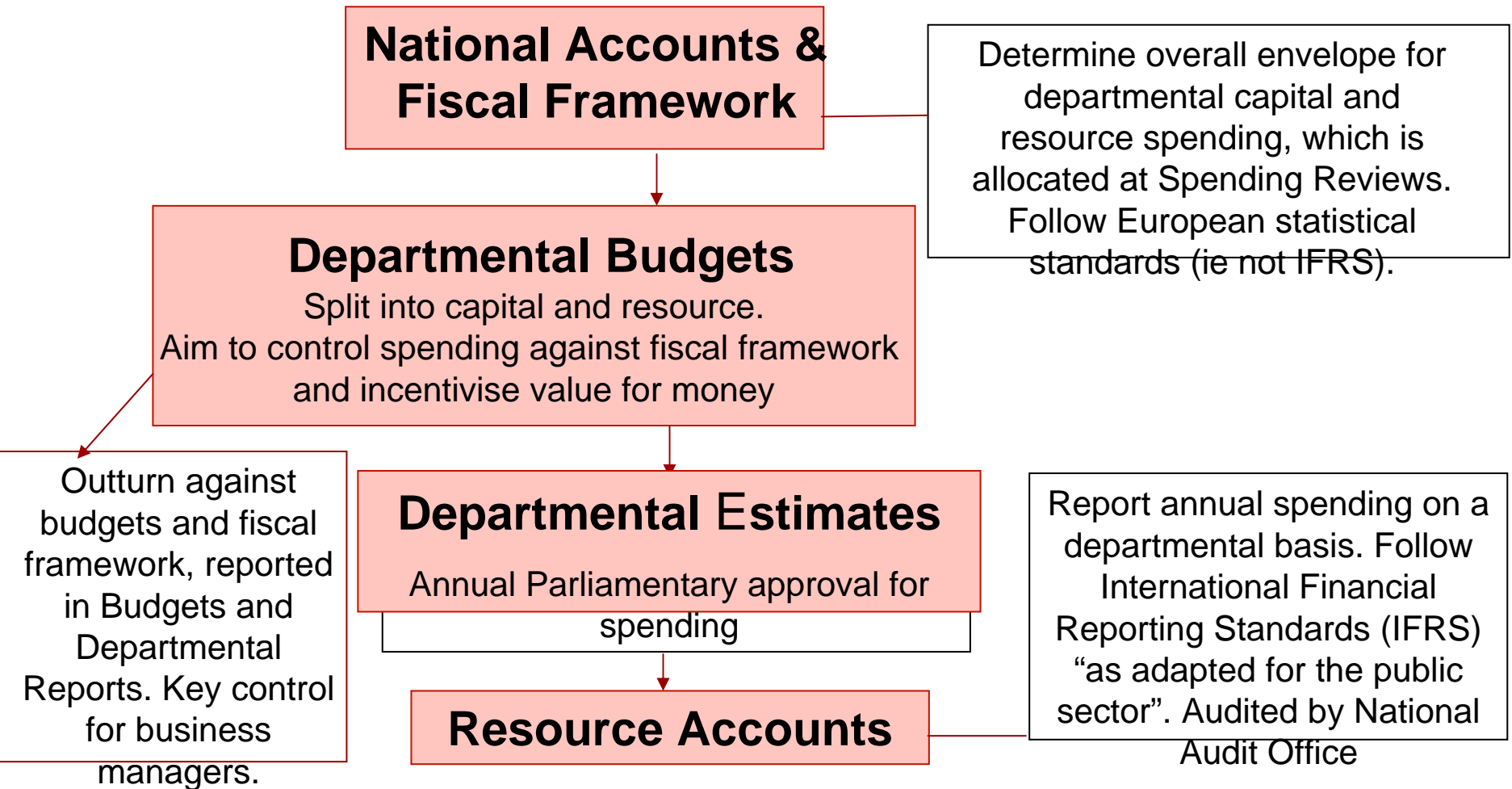
(Provides better financial and management accounting information)

- **Whole of Government Accounts (WGA)**

(Make government financial statements robust and transparent)

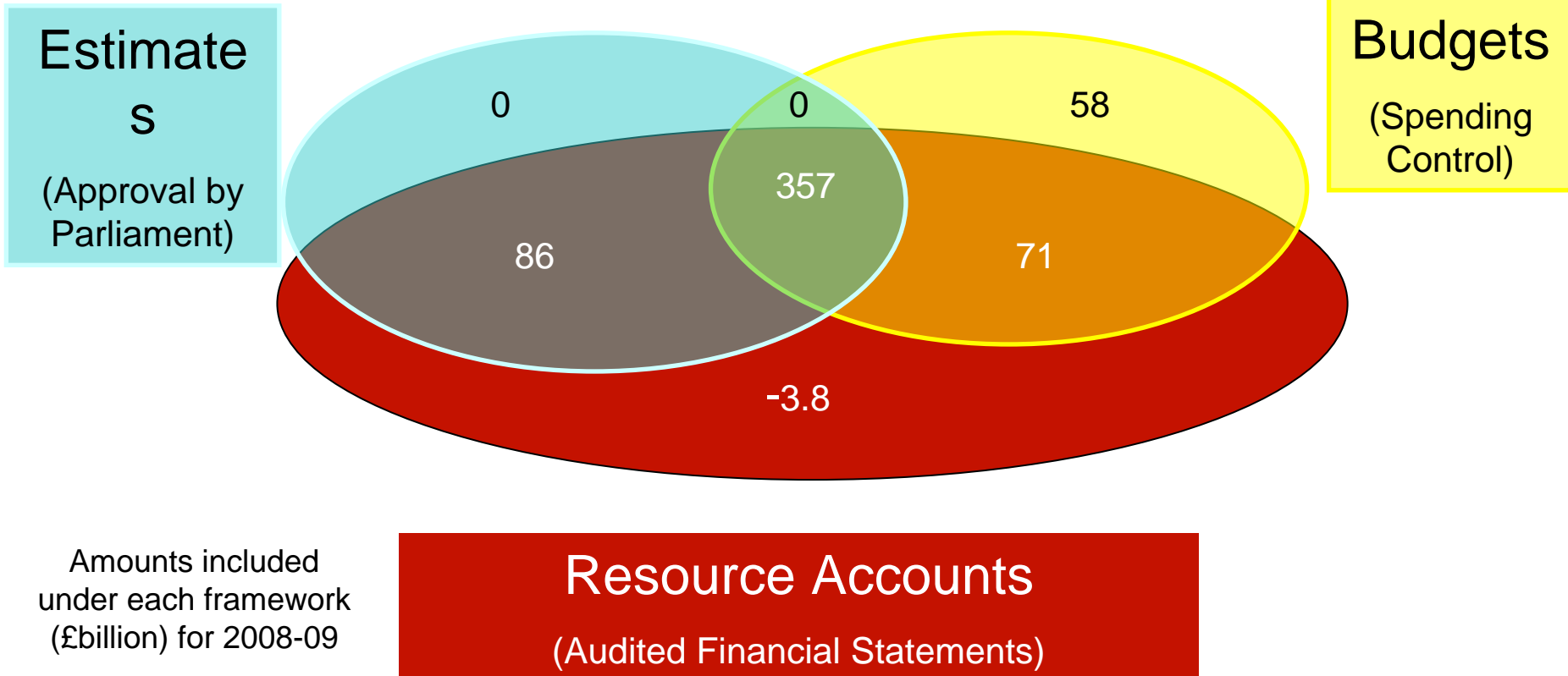
These initiatives will simplify compliance with IPSAS and provide reports that add value

The public spending framework in the UK





Clear Line of Sight: the challenge of three frameworks...



Amounts included under each framework (£billion) for 2008-09

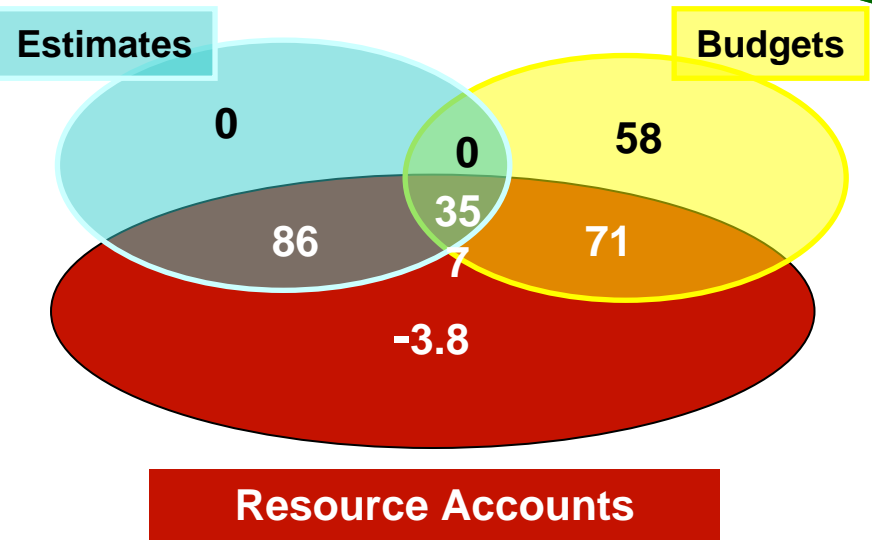


What this meant in practice...

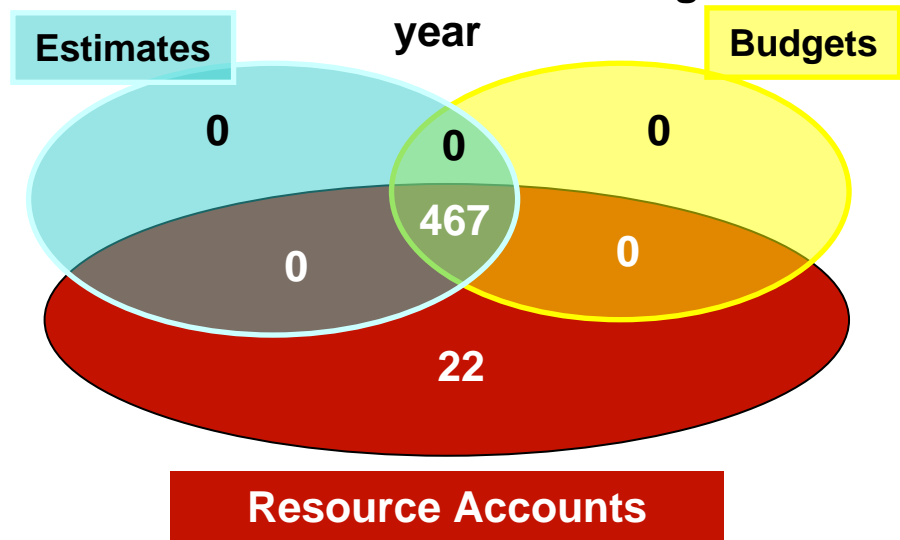
- Complex to understand, scrutinise and manage public spending. Became a process of compliance
- Burdensome and inefficient – only 65-70% of government spending was aligned across all frameworks, requiring numerous reconciliations
- Weakened accountability – a third of Government spending was not voted by Parliament in Estimates
- Publications with numbers presented on different bases made it difficult to track spending from budget to actuals
- Weakened value for money incentives



Previous financial landscape



Landscape from 1 April 2011, and now only one opportunity to amend budgets in-year



Amounts included under each framework (£bn) for 2008-09



The benefits of 'Clear Line of Sight':

- **Modernised the public spending system** to improve accountability and transparency
- **Simplified the reporting of public finances** to make it all much easier to understand
- **Helped departments** manage their financial resources and strengthened value for money incentives
- **Enabled us to comply** much more easily with IPSAS 24



Project OSCAR (On-line System for Central Accounts & Reports)

The issue: management accounting information is insufficient and not aligned with financial reporting

APRIL 2012

Agree **management information strategy**. Put in place high level **common chart of accounts**. Clear and simple **data definitions and governance**.

APRIL 2013

Deliver a wider range of management information to **assist decision making and improve transparency**

2012 to 2015

Common chart of accounts to be implemented at a **granular level** by all departments, leading to comparability and understandability



Whole of Government Accounts (WGA)

- A set of **consolidated financial statements** for the whole public sector (central government, devolved administrations, local authorities, National Health Service and public corporations – **around 1,500 entities**) - a massive annual reporting challenge
- Brings the UK public sector accounts together in one report, removing intra government transactions and balances
- Based on IFRS
- Has the look and feel of private sector accounts, with a management commentary, financial statements, disclosure notes and an external audit opinion
- First accounts for 2009-10 will be published shortly



Some benefits of WGA

- Improved **transparency and accountability** to the UK Parliament and to the taxpayer
- **New measure** of the government's financial position, which includes all provisions and liabilities, and improves existing fiscal measures
- Potential to **support longer term fiscal forecasting** and management
- **Comparability** across different parts of the public sector, and with the private sector, as financial statements are produced on a consistent basis
- **Helicopter view** helps challenge the efficiency of existing funding flows



Compliance with IPSAS 24 – the benefits:

- Only one change in year between **Original** and **Final Budget**, making it much easier to track changes
- One framework, with same boundaries and rules – **Actual Amounts** (almost) on same basis as **Budgets**, with ‘one version of the numbers’
- Can now add a ‘budget’ column in annual financial statements
- Easier to explain differences and the explanations have real meaning
- Transparent, much simpler, more efficient, and easier to hold people to account

We can now comply fully with IPSAS 24, and these changes all have very positive business value