PEMPAL
Treasury Community of Practice

Overview of United Kingdom Public Financial Management

TCoP Leadership Group Visit
September 2013

Michael Parry, World Bank, August 2013
Constitutional Structure

- No written constitution
  - Consists of various laws & conventions
  - can be changed by Parliament

Parliament

Monarch
- Hereditary
  - No power

House of Lords
- Mixed hereditary & appointed.
  - Limited powers of delay

House of Commons
- Elected. Absolute power

Government
- Political party that controls the House of Commons
  - Elected. Control of functions specified by Parliament

Devolved administrations
- Scotland, Wales &

Local Government
- Elected. Control of functions specified by Parliament

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Administrative Structure

- **Government Cabinet**
- **Departments** (= Ministries)
- **Agencies**
  - Non Departmental Public Bodies (NDPB)
  - Trading Funds - Self financing not for profit
  - National Health Service (NHS)

- All ultimately controlled by Government
- High degree of operational autonomy
- NHS largest organisation in Europe (by number of employees)

Under the “Public Finance Initiative” (PFI) a significant element of government functions now delivered by the private sector through public-private partnership.
UK PFM – continuous reform

• PFM in UK has been the subject of continuous reform since 1961

• Three key objectives of PFM reform:
  1. Linking policy objectives to resource allocation
  2. Define, measure and control costs of achieving policy outcomes
  3. Improve efficiency and reduce unit costs

• Reforms have included:
  – Multi year outcome focused budgets
  – Resource (accrual) budget and accounting
  – Expenditure reviews and public service agreements
  – Published audited financial statements and performance reports for all public sector entities
General approach to UK PFM

Very centralised financial control
Very decentralised operation of PFM

The Treasury
(Government Department = Ministry of Finance and Planning)
Head – Chancellor of the Exchequer (= Minister of Finance)

Centralised Control

Departments

Agencies

Devolved Administrations

Local Government

Decentralised operation
Mechanisms of Treasury Control

• **Funding** – UK finances highly centralised
  – 95% of tax revenue goes to central government
  – Allocations to Departments and grants to sub-national governments controlled by Treasury

• **Planning, budget & expenditure management**
  – System designed and controlled by Treasury

• **Expenditure**
  – Treasury controls all Departmental spending

• **Reporting**
  – Requirements and methodology determined by Treasury
Fiscal Planning & Budget Process

Fiscal Planning

Office for Budget Responsibility

Independent Government Funded

Treasury

Five Year Fiscal Forecasts

Budget

Comments on budget

Parliamentary Approval

Financing

Expenditure

Expenditure Management

Departments & other public sector entities

Departmental Budgets

“Supply” (i.e. Expenditure) Estimates

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Terminology

- **Annual Budget**
  - Mainly focused on taxation and fiscal policy
  - Approved annually by Parliament without amendment

- **Supply Estimates**
  - Annual Departmental cash requirements derived from expenditure Resource Budgets
  - Approved annually by Parliament without amendment
  - In practice expenditure management delegated by Parliament to Treasury

- **Resource budgets**
  - Accrual based Departmental three year budgets
  - Not subject to Parliamentary approval

- **Office for Budget Responsibility**
  - Established by Government in 2010 to provide independent analysis of public finances:
    - Five year macro economic forecasts
    - Report on government performance against fiscal targets
    - Review government costing of tax and welfare policies
    - Assess long term sustainability of government finances
Expenditure Conceptual Framework

Total Managed Expenditure (TME) = DEL + AME

- **Departmental Expenditure Limit (DEL) (Resource based)**
  - Departmental Expenditure Limit (Current cash based)
  - Capital charges in resource accounts

- **Annual Managed Expenditure Limit (AME) (Resource based)**
  - Annual Managed Expenditure Limit (Current cash based)
  - Capital charges in resource accounts

- **Departmental Expenditure Limit (Capital Cash Based)**
  - Resource accounting capital charges

- **Annual Managed Expenditure Limit (Capital Cash Based)**
  - Resource accounting capital charges
Terminology

• Total Managed Expenditure
  – Departmental expenditure plus annual managed expenditure

• Departmental Expenditure
  – Expenditure controlled by Departments

• Annual Managed Expenditure
  – Expenditure which is demand led and hence cannot be given multi year limits
    • E.g. social security benefits, local authority self-financed expenditure, debt interest, and payments to EU institutions
Expenditure Management Process

Government policies & initiatives → Departmental Biennial Spending Review → Fiscal resource forecasts

Departmental Budgets
- 3 Year Resource, capital and cash

Public Service Agreements
- Aims, objectives, performance targets, responsibility

Departmental Investment Strategy

Supply Estimates
- Annual cash and resource requirements

Process controlled by the Treasury

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Features of Expenditure Management

• Resource based
  – Accrual basis used for estimating expenditures
  – Cash budgets used to estimate annual resource requirements (Supply Estimates)

• Departmental discretion in expenditure management
  – Detailed resource allocation decisions by Departments
  – Can carry forward unspent allocations from year to year - within prescribed limits
  – Virement allowed between expenditure heads

• Budget execution, accounting and reporting
  – Entirely a function of departments in accordance with Treasury directives
Sub-national Government
Expenditure Management

• Devolved administrations (Scotland, Wales, Northern Ireland)
  – Fiscal policy controlled nationally
  – Funded by block grants in accordance with agreed formula
  – Methodology for managing expenditure similar to central government

• Local Government
  – Majority funding from Treasury grants based on established formula
  – Detailed operational, accounting and reporting rules
  – Limited local discretion – centralised control
By convention Treasury must approve all expenditure. However, in practice authority to spend delegated to Accounting Officers subject to administrative controls.
Accounting

• Accounting Officer – senior official in each Department
• Accounts maintained by each Department
  – In accordance with procedures prescribed by Treasury in the “Accounting Manual”
• Resource accounting
  – UK government term for accrual accounting
• Treasury
  – Maintains own accounts
  – Consolidates Departmental accounts for financial reporting
Financial Reporting

All public bodies (Departments, agencies, etc.) must publish annual financial and performance reports

Financial Reports in accordance with GAAP

All financial reports audited

Financial Reporting Advisory Board (FRAB) Determines application GAAP

Based on IFRS

Annual Department/Agency Report

Contents:
- Management report
- Resource accounts
- Audit opinion
## Resource Accounts

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UK Whole of Government Accounts (WGA)

- Preparation initiated 1998
- First WGA published 2009/10 comprises:
  - Consolidated Statement of Revenue and Expenditure;
  - Consolidated Statement of Financial Position, showing public sector assets and liabilities;
  - Consolidated Cash Flow Statement; and
  - Statement on Internal Control
- Audit opinion by C&AG
  - Qualified opinion on WGA 2009/10 and 2010/11
    - Various issues of coverage and treatment of items
    - Delays in publication – 16 months after Y/E