

Accounting standards: benefits of harmonized public sector accounting

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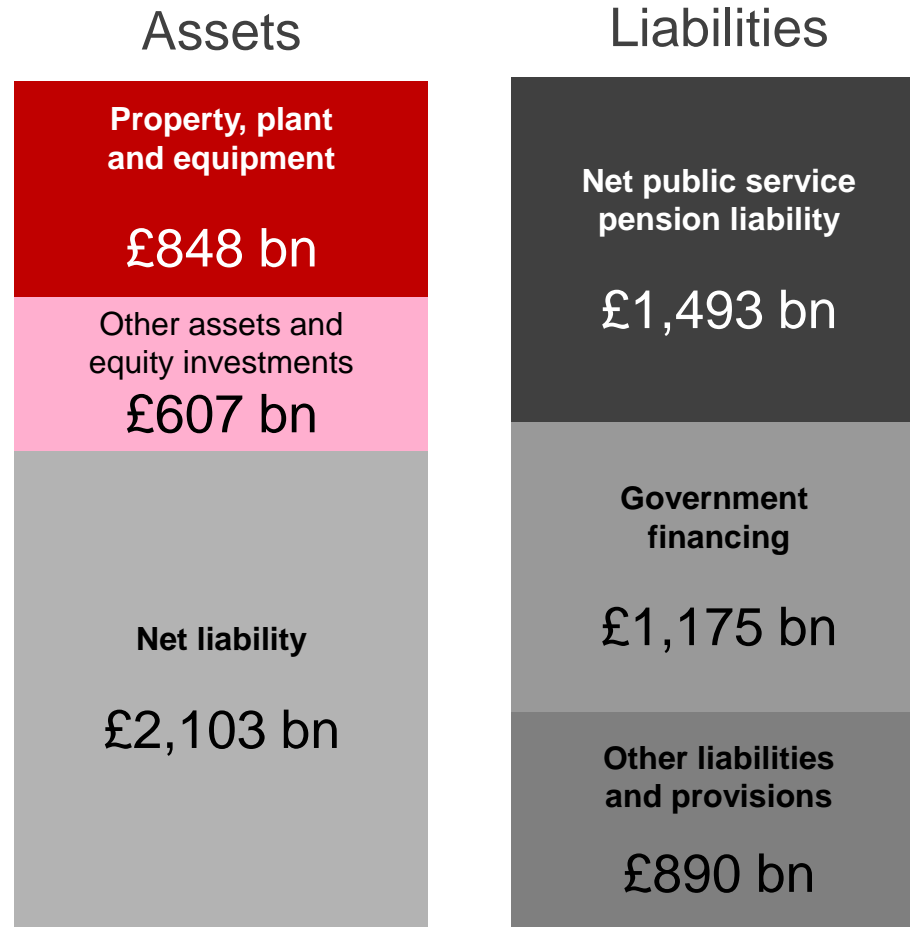
Case for accrual accounting (1): What do you know about the past?

Compared with cash accrual provides:

- Complete data on:
 - Assets (including Heritage)
 - 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 accounting (2): UK WGA 2015 balance sheet



Case for accrual accounting (3): UK WGA

Reconciliation of public sector net debt

	2014-15	2013-14
	£bn	£bn
Net liabilities	2,103	1,840
Net public service pensions liability	(1,493)	(1,303)
Provisions	(175)	(155)
PFI contracts	(33)	(33)
Unamortised premium or discount on gilts	(35)	(29)
Tangible and intangible fixed assets	848	812
UK Asset Resolution (UKAR) net impact on net debt	74	74
Payables and receivables	74	91
Investments	28	23
Housing Associations	60	56
Asset Purchase Facility	45	46
Other	51	36
Public sector net debt (National Accounts)	1,547	1,458

Case for accrual accounting (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 by segments
- 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



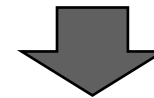
Case for accrual accounting (5): UK WGA

	2014-15	2013-14
	£bn	£bn
Net deficit for year (WGA)	152	145
Public sector pensions	(56)	(49)
Depreciation and Impairment of assets	(2)	(16)
Capital grants	(8)	(11)
Provisions	(20)	(10)
Net gains/losses on sale of assets	2	4
Other	(11)	8
Current deficit (National Accounts)	57	71

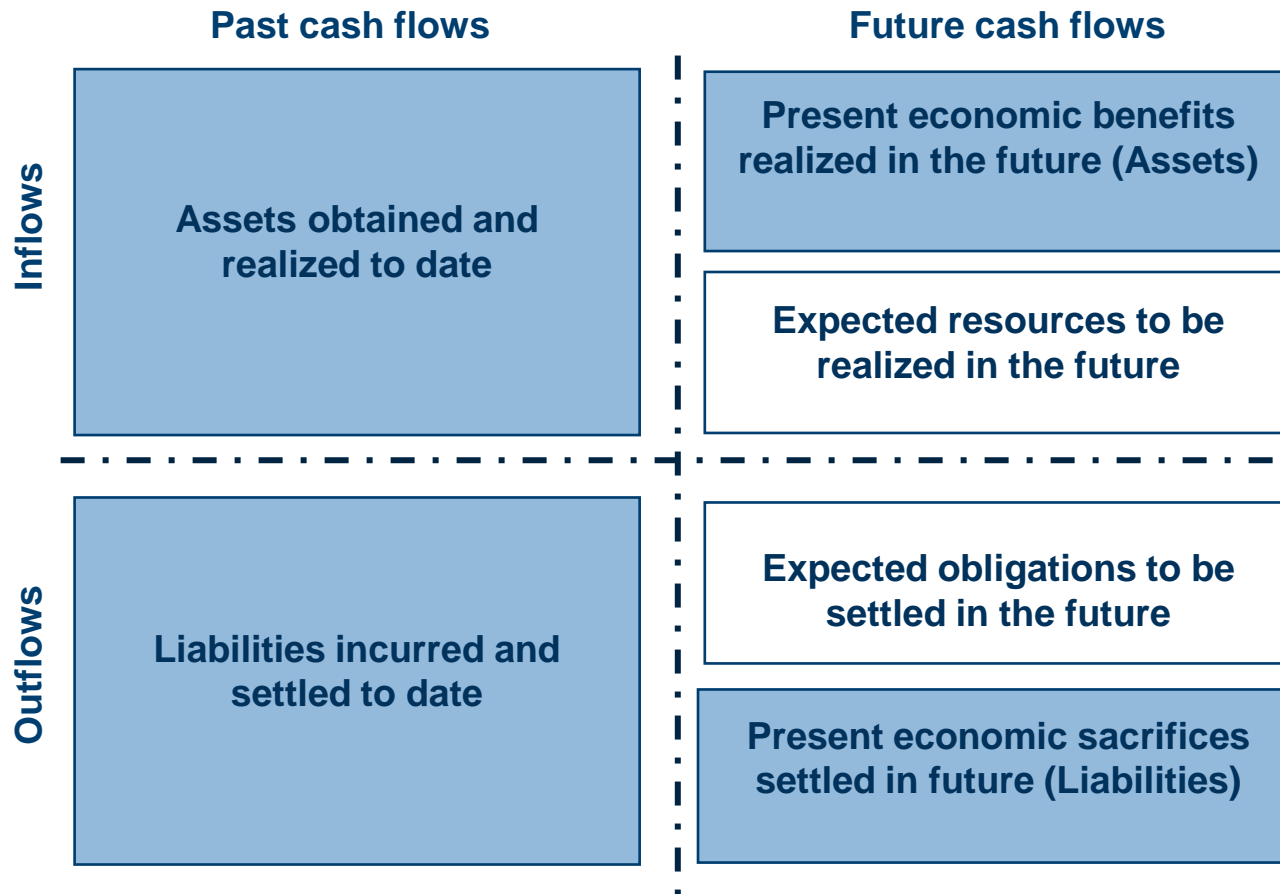
Case for accrual accounting (6): What do you know about the future?

Compared with cash accrual provides:

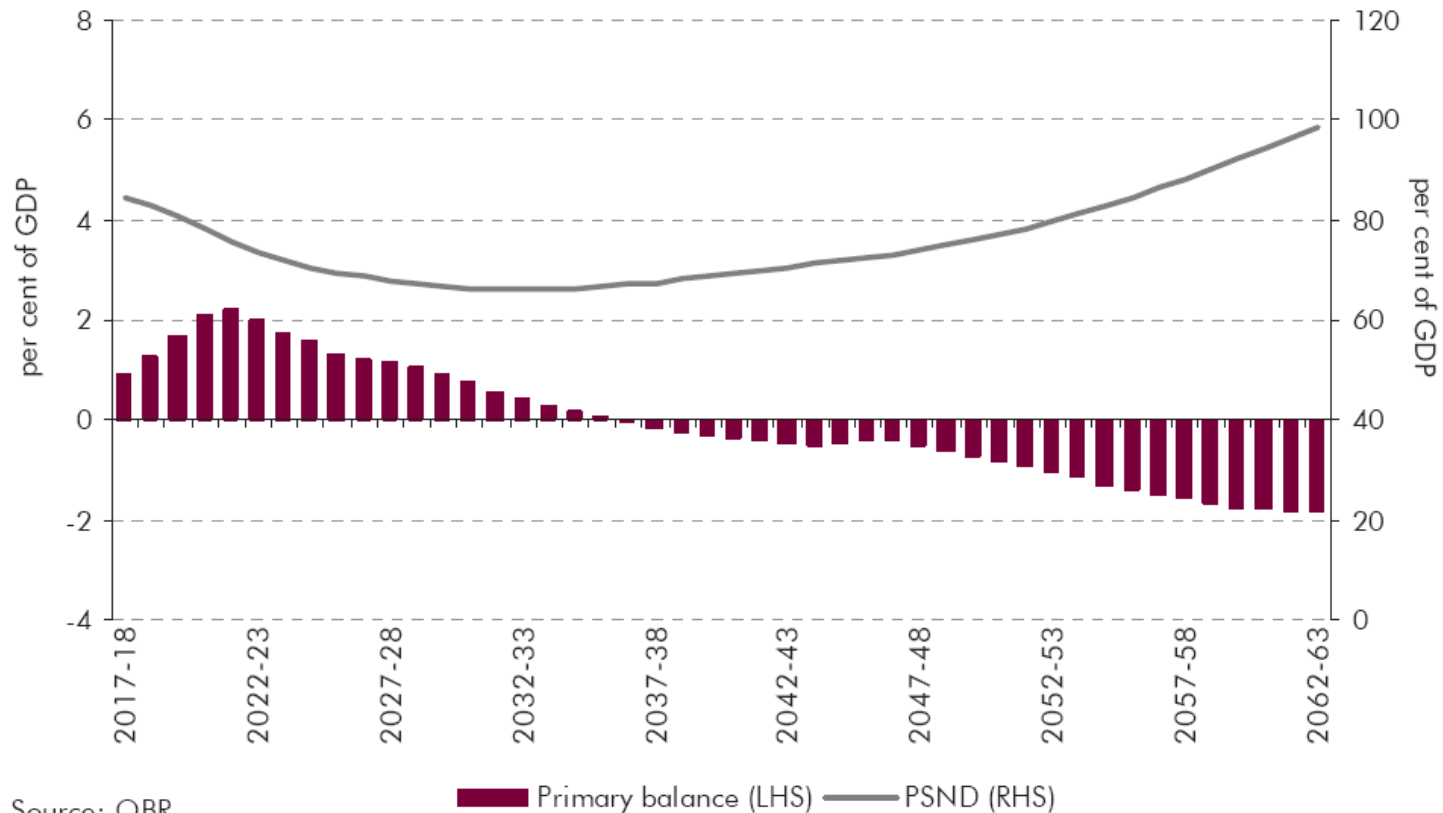
- Funding requirements for:
 - Asset maintenance / replacement
 - Settling existing liabilities
- Entity's ongoing ability to finance activities
- Plus at Whole of Government level basis for assessing:
 - Impact of demographic changes
 - Sustainability of current policies / services
 - Scope for services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



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



UK Public Sector Finances: The longer term challenges in 2015



Source: OBR

Case for IPSASs as the basis

Enhanced financial credibility

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

Transparency and trust

- Ratings agencies / financial markets
- Legislature and electorate

Credibility demands comparability

Questions and discussion



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