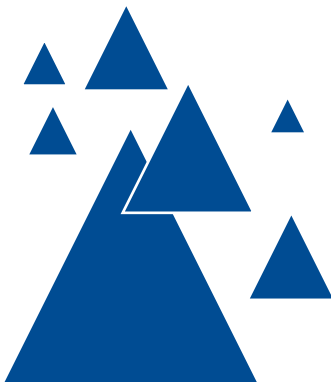




# NHS Resource Accounting in Wales: Problems of Implementation

## Executive Summary



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# **E**XECUTIVE SUMMARY

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## **Introduction**

This study focuses on the operational consequences of the introduction of an aspect of Resource Accounting and Budgeting (RAB), namely accounting and budgeting for capital assets. The study examines the National Health Service (NHS) in Wales that started to apply accruals accounting in 1991 and has since modified its accounting to encompass not only accruals accounting but also RAB. The intention of the NHS is that there will be a number of benefits from this centrally imposed new approach. The degree to which these revised accounting practices can be deemed a success will be determined by the extent to which the potential benefits are realised in practice.

The research investigates the various claims that have been made for RAB together with some of the potential problems. Perceived benefits include: the allocation of fixed assets to a functional management unit; the identification, proper recording and maintenance of asset records; improved purchasing and disposal decisions; better planning and management of assets; improved awareness of maintenance costs; and recognition of the opportunity cost of fixed asset acquisition or construction. Potential concerns may be: the difficulties of applying RAB in practice; potential misunderstandings and misuse of information by different people affected by the changes; and the impact of capital charging and depreciation on managerial behaviour and decision taking.

To date there has been no similar study in the NHS which examines the impact of the implementation of this accounting change. Therefore this study provides valuable evidence of the consequences when a change in accounting practice is undertaken.

## Research approach

The introduction of capital accounting in the public sector is a relatively recent phenomenon that runs counter to many previously stated objections (Mellett, 1992). The introduction into the NHS of capital charges has two elements, one is depreciation and the other notional interest. The process of accounting innovation is examined in this study, whereby a new technique, in this case full accruals accounting, is introduced to an environment where it did not previously exist. Two themes that are relevant to this study are diffusion, or the spreading of new ideas or processes, and organisational coupling, which reflects the intermediation of management between those whose activities are subject to the new measurement system and those imposing the system.

Other factors that are considered are those of depreciation, as an element of public sector capital charging, and the underlying measurement of the related capital stock. These are examined from the viewpoint of there being a division between depreciation when included as an expense in a Trust's external financial reporting package and when it is present in the accounts used by the management control system.

The public sector in general, and the NHS in particular, has become an area about which an increasing amount of research has been published. This study has identified those strands of research which are relevant to this project. An initial review concentrated on the process of accounting, but the iterative nature of the project, developing an interview schedule and using the outcome of this to inform the questionnaire, identified additional areas of relevance.

Initially the approach was to concentrate on the procedural aspects of capital accounting but, as the project progressed, it became apparent that behavioural considerations were also relevant. While accounting reform in the NHS can be introduced through direction from a superior authority, its successful implementation depends on the extent to which its outputs are assimilated into the culture as an acceptable steering mechanism. Management, both financial and non-financial, has to instigate and use the accounting reports produced and the procedures have to be capable of

achieving the desired actions that, in turn, will deliver the strategy of the organisation. The themes outlined above, covering both theoretical and practical aspects of implementation and operation, identify potentially fruitful lines of enquiry pursued by this research project.

The strategy for fixed asset investment has developed from the initial identification of the need for a strategy to that of its implementation. There has been a growing recognition that the state of assets had been allowed to deteriorate and that this was impeding the delivery of quality health care. The funding consequences of owning capital assets, as measured by accounting procedures, are not neutral if they result in shifts when resources are received and paid in different amounts. The outcome of the strategy is expressed in the annual report and accounts that are available both for internal review and to inform the various stakeholders of the NHS.

The methodology employed involved a two-stage process: interviews and a questionnaire survey. One of the intentions of the interviews and questionnaire survey was to ascertain whether accounting for income and expenditure and the related cash flows meshed in a mutually neutral or reinforcing way or whether they in fact impeded each other.

The initial interviews were open-ended and exploratory in nature and were then followed by a more formal process using a semi-structured format. The interviews were conducted with key individuals from two Welsh NHS Trusts and supplemented by external parties to the Wales capital accounting regime such as the Welsh Assembly Government and the Audit Commission in Wales. The second stage of the research involved the development of a questionnaire, informed by the findings of the interviews, which was distributed to all Welsh NHS Trusts.

## **Findings**

The study revealed that the RAB reforms, as measured by capital charges, had not diffused into the management accounting practices of the two Trusts where senior officials were interviewed. Accounting information about fixed assets was used to compile reports for central government, but the utility of this aggregated data was questionable. Characteristically of

a loose-coupled organisation, other databases about fixed assets were used to manage their acquisition, disposal and maintenance. The impact of the cash allocation and repayment system, the lack of cash in general and the political reluctance to endorse Private Finance Initiative (PFI) schemes had led to underinvestment in the NHS estate in Wales and the perpetuation of an inefficient asset base.

The quantitative study from the questionnaire survey supports the findings of the qualitative study. Diffusion had not taken place to any extent in the majority of Trusts and only a minority thought that budgetary control over assets had improved as a result. The reforms were negatively perceived and had not been assimilated into the culture of the organisation. Further, evidence of a loose-coupled organisation was found, with numerous information sources used to make asset acquisition and disposal decisions. Limited use was made of capital accounting information in external reports, where only factors such as new capital schemes were commented upon. The internal effects, however, were quite significant and negative. Capital charges were seen as just another hindrance in the approval process for new projects, and once again the lack of cash for capital investment and the dearth of PFI schemes added to the frustration of managers who were anxious to enhance the delivery of their services.

## **Conclusions and recommendations**

At the time that this research was completed there was no evidence that the perceived benefits from the introduction of the accruals accounting aspect of RAB-based techniques linked to capital assets were being realised in the NHS in Wales. Furthermore it is difficult to see when or where these benefits will be realised with the loose-coupled organisational context and the current level of enforced diffusion. However, the potential problems of implementation foreseen at the outset had largely transpired and it is apparent that RAB is inconsistent with a cash-managed environment. Evidence was found that the current accounting system is in fact impeding the implementation of the NHS strategy. Managers have no incentive to dispose of inefficient or underutilised assets since the funding of

replacements is not guaranteed and even if it was, the revenue implications of the capital charge would have a negative influence.

In order for the claimed benefits of RAB to materialise, the loose-coupled system needs to be revised. There is a need for the development of a single integrated asset management system to encompass both their financial and physical facets. A system revised in this way would enable the integration of the management of assets over all those functional units that are responsible for different aspects of using these assets. Further diffusion could then take place within each Trust to correctly locate responsibility for asset management. Responsibility should accompany any devolution of information so as to avoid information redundancy. Further diffusion of this kind may create tensions because central control is required to deliver overall strategy, while devolved responsibility is necessary for strategy implementation.

This work has focussed on the position in Wales, a devolved administration within the UK. Further work in other such administrations would provide a basis for comparison and the potential to identify best practice.

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