

Impact case study (REF3)

Institution: University of Bristol		
Unit of Assessment: 17 – Business and Management Studies		
Title of case study: University of Bristol research improves financial reporting by the UK government and public sector organisations		
Period when the underpinning research was undertaken: 2006 –2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Sheila Ellwood	Professor of Financial Reporting	09/2006 – present
Period when the claimed impact occurred: 2015 – 2020		
Is this case study continued from a case study submitted in 2014? N		

1. Summary of the impact

Sheila Ellwood's work has led to significant changes in how the UK government and other public sector bodies, including NHS organisations and local authorities, report their financial activities and financial position. As a member of Treasury taskforces and panels, Ellwood helped:

- i. design new accounting principles in the Government Financial Reporting Manual for 2020/21, and;
- ii. update guidance for public sector organisations on how to account for public-sector-specific activities and adapt commercial accounting standards, such as IFRS 15: *Revenue from Contracts with Customers*, for a public sector context.

These changes represent a move away from commercial approaches to accounting towards reporting that better considers the needs of the public sector. As a result, the UK government has improved its accountability to parliament and, in turn, to the public. It now better considers the users of public sector financial reports and how to adapt specific accounting standards to the public sector, for example, how contracts with 'customers' apply to revenue determination in internal markets across the NHS.

2. Underpinning research

How governments account – that is, how they measure and monitor spending and their financial position – has consequences for government decisions affecting citizens both as service recipients and as taxpayers [3.1]. Ellwood's research has explored the theoretical underpinning of government accounting, how it is put into practice, and how it is reported. In particular, Ellwood's research examines the UK government's moves to apply commercial accounting approaches to financial reporting in the UK public sector, which has been using International Financial Reporting Standards (IFRS) since 2010. However, IFRS is designed for investors making decisions in the capital markets.

Her research demonstrates that these commercial approaches to accounting are not well suited to the public sector context. These findings make an important contribution to the field of Accountancy by highlighting the specific needs of public sector accounting and its users. These needs include the controversies and difficulties faced by the sector – especially the impacts of convergence of financial reporting practice – and within an international context.

The conceptual framework of public sector accounting

Ellwood's research has contrasted accounting regimes and their conceptual underpinnings. The International Accounting Standards Board (IASB) revised its framework in 2010 and produced a new IFRS conceptual framework in 2018. IFRS in 2010 and 2018 identifies the primary users of financial reports as investors, creditors and financiers. The International Public Sector Accounting Standards Board (IPSASB) produced a conceptual framework in 2014, which

Impact case study (REF3)

identifies a wider range of users of public sector reports. Ellwood's research into the purposes and problems of these frameworks for public sector financial reports and accounting standards highlights the different purposes and users of public and private sector financial reports [3.2].

The introduction of International Financial Reporting Standards (IFRS) in the NHS

With Garcia-Lacalle (of Zaragoza University, Spain) [3.3], Ellwood led a study that investigated IFRS introduction into the NHS in 2010. The annual reports of all NHS trusts in England were analysed before and after the introduction of IFRS. The study found substantial changes in the reporting of performance and solvency. A foundation trust deficit for the year changed from under GBP12 million to over GBP35 million and many privately financed new hospitals were reported on balance sheets for the first time. The research showed that the adoption of different accounting regimes and their underlying conceptual frameworks has important implications for interpreting public sector accountability and public expenditure decisions.

Accounting for the public sector context

IFRS is designed for a commercial environment where investors make decisions in the capital markets. Governments and public sector bodies receive funds (taxes); provide public services and pay social benefits. Ellwood researched adaptations to commercial standards (e.g. IFRS 15) for a public sector context and public sector issues not covered by commercial standards, such as heritage and social benefits. Collaborating with Greenwood (University of Bath), Ellwood led a study that explored the case of accounting for artworks held by UK local government (Tower Hamlets Council) and The National Portrait Gallery [3.4]. They considered how the measurement and inclusion of heritage assets could affect the perceived value of the 'assets' and consequent decisions [3.4] [3.5]. Ellwood and Brown (Loughborough University) are together investigating the development of IPSAS 42 Social Benefits [3.6]. Social benefits are not included in the balance sheets of any government in the world even though state pensions and benefits represent about 19% of government expenditure in developed countries and are increasing rapidly post Covid-19.

3. References to the research

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- [3.1] Ellwood, S.M. (2016) Editorial, Special Issue on 'Public Sector Accounting Internationally', *Public Money and Management*, 36 (3). DOI: 10.1080/09540962.2016.1133956.
- [3.2] Ellwood, S.M., and Newberry, S. (2016) The conceptual underpinnings of international public sector accounting, *Public Money and Management*, 36 (3) 231-234. DOI: 10.1080/09540962.2016.1140974.
- [3.3] Ellwood, S.M., and Garcia-Lacelle, J. (2012) Old Wine in New Bottles: IFRS adoption in NHS Foundation Trusts, *Public Money and Management*, 33 (5) 335-342. DOI: 10.1080/09540962.2012.703411.
- [3.4] Ellwood, S.M., and Greenwood, M. (2016) Accounting for Heritage Assets: Does measuring economic value 'kill the cat'? *Critical Perspectives on Accounting*, 38 1-13. DOI: 10.1016/j.cpa.2015.05.009.
- [3.5] Ellwood, S.M. (2018) Accounting for what we treasure: economic valuation of public heritage in *The Oxford Handbook of Public Heritage Theory and Practice*, edited by Labrador, A.M., and Silberman, N.A., ISBN 9780190676315.
- [3.6] Ellwood S.M., and Brown, R. (2020), Is "being alive" a recognition or a measurement criterion? – A response to Heintges and Waldbauer on the development of IPSAS 42. *Public Money and Management*. DOI: 10.1080/1535685X.2019.1706818.

4. Details of the impact

Ellwood's expertise, built up through her research into public sector accounting, has been instrumental in developing government financial reporting that is more relevant to parliament (as representatives of the public) in holding the government to account. Setting the accounting rules more clearly in the context of government has far reaching implications. How the government presents financial information in annual reports and accounts can inform how parliament assesses the performance of government services and can also support decisions made by politicians and policymakers, such as on the awarding of contracts. The presentation also has

Impact case study (REF3)

fiscal implications: it influences the level of ‘austerity’ within and across public services and tax policies. To give a specific example, Covid-19 has led to unprecedented levels of UK government spending and debt. The way in which government accounts present this spending can help assess the effectiveness of government measures, shape policy, debt management, and how parliament responds.

Her reputation as a leading expert on public sector accounting is, in part, demonstrated by the inclusion of her articles in the annual CIPFA (Chartered Institute of Public Finance & Accountancy) Digest distributed to all CIPFA Fellows, highly experienced CIPFA members working in senior government positions, in three recent years (2016, 2017 and 2020) [5.10]. Her research also prompted and enabled the inclusion of international public sector accounting, for the first time, in the latest edition of a well-established textbook *Comparative International Accounting* (14th Edition, 2020) - the “*World’s best-selling textbook on international accounting*” [5.9]. It is this standing that has led to invitations to provide evidence to government and membership of dedicated taskforces and panels. These activities have led to a range of impacts as set out below.

i. New accounting principles in the Government Financial Reporting Manual (FReM) to reflect public sector needs

Ellwood provided written and oral evidence to an inquiry into government accounting set up by the Public Administration and Constitutional Affairs Committee (PACAC) in 2016 [5.1]. Her evidence drew from her research into conceptual frameworks of public sector accounting and clearly sets out the purposes of public sector accounts and their difference to business accounts. Her evidence was cited a dozen times in the subsequent parliamentary report: *Accounting for democracy*, published in April 2017 [5.3]. For instance, it cites her arguments that Government Accounts are “*tied up with democratic accountability*” [paragraph 13, p10], and are “*not designed for the purpose of parliamentary accountability*” [paragraph 21, p12] but “*for investors in the capital markets*” [paragraph 127, p39].

Her advice is clearly reflected in the report’s recommendations: “*...it is important that the Treasury recognises that Accounts in the public sector do very different things to Accounts in the private sector and their design should reflect the different group of people that use them. Given that, it is important that although the accounts currently meet the international standards, the Government makes additional disclosures ... above and beyond standard corporate accounting. Otherwise both Parliament and citizens will be unable to use these documents to hold the government to account.*” [paragraph 128, p40].

The government’s response to PACAC’s 2016 report in June 2018 [5.3] referred positively to the report’s recommendations, notably on its four proposed purposes of government accounting: “*The Government agrees “that the main purposes of Government accounts and information should be to enable Parliamentary control and accountability, to enable the public and Parliament to understand and consider the value for money offered by public spending, to provide a credible and accurate record which can be relied upon and to provide managers with the information required for decision making.”* [paragraph 16, p8].

This led to a Government Financial Reporting Review published in April 2019 [5.4], which accepted the purposes of government accounting in *Accounting for Democracy*. It stated that the Treasury will ensure that the purposes are “*reflected in the revised Financial Reporting Manual*” (p15) and set out measures to reform government accounting, including redesigning the government accounting manual. In line with Ellwood’s input, the Review acknowledges that accounting designed in a commercial context cannot adequately address the needs of parliament and the public. In particular, it responds to *Accounting for Democracy*’s call to distinguish private and public sector accounting, by stating:

“*.. the Treasury is ensuring that departments’ annual reports and accounts meet international standards, with different treatment, where appropriate, to reflect the different requirements between the private and public sector.*” [p101].

In June 2019, Ellwood became the only academic member of a working group, led by H.M. Treasury, set up to redesign the Government Financial Reporting Manual (FReM) for 2020/21, published in December 2019. She was a member of a team who discussed all chapters in the manual and, notably, she drafted Chapter 2: *The purposes and principles of government financial reporting for the FReM* [5.5] with the Head of Accounting Policy and Guidance at the Department of Health and Social Care. In line with her research and the objectives of government financial reporting put forward by PACAC and accepted in the 2019 Government Review, the Principles (Section 2.6, p7, [5.5]) acknowledge the need to consider the public sector context. While the principles in the IFRS Conceptual Framework for Financial Reporting 2018 state the purpose as meeting the needs of investors in making resource decisions, the FReM 2020-21 includes the four purposes of government accounting identified in the PACAC Report in paragraph 2.4.1 (p6) of the principles chapter [5.5]:

- i. to maintain and ensure parliamentary control of government spending
- ii. to enable the public and parliament to understand the value for money of public spending
- iii. to provide a credible and accurate record
- iv. to provide ministers and civil servants with the information they need to run departments.

In evidence presented at a PACAC meeting in November 2019, James Bowler, director general of public spending in the Treasury, said he expected the Government Financial Reporting Review to bring *“the biggest change in annual reports and accounts since 2014 ... a culture change in what the reports are trying to do, by putting the user first”* [5.6]. This is realised in FReM 2020/21’s new ‘comply or explain’ approach (Principle 2.6.12, p7, and throughout Section 4 of [5.5]) for example, government bodies should explain how any non-compliance with IFRS better meets government objectives and the needs of users.

FReM 2020/21 agrees that, in future, accounting for government spending will be influenced less by the needs of shareholders and wealth creation, and more by the needs of parliamentarians and citizens.

ii. New guidance on implementing accounting standards for a public sector context

In 2015, Ellwood was invited to join an H.M. Treasury taskforce on the implementation of the accounting standard IFRS 15 *Revenue from Contracts with Customers*. Public sector bodies rarely contract directly with ‘customers’ (such as patients) at market prices and it was therefore necessary to consider revenue arising from differing circumstances, such as grants, treating NHS patients and so on. Ellwood was the sole academic member of the taskforce [5.6] and her work focused on how the accounting standard should be applied in relation to how contracts with customers exist in a public sector context, and its relationship to taxation, fines and penalties. The taskforce reported to the Financial Reporting Advisory Board (FRAB) who then issued guidance to all public sector bodies (government departments, NHS organisations, local authorities etc.) through relevant accounting manuals and directives [5.7].

The Annual Reports for all UK government departments, NHS bodies and local authorities now follow the accounting guidance and referred to the introduction of IFRS 15 as adapted in their financial statements for 2018/19. For instance, the Annual Accounts for NHS England for 2018/19 states that *“The transition to IFRS 15 has been completed in accordance with paragraph C3 (b) of the Standard”* (p150) [5.7].

A FRAB paper published in November 2019 confirms that implementation of IFRS 15 has been, on the whole, successful. This stated that 80% of respondents to a survey of annual reports and accounts (ARAs) preparers *“marked that the needs of the end user had influenced the disclosures included in ARAs in respect to IFRS 9 and IFRS 15”*. A FRAB review of ARAs in the same paper concluded that the disclosures for IFRS 15 were *“generally good and it was possible to understand the impact on the ARAs”* [5.7].

Impact case study (REF3)

The impact of IFRS 15 implementation across all 8,000 public sector agencies is demonstrated by the Whole Government Accounts for 2018-19. These show, for the first time, contract assets due to the implementation of IFRS 15, adding GBP1.8 billion and GBP3.9 billion to long-term and current assets in the UK Balance Sheet (p124 WGA 2018-19) [5.8].

Ellwood's research is also informing the implementation of a new public sector accounting standard (IPSAS 42) in UK public sector accounting, which addresses the fundamental area of 'social benefits'; her work in this area [3.6] was highlighted in the CIPFA Fellows' Digest in 2020 [5.10]. Heritage, an insignificant area for most commercial companies, is not addressed in IFRS, but has been included in UK public sector financial statements 'where practicable'. This exclusion is often justified by preparers in terms of difficulty of measurement and perceived usefulness - an area that Ellwood's work delineates. This difficult area is developing following an International Public Sector Accounting Standards Board (IPSASB) Consultation Paper, *Financial Reporting for Heritage in the Public Sector*.

5. Sources to corroborate the impact

[5.1] Public Administration and Constitutional Affairs Committee (PACAC) (2016) Letter of thanks for providing evidence to the Inquiry into Government Reporting - Bernard Jenkins MP, Chair of PACAC | **UK Parliament** (6th September 2016) [Written evidence from Professor Sheila Ellwood submitted to the Inquiry into Government Accounts](#)

[5.2] Public Administration and Constitutional Affairs Committee (PACAC) (2017) [Accounting for democracy: making sure Parliament, the people and ministers know how and why public money is spent](#), Fourteenth Report of Session 2016-17, HC95.

[5.3] Public Administration and Constitutional Affairs Committee (PACAC) (2018) [Accounting for Democracy Revisited: The Government Response and Proposed Review](#). Sixth Report of Session 2017-19. HC1197.

[5.4] HM Treasury (2019) [The Government Financial Reporting Review](#)

[5.5] HM Treasury (2019) [The Government Financial Reporting Manual \(FReM\) 2020-21 | House of Commons](#) (2019) [Oral evidence: Government Financial Reporting Review, HC 252, Tuesday 5 November 2019](#) | **HM Treasury (2019)** Email correspondence with Senior Finance Advisor confirming Ellwood's role in writing the revised principles chapter for the draft FReM 2020/21.

[5.6] Membership of the Treasury Panel into the application of *IFRS 15 (Revenue from Contracts with Customers)* in Government Accounting 2015

[5.7] NHS England (2019) [Annual Accounts 2018-19](#) | **HM Treasury** (2019) [Financial Reporting Advisory Board \(FRAB\) Paper Update on the pilot thematic review of IFRS 9 and IFRS 15](#).

[5.8] HM Treasury (2020) [Whole of Government Accounts 2018-19](#)

[5.9] Royal Holloway University of London (2020) Supporting statement – Editor, Comparative International Accounting

[5.10] CIPFA Fellows' Digest (2016, 2017, 2020) | **CIPFA** (2017) Email correspondence – Head of Publishing