



Professional accountants – the future:

50 drivers of change in the public sector



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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **198,000** members and **486,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **101** offices and centres and more than **7,291** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

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Part of our ground-breaking *Professional accountants – the future* series, this is one of a series of country reports, following on from our global report *50 drivers of change in the public sector*. It focuses exclusively on identifying the 50 drivers of change in the United Kingdom that are expected to have an impact on the public sector and the likely timing of these. It also assesses how professional accountants will need to continue to play a pivotal role in the decade ahead.

The public sector is as complex as it is diverse and it is not the same in any two countries; what is considered to be part of the public sector often varies from one country to another.

The global public sector is changing, with the landscape being reshaped by a combination of factors: a growing and ageing population, the need for better infrastructure and increasing concerns over sustainability and consumption. At the same time, demands are growing for greater transparency and accountability for public funds. These challenges are heightened by advances in technology and by economic and political uncertainty. As the social and economic environment shifts, all these factors will have serious consequences for public sector organisations and their finance professionals.

The public sector is as complex as it is diverse and it is not the same in any two countries; what is considered to be part of the public sector often varies from one country to another. For example, in some countries, such as the United Kingdom (UK) and Scandinavian countries, healthcare is deemed to be a public sector function, while in some others it is a hybrid between the public and private sectors.

For professional accountants working in the public sector, the challenge is twofold. First, they need to understand the key forces shaping the future and how these could affect public sector organisations and the country they serve. Secondly, they need to provide support and influence financial decisions that will ensure that public funds are deployed cost-effectively and efficiently.

To help professional accountants and leaders in the public sector prepare for an

uncertain future, ACCA undertook a global study to explore which emerging drivers of change could have the biggest impact and to highlight the skills that will be required over the period to 2026.

The recently launched global report *50 drivers of change in the public sector* is part of our ground-breaking *Professional accountants – the future* series and is the first report to focus exclusively on identifying the 50 factors that will impact the public sector, the likely timing of these and how they will shape the future.

The global study draws on a survey of ACCA's global forum for the public sector, ACCA members and members of other professional accountancy bodies working in the public sector. This was complemented with a series of roundtable events held across 12 countries, from the US in the west through to China in the east, and high-level interviews with key public sector figures.

This particular report is focused specifically on the results from the global report for the United Kingdom and also follows a recent roundtable held in the country to discuss these key issues. In this report we explore the drivers of change that are impacting the United Kingdom's public sector in particular. These include the level of economic growth; experimentation and adoption of new business models; business leaders' responsiveness to change and disruption; the workforce age structure; Big Data; and the digitisation of work.



The UK's changing economic environment, political environment and societal norms – including a growing population – affect the public sector and the level of related services required.

The UK's particular challenges, which are highlighted in this report, include: the level of economic growth; the sustainability of government debt; migration and an ageing population; fluctuations in government revenues; and technology developments and challenges, particularly cybersecurity.

All these factors have an impact on the challenge of delivering the right level of public service effectively. Delivery channels are changing with the use of public private partnerships (PPPs), Big Data and digitisation of public services. These new models bring risks, which need to be managed but which also provide new opportunities for professional accountants to play a key role.

Table 1: Ranking of the top 50 drivers of change for the public sector for United Kingdom

The drivers of change are categorised into eight key themes: Economy; Politics and law; Society and demographics; Business of government; Science and technology; Environment, energy and resources; The practice of accounting and The accountancy profession.

RANK	DRIVER OF CHANGE	THEME
1	The level of economic growth	Economy
2	Non-financial information and integrated reporting	The practice of accounting
3	Experimentation with and adoption of new business models	Business of government
4	Business leaders' responsiveness to change and disruption	Business of government
5	Workforce age structure	Society and demographics
6	Big Data: the development and exploitation of large organisational databases, data mining and predictive analytics	Science and technology
7	The digitisation of work	Science and technology
8	Stability of national revenue bases	Economy
9	Cybersecurity challenges for government	Science and technology
10	Use of public private partnerships (PPPs)	Business of government
11	Scope and diversity of expectations of external stakeholders	Business of government
12	Governance and delivery of outsourced public services	Politics and law
13	Defining the scope of the accountant's role	The practice of accounting
14	Manageability of national and international debt	Economy
15	Competition for limited natural resources	Environment, energy and resources
16	Adoption of integrated systems thinking to manage business complexity	Business of government
17	Public perception and attractiveness of the accountancy profession	The accountancy profession
18	Level of investment required to maintain national physical infrastructure	Economy
19	Balance between external financial accounting and internal managerial accounting	The practice of accounting
20	Quality and availability of the global talent pool	Business of government
21	Flexibility, suitability and cost of accountancy training	The accountancy profession
22	Pressure to manage reputation as part of business strategy	Business of government
23	Size and complexity of the CFO's remit	The practice of accounting
24	Scale and distribution of global population growth	Society and demographics
25	Level of entrepreneurial skills in the accountancy profession	The accountancy profession
26	Scale of take-up in alternative energy by business	Environment, energy and resources
27	Clarity in financial reporting and defining the audit function	The practice of accounting
28	Societal expectations and definitions of accounting	The accountancy profession
29	Speed and duration of business cycles	Business of government
30	Spread of diversity in society and the workplace	Society and demographics
31	Evolution of corporate governance regulation and practice	Business of government

RANK	DRIVER OF CHANGE	THEME
32	Level of international political volatility	Politics and law
33	Carbon tax and other environmental market mechanisms	Environment, energy and resources
34	Rate of democratic transition	Politics and law
35	Global climate change	Environment, energy and resources
36	Stability of the global economic infrastructure	Economy
37	Broadening measurement of public sector value and progress	Economy
38	Accounting skills capacity in transitional economies	The accountancy profession
39	The workplace expectations of Generation Y, Z and beyond	Society and demographics
40	Focus of global governance institutions	Politics and law
41	Cost and ease of access to higher education	Society and demographics
42	Enterprise risk management capability	Business of government
43	Adoption of globally accepted accounting standards	The practice of accounting
44	New industries and production models	Science and technology
45	Extent of foreign direct investment in developed and developing economies	Business of government
46	Consideration of alternative economic perspectives	Economy
47	Opportunities arising from adoption of global regulation	The practice of accounting
48	Advances in genetic science, Impact of nanotechnology advances and robotic science across business sectors	Science and technology
49	Total scale and distribution of global inequality and unmet needs	Economy
50	Crowdsourced funding for innovation: the consumer as investor	Business of government

‘In the UK, economic growth is the top priority, with a five year plan by government so that we know where we will be in terms of debt.’

United Kingdom Roundtable participant

The top three (ranked) drivers of change for each of the eight categories identified were:

ECONOMY



The level of economic growth in the UK has been subject to significant variation over the last 10 years. In the period 1999 to 2008, gross domestic product grew by 2.8% a year on average. But the global financial crash of 2008–2009 had a severely negative impact on the UK economy, which reduced in size by 5.2% in 2009. Since then there has been steady growth, but at an average level below that registered before the crash (Focus Economics 2017). GDP grew by more than 1% but less than 2% in the years 2010 to 2013, rising by 3.07% in 2014, by 2.19% in 2015 and 1.81% in 2016. Predictions for growth for 2017 and later years are subject to controversy, not least because of uncertainty over the impact of Brexit and the hung parliament following the 2017

General Election. Economic growth, following the Brexit vote in particular, has been heavily dependent on consumer spending (Beck and Goodwin 2017: 44/45). Much of this has been financed by household debt, which may not be sustainable (Beck and Goodwin 2017: 71).

The **stability of national revenue bases** was seriously undermined by the impact of the global financial crisis. The rescue of major banks – in particular Royal Bank of Scotland and Lloyds – added to national debt; higher unemployment led to higher welfare payments; while tax revenues declined sharply because of the recession and the shrinkage of the economy (it should also be noted that the Institute of Fiscal Studies has pointed to 15 years of no real terms pay increases and this has also affected long term consumer purchasing power) (Allen et al 2017). In the 2007/8 fiscal year, tax revenues were £456bn, but these fell to £445bn in 2008/9 and then £414bn in 2009/10, before steadily recovering and reaching £567bn in 2016/17 (HMRC 2017: 3).

Manageability of national and international debt remains a serious challenge for the UK. While the size of the UK government deficit has been steadily falling because of austerity measures, the national debt has continued to rise. Government debt as a percentage of GDP

“There is a role for the accountancy profession in interpreting and commenting on what is happening in the economy.”

United Kingdom Roundtable participant

has risen from 42.0% in 2007, to 81.6% in 2011 and 89.3% in 2016. The Office for Budget Responsibility has estimated that in the 2016/17 fiscal year the government has raised £721bn in total revenues (tax, NICs plus other sources), while spending £772bn. It expects that fiscal deficits will continue until at least 2022 (OBR 2017a).

The UK's demography of an ageing population creates continuing public spending pressures, particular on health and social care. Household debt is also a serious problem. The Office for Budget Responsibility has warned that household debt is rising and predicts it will increase to 153% of household disposable income by 2022 (OBR 2017b: 65). The highest levels of personal debt as a proportion of income are among the poorest and youngest parts of the population. The most common form of non-mortgage debt is through credit and store cards, but the highest-value debts are student loans (ONS 2016).

POLITICS AND LAW

12

Governance and delivery of outsourced public services

32

Level of international political volatility

34

Rate of democratic transition

The UK is a world leader in the outsourcing of public services, but concerns have been expressed about the **governance and delivery of outsourced public services**, particularly in light of well publicised issues that have arisen. Concerns include cybersecurity of government and individuals' data – with anxieties over the resilience of IT systems to cyberattacks and the possible vulnerability to information theft by employees. The most comprehensive review of public sector outsourcing activity was conducted in 2009 by the then Department for Business, Enterprise and Regulatory Reform, which concluded that at that time the outsourcing of public

services accounted for nearly 6% of GDP, directly employing more than 1.2m people and generating an annual turnover of £79bn (Huws and Podro 2012: 6). The monetary value of the sector will have risen in subsequent years through inflation, while the government's austerity programme has increased the number of services that have been outsourced. Consequently, this sector is likely to have become substantially bigger by 2017. A report produced for the Trades Union Congress (TUC) suggested it had probably exceeded £100bn in turnover by 2014/15 (TUC and NEF 2015: 7).

The **level of international political volatility** is an important factor in the UK's domestic politics. Conflicts in Syria, Iraq and Libya have resulted in substantial migration into the European Union. Migration was one of the contributing factors that led to the referendum vote for Brexit, i.e. to leave the European Union (Ashcroft 2016). It is likely that current and possibly future migration by war refugees into the UK via continental Europe was part of this anxiety. The internal difficulties within the EU over the governance of the Eurozone – and the crisis faced in particular by Greece and Ireland as a result in part of their membership of the single currency – will also have influenced some voters who favoured Brexit. The desire for the UK to make its own decisions on issues that affect the UK was the primary reason for the Brexit vote, according to opinion polling (Ashcroft 2016).

There is a continuing discussion in the UK about the **rate of democratic transition** and what are the correct structures for democracy and devolution. While the UK is a stable liberal democracy, there are elements of its democratic system that are young and immature. These include the devolution arrangements for Scotland, Wales and Northern Ireland – in Northern Ireland, for example, there is no government presently. There is also a debate over the governance of England, given the devolution arrangements for the UK's other three nations.

‘In the short term, the issue is the vote to leave the European Union and what difference that will make. In the longer term the question is what will be the affect of devolution on local areas. Governance and delivery will be impacted by the Brexit vote.’

United Kingdom Roundtable participant

SOCIETY AND DEMOGRAPHICS

5 Workforce age structure

24 Scale and distribution of global population growth

30 Spread of diversity in society and the workplace

The demography of the UK is changing in significant ways, as is the **workforce age structure**. The UK’s population at 2015 was 65.1m, a rise of more than half a million people in a year (ONS 2017a). One of the main reasons for the population growth is the longer life expectancy of older people: an increasing proportion of the population is elderly and retired from work. The burden of generating sufficient incomes and tax revenues to support the whole population falls mostly on people of working age, a proportionately reducing part of the total population. In 2005, 64.7% of the UK population was aged 16 to 64; in 2015 this was down to 63.3%; by 2035, it is predicted to fall to 58.3% (ONS 2017a). This is what is often referred to as the ‘demographic time bomb’. This problem has been made worse by the fall in productivity growth since the 2008 global financial crisis (ONS 2017b). In order to compensate for the shortfall in the number of working age people, the UK has availed itself of migrant workers. The Office for National Statistics notes: ‘the group aged 20 to 35 in 2015 has increased in size when compared with 2005, when they were aged 10 to 25; such a change can only have been generated by adding to the population through immigration’. This use of migrant labour may decline once the UK leaves the EU.

The **scale and distribution of global population growth** is one of the UK’s most contentious political subjects. The Office for National Statistics notes: ‘Immigration has been higher than emigration since the early 1990s. In 2015, levels of immigration (631,500) were more than double those of emigration (299,200). The highest immigration levels to date were seen in 2014 with 632,000 people coming to the UK. Rises in immigration have tended to coincide with the expansion of the EU, allowing more people to freely migrate to

the UK’ (ONS 2017a). Although the UK is preparing to leave the EU, immigration is predicted to continue to be higher than emigration for the foreseeable future (ONS 2017a) although since the Brexit vote there has been an increase in emigration and immigration reducing net migration by around a quarter since the period before the referendum.

In 2015, approximately 118,000 people from other countries acquired UK citizenship – the second highest number for any EU country (after Italy). Of these, 18,400 were from India; 13,100 from Pakistan; 8,100 from Nigeria; and 4,800 from South Africa. Some 3,800 Poles became UK citizens in 2015: the largest number from any EU nation (Eurostat 2017).

These factors have contributed to the spread of diversity in society and the workplace. The UK is a multicultural society, which is home to people of many different ethnic origins and religions. In the 1991 census of England and Wales, 94% of the population identified themselves as ethnically ‘white’; by the 2011 census this had fallen to 86% (ONS 2015). Almost half of those who were foreign-born identified themselves as ethnically ‘white’ in the 2011 census, most of whom were born in Germany (many in British army families overseas) and many others born in South Africa. One third of those born overseas identified themselves in the census as Asian or Asian British, while 13% regarded themselves as black, African, Caribbean or black British (ONS 2015). Employment rates were highest among the white population; unemployment was highest in the black/African/Caribbean ethnic groups; and economic inactivity highest in the Chinese and Arab ethnic groups (ONS 2014). Despite having a woman prime minister (for the second time) the UK has failed to achieve gender equality in the workplace: women are less likely to reach the top of organisations and there is a significant gender pay gap. The UK was only 13th in PwC’s 2017 Women in Work Index for female economic empowerment (PwC 2017a).

‘Countries with ageing populations should bring younger people in’.

United Kingdom Roundtable participant.

‘The public now wants more information about the public sector.’
United Kingdom Roundtable participant

BUSINESS OF GOVERNMENT

3

Experimentation with and adoption of new business models

4

Business leader responsiveness to change and disruption

10

Use of public private partnerships (PPPs)

Achieving value for money and cost effectiveness from public spending has been one of the key priorities for UK governments in recent decades. As a result, different governments have tried different forms of **experimentation with and adoption of new business models**. The Institute for Government (IfG) has referred to the UK administration as being ‘prone to policy reinvention’. When publishing its report *All Change*, the IfG argued there has been a ‘staggering amount of change in key government policies over the last five decades’, in particular involving ‘near-constant upheaval [in] further education, regional governance and industrial policy. For example, the last 30 years have seen 28 major pieces of legislation relating to further education led by 48 secretaries of state. And there have been three industrial strategies in the last decade’ (Norris and Adam 2017). Core policy changes in direction have led to different approaches to business models from different prime ministers. These have included privatisation of utilities (Thatcher); citizen’s charter (Major); provider choice, purchaser/provider split marketisation, public sector regulation and public private partnerships (Blair); piecemeal privatisation and mutualisation (Cameron); and greater intervention in the market (May). Taken together these policy changes are incoherent and inconsistent, and in many cases have involved changes of names, personnel and responsibilities of government departments (and those of regulators). The Institute for Government noted: ‘The cost of all this churn and reinvention are high. There is the human cost: in the FE [further education] sector, thousands of students and employers are faced with a confusing and ever-changing set of qualifications, with no certainty that those same qualifications will exist a few years down the line. The economic costs

are significant too. We have estimated that the cost of creating a new department – often at short notice and poorly planned – is £15m in the first year alone. Taking into account the temporary disruption to business, as people grapple with the logistics of creating a new department from the constituent parts, as well as the potential loss of institutional memory, the longer-term costs are substantially higher. The same considerations will apply to the frequent reorganisations that central government inflicts on the rest of the public sector’ (Norris and Adam 2017: 3).

This environment of almost permanent reform has created a challenge for the public sector’s **business leaders’ responsiveness to change and disruption**. This change and disruption increased after the 2008 global financial crisis, since when government has had to deal with greatly diminished revenues and greatly enhanced economic responsibilities – including the bailing-out of two of the UK’s largest banks, RBS and Lloyds. As a result, government has implemented austerity policies and reduced the budgets of public bodies, expecting many to deliver ‘more for less’. For example, the Department for Work and Pensions was explicit in 2010 in saying that this was its role (DWP 2010), as was the then Chancellor George Osborne in 2015 about the public sector as a whole (Peston 2015). Local government has been particularly badly hit by the reduction in central government grant support (Local Government Association 2017), while National Health Service trusts struggle with increasing deficits (C&AG NAO 2016).

There has been a substantial **use of public private partnerships (PPPs)**, previously referred to as the Private Finance Initiative (PFI) in the UK. The first PFI project was signed in 1990, since when PFI use has expanded substantially (EPEC 2012). Early projects were based on contracts for paying off privately financed capital costs through revenues. Over time, new PFI projects were processed through which capital costs were to be recovered through efficiency savings, including the contracting out of support services. In many instances, the efficiency savings did not materialise, contributing to unsustainable financial deficits, in particular for hospital trusts (Hellowell 2014; C&AG NAO 2012, 2015: 9).

‘Business intelligence is a top priority and this goes hand in hand with digitisation.’

United Kingdom Roundtable participant

Arguably, the main attraction for PFI contracts for many years was their ‘off balance sheet’ treatment, which often meant that liabilities were not counted as public sector debt (Commons Select Committee 2011).

The UK has consistently provided the largest PPP market in Europe: in the first half of 2016 the UK had the largest number of PPP deals; the largest value of total deals; and one of the largest individual deals (EPEC 2016). According to Preqin, the UK is also the world’s largest PPP market, having provided 18% of global PPP deals (Preqin 2016). The £18bn Hinkley Point C nuclear reactor contract is reported by Preqin to have been the world’s largest agreed PPP in the 2015/16 period (Preqin 2016). PPP contracts have generated around £60bn in capital investment to support the provision of public services (NAO 2017), with total contract size – which includes the provision of support and some core services – significantly greater than this. However, the cost of borrowing for the public sector is much lower than for the private sector, which means that it costs taxpayers more in the longer period when assets are obtained through the PPP.

SCIENCE AND TECHNOLOGY

6

Big Data: large organisational databases, data mining and predictive analytics

7

The digitisation of work

9

Cybersecurity challenges for government

Big Data has the potential to transform public services in ways that can make them personalised, more efficient and less expensive. An example is the UK’s National Health Service, where business consultants have suggested that efficiency savings of between £16bn and £66bn a year are achievable (Volterra Partners for EMC 2014). Analysis of patient data has potential for improving diagnosis, drug prescription and treatment monitoring. Bringing together various sets of data from across all the NHS systems could achieve substantial improvements in efficiency and patient treatment (Wright 2017). In addition, monitoring of a wider range of data can

greatly improve hospitals’ capacity for predicting accident and emergency demand, and enabling more effective use of specialist staff and facilities. A similar approach can be adopted with similar benefits across other public services. The Policy Exchange think tank argues that billions more can be saved from government expenditure, for example by using Big Data and analytics to crack down on tax evasion and the ‘tax gap’ (Yiu 2012). In practice, it is enormously difficult to exploit the opportunities offered by Big Data while meeting concerns about the risk that data will be misused and exploited, and privacy breached. One important NHS programme was abandoned for this reason (Evenstad 2016).

The UK was an early adopter of online government transaction systems, a process that is leading to **the digitisation of work** in the public sector. The UK’s Government Digital Service is at the heart of efforts to ensure that public services continue to move ahead with best practice in their online presence and digitisation of activities and is being led by the government as a platform campaign. HM Revenue & Customs (HMRC) – the UK tax authority – has moved many of its transactions online, including VAT returns and for self-assessment of personal tax – and it intends to move ahead with ‘Making Tax Digital’, with the objective of almost eliminating paper tax returns. This process, however, is problematic and can be expensive for service users (taxpayers). Problems include the potential need to buy expensive software and to upgrade hardware, and the risk that HMRC will be unable to apply appropriate treatment for very different types of client (for example, large businesses and micro-enterprises, whose business activities are so small that they do not warrant the acquisition of necessary systems).

Cybersecurity challenges for government have been made very obvious by the disruption of the National Health Service in May 2017. Many individual trusts had failed to upgrade hardware and software, making them vulnerable to distributed malware. Cyberattacks may also potentially damage national security, through attacks that target the armed services, the police, transport systems and other infrastructure (Parliamentary Office of Science and Technology 2011). Organisations with inadequate cyber security defences are also vulnerable to blackmail demands (PwC 2017b).

The UK is dependent on imported natural resources, making it vulnerable in the global competition for limited natural resources.

ENVIRONMENT, ENERGY AND RESOURCES

15 Competition for limited natural resources

26 Scale of take-up in alternative energy by business

33 Carbon tax and other environmental market mechanisms

The UK is dependent on imported natural resources, making it vulnerable in the global **competition for limited natural resources**. Strengthening energy security is a major policy priority for the UK government, even though solutions are very costly. To reduce import dependency and the use of fossil fuels, the government has entered into a long-term contract with EDF Energy (a French state company) and China General Nuclear Power Corporation (a China state company) for Hinkley Point C nuclear power station (EDF Energy 2017). The Hinkley Point C power station is one of the largest construction projects ever undertaken in the UK and is intended to meet 7% of UK electricity needs, while contributing to reductions in carbon emissions. Although the project will reduce UK dependency on imported fuel, it does so by creating a dependency on companies owned in France and China. The UK government has provided a guarantee of up to £2bn to support construction. A subsidiary of EDF, as operators, will receive an index-linked £92.50 per megawatt hour for 35 years. Current prices per megawatt hour are about £45 and there is considerable uncertainty about the likely wholesale prices when Hinkley Point C becomes operational after a 10 year construction process. It is feared that the total cost of the project could reach £37 billion (Macalister 2016). This will have a significant impact on UK fiscal policy for several decades.

The rationale for the construction of Hinkley Point C and other new nuclear power stations is that at present, the UK is simply too dependent on imported energy sources. In the fourth quarter of 2016, the UK imported 41.5% of the energy it consumed. Dependency on imported fuel

is much lower on an all-year-round basis – it was 35.6% in the 2016 calendar year. Net import dependency fell by just 2.5% in 2016. Coal consumption fell by 52.5% in 2016, reflecting the phasing out of coal-fired power stations. The use of gas rose by 9.8% in 2016, with gas replacing coal for much electricity production (MacLeay and Harris n.d. [2017]). While the UK was historically a major coal producer, most of its capacity has been exhausted or eliminated. In 2015 the UK's coal output was 8.5m tonnes, compared with imports of 25.5m tonnes (Coalimp n.d.). Russia, Columbia and the US are the UK's major coal suppliers (Department for Business, Energy and Industrial Strategy 2016: 44). Oil and natural gas were the most heavily used fuel sources in 2016 (MacLeay and Harris n.d. [2017]). The UK's production of oil and natural gas liquids has declined over the medium term, but risen again recently – it increased by 4.8% in 2016. It is a net importer of oil and petroleum. The main providers of oil to the UK are Norway and the OPEC member states (Department for Business, Energy and Industrial Strategy 2016: 66). The UK gas production in 2015 was equivalent to 58% of its consumption (Department for Business, Energy and Industrial Strategy 2016: 96), but as some of this production was exported, most gas consumed in the UK was imported (Department of Energy & Climate Change 2016: 8). About 38% of gas consumed in the UK comes via European pipelines, with Russia and Norway the main suppliers into that system (British Gas 2015).

Alternative sources of energy are being developed to replace imported and fossil fuel sources and the **scale of take-up in alternative energy by business** has increased. The Climate Change Act 2008 led to a major change to the UK's energy sector, requiring the country to reduce greenhouse-gas emissions by 80% from 1990 levels by 2050. This led to the development of alternative energy sources, including nuclear, wind and solar, which do not produce carbon emissions. In 2016, of 192m tonnes of oil equivalent fuel consumed within the UK, some 15.8m was produced by nuclear energy, 13.6m by bioenergy and waste (of which 3.5m was imported), and 4.6m by wind, solar and hydro (MacLeay and Harris n.d. [2017]: 14).

‘[The] accountant’s role is as a partner to drive changes, to influence and to guide rather than to crunch the numbers.’

United Kingdom Roundtable participant

The proportions generated by different sources can vary significantly according to weather conditions – this is particularly true of wind and solar. The UK government is also supportive of shale gas development as a new indigenous energy source (Department for Business, Energy and Industrial Strategy 2017). While the extent of shale gas deposits is uncertain, a report from the British Geographical Survey concluded that: ‘It is possible that the shale gas resources in UK are very large’ (British Geological Survey 2017).

The UK was an early adopter of **carbon tax and other environmental market mechanisms**. The government imposed the ‘climate change levy’ in 2001 on carbon-emitting fuels used for industrial and commercial purposes, but not on domestic properties or transport. It was also applied to nuclear-powered energy, although that is not a source of carbon emissions. In 2015 the levy was expanded to apply to renewable energy sources (perverting the original intention of the levy). The climate change levy is a factor in the UK’s electricity prices being the second highest in Europe (behind Italy’s) (Eurostat 2017). Exemptions from the climate change levy are available to small businesses, while reductions are available to energy-intensive businesses that enter into a climate change agreement with the government’s Environment Agency.

THE PRACTICE OF ACCOUNTING

2

Non-financial information and integrated reporting

13

Defining the scope of the accountants’ role

19

Balance between external financial accounting and internal managerial accounting

The UK has taken a leading position on the adoption of reporting of **non-financial information and integrated reporting**. It was also one of the first countries in which many listed companies used corporate social responsibility (CSR) reporting, which was included in the UK corporate governance code in 2010 (Financial

Reporting Council n.d.). Several of the UK’s largest listed companies were involved in the International Integrated Reporting Council’s pilot programme, including HSBC, Sainsbury and Unilever, as well as ACCA and the Big Four firms. Subsequently, some public sector bodies, including the Crown Estate (Crown Estate 2016), have also adopted integrated reporting.

The adoption of integrated reporting, and the principle that annual reporting must include narrative reporting that provides context for the figures, has meant that the accountant’s role has expanded – leading to questions over **defining the scope of the accountant’s role**. It is accepted that the traditional role of a ‘number cruncher’ is inadequate for a senior accountant, who must have communications skills that match his or her competence in understanding what the numbers mean.

There are also questions in the UK public sector about achieving the right **balance between external financial accounting/ reporting and internal managerial accounting**. This involves recognising that financial reports must support the needs of a variety of stakeholders – Parliament, executives, managers, staff, customers and suppliers. Accountants increasingly have to recognise that they must communicate financial information clearly to all these groups. The focus on internal management accounting is particularly relevant. There is growing demand across the UK public sector for accountants to demonstrate value and positive influence, and it is in the areas of business partnering, decision support, and activities such as planning, budgeting and forecasting that this is particularly acute. Finance professionals in the public sector need to challenge the organisation, ensure that it is accountable, and be seen to increase value. Strong management accounting and obtaining the right balance between external and internal reporting are critically important here.

‘Businesses are requiring a changing role for accountants – so accountants must get on board with this.’

United Kingdom Roundtable participant.

‘It all goes back to how we train accountants – expectations are very different now.’

United Kingdom Roundtable participant

THE ACCOUNTANCY PROFESSION

17 Public perception and attractiveness of the accountancy profession

21 Flexibility, suitability and cost of accountancy training

25 Level of entrepreneurial skills in the accountancy profession

While the role of the accountant has changed, for young adults the **public perception and attractiveness of the accountancy profession** has arguably not kept pace with this change. There is limited survey evidence of public opinions of professional accountants, but what there is suggests that accountants are viewed sometimes as lacking in communications skills and adaptability to information technologies (Volters Kluwer 2008). In fact, this is the opposite of the type of personality that the profession needs to recruit. Modern professional accountants need to be superb communicators, capable of using data analytics and with a sharp capacity for predicting the future, including how business models and technologies will develop.

The changing characteristics of the professional accountant affect the nature of training provision – including the **flexibility, suitability and cost of accountancy training**. Increasingly, accountancy training is focusing on vocational elements of the role, and may be provided through apprenticeships and other routes (Gov.uk 2012; ACCA n.d.a). ACCA and the largest accountancy firms are all committed to equality of opportunity (ACCA recently announced a tie up for its students, affiliates and members with this same institution offering the opportunity to gain an MSc in Professional Accountancy).

Another change affecting the accountancy profession is the growing expectation of a higher **level of entrepreneurial skills in the accountancy profession**. Accountants are no longer expected to be reactive, but rather to be part of the dynamic leadership team working collaboratively, influencing senior decision makers on commercial and value-added decisions – and that applies as much within the public sector as in the private sector. Academic courses also increasingly include a focus on how professional accountants can add entrepreneurial skills to their organisations (London Southbank University (n.d.) The ambitions for entrepreneurialism were also noted in *Generation Next*, ACCA's recent study of those under the age of 36 in the global accountancy profession (ACCA 2016). In the UK, 68% of survey respondents suggested they would like to start their own business at some point in their career, using their accounting background as a basis.

‘Let’s make sure we are offering appropriate CPD [continuous professional development]’.

United Kingdom Roundtable participant.

United Kingdom's public sector's financial professionals face serious challenges. They need to recognise the challenges and the drivers of change in order to equip themselves for a constantly changing operating environment, in which their role is central to the objectives of modernising government and improving its efficiency.

Brexit will change the shape of the UK economy and it will be unclear for some time whether the economy will be damaged or assisted by this. In the short term, however, it is likely that economic growth will be modest at best until an exit deal has been agreed. That uncertainty, combined with the 2008 global financial crisis, helps to explain why professional accountants regard the level of economic growth as the main driver of change in the UK. It will affect the public sector and create challenges for government and businesses. Business leaders' responsiveness to change and disruption is therefore another of the top drivers of change in the UK. Management of the state's deficit and debt continues to hang over government, with its implications for the stability of national revenue bases.

The UK's political environment following the Brexit vote and 2017 General Election has become volatile and this creates uncertainty over the business models to be used by the public sector, especially for the NHS. Despite years of austerity and cuts to many public services, the fiscal deficit has persisted. This has driven governments towards experimentation with and adoption of new business models as a way of achieving 'more for less'. While public private partnerships were popular for many years, it is now recognised that they resulted in many public sector liabilities not being reflected in the public sector balance sheet. One of their legacies is and one of their legacies is crippling deficits for some NHS trusts. Public sector accountants will play a key role in both trying to bring down those deficits and in managing continuing PPP contracts in ways that improve their value for money.

Public services are changing in other ways too, including through outsourcing and the use of Big Data and data analytics. While these changing approaches and greater use of new technologies create opportunities for rethinking existing service models, the risks associated with them must be managed. These include, in particular, cyber security. The scale of this problem was graphically illustrated by the vulnerability of NHS trusts to ransomware attacks in May 2017.

How government, business and society deal with workplace and demographic changes is another key driver. The UK has an ageing population and the risk of a declining

working-age population presents serious potential financial problems for the country. These problems are likely to be exacerbated by the loss of some skilled EU nationals from the workforce preceding and following Brexit. That could particularly affect the NHS, social care system and other parts of the public sector. The digitisation of work could help address the potential crisis, but it could create other problems if it instead reduces the availability of low-skilled jobs and thereby increases long-term unemployment among the least-skilled members of the population.

The UK is a leader in the development of financial reporting in both the private and public sectors. Increasingly, the users of financial reports expect to understand context, which means that there is increased demand for more non-financial information and integrated reporting. This, in turn, places even more emphasis on the need for the modern professional accountant to have extremely well developed communication skills. Professional accountancy bodies, employers and education institutions must do more to increase awareness of this, while improving the public perception and attractiveness of the accountancy profession to ensure that there is a supply of excellent accountants in the future, equipped for the new challenges that are at the heart of the UK's public sector.

There has perhaps never been a more demanding time in which to be a public sector accountant in the UK, but there has also perhaps never been a potentially more rewarding time.

A PLATFORM FOR ENGAGEMENT

The aim for this global project is to provide a platform for engagement between the UK's public sector organisations, professional accountants and the wider community of stakeholders. No future-oriented work of this type can ever hope to be definitive, but this report provides an important input into the development of future public sector strategy. It provides accountancy professionals, and the organisations in which they work, with a framework for preparing for, adapting to and influencing change.

ACCA would like to thank those who participated in producing *Drivers of Change: United Kingdom*.

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ECONOMY

1. Stability of the global economic infrastructure

The global economy, trade and financial flows are dependent on a complex underpinning infrastructure that comprises a range of key agreements, standards, systems, checks, balances and governance frameworks.

2. The level of economic growth

Growth expectations influence business confidence, consumer spending, government planning and budgeting, and management of the micro and macro economy.

3. Consideration of alternative economic perspectives

The financial crisis has offered a chance for nations to explore new economic perspectives and models traditionally neglected by mainstream economic thought. A serious examination of these perspectives could help reformulate the global economic system along more environmentally sustainable and equitable lines.

4. Total scale and distribution of global inequality and unmet needs

Higher income inequality, (as noted by OECD) within countries correlates with higher unemployment, higher crime rates, lower average health, weaker property rights, limited access to public services, lower social mobility, more social unrest, and less trust within and across the society, leading to more fragile democracies. This presents huge challenges for public sector and how it develops policies to meet these challenges.

5. Broadening measurement of public sector value and progress

How we assess value, progress and performance for government is expanding rapidly to take account of non-financial measures of development encompassing everything from innovation to happiness.

6. Stability of national revenue bases

The stability of national revenue bases is considered a prerequisite for the economic well-being of countries as it affects governments' ability to provide public services. Generally, government revenues are derived from direct taxes paid by households (mainly personal income tax) and corporations; and indirect taxes, social contributions and revenues from state owned assets and enterprises.

7. Manageability of national and international debt

The manageability of national and international debt is important for macroeconomic stability, business confidence and future economic development prospects. Levels of public debt also have important ramifications for citizen well-being, unemployment levels and the provision of social welfare services. Globally, the economic outlook is increasingly influenced by the views of policymakers, central bankers and financial institutions on the sustainability of sovereign debt.

8. Level of investment required to maintain national physical infrastructure

Physical infrastructure forms the economic backbone of all economies. The quality and resilience of a national infrastructure has a direct influence on the growth, competitiveness and attractiveness to inward investment of a nation's economy. The standard of economic infrastructure, encompassing water, waste, transport, energy and communications, affects the quality of life for citizens as well as the ability to meet objectives and commitments regarding sustainability and reducing carbon emissions.

POLITICS AND LAW

9. Focus of global governance institutions

A network of governance institutions such as the World Bank, IMF, World Trade Organization (WTO) and the UN could face intensifying pressure to adapt their structures to the reality of the changing world. There is, however, still a belief among developing nations – such as the G77 grouping – in particular that they need a stronger voice in the wider set of global governance institutions.

10. Rate of democratic transition

The rate of democratic transition is changing the global landscape. Political changes may open up the economy, attract foreign investment, create business opportunities and drive the growth of domestic segments but swift changes in power can be violent and disruptive – creating political and economic instability.

11. Level of international political volatility

The level of political volatility caused by popular uprisings or the actions of hostile nations and terrorists groups can pose a threat to both the physical and economic integrity of a state. Such fluctuations can affect inward investment and spending in a country thus seriously affecting the state's economic performance, and reduce confidence of global financial markets.

12. Governance and delivery of outsourced public services

The way in which public services are managed, funded, supplied and consumed is changing fundamentally, in line with the financial struggles that nations face. In order to meet higher demands with smaller public funds, it is likely that 21st century public services will look radically different in the future and from what was seen in the 20th century.

Public sector provision is increasingly moving to the private sector raising questions around governance and risk.

SOCIETY

13. Scale and distribution of global population growth

A number of key trends are shaping the world's demographic landscape. The global population is expected to continue to grow at least until 2050, forecast to reach 9.3 billion. At the same time, overall fertility levels are declining. These global trends mask marked differences at the national and regional levels. There are numerous cultural, social and economic factors that both affect and are affected by global demography.

Rapidly growing populations also present economic and capacity-building challenges for governments seeking to provide public services.

14. Spread of diversity in society and the workplace

Greater mobility across the globe has a great impact on the level of diversity. Cultural diversity and Increasing levels of female participation in the workforce is seen as both an important social goal and a vital way of maximising the use of available talent to maintain or bolster economic development.

15. Workforce age structure

A downward trend in global fertility coupled with an ageing society means that each future generation could be smaller than the previous one. Although the global population is still growing the average age is also rising.

With the abolishment of the default retirement age and workers staying in senior positions longer, organisations have to factor in increased salary and healthcare costs. As existing retirees re-enter the workforce owing to a combination of low pensions and removed barriers, organisations will have to consider how to attract, retain and integrate older talent.

16. The workplace expectations of Generation Y, Z and beyond

One of the biggest challenges faced by organisations today is how to understand and respond to the expectations of generations coming into the workplace.

17. Cost and ease of access to higher education

The economics of education is changing as public budgets shrink and institutions have to compete for funds, raise fees and cut unprofitable courses. Rising cost of higher education has important ancillary impacts for the level of personal debt for students and their equality of opportunity.

Online channels for delivering education are also changing the nature and delivery of professional development. The uptake of online learning may increase in emerging economies.

BUSINESS

18. Use of Public Private Partnerships (PPPs)

Governments have been and are increasingly looking to partner with private sector to help fund large scale public infrastructure programmes. This has led to significant growth in the adoption of PPP/PFI initiatives. However the perception that any risk of failure lies with public sector and reward is with the private sector.

19. Business leader responsiveness to change and disruption

Momentous economic and social forces are currently reshaping the world. At the same time, disruptive advancements – often enabled by technology – are affecting everything from industry structures, through societal governance to the nature of human interaction. The ability of organisations to adapt to new challenges and opportunities created by change and transformation is becoming a key determinant of success or failure in a turbulent operating environment.

20. Quality and availability of the global talent pool

Access to talent at all levels is consistently identified as a critical future success factor for all organisations. The challenge of securing a suitable flow of talent is increasingly becoming a top priority for leaders who are finding growth and development ambitions hampered by talent shortages. The quality of education itself seems to be a critical talent issue.

21. Extent of foreign direct investment in developed and developing economies

Foreign direct investment (FDI) flows are an important source of investment and economic growth for many countries. In an uncertain and highly competitive global economy, ensuring that a destination is seen as a safe location for FDI is becoming an increasing priority for many countries and their governments.

22. Speed and duration of business cycles

As technologies such as the internet compress time and distance, organisations are under pressure to adapt their structures, processes and systems on an almost continuous basis. As a result, there is a growing emphasis on the need for speed, flexibility, adaptability and responsiveness. These in turn demand rapid decision making and shortening cycles for execution of change. Public sector organisations will need to factor this in policy development and implementation.

23. Experimentation with and adoption of new business models

In an uncertain economic climate, the pace of introduction of new business models could accelerate. These new models have the potential to disrupt and reinvent industries. As pressure on public finances increase the need to develop new models of financing and alternative revenue and pricing models.

24. Crowd sourced funding for innovation: the consumer as investor

The internet has facilitated the emergence of new finance models that allow organisations to fund product development and service delivery in advance via crowdsourcing using online platforms. The public sector needs to be able to respond to such rapid changes.

25. Adoption of integrated systems thinking to manage business complexity

The perceived shortening of business cycles is creating major challenges in terms of how we design, manage and change highly complex, globally interconnected and rapidly evolving businesses. While the timescales for action are shortening, the perceived complexity of the task of making change happen is growing.

26. Enterprise risk management capability

There is growing concern and increasing uncertainty over the nature and scale of risks to which organisations are – or could be – exposed. At the same time, new risks and sources or concepts of risk, such as resource wars, are emerging. The ability to effectively manage this is increasingly important.

27. Evolution of corporate governance regulation and practice

Traditional structures of corporate governance stem from legislation, regulation and institutional best practices. They are intended to oversee the conduct of business and the management of relationships among and between internal and external stakeholders. These governance rules should improve accountability, reduce corruption and avoid conflicts of interest. A general push for greater transparency for public spends has driven increased expectations for accountability and demonstration of robust risk-management policies.

28. Scope and diversity of expectations of external stakeholders

The range of stakeholders for public sector organisations and the breadth of their concerns and expectations are increasing in the wake of a period of enormous economic turbulence and systematic failures. As a result, regulatory, transparency, ethical and performance demands of this growing range of external stakeholders are expanding for the organisation, the finance function and the accountancy profession.

29. Pressure to manage reputation as part of business strategy

The public sector has always had challenge of corporate reputation management which has been compounded by the instantaneous nature of the internet and social media in particular. The challenge is to manage long term government priorities whilst managing short term 'shocks'.

SCIENCE AND TECHNOLOGY

30. The digitisation of work

Increasing digitisation is transforming the nature of work and working practices in almost every sector. It is reasonable to assume that task automation will extend to ever-more knowledge-intensive, analytical and judgement-based work activities over the next decade and beyond.

31. Cyber security challenges for government

The increased reliance on computers in our daily lives and digitisation of financial services has opened up individuals and organisations to threats from cyberspace. Threats and attacks are typically conducted by groups and individuals who hack systems to attain both ideological and financial goals.

32. Big Data: the development and exploitation of large organisational databases, data mining and predictive analytics

There is a growing interest in how organisations can exploit 'Big Data' – the large and growing databases of customer and transactional information being generated through daily activities. The challenge is to create new toolsets that enable the management and manipulation of these large datasets and to generate powerful predictive insights about future customer behaviour. As governments are usually the largest collector of data, increasing use of data mining and predictive analytics should help to spot possible future opportunities, shocks, issues and challenges.

33. New industries and production models

Advances in science and technology are yielding radical new industrial processes that could be the basis of major industries of the future. In many cases, these industries are also introducing new business models and distribution approaches.

34. Advances in genetic science, Impact of nanotechnology advances and robotic science across business sectors

Advances in science have revolutionised humankind's understanding and control over the natural world. Opportunities are being created through nanotechnology and rapid progress in robotic science has led to the development of sophisticated machines that perform a wide range of industrial and domestic tasks. In medicine, a major field of study is the development of miniature robots that can be ingested and then repair damaged cells and organs in the body. This places great pressure on governments to ensure there is regulatory rigour to address ethical concerns raised and simultaneously explore opportunities to manage better healthcare provision.

ENVIRONMENT, ENERGY AND RESOURCES

35. Global climate change and

There is increasingly widespread agreement that the planet faces a real and growing risk from dangerous climate change and their impacts are unpredictable. New environmental risks – such as hereto unforeseen extreme weather events place significant pressure on public funds to manage the aftermath and develop robust preventative measures such as effective flood defences.

36. Competition for limited natural resources

Increasing demand for finite resources places pressures on governments to promote ethical resource consumption and maintain economic growth.

37. Carbon tax and other environmental market mechanisms

There is a growing move by governments to use taxation and market mechanisms to encourage more environmentally sound behaviour and provide the funds to finance environmental protection and clean-up costs.

38. Scale of take-up in alternative energy by business

Governments are evaluating and encouraging the greater use of alternative energy sources as one route to reducing dependency on carbon-based fuels. Increase of alternative forms of green energy, such as solar, wind and bio-gas, has given organisations a wider range of options for fulfilling their energy needs.

THE PRACTICE OF ACCOUNTING

39. Defining the scope of the accountant's role

Definitions of the accountant's role vary around the world. Common features include maintaining a record of an organisation's assets, transactions and financial activities, carrying out audits and ensuring compliance with financial and tax regulations.

The evolution towards becoming a more strategic partner within a business or as an external supplier may allow accounting to become a more integrated part of organisations.

40. Size and complexity of the CFO's remit

Organisations face a series of threats including macro-economic instability, consumer uncertainty, market volatility and increasing administrative complexity. At the same time, rising energy prices and a reconfiguration of the global landscape towards the emerging economies also present prominent and persistent challenges. As such, the role of the CFO is changing rapidly in line with constantly evolving expectations, demands and operating contexts.

41. Non-financial information and integrated reporting

The challenge of providing a total picture of organisational health is driving the move to communicate both financial and non-financial performance data in an integrated reporting format. Non-financial information is increasingly recognised to be as important as financial information as a driver of business value and risk. In response to demands for a holistic picture of organisational health, the model of integrated reporting is increasingly being adopted.

42. Clarity in financial reporting and defining the audit function

The goal of financial reporting is to present shareholders and regulators with a clear picture of an organisation's financial health.

The role of the audit function is to ensure that the accounts have been prepared in accordance with the regulatory framework, verify that the underlying procedures are robust and that the organisation's financial position has been clearly represented

43. Balance between external financial accounting and internal managerial accounting

A constant challenge for accountants is striking the right balance between external financial reporting requirements and internal managerial accounting. Both are expected to become more demanding and complex over time. Furthermore, as demands grow for a more integrated and holistic approach to external accounting, so the distinction between the two may reduce.

44. Opportunities arising from adoption of global regulation

As business globalises beyond traditional boundaries and more economies open up to adopt global practices and norms, the need for global regulation increases. Both opportunities and challenges arise from the implementation of global regulatory systems.

There are a number of significant factors for governments, firms and accountancy practitioners trying to implement global regulations. These include the rate of change, the distance between practitioners and those defining and implementing legislation, the operational context, and the complexity of regulations required to deal with the range of issues.

45. Adoption of globally accepted accounting standards

The introduction and global adoption of international accounting standards is seen by many as a desirable but unachievable goal. Others argue it is an essential prerequisite of true globalisation. In accountancy, steps towards global norms have been achieved with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and International Public Sector Accounting Standards (IPSASs) that are being aligned to IFRSs to ensure greater comparability between public and private sector financial reporting.

THE ACCOUNTANCY PROFESSION

46. Societal expectations and definitions of accounting

One of the big long-term questions for the profession is the extent to which the definition of what accounting is, and what it entails, may change over the next decade or more. The evolving scope and nature of accounting and the role of the accountant are being shaped by changes in multiple influencing factors. These include how the global economy is regulated, political motivations, disruptive technology developments and evolving business expectations.

47. Flexibility, suitability and cost of accountancy training

In a changing world, the spotlight inevitably falls on the capability of the education system to respond to the continuously evolving training needs of businesses and the professions. Economic changes, new business models and evolving regulatory demands will continue to create new and additional strategic, accounting, compliance and reporting requirements. The profession must demonstrate its ability to operate in a state of 'continuous evolution'.

48. Accounting skills capacity in transitional economies

Many developing economies are now producing significant numbers of well-trained professional accountants. Others, however, may have to undergo a fundamental transformation of their accountancy education system. Such a transformation process would include bolstering higher education course design and teaching methods.

49. Level of entrepreneurial skills in the accountancy profession

CFOs are increasingly expected to adopt a broader strategic and entrepreneurial role across the organisation. A greater emphasis on basic entrepreneurial skills such as business leadership, creativity, team-building, communication, negotiation and sales literacy could be integrated into accountancy training and continuous professional development.

50. Public perception and attractiveness of the accountancy profession

The public standing of and trust in accountants are critical to the effective functioning and attractiveness of the accountancy profession. Any issues could hamper the ability to recruit and retain top talent to the profession. Another key consideration for would-be entrants is the level of remuneration a big issue for the public sector where salary tends to be lower.

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