

Impact case study (REF3b)

Institution: University of Aberdeen
Unit of Assessment: 19: Business and Management
Title of case study: Influencing Public Sector Accounting Change
<p>1. Summary of the impact</p> <p>Aberdeen public sector accounting research into adopting accruals accounting, the application of international accounting principles and standards, the treatment of privately financed public assets and the basis of Whole of Government Accounts was used extensively by the principal researcher in advisory work for UK and devolved governments, international agencies, professional bodies and regulators. It contributed directly to changes in the way governments budget, manage and report the performance of resource use, to increased stakeholder awareness of public accounting issues nationally and internationally, and to improved public understanding of these complex issues. It mainstreamed accounting research into the public policy process.</p>
<p>2. Underpinning research</p> <p>While public sector accounting research has acquired enhanced macroeconomic significance from the abrupt transition from pre-2008 fiscal plenty into a decade of fiscal austerity across the developed world, the research reported here was initially stimulated by 1994/95 policy documents on <i>Resource Accounting and Budgeting</i> published by HM Treasury. These heralded commitments to move from cash to accruals accounting in central government, to harmonise financial reporting and budgeting, and to achieve greater consistency in fiscal reporting. Aberdeen researchers Professor David Heald (Professor of Accountancy 1990-2003, and since 2007) and Dr George Georgiou (lecturer 1991-2005) responded by editing and contributing to a symposium, including the then head of the Government Accounting Service, that raised issues for policy and practice (Heald and Georgiou 1995).</p> <p>On the basis of the identified issues and gaps in the evidence base, the team, augmented by Neal Geaghan (1994-02), conducted a research programme that addressed:</p> <ol style="list-style-type: none"> 1. How to account for and measure the Value for Money (VFM) of assets funded and managed through the Private Finance Initiative (PFI) (Heald 2003; Heald and Georgiou 2011a) 2. Consolidation principles applicable to UK government (Heald and Georgiou 2000) 3. Implementation difficulties and lessons of accruals accounting and Whole of Government Accounts (WGA) (Heald and Georgiou 2009) 4. How Whole of Government Accounts might be used to inform macro-fiscal policy (Heald and Georgiou 2011b). <p>The principal findings and insights from this research:</p> <ul style="list-style-type: none"> • Showed the scale of the tasks involved in moving to accruals reporting and making use of that information to improve efficiency and effectiveness • Identified the technical issues relating to the PFI that would cause difficulty, both literally and in the sense that they would facilitate arbitrage between accounting standards (e.g., the tensions between the criteria of 'risk and rewards' and of 'control') • Illuminated tensions between two different types of accounting in the public sector: financial reporting (initially on UK GAAP, now on International Financial Reporting Standards (IFRS)) and national accounts (budgeting and fiscal rules follow the Eurostat interpretation of the UN System of National Accounts) • Stressed the importance of accounts consolidation, both at entity and whole-of-government levels, as fundamental to fiscal transparency • Demonstrated the upwards migration of public sector accounting standards-setting from the national to the global arena, and the implications for incentives, comparability and sovereignty • Formulated a generic conceptualisation of transparency (with Professor Christopher Hood

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(Oxford) in their collection of essays on *Transparency: The Key to Better Governance?* Proceedings of the British Academy 135, 2006), on which basis the interaction between accounting change and fiscal transparency could be explored and policy recommendations developed.

Generating impact is intrinsic to the research and enacted through a cyclical model: policy and practice stimulate research whose results influence policy processes that in turn feedback into the research. Impacts derive as much from draft articles and memoranda presented to professional and policy audiences as from usually later academic publication. Moreover, participant-observer status – for example, as specialist adviser or Board member – enables research findings to be fed directly into the policy process.

3. References to the research

- Heald, D and G Georgiou (1995), 'Resource Accounting: valuation, consolidation and accounting regulation', *Public Administration*, Vol. 73(4), pp. 571-79.
- Heald, D and G Georgiou (2000), 'Consolidation principles and practices for the UK government sector', *Accounting and Business Research*, Vol. 30(2), pp. 153-67. (Reprinted in R Jones (ed) (2011), *Public Sector Accounting: Four-Volume Set*, Sage.)
- Heald, D (2003), 'Value for money tests and accounting treatment in PFI schemes', *Accounting, Auditing and Accountability Journal*, Vol. 16(3), pp. 342-71 (extensively referenced in the academic and governmental literature, including IMF policy documents).
- Heald, D and G Georgiou (2009), 'Whole of Government Accounts developments in the UK: conceptual, technical and implementation issues', *Public Money & Management*, Vol. 29(4), pp. 219-27.
- Heald, D and G Georgiou (2011a), 'The substance of accounting for Public-Private Partnerships', *Financial Accountability & Management*, Vol. 27(2), pp. 217-47 (winner of the John Perrin Prize for best paper in that volume).
- Heald, D and G Georgiou (2011b), 'The macro-fiscal role of the UK Whole of Government Account', *Abacus*, Vol. 47(4), pp. 446-76.

The research programme received extensive external funding awarded to Professor Heald, of which the most important sources have been:

- *Accounting for infrastructure assets: financial reporting, private finance and concessions*, ESRC Project L311253046, 1/4/94 to 31/12/95, £28,880
- *Improving the quality of public expenditure*, Royal Society of Edinburgh Support Research Fellowship, 1/10/10 to 30/9/11, £74,805

4. Details of the impact

The research findings on matters crucial to economic prosperity and public services influenced public policy, informed legislatures, professional bodies and regulators, raised stakeholder awareness of public accounting issues nationally and internationally, and contributed to a better understanding of these issues among the general public.

Heald's research contributed extensively to public policy in his advisory roles to government and parliamentary bodies. Contributions of particular significance include:

- As specialist adviser on public expenditure and government accounting to the House of Commons Treasury Committee (including 2008-10) and The Public Accounts Commission (including 2008-09), bringing his research findings directly to the Treasury's modernisation of public sector accounting, including (1) potential uses of the UK's WGA, and (2) arbitrating between different accounting standards and between accounting standards and national accounts rules especially as these related to off-balance sheet treatments [5.1]
- As member (nominated by the Government's Chief Economic Adviser) of the Financial Reporting Advisory Board to HM Treasury (FRAB) (including 2008-09), bringing his research findings directly to the development of PFI accounting policy, particularly the Treasury's acceptance that the control principle would be used to determine the IFRS treatment of PFI assets. FRAB minutes show the sustained contribution of Heald based on

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his research findings [5.2].

The research was instrumental in challenging and changing Government policy and practice by providing an evidence base for holding Government to account. Heald also contributed to the cumulative pressure that led to the Chancellor's Autumn Statement 2012 announcing a new control total for PFI liabilities in Spending Review 2013.

Heald acted as 'critical friend' to the Treasury's WGA process and sustained the policy community's interest by informing it of research results on issues and uses, a benefit recognised in October 2012 when he met an IMF mission as a Treasury external stakeholder [5.3].

The research contributed to the safeguarding and improving of fiscal governance through the work of the following committees of the House of Commons that cited the research in their reports:

- Treasury Select Committee (2011) on PFI accounting [5.4]
- Communities and Local Government Committee (2011) on the abolition of the Audit Commission [5.5]
- Local Audit Bill Committee (2012) on legislative proposals following the abolition of the Audit Commission [5.6]

and similarly in Committees of the legislatures of Devolved Administrations [5.7]:

- The Scottish Parliament's Finance Committee's self-review of its budget process (2008)
- The Northern Ireland Assembly's Committee for Finance and Personnel (2010)
- The National Assembly for Wales' Public Accounts Committee (2012).

The research was used to respond to UK Government public and private consultations, including:

- Treasury's reviews of FRAB (January 2011) and of *Public Expenditure: Statistical Analyses* (March 2012)
- Office for Budget Responsibility's review of Fiscal Sustainability Reporting (May 2011)
- Survey of Treasury's External Stakeholders (November 2008) and the Science and Analysis Review of Treasury by the Government Office for Science (January 2013) [5.8]
- Scottish Government's methodological review of *Government Expenditure and Revenues in Scotland* (March 2008).

Heald also used the research to raise awareness and understanding of accounting policy issues among professional institutes and accounting regulators. He facilitated the Intra-Accountancy Institutes' PFI workshop (2008); spoke on transparency and public audit at the Governance summit of the Chartered Institute of Public Finance and Accountancy (2011); and brought his PFI, WGA and fiscal transparency research to the attention of the Technical Advisory Group of the Audit Commission, of which he was a member (including from 2008-2010).

The research also had impacts in international policy and professional communities:

- As a member of the OECD Senior Budget Officials Network on Public-Private Partnerships, Heald presented a paper in 2011 and acted as discussant in 2012; he also commented on drafts of the *OECD Principles for Public-Private Partnerships* (2011) [5.9] which acknowledges his contribution
- In Heald's responses to international consultations, including the International Public Sector Accounting Standards Board's consultation on PPP accounting (August 2008); and the IMF's review of the Code of Good Practices on Fiscal Transparency (February 2013)
- In Heald's role as discussant on the IMF's analysis of successful episodes of fiscal consolidation (December 2010).

Heald also used the research to make a technically difficult subject more accessible to the general public: he was a key contributor to BBC Radio 4's *File on 4* on the PFI (June 2009) [5.10]; and shared his insights with, for example, *BBC Newsnight Scotland* (March 2009), *The Economist* (March 2008, March 2010), *Financial Times* (February 2009, September 2010, February 2011), *Sunday Herald* (April 2010), and *Private Eye* (November 2009).

5. Sources to corroborate the impact

- [5.1] <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmtreasy/430/430.pdf>;
<http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/27/27.pdf>;
<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmtreasy/180/180.pdf>
- [5.2] http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/psr_frab_meetings_index.htm, meetings from 28 February 2008 to 11 June 2009
- [5.3] Documentary evidence is available from the HEI on request regarding Heald's participation in the IMF visit to HM Treasury on 24 September 2012
- [5.4] <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146.pdf>
- [5.5] <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/763/763.pdf>
- [5.6] <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmdraftlocaudit/696/696.pdf>
- [5.7] <http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=1632&mode=html>;
http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_44_09_10R_vol1.html;
<http://www.senedd.assemblywales.org/documents/s11820/Committee%20Stage%201%20Report.pdf>
- [5.8] Documentary evidence of Heald's involvement in responses to UK Government public and private consultations is available from the HEI on request.
- [5.9] <http://www.oecd.org/gov/budgeting/48144872.pdf>
- [5.10] Transcript of *File on 4*, "Private Finance Initiative", first transmission on 23 June 2009 http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/23_06_09_fo4_pfi.pdf; documentary evidence of cited media reports of research is available from the HEI on request