

PEMPAL

Treasury Community of Practice

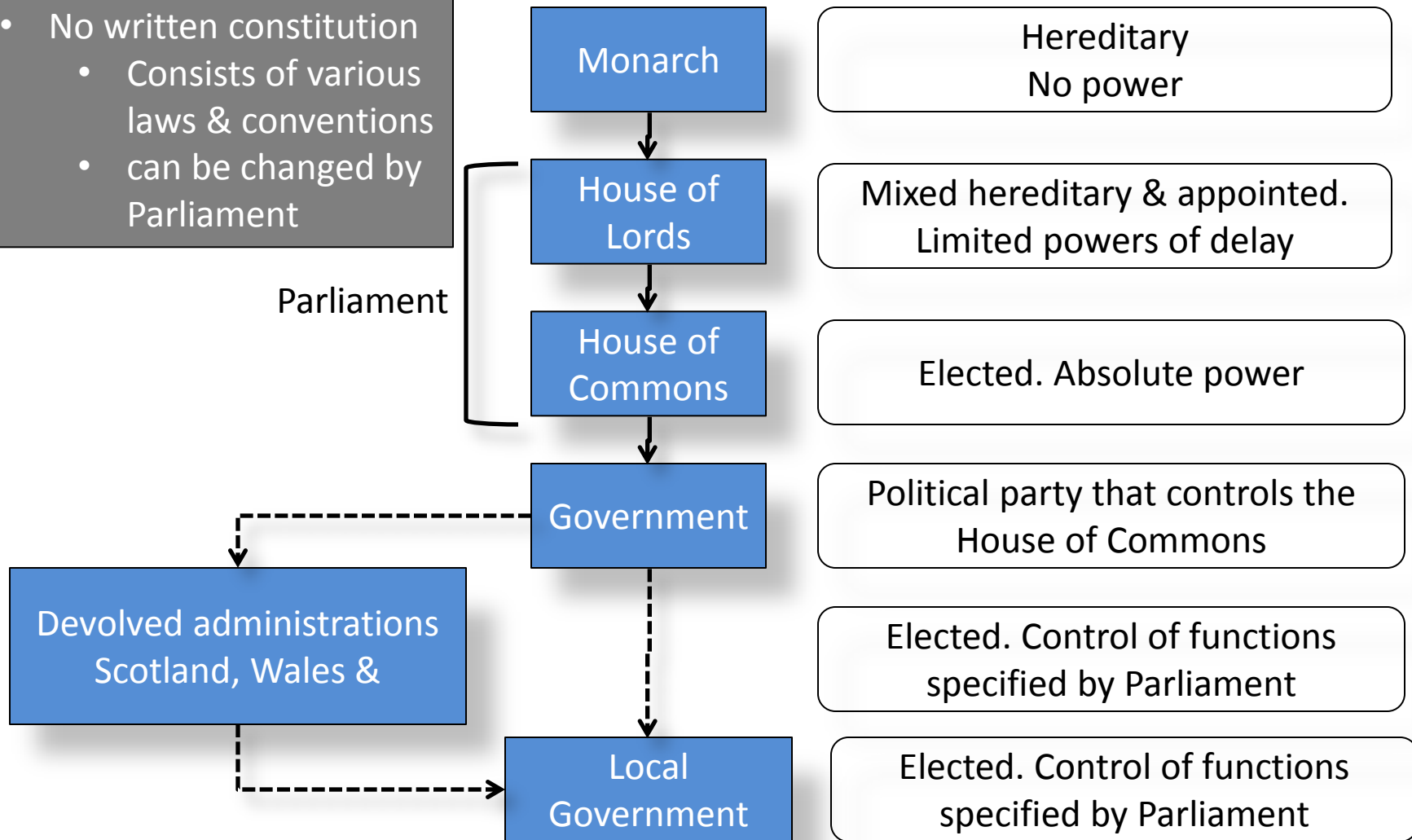
Overview of United Kingdom Public Financial Management

*TCoP Leadership Group Visit
September 2013*

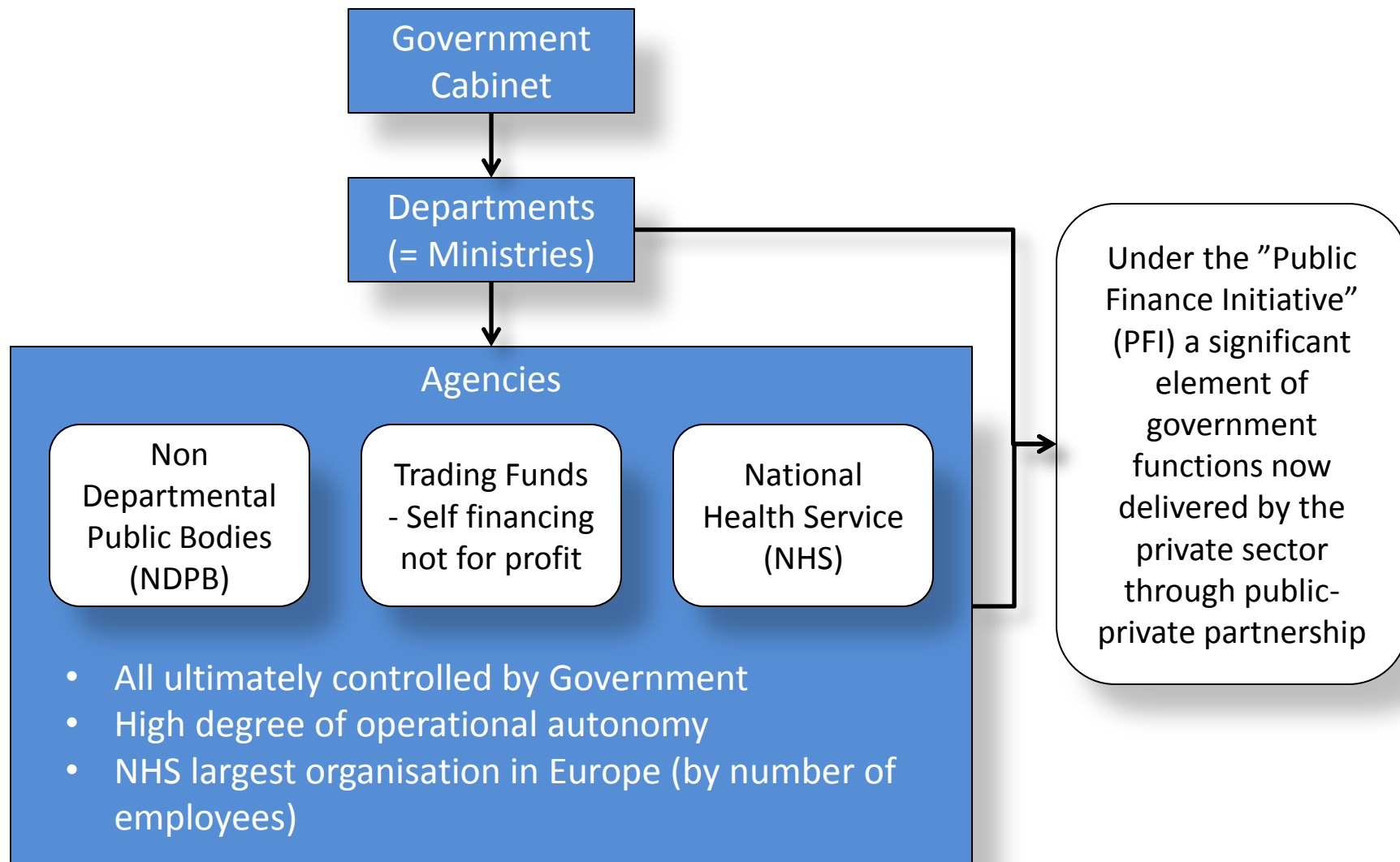
Michael Parry, World Bank, August 2013

Constitutional Structure

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



Administrative Structure

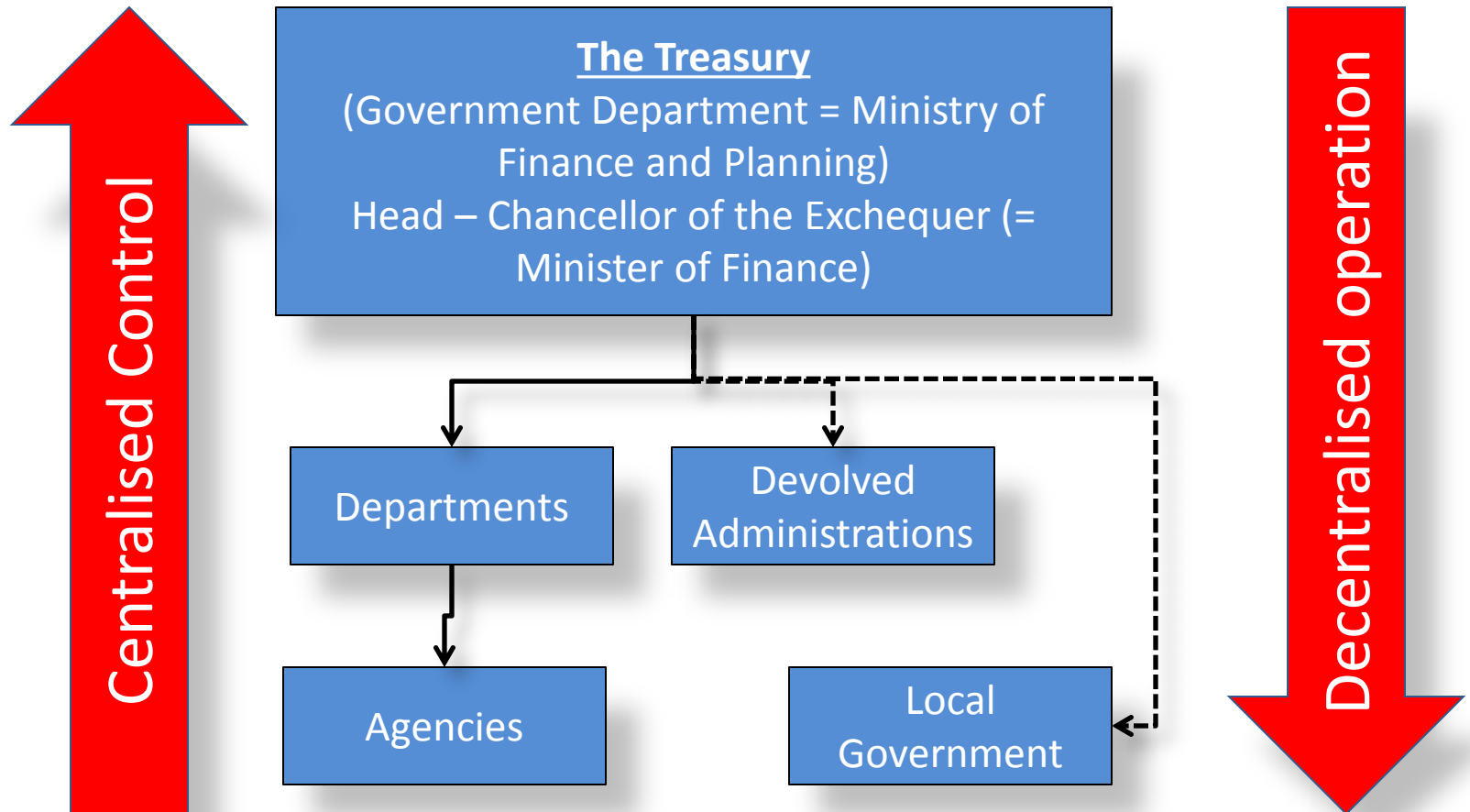


UK PFM – continuous reform

- 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

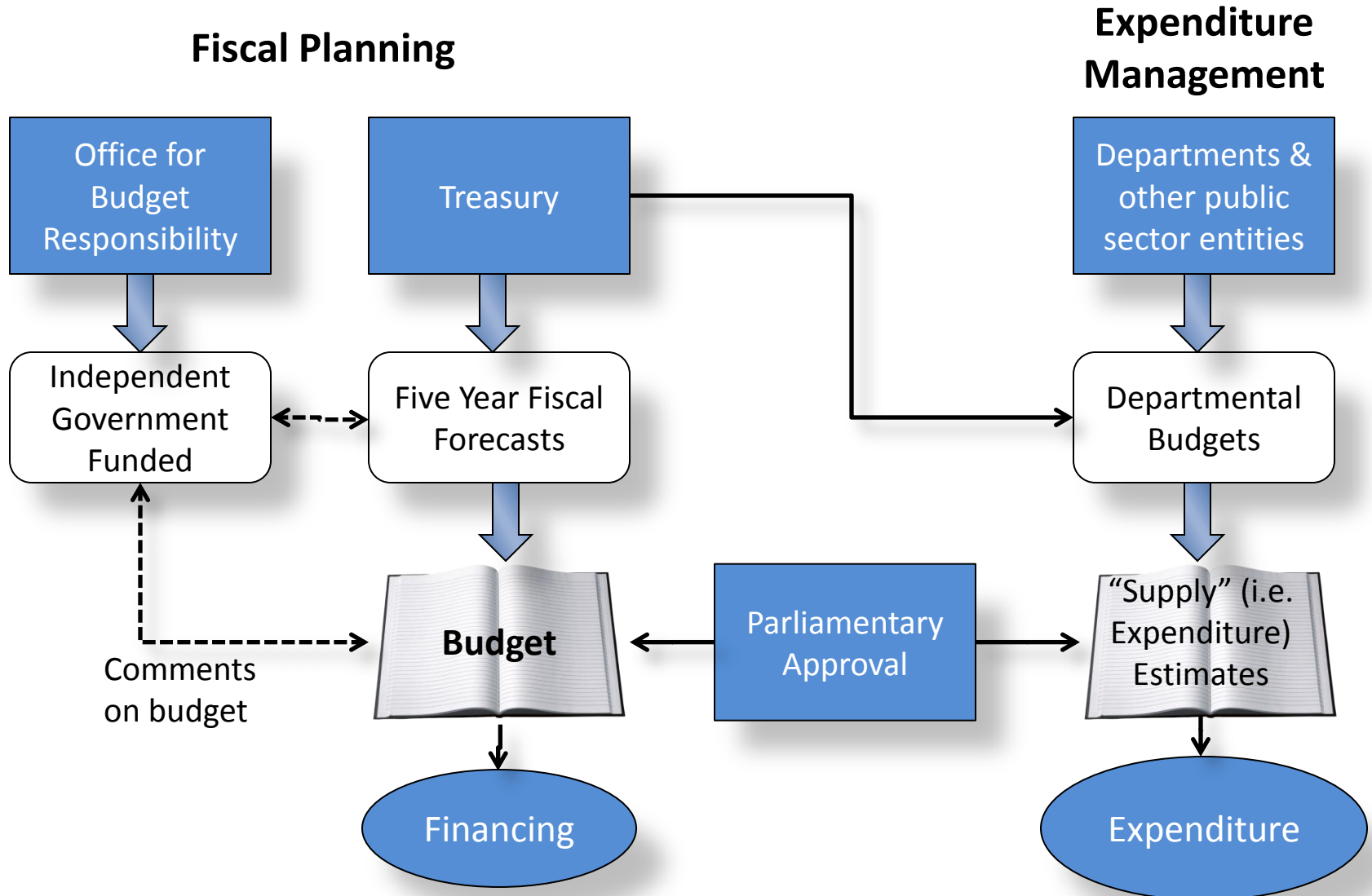
Very centralised financial control
Very decentralised operation of PFM



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

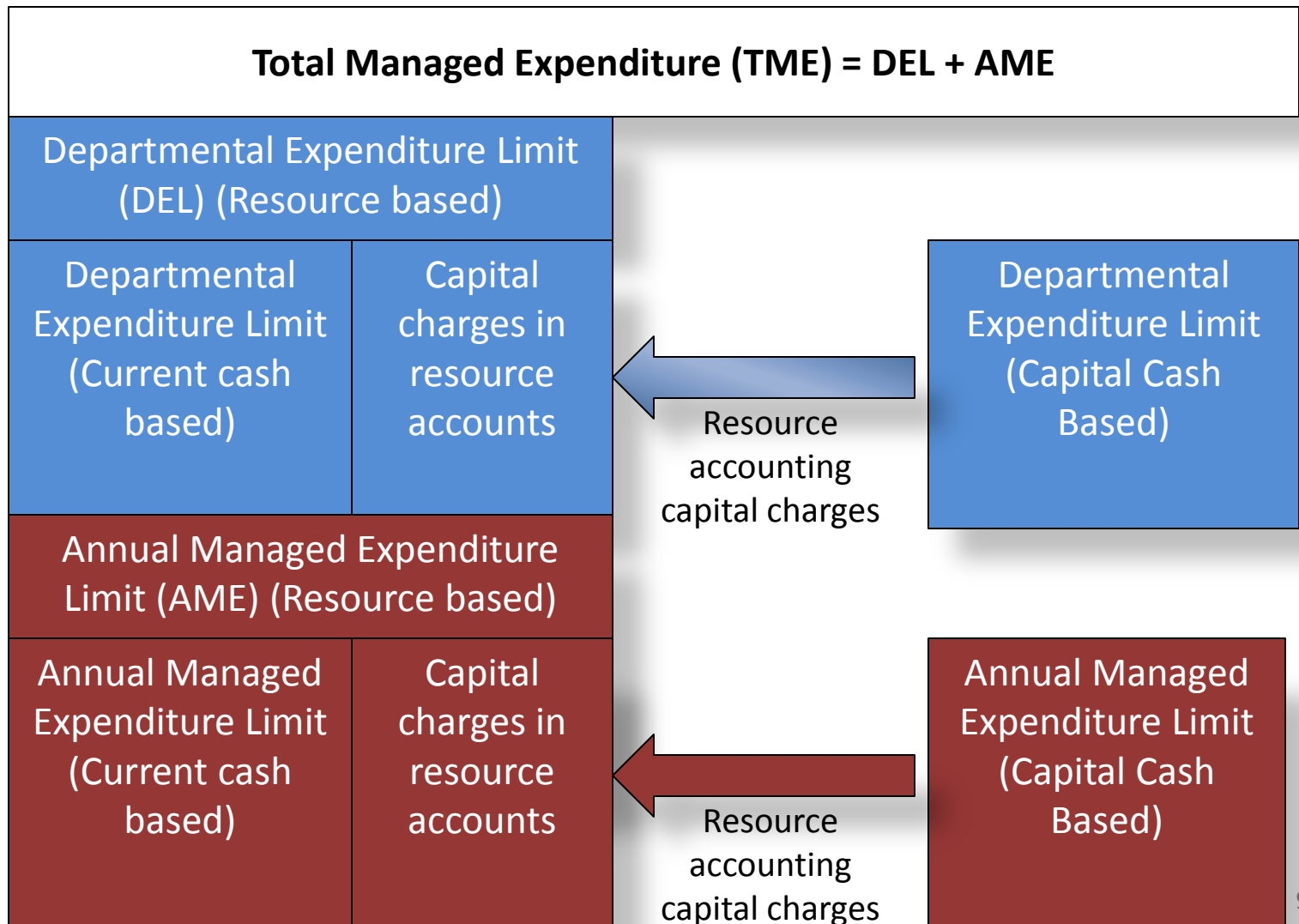
Fiscal Planning & Budget Process



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

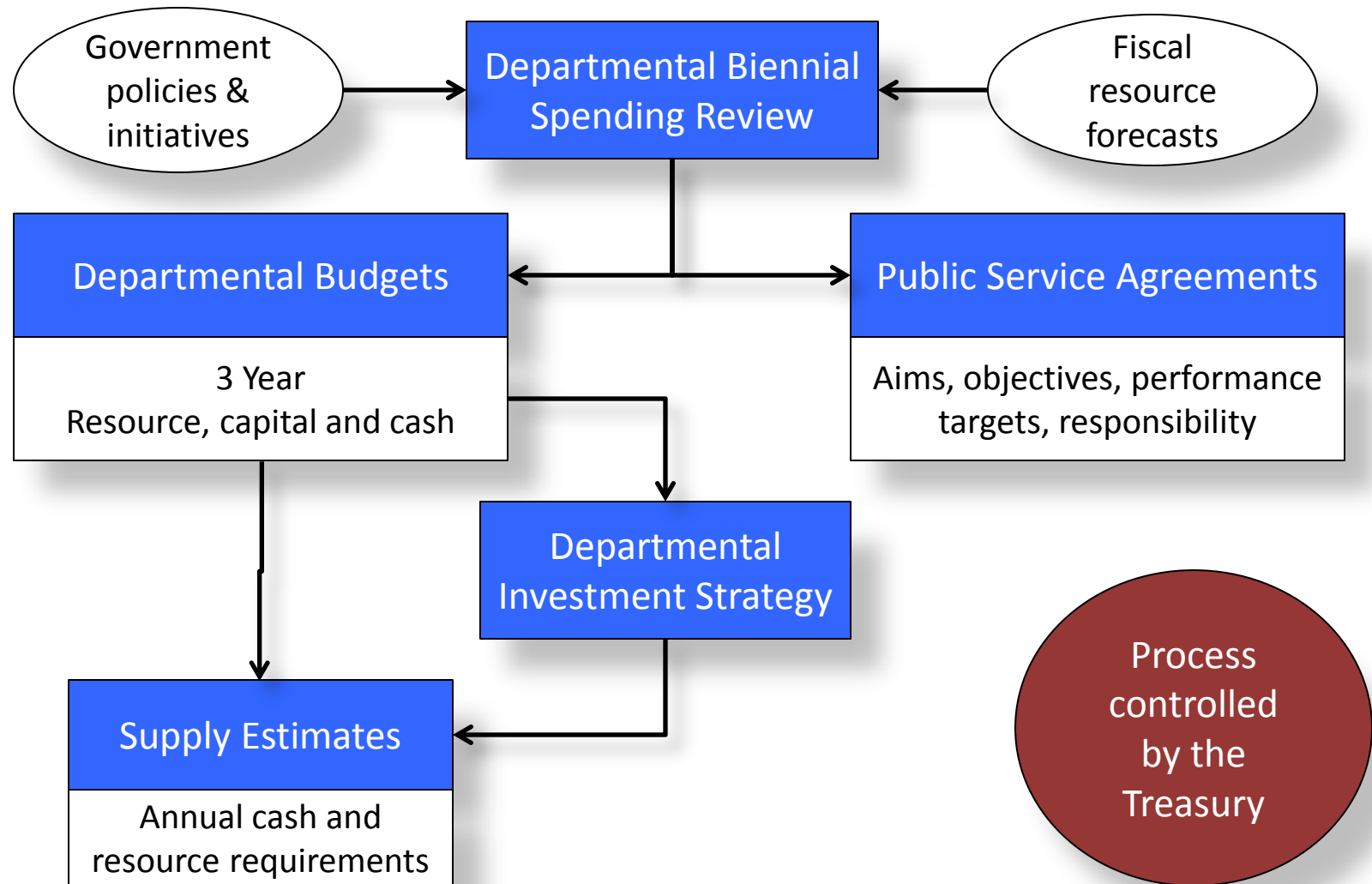
Expenditure Conceptual Framework



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



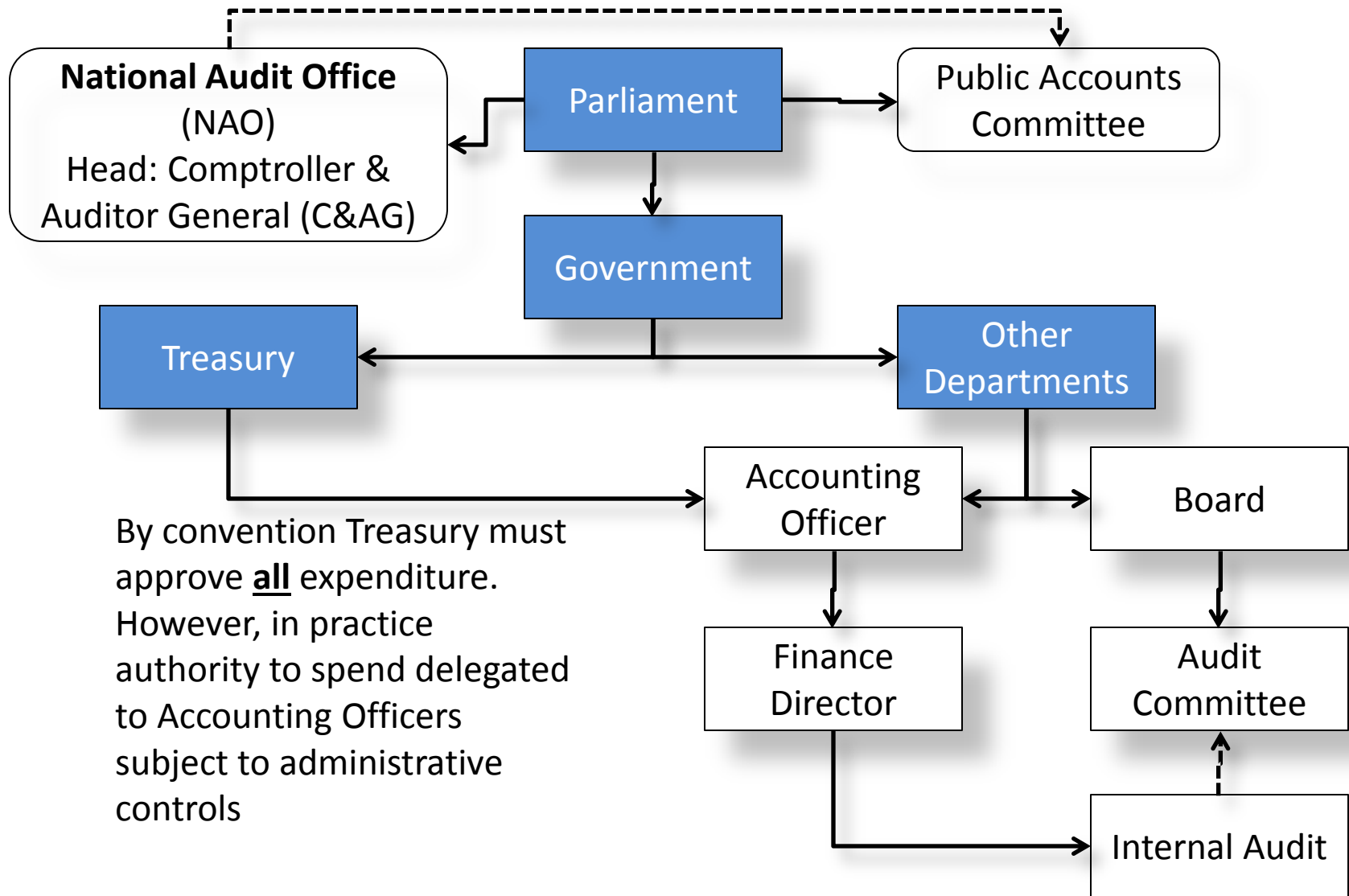
Features of Expenditure Management

- 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

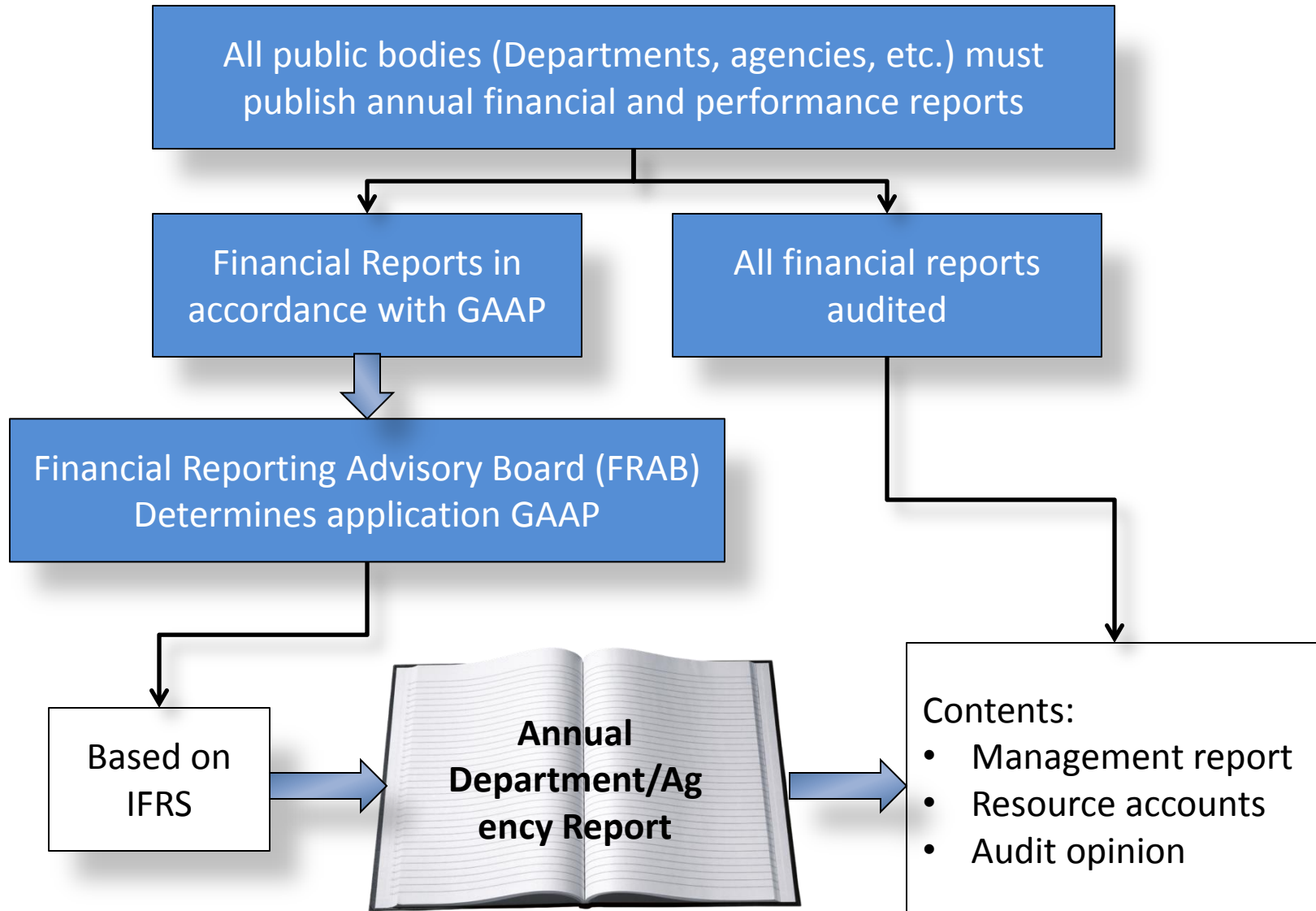
PFM Governance Structure



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



Resource Accounts

Contents	IPSAS equivalent
Statement of Parliamentary Supply	Comparison of outturn with budget
Operating Cost Statement and Statement of Recognised Gains and Losses	Statement of Financial Performance Statement of Changes in Net Assets/Equity
Balance Sheet	Statement of Financial Position
Cash Flow Statement	Cash Flow Statement
Operating Costs by Department Aims and Objectives	[No IPSAS equivalent – Programme Budget Report]
Notes to the Accounts	Notes to the Accounts

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